

Neighborhood Stabilization Program: Public Entity and Nonprofit REO Sales Initiative

Warren Harris
Senior Business Manager

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Initiative Background

The Housing and Economic Recovery Act of 2008 provided \$3.92 billion in Community Development Block Grant (CDBG) funds to states and localities for purchase and rehabilitation of REO under the Neighborhood Stabilization Program (NSP).

States and localities have completed plans for use of the NSP funds. Grantees must *obligate* all funds within 18 months of grant receipt and must *spend* all funds within 48 months.

Communities participating in the NSP must meet HUD requirements, including income eligibility requirements, affordability requirements, and an average 15% discount to appraised value for REO properties purchased using the funds.

REO Sales to Public Entities and Nonprofits: Four Options

Fannie Mae is engaged in multiple approaches to offer a range of solutions that Public Entities may choose consistent with their needs.

1. Streamlined bulk sales process with 15% discount to appraisal.

This solution is consistent with Federal NSP guidelines as well as national economic forecast of continuing home price decline.

2. Bulk sales of low-value properties in select markets.

In select markets Fannie Mae is willing to negotiate “one-off” discounts greater than 15% in bulk sales of low-value properties. Maximum property price and minimum number of properties may vary with markets.

REO Sales to Public Entities and Nonprofits: Four Options

3. Retail sales.

Purchase of Fannie Mae REO through the listing broker. Discount negotiations conducted through the broker. A list of properties is available at www.fanniemae.com.

4. Flow sale of unlisted properties through the National Community Stabilization Trust (NCST).

Four national organizations (Enterprise, Housing Partnership Network, Local Initiative Support Corporation, and NeighborWorks America) are working together to coordinate acquisition or transfer of REO properties from multiple lenders, loan servicers, investors and the GSEs nationwide to local affiliate organizations involved in neighborhood stabilization.

NCST will serve as central broker/sales agent between public entities/local affiliate organizations and servicers – arranging and validating buyers and serving as a central point of contact for servicers. It will operate a “first look/right of first offer program” and quick sale option for public entities. Pricing is based on a formula that adjusts sales price to reflect the value of savings associated with executing a quick sale.

Streamlined Bulk Sales

The program is designed to:

- Support the effort of the Federal government to provide NSP funds to stabilize local communities affected by foreclosure.
- Provide a program that allows government entities to compose and purchase REO properties in bulk based on individual needs.
- Offer a streamlined execution for public entities and nonprofits to purchase REO properties that is consistent with CDBG/NSP guidelines.
- Provide an execution that offers speed of purchase and certainty of closing.
- Remain consistent with Fannie Mae's overall mission of supporting affordable housing in communities.

Streamlined Bulk Sales: A Four-Part Process

1. Submission of Property Request Form

- Fannie Mae receives a completed Property Request Form from the public entity or nonprofit showing the zip codes, property types, and property prices that the entity is interested in buying in bulk.
- Fannie Mae compiles all properties in “listed” and “in valuation” status that meet these criteria and shares the list with the group.
- During this time, any properties in listed status can be sold via the retail channel if there is an offer made prior to executing a bulk sale contract with the group.

2. Submission of Letter of Intent

- If the public entity or nonprofit is interested in participating based on the properties identified by Fannie Mae, the group would submit a letter of intent to Fannie Mae specifying which properties it is interested in buying at a 15% discount to current appraisal.
- Upon receipt of the letter of intent, the group is given access to the properties to conduct due diligence.
- For properties with old appraisals (older than 60 days old as of the date that the public entity plans to submit a signed sales contract), the group would request that Fannie Mae complete refreshed appraisals.
- In making this request, the group would agree to pay for one half of the cost of any refreshed appraisals for properties that it later chooses not to buy (for properties that the group purchases, Fannie Mae will pay 100% of the refreshed appraisal cost).
- The group has 10 business days from receipt of the appraisals to decide which properties (minimum of 10) it wants to request for purchase.

Streamlined Bulk Sales: A Four-Part Process

3. Submission of Sales Contract

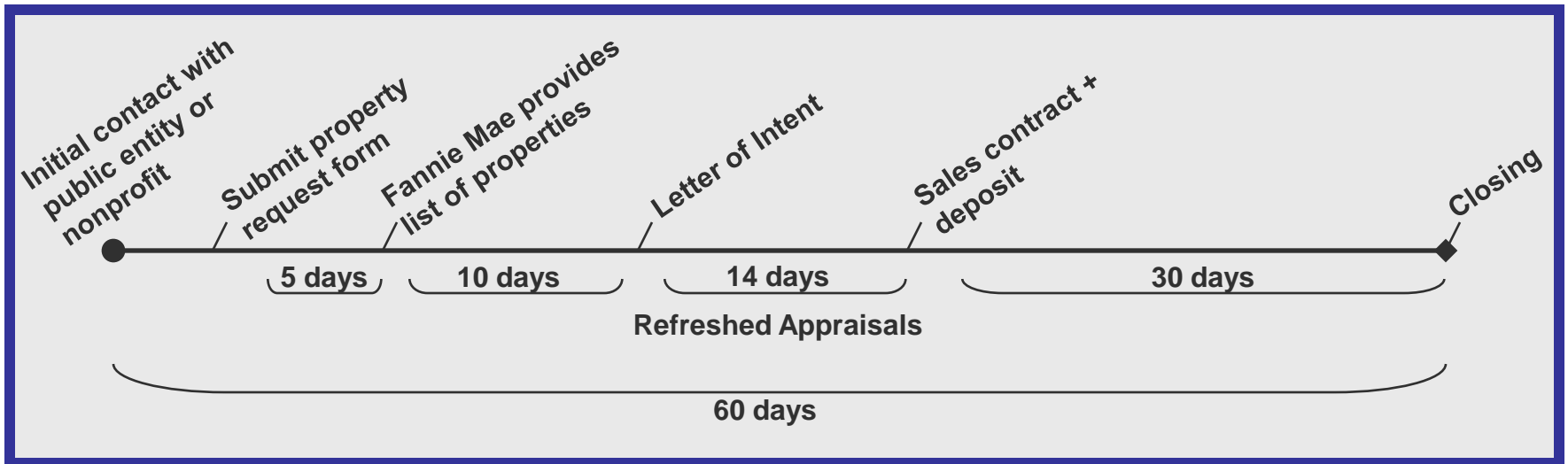
- If the public entity or nonprofit chooses to proceed with the bulk sale, the group would submit to Fannie Mae an executed sales contract with a goodwill deposit of 5% of the total purchase price and a list of the properties that it wants to buy.
- Upon receipt of the contract and goodwill deposit, Fannie Mae will take off the market any requested properties that are still in for sale status and will sell those in bulk to the group at a 15% discount to the current appraisal plus \$250 per property in closing costs.

4. Closing

- Closing would be required to take place within 30 days of receiving the signed sales contract.
- Subsequent bulk sales can be arranged as inventory becomes available.

Streamlined Bulk Sales: Expected Timeline

Below is an execution timeline based on estimated completion times for each part of the sales process



Streamlined Bulk Sales: Sample Execution

Public Entity XYZ is contacted by Fannie Mae, is interested in participating in the program, and fills out a Property Request Form.

Fannie Mae provides XYZ with a list of 84 properties that match the criteria that XYZ has indicated on the Property Request Form.

After viewing the properties, XYZ decides that it is interested in 70 of the 84 properties and submits a Letter of Intent with the list of the 70 properties.

XYZ receives access to the properties and spends 10 days visiting the properties.

Fannie Mae provides all current appraisals and orders refreshed appraisals for the properties that will not have an appraisal within 60 days of when the sales contract is expected to be signed.

Fannie Mae provides the refreshed appraisals to XYZ.

Within 10 days, XYZ submits a signed sales contract for 68 of the properties that it decides to buy, plus a deposit of 5% of the purchase price.

- Three of the 68 properties have been sold and Fannie Mae adjusts the purchase price to reflect the price of the 65 remaining properties.
- Of the two properties XYZ chose not to buy, one property received a refreshed appraisal and XYZ pays for one half of the appraisal.

Fannie Mae takes the 68 properties off the market.

Fannie Mae and XYZ close the sale within 30 days of receiving the signed sales contract.

Questions and Answers

Contacts:

Warren Harris

(562) 235-1874

Warren_Harris@fanniemae.com

Northern and Central CA

San Diego and Orange Counties

Zeeda M. Daniele

(626) 396-5386

Zeeda_M_Daniele@fanniemae.com

Los Angeles, Riverside, and San Bernardino Counties

Arizona

Nevada