REO and Vacant Properties: Strategies for Neighborhood Stabilization, September 2, 2010
Panel Four

Allan Mallaach:
Good morning. This whole question, solutions strikes me as a little bit overstated. I don't think we're near solutions yet. Solutions imply that you actually solve the problem. I think we're a long way from solving the problem. I think what we are coming up with is a lot of creative strategies, interesting approaches, bright ideas, some which may turn out to work and others which may not. So today we're going to talk about them. And what I'm going to do before I turn it over to the panelists when I talked about some of the bright ideas and approaches and such is provide a short background to try to provide a market -- a bit of a market context for the strategies, approaches, bright ideas. Before I do, just very briefly, we have here three people who know a lot about what's going on around the country. You can read their bios in detail in the program book but have you Harold Simon who is the executive director and publisher of National Housing Institute and Shelter Force magazine. Judy Jacobson who is deputy director and general counsel of the Massachusetts housing partnership and finally Sarah Greenberg whom I suspect most of you know. She's been a constant presence in the foreclosure and community stabilization who is manager at neighbor works America.

So first let me talk for a few minutes about what's going on and what its implications are for community stabilization. First basic information. Housing market is slipping. Prices are flat. We have no idea at this point. Looking at the most recent data that's come out in the past couple weeks, it's very bad. As an awful lot of people predicted, the homebuyer tax credit accelerated home buying for people who almost certainly would have bought the houses sooner or later, meaning that once it expired, it fell off the cliff. At this point, we have a 13 month supply of existing housing in the inventory and demand seems to be dropping rather than rising to meet supply. One thing that I think is very significant is that in the last four years we've seen an incredible change in the composition of the population in terms of tenure. We now have 3 million more renters than in 2006, and we've sign decline in the number of homeowners. We're back in terms of homeownership rate, we're roughly speaking back to 1999 and again, given the trends, this is likely to drop further before it stabilizes. Mortgage delinquencies, even though according to the mortgage bankers national delinquency survey there was a small dropoff in the last quarter, they're still at rates that are extraordinarily elevated. And what this means for the REO inventory and the supply of properties though is complicated. This is a graph that you can see this in my article in the book -- has tried to show how the extent to which properties get diverted from REO outcomes in the course of the foreclosure process. And this is really increased in the last year and a half or two years. And in fact people have commented on the effect of moratorium, loan forbearance, loan modification, et cetera, et cetera, including the greater buying of properties of investors at foreclosure sales. The outcome has been that what we're seeing -- and this is, I think, the meaning of the shadow inventory, not a conspiracy so much as the series of different factors have accumulated including servicer behavior and others, to result in a growing number of properties sort of stuck in what you might think of as that image of the pig in the python's throat. That they're stuck somewhere in the foreclosure process. They may come out of it. They may not come out of it. But gradually, the number of properties that are in the process compared to the number of properties that are coming out of the other ends of the process is steadily getting greater and greater. Here I thought a couple of interesting statistics. We had -- there were really a huge number of home retention actions through HAMP and the other programs have been initiated. Each one of these represents at a minimum a delay in a process coming out of the other end. However, most of them only represented a delay rather than a permanent diversion from the process. Short sales have been increasing, and in some markets – particularly the Sun Belt markets -- short sales have been taking off and meanwhile the number of new foreclosure starts continues to go up.

So what's happening is all of the numbers are going up. The number of starts, number in process, number of defaults. But as you can see, some are going up faster than others. And the inventory is simply accumulating we have broad environmental problems in terms of housing and economic growth. Though as a lot of people have pointed out there are huge regional variations in terms of the housing market and housing conditions. Not only are these gross regional variations from the Midwest to New England to the southwest and so forth, but even for example in California, there's been a significant divergence in the last year, year and a half, in terms of price and market activity from the coastal counties which have shown some recovery, to the inland counties, which are still tailing off. At the neighborhood scale, I think this has powerful commune implications for the strategy we're thinking about. There's a continued flow of properties into default and a continued flow of REO properties. But we're seeing the period -- and this is true whether you're talking about a state like New Jersey with a fairly consumer-oriented judicial foreclosure system or Arizona with a nondisclosure system -- the period of default from some ultimate resolution is getting longer and longer and longer and longer. What that means is that properties in our neighborhoods are in some form of limbo for a longer and longer period. Meanwhile homebuyer demand remains weak an important point that has -- remains weak and an important point that has been mentioned but needs emphasis is that investors are not only competing for distressed property, whether it's foreclosure, bidding for short sales, inducing short sales and the like but this pool of investor property that is being created and is growing within America's communities represents an enormous challenge as well as to some extent an opportunity for policy makers to address. It's certainly not going to go away and it's certainly not going to take care of itself, so it has to be addressed. Now, this, of course, all has tremendous implications on what's happening in the neighborhoods themselves. So properties are increasingly at risk of abandonment. People who live in neighborhoods where they're confronted by the presence of vacant and foreclosed properties are themselves investing less and less. As a number of people mentioned yesterday, it's becoming very difficult in many markets to find buyers for rehabilitated properties, which creates a whole set of other issues. And of course, because of the investor purchases, that raises a whole series of other issues. So I think what this says -- and I think this goes back to President Rosengren's comments a few minutes ago -- is we have to think very broadly and very comprehensively about these issues. We can't think if we have to take a handful of properties in the neighborhood that in itself can take care of the problem. We have to think about what's happening as a process of destabilization of entire communities, of entire neighborhoods and how we can come up with comprehensive ways of addressing those communities. And I would suggest in the final analysis, what we need to be doing is rebuild confidence. What has happened to the housing market is as much as anything a crisis of consumer confidence, in our neighborhoods, in our homes, in the idea of homeownership. We have to rebuild confidence, rebuild market demand if we're going to stabilize the neighborhoods. And Lord knows that is a difficult task at this point. But -- and again, this is where I segue into the presentations.

[Laughter.]

Allan Mallach:
There are -- and this is I guess the positive part of it -- despite all of this, the number of ideas, approaches, strategies, that are emerging locally around the country to try to address these issues is not only impressive but actually awe inspiring, however, we'll see we're in a point of crisis now and what we're going to be talking about today are ideas that are emerging, some of the lessons that have started to be learned from those and the possibilities they may offer for the future. So thank you and I'd like to turn to Harold to begin.

Harold Simon:
Thank you, Allan, and thank you for giving me the opportunity to talk today. I'm going to be talking about the community asset preservation, but I'm not going to go into too much detail. You'll find an article on it on page 123 of the information handed out and there's also information in the brochure that was given out. What I'm going to do is provide -- kind of an overview and history of the organization, what it's accomplished so far and then -- we'll talk about the challenge challenges and lessons to to the field that we've learned from the project.

So the community asset preservation community asset corporation or CAPSI, was conceived in late 2007, 2008 by a group of housing professionals including myself and Allan. And Allan, who actually named the organization, as an attempt to deal with the coming REO crisis because it was very clear this was going to get bigger and bigger and bigger as this went along. The idea of CAPSI is very simple. WE would just buy a whole portfolio of REO end mortgages and then as quickly as possible put them back to productive reuse. One of our partners Housing and Real Estate Authority – did a tremendous job of reducing the number of foreclosed properties in their area from about 400 to 40 in a ten-year period. But they noticed in 2007 that not surprisingly that the numbers started to tick up. They poked around and realized that a lot of these abandoned properties were not in foreclosure but weren't going anywhere. They were in limbo. By doing a little more poking around, they found out that this was a move by 40-something mortgages that were held in portfolio by banks. With the group and CAPSI, we approached the lender and said we'd like to buy all these mortgages. So after they stopped laughing, because they had no idea who we were or what we were, the associates seriously gave us a due diligence period to take a look at these properties and see what they offered. So we went and we went to each of the properties. We also figured out exactly what we might need to sell these for. In New Jersey, unlike Detroit or Cleveland, there are transactions that – so there was a market. We knew we had about two years of going through the foreclosure process on these mortgages. The buildings were all abandoned and vacant. All of them deteriorated. All of them harming their neighbors and their neighborhood. Also, they were not all in the same place. They were scattered across the state with the majority of them being in the Newark area.

So while we were trying to figure out how much we could afford to pay for the deal – we would know what we could pay and not a penny more, otherwise we couldn't afford it. To do strategic development, we couldn't be doing a house here, a house here, and a house there. So we put together a CDC collaborative with CDC of Newark and then reached out to other for-profits and non-profits around the state. We also had to get some money to do this. We put together a group of potential donors, and they knew this was an important project, but they all sort of had a hard time wrapping their minds around exactly what we were doing. What ended up happening was that New Jersey Community Capital developed a wonderful 80-20 debt loss package, so we started with this really good deal. So that's how we knew we had two difficult years ahead of us. A year later, all but six of the mortgages have cleared. Only two are in foreclosure. CAPSI is now a subsidiary of New Jersey Community Capital, a state-wide CDFI, the largest one in New Jersey, which has this state-wide footprinit. It's the designated New Jersey coordinator for the National Community Stabilzation Trust for its first look program REO acquisition program, and it's also in the process of developing some finance tools. A state-supported revolving acquisition fund, a new market tax credit fund, a $15 million loan pool. And this is done with the New York Area NSP 2 program who agreed to offer some of their grant as a first loss funding. They've also secured a $3 million financing commitment from NSP's capital fund, and a finance commitment, all to get the quick acquisition funding. Since that first 47, CAPSI purchased another 16 properties from Chase, a small group from one of the GSEs is negotiating for a pool of 75 both REOs and mortgages, and has also started negotiating for buildings containing150 apartment units -- and this is on the commercial side to buy the notes for these buildings and preserve affordable rental assistance. It's also providing technical assistance to nonprofits and municipalities and joint ventures with youth build and other organizations.

It's important to point out that when we thought of this, this is before NSP. We thought that what the opportunity here, tragic as it might be, the opportunity here was to create an infrastructure, something that would last beyond this crisis that would more efficiently do community development. So I want to discuss just very quickly lessons and challenges that this has taught us. So for various reasons, internal community development world was relatively unprepared for the scope and speed of this crisis. So we think we need to rethink how development takes place. Neighborhood stabilization is really community development, so we have a number of ideas, and they're really questions because we have been limited in going to scale by these same things. So we put them under two broad categories. There are more in the book. But the first is money really talks. And as investors are moving into the space that we're in, they have a whole lot of money that's flexible and they can transact pretty quickly, faster than most nonprofits if not all of them. So even at a smaller scale, they need ready and flexible financing. How do we provide that? These are questions. Can we redeploy government subsidy dollars to guarantee debt? Leverage of that money? Can we increase the sale of investment can we overcoming our reliance on subsidy and leverage those dollars, can we move away from project based underwriting and go to enterprise level financing and most importantly, how do we access capital markets either on our own or with private sector partners?

The other broad category is mindset helps or hinders. We've developed a great infrastructure of community development and affordable housing. Finance in this country. But it really has not been as effective as it could be in this environment. So as a CDC field, how do we rethink what we do to go outside of our neighborhood paradigm? Can states and municipalities use subsidy to encourage that kind of thinking and incentivize collaborations, pool capacities, resources and encourage strategic and comprehensive approaches to community development? Can we develop market rate homes to internally cross-subsidize our work without threatening missions. We did this at CAPSI. Some were knocked down and some sold at market rate to homeowners or responsible investors. And finally, can the nonprofit development organizations begin to compete with or partner with for-profits? So many times these nonprofits have been the training ground for staff that then go on to work in the for-profit industry. So we've done a lot. There are a lot of things that are keeping us from growing and hopefully we'll have a dialogue here that can lead to some answers. Thank you.

Allan Mallach:
Thank you, Harold. I just mentioned a statistic that I came up with when I was doing some research in Phoenix looking at how on the theme that money talks, that in the second half of 2009, the amount invested by absentee investors in buying properties in the Phoenix Metro area was conservatively between 1.5 and $1.8 billion. So this issue of money, when you think about NSP, you think about the resources available on the community side how you access capital if you want to be able to go any stuff at scale I think is a huge issue. So turning now to Judy and Massachusetts.

Judy Jacobson:
Thanks Allan. I'm proud of the way the Massachusetts housing and community development community came together around the area of foreclosure and neighborhoods. Allan asked that we talk about lessons learned, so I want to talk about the method we use about developing been approach to the problem and then the ups and downs of some of the strategies. It was early 2008 when a couple local groups met to discuss the impacts of foreclosure. Out of that, we formed a statewide foreclosure properties task force. Somehow I became one of the co-chairs of the task force. We established a few basic principles for the task force. First, we wanted to use a bottom up approach. There were already local nonprofits, municipalities focused on the problem, so we wanted to support them and share information so local initiatives could be successful and potentially be replicated.

Second, we wanted to work on multiple issues simultaneously, so we decided to do our work through a subcommittee structure. It's not enough to have money to renovate a property if you can't acquire it. We knew that in 2008, and it has certainly proven to be true over time. So when he people focused on acquisition, on financing, on holding strategies and on exit strategies. Third, because we have so many wonderful housing organizations in Massachusetts, we didn't want to create another one that required care and feeding. We decided the task force would be time limited, and established a 6 month time period for it. We did think it important that the task force be everyone's and not anyone's. So we created a very amorphous group. We sought broad cross-section participation. We had open door policy for meetings. It was a little crazy, I can remember people sitting on windowsills at my office in meetings. It's good that Prival and Kai are small. But it worked. It was broad ownership. Many things came out of our task force. I'm going to talk about the neighborhood stabilization loan fund in a minute. Although the task force which wound down by late 2008, early 2009 seems like ancient history, there are some good lessons learned. The approach we used featuring local groups and municipalities who had ideas about how they wanted to attack the problem and then seeking input from others, what we dubbed our test community approach, served us very well. Worcester, a weak market city with limited local nonprofit capacity realized early on that they had to find a way to get at the problem properties in a broad way. More on that in a moment. Although I was one of the people who felt strongly that the task force should do its work and then go away and we did arrange for different initiatives to be housed within existing organizations post-task force, I think we really lost something by not having infrastructure to keep us coordinated and communicating as a state. We all retreated to our corners to implement our programs. We had to. You can't just talk. When I look at what our friends in Minnesota put together I'm blown okay. Their council is amazing and should be looked at as a model.

My take away is when you have a multifaceted problem for which there is no silver bullet, you need infrastructure to organize all the different players, and that does take care and feeding. Finding ways to support that is very important. If anybody is interested in learning more about the Massachusetts task force experience, Citizens Housing And Planning Association did a report that's available on their Web site. It's Chappa.org or get in touch with me and I'll get you a copy.

I want to spend a few minutes talking about some of the programs we've been operating in Massachusetts. I'll focus on the ones my organization, the Massachusetts housing partnership or MHP is involved in, you'll hear more about the Boston programs from my colleagues on the next panel. So first just on MHP. We're nonprofit quasi public but we -- most of our funding comes from the banking industry. We're a lender. We provide long term financing for apartment buildings and we created and operate a very successful first time homebuyer program which has helped almost 15,000 low and moderate income families buy their first home. Given that we're a multifamily lender, it was logical to support a financing vehicle of responsible developers of foreclosed properties. The Neighborhood Stabilization Fund, which is in your folders MHP logo in the folder, has started to get traction. We've got about 30 developers who have been -- given what I call hunting licenses to find properties and target areas in 14 cities. Most of these properties are three-deckers. So this is very retail. We found that our high capacity nonprofits, small for-profits and nonprofits who are teamed up with for-profits are the most successful. You have to be nimble and quick. This is way different than developing a tax credit project. We're underwriting all the properties for rental outcome, although some in stronger markets like Boston are able to sell to homeowners. But we make sure it works as a rental and is there is a permanent takeout. Ours is buyer driven model, which grew out of the task force's decentralized focus. As we've gone along, we've learned things from friends in places like Chicago and have in recent months been encouraging the use of intermediary acquirers to bring capacity and efficiency in communities where it's needed. Despite our award of substantial NSP funds, our consortium is one of three applicants in Massachusetts we know we're only going to touch relatively few properties so we've stepped up efforts to find ways to enhance the positives in our target neighborhoods and are looking at creative funding mechanisms like increasing developer fees and requiring that the funds be used for neighborhood improvements and using our NSP admin funds to increase municipal capacity to do code enforcement. On the home ownership fund, we used NSP 1 funds to enhance the soft loan program for home buyers of foreclosed properties. We heard a lot yesterday about the lack of reasonable mortgage credit for home buyers in many areas of the country. Not in Massachusetts. Soft second provides a low down payment, fixed rate, no PMI, graduated payment mortgage. It's offered by 43 participating lenders in Massachusetts. Public funds are used for inter subsidies and for loan loss reserves in lieu of PMI. Over the programs almost 20 year history a $69 million public investment has leveraged over $2.2 billion in private bank financing. And although our delinquency and foreclosure rates are up in recent years, they're still -- recent years, they're still below those of Massachusetts prime mortgages, not subprime. So performance is very good. Soft second is a great model for how to do homeownership right. Although this is a tool for foreclosure properties and we had 185 foreclosure properties representing 252 units purchased by soft second buyers, but we found integrating NSP funds into the mix very challenging and as a result only a small fraction of those acquisitions were supported by NSP. The regulatory burdens associated with NSP combined with the challenge of supporting direct homebuyer rehab, which somehow always seems to mushroom, has caused us to shift to a streamline developer to homebuyer model. Because we want sales prices to be as close to market as possible we'll be using NSP as mortgage write down's answer and requiring recapture on sale, no resale restrictions. Finally, I want to touch on the receivership initiative. Massachusetts has had a law on our books for a long time allowing courts to appoint receivers where there are code violations that the homeowner is not addressing. Along with our attorney general’s website, we've been promoting the use of receivership. We have a comprehensive receivership on our Web site. But through Worcester and Springfield test communities, we realize it's not just about knowing how to do it, it's about the ability to do it, to execute. So we set up and are providing funding to nonprofit administrators to work with the municipalities to identify properties, do the work writeoffs and identify and train receivers and we've made the loan fund available to receivers as a source of funding.

If I had to point to a theme that runs through our experience in Massachusetts, I'd say it's about capacity. We all had full-time jobs before the foreclosure crisis and that work hasn't gone away. T.A. and training is really good but what's really needed and what gets results is support for the infrastructure needed to get the work done. I'll end on that thought. Thanks.

Allan Mallach:
Thank you. Sarah?

Sarah Greenberg:
Thank you, Allan and, thank you to the Federal Reserve for inviting me here today. I will mention the Federal Reserve has been a great partner to NeighborWorks America's foreclosure response efforts. The setup here I feel like I should be seated next to my attorney or talking about the big game. We're a national nonprofit intermediary created by Congress in the mid ‘70s to support community-based revitalization efforts. And though I wasn't around at the time, I hear that a lot of challenges they were dealing with at that time are similar to what our communities are facing today. I have the privilege in my role of working with network of more than 235 affiliated nonprofit organizations across the country, about half of which are actively engaged in neighborhood stabilization efforts. Most funded by the neighborhood stabilization program. So today I'd like to share promising approaches and early lessons from their efforts. Most of these approaches are not new but they are showing some early signs of success. And I'll mention that the solutions are very market specific, but there are a lot of common challenges. And it's been interesting working at the national level, to watch the evolution of neighborhood stabilization efforts as organizations in very different markets experience the same challenges. So the first promising approach I want to discuss -- we have a number of organizations that are purchasing unfinished subdivisions when a builder goes into foreclosure. This is primarily a Sun Belt strategy as you can imagine. The lots they're purchasing have already been improved. Some have actually finished or unfinished structures on them. These groups are having some successes and they've learned a few lessons. In Phoenix they're already beginning to resell some of these units. And what they found was a very careful choice of location was key. They chose strong

neighborhoods in interring suburbs, they were served by transit, and close to good schools. These are exciting because they're brand-new units. They're larger units. They have high end fixtures. Not typically what you think of when you say "Affordable housing" we have a group in south Texas that's taking a little different approach. They're using the land bank provision of NSP to hold the land until demand returns and the market can absorb the units.

The second is similar to the first. We have organizations purchasing foreclosed condo units and this is primarily a West Coast strategy and it's been driven by the neighborhood stabilization program. The organizations have a need to purchase a lot of units quickly, turn a lot of units in a short period of time. And the neighborhoods that qualified for neighborhood stabilization program funds, because they had so many condo foreclosures, so in certain neighborhoods in the West Coast, the number of condo foreclosures pushed some neighborhoods over the edge into qualifying for the funds. So organizations are taking the opportunity to create and preserve affordability in neighborhoods that were lacking affordable options just a few years ago, and this is helping their mission of creating mixed income neighborhoods as well. A few early lessons and challenges -- we heard this throughout the conference. Suburban neighborhoods are a new frontier for many nonprofit organizations and this strategy in particular may take organizations outside their typical target neighborhoods, and so it requires careful planning and a clear mission. These organizations also may encounter resistance to affordable housing efforts even though in many cases it's the municipality that's inviting them in. The third promising approach I have hesitation is lease purchase and I'll talk about that we are seeing success in lease purchase programs that are using NSP to reoccupy foreclosures properties. We are seeing some early success in using lease purchase to occupy foreclosed properties. In our network there seems to be two different approaches. Some organizations view this as a rental strategy. Some view it as a homeownership strategy. I'll explain that. The organization that's view it as a rental strategy really plan to hold the property for the long term. They use the lease option to attract higher quality tenants and move them toward homeownership whether it's that particular unit or possibly a different unit. We have an organization in Waco, Texas that is already converted for closed units using this strategy. We have other organizations that really view it as a homeownership strategy and I'll mention one organization in Colorado. They're running what they call a learn/earn/own program. They call it an LEO program, and they allow the client to choose the property just like a regular homebuyer. They require sweat equity in the rehab and this promotes homeownership mindset, and they found success in this. What the two different strategies have in common is they really do have a careful choice of stronger neighborhoods and high quality properties to make this a sustainability strategy over the long term. Couple of lessons and challenges, availability makes the programs possible right now. So these organizations need to have an exit strategy for when that subsidy goes away or they need to be prepared for long term ownership of these properties. The long term success for any scattered site rental really does require significant scale, and research in our network shows that that scale is somewhere around 250 or more units. So turning this from a short-term foreclosure strategy to a long-term strategy is going to require quite a bit of effort. The fourth promising approach I'd like to mention is resident engagement and this is really a corner stone of the neighbor works network and I want to make sure I mention it because I don't hear it discussed in these settings very often. We have organizations in places as diverse as south Tucson, northern New Jersey, and Chelsea Massachusetts, having success in involving residents in boning the planning and implementation of their -- both the planning and implementation of their neighborhood stabilization efforts. This includes planning charettes to create a vision for the neighborhood and there are many options for implementation depending on the plan. We've seen community gardens, leading neighborhood cleanup efforts, block watches, assisting with vacant property surveys. A couple challenge is resident engagement is a long term investment as well and it has to be integrated with other programs NeighborWorks America considers community building and organizing as a line of business and supports it as such. Our groups found that resident don't know how to be engaged, so they really need to be trained and educated in how to do that. There's a very successful model for resident engagement that was actually developed by a NeighborWorks organization called Neighbor Circles, and I would encourage you to look that up if you're interested.

So each of these promising approaches has something in common which is that the local organization is taking on a lot of risk as a result of the foreclosure crisis. In some cases they're revisiting programs that haven't worked in the past and they're working in an environment of constantly shifting subsidies and incentives, and that brings me to my last point which is the role of intermediaries. Both Judy and Harold mentioned intermediaries in their talks. Regional and national intermediaries are critical to the efforts. Capital and operating support, training and technical assistance, serving as an innovation laboratory, providing early funding to test these new strategies. And then disseminating best practices learned. I just want to close by saying we have another round of NSP funding on the way and I think it's critical that we at the national level focus on working together to continue to support these efforts.

Allan Mallach:
Thank you, Sarah and thank you, panelists. Before I open it up to questions and comments, I'd like to make two comments prompted by some of the suggestions and ideas that came out here. One is getting into this whole neighborhood stabilization thing is a long term proposition. At the absolute best, when the NSP1 money is spent and when the NSP 2 money is spent, these neighborhoods will not be done. This is a long term process and groups that are engaged in this process are going to have to figure out how to gear up and maintain their ability to provide the activities they're doing for the long haul. Because -- and I think this also relates to the points that President Rosengren made before is that an awful lot of the neighborhoods that people are working in, neighborhoods that are hard hit by foreclosure were not all that stable before the foreclosure crisis. Many of them, in fact disproportionately these were areas that had many serious social economic physical problems that in some respects were obscured because of the home buying and the property appreciation and so forth that was driven heavily by subprime lending and speculation. So there were a lot of problems that were already there and that are not going to go away even after the foreclosure crisis, God willing, starts to abate.

And the third point that I want to make, which goes back to I think Sarah's closing point about engagement, is that if you look at a typical neighborhood, any neighborhood, the number or percentage of properties that are going to be directly involved in stabilization activities is a very small percentage. The number of properties that are in foreclosure are going to be in foreclosure are become REO is a significantly larger percentage but still a relatively small one compared to the total number of properties in the community. Ultimately, the vitality of that community is going to depend more than anything else on the other 80 or 90 or 95 percent of the households who are living in this community seeing what is going on are engaged or not engaged as the case may be and will ultimately make decisions about whether there is a community they want to live in or invest it. So I think engaging people, thinking about that other 90 percent and how they're being affected by this crisis I think is critically important. So this is a lot of food for thought. So questions, comments?

Again, you have to identify yourself, I believe.

Jim Brooks:
Jim Brooks, National League of Cities. My question goes to two either compatible or potentially incompatible aspects here. I'm mindful yesterday and today of the constant drum beat of the need to leverage private capital and also in the bag of tricks that housing intermediaries are using the shared housing equity model is one very popular. Most of the nonprofits in this room, my own included, are advocating models as one in a series of options. However, every mortgage banker with whom I speak about shared equity models hate them as an option. Now, my question then to the panel: Are shared equity housing models and leveraging private sector capital incompatible?

Judy Jacobson:
I have a 20 year program where we've leveraged over $2 billion. We have effectively shared equity model. The intra-subsidy that goes in to help pay some of the interest for the buyer is repayable upon sale. But it depends on appreciation. We share appreciation. So, if the property doesn't appreciate, they don't have to pay us. We have lots of banks participating in the program, including the big ones and we secure that intra-subsidy with a third mortgage on the property. So there's a lot of paper, but it works. We've done it.

Harold Simon:
The shared equity is used in two different contexts. One is where the subsidy stays in the home and the other is where the subsidy in the mortgage through various means. Some of the permanent affordability models, community land trust, limited equity co-ops and such, they're different animals. New Jersey, CAPSI and New Jersey community capital is involved with county wide effort to start the community land trust as a form of permanent affordable housing. Don't know yet, get back to you about what the banks are going to say. We do have a team of three or four banks on the planning commit that are looking into this for us. So that's always a good sign.

Allan mallach:

Yes, up there. I’m sorry, I didn’t recognize you there with the bright light.

[Laughter.]

Male voice:
Yes, bright light. Otherwise up on a high bench. Question for Massachusetts as far as the receivership. The nuisance abatement receivership. Who are the plaintiffs in the action, and has

a governmental entity and does the appointment of the receiver and receiver liens receive a status superior to other liens such as a first mortgage liens and three -- and NSP money are using NSP money for the receiverships?

Judy Jacobson:
Yes, yes, and no. Typically, it is municipalities bringing the action and in my old days I would represent tenants but in this initiative it's been municipalities. Our state law does have a super lien, subject only to real estate taxes, and that's why our loan fund is make loans to the receivers, they're great loans because they prime everything else on the property. And the third question, NSP, we've been using NSP admin money as support for the infrastructure. And we haven't used program money. And it's really only recently with the expanded normal definition of abandoned the truth is with the super lien we can use loan money. We don't need subsidy really.

Male voice:
Are you doing -- are receiverships all occupied property.

Judy Jacobson:
Both. We had a case in Massachusetts that confirmed that it's okay to use receivership on a vacant property.

Male Voice:
Comment and question. So on the shared equity we've been building a case about the relative good performance of lending in the shared equity space now. And we've done it through review of shared equity loans and community land trusts and also through limited equity co-ops and there's a great participation of lenders in that space. We've got the GSEs already have loan products in the books for community land trust. There's NTB has lots of support for limited equity co-ops and we've seen the foreclosure rates in these shared equity lending is miniscule compared to the market itself. So it looks like, you know, to the extent there's going to be any kind of appetite for additional debt, this is not going to be a tough sell to get more private capital in that space. The question and comment I had was that it's really important to focus just for a moment on the pricing question because this has been a vexing question that we've had to deal with right across the board from the beginning of NSP and before. It's an interesting side to think about the demand pricing that Harold talked about for CAPSI where they looked at what they could afford to spend for a unit with the intent of actually making a program self-sustaining versus the net realizable value that the national community stabilization trust which is a supply side mechanism determining what price a servicer or other holder of the property might have versus the requirements of NSP for getting the discount on the acquisition and one of the things we've seen and maybe you want to comment on this, Harold, is that they're not always incompatible but sometimes they are. And I don't know what you found in New Jersey. But we've seen that the prices that people can afford to pay are substantially lower if they want to make a sustainable and scalable program that is expected on the supply side and very often they all kind of run counter to what is permissible under NSP.

Harold Simon:
I'm not sure about the NSP question but we haven't had a huge amount of experience. The idea is to go to scale. So we've done these 47 mortgages and a few other deals. It takes a little bit of

convincing and we show everybody what we are doing, how we've come to our conclusions. Internally sellers have their own formulas and they compare that with ours and eventually came to the conclusion that we made sense. So I -- I don't know that we have a good systemized way of doing that to say this is a better or worse model. We just have a lot of evidence saying that there's face validity to what we were doing.

Judy Jacobson:
If I could add to that, one thing that would be good is if there was more ability to haggle through the process. There isn't much of an ability to do that. The price comes out. You take it or leave it. And some of our analysis has shown they've been able to -- sellers are able to go on and sell the properties at the prices they wanted. To who we don't know -- whether the results are good or not. But with the community investment our buyers want to make, the purchase prices are not always the right once. More ability delve into that and to determine if the price being asked is going to result in sustainable property. I know the NCST needs to have a quick process and certainty and all. But that kind of analysis we -- added to the mix would be very helpful.

Allan Mallach:
I think there's a real tension out there between market pricings and quality goals, especially in terms of the nonprofit sector. There are a lot of people out there, including a lot of investors who are not only willing to essentially settle for putting housing back on the market either as rental or ownership at lower quality than most nonprofits would like. But given the depressed state of the market, if you try to add in the kind of quality improvements that you know, you aspire to, you end up having a cost that is significantly higher than the market and I think it's questionable in many markets whether you have that many buyers who want to pay that kind of premium for what they may see as marginally better than what's available. So there's a real tension. Most nonprofits, I think, that are involved in the housing rehab business tend to have extremely high standards for what they want to put out as their product. And I think in this particular market environment, that may often result in those products especially given what the prices are for the as-is stock coming through the REO process being priced well above what the market is willing to pay for those houses unless, of course, you put in huge amounts of subsidy which in turn limits drastically the extent to which you can impact the markets. So I think there's a real tension there and I don't see quite how it's going to be resolved at this point.

Harold Simon:
More and more of the organizations like the ones in Chicago and Minnesota and L.A. are using for profit developers as their exit. They're just -- their efficiencies are different. Their cost structures are different, and they can still do a decent product. So take a look at how we do it and they do it and see if we can find a decent middle ground.

Allan Mallach:
And maybe, maybe -- I was struck by Terry Gillen's comment yesterday about their experience in Philadelphia, which does have a strong nonprofit development infrastructure by, you know, national standards. And yet found that quite consistently, they were getting faster, more cost effective outcomes from the for-profit developers in their stable -- and just maybe conceivably being a developer is not an optimal role for most nonprofit organizations. Just a thought

George Rothman:
I'm George Rothman with Manna, a nonprofit here in D.C. No one has yet addressed the appraisal problem. Have none of had you had issues with low appraisals.

Allan Mallach:
Everyone has issues with low appraisals.

George Rothman:
How are have you overcome them?

Judy Jacobson: Ask PJ next to you. I had one of those with him. And he folded for me. Gave it to us at the lower price. So you know, appraisals are estimates. So you look at them, you look at them hard, you look at the assumptions, the comparables and you just talk it through. But yeah, we've had problems.

Allan Mallach:
Other questions? Last call. Questions, comments. We have a couple minutes. Like to add any --

Judy Jacobson:
I got nervous at the end because I saw you have the stop talking card. But I guess one thing I would say is trying to think about this whole thing, you know, we talked a lot about code enforcement and receivership is a form of code enforcement, but basic code enforcement. If we're not doing basic code enforcement in neighborhoods we're investing NSP funds in, we're really missing the mark. It's not a matter of training or you know, municipalities know how to do code enforcement. They just don't have enough people.

And so you know, providing some funding so they can put one of their guys on Saturday to do the targeted code enforcement in the neighborhood. That's what we're looking to do. It's not rocket science.

Allan Mallach:
I agree. I'd certainly like to second. I think code enforcement -- good effective code enforcement -- is incredibly important as part of neighborhood stabilization. And that's a key thing that goes to what's happening with the other 90 percent of the properties in the neighborhood. I would disagree with you, though.

You know, it's funny, I don't think a lot of municipalities really know how to do code enforcements. I would agree they're financially strapped I was talking about ideas I had about targeted code enforcement in Phoenix. I was talking to the directed neighborhood services and said, "Look, I've lost 30 percent of my positions last year. I'm about to lose another 25 percent. Don't bug me with new ideas. Because we can -- we're barely able to do complaint response."

But I think a lot of cities could use the code enforcement resources far more efficiently by using the kind of management systems, the kind of technology, increasing their skills and stuff. And so I think it would be great to have some kind of program that would provide funding for municipalities to do code enforcement as part of neighborhood stabilization, but that would also work to make sure they were doing it in the most responsive and cost effective fashion.

Sarah Greenberg:
And modern.

Allan Mallach:
And modern fashion instead of the way it's often done in other places. We have two more questions. Okay.

Mary Tingerthal:
Allan, thank you. Mary Tingerthal from housing network. On the code enforcement issue a good model I've seen is in the city of Chicago where the director of code enforcement convenes a weekly S.W.A.T. team meeting of every department within the city that touches properties. So the police department, the health department, anyone that can touch a property and they go through a critical list of vacant properties on a weekly basis. And then feed that into their NSP program. So, if people are looking for models, I think it's a really terrific one.

The other comment I wanted to make is on Judy's comment about the long-term role of a coordinated community approach. Because no matter what set of tools we have, there will always need to be a multiple of disciplines at the table to accomplish the sort of goals that Eric talked about this morning. And in -- I happen to be from Minnesota and Judy mentioned the Minnesota Foreclosure Partners Council which convened in 2007 and continues to meet on a monthly basis today. And what it does is it brings people with multiple disciplines to the table on a regular basis to compare notes on what's working, what's not working, are there places where either private or public resources need to be applied to make a piece of the puzzle work that's maybe been lagging or fallen off the table or maybe there's an emerging problem that wasn't a problem six months ago. So I really think to create that impact on community, it's something that's a pretty low-cost thing to do, if you don't count the in count time of meetings but in terms of keeping it going. It really doesn't take a lot and it is a place where philanthropy and others can take a role in making sure that that dialogue keeps fresh and keeps focused on what the emerging problems are and it has been the Mc knight foundation in the twin cities that's made it possible to keep the Minnesota council going.

Sarah Greenberg:
Allan if I can make one response to Mary on the code enforcement the Chicago model is great. The city of Boston does that too. My colleague Evelyn Freidman will talk about her efforts doing that. These are high capacity cities, this isn't Lawrence Massachusetts. Last time I called the CD director he was on furlough. So there's a big difference between a high-capacity city that and the marshaled resources to have the coordinated response. It's not the how do you do it. It's again getting the work done.

Allan mallach:
I think we have one over here. Yeah.

Mike Mitchell:
Thanks this is a comment for maybe a bigger city but just wanted to share with -- I'm Mike

Mitchell, CEO of habitat for hewn amount in Chesapeake in Baltimore Maryland. We're working with a code enforcement right now and we have had three or four long meetings with the code enforcement office and four or 5 other investors and what we're doing with them is we're targeting -- we've basically agreed with these other investors that has the code enforcement office prize up properties, we will purchase those properties in a very targeted area. And so working with these other investors, developers, we're able to really focus on this tough area and it's -- I think it's a model. The head of code enforcement in Baltimore is a really genius person. So there's something working in other jurisdictions but I realize Baltimore is not Lawrence, Massachusetts.

Male Voice:
Harold, I think this is something we, whoever we are, need a lot more knowledge about. For example in your situation you bought portfolio loans which pricing is much different for portfolio versus securitized, you bought a whole pool and pricing is much different if you're buying a whole pool versus buying pieces of a pool and so Mack is talk about can pricing be done by the buyer versus the ultimate outcome by the seller. One of the things I don't think we know enough about and if anyone in here does, I'd love to talk to them at lunch or -- I don't think we have lunch, sometime -- is these large funds, what's their economic and business model and if it's replicated by those of us is there jettisoning of the bad assets that would have to be done if you start partnering with them that you don't want to do in rehab world. Allan brought up rehab standards, which are hugely different between what for-profits and nonprofits may do -- so learning more about how these large acquisitions are happening, what happens to all of the assets within those large acquisitions, what's the economic model that makes it work. I think is really important to us as partnerships that we keep talking about that we need to do unfold.

Harold Simon:
Certainly from my experience as a former housing and economic development director in the city and that of lots of other people, I think it is generality generally recognized that the business model for bulk purchase -- and this is certainly true back in the 90s with the bulk purchase of tax liens and tax foreclosed properties and -- that the business model is it, it's a triage model and vast numbers of urban properties were essentially jettisoned and abandoned by investors during the wave of tax lien bulk sales and there's certainly at least some evidence, I know the Pittsburgh neighborhood in Atlanta is one where people have looked at this, where this has been a by-product of bulk purchase of distressed properties today. I think it's something that would be well worth doing research and explore the implications of. But I think it's certainly widely recognized as a phenomenon out there. I think we have one last question here and then I think we'll be -- it will be time for us to move on.

Gladys Margarita Diaz:
Hi, Gladys margarita Diaz from Miami, Florida. I'm an NSP vendor and private sector person and small business. I'm an architect and also on a real estate brokerage division in my company. I deal with code enforcement, and I think one of the issues that I hope this comes out of this meeting is dealing with code enforcement. I think one of the bad things is when someone sees a code enforcement, they think, Oh, my God, I’ve got to hide, rather than seeing a person there to help them maintain the value of the property. I was hired by a municipality in Dade County and we had 75 properties in the municipality, it’s a small city and they could not -- they were owned

by a variety of lenders, these properties that were abandoned and we were charged with the task of finding who to talk to to see who could take responsibility for these properties. I can tell you that I spent hundreds of man-hours trying to track down who the loan officer was and they hung up on me when I said, “We really want to you take responsibility and board up this building and do whatever it has to do with cleanup.” So I think one of the things that I heard yesterday was the streamlining process that Fannie Mae and everyone else is working on with the lenders is going to enable those of us in the front lines to work with people who are going to take responsibility for the properties. I see that as a light at the end of the tunnel. I think if you come up with a summary of this activity, that that would be one of the key components.

Allan Mallach:
Thank you, I should mention by the way ha recent New Jersey law initiates the foreclosure, they must give notice to the municipality including contact information for an entity that will accept service on their behalf and contact information for whomever is responsible for maintaining the property. And if the property becomes vacant, they are deemed to have the legal responsibility to comply with any codes that the owner would have to comply with. So that hopefully will help. Well, thank you all. And thank you to the panel.