
National Community Stabilization Trust

REO Acquisition Program Guidelines for Buyers

Discussion Draft

Disclaimer: *The following Term Sheet is provided for convenience only and does not constitute a commitment to purchase or sell any property and shall not create a binding or legally enforceable obligation on the National Community Stabilization Trust (the “Stabilization Trust”) or any other party in any way, unless otherwise agreed to by the parties. The terms contained herein are of a summary nature and are not all-inclusive. The activities and policies of the Stabilization Trust will be governed by the legal documents to be executed by parties to the Stabilization Trust and reference is made to such documents for definitive descriptions of the Stabilization Trust and its activities.*

Overview

This Term Sheet outlines the foreclosed property / real estate owned (“REO”) Acquisition Program (the “Acquisition Program”) of the National Community Stabilization Trust (“NCST” or the “Stabilization Trust”). The purpose of the Acquisition Program is to provide an efficient and cost-effective mechanism for transferring vacant and foreclosed properties from lenders, servicers and investors and GSEs qualified under the terms of the Acquisition Program Guidelines (the “Sellers”), to potential purchasers qualified under the terms of the Acquisition Program Guidelines applicable (the “Buyers”), who may be acting on behalf of a local collaborative effort including local or state community development corporations or other non-profit entities, local government agencies (municipalities, counties and states) , for profit developers and individuals, as appropriate working to stabilize targeted communities (the “Local Programs”). By creating a single source structure for the transfer of property, the Stabilization Trust provides a pipeline of properties based on criteria provided by the Buyers on behalf of their Local Programs.

The Acquisition Program provides Buyers with either (a) a right of first offer to purchase REO properties on an ongoing-basis located in targeted communities from Sellers prior to their being listed through traditional REO sale procedures (the “First Look Program”) or (b) a bulk purchase program for purchasing significant numbers of currently-listed properties located in communities heavily affected by the foreclosure crisis (the “Targeted Bulk Purchase Program”). The Acquisition Program will provide efficient ways to transfer clusters of properties in vulnerable communities for rehabilitation as part of a comprehensive neighborhood stabilization strategy. Procedures, policies and agreements for both programs are described herein.

The Stabilization Trust has developed a standardized transfer mechanism for offering, selling, and closing vacant REO properties with accepted procedures, timeframes, and documents.

The Acquisition Program establishes the basis for fair and transparent pricing between the Buyers and the Sellers, mitigating a critical issue associated with the transfer of properties in targeted areas – the valuation of REO and otherwise distressed properties in volatile and declining housing markets.

The Acquisition Program provides a standardized mechanism for the

expedited and flexible transfer of distressed properties. The Stabilization Trust has both a high level of execution expertise and established relationships with Sellers. Through the participation in the Acquisition Program, Buyers gain the benefit of dealing with a single entity on a national level to develop a format and pipeline for purchasing properties in multiple communities. Furthermore the Acquisition Program has established standardized procedures, documents, and closing procedures with multiple Sellers, creating an efficient structure, allowing the Buyers and Local Programs to focus their resources within their respective communities.

The Acquisition Program is a general framework which is used for an ongoing series of transactions in states and communities across the country.

The Acquisition Program has been designed to meet the requirements of and to be used in combination with monies that may be available to states and localities through the HUD Neighborhood Stabilization Program (“NSP”) and related Housing and Economic Recovery Act of 2008 (H.R. 3221), and the Stabilization Trust has been working closely with HUD on implementation of the NSP program.

The Stabilization Trust expects to continue to enter into Memoranda of Understanding with additional Buyers for implementation of the Acquisition Program to support their Local Programs pursuant to the terms described herein. The Stabilization Trust works closely with its sponsor organizations (Enterprise Community Partners, the Local Initiatives Support Corporation / LISC, the Housing Partnership Network and NeighborWorks America) in implementing the Acquisition Program with Buyers to support their Local Programs.

Role of the Stabilization Trust in the Acquisition Program

The Stabilization Trust will provide services to assist selected Buyers and Sellers in arranging the transfer of properties. Such services will include but not be limited to:

- establishment of pre and post purchase procedures;
- coordination of offers for the sale/purchase of REO properties;
- consolidation and distribution of information;
- assistance with coordination of closing processes; and
- in some cases, providing the financing necessary for the purchase of certain properties.

The Stabilization Trust is in the process of refining the Acquisition Program and the services it will provide, and setting a timeline for the implementation of various services. The Stabilization Trust will provide assistance in coordinating the process but will not act as a retail broker for individual transactions or with end users/owner-occupants.

Local Programs and their Eligible Buyers

The Stabilization Trust’s Acquisition Program will be operated with Local Programs who are generally comprised of a coordinated group of community development housing organizations, public-private partnerships, units of local government, or other qualified entities, which may include collaborations of non-profit developers and other charitable organizations, “mission-driven” for-profit developers, private

contractors, and local governmental organizations in their Local Programs that:

are located in targeted communities particularly hard-hit by the foreclosure crisis. Such areas display high concentrations of REO properties, increasing vacancy rates, slow absorption of homes on the market, declining home values, increasing signs of blight, and increasing evidence of abandonment;

currently have sufficient capacity to handle the acquisition of portfolios of REO properties; and

have the ability to determine market pricing on an on-going basis.

The Local Program, in coordination with the Stabilization Trust's Sponsors as appropriate, will be responsible for determining which entities are appropriate for participation within each targeted community. Additionally, the Local Program, in coordination with the Stabilization Trust's Sponsors as appropriate, will identify a single Buyer in a targeted community who will be responsible for acquiring properties on behalf of the Local Program through the Trust Acquisition Programs. The Buyer of a Local Program will oftentimes convey properties they acquired on behalf of the other participants in the Local Program through a second transaction.

Buyers will be required to be pre-qualified by the Stabilization Trust and the Stabilization Trust Sponsor to participate in the Acquisition Program.

Requirements of Buyers:
Acquisition Capacity

Buyers will be required to implement the necessary infrastructure within their Local Program for the successful participation in the Stabilization Trust's Acquisition Program.

This includes ensuring the Buyers on behalf of their Local Programs have sufficient capacity for the evaluation and purchase of multiple properties through both the First Look Program and Targeted Bulk Purchase Program. This capacity includes the ability to perform property inspections and valuations, and to complete the transfer of the properties pursuant to the Acquisition Program buyer agreements, etc.

Requirements of Buyers:
Local Markets

The Buyer will be responsible for the establishment of a baseline understanding of their respective local real estate and property market, to include but not limited to:

determining what local legal and tax considerations will be relevant for transactions with the Acquisition Program; and

determining historic, current and projected local residential market trends.

The Buyer will be responsible for the ongoing monitoring of local markets and for the provision and review of local market reports to the Stabilization Trust.

Requirements of Buyers:
Pipeline

The Buyer will be required to provide transaction process updates through the Stabilization Trust's pipeline reports on a periodic basis. These reports shall contain but not be limited to:

expectation of periodic volume of properties anticipated to be

	<p>acquired by the Buyer on behalf of their Local Programs; and</p> <p>general requirements of property characteristics.</p>
Requirements of Buyers: Disposition Capacity	<p>The Buyer will be required to establish the necessary infrastructure within their Local Program for the successful participation in the Acquisition Program. This includes:</p> <ul style="list-style-type: none"> ensuring the applicable Local Program within the targeted community has the necessary infrastructure for the management of a large volume of properties, including rehabilitation, disposition strategies, property sales and marketing, asset management, etc.; and knowledge of local affordable housing markets including, affordable financing programs, redevelopment and rehabilitation programs and resources necessary to move purchased REO properties from vacancy to rehabilitated occupied properties.
Eligible Sellers	<p>The Acquisition Program works with any Sellers that have or anticipate having:</p> <ul style="list-style-type: none"> concentrations of REO properties in targeted communities; and the ability to sell properties under such terms and conditions that meet the requirements of the HUD NSP Property Acquisition Guidelines. <p>The participating Sellers will:</p> <ul style="list-style-type: none"> agree to participate with the Stabilization Trust in the Acquisition Program and regularly offer properties pursuant to the Acquisition Program Guidelines applicable to their agreement with the Stabilization Trust; supply all Stabilization Trust-requested information on REO properties offered for sale and disclose any known conditions of the properties as required by law; and provide estimates to the Stabilization Trust of the anticipated volume of properties that may enter foreclosure in the targeted communities in order to assist the Stabilization Trust in planning activities and program volume in connection with or relating to the Acquisition Program.
Eligible Property	<p>In general, vacant and foreclosed property with clear and marketable title will be purchased by the Buyer on an as-is basis.</p> <p>The Buyer will be required to provide the Stabilization Trust with descriptions of property and portfolio characteristics including both those that are threshold minimum requirements and those that are desirable. Such characteristics will include but not be limited to: location, size, condition, value range, proximity to other REO properties, etc. The Stabilization Trust will coordinate with the Sellers on behalf of the Buyer regarding these characteristics.</p> <p>As a part of the sales process, Sellers will be required to fully disclose property characteristics requested by the Buyer and provide updates, as appropriate.</p>

	<p>The Stabilization Trust will identify exceptions to the eligible property criteria and, on a case by case basis, consider property that does not meet the criteria (i.e., occupied, title issues, foreclosure in process, etc.).</p>
Valuation Procedures and Pricing	<p>As a part of the Acquisition Program, Buyers and Sellers will agree to use standardized valuation procedures in order to promote quick and efficient transactions. The desire for expedited transactions requires that the valuation process be open and transparent. Buyers and Sellers will share information regarding the properties in question. Sellers will grant access to properties for inspection by Buyers or their agents. Both Buyers and Sellers will also share information about property history, property conditions, and local market conditions.</p> <p>In addition to agreeing to an open valuation process, Buyers and Sellers will agree that prices should reflect a number of factors beyond standard appraisals. Prices should reflect current local market conditions, including such possible conditions as declining home values, long holding periods, and increased vacancies. Prices should also be adjusted for required rehabilitation costs, the cost of capital invested in the properties, and other holding costs, such as taxes and insurance, maintenance, and administrative overhead during a potentially prolonged holding period.</p>
Pricing and Consideration	<p>In general, Buyers are expected to purchase property on an all-cash basis.</p>
Closing	<p>It is anticipated that Buyers will execute direct purchase contracts with Sellers.</p> <p>The Stabilization Trust has established standard form purchase agreements for the Acquisition Program.</p> <p>Buyers may acquire properties through the Acquisition Program for other entities within their Local Program, and may have subsequent transactions to transfer these properties.</p> <p>[The Stabilization Trust may contract with a national title company to coordinate efficient closings.]</p> <p>[Sellers may represent and warrant clean title (marketable or insurable) to expedite the closing date.]</p>
First Look Program	<p>Appendix I outlines the details of the First Look Program to govern transactions between Buyers and Sellers. The First Look Program will give Buyers the opportunity to purchase foreclosed properties before they are listed for sale through traditional mechanisms. The First Look Program gives Buyers the ability to purchase foreclosed properties in targeted communities immediately after the completion of the foreclosure process, with purchase prices that reflect savings on expenses associated with holding periods and other Seller expenses.</p>
Targeted Bulk Purchase Program	<p>Appendix II outlines the details of the Targeted Bulk Purchase Program to govern transactions between Buyers and Sellers. The Targeted Bulk Purchase Program will give Buyers the opportunity to purchase groupings of listed aged properties in targeted communities. This program allows Buyers to acquire properties in areas with high concentrations of REO properties.</p>

National Community Stabilization Trust REO Acquisition Program – First Look Program

Appendix I

Objective and Overview of the First Look Program

The First Look Program is designed to expedite the transfer process of REO properties. This program will facilitate efficient transactions by establishing a transparent price offer and acceptance process that will reduce and eliminate unnecessarily lengthy negotiations.

Under the First Look Program, Sellers will exclusively offer for sale to Buyers, via the Stabilization Trust [substantially all of] the eligible properties within the identified geographical area meeting the criteria provided by the Buyers via the Stabilization Trust for an agreed upon period. The Buyers will be provided the opportunity to accept an offer on a foreclosed property after the foreclosure process is complete (and any redemption period is expired) and the property is vacated, but before the Seller lists the property through a traditional mechanism (the “First Look Period”).

During this First Look Period, the Seller will provide the Buyer (a) physical access to the property for inspection, and (b) the offer of a sale price for the property, which the Buyer will promptly accept, decline or counter.

Additionally, the three parties (the Seller the Buyer and the Stabilization Trust) will, prior to consummating transactions on individual properties within a specific market / target area, establish a common understanding of the local property market(s).

It is intended that the transparency created by sharing pricing methodologies and establishing a common understanding of the local property market(s) will reduce the length of negotiations for the two parties (the Seller and the Buyer) to allow for a greater volume of transactions in as short a time as possible.

Procedures by Stabilization Trust and its Stabilization Trust Sponsors Prior to Offer from Sellers under First Look Program

Prequalify Buyers for the First Look Program participation and enter into an agreement with Buyers establishing the terms and conditions of the Stabilization Trust’s services and Buyers’ obligations.

Certification of the Buyers’ financial capacity to complete the transfer.

In the case of acquisition financing provided by the Stabilization Trust, approval of the Buyers as an eligible recipient of financing.

Provide information to Sellers including:

Geographic areas of concentration and focus of the Buyers through the Stabilization Trust (e.g. zip codes, census tracts, etc.).

Criteria for selection of property in each selected geography (e.g. SFH, vacancy status, etc.).

Expected volume and capacity by area.

It is expected that the Stabilization Trust will play a role in facilitating the ongoing data exchange, and may assist in further refining the property criteria on behalf of the Seller and Buyer (i.e. Buyer's target area may be set by boundaries incongruous with zip code boundaries).

Localization of this program's standardized procedures, documents, and closing procedures for applicable local market practices, laws and regulations.

Procedures for Seller Offering of REO Properties and Buyer Responding to Offer

The Seller will provide an ongoing listing of available properties within [*] days of the eligible vacant property being secured by the Seller. This will include addresses, available inspection dates and other available upfront property information.

The Seller will grant access to the property for inspection by the Buyer in accordance with standard offering procedures for a period of [5] business days. This access will typically be provided once the vacant property has been secured by the Seller, and will occur concurrently with the Seller's agents (i.e. property appraisers, etc.) accessing the property for the purposes of determining the property value.

The Buyer will be responsible for any preliminary property reviews including formal or informal inspections during this property inspection period. The Buyer will be responsible for their own determination of property values. This should be completed in anticipation of the Seller's first offer.

In establishing its offer price ("Offer Price") to the Buyer through the Stabilization Trust, the Seller will provide the following information:

Seller's Estimate of Fair Market Value of the Property as of the date of the offering. Seller will provide its Estimated Fair Market Value, the methodology used to derive the estimate (i.e., BPO, full appraisal, AVM, etc.), and the date of the last update to said estimate. Such Seller's estimate would be the price that the Seller would have listed the properties for sale through traditional sales methods. Seller will provide a reasonable level of information to the Stabilization Trust on the basis of the Seller's estimate.

Seller's Offer Price for the Property as of the date of the offering. The Stabilization Trust anticipates that the Offer Price will represent an adjustment to the price that incorporates several factors. The first factor is the savings associated with using this transaction type instead of a traditional market listing including: (1) reduced sales and marketing costs, (2) avoided property rehabilitation and maintenance costs, (3) avoided taxes and insurance expenses, and (4) any other one-time and holding costs avoided. The second factor is the benefit of an expeditious sale in the specific local market (which depending on the local market conditions may be a

volatile and declining market with indeterminate holding periods). The third factor is the impact on net present value of receiving cash payments earlier than an expected sale through traditional means.

Buyer understands that some calculations outlined above may be proprietary and that the Seller may not be able to disclose all adjustments to the Offer Price in an explicit manner. The Seller will, at a minimum, indicate: (1) the Estimated Fair Market Value, (2) the total of any adjustments made to the sales price (and explicitly outline which adjustments were and were not included), (3) the estimated holding time had a traditional market listing been utilized, and (4) the corresponding Total Adjusted Sales Price.

Upon receipt of an offer from the Seller, the Buyer, through the Stabilization Trust, will promptly respond [same day or next business day] with an acceptance, counter offer, or declination. The Seller will make a best effort to respond to any reasonable counter offers during the First Look Period.

Upon acceptance of an offer from the Buyer through the Stabilization Trust, Seller will sign the Stabilization Trust's standard form of purchase contract and provide reasonable assistance to move diligently to closing [within 15 to 30 days]. It is anticipated that the acceptance of any offer made by the Buyer through the Stabilization Trust will be to purchase the property on an all cash basis.

Assuming the Buyer confirms its interest in the property and meets the timelines associated with property inspection and response to offers, the Seller will hold the property off the market and will not offer for sale the property through any other sales channel.

As the Seller's Offer Price (as outlined above) will be less than the Seller's Estimate of Fair Market Value, Seller will explicitly represent that the Seller's Offer Price is consistent with the provisions of the HUD NSP Property Acquisition Guidelines (although the Buyer will need to determine if the level of price adjustment is compliant with the guidelines for their local program).

If the Buyer's response to the Seller's Offer Price (as outlined above) is a counter offer, the Buyer will provide detailed information on the rationale of such counter offer, which may include: (1) the information associated with due diligence performed by the Buyer – for example, the Buyer's property inspection may have identified a structural issue with the property (e.g. fault with foundation, etc.) that may have been overlooked by the Seller's property inspection, and (2) any material differences in the property's value relative to comparables identified by a third-party valuation commissioned by the Buyer.

National Community Stabilization Trust

REO Acquisition Program – Targeted Bulk Purchase Program

Appendix II

Objective and Overview of the Targeted Bulk Purchase Program	<p>The Targeted Bulk Purchase Program seeks to facilitate the sale of significant numbers of REO properties in targeted areas that are currently for sale but have remained on the market for an extended period or are otherwise distressed. Targeted Bulk transactions offer the Buyers the benefit of reduced sales-associated costs as compared with traditional market sales on a one-off basis.</p> <p>Under the Targeted Bulk Purchase Program, Sellers will offer for sale to Buyers, via the Stabilization Trust eligible properties within the identified geographical area meeting the criteria provided by the Buyers through the Stabilization Trust.</p> <p>The Seller will provide the Buyer (a) physical access to the property for inspection, and (b) the offer of a sale price for the property, which the Buyer will promptly accept, decline or counter.</p> <p>Additionally, the three parties (the Seller, the Buyer, and the Stabilization Trust) will, prior to consummating transactions on individual properties within a specific market / target area, establish a common understanding of the local property market(s).</p>
Procedures by Stabilization Trust and its Stabilization Trust Sponsors Prior to Offer from Sellers under Targeted Bulk Purchase Program	(same as First Look Program in Appendix I of the Acquisition Program Guidelines)
Procedures for Seller Offering of REO Properties and Buyer Responding to Offer	<p>The Seller will provide current listing of available properties within [*] days of request from the Buyer via the Stabilization Trust. This will include addresses, available inspection dates and other available upfront property information.</p> <p>The Buyer will indicate which of these properties they will move forward with for inspection within [1-2 business days] of having received the current listing of available properties.</p> <p>The Seller will grant access to the properties for inspection by the Buyer in accordance with standard offering procedures for a period of [5] business days. This access will typically be provided by the Seller’s agents. The Buyer will confirm which properties they would like to receive an offer for from the Seller by the end of the property inspection period.</p> <p>The Buyer will be responsible for any preliminary property reviews including formal or informal inspections during this property inspection period. Buyer will be responsible for their own determination of property values. This should be completed in anticipation of the Seller’s first offer.</p> <p>In establishing its offer price (“Offer Price”) to the Buyer through the Stabilization Trust, the Seller will provide the following</p>

information:

- I. *Seller's Estimate of Fair Market Value of the Property as of the date of the offering.* Seller will provide its Estimated Fair Market Value, the methodology used to derive the estimate (i.e., BPO, full appraisal, AVM, etc.), and the date of the last update to said estimate.
- II. *Seller's Offer Price for the Property as of the date of the offering.* The Stabilization Trust anticipates that the Offer Price will represent an adjustment to the price that incorporates several factors. The first factor is the savings associated with using this transaction type instead of a continued market listing including: (1) reduced sales and marketing costs (if any), (2) avoided property rehabilitation and maintenance costs, (3) avoided taxes and insurance expenses, and (4) any other one-time and holding costs avoided. The second factor is the benefit of an expeditious sale in the specific local market (which depending on the local market conditions may be a volatile and declining market with indeterminate holding periods). The third factor is the impact on net present value of receiving cash payments earlier than an expected sale through traditional means.
- III. Buyer understands that some calculations outlined above may be proprietary and that the Seller may not be able to disclose all adjustments to the Offer Price in an explicit manner. The Seller will, at a minimum, indicate: (1) the Estimated Fair Market Value, (2) the total of any adjustments made to the sales price (and explicitly outline which adjustments were and were not included), (3) the estimated holding time had a traditional market listing been utilized, and (4) the corresponding Total Adjusted Sales Price.

Upon receipt of an offer from the Seller, the Buyer, through the Stabilization Trust, will promptly respond [same day or next business day] with an acceptance, counter offer, or declination. Seller will make a best effort to respond to any reasonable counter offers.

Upon acceptance of an offer from the Buyer through the Stabilization Trust, Seller will sign the Stabilization Trust's standard form of purchase contract and provide reasonable assistance to move diligently to closing [within 15 to 30 days]. It is anticipated that the acceptance of any offer made by the Buyer through the Stabilization Trust will be to purchase the properties on an all cash basis.

The Seller will typically not be able to hold the property off the market until after confirming the receipt of an accepted offer from the Buyer.

As the Seller's Offer Price (as outlined above) will be less than the Seller's Estimate of Fair Market Value, Seller will explicitly represent that the Seller's Offer Price is consistent with the provisions of the HUD NSP

Property Acquisition Guidelines (although Buyer will need to determine if the level of price adjustment is compliant with the guidelines for their local program).

If the Buyer's response to the Seller's Offer Price (as outlined above) is a counter offer, Buyer will provide detailed information on the rationale of such counter offer, which may include: (1) the information associated with due diligence performed by the Buyer – for example, the Buyer's property inspection may have identified a structural issue with the property (e.g. fault with foundation, etc.) that may have been overlooked by the Seller's property inspection, and (2) any material differences in the property's value relative to comparables identified by a third-party valuation commissioned by the Buyer.

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