



Community Stabilization Case Studies

Showcasing Innovative
Strategies in the
NeighborWorks® America
Network

Working Together for Strong Communities



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Working Together for Strong Communities



The vision of the
Stable Communities Initiative
is to promote comprehensive
community stabilization strategies
that produce new homeowners,
quality rental housing and
sustainable revitalized
communities.

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Executive Summary

Six years after a wave of housing foreclosures first swept the nation, precipitating a worldwide economic crisis, we are only now seeing the beginning of a fragile recovery. To contribute to neighborhood and market recovery, many community-based nonprofit organizations have served as first responders in this crisis by providing a suite of services, from foreclosure prevention counseling to redevelopment of vacant and abandoned units.

This report highlights the work of eight organizations, members of the NeighborWorks® America network, that are using innovative and promising strategies to accomplish community stabilization goals. All demonstrate success in using a patchwork of local, state and federal resources. These case studies demonstrate that there is no one-size-fits-all approach to community stabilization. However, reliable funding, strong partnerships and deliberate community engagement prove to be essential components of success. Their responses have been shaped by a range of factors, including the strengths and the experience of their individual organizations, the condition of local housing markets, the presence of community assets on which to build and the dictates of available funding sources. It is easy for us, looking back, to connect the dots from which the story emerges about a successful program. It is far more difficult for practitioners to choose among competing demands and opportunities to create interventions that will have lasting impact.

To achieve lasting and meaningful impact, the groups developed goal-oriented strategies and deployed them to distinctly targeted areas of various geographic sizes. Examples included concentrated efforts to restore micro-target areas that encompass only three to five blocks, the stabilization of real estate markets in larger neighborhoods or communities and

creating affordable housing opportunities at the city or county level.

A micro-targeted approach seemed appropriate where significant intervention was needed to acquire or restore key properties or a small cluster of properties that could anchor broader neighborhood revitalization efforts. Where intervention was linked to greater social and economic goals, a community-wide or neighborhood targeted approach was appropriate. Finally, in cases where local and regional programs were created to arrest future market decline and further affordable housing opportunities, the city or county targeted approach was most appropriate. In practice, organizations were able to adopt more than one of these approaches at any given time to maximize effectiveness.

The featured organizations chose interventions they were confident they could deliver by developing new or strengthening existing partnerships with other nonprofits and with city, state and federal agencies. Even where the partnerships were familiar, in some cases they had to learn to work with new tools. One obvious example is the Neighborhood Stabilization Program (NSP), which Congress funded in three rounds with strict expenditure deadlines. While NSP offered much needed resources for community stabilization, its time limited nature required recipients to design programs that could expand quickly to take advantage of the funding and yet be cut back easily when the funding ended.

The housing crisis also inspired the creation of new tools at the community level. For example, faced with soaring number of vacancies, Neighborhood Housing Services of Chicago, Inc. and other practitioners successfully advocated for amendments to Chicago's existing tax increment financing policy that would



Boards on the windows of an abandoned home in Chicago's West Humboldt Park are being prepared for painting.

provide incentives for homebuyers to purchase and renovate one- to four-unit properties. Approved in March 2012, this new tool can now help stimulate interest in homeownership, critical to filling the thousands of vacant units in Chicago neighborhoods.

Some of the case study subjects developed new relationships in order to meet unprecedented demands for assistance. One was New Kensington Community Development Corporation, where housing counselors now work closely with the newly created Foreclosure Diversion Court and the Philadelphia Office of Housing and Community Development to help prevent hundreds of homeowners a year from losing their homes.

A common approach these organizations applied when stabilizing residential real estate markets was to provide housing products that were comparable to those at the higher end of the housing market. Upgrading systems, improving energy efficiency and paying attention to interior and exterior cosmetics helped to create model properties that were easier to sell or lease, and helped to stimulate sagging real estate values. Organizations found that delivering a high quality product that can motivate customers to buy into a shaky market is an important strategy. Housing subsidies helped cover renovation costs to bring sale prices in line with the market and make them affordable to low- or moderate-income buyers.

Finally, a few of the case studies illustrate that organizations made strategic decisions about where—and how—to deliver single family programs, based in part on assessments of market risk. No matter how well units are renovated, if they are located in declining neighborhoods it may be nearly impossible to sell them. This understanding influenced which neighborhoods were targeted for intervention and encouraged the creation of strategies such as lease-purchase programs that allowed vacant properties to be renovated and occupied without requiring immediate sale to a buyer.

CASE STUDY SUMMARIES

- 1. Foundation Communities–
Austin, Texas**

This organization uses a micro-market approach to neighborhood stabilization by acquiring and renovating a deteriorated 238-unit, 10-building rental complex. Low income families benefit from living in upgraded, well managed units with affordable rents. In addition, Foundation Communities partnered with the local elementary school and others to support families and children, including offering after school learning centers where children receive enrichment programming that has resulted in improved school performance.
- 2. NeighborWorks® Waco–
Waco, Texas**

NeighborWorks® Waco buys foreclosed or distressed single family homes and renovates them to high standards for a scattered site lease-purchase program. Careful tenant selection and active, hands-on management ensures these properties are assets to the neighborhoods in which they are located until they can be sold to owner-occupants.
- 3. Neighborhood Housing Services of Chicago, Inc.–
Chicago, Illinois**

This organization participates in the city of Chicago’s Micro-Market Recovery Program (MMRP) designed to concentrate resources in nine high foreclosure neighborhoods to stabilize them and strengthen the housing market. MMRP creates a “layer-cake” of city and nonprofit services that work together for maximum impact. Neighborhood Housing Services of Chicago also administers a receivership program for the city in order to take control of abandoned properties, renovate them and sell them to owner-occupants.
- 4. NeighborWorks® Greater Manchester–
Manchester, New Hampshire**

This organization employs a micro-market strategy combining demolition, acquisition-renovation-resale and community organizing to stabilize and revitalize the entrance to a deteriorated neighborhood adjacent to Manchester’s downtown. Strategies include targeted demolition, acquisition-renovation-resale to owner-occupants and community organizing to engage residents.
- 5. NeighborWorks® HomeOwnership Center
Sacramento Region–
Sacramento, California**

This organization helps to revitalize the historic Oak Park neighborhood through a combination of approaches, including the acquisition-rehab-resale of distressed single family homes, down payment assistance for low- and moderate-income buyers and community improvement activities such as Paint the Town events on target blocks.
- 6. New Kensington Community Development Corporation–
Philadelphia, Pennsylvania**

In partnership with Philadelphia’s Foreclosure Diversion Court, New Kensington Community Development Corporation (NKCDC) provides foreclosure prevention counseling citywide to hundreds of homeowners each year who are at risk of losing their homes to foreclosure. The organization supports other for-profit and nonprofit housing developers by supplying the homebuyer education the NSP program requires of assisted buyers.

7. Saint Joseph's Carpenter Society–
Camden, New Jersey

This organization works on rebuilding the real estate market in East Camden neighborhoods through intensive homebuyer education, community organizing and concentrated acquisition-rehab-resale of problem properties. It targets properties on street corners, as well as the most deteriorated units on a block, in order to maximize impact and build buyer confidence. Its intensive pre- and post-purchase education prepares prospective buyers for successful homeownership in the long haul.

8. United Housing, Inc.–
Memphis, Tennessee

This organization acquires, renovates and resells foreclosed single family homes countywide to help preserve once stable neighborhoods threatened by foreclosures. Its active and creative marketing approach uses real estate agents as partners and a monthly radio call-in show, "Ask the Expert," attracts new buyers. It uses NSP funding to acquire and renovate the properties.

Multi-family Development that Stabilizes Community

Foundation Communities Austin, Texas

Background

When Foundation Communities acquired Shady Oaks, the 238-unit apartment complex was only 70 percent occupied and locked in a downward spiral of despair. Tenants were moving out and the building was suffering from long-term deferred maintenance and neglect. A critical source of affordable housing, the condition of Shady Oaks threatened the health and safety of residents and the stability of the broader neighborhood.

Foundation Communities, a nonprofit organization providing affordable homes and supportive services for low income families in Austin, Texas, already owned the Sierra Ridge apartment complex across the street, which also served low income families. Since Sierra Ridge and Shady Oaks were in such close proximity to each other, the deterioration of Shady Oaks threatened Foundation Communities'

investment in Sierra Ridge and the safety of the 149 families living there. "Shady Oaks was a mess," recalls Walter Moreau, Foundation Communities' executive director. "When we bought it, one tenant told us he'd made a deal with the prior owner that since his plumbing didn't work he would only pay half the rent!" The tenant had such limited income that he wanted to keep the deal. With the acquisition and transformation of Shady Oaks, Foundation Communities moved him to another unit—with plumbing—and kept him at the low rent.

Foundation Communities acquired Shady Oaks for approximately \$8 million with help from the Austin Housing Finance Corporation, and renamed it Sierra Vista. As of March 2012, its 10 buildings had been renovated, seven were occupied and lease-up was underway in the remaining three.

The benefits to the community of having good quality, well-managed buildings were immediately obvious. Since Foundation Communities now controlled almost 400 affordable family units in the catchment area of the St. Elmo Elementary School, its positive impact on education emerged. Today, this concentration of affordable rental housing greatly facilitates the creation of a network of resident services aimed at supporting families and children.

Foundation Communities' new sign at the entrance of Sierra Vista.



PROJECT SNAPSHOT

LEAD ORGANIZATION

Foundation Communities

PARTNERS

Bank of America Merrill Lynch

City of Austin- Austin Housing Finance Corporation

Federal Home Loan Bank

NeighborWorks® America

St. Elmo Elementary School

The South Congress Neighborhood Team

FUNDING SOURCES

Bank of America Merrill Lynch

City of Austin General Obligation Bond and Notes

Federal Home Loan Bank

Low Income Housing Tax Credits

STRATEGY

Acquired and renovated a 238-unit, 10-building rental complex to provide affordable housing to low income families, and works with partners to support families and children.

CONTACT INFORMATION

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Implementation

Foundation Communities had to leverage funding from many sources to support the sizable project it was committed to undertake. In addition to funding from the Austin Housing Finance Corporation, the city of Austin contributed \$3 million from a general obligation bond for the initial purchase and renovations. The project also received \$1 million from the Federal Home Loan Bank and \$1 million from NeighborWorks® America. Allocation of 9 percent Low Income Housing Tax Credits generated \$10 million in equity. Bank of America Merrill Lynch also loaned Foundation Communities \$4.85 million for construction and to be used as a bridge loan for the tax credit equity.

The renovations averaged around \$30,000 per unit. In addition to much needed cosmetic improvements, Foundation Communities replaced water heaters and appliances to make the units more energy efficient, and installed water-saving toilets and faucets. Valerie Williams, senior vice president for community development at Bank of America Merrill Lynch, was impressed when she visited the complex to view the renovations. "They had pulled everything out of the units," she says. "It was clear that the changes they were making would make a big difference for the tenants by lowering their expenses."

The renovated units were just the beginning. New playgrounds gave children in the complex a safe place to play and traffic calming devices and streetscape improvements made the surrounding area safer and more attractive for pedestrians.

Using the learning center model it had established at the neighboring Sierra Ridge project, Foundation Communities created Learning Center at Sierra Vista to provide after school programming for children living in the units. This model, pioneered by Geoffrey Canada's Harlem Children's Zone in New York, addresses the needs of the entire community and has demonstrated success in improving outcomes for Austin's children and their families. Foundation Communities' Learning Centers receive funding from foundations, individual donors and some cash flow from the properties. At the end of each school day, Learning Center at Sierra Vista staff meet the students and walk them to the Center. There, the students

get a healthy snack, assistance with homework and a menu of activities that support their physical and academic development. This investment is paying off in improved academic performance.

Foundation Communities' ownership of two large affordable housing properties brings a stability the community can depend on over time.

"St. Elmo Elementary has a phenomenal principal and a really committed core of teachers," says Moreau, "but it has low English proficiency and 90 percent of the students qualify for free or reduced lunch." In most schools, this would be equated with low achievement rates, however, in 2011, St. Elmo was rated "exemplary" in the No Child Left Behind assessments. With the addition of the Sierra Vista apartments, most of the children attending St. Elmo lived in one of Foundation Communities' properties and had access to its learning centers. There was significant improvement of scores between 2010 and 2011, suggesting that the addition of after school programming at Sierra Vista really made a difference.

Because it now controls nearly 400 rental units for low income families in one small area, Foundation Communities has been able to partner with other agencies to offer families support programs for young children, teenagers and adults, including adult literacy classes, financial coaching, matched savings programs, access to homebuyer education and other programming.

Lessons Learned

The previous owner of Sierra Vista had it for 15 years with no commitment to the neighborhood or the tenants, allowing the property to deteriorate and the problems to mushroom. But unlike before, Foundation Communities' ownership of two large properties—a concentration of quality affordable rental housing—now brings a stability the community can depend on over time.

Foundation Communities also had the capacity



The Learning Center at Sierra Vista under construction.



New playground at Sierra Vista.



New traffic calming installation.

to access an array of funding sources, manage a lengthy construction process and find income qualified tenants to live in the property. “Foundation Communities really is the most successful affordable rental housing developer in town,” comments David Potter, housing development manager of the Austin Housing Finance Corporation. “They have the ability to cobble together all these financing sources, including getting as much short-term credit as they need while waiting for a funding source to come in.” This expertise allows the organization to tackle projects as big as Sierra Vista and move them along efficiently.

Beyond the bricks and mortar, Moreau and his partners believe that Foundation Communities’ concentrated ownership of units has the potential to

transform the St. Elmo community. “Having so many units in one neighborhood has changed our whole way of thinking,” says Moreau. With a commitment to “creating housing where families succeed,” Foundation Communities has always offered services to its tenants. Now, that can happen on a larger scale, involving a larger number of people at one time, and translating into measurable change at the neighborhood level, not just the individual level. The recent experience of the St. Elmo Elementary School is a case in point. By more than doubling the number of students who could attend free, high quality, after school programming, performance on standardized tests improved dramatically.

“Foundation Communities has a very strong track record in changing the future for people.” —Valerie Williams, Bank of America Merrill Lynch



Students in the after school program using the computer lab.

Getting the bricks and mortar right is critical, but Valerie Williams finds the project’s social mission equally compelling. “Foundation Communities has a very strong track record in changing the future for people,” says Williams. “They not only provide a product of very high quality, but also incentivize families to make positive changes so they can move beyond their current situation.”

Occupying Homes with PRIDE

NeighborWorks® Waco
Waco, Texas

Background

Before the economic recession, NeighborWorks® Waco was building and selling an average of 20 new single family homes a year. When new home sales slowed significantly and foreclosures mounted, the time was right to ramp up a lease-purchase model the organization had begun piloting in 2006. At the time, the rental market was healthy, with some 55 percent of Waco residents renting their homes. The lease-purchase program would occupy a nice market niche while keeping NeighborWorks Waco staff and contractor partners busy returning foreclosed homes to productive use.

Roy Nash, NeighborWorks Waco's executive director, went looking for capital. "The ability to acquire a large amount of capital at low cost is one of the necessities of this program," notes Nash. As an experienced developer and member of the NeighborWorks® America network, NeighborWorks Waco had access to a broad range of funding sources, both loans and grants. Eight local banks provided lines of credit and NeighborWorks Capital, NeighborWorks Salt Lake and Community Housing Capital each lent about \$1 million to NeighborWorks Waco for property acquisition. NeighborWorks Waco also obtained two grants totaling \$650,000 from NeighborWorks America under the Capital Funding for the Rehabilitation of Affordable Housing (CFRAH), to help cover renovation costs. Between late 2007 and December 2011, NeighborWorks Waco purchased 65 single family homes.

While lease-purchase programs are growing in popularity, especially in areas where the homebuyer

market is depressed, NeighborWorks Waco's program known as PRIDE (Purchase Rehab Invest Delight Enjoy!) is structured slightly differently. The PRIDE model limits total development costs to \$100,000, with a preference of being 10 to 20 percent below that limit. As of March 2012, the market price of a comparable home was \$125,500. The properties have to cash flow to cover expenses and should yield an average profit of \$10,000 when sold. Tenants are not required to buy the home they are leasing or even one owned by NeighborWorks Waco. In this case, no portion of their lease payment is retained for use as a future down payment. To date, seven tenants have purchased homes; five, the houses they were leasing. As homes are sold, NeighborWorks Waco reinvests sale proceeds in new units for PRIDE.

Implementation

One reason for its success is that at the outset NeighborWorks Waco carefully defined four goals for PRIDE that stretched beyond simply helping the tenant or fixing the unit to cover each of the key phases of the lease-purchase process.

The goals were as follows:

1. To acquire, rehab, lease and sell existing homes in Waco and McLennan County that will provide an excellent income stream for the organization, while also providing quality rental housing for low- and moderate-income families and individuals
2. To be the most quality-oriented leasing organization in the Waco area

PROJECT SNAPSHOT

LEAD ORGANIZATION
NeighborWorks® Waco

PARTNERS
City of Waco, Texas
Local Banks
NeighborWorks America
NeighborWorks Salt Lake

FUNDING SOURCES
8 Local Banks (Lines of Credit)
Capital Funding for the Rehabilitation of Affordable Housing
City of Waco, Texas
Community Housing Capital
NeighborWorks America
NeighborWorks Capital

STRATEGY
Buys foreclosed or distressed single family homes and renovates them for a scattered site lease-purchase program.

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TYPICAL LEASE-PURCHASE ACQUISITION

PROPERTY INVESTMENT

Purchase Price	\$68,500
Settlement Costs	\$1,000
<u>Rehabilitation Costs</u>	<u>\$18,000</u>
Average Investment	\$87,500
Monthly Cash Flow	\$250

3. To make leased properties indistinguishable from owner-occupied properties in their respective neighborhoods
4. To eventually sell each home to an owner-occupant

Most homes were purchased from the Multiple Listing Service (MLS). Chris Gutierrez, CCIM, a commercial real estate broker who has served on NeighborWorks Waco's board for 14 years, helped find many of the properties. Gutierrez describes his efforts as "constantly searching" for appropriate homes. "I'll go through 100 on the MLS and we might actually look at five or six," says Gutierrez. This means NeighborWorks Waco considered literally thousands of properties before buying the 65 that they purchased. In the process, the acquisition team became experts in Waco's workforce housing market. When the team found the right property, it moved quickly, closing within two weeks when existing financing could be used. The ability to move swiftly garnered the attention of real estate agents, so when NeighborWorks Waco made an offer it was often successful, even when competing with speculators.

NeighborWorks Waco remains very selective in choosing properties. Since the organization has minimal subsidy to offset renovation costs it could not afford to buy the worst homes on the market.

It is equally important to choose the right tenants. NeighborWorks Waco has found Craigslist to be the most cost-effective approach to marketing available units, sometimes with immediate results. One memorable day, a potential tenant responded within minutes!

Credit and criminal background checks are performed on all applicants and references are checked with prior landlords as well. Those who make the first cut advance to a counseling session with the homeownership planning counselors. NeighborWorks Waco encourages tenants to think of themselves as guests in their properties, with a responsibility to keep them in good shape while they are "visiting." Nash believes that requiring this kind of responsibility and respect from tenants from the beginning helps prepare them to be responsible



Before (left) and after (right) images of a house NeighborWorks Waco renovated for its lease-purchase program.

owners in the future.

NeighborWorks Waco is strict about rent payments as well. “If they are not good tenants the chances are they will not be good homeowners,” observes Nash. To date, only four tenants have been evicted.

Thorough property management is very important. NeighborWorks Waco staff visit each property every month to swap out air conditioner filters and conduct a more thorough annual inspection at the time they winterize the property. The monthly visit takes less than 10 minutes, but gives staff an opportunity to see if the tenants are keeping their “home” clean and tidy. A serious infraction, such as clothing hung up to dry on a stove’s range hood, as found in one unit, results in a written notice. Staff will follow up in a week or two to make sure the issue has been resolved. Most lease-purchase tenants consider a good NeighborWorks Waco inspection to be a “badge of honor.” Some even call the office afterwards to see how they scored!

Prospective tenants are encouraged to sign up for NeighborWorks Waco’s homeownership education classes. If they complete the classes within six months prior to their move in date, they earn a \$100 credit on their required deposit fees—an option chosen by most potential tenants. This helps support NeighborWorks Waco’s goal to move tenants toward homeownership.

Lessons Learned

“We got into this the old-fashioned way, like a for-

profit entity,” says Nash. “With limited subsidies we had to be picky in what we bought.” While this has presented some limitations on property acquisition, it has its advantages. NeighborWorks Waco has very few restrictions on who can lease or buy one of its units. In addition, the organization is spared a lot of onerous documentation of income eligibility. Still, 80 percent of its units are occupied by tenants earning below 120 percent of median income and half are below 80 percent—several with Section 8 housing choice vouchers.

NeighborWorks Waco encourages tenants to think of themselves as guests in their properties, with a responsibility to keep them in good shape while they are “visiting.”

Regardless of the condition of the property at purchase, NeighborWorks Waco makes sure that when the rehabilitation is complete it has the highest quality properties in its market. Nash says, “People walk in and almost immediately say ‘I want this.’” Many new tenants come to NeighborWorks Waco after visiting someone living in another one of its units. Marketing and carrying costs are reduced when units sell themselves, he notes.

NeighborWorks Waco selects tenants with the same care as it does its properties, looking for those who will be a good fit and the least likely to cause



Work in progress at a home NeighborWorks Waco used in its lease-purchase program.

maintenance or management problems. Time is money, and when the program expenses are paid primarily from cash flow, time spent chasing late rent payments or nagging tenants about keeping their yards clean is money down the drain. NeighborWorks Waco's active, hands-on management approach is essential to ensure its properties do not suffer as a result of careless use.

NeighborWorks Waco assembled capital from a wide range of sources. These funds have allowed it to achieve a high volume and to move quickly to take advantage of opportunities. While the units purchased are not always concentrated in

a single area, the organization's model keeps it focused on and working in low- and moderate-income neighborhood communities that could be threatened by too many foreclosures. Once renovated, their PRIDE homes set the standard for those around them. Board member Gutierrez stresses the importance of quality housing for overall economic recovery. "Quality, affordable housing is a critical component of sustained overall economic development. Businesses need employees," he says, so "you can't have big commercial rooftops without sufficient residential rooftops alongside."

One of PRIDE's goals is to help lease-purchase tenants transition to homeownership. Unlike other lease-purchase programs, which generally require the move to homeownership within two years, there is no set time frame within which this must happen. As long as NeighborWorks Waco is covering its management and ongoing maintenance costs, there is no particular urgency for homeownership status. In the meantime, Nash and his board believe that redeveloping homes into high quality, well managed rentals that are occupied by responsible tenants, add stability to the neighborhoods in which they are located. Once they sell, NeighborWorks Waco will use sale proceeds to buy and renovate new properties, thus continuing the process of upgrading the housing stock and strengthening the neighborhoods.

Partnering in a Micro-Market Recovery Program

Neighborhood Housing Services of Chicago, Inc.
Chicago, Illinois

Background

With thousands of new foreclosures entering the inventory each month, how can limited resources be targeted for the greatest impact? The city of Chicago has chosen a micro-market strategy that stabilizes several square blocks within a neighborhood and works outward. The city designated nine areas for this strategy. Neighborhood Housing Services of Chicago, Inc. (NHSC), a NeighborWorks® America organization, is helping to lead the effort in three of these.

The micro-market strategy assembles stakeholders, including city housing, economic development, legal and building departments, neighborhood associations and community development corporations. The intent is to create a “layer cake” of services that work together to help turn around struggling neighborhoods. The city of Chicago has assembled some creative and powerful tools to support the Micro-Market Recovery Program (MMRP), among them, a receivership program for troubled properties, and the expanded use of tax increment financing (TIF) to support acquisition and renovation of deteriorated single family homes.

Implementation

Neighborhood Housing Services of Chicago has worked to stabilize Chicago neighborhoods for more than 35 years. It now has offices in eight neighborhoods, including West Humboldt Park, one of the city’s nine MMRP target areas. Prior to the recession, this neighborhood was becoming increasingly popular, but the foreclosure crisis



Row of dilapidated homes in West Humboldt Park.

significantly stalled revitalization efforts, creating a variety of challenges for the community. Marketing the one- to four-unit buildings to potential buyers has been challenging due to multiple issues, including much needed repairs to existing buildings, public safety concerns, and the increased choice that homebuyers are experiencing in neighborhoods throughout the city.

The rapid increase of foreclosed and abandoned properties also presents marketing challenges. In February 2012, there were 123 vacant properties in a 15- to 20-square block area of West Humboldt Park, with only 35 listed for sale. “I can’t sell a house with three vacants next door,” says Bryan N. Esenberg,

PROJECT SNAPSHOT

LEAD ORGANIZATION

City of Chicago, Office of Mayor Rahm Emanuel and Department of Housing and Economic Development

PARTNERS

Community Investment Corporation (CIC)

John D. and Catherine T. MacArthur Foundation

LISC Chicago

Neighborhood CDCs in nine markets

Neighborhood Housing Services of Chicago (NHSC)

FUNDING SOURCES

CIC Multi-Family Loan Pool

Community Development Block Grant (CDBG)

Neighborhood Stabilization Program (NSP)

NHSC Single Family Loan Pool

Tax Increment Financing (TIF), Neighborhood Improvement Program

Tax Increment Financing, Purchase-Rehab Program

STRATEGY

Participates in the Micro-Market Recovery Program, concentrates resources in nine high foreclosure neighborhoods for maximum impact.

CONTACT INFORMATION

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NeighborHomes manager for NHSC's real estate development arm, NHS Redevelopment Corporation (NHSRC). "We had to come up with an efficient way to deal with vacant units and incent homeowners to return to the market." The first step was to bring together all the different entities working to strengthen neighborhoods. This would ensure that their efforts complemented each other and achieved better results than by working alone. Chicago police, sanitation, code enforcement and courts had to work closely with NHSC and other nonprofits. The various stakeholders met weekly; the nine target areas were reviewed on a rotating basis and generally discussed once or twice a month.

The overall approach to community stabilization is to prevent new foreclosures, restore abandoned properties and return them to productive use. In West Humboldt Park, NHSC's neighborhood staff knock on doors and conduct other outreach to existing homeowners, offering foreclosure prevention assistance. Persuading homeowners to ask for help when there are early warning signs of need greatly improves their ability to avoid default and foreclosure.

Another critical tool has been NHSC's ability to serve as a receiver for deteriorated properties under Chicago's Troubled Building Initiative (TBI). Established as a pilot project in 2003, TBI has been a huge asset in managing foreclosed or abandoned buildings that threaten surrounding property values. NHSC works with the courts to identify ownership of troubled properties and attempts to work with the owners to make needed repairs. The involvement of the court helps to get and keep owners' attention, which is often difficult to do otherwise. "Increasingly, we're seeing that the TBI units aren't owned by banks," explains Katie Ludwig, assistant commissioner, Chicago Department of Housing and Economic Development. "They are either in some stage of foreclosure or they're owned by absentee investors or landlords that are hard to track down."

In the six square blocks that comprise the initial West Humboldt Park focus area, NHSC was appointed receiver for one property and petitioned the court for four others. "Receivership gives us a chance to see where a property is," says Esenberg. "If the investor

is just sitting on it, what incentives will help him fix it up or sell? We can also estimate repair costs because we can get inside and inspect it.” Being able to control and improve neglected properties benefits owners, tenants and the surrounding neighborhood. Since working through the receivership process can take some time, NHSC has begun using a cosmetic strategy in which boarded windows are painted to look as if they are windows with mullions. At night they look like other houses and are less likely to become the target of vandals or squatters.

Through the TIF Neighborhood Improvement Program, Chicago can use TIF funds to provide a \$10,000—\$15,000 matching grant to encourage existing homeowners to make repairs. Affordable housing advocates successfully pushed for an amendment in March 2012, to allow new homebuyers to use TIF funds to acquire and renovate deteriorated housing. Under the new program, buyers of one- to four-unit properties could receive up to 25 percent of the total purchase and rehabilitation costs in TIF funds to repair new homes. The program is limited to buyers earning up to 120 percent of median income, and they must occupy the house as their principal residence for at least 15 years. The value of the TIF funds is captured by a soft second mortgage that is forgiven over time. Ludwig notes that due to a significant drop in housing prices, the TIF program “is not only an incentive, but a necessity because the values just aren’t there when you add in the cost of rehab.”

Through its ongoing homebuyer education program, NHSC is instrumental in finding and preparing new buyers and helping them access the tools available to complete needed renovations. Buyers of two- to four-unit properties can also take classes on how to be a landlord.

Lessons Learned

Working in a high foreclosure environment requires new approaches; one of the most cost effective is to simply coordinate the efforts of the stakeholders. “It doesn’t cost anything to focus effort,” says Esenberg. “We already have this shared agenda, let’s just all work together and improve the impact.”



Before (above) and after (below) images of an abandoned duplex in West Humboldt Park with painted boards installed on its windows while awaiting resolution of the receivership process.



According to Ludwig, the nine MMRP areas were chosen in part because they were significantly affected by foreclosures, and because they had prior city and private investments that helped complement community stabilization efforts. The city was also looking for places where there were strong community partners like NHSC.

While foreclosure prevention and new homebuyer preparation are mainstays of neighborhood revitalization efforts, tools such as the receivership program are critical to dealing with problem properties that thwart revitalization efforts. Esenberg cites, as one example, a building that had remained vacant and abandoned for two years and its owners could not be found. NHSC petitioned



Exterior (above) and interior renovation (right) of a property.

to serve as the receiver and within six months the city had title to the property. At that point, the property could be renovated and sold to a new owner-occupant.

Financial incentives are also important for helping to upgrade the housing stock and stimulate the real estate market. Chicago's TIF policy provides matching grants to existing homeowners and the new purchase-rehab program would provide critical incentives to entice new, low- and moderate-income buyers into the market.



“It doesn’t cost anything to focus effort. Let’s just all work together and improve the impact.” —Bryan Esenberg, NHS Chicago

Targeting Small Areas for Big Impact

NeighborWorks® Greater Manchester Manchester, New Hampshire

Background

NeighborWorks® Greater Manchester began working on West and Granite streets in 2006—before the housing crisis swept the nation, before the economic recession and before the Neighborhood Stabilization Program (NSP). Still, the neighborhood was deteriorating and the economic recession made matters worse. As the growing number of vacancies became a backdrop for crime, landlords were faced with the increasing challenge of holding on to good tenants. Its proximity to Manchester’s central business district made the problems all the more visible. Something had to be done.

In response, residents and city officials working together, identified four goals for West-Granite: to reduce density, increase homeownership, create off-street parking (there was virtually none) and to create green space. “We had no property acquisition funds when we started,” recalls Robert Tourigny, NeighborWorks Greater Manchester’s executive director. “We were talking with banks and the city’s economic development department, but it was slow.”

NeighborWorks Greater Manchester had already begun reaching out to residents through meetings and other events to complete a community needs assessment. The organization started a neighborhood crime watch, and worked with residents to identify problem properties. In 2009, NeighborWorks Greater Manchester secured HOME funds and New Hampshire Community Development Investment Program Tax Credits to purchase and renovate two buildings, but it needed



424 Granite Street, before (above) and after (below) renovation.



PROJECT SNAPSHOT

LEAD ORGANIZATION

NeighborWorks® Greater Manchester

PARTNERS

City of Manchester Department of Planning and Community Development

New Hampshire Community Development Finance Authority

U.S. Department of Housing and Urban Development

FUNDING SOURCES

HOME Investment Partnerships Program

Neighborhood Stabilization Program (NSP)

New Hampshire Community Development Investment Program (Tax Credit Program)

STRATEGY

Micro-market strategy combining demolition, acquisition-renovation-resale and community organizing to revitalize the entrance to a deteriorated neighborhood.

CONTACT INFORMATION

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additional funding to make a more significant impact. NSP provided needed resources to propel the revitalization efforts, ultimately enabling the organization to acquire three additional buildings.

Implementation

As of March 2012, NeighborWorks Greater Manchester had acquired seven properties. Five were in one closely packed block of West-Granite that was at the entrance to the neighborhood where they would have the most visual impact. A very dilapidated six-unit building with problem tenants was torn down and turned into a parking lot, helping to meet two of the neighborhood's goals—to reduce density and to create more parking. At the time, Religious Leader Rich Clegg pastored the church across the street from one property, a crack house that attracted so many customers, "it was like a McDonald's drive-through," he recalls. Demolishing one building and renovating four others in the same block created a sense of pride in the neighborhood. "Before, when they were trash-strewn and run down, that was the persona the neighborhood took on," says Clegg. "Now that they're restored, it feels like our neighborhood has value."

NeighborWorks Greater Manchester renovated and sold the remaining four buildings to owner-occupants. To reduce density further, a two-unit was converted to a single family and an illegal three-unit was reduced to a two family. The properties were sold at 100 percent of the appraised value and buyers obtained first mortgages for 80 percent. NeighborWorks Greater Manchester supplied the remaining 20 percent in a soft second mortgage that imposed long-term affordability restrictions. As shown in the photos on the following page, the properties were beautifully renovated and are now an asset to the neighborhood.

About 80 percent of the funding came from NSP. "The West-Granite neighborhood best exemplifies what NSP was supposed to do," says Brian Keating, neighborhood planner, Manchester Department of Planning and Community Development. "NeighborWorks Greater Manchester's ability to assemble that collection of closely adjacent buildings in a single block was critical to stabilizing



Before (above) and after (below) images of a property NeighborWorks Greater Manchester acquired, renovated and resold as a single family to an owner-occupant.



that neighborhood.”

It took over a year to secure the real estate and assemble the financing package. During this process, Tourigny recalls, the properties NeighborWorks Greater Manchester had secured were sitting vacant, and for a while “we became the bad owner.” To increase surveillance of the properties they offered them to the Manchester Police Department to use to conduct SWAT training exercises. Soon after, the residents began noticing increased police patrols in the neighborhood. This continued even after construction began, increasing residents’ sense of security and preventing theft or damage of the properties while work was underway.

Lee Leblanc was watching this process closely. A retired police officer, Leblanc purchased an investment property on Granite Street in 2003. He and his wife managed the three family property themselves and by 2006 had grown discouraged. Several good tenants were frightened away by gunshots and rampant drug activity. “I had a great property, all upgraded, but I just couldn’t keep good tenants,” recalls Leblanc. Then someone took him to a NeighborWorks Greater Manchester community meeting, and that gave him enough hope to hang on a little longer. At first he had trouble seeing results from what NeighborWorks Greater Manchester was doing, but now he serves on the board and is one of its biggest boosters. “If it hadn’t been for NeighborWorks, I probably would have given up on being a landlord,” says Leblanc. “When I first joined, I didn’t have a clue about the direction they were taking. It all came together—but it doesn’t happen overnight so you have to be patient.”

Lessons Learned

The organizing work NeighborWorks Greater Manchester began in the West-Granite area in 2006 laid the groundwork for the bricks and mortar work it was later able to accomplish with NSP, HOME and New Hampshire tax credit funding. The neighborhood involvement helped create a plan and advocate for the resources needed to make a difference.

Covering only about a five block area, West-Granite illustrates the “micro-market” approach to community stabilization. Rather than buying properties in a much larger neighborhood, NeighborWorks Greater Manchester concentrated its real estate development efforts on just two highly visible blocks at the entrance to the community. This was a signal to local residents that real change could emerge from their planning and organizing efforts, and improve the community’s image in the city at large. New sidewalks outside the renovated houses, coupled with new landscaping, increased the attractiveness of the streetscape.

NeighborWorks Greater Manchester still has more

work to do in West-Granite. Tourigny would like to purchase more buildings and the community organizing will continue as well. These days it is a little harder to get people to come out to meetings, however. People are most likely to come out when there are serious problems, like trash and crime. Every two years since 2007, NeighborWorks Greater Manchester has conducted a door-to-door survey to get resident’s input on how things are going, and each time the results have been more positive. Ultimately, with more owner-occupants living in renovated buildings bought with mortgages they could afford, the community will be stable and NeighborWorks Greater Manchester will be able to move on to work in other distressed areas.

The organizing work NeighborWorks Greater Manchester began in the West-Granite area in 2006 laid the groundwork for the bricks and mortar work it was later able to accomplish with NSP, HOME and New Hampshire tax credit funding.

Engaging Residents to Stabilize Historic Oak Park

NeighborWorks® HomeOwnership Center Sacramento Region
Sacramento, California

Background

Historic Oak Park, recognized as the first suburb of Sacramento, is a community of charming, late 19th century bungalows. Fueled by subprime lending, its modest two-bedroom, one-bath homes were selling for \$200,000 —\$250,000 in California’s hyper inflated market of 2005. Four years later, succumbing to pressure brought on by the subprime bust, housing prices in Oak Park plummeted to as low as \$30,000. The number of foreclosures soared and speculators arrived in droves to snatch up the community’s depreciating housing stock.

Since 1987, NeighborWorks® HomeOwnership Center Sacramento Region (NeighborWorks Sacramento), has worked in the area to provide homeownership opportunities and strong communities. It teamed up with the Sacramento Housing and Redevelopment Agency (SHRA) to stabilize Oak Park. Their roles are clear. SHRA acquires foreclosed homes through the National Community Stabilization Trust (NCST) and transfers them to NeighborWorks Sacramento, which, with additional capital investment from Wells Fargo, renovates them to high standards, including significant use of “green” strategies. Through its marketing and homebuyer education programs, NeighborWorks Sacramento, a chartered NeighborWorks organization, also finds and prepares homebuyers to purchase the units. And finally, to help rebuild the community, NeighborWorks Sacramento undertakes community organizing initiatives, such as resident leadership development training and Paint the Town paint up/fix-up events.



Before and after photos of an Oak Park home NeighborWorks Sacramento renovated with funds from SHRA’s NSP award.



PROJECT SNAPSHOT

LEAD ORGANIZATION

NeighborWorks® HomeOwnership
Center Sacramento Region

PARTNERS

National Community Stabilization Trust

Sacramento Housing and
Redevelopment Agency

U.S. Department of Housing and Urban
Development

FUNDING SOURCES

City of Sacramento, CA

Neighborhood Stabilization Program
(Rounds 1 & 3)

The Home Depot Foundation

Wells Fargo

STRATEGY

Helps revitalize the historic Oak Park neighborhood through rehab-resale of single family homes, downpayment assistance and community improvement activities such as Paint the Town events on target blocks.

CONTACT INFORMATION

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Sacramento Region

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Implementation

Although Oak Park had historical charm and attractive housing stock, vacant and abandoned homes led to disinvestment and increasing incidents of crime. “These vacant, boarded up properties were a real nuisance for the neighborhood,” says Chris Pahule, SHRA’s assistant director for community development. “They were becoming magnets for squatters and all kinds of illegal activities.” With property values steadily declining and neighborhood problems mounting, Oak Park became a natural target area for revitalization.

To advance revitalization efforts in Oak Park and similar areas in the county, SHRA received \$32 million in Round 1 of the Neighborhood Stabilization Program (NSP) and an additional \$8 million in Round 3. The organization’s long-standing involvement in Oak Park and its emphasis on serving lower income residents made it a valuable partner for NSP implementation. The successful efforts of this partnership and its efficient renovation model have brought many of the neighborhood’s homes back to productive use.

SHRA targets highly distressed properties and acquires them for roughly \$40,000 from the NCST. NeighborWorks Sacramento then rehabilitates and supports the ultimate sale of the home. Typically, more than 100 percent of the purchase price (\$60,000—\$80,000) is invested in renovations, including all new systems, new roof, energy efficient appliances, new kitchens and baths, landscaping, painting and new tile. NeighborWorks Sacramento also has strong homebuyer education programs, which provide homebuyers with the eight hours of counseling required by NSP. Workshops are taught in English, Russian and Spanish and have produced a constant stream of qualified buyers.

In addition to preparing potential homebuyers for purchase, NeighborWorks Sacramento markets the properties through its Realty Services department. Under this model, NeighborWorks Sacramento is paid through the proceeds of sale and a guaranteed developer fee. The goal is to make the fully renovated houses the nicest in the neighborhood and this strategy seems to be working. NeighborWorks

Sacramento has seen increased demand for the rehabbed homes, even the relatively small units (800—1,000 square feet) attract buyers.

“Sales have been strong,” says Emilee Ford, NeighborWorks Sacramento’s real estate projects and business development director. “Attendance at our homebuyer education workshops is going up and most of our houses are only on the market about 20 days before they sell.” NeighborWorks Sacramento has renovated and sold about 47 homes as of March 2012, at an average sale price of \$76,000.

New resident, Nick Skrabo, bought his Oak Park house in 2010 with help from NeighborWorks Sacramento. He is very pleased with the high quality of the home, especially its energy efficiency and its affordable price. “I really like it because of the tremendous value,” Skrabo says. “I got the best deal on a well put together house.”

In addition to renovating properties and supporting new buyers, NeighborWorks Sacramento promotes community stabilization through community building and revitalization strategies. Each year its community impact department organizes a Paint the Town event, typically on or near blocks where they have NSP-assisted homes. Ford says staff conduct windshield surveys to find a block where there is enough work to make a visual and economic impact. The goal is to identify 12-14 properties that need painting and minor repairs and to then recruit up to 100 volunteers to help with the work. Last year, The Home Depot Foundation supported Paint the Town with a \$25,000 grant, helping to expand the work they were able to accomplish. One happy resident, a 2010 Paint the Town beneficiary, noted that the community benefits extended beyond the improvements to individual houses. “I felt this project not only gave our house and others on the street a facelift but allowed us neighbors to become closer. In fact, I met some of them for the first time.”

In another example of community partnership, NeighborWorks Sacramento worked with the local community association and SHRA to rid the neighborhood of a rundown liquor store, the source of many complaints about noise and disruptive behavior. NeighborWorks Sacramento had recently



The liquor store (above) that NeighborWorks Sacramento acquired and razed with help from SHRA, and the new home that replaced it (below).



renovated a bungalow with SHRA funding, and moved it to a lot near the store. The condition of the store contrasted sharply with the beautifully renovated bungalow, so SHRA put together a financial package that enabled NeighborWorks Sacramento to purchase and raze the store. In its place, NeighborWorks Sacramento built a lovely new single family home, an asset to the community.

Lessons Learned

The advent of NSP allowed SHRA to concentrate property acquisitions in Oak Park. The low acquisition costs, along with the NSP subsidy, allowed SHRA and NeighborWorks Sacramento to renovate the homes to a high standard, while keeping them affordable to low- and moderate-income buyers.

NeighborWorks Sacramento's longstanding presence in Oak Park made it a logical partner for SHRA on implementing the NSP program. It was not the only partner; over 30 for-profit developers renovated more than 150 homes SHRA assisted with NSP funds. However, NeighborWorks Sacramento could provide the necessary prepurchase education and counseling and ensure that low income buyers take advantage of the housing opportunities. SHRA's initial selection process for NSP developers did not require them to be nonprofits. As SHRA went through the selection process, however, the importance of the nonprofits' social mission grew clearer. "We realized that there were these other

intangibles—a focus on low income people and the familiarity with the neighborhood that would be a real benefit to us," recalls Pahule.

Some of those benefits are exemplified by NeighborWorks Sacramento's other organizing work, including its Paint the Town events and resident leadership development training. While good quality housing is an essential thread, community organizing stitches together the fabric of the community, creating the brightly colored quilt of people and places, a sense of history and a vision of the future that makes neighborhoods strong and vibrant.

While good quality housing is an essential thread, community organizing stitches together the fabric of the community, creating the brightly colored quilt of people and places, a sense of history and a vision of the future...

Citywide Foreclosure Prevention

New Kensington Community Development Corporation
Philadelphia, Pennsylvania

Background

When thousands of people are losing their homes, preventing foreclosures is as critical to community stabilization as redeveloping vacant properties. It is also more cost effective. The cheapest foreclosure is the one that never happens.

For years, Philadelphia officials sought to limit risky subprime lending through preventative strategies and programs, such as the “Don’t Borrow Trouble” campaign hotline and creation of the Predatory Lending Task Force. In Pennsylvania, foreclosure is a legal action, not civil. So when foreclosures reached a record high in late 2007, Judge Annette Rizzo and colleagues created a Foreclosure Diversion Court to provide a better system for helping struggling homeowners. With more than 17,000 cases scheduled since its inception, the Foreclosure Diversion Court proved to be a highly effective strategy for managing the thousands of foreclosures that flooded the courts in subsequent years.

New Kensington Community Development Corporation (NKCDC), a NeighborWorks® organization, is one of many housing counseling agencies offering free foreclosure counseling to homeowners in Philadelphia. When mortgages are past due, the lenders file a complaint and the homeowners receive a letter with a date for a reconciliation meeting in Foreclosure Diversion Court. The letter provides a hotline number where homeowners can find a housing counseling agency, such as NKCDC, to help them through the process. NKCDC explains the foreclosure process, helps



Pat Cann worked with NKCDC to reduce her mortgage rate and ultimately save her from foreclosure.

homeowners pull together necessary financial information and works with them to create a plan to bring the mortgage to current status. This plan is then offered to the lender at a reconciliation meeting, and the counselor continues to work with the homeowner through the final resolution of the mortgage delinquency.

Implementation

NKCDC counseling staff have worked with homeowners from across the city helping to resolve over 344 foreclosure cases in 2011 alone. Depending on their situations, homeowners received mortgage modifications, partial claims, second mortgages or some other form of emergency mortgage assistance.

PROJECT SNAPSHOT

LEAD ORGANIZATION

New Kensington Community Development Corporation

PARTNERS

Pennsylvania Housing Finance Authority (PHFA)

Philadelphia Redevelopment Authority

Office of Housing and Community Development (OHCD)

The Philadelphia Courts

U. S. Department of Housing and Urban Development

FUNDING SOURCES

Housing Counseling Contracts (OHCD and PHFA)

HUD Housing Counseling

Neighborhood Stabilization Program (NSP)

STRATEGY

In partnership with Philadelphia's Foreclosure Diversion Court, provides foreclosure prevention counseling each year to hundreds of homeowners citywide, who are at risk of losing their homes.

CONTACT INFORMATION

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New Kensington Community Development Corporation

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This system works well for a variety of reasons. First, the initial letter from the court gets homeowners' attention and encourages them to reach out to the hotline for help. This is critical at a time when homeowners across the country have been surprisingly reluctant to seek assistance, even when early action could prevent a foreclosure that becomes inevitable after too much time has passed.

Secondly, the reconciliation conference brings together everyone required to resolve the foreclosure—homeowner, housing counselor, lender or servicer and pro bono attorney. It also provides time to work out a solution with the servicer. While resolving the issue may require more trips to Court than the initial reconciliation conference, the Foreclosure Diversion Court has helped to focus and streamline a process that has dragged on for months and years in other states, as homeowners struggle to reach their servicers and negotiate solutions. Of the 17,000 cases scheduled since the start of the Foreclosure Diversion Court, nearly 12,000 (70 percent) of homeowners kept their appointment, and about 35 percent successfully resolved their delinquencies within a nine- to 12-month period.

When clients are not able to resolve their financial issues and foreclosure is imminent, the housing counselors can work with the courts to arrange for a "graceful exit," one that minimizes the trauma and disruption. This might mean, for example, negotiating an agreement that allows families to stay in their property for a few extra months so they are not forced to move before the school year is over. Or, sometimes the grace period allows counselors to help homeowners find a new living situation, preventing them from becoming homeless. Occasionally, counselors even help former homeowners move. Rachel Gallegos, Esq., court administrator for the Foreclosure Diversion Court, describes NKCDC and other housing counseling agencies as "phenomenal." The housing counselors, she says, "know the financial world these homeowners are living in. Some homeowners need an advocate and some need help in pulling together their financial information, which often isn't very well organized." Although it draws on assistance from nearly 1,500 pro bono attorneys, Gallegos says. "Without the housing counselors the Foreclosure Diversion Court could not exist."



A view of homeowners in Philadelphia's Foreclosure Diversion Court, seeking help resolving their mortgage delinquencies.

The housing counselors “know the financial world these homeowners are living in. Without the housing counselors the Foreclosure Diversion Court could not exist.” —Rachel Gallegos, Foreclosure Diversion Court

Despite considerable success in helping homeowners resolve their delinquencies, thousands of foreclosed and vacant homes remain in Philadelphia's neighborhoods. NKCDC counseling has been instrumental in transitioning some back to homeownership. The organization's housing counselors provide the eight hours of prepurchase housing counseling required by the federally-funded Neighborhood Stabilization Program (NSP), which is critical because most of the NSP developers in Philadelphia are small, for-profit firms with no counseling capacity.

Dana Hanchin, director of Philadelphia's NSP program, explains that in their program, buyers typically first get a contract to purchase an NSP-assisted unit, and only then go looking for the counseling. The eight hours can be carried out in group or individual format, but must take place relatively quickly in order to meet the 30- to 45-day closing deadline. NKCDC has worked with other NSP developers to provide the required counseling and certification of more than 25 homebuyers.

NKCDC has also taken on the role of developer, one of a handful of nonprofit organizations working with Philadelphia's NSP program. The program requires that developers move quickly to acquire, renovate and sell their properties. They must also absorb some financial risk. NSP funds are targeted to relatively stable neighborhoods where vacant and abandoned foreclosures threaten surrounding properties. Certain blocks are identified as NSP eligible, and it is up to developers to identify properties that fit



Homeowners facing foreclosure meet with Joe Filipski, NKCDC housing counselor.

within the Philadelphia NSP program parameters. Once renovated, a typical NSP home would have a total development cost of up to \$200,000. The buyer purchases it for no more than \$125,000, with \$40,000—\$80,000 in a zero percent, soft second mortgage that triggers a 15-year affordability period. The city lends the funds for the acquisition and renovation, but developers are not paid until the property is sold. If renovation costs are higher than expected, or if the developers have to reduce the price to sell the properties, their fees are reduced accordingly. Kevin Gray, NKCDC's real estate development director, says it has been challenging to find suitable properties in NKCDC's target area, but notes they have completed three units and are looking for others.

Lessons Learned

In a high foreclosure environment, preventing new foreclosures is as critical to stabilizing neighborhoods as is redeveloping vacant and abandoned units, and far more cost effective. NKCDC staff typically spends six to eight hours counseling delinquent homeowners, at a cost of roughly \$280-\$380. Even

when court costs are added, preventing a foreclosure is a bargain compared to the \$70,600 in moving expenses, legal fees, lost equity, lost property value and other costs resulting from a foreclosure.¹

In a high foreclosure environment, preventing new foreclosures is as critical to stabilizing neighborhoods as is redeveloping vacant and abandoned units...

The Philadelphia courts deserve a great deal of credit or setting up a system that brings together the key players who can resolve the delinquency—the homeowner, the servicer, the housing counselor and attorney. NKCDC's housing counselors play a critical role as advocate for the homeowners and helping them navigate the very confusing and stressful path to either saving their home or exiting from it in the least damaging way possible. This collaboration with the Court will be critical in the coming months as Philadelphia braces for a new wave of foreclosures.

Still, despite the excellent work of the Foreclosure Diversion Court, thousands of Philadelphia homeowners have lost their homes. These foreclosed and abandoned properties threaten the stability of neighborhoods across the city. NKCDC has redeveloped three properties for sale to new owner-occupants, and through its high quality homebuyer education program has prepared and certified 25 buyers purchasing NSP-assisted homes. This effort produces buyers much better prepared for long-term homeownership, supports the work of other developers and helps the NSP program achieve its goal of stabilizing communities.

¹ Mayer, N., Tatian, P., Temkin, K., Calhoun, C. "National Foreclosure Mitigation Counseling Program Evaluation: Final Report Rounds 1 & 2"; The Urban Institute, December 2011.

Building a Healthy Housing Market

Saint Joseph's Carpenter Society
Camden, New Jersey

Background

In 1985, Saint Joseph's Carpenter Society (SJCS), a NeighborWorks® America organization, began working to revitalize neighborhoods in East Camden, New Jersey. The community was home to a high minority, low income population, with a long history of disinvestment. One in six homes was tax-foreclosed and abandoned, and crime and unemployment ran rampant.

Though SJCS made steady progress over the years, at the turn of the century the East Camden housing market was still in such disrepair it skipped the housing bubble altogether, with no room to fall during the subsequent housing bust. Fortunately for East Camden, however, its rock-bottom direction has taken an upward turn, thanks to the efforts of SJCS. Today, the area is experiencing positive outcomes towards neighborhood recovery.

Consider this: In 1990 the average sale price of East Camden homes was \$20,000. This year, the average sale price is around \$75,000. SJCS has made a significant contribution to restoring the market, developing almost 900 units, of which some two-thirds (570) are single family homes. The vast majority has been in two census tracts. Real estate agents are active in the market and prices are inching up. The healthier residential market is in turn supporting new commercial development in the neighborhood, adding desperately needed jobs to the economy.



442 Rand Street before (above) and after renovation (below).



PROJECT SNAPSHOT

LEAD ORGANIZATION

Saint Joseph's Carpenter Society

PARTNERS

Camden Redevelopment Agency

City of Camden

New Jersey Housing and Mortgage Finance Agency (NJHMFA)

Private Lenders

U.S. Department of Housing and Urban Development

FUNDING SOURCES

Neighborhood Stabilization Program (NSP2)

NJHMFA CHOICE Program

Private Lenders

Residential Property Tax Abatement Program

STRATEGY

Strategic acquisition, rehabilitation, and resale of single family homes. Thoroughly prepares and supports new homebuyers to be successful over the long term.

CONTACT INFORMATION

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Saint Joseph's Carpenter Society

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Implementation

SJCS takes the long view in all of its work, beginning with the preparation of homebuyers. "People have to make a 13- to 15-week commitment to buy one of our homes," says Felix Torres Colon, SJCS director of operations. "We require over 13 hours [of] prepurchase education alone."

During the three- to four-month process prospective, homebuyers are expected to develop a budget and demonstrate their ability to live by it. A home maintenance workshop is also required, so new owners have some sense of how to manage those obligations. "Virtually all of our buyers are minority and most are below 50 percent of area median income," explains Torres. "We have to make sure they understand what they are doing when they buy a home." Just as critical was developing housing people wanted to buy. "When we started, things were so bad that we essentially had to create the market in Camden," recalls SJCS Executive Director Pilar Hogan Closkey. SJCS did this by adopting a very strategic approach to selecting properties, an approach continued to this day. "We want to be on a block where we've been already so we can cluster buyers," says Closkey of her approach. "We also want to do the visible ones, the corner properties." While this is less often the case today, in the early years, SJCS would go looking for the absolute worst house on the block, the one that had been abandoned for years and taken over by drug dealers. "No one else will be able to put what I can into that house," observed Closkey back then. Today, depending on its condition, SJCS either demolishes and rebuilds the house, or does a substantial rehabilitation that involves stripping it down to the studs and replacing insulation, wiring, plumbing and appliances. In the end, the condition of the renovated home is as good as a newly built unit.

A long-term partner in this work has been the New Jersey Housing and Mortgage Finance Authority (NJHMFA), which has supplied much of the financing for the acquisition-rehabilitation.

CHOICE, an NJHMFA program funded with the proceeds from other NJHMFA activities, allows SJCS to redevelop as many as 20 properties at one time. By spreading engineering, architectural and



20 S. 35th Street before (left) and after SJCS renovation. Young families, such as this mother and her two babies, moving into renovated homes is a good sign for the community.

other soft costs over the entire project, costs per unit are reduced. NJHMFA provides a construction loan for 50 percent of the development costs and a local bank provides the other half. CHOICE, a comprehensive financing program for development of newly constructed and substantially rehabilitated homeownership housing in New Jersey, is popular with banks because it reduces the banks' exposure on the loans. It also helps reduce the carrying costs of the construction loan because NJHMFA's interest rate is below market. SJCS typically realizes a developer fee of between 5 and 8 percent on the project, which is paid in part through the NJHMFA subsidy.

Jerry Keelen, director of single family programs for NJHMFA, notes that over the years the projects on which it has partnered with SJCS have had total development costs of just under \$57 million. Of that, NJHMFA has provided about \$17 million in subsidies to help fill the gap between the projects' costs and their market value. Keelen is full of praise for the work that Closkey and SJCS have done. "The quality of their work is excellent," he says, "and they're very disciplined about working in their neighborhood, so they don't spread themselves too thin." He is convinced that SJCS' unwavering commitment to

East Camden's success has been a key factor in creating the positive momentum now evident there.

In part because they were so instrumental in creating the housing market in the first place, Closkey and her staff have a keen sense of where values are and how to price their units so they sell quickly. "In the early years we would nudge prices up very slowly, maybe \$1,000—\$2,000 a year," recalls Closkey. They needed to show buyers there was some price appreciation that would help them build equity, but they had to move slowly. Over the last 15-20 years their earliest buyers have seen their homes triple in value.

Adriana Alvarez-Cintron, a recent buyer who serves as SJCS community outreach coordinator, was renting in Camden at the time, working at a restaurant and planning to enroll as a full-time student at Rutgers University. SJCS helped her take care of some of her credit issues and provided down payment and closing cost assistance, allowing Alvarez-Cintron to purchase more quickly than she would have been able to otherwise. She bought a fully renovated three-bedroom, one-and-a-half bath home with front and back yards. "They did all the fixing," says Alvarez-Cintron. "The home

was in brand new condition and I really like the neighborhood.” Her mortgage payment was lower than her rent had been—an added bonus.

Another tool Alvarez-Cintron took advantage of was a five-year property tax abatement for new buyers that reduces assessed value by \$15,000. Since Camden’s housing prices are low and property taxes are notoriously high, the tax abatement results in a meaningful cost saving and has been an effective incentive for buyers.

Currently, SJCS is helping to implement an \$11.9 million NSP2 grant awarded to the Camden Redevelopment Authority that supports additional redevelopment of vacant and abandoned homes.

The city of Camden recently began working under the New Jersey Abandoned Properties Rehabilitation Act, passed in 2004. The Act allows jurisdictions to use “spot blight” eminent domain and appoint a receiver for properties that have been vacant and abandoned for some time. The receiver can use loans or grants to fund repairs and place a lien on the property to recover those costs. If the owner does not pay off the liens and reclaim the property, the court can order it to be sold, with sale proceeds used to pay off the liens and cover the receiver fees. Use of this tool greatly enhances SJCS’ ability to address the abandoned buildings problem in its target areas.

Lessons Learned

Fifteen years ago, East Camden had a housing market that virtually collapsed. It took skill, patience and creative financing to get it back on strong footing. SJCS had skill and patience in abundance and through partners, such as NJHMFA and private lenders, it had access to financing.

A cornerstone of SJCS’ success has been its work preparing its low income buyers for sustainable

homeownership. Impressively, despite the troubled economy, in March 2012, the homebuyers assisted by SJCS had a default rate of less than 3 percent, and 90 percent of the homes were still owned by the original buyers or their families.

With the help of public financing such as NJHMFA’s CHOICE program, SJCS has also been successful delivering a high quality housing product at a very attractive price, a key factor in attracting new buyers to the community. Existing homes have been renovated to new home standards. Demolishing or redeveloping properties in the worst condition, and clustering investments on target blocks, have helped build buyer confidence in neighborhoods. The increased activity of real estate agents in East Camden and evidence of a growing demand for units outside of those produced by SJCS, and at a slightly higher price, are clear signs of a healthier market.

While much work remains to be done, there is no question that the perseverance and the investment of SJCS are clearly paying dividends in East Camden.

SJCS’ housing efforts have been supported by its public partners in a variety of ways, so crucial to revitalizing the communities it serves. One example is the demolition of a large and deteriorated Section 8 project and its conversion to park and flat green space, now operated by Camden County. Two new schools have also been built in East Camden in the last five years that helped attract young families to the area. While much work remains to be done, there is no question that the perseverance and investment of SJCS and its partners are clearly paying dividends in East Camden.

Single Family Purchase-Rehab-Resale

United Housing, Inc.
Memphis, Tennessee

Background

The housing crisis in Memphis began with subprime mortgages in inner-city minority neighborhoods, but soon spread throughout Shelby County to more affluent communities, rarely touched by foreclosures before. “Even in the best years, Memphis has a lot of foreclosures,” says Tim Bolding, United Housing’s executive director. “But in 2008-2009 the numbers topped 17,500. We had the 13th highest foreclosure rate in the country.” United Housing staff wanted to return as many homes as possible to productive use with an acquisition, rehab and resale program.

With thousands of foreclosures on the market, how could they focus their work to make a difference? Which neighborhoods should they choose? What kind of housing? Who would be the buyers? Developing a clear and intentional strategy was a priority, given the complex requirements and the tight expenditure deadlines of the Neighborhood Stabilization Program (NSP), which provided much of the capital United Housing used to acquire and renovate the homes.

United Housing chose to work in neighborhoods that had previously healthy housing markets but were threatened by clusters of foreclosures. These were still NSP-eligible, due to higher foreclosure rates and other distress measures, but the real estate markets remained healthy enough to make a single family program a viable option.

“We did not want to go into communities that had already collapsed, where we’d be tripping over foreclosures, and the lower priced homes weren’t



The original kitchen (above) replaced by a bright new one (below) in a United Housing-assisted home.



PROJECT SNAPSHOT

LEAD ORGANIZATION

United Housing, Inc.

PARTNERS

General Contractors

Lenders

Real Estate Agents

Tennessee Housing Development Agency

U. S. Department of Housing and Urban Development

FUNDING SOURCES

City of Memphis NSP

Neighborhood Stabilization Program (NSP)

Private Lenders

Shelby County (NSP)

STRATEGY

Acquire, rehab and resell foreclosed homes to help preserve stable neighborhoods.

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Memphis, TN 38104

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selling because of lack of financing,” says Bolding. “We decided to go to the ‘best’ of the NSP-eligible areas where 10 or 12 deals would really make a difference.” The fact that HUD had increased NSP income eligibility to 120 percent of area median helped make this approach feasible, as homes priced from \$80,000—\$100,000 could get financing and buyers with low- to moderate-incomes could afford them.

United Housing elected to expand the purchase-rehab-resale model it was already using in Memphis’ more distressed, inner-city neighborhoods into new communities, such as Scenic Hills and Sky Lake, on the outer edge of the city.

Implementation

Since they were working outside of their traditional target areas, Bolding and his staff drove through the eligible neighborhoods to gauge overall condition and to get a closer look at the housing stock. This helped them determine the neighborhoods in which to work and to create a model for selecting homes.

The ideal property for the United Housing model and its target customers is a ranch style, three-bedroom, two-bath home with hardwood floors, a two-car garage or at least a carport. The house should have around 2,000 square feet of living space and be located on a large, wooded lot. To keep costs down, United Housing tries to avoid homes with lead paint issues. The bottom line, says Bolding: “Buy homes you know you have a market for.”

The units are solidly built, but due to age need all their systems upgraded. United Housing typically buys a home for around \$40,000 and invests \$40,000—\$50,000 in upgrading appliances, renovating bathrooms and installing new heating, cooling and electrical systems. Cosmetic needs such as landscaping, refinishing wood floors and painting are also addressed. The goal is to sell the house for about \$90,000, which is affordable to buyers earning at or above 80 percent of median income. Homebuyers receive down payment and closing cost assistance of about \$15,000, contained in a soft second mortgage. The entire process, from

acquisition through renovation and sale of the home, takes about six to eight months.

United Housing identifies homes with the help of the National Community Stabilization Trust (NCST) and through lender and real estate agent partners. Sometimes, there is another foreclosed home next door or down the street from one United Housing already owns, and they pick it up as well. The organization attempts to buy all the foreclosed homes in a single community, checking back frequently to acquire newly foreclosed units that come on the market. In 2011, United Housing bought 50 homes and sold 37; it bought another 20 in the first two months of 2012.

While United Housing offers a very attractive product, persuading buyers to purchase in a high foreclosure environment is no simple matter. United Housing has developed creative strategies to reach a broad segment of the market. One is to charter buses to take real estate agents and lenders out to view homes ready for purchase. “[On] the first bus tour, they couldn’t believe the quality of the homes,” laughs Bolding. “They were making sales on their phones on the bus! I don’t think the private sector knows what we do, so we have to court them.”

Bolding also has a monthly call-in radio show, “Ask the Expert,” on which he invites a lender, a Realtor or a United Housing staff person. While imparting sound advice to listeners, the show gives United Housing an opportunity to market available homes. Bolding says that after the show began airing, United Housing saw an increase in the number of registrations for its homebuyer workshops.

Vince and Irma Henderson recently benefited from United Housing’s assistance. When they first contacted United Housing they were renting a two-bedroom townhouse, with no off-street parking. Finding parking at night could be difficult and it was sometimes a scary walk from their cars to their apartment. The Hendersons enrolled in United Housing’s homebuyer workshops and received help with cleaning up their credit history. They looked at several homes with a Realtor and found a three-bedroom, two bath house with a carport that United



Lenders and real estate professionals on a home tour exit a United Housing-chartered bus.

Housing had fully renovated. They could even move in before their lease expired. “I can’t say enough about United Housing,” says Mr. Henderson. “They walked us through all the things we needed to do to get a home.”

Steve Neighbors, NSP coordinator for Tennessee Housing Development Agency (THDA), praises the work United Housing is doing. “They have spent the funds better than almost anyone,” he says. “They’ve gotten the products back on the market, found the buyers, done all the things that you want them to do. They quickly figured out the premise of NSP, including the deadlines, and have mobilized or reassigned staff, whatever was needed to get the job done.”

Lessons Learned

To meet the demands brought on by the housing crisis and NSP deadlines, United Housing built on its experience with a purchase-rehab-resale model, rather than designing a completely new program. That experience taught the staff the importance of the market; in order to turn properties over quickly they had to target neighborhoods and create a housing product that would be attractive to buyers. United Housing selected ‘tipping point’ neighborhoods, places with minimal distress that retained some value and market demand. As a result, less NSP subsidy was needed per home, which

allowed them to complete more units and make a greater neighborhood impact.

A recipient of NSP funding from multiple jurisdictions, United Housing has found the program administered by the Tennessee Housing Development Authority (THDA) particularly effective. While many jurisdictions added additional requirements to the baseline federal NSP regulations, THDA did not, making them easier to work with. THDA also enabled United Housing to invest the sale proceeds from NSP-assisted homes in additional units, ensuring the initial NSP investment has even greater impact. However, Bolding stresses the importance of having access to other funding, such as lines of credit from lender partners, in order to take advantage of opportunities that do not meet NSP guidelines. The lines of credit can also help cover property-related expenses such as construction costs prior to grant reimbursement. One of the biggest advantages of this is that United Housing can make “all cash, as is” offers to sellers and get reimbursed later. In most cases, sellers will not wait weeks for loan approvals, especially if speculators are offering cash.

While United Housing offers a great product at an attractive price, homes do not sell themselves, even in more stable neighborhoods. Thus, United Housing markets its properties aggressively through a variety of means, including bus tours to view properties and its monthly radio show.

Bolding recognized early on that to achieve a higher volume would require expanding his team, although he was not ready to dramatically increase the size of his organization. As a result, Bolding began to build relationships with real estate agents, contractors and inspectors—a win-win approach to good marketing. Working closely with real estate professionals, he makes sure they know how much they are appreciated by hosting annual crawfish boils with music by a local band called Lisa and the Lenders. The real estate agents love it and are happy to sell United Housing’s high quality properties. United Housing also works with a large number of contractors and gets at least three bids on every home, which keeps costs competitive. A home inspector works on a contract basis to keep an eye on construction. Outsourcing sales and construction in this way helps United Housing keep overhead lean and makes it easier to expand or contract its workforce as needed, positioning the organization for success as it prepares to maneuver through future economic ups and downs.

Outsourcing sales and construction in this way helps United Housing keep overhead lean and makes it easier to expand or contract its workforce as needed....

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