

Foreclosure Firm Butler & Hosch Shuts Down

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Butler & Hosch, one of the largest foreclosure law firms in the country with 11 offices and about 700 attorneys and staff nationally, has abruptly closed its doors and filed an assignment for the benefit of

creditors in Florida state court.

Employees were stunned by the news delivered at 5 p.m. Thursday via a conference call with a GrayRobinson attorney hired for the wind down. Employees were not laid off but were told the firm could not make payroll.

The 200-attorney law firm based in Orlando had other Florida offices in Miami and Tampa. The firm also had offices in Georgia, Louisiana, Mississippi, North Carolina, South Carolina, Texas and Virginia, and operated in 27 states and the District of Columbia.

The firm had about 60,000 foreclosure files and picked up many files from the defunct Law Offices of David J. Stern in Plantation, which collapsed during the robo-signing scandal.

Butler & Hosch was founded in 1972 and quickly grew through a series of mergers starting in 2013. The latest was "a merger of equals" in February with Atlanta-based Morris Schneider & Wittstadt that didn't turn out as planned.

A drop in foreclosure filings contributed to the firm's demise, law firm CEO Bob Hosch said in a letter to employees and vendors obtained by the Daily Business Review.

"It is with great sadness that I report to all of you regarding the difficult financial status of Butler & Hosch and its affiliates, which has resulted in the filing of the state court assignment for the benefit of creditors," he stated. "The challenge was to integrate the merger of equals while spurring growth in a declining market environment in our industry. BH failed to meet this challenge, and I too share in that failure."

Hosch said he handed over control of the law firm to third-party fiduciary, Michael Moecker & Associates of Hollywood, which specializes in insolvent companies and has an auction arm.

Roy Kobert of GrayRobinson, which is representing the firm, said it was looking to increase its line of credit, find new equity partners or sell parts of the company to competitors to raise capital, but all three efforts failed.

The firm decided to pursue a so-called ABC state filing rather than a federal Chapter 7 liquidation bankruptcy to make things smoother for its clients and employees, Kobert said.

Amegy Bank of Texas based in Baytown, Texas, is by far the biggest creditor, seeking \$14 million. LPS Default Title & Closing of Irvine, California, is second at \$2.3 million. All other debts are worth under \$450,000 each.

"The firm simply grew way too fast. The only plausible way to mitigate the adverse impact on its employees, customers and the public was to file an assignment for the benefit of creditors and cooperate fully with the independent fiduciary," Kobert said. "Simply throwing the keys to a Chapter 7 bankruptcy trustee would have led to chaos in the mortgage industry."

A website has been set up to provide information to vendors, creditors and employees at bandhassignee.com, and Michael Moecker & Associates set up an information phone line for anyone with questions.

Cash Crunch

A lawyer in the firm's Miami office who spoke on condition of anonymity said attorneys at the firm

are concerned about potential problems with their law licenses if they miss hearings.

"We have so many hearings in so many counties in Florida," the source said. "Our firm has hundreds of hearings per day scheduled."

St. Petersburg-based foreclosure defense attorney Matt Weidner, who handles hundreds of cases around the state, said Butler & Hosch attorneys did not show up for three hearings Monday.

"We started to get rumblings that things weren't quite right at Butler some months ago," he said, adding the firm's response times started to lag at the start of this year.

Observers said a key problem was the firm's inability to assimilate its latest acquisition, Morris Schneider.

Hosch acknowledged as much in his memo, saying, "BH saw great opportunity to acquire competitors and take advantage of economies of scale to build our platform. Unfortunately, BH grew too fast and could not merge processes from the acquired entities quickly enough to meet our economic forecasts, which resulted in short-term cash crunches" and an inability to attract new capital.

Weidner suggested Butler & Hosch was overburdened by its acquisition of default assets from Morris Schneider. Butler & Hosch took immediate control over the Morris Schneider assets and was set to transition clients by April.

The deal provided a new revenue stream, but the firm might not have fully anticipated all costs associated with the new business, he said.

"I think these files were a lot more expensive than they anticipated," Weidner said. "I suspect it just proved costly."

Foreclosure attorneys also were under pressure by courts trying to shrink their foreclosure backlogs by June 30, the end of the state's fiscal year.

"This has set up very negative and unintended consequences on both sides," Weidner said. "There is blame for this to go around to the court system because of the reckless foreclosure purge that they've been engaged in. It's certain that the changes in court procedure have made life difficult for litigants on both sides. It's become difficult for all of us, and all sides have had trouble keeping up with it. I can't imagine that this didn't play a part in the Butler problem."

Warn Act

Kobert had no comment on whether the firm was potentially in violation of the Worker Adjustment and Retraining Notification Act, which requires employers with 100 or more employees to provide 60 days notice before laying off employees.

The law provides exceptions for "unforeseeable business circumstances," which may apply to Butler & Hosch, according to labor and employment lawyer Brian Lerner of Kim Vaughan Lerner of Fort Lauderdale.

"That's a heavy burden to meet," he said. "This is one where I suspect employees would line up for a class action. Everyone is affected by the same issue."

Employees abruptly laid off by Stern's law firm filed a class action lawsuit in 2010 alleging a WARN act

violation when it abruptly closed shop.

Others said they were more concerned about the 60,000 foreclosure cases that will need new attorneys. Stern riled chief judges and the Florida Bar by leaving thousands of files in limbo and no lender representation at hearings after he went out of business.

"That was Stern's major downfall," noted Thomas Ice, a foreclosure defense attorney with Ice Legal in Royal Palm Beach. "The Bar didn't like the fact that he left all those cases hanging. The Bar expects the firm to wind down the affairs appropriately and make sure the clients get representation."

Ice said he wasn't surprised by Butler & Hosch's demise, not because he heard of any problems at the firm but because "we've seen so many of these foreclosure firms come and go, we've seen banks changing attorneys all the time."

Ice said the foreclosure defense bar didn't see any of the problems with Butler & Hosch that it saw with the Stern firm, such as robo-signing and other unethical behavior.

Important message from Bob Hosch, CEO and Senior Partner of Butler & Hosch

ORLANDO, FLORIDA May 14, 2015

It is with great sadness that I report to all of you regarding the difficult financial status of Butler & Hosch and its affiliates^[1] ("BH") which has resulted in the filing of the state court Assignments for the Benefit of Creditors ("ABC"). I have voluntarily stepped down as CEO and Senior Partner of BH. The control of the BH companies has been voluntarily placed in the hands of an experienced third-party fiduciary, Mr. Michael Moecker.

BH has been one of the most recognized brands in the default mortgage legal industry ("Industry"). Our Industry has experienced seismic consolidations following the Great Recession. BH saw great opportunity to acquire competitors and take advantage of economies of scale to build our platform. Unfortunately, BH grew too fast and could not merge processes from the acquired entities quickly enough to meet our economic forecasts which resulted in short term cash crunches and our ability to attract new capital in the interim.

In the best interest of our BH employees, our loyal customers and our lenders and vendors, I have made this most difficult decision. B&H has recently been working with outside counsel, Roy S. Kobert and his experienced work out team at GrayRobinson to guide us through this process. After exhausting all plausible remedies, including efforts to solicit additional funding from our existing lender and new strategic partners, we were left with no other alternatives than to engage Mr. Moecker.

BH was founded in Florida in 1972. In 1997, BH made the calculated decision to limit its representation to residential mortgage lenders and servicers. Since that time, BH has expanded and implemented its strategic footprint in the Industry covering Alabama, California, the District of Columbia, Delaware, Florida, Georgia, Indiana, Louisiana, Maryland, Mississippi, North Carolina,

Ohio, South Carolina, Tennessee, Texas, Virginia, Washington, and West Virginia.

Beginning in 2013, for the first time, BH made the decision to grow, not from within, but with strategic acquisitions of members of its competitive set. Market conditions presented several attractive suitors. The first such acquisition involved a competitor in distress, which was acquired out of a Delaware bankruptcy case. This strategic acquisition resulted in the integration of several platforms, including Cal-Western Reconveyance in Arizona, California, Idaho, Nevada, Oregon, Texas, Utah, Washington, as well as RTS Pacific in Alaska, Arizona, California, Idaho, Montana, Nevada, Oregon and Washington.

The last strategic acquisition presented the most exciting opportunity and BH's biggest challenge: a merger of equals. Following its closing on February 1, 2015, BH now had a national footprint spanning 27 States and the District of Columbia.

As a direct result of the latest merger, BH was (i) actively prosecuting 50,000 to 60,000 foreclosure files at any given moment, (ii) employed nearly 700 attorneys, paralegals and back office staff, and (iii) had access to 90% of the foreclosure industry in the United States.

How does the filing of these ABC's cases impact you? Though Mr. Moecker has complete access to our assets, he will not have sufficient cash on hand to fund payroll at the end of this week. Without BH employees and attorneys there is no ongoing operation. BH cannot continue to function. To be clear, while I continue to hold out hope that our existing lender and/or strategic partners may provide an infusion of cash today, without it, BH will have no choice but to close its doors immediately.

The challenge was to integrate the merger of equals while spurring growth in a declining market environment in our industry. BH failed to meet this challenge and I too share in that failure. I am sorry. Thank you again for your past support and loyalty to BH during its nearly 35 year legacy.

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