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Parallel Paths

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A recent New York Times headline read: "Program Will Pay Homeowners to Sell at a Loss." The article goes on to describe how the program will pay you to move out of your home so the bank can sell it.

In contrast, the Detroit Free Press described a program that will pay you to stay— move in, not out. You agree to occupy a foreclosed home, pay a monthly fee, no taxes or insurance, just mow the lawn and pay your utilities, and the program may refund half of what you've paid when the property is sold.

The equity write-down program may allow you to "re-up" your existing mortgage at a more affordable sum.

The tax-incentive program gives you an $8K tax break if you're a first-time buyer, or a $6.5K tax break if you've owned and resided in the same home for five consecutive years of the eight-year period ending on the date of the purchase of a new home.

And then there's the program that allows you to choose 3.5% off the closing costs or receive free name-brand appliances.

Mortgage servicers are staggering under the weight of well-meaning programs as Washington tries to solve our nation's real-estate woes. While these programs are designed to help troubled homeowners, they also thwart an underlying fear—that too many foreclosures attract equity players, investors, and those who want to bulk-buy, rent, or resell, rather than live in the houses. As a nation, we're hurting and don't want anyone to profit from our pain.

Government, designed to serve the will of the people, is merely responding to our cries and creating programs to help. The problem, as David Ogilvy opined, is that "In all the parks in all the cities there are no statues to committees." Committees, legislative or otherwise, are collaborative, not inventive. They discuss trouble and gather data on it, but they rarely get people out of it. (Getting out of trouble through our own initiatives has always been one of the great attributes of the American people.)

The much-feared "shadow inventory" will soon result in the US having north of seven million foreclosed homes for which we must find new stewards. A lot of private real-estate investment money is available to purchase those homes. (Supply meeting demand.) But investors have been side-lined due to lack of anything to buy at a reasonable price as the holders of assets try to outwait or outthink the market.

Special Inspector General Neil Barofsky, in managing TARP, reported that government "has done more than simply support the mortgage market, in many ways it has become the mortgage market, with the taxpayer shouldering the risk that had once been borne by the private investor."

Despite those warnings, we Americans don't want investors, suspect of their motives. No one wants "greedy capitalists" in the midst of this crisis. These assets have to be worth much more.

A mortgage servicer who recently rejected an offer of 89% of last list, for a home that had been on the market six months, said he was holding out for a minimum of 90%. That single point brings up another: over our shoulder is a burgeoning foreclosure inventory, unsold because we can't take the write-down, will lose money off the UPB, over saturate the market, or jump too soon when the next program might make us whole. The plan, then, is to manage the market…release the assets slowly.

If seven million foreclosures are at our back door as forecasted in a recent analysis by **Amherst Securities Group** and we're releasing slowly at the rate of 20% per year, the average American can assume that in only five years we'll be out of this mess….unless the other forty-eight million mortgage holders, who are watching what we do for the first seven, start thinking maybe they'd like to take part in a few real estate programs.

The housing foreclosure issue is coupled with the looming commercial foreclosure problem. If people have lost their homes, it could be because they've lost their jobs, which means their companies are tightening their belt or, worse, losing their shorts, and therefore the buildings from which they do business will soon be up for sale.

In light of the scope of the crisis, can we persist in delaying mass disposition and competitive price discovery and continue trying to put seven million foreclosed, or about to be foreclosed, homes through specified programs first…a task not unlike pushing a camel through a keyhole. Shouldn't we consider other solutions, working parallel paths, perhaps shortening the timeline and broadening the disposition pipeline?

Our company has sold tens of thousands of homes in all fifty states year round, and 87% of the time even small homes under seventy-five thousand dollars are sold to owner occupants. Despite that good news, when we arrive onsite, often entire blocks have signs in the yards indicating that the vast majority of the neighborhood is for sale. In worse areas, houses are boarded up, grass higher than last lists—realtor signs displaced by signs of reality.

The average vacant home deteriorates at a rate of 2-3% a month, even if no one has ripped out the plumbing, kicked in the doors, or stolen all the appliances and whatever else they could find. What's the program for that? It's called a free market, with competitive bidders and quick disposition. When encouraged, versus incented, left alone versus managed, traders trade, buyers buy. In the midst of this nation's worst blizzards, we continued to experience record-breaking crowds, individuals, and small investors bidding and buying

alongside one another in two feet of snow.
People have money and they are buying. But, whether it's due to the process or the plan, all of nation's programs combined simply aren't selling assets across America as quickly as they need to be sold. (Sixteen thousand boarded-up homes in Baltimore's inner city attest to the need for speed.)

Investors, those with capital in the billions, could immediately purchase thousands of homes that sit vacant and unearning, blighting neighborhoods and providing no tax dollars to the municipalities they haunt. To weed out "vulture investors," (those buying homes merely to flip them to other investors,) the government could require proof of the investor's ability to effectively market and sell the majority of homes to owner occupants within a thirty- to sixty-day window along with a thorough plan for orderly disposition. Through partnerships, investors could leverage analytic capabilities and marketing expertise, selling strategically, mindful of DMA absorption rates, ending neighborhood blight and affording new home owners the opportunity to rebuild the American Dream. Investor dollars not only broaden the pipeline that delivers assets to owner occupants but can fund the target marketing to attract them. Currently, thousands of houses stay on the market for an average of 300 days…buyers unknown. How could an additional disposition strategy be more harmful than the deteriorating homes that are vacant across our land?

The purchase of these homes from the government by partner investors puts money immediately back into government coffers and could easily include splitting the subsequent sale proceeds with the government…money coming back to the American people.

So investor partners make bulk real estate purchases, provide instant capital to the government, embark on an immediate thirty-day marketing and disposition program to owner occupants, and share the proceeds from the subsequent time-definite sale with the government, which gets immediate relief from managing REO, preserving our neighborhoods and winding down this real-estate crisis. (Remind me again why we hate capitalists.)

The train has left the station: flying past BPOs, EMVs, loan-mods, next-stop write-downs, and short sales; arriving at jingle mail, strategic foreclosures, and now, please stay seated and hold on tight, because we're approaching the end of the line. The government is running out of money…everybody off the train. Government should not be expected to invest forever in programs that manage what we should be doing freely for ourselves. At the very least, we should allow the investor program to operate alongside all the other programs—working parallel paths.

Individual owner occupants and small investors can't, by themselves, absorb and disseminate this enormous inventory problem. Large investors can help through rapid, intelligent disposition strategies that will put money back into government coffers and help take the US government out of the housing-management business. The faster we put these homes into the hands of new stewards, the quicker our nation becomes healthy and productive again.

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