Rebuilding Communities in Economic Distress: Local Strategies to Sustain Homeownership, Reclaim Vacant Properties, and Promote Community-Based Employment

NATIONAL COMMUNITY REINVESTMENT COALITION NCRC

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The National Community Reinvestment Coalition

The National Community Reinvestment Coalition (NCRC) was formed in 1990 by national, regional, and local organizations to develop and harness the collective energies of community reinvestment organizations across the country in order to increase the flow of private capital into traditionally underserved communities. NCRC has grown to an association of more than 600 community-based organizations that promote access to basic banking services, including credit and savings, and create and sustain affordable housing, job development, and vibrant communities for America's working families.

Our members include community reinvestment organizations, community development corporations, local and state government agencies, faith-based institutions, community organizing and civil rights groups, minority and women-owned business associations, and local and social service providers from across the nation.

NCRC pursues its work through a variety of partnerships and programs. Our Housing Counseling Network leverages the expertise of a national network of mortgage finance advisors who work with servicers and lenders on behalf of homeowners to keep working families from losing their homes to foreclosure.

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Introduction

In the past few years, America has faced foreclosure and unemployment crises that have devastated communities and dramatically changed the social and physical fabric of our neighborhoods for years to come. While the impact of foreclosure is most immediately felt by defaulting homeowners – who are economically damaged, physically disrupted, and psychologically distressed by the event – it can also have a dramatic impact on surrounding neighborhoods. This contagion effect is felt more acutely in weak market cities and in areas where foreclosed and real estate owned (REO), or bank owned, properties are not properly maintained. When the housing bubble burst, it set off the financial market collapse and an unprecedented wave of unemployment nationwide. Areas disproportionately affected by the foreclosure crisis are often also disproportionately affected by unemployment, which in turn has become a primary cause of ongoing foreclosures. As property values weaken and unemployment rates increase, tax revenues decline and cities are less able to keep up public services just as they are needed the most.

These wide-ranging and interrelated consequences of the recession are well documented. This paper, instead, highlights the innovative responses that state and local governments, community-based organizations, financial institutions, and other stakeholders have developed to stabilize their communities, despite a limited access to resources.[A] The list of best practices is presented as a menu of strategies that stakeholders can incorporate into their redevelopment plans to achieve a sustainable economic recovery; each community should prioritize those strategies that appropriately target the crisis as it has manifested in their community. However, all communities should comprehensively address each of the following three phases of recovery in order to stabilize families, housing, and infrastructure, and to spur economic opportunity:

1. **Pursue foreclosure prevention strategies;**

2. **Recapture REO and vacant properties and lay the foundation for community rebuilding;**

3. **Leverage community rebuilding to create sustainable employment and entrepreneurship.**

[A] Only $6 billion out of the $787 billion Recovery Act funds have gone directly to neighborhood stabilization. An additional $1 billion for neighborhood stabilization was added under the financial reform bill passed by Congress in July 2010.

1. PURSUE FORECLOSURE PREVENTION STRATEGIES

America continues to suffer from the largest foreclosure crisis since the Great Depression. Since 2007, nearly nine million properties have received foreclosure filings.[1] Mark Zandi, the chief economist at Moody's Economy.com, estimates that 2010 will be even worse than 2009 as the pace of foreclosure sales increases.[2] Rick Sharga, a senior vice president at RealtyTrac, concurs, estimating that 3.2 million residential properties will enter the foreclosure process in 2010. Foreclosure prevention is a necessary step to stabilize neighborhoods, as investing in recovery efforts without fully addressing foreclosure prevention is tantamount to trying to fill a bathtub without a stopper.

Several federal programs have been in place since mid-2008, including Hope for Homeowners and the Making Home Affordable program (MHA), which includes a modification program (HAMP) and a refinance program (HARP). HAMP has thus far proven insufficient to arrest the foreclosure crisis. While more than one million loans have entered into the trial modification phase, only 35 percent of those loans have been successfully converted to permanent loan restructurings as of August 2010.[3]

From the program's launch in April 2009, HAMP has suffered from a variety of challenges,[B] including deficient program design, disorganized and inconsistent implementation, and an inability to keep pace with changing market conditions. These weaknesses have been documented extensively by research centers and consumer organizations such as the National Community Reinvestment Coalition (NCRC),[4] National Consumer Law Center,[5] Center for Economic and Policy Research,[6] and Center for American Progress.[7] Professor Alan White of Valparaiso University School of Law has also written and testified extensively on government foreclosure mitigation efforts.[8] Recently, the Government Accountability Office (GAO)[9] and the Office of the Special Inspector General for the Troubled Asset Relief Program (SIGTARP)[10] have provided detailed evaluations of HAMP's performance and capacity for future success. Despite recent rule changes, GAO indicates that these issues remain "substantial challenges" that will limit HAMP's future performance.[11]

Due to these challenges, it is unlikely that the program will reach the original intended scale of helping three to four million homeowners. In fact, the Treasury Department's own estimates indicate that HAMP will create permanent mortgage modifications for 1.5 to two million homeowners. However, the Congressional Oversight Panel estimates that only 276,000 foreclosures, or "less than four percent of the total 60+ day delinquencies," will be prevented by HAMP.[12]

Regardless of which estimate is correct, the scale of the crisis will likely continue to overwhelm all current federal interventions. As a result, efforts at the local level will at best have a modest impact on the national crisis. However, many local governments and organizations have implemented aggressive and innovative programs that have begun to address the crisis as it materializes locally. These programs can serve as models to be implemented elsewhere.

Foreclosure prevention programs established by state and local governments and nonprofits involve a variety of short- and long-term strategies, including financial education, counseling for homeowners, 24-hour foreclosure prevention hotlines, refinancing or emergency loan programs, and assistance in negotiating with banks for loan modifications. The programs also pursue alternatives to foreclosure, including short sales and deeds-in-lieu. In these alternative situations, the homeowner still loses their home, but the impact on their credit score is minimized.

[B] For more information on the shortcomings of the HAMP program, see: Carr, James H. and Katherine Lucas-Smith. "Five Realities about the Current Crisis." Suffolk Law Review, forthcoming.

Direct Action by Community Partnerships

Partnerships play a crucial role in effective foreclosure prevention strategies as a means to pool resources, coordinate regional interventions, and share best practices. The Homeownership Preservation Initiative (HOPI) in Chicago began in 2002 in response to a 91 percent increase in foreclosures since 1993, mostly in Chicago's low- and moderate-income neighborhoods.[13] HOPI is a partnership of Neighborhood Housing Services of Chicago, the Chicago Department of Housing, the Federal Reserve Bank of Chicago, and lending, investment, and servicing institutions that focuses on foreclosure prevention and vacant property reclamation. HOPI serves as a convener of local practitioners and policymakers, as well as an intermediary to amplify the direct service work of its partner organizations; to this end, the initiative "has been focused on providing practical solutions and services to families in foreclosure and sharing those lessons with industry and policy leaders to affect change in the overall system."[14] HOPI is a forum for a variety of practitioners to share ideas and best practices in foreclosure prevention and mitigation of the secondary impacts of foreclosure.[15] Area lenders and servicers work closely with HOPI to "help pay for the costs of the counseling…restructure loans when needed, and work with the city on the disposition of foreclosed properties."[16]

HOPI's programs to avoid foreclosure create a one-stop-shop that provides:

- Pre-purchase and post-purchase counseling and education;
- Direct intervention on behalf of delinquent borrowers;
- Rehabilitation of foreclosed properties; and
- Research and analysis of best practices for the mortgage and servicing industry.[17]

HOPI also created a foreclosure hotline that enabled delinquent homeowners to connect with credit counselors for free. Where foreclosures are unavoidable, HOPI reclaims vacant properties for affordable housing through acquisition, rehabilitation, and sale to low- and moderate-income residents. Between 2003 and 2006 – the partnership's pilot phase – HOPI prevented over 1,300 foreclosures[18] and reduced the overall foreclosure rate by more than 10 percent by targeting the most at-risk communities.[19]

As foreclosures increased and spread, it became clear to leaders in the Chicago area that the crisis needed to be dealt with at the regional level and required cross-jurisdictional cooperation.[20] Many areas around the city lacked housing counseling and legal aid resources, access to sustainable financial products, and strategies for dealing with the growth in vacant foreclosed properties.[21] The Chicago Community Trust, NHS, and the Federal Reserve Bank of Chicago used HOPI's model to initiate a larger-scale effort focused on foreclosure prevention and neighborhood stabilization in the Chicago metropolitan area called Regional Homeownership Preservation Initiative (RHOPI). RHOPI is a partnership of organizations and institutions working to prevent and mitigate the effects of foreclosure.[22]

RHOPI worked with regional experts and practitioners from more than 70 organizations from the public, private, and nonprofit sectors[23] to create an action plan to address foreclosures, with a focus on the following priorities:

Homeowner and homebuyer counseling and legal aid:

- Enhance outreach to borrowers and renters;
- Increase their access to counseling and legal aid resources;
- Improve counseling and legal aid networks.

Refinancing and financial products:

- Standardize systems used to analyze loans and borrowers;
- Improve financial products and/or expand their geographic scope;
- Promote and facilitate sustainable loan modifications in the context of the Making Home Affordable Program.

Foreclosed vacant property:

- Create an information clearinghouse;
- Develop best practices for redevelopment;
- Identify entities for implementation of redevelopment strategies in the context of the Neighborhood Stabilization Program.

Research[24]

Implementation of RHOPI's recommendations is facilitated by leveraging and coordinating opportunities from American Recovery and Reinvestment Act (ARRA) programs at the regional level and the distribution of grants from the Chicago Community Trust to nonprofits that address the foreclosure crisis.[25] RHOPI also advocates for policy changes when they are necessary to support these initiatives.[26] This regional effort has resulted in "an unprecedented partnership of governmental, nonprofit, and private sector organizations. The RHOPI process has brought people and organizations together and broken silos among sectors and jurisdictions."[27]

The Center for New York City Neighborhoods, a joint project of the city of New York, the Open Society Institute, and many nonprofit partners, is another innovative partnership pursuing foreclosure prevention strategies. The center supports strategies implemented by nonprofit partners, including the expansion of counseling and referral services, legal assistance, loan remediation, preventive outreach and education, training, research, and advocacy for homeowners at risk of foreclosure.[28] The center supports these initiatives by raising money, providing coordination and training, and coordinating managing a foreclosure prevention hotline.[29] The center is developing a mission-driven, nonprofit broker program (discussed below under "Catalyze Private Investment") to facilitate short sales and provide low-cost brokerage services with good consumer protections. This program is vital to New York City's stabilization; since housing demand has remained strong, most properties in the city never make it to foreclosure sale but are disposed of through a "short sale" and could easily be bought by investors, changing a neighborhood's character in the process.[30] The center is launching a pilot program within the Queens court system to help homeowners prepare for settlement conference meetings in which they negotiate foreclosure resolution with servicers.[31] The center is also developing strategies for acquiring properties from lenders and servicers, rehabilitating them and returning them to the market as affordably-priced homes.[32]

To assist organizations with foreclosure prevention, Neighborhood Housing Services of America has developed the "Just Price BestFIT" software program.[C] This web-based platform is being used by affiliates of NeighborWorks to speed loan counseling and workout negotiations with servicers; it "allows counselors to input all the necessary data about a loan and a borrower into the program and then transmits it to the servicer. The servicer then has all the data it needs to formulate workout options."[33]

[C] For more information on the software program, see http://www.justprice.org/about.html.

Judicial and Legislative Action

Each state has different laws defining the foreclosure process and tenants' rights. These laws, "which dictate the length of time the foreclosure process takes, the manner in which properties are maintained (or not) during the process, and the likelihood that they will become vacant after foreclosure sale, all affect the magnitude of the secondary effects of foreclosure on a state's towns and cities."[34] In response to the crisis, some states have made changes to their foreclosure processes to provide more opportunities for homeowners to avoid foreclosure. Some states have extended the length of the foreclosure process[D] in order to increase the amount of time a homeowner is given to find alternatives to foreclosure and increase the incentive for servicers to find alternatives. Maryland, for example, passed legislation in 2008 extending the minimum length of the foreclosure process – that is, the period between foreclosure notice and home auction – from 15 days to 150 days, and requiring that lenders wait 90 days after default to file the foreclosure.[E]

Other changes to the foreclosure process may include "specific provisions designed to provide greater notice to homeowners, to provide greater access to counseling or legal services, and/or to encourage or require communication among the parties."[35] Several jurisdictions, including Nevada, New Jersey, and Minnesota,[F] have passed legislation encouraging or requiring pre-foreclosure mediation between banks and distressed homeowners to identify potential loan modifications or encourage alternatives to foreclosure, such as deeds-in-lieu and short sales. Mediation "helps reduce the impact of the housing crisis on neighborhoods, unclog courts, and achieve faster, cheaper, and better resolutions for homeowners, mortgage lenders and servicers, and the community at large."

The first city-sponsored, mandatory pre-foreclosure counseling initiative was Philadelphia's Mortgage Foreclosure Diversion Program, which began in June 2008. Philadelphia's program, which is only applicable to residential owner-occupied properties, requires homeowners entering the foreclosure process to spend a day in court with free legal services and advice from loan counselors, attorneys, and bank officials who help them find alternatives to foreclosure. This program was initiated after the city requested that the sheriff call a moratorium on all foreclosures; the sheriff subsequently canceled the entire sheriff's sale list in April 2008. In response, several judges quickly established the mitigation program, based on a prototype established in 2004 by Judge Annette M. Rizzo.[36]

[D] In some areas, a long foreclosure process provides an opportunity for homeowners to find alternatives to foreclosure. However, where homes in foreclosure have been abandoned, this process extends the period during which the property is vacant. The long process may also cloud data in that it will take longer to determine the extent of foreclosures and number of REOs in areas with long foreclosure processes. To address this issue, Cuyahoga County, Ohio, has established a fast track foreclosure process for abandoned properties (Lind, Kermit J. "The Perfect Storm: An Eyewitness Report from Ground Zero in Cleveland's Neighborhoods." Journal of Affordable Housing and Community Development, Spring 2008. Accessed online at http://www.vacantproperties.org/resources/documents/ThePerfectStorm.pdf). States also have different redemption periods, during which the bank technically owns the property but cannot sell it, and the previous owner has the opportunity to regain the home. Anecdotally, however, most homes become vacant during the redemption period and can remain in limbo for over a year (Immergluck, Dan. Podcast: "The Accumulation of Bank-Owned Homes." Federal Reserve Bank of Atlanta. October 30, 2009. Accessed online at http://www.frbatlanta.org/rss/ForeclosureResp.cfm). In areas with vacant and abandoned properties, localities are implementing strategies to stabilize and maintain vacant properties or to make it easier to acquire the properties, thereby reducing blight. These strategies are discussed in the "Maintain Vacant Properties" section.

[E] For more information on changes to Maryland and other states' foreclosure processes, see "State and Local Foreclosure Prevention Policy Options." Center for Responsible Lending. November 21, 2008. Accessed online at http://www.responsiblelending.org/mortgage-lending/policy-legislation/states/state-local-foreclosure-prevention-policy-options.html. Also see "Prevent Foreclosure, Keep Families in their Home: Extending the Foreclosure Timeline." Foreclosure-Response.org, March 9, 2010. Accessed online at http://www.foreclosure-response.org/policy_guide/foreclosure_prevention.html?tierid=305

[F] For more information on these programs, see "State & Local Foreclosure Prevention Policy Options." Center for Responsible Lending. November 1, 2008. Accessed online at http://www.responsiblelending.org/mortgage-lending/policy-legislation/states/state-local-foreclosure-prevention-policy-options.html.

The program was made mandatory by a court order, which is possible because Pennsylvania has a judicial foreclosure process.[G] Since this order, no property in Philadelphia can go to sheriff sale without first going through a conciliation conference.[37] When a homeowner receives a foreclosure filing, they also receive notice that a mandatory conciliation conference has been scheduled; the homeowner must then call the program's hotline to connect with a housing counselor to prepare for the conference.[38] The Diversion Program works with community groups to reach out to homeowners to encourage them to call the hotline and participate in the program. Of the homeowners who have participated in the program, nearly 85 percent have been able to delay or avoid foreclosure through an alternative resolution, including loan modification, forbearance, or graceful exit, such as a deed-in-lieu or short sale.[39,40]

Finally, some areas have passed regulations that provide protection from risky lending practices in the future. Such regulations include minimum licensure standards for mortgage brokers to ensure their financial solvency and technical fitness to carry out responsibilities;[41] minimum underwriting and loan product standards, such as requiring "ability to pay" verification; prohibition of no-documentation loans; restriction of pre-payment penalties;[42] and increased enforcement of existing laws and increasing penalties for fraud.[H]

Assistance for Unemployed and Underwater Homeowners

Foreclosure prevention efforts need to address the predominant causes of foreclosure, which currently are unemployment and negative equity.[43] In cases of unemployment, emergency grants or loans allow homeowners to pay their mortgage while they look for work. Pennsylvania's Home Emergency Mortgage Assistance Program, for example, provides loans of up to $60,000 or two-years, whichever comes first, for homeowners who have become involuntarily unemployed to use for mortgage payments.[I] This program, which began in 1983, gives the money directly to lenders to cover arrears or monthly payments; since 1983, the program has provided $450 million to help more than 43,000 homeowners, and has helped almost 80 percent of its participants avoid foreclosure.[44] The financial bill recently passed in Congress allocated $1 billion of returned TARP money be distributed as emergency low-interest loans to unemployed homeowners to help them avoid foreclosure.[45]

Foreclosure moratoriums, potentially tied to unemployment benefits, could provide homeowners respite from worrying about losing their home at the same time as they are looking for a job. During the Great Depression, states passed aggressive laws to protect consumers. Minnesota, for example, enacted a mortgage moratorium in 1933 in response to the rapid rise in foreclosures, which was extended until 1942; this law allowed state court judges, upon petition of homeowners, to temporarily halt mortgage foreclosures. It also extended for up to two years the time during which foreclosed homeowners could buy back, or redeem, their properties, provided that they continued to make "reasonable" monthly payments to be applied to their mortgage payments, real-estate taxes and insurance during the interim.[46]

[G] There are basically two forms of foreclosures, judicial and non-judicial foreclosures. Judicial foreclosures must go through the court system to prove a borrower has defaulted, whereas non-judicial foreclosures are carried out without court procedures because the lender's right to sell in case of default is written into the mortgage instrument. Some states allow both procedures. For more information on the foreclosure process by state, see "Foreclosure Laws and Procedures by State." RealtyTrac, Accessed online at http://www.realtytrac.com/foreclosure-laws/foreclosure-laws-comparison.asp.
[H] For more information on regulations passed by states, see "State Strategies to Address Foreclosures." National Governors Association, September 19, 2007. Accessed online at http://www.nga.org/Files/pdf/0709FORECLOSURES.PDF.
[I] For more information, visit the program website: http://www.phfa.org/consumers/homeowners/hemap.aspx.

Other states, including Iowa and Arizona, enabled courts to grant a moratorium on a case-by-case basis.[47] Several states have passed temporary foreclosure moratoriums during the current crisis, though most have been for short time periods.[J] Other states, including Michigan, Minnesota, and New York, have attempted to pass longer-term moratoriums reminiscent of those from the Great Depression era, but none have passed to date.

Just as state governments created long-term foreclosure moratoriums during the Great Depression and the federal government currently provides moratoriums on government-backed mortgage foreclosures after a natural disaster, the government could establish a similar moratorium for families hardest hit by the foreclosure and unemployment crises.[K] Considering that the Federal Reserve has bought more than 80 percent of the mortgage-backed securities issued by Fannie Mae, Freddie Mac, and Ginnie Mae,[48] and that 96.5 percent of home loans are guaranteed by the government,[49] this measure could have a significant impact on preventing foreclosures. However, to be effective and avoid the costly accumulation of mortgage payments, moratoriums should be tied to permanent loan restructuring programs except in instances where they provide a bridge for temporary unemployment.

To address homeowners with negative equity, loan modifications should not only make monthly payments more affordable, but should also write down the mortgage principal to reflect current market conditions. As of the second quarter of 2010, CoreLogic reported that nearly 28 percent of all residential properties had negative or near negative (less than 5 percent) equity. This corresponds to 11 million underwater mortgages and 2.4 million mortgages approaching negative equity.[50] Without a principal write-down, many of these homeowners have chosen to default.[51] While most borrowers continue to make timely payments even after owing more on their mortgage than the home is worth, once negative equity reaches 25 percent, homeowners tend to start defaulting at the same rate as investors.[52] These strategic defaults are further exacerbating community-wide and nationwide housing market instability.

Bankruptcy reform that allows court-ordered mortgage modifications would provide a much-needed incentive for banks to write down loans. Currently, bankruptcy courts can modify repayment terms on the outstanding debt on a luxury yacht or investment property, but not the family home. This disparity in treatment is unfair, inequitable, and serves no public policy goal. Furthermore, expanded bankruptcy protection could address as much as 30 percent of loans heading to foreclosure, at no cost to the American taxpayer. The threat of repayment terms being determined by a third party – the bankruptcy judge – would also encourage more banks to proactively modify loans on their own terms before homeowners have to resort to bankruptcy.

In the private sector, financial institutions are starting – albeit on a modest trial basis – to develop programs to better address the realities of the foreclosure crisis. Ba nk of America, for example, introduced a new "Earned Principal Forgiveness Program"[L] for borrowers with some subprime and option ARM mortgages, in which homeowners who qualify for the Federal Home Affordable Modification Program,[M] who are underwater by at least 20 percent and who are at least 60 days delinquent can qualify for a gradual principal write-down. The bank will set aside up to 30 percent of the borrower's loan, interest free, and forgive that amount over the span of five years if the borrower remains current with their payments. This program will begin to address the growing problem of negative equity and encourage homeowners to continue paying their mortgages rather than strategically default.[53] This program is estimated to help an initial 45,000 borrowers.[54]

[J] For example, California passed a 90-day foreclosure moratorium, during which lenders "must prove they tried to modify the delinquent loans before they can begin foreclosing" (http://cbs5.com/consumer/foreclosure.moratorium.2.1043671.html);Virginia passed a 30-day forbearance for high-risk mortgages (http://leg1.state.va.us/cgi-bin/legp504.exe?081+ful+SB797).

[K] For a discussion of the pros and cons of a foreclosure moratorium, see Murphy, Edward Vincent. "The Economics of a Mortgage Foreclosure Moratorium." Congressional Research Service. September 12, 2008. Accessed online at http://fpc.state.gov/documents/organization/110095.pdf.

[L] For more information on Bank of America's new program, see http://newsroom.bankofamerica.com/index.php?s=43&item=8662.

[M] For information on eligibility criteria for the Home Affordable Modification Program, see http://makinghomeaffordable.gov/borrower-faqs.html#19.

2. RECAPTURE REO AND VACANT PROPERTIES AND LAY THE FOUNDATION FOR COMMUNITY REBUILDING

While families that lose their homes are financially and psychologically distressed, foreclosures also greatly hurt the economic vitality of the communities in which they are located. The impact on surrounding property is felt more acutely in areas where foreclosed and real estate owned (REO) properties are not properly maintained. These secondary impacts in turn perpetuate the foreclosure crisis, especially in areas with a high concentration of foreclosures. Concentrated and long-term foreclosures and vacancies wreak havoc on communities, particularly low-income and minority communities with fewer economic opportunities and safety nets. Moreover, surrounding property values decline more rapidly as the number of nearby foreclosures increases.[55] Between 2009 and 2012, as foreclosures and vacancies drive down surrounding property values, an estimated 91.5 million homes are estimated to suffer from price declines; these homes are expected to experience declines of, on average, $20,300 each, bringing the total impact on surrounding home values to $1.9 trillion.[56]

Due to the self-reinforcing nature of the crisis, a comprehensive redevelopment strategy must simultaneously address sustainable options for vacant and abandoned properties, foster the recovery of a homeownership market with diverse housing choices, identify green building opportunities as a means of job creation, invest in quality infrastructure, and provide amenities such as parks and community gardens in order to build community assets and attract further investment.

Stabilize REO and Vacant Properties

During the foreclosure and REO period, properties often remain vacant, lacking ongoing maintenance and lying vulnerable to vandalism. Efforts to maintain and stabilize properties while they are vacant will reduce the blighting impact of foreclosure. To this end, local governments, community groups, and lenders have enacted legislation and created programs that make it easier for municipalities to act when abandoned or unmaintained properties have become a blight on the community and that minimize the secondary impacts of foreclosures and vacant REOs by keeping homes occupied.

Maintain Vacant Properties

Many local and state governments have developed innovative programs to facilitate the maintenance and reclamation of vacant buildings and to share the cost burden of foreclosures with property owners. In an attempt to put a floor on decline, local governments have enacted measures to implement aggressive code enforcement and nuisance abatement programs, and have required financial institutions to take responsibility for the maintenance of foreclosed properties – particularly for vacant properties – as soon as the foreclosure process is initiated, even before it becomes an REO property. To enforce maintenance, some municipalities have designated a dedicated coordinator or team to inspect properties and coordinate between government agencies and property owners.

Tucson, Arizona's Slum Abatement and Blight Enforcement Response Team (SABER) supports neighborhood revitalization efforts by focusing on code enforcement and nuisance abatement in targeted areas: SABER brings together the resources of nine city departments, each of which shares responsibilities relating to the enforcement and prosecution of slum and blight laws. By institutionalizing interdepartmental cooperation and coordination, SABER facilitates a more effective response to the problems of vacant and unsecured buildings.[57]

To stabilize vacant homes, state and local governments have made it easier to reclaim properties, thereby circumventing private market inaction. Measures to reclaim vacant properties include amending receivership and eminent domain laws to make them more effective for the current crisis. Receivership is a tool that can be authorized through state law, allowing a municipality (and sometimes citizens or a nonprofit housing organization) to file a civil court action against the owner of an abandoned or unmaintained property that can be proven to be a public nuisance. If the owner does not sufficiently address the nuisance, the court can appoint a receiver for the property and maintenance or rehabilitation can begin before the title is transferred. The owner can only regain ownership of the property after paying the receiver's repair costs and associated liens; if the owner fails to do so, the receiver or the local government can acquire the property through foreclosure.[58]

Under Baltimore's receivership program, suits have been brought against the owners of over 300 properties, half of which resulted in owner rehabilitation rather than receivership.[60]

States have also amended their eminent domain laws to make them more effective for the current crisis.

Baltimore adapted its receivership laws to be particularly effective for vacant homes; rather than have the receiver rehabilitate the property before taking ownership and use foreclosure as "a last-resort means of recouping the net expenses of renovating," Baltimore's program allows courts to have the receiver foreclose on this lien before rehabilitation work has even begun and auction the property off to a developer who has demonstrated the ability to rehabilitate the property immediately. Rather than require the receiver to go out and locate the monies necessary to make repairs, vacant building receivership, under the Baltimore code amendment, offers the court the option of privatized nuisance abatement.[59]

New Jersey, for example, enacted a spot blight statute which, once the owner has exhausted all appeals, allows localities to use eminent domain to take properties that are on the municipal abandoned property list[61] and are "vacant and have a blighting influence on their surroundings"; the New Jersey statute provides that if the cost of rehabbing or demolishing and rebuilding a property deemed to be blighted exceeds the market value after rehab or new construction, then the fair market value of abandoned property is considered zero and owner gets no compensation.[62]

Finally, municipalities are finding ways to limit the cost to communities by sharing the burden of the secondary impact of foreclosures with banks and vacant property owners through increased fines and fees.[63] Vacant property registration ordinances help municipalities keep track of vacant inventories and hold owners responsible for neglect. They require the owners of vacant properties to officially register with the government and to pay a fee for long-term vacancies. Registration provides the government with a "point of contact in case the property becomes a public nuisance, and may encourage the owner to devise a timely rehabilitation plan by imposing fees to help cover the estimated costs for city departments to monitor, inspect, and re-inspect the property routinely."[64] Wilmington, Delaware, for example, charges a sliding annual fee for vacant properties, which costs more – up to $5,000 – for properties that have been vacant longer.[65]

In California, lawmakers passed legislation allowing government entities to charge owners of neglected foreclosed properties up to $1,000 per day in an effort to prevent deterioration of foreclosed and vacant properties.[66] Los Angeles recently took advantage of this state law by becoming the largest city in the country to adopt a foreclosure registry ordinance, which will allow the city to charge financial institutions a registration fee and $1,000 a day, up to $100,000 a year, for unmaintained foreclosed properties.[67] The ordinance also requires banks to list homes in pre-foreclosure. The city hopes to raise $5 million in the ordinance's first year.[68]

Keep Existing Occupants in their Homes

Finally, several initiatives aim to keep occupants – either tenants or the original owners – in their homes following foreclosure, as a means of avoiding vacancies and displacement. These initiatives, which include short-term rentals and sale-leaseback arrangements, aim to maintain family and neighborhood stability by preventing foreclosures from triggering evictions.

Focusing on tenants, Fannie Mae has established a National REO Rental Policy, which allows current renters in Fannie Mae-owned properties that are foreclosed on or that go through a deed-in-lieu process to stay in their homes on a month-to-month lease or to obtain an incentive payment to vacate the property in a "cash-for-keys" arrangement.[69] Tenants pay market rent, which is determined by "reviewing local comparable rents, conducting a neighborhood survey, or through other relevant indicators. Rates will also be subject to any legal rent control restrictions. The company will review each instance where the market rate may require a tenant to pay additional rent and will work to reach an equitable resolution."[70] If the tenant cannot afford the new rent, they are offered relocation assistance.[71] The program is managed locally by the property manager hired to maintain and sell the foreclosed property.[72] If the property sells, the lease will transfer to the new owner.[73]

To keep owner-occupants in their homes, the Center for Economic and Policy Research has been advocating a residential sale-leaseback arrangement called the "Right to Rent" plan, which allows current owners to remain in their homes. More common in commercial real estate, a sale-leaseback is a deal in which an investor purchases a property and immediately leases it to the previous owner; the sale-leaseback is "an alternative form of financing that some companies turn to when traditional financing, such as bank loans, are harder to obtain."[74] Sale-leaseback arrangements allow current owners facing foreclosure to avoid displacement and maintain family and neighborhood stability. The "Right to Rent" plan would require a regulatory change to temporarily amend foreclosure laws in order to give former owners the right to remain in their property at market rate rent for a significant length of time (i.e., five to ten years) in order to maintain security and tenure and neighborhood stability; the program could be administered by a judge, similar to the foreclosure process.[N] The lending institution could sell the property, but the new owner would have to honor the lease for at least the remainder of the guaranteed period. To target this program to low- and moderate-income families, the change in foreclosure rules could be restricted to homes sold under a specified price (i.e., local median sales price); the program could also be targeted specifically to the current crisis by restricting applicable mortgages to those issued during a certain time period.[75] This "Right to Rent" arrangement could be attractive to homeowners because, in many markets, monthly rental costs are cheaper than ownership costs, even after considering the tax benefits of ownership.[76] Moreover, this plan would ultimately put pressure on lenders to find alternatives to foreclosure in order to avoid having to become a landlord.

In March 2009, Freddie Mac initiated its REO Rental Option program, which is managed by a third party company and allows qualified owner-occupants and tenants to lease their foreclosed properties on a month-to-month basis, paying either market rate rent or their previous rent, whichever is lower.[77] Renters must prove their ability to afford the rent; if they do not qualify, they will be given relocation assistance.[78] In fall 2009, Fannie Mae announced a "Deed for Lease" program, which will allow struggling homeowners who do not qualify for mortgage modification to transfer their deed to Fannie Mae in lieu of foreclosure and remain in their homes as renters for a year. After the year is over, renters would have the

[N] For more details, see: Baker, Dean. "The Right to Rent." Center for Economic and Policy Research. July 2009. Accessed online at http://www.cepr.net/documents/publications/right-to-rent-2009-07.pdf. Also see Baker, Dean. "Right to Rent: The Best Response to the Housing Crash." Shelterforce, Fall/Winter 2009. Accessed online at http://www.shelterforce.org/article/1865/right_to_rent_the_best_response_to_the_housing_crash/P1/\.

option to extend the lease on a month-to-month basis. To qualify, homeowners must be using their home as their primary residence and must be able to afford market rents.[79] Although the Fannie Mae or Freddie Mac programs offer a shorter term lease than the five to ten years recommended by the Center for Economic and Policy Research, even a short term lease period can provide families with an opportunity to meanwhile look for a new home and save for a security deposit and first and last month's rent.

Boston Community Capital's (BCC) Stabilize Urban Neighborhoods (SUN) initiative keeps occupants in their homes by acquiring REO properties at a significant discount and renting the homes to low-income residents, or reselling them to the original owners[O] or tenants at prices consistent with the neighborhoods' median incomes. To implement this initiative, BCC, a Boston-based CDFI, created two affiliates: NSP Residential, to buy distressed and foreclosed properties, and Aura Mortgage Advisors, a licensed nonprofit mortgage broker. By showing banks that property values in the neighborhoods in which they work have decreased by 35 to 75 percent, BCC has convinced them to sell REO properties at steep discounts, representing true fair market value.[80]

To ensure that the SUN program helps homeowners in need, and to maintain fairness, the BCC screens applicants for evidence of hardship, predatory loans, and income eligibility; through this process, BCC rules out "defaulted owners who have had neither an adverse life event (loss of income, illness, emergency expenses, death in the family) nor a predatory loan."[81] Aura Mortgage Advisors underwrites new 30-year fixed rate mortgages reflective of the reduced market price with monthly payments less than 38 percent of the household's income.[82] To avoid a windfall gain to the homeowner, BCC also asks the homeowner to sign a non-amortizing second mortgage with a zero percent interest rate for the amount by which the original mortgage was reduced. The second mortgage includes a shared appreciation clause with an appreciation split that is tied to the amount of the mortgage write down; for example, if the original mortgage was $300,000 and was written down to $150,000, the appreciation split would be 50/50.[83] This second mortgage prevents a windfall to the homeowner and will help sustain the program in the long term. The SUN program also includes several mechanisms to enhance the homeowners' economic stability, including financial counseling, peer support, automatic mortgage withdrawals every two weeks tied to owners' paycheck schedules, and financial reserves. The extra payment that results from the two-week payment schedule goes towards maintenance or principal reduction.[84]

To mitigate losses, BCC works with community groups, including Greater Boston Legal Services, Harvard University Legal Aid, and City Life/Vida Urbana[P] to counsel borrowers and determine whether homeowners can support the discounted mortgage. Maintaining strong relationships with community partners provides "both a source of potential borrowers for BCC's community development lending, and screeners of potential borrowers."[85] BCC also maintains an active relationship with borrowers in order to intervene early if problems arise. For example, if an owner loses his or her job, BCC can add time at the end of the loan to make payments more affordable, or accept a deed in lieu of foreclosure.[86]

The initial funding for this initiative came from a decision by BCC's board of directors to approve $3.7 million in internal funding.[87] Since the program began in the first two months of 2008, BCC has completed deals on 60 homes, with an additional 40 in progress. The organization has raised $32 million to expand the program and has a goal of raising $50 million.[88] A $50-$75 million investment would support the refinancing of 300-500 loans over 18-24 months.[89] Once sufficient scale is achieved, BCC plans to recapitalize the program through secondary market sales of its loans.[90]

[O] Previous homeowners are often still in their homes during part of the REO period because, under Massachusetts's foreclosure laws, upon foreclosure the new owner (i.e., the bank) has to go through eviction proceedings to remove the previous owner.
[P] Greater Boston Legal Services and City Life/Vida Urbana are members of NCRC.

Return REO and Vacant Properties to Productive Use

Returning REOs and vacant properties to productive use requires a range of acquisition and disposition strategies,[Q] all of which depend on local market conditions. In areas with large concentrations of foreclosures and REO properties and/or long-term vacancies and long REO property holding periods, for example, programs address foreclosures on a large scale, such as through bulk acquisition or the creation of land banks. In areas where the private market cannot absorb the supply of housing, properties can be deconstructed,[R] rezoned and turned into community parks, gardens, or open space. In some markets, strategies focus on having governments, nonprofits, or trusted local developers buy and rehab properties and put them back on the market as resales or rentals.[91] In stronger markets, initiatives should focus on facilitating private market investment and encouraging owner-occupant purchase of properties.

REO and vacant properties can be purchased or otherwise acquired by governments, nonprofit or for-profit developers, or individual homebuyers. They can be acquired throughout the foreclosure process (i.e., through pre-foreclosure short sale), though most often they are acquired after they have gone into REO status. Acquisition strategies include:

- Purchasing properties at auction;
- Negotiating their purchase on the open market;
- Negotiating their purchase through a bank partnership or through the National Community Stabilization Trust, potentially in bulk;
- Acquiring properties through donations;
- Acquiring properties through tax foreclosure; and
- Providing government incentives for developers and homeowners to purchase properties directly.

Disposition strategies include:

- Rehabilitating (if needed) and selling or renting properties on the open market;
- Rehabilitating (if needed) and selling or renting properties as affordable housing;\
- Working with real estate brokers, including mission-oriented brokers, to facilitate market sales;
- Maintaining long-term affordable housing through shared equity arrangements;
- Setting up land bank properties; and
- Deconstructing or demolishing houses.

In many areas, the homeownership market has been so badly damaged that communities need strategies to rebuild the market and create long-term affordability. These include:

- Providing credit and homebuyer counseling;
- Utilizing shared equity arrangements; and
- Setting up lease-to-purchase mechanisms.

[Q] For more information on acquisition and disposition strategies, see Treuhaft, Sarah, Kalima Rose and Karen L. Black. "Equitable Development Toolkit: Reclaiming Foreclosed Properties for Community Benefit." PolicyLink, June 2009. Accessed online at http://api.ning.com/files/MM4ybpOMA-NHErQLrpjy*iSQoYPUe6N7UmOM7XxjGhLP6JCIgxMz1ct0VybMRFwCiC4OMUaFDDSpTofdnXWNd2jYing5U73w/EDTK_ForeclosedProperties_Final_6.25.09.pdf ; Sheldon, Amanda, Phillip Bush, Aaron Kearsley and Anne Gass. "The Challenge of Foreclosed Properties." Enterprise Community Partners, 2009. Accessed online at http://www.practitionerresources.org/cache/documents/672/67247.pdf; and Madar, Josiah, Vicki Been and Amy Armstrong. "Transforming Foreclosed Properties into Community Assets." Furman Center White Paper, January 2009. Accessed online at http://furmancenter.org/files/publications/furman.ford_.whitepaper_.pdf.

[R] Deconstruction, as opposed to demolition, creates more jobs because it is more labor intensive and the end results can be directed to other businesses, such as salvage shops and furniture makers.

Promote Redevelopment Strategies for Large Concentrations of REO Properties

Bulk purchase of REO properties allows purchasers such as government entities and nonprofit developers to maximize their impact in areas with high concentrations of foreclosures. In March 2009, after a year of negotiation, Housing and Neighborhood Development Services, Inc. (HANDS) in Orange, New Jersey, bought 47 non-performing mortgage notes from JP Morgan Chase in the Newark region. HANDS bought these mortgages – on which borrowers had failed to make a single payment – for a reported $2.3 million.[92] These mortgages were all for vacant properties in default, for which foreclosure proceedings had yet to be initiated; the properties were left vacant after a mortgage scam collapsed. HANDS purchased the properties with the aim of stemming the deterioration of the neighborhoods in which they were located. As part of a comprehensive REO redevelopment strategy, HANDS will manage the properties, service the loans and foreclose and rehabilitate homes when necessary to put them back into productive use….After acquisition HANDS will work with existing tenants to maintain affordable rental housing, service existing loans and will collaborate with other CDCs on revitalizing the neighborhoods through affordable rental housing and homeownership.[93]

This pilot will be expanded with HANDS's newly created special purpose entity, Community Asset Preservation Corporation (CAPC). CAPC plans to reclaim as many as 1,500 houses by purchasing REO properties and mortgage notes from financial institutions. A mixed market disposition strategy is key to CAPC's success in expanding affordable housing; CAPC will dispose of property to a mix of nonprofit, for-profit and public entities for rehab and reuse in a variety of neighborhoods and will sell some properties at market rate to subsidize the majority of homes that will go to low- and moderate-income families.[94]

While nonprofits often rely on direct purchase from banks or other owners, local governments have the advantage of regulatory powers that allow them to obtain vacant and foreclosed properties for community stabilization efforts. One powerful tool is the creation of a land bank, a public authority created to efficiently hold, manage and develop…property. Land banks act as a legal and financial mechanism to transform vacant, abandoned and tax-foreclosed property back to productive use. Generally, land banks are funded by local governments' budgets or the management and disposition of tax-foreclosed property.[95]

The primary method of acquisition by the land bank is through tax foreclosure, but some land banks have the authority to "negotiate directly [with banks or servicers] for the acquisition of REO properties, maintain other entities' REO properties for a fee, accept properties as gifts or donations, [or] purchase properties from individuals."[96] Properties in the land bank are secured, rehabilitated, and eventually transferred to homeowners or developers who will put them back in productive use; if there is no private market for these properties, they can be deconstructed or demolished and turned into green space or a community garden and donated to the municipality.[97] This strategy is most appropriate in communities where REO properties are very widespread,[98] because these markets are often so inundated with vacant properties that the private market cannot absorb them. Moreover, private parties have little or no incentive to purchase land when the property taxes owed on the land exceed its fair market value. Similarly, private parties are very unlikely to purchase land with defects on its title, because it is rarely cost-effective to cure title defects. When land speculators do purchase and hold tax-foreclosed property, cohesive redevelopment plans can be held up or completely prevented. This speculation problem is exacerbated when speculators reside out of state, beyond the reach of local jurisdictions.[99]

When Michigan passed the "most extensive land bank authority statute in the country" to set up a "state land bank fast-track authority" in 2004, the Genesee County Land Bank Authority was enabled to acquire properties in bulk, and the land bank acquired more than 1,200 properties in two tax-foreclosure proceedings.[100] The ability of the land bank to sell properties through negotiated sale rather than auction has significantly reduced the re-foreclosure rate, partly because

the entity is able to control the rate at which properties are released into the market.[S] The land bank's relationship with local taxing jurisdictions and its countywide structure allow for self-sufficiency:

> The Land Bank pays all delinquent taxes to local taxing jurisdictions within the county and, in return, collects and keeps all fees, penalties and interest recouped from redeeming owners and the proceeds from all land sales by the Land Bank. Key to its economic viability is its county-wide scope: the revenue earned through the delinquent tax interest or resale of more valuable suburban properties offsets the cost of redevelopment and maintenance of less valuable property in depressed urban areas. By classifying all tax foreclosed properties as brownfields, the Land Bank is able to tap into additional financial resources available through other state statutes and programs.[101]

Today, the Genesee County Land Bank Authority owns 12 percent of the property in Flint, Michigan,[102] and encourages re-use of more than 4,000 residential, commercial, and industrial properties through ten programs: Planning and Outreach, Brownfield Redevelopment, Development, Adopt-a-Lot, Clean and Green, Demolition, Housing Renovation and Rental, Housing Renovation and Sale, Side Lot Transfer, and Foreclosure Prevention.[103] The land bank helps residents avoid tax foreclosure by granting a one-year foreclosure postponement for families with financial hardship. Once foreclosed, the land bank works to keep the properties occupied by allowing residents to stay in their foreclosed homes under a lease with the land bank and helps potential buyers purchase homes by identifying funding sources and offering rent-to-own arrangements. Vacant property is cleaned, improved, and maintained by community groups and often turned into gardens.[104] Other alternative municipal strategies include receivership and eminent domain, which are discussed under "Maintain Vacant Properties."

Partnerships with national organizations have helped local entities access properties at a discount and in a more streamlined fashion. The National Community Stabilization Trust (NCST) is a partnership between Enterprise Community Partners, Local Initiative Support Corporation (LISC), NeighborWorks America, the Housing Partnership Network, the National Council of La Raza, and the National Urban League.[T] The NCST facilitates the transfer of foreclosed and abandoned properties from financial institutions nationwide to local housing organizations to promote productive property reuse and neighborhood stability.[105] The organization serves as a middleman to negotiate the sale or bulk sale of properties owned by financial institutions to local housing organizations or governments through two programs. Together, these improve "the predictability, scalability, and speed of REO transfers to local housing groups."[106]

NCST partners with a designated organization in each participating community to facilitate the sale of properties. The First Look program, which accounts for 60 percent of NCST transactions, allows the local buyer to inspect and acquire foreclosed or vacant properties before they are put on the market. NCST receives daily notices from participating financial institutions of available REO properties in each community's targeted zip codes; NCST in turn notifies the community purchaser, which has 24 hours to express interest in the properties. If they are interested, the organization has five days to "review and inspect properties, develop rehabilitation work specifications and cost estimates, and determine as-is values for the properties."[107] If the organization decides to purchase the properties, the price is generally set by the financial institution through a "net realizable value" formula, which takes into account the decreased costs to the institution of expedited sales and is therefore lower than the market value;[108] the discount is based on local market conditions,

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[S] "Of the approximately 1,500 parcels that the Land Bank sold through negotiated sales during an evaluation period, only 18 were subsequently re-foreclosed. By contrast, of the approximately 800 tax foreclosed parcels that were sold at auction during this period, 550 were subsequently re-foreclosed." Madar, Josiah, Vicki Been and Amy Armstrong. "Transforming Foreclosed Properties into Community Assets." Furman Center White Paper, January 2009. Accessed online at http://furmancenter.org/files/publications/furman.ford_.whitepaper_.pdf.

[T] Enterprise Community Partners, the DC office of Local Initiative Support Corporation (LISC), NeighborWorks America, and the National Council of La Raza are members of NCRC.

"including declining home values, long holding periods, and increased vacancies, as well as property condition, cost of capital, and other holding costs, such as taxes and insurance and maintenance."[109] Throughout the process, NCST monitors the progress of both the purchaser organization and the financial institution.

The Aged Inventory Purchase Program (40 percent of NCST transactions) facilitates the purchase of properties in financial institutions' existing portfolios of distressed properties, including bulk sales.[110]

The NCST has also established the REO Capital Fund – funded by philanthropic and government sources – which provides financing through local community development financial institutions (CDFIs) for acquisition and rehabilitation efforts in the form of loan loss reserves and revolving lines of credit. The NCST also builds the capacity of local purchasing organizations through targeted technical assistance to carry out acquisition, management, rehabilitation, and disposition of vacant and abandoned properties for the benefit of low- and moderate-income families. The NCST focuses its efforts in declining cities with high concentrations of foreclosures, as well as in cities that have received Neighborhood Stabilization Program (NSP) funding.

In 2008, Minneapolis was the first municipality to pilot the First Look program; in that area, the Greater Metropolitan Housing Corporation (GMHC) – one of the purchasing organizations – has leveraged funding sources for acquisition and reinvestment, including $16 million from the Home Prosperity Fund[U] and $5.6 million from the Neighborhood Stabilization Program.[111] With these funds and access to property facilitated by NCST, Minneapolis has acquired 235 properties, 91 of which were purchased through the First Look Program.[V] As of fall 2009, NCST was active in more than 100 communities across the country; its financial institution partners included Bank of America, Citi, Fannie Mae, Freddie Mac, GMAC, JP Morgan Chase, Nationstar, Saxon, and Wells Fargo.[112]

Private financial institutions can be compelled to participate in redevelopment efforts through incentives and regulation. In addition to bankruptcy reform (discussed above, under "Foreclosure Prevention"), the federal government can leverage and strengthen existing laws and create new programs to encourage cooperation. Community Reinvestment Act (CRA) credit is available for financial institutions to donate or sell at a discount their REO properties and to contribute financing to redevelopment projects. For example, where REO properties fall within a bank's CRA assessment area, banks can donate properties or sell them at a discount to community development organizations and count them as qualified investments. Banks may also be eligible for charitable tax deductions for donations or price reductions. This is a particularly relevant option in areas where property values – whether due to the housing bust or property damage – have declined significantly.[113] Wells Fargo,[W] for example, works with NCST and through its Housing Foundation to offer nonprofit organizations REO properties as a donation or at a discount.[114]

The Department of Housing and Urban Development (HUD) has programs to help local governments and nonprofits access properties it acquired through foreclosure on FHA-insured mortgages in order to encourage owner-occupant purchase and discourage flipping. HUD's Dollar Program allows local governments that plan to rehab homes and sell them to low-income residents to buy vacant properties for $1 after they have been on the market for six months.

[U] The Home Prosperity Fund was established by the Family Housing Fund, a local philanthropic affordable housing organization.
[V] For more information on GMHC's REO efforts, see Olson, Carolyn E. "Greater Metropolitan Housing Corporation: Pioneering Partnerships through Personal Connection." Community Developments. Fall 2009.
[W] Wells Fargo is a member of NCRC's Bankers Community Collaborative Council, a forum sponsored by NCRC to bring representatives from the nation's top banks and lenders together with representatives of community groups. Quarterly roundtables examine issues involving responsible financial services-related policies, regulations, and legislation, as well as innovative products, services, and best practices.

HUD's 602 Nonprofit Disposition Program facilitates the bulk purchase of properties by governments or nonprofits in targeted neighborhoods designated as Asset Control Areas (ACAs). ACAs must have a median household income of less than 60 percent of the area's median household income, a high rate of default or foreclosure, and/or a low homeownership rate. These properties are offered at a significant discount, from 50 percent off of the appraised value to as low as $1. The purchasing entity rehabilitates and resells the homes to low- and moderate-income residents. These homebuyers, in turn, purchase the property at 115 percent of the acquisition and rehab costs or the new appraised value, whichever is less; if the former pricing method is used, the difference between the homeowner's purchase price and the appraised value is secured in a soft second mortgage held by HUD, which converts to equity after three years if the owner remains in the property.[115,116]

Finally, through HUD's Section 108 loan guarantee program, communities can convert a portion of Community Development Block Grant funding into federally guaranteed loans large enough to provide financing for economic development, housing rehabilitation, public facilities, and large-scale physical development projects. These guaranteed loans facilitate private investment in distressed areas by either decreasing investment risk in the area or providing initial financing for projects.

Catalyze Private Investment

In areas with fewer foreclosures and/or a stronger economy, efforts to reoccupy properties focus on stimulating the private market and ensuring that owner-occupants have greater access to properties than investors. Strategies focus on marketing homes, establishing nonprofit real estate brokerage-type operations, and matching new homebuyers or landlord-investors with vacant properties."[117]

Municipalities and redevelopment authorities can provide gap funding that enables developers to leverage private funding to acquire, rehabilitate, manage, and/or sell vacant and foreclosed properties.

The Commonwealth of Massachusetts has sponsored the Neighborhood Stabilization Loan Fund, a $22 million low-interest loan fund created by government officials, foundations, and nonprofits, and administered by the Massachusetts Housing Investment Corporation,[X] a nonprofit organization. This resource provides an acquisition line of credit and rehabilitation financing for the resale or lease of foreclosed properties to nonprofit or for-profit developers. The projects must be located in targeted low- and moderate-income communities and be part of the municipality's strategic development plan. The fund also holds properties while developers obtain financing. The properties can then be rehabilitated for home purchase or used as affordable rental housing.[118,119] Providing funding for programs such as nuisance abatement and beautification can also help stimulate the private market.

Counseling programs and financing mechanisms for homeowners, such as pre-purchase and credit counseling, down payment and closing cost assistance, soft second loans, rehabilitation funds, and loan guarantees, can help connect low- and moderate-income homebuyers with primary residences and encourage rehabilitation and home repairs.[120]

[X] The Massachusetts Housing Investment Corporation is a member of NCRC.

Through the Community Stabilization Home Loan Program, for example, the California State Housing Finance Agency (CalHFA) provides below-market rate, 30-year fixed mortgages for first-time buyers who are purchasing specified REO properties in targeted zip codes as their primary residences. The loans – funded by tax-exempt bonds – are targeted to zip codes with the highest foreclosure rates.[121] The loan can be combined with California's Homebuyer's Down-Payment Assistance Program, which provides assistance for down payments and closing costs.[122] Other financial institutions have partnered with CalHFA to offer reduced prices on REO properties.

Successfully catalyzing private investment brings a risk of increased speculative investment, but there are several strategies to give preference to owner-occupants. Financing mechanisms that directly stimulate property acquisition for homebuyers can be targeted to owner-occupants and new homebuyers. Mission-driven broker programs allow nonprofit organizations to act as real estate brokers and thereby represent the interests of low- and moderate-income families and communities. Because of their compensation system, which incentivizes sales of more expensive homes, for-profit brokers have traditionally not sufficiently served the interests of low- and moderate-income homebuyers and communities. This reality has created room for brokers who target low- and moderate-income communities for predatory practices or destabilization. For example,

> These brokers can partner and co-locate with mortgage brokers, encouraging or facilitating irresponsible or predatory financing arrangements; sell properties to buyers who will let them sit vacant or subdivide them illegally; or otherwise endanger families and destabilize communities.[123]

Nonprofit brokers fill this gap in the market and help stabilize neighborhoods by helping distressed sellers transition from unsustainable mortgage arrangements and connecting potential homebuyers with short sales and foreclosed properties.

Los Angeles Neighborhood Services (LANS), for example, has offered nonprofit mortgage broker services since 1996 to serve residents of Southern California. LANS offers services for both homeowners selling their properties and potential buyers, with a focus on pairing homeowners selling distressed properties with low- and moderate-income buyers, and facilitating the purchase of rehabilitated foreclosed homes by first-time homebuyers.[Y]

Fannie Mae has created several programs to encourage non-investor purchases of its REO properties. The First Look Initiative (distinct from the NCST's First Look program) allows owner-occupants and buyers using public funds to have the first opportunity to purchase a foreclosed Fannie Mae-owned home; Fannie Mae will not consider offers from investors during the first 15 days that a property is on the market. Moreover, Fannie Mae offers favorable terms to buyers purchasing its REO properties with funds from the Neighborhood Stabilization Program, several HUD programs, local housing trusts, or charitable foundations. These terms include deposit reductions or waivers, an extra 15 days before closing, and the opportunity to renegotiate an offer during a reserved contract period.[124]

HUD also has programs for properties it owns through foreclosure of Federal Housing Administration (FHA)-insured mortgages that encourage owner-occupant purchase. On all properties, HUD offers a priority period during which only owner-occupants can purchase the property. HUD's Good Neighbor Next Door program allows homes to be sold to teachers, firefighters, law enforcement, and emergency medical technicians at a discount of 50 percent off of the list price if the purchaser commits to living in the property for three years. The homebuyer signs a second loan for the discount amount, on which no payment or interest is charged if the owner stays for the three year period.

[Y] For more information on mission-driven brokers and the Los Angeles Neighborhood Services' broker program, see McQueen, Kevin. "Using Mission-Driven Real Estate Brokerage to Mitigate the Impact of Foreclosures." Living Cities, February 2009. Accessed online at http://www.livingcities.org/innovation/rapid/brokerage/.

Rebuild the Housing Market

As a result of the foreclosure crisis, homeownership nationwide has declined more than two percentage points since its height during the second quarter of 2004. This decline is greater for African Americans, who have seen a 3.5 percent reduction in homeownership rates.[125] Rebuilding the housing market will be difficult for all potential homeowners as a result of the tightening in credit markets, but will be particularly difficult for homeowners who have defaulted on their mortgages and/or have faced foreclosure. These families will have damaged credit scores that may preclude them from homeownership for years, limit their rental options, and even affect their ability to find employment. To make matters worse, many former homeowners faced foreclosure because they received high-cost, predatory loans; their performance under these loans does not necessarily predict their ability or willingness to be a homeowner with a responsible mortgage product.

Damaged credit scores for homeowners who default or go through foreclosure is a major barrier to rebuilding the homeownership market. Local legislators and credit counselors should provide mechanisms to rebuild the credit of residents who have been unfairly affected by foreclosure, including those who were given deceptive or predatory loans.

Renters also face long-term consequences as a result of the foreclosure crisis. Until the passage of the Helping Families Save Their Homes Act in May of 2009, which requires that existing leases be honored after foreclosure,[Z] tenants in most states were vulnerable to eviction after their landlord's property was foreclosed on.[126] Further, the eviction would be noted on these renters' records, jeopardizing their chances of finding new rental opportunities. Tenants' rental records should be cleansed of eviction notices if they are evicted due to a foreclosure and have been current on rental payments.[127] Some states and municipalities have begun to address this issue; in Minnesota, for example, a 2008 revised statute allows all eviction notices to be cleared from tenants' rental records if they were evicted due to foreclosure.[128]

For residents not ready for homeownership, whether due to credit or down payment deficiencies, and in areas where lenders are tightening home purchase loans, lease-to-purchase (or rent-to-own) programs can offer an intermediate step in which renters gradually build towards ownership. By offering a stepping stone between renting and buying, a lease-to-purchase (or rent-to-own) option is an effective tool to rebuild the homeownership market. Since families that have experienced a foreclosure cannot become owners again for five to seven years due to credit score damage, this tool provides an alternative that helps former – or new – homeowners build up the credit and capital needed to buy a home. In general, lease-to-purchase programs are structured as "lease-option" deals, in which an occupant rents a property for a specified period of time with the option of purchasing the home during that time at a set price. Often the rent is above-market, but a portion of the rent goes towards a down payment.[129]

One of the oldest and largest lease-to-purchase programs in the country is the Cleveland Housing Network's (CHN) Lease Purchase Program, which buys and rehabilitates abandoned properties and rents them to very low-income residents.[130] CHN uses Low-Income Housing Tax Credits to finance the rehabilitation, which requires that the property remain a rental property for 15 years; after that time, the family can choose to purchase the home at a third of the market value.[131] Around 90 percent of eligible families have chosen to purchase their homes.[132] CHN also provides buyer education for residents "that can ease transition from welfare to financial independence and sustained homeownership."[133] Programs with different financing arrangements usually have a shorter lease period.

[Z] For more information on the Helping Families Save their Homes Act, see http://www.whitehouse.gov/the_press_office/reforms-for-american-homeowners-and-consumers-president-obama-signs-the-helping-families-save-their-homes-act-and-the-fraud-enforcement-and-recovery-act/.

Some programs are being developed to directly respond to the foreclosure crisis. New Jersey, for example, passed the Mortgage Stabilization and Relief Act in January 2009, which created the Housing Assistance and Recovery Program, a $15 million fund for nonprofits and public entities to buy foreclosed properties and rent them to owners through a lease-purchase deal. Households can rent their homes at affordable rates (capped at 33 percent of the household's gross monthly income) for up to 36 months, with an option to purchase the property at a price no greater than the price paid by the nonprofit or public entity.[134]

Other programs allow residents to partially "earn" homes through sweat equity. The Colorado Rural Housing Development Corporation, for example, developed a Lease-Earn-Own program that aims to reoccupy foreclosed properties. Qualified residents work with a realtor to find a foreclosed, short sale or an REO property with a purchase price of 15 to 25 percent below market value. Homebuyers receive ongoing mortgage readiness and homebuyer counseling and assistance with choosing a mortgage product. The resident leases the home at a price similar to the mortgage and donates 300 hours of sweat equity to rehabilitate the house, which ultimately lowers the purchase price. After two years, the renter can purchase the house from the organization. This program is supported by a $5,000-per-unit investment from NeighborWorks America.[AA,135]

NeighborWorks has also initiated a lease-to-purchase program in Waco, Texas, in response to the foreclosure crisis that rehabilitates foreclosed or vacant homes. Through their Purchase Efficient, Affordable Homes; Rehab, Lease and Sell (or PEARLS) program, NeighborWorks bought and rehabilitated 20 homes, which are being leased to residents, many of whom are working towards first-time homeownership and/or are on housing vouchers. The organization hopes to more than double the program, which offers homeowner education, including credit counseling, financing, and insurance, in 2010. The courses are recommended for all tenants and required for those seeking financing through NeighborWorks, which offers a 30-year fixed rate loan. If the tenant chooses to buy the home after the rental period, NeighborWorks also assists with the down payment through a no-interest loan, which can be repaid with a federal first-time homebuyer tax credit.[136]

To facilitate growth in the lease-purchase market, the Center for Community Self-Help, in partnership with Fannie Mae and local nonprofits, is developing a national program and a secondary market for a lease-purchase mortgage product. Under this program, local nonprofits acquire and rehabilitate vacant or foreclosed properties, often through partnerships with banks that have large REO inventories,[137] and provide credit, homeownership counseling, and property management services to qualified "tenant purchasers" who will purchase the property within five years. The program is targeted to tenant purchasers whose income is at or below 80 percent area median income or whose income is at or below 115 percent area median income if the property lies in a low-income census tract. To qualify, tenant purchasers need to have 12 months consecutive employment history.

The local nonprofit organization will pay off acquisition and rehabilitation financing through a lease-purchase mortgage developed by Fannie Mae from one of Self-Help's bank partners (any Fannie Mae approved seller-servicer); this mortgage is then sold to Self-Help, which retains the credit risk, and securitized by Fannie Mae. The nonprofit is responsible for all payments – principal, interest, taxes, and insurance – until the tenant assumes the mortgage. While in the leasing phase, the tenant pays rent to cover the above payments plus homeowner counseling, which is required; a portion of the payments go towards the tenant's down payment and closing costs.[138] Once the tenant purchaser buys the home, they assume the mortgage from the nonprofit. To date, Self-Help has been approved to deliver $200 million worth of loans to Fannie Mae, began a pilot program in Charlotte, North Carolina,[139] and is expanding to Atlanta and Chicago.[140]

[AA] NeighborWorks America is a member of NCRC.

Utilizing the lease-to-purchase arrangement under a sale-leaseback agreement would allow former owners who face foreclosure to rent their home for a period of time, with an option to re-purchase the property. This strategy would provide family and neighborhood stability and an opportunity for homeowners to rebuild their credit. In July 2009, the House of Representatives passed the Neighborhood Preservation Act, which, if made into law, would remove legal impediments blocking federally regulated banks from entering into long-term leases up to five years with the former owners of foreclosed houses. It would also allow banks to negotiate option-to-purchase agreements permitting former owners to buy back their houses.[141]

However, this is a voluntary option for banks and only applies to leases signed within two years after the bill's passage.[142] Critics oppose the voluntary nature of the bill and the fact that banks are left as landlords.[143] Stronger legislation could, "within the bounds of constitutional protection of contracts," require lenders to accept a surrendered deed in place of initiating foreclosure and to lease the property back to the borrower, with an option to purchase it after a set period of time.[144]

The glut of depreciated homes on the market provides an opportunity to increase the supply of affordable housing. Long-term affordable housing can be created through such mechanisms as community land trusts, shared equity mortgages, and deed restrictions. Over the past decade, the country focused on expanding homeownership opportunities by relaxing lending standards and by using creative subprime financing strategies that do not ensure long-term sustainability…. Shared equity homeownership [instead] makes predictable, if limited, wealth creation available to low- and moderate-income families with very low risk, and because shared equity homeownership opportunities are preserved as long-term affordable housing, the same opportunity for wealth building creation can be passed on to countless future generations.[145]

In shared equity and shared appreciation homeownership programs, homeowners receive support with buying a home through equity assistance, rather than financing the home solely through debt. These programs have been most frequently utilized by governments or nonprofit investors whose goals are to maintain affordability for future homebuyers. These programs come in various forms, including shared appreciation loans (also called shared appreciation mortgages), silent second mortgages, and subsidy retention programs. In shared appreciation loan arrangements, homeowners receive a low-interest first-lien loan; when they sell the home, they share a specified portion of the amount the home has appreciated with the subsidizing entity, which reinvests it in the next homebuyer. Similarly, a silent second mortgage is a second lien that assists homeowners with the purchase of a home but requires no payments until the homeowner sells, at which point they pay back the loan and a specified share of the amount it has appreciated.

Under a subsidy retention program, the price at which homeowners can sell their house is restricted to maintain affordability. Examples of subsidy retention programs include limited equity cooperatives, community land trusts, and deed restrictions.[BB] While the majority of these programs are implemented by state or local governments or nonprofit housing organizations,[146] housing experts have developed programs to leverage private investment for shared equity arrangements as well.[CC] A community land trust, for example, is a tool for homeownership in which residents buy homes but a local organization maintains control of the underlying land. Community-established terms set a limit on resale value, which allows residents to benefit from home price appreciation to some degree but maintains the home's affordability for future buyers.

[BB] For more background on shared equity programs, see http://www.nhc.org/housing/sharedequity.

[CC] For example, see Caplin, Andrew, James H. Carr, Frederick Pollock and Zhong Yi Tong. "Shared-Equity Mortgages, Housing Affordability, and Homeownership." Fannie Mae Foundation. 2007. Accessed online at http://ssrn.com/abstract=983100.

After an influx of residents and a growing economy created gentrification pressures in the early 1980s, the city of Burlington, Vermont, initiated a successful community land trust to preserve affordable housing and leverage asset-building opportunities for low- and moderate-income residents. The Burlington Community Land Trust (BCLT) was incorporated in 1984 and received funding from government and private sources, philanthropists, and religious groups. BCLT purchases single-family and multifamily homes and secures private land donations, then sells the housing structures to homebuyers. Low-income home buyers can qualify for down payment assistance and below-market mortgage financing. The resale agreement allows residents to receive 100 percent of the principal they paid down, 25 percent of estimated market appreciation, and 100 percent of the value of home improvements.[147]

Shared equity homeownership can provide a more stable opportunity for homebuyers by managing downside risk. This program is particularly beneficial for low-income families who are less likely to experience asset appreciation under traditional homeownership because they are more likely to buy substandard housing, live in declining neighborhoods, and suffer from income instability that may force them to lose their homes. Shared equity programs can limit homeowner risk by establishing a price floor that guarantees homeowners will receive at least the amount they paid for their home upon sale. They can also provide counseling to help homeowners avoid predatory loan products and can intervene to prevent foreclosure.[148] In fact, a recent study found that, because of these interventions, the foreclosure rate among community land trust homeowners was less than one tenth the national average, despite this population being disproportionately lower-income.[149]

Shared equity homeownership programs can also be a stepping stone for mobility and asset building; while appreciation is limited, many shared equity participants are able to afford market rate homeownership after selling out of the program. In the Burlington Community Land Trust, for example, the average annual rate of return on the first 97 homes resold was 30 percent; moreover, 74 percent of the participants who resold their homes were able to advance to market rate homeownership within six months after the sale, and five percent traded up for better homes within the land trust.[150]

If scaled up, shared equity programs have the potential to create a cost effective and self-sustaining supply of affordable homes. For example, if the $300-$400 million that states and local governments currently invest each year in federal HOME allocations to subsidize low-income homebuyers was dedicated instead to a shared equity homeownership program over 40 years, the country could build a supply of 1.2 million permanently affordable homes. With the half million or more existing shared equity housing units, this investment would meet the needs of almost 20 percent of the potential market for publicly assisted homeownership. The same amount of HOME allocations assists less than three-tenths of one percent of this market.[151]

Ultimately, a well-designed and dynamic shared equity homeownership program would augment a comprehensive housing policy and address a range of housing policy priorities, including expansion of homeownership, wealth creation, permanent affordability, and neighborhood stabilization and revitalization.

Access to Credit

In order to rebuild communities, residents need access to credit. Many areas were unbanked (residents lack savings or checking accounts), or underbanked (residents have savings or checking accounts but largely rely on alternative financial services) before the collapse of the housing market. As a result, many of these neighborhoods rely on usurious payday lenders and check cashers rather than mainstream banks. The prevalence of predatory lenders and the resulting foreclosure crisis have further destroyed the credit scores of many residents, often through no fault of the consumer. Many

of the hardest hit neighborhoods need a more robust banking system in order to provide the capital to rebuild homes, expand homeownership, and stimulate business creation. According to a January 2009 report by the FDIC, 30 million American households, or more than 25 percent of all households, were unbanked or underbanked. African Americans, Hispanics, and Native American/Alaskans are disproportionately more likely to be unbanked or underbanked.[152]

The Community Reinvestment Act (CRA) is responsible for the expansion of trillions of dollars in capital to minority and lower-income neighborhoods since its creation in 1977.[153] CRA can be strengthened to impact more families by expanding it to apply to non-bank lending institutions and brokers and expanding its mandate of affirmatively meeting credit needs in low- and moderate-income neighborhoods to also specifically cover minority communities.

At the local level, community groups can work directly with banks and federal agencies to launch programs that will help residents repair their credit, prepare for homeownership, leverage their homes for wealth-building opportunities, and link residents to mainstream sources of banking services. In many low- and moderate-income communities, fringe lenders such as check cashers and payday lenders provide a significant amount of financing, as many areas lack easy access to mainstream banks and because these fringe lenders offer small loans quickly. However, these lenders offer usurious terms, with annual percentage rates of 300 to 1,000 percent or more,[154] which ultimately strip these neighborhoods of wealth. Organizations fighting the influence of these lenders have begun offering competitive alternatives.

The Society of St. Vincent de Paul in Southern Illinois, for example, responded to the dominance of payday lenders by offering a microloan product in partnership with the Catholic and Community Credit Union. The microlending pool provides loans of $200-$500 with a three percent interest rate and affordable payments. These loans can be used for moving expenses, home and auto repair, and to pay off a payday lender. The credit union provides the funding, manages payment collection, and reports loans to the credit bureaus. St. Vincent de Paul fully guarantees the loans made by the credit union and provides free required budgeting classes for borrowers who, upon completion, get a $25 savings account with the credit union.[155]

Rebuild Neighborhood Infrastructure

The nation's infrastructure is aging and in dire need of repair and replacement. A serious state and federal investment in infrastructure could create important efficiencies within the economy, promote green jobs, improve the environment, and provide needed and targeted employment and training opportunities in disadvantaged urban and rural communities. Infrastructure spending should not be limited simply to bridge and highway construction in the suburbs. Rather, it should focus on improving and building commuter and high-speed rail lines, upgrading communications systems, renovating and building schools and community colleges, creating state-of-the art job training facilities, investing in waterways and water treatment facilities, reclaiming key wetlands, and improving the basic livability of impoverished neighborhoods.

Investment in safe and efficient infrastructure, including transportation, communications, energy, and water systems, is crucial for the economic future of many cities and towns: it creates jobs, attracts private investment and new businesses, and improves a community's quality of life. Yet the nation as a whole faces a major deficit in each of these major physical systems. The Campaign for America's Future estimates that there is an annual spending gap of $9-$52 billion in road maintenance and improvement, and that roughly $200 billion for rail and $20-$40 billion for water systems will be needed in the next 20 years. The U.S. is also behind other developed nations in clean energy investment and communications infrastructure; in fact, one estimate suggests that America needs to invest $100 billion over four years for a fiber-to-the-home broadband infrastructure in order to regain global competitiveness.[156] Recent investment in infrastructure through

the American Reinvestment and Recovery Act will create jobs and increase economic growth; for example, every $1 billion invested in public transit creates 19,795 new jobs, while every dollar invested in public transportation creates an average of $6 in economic returns.[157]

Investment in green infrastructure – which includes landscaping, establishing parks and gardens, restoring ecosystems, planting street trees, creating vegetative sewer and stormwater management systems, building green schools, installing smart grid electricity systems, and investing in renewable energy sources – will not only support economic growth and job creation, but will also reduce the country's carbon emissions, oil consumption, water pollution, and the long-term municipal costs of maintenance and disaster relief, such as flooding. Green infrastructure built around redevelopment activity is also a means to enhance existing residents' property values and attract new investment.

The city of Seattle, Washington has implemented a variety of green infrastructure programs over the last decade. The Street Edge Alternative (SEA) project, for example, established natural drainage systems along city streets by reducing impervious surfaces, building swales[DD] to retain water, and planting trees and shrubs. A pilot project was completed in 2001; after monitoring it for two years, the city found that the volume of stormwater leaving the street was reduced by 99 percent.[158] Natural drainage reduces the amount of runoff – which is often polluted with "everyday contaminants such as oil, paint, fertilizer, and heavy metals" – that ends in the region's creeks, lakes, and the Puget Sound.[159]

The SEA initiative was followed by several other natural drainage projects throughout the city under Seattle's Natural Drainage Systems program, including the "Swales on Yale" project, which created natural drainage in a high-density commercial development, and a large scale natural drainage system in a HOPE VI project called High Point. High Point was a 129-acre housing project scheduled for redevelopment as mixed-income residential area with 1,600 homes. Building a natural drainage system of this scale provided the city with the opportunity to affect water quality in the largest creek in southwest Seattle.[160] The city's Public Utility Department (SPU) and the Housing Authority (SHA) developed a plan in which SPU paid for the difference in cost between the natural drainage system and a traditional system; impervious surface coverage and roof area drainage discharge limits and designated discharge points were established in the drainage covenant and plat agreement.[161] Other natural drainage tools in this project include extra street trees, vegetative bioretention swales, and porous materials on sidewalks and in parking areas.[162,EE]

Detroit, by many measures one of the nation's hardest hit cities in the country, is looking to utilize aggressive greening measures as a solution to its physical and economic decline. The city wants to condense its built environment through "right sizing"; the city plans to incentivize residents' relocation from less densely populated neighborhoods to denser neighborhoods and use the resultant uninhabited areas for green space and urban agriculture.[163] By demolishing 10,000 houses and empty buildings over three years, this plan could turn a quarter of the city's area semi-rural.[164]

Across the country, urban agriculture has been increasingly cited as a potential source of economic opportunity, and Detroit is leading this new movement with almost 900 urban gardens.[165] To date, most gardens in the city are small and gardeners grow food for themselves or for sale at farm stands and as wholesalers.[166] However, several large-scale farms – potentially thousands of acres – are planned, including RecoveryPark and Hantz Farms. Another initiative, by the nonprofit group Greening Detroit, plans to use an urban farm to train residents in urban agriculture.[167]

[DD] A swale is "a low spot or channel, often with plantings along the sides and bottom, where storm runoff may pond temporarily for infiltration or through which runoff may slowly flow so that pollutants will settle out or be captured by the vegetation." ("Seattle's Natural Drainage System." City of Seattle. Spring 2007. Accessed online at http://www.seattle.gov/util/stellent/groups/public/@spu/@usm/documents/webcontent/spu02_019984.pdf.
[EE] For more information on green infrastructure projects, see "Managing Wet Weather with Green Infrastructure." U.S. Environmental Protection Agency. April 27, 2009. Accessed online at http://cfpub.epa.gov/npdes/greeninfrastructure/gicasestudies.cfm#Municipal.

3. LEVERAGE COMMUNITY REBUILDING TO CREATE SUSTAINABLE EMPLOYMENT AND ENCOURAGE ENTREPRENEURSHIP

Housing and infrastructure investment will create immediate jobs through rehabilitation, construction, and retrofitting initiatives. Training and business development programs should leverage these immediate opportunities to promote long-term growth and foster entrepreneurship. A comprehensive strategy should train workers, connect them to ready jobs, provide ongoing opportunities for career advancement, and foster small businesses specifically in green and other growing fields. Opportunities should also be targeted to helping minority and low-income populations, as they have been disproportionately affected by the crisis and have fewer safety nets to help them recover.

Promote Sustainable Employment

With 27 million people under- or unemployed[FF], every redevelopment effort should be leveraged as an opportunity to create jobs and establish or reestablish careers. Job creation will also reduce foreclosures. To maximize the economic impact of new jobs for both the individual and the community, these opportunities should provide a living wage and benefits for their employees; the creation of low-wage jobs with no benefits or security is only a stop-gap measure and will not lead to true recovery.

Ensure that the Jobs Created Are Good Jobs

To ensure that the jobs created through neighborhood stabilization efforts offer good wages, benefits, and long-term opportunities for community residents, local governments can use the public bidding process to encourage contractors to, for example, provide good wages, hire targeted populations, and support training programs. Governments can ensure good wages by requiring prevailing or living wages in government contracts. Maryland, for example, requires that contractors or subcontractors on most service contracts pay their employees a living wage, which is currently $12.25 per hour in six counties and $9.21 per hour in the rest of the state,[GG] while minimum wage in the state is $7.25 per hour.[168] Public agencies can establish job quality standards and hiring preferences through "best value contracting", an alternative to awarding contracts strictly to the lowest responsible bidder. The process allows the contracting agency to define its priorities, including contractor qualifications, labor standards, the establishment of training programs, and the hiring of targeted populations. Points are assigned for each criterion and for remaining within the project budget; the bid with the most points – which is not necessarily the lowest bid – wins the contract.

Governments can also adopt first source hiring and local hiring policies to direct project benefits to targeted populations. Local hiring policies reserve a portion of jobs created by public projects or projects partly funded with public money for local residents. First source hiring policies require or incentivize businesses to give preference to applicants from local training programs. Although these policies often apply to short-term construction jobs, some have been applied to permanent positions as well.

[FF] As of August 2010, 14.9 million Americans were unemployed, 8.9 million were employed part time for economic reasons and 2.4 million were willing and able to work, but had dropped out of the labor market due to discouragement ("Employment Situation Summary." Bureau of Labor Statistics. September 3, 2010. Accessed online at http://www.bls.gov/news.release/archives/empsit_09032010.htm.)

[GG] For more information on Maryland's living wage provisions, see http://dllr.maryland.gov/labor/livingwage.shtml.

East Palo Alto, California, for example, has a First Source Hiring and Local Business Enterprise Policy that requires all development projects receiving at least $50,000 worth of direct or indirect subsidies from the city to hire residents for 30 percent of available jobs and requires that 30 percent of subcontracts go to small, local businesses. There are local hire requirements for both the contractors and the long-term tenants. The policy also includes a targeted hiring component in which contractors are required to consider applicants referred through the city's first source hiring program for six weeks before expanding to another hiring strategy.[HH] By the end of 2009, 36 percent of the retail jobs under the first source hiring policy were held by local residents.[169]

Negotiated agreements between cities, community groups, labor groups, and other stakeholders, including Community Benefit Agreements (CBAs) and Project Labor Agreements (PLAs, also known as Community Workforce Agreements (CWAs)), can also ensure that good jobs are created for targeted residents. CBAs are legally binding contracts negotiated between developers and community groups that provide community residents with specified benefits, which may include living wage jobs for local residents, public services such as child care and health care, and community assets, such as parks and open space.[170] A Community Workforce Agreement is similar to a CBA in that stakeholders negotiate community benefits to be applied to a specific project, but a CWA is focused on workforce standards.

The first Community Benefit Agreement was signed in 2001 in response to the expansion of the Staples Center in downtown Los Angeles. While this project brought significant investment to the surrounding neighborhood, many community groups were concerned about the displacement, traffic, and disruption that would be exacerbated.[171] Community groups gained leverage to negotiate when the developer failed to analyze the energy impacts of the development in the project's Environmental Impact Report; rather than go through costly and timely judicial procedures to address the report, the developer agreed to negotiate with the community groups instead.[172] A broad coalition of community stakeholders negotiated with the developer; in exchange for project support, the developer agreed to provide the community with benefits, including:

- A first source hiring policy that targets people who were displaced by the development, low-income residents within three miles of the development, and low-income residents in poor census tracts throughout the city;
- $100,000 in seed money for community groups to create job training and job notification programs;
- Public open space and park improvements;
- Affordable housing equal to 20 percent of the total project for families earning less than 50, 60, and 80 percent of the area median income;
- Interest-free loans to local nonprofit housing developers; and
- An agreement that 70 percent of the permanent jobs created by the project would receive a living wage or be covered by a collective bargaining agreement.

CBAs have since spread from Los Angeles across the country to such cities as Seattle, Denver, Milwaukee, and New York City.

The city of Portland, Oregon, adopted a comprehensive Community Workforce Agreement in fall 2009 for its Clean Energy Works Portland (CEWP) program. CEWP is an initiative of the city of Portland and the Energy Trust of Oregon to provide affordable energy retrofits through more efficient systems, thereby increasing energy efficiency and creating jobs on a large scale; after a 470-home pilot phase, they plan to expand to 100,000 qualifying homes. The initiative is expected

[HH] For more information on East Palo Alto's First Source Hiring Policy, see http://www.ci.east-palo-alto.ca.us/economicdev/pdf/FSH_Policy_8-29-01mod_.pdf.

to create 40 jobs in the pilot phase and as many as 10,000 jobs in its scaled-up phase.[173] The Community Workforce Agreement was initiated to define workforce standards and to ensure equitable access for traditionally under-represented populations, including minorities, women, and low-income residents. The CWA was signed by the city, Oregon Energy Trust, local community groups, national nonprofits, labor unions, and businesses. Berenice Lopez-Dorsey, owner and president of the Home Energy Life Performance Group, Inc., one of the local stakeholders that participated in the process and signed the agreement, recognized the far-reaching impact this community workforce agreement will have in Portland, particularly for historically disadvantaged businesses: "As a local, certified Minority& Women owned small business, now we have the opportunity to add green jobs, grow our businesses, and improve our community."[174] Ms. Lopez-Dorsey's firm is one of the contractors that will weatherize some of the initial 470 homes.

Through this agreement, the stakeholders committed to the following goals:

- Local hire: at least 80 percent of employees used in the CEWP pilot program hired from the local work force;
- Family-supporting jobs: workers participating in CEWP pilot project retrofits will earn no less than 180 percent of the state's minimum wage;
- Health insurance: strive to ensure that employees on CEWP pilot project jobs have access to adequate and affordable health insurance, and work to mitigate the burdens on small contractors associated with providing health insurance;
- Diverse workforce: historically disadvantaged or under-represented people, including people of color, women, and low-income residents of the city, perform not less than 30 percent of total trades and technical project hours in the pilot. As practical, contractors should have a first source hiring agreement with qualified training programs to meet this goal. Formerly incarcerated individuals seeking new opportunities for responsible citizenship and economic self-sufficiency are presented with employment opportunities leading to a career in weatherization and/or construction;
- Diverse business participation: businesses owned by historically disadvantaged or under-represented people, including people of color and women, make up not less than 20 percent of all dollars in the CEWP pilot project; and
- Highly-skilled workforce: resources for continuing education and certification are available for those coming into the industry as well as those wanting to increase their opportunities for upward mobility within the industry through registered apprenticeship and other career pathways trainings in the region.

The agreement has a built-in system of compliance, reporting, and review through a stakeholder committee.

These goals will be met by awarding bids based on best value contracting, with minimum requirements to bid. Minimum contractor requirements include paying wages at prevailing levels or 180 percent of the state's minimum wage, whichever is higher; being an Energy Trust Home Energy Solutions Trade Ally and certified with Oregon Home Performance with ENERGY STAR Building Performance Institute (BPI); hiring new employees from designated training programs; and allowing employees to establish a collective bargaining unit.

Contractors who meet the minimum requirements are eligible to participate in the contracting pool; contractors are then evaluated through a best value contracting approach in which preference is given to bidders who meet a list of criteria, including:

- Past work quality;
- A track record of hiring disadvantaged or under-represented people;
- Plans to mentor and subcontract with businesses owned by disadvantaged or under-represented people;
- Plans to hire graduates of pre-apprenticeship training programs;
- Participation in registered apprenticeship and other credential-granting programs;
- Plans to hire at least 80 percent of their employees from the Portland metro region;
- Provision of health insurance to employees;
- Use of Oregon-based contractors; and
- The clear demonstration of efforts to provide employment opportunities to formerly incarcerated individuals who are seeking self-sufficient career pathways in weatherization and construction.

The city and Energy Trust also plan to issue a separate bid for 20 percent of the work for BPI-certified contractors who demonstrate a particular focus on creating pathways out of poverty and into green jobs for local residents.

Finally, the stakeholders will identify qualified training programs to supply a qualified workforce; they will also identify funding and provide technical assistance to training programs and contractors to ensure quality and increase their participation in the project.[175]

Create Effective Job Training and Placement Programs

Effective training programs prepare people for jobs in growing industries that offer long-term career ladders. These programs provide supportive services to overcome barriers to participation in the labor market, such as transportation and childcare, as well as wrap-around services, such as adult education and General Equivalency Degree (GED) classes. Seamless job placement can be facilitated through direct connection with apprenticeship programs and first-hire agreements with ready employers. Training programs should offer ongoing career advancement opportunities for trainees who want to specialize or advance within their field. Small business creation and incubation should be integrated into the curriculum; construction training programs, for example, should offer support for trainees to eventually establish themselves as small contractors or to open salvage shops. These programs should be supported by up-to-date labor market research to ensure that the occupations and skills being taught are in demand within the regional economy.

A job training program in Lansing, Michigan, is using housing redevelopment activity to train young residents in construction and green building, while providing them with career advancement opportunities. The Capital Area Michigan Works! YouthBuild Program has partnered with the Ingham County Land Bank, Lansing Community College, the city of Lansing, the Michigan Laborers' Apprenticeship and Training Institution, and Eagle Vision Ministries to create a job training program in residential green construction, facilitated by a $1.1 million grant from the Department of Labor. Participants take four building trades courses at the community college, acquire leadership training, and receive on-the-job training by rehabilitating and greening land bank-owned properties. Through this program, students will receive training in lead-safe work practices and an introduction to the Leadership in Energy and Environmental Design (LEED) system. Students also

receive the community college's residential building certificate and a Green Advantage Environmental Certificate. These accreditations will give graduates an advantage in jobs in the construction and weatherization industries; meanwhile, Eagle Vision Ministries will provide students with additional academic education, particularly for those in need of a GED.[176,177]

The students will rehabilitate five homes, which were purchased by the land bank from HUD for $1 each plus closing costs. There will be two classes of 30 students between the ages of 18 and 24, with an emphasis on high school dropouts or those with a GED, ex-offenders, foster youth, the disabled, migrant farmers, and low-income young people. Each session will last eight to nine months, after which the YouthBuild program will provide follow-up and supportive services for the students for up to two years.[178] During the on-the-job training, participants will work 32 hours per week, earning $230 a week.

Support Small Businesses and Entrepreneurship

Small businesses[II] make up the majority of economic activity in the United States; in fact, small businesses employ more than half of American workers, produce more than half of the country's non-farm private Gross Domestic Product, and have created more than 60 percent of the net new jobs over the past 15 years.[179] Supporting small businesses is therefore crucial to job creation, economic development, and community redevelopment. Support for minority-owned businesses in particular is crucial to the country's economic future; growth in minority-owned businesses is far outpacing growth in non-minority-owned businesses, yet significant disparities in access to capital and contracting opportunities impede their success.[180]

Provide Access to Capital, Markets, and Networks

The three main challenges to business development are access to capital, access to markets, and access to networks. Several federal programs exist to expand business opportunities throughout the country and reduce disparities in access. These programs were created to leverage public investment in order to develop employment and business opportunities for disadvantaged residents, and to overcome historic barriers and discrimination in specific fields. The Small Business Administration (SBA) guarantees loan products[JJ] for small businesses and oversees programs, including those targeted to small disadvantaged businesses, that assist minority- and women-owned firms. The SBA oversees socioeconomic procurement preference programs, which establish goals for each federal agency for the percent of contracts that go to disadvantaged businesses. In aggregate, the goals are: 23 percent to small businesses;[KK] 5 percent to small disadvantaged businesses;[LL] 5 percent to women-owned small businesses; 3 percent to HUBZone small businesses;[181] and 3 percent to

[II] For research purposes, the Small Business Administration defines small businesses as independent businesses with less than 500 employees. However, businesses that want to be designated as small businesses for government programs such as contracting must meet size standards specified by the U.S. Small Business Administration (SBA) Office of Size Standards. These standards vary by industry; see www.sba.gov/size.

[JJ] For more information on Small Business Administration guaranteed loan products, see http://www.sba.gov/financialassistance/borrowers/guaranteed/.

[KK] Although small business maximum size standards – measured by the number of employees and annual receipts – vary by industry, for most nonmanufacturing businesses, the two widely used standards are 500 employees and $7 million in average annual receipts. For size standards by industry, see: http://www.sba.gov/contractingopportunities/officials/size/summaryofssi/index.html.

[LL] A small disadvantaged business covers those owned by officially designated socially and economically disadvantaged groups, including African-Americans, Native Americans, Hispanic Americans, Asian Pacific-Americans, and Asian Indian-Americans. Members of other groups must provide evidence that they are economically and socially disadvantaged. A person is considered economically disadvantaged if the individual's net worth, after excluding the individual's equity in the firm and equity in the primary residence, does not exceed $250,000. SBA will also consider the individual's average two-year income, fair market value of all assets, access to credit and capital, and the financial condition of the applicant's firm in evaluating economic disadvantage. Other individuals not covered by these groups are considered for disadvantaged status on a case to case basis. For more information, see http://www.sba.gov/aboutsba/sbaprograms/8abd/faqs/index.html.

service-disabled veteran-owned small businesses.[182] The SBA also has regional and district offices and women's business centers across the country to provide technical assistance, training, and other resources at the local level. Local programs include "matchmaker" events in which small businesses meet one-on-one with public and private entities looking for services. In advance of a matchmaking event, small businesses register using their North American Industry Classification System code, which allows them to be matched up in advance with appropriate buyers.

The Department of Commerce's Minority Business Development Agency (MBDA) has a network of minority business centers that help minority-owned businesses start up and expand. The network of centers includes Minority Business Enterprise Centers (MBECs), Native American Business Enterprise Centers (NABECs), and Business Resource Centers (BRCs), which provide individualized technical assistance in areas such as accessing finance and contracting opportunities, strategic planning, and marketing. Minority Business Opportunity Committees (MBOCs) identify business opportunities and leverage existing programs to enhance access for minority-owned firms by coordinating federal, state, and local business resources.[MM]

Other agencies have targeting programs to help them meet their SBA goals and to further expand access to contracting and procurement opportunities. HUD's Section 3 statute requires recipients of HUD money to contract with businesses owned by local low-income residents, those that employ a significant number of low-income residents, or those that agree to subcontract with a significant number of such businesses, and requires recipients to train and hire low-income residents on the HUD-funded project. The legislation states that *at a minimum*:

- 30 percent of new hires under the project contract must be section 3 residents;[NN]
- 10 percent of the total dollar amount of all Section 3-covered contracts (over a threshold of $100,000) for building trades work (maintenance, repair, modernization, or development of public or Indian housing, or for building trades work arising in connection with housing rehabilitation, housing construction, and other public construction), and 3 percent of all other contracts, must go to "Section 3 Business Concerns."[OO]

Full enforcement of Section 3 could create a significant number of jobs for an area's most vulnerable residents. It has been estimated that, when HUD funding eligible for Section 3 requirements was at the level of $3 billion, 16,000 jobs could have been created annually for low-income residents; now that HUD's eligible budget is more than $20 billion,[183] this number could be closer to 100,000 jobs. However, in 2009, only 25 percent of recipients reported their compliance, and 80 percent of those reporting failed to meet the minimum requirements.[184] In 2010, efforts by HUD have increased the number of local agencies reporting on their Section 3 efforts to 75 percent.[185]

[MM] For information on MBDA centers, see http://www.mbda.gov/?section_id=10.
[NN] "Section 3 Residents" are defined as public housing residents or low- (at or below 80 percent area median income) and very low- (at or below 50 percent area median income) income residents of the project's MSA.
[OO] "Section 3 Business Concerns" are defined as businesses that are at least 51 percent owned by Section 3 residents; employ a staff composed of at least 30 percent Section 3 residents; or provide evidence of a commitment to subcontract at least 25 percent of the dollar award of all forthcoming subcontracts to business concerns that meet the other two qualifications.

As a whole, HUD's Section 3 has not been enforced. However, some cities have aggressively pursued implementation and enforcement of Section 3 locally. Kansas City, Missouri, for example has established an effective program by creating a Section 3 Office within the city's Human Relations division to "link contractors with potential employees, alert Section 3 business concerns to opportunities, and monitor and enforce compliance,"[186] including on-site monitoring.[187] The office certifies Section 3 businesses and residents, and is involved in Section 3 planning and reporting. The office also contracts with the Full Employment Council of Greater Kansas City, which certifies and provides skills assessment, job training, and placement for Section 3 residents. Contractors and major subcontractors working with the city on applicable projects have to submit Section 3 Utilization Plans, which require a designated Section 3 coordinator; a projection of new hires and a commitment to hire low-income residents as a specified percentage of these new hires; and a Section 3 Business Concerns Utilization Plan that lists the eligible businesses – those that are owned by local low-income residents or that employ a significant number of low-income residents – to be contracted with on the project. The contractors are also required to aggressively conduct outreach and to market bid opportunities to Section 3 businesses.[188]

The Section 3 Office also provides assistance for Section 3 businesses, including case-managed technical assistance, bidding assistance, and bonding assistance.[189] The program's successes include providing free training for more than 90 Section 3 business concerns and small businesses, and awarding 16 percent of the city's HUD-funded contracting activity to Section 3 businesses.[190]

To augment these federal programs, Congress recently expanded the collection of race and gender information for small business ownerss, as well as other characteristics; this measure will likely increase responsible lending to minority- and women-owned businesses, just as lending to minority and women homebuyers increased when the Home Mortgage Disclosure Act was amended in 1988 to require the reporting of race and gender of the borrower.[191]

At the local level, governments, nonprofits, and financial institutions are working to expand access to opportunities, credit, and technical assistance. Just as governments can include specifications in the bidding process to create good local jobs, they can also encourage the growth of local businesses. San Jose, California, for example, gives a 2.5 percent price preference in the contracting process to local businesses and small businesses, thereby giving businesses that are both local and small a five point preference; in a request-for-proposals process, local small businesses can receive a 10 percent preference.[192] Local organizations are also establishing programs that fill in gaps in the private market through, for example, seed money, below-market rate loans, and business incubation, and are creating or expanding programs that provide technical assistance and capacity building for small businesses.

The National Community Reinvestment Coalition (NCRC) provides a continuum of services for businesses in the Washington, D.C. area. NCRC is the only entity in the country to run a Minority Business Enterprise Center, a Women's Business Center, and a Community Development Financial Institution (CDFI), which allows NCRC to seamlessly connect entrepreneurial mentorship, small business assistance, and direct financing to make a significant impact on small business and job creation.

NCRC's Washington, D.C. Minority Business Enterprise Center (DC MBEC) is a business consulting development agency that advises minority-owned businesses in strategies for accessing capital, markets, and improving business processes, including the optimal utilization of technology. A nationally recognized center, DC MBEC has served more than 600 clients and created more than 1,000 jobs over the last five years. DC MBEC clients range in size from $500,000 to over $50 million in annual revenues, with nearly 65 percent of clients in the $1 million to $9 million range. In the last two years alone, DC MBEC helped its clients obtain nearly $800 million in financing. In fact, the DC MBEC was recognized by the U.S. Department of Commerce as the highest performing center in the country in terms of the amount of financing it helps its

clients access. Through agreements with the Minority Business Development Agency (MBDA) and other regional MBECs, DC MBEC consults with businesses at various stages of the business cycle across the country. In the fall of 2010, NCRC will launch a second MBEC center in Houston, Texas.

NCRC also manages a Women's Business Center (WBC) in Washington, D.C. as a companion program to the MBEC. Through the WBC, entrepreneurs – especially women who are economically or socially disadvantaged – are offered comprehensive training and counseling to help them start and grow their own businesses. Services include business plan development, loan packaging, connecting entrepreneurs with mentors, and accessing procurement opportunities.

Finally, NCRC recently launched the NCRC Community Development Fund, a CDFI which provides loans and technical assistance to existing business owners, with a focus on loans to green businesses and microloans to new businesses. The CDFI prioritizes minority- and women-owned businesses primarily in the Washington, D.C. metropolitan region and is expanding to minority- and women-owned green businesses across the country. A long-range strategy for the CDFI will be to develop a program for the acquisition and rehabilitation of foreclosed, vacant, and abandoned properties. The rehabilitation will be linked to job training and support for new business ownership. These three NCRC entities work closely together to provide a seamless transition for clients from mentorship and training to access to capital and expansion.

In Youngstown, Ohio, the Youngstown Business Incubator helps emergent businesses by providing cheap and furnished office space through deferred and reduced rents and paid utilities.[193] The incubator helps entrepreneurs expand their businesses by

- Assisting with the commercialization process;
- Counseling on marketing strategies;
- Identifying funding resources;
- Facilitating networking opportunities;
- Providing access to physical infrastructure; and
- Seeking out collaborative opportunities.[194]

The incubator also provides an opportunity for business owners to network and share advice, expertise, and other resources with similar businesses even after they move to other offices.[195]

The incubator started 14 years ago with seed money from the state government.[196] Unlike the traditional model for a business incubator, which funds many unrelated businesses, the Youngstown Business Incubator has focused on business-to-business software firms, which are "companies that make high-tech products for other companies to use."[197] Since its founding, the incubator has grown to assist a portfolio of 28 firms with about 300 employees in three office buildings, with a fourth planned to open in 2010.[198] The jobs created by the project have an average salary of $57,000. The companies in the incubator's portfolio have created 24 new commercial software applications, received 17 intellectual property patents, and expanded sales globally to 90 countries.[199]

Support Alternative Capitalization Strategies

As communities rebuild, resident ownership mechanisms ensure that wealth created by redevelopment activities benefit the community by providing low- and moderate-income residents with opportunities to enhance their financial assets and gain ownership stakes in redevelopment initiatives. Resident ownership mechanisms can be applied to many initiatives, including homeownership, commercial real estate development, and new business development. Unlike traditional economic development techniques, which often focus on bringing outside investment into low- and moderate-income communities, these alternatives promote organic economic development that uses the community's untapped resources to build current residents' wealth while simultaneously attracting other investments. These alternatives work as community development tools, as they provide opportunities for residents to recapture funds as property values increase and businesses grow. This wealth can be reinvested in the businesses and to enhance community assets, thereby sparking a self-sustaining cycle of investment.

A community development initial public offering, for example, is a mechanism that establishes community ownership in a development project by offering residents the first opportunity to purchase shares in a commercial venture. The success of the business will be shared by community members through increased returns; residents also acquire a greater voice in the decision-making process. Community members in the Diamond neighborhoods of San Diego designed, built, and will own and operate the Market Creek Plaza, "a mixed-use commercial and cultural development project."[200] Community members were able to purchase up to 20 percent of shares in the shopping center for as little as $200 and a community-run foundation will own another 20 percent. The 60 percent initially owned by another foundation will eventually be offered for sale to residents and the foundation for total community ownership. Meanwhile, "community residents will be first in line for any profits. Resident investors will also each have one vote – regardless of how little or much they invested – to elect a nine-person advisory board."[201,PP]

Businesses can utilize alternative ownership models such as worker-owned cooperatives and employee stock ownership plans to maximize the benefits and wealth-building opportunities that accrue to the community. Worker-owner cooperatives and employee stock ownership plans are ownership arrangements in which workers are also the owners of their businesses and can sell shares to their neighbors. This tool directly benefits the community by "creating employment opportunities, strengthening entrepreneurial and management skills in the neighborhood, and building financial assets among workers and community-based owners."[202]

The B.I.G Wash Laundromat in the Columbia Heights neighborhood of Washington, D.C. is owned by community members; when local residents decided to develop a local laundry facility, they raised the $30,000 they needed in initial financing "by selling shares for $100 each throughout the neighborhood, sometimes accepting down payments in $20 increments – and gaining outside investment from churches and foundations."[203] Since it was founded in 1995, the value of the business has appreciated and paid significant dividends each year.

[PP] For more information on value recapture mechanisms, see Glover Blackwell, Angela and Heather McCulloch. *Resident Ownership Mechanisms: Low-Income Neighborhoods Take Control*. Fannie Mae Foundation, Spring 2002.

The Evergreen Cooperatives in Cleveland are innovative examples of employee-owned businesses focused on green industries. The Evergreen Cooperatives is a network of local businesses that supply anchor institutions with goods and services; they include:

- Evergreen Cooperative Laundry, a green industrial laundry that services area healthcare institutions, nursing homes, and hotels;
- Ohio Cooperative Solar, a solar panel installation and home weatherization company;
- Green City Growers Cooperative, a hydroponic food production greenhouse; and
- Greater University Circle Neighborhood Voice, a print and online media company that services local institutions and trains students in journalism and entrepreneurialism.[204]

This model was developed by the Democracy Collaborative and is being implemented by a broad group of public, private, nonprofit, and community-based partners. The goal of the initiative is to "create jobs and wealth within the city, multiply the impact of local dollars by keeping them in the community, and regenerate the local economy, particularly in the city's most distressed neighborhoods."[205]

The Evergreen Cooperative Laundry opened in October 2009. Employees were recruited from the surrounding low- and moderate-income communities and include residents who were previously unemployed and those with criminal records. The employees received training with Towards Employment, a local workforce development nonprofit. The employees earn a living wage with benefits and gradually earn shares in the company. When employees are hired, they earn $8 an hour for six months, after which they are considered permanent and earn $10.50 an hour (industry standard in the area is $8.25 an hour), with 50 cents per hour set aside to buy shares of the company.[206] Evergreen employees are also covered by health insurance paid by the businesses (although employees must pay extra to obtain coverage for dependents). After eight years, it is projected that employees will build an ownership stake of $65,000 per employee.[207] The wage level at Ohio Cooperative Solar, given the greater skill level, is set somewhat higher (about $13 an hour). Employees also have access to wrap-around services, and the Evergreen Cooperatives intend to create job ladders among the cooperatives as the network grows to foster the ability of employees to transfer from one co-op to another.[208]

The Evergreen Cooperatives are funded by the Evergreen Cooperative Development Fund, managed by ShoreBank Enterprise Cleveland. The fund was initially capitalized by a $3 million grant from the Cleveland Foundation;[209] additional funding has been secured by the businesses individually, including a $1.5 million low-interest loan from the city of Cleveland. New Market Tax Credits[210] have also been used as a regular source of financing, providing equity finance for the Evergreen Cooperative Laundry, Ohio Cooperative Solar, and Green City Growers.[211] Based on the Mondragon Cooperative Corporation in Spain,[QQ] the fund includes mechanisms to finance more businesses in the future; each business created from this fund will, when cash flow permits, dedicate at least 10 percent of its profits to the fund to sustain and grow the network.[212] Ultimately, ShoreBank expects the fund to grow to between $10 million and $15 million in asset size and help support the development of 350 to 500 new jobs over the next five years.[213]

[QQ] For more information on the Mondragon Corporation, see the corporation's website at http://www.mondragon-corporation.com/ENG.aspx and Kelly, Georgia and Shaula Massena. "Mondragon Worker-Cooperatives Decide How to Ride Out a Downturn." Yes Magazine. June 5, 2009. Accessed online at http://www.yesmagazine.org/issues/the-new-economy/mondragon-worker-cooperatives-decide-how-to-ride-out-a-downturn

4. Comprehensive Program

While most programs focus on only one aspect of the crisis or subsequent recovery, some communities have been able to coordinate efforts to proactively facilitate comprehensive redevelopment in which they leverage their redevelopment work to train residents in basic skills, create jobs and new businesses, and grow the local green economy.

The Green Impact Zone is an initiative in one of Kansas City, Missouri's most distressed neighborhoods, which has struggled for decades with "abandoned homes, an unemployment rate that's as high as 53 percent in some census tracts, and gun violence that takes many young lives"; this program, however, envisions these neighborhoods as containing "a center of green jobs, retrofitted energy-efficient homes, a green transportation system, and hopeful residents."[214] Championed by Representative Emmanuel Cleaver (D-Missouri), the Green Impact Zone establishes a 150-block area where funding from the city, grants established under the American Recovery and Reinvestment Act (ARRA), and other federal funding programs will be funneled to implement the program.

The program's main components include: a home weatherization project for 2,500 homes, which will create jobs for area residents in energy audits and weatherization, and reduce utility costs for families; green infrastructure, including park, public space, and streetscape improvements, and a bus rapid transit system; energy and water conservation, including a "green sewer" demonstration project and a smart electric grid; and a job training and placement program for ex-offenders in green building, park restoration, and transit work.[215,216] The initiative also includes community policing and services, and health and wellness programs.[217] These initiatives will leverage and coordinate existing programs as well as establish new programs with grants and other resources.[218]

The program is being implemented by a dedicated administrative staff, provided by the Mid-America Regional Council[RR] through funding from the city, and supported by a "neighborhood organization-based outreach program and regional public, not-for-profit, private, and civic leadership support programs."[219] Work has begun on outreach and marketing, data collection, financial management, neighborhood engagement, documentation, and grant applications.[220] Moreover, the Kansas City Area Transportation Authority broke ground on the bus rapid transit line – the Troost Max – in September, and the Kansas City Power and Light company has committed $24 million as part of a federal stimulus project for the smart grid system.[221]

The city is studying the possibility of developing a Climate Sustainability Center in the zone, which would involve "the construction of a 'living campus' that is powered by renewable energy and fosters green jobs and training."[222] The center would be developed and run by the city – through its Board of Parks and Recreation Commissioners and the Parks and Recreation Department – in partnership with the University of Missouri and other area corporate, labor, and institutional entities. It would focus on three components:

- Education and job training – The curriculum, including classroom, laboratory, and workshop programs, would be established by job providers and educational partners. The programs would provide hands-on training and employment opportunity services to students and graduates;

[RR] The Mid-America Regional Council is "a nonprofit association of city and county governments and the metropolitan planning organization for the bistate Kansas City region." ("About MARC." The Mid-America Regional Council. Accessed online at http://www.marc.org/aboutmarc.htm)

- Research – The center would provide educational, research, and laboratory studies on climate change and the development of environmentally friendly applications and products that reduce the area's carbon footprint. It would also include a green small business incubator; and

- Botanical garden – A cutting-edge, hands-on botanical garden would offer opportunities for botanists, horticulturists, scientists, students, and the public to cultivate, categorize, document, and tend to a wide variety of plants native to the area, and to focus on climate-friendly agricultural techniques and processes for farmers and related small businesses.[223]

This program admittedly focuses on ideas that "aren't revolutionary"; nonetheless, "the comprehensive, community-centered approach sets this project up for long-term success by developing a much-needed neighborhood revitalization strategy from relatively simple and focused infrastructure investments."[224]

5. Conclusion

The need for reinvestment in disadvantaged communities has never been greater. The collapse of the country's economy and credit markets is having a damaging impact that is disproportionately affecting low-income communities and communities of color, who have been doubly hit by the foreclosure crisis and high rates of unemployment. Without a substantial increase in funding for revitalization activities, many communities could struggle for decades. However, money in itself is not sufficient; funding needs to be coordinated and flexible so that communities can maximize the impact of investment, creating a coherent strategy that proactively links foreclosure prevention to property reclamation and rebuilding, and connects reclamation and rebuilding to job creation and business development. Many communities around the country have begun to develop promising models; these should be heralded, scaled up, and replicated across the country.

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7. Annotated Table of Contents

4. Vacant property registration ordinance – Wilmington, Delaware, and California: Programs to charge vacant property owners fees to compensate for the community impact

ii. Keep Existing Occupants in their Homes

1. Fannie Mae's National REO Rental Program – national: Allows current renters in Fannie Mae-owned homes stay in the home on a month-to-month lease
2. Center for Economic and Policy Research's Right to Rent – national: Regulatory change that would give former owners the right to stay in their home as renters after foreclosure for an extended period of time through a sale-leaseback mechanism Freddie Mac's REO Rental Option – national: Allows qualified owner-occupants and tenants to remain in their foreclosed home through a month-to-month lease
3. Fannie Mae's Deed for Lease Program – national: Allows homeowners to turn their deed over to Fannie Mae instead of going through foreclosure, and to remain in their homes as renters for a year
4. Boston Community Capital's Stabilize Urban Neighborhoods – Boston, Massachusetts: Program to avoid eviction and stabilize neighborhoods by purchasing occupied REO properties and issuing a new affordable mortgage for the existing occupant

b. Return REO and Vacant Properties to Productive Use

1. Overview of acquisition and disposition strategies and ways to rebuild the housing market

i. Redevelopment Strategies for Large Concentrations of REO Properties

1. Housing and Neighborhood Services – New Jersey: Purchases mortgage notes and REO properties for redevelopment and reuse through a mixed-market disposition strategy
2. Genesee County Land Bank – Genesee County, Michigan: A tool for local or county governments to acquire, hold, and redevelop properties, particularly in areas with large concentrations of vacant and abandoned properties
3. National Community Stabilization Trust – national: Facilitates and streamlines the process for local governments or organizations to purchase REO properties from financial institutions
4. Methods to encourage financial institution cooperation – national: Community Reinvestment Act and tax deductions can encourage the discounted sale or donation of bank-owned properties
5. HUD purchase programs – national: Programs to assist local governments and nonprofit entities access properties

ii. Catalyze Private Investment

1. Neighborhood Stabilization Loan Fund – Massachusetts: Gap financing for developers to purchase, rehab, and resell or lease foreclosed properties
2. Community Stabilization Home Loan Program – California: Home purchase assistance for first-time homebuyers who purchase REO properties
3. Los Angeles Neighborhood Services – southern California: Mission-driven nonprofit broker services to assist low- and moderate-income residents
4. Fannie Mae's non-investor purchase programs – national: Programs to encourage owner-occupant and government-funded entity purchase of Fannie Mae-owned properties

5. HUD owner-occupant purchase programs – national: Programs to encourage the purchase of foreclosed FHA-insured properties by owner-occupants

iii. Rebuild the Housing Market

1. Minnesota tenant protection – Minnesota: Clears evictions from rental records if the eviction was due to foreclosure
2. Cleveland Housing Network's Lease Purchase Program – Cleveland, Ohio: Buys and rehabs abandoned properties and rents them through a lease-to -purchase program
3. Housing Assistance Recovery Program – New Jersey: Fund for nonprofits and public entities to rent foreclosed to residents through lease-purchase properties
4. Colorado Rural Housing Development Corporation's Lease-Earn-Own Program – Colorado: Allows homeowners to occupy properties through a lease-to-own program and lower the purchase price through sweat equity
5. NeighborWorks's PEARLS program – Waco, Texas: A lease-to-purchase program for first-time homebuyers who purchase foreclosed or vacant homes
6. Self-Help's lease-purchase mortgage product – national: A mortgage product and secondary market for lease-to-purchase properties
7. Sale-leaseback program with a lease-to-purchase arrangement – national proposal: Proposal to require lenders to accept a deed-in-lieu of foreclosure and rent the property back to the former homeowner
8. Burlington Community Land Trust – Burlington, Vermont: A shared equity community that provides affordable housing in perpetuity

iv. Access to Credit

1. The Society of St. Vincent de Paul's microloan program – Southern Illinois: A microloan product to compete with usurious payday lenders

c. Rebuild Neighborhood Infrastructure

1. Street Edge Alternative Project – Seattle, Washington: A program to build natural drainage systems along city streets
2. Urban agriculture – Detroit, Michigan: A growing trend towards urban gardening and large-scale urban agriculture

3. <u>Leverage Community Rebuilding to Create Sustainable Employment and Encourage Entrepreneurship | Page 24</u>

a. Promote Sustainable Employment

i. Ensure that the Jobs Created Are Good Jobs

1. Maryland's living wage requirements – Maryland: Requires contractors and subcontractors to pay employees a specified living wage
2. First Source Hiring and Local Business Enterprise Policy – East Palo Alto, California: Requires developers and long-term tenants in publicly-subsidized redevelopment projects to subcontract to local businesses and for developers and long-term tenants to hire local residents
3. Staples Center Community Benefit Agreement – Los Angeles, California: Established community amenities, a first source hiring policy, and training programs for the redevelopment of the Staples Center
4. Clean Energy Works Portland Community Workforce Agreement – Portland, Oregon: Defined workforce standards and local hiring and diversity requirements for a large-scale home retrofit program through best value contracting

ii. Create Effective Job Training and Placement Programs

1. Lansing's job training program – Lansing, Michigan: Provides on-the-job training and certification for youth through redevelopment of land bank-owned properties

b. Support Small Businesses and Entrepreneurship

i. Provide Access to Capital, Markets, and Networks

1. Small Business Administration programs – national: Provide financing for small businesses and increase access to contracting opportunities for minority-and women-owned businesses
2. Minority Business Development Agency programs – national: Provide technical assistance and training for minority-owned businesses
3. Kansas City's Section 3 Office – Kansas City, Missouri: An effective program for the enforcement of HUD's Section 3, which requires local hiring and contracting on HUD-funded projects
4. San Jose's bidding preferences – San Jose, California: Provides preferences in the contracting process to encourage local and small business participation
5. National Community Reinvestment Coalition's business services – national: Combines a Minority Business Enterprise Center, a Women's Business Center, and a Community Development Finance Institute to offer a continuum of services to small, minority- and women-owned businesses
6. Youngstown Business Incubator – Youngstown, Ohio: Provides subsidized office space, technical assistance and other resources for small businesses

ii. Support Alternative Capitalization Strategies

1. Market Creek Plaza – San Diego, California: A mixed-use project built through a community development initial public offering, which established community ownership in the project
2. B.I.G Wash Laundromat – Washington, DC: A business that received initial financing by selling shares to community residents
3. Evergreen Cooperatives – Cleveland, Ohio: A collection of employee-owned cooperative businesses focused on green industries

4.

1. Green Impact Zone – Kansas City, Missouri: The city has committed to targeting funding to comprehensively redevelop a 150-block neighborhood

Rebuilding Communities in Economic Distress: Local Strategies to Sustain Homeownership, Reclaim Vacant Properties, and Promote Community-Based Employment

NATIONAL COMMUNITY REINVESTMENT COALITION NCRC