Testimony of

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Before the Senate Committee on Banking, Housing and Urban Affairs
Subcommittee on Housing, Transportation and Community Development

"Saving Our Neighborhoods from Foreclosures"

Field Hearing

February 10, 2012

Senator Menendez and members of the Subcommittee, thank you for this opportunity to speak with you today about New Jersey Community Capital (NJCC) and the role we play in saving New Jersey's neighborhoods from foreclosures.

My name is Wayne Meyer. I am President of New Jersey Community Capital, a nonprofit Community Development Financial Institution or CDFI. New Jersey Community Capital is the only CDFI headquartered in New Jersey which serves the entire state. Being a state-wide organization, we gain valuable insights into the difficulties and challenges experienced by our borrowers, mostly nonprofit community development corporations (CDCs). Through our innovative lending strategies, we are able to bolster the important work of these organizations, which are trying to save and stabilize neighborhoods ravaged by the continuing foreclosure and credit crises. Low-income communities throughout the state are in great peril and other, seemingly stable, low- to moderate-income communities are also on the precipice of rapid decline. However, CDCs alone will not save our neighborhoods and communities. This can only be done through comprehensive, innovative and integrative initiatives which require collaboration from every sector—government, private, philanthropic, nonprofit and civil.

The Problem

The foreclosure crisis is changing the landscape of many New Jersey communities. Tens of thousands of foreclosed properties sit vacant, creating health and safety risks for these neighborhoods, of no use to the countless New Jerseyans seeking homes they can afford. Similarly, hundreds of thousands of homeowners are underwater and drowning fast with mortgages greater than the values of their homes. And with foreclosure filings continuing to increase, this crisis has yet to run its course.

Our Solutions

We appreciate Senator Menendez' proposed Shared Appreciation Mortgage Modification Act and we support the Senator's advocacy for experimenting with different approaches to disposing of foreclosed properties.

The scale of the foreclosure problem is so large, however, that we believe that additional strategies need to be part of the solution. In the interest of time, allow me to highlight some of the most promising and effective programs we have designed to date, which we feel are key to saving our neighborhoods from foreclosures.

The CAPC Model

NJCC has a proven model that we believe can be used in regions throughout the country. This model does not require public subsidy. We have developed a bulk purchase strategy in which we purchase, rehabilitate, and return foreclosed homes to productive and equitable reuse while strengthening and revitalizing the surrounding communities.

NJCC is employing this proven model through its subsidiary, the Community Asset Preservation Corporation (CAPC). CAPC is a statewide nonprofit real estate organization that acquires nonperforming residential mortgages and real estate owned (REO) properties in targeted New Jersey communities through discounted bulk purchase arrangements. CAPC then returns these properties to productive use through a combination of strategies.

CAPC first tested its model in 2008 with an innovative initiative called Operation Neighborhood Recovery (ONR). As part of ONR, CAPC worked with a partnering CDC to acquire a pool of 47 nonperforming mortgages, primarily located in distressed northern New Jersey neighborhoods, at a deep discount. The first transaction of this kind in the nation, ONR has successfully maintained these properties while developing mixed-market disposition strategies that support community stabilization goals. Since acquisition, the partner organizations have cleared title to 44 of the properties and conveyed over 23 of the properties to community developers for return to productive use. While the financial success of this model was built on efficiencies of scale and internal cross-subsidization, the goal of neighborhood stabilization was achieved through strong partnerships with local CDCs who were willing to purchase and rehabilitate ONR properties located within the communities they serve.

In 2010, CAPC merged with NJCC, which was the lead funder of ONR. As a wholly-owned subsidiary of NJCC, CAPC benefits from NJCC's statewide reach, robust balance sheet, and existing relationships with many public, private, and nonprofit organizations. Now a statewide organization, CAPC continues to pursue a mixed-market approach to the acquisition and disposition of nonperforming mortgage and REO properties. This approach relies less on public subsidy and more on internal subsidies and efficiencies of scale to create affordable housing. Pivotal to this approach is NJCC/CAPC's ability to provide key real estate services that are crucial to this model. These services include realistic transaction pricing based on local market knowledge; experience structuring and completing bulk purchases; demonstrated property maintenance capacity; real estate brokerage capabilities; existing and varied partnerships that support and encourage joint ventures; and flexible financing through NJCC, for such crucial needs as predevelopment loans and lines of credit.

Since inception, CAPC has acquired properties through four bulk transactions and other acquisition strategies. CAPC continues to work with local CDCs to convey these properties and has also begun to directly secure or rehabilitate homes.

The goal of CAPC is to successfully intervene in the reclamation and recovery of 500-750 residential units over the next 5 years, leveraging over $40 million in total development costs by acquiring pools of nonperforming residential mortgage notes or foreclosed bank-owned residential properties. The elements of CAPC's approach include bulk purchases; a value assessment model based on costs and likely sales of each property (exit strategy); proactive asset management; nontraditional financing strategies; and a mixed market disposition strategy built upon various exit options.

The specific goals of the CAPC are to:

- Rapidly and at a meaningful scale acquire property that is at some point along the foreclosure track
- Preserve the assets and financial integrity of at-risk resident homeowners
- Maintain properties to preserve their value and minimize neighborhood harm
- Re-convey property to appropriate agents to be put back into productive use in an equitable manner
- Provide capacity building assistance to partner community development organizations

The elements of the CAPC model enable thoughtful and strategic intervention in ravaged neighborhoods. By critically analyzing the housing stock and foreclosure data for targeted communities, CAPC is able to identify properties which—once rehabilitated—will have an immediate impact on the local real estate market and a stabilizing effect for that particular block. CAPC is able to do this thanks to its ground-up valuation methods and its collaboration with local CDCs, which have an intimate knowledge of the area and its residents. By developing and furthering relationships with NJCC's clients, CAPC is able to help these clients conceptualize and actualize proficient redevelopment projects with lasting effects.

The CAPC disposition model pools REO assets, allowing nonprofits like NJCC and CAPC to enter into joint ventures with institutions such as the FHFA and the Enterprises to decide how best to manage and sell these assets. This effort can be augmented by leveraging private sector capital, to allow for bulk acquisition of REO assets from banking institutions and other private sellers.

It is important to note that this model does not rely on public subsidy. The model relies on discount prices for the bulk purchase of REO properties, due to economies of scale that result from partnerships. Prices would be set by the market with no further discount required. In this model, a portion of the properties would include properties unlikely to sell for a profit as well as other properties that may sell at a higher price, perhaps at market rate. The economies of scale, combined with the model's mixed-market disposition exit strategy, allow for cross-subsidization among properties in a bulk purchase portfolio, allowing some properties to be sold or rented as market-rate properties and others as discounted, affordable housing. This also provides cash to allow debt to be drawn down earlier, which helps ensure the model's financial sustainability.

The demand-side valuation model is driven by the exit strategy, a deep understanding of local markets and a close working relationship with other mission-based organizations. Through this model, CAPC will group properties by key indicators such as unit type, lender, and location, among other characteristics, and work with its local partners to assist in determining the most viable disposition and exit strategy for each property. No less than two exit options will be selected for each property, including: rehabilitation and conversion to affordable rental; rehabilitation and sale or lease-to-sale; sale of property to nonprofit

CDCs; sale of property to select for-profit, mission-based affordable housing developers; sale of property directly into the market (select private investors); demolition of property; and conveyance of property to land banking.

Expanding the Model Through the Neighborhood Prosperity Fund

As an experienced CDFI and active lender for community development projects, NJCC has witnessed the increasing shortage of accessible, flexible capital to help meaningfully preserve and revitalize New Jersey's neighborhoods. Insufficient liquidity and capital are tremendous impediments to achieving neighborhood stability and change. The foreclosure and credit crises have placed even seemingly stable communities on the precipice of rapid decline. However, NJCC believes those impediments can be resolved through targeted and strategic investments in communities.

The development of the Neighborhood Prosperity Fund (NPF) by NJCC allows us to expand the scale of our interventions by offering a dedicated, durable, and permanent source of lending capital for:

1) acquisition and rehabilitation of foreclosed/abandoned properties, including the bulk purchase of REO properties at discounted prices;
2) medium-term financing for the lease or lease-purchase of completed units that currently cannot be sold to low/moderate income households.

The NPF provides financing for high-impact community developers to invest in at-risk neighborhoods. These funds are recycled to continually acquire, renovate, and place troubled properties back on the market. The NPF provides flexible forms of capital through lines of credit to community developers to acquire, renovate, and return to equitable reuse houses in at-risk low- and moderate-income neighborhoods. These dynamics are critical to the sustenance of communities, as they become less reliant on tenuous public subsidy, even as NPF investments generate both public and private funds that far exceed their initial value.

Besides the severe shortage of mortgage and project financing for community housing developers, many families lack the credit or savings necessary to purchase a home in today's lending environment. This creates a large backlog of homes on the market and increases the likelihood that sponsors of Neighborhood Stabilization Program (NSP) projects will be holding for-sale properties in their inventory far longer than anticipated. This necessitates the provision of flexible, affordable mini-permanent financing options for developers, which are not readily available in the current environment. The NPF will enable these community builders to tackle this problem of market absorption through medium-term financing for the lease or lease-purchase of the vacant and foreclosed structures they have placed back into equitable reuse in neighborhoods where homeownership is not currently a viable disposition strategy.

Even prior to the current financial crisis, mainstream financial institutions were limiting the financing they provided to CDCs and other nonprofit developers. Larger regional and national banks have not had an appetite for the smaller transactions undertaken by CDC real estate developers, while local financial institutions have often lacked an understanding of the community development finance market. The advent of the economic crisis further limited the number of mainstream lenders willing to tackle this work, leaving CDFIs as the primary source of capital for nonprofit and mission-driven developers working in New Jersey's at-risk communities. In fact, NJCC has often been the primary source of capital for community development projects, particularly those that are affordable housing and NSP-related.

NJCC continues to innovate, adapting our neighborhood stabilization initiatives to meet the current needs of distressed neighborhoods. Our responses are designed to bring meaningful change to these localities on a scale large enough to restore normally functioning markets. We still believe that the strategic acquisition and redevelopment of pivotal properties is critical to preserving and revitalizing vulnerable urban neighborhoods. Accomplishing this, however, requires both financial and real estate capacity at a greater scale that what has existed to date. It also requires a major shift in thinking and behavior by stakeholders at all levels.

The NPF funds provide financing to high-impact community developers that demonstrate the financial and real estate capacity to implement neighborhood planning and stabilization strategies. NJCC awards the funds to projects that are tied in with a comprehensive, strategic plan for long-term neighborhoods stability.

It provides flexible forms of capital through lines of credit to these non-profit and mission-driven developers to acquire and build/renovate homes in low- and moderate-income neighborhoods. The fund leverages both current and future federal neighborhood stabilization funding, providing financing that is flexible, cost effective and of the magnitude and scale necessary to assist in the transformation of neighborhoods. The NPF funds are recycled to maintain the continual acquisition, renovation, and disposition of troubled properties.

The NPF is capable of bringing about transformative neighborhood change and is critical to reducing the complexity, delay, and cost associated with traditional acquisition, development and construction lending, and to leveraging public funds. The NPF serves as an important model for a scaled response to the foreclosure crisis and beyond and as an effective tool for the revitalization of distressed communities that are suffering from vacant and abandoned properties.

Helping Keep Families Out of Foreclosure—Creating a Mortgage Resolution Fund

NJCC is working to create a mortgage resolution fund as a powerful vehicle for foreclosure intervention and neighborhood stabilization. This mortgage resolution fund would use a bulk purchase strategy to acquire pools of delinquent mortgages on owner-occupied properties in high-impact areas, and will subsequently evaluate each mortgage and corresponding property to create an individualized action plan for each homeowner. These plans fall into three categories: 1) the affordable restructuring of the mortgages to preserve homeownership; 2) rent-to purchase options through a temporary third-party owner; or 3) transitional support to new housing for owners who cannot sustain their tenure in the foreseeable future.

It is our strong belief that this mortgage resolution fund would be different from other public or private programs currently operating in the market. It would be geographically target areas for bulk mortgage note purchases to maximize its impact on neighborhood stabilization. The program would be consumer-centered and provide direct services to the homeowner in a holistic manner. It would offer a permanent solution for the homeowner and the neighborhoods by permanently modifying and reducing the loan principal upon successful completion of a trial modification period. Since it would not be a subsidy program, we believe it would play a critical role, given the shrinking public sector resources available for this work.

We estimate that we would need a $100 million over 6 years in order to create a fund capable of acquiring 2,000 owner-occupied properties. While such a target would significantly reduce the number of families struggling with foreclosure, it also shows how difficult and time- and labor-intensive our combined efforts will need to be to help solve this crisis.

Conclusion

Once again, I would like to thank the Chairman and the members of the Subcommittee for their time and attention to this critical issue of saving our neighborhoods from the detrimental impact of foreclosures. I once again would like to acknowledge Senator Menendez' leadership in helping residents of our at-risk communities all across our state.