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

Scott Turner:
I think we're going to go ahead and get started. I'm Scott Turner, I'm from the San Francisco Fed. So we've been here for two days. We've heard from Reserve Bank presidents, governors, several notable keynotes including a cabinet secretary, five different panels and ten hours of discussion. So that begs the question of why you're all here, and maybe that's just to eat your boxed lunch. We do think we have more to say, and I'd like to think we've maybe saved the best panel for last. Just very briefly starting at the far end, we have George "Mack" McCarthy, who directs the Metropolitan Opportunities program at the Ford Foundation. We then have Frank Alexander who is the Sam Nung Professor of Law at Emory University and who is also director of policy at the new Center for Community Progress. We have Heidi Coppola, REO Clearinghouse. We have Yolanda Chavez is deputy secretary for grant programs in community planning and development department at HUD.

So I'm going to let each of the panelists briefly give their no more than five minute elevator speech about what it is they do and what interventions they have in the market, then I'm going to let them follow that up by just commenting briefly on what have we missed over the last two days? Maybe what has surprised them the most? What did they learn that they didn't know before they came here?

Then I'm going to try to go through what struck me as some of the major themes. We've really challenged this panel to try to tie everything together and be forward looking and think about, as Joseph said, what is scalable.

I've also asked them to be provocative and maybe disagreeable. Maybe not disagreeable, but at least contentious. Hopefully we will have a great panel. Let's start off with Mack. I think Mack told me the other day he's provided $75 million in grants in this space?

George McCarthy:
Not me, but the Ford Foundation.

Scott Turner:
Tell us what kinds of interventions you've pursued and what is the greatest potential success.

George McCarthy:
Thanks, everybody for having me here. It's a great privilege to be here at the Board of Governors and also to eat your food, which we've gotten to know quite well over time. Think just before I start because I'm likely during this panel to say something critical about NSP. I think it's maybe useful to start by saying that the last day and a half has given me a chance to reflect on the fact that we've actually accomplished a real lot in a very short time. I think that one of the things that this crisis has led us to do is to kind of accelerate our time. I think that NSP years are a lot like dog years. It takes about, it feels like it's seven years you've lived in the last year. And 18 months out of NSP 1, there's actually been an impressive body of work done. Unfortunately, the problem that we have been trying to address is so huge and unassailable that it's easy to kind of neglect to celebrate what we have been able to do. And then to always look at

it how little we've done to put a dent in the problem.

We have to also remind ourselves that we're working with systems that are obsolete, as to make it much more difficult over the last 20 or 30 years to fix. This is one of the things that we have been trying to invest in, which is the right systems that will be useful to fix some of the problems. So I thought what I would do is point to what I think are some exemplary things that are likely to give us indications of what is scalable, what we've seen around the country. Many of these we've invested in but not all. The the two big ones are the National Community Stabilization Trust and Center for Community Progress. Both of these are trying to figure out ways to really build system responses. In one case, we are trying to actually fix the brokenness of the mortgage finance system that was, that we went through a gigantic division of labor that made it impossible for pieces of industry to talk to each other and then figure out ways to resolve things that didn't work through their regular conveyor line of mortgage origination and servicing.

One of the things we've seen is that that broken system has been unable to manage millions and millions of properties that have gone into default and we've got now millions waiting to kind of resolve this foreclosure process and another two and a half, 3 million probably in the shadow inventory that Alan and others were talking about earlier.

We have invested in things that have given us an idea of scalability. You heard about the CAPSI effort in New Jersey. They -- they did a bulk transaction. They worked through a system that they used to figure what it would take to actually bring properties through and keep them solvent at then, right? Which means they had to figure out the right acquisition price and know the exit going in. So they needed to figure out what they were going to do all the way through. That's exemplary because so few of us looked at the entire system from acquisition to exit to figure out what needs to be done, and I think that a lot can be learned there.

In Chicago we've seen the development of a fully articulated business model that is based on kind of a tool that they've used. A technology tool that has been able to track properties all the way through the process at every moment. I think they made a gigantic investment in it, but it's a fabulous tool. Mercy Housing leading the effort in Chicago has been at the helm of that. Minneapolis St. Paul, you heard about their attempt to transact in bum can and do green rehab as a way to not just get properties reinhabitable but improve the standard of the property as a way to turn the tide in those communities. They have been able to exhibit a huge and effective degree of collaboration internally, across jurisdictions in the twin cities.

Boston, you heard from Elyse and others about the pre-REO interventions which are really, really important to know about and to think through because while we talk about neighborhood stabilization and what we are going to do with vacant and abandoned properties, the best way to stabilize a neighborhood is to make sure that the properties don't go vacant and abandoned. We need to think about the whole system as well and getting in front of the problem as opposed to dealing with it when it's hardest to deal with.

Denver we've seen innovate I have acquisition methods that use regional collaboration and trying to do acquisition with the eye on transportation oriented, now the properties provide opportunities for the residents to find access to jobs and high quality properties.

In New York, where we've seen an innovative program that has tried to marry work force development -- that's a nice try, but I'll run through that sign -- marry work force development with public benefits where they've actually taken TANF recipients and employed them to help neighborhoods by giving them property management skills, training them in property management skills and stabilizing foreclosed property. They started in one neighborhood in Jamaica Queens and now expanded it to five neighborhoods in the city. The beauty of this thing, it's almost all fueled by public money. The TANF recipients are already getting money to be trained in certain job skills. In this case they're getting trained in property management. It was the brain child of Herb Sterns at the Open Society Institute and now we've invested in it and ready to take it to scale to marry different public programs with a public purpose.

The last topic is back to shared equity, which is really interesting that shared equity like land banking was part of the NSP legislation. We've seen now that -- I think that shared equity is both kind of a response and a prevention strategy. If you think about it as a mechanism for developing a permanently affordable housing stock which I think is a component of any sustainable community, then our ability to transform properties into some kind of permanent affordable through commune land trust and other deed restricted properties, is going to keep those properties from entering into the cycle again because they will never be part of a speculative frenzy. We've seen scalable community land trusts and other shared equity models now being developed in places like New Orleans, Denver, Atlanta, District of Columbia, Twin Cities, San Francisco and the Bay area, New Jersey and Detroit.

We've seen it not only in the residential sector, but now have been experimenting with shared equity approaches, basically land trust approaches in the commercial sectors in New Orleans and Detroit because very often if you are trying to redevelop a community, you can't just do it on the residential side and you can't expect that commercial is ever going to follow. Sometimes you need tandem developments. As it turns out, in the commercial sector, land trust arrangements actually work very well for getting communities serving entities there and people in the commercial space are used to a long-term lease as a way to do business.

I'm glad to talk more about those. You'll hear more from Heidi about this. We have been looking at ways to engage the private sector, particularly the equity funds and others, in finding ways to deal with the low value property proposition the I'll leave my remaining time to talk about that later.

[Chuckles.]

George McCarthy:
That's some of the out of the box stuffy merging now.

Scott Turner:
Thanks, Mack. You teed up a lot of the themes I wanted to cover in this hour.

Frank, as Mack said you received funding from Ford and the CS Mott foundation. I don't know if anyone mentioned that the center is a result of a merger between the campaign and the

Genesee Institute, the merger of staff an their experience. If you can talk about what the center hopes to achieve and what your major interventions are.

Frank Alexander:
Thanks, Scott. Let me add to what others said, my note of appreciation to the Federal Reserve Bank and the banks for putting together this conference. I have learned an incredible amount over the last 24 hours, and I mean that almost literally because I got up at 3:30 this morning to reread that report looking for missing data points. I'll come back to that.

It's a great conference and I've learned a great deal. The Center for Community Progress formed through a merger of the Genesee Institute and the Vacant Property Campaign. This was led by Dan Kilde, the former -- he created the general see fast bank land -- land bank authority in Michigan. He authored the property tax foreclosure reform legislation in Michigan and then the land bank legislation.

What we discovered in our work that had been led by Jen Leonard at the vacant properties campaign, we couldn't need the demand from local companies across the country for vacant property assistance. With the support of Ford and Mott, we've gone full-time with a much larger staff doing this nationwide.

I think, Scott, I'll take these few moments to begin at the end and share with you the things that I'm puzzled about that haven't been said over the past 24 hours. Or written about in the book you have before you.

Dem posts don't meet.

I'll try it again. Dem posts don't meet.

For those of you who are not from rural Georgia, let me explain that saying.

[Chuckles.]

Frank Alexander:
The saying of dem posts don't meet is what you hear at the end of the day when you hired somebody to go put fence posts around the farm to keep the cattle in the pasture, and you thought you knew the boundary lines of that farm and you carefully calculated the number of posts and amount of wire you needed and you sent your employees out there and for two days they put the posts in the ground and the wire up and they came back to you at the end of the day and said we're done. Come look at it.

And you go out there and you see, dem posts don't meet.

The boundary lines did not close. As a Georgia real estate attorney, what has happened is, the legal description did not close. The boundaries were defective. Now, when you don't know the underlying structure of what you've got, and the posts don't close, you can do two things. You can go ahead and string wire between the missing 50 feet or 75 feet and try to fill in the gap.

Now, that's the way I view the NSP program. I'm a huge proponent of the NSP program because it was a sure a heck of a lot better than doing nothing, from my perspective. Not all will agree. The NSP program from my perspective has gotten better almost every month. Not just from NSP 1 to NSP 2, but HUD has constantly heard and made it more functional. But from my perspective, the NSP program is simply stringing the wire across that gap. It is not asking the fundamental questions of why this has occurred.

And that's what I have not heard very much of over the last 24 hours. Now, Carolina suggested it yesterday that we might be asking the wrong questions or might not be reaching all the right questions. Kai said the same thing, and I think in some ways they were both right. Let me suggest to you the questions I hope we will ask. If not today, at least in the weeks and months to come.

The first, for me the simplest question is: What are the products that caused this to happen? Now, most of y'all are too young to remember, but back in the period from '78 to '82 when interest rates were up to 14, 18 percent on residential mortgages, the market got creative and came up with a graduated adjustable rate mortgages with negative -- GP ARMs were negative AM. That was only a few years before the interest rates dropped and the holders of the paper realized it wasn't worth much. Did we prohibit it? No. It took a short generation and came back with the option arm with negative AM. When will we learn that some products are inherently dangerous? That don't do anyone any good and destroy the community? Isn't it time for us to prohibit as a matter of state law if not federal law some inherently dangerous loan products?

The second question that I'm concerned that we are not asking enough is what are the practices that allow this to occur? I was fascinated by President Rosengren's description of the collateral damage. This builds on work that Dan Immergluck did some years ago. The external costs of foreclosure and abandonment. As Alan Mallach in another setting said vacant and abandoned property is not a victimless crime. From my perspective, vacant and abandoned property is the litter of a consumption society. It has taken us decades to finally deal with litter along the public highways. Perhaps this is time for us to start dealing with the external costs of vacancy and abandonment.

If we are going to start forcing to use economic language, the internalization of these external costs, we have to know who owns the property. Now, pre-foreclosure we may have a pretty good sense by doing a title exam of who owns the property, but as the prior panel indicated, as Frank Ford and judge Pianka indicated, often foreclosure proceedings commence and then we have them not continued to sale.

Once foreclosures occur, do we know who owns the property? No one I suspect -- let me ask it as a question. Can anyone here tell me how many foreclosures sales actually occurred last month? Last year? Not foreclosure proceedings commenced because that bears a very weak correlation with foreclosure sales. Can anyone tell me how many sales actually occurred? The answer is no.

Now, even if we assumed you did know how many sales occurred, can anyone tell me how much REO is out there today? This entire conference is devoted to REO, but I didn't find a single number in the book that was shared as part of these proceedings that gave me the total REO at any point in time, much less over time. In each article and paper we are extrapolating guessing from delinquencies to foreclosures, thinking maybe foreclosures result in sales and maybe sales result in REO.

Now, Rob Grossinger this morning told me in his prior capacity he knew the REO of his employer at any point in time. But can we aggregate that REO today? Let me suggest to you perhaps heretically, I don't think the issue is REO any more than I think the issue is the investor. I think the issue for the community statistics and the collateral damage is the vacancy and abandonment. Not all REO is vacant and abandoned. But all that is vacant and abandoned, whether it's REO held by the lender or by the purchaser from the lender shortly after foreclosure, all that is vacant and abandoned is harmful. So I think that the question here we need to be asking is why our policies and practices allow this to continue.

Now, I do have what I consider to be the eight critical tools that we need for systemic reform in order to do more than simply bridge the wire across the posts. But I'll wait and share those with you if I have time.

[Laughter.]

Scott Turner:
Next we have Heidi of the REO Clearinghouse. For those that don't know, the Clearinghouse is a organization that connects servicers to local governments and nonprofits. Craig mentioned the Clearinghouse yesterday but maybe you can elaborate on how the work that the Clearinghouse does complements the work of the trust.

Heidi Coppola:
Sure, thank you. Thanks, everybody. I'm very happy to be here today. The clearing house started sometime after the trust did. We were looking at their work and totally impressed and awed by the infrastructure that they developed. But my background is, I come from city group and spent 20 years in marriage servicing best practices and in that capacity at city I was always the proverbial gap filler at the company. I would always look at everything that they were doing and figuring out exactly what wasn't getting done and trying to figure out how I could fill that gap. In thinking about what the trust was doing, and having some experience with communities on the ground, it occurred to me that there were a lot of things that really couldn't be scalable, which I know goes a against the grains of what we are here to talk about, but a lot of things couldn't be scalable. There was no infrastructure. No ability to deal with these very difficult situations.

So we started the Clearinghouse for the purpose of dealing with aged and distressed low value assets which really have to be dealt with on a case-by-case basis. And in part it has to be dealt with on a case-by-case basis because you are beholden to the resources of the community, the nonprofit infrastructure, to other resources that exist as well as to the policies and procedures of the servicers.

So we've seen over time with this issue, with loss mitigation, loan modifications, for example, there's a very steep learning curve and we are probably, you know, in that learning curve now with respect to age distress, low value assets. So the Clearinghouse was formed really to focus on this particular niche. We do similar things to the Trust in that we have inventory that we can push out, share information related to properties. We also do a lot of reverse inquiries. This is really on the ground something that has become extremely necessary and I think very helpful to communities.

Organizations go out. They say, listen, we're working through the trust. We picked up a handful of properties on the block in this neighborhood. As we are out there looking at 124 Main and 126 Main and we look across the street and see there's a need for 121 and 123. We went through title records, no idea who owns it, can't figure it out. This has been a tremendous learning experience for us and the communities as we delve into the ownership of these assets. We are doing a good job with this, but man is this labor intensive. It's one of those situations where you're going from one going from one entity and asking questions and going to another entity and tracing it back.

It's gotten us into short sales, and into note sales because clearly if this asset that people are asking about was a importance closed property, was an REO, it would be either on the first look program's inventory list or it would be listed on MLS, right? Somebody would know about it if it was an REO.

What we are finding is fully 80 to 90 percent of the assets are pre-foreclosure which means that if it is one of the servicers that we are all accustomed to dealing with. We can go and flag it and say listen, when you move this to REO please keep in mind that this nonprofit organization would like to acquire it. That happens sometimes. Sometimes it is a vacant and abandoned property. Sometimes there's -- it's a home that is not being serviced by one of the more well-known servicers. Frequently there's not a lot of patience in the community to wait around for this to become REO. Sometimes the plan is that it will never become REO. This is the proverbial charge off and walk away. Now we are getting good at trying to figure out what the strategies are. We've done a little bit of digging into helping communities identify the actual homeowner. We talked a little bit about this. So we can facilitate a short sale. So again, while we are all looking for the lessons learned here about how do we take what we know and make it scalable to help communities, I think so much of what we are doing now is just ground breaking, right? We are just really trying to figure out how we get to the point where we understand how far we can push the servicers, how much information we can get from them. How much, how far they'll take us down the road of doing a note or mortgage assignment. How much we can learn about how we avoid charge offs and walk aways by proposing new alternatives, which we're working on now and then even with REO, how do we really focus on making decisions about valuation earlier rather than later.

These, again because the Clearinghouse does focus on age, distress, low value assets and our inventory generally is 90 days or more on the market. That really puts us in a situation where we've seen the distress occur on these homes. In many cases I think it's pretty easy for the servicers to back up their decisioning and really make these decisions about what should be donated or sold at a lower value earlier in the process.

That's what we are trying to push. We are trying to take all the information, upstream the decisioning for the servicer and simultaneously prepare the community to accept what they are asking for, which is another issue. We have had situations again through the reverse inquiry where we are, we find an asset that is a pre-foreclosure. The issue is community wants the asset, but they really want the REO. They don't really want the mortgage of a note. Now we've got to figure out if we are upstreaming the decisioning, is there capacity to accept what the community is asking for? These are the issues we are grappling with. Ultimately I think we'll get to the point where we'll figure out how to make it scalable. We are still at the point where we are learning what the issues are and how to solve for making the match between the servicer and the community.

Scott Turner:
Thanks, Heidi. Finally, Yolanda, you oversea $7 billion in NSP as well as billions more in other grants. You might imagine there's been a lot of discussion about NSP over the last two days, good, bad and ugly. Would you share your own perspective where you see the successes and the challenges to the program?

Yolanda Chavez:
Sure. Hello, everyone. Good afternoon. I unfortunately was not here yesterday because I was in Detroit, but I know that you have been talking about NSP this last 24 hours so I don't want to get into the goals, but I do want to focus at least on the achievements on NSP 1.

NSP 1 because NSP 2 is really just starting and as you know – for NSP 3 we hope to announce the allocations next week. But when we talk about NSP 1 because we’re starting to hit that 18-month obligation deadline, I want to put these achievements in perspective. So when you think of the fact that we’ve allocated almost $7 billion to state grantees, and then those state grantees allocated their funds to a number of local organizations, so then we have hundreds of grantees. We basically ask these grantees to take this money, address the foreclosure problems, stabilize your neighborhoods, and handle a problem that was largely created by the banks. And I think we should all be clear that prior to NSP that most of these organizations were really providing gap financing for single family, multifamily, debt finance assistance. They were not out there buying REOs to rehab and resell or to demolish and having to deal with a number of organizations to handle these properties. We asked them to set up a whole new line of business, handle the money, handle the contracts, and do it in 18 months. Regardless of the fact that it takes a jurisdiction six months just to set up all the contracts. With that, the other thing we need to talk about with NSP 1 is that it wasn’t very targeted. I think the one thing we can all agree on is that to stabilize the neighborhood, you really have to understand what your market is to be able to decide which neighborhoods to target, which neighborhoods to focus on. NSP 1 actually provided grantees in terms of where they’re going to target these funds. That’s the perspective I want you to understand as far as to know where we are in achievements. The national obligation rate at this time is 93.4 percent -- 39.4 has been actually expended out of those funds that have been obligated.

In terms of vacancy impact and we have a lot to do in terms of pulling out data and evaluating the program. We have an evaluation of NSP 1 and 2 starting, but with some data that we were actually able to pull out with our partners PDNR and at HUD, we found that cities like Reno, Cleveland, Youngstown, Stockton have actually impacted the vacancy rates on the neighborhood level because they've targeted either demolitions, depending on their market in those neighborhoods, or down payment assistance and rehab if they have a for sale market. Based on what they have done and these are completed projects, at the neighborhood census track level, we have seen a reduction in vacancy rates.

Third, that in terms of leveraging, although for the most part our grantees lack the capacity to understand how to leverage their funds, that those with high capacity have actually been able to leverage and I think one of the biggest achievements is what we have been able to accomplish through technical assistance. Not only the capacity building for the grantees, but also what we've learned about how to do technical assistance and how we've reframed technical assistance to really have it be market-based and provide the assistance to meet the specific needs of each grantee.

And how NSP 3, I should say how NSP is really going to inform what we are doing not only with NSP 2 and NSP 3, but also how we are going to provide TA going forward to our grantee population and how we can help them to really look at the resources at a comprehensive level and understand how to integrate and leverage those funds.

And I think as someone mentioned, we've, we learn every day from NSP and we are working very hard and fast as we learn new lessons to actually implement the lessons to make the program easier and better to implement and hopefully achieve results at the neighborhood level.

Scott Turner:
Great. Thanks, Yolanda. As I said, before we dig into what I found to be some of the major themes from the past two days, I do want to hear from others other than Frank who used his opening to do this, what you think was missing from the past two days and/or what was the biggest surprise to you.

George McCarthy:
So well, I would say it's not a surprise, but I say one of the things that has been missing is an actual vision of what a stable neighborhood is.

I think that that's really kind of telling. We talk a lot about measures that we're going to take to stabilize neighborhoods with some assumption we know what a stable neighborhood looks like. We heard from President Rosengren earlier today about other indicators of whatever distress, neighborhoods that he looked at in the New England area. I would suggest that the REO is just another indicator of distress. Most of the neighborhoods we are talking about stabilizing now weren't stable in 2005. They weren't stable in 2000. They are probably not even stable in 1979.

And the reason is that these neighborhoods have always been susceptible to negative influences coming from a variety of sectors, one of which is lack of access to credit and capital. And you know, the red lining that happened during the 1960s, the response being the CRA, was one of the things that just made it likely that these neighborhoods were always going to be kind of behind the eight ball. I think that we have to start with the right kind of vision of a stable neighborhood to think about what it means to stabilize it. That's why we know going in, even though this is about REO and vacant properties, the stabilizing a neighborhood is not just dealing with REO and vacant properties. I'm not talking about trying to do some high level comprehensive measures. I'm thinking about what do we need to do -- this is on the prevention side as well as on the proactive side to think through strategies to make these neighborhoods that have been deeply impacted by the foreclosure crisis and deeply impacted by other vice east stable and resilient over the long period.

If you look at Dover, Massachusetts, Dover, Massachusetts, has stability and resilience that brought it through this foreclosure crisis without any major, major damage. What makes them stable and resilient? What makes Lynn less stable and resilient or the boomburgs that Carolina Reid was talking about before. Those were unstable and I suggest they always are because there's something defective about those communities. They are not close to opportunity. People are going to have to drive two and a half hours to go to their jobs from those communities. As soon as jobs disappear, there's no real demand for those homes. We have to think about, what is the future? What would make those communities stable over a long time? I suggest you might try to connect them to the economic mainstream with transportation. We need to think through the right kind of planning exercises that get us to stability, that go well beyond the systems or the responses we have in the REO property side.

That's one thing. The second thing is, where is the private sector? We know if we do the math and someone has already done the math in this conference, say $7 billion an average cost that we expend on a property is, I don't know, $50,000. We are going to get to 140,000 properties. By the time we are through with the foreclosure crisis we're thinking about eight to 10 million foreclosures taking place in the country. We are touching 140,000 properties. We have to be damn strategic to make a big dent in that.

[Laughter.]

George McCarthy:
But on the other hand.

We do know that many of the transactions are going to occur, somewhere along than the line and usually at the behest of private capital. I have been spending the last five years trying to figure out how to align some of the interests of private capital and public purpose. And so I just tell you a little bit. We have been working on this most recently with Dana from the her Ron foundation and also with Harold Simon.

The average major transaction that is going to take place in this space is going to be a multibillion dollar transaction in which people are going to buy tens of thousands of notes or properties and then figure out a disposition strategy for them. I spent a lot of time playing golf and eating steak with these guys to figure out what they are doing. What they are doing is buying at 30 cents and they are going to the properties and coming up with kind of wholesale solutions. They triage the whole thing. Find the occupied properties and immediately go to the properties and say, what if we wrote down your mortgage by 30 percent? Would you be able to afford that? And they put them into an FHA mortgage and they exit instantly.

They have to find intermediate strategies for properties that are still desirable and other flotsam and jetsom that come out at the other end on properties, right? We convened investors and nonprofits and some of the philanthropic folks at the Ford Foundation a couple of months ago to talk about this. One of the things that came out of the meeting was: You know what? Those properties coming out of that process are the ones that are of the most interest to those of us working at the unit level. They are zero value to the investors. Whatever they can get to them they'll take. They don't care. They might sell them on the Internet.

What if we found a way to effectively move the property into more effective public purpose? And the problem is that it's not as simple as it might seem. You don't want to take a lot of zero value properties and dump them on a nonprofit. They don't have the capacity to manage them or incur whatever kind of liability that occurred during the holding period. They might not be able to afford to resolve whatever kind of legal issues go on around those properties. So we recently have been talking about Goldman Sachs and others about creating kind of a holding company that would be able to just in the interim period when the investors are no longer interest in them and when we find the ultimate solution for them, they'll hold them, resolve whatever kinds of title issues, deed issues that need to be resolved and then convey them to somebody, like a land bank authority being developed in multiple places by the center for community progress.

That's one of the things we need to think about. It's large scale. We have been working with NCST on this and drying to bring CCP into this. I think this is where the rubber is going to hit the road in terms of the response on the REO side. The largest volume of all these solutions is going to be done with private capital. We have to figure a way to do it. We have to be mindful, private capital is in there for profit, for fast execution. We have to find a way not to bind them up with our process in the nonprofit pace which incurs brain damage and frustration, right?

[Chuckles.]

George McCarthy:
We need to find a way to do this, but this is the cutting edge of where we are going to get to in the next year or two.

One of the things that we need to figure out and nobody in the room is representing the investors buying large volumes of property, how we can work with them to get to a better solution.

Scott Turner:
Frank, did you have another point that was missing? Another point?

Frank Alexander:
Let me simply offer the eight systemic changes that will get us to scale. If that's where you want to go with this, Scott.

Scott Turner:
Sure.

Frank Alexander:

Vacant and abandoned properties in neighborhoods are of little interest to anyone except the neighbors and the cities.

As Terry described it yesterday, this is the intractable problem of pooling and servicing agreements, when there is negative value. Dan Kilde said that vacant an abandoned problems, the problem of vacant and abandoned properties are owned by the communities. What we need to do now is get the communities to own the title to the property, on these properties, these parcels.

That is what land banks and land banking is about. Going ahead as Mack suggested and putting it into a public purpose entity, these properties of negative value pending reuse for a new public purpose. The first thing is yes, land banks and land banking. There's growth from roughly six land banks a decade ago to somewhere, my guess is around 250 to 300, depending on whether you are including land banking as well as land banks.

The second systemic change that must occur is property tax foreclosure reform. Those systems were designed in the late 19th century. For the most part they have not been brought into the 20th, much less the 21st century. It's time to do that.

The third tool in a tool box that was identified and described in the material, identified yesterday and described in the materials are vacant property registration statutes. Over 250 local communities adopted some form of vacant property registration ordinance. Wide variety is among them.

The fourth tool I think is a ramped-up code enforcement system with which ties into a super priority of the code enforcement lien and does front load all of the costs of, these external costs back on to the property owners.

Including the lenders the fifth tool that I have begun to think is the simplest one is to start creating a system of foreclosure assessments. That each and every foreclosure should carry with it an assessment of $1,000 or maybe $5,000 that is paid directly to the city building and inspection department and perhaps to the police and fire departments to cover the costs of doing the inspection and the vacancy and abandonment.

The sixth systemic reform is indeed mortgage foreclosure reform. Sometimes having expedited procedures, sometimes as referred to earlier simply notice to the local government of the commencement of the proceedings.

The seventh systemic reform that is necessary is one I've alluded to earlier which is to totally rethink the structure of pooling and servicing agreements because their incentives are totally misaligned with neighborhood stabilization right now.

The eighth and final systemic reform is the fact that we don't have decent data. As I alluded to earlier, we do not know how many foreclosure sales were conducted last month. I have great hopes for the Dodd-Frank provisions that require HUD to accumulate new data. I don't know how you're going to get it, but if we can get better data on what foreclosure proceedings actually result in foreclosure sales and who the purchasers are at those foreclosures, then we'll have a very different approach to what we are doing.

Scott:
Great. Heidi, Yolanda, anything you saw missing?

Heidi Coppola:
You know, I was very surprised that there was as much conversation on low value assets as there was. I don't think we're quite at the point where the decibel level is deafening. We are getting there and that's terrific. That's what we need to solve the issue. We need the conversation.

I think that when you look at low value assets, the one thing that I was touched on at different points, but really wasn't, is not fully evolved yet is this nature of a comprehensive solution and people on various panels touched on private sector developers coming to the table and actually picking up capacity on the ground, and there's a lot of trepidation about this because the standards of rehab and even execution, what the end game is, what your exit is, is not always, it is not consistent and it may not be the same as what the nonprofits do. I think we have to come to terms with this and probably sooner rather than later. We all see so many of these foreclosed properties now and we know that the situation is, that we are expecting many more of these properties to be available by the end of the year. Maybe first quarter next year. We've got a little window of opportunity here to kind of figure this out and put the right resources in place. So I do think we've got to focus more on developers, which again it was brought up, but it's almost like it's just a little too hot to touch right now. We have to really address this.

I think we've also got to address the issue of figuring out what are the -- what other resources are available on the ground. Evelyn in Boston mentioned they are using some of the foreclosed properties as supportive housing for formerly homeless individuals. I think that's amazing. I think there are resources and maybe other funding streams. That's what I'm referring to in local government, that we really could apply to foreclosed properties.

It's again, I come from the servicer world and we all thought about servicers as being very siloed. The pre-foreclosure department or loss mitigation didn't talk to the foreclosure department. The foreclosure department didn't talk to the REO department. We see that now, right? We go back and say, we have a foreclosed property, we go to the REO department, we can't give you the name of the person who has that, so you're on your own. I see that because we come from that world so we figure it out. I think the same thing is existing in the cities.

So I think that maybe it's time to take social services and the housing department that focuses on homelessness and in addition to other areas that have the funding stream and put them in the room with the people who have access to the foreclosed properties and say all right, how are we going to use these properties in a different way? All the things that we are talking about in terms of creating these holding tanks and these land banks, it's all great because it helps us understand where the concentrations of properties are. But at the end of the day it all comes down to what you're going to do with that property, right? Otherwise anybody who has taken that process is stepping in the shoes of the servicer who gets their hands slapped every single day. The question is, where do you use this and how do you get creative about using the errors?

Scott Turner:
Great. We'll jump into --

Yolanda Chavez:
May I?

Scott Turner:
On the same theme?

Yolanda Chavez:
Yes. A couple of the members of the NSP team were here yet and one of the questions was about what HUD should have done initially with NSP and what that brought, or the thought that I had when they gave me kind of their comments on what they heard was that it's interesting that we all assume that with NSP that suddenly local jurisdictions would know how to address their housing market. And that basically we all, you are making the assumption that HUD also has been focused on market-based programs.

And the reality is that formula programs as you know don't allow you to do that, right? With NSP, from what we've learned with NSP -- so we learned, one, that our grantees, part of the issue, part of the local jurisdictions, they don't know how to assess their housing market for the most part. We are hoping that NSP 1 with the TA has helped them do that. With HUD being placed based means in order to be place based we have to become market based. With NSP we are learning that, learning to do that.

The last three things I would end with, which I'm sure that you've covered is at least what HUD can do in helping jurisdictions do this, how do they take any of their planning to scale, is they have to really understand how they can use all of their funding resources, not just NSP. NSP is not the only thing they can be looking at to stabilize their neighborhood, but how they use homes, CDBG and we think we can help with that, and we think that is our role to help grantees to get to that level.

Of course, the challenge to all of you is how do we ensure that in still strong real estate markets how we provide credit for first liens. It should not just be FHA.

Two, as Mack mentioned, how do you invest with NSP grantees to develop loan revolving pools they can use for single family or multifamily. That is really going to be the focus. In a lot of markets, maybe it's just a rental market. How do you do that, help them invest?

Three, the low value REOs, there's not enough NSP money. How do you transfer these titles to grantees in low value markets and give them the money for the demo? So that you do your part in helping them stabilize those neighbors.

Scott Turner:
Great. Thanks. I should also say we have been told we can go a little longer since we got a late start with the panel. We will do a hard stop at 1:45.

You basically have all raised what I saw as the major themes from the conference that I want to elaborate on. I thought maybe we would go through them one by one, let you guys comment a little bit more and open each one up to the audience for questions or ideas.

The themes that I saw were the need for leverage, the need to think more comprehensively about neighborhoods, how to deal with community capacity, particularly in areas that just don't have it; how to deal with the low value properties.

Maybe one by one, Mack, you already went into some detail about leverage, both in the CDFI space, talking about Cap C and Lisa's program in Boston. Do you want to elaborate? How would we bring that to greater scale across the country?

George McCarthy:
One of the things we were surprised to see, we helped to invest in the capital corporation of the National Community Stabilization Trust because we hoped to allow people to leverage their NSP money with that capital.

We were really surprised. Maybe it was just too early out of the gate that there was very little demand. And one of the reasons, I think, for that was that it's actually very risky for a developer of properties to incur debt to then take on properties that you're going to redevelop with no known exit.

The issue there is that unless we've actually solved the permanent financing problem -- I don't care if you are going to rent these things long-term, lease to own or sell them to new buyers -- we haven't secured a long-term capital source that is reliable and gives anybody an exit. It's no mystery to me why we've seen so little call for the capital pool that’s already available for NSP money. One of the things we talked about in the conversation, we need to find a way to share the risk with whoever is going to take out the take out financing, whether it be mortgages or somebody who is going to carry the leases, we need the capital source and it's not there yet.

Scott Turner:
Amanda from Enterprise raised the idea of the new mortgage program from the state or local level. Is that something we should advocate?

George McCarthy:
Mortgage program from the local or state, we have state financing agencies that can step into the breach and we have CRA and duty to serve. We have many tools we can cajole or coerce lenders to get into this space and think about risk sharing mechanisms that make it possible. It's not that far out of the box to think about a dedicated publicly supported finance product that would be used to be take-out financing for any property that is acquired using NSP money. Simple as that. We can share the risk down the line in the same way that TART shared the risk for investors when they took on tarnished assets, right? We did it before. We've done it in many other ways.

Yeah, it's not that far out of box.

Scott Turner:
Yolanda, this was a common theme here, MLI households, particularly the ones displaced from foreclosed homes. Is this something that HUD is thinking about, trying to boost the possibility of mortgages for this area?

Yolanda Chavez:
I guess that's the challenge that I make here to the lenders present. FHA I think is doing their part. You can definitely help us in terms of capital source. That's also something else that private lenders should be playing a role in. Government is, you know, $7 billion is a lot of money. I think y'all know what the environment is on the Hill in terms of putting more money into some of these programs.

So where does the private sector come in in the private sector-created problem? So I think we are working as hard, as fast as we can at huh. I challenge the lenders here open.

Scott Turner:
I open it to the audience. Any questions?

Who are you?

Dan Kilde:
Dan Kilde, Frank Alexander's luggage handler.

[Chuckles.]

Dan Kilde:
He carries a lot of baggage.

[Laughter.]

Dan Kilde:
Well, Mack said something that I actually think was being provocative. It's the land trust shared equity model in weak markets. A lot of the conversation about where do we go with these properties at the back end, how do we finance the redevelopment or ownership aspect of this. I'm wondering how you see that playing out incoming to scale. Is it sort of a new ownership paradigm that you are promoting? Is it intended to retain the subsidy in the property long-term? Create stability to that property in case there are problems that occur downstream? I'm kind of curious to see how -- first of all, why? And then how this model would work in these weak markets because it is a bit of a new concept for me to grasp using a shared equity or land trust model in something other than a very high cost, high land cost environment.

George McCarthy:
As Elyse said earlier, this isn't especially in low cost markets a profit center, right? It might not even pay for itself in the long run.

The first principle is responsible use of public subsidy. If you are providing gigantic amounts of gap filler subsidy because us can't get appraisals you need to cover the acquisition and rehab costs for homes that you put in through NSP, you get a recapture mechanism put in so that at least long-term those properties are maintained as affordable or you recapture the subsidy to put someplace else. I think the innovative thing that we're seeing in the distressed markets and there's two we are working in, New Orleans and Detroit. Being able to marry a commercial development strategy with a residential development strategy and using the land trust model on the commercial side to make sure that you get beneficial commercial service to places that don't have residences. Because you know that nobody is going to do commercial development in a mace that doesn't have roof tops. Who is going to live in a place that doesn't have any commercial services? This is true in both of those places.

The idea would be to do tandem shared equity arrangements on the commercial and -- it's a different kind of mixed use model, but the idea is that the land is held in trust so you can actually have community control over those assets for the long haul.

So the idea is, you're right, there's no gigantic up side that you see in the short to medium term in the residential markets in these low cost markets.

But on the other hand, you want to be able to defend the use of public subsidy that is going to be a gap filler and you want to figure out tandem strategies that will likely lead in the long run to appreciation in those markets, but you have to figure out how to do it. Right now we are struggling with the financial model which seems to be subsidy driven at this point. It's not going to be kind of scalable and self financing at least right off the start. It's a tough haul because on the residential side, basically if no one is looking at price appreciation, who wants to buy anyway? If you claim some of it down the line, why is anybody going to do it? We found even in markets like New Orleans and possibly Detroit -- we haven't seen it yet -- people would like to buy homes on otherwise couldn't, but if you can bring the price point down by making it a public subsidy and sharing, you get people in who wouldn't otherwise be in. That's a different benefit you can bring.

Scott Turner:
Any other comments or questions on the issue of sharing -- yes, Mary?

Mary Tingerthal:
Mary Tingerthal from the Housing Partnership Network. I want to say I agree with Mack on the need to address the question of permanent financing, take out financing for the borrowers. It is an emerging issue and one is stalling pipelines.

But a question that came up yesterday and Yolanda, since we have you here today I'm wondering if you're willing to comment. As we know, there's some technical issues with being able to utilize NSP dollars for things like guarantees for loan funds and such because there's questions about if those don't get utilized, which you hope they don't, then they cause problems with obligation or expenditure of funds.

I just wondered, do you see any possibility that there might be some relief in that respect either in NSP 2 or NSP 3 so that we can begin to look at more leveraging strategies with those two pots of money?

Yolanda Chavez:
The answer is yes. And we are hoping to issue guidance hopefully by next week on that issue.

Mary Tingerthal:
Great, thank you.

Scott Turner:
I think we'll move to another issue. This came up several times already from President Rosengren talking about a real focus on communities to Allan talking about trying to rebuild confidence in neighborhoods and maybe start with Yolanda talking about this. How do we take a more comprehensive approach in these distressed neighborhoods? We actually heard yesterday that the NSP process has resulted in a number of municipalities learning to target their CDBG. Does it tie with choice municipalities and other ways to work on tying programs together?

Yolanda Chavez:
We are. Part of what NSP has informed is the way we are going to be doing TA and CPT overall to our 7,000 grantees, including our continuum of care grantees. The way we were going to do it, our TA is titled 1CPD. What we are going to be asking the TA providers to do going forward is to really look at the grantees in a comprehensive way, to look at their funding resources so that they are able to really understand how to leverage, how to plan, how to target better and to also be able to give them the data that they need to do that. Part of the challenge is that for local grantees, you know, for local governments and housing managers and administrators running these programs, we need to, I'll be blunt, we need to give them political cover.

The local decisions are political decisions. You have professional managers, but you have council members and mayors. What are the tools that we could give them so they are making the right decisions on where they are targeting and how they are leveraging their funds? The only way to do that is give them the data that they need so elected officials understand where the needs are, so the data is public, so that when they have the public discussion on how they are targeting the money, people understand what they are making decisions on.

And to build the capacity at that level. One of the biggest surprises to me coming to HUD and working with the grantees is lack of capacity and the challenge -- I mean, in an environment where they are having additional challenges because of budget constraints, right? If we can help them instead of looking at their money as NSP and CPG and CDBG and everything else and understand how all of these funds can be used for importance closed property or multifamily for economic development, how you use these funds across the board in a comprehensive manner. That's our goal. If we can get to that point, it is going to be an incredible accomplishment. At this point, except for the large high capacity grantees, which you all know, New York, Chicago, Boston, L.A., Seattle, those are the outliers. The majority of the grantees, I mean, I was in Detroit yesterday and part of the reason I was there because we are starting a pilot with them to help them develop a comprehensive house and community development plan and formula funding and everything else they have available for the next five years.

Scott Turner:
Any of the other panelists want to weigh in on how to enhance our focus on neighborhoods?

Heidi Coppola:
I want to say one thing, we are focusing on the comprehensive strategy, but we haven't heard too much about the rental component here. It is important to focus on this because a lot of distressed markets were created for a lot more residents than they have today and a lot of people in these markets, of course, have been foreclosed on and they are not going to be owning a home in a the next year or two. I do think we have to focus on this. I have seen interesting models in terms of profit sharing or revenue sharing going forward in this space with joint ventures with servicers and with others, focused on the rental piece of this. I think that's kind of interesting because there's capacity for single family scattered site development in these areas and there's cash flow. It's not all about the appreciation on the property at the end of five years.

Scott Turner:
Great.

Frank Alexander:
What I would stress there, Scott, the decisions have to be so contextual. The concept of leverage that Mack is advocating, private capital leverage makes little sense if we are not dealing with the housing situation. If you are talking about loss of 30 percent of your population, you don't need to look at housing. You need to take out the housing that's there.

As we look at community restabilization, we have to be realistic about the forecast for the community in terms of population growth over the next generation.

George McCarthy:
It's interesting to think through what that means because I think one of the things that we need to be mindful of, say in the case of Detroit or Youngstown, places that lost 60 percent of their population now. Where are they going to end up, right?

So the kinds of strategies you have to engage in now, these are land use strategies and planning strategies that benefit some targeted neighborhoods if they remain, but they are going to have substantially different land use patterns for the other property, right? So one of the -- I think we are going to see some interesting things coming out of this planning process in Detroit. They've really already begun this process in Youngstown where they are thinking through strategies that don't take that fantasy path of saying: All right, we want to get back to the golden age when Detroit had 2 million people. We want to think about if Detroit has 800,000 people now. How do we keep it there at 800,000 or a million people and not decay to where it's half a million. Part of that is making the tough choices about where you place your investment and how you turn the rest of the properties into amenities. That's greening, other mechanisms that actually make the place more desirable to live in. This is really, really creative work and tough work and it's not, it's politically sensitive as well, but it's at the very different stage. Not about how you use your NSP money but how you marshal your local forces to think through that strategy and get people to bite the bullet and understand they are now at a crossroads, not about getting back to the golden past but about the future and which future they are going to cost.

Scott Turner:
Any questions or comments from the audience on the whole issue?

George McCarthy:
Catherine wanted to get on the leverage thing.

Catherine Gottschalk:
I'm Catherine Gottschalk with Self Help. We have been trying to play in this permanent financing leveraging NSP, providing the sort of end loan take out for a number of years now and Mack, I think your point about maybe it was just too early is I think a valid one. I also think, Yolanda, that there's some inherent challenges in using NSP 1 or 2, and I'm assuming 3, to provide permanent financing just because of the -- when you're trying to sort of do it at a level that is not very geographically targeted but rather leveraging nationally because of the lack of geographic flexibility. Also the whole issue of providing pool guarantee as opposed to specific loan level losses, loss reserves.

So basically just wanted to make that point that there is, you know -- I think that this is fundamental even where we have really tried very hard to provide the permanent financing, the take-out. There's the issue of if the alternative is free NSP money at 100 percent financing of that property, from the developer perspective there's really no incentive for them to take on debt that just increases their risk there.

That's one of the fundamental challenges that I think -- the point of only reaching 140,000 properties on a problem that is scaled to eight to 10 million foreclosures, I think the incentive will increase to revolve the dollars and generate more program income. We are not quite there yet.

Scott Turner:
Thanks. I want to be mindful of the fact that I proposals promised you could leave at quarter till. I want to give each panelist a minute to close. Somebody framed it yesterday that I wish we knew two years ago that we needed to -- think of it in reverse. Two years from now looking back to today, think what am I glad that we really focused on and really put effort into to really bring these programs and stabilization to scale?

George McCarthy:
I'll jump in. I think that, I'm going to be very happy that we invested in the Center for Community Progress. The reason I think so, Frank and I talked about this for long periods of time. If we come out of this crisis with kind of a new set of mechanisms to actually manage property locally, we move from the 19th century kinds of property management tools that we have to 21st century tools we will have come a long way. I think there's promise there. As Frank says, if we move from being first responders to epidemiologists, we'll find that communities are resilient because they have tools to be responsive when something goes wrong. Right now the tools in the property management, the tax flowers, the code enforcement, all those tools are not effective tools, but they can be.

Scott Turner:
Great, Frank?

Frank Alexander:
Two years ago what I will be rejoicing in is what we've learned as a result of Dodd-Frank for this field, for the data. Perhaps for the bureau, but certainly for the data. And how that has allowed us to really move forward with the systemic changes.

So that we're not simply stringing the wire between the posts that don't meet, but we are actually figuring out where the boundary lines are.

Scott Turner:
Interesting. Heidi?

Heidi Coppola:
I think I would look back and be glad for the level of collaboration between the public and the private sector, particularly on a community level. I think a lot of the servicers are coming to the table around particular challenges in particular communities.

And I think that that's really unprecedented to see the coordination the way we have it today on a local level.

Scott Turner:
Final word, Yolanda.

Yolanda Chavez:
I'm going to be very happy about the fact that we spent the time and the resources on building capacity at the local level because whether it's foreclosures or any other thing that comes to the cities, if we can increase their capacity to assess their situation and better target their resources I will be very happy about that.

Scott Turner:
Great. Thanks to you, the audience, for going the extra 15 minutes but join me in thanking this impressive panel.