Loan Value Group, LLC
Comment on Mortgage Resolution Partners' Proposal Seeking the use of Eminent Domain to Seize Mortgages

Mortgage Resolution Partners ("MRP") has recently highlighted a serious problem plaguing the US Housing Market: 5 years into the housing crisis, the mortgage industry overall has not done enough to help millions of performing underwater homeowners with negative equity. . However, the solution proposed by MRP – using eminent domain to force a sale of the mortgage at severely discounted prices vs. today's value – is the wrong approach. I won't spend a lot of time discussing the legality of this practice, or the legal precedent it would set. . Nor will I go into much detail about the long-term and potentially disastrous impact it will have on borrowing cost for more than a generation. Rather, I wish to make one observation, and one suggestion.

My **observation**: seizing the mortgage note held within an active securitization and writing that value down by 20% to 70% of face value (in EVERY case those notes are "written-down" to approximately 85% of the current property value) will cause severe, immediate, and unnecessary losses to the entities that hold those mortgage securities. In fact, those securities are likely held by pension funds, 401-K's and other financial accounts that our teachers, civil servants, elderly and small business owners rely on to feed their families, send their children to school, live a normal life and ultimately retire.

My **suggestion** has to do with a program created by Loan Value Group, LLC ("LVG") in 2009. I'm not intending for this to be an endorsement of a private sector solution, but rather a "heads-up" that a solution is already being implemented that currently addresses the core problem MRP is purporting to address – without the downside of invoking eminent domain or principal forgiveness. The Responsible Homeowner Reward® Program (www.RHReward.com) has already succeeded in lowering the risk of default on "currently paying", "underwater" homeowners – the precise group targeted by MRP and the County of San Bernardino. The differences between the two programs from an execution, legal and a cost standpoint are stark. Furthermore, the beneficiaries of these savings in time and cost are the homeowner, the investor in the <u>original</u> mortgage security, and the communities where these homes are located.

Here is how the program works: Eligible homeowners are selected by their risk owner (or owners) and are offered free, lifetime enrollment into the Responsible Homeowner Reward program, where they see their reward grow with each on-time mortgage payment, up to a pre-defined amount. The RH Reward is paid, in cash, upon **full payoff of the mortgage** (or any other mutually agreed upon milestone). The homeowner however, could potentially forfeit their entire RH Reward if they subsequently default on their loan (although "reward dollars" can be used help the consumer relocate, short sale, or subsequently modify if needed).

RH Reward is a standalone financial instrument which does not involve appending the original mortgage note, and does not impact the securitization or servicing agreements, allowing it to be used freely on loans held in both securitized and raw loan form. RH Reward is implemented entirely by an independent third party, which currently administers the program in all 50 states and on behalf of several large servicers, banks, private insurers, and investment funds. Any community or state that chooses to launch this program can do so without having to burden the servicers – who are already stretched beyond capacity. In controlled experiments since 2010, portfolios with homeowners enrolled in the RH Reward have experienced <u>30-50% lower default rates</u> vs. respective control groups. RH Reward was also named one of Time Magazine's Top 50 Innovations of 2010 (beating out the iPad). The Program is equal parts Behavioral Economics, Incentive Theory, and Consumer Marketing. It is a mortgage solution that doesn't affect the mortgage, but rather affects the *behavior* of the homeowner. The overall cost of the program (which is explained in more detail below), is a small fraction of the MRP proposal.

I will attempt to highlight the benefits of RH Reward over the MRP proposal from three important and relevant perspectives:

From the perspective of underwater homeowners, RH Reward is very positive. There is **no cost or downside** whatsoever for the consumer to enroll. The homeowner need only continue paying their mortgage (which most are doing already) to maintain program eligibility and ultimately earn their Reward. Because it does not change the original mortgage, no new paperwork is required. Homeowners can sign up in minutes online, via traditional mail, or over the phone. It is a legal and binding agreement which is very easy for homeowners to understand, as nearly all Americans are familiar with reward programs. Since 2010, the RH Reward has averaged nearly 97% enrollment rates with extremely high customer satisfaction across all programs. RH Reward is also fully compliant with all consumer protection rules and other applicable laws.

From the perspective of affected counties, the LVG proposal accomplishes their primary goal of helping their underwater homeowners through these extremely difficult economic times, and supporting home ownership for those consumers who wish to participate. LVG's operating track record of up to 50% lower default rates proves that the RH Reward program can alleviate the strain on underwater homeowners and reduce the blight of default and foreclosure, thereby putting hard-hit communities on a new path to recovery. Since 2010, RH Reward has been applied to thousands of securitized and un-securitized loans, without incident. It also offers far superior prospects of actually being implemented. The MRP plan relies heavily on the courts to process complex mortgage purchase transactions, one-by-one (not to mention actually having to seize the mortgage). It is far from clear if the courts in the affected counties are adequately staffed or prepared for such an operational burden, or how quickly these transactions can truly be executed. The history of other loss mitigation programs during this crisis – both public and private-sector driven – is not encouraging. Because LVG's RH Reward platform has had a successful track record of operation, and requires no court (or government) action, it will allow more homeowners to get help faster than the MRP plan. Additionally, the program can be rolled out quickly and in scale. The RH Reward programs can be structured, designed and launched in under 60 days, enabling counties to reach their most affected homeowners as quickly as possible. Finally, and perhaps most importantly, the RH Reward does not violate the sanctity of the original mortgage contract, thereby preserving future credit availability in the affected and surrounding counties. Several observers have pointed out that MRP's plan, if tested, will have the perverse effect of increasing the cost of mortgage credit all across America, which is not in anyone's long-term interest. By leaving the affected mortgages untouched, RH Reward completely avoids this problem.

From the perspective of the private label securities investor, MRP's plan requires the active participation of county governments, who must exercise their power of eminent domain. If the affected counties believe that the RH Reward program offers a superior solution to MRP's eminent domain plan, the RH Reward can be rolled out quickly and without violating the terms of the security that currently house these loans. This outcome would have many benefits for private label securities investors. First, it would be a much cheaper solution for these security investors than MRP's solution, which entails a forced seizure, and refinance at approximately 85% of the home's current fair market value, resulting in more than a 40 or 50 point loss for the current security holder on a typical loan which can average in many states, more than **$100,000** per loan. By contrast, LVG has achieved meaningful and prolonged reductions in default rates using a far smaller RH Reward of as little as 2 to 4 points – or roughly **$5,000.** Second, fees and administrative costs charged by LVG for full oversight of the RH Reward Program are 75% lower than those charged by MRP. Additionally, the RH Reward program maintains a relationship with the homeowner over the life of the loan – which can be more than 7 years. This "connection" to the consumer is the basis for the program in that maintaining contact with affected (or any) homeowner and keeping an open line of communication with the homeowner saves countless hours, weeks and months of dialogue between the servicer and homeowner during times of distress. Third, unlike the MRP plan, RH Reward does NOT trigger a first lien Trouble Debt Restructuring (TDR) or any losses among 2nd lien holders. The action of unilaterally modifying an underwater first lien loan (MRP's plan) would effectively wipe-out the second lien (if one exists). This action, if done in scale would have immense negative ramifications for the banks that hold those second liens on balance sheet. Again, the RH Reward structure calls for immediately modifying first lien payment behavior, without affecting the terms of the second lien. Fourth, thanks to the existence of a proven, outsourced, and scalable operating platform, the program can be put into action in a quick and realistic timeframe, with a high degree of certainty, and at very low cost, without the consent of securitization holders. Finally, from the security holder's standpoint, the RH Reward Program is profitable in its own right. The structure of the program within a security can allow for multiple providers (HHF, TARP, the servicer, the communities, etc...) but ALL of those dollars can be held back until the risk is ultimately eliminated (sale of home, full amortization, refinance, modification, etc....). RH Reward simply injects home equity back into the consumers personal balance sheet WITHOUT providing the option to use those funds until the mortgage is paid off.

By realigning the interests of the underwater homeowner with investors, lenders, servicers, and local municipalities in communities like San Bernardino County, the RH Reward program will enhance the value of existing securities, stabilize home values, increase certainty of payment, and lower default rates overall without re-writing contract law, invoking eminent domain, suffering a loss to the investor, or burdening the fragile infrastructure of the mortgage industry. What's critically important for the future growth of the mortgage industry is to maintain a high degree of integrity, and liquidity. The simple transfer of risk into the capital markets is the key to sustained growth, sound lending, and affordable housing for those who qualify.

There are a number of DC-based people familiar with the structure and performance of the RH Reward Program. LVG has made many presentations to the US Treasury, HUD, FHA, GNMA, SIFMA, and the GSE's. I can give you a complete list of those individuals, but some of the names are: Bob Ryan from HUD, Darius Kingsley from Treasury, and Richard Dorfman at SIFMA.

For more information, please feel free to reach out to me at (732) 741-7300, or Frank@LoanValueGroup.com.

Thank you,

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