Home Equity First Aid v. 11.10.09

A Tenant/Caretaker model to support stability for lenders, neighborhoods and local economies

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Goal

To provide self-funding housing market triage that reduces negative home equity, with multiple benefits for households, neighborhoods, cities, states, lenders and the nation's economy.

Abstract

Lenders continue to liquidate vacant foreclosures at pennies on the dollar, despite federal bailouts and an all-time low public image. This practice accelerates equity losses for banks, surrounding property owners and communities. Although Private Mortgage Insurance covers lender losses, wholesale short-selling undermines efforts to restore confidence in America's economy and increases downward pressure on market net worth, employment, etc.

The basic concept of this proposal is to connect displaced individuals and families with vacant properties as quickly and efficiently as possible to stabilize affected households, equity/market prices and the surrounding economy. This requires an agreement between a professional property manager (or other sponsor) and lenders to make vacant foreclosures available using short-term renewable leases to eligible tenant/caretakers. Rent collected from these properties supports modest management and maintenance fees, with the net surplus distributed to emergency shelter and transitional housing providers, and/or to support local 'housing first' activities. Ideally, the process is self-sustaining and requires no public funding.

A portion of the proceeds could be placed in escrow to assist with rehabilitation or repairs. The concept is relatively simple, although details of the execution depend on a clear understanding of the process and benefits among everyone involved.

Note. This is a personal conceptual model for discussion among housing stakeholders, and represents just one option among many strategies.

Objectives

- Preserve equity in housing market and lender portfolios
- Reduce lender liability for vacant/abandoned properties
- Improve public image of lenders receiving bailout funds
- Conserve local code/law enforcement resources
- Match tenant/caretakers with vacant properties
- Improve asset, household and neighborhood security
- Generate income to invest in homelessness prevention and property maintenance/repair
- Support stability in local economy and workforce

Current Challenges: Communities

- Vacancies accelerate equity loss for surrounding property
- Abandoned homes inhibit resale
- Concentration of vacancies = crime and disinvestment
- Communities spend up to $30,000 on additional code and law enforcement per vacant/abandoned property
- Displaced tenants increase burden on community and social resources and programs
- Housing insecurity destabilizes employment, school attendance and family unity

Current Challenges: Lenders

- Public perception of and trust in lenders at an all-time low
- Bank-owned vacancies = liability + net drain on resources
- Vacancies exert negative pressure on overall portfolio
- Projected market declines through 2010 (Case/Schiller Index)
- R.E. Investment strategy is 'buy and hold' through 2010
- Sales from now through 2010 will lock in losses
- Community and lender health/resilience are linked

Proposal

- Adopt MOU between lender/owner and property management (PM) and/or other sponsor
- Turn over select banked-owned vacancies to local PM
- PM assumes temporary responsibility/liability to secure tenant/caretaker (TC) and preserve asset value
- PM/TC enter month-to-month lease
- Portion of rent stream covers PM costs, basic repairs
- Balance used as leverage/support for local homelessness prevention, financial literacy efforts
- Property returns to market when values rebound

Benefits

- Creates tangible symbol of lender participation in recovery
- Reduces 'ghost neighborhood' syndrome (and related crime)
- Limits lender/community liability and costs
- Preserves equity for all property owners
- Creates additional housing options for tenant/caretakers
- Supports market value and eventual rebound
- Encourages additional investment
- Creates flexible alternative for lenders until market recovery

EXAMPLE:

Bank XYZ has 100 residential loans currently in default. 15 of these loans will be renegotiated, 80 will be sold at 30-50 cents on the dollar (with PMI covering a portion of the loss). The last five remain unsold. One or more would be chosen for the model Tenant/Caretaker program.

A-1 Property Management (through an MOU) agrees to: **a.** extend liability coverage to the property, **b.** screen and secure a tenant on a month-to-month lease, and **c.** provide basic maintenance.

The **Smith Family**—in exchange for a short-term lease with a 30-day notice—pays a modest deposit and sustainable rent (± 30% of HHI) to **A-1.**

From this rent stream, **A-1** takes a management fee, retains an equal amount in escrow for repairs/maintenance, and contributes the balance to a 'housing-first' program such as C.A.T.C.H., or a homelessness prevention provider.

When the housing market begins to recover, XYZ decides to sell the property and notifies **A-1,** who issues a 30-day notice to the Smiths and serves as a subsequent rental reference.