

National Foreclosure Prevention and Neighborhood Stabilization Task Force

Principles for Responsible Disposition of REO Properties

9/15/2011

All together, FHA, Fannie Mae, and Freddie Mac hold an REO inventory of over 92,000 homes upon which they have foreclosed. Housing markets across the country remain fragile, and many are burdened by large numbers of distressed homes for sale. In a laudable effort, FHFA and HUD have asked for ideas via a Request for Information (RFI) on how to dispose of that inventory. The RFI specifically focuses on private investor bulk acquisition of properties that would include some elements of rental conversion and shared value with the seller.¹

We are still in the midst of a foreclosure crisis. More distressed homes are headed to the market, as the average serious delinquency rate is 9.4% in the 100 largest metro areas, a historically high level only slightly down from the peak.² Earlier policy responses to the crisis are underway, notably the many Neighborhood Stabilization Program (NSP) local initiatives to stabilize high-foreclosure communities, mitigate impacts on neighborhoods and families, and reduce blight. We are also at a time of low housing prices, which provides government an historic opportunity to create long-term affordability efficiently.

Therefore, the undersigned members of the Foreclosure Prevention and Neighborhood Stabilization Task Force offer several principles in response to the RFI to ensure that creative strategies to deal with the REO inventory protect and strengthen foreclosure-impacted neighborhoods. 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.

1. **REO disposition should complement NSP strategies.** We have already invested nearly \$7 billion to assist high-foreclosure communities, built capacity for local responses, mapped the areas of greatest need, and begun efforts targeted for greatest effect. Bulk acquisitions following the RFI 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.
2. **Buyers should commit to be responsible owners of all properties they acquire.** Bulk real estate acquisitions typically include a mixture of higher-value properties and low-value (or even negative-value) properties acquired simply as a cost of the bulk acquisition. To avoid compounding the problems of foreclosure and blight, the federal government should require bulk acquirers to manage responsibly the entire portfolio they acquire. This can include renovation, conversion to rental, disposition, or even demolition, but it cannot include abandonment or

¹ FHFA and HUD RFI available at <http://www.fhfa.gov/Default.aspx?Page=360>

² Center for Housing Policy analysis at Foreclosure-Response.org at http://www.foreclosure-response.org/assets/maps&data/Serious_Delinquency_Rates_March2011.pdf.

neglect. It also requires a process for vetting buyers, so that known bad actors do not receive large new portfolios of federal REO properties. Local governments, state housing finance agencies, and local HUD offices are all important information resources for identifying buyers with problematic ownership or property management track records.

3. **Management of rental property must be highly qualified.** Efficiency is the primary challenge for property management of scattered-site, single-family properties—costs mount quickly for portfolios larger than a handful of assets. Any bidder proposing rental use for a portfolio of properties must demonstrate the necessary capacity, including knowledge of local tenant protections, understanding of and willingness to participate in the Housing Choice voucher program, and ability to comply with local code requirements. Government cannot rely on price alone to sort out unqualified bidders, as those unaware of or unwilling to comply with the many requirements may naively bid high.
4. **Government should oversee properties post-acquisition.** To make sure that REO properties do not further erode fragile neighborhoods, the federal government should require ongoing monitoring of properties post-acquisition. The RFI anticipates an ongoing economic interest by FHA or the GSEs in these properties, which would require ongoing asset management. Such asset management should include periodic evaluation of property condition and compliance with local property requirements. Owners could be required to certify compliance subject to financial penalties enforceable under the acquisition contract to minimize the burden on government. This federal disposition effort should be careful not to place any new unfunded mandates on local government.
5. **Nonprofits should have equal access with for-profits.** To the extent government is offering deeper discounts or other incentives for bulk transactions, it should allow nonprofits with proven expertise to bid and participate on equal terms. Often, nonprofits are capital-constrained but strong in community understanding, making them logical candidates for joint ventures with for-profit capital sources. The risk to be managed is that nonprofits end up holding only the worst assets, which exacerbates the challenges of improving the properties. The existing National First Look Program should remain in place—new bulk purchase approaches, designed as they are for the hard-to-move assets, should not supersede it.
6. **Acquisition process must allow an option for creating long-term affordability.** The housing downturn provides government with an historic opportunity to purchase long-term affordability when property prices are low. Whatever process emerges from the RFI should include options for acquirers to commit to long-term affordability (either as rental or affordable homeownership) in exchange for an additional price discount. FHA and the Enterprises could target such affordability options to neighborhoods where long-term affordability will likely be needed and set discounts appropriately, recognizing that affordability needs vary by market. There are many tested models available for creating long-term affordability: community land trusts, shared equity, shared appreciation, and other forms of income-restricted affordable housing, and respondents may choose whichever option is best suited for their program and market.
7. **Acquisition discount could finance green renovation.** Many of the REO properties are older homes in need of renovation. For many, the renovation they receive through this disposition process will be their last for many years. Providing the buyers with the option to invest in energy efficiency (insulation, Energy Star appliances, efficient lighting, air-sealing, and other proven choices) could create lasting benefits. Although these improvements require up-front capital investment, over time, as markets better recognize the value of green homes, they should also increase the value of properties. An additional discount on acquisition price could help, in effect,

to finance energy efficiency improvements with lasting value, some of which could flow back to government through the shared-appreciation terms of the acquisition.

Thank you for your consideration. Please do not hesitate to contact Ethan Handelman, (ehandelman@nhc.org, 202-466-2121 x238) with any questions or comments.

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