

Capital Preservation



**IDAHO HOUSING AND FINANCE
ASSOCIATION**

PRESENTED BY SUSAN SEMBA

What is Capital Preservation?



- As the real estate market fell, home values decreased and foreclosure/default rates increased, Idaho Housing and Finance Association (IHFA) concluded that something different was needed to manage its increasing real estate-owned (REO) inventory.
- At the same time the rental market was improving, so IHFA decided to look for properties with good rental potential from the REO portfolio.
- How would we analyze each property to determine the economic feasibility of leasing the property and how long would it take before a sale could take place?

How We Made It Work



- A review of the current value compared to the REO balance gave us an indication of what our loss could be if we sold now.
- When the anticipated loss is high, we analyze each property to determine the economic feasibility of leasing the property and how long would it take before a sale could take place.
- Developed an analysis tool that would work in any community, regardless of expenses, rental rates or other income and expenses. Review the current value of the property, could it increase in time due to the property being undervalued, and how would that affect the property appreciation over time.
- Given the large losses that our organization was experiencing in short sales and REO sales, a program that eliminated or reduced loss on sale of properties was seen as a benefit.

Single Family Home REO Rentals

- Outstanding Balance
- Less Mortgage Insurance
- Residual Balance
- Plus Renovations
- Total Costs to IHFA
- Current Assessed Value

\$150,000 100,000

\$ -37,500 -25,000

\$ 112,500 75,000

\$ 5,000 3,000

\$117,500 72,000

\$ 75,000 50,000

Current Loss

\$(42,500) (22,000)

Single Family Home REO Rentals



RENTAL INCOME ANALYSIS:

Rental Rate (Monthly).....	\$815
Annual Gross Rent.....	\$9,780

Annual Expenses:

Property Taxes	\$1,654
Insurance.....	\$551
HOA Dues.....	\$200
Replacement Reserves.....	\$1,200
Management Fee.....	\$1,200
Total Expenses.....	\$4,804
Annual Net Operating Income.....	\$4,976

Single Family Home REO Rentals

	(4%)	(8%)
Annual Appreciation	\$3,000	\$6,000
Annual net rental income	5,000	5,000
Total net income	8,000	11,000
Net estimated loss	-42,500	-22,000
Years to break even	5.8	2
Or manage losses over time		