



Green River Capital

Strategies for Effective REO Disposition

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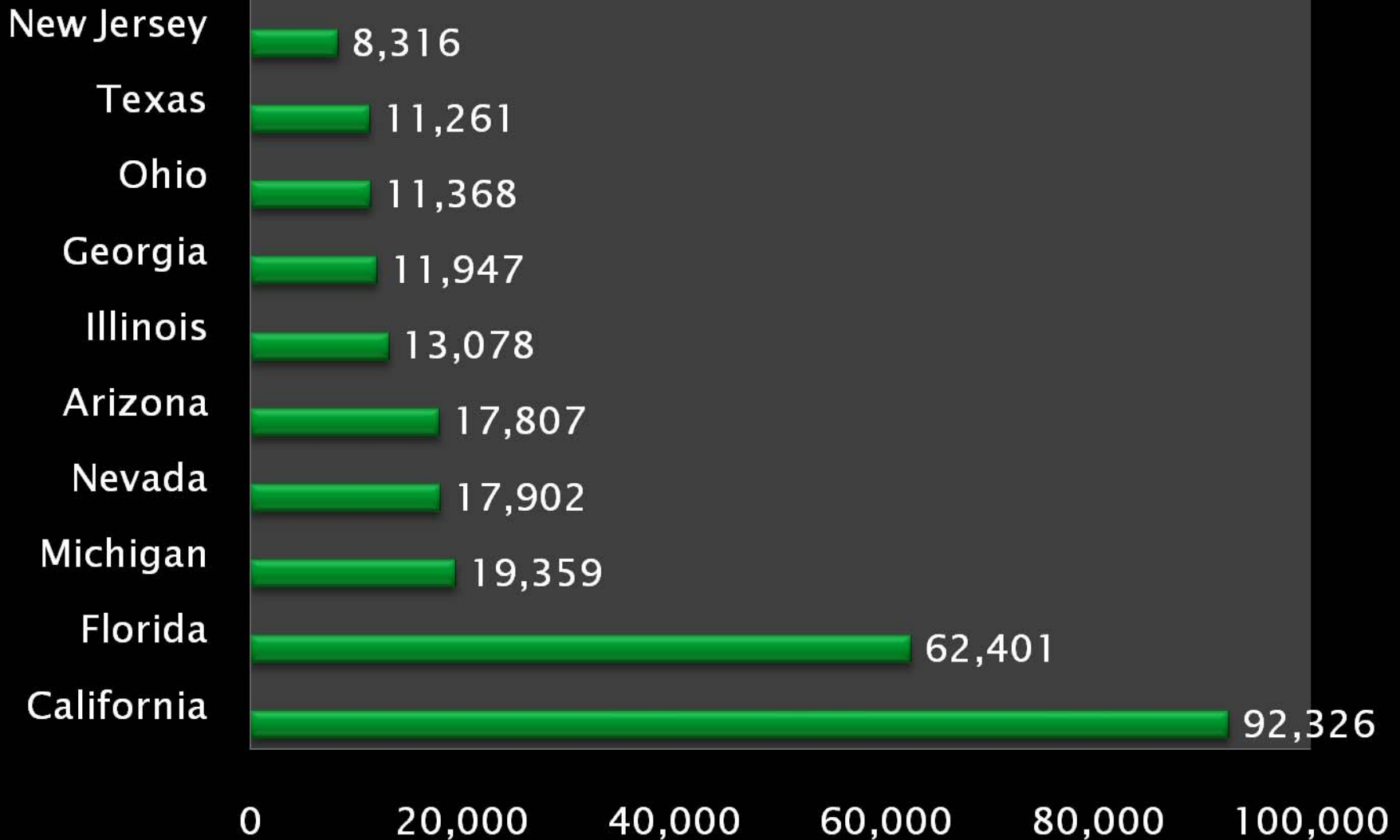
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Overview

As the housing market continues to decline and credit tightens, financial institutions are faced with an increasing number of Real Estate Owned (REO) properties on their books. What can these institutions do to reduce losses and increase gains on the sales of real estate assets?

Foreclosure Activity Counts – U.S.



Overview of areas of highest risk for future delinquencies and foreclosures in the US

California
Connecticut
Delaware
Florida
Hawaii
Illinois
Maryland
Nevada
New jersey
New York
Georgia
Rhode island
District of Columbia
Oregon
Idaho
South Carolina
Washington

Liquidation Strategies

- **Pre-foreclosure Strategies**
 - Short Sales – Heading the market, most activity.
 - Modifications – Many applicants; not so many qualifying.
 - Deed In Lieu's – Not so common any more. Debtors too smart.
- **Mechanically, how do you dispose of these assets**
 - Internal Management – Not very scalable, training in REO, systems and reporting, costly to P&L.
 - Outside Recourses/Outsourcing – Most are scalable, have propriety system for free, very experienced, paid on performance, full turn-key management system, cost is minimal, if not free.

Setting the Right Price

- **When to value the property**
 - Two Weeks Prior to Foreclosure:
 - Drive by or, if vacant, and interior.
 - At the Time of Possession as an REO:
 - Two BPOs or one BPO and an appraisal.
 - BPOs work better than appraisal – faster more accurate.
- **Forecasting methods**
 - The best method for forecasting is your agent information.
 - In-house analyst using supply and demand information for trending.
- **Price depreciation and risks by area**
 - This is very regional and changes by city and state.
 - Lean on your agent BPO verses the appraisal for this information.
 - Risk information should be relayed to you via the agent and appraiser.

Setting the Right Price *(continued)*

- **Appraisal**
 - Required for many, if not all banks.
 - Costly.
 - Not as accurate as BPO.
 - Increases timelines.
- **Price reduction strategies**
 - Every 30 days, if not sooner.
 - Analyze results of marketing (i.e., foot traffic, offers, agent feedback).
 - No set formula per asset. Do what is right for the area – know the market.
 - Depending on feedback, may increase repairs and may not affect price.

Other Strategies

- **Incentivize brokers and asset management companies to sell quickly**
 - Clearly define asset disposition goals (i.e., turn rates, DOMs, total days in inventory, aged inventory, sales price to list price and or BPO value, days under contract).
 - Make incentive aligned with goals. Better performers get paid more or more assets.
 - Cash For Keys – Have a good model, pay the agents who succeed. Biggest saving is here.
- **Finance REO purchase**
 - Generally this is not that effective for sellers to finance assets.
 - Buyer has already aligned with his lender.
 - Must have a very good sales team.
 - Saturation with big banks is less than 5%.
 - Can be effective on land and troubled assets.

Other Strategies *(Continued)*

- **Use Auction Company**
 - Bulk auctions can be effective if you have high volumes of assets.
 - Onsite auctions help for assets located in remote areas.
 - Online auctions are also a good form of generating offers.
 - Generally auctioned assets sell for 7 to 15% less than retail sales.
- **Bulk Sales**
 - Work on lower-valued assets.
 - Investors not paying near the values you get selling retail.
 - Good auction or asset management company can get you better returns.
- **Other**
 - Increase commissions.
 - Offer buyer incentives, but in today's credit market more lenders are frowning on this.
 - Always repair the house to FHA standards, if not too costly.

Retail REO vs. Auction Sales

- **Which assets do you auction?**
 - Aged over 75 days in today's environment.
 - Next year any and all assets will qualify to be auctioned, no matter the aging.
 - Nice assets bring better pricing than troubled assets.
 - No value or price level required.
- **Pros and Cons**
 - If priced right, retail sales deliver better execution than auction assets.
 - Auction does cost more (i.e., 6% plus buyer premium).
 - Good auction firm does not charge you anything if assets do not sell.
 - Coordinating an auction is at least one seller FTE dedicated to the process.

Retail REO vs. Auction Sales *(Continued)*

- **Values vs. Volumes**

- The supply and demand drives the values.
- Current market artificially performing based on moratoriums.
- Sales prices exceeding reconciled market values by as much as 15%.
- This trend will last another 60 days.
- Market change to take place in December and throughout 2010 and 2011.
- Prices will be declining 5-25% in many states during the transition to an oversupply of assets.

Foreclosure Status Distribution – U.S.

