

HUD NSP Problem Solving Clinics

In early 2010, HUD offered a series of locally-based Neighborhood Stabilization Program (NSP) Problem Solving Clinics on implementing the NSP program. The clinics were targeted to the needs of individual housing markets and thus were open to grantees and their nonprofit, developer and financial institution/ lender partners from each local market area.

The NSP Problem Solving Clinic provided grantee, non-profit staff, and other stakeholders access to technical experts and HUD staff that were able to field program design and implementation questions, provide clarifications on regulations, and suggest alternative approaches to address hurdles and roadblocks.

Both one-on-one sessions between specific grantees and experts, as well as more general workshop sessions were offered. Below is the transcript from one of the workshops.

Workshop: Accessing Real Estate Owned (REO) Properties Presenter: Phillip Bush, Enterprise Community Partners

PRESENTER: Looks like we've got enough people, so we can go ahead and get things started. Let me start off by my introducing myself, my name is Phillip Bush. I work for Enterprise Community Partners. I work on Enterprise's Foreclosure Response Initiative. I'm based here in DC. I spend about half my time working with NSP grantees and subgrantees on their local programs-- trying to make those strong programs: trouble shoot, general partnership issues. I spend the other half of my time working here in DC on policy and regulatory issues related to the NSP program or other activities related to neighborhood stabilization.

I originally wanted to go around the room and get a quick feel for which grantees are actually here with us, who else is here, but I've been told I need to limit the questions I ask the crowd during the presentation. So I'm going to skip that and after the presentation hopefully I can get feel for which grantees are here and talk to some of you guys about what's going on in your market. Throughout the presentation I'm going to stop and ask simple yes or no questions and have people raise their hands so I can find out what is going on with you in your market. I am interested in hearing about what's going on in your market and taking this presentation and tailoring it to be as useful to what you guys are encountering as possible. Acquiring REO properties...I think there are a lot of different issues and obstacles you run in to and I'd really like to focus the time on issues and obstacles that you guys are encountering, that are important to you.

Today's presentation is going to be on two basic topics. REO property sources—where can you get REO properties-- and touching on a couple of keys to successful acquisition. There are some strategies, some approaches, some tools that will make you much more successful when acquiring properties. A lot of them are common sense, but it is good to go through and talk about it. And finally, it says at the bottom [Referring to slide] stop me and ask questions at any point in the presentation. Stop me and give me feedback, if you want to talk about a local

example in your market that relates to the issues we're talking about, I'm definitely interested in hearing that. Local innovation is really going to come up with the best solutions for this.

So let's go ahead and get started. Starting with REO property sources, there are five basic routes that an NSP program can take to access REO properties. They are listed up here [Referring to slide]. Open market purchases, direct relations with servicers or lenders, you can work through an intermediary, you can go to HUD or FHA to get your properties, or I have a catch-all, kind-of five, there are other routes: such things as tax foreclosure, failed developments. Today I'm going to talk about the first four, kind of go into some of the advantages or disadvantages of those approaches, give you guys some background on those. I'm not really going to get into 'other' as much; that is generally tailored into local law and specific circumstances. I'm happy to talk about that at the end of the workshop or one-on-one if you have questions about that, but I'm not going to focus on that as much.

The last thing on there [Referring to slide]. Multiple acquisition strategies are necessary. I really hope if people walk away from the session with nothing else, they walk away with the understanding that you should be working multiple approaches to acquiring properties. There's a lot of good reasons why you should be working with multiple approaches. Again, the goal for NSP is exactly that: neighborhood stabilization, and there's no one source that is going to give you access to all the REO properties inside your target area. The more sources you're working, the more opportunities you're going to get to capture a large percentage, a majority of REO properties in your area. And you really want to capture the largest portion of the REO properties as possible so you can have that substantive change to change the real estate market to change the direction of the market in your target area so you can begin to have a stabilization impact. Also, another good reason to work multiple sources is you're going to see more properties that way and we all have this 18 month deadline looming over us and the more properties you see the more opportunities there are for you to buy those properties and obligate your funds and not have to send money back to HUD. I know no one in this room wants to have to send funds back to HUD and I know HUD doesn't want to have to receive those funds.

So starting out with the simplest and most common way to accessing REO properties: open market purchases. This is what we're all familiar with; open market purchases are the traditional approach to purchasing a property. You review property listings, you determine which properties you're interested in, you determine who the representative or the broker is for that property, you go out there, you make contact with them and you go through the normal acquisition process: reviewing the property, making offers, etc. And that really is the greatest advantage of this approach—people are familiar with it, it's relatively simple and if your local program is already buying properties, if your local organization is already buying properties for another program, or you already have staff that are familiar with this it doesn't require new infrastructure, it doesn't require additional training, you can just slide buying properties for NSP into your existing program. Another big advantage to the approach of going open market, working open market purchases REO properties, is that in most markets the majority of REO properties will eventually make it to the open market. That's not true in every

market, if you have a hotter market you may actually find that investors are actually getting the properties before they're ever listed, but in most markets you're going to see the majority of properties on the open market.

Now the big drawback to open market purchases is...I suspect that anybody who's tried to make an open market purchase operating in a hotter market, has found this... that you face a lot of competition. In an open market, it is: open. You're going to face investors and homebuyers who are also going out there and trying to buy some of these foreclosed properties and given that you're using NSP funds there is a discount requirement, you're often going to have a hard time competing with someone else who comes with funds that can go a little higher in price and may carry or at least perceive to carry less restrictions on them. That's probably the biggest disadvantage of the open market purchase.

I also want to take this opportunity to talk about something related to all purchases of REO properties using NSP funds. And that's the fact that an REO purchase is different than a normal real estate purchase. I suspect that everyone in this room knows this, but I've seen in a couple markets where there isn't familiarity with the fact that the purchase process for the REO is different. And really the important differences are that in a REO sale the seller isn't going to certify some of the things on the property they normally would certify in terms of condition, background on that property. They're just not going to be willing to certify because they've taken title of the property and they don't necessarily have that information. They're also generally going to ask for indemnifications in the same subject areas of conditions of the property, history of the property-- that they wouldn't normally ask for. I've seen several markets where the local buyer, the NSP buyer, has some legal representation—legal representation that is very familiar with normal real estate transactions, but not familiar with the REO process and when they see those purchase agreements for the first time on an REO property they'll torpedo the deal because this is not the language they're used to seeing and they're not comfortable signing off on it. If that's not something that's happening in your market yet, that's good, I would encourage you to go ahead and have conversations with whoever your legal representation is going to be and make sure they're familiar with the REO aspects of a real estate transaction. And nothing about this is specific to NSP, it's just an REO purchase is different than a normal purchase and that can be a problem when you're trying to get legal sign off for a purchase agreement. I know in a lot of local governments, you've got to get someone to sign off before you make a purchase and if the contract is not something your legal staff is familiar with then they're not going to sign off on it.

Moving on to the next REO property source: direct sales programs by national servicers and lenders. Just a quick question, yes or no question, how many of you have seen a presentation from Freddie Mac, Fannie Mae, Bank of America, Chase, Wells, one of the national servicers on the direct sales program? Just raise your hand. Has anyone seen one of those presentations? [Raises hand] Only looks like three, three people in the room have seen those presentations. OK, I'm actually surprised, I thought everyone out there...my impression is they've really been out there pushing those presentations. So has anyone in this room actually purchased a property through one of these direct sales programs? Ok, I see no one. Ok, good. Sorry, I guess I

should give a better definition. It's not necessarily a first look program... Freddie, Fannie, Bank of America...Fannie does brand theirs as first look, but some of them do have direct sales programs that are specific to NSP grantees or subgrantees so that the property doesn't necessarily go to the market, it's a way for them to sell directly, to work directly with that population of NSP grantees and subgrantees, nonprofits. Does that sound familiar? No? Ok.

So let me give you a quick background on how these programs are generally set up. Each one is different, each servicer...they're run by each servicer or lender and they have different iterations, different ways of dealing with things, but they generally have a couple of common components. First, they generally have standard contracts. The upside of these standard contracts is that most of these programs were created with NSP in mind; they were created because these banks were getting contacted by grantees and subgrantees 309, times however many subgrantees were created, all over the country saying, "Hey, we have NSP funds, we'd like to buy some of your REO properties," and the servicers were finding it very hard to interact. They just weren't set up to interact and make sales in this format. So they came up with these direct sales programs which are supposed to be a set of standard procedures and part of the standard procedures are these standard contracts, purchase agreements. Most of them should have clauses in them that help deal with some of the NSP regulatory issues. Most of them have good language about environmental review, about contingencies for environmental review, contingencies for appraisals and discount requirements, have tenancy information. You obviously will still want to have your legal counsel and you still want to go through the contract and look at it, but generally that's an advantage. It's not the standard REO contract; it is something that has been tailored to some extent for NSP.

It also generally has an established process...anybody who has gone through an REO sale, an REO purchase process especially with NSP, knows this-- an established process can be really advantageous because it can be pretty laborious to actually go through a closing, it can take a lot of time and a fair amount of funds and an established process can really help you streamline that. Another advantage to most of the direct sales programs is some of them have a period of limited competition, meaning that it's not an open market sale. Fannie Mae, I think, is the most notable example of this where they have a ten day, or fifteen day, period where investors are not eligible to make offers on a property for ten or fifteen days in the Fannie Mae system—only owner-occupants, nonprofits, and local governments are supposed to be able to make an offer on a property. If you're in a hotter market where you're facing steep competition from investors, you're not able to compete with them; that can be a really important advantage. So those are kind of the big advantages.

Now there are some challenges and some drawbacks to these programs. I think a lot of those challenges and drawbacks are really the flip-side of these advantages-- is that with the standard contract the bank thinks they wrote it in compliance with the NSP program, but when you look at it, you may find it does not make you comfortable. When you take it to your local HUD office, you may find that they don't think this is a good document at all. It can be very hard to negotiate that contract, to get them to make a change, because they feel they've gone through their very extensive legal process and they've put their time into making this document and

they've had other localities sign off on it and they don't understand why you won't sign off on it. So that can be one of the challenges. Once they have a standard contract it can be hard to get them to customize it to fit your situation.

It's the same situation with the established process. It's great to have an established process, it saves everyone time, but as you know in some jurisdictions—some situations it's hard for you guys to meet a 30 day closing because of your environmental review, because of SHPPO—that can be a real challenge. Their process may not fit your needs. They may have a minimum threshold on size—the number of total purchases you're going to make, you simply may not be interested in working with them.

The established process can be flexible sometimes. Looking at Fannie Mae, they have a 45 day closing time in recognition of the fact that it takes those using NSP funds a little bit longer. Probably the biggest challenge to using a direct sales program of one of the national servicers is that the program is created at the national level and administered locally sometimes by staff for that servicer, but sometimes by a third party and the administration is uneven. Depending on how bought in that local administrator is, will depend on how well they honor limited competition periods, how much they are willing to work with you on contracts or processes. In some parts of the country— I heard back from grantees and subgrantees, these programs are great, really they're a God-send to them, because they wouldn't be able to compete with investors otherwise. In other parts of the country they've had significant issues, questions about whether the program is being operated the way it was described.

Moving on to the next source of REO properties. I'm going to talk about intermediaries. Intermediaries are pretty much exactly what they sound like, they're organizations that work to connect NSP with REO properties, but there are really a couple of different forms they can take. We're going to talk about two different examples: National Community Stabilization Trust and REO Clearinghouse. Their format is really a facilitator approach, they help facilitate the transactions, standardize things, streamline things, but they don't actually take title or really step into the process directly at any point. There are other types of intermediaries, there are real estate brokerage firms that specialize in REO properties and bulk sales and these are different than your normal broker on the market. These brokerage firms have direct relationships with the major banks or other major REO holders and can help you access properties you wouldn't otherwise be able to access and also help you navigate the system getting discounts. These are for-profit companies and they're going to charge you a fee to do that, but that can be a reasonable approach depending on what your market conditions are.

Another approach to intermediaries are regional purchase entities. You've seen these in a couple parts of the country and I think you'll probably see a lot more of these with NSP-2. These are collaborative efforts where multiple NSP grantees or subgrantees have come together and either designated one entity or created a new entity to purchase on their behalf. The advantages of doing this is you're going to get an economy of scale...you know, grantee A and grantee B and grantee C and grantee D each have enough funding for half a staff person for acquisition so they can put that funding together and pay for two full time staff and that can be

a much more effective program than somebody spending half their time doing things. You can also attract the attention of sellers you would not otherwise be able to attract because you are buying more properties. So if you're only going to be buying 30 properties in your jurisdiction and your neighbor is buying 30, but if you get a couple of you guys together and can get to 100, 150, then you're more likely to get the national sellers to pay attention to you because you have the volume level they are interested in. The big challenge is that obviously with any cross jurisdictional, collaborative effort takes a fair amount of coordination, takes a sign off and delegation of some responsibility—that can be a hard thing to do. But I would strongly encourage folks to look at regional purchase entities. I think one just came together in the East Bay area where a nonprofit is actually going to purchase on behalf of several jurisdictions. I think Contra Costa County, Richmond, a couple others. So there are plenty examples of that, it looks pretty strong.

Now I'm going to talk about one example of a national intermediary, the National Community Stabilization Trust. Give you guys a quick background of that. First of all, before I start talking about that, I'm going to ask you another hands up question. How many of you have seen a presentation about the National Community Stabilization Trust before? [Raises hands]. So a little more than the national lenders. Is there anybody in the room actually working with the National Community Stabilization Trust? [Raises hands] So we have one organization that is working with the NCST team, and that's Philadelphia. I have to repeat back, sorry.

That's good to know, so I'm going to give a quick background on what the Trust is and how the program works. So the Trust is an intermediary that facilitates the transfer of REO properties from financial institutions to local stabilization programs. It's sponsored by six national nonprofits: Enterprise Community Partners, Housing Partnership Network, LISC, [Inaudible], National Urban League and Neighborworks America. The trust currently is working with, and it's also listed up here [References slides] Freddie Mac, CitiGroup, JP Morgan Chase, Wells Fargo, Bank of America and Ginnie Mae. And when I say 'working with' I'm using the tightest definition—these are the servicers that are actually showing properties through the Trust. The Trust is certainly working with other organizations trying to offer properties, but these are the ones that are currently, actively showing properties through the Stabilization Trust. To my knowledge, the Stabilization Trust is actually the largest intermediary active right now working. They're active in over 100 different communities and they're showing between 1000 and 2000 properties each month. That certainly sounds like a lot of properties, but when you divide that over 100 communities that's not quite as many as the Trust would like or the communities would like.

So within the Stabilization Trust there is really two ways an NSP grantee can access property: there's a first look program and an aged inventory program. And the first look program is exactly what it sounds like. The local buyer working for with the Trust gets the opportunity to have a first look at a property, so they have the first right to buy that property. If the program is operating as described and it's supposed to work, no other organization, no investor, or homebuyer have the opportunity to buy that property, so you get first right of refusal basically.

The other approach is similar to other programs. You can buy aged inventory—properties that are already listed on the market. You can still go through the normal Trust system. The property is listed on the market, so any buyer can compete with you both on price and purchasing—they might buy it simply before you get to it.

There are a couple key components to the Stabilization Trust model. They are laid out here [References slides] and I'm going to talk through them real quickly. It has a pre-negotiated purchase agreement. Now this is similar to when I talked about the National Direct Sales Program where they have a pre-negotiated agreement. It's a pre-negotiated agreement that the Trust has negotiated with each of the sellers it's working with. This document is designed to fit with the NSP program so it does have very clean contingencies for environmental review, appraisal, tenancy, other issues. So if you go through ... we've got a question.

WOMAN IN AUDIENCE: I've just seen a presentation where they don't allow the contingency for home inspection and the guy that spoke said they were going to be considering that.

PRESENTER: So when you say home inspection, you mean? You mean about tenant occupancy, or?

WOMAN IN AUDIENCE: No, on the front end.

PRESENTER: So, right. There is not a...for the tenant protection rights, tenants protection act it is not built into the purchase agreement. Is that? Are we talking about the same thing?

WOMAN IN AUDIENCE: Well, pretty much what she said. [Pointing to another woman in audience] If there is a home inspection within ten days, that is not allowed as a contingency in the contract, purchase agreement.

WOMAN IN AUDIENCE 2: They review certain records that they may or may not pass on, but if you do an inspection you don't have a clause to get out it. We haven't heard...that would be nice if it changed, because I had a developer kind of yell at me about it.

PRESENTER: I'd be interested in talking about this a little more off line. I'm not sure if I totally understand exactly the circumstances you guys are talking about.

We'll get back to the negotiated purchase. So the environmental review discount. We'll talk about the tenancy issues, I may have misspoken there. It is also the same drawback to those pre-negotiated contracts. There is the ability to customize the purchase agreements with the Stabilization Trust, but it is relatively limited. Philadelphia [Points to audience members] here who has worked the Trust before might be able to speak to that for those who may have questions about how flexible that is, after the workshop. But I want to be clear that it is pre-negotiated, so it is going to be pretty limited in how much you can change them

The next thing again is the streamlined process. The Trust model is built on a 30 day close, quick responses from the local buyer whether you're interested in the property and what price you'll take the property at. So whether you'll accept the price or not accept the price. Same issues I talked about previously. 30 day close is difficult to make for some NSP grantees. The Stabilization Trust has shown flexibility on that 30 day close in some markets. They do try to stick to it. If there is local circumstances where the 30 day barrier is unmeetable they're usually willing to work with you on it, but they're going to push pretty hard for 30 days.

Single point of contact. When you work with the Trust you work with a single person at the Trust. Which, you know, can be a real boon in the sense it can save you a lot of time. You're not interacting with six or seven different representatives and servicers. You save time talking with just one person. The other side is you're not developing relationships with those six or seven servicers which means that when you run into hiccups or issues you're really working with through the Trust's relationship, you're working with the Trust as the intermediary-- they have the relationship, so you have to work through their relationship. If your organization plans to be in the acquisition business long term, past NSP, I think that is something to really think about—developing relationships directly with the servicers, your sources of REO. If you're really in this just for NSP, then it's probably going to be less of an issue--not necessarily where you need to focus.

Finally, the last key point to the trust system is the agreed upon pricing system. The Trust uses a net realizable value approach to adjusting price. They'll use the term discount when they talk to you, but they won't use it if they're talking to a servicer because servicers don't like that word—they like net realizable value. What that means is the servicer comes to their opinion of price, they don't necessarily do an appraisal—they have their own system where they come to an opinion of price, and they adjust that price based on the amount of money they're going to save because they didn't have to use a broker, because the sale was quicker, less holding cost, they're selling the property before the market declines, there is a whole list of adjustments they'll make. As the buyer, you'll see their opinion of price and the amount they'll adjust. So it's a relatively transparent system. You can know what they thought price was and you can go back and have some conversations with them about that and you can know how much they adjusted. However, to be clear, their opinion of price is not an appraisal, so you're still going to need to do your own appraisal and make sure your meeting that one percent discount. Just because they say the value is 100,000 doesn't mean that's what your appraiser says, that's not sufficient to go to HUD with. It's also important to understand that because it's a streamlined system and they kind of have an agreed upon pricing approach the Trust doesn't really facilitate significant negotiation on price. If you're getting good prices, this is not as much of an issue. If you're in a weaker market and you're really trying to apply political pressure or really push sellers to donate properties or give steep discounts, this model is probably not going to be as effective always. It still is, potentially a good source of properties, but it is something to keep in mind that it's a streamlined adjustment system which doesn't take into account political ramifications or really sometimes isn't accurate for really, really low value properties, in my experience.

I'll stop there, if there are any questions. I think I've thrown a lot of stuff out. Alright, I'll keep going.

So REO property clearing house. REO Property Clearinghouse is another source, another intermediary that works in a similar way to the National Stabilization Trust, but is different in some key aspects. So I'm going to ask the same question as before. How many of you have seen a presentation on REO Clearinghouse [No raised hands]. No one. Heidi, Heidi's got to get out there, need more people. Since none of you have seen a presentation on REO clearing house, I'll assume none of you have purchased a property through the clearing house as well. Ok. So as I said, the REO Clearinghouse is similar to the Stabilization Trust, but has a somewhat different model. The Clearinghouse works with a set of national servicers and lenders to aggregate lists of REO properties available in target markets. So basically, their local partners give them a batch of zip codes they're interested in, then REO clearinghouse goes to their partners, the servicers they're working with, and compiles all the REO properties these servicers hold in that area and provides the list to the local buyer. If the local buyer is interested in one of those properties, then clearing house lets the local buyer know who's servicing that property and puts them in touch with the correct person to negotiate on that property. If anybody knows who has tried to go out and figure out who to speak to on an REO property knows that getting put in touch with the correct person—who is actually going to return your calls, whose job is to sell you the property, can be a really invaluable service.

The other place where the REO Clearinghouse can step into the process is they can be somewhat involved in the facilitation of the negotiation of the price. And that is the system for the Clearinghouse, that it is a negotiation on price. Both sides talk to each other and it is a back and forth about what the appropriate price is. Now these properties of the clearinghouse are on the market, so they are not restricted in the sense that other buyers can swoop in there and get them so you might lose the property during negotiation. But it does put you in touch with the right people and let you know what's on the market. Another advantage is, if there is a strategic property in your market and you can't figure out who's responsible for that property, can't figure out who owns it, can't figure out who services it (unfortunately this happens from time to time) you can go to the REO clearinghouse, give them that address, let them know your interested in the property and they can help you try to find out who owns that property. And the Stabilization Trust can actually do this as well and there is actually a website that does similar things that I have listed at the end of this workshop that can help with that as well. But I know that is a problem, if there is a property blighting your neighborhood, you want to get control of it, but if you can't figure out who owns the property, you can't make an offer on it.

The Clearinghouse is a for-profit organization that doesn't charge the buyer, it charges the seller for its services. Its principals are Heidi Coppola and Robert Klein.

HUD, FHA properties. As I'm sure everyone is aware, HUD and FHA hold REO properties. How many of you have bought a FHA property with your NSP funds? [Raise hands]. One. DC has bought a property from FHA, that's good. Has anybody else, is anyone else looking at FHA REO's? [Raise hands] So other people are looking at them. Ok. I would strongly encourage

everyone to look at FHA as a significant source of properties. The footprint for FHA REO's and the footprint for NSP target areas generally overlap significantly. There's usually a lot of overlap there because if FHA has been active in your market on the lending side they probably unfortunately have some REO's at this point in those neighborhoods that you can take advantage of and try to buy.

There are three basic programs, really there is a fourth program, but there are three basic programs we're going to talk about. I think my understanding after talking with some folks in HUD is they're actually looking at going back and making some improvements and changes to these programs to make them fit better with NSP. The three basic programs that are available currently:

Initial listing, so when properties first come onto the market, and this isn't specific to NSP, nonprofits and local governments have the opportunity to actually purchase that property, and when I say nonprofits, it's approved nonprofits, not just any nonprofit, you actually have to go through a process with HUD to get approved to be one of those nonprofits...can purchase that property at a discount, now it's up to 30 percent discount. Generally it's a 10 or 30 percent discount depending on some of the characteristics of the property. Now that's only available for a short window on the front end and when the property becomes available; after a five day period the property is open to the general market and the discount isn't necessarily there. But it doesn't mean you can't buy the property, the property is still there to buy, you're just not guaranteed a discount.

Then there is the bulk purchase program. This is targeted towards NSP grantees or subgrantees. You need to purchase ten or more properties and the properties need to have been on the market for 60 days or more. So basically there is a five day period at the front end, then a period where the property is marketed, and after 60 days you can start to go after that property again in a discounted way. The discount on these properties is on a sliding scale depending on the value of the property. Some of the lower value properties you can get for \$100, some of the higher value properties you get up to a 50 percent discount.

Finally, HUD has a third program, [Inaudible] Homes. And these are properties that have been on the market for 180 days. And for those of you that are familiar with HUD and FHA and how they sell properties, you know they generally do a reverse auction approach. This approach is pretty effective at moving properties out. So if a property gets to 180 days and it's been discounted through the entire process and HUD's still holding it, this property is [inaudible]. It's going to be a gut rehab or a demolition. Now it still may be a good property for your program, you may want to go ahead and remove that property for the neighborhood, but just to be clear there are not a lot of gems, a dollar home sounds great when the general public hears it, they think HUD is just giving away properties, but if you see these properties, these are properties that FHA has done a good job at reverse auction to market, but these are properties people just don't want.

There is a fourth program I didn't put up here which is the Asset Control Area Program, which is another way to get REO properties. I didn't talk about that because there is a lot of front end work to get into that program. It is a great way to access REO properties at a discount, but if you're not already in it, it's probably not going to be a solution to you obligating your funds before September and fitting with your NSP program. It is something I'm happy to talk about and put you in touch with people who are more knowledgeable, Enterprise has worked with several communities...Rochester, Dallas, other parts of the country, LA...we think it's a great program, but it's probably not going to be a good fit at this point unless you're already doing it. I know there are some folks from Baltimore here and they already have the ACA program and they're going to try to connect those things up.

OK. After this I'm going to shift gears. Does anybody have any questions?

Key to successful acquisition strategies. The fact is when go out and you're trying to buy properties with NSP funds, you're competing. There was a perception—and maybe this was true in some markets in the beginning, is that the market was flooded with REO properties and nobody was interested in buying and basically you were going to go out there and pick the properties that you wanted. And that was the case in some markets in the beginning of the NSP program. That's not the case anymore. In most markets, investors now believe they've hit the bottom of the market and they're out there and they're trying to snap up deals; homebuyers, like myself, are trying to go out there and buy a good property and we're competition for you. So you're going to have to work to make this successful for you. You're going to fail on some of your purchase offers, your purchase offer isn't going to be accepted sometimes. It's part of the process of acquisition rehab. Fortunately you can cover that with NSP funds as long as you have done everything appropriately. But you don't want to be spending your funds paying for failed acquisitions, you want as many of your purchase offers to be successful as possible, because you want to spend your money buying a house, rehabbing a house and putting a family in that house. That's the point of the program, not to pay acquisition costs for failed acquisitions.

Now we're going to look at how to make that happen. The first process is making NSP competitive. NSP purchase offers are generally less attractive to sellers than others' offers because of real and perceived strings attached to NSP funds. Generally if someone gets an offer for a \$100,000 mortgage and \$100,000 from an NSP, they're going to take the mortgage because they believe NSP is going to be a more challenging closing process, it's less likely to work as an actual sale in the end and they just don't think the money is attractive. Now local programs need to go out there and work with the real estate community to address these perceived issues with the NSP program. A lot of these perceived issues aren't in fact true. I was working in a community where local real estaters were convinced they weren't allowed to get paid their normal brokerage fee if there was any NSP funds involved in the deal and the brokerage fee was cut to .05 percent or .005, I don't remember exactly what it was, but there was a perception that you shouldn't take an NSP offer because an NSP offer was going to impact your compensation.

NSP programs need to be out there proactively engaging with the brokerage community. You might need to put out flyers explaining how the program works to give some basic understanding of what environmental reviews are and what the strings are. Some places are having luncheons, people are having meetings with their local real estate commissions. I strongly encourage everyone to do this, you need brokers to understand your program and to be willing to work with you, because they control access to the properties in most situations and they're the one advising the owner of the property if they should or should not sell, or acting on the owner's behalf. I would also encourage you to try to develop relationships and work with the same broker, once a broker has been through the sale or purchase process once with the NSP program, they're familiar with how it works, they know the strings, and they're going to be much more comfortable accepting an offer again because they know you're going to keep your word, you're going to stick to the timeline you told them. And the restriction of environmental review, historic preservation review—they are restrictions, but they don't actually impact them significantly. If you've done your tier one environmental review for the area ahead of time, you can do it pretty quickly it doesn't actually impact things. They're going to be much more comfortable and they're going to be your advocate for you in the community.

I also would say that to attract brokers, because brokers are out there to get business, is, as much as you can in your program, to connect them on the front end and back end of your deal. So if you're buying this property, at some point you're going to have to sell that property and you're going to need a broker for most of those models to sell that property. Letting them know that there is business and make them aware of the program and on the back end, on the disposition side, there might be business down the road is a good way to get them to pay more attention, because at that point you're going to represent significant business. Especially in a market where there is not a lot of transactions going on.

That's some of the ways you can deal with the perceived disadvantages of NSP. There is also trying to minimize the real disadvantages. Try to make your timeline match the normal real estate timeline for your market, try to make your transaction look as much like everyone else's as possible. So if a 30 day closing is normal for your market, or 45 day closing is normal for your market, you need to do everything in your power to put the process and system in place to meet that normal closing so your offer looks just as attractive as somebody else's offer. The other large sticking point you can control to some extent is the purchase agreement or the language you need in the purchase agreement. As much as possible, have standard contingency clauses that you need in a purchase agreement worked out or other clauses you need worked out, drafted ahead of time and be able to show those to the seller ahead of time. Get them comfortable with it, proactively explain what they are and what they mean and if you can give an example of someone else who has used it and was comfortable with it, that will be helpful.

Property eligibility. There are several requirements you have to be sure are met before a property is eligible to be acquired. But it's not realistic in most situations to complete all of these eligibility verifications before you start the process of negotiating on a property, before you might sign a contingent purchase agreement, so you need to work contingencies into your contracts, you need to have a process that is both quick and flexible, you need to develop a

timeline that allows you to verify all the eligibility requirements. If you've done an approach for your environmental review where you've already done tier one you can do that next phases faster, that's good.

There is a great checklist that Peter Werwath put together about the process for acquisition and it talks about all the steps you need to go through in order to be compliant with NSP and also just to do an appropriate job accessing the property. I would encourage folks to use that when you go back to your own program, and look at your process and try and make that process meet all the eligibility requirements, because certainly no one wants to acquire property and find out you can't fund it with NSP because it's not eligible, but also to create a thorough process. On these eligibility requirements the one place I would encourage people to look at is the foreclosed status, in a couple markets we've had people buy a foreclosed property, but the person they're buying it from wasn't actually the party who foreclosed on it and they weren't able to establish the relationship between that person and the person who foreclosed and they have to go to HUD now and have conversations about whether this property is actually still qualified as foreclosed property. You don't want to have that conversation; you should be able to look in your court records and be real clear about who foreclosed on it, who's selling it to you and how it got from one place to the other. Making sure you have all the eligibility requirements.

Really, really quick. Understanding the market is critical to successfully acquiring REO properties. These markets are very micro-markets, a lot of times it is different block by block. If you don't know your market and you purchased your REO property at a very good price it was probably luck. You need to know what's going on in your market to make a good decision. You need to know your source of properties, because that's going to tell you which REO sources to try to plug in to. If Fannie Mae owns 50 percent of the REO's in your market you need to contact Fannie Mae and have a conversation about that. If FHA is a major source of properties you need to find a way to work with FHA on those properties. If it's several small, private label mortgage companies then you're probably not going to have a direct relationship and you're going to need to depend heavily on open market purchases. But you're not going to know that until you know your sources. You also need to understand the volume in your market, if you don't understand the volume in your market, you don't know how many REO properties you can pass on. And there are some REO properties you're going to want to pass on because they're not going to be a good fit for your program. But if you look at the volume for your market and you see there are ten foreclosures becoming available in your market every month and you have ten more months and you need to buy 100 properties, then you have to buy everything.

Don't forget to do your evaluations. I appreciate any feedback. I'll be happy to talk to folks about any questions they have.