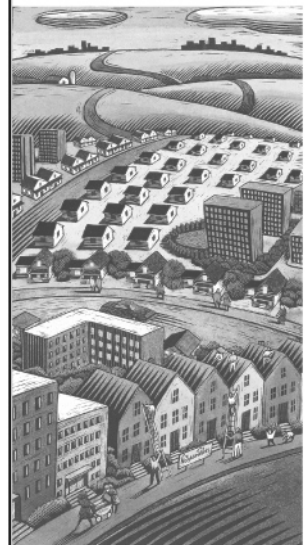


Post-Foreclosure Community Stabilization Strategies: Case Studies and Early Lessons 2008

Prepared for NeighborWorks® America by Anne Gass



Executive Summary

In the midst of all the foreclosures sweeping the country, and the turmoil on Wall Street, nonprofit housing organizations are quietly going about the work of stabilizing communities hard hit by the crisis. Most have had frontline responsibility for counseling families threatened with foreclosure. With their assistance tens of thousands of families have restructured their budgets, negotiated with servicers to modify their loans, and saved their homes. Other families, too far along in the foreclosure process to stop it from happening, have received help transitioning to new housing arrangements.

While the work with distressed homeowners must continue, nonprofits are feeling increased pressure to deal with the growing foreclosed housing stock. These units are causing incalculable harm to neighborhoods, and any hope of housing recovery must ensure that these units are swiftly put back into productive use or demolished. This collection of 14 case studies outlines strategies that nonprofit organizations across the country are using to begin the process of repairing damaged communities.

The stakes are enormous. Vacant housing invites vandalism, and becomes a hub for gangs and crime. Virtually all case study subjects reported that, within weeks of housing becoming vacant, thieves break into the units and strip them of their valuable copper plumbing and wiring, heedless of any destruction they leave in their wake. In Phoenix a half-finished, abandoned subdivision was used as an informal “Home Depot” as other homeowners broke in and helped themselves to fixtures and appliances. In Cleveland, vandals remove not just the copper but the aluminum siding from vacant houses. In photos these houses have a desolate, post-disaster look, like the aftermath of a hurricane. When units get demolished the vacant lots soon sprout grass and trash, adding to the community’s forlorn appearance.

Vacant, deteriorated units place a downward pressure on housing values that puts nearby neighbors in a bind. In order to sell their units they will have to reduce the price, as no one will pay top dollar to live in a blighted neighborhood. Yet their ability to refinance into a more affordable mortgage may be compromised by the drop in property values; in some cases this leads to additional foreclosures and the downward cycle continues.

Intervening in these troubled neighborhoods is challenging. In some markets housing prices are still falling, making it hard to determine the value of the units. Bank asset managers and servicers often lack detailed knowledge of the markets, or even of the units they have in their own inventory. This leads them to overvalue their properties and hold out for more than they are worth, delaying the process of acquiring and renovating them for resale to new homebuyers. Finally, the complex ownership structure of mortgages which were rolled into collateralized debt obligations and other investment vehicles makes it very difficult to establish who owns properties and who has authority to negotiate their sale.

Despite these challenges the following case studies illustrate that there is much reason for optimism amidst the financial gloom. In the roughly 15-20 years since the last national housing crisis nonprofit community development corporations (CDCs) have made enormous strides. There are more of them. They are larger, more sophisticated, and have more financial tools at their disposal, including the New Market Tax Credits program and the Community Development Financial Institution (CDFI) Fund administered by the US Department of Treasury. They have established impressive track records, developing or acquiring hundreds of rental units and loan portfolios worth tens of millions of dollars. Significantly, their delinquency rates are an enviable five percent or less because they used careful underwriting criteria and required pre-purchase homebuyer education.

By themselves, through intermediaries, or through regional public-private partnerships they have the ability to participate in the sort of large scale solutions that will be required to restore neighborhood housing markets to equilibrium. Table A below provides an estimate of the 13 subject organizations' planned redevelopment of foreclosed housing units in the next three years. This chart likely underestimates their total production, as it includes just those strategies featured in the case studies. Many have other programs they will also use to redevelop foreclosed inventory. These projections also represent a best guess at this point in time, but with the continued volatility of the housing markets they may change from year to year. Nevertheless, Table A provides some insight into the impact this handful of nonprofits will have, as well as their estimated capital needs.

Table A: Projected Redevelopment of Foreclosed Housing Units over Three Years *

	3-Year Plan Foreclosed Housing (Featured Strategy Only)	Capital Required
NHS of Phoenix	48	\$6 million
Beyond Housing	150	\$6 million
Neighborhood Progress, Inc.	450	\$18 million
Columbus Housing Partnership	125	\$15 million
NHS of Chicago- Receivership	450	\$3.9 million
City First Enterprises	200	\$15 million
Self-Help	200	\$20 million
Dayton's Bluff	500	\$72.2 million
United Housing	100	\$8 million
St. Ambrose Housing Aid Center	105	\$12.6 million
Chelsea Neighborhood Developers	90	2.7 million
CAPC/HAND	1,000	\$150 million
LA NHS	900	\$7 million
NHS of Chicago- Organizing	N/A	N/A
TOTAL	4,318	\$336.4 million

* These estimates apply to the strategy featured in the case study only, and do not include other community stabilization activities the organization may also be implementing.

The groups represented here have evolved different strategies that respond to the needs of their local markets. This only makes sense, as Dr. Phyllis Betts of University of Memphis points out in United Housing's case study. She notes that just as individuals take different paths to foreclosure and require different solutions, so communities and markets vary, and strategies that are highly effective in some markets may not work in others. While these case studies model strategies that have proven successful or appear very promising, efforts to replicate them must take into consideration the local context in which they originated and include an evaluation of whether they make sense in another location.

Accordingly, the 14 case studies, representing 13 different nonprofit organizations, are loosely grouped by market characteristics as follows:

1. Former "hot" markets in strong economies that experienced rapid escalation in housing prices followed by sharp declines. These markets were more likely to see high use of "exotic" subprime mortgage instruments as both homebuyers and speculators sought to buy into, and benefit from, overheated markets.
2. More moderate housing markets in cities where the underlying economy was strong. These markets did not see huge price increases, but instead more use of subprime refinancing that stripped equity from homeowners.
3. Strong housing markets in cities where the underlying economy was struggling, making recovery from the collapse of the housing market that much more challenging.
4. Cities in which neither the housing market nor the underlying economy was particularly overheated in the last 5-7 years.

Housing Market

		<i>Hot</i>	<i>Moderate to Weak</i>
Economy	<i>Strong</i>	1. <ul style="list-style-type: none"> • NHS of Phoenix • City First Enterprises • Dayton's Bluff • LA - NHS • NHS of NYC 	2. <ul style="list-style-type: none"> • NHS of Chicago
	<i>Weak</i>	3. <ul style="list-style-type: none"> • Chelsea Neighborhood Developers • HAND/CAPC 	4. <ul style="list-style-type: none"> • Beyond Housing • Neighborhood Progress, Inc. • Columbus Housing Partnership • United Housing • St. Ambrose Housing Aid Center

Note: Self-Help is omitted from this matrix because it is available nationally.

Admittedly this is a simplistic approach to sorting out the case studies. Even within these cities some neighborhood housing markets and economies would have been stronger than others, and regardless of how strong it was three or four years ago nearly every city is struggling now. Strategies and innovations that have emerged in some markets may in fact work well in others that are less similar. Finally, these strategies have also emerged from the expertise and experience of the nonprofit organization, its partners, and the availability of resources. These factors will influence local decisions about which community stabilization strategies to implement. This matrix is meant as a starting point, so that readers can begin with markets that most resemble their own, and move outward from there.

The types of strategies examined in these case studies can be grouped under the following headings:

1. Expanding Access to Capital

- City First Enterprises (Washington DC) pioneers use of the New Markets Tax Credit to help create permanently affordable workforce housing.
- Columbus Housing Partnership (Columbus OH) uses the New Markets Tax Credit to support extensive redevelopment in neighborhoods, and to acquire and renovate foreclosed units in scattered sites.
- St. Ambrose Housing Aid Center (Baltimore, MD) uses HUD's Asset Control Area program to turn FHA foreclosures into solid, energy efficient, single-family homes.

- Self-Help (National) has created a secondary market using a Fannie Mae product to buy lease-purchase loans from nonprofit housing groups that want to fill vacant single-family units but need time to help tenants qualify for conventional financing.

2. Bulk Acquisition of Distressed or REO Inventory

- HANDS Inc. (Orange NJ) helps create a new intermediary, the Community Asset Preservation Corporation (CAPC), to negotiate with lenders and servicers for bulk acquisition of distressed assets and REO.
- Neighborhood Housing Services of Phoenix (Phoenix AZ) acquired a half-built subdivision at foreclosure sale at a pre-negotiated price, and hopes to acquire other distressed or foreclosed subdivisions using a similar model.

3. Strategic Interventions Grounded in Neighborhood Plans

- Chelsea Neighborhood Developers, Inc. (Chelsea MA) is making strategic decisions on which foreclosed units to purchase based on detailed neighborhood planning and work with residents that will protect and build on existing community assets.
- Neighborhood Housing Services of Chicago, Inc. (Chicago IL) went back to old-style organizing techniques to learn about the impacts of foreclosure in a target neighborhood, and worked with the venerable St. Nicholas Church to improve outreach to at-risk homeowners.
- Neighborhood Progress, Inc. (Cleveland, OH) implements a pilot to acquire, renovate, and re-sell foreclosed inventory, and create a foreclosure “early warning system” in six neighborhoods that had already completed targeted revitalization plans.

4. Strengthening Neighborhoods through Strengthening Families

- Beyond Housing (St. Louis MO) uses an established model of acquiring and renovating distressed inventory for its own rental portfolio; units are rented to low-income families who are provided an array of other services and supports to strengthen their tenancies.
- Los Angeles Neighborhood Housing Services (Los Angeles CA) provides an array of services to help families facing foreclosure get in touch with servicers, learn about their options, and make a respectful transition to new housing.

5. Forming Partnerships to Improve Access to Technical Assistance, Capital, and Distressed Housing Inventory

- Dayton’s Bluff (St. Paul MN) participates in a variety of local and regional partnerships that will help it access the technical assistance, capital, and bulk purchase of foreclosed housing inventory it will need in order to stabilize neighborhoods.
- Neighborhood Housing Services of Chicago (Chicago IL) partners with the City of Chicago’s Code Enforcement office and the district courts to serve as receiver for deteriorated properties that have been referred to the City’s Demolition Court.

- United Housing (Memphis TN) is partnering with the University of Memphis and local organizations to help plan and implement stabilization activities that are strategically directed to the neighborhood culture, market and needs.

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★ Denotes that the organization is a member of the NeighborWorks[®] network

Beyond Housing's Comprehensive Revitalization Approach Stabilizes Families, Neighborhoods

Housing Prices Stable, Subprime Lending/Increased Foreclosures in Areas of Economic Decline

Pagedale is a blue collar, post-war community located in northern St. Louis County just outside of St. Louis. In this area, from 36 to 54 percent of mortgage loans originated for home purchase and refinance in 2004 were subprime loans and the payments are coming due. Not a thriving economy to begin with, Pagedale is struggling with an increase in foreclosures, but these days it is getting an extra boost from Beyond Housing.

Beyond Housing is a NeighborWorks[®] Organization located in St. Louis with a mission to “strengthen neighborhoods, one family at a time.” It takes its family focus seriously, providing them with a comprehensive array of educational, employment, youth development and other support services in addition to housing assistance. It also works to identify and nurture resident leadership in its target communities.

“Pagedale is a community of about 3,600 residents that in 2002, when we started working there, had an unemployment rate of 29 percent,” recalls Chris Krehmeyer, Beyond Housing’s Executive Director. “It was really headed in the wrong direction.” The city initially requested help with new housing construction, but after Krehmeyer took a look he advocated for a more comprehensive approach.

Successful community revitalization requires resident input and good data; in Pagedale, Beyond Housing conducted surveys, focus groups, and stakeholder interviews to lay the foundation for a community plan.

Sound community revitalization starts with good data and resident input, so Beyond Housing staff and Pagedale began with a series of surveys, focus groups, and stakeholder interviews to identify assets and weaknesses and gather input on resident priorities. The plan that emerged from this phase focused on improving the housing stock, strengthening services, building community leadership, and attracting new business investment.

Six years later, Pagedale is a very different community. Beyond Housing has built 90 new homes, renovated 12, and provided grants to over 100 seniors to help them with home repairs. It has helped organize multiple volunteer efforts to help homeowners with limited incomes fix up dilapidated homes. Krehmeyer estimates that in one way or another Beyond Housing has touched 20 percent of the homes in Pagedale. In a recent follow-up survey, the number of homes in good condition jumped from 40 to 80 percent. The newly formed Pagedale Community Association helps to attract, organize, and train neighborhood volunteers to continue the work going forward. With Beyond

Housing's help, residents have attended NeighborWorks® Training Institutes to hone their leadership skills and gather new ideas for local projects.

Improving the housing stock is just part of the story, however. As its name and its mission suggest, Beyond Housing is committed to strengthening families. Another major focus of the Pagedale revitalization effort has been the creation of the Pagedale Family Support Center, which provides a range of services year-round. Recreation teams and after school activities serve over 1,000 youth annually. The Center also offers computer labs, a food pantry, and a variety of programs aimed at seniors.

The final piece of the plan is to attract more economic development. Beyond Housing has worked with the city of Pagedale to create a community development plan for a tax increment financing district (TIF). Plans are underway to open a new, 16,000 SF grocery store, with other new stores to follow. With Pagedale a much stronger community than it was six years ago, Krehmeyer is looking to replicate this model to revitalize a much larger area included within the Normandy School District (population 10,000).

Krehmeyer sees that Pagedale's positive momentum has been threatened by the foreclosure crisis. Twice they have distributed door knockers informing residents about the Homeowner's HOPE hotline, but they still see homes lost to foreclosure.

To fill the vacant units Krehmeyer will turn to another strategy Beyond Housing has been perfecting over many years. The organization currently owns 240 single family homes, scattered in 23 communities through St. Louis County. The houses are rented to single parent families. In addition to the subsidized rents, families receive help establishing long-term goals related to education, employment and homeownership. Beyond Housing staff connects families with a comprehensive array of educational, employment, youth development, and other support services to help them achieve these goals. A key asset building strategy for many families is an Individual Development Account (IDA) that matches their savings. Families average about five years in this program, and at the end of it are frequently able to move on to homeownership or other goals.

Purchasing foreclosed single-family units and retaining them in its rental portfolio will allow Beyond Housing both to protect its existing units, and expand its capacity to assist single-parent families in need of intensive supports to ensure their long term success.

Beyond Housing's lengthy experience with this service-enriched, scattered-site rental approach makes it the right tool for stabilizing neighborhoods, like Pagedale, that have been hard hit by the foreclosure crisis. As Krehmeyer points out, "we already have a template so we know what sort of debt these units can carry as rentals." That helps manage their risk in expanding this business line. At the same time, strategic purchase of vacant units will help to protect and strengthen their existing portfolio against the negative ripple effects of nearby foreclosures.

To date, Krehmeyer has assembled a fund of \$300,000 from the private sector and a local foundation. He and his team are still working through decisions as to how many units they will buy; this will depend in part on the debt structure they are able to assemble. They are also still finalizing the strategic criteria they should use in targeting their investment, beyond protecting their own assets. For example, they could look for properties in highly visible locations, or for eyesores that stand out as significant problems on their block. Krehmeyer is inclined to purchase as many properties as possible, reasoning that it will be a sound financial investment. When prices rebound they can decide to sell them and generate funds for other affordable housing, or retain them as a permanently affordable housing stock.

Beyond Housing's strategies were in place before the housing bubble burst. Implementing them will not represent a departure from their past practice, but instead an expansion of strategies in which they have already gained considerable expertise. Still, their holistic approach to strengthening individual families as well as the neighborhoods in which they live offers an excellent model for other communities hard hit by foreclosures and economic decline.

Best Practices

1. A neighborhood-focused revitalization approach engages residents in planning for and securing their community's future.
2. In a community with low incomes and high unemployment, supporting families through rent subsidies, IDAs, and services protects against further deterioration and decline.
3. Beyond Housing will rely on a community stabilization strategy in which they already have considerable expertise; purchase-rehab and resale of single family homes. The scattered-site rental approach allows low-income families to rent affordably in safe neighborhoods. Well-managed housing serves as a model for other property owners and encourages them to invest in maintenance and improvements.

Chelsea Neighborhood Developers Converts Foreclosures to Scattered Site Rentals



Moderate Price Increases & Subprime Lending/Foreclosure Spikes in Low Income, Minority Community

CND's experience in acquiring and renovating scattered site 2 to 3 unit rental properties made this a natural strategy for dealing with vacant foreclosed properties.

“In every previous downturn Chelsea has been one of the first to fall, and has emerged in worse condition” says Ann Houston, Executive Director of Chelsea Neighborhood Developers (CND), a NeighborWorks® organization. This time, however, Houston, her staff of 10 full-time employees, and her board are determined that Chelsea will come out ahead. They plan to build on sound neighborhood planning and established community revitalization practices that were in place before the housing bubble burst.

The challenges are significant. Chelsea, a tiny city just over the bridge from Boston, MA, is one of the most densely populated cities in the country. A majority Latino city, the 2000 Census found that 36 percent of its population of roughly 38,000 had been in the country for less than 10 years, from Mexico, Central and Latin America, the Dominican Republic, and Puerto Rico, as well as Somalia, Rwanda, Condo, and the Sudan. New to the language and customs of the United States, these immigrants are vulnerable to subprime lenders. They are also more likely to be taken advantage of by landlords who buy up deteriorated properties and make minor cosmetic improvements, and then rent them to families they know are unlikely to complain. The housing stock has a high percentage of triple-deckers, especially in the lower income neighborhoods, which makes owner occupancy more difficult (the current homeownership rate is around 28 percent). Chelsea is also poor; about 20 percent of families live below the poverty level, and the median household income in 1999 was \$30,160, about 25 percent lower than the U.S. as a whole. As foreclosures have risen, Houston sees investors snatching up vacant properties that will simply depress the value of the neighborhood over the long term.

Nevertheless, Houston has good reason to believe that Chelsea is more resilient than it has been in the past. Prior to the current crisis Chelsea was beginning to stabilize, thanks to a strong receivership program and other changes

Sound neighborhood planning and established community revitalization practices are key to combating the foreclosure crisis in Chelsea.

implemented by the City Manager. It was on its way to becoming a city of choice. Houston supported these positive changes when she brought CND back to “Community Revitalization 101” when she joined the organization in 2003. First, she looked to the organization’s own rental portfolio, which included about 86 units in scattered site, 2-3 unit buildings. These properties had been purchased piecemeal over many years, with many different loan structures, and they needed upgrades. Houston bundled them together into a single tax credit deal, did about \$30,000 in rehab per unit, and brought in an outside property manager. Because the housing stock is fairly uniform CND now has a standard set of specifications, great relationships with contractors, and substantial experience in renovating properties with tenants in place. This experience supports Houston’s plan to stabilize Chelsea neighborhoods through acquisition of key problem properties that are vacant due to foreclosure. Over the next 12 months Houston plans to acquire 25-30 foreclosed properties, totaling 90 units, scattered throughout Chelsea. With new properties coming on the market daily, the question is how to decide which ones to purchase.

While completing the refinancing and repairs on CND’s existing portfolio of scattered site rental units, Houston also sought ways to reach out to and engage Chelsea residents, especially in the city’s lower income neighborhoods. She opted to use the NeighborCircle model pioneered by Lawrence CommunityWorks, a new twist on the old neighborhood block meetings. CND’s NeighborCircles bring together 8-10 neighbors in a series of three facilitated dinners. The first one gives them a chance to get to know each other and learn what brought them all to Chelsea. In the second meeting they talk about neighborhood concerns, and in the third they decide what, if anything, they want to do about those issues. While the NeighborCircle meetings have led to traditional events such as block clean-ups, neighborhood watch groups, and block parties, CND has also used them to help make strategic decisions as to where they should acquire foreclosed properties. It makes sense for CND to target problem properties on blocks with high homeownership rates, and where there are strong “clusters” of families committed to improving the neighborhood. CND will also prioritize properties that are located on main commuting corridors, and which are near homes in its existing portfolio.

Houston and her staff have also been working hard to stay on top of the market changes. Over the last year they have been tracking foreclosures to watch clusters and trends. They have also had to come to grips with a market that is more complex and volatile than ever before. Houston cites three reasons for this: 1) “tough process”- the securitization of mortgages makes it difficult to determine who is able to make decisions on a particular property; 2) “tough prices”- while prices have dropped, an influx of investors has created a floor that is higher than the properties’ condition warrants; and 3) “un-level playing field” - many of the lender brokers work with investors who purchase properties before they even hit the market. This makes it difficult for CND to intervene to stabilize the market. In Chelsea alone they have identified 65 foreclosure lenders/servicers, so it is hard to establish who is in charge. Houston also notes that there is typically one servicer and attorney at the foreclosure stage, and an entirely different servicer and

A “tough process”, “tough prices”, and an “un-level playing field” add challenge to community stabilization.

attorney involved at the REO stage, which makes it far more difficult to build relationships. “Most of this is pretty opaque,” she admits, but they are making progress in sorting it out.

Chelsea has recently closed on its second foreclosed property, and has others in the pipeline. The

A line of credit from NHSA-CDFI, and Massachusetts’ new, statewide Neighborhood Stabilization Loan Fund, will provide capital to help CND acquire and renovate foreclosed properties.

acquisition strategy was given a huge boost by CND’s leadership in the statewide Foreclosed Properties Task Force, an ad hoc group formed in January 2008 to focus the attention of high level policy makers and funders on the problems foreclosures were causing at the local level. Within six months of its first meeting the Task Force launched the \$22 million Neighborhood Stabilization Loan Fund, securing a commitment of subsidy funding from the Massachusetts Department of Housing and Community

Development. The Loan Fund was capitalized by the Massachusetts Housing Partnership, the Massachusetts Housing Investment Corporation, the Boston Foundation and the Hyams Foundation. Living Cities, a New York-based non-profit, provided a \$500,000 grant. The Fund creates two separate financing products: (a) a short-term acquisition line of credit of \$250,000 to \$1 million. This will allow developers to purchase properties on short notice at auction, on the open market, or in short-sale situations on a full-recourse basis with limited underwriting; and (b) an interim financing facility that will provide rehab financing (including first mortgage loans and subsidy funds of up to \$60,000 per unit) to allow the properties to be re-sold to homebuyers or placed into a rental portfolio. Projects financed under this program must be part of a municipally-supported strategic neighborhood redevelopment plan. The CND Distressed Housing Initiative served as a test case in the design of the state loan pool. In addition, CND has secured a \$1.5 million line of credit through Neighborhood Housing Services of America - CDFI, to acquire and hold properties until they are developed. This capital will allow CND to move quickly to purchase properties when they become available, improving its chances when competing with private investors.

Although Chelsea has been hurt by the housing turmoil, Houston is optimistic about the future. The sound neighborhood planning CND has done over the last four years has helped them respond quickly to the foreclosure crisis. CND’s expertise in rehabbing and managing scattered site rentals means that they have a strong model for strategic purchase of foreclosed properties. Access to capital through NHSA-CDFI and the Neighborhood Stabilization Loan Fund will support this initiative. Houston notes that she, along



A foreclosed and vacant unit in Chelsea

with many of her colleagues, remembers the downturn in the housing market in the late 1980s/early 1990s. That experience has helped prepare them for the current crisis and has strengthened their resolve to intervene. “We are absolutely driven by knowing what happens in neighborhoods if you don’t address it”, Houston says. Much work remains, but this time around Chelsea will emerge from an economic downturn stronger than before.

Best Practices

1. The community engagement and neighborhood-based planning CND had completed before the housing market slumped provides a firm foundation on which to move forward. This work will help CND make strategic decisions regarding where it should invest in foreclosed properties.
2. With extensive experience in scattered site, single-family rehab, whether for rental or for re-sale, CND has the capacity to acquire and manage foreclosed inventory.
3. Chelsea could not weather this storm alone. CND joined forces with other CDCs across the state, using their collective strength to create and attract capital for the \$22 million Neighborhood Stabilization Loan Fund. CND also sought investment from the NHSA-CDFI. Access to this capital will significantly improve CND’s ability to intervene in Chelsea’s housing market.

City First Enterprises Uses New Market Tax Credits to Redevelop Foreclosed Properties

Double-Digit Housing Price Increases 2001-2005/Increasing Foreclosure Rates with Prices Remaining High

The Washington, DC area initially appeared to dodge the foreclosure bullet. Until late 2007 its foreclosure rate was well below the national average, and its economy was relatively strong. In recent months, however, the region has had one of the highest foreclosure rates in the country, especially in the counties outside of the city. In DC, the foreclosures are concentrated in 10 of the city's 21 inhabited zip codes, most of which are in the central and eastern parts of the city. There has been some price slippage at the high end, but moderately priced units are still selling and in some cases the prices are inching up. As of August 2008, 3-bedroom homes still average \$528,000, with the condo market lower at \$454,000.¹ These prices are well beyond the reach of working families.

High housing costs mean that foreclosure resolution in DC will require significant capital for acquisition and rehab, as well as for subsidies to make units affordable. A city-wide, scattered-site foreclosure problem also requires the capacity to work in multiple neighborhoods simultaneously. And absorbing the high numbers of foreclosures means operating at a larger scale.

When housing costs are high and foreclosures are dispersed, a neighborhood stabilization strategy requires substantial subsidy and the capacity to work in many areas at once.

These were some of the considerations that led City First Enterprises (CFE), a nonprofit bank holding company of City First Bank, to the New Markets Tax Credit (NFTC) program. Congress established the NMTC program in 2000 as part of the Community Renewal Tax Relief Act. In essence, the NMTC program provides a seven year, 39 percent federal income tax credit to encourage taxpayers to make equity investments in designated, for-profit Community Development Entities (CDEs). The CDEs must in turn invest 85 percent of the proceeds in projects benefiting low-income people and communities (known as Qualified Low-Income Community Investments). While their original purpose was economic development, NMTC funds can be used to finance businesses that purchase, rehab and sell single-family homes. CFE's project is the first ever large scale use of NMTCs for foreclosure response.

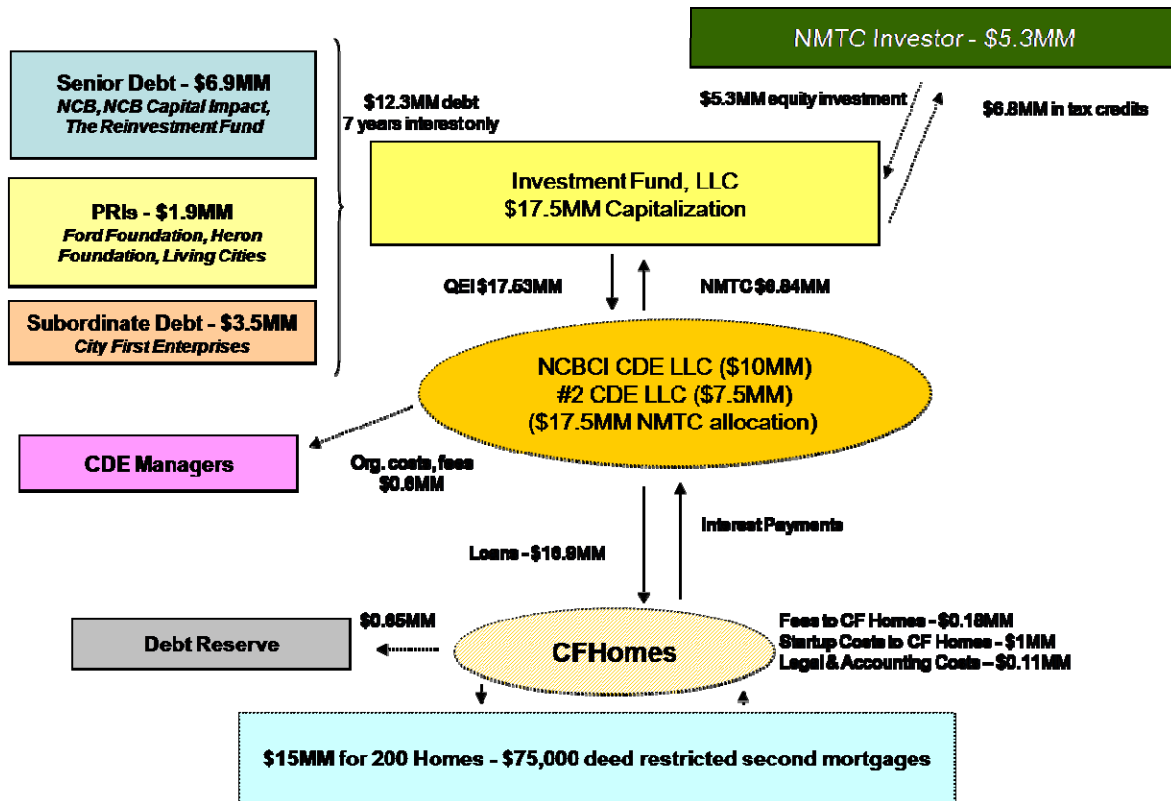
City First Bank, which is also a Community Development Financial Institution (CDFI), has already attracted over \$160 million in NMTC that it has used for a variety of economic development projects. Working closely with its financial partner, NCB Capital Impact (NCBCI), CFE is putting the final touches on a \$17.5 million deal using NMTCs to create workforce housing and to salvage REO property. This is Phase 1 of a more ambitious plan to create a \$75 million pool of capital to

¹ From www.dchousingprices.com

finance the creation of 1,000 units of permanently affordable workforce housing. CFE has launched a new nonprofit subsidiary, City First Homes (CFHomes) to administer the innovative program, which will help make units affordable and manage deed restrictions to ensure that they retain their affordability.

The structure of the \$17.5 million Phase 1 deal is illustrated in the following graphic:

City First Homes – NMTC Financial Structure



Funds from this pool will create 150 units of workforce housing, and support redevelopment of 50 units of vacant, REO property. CFHomes will work with a network of local developers who will acquire, renovate, and sell the units. Homebuyers will receive a subsidy in the form of a \$75,000, low interest rate second mortgage. In exchange for the subsidy they must agree to share a portion of future appreciation. CFHomes will use a model similar to a community land trust (CLT) to hold this value over the long term.

David Wilkinson, CFE’s Executive Director, sees a number of advantages to this approach. “DC’s affordability gap is so large that it requires a lot of subsidy to help working families buy homes,” he points out. It’s increasingly difficult to raise the subsidy that we need, so we have to start building

in permanent affordability.” The NMTCs help bring new money to the table for this purpose, but it must conform to the Treasury guidelines. Wilkinson points to the following innovations:

1. The NMTC program’s high transaction costs mean that it is hard to pursue a deal of less than \$4 million. That number is out of reach for many nonprofits working at the local level. CFHomes will serve as the Qualified Active Low-Income Community Business (QALICB), which removes that burden from the small developer. At the same time, working through local developers will allow the NMTCs to be used at a much more micro level than is ordinarily the case.
2. CFHomes will serve as the developer for the REOs. Through a special agreement with a major financial institution CFHomes will be able to look at units before they are listed with realtors. The plan is to buy 5-10 properties in a handful of neighborhoods. CFHomes will do an initial paper screen to see if it meets their price points, and then its experienced rehab team will perform a drive-by, a walk-through, and a building analysis and scope of work if it appears the property meets their requirements. Each of these steps will help CFHomes narrow down its list of properties to purchase, ensuring that it selects those units best suited to helping it achieve its dual goals of community impact and sustainability. Ultimately, the property must be affordable to the target population (with the help of CFHomes’ \$75,000 second mortgage).
3. The model uses CFHomes’ subsidy funds more efficiently because it provides only the portion of the purchase that will make the unit affordable to the target population. Whereas typical NMTC transactions will support an entire development, the CFHomes approach targets the funds and allows it to assist more units.
4. Preserving the affordability adds efficiencies because the units are retained as part of a permanently affordable stock. Homeowners selling their units will get back 100 percent of their downpayment, their loan principal repayment, and the appraised value of any improvements they have made. They also receive a 25 percent share of any gain in equity through appreciation. The remaining 75 percent of appreciation, along with the initial subsidy, remain with the unit for the next qualified buyer. Target buyers will be at or below 80 percent of AMI.

Wilkinson points to a Burlington (Vermont) Community Land Trust study of the first 100 homeowners who sold and left the land trust. Fully 75 percent of them had sufficient funds to buy a unit on the private market, evidence that the land trust model is effective both at keeping house payments manageable so families can save money, and producing enough funds at the time of sale to help cover downpayment and closing costs for a new purchase. One major difference between CFHomes’ and the traditional CLT model is that CFHomes is approaching it primarily as a financial arrangement with the homebuyer.

A stripped-down CLT model will allow CFE to offer homebuyers a straightforward financial transaction; access to homeownership in the District in exchange for shared equity going forward.

Wilkinson admits that there are challenges to implementing this approach. While initial market assessments are promising, it remains to be seen whether homebuyers will be willing to trade equity for access to homeownership, and the chance to live in the District instead of commuting in from the suburbs. The model also requires subsidy over and above the NMTCs, which is a constant challenge.

Nevertheless, Wilkinson is optimistic that it will be a useful model for CDCs working in other markets across the country. He notes that the CDFI Fund has shown significant interest in this approach, and may encourage other groups to use NMTC in this way to address the foreclosure crisis.

Best Practices

1. Scaled solutions to the problem of filling foreclosed and vacant properties will require access to significant amounts of capital. CFE has created a structure that can access the NMTCs, and then through CFHomes work with a network of local CDCs to renovate and resell the units. This creates new capacity that can expedite use of NMTCs for foreclosure remediation, without duplicating CDC housing expertise that already exists.
2. Working with a network of existing CDCs increases the volume of units that can be assisted at any one time, and allows work to be carried out in a variety of neighborhoods.
3. The subsidy recapture/shared appreciation model will be of great interest to CDCs working in high cost markets that require high levels of subsidy to make units affordable.

Columbus Housing Partnership Raises NMTC Capital to Revitalize Neighborhoods

Rapid Increase in Housing Prices/Rapid Decrease, Regional Economic Depression

In the last four years 30,000 property owners in Columbus, Ohio and surrounding Franklin County have lost their properties to foreclosure. This is 35 percent of the 85,000 foreclosures during that period in Ohio as a whole. Subprime mortgage lending is only part of the story; the larger context is the state economy transitioning from high paying manufacturing jobs to service sector employment. Homeowners are struggling to adjust to lower wages, and some simply cannot find a way to do it.

Central Ohio is reeling from the combined effects of an economy in transition from manufacturing to service sector jobs, and the foreclosure crisis.

Columbus Housing Partnership (CHP), a NeighborWorks[®] organization, is poised to play a critical role in Columbus' recovery from the foreclosure crisis. In its 21 year history CHP has developed 4,000 units of single and multi-family housing, both new construction and acquisition-rehab.

Columbus is the state's largest city in terms of geography and population. With over 4,100 vacant homes, and accelerating disinvestment and deterioration, the city has been anxious to stabilize its neighborhoods. It developed the Home Again campaign to attract buyers back to the central Ohio region. As the region's largest and most sophisticated nonprofit community development corporation, CHP needed to come up with substantial capital to finance a large volume of housing activity. A recent initiative (the deal closed in October 2007) is to raise the capital through the New Market Tax Credit (NMTC) program.

Congress established the NMTC program in 2000 as part of the Community Renewal Tax Relief Act. In essence, the NMTC program provides a seven year, 39 percent federal income tax credit to encourage taxpayers to make equity investments in designated, forprofit Community Development Entities (CDEs). The CDEs must in turn invest 85 percent of the proceeds in projects benefiting low-income people and communities (known as Qualified Low-Income Community Investments). While their original purpose was economic development, NMTC funds can be used to finance businesses that purchase, rehab and sell single-family homes, and that is how they are structured to support CHP's initiative.

Tax credit deals are not simple transactions. They are highly complex structures that require extensive involvement of attorneys and accountants. CDEs must demonstrate to potential investors that they have the capacity to develop eligible projects that will qualify for tax credits throughout the seven-year investment period. Below a certain threshold, these deals do not make economic sense because the transaction costs are so high.

NMTCs can help CDCs put together a large pool of funds at attractive rates to support large scale single-family redevelopment, either scattered site or in concentrated areas.

Working with Enterprise Community Investment (ECI) and the City of Columbus, CHP put together \$9.5 million in debt financing using \$3 million in equity and \$6.5 million in debt, at a blended rate of under 2 percent interest. The tax credit investors were Nationwide Mutual Insurance Company and the Huntington Community Development Corporation, a subsidiary of Huntington National Bank.

The plan was for funds to be recycled annually as houses were developed, at a proposed volume of 100 units annually over seven years. To produce that volume CHP planned several initiatives:

- Acquisition-rehab-resale of foreclosed single-family inventory in selected census tracts. Originally CHP hoped to do this in conjunction with HUD's Asset Control Area (ACA) program, but this plan was abandoned because it was too difficult to control costs, and CHP lost money on the first 35 units it completed. The ACA contract requires participants to accept any FHA foreclosed properties in the target area they negotiate with HUD, no matter what their condition. Many of the properties CHP had to take were very deteriorated or on streets with very low homeownership rates, which made them financially infeasible to renovate and sell within HUD's parameters.

Instead, CHP is working with the City of Columbus, which can acquire FHA foreclosures for \$1 and re-sell them to CHP, and with local realtors and property sales lists. This approach allows CHP to use a more strategic approach, acquiring properties in or near clusters of owner-occupied properties in order to stabilize them, and moving outward from there.

- Redeveloping the King-Lincoln District, a highly distressed area of Columbus. The City of Columbus plans to create an economically diverse urban community by creating mixed-income housing opportunities. CHP will be the primary housing developer, in conjunction with Trevor Custom Homes. The plan calls for renovating existing housing and developing new stock, using green design principles as much as possible. It will create concentrations of homeowners, one block at a time, expanding outward in concentric rings from these core clusters. The City of Columbus will contribute extensive infrastructure improvements, including construction of a new "green" park at the entrance to the community as well as street, lighting, and sidewalk improvements. The City will also provide subsidy to make home purchase more affordable for low and moderate income buyers (these subsidies will be available in other neighborhoods as well).
- American Addition is a historically African-American community in northeast Columbus. Over the years much of its housing has been torn down; it currently has 268 platted parcels, of which 200 are vacant lots. CHP plans to redevelop it using mixed home designs for single-family units, and selectively placed multi-family and condo properties. To have a significant impact on the market, CHP will acquire and develop 125 vacant lots and properties, redevelop them, and sell them to homeowners. Again, the City will make infrastructure improvements that improve the community's appearance and make it more attractive to buyers.

Unfortunately, CHP's careful and detailed planning came together just as the bottom fell out of Columbus' housing market. With housing prices falling, credit tightening, and families worried about their financial future, Amy Klaben, CHP's Executive Director, says she hopes to sell 20-25 units in 2008. This is far less than the 100 year they had been planning on.



This does not mean that using NMTC to support housing development is a bad idea. Indeed, Klaben remains quite positive about their value for raising the large pools of capital CDCs will require in order to recover from the foreclosure crisis. "NMTCs are a good source of funds for future projects," says Klaben. "However, there are some changes that should be made to help make this more flexible and easier to use." One of these is the requirement that the funds raised support development and sale of single-family homes to owner-occupants. Renting properties is currently prohibited by program guidelines, even as a short-term bridge

strategy to get through the current housing crisis. This prohibits using a lease-purchase program to fill vacant units, as this is considered renting rather than buying.

In the short term this puts CHP and its investors in a squeeze, and they are working closely with ECI and other stakeholders to work through this. However, Klaben and her colleagues have developed a model for raising capital to support single-family housing redevelopment that can be replicated in other communities across the country.

Best Practices

1. Redevelopment of housing on a large scale, whether it's foreclosed property or related to initiatives such as American Addition, requires access to large amounts of capital. The NMTC supports these efforts by going beyond traditional public subsidies to raise money from private sector investors.
2. Joining forces with the City of Columbus gave CHP an opportunity to create housing- and neighborhood-impact on a grand scale. While the housing market downturn has slowed implementation of the plans in the near term, as prices rebound these partnerships and plans will provide a strong foundation for moving forward.

Dayton's Bluff: Working with Local and Regional Partners to Stabilize St. Paul Neighborhoods

Rapid Housing Price Increase 2000-2005/Rapid Loss of Home Values to 2000 Levels

Executive Director Jim Erchul has watched in growing dismay as neighborhoods he spent the last 18 years improving fell victim to the housing boom and bust. "It's like you're seeing a whole adult life's worth of work go up in a flash," he says sadly. Since 1980, Dayton's Bluff, a NeighborWorks® organization, has invested more than \$123 million in over 2,000 housing units throughout St. Paul. Following the last housing downturn, in the early 1990s, Dayton's Bluff acquired, renovated, and re-sold single-family homes that had been lost to foreclosure. When the city tore down vacant, abandoned housing, Dayton's Bluff assembled larger parcels and built mini-subdivisions and Low-Income Housing Tax Credit projects. The neighborhoods recovered and most seemed healthy and strong.

Property values have plummeted close to 40% in the Twin Cities area; over 20,000 homes were sold at sheriff's sales in 2007 alone.

Then in 2000 St. Paul's housing market really took off, fueled by investors and "exotic" mortgage lending. The market peaked in 2005, and by 2006 the investors were beginning to lose their homes to foreclosure. These properties were typically 2 - 4 unit buildings that had been single-family homes; they were highly leveraged and typically in poor condition. The next hit were homeowners who had purchased with conventional financing but had refinanced into subprime loans. Most recently people with adjustable rate, subprime mortgages are losing their homes in increasing numbers as their loans re-set. Erchul notes that these buyers have lost so much value in their properties, and have such high payments, that when they hit any bump in the road letting them go to foreclosure seems like a rational response. He estimates that property values in St. Paul's east side have plummeted close to 40 percent, roughly equal to where they were in 2000, though in the Twin Cities as a whole they are down about 12 percent since 2005.

There were over 20,000 sheriff's sales in the Twin Cities area in 2007, up 83 percent from 2006. Foreclosures are scattered throughout St. Paul, though there are clusters in some of the older neighborhoods with housing built over a century ago. Fires at vacant homes are beginning to occur more frequently, and the city is once again tearing down dilapidated structures. Demolition leaves behind unkempt lots owned by servicers who do not care when they fill with trash and weeds.

New partners provide assistance in attracting capital, designing systems, and providing access to policymakers and decision-makers that is vital to bringing local efforts up to scale.

Speculators are beginning to nose around again, looking for bargains that had all but vanished near the peak.

Dayton's Bluff will attack the foreclosure problem using the same tools it has used before, but this time it will have help from new partnerships that have formed in the metro area in response to the crisis. These include the following:

- **The City of St. Paul** created the Neighborhood Revitalization Fund, which is funded through a half cent of the municipal sales tax. When they saw the foreclosure crisis looming, City Council members agreed to issue bonds backed by the anticipated revenues from the sales tax. This created a pool of funds that will be used to stabilize St. Paul's hardest hit neighborhoods.
- **The McKnight Foundation**, along with the cities of Minneapolis and St. Paul, created the Family Housing Fund in 1980 to provide private financial support for affordable rental housing and homeownership opportunities in the two cities. The Fund now acts as a funder, convener, and educator to build public-private partnerships to address the entire region's affordable housing needs. It offers CDCs a working capital fund, and a second mortgage program to help homeowners refinance. Recently it has created a contract-for-deed program that helps buyers work towards purchasing the home they live in without having to qualify at the outset for conventional financing.
- **The Minnesota Foreclosure Funders' Council** is an ad hoc group established by the Family Housing Fund in late 2006 to help coordinate community responses to foreclosure, acting as a sort of "switching station" to facilitate communication. The Council also uses its collective strength to seek solutions and negotiate funding that individual groups working alone could not achieve. An early success was persuading servicers to establish dedicated lines so that housing counselors could contact them to work out troubled mortgages. One of its current initiatives is to try to facilitate bulk purchases of foreclosed properties from servicers. This will help nonprofits work at a larger scale, and reduce the time (and perhaps money) needed to acquire properties.
- **The Minnesota Home Ownership Center (MHOC)** is an intermediary founded in 1993 to promote sustainable homeownership for Minnesota residents. It works in partnership with community-based partners throughout the state. To facilitate communication around the foreclosure crisis, MHOC created a listserv that circulates updates several times a month. These notices may include information about upcoming outreach events, media coverage, new tools for consumers, or information from lenders and servicers. MHOC's website offers marketing material nonprofits can download and distribute as part of their outreach to distressed homeowners, as well as other material relevant to the foreclosure process. Finally, MBOS helps organize Borrower Workshops, modeled after Homebuyer Fairs, where distressed homeowners can come and hear presentations, and speak with housing counselors or lenders about their mortgage difficulties.
- **The National Community Stabilization Trust (NCST)** is a national entity formed by NeighborWorks[®] America, LISC, Enterprise Community Partners, and the Housing Partnership Network. NCST will coordinate the acquisition or transfer of real estate owned (REO) properties from lenders, loan servicers, investors and GSEs nationwide. It will then work through local organizations, in collaboration with state and local governments, to make the properties available for purchase by low- and moderate-income families. Minneapolis and St. Paul hope to participate in a pilot of this effort.

Dayton's Bluff is a seasoned CDC with extensive experience in both single family and multi-family housing. But the scale of the foreclosure crisis threatens to overwhelm its efforts. On its own, Dayton's Bluff could not wield the political clout needed to bring servicers, politicians, and other policymakers to the table with the speed required in order to marshal a timely response. Nor would it be able to raise the huge amounts of capital required to acquire and renovate properties. At the same time, the consortia and collaborative that have grown up in the Twin Cities area could not be effective without groups like Dayton's Bluff. Both are part of the essential infrastructure that will be needed to turn thousands of vacant, foreclosed properties from neighborhood eyesores to neighborhood assets.



A unit renovated by Dayton's Bluff.

Best Practices

1. Dayton's Bluff has extensive experience in creating rental and homeownership opportunities in St. Paul's single family market. But when the foreclosure crisis hit, it had to work closely with other partners, new and existing, to come up with solutions to the crisis. The partnerships worked at many levels that were vital to success, including marketing to distressed homeowners, facilitating communication among the partners, raising capital, improving access to servicers, and developing new tools for stabilizing neighborhoods.

HANDS Inc./CAPC Purchase Pools of REO or Notes to Stabilize Foreclosed Properties and Neighborhoods

High Percentage of Subprime Mortgages for Purchase and Refinance/High Foreclosures

HANDS Inc. tried for months to persuade a large portfolio lender to negotiate on a pool of nonperforming mortgages. The first challenge was convincing the bank that a CDC was worth doing business with. HANDS first won a 60 day exclusive due diligence period to evaluate the properties and the mortgages and to put together a sound offer, one that made some economic sense for HANDS to buy them and one that was defensible if the bank insisted on a price that was much more than the properties' actual value. After contracting with a foreclosure attorney, a rehab expert and a REO real estate broker and thoroughly examining every house and neighborhood, Wayne Meyer and Patrick Morrissy of HANDS presented their offer.

Not long after that, the banks' lawyers contacted them and the real negotiations started. The properties, many of them vacant, none of them owner-occupied, were scattered throughout a number of low and moderate income neighborhoods. All were deteriorated and contributing to neighborhood blight; their boilers and copper had been stripped, and they had not been sealed against the coming winter. Most were surrounded by properties that were not much better off. The bank would have to wait a long time before the market rebounded to the level at which they had been hoping to sell. The bank was apparently quite surprised by the loss they were facing on these properties.

Bank asset managers responsible for disposing of REO or paper may be working with little knowledge of the properties or the neighborhoods in which they are located.

That was when HANDS sent the photos.

After a brief period of counteroffers, the bank and HANDS reached an agreement and they are in the final stages of closing the deal. Until it closes the full details cannot be made public, but there are some valuable lessons Morrissy and his colleagues have learned that are worth highlighting now.

First, some introductions. Morrissy and Meyer are the Executive Director and Housing Director of Housing and Neighborhood Development Services, Inc. (HANDS). HANDS is a 20 year-old community development corporation active in Orange and East Orange, New Jersey, bordering Newark. Morrissy and Meyer also manage the pilot effort described above which is known as Operation Neighborhood Recovery (ONR), a project of the Community Asset Preservation Corporation (CAPC) of New Jersey. CAPC is a new organization being created in response to the housing crisis, with a mission to stabilize neighborhoods affected by mortgage foreclosures, help homeowners avoid foreclosure, return vacant foreclosed property to productive reuse, and increase the availability of affordable housing. Once it has obtained its 501©3 status CAPC will take over

the ONC work and proceed with new bulk purchases of distressed assets throughout Essex County, New Jersey. The Project Director is Harold Simon, formerly Executive Director of the National Housing Institute, and a board member of HANDS.

HANDS launched ONR as a pilot to test an approach to stabilizing New Jersey neighborhoods reeling from foreclosures. Rather than buying properties one-by-one, a time consuming and expensive process Simon compares to “guerrilla warfare”, the model calls for purchasing blocks of REO or notes from lenders and servicers. Once purchased, several different strategies will be used to stabilize the properties. Loans that cannot be modified or otherwise saved will go to foreclosure. Most properties will be sold as affordable housing to low- and moderate-income buyers, but some will be sold as market rate units to higher income families. Market rate sales will generate internal subsidies to help make the other units affordable, and produce fee income to sustain CAPC operations.

CAPC will negotiate for the bulk purchase of properties, and then convey them to CDCs to redevelop, or to private developers, to local governments, or other entities for reuse. Finally, where indicated, it may demolish and/or land bank properties for future sale or redevelopment. Over a three-to-five year period CAPC plans to scale up its operation to the point where it can take on the recovery of 1,000 to 1,500 units, working in collaboration with up to five CDCs who will be responsible for disposition of the units once purchased.

The ONR pilot has yielded a number of useful lessons for CDCs seeking to purchase bank REO or paper:

- Most large banks have experienced tremendous upheaval following the collapse of the housing market. CDCs that had previously enjoyed relationships with bank community development officers who knew them, and were well acquainted with the communities they serve, may find that these personnel have been re-assigned or have left the bank altogether. Instead, they may find themselves dealing with asset managers who have no idea what a community development corporation is. This may require additional background work, such as sending the asset manager information about the CDC’s mission, structure, financing, track record, and goals.
- With thousands of units to dispose of, asset managers may also have no information about the units in their REO portfolio or the communities in which they are located. That was why Morrissy and Meyer had to send photographs to back up their lower estimates of the properties’ value. The photos helped to break the deadlock and allow negotiations to move forward.
- Even if CDCs have viewed the properties from the outside, closer inspections are required to really understand the properties’ condition and value. There was a specified a period during which HANDS staff could enter the units. While this work was in process the bank would not foreclose on or otherwise dispose of the properties. Meyer did a top to bottom inspection of every property, decided whether it would require a gut rehab or a lesser amount of renovation, estimated these costs, and got a broker’s price opinion on the potential resale price. This helped them back into the price they could afford to offer for the units.

Simon urges CDCs purchasing REO properties in bulk from lenders and servicers to make sure they do so at a price that makes sense for them, and only following a thorough work-up of the numbers.

- The price per unit will be influenced by the public subsidy that is available to make the units affordable to lower-income buyers. HANDS negotiated forward commitments of subsidy from several local governments, so that information could be factored into their pricing decisions.
- CDCs should consider the range of quality of the housing they are purchasing in the bulk sale. If there are 50 mortgages, and 40 are on properties that need to be demolished, that information should affect the price that is offered. CDCs need to consider the market for the properties they are buying and what they can dispose of within a given time frame.
- Even though CDCs typically have a mission to support affordable housing, in a bulk purchase it is likely that some properties will have to be re-sold as market rate units. In the current downturn there simply may not be sufficient low- and moderate-income buyers to match the available inventory. Selling some to market rate buyers will move them more quickly, generate income for CDCs to sustain their operations or provide an internal subsidy to other affordable housing units, and help preserve income diversity within the neighborhoods.
- CDCs should be prepared to negotiate hard on price of REO assets or paper. Banks will be eager to dispose of their REOs at a price that works for them. They may lack the detailed knowledge of local markets that CDCs have, or they may mistakenly believe that CDCs can access grant money to help subsidize the purchase. CDCs need to make the numbers work for them based on the condition of the properties, their available funds, current market conditions, and what the end buyers can afford. They should make sure to include in their pricing calculations carrying costs for the properties, and the costs to foreclose on them if this has not already occurred.
- Finally, there is a risk to this approach. Analyzing dozens of properties in this level of detail takes time, and there is no guarantee that the bank will accept the offer that comes out of it. CDCs using this strategy need to have risk capital they can afford to lose if the deal does not go through. There are also opportunity costs; the analysis ties up staff time which cannot be used for other purposes. This is another reason why CDCs should choose their projects carefully.

Careful analysis of blocks of properties takes time and money, and requires a source of risk capital that does not have to be repaid.

Best Practices

1. HANDS' staff persisted in their efforts to persuade the lender that the properties they wished to purchase were not as valuable as the bank thought. They used their more detailed knowledge of the local market, and took the unconventional step of sending photographs to the asset manager in order to make their case.
2. They also did a thorough analysis of the units to ensure they had a good handle on how many they would have to demolish, and the cost to renovate the remainder.
3. To reduce the risk that they will be left holding units HANDS and CAPC have developed multiple disposition strategies that do not rely on just one market segment in order to move the properties.

Los Angeles NHS Employs Family-Focused Community Stabilization Strategy

High Housing Price Increases, Speculation/Rapid Decline, Widespread Foreclosures

In a post-disaster scenario such as the hurricanes that hit the Gulf Coast in 2005, aid organizations know that first you make sure people have the basics; shelter, food, and health care. Then you start worrying about the long term.

The foreclosure storm that hit California has lasted years, not days, and it is still wreaking havoc in neighborhoods. It is hard to make headway in promoting homeownership in the face of such a profound restructuring in the real estate market. As Lori Gay, Executive Director of Los Angeles Neighborhood Housing Services explains, these days so many families got in so far over their heads in debt that “half the time people don’t need to be modified- they just need to move.” Stripped of their assets, demoralized, and in unfamiliar territory, homeowners in the thousands have turned to LA NHS for assistance. In response, LA NHS has changed its focus from creating and financing affordable housing opportunities for first time homebuyers to helping families transition quickly, and with as little disruption as possible, through foreclosure and into affordable rental housing. In this time of crisis, detouring from its original business model is the best way LA NHS can help families and try to keep neighborhoods intact.

In the face of foreclosures happening at the rate of one every 20 minutes, LA NHS has temporarily had to emphasize a humanitarian response over its ordinary housing programming to help minimize families’ disruption as they transition out of their homes.

Gay and her team recognized as early as 2003 that California’s housing market was teetering on the brink of disaster. A study jointly undertaken with Harvard/MIT’s Joint Center for Housing Studies confirmed their worst fears. Already, low income and minority neighborhoods were seeing seven times the foreclosure rates of other communities. LA NHS used this study to begin doing marketing and outreach to those who were most vulnerable to foreclosure. Gay also began retooling, cross-training her staff to deal with foreclosure issues, and reaching out to peer organizations to help them do the same. She helped form the NeighborWorks® Center for Foreclosure Solutions (CFS) in LA County, a coalition of government, financial institutions, consumer protection attorneys, housing counseling agencies and advocacy groups striving to find solutions to the growing problem of foreclosures.

By 2007 foreclosures were happening in LA County at the rate of one every 90 minutes; today, there is one every 20 minutes. The volume is simply overwhelming. “Where we went wrong is that we thought we could help people modify their loans if we got to them soon enough,” says Gay. “The reality is, at this point only one or two out of 100 gets modified. With so many loans in trouble at once, homeowners may not be able to connect with their servicer before the foreclosure happens.” In this environment “cash for keys” is a popular and relatively painless resolution; the homeowner agrees to accept a lump sum of \$2,500 from the lender in exchange for moving out and

leaving the property intact. The payment can be used to pay the deposit on a rental unit and cover the cost of the move.

These days LA NHS staff focus on helping families make a “respectful” transition. LA NHS works closely with the LA County Property Owners Association, whose members often agree to discounted fees and rents in order to get foreclosure affected families into available rental housing as quickly as possible. They will try to keep families in the same neighborhood and school district wherever possible, to minimize disruption to children’s education. Knowing that they will be helped, even though they have little money and their credit is ruined, has helped families accept their situation and move on.

Gay has found that homeowners need multiple points of entry to get help; there is no one strategy that will reach all of them. Twice each week CFS and LA NHS hold “foreclosure prevention fairs” where distressed homeowners can come and get information about the foreclosure process, and meet with select servicers and housing counselors to try to resolve their loan problems. These events typically attract 150-200 people each. Larger events held once a month for a similar purpose routinely draw 250-300 homeowners. All of these events are offered in English and Spanish, and they are adding Asian/Pacific Islander languages as well. CFS and LA NHS also have a faith-based and workplace initiative, reaching out to churches and employers to help find homeowners needing assistance.

LA NHS has found that distressed homeowners are best reached using a range of strategies, including news releases, and outreach to churches and employers.

While its humanitarian mission temporarily has high priority, LA NHS continues pursuing its housing mission. It still offers homebuyer education and counseling for first-time buyers, as well as help in finding housing and securing financing. It still acquires, renovates, and re-sells units to homeowners. However, production is well below normal levels. Gay hopes that within the next four to six months the housing market, which has dropped from 15 to 50 percent depending on the community, will find the bottom. When that happens, LA NHS is positioning itself to be ready to put qualified buyers into vacant homes.

LA NHS is a NeighborWorks[®] organization and a Community Development Financial Institution (CDFI), which gives it access to the significant technical and financial assistance that will be needed to help LA neighborhoods recover. Using these and other resources, LA NHS is undertaking the following initiatives:



- Through an in-house real estate broker service LA NHS serves as a listing broker for lenders and servicers; Countrywide is one of its biggest clients. This gives LA NHS access to both the foreclosed homeowner and the property. Brokers do a quick screen of the homeowner, helping it access financial

counseling or relocation assistance as needed. They provide an opinion of value on the unit and list it on the MLS. Trying to steer units away from speculative investors, they make every effort to find buyers who will take care of the property and be assets to the neighborhood, such as families who have completed homebuyer education and counseling. If the property sells LA NHS earns a 2 percent commission. Current volume is about 100-120 units annually, but Gay hopes this will pick up once the market stabilizes.

- Purchase-rehab-resale of existing properties continues to be a business line for LA NHS, but volume has dropped to under 20 a month. As Gay points out, “there’s no point in purchasing 50 properties if you only have 20 buyers”. Still, this will be a major focus going forward, with plans to ramp up to 30 units a month, or 360 in the course of a year. The business model calls for purchasing foreclosed properties at 30–50 percent discounts in order to make them affordable to low and moderate income buyers. These discounts will also provide a cushion against continued market declines or a slow recovery.

Gay estimates that it will require \$7 million in capital to produce the 360 properties annually and to facilitate sales of an additional 2,500 properties through partnerships with the CFS members. This capital will come from NeighborWorks[®] America, the CDFI Fund, congressional appropriations such as the Neighborhood Stabilization Program, state-funded initiatives, and foundation grants.

As bad as it has been in LA County, Gay sees some signs for optimism going forward. Chief among these are the partnerships LA NHS has forged with other CDCs and nonprofit service providers, local and state governments, and private sector organizations such as the LA County Property Owners Association. These relationships will help LA NHS advocate for new resources to help distressed homeowners, such as a relocation assistance fund. Ultimately, these partnerships will also help LA NHS reach out to a broader spectrum of new buyers who will fill the properties that now sit vacant, and create healthy, vibrant neighborhoods once again.

Best Practices

1. LA NHS looked ahead and saw the housing crisis looming. While it was unable to stop it, the work it did to restructure its programming, cross-train staff, and reach out to partners undoubtedly helped it to handle the storm when it hit.
2. Reaching out to other CDCs, local and state governments, and private sector entities through the Los Angeles County Center for Foreclosure Solutions has helped concentrate and focus resources available not just to help affected homeowners but to stabilize neighborhoods once the crisis is over.
3. LA NHS is also working creatively with lenders and servicers by serving as a listing agent, giving them access to homeowners as they transition out of the homes, and some influence over the disposition of the properties.

NHS of Chicago Uses Old-Style Community Organizing to Help Stabilize Neighborhoods

Neighborhood Housing Services (NHS) of Chicago was one of the first NeighborWorks® organizations nationally to recognize a disturbing increase in foreclosures in its target neighborhoods. Over many years NHS had been working patiently to build up homeownership, improve the housing stock, and support residents in efforts to make their neighborhoods healthy places in which to work and live. NHS staff watched in growing dismay as foreclosures began to threaten the health of neighborhoods they had helped strengthen. The remedy demanded a response over and above simply taking care of individual families and properties affected by foreclosure.

In the wake of the foreclosure crisis, neighborhood recovery goes beyond simply filling vacant units to repairing the frayed fabric of the community as a whole.

With funding from Chicago LISC's New Communities Program (supported by the MacArthur Foundation) NHS staff joined with Chicago's Southwest Organizing Project (SWOP) to map out a strategy for organizing around the issue. In the spring of 2008 they began meeting with community leaders and canvassing door-to-door, targeting Chicago-Lawn/Gage Park, also known as Marquette Park. This is one of Chicago's most diverse neighborhoods, whose population includes blacks, Latinos, white ethnic families, and a growing Middle Eastern presence. The area has a population of 138,000, with about 35,000 occupied housing units. Part of Chicago's famous "bungalow belt", the neighborhood consists primarily of modest single-family homes, with an owner occupancy rate of about 61percent.

Soon the organizing centered around St. Nicholas Church, a venerable institution with a 90 year history in the neighborhood. Organizers met at the church with members of the parish, and learned that the deacon had lost his home and was renting, and that the choir director had just been through foreclosure as well. This reinforced the sense that the issue was bigger than simply individual families; foreclosures affected church leaders and the health of the parish as a whole. With the help of about 20 members who wanted to work on the issue, NHS began constructing a map of the parish and pinpointing where foreclosures had occurred.

The pastor of St. Nicholas parish compared the foreclosure crisis to a "silent tornado", a crisis as devastating to the community as a high winds would be but more insidious because it occurred over weeks and months, not in a single event.

A small group took the map to the pastor and asked for his help in raising awareness of the issue within the parish. The pastor immediately understood the gravity of the situation, and agreed to write an article for the church bulletin. Several weeks later he made it the subject of one of his homilies during church services. Calling the crisis a "silent tornado", he pointed out that if a tornado hit the neighborhood people would respond with care and comfort for those who had suffered. The foreclosure crisis, he declared, was no less damaging to the neighborhood, it just happened more slowly, over time. It was time they looked after their own.

On the same Sunday that the pastor dedicated a homily to the issue, the parish organizing group included a simple survey in the bulletin with the foreclosure map on it. The survey asked the following questions:

- Are you a homeowner?
- Are there vacant buildings on your block?
- What kind of a mortgage do you have? (Many did not know the answer to this question)
- Are you behind on your mortgage payments?
- Are you in foreclosure?
- Are you current on your loan but worried about your ability to continue payments?
- Would you be willing to work with the parish on this issue?

A total of 431 surveys were completed and returned. A total of 12 respondents indicated they were in foreclosure, 40 were behind on their payments, and 170 were concerned about their future ability to keep up. The remainder (209) reported their mortgages were not a problem. Altogether, just over half of survey respondents were negatively affected by the foreclosure crisis, an extraordinary testimony to the depth and breadth of the issue within the parish.

In response to the survey, both NHS and SWOP expanded their counseling resources in the neighborhood so they could assist affected families. They reached out directly to those in foreclosure or who were behind on their mortgages.

The organizing effort continues within St. Nicholas' parish, and NHS plans to expand into others as well. When Michael Reardon, Director of NHS' Chicago-Lawn/Gage Park neighborhood office, interviews community stakeholders he asks them "How important is the church to you?" He is impressed by how many people respond "I'm still here because St. Nicholas is here". Clearly, the church helps unite and strengthen the community against negative change, and to articulate its values. Reardon believes it will also play a key role in filling vacant homes and helping the community recover from the foreclosure crisis.

"There is a very direct self-interest on the part of churches and schools in combating foreclosures," says Reardon. "If schools lose families, and pastors lose church leaders they have spent years developing, it will have serious impacts. As a community, we need to deal with this issue collectively."

While Reardon is thankful that NHS Chicago has counseling tools and resources that can help foreclosure-affected families, he sees a down side to that as well. "We needed to offer the foreclosure counseling, but it's turned us into a social service organization and we have lost touch with the need to be a force for change" says Reardon. As one person he spoke to asked him, "Where is the anger about this?" The foreclosure crisis was something that was done to the neighborhood by unscrupulous mortgage lenders and a lax regulatory system. Reardon worries that

“as long as we treat it solely as a counseling issue, the blame will remain with the homeowner and those responsible will not be held accountable.”

NHS has no master plan for its organizing effort. Reardon is confident that momentum will continue to build and that a consensus will emerge as to what action should be taken. It could take the form of demanding that lenders responsible for large shares of troubled subprime loans actively participate in developing solutions. It might also take the form of enacting legislation or regulation that protects homeowners against future exploitation and abuse.

If there is a silver lining in the foreclosure storm clouds, Reardon thinks it may be that society will re-learn the lesson that “home = neighborhood.” The excesses of the housing market caused people to lose sight of that fact, transforming the equation into home = ATM as people looked for quick profits they had not earned.

The foreclosure crisis reminds us that homes’ value cannot be separated from the neighborhoods in which they are located.

Homeownership can be an asset building strategy for low and moderate income people only if the value of homes remains strong. The foreclosure crisis is a reminder of this basic truth and a signal that is time to return, as NHS Chicago has done, to linking the value of housing assets to the neighborhoods in which they are located.

Best Practices

1. Neighborhood institutions such as the St. Nicholas Church are often the heart and soul of communities. They give the community an identity, and help define and articulate its values. They also expedite access to community residents who share a common commitment to something besides their own home or interests. As a result, they make a great starting point for organizing efforts.
2. NHS Chicago did not impose a pre-conceived notion on the neighborhood of what should happen. Instead staff met with and listened to residents and community leaders, letting the definition of the problem, along with the solutions to them, flow up from the residents.

NHS of Chicago Uses Receivership to Rid Neighborhoods of Problem Properties

Moderate Price Increase/Foreclosures Spiking

CDCs have long grappled with how to motivate owners of problem properties to fix up or sell. Units that are vacant and boarded, with flaking paint and trash strewn lawns, drive down property values and invite vandalism. Vacant units threaten the financial health of homeowners who are not yet in trouble, and limit their options should they need to refinance. As a result, tried and true revitalization policies always call for identifying and remediating problem properties.

Vacant, deteriorated buildings are a chronic problem in neighborhoods. The foreclosure crisis makes this much worse; receivership is a strategy to expedite the repair or demolition of these buildings.

The foreclosure crisis is creating problem properties in neighborhoods across the country. Where there might once have been just a few deteriorated buildings in a multi-block area, suddenly there may be one or two on every block. With the housing market slumping it is hard for property owners to sell, and they may not have savings or the ability to borrow money to repair them. In the past such properties were often owned by investors from outside the community, but increasingly they are bank-owned or in the foreclosure process.

Working closely with the City of Chicago and the courts, NHS of Chicago, a member of the NeighborWorks® network, has found a way to ensure that problem properties are dealt with promptly, limiting the damage they can do in neighborhoods. The program is generally known as receivership but in Chicago they call it the Troubled Building Initiative 2, or TBI2.

“Receivership as a statute has been on the books for 20 years” explains Floyd Gardner, Deputy Director of Single Family Housing for NHS of Chicago. “But it has mostly been applied to buildings with five or more units. Four years ago, we went to the City and asked if we could serve as the receiver for properties with fewer than five units.” The city agreed, and the first year they handled just 26 properties. But over the next three years an additional 229 buildings ended up in receivership with NHS.

About 85 percent of the properties NHS serves as receiver for are already in Chicago’s Demolition Court. Properties end up in Demolition Court when they have very serious code violations and the property owner has ignored the Code Enforcement Office’s notices to improve. It used to be that owners could stall the Court for years by legal maneuvering, to the endless frustration of both the judges, the city, NHS, and neighborhood residents. Those days are gone.

Because the receiver lien supersedes all other liens except taxes, investors pay attention when their property goes into receivership.

This is because the receiver’s lien supersedes any other lien except taxes. Suddenly, investors who thought they

could delay for years before making improvements are forced to act more quickly because their own investment is at risk. In its role as receiver NHS may simply do a quick study of the property, remediate an issue that is causing imminent harm (repair a collapsing porch, for example), or do a more in-depth study to compare the after rehab value with the cost to repair. Ultimately, NHS can recommend to the court whether the property is worth repairing or if it should be demolished. It very seldom comes to that; of the 255 properties NHS has served as receiver for in the last four years only 20 have gone to this stage. Most property owners step in earlier in the process to make the necessary repairs or resolve the issue in some other way.

The judges in Demolition Court are very enthusiastic about TBI2 because it has been so effective at moving along cases that had clogged up the court's system for years. They have become much more aggressive at using the threat of receivership to jar owners into action.

NHS likes the program because at long last it has a lever to budge problem property owners. Gardner thinks that this program would work well in just about any densely populated area, even if only a few are deteriorated. In other words, its success does not necessarily depend on volume. If a community has only a couple of blighted properties that are blocking revitalization efforts, a receivership program gives CDCs the tools to improve them.

Serving in an enforcement role is an unusual role for CDCs, and some might shy away from it for fear of bad press. Yet Gardner insists this has not been an issue for NHS of Chicago. One of the reasons for this is that all of the communication to the property owner comes from the Code Enforcement office or the circuit court judges. NHS merely carries out the edicts.

It helps also that NHS does not view itself as “the enforcer”, preferring instead to develop a partnership with the property owner to resolve the problem. In some cases, this might mean that owners do the work themselves; when this occurs, NHS vouches for them in court and asks that they be discharged as receiver. Owners are also referred to a NHS of Chicago

Receivership can force a dialogue with property owners who might have avoided it otherwise; frequently, they come to regard NHS as a source of assistance, not the “enforcer”.

neighborhood office for help in accessing financial or technical assistance that might be available. Somewhat surprisingly, NHS has found that property owners are sometimes glad when NHS takes over and renovates the property. These owners may have been stuck because income or credit issues prevented them from borrowing money, or the unit was in such disrepair it could not be used as collateral. When NHS gets the property in receivership and brings it up to standards, the unit may have enough value that the owner can refinance and pay off the liens. Generally, owners are more likely to cure liens that are less than \$25,000.

NHS also takes a softer approach when there is an owner-occupant involved. “From a practical standpoint, while the court allows us to go in and do what needs to be done, we can't bar owners from entering their own property. It's a win-win when they see that NHS can be a tool for helping them keep their building,” says Gardner.

TBI2 pays for itself. The City of Chicago allocates \$2 million from its CDBG funds for the program each year. NHS can also bill for its time spent in court, doing feasibility studies, and in managing any work that is done (NHS does not itself carry out the repairs). To operate the program NHS employs a Program Manager, a Project Assistant who goes to the court dates and prepares the feasibility studies, and a Construction and Project Manager to manage sub-contracts such as for cleaning, tree or brush removal, writing up the scope of work, or overseeing general contractors who handle the actual construction.

Funds come from owners' repayment of the liens, or from the proceeds of the sale if the property goes to foreclosure.

Gardner thinks that TBI2 will be an important tool in stabilizing neighborhoods hard hit by foreclosures. NHS has already cleared the pipeline of properties that had been clogging the Demolition Court's system for several years. As a result, properties can move through the court into receivership within a matter of months. Since circuit court judges are utilizing the receivership option more aggressively NHS is under contract to act as receiver for up to 150 badly deteriorated properties next year, but it may do more. To help manage the volume Gardner is looking for other nonprofit partners to train as receivers.

The ability to expedite the demolition or repair of foreclosed and deteriorated buildings that would otherwise drag down property values will be good news for Chicago neighborhoods in the years to come.

Best Practices

1. Most cities have receivership laws. NHS of Chicago took a tool that had been on the books for years and applied it to 1-4 unit buildings that had troubled its neighborhoods for years.
2. NHS tries hard to avoid an adversarial relationship with property owners whose buildings are in receivership. The goal, after all, is to deal with the problem property, not to simply punish the property owner. By helping property owners meet their goals of either repairing or disposing of their buildings NHS can become their unexpected ally rather than simply being the enforcer.
3. By creating strong partnerships with the city code enforcement office and the courts NHS has positioned itself to rid Chicago neighborhoods of problem properties. The program covers its costs, and volume is large enough that NHS is seeking other nonprofit partners to help serve as receivers.



Before and after photos of 7013 S. Eggleston in the Auburn Gresham/Englewood neighborhood in Chicago. Before entering the TBI2 program the vacant property had multiple code violations and was used by area gangs. NHS acquired the home, rehabbed it, and sold it to a first time homebuyer.

NHS of Phoenix Purchases Distressed Subdivisions at Fire Sale Prices

Steep Increase in Housing Values/Sharp (30% -50% Decline)

When Doug Parker proposed to his board that they acquire a 21 lot, partially built subdivision in south Phoenix he met with a chilly reception. The board had good reason to be skeptical. The luckless developers had managed to sell only one of the seven completed units before the housing market crashed. The remaining houses had been vandalized for their copper and fixtures. There were over 550 foreclosed properties in the surrounding blocks, and the City of Phoenix was seeing foreclosure rates as high as 1,000 a week. Nearby properties that had sold for over \$200,000 in 2006 had lost more than a third of their value, and it was not clear whether the market had bottomed out. The construction lender was foreclosing and wanted \$1.25 million; the subdivision carried a total of \$2.8 million in debt.

Parker is Director of Real Estate Development for NHS of Phoenix, a NeighborWorks® organization. He argued that purchasing Vista del Sol met all three criteria for NHS' "triple bottom line". It was a good fit with NHS' mission to help low and moderate income families purchase good quality homes. It would revitalize a distressed neighborhood. And with careful planning NHS could earn a developer fee from the sale of the homes. After lengthy discussion the board agreed to the purchase with one condition; Parker had to convince the construction lender to reduce the price by \$300,000.



Vista del Sol Home

The bank jumped at the offer. It never took possession of the property, and NHS bought it at the foreclosure sale for the pre-negotiated price of \$950,000.

When developers planned the Vista Del Sol subdivision they designed homes with an attractive finish that would appeal to a higher end buyer. Granite countertops, two bathrooms, polished concrete floors, high ceilings, and two-car garages are amenities not typically found in most low-moderate income housing. Their energy efficiency is also better than average, with 2x6 construction that is not the norm in Phoenix, and energy saving appliances.

Parker and his board gambled that this extra quality would give them an edge in the market over comparably priced units. So far this gamble appears to be paying off. Initially, NHS projected conservatively that they would sell only one unit every two months, but in the first few months they

sold three and have two more under contract. At the rate they are going, they will sell out a year ahead of schedule.

Parker took several other steps to manage NHS' investment risk:

- He sold four of the lots to Habitat, who was delighted to buy lots near the city center for one-third less than they had been paying for land in the outskirts of the city;
- If they needed to in order to move them, he reserved the option to sell units to above income homeowners at market rates;
- While NHS normally markets available units internally to families that have come through its homebuyer education program, Parker hired a real estate agent so the properties could be listed on the MLS;
- He negotiated interest-free construction loans from the City of Phoenix's Housing Department;
- He sought partnerships with private developers to build out the vacant lots;
- NHS had the option of land banking some of the vacant lots to wait until the market improved.

The early signs are that Vista del Sol will be a successful project for NHS of Phoenix, and credit is due to both the staff and the board. Parker says that the board formed a Real Estate Committee to work more closely with staff in designing the project, which provided them with expert guidance. One member was a former developer who helped them think through all the potential costs and hazards of buying a half-built subdivision. Another board member was acquainted with the president of the bank that held the original construction loan on the subdivision, which facilitated the negotiation of the final sales price. For added perspective and strategy they also consulted with bankers and other professionals who had been through Phoenix's last real estate collapse.

While the Vista del Sol development has not been error free, the mistakes so far have been relatively minor, and because the initial pro forma was so conservative they have been able to absorb cost overruns and still turn a tidy profit. One error was overlooking the construction of walls around the backyards, which can run between \$3,000 and \$5,000 a lot. The walls are viewed as necessities by homeowners, so NHS has had to add them in.

Parker is already out looking for distressed properties to purchase at foreclosure auction, or from lenders that have already repossessed them. He is even exploring buying promissory notes in first position that would allow NHS to foreclose on subdivisions. He is negotiating for funding for this from Neighborhood Housing Services of America (NHTSA)-CDFI.

To protect against further declines in the housing prices, in future deals NHS will negotiate a price that is 10%

In this volatile market it is critical that CDCs purchasing bank REO manage their investment risk in several different ways, starting with buying properties at below market prices. The starting point should not be what the banks hope to get for their REO, but what CDCs can afford to pay given their goals of affordable housing and sustainable homeownership.

less than the bottom of the market. In addition, to be considered for purchase subdivisions must:

- Be single-family only (no multi-family), with a preference for those with at least some of the homes substantially completed;
- Have fully developed infrastructure (no raw land);
- Be in a sustainable location within 20 minutes of downtown Phoenix, with a preference for subdivisions in South Phoenix or other first-ring suburbs;
- Be able to sell at a base price of \$130,000 to \$150,000 (affordable to families at 60 to 80% of area median income);
- Have gone through foreclosure (or if a promissory note, NHS must be able to foreclose);
- Be eligible for conventional financing.

The housing bust in Phoenix is returning some sanity to a market that had gotten completely out of control. “Homes are affordable again in Phoenix without crazy loans” says Parker. With careful planning, nonprofit CDCs can use the market downturn to promote sustainable homeownership by helping low and moderate income first-time buyers get into energy efficient homes, in central locations, at a cost they can afford.

Best Practices

1. Decisions were made with guidance from board members with expertise in real estate finance and development. This helped structure a business deal that was sound even in a volatile market. Involvement of all NHS staff ensured that the plan received scrutiny for its back end affordability and marketability as well.
2. NHS was well capitalized. Through a fortuitous sale of a large multi-family project at the height of the market (2006), it had a very healthy balance sheet which allowed it to negotiate excellent terms on debt and to absorb losses (if necessary.)
3. NHS went into the deal with some clear exit strategies in the event that the project ran into trouble. These included sharing risk (e.g., by selling lots to Habitat), and preserving flexibility (such as land banking vacant lots or selling units to higher income families) in order to ensure that they turned a profit.
4. Using its experience with the Vista del Sol subdivision, NHS created a “profile for success” that will guide its search and decision making around acquiring other subdivisions.

Neighborhood Progress Inc. Combines an Early Warning System, Strategically Targeted Rehab, and a Policy Reform Agenda to Combat Cleveland's "Foreclosure Tsunami"

Rapid Increase in Housing Prices/Steep housing Price Declines, Regional Economic Depression

In 2004 Frank Ford, Senior Vice-President for Research and Development at Neighborhood Progress Inc., warned his board that there were early signs of a growing foreclosure problem in Cleveland and Cuyahoga County. Ford estimated that the city's community development corporations could collectively produce about 700 units a year. If he was right about the foreclosure problem, it could overwhelm the system's capacity to respond.

Ford was right. Foreclosure filings in the city and county, which had averaged about 3,000 a year in 1995, doubled in 2000, and doubled again by 2005. In 2008 the region is on track to reach 15,000 filings, roughly half of which are in Cleveland. In August the Cleveland Plain Dealer estimated property values in some parts of the city had plummeted as much as 70%. Virtually every neighborhood has been affected, though some are harder hit than others.

Some people in Cleveland, which is staggering under an onslaught of foreclosures, like to say that they have been hit by "Hurricane Greed". Frank Ford of NPI prefers to compare it to a tsunami, which has successive (but distinct) waves of damage.

Natural disaster analogies abound; in Cleveland people like to say that they have been hit by "Hurricane Greed". Ford himself prefers to think of it as a tsunami, because after the first big wave there can be later surges which are almost as damaging. He identifies three such surges in Cleveland:

1. **The foreclosures that empty units and leave them vacant.**
2. **Ripple effects resulting from the abandonment of units.** Within a couple of weeks of being vacated, houses are ransacked for their valuable copper plumbing and wiring, and their aluminum siding stripped. Vandals, of course, wreak enormous damage on the units in the course of stripping them. In many cases, if the water has not been shut off the broken pipes pump water into the basements, damaging the units still further.



A vacant, boarded Cleveland house with aluminum siding stripped. The handwritten message to would-be vandals, scrawled on the plywood, reads "No Copper or Plumbing! Thanks a lot."

Quite aside from the damage to the individual units, the asset base in Cleveland and the surrounding county has seriously eroded. This in turn will devastate communities when they update their valuations for tax purposes. Municipal and county governments, as well as school systems are likely to see strong downward pressures on their budgets in coming years.

3. **An influx of out-of-town real estate speculators eager to capitalize on the housing bust,** who have the ability to buy large blocks of REO inventory from banks and re-sell them, with only modest improvements, to unsuspecting buyers.

Neighborhood Progress Inc. (NPI) is a local housing intermediary based in Cleveland and funded by Cleveland Foundation, Enterprise Community Partners and the George Gund Foundation. NPI supports the work of approximately 14 Cleveland CDCs through grants and technical assistance.

Faced with thousands of foreclosed and abandoned units, with thousands more moving through the pipeline, NPI and its partners struggled to find a response. They wanted to send a message of hope; to show that something could be done to stop the bleeding. At the same time, they had to do more than renovate random units; a scattershot approach would simply be a waste of time and resources.

With thousands of units foreclosed and abandoned, NPI realized that any effort to reclaim units would have to build strategically on pockets of strength, in neighborhoods where there had already been significant investment.

They decided instead to do a small pilot, 50 units, in six neighborhoods that were already part of NPI's Strategic Investment Initiative (SII). SII, started in 2004, provided additional funding and technical assistance to a handful of neighborhoods to help them become "regionally competitive neighborhoods of choice". The original concept was to help these neighborhoods successfully complete a catalytic, anchor project of some scale that would stimulate market rejuvenation. Each neighborhood identified a 10-

block area surrounding the anchor project which would be the focus of additional efforts to improve the appearance and build community pride. The 50 units in NPI's new project would be scattered within the 10 block focus areas of the six neighborhoods. Ohio Housing Finance Agency, Living Cities, and the City of Cleveland committed to providing gap financing, averaging \$40,000/unit, that would allow the CDCs to properly renovate the units and still sell them at affordable prices to low and moderate income buyers.

With the target areas established NPI next thought about how to support and strengthen the residents who were still there. Studies showed that foreclosure counseling was effective about half the time in helping homeowners who made and kept their appointments avoid foreclosure. The problem was, the vast majority of homeowners in foreclosure were not even asking for help. Of 14,000 Cleveland and Cuyahoga homeowners in foreclosure in 2007, only 2,000 made and kept appointments; of those half, or 1,000, retained their units. Ford says NPI and its partners started wondering "what if we could find out who is heading for foreclosure and stop it?" They needed an early warning system that could work on an individual property level.

They turned to Case-Western Reserve University, which for several years had been working with NPI to develop a database, called “NEO CANDO”, which combined data from a variety of sources into one, parcel-based system. CWRU had already pulled in county auditor data, foreclosure filings, sheriff’s sale notices, City of Cleveland code enforcement data, and regional water and sewer data. The project got a major lift when First American Title offered to supply data on which homeowners had adjustable rate mortgages and when they were due to re-set. NPI and its partners chose three major criteria to identify homeowners at serious risk of foreclosure:

- 1) Cases where the foreclosure was still pending, and the water in the unit was on (it was still occupied)
- 2) Homeowners who had received a loan from HUD’s published list of subprime mortgage lenders
- 3) Homeowners who had obtained adjustable rate mortgages

The early warning system allows NPI and its partners to identify homeowners most at-risk of losing their homes to foreclosure; those where the foreclosure was still pending, who had received a mortgage from a known subprime lender, and whose loan was adjustable rate.

In the initial pilot, NPI shared these data with its six CDCs, who were responsible for doing the outreach to homeowners. It is fair to say that these CDCs generally did not have a background in community organizing, and lacked some capacity in carrying out this assignment. While 17 foreclosures were averted, Ford was dissatisfied with this result and thought that with some more assistance they could do better.

To improve outreach results, in the next phase NPI will contract with Empowering and Strengthening Ohio’s People (ESOP) to help with outreach to homeowners. ESOP has a strong community organizing background, and through concerted, sometimes in-your-face community action had negotiated fair lending agreements with a number of lenders and servicers. These agreements allow them to halt foreclosure proceedings by faxing in a document, and give them direct access to lender and servicers’ senior level executives who have the authority to approve a modification or workout plan. This greatly improves ESOP’s ability to intervene successfully to avert foreclosures.

Ford says they will also use a longer time horizon in looking at the ARM data. Initially they asked First American for just the next few months’ worth of data, which was too short a time frame. Now they have asked for data through 2009, which will give them more time to identify and contact at-risk homeowners.

The foreclosure crisis has forced NPI to consider a new role as change agent; at the local, city and county and statewide levels.

This is new ground for NPI, and for its CDC partners. From its inception NPI had focused on bricks and mortar, leaving community organizing and advocacy to other groups. Also, for many years NPI and most other Cleveland area housing organizations had emphasized increasing production of new

units, to such an extent that few CDCs even have the capacity to handle rehab of existing properties. In the current foreclosure crisis, NPI has had to redefine its role. It is embracing (and funding) community outreach efforts such as its foreclosure prevention initiatives. It is also working on the city, county, and state levels to advocate for policy and systems level changes that will protect homeowners and neighborhoods, and prevent future (manmade) disasters such as this one.

Best Practices

1. NPI piggybacked on its existing Strategic Investment Initiative to help target its work in neighborhoods. This helped protect current investment and assets, and ensured their work would have a more visible impact.
2. Sophisticated use of technology and data gave Ford and his colleagues the ability to pinpoint homeowners at higher risk for foreclosure and reach out to them before it happened. Since studies show that distressed homeowners often do not call for help, this early warning system is a tremendous boost to prevention efforts.
3. CDCs that have focused on “bricks and mortar” over community outreach and organizing will need help adding this to their skill base. NPI’s contract with ESOP will help the six participating CDCs learn how to improve the effectiveness of their outreach to at-risk homeowners.

Self-Help: National Initiative to Bring Lease-Purchase to Scale

Secondary Market Initiative to Help Absorb Excess Inventory

Nonprofit community development corporations face a conundrum. Prices are falling in virtually all markets, and increasingly there are units available at prices low and moderate income people can afford. Neighborhoods desperately need homeowners to take over the vacant stock which is dragging down values and becoming attractive to investors looking for cheap rentals. Nonprofits have the capital and expertise to buy, renovate, and re-sell single family homes. But where are the buyers?

Vacant, boarded up units drag down adjacent property values, putting the rest of the neighborhood at risk. Where are the buyers for these bargains?

Many of today's community development leaders experienced the housing downturn in the early 1990s that was caused by the savings and loan crisis. They know that housing markets are cyclical; this current market correction is painful, and seems endless. Yet in many markets prices are hitting bottom and before long they will begin edging back up. It will never cost less, in subsidy terms, to help low-income families buy their first home, as prices have dropped. Now is the right time to help the next generation of buyers.

This awareness is behind Self-Help's effort to develop a national lease-purchase initiative that will help buyers move into houses and, within a one to five year period, improve their credit and savings to the point where they can purchase the property. Local nonprofits will buy single-family properties using a Fannie Mae mortgage product, and lease them to families who are not yet mortgage-ready but can get there within the five-year time frame. Self-Help will purchase those loans, and the tenants can assume the mortgage when they meet predefined requirements.

The lease-purchase concept is not new. It emerged in the wake of the savings and loan crisis in the early 1990s, at a time when there was also a glut of vacant units at a reasonable price and a dearth of eligible buyers. In recent years, lease-purchase has faded from view because subprime lending offered non-conventional borrowers another entry point into the market. Now that credit has tightened, lease purchase is once again emerging as an attractive alternative. Self-Help, a North Carolina-based nonprofit that works at the local and national levels to create ownership and economic opportunity, is leading the charge.



“For many years Self-Help has acted as a secondary market for affordable housing loans across the country” explains Vanita Kalra, a Real Estate Associate at Self-Help. “Through a partnership with Fannie and the Ford Foundation, we have done about \$4.5 billion in loans, serving 50,000 families. That’s the way Self-Help brings its mission to scale. By making the permanent financing easier to obtain, we think we can help bring the lease-purchase program to scale in a way it has never been before.” While much of the work- and control- of the lease-purchase program will remain in the local communities, by providing the permanent financing using a Fannie Mae product Self-Help can jumpstart creation of new programs. Self-Help is negotiating agreements with financial institutions to do lease-purchase loans in a number of communities, but it will also work with nonprofits to bring local lenders to the table.



A unit in the Peachtree Hills subdivision.

A pilot is currently under way in Charlotte, North Carolina, where Self-Help’s own CDC operates. The city of Charlotte is anxious to stabilize a relatively new subdivision (Peachtree Hills) that has been hit hard by foreclosures. The city is working with Self-Help CDC and Charlotte-Mecklenburg Housing Partnership (CMHP) to create a comprehensive approach to stabilize the community. Peachtree Hills was started in 2003 and comprises 147 units, although not all of the units were built before the market slumped. As of January 2008 there were about 40 vacancies, and at least 42 of the properties

had been foreclosed on or owned by a bank since 2003. While there are homeowners who take evident pride in their homes, they are losing ground to vandalism, rising crime, and a continued erosion of the homeowner base. “Copper miners”, thieves who strip valuable copper wiring from homes, are breaking into the vacant units. The Charlotte-Mecklenburg police responded 360 times to calls in Peachtree during the last year, averaging almost one visit a day. Given its current reputation, few families are interested in buying there and it is threatening to spiral out of control.

In the pilot, the Self-Help CDC will purchase up to 25 vacant units using Self-Help’s lease-purchase product. The CDC will hold and manage them until a buyer is able to assume them. The CDC will do minor rehab, mostly new paint and carpeting, to make the units more attractive, and it will use a network of counseling agencies and realtors across the city to attract both lease-purchasers and mortgage-ready buyers. CMHP, a NeighborWorks® organization and HUD-approved housing counseling agency, will provide financial counseling and education to lease-purchasers to prepare them for homebuying. The city of Charlotte will make infrastructure improvements to enhance the subdivision’s curb appeal and to provide support to the emerging homeowners association to organize the residents. Finally, the CDC has hired a property management firm to manage the units during the lease period.

Good prospects for the lease-purchase program will be individuals or families with at least a 12 month work history, and sufficient income to afford the lease payment. Initially credit will not be a factor, because over the next one to five years they will work to repair their credit and build their savings. A portion of tenants' monthly lease payment will be set aside in an account to build savings towards downpayment and closing costs. Once tenants' credit scores improve and other requirements are met they will be eligible to assume the loan from the Self-Help CDC.

While piloting this approach in Charlotte, Self-Help is already seeking other partners in cities across the country. "We know it will be difficult for communities to absorb stock in the near turn, which makes lease-purchase a great option" says Self-Help's Kalra. "We see this as another tool in the toolbox for CDCs; it isn't the only answer, but under the right scenarios it can really help." This

Lease-purchase may be a useful strategy for nonprofits who are sitting on new inventory that was built near the market peak, and who are facing both high carrying costs and losses on the sale of the units.

may be the right option for non-profits currently holding new inventory that was under construction just prior to the peak of the market. With prices tumbling, buyers are few and far between. Not only are nonprofits potentially taking a loss on the sales, they are carrying the full project cost with no relief in sight. A lease-purchase program can be a good strategy to fill those units and create a revenue stream from rents.

Self-Help is seeking local partners with the capacity to acquire, renovate, and re-sell single family properties, as well as expertise in locating and counseling prospective lease-purchase participants. Aside from ensuring local groups have the ability to deliver qualified buyers at the end of the lease period, Self-Help has no prescribed model for how local groups should run their programs. They can purchase units in scattered sites, or in clusters as in the Peachtree Hills subdivision. They can focus on units in need of substantial rehabilitation, or target homes in newer subdivisions. "It's all according to what makes sense for their local market, and what they feel comfortable taking on," Kalra says.

The lease-purchase program will not be for everyone, but it could be a useful strategy for those concerned about absorbing excess inventory. For more information, contact Vanita Kalra at Vanita.Kalra@self-help.org.

Best Practices

1. The lease-purchase concept has been around for years, but relatively few nonprofits have operated one at any scale. By using a standardized, Fannie Mae mortgage product and making it available nationwide, Self-Help is removing one of the obstacles to nonprofits interested in adding this program to their programming.
2. Self-Help recognizes that nonprofits will need to vary their lease-purchase program design in order to meet their local customs, practice or funding. It is not prescribing how the program should operate, but simply requiring that there is a plan in place to help lease-purchase tenants prepare to assume the mortgage within a five-year time frame. In order for tenants to assume the loan they will also have to meet pre-defined criteria.

St. Ambrose Housing Aid Center: Reclaiming Foreclosed Properties through the HUD ACA Program

Moderate Home Price Increases from 2002-2006/Slow Decline in 2007-2008

Communities struggling with high levels of FHA foreclosures may want to enroll in HUD's Asset Control Area (ACA) program. ACA allows approved nonprofit organizations and local governments to buy foreclosed properties at a 50 percent discount. Once renovated, the properties must be sold to homeowners earning up to 115 percent of area median income. The nonprofit recoups its overhead and developer fee from the difference between the sale price and its costs, though it is limited to a maximum of 15% of development costs. The program can be a powerful tool to build homeownership, upgrade the housing stock, and prevent foreclosed properties from being sold to investors. Managed correctly, it can easily cover expenses and provide a steady revenue stream. Operating within HUD's program guidelines is tricky, however, and requires detailed knowledge of neighborhoods, local real estate markets, and scattered site single-family housing rehabilitation.

HUD's Asset Control Area (ACA) program is a partnership with communities to use FHA foreclosed inventory to strengthen neighborhoods. Units are acquired at a 50 percent discount and sold to low and moderate income homeowners.

David Sann, Director of Housing Development at Baltimore's St. Ambrose Housing Aid Center, has the ACA program down to a science. "When you sign up for the ACA program HUD essentially draws a box around your target neighborhood" he explains. "You have to take every REO property within that box, no matter what its condition." While the 50% discount may seem generous at the outset, properties needing substantial renovations can easily eat up that subsidy. The sale price is limited to the lower of 115 percent of total development costs or the after-rehab appraised value. Within that limit nonprofits must include all of their costs; rehab, insurance, fees, marketing, and their margin. The limit on buyers' incomes restricts the market for the properties, and it can be challenging to find families who can meet the income requirements, have low debt loads, and whose credit is good. Properties that sit for months without a buyer eat into the profit margin. Sann sums it up this way; "HUD limits what you can earn, but not what you can lose."



The key to success in ACA, Sann believes, is to choose the right neighborhood in the first place. HUD only offers ACA as an option in designated revitalization areas that are characterized by low homeownership, low income, and high FHA foreclosure rates. Within those areas, nonprofits can negotiate to serve census block groups that fit their profile.

Sann's recipe for ACA success has three key ingredients: the market for housing in the neighborhood, the price range, and

consistency of housing type. Belair-Edison, in northeast Baltimore, is one of Sann's favorite ACA neighborhoods, because it has all three of these in abundance. A neighborhood of modest brick 1920 -1950s era rowhouses, with Herring Run Park and other amenities nearby, Belair-Edison is attractive to buyers. Renovated homes there are likely to sell quickly, keeping carrying costs to a minimum.

The homes' modest size make them affordable to low and moderate income buyers. Since buyers' incomes are capped, it is critical that prices be low enough for them to qualify without additional subsidies. In addition, HUD's ACA 50 percent discount is less valuable when the market is depressed. For example, if the fair market value after rehab is \$60,000, and St. Ambrose acquires it for \$30,000, that leaves only about \$30,000 to do all of the necessary renovations, cover soft costs, and extract a developer fee. Absent significant subsidies, there is no way to make the numbers work in depressed neighborhoods.

Finally, the uniformity of the housing stock makes it easier to project and manage renovation costs. When all the units have a similar footprint and floor plan there are few surprises in what they will need in order to bring them up to standards. This also allows St. Ambrose to work at a larger scale. Under ordinary circumstances Sann says he and his two staff could acquire, renovate and sell 50 houses annually through the ACA program.

ACA works best in "mid-range" neighborhoods with a solid housing demand, moderate (not too depressed) prices, and a modest, uniform housing stock.

While picking the right neighborhood is essential, having the right staff may be just as critical. Sann, in addition to serving as the Director of Housing, is a licensed real estate broker with 13 years of development experience. Through their in-house Charm City Realty brokerage St. Ambrose has access to the multiple listing service, which allows Sann to do extensive market research. Sann's construction manager is also an architect, which lowers costs and improves project quality. The third staff person, the Marketing Coordinator, is also a licensed realtor with 17 years of experience working with homeowners in Baltimore housing markets.

Sann admits that the ACA program has been a little more challenging in the current market. Baltimore did not see a huge run-up in housing prices, and its prices have adjusted downwards by only 10-15%. However, in recent years subprime borrowers bypassed FHA in favor of "exotic" mortgage instruments with fewer restrictions. Since use of FHA insurance was down generally, there have been fewer foreclosures coming through the ACA program. This year Sann estimates that his staff of three will acquire only 35 units, which is below their capacity. Now that the exotic mortgages are no longer available Sann believes use of FHA insurance will rebound. While no foreclosure is good for the family or the community, to the extent any occur it is preferable to have them come through the ACA program than to have to deal with a multitude of private investors.

A bigger challenge is understanding where the market is going, and pricing units accordingly. Nonprofits always struggle with the vagaries of appraisals, which may use the wrong comparables,

not properly account for the cost of needed repairs, or give insufficient value to improvements. In a declining market, however, St. Ambrose's risk is that it will acquire properties at a cost that is higher than what it can afford to renovate and sell them for eight months later. This eats into profit margins which were not robust to begin with. Again, Sann expects this will be sorted out as the market stabilizes.



Managed carefully, Sann believes that the ACA program is a great tool for strengthening neighborhoods. Homes St. Ambrose renovates have new or updated kitchens, baths, heating systems, electric, plumbing, roofs, refinished hardwood floors or new wall-to-wall carpet, ceiling fans throughout the house and/or central air conditioning (sometimes both). Energy efficiency is improved through new storm doors, new replacement windows, and new Energy Star appliances: refrigerator, stove, built-in microwave, washer and dryer. Reasonably priced and tastefully finished, the homes are sold to low and moderate income buyers (averaging about 89% of area median.) Solid homes, sold to buyers who have completed homebuyer education workshops, means

that the homeowners will be more successful over the long term. That's good for the families, and good for neighborhoods as well.

Best Practices

1. HUD's ACA program is not a "one size fits all" fix for any troubled neighborhoods. Rather, it works best in neighborhoods with a modest housing stock, where prices are not too depressed and there are homeowners who want to live there. Sann and his team have figured out the formula that works best in Baltimore, and apply that very carefully.
2. Each member of St. Ambrose's Housing Development team is able to play more than one role, which reduces cost, improves efficiencies, and strengthens their ability to analyze and respond to changing market conditions.

United Housing, a Local Foundation, and University of Memphis' CBANA Join Forces in Holistic Approach to Community Stabilization

Moderate Home Price Increases from 2002-2006/Slow Decline in 2007-2008

Memphis is a “big small town”, according to Dr. Phyllis Betts, Director of the Center for Community Building and Neighborhood Action (CBANA) at the University of Memphis (UM). With a population of about 674,000 Memphis is far from small, but what Betts means is that there is a relatively small community of housing and community development professionals who know each other and work together well. This has made it much easier to develop a comprehensive, holistic approach to community stabilization in Memphis.



Memphis has not seen the rapid swings in housing prices found in other parts of the country. Increases ranged from 25 – 40 percent, and the downward adjustment has been only about 15 percent to date. Nevertheless, foreclosures rose steadily over the last five years, from about 8-10,000 notifications annually to a projected 14,000 in 2008. And vacant houses have been appearing on many neighborhood streets in sufficient numbers that local groups began to take notice.

A local foundation (which prefers to remain anonymous) was willing to underwrite a comprehensive approach to stabilizing Memphis neighborhoods affected by foreclosure. Its staff contacted Betts to talk about harnessing CBANA’s talents and those of other University departments. Betts had been studying Memphis foreclosures for some time, and was involved in a number of citywide projects. Through CBANA, she could do GIS mapping at a block level to show foreclosures, homeownership rates, and problem properties, and overlay these with demographic data as well. She could also involve student interns to do a lot of the legwork.

While Memphis is home to a number of groups offering homebuyer education and community-based housing programs, the clear choice for coordinating the housing activity was United Housing, the local NeighborWorks® affiliate. United Housing was the only organization that had a citywide presence and the capacity to work with multiple partners. Tim Bolding, United Housing’s Executive Director, notes that since its inception in 1994 United Housing has renovated, built, or helped finance 1,450 single family units. Its three primary lines of business are homebuyer education, building and renovating housing, and second mortgage financing.

Focused community stabilization efforts require detailed neighborhood analysis and planning, and should be wary of adopting a “one size fits all” approach.

United Housing is also developing a new first mortgage product that will become the cornerstone of the community stabilization initiative in Memphis.

The Memphis initiative is guided by some critical insights developed by Betts. While the foreclosure crisis is often viewed as being caused solely by greedy subprime lenders, Betts points out that in fact homeowners take diverse paths to foreclosure that demand different interventions. In the same vein, housing markets and neighborhood dynamics vary widely within cities. As a result, stabilizing housing markets and restoring value to homeownership will require a toolbox of neighborhood level and context-specific interventions, not a “one size fits all” approach.

In Memphis, these insights have helped fashion an approach to community stabilization that uses data to drive decision making to develop strategies, and relies on a network of local organizations in implementing solutions that are the right “fit” with each neighborhood and its residents. With a background in Cultural Anthropology, Bolding is particularly well-equipped to work with a variety of groups to effect change that is locally defined and supported.

Identifying and building on existing community assets will allow United Housing and its partners to support investment that has already taken place, and build outward from these strong clusters.

United Housing plans to acquire vacant foreclosed properties, renovate them, and re-sell them to homebuyers. The goal is to complete 20-30 in the first year. The effort will begin with students in UM’s School of Urban Affairs and Public Policy completing detailed GIS maps of Memphis neighborhoods. The maps will identify roads, schools, and community assets such as parks or the offices

of service providers. The maps will also geo-code properties that are owned or have been renovated by United Housing or another community groups. Identifying and building on existing community assets will support investment that has already taken place, and build outward from these strong clusters. For example, schools offer a natural focal point for communities. Bolding and foundation staff will meet with building principals to gain their cooperation in marketing properties to teachers and to families with school-age children who are a ready market for available homes

Anthropology students at UM will reach out to neighborhood residents and leaders, and organize community meetings. Their insights and analysis will help inform the programs and strategies that will be implemented in the neighborhoods. UM Finance and Real Estate students will help Bolding sort through available foreclosed properties and determine which make most financial sense to acquire, renovate, and re-sell to homeowners.

Bolding will draw on the strengths of local community partners, utilizing whatever strengths they have. For example, one CDC has its own



work crew. United Housing will contract with this group to inspect available units and draw up specifications. Construction management will be contracted out either to for-profit contractors or to CDCs. Other organizations offer financial literacy training, and will be instrumental in identifying and preparing new homebuyers for purchase. Bolding will use a MOU to clearly define roles and responsibilities. Foundation funds will help pay these local groups for their work.

Bolding anticipates that in several of the target neighborhoods it will be relatively easy to produce units that sell for \$60,000 - \$70,000 after rehab. The plan is to acquire properties for \$20,000, do roughly \$20,000 in rehab, and sell them for \$60,000. To help attract buyers and jump start their asset building, the foundation is requiring that the last \$20,000 in value be captured in a second mortgage. This will be a zero percent deferred loan forgiven at the rate of 10 percent a year over a 10-year term.

Community organizations have long known that successful homeowners strengthen neighborhoods. The foreclosure crisis has reminded us that the reverse is also true; healthy neighborhoods are fundamental to building assets for homeowners. Memphis' holistic approach to community stabilization will ensure that the needs of neighborhoods and homeowners will be balanced so that both are successful going forward.

Best Practices

1. The partnership between United Housing and the University of Memphis creates a great synergy. It brings new skills and capacity to focus on the foreclosure problem that United Housing could not provide on its own. GIS mapping at the parcel level, as well as analysis of cultural characteristics that should shape community outreach and organizing, will improve the likelihood that the effort will be successful. At the same time, United Housing has financial and technical skills that will be critical to coordinating the effort, and to the reclamation of abandoned units.
2. Successful resolution of the foreclosure crisis in Memphis will require that all resources be brought to the table. Rather than creating "cookie cutter" roles that would exclude some organizations, United Housing will use whatever strengths nonprofits can offer. A Memorandum of Understanding will capture the roles these individual organizations will play.
3. The Memphis initiative is built on an appreciation that "one size fits all" solutions for individual homeowners and for neighborhoods are unlikely to be successful. Just as individuals may take different paths to foreclosure that call for a different response, neighborhood housing markets have different dynamics that may require a variety of intervention strategies.