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Government Set to Sell Foreclosures in Bulk



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The Obama administration, in conjunction with federal regulators and led by the overseer of Fannie Mae and Freddie Mac, is very close to announcing a pilot program to sell government-owned foreclosures in bulk to investors as rentals, according to administration officials.

There currently are about a quarter of a million foreclosed properties on the books of Fannie Mae, Freddie Mac, and the Federal Housing Administration (FHA), and millions more are coming.

The foreclosure processing delays of last year created a mammoth backlog of properties yet to be processed, which are just now being re-started. One of the initiatives of this program is for the federal government to be in the position to mitigate and manage any new wave of foreclosures, sources say.

Late-stage delinquencies still in the pipeline number close to two million, according to a new report from [Lender Processing Services](#). Foreclosure starts outnumber foreclosure sales by two to one and "the trend toward fewer loans becoming delinquent, which dominated 2010 and the first quarter of 2011, appears to have halted," according to LPS.

Knowing this all too well, the Treasury Department, Federal Reserve, HUD, FDIC, Fannie Mae and Freddie Mac, with their conservator, the Federal Housing Finance Agency (FHFA) at the helm, are engaged in a collaborative effort to face this new wave of foreclosures head on and figure out a way to keep these properties from sitting on the books of the government and sitting empty in the nation's neighborhoods.

As the Federal Reserve alluded to in its [white paper on housing](#) last week, "A government-facilitated REO-to-rental program has the potential to help the housing market and improve loss recoveries on reo portfolios." REO's (Real Estate Owned) are bank-owned properties, or, in this case, properties owned by the government-sponsored enterprises and the FHA. Three Fed governors pushed for similar plans in speeches last week, as well.

A pilot sales program will be starting in the very near future, according to administration officials. They are working on what the market potential is, what pricing would be, how government can partner with private investors, and who has the operational experience to manage so many properties.

"I think there is a fair amount of money in the wings waiting to buy, investors doing cash raises to buy properties on a large scale," says Laurie Goodman of Amherst Securities. "But that means they have to build out a rental organization; it means they build out a management company, because if you're accumulating a hundred homes in Dallas that's very different than running a multifamily building."

A number of institutional investors have shown appetite and interest in bulk REO deals, according to officials, but the plan has to incorporate ways to help facilitate financing. That has been one of the biggest roadblocks to deals already in the works between hedge funds and the major banks. Sources close to these private bank negotiations say there is plenty of cash to buy properties, but building out a management structure for the rentals is pricey, and some investors are finding the math doesn't add up to make it worth their while.

Larger investors want to be able to get real scale in any government program, in the range of 50, 100, 500 properties per deal, or \$1 billion-plus in assets, say officials close to the plan. That's why the government is looking to test a combination

of different approaches. Fannie Mae did a \$50 million sale last June, but that was on the small side. Officials are evaluating at what larger asset sales beyond that would look like.

"We expect several pilots that will involve both local investors and institutional investors. The goal here is to reduce supply by converting foreclosed homes into rental units," says Jaret Seiberg of Guggenheim Securities. "Less supply - even less fear about a flood of foreclosed homes hitting the market - could stabilize [home] prices."

While much of this program will focus on local areas of distress, officials say they are looking at where the assets are today but are really more focused on where all the foreclosures will be in the future. It's not about the stock of foreclosures currently, it's about the flow of them over time and alternative ways to manage that flow.

Officials say they want to bring back private capital and help support rental opportunities for households, particularly when rent rates are up at the same time home prices are down.

Questions? Comments? RealtyCheck@cnbc.com And follow me on Twitter @Diana_Olick

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