

***Our town office has received several documents relating to subprime mortgage lender bankruptcies. We are not sure why we have been receiving the documents or what to do with them. What do you suggest?***

As you are probably aware by now, there has been a meltdown in the subprime mortgage lending industry.

Muninet responses indicate that a large number of Vermont towns have received multiple notices and filings related to these subprime mortgage lender bankruptcies. Thankfully, there doesn't appear to be a correlation between receipt of a bankruptcy filing or notice and the presence of a subprime mortgage in the town. Apparently, some of the subprime mortgage companies in bankruptcy have been sending documents to town offices regardless of whether they presently hold a mortgage on property in that town or not.

While it appears that the situation might have some repercussions for some Vermont municipalities, we don't expect any significant consequences. The subprime mortgages comprise a very small percentage of the total number of mortgages in Vermont, and Vermont has a relatively low rate of loan delinquencies and housing foreclosures. Given these factors, the total number of property tax delinquencies associated with subprime mortgage foreclosures and defaults will probably be very small.

Some small number of delinquencies may arise from the administration of property tax escrow accounts. If these bankrupt subprime mortgage lenders have property tax escrow arrangements with property owners in your town, it is possible that there could be some delay in payment of these escrowed property taxes as the companies move through bankruptcy. However, because these escrowed funds are not assets of the mortgage lenders, the escrowed moneys probably cannot be used in bankruptcy to satisfy the mortgage lenders' outstanding debts. Though there could be a delay in payment, these escrowed property taxes should ultimately be paid. If a lender or escrow company fails to make a property tax payment on time, or a check is returned for insufficient funds, contact the property owner so that he or she can make arrangements to get the taxes paid.

We recommend that towns keep these bankruptcy filings somewhere in the town office. They do not need to be recorded (in fact, none of the filings received by town offices have come with a recording fee), but they should be saved. Since they may be of use to title searchers trying to identify mortgage holders, contact addresses and the like, it may be helpful to have them available in a public place. Information contained in the notices and filings may also be of use to the town if, for example, the delinquent tax collector is sending notices to lien holders in conjunction with a tax sale.

*Jim Barlow, Senior Staff Attorney, VLCT Municipal Assistance Center*

**VLCT News, October 2007**