

TRC White Paper: Loss on Sale Assistance

As the real estate market has declined, loss-on-sale provisions have become an important policy consideration for the first time in many years. Too many transferees now find themselves “upside down”, where their home’s selling price is less than what they originally paid for it. While Worldwide ERC data indicate that the majority of companies (60%) do not offer loss-on-sale assistance, most are acutely aware of the issue and considering their options.

For companies that still have the need to deploy critical employees across the U.S. or around the world, it’s time to examine long-dormant loss-on-sale provisions, or to consider implementing such a policy.

When developing a loss-on-sale policy benefit, the following key questions need to be answered:

Should your company provide this benefit? Should it be a part of a formal policy?

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 incidents and whether a company is in a financial position to provide the benefit. This is closely tied to each company’s budget, strategic objectives and company locations and is best discussed with your relocation partner.

If you elect to offer a loss-on-sale benefit, you must then decide whether to include it as part of your formal policy or on an exception basis. This will depend largely on your company’s culture. According to Worldwide ERC, most companies that offer loss-on-sale assistance make it available to all homeowner employees. We recommend that a formal procedure be in place for consistent and fair application.

Should you require the employee to share in the loss?

This is a decision that requires careful consideration. Employees tend to believe that they are relocating at the employer’s request and that the employer should make them “whole” or at least participate in the loss, since they are unable to wait-out the market. Companies, for their part, need to offer enough of a benefit to convince key employees to relocate while remaining fiscally prudent. Given this, most employers

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that offer loss-on-sale assistance limit the benefit by requiring the employee to share in the loss.

One approach in sharing the loss is to pay only after the employee has met a deductible, limiting both the employee's loss and the employer's payment. Similar to homeowners insurance, these policies state that the employee must suffer a dollar loss in excess of a certain amount (e.g., \$1,000) or alternatively, must absorb a percentage of the loss (e.g., the first 5% of the loss) before any financial assistance is available.

Even with these terms, companies must ensure they cap their financial exposure at a "not to exceed" level that's appropriate for their culture and budget.

How should you treat capital improvements?

The treatment of capital improvements can create tension between employers and transferees. 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 should be required. To simplify the process, consider eliminating a separate account of capital improvements and perform your calculations based off the final sales price of the home.

About TRC Global Solutions

TRC Global Solutions is a leading employee relocation firm. Since 1987, TRC has delivered creative, cost-effective relocation and international assignment services across the U.S. and in 150+ countries worldwide. As an independent company, TRC is free from corporate bureaucracy, preconceived notions and conflicts of interest.

TRC helps clients achieve their business objectives by ensuring they have the *right* people in the *right* place at the *right* time, controlling costs and mitigating risks. TRC partners with its clients to develop a competitive, best-practice relocation program, drawing from a comprehensive range of relocation services, including US home selling, home finding and consulting services and complete international relocation services. TRC's eclectic client base represents a wide variety of products and services and ranges from smaller, start-up firms to Global 1000 companies.



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