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CREDITOR, COLLECTION & BUSINESS NEWS

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Inside this issue:

No Skin in the Game: New Evidence on The Foreclosure Crisis

Zero money down, not subprime loans, led to the mortgage meltdown

What is really behind the mushrooming rate of mortgage foreclosures since 2007? The evidence from a huge national database containing millions of individual loans strongly suggests that the single most important factor is whether the homeowner has negative equity in a house -- that is, the balance of the mortgage is greater than the value of the house. This means that most government policies being discussed to remedy woes in the housing market are misdirected.

Many policy makers and ordinary people blame the rise of foreclosures squarely on subprime mortgage lenders who presumably misled borrowers into taking out complex loans at low initial interest rates. Those hapless individuals were then supposedly unable to make the higher monthly payments when their mortgage rates reset upwards.

But the focus on subprimes ignores the widely available industry facts (reported by the Mortgage Bankers Association) that 51% of all foreclosed homes had prime loans, not subprime, and that the foreclosure rate for prime loans grew by 488% compared to a growth rate of 200% for subprime foreclosures. (These percentages are based on the period since the steep ascent in foreclosures began -- the third quarter of 2006 -- during which more than 4.3 million homes went into foreclosure.)

Sharing the blame in the popular imagination are other loans where lenders were largely at fault -- such as "liar loans," where lenders never attempted to validate a borrower's income or assets.

This common narrative also appears to be wrong, a conclusion that is based on my analysis of loan-level data from McDash Analytics, a component of Lender Processing Services Inc. It is the largest loan-level data source available, covering more than 30 million mortgages.

The McDash data allowed me to construct a housing price index at the zip code level and then calculate the current equity position of each homeowner. I was thus able to compare the importance of negative equity to other variables related to foreclosures.

The analysis indicates that, by far, the most important factor related to foreclosures is the extent to

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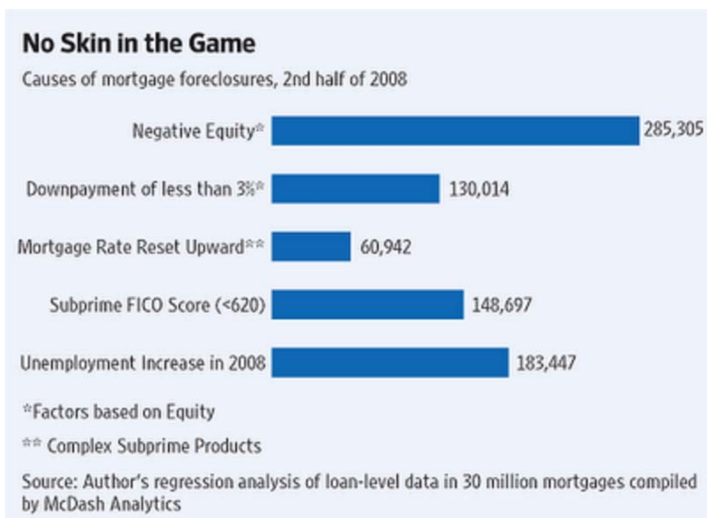

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No Skin in the Game (continued)

which the homeowner now has or ever had positive equity in a home. The accompanying figure shows how important negative equity or a low Loan-To-Value ratio is in explaining foreclosures (homes in foreclosure during December of 2008 generally entered foreclosure in the second half of 2008). A simple statistic can help make the point: although only 12% of homes had negative equity, they comprised 47% of all foreclosures.

Further, because it is difficult to account for second mortgages in this data, my measurement of negative equity and its impact on foreclosures is probably too low, making my estimates conservative.

What about upward resets in mortgage interest rates? I found that interest rate resets did not measurably increase foreclosures until the reset was greater than four percentage points. Only 8% of foreclosures had an interest rate increase of that much. Thus the overall impact of upward interest rate resets is much smaller than the impact from equity.

To be sure, many other variables -- such as FICO scores (a measure of creditworthiness), income levels, unemployment rates and whether the house was purchased for speculation -- are related to foreclosures. But liar loans and loans with initial teaser rates had virtually no impact on foreclosures, in spite of the dubious nature of these financial instruments.

Instead, the important factor is whether or not the homeowner currently has or ever had an important financial stake in the house. Yet merely because an individual has a home with negative equity does not imply that he or she cannot make mortgage payments so much as it implies that the borrower is more willing to walk away from the loan.

The difference in policy implications is enormous: A significant reduction in foreclosures will happen when and only when housing prices stop falling and unemployment stops rising (see chart nearby).

Although the government is throwing money -- almost $2 trillion and counting -- at the mortgage markets with the intent of stabilizing house prices, its methods are poorly targeted. While Federal Reserve actions have succeeded in reducing mortgage interest rates, low interest rates induce refinancings more than they do home purchases.

To be sure, refinancings may put money in peoples' pockets, but it is home purchases that directly impact house prices. Nevertheless, housing prices are likely to stop falling fairly soon with or without government policies. That's because current prices are approaching their long-term, inflation-adjusted pre-bubble level. These pre-bubble prices appeared to be a long-term equilibrium, meaning that prices would be expected to return to those levels once the government's efforts to artificially increase homeownership receded. Unfortunately, recent attempts by politicians such as Barney Frank (D., Mass.) to again artificially increase homeownership levels might delay this return to sustainable equilibrium prices.

Other government policies are likely to be even less effective in reducing foreclosures. The Obama administration's "Making Homes Affordable" plan focuses on having the government help lower obligation ratios (the share of income devoted to house payments) down to 31% from levels somewhat above 38%. But my analysis finds that mortgages having such obligation ratios at closing did not later experience high foreclosure rates. This suggests that reducing these ratios is not likely to significantly improve the foreclosure problem.

Understanding the causes of the foreclosure explosion is required if we wish to avoid a replay of recent painful events. The suggestions being put forward by the administration and most media outlets -- more stringent regulation of subprime lenders -- would not have prevented the mortgage meltdown regardless of their merit otherwise.

Rather, stronger underwriting standards are needed -- especially a requirement for relatively high down payments. If substantial down payments had been required, the housing price bubble would certainly have been smaller, if it occurred at all, and the incidence of negative equity would have been much smaller even as home prices fell. A further beneficial regulation would be a strengthening, or at least clarifying at a national level, of the recourse that mortgage lenders have if a borrower defaults. Many defaults could be mitigated if homeowners with financial resources know they can't just walk away.

We are at a crossroads where we can undo the damage to the housing market by strengthening underwriting standards in a reasonable way. But to do so political leaders must face up to the actual causes of the mortgage crisis, not fictitious causes that fit political agendas and election strategies with initial teaser rates had virtually no impact on foreclosures, in spite of the dubious nature of these financial instruments.

Source: *Wall Street Journal*

Collection Firm Delivers Results in Tough Times

According to a recent Wall Street Journal report, while defaulted business, lease and consumer debt is much tougher to recover in a recession, some collection firms have managed to squeeze more revenue from bad debt this year.

In conjunction with this article, Saldutti, LLC has experienced tremendous growth and increased revenues due to its successful business model. Saldutti offers all of the benefits of a collection agency coupled with the power of a law firm. The firm has established a reputation as an aggressive and efficient team of collection professionals capable of recovering the “uncollectible” debt. This combination has proven prosperous – and necessary in today’s environment.

Saldutti, LLC recognizes that ‘one size does not fit all’ and provides clients with a variety of strategies tailored to their needs. The firm has invested in cutting-edge technology with the Q-Law system and offers around-the-clock call center ability which allows them to provide the ultimate in collection abilities to creditors. Furthermore, Saldutti’s skip tracing and forensic investigations are unmatched by any other entity in the country. In this time of difficult economic uncertainty, it is critical that creditors engage those firms that have the unique ability to collect the uncollectible debt.

Commercial Collections Increase 39.5%

Accounts placed for collection by one business against another soared to $4.7 billion in the second quarter, according to the Commercial Collection Agency Association. The record $17 billion in placements represent an increase of 39.5 percent over the same period in 2008. Bankruptcy filings are also on the upswing. Figures released by the American Bankruptcy Institute reported 14,319 commercial bankruptcies were filed in the first quarter, a 64% increase over the same period one year ago.

While recent news suggests that the recession is letting up, many economists predict that the current economic situation may continue well into the next year. Robert Saldutti of Saldutti, LLC, a leading creditor and collection law firm based in Cherry Hill, New Jersey, suggests the following tips to increase cash flow and protect receivables:

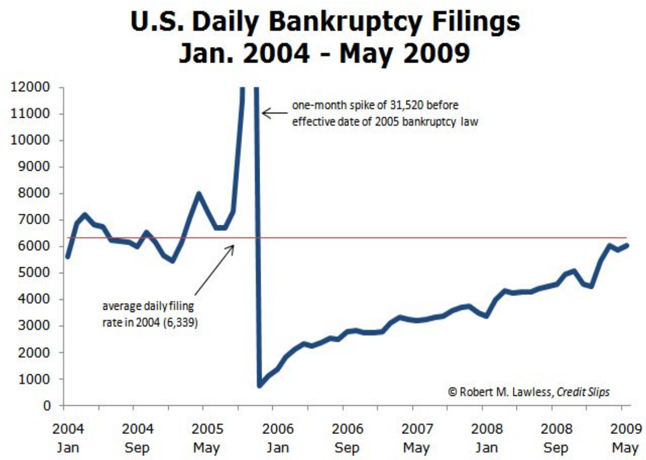
- Have a clearly-defined credit policy in place. Review it with each customer and draw attention to the key points.
- Don't ignore overdue bills – the longer a bill goes past due, the less collectible it becomes. Plan action as soon as it runs 30 days.
- Re-bill promptly, as soon as the first bill is due. Feel free to request payment in full within 15 days rather than the traditional 30.
- Call as soon as a bill is overdue more than a month. A phone call is much more effective than a letter.
- Always ask for the full amount not just a payment. If the customer can't comply, insist on an exact amount, a check number, and the exact date when you can expect the partial payment.
- Never negotiate the amount, just the terms. If your customer has a problem paying, offer a payment plan as a last resort. Insist that the first payment go in the mail today and be very clear when you expect to receive the entire amount.
- Consider taking them to small claims if you feel as if you're being strung along. In 30% of cases, debtors pay up before they go to court.
- Get the law firm advantage to debt recovery. A legal collection firm offers significant advantages - combining the effectiveness of a collection agency with the power of the law. When you employ the services of a dedicated collection law firm, you send a very clear message to your clients – *you mean business.*

Consumer Bankruptcy Filings Up 37%

U.S. consumer bankruptcy filings totaled 675,351 nationwide during the first six months of 2009 (Jan. 1-June 30), a 36.5 percent increase over the 494,610 total consumer filings during the same period a year ago, according to the American Bankruptcy Institute (ABI). The overall June consumer filing total of 116,365 was 40.6 percent more than the 82,770 consumer filings recorded in June 2008. Chapter 13 filings constituted 27.7 percent of all consumer cases in June, a slight increase from May.

"As unemployment, foreclosures rates and health care costs continue to rise, more consumers are turning to bankruptcy as a last financial resort," said ABI Executive Director Samuel J. Gerdano. "We expect that there will be more than 1.4 million new bankruptcy filings by year end."

Source: ABI



There were over 120,000 U.S. bankruptcy filings in May 2009 or 6,020 for each of the 20 business days in May. That is the first time daily bankruptcy filings have topped the 6,000 mark since the 2005 bankruptcy law was adopted.

> ***" Today, there are three kinds of people: the have's, the have-not's, and the have-not-paid-for-what-they-have's."***
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> **~ Earl Wilson, Major League Baseball Pitcher**

Commercial Loans Failing at Highest Pace in 20 Years

United States Banks' losses could approach $30 billion by the end of 2009 due to the alarming rate of commercial mortgage defaults. Banks are writing off losses at the fastest pace in nearly 20 years. The banking industry has been charging off bad loans because of the economic struggles affecting property as business offices, shopping malls, hotels, apartments, and other commercial realty.

Source: The Wall Street Journal

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Strange but True ...

Costumed Debt Collectors *Reign in Spain*

Thanks to Spain's lax debt laws, the judicial route for lenders to recover what's owed them is slow and tortuous, so many lenders are turning to a more direct approach to get their money back — tapping into the Spaniards' fear of public humiliation. As a result, companies offer costumed collectors – dressed as garish matadors, monks, Zorro, clowns or the Pink Panther – to recoup debts simply by showing up at a home or office and embarrassing the debtor.

"In this country, they treat people who owe money worse than criminals," says Montserrat Vila, 49, who fell behind on her mortgage payments and was recently visited by three bullfighters. The idea of using costumed collectors dates back to the 1980s, when a company, the Cobrador del Frac (or Tuxedo Collector), began sending out agents dressed in black ties and driving cars emblazoned with the company logo. Others followed suit, in ever more extravagant getups, all of them banking on the debtor's sense of shame to motivate repayment.

In many cases, the collectors don't say a word to their targets but instead simply follow them down the street or sit at a neighboring table in a restaurant. "We don't think of it as humiliation so much as making something public," says Miguel González of the Cobradores del Monasterio, whose agents wear monks' habits.

Apparently the tactics work. The Cobrador del Frac now has 400 employees across Spain and has a 63% success rate. With the percentage of people who default on loans skyrocketing in Spain, the number of creditors who look to its services is growing.

Source: TIME

In the Know ...

The Fair Debt Collection Practices Act

Due to the current economic climate, more accounts are in collections than ever before. Debt collectors have a steady supply of work and have experienced record growth within their industry. In light of this, more media attention is being focused on the unruly and often abusive tactics some collect ion agencies employ to acquire a payment. Here is what your business needs to know:

Enacted in 1978, the Fair Debt Collection Practices Act is a compilation of sensible laws created to compel collection representatives to act in a professional manner. The Act creates guidelines under which debt collectors may conduct business, defines rights of consumers, and prescribes penalties and remedies for violations of the Act. While the FDCPA has significantly reduced the problems associated with harassing debt collectors, it has ultimately proven beneficial to creditors and collectors as well.

Those in the business of extending credit have the reasonable expectation of being paid back. When a lender does not receive timely payments, they are fully within their rights to seek and expect payment.

At this point, a business may opt to bring a collection agency or creditor law firm on board. While their goal is to obtain the payments due their clients, these collection specialists will also serve as a direct reflection of the company they represent. It is crucial to employ a professional creditor and collections firm that will uphold your business reputation while following the lengthy and often complex guidelines of the Fair Debt Collection Practices Act.

Just one of the many advantages of Saldutti, LLC, the firm is an active member of the Commercial Law League of America (CCLA) - Creditor Rights Division and the National Association of Retail Collection Attorneys (NARCA). Both organizations exhibit the highest standards of integrity to ensure that its members are reputable. As a professional and courteous collection law firm, our staff is well-versed and trained in FDCPA issues.

The Fair Debt Collection Practices Act is listed in its entirety on the Federal Trade Commission web site. To review the full list of prohibited and required conduct, go to http://ftc.gov/.

More Pain Ahead for U.S. Economy

A rebound in key U.S. economic indicators masks an underlying malaise that will likely hamstring growth for many years and keep housing and banks in a rut, several top economists said Monday.

Nouriel Roubini, president of RGE Monitor, said a recovery in risk assets like stocks and emerging markets would not last, since it had been based on unrealistic expectations for a global economic rebound.

"I see subpar, anemic, below-trend growth for the next couple of years," Roubini said on a panel sponsored by Time Warner.

Housing expert and MIT Professor Robert Shiller was equally pessimistic, saying, with regards to the four-year housing downturn: "This thing is not over yet."

Banking analyst Meredith Whitney said she was even more bearish than her fellow panelists, saying that better bank earnings would eventually be challenged by the toxic assets on their balance sheets.

Source: Reuters