

**REO's and Permanent Affordability**  
**Federal Reserve meeting on**  
**foreclosure strategies**

**Los Angeles, CA July 15 & 16, 2008**

**Colin Bloch**

**BlochWorks**



# ***CITY FIRST HOMES***

**A New Tool for Building Wealth  
in Washington, DC**

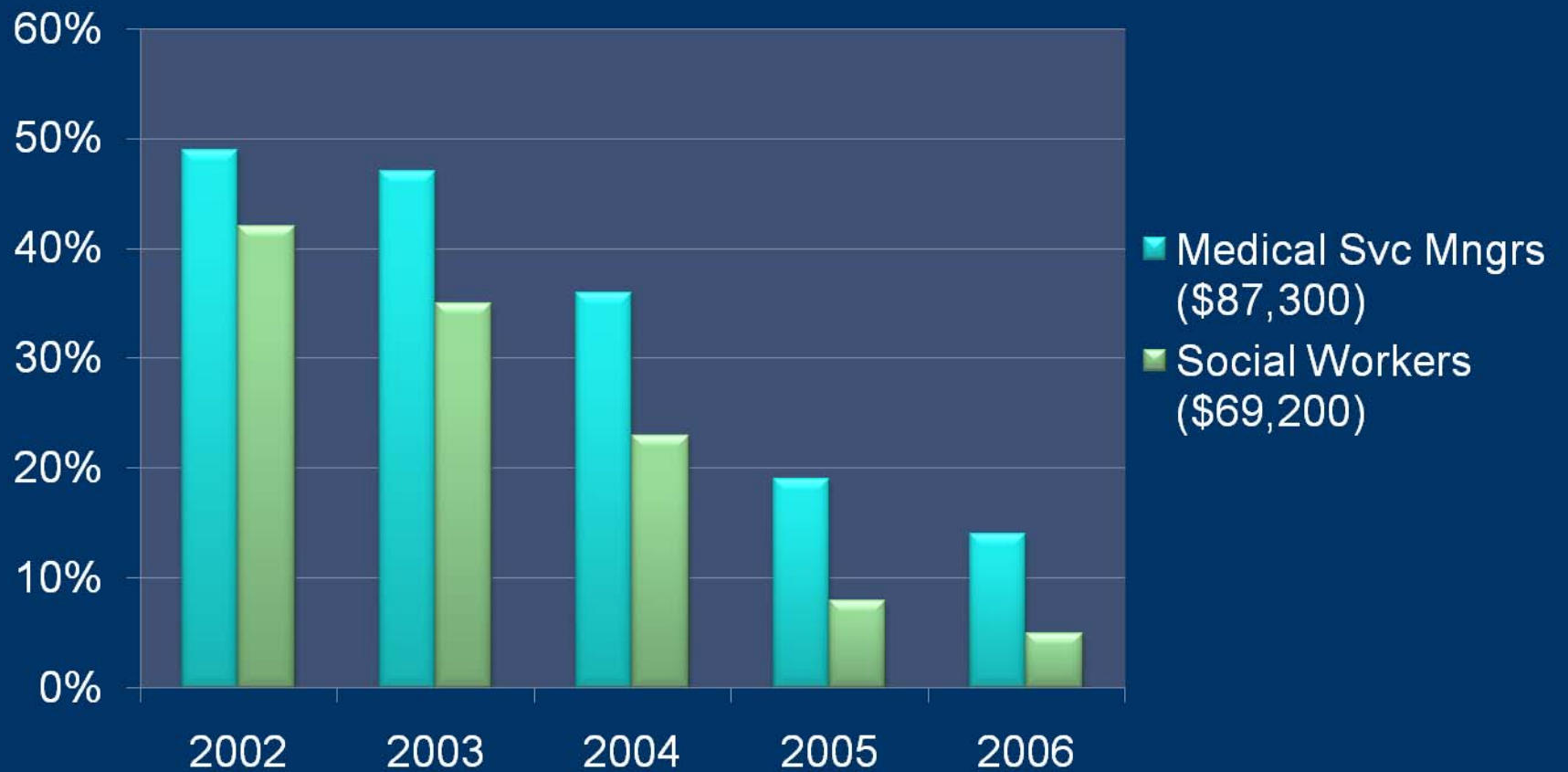


# DC's Wealth-Building Crisis

- Home ownership is the most significant source of wealth creation for working families
- In DC, low-mod families are locked out of wealth creation by an expensive housing market that they cannot access

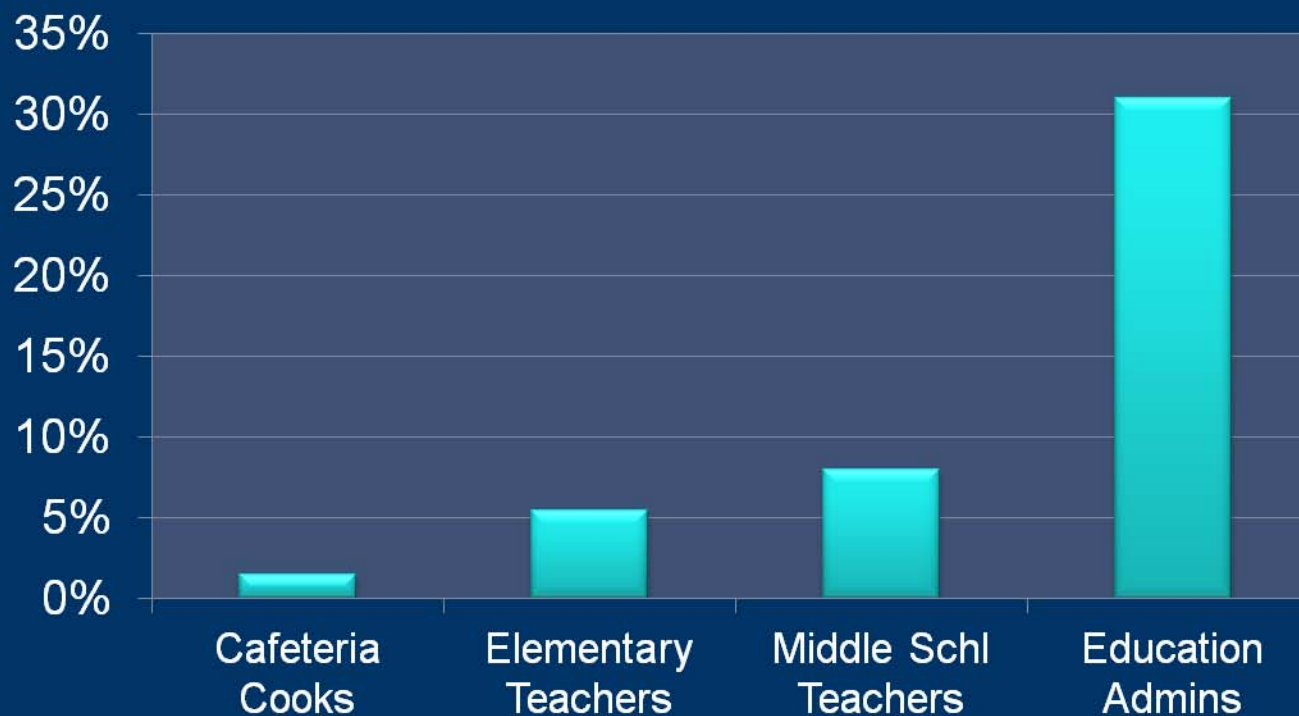
# Working Families Locked Out

Percent of DC Homes Affordable to Social Service Workers Over Time



# Working Families Locked Out

Percentage of DC Homes Affordable to Education Workers



# Foreclosures & Loss of Wealth

- High prices drove many buyers to sub prime loans, which were often their only option to access homeownership
- In 2005, 1 in 5 buyers used sub prime loans
- Working families and minorities disproportionately impacted
  - 46% of low income African American homebuyers used subprime mortgages in 2005
- 23% of DC-area refis were subprime

# CFHomes Foreclosure Response

## Neighborhood protection

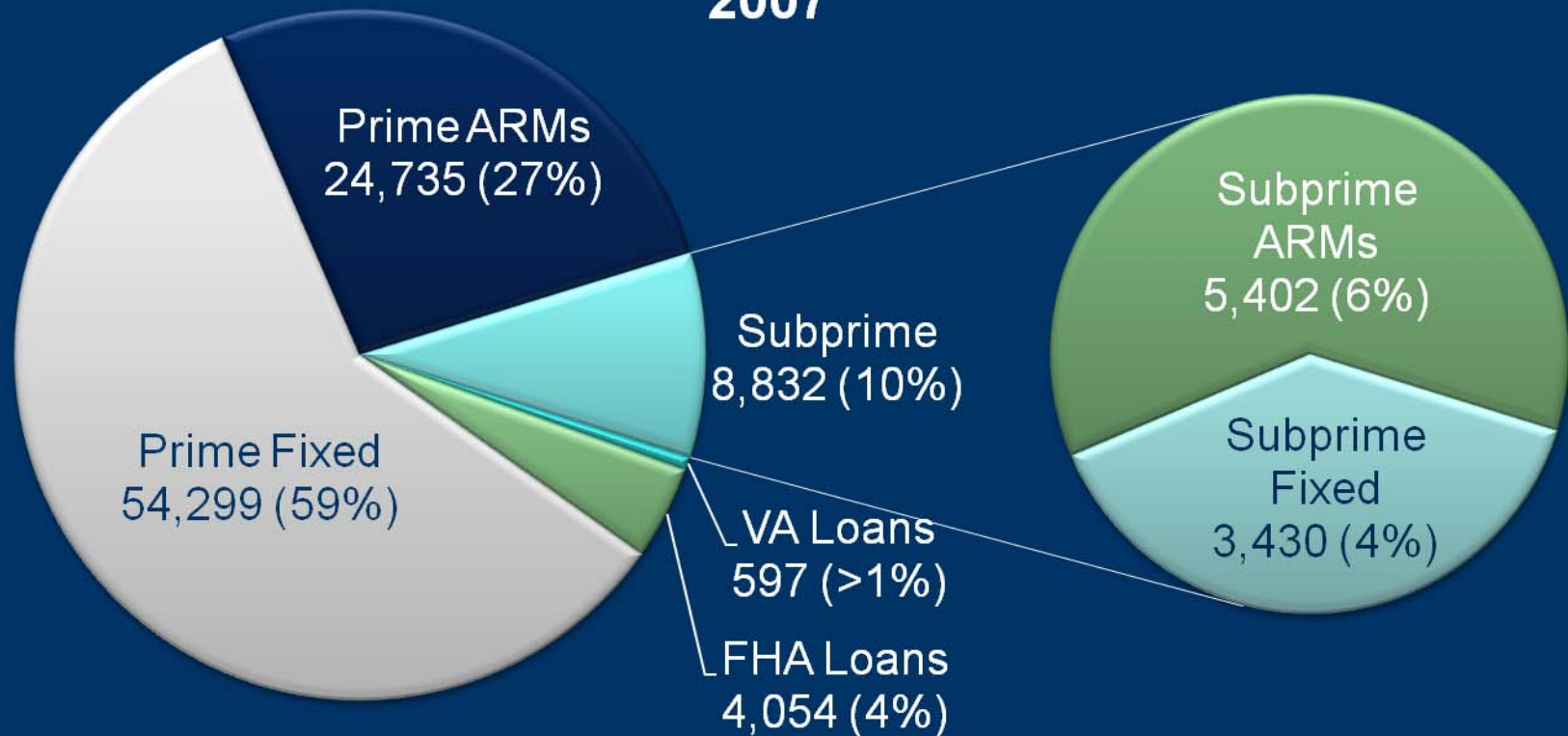
- Acquire, rehab and sell vacant REO property as CFHomes units

## Foreclosure intervention

- Provide low rate 2<sup>nd</sup> mortgage as part of refinance product

# Foreclosures & Loss of Wealth

Washington, DC All Mortgages by Type as of Q3 2007



# Washington DC...

Catching up with...

High cost loan trends, as a percent of all originations, DC and Nationwide

	US high-cost loans	DC high-cost loans
2004	13.5%	<b>7.7%</b>
2005	24.4%	<b>17.8%</b>
2006	27.2%	<b>24.0%</b>

...and passing the rest of the country

Projected lifetime foreclosures of mortgages originated in 2006:

1. Nevada – 23.7%

**2. District of Columbia – 22.8%**

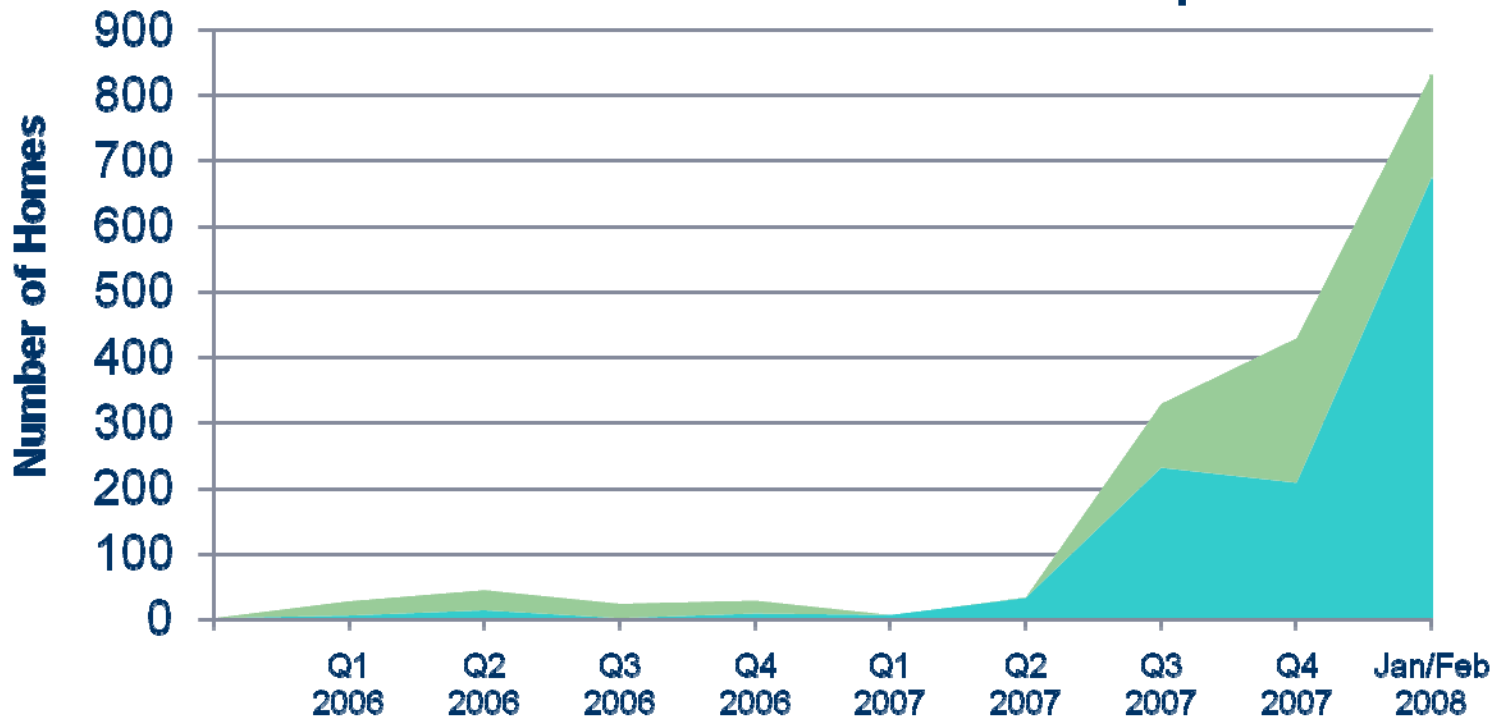
3. California – 21.4%

4. Arizona – 21.1%

5. New York – 20.9%

# Rapid Foreclosure Growth in the Last 6 Months

DC Foreclosure & REO Trends 2006-present



- Properties taken over by a financial institution
- Properties placed for auction

# DC Foreclosure Boom

Rapid foreclosure growth

- More foreclosures in January & February 2008 than in all of calendar year 2007

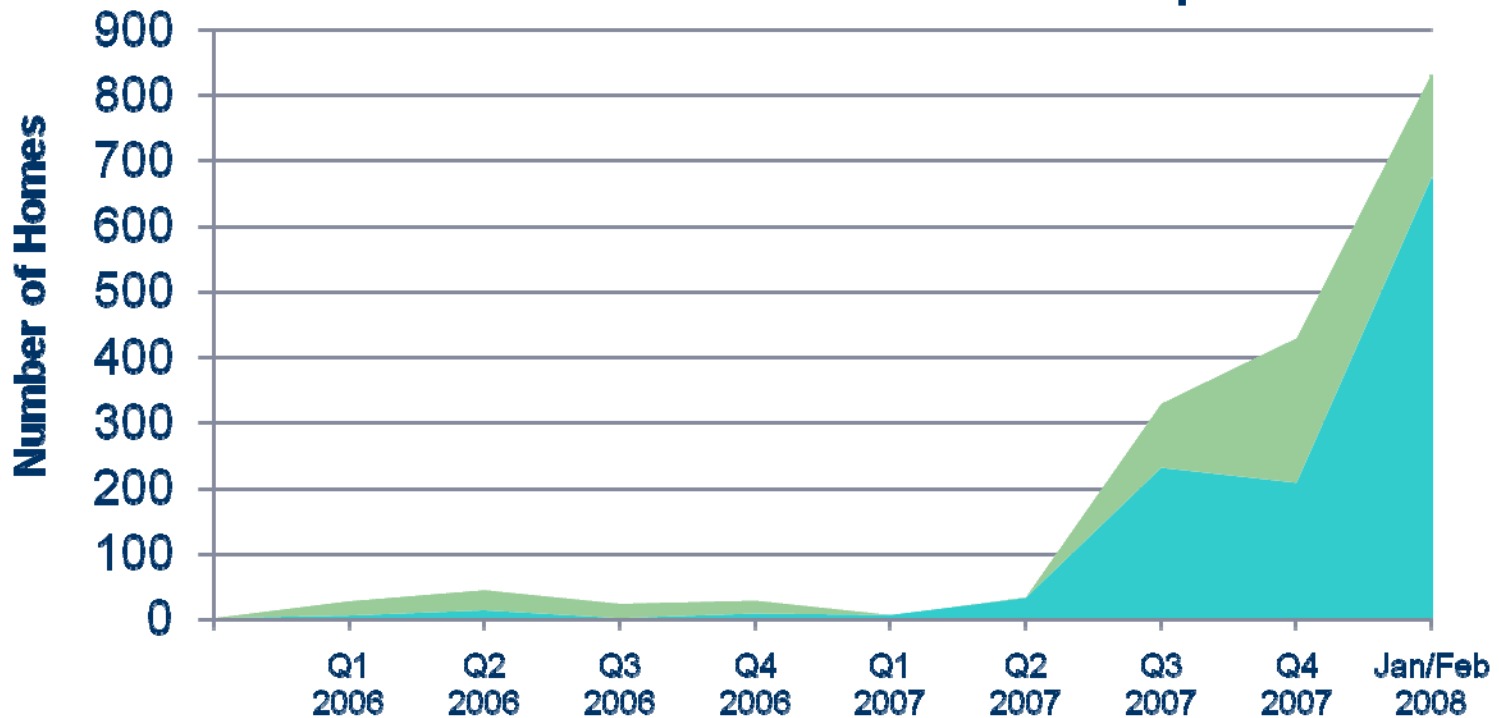
Becoming major factor in DC housing market –

Jan & Feb's 833 foreclosures equaled:

- 28% of the 2,932 active realtor listings at the end of February
- 94% of all approved contracts handled by realtors in January & February of this year

# Rapid Foreclosure Growth in the Last 6 Months

DC Foreclosure & REO Trends 2006-present



- Properties taken over by a financial institution
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# CFHomes: An Innovative Solution for Permanent Wealth Building

- Highly leverage city funds by using NMTC-enabled private investment
- In exchange for down payment assistance enabling them to buy a home, buyers agree to share future appreciation with next family
- nonprofit housing trust as steward supports homeowners & oversee permanent affordability

# CFHomes Objectives

- Create 1,000 permanently affordable units with low rate \$75K subsidized 2nd mortgages
- Achieve 80% AMI or lower portfolio average
- Disperse housing units across the District
- Layer well with existing sources of subsidy
- Help delinquent homeowners to avoid foreclosure and repurpose REO properties
- Prove success and do it again

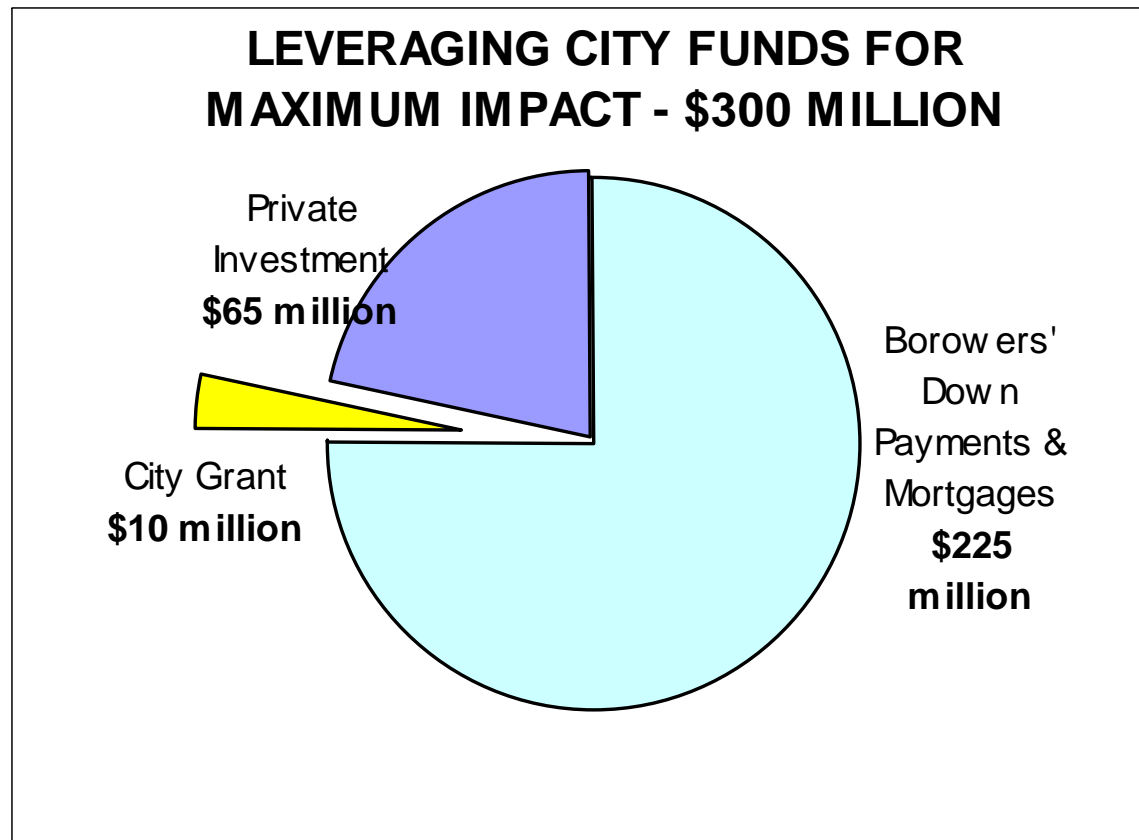
# Financial Overview

- \$10MM in city funds
- \$65MM in private socially responsive investment
- Create a \$75MM financial pool to develop 1,000 units of permanently affordable workforce housing in the District
- Partner with housing developers; tenant conversions; REO; current owners and scattered site acquisition to create and sustain portfolio
- First \$15MM, 200-unit phase launching June 2008

# Foreclosure Prevention - Family Wealth Protection

- Housing counseling agencies identify families at risk of losing their homes from rate resets or similar stressors
- CFHomes combines its 2nd mortgage with 1st mortgage lender to offer refinance package at affordable monthly cost
- Family retains home and equity built to date, and shares future equity appreciation with next buyer of the home
- CFHomes adds to inventory of permanently affordable homes in the city

# Leveraging City Funds



# Foreclosure Response: Neighborhood Protection

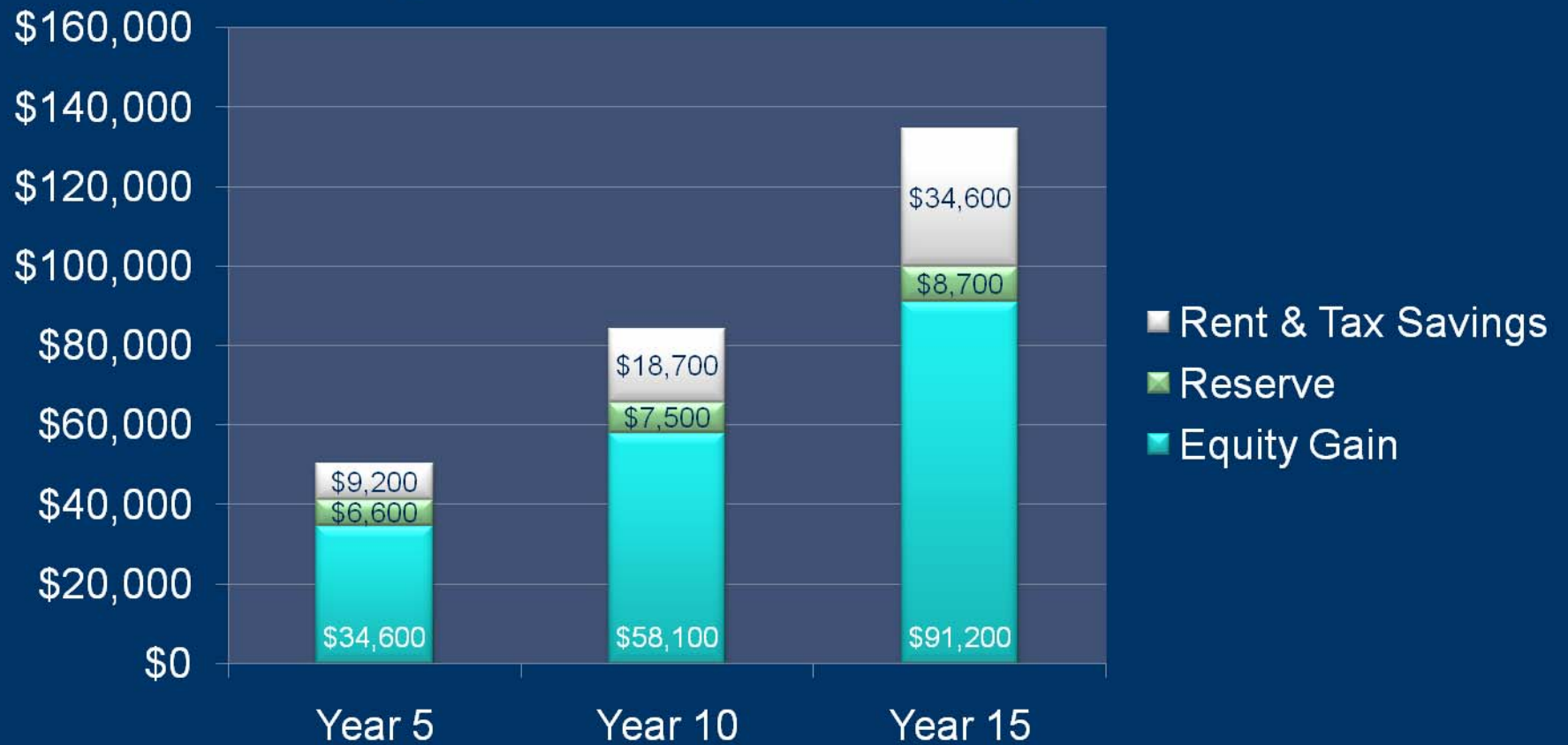
- CFHomes negotiates with owners of foreclosed properties (REO) to purchase targeted, vacant homes at discount from appraised value
- CFHomes finances and oversees rehabilitation and resale of homes to workforce families
- Otherwise vacant homes are quickly returned to home ownership through shared equity structure, protecting neighborhood value
- CFHomes provides long-term stewardship to keep homes affordable in perpetuity and build infrastructure of workforce housing

# Equity Gain

- Upon resale, seller receives:
  - **100%** of down payment
  - **100%** of equity built through principal payments
  - **100%** of the value of improvements to the home
  - **25%** of market appreciation

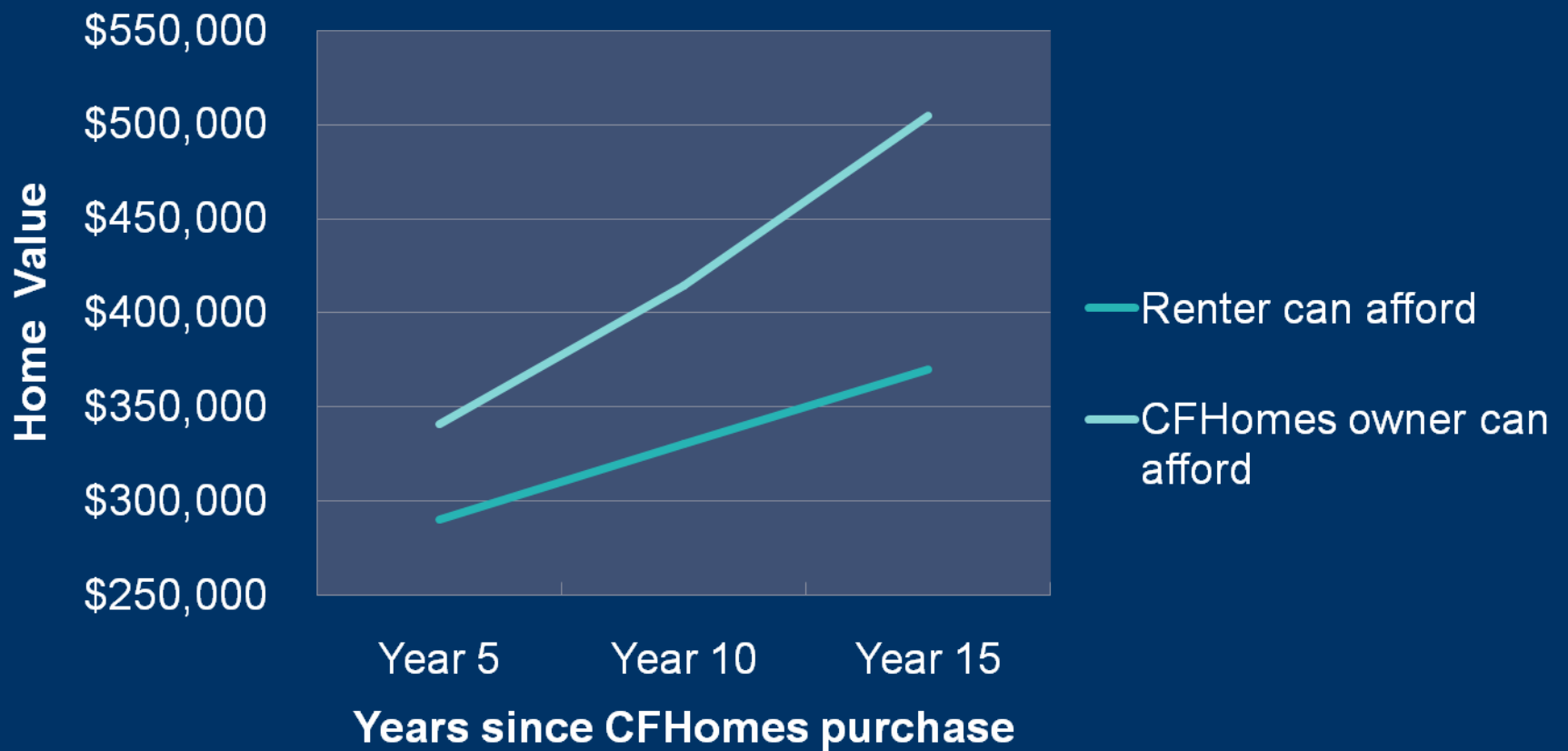
# Wealth Creation through CFHomes

## Savings of CFHomes Ownership vs. Rental



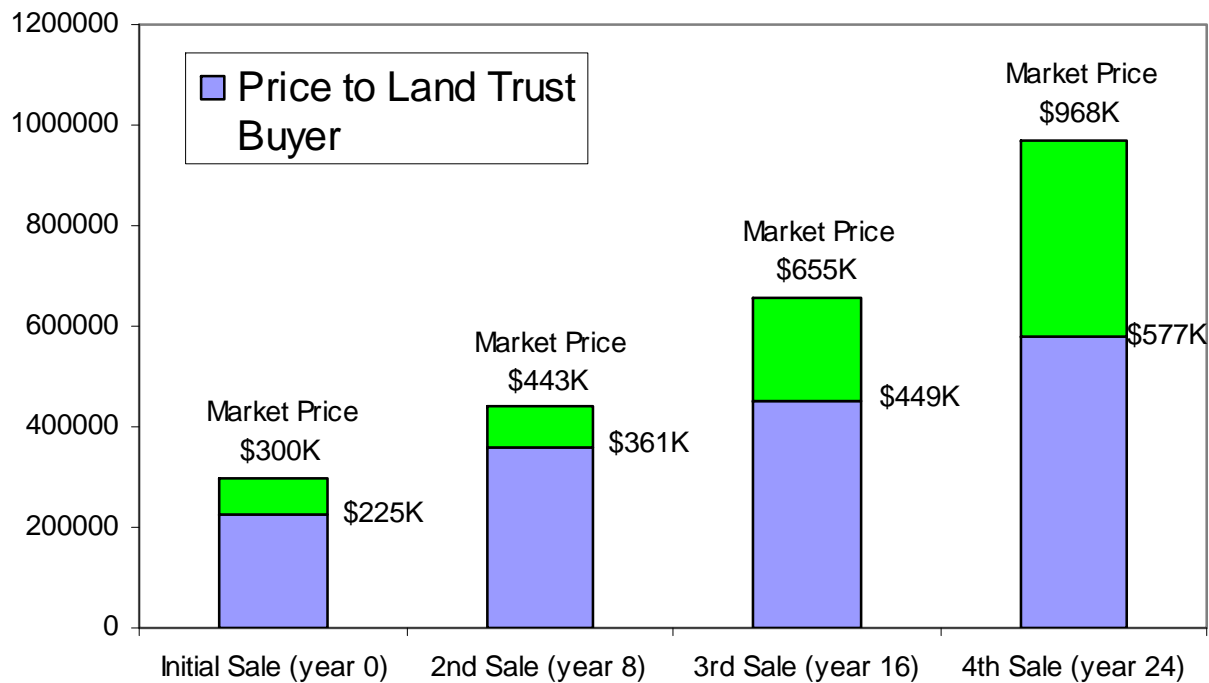
# A Stepping Stone to Market Ownership

Transitioning to Market:  
CFHomes Owner vs. Renter



# Subsidy Grows Over Time

**HOME PRICE WITH AND WITHOUT LAND TRUST:**  
One-time, up-front subsidy keeps home affordable to families of the same income level even as market value goes up.



# Additional CFHomes Personal Wealth Benefits

- Ability to refinance and access savings
- Benefits of proximity
  - Shorter commute times, lower commuting expenses
  - More time with family, lower daycare expenses
- Home ownership associated with:
  - Higher educational performance, lower drop out rates
  - Lower rates of teen pregnancy
  - Greater civic participation
  - Better household health

# Summary

- **Wealth creating:** CFHomes provides access to the No. 1 vehicle for wealth creation in the U.S.
- **Long-term, sustainable:** Workforce families build equity that can be passed to the next generation.

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*Permanently affordable housing solutions*