



2013 Annual Awards Entry Form
(Complete one for each entry.)

Fill out the entry name *exactly* as you want it listed in the awards program.

Entry Name Buying Time – An REO Capital Preservation Strategy

HFA Idaho Housing and Finance Assaociation

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Entry form with description, check(s), and visual aids (optional) must be received by NCSHA by **Monday, July 1, 2013.**

Use this header on the upper right corner of each page.

HFA Idaho Housing and Finance Association

Entry Name Buying Time – An REO Capital Preservation Strategy

Communications	Homeownership	Legislative Advocacy	Management Innovation
<input type="checkbox"/> Annual Report <input type="checkbox"/> Promotional Materials and Newsletters <input type="checkbox"/> Creative Media	<input type="checkbox"/> Empowering New Buyers <input type="checkbox"/> Home Improvement and Rehabilitation <input type="checkbox"/> Encouraging New Production	<input type="checkbox"/> Federal Advocacy <input type="checkbox"/> State Advocacy	<input checked="" type="checkbox"/> Financial <input type="checkbox"/> Human Resources <input type="checkbox"/> Operations <input type="checkbox"/> Technology
Rental Housing	Special Needs Housing	Special Achievement	Are you providing visual aids?
<input type="checkbox"/> Multifamily Management <input type="checkbox"/> Preservation and Rehabilitation <input type="checkbox"/> Encouraging New Production	<input type="checkbox"/> Combating Homelessness <input type="checkbox"/> Housing for Persons with Special Needs	<input type="checkbox"/> Special Achievement	<input type="checkbox"/> YES <input type="checkbox"/> NO

The economic downturn that sparked a national foreclosure crisis hit Idaho particularly hard. There were times when Idaho was among the top 10 states with the highest foreclosure rates. To help mitigate the effects of soaring foreclosures, Idaho Housing developed a number of unique programs that helped it continue to effectively serve our Idaho neighbors. One of the most important initiatives was the real estate-owned property rental program, which helped ensure the health of its bond trust funds.

THE CHALLENGE

The aim of Idaho Housing’s REO property rental program is to reduce the amount of foreclosure losses experienced in bond trusts. During the mortgage crisis, many Idaho Housing bond trusts, particularly those with mortgages acquired from 2006 to 2008, experienced large principal losses and reductions in cash flows as foreclosed properties were liquidated at market levels well below their mortgage insurance coverage. The Idaho Housing REO property rental program was implemented to avoid liquidating property under poor market conditions and maintain rental cash flows in place of borrower mortgage payments to service bond debt.

Our sense was that the market for single-family properties would improve and that our REO properties could be held and managed as rental properties until they could be sold under more favorable conditions. This has turned out to be the case. The Idaho market has been one of the better-performing real estate markets in the country since the inception of the REO property rental program and the demand for rental properties has been strong. The rental payments on our REO portfolio of 50 properties has amounted to \$114,850 and has allowed Idaho Housing to maintain cash-flow levels in its bond funds and retain its investment ratings on all of its bond issues. Idaho Housing’s rating agencies have been supportive of the REO property rental program and have commented favorably.

Although there were private companies involved in the acquisition and leasing of foreclosed properties, we are not aware of any other HFA that is actively engaged in the conversion of REO properties into rentals.

WHAT WE ACCOMPLISHED

1. Idaho Housing developed a simple spreadsheet to determine which properties have the greatest capital appreciation potential.
2. So far, 50 single-family homes were put into the REO rental pool. The average foreclosure loss for targeted conventional REO properties has been about \$45,000 per home, so IHFA saw a savings of \$2,250,000 at the beginning of this program.
3. The current book value for the REO portfolio is \$5,020,014, excluding costs. A recent Brokers Price Opinion (BPO) gave the portfolio a midrange value of \$5,340,500. The Low Value Estimate was \$5,061,000 the High Value Estimate was \$5,620,000.
4. Idaho Housing’s ratings agencies and auditors had required significant loan loss reserve to protect the bond trusts from default. At the end of fiscal year 2014 Idaho Housing is projecting approximately a 32% savings in loan losses by using this program.

HOW WE MADE IT WORK

As the idea of an REO rental pool was being formalized Idaho Housing checked with its rating agencies to ensure the approach would not create any technical or legal problems to the bond trusts. Idaho Housing also created a simple spreadsheet to analyze the financial feasibility of holding specific homes in a rental pool and determine how long the property might need to be held before a break-even point was reached. Each foreclosed property was analyzed and if, after mortgage insurance, the loss was minimal the home was listed for sale. If the loss was more than \$30,000 it automatically became a candidate for the rental pool.

The foreclosure manager and REO staff would further analyze a property's location and sales comparables in the broker's price opinion of value. If the home was in a neighborhood with upside potential, was in relatively good condition, and would contribute to the overall neighborhood then it was released into the REO rental pool.

Idaho Housing selected a well-respected management company that had a depth of experience in affordable property management. As the management company was notified of a new REO rental coming into the pool, it would research the market to determine the appropriate rental rates. The management company performed all the industry-standard tasks — from showing the property, managing any needed repairs, taking in rental applications and processing for approval, and managing the income and expenses. Twice a year, the management agent is responsible for providing Idaho Housing with an analysis of the portfolio's value, operating expenses, and cash flow.

HOW OTHERS CAN DO IT

Developing simple selection criteria for foreclosed homes that have the potential to rebound in value is the first step. It may be best to lose a small amount on a property that needs major rehab or is in a rural area or a location with many properties for sale. An organization also must determine how long it will have to hold the properties to regain some appreciation and cover the carrying and operating costs.

Securing the services of a qualified property management company that will assign dedicated staff for this program is crucial. When Idaho Housing's program started, it had monthly meetings to discuss what was working well and what issues needed to be addressed kept any minor issue from becoming problems. Idaho Housing provided advance notice of properties that would become available, which allowed the management agent to post the property for rent and make any needed repairs.

GOING FORWARD

The real estate market has improved in the Boise area, but not all regions in Idaho have improved as much because of continuing unemployment or underemployment. Idaho Housing will continue to analyze each foreclosure property to determine if it can be a candidate for the REO rental program. Based on location, local rental market, and condition of the property, we will continue to add to the group of rentals that assist in the cash flow for the 2006-08 MRB programs that continue to have delinquency issues.