REO & Vacant Properties: Strategies for Neighborhood Stabilization, September 1, 2010
Panel Two

Joseph Firschein:
I think Secretary Donovan already introduced Craig Nickerson, so I don't really need to. But we are really pleased to have this panel. And I believe Craig from the National Community Stabilization Trust is uniquely positioned to help us lead this next panel since his organization has been working as an intermediary to help public entities to nonprofit organizations get access to REO properties from banks, servicers and other REO holders. I'm going to turn it over to Craig because we are a few minute early in starting, I think we'll have a little bit more time on this panel. There should be plenty of time for everybody to ask their questions. One thing I would I have been asked by our organizers to do, because this is being Web streamed to a national audience, when you do ask your question, I know most of you have been doing this, but if you do ask a question, make sure to get a microphone, talk directly into the microphone and also state your name and your organization. That's helpful for the rest of the audience to know who you are. With that, I'm going to turn it over to Craig Nickerson.

Craig Nickerson:
Thank you Joseph. I'm delighted to be here with you and frankly a little humbled by the words from Secretary Donovan. It was much more than I expected. This is not designed to be an infomercial. We want to talk to you about, from an industry and various industry perspective, about how we see this neighborhood stabilization effort going, what can we do with the REO market, and how to frankly make the pre-REO market be better.

I'm going to steal a page from someone taking notes in the back there on what the secretary said. You know, he used terms like market-oriented, cost-effective, strategic and game changing. Those are the things we need to do. That's not necessarily been the way we could characterize the first 18 months of neighborhood stabilization program. It's been a learning curve. It has been a painfully slow learning curve with a lot of dead ends, a lot of mistakes, but a lot of valuable lessons learned. I think, you know, I was being reflective back there about what a milestone this is after 18 months that, you know, HUD has obligated more than 90 percent of its NSP funds even though we were fretting there wasn't the capacity at the local level and the connectivity between the financial community struggling with a large inventory of REO and these communities that had frankly lost a lot of the infrastructure to be successful. How do we solve a problem where we're rebuilding that infrastructure? That's what we are going to talk a little bit about today. You will not see any Power Points. I think this morning was appropriate for Power Points. All those wonderful projections and charts and trends. We are going to have a dialogue. This is a conversation. You are not going to hear me hopefully say, "and Yves, what do you say?"

We want to have a conversation with you about this issue and peel the onion, as they say. That's the objective. We have some very impressive panelists here. I'll introduce them in a minute and ask them to talk about what they do for three to five minutes and we'll jump into the sort of conversation itself. The last thing I want to mention is, we are going to go through several topics here. I want to give you a heads up about what those topics are. The first is about the broader question of how do we get to better scale in acquiring REO property. Is it some other approach? How can we do this in all communities?

The second question has to do with low value properties in particular. We are going to define that as properties below $25,000. It is, some of our speakers today described it, it is a phenomena that is particularly distressing to all of us. What do we do with that inventory?

Thirdly, we are going to talk about, should community buyers be in the business of looking pre REO? What about short sales? What about other executions? Investors often are looking there first and taking the best properties before they matriculate through the foreclosure process. Should we be more focused there?

Lastly we'll have a summation from our panelists on how they see the next 18 months happening based upon the lessons learned today. I hope that makes sense. I know it's ambitious, but Mat and Joseph just gave us an extra 15 minutes. Maybe we can do it.

Let me start by introducing our panel. I'll mention their names and organization and ask each of them to maybe give us three minutes on what in fact they do at their organization and how things are going today.

So next to me Yves Mombeleur who is with Chase. Next to Yves is Rob Grossinger who already described to all of you he had many jobs. He can't really hold down one.

[Laughter.]

Craig Nickerson:
He's with Enterprise Community Partners. It's been a few months. It's going well. You can tell we're friends.

Rob is with enterprise and previously with Bank of America for many good years. Very much embedded in this issue. And then Jay Ryan from Fannie Mae who is really the key driver of their NSP and other distressed property activity. And Terry Theologides. That's close, better than last time, with CoreLogic. The general counsel of CoreLogic, who as you hear, they are going to play an important role going forward. Let me ask you each for a three to five minute sort of brief intro on what you do at your organization. Who wants to start?

Terry Theologides:
My name is Terry Theologides. I'm GC of CoreLogic. That was formed when First American split into a title company. We are an independent company that has a lot of business and analytics services that are not actually providing financial services or insurance or title policies. Before that I was a general counsel at Saxon and was involved early on in trying to get its participation up and running in the stabilization trust. CoreLogic is involved, we are not a servicer. We are involved primarily as provider of data and services in the REO space. We have a lot of data on real property, on title, on mortgages. We have things like adjustable rate mortgage riders and data on that. We have data on communities and on consumers. And our primary customers have been historically the private sector, but we are increasingly finding

application for our data assets for community based organizations and policy makers and are working very closely with the stabilization trust to repack and what we can do in a way that will allow strategic decision making in connection with the issue that's brought us all together here today.

Jay Ryan:
I'm Jay Ryan from Fannie Mae. I'm not as bashful as Craig. I plan to do my five minute infomercial. Based on all the cameras in here, that's probably appropriate now. I do alternative disposition sales and at Fannie. What that is made up of, I have a public entity sales team which is a group that works with all the NSP grantees. They do our neighborhood stabilization efforts and they run our Fannie Mae first look program. I do our rental initiatives. We have several of those going on. I do our auction sales, and I also do our pull sales to nonprofits to land banks, to public entities and of course the dreaded investor. We do some of those.

[Chuckles.]

Jay Ryan:
At Fannie Mae, awhile ago we made the decision to put stabilization at the core of REO sales efforts. We think selling to a homeowner is the best way to stabilize neighborhoods. To that effort, in August of 2009 we came out with the Fannie Mae version of first look. And in the Fannie Mae first look, the first 15 days, 30 days in Nevada, we allow only NSP grantees and recipients and/or homeowners to purchase a property. We did it for two reasons. One, we were concerned about investors in the market. So this was designed to really move the investors back. Give the homeowners and NSP grantees, the second part of it was to give them time to make offers. So earlier this year what we did to enhance that, we enhanced our website which is homepath.com. You can go out there now and for every property that we have listed that's in the first look period, there's a first look symbol. It will tell you how many days left in the first look period. On the website you can download, put in zip codes. It has mapping tools. You can download the information from it and see what, if you're targeting a particular area, you can target in on that, see what properties we have that meet that. All the information about it is available to you there. So we are very excited about our first look efforts. Here is really the infomercial. Since August of 2009, we've sold just over 5,000 properties to NSP recipients or the grantees. So we are really excited about those numbers. 25,000 to homeowners during that time. So we feel like it's been a good success and we are happy with the results that we've gotten thus far.

In addition to the first look, we do a few other things. We've gone out. I think it was Michael Schramm who talked about Cuyahoga County and we have been working with them for a while, the land bank. We sold in four different pool transactions, 150 properties, properties for each of the properties we sold for one dollar we kicked in some additional funding to help with the demolition. That has been really successful. We also have done this in Riverside County, St. Paul, Columbus. Also working with Detroit. There are different transactions, structured differently. Each neighborhood has its own issues that they're dealing with, what they are trying to accomplish. We basically open up our portfolio and stuff that is not listed yet and say tell us what you are trying to accomplish? Here is our portfolio. Is there something more we can do on a systematic basis with you? We are happy with the results of that.

We have done a couple of community auctions. In those we only allow NSP buyers to purchase during certain sessions and bid on the properties. Lastly, we are also partnering with HUD on the announcement. We are going to enhance our first look program to allow an NSP only period. This is before we list our properties. Our first look program is on every property we list gets a first look. Before that, before we list properties we are going to allow NSP grantees to take a look at those properties and make an offer on them before we list out to everyone else. We are happy to be partnering with everyone on that and I'll stop.

Craig Nickerson:
Great. We will pick up on some of those points later in terms of low value properties and some of the other techniques that you mentioned, Jay.

Rob? You talking to me?

Rob Grossinger:
Of course, always. Rob Grossinger with Enterprise Community Partners. I haven't been there enough to even learn the elevator speech in terms of what enterprise is except for luckily I have been working with them for years and years and years in many different jobs that I've held. My role now is to oversee the national community foreclosure response initiative, which brings together our work, working comprehensively with neighborhood stabilization. We have a HUD technical assistance contract also and work with all our groups in those impact markets and throughout the country that are trying to do NSP.

The name, National Community Foreclosure Response Initiative, what I have been trying to do at enterprise is to change the title of my job of the "What the hell do we do now?" Department. Because that's how I feel about this. You heard all the discussions about this this morning. It washes over you with: Now what do we do?

Enterprise has been involved in this issue for a long time. In fact, enterprise together with neighbor works and list and neighborhood are partnership effort came together and realized this was a big issue and formed the trust. Bringing those four entities together in and of itself was a wonderful activity for further collaboration, but also produced the trust which then you heard, I felt like a proud father, hearing all those wonderful things that the secretary was saying. We since added the urban league and La Raza as part of the sponsors and management of the trust. Through that and also at the local level. I was invited here in the first place back when I was at Bank of America. They said, “Oh, you can come anyway,” once I changed jobs.

At Bank of America, which was probably the week after the NSP program passed, I got a call and was told, “Well, you speak community development. Why don't you figure out what we are supposed to do here? And just do something. We need to be able to respond to this program. We probably have to sell some REOs. We probably have to deal with community groups. Why don't you go figure out what to do.”

Luckily I found a kindred spirit on the servicing side. We created a team of nine people and began doing NSP sales to all the NSP recipients under NSP 1 that contacted us. In fact, my job for awhile was that nobody could work with Bank of America unless they talked to me first. I didn't ask for that job.So I probably talked to literally 600 entities around the country that were using NSP funds over the two years that I was there after that occurred.

And I will say we were, Bank of America was doing first look directly and through the trust, but we really strongly, and I still say we because it was only four weeks ago, strongly supported the trust and what it was doing. I sit here sort of with two hats. One as a former servicer and one as a community person.

Craig Nickerson:
Yves?

Yves Mombeleur:
My name is Yves Mombeleur. I manage Chase's re vitalization program. What Rob did at Bank of America, I do at Chase. We have had a community revitalization program actually before NCST was birthed. We want to make it stronger, not something that will take a couple of properties here and there. We wanted to reach out to all the community groups, both utilization of NSP and non-NSP funds. One of the things we thought about was, there's a lot of organizations out there that has been historically in the game of community re vitalization. They are small nonprofits. They don't have the resources staff wise or financially to acquire 30 or 40 units, but they may want to acquire one or two units.

Take a look at it. It's important for you to get one unit or 100 units. That one unit acts as the catalyst in your neighborhood to spur community revitalization, then it makes sense. We have done quite well. We work with the trust. They are one of our great partners. Right now our numbers are much lower than that of Fannie, but also the service portfolio is less.

Originally, our CEO made a commitment that we will move 500 units up through the end of 2010. We have bypassed those numbers. Right now we're at 965 transactions. Of those, 414 with the National Community Stabilization Trust and 551 directly with Chase. I'm most proud that of the 551, we donated 282 units to nonprofits across the country to help them in their community re vitalization effort. By doing that, we are helping the money they make after the resale, it's an acquisition rehab resale program, they can then in turn use it for the operational expenses. And they also are targeting low to moderate income persons. With a donation to acquisition costs, which has been brought down to zero, it simply becomes a rehab cost.

If your rehab cost is a nominal amount, even if it's 25 percent, but the acquisition cost is zero, now those nonprofits can go and reach out to those at the lowest economic strata and provide ownership opportunities where none existed prior. I'll end on that.

Craig Nickerson:
This first topic is very much in sync with what Yves was just saying. How to we better steer our strategic NSP properties? Clearly one of the things we saw at the beginning of NSP with concern about obligating the funds, too, and showing Congress and others that this program was necessary, was maybe taking properties willy nilly. Taking a property that is available because the price was right rather than it being in the strategic and most important location.

Do we, do we feel like 18 months later that you're finding more emphasis on targeting in this NSP effort now? Do you see that from your perspective? And if not, what can we do to do what the secretary say, which is be much more strategic and game changing with those choices? Anybody? Open it up.

Yves Mombeleur:
I'll start with that one. We are seeing a change. One of the things I hate to give Craig another plug, but with the REO match, what it really does, it addresses that problem as far as housing. This is very hard work. It is scattered site, infill housing at its worst or at its best. In order for you to really make a difference in the neighborhoods, then it's important that you just don't buy a property from Chase, though you can if you want. But you also buy properties from Wells, Bank of America and other servicers so you can really change the demographics of the neighborhood.

At first, there was the appearance that I'm going to buy for the sake of buying. But when you buy for the sake of buying, they're finding out those who bought really early, they'll buy a property, do the rehab and after they factor the acquisition costs and the rehab costs, they can't sell it at market values because the market continues to go down. That's why it makes sense for them to do strategic purchases and identify at the very earliest stage how many properties we have within a certain geography. With nonprofits historically, they have done very well in the rehab efforts, but also, they have had a problem in pricing themselves out of the market.
I start working in one block, and I buy one house at a time. By the time I get down to that tenth house, it's too late because someone else will have come and picked up the property knowing and simply watching. They are doing something. Property values are going up. Let me go ahead and acquire. That mind set has been changed where I see a lot more organizations and municipalities buying but have a strategic approach, saying take we can't reverse this trend everywhere. Let us focus on core zip codes, core areas and make changes in those areas.

Craig Nickerson:
Anyone else?

Rob Grossinger:
I would agree that REO matches got people thinking about the strategic targeting. I think NSP 2 because of its competitive nature you'll see that. My fear is we'll slip back on NSP 3 to the same kind of gobbledegook we had in NSP 1, which is again as I said earlier, I talked to 600 NSP users and I can't tell you how many conversations I had with people in which it statement was made: I just need to buy something. Can't you just get me a property to buy? So that's my fear on NSP 3. I think among those that were, had the inclination to become strategic, they went that way.

Craig Nickerson:
NSP 2 is different how so? For what reason?

Rob Grossinger:
Because it was a competitive process and collaborations and people came together. It wasn't formulaic allocation similar to NSP 1 or --

Craig Nickerson:
Interesting, working with HUD on what we tried to create polygons, outlines of the target markets. It was easy for NSP 2. HUD had the information. It was part of the information. Collaboration was built in. NSP 1, it was arduous to ascertain where those target markets were, how they were determined and how they changed over time. That's a very good point. Jay, Terry? Any other thoughts on this notion?

Jay Ryan:
I think you guys pretty much said it. One of the things we saw, we talked to a lot of public entities. There's like seven, 800 we talked to because of the recipients. We ran into the same thing. Either someone needed to buy something or they only had enough money, they are going to buy two houses. So you really did spend a lot of time and figuring out how to sell them that one house. So I think now with, as we are seeing now, I don't know if it's the deadline for NSP 1 or people have a lot of these public entities are now much better at figuring out how they are going to execute on buying homes, that we're seeing a lot of activity. I think coupled with the trusts, REO match. We have our website now. There's REO clearinghouse. There are ways to find all of these properties in just a few places. I think a combination of public entities have gotten up to scale. They sort of know how to push the dollars out to achieve what they are trying to achieve and then there's now some technology and obviously a lot more willingness among servicers and others to work with them.

Craig Nickerson:
One of the surprises I have had is for every Cleveland Cuyohoga county, Mike Schramm is still here, done work before anyone else on mapping where the problem properties are and beginning to address it, for every Cleveland Cuyohoga, there were ten communities that weren't really looking at the target market as a picture, as a chessboard, if you will, with moving parts that they needed to be effective. The learning process has been very surprising to me I have been in this business as you can tell for many, many decades. It's only when they began to have someone show the picture of where the properties are located and say, well, I bought five properties across from the elementary school, and maybe I should buy the others that are available and ascertain which seller has those properties and what's available.

I'm speaking for myself here, not for the panel. To me it seems like an organic thing the they come to a more sophisticated view of what they want to accomplish as they gain experience.

Terry Theologides:
I think that's right. I think a precondition to even being able to have the luxury of doing that is having the basic infrastructure in place and I think when this was starting up, you didn't how do I find out who is servicing it? Who do I talk to at the servicer? How do I get a straight answer? I think a lot of the foundational stuff has been worked out as more and more properties have gone through the system. Not that there aren't still kinks in that process, but now I think is the opportune time to make sure our efforts are being deployed most effectively by being able to not just find an REO that meets some rough guidelines, but actually being able to do what Craig is saying: Map out the community. Look at what properties are delinquent. What properties are vacant? What properties are under water and appear like lie to default? What is happening in

that community? Then literally then develop a strategy for a particular area and then be able to drive property by property and reach out to that servicer even in the pre-REO stage to say we are doing some work; we are deploying some NSP or public-private fund in a particular area so that the friction, the lost productivity when properties slip out because of miscommunication or misalignment with whatever the community organization's charter or goals are, or funding sources, if we can let less of that slip through our fingers by using the information earlier in the process, I think that you end up with, you have the prospect of scaling this up without having to incrementally increase the effort that much.

Craig Nickerson:
One of the things that I think has evolved, and it's good news over the last, particularly the last six months is a greater connectivity between this sort of softball back to you, Terry, I think, is sort of, for awhile it felt like the loss mitigation groups, the groups that are focused on trying to keep people in homes and those that were focused on neighborhood stabilization were in two counter worlds. Two alternate universes, rarely talking to each other. Over time we've seen more and more communication and connection. Now we have HAFA and other efforts to work on short sales and for interim executions.

To the extent that neighborhood stabilizers are looking to keep people who are in arrears in their homes as one of the first efforts, we are in better shape. From CoreLogic's perspective, can you generate data that would help the locality see that coming?

Terry Theologides:
Yeah, the short answer is yes. I mean, we can, part of what we have a lot of data. Part of what our interaction with you and others is being able to understand how we make that most actionable and user friendly. Again, our primary sales have been into the servicers or loan buyers or other investors who have, we understand why they wanted to understand particular characteristics of a loan are cool. And part of us getting to be understand is what is going to be most meaningful and actionable and predictive is going to allow greater use of the data that's frankly already out there and can be again, we are hoping through partnering with NCST and others, make that available in a way that doesn't require us to have 800 different contract with 800 community based organizations, but can partner with the consulting services at NCST and others can provide.

The other big thing to recognize is that even as this gets traction, the main path -- servicers for 20 years were set up to try to turn things into kind of the Adam Smith needle factory. So there was increasing compartmentalization and standardization. Whenever we think about taking a zig or zag in a process, we need to recognize that turning the aircraft carrier of a servicing operation that involves hundreds or thousands of people, well-intentioned people is hard to do. One of the things, as we look at adding new bells and whistles to the process, making sure that if we actually got the REO piece starting to gain traction, let's not starve that for assets. It is hard to layer on to an existing process, something that says wait, I know we told you this is what you do next, but now you've got to go to Yves or Rob or have to go see Jay to see if there's a separate pathway for this property.

11:43

Rob Grossinger: I don't think you can possibly take into account what Terry said without understanding exactly how I don't know for I don't work for Bank of America anymore, but I would have

Craig Nickerson:
Good, they can't fire you now.

Rob Grossinger:
It doesn't matter now. Without understanding how difficult it is for people who have been doing the same thing for 25 or 30 years to do it differently. Because it paid for their salaries and their bonuses and everything they did for all that period of time. All of a sudden you say to them: Wait a minute, it's not working.

For the first year that I spent with the servicing group at Bank of America, I heard that this was just a blip in the housing market. That things were going to turn around. Why should we change with everything? And yes, we will comply with HAMP and everything and it will come around in a year. I thought I was living in a different world. I thought I entered into the old Bizarro world where it's an alternate universe. So Terry's point about -- it can't be over stated. How things are done

This is one of my biggest complaints about NSP when I was at Bank of America. Nobody brought in the servicers to talk about how the REO market worked or how it was sold. That's why the 15 percent was so ludicrous at the beginning, not because -- not necessarily you could sell things at a 15 percent discount, but as a servicer, you can't say that publicly. You'll get sued by your investors. When are you really going to get sued by your investors? Are you just using that as an excuse? Which becomes an interesting set of dialogues internally within the bank. The servicers were not at the table when the program was created. How they needed to adjust to be able to work with it, I don't even want to talk about HAMP or any of those perhaps, but just NSP was one of the biggest misses of the NSP program was not having servicers who are willing were willing to show some of, unpeel the onion a little bit and show a little bit of how they did what they did so that advocates of the program could say now I know how this has to work and HUD could say I know how this has to work. HUD would not ask anybody to the table.

Craig Nickerson:
When we made our first contacts with these folks and other major institutions, we were using two different dictionaries. We had our local housing provider dictionary where we talked about discounts. When we went to them we talked about concessions to price, right?
What percentage -- you can be general if you want, but talk about myths in the marketplace myths in the marketplace, one of the myths, is that Chase city, Bank of America, owned most of what they service and the reality is what?

Rob Grossinger:
7 percent.

Craig Nickerson:
7 percent. You own it on behalf of an investor.

Yves Mombeleur:
We own less than 30 percent. But I want to just say, though, like everything new, there was a learning curve. There was a learning curve internally within all the financial institutions, with HUD, with the NSP players because imagine all these municipalities all of a sudden, here's tens of millions of dollars. Go buy houses. It caught a lot of people off guard. I think the program that we are seeing, the numbers are increasing every month. Yet our inventory level is the lowest that it's ever been. So we are doing more with less. That's because more parties are involved and there's understanding.

Part of the challenge, I can understand the frustration is that you must have that internal communication to where you're not working outside of the bank. Because originally I thought that, well, I'm the guy that gives away houses. I'm not really a banker. Well, I am a banker, but we give away houses when it makes sense to do so. It's not just a feel-good job. It's a job done because it's part of community re vitalization. Getting the right REO disposition channel involved and getting the loss mitigation guys involved. It's easy when you work with the large corporations, that everyone gets funneled into the different silos and I'm only focused on what I'm doing. We've gotten much better to where we see that the community revitalization foreclosure issue is not a singular problem. It's a problem that affects all of us at all the financial institutions because a stable community is a stable bank. If you work for a bank, that's the focus you take. By taking that approach we are seeing a lot more success and doing a lot of training with the nonprofits and municipalities, explaining to them that we are not working against each other. We have properties we want to move. Jurisdictions have properties that they want to buy. NSP, nonprofits have properties they want to buy. It's a matter of finding out what is the good price or discount to make it work. I think we have been pretty successful with that, although I think we can be more successful with the allocations in NSP 2 and NSP 3 and maybe NSP 4.

Craig Nickerson:
Fannie is an investor, you're on the front lines of the -- you're known for your ... how do you view this and what are the lessons learned from evolving this over 18 months at Fannie? And I might add, Jay is indicative of many people who are now in leading roles in the REO Departments, i.e. they weren't in the REO Departments before.

Jay Ryan:
Exactly. I mean, we think our servicing partners complain a lot about anything that's new. I'm kidding.

[Chuckles.]

Jay Ryan:
Yeah, you know it. I mean, look, when NSP 1 first came out, we have a whole team that covers the country, that we made contact with all these public entities. They got the money, we were knocking on their door. We had the truck backed up with all of our properties ready to go. There is a lead time. The expectation that, you know, folks who got money were going to put it out faster, which is an expectation that we had just didn't come around. And so there were a lot of things that we did internally to match sort of, you know, their timelines, what they were trying

to accomplish. So we really learned a lot about sort of how we needed to work with all the public entities, how we needed to work with our other partners throughout the process. And I guess the unfortunate thing, NSP 1 is almost done and now we sort of have got some momentum.

Craig Nickerson:
Yes.

Jay Ryan:
So that's sort of -- I guess looking back now you could say: Hey, the timeline, it took the time it took because it takes time. And now we are sort of at the point where there's still a lot obviously that can be refined. There's ways to do it better and things to improve upon.
Now there's a lot more tools out there. There's a lot more awareness and NSP 2, the money, because it's targeted because they put in plans about how they are going to spend it, will go a lot faster. NSP 3 will go better because again there's a lot more out there for folks to do. I wish it was targeted, too, but I think there's room to be hopeful.

Craig Nickerson:
Is it fair to say to say that capacity measurably improved both within the financial institutions, the REO execution as well as at the local level with NSP providers? It's a very general statement there. Are we really in good shape now? Or are we just at the halfway mark?

Yves Mombeleur:
It's gotten better.

[Laughter.]

Yves Mombeleur:
I wouldn't want to quantify saying it's great. It's gotten better and there are slow and incremental improvements we have to make. Part of it is having a better dialogue, having more focus.

Craig Nickerson:
Do your people inside understand better? Not just the neighborhood stabilization program, but this whole notion of community, nonprofit and for-profit providers that are working in a geographic area as opposed to the typical investor buying property?

Yves Mombeleur:
They do because they are not just looking at one part. They are looking at it as an aggregate. I'm often tickled whenever I go to the gym and you see that bodybuilder -- which is not me -- but you see that bodybuilder working out on that one part. They have a tremendous huge torsos and they have little skinny spaghetti legs. I look at that as, aren't you looking at the rest of you? I guess they just wear jeans out and never look at their legs. I look at my legs, personally.

Craig Nickerson:
You bringing it back to REO? You have me concerned.

Yves Mombeleur:

You have to pay attention because a lot of people, they don't pay attention. They simply look at, if I'm going to display just this portion, that's all I need to work on. You can't. You have to have a comprehensive model. At Chase we had internal training with our partners about what is the process. I don't get calls anymore asking: What is it that you do? They already know, and then we work together, try to show them how can we make it all work? It's not just with the REO guys. Also it's lending because someone has to be out there providing financing for these properties after they have been acquired in rehab. So we have a dialogue with them.

So I keep going back to the die interrogatory that I think is important. You must have that smooth communication where everybody knows what is going on to some degree because if you don't, then you're going to have that push back as to, we don't know what you are doing so we will stay here in our silo. You can't do take for this to be successful.

Craig Nickerson:
Good point.

Rob Grossinger:
Please, please, please, read Terry's piece in the brochure, in the booklet. It's a very nice booklet. You have to understand the economics of servicing, especially when it comes to REOs and asset disposition. What is harder is to understand how services are really constructed and how things really work and what their partnerships with real estate agents on the ground are and what real estate agents' relationship with other people on the ground are. Until you have a full picture of this -- Terry's piece is wonderful are in terms of letting you understand exactly

Craig Nickerson:
Did you read mine?

Terry Theologides:
There are other ones in there.

Rob Grossinger:
All the pieces are wonderful.

[Laughter.]

Rob Grossinger:
One of the wonderful pieces is Terry's. You need to know what costs stay with the servicer, what they can pass on. I used to have these conversations with Craig a long time ago in which he would be talking about the money he could save me. I said, "Not my problem. I pass it on to the investor." There are policy makers here, but for those of you who want to get underneath this issue, you've got to understand what the other side is doing and how they are doing it. So you have to read all the wonderful pieces, and Terry's piece. And you have to learn how servicers do this, nuts and bolts. Otherwise – and they are not going to tell you because they are just not.

Craig Nickerson:

We spent a lot of time on the net realizable value. If you know what the time and market for property is and you take into consideration the property taxes you pay, the insurance, the security costs, the marketing costs, the rehab costs, all the different costs, some are money known and some are just hopes. But you know there's a lot of inherent costs the longer you hold the property. If you can get a quick and certain sale, wouldn't that be -- and I said this exact sentence to Rob -- wouldn't that motivate you to sell at a good concession price? He said only if I could find a way to defend myself to the investor. Why did you sell the property so quickly? You must have sold it at too dear a price. We are in a world here where everybody is learning -- including the investor -- not referring to fan Fannie Mae that totally gets this. The many investors, right?

Jay Ryan:
The first time I went to committee, it was selling properties for a dollar.

Craig Nickerson:
That must have been a fun discussion.

Jay Ryan:
It was a fun discussion, but we prevailed.

Craig Nickerson:
Is that the biggest myth that has permeated in this first 18 months around the sale of property that the investor really is the one that is driving a lot of the decisioning for all of us? Or are there some others that you really think have been, as you look back, sort of the biggest challenges we have overcome as an industry. I'm talking about a collective industry here, whether you're academic or local housing provider or you're a financial institution. What are the biggest barriers that we've now actually overcome?

Terry Theologides:
I would say that the operational barriers are the ones that are tough and less susceptible to a kind of silver bullet. I think that the -- you know, I appreciate the comments about my paper, but part of what I try to do is think of every question I'd ever gotten from community based organizations about: Why can't you do this? Why can't you do that? And try to write all the answers down. But I think that the investor side -- and I don't speak about Fannie and Freddie now; my experience is more with securitized subprime, non agency ABS -- if the servicer can figure out that, can with a straight face say that my actions are actually in the best interests of the trust that owns this loan, they can probably get there. There's some arcane tax things and other things that could preclude certain options, but basically that was a big issue, but it was one that got overcome in the first month or two when we sat down. And I and along with every other general counsel of a servicer analyzed this program and said, son of a gun, it works. If you can sell it faster by providing a first look, it's going to save you the carry. It's going to save you the maintenance costs, the costs of insuring and all these other things, costs attendant to further diminution of value of that property, if it's in a declining market. Son of a gun, we can get there. That was, I think, the easier question. The tougher one is operationally, when all of your processes and forms are designed to provide consistency and a standard routine, you had to essentially bypass that artery because there was no way you could reprogram that entire process

in a timely fashion and I think that that's -- so today, it's not that every manager of REO at a servicer, at least in my experience, has been retrained to understand how to give a first look or whatever. You've tried to just bolt into a process before it even gets to the REO manager a, some automated way to extract some properties from the queue that meet whatever guidelines are coming from whatever community based organizations or through whatever conduit or intermediary. And then if those don't get taken up in the first look, they come back into the queue and frankly, everyone else is just generally aware from the newsletter or from the Internet site about what great things are being done, but it hasn't necessarily changed their process.

I think that as we think about how to get to, to start to take advantage of some pre-foreclosure properties may be eligible for some of this money, again we have to think about how we can essentially snip the artery, put in a little bypass process, usually run by someone like Jay, Rob or Yves, that get it and have a broader vision of what is going on and then funnel it right back into the cookie cutter approach.

Jay Ryan:
I would say from our perspective, price and process were probably the biggest obstacles for us initially. When we foreclose on a property, everything is designed, you get it in through foreclosure. You do everything you need to do to the property in terms of repair, maintenance of the property. You get it with one of our brokers, you get it listed, you get it sold and it runs along. Everything that my group does is counter to that. You have to pull stuff off the conveyor belt to do it. Then you have to justify price or others, why that makes sense for the company. On top of that, we are in conservatorship. You have to explain to the conservator why it makes sense to us who is trying to conserve assets to pull those assets off the conveyor belt as you go along. Part of it, and I'm sure it's just our institution, other investors have different issues

Craig Nickerson:
It’s a common one, though, Jay. The way you approach it is similar. Some use the regular REO steps, but most of them -- Yves and certainly Bank of America where Rob was at Wells Fargo, they have a specialty unit now that is understanding NSP. They have been trained in it. They know what to expect. It made it a lot easier. The only thing we mentioned before we get off the notion of scale and strategy is, you know, first look, whether it's our first look or just anyone's first look. Part of the premise is not only the quick and certain sale to a ready, willing NSP buyer. It's that we are using an opportunity while the servicer, manager of that property is getting a property ready for sale, say in that first 15, 20 days after it first falls into the REO lap. While they are getting ready to sell it, we are using that time to inform the local player and get them to determine whether that's a property that might be of interest to them. No lost time. The key there is, at the end of the day, for any of us, it has to be a sustained proposition, and it has to be stable for us as the buyer, the seller and the investor.

Jay Ryan:
So.

Rob Grossinger:
So people understand the investor side of things, Bank of America services on behalf of 700 different investors. So, they don't speak with one voice. Even though our general counsel can

occasionally make a decision based on the delegated authority that the servicer has and what is in the best interests of the investor, it gets very complicated. I mean, let's face it, our society created a home finance structure that only a nightmare could create. And so that just makes things more difficult.

Terry Theologides:
I have had it referred to as Byzantine which gives me an opportunity to be understand it.

Craig Nickerson:
Before we move on to the low property question, I want to open it up and see if there's one or two questions on the broader notion of what we have been discussing?

Frank Ford:
Frank Ford, Neighborhood Progress, Cleveland, Ohio.

Could one of the panelists, maybe Rob, clarify the use of the term investor? I want to give you an example to ground this. If we have a property in Cleveland and the mortgage is held -- gonna make this up. Say it's held by Citi Bank, trustee for the XYZ service loan pool.

Wait, let me continue with the scenario. So the mortgage is held by Citi, trusty, but it's serviced by -- make this up, too -- Wells Fargo. In that scenario when you say the word "investor" are you referring to who represents? It's the trust, right? Is the investor. But then is the trust represented by Citi as the trustee? Is there somebody else we should be talking about here?

Craig Nickerson:
Before you answer I would advise, this is also being webcast and it's not coming across clearly, so if we can speak into our microphone?

Rob Grossinger:
It says please do not adjust the microphone.

Craig Nickerson:
I know. Just lean forward.

[Laughter.]

Rob Grossinger:
The trustee represents, in most cases, those are going to be mortgage backed security or collateral debt obligations. If the trustee represents that, then you have aggregators. Bank of America services mortgage-backed securities owned by Wells Fargo. There's an example. In that case Wells Fargo is the investor, but there may be a separate trustee that holds the paper. Remember, the trustee is sort of like in that Indiana Jones movie when he shows up and there's some guy guarding the Holy Grail? It says I'm holding all these papers, don't bother me. Cleveland is the only place that did a good job of doing that

Frank Ford:

Except in Ohio, because the name is on the deed, we are going to hold them accountable.

Craig Nickerson:
Part of announcement today, the secretary didn't mention it, but Frank, part of it, we've gotten a lot of the big trustees to sign up as part of first look now and disclose a lot of information, Deutsch bank, U.S. Bank and Wells Fargo. That's going to be a good step as well.

Another question. Here in the back?

Male Voice:
Hi, I'm a reporter with the huffing ton post. I have a quick question. Terry, you mentioned how well the first look program is working. I'm curious to know, given the ills of the housing market, interest mortgages rates are scheduled to decline over the next year or two, the relative lack of funds devoted to NSP and funds devoted to programs like HAMP and others and how poorly other programs have worked out, I'm curious whether if folks on the panel think more money should be given to the first look program and perhaps it's best to kind of clear folks out of these homes and get them into the hands of folks who can afford to live in them.

Craig Nickerson:
I'll start. I'm the moderator, I get to do that.

You know, I think you are going to hate the answer because the answer is it depends. But it really does depend on the locality and how they choose to implement the program, how strategic their targeting is and how thoughtful that effort is.

We have communities across the country, and HUD knows this and they are working on it, that have literally bought stuff in a very large zip code-sized area. Guess what? At the end of the day the $20 million can't be seen. Maybe it will be seen later, but it isn't reversing a trend.
There are others, and Rob, you live in one of these cities, that have done incredibly good. If the city of Chicago can maintain the discipline of picking very tight target markets, we have a much greater likelihood of success. The secretary mentioned Minneapolis. It got started -- one of the reasons they get heralded, not only do they have a good collaborative public private effort there, but they started a year before anyone else, they started with ten, 15 million, non-NSP money. They reported there are neighborhoods in the north side of the city where property values stabilized and the demand for housing changed fundamentally. In my opinion it depends on how we use the money. The good news is, there are more communities smartly using that money today than there were 18 months ago.

Yves Mombeleur:
I think a smart use of the financial resources is the ability to leverage those funds. There's, if you receive $2 million from NSP and you only use $2 million to do acquisition rehab and resell, then you have not really leveraged it. Those that are most successful it leverage it from two or three or four to one and that puts more funds in place.

Craig Nickerson:

Any more on the Chicago experience, Rob? It is one of the better models for a disciplined targeted approach even though in the early months there was a lot of anxious that gee, we're not seeing a lot of properties.

Rob Grossinger:
To build on this, remember the timing of this. NSP passed in August of 2008. In December of 2008, with a nudge from treasury, all the major servicers stopped doing foreclosures in respect of the holidays. That continued all the way until May of the next year. It was a long holiday season. There were really very few foreclosures at all being processed by the major servicers into the middle of 2009. HAMP said if you applied for us, you can't do a foreclosure until you've taken them all the way through and by the way no matter what you can't no matter what do a declination letter until the end of the year. 2009 was almost a waste land for foreclosures with respect to the major servicers. When I started working on NSP with Bank of America, REO portfolio was X. At the beginning of 2010, March of 2010, it was less than half of X. So it had really dropped because of that.

Craig Nickerson:
Same for you, right?

Jay:
Absolutely.

Rob Grossinger:
What happened with Chicago and this is part of where we all have to go in terms of comprehensive neighborhood re vitalization and stabilization, not just REO and not just a transaction discussion. Chicago had already committed through a large grant from the MacArthur Foundation and a city agreement to target 16 neighborhoods for revitalization. They overlaid the NSP program on top of those 16 neighborhoods and said: We are only going to transact NSP business within these particular neighborhoods.

It drove Craig crazy because he would be showing and showing properties. They would say no, wrong street, no, wrong street. They stayed pretty true to it. Now they have been able to build up a lot of momentum. They are also looking at multifamily strategies. You heard today, this morning a lot of discussion around the two to four. The other issue in Chicago are the six to 25 unit properties. They really, there's a lot of those sized apartments that are struggling or going vacant because you lose three or four tenants there and your cash flow goes out the window.

So Chicago was disciplined contrary to everything you see on the news about Illinois and Chicago -- we are disciplined on corruption, too.

So to that extent, I think they've really done themselves a service by staying true to the 16 neighborhoods because those neighborhoods are also getting infrastructure help. They are getting help with the schools. They are getting help with other types of community development funding. So it makes it much more, the long term strategy for the neighborhoods is much brighter than if you simply looked at only those neighborhoods where there was high foreclosures and a lot of troubled properties. Some of those are triaged out, honestly.

Craig Nickerson:
One or two more questions on the broader topic. Frank had a question. There's a question in the corner. Start with my esteemed colleague, Frank.

Frank Alexander:
Frank Alexander, Center for Community Progress. I confess I'm puzzled by what the panel, all of y'all have said in some ways. I don't think you're confronting the dilemma with getting this to scale.

Craig Nickerson:
Let's go to the question over here.

[Laughter.]

Frank Alexander:
Let me phrase a series of precise questions. Terry, perhaps you can help us. What percentage of completed foreclosures become REO? And how has that changed over the past 12 months? If it hasn't changed, why haven't the servicers begun to revise the bidding policies at the auctions or foreclosure sales? Which ultimately leads to the question of: Isn't the main problem now in getting this to scale the PSA? What Rob, you were alluding to, the 700 different servicers or investors, that unless and until we break apart the PSAs or find a way of doing it, we can't take this to scale?

Terry Theologides:
You know, I don't know if I totally agree with that. I mean, I think that REO volumes went down during this period for a variety of factors that related more to the moratoria and the lengthening of the foreclosure process. I think we're starting to see REO volumes start to tick up. I don't know that I attribute that slowdown in the process to anything inherent. The PSAs haven't changed during that process. The pooling and servicing agreements will yield -- if there are foreclosures, some of them, the majority of them are going to go to REO.

Now, some servicers are changing their bidding policies and trying to encourage more bidding so you get more third party bids. Some are obviously focused on pre foreclosure efforts like short sales and things like that. But I don't think scalability factor will be a shortage of REO.

At the end of the day many of those foreclosures are going to end up with REO, there's variations but by and large and I've looked at dozens and dozens, probably over 100 PSAs. I think they permit a first look program along the lines of what has been decided. Why? Because if you -- because it's a wasting asset. It's an asset that you are having to advance principal and interest on to your investor. You're having to advance all of the carry costs, the maintenance and the preservation costs. If you can yield something better now and still -- ultimately sell it for something that is a discount to what you would have to sell it for or try to sell it for later to end up in the same place, you can get there on it. So I think that -- I mean, again I think as people figure out whether a securitization market is going to come back, you've got to figure out what to done and how to structure that. Big, big issue, very important issue.

But I wouldn't I don't see the PSA structure as the major impediment to scalability. I think by and large, a servicer, at least for the REO, can operate within this construct. As I said before, I think that the operational constraints are the ones that are probably more of a challenge about executing it. My two cents.

Rob Grossinger:
If I had white out, there's part of the PSA I would probably white out. For me, there's two reasons we can't get to scale. I can't believe I'm saying this, but $7 billion is a drop in the bucket. Second, there's no demand out there. In the hardest hit communities, there's nobody to buy these properties. Until we come -- this was mentioned this morning -- Until we come up with a targeted affordable mortgage product which takes into account that pendulum swing that made credit so tight right now, bring it back into the middle, there's going to be that demand, the lack of demand is going to kill everything we try to do in a lot of these neighborhoods. And you can't get to scale when there's no end game for those properties.

Craig Nickerson:
Go ahead.

Jay Ryan:
I was going to say, we made a conscious decision. If we don't do a short sale, if we don't do some sort of modification or work out, we don't do a short sale, we want it to go through foreclosure. We don't want to have bidding on the courthouse steps. Who is buying on the courthouse steps? It's investors.

If we make it easier for investors to purchase there, it goes around our first look program or anyone else's first look program. That's sort of how we are operating now.

Craig Nickerson:
Yves?

Yves Mombeleur:
Initially we didn't have participation in the first look with investor owned units, but after much nudging from the NCST we included that part of the portfolio into it so you have just the regular Chase-owned and the investor-owned units as well as that's out there. I think we also have to really open the dialogue around, when we talk about community re vitalization, we are focused on REO and REO acquisition whereas community re vitalization means we're doing our great effort in the front end and preventing foreclosures through loss mitigation strategies. I think all the servicers, they've gotten much better in their loss mitigation strategies, techniques addressing the issue and the more success on that front, the less success you'll have in the available units as they come into your REO.

Craig Nickerson:
Just back to, I think Rob mentioned this, $7 billion sound like a lot until you do the math. We did the calculation of four and a half billion to do the city of Chicago at one point.

You're absolutely right, Frank, that's an important issue. I worry more that, for me, I look at Mike McCaffrey is over there and he'll say this more effectively than I will, but I think we have to be thoughtful about how we use limited resources. To Yves' point, if we think NSP's $7 billion will solve the problem, we're delusional.

If we think it will be catalytic, if we have a chance to reengage the engines of the private sector, then we have a shot. We have to reinform the private sector of how things are done. We have a situation now where we have loose targeting, little interim financing or affordable permanent financing and we haven't figured out who to rebuild the confidence where people live. Even if you have $70 billion, you might not be successful.

One last question here in the back over there and then we are going to move on to low value property.

David Nogira:
I'll try to make this quick. David Nogira with HUD. This is a question for Rob. Rob, you spoke about the disconnect between NSP grantees and servicers and the fact that because the grantees didn't understand the servicer process, it kind of slowed things down with being able to access the properties. Looking at some of the work that stabilization trust has done and Fannie Mae as they sort of set up some infrastructure to assist grantees, I'm wondering if you think there's more that's needed to bridge that gap between the grantees and the servicers or have entities like this trust and Fannie sort of filled that void?

Rob Grossinger:
Well, not everyone goes to the trust, first of all. I think that's -- we encourage, I know Chase encourages, I know the other -- I don't work for Bank of America anymore, do I? -- they encourage, Chase encourages to work with the trust. The biggest disconnect truthfully was even though we set up I say we, I can't help it. We set up a separate staff to do all NSP sales to anyone using NSP money. We still every day found out that NSP grantees -- I went on this national -- Craig knows, we were everywhere -- together, trying to tell everybody: Please come to me. In fact they joked that the Bank of America problem was 1-800-call-Rob.

And yet every day, they would go to real estate agent, saying, I'm here with NSP money. You have to give me 15 percent discount. The real estate agent would say get out of here. We couldn't educate 5,000 real estate agents. We tried and one called and yelled at me because they didn't get enough listings from Bank of America and they wanted some of that NSP money for themselves. We had to send out a hot mail to all 5,000 saying don't call Rob anymore. That's the biggest one. No matter how we tried and I'm sure this is true for all of the major servicers, to let all of them know to go to the trust or the local NSP process. They would still go to the local real estate agent because in that world, they would lose 99 percent of the time.

Craig Nickerson:
The other day on all the transactions we've done, we're averaging more than a 15 percent discount per property, but it wasn't that we started by saying we need a 15 percent discount. The quick and certain sale derives a certain result. We are going to move on to low value properties here. It's a important issue and we have important speakers on this issue today and tomorrow as

well in other panels, but it's low value properties are getting more attention from the financial community. They are trying to figure out ways to do something that is more systematic and it certainly is a big issue in some communities. Before we jump into it, I want to shout out to Heidi Copolla who is here. Because the REO clearinghouse specialized in this in Cleveland and other markets and done more on the ground effort than the trust ever has been able to do and successfully.

But how big is this low value I defined it as below $25,000 property currently, but is this widespread national problem? Is this something we see in certain markets, perhaps in the Midwest and other places? Start there. That was big in terms of visibility and vulnerability, but in terms of number of properties. A sense of it? Terry?

Terry Theologides:
I should know the data, but my impression -- I haven't looked at it closely, is that it's much more localized. In some markets it's just not so much an issue and some markets it's the major issue.

Jay Ryan:
I don't have any numbers on it from our portfolio. We have low value properties everywhere. So it must be a national problem. But clearly, it's concentrated. There's a lot in Ohio, Michigan, and places like that. And there, because it's concentrated, it's that much harder to figure out exactly what to do. The one thing we know about low value properties is, they don't improve with age. So you need

[Laughter.]

Jay Ryan:
No, you need to get in there and you need to have a strategy. You need to be working with them. Because they go down faster in value the longer they sit.

Craig Nickerson:
It's not until that moment, Jay, that I realized I have something in common with low value properties.

[Laughter.]

Craig Nickerson:
So is this a conundrum that's unsolvable? As a servicer, as a investor, a low value property, you're not going to get back much of what the original investment was. To matriculate that through the foreclosure process to the time it becomes REO means you lose even more money.

What is our option here? If you have the answer to that one, we can just close the conference as successful.

[Laughter.]

Yves Mombeleur:

Yes.

Craig Nickerson:
Can we come up with common protocols among the financial snugs that part of what I see is that there's a lot of confusion and misunderstanding out there about what can be done. How many charge-offs are there? Is everyone walking away from the assets?

Rob Grossinger:
That's not something that anyone is ever going to tell you the truth. Anyone on the panel who says they'll tell the truth about it is not telling the truth.

Terry Theologides:
I'll tell you the truth.

Rob Grossinger:
I don't even believe you.

[Laughter.]

Rob Grossinger:
Here is the hard part of sizing this. So X number of -- the servicers will say and the trust and a number of the major servicers met. Danny Gartner, I think facilitated this meeting. I think Heidi was there. And -- to talk about low value properties. Everyone gave their numbers. That's based on the REO population that you've done a valuation for. If three times, five times, seven times as many properties are sitting in pre-foreclosure that are either now abandoned or soon to be abandoned or -- I want to give you one other statistic which is horrifying -- then you don't know what the value of those are, how do you know what the low value property population is? You only know as a servicer what you've done a recent appraisal on and those are the REOs or gotten a BPO.

You have no clue what's sitting in the pipeline, you have no idea what that value is, unless you make it up or turn another way. Here is another thing that we found out, not as sophisticated as Terry. We did a pilot project project, and with volunteers, we asked them to knock on the doors of 500 borrowers in Chicago in a zip code. And one zip code, Bank of America and Countrywide had a thousand borrowers in that zip code that were 60 days beyond delinquent. A number of them were in bankruptcy. There are reasons knocking on the door wouldn't work. Or we knew the properties were vacant. Of the 500, another hundred were vacant we didn't know about. 150, people were living there who had a relationship but no legal relationship to the owner of the property. It was the son, the friend, the aunt, whoever who said, “Such and such said I could stay here.” It was a great deal for them. Occupying the property, not paying. There's no loan modification for somebody who is not on the loan. When we were done knocking on all 500 doors, 230 were owner -occupied that might be able to get a loan modification. When they went through, the group went through and did all of the work with them, 100 actually got loan modifications. A great percentage of those that were eligible, who were owner occupied. But how many of those did no one have a clue about in terms of their legal status or what was going to happen to them? Or if they were low value or not because there had been no valuation.

Craig Nickerson:
Jay? Point/counter point.

Jay Ryan:
He doesn't believe anything I'm going to say.

[Laughter.]

Jay Ryan:
Thank you. So I mean, look, low value, it's very tricky. So we have been trying to do a bunch of different things. You know, I talked about Cuyohoga County and different things. If you're talking 25 and below, which in some parts of Cleveland or Detroit may not be low value, it depends on what market you're in. And that's not any type of slight. It's ... so I mean, we do some customized transactions with folks. We are looking to really figure out how we cancel these properties as quickly as possible to folks who are responsible, and in that mix, we do sell to private investors. And one of the things that we have done, and I think I've talked about this before on some other panels is basically we screen all of our investors. We have a bunch of folks that come to us, private investors who have tons of money who want all these properties, who want to buy everything at 40 cents on the dollar and take this away from you.

And we have not done that. We screen them. We figure out what they are going to do, what their strategy is. Ultimately for disposing the properties. We have a bunch of restrictions in the sale agreement we have with them. So they can't flip it for a certain, for 90 days. And then only a very, very small percent, I think 10 percent, you know, in the next year. So when they are buying our properties, they know they have to hold on to them. They know they have to have a strategy to deal with them. In some cases we've taken those investors -- we took one to the City of Detroit and they said basically we like his plan, what he's doing. We're fine with you working with that investor.

We did that with Chicago also and some other places. There is that strategy. We are going to have more properties that are low value coming through REO. It's going to be hard to keep up with that volume. I think if you go to the other side, sort of pre-REO, you want to keep people in their homes. You can't keep people in their homes. You can't do a short sale. Then you try the deed in lieu. You can't do that. Then if you have a property that's vacant, and I think one of the things, you don't have a homeowner in there, one of the things that we think would be helpful is you move it through as quickly as possible at that point. You have a vacant property, we don't like to rush foreclosures when someone is in there. We don't talk about that in these settings, but if you have a vacant property, it's not going to get any better if it sits longer. You get that through and at least you get it into -- you know, away from the servicers who really don't -- we are not interesting in servicing it, into the investor's hands, in this case ours. We can figure out much sooner in the process how we can dispose of this asset in the best way possible.

Craig Nickerson:
Purgatory doesn't serve anyone's need. It was just sitting there vacant and it's not even in the foreclosure process

Jay Ryan:
A lot of times we don't have a good picture into what that looks like. We don't have a good picture -- we don't even know if there's someone in there some cases. We don't know the original owner.

Craig Nickerson:
Jay, I'm going to stick with you a minute. You mentioned the bulk sale you've done. If I don't ask this question, Frank Ford will. But you've done some exciting bulk transactions of very low value property in Cleveland. You mentioned you're looking in other markets. I have a two part question. Part for you and part for others.

When we deal with REO that little or no residual value, can we look to see more bulk generous – shouldn't use that term, that's a pejorative term. No low cost or no cost bulk transfers in the marketplace? We'll start with you, Jay, because you've done it. Maybe you can describe how it works. I would like to ask the others.

Jay Ryan:
I'll just use Cuyohoga County. We have been working with them a while and actually P.G. McCarthy is here from Cleveland, and he did most of the work that I'm going to take credit for. But he did, we worked with him for awhile. Really what we found, and I don't want to use the term generous. I don't know want to use any of those terms. We think that was the best result for us. The land bank thought it was the best resolution for them.

So I think part of this is getting that kind of, you know, you need to figure out again price. What really makes sense and how can you then -- otherwise you're not going to be able to scale. Every time you go in there, you're going to have to figure out, okay, I have this kind, these properties. Does that make sense? We set up a template with them. We set up a standard document, and basically we show them a list of anywhere from 20 to 50 properties or so that they take a look at. They do due diligence on. And most of them are going to be scheduled for demolition in this pilot. Some if they are going to rehab, they'll note those.

But it's a standard process. I don't know if it's scaled to 100 -- 150 isn't scale. It takes a lot of time, work, effort. Now we've done four. We are doing the next one. Each one we've done, Columbus, we set up a different one. Again, these are lower value properties. We are not selling them for a dollar. They have different plans for those properties. We've gone to St. Paul, Riverside, it was a newer property stock. They weren't going to demolish these properties. They were going to put NSP money into rehabbing them, doing a lot more than we would do on the rehab to sell the properties. So they could sell to first time home buyers. In each of those places we have again a template, we can show properties. They can decide which ones they want to take. And then the pricing and the documents are all there. It can become -- I don't like the word scalable, but it's certainly replicable.

Craig Nickerson:

Has Chase look at this, Yves? Can you see down the line a time when we would have a much more predictable process in place with the larger financial institutions? You can't speak for all the financial institutions, but what do you think?

Yves Mombeleur:
It's currently under assessment. We've done one large transaction with Hans in central New Jersey where they were able to purchase 47 distressed notes from us. Outside of Hans, now there's New Jersey community capital. They've stepped to the plate and they are also working with us in trying to get some additional acquisitions.

The question really that I'll ask and answer thereafter is: If you find yourself where it's prom time and no one will take you, you have to go find a cousin. What happens if you don't have a cousin? I'll restate it to say a lot of dialogue is going on about low value properties, but the cities don't want low value properties either. If you have a low value property, you do the rehab, you can't really resell it. Who is going to do refinancing on a $25,000 property.

It's a problem that is circular. We are trying to figure out what would be the most streamlined process to where we can identify a value? That's all over the map. One area may be $25,000. In California, well, that's not even a closet. So maybe $100,000. So it varies. But once we've identified it, we come up with a uniform standard for a property that is deemed low value, what would be the disposition method? Who is willing to step up to the front and say that I'll take these low value properties, do the appropriate rehab, find a home buyer or tenant and make it work? Anybody?

[There is no response.]

Craig Nickerson:
Frank.

Yves Mombeleur:
We're going to talk, Frank.

Craig Nickerson:
Rob, any thoughts here, since you are absolved of guilt for what you say?

Rob Grossinger:
Low value has one description that I think is sort of general. People understand it.

I think of it as negative equity. Again, I'm going to point back to Terry's piece. Of all of the wonderful papers for this, take a look at his analysis of why a servicer might choose to charge off, release the lien and walk away. It's not an evil choice. It's an economic choice. It has to do with what can be pushed up to the investor and what has to be eaten by the servicer. It's a very economical choice. Sometimes almost a necessity. So those are the negative equity properties, where even if you went through foreclosure, took title and then tried to dispose of it in any way, shape, or form, you've already lost money. You've spent more money going through that process than what you could ever get in terms of a disposition strategy. Those types of properties are going to grow. And the question is how does, how do municipalities, how does the nonprofit world, people who care about their neighborhoods start to deal with those properties?

I do want to say with respect to that issue, every once in awhile you get lucky. Because of Jay and because of PJ, didn't mean to rhyme, you know, don't think Fannie wasn't looking at this issue and thinking, Maybe we need to start doing the charge-offs and walk away. With these guys, it wasn't going to happen on their watch. What happened in Cleveland and what they've done is both a testament to their fortitude but also their vision about what an entity like a servicer can and can't do. Private label investors being serviced by servicers, you don't necessarily have the same leeway. I'm curious about the note sale. Were those your notes or investor notes?

Yves Mombeleur:
Ours.

Rob Grossinger:
You have to take on the whole other question.

Craig Nickerson:
Is it not better to have more consistent protocols among the financial institutions about how to define low value property. One of the reasons for the meeting in Dallas, we found there were wide discrepancies, not that one was right, one was wrong, wide discrepancies in how they look at low value property, how they process them, what the decision points are. Maybe if we could have a little bit more of a transparent process, we could be further down the line and it could be predictable for the potentially willing buyer.

Jay Ryan:
I want to hear from you.

Terry Theologides:
No, no.

Yves Mombeleur:
I'll change ...

[Overlapping speakers.]

Terry Theologides:
No, I do think this is one, if not the toughest, one of the toughest challenges, and to Frank's point earlier, I do think this is where the flaws or where the PSAs become an impediment. I think that there's probably -- there are plenty of REO and properties and probably most properties don't fit into this category, but this is the most perhaps intractable challenge.

And the PSA, if you're not Fannie Mae and if you're a servicer hired on fixed compensation with if fixed authority, if you end up being upside down essentially, if the advances you have had to make during delinquency of principal and interest, if the costs to carry that and your anticipated rehab, code remediation or whatever other costs upon taking title will far exceed, not just represent 100 percent loss but amplify the loss for the investor that hired you, that investor contractually could say give me that money back. Why did you throw good money after bad? And so that's a real challenge.

I think what happens is, the servicer has to look, be very vigilant earlier in the process and look at whether they can do a one-off sale of a note or do other things to accelerate the process. But I think it's hard to replicate on a large scale what note owners or -- I mean, Fannie can do it in a large scale, but that's an area where there really is going to be a challenge to figure out a systemic way to deal with the low value properties in the ABS securities.

Jay Ryan:
The economics are, it's always better to charge off. And walk away. You know, if you have a low value property. It's not a hard economic analysis to do that. What I would say, and is true, we did some, we were doing some charge-offs. We stopped that early in the year, last year. We don't do them anymore. Look, the people inside of Fannie were like: Look, I can show you the numbers. It does not make sense to not charge off. We stopped it. That's another reason why we are going to have more low value REO properties coming through.

But the reason, what we've told people and what we are trying to do now is build a waterfall to say: Look, it's not the charging off. You can charge off anything. It's an accounting entry. You basically write off the investment.

It's, you have to you can't just walk away from it. You have to delink the charge off and the walking away. You can charge off and say, “I'm going to knock on the door and give them title to the property, free and clear.” In some cases the property is in fine shape and the borrower can actually handle that. And resolved. That's one down.

But you can't, you have to make sure that that title doesn't remain clouded and that property just doesn't sit. So we are looking at different ways, folks we can partner with to figure out how we can address that so if we do decide we would rather not take it into REO because it's not getting better with age. We can deal with it up here. Are there opportunities then to make sure that if we have very low value properties that we can responsibly give it back to the borrowers in the cases that work than or give it to another entity and sort through how to clear up the title, maintain the property during the time it is doing this, and other things.

So charge-offs are happening. We have two minutes remaining?

Craig Nickerson:
Yeah, I'm going to -- I was waiting for you to take a breath, Jay.

We have other questions and we are almost out of time. So I'm going to ask the panel to do something difficult, to put in a sentence the answer to the last two questions. I teased everybody here by the pre-foreclosure issue. What do we do about getting to the property earlier in the process. If each of you could comment in one sentence, is looking at property pre foreclosure sale such as short sales an illusion or a necessary reality for buyers going forward with NSP?

Yves?

Yves Mombeleur:
It is a necessary reality, but we still haven't ironed out the kinks to make it work.

Craig Nickerson:
Good sentence. Rob?

Rob Grossinger:
Agreed.

Craig Nickerson:
Is that a sentence?

Rob Grossinger:
Yes, it has a period after it.

Jay Ryan:
I agree that we need to figure out a way to do that. I mean, but you think about a short sale, it's hard enough when you have two buyers and now you introduce a grantee with NSP subsidy money into that short sale process. It will take a little time.

Craig Nickerson:
Good point. Terry?

Terry Theologides:
Yeah. I mean, I think you have to look at it, but I do think that it's harder than doing the REO. So I would say look early to develop a strategy, but recognize that spending a ton of effort to try to make a predisposition work out work may not reap benefits. It may be better to at least be there, be ready with a productive take out upon REO.

Craig Nickerson:
We'll do another panel here sometime. Maybe, Joseph, which is on, Would buying notes be a better alternative?

Rob Grossinger:
I didn't agree with I said short sale. I meant note short sale.

Craig Nickerson:
We want to end on an up note, but what do you believe will be the most promising development related to neighborhood stabilization and the disposition of REO and other property? When we come back together here with the good Graces of the Federal Reserve in another 12 months what will we be saying was the fundamental improvement that we did in that 12 month period? Anybody?

Yves Mombeleur:

The recipients of NSP 1, 2, and possibly 3 are able to leverage those funds and make a bigger dent than without the leveraging of the funds.

Craig Nickerson:
Good one. Anyone else? Jay? You ready?

Jay Ryan:
That's what I was going to say.

[Chuckles.]

Craig Nickerson:
Terry?

Terry Theologides:
I would say that and that organizations that deployed NSP money later in the process will feel better about the effectiveness of where that money went and will not have remorse that a fairly large amount of money slipped through their hands and they may not have as much tangible evidence of progress from the earlier rounds.

Rob Grossinger:
Because things are going to get worse, the answers that are right now always no from both investors and servicers, some may change to yes.

Craig Nickerson:
I get to go last. I would just say that as an industry, collectively through sessions like this and doing the hard work, we'll be more aligned. We'll have a much more common picture of what we need to accomplish to be successful. We will have built the infrastructure to in fact be successful. Frankly we'll need a lot more money, public and private, to get to the end result.

With that, I apologize, but we're out of time. Thank you for being a good audience and thank you, panelists.

[Applause.]

Male voice:
Yes, I echo that. Thank you to the panelists. You can see from the agenda that we have a little bit of time before we begin panel 3. We will be reconvening at 4:00. If Panel 3 can please come up and get set up.

I also want to say you can see on the agenda we have a reception at 5:30 don't forget that. We'll make sure we will finish on time. Thanks.