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Crisis and opportunity: Foreclosure market spurs entrepreneurial class

BY MICKY BACA

Framingham native Jeremy Shapiro isn't worried about whether the housing market bubble is about to burst or the fact that 'for sale' signs are cropping up in record numbers in many neighborhoods. The former real estate agent is one of a growing number of entrepreneurs riding a very different wave in the Massachusetts home market — the growing number of foreclosures.

Co-partners Jeremy Shapiro and Sheila Farragher-Gemma of ForeclosuresMass.com which serves many "working class folks who are out there working nine to fiver jobs and looking or property on the weekends."

Shapiro and his partner, Sheila Farragher-Gemma of Medfield, operate ForeclosuresMass.com, a Framingham-based online data subscription service that provides statewide foreclosure and pre-foreclosure information to investors, real estate professionals and mortgage brokers. Shapiro's company is growing in leaps and bounds as it enters its third year of operation — and is even planning to expand into other states. But growing too is the concern that an increasing number of investors who might avail themselves of such one-stop services to track foreclosures are bilking homeowners out of their home equity with an array of what critics label as deceptive, and downright fraudulent, "rescue" deals.

In fact, a June 2005 report by the non-profit National Consumer Law Center in Boston entitled *Dreams Foreclosed: The Rampant Theft of American's Homes Through Equity-Stripping Foreclosure "Rescue" Scams* compares the onslaught of foreclosure rescue schemes to a tsunami sweeping across America. Investors following the foreclosure market and aided by Internet subscription services that make such tracking more accessible than ever, the report says, are draining the equity from thousands of homes with schemes that "revolve around heavily promoted deals supposedly designed to save the homes of people facing foreclosure."

Customers of ForeclosuresMass.com that *WBJ* spoke with for this story say they are providing legitimate services to homeowners in trouble — services that those homeowners do not have the skill, experience, or in many cases, the mental and financial energy — to do on their own.

But Odette Williamson, staff attorney for the NCLC, while not addressing any specific foreclosure investors, notes that often "how these glorious deals are described is not how they actually occur." Shapiro acknowledges there are people out there targeting homeowners with unscrupulous deals but says that ForeclosuresMass expects all its subscribes to "adhere to the letter of the law." He admits his company has no control over how customers use the data it provides, but says if ForeclosuresMass does find out that someone "is doing anything illegal", the company will terminate their subscription. Thus far, it has not had to do so, he says.

Homeowners under pressure

As does the report, Shapiro and investors point to the prevalence of predatory lending by sub-prime mortgage companies and options such as no-interest loans and an "unprecedented variety" of ways for homeowners to tap the growing equity in their homes as fueling an increase in home foreclosures. Growing home values nationwide have coincided with "tremendous financial pressures on a wide swath of American families," the report states. "Rising costs for housing, health care and education, coupled with increasing job insecurity, income volatility and downward pressure on real incomes, have fueled a dramatic surge in bankruptcy filings, mortgage defaults and other financial distress."

At the same time, the spike in real estate values and vulnerable homeowners facing foreclosure has attracted more unscrupulous foreclosure rescue scammers, whose numbers are multiplied via a "side industry" of seminars that teach others how to cash in on the pre-foreclosure market, according to NCL.

But Shapiro clearly views the foreclosure market as a legitimate investment opportunity and contends that his service actually helps give added options to embattled homeowners. In Aug 1, 2005, company press release states that, "Often subscribers learn of properties weeks or months before public notices are issued and are able to purchase the property long before it reaches auction state, providing a 'win-win' for both property owner and new buyer."

Before his service made foreclosure data more accessible, Shapiro says, a homeowner may have only gotten presented with one or two options for dealing with their foreclosure dilemma — and they might have been less than aboveboard offers. Now, he contends, with more investors having access to the information, homeowners get many more options to choose from and can weed out unscrupulous offers. "The homeowner is now the consumer," Shapiro says.

As for the seminars that his company has begun to offer, Shapiro says ForeclosuresMass makes sure its instructors are ethical and legal in what they teach — thus increasing the number of ethical investors in foreclosure property and the legitimate options for homeowners. He says he is aware that there are courses out there that teach practices "that are maybe legal but borderline. We don't want them talking to our people. We want to combat that by teaching how to do it ethically and being above board."

Shapiro says he and Farragher-Gemma started ForeclosuresMass.com in June 2003, after talking to investors trying to pursue the opportunities that foreclosure property offered. What they found was that there were no timely and reliable sources of information on properties facing foreclosure in Massachusetts. Investors had to go to various land courts and registries in order to seek out foreclosure data or rely on dated and incomplete data published in newspaper notices or supplied by national services. Often, Shapiro says, such information was so dated, the foreclosure process was already too far along to afford investment opportunities or bailout opportunities.

So Shapiro, who in addition to his real estate experience, previously worked in IT and computer base development, and Farragher-Gemma, who also had a computer background and was a fellow real estate broker, decided to create a central foreclosures data base. Before they even launched the service, Shapiro says, investors were trying to sign up. Initially, he says, he and Farragher-Gemma were aiming to get 1,000 subscribers a year or two down the road, thinking they would "just sit back" and let the fees roll in. But by the time their company hit the two-year mark, its subscribers — who pay a base fee of $19.95 per month per county with discounts for multiple counties — had surpassed 4,000 subscribers. Currently, the number is up to 5,808, Shapiro says.

The company had expanded the data it provides for customers beyond the initial basics of street, city, bank, homeowner, data files and legal reference number, Shapiro says, to include things like maps, zip codes, tax information, square footage and when the property was last sold.

Subscribers range from college-age and retirement-age investors to everyone in between according to Shapiro. Most are "working class folks who are out there working nine to five jobs and looking for property on the weekends." Fewer are full-time investors, he says, adding, "What a lot of folks are out there saying is, 'there's got to be a way for me to get out of this [unsatisfactory] job.'"

Shapiro says 70 percent of his company's subscribers are investors, 30 percent are realtors, 10 percent are mortgage brokers and a small percentage are individual homebuyers. (Categories, he notes, overlap so the total exceeds 100 percent.) Initially employing only the two founders, ForeclosuresMass' staff has grown to 15, six or seven of which are full time, Shapiro says. He is proud of the fact that ForeclosuresMass, which is a virtual company without a physical location, has "been in the black since day one."

Counting on foreclosures

Growing too, Shapiro says, is the number of foreclosures for the company to track. According to ForeclosuresMass figures, there's been a 29.67 percent increase in the number of foreclosures in the state year-to-date over last year. Between January and July 30, 2004, Shapiro reports, there were 4,890 Massachusetts foreclosures. For the comparable period this year, the number rose to 6,341. "The trend is definitely going straight up," he says.

But the state's two major associations of lending institutions aren't so sure. Kevin Cuff, executive director for the 480-member Massachusetts Mortgage Bankers Association, says that while he doesn't have overall figures and doesn't dispute those by ForeclosuresMass, the data he is seeing is "not telling me that the numbers are drastically up" in delinquent loans and foreclosures, particularly as a percentage of loans written. Cuff notes that the number of loans being written in Massachusetts has climbed dramatically in recent years as interest rates have dropped,and he wouldn't be surprised if total foreclosures have increased accordingly. In 1995, Cuff says, there were some 185,000 to 200,000 loans written. But in 2003 and 2004, that figure climbed to 650,000 to 750,000 each year. As a percentage of loans written, Cuff says, the state's delinquency and foreclosure rates are level or falling.

Shapiro admits his company doesn't track foreclosure as a percentage of mortgages written since his subscribers aren't interested in such data.

Bruce Spitzer, director of communications for the Mass. Bankers Association, also says his 210-member association has seen no or very little increase in mortgage loan delinquencies in bank-based mortgages over the past year.

Cuff says MMBA members have grown increasingly uneasy over the last quarter about the effect of ForeclosuresMass' widespread reports that foreclosures are climbing. "We are concerned and what we have heard about is people using data inappropriately to target people to try to get access to their homes," he says.

Shapiro counters that investors only have the access to foreclosure property that homeowners give them and that his company wants to promote "win-win" scenarios on both sides. ForeclosuresMass encourages its subscribers to be as open and above board as possible with homeowners, including making sure a homeowner has a lawyer to review terms and fully disclosing everything in clear and plain language so it can be understood, according to Shapiro. There are times, he says, when a homeowner may be happy with a deal and it may be what they need and is fully disclosed and understood at the time and they later decide they are unhappy and say they didn't understand the deal.

A full-time buyer

Among the subscribers who rely on ForeclosuresMass is Michael Ouellette, owner of Integrity Investors LLC of Uxbridge doing business as 888homebuyer. Ouellette is a former pharmaceutical salesman turned full-time real estate investor, mostly in foreclosure property. He says he works together with homeowners facing foreclosure who can't get refinancing to get the most out of equity in their homes. He cites an example of an Athol woman with four children who fell behind in her mortgage payments and was facing foreclosure.

Ouellette tracked down and contacted the woman using information from ForeclosuresMass and says "she could see she needed a way out." The property needed work, he says, and had a year's worth of trash built up because she couldn't afford to continue paying a trash service. He helped her fix it up, he says, and sell it. The woman was able to pay off her loan and "take a good chunk of money for herself." Ouellette says. And he made a profit he declined to specify, beyond acknowledging that he didn't give the woman market value for her home.

Ouellette contends he is guided by "ethical and spiritual principals" in his dealings. He buys three to five homes a month and says he can't detail how they work since each situation is different. But, he insists, such deals are a win-win situation. While he admits a homeowner could sell their own home to avoid foreclosure, he says "when someone is in the mindset of defeat" they aren't up to pursuing all the options.

If foreclosure goes forward, Ouellette asks, "Who in that situation is winning? Is it the bank or the lawyer?" In his deals, he says, the homeowner does get some money.

Making money under water

While some investors, like Ouellette, only pursue foreclosure properties with sufficient equity to trade upon, Shapiro says he is seeing more homeowners in an "upside down" or "under water" position of owing more on their home than its market value. That doesn't necessarily take the attraction out of the foreclosure market for customers, Shapiro says, thanks to an investment tool called a "lease option." That's where an investor would lease the home from the owner and then turn around and lease it for a higher rate than they're paying to a third party with poor credit as a rent-to-own deal.

James Gage, owner of Gage Consulting Group in Holden, and a ForeclosuresMass customer, doesn't buy homes. Instead, he makes his money through leasing out foreclosure property in which homeowners owe more than the market value. He's in it for the short term: "You get in, you get out."

Case in point is James Gage, owner of Gage Consulting Group in Holden, and a ForeclosuresMass customer. Gage, who has been in real estate for 15 years, describes himself as an investor and a mentor of other investors. He recently conducted a seminar for ForeclosuresMass on lease options, which is the tool he uses to invest in foreclosure property.

Gage contends that investing in today's real estate market is "all about leverage," as it is with stock investing as well. "It used to be buy low/sell high or buy stock and hang on to it," he says. But with the Enron case and other scandals, he says investors have become gun shy and it's now about turning around deals in the short term. "You get in, you get out," Gage says.

He doesn't seek profits from foreclosed homes by paying homeowners less than the property is worth or convincing banks to take less than they are owed in "short sales," Gage says. In fact, he doesn't buy the homes he makes money on at all.

Instead, Gage makes his money on leasing out foreclosure property on which homeowners owe more than the market value. He does this, he says, by securing a three-year option to buy the foreclosure home at a pre-determined price from the original homeowner. Gage says he takes over making payments on the homeowners' mortgage — say for example, $1,000 a month. He also takes over physical control of the house and requires the homeowner to move out. He then leases out the premises on a rent-to-own basis to a third party with faulty credit for a premium rental price — say $1,300 a month.

The tenant is given a one-year option to purchase the property at a predetermined price — one that will let Gage make at least $20,000 over what is owed on the property. Some of the rent is earmarked to go toward the tenant's would-be purchase, according to Gage. The tenant is also required to pay to Gage an option consideration of 2 to 5 percent of the selling price up front which is non-refundable if they don't exercise the option.

The original homeowner is given some money up-front, depending on the specifics of the deal, and is spared a black mark on their credit, Gage says. They do retain title to the property and are, essentially, the landlord for the rental deal. But Gage collects the rent and makes money off the amount over and above the mortgage. If, at the end of the first year, the tenant is able to shore up their credit and exercise their option to purchase the property, the house is sold. If not, as is the case some 60 percent of the time, according to Gage, he either renegotiates another one-year rent-to-own with the tenant, possibly with a higher purchase price, or rents the house out to another rent-to-own tenant seeking to repair their credit and buy a house. Some 30 percent of such rent-to-own tenants don't exercise their option in the second year of the deal either, according to Gage.

If, at the end of three years, Gage hasn't sold the house to a tenant, he walks away from the option to buy and the original homeowner retains ownership of the property. After all, Gage notes, he originally negotiates the right "but not the obligation" to buy the home.

While he admits the homeowner could just as well lease out their own home and keep the profits, Gage says, they'd have to know how and have access to potential renters, which he finds by running rent-to-own ads in the newspapers.

Gage will be passing on his money-making technique to others in seminars for ForeclosuresMass, which launched an education component to its business in July. It offers teleseminars and full-day seminars on topics such as "Opening the Door to Profit" and "How you Can Turn Those Impossible Deals Into Possible Deals." At $495 per person, Shapiro says he expects the seminars will become a source of 25 to 50 percent of the company's revenues — which he declined to reveal.

"I like to look at people who do lease options as problem solvers," Gage says, noting that such deals make up a good portion of his income. He estimates he's done close to 100 such deals over the past dozen years and says he now has two in the works which he expects to "flip" to other investors who want to benefit from such deals but don't want to set them up themselves. He might get $10,000 for being such a middle man, he says, adding, "Now, $10,000 is not bad for a couple hours' work."