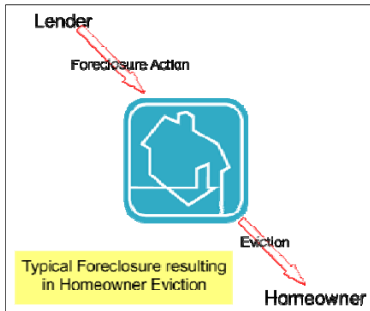


White Paper Saving Homes in Foreclosure Using “Short Sale-Leaseback” Process

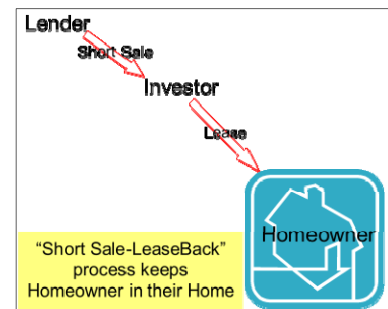
Not since the Great Depression has our country experienced a foreclosure rate as high as today’s, and it appears to continue climbing. With rare exception, the homeowner is forced from their home, typically seeking housing in rental units.



Having worked in residential, and now specializing in commercial real estate, I have developed a method which can allow some homeowners to remain in their homes.

If the homeowner has lost part of their income, or if the current mortgage terms have driven the monthly payments out of reach, this technique might help.

The goal will be to negotiate a short sale with the lender, which will result in a significantly reduced “balance” due on the house. This will ultimately translate into a drastically reduced monthly cost to the homeowner.

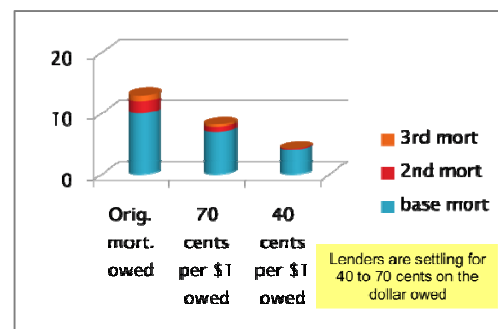


High Points:

- An investor (family member or private investor) submits a written purchase offer to buy the home, which is in default, at a significant discount off of what is currently owed on the property
- A short sale price is negotiated with the homeowner’s lender
- Simultaneous to the short sale negotiations, a rental agreement (the “lease”) and a “buy-back option” is negotiated between the investor and the homeowner
- The investor steps in and buys the home under the terms negotiated with the lender.
- The homeowner now becomes a tenant and remains in their home
- At some future date when the homeowner’s financial situation improves, they might exercise the buy-back option and once-again own their home. If not, the investor still owns a property which was purchased at a much more “realistic” market value and can either continue using it as a rental property, or could perhaps sell it for a reasonable profit.

The real estate term for when an owner sells and remains on as a tenant is known as a “Sale-Leaseback”, and is actually very common in the commercial real estate world - and totally legal. Major corporations use sale-leasebacks as part of their financial models. The twists here are with applying it to residential property, and adding the short sale.

Why can this process work for both the homeowner and the investor? After the short sale, the cost of the property will be significantly less than at present. A goal to aim for while negotiating with the lender will be 40% to 70% of the FIRST mortgage. (Plug in no more than \$2,000 to pay off any 2nd mortgage. Lenders are taking far less than 10 cents on the dollar for 2nd mortgages.)



Benefits:

- Homeowner is not forced out of their home
- The homeowner does not incur the costs, inconveniences or embarrassment of being forced out of their home
- A short sale is better for the homeowner's credit score than a foreclosure, and if done properly, will eliminate the possibility of a deficiency judgment, unlike a foreclosure
- The investor can realize a fair return on their investment
- Will be attractive to investors looking for "socially responsible" investments
- Affords the homeowner and the investor the same protections offered under tenant-landlord laws
- The new owner/landlord (the investor) has a very motivated tenant who will maintain the property
- Will appeal to real estate agents because they are allowed to make a commission on short sales
- Removes the underperforming liability from the books of the lender

How can the State of Ohio and the Federal Government help? I propose allowing a tax deduction or credit for the investor on what was an owner/occupied home. I also propose offering a cash incentive to aid the homeowner in ultimately buying their home back from the investor. This could perhaps be along the lines of the current "First-time Homebuyer Tax Credit". This could enable them to exercise their buy-back option sooner, and once again become a homeowner.

Note: care should be taken to ensure that neither the homeowner nor the investor is penalized should the homeowner need to move after the short sale-leaseback process has been performed. For instance, the homeowner wishes to relocate in order to take a better job, or they become unable to meet the terms of the lease.

To discuss further, feel free to contact me.



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