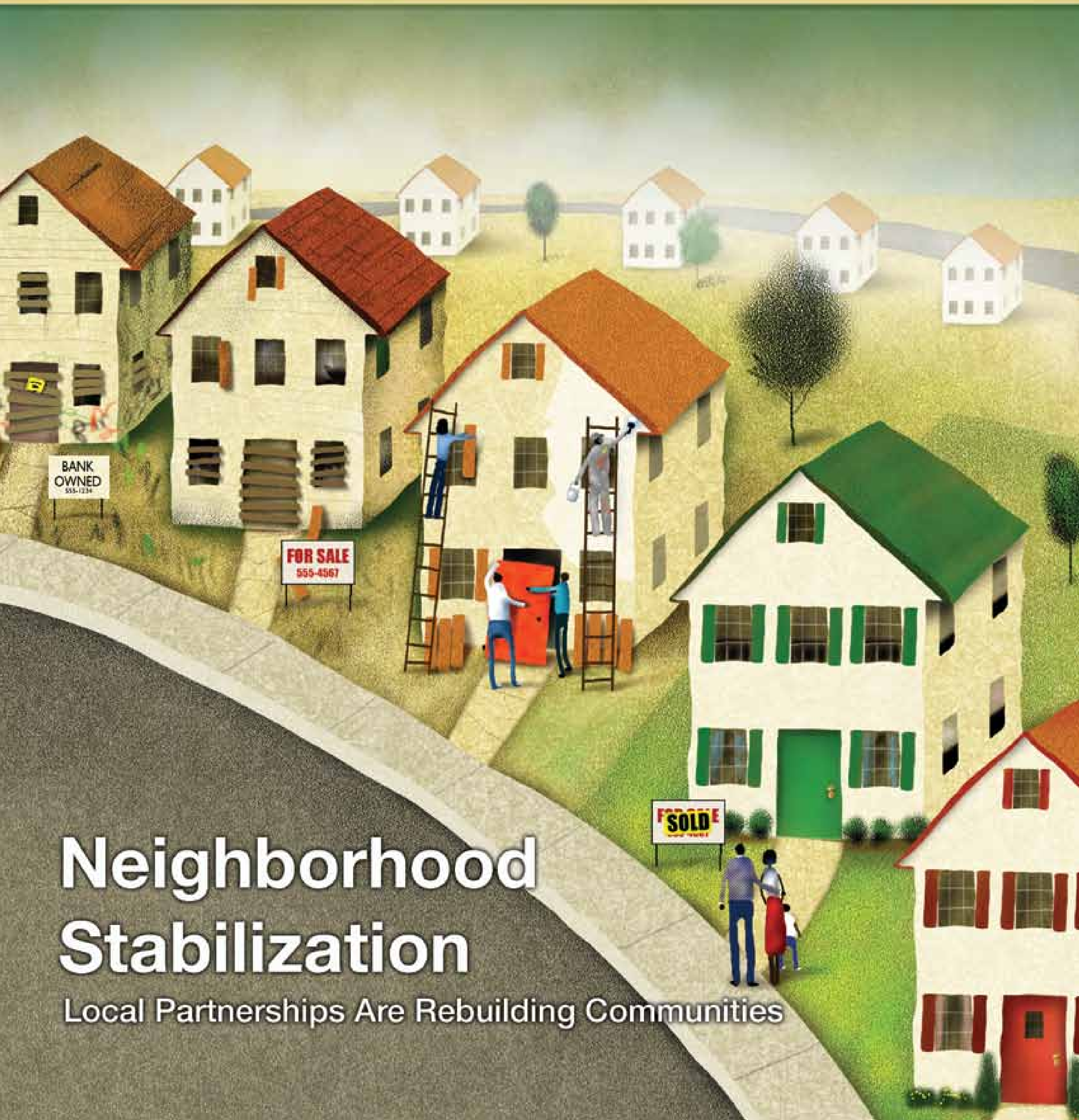
Comptroller of the Currency
Administrator of National Banks

US Department of the Treasury

Community Developments

Fall 2009

The OCC's Community Affairs Newsletter



Neighborhood Stabilization

Local Partnerships Are Rebuilding Communities

A Look Inside ...

Partnerships Provide Models for Rebuilding Neighborhoods

Barry Wides, Deputy Comptroller for Community Affairs, Office of the Comptroller of the Currency (OCC)

This *Community Developments* newsletter highlights the emerging partnerships that national banks and other mortgage lenders are forging with state and local leaders to revitalize communities hurt by high rates of foreclosure.

These partnerships, and the strategies they are creating and using, are already reaping rewards. Most importantly, their efforts serve as models for lenders and community leaders across the nation working to advance community development and stabilization in their own neighborhoods.

These community development partnerships provide banks and other lenders with new strategies to reduce burgeoning portfolios of real estate owned (REO) properties even as they serve the needs of customers and distressed communities. They give low- and moderate-income home buyers the chance to buy properties in neighborhoods hard hit by high foreclosure rates and blight.

Those partnerships help to bring new life to troubled communities across the nation. But much work remains to be done, and national banks can play a critical, leadership role in helping to revitalize distressed neighborhoods.

The OCC and its District Community Affairs Officers, in fulfilling its mission to ensure a safe and sound banking system, are dedicated to helping national banks be leaders in providing community development financing, investments, and retail services to underserved communities and customers. It is crucial, particularly in these tough economic times, that national banks continue to serve the credit needs of neighborhoods in low- and moderate-income areas hard hit by high foreclosure rates and that they remain vigilant to their responsibilities under the Community Reinvestment Act.

With these goals in mind, the OCC, in this newsletter, details the work of a vanguard of national banks, nonprofit organizations, and community groups that are working to rebuild our nation's neighborhoods.

By highlighting these nascent efforts, the OCC hopes to inspire other lenders and community leaders to build on this work and to encourage them to forge new community development partnerships to renew neighborhoods in their own backyards.

This edition of the OCC's *Community Developments Insights* highlights partnerships for banks working to dispose of foreclosed properties in creative ways that preserve affordable housing opportunities and stabilize communities. This report reviews initiatives and strategies for building partnerships among banks or mortgage servicers and nonprofit organizations, for-profit affordable housing developers, government entities, and others that are implementing plans to create affordable rental or homeownership opportunities and revitalize areas affected by foreclosed properties.

www.occ.treas.gov/cdd/Insights-PropertyDisposition.pdf

Community Developments
Insights

March 2009

Property Disposition:

Exploring Different Approaches for Preserving Affordable Housing Opportunities

Community Developments

Deputy Comptroller
Barry Wides

Editorial Staff	Design Staff
Beth Castro	Rick Progar
Bill Reeves	Cheryle Robison
Kristopher Rengert	
Lily Chin	
Morey Rothberg	
Janet Fix	
Rebecca W. Miller	

Questions or comments, please phone (202) 874-5556.

This and previous editions are available on our Web site: www.occ.treas.gov/cdd/resource.htm.

Partnerships Serve Common and Self-Interest of Banks, Communities

John C. Dugan, Comptroller of the Currency

National banks have always worked hand in hand with local and state leaders to build and revitalize the communities they serve. Now, as the nation's economy struggles to regain its footing, these partnerships are proving critical to distressed neighborhoods and to lenders contending with a glut of abandoned and foreclosed homes.

Thanks to new community partnerships, neighborhoods across the nation are being rebuilt and renewed. In Minnesota's Twin Cities, low- and moderate-income families buy foreclosed homes before they become eyesores and targets for crime. In Charlotte, North Carolina, families unable to qualify for conventional mortgages live in homes while saving to buy them. In Phoenix, Arizona, prospective home buyers receive prepurchase counseling, home buyer education, and help finding homes they can afford.

The partnerships behind these efforts are using strategies and tools—some new, some old—to return to beneficial use a growing portfolio of nonperforming real estate on bank balance sheets. In doing so, the partnerships are fulfilling the shared goals and best interests of lenders and community partners.

Lenders benefit when nonprofits and state and local government agencies buy, and find buyers for, the foreclosed homes and the difficult-to-sell mortgages or real estate owned (REO) properties on their books. State and local governments, nonprofits, and low- and moderate-income home buyers benefit by gaining access to affordable homes and help to renew communities struggling with high foreclosure rates.

Comptroller Dugan, Deputy Comptroller Wides, and Norman Henry, President of "Builders of Hope," on a recent tour of the organization's work in Dallas neighborhoods hard-hit by foreclosures.

These efforts come at a critical time for financial institutions. High unemployment and falling home values have left financial institutions nationwide holding portfolios of foreclosed real estate and nonperforming loans. These portfolios are expected to grow, particularly if the economy weakens further and unemployment rises. This could cause more homeowners to default on mortgages and a crisis that began with subprime borrowers to expand to borrowers with conventional mortgages.

At the end of second quarter 2009, the proportion of homeowners delinquent on their mortgages or in foreclosure rose to the highest level in at least four decades, according to a Mortgage Bankers Association study released in August 2009. As many as one million more foreclosed homes and other properties could be added to the REO portfolios held by financial institutions over the next 12 months, according to the National Community Stabilization Trust *(see Stabilization Trust article, p. 10),* which estimated that there were 350,000 to 500,000 REO properties across the country in July 2009.

Foreclosed and vacant homes are costly to communities and lenders. They can bring blight to neighborhoods, become targets for criminals, and depress the values of neighboring homes. They diminish profitability for lenders, which face rising costs for holding and marketing properties for extended periods, particularly in communities where there are many foreclosed properties and few buyers. To stem losses and avoid further declines in property values, lenders increasingly are looking at new ways to manage REO portfolios and to get distressed properties off their books more quickly.

Now, a vanguard of banks, nonprofit organizations, community groups, and government agencies are working to combat these problems. They provide the critical leadership, creativity, and financing needed to help rebuild and revitalize neighborhoods across the nation.

Minnesota's Twin Cities: Nonprofit housing organizations are enabling low- and moderate-income persons and families to buy foreclosed homes from major lenders and mortgage servicing companies.

Leading this effort is the Stabilization Trust, which was created in 2008 by four leading national nonprofit organizations with grants from the Ford Foundation and the John D. and Catherine T. MacArthur Foundation. Targeted neighborhoods are those in Minneapolis and St. Paul hurt by high rates of foreclosure and abandonment, falling home values, and rising crime *(see Stabilization Trust article, p. 10, and Greater Metropolitan Housing Corporation article, p. 13)*. By the end of 2009, more than 130 communities across the nation may be helped as the Stabilization Trust expands its effort to transfer foreclosed homes and other REO properties from mortgage lenders to local housing organizations and home buyers.

Orange and East Orange, New Jersey: Neighborhoods distressed by high foreclosure rates are being helped by HANDS, a community development corporation that is speeding the transfer of vacant properties before they can hurt the value of neighboring homes. In March, a national bank sold HANDS nonperforming mortgages on 47 properties left vacant in the wake of a mortgage scam. This innovative sale involved the bulk purchase of defaulted mortgage notes—mortgages in default but not foreclosed—by a nonprofit from a bank. Other lenders and nonprofits are expected to use the strategy to help rebuild distressed neighborhoods across the nation *(see HANDS article, p. 19)*.

Charlotte, North Carolina: Home buyers in the Peachtree Hills neighborhood who cannot qualify to purchase a home with a traditional mortgage have the chance to rent a home until they can qualify to buy it through a lease-purchase program. This program is piloted by the Center for Community Self-Help, a Durham, North Carolina-based nonprofit that partners with local banks and nonprofits. Self-Help plans to expand the program to other cities with the help of lenders willing to finance REO sales to community groups that can identify potential lease-purchase homeowners and manage those properties *(see Self-Help article, p. 17)*.

Maricopa County, Arizona: Housing Our Communities provides first-time home buyers needing affordable housing with prepurchase education and counseling. The nonprofit repairs REO properties for resale to low- and moderate-income home buyers and works to increase the availability of affordable housing. Results have been good. The nonprofit says more than 99 percent of clients helped since 1988 remain in their homes—and only four borrowers have lost homes to foreclosure *(see Housing Our Communities article, p. 22)*.

As these and other neighborhood stabilization partnerships evolve, it is critical that lenders, nonprofits, and state and local community leaders stay abreast of developments and, whenever possible, adopt new strategies and tools to revitalize their own communities.

To support this important work, this issue of *Community Developments* highlights the emerging work of these lenders and innovative community partnerships. We hope that their leadership—and their early successes—will inspire other banks and communities to launch partnerships and to help spread community revitalization efforts to other neighborhoods in need across the nation.


Community Developments *Insights*

July 2009

FHA's 203(k) Loan Program

Helping Banks and Borrowers Revitalize Homes and Neighborhoods

This edition of the OCC's *Community Developments Insights* examines the primary bank risks, benefits, and regulatory considerations associated with the Federal Housing Administration (FHA) 203(k) Home Rehabilitation Mortgage Insurance Program. The report provides a comprehensive overview of the program for lenders that may be considering expansion of their product line with 203(k) loans. This product can be used by banks to develop new business, mitigate risk, enhance profitability, and meet certain regulatory requirements, as well as assist in the revitalization and stabilization of neighborhoods negatively affected by the current foreclosure crisis.

www.occ.treas.gov/cdd/203k_Loan%20Program_Insights_Jul09.pdf

Wells Fargo

Using Multiple Strategies for Managing and Renewing REO Properties

Mary "Muffie" Gabler, Central Region Community Development Manager, Wells Fargo

Wells Fargo, the nation's largest mortgage lender, uses a multifaceted approach to managing and disposing of real estate owned (REO) properties to help stabilize and revitalize communities. The bank follows two simple rules. First, whenever possible, avoid acquiring REO. Second, when REO properties are acquired, get them off the books as quickly and productively as possible.

Wells Fargo uses a variety of homeownership preservation strategies to help borrowers remain current with mortgage payments and keep their homes. If foreclosure becomes necessary, the bank works to sell or dispose of foreclosed properties in ways that benefit the bank and its investors, and communities hit hard by high rates of foreclosure and the recession.

Wells Fargo has three business units working to achieve these goals.

- Wells Fargo Housing Foundation cultivates and manages relationships with nonprofit organizations.
- Premiere Asset Services manages REO properties.
- Wells Fargo Community Development Corporation invests in nonprofit organizations and local community revitalization efforts, and, as a result, seeks to sell or transfer REO properties to community groups that renew communities and help low- and moderate-income persons and families find affordable housing.

Typically, Wells Fargo prepares REO properties for sale and lists them on the Premier Asset Service's Web site and with local Multiple Listing Services. During the recent economic downturn,

Source: Wells Fargo

This Wells Fargo REO property is in Livermore, California.

Wells Fargo sought other ways to sell REO properties and has welcomed offers from nonprofit organizations looking to buy properties at a discount. Since 2008, Wells Fargo has asked nonprofit organizations, public agencies, and other interested buyers to make bids, whenever possible, through the National Community Stabilization Trust *(see Stabilization Trust article, p. 10)*. This allows the bank to benefit from efficiencies and to leverage the nonprofit's expertise, technical assistance, and standardized procedures to help list, price, and inspect properties.

The Wells Fargo Housing Foundation steps in when the nonprofit organization wants to buy property in a community where the Stabilization Trust does not operate. The Foundation supports homeownership opportunities for low- and moderate-income families in several ways, including discounting the purchase price for nonprofit organizations or donating properties to nonprofit organizations or government agencies. These requests are reviewed individually.

- **REO donations:** Wells Fargo periodically examines its REO portfolio and identifies properties for donation, and its foundation identifies nonprofit organizations that can rehabilitate and sell the properties. Nonprofit organizations and government agencies can also ask the bank to donate REO properties. The foundation's ability to donate REO properties not owned by Wells Fargo depends on the delegated authority owners or investors have given the bank, market conditions, and other factors.
- **Discounted sales:** Wells Fargo's REO Discounted Properties Program transfers REO properties at a discount to government agencies and nonprofit organizations revitalizing

neighborhoods and provides sustainable homeownership and rental opportunities to low- and moderate-income persons and families. Nonprofit organizations and government agencies interested in buying discounted properties may apply using the foundation's online application (www.wellsfargo.com/about/wfhf/realestateowned). Applicants must prove they are a nonprofit organization or government agency. Available properties and prices are listed on the program's Web site (www.pasreo.com) and (www.reo.wachovia.com). When applicants make discounted bids, Wells Fargo may accept, counter, or request revised bids. Discounted bids for properties owned by investors and serviced by Wells Fargo must be approved by investors.

- **Property rehabilitation:** Wells Fargo's REO Rehabilitation Program supports the volunteer efforts of bank employees working with nonprofits to revitalize neighborhoods and to find homes for low- and moderate-income renters and buyers. The program gives up to $35,000 to a nonprofit organization as an incentive to team members to perform rehabilitation.

Premiere Asset Services manages Wells Fargo's REO properties and ensures they are maintained until sold *(see photo, p. 5)*. The bank ensures that REO properties are maintained in a number of ways:

- When loans default, if Wells Fargo is unable to contact the borrowers, the bank begins monthly inspections of the properties.
- Once homes are vacant, Wells Fargo secures the properties, removes exterior debris, maintains lawns and swimming pools, and takes other necessary steps to care for the properties until they are sold.
- When properties are added to REO inventory, they are prepared for sale by real estate agents. If they don't sell, Wells Fargo may discount the list prices and accept discounted bids from nonprofit organizations and government agencies.

Wells Fargo Community Development Corporation offers an REO Acquisition/Rehabilitation Equity Equivalent Investment (EQ2) for nonprofit organizations and government agencies to convert foreclosed properties into affordable homes for low- and moderate-income persons and families. Wells Fargo provides low-cost, flexible loans to established nonprofit organizations and government agencies interested in buying bank-owned, single-family homes for rehabilitation and resale to qualified low- and moderate-income borrowers.

Funding, available in amounts up to $1 million per applicant, is structured as unsecured, subordinated debt for five years at 2 percent interest and may be used for due diligence, acquisition, infrastructure, rehabilitation, and marketing expenses.

Eligible EQ2 applicants must demonstrate the following qualifications:

- A strong track record of acquisition and rehabilitation of single-family homes.
- A business plan that demonstrates how the nonprofit organization or government agency can successfully acquire, rehabilitate, and sell homes to low- or moderate-income borrowers in the current real estate market.
- Experience with down-payment assistance programs and providing home buyer education before and after a purchase.
- A solid financial position and an unqualified audit for at least three consecutive fiscal years.

For more information on applying for an EQ2, contact a Wells Fargo Community Development officer or visit www.stablecommunities.org/topics/find_property.

Leading the Way by Building Partnerships

Wells Fargo was the first bank and mortgage loan servicer to work with the Stabilization Trust to transfer REO properties to nonprofit organizations and government agencies working to rebuild distressed communities. Wells Fargo helped pilot the Stabilization Trust's First Look Program, which gives nonprofit buyers the chance to see and buy REO properties at a discount before they are available to the general public. The program began in Minneapolis, Minnesota, in conjunction with the Greater Metropolitan Housing Corporation (GMHC) *(see GMHC article, p. 13)*.

At the end of September 2009, Wells Fargo notified the Stabilization Trust of about 1,200 REO properties for sale in designated ZIP codes. About 150 REO properties had been acquired by the nonprofit's partners nationwide. Wells Fargo expects sales to increase as funds from the Neighborhood Stabilization Program (NSP) *(see NSP article, p. 8)* reach communities faced with high foreclosure rates and as more Stabilization Trust partners become available.

Recently, Wells Fargo initiated the Priority Communities Program to support efforts by the Stabilization Trust and its local partners. This program will give grants to local partners in 30 metropolitan areas for subsidies, down-payment assistance, and direct investments using REO properties to stabilize communities.

Wells Fargo expects the Stabilization Trust and its local partners to continue to be key participants in community stabilization efforts nationwide. Because local partners rely largely on NSP funds to buy, renovate, and sell REO properties, neighborhood revitalization efforts are likely to expand and gain momentum as more NSP grants are issued and grantees demonstrate the effectiveness of their work. Similarly, as NSP funds become available and local partners expand in number and capacity, a greater share of the properties that Wells Fargo refers to the Stabilization Trust will likely be purchased by the Stabilization Trust's local partners.

As one of the nation's largest lenders and servicers of mortgage loans, Wells Fargo is committed to supporting community stabilization efforts, and will continue to work with the Stabilization Trust and other partners to revitalize communities as well as housing and lending markets.

For more information, contact Mary "Muffie" Gabler at mary.s.gabler@wellsfargo.com.

Reno Housing Authority and Wells Fargo

Helping Renew Reno, Sparks, and Washoe County

Reno, Nevada, is renewing neighborhoods devastated by foreclosed and abandoned homes with the help of federal grants and a partnership with a new national nonprofit. Reno offers a model for providing affordable homes for families in need.

In early 2009, with $4.2 million in grants from the U.S. Department of Housing and Urban Development's Neighborhood Stabilization Program (NSP), the Reno City Council selected the Reno Housing Authority to use the funds to buy real estate owned (REO) from banks and other financial institutions. About $1.2 million was earmarked to buy housing for low- and moderate-income renters; the rest was to buy and rehabilitate homes for sale to families earning up to 120 percent of the area's median income.

The Housing Authority partnered with the National Community Stabilization Trust and agreed to work with the Stabilization Trust's First Look Program *(see related article, p. 9).* In return, lenders working with the Stabilization Trust agreed to notify the Housing Authority when they had REO properties to sell in the distressed communities where the housing authority wanted to buy and rehabilitate homes. Lenders also agreed to give the Housing Authority the opportunity to review and buy properties before they were offered for sale to the public through traditional means.

Using ZIP codes, the Housing Authority identified three communities—in Reno, Sparks, and Washoe County—for renewal, communities that the state of Nevada targeted in its NSP grant application *(see NSP article, p. 8)*.

When the housing authority got its first look at the REO properties for sale in these communities, David Morton, Executive Director of the Reno Housing Authority, realized that many were in good condition and were for sale by Wells Fargo. Morton and his staff had decided to buy only relatively new properties with few serious problems, to make the homes easier for low- and moderate-income home buyers and renters to maintain. The Housing Authority was less interested in property that needed significant work or had serious problems, such as asbestos tiles.

The Housing Authority was given 24 hours to indicate an interest in buying the property and, if interested, five days to inspect the property, Meanwhile, Wells Fargo agreed to evaluate the property and, according to the Stabilization Trust's requirements, come up with a sales price discounted from what the price might be if sold on the open market. The Housing Authority conducted its own appraisals to ensure that it agreed with the price offered by Wells Fargo. This led to terms agreeable to both sides, and a contract—crafted by the Housing Authority, Wells Fargo, and the Stabilization Trust's legal staff—that conformed to Nevada law and local requirements.

As of early September 2009, the Housing Authority with the help of the Stabilization Trust had purchased 17 properties from Wells Fargo. The Housing Authority plans to use NSP funds and loans to buy more properties and to provide additional housing for low- and moderate-income families.

For more information, contact David Morton at dmorton@renoha.org.

Neighborhood Stabilization Program

Federal Funds Are Critical for Renewing Neighborhoods Nationwide

Kristopher Rengert, Community Development Expert, OCC

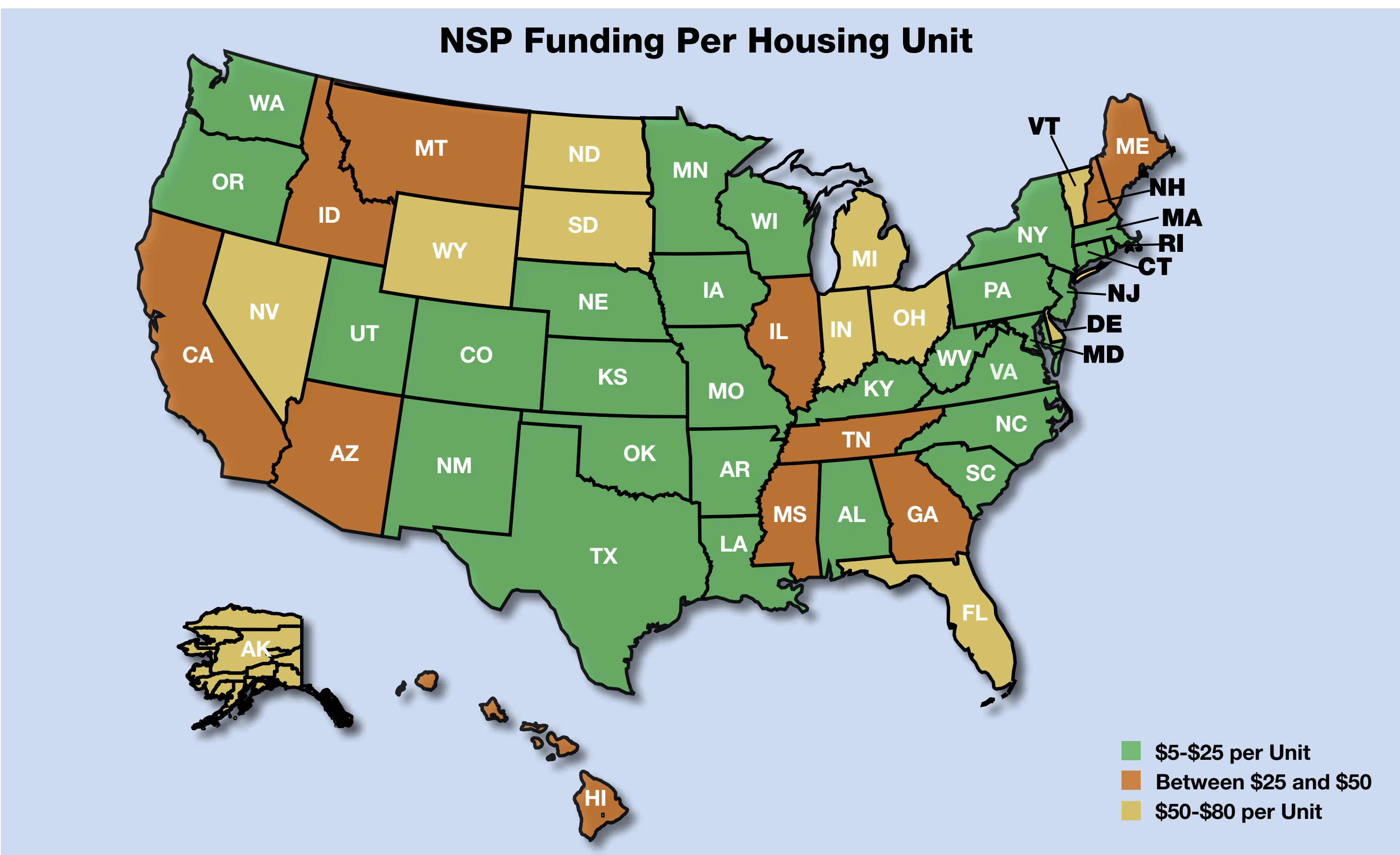
Federal funds authorized by Congress to help communities cope with housing market disruptions are proving critical to emerging neighborhood revitalization efforts across the nation. The Neighborhood Stabilization Program (NSP) is working to get these funds to state and local governments and nonprofit partners helping to revitalize neighborhoods hit hard by high vacancy and foreclosure rates.

Faced with falling tax revenues and rising expenses, state and local governments rely on NSP grants to address the rising numbers of vacant housing units in their communities and to begin new revitalization partnerships with groups such as the National Community Stabilization Trust *(see Stabilization Trust article, p. 10)*.

Created by the 2008 Housing and Economic Recovery Act and expanded by the 2009 American Recovery and Reinvestment Act, the NSP is helping to return to productive use foreclosed and abandoned homes across the nation. The NSP, administered by the U.S. Department of Housing and Urban Development, is rolling out community stabilization grants in two phases. Each phase has different goals and requirements.

Phase one: A total of $3.92 billion was allocated for 309 grantees in all 55 states and territories and 254 selected local jurisdictions. Funds were allocated so communities facing the greatest risk received the most funds *(see map below)*. Each state received a minimum grant of $19.6 million; other grantees received at least $2 million. As of May 2009, grant agreements had been signed with all 309 grantees and many grantees had received money. Grantees have 18 months to assign the funds to a project and four years to spend them.

Phase two: A total of $1.93 billion has been designated for state and local governments and nonprofits working alone or in partnership, with grantees selected via a competitive grant application process. Applications were due July 17, 2009. Successful



Source: OCC calculations based on data from the U.S. Department of Housing and Urban Development and the U.S. Census.

applicants will receive at least $5 million and must spend at least 50 percent of their grant within two years and 100 percent within three years of the grant date. No more than 10 percent of the grant may be used for demolition costs.

Technical assistance: A total of $50 million is available, on a competitive basis, to technical providers supporting NSP grantees and sub-recipients. The deadline for this funding was June 8, 2009.

NSP grants may be used to:

- Secure financing to buy and redevelop foreclosed homes and residential properties.
- Buy and rehabilitate abandoned or foreclosed homes and residential properties.
- Create and operate land banks for foreclosed homes and residential properties.
- Demolish blighted, privately owned (not government-owned) properties.
- Redevelop demolished or vacant properties as housing.

NSP grantees are free to develop their program and funding plans. But they must use at least 25 percent of the funds to purchase and redevelop abandoned or foreclosed homes or residential properties that will house individuals or families with incomes that do not exceed 50 percent of the area's median income. In addition, all NSP-funded activities must benefit low- and moderate-income recipients with incomes that do not exceed 120 percent of the area's median income. No more than 10 percent of a grant may be used for administrative and planning costs.

NSP grants may be used to acquire REO properties but only if the sales price is at least 1 percent lower than the current market value. This market value must be determined by an appraisal conducted within 60 days of a purchase offer. NSP guidelines encourage recipients to negotiate with lenders to obtain price reductions commensurate with the avoided costs of holding, marketing, and selling the homes.

Banks and other institutions with REO properties to sell should contact the Stabilization Trust to find partners. They also may contact state or local NSP grantees directly to negotiate property transfers.

For more information about the NSP and its requirements, visit www.hud.gov/offices/cpd/communitydevelopment/programs/neighborhoodspg/.

To learn more about required REO discounts, visit www.hud.gov/offices/cpd/communitydevelopment/programs/neighborhoodspg/nspeligibleuses.doc.

Bank of America

Reducing Risk and REO Portfolio with Help from National Program

Bank of America is working with NSP grantees to help them acquire and use REO properties. The bank is using strategies developed by the National Community Stabilization Trust (*see Stabilization Trust, p. 10*). But the bank uses these strategies to work with nonprofit organizations receiving NSP funds both in partnership with the Stabilization Trust and through initiatives independent of the Stabilization Trust.

Bank of America works with municipalities and other local jurisdictions receiving NSP funds. The bank assigns a dedicated servicing associate to work with each jurisdiction to start the NSP partnership and to maintain the program. Each recipient designates one or more nonprofit organization to administer their NSP funds and work with the bank.

Designated nonprofits receiving NSP funds are able to participate in a First Look Program and a Listed REO program (akin to the Stabilization Trust's Targeted Bulk/Aged Inventory Purchase Program). Additionally, the bank provides jurisdictions and designated nonprofits private access to a Web site providing real-time listings of all REO properties owned by the bank, including lists of all REO properties within specific ZIP codes.

Together, these programs serve to help the bank leverage NSP funds to move REO properties off their books, while working efficiently with nonprofit partners vetted by NSP recipients as having the appropriate capacity to work with REO properties. Local jurisdictions and designated nonprofits benefit from having expedited access to Bank of America REO properties and targeted support from the bank. Local communities benefit from having REO properties brought back into the productive housing stock as quickly as possible.

For more information, contact Robert Grossinger at robert.grossinger@bankofamerica.com or (312) 904-9677.

National Community Stabilization Trust

Building Bridges to Help Communities in Crisis

Craig Nickerson, President of the National Community Stabilization Trust

The National Community Stabilization Trust is building bridges between financial institutions and local housing organizations in two ways—by improving access to foreclosed properties and increasing access to private capital. In the first instance, the Stabilization Trust is helping to speed the transfer of foreclosed properties held by financial institutions, commonly called real estate owned (REO), to local housing organizations working to rehabilitate and productively reuse these properties. A flexible financing "bridge" also has been created to link private capital with new federal subsidy funding.

The Stabilization Trust was created in 2008 through the collaboration of four leading nonprofit organizations that believed a national organization was needed to exclusively focus on this daunting task. In 2009, the founding organizations—Enterprise Community Partners, Housing Partnership Network, Local Initiatives Support Corporation (LISC), and NeighborWorks America—were joined by National Urban League and National Council of La Raza. Funding to capitalize the start up of the Stabilization Trust was provided by these six organizations and through grants and loans from the John D. and Catherine T. MacArthur Foundation, Ford Foundation, and other philanthropic organizations and financial institutions.

Last winter, the Stabilization Trust began its property acquisition program on a pilot basis in the Minneapolis-St. Paul metropolitan area with the goal of improving the predictability, scalability, and speed of REO transfers to local housing groups. Within eight months, over 150 properties were successfully transferred in the Twin Cities from participating financial institutions to local housing providers at attractive prices. At the end of September 2009, the Stabilization Trust was active in more than 100 local markets in 35 states; by the end of 2009, it hopes to be active in more than 130 communities across the nation.

Strategies for Success

In early 2008, with the OCC's support, the Stabilization Trust convened meetings with the nation's largest lenders and loan servicers. From these meetings, a clear role emerged for the Stabilization Trust—the organization would act as a facilitator between financial institutions selling REO properties and local nonprofit and for-profit housing groups interested in buying and renovating abandoned homes. The Stabilization Trust developed a streamlined process to increase the efficiency and predictability of REO property transfers.

The Neighborhood Stabilization Program (NSP), a program of the U.S. Housing and Urban Development, was created in fall 2008 to help communities struggling with high levels of foreclosed and abandoned properties *(see NSP article, p. 8)*. Congress has appropriated nearly $6 billion to date for the program. By solving two primary obstacles to neighborhood stabilization—access to foreclosed property on a predictable and scalable basis and access to flexible funding to leverage more capital for property acquisition and renovation—the Stabilization Trust is helping spur the productive use of NSP funds to promote community stabilization.

In March 2009, state and local government agencies began receiving NSP funding. These government agencies, and the nonprofit and for-profit entities that work with them, are often inexperienced with purchasing foreclosure properties from financial institutions. The Stabilization Trust ensures that these local providers can focus on what to do with the properties once they are under their control, rather than wasting time and resources navigating a complex REO transaction process with multiple financial institutions.

Key to the Stabilization Trust's success is the participation of leading national financial institutions. At the end of September 2009, the Stabilization Trust had relationships with Bank of America, Citigroup, Fannie Mae, Freddie Mac, JPMorgan Chase, GMAC, Nationstar, Saxon, Wells Fargo, and regional financial institutions. A property disposition approach with the Federal Housing Administration also is being piloted. Together, the participating institutions own or manage approximately two-thirds of the REO properties available in the nation.

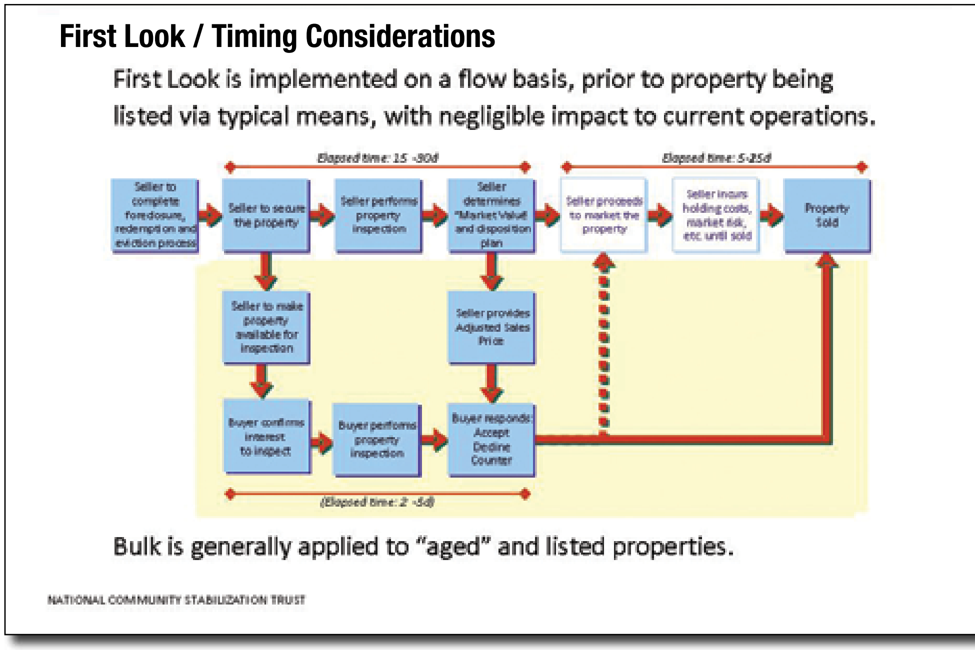
Selecting Local Leaders

In each participating community, the Stabilization Trust typically seeks one locally designated organization authorized to act as the local buyer and to use NSP funds for property purchases. The lead organization is responsible for purchasing REO properties according to Stabilization Trust processes and subsequently conveying the properties to other local organizations for redevelopment or directly to new home buyers. By working with only one lead organization in a geographic area, the Stabilization Trust is able to increase efficiency, avoid buyer conflicts, and promote a unified local strategy. There are exceptions, notably in very large metropolitan areas, where the Stabilization Trust works with several lead agencies. The diagram *(see p. 12)* illustrates how the Stabilization Trust simplifies communication between multiple financial institutions with REO inventories and multiple community organizations seeking to acquire REO properties.

It is important to note that the Stabilization Trust serves as a facilitator for participating REO sellers and local buyers in property transactions and does not actually take title to any REO properties. The facilitator role is used by the Stabilization Trust for both newly foreclosed properties through the First Look Program and for existing REO properties through the Aged Inventory Program.

The First Look Process

First Look gives local buyers early access to REO properties, which can reduce carrying costs for REO sellers. When financial institutions receive newly foreclosed properties, local buyers begin working with the Stabilization Trust to determine whether they are interested in acquiring the properties. This occurs well before financial institutions would otherwise be ready to market properties. Local buyers get the opportunity to inspect properties and to decide if they want to purchase properties at the prices set by the financial institutions. This benefits financial institutions: as REO sales occur more quickly, financial institutions reduce carrying and marketing costs and avoid further declines in property value, vandalism, and other risks. In turn, financial institutions are expected to pass on these savings as pricing adjustments to local Stabilization Trust buyers.



On a daily basis, participating financial institutions provide the Stabilization Trust with updated lists of new REO properties available in each community's targeted ZIP codes. The Stabilization Trust then notifies local buyers of properties available in their target areas. Within 24 hours, local buyers indicate whether they are potentially interested in buying the properties. If there are no local buyers interested in the properties—perhaps due to the location, condition, or number of dwelling units—financial institutions are free to ready properties for marketing to the general public.

When local buyers are interested, they have five days to review and inspect properties, develop rehabilitation work specifications and cost estimates, and determine as-is values for the properties. During this period, financial institutions prepare properties for sale via their normal REO disposition process. As a result, First Look partners are not impeded from pursuing conventional marketing of REO properties; they are just given an additional opportunity to market properties, one that may result in quicker sales and, at the same time, demonstrate their support for community stabilization. The diagram *(see above)* illustrates how the First Look Program timing works alongside conventional REO marketing efforts.

Financial institutions calculate the prices at which they are willing to sell properties to the Stabilization Trust local buyer using a net realizable value (NRV) process. The prices offered to local buyers reflect cost savings realized from expedited sales, including savings from the projected time on market for properties in that target market and the various carrying and marketing costs *(see NRV table, p. 12)*. The net realizable value will typically result in price reductions that create a win-win—fast and efficient sales for REO sellers and purchases that satisfy the "discount from market value" required by the NSP.

Financial institutions offer properties for sale to local buyers at the NRV price. This is understood among the parties to be a firm price, unless the local partner believes there are material issues with the financial institutions' valuations of properties, such as major structural issues or recent vandalism. The Stabilization Trust program discourages bargaining over price because the goal is to expedite the disposition process.

Net Realizable Value is . . .

Estimated market value assuming normal market conditions and procedures through a combination of full appraisal, broker price opinion, automated valuation model, or other proprietary calculations as appropriate	
Minus	Saved holding costs of insurance, real estate taxes, and maintenance
Minus	Avoided transaction costs of brokerage and seller's internal supervision and administration
Minus	Savings in capital costs due to early receipt of proceeds
Minus	Possible decline in value over the holding period
Minus	Rehabilitation required for code compliance and marketing
Equals	**Net Realizable Value**

Source: National Community Stabilization Trust

The Stabilization Trust has worked with its partners to establish a variety of required procedures for sellers and buyers to expedite sales. The Stabilization Trust remains involved in each step of the process by running a "transaction desk" that is responsible for monitoring the performance of the parties involved to ensure that all parties fulfill their obligations and that the process works efficiently.

The Aged Inventory Purchase Program assists buyers interested in acquiring properties in financial institutions' existing REO inventories, including bulk purchases in the target markets. To date, about 40 percent of the REO sales facilitated by the Stabilization Trust have been through the Aged Inventory Program; 60 percent have been part of the First Look Program.

Financing REO Sales

The Stabilization Trust also is improving access to leveraged financing for local buyers. By making available revolving lines of credit and loan loss reserves (guarantees), the Stabilization Trust is able to leverage more short-term financing for REO purchases and renovations by turnkey developers. The Stabilization Trust recently created its REO Capital Fund with an initial commitment from the Ford Foundation for up to $50 million in flexible, low-cost financing. Loans to local buyers are originated by participating sponsor community development financial institutions.

The Stabilization Trust's intention is to use the REO Capital Fund and funding to leverage private capital that may otherwise remain on the sidelines. The philanthropic and public funds can significantly insulate participating financial institutions from risk in such short- and intermediate-term lending, giving them incentive to provide larger investments into neighborhood stabilization.

The new REO Capital Fund has recently closed on its first $12 million of flexible financing and this fall will be making available revolving lines of credit and loan loss reserves to select local programs across the nation. Financial institutions interested in supporting this program should contact the Stabilization Trust.

Looking Ahead

The Stabilization Trust and its six key nonprofit sponsors are committed to building a sustainable campaign to help localities restore neighborhoods devastated by foreclosures and abandonment. Last spring, the REO Property Acquisition Program was operating on a pilot basis in a handful of communities. By September 2009, local buyers in over 100 communities were accessing REO properties through the First Look and Aged Inventory programs. To continue this progress, the Stabilization Trust seeks additional bank partners interested in participating in the REO Property Acquisition Program and in investing in the REO Capital Fund, as well as locally designated organizations authorized to use NSP funds to acquire REO properties.

For more information, contact Craig Nickerson at cnickerson@stabilizationtrust.com, or visit www.stabilizationtrust.com.

The National Community Stabilization Trust simplifies the transfer of REO properties to nonprofit organizations that are rebuilding distressed communities.

Transferring REO to Local Nonprofit Organizations without the Stabilization Trust

Transferring REO to Local Nonprofit Organizations Is Simplified with the Stabilization Trust

Greater Metropolitan Housing Corporation

Pioneering Partnerships through Personal Connections

Carolyn E. Olson, President, Greater Metropolitan Housing Corporation

The Greater Metropolitan Housing Corporation (GMHC) in Minneapolis, Minnesota, is recognized by lenders and other nonprofit organizations for its pioneering work in renewing distressed neighborhoods and as a leader in transforming vacant homes for low- and moderate-income buyers and renters.

GMHC's success in rehabilitating homes in the Minneapolis-St. Paul metropolitan area is a model for other nonprofit organizations. GMHC helped launch the National Community Stabilization Trust's First Look Program in communities across the nation *(see Stabilization Trust article, p. 10)*. First Look gives nonprofit organizations, government agencies, and housing groups the opportunity to view and buy at a discount abandoned and foreclosed properties before they are marketed for sale to the public.

Since its founding in 1970, GMHC has used a multipronged approach to provide affordable housing and to rebuild neighborhoods in the greater Minneapolis-St. Paul metropolitan area. GMHC provides predevelopment lending, correspondent lending for the purchase and refinancing of mortgages, and financing for the acquisition, rehabilitation, disposition, and construction of new single-family homes. GMHC also operates five Housing Resource Centers. The centers have helped more than 75,000 homeowners and aspiring homeowners by providing construction and remodeling consultations, home improvement loans, and mortgage foreclosure–prevention programs.

As foreclosure rates rose, GMHC expanded on this work and leveraged its connections with government agencies and nonprofit organizations to develop programs and funding for the purchase of REO properties from lenders. This work has proved critical to the rehabilitation and resale of homes in communities hard hit by high foreclosure rates. In addition, the work served as the pilot for the Stabilization Trust and its partnership with Neighborhood Stabilization Program (NSP) grantees *(see NSP article, p. 8)*. Working with Dayton's Bluff Neighborhood Housing Services , a nonprofit organization serving St. Paul, Minnesota, GMHC developed a Contract for Deed program to help first-time homeowners who are unable to qualify for conventional mortgages buy REO properties.

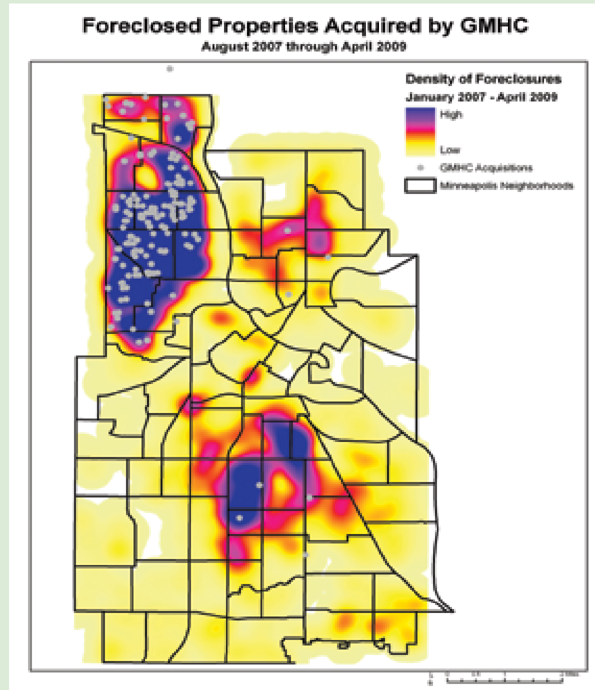
Work that Benefits Many

GMHC's work in the Twin Cities metropolitan area benefits from a variety of partnerships with public and private sector organizations. GMHC, acting as an umbrella organization, is coordinating resources and activities by and for organizations active throughout the Twin Cities metropolitan area.

GMHC's work is supported by the Family Housing Fund, a philanthropic affordable housing organization operating in the Twin Cities. In 2007, the Family Housing Fund established the Home Prosperity Fund to address foreclosed properties. The Minnesota Housing Finance Agency contributed the first $10 million for what became the Strategic Acquisition Fund, which loaned funds to GMHC to buy, redevelop, and resell foreclosed homes in the neighborhoods impacted by foreclosure in North Minneapolis. GMHC also was awarded $2 million in grants from Minnesota Housing and the city of Minneapolis ($1 million from each) to cover the gap between the purchase, rehabilitation, and carrying costs associated with properties and their resale price. An additional $6 million in funding in the form of reduced-rate, long-term loans

Foreclosed Properties Acquired by GMHC

August 2007 through April 2009



Map created May 2009 by CURA staff from GHMC and Hennepin County Sheriff's sale data.

GMHC has purchased REO properties, represented by gray dots on this map, in Minneapolis communities with high concentrations of foreclosed properties.

was committed to the Home Prosperity Fund from TCF Bank, Thrivent Financial Bank, US Bank, and Wells Fargo. In addition, GMHC has had a long-standing $10 million construction revolving line of credit with US Bank.

In 2008, GMHC's work with foreclosed properties in North Minneapolis led to the creation of the National Community Stabilization Trust. Later, GMHC served as the local partner in the rollout of the Stabilization Trust's pilot program in Minneapolis, and Dayton's Bluff Neighborhood Housing Services played this role in St. Paul. GMHC and Dayton's Bluff worked with the Stabilization Trust to develop its First Look Program in ZIP codes targeted in Minneapolis and St. Paul *(see Stabilization Trust article, p. 10)*.

At the end of September 2009, GMHC had used funds from the Strategic Acquisition Fund and its construction line of credit to evaluate more than 1,166 REO properties—900 through the Stabilization Trust alone—for acquisition. GMHC ultimately acquired 235 vacant, foreclosed properties *(see map of GMHC acquisitions, p. 13)*.

Of these 235 properties, 91 were

Sunrise Homeownership Alliance and University National Bank

Building Successful Communities in Partnership

Aspiring homeowners unable to qualify for conventional mortgage loans are getting a shot at homeownership through Bridge to Success, a Minneapolis pilot program that helps consumers repair damaged credit. The program encourages private investments in community stabilization efforts, and its public–private partnership models a new strategy for renewing distressed neighborhoods across the nation.

Bridge to Success is the brainchild of Greater Metropolitan Housing Corporation (GMHC) and Dayton's Bluff Neighborhood Housing Services. These nonprofits serve Minneapolis and St. Paul, respectively, Minnesota's Twin Cities. For years, the nonprofits purchased and rehabilitated abandoned and foreclosed houses and real estate owned (REO) properties held by financial institutions for resale as affordable homes to first-time home buyers. Now, with the help of private and public backers, they have combined their efforts and created Bridge for Success Contract for Deed Program.

Since opening for business in January 2009, Bridge to Success has found new homes for 13 families and is working with 12 more aspiring homeowners. Bridge to Success uses a contract for deed product to help consumers shut out of the conventional mortgage market to get back on the path to homeownership.

The contract for deed is a three-year agreement between a nonprofit organization selling houses and potential buyers. The contract sets the monthly payment equivalent to what the payment on 30-year mortgage would be with principal, interest, taxes, and insurance. But the monthly payment paid by an individual or family fulfills the mortgage obligation of the nonprofit organization that owns the property. In return, the aspiring homeowner is allowed to live in the home if he or she agrees to meet monthly with a credit counselor to discuss credit problems, ways to save money, and how to qualify for and get a conventional mortgage to cover outstanding balances for the home when the contract for deed ends.

Building Bridges to Success

To make this new community stabilization effort a reality, GMHC and Dayton's Bluff Neighborhood Housing Services needed help. University National Bank, a subsidiary of Sunrise Community Banks Holding Company, suggested a collaboration that could leverage funding from the Family Housing Fund. This led to the creation of Sunrise Homeownership Alliance, a nonprofit partnership between University National Bank, Family Housing Fund, GMHC, Dayton's Bluff Neighborhood Housing Services, social investors, and city governments. The partnership is designed to help renew neighborhoods throughout the Twin Cities metropolitan area.

University National Bank uses a mission-related deposit initiative to attract below-market interest rate deposits from individuals and institutions to support community development lending. The deposits are in Federal Deposit Insurance Corporation (FDIC)-insured certificates of deposit.

For example, a foundation might deposit $1 million with University National Bank in a three- to five-year certificate of deposit earning a below-market rate of 1 percent while a corresponding, traditional certificate of deposit might earn 3 percent. Assuming an alternative market rate of 3 percent, the opportunity cost of the investment to the foundation would be $20,000 per year less in interest earnings. However, the below-market-rate deposit helps support a lower cost $1 million community development lending facility. In the case of GMHC and Dayton's Bluff Neighborhood Housing Services, this lending facility translates into support for about 10 new contract for deed homeowners and, ultimately, greater stability in Twin Cities' neighborhoods. Thus, the depositor receives a double bottom line for their FDIC-insured deposit—financial return and positive social impact. University National Bank seeks additional depositors for the mission-related deposit initiative.

As a regulated financial institution, University National Bank is required to conduct due-diligence underwriting of GMHC and Dayton's Bluff Neighborhood Housing Services at the institutional level to provide financing facilities. University National Bank provided an initial credit facility of purchased through the Stabilization Trust and 144 were purchased predominately on the open market through real estate agents or public auction. In all, 35 properties were demolished, 57 properties were resold to other development partners, 125 are being renovated for resale to owner-occupants, and 18 are being resold directly to owner-occupants for purchase and renovation through purchase and rehabilitation loan products *(see photos of GHMC rehabilitation, p. 16).*

Minneapolis established the Minneapolis Advantage Program to provide forgivable, down-payment, assistance loans of $10,000 to buyers of foreclosed properties. GMHC administers the program, which targets areas that GMHC and the Stabilization Trust have delineated by ZIP codes. The Federal Home Loan Bank of Des Moines awarded $1.5 million to Minneapolis for this program and the city put up $500,000 of its own funds. The Federal Home Loan Bank funds can be used for loans to home buyers with incomes less than 80 percent of the area median income.

up to $3 million, and mission-related deposits to help deliver lower pricing on the loans to GMHC and Dayton's Bluff Neighborhood Housing Services.

As new contract-for-deed borrowers and properties are brought into Bridge to Success, the nonprofit organizations take out standard mortgage loans from University National Bank using this credit facility. Loan advances to the nonprofits are secured by respective mortgages on properties that the nonprofits are selling under contract to first-time homebuyers. The University National Bank mortgage loans cover 80 percent of the sale price established for each respective contract for deed with the new homeowners, and Family Housing Fund loans cover the remaining 20 percent. The loans provided by University National Bank and Family Housing Fund essentially recycle the acquisition and rehabilitation expenditures back to the nonprofits to perpetuate future purchase and rehabilitation opportunities. If there is a gap between the contract-for-deed price to the homeowner (driven by current market value conditions) and the nonprofits' actual costs of purchasing and rehabilitating the property, the gap is subsidized for the nonprofits with funds from the Family Housing Fund Strategic Acquisition Fund *(see the article on GMHC, page 13).*

University National Bank's mortgage loans to nonprofits have a three-year maturity, but the monthly payments, with interest and principal, are calculated with a 30-year amortization. At the end of June 2009, interest rates were fixed at 5 percent, or below the market rate for commercial fixed-rate credit. Without the support of mission related depositors, these below-market rates could not be delivered.

The corresponding Family Housing Fund loan also requires monthly principal and interest payments amortizing over 30 years with a three-year term. The Family Housing Fund loan had a 3.5 percent interest rate in June 2009. If a homeowner defaults on the contract for deed, and if GMHC or Dayton's Bluff Neighborhood Housing Services are unable to make payments on the loans associated with the property, Family Housing Fund retains the right to pay off the University National Bank mortgage, gain control of the property, and presumably continue its productive use as occupied housing.

The program is not necessarily targeting REO properties, but it helps connect aspiring homeowners in stable financial situations—but with subpar credit—to the properties that are owned by GMHC. As GMHC ramps up its purchases of REO properties through the Stabilization Trust and with NSP funds, it is likely that the Bridge to Success Contract for Deed Program will help transfer several former REO properties to successful homeownership.

Moving Building Success Forward

The program got off the ground in January 2009, after a year of planning and development. At the end of August 2009, 13 families were in new homes with contracts for deed. Approximately four families are ready to execute contracts for deed for new homes and another eight families have begun the process.

University National Bank created the Sunrise Homeownership Alliance to serve as a pilot program to help nonprofit organizations implement the Bridge to Success Contract For Deed Program. The goal is to help aspiring homeowners acquire a home and address the vacant housing problem. The $3 million pilot program is a good start, though the magnitude of the community need is significantly larger because of the concentration of vacant properties in Twin Cities neighborhoods. The pilot program can help facilitate support for as many as 30 properties, and University National Bank expects that other institutions will offer their support by providing mission-related deposits so the program can grow to a more significant scale.

Assuming that the pilot initiative is successful, Sunrise Community Banks—the bank holding company that owns University National Bank—expects to expand the program capacity by including loan participations from its other banks, Franklin Bank and Park Midway Bank. The holding company and all three banks are certified community development financial institutions serving the Twin Cities metropolitan area.

The hope is that this work will inspire other organizations in Minnesota and other states to help aspiring homeowners and distressed communities.

For more information, contact Jim Conrad, President of University National Bank, Jim@universitybank.com.

The city's funds may be used by home buyers with incomes up to 120 percent of area median income. At its current funding level, the program is expected to support the purchase of 200 REO housing units. At the end of September 2009, 115 loans closed and 36 loans were in process.

In March 2009, Minneapolis gave GMHC nearly $1.4 million in NSP funds for the purchase and rehabilitation of foreclosed or abandoned single-family units. These units are to be sold to households with incomes at or below 50 percent of the area median income. This funding is expected to transfer 52 housing units. As in other cities, NSP funds provide core funding for acquiring properties through the Stabilization Trust.

Source: GMHC

A foreclosed home in Minneapolis purchased by GMHC was rehabilitated and transformed, as these photos show.

Helping to Sustain Home Ownership

In partnership with Dayton's Bluff Neighborhood Housing Services, GMHC developed the Sustainable Home Ownership Program to support sustainable mortgage programs for victims of predatory lending and first-time home buyers who need assistance to become successful homeowners.

The Sustainable Home Ownership Program received start-up grants of $100,000 from Fannie Mae and a two-year grant for $40,000 a year from Payne Phalen Partners. Additional funding was provided by Wells Fargo and US Bank. Operational costs are covered by GMHC and Dayton's Bluff Neighborhood Housing Services.

The Sustainable Home Ownership Program is an approved mortgage broker for Wells Fargo Home Mortgage, with access to a full menu of conventional mortgage products. Through its association with Dayton's Bluff Neighborhood Housing Services, GMHC also has been approved as a lender through Neighborhood Housing Services of America, a subsidiary of NeighborWorks America. This partnership provides GMHC access to Fannie Mae products. GMHC also will be an FHA correspondent lender for Neighborhood Housing Services of America, enabling GMHC to originate FHA 203(k) loans (see OCC *Insights* report at www.occ.treas.gov/cdd/203k_Loan%20Program_Insights_Jul09.pdf).

Providing a Bridge to Success

As part of the Sustainable Home Ownership Program, GMHC and Dayton's Bluff Neighborhood Housing Services created a Contract for Deed program called Bridge to Success. This program helps home buyers who can't obtain financing under traditional mortgage programs to buy homes—with the expectation that they replace their three-year contract for deed with Federal Housing Administration loans or a conventional mortgage product as their financial and credit characteristics improve. During the three years of the contract, borrowers are provided with financial counseling to ensure they can transition into conventional homeownership.

University National Bank provided the initial funding for Bridge to Success through its Mission-Related Deposit Program, which allows investors to make below-market interest rate deposits with the bank. In turn, the bank uses these deposits to increase community development lending *(see related article, p. 14, for more on the Bridge to Success Contract for Deed Program)*.

The University National Bank finances 80 percent of each contract amount. The remaining 20 percent is covered by a $750,000 commitment from the Family Housing Fund. The Minneapolis Foundation provides a loan loss reserve fund; so far, it has allocated $67,500. At the end of June 2009, GMHC had closed 14 contracts and five were in process.

For more information, contact Carolyn E. Olson, President of GMHC, colson@gmhchousing.org.

Self-Help

Using Lease-Purchase to Help Home Buyers and Stabilize Communities

Vanita Kalra, Senior Project Manager, Self-Help

For three decades, Self-Help has been a leader in expanding the availability of mortgage lending to underserved populations by creating and protecting ownership and economic opportunity for people of color, women, rural residents, and low-wealth families and communities.

Now this North Carolina–based community development lender and real estate developer is showing nonprofit organizations and lenders across the nation a strategy to help those who can't qualify for conventional mortgage loans. Self-Help helps aspiring homebuyers with a lease-purchase program that allows them to live in homes they want to own, while they develop the financial requirements to buy them.

Self-Help is headquartered in Durham and has offices across North Carolina and in Oakland, California, and Washington, D.C. Self-Help provides direct mortgage lending in North Carolina, California, and Washington, D.C., through its community development credit union. Self-Help provides secondary mortgages for home loans to lower-income families through Self-Help Ventures Fund, a certified community development financial institution that works in partnership with Fannie Mae.

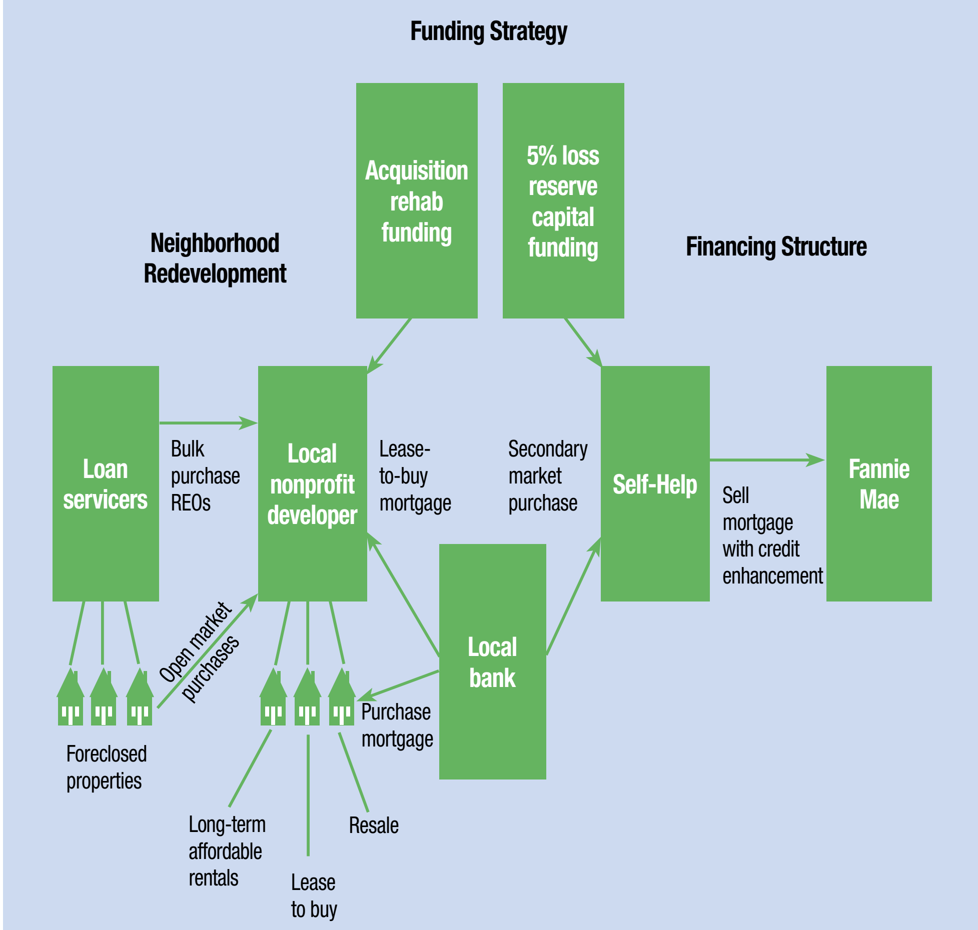
Unable to qualify for conventional loans, many served by Self-Help might otherwise have become caught in the subprime mortgage crisis. Studies have shown that Self-Help borrowers have generally defaulted at lower rates than subprime borrowers.

In the late 1990s, Self-Help partnered with Fannie Mae and the Ford Foundation to develop a secondary market facility for mortgage loans to low- and moderate-income borrowers who do not meet traditional underwriting standards from Fannie Mae-approved sellers and servicers. This partnership features a specialized loan product that provides higher loan-to-value loans without the financial burden of mortgage insurance.

Since then, Self-Help's secondary market program has facilitated more than $4.5 billion in affordable mortgage loans with lenders around the country, helping more than 50,000 families. Fannie Mae packages these loans into mortgage-backed securities that meet Community Reinvestment Act qualifications.

Self-Help buys mortgages made to lower-income borrowers or to moderate-income borrowers in lower-income census tracts from federally regulated mortgage originators that are qualified sellers and servicers with Fannie Mae. Self-Help sells these mortgages to Fannie Mae, but Fannie Mae retains recourse to Self-Help for credit losses on the mortgages. The Ford Foundation enabled this arrangement through a

Lease-Purchase Pilot Structure



Source: Self Help

$50 million grant to Self-Help, which served as the initial capital pool from which Self-Help could cover potential losses on the mortgages.

Becoming Homeowners through Lease-Purchase

Self-Help's new lease-purchase initiative brings Fannie Mae's lease-purchase product, developed in the 1990s, together with Self-Help's secondary mortgage market operations. The lease-purchase product helps nonprofit organizations that acquire and rehabilitate foreclosed properties to stabilize communities. The program allows potential home buyers who are unable to qualify for conventional mortgages to live in homes while they build up the financial resources and credit profiles necessary to buy them. Self-Help is piloting the product in targeted geographies. The diagram *(see p. 17)* illustrates the structure of the lease-purchase initiative and the roles played by the different participants.

The lease-purchase program is designed for buyers who can't afford down payments and who don't have adequate credit profiles. To qualify for the lease-purchase program, participants must document 12 months of work history and show they can afford the monthly lease payment. Participants must also have 38 to 50 percent front- and back-end debt payment-to-income ratios.

Through this secondary market program, the lease-purchase mortgage is originated to a nonprofit organization that is responsible for the full monthly principal, interest, taxes, and insurance for the property until the mortgage is assumed by a qualifying tenant-buyer. The lease payment covers the principal, interest, taxes, and insurance and costs associated with property management and home-buyer counseling, a loan requirement. A portion of the lease payment is set aside each month during the lease period to build the tenant-buyer's savings towards the down payment and closing costs. The initial lease term may be as long as five years. Once the participant has achieved a credit score of 620 and debt-to-income ratios of 38 to 41 percent, he or she may assume the mortgage from the nonprofit organization that holds the mortgage.

Developing a National Initiative

Self-Help hopes the lease-purchase initiative proves successful so that it can be expanded to help more communities. Self-Help plans to develop pilots across the nation with local nonprofit partners willing to use established strategies to help potential home buyers through financial education, home-buyer counseling, and post-purchase counseling. Partners would have developed relationships with financial institutions with significant real estate owned (REO) inventories.

After the nonprofit organization prepares a borrower to shop for a home, and the borrower selects a home from the available REO inventories, a lease-purchase loan agreement is executed. Any Fannie Mae–approved seller-servicer institution can originate these mortgages, retain the servicing rights, and pass the mortgage through to Self-Help.

Self-Help's pilot program in the Peachtree Hills neighborhood of Charlotte, North Carolina, is operated by its Self-Help Community Development Corporation. Self-Help is expanding the initiative to Atlanta and Chicago.

The lease-purchase product helps stabilize communities in several ways:

- Those who have lost homes to foreclosure have the chance to become homeowners again. The product's five-year lease term is equivalent to the five-year waiting period Fannie Mae requires borrowers to go through after foreclosure and before obtaining new, conventional mortgages.
- Low- and moderate-income aspiring homeowners unable to qualify for traditional mortgages may obtain REO properties at lower costs than other housing stock. During the five-year lead period, lease participants save for down payments, improve their credit scores, and prepare to buy homes with conventional mortgages.
- Neighborhoods are revitalized and REO properties are transformed into affordable homeownership opportunities.

There are, however, challenges to using this product for community stabilization:

- The product does not eliminate market risk for the nonprofit organizations that own the mortgages, so it is critical that the properties financed with these mortgages must be able to support the lease-purchase mortgages at competitive market rents. This way, should the tenant-buyers move or fail to qualify to assume mortgages, nonprofit owners of the properties can bring in new tenants and continue collecting rents on properties.
- Nonprofit organizations must have the ability to effectively manage leased homes. Management of scattered-site, single-family housing is more costly than management of a multifamily building. Just as one of the community benefits of the product is the ability to bring occupancy to otherwise vacant properties, one of the downfalls could be that poorly managed properties do not stabilize neighborhoods.

- Borrowers and lenders unfamiliar with the lease-purchase may hesitate to participate because they are reluctant to take on additional risks.

Addressing and minimizing these risks is critical to a national rollout of this initiative. Through the work of its pilot program in North Carolina and by expanding slowly in select market areas, Self-Help hopes to raise consumer and lender awareness of the lease-purchase option and to prove the product's value as a community stabilization strategy.

Looking Forward: Self-Help's Goals and How Banks Can Help

With the lease-purchase product Self-Help hopes to expand homeownership to targeted consumers and to help stabilize communities with significant REO inventories. The lease-purchase program increases the pool of potential buyers of REO properties by enabling nonprofit organizations to collaborate with lower- and moderate-income, credit-impaired borrowers to purchase and occupy REO properties. This is a win-win-win scenario, as families are able to move along the path to homeownership, financial institutions are able to productively dispose of REO properties, and communities are strengthened as vacant properties become homes once again.

Self-Help seeks partners to help expand awareness of the lease-purchase product by identifying nonprofit organizations as potential owners and managers of lease-purchase–financed properties and financial institutions to originate and service lease-purchase mortgages.

For more information, contact Vanita Kalra at vanita.kalra@self-help.org or visit www.self-help.org.

HANDS

Leading the Way with JPMorgan Chase and Bulk Buy of Mortgage Notes

Kristopher Rengert, Community Development Expert, OCC

The sale by JPMorgan Chase (JPMC) of 47 nonperforming mortgage notes is being closely watched by lenders as a way to avoid having to foreclose on defaulted loans and to expedite the transition of multiple properties to community groups rebuilding neighborhoods.

The buyer was Housing and Neighborhood Development Service (HANDS), a leading nonprofit community development corporation that works with lenders to acquire, redevelop, and return real estate owned by financial institutions to low- and moderate-income homeowners and renters in Essex County, New Jersey. Thanks to its work in renewing blighted and abandoned homes, HANDS has earned the respect of community leaders and lenders in the New Jersey community and beyond.

In March 2009, JPMC sold the nonperforming notes—mortgage notes on which borrowers had failed to make even a single payment—to HANDS for a reported \$2.3 million. The homes, abandoned in the wake of the collapse of a fraudulent mortgage scheme, were in the heart of the distressed neighborhoods in and near Newark that HANDS is working to revitalize.

Because vacant homes can become eyesores and targets for criminals, HANDS was anxious to buy and rehabilitate the homes for new homeowners and renters. "Time is our enemy," Patrick Morrissy, Executive Director of HANDS, said at the time of the sale.

The transaction, finalized after more than a year of negotiations,

Source: HANDS

HANDS acquired the notes for these houses in Newark and Orange, New Jersey, from JPMorgan Chase in the wake of a mortgage scheme that resulted in their abandonment.

was praised as the first bulk sale of nonperforming mortgage notes by a single lender during the recent financial crisis. The deal benefited the bank, the community, and HANDS. As a result, it provides a model for future bulk sales and for community revitalization efforts across the country.

JPMC benefited in these ways:

- The bank sold 47 nonperforming notes on properties left vacant in the wake of a mortgage scam that victimized borrowers in urban communities in Essex County. At the time, the lender was Washington Mutual (WaMu), the nation's largest thrift. When WaMu failed in 2008, JPMC acquired the thrift and its holdings, including the 47 mortgage notes.
- By selling the notes before foreclosure, JPMC saved the time and expense typically associated with foreclosing, holding, marketing, and selling distressed properties.
- JPMC also may have avoided the negative publicity that can accompany foreclosure, as well as a further decline in property value that can occur when values are falling.

HANDS benefited in these ways:

- The purchase was the first by HANDS and was the initial step in a comprehensive plan to acquire and rehabilitate REO properties in Essex County.
- HANDS saved time and money by buying distressed loans in bulk from a single lender, rather than by buying multiple properties from multiple lenders and investors.
- The deal helped HANDS accomplish a broader revitalization in Essex County. The effort was led by the Community Asset Preservation Corporation of New Jersey, a new organization that HANDS helped found. HANDS and this new organization work with financial institutions to improve targeted communities by gaining title to vacant properties, rehabilitating and then selling or renting them to low- and moderate-income home buyers *(see CAPC article, below)*.

"This is a neighborhood stabilization program," Morrissy said. "These communities have plenty of affordable housing. CAPC's goal is to ensure that the neighborhoods continue to be desirable as places to live."

A History of Helping

Founded in 1986, HANDS works to stabilize urban communities in Essex County with vacant, abandoned, and foreclosed homes and businesses. HANDS buys vacant and foreclosed homes and turns them over to nonprofit organizations that find homeowners and renters for them. The goal is keep vacant homes from becoming targets for criminals and hurting community property values. When necessary, HANDS gains titles in other ways, for example, by deed in lieu of foreclosure, and then clears the titles and sells or rents the properties.

HANDS relies on an array of financial partners, as is typical with large real estate transactions involving nonprofit organizations. For this project, New Jersey Community Capital was HANDS' lead partner in bringing together the various financial institutions participating in the transaction. HANDS needed $3.6 million to buy the JPMC notes and to proceed with its plan. After HANDS gains title to the properties, nonprofit partners rehabilitate the homes and transfer them to new owners. From start to finish, the total project is expected to cost about $5 million.

Prudential Social Investments, the primary lender involved, required a 20 percent equity investment in the initial purchase. This was provided by New Jersey Community Capital,

Community Asset Preservation Corporation of New Jersey

Using Bulk Mortgage Buys to Create Affordable Housing

The Community Asset Preservation Corporation (CAPC) of New Jersey was created in 2008 to stabilize neighborhoods impacted by high mortgage foreclosure rates, to prevent further foreclosures, and to increase the availability of affordable housing in New Jersey.

CAPC is operating as an expanded version of HANDS and with that nonprofit organization's help as it hires staff, launches its program, and obtains an Internal Revenue Service 501(c)(3) tax exempt status. CAPC is expected to be fully operational in three to five years and ultimately to recover as many as 1,500 housing units through the purchase of real estate owned (REO) properties and mortgage notes.

CAPC will negotiate bulk purchases of mortgage notes, REO, and other properties from financial institutions and convey the properties in smaller numbers to partnering nonprofit organizations, private developers, local government agencies, and other partners able to rehabilitate and return the property to productive use.

Although the main goal is to increase the availability of affordable housing and affordable homeownership, CAPC expects to sell some property at market rates to higher-income families. The proceeds from these sales will help offset the costs of selling other properties at affordable prices to low- and moderate-income families.

As CAPC evolves and grows, opportunities exist for partnerships with banks and other lenders. Financial institutions have the properties CAPC needs; equally important, they can provide CAPC and its partners the use of a variety of financing options, including lines of credit and loans to assist with purchases of REO properties and nonperforming notes. They also offer mortgage financing for homeowners interested in buying rehabilitated properties.

For more information, contact Wayne T. Meyer at wayne@handsinc.org.

HANDS, and Local Initiatives Support Corporation. Financing was also provided by New Jersey Community Capital, NeighborWorks America, and Enterprise Community Partners. Additional investments are likely to be needed when the homes are sold as affordable housing to low- and moderate-income families. And nonprofit organizations and home buyers buying the homes will require mortgage loans from lenders.

Helping with the redevelopment and sale of these properties are six prominent, nonprofit developers working in Essex County: La Casa de Don Pedro, Unified Vailsburg Services Organization, Episcopal Community Development, Newark Housing Partnership, Brand New Day, and HOMECorp. Also providing financial assistance are the municipalities of Newark, Irvington, East Orange, and Orange, as well as Essex County.

Lessons for Lenders

Wayne Meyer, HANDS' Housing Director, says HANDS' experience, first with WaMu, and then with JPMC offers valuable lessons for lenders and nonprofits interested in buying mortgage notes and loans to help the communities they serve.

Lesson 1: Place realistic values on properties in a declining market.

Financial institutions must realistically value their nonperforming mortgage notes and REO properties, particularly in distressed communities and declining markets. In these cases, real estate owned may be worth just a fraction of its original value or, in the case of mortgage notes, a fraction of the outstanding balance. Realistically valuing this property may force lenders to recognize a loss, but they may avoid further declines in value by taking the loss sooner rather than later. In addition, lenders help community stabilization efforts by transferring

Frequently Asked Questions About How Nonprofit Organizations Can Acquire Nonperforming Loans

Q: ***What difference does it make if a nonprofit organization purchases an REO property or acquires a nonperforming loan?***

A: When a nonprofit organization purchases an REO property, the foreclosure has been completed, so the nonprofit organization acquires full title to the property and is the owner. If the nonprofit organization purchases a nonperforming loan, the loan is in default but foreclosure proceedings have not been completed. The nonprofit organization owns the note on the mortgage, but not the property itself.

Q: ***How is a nonprofit organization able to get control of properties through the deed-in-lieu-of-foreclosure process? What rights does the nonprofit organization acquire?***

A: In some instances, when a borrower is in default, the mortgage note holder will agree to accept a transfer of the title to the property from the borrower instead of proceeding with foreclosure. This process is called deed-in-lieu-of-foreclosure and transfers all ownership rights to the mortgage note holder. The primary advantage of this approach is that a deed-in-lieu-of-foreclosure avoids the expense and time involved in a foreclosure.

Q: ***What are the risks when a buyer purchases a nonperforming loan or gains control of a property through the deed-in-lieu-of-foreclosure process?***

A: With the purchase of a nonperforming loan, the buyer takes on all of the legal obligations of the former mortgage note holder. To acquire full title to, and ownership of, the property, the note holder would have to complete foreclosure. Even after the foreclosure is completed, the property in many states is subject to a right of redemption that allows the former borrower to reacquire ownership by paying the unpaid loan balance plus costs. In some states, the right of redemption is quite short. For instance, this period is 10 days in New Jersey. In some states, if the property is vacant, the right of redemption is waived. A deed-in-lieu-of-foreclosure expedites the transfer of property. There is no need to file for foreclosure and no right of redemption is available to the former homeowner.

Q: ***What right does a nonprofit organization have to perform property inspections and do other due diligence when it evaluates whether to buy a nonperforming loan or accept a deed-in-lieu-of-foreclosure?***

A: Until the legal title of a property has transferred to a new owner, there is generally no right to inspect a property. A lender or servicer would be reluctant to allow a property inspection without the express permission of the property owner. If a lender or servicer knows that the property is vacant, there is an obligation to secure the property. But this does not provide the lender the right to inspect the property or allow others to do so. If a borrower has agreed to a deed-in-lieu-of-foreclosure, the lender or servicer may have more bargaining power to negotiate with a borrower to permit a property inspection.

Q: ***What responsibilities does a nonprofit organization have to maintain a vacant and blighted property while it has the nonperforming loan but not full title to the property?***

A: Although the nonprofit organization, in this case, is not the property owner and is not obligated to perform property upkeep as the holder of a nonperforming loan, once the nonprofit organization acquires full title it will be subject to any liens placed on the property. Many jurisdictions will file liens against vacant properties to recover the cost of property maintenance services, such as mowing lawns and removing trash.

vacant and deteriorating properties to nonprofits capable of finding buyers or renters for them. In turn, this can improve the value of neighboring homes and businesses in a community where the lender has other investments.

Lesson 2: Maintain institutional memory during times of change.

Bulk purchases, like any complicated transaction, benefit from the attention and continuity of the lender's staff, and when that isn't possible, well-documented records. Meyer said the JPMC deal was delayed and took more than a year to close because of staff turnover after WaMu failed and JPMC acquired the thrift. JPMC employees, lacking sufficient records, needed time to understand and then conclude the deal. If the recession continues, other financial institutions are likely to fail and be merged, resulting in staff turnover. But Meyer hopes that its experience with JPMC will make similar bulk buys of mortgage notes easier for others.

Lesson 3: Recognize the value of nontraditional roles and partnerships.

While banks have always worked with nonprofits to develop communities, the economic downturn is giving lenders the opportunity to work with new and nontraditional nonprofit partners. With the right set of skills, these partners can take on new roles and handle foreclosed and distressed properties in a way that can help save money and expand their presence and reputation in communities they serve. By expediting the disposition of nonperforming loans on vacant residential properties, banks may find opportunities to lower their holding costs and, in return, offer lower prices to affordable housing providers, such as HANDS. Such actions can benefit lenders, affordable housing providers, and the communities they serve.

For more information on HANDS, contact Patrick Morrissy at patrick@handsinc.org or visit www.handsinc.org.

Housing Our Communities

Consumer-Focused Strategy Helps Improve Neighborhoods

John R. Smith, President and Chief Executive Officer, Housing Our Communities

First-time homebuyers needing affordable housing in Maricopa County, Arizona—a community hard hit by the nation's worst real estate crisis in 30 years—receive help from Housing Our Communities (HOC). Now HOC's work is serving as an example for other nonprofit organizations and lenders across the nation.

Over the last two decades, HOC has earned praise for an impressive toolkit of strategies that connect prospective homeowners to affordable homeownership opportunities. Now as Arizona struggles to emerge from recession, this statewide housing organization is using its experience and community partnerships to connect potential home buyers with lenders selling foreclosed and abandoned homes. The support HOC offers is impressive. More than 99 percent of households helped by HOC since its founding in 1988 have fulfilled their mortgage obligations—and only four borrowers have lost homes to foreclosure.

From its headquarters in Mesa, HOC increases awareness of affordable housing options; provides home buyer education and counseling; and works to multiply the stock of affordable homes by acquiring and repairing abandoned and foreclosed homes for resale to low- and moderate-income home buyers, many of whom are first-time home buyers. HOC has helped more than 1,600 families find and buy affordable homes with individual prepurchase counseling and referral, home buyer and financial literacy education, as well as counseling and support after they buy homes.

Source: Housing Our Communities, Inc.

Housing Our Communities, Inc., helped the Franklin family find a new home through an REO purchase.

In addition, HOC helps first-time homeowners by providing assistance with down payments and closing costs. HOC has provided more than $6 million in down payment assistance to home buyers who meet certain income requirements.

HOC's experience in expanding first-time homeownership and developing partnerships with municipalities and counties across Arizona has helped the nonprofit organization become a leader in the effort to use REO properties to provide affordable housing. HOC provides housing services to eight of 10 Arizona jurisdictions that are grantees of the Neighborhood Stabilization Program (NSP) *(see NSP article, p. 8)*. HOC has been awarded NSP contracts in Avondale and Mesa.

A History of Supporting Homeownership

Long before NSP was created, HOC was helping to turn vacant and foreclosed properties into affordable homes for clients through partnerships with municipalities receiving funds from the federal HOME Investment Partnership and Community Development Block Grant programs. HOC used funding from these programs to buy, rehabilitate, and resell houses to clients needing affordable housing and to educate, prepare, and connect families with sustainable homeownership opportunities.

HOC creates sustainable homeownership opportunities and helps stabilize communities in two critical ways:

Acquisition, rehabilitation, and disposition: HOC acquires vacant properties by selecting the ones that are most financially feasible for resale to low- or moderate-income homeowners. HOC rehabilitates the properties, improving major systems, appliances, and other physical issues, to ensure that home buyers do not immediately face significant repairs. Rehabilitated homes are guaranteed by a one-year home warranty. When ready for sale, HOC sells houses to low- and moderate-income families, typically qualified by requirements set by HOME, Community Development Block Grant, or NSP.

Preparing families for homeownership: HOC prepares clients to qualify for mortgage loans and to buy homes with financial and homeownership counseling. Families that complete training and are income-qualified typically receive assistance for down payments and closing costs and help in qualifying for affordable, fixed-rate mortgage loans. The training prepares home buyers to apply for mortgage loans and negotiate with banks and conventional mortgage lenders. HOC also helps families develop the financial discipline and homeownership skills required to become home buyers. HOC requires clients to attend education and counseling sessions after they buy homes and provides foreclosure-prevention and financial-counseling sessions as needed.

Ensuring Sustainable Homeownership

HOC is the lead agency for 14 nonprofit housing organizations working together as the Sustainable Home Ownership (SHO) Coalition. SHO was organized in 2008 with the help of the Local Initiatives Support Coalition office in Phoenix. The initiative's formation was financially supported by Citi Foundation, Countrywide Financial, Fannie Mae, Local Initiatives Support Coalition, Wells Fargo Foundation, and Wells Fargo Home Mortgage. SHO's mission is to develop sustainable homeownership by using REO in the greater Phoenix metropolitan area to benefit qualified home buyers.

SHO provides a way for local government agencies, REO servicers, and buyers to connect with partners experienced in providing affordable housing. The partners provide housing counseling, prepurchase education, housing rehabilitation, lending services, down payment assistance, and other services *(see SHO partners, above)*.

By the end of July 2009, SHO partners helped 337 families buy homes, and of those, 297 bought REO houses; the rest acquired homes through short sales. As more NSP funds become available, HOC and SHO partners expect to buy additional REO properties from mortgage-service companies and to rehabilitate and sell the properties to homeowners. Meanwhile, HOC and SHO members remain committed to educating and empowering prospective home buyers, so they can buy homes directly and arrange to hire contractors to do whatever rehabilitation work is needed.

SHO Initiative Partners:

- ACORN Housing
- Chicanos Por La Causa
- Community Housing Resources of Arizona
- Community Services of Arizona
- Desert Mission Neighborhood Renewal
- Greater Phoenix Urban League
- Housing Our Communities
- Labor's Community Services Agency
- National Farm Workers Service Center
- Native American Connections
- Neighborhood Housing Services of Phoenix
- Neighborhood Housing Services of Southwestern Maricopa County
- Newtown Community Development Corporation
- Habitat for Humanity Central Arizona

Though focused primarily on helping consumers, SHO and HOC also work with financial institutions to help them sell REO properties and make mortgage loans to the nonprofit organizations' clients.

SHO members provide a variety of services, including:

- Home buyer education and financial fitness education approved by the U.S. Department of Housing and Urban Development.
- Real estate support and services, provided by licensed Arizona real estate agents who agreed to work with prospective SHO home buyers.
- Support for lenders and servicers of REO properties, to prepare them to work with prospective home buyers.

- Lending and loan resources, including conventional 30-year, fixed-rate mortgage products and special, first-time home buyer products, Federal Housing Administration 203(k) products, and U.S. Department of Veterans Affairs loan products.
- Access to individual development accounts to help potential home buyers accumulate savings for down payments and closing costs.
- Rehabilitation services by licensed general contractors and subcontractors.
- One or more of the coalition members are working with all 10 jurisdictions receiving NSP funds in Arizona.

Recording REO Sales

An important part of HOC's work with SHO is developing a system to track sales of foreclosed and REO properties. Initiated by HOC in 2008, the database will retain data on REO sales, including the property address, seller, purchase price, mortgage lender, first and second mortgages, and the income of buyers. The database will track the progress of community stabilization efforts, the participation of lenders and financial institutions, and how homeowners fare over time. This information will be used to provide reports to funding organizations and NSP grantees, as well as to help HOC strategically plan future community stabilization efforts.

The database, along with HOC's proven services, skills, and collaboration efforts, positions this nonprofit organization to lead, support, and expand community stabilization efforts across Arizona and to serve as a role model for nonprofit organizations across the nation.

For more information, contact John R. Smith at john@housingourcommunities.org.

Compliance Corner

Sharon Canavan, Community Development Expert, and Vonda Eanes, District Community Affairs Officer, OCC

This *Community Developments* newsletter highlights how banks are working with nonprofit organizations and public agencies to return foreclosed properties to productive use. These partnerships are proving critical to efforts to stabilize communities that are struggling in the wake of the recession.

Some of the strategies these partnerships are using can position a financial institution for positive consideration under the Community Reinvestment Act (CRA). Activities that meet CRA requirements, including the geographic requirements of benefiting the bank's assessment area or a broader statewide or regional area that includes the bank's assessment area, will be favorably considered during a CRA examination.

Community Development

The CRA, enacted by Congress in 1977, requires regulated financial institutions to meet the credit needs of borrowers in the local communities in which they are chartered—including low- and moderate-income neighborhoods—consistent with the safe and sound operation of the institution. The OCC and other federal financial supervisory agencies consider a bank's CRA compliance record when reviewing applications for new bank branches, relocations of a main office or branch, mergers, and acquisitions.

Banks may receive favorable CRA consideration by engaging in community development activities. The CRA regulation defines community development as affordable housing (including multifamily rental housing) for low- or moderate-income individuals, community services targeted to low- or moderate-income individuals, activities that promote economic development by financing businesses or farms that meet the size eligibility standards of the Small Business Administration's Development Company or Small Business Investment Company programs (13 CFR 121.301) or have gross annual revenues of $1 million or less, or activities that revitalize or stabilize low- or moderate-income geographies, designated disaster areas, or distressed or underserved nonmetropolitan middle-income geographies designated by the Board of Governors of the Federal Reserve System, Federal Deposit Insurance Corporation, and the OCC, based on specific factors detailed in the regulation (12 CFR 25).

The CRA, enacted by Congress in 1977, requires regulated financial institutions to meet the credit needs of borrowers in the local communities in which they are chartered—including low- and moderate-income neighborhoods—consistent with the safe and sound operation of the institution.

Some examples include providing:

- An investment or grant to a nonprofit organization supporting community revitalization activities in low- and moderate-income areas.

- Financing for affordable housing rehabilitation and construction, serving low- and moderate-income persons.
- Financing for activities that revitalize or stabilize a low- and moderate-income community.
- Technical assistance that helps community development organizations serving low- and moderate-income communities build capacity and acquire and manage foreclosed properties.

As highlighted in this newsletter, banks are involved in various community stabilization strategies that may qualify for favorable CRA consideration in a number of ways.

Property Donations and Discounted Sales

Wells Fargo helps rebuild distressed neighborhoods by transferring other real estate owned (OREO) to its philanthropic arm, the Wells Fargo Housing Foundation *(see Wells Fargo article, p. 5)*. The Foundation looks for opportunities to donate, and accepts requests from community groups for donations of, OREO that can be rehabilitated for low- and moderate-income housing.

Property donated or sold at a discount to organizations whose primary purpose is consistent with the CRA definition of community development may be considered qualified investments in a CRA examination. Donations may be in the form of cash or in-kind donations, such as OREO sold at a discounted price or that is donated outright.

The Wells Fargo article explains how a bank's community development corporation can use an OREO Acquisition/Rehabilitation Equity Equivalent Investment (EQ2) to provide low-cost, flexible loan capital to nonprofit organizations to purchase and rehabilitate bank-owned properties for resale to qualified low- and moderate-income borrowers.

Low Cost and Creative Financing

The Bridge to Success Contract for Deed Program helps aspiring homeowners who are unable to qualify for conventional mortgages *(see Sunrise Homeownership Alliance article, p. 14)*. This pilot program provides affordable financing for acquisition and rehabilitation costs through contract for deed agreements. The program is financed by low-cost loans from a bank that established a mission-related deposit initiative to attract below-market interest deposits for community development lending.

Property donated or sold at a discount to organizations whose primary purpose is consistent with the CRA definition of community development may be considered qualified investments in a CRA examination.

Self-Help uses a similar strategy to help aspiring homeowners with a lease-purchase product *(see Self-Help article, p. 17)*. Self-Help connects families with OREO properties in target cities through local nonprofit organizations and sells the resulting mortgages to Fannie Mae. Self-Help seeks financial institution partners to originate and service these loans.

Banks that provide loans to financial intermediaries that rehabilitate and resell foreclosed properties as affordable housing for low- and moderate-income individuals may receive CRA consideration. Loans to financial intermediaries, such as community development financial institutions recognized by the U.S. Department of the Treasury, community development corporations, community loan funds, or pools that lend or facilitate lending to promote community development through community stabilization strategies, may be treated as community development loans and receive CRA consideration.

Technical Assistance

Banks may also receive CRA consideration for providing technical services that will help community development organizations serving low- and moderate-income communities build their capacity to acquire and manage foreclosed properties.

In many cities, well-established community development organizations have significant experience managing property acquisition and rehabilitation. But in other communities, nonprofit community development groups may be less experienced dealing with high rates of foreclosures. Banks can support the efforts of CRA-qualified nonprofit organizations by providing technical assistance such as management training, financial consulting, or marketing assistance. For example, bank employees might help a CRA-qualified nonprofit organization develop guidelines and standards for a property acquisition and rehabilitation program.

The OCC's District Community Affairs Officers can provide technical assistance to national banks seeking additional information about how their community stabilization efforts might receive positive CRA consideration. See the "This Just In . . ." section of this issue or go to www.occ.treas.gov/cdd/contacts.htm for contact information for your District Community Affairs Officer.

This Just In ... the OCC's Districts Report on New Opportunities for Banks

Vonda Eanes (704) 350-8377
Bonita Irving (617) 737-2528 x223
Denise Kirk-Murray (212) 790-4053

Maryland Linked Deposit Program

The Maryland Linked Deposit Program opened for business in February to help certified minority business enterprises obtain the affordable capital they need to grow and expand their businesses. The statewide program, administered by the Maryland Department of Housing and Community Development (DHCD) and the Maryland State Treasurer's Office, is intended to stimulate economic opportunities for Maryland's certified minority business enterprises with reduced-rate loans from participating lenders.

Here's how the program works: The minority business enterprise submits an application to the Linked Deposit Program, which verifies the applicant's certification and forwards the application to banks enrolled in the program. The applicant is given the list of participating lenders and is advised to contact a lender who can complete the loan application. The lender makes the loan according to standard underwriting procedures but with an interest rate 2 percent below what the bank would charge for a loan of similar purpose and term. The loan is then enrolled in the Linked Deposit Program.

Why do lenders participate? The loan is backed by an insured certificate of deposit that the state treasurer's office buys from the bank—at a rate 2 percent below the market rate—to enable the bank to make the reduced rate loan to the minority business enterprise. In this way, the state increases capital available to minority businesses and reduces the potential risks to lenders. Loan terms cannot exceed 10 years and must be used for projects in Maryland.

For more information on the Linked Deposit Program, contact Charles Day, program manager for DHCD's Division of Neighborhood Revitalization, at (410) 514-7245 or dayc@mdhousing.org.

Hope for New Jersey Homeowners

New Jersey homeowners struggling to pay their mortgages and avoid foreclosure have a friend in the New Jersey Homeownership Preservation Effort. This nonprofit organization, a partnership of federal and state government agencies, other nonprofit organizations, and financial institutions, helps homeowners get the information and resources they need to maintain the American dream of homeownership.

The partnership is designed to help consumers understand their mortgages and terms, find out how to resolve mortgage problems, get credit and loan counseling, and find help to avoid foreclosure. Participating lenders offer borrowers programs, including mortgage refinancing, closing cost assistance, credit counseling, and waiver of private mortgage insurance. The New Jersey Homeownership Preservation Effort also offers information on state foreclosure laws, information on buying a home and mortgage assistance, and other information in a resource called the Mayor's Combat Kit, which is available at: www.state.nj.us/dobi/njhope/index.html.

For more information, contact the New Jersey Department of Banking at (800) 446-7467 or visit www.state.nj.us/dobi/njhope/index.html.

Paul Ginger (312) 360-8876
Norma Polanco-Boyd (216) 274-1247 x274

Business Planning and Financing for "Indianpreneurs"

The American Indian Economic Development Fund (AIEDF) provides the American Indian community with gap financing, technical assistance, and business education to stimulate and develop entrepreneurial activities on and off reservations.

Since 1992, this St. Paul, Minnesota–based nonprofit organization has provided business development services and, in some cases, financing to enrolled members of federally recognized tribes in Michigan, Minnesota, North Dakota, South Dakota, and Wisconsin. The nonprofit organization offers a 33-hour, culturally relevant curriculum to help "Indianpreneurs"—the term it uses for American Indian entrepreneurs—develop business plans and improve their management skills and personal financial literacy. The nonprofit organization boasts a 92 percent completion rate for enrolled students and attributes this success rate to a culturally sensitive approach that incorporates Native American traditions and includes Indianpreneurs as members of its faculty.

AIEDF is certified by the U.S. Department of the Treasury as a Native Community Development Financial Institution that provides technical assistance and financing to existing Native American businesses. Since 1992, AIEDF has provided $6 million in gap financing, through loans from $15,000 to $70,000 to Indianpreneurs and leveraged $18 million in additional financing from banks, revolving loan funds, and other sources.

How can banks support AIEDF? Banks are encouraged to:

- Refer Native American business owners needing technical assistance to AIEDF.
- Accept AIEDF loan referrals of Indianpreneurs who have completed business plans.
- Serve as faculty for its Indianpreneur training program and to its loan committee.
- Assist in structuring the AIEDF loan fund into commercial loans to Native American businesses.
- Invest in the AIEDF loan fund and support the nonprofit organization with grants and other funding.

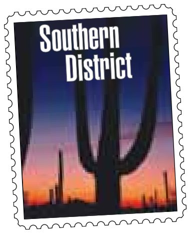
For more information, contact David Glass at (651) 917-0819 or dgoodman@aiedfloans.org, or visit www.aiedfloans.org.

Lifeline for Stabilizing Ohio Neighborhoods

Ohio's Finance Fund has developed an innovative line of credit for nonprofit organizations to acquire or stabilize vacant or abandoned properties. Finance Fund's LandLOC (line of credit) provides financing for qualified nonprofit organizations to gain site control of properties or to provide patient capital for nonprofits to resolve legal or tax issues or otherwise secure or maintain properties. Qualified nonprofits must demonstrate capacity and the LandLOC funding must be for projects that are part of a comprehensive plan, either city, county, or regional. The program is currently in a pilot phase that was funded with $1 million in 2007 by the Ohio Housing Trust Fund. So far with the program, two rural and three urban communities have been extended credit. The result of the pilot will be analyzed at the end of the year, but already it is anticipated that additional funding will be needed to expand the financing for other communities, namely in rural areas or for vacant commercial real estate.

Investment opportunities for financial institutions are sought as patient capital for terms of three to five years at a return rate of 3 to 4 percent. Finance Fund is seeking to raise $10 million to finance projects in highly distressed areas and bring about neighborhood stabilization.

For more information, contact James R. Klein, Chief Executive Officer, at (614) 221-1114 x37 or jrklein@financefund.org.



Scarlett Duplechain (832) 325-6952
Karol Klim (678) 731-9723 x252
David Lewis (214) 720-7027

Foreclosed Homes Become a New Opportunity for Louisiana's First-Time Home Buyers

Macon Ridge Community Development Corporation is helping low-income persons achieve homeownership through the U.S. Department of Agriculture's 502 Direct Loan Program.

From its base in Ferriday, Louisiana, Macon Ridge relies on the Department of Agriculture program to increase the availability and accessibility of affordable housing in northeastern and central Louisiana.

The program allows Macon Ridge to buy foreclosed properties and, after rehabilitation, to make the homes available for purchase by low-income home buyers. Currently, Macon Ridge makes 25 to 30 single-family units available annually for less than it would cost to build new homes.

As foreclosed properties become more available, Macon Ridge hopes to expand its acquisition and rehabilitation work across the state. To do this, MRCDC needs banks to provide loans for acquisition and rehabilitation of property. In return, banks get new opportunities to return real estate owned (REO) properties to productive use.

For more information, contact Buddy Spillers at (318) 757-2361 or bspillersmrcdc@bellsouth.net.

Loan Fund Reinvests in Florida's Communities

The Florida Community Loan Fund, a statewide community development financial institution, is using financial capital and human creativity to transform lives and communities. Established in 1994, the loan fund allows financial institutions to satisfy community reinvestment performance criteria and receive Bank Enterprise Awards from the U.S. Department of the Treasury's Community Development Finance Fund, based on investments or grant support made to the loan fund. As the only Florida-based institution to receive a New Markets Tax Credit allocation, the loan fund works with financial institutions to use these tax credits to support community and economic development projects.

Financial institutions; foundations; and other institutional, religious, and individual investors support the work of the loan fund with equity, debt capital, equity equivalent, program-related investments, and operating grants. The loan fund also uses loan participation agreements and lines-of-credit with participating financial institutional investors. Loans range from $5,000 to $1.5 million, with variable terms and interest rates. The loan fund also offers incentives to encourage the creation of sustainable "green" community development projects.

For more information, visit www.fclf.org, or call Ignacio Esteban, Executive Director, at (407) 246-0846.

Houston's Check to Stability Program

The South Union Community Development Corporation recently established the Check to Stability initiative to help families in Houston, Texas, laboring to avoid foreclosure. To support its mission to eliminate blight and crime in its South Union community, the organization created the program to check on properties needing repair or demolition by the city of Houston. The program is designed to restore vacant properties and make them available as affordable housing for low- and moderate-income families, or when necessary, demolish property to make room for new housing. So far, the program has identified 28 properties.

Check to Stability is the result of collaboration by 15 public, private, and nonprofit organizations working to develop a safe and appealing community. The participants include: South Union Community Development Corporation, the City of Houston Housing Department, Habitat for Humanity, Houston Community College, Urban Land Institute, U.S. Department of Veterans Affairs, Local Initiative Support Corporation, and local construction companies, home buyer education groups, and other providers of services to low- and moderate-income families.

The program enables banks to provide loans for acquisition and rehabilitation, mortgages, and technical assistance to the program's managers.

For more information, contact Efrem B. Jernigan, President and Acting Executive Director, at (713) 747-7002 or (713) 419-8352, or visit www.southunioncdc.org.

Susan Howard (818) 240-5175

Stabilizing Communities Series in California Provides REO Information

The OCC and the Federal Reserve Bank of San Francisco continued their Stabilizing Communities program series with three meetings in the first quarter of 2009 that focused on the transfer of REO properties and the U.S. Department of Housing and Urban Development's Neighborhood Stabilization Program. More than 200 attended the California meetings that included presentations by bankers and representatives of California's Housing and Community Development Department, Fannie Mae, and other groups involved with residential real estate.

Each meeting also included a presentation by the National Community Stabilization Trust on its efforts to work with partners to help communities suffering from high rates of foreclosure. Attendees learned about financing opportunities for organizations seeking to acquire National Stabilization Program properties and for prospective home buyers, and they also learned how banks can support community efforts.

For more information, contact Susan Howard at susan.howard@occ.treas.gov; Lena Robinson at lena.robinson@sf.frb.org; Melody Winter-Nava at melody.nava@sf.frb.org; or Daryl Rutherford at daryl.rutherford@sf.frb.org.

Equity Fund Provides Capital for Affordable Housing Development in Kansas City

The Kansas City Equity Fund works to stimulate the development of affordable rental housing for low- and moderate-income families living in the 15-county Kansas City metropolitan area. The fund was established in 2006 as an affiliate of the St. Louis Equity Fund and used corporate investments and tax incentives to achieve its goals. The fund also has a predevelopment loan program to assist developers in financing initial project costs and to help them submit well-supported investment proposals for review by the fund's investment committee.

The funding pool comprises 10 investor banks and has nearly $7 million in equity investments providing high-quality affordable housing in the Kansas City metropolitan area. The fund benefits from its relationship with the St. Louis Equity Fund, which has more than $30 million in equity investments under management, representing 3,300 units of affordable housing.

The Kansas City Equity Fund is actively seeking additional investment capital. For more information, contact Erica Dobreff at (816) 753-0941 or edobreff@kcequityfund.com.

Comptroller of the Currency
Administrator of National Banks

US Department of the Treasury
Washington, DC 20219

What's Inside

Visit the OCC's Web site—www.occ.treas.gov/cdd/resource.htm—for additional information.