

Welcome to *Policy Matters*, an engaging and informative monthly e-newsletter featuring expert insight and analysis on emerging relocation products, policies and services that can provide immediate benefit to your organization.

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Loss-on-Sale Assistance – A Necessity in Today’s Risky Real Estate Environment

Everyone in the relocation industry is painfully aware that most housing markets are still not in a recovery mode. In fact, home prices generally have not yet hit bottom—though some industry insiders believe the bottom is in sight. As long as the down cycle continues, transferees will face price-related problems as they attempt to sell their home when relocating.

As we mentioned in last month’s *Policy Matters*, there are a number of problems when it comes to selling a home in times of declining home values—over and above the very real problem of finding a qualified buyer who presents an offer that is not contingent on the buyer selling his or her home.

One of the most well-known challenges is what we have come to call loss on sale, which is simply the difference between what a home sells for in relation to the price at which it was purchased. Companies that have loss-on-sale programs in place can help ease the financial burden to its transferees, while companies without such provisions place the financial burden of the home-sale loss solely on the transferee.

A recent survey conducted by the Worldwide Employee Relocation Council[®] (ERC) concluded that 70 percent of respondents reported “slowed real estate appreciation at the old location” as the single most compelling reason their employees are averse to moving, strong evidence that loss on sale is on the minds of many transferees.

Loss-on-Sale Programs Can Help

We generally advise clients to consider a loss-on-sale policy to help protect their transferees from falling home values. For those companies that already have a loss-on-sale policy in place, we counsel them to re-evaluate their loss-on-sale policy to ensure it is sufficient in today's declining market.

SIRVA advises companies to consider a number of key questions when adding a loss-on-sale policy to their relocation program or modifying an existing benefit. These questions include:

Should your company offer such a benefit at all? Does it fit your company's corporate culture, and would such a policy be in alignment with its strategic objectives?

One of the first issues your company must decide is whether or not to provide loss-on-sale assistance. This decision has traditionally been based on two factors—the number of loss-on-sale situations (clearly on the increase) and whether a company is in a financial position to provide the benefit. The next decision is whether you elect to include this benefit as a part of your formal relocation policy or manage it by exception. We advise that there is a risk of disparate treatment in providing such a valuable benefit on an ad hoc basis. Industry data indicates that about half of companies provide loss-on-sale benefits; however, this number includes companies in which a majority of the relocations are new hires and therefore less likely to be eligible for such a benefit.

Who should be eligible for the benefit—all exempt homeowners or just one or more of the top tiers (when a relocation policy is tiered)?

With regard to eligibility, ERC reports that the majority of companies that do offer loss-on-sale assistance make it available to all exempt homeowner employees. A small number of organizations do apply it on a case-by-case basis, but in either scenario, we recommend that a formal procedure be in place for consistent and fair application to ensure the benefit is uniformly administered within the eligible tiers.

Should there be a minimum dollar or percentage loss that the transferee incurs before the company provides loss-on-sale benefits?

For those companies that are establishing or modifying a loss-on-sale program, we recommend a minimum benefit eligibility threshold (deductible) before eligibility for any company payments can commence. This process simply works like homeowner's insurance in that companies shouldn't be bothered with small claims. This deductible the transferee incurs can be based on a flat dollar amount or a percentage of either the home value or the actual loss.

Should the benefit have a maximum payout or benefit cap?

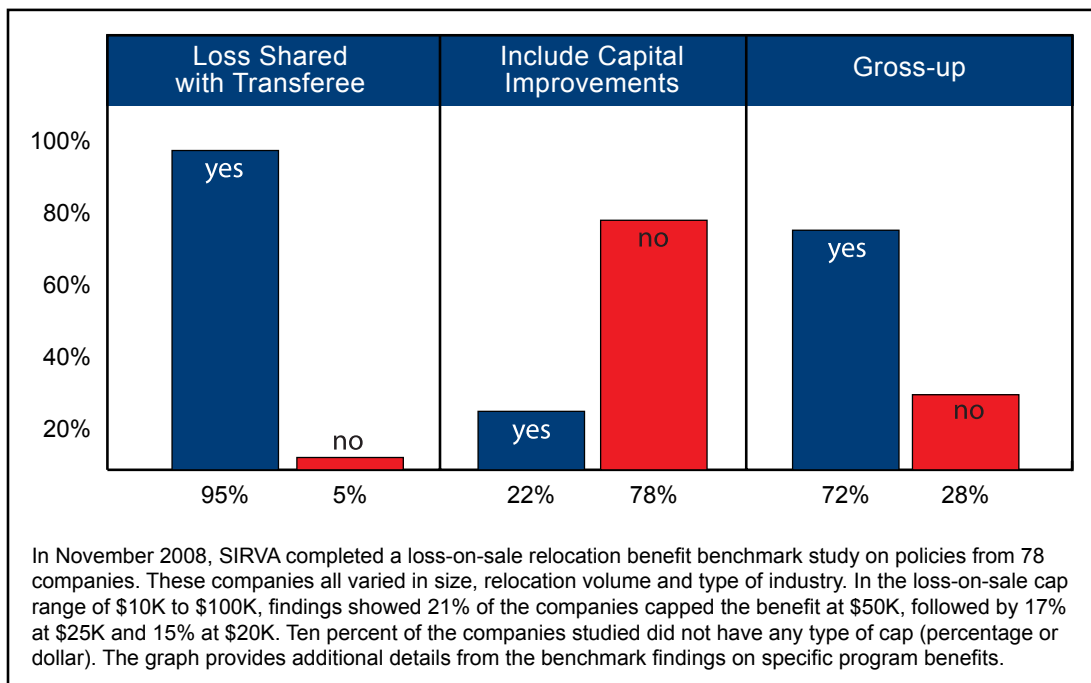
We advise that any loss-on-sale policy should have a maximum payout so that the "worst case" exposure to the company is known and limited. With the minimum (deductible) and maximum (cap) in place, the transferee will better understand what his or her actual out-of-pocket cost is going to be.

Should the loss be shared with the employee up to the cap? For example, should it be a “stop loss” after the deductible is met or be a shared benefit up to the cap?

This is a decision that deserves careful consideration. From the employee’s perspective, he or she might understandably reason that he or she has been asked to relocate at the request of the employer. If, in doing so, the employee experiences a loss on the sale of his/her home, there might be strong feelings that the company should make him or her “whole” in the loss. It is easy to see the employee’s position in this situation, as the employee would not be selling his or her home at this point in time were it not for the company-offered relocation. All things being equal, the employee would typically want to wait for the fair market value to return back to or above the original purchase price before relocating.

Should capital improvements be allowed to be added to the purchase price in whole or in part? If so, what ought to be included and at what value?

This is an area that often creates tension between the company and its employees. In theory, the impact of capital improvements on the value of the home should be reflected in the final sales price, and, therefore, no additional consideration (i.e., adding capital improvements to the original sales price) should be required. In order to simplify the process, consider not allowing for the separate accounting of capital improvements and rather base the formula on the final sales price of the home in relation to the purchase amount. However, be prepared for an unhappy employee who may have purchased a new home without landscaping only to install it after the home purchase, versus an employee who had the landscaping done as part of the purchase price.



Negative-Equity Concerns

Companies should also be aware of relocating employees who have negative equity in their home.

Negative equity occurs when a home's value is less than the amount of all outstanding debt against the home. Besides the first mortgage, negative equity can result when an individual takes out a line of credit, second mortgage or other loan on his or her home, which can't be repaid upon the sale of the home. This situation is often referred to as being "underwater" or "upside down."

Companies that have transferees with negative equity should determine what the total outstanding financial obligations are on the property, including the first and second mortgage as well as any equity loans and lines of credit. All these obligations must be cleared before the home can be sold. If the transferee does not have a source of cash to clear a negative equity, then the home cannot be sold and the transaction cannot close.

Sign of the Times

The current real estate market has had a significant impact on the relocation industry. Companies should consider implementing or modifying a loss-on-sale policy to protect their transferees from some of the financial risks of the current market while still maintaining the ability to relocate people to where they are needed.

To learn more about loss-on-sale programs or how SIRVA can help your company further reduce the risks of a down market, please contact your client service director (CSD). Questions on relocation policy can also be directed to David Barlow as noted below.

David B. Barlow Jr., SCRP, GMS, is a senior vice president and senior consultant at SIRVA Relocation. David joined SIRVA in 2000, bringing with him more than 33 years of human resources and global relocation experience. He recently completed a three-year term on the board of directors of ERC and a seven-year term on ERC's Public Policy Committee. He can be reached at david.barlow@sirva.com or 925.824.3109.

The foregoing is intended as general information only. SIRVA suggests that decisions as to your specific situation should be made only after full evaluation of your circumstances with your company leadership, tax and legal advisors, and HR personnel.

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