Lessons from Community Stabilization Partnerships

November 13, 2009

Moderator: *Welcome to the Federal Reserve Bank of Atlanta's Foreclosure Response podcast series. I'm Karen Leone de Nie with the Atlanta Fed, and today we're talking with Craig Nickerson, president of the National Community Stabilization Trust, or NCST. The federal Neighborhood Stabilization Program, or NSP, has been created to assist communities hardest hit by foreclosures and vacancies. This program has allocated about 6 billion in federal dollars to this effort to bring vacant and abandoned properties back into productive use. This is where NCST has come into play with programs designed to support local governments and nonprofits in their efforts to effectively utilize NSP funding to stabilize their communities. Craig, thank you for joining me today.*

Craig Nickerson: Thank you for inviting us.

Moderator: *Craig, today we'd like to talk about how communities are acquiring bank-owned properties. But before we begin, can you please tell us a little bit about NCST? What do you do, and how is your work funded?*

Nickerson: We're a national nonprofit that was started last year, in 2008, by, really, an unprecedented action by six of the most prominent housing and community development organizations in the country—names that'll be familiar to you, like Enterprise Community Partners and LISC [Local Initiatives Support Corporation] and NeighborWorks America, Housing Partnership Network, the National Urban League, and the National Council of La Raza. And we were really created to respond to this new crisis that we're facing. I'm not referring to the housing crisis per se but sort of the manifestation of that crisis, which is the fact that we have a lot of communities across the country that are experiencing high levels of foreclosed and abandoned properties. The particularly hard-hit communities tend to be low- and moderate-income households and minority households and first-time homebuyers disproportionately impacted by this crisis. So as a result, the National Community Stabilization Trust has been created to try to reverse the downward spiral in property values and all the other negative implications of having a lot of abandoned property in a concentrated market.

There's two things we do. Above all else, we are trying to increase access to property for all of these communities that are struggling to get control of these (recontrol of these) neighborhoods and also access to financing so that we can translate this new federal money that you mentioned to help that grow to be something much larger by accessing private capital with that $6 billion—and, by virtue of creating these two new avenues of access to property and financing, help these communities get a foothold in restabilizing these communities.

Moderator: *When you talk about access to property, I wanted to explore a little bit more about, How are communities actually identifying and purchasing foreclosed properties, and what difficulties are they facing?*

Nickerson: That's a good question. Suffice it to say, it's not easy. Many of these communities are dealing with so many abandoned properties, and they don't have the capacity to handle something this extraordinary. Nothing like this has happened before in most of these communities. And so we're struggling with the fact that we have communities that are trying to learn as they do. The hardest-hit communities are likely not to have the core of nonprofits and for-profit organizations and city infrastructure that can handle something of this scale. But we're also dealing with a financial community that's dealing with unprecedented levels of foreclosed inventory. And so it's hard for them to be able to funnel these properties in any sort of consistent, predictable way down to the local level. So you might think of it, Karen, as two different worlds that historically have not really met very much, that speak a different language—the financial institutions holding what we call REO (real estate–owned) foreclosed properties and these communities that are trying to figure out how to access those properties, then renovate them and resell them to new buyers. So we're creating a bridge between two worlds that heretofore did not exist.

Moderator: *What are the unique, local characteristics that need to be in place for communities to have success in dealing with these issues to make this work?*

Nickerson: Let me try to reduce it to a couple of simple terms here. We have something we refer to as "the Five Cs of success" in stabilizing neighborhoods, and I'll try to cover these briefly here. But these resonate whether you are the financial institution or whether you are at the local level serving as a nonprofit trying to be part of the solution or even a for-profit.

First, this has to be collaborative. When I say collaboration here, I'm talking about a whole choreographed way of taking property and figuring out which of the team at the local level is going to do something constructive with it. It has to really be a highly efficient and scalable solution.

But we also need to have something that's concentrated. If we were to just buy property from these financial institutions and have it happen throughout an entire county or city, we may not begin to see the sort of visible change that we're looking for here. If we're going to reclaim neighborhoods, what we have to do is concentrate the effort. So that's the second C.

The third C is we need enough capital, and the capital isn't just this new federal Neighborhood Stabilization Program money—that's going to be the key component—but we also need to access other federal and local and state resources. We need to access private capital. We need to figure out whether the philanthropic community can contribute so that we get to that scale that we talked about earlier.

Fourth, we need to have a truly comprehensive approach. By comprehensive I mean this can't be just about bricks and mortar, about fixing up, renovating properties. It has to be within this community a process of improving security, of being mindful of cleaning the vacant lots, of engaging the residents in this solution so they feel like they're part of the solution and they too can begin to believe once again in the future of their neighborhoods.

And then, lastly, we need to build this capacity. We need to show nonprofits how to go from renovating ten properties a year to maybe doing fifty properties a year—how we land bank and manage assets and how we can leverage private financing. So all of these skill sets that exist at the local level need to be exponentially increased if we're going to have this kind of success that we need in order to restabilize neighborhoods and convince existing residents to reinvest as well.

Moderator: *In your work to advance the five Cs, how many cities or counties are you working with, and what parts of the country are you active in?*

Nickerson: Well, we've been at this now for about nine months in talking to cities and counties and also talking to the institutions, of course, that hold these foreclosed and abandoned properties, and we've made a tremendous amount of progress. We now have over 100 communities participating with us. In the Neighborhood Stabilization Program, there about 300 individual localities, but we have about one-third of those. And, importantly, we're working with many of the larger ones as well. But there is no one geographic emphasis or, for that matter, even type of community that's participating. We have, Karen, some rural communities that are struggling with foreclosures. We have some of the major urban markets, including L.A and Chicago and New York. And we have some counties; some of the counties across this nation, particularly in Florida and California are experiencing the same sort of phenomena. And so I can comfortably say that these hundred-plus communities that have already signed up with us represent, really, where the highest levels of foreclosures are rather than any particular type of geography.

And then on the seller side, we've chosen to focus our efforts on some of the largest organizations that hold the most foreclosed properties. So organizations like Bank of America, and Wells Fargo, and Chase, and Citi, and Fannie Mae and Freddie Mac were the first that we talked to. And I'm pleased to say that all of those organizations are working with us now as well as some of the subprime servicer shops.

Moderator: *Can you talk a little bit about this interface that's happening between the financial institutions and these local governments and nonprofits that are executing the NSP plans? What are the nuts and bolts of what's happening when they're working together?*

Nickerson: There've been a lot of false starts in making this whole process work. Many communities, we've found, thought it would be easy to just encourage their homebuyers to access these foreclosed properties directly from the financial institutions, and the deals would be consummated. The reality is, Karen, that that has not happened very well—that, in many of these distressed communities where property values are now quite low, we have a new phenomenon happening. Investors, sometimes well-capitalized investors, are in the market trying to scoop up these properties knowing that they are at probably the bottom or close to the bottom of property values. That's not inherently a bad thing, but when we take some of those chess pieces off of the chessboard, we make it more difficult for the local community to get real control of the community and to strategically begin to arrest the decline and begin to create a more positive future. So what we're doing at the Stabilization Trust is we're trying to give these communities a head start—put them in a position to control access to these properties in a way that they otherwise could not.

We have a program called First Look, and in the First Look program, these localities would be in the driver seat. They would have the luxury of being able to see these properties before anybody else is aware of their existence, before they're being marketed to the general public. And in this window of opportunity immediately after the foreclosure, the community can go in and look at the property, inspect it, do an assessment of its value—what they think it's worth and what they're willing to pay for it. And, as a consequence, they can maybe consummate an agreed purchase agreement with the selling institution before it's marketed to the broader community. In that way, they can control these chess pieces. They can begin to strategically identify which properties, at what point in time, are being acquired, renovated, and resold to new buyers.

Moderator: *That then asks the question, What should local governments and nonprofits be thinking about as they begin to use their NSP funds? How do they position themselves to secure these properties, and what are the most effective strategies that you've been seeing in your work throughout the country?*

Nickerson: That's a great question, Karen. You know, so many lessons are being learned as we do, and one of the struggles we're all having is, we don't have the luxury of time. We have to solve this problem now. We've got to get to scale quickly. But that's hard when you have a new federal program with new rules, new guidelines, some of those guidelines still being revised and refined over time.

I would say that we're seeing two scenarios here in the marketplace. We're seeing some communities that are trying to get it just right, to perfect the strategy before they start. The communities that seem to be most successful, however, are the ones that are sort of, to use a sort of trite expression, are throwing that mud on the wall to see if it sticks—the ones that are trying different things and buying properties, fixing them up, and then adjusting as they go. And in that way they're getting a whole lot more done more quickly. So we're seeing, among our hundred-plus communities, maybe a third that are in this second category of trying things, and drawing down scores of properties, and beginning to create a foothold in these neighborhoods. But unfortunately we've got another two-thirds that are very slow to start right now.

HUD has got a rule that these new federal funds need to be committed within eighteen months of when they were provided. And since most of these localities received the monies last spring, we literally only have twelve months left to effectively utilize these federal resources. So we encourage our communities to get going, to try it, to learn as they go and, as a consequence, begin to refine their program and get more productive over time.

Moderator: *To conclude this discussion, I want to turn to the big picture and ask, Do you see any fiscal or policy challenges or opportunities* *on the horizon that are going to be confronting NCST's work as well as the broader NSP goals and program?*

Nickerson: Well, there's many, but let me just mention a couple that we need to be mindful of. First, there's this delicate balance in the housing market right now with respect to trying to keep people in homes. So the very aggressive and broad-based efforts across this country to perform less mitigation that will keep people in their homes, including some new federal programs, are beginning to work; and we're very mindful of the importance of that. If we're going to stabilize communities, we not only have to acquire and renovate the properties that have become abandoned; we've got to make sure that the existing residents who want to stay can stay. So we've go to create a better sort of collaborative effort between those efforts to keep people in homes when they're struggling with delinquencies and those efforts to reuse properties where that has not been the case. So that's important.

Secondly, we are seeing a quickly evolving marketplace here where the REO departments are relearning their trade, where financial institutions are looking into alternatives to foreclosure, like short sales and deeds in lieu. And so, if we're going to be successful in stabilizing these neighborhoods, the National Community Stabilization Trust and our buyer partners, these localities, need to figure out how to also access those properties—the properties that don't initially go into foreclosure, that may be short sales or conveyed in other ways, or, for that matter, the properties that are locally held and are taken for a lack of property tax payment. We need to have all of the chess pieces on this chessboard in front of us. It's only if we have all of the pieces in front of us that we can begin to be successful and communicating to the federal government, to Congress, but, more importantly, to the residents in these communities that these neighborhoods are going to come back—that this problem that we've experienced over the last eighteen months to two years is going to change, and that there is light at the end of this tunnel, and that we all need to be part of that solution.

Moderator: *Craig, thank you for joining us today and for talking about this challenge that's facing many of our neighborhoods throughout the country.*

Nickerson: Thank you, Karen, and thank you for the leadership of the Federal Reserve Bank of Atlanta in helping us learn how to make this work.

Moderator: *We've been speaking with Craig Nickerson from the National Community Stabilization Trust. This concludes our podcast. For more podcasts on this topic and others, visit the Atlanta Fed's Web site at frbatlanta.org. Thanks for listening. If you have comments or questions, please e-mail podcast@frbatlanta.org.*