[View as Webpage]

National Community Stabilization Trust

November 13, 2019

Creative Deed-In-Escrow Program Offers New Homeownership Path In Trumbull County, Implications of GSE Reform, Policy Quick Takes, and more!

New Approaches to Shifting Neighborhood Needs

by Julia Gordon, NCST

In 2008, when NCST was founded, the most pressing problem facing most neighborhoods across the country was the raging foreclosure crisis. As homeowners defaulted on their mortgages – first due to predatory and unaffordable loans, then due to the highest unemployment rate since the Great Depression – lenders found themselves overwhelmed with REO inventory.

In the past decade, however, the market has changed significantly. The flow of REO properties has all but stopped – both because extremely tight credit since the crisis has resulted in a much lower foreclosure rate and because an increasingly large percentage of defaulted mortgages are transferred to new ownership before the properties ever hit REO portfolios.

Today's challenges include unaffordable home values due to limited inventory, hyper-vacancy in disinvested communities that is more often due to ownership by remote investors with no interest in community development than to "zombie" foreclosures, the disappearance or shrinkage of government subsidy for rehab and community development, and a shortage of reasonably priced capital for mission-focused developers.

A related problem is limited access to mortgage credit for low- and moderate-income families and families of color, a problem that, ironically, is often the most severe for the least expensive homes, since few lenders make small balance mortgages. Communities of color still lag far behind white communities in homeownership - in fact, the African-American homeownership rate is now as low as it was before the Fair Housing Act outlawed housing discrimination – and the lack of homeownership not only prevents families from building wealth, but undermines the stability of neighborhoods and makes them more susceptible either to displacement due to gentrification in hotter markets or to further decline in cooler ones.

As changing market conditions present new problems, NCST will shift its strategy to meet today's challenges. In 2008, NCST used its expertise in real estate and cutting-edge technology to build a bridge between lenders with REO inventory and community organizations with Neighborhood Stabilization Program funding to rehab them. NCST's REOMatch platform helped put vacant REO properties back into productive use quickly and efficiently, helping to stabilize neighborhoods and prevent further price declines.

Going forward, NCST will use its local real estate transactional track record, its experience with the REO Capital Fund, and its policy advocacy expertise to meet the new challenges described above. Over the next several months, we'll update you on some of these exciting initiatives, including retooling REOMatch and REOTrack to focus on new sources of vacant properties, pursuing the creation of a capital fund aimed at small developers, advocating for new sources of subsidy for single family development, and creating networks around policy work related to single-family development, affordable homeownership, and preventing the decline of "middle neighborhoods."

As always, thank you for your partnership with us and for all you do for your communities. We're looking forward to the new challenges and opportunities ahead.

Julia Gordon is the President of NCST.

Buyer Spotlight
Creative Deed-In-Escrow Program Offers New Homeownership Path In Trumbull County

by Chris Garland, NCST

In conversations with community development agencies, I am consistently energized by the innovative approaches that organizations take to both revitalizing their communities and creating opportunities for homeownership. A number of our partners (and land banks in particular) have established programs where prospective home buyers in their communities acquire homes that require varying degrees of repair. Essentially, the agency agrees to serve as a source of support for the future homeowner – offering technical assistance, providing access to capital, and occasionally offering grants or other subsidies. At the same time, they also serve as a backstop in cases where the rehab does not reach fruition.

It's with this approach in mind that I am sharing the story of Jessica Wood, who recently purchased 174 Atlantic Street in Warren, Ohio. Jessica went from being a life-long renter to a first time homeowner. Ms. Wood purchased the property through the Trumbull County Land Reutilization Corporation (TCLRC) Deed-in-Escrow program after TCLRC acquired the property through NCST. The Deed-in-Escrow program gives buyers the opportunity to purchase homes far below market value and invest their time into the renovation of the home. This property was structurally sound but required significant repair before it could be occupied.

For a bit of history and background on TCLRC's Deed-in-Escrow program: Since 2013, TCLRC has successfully transferred 350 properties through this program, with the vast majority transferring to owner occupants. According to Shawn Carvin, Land Bank Program Director, 90% of deed-in-escrow properties have transferred to owner occupants so far in 2019. By comparison, TCLRC demolished approximately 1,000 properties over that same time frame. Eligible properties as well as the corresponding rehab assessments with investment estimates to bring the home up to code are described on their website. Prospective purchasers who demonstrate proof of financing are afforded one year to complete the needed rehab work (if necessary, TCLRC can provide monthly extensions beyond one year). Along the way, purchasers are given support from TCLRC in the form of participating in meetings with contractors (electrical, plumbing and HVAC work must be completed by certified professionals), conducting periodic inspections, connecting buyers with resources such as free smoke detectors from the Red Cross, conducting energy assessments, and providing support for gap funding/financing. Upon completion, a final inspection and/or occupancy permit inspection is arranged and then the property is transferred with clear title.

In this case, Ms. Wood purchased the Deed-in-Escrow home for $7,500. Over the yearlong renovation period Ms. Wood invested $26,000 into the home – upgrading the kitchen including cabinets, flooring and fixtures. She removed several walls on the second floor to create a second bathroom, painted the interior of the home, changed the floor covering, and upgraded the bathrooms. She took out the baseboard heating system and installed a new furnace, ductwork and hot water heater. Ms. Wood was also granted funding through Trumbull Neighborhood Partnership's (TNP) Adopt-a-Home Program, which assisted her in replacing all of the windows throughout the house to assist in creating a more energy efficient home for her and her family.

The property was transferred to Ms. Wood in October 2019. She was very excited to move in before the holiday season, as this will be the first time her kids would be able to have room for a Christmas tree. Now, they will finally have the space.

Before & After

Chris Garland serves as a Community Development Manager for NCST.

Policy Corner
FHFA's New Stategic Direction Likely to Dampen LMI Lending

by Barry Zigas, Consumer Federation of America

Many consider mortgage finance reform the last remaining piece of business from the financial crisis of 2008. Now, however, the confirmation of Dr. Mark Calabria as the Director of the Federal Housing Finance Agency (FHFA) has put in motion a swift-moving set of policy changes aimed at bringing this final chapter to a close. Unless Congress passes legislation soon, which appears unlikely, more than 10 years of debate may end with a restoration of the pre-crisis status quo, with Fannie Mae and Freddie Mac resuming their places at the top of the mortgage food chain.

Fannie and Freddie are private, shareholder-owned companies chartered by Congress to ensure that mortgage funds are widely available in all geographies and at all times. They provide this liquidity by purchasing and securitizing loans originated by mortgage lenders. Their domination of the marketplace means that their underwriting standards and mortgage products for both home purchase and rental housing are the *de facto* standard for the industry. Their ability to transform millions of individual mortgage transactions into a much smaller number of mortgage-backed securities (MBS) and the implied US guarantee of these obligations brings money from around the globe to the American mortgage market and makes possible the long-term, fixed-rate mortgages that are favored by US consumers.

These mortgage giants faced severe financial difficulties after the housing market crashed in 2008, and they were placed into conservatorship as a result. The newly-created FHFA became their conservator, and in return for providing them with financial support, the US Treasury received senior preferred shares in the company, a quarterly dividend, and warrants for nearly 80 percent of outstanding common shares. In 2012, this dividend was replaced by a sweep of all net income for both companies, meaning that the companies send almost all their profits to the Treasury, just keeping enough to provide them with a $3 billion capital buffer.

Earlier this year, Treasury and HUD published a set of recommendations for the future of mortgage finance. While these reports endorsed legislative action to resolve the companies' future, they acknowledged that congressional action was difficult, and therefore they included as well a set of specific administrative moves that would move toward ending the conservatorship if Congress did not act. Director Calabria has embraced these recommendations and moved quickly to begin implementing them. For example, FHFA announced that it would change the agreement with Treasury to allow Fannie and Freddie to retain earnings and rebuild capital – a critical step to being released from the protections of conservatorship – and that it would soon finalize a new capital rule that would set the terms under which the companies would operate after conservatorship.

In addition, Director Calabria is taking other actions or considering other measures that will have a significant impact on the mortgage market, including cutting back on low-down-payment products, eliminating or restricting financing for vacation homes, investor units and cash-out refinances, and imposing new limits on the GSE multifamily financing businesses. He also has championed an end to the so-called "GSE Patch" in the Qualified Mortgage rule, which enables Fannie and Freddie to lend to borrowers with debt-to-income ratios over 43 percent. These current and potential moves could shrink the companies' overall business volumes, reducing their ability to cross subsidize other products, especially those serving LMI borrowers. Already, more borrowers are finding that an FHA loan is their only option.

Finally, while Director Calabria has publicly pledged that he will continue to enforce the statutory housing goals, Duty to Serve, and assessments to finance the Housing Trust and Capital Magnet Funds, it is already clear that FHFA will no longer be proactive in encouraging Fannie and Freddie to take an expansive view of these obligations and that the initiatives to expand credit to previously underserved borrowers and communities that marked their heyday in the 1990's and early 2000's or even the last five years under Director Mel Watt are unlikely to return anytime soon. While the GSEs will continue to play an indispensable role in mortgage finance going forward, they will do so with less innovation and attention to the needs of LMI borrowers and communities.

Barry Zigas is a Senior Fellow at the Consumer Federation of America.

Policy Quick Takes

- A study by the Center for Household Financial Stability at Federal Reserve Bank of St. Louis suggests that the presence of downpayment assistance for homebuyers does not increase the risk of default on mortgages. Researchers examined the loan performance of thousands of mortgages made through the Community Advantage Program, a partnership between the Ford Foundation, Fannie Mae, and Self-Help, a Community Development Financial Institution. The findings in this study contradict earlier studies that have found a relationship

between mortgage defaults and downpayment assistance.

- Recent reporting in the *New York Times* about how wealthy investors have sought to influence the designation of Opportunity Zones has prompted a Congressional response. Senator Ron Wyden of Oregon, Ranking Member of the Senate Finance Committee, has introduced legislation to increase the reporting on who is investing in Opportunity Zones and what the outcomes of these investments are. Senator Wyden's bill also curtails the designation of areas adjacent to Opportunity Zones as eligible. Other members of Congress such as Representative Emmanuel Cleaver (D-MO) Representative Ron Kind (D-WI) and Senator Cory Booker (D-NJ) have written a letter calling for an investigation of the Treasury Department's decision making on Opportunity Zones.

Free Webinar: Influencing Landlords in Middle Neighborhoods
Tuesday, November 19 (Noon - 1:15 PM Eastern)
Registration link: https://cc.callinfo.com/registration/#/?meeting=1frcj6nd84pj4&campaign=1e8iinqgy3kh9
middleneighborhoods.org

Private investor-landlords are a fact of life in middle neighborhoods, and can have an enormous impact – for good or bad – on quality of life and the trajectory of the real estate market. In this webinar, learn how two practitioners have crafted and implemented strategies that engage landlords around their self-interests while influencing their investment choices to improve the quality and value of their properties.

Panelists:
- Kamla Lewis, Director of Neighborhood Revitalization, City of Shaker Heights, Ohio
- Nedra Sims Fears, Executive Director, Greater Chatham Initiative, Chicago, Illinois, and Co-Chair, Middle Neighborhoods Community of Practice

Moderated by Marcia Nedland, Fall Creek Consultants and Middle Neighborhoods Community of Practice. *Questions to marcia@middleneighborhoods.org*

Kris Siglin serves as NCST's Vice President of Policy and Partnerships.

Industry News

- Bankruptcy May Shield Homeowners From Forgiven Mortgage Debt Tax *(Julia Gordon quoted)*

https://news.bloombergtax.com/daily-tax-report/bankruptcy-may-shield-homeowners-from-forgiven-mortgage-debt-tax

- Mark Calabria: Fannie Mae And Freddie Mac Will Increase Focus On Exiting Conservatorship

https://www.housingwire.com/articles/mark-calabria-fannie-and-freddie-will-increase-focus-on-exiting-conservatorship/

- How Climate Change Creates A 'New Abnormal' For The Real Estate Market

https://www.curbed.com/2019/10/29/20930330/real-estate-climate-change-federal-reserve-flooding

- Citibank Fined $30 Million For Holding Onto Foreclosures For Too Long

https://www.housingwire.com/articles/citibank-fined-30-million-for-holding-onto-foreclosures-for-too-long/

- U.S. Existing Home Sales Drop More Than Expected In September

https://www.reuters.com/article/us-usa-economy-housing/u-s-existing-home-sales-drop-more-then-expected-in-september-idUSKBN1X11OQ

Staff, Phone or Email Changes?

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.