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#### Excerpted from CFHomes proposal to Living Cities 5.1.08

##### The CFHomes REO acquisition, rehab & sale process

CFHomes will leverage its product to access inventories of REO properties that would otherwise destabilize DC neighborhoods and erode the value of surrounding, owner-occupied property if left vacant or sold to investors.

CFHomes will acquire REO property at early stages of foreclosure, provide for necessary rehabilitation, and sell the refurbished homes to eligible low- and moderate-income home buyers in a shared-equity transaction. These buyers will utilize the branded CFHomes second mortgage product together with a partner first mortgage product from DCHFA or NHSA. CFHomes will recycle these stranded asset properties and in the process mitigate the all too familiar effect of foreclosed properties on neighborhoods and individual buyers. Each individual property that is redeemed with this approach will add to the stock of permanently affordable homes in the district and help the District and CFHomes to reach the portfolio goal of 1,000 homes in 36 months.

Several major industry players have expressed an interest in working with CFHomes on the disposition of REO property. Among the opportunities:

- Fannie Mae is collaborating with CFHomes to identify properties available for structured purchase through their National Disposition Center (REO) located in Dallas, TX. Fannie Mae's DC Initiatives division of its Office of Community and Charitable Giving will allow CFHomes the opportunity of reviewing its REO holdings in Washington and to submit a "preferred" bid for properties identified by CFHomes. As of April 17, 2008, Fannie Mae owns 16 properties in the District ranging in price from \$153,900 to \$454,900 with 12 of these priced below \$300,000
- Wachovia has expressed a desire to partner with CFhomes in addressing the foreclosure crisis in the District. Wachovia is part of a network of banks that owns 42 properties in the District with 29 of these priced below \$350,000.
- J.P. Morgan Chase is currently reviewing CFHomes' request to become a qualified nonprofit purchaser of their foreclosed properties. This status will allow CFHomes to acquire homes at discounted prices and will also help to streamline the purchase process. As of April 14<sup>th</sup>, Chase has 10 properties on their active REO list throughout Washington, DC ranging in price from \$204,900-\$565,000 with 7 of these priced below \$350,000.
- Countrywide's manager of REO sales expressed an interest in selling properties to CFHomes and forming a partnership. Countrywide's current inventory in the District is 18 homes.
- Wells Fargo is developing a relationship with Massachusetts to provide the state with first notification of all Wells Fargo REO properties in the state. They indicated interest in a similar relationship with CFHomes on all DC REO

properties. Wells Fargo's current inventory in the District is 32 homes.

- Mortgage insurer MGIC's manager of REO acquisition and disposition expressed an interest in selling properties to CFHomes and exploring a partnership with CFHomes' second mortgage product. They currently have a small DC inventory (2 properties) but expect significant growth.
- Freddie Mac expressed interest and willingness to work together and provide CFHomes favored status as a local nonprofit. Freddie's current inventory is small (2 homes) but expected to grow.
- HUD currently has 2 properties available for sale in the District and CFHomes will pursue purchase of homes held by HUD on a case by case basis, and will explore the possibility of entering into an Asset Control Agreement with HUD.

All managers at the institutions listed above expect their REO inventories to grow. CFHomes will build on the described relationships and develop relationships with other major holders of REO property. CFHomes has also developed a network of partnerships with existing DC rehab organizations and realtors to launch this innovative program.

CFHomes has secured relationships with G3 Advisors (general contractors and construction managers) and Carter-Highsmith Realty (realtors) two local, small, disadvantaged, business enterprises (LSDBE) with acute knowledge and experience in the District neighborhoods. G3 Advisors<sup>1</sup> provides a full menu of construction services including pre-construction services, project estimating, sub-contractor selection, construction management, tenant improvements, and renovations. Carter-Highsmith Realty (CHR)<sup>2</sup> brings over 35 years of residential sales experience in the District with a focus on minority, first-time home buyers. The principal broker at CHR is a licensed attorney and serves on the GCAAR Board of Directors (the largest trade organization for realtors in the region) and chairs its public policy committee. His broad experience and policy acumen will provide CFHomes' permanent affordability product the effective marketing necessary to quickly attract buyers.

CFHomes will focus with partners on specific at-risk neighborhoods with concentrated REO properties. Implementing this strategy can help transform neighborhood blight into enduring, affordable homeownership opportunities and prevent concentrated foreclosed properties from driving down values and accelerating neighborhood decline. All properties considered through the REO purchase program will be evaluated for quality and inclusion in CFHomes's larger portfolio, and CFH will always reserve the right to pass on purchase of individual properties.

The following seven step outline the particular systems and protocols which CFHomes will employ to identify, evaluate, purchase, rehab, market, manage and support post purchase, the acquisition of 60 REO homes over a 12 month period.

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<sup>1</sup> [www.G3Advisors.com](http://www.G3Advisors.com)

<sup>2</sup> [www.CarterHighRealty.com](http://www.CarterHighRealty.com)

## **1) Identify target properties**

CFHomes will work with the DC Mayor's office and the Office of the Recorder of Deeds and all practical means to identify properties suitable for possible purchase. During this initial triage, CFHomes will group properties by key indicators such as unit type, lender, location, lien balance, and date home will be released from redemption period, among other characteristics. In particular CFHomes will favor homes that are multi-bedroom and otherwise or well suited for families, offer sound value for end buyers will require minimum rehabilitation to be put back in service. CFHomes will use this screening matrix to select the best candidates for the more in-depth and more costly onsite unit value analysis described below.

CFHomes anticipates that for every property ultimately purchased, it will review 6 homes at a cost of \$100 per home for initial assessment, or \$36,000 to review 360 properties with half of those selected for closer scrutiny. Bulk sale agreements will be negotiated carefully to maximize value while limiting exposure to CFHomes as "purchaser of last resort." Any bulk sale agreements will be structured such that CFHomes will reserve the right of refusal, and to ensure that programmatic goals are supported.

## **2) Perform value analysis**

CFHomes will retain a rehab-experienced partner to perform site visits and provide a detailed, full workup of rehab costs for approximately 180 homes identified from the initial evaluation process described above. Access to properties will be secured at the earliest possible date for the more detailed evaluation and to ensure a streamlined process. The cost for a detailed workup will average \$500 per home or \$90,000 for the 180 homes to be vetted.

A careful front-end analysis of individual properties is critical to assuring the long-term viability of a balanced portfolio of homes. Viewed through the lens of CFHomes, as steward of these homes for many generations to come, ensuring the permanent affordability for each successive family with little or no additional infusions of capital is a central objective of this process.

CFHomes will work with selected contract partners including the Argos Group, G3 Advisors, and Carter-Highsmith Realty to generate an accurate, timely and comprehensive scope of work plan for each home purchased. The project team of a qualified home inspector and market analyst will visit pre-screened homes, drawing from the working list, to estimate the market value of each property post rehab. All reports by 3<sup>rd</sup> parties will be generated within 5 working days to ensure that analysis does not bog down and that homes move quickly through pipeline.

Property value will be established within seven days of a home's initial listing. Homes needing larger rehab will be evaluated pending final proposals from individual contractors.

The value analysis will include soft costs, such as marketing, legal and carrying. Total rehab cost shall not exceed 15% of total portfolio value as measured by CFHomes contract sales prices to buyers. CFHomes acquisition offer will be set as a "not to

exceed" amount and will reflect detailed knowledge of the DC real estate market and close monitoring of market trends as well as general knowledge of building systems and experience managing residential construction.

For condominiums or properties subject to mandatory fees as part of a home owners association or similar structure, the relevant association budget will be reviewed and all pending or delinquent fees attributable to the subject property will receive extra scrutiny. Associations identified as having insufficient reserve funds or those with unreasonably high dues will not be considered for purchase.

A detailed value analysis and establishment of sale price to buyer will be done after pricing the proposed scope of work, and will be completed by Realtor partner under the terms of their broker agreement and in consultation with CFHomes Project Manager. For scope of rehab work estimated above \$5,000, the assessment will include detailed breakdown of cost by category.

### **3) Negotiation and acquisition**

CFHomes will work with partner realtors and utilize relationships with REO holders such as JP Morgan Chase, Fannie Mae, Wachovia, Citibank and others to negotiate optimal purchase prices of properties. This function will require approximately 10 hours per closed transaction. Total cost to CFHomes will be approximately \$1,000 per closed transaction, or \$60,000 in the first year. Negotiations will be conducted on individual properties, which will be acquired on a case-by-case basis, except where bulk purchase agreements are in place. Attorney time will be kept to a minimum as process will be repetitive and transactions will involve known partners with relationships strengthening over the course of multiple transactions.

After completing a thorough analysis of relevant factors, including cost, location, price point, and general marketability, CFHomes will make an offer to purchase homes that best meet criteria. In total, CFHomes anticipates making offers on 120 properties. In a dynamic market with keen competition for REO properties we will rely on building and maintaining strong relationships with sellers, yet expect to close no more than 50% of offers.

### **4) Construction/rehabilitation and portfolio management**

CFHomes will work with its selected core partner group of reliable contractors and will provide oversight, coordination between parties, quality control and payment schedules. Contractors will be expected to maintain a strict timeline, perform within fixed price contracts for all construction, complete all jobs in a timely and workmanlike fashion and will bring all change orders and issues pertaining to completion of contract to CFHomes immediately. Construction management will share cost savings to incentivize timely completion within budget. Improved homes will meet HUD Housing Quality Standards while also benefiting from a green centric approach in the selection of materials, waste disposal, energy efficiency and design choices.

Contractors will submit binding proposals for work as specified by Project Manager with input from value analysis team. Contractor will maintain schedule for completion

including a detailed description of scope including all permits, architectural and engineering as needed, draw schedule and required insurance.

Below is a list of specific management and oversight roles for CFHomes staff working with partner contractors:

- i) Track progress with regular reports and site visits or as needed.
- ii) Match all contractor payments only to work completed, enforce penalties for incomplete or unsatisfactory work.
- iii) Approve all change orders and substitutions
- iv) Certify final completion

Timing will be two to eight weeks per unit for rehab and 8 hours per home per week with an average of 40 hours per home for total construction management cost of about \$4,000 per closed transaction or \$240,000. All rehab and repairs will carry standard warranties with all work performed to CFHomes satisfaction prior to sale to CFHomes buyers. Any outstanding items at close of contract period will be escrowed at twice the estimated cost to complete.

CFHomes will constantly measure days-to-sale and will hold all parties accountable to established timelines. This will include construction management, and everything relating to homes prior to owner occupant purchase. Time spent on each property will vary, depending on the scope of work and at times factors outside CFHomes' control. Eight hours per week per owned property is budgeted for general oversight during carrying period. Typical tasks in this category include managing utilities, routine maintenance, insurance, taxes, access, security and of course construction management which will consume the bulk of this time. This does not include back-office functions of financing or general accounting. In addition, each home will require approximately 10 hours to secure necessary financing for acquisition, rehab and carrying.

Gap financing will be a critical component during the interim holding period and will play a significant factor in determining final sale price of homes when sellers will not enter into extended purchase and sale agreements. Assuming that at least 50% of acquisitions will convert within 120 days of contract, access to credit line of \$2.6m is expected. 5 homes per month total acquisition, avg. \$200k/ ea. Plus avg. \$30k/ ea. Rehab with 120day supply on hand:  $20 \times \$200k / 2 + 20 \times \$30k = \$2.6m$ . This credit line may decrease if profit on sales exceeds cost of program administration and will never exceed value of secured collateral.

## **5) Marketing**

CFHomes will partner with CHR Realty\* and others as needed to promote sale of all homes in a timely and professional manner. The relationship with realtor partners will be critical in helping CFHomes promote its branded product and as it strives for market penetration citywide. Effective marketing will employ traditional methods including Multiple Listing Service and a significant web-based presence. CFHomes will also maintain a strong pipeline of mortgage-ready buyers generated by the numerous housing counseling agencies.

Within 24 hours of securing purchase agreement with seller, subject property will be offered for sale using all available means to attract buyers. Two critical factors are setting the appropriate purchase price from lenders and timely sale of property once it is controlled by CFHomes. Marketing cost will not exceed 6% of contract sales price for CFH purchaser averaging \$18,000 per sale and will rely on contracted Realtor partners. Where realtor commissions are less than 6%, the difference will fund ancillary activities and support targeted outreach that will complement larger program efforts.

Realtor partners will be responsible for all details of buyer transactions and will assist with purchases from lenders where relevant. Realtor responsibilities will include all closing coordination details involving buyers and CFHomes and the relevant lenders, attorneys, title companies, city requirements, etc. CFHomes staff will work closely with CHR Realty, lender and counseling providers to create a smooth and integrated buying process for its customers.

CFHomes has met with all of the significant housing counseling providers in the District and is pleased to have their support for this demonstration pilot program. Housing Counseling Services, Manna Mortgage, Homefree USA and DCHFA have all pledged support for our foreclosure initiative as part of our larger program goals. Other agencies who will contribute to CFHomes' buyer pipeline include Marshall Heights CDC, Lydia's House, Latino Economic Develop Corporation, Greater Washington Urban League and University Legal Services. These partners will provide CFHomes' informational materials directly to their customers (as will participating lenders who have already been introduced to the program). CFHomes will also benefit from a statutory commitment by the DC government to promote the program among employees of the city and its instrumentalities. Marketing of REO units will be integrated into CFHomes' larger efforts to promote the sale of homes and will not emphasize the previous ownership status of foreclosed property.

One of the most sensitive components of managing a dynamic portfolio of purchased REO properties will be an exit strategy to mitigate exposure of unsold properties. CFHomes will set an absolute time limit for active marketing to restricted buyers. Holding time will largely be determined by carrying costs including bridge funds, taxes, utilities, insurance, security, and rehab expenses. For example, if the purchase and sale agreement with the seller stipulates that CFHomes will purchase within six months of assuming site control, their will be minimal cost of funds associated with acquisition and carrying which will allow more time to identify eligible buyers. Given the strong pipeline of homeowners CFHomes will create, there will be ample demand for product

Homes not under contract within 90 days of CFHomes purchase will be offered with larger 2<sup>nd</sup> mortgages, adding \$15,000 at 30 day intervals to enhance marketability to eligible buyers, with no more than \$30,000 added to any single property during a 60 day period. If after this 150 day period the home is still unsold, it will be offered to all mortgage ready buyers, regardless of eligibility on first-come, first-served basis. Any purchaser using the CFHomes second mortgage financing will purchase with all restrictions and receive all funds available. If a buyer opts out of the second mortgage offer for a unit that has been sitting on the market for 150 days, the home will be sold

without deed restriction and without any second mortgage financing in a fee simple, as-is transaction.

#### **6) Managing partner relations**

CFHomes will work with its contractor, realtor, City of DC , counseling agencies and project management partners to coordinate all information and individual roles so that it may ensure consistent and timely delivery of information to potential buyers.

Construction management, maintaining a buyer pipeline, negotiating purchases, program marketing and outreach, reporting to funding partners, tracking market trends, and working with CFO to manage credit lines are the larger topics that will define the role of Project Manager.

First and foremost, the Project Manager will focus on the relationship with sellers, and the value analysis. Acquisition cost will determine overall success. This will include managing construction contractors, home buyer educators, realtors, first mortgage providers, bridge financing providers, title companies, city of DC, home inspection firms, real estate appraisers, real estate attorneys, title companies, and others to achieve optimum spread between total acquisition cost and market rate sale price. The important task of managing production flow to ensure smooth and efficient transactions through proactive coordination of all parties will result in the shortest possible time from purchase to resale.

#### **7) Stewardship**

CFHomes will act as steward of REO acquired properties, just as for its overall land trust portfolio. Ongoing stewardship is the defining feature of the CFHomes pilot program of 1,000 permanently affordable homes in the District of Columbia. Stewardship will require approximately four hours per customer for prepurchase readiness and another four hours per home per year of staff time in general support. This might include a regular newsletter, review of property tax assessments for deed restricted owners, assistance with questions about escrow accounts or potential sale of a CFH property, and a 1,000 other topics. This service will be offered for as long as that home remains in the portfolio to maintain the ongoing affordability for owners current and future.

The first and most important stewardship function will be buyer education and preparation. This will fall largely on our partners as they bring organizational expertise to the essential role of creating and maintaining a pipeline of mortgage ready buyers. As noted above this counseling function will be served by multiple partners or and there will be overlap with general program operation as buyers are queued up for CFHomes purchase.

After sale to a new buyer, CFHomes will ensure that owners are well served during their tenure of ownership with access to referral lists for home repairs, help with refinancing or home equity lines, ongoing budget counseling or maintenance training and, finally, step-by-step guidance through the process of selling their home.

An important component of the stewardship role will be supporting buyers and owners of CFHomes properties as members of condominium or homeowner associations. Initial orientation and detailed follow up information will be provided to buyers. Whenever

possible, CFHomes will rely on existing partners to supply counseling services and relevant information. CFHomes will manage all issues relating to resale and refinance or home equity lines.

The following chart summarizes costs related to the REO transaction as outlined above - costs that should be passed through to the ultimate purchasers of the homes:

<b>Estimated REO Transaction Costs</b>	
ACTIVITY	COST
Identify Properties - 360 reviewed	\$ 36,000
Value Analysis of Properties - 180 completed	90,000
Negotiate & Acquire Properties - 120 offers, 60 accepted	60,000
Construction Management - 60 properties	240,000
Marketing / Realtor fees	1,080,000
CFH closing costs- 60 x \$300k/ ea @ 1.5%	270,000
Acquisition/Rehab Line of Credit, \$2.6mm @ 7%	182,000
Property Maintenance Costs	72,000
Builder's Risk Insurance	24,000
Ongoing Stewardship of Home, w/ Owners	36,000
Total Costs	\$ 2,090,000
Total Per Unit Costs	34,833