

Creating Foreclosure-Resistant Communities

NEIGHBORWORKS® SALT LAKE
SALT LAKE CITY, UTAH

Program Overview

As the foreclosure crisis swept the rest of the country, veteran NeighborWorks® Salt Lake (NWSL) Executive Director Maria Garciaz feared that 700-800 homeowners in her target neighborhoods would lose their homes. As of October 2010 however, there were only about 200 foreclosures, still very serious, but nowhere near the crisis levels predicted. Instead, the bulk of foreclosures occurred in fast-growing areas such as Salt Lake County where there was rapid growth in real estate values, construction of large single-family homes and lax lending practices that allowed families to borrow more than they could afford.

Rather than asking, “What went wrong?” Garciaz and her colleagues are in the enviable position of pointing to “what went right” in their low- to moderate-income, ethnically diverse neighborhoods. A key factor is the longtime presence of NWSL, a NeighborWorks® organization that has helped improve community resistance to predatory lending and speculation with its pre- and post-purchase education, leadership development and advocacy. NWSL also actively supported the efforts of Zions Bank and other partners to launch the Utah Center for Affordable Housing (UCAH), an innovative approach to distributing NSP funds throughout Utah’s high foreclosure areas.



NeighborWorks Salt Lake acquired, renovated and resold the first house in Utah assisted with NSP1 funds. The Utah Center for Affordable Housing (UCAH) facilitated the purchase.

PROJECT SNAPSHOT

LEAD ORGANIZATION

NeighborWorks Salt Lake
15 staff members
Founded in 1977

PARTNERS

Utah Center for Affordable Housing
Salt Lake City Housing & Neighborhood
Development

FUNDING SOURCES

NSP1

STRATEGY

Strengthen neighborhood resistance to predatory lending through homeownership education, leadership development and other community building strategies.

OUTCOMES

NWSL target neighborhoods experienced far fewer foreclosures than projected due, in part, to lower incidences of predatory lending.

CONTACT INFORMATION

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Background

NWSL has served neighborhoods on Salt Lake City's west side since 1982. It now has seven target neighborhoods, including all or parts of Glendale, Poplar Grove, Fair Park, Rose Park, Jordan Meadows, Westpointe and West Capital Hill, home to about 54,000 people, roughly a third minorities. Its housing stock is among the city's oldest, mostly single-family homes that are modest in size and price. Since 1995, NWSL has made its focus creating neighborhoods of choice, emphasizing not just home purchase and rehabilitation, but resident leadership development, community building and advocacy.

NWSL's housing strategy includes a combination of new construction and the acquisition, renovation and resale of scattered-site, single-family homes. Potential homebuyers must complete an eight-hour homeownership workshop and can receive housing counseling to help them become mortgage-ready. When they are ready to purchase, NWSL can offer downpayment and closing cost assistance loans and home improvement financing from its own \$3 million revolving loan fund. NWSL also develops multi-family housing.

But the assistance does not stop there. NWSL recognized from the beginning that its target neighborhoods needed more than just new homeowners to restore them to vitality. High poverty, lack of opportunities for youth and poor community cohesion would continue to weaken the neighborhoods unless these issues were addressed directly. As a result, NWSL has undertaken a number of other initiatives. Some are described below.

- ▶ YouthWorks, created in 1986, provides pre-employment and life skills training to youth, ages 14-18. The program builds resistance to gang involvement and other anti-social activities and provides participants with hands-on work experiences that help beautify and revitalize the communities in which they live. YouthWorks has an 80 percent success rate in helping youth stay and succeed in school, thus ending court involvement (where applicable) and building life skills.
- ▶ Community clean-ups, fairs, fundraisers and festivals that bring residents together to address community needs and to celebrate successes.

- The Westside Leadership Institute (WLI), launched in 2004 as a leadership development course, teaches Salt Lake City's west side residents the skills they need to help make positive changes in the community. The program now has 130 graduates who are involved in various ways in their neighborhoods.
- Advocacy efforts—organized and supported—in response to development proposals that would threaten the community. For example, NWSL worked with one neighborhood to successfully combat the Salt Lake City's plans to build a new bridge into the community that would have increased traffic significantly. When NWSL helped bring in engineers and planners to demonstrate how disruptive it would be to the neighborhood, the city opted instead to tear down and rebuild an existing bridge.

By demonstrating its commitment to the residents of the west side neighborhoods, NWSL became a well-known and trusted ally. Maria Garcia, who joined NWSL in 1986 and has served as the executive director since 1990, is widely recognized as a

tough and energetic protector of the neighborhoods she serves. “The best defense is a good offense,” says Garcia. “The ideal neighborhood is one where you don’t need a nonprofit in there to buy problem properties,” but it requires staying alert and tackling potential problems before they get out of hand. One

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strategy Garcia has employed is to keep a close watch on owners of rental properties, especially those who have a poor track record of property management. She has worked closely with Salt Lake City, and with community leaders who have graduated from the Westside Leadership Institute,



Press conference at first UCAH home where Utah Governor Gary Herbert handed over the keys to NWSL Board President Veronica Montoya.



Two members of NWSL's YouthWorks crew remodeling the first UCAH home. Among other improvements, the crew added a third bedroom and a new garage.

to create procedures for monitoring and reporting problem properties or tenants. This has discouraged “slum landlords” from buying properties in NWSL target neighborhoods, because “they know we’re going to be here serving as a watchdog,” says Garciaz. The same is true for predatory lenders.

Another strategy is to require homeowners to whom NWSL loaned money for downpayment, closing costs or home improvement, to meet with a housing

counselor when they wish to refinance or pay off the loan. This has helped prevent many homeowners from refinancing into loans they could not afford or which had provisions, such as adjustable interest rates or balloon payments that would cause them trouble later on. Garciaz estimates that her staff has been able to convince 80 percent of the families they counseled not to refinance by showing them what the new mortgage would actually cost them in interest and fees. Sometimes NWSL can offer rehab loans or help in accessing conventional financing as an alternative to the high-cost loans homeowners initially considered. Combating predatory lending in this way helped protect the NWSL neighborhoods from the crises that other areas experienced when the interest rates on high cost adjustable rate mortgages reset and large numbers of homeowners were thrown into default.

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LuAnn Clark, director of housing and neighborhood development for Salt Lake City, agrees with Garciaz that counseling people *before* they buy their first home is really critical. “A lot of people refused to participate in it,” she notes. They were in a hurry to buy and did not want to be held back. These days, she says, “People are more receptive to the message. People used to think that their equity would grow forever and now they know it won’t.” In the future, Clark thinks that more people will participate in homebuyer education and that the training has been improved because there are real world examples from which to draw.

Foreclosure-resistant Communities

NeighborWorks organizations have long understood the value of homebuyer education and counseling in creating successful homeowners, a concept sup-

ported by national studies.¹ The national foreclosure crisis has now demonstrated how critical homebuyer education and counseling are to the long-term health of entire communities. NWSL's target neighborhoods have many of the same characteristics that attracted predatory lenders to other communities: its residents are low- and moderate-income, many have substantial equity in their homes due to long-term homeownership and about a third are minority. Yet predatory lending never got a toehold there and much of the credit can go to NWSL's multi-faceted efforts to educate homebuyers, build community and create systems that protect the neighborhoods from that threat.

There are limits, of course. In the recession that followed the initial foreclosure crisis, many residents of NWSL target neighborhoods have lost their jobs and as a result, some have lost their homes. Yet the market has remained pretty stable, says Garcia, and she thinks it is in large part due to NWSL's success in creating neighborhoods of choice. "Ten years ago we would have lost properties at foreclosure auctions to investors. But recently we have twice been outbid by young families wanting to buy into the neighborhoods. That's a good thing." NWSL simply congratulated the new owners and offered them home improvement assistance if they needed it.

The experience has been far different in fast-growing areas such as Salt Lake County, where real estate speculation reached a fever pitch before the bubble burst. There, up until 2007, developers raced to build new houses that were appreciating at up to 25 percent annually. Buyers raced just as fast to take advantage of 100 percent financing, in many cases misrepresenting their incomes in so-called "liar loans," in order to qualify for higher mortgages than they could actually afford. They planned to sell the property in a year or two and cash in on the real estate boom—until it ended. They were then stuck with loans they could not repay, on houses they could not sell that were suddenly worth much less than what they owed on them. These are the homes that ended up in foreclosure and that the

¹ Steven P. Hornburg, "Strengthening the Case for Homeownership Counseling: Moving Beyond 'A Little Bit of Knowledge,'" Joint Center for Housing Studies, Harvard University, December 2004.

Utah Center for Affordable Housing was created to address.

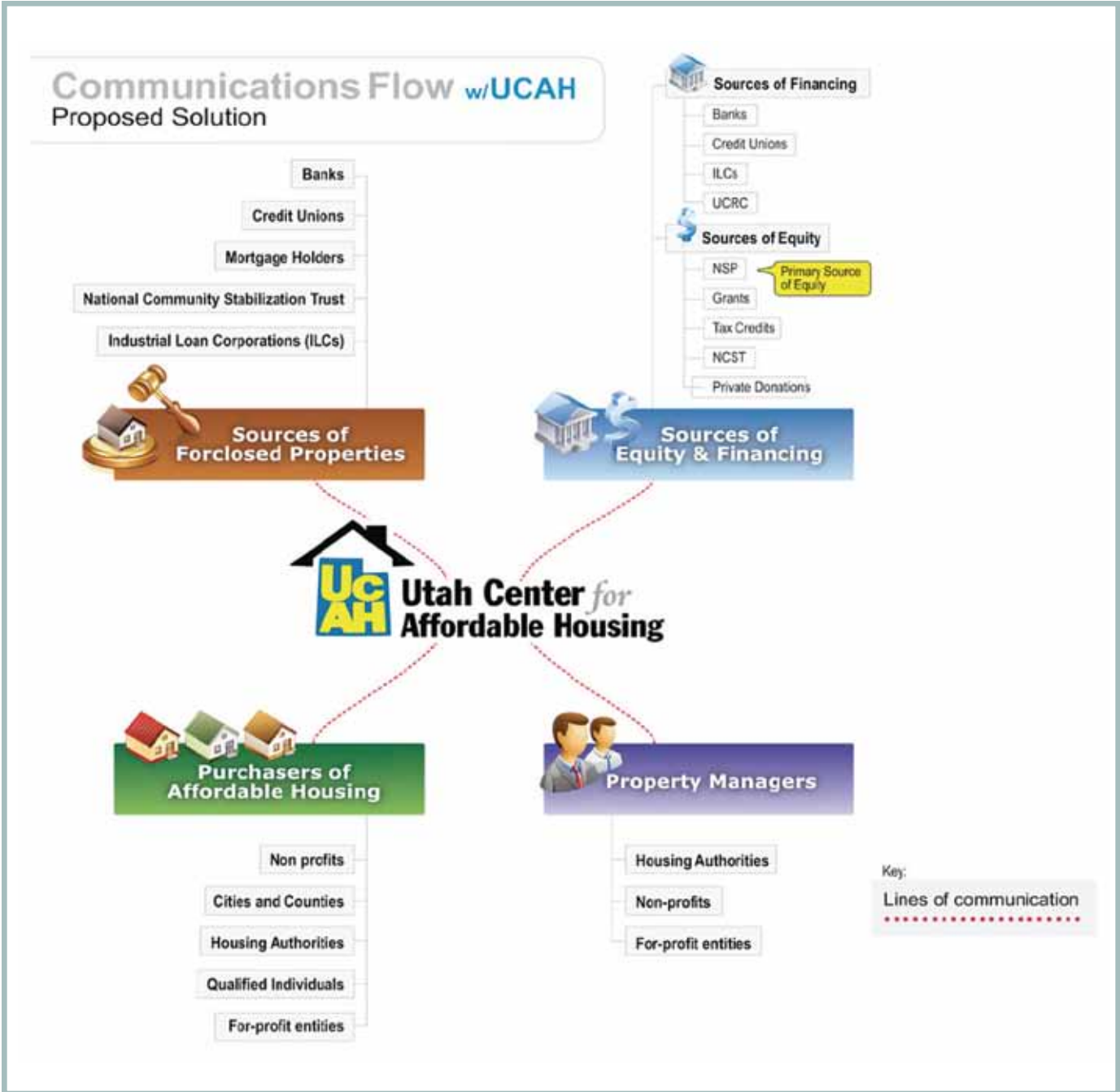
Utah Center for Affordable Housing

In the first round of the NSP program, the Department of Housing and Urban Development (HUD) awarded the state of Utah \$19.6 million, the minimum amount of funding. The Utah Division of Housing and Community Development (UHCD) planned to administer the funds directly for multi-family development, demolition and landbanking. It did not plan to subgrant the funds to other entities and initially resisted calls to distribute the funds more broadly.

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Garcia was part of a group of housing advocates who thought there was a better way to allocate the funds. With the help of one of her board members, she persuaded the CEO of Zions Bank to help create a new 501c3 nonprofit that could serve as a clearinghouse for foreclosed properties. The new nonprofit would use a unique model that benefited no one stakeholder in particular, and that kept the community's interests in focus at all times. With a board that included several large lenders and servicers, the Utah Center for Affordable Housing was formed. It could get access to foreclosures much faster and more easily than the typical nonprofit housing developer. Zions Bank offered to pay the salary of the executive director and provide office space at no cost, which would significantly reduce administrative expenses.

In late August 2009, UHCD agreed to subgrant \$3 million of its NSP1 award to UCAH, expanding it to \$13 million three months later when UCAH demonstrated early successes. UHCD eventually turned over the entire NSP1 award to UCAH. Since



the funds had to be fully obligated by September 2010 or risk recapture by HUD, UCAH had to move quickly to learn the regulations and find the right properties. NWSL was the first nonprofit developer to acquire a foreclosed property through UCAH.

The above graphic illustrates the UCAH model, to serve as a clearinghouse for foreclosed properties and to facilitate access to sources of financing. On behalf of its community partners, UCAH negoti-

ates the acquisition of properties from lenders at a discounted price. A First Look program allows community-based buyers to inspect the properties beforehand to assess their condition and marketability. UCAH loans NSP funds at zero percent interest to community-based buyers to acquire the property and can help arrange access to construction and permanent financing. UCAH also serves as the statewide contact for the National Community Stabilization Trust.

When the community-based organization sells the property, the loan to UCAH is repaid and the funds can be lent to another project. Being able to purchase properties with a no-interest loan and at substantial discounts helps create equity for the buyer and means that NSP funds do not have to be left in the deal to make it affordable. As a result, virtually the full amount of the NSP award will continue to be available for affordable housing. As of October 2010 only about \$150,000 had been expended for administrative expenses.

The first house NWSL bought with UCAH assistance was appraised at \$113,000. Chase Bank, which owned the home, sold it to NWSL for \$81,808, a 27 percent discount. NWSL is using its YouthWorks crew to renovate it, adding a third bedroom and a new garage. When renovations are complete it will be sold to an income-qualified buyer.

Dan Peterson, UCAH executive director, notes that the model works well for everyone. The financial institution holding the foreclosed property benefits by its ability to unload it quickly, saving the holding costs of capital, realtor expenses and carrying costs such as taxes, insurance and maintenance. This, in part, is what justifies the discounted sale price. Community-based organizations benefit by being able to acquire foreclosures quickly, before more costly deterioration occurs with the accompanying negative effects on surrounding properties. Buying properties at a discount, with zero interest financing, reduces costs and reduces or eliminates the subsidy required to make the property affordable to the end buyer.

UHCD had allocated \$9.6 million of its NSP award for landbanking, which has allowed UCAH to take advantage of very low prices in what had been high-priced communities. Mike Plaizier is managing director of community relations at Zions Bank and a NWSL board member who was instrumental in creating UCAH. He is very pleased with the land UCAH has been able to acquire. Because of the NSP landbanking allocation, he says, “UCAH has picked up some good pieces of property that will allow us to create a lot of units of affordable housing, at a cost basis as low as hundreds of dollars per unit.”

Lessons Learned

NWSL has demonstrated that it is possible to create not only foreclosure resistant buyers, but neighborhoods as well. Despite having many characteristics of communities that were targeted by predatory lenders, property owners in NWSL target neighborhoods were able to resist the appeal of repeatedly drawing equity from their homes as values appreciated. Key elements in this were:

- ▶ Educated homeowners who were alerted to unscrupulous loan offers
- ▶ NWSL's insistence on reviewing refinancing or home improvement loan offers with homeowners before providing the loan pay-off amount, or agreeing to subordinate, so homeowners would receive a second opinion
- ▶ Leadership development which empowered resident leaders to spot, and organize to address, negative trends

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The UCAH model has been an effective strategy for dealing with the wave of foreclosures in the fast-growing cities and counties of the state that did not have the benefit of an organization like NWSL. From the outset UCAH had wide acceptance in the banking community, in large part because of the involvement of Zions Bank, one of Utah's largest lenders. Other lenders are represented on UCAH's board as well. This facilitates the rapid transfer of foreclosed properties to community-based buyers, an issue plaguing many other communities around the country. Participating banks must also discount their properties to reflect the real costs they would incur if they continued to carry them as real estate-owned (REO) inventory. Again, this removes a huge barrier to their redevelopment. In other areas of the country, significant delays result when lenders want

much higher prices for properties than the local housing market can support.

Lending NSP funds to developers at zero percent helps reduce the total development cost and the amount of subsidy that must remain in the housing to make it affordable to end buyers. This means that in the years to come Utah will be able to reuse a significant percentage of its NSP award, as funds are recycled.

Finally, UCAH has been very effective at landbanking, especially in what had been high-cost housing areas. Locking in low land costs today will allow UCAH to create affordable units as the market recovers, thus providing affordable housing for low- and moderate-income homeowners and tenants for years to come.