

# Piloting Neighborhood Stabilization Strategies

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**Moderator:** *Welcome to the Federal Reserve Bank of Atlanta's Foreclosure Response podcast series. I'm Odetta MacLeish-White with the Federal Reserve Bank of Atlanta. Today we're talking with John O'Callaghan, president and CEO of Atlanta Neighborhood Development Partnership Inc., or ANDP. ANDP is a nonprofit established in 1991 to lead and coordinate community-based development throughout metropolitan Atlanta and the surrounding counties and municipalities. Over the years, ANDP has focused on housing development, lending, and public policy to support affordable housing and mixed-income communities. As the tide of foreclosures engulfed ANDP's target clientele, the organization decided to focus its efforts around neighborhood stabilization issues, including the need for a comprehensive approach to reestablishing families in foreclosed homes. John, thank you for joining me today.*

**John O'Callaghan:** Thanks so much.

**Moderator:** *Tell us about ANDP's pilot program to purchase foreclosed properties in Atlanta. Why was it developed, how has it been funded, and who was your target home buyer?*

**O'Callaghan:** Atlanta's been one of the communities most impacted by foreclosure because of subprime and a variety of other reasons. And we were looking at neighborhoods that we had been involved in before the Olympics that were thriving, that had places for affordable housing, that had services and were near transit—strong communities. But if you were to tour two years ago when the market started to change, many of these communities were becoming empty. And we saw both our investment and the investments of families really being squandered away. And as we looked in Atlanta there really wasn't a nonprofit that was addressing the foreclosure crisis once homes were empty, and so we decided to take on fifty homes ourselves. And then, of course, as NSP [Neighborhood Stabilization Program] came online, the thought became, rather than just move forward with our existing plans, we really needed to do a test pilot that would help us to get ready to be a better steward of NSP dollars.

**Moderator:** *John, what steps did ANDP take to ensure its capacity to meet the goals of your pilot program?*

**O'Callaghan:** Our first step was to increase our internal capacity. We went and looked for a consultant who had already done this work before. We continued talking to the folks who had been doing this along the way to make sure we had best practices. And so it was very important that we found third-party partners to help us with the housing counseling, to help us with the real estate acquisition and the property redevelopment and even the ultimate sale. And maybe the most important component is, How do you finance it? A critical piece was lease purchase permanent financing, and we entered into a discussion with the Self-Help Loan Fund based out of North Carolina and really became a pilot for them nationally. We take out a 30-year fixed rate permanent mortgage as soon as we have a lease purchase tenant. They've got to meet certain criteria to make sure that they could afford the rent or the ultimate home. But what's great for that tenant, or would-be homeowner, is at the point that they improve their credit to a minimum credit score, they can automatically assume the loan. And if they assumed it after a couple of years, it would be a 28-year mortgage because we would have already paid off the first two years for that. There were counseling provisions in that; we needed to put money aside each month in the rental flow to help them with down payment. But that was a critical partner for us.

**Moderator:** *What are some of the important lessons you've learned from this pilot about targeting neighborhoods and selecting properties that might help other nonprofits and local governments who are doing something similar with their NSP dollars?*

**O'Callaghan:** We really focused on what we would call "tipping point" neighborhoods, particularly in the pilot. If you're coming and doing a total of six homes, you aren't going to change the fabric of a neighborhood that may have a 50 percent vacancy rate. So we targeted neighborhoods that had some neighborhood strength, that had active civic associations but were getting hit by increased crime from foreclosures, and there were some families, frankly, that were struggling. And we really felt that our investment could help shore up those neighborhoods and maybe lead to future private sector investment or new homeowners coming in.

We also focused on finding values. We had limited charitable dollars. We had limited debt. And so we tried to find homes that were very affordable, that we could make an acquisition and do a rehab and have a final product that may be in the \$80,000 to \$90,000 range.

**Moderator:** *And what were some of the important lessons you learned from the pilot about developing effective marketing and outreach strategies?*

**O'Callaghan:** Having good realtors is really critical. There's also a network in the neighborhood, so we really tried to work that network. We'd have open houses; we'd go to the community meetings and say, "Gee, we've got something we think that's special; it's a great home at a great value." And we'd work that in conjunction with the realtors. And then the final area is that Housing Counseling Organization oftentimes has a pipeline of people that they are readying for home ownership.

**Moderator:** *John, what role does leveraging play in getting the most out of NSP dollars?*

**O'Callaghan:** Leverage is so critical, and it can take multiple forms. I think the most important form is to make sure that the NSP investment is in a house that is going to make a difference. It may be a corner house. It may be a house that through its vacancy had been a place where there had been crime or there had been vandalism. I think, additionally, if you put some extra dollars into the exterior of the home and into the landscaping you really help to create the value for the home that's next door and down the street.

The second area is financing. Governmental dollars are limited, and if you take 100,000 of governmental dollars and do one home and that's it, you've done one home. But if you can leverage that with private sources, then maybe you can do two or three homes. Additionally, we think a best practice is to have a second mortgage that is fully repaid after that initial purchaser uses it. It may be that you need to offer a larger percent of the total home cost. In fact, we would suggest do a soft second for at least 20 percent or above because you can save that family the \$100 or more a month they may be paying for mortgage insurance; that's a leverage in itself. And, additionally, if NSP dollars are coming through your community and you can get them repaid once that family is finished using them, that becomes in essence a trust fund. And 10 years from now I don't know if foreclosure is going to be the issue, but there will be an affordable housing issue and we're going to need a source of funding to make sure that families can live in strong neighborhoods.

**Moderator:** *Thinking in more broad terms, do you think neighborhood stabilization efforts will help or hinder long-term affordability? And is there anything we should be thinking about now to help ensure long-term affordability goals are met?*

**O'Callaghan:** You know, we noticed in Atlanta that neighborhoods we'd been involved in that needed investment, that needed services started to gentrify. So the very families that we initially served more than a decade ago were being run out because they could no longer afford to be in the neighborhood. And we need to guard against that. In some NSP strategies there are land banking, there are place-space subsidies that keep the subsidy in that particular home. And I think those are important where they work. At a minimum we need to make sure that the subsidy source that is used is repaid so the next family might not be able to get that exact same house, but they can pick from other houses in the neighborhood, and I think that's critical.

Right now, though, the barrier to return to the neighborhoods is not cost. People can get a mortgage for less than it is in rent, but they still aren't returning, and the reason is they can't get a first mortgage loan. The lending shut down, the credit scores are so high, and one of the paradoxes is, if we can restore some appreciation, then lenders who are staying out of the neighborhoods will return. And they will open up and offer first mortgage loans for other families, and we'll actually see a return of people into the neighborhoods once homes start appreciating in value. And again, it's that balance. I'd love to see a 1, 2, or 3 percent price appreciation each year. I do not want to return to 10, 15, or 20 percent price appreciation. That leads to gentrification; it leads to bubbles; it leads to the crisis we're in right now.

**Moderator:** *John, tell us some of the best practices that ANDP brought forward from the pilot into its current NSP program?*

**O'Callaghan:** First, we're still concentrating on tipping-point neighborhoods. And so we think that tipping-point approach works for us in the neighborhoods we're serving. A green focus is just critical. It's all about not only the environment, but it's about the families' health. And it's about economics, and, in Atlanta, lowering the water bill is really critical. We're going to work with those families to make sure that their taxes are fair—that they go and get it assessed based on what the current market value is. There are ways to lower those monthly costs to keep people in their homes.

The third-party network's really critical for us. And we needed third-party strong players—not-for-profit, for-profit—to do six homes. As we increase our scale and capacity we're going to need more partners, and as we are involved in local counties we want to use homebuilders and realtors from those local counties to do that work. The leverage becomes important. Originally we'd gone and got \$1 million that we needed to do our initial homes. We now have got \$9.5 million of leverage, and we think we are going to use every penny to get the job done. The final piece is that lease purchase. Five of the first six homes that we did ended up being lease purchase, not for sale. I think with NSP and some of the second mortgage subsidy we're going to see more homeownership, and we'd like to see that. But it's important that you have a way to fill that home with a strong family because I think a horrible result would be that we acquired a home, we rehabbed it, and it stayed empty for six months or a year.

**Moderator:** *John, what changes have you seen in the role of investors between the time that you've been running the pilot program and now that you're in the NSP stage?*

**O'Callaghan:** There're really two forms of competition as we're going in and looking at homes. There are some families that are taking advantage of values and taking advantage of the \$8,000 tax credit to buy homes in these neighborhoods. And I hope that they get the home rather than an NSP recipient; that's ultimately who you want to serve. But there aren't enough of them. And what we're seeing is that the investors six months ago were small, maybe family-owned; people were using their own capital to buy two or three homes. Now what we're seeing is major investor funds where people have organized a \$5 [million], \$6 million fund. Investors from outside of our community have come in and are doing that, and the group may be purchasing the acquisition rehab. If they treat the properties well and they treat the families well and help to repopulate the homes and help some of their rental families transition to homeownership, they're doing great mission work. And we want to support those good investors. But I fear too many of them are absentee landlords whose investment is in the land and not in the house and that they will not be maintaining the exterior of the house—that they aren't going to be doing the landscaping that we're doing, that they're not going to be making the repairs, that they aren't going to be doing the counseling and the preparation for their families to transition. And we think it's important that we get homes so that we can have a beachhead in those neighborhoods to help move forward and stabilize.

**Moderator:** *John, as ANDP gets to scale with the NSP program, what are some of the opportunities for improvement that you see?*

**O'Callaghan:** On the property acquisition side we need to look for the best value, so we've got to get smart about that. We're very fortunate in that there's a group, the National Community Stabilization Trust, that was put together by a bunch of national intermediaries and have worked with some of the holders of real estate, the major banks, Fannie Mae, and others and are giving not-for-profits and local governments a first look at property before investors get a shot at them. And so we're really taking advantage of that pipeline. As we do more homes and we become more vested in neighborhoods, it's important that we partner with the schools, it's important that we partner with the local commander in the police

department and have relationships with the fire department. Economically, as we create jobs we want to make sure that local community residents have opportunities to apply for any new job that is created in that program. So we're very committed as we get to scale to work with local organizations that are doing job readiness that we can partner with—that we can make sure that those opportunities are there.

**Moderator:** *John, to wrap up, please share some ways in which communities can build sustainable capacity to address the difficult housing problem even after NSP funding has ended.*

**O'Callaghan:** This foreclosure crisis isn't going to go away in a year, or two years, or three years; and, in fact, if we ever get to the point where markets are taking care of foreclosures, there's still going to be a need for affordable housing and rehab of homes or new construction. And NSP, while only meeting a small percentage of the need in our neighborhoods, still is a major program. It's \$6 billion that are flowing through local communities, not-for-profit partners they may select, and for-profit partners they may select. And as we grow our capacity from doing six homes in our test pilot to needing to do 140 homes over the next 12 to 14 months, we need to make sure that that capacity that we are growing is there, is in effect for the future. And so to continue to do that we need to create relationships with local governments as they have future CDBG [community development block grants] or home sources that this work continues. We need to reach out to philanthropic agents, both foundations and corporations, and say, "Hey, look what happened when communities were struggling and nobody did anything about it and we had foreclosure. It's affected our economy. It's affected your business. You need to invest in our capacity building, make sure that we do it right, and then after NSP is over let's make sure that we have the philanthropic capital that needs to be leveraged with the local governmental."

We're going to be forced to grow. We made a decision there was a mission need and we decided to step up to do it. Many other organizations are going to be forced to grow. I think we will be successful, but it sure would be a shame if we went from zero to six to a hundred or more and then in three years went back to zero again.

**Moderator:** *John, thank you for joining us today.*

**O'Callaghan:** Thank you so much.

**Moderator:** *This concludes our podcast. We've been speaking with John O'Callaghan from Atlanta Neighborhood Development Partnership Inc. For more podcasts on this topic and others, visit the Atlanta Fed's Web site at [frbatlanta.org](http://frbatlanta.org). If you have comments or questions, please e-mail [podcast@frbatlanta.org](mailto:podcast@frbatlanta.org). Thanks for listening.*