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M E M O R A N D U M

To: Washington Office Directors and State Housing Policy Advisors
From: Stephanie Casey Pierce
Re: State and Local Efforts to Stabilize Neighborhoods

This memo is in response to questions I have received from states on neighborhood stabilization strategies. Throughout 2008, the number of mortgage loan delinquencies and foreclosure filings has risen steadily while home values have declined markedly. The latest delinquency report from the Mortgage Bankers Association, released September 5, shows an increase in the percentage of outstanding mortgage loans that are past due, as well as a historically high number of loans in foreclosure.[1] Meanwhile, the Case-Schiller index, updated September 30 to reflect home price data through July 2008, shows that home values have dropped approximately 17.6 percent since July 2007 and 21.1 percent since July 2006.[2]

The decline in home values reflects waning demand for homes, which is a function both of consumer confidence in the performance of the market and availability of credit. The National Association of Realtors reported a 10.7 percent decline in home sales from August 2007 to August 2008 and a 24.2 percent decline since August 2006.[3] Consumer confidence fell nearly 40 percent from September 2007 to September 2008.[4] Credit, which has been tightening since 2007 over worries related to subprime securities exposure, is likely to be less available as a result of recent Wall Street troubles.

What does all of this mean? When prices and demand fall, supply goes up. There is a 10.4 month supply of unsold homes, up from the 8.9 month supply a year ago and the 6.5 month supply two years ago.[5] In June, 17 percent of this unsold inventory—or 750,000 of 4,495,000 homes—were bank-owned properties.[6] For states and cities focused on the welfare of individual families and neighborhoods, the growing inventory of unsold homes, particularly bank-owned properties (REOs) presents an immediate and pressing challenge. A single home foreclosure has been shown to lower the value of surrounding homes and empty houses invite crime and decay. To prevent neighborhoods that have experienced multiple foreclosures from declining, states and communities are working to develop neighborhood stabilization strategies that seek to:

- Identify, register, and map vacant properties;
- Manage the inventory of vacant and abandoned homes;
- Acquire foreclosed and other vacant properties;
- Repair or rehabilitate homes;
- Resell vacant properties to responsible homebuyers;
- Repurpose or recycle property into space that adds value to a community; and
- Mitigate foreclosures.

To implement many of these strategies, the new $3.92 billion Neighborhood Stabilization Program (NSP) is a key resource, and one that states will need to act on quickly.

A Key Resource: The Neighborhood Stabilization Program (NSP)

NSP allocations were made for each state and certain metropolitan areas based on the number and percentage of foreclosed homes, subprime loans, and defaulted loans.

Applications are due on December 1, 2008. Funds must be obligated within 18 months of receipt of the grant, and grantees must expend at least the amount of the initial allocation of NSP funds within four years of receipt of those funds or HUD will recapture and reallocate the amount of funds not expended. (Expenditures greater than the allocation can result from program income.) Funds may be used to acquire, rehabilitate, demolish, or redevelop and then to sell, rent, or land bank foreclosed and abandoned properties—including multi-family housing. Homebuyer counseling is an eligible expense if provided in connection with the resale of properties. Funds can be used for property maintenance and holding costs under certain circumstances, such as during the acquisition, rehabilitation, redevelopment, and land-banking processes. NSP funds cannot be used to fund foreclosure prevention.

While NSP was approved by Congress in the form of Community Development Block Grants (CDBG), the program has a number of alternative requirements, including some that provide more flexibility to states in terms of program operations and payment for administrative costs. In addition, as with CDBG, "program delivery" costs can be funded in addition to administrative costs—meaning that costs of personnel or contracted services can be funded as part of the cost to carry out eligible activities. In addition, developer fees are allowable expenses if related to NSP-assisted rehabilitation or construction activities.

Unlike the regular CDBG program, states may operate NSP funds directly and/or award funds to local jurisdictions, including local jurisdictions with their own allocations and Indian tribes. Any entitlement community may opt to allow its state government to manage its grant.

Identify, Register, and Map Vacant Properties

A first step in creating a neighborhood stabilization program is identifying where foreclosed properties are in a community. Keeping track of the locations of foreclosed homes and other vacant residences can help a community pinpoint areas of need.

There are at least two ways for states to locate vacant properties. First, states and localities can work with the local post offices to identify residences that are no longer receiving mail. The post office is sometimes the first entity to know that a resident has vacated their home.

Second, states are working with banks and lenders to obtain information about homes going into foreclosure. **Massachusetts**, for example, requires copies of all foreclosure notices to be filed with the Division of Banks. The aim of this law, which took effect May 1, 2008, is to improve transparency and help track foreclosures and the brokers and lenders whose loans lead to foreclosure. The Division of Banks also is using this information to compile a list of contacts responsible for maintaining vacant foreclosed properties and there are proprietary databases that provide this information. [7]

Several local governments have enacted vacant property registration ordinances. These ordinances have a two-fold purpose. First, by requiring lenders to register vacant properties with the local government, localities can keep track of where the vacant properties are located. Second, local governments can use the vacant property information as a tool to ensure that the companies responsible for securing and maintaining vacant properties are fulfilling their duties. The Chula Vista Abandoned Residential Property Registration Program in **California** is often cited as a model for vacant property registration ordinances. The city's ordinance requires lenders to act on the "Abandonment and Waste" clause in their mortgage contract, which gives lenders the authority to enter, secure, and maintain property they own which has become vacant.[8] The city's ordinance requires lenders to visit homes with delinquent mortgage loans to determine whether they are vacant. If the property is vacant, lenders must register the property with the city and hire a property management company to maintain it. They must inspect the property once a week and post 24-hour contact information on the property. Five hundred properties were in the Chula Vista registry as of June 2008.

Mapping is a tool that many local governments are using to help keep track of the location and condition of vacant properties. The city of Boston, in **Massachusetts,** photographs each vacant property and keeps a database of the properties to match the information with assessment, permit, and title data to help develop strategies for returning the properties to use. Additionally, the city generates a map of vacant properties, which helps identify areas of need and alerts developers to potential rehabilitation opportunities.[i]

The NSP program provides funding for planning and technical assistance in connection with NSP-eligible activities. These costs, together with administrative costs, are subject to a cap of 10 percent of the total amount of the NSP grant plus 10 percent of program income.

Manage the Inventory of Vacant and Abandoned Homes

As the number of foreclosed homes rises, it is imperative that states and cities ensure that vacant properties are properly managed and maintained. Vacant homes must be physically maintained, which involves tasks such as cleaning out gutters, trimming the grass, and checking pipes for leaks. Vacant homes, which are magnets for crime such as vandalism; squatting; and theft of appliances, copper wiring, and other commodities, must be also be kept secure.

NSP funds may be used to acquire, repair, redevelop, sell, or rent foreclosed and abandoned properties—thus giving states and local jurisdictions the important tools to assure that a portion of the vacant housing inventory is recycled back into the market. NSP grantees can thereby acquire and rehabilitate the proverbial worst houses on the block—the houses that would otherwise stand in the way of rehabilitating or redeveloping other homes in a neighborhood or community—or to demolish them if they are blighted. If used in connection with NSP-qualified land banks, funds may be used to maintain, market, and facilitate redevelopment of foreclosed and abandoned properties.

Another tool cities and states have to keep properties in good shape is code enforcement. Typically applied on the local level, code enforcement helps ensure that property owners are complying with land use laws, housing codes, building regulations, and permits. To encourage compliance, local governments assess fines or penalties, some of which may grow steeper with the length of time it takes for the owner to address violations.[9]

Other maintenance tools for local governments include:[ii]

- Establishing an entity or hiring a property coordinator to track and manage the enforcement of state and local property laws;
- Adopting property maintenance codes that establish minimum guidelines for the management of occupied residential and commercial buildings;
- Using nuisance abatement authority, which enables municipalities to step in to fix property problems that pose a threat to the community; and
- Filing for receivership, which gives municipalities the authority to file civil court action to take control over a property that has fallen into poor condition while charging the property owner for the cost of all repairs.

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[i] For more information, visit the City of Boston's Abandoned Buildings Survey Web site.
[ii] This list is taken from the National Vacant Properties Campaign's "Strategies and Technical Tools" Web site, which includes model practices from local governments on each tool.

Most of the tools discussed above are best applied on the local level. Thus, the state role in managing vacant properties owned by nongovernment entities may be to support local government efforts. As the number of foreclosures grows and the national economy weakens, both state and local governments are seeing their revenues decline. In cases where shrinking revenues hinder municipal efforts to ensure vacant homes are being properly secured and maintained, states can provide financial support and technical assistance to local governments. For example, with the launch of its new $13.6 million *Housing Arizona* initiative, **Arizona** set aside $500,000 in the State Housing Trust Fund to help local communities plan and apply for NSP funds and to receive technical assistance for operations and financial management. States also can help broker partnerships among municipalities, nonprofits, community development corporations, and lenders to improve efficiency for and expand capacity to maintain vacant homes. Finally, states can assist local governments by expanding local government nuisance abatement powers.

Acquire Foreclosed and Other Vacant Properties

When a foreclosed property sits vacant for several months or even years, when the owner abdicates responsibility for upkeep of an empty home, or when it is unclear who bears responsibility for a home's maintenance, state and local governments may choose to acquire the property and assume responsibility for rehabilitation and disposition. Acquisition may be carried out in several ways:

- **Tax foreclosure** – When a property owner fails to pay property taxes, the local government may foreclose after a period of delinquency determined by state law.
- **Condemnation** – When an unoccupied property is considered blighted under state law, authorities may condemn the property and seize control.
- **Purchase Bank-Foreclosed Property** – State and local government entities may negotiate for the purchase of bank-foreclosed property or other residential property. It is important for governments considering this option to keep in mind that any property purchased with NSP dollars must be purchased for at least 5 percent below the current-market appraised value, and the average purchase price of the entire portfolio of properties must be at least 15 percent below market value.[iii]

When **Maryland** Governor Martin O'Malley was mayor of Baltimore, he launched Project 5000, which was an effort to acquire, rehabilitate, and return 5,000 vacant and abandoned properties to the housing market. To acquire the properties, the city used a combination of tax foreclosures, condemnations, and property transfers. Then, Baltimore negotiated discounted services from realtors, law firms, title companies, and other businesses to turn the properties around in an expedient manner. Three years later, Baltimore reached its acquisition goal of 5,000 properties and has now exceeded 6,000 property acquisitions. Approximately one-third of the properties have been conveyed, sold, or scheduled for redevelopment.[10]

States, cities, and counties have limited resources with which to acquire vacant properties. In areas where available funds will not cover the cost of acquiring all properties in need of rehabilitation, governments may consider using their inventory and mapping information to classify neighborhoods by need and potential impact. This can help guide private development and government intervention. For example, in 2001, The Reinvestment Fund, working with the city of Philadelphia in **Pennsylvania**, created six typologies to describe the city on the census tract level: regional choice, high value/appreciating, steady, transitional, distressed, and reclamation. The city's Neighborhood Transformation Initiative took a citywide approach, as opposed to targeting only declining

[iii] See "Q. Purchase Discount," on page 58342 of the *Federal Register Notice*. Note that in cases where the state or local government entity chooses to use the specified HUD methodology that accounts for discount equivalent to the total carrying costs that would be incurred by the seller if the property, were not purchased, the average portfolio discount must be at least 10 percent.

neighborhoods, but the classification system helped shape the activity and development aimed at each neighborhood.[iv]

Establish a Land Bank

When a state or city has a vast number of vacant properties, one option to consider is creating a land bank. A land bank, for the purpose of the NSP program, is a governmental or nongovernmental nonprofit established—at least in part—to assemble, temporarily manage, and dispose of properties and vacant land. Land banks are often owned and operated on the local level; however, states may have to enact legislation that enables local government entities to establish land banks. The Genesee County Land Bank in **Michigan** is often cited as a model for land banks. The land bank was made possible by a 2004 state law that enabled local governments to establish land banks and provides that they may:

- Recapture 50 percent of property tax revenues for the first five years after the transfer of a land bank property to a private owner;
- Borrow money;
- Issue tax-exempt financing; and
- Select properties from tax-delinquency roles.[11]

Of key importance to the Michigan land bank model is the state's 1999 tax foreclosure law (PA 123) that reduced the amount of time a property is vacant and allowed bulk acquisitions of tax foreclosed properties. According to its brochure, the Genesee County Land Bank renovates and sells or rents 25 to 50 homes per year and demolishes 100 to 200 blighted properties.

The Genesee County Land Bank maintains its vacant properties using one of three strategies. Through its Clean and Green program, neighborhood associations agree to take responsibility for the maintenance and cleaning of properties in their area. Under the Adopt-a-Lot program, individuals, groups, or organizations may agree to beautify nearby vacant lots. For all other properties, the land bank requests bids from local maintenance companies for contracted upkeep.

SmartGrowth America's state toolkit on land bank legislation contains sample legislative language, considerations, communications strategies, and political strategies for states looking to establish a land bank.

NSP is a new and potentially very significant public resource for land banking of foreclosed and abandoned properties. Grantees have up to 10 years to redevelop properties acquired with NSP funds and therefore NSP offers "patient capital" for acquisitions, demolition of blighted properties and program delivery costs during the acquisition stage. NSP-funded land banks must operate in a defined geographic area, as proposed and justified in the grantee's application and then approved by HUD.

As already noted, NSP funds may be used to facilitate redevelopment, marketing, and disposal of qualified properties, as well as "temporarily managing" and maintaining them. If the land bank is a governmental entity, it may use NSP funds to pay for costs of maintenance of abandoned or foreclosed properties that it does not own, provided that it charges the owner for the full cost of the services or places a lien on the property.

Repair or Rehabilitate Homes

Once a local government entity has acquired a foreclosed property, it must begin working to put the property back into use. In areas where demand for housing exists and foreclosed properties are habitable, states can focus on

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[iv] For an in depth discussion of the city of Philadelphia's challenges and successes with implementing the Neighborhood Transformation Initiative, see: Stephen J. McGovern, "Philadelphia's Neighborhood Transformation Initiative: A Case Study of Mayoral Leadership, Bold Planning, and Conflict," *Housing Policy Debate* 17, no. 3 (2006): 529-70.

repairing homes to be transferred to new homeowners. A growing body of anecdotal evidence suggests that many of today's bank-foreclosed properties are badly damaged by former homeowners or by vandals and thieves that target the property after it becomes vacant. These homes, or older homes that have deteriorated over time, may require more robust rehabilitation. At least two states have recently launched projects to repair and rehabilitate homes to resell to new homeowners.

Massachusetts launched a $20 million pilot project to help nonprofit and for-profit developers purchase and rehabilitate foreclosed property.[12] The program targets areas throughout the commonwealth that are most affected by the foreclosure crisis. The program creates a state-sponsored, low-interest loan fund using $17 million from private lenders and $3 million from private, nonprofit foundations. The goal of the program is to quickly acquire abandoned and at-risk properties and turn them over to new homeowners or renters.

New York Governor David A. Paterson announced a program in May 2008 that provides $25.5 million in grants and financing to create and renovate affordable housing in New York City and Western New York.[13] The program includes $2 million to buy and renovate foreclosed homes in New York City to put them back on the market quickly. This $2 million was awarded to the Housing Partnership Development Corporation for its Neighborhood Stabilization Initiative. The goal of the initiative is to purchase and rehabilitate 50 foreclosed homes in neighborhoods at risk of decline as a result of multiple foreclosures.

NSP funds may be used to directly acquire, rehabilitate and resell properties to income-eligible buyers. Homes have to be sold at or below cost, which may include developer fees. In addition to, or instead of, engaging directly in the development process, a grantee may fund a sub-recipient or provide financing directly to homeowners or developers.

Twenty five percent of the NSP funds made available to a grantee must be used for provide housing for households whose income do not exceed 50 percent of area median income. In addition, all beneficiaries of housing must have incomes at or below 120 percent of area median income, state and local NSP programs must include long-term affordability provisions that are approved by HUD. To simplify compliance in that respect, HUD allows grantees to incorporate the exact requirements of the HOME program.

NSP provides great flexibility in devising various forms of subsidies—including soft second mortgages, grants, low interest rates, and written-down home prices—that make it possible for very low-income families to buy homes.

Resell Vacant Properties to Responsible Homebuyers

Getting new, responsible homebuyers to purchase homes is key to helping jumpstart the housing market in states where inflated values priced potential homebuyers out the market or where lack of consumer confidence has dampened sales. States can breathe life into weak markets and fill vacant homes by marketing bank-owned and government-owned homes to new buyers, bridging the affordability gap to help responsible borrowers take the step into homeownership; and improving the likelihood that new borrowers will succeed as homeowners.

Eligible uses of NSP funds for acquisition, rehabilitation, and resale of homes are described above in the section on Repairing and Rehabilitating Homes.

Market Vacant Homes to New Buyers

Some localities are working to entice new homeowners to purchase foreclosed property to ensure that recently foreclosed homes or newly rehabilitated homes do not sit empty for extended periods of time. In **Massachusetts**, the Boston Home Center, a division of Boston's Department of Neighborhood Development, has sponsored trolley tours of the city's foreclosed properties.[14] Those who participate in the tour have the opportunity to take a city-sponsored home buying course. Additionally, the city offers an ongoing series of workshops related to home buying, and in particular, purchasing foreclosed property and buying homes that need work.[v]

Bridge the Affordability Gap

To reduce the number of vacant, foreclosed properties, **California** launched a $200 million Community Stabilization Home Loan Program to help first-time homebuyers purchase foreclosed properties in neighborhoods hit hard by the foreclosure crisis.[15] The program gives first-time homebuyers the opportunity to purchase homes with below-market interest rate loans in select zip codes throughout California. Under the program, several lenders have agreed to sell their foreclosed properties at least 12 percent below estimated value. The program, administered by the California Housing Finance Agency (CalFHA), requires homes to fall under CalFHA sales price limits and families to meet income requirements.

Fairfax County, in **Virginia**, has launched an effort to spend $10 million in tax revenue for the purchase of 200 foreclosed homes, 10 of which will be purchased outright, while the rest will be purchased by eligible buyers with government-back loans. The low-interest loans and other homeownership assistance are targeted towards first-time homebuyers who earn up to 80 percent of the area median income.

The *Housing Arizona* initiative, recently launched in **Arizona**, includes $2 million for first-time homebuyers' down payment assistance to help families take advantage of the affordable housing stock that exists throughout the state.[16]

In 1996, **Maryland** enacted the Neighborhood Stabilization and Preservation Act to provide a tax credit on property taxes for owner-occupied homes purchased in designated neighborhoods in Baltimore. Throughout the 1970s and into 1990s, the city of Baltimore experienced a rapid decline in population. The tax credit was designed to encourage families to purchase homes in affected neighborhoods to reduce the number of vacant and abandoned properties. The Neighborhood Stabilization and Preservation Act gave homeowners up to an 80 percent credit on their property taxes for the first five years of ownership. The credit was then reduced by 10 percent each year until the 11th year of homeownership, after which it expired. The tax credit, which eventually applied to homes purchased through 2002 in the city and 2005 in the county, was paid for by the state of Maryland, the city of Baltimore, and Baltimore County. An evaluation of the impact of the tax credit on individual neighborhoods indicated that the tax credit was most effective when combined with other incentives, such as low-cost loans.

Improve the Likelihood New Homeowners will Succeed

For states seeking to transfer foreclosed property to new, responsible buyers, a key consideration is helping ensure that new homeowners will succeed. Numerous states offer free homeownership counseling to residents thinking of purchasing a home. Some states offer counseling to residents, some to first time homebuyers, and others require it for those purchasing a home through the state housing finance agency. **Illinois** requires homeownership counseling for all potential first-time homeowners seeking to purchase a property in Cook County (which includes Chicago) with a nontraditional mortgage loan.[17] **California** requires all participants in the state's Community Stabilization Home Loan Program (discussed previously) to receive homebuyer education from approved homeownership counselors.

States also may want to consider alternative programs that help ease families into homeownership. Through lease-purchase programs, for example, families who may have spotty credit histories or little savings, but who have steady work histories and sufficient income to afford rent, may temporarily lease a property until they are ready to become homeowners. A program underway in **North Carolina**, run by the Self-Help CDC, puts a portion of the

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[v] Information on Boston Home Center events is available on the Boston Home Center Web site.

tenant's rent into a savings account for downpayment and closing costs. After about five years of credit repair and savings, the tenant will ideally be ready to purchase their home from Self-Help.[18]

Repurpose Property into Space That Adds Value to a Community

States and cities dealing with a depressed demand for housing or overall depopulation may choose to repurpose foreclosed property to make sure it best serves community need. Rehabilitating property for purchase by new homeowners could be an ineffective strategy in areas where there are few interested buyers. Even states with comparatively robust housing markets may want to consider whether it could benefit the community to repurpose some properties. For example, a single family home could be transformed to multifamily housing and sold to an investor to be used as rental housing. As it becomes more difficult for individuals to obtain mortgage loans, the demand for quality rental housing will increase. States and cities may want to examine ways to convert condominiums, single family homes, and other residential properties to rental housing.

As noted, NSP will fund the acquisition and, in certain circumstances, the demolition of foreclosed and abandoned properties. NSP may be used to redevelop properties for residential and non-residential uses, including public parks, commercial uses, or mixed residential-commercial uses.

Additionally, states and cities may want to consider demolishing severely blighted properties and converting the land to public space, such as a city park or community center, or to commercial space for business development. In Wayne County, **Michigan**, a local nonprofit has acquired 20 blighted properties and is working to convert those properties into community gardens. The nonprofit recruits volunteers to care for the land, which is used to grow fruits and vegetables for local residents. Anyone can go to the garden to pick their produce for free, and the leftover food is donated to local food banks.[19]

Mitigate Foreclosures

While addressing the glut of vacant property is important for stabilizing neighborhoods, states and cities must also work to ensure that while they are acquiring, rehabbing, and reselling the existing stock of vacant homes, new homes are not becoming abandoned, empty, or neglected. States have worked to mitigate the growing number of foreclosures for many months. For more information on this work, see the NGA Center *Issue Brief*, "State Efforts to Address Foreclosures," and the NGA Center Homeownership Web site, which contains information on new actions states are taking to mitigate foreclosures.

Help Borrowers Obtain Loan Modifications, Refinances

States have focused on helping troubled homeowners obtain loan modifications or, when necessary, loan refinancing to help borrowers avoid foreclosure. These efforts often target owners of owner-occupied homes who had good payment records before an income disruption or interest-rate reset. Examples of state efforts include:

- **Financial Assistance** – **Delaware** and **Minnesota** offer small, short-term emergency payment assistance to borrowers who would be able to bring a delinquent loan current with a little help. The assistance comes in the form of small loans a low interest rate.
- **Refinancing Options –** At least nine states have programs that give borrowers the opportunity to refinance their subprime, adjustable-rate loans to fixed-rate loans originated by approved lenders. **Connecticut** has expanded its program, CT FAMILIES, to eliminate a first-time homebuyer requirement and offer the same interest rate as the conventional state loan program.
- **Legal Aid – Ohio's** Save the Dream initiative now offers legal assistance for homeowners facing foreclosure. More than 1,000 legal aid lawyers and attorneys have agreed to provide pro-bono legal services to low-income homeowners.

Additionally, federal programs, such as the Federal Housing Administration's (FHA's) Hope for Homeowners, FHA Secure, and HOPE Now Alliance aim to make it easier for homeowners throughout the country to obtain loan modifications or obtain FHA backing for loan refinances in cases where homeowners have fallen behind on their existing mortgages.

Another option for states is to go directly to the servicers of subprime mortgage loans to encourage them to work with borrowers to modify or refinance their mortgages. **North Carolina** recently passed legislation that aims to add transparency to the foreclosure process and ensure that the maximum number of borrowers receive loan modification.[20] Under the law, a servicer must send a pre-foreclosure notice to the borrower at least 45 days before enacting foreclosure proceedings and must file electronically with North Carolina. The Office of the Commissioner of Banks (NCOCB) then screens each loan and may delay the foreclosure an additional 30 days if needed. By working as an intermediary between servicers and borrowers or their counselors, the state aims to ensure that borrowers who could stay in their homes with reasonable modifications have that opportunity. North Carolina aims to build off the Bank of America settlement with 11 state attorneys general. Under the settlement, Bank of America has agreed to modify loans to make monthly payments more affordable. The monthly payments of principal, insurance, interest, and taxes, will be modified to equal roughly 34 percent of eligible borrower's income.[vi]

Connect At-Risk Borrowers to Counselors, Legal Assistance

Since the beginning of the foreclosure crisis, states have ramped up efforts to link troubled borrowers to counselors and legal services to help them determine their options for avoiding foreclosure. State efforts in this area include:

- **Events –** Several states, including **Connecticut**, **Illinois**, **Michigan**, **Minnesota**, and **Ohio**, have launched foreclosure forums, events, or "outreach days," which provide opportunities for borrowers to meet with mortgage counselors, legal assistance, and loan servicers at one time and in one place.
- **Web Sites –** States have created comprehensive Web sites dedicated to helping homeowners connect to foreclosure counseling and resources. For example, the **Delaware** Foreclosure Information Page provides links to the state's refinancing program and counseling agencies as well as national resources. **Nevada's** Foreclosure Help Web site urges borrowers to contact their servicers and provides information on foreclosure, fraud, and rescue scams.
- **Campaigns –** Awareness campaigns targeted towards at-risk borrowers have been launched in several states, including **California**. In November, Governor Schwarzenegger launched a $1.2 million campaign, funded by existing consumer education efforts, which uses online, print, and television ads to encourage troubled borrowers to contact servicers or counselors.
- **Hotlines –** States such as **Colorado** direct at-risk borrowers to state-sponsored hotlines to connect them with housing counselors so they can receive professional advice about avoiding foreclosure.

Promote Equity-Sharing Arrangements

Another foreclosure prevention tool states and local governments are now considering is equity sharing. Under one example of a shared-equity arrangement, the lender would agree to reduce the amount the borrower owes on a home if the value of the home has fallen below the mortgage amount. The lender would reduce the mortgage to the current appraised value, and in return, the homeowners would share any future appreciation on the home with

[vi] Eleven states participated in the settlement with Countrywide, which is now part of Bank of America. The states are **Arizona**, **California**, **Connecticut**, **Florida**, **Illinois**, **Iowa**, **Michigan**, **North Carolina**, **Ohio**, **Texas**, and **Washington** For more information on the settlement, see: Ruth Simon, "Bank of America in Settlement Worth Over $8 Billion," *Wall Street Journal*, October 6, 2008.

the lender. When the homeowner sells the home or refinances the loan, the lender recoups a percentage of any profit made on the home.[vii]

The Southeastern Economic Development Corporation in San Diego, **California**, offers a current and perhaps generous example of a shared-equity model. Through the First-Time Homebuyer Shared-Equity Program in southeastern San Diego, new homebuyers may apply for a shared-equity loan. Eligible applicants earn less than 120 percent of the area median income and agree to purchase property in the corporation's area of interest. Loans up to $40,000 are available interest-free. As long as the homebuyer resides in the home, they do not need to make a monthly payment. Their loan is forgiven if they reside in the home for 25 years. A homeowner who sells or transfers the property before their loan is forgiven must pay back the loan principal at the time of the sale/transfer and a portion of the home's equity realized upon the sale must be returned to the program.

In **Texas**, the city of Austin uses a shared equity model through the Austin Housing Finance Corporation (AHFC). Under the shared-equity model, or the "Affordability Protection Policy," income-eligible buyers and current homeowners may obtain assistance with their mortgage or with reconstruction services.[21] In return, the AHFC retains "first right of refusal" to buy the house from the homeowner to resell at the appraised value when the homeowner is ready to transfer the property. If the homeowner sells the home on the market, the homeowner must share appreciation realized at the sale with the AHFC. Equity gained by AHFC goes toward providing assistance for other new homeowners.

Considerations for States

As states craft their neighborhood stabilization strategies, it will be important to consider how their short-term action plans to stabilize neighborhoods through HUD NSP funding link to long-term housing policy goals. Because states must obligate their grant dollars within 18 months, all actions taken using NSP funding will by definition be near-term actions. States may want to consider how neighborhood stabilization strategies established within the 18 months beginning January 15, 2009, could impact the state's long-term housing policy. For instance, states and cities that start new land banks will want to develop a plan for operating those land banks after NSP funds are expended.

States also may want to consider strategies to expand their capacity for implementing neighborhood stabilization efforts. Partnerships or coalitions will be important, particularly for local governments, for expanding capacity and improving efficiency in implementing new programs. Community development corporations, private industry (e.g., banks and lenders, title insurance companies, and appraisers), developers, and nonprofits are all potential partners for state and local governments to consider.

Finally, states must carefully examine HUD NSP guidelines to determine which actions may be funded through NSP and which may not, which actions will have the most positive impact in what geographies, and which activities are simply not possible because the delivery capacity cannot be identified or created within a few short months. For instance, foreclosure prevention, an important component of neighborhood stabilization, is not an eligible use for NSP funds. Moreover, targeting requirements mean that states and local governments must choose carefully among potential projects to ensure that they are meeting program guidelines. In some cases, states may want to augment NSP funds with state dollars to expand the reach of their neighborhood stabilization plans.

[vii] For more information on shared equity homeownership models, see Chapter IV, Policy: The Role of State and Local Government in Supporting or Impeding the Expansion of Shared Equity Homeownership in: John Emmeus Davis, *Shared Equity Homeownership: The Changing Landscape of Resale-Restricted, Owner-Occupied Housing*, (Montclair, NJ: National Housing Institute, 2006). Also see Andrew Caplin, Noel B. Cunningham, Mitchell L. Engler, and Frederick Pollack, *Facilitating Shared Appreciation Mortgages to Prevent Housing Crashes and Affordability Crises*, (Washington, DC: The Brookings Institution, 2008).

Next Steps

For more information on this memo, please contact Stephanie Casey Pierce at spierce@nga.org or 202/624-5332. If you have an example of neighborhood stabilization work in your state that you would like to share with other states, please contact Stephanie.

Resources for States

National Governors Association
Neighborhood Stabilization Resource Center
Issue Brief: State Strategies to Address Foreclosures
Foreclosure Working Group Listserv (contact spierce@nga.org to subscribe)

Key Nonprofits
NeighborWorks America
- Acquisition Strategies

National Vacant Properties Campaign
Homeownership Preservation Foundation
Enterprise Community Partners
Local Initiatives Support Corporation

Web Sites
www.stablecommunities.org
www.housingpolicy.org
www.knowledgeplex.org
www.dataplace.org
www.saveamericasneighborhoods.org

Federal Resources
HUD Neighborhood Stabilization Program Page
FHA Hope for Homeowners
FHA Secure
HOPE NOW Alliance

Other Important Reports

Alan Mallach, *Tackling the Mortgage Crisis: 10 Action Steps for States*, (Washington, DC: The Brookings Institution, 2008). This report focuses on specific steps states can take to deal with the rise in foreclosures including what states can to do to mitigate the effect of foreclosure on borrowers and on communities, prevent future foreclosure crises, and establish policies to create affordable housing.

Mark Alan Hughes, "Dirt into Dollars: Converting Vacant Land into Valuable Development," (The Brookings Institution, 2000). This article describes the population decline in the city of Philadelphia and makes recommendations that are still valid for cities newly addressing the issue of vacant properties.

Paul C. Brophy and Jennifer S. Vey, *Seizing City Assets: Ten Steps to Urban Land Reform* (Washington, DC: The Brookings Institution, 2002). This brief offers guidance for cities looking to take advantage of vacant, usable land and turn it around to benefit city development. It offers advice for overcoming legal and administrative barriers to acquisition and reuse of land and examines ways in which cities can help land developers navigate government laws to expedite the process of redeveloping land.

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