October 2016
A report by UNITE HERE

Eileen O'Grady
eogrady@unitehere.org
925-324-4091

Dermot Delude-Dix
ddix@unitehere.org
401-742-6107

Will Oaktree run afoul of HUD requirements on distressed Baltimore mortgages?

Executive Summary

- Oaktree Capital Management has purchased over 5,000 total loans through the Department of Housing's Distressed Asset Sale Program, with 612 loans in Baltimore City and Baltimore County, MD.
- UNITE HERE organizers visited 320 homes whose loans were purchased by Oaktree and found 145 (45%) homes that appeared to be vacant.
- HUD post-sale reporting data indicates that Oaktree modified 14.2% of the loans it purchased in Baltimore. According to HUD data, it appears to be the only purchaser in the 2014 sales that failed to reduce the unpaid principal balance on a single loan it modified.
- Of the loans Oaktree modified, over half incurred an increase of at least $10,000 on the principal. Fourteen percent increased by $50,000 or more.
- 40% of Oaktree's Baltimore loans have completed the foreclosure process and 21.2% remain in delinquent servicing in foreclosure.

Introduction

In December 2013, Oaktree Capital Management won its bid for a pool of 612[i] securitized residential mortgages in Baltimore through the Department of Housing and Urban Development's (HUD) Distressed Asset Sales Program (DASP).[ii] As part of an initiative to stabilize distressed neighborhoods impacted by the financial crisis, DASP requires purchasers to meet specific benchmarks designed to stimulate neighborhood stabilization. While Oaktree has until December 2018 to fulfill HUD's requirements, it is not clear the company in on a track to success; while over half of a pool's loans are required to achieve a neighborhood stabilizing status, Oaktree appears to have 22.9%[1] in Baltimore as of June 2016, which is below the threshold. Moreover, 40.4% of the homes have gone through foreclosure and 21.2% are currently in foreclosure.

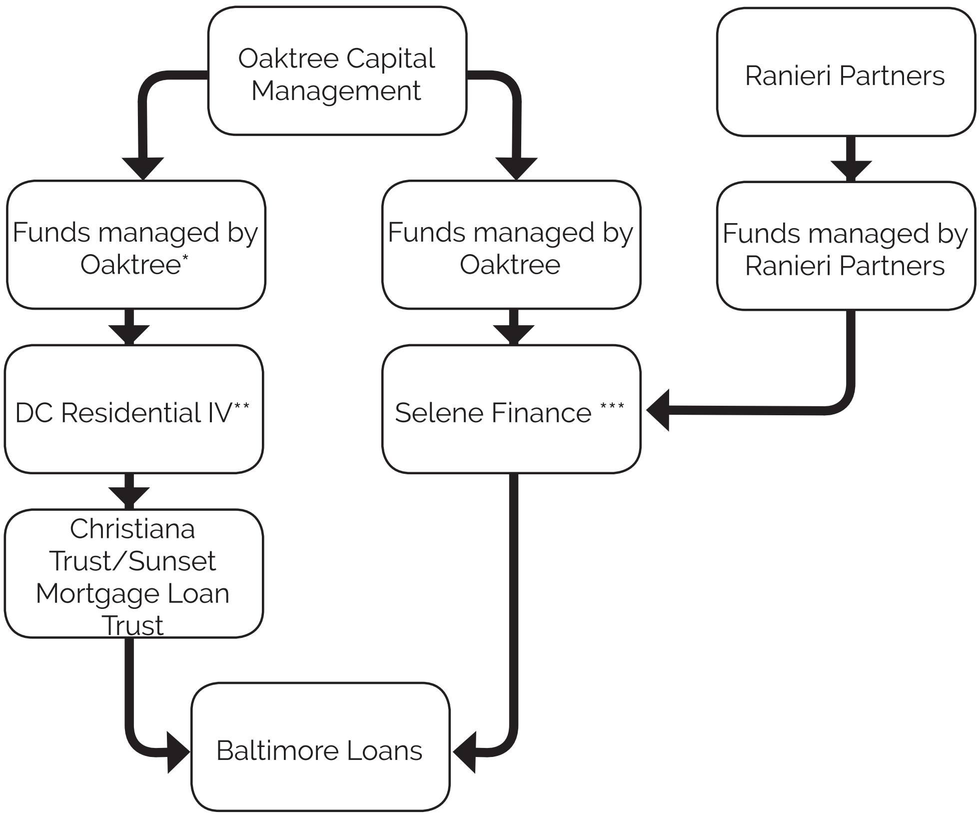
---

i. The number of loans sold in the Baltimore, MD pool was originally reported as 803. A public records request as of June 2016 included post-sale data for 612 loans. HUD's Department of Asset Sales clarified in an email that: "Notes that are no longer eligible are removed from the sale and retained by the original servicers. Thus, sale summary counts (reported immediately after bid day) always differ from post-sale reporting counts (reported six months after the sale) due to fall out."

ii. While the bidding occurred in December 2013, the loan pool is recorded by HUD as SFLS 2014-1 and will hereto be known as a 2014 sale.

Oaktree Capital Management

Los Angeles based Oaktree Capital Management is the world's largest distressed debt investor, overseeing $98.1 billion in assets under management as of June 30, 2016.[2] The firm specializes in corporate and distressed debt, with additional funds in real estate, private equity holdings, energy and infrastructure-related assets, and emerging market stocks.



Oaktree has contracted Selene Finance LP as the loan servicer responsible for managing Oaktree's HUD loans across the country.[3] Founded in 2007, Selene is one of two mortgage servicers selected as a Ginnie Mae Default Servicer. It is owned indirectly by investment funds managed by Oaktree Capital Management and Ranieri Partners Management.[4]

**Oaktree has raised several real estate funds whose investment periods have overlapped with the firm's DASP purchases: Oaktree Real Estate Opportunities Fund V, Oaktree Real Estate Opportunities Fund VI, Oaktree Real Estate Debt Fund.*[5]

*** Oaktree purchased different DASP pools through varying purchaser entities, DC Residential I through DC Residential IV. DC Residential IV is responsible for purchasing the SFLS 2014-1, including 612 loans in Baltimore.*

**** Selene Finance is owned indirectly by investment funds managed by Oaktree Capital Management, L.P. and Ranieri Partners Management.*[6]

Distressed Asset Sales Program (DASP)

Oaktree's involvement with residential non-performing loans in Baltimore began with HUD's DASP program. HUD launched the program in 2010 to facilitate the sale of pools of thousands of FHA-insured distressed loans to investors such as private equity and hedge funds, non-profits, and local governments, and focuses on defaulted loans not yet in foreclosure. According to HUD, the program "maximizes recoveries to the MMI fund,[iii] reduces claim costs, minimizes the time that assets are held by the FHA, and helps keeps borrowers—otherwise headed to foreclosure—in the home. The DASP program[iv] also serves as part of the FHA's effort to target relief to areas experiencing high foreclosure activities."[7]

In a 2016 report on DASP, the National Consumer Law Center found that the loans were typically sold at a steep discount:

> For example, in sales over the past two years HUD sold the loans for from 52% to 66% of the amounts owed. The loans typically sold for less than the market values of the properties involved, as assessed by broker price opinions. The loans sold for 68% to 78% of the properties' estimated values.[8]

The discount ostensibly allows purchasers more space for leniency with homeowners, while still making an adequate risk-adjusted return.

Neighborhood Stabilization Outcome

Born out of the distress following the 2008 financial crisis, DASP aimed to mitigate losses incurred by the FHA as homeowners fell into default. To that end, HUD initiated the Neighborhood Stabilization Outcome (NSO) program, whose post-sale requirements "encourage investment in communities hit hardest by the foreclosure crisis to stabilize neighborhoods."[9]

NSO pools are regional pools with targeted locations, such as Baltimore, MD, and subject to more stringent requirements than national pools to ensure homeowner retention. Buyers are expected to achieve the goals of the NSO program with respect to at least half of each NSO pool over four years. According to HUD, neighborhood stabilization includes loan re-performance, sale to owner occupant, short sale, rental of the property for three years, gift to a land bank, or sale to an unaffiliated non-profit grantee. If a buyer fails to comply with the NSO requirements, HUD may impose financial penalties.[10]

---

iii. The FHA's Mutual Mortgage Insurance Fund (MMI) is responsible for insuring FHA-issued mortgages on single-family homes.
iv. Single Family Loan Sale (SFLS) program is the original name for HUD's DASP program. The name was changed to DASP in 2012.

Oaktree Sees Opportunity in DASP

Oaktree made its foray into DASP asset sales in 2012 with NSO pools in Newark, NJ and Tampa, FL. Subsequent pool purchases in Orlando, Southern Ohio, North Carolina, Maryland, Washington, D.C., and Virginia have made the firm the second largest purchaser of NSO pools at 19% of total NSOs. 4,761 loans account for $805,965,491 UPB[11] and make up a majority of the firm's 5,290 overall loans.[12]

Oaktree and DASP in Baltimore

In December 2013, Oaktree won bids for three loan pools in HUD's SFLS 2014-1 NSO package. The pools included loans in Baltimore City and Baltimore County, as well as loans elsewhere in Maryland, Washington, D.C., and Virginia. Oaktree's share represented the largest number of loans in 2014-1 NSO, with 38% of total loans in the package.[13]

Oaktree was awarded the Baltimore bid for 48.25% of the total unpaid principal balance of that loan pool and 64.92% of the properties' estimated values.[14]

According to post-sale reporting data provided by HUD in response to a public records request,[15] Oaktree modified 14.2%[16] of the loans it purchased in Baltimore. Based on UNITE HERE's review of the data provided by HUD, Oaktree appears to be the only buyer in either the 2014 National or NSO pool that did not reduce the principal on a single loan it modified. Indeed, over half of Oaktree's modified loans in the 2014 sale saw an increase of at least $10,000 on the UPB. Fourteen percent increased by $50,000 or more.[17]

> Oaktree appears to be the only buyer in either the 2014 National or NSO pool that did not reduce the principal on a single loan it modified.

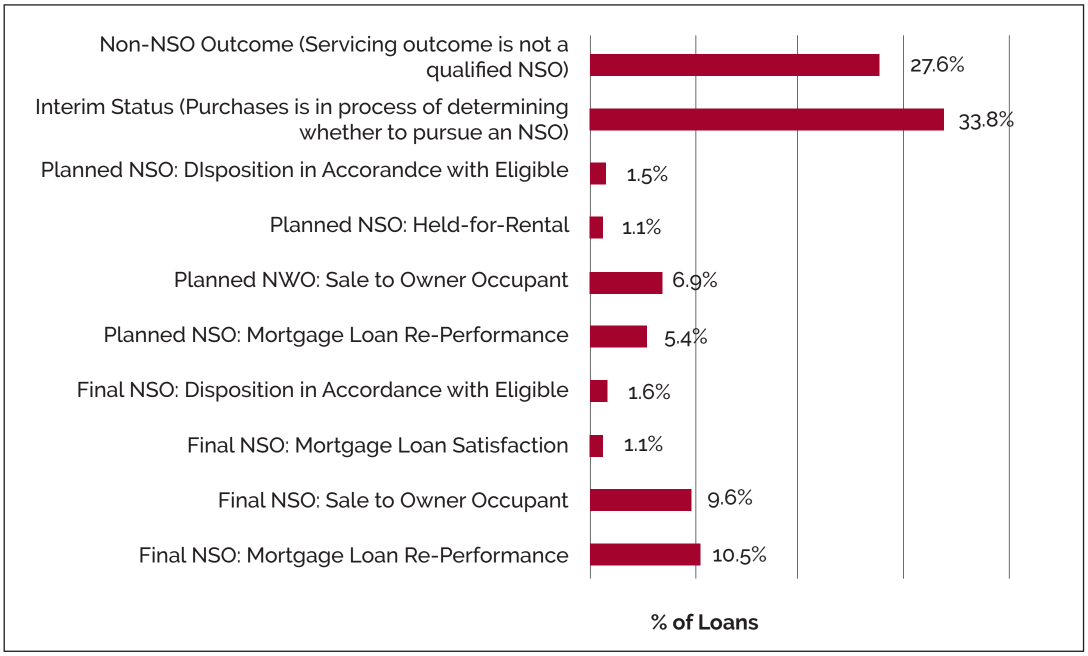
According to the same data, over 40% of Oaktree's Baltimore loans have completed the foreclosure process and 21.2% remain in delinquent servicing in foreclosure.

Status	# of Loans	% of Total
Foreclosure (including REO and REOs sold to a new purchaser)	247	40.4%
Delinquent Servicing in Foreclosure	130	21.2%
Short Sale	76	12.4%
Re-performing	56	9.2%
Forbearance	36	5.9%
Delinquent Servicing - Non-performing	31	5.1%
Deed-in-Lieu (includes REO and REOs sold to a new purchaser)	25	4.1%
Re-purchase	5	0.8%
Discounted payoff	4	0.7%
Paid in Full	2	0.3%
Total	**612**	**100.00%**

Data for SFLS 2014-1, pool 205. As of June 15, 2016. Compiled by UNITE HERE using data provided by HUD.

Per HUD regulations Oaktree is required to achieve Neighborhood Stabilization Outcome for at least half of the Baltimore loans by the end of 2018. As of June 15, 2016, non-NSO Outcome loans account for 169 loans (27.6%), the majority of which represent foreclosed loans that have been sold to another purchaser.

Two hundred and seven loans (33.8%) remain in interim status (the purchaser is in the process of determining the outcome). These are made up largely of Delinquent Servicing loans in foreclosure as well as foreclosed REOs still owned by Oaktree.



UNITE HERE Investigation

Between August-October 2016, UNITE HERE organizers located and visited 320 Baltimore properties whose loans were sold to Oaktree in the 2014-1 NSO sale. Of the properties visited, 145 (45%) appeared to be vacant.[v]

UNITE HERE contacted Baltimore homeowners whose mortgages were purchased through by Oaktree through the loan sale.

v. We concluded properties were vacant based on vacancy notices, winterization notices, and other documents posted on houses' doors to indicate vacancy.

Joann

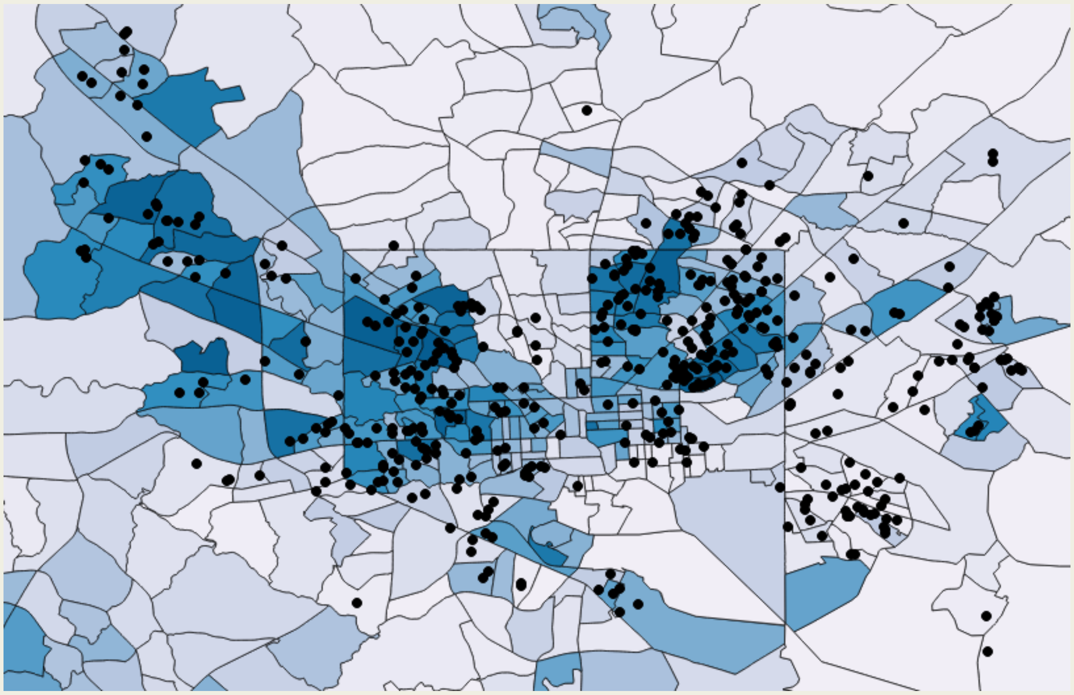
"In 2010 I suffered a health crisis due to my diagnosis of reoccurring Multiple Sclerosis. I could no longer work but it took me two years to get SSI. After spending all of my savings for retirement, my mortgage payment finally lapsed. I have attempted to negotiate a modification with Selene Finance without success. Selene requested the full balance of the mortgage or they would foreclose. I am awaiting the foreclosure notification without knowing what the future will be."

Ricky

"My wife and I are fighting for a home for our family. I want to see some light at the end of the tunnel but after dealing with Selene Finance, I feel like we're in an even worse situation then when we started. We have a mortgage that won't be paid off until 2054, with a $189,000 balloon payment. We'll be 71 years old then. There is no way we will be able to pay that off."

Oaktree Loan Distribution by Race

Oaktree's Baltimore loans are located in predominantly African American neighborhoods.



Map depicts Baltimore City and Baltimore County.
Source: Maryland Land Records; United States Census Bureau, 2010 Demographic Profile 1 – Shapefile Format, DP0090002: Black or African American alone or in combination with one or more other races. <https://www.census.gov/geo/maps-data/data/tiger-data.html>

Questions for Limited Partners

- How will Oaktree ensure that it achieves its obligations to HUD's Neighborhood Stabilization Outcome? Are investors at risk to bear the cost of the potential financial penalty for a failure to achieve these outcomes?
- How does Oaktree intend to mitigate the potential headline risk associated with its impact on Baltimore communities?

Endnotes

1 Calculated using HUD's post-sale NSO classifications as of June 15, 2016, provided to UNITE HERE in response to a public records request. Final NSO through Mortgage Loan Re-Performance (64 loans), Sale to Owner Occupant (59 loans), Mortgage Loan Satisfaction (7 loans), Disposition in Accordance with Eligible Program Guidelines (10 loans) = 140 total loans achieved Final NSO. 140/612=22.88%.

2 Oaktree Capital Group, Quarterly Investor presentation: Second Quarter 2016. <http://ir.oaktreecapital.com/phoenix.zhtml?c=212597&p=irol-irhome>

3 Selene Finance power of attorney. Accessed through Philadelphia Commissioner of Records. Signed May 15, 2014. Doc ID: 52835410.

4 Selene Finance, "Selene Finance Names Diane Bowser Executive Vice President, Special Servicing ." March 21, 2016. <http://www.prnewswire.com/news-releases/selene-finance-names-diane-bowser-executive-vice-president-special-servicing-300237852.html>

5 Oaktree 2015 SEC Form 10-K <https://www.sec.gov/Archives/edgar/data/1403528/000140352816000045/a201510-kdoc.htm> pg. 21.

6 Selene Finance press release, "Selene Finance Names Tom Donatacci Executive Vice President of Business Development," PR Newswire. November 17, 2015. <http://www.prnewswire.com/news-releases/selene-finance-names-tom-donatacci-executive-vice-president-of-business-development-300179990.html>a

7 HUD Office of Asset Sales, "HUD Single Family Non-Profit Loan Sale Webinar: Encouraging Opportunities to Succeed," October 21, 2015. <http://portal.hud.gov/hudportal/documents/huddoc?id=slides.pdf> pg. 5.

8 Geoff Walsh, "Opportunity Denied: How HUD's Note Sale Program Deprives Homeowners of the Basic Benefits of Their Government-Insured Loans," National Consumer Law Center. May 2016. <http://www.nclc.org/images/pdf/pr-reports/opportunity-denied-report.pdf> pg. 10.

9 HUD, "Quarterly Report on FHA Single Family Loan Sales," May 30, 2014. <http://portal.hud.gov/hudportal/documents/huddoc?id=report082814.pdf> pg. 6.

10 HUD, "Neighborhood Stabilization Outcome Target Pool Mortgage Loan Rider." <http://portal.hud.gov/hudportal/documents/huddoc?id=targetpool.pdf>

11 HUD, "Report to the Commissioner," 2016. Pg. 8.

12 HUD post-sale reports for Oaktree purchases between SFLS 2012-3 NSO (September 27, 2012) and 2014-1 NSO (December 19, 2013).

13 HUD, "Report to the Commissioner," 2016. Pg. 41.

14 SFLS 2014-1 NSO Sale Results Summary, <http://portal.hud.gov/hudportal/documents/huddoc?id=2014.1,121913.pdf> pg. 3.

15 HUD data on file with UNITE HERE.

16 According to HUD data in the public records request filed by UNITE HERE, 87 of the 612 Oaktree loans in SFLS 2014-1 NSO pool 205 (Baltimore City and Baltimore County) have been modified as of June 15, 2016. 87/612 = 14.2%.

17 Data is available for 133 modified loans in SFLS 2014-1 NSO pools 205 (Baltimore, MD) and 206 (Washington, D.C., Maryland, Virginia). The UPB for 72 loans (54.1%) increased after modification by at least $10,000. It increased by at least $50,000 for 19 loans (14.3%).