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# HW focus

DEFAULT SERVICING

# National rental program

Each lease, tenant, property is unique



By C. Alan Paylor

Much is being said in and around Washington these days about a national rental program, particularly involving REO, vacant and distressed properties.

However, in the eyes of asset managers within loan servicing shops, such property management is a complex and daunting task that must be micro-managed, property by property.

From liability shifts in insurance, the burden of tax and insurance, a 24-hour call center, handling emergencies — as well as handling the trivial broken window requested by a tenant — the challenges are many.

I cannot emphasize enough how much each property is unique to the location, tenant, lease requirements and cash flow management. Servicing a loan requires a fundamental redirection in management, legal, regulatory and market-ing philosophy.

Will the administration support a national rental program? The rhetoric is picking up, but you can look back to the Right to Rent Act of 2010, a House bill that would have allowed homeowners of moderate-value properties subject to mortgage foreclosure proceedings to remain in their homes as renters. The bill didn't pass.

Now the Federal Housing Finance issues a press release accompanied by an RFI that suggests a rental option exists within the federal plan to revamp mortgage finance. The Wall Street Journal reported the Obama administration seeks investor input for how to turn thousands of foreclosed properties owned by government-backed entities into rental homes. The move is intended to put a floor under declining home prices by creating a way to deal with hundreds of thousands of potential foreclosures in coming years.

Federal Reserve Chairman Ben Bernanke alluded to the concept in congressional testimony, asking if there was a way to provide incentives for investors to convert homes into rentals.

The answer is yes, although there are many paths to take and two possible solutions. First, would be to address the inner-city, economically depressed neighborhoods. Secondly, address the bulk of the non-performing properties held in one loss mitigation situation after another together with stalled foreclosures or REO — the shadow inventory.

## USING SECTION 8 RESOURCES

I won't belabor the point but the Section 8 program has its roots in the Great Depression. In 1937, Congress passed

the Housing Act, which represented the beginning of federal housing assistance in the United States. It provided funds to develop high-quality public housing units for low-income tenants.

Local public housing authorities maintained and managed the units. Section 8 has the infrastructure to support moving people into homes subject to the habitability rules and regulations. Granted, it may need some tweaking; but for the most part, it'll bring a focus to the areas where local municipalities, business and people need it most.

To make this work, the administration needs to provide help with the rehabilitation cost. Clearly, most issues swirl around the property condition and habitability. Investors do not want to carry the load of rehabilitation.

If the federal government supplements the rehab cost, investors will be more prone to consider the rental market. They do not have to spend already depleted funds to rebuild. This is the missing component from the administration's plan.

The second path is directed at delinquencies exceeding any rational basis for still being on the books. REO and the shadow inventory in the eight hardest hit states represent homes with borrowers who have reduced earnings lacking the ability to support the taxes and insurance, as well as the loss of equity.

This would start providing opportunities for the existing owner to stay in the home as a tenant and provide ways to make bulk transactions (sale of fully leased properties) work effectively.

Create a national deed-for-lease initiative that could eventually lead into lease-to-own programs. The idea here would be borrowers could avoid foreclosure, stay in the home and keep alive the opportunity to someday return to homeownership.

As an example, at RMS we built REO Leasing Solutions as the tool within the asset management group simply to augment services to our clients on a national basis. Our newest clients are auction buyers who employ a buy/lease/hold strategy. What we have clearly learned, and I can't emphasize enough, is that each lease, tenant and property is unique in the single-family environment.

As an added take away, the local broker is key and an integral part in helping manage to the local requirements

When this strategy of renting property is supported at a national level, we'll see a turning point in several markets. However, I believe we all agree it's about jobs. Until that is fixed, the implementation of any plan will be precarious at best.

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