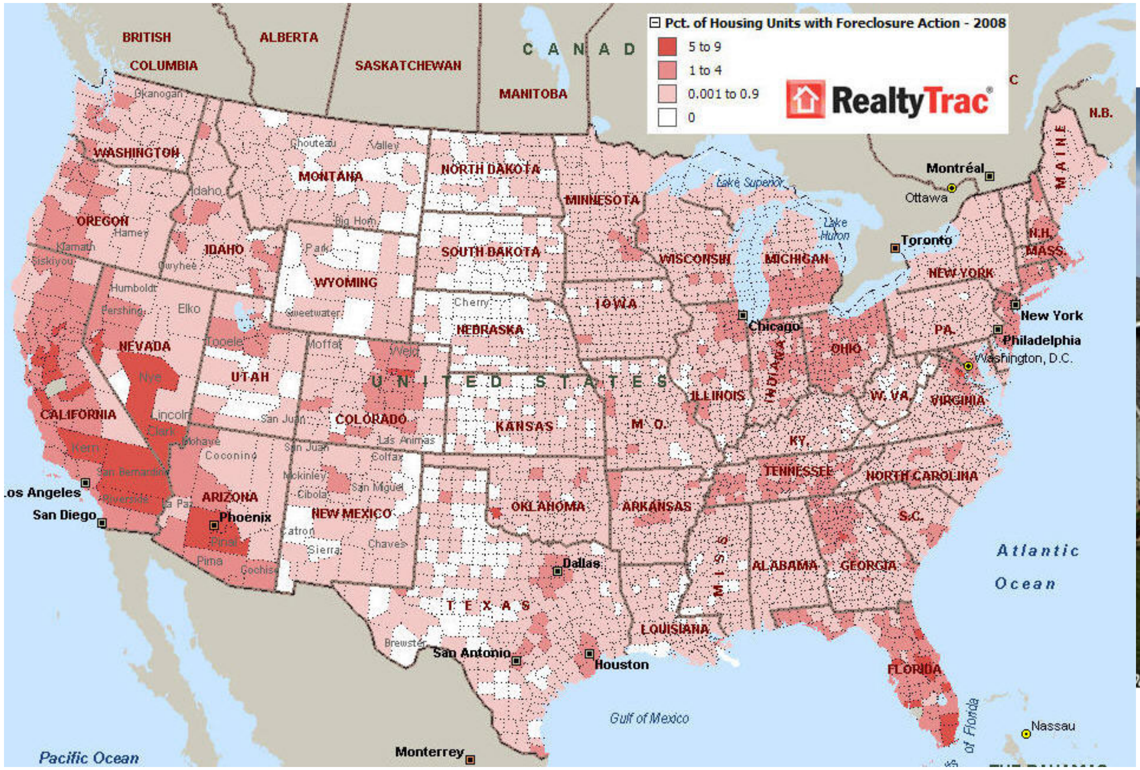
Mortgage Resolution
PARTNERS



Saving Homes, Saving Cities
Solving the Mortgage Crisis Locally

Scope of the Problem

The Big Picture

- 12 million underwater homes in the United States
- 9 million future foreclosures
- Underwater borrowers spend dramatically less on home maintenance and in the local economy
- Underwater borrowers often do not pay local property taxes in order to conserve limited financial resources
- A single vacant foreclosure can substantially reduce the value of neighboring properties and increase violent crime and destructive vandalism
- Foreclosure sales ratchet down Proposition 13 cap and reduce property taxes for the indefinite future
- Moody's is reviewing the credit ratings for California cities because of their "boom-bust real estate economy" and the "housing market collapse"

Scope of the Problem

Case Study: City of San Bernardino*

- In the first decade of the 21st Century, mortgage originations grew 155%, with one of the highest percentages of low credit quality borrowers
- Home prices rose 80%
- Household debt to income ratio rose from 2.0 to 3.5
- Housing prices then fell almost 60%
- Auto sales fell 50%
- Unemployment soared higher than national average
- Default rate on household debt rose to 33%
- City bankrupted

*Clarification. Although the City of San Bernardino is the county seat, the city is not a member of the joint powers authority often discussed in the media in relation to MRP's program.

Source: "Seizures May Be Cities' Last Hope in Mortgage Crisis," http://www.bloomberg.com/news/2012-07-18/seizures-may-be-cities-last-hope-in-mortgage-crisis.html

Scope of Problem

Private Label Securitizations: A Unique Problem

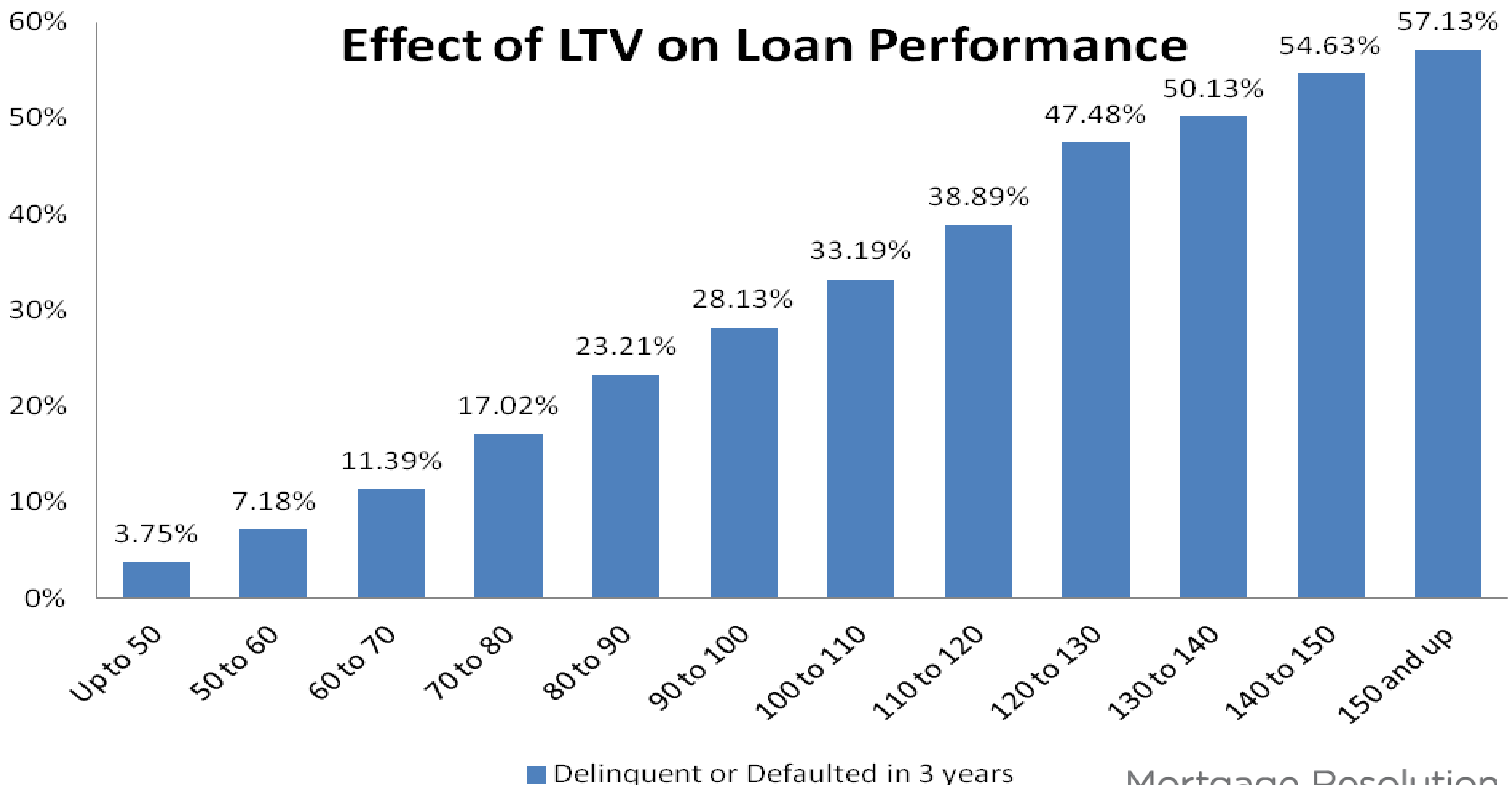
- Reducing principal is critical to preventing default and protecting communities
- But millions of loans are held in private securitization trusts (not backed by Freddie Mac or Fannie Mae) whose trust agreements strictly limit loan modification
- These trust agreements are frequently called “Frankenstein contracts” and “social suicide pacts” which forbid modifying current loans, even if future default is highly likely
- Typical loan in private securitization trust is highly likely to default (40-70% default likelihood)
- Cities did not sign the suicide pacts and cannot afford to wait for these loans to default and cause additional harm to their communities

Total vs. PLS Mortgages in Alameda County

County, City	Total Loans	Negative Equity Loans	% Negative Equity Loans		Total PLS Loans	PLS Negative Equity Loans	Negative Equity Loans
ALAMEDA County	**291,786**	**71,613**	**25%**		**35,631**	**27,233**	**76%**
ALAMEDA	13,633	1,291	9%		1,531	953	62%
ALBANY	3,899	317	8%		319	195	61%
BERKELEY	19,181	1,623	8%		1,796	953	53%
CASTRO VALLEY	13,537	2,361	17%		1,567	1,193	76%
DUBLIN	10,473	3,057	29%		1,670	1,358	81%
EMERYVILLE	5,974	2,282	38%		796	688	86%
FREMONT	44,519	7,047	16%		4,390	3,032	69%
HAYWARD	27,955	11,291	40%		4,066	3,639	89%
LIVERMORE	21,022	5,886	28%		3,106	2,540	82%
NEWARK	9,264	2,730	29%		1,232	1,039	84%
OAKLAND	66,007	20,434	31%		8,175	6,289	77%
PLEASANTON	17,909	2,020	11%		2,123	1,198	56%
SAN LEANDRO	18,604	5,395	29%		2,227	1,893	85%
SAN LORENZO	5,945	1,871	31%		724	646	89%
SUNOL	210	50	24%		29	20	69%
UNION CITY	13,653	3,958	29%		1,880	1,597	85%
Total	**291,786**	**71,613**	**25%**		**35,631**	**27,233**	**76%**

The Higher the LTV, the Greater the Likelihood of Default

Problem: Mortgage loans financed through non-agency securitizations (PLS) with perfect pay history for at least the last 12 months default or become delinquent with increasing frequency as the loan-to-value (LTV) ratio rises.



Mortgage Resolution PARTNERS

The Goal
to keep as many families in their homes as possible

Our Solution

So what's our approach?

- **A Public-Private Partnership:** Solutions to date have not involved local communities
- **Address Cause, Not Effects:** Governmental entities (JPA) acquires PLS underwater mortgages by eminent domain; reduce principal and keep homeowners in their homes
- **Important:** Acquire the **loan** (mortgage note); not the home
- **Focus**: Private Label Securities (not Freddie or Fannie backed loans)

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Our Solution

How it Works

1. JPA defines and controls program; MRP helps identify the underwater mortgages
2. MRP secures or supervises private financing, borrower education, and legal expertise to support the local authority
3. Communities acquire identified mortgages through eminent domain
4. Homeowner is refinanced into a new loan with equity
5. MRP earns a fair, flat, and transparent per-loan fee for its services

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Our Solution

Working Through JPAs

Why a Joint Powers Authority?

- Allows several communities to join together to take a region-wide approach
- Allows economies of scale for cities and counties (transaction costs, planning, and attorneys fees)
- Quickest way to help stabilize the market is to have a region-wide impact

Help for Homeowners

The Homeowner's Perspective

	When home was financed	After 50% decline in home value	After home is refinanced
Home value	$400,000	$200,000	$200,000
Mortgage balance	($320,000)	($300,000)	($190,000)
Home equity	$80,000	**($100,000)**	**$10,000**
Loan-to-value ratio	80%	150%	95%
Monthly mortgage payment	$ 1,798	$1,798	$ 907

This example is for illustration purposes only. This example assumes a 6%, 30-year, fully amortizing mortgage is refinanced by a 4%, 30-year, fully amortizing mortgage. Some FHA loan programs may also require insurance, which may add $175 per month in this example.

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More Details

- Originate new fully documented loans at 95% of home’s value with FHA guarantee or private mortgage insurance
- Private enterprise provides funding, new loan origination, and new loan underwriting
- Private enterprise takes risk that some borrowers may not qualify for new loans
- Investment in purchasing, originating, and underwriting generates sufficient proceeds to cover capital and administrative costs

Fair Market Value

Q. What is the value of a $300,000 mortgage loan when:

- the loan has a 40% to 70% chance of defaulting?
- loss upon default is 59% to 65%?
- is only secured by a $200,000 property?

A. Bank of America's pricing for San Bernardino County loans:

- Option ARM: 76% to 85% of *current* home value
- Subprime: 77% to 88%
- Alt A: 83% to 93%

Thus, for a house worth $200,000, the fair value of the loan is between $152,000 and $170,000, even though the loan principal is $300,000.

Sources: Default probabilities and loss given default from Fannie Mae 2011 Form 10-K, page F-60.
Bank of America pricing: Bank of America, "Securitization Weekly" (July 20, 2012) p. 8.

Our Solution: A Timeline

Event	Homeowner	Community/JPA	MRP
Consideration		• Defines program • Explores JPA formation	• Contacts funding sources • Identifies initial loan • Plans transaction
Pre-Qualification		• Forms JPA • Facilitates selection process • Develops contract • Selects loans • Oversees outreach	• Forms contracts • Sets up call center; outreach • Funds legal counsel • Pre-screens loans
Acquisition	• Receives Notice of Participation • Continues loan payments	• Files eminent domain action • Takes possession of mortgage loans	• Deposit of investor funds • Fully supports legal action • Retains interim loan servicer
Resolution	• Refinances within 120 days	• Contacts homeowner for refinancing • Interim servicer distributes loan proceeds	• Secures new lenders • Provides progress reports to JPA • Manages non-qualifying loans
RESULT	✔ **New Loan Positive Equity**	✔ **Restored Equity in Community**	✔ **Investors get return and pay MRP a flat fee**

Our Solution

Considerations for Community-JPA

- ***No Residual Obligation***: All loans are resolved within a specified period (e.g., 120 days)
- ***Transaction Reserve***: Excess used for charitable housing purposes consistent with public purposes of action
- ***Indirect Costs***: MRP and investors cover direct costs of transaction; but indirect costs (*e.g.*, JPA staffing) is a cost for communities

Is it Legal?

- The Courts have upheld the use of eminent domain to acquire tangible real property, as well as intangible property. *City of Oakland v. Oakland Raiders,* 32 Cal.3d 60, 68 (1982).

- The local Joint Powers Authority, utilizing the power of eminent domain, must show that the acquisition of underwater mortgages is in the public interest (restoring community housing stock, community economic stabilization, reduced crime, etc.) and must pay fair market value for the acquired mortgages, according to Federal and State constitutional law and statutory mandates.

A Local Solution

Local Governments had the Authority all Along

- Local governments use eminent domain to retake control over welfare of their neighborhoods and their fiscal solvency
- The action unifies ownership and control of the loan and pays fair market value
- Current sales of whole loans provide strong evidence of value, consistent with Bank of America's published pricing
- **No taxpayer funds are used**
- No state or federal legislation is required

A California Solution

The Right Place to Start

- California has one of the highest percentages and the highest dollar amount of at-risk loans
- California legal precedent supports the Program
- MRP 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

Why the Time is Right

The Impact on Our Communities

- Loans with high LTV ratios default at alarming rates
- Defaults are associated with cessation of property tax payments and other charges and fees. This stresses local budgets and financing
- Defaults result in neighborhood blight, abandonment, unkempt property and transience, exacerbating already compromised housing economics
- Municipal, county, and state governments and agencies have a public interest in halting defaults and consequent neighborhood deterioration

Positive Economics

Restoring Equity; Restoring Community

- Increased disposable household income from lower principal payments
- Benefits to neighbors: increased property values; retain higher homeownership rates; reduced crime related to vacant properties
- One-time benefits from local refinancing services
- Healthy Housing Market: Higher percentage of “above water” mortgages encourages building and home sales (new and existing stocks)
- Promotes job growth and reduces unemployment

Positive Economics

FHA Economic Impact Study on Principal Reduction Program

(Note: Not a study of MRP Program, but of FHA principal reduction program)

- Homeowners benefit from such a program (obvious)
- The costs to lender of reducing principal is less than the cost of foreclosure; thus they realize a net benefit
- Lenders receive the fair market value of their loans
- The community realizes a net benefit (collective property value, tax payments, etc.). Total net benefit: $23,000 per loan

Source: OMB, Economic Impact Analysis of the FHA Refinance Program for Borrowers in Negative Equity Positions, http://portal.hud.gov/hudportal/documents/huddoc?id=ia-refinancenegativeequity.pdf

Long-Term Property Tax Revenues

Assume: Purchased: $400,000; Current Value: $200,000; Estimated Foreclosure Price: $180,000

- **Short sales and foreclosure sales have a lasting drag on property tax revenues.** The tax assessment cap is reset at the sale price and under Proposition 13 may only increase by a small amount each year.
- **But if the same homeowner refinances.** The assessment can float back to the original purchase price as markets recover.

About Mortgage Resolution Partners

- MRP is a community advisory firm. We work with local governments throughout California and the nation to fix the underwater mortgage crisis locally, without waiting for help from Washington. Our common goal – to reduce the devastating health, safety, and welfare costs of underwater mortgages, which include increased crime and blight and reduced economic activity, real estate values, and property taxes.
- We work with mayors, city council members, and county executives to acquire and resolve underwater loans with the goal of keeping American families in their homes. We help them combine the best of private enterprise and public action to purchase home loans at fair value and refinance them with lower, sustainable principal balances. Experts agree that principal reduction is the most effective way to break the mortgage logjam that evicts families, decimates communities, paralyzes our banking system, and holds back our economic recovery.

See: www.mortgageresolution.com