# Written Testimony to the Subcommittee on Housing, Transportation and Community Development of the Senate Committee on Banking, Housing and Urban Affairs by Mr. Chris Krehmeyer, President/CEO of Beyond Housing. September 20, 2011. "New Ideas to Address the Glut of Foreclosed Properties"

Chairman Menendez, Ranking Member Demint and all committee members, it is my honor to be here today to discuss the very critical issue of the glut of foreclosed homes that are currently on the market. I am the President/CEO of Beyond Housing, a Neighborworks America network organization and a 35 year old not for profit in St. Louis, Missouri. In addition, I am on the Board of Directors of the National NeighborWorks Association, a national membership group that works to unite housing and community development practitioners to advocate for affordable housing and economic opportunities for individuals, families, communities and neighborhoods across the country. I currently chair the Association's External Policy Committee.

Furthermore, I am a founding board member of Practitioners Leveraging Assets for Community Enhancement, or PLACE. PLACE is the single unified voice of housing and community development practitioners who build, preserve, and maintain adequate and affordable housing and promote community development for low and moderate income families across the country. Our members are the expert end-users of federal, state and private housing and community development funding, leveraging various sources of capital to build and strengthen America's communities.

So, I'm the local guy; the practitioner on the ground who works with housing programs and policies to get things done in local communities.

My organization tries to tackle the problem of foreclosures and the damage it does to families and communities each and every day. Our staff confronts this issue from every angle starting with prevention in our first time homebuyers work where we provide the needed and necessary guidance to ensure that families are truly prepared for long term, sustainable homeownership. Prevention continues with foreclosure counseling work using the National Foreclosure Mitigation Counseling (NFMC) program that is run in an incredibly efficient manner by Neighborworks America. Our efforts also include the purchase and rehab of foreclosed homes using the Neighborhood Stabilization Program (NSP) and other resources we are able to secure. In the past twelve months we have used NSP funds to buy and rehab 30 homes that were added to our rental portfolio of over 340 single family homes. Just last month we created a community land trust to use as a vehicle to secure property in our targeted community in St. Louis. We plan to purchase and rehab six vacant/foreclosed properties before the year is out with the land trust.

Our work was recently cited by the White House in their July 2011 "Neighborhood Revitalization Initiative Report".

So what can be done to stem the tide of foreclosed properties causing such great damage to the neighborhoods and communities across the country? I would be remiss to not state that the best thing that can be done is to keep families in their homes. This is not the focus of this hearing but it is indeed critical and greater action such as across the board principle reduction must be looked at right away if we are to slow down the pace of foreclosed homes coming in the market place.

Here are critical, over arching principles that need to be in place no matter the end use or type of developer that were created by myself and group of peers from across the country who are all a part of the Neighborworks America network;

- Recent and emerging neighborhood stabilization could be put at risk if there is no alignment of the investment by third-parties with the commitments to community stabilization activities underway in these communities.
- Long-term affordability would not be served by a blanket transfer of properties without consideration for pricing discounts to be provided along with affordable income qualifications.
- Long term downward drag on these communities would continue if for profit investment is not able to manage a long term investment strategy (3 to 5 years). Short-term investment strategies may require assets to be sold at distressed values and thus perpetuate the current situation.
- Community value is not strengthened if non-local investors neglect maintenance and repair of properties. Good stewardship of properties during the transition phase is important to strengthen viability of communities and protect other asset values in neighborhoods.

- Property values continue to suffer unless sufficient reinforcement of appraisal guidelines on valuing in distressed communities so that the bulk transfers do not further erode value in these communities.

The following address the specific methods of disposition called out in the testimony confirmation letter.

Conversion to Rental Properties

Managing and maintaining a scattered site, single family portfolio is challenging but as my organization's 35 year track indicates it is possible. As recent data sadly reflect more families live in poverty today than ever. The need for safe, affordable rental housing has never been bigger. There are a number of for profit and not for profit developers and property managers across the country that can both perform the management services and train others to also be successful. The key elements of this strategy will be;

- Aligning the goals of the public sector, servicers, investors, community leaders, for profit developers and not for profit developers. Failure to do so will create a delivery system that fails to meet expectations as we have seen in the foreclosure counseling work.
- Significant discounts in pricing to acknowledge the financial challenges in bringing the home back on line as a sound asset for the community and for the owner. (Detailed financing structure is presented later in testimony)

- Ensuring the debt structure subsequent to total development costs provides a debt coverage ratio of at least 1.2, i.e., given reasonable occupancy rates and after paying mandatory costs (insurance, taxes, management, maintenance, utilities, etc) there is still enough revenue to pay the debt service plus 20%. The 20% is for reserves and unanticipated costs.
- Securing experienced and qualified property management firms to ensure that the home remains in good condition and an asset to the community.

Demolition

There will be a portion of the foreclosed properties that simply need to be demolished. In most cases the only possible way to dispose of a home in this situation would be to donate the parcel to the local government or qualified entity with a guarantee that the home will indeed be demolished. The use of land banks or land trusts should be expanded across the country to be the holder of these properties until redevelopment can occur. There are instances where demolishing a home on a block can provide much needs emotional and psychological assistance to existing community residents to let them know positive things can occur.

Bulk Sales Partnership with Government Sponsored Entities (GSE's)

A partnership model that was designed by a group of my Neighborworks America network peers and I would create a great vehicle to address the glut of foreclosures. The model builds on existing work and could really move the needle on getting homes back into productive use.

The partnership model proposed below leverages many institutions created by the community development industry in response to the crisis. This includes the National Community Stabilization Trust, which NeighborWorks America, Enterprise, LISC, Housing Partnership Network, National Council of La Raza, and the Urban League helped form. The NCST provides a critical function to aggregate REO inventory among servicers and create a platform for offering this inventory to nonprofits across the country and simplifying the execution process to transfer these assets

This partnership model can deliver on several fronts:

- It can collectively reach a substantial volume of property transfers that individual relationships would not be able to achieve – thus creating a wholesale-like execution.
- It can connect REO assets in these communities to nonprofit community builders that are paramount to rebuilding the communities and establish new residents and quality housing.
- It can assure that those assets of most strategic value to the community and most influence community value are handled by local interests.
- It leverages the established tools in the marketplace (e.g., the National Community Stabilization Trust ("NCST")) to handle aggregation and transfer of multiple assets to multiple locations from multiple servicers.

- It allows for quality rehab to take place (including energy efficiency to create long-term financially and environmentally sound properties) and returns housing assets to productive use.
- It can ensure that when assets are made available for sale as owner-occupied units that low and moderate income households have opportunity and options to purchase these assets.
- It recognizes that GSE's and FHA should be able to be compensated for the asset if the market returns.

In general terms, the nonprofit community development / affordable housing program alternative would carry the following characteristics:

- GSE's and FHA identify and reserve assets that are located in either NSP markets or similar targeted geographies being worked by nonprofits ("target markets").
- These assets are made available to NCST as the "First Look" clearinghouse of assets to qualified nonprofits. The assets are available for acquisition by qualified nonprofits for a set period of time after which the assets revert for broad market sales
- Qualified nonprofits working in the target markets would purchase assets at a prudent, transparent discount price that considers the balance between the costs of acquisition, rehabilitation, and management and feasible rents to low and moderate income families in these markets. In consideration for this discounted price the non profits would execute an agreement to share gain on sales if they would occur with the GSE's or FHA.

- Nonprofits take title to assets from Enterprises or FHA.
- Nonprofits rehabilitate the housing stock to appropriate levels at a target percentage of appraised value and improve the longevity and operating cost of the home by including as much energy efficiency and additional green improvements within the budget. To facilitate this rehabilitation, the Enterprises or FHA offer the nonprofits the opportunity to take out a mortgage as the mortgagor from Enterprises or FHA that covers the rehabilitation costs of the home. The mortgage would be assumable by a future buyer of the property. (Alternatively, the nonprofit could use a working capital lines to finance rehabilitation.) The nonprofit improves the property and makes the home available to a low- / moderate-income family.
- The nonprofit manages the asset as rental property and uses rental income to cover mortgage note payment (or line of credit costs) and operating costs; any additional rental income proceeds are kept by nonprofit to further its community improvement strategy.
- At a point in time when values have stabilized, the nonprofit markets the property as an affordable housing unit to a low / moderate-income family.
- The GSE's and FHA make available specific mortgage products with flexible terms to allow low-moderate-income families to purchase the homes.
- Nonprofit sells asset and shares an established percent of the difference between costs of asset (e.g., rehabilitation costs, holding costs, sales costs, developer fees) and sales price with the GSE's or FHA.

The nonprofit community development / affordable housing approach is offered as a strategy to deliver quantities of quality affordable housing and simultaneously address the destabilizing influences of foreclosure. It achieves these goals by creating strong, community-based owners of assets with an interest in community improvement through a partnership between the GSE's and FHA in the redevelopment of these communities along with fair consideration for the assets. The outcomes of this approach are many. Existing homes are used to provide affordable housing and meet the demand for this product throughout the nation. Properties are improved to make them longer-term assets that meet higher energy efficiency standards; thus preserving assets for the long term and making the homes more economic to operate for lower income households. The rental properties are maintained to high standards in community. The property values are not diminished in community as the nonprofit will market to preserve value in the community as sales will occur when market stabilizes. The Enterprises and FHA get performing assets on their books in the rehabilitation loans and they are compensated for assets through a shared gain on sales approach. And, in the end quality, affordable homes are returned to low-mod income families for rental and eventual homeownership.

## Coordination of Strategies

The strategy detailed above would fit in perfect alignment with existing work already taking place using the NSP and NFMC programs all across the country. Overt and intentional coordination needs to occur if we are to derive the collective impact of these programs. Local community leadership, not for profit developers, for profit developers and local units of government will be tasked to ensure and prove levels of coordination through Memorandums of Understanding (MOU). These MOU's will call out specific objectives, deliverables and responsibilities for all parties. Failure to work in this intentionally integrated fashion will hinder any opportunity for community wide success.

Again, thank you for the opportunity to present my ideas and the ideas of my not profit peers from across the country to address the serious challenges we face each in every day as we try to make a difference in the lives of those we serve.