

National Foreclosure Prevention and Neighborhood Stabilization Task Force

April 23, 2012

Ms. Meg Burns
Senior Associate Director
Office of Housing and Regulatory Policy
Federal Housing Finance Agency
400 7th Street, SW
Washington, DC 20024

Re: Neighborhood stabilization concerns with the REO to rental pilot

Dear Ms. Burns,

The National Foreclosure Prevention and Neighborhood Stabilization Task Force appreciates the Federal Housing Finance Agency's (FHFA) ongoing efforts to address the significant REO inventory held by Fannie Mae, Freddie Mac and FHA. Clearing the REO inventory quickly in ways that help to stabilize neighborhoods impacted by foreclosure is a key step toward housing and economic recovery. We are, however, concerned that the pilot announced by Fannie Mae does not include essential elements to ensure that the REO disposition process helps, rather than hurts, ongoing efforts to reduce vacancy and revive the hardest hit housing markets. Members of the Task Force may have additional concerns that they express separately, beyond the concerns expressed here.

We recognize that this is still the first iteration of a pilot approach, and we appreciate the efforts FHFA has made to include perspective from nonprofits and community development entities. Our goal in highlighting the specific concerns below is to expand the constructive dialog to address key concerns. We therefore request a meeting between FHFA and members of the Task Force to discuss next steps in the pilot program.

Background on the Task Force

Convened in November 2007, the National Foreclosure Prevention and Neighborhood Stabilization Task Force is a cross-industry group of local and national organizations working to address the impacts of the foreclosure crisis on communities. Our mission is to bring together advocates, practitioners, and other experts from across the country around foreclosure prevention and neighborhood stabilization efforts to exchange critical information and to help craft policy, legislative, and programmatic initiatives that primarily support low and moderate-income individuals and families.

Neighborhood Stabilization Concerns in the REO to Rental Pilot

This pilot occurs in the midst of a host of neighborhood stabilization actions implemented by public, private, for-profit, and non-profit groups. The Task Force wants to make sure this pilot complements rather than complicates or undermines those actions.

As the Task Force laid out in our response to the initial Request for Information (attached), the federal government should require portfolio buyers to be responsible owners of all the properties they acquire, even the low- or negative-value assets they might acquire as part of a bulk acquisition. Otherwise, as the bottom portion of each portfolio transaction gets ignored or abandoned, the bulk transfer could result in more vacant or abandoned homes that destabilize neighborhoods.

The initial bidder qualification application released by Fannie Mae raised serious concerns for members of the Task Force that the process is moving forward without strong bidder requirements to assure careful stewardship. Without such requirements, the pressure to simply accept the highest bid could result in the winners being simply the most optimistic bidders, rather than the best steward of assets, thus leaving the assets and their neighborhoods at risk.

Specifically, we note several concerns with the bidder qualification application:

1. **No criteria for community impact expertise.** Nowhere does the application ask for experience with managing neighborhood impacts, complementing ongoing neighborhood stabilization actions, or leveraging other resources. Screening questions are focused on property management and asset management experience—both essential points for demonstrating qualification, but not sufficient in themselves to assure that buyers will take care of all assets in ways that support surrounding communities. Government should encourage buyers who show a track record of responsible ownership and demonstrate an understanding of how their assets affect neighborhoods and larger communities.
2. **Equity participation and deposit requirement are hurdles for nonprofits.** We appreciate that Fannie Mae has allowed for the possibility of joint-venture bids in which it retains an equity interest in the acquiring entity. In such joint ventures, nonprofits generally bring community and operational expertise but a more limited ability to contribute equity capital. At this stage, the equity contribution requirements for joint-venture bids with Fannie Mae have not been defined fully; as Fannie Mae clarifies the equity contribution requirements, we suggest that it scale the requirement to the capacities of mission entrepreneurs, allowing nonprofit partners in joint ventures to compete effectively without reducing Fannie Mae’s potential returns. Similarly, if FHFA expects smaller nonprofits to compete for portfolios of properties, it should reduce the deposit requirement.
3. **No indication of long-term affordability incentives.** The housing downturn and lower property prices provide an historic opportunity to purchase long-term affordability, particularly in places where housing costs are likely to outpace incomes over time. There is very limited indication in the Bidder Qualification Application that such concerns will be part of the evaluation process. The only question with respect to managing long-term affordable housing assets is the line in 2.3.1.B.g. “Handling/tracking of low and moderate income tenants” which hardly captures the complexity of asset-managing complex affordable housing properties. There is no indication that pledges of long-term affordability will improve a bidder’s chances.
4. **No indication of green renovation incentives.** Similar to the above, the REO disposition process is an opportunity to encourage green, energy efficient, healthier renovations. For many of these properties, this transaction will be the only renovations done for years to come, making this a crucial opportunity to make the homes greener. There is no indication that experience with green renovations or pledges to do so will factor into the evaluation.

5. **Limited information available on offered properties.** Initial information available thus far is very thin—metro-level totals only. The only way to get more information is to enter the process as a bidder with a deposit of \$250,000. This not only makes it difficult for potential bidders to gauge whether the portfolios could be viable opportunities, but it also prevents any outside evaluation of how the proposed transfer could impact neighborhoods. If disclosure of specific addresses is not possible because some units are still occupied, property location by census block would still provide valuable input for local housing and community development providers.
6. **No description of process for vetting bidders with relevant local authorities.** The bidder qualification asks many relevant questions for screening out bidders whose past actions demonstrate a poor fit. Members of the Task Force want to make sure that screening process includes the best available information for screening. That should include gathering the input of local jurisdictions, state housing finance agencies, and other entities with detailed knowledge of property management and ownership track records in the housing markets affected by the transaction. At this stage, we are unclear whether the Fannie Mae process includes consultation with state and local sources.
7. **No requirement that REO disposition complement existing NSP strategies.** The federal government has already invested nearly \$7 billion to assist high-foreclosure communities through the Neighborhood Stabilization Program (NSP). NSP has built capacity for local responses, mapped the areas of greatest need, and begun efforts targeted for greatest effect. Bulk REO disposition should build on and coordinate with existing NSP efforts, such as through joint ventures with nonprofits doing demolition, land banking, and neighborhood stabilization. Coordination will help avoid costly duplication, such as private acquirers in effect bidding against NSP grantees for REO properties.
8. **No monitoring of long-term outcomes or clear enforcement mechanisms.** To ensure that REO properties do not further erode frail neighborhoods and to protect renters, the federal government should develop a system and the capacity to require ongoing monitoring of properties post acquisition and the means to enforce commitments made at time of acquisition. In addition to monitoring, there should be systems in place to track and share information regarding the long-term outcomes of the properties, including whether the property is sold, whether it remains affordable, how government resources have been leveraged, and whether it receives any code enforcement violations. This information will help municipalities and local community development nonprofits better understand the trajectory and needs of a neighborhood so that they may institute the best stabilization strategies.

Next Steps

We recognize that this is still an early stage of the process, so we wish to understand how FHFA plans to proceed with the pilot. If the concerns we have identified will be addressed in the next round of submissions or in the scoring process for bids, so much the better. If we can help with the design of the next phase, our expertise is at your disposal. Ethan Handelman of the National Housing Conference will follow-up to schedule a meeting including Task Force members to discuss these neighborhood stabilization concerns.

Sincerely,

The undersigned members of the National Foreclosure Prevention and Neighborhood Stabilization Task Force:

Arizona Foreclosure Prevention Task Force
California Housing Partnership

Center for Community Progress
Center for NYC Neighborhoods
Chicago Rehab Network
City of Chicago
Cleveland Housing Network
Detroit Foreclosure Prevention & Response Initiative
Enterprise Community Partners
Greater Rochester Housing Partnership
Healthy Neighborhoods, Inc.
Kingdom Community
Local Initiatives Support Corporation (LISC)
Louisiana Housing Alliance
Metro St. Louis Coalition for Inclusion and Equity (M-SLICE)
National Community Stabilization Trust
National Council of State Housing Agencies
National Housing Conference
National Housing Institute
National Law Center on Homelessness & Poverty
National Low Income Housing Coalition
NeighborWorks America
New York Housing Conference
New York Mortgage Coalition
Non-Profit Housing Association of Northern California
Restored Homes Housing Development Fund Corp.
Wisconsin Partnership for Housing Development, Inc

Cc: Mr. Jim Gray, Mr. Michael Stegman, Mr. Jeff Foster