Intermediary Lending Products for Neighborhood Stabilization Program Grantees

December 3, 2009

**Moderator:** Welcome to the Federal Reserve Bank of Atlanta’s Foreclosure Response podcast series. I’m Karen Leone de Nie with the Federal Reserve Bank of Atlanta, and today we’re talking with Tyler Van Gundy, fund manager for the Stabilization Trust capital fund. In an earlier podcast, we talked with Craig Nickerson, president of the National Community Stabilization Trust, or NCST, who explained how local governments and nonprofits can strategically implement their Neighborhood Stabilization Programs, or NSP plans. As a brief recap, NSP was created by the federal government to assist communities hardest hit by foreclosures and vacancies. Today, we’ll be talking with Tyler more specifically about the capital and credit needs of those working to stabilize the housing markets and neighborhoods across the country. Tyler, thanks for joining us.

**Tyler Van Gundy:** Thanks very much for having me.

**Moderator:** So can you begin by telling us a little bit about NCST?

**Van Gundy:** Sure. The capital fund is the financing arm of the NCST. It’s designed to serve local stabilization efforts nationwide. Its general mission is to provide specially tailored loan products to local foreclosure programs. We are accomplishing this goal by bringing together multiple sources of private capital, philanthropic capital, which together provide the fund substantial flexibility to offer unique leverage loan products that are generally not available in the marketplace.

**Moderator:** So when NSP grantees begin to implement their plans, what types of needs do they have in terms of access to capital and credit?

**Van Gundy:** Generally, we are seeing that there’s going to be three needs. The first, really, is a bridge financing. Some localities need access to a liquidity facility, which is going to provide the necessary liquidity for them to operate their programs. So we are accomplishing this by providing short-term, 60- to 120-day loans, which simply bridge the future receipt of NSP funds.

The second product that we think will have significant demand is an acquisition and rehab facility, which are simply 12- to 18-month loans for the acquisition and rehabilitation of individual properties. This product is going to incorporate a leverage structure, which allows for capital advance ratios of up to 100 percent of the as-rehabilitated and income-restricted value of individual properties.

The third option that we think there’ll be greater demand in the long run is really what we’re thinking of as a "mini-perm" loan. This is essentially an extension on the acquisition and rehab loan for up to five years. We think that there’ll be a significant need for this more patient capital as the homeowner financing markets start to stabilize.

**Moderator:** How has NSP created new needs for lending products?

**Van Gundy:** The factoring of government receivables is, while not necessarily a new concept, but there’s a significant demand for a large pool of funds to accommodate this need. So we’re bringing together multiple sources of capital to create a pool, which will allow for significant bridge financing across the country.

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**Moderator:** So, Tyler, who’s eligible to apply for the NCST lending products?

**Van Gundy:** Local governments, quasi-government organizations, and nonprofits. In addition, we also have some flexibility to offer financing to for-profit groups who are operating pursuant to an NSP-based contract.

**Moderator:** Even though I realize it’s early in the process, what challenges and opportunities do you see for communities using these different lending products?

**Van Gundy:** The first challenge that we see is that there’s a significant amount of pressure on localities to spend their initial allocations of federal funds. So they’re focusing on spending the full amount of those allocations to meet their deadlines. This effectively informed them that they are not thinking through the benefits of leveraging funding and increasing their impact and increasing their impact on their neighborhoods. This is precisely what the capital fund has been set up to do, which is by bringing together different sources of capital we can help increase the amount of funding available for these operations and increase the impact to local neighborhoods.

The second challenge that we’re seeing is that the fund is bringing together multiple sources of private capital and bringing them into this new marketplace. Some local programs are used to borrowing funds only from federal sources or other mission-based sources, so we are bringing a higher cost of capital by bringing more private capital to the table. And there’s a bit of a learning curve for some of the local programs to understand the structure of what the fund is trying to accomplish.

The third challenge is capital markets have generally viewed acquisition and rehabilitation programs as high risk, but by bringing together these local programs, multiple different sources of capital with philanthropic sources, we are hoping to sway these preconceived notions about the perceived risks of rehabilitation lending.

**Moderator:** And in wrapping up, based on your experience, what do local governments and nonprofits and other community developers need
to do to position themselves to respond to the challenges of stabilizing communities and taking advantage of these new sources of capital and access to credit?

Van Gundy: The first thing that we think localities need to work on is increasing their capacity and therefore increasing their impact. So making sure that they have a program that is put together and then thinking outside the box and asking the question of, “How can we use our existing resources and leverage them up to have a greater impact?” So we are encouraging groups to look at their programs, understand what resources they have, and, hopefully, get in contact with the trust and understand how we can bring together some of our resources and, ultimately, provide additional financing so they can acquire and rehabilitate more homes and have a greater impact on their local neighborhoods.

Moderator: Tyler, thank you so much for joining us today.

Van Gundy: Thank you very much for having me.

Moderator: We’ve been speaking with Tyler Van Gundy, fund manager for 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 www.frbatlanta.org, and thanks for listening. If you have comments or questions, please e-mail podcast@frbatlanta.org.