How Marcellus Shale Gas Drilling Will DEPRESS Your Property Values

Imagine this: You lease your land to a gas drilling company, then, before or after drilling, you decide that you want to sell your land. You find plenty of prospective buyers---the problem is that none of them can find a bank to finance a mortgage, because most banks and insurance companies consider gas-leased land to be an unacceptable risk.

Where does this leave you? Most likely stuck. And what does it do to the value of your property? Most likely depreciate it, and the value of neighboring properties, too.

Or, imagine this: You have not leased your property, but your neighbors have, and---because your property is within 300 feet of theirs---banks also balk at financing your property---because of volatile property values and environmental hazards.

Or, imagine this: You own a farm or a lake cottage in an area where gas drilling is taking place and the value of your home and land has become so depreciated by the number of unmortgageable properties around you that your investment is no longer worth what you owe on it.

These are not just hypothetical examples. Ask your local bank or credit union.

FHA, HUD, GMAC and most major banks and credit unions hold exactly these policies on gas-leased property and the properties near them.

Reportedly, Wells Fargo, First Place, Fidelity, First Liberty and Bank of America all consider financing such mortgages excessively risky.

HUD, for instance (in its Handbook, 4150.2, page 2.7) puts it this way:

- Operating and abandoned oil and gas wells pose potential hazards to housing, including potential fire, explosion, spray and other pollution.
- No existing dwelling may be located closer than 300 feet from an active or planned drilling site. Note that this applies to the site boundary, not to the actual well site.
- The appraiser must examine the site for the existence of or any readily observable evidence of a well.

As Yates County Attorney George Mathewson points out:

"An upstate Federal Credit Union now states its policy regarding refinancing on properties on which there are gas leases (as opposed to active gas wells), as:

'I. If there is an oil and gas lease on your property, Visions will not give you a mortgage loan secured by your property. . . . If you presently have a mortgage with Visions Federal Credit Union and you subsequently enter into an oil or gas lease after September 14, 2009, then

Visions Federal Credit Union may require you to pay the balance of the loan in full pursuant to the terms of the existing note and mortgage. Please note that Visions Federal Credit Union will not sign a Subordination Agreement or other consent to lease with an oil or gas company.'

"For anyone trying to sell property in leased or drilled areas, if the buyers cannot obtain mortgage financing, this will eliminate 90% of the potential purchasers. And if the demand for the property drops drastically as a result of the unavailability of mortgages, then the price will also drop accordingly."

Two other factors further complicate this risk to landowners, "Horizontal Drilling" and "Compulsory Integration."

Horizontal Drilling --- While gas companies claim that they will only need one drilling pad per square mile, many landowners do not realize that that may include as many as 12 horizontal gas wells emanating from each single pad, or that those horizontal wells extend as far as a mile in all directions to make sure that the entire square mile will be exploited.

Each of these square mile coverages is called a "unit."

Compulsory Integration --- Within each "unit," if 60% of the land is leased, then the remaining 40% of land can be taken and drilled---under the legal concept of "Compulsory Integration" ---even if that 40% who have not signed are opposed to drilling.

It's true that victims of compulsory integration can only have gas sucked out from under their land, but cannot be trespassed upon on the surface without their permission. And it's also true that such non-leasers still have to be duly compensated for any gas taken. However, what is not mentioned in cases of compulsory integration is that the non-leased land is also devalued---still considered damaged goods by banks and insurance companies when those unwilling parties seek financing or insurance.

In addition, long past any temporary uptick in housing values to accommodate incoming workers, that surplus housing meant to meet the temporary need will be added to the mortgage slowdown---even further glutting the housing market and depressing property values as soon as the majority of those transient workers hits the road.

Bottom Line --- Without a doubt, massive gas-leasing will inevitably lead to serious property devaluation and property tax decreases throughout our region.

Time is running out. The gas companies like to say they're bringing us a windfall, but if you look at where they've been, it looks more like a tornado has blown through.

The banks and insurance companies know this perfectly well, and that's why they often consider gas-leased land too risky to finance.

We need to wake up. Fight to protect our values (both property and otherwise)---before it's too late.

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