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REAL ESTATE: FHFA steering toward REO bulk sales

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Real estate professionals are accusing the Federal Housing Finance Administration and Fannie Mae of moving in a “secretive” way to test a bulk-buying house program in the Inland Empire that will squeeze out consumers, shutter viable businesses and harm an already-fragile housing market recovery.

It will change the very face of neighborhoods, some said.

The “REO Initiative,’’ calls for the sale of nearly 500 Fannie Mae-owned foreclosed homes in the Los Angeles and Inland area to yet undisclosed institutional investors, California Association of Realtors president LeFrancis Arnold said.

Realtors say they’ve been kept in the dark and suspect the program has been designed to attract full-scale, hedge fund investment and will carry the caveat the houses are to be rented for a 3- to 5-year period.

“This is not good news,’’ Inland economist John Husing said.

“Injecting large rentals into neighborhoods” that are already under stress can only have a negative impact on home values, he said. “In older cities of the Inland Empire, where there are large numbers of underwater homes and other homes going into foreclosure, it would be a disaster.”

“We are completely against bulk REO sales in our region,’’ said Steve Manos, president of Inland Valleys Association of Realtors. “We’re tight as far as inventory goes. For the fairness of homebuyers in the region, FHFA should reconsider the policy they have of including bulk sales in our region.”

“We want to be opted out,” he said.

On Wednesday, Aug. 22, the California Association of Realtors filed a Freedom of Information Act request with the Federal Housing Finance Administration, Fannie Mae’s conservator, to get specifics on property locations, final property counts involved in the bulk-sales plan, sales prices and names of the winning bidders.

Arnold said the state trade organization is concerned Fannie Mae and its federal overseer are courting big-scale investment because of the secretive approach to putting the program in place.

It also has raised concern that the agencies used outdated market data, perhaps as old as 2011, to determine property valuations.

These dated valuations will drag down the Inland Empire’s home prices, which have shown strong signs of stabilization, Arnold said. The price discrepancy, coupled with the nature of bulk sales, clinches the view that Fannie Mae will fall short of realizing full-market value for the properties, a situation “saddling taxpayers” with their loss.

Corinne Russell, a spokeswoman for the federal agency, issued a one-sentence response to the accusations. “We anticipate making an announcement about the winning bids soon,” Russell said.

The federal agency, earlier this summer, said winning bidders in the foreclosure auction had been chosen, with transactions expected to close in the third quarter. In July, Fannie Mae created a limited liability company in California to leverage the bulk-sale.

It is unknown whether the winning bidders will purchase the full company or only a share, Arnold said.

“Wall Street investors don’t need government incentives to purchase properties by offering (bank-owned) properties at a discount price,’’ he said in a statement. “Savvy individuals recognize that California’s real estate market represents an unprecedented investing opportunity and are already acting on it in droves.”

Manos said there is a “real” housing shortage here.

State association statistics show that bank-owned listings are selling in the Inland area within 30 days. The long-run average for unsold inventory in the Inland area is a 5- to 6-month supply, but currently stands at 3.1 months in Riverside County and 3.8 months in San Bernardino.

Aaron Norris, vice president of The Norris Group, a real estate investment company that reshaped 150 homes it bought last year at trustee sales, declined to comment on the state association stance but confirmed “record-low” inventory.

“It’s not necessary,’’ he said, particularly because consumers are already being squeezed out of the market by all-cash buyers and hedge fund investment in the Inland Empire. “We need more inventory, not less.”

It is having an impact on local business — appraisers, insurance agents, title companies, builders that turned to home renovations and short-sale handlers, he said.

“It’s a bad idea,’’ Frontier Enterprises owner Jim Previti said, as he stood inside the foreclosed home he refurbished for re-sale in Corona. “I don’t sell to investors,’’ he remarked. “I’m in the business of finding new buyers for these homes.”

“The way I see it, this is another twist on Cash for Clunkers,’’ Previti said. “This program will bottle up supply and create artificial demand: We need free market solutions to this.”

U.S. Rep. Gary Miller, R-Diamond Bar, in April sent a letter signed by 18 other lawmakers asking the federal agency to refrain from the “REO Initiative” in California, asserting it was in “direct conflict” with its duty as conservator to preserve its assets. Miller said the approach may make sense in areas with low demand and high inventory, but it isn’t warranted here.

He wrote that selling properties at a discount would negatively impact California’s struggling housing market.

In May, Miller and seven other California congressional members introduced the bill, HR 5823, “Saving Taxpayers from Unnecessary Bulk Sale Programs Act of 2012,’’ to cease the bulk sales plan in California to prevent Fannie Mae properties from going en masse to institutional investors. The bill is currently in the Financial Services Committee and was referred to the subcommittee on capital markets and government-sponsored enterprises.