

# Homeownership Protection Program

A Solution to a Critical Problem

Mortgage Resolution  
**PARTNERS**

# Homeownership Protection Program

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A program term sheet and FAQ is intended to be part of this presentation and contains additional information.

# The Real State of U.S. Housing Today

## Home prices continue to deteriorate, jeopardizing mortgage loans and homeowners

- In June of 2006, U.S. residential housing prices hit their peak. Now, nearly six years later, the market is once again at a record post-2006 low (down 33.8% from peak as of year-end 2011).
- Over 22% of the 52.5 million U.S. homes that are mortgaged had “underwater” mortgage loans at the beginning of 2012.
- Such mortgages are generally concentrated in states that experienced acute housing price increases during the bubble -- Arizona, California, Florida and Nevada, to name but a few.
- After short-lived and shallow periods of home price appreciation in mid 2010 and again in 2011, recent pricing trends have turned decidedly negative (the S&P Case Shiller 20 City Index is down 7.5% nationwide from its previous post-crash high in May of 2010).
- The National Association of Realtors, in its December 2011 survey, found that foreclosure sales averaged a discount of 22% compared with non-distressed home sales (up from 20% a year earlier). Short sales, with the cooperation of the lender, averaged 13% below market value. RealtyTrac found even larger differences in 2011.
- **Despite hopes to the contrary, the situation is not materially improving.**

# The Homeownership Protection Program Will Help End this National Nightmare

Empowering communities to do what Washington  
and the private sector have been unable to

- The Program employs the ultimate right of local communities and governments – *through the constitutionally guaranteed power of eminent domain* – to retake control over the welfare of their neighborhoods and their fiscal solvency.
- Organized by Mortgage Resolution Partners – in public/private ventures with cities and counties that have been most affected by the mortgage and housing crisis – the Program will force lenders to surrender their mortgage loans to governments for full and fair value as determined by local courts in condemnation proceedings.
- As the current fair market value of such mortgage loans is considerably less than the face amount thereof, governments will be able to restructure the mortgage loans acquired through eminent domain and refinance severely underwater homeowners (with the ability and creditworthiness to make payments on their restructured loans) into new loans to be sold to large, private sector investors as FHA GinnieMae securities.
- **No taxpayer funds will be used in connection with the Program and the Program requires no state or federal legislation, or administrative action.**

# Communities are the Principal Drivers of the Homeownership Protection Program

## Municipalities have enormous incentives to adopt and execute the Program

- Defaulted mortgages are typically associated with the cessation of real estate tax payments and other ratable and usage charges payable to localities. This stresses local budgets and financing.
- Throughout the mortgage crisis, underwater loans have demonstrated high default levels – regardless of other borrower circumstances. This tendency poses a threat to areas continuing to see price depreciation.
- Large volumes of defaulted mortgages result in neighborhood blight, abandonment, unkempt property and transience. These factors exacerbate the already compromised housing economics in affected areas and accelerate price depreciation.
- Municipal, county and state governments, and agencies, have a public interest in halting defaults and consequent neighborhood deterioration.
- **The Program provides a practical and efficient solution to this intractable dilemma.**

# A Grass Roots Crisis That Demands a Solution

The impact on cities must be resolved locally as broader national policies have proven inadequate

- Post-crash, cities and towns have suffered greatly, often in seldom understood ways:
- For example, when a foreclosed home is sold by a lender in foreclosure, the home's respective tax assessment is permanently reset in many communities.
  - Consider, for example, a home that was purchased for \$400,000 with a \$360,000 mortgage and has a current tax assessment of the purchase price.

*If that home sells in foreclosure for \$200,000, its tax assessment is reset, and can only increase by a small amount each year in many communities. The rate of increase may be tied to inflation, which erodes tax revenues until the home is again sold.*

- Conversely, consider what would happen if the same homeowner refinanced the mortgage and (quite reasonably) contested its real estate tax assessment.

*The home's assessment may be reduced to \$200,000, but the assessment could float freely back up to \$400,000 as markets recover. Of course, once the assessment reaches \$400,000, the rate of increase will be limited on an annual basis in many communities.*

# A Half-Decade of Partial Mortgage Resolution Solutions have Come up Short

## Why does the mortgage crisis still burden the U.S., given the plethora of other programs to end it?

- Private- and government-sponsored modification programs generally have not worked because they do not emphasize significant principal reduction. Overall, fewer than 50% of the 2.26 million mortgages modified from 2008 – 2011 were current at year-end 2011. The majority of modifications have merely capitalized missed payments or reduced monthly payments by less than 10%.
- While encouraging lenders and servicers to pursue loan modifications in lieu of foreclosure, government programs (together with aftermath of the late 2010 “document-gate” foreclosure scandal) have curtailed the pace of foreclosures and liquidations. As a result, Q3 2011 saw a backlog of 394,000 repossessed homes awaiting liquidation, plus an additional 2.86 million homes securing mortgages that were 12 months or more delinquent, for a total “shadow inventory” of homes well down the foreclosure pipeline of 3.25 million. This excludes another approximately 1.4 million loans that are between 60 days and 11 months delinquent.
- As of January 2012, based on current default rates for various categories of loans, Amherst Securities estimated that between 7.4 million and 9.4 million additional home mortgage loans are in danger of defaulting over the next six years, assuming no further price declines or changes to interest rates.

# **A Half-Decade of Partial Mortgage Resolution Solutions have Come up Short (cont'd)**

**Systemic problems in the housing and mortgage industries have diluted other solutions' effectiveness**

- At its post-bubble peak, the excess inventory of vacant housing rose to nearly 2.1 million units. That number has declined somewhat – particularly in the case of rental housing. Legacy excess unutilized vacant housing remains at over one million units.
- \$873 billion of 2nd lien/HELOC (Home Equity Lines of Credit) mortgage loans exist behind a large portion of the most heavily underwater first mortgage loans. This has made resolution of underwater first mortgages by methods other than foreclosure and liquidation nearly impossible; second mortgage lenders (most of which are large banks) are not willing to offer proportionate relief, despite their subordinate lien status.
- Ironically, many borrowers continue to pay their second-lien lenders even as they are in default on their first mortgage, in order to maintain revolving lines of credit.
- **The \$1.1 trillion of remaining “private-label” residential mortgage backed securities pose extraordinary additional problems by virtue of contractual documentation that never envisioned a housing price meltdown. Servicers are paralyzed by restrictive servicing contracts generally forbidding loan sales and limiting loan modifications. With shrinking margins and continued risks of litigation, servicers act only when forced to.**



# The Homeownership Protection Program: A Practical Solution that Works

## Why will the Program succeed where other solutions have failed?

- The Program operates at the local level to acquire underwater mortgages through **eminent domain**, which is a public – not a private – right.
- Mortgage Resolution Partners (MRP) acts as manager and forms partnerships with local governments to facilitate the eminent domain and mortgage restructuring process.
  - MRP coordinates with local officials to identify subject mortgages and refine program structure.
  - MRP and third-parties preliminarily screens for loans qualifying for modification and refinancing.
  - MRP earns a fair, flat and transparent per-loan fee for its services.
- Not all borrowers will qualify for Program. Only borrowers who appear likely to repay their loans will be accepted. The Program will initially acquire loans that are (i) significantly underwater and (ii) relatively current (not in default)—emphasizing loans held by private-label securitization trusts.
- Loans and liens will be acquired through eminent domain at *fair value*, which is expected to be less than the market value of the home.
- **The Program will partner with institutional investors that fund the condemnation action in order to obtain access to attractively priced, GinnieMae-backed mortgage securities that will result from the restructuring and refinancing of the mortgages acquired under the Program. Investors will approve acquired mortgage pools and will earn all payments received on the acquired mortgages prior the re-securitization thereof.**

# The Program Begins Where it is Most Urgently Needed – The State of California

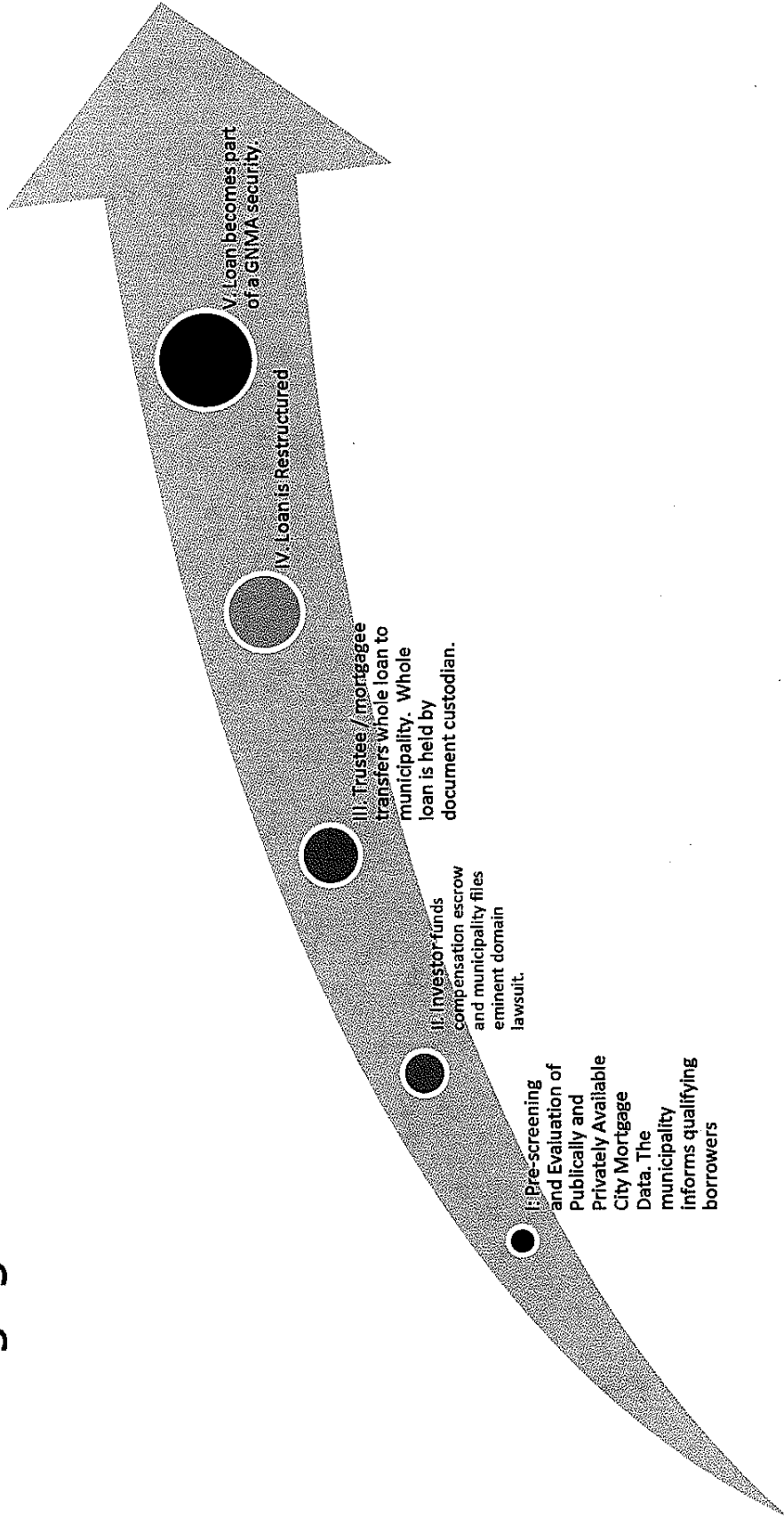
A \$5 billion, initial series to kickoff an up-to-\$500 billion, 3,000,000-home, multi-state effort.

- California has one of the highest percentages and the highest dollar amount of at-risk loans. It is a natural and efficient first state for the program.
- California legal precedent and political posture favor the Program and constitute an ideal proving ground.
- Counties and cities should have the authority under California and Federal law to acquire by eminent domain residential mortgage loans secured by real property when the debtor and the secured property are within its jurisdiction.
- A consortium of the county and city governments in San Bernardino County, California (the largest county in the United States, outside of Alaska) is promulgating a “Joint Powers Authority” to undertake the first series of the Program together with MRP.
- The Program has obtained supporting legal opinions of national counsel specializing in constitutional law and financial regulation. At the California and local level, the Program relies on firms with expertise and experience in local eminent domain law and litigation. San Bernardino County has conducted its own legal review before proceeding with the Program.

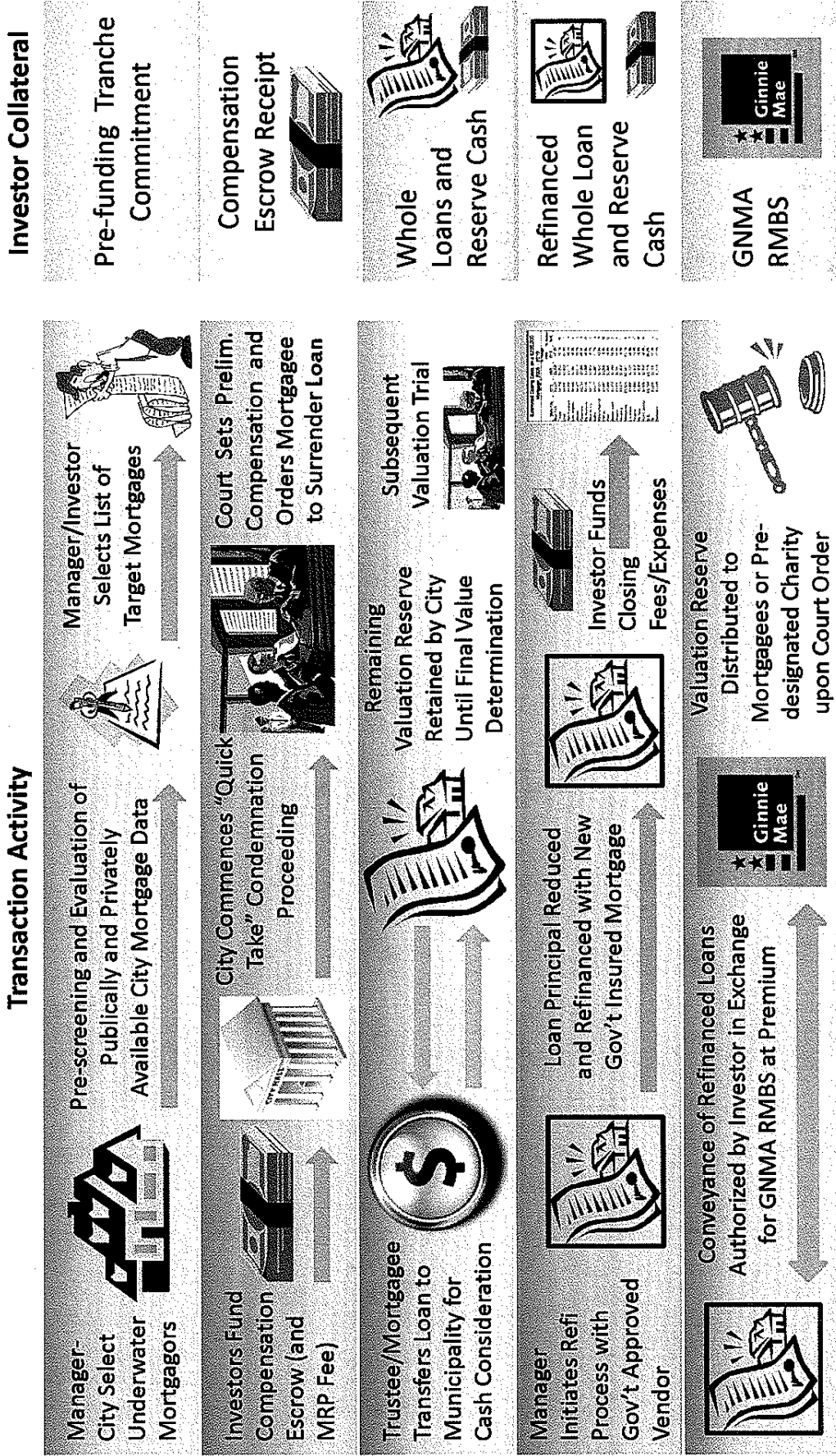
**In addition, Robert Hockett, Cornell University Law School Professor of Financial and Economic Law has authored a memorandum of law and white paper on the issue of public taking of mortgage loans and liens for the purposes of the Program.**

# The Program's "Five Stages of Relief"

The Program's five stages for resolving underwater mortgages at the local level



# A Step-by-Step Analysis of the Program's Operational Methodology



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