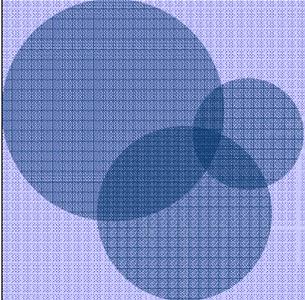


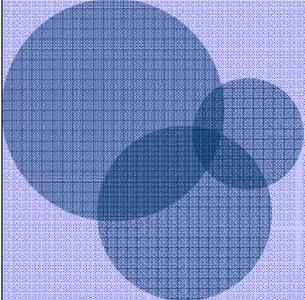
Dealing With Foreclosures

- *What I'll Cover:*
- Analysis Of Current Foreclosure Problem, Market Situation
- Discussion Of Valuation Issues



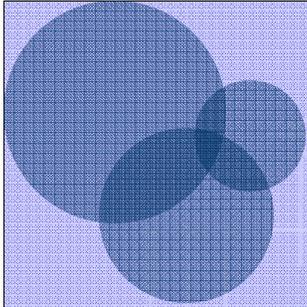
Foreclosure Quote:

- “The stuff that’s almost free is almost free because it’s going to cost you an arm and a leg to put it back together. It’s not buyer beware as much as buyer be smart.”
 - *Susan Sirlles Fidler, Realtor, Quoted In chicagotribune.com.*



Scope Of Foreclosure Problem

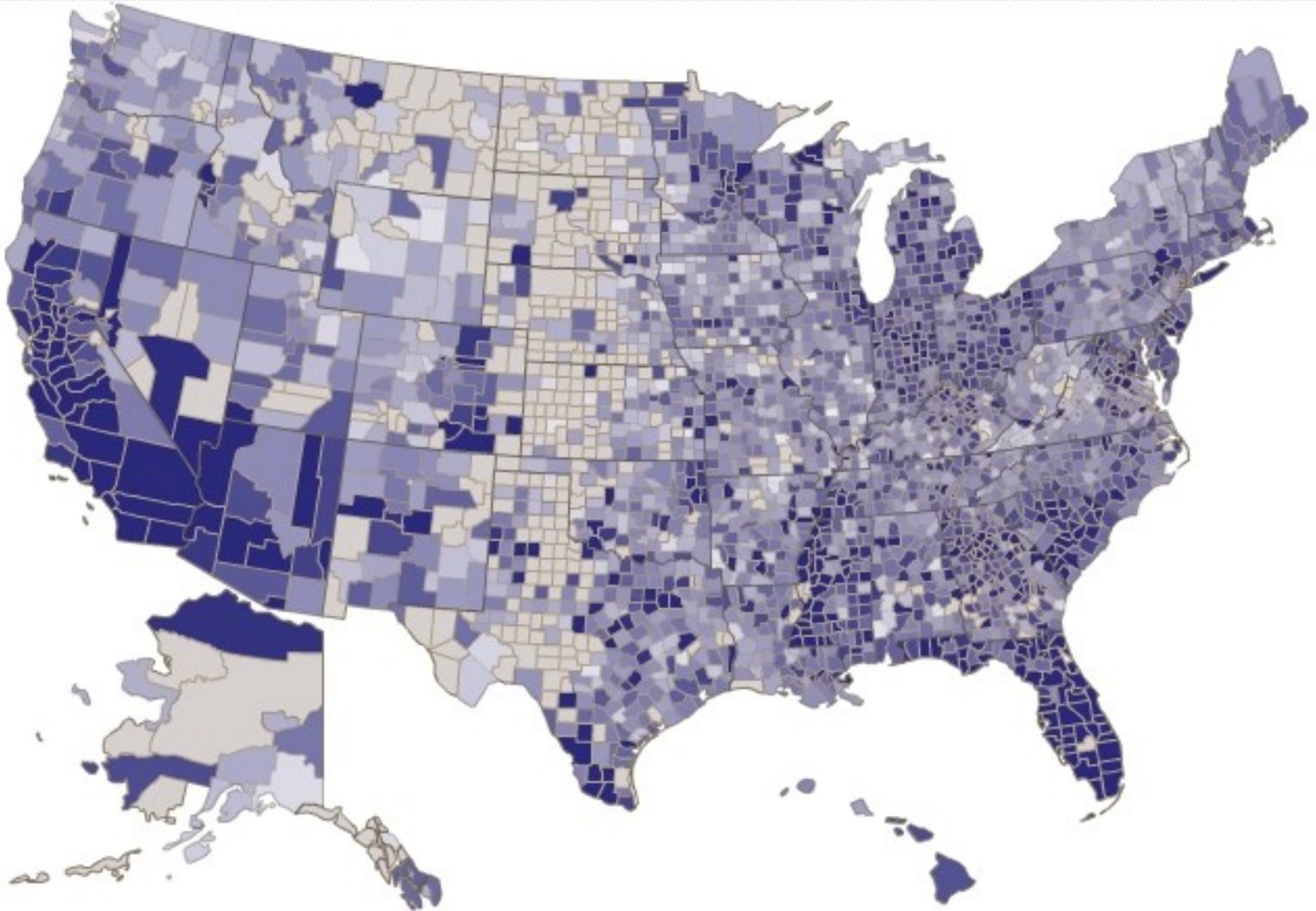
- How Big Is The Foreclosure Problem
 - In The U.S?
 - In Other States?
 - In Oklahoma?
 - In Your County?



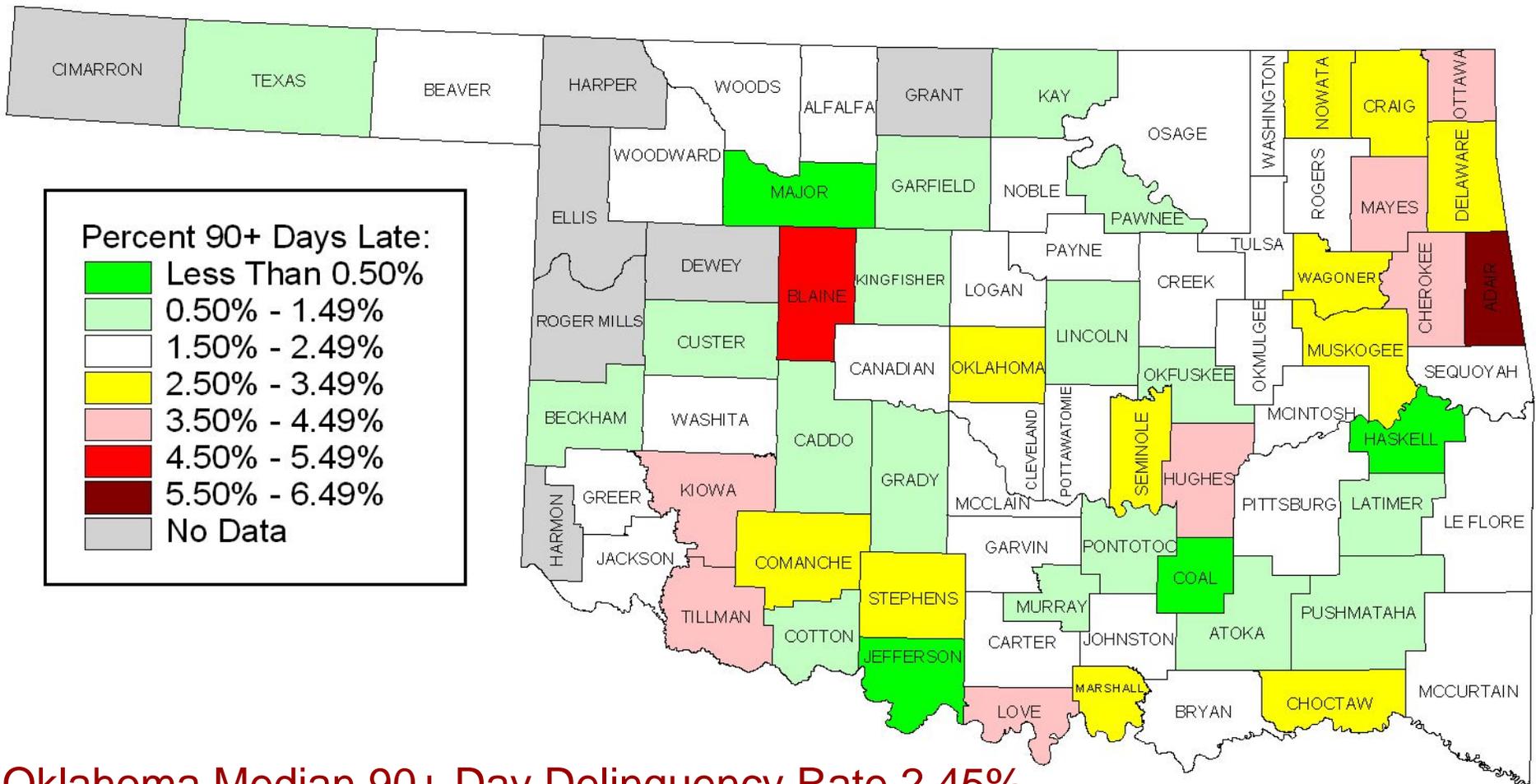
Scope Of Foreclosure Problem

- New York Federal Reserve Bank Web Site Has Interactive Mortgage Data Available:
 - <http://www.newyorkfed.org>
 - Under "Dynamic Maps" Section On Home Page

National Mortgage Delinquencies, 90 Days Or More (Darker Colors Indicate Higher Delinquency Rates)

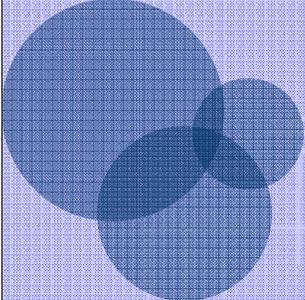


Single Family Mortgage Delinquency Rates



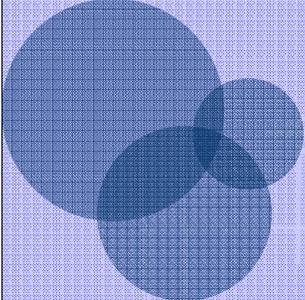
Oklahoma Median 90+ Day Delinquency Rate 2.45%
 Average 2.40%

Map created by the Ad Valorem Division of OTC, June 26, 2009
 Jeff Spelman, CAE, Director - Phone (405) 319-8200



Oklahoma Alt-A Mortgage Data

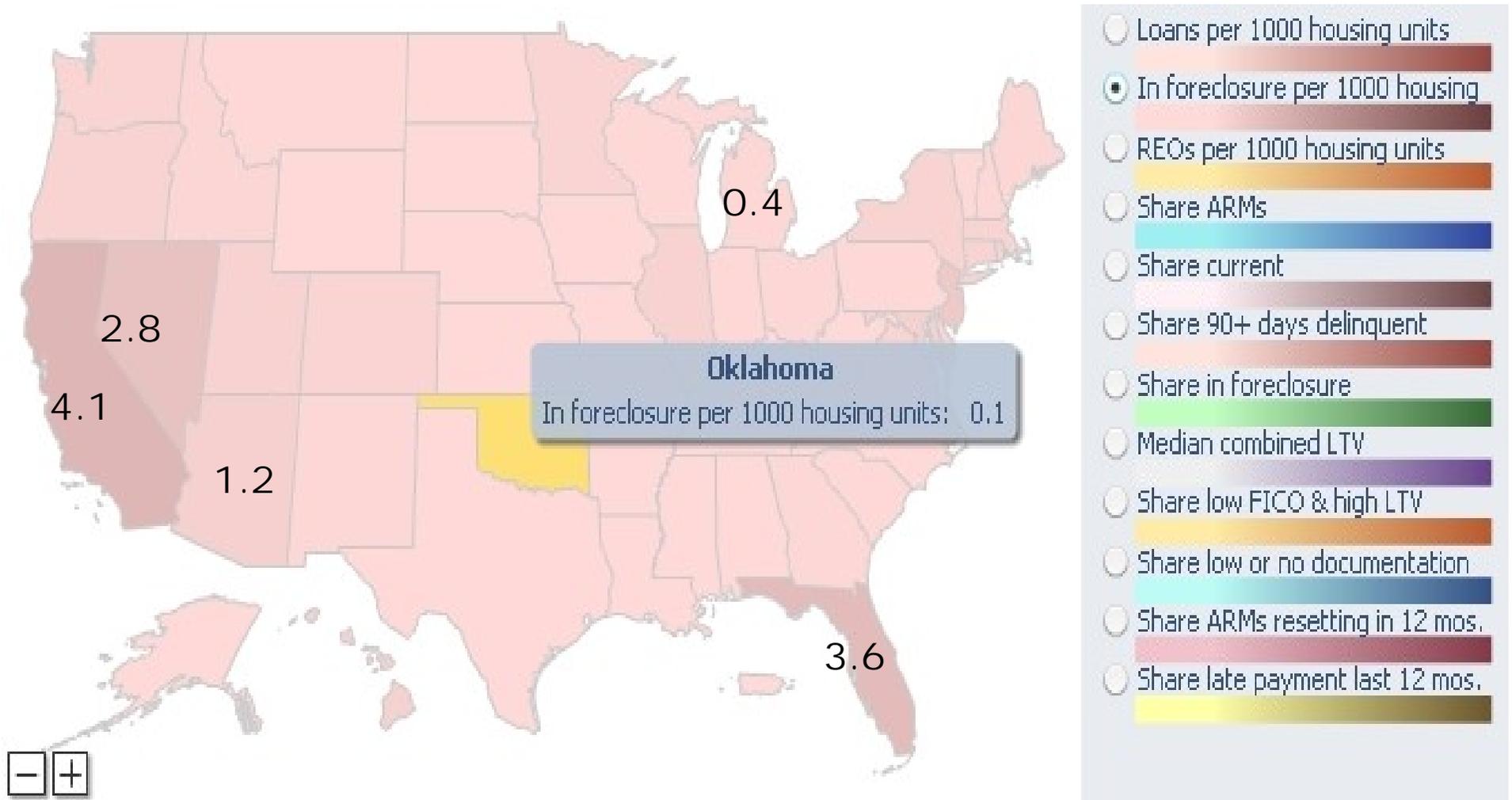
- Following Slides Give Market Information On Oklahoma Alt-A Mortgage Market
- We Have Compared Oklahoma With Both The Worst Hit States, And With The Surrounding States For Comparative Purposes



What Is Alt-A Mortgage?

- Riskier Than A-Notes Or Prime Paper
- Less Risky Than Sub-Prime Notes
- In-Between On Risk Factors

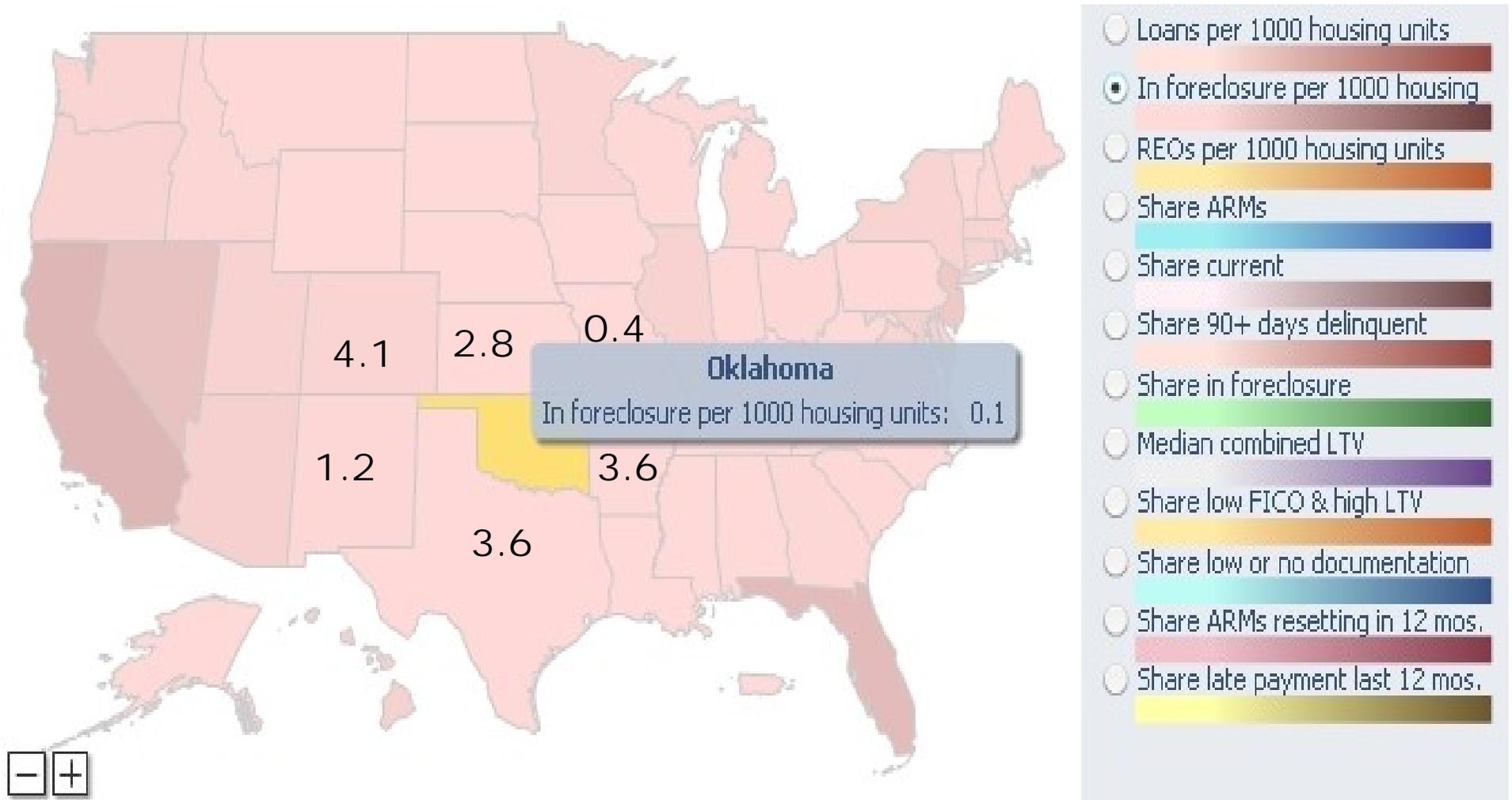
Oklahoma Alt-A Loans In Foreclosure Per 1,000 (In Comparison To Hard Hit Areas)



Source: FirstAmerican CoreLogic, LoanPerformance Data.

Note: Darker shading indicates higher number, ratio or percentage.

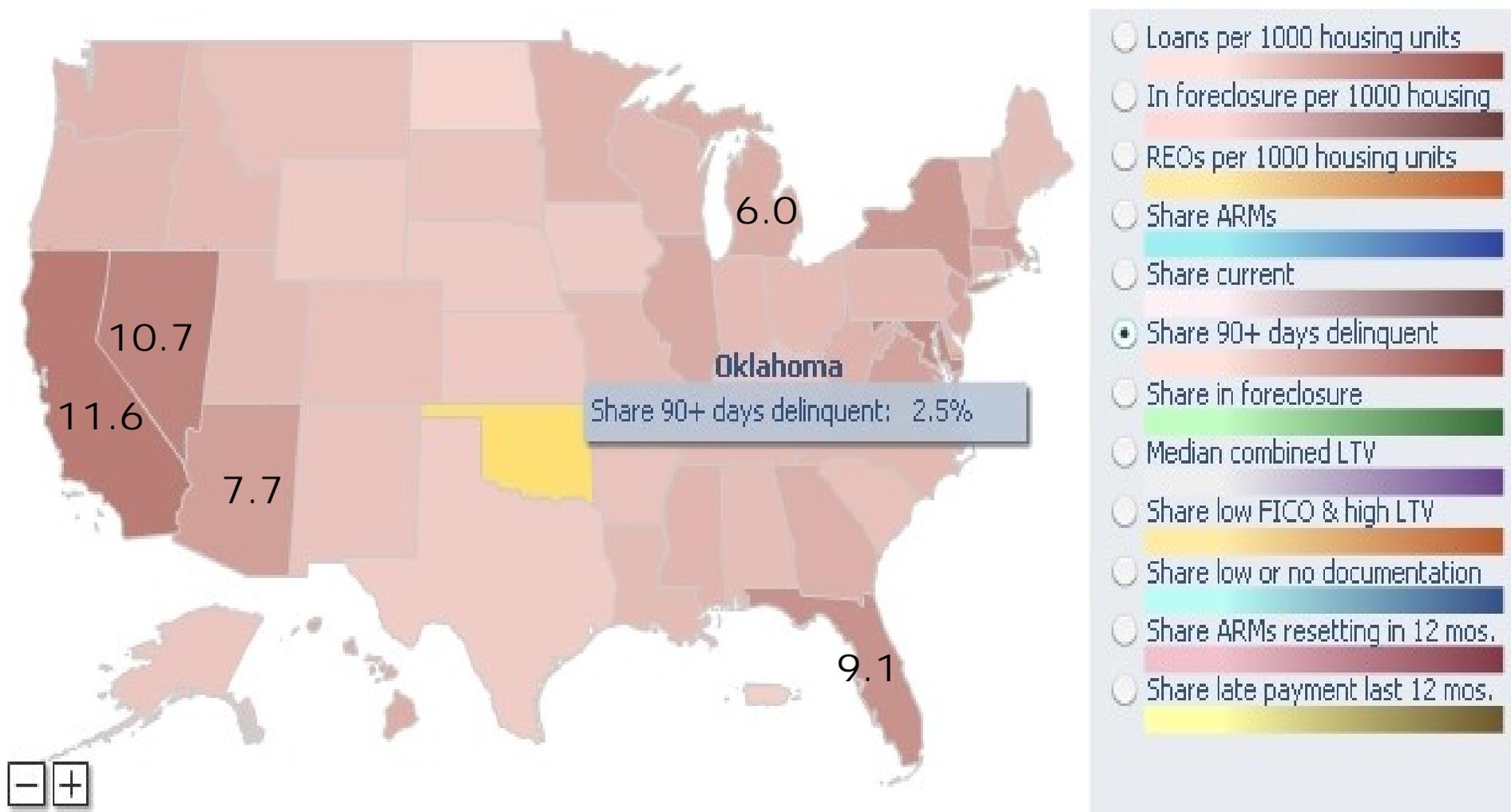
Oklahoma Alt-A Loans In Foreclosure Per 1,000 (In Comparison To Surrounding States)



Source: FirstAmerican CoreLogic, LoanPerformance Data.

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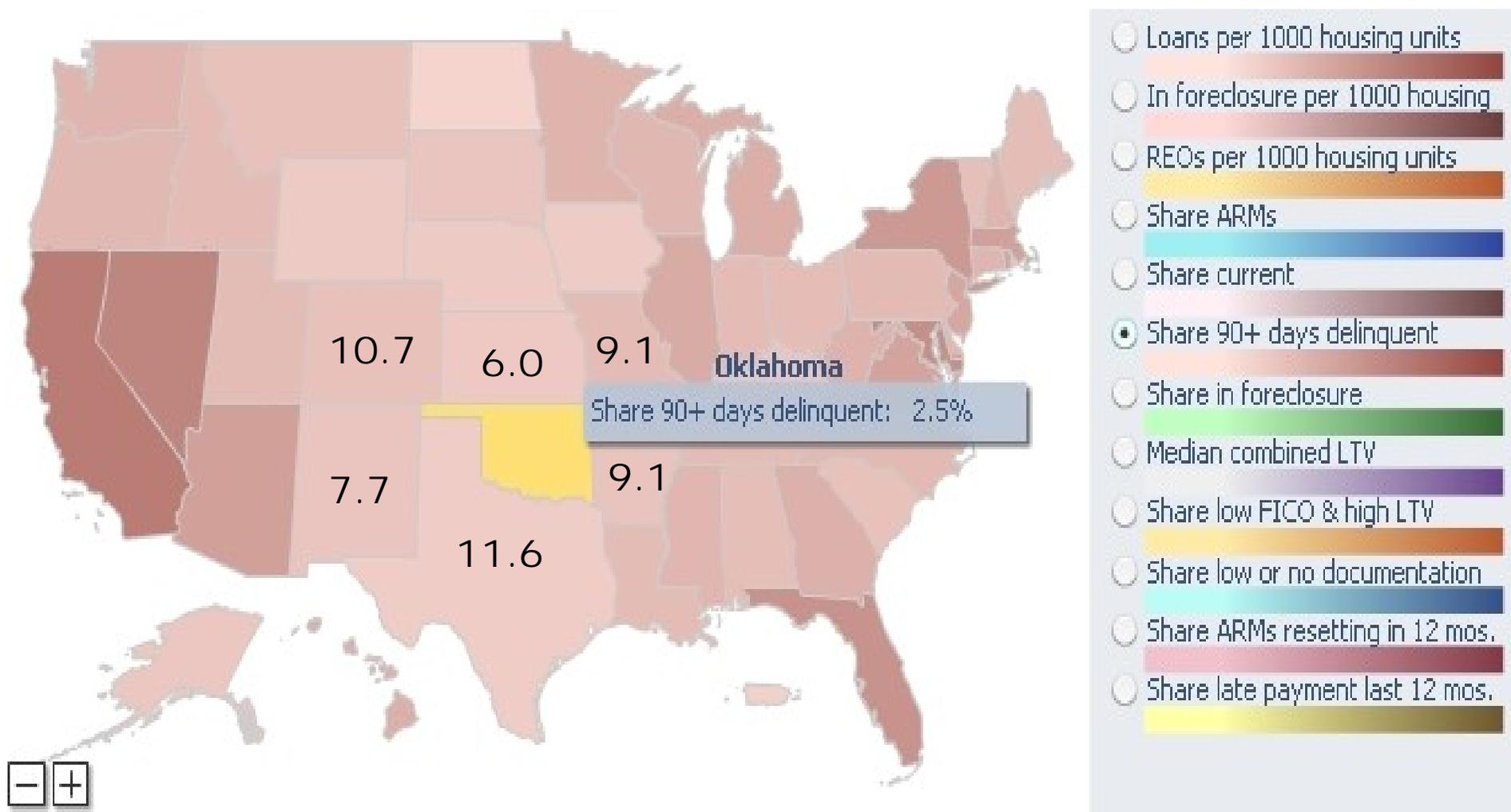
Oklahoma Alt-A Share Of Loans 90+ Days Delinquent (In Comparison To Hard Hit Areas)



Source: FirstAmerican CoreLogic, LoanPerformance Data.

Note: Darker shading indicates higher number, ratio or percentage.

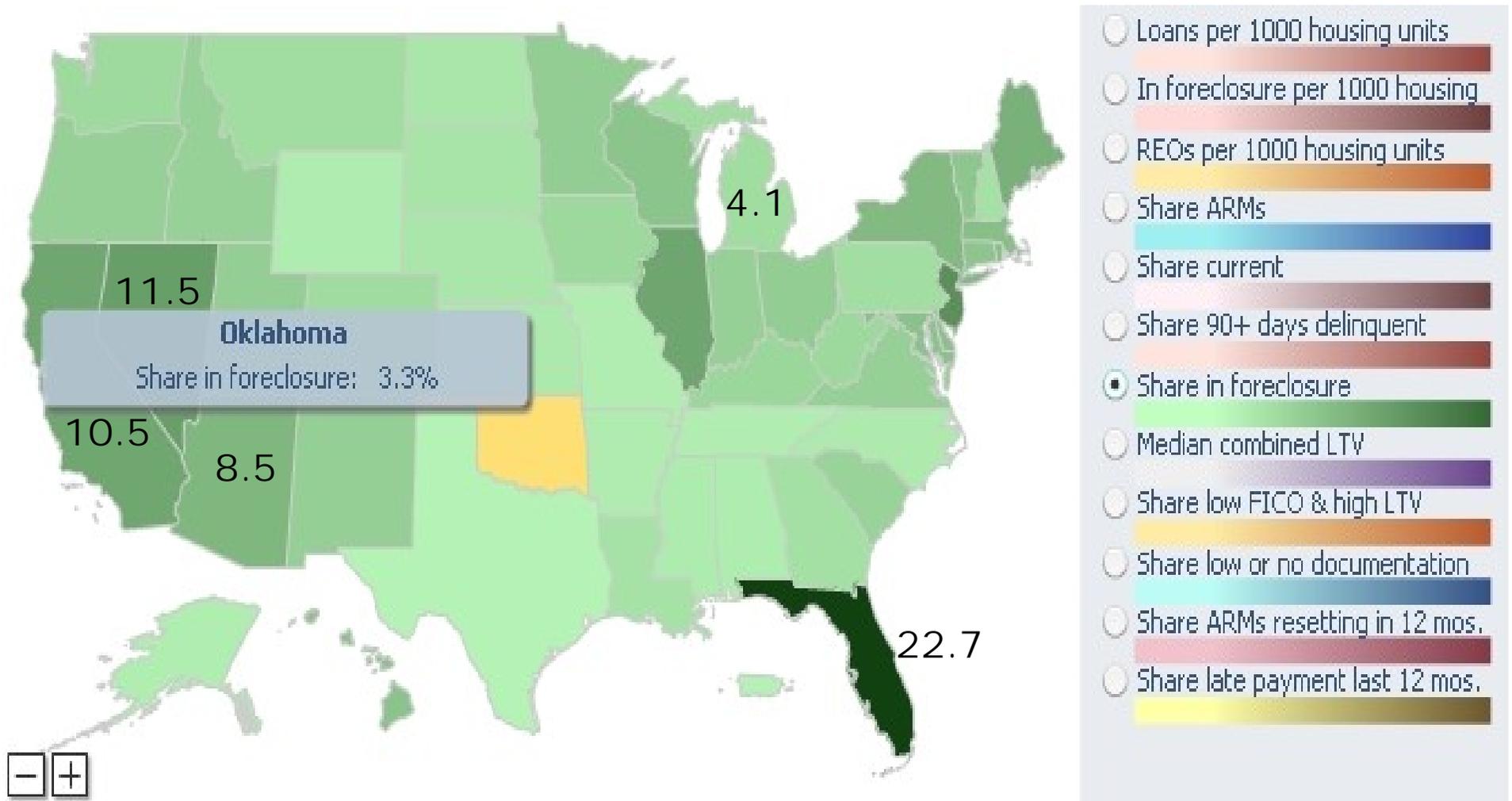
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Source: FirstAmerican CoreLogic, LoanPerformance Data.

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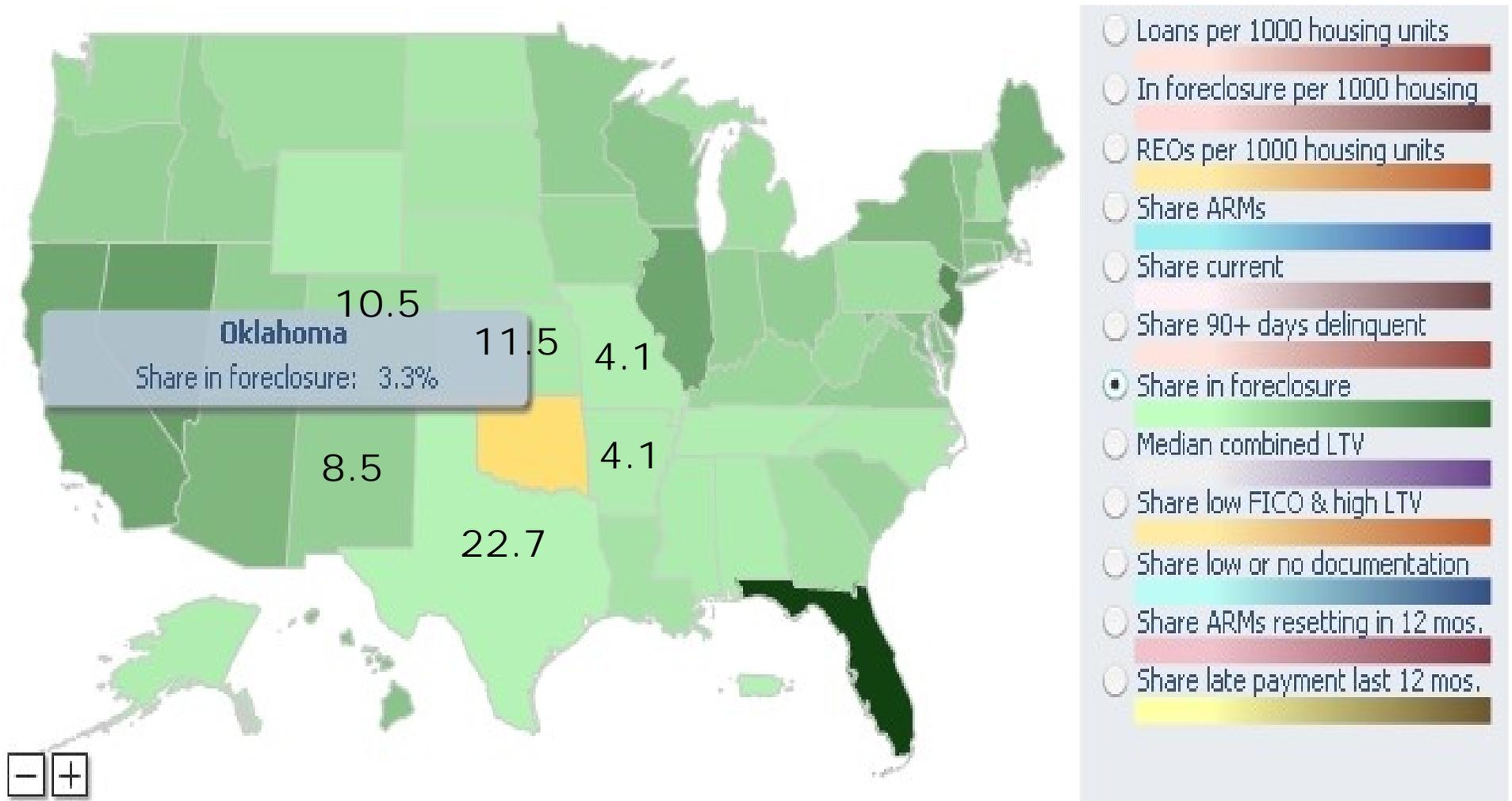
Oklahoma Alt-A Share Of Loans In Foreclosure (In Comparison To Hard Hit Areas)



Source: FirstAmerican CoreLogic, LoanPerformance Data.

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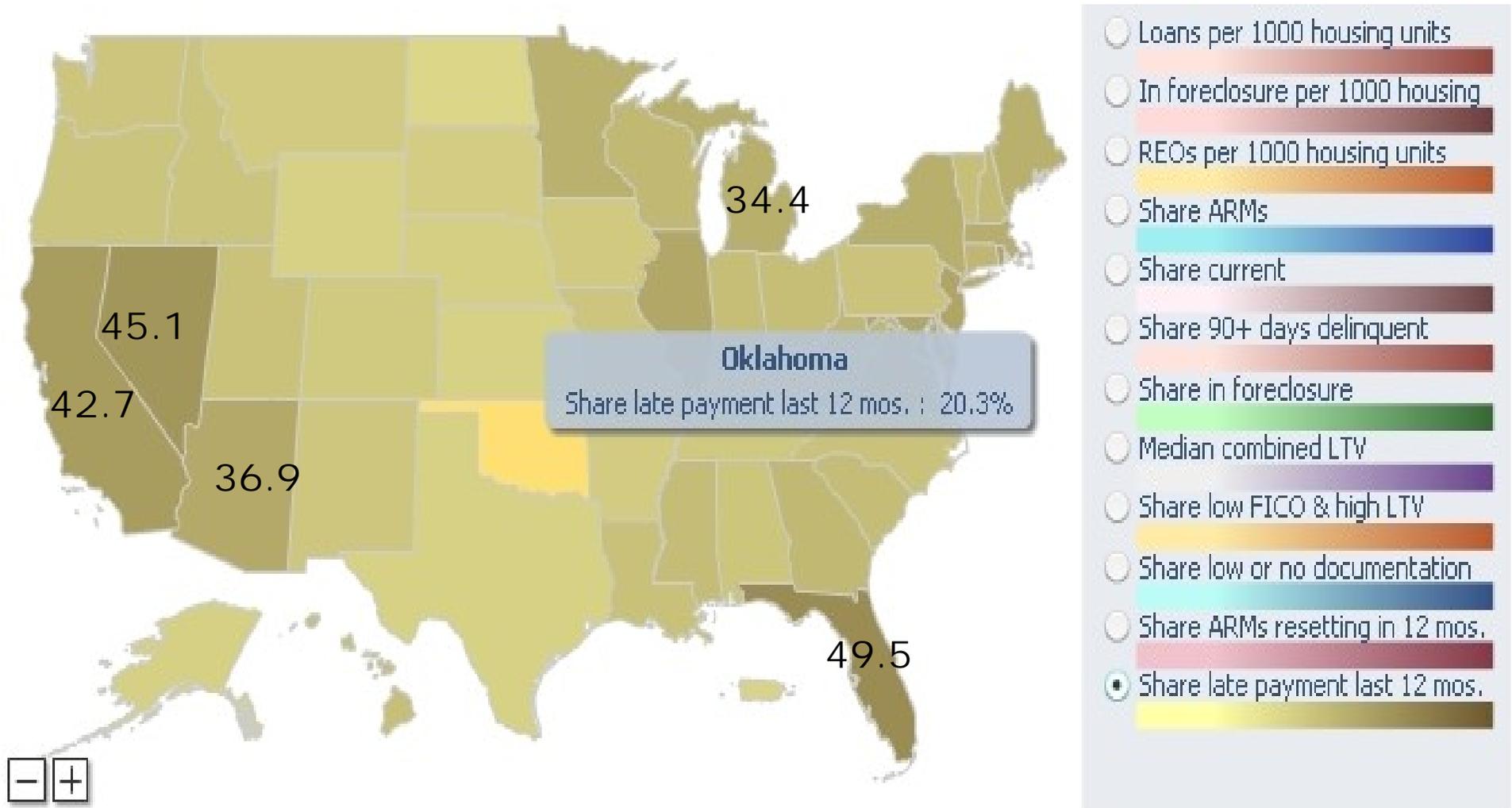
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Source: FirstAmerican CoreLogic, LoanPerformance Data.

Note: Darker shading indicates higher number, ratio or percentage.

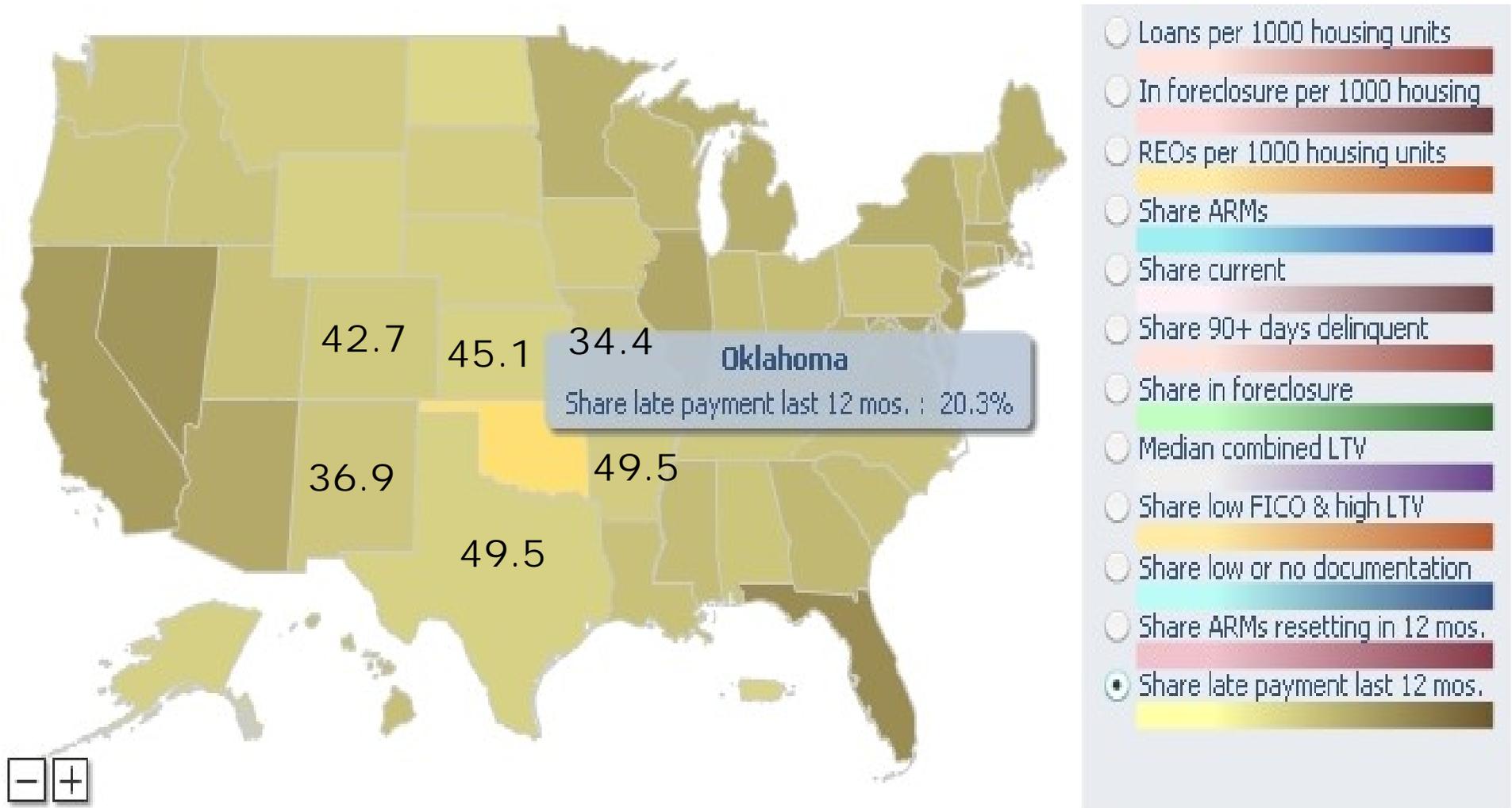
Oklahoma Alt-A Share Late PMT Last 12 Mos. (In Comparison To Hard Hit Areas)



Source: FirstAmerican CoreLogic, LoanPerformance Data.

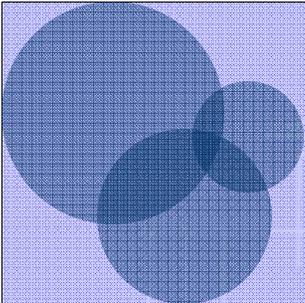
Note: Darker shading indicates higher number, ratio or percentage.

Oklahoma Alt-A Share Late PMT Last 12 Mos. (In Comparison To Surrounding States)



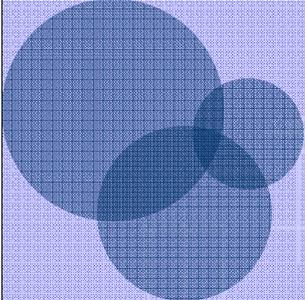
Source: FirstAmerican CoreLogic, LoanPerformance Data.

Note: Darker shading indicates higher number, ratio or percentage.



Oklahoma Sub-Prime Mortgage Data

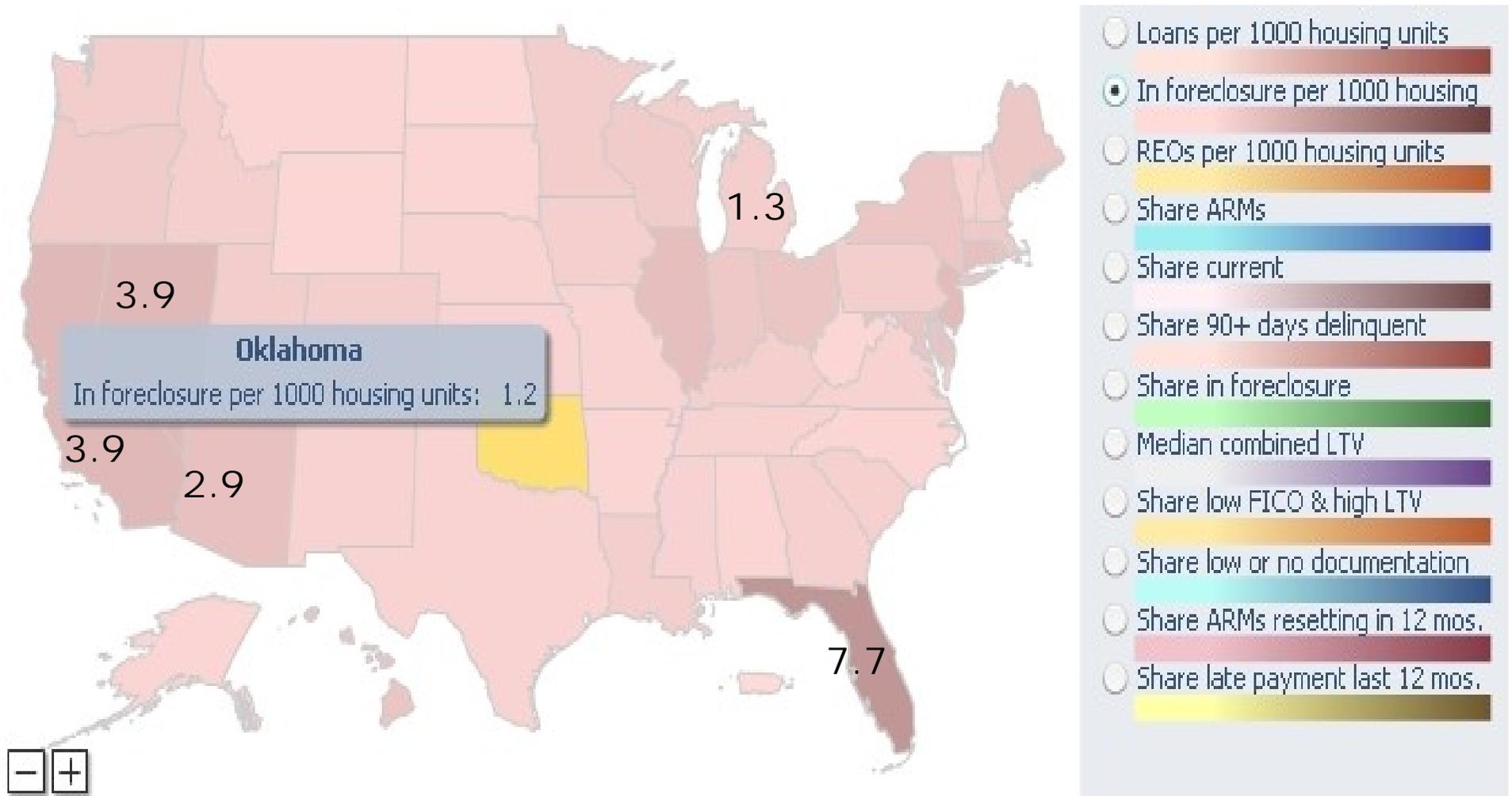
- Following Slides Give Market Information On Oklahoma Sub-Prime Mortgage Market
- We Have Compared Oklahoma With Both The Worst Hit States, And With The Surrounding States For Comparative Purposes



Sub-Prime Mortgages

- Remember, Sub-Prime Mortgages Are Riskier
- Applicants Have Lower Credit Scores
- Higher Default Rates On Sub-Prime In Comparison To Prime Mortgages Or Alt-A Notes

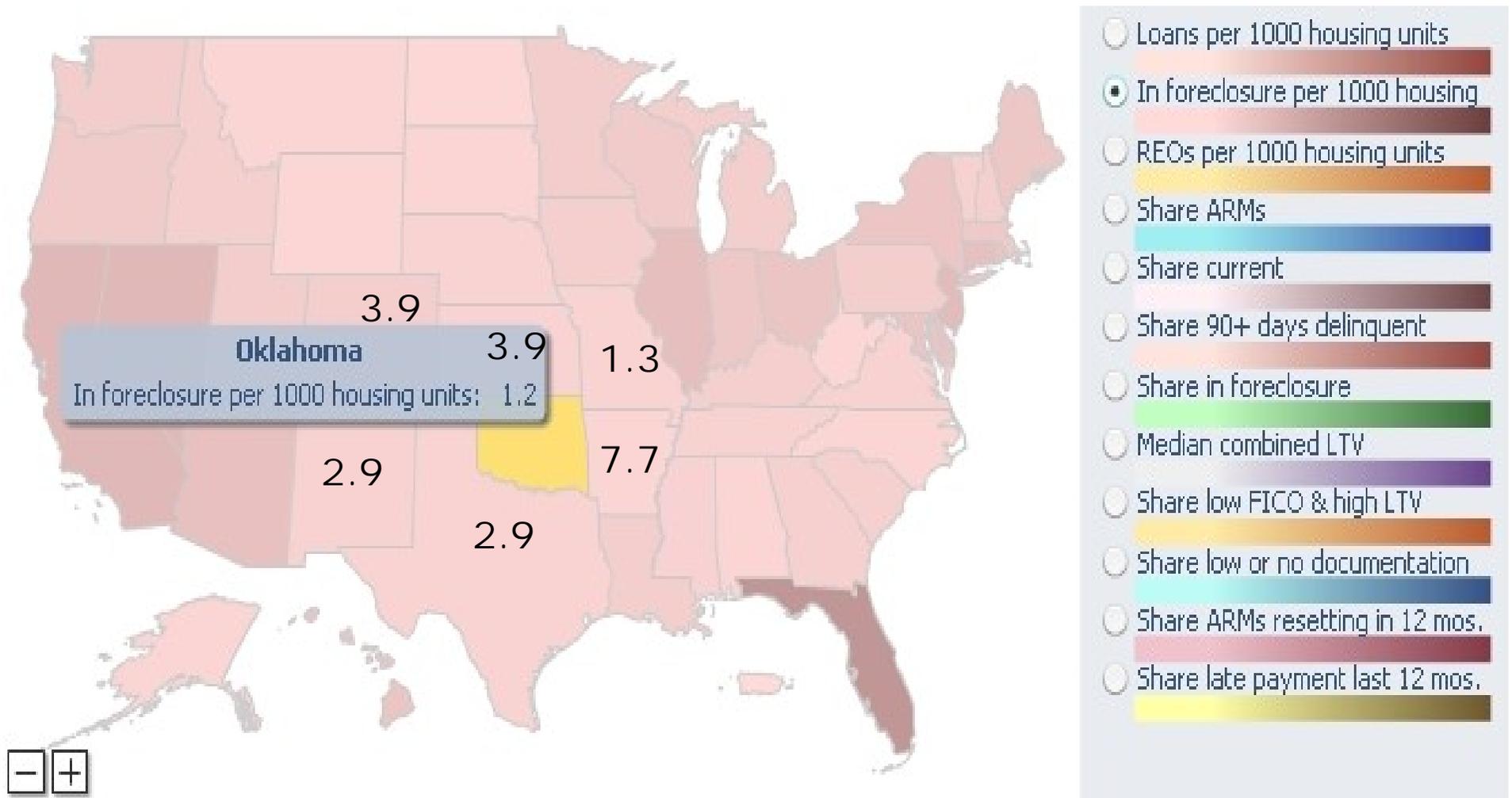
Oklahoma Sub-Prime Loans In Foreclosure Per 1,000 (In Comparison To Hard Hit Areas)



Source: FirstAmerican CoreLogic, LoanPerformance Data.

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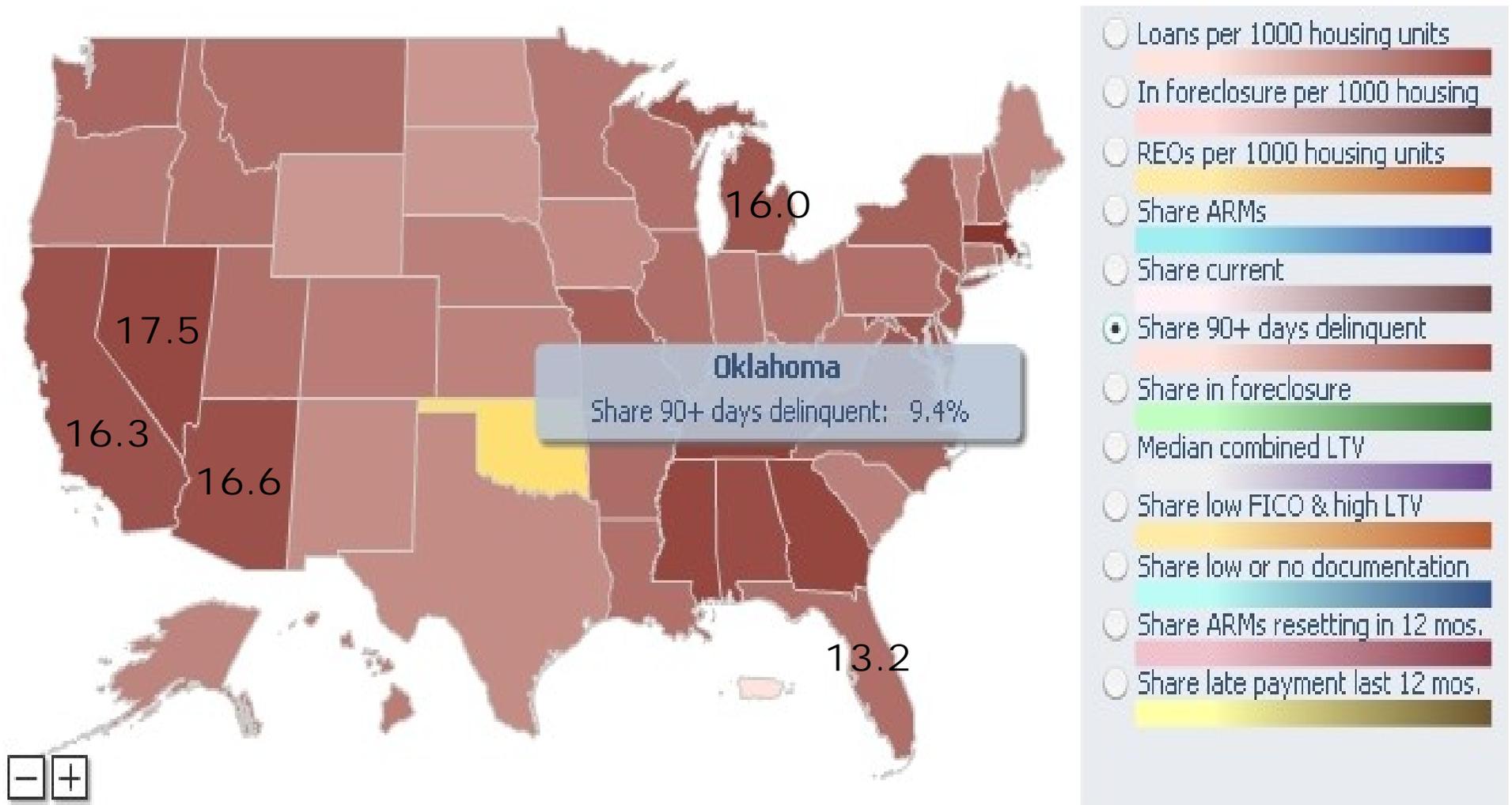
Oklahoma Sub-Prime Loans In Foreclosure Per 1,000 (In Comparison To Surrounding States)



Source: FirstAmerican CoreLogic, LoanPerformance Data.

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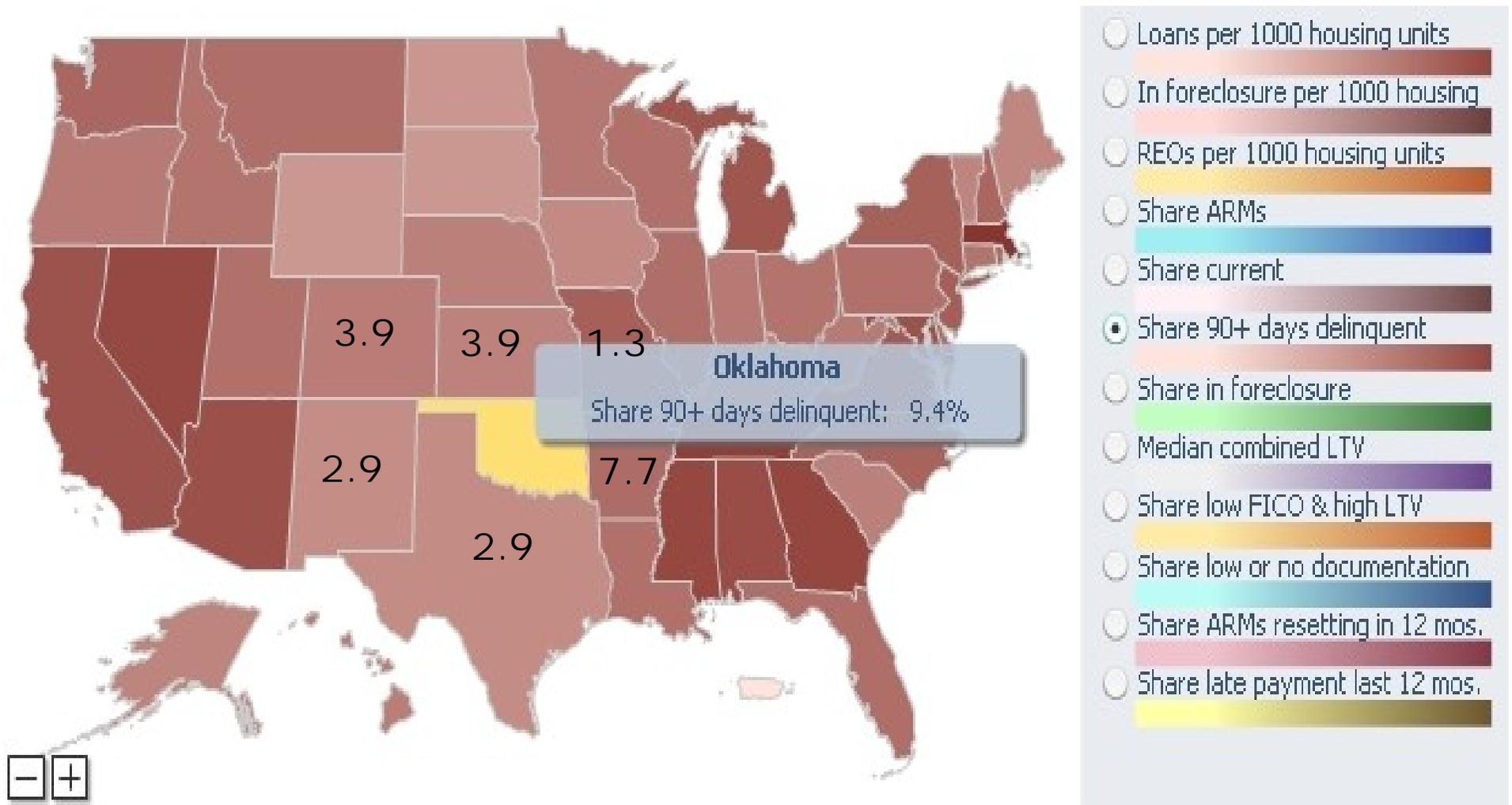
Oklahoma Sub-Prime Share Loans 90+ Days Delinquent (In Comparison To Hard Hit Areas)



Source: FirstAmerican CoreLogic, LoanPerformance Data.

Note: Darker shading indicates higher number, ratio or percentage.

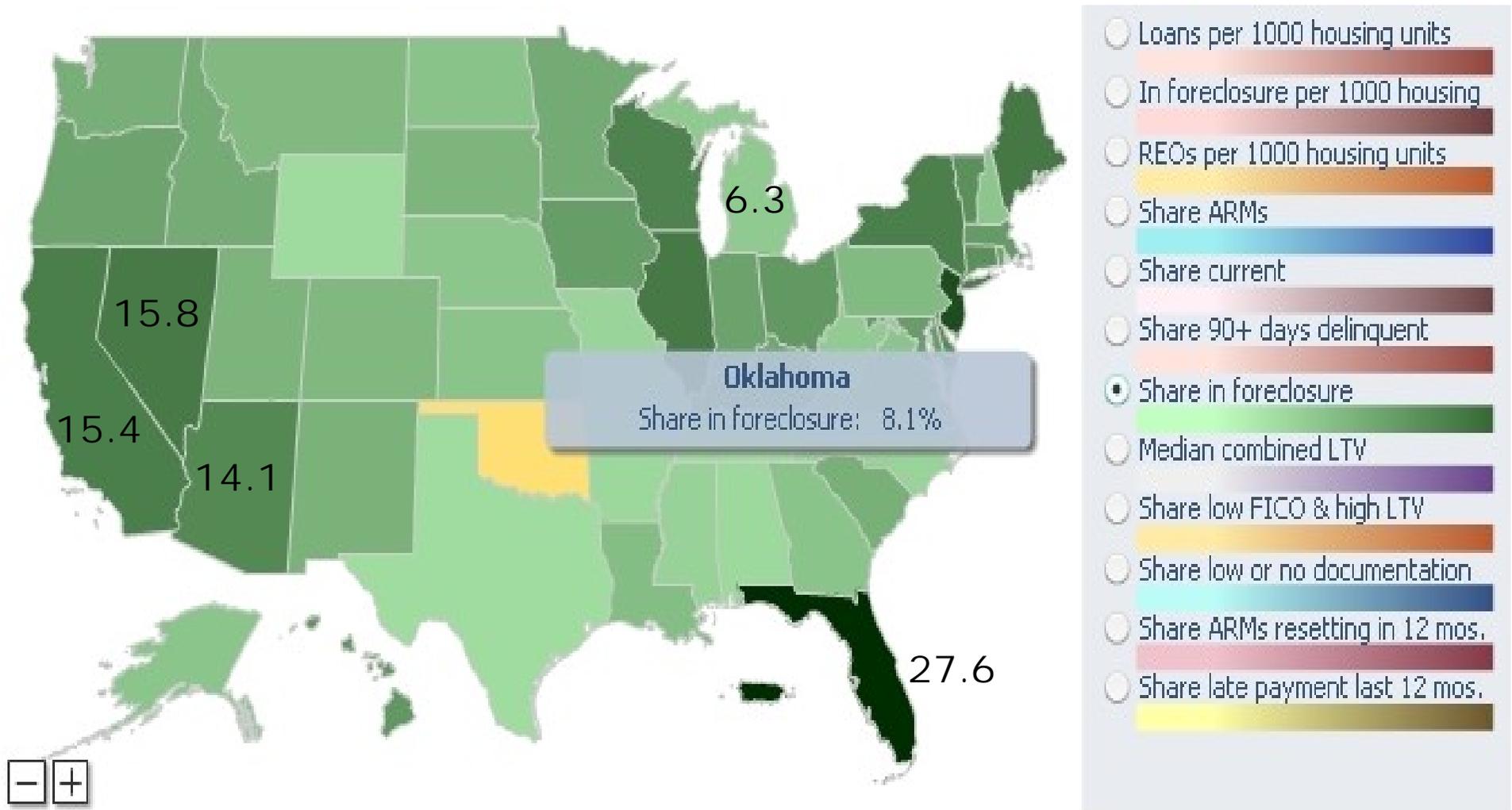
Oklahoma Sub-Prime Share Loans 90+ Days Delinquent (In Comparison To Surrounding States)



Source: FirstAmerican CoreLogic, LoanPerformance Data.

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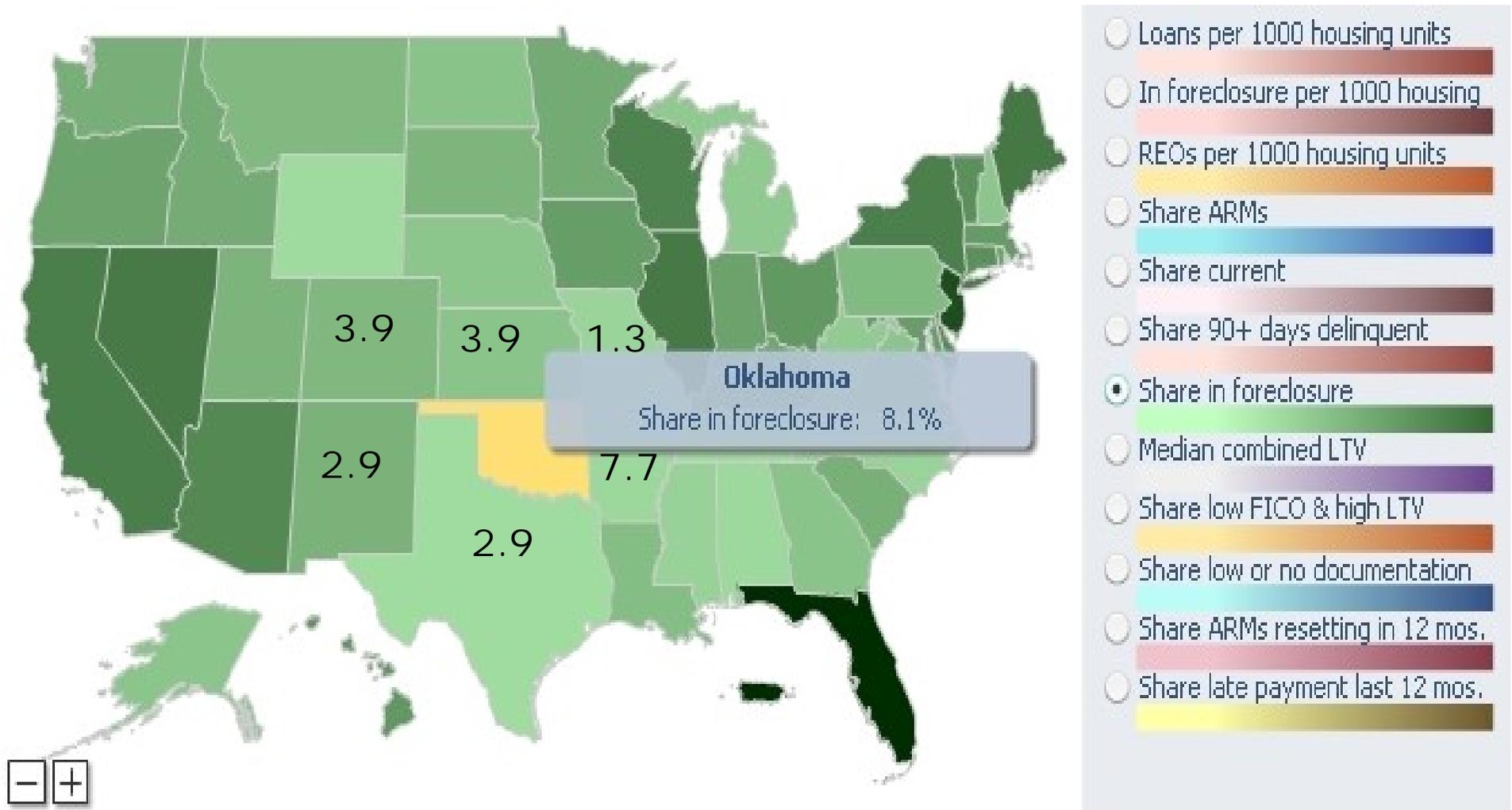
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Source: FirstAmerican CoreLogic, LoanPerformance Data.

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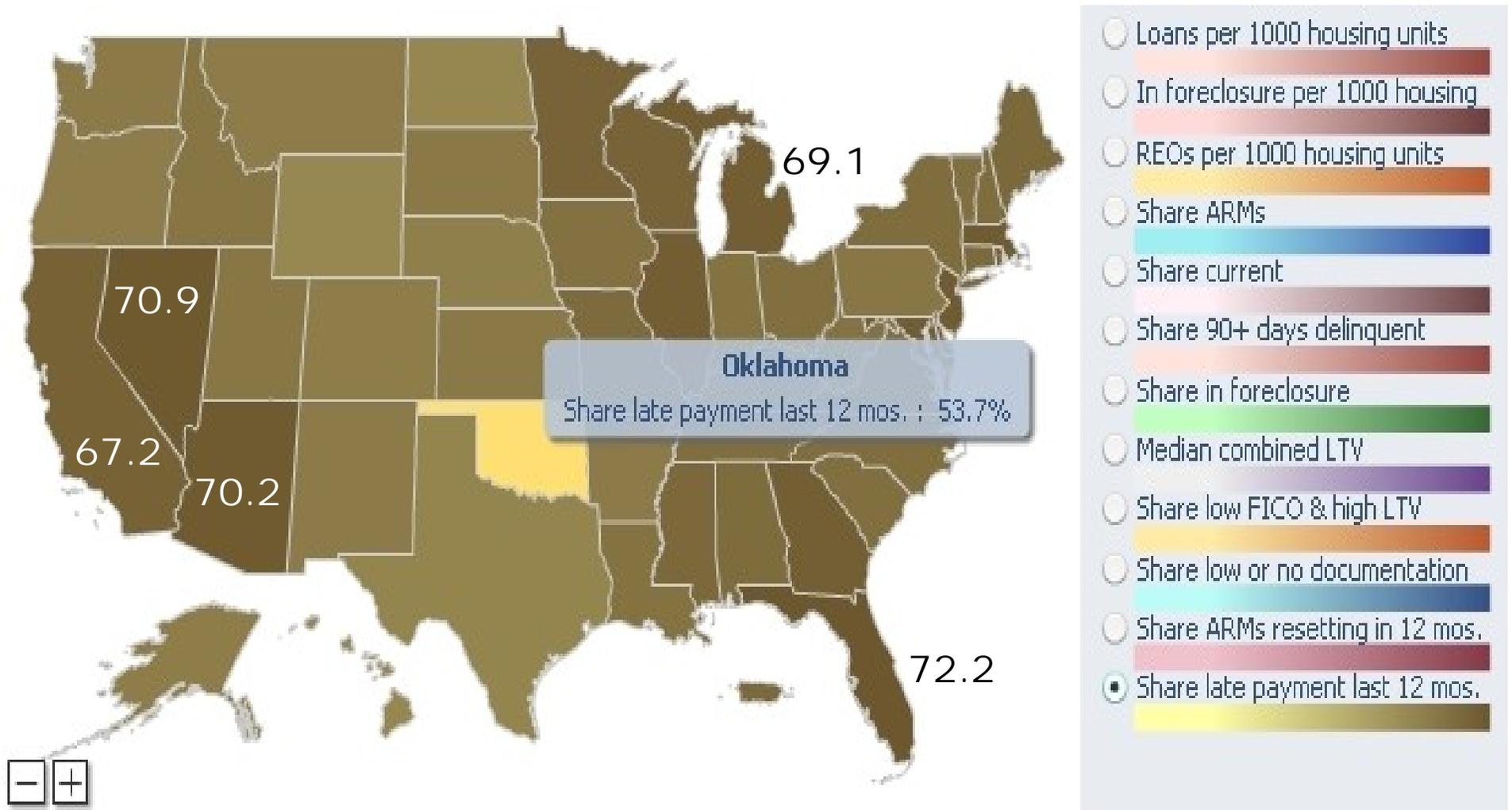
Oklahoma Sub-Prime Share Loans In Foreclosure (In Comparison To Surrounding States)



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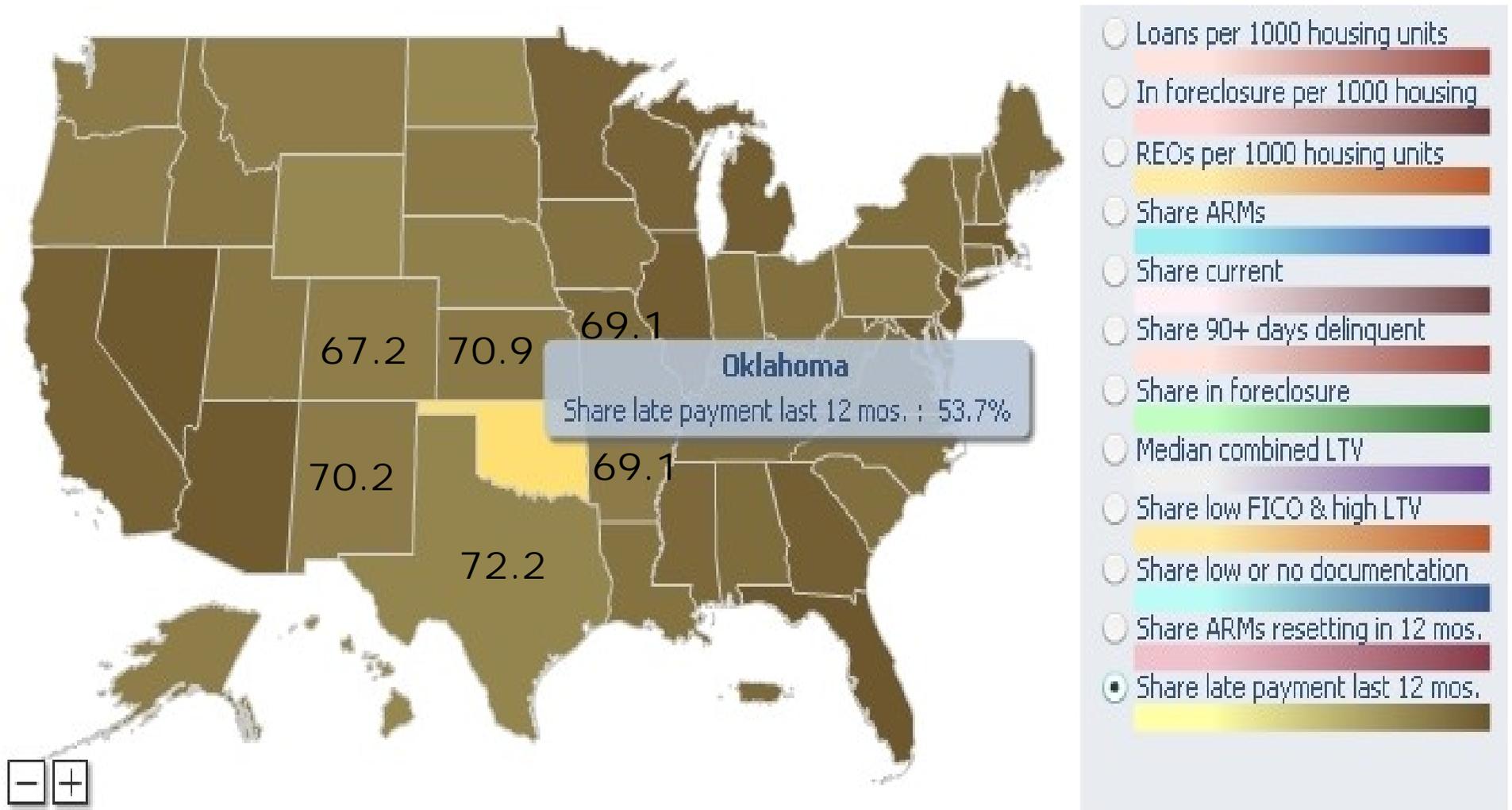
Oklahoma Sub-Prime Share Late PMT Last 12 Mos. (Darker Colors Indicate Higher % Late PMT's)



Source: FirstAmerican CoreLogic, LoanPerformance Data.

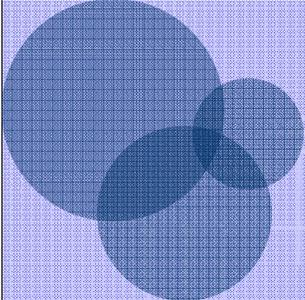
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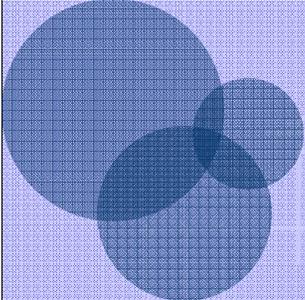
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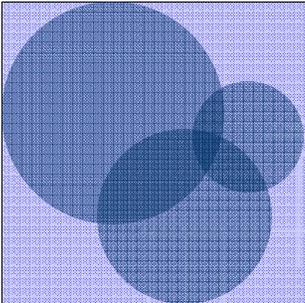
Valuation & Foreclosures

- Should Foreclosure-Related Sales Ever Be Used To Establish Market Value For Assessment Purposes?
- Answer Is... ***Maybe, Maybe Not!***
- Ongoing Debate, Discussion Nationally Among IAAO CAMA Practitioners



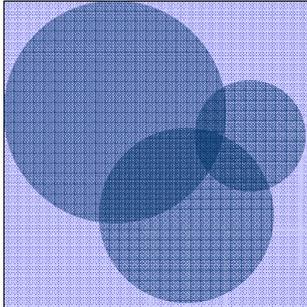
Valuation & Foreclosures

- Different Jurisdictions Are Taking Different Valuation Approaches With Foreclosures
- Local Market Conditions, Including Number of Foreclosures Overall & In Certain NBHD's Are Influencing The Valuation Approach



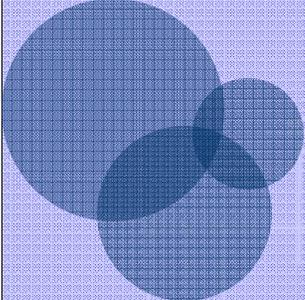
Valuation Problems With Foreclosures

- **“Catch 22 In Valuation”:**
 - Failure To Recognize And Consider Foreclosure Sales In Valuation Process May Cause Overvaluation
- AND Conversely**
- Including These Sales Without Sufficient Documentation Could Cause Undervaluations



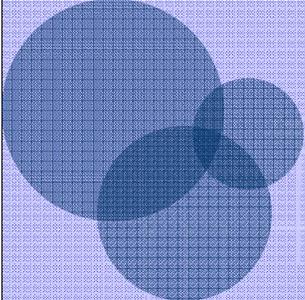
NAHB Press Release

- “New Guidelines Needed For Appraising Distressed Properties”
- Argue That Fee Appraisers Don’t Adequately Account For Differences In Condition Between Foreclosed Comparables And Subject Properties
- Say It Is Unnecessarily Driving Down Home Prices



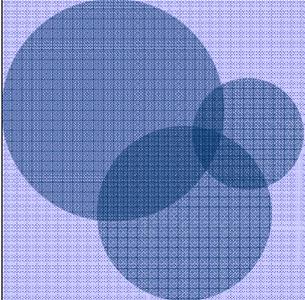
Valuation & Foreclosures

- Sales Verification & Documentation Are The Keys To Determining Whether And How To Use These Sales For Valuation Under Certain Circumstances



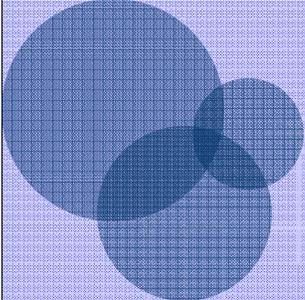
Valuation & Foreclosures

- In General, Sales Should Never Be Automatically Filtered Out Of The Sales File Based Solely On Value, But Rather On Whether They Meet "Arms Length, Open Market" Criteria.
- Foreclosure Re-Sales *Could*, Under Certain Circumstances Meet "Arms-Length" Criteria



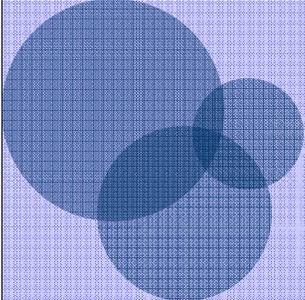
Approaches Around Country:

- Exclude Foreclosures Completely From Consideration In Valuation Process
 - Reasoning: “Because Foreclosures Are An Anomaly, Just A Small Portion Of Total Transactions In A Particular Area Or Jurisdiction, And Don’t Impact Market Value OR
 - “Because Other Regular Market Transactions Have Suffered A Decline In Value From The Foreclosures On The Market, And Thus No Further Adjustments Are Necessary” OR



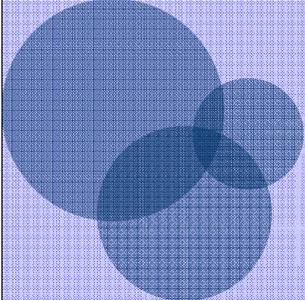
Approaches Around Country:

- “Because Our County Doesn’t Have The Resources To Inspect Each Foreclosure Sale And Make Adjustments For Damage/Depreciation Issues”



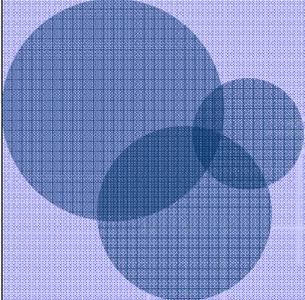
Approaches Around Country:

- Include Foreclosures In Valuation Process When They Have Been Verified As Representing “Arms-Length Criteria”
 - This Scenario Would Require Inspection And Adjustments For Repair/Damage Issues
 - Reasoning: “When These Sales Become A Significant Portion Of Transactions, It Is Necessary To Include Them In Analysis, With Proper Adjustments”



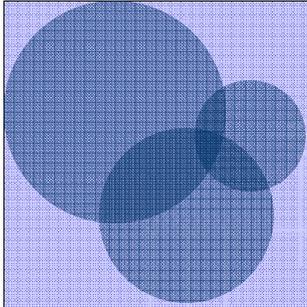
Approaches Around Country:

- Which Approaches Are Valid?
 - Maybe **ALL** Of Them In Specific Situations
 - There May Be More Than One Way To Handle Particular Valuation Problems Due To Foreclosures In A NBHD, Or On A Broader Scale Within A County



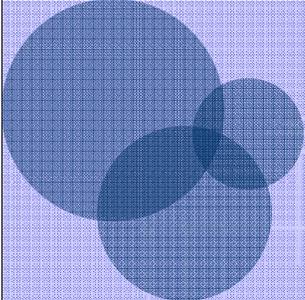
Practical Matters:

- 5% Forevever Vs. More Accurate Initial Market Value Estimate
- (Adjusting Foreclosure Sale To At Or Near Sales Price Vs. Placing Value That Reflects Remainder Of Market Transactions In NBHD)



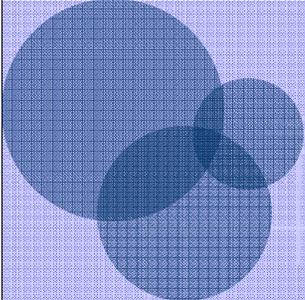
Hypothetical Scenarios:

- Scenario A One Foreclosure
- What To Do...



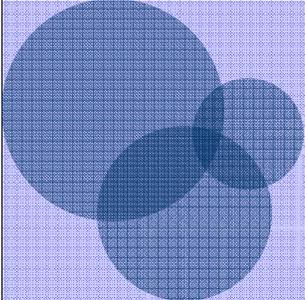
Hypothetical Scenarios:

- Scenario B:
 - 3 Foreclosures in NBHD of 500 homes With Total Number of Sales 25
 - Question To Ask:
 - Have These Foreclosure Sales Already Affected Sales Prices Of Arms Length Transactions?
 - What To Do...



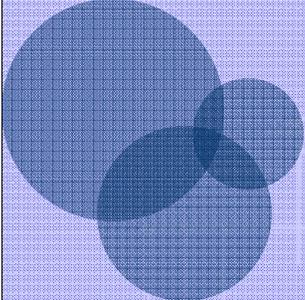
Hypothetical Scenarios:

- Scenario C:
 - 25 Foreclosure Sales in NBHD Of 500 homes With Total Number Of Sales At 27
 - Foreclosures Can Become The Market In Isolated Areas Or NBHD's
 - Happened In Mid-1980's With S&L Failures And Oil Bust
 - Could Happen Again This Time In Certain Areas
 - At This Point, Inspections For Condition Aren't As Critical, As MOST Sales In NBHD Are Suffering From Condition Issues & Are Foreclosure Sales



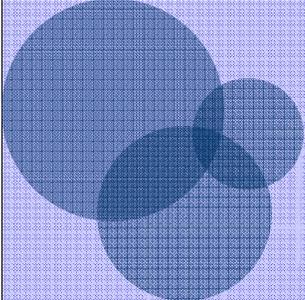
Foreclosures & Equalization Study

- Normal Audit Procedures For OTC Equalization Study Are To Screen And Remove Foreclosure Sales From Sample (See OTC Administrative Rules, 710: 10-3-24)



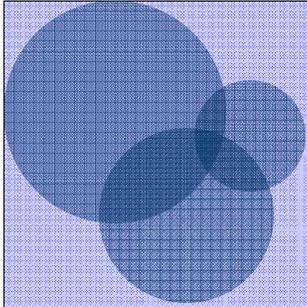
Foreclosures & Equalization Study

- May Be Excluded From EQ Study Sample Under 710:10-3-24 (b)
 - (1) Sales Which Secure Debt Or Other Obligation
 - (4) Sales Of Release Of Property Which Is Security For Debt Or Other Obligation
 - (7) Sales Pursuant To Foreclosure Proceedings In Which The Grantee Is The Holder Of A Mortgage On The Property Being Foreclosed



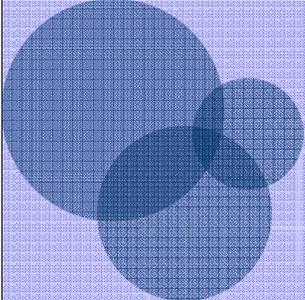
Foreclosures & Equalization Study

- OTC Will Consider A County's Particular Foreclosure Market Situation, And What Specific Actions It Has Taken To Recognize Foreclosures In The Valuation Process,
- Based On County Valuation Approach, OTC Review And Adjust Equalization Study Sales Data To Account For These Actions



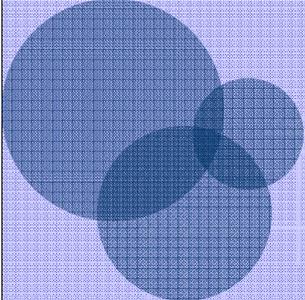
Foreclosures & Equalization Study

- Key For Counties & Foreclosures:
 - Systematically Approach Valuation Process (Including Plan For Dealing With Foreclosures)
 - Document Process Of Sales Validation, Adjustments, Valuation Every Step Of The Way
 - Present Information To A&E Analyst For Consideration In EQ Study



Conclusions:

- Review IAAO Paper On Foreclosures:
 - Go To IAAO.org
 - Scroll Down Page To Exposure Drafts
 - Click On “A Guide To Foreclosure-Related Sales & Verification Procedures”



Conclusions:

- *"This Too Shall Pass..."*
- Problem Is Temporary
- May Need To Address Foreclosures In Your County Right Now
- Use A Systematic Approach
- Sales Verification And Inspection Are Critical If Using These Sales In The Valuation Process
- Document Your Valuation Efforts