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National Mortgage New s | Monday, March 8, 2010

By Bonnie Sinnock

The SwapRent concept has been slow to find traction, but there's hope for it yet.

Among a host of benefits that could be realized from its large-scale implementation, it could be useful in terms of today's loan resolution needs, according to creator Ralph Liu, founder/chairman of consultancy Advanced e-Financial Technologies Inc. and a veteran of the derivatives and global financial markets.

SwapRent could allow borrowers to reversibly and flexibly sell some, but not all, of the equity in their property back to the lender in exchange for a reduction in payment. This could buy them the time needed for a depreciating property to appreciate again, make the property more affordable and avoid the need for foreclosure as well as potential property damage, at least in cases where it was possible to avoid it.

SwapRent also could be a stepping-stone to homeownership and an equity-based alternative to a mortgage. Dividing a property's "shelter value" from its "investment value" makes it easier to syndicate its financing and improve its affordability, Mr. Liu said. And unlike a sale-leaseback situation, there wouldn't have to be an exchange of title that would add transaction costs, he added.

"Continued occupancy makes sense," said Jim Satterwhite, executive vice president and chief operating officer at Infusion Technologies, the corporate parent of National Quick Sale, when asked about the concept.

Roadblocks may be its association with the use of leaseback programs, which has been limited, and efforts to share equity, which have not had the best track record, Mr. Satterwhite said, adding, "The problem with all of those is how do you account for it?" When servicing is transferred accounting for equity participations becomes complex, he said.

"Equity participation sharing" in terms of "shifting investment risk to somebody willing to take it" has been talked about for years and never been used in scale, agreed CoStar vice president Norm Miller.

Now would be a good time to introduce SwapRent "when people realize real estate has risk," he said. Mr. Miller said past challenges to equity sharing efforts have been questions like "Who will manage it?" and "Will it be equitable?"

SwapRent aims to answer those questions and provide a blueprint for a new industry based on transparent trade of fully disclosed instruments, Mr. Liu said, noting that his ideas come from the derivative market but are made simple for consumers.

"Everybody understands 'renting vs. owning,'" he said.

The full list of benefits is so long Mr. Liu is filling a book with them.This sounds complex, but in the U.S. the syndication could be relatively quickly implemented through a limited liability company, he said.

Mr. Liu has implemented a host of global capital market innovations before. Paving the way for the first fixed-rate mortgage in China by introducing an interest rate swap is just one example. When asked if he thinks he will prevail again, Mr. Liu said he thinks all he needs is an influential decision-maker's backing.

"This could happen tomorrow. It could happen another year. I'm just going one step at a time," he said.

Correction

Please note the name of Stanislas Rouyer, senior vice president on Moody's Investors Service's specialty insurance team and author of a recent report on bond insurers, was incorrectly spelled in the March 1 Street Smarts.