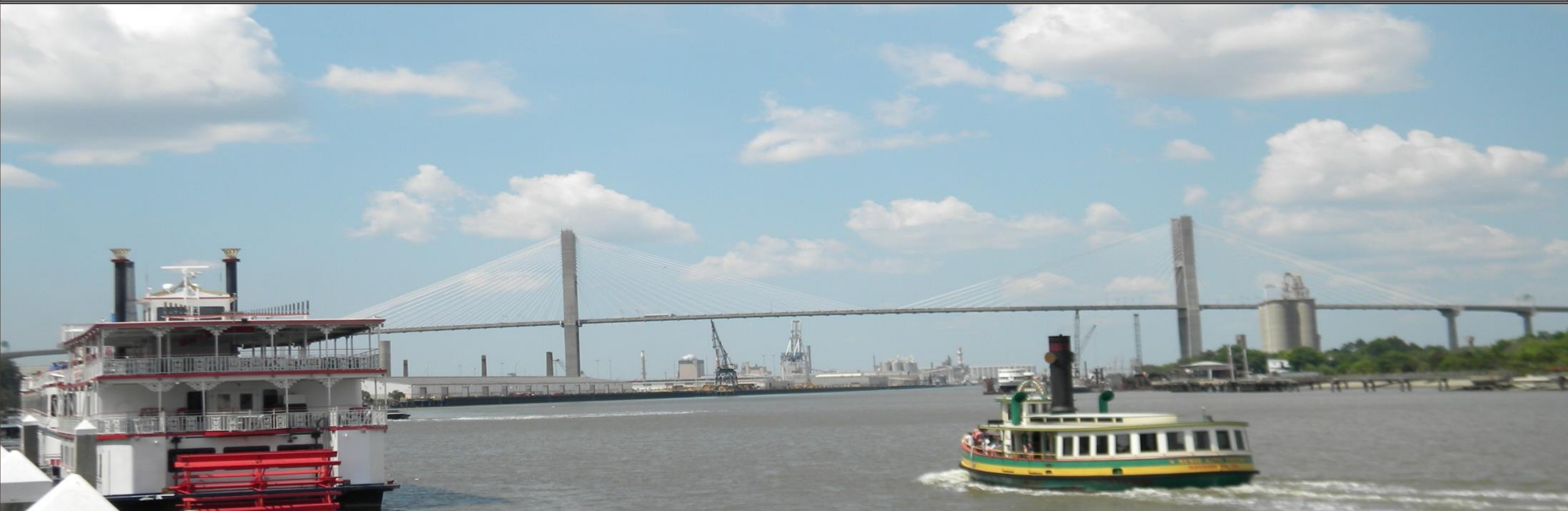
Adventures in Negative Equity
The Utah Experience



- What is Negative Equity?
  - What results when the fair market value (or just compensation) of a property is less than the outstanding debt (the mortgage).

How did we get here?

- Deregulation – (1999) Gramm-Leach-Bliley Act allowed banks to merge commercial and investment activities
  - securitization
- Deregulation - 1982 Garn-St Germain Depository Institutions Act allowed adjustable rate mortgages
- Mandated Loans – HUD under Clinton & Bush ordered to increase affordable housing loan purchases (30% in 1992 then gradual increases up to 56% of all loans in 2008)…led to significant loosening of lending standards
  - Stated income, interest only, sub prime, 100% loans, ARMS, pick your payment, etc.
- Speculation (1 in 4 homes) & historically low interest rates

How Does This Affect ROW Acquisition?

- Uniform Act's intent is to ensure that a displaced homeowner is not left worse off economically than he or she was before the displacement
- The Uniform Act typically requires that any administrative settlement to purchase the home be subtracted from any Relocation Housing Payments (RHP), effectively eliminating most, if not all, RHP for negative equity acquisitions
- In October 2012, the FHWA issued a guidance memo effectively allowing states to waive the above requirement and pay for both the negative equity and still provide RHP

The Mountain View Corridor Project

- 15 miles of new highway along the west side of Salt Lake and Utah counties
- Impacts over 200 homes
- Phased over several years based upon funding
- Acquisition began just as the real estate bubble burst in 2009

Unintended Consequences

- UDOT began the process to decide whether or not to request the waiver offered by the FHWA
- News about the FHWA memo was spread among affected property owners
- Several property owners promptly went out and took out home equity loans and/or used existing home equity lines of credit to purchase consumer goods (cars, trucks, boats, consolidate credit card & medical debt, etc.)
- They bragged to others that UDOT was going to buy the above items because they were tied to the home loans…

The Decision

- News of the property owners' actions reached several legislators during hearings on a bill that would require UDOT to pay the higher of the appraisal or the ad valorem tax assessment (it failed)
- The legislature directed UDOT to NOT request a waiver, and to instead conduct an individualized analysis of each property owner's indebtedness and "do the right thing" so as not to use taxpayer funds to buy toys
- 20% of the affected property owners in the corridor were upside down….

The Strategy

- We identified all homeowners who were in negative equity situations (over 40 homes)
- BEST ACTION WE MADE – we found a local realtor who specialized in short sales to help us
- We followed the KFC formula:
  - **K**now what you want (help homeowners maximize relocation benefits by getting lenders to work with us)
  - **F**ind out if your strategy is working (are lenders working with us?)
  - **C**hange your strategy if it isn't working (lenders' strategies morphed over time, so we had to be iterative and adapt…a lot)

The Implementation

- Bi weekly meetings to review acquisition facts and make decisions
- We developed a simple spreadsheet:
  - Name & Parcel Number
  - Date home purchased (knew abt MVC? & bubble timing)
  - Appraised Value
  - Mortgage Indebtedness (2nd mortgage, HELOC, etc)
    - What did they use the subsequent loans for?
      - We determined to pay for all home related indebtedness
  - Current or NOD?
  - Name of Lenders (national vs local, foreclosure, etc)

Go Go Years vs Current Lay of the Land

- At the beginning of the housing crisis, banks were scared, humbled, & desperately trying to get the loans off their books…
  - They were easy to work with (especially the national banks)
  - HUD, Fannie Mae & Freddie Mac were comical
  - Property owners' credit was preserved
- Currently, the banks are no longer worried about public sentiment and more concerned about profits again…
  - More difficult to work with (especially local banks & CU's)
  - HUD etc has gone from comical to nearly impossible

Critical Success Factors

- Educate! - Almost all bank short sale negotiators DO NOT understand the eminent domain process and will try to work it like a normal short sale
  - They will decline the sale since the homeowner is current
  - They will try to ding the homeowner's credit
- It is often necessary to escalate to the bank's management level to get results…ask for what you want…you'll get it
- Plan ahead…the process takes (months and months)
- Update: banks are now trying to get FHA approval so they can file a FHA claim for the loss…only to have FHA decline it since the homeowner is not delinquent…argh! Again, ask banks for help.

The Results

- 100% success rate in obtaining short sales without adversely affecting homeowners' credit (even several who were up to 3 years behind in payments…?!?)
- No administrative settlements in excess of $20k
- Zero condemnations (except for a few home abandonments)
- Significant savings of taxpayer funds by not agreeing to blindly pay for consumer debt

Questions?

- Ask Lisa!