FACT SHEET: FHA June 2014 Note Sale

In June 2014, the Federal Housing Administration (FHA) held its first note sale under the Distressed Asset Stabilization Program of 2014. The DASP sales are part of a broader effort to reduce losses and increase recoveries to the Mutual Mortgage Insurance (MMI) Fund. Under the note sale program, defaulted FHA-insured loans are sold through a competitive auction to qualified bidders. DASP sales are typically broken into two or more sales, consisting of at least one “National Sale” featuring loans from a diversified cross-section of the country, and a “Neighborhood Stabilizing Outcome” or “NSO” Sale featuring loans drawn from specifically-targeted geographic areas.

The June 11th national sale was the most competitive sale to date, drawing a larger number of bidders and bids per pool than previous sales. For the first time in the history of DASP, a single bidder submitted the highest bid on each and every pool. The winning bidder, Loan Star Funds’ weighted average bid was 77.6 percent of the collateral value.

The strong interest in FHA’s most recent sale demonstrates that DASP is a valuable, efficient method of disposing of defaulted loans that are destined for foreclosure. Since 2012, largely due to the DASP program, overall losses on defaulted assets have declined 11 percent. Note sale bids have improved from average of approximately 50 percent of the collateral’s value to more than 75 percent. By reducing claim expenses and improving recoveries, FHA is able to rebuild its reserves at a time when the MMIF is still experiencing the impact of the mortgage crisis.

By developing the infrastructure to market and sell non-performing loans in bulk, the Department is positioned to benefit from today’s unique market dynamics where investor demand is at a peak. In most cases, notes sales are less expensive than foreclosure and the ultimate sale of properties as HUD real estate owned (REO). Investors are purchasing notes at a competitively-determined price below the unpaid balance of the underlying loans, making it possible for them to help homeowners in ways that are unavailable to FHA. Selling the notes through the DASP program dramatically reduces losses to the agency, and injects new ownership who may be able to work with the borrowers to find a solution that allows them to remain in their homes.

Details of the June 2014 note sale:

- Sealed Bidding Process - HUD does not the identify bidders until bids are final and ranked from highest to lowest
- 23,000 defaulted Single Family loans; $3.9 billion in Unpaid Principle
- 16 pools, ranging in size from $93 million to $1 billion.
- 68 Qualified bidders
- 27 investors submitted 163 bids on the pools.
    - Average of 10 bids per pool

- Weighted average of winning bids was 77.6 percent of total collateral value
- Bids exceeded previous expectations regarding recoveries for these defaulted assets.

The program also includes safeguards to ensure full compliance with FHA requirements and an orderly transition to the new owners. FHA servicers may not submit a loan for the DASP sale until all FHA loss mitigation requirements have been complied with. Additionally, the DASP sales agreements call for a delay in foreclosure of six months, during which time it is anticipated that the new owner will have an opportunity to work with the borrower to find a sustainable solution to avoid foreclosure. Because the loans are sold without FHA insurance, the new owner has complete flexibility in taking loss mitigation actions. These actions may include principal reductions. A principal reduction is more accessible because the loan is purchased at a reduced price, i.e. a price below the unpaid principal balance of those loans.