

NATIONAL COMMUNITY STABILIZATION TRUST

Facilitating the Transfer of REO
Properties to Stabilize Neighborhoods



What is the National Community Stabilization Trust?

A Joint Venture of Enterprise Community Partners, the Housing Partnership Network, the Local Initiatives Support Corporation and NeighborWorks America.

The Stabilization Trust will coordinate the transfer of real estate owned (REO) properties from financial institutions nationwide to local housing organizations, in collaboration with State and Local Governments.

Create a bridge between two worlds – Servicer/REO and Localities

Why Is This Needed Now?

- Over 9,000 foreclosures a day - 3 million foreclosures this year
- Financial institution REO departments are overwhelmed
- Implications for communities like Chicago
 - ✓ Abandoned properties act like a community virus
 - ✓ Disinvestment increases
 - ✓ Property values plummet
 - ✓ Decades of gradual neighborhood revitalization swept away in months

What Are the Key Objectives of the Trust?

- ▶ Effectively link financial institutions with local housing providers to stem the decline of **communities with high concentrations** of vacant, foreclosed properties.
- ▶ Create an effective link to the new federal Neighborhood Stabilization Program:
 - \$3.92 billion initiative to reuse foreclosed and vacant property
 - 52% to states and 48% to localities
 - Funding used for acquisition, renovation, land banking, demolition, redevelopment of vacant lots
 - Properties must be conveyed with a prescribed “discount”

What Are the Key Activities of the Trust?

- ▶ **Transfer Agent** - Facilitate the Transfer of Foreclosed Properties to Localities
- ▶ **Financing** - Provide Debt and Equity Financing to Support Local and State Efforts
- ▶ **Capacity Building** - Organize and Facilitate Local Collaborations
- ▶ **Focal Point** - Serve as an Industry “Voice” re: Foreclosures and Neighborhood Stabilization

What Problems Could a National Focus Address?

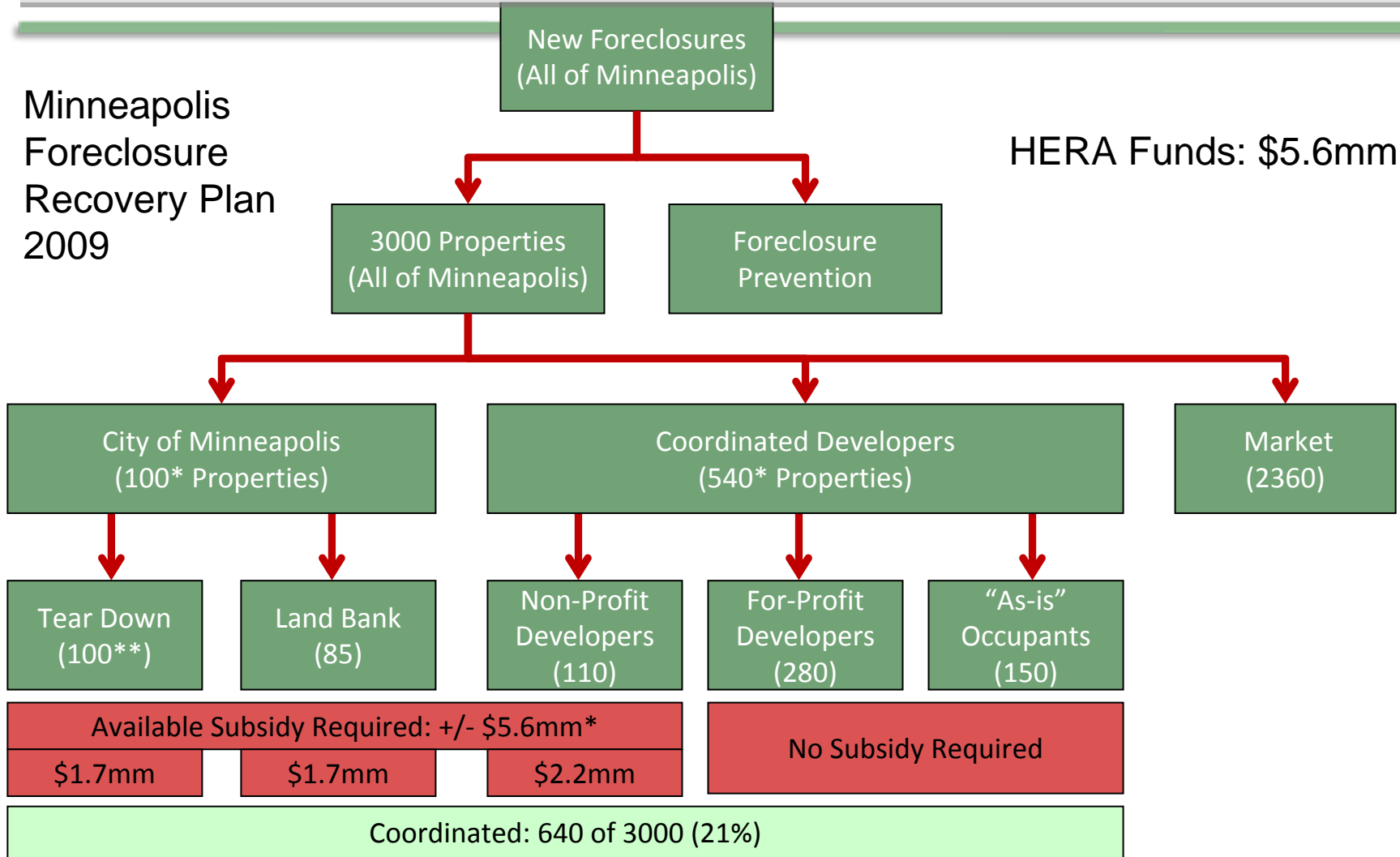
- ▶ Provide a more efficient and cost-effective mechanism for transferring vacant properties
 - Platform for exchange
 - Standard offer mechanisms
 - Standard valuation/pricing approach
 - Standard sale procedures
- ▶ Aggregate capital to support local efforts
 - Support passage of Neighborhood Stabilization Program
 - Raise additional private capital
 - Build local capacity

Buyers - Collaboration

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Minneapolis
Foreclosure
Recovery Plan
2009

HERA Funds: \$5.6mm



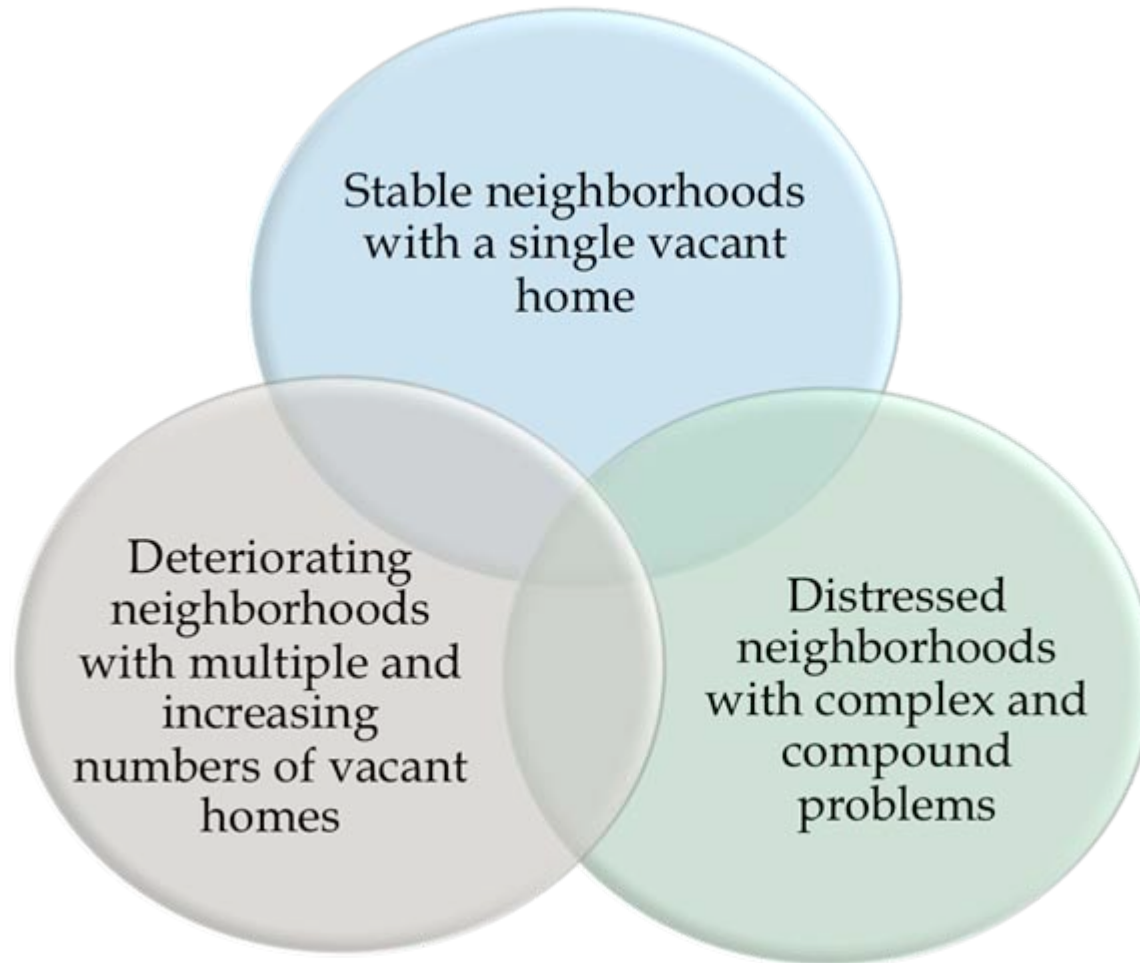
* Request a planning estimate detail for estimated subsidy requirements

** There will be 100 tear downs with HERA funds and an additional 50 tear downs from existing funds for both 2009 and 2010

Appraisals, Values in Declining Markets and HUD

- ▶ Focus on sales comparables is generally a 'looking backwards' approach
- ▶ Traditional technique is most reliable in markets that:
 - are stable, liquid, open and competitive
 - have high transaction volumes
 - have many comparable sales

Valuation - varying mixes of neighborhood types



Different Market Participants Have Different Perspectives on Valuation

Sellers

Disposition prices must be consistent with FIRREA requirements, appraisal standard and fiduciary obligations to investor
Key objective is maximizing value / minimizing losses in a declining market.

Buyers

Key objective is securing a fair price in a declining market where the buyer is purchasing the uncertain risk of market performance.

Private Philanthropies

Key objective to avoiding the moral hazard of using public and philanthropic resources to bail out private institutions.

Government

Acquisition pricing must comply with the requirements of Housing and Economic Recovery Act of 2008.

Applying the Net Realization Value Approach to Vacant Property

Estimated market value assuming normal market conditions and procedures through a BPO, an AVM or a full appraisal

Less Saved holding costs of insurance, real estate taxes and maintenance

Less Avoided transaction costs of brokerage and sellers internal supervision and administration

Less Savings in capital costs due to early receipt of proceeds

Less Possible decline in value over the holding period

Less Rehabilitation required for code compliance and marketing

Equals Net Realizable Value

When Will the Trust Begin Operations?

- ▶ Currently testing systems and processes in the Twin Cities with major loan servicers
- ▶ Servicers: Expect to add loan servicers as they are ready – 6 to 8 major servicers using the Stabilization Trust by year end
- ▶ Localities: Trust will add local programs as they are ready to participate based on the following criteria:
 1. Collaboration
 2. Concentration
 3. Capacity
 4. Capital
 5. Comprehensiveness
- ▶ Trust will be fully operational early in 2009