From: Rob Arnold <robarnoldbroker@gmail.com>
Sent: Saturday, August 11, 2012 6:35 PM
To: Eminent Domain OGC
Subject: COMMENT: Eminent Domain - the San Bernardino proposal

My name is Rob Arnold. I am a real estate broker. I performed 1000's of broker appraisals referred to as BPOs (Broker Property Opinions) in Sacramento and California's Central Valley throughout the crash.

Could the benefits of eminent domain outweigh the risks?

To find out, let's start with these questions:
Where do local governments get a lot of their money? PROPERTY TAXES

What makes property taxes grow the most? RISING PRICES

Will eminent domain stimulate rising prices? NOT LIKELY

Why not?
A plan to reduce mortgage debt for those current with their payments could have unexpected consequences:

1) Honest people who are paying an underwater mortgage may be doing so because they can't sell while underwater. If you help them get above water, they may decide to sell. This will not raise prices and may lower them.

2) If a cycle of further lowering then begins, the buyers may not be as inclined to keep paying as the sellers were. This will not raise prices and may lower them.

3) I believe the risks outlined by bondholders and bankers are real. Most observers agree that the pendulum of easy credit has now swung too far to the other extreme. The lending industry is, if anything, less rational and less forward thinking than before the crash, only this time it's in the other direction. Any increase in borrowing difficulty may more than offset any stabilizing effect hoped for from eminent domain. This will not raise prices and may lower them.

4) Property insurers rate the cost to rebuild many properties in Sacramento at double to triple the prices buyers are paying. They are doing this using depressed labor rates and materials costs. What this says is that prices will rise over time. How long it takes is subject to factors which include well meaning but potentially ill-advised government policy which does not raise prices and may lower them. Resist policies that may seem popular but may punish the wrong guys, and yield no fruit.

5) As you know, many homes once owner-occupied are occupied by renters now. Without any help from the perhaps 10-15% of people looking or not looking for work, the other 85% include more renters than in the past. They are stepping up their home purchases as they perceive that the market has at least bottomed, good deals are less plentiful, their credit scores have begun to recover, and that it costs a lot less to own than to rent now.

Two years after finding a job that this gradual recovery will create, some of the 10-15% may assist in the housing market recovery also. At that point, people who have been paying their mortgage will begin to have their faith rewarded.

6) People still paying on an underwater mortgage may also be paying on an inflated tax bill. By

lowering their mortgage, counties may be inviting them to seek a lowering of their tax bill. Duh.

SUMMARY: Mortgages are mostly sold to bondholders who often have no connection to the bankers who originated the loans. I am in favor of harsher criminal prosecution of individual bankers where appropriate, but to attack the part of a bondholder's portfolio that is performing may topple bond prices, raise interest rates and invoke various forms of a backlash. The idea is thinkable only by someone who wants to change the whole lending system. In that case, I'd prefer to see how they would make it better, rather than potentially make it fatally worse for longer.

Examples of positive change:
1. Force lenders to lend on their own REO inventory for anyone with 30 or 40% down. Lenders would take in a giant security called cash, advance no money, and have one less property in inventory.
2. Eliminate the way bank of America (and others) forces buyers to qualify with them even if using another lender to buy a Bank of America REO property. (I bank with BofA and like them, by the way).
3. Force banks to lend to people with a 1099 income provided enough down payment is used, 30%-40%, whatever.
4. Stop worrying that investors may gain too many properties. When renters perceive a market recovery, they will start buying and there's plenty of inventory. We just need to get that point. So let's be neutral about who buys a property and get them sold.

Thank you.
Rob Arnold, Broker
Riverdale Realty
916-206-5888