	Type of Strategy
	Outright Purchase
	Joint-venture
	Rent-and-hold
	Lease-to-own
√	Other: Restructure or new financing with shared appreciation
√	Other: Outsource property management

	Type of Respondent
	Private Capital
	Real Estate Company
	Rental Property Management
	Asset Management
	Nonprofit
√	Other: Real Estate Data Firm

Respondent Organization Summary

Radar Logic Incorporated, 180 Varick Street, Suite 502, New York, NY 10014

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Radar Logic was founded in 2003 as a data and analytics company with the purpose of developing and providing “cash market equivalent” values for real estate assets for use in the development and execution of financial instruments by professional investors and real estate businesses. Our company has five full time employees and utilizes significant external, outsourced resources. Revenues have been less than $1 million per year. We are a stock corporation and are incorporated in Delaware. This submission was prepared by Michael Feder, President and CEO, and Quinn Eddins, Director of Research.

In March of 2010, we submitted for consideration a proposal to the Department of the Treasury. In that proposal we discussed the inventory issue that we believe to be the key element of the continuing housing crisis and proposed a strategy for relieving much of the inventory overhang. Our intent was to help the Administration alleviate the flood of foreclosures that were damaging the housing market, causing severe distress to borrowers and lenders alike and contributing to the continued weakness in our economy and thus to unemployment. The proposal was based on the theory that when an asset class has so significantly devalued in conjunction with extremely high capital leverage, the only real solution is to attract new equity into the asset and permit it to recover naturally. We proposed a restructuring of existing mortgages enabling the creation of what we call Equity Participation Certificates or "EPCs". These EPCs were designed to attract new investors and thus capital to the housing finance market while at the same time providing an opportunity for recovery of implied losses by both borrowers and lenders, which by this time included a substantial amount of exposure on the part of the Government Sponsored Enterprises ("Enterprises").

We understand our proposal was reviewed by a number of senior Treasury Department officials and may even have been shared with people at the Department of Housing and Urban Development. However, we received no material feedback and our proposal seemed to be lost. In March of this year we published a summarized version of that proposal on our website, www.radarlogic.com. Entitled *A New Strategy for Housing: A Simple Proposal to Help Fix the Housing Markets*, this document has received almost unanimous positive feedback from third parties. A copy of that summary is attached to this submission.

We believe now, as we did then, that any solution to the inventory overhang problem that calls for a sale of property under current market conditions will do more harm than good. Selling properties in bulk will, in our view, only exacerbate housing market distress. Further, we believe that the notion of forcing lenders to suffer uneconomic solutions not dictated by free markets is both unfair and dangerous to our financial system and economy as a whole. We urge our elected officials and the professionals who advise them to carefully consider our approach.

Recommended Approach: A Two-Pronged Strategy - Restructure Severely Delinquent Loans and Rent Enterprise REO Properties

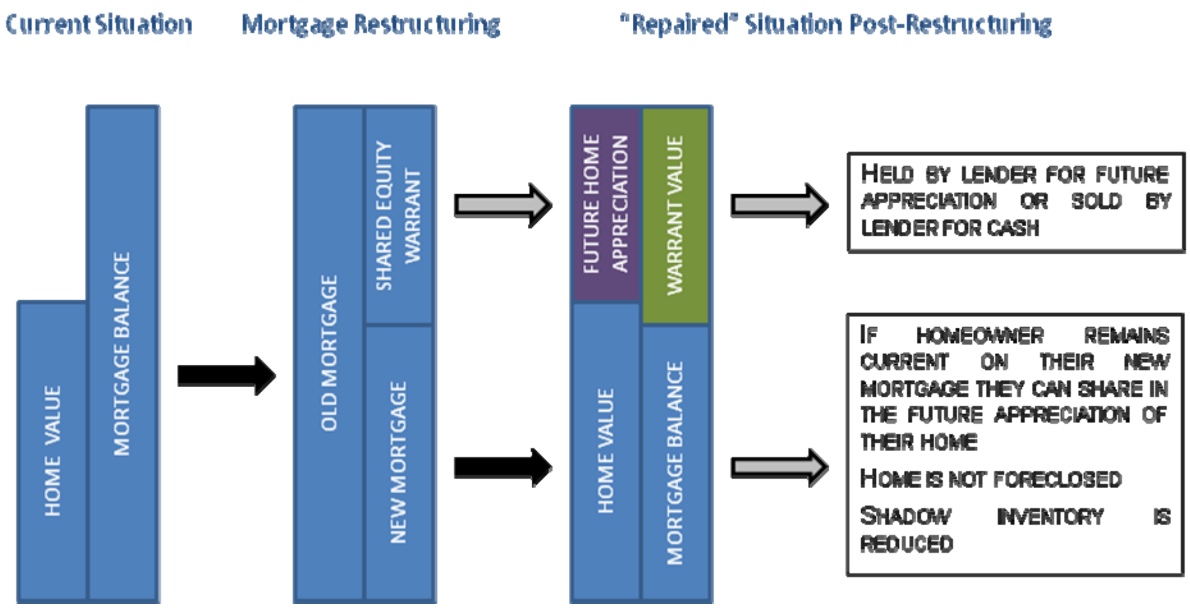
We believe the FHFA, Treasury and HUD should use a two-prong strategy to reduce the REO portfolios of the Enterprises and the FHA. The first prong reduces the flow of new REO properties into the Enterprises' and FHA's portfolios by restructuring mortgages that are in default or serious delinquency rather than foreclosing on them. We will describe herein a novel yet simple plan for replacing distressed mortgages with a bundle of securities, including debt and equity elements, which can be distributed to investors. The second prong of the strategy entails the Enterprises and FHA renting the properties in their REO portfolios through partnerships with private-sector property managers while retaining ownership of the properties until the market has recovered.

The two prongs, when enacted together, will allow the Enterprises and FHA to reduce their REO portfolios over time while avoiding much of the losses that would result from large-scale bulk sales in the current market environment. The two-prong strategy will also benefit the nation's housing markets by reducing the supply of homes for sale as well as the shadow inventory of vacant homes held off the market. The plan will involve the investment of private capital and thus the alignment of public and private interests in the stabilization of home prices, and will assign to private partners most of the day-to-day property management. Our plan will reduce both the operating cost and capital burden currently faced by the Enterprises and FHA.

Prong One: Restructure Severely Delinquent Loans Before Properties Become REO

We propose the Enterprises and FHA restructure existing mortgage debt by replacing it with a bundle of securities that can be distributed to appropriate investors. The bundle would include both debt and equity elements which can be owned together or be separated and owned individually. The "debt" portion would be structured to both qualify under FHA guidelines and provide real cash flow relief to the borrower. The "equity" portion strips out a share of the future appreciation in home value and packages it for distribution to investors. Existing homeowners will retain an ownership stake in the home, allowing them to share in the benefit from house value appreciation and providing them an incentive to maintain the property. The Enterprises and FHA will have the right and option to retain the equity participation securities themselves, giving them a chance to recover more of their loans than they might through disposition of REO.

Figure 1: Restructuring Distressed Mortgages with New Debt and Equity Participation Warrant



Objectives

The creation of the Equity Participation Certificates ("EPCs") described above will accomplish several important objectives:

1. REO inventory will be reduced substantially and the housing market will be given a real chance to recover. Borrowers who are struggling to stay in their homes will be able to do so. The EPCs will provide an incentive to borrowers to stay current on their new loans as they will be required to do so in order to participate in the eventual appreciation of their biggest asset.
2. The Enterprises and FHA will experience a better recovery on existing troubled loan assets than they would if they continued to foreclose and sell REO properties, either individually or in bulk sales. A pool of these EPCs held by the government will offer a "funds recovery" vehicle. The Enterprises and FHA will have a real chance to achieve a net zero cost over time.

3. EPCs represent a means of attracting new private capital to housing markets. They will be attractive investments for investors who believe that housing will eventually recover and a good inflation surrogate for savings investments.

Mechanics

Eligibility

The key will be to identify those loan situations in which several criteria exist: a resident home-owner/borrower with an acceptable credit capacity, an acceptable appraisal scenario and a desire by the homeowner to stay in the home.

We suggest the use of existing guidelines, or slightly modified versions thereof, to determine eligibility. The Enterprises or FHA will determine whether borrowers qualify for new mortgages based on their ability to service the new loans given the then current appraised value of their homes.

Restructuring

The existing loan can be replaced or refinanced with a two part security as follows. The first part would be a new mortgage that would satisfy all the requirements for an FHA supported loan:

- A maximum loan to value ratio of 96.5 percent
- A maximum mortgage payment expense to effective income ratio of 29 percent
- A maximum total fixed payment to effective income of 41 percent

As a qualified loan, this new instrument can be packaged with others and funded through the public capital markets.

In most cases, restructuring a severely delinquent mortgage into an FHA loan rather than foreclosing will significantly reduce loan-related losses for the Enterprises as the cash made available by selling the new loan likely will exceed the value generated by selling the underlying home. The improvement will be even greater versus a bulk sale as we assume a bulk sale will entail a larger discount than a one-off REO disposition.

Figure 2 (below) describes the different outcomes when a hypothetical mortgage enters foreclosure on one hand and when it is restructured on the other. In our example, the mortgage, in the amount of $190,000, was originated in September 2007 for the purchase of a home in Los Angeles. It was aggressively underwritten with a 95 percent loan-to-value ratio and a 50 percent payment to income ratio. The borrower fell delinquent in June 2009 with an unpaid principal balance of $186,310. If the loan had been foreclosed upon and the collateral property sold in an REO sale in June 2011, the Enterprise that sold the home probably would have recovered about $99,000, given the prices for distressed homes in Los Angeles at that time as measured by Radar Logic's RPX prices. A sale at that price would have locked in an $88,000 loss for the Enterprise. Conversely, the original mortgage could have been restructured into an FHA loan of $125,000 in June 2011, given the prevailing home values at that time as measured by RPX prices. As such, the Enterprise would have locked in a loss of $61,000, but would have recovered 27 percent more than if it had foreclosed.

Figure 2: Benefit of Restructuring vs. Foreclosure, without Equity Participation

Original Mortgage	
Metropolitan Area	Los Angeles
Origination Date	9/4/2007
Purchase Price	$200,000
Original Loan Amount	$190,000
Payment to Income Ratio	50%
LTV	0.95
Rate (annual)	6.67%
Term (years)	30
Date of Last Payment	6/4/2009
*Remaining Balance**	$186,310
LTV	1.44
Foreclosure	
REO Sale Date	7/7/2011
Net Recovery (Based on RPX Motivated Price)	$98,553
Gain (Loss) to Enterprise from Foreclosure	($87,756)
Restructuring Part 1 - New FHA Loan	
Restructuring Date	7/7/2011
Home Value (Based on RPX)	$129,813
Loan Payment to Monthly Income Ratio	28%
LTV	0.965
*New Loan Amount***	$125,269
Gain (Loss) to Enterprise from Restructuring	($61,040)
Improvement to Enterprise From Restructuring vs. Foreclosing (not including EPC)	**27%**

** We assume straight-line amortization of the original mortgage.*

*** The new loan amount is the lesser of the mortgage amount supportable by the maximum payment to income ratio or the mortgage amount implied by the maximum LTV according to FHA guidelines.*

A second security would be created with a face value equal to the difference between the outstanding balance of the original mortgage and the amount of the new loan. This new security is an EPC representing a share in the appreciation of the underlying home from this point in time forward.

The homeowner will have a portion of the appreciation rights implied by the EPC and as such he or she will have the incentive to remain current on the new loan and to maintain the property, since both are required for the accrual of their share.

The Enterprises or the FHA will own the remaining appreciation rights implied by this security. The accounting result is to convert the amount of existing distressed or defaulted loans into a right to share in the upside appreciation of the relevant property. This conversion results in no cash loss. The Enterprises and the FHA have the option to hold these securities and share in the future appreciation, thus avoiding the loss implied by foreclosure and sale.

The cash value of the EPCs will reflect the present value of expected future improvements in the values of underlying homes. While the initial cash value of EPCs will be less than their face value, the initial loss savings available to the Enterprises and the FHA will be significant. It is our belief that the initiation of this program will reduce the perception of over-supply in housing significantly, which will cause the cash value of the participation certificates to increase immediately. If the EPC portfolios held by the Enterprises and the FHA are managed properly over time, all losses might be avoided.

Figure 3 (below) elaborates on the hypothetical case described in Figure 2 by adding an EPC to the scenario. If, in addition to restructuring into an FHA loan, the Enterprise could immediately sell an EPC for 10 percent of its face value, the Enterprise would be able to recover 33 percent more than if it foreclosed and liquidated the property in an REO sale.

Figure 3: Benefit of Restructuring a Hypothetical Loan vs. Foreclosure, with Equity Participation

Foreclosure	
REO Sale Date	7/7/2011
Net Recovery (Based on RPX Motivated Price)	$98,553
Gain (Loss) to Lender with Foreclosure	($87,756)
Restructuring Part 1 - New FHA Loan	
Restructuring Date	7/7/2011
Home Value (Based on RPX)	$129,813
Loan Payment to Monthly Income Ratio	28%
LTV	0.965
*New Loan Amount***	$125,269
Restructuring Part 2 - Equity Participation Certificate (EPC)	
EPC Face Value	$61,040
Present Value of EPC	$6,193
Recovery by Enterprises Through Restructuring (New Loan + EPC)	**$131,462**
Improvement to Enterprises From Restructuring vs. Foreclosing (including EPC)	**33%**

*** The new loan amount is the lesser of the mortgage amount supportable by the maximum payment to income ratio or the mortgage amount implied by the maximum LTV according to FHA guidelines.*

Resources Required

No new resources are required for implimentation. This strategy can employ the resources that the Enterprises and the FHA currently focus on loan modification (e.g., the resources used to implement HAMP).

Either the existing resources within Treasury or the Federal Reserve can be employed to manage the equity participation securities, or third party managers can be engaged to do so. We expect these resources would be identical or similar to those utilized in the execution of capital market activity in the performance of fiscal policy and funding. In essence, the EPCs represent another asset class in which the US Government has a significant stake and interest (existing already as a result of Enterprise receivership).

Risks

This aspect of our proposal has certain risks, which we will identify and address below. First and foremost, however, we must point out that both the current situation and the proposed bulk sale strategy also have significant risks.

Redefault

Experience under the Administration's programs to reduce mortgage obligations for distressed borrowers suggests that restructured loans more often than not redefault. The difference with our proposed strategy is that we are not suggesting an elimination of debt, but rather a substitution of an EPC for the portion of the distressed loan that no longer represents normal value in today's housing market. The result is a substantial reduction in payment burden for the homeowner without an implied immediate loss to the lender. Further, as long as contemporary loan guidelines are applied, default risk among these homeowners will be no worse than that for new borrowers under FHA-supported programs.

No Meaningful Appreciation

Since our proposal is keyed to future home price appreciation, the largest implied risk is that no meaningful appreciation occurs. Our hypothesis is simple: the major downside pressure on home prices is the severe excess inventory of homes that are for sale or are perceived to be for sale. By eliminating the inventory, or even the perception of inventory, the natural result should be a rebalance of supply and demand. Any such rebalance likely will result in an increase in buyer activity and thus an increase in values. This dynamic is one of the key objectives of the bulk sale proposal, but unlike bulk sales, our proposal imbeds an opportunity for recovery of the implied loss exposure. If the Enterprise and FHA REO assets are sold at this time, then those losses will be realized and will have to be funded by Congress.

Prong Two: Rent Vacant REO Properties

The specific subject of this Request for Information is to develop ideas for the bulk disposition of properties currently owned by the Enterprises, presumably vacant and in some state of disrepair. The presumed strategy is to sell these properties in bulk to professional investors, who, in turn, will agree to refurbish them as needed and make them available in the rental pool for those Americans who cannot or chose not to buy a home of their own. There appear to be two driving forces behind this strategy. First, the ongoing cost to the Enterprises, and therefore our government, of maintaining and then managing these properties is arguably prohibitive, and comes at a time when we need to reduce spending, not increase it. Second, the cost of preparing these assets for rental availability calls for capital far better provided by the private sector than by taxpayers. Sounds good on paper, but there are some very serious issues and risks that we believe must be addressed.

Bulk Sales Approach

The concept is quite straightforward: bundle those homes already in inventory by geography and sell them en masse to professional investors. In theory this approach should provide real efficiencies, but there are two problems.

First, investors will only buy these properties if they can forecast an adequate return on investment. Most sophisticated investors will seek to recover their rehabilitation and operating costs in a discount to the upfront purchase price in order to ensure an adequate return. The result is a reduction in proceeds received in the sale, and thus a larger and now permanent loss to the Enterprises and ultimately the American public. The real source of their return on investment will come from the ultimate resale of the properties. That return is a direct cost to the American people as they will have given it up.

Second, the very sale of these properties at prices significantly discounted to properties not in distress will apply downward pressure to the housing market overall. These sales may then be included in appraisers' "comparable sales" and result in lower appraisals in other sales. If this occurs, the misleadingly low appraisals could undermine financing and thus closing activity. Further, the actual inventory in question is a small percentage of the total supply glut, so selling the government's REO inventory may undermine normal activity without the benefit of clearing the market and enabling renewed activity.

Our approach is designed to specifically address both the opportunities enabled by the attractiveness of these investments and minimize the expense and ultimate cost of this problem to the government and the public.

Hold and Rent Approach

We propose that the Enterprises refurbish and rent REO properties in partnership or contract with private sector participants, but retain the ownership of the REO properties. We see these properties as an investment with the potential to provide a significant positive return to the Enterprises. There is no arguing with the notion that the private sector is better equipped to manage these assets, but we question why they have to own them to do so.

We propose that the properties be organized geographically either by MSA or even neighborhood clusters and bids should be sought from qualified private investors to restore and manage those homes as "investment" assets on behalf of the Enterprise owners. We agree that the government is perhaps not best suited to be a landlord and that there are private enterprises in that business better equipped to manage the assets efficiently. It is not lost on us that the delivery of these assets into the private sector likely will create jobs as well. In essence, we are urging the FHFA, HUD and Treasury to consider enacting the operating portion of a bulk sale approach without the actual bulk sale.

The virtues of this strategy are threefold:

First, it prevents significant losses to Enterprises, and ultimately taxpayers, that would arise from bulk property sales. Bulk sales will require the Enterprises to record a loss on the REO properties relative to the principal balance of the associated defaulted loans. Potential investors will only agree to purchase portfolios of REO properties if the portfolios are priced low enough that they feel confident they will be able to sell the homes for a profit in several years. In order to maximize their returns, investors will seek to minimize the purchase price, and in the process minimize the proceeds to the Enterprises from the bulk sales. This will maximize losses on the associated loans.

Second, a rental strategy preserves the potential for benefit from future improvements in housing markets. On one hand, bulk sales will lock in the losses that the Enterprises have taken on their distressed loan portfolios, and these losses can never be recouped. On the other hand, retaining ownership while hiring private-sector managers to convert REO properties to rentals and manage them as such will allow the Enterprises to benefit from the eventual recovery in the housing market. As home prices improve, the losses on the defaulted loans will be reduced. It is possible that the Enterprises could eventually generate a profit through the sale of the collateral properties in an improved market environment.

Third, the hold and rent strategy will prevent the negative impact that bulk sales could have on the wider housing market. Unless careful steps are taken to prevent it, bulk sales of REO properties could have an adverse effect on the appraised value of homes and therefore home sales. As the homes included in a bulk sale likely will be valued below REO properties sold individually and well below comparable homes sold in non-distressed sales, bulk sales could create a large number of low-priced “comps” that lead to misleadingly low appraisals. These low appraisals could then disrupt pending home sales, because banks will base the amount they are willing to lend on the appraisal, increasing the down payment required of the would-be buyer.Even if local appraisers do not use the bulk-sale properties as comps, there are many automated valuation models, or AVMs, that would likely incorporate the prices of those homes unless there was some way to designate them as bulk-sale properties.

Mechanics

Real estate management contracts exist broadly in the housing sector today. Virtually every apartment complex in the United States is managed under contract with a property manager. The most efficient way to address the mechanics of this approach is to invite private enterprises to bid on management contracts for designated properties. In the current economic environment, such opportunity is likely to be very well received. And all of the capital investors who would have preferred to actually buy the properties can participate in such bidding. If creative “partnership” proposals appear, meaning if bidders provide proposals that imply some shared benefit of ownership and ultimate recovery through resale, then they can be evaluated when received. Our approach does not limit opportunity for anyone.

Risks

Private property managers would be the best qualified to assess the risks associated with a hold and rent strategy. In the course of setting up such a program we recommend the FHFA or another appropriate agency consult such firms on the subject, possibly through an additional Request for Information.

Conclusion

- We are opposed to a strategy based on bulk sales.
- Evidence suggests that supply and demand dynamics in the housing market are out of sync. According to the most recent estimates, it would take approximately 18 months to work through the inventory of homes for sale and vacant homes held off the market.
  - All told, there were more than 7.66 million homes for sale or vacant and held off the market as of July 2011. According to the National Association of Realtors, there were approximately 3.65 million existing homes for sale. According to the US Census Bureau, there were approximately 165,000 new homes for sale and 3.84 million vacant units held off the market.
  - The seasonally adjusted annual rate of home sales, including sales of both new and existing homes, was nearly 5 million sales per year as of July. The rate of existing home sales according to the National Association of Realtors was 4.67 million per year and the rate of new-home sales according to the Census Bureau was 298,000 per year.
- A large submarket in which buyers are acquiring REO at substantial discounts relative to comparable market values is putting considerable downward pressure on overall housing values.
  - Over the past 24 months, distressed sales have accounted for approximately 27 percent of total market activity.

    - These distressed sales have achieved prices 38 percent below all other sales based on RPX analysis.
- Balancing supply and demand and reducing assets available at steep discounts will enable a demand-driven recovery and begin the process of re-establishing housing value. We propose a two-prong strategy for achieving these goals.
    - First, restructure seriously delinquent mortgages into a bundle of debt and equity securities that can be sold to investors or held as investments. Such restructuring will prevent losses on the distressed loans that would occur if they entered foreclosure and the underlying homes were sold in REO sales.
    - Second, enable the Enterprises and FHA to rent the properties in their REO portfolios through partnerships with private-sector property managers while retaining ownership of the properties until the market has recovered. Again, this strategy prevents the significant losses that would be generated by REO sales.
- We urge the Administration to carefully consider the approach we have outlined. While it may appear complex, in fact it is not. And it will work.

A New Strategy for Housing:

A Simple Proposal to Help Fix the Housing Markets

RADAR LOGIC
INCORPORATED
Making property derivatives real
www.radarlogic.com

March 2011

THE PROBLEM

- Since 2006, the value of homes in the US has deteriorated dramatically.
- By some estimates, 27% of all mortgaged homes in the US are now worth less than their mortgages.
- Many homeowners are struggling to pay their mortgages. Nearly 4.2 million homeowners are in serious default or foreclosure.
- Another serious decline in housing values will push these numbers even higher.
- High rates of mortgage default and foreclosure have expanded the shadow inventory of homes poised to enter the housing market.
- As long as homebuyers perceive there is too much supply, home prices will not recover.

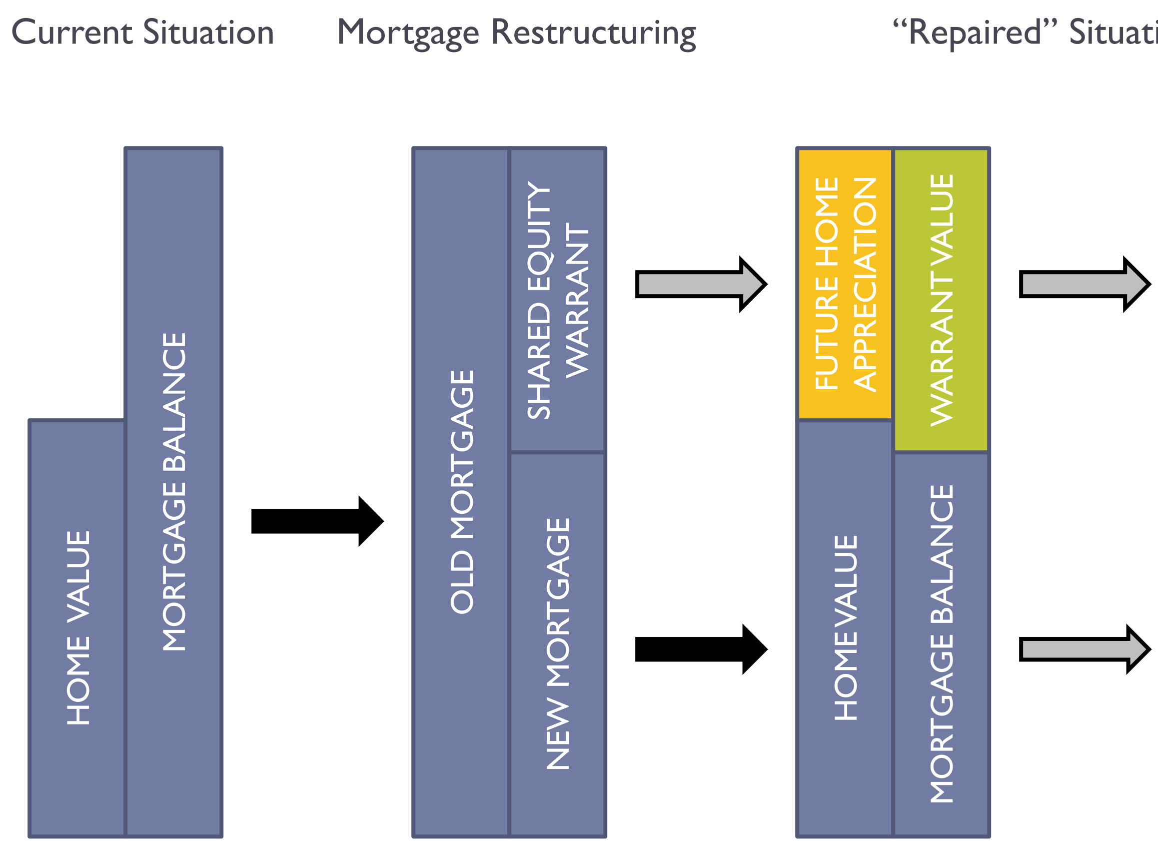
WHAT TO DO?

- We need to reduce the number of homeowners struggling to pay their mortgages
- We do not believe the answer is simply to ratchet up foreclosures.
  - By our estimates, it could take years to foreclose on the current backlog of distressed mortgages.
  - Housing values would suffer further during the process, making the problem larger.
- In the current crisis, housing is similar to an asset that has been over-financed with a cash flow that can no longer satisfy its debt.
- New equity needs to be attracted into housing investments in order to effect a real, long-term solution.
- We propose a restructuring of the assets, enabling new investment and providing a fair distribution of value among all participants: homeowner, lender and investor.
- Such an approach has distinct benefits
  - As a free market solution it is likely to be better than any mandated solution.
  - It creates a win-win opportunity.
  - It is *politically acceptable* as well as *economically sensible and efficient.*

HOW IT WORKS

- The concept is to restructure the debt by replacing it with a bundle of securities that can be distributed to appropriate investors.
- We are proposing a structure that swaps existing debt for part debt and part equity.
  - The debt portion is structured to both qualify under FHA guidelines and provide real cash flow relief to the borrower.
  - The "equity" portion strips out a share of the future appreciation in home value and packages it for distribution to investors. Existing lenders have the right and option to retain these securities themselves.
  - Existing homeowners retain an ownership stake in the home, allowing them to share the benefit from house value appreciation and providing them an incentive to maintain the property.
  - Existing lenders have a chance to recover more of their loans than they might through foreclosure.
  - Overhang inventory is reduced substantially and the housing market has a real chance to recover.

HOW IT WORKS



HELD BY LENDER FOR FUTURE APPRECIATION OR SOLD BY LENDER FOR CASH

IF HOMEOWNER REMAINS CURRENT ON THEIR NEW MORTGAGE THEY CAN SHARE IN THE FUTURE APPRECIATION OF THEIR HOME

HOME IS NOT FORECLOSED

SHADOW INVENTORY IS REDUCED

PROS & CONS FOR HOMEOWNERS

Pros:

- Avoid foreclosure
  - Avoid damage to credit history
  - Defer taxable event
- Stay in home
- Cash flow relief
- Retain equity interest in home appreciation

Cons:

- Give up a portion of upside potential in home value
- Long-term commitment

PROS & CONS FOR CURRENT LENDERS

Pros:

- Suffer smaller loss relative to foreclosure/ may recover substantially if hold the warrants
- Free up capital
- Improve earnings

Cons:

- Realize loss
- May produce lower return than capital market alternatives/ selling the mortgages to third parties

PROS & CONS FOR THE HOUSING MARKET

Pros:

- Vastly reduces shadow inventory from anticipated foreclosures
- Enables homeowners to sustain their homes, and thus, their neighborhoods
- Enables an economic recovery to have a positive effect on housing by "normalizing" supply and demand.

Cons:

- We can't think of any

MOVING FORWARD

- There is no doubt that this approach has many moving parts and requires much cooperation.
- That said, the problem is large enough that something constructive needs to be done.
- As this would be a negotiated settlement among interested parties, no new government participation (read bail-out) beyond the approval of the new FHA loan is needed.

CONCLUSION

- If a program like the one described can be employed on a broad basis, several key objectives can be addressed:
  - First, the potential flood of discounted housing inventory that threatens the recovery can be abated
  - Second, lenders can experience a better recovery on existing troubled loan assets
  - Third, taxpayers are not forced to "bail out" delinquent homeowners (GSE's are still among the biggest holders of distressed loans)
  - Fourth, Americans who are struggling to stay in their homes may be able to do so