The National First Look Program and Beyond: Comprehensive Strategies for Accessing Property

June 26, 2012
2:00 – 4:00pm
Presenters

• Moderator: Jennie Vertrees, National Development Council (NDC)
• Presenters: National Community Stabilization Trust (NCST)
  – Craig Nickerson
  – Erin Persons
  – Carlos Alcazar
• HUD:
  – Hunter Kurtz
  – John Laswick
Webinar Objectives Today

• Explain what the National Community Stabilization Trust does
• Provide an overview of how the acquisition of foreclosed and abandoned property is changing
• Illustrate ways to access property beyond First Look, including REO aged inventory, pre-foreclosure solutions and donations
• Explain how the National First Look Program works
• Highlight the newly improved FHA First Look program
• Demonstrate how to purchase First Look properties through REOMatch, including a description of recent enhancements
National Community Stabilization Trust

• An unprecedented joint venture launched in 2008 to reclaim neighborhoods devastated by foreclosures and abandonment

• Founded by 6 national nonprofits - Enterprise Community Partners, Housing Partnership Network, LISC, National Council of La Raza, National Urban League, NeighborWorks America

• Creates a bridge between two worlds – the financial institution servicer/REO departments and the state and local housing providers

• Currently working with 230 NSP grantees and more than 35 financial institutions
What does the Stabilization Trust do?

- **Transfer Properties** - Facilitates the effective transfer of foreclosed and abandoned properties to localities. The HUD First Look Program, operated consistent with a partnership between NCST and HUD, is the primary property transfer vehicle.

- **Financing** - Provides flexible financing to support local and state efforts

- **Capacity Building** - Organizes and facilitates local collaborations working through our sponsor organizations

- **Focal Point** - Serves as an industry “voice” for foreclosure remediation and neighborhood stabilization
Neighborhood Stabilization – The Past

• **NSP-Centric Focus:** the $7 billion public subsidy program jumpstarts community reclamation efforts

• **REO First Look:** exclusive window to purchase REO at a discount

• **REO Inventory:** supply was abundant and demand for REO was relatively light, especially in hard hit markets

• **Homeownership:** the primary focus was on re-establishing single family homeownership markets

• **Public & Nonprofit Focus:** funding for municipalities and larger nonprofits with only modest engagement of private sector
Neighborhood Stabilization – The Future

- **Public/Private Funding**: more private capital with public funds as credit enhancements and gap financing
- **REO Inventory**: REO supply is now much lower and demand is significantly higher
- **Occupancy Focus**: mix of owner-occupants, renters and other options (lease to own, short-term rental, etc.)
- **Pre-Foreclosure**: more emphasis on earlier solutions prior to foreclosure (short sales, deed in lieu, low value assets, notes)
- **Private Investor**: in order to get to scale, private developers/investors will increasingly be engaged
Distressed Note Purchase

• While not an NSP eligible activity, buying notes instead of real property will become a more significant neighborhood stabilization strategy

• Purchase of delinquent mortgage notes from financial institutions at a significant discount to the unpaid principal balance (UPB)

• Keep families in their homes by restructuring monthly mortgage payments and carrying costs

• Properties with loans that cannot otherwise be cured are put back into productive reuse

• Example: The Mortgage Resolution Fund (MRF) is now using state Hardest Hit Funds to buy notes on a geographic basis
Short Sales

• In the first quarter 2012, short sales exceeded REO sales for the first time

• Avoids extended vacancy created by foreclosure, reduces rehabilitation expenses and preserves home value

• Short sales have a very high rate of fall-thru, although efficiency is improving

• RealtyTrac reported an average of 306 days to sell short sales

• NFMC offers short sale counseling for homeowners

• A streamlined, scalable short sale process for NSP does not yet exist
Low Value Distressed Assets

- Servicers hold increasing numbers of low value assets (below $25K) prior to foreclosure
- It is often not cost-beneficial to bring such low value assets through the foreclosure process, particularly in judicial states
- Walking away from the investment has additional issues
- As a result, there is often no palatable disposition option for these “rock and a hard place” properties
- Strategy – convey these assets in distressed markets at no cost and with a cash contribution, prior to a foreclosure sale
- Example: Cleveland CRC pilot
Existing/Aged REO

• Beyond First Look, grantees can purchase properties that may already be listed for sale

• Second Look programs are offered by some top servicers, limiting initial REO property to nonprofits and homebuyers

• Another good opportunity is the aged REO inventory
  – Inventory that has not sold within the first 60 days often can be purchased at a more significant discount
  – FHA offers nonprofits and government agencies up to 30% discount on listed properties
  – Government agencies can buy $1 FHA properties after 6 months on market
Donations

• Donation of REO property is becoming much more prevalent because of the National Mortgage Settlement

• Some servicers are offering properties of value (above $25K) as well as distressed properties and vacant lots

• The “anti-blight” provisions of the National Mortgage Settlement motivate servicers to focus on property donations

• NCST is increasingly receiving donation inventory from multiple financial institutions

• Any grantees interested in becoming donation-only buyers can contact NCST at newbuyer@stabilizationtrust.com
So, What Does All This Mean?

• The next 3 years of the neighborhood stabilization campaign will not look like the last 3 years. We’ll need:
  – More capital
  – More local partners
  – More approaches to accessing property and people

• With demand for distressed assets going up, a deeper tool box is needed to meet local needs

• Nevertheless, the HUD First Look Program will remain a valuable tool for accessing foreclosed properties
The National First Look Program
The HUD National *First Look* Program

- Offers exclusive access and discounted pricing on pre-listed REO properties

- In September 2010, HUD Secretary Shaun Donovan announced the launch of HUD’s National First Look Program in partnership with the National Community Stabilization Trust.

- HUD’s National First Look is an expansion NCST’s existing program. Ensures that *First Look* is a more integral tool in the NSP toolbox.

- Open to all NSP Grantees. Properties available from many financial institutions, including Bank of America, Chase, Citi, Freddie Mac, Fannie Mae, FHA, GMAC, NationStar, Ocwen, US Bank, and Wells Fargo.
First Look Timing

Elapsed time: 15 - 30d

1. Seller to complete foreclosure, redemption and eviction process
2. Seller to secure the property
3. Seller performs property inspection
4. Seller determines “Market Value” and disposition plan

Elapsed time: 5 - 15d

5. Seller provides Adjusted Sales Price
6. Seller proceeds to market the property
7. Seller incurs holding costs, market risk, etc. until sold

(Elapsed time: 2 - 5d)

8. Seller to make property available for inspection
9. Buyer confirms interest to inspect
10. Buyer performs property inspection
11. Buyer responds: Accept, Decline, Counter
12. Property Sold

National First Look Program

U.S. Department of Housing and Urban Development • Community Planning and Development
**First Look Property Discounts**

<table>
<thead>
<tr>
<th>Description</th>
<th>Calculation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Estimated market value assuming normal market conditions and procedures</td>
<td>- Estimated market value assuming normal market conditions and procedures through a BPO, an AVM or a full appraisal.</td>
</tr>
<tr>
<td>through a BPO, an AVM or a full appraisal</td>
<td></td>
</tr>
<tr>
<td>- Less Saved holding costs of insurance, real estate taxes and maintenance</td>
<td>- Less Avoided transaction costs of brokerage and sellers internal supervision and administration</td>
</tr>
<tr>
<td>- Less Avoided transaction costs of brokerage and sellers internal</td>
<td>- Less Savings in capital costs due to early receipt of proceeds</td>
</tr>
<tr>
<td>supervision and administration</td>
<td>- Less Possible decline in value over the holding period</td>
</tr>
<tr>
<td>- Less Savings in capital costs due to early receipt of proceeds</td>
<td>- Less Rehabilitation required for code compliance and marketing</td>
</tr>
<tr>
<td>- Less Possible decline in value over the holding period</td>
<td></td>
</tr>
<tr>
<td>- Less Rehabilitation required for code compliance and marketing</td>
<td></td>
</tr>
<tr>
<td>Equals Net Realizable Value</td>
<td></td>
</tr>
</tbody>
</table>
Accessing *First Look* Properties

- *First Look* Properties can be accessed through the National Community Stabilization Trust’s REOMatch website

- Each grantee will receive a username and password to an individual portal where they can access *First Look* properties in their NSP target areas
Purchase Agreements and Closing

• NCST will facilitate communication of pricing acceptance to the seller at which time a contract will be drafted.

• For National *First Look* transactions, a standard purchase agreement template is utilized which includes contingencies for NSP program requirements, such as environmental reviews and other requirements.

• Closings are to occur within 30-45 days from offer acceptance and buyer can choose to use seller’s title company or their own.
FHA *First Look*

- FHA *First Look* provides NSP grantees exclusive access to review and purchase newly conveyed FHA real estate-owned (REO) properties that are located in their NSP designated areas as approved by HUD.

- Grantees will have the opportunity to make a purchase offer on a property prior to it being made available to other entities.

- NSP grantees can purchase these properties at a 10% discount off of the appraised value (less any applicable commissions, etc.).
FHA Timing

• The duration of the FHA First Look period is approximately 14 business days:
  – Consideration period - average 12 days from the time FHA first receives property until appraisal
  – Purchase period - a 2-day window after appraisal to submit purchase offer

• After the FHA First Look period has expired, the properties will be listed for purchase under FHA’s standard sales methods (lottery, competitive sale, etc.).

• No preference will be available to NSP grantees after the FHA First Look period has expired.
FHA Eligibility

• NSP grantees, including government entities and nonprofit organizations, either as:
  – Direct recipients of NSP funds, or
  – Sub-recipients (or sub-awardees) of direct NSP grantees
  – Under NSP2, consortium members may also be included

• NOTE: For-profit entities are **NOT** eligible to participate in FHA *First Look*. 
NAID Number

• For purchase of FHA First Look properties, the National Community Stabilization Trust has been granted a National NAID which can be utilized by grantees to accept properties.

• For grantees that already have a NAID number, it can be used to purchase properties outside of the First Look Program.
Accessing FHA *First Look* Properties

- FHA *First Look* Properties can be accessed through the National Community Stabilization Trust’s REOMatch website.

- Each grantee will receive a username and password to an individual portal where they can access FHA *First Look* properties in their NSP target areas.
Purchase Agreements and Closing

• NCST will facilitate communication of pricing acceptance to the seller at which time a contract package will be provided for execution.

• For FHA First Look transactions, the standard FHA single family sales contract – HUD Form 9548 – must be used: http://www.hud.gov/offices/adm/hudclips/forms/files/9548.pdf

• Contingent contracts will be accepted, which will allow purchasers time to satisfy NSP program requirements, such as environmental reviews and other requirements.
Purchase Agreements and Closing (cont.)

• Guidance for contract contingency language can be viewed at: http://www.hud.gov/offices/cpd/communitydevelopment/programs/neighborhoodspg/pdf/cond_purchase_agreement.pdf

• Closing timeframe is 30 days.

• Extensions to the 30-day closing timeframe may be approved on a case-by-case basis (i.e. for purposes of completing required environmental reports).
Overview of REOMatch

• NCST developed a user-friendly online tool - REOMatch
• Tool is available for free to NSP Grantees participating as buyers with NCST
• Used to manage National First Look transactions
• Target area mapping and property acquisition management tool
• NSP grantees can use it to define target areas to street level detail. Includes HUD-approved NSP target areas overlays
Overview of REOMatch (cont’d)

• Track National First Look transactions from initial viewing to closing
• Communicate with NCST on all acquisitions and receive customized support from NCST Transaction Desk
• Each grantee will receive a username and password to an individual portal where they can access First Look properties in their NSP target areas
• FHA First Look properties can now be viewed through REOMatch
REOMatch Features

- Google Maps Interface
- Plot Multiple Target Areas
- Transaction Tracking
- Properties from Multiple REO Sellers
- Document Uploads
- Excel Export Option
REOMatch Website – New Properties

- Properties received daily and are loaded into buyer defined target areas in REOMatch
- To obtain contact information for the broker or FHA Asset Manager, grantees must express interest in inspecting properties
REOMatch Website – Inspections

- Once interest is expressed, email contact information for the broker or FHA Asset Manager will be populated in the “Selected Property Details”
- After inspecting, grantees confirm their interest in receiving pricing
REOMatch Website – Price Offers

- Once pricing is available from seller, the offer details will be available in REOMatch.
- Buyers will have 24-48 hours to accept pricing.
- Upon accepting, buyer will need to provide details about funding being used for the transaction.
Contact Information

• National Community Stabilization Trust
  Enrollment: newbuyer@stabilizationtrust.com
  FHA Transactions: fhafirstlook@stabilizationtrust.com
  Non-FHA Transactions: desk@stabilizationtrust.com
  Website: www.stabilizationtrust.com

• REOMatch Website: http://www.reomatch.com
Questions and Answers
# NSP Resource Exchange Links

<table>
<thead>
<tr>
<th>NSP Resource Exchange</th>
<th><a href="http://hudnsphelp.info">http://hudnsphelp.info</a></th>
</tr>
</thead>
<tbody>
<tr>
<td>Search the Resource Library</td>
<td><a href="http://hudnsphelp.info/resources">http://hudnsphelp.info/resources</a></td>
</tr>
<tr>
<td>Search the FAQs</td>
<td><a href="http://hudnsphelp.info/faqs">http://hudnsphelp.info/faqs</a></td>
</tr>
<tr>
<td>View All Training Materials on the Learning Center</td>
<td><a href="http://hudnsphelp.info/learning">http://hudnsphelp.info/learning</a></td>
</tr>
<tr>
<td>Submit a Policy Question via Ask A Question</td>
<td><a href="http://hudnsphelp.info/question">http://hudnsphelp.info/question</a></td>
</tr>
<tr>
<td>Request Technical Assistance</td>
<td><a href="http://hudnsphelp.info/RequestTA">http://hudnsphelp.info/RequestTA</a></td>
</tr>
</tbody>
</table>

## Connect with NSP

<table>
<thead>
<tr>
<th>Connect with NSP</th>
<th>LINK</th>
</tr>
</thead>
<tbody>
<tr>
<td>Join the Listserv</td>
<td><a href="http://hudnsphelp.info/listserv">http://hudnsphelp.info/listserv</a></td>
</tr>
<tr>
<td>Visit the NSP Flickr Gallery</td>
<td><a href="http://www.flickr.com/photos/nspresourceexchange">http://www.flickr.com/photos/nspresourceexchange</a></td>
</tr>
<tr>
<td>Visit the NSP YouTube Channel</td>
<td><a href="http://www.youtube.com/user/NSPResourceExchange">http://www.youtube.com/user/NSPResourceExchange</a></td>
</tr>
</tbody>
</table>