REO and Vacant Properties: Strategies for Neighborhood Stabilization, September 1, 2010
Keynote Address: Shaun Donovan

[Applause.]

Shaun Donovan:
Thank you all. It's wonderful to be with you today, and I want to thank you, Anna, for the kind introduction and to especially thank you and the Board of Governors, particularly Governor Duke, at the Federal Reserve for inviting me today. I also want to say thank you to the National Community Stabilization Trust. So many members of the Trust are here today, the chair, Tom Bledsoe, who I had the pleasure of being with earlier; and Craig Nickerson. We were also joined by Mark Moriale from the Urban League, so many other members as well, and one who could not be with us, Janet Murguia from the National Council of La Raza. I want to thank them all for their incredible partnership that has led to the announcement I am going to make today.

Each member of the Trust understands something fundamental: That when we work in partnership, inside government and out, we can make sure markets work for people and for communities. Today I want to discuss the Obama Administration's efforts to do that by stabilizing neighborhoods, in particular how we're leveraging the skills and resources of the public, private, and third sectors -- sector partners from the philanthropic and nonprofit worlds -- to help the hardest-hit communities.

I want to discuss the work we're doing to stabilize prices and soak up supply in those neighborhoods and why that work in local markets is so important.

We all know this is a tough time for our housing market and for families, and that's why the Fed's work to ensure record low interest rates has been so important. Stepping in to prevent our economy from falling into another depression. And I'm thankful that under the leadership of Chairman Bernanke, the Fed stands ready to fight the headwinds against the nation's continued economic recovery.

Combined with the Obama Administration's actions to provide broad access to affordable mortgages and to help millions of homeowners stay in their homes, the Fed helped us put an end to the 30 straight months of home price declines we had experienced when President Obama took office. The Fed's own data shows that we have added more than $1.1 trillion to homeowners' equity during the past year. And while we have a long road to recovery ahead of us, mortgage delinquencies have declined this year, and foreclosure starts are down 28% from this time a year ago.

Today, I want to announce another tool we will begin using to target the neighborhoods hardest hit by the foreclosure crisis. Foreclosed homes, as you know and as this conference is organized around, have a debilitating effect on neighborhoods and often lead to blight, neighborhood decay, and reduced property values, feeding a vicious cycle of neighborhood decline.

Back in 2008, the Center for Responsible Lending estimated that homeowners living near foreclosed properties would see their property values decrease $5,000 on average. That is why to date we've provided communities with a total of $6 billion through two rounds of the Neighborhood Stabilization Program, or NSP as we fondly call it. 92 percent of the $4 billion from the first round of NSP is obligated in communities buying up and renovating homes and creating jobs.

We announced a second round of $2 billion in competitively awarded NSP grants in February, funded through President Obama's Recovery Act. And with passage of the Wall Street Reform Bill in July, putting another $1 billion in the pipeline for a third round of funding, the total investment the Neighborhood Stabilization Program is making in our communities comes to $7 billion, and we will announce those next awards next week.

All told, we expect NSP will impact 100,000 properties in the nation's hardest-hit markets. Because this makes up almost 20% of the REO over the last 18 months in NSP targeted areas, we believe these efforts will have ripple effects that could have a profound impact on our local, regional, and even national housing markets alike.

Of course, government can't do it alone. But in community after community throughout our recent history, we've seen what is possible when we engage partners with expertise rooted in a specific place. In New York City, I saw the revitalization of the South Bronx, made possible not simply by a government investment, but by a third sector of philanthropies, nonprofits, and community development corporations who leveraged those dollars and have since become some of our most innovative housing developers and most important civic institutions.

I've seen it again over the last 18 months in the Gulf Coast, where the nation has witnessed the single largest volunteer and nonprofit effort in the history of our country. By cutting through bureaucratic red tape, we have helped over 90 percent of the pre-storm population return to the New Orleans metropolitan area. This effort has been particularly important for the most vulnerable families. 98 percent of families who were still in trailers or using emergency vouchers across the Gulf when we took office have moved into permanent housing.

So our challenge today as we work to stabilize the neighborhoods hardest hit by foreclosure is to tap the potential of these partnerships, to bring speed, flexibility, and the day-to-day working relationships these organizations have with local businesses, nonprofits, and state and local governments to the table. That is what we saw during the first round of NSP in communities like Pasco County, Florida, which, with nonprofit organizations like Neighborhood Lending Partners of West Florida, leveraged a $20 million NSP 1 grant to close on 200 units within a week, getting them off the market and into the hands of responsible home buyers, many of whom have low to moderate incomes.

These communities' successes to date share one thing in common. They were made possible in no small part because of the partnership with the National Community Stabilization Trust. Created by organizations and municipalities deeply concerned about the impact the wave of home foreclosures was having in the hardest hit communities, the Trust came together two years ago to meet the growing demand from financial institutions and local housing providers alike to help fix up REO properties and stop neighborhood decline. Instead of the retail strategy so many communities resort to when it comes to neighborhood stabilization, establishing individual relationships with financial institutions, negotiating the best price one house at a time, the Trust is creating a wholesale strategy and market power.

You only need to look at a city like Minneapolis to understand just how potent a combination of NSP resources and the Trust can be. Even with this wholesale strategy, however, neighborhood stabilization grantees still had to compete with a range of other buyers in their efforts to strategically target critical properties in their neighborhoods. And they lost opportunities to create the most impact.

That's why the Trust created a first-look pilot program, which gives NSP grantees an exclusive 12- to 14-day period to evaluate and bid on properties before others do so. Working with the Trust, Minneapolis was able to buy up nearly 250 properties in targeted neighborhoods, which they're beginning to rehabilitate to reasonable standards and to sell to local homeowners through a reasonable down payment program.

With a $5 million grant from the first round of NSPs, the Twin Cities Community Land Bank leveraged an additional $30 million in resources and the partnership of for-profit developers. It was that success that led us at HUD to award the city another $20 million in the competitive second round of NSP.

Through its first-look pilot program with early adopting, leading financial institutions like Wells Fargo, Citi, Bank of America, Chase and Freddie Mac, the Trust has helped communities across the country purchase vacant properties quickly, at a discount, and before they hit the open market. That is the power of the National Community Stabilization Trust and the power of third-sector partnerships in our communities.

That's why today I'm proud to announce a historic partnership between the federal government, the National Community Stabilization Trust, and the nation's leading financial institutions that account for more than 75 percent of the REO inventory across the country, including Wells Fargo, Bank of America, Chase, Citi, Deutsche Bank, GMAC, Aquin, Saxon Morgan services, US Bank, Fannie Mae and Freddie Mac, and the Federal Housing Administration.

Indeed, under Commissioner Dave Stevens, FHA paved the way for the partnership with its own first look program just last month. By taking the Trust's model to scale, the national first look program will give every community and consortium that receives federal neighborhood stabilization funds the first crack at buying foreclosed and abandoned properties in these targeted neighborhoods, helping target and concentrate these resources in the neighborhoods that need it most.

As the Trust has already shown, first look is good for NSP grantees, but as we've seen in the most heavily foreclosed impacted neighborhoods in north Minneapolis, where home prices are gaining and local experts believe private market recovery is under way, first look will be good for our housing market as well. First and foremost, because the scale and impact in the most challenged markets. Attracting more investors to the market is something we all want to encourage as a rule, and we've all seen how investors are turning around many local real estate markets. In the hardest hit neighborhoods, however, the economics of REO often don't work for investors because of low market values, a lot of incentive for fixing up properties can lead to a cycle of disinvestment. But by giving NSP grantees with a real stake in the success of these communities priority access to properties in the hardest hit markets, investment of NSP dollars will improve the conditions of those properties. It's also more likely these properties will be strategically chosen.

For communities, first look means that instead of working with what could be as many as a dozen financial institutions servicing the mortgages on any given block, they will be able to use tools like REO match, a fully automated, free mapping and property management tool, which allows grantees to know what properties are available and who owns them. And it's more likely the benefits of those investments will spill over to other blocks throughout the neighborhood, raising nearby property values.

Second, first look is good for our housing market because it will bring much needed speed to the REO process and at a time when we don't have a moment to waste. This is particularly important given data that shows vacant and abandoned homes are more than three times as destructive to home prices as homes that have only begun the foreclosure process. So getting these properties sold before they become abandoned is absolutely critical.

With the country's leading financial institutions participating, national first look will make that possible. We expect first look could cut the traditional 75- to 85-day REO process in half.

For servicers, first look means that instead of having to negotiate individually with all the prospective NSP grantees individually, they will be able to work directly with a single partner that they trust. And this increases speed and efficiency for servers, also benefits communities by leading to better prices for the REO inventory that includes the benefits of speed and efficiency.

The third benefit we'll see from first look is who it benefits and where. We all recognize that communities of color have been hardest hit throughout this crisis. That's why with partners participating in the Trust, like the National Council of La Raza and the Urban League, are so important. With them, I'm confident that we can provide solutions that work for the neighborhoods and the communities that need it most, whether it's providing more sustainable homeownership opportunities, increasing the availability of affordable rental housing for families, or taking these properties off the market until they can be sold when the market returns.

And so first look is about a lot of things. It's about creating market power that ensures homeowners don't have to watch their home equity dissipate and their neighborhoods decline because local institutions weren't given the best shot to help those communities. It's about creating purchasing power that ensures localities don't see a spiral of disinvestment from investors without the resources or a stake in stabilizing their communities. It's about ensuring that at the same time we provide pathways for responsible homeownership, we provide pathways to rental housing for the families who need it. And to be sure, it's about a new way of doing business at HUD.

What makes this partnership unique isn't just that we're working with new servicers and new buyers, but rather, our belief that federal investments can be game changing, market oriented, and cost-effective. Game changing in the sense that instead of just buying the next 10 or 20 distressed properties that become REO, we can help communities selectively pick the most strategically important properties, whether they're REO, short sale, or deed in lieu.

Marketoriented in the sense that instead of working with a few REO servicers, we can work with all the major financial institutions, sub servicers, and GSEs who manage distressed assets.

Cost-effective in the sense that instead of using a staff-intensive one-off property acquisition approach, our partners have access to automated state-of-the-art mapping and property management tools, so communities can spend less time and energy thinking about spending taxpayer dollars and more on getting the most out of them.

Game changing, market oriented, and cost-effective may not be terms that have normally been associated with HUD in the past, but with new leadership, new partners, and new tools, I'm committed to ensuring every community in America will in the years to come.

Obviously, these remain difficult times for every American, and first look is only one tool in our toolbox. It's not going to help every block wracked by foreclosures. Each of us here knows -- today knows the challenges we face didn't occur overnight or even in the last 18 months. Digging a hole this deep was years in the making. Digging us out of that hole and putting us on a more secure, stable path won't happen overnight, but it will happen.

Since President Obama took office, this administration made it clear the real measure of our success would not be how many bills we passed or resources we provided. Rather, it would be whether our leadership spurred the country to rise to the challenges before us. It will be whether the leadership we provide forged new lasting partnerships that were greater than the sum of their parts, that brought together a greater number of stakeholders with a greater sense of shared responsibility. It will be whether our leadership catalyzed not only a new sense of public engagement but of private investment in causes important to our neighborhoods, our communities, and our country.

Helping our families recover today and build a strong foundation for America's future, that is what these efforts are about. That is what this conference is about. And that is our challenge today. With your help, I have no doubt that we will rise to meet it. Thank you.