

**Request for Information:
Enterprise/FHA REO Asset Disposition
August 10, 2011**

The Federal Housing Finance Agency (FHFA), in consultation with the U.S. Department of the Treasury and the U.S. Department of Housing and Urban Development, is issuing this Request for Information (RFI) to solicit ideas for sales, joint ventures, or other strategies to augment and enhance Real Estate-Owned (REO) asset disposition programs of Fannie Mae and Freddie Mac (the Enterprises) and the Federal Housing Administration (FHA). The agencies are exploring alternatives that will facilitate the current and future disposition of REO, improve loss recoveries compared to individual retail REO sales, help stabilize neighborhoods and local home values, and where feasible and appropriate, improve the supply of rental housing.

Comments are requested from all interested parties. Generally, the agencies expect comments to be one of two types. First, comments may be from a wide range of market participants, stakeholders, community groups and industry observers with specific suggestions for enhancing market outcomes in the process of disposing of REO properties, whether by an Enterprise, FHA, or both. Second, the agencies look forward to responses from market participants that have the technical and financial capability to engage in large-scale transactions with the Enterprises and/or FHA involving the disposition of REO.

A specific goal is to solicit ideas from market participants that would maximize the economic value that may arise from pooling the single-family REO properties in specified geographic areas. Under the management of a third-party, a joint venture or some other structure may respond to local economic and real estate conditions more effectively than individual sales. For instance, there may be certain metropolitan areas (or some narrower geographic designation) with a substantial number of REO properties and a strong rental market. In such locales economic value in REO disposition may be enhanced (and real estate markets begin to be stabilized) by turning a large number of REO properties into rental housing. The agencies specifically seek comment on how to structure a request for proposals that could involve Enterprise and/or FHA properties and the capital and management expertise of private parties to achieve outcomes that reduce taxpayer costs, stabilize neighborhoods, and respond appropriately to market demands.

After considering the responses to this RFI, one or both Enterprises and/or FHA may issue requests for proposals to implement one or more transactions or structures arising from the RFI responses. The Enterprises and FHA may engage jointly or separately in transactions with third-parties.

Objectives

Potential structures and strategies proposed in response to this RFI should achieve the following:

- reduce the REO portfolios of the Enterprises and FHA in a cost-effective manner;
- reduce average loan loss severities to the Enterprises and FHA relative to individual distressed property sales;
- address property repair and rehabilitation needs;
- respond to economic and real estate conditions in specific geographies;
- assist in neighborhood and home price stabilization efforts; and

- suggest analytic approaches to determine the appropriate disposition strategy for individual properties, whether sale, rental or, in certain instances, demolition.

FHFA, Treasury and HUD anticipate respondents may best address these objectives through REO to rental structures, but respondents are encouraged to propose strategies they believe best accomplish the RFI's objectives. Proposed strategies, transactions, and venture structures may also include:

- programs for previous homeowners to rent properties or for current renters to become owners (“lease-to-own”);
- strategies through which REO assets could be used to support markets with a strong demand for rental units and a substantial volume of REO;
- a mechanism for private owners of REO inventory to eventually participate in the transactions; and
- support for affordable housing.

Structure

FHFA, Treasury and HUD anticipate that joint ventures or similar structures may be most cost-effective, but respondents are encouraged to explain another sales strategy they believe best accomplishes the RFI's objectives, including outright sales.

Partnership structures should:

- involve investment of private capital;
- achieve alignment of financial interests and housing market stabilization objectives between the Enterprises, FHA, and private sector partners;
- entail sharing downside risk by private sector partners and offer the potential for upside opportunities and additional recoveries for the Enterprises and FHA;
- outline the structure for allocating ownership interests and distribution of returns; and
- assign to private partners most or all day to day management and operations, including
 - property maintenance and rehabilitation
 - rental property management
 - marketing for sale

Structures may also include contributions of assets from other REO holders, including from banks and private securitization trusts, to further support scale and geographic concentration.

Scope

FHFA, Treasury and HUD expect asset disposition activities proposed in response to this RFI will have the following characteristics:

- likely include both one-to-four unit single family homes and condominium REO properties (properties may be tenant-occupied or vacant at the time of disposition)
- range in size, but will likely involve REO assets totaling at least \$50 million in value and, in the case of joint ventures, up to \$1 billion
- potentially involve multiple transactions with multiple partners, and aggregation of properties to achieve economies of scale
- potentially consider a small number of metropolitan areas or more narrow geographic designations with substantial volume of REO and pending foreclosures.

Request for Information

Please include in your response the following information.

- A.) Respondent organization or team summary, including:
 - 1. name(s) or organization(s) and addresses;
 - 2. contact information;
 - 3. size(s) of organization(s) in terms of revenue and employees;
 - 4. years in business; and
 - 5. type(s) of entity(ties)

- B.) Approach (please address one item at a time.)
 - 1. recommendations for REO purchases, ranging from clear sale to joint venture or some other partnership structure;
 - 2. planned use of properties, with a focus on maximizing returns under strategies tailored to local economic and real estate conditions;
 - 3. conditions and usage restrictions that can best achieve the stated objectives;
 - 4. scale of proposed transactions and the ability to scale up over time;
 - 5. implementation steps and timeline, specifying the earliest feasible date for the first transaction settlement;
 - 6. extent that approaches should vary by local market or property characteristics; and
 - 7. steps taken to ensure that the properties are well maintained and managed during the period they are rented or otherwise held off the market.

- C.) Economics, Risk, and Financial Arrangements (please address one item at a time.)
 - 1. pricing methodology for purchased properties;
 - 2. financing requirements and structures;
 - 3. required Enterprise and/or FHA infrastructure and capital (with a preference to minimize such requirements);
 - 4. counterparty, credit, and other risks to an Enterprise and/or FHA, and approaches to minimize such risks and control the residual risks;
 - 5. tradeoffs between various structures and approaches, as well as mitigation strategies;
 - 6. use of proceeds from cash flows, operating profits and losses, gain or loss on property disposition and preferred returns/fees, and
 - 7. to the extent any joint venture partnerships are proposed, how financial interests are structured between the Enterprises/FHA and the private partners.

- D.) Describe the qualifications and experience that the Enterprises/FHA should consider in any potential partners for recommended approaches (please address one item at a time.)
 - 1. single family property valuation, operations, and asset management capabilities, including any experience in operating in any geographically targeted market(s);

2. analytic modeling and software capability to support and structure transactions, select appropriate geographic areas and properties, and assess rent vs. sell decisions;
3. property management experience and capabilities to maintain and support the sustainability of any acquired properties.

E.) To the extent applicable, discuss your organization's ability to execute any recommended approaches.

Deadline for response

Responses are requested by September 15. Responses must be in .pdf format, and submitted to REO.RFI@fhfa.gov.

The Enterprises and FHA may engage in transactions during the comment period as they continue to manage their respective REO portfolios.

IMPORTANT NOTES: This RFI is not a request for proposal, request for quotation, offer or an invitation for bid, nor does its issuance restrict the Government or an Enterprise on its eventual disposition activities. This is an RFI only, and all information received will be used for planning and market research purposes only. Information received will not be published. Your response may be releasable to the public under the Freedom of Information Act (FOIA), 5 U.S.C. § 552, and the FHFA FOIA regulation, 12 C.F.R. part 1202. If you wish (FHFA to consider any portion of your response exempt from disclosure under the FOIA, you should clearly mark that portion as “confidential commercial information.” The procedures for identifying “confidential commercial information” are set forth in the FHFA FOIA regulation at 12 C.F.R. § 1202.8, available on the FHFA web site, www.fhfa.gov. FHFA, at its discretion, may request individual respondents to meet with FHFA and possibly other Government and/or Enterprise personnel to elaborate on information in their written response. Respondents will not be notified of any results derived from a review of the information provided. This RFI should not be construed as a commitment by the Government or an Enterprise, and no Contracting Officer intends to award a contract on the basis of your responses. All information contained in the RFI is preliminary and is subject to modification and is in no way binding on the Government or an Enterprise. The Government will not pay for information received in response to this RFI. Responders to this RFI are solely responsible for all expenses associated with responding to this RFI.

Instructions

1. Respondent should include the following table at the top of its response, and check all that apply:

<u>Type of strategy</u> (check as many as appropriate)
Outright purchase
Joint-venture
Rent-and-hold
Lease-to-own
Other (specify)

<u>Type of Respondent</u> (check as many as appropriate)
Private capital
Real estate company
Rental property management
Asset management
Nonprofit
Other (specify)

2. The suggested page limit for this RFI is 20 pages in 12 point font, 1.5 line spacing. Respondent may also attach supplementary material.
3. Each section of the response must clearly identify the corresponding RFI item.
4. All pages must be numbered.