

Recycling REO: Disposition Strategies in the Continuing Crisis

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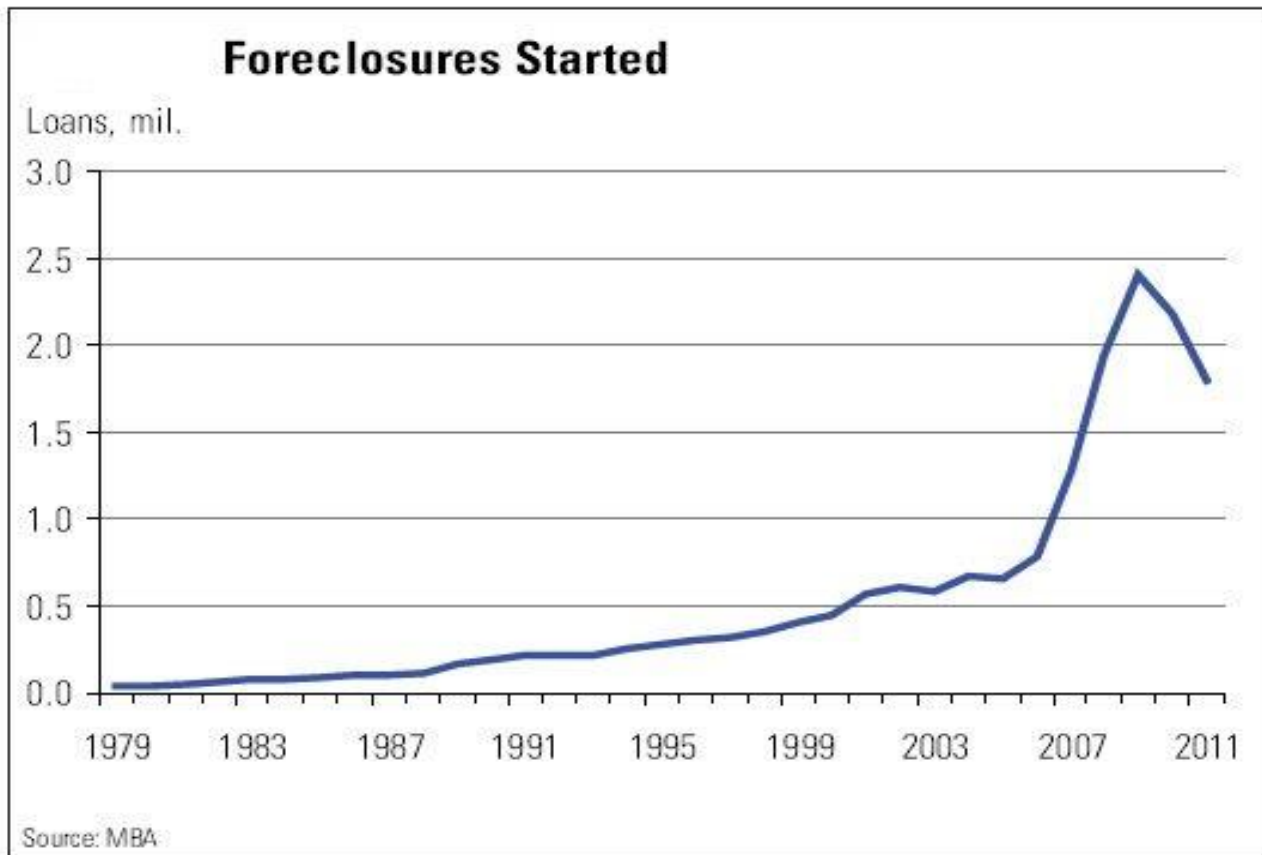
Where Are We?

Home Values Continue to Fall:

States with Highest Negative Equity			
	No. of Mortgages	Average LTV	Negative Equity Share
Nevada	563,330	110.2%	58.3%
Arizona	1,311,111	92.0%	47.1%
Florida	4,356,307	86.7%	43.9%
Michigan	1,381,925	83.4%	34.5%
Georgia	1,628,145	80.7%	30.0%
California	6,827,170	70.6%	29.7%
Maryland	1,360,482	70.1%	23.2%
Virginia	1,313,344	71.5%	22.9%
Ohio	2,207,067	76.0%	22.6%
Idaho	254,797	71.1%	22.2%
U.S. Total		69.8%	22.1%
Note: Data as of 30 2011 Source: CoreLogic			

Where Are We?

Rate of foreclosure down, but still high:



More to Come:

Seriously Delinquent Mortgages, 9/30/11

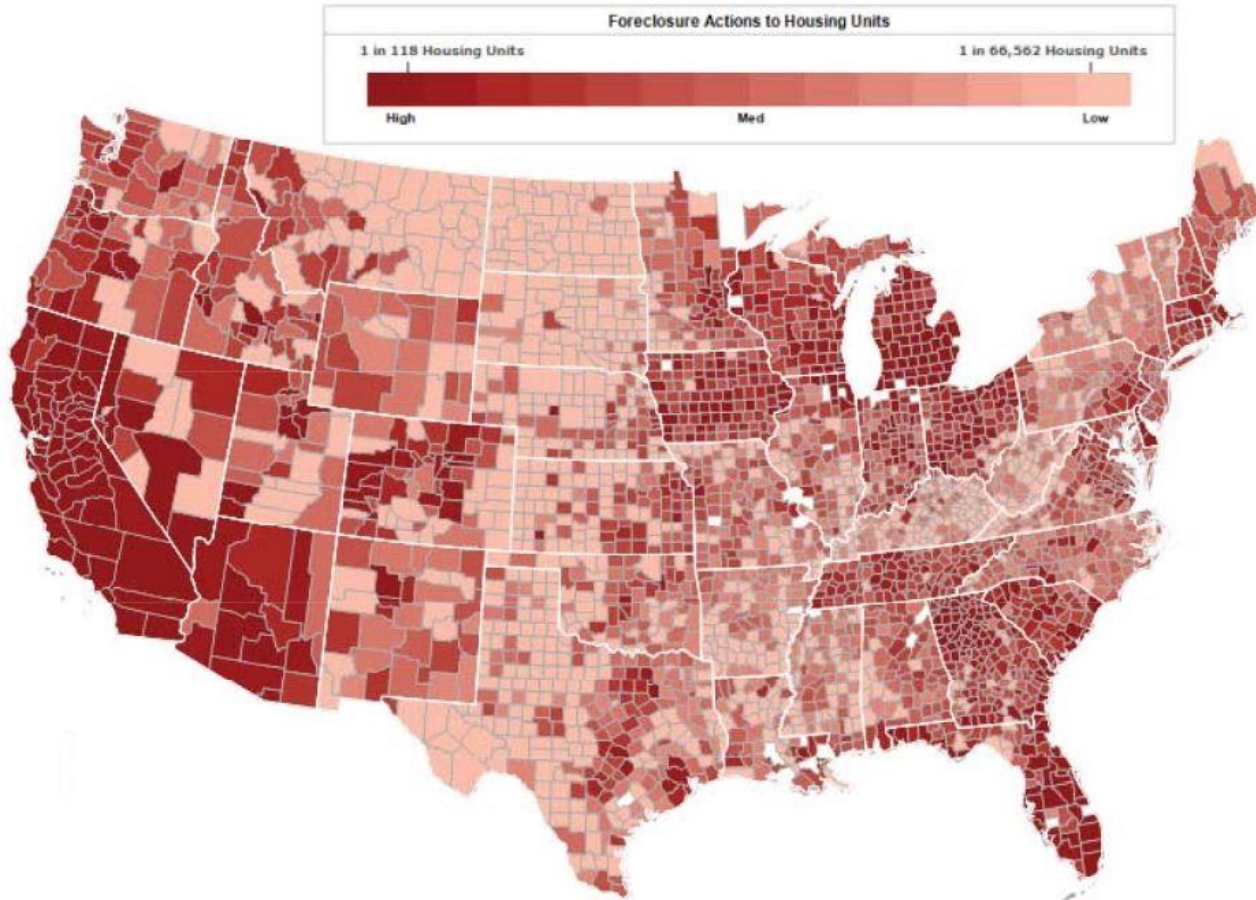
	No. of Loans
Total Seriously Delinquent Loans	1,584,425
Government-Guaranteed	491,124
GSE	477,171
Banks and Thrift	169,784

Note: First-lien mortgages representing 62% of all U.S. mortgages outstanding.

Sources: Office of the Comptroller of the Currency, RCG

Hot Spots

Foreclosure Rates per County, Continental United States



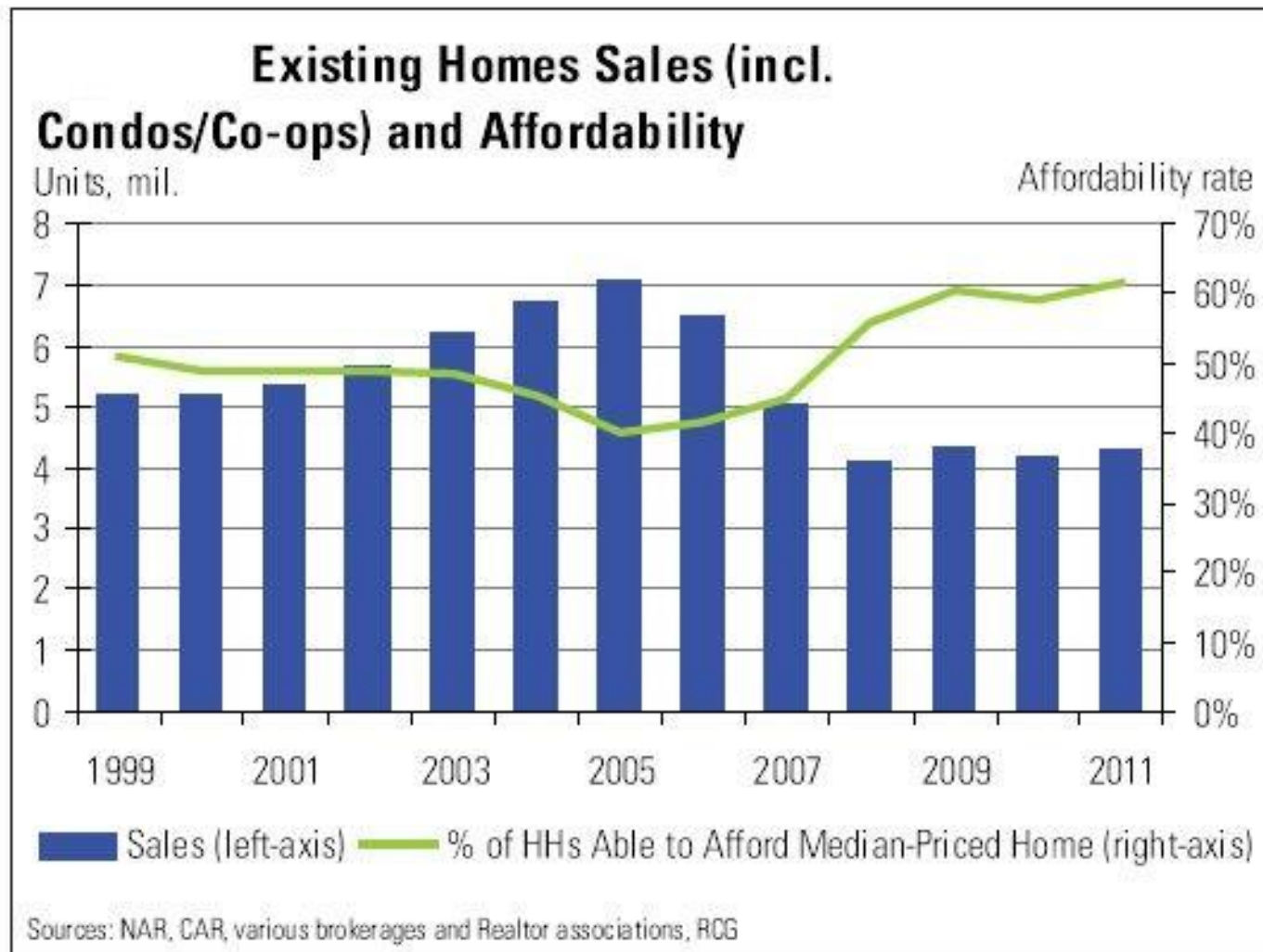
Worst-Hit Markets

Top Concentration of Delinquent and REO Properties per MSA, 4Q 2011 Totals

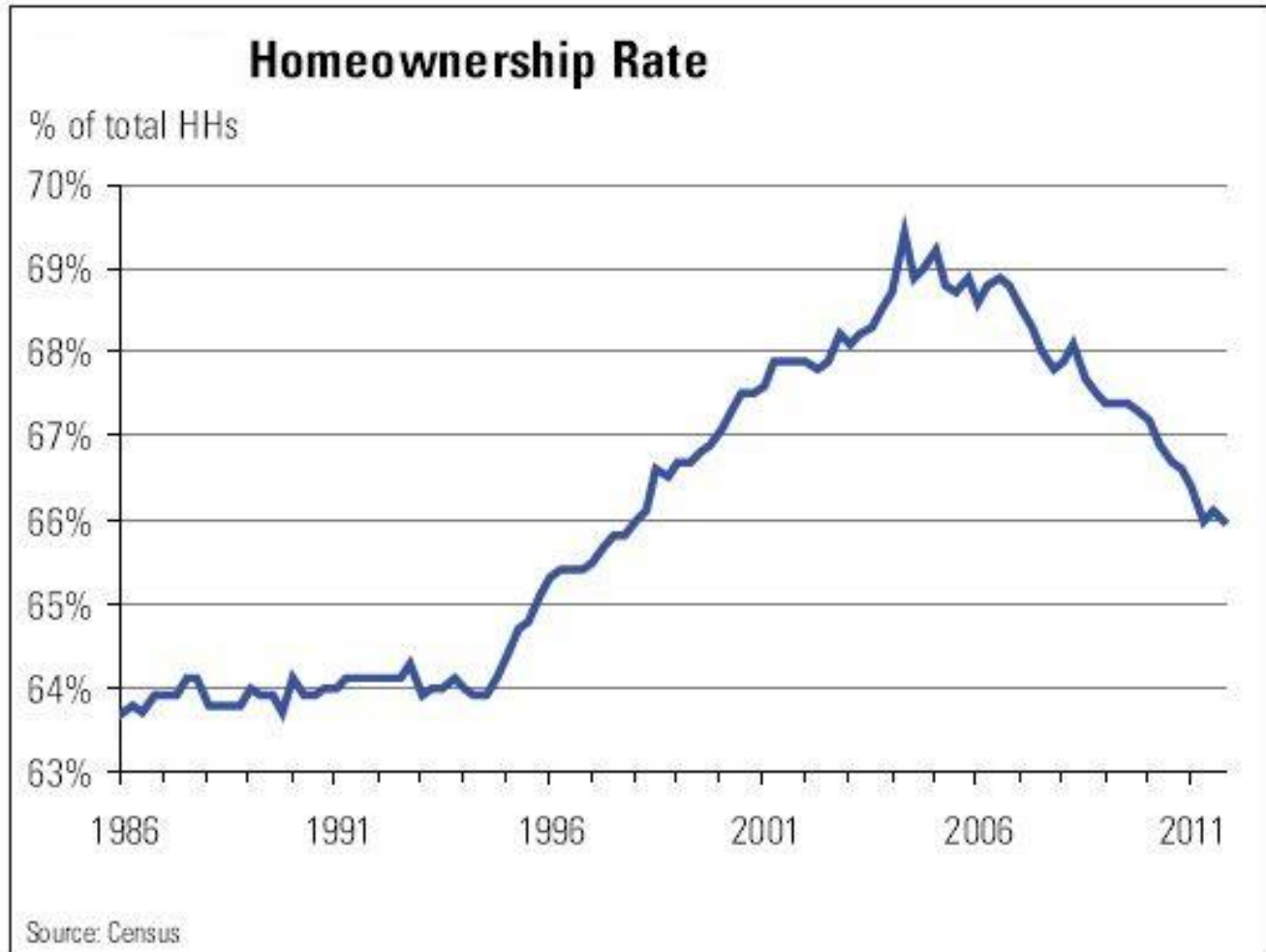
Most Delinquent Filings		Most REO Filings	
MSA	Units	MSA	Units
Los Angeles	35,918	Chicago	9,396
Chicago	35,595	Phoenix	8,679
Inland Empire	30,208	Atlanta	8,610
Atlanta	24,209	Detroit	7,521
Detroit	23,910	Los Angeles	5,533
Phoenix	22,237	Las Vegas	5,397
Las Vegas	15,989	Inland Empire	5,168
Sacramento	14,724	Houston	4,024
Miami	12,965	Minneapolis	3,115
Oakland	12,942	Orlando	2,883

Sources: RealtyTrac, RCG

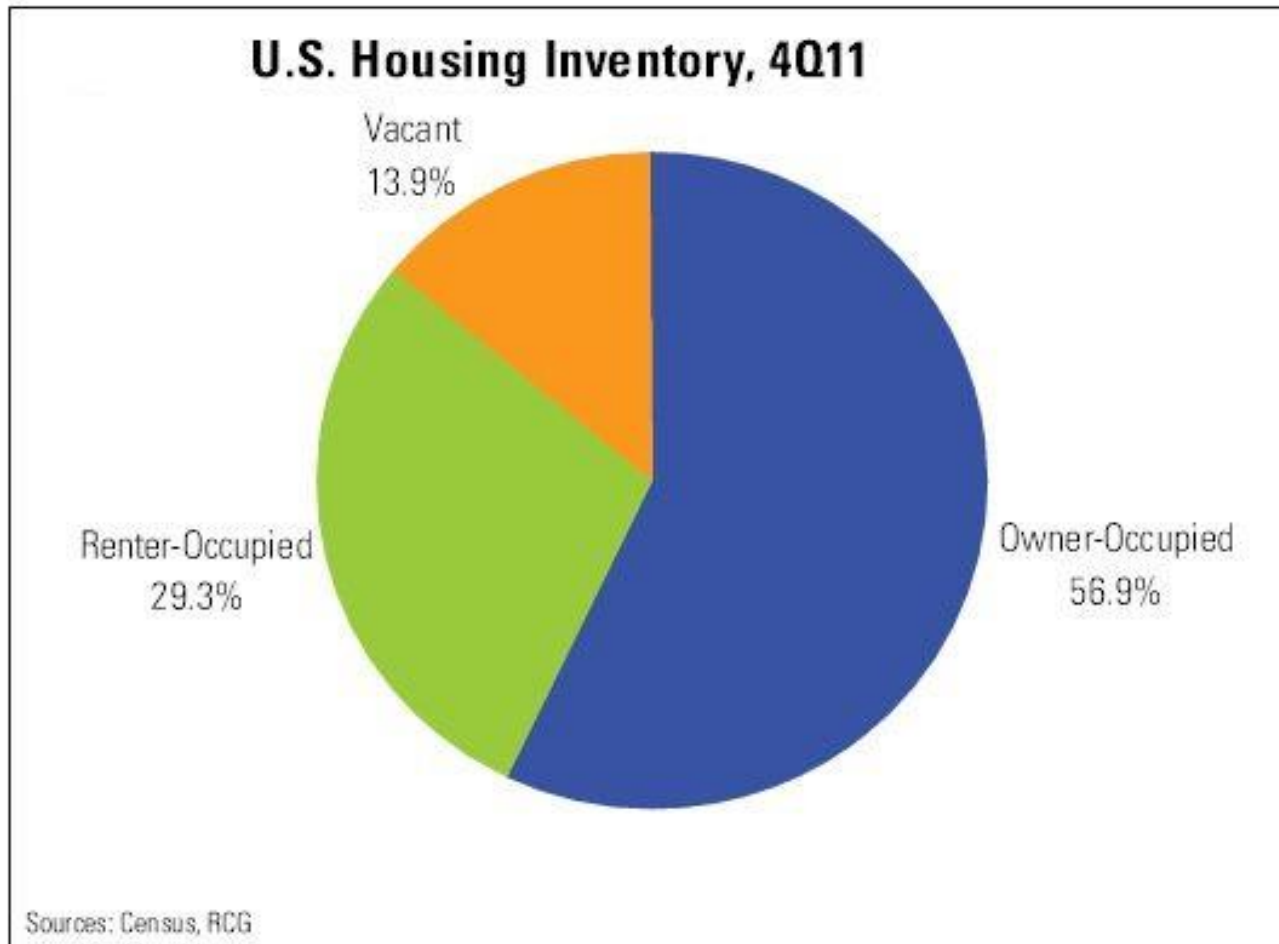
Absorption Still Slow



Fewer Homeowners



Vacant Inventory is Piling Up



Federal Response

- Some moves to prevent foreclosure:
 - AG Settlement
 - Mandates on big 5 for principal reduction
 - Public/private pilots
 - Mortgage Resolution Fund
 - National Council of La Raza
 - Ocwen & other private-label
 - State-run HHF

Federal Response

- Can we absorb excess single-family inventory through rental disposition?
- RFI from FHFA and FHA
- Working group among FHFA, FHA, Treasury, others

Fannie Pilot

- Pilot offering from Fannie in FL, GA, IL, NV, SoCA, and AZ
- Promise of more to come
- Two structures: cash sale & joint venture w/ Fannie
- Due diligence period in process, sealed bids in April

Inventory & Rent Growth

Top Ten Markets for Rent-to-Own Investment Based on REO Filings and Apartment Market Fundamentals

Rank	Metropolitan Area	REO Filing per # of HHs, 4Q 2011	Total REO Filings, 4Q 2011	Yr/yr Apt. Rent Growth, 4Q 2011	Yr/yr Apt. Occupancy Change, 4Q 2011
1	Chicago	367	9,396	5.8%	1.6%
2	Detroit	218	7,521	4.5%	1.9%
3	Denver	439	2,299	6.7%	0.9%
4	Dallas	536	2,854	4.8%	2.0%
5	Orlando	262	2,883	3.2%	1.8%
6	Minneapolis	411	3,115	5.5%	0.8%
7	Houston	520	4,024	4.0%	2.4%
8	Oakland	460	1,969	9.0%	0.3%
9	Phoenix	175	8,679	2.4%	1.4%
10	Seattle	552	1,946	5.9%	0.9%

Sources: MPF Research, RealtyTrac, RCG

Concerns

- Who will own?
- How will they be managed?
- How long will they stay rental?
- How much will there be?

Role for Mission Entrepreneurs?

- Feds Engaging in conversations
- Definite encourage to private equity to talk with non-profits
- Weighting of community concerns not clear
- Capital and operational challenges

Summary

- Market hasn't kept up with inventory sufficient to support prices
- Major current is economic growth – if strong, defaults will decrease, absorption increase
- Too early to say, so rental disposition efforts are going forward, should continue this year
- Operational challenges are large