

Swimming Against the Tide: Forging Affordable Housing Opportunities from the Foreclosure Crisis

Prepared for:

Rethink. Recover. Rebuild. Reinventing Older Communities

Philadelphia, PA

May 14, 2010

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Director

Metropolitan Opportunity

The Ford Foundation

Where We Stand Today

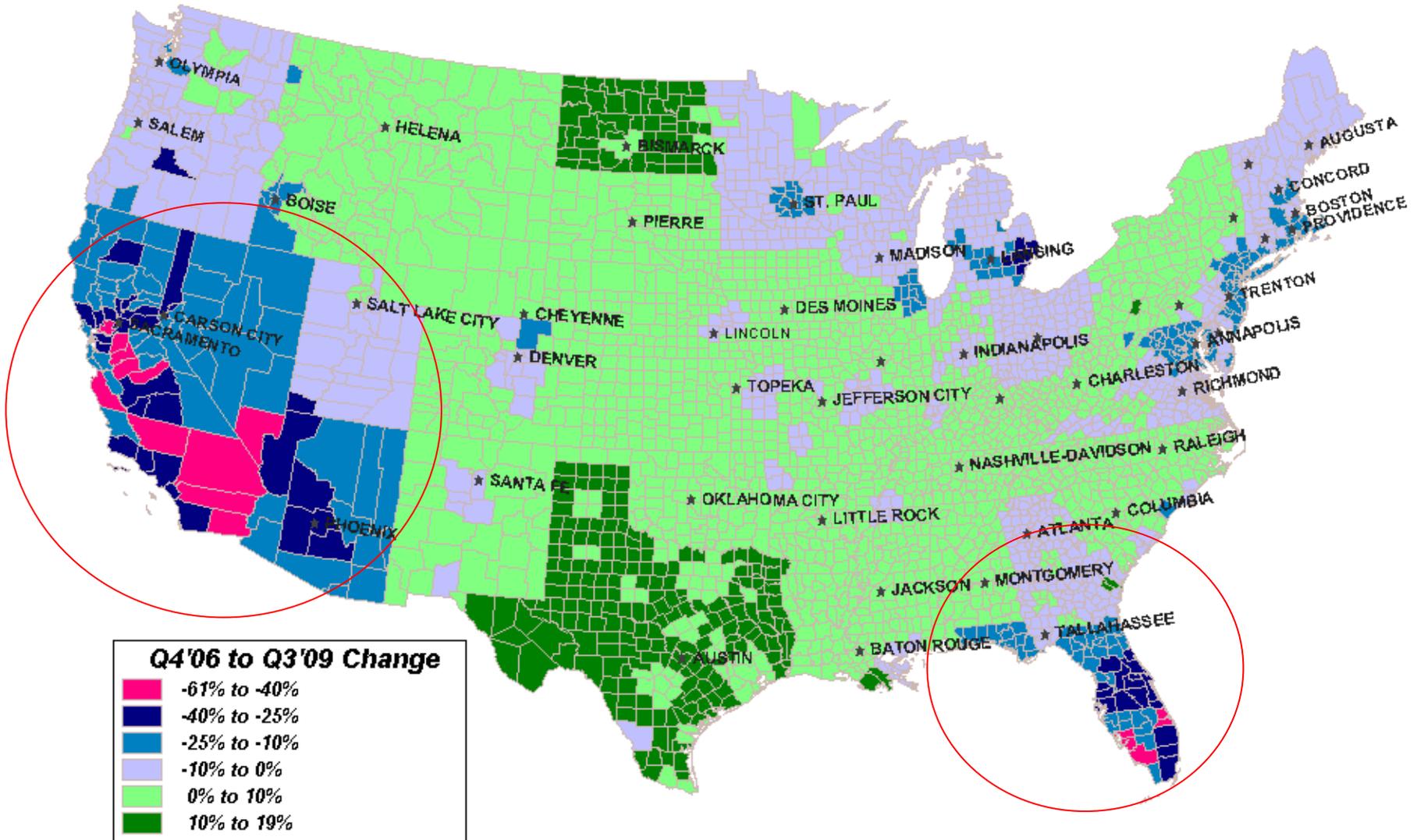
- **Economy is Still Weak**

- Unemployment rate is high – at 10% currently
- Single-family construction is lowest since 1945
- Foreclosures and loan delinquencies near all-time high
- Prime loan delinquencies due to job losses are currently driving foreclosures
- Large percentage of “underwater homeowners”
- Huge inventory of vacant real estate in many places
- Loan modification programs have worked poorly to date

- **But Positive Signs Are Appearing**

- Financial market indicators show some improvement
- Home sales have bumped up – partly due to Homebuyer Tax Credit; about a third of sales are foreclosure sales
- Home prices appear to have stabilized in many places

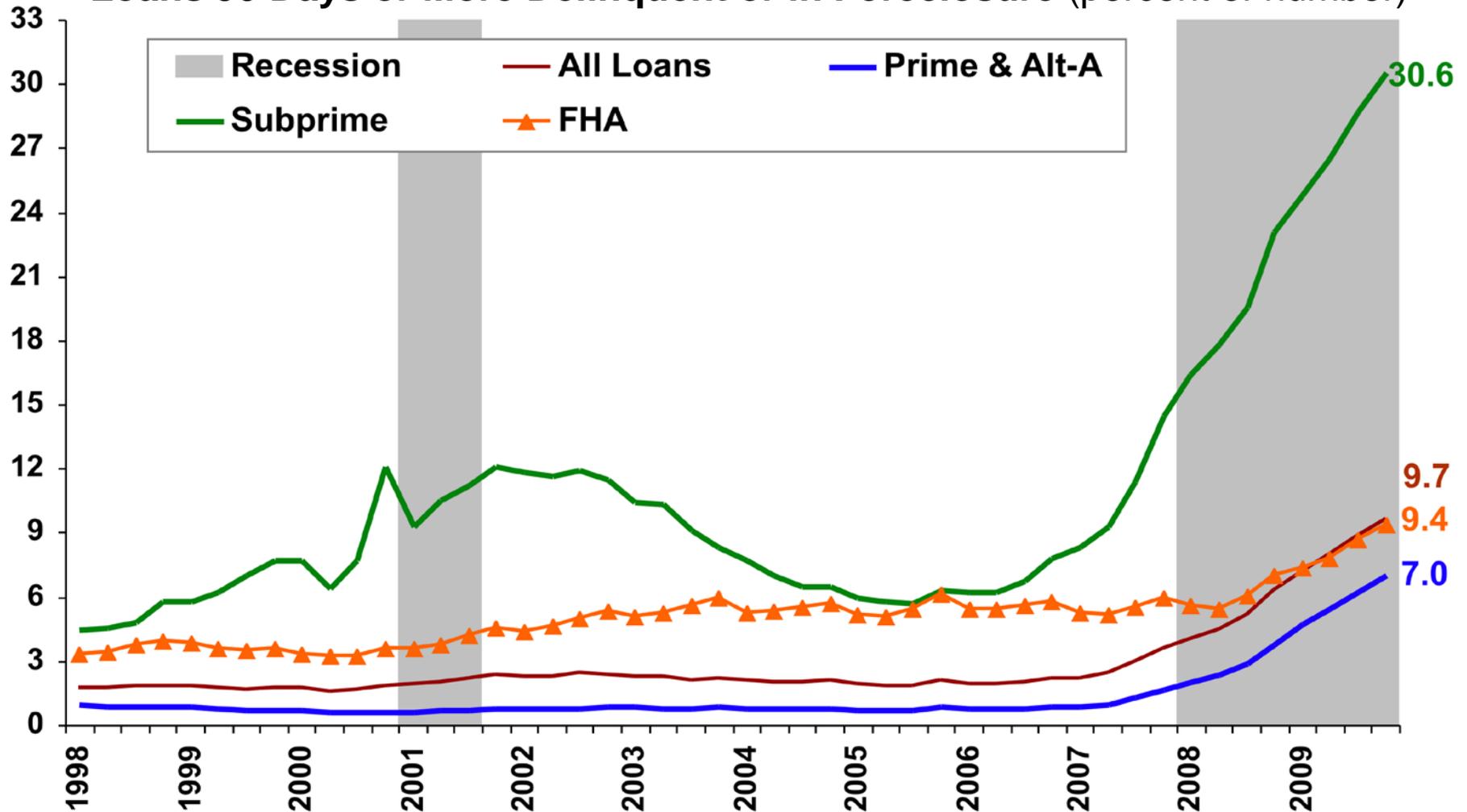
Since the 4Q of 2006, Some Metropolitan Areas Have Seen Price Declines of Up to 61%



Source: FHFA 09Q3 HPI, Freddie Mac

Weak Economy Is Exacerbating Problem: Serious Delinquencies Are Rising For All Loan Types

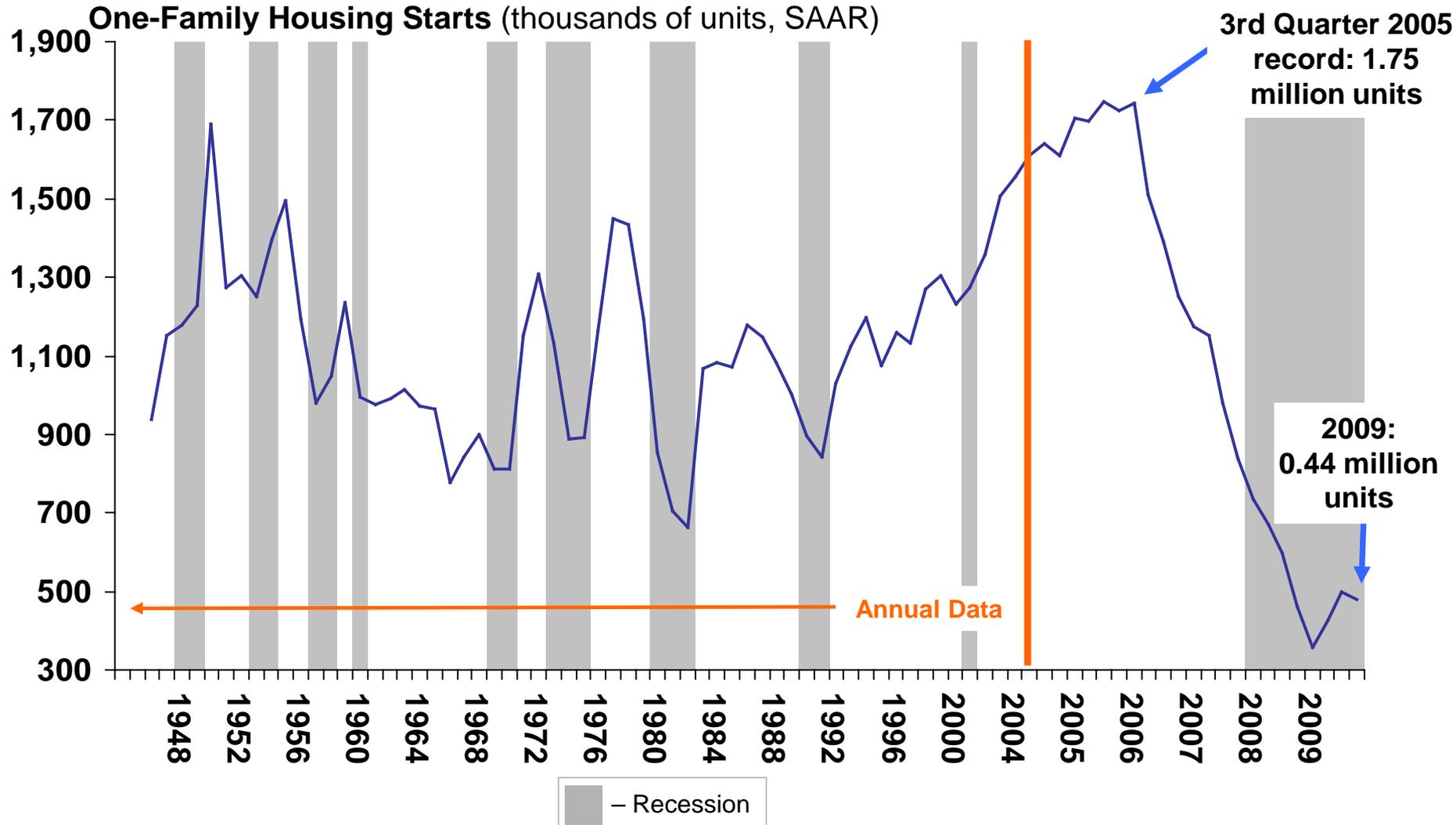
Loans 90 Days or More Delinquent or in Foreclosure (percent of number)



Source: Mortgage Bankers Association; "Prime Loans" includes Alt-A (Quarterly data not seasonally adjusted; 1998Q1-2009Q3). Freddie Mac.

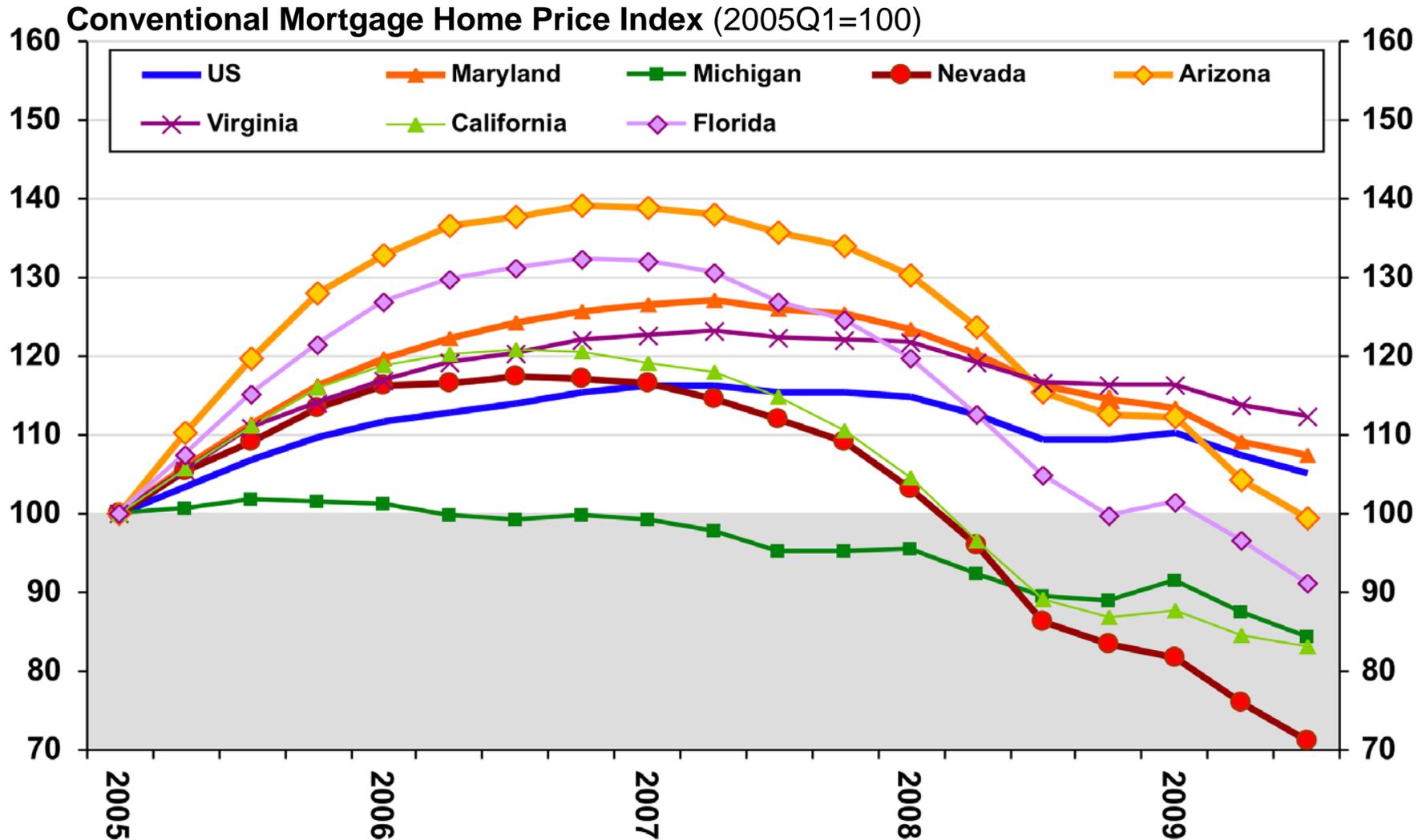


Single-Family Building Has Fallen to Lowest Level Since Before 1946; Is This the Bottom?



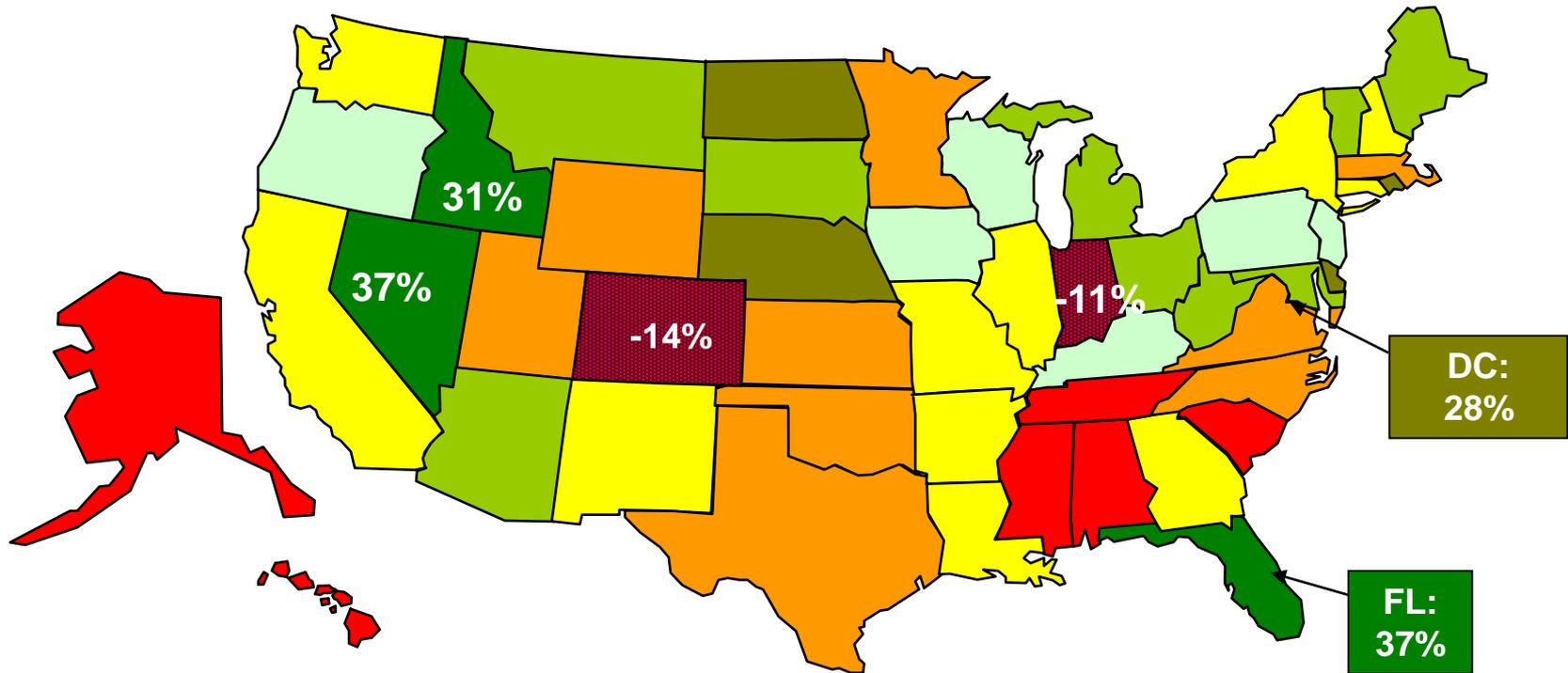
Sources: Bureau of Census, Freddie Mac; Annual data 1946-2003; quarterly thereafter

Home Values Appear to Be Leveling Off

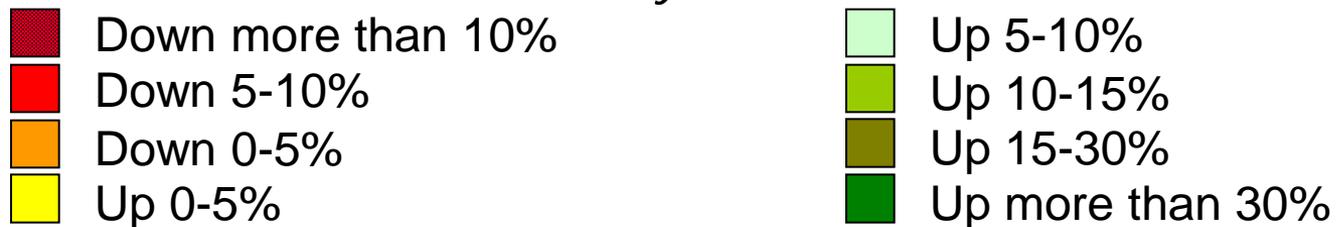


Source: Freddie Mac

Existing Home Sales Fell 36% From Peak in 2Q05 to 1Q09 But Have Since Risen 16%

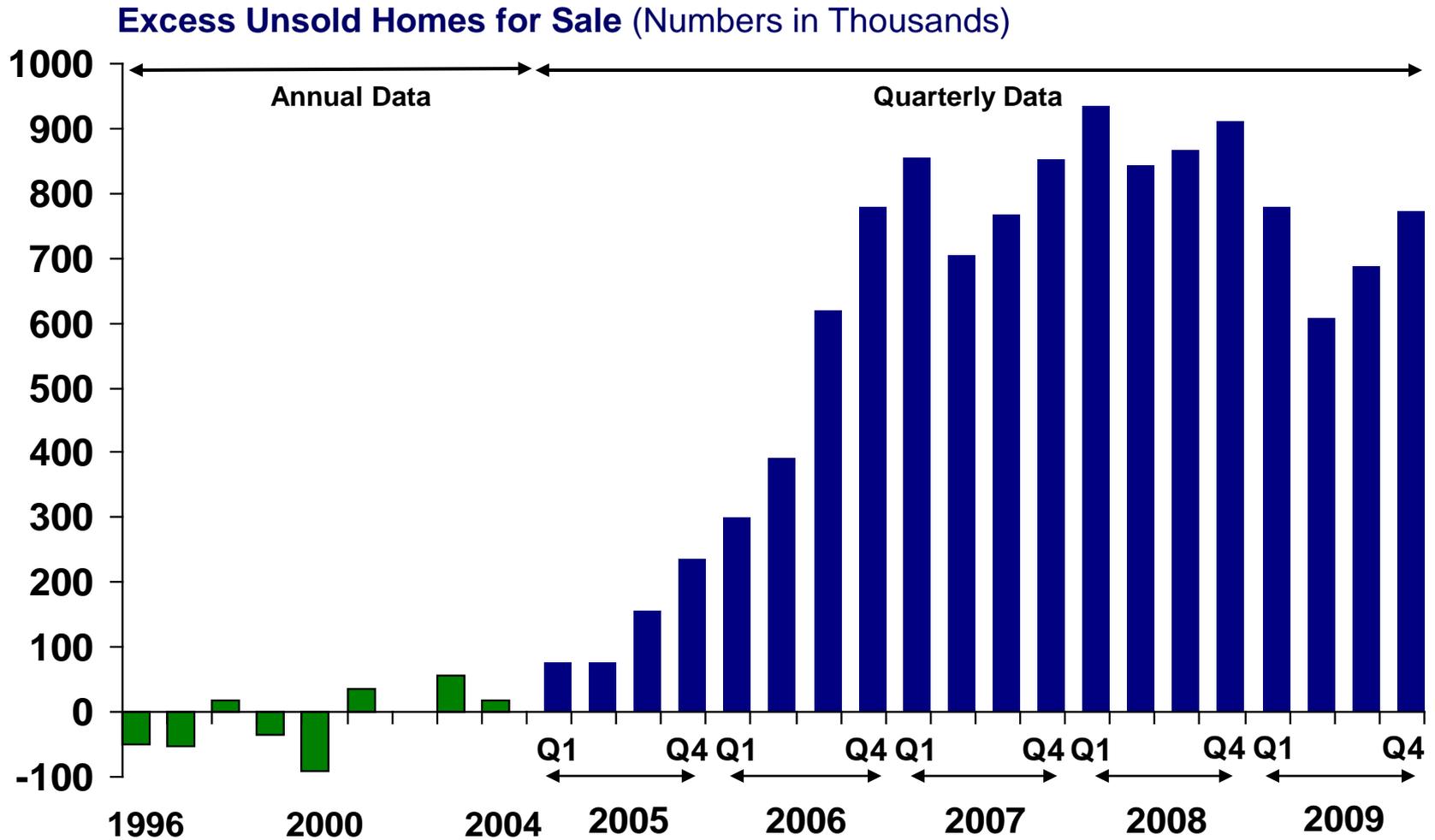


*1-Year (3Q/3Q) Percent Change in Existing Home Sales
Nationally: +5.9%*



Source: National Association of Realtors

Large Inventory Surplus Remains in Market

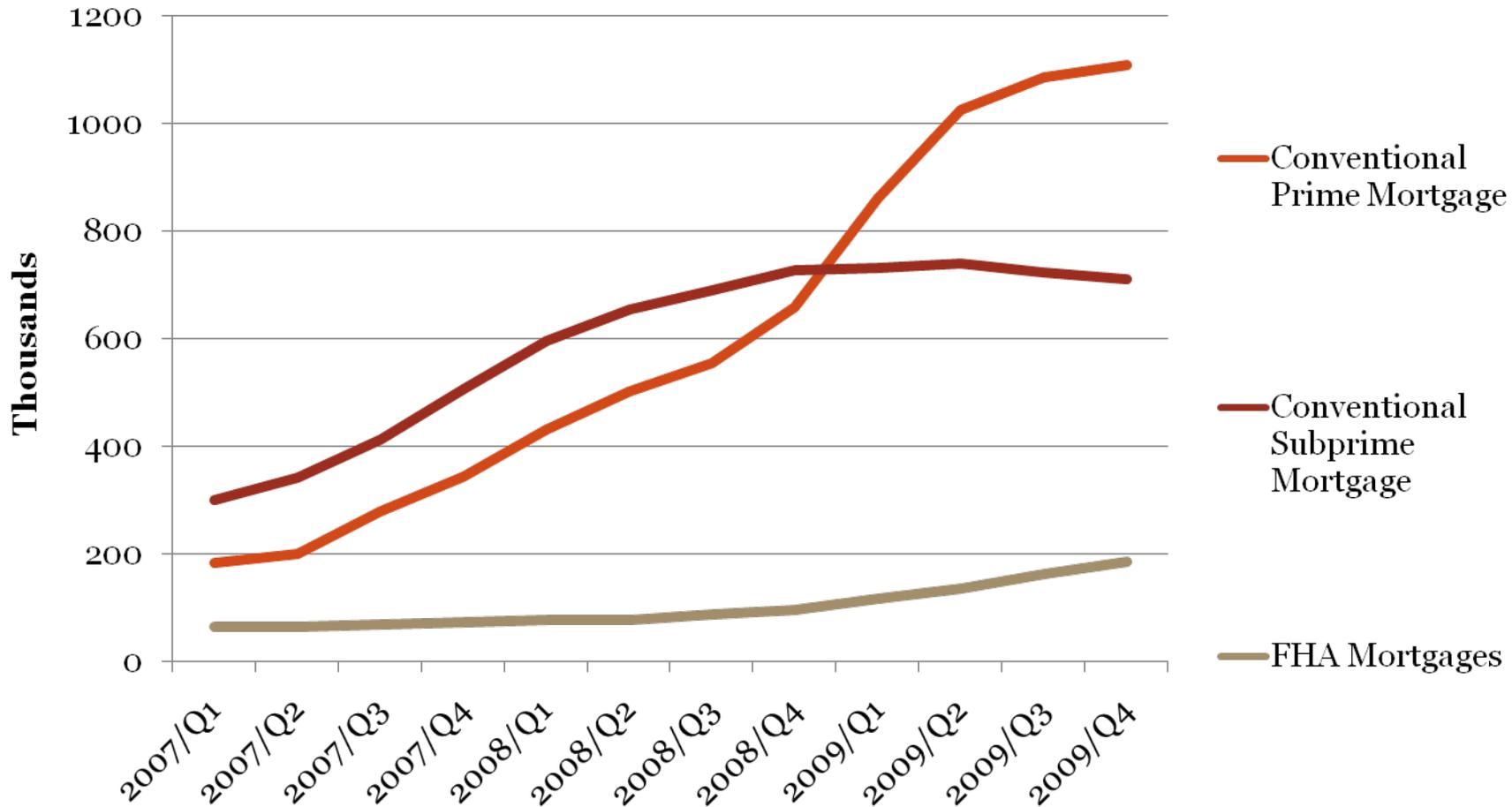


Source: Bureau of Census (1996-2004:Annual Data, 2005Q1–2009Q4:Quarterly Data)
 Note: The excess unsold homes were estimated based on the average vacancy rate from 1996Q1 to 2005Q4 (1.7%); Freddie Mac.

Current Mortgage Situation

	% of loans in Q4 2009	# of loans in Q4 2009	Roll Rates from LPS (average)	Roll Rates from LPS (most recent 4 month av)
Foreclosure Inventory (end of Q)	4.58%	~2,487,000	100%	100%
90 days	5.09%	~2,764,000	30.0%	20.0%
60 days	1.73%	~939,000	36.8%	44.7%
30 days	3.63%	~1,971,000	22.5%	27.5%
Current	89.55%	~48,635,000	1.5%	1.8%
Total Loans Serviced	~54,300,000			

Foreclosure Inventory



Other Trends for Delinquencies

Ratio of foreclosures completed to loans in the process of foreclosure in the previous month shows the widening gap in the foreclosure completion rate

- In 2007, 50% of the previous month's loans in process of foreclosure. Now is 18%.
- The number of foreclosures completed on prime loans remained basically flat and the number of completed subprime foreclosures fell 42%

Pool of Problem Loans Continues to Grow and Stagnate

- Days in foreclosure process went from 260 days in 2008 to 410 days in Jan 2010

Largest increase in delinquency among borrowers with credit score >680

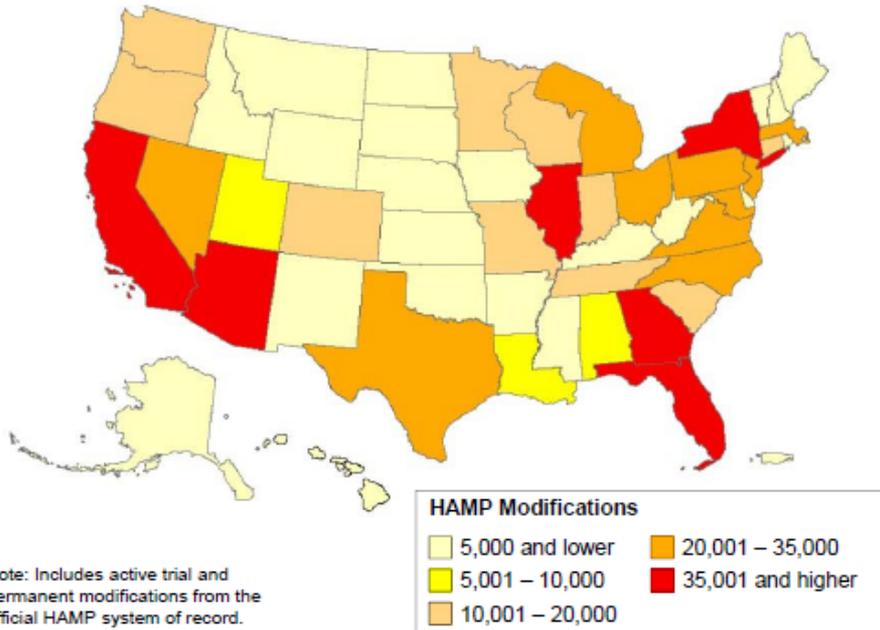
30% of foreclosures are homes in the top tier of local home values

- Top-tier homes make up twice the proportion of foreclosures than 3 years ago. Reasons: High delinquency rates in Prime, Alt-A and Option ARM mortgage products and declining cure rates

Shadow Inventory Estimate

Existing Foreclosure Inventory	2,487,435
in 30 days	552,884
in 60 days	83,998
in 90 days	48,469
in 120 days	24,034
in 150 days	24,034
in 180 days to 360 days	24,034 per month
Total Additional Foreclosures	901,659
TOTAL Foreclosures + 60 days	3,124,318
Less SDQ already on the market (estimated at 24% of SDQ loans)	-749,836
Less Modifications (60% of trials in February)	-602,341
REO not on the market	645,920
Current Shadow Inventory	2,418,060

HAMP Activity by State



15 Metropolitan Areas With Highest HAMP Activity

Metropolitan Statistical Area	Active Trials	Permanent Modifications	Total HAMP Activity	% of All HAMP Activity
New York-Northern New Jersey-Long Island, NY-NJ-PA	52,375	8,660	61,035	6.1%
Los Angeles-Long Beach-Santa Ana, CA	50,224	9,414	59,638	5.9%
Chicago-Naperville-Joliet, IL-IN-WI	43,215	8,086	51,301	5.1%
Miami-Fort Lauderdale-Pompano Beach, FL	39,585	7,532	47,117	4.7%
Riverside-San Bernardino-Ontario, CA	38,179	8,918	47,097	4.7%
Phoenix-Mesa-Scottsdale, AZ	32,768	8,118	40,886	4.1%
Washington-Arlington-Alexandria, DC-VA-MD-WV	28,621	6,193	34,814	3.5%
Atlanta-Sandy Springs-Marietta, GA	26,719	5,276	31,995	3.2%
Las Vegas-Paradise, NV	17,964	3,944	21,908	2.2%
Detroit-Warren-Livonia, MI	17,729	3,386	21,115	2.1%
Orlando-Kissimmee, FL	16,248	3,535	19,783	2.0%
Philadelphia-Camden-Wilmington, PA-NJ-DE-MD	14,805	2,796	17,601	1.8%
Boston-Cambridge-Quincy, MA-NH	13,272	2,925	16,197	1.6%
Tampa-St. Petersburg-Clearwater, FL	12,848	2,729	15,577	1.6%
Sacramento-Arden-Arcade-Roseville, CA	12,450	2,921	15,371	1.5%

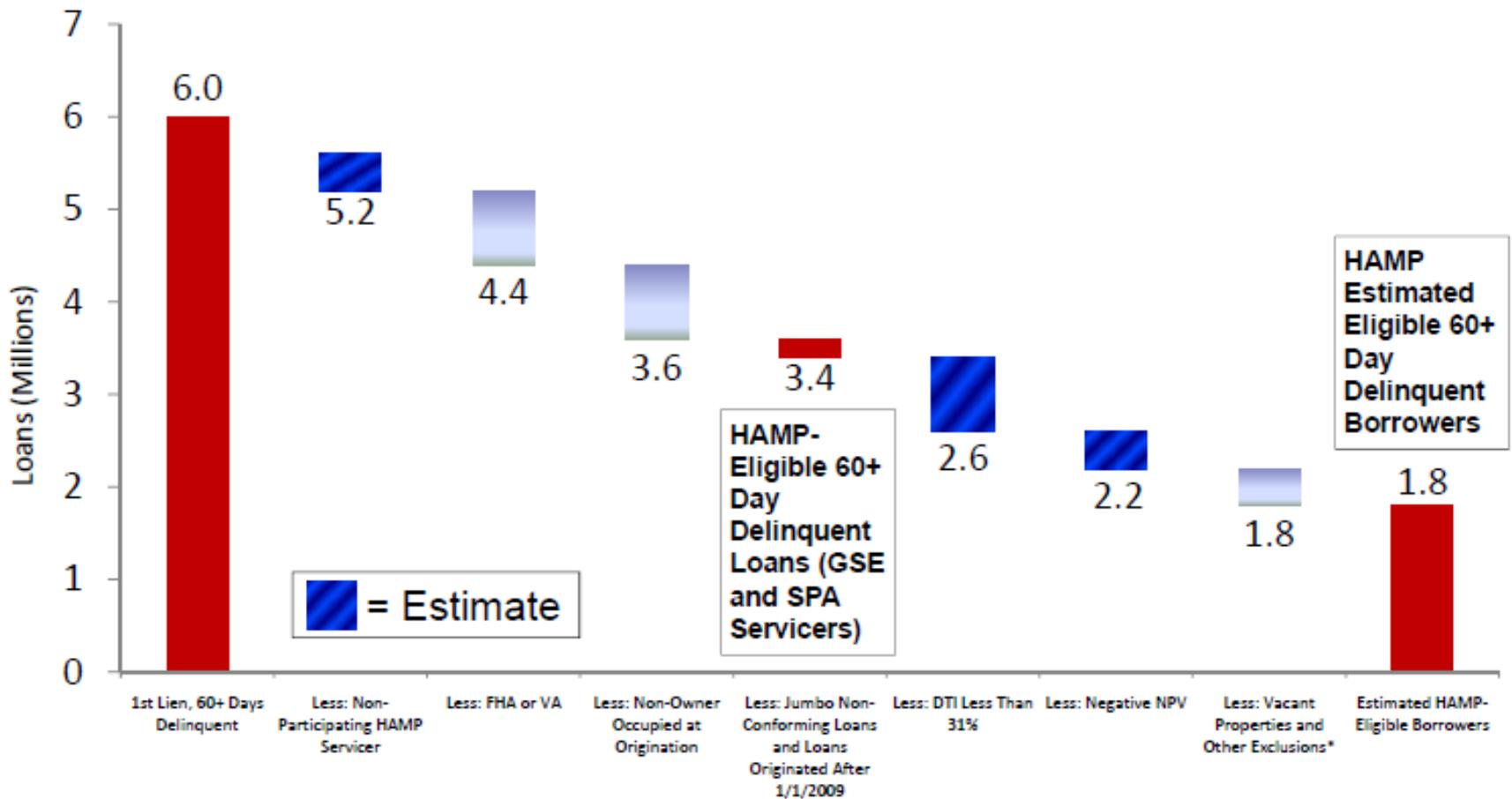
For HAMP reports:

<http://www.makinghomeaffordable.gov/>

A complete list of HAMP activity for all MSAs is available at:

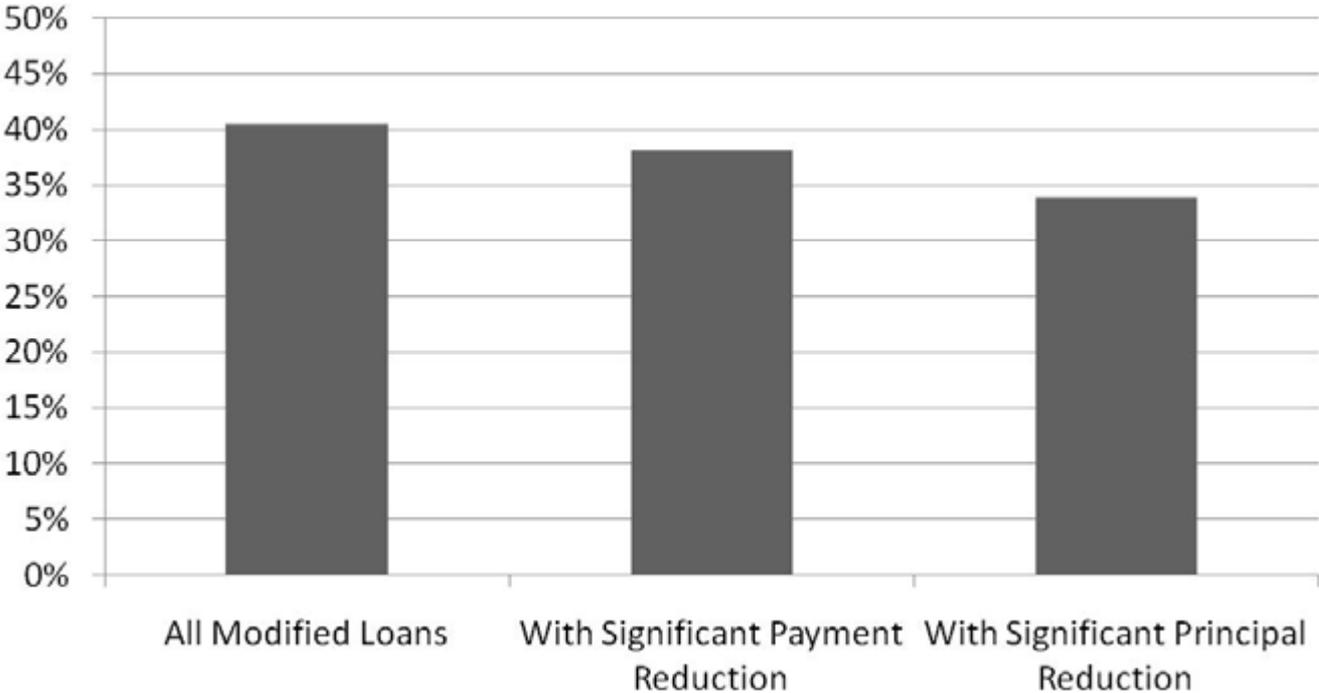
<http://makinghomeaffordable.gov/docs/MSA%20Data%20February.pdf>

Making Home Affordable



Making Home Affordable

12-Month Re-default Rate by Modification Type



Ideas for acquisition/End Use

- **Land banking and Land Bank Authorities**
- **NSP-led acquisitions**
 - general, NCST
 - Shared equity
- **Acquisition of notes**
- **“Broken” Bonds**

Issues with acquisition

- **Know your exit before you start—do not engage in sequential problem solving**
- **Have capital ready for each step of the process**
- **Match the right capital source to the activity**
- **Know your market**
 - selection of properties
 - selection of end use
 - determining the economics of the deals
- **Get the right set of partners**

Land Banking / Land Bank Authorities

➤ **Land banking—buying, holding, and overseeing redevelopment of vacant and abandoned properties**

--require patient, low-cost capital

--require sound business model

--facilitated by added powers

➤ **Land Bank Authorities**

--a public authority authorized by state legislation that combines property tax enforcement, code enforcement, and redevelopment activities under one roof

Genessee County Land Bank

- **Begun 2002**
- **Facilitated re-use of more than 4,000 residential, commercial and industrial properties that it acquired through the tax foreclosure process**
- **Uses code enforcement, tax foreclosure, and portfolio management practices to manage resizing of Flint**
- **Self-financing: Sale of 1,600 properties raised \$6.4 million**
- **Raised property values more than \$100 million**
- **Activities: Rehab, demolition, affordable housing, site assembly**

Genesee County Land Bank



The



WINTER 2010

DAN KILDEE LEAVES LAND BANK TO LEAD CENTER FOR COMMUNITY PROGRESS

Leading advocate organizations join forces to address vacant and abandoned properties Center for Community Progress launched

The Genesee Institute and the National Vacant Properties Campaign have joined forces to form a new organization currently going by the name of the Center for Community Progress. This merger brings together two of the nations leading advocacy organizations for the revitalization of neighborhoods, towns, and cities that have been devastated by both long-term abandonment and the foreclosure and economic crises. The Center will provide direct and ongoing support to cities, metropolitan areas, and states as they address the challenges presented by vacant and abandoned properties.



Daniel Kildee,
Former Genesee County Treasurer/
Land Bank Chairperson

Not long ago, primarily residents of cities and towns in Michigan, Ohio, Pennsylvania, and

NSP-led Acquisitions: NCST



What are the key activities of the Trust?

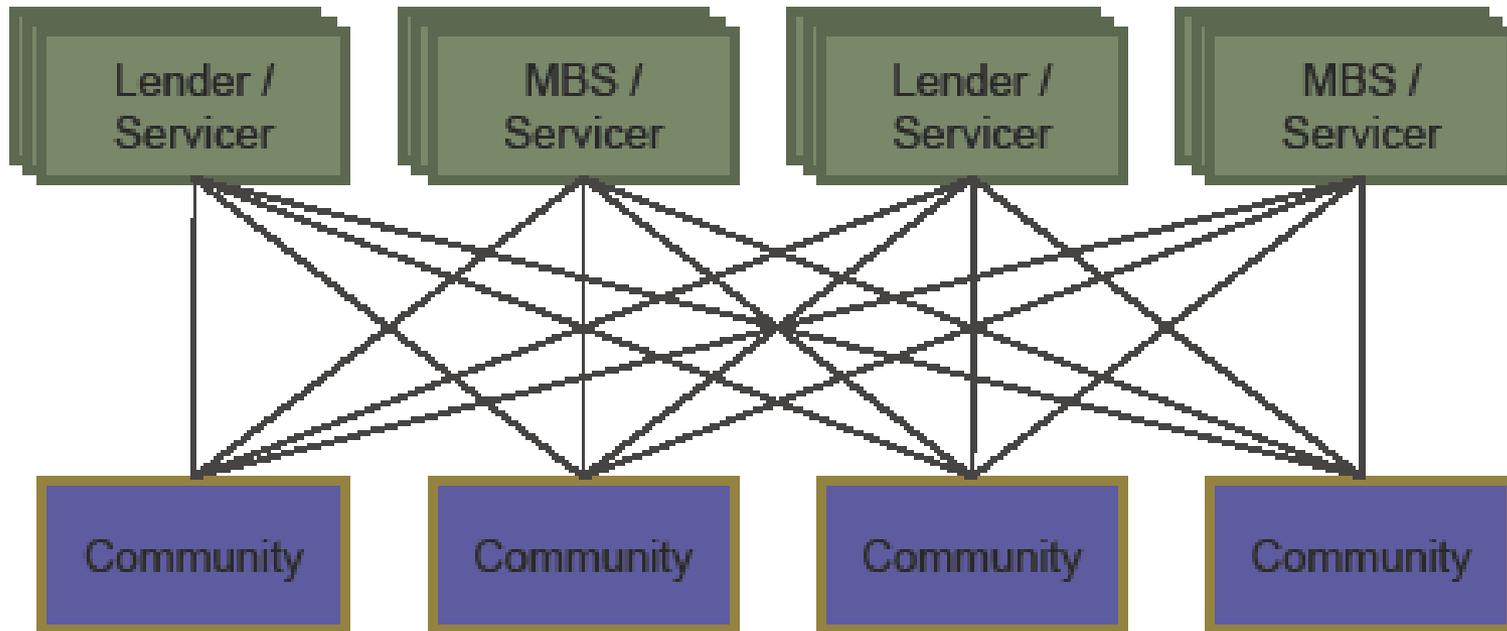
- **Transfer Agent** - Facilitate the Cost Effective Transfer of Foreclosed and Abandoned Properties to Localities
- **Financing** – Provide Credit Enhancements and Flexible Financing to Support Local and State Efforts
- **Capacity Building** - Organize and Facilitate Local Collaborations Working Through our 5 Sponsors
- **Focal Point** – Serve as an Industry “Voice” re: Foreclosures and Neighborhood Stabilization

Source: National Community Stabilization Trust.

NSP-led Acquisitions: NCST



Transfer of foreclosed properties without the Trust

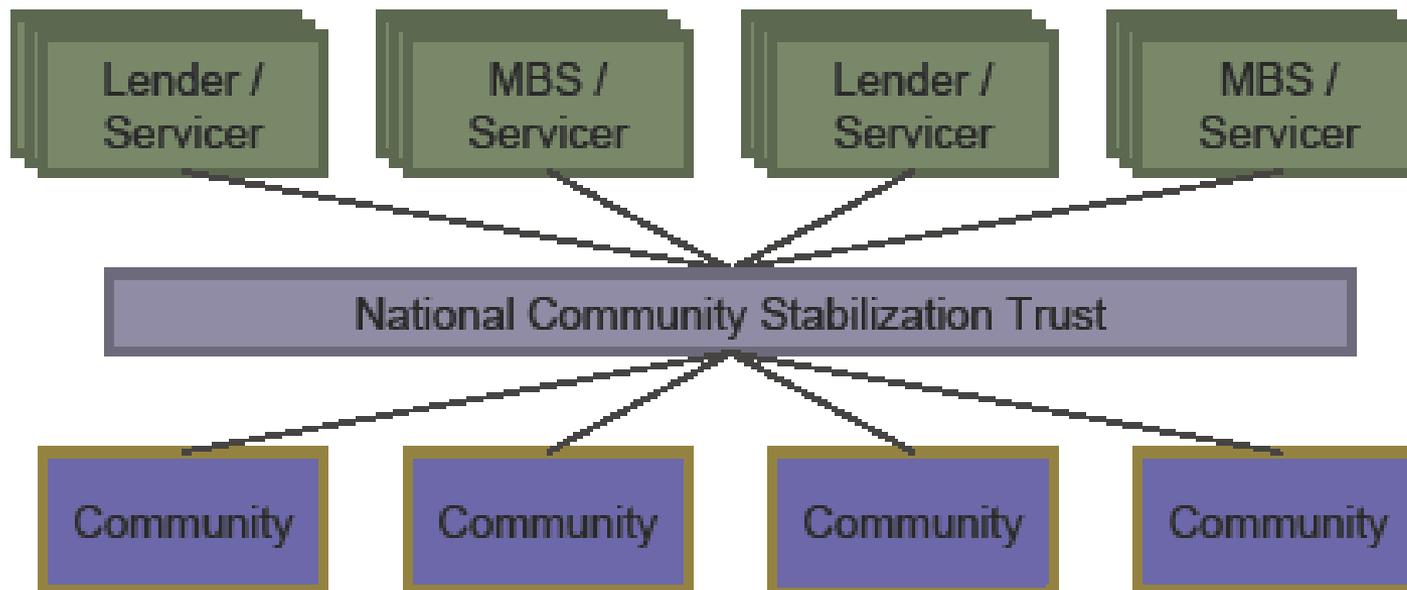


Source: National Community Stabilization Trust.

NSP-led Acquisitions: NCST



Transfer of foreclosed properties with the Trust



Source: National Community Stabilization Trust.

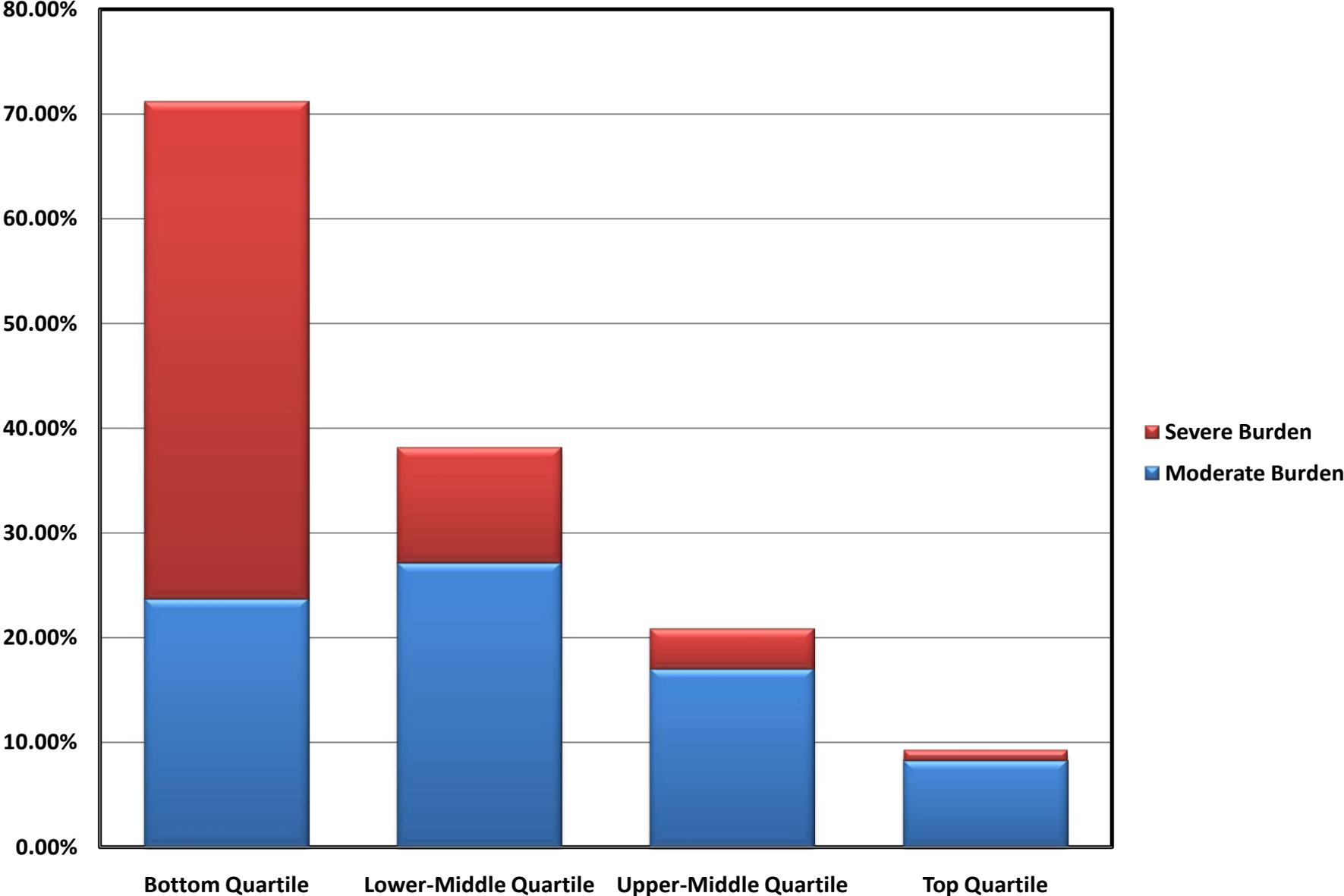
NCST—Key tools

- **Net Realizable Value:** a mechanism that helps to get the price right when acquiring a property
- **First Look:** A facility to give partners access to foreclosed properties before they go to market
- **New feature of NCST: Reverse lookup**
 - will allow communities to start with a property and work backward to the holder and begin negotiation on purchase.

NSP-led Acquisitions: Shared Equity, response to housing market failure

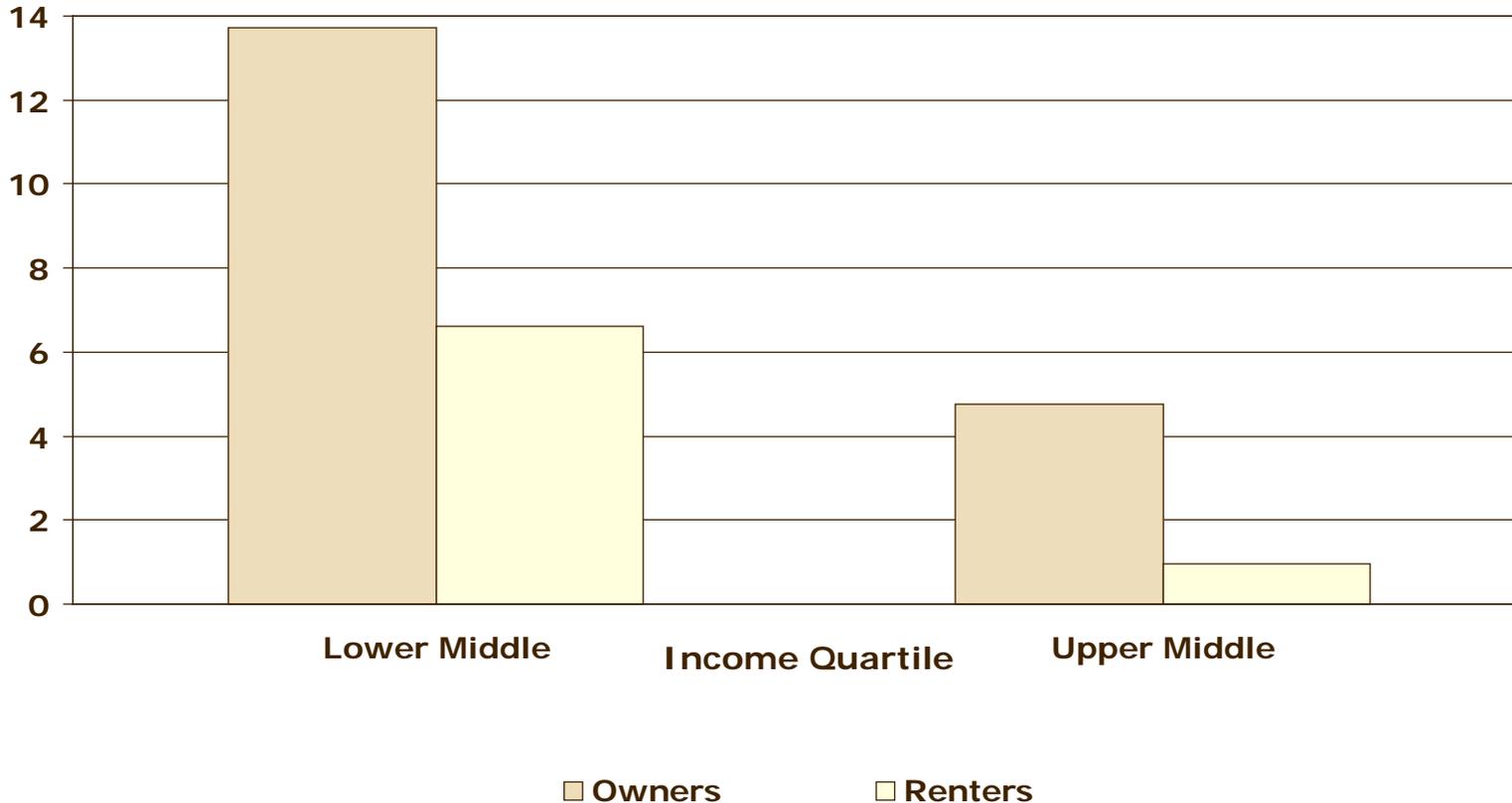
- **Housing affordability**
- **Rental and Owner-occupied**
- **Housing and stability**
- **Foreclosures and loss of rental stock**
- **Housing and children: 12.7 million children, more than one out of six, live in households with severe housing cost burdens**
- **Artifacts of dysfunctional markets**

Housing Cost Burdens by Income



Severe Cost Burdens Now More Common Among Middle-Income Owners Than Middle-Income Renters

Share of Households with Severe Cost Burdens in 2006 (Percent)



Notes: Income quartiles are equal fourths of all households sorted by pre-tax income. Severe cost burdens are housing costs exceeding 50% of total household income.

Sources: JCHS tabulations of the 2001 and 2006 American Community Surveys.

The solution: Shared Equity Housing (SEH)

- Permanent Affordability by severing the link between housing as an investment good and housing for use
- Removing a portion of the housing stock from the speculative market—at scale
- **SEH Modalities:**
 - Cooperative housing (Coop)
 - Inclusionary housing/deed restricted (DR)
 - Community Land Trusts (CLTs)

SEH Overview: Ford's Goals

- **Long-term Goals:**

- help low-income families to exit and stay out of poverty by assisting them to build, maintain, and control assets through effective housing choices
- Establish a permanently affordable housing stock that is insulated from risk of speculative bubbles, gentrification

- **Mechanisms for Economic Mobility:**

- Generate excess income through cost containment (supply of quality housing)
- Grow assets w/leveraged investment in housing
- Manage, protect, and preserve housing assets through high quality lending products

CLTs: Where they are happening

- **More than 200 around the country**
- **Local scaled efforts:**
 - **Public/private: Irvine; Chicago; DC; Nashville**
 - **Private: Vermont; Albuquerque; Delaware; SF Bay Area;**
- **As response to foreclosures:**
 - **Rhode Island; Delaware; Vallejo; Oakland**
 - **22 CLTs in 15 states using NSP funding to finance property acquisition**



- HOME
- GETTING STARTED
- TOOLBOX
- BUILDING A STRATEGY
- GALLERY
- FORUM

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Shared Equity with NSP Funds?

Posted by [Center for Housing Policy staff](#) on May 13, 2010 at 3:17pm in [Neighborhood Stabilization](#)

[← Back to Neighborhood Stabilization Discussions](#)

Is anyone using NSP funds on a shared equity program? I would be interested in hearing about it -- whether you're using a land trust, investing in individual properties, using dollars to ramp up or market an existing program. Will properties be permanently affordable? Are you targeting specific income levels, and how?

Thanks!

(Cross-Posted on Shared Equity)

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Acquisition of notes: multifamily

➤ **Enterprise Community Partners (and others) is working to develop a revolving fund to purchase the notes on multifamily buildings that are “under water”.**

--essentially same model that hedge funds and others deploy in the single family market

--goal: to get control of properties and preserve them as affordable housing

--major challenges: financing stabilization of building; long term property management

--opportunity: EECBG to help finance energy retrofits/rehab of buildings

“Broken” bonds

➤ **Novel idea for low-cost acquisition/control of properties for variety of purposes**

➤ **Basic concept:**

--municipal bonds underwritten to fund infrastructure development and secured by tax liens are not performing: TIFs,

--whole bonds can be purchased for pennies on the dollar

--tax liens are senior to lenders, primary and secondary