NCST Releases a Report on the Community Restoration Corporation's Work to Manage a Portfolio of Non-Performing Mortgage Loans

by NCST Staff

This week, NCST released a report on the work of the Community Restoration Corporation (CRC), also known as The Reclaim Project, which is a joint project of NCST and the Housing Partnership Network (HPN). CRC manages a portfolio of non-performing mortgage loans (NPLs) where the homeowner is severely delinquent on payments and in most cases is no longer residing in the property. While CRC has not yet wound down its entire portfolio, the project is far enough along that we believe others can learn from its experience.

The concept of a partnership to hold NPLs first arose in 2011, when Goldman Sachs approached NCST and HPN to discuss options for dealing with severely delinquent mortgage notes in Goldman’s portfolio in Cleveland. They selected these two organizations because HPN would be able to mobilize a network of housing counseling organizations that could provide the borrower outreach and loan modification counseling, and NCST brought a relationship with a national mortgage servicer plus experience handling vacant REO sales transactions.

After its initial creation, CRC continued to grow, slowly at first, but then more quickly in 2015 when Bank of America (BAC) donated almost 1,000 distressed NPLs to CRC. Based on the severely delinquent status of the loans and the poor condition of the properties, CRC knew that managing these notes would be extremely costly. As a condition of accepting the properties, CRC asked BAC to pair its note donation with a cash donation to enable an appropriate resolution of the notes, which BAC did.

Managing this portfolio proved to be even more challenging than anticipated. More than half of the properties were vacant at the time of initial inspection, and the CRC team needed to find out who the occupants were of the remaining 43% and whether they had any legal claim to the property. Thirty-six percent of the properties required some rehabilitation work in order to be put back into productive use, and 22% of the
properties were in such poor condition that they needed either a gut rehabilitation or demolition, which vastly increased the disposition costs. The average Broker Price Opinion value of these homes at the point where the portfolio was transferred to CRC was approximately $38,500 (as determined by an external vendor). CRC found over the course of this program that BPO values were significantly overstated and the true value was usually much lower.

We wrote this report to expand understanding about managing distressed notes and encourage informed discussion about the future of this kind of work. The CRC team has often described our experience with this note portfolio as “hand to hand combat” because the circumstances of each note were so unique. The work was deeply challenging, and while the outcomes were largely positive, this work could not have produced these outcomes without the grant money that accompanied the donation of these severely delinquent notes.

The data and descriptive material contained in this report underscore that nonprofits considering NPL acquisition need to consider quite seriously the amount of time, effort, funding, and care that these assets require. For nonprofits with a pre-existing and positive relationship with a mortgage servicer, purchasing NPLs might provide a sensible and strategic path to acquiring neighborhood assets, rather than leaving them to be acquired by investors outside the community whose goals may not be as positive in the long term. For those nonprofits who do not already work with mortgage services, however, it might make more sense to pursue partnering with a for-profit investor acquiring these assets or to contract with a nonprofit vendor who has experience managing NPLs.

NCST and its CRC team members are happy to discuss the NPL disposition process with anyone who would like more information.

_The report can be found here:_

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### Buyer Spotlight

**Renew Indianapolis Embarks on a New Chapter**

*by Dawn Stockmo, NCST*

Land banks play an important role in stabilizing neighborhood. They vary in strategy, size, and structure, and are based on authorizing statutes’ funding sources, individual geographies, and other realities they face. My colleagues, Theo Chang and Chris Garland, have also written newsletter articles about land banks.

In the Chicagoland region, the two land banks are the South Suburban Land Bank and Development Authority (SSLBA) and the Cook County Land Bank Authority (CCLBA). Once these land banks acquire properties, they are able to extinguish delinquent taxes and liens as permitted by law, and in some cases, demolish/deconstruct buildings. In the south suburbs of Chicago, the SSLBDA works with 26 municipalities through intergovernmental agreements; in Cook County, the CCLBA services 39 towns and villages. Both have a program that allows owners with blighted properties to work with an attorney and avoid foreclosure.
County, CCLBA has acquired 1,300 properties to date. Other land banks are being considered throughout Illinois.

Indianapolis has its own unique story. In 2014, Renew Indianapolis, a nonprofit organization, took over responsibility for marketing about 950 abandoned homes for the City of Indianapolis with the aim of streamlining the land bank process and connecting buyers with properties. The new partnership also provided more transparency, a quicker turnaround, and more accountability than before.

Fast forward to 2018, when Renew sold a record-breaking 248 homes. This was in part due to receiving 215 surplus properties obtained from County Surplus, but also the result of increased operational capacity. Renew has been working with NCST for almost three years. In 2019, Renew embarked on a new chapter, expanding into performing rehabs itself. An example of one such rehab is this large, two-story home located in the Bay Ridge subdivision in the rapidly-growing City of Lawrence – a suburb city of Indianapolis – which sold after only three days on the market (see Before and After photos below).

Renew Indianapolis has also entered into the commercial market, creating the first Commercial-Industrial Land Bank for Marion County. In partnership with the City of Indianapolis’ Department of Metropolitan Development, Renew is aiming to bring tax-delinquent, commercial properties in target areas back into private ownership and productive use. This is part of a larger, holistic approach to urban redevelopment that works in tandem to stabilize neighborhoods and foster economic development. Renew has created a one-stop, single source for target sites, which is critical for matchmaking with commercial brokers.

As Renew Executive Director Bruce Baird said, “Given the successful partnerships Renew has put in place, I’m looking forward to additional ways we can positively impact communities.”

Dawn Stockmo serves as a Community Development Director for NCST.

Before:
Policy Corner
Regulatory News

by Kris Siglin, NCST

Comments due October 18th on HUD rule eliminating the use of “disparate impact” analysis to prove illegal discrimination under the Fair Housing Act

The Department of Housing and Urban Development has proposed a new rule that will make it harder to win discrimination cases for violations of the Fair Housing Act, which protects people from being treated differently on the basis of race, color, national origin, gender, religion, disability and familial status when they are getting a mortgage, buying a home or renting an apartment. For forty five years, the courts have relied on a legal theory called “disparate impact” to evaluate whether practices that have a disproportionate impact on groups of people without a legitimate justification violate the civil rights laws, even if the discrimination is not intentional.

NCST believes that elimination of this legal theory will make it harder to prevent discrimination in mortgage lending, home purchases, and apartment rentals in the communities that our buyers work in. Please consider sending a comment letter into HUD before the October 18th deadline. Additional information, social media resources, and a template comment letter can be found at www.defendcivilrights.org.

A win for the housing counseling industry

For the past several years, mortgage lenders and housing counseling agencies that wanted to set up a fee-for-service arrangement have not done so due to concerns that such an arrangement could inadvertently violate the Real Estate Settlement Procedures Act (RESPA), which forbids “kickbacks” to lenders and other participants in mortgage transactions. In response to these concerns, the Consumer Financial Protection Bureau has just issued a regulatory notice called a “No-Action Letter
Template” at the request of the Department of Housing and Urban Development that will allow mortgage lenders to enter into funding arrangements with housing counseling agencies that participate in HUD’s Housing Counseling Program.

What this means is that lenders can now pay agencies for housing counseling services if those services meet the parameters set out in the No-Action Letter. Lenders will not have to worry about enforcement actions from the CFPB if they adhere to the guidance in the template. For example, clients must be able to choose from products offered from at least 3 different lenders, the funding must be for services rendered and not on the terms and conditions of the mortgage, and no preferential treatment can be given to the company funding the services. The lenders and housing counseling agencies are required to enter into a Memorandum of Understanding that is consistent with these policies and to make the MOU available to the CFPB when asked.

Mortgage lenders can apply to the CFPB for No-Action Letters based on the No-Action Letter Template published here and the explanation here.

*Kris Siglin is NCST’s Vice President of Policy and Partnerships.*

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**Industry News**


- U.S. Consumers' Access To Credit May Be Worse Than Previously Thought: Fed Study [https://www.reuters.com/article/us-usa-fed-credit/u-s-consumers-access-to-credit-may-be-worse-than-previously-thought-fed-study-idUSKBN1W931O](https://www.reuters.com/article/us-usa-fed-credit/u-s-consumers-access-to-credit-may-be-worse-than-previously-thought-fed-study-idUSKBN1W931O)

NCST Community Buyers: Had a recent staff change? Or updated your email address or phone number? Please alert our Buyer Team to any changes so they can update your records. To participate in our purchasing programs, it's very important we have the correct contact information for you and your team.

Please email updates to: Buyer@StabilizationTrust.org.

NCST Email Addresses

Sending an email to an NCST team member? Please include the team email box. This ensures a timely response to your email in case your primary contact is out of the office.

- Desk@StabilizationTrust.org - property transaction questions and assistance
- ReoTrack@StabilizationTrust.org - post-closing questions and assistance
- Buyer@StabilizationTrust.org - questions about program guidelines, target areas, and additional programs
- NewBuyer@StabilizationTrust.org - for more information about becoming an NCST buyer

About NCST: The National Community Stabilization Trust (NCST) is a non-profit organization that works to restore vacant and abandoned properties to productive use and protect neighborhoods from blight. Our programs facilitate the rehabilitation of vacant but structurally sound homes, enable safe, targeted demolition when necessary, and support creative and productive re-use of vacant land.

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