The Hidden Threat of HOA Liens:

Why Delinquent HOA Accounts are a Threat to Investor ROI and First Mortgage Lien Positions

A White Paper from Sperlonga, LLC
January, 2013

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EXECUTIVE SUMMARY

The mortgage industry operates more carefully today than ever before in terms of the types of risks it will allow. Credit rules are strict, valuation oversight is high, antifraud measures are taken, and new originations are made virtually digital before submission to the major investors. But a danger exists that poses a tremendous risk for all stakeholders, and it comes from an unlikely source: homeowners associations.

Homeowners and other types of community associations (HOAs) are present in awe-inspiring numbers. The estimated 350,000 HOAs in the United States cover over 25 million households, represent every type of owned residential real estate, and involve 80% of new construction. (*Figure 1)*

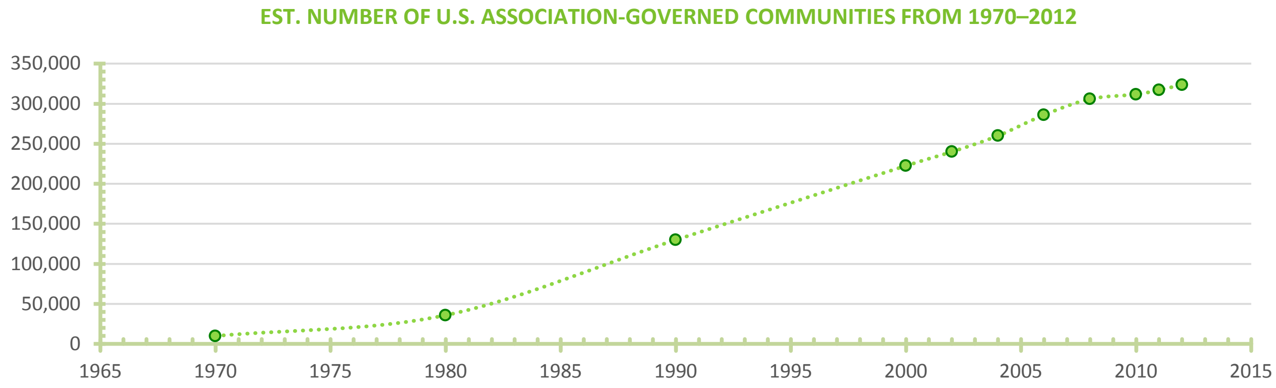

Figure 1 – Source: http://www.caionline.org/info/research/Pages/default.aspx

They have done much for property values in the nation's communities and command a great deal of attention from lawmakers and regulators. When their fees go unpaid, however, the communities suffer from deferred maintenance and other problems that ultimately affect the markets in which they are located.

The great majority of them are small, made up of only a handful of residences. The larger HOAs are managed professionally, but while representing larger communities, they encompass a small proportion of the total. This situation makes the majority of the HOAs in America extremely difficult to track, as officers typically change annually and they lack consistent organization and know-how. Mortgage origination has largely ignored HOAs in the documentation process, particularly when loans are passed on to investors. As a result, most lienholders and servicers are unaware of their presence on the loans under their care.

"The securitization industry has little understanding of HOAs and it must become educated quickly in order to safeguard investments in both the near term and over the long run.

There are currently over 25 million homes with HOAs, and the number is growing. We have performed significant work around the subject of HOAs and the pervasive problems they can pose when delinquent accounts are not managed. The extent of the threat represented by HOA liens is tremendous, involving the majority of new construction on all types of residences.

This is obviously seen as a problem by HUD and Fannie Mae, as they have taken action by requiring liens to be settled and HOA accounts to be kept current in all critical states. Why hasn't the securitization market asked for similar protections? Our problem is actually proportionately larger, since a greater number of the assets in our trusts involve one or more HOAs on each property.

This is a very real issue. Sperlonga is delivering a real solution to protect RMBS investors and the securitization market."

Jason T. Serrano
Co-Head of Structured Products & Managing Director, Oak Hill Advisors

HOA LIENS ENDANGER FIRST MORTGAGEE PRIORITY

In 16 states and the District of Columbia, liens recorded by HOAs for unpaid fees can supersede first mortgage positions, much the way tax liens, mechanics liens and other similar claims do. These "super lien" areas are expected to increase in number as additional states recognize the problem of unpaid HOA accounts and move to protect consumers.

SUPER-LIEN STATES

- Alabama
- Alaska
- Arizona
- Colorado
- Connecticut
- Florida
- Massachusetts
- Minnesota
- Nevada
- New Jersey
- New York
- Oregon
- Pennsylvania
- Rhode Island
- Washington
- Washington, DC

As a result of the understandable concern over this issue, Fannie Mae and HUD now require servicers of loans falling under their auspices to proactively resolve HOA delinquencies that could result in endangerment to their first mortgage positions. With HOA information in short supply for servicers, however, this is far more easily mandated than it is accomplished. In addition to checking on loans seriously delinquent or in default, servicers are required to monitor delinquent HOA payments. They are further required to advance funds to cure HOA delinquent accounts in arrears 60 days or more on behalf of Fannie Mae and HUD.

These directives were issued to an industry that has not maintained HOA records, has no streamlined process to find and contact HOAs, and generally is unaware when an HOA is even involved in loans serviced by them. As for being equipped to monitor HOA delinquencies, it is difficult to track that which cannot be seen.

Sperlonga's experience indicates that losses of $7,300 per loan and more are readily possible for certain classes of mortgages—a major threat to all investors and particularly for those involved in residential mortgage backed securities (RMBS) portfolios.

THE BOTTOM LINE:
The mortgage industry is virtually defenseless against foreclosures by community associations for unpaid assessments. As Mortgage Banking Magazine mentioned in a 2012 article, HOA issues "may be the biggest problem most mortgage bankers have never heard about."

HOA LIENS DETERMINE SUCCESS OF LOAN MODIFICATIONS AND SHORT SALES

What is also unknown to many in the mortgage industry is the financial and labor resources impact of HOA Liens on loan modification, short sales and deed in lieu transactions. Often times, loan modifications are executed without discovery of delinquent HOA accounts since these obligations do not show up on the credit report but are not yet a recorded lien. A failed loan modification is then the result of not discovering and addressing a borrower's delinquent HOA account during the application or research phase of the loan modification process. Offering a reduction on a borrower's mortgage payment does not automatically eliminate the existence of a delinquent HOA obligation, and consequently borrowers who live in the delinquent HOA account scenario surmise that there is no way out of the bottomless HOA pit and default on the loan modification.

When it comes to deed in lieu or short sale transactions, HOAs have a direct impact on their success rate. The existing borrowers almost never have the capacity to remedy a delinquent HOA account prior to short sale or deed in lieu, nor does the buyer of the collateral. So the investor is usually left holding the bag and must pay off the delinquent HOA account so the transaction can close without a cloud on title. That translates to a direct dollar for dollar hit against the investor's intended recapture amount. Knowing that the average delinquent HOA obligation is approximately $7,500 and that 1 in 5 households are associated with an HOA, the total HOA risk impact to the securitization world is in the tens of millions.

The impact of delinquent HOA obligations on short sales and deed in lieu transactions to servicers is entirely different from the impact to the investor. When the investor decides that the HOA delinquency is too severe and cancels a pending short sale or deed in lieu transaction, the servicer has wasted staff time and labor dollars. The servicer can avoid such negative scenarios by deploying a systematic approach to discovering related HOA risk at the onset of a short sale or potential deed in lieu transaction, as well as by working with the investor to determine if going forward is prudent, considering the delinquent HOA account obligation.

HOA risk exposure should be determined prior to initiating any of these loss mitigation processes. The early discovery of the HOA risk can help to protect the investor's loan modification, short sale, and deed in lieu recapture targets from being compromised, while servicers can promote highest and best use of their labor and financial resources.

HOAs SOAR TO DOMINANCE IN THE U.S.

The HOA form of ownership caught on in the 1980s for all of the right reasons. Communities formed associations to make certain properties in their neighborhoods were maintained consistently, prevent many problems before they happened with common pre-agreed upon rules, and create amenities that would enhance the value of each home in the community. Covenants, Conditions and Restrictions (CC&Rs) became commonplace with new construction on single-family homes, as they had long been for condominiums and townhomes.

U.S. HOA GROWTH

- 309,600: HOAs of all types as of 2010—represents approximately 3000 percent increase since 1970.
- 11.6 Million: HOA homes in U.S., 1990, with 29.6 million residents.
- 24.8 Million: HOA homes in U.S., 2010, with 62 million residents.
- $30 - $35 Billion—Estimated annual operating revenues for HOAs in the U.S., 2011
- $2 Trillion—Estimated real estate value of HOA homes in the U.S., representing approximately 15% of total value of all U.S. real estate.

Source: CAI online.org

EST. NUMBER OF U.S. ASSOCIATION-GOVERNED COMMUNITIES FROM 1970–2012

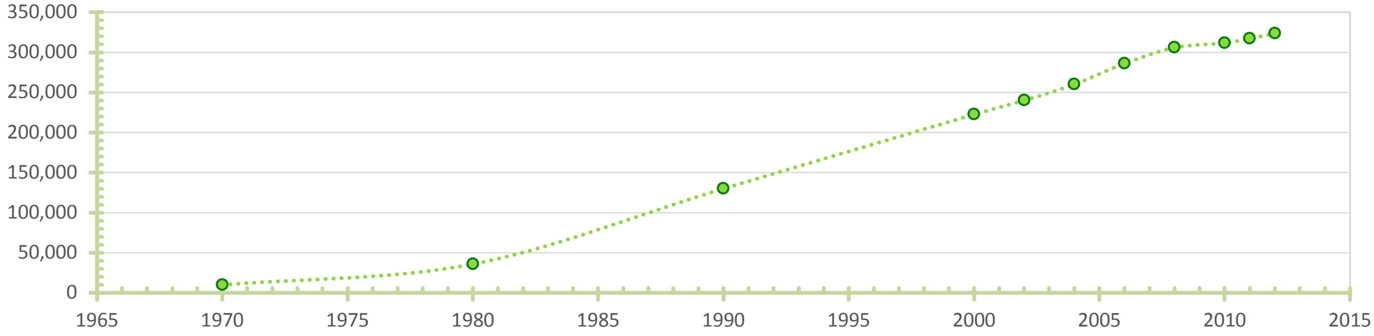

Figure 2 – Source: http://www.caionline.org/info/research/Pages

EST. NUMBER OF INDIVIDUAL HOUSING UNITS & RESIDENTS WITHIN THOSE COMMUNITIES

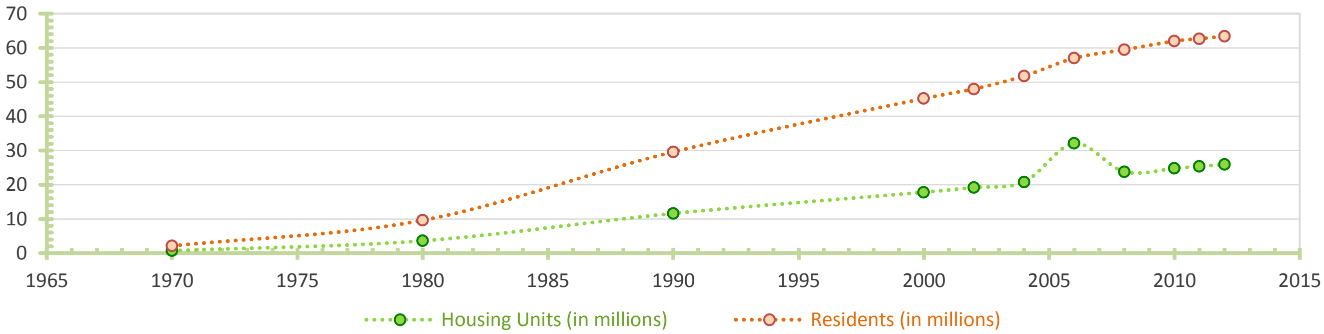

Figure 3 – Source: http://www.caionline.org/info/research/Pages

Common interest communities surged as America's homeownership increased, adding hundreds of thousands of HOAs to the housing scene. Many communities required membership in more than one HOA, particularly to address the needs of high maintenance amenities, such as golf courses. Homes set on or near courses are often required to support mini-associations within the overall HOA, helping to apportion maintenance costs more equitably.

The Community Associations Institute of Falls Church, Virginia, is the largest organization aimed at serving HOAs and their management companies, with membership of approximately 35,000 associations. CAI published remarkable numbers last year that many within the mortgage industry find surprising.

Just as revealing in many ways is that at 35,000 members, *the CAI represents only about 10% of the current estimated HOA market.* America's homeowners associations are tremendously fragmented, difficult to maintain contact with, and in many respects, "off the grid" for lenders, servicers, title insurers, data aggregators and others they affect.

DOCUMENTATION CHALLENGES

For a variety of reasons, the mortgage origination business has typically not tracked HOAs on the homes securing its mortgages. The CC&Rs are signed at loan closing or before, but keeping track of the HOAs or the CC&Rs themselves has never been deemed part of the originator's task. Likewise, post-origination entities that establish longstanding contact with borrowers, most notably loan servicers, have never regarded HOA tracking as part of their job. This may seem counterintuitive, but with servicing rights changing hands frequently and securitizations resulting in loan ownership transfers, the CC&Rs have been lost in the shuffle.

Property taxes and hazard insurance coverages have been tracked for decades, as nonpayment of these critical items have long been understood to carry dire consequences for servicers and investors. The significance of tax liens as a threat to first mortgage priority has never been in question in lenders' minds, and tax monitoring services have been available for a long time from major providers. Likewise, hazard insurance premium payments are monitored closely, with servicers frequently stepping in when coverages verge on lapsing to avoid potential risks.

But HOA accounts have had no such oversight in the past, and this exclusion is coming back to hurt servicers and investors.

The resulting effects over the long term have been that neither the original lenders nor the subsequent servicers are generally aware of the HOAs that are involved with their loans. This presents an enormous challenge for the entire real estate and lending community, particularly in the wake of a surge of foreclosure activity.

When foreclosures picked up in 2007 and reached alarming levels that continue today, HOAs found themselves in financial binds. Borrowers rarely continue to make HOA payments when going delinquent on mortgages—the HOA is actually among the first to go unpaid when members find themselves in financial distress. The amounts they owe are uncollectable by HOAs and their management companies, but when foreclosing banks take ownership, those institutions are responsible for making the same payments required of other owners in the HOAs.

"High delinquency rates place tremendous pressure on associations to meet their obligations to the homeowners who are paying their fair share," said CAI Chief Executive Officer Thomas M. Skiba, CAE, in a press release. "When some owners—including lenders that have foreclosed on homes and now own them—don't pay their share, other homeowners often must make up the difference in higher regular assessments or special assessments. Associations must still pay their bills."

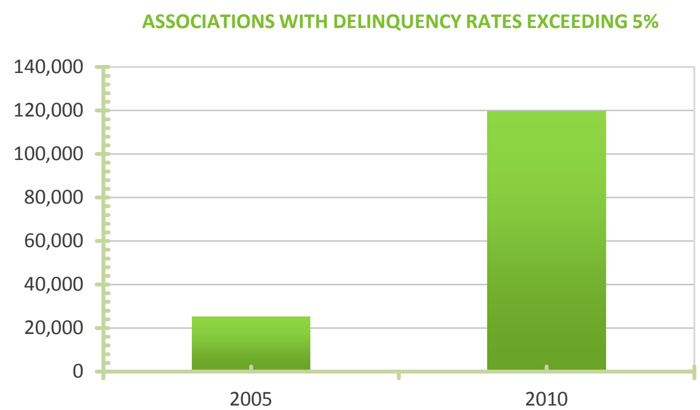

Figure 4 – Source: http://www.caionline.org/info/research/Pages

This is where problems and unforeseen liabilities mount for lenders, investors and servicers. They are, in most cases, unaware that an HOA is in place. The HOA, often managed by resident/officers who lack the expertise to find and contact the correct person within the foreclosing bank, has little ability to present payment claims. Even when managed by professional HOA management companies, the job of finding out where to turn for payment of HOA fees can be daunting. It is not uncommon for an HOA resident to present a bill at the local branch of a top five bank and demand payment for uncollected monthly dues from a teller.

The lack of a unified database for HOA information, a centralized place for HOAs and loan servicers to contact one another, has led to an emerging crisis for both parties. HOAs need payment to keep their communities in good condition; lenders and servicers desire to stay current on their HOA obligations to avoid problems while owning REO properties during remarketing activities. HOA claims and liens have been surfacing at the last minute for years, causing delays and failures in sales and title transfers.

A CLEAR AND PRESENT DANGER TO FIRST MORTGAGE LIENS

In the summer of 2012, Fannie Mae took action to protect itself from a new danger: HOA liens in the 16 "super lien" states. In these states and in the District of Columbia, prevailing laws can give HOA liens priority over the first mortgage positions of lenders and investors. Fannie Mae was the first to announce a new rule, followed closely by HUD.

The initial announcement on the GSE's website read, "Fannie Mae requires servicers to protect the priority of the mortgage lien and to clear all liens for delinquent homeowners' association (HOA) dues and condo assessments on properties acquired through foreclosure or deed-in-lieu of foreclosure."

Intended to protect homeowners and their associations from being ignored by the financial institutions and others holding title to the properties, the super lien laws have an additional, very broad implication for the mortgage industry. Mechanics liens for unpaid work and tax liens for delinquent payments to governmental entities are comparatively easy to monitor and resolve. Professional services help lenders satisfy tax claims and keep their first mortgage positions secure.

But no long-established service exists for HOA liens—in fact, there has heretofore not been a mechanism that connects HOAs and banks so that they know one another exist, much less conduct commerce. *As a result, financial institutions are daily running the risk of seeing their first mortgages eclipsed by HOA lien foreclosures.*

SIZE OF THE PROBLEM

There are approximately 6.7 million HOA member first mortgages in the U.S. that are affected by outstanding liens. Unpaid principal balances are currently estimated at around $11.8 billion.

As reported in *Inman News*, on September 21, 2012, ("Resolving HOA Accounts Before It's Too Late"), these losses happen to even the largest lenders. *Inman* mentioned a recent case where "JPMorgan Chase went 19 months on an REO it owned without paying the HOA fees. The HOA foreclosed on the

NON-CURRENT ASSETS IF TEST CASE IS NATIONALLY APPLIED TO HOMES INVOLVED WITH HOAs

property, literally wiping out JPMorgan Chase's investment. Fannie Mae and HUD are now requiring servicers to make sure they do whatever is necessary to not lose the first-lien position or get foreclosed on, because if the servicer lets that happen there will be a penalty that can include the repurchase of the entire loan.”

CASE STUDIES

Sperlonga was recently asked by a prominent Wall Street hedge fund to examine a representative portfolio of loans for potential HOA problems. The bond holder realized that it had no way of knowing whether any or all of the loans involved HOAs, much less if there were claims outstanding for unpaid fees.

Sperlonga researched over 200 loans in the sample portfolio and found that 159 of them involved HOAs and 129 of them had non-current HOA accounts. Almost half of these loans with HOA delinquencies were in super lien states where HOA liens can jeopardize lenders’ first mortgage positions.

Among this group of 129 loans, 33 had actual HOA liens filed and 23 were in the super lien states, representing the greatest vulnerability and loss potential. The trend was clear: HOAs in super lien areas are more than twice as likely to file recorded liens, as they know that these claims can take precedence over first mortgages.

Collectively, the HOA liens affected over $8 million in first mortgage balances. Though the average claim amount in the super lien areas was a comparatively low $4,200, the loss severity potential is great, with very significant financial and compliance implications for investors, servicers, rating agencies and other stakeholders. A far better process of proactive management is needed to protect the industry from the clear and present risks posed by HOA liens.

As for a case study from the servicer’s perspective, Sperlonga recently initiated a HOA risk portfolio analysis for a top 10 servicer with the objective of quantifying the percentage of the portfolio that is exposed to HOA risk, the average HOA risk per asset, and the number of 1st lien positions that have unknowingly already been lost. This particular servicer has made a commitment to start engaging HOA risk proactively instead of waiting to react once a delinquent HOA account obligation is about to or has compromised a loss mitigation alternative. Like so many other medium to large servicers, this particular servicer is not in possession of the needed bandwidth required to scour the portfolio, secure HOA account data and get in front of the HOA dilemma.

The servicer selected 5,000 severely delinquent mortgage assets from the portfolio that are located in super lien states and the data discovery was as follows:

Single HOA	4421	88%
Multiple HOA	208	4%
NO HOA	371	7%

Current HOA account	494	11%
Past Due	3368	73%
Uncooperative HOA	767	17%
GRAND TOTAL	4629	

DATA FROM HOAs THAT PROVIDED DETAILED INFORMTION	ALL ACCOUNTS WERE IN SUPER LIEN STATES	10% OF THE POPULATION WAS ASSOCIATED WITH A SEVERELY DELINQUENT HOA
Range	Count of DQ HOA Accounts	Total $ Delinquency
< $500	441	$ 84,265.88
$500 - $2,000	298	$ 312,327.67
$2,000 - $5,000	120	$ 383,535.75
$5,000 - $15,000	68	$ 592,443.07
> $15,000	20	$ 464,765.71
GRAND TOTAL	947	$ 1,837,338.08

One item to point out from the data discovery is that $1.8 million in total HOA account delinquency is only on 947 HOAs that provided detail account data, while a total of 3,368 reported past due HOA accounts. Using an average delinquent HOA account balance from the 947 accounts that reported detailed data, the total HOA delinquency could readily be approximately $6.5 million on this 5,000 asset sample. This total amount of delinquent HOA account obligations would serve as dollar for dollar reductions in the recapture amount from anticipated short sale and deed in lieu transactions on these 5,000 delinquent mortgage assets.

Systematic and proactive activities to secure delinquent HOA data at the very beginning of the loss mitigation process will place a servicer in the proactive HOA risk management position to ensure preservation of investors 1st lien position and ROI.

ADDITIONAL EXPOSURE FOR LENDERS AND SERVICERS ON HUD AND FANNIE MAE LOANS

Along with requiring that servicers protect first mortgage positions for Fannie Mae and HUD in foreclosure situations, the 2012 regulations now in effect demand that HOA delinquencies of 60 days or more be monitored and cured by advancing funds to the HOAs if the status of the lender's first mortgage position is at risk. In the case of foreclosures or deeds-in-lieu of foreclosure, such liens must be cleared no later than 30 days after the foreclosure sale or deed-in-lieu acceptance.

Once again, the problem posed by the lack of an established monitoring capability makes compliance with this requirement all but impossible for the mortgage industry. Lenders and servicers would have to create complete staffs to assemble information and keep track of the millions of loans affected by HOAs and the hundreds of thousands associations themselves. Further, regular contact would be required to know when 60-day delinquencies in HOA payments occur.

This is not a solution that is available even to mid-tier lenders, much less the larger ones. Costs would be staggering, with extreme competitive hardships for the entire industry. Nevertheless, compliance has been required for Fannie Mae transactions since July 1, 2012 and HUD transactions since August 1, 2012. HUD extended the deadline for compliance to January 1, 2013 and is expected to enforce its rules with vigor.

Metrics are not available regarding non-compliance at the present time and the potential magnitude of penalties. What is known is that the financial ramifications would be staggering, particularly when coupled with the exposure to loss of first lien position by the nation's lenders.

SOLUTIONS FROM SPERLONGA

Sperlonga was founded in 2010 as a unit of Matt Martin Real Estate Management, LLC (MMREM) of Arlington, Virginia. MMREM had long been working with HUD and other government agencies to manage and dispose of owned real estate, and had run into the problem of HOA liens frequently.

MMREM searched the available data sources for information on HOAs and found little that could be of real assistance. It seemed illogical for this now-vital data to be unavailable, but this was the case due to the lack of tracking over the years on community associations. Foreseeing greater difficult for the industry during the foreclosure crisis, Sperlonga initiated its database development project and formed its primary service offerings.

Today, Sperlonga's products and services stand unmatched as a cost-effective solution to the multiple problems caused by the absence of HOA tracking on tens of millions of American residences.

SPERLONGA SOLUTIONS INCLUDE

***Community Association Locator*SM** *– The industry's leading HOA search technology*

Sperlonga uses its award-winning proprietary technology to identify all community association that are attached to a property and provide that information to investors, servicers and lenders who seek to bring delinquent HOA accounts current or settle outstanding claims. This identifying technology can be used on individual loans or across entire portfolios to yield essential information that all servicers require, particularly if servicing HUD and Fannie Mae loans.

Delinquency Check™ *– HOA research from Sperlonga*

Utilizing outreach methods and a purpose-built database representing the majority of the nation's estimated 350,000 community associations, Sperlonga identifies HOAs related to each property (many have more than one), determines if delinquent fees are owed, and whether the first lien is in jeopardy. The Sperlonga Delinquency Check™ is that much-needed current snapshot of the HOA account, since this type of debt obligation does not appear on a consumer credit report and is not always a recorded lien that would show up on a title report.

LOLAS™ *– Life of Loan Association Surveillance*

Sperlonga monitors HOA delinquencies for compliance with GSE guidelines to keep HOA claims from threatening lien positions in the future. This service also provides an early warning of loan default, since HOA fees go delinquent well ahead of loan payments in virtually every case.

In addition to ancillary services from Sperlonga, these offerings represent the industry's best means of avoiding costly HOA-related problems, now and in the future.

ONGOING OUTREACH TO COMMUNITY ASSOCIATIONS

With a universe as fluid and active as the nation's community associations, Sperlonga is in constant contact with HOAs. Outreach occurs through a variety of channels, including publications, HOA organizations that support associations and their management companies, events and proactive searches. In the process of building and managing a growing its database of nearly 250,000 HOAs, Sperlonga is becoming a tremendous resource for America's communities.

Registration is available online at no cost to HOAs. The benefits they can gain are significant and lasting, providing answers to the problems they face every day in the interests of serving their homeowners. Where once the HOAs were almost helpless to do anything but hire attorneys to file liens, they now have a viable, easy to use alternative to recover owed fees and perform their chartered functions.

By initiating and continuing this outreach effort, Sperlonga provides the mortgage and investment industries with their best possible opportunity to control the risks imposed by the HOA lien threat. Using Sperlonga's identification services, mortgage servicers can now scan entire portfolios to determine which properties involve HOAs. Delinquency Check reveals which accounts are in arrears and present risk in super lien and other states. HOA surveillance provides the means to know when borrowers are falling behind on HOA payments, bringing servicers early warning on loan defaults and enabling compliance of Fannie Mae and HUD monitoring requirements.

Sperlonga stands as a catalyst in the important symbiotic relationship between the mortgage business and the nation's HOAs, enabling both to achieve their goals while minimizing exposure for each.

IMPACT FOR SERVICERS AND INVESTORS

Just as carbon monoxide is dangerous in its undetectable nature, HOA delinquent accounts are just as harmful in their own "invisible" way. With over 25 million HOA properties involving more than 60 million residents, the potential for financial and regulatory damage to lenders and servicers easily runs into the billions of dollars, even when non-super lien states are excluded. The industry is all but navigating blindly if HOA oversight measures are not employed. Like the BP disaster in the Gulf of Mexico, caused by the malfunction of a single critical valve, much of the potential danger can be avoided by using cost effective resources that are now available from Sperlonga.

"We have had at least a half-dozen closings that have occurred on bank-owned properties where they have resold the properties without requesting a closing letter, leaving an unpaid balance on the account," said Jeff Hope, principal of Action Community Management. ACM is a Hiram, Georgia-based HOA management company with over 3,000 residences under its care. Hope's experience highlights the plight of HOAs all across the nation, and illustrates the potential danger for lenders and servicers, especially in light of the HUD and Fannie Mae requirements now in force.

"We find out about these when the new homeowner finally contacts us, or as we are inspecting the properties and finding a new owner in the home," Hope explained. "We then contact Sperlonga to help us figure out what happened and why a closing letter was not requested and help us get the outstanding funds for the association."

This is indicative of a common HOA problem, but more importantly, it points to the core issue for America's communities. Without owed accounts being resolved, both the communities and the mortgagees suffer: the communities with cash flow and maintenance concerns; the mortgagees with legal exposure and lien loss dangers over often-minute sums.

In an interview with *Mortgage Banking*, Hope noted that the amounts Sperlonga recovered in his first experience with them were enough to handle the landscaping budget for the affected communities for a month. This was a significant amount for those HOAs, but a small sum for the bank involved, and monies it was eager to pay to resolve the previously unknown issues.

ILLUSTRATIVE PAIN POINTS:

- **Servicers must know which of their loans are governed by HOAs.** Portfolios need to have property addresses researched to determine if HOAs are present in order to bring visibility to potential issues.

- **Compliance with Fannie Mae and HUD rules is not possible without a proactive HOA plan for resolving delinquencies in super lien states.** Additional states are enacting similar laws aimed at protecting HOAs and consumers.

- **HOA accounts go delinquent before mortgage payments.** Monitoring HOA delinquencies provides early warning for mortgage defaults and enables Fannie Mae and HUD compliance for curing 60 day HOA accounts in super lien areas.

- **Loss mitigation efforts are stymied when HOA status is unknown.** Unwarrantable condominiums are a prime example, as traditional financing is not available when HOA delinquencies exceed GSE limits. REO values are impacted and short sales or deeds in lieu of foreclosure may be the only options.

- **Loan modifications and short sales are endangered by HOA issues.** When HOA liens and claims are left unresolved, sales and transfers are delayed and costs are increased, resulting in broken transactions, missed opportunities and time consuming complications.

- **Access to HOA properties is limited without prior HOA knowledge and communication.** Delays and repeated attempts are a major issue for servicers and property managers that layer millions of dollars in costs onto already expensive scenarios.

- **Servicers are invisible to HOAs.** Associations struggle to find the correct place and people to accept claims for payment.

- **HOAs are invisible to servicers.** When servicers are aware of HOAs they do not know how to contact them. Sperlonga performed a study where a particular servicer had 18 addresses for a specific association rather than a single accurate, current destination for mail. Months were wasted in contact efforts.

- **Delays accrue costs for servicers and investors.** If contact is not made and claims presented properly, additional fees mount up and can lead to HOA foreclosure in super lien areas.

- **When and if contact is finally made, HOA claims require skilled examination.** Associations are struggling for survival in many cases, and will add expenses on to claims where the servicer is known to make up for shortfalls on other unpaid accounts. Amounts for late charges and attorney's fees can be magnified, but servicers will pay them to discharge the debts, resulting in unwarranted losses.

- **REO property HOA payments must be proactively managed to control unnecessary losses.** Servicers pay tremendous amounts in penalties and late charges that can be avoided by using Sperlonga's services.

SUMMARY

Homeowners associations are a boon for residents and their communities, but they bring complications for lenders and servicers that present substantial dangers for financial loss if not addressed. Loss of loan collateral is chief among these dangers, and it is possible in the existing 16 super lien states and others that are enacting super lien legislation.

Many servicers with Fannie Mae and HUD loans are currently in danger of finding themselves out of compliance with rules now in effect mandating that HOA delinquencies be monitored on all loans in super lien areas.

Millions of loans are currently endangered as a result of unpaid HOA claims. It is unrealistic for individual servicers and lenders to undertake proactive solutions to this problem using internal resources.

Prior to Sperlonga, a viable solution to the very significant problems posed by America's homeowners associations was not available for the lending community. Utilizing its industry-largest database of HOAs, Sperlonga has the ability to resolve most HOA issues before they become problems that can threaten first lien priority for lenders and investors.

At the same time, Sperlonga has the capability needed to monitor unpaid accounts from HOAs, both before and after first mortgage defaults. Using this service, lenders not only learn early on about potential loan defaults on their loans, they also can remain in compliance with FHFA and HUD guidelines.

Sperlonga provides ongoing and proactive solutions for HOA problems. Using its proprietary technology, industry-best database and unique array of services, Sperlonga tracks, communicates, helps negotiate and settle HOA claims before they endanger servicers and investors.

Rather than create entire departments and divisions to attempt to perform these tasks, Sperlonga provides these essential services at reasonable costs, reducing exposure, minimizing loss severity and eliminating overpayment of HOA claims.

ABOUT SPERLONGA

Based in Arlington, Virginia, Sperlonga Data and Analytics is an award-winning affiliate of MMREM, a national asset management firm whose clients include multiple federal agencies and private sector servicers, investors and insurers. Sperlonga Data and Analytics was created to provide a centralized interface for homeowners' associations (HOAs) and servicers in order to help stakeholders minimize losses associated with transaction delays and lost revenues caused by HOA claims. The recipient of a coveted Innovations Award from the PROGRESS in Lending Association in 2012, the company also provides additional outsourced management services for the clearing and resale certification process. Additional information is available at www.SperlongaData.com.

ABOUT MMREM

Matt Martin Real Estate Management (MMREM) is a financial services firm focused on delivering superior financial services to commercial and government clients. The firm, established in 2004, is a proven leader in asset disposition, financial advisory, loss mitigation and acquisition services. MMREM provides services nationwide through six offices located in Arlington VA (Headquarters), Dallas TX, Austin TX, Philadelphia PA, Irvine, CA, and Atlanta, GA. MMREM was named to *Inc.* magazine's 31st annual Inc. 500|5000, a list of the fastest-growing firms in the country, in August, 2012. MMREM is ranked number 116 out of the 500 fastest-growing privately held companies in the United States. For more information visit www.MMREM.com.

FOR MORE INFORMATION

Knowing whether an HOA account is delinquent can be the difference between a successful or failed loan modification, short sale or Deed in Lieu. Equifax now offers HOA Identification and Delinquency Check services powered by Sperlonga. **For more information, contact your Equifax sales representative**.