REO and Vacant Properties: Strategies for Neighborhood Stabilization, September 2, 2010
Panel Three: Ruth Clevenger, moderator

[Pause.]

Ruth Clevenger:
I think we've had an excellent discussion so far. And I think the perspective from the industry was fascinating.

What you're going to hear now is the perspective of the people who have to apply for and use these NSP funds, so we're going to have a conversation about how this really works on the ground and how what you heard earlier today affects their success and what we might be able to do differently.

First we have Karen Leone de Nie who's going to talk about the system-wide NSP survey study. We're then going to hear from Terry Gillen with the city of Philadelphia, and then we'll hear from Andrew French who's at the other end of Pennsylvania in Fayette County. They're going to talk about their experiences with NSP. Then Amanda Roberts is going to talk about neighborhood stabilization policy issues. Now we all agreed amongst ourselves that what we've heard so far is pretty consistent with much we were going to say, which tells me we're onto something. We also want to allow plenty of time for your questions, your comments, your observations, and your ideas. So I'm going to start with Karen.

Karen Leone de Nie:
Good afternoon. I'm from the Federal Reserve Bank of Atlanta, but today I'm wearing a slightly different hat. I'm representing a Federal Reserve system study that is in the process of the analysis phase that started in 2009 and several of my colleagues from around the system as well as Enterprise Community Partners, who was also working with us on this study are in the room today. The collective knowledge of the folks here is pretty great. I'm honored to be able to share some of the early results that we have. But what I wanted to start and what I was asked to do was to answer the question of why did we tackle this project and what did we hope to learn from it?

And when NSP 1 was first announced, there was a lot of desire to gather information and understand local implementation, planning and implementation efforts. So we asked around and we looked at other partners that we had had in the past to see, was anybody able to take on the study now? Is this something that the Federal Reserve system could help with? What we found is that the resources were just not widely available from a lot of common organizations that do this kind of research to jump in and take a look at this. The Federal Reserve system with 12 banks throughout the country and community development expertise in all of those banks was able to leverage the relationships that we already have with communities that we work with on a regular basis. To kind of jump and try to get a better understanding of what was going on with NSP 1.

And in part we found this really important because we recognized with such a serious housing issue facing these communities and so many communities had never tackled anything of this scale before, for the community development professionals in these different localities, this was going to be a new task with a very short timeline. There was something unique about it. In addition to that, we recognized that even though NSP 1 had an 18-month window for obligating the fund, neighborhood stabilization was going to continue for a long time. So the lessons we could learn and share with others through doing this kind of study were going to be valuable for the years to come. Even though NSP 1 is come to a close very shortly, NSP 2 is on its way and NSP 3 and expectations that communities are going to be involved in these efforts for quite some time.

So what we did.

Beginning in the fall of 2009 we started interviewing and serving NSP administrators throughout the country. We talked to a total of 93 NSP programs in 26 different states. We recognized it wasn't a random sample we selected, but we did select a very diverse sample of large and small communities, some of which you're going to hear from today, to understand better what was happening in the different markets.

What I'm going to do today is share with you some of the very high level preliminary findings that we had heard and that are actually very consistent with what we heard from the other panelists in sessions earlier today.

So I'll go very quickly through it and also refer you to, in the black folders that everyone has, there is a brief write-up of these preliminary findings. The full study will be available in the next several months and will include not only kind of some basic quantitative analysis, but as well the sort of qualitative information that we gather through the interviews, which provide us with a much better context for what's happening.

The first set will findings is setting the stage for NSP or what was the stage that was set already for many of the NSP grantees. And the first thing is that we heard repeatedly that subprime lending was really the driver of foreclosure problems in these communities with some exceptions.

So with Florida, California, Nevada and Arizona, it was a steep price decline that was really driving their foreclosure problem.

What we also saw, though, is that when you look at NSP funding compared to what these communities had typically received in community development block grant funding as well as home funding, this was four or more times the amount of dollars that they typically received. The question raised by that is, with communities that have historically received community development dollars, they are able to develop the resources, the infrastructure, the partnerships and the capacity to deal with these issues. And communities that didn't have that ability to do that on the front end, the 18-month window could be a particular challenge for them.

The other thing that we asked the grantees that we had spoke with about is what kinds of activities did they have experience in that were NSP-related type activities before they received their NSP funding? And across the board we heard overwhelmingly that homeowner assistance and financing mechanisms as well as acquisition and rehab were the more common experience, sets of experience that the community developers came into the program with, but that things like only 19 percent of those that we had surveyed actually had previous experience with land banking, for example, which I think we are going to hear a little bit more about later.

We also asked questions about preparing for NSP and we asked questions about targeting. And we heard a lot about targeting in our previous panel. One of the things that the respondents told us in surveys and interviews is that about 70 percent of the respondents said they targeted the most dire, the neighborhoods with the most dire conditions, the places that had the highest foreclosure rates.

So one of the things that we'll be looking at going forward is, how does that play out in terms of the ability to actually obligate funds in a timely manner when you're dealing with those kind of communities as opposed to looking at maybe tipping point communities or other types of communities?

The other things that we had really looked at was that, how did they deal with the capacity issue? Recognizing again that many of these communities may not have had the capacity to deal with these issues, and so where did they look for new partnerships? And nonprofit organizations, 84 percent of our respondents said that's who they turned to to build that local capacity to deal with these issues. That was not the only group. They also hired new staff. They subcontracted with for-profit entities and other options, but nonprofits were largely the go-to partners to deal with NSP.

I want to move on quickly just to structuring NSP programs and what we learned in that is that acquisition and rehab is the dominant activity. That's no surprise. Acquiring properties was largely what NSP was structured, was somewhat intended for, and so many of the grantees were doing just that.

And then the other thing take we noted is that the grantees in many cases were undertaking activities which they did not have previous experience in. And that raises the question of, with such a tight time frame, developing that capacity and expertise in partnerships to learn new program, to develop new processes, it's something once again that we heard in our previous panel. It took a better part of the 18 months to get all of the parts of this mechanism kind of moving forward. And so I think that we hear that also from the grantees as well.

The last thing I would like to do is just refer you to an article that is in the compendium that you received today. Harriet Newberger, who is the lead on this NSP study from the Philadelphia Fed has an article that really looks at the acquisition and rehab component of NSP. And so it's part of this larger study and I think that's a good place to see some of the preliminary findings.

Ruth Clevenger:
Thank you.

Terry Gillen:
I'm Terry Gillen. I'm going to describe briefly how the program works in Philadelphia and some of the lessons learned and maybe policy implications of what we have been doing in Philly.

We are doing acquisition and rehab. And I would say the one main characteristic of our program, though, is that it's really a developer-based model. It's a model under which the developers really end up taking most -- taking the responsibility for doing the acquisition, the rehab and they take the market risk because they don't get paid frankly until they sell a property to a buyer. The somewhat good news about Philadelphia is that we didn't have as bad a foreclosure problem as many other cities. We do, however, have a significant long-term vacancy problem and we have a high poverty program.

So we were a little bit not sure how it would work, but we felt the market was strong enough in enough of the city that we would be able to sell these properties. That's turning out to be the case.

But it's a developer-based model. And we went that route for a cup of reasons. We felt like the developers had the market knowledge. We also, because there was such a short time frame, we didn't have the time to really do as much of the planning. I mean, we did do targeting. We targeted the high foreclosure neighborhoods, but we felt that the developers were really the people that were even more knowledgeable about the market.

So you know, it sort of -- it's sort of an opportunity-driven model. Right now we have 48 qualified developers participating in the program. I would say maybe a third of them are really not very active. The most interestingly, one of the findings for us has been the most active and successful developers overwhelmingly have been the for-profit ones and not the not for profit ones. I don't know if that says something about the not for profit community in Philadelphia, or what, but that's interesting. We are finding that the not-for-profit developers can't move fast enough and turn the houses around, frankly, quickly enough. That's been interesting for us.

I'll make a couple of other points. I'll give you a couple facts about the Philadelphia program. So far we've committed about $24 million in state and HUD money to the program. We are fully obligated as of a couple weeks ago. We've expended about 40 percent. We are going to end up doing under NSP 1 about 90 houses, row houses are the basic, you know, housing stock in Philadelphia. We'll do about 85 units of multifamily housing as well.

Average purchase price of our houses is about $65,000. And the average subsidies running also about $65,000. And the subsidy ended up being much, much larger than we anticipated when we started the program, basically because we just found that the houses needed more work. Lots of times they had been sitting out there longer than we would have liked and so they needed more work. Partly it was sort of all the requirements between the lead paint and the new systems and so we ended up doing fewer houses than we thought we would when we started the program because the subsidy ended up having to be larger.

I'll make a couple quick other points.

In terms of sort of policy issues, one of the things that's good for us about NSP in Philly is that it has forced us to do a little bit of strategic thinking and a little bit of planning. We have been doing a lot of our work in not necessarily the worst-off neighborhoods of Philadelphia. Those neighborhoods got the lion's share of funding under the previous city administration. And our funding has been going to the next tier up. It's sort of interesting because it has changed some of the neighborhoods that we're working with in Philadelphia.

I think one of the good things about our program is that we really did hit the ground running. The first person I hired was a laid-off banker. Because I don't know anything about banking. So then I heard the rest of my -- I hired the rest of my staff. I should give a shout out to my folks here and John Carpenter back in the office, because they are the folks who do this program.

In response to Harriet's paper, I'll make two points. On the environmental review, we are in some ways fortunate because our office of housing already had a relationship with the planning department so that we could turn around -- we turn around environmental reviews in four or five days because they've got somebody that they actually have at the planning commission who is paid for partially out of CDBG money. That's how we were able to do that. Harriet flagged that for a lot of cities. If you are thinking about that, think about that.

We do do -- don't do the acquisition. The Redevelopment Authority, which is my agency, is burdened with regulatory restrictions not the least of which is every acquisition and disposition has to be approved by City Council. Yeah, welcome to Philadelphia. Our staff figured out a way to finance the acquisition and the loan to the developer, but we actually don't take title in Philadelphia, which is sort of interesting.

I have two minutes left.

I'll give a shout out to the trust because we were part of the first look program, and we did find that before the first look system was in place, it was really a nightmare for us. After it was in place, then we really started cranking through. We probably looked at 900 to 1,000 properties as part of that process. We were delighted when Secretary Donovan announced that was going public. And I think that's it. I think those are my main points.

Andrew French:
Okay. My name is Andrew French. I'm the Executive Director of the redevelopment authority in Fayette County, Pennsylvania. Many of you may not know about Fayette County, Pennsylvania. It's not Cleveland and it’s not Philadelphia, but it's somewhere in between.

I'll give you a little bit of background. I have just a few slides here. We are located in south western PA, about an hour south of Pittsburgh. We are a rural county, about 150,000 residents that live there.

Pennsylvania is somewhat unique, like in other parts of the country in that our government systems are pretty fragmented. I have one county and I service the whole county, but there's 42 municipalities in the county that we work with. It's 800 square miles in size. So it ranges from kind of a suburban type of feel in certain locations to a more rural feel and more mountainous feel.

Every time I come to some of these conferences we talk about blight and we talk about foreclosures. I'll put a plug in. Fayette County has some wonderful assets. We hope you all will come and visit Fayette County. It's home to a five-star resort, some of the best whitewater rafting on the east companies. Ohio pile state park that plays host to 1.5 million people visiting, we have two Frank Lloyd Wright houses, Falling Water and Kentuck Knob.

Now I'll talk about some of the negative stuff. We were on the forefront in Fayette County regarding the neighborhood stabilization program. I actively participate with our national association of housing and redevelopment officials, NARO, serving on a committee. I really followed the evolution of the National Stabilization Program from its infancy all the way through passage. We were actively participating with the state as well in terms of how they were establishing their policy. Pennsylvania received about $60 million in NSP funding that they subsequently awarded out to 33 different grantees.

We were one of those 33 grantees.

We received $1.8 million in NSP funding and a couple weeks ago the State actually came back to us and awarded us another $600,000 in NSP funding because we were doing such a good job at obligating.

Last month's report actually with our NSP and then reusing the program income, we were actually about 120 percent obligation rate because we had been using the program income that we generated.

Fayette County as I mentioned is rural, but it's also a little bit depressed. It's got some drastic challenges. We are actually third in the state in terms of subprime mortgage rates, 38 percent. There are some census tracts within the City of Uniontown, which is the seat of Fayette County, where the subprime mortgage rate was actually 60 to 80 percent.

We were able to find out that about a third of those at the time we made our NSP application were actually in some rate, they weren't current. They were actually in some rate of foreclosure.

We also have, since we are an older community, we have a lot of vacant properties, about 10.5 percent of our housing stock is actually vacant and 50 percent of that number has been vacant for two years or more. I know earlier we heard some folks mention about Boomburbs. I like that phrase. Our boom was actually probably about 100 years ago.

[Laughter.]

Andrew French:
Our bust probably took place starting in the 1970s, '80s, and '90s. Then we sort of somewhat stabilized in that we're still depressed, but we didn't see a huge peak like in Pennsylvania and rural areas. We didn't see the drastic increase in home prices or the drastic increase in construction.

So we are depressed, but at least we're realistic about it. We can admit that we're depressed, I guess. We are not fooling anybody.

Just quickly, I'll throw out some of the highlights. Again, remember, we're a smaller area. So I can't compete again with Philadelphia and Cleveland but that we've heard about, but we did a multipronged approach like so many communities. The first approach we did was new construction. We actually pre-NSP had identified some properties that had blighted structures on them. We used some other funding, whether it was through CDBG or through our affordable housing trust fund to actually purchase those properties, deal with the blight, so we had those properties already acquired and assembled. We worked with a local nonprofit group in many of these we worked with them. They are a certified development authority housing, a CHODO. It helped us, what we do, while we directly implement a lot of programs, we do serve best as the banker. As you know, we kind of make sure that everybody complies with all the rules and regulations but we kind of like to hand off the funding to the nonprofit to actually do some of the single family housing work.

So we were able to construct five properties. I'll mention two. We targeted our NSP money to three specific communities: Masonville and cities of Connellstown and Uniontown within the county. We did that for a couple of reasons. We had the mapping, knew where the foreclosures were at and knew where the tipping point neighborhoods were at. We knew where the worst of the worst were, and we knew where we could have an impact by doing a handful of houses. We were able to construct five properties. We have six properties currently under construction using a combination of the NSP program income and the additional NSP funds that we're getting. The average NSP investment is $139,000 per house. The average appraised value is $150,000 per house.

We did acquisition and rehab. Again, this kind of shows the tipping point neighborhoods that I referred to. This particular house, and I think -- I don't know if that light's up. The aerial view is actually the large structure that is in the center of this block. This block was relatively stable. It's primarily home ownership, but this property had been in foreclosure for an extended amount of time. So that's why we targeted that particular property. We did that with all of our acquisitions and rehabilitations.

We've done, as that slide indicates, eight properties through that, with the average rehab cost of being $58,500 total NSP investment of $96,500 per house. We've also done demolition and blight abatement. We've completed 23 properties. We have another that are 15 properties pending.

That's my last slide, to kind of send home the fact about blight abatement. Because as I said, we're an older community, a rural community. That's probably the number one challenge that we face as you travel throughout Fayette County. You go through a lot of smaller, different communities that have been blighted for decades. Definitely in need of additional resources, consistent substantial resources to address that blight. That picture actually is of a little Borough called Brownsville. All of those properties when you see the panned out view, all but one is vacant. As you can see, it shows one of the exterior of the buildings, beautiful architecture. If you take a look at the inside, not so much. Yup.

Amanda Sheldon Roberts:
Well, one of the privileges of being the last person on the last panel of the day, I heard everybody who's come before me. My assignment for today was to give federal policy lessons on NSP. I noted that a lot of people had policy lessons on NSP, many of which overlapped with the ones I prepared. That means I can breeze through and go to Q&A, and also I think that drives home the fact that NSP has been a uniquely policy centric program, and I mean that at the federal level. I mean that at the local and the state level. And that everybody who is engaged with NSP in any way, shape, or form is thinking about the policy implications, how we need to tweak policy here or there to try to get this to work better, whether it's actually to get NSP the program to work better or get our end results and stabilize our neighborhoods and have that work better.

One of the lessons that I have had going through this whole policy in the DC federal centric NSP world. Though it hasn't been easy, it has been easier because we worked together. I sit in a public policy office in Washington, D.C., but I talk almost daily with people on the ground who are running the NSP program or certainly at least the other people on my team at enterprise.

And everybody is in communication, and everybody is thinking and working together and figuring out how we can do this, partially because it was hard. It was hard to figure out what was in the notice, and partially because it was necessary.

We have the task force, the national foreclosure prevention and neighborhood stabilization task force that is important in this face and it has 250 members and many of you in the room may be members. We meet regularly once a month, talk about the issues and advocate for these issues.

Whether it's the task force per se or many of the people involved in this, I think one of the real successes of NSP is that we have had a lot of receptiveness from Congress and HUD. I look around the room and I know some of you in this room are from Congress or HUD. I think a great big thank you. Despite the fact that I call you with more asks, the truth is that we've gotten a couple of major technical fixes through Congress. We've gotten a lot of corrections to come out of HUD, whether it was just new definitions or bridge notices or policy guidances or those sorts of things, that this really has been a collaborative process with people willing to work with us on all fronts to make this happen. Then, of course, the other group and that was the panel before us that has been instrumental in working with us to try to make this happen is those in the private sector and banks and servicers and the industry as we developed the systems to have this program work.

So with that, again I think one of the most important things that we have developed here are the relationships and the systems. Again I don't want to talk too much about this because you already heard this point. But whether it's what happened in the major financial institutions to help make this program work, whether it's the data systems you heard about in the morning, we really have kind of developed a whole new lexicon, whole new relationships. It's sort of a joke that you come to these sorts of convenings and it’s a little like old home week where, oh, I saw you at the last living cities thing or the last time the Fed did this, but it's true that this has been wonderful in the sense that there's a lot of continuing collaboration to make this move forward.

But having said that, I think some of the problems with NSP were that it was certainly a product of its time. And by that I mean when it was created in mid-2008. That may not seem so long ago in calendar years, but in terms of foreclosure crisis, it certainly was. We've already talked about how one of NSP's major failings, it was created at a time when there was mortgage credit and we assumed there would be demand out there. We assumed that we would give localities houses, they buy up houses, make them pretty and somebody will buy them. There will be a market for that. We all know that's not always the case, not every market, whether through mortgage tightening or depressed markets as a whole, we are not seeing that. Localities are suffering under the weight of the beautifully rehabbed homes that they own but cannot sell.

One thing that Rob Grossinger mentioned a few moments ago that we’ve been talking about is that we have been talking about, maybe we need to create federally backed that are targeted to these NSP neighborhoods. We will have put $7 billion of federal funding into these census tracts. You can pull them up on the website. You know exactly where they are. Maybe we need to start putting some mortgage credit into those neighborhoods. Attach it to counseling. Put income certifications, perhaps total purchase price limits, all of those sorts of things, but ensure that we do have a market, we do have credit mortgages for those who are willing to buy those properties.

Another thing that NSP was a product of its time in is that it was created before the other slough of now familiar government acronyms. HAMP, HAFA, HARP, the emergency mortgage relieve program. All necessary, all important, but not always working in coordination with NSP. We just heard again about how services were told to institute foreclosure moratoriums. At the same time, you had NSP grantees out on the ground being told go boy foreclosures. Before we had the definition, a foreclosure was a foreclosure and you had no wiggle room as to how you might be able to access a short sale or a deed in lieu property or something to that effect.

So you know, I think the other, the last thing I'll throw out here because a number of things I was going to say have been said but we can continue to talk is that we have heard a lot of talk about low capacity NSP grantees. Yes, they exist, but I think there's a couple of things for federal policy going forward that we should consider.

One, we heard about this at the beginning from Karen that some of these were grantees who were accustomed to a small fraction of the funding they got from NSP, and they were given $18 million to spend in 18 months when they are accustomed to having $1 million. They didn't have the capacity. There was a huge need for capacity building. We've certainly seen a ramp up on technical assistance coming from HUD formally or through intermediaries like ourselves or neighborhoods or LISK.

It takes time to develop this, to develop the whole new systems, to find and interpret the regs, learn a new language to talk to the banks or the trusts or what have you. The other thing -- I see I'm getting one minute -- one other thing, we talked about the Boomburgs, these are geographically new areas that didn't have the community development structure. We need to think about that going forward as to how we can help these localities build that capacity before we burden them with this large sum of money and a short time limit. So thank you.

Ruth Clevenger:
Thank you.

I would like to open it up to all of you now. Surely you have questions, comments, your own experiences with NSP that I think would be of interest and that perhaps this panel can respond to?

Mary Tingerthal:
I have been a little surprised today that there hasn't bench discussion -- maybe this is the right panel -- about the sort of Faustian deal that we have had to have for the last 12 months or so where it was very important to obligate the dollars in order to prove that the NSP program would work, while at the same time the push to obligate dollars really has resulted in a fairly low level of leverage of those dollars.

It was music to my ears to hear the servicers pleading for more leverage from the program, but what I would like to hear from this panel is, do we really believe that HUD will hear that message, can in this political environment listen to that message and really make a change in encouraging the leveraging of NSP dollars to have more impact?

Ruth Clevenger:
Could we also have your name and organization, please?

Mary Tingerthaul:
Mary tinker sol from the Housing Partnership Network.

Ruth Clevenger:
Thank you. Who wants to start?

Andrew French:
I'll mention, maybe we haven't done the level of leveraging that we would have liked to see, but I know in Fayette County we have leveraged. Whether that was using our local again affordable housing trust fund to purchase the properties, using CDBG funds to demolish the properties. Many of the properties both in new construction as well as in the acquisition and rehab obviously were selling those properties. We are going out and actually getting private financing either through a traditional lender or through USDA as an insured lender.

Typically, we're seeing 60 to 80 percent of those funds come back to us in the form of program income which we are reinvesting.

Amanda Sheldon Roberts:
I think you know this, Mary, but in some respects it is going to get worse before it gets better. Those of you involved with NSP 2 know the statute says you have to spend, not obligate, but expend 50 percent in two years and 100 percent in three years. That's turning into a nightmare situation because that includes program income. There's perverse incentives to go get rid of this money as quickly as possible, even more NSP 2.

Having said that NSP 3 stripped that time period. Statutorily there is no time period. We heard from HUD they might institute a time period. What is working in favor of all of us is the comments we've heard a lot today which is that systems and relationships have been developed. As we go through this, into 2, 3, and who knows where we'll stop, that there's just more communication between foundations who have money to leverage and banks who have money to leverage and intermediaries thinking more creatively and those sorts of things.

Ruth Clevenger:
Is there another question? Over here?

Karen Griffin:
Hi. I'm Karen Griffin, and I'm from St. Ambrose housing in Baltimore, Maryland. I missed my opportunity to address this question to Secretary Donovan, and that has to do with the NSP 2 consideration of nonprofit developers as consortium members and, therefore, not eligible for a development fee. And this, where not-for-profit developers can make as much money in a development fee as they can, nonprofit developers who often depend on a capped 15 percent development fee cannot actually get that under NSP 2. And it is part of our economic model, which could have some impact on the fact that nonprofit developers have not been successful in Philadelphia. And I guess that's more a comment than a question, but I really needed to say it.

[Chuckles.]

Terry Gillen:
I'll clarify the one point you made which is that, I was only talking about NSP 1, and in Philadelphia, we give for-profit and nonprofit developers the same fee. So that's not the reason nonprofit

developers in Philly haven't been as successful. I don't know what the reason is, but that's not it.

Amanda Sheldon Roberts:
What I would add from a policy perspective, we are very aware of it and have been working on it, communicating with HUD on it and trying to find ways to make this work. You're absolutely right, a number -- we estimate about 100 nonprofit organizations around the country -- were blind-sided by this. Either they didn't know or didn't guess and there's some gray area as to what extent they should have known, but trying to find solutions to make this workable for the developers who, you're absolutely right. You have to pay your salaries, you have to pay for the lights. And HUD and their regulations and, it's based off of CDBG and we have thousands and thousands of pages of regulation that we have to work through, and how we can, at the end of the day, make NSP 2 work. I certainly heard that there's nonprofits around the country who are saying, I'm not doing this, I'm backing out, that's it. If we can't make this happen because of one regulatory hurdle, we have to have some real serious conversations.

Ruth Clevenger:
Over here.

Jim V:
Hello? Yeah.

I'm Jim Vitarello with GAO. I'm a housing specialist there. I'm wondering, I don't know the NSP rules that much, but can you use NSP fund to provide soft seconds to homeowners and to affordable housing rental developers? If so, have you tried using it to both increase the availability of conventional and maybe even FHA funding and also provide somewhat lower rates because you're providing lower loan to value ratios?

Ruth Clevenger: I don't know the answer to that. I don't know. We have not done that. So ... Anybody in the audience know the answer to that?

Female Voice: The answer is yes, you can.

Terry Gillen:
No, we haven't.

Andrew French:
We have not. In essence, I think our -- because after we actually either construct the home or rehab it, you know, we are actually providing some additional financing incentive when we sell it to the first-time home buyer, or to the home buyer. It actually turns into a portion of it, we'll use up to maybe 20 percent that will turn into a deferred loan for that homeowner and then they'll have to finance 80 percent of it through a traditional lender.

Jim Vitarello:
Does that increase your financing under ... (Off microphone.)

The availability of financing?

Andrew French:
It has. I don't think that we really saw that big of a difference in terms of the financing through some of lenders we work with. Primarily all of the new construction we go through USDA. The acquisition rehab station, we've gone through some local lenders and they have been willing to participate. It definitely made our funding go a lot further.

Karen Leone de Nie:
One of the things I'll also add to that, talking to several grantees that on the front end when they were coming up with their NSP plans and brought in the typical, who would be providing the typical mortgages to buyers down the road, when they had those people at the table early on and crafted an NSP program that actually kind of matched what the lenders were going to be able to support, they seemed to be having more success.

I'll say, and I'll add to that that as conditions have changed, it still seems like credit is tightening more. Even in those places where they did have those early conversations, they are now running into hurdles of getting that type of financing going forward. They had some real initial success because they had conversations early on.

Male Audience Member: I'm with Montgomery County, Maryland. It was mentioned earlier the issue about program income. How much thought is being given to changing the rules on program income? It does really stifle the creativity that we are looking for in terms of leveraging. We, to avoid giving money back, have decided to use all of ours for rental housing. So that our housing is already, can house their three and four bedroom families. If we had the opportunity to use that program income in a revolving way over time, we would have done it in a different manner.

Amanda Sheldon Roberts:
You're talking about NSP 1? There are some differences between NSP 1 and NSP 2. That's what we were alluding to earlier in terms of NSP has to be expended. As a whole and maybe people who know it in the audience better than I do can add, but it is my understanding you can continue to use program income. You have to obligate. That's what everybody is talking about, the 18 month obligation. That's a one-time thing, but the program income can continue -- program income can continue to be rolled over.

Male Audience Member: (Off microphone.)

Amanda Sheldon Roberts:
No, I believe that has been stripped, yeah.

Ruth Clevenger:
There's a question over on this side of the room.

George Hoffman:
I'm George Hoffman with Manna here in Washington, D.C. We’re a nonprofit developer, and have our own mortgage company. I would like to thank, is it Amanda who issued the issue of demand?

Unless there's sufficient demand, the program won't be ultimately successful. That isn't discussed much. But with one suggestion you made regarding a mortgage product. It does exist and it can be just a regular FHA loan that has greater leverage that has a very low down payment requirement. That's what we think will work. Also to get rid of, or certainly reduce the severity of the resale restrictions, because that turns off good quality buyers.

Thank you.

Terry Gillen:
I want to piggyback on that. We are having problems getting mortgage financing in part because of the affordability requirements. We have a lot of banks that are sort of still trying to deal with that. So that is a problem.

Ruth Clevenger:
Andrew, what do you see in the way of demand?

Andrew French:
Well, again to qualify, we are dealing in our case with a small number of houses. It's only eight homes that we've acquired and rehabbed and another dozen that we will actually construct. So I don't know that we've really been impacted by not seeing -- by seeing a huge drop in demand. I think the amount of units that we produce on an annual basis through this program really meets the need.

Again, you know, with the other bonus, I guess, with the NSP requirements is if you don't mix it with CDBG fund, you can go to the higher income level as well. I think we found that beneficial to us to be able to attract. So even though we did have a drop-off in some of the private construction folks that were building units, maybe between $150,000 to $250,000, I think we have been able to actually show them a product that when we're done appraises for $150,000 attract those higher income families.

Carolina Reed:
Carolina Reed with the Federal Reserve Bank of San Francisco. Maybe this is to Karen and Terry if you have experience in your markets. We are finding after the nonprofit purchases and rehabs the home, the home is well above the sort of market value for the neighborhood. Even though the home is much higher quality, buyers are choosing to buy the unrehabbed homes for less money and live in that cheaper house for the buyers who do have money. Do you have the same thing? Are you really able even after rehab to offer an affordable home?

Terry Gillen:
Yeah. We are not -- I think one of the things that we do at the outset when we talk to the developers is, we have a lot of dialogue with them about whether the house can be rehabbed and then sold for what is a reasonable price in that market. So we actually are having sort of a similar conversation yesterday because we were talking about how our houses are often the nicest house on the block. You know, are we over-improving it in the sense that we could get more houses done if we didn't do so much? But we don't think we are, but it means that we're subsidizing it with a bigger number than we would like. But in fact, our houses are often -- they haven't been sitting that long. People are buying them. As I said, we are running into this mortgage problem that we hadn't anticipated, but people are buying them. We think we're pricing them right. We reject a lot of houses. I mean, we have

probably -- we probably reject four out of every five houses that we look at because we, one of the reasons is, we try to hit the market properly.

Karen Leone de Nie:
In most of, the in depth study I've done has been focused on Georgia and Florida even though the earlier reports I quoted were national in scope. It's a very mixed story in terms of the price of those properties going forward and their ability to sell those properties. There are definitely communities in Florida that have, because of the way they targeted their investments and where they are doing their work, I would say that this tends to be more not inner city types of investments, that they have not run into that problem as much.

I'm kind of talking kind of generically about this. In some of the -- the grantees that have target areas in inner city areas, frankly, they're just kind of getting off the ground now with sales, and we're just starting to see -- recently I attended the City of Atlanta's first NSP home sold. We're just now starting to see what that market is going to look like. They are already running into challenges in terms of the financing side. But I'm hearing repeatedly, and we've heard it on this panel, they're sinking more subsidies into the homes than they anticipated.

Female Audience Member: In your district? Because that's what we are seeing. We're seeing a lot of green rehab and the popularity of green and the homes just aren't selling. We have six beautiful properties in Oakland that can't find any buyer whatsoever.

Karen Leone de Nie: So early on we took at look at what NSP grantees were really focusing on green development. The numbers were surprisingly low. I think it was what I'm learning now as the program went forward, it was just under reported at the time. Because I think there's a lot of nonprofits who have already kind of advanced towards some of the green building strategies. That's in place in the City of Atlanta, for example. They have worked with south face and earth craft communities to establish standards of green for their rehabs. Frankly when you look at the markets for these properties, there's not a lot of talk of the green features of them. So I don't see at least in some cases, I don't see that as a marketing strategy for the properties.

George McCarthy:
My name is George McCarthy, a.k.a. Mack from the Ford foundation.

This is for Amanda. We talked a lot today about trying to facilitate the conveyance of properties from whomever he is holding them now to the NSP grantees. I'm wondering to what extent have you seen that that is actually the problem for NSP grantees to be able to actually allocate their money? Is it their inability to transact on properties or is it something else? It seems to me every time we think we know what the problem is, we are usually wrong. And I'm not saying that -- of course, the infinite wisdom of the National Community Stabilization Trust is profound, but is it the problem that people confronted in NSP 1?

Karen Leone de Nie:
One thing I would say to that, I don't know that any of our assessments of the problems have been wrong. It's just that the problems keep changing on us. So when we were out surveying communities and interviewing communities at the end of 2009, we heard repeatedly the difficulty that the grantees

were having in identifying properties, identifying servicers, actually making a connection, negotiating the discount, that all of these were really serious issues and obstacles and that they were losing out to investors who could quickly make those transactions. That problem when you talk to grantees as they've progressed, that problem seems to be diminishing. That they are figuring out that process and that that's not the main problem and for many but not all communities, the problem is now the financing, the demand issues.

And the truth, though, is -- I think Amanda and I had this conversation several months ago, is that because the issues of foreclosure are so diverse and the community capacity and resources are so diverse that there's almost impossible to have a one size fits all categorization of the problem or the solution because I have seen communities who've overcome all of these problems in different ways. It's because they just have this unique set of assets that they can draw on to make that work whereas other communities never can pull together that unique set of assets and need the technical assistance and mentoring and partnerships with the successful communities to overcome the ever-evolving set of problems that will happen as we try to stabilize the communities.

Amanda Sheldon Roberts:
The only thing I would add, initially it is whatever you call it, the servicer or banker, and Karen said they got over the hurdles, or some of them remain and just are the nature of federal funding. I have to do environmental reviews, I have to put a contingency in. We have the tenant form that everybody has to sign that says there is not a tenant there or they complied with the law. Those are tripping people up, but are they stopping people around the country? No. We continue to hear about that when it comes to the acquisition problems. Even when you're doing first look with the trust, there's still those kinds of things that will get in your way.

Andrew French:
I'll make mention again from the perspective of a small community that dealt with it, early on we did a tremendous amount of research to try to track where all these foreclosed properties were at. That involved sending a staff member over to sit down with the recorder of deeds and hold the hand of the sheriff's department and look at the information that they had. We looked at it over a period of two years prior to the date that we submitted the application. Then what we found is, out of 300 properties that went through foreclosure, we had 125 still owned by financial institutions. When I looked at the list, there were 75 different entities that owned those 125 properties. Our experience again, just talking to some of the colleagues and maybe it wasn't correct but it worked for us is, we weren't going to bother with the banks. We knew everybody else was having headaches at that time. Again we are in a smaller community. There's only a handful of realtors that deal with foreclosed properties and, by golly, I knew who they were because I went to luncheons with them and Rotary Club with them and you knew them personally. We were able to form the relationships with the local realtors and that seemed to work out best for us to be able to acquire the limited amount of properties that we needed to acquire.

Ruth Clevenger:
Any final questions? There you go.

Male Audience Member: One quick question. With all the collective experience up there, if you think about it, NSP 1 and 2 were supposed to be, they were parts of a stimulus bill. The money was supposed to hit fast and do something very quickly and stimulate the economy and fix markets in and all of those things. Was it wrongly placed in that bill? In other words, clearly it's not something that could have done something in three months or six months or nine months like putting a road in or doing something like that. Was it placed wrongly in the bill or could you think of ways it could have been written differently by Congress and interpreted by HUD so it truly could have been effective to get that $6 billion out and put it to work and have that stimulating effect?

Amanda Sheldon Roberts:
Interesting question. I guess I'll take a stab at that.

Differently.

First of all, I think NSP was very narrow. There were five eligible uses and in many respects that created national tunnel vision and everybody tried to figure out how I can do my five eligible uses without thinking about all of the other comprehensive aspects of neighborhood stabilization. So code reform and mortgages and those sorts of things. But that's sort of counter stimulative because I am telling you to give me more time. So I think maybe some of the ways that we could have done this and when we got there eventually in April 2010 was around the issues of abandoned and foreclosed. A lot of people got tripped up by the fact you had to have a legitimately foreclosed property where foreclosure proceedings finished and the note already transferred. Meanwhile there were enough foreclosures on the market, certainly not in your far get neighborhood or price range and all those sorts of things.

If we started back then in 2008 where we are now with the new definitions where you just have to be delinquent, short sales are possible. You can have abandoned properties. You can have vacant properties, that it's just a wider universe of properties. I think that would have been a huge start right there. My perfect world would have seen more waiver authorities used when it came to environmental reviews and those sorts of things. People from HUD or Congress in the room can probably chastise me and say some of that is written in stone and can't ever be changed, but it really did trip people up a lot. I also would have used a little bit who are of an intermediary approach. I think we've heard a lot of praises of the trust, and one of the biggest successes is that they were an intermediary that had a national perspective, national relationships and national scale. It took the trust a while to reach that point, I know. Again we have heard about these low capacity grantees who got 20 times their annual CDBG dumped in their lap and didn't have the systems or know how to deal with that. If we had been ready with some TA and intermediary capacity support nationwide to begin with, that would have helped significantly as well.

Ruth Clevenger:
Anybody else?

Andrew French:
I'll just say I guess the regulations -- I always look at them, they are what they are. As somebody who started their career when the home investment partnership program started and seeing all the workings that that took to implement, I basically, take them for what they are. We'll deal with them, get the money out on a local basis. That doesn't mean I'm not happy when they make the tweaks and changes that makes our lives much easier. As I alluded to in my slide, our problem is the lack of substantial

consistent resources to deal with some of the problems that at least we have, again in a more rural area that has a tremendous amount of blight that has existed for decades.

To the extent, and that goes back to the point of some of the low capacity grantees, I don't think we're a low capacity grantee. I think we're a pretty high performer, but if this were more substantial, consistent resources available to deal with some of these issues, I think you would see the capacity of the grantees obviously increase as well. And there is a huge demand. I keep asking when I attend all these meetings with state and federal officials just to write me a check for $250 million I could take care of all the blight that exists in Fayette County, but nobody has written me a check yet. The Secretary is gone, so ...

[Chuckles.]

Karen Leone de Nie: The only thing I think I would add to that and it follows up on what Andrew was just saying is, and something that Carolina was saying earlier is that the way that we have, communities have developed more recently have been these Boomburbs that don't come with a set of infrastructure to support them, and yet what is happening with NSP in some regards is building at least some of the foundation for community development going forward and some more expertise in some of these places that did get hard hit by foreclosures. So I see that as kind of a positive. And the other thing I think I see is that just the whole industry communications. I know Amanda already said this, but this whole industry of development, communicating with each other and starting to understand each other's limitations as well as abilities, I think has been, is growing over time, and that seems very positive.

Dan Kildee:
That actually that ties to the question I intended to answer which follows a little bit up on Ira's point, Dan Kildee with Center For Community Process. I used to be a public official back in Flint, Michigan. Moved here. The question I have is whether or not some of the promise of NSP, and this particularly would relate to 2, has been realized in terms of not the leverage, not leveraging capital but, but regulatory changes or the production model that we have in communities. Has that changed at all in your place? And do you think for those of you who work in lots of places that there are some things that still could be done as we go through this process that would help make NSP, if there is only a 3 and not a 4, 5, and 6, have a longer life in terms of changing the way we conduct business, some of the system hurdles that perhaps we have been able to push through with this process, having a longer life to them? I'm curious about that.

Karen Leone de Nie:
Yeah, it's an interesting question. I can give you a partial answer. I would have to think about it really. It certainly has changed a little bit of the way we've approached our community development implementation in Philadelphia because, as I said, in the previous administration they had really for whatever reason directed all of their, most of the community development money to the very poorest neighborhoods. And we used NSP partly because it's where the foreclosed, the high foreclosure neighborhoods were. It was not the poorest neighborhoods – it was the next tier – it was obviously where there was -- partly because there was other language in the NSP regs and grants that we used to say to some of our recalcitrant council members and other people: Hey, we've got to do what we think makes sense, which is to hit these neighborhoods that really are on the verge of turning. Those

are the neighborhoods that we think make the most sense and where we should be putting our money. That's where we've targeted NSP 1 and NSP 2.

For us we have been able to use it to really do some rethinking of previous strategy and to do some basic planning, which had not been done sufficiently in Philadelphia previously. I would have to think about the systems thing. I don't know about that. So that's a good question. I'll think about it.

Amanda Sheldon Roberts:
Honestly, I don't think we will be getting 4, 5, 6, 7, although I think we should go look at Amanda Fischer over there. What we can take about this at a national federal policy legal is to think about how NSP focused the question on neighborhoods. The fact that we saw the word land banking in a federal statute, yes. The fact that we saw demolition as a legitimate neighborhood stabilization strategy in a federal statute. Though we are going to see NSP dry up, and I think we all want that. We don't want NSP 25, right? We don't want to continue to have to use federal resources to stabilize our neighborhoods because quite frankly we want our neighborhoods to be stabilized, but I do think we can take those lessons and that focus on neighborhood and put it into other programs. So an easy one might be CDBG. We all need to be talking, using the advanced data systems we may have developed or vacant property registrations to inform CDBG targeting decisions. We need to be using NSP and thinking about land banking and demolition to inform other resources, whether again it's home or CDBG. I know I used that example, but continuing to think around this neighborhood focus and this again, whether it's tipping point, whether the neighborhood start a tipping point or whether we are targeting our resources enough to make them tipping point.

Ruth Clevenger:
Time for one last question?

[There is no response.]

Ruth Clevenger:
Clearly there are a couple of themes that emerged from this panel but also from the day. We heard again and again talk about how important it is to have effective partnerships, a shared vision and strategy. We also know only too well the enormity and complexity of the problem. What we haven't talked much about but I think is an undercurrent here is in this current economic and political environment is need for a quick fix, and so I would like to ask each of you perhaps to close with your summation of what is reasonable to expect from a program? And some of you have touched on this a little bit, but what is reasonable to expect from a program like NSP? What are going to be indicators of success? What measures are we going to use? How is that going to support those longer term neighborhood stabilization policies and infrastructure, to what we're talking about five or ten years in this room, five or ten years from now.

Karen Leone de Nie:
One of the things very early on when we were talking about the Federal Reserve system study on NSP was asking the question about how were grantees going to evaluate their own success and I think it started a real internal conversation about what does success really look like? We have not, you know, looking through all of the data, we haven't really jumped on that question yet, but you know because of the media attention, a lot of definition of success has been in obligating the funds right now. What I

would say from the communities that I've seen kind of progress from the early stages of NSP until today is that the ones that appear to feel successful in their programs right now are the ones setting in motion something that is going to be a longer term strategy for stabilization and those that recognize that they need to put the systems in place, partnerships, working with code enforcement, with schools, law enforcement, with others to go down the longer road of stabilization and neighborhoods, and so those that probably are seeing NSP as the catalyst for an ongoing strategy seem to be the successful ones.

Terry Gillen:
I would piggyback on that and say that's certainly the case. In Philadelphia, I think the extent to which NSP has, it's done two things. One, it allowed us to go into neighborhoods that we hadn't gone into before that really needed some attention and some financing. Now we are in these neighborhoods building some capacity and I think that's going to be really important for the city. It's critical for the city's overall success that we focus on some of these neighborhoods. Also that we, I think as Amanda suggested, that we incorporate some of this into our CDBG planning and CDBG thinking. We are starting to do that. NSP 1 we were all racing against a clock and just sort of get the car, get the ignition turned on and get the car running. NSP 2, we are already being way more creative and collaborative, leveraging, bringing in other resources, have other agencies at the table in a way that we felt we couldn't with NSP 1. If that becomes the basis for how we feel about community development in Philadelphia, it will be a huge, a huge success from that perspective.

Andrew French:
Well, I guess that's one of the benefits I have of being like a local practitioner is that I get to see the success every day, so I get to see the immediate success that we have had in terms of the new houses that are constructed and the families that move in, the house that we rehab. So we've basically stabilized that particular block. So definitely I see the immediate. In the ideal cases, of course, we see the future and ongoing success of that investment by seeing other private investment taking place in those communities and on those blocks. We are going to continue our process that we have. We deal with the resources that are given to us. We try to advocate for more, but we deal with what we have. If that means that we continue to have to go on a block to block basis and deal with the crisis that's at hand, we'll do that.

Again I think we have developed the mindset of the more strategic investment. I think NSP has reinforced that so that we are not requesting the money to invest the money. We are looking at the communities we have invested in, and we're trying to have the biggest impact with the dollars that we have. Looking into the future, hopefully, you know, the funding does continue, whether it's through NSP or through other sources. As I said, that's our expertise in terms of trying to match up the local initiatives and things that we need with the state and federal dollars that are available out there. Ideally someday the communities are stabilized, but I have a feeling that's a good ways off. I have good job security in Fayette County. I know that.

Amanda Sheldon Roberts:
Obviously one of the major themes we have been hearing all day today is that NSP is so closely tied to what else is happening in the market. Your question about what is it reasonable to expect from NSP? I think that we do need to be realistic with the fact that it will make a big difference in some neighborhoods. Some neighborhoods are able to tightly target and leverage and partner and all those

sorts of things. But until unemployment goes down, until we can stop foreclosures, whether it's through HAMP mods or everything cycles through, NSP is one small piece in a huge, huge problem.

Having said that's correct it's an important piece. It's a $7 billion piece and has been critical. To echo what everybody said and I think I said three or four times already today, I do think that the legacy of NSP will be the systems that develop, the relationships that develop and the strategic thinking that develops. And I would hope that that's, yes, it's strategic thinking as to how we spend CDBG going forward, but let's be big about this. We're going to think about transient oriented development and sprawl. Maybe we won't have Boomburbs because you have a two hour drive in traffic to get to work. We think about green building and how this is an opportunity to touch millions -- maybe not millions -- hundreds of thousands of properties and to rehab them green because it's good for the environment and good for the home buyer who has lower utility bills, those sorts of things. I hope there's a spill over thinking there in some of our macro thinking as well.

Ruth Clevenger:
Sorry, did you have one last comment?

Female Audience Member:
I have a comment that ... it's crucial to think about strategic planning in terms of transportation, location of the property. I'm from Miami Dade county, which is a big square. At the bottom it's homestead and Florida city, the gateway to the keys. I cannot tell you how distressing it is to see that community decimated by hurricane Andrew rebuilt. Private investors invested in that area. And now many of these properties are in the process of being rebuilt but the investors walked away. It's nobody wants to sell those, $50,000, super nice properties. Three or four bedrooms and you can't give them away. From that perspective, if you're studying and thinking about integrating systems, one of the key components is going to be the transportation system and planning for the future because I think that that is a contributing factor to this particular situation. In our community, I think the sun belt city, we're probably endemic example of the national economy.

Ruth Clevenger: Thank you. And I thank all of you for your comments and questions. Special thanks to the panel.