

Neighborhood Housing Services of Chicago

Confronting the Neighborhood Impacts
of Foreclosure

Navigating Ownership and Control of
Vacant Properties

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NHS of Chicago

- 9 target communities
- Community building and neighborhood reinvestment strategies
- Block and institutional organizing
- Home ownership training and counseling
 - Pre-purchase
 - Post-purchase
- Foreclosure prevention

NHS Redevelopment Corporation

- Direct real estate ownership and development
 - Tool for neighborhood reinvestment
 - Fix problem vacant properties
 - Create visible investment to set standards for improvement
 - Provide affordable housing opportunities
- Multi-family rental rehab and new construction (tax credits, etc.)
- New home construction to encourage homeownership on vacant lots
- NeighborHomes: purchase, rehab and resale of vacant 1-4 unit properties for sale to owner occupants

NHS – HUD ACA Experience

■ Results

- 100 properties purchased in two neighborhoods (Back of the Yards – 27 Chicago Lawn/Gage Park – 73)
- 2 _ years duration

■ Impact

- Stabilizing blocks by transforming vacant buildings into community assets
- Providing affordable homeownership opportunities for families
- Ensuring buyers are well-prepared to be successful homeowners
- Leveraging other investment to create impact – the Green Bungalow block at 6400 South Fairfield

ACA Model Block Green Bungalow Homes Before



ACA Model Block Green Bungalow Homes After



Ingredients of Success

- Negotiating acquisition price (re-appraisal)
- Subsidy available for appraisal gap
- Get all buildings in the focus area in timely and planned manner
- Geographic focus created impact
- Market was appreciating, but homes were still affordable

Home Ownership Preservation Initiative: Goal & Results

■ Goal

- To address rising foreclosures in Chicago's low- and moderate-income neighborhoods in order to preserve sustainable homeownership for Chicago residents and to reclaim foreclosed homes as neighborhood assets

■ Results

- 1,776 foreclosures prevented
- 9,300 families counseled
- 348 properties reclaimed

Vacant Properties Purchased at a Discount From Servicer REO Over Three Years 2003 - 2006

- Lender A - 6
- Lender B - 5
- Lender C - 2
- Lender D - 2
- Lender E - 2
- 5 others - 1 each

-Very difficult to negotiate doable price

PAST REALITY

- Servicer's were engaged in discussion
 - BUT
- Difficult to negotiate individual transactions
 - Prices too high
 - Standard REO disposition process didn't allow negotiation process
 - High market demand for REO by investor
 - Investors / speculators willing to pay more

Recurring Issues

- Appraisals – acquisition cost
- Market value – after rehab
- Rehab standards & costs
- Subsidy sources – appraisal gap
- Feasibility
- Affordability & revitalization – neighborhood specific strategies
- Property location & selection
- Marketing & sales

HSBC REO Pilot Program

YourHome Counts - 2007

- Donated 4 properties to NHSRC for rehab and resale to owner-occupants at or below 80% AMI
- NHSRC accepted property as-is and assumed responsibility
- NHSRC earns developer's fee which is defined as 15%
- Financial gain over and beyond the total costs utilized for future affordable housing initiatives
- Lender received credit for as-is appraised value of property as contribution
- Why? Beginning of visible crisis
Strong relationship of HSBC and NHSRC in past

NEW REALITY

- 97% of properties that go to foreclosure auction end up in REO inventories.
 - Investor interest has been dramatically reduced had declined from 30% of foreclosures purchased at auction
- Large inventories of bank owned REO property are putting tremendous downward pressure on local real estate markets.
- Servicers are actively pursuing opportunities to move REO.
 - Increased interest negotiating transactions
 - “Make us an Offer”

Neighborhood Perspective

Calendar Year	Number of Units Sold	Average Sales Price
2005	408	\$115,226
2006	384	\$126,099
2007	323	\$109,183
2008	235	\$73,691

Area Market Survey Criteria Status: Closed **Property Type:** Detached Single, Attached Single **Area:** Roseland **Closed Date:** 01/01/2005 – 10/15/08 . *Data Source connectMLS*

Neighborhood Perspective

- Currently there are 358 single family active listings in Roseland.
- 279 listings are priced less than \$149,999
- 47 are listed for less than \$30,000 with an average time on market of 167 days.
 - In '05 & '06 no properties under \$30,000
- 10 are listed for less than \$15,000 with an average market time of 105 days.

Servicer Web Sites

Neighborhood Perspective

- Servicer A 18 properties \$15,000 – 69,900.
 - 11 under \$30,000
- Servicer B no listings
- Servicer C 27 properties \$9,900 – 169,000
 - 10 under \$30,000
- Servicer D Listing for total state only
- Servicer E 1 property at \$19,000
- Servicer F 1 Property at \$20,000

Time to Jump In

- Acquisition prices have fallen but are they favorable for development.
- Original list price \$54,900
- Current list price
- \$24,900
- 211 days on market



Bank Owned REO located at 331 West 110th Street. *Photograph taken from MLS listing # 06834796*

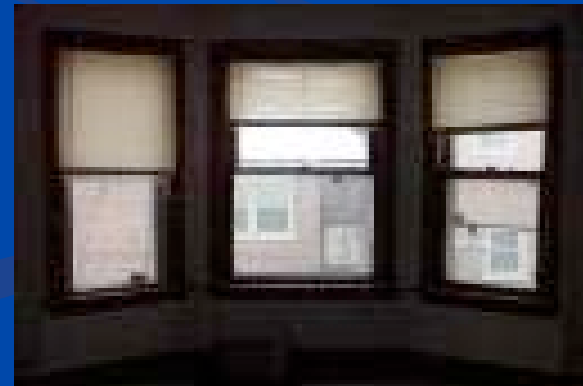


Market Capacity vs Price

- REO property most likely will have substantial deferred maintenance
- Cost to rehabilitate properties has not decreased
- Soft resale and rental market makes rehabilitation challenging without significant subsidy.
- Single family rental demand still an unknown in hardest hit communities.



Bank Owned REO located at 331 West 110th Street. *Photograph taken from MLS listing # 06834796*



Data Overload

- An abundance of websites exists as it relates to REO.
- Validity and value of resources hit or miss
 - Some site are extremely informative
 - Others have no data at all
 - An abundance of websites exists as it relates to validity and value of resources hit or miss
- Finding the owner of vacant buildings can be challenging
 - Lender “walk aways”
 - Delays in recording judicial deeds

Making Connections

- Relationships at the servicer level are critical.
 - The Community Relations department is a great place to build the relationships.
 - They will get you to the right people and can also be strong advocates.
- Relationships with local REO Brokers are invaluable.
 - Pay attention to the for sale signs in the neighborhoods.
 - REO Brokerage is a niche market. A handful of brokers will be getting 85% of the listings.

Web of Influence

- The Office of the Comptroller of Currency (OCC) Community Affairs has a very useful web page focused on neighborhood stabilization. <http://www.occ.treas.gov/cdd/neighborstabilization.htm>
 - National Mortgage Servicer Web Links
 - <http://www.occ.treas.gov/cdd/ServicerContactInformation.pdf>
 - Good data available from most servicers
 - Effectiveness of contacts an unknown
 - Data integrity – a challenge

- The Federal Reserve System and NeighborWorks America's Web site
Stablecommunities.org

Data gaps regarding REO ownership should be expected due to mechanics of foreclosure process.

- Statutory redemption period
- Judicial Deed recordings

Other Strategies – REO Alternatives

Servicers willing to try?

- Shared risk models
 - Servicer sharing the risk liability through LLC partnerships
 - Creation of asset buying entities to put buildings back in service through for sale, lease to purchase and rental strategies.
- Bulk acquisition strategies
 - Focused geography based – how flexible?
 - Pick what makes sense for development strategy?
 - Minimum # that get benefit of bulk?

The Unknown Market

- What will the most effective disposition strategy be?
 - Direct sale
 - Tightening credit
 - Larger down payment requirements
 - Shaky consumer confidence
 - Market transition

The Unknown Market

- Rental

- Is there a demand for it?
- Will rents effectively cover debt service?
- Lease to purchase possibilities?

Extreme Negative Impact on Neighborhoods

- Defined geographies will have greatest impact and also leverage prior efforts.
- Any program will need to be subsidized to levels that would offer a substantial safety net to the developer.
- The reality of demolition as a tool in this effort looms larger as the economics of rehabilitation of dilapidated property in soft markets even when subsidized don't work.