Background Material

Boston Community Capital

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CBS EVENING NEWS

New program helps people avoid foreclosure

By Anthony Mason
July 14, 2011

(CBS News)
There were a million foreclosures of American homes last year. And there are expected to be nearly another million this year. A lot of folks are desperate, so we asked CBS News chief business correspondent Anthony Mason to look for an innovative program somewhere - that's keeping people in their homes.

He found it in Boston, where a new kind of financial institution is buying foreclosed homes and selling them back to the original owners.

RANDOLPH, Mass. - Monica and Mike Bassila's housing nightmare started like so many others, with foreclosure and the threat of eviction.

Monica teared up when she said there were 80 people standing outside her house, wanting to buy it.

But their story has a different ending. The Bassila's house was sold to a nonprofit financial group called Boston Community Capital, which, this week, agreed to sell it back to them.

"We're prepared to schedule your closing," said Elyse Cherry. "So you can have your home back."

"I know I'm gonna cry," Monica said. "I'm sorry." (9:03:56)

Cherry, CEO of Boston Community Capital said, "The goal really, is to keep as many people who are going through this foreclosure process in their homes as possible."

"Has it been difficult to persuade the banks to do this?" Mason asked.

"Well, it has been difficult," Cherry said. "And it continues to be difficult."

But here's how BCC is doing it: the Bassilas had a $330,000 mortgage, but the value of their house plunged to 180,000. BCC bought the foreclosed property from their bank at that lower price, and is selling it back it Bassilas for $233,000. That lowers their monthly payment by 25 percent.

But this is not a charity. Bcc is financed, in part, by big investment funds that expect a return.

Amy Domini manages the Sustainability Group - a billion dollar fund for wealthy investors. "My investors want to be part of the solution. That's what I attempt to give them. When they call and ask what their portfolio is doing, this is what they're talking about."

BCC makes sure clients like the Bassilas can afford even the lower mortgage and have steady paychecks. Monica works at the state Department of Health. Mike is on disability.

In a little over a year BCC has helped 125 Boston area families. Only one has defaulted.

"There will be people who are paying their mortgages who see this and say, 'why should those people be helped,'" Mason said.

"I'm hard pressed to see how we're helped as a country by making more people homeless and putting more people out of their homes," Cherry replied.

BCC hopes to roll this program out nationally. In Boston alone, 1,700 are in foreclosure.
But now, Monica and Mike Bassilla, who have two daughters and a son in the Marines, won't have to move.

"Today is a day I've waited for, for the past 3 years," Monica said. "I want to take that sign down."
After a three year fight to keep her house, Monica Bassila is finally home again.

THE CHRONICLE OF
PHILANTHROPY
Connecting the nonprofit world with news, jobs, and ideas

July 24, 2011

A Nonprofit Group in Boston Sells Foreclosed Homes Back to Their Owners

Boston Community Capital helps families like this one stay in their homes by selling foreclosed properties back to their owners.

By Nicole Wallace

Foreclosure is more than just a private tragedy for individual homeowners. Foreclosed homes that sit vacant and neglected bring down housing prices nearby and become magnets for crime and vandalism, threatening the stability of entire neighborhoods.

To try to stem the damage in Boston's poorest areas, Boston Community Capital, a nonprofit finance institution, now purchases foreclosed properties and provides the former owners or renters with fixed-rate mortgages to buy back their homes. Because the size of the new loans is lower and the terms are fairer, the monthly payments are affordable.

In the last 18 months, Boston Community Capital has helped people repurchase more than 70 houses and condominiums, allowing more than 125 people to stay in their homes.

While the organization's Stabilizing Urban Neighborhoods program is small, it is already attracting some high-powered attention. In a speech this past spring, Ben Bernanke, the Federal Reserve chairman, citedthe program as an innovative approach to minimizing the strain that foreclosure puts on communities. Open Society Foundations has awarded Boston Community Capital a $300,000 grant to help the program expand nationally.

"Every time you're able to keep somebody in their home, you're one step closer to stabilizing a neighborhood," says Elyse D. Cherry, chief executive of Boston Community Capital.

'Not a Giveaway'

The financial organization relies on a combination of loans and grant money to run the program.

Boston Community Capital advertises its services in Spanish and Creole as well as English.

The steep drop in housing values in low-income neighborhoods in Boston and nearby cities like Lynn and Revere is the key to the organization's purchasing plan.

A house that someone bought several years ago for $300,000 may be worth only $150,000 today, says Ms. Cherry. If Boston Community Capital can purchase the home at the lower price, the group can offer a mortgage that a low- or moderate-income worker could afford.

So far, homeowners who have repurchased their homes have seen their monthly mortgage payments drop from an average of $3,300 to $1,700.

When Boston Community Capital reviews an application from a homeowner, it carefully evaluates whether the candidate will be able to repay the new loan. The organization works only with homeowners who have a stable source of income, whether from a job or a government program such as Social Security or disability assistance.

"This is not a giveaway," says Ms. Cherry. "We have to pay back our lenders."

Grateful for Relief

Homeowners who have sought help from the program fell behind on their mortgage payments for many reasons. For Cesar Santana, a father of three in Lynn, Mass., it was an adjustable-rate mortgage, falling home values, a divorce, and eight months of unemployment.

Mr. Santana's condominium was foreclosed on in January. Now working two jobs, he repurchased it through the Stabilizing Urban Neighborhoods program, and his monthly mortgage payment is $631. With his old loan, it had risen as high as $1,610.

Mr. Santana is grateful to Boston Community Capital for helping him stay in his home, and he appreciates the time his loan officer took to make sure that he understood the terms of his new mortgage. Now a volunteer with Lynn United for Change, the community-organizing group that first told him about the program, he participates in antiforeclosure rallies and talks to other homeowners who are behind on their house payments.

"I go to the meetings, I go to the marches, because in the same way I got help, I want other people to get help too," he says.

Negotiating with Lenders

Advocacy groups, like Lynn United for Change and City Life/Vida Urbana, and legal organizations that help homeowners fight eviction, such as Harvard Legal Aid Bureau and Greater Boston Legal Services, are key sources of referrals to Boston Community Capital. What's more, the pressure such groups bring to bear gives lenders a greater incentive to negotiate a deal with Boston Community Capital.

Working with large financial institutions is the biggest challenge the program faces, says Ms. Cherry. Lenders, she says, don't want to sell properties for less than is owed on the mortgages because they are terrified that other homeowners who owe more than their houses are worth—often referred to as being “underwater”—will stop paying their mortgages.

But Ms. Cherry says Boston Community Capital can make a persuasive argument that it is in the best interest of not just the homeowners but also the banks to sell at the lower price. The foreclosure and eviction processes are drawn-out and expensive, and cities are becoming more aggressive in their demands that banks maintain the foreclosed properties according to local building codes.

“We come in and say, 'Look, you’re only ever going to get market value for this property anyway,’” says Ms. Cherry. “'We’ll pay you market value. It’s distressed market value, but that’s what you’ve got. So isn’t it better to deal with us early in the process, so that you don’t have this long period of time in which you aren’t getting any funds, and you’re getting all these other costs?’”

When it started the effort, Boston Community Capital realized it couldn’t rely on philanthropic dollars alone if it wanted to create a program that would reach a large number of homeowners.

The organization initially sought commercial loans, but the best interest rate it could find was higher than 12 percent. However, with a $3.5-million equity investment from wealthy donors set aside to cover losses if any mortgages the group makes go into default, Boston Community Capital was able to secure $40-million in loans from foundations and wealthy individuals, at an interest rate of 4.25 percent.

The charity uses that money to buy foreclosed properties, and provide the former homeowners with mortgages at an interest rate of 6.25 percent. The homes typically are sold back to the owners at a price 25 percent higher than the organization paid. The markup in the price of the home and the higher interest are used to bolster the program’s reserves to cover bad loans and pay for operating expenses.

The organization eventually plans to sell the mortgages it holds, repay its lenders, and then use the proceeds to make more loans. By recycling the loan capital it’s raised so far, the charity thinks it will be able to purchase and resell 1,500 to 2,000 properties over five years.

The 'Boston Model’

Economic-development groups across the country are excited about trying to create similar programs in their own cities, says Solomon J. Greene, who oversees grants that the Open Society Foundations gives to help keep neighborhoods stable. He says the approach has been a topic of conversation at almost every conference he’s attended since last summer.

“When there is something that’s working, it is very quickly taken up and held up as a model by other groups,” says Mr. Greene. “One of the things we realized is that folks are talking about replicating what they call the 'Boston model,’ but there isn’t a lot of information about how to do it.”

To fill that gap, the foundation awarded a grant to Boston Community Capital to create a tool kit, with details such as the group's underwriting standards, that other organizations can use to start their own programs. The money will also pay for the group to plan how it can expand the Stabilizing Urban Neighborhoods program.

Boston Community Capital, says Mr. Greene, "is a great partner because they recognize they've got a good thing, but that they can't be the only version of this solution."

The Nation.

Fighting Foreclosure in Boston

Sasha Abramsky | June 15, 2011

Twenty-four-year-old Harvard Law School student Sam Levine parks the silver Nissan hybrid he has driven into Boston's working-class Mattapan neighborhood. The wind hits him in the face as he steps onto Thetford Avenue. He is wearing black jeans, his dark hair slightly mussed and gelled into place. With him are two fellow students, third-year Marielle Macher and second-year Avis Bohlen. Marielle is wearing a coat under which is a red T-shirt with the words PROJECT NO ONE LEAVES written on the front. Avis is power-dressed in a skirt and svelte sweater. The trio could pass for actors in a Gap ad.

It had taken about an hour to reach Mattapan from the Harvard Legal Aid Bureau, with Sam navigating Boston's notorious traffic. During the ride, the group passed the time talking about jobs they were lining up for the summer and musing on the female voice commands of Marielle's GPS gadget. The students believe "she" is moody today.

As the lawyers-in-training approached their target neighborhood—cruising the back streets past Harambee Park, where a gaggle of long-necked geese spotted the grass, into a landscape of ramshackle, untended homes—they read off a list of twenty-four recently foreclosed properties published in a local realty journal. They are stopping at each house on the list, scouting to see if the property seems abandoned (broken or boarded-up windows, weeks of uncollected mail, trash strewn in the yard and so on). If it does, they move on. But if there is even a glimmer of a chance that the house is still inhabited, they park and approach the front door. When a resident answers, they quickly go into their patter about foreclosure rights and the danger of scam artists—who may be (or may already have been) in contact, promising the moon in exchange for a few thousand dollars—and they explain that Harvard's law students are willing to work gratis on the case.

When no one's home, they hang a red plastic bag on the door knob or slip it through the mail slot. Inside is literature about the foreclosure process; the Legal Aid Bureau, which has been working with several other regional law schools to offer legal services to owners and tenants facing foreclosure; and Project No One Leaves (PNOL), a consortium made up of lawyers, activists and a community development financial institution that is pursuing an innovative strategy to keep local residents in their homes.

Since the housing market collapsed, more than 3,500 homes in Boston have gone into foreclosure; some weeks, more than 100 properties are repossessed. In this city, as elsewhere in the country, a disproportionate number of shoddy subprime loans were issued to African-Americans—their terms deliberately obfuscated, their punitive provisions setting up borrowers to fail. As a result, from 2006 onward a huge number of the foreclosures in Boston have claimed properties owned by African-Americans. The scale of the dispossession is threatening to wreck not just individual aspirations but entire neighborhoods.

Boston Community Capital (BCC), the literature explains, has been buying distressed properties from banks and then selling them back to the original owners at just above the current market value, thus allowing the owners to stay in their homes with a more affordable monthly payment on a new, fixed-rate mortgage. It's a good deal for everyone involved: the banks sell the foreclosed properties for more than they would typically expect, the owners get to keep their homes, neighborhoods that would otherwise end up increasingly abandoned and dilapidated get a shot at staying afloat, and BCC captures funds by selling the property at 25 percent more than what it paid. BCC also locks in a chance at bringing in more money by having each owner sign an agreement stipulating that BCC will receive a share of the profit if the owner flips the home, a move that encourages residents to stay put.

Since May 2010, BCC has purchased fifty-five properties, containing a total of 125 units. "More than $15 million in lending," BCC head Elyse Cherry avers—and an impressively low default rate of 2 percent. Over the coming years, BCC hopes to buy back hundreds more homes, mostly in Boston's impoverished working-class communities.

Not surprisingly, the model is attracting national attention. In a speech in April, Federal Reserve chair Ben Bernanke cited BCC's efforts as a welcome example of how "local communities are meeting the challenges of tough times." Lawyers and law students from Miami, Baltimore, Chicago, New York, Detroit, California and Washington recently attended a conference at Harvard about replicating the methods of Project No One Leaves. And other financial institutions and credit unions have expressed interest in providing the sorts of services BCC offers.

It's telling, too, that advocates across the country are looking to Boston rather than Washington for guidance on how to push for mortgage modifications. As the housing slump drags on, the Obama administration is proving increasingly unable to turn it around. Large banks, facing state and federal investigations into their handling of the foreclosure tsunami and bracing for big financial penalties, have dodged and weaved in their attempt to avoid culpability. In such a sluggish environment, the PNOL approach stands out for its creativity and effectiveness in helping ordinary homeowners the government has signally let down.

* * *

"On the foreclosure work, we're really the last line of defense," notes Harvard Law professor David Grossman, who directs the school's Legal Aid Bureau. "We're the army fighting Wall Street."

Grossman, a longtime housing attorney who has worked on the antiforeclosure campaign for the past couple of years, has three Harvard degrees: a bachelor's in biology, a master's from the Divinity School and a law degree. (He graduated from Harvard Law in the same class as Michelle Obama, a noted Legal Aid Bureau alum.)

Grossman clerked for the Israeli Supreme Court in the late 1980s. Since 1995 he has been teaching at Harvard Law School, where he focuses his efforts on promoting social justice lawyering. His interest comes, he says, from his understanding of the ethical core of Judaism—what he refers to as *tikkun olam*, the obligation to "repair the world." With the housing crisis, he has found a scandal large enough to match his sense of duty.

"I see the fallout from the way our political system and economic system work," he says. "This is a product of Wall Street greed, a lot of it. For the first couple years of this, every foreclosure we were seeing was the result of a predatory loan." Homeowners, he insists, got duped into signing awful deals. "The rates they got were horrendous. And it was race-based, no question about it."

Grossman, who is in his early 50s, sports a brown-going-on-ginger goatee. In casual settings, he wears sunglasses pushed up on his forehead, even when there's no sun outside, and he drinks a lot of Coke. A street map of Boston is tacked up on a wall in his office. Opposite it hangs a sepia photo of four Red Sox players from a distant era.

Although Grossman is an out-of-towner, he's been in the Boston area long enough that he almost sounds like a local. He speaks fast, his vowels drawn out like those of a native son. He knows he can't stop foreclosures. But he can, he says with a touch of pride, alter the cost-benefit analysis for banks when it comes to evicting delinquent owners and their tenants. On most weekends, and some weeknights, groups of his students canvass Boston's geography of despair, trying to inform owners and tenants of their rights in the face of aggressive bank actions to evict them. He and his students regularly represent residents from neighborhoods like Mattapan during hearings at the downtown Boston Housing Court, making enough of a pain of themselves that the banks' attorneys—none of whom would talk to *The Nation* for this article—frequently decide that it is in their clients' best interests to work out a deal. Sometimes the attorneys will back off their eviction proceedings; other times they'll agree to pay the occupants a pretty large sum to move out. (Such payments are labeled "cash for keys.") Absent legal intervention, residents usually settle for a few thousand dollars. With the backing of good lawyers who know how to string cases out for months or even years, the payment can increase several-fold.

The program, says Housing Court judge Jeffrey Winik, helps to balance the scales of justice, providing representation to those who otherwise would have none. At the same time, it forces these students, who are slated to enter society's most elite strata, to remain grounded. "It's an opportunity to make sure their eyes stay open," Winik explains during a brief lunch break between cases. "These are the folks who are going to be making the laws in the next twenty-five to thirty years. I want them to understand there's a world out there that lives week to week, paycheck to paycheck." Winik, who also teaches law at Boston University, pushes the students when they argue before him—asking them challenging questions, forcing them to think on their feet and develop complex legal arguments around the issue. Afterward, Grossman huddles in the hallway with the students and critiques their performance. He's as rigorous as any moot court judge, and his students seem to thrive on the criticism.

Sam, Marielle and Avis knock on the door of the Thetford Avenue house they have identified as being at risk of foreclosure. A young African-American man answers. Sam, businesslike, introduces the team and tells the man that the home he is living in is going into foreclosure. Is he the owner? No, says the guy. He's the tenant; the owner lives next door. Did the tenant know this home was about to be sold out from under the owner? No, the man replies. No one had mentioned anything to him.

Sam gives the man two bags of PNOL material and asks him to pass one along to the owner. As the students head back to the car, however, the owner materializes from what looks like a basement flat next door. They stop and talk with him, find out his story. He is a Boston cop, he says, and he bought the home from his parents in 1985, intending to rent it out for extra cash. As its value skyrocketed during the housing boom, he refinanced and then refinanced again, taking on one dubious adjustable-rate subprime loan after another. At its peak, the home was worth $560,000 and he owed $470,000 on it, with monthly payments of $2,800.

As it turned out, that was just the teaser rate. When the variable rate kicked in after three years, his mortgage payments jumped to $4,000. At the same time, the value of the property collapsed to about $280,000, making it impossible for him to refinance. Despite his policeman's salary, he fell behind on payments; in January 2010 he stopped paying entirely, and the bank began foreclosure proceedings.

Similar stories can be heard all over town. "We discovered the average outstanding mortgage amount [in Boston's hardest-hit neighborhoods] was $325,000," explains BCC's Elyse Cherry. "But if you applied any kind of underwriting criteria, the average mortgage they could support was somewhere in the region of $150,000."

In the Housing Court, there's 38-year-old Sophia Marks, a secretary who took out a fixed-rate mortgage for $326,000 in 2005 and then watched in horror as her home's value dropped to $160,000 and her husband got laid off from his job with the city's transit authority. Despite Sophia's attempt to avoid foreclosure by wiring thousands of dollars to the company that held her mortgage, her home was eventually sold out from under her for $166,500. She and her husband remain in the home, periodically returning to the Housing Court in an effort to persuade the new owner to sell it to BCC so that BCC can sell it back to them.

Also in the Housing Court is 59-year-old Y. Heather Gordon, a onetime JPMorgan Chase bank employee who bought a fixer-upper in Jamaica Plain in 1992 and slowly turned it into a decent home for herself, her two grown sons (both of whom are now back at home after losing their jobs in the recent downturn) and, on weekends, her three young grandchildren. After she went on disability in 2002, she embarked on a series of refinancing ventures, borrowing against the seemingly endless increase in her home's value to cover her daily expenses. By 2005 she owed $287,000 on a home she had bought for only $65,000, and her interest rate was 13 percent and rising. The last time she refinanced, she says, the company—a fly-by-night Internet operation that closed down immediately after securing her signature on a new loan agreement and selling the product to another lender—told her the monthly payment would be $2,000; instead it was $3,800. Within five months, she was facing foreclosure and the threat that her possessions would be thrown onto the street. She stayed in her home, taking what legal advice she could garner from Harvard Law students. Like Marks, she hopes the bank that owns her home will agree to sell it to BCC so that she can buy it back at a more reasonable price.

Despite the best efforts of Grossman's team, not all foreclosure victims win their courtroom battles. Increasingly, that's when on-the-ground activists step in to stop people from getting kicked to the curb.

* * *

Four days after Sam, Marielle and Avis knocked on his door, the foreclosed homeowner from Thetford Avenue walks in late to a weekly antiforeclosure meeting organized by City Life/Vida Urbana, a community organizing group in Jamaica Plain. By the time he arrives on the second floor of the old brick Haffenreffer brewery, about 100 people are present. Some of them are community organizers; others are Harvard Law School students who had been driven to the event by Grossman. Most of them are foreclosure victims: disproportionately poor, overwhelmingly African-American. People like Osazee Egharevba, who lost his job in 2008, spent a year trying fruitlessly to secure a loan modification from his bank and went into foreclosure in September 2009—by which time his home, not long earlier worth $512,000, was valued at a mere $210,000. Over the first several months of 2010, the lawyers and law students from the Harvard Legal Aid Bureau negotiated a sale with Egharevba's bank. In late April, he was able to buy back his home from BCC for $225,000. Thankful for his second chance, he now turns up at City Life every week and often helps canvass at-risk neighborhoods.

Off to the side of the rows of fold-up metal chairs stands a big bookshelf, on top of which are two stage props: a huge sword and an equally imposing shield on which, in lieu of a coat of arms, is the simple outline of a house and the words No One Leaves. The props represent City Life's "sword and shield" strategy, the sword being direct action (vigils, sit-ins, protests against banks seeking to evict people, blockades against sheriffs trying to remove residents and their possessions from a house slated for auction) and the shield being the detailed legal expertise provided by the Harvard Law students. Around the offices are an array of bumper stickers with slogans like Tenants Vote: Boston Tenant Coalition and Trabajos con Justicia/Jobs With Justice. There are Malcolm X quotes and a diamond-shaped orange banner adorned with the words Enough Is Enough! ¡Basta Ya!

"When we took up the foreclosure battle, we found a way to approach it from an organizing way rather than a casework way," says 62-year-old Steve Meacham, a longtime community organizer who has worked for City Life for the past eleven years. "Casework is important but individualized. An organizing approach says we do it in a more collective way, that challenges the problem, doesn't just stick the finger in the dike."

A skinny guy with an intense, steely gray-eyed stare, Meacham seems like an organizer who takes his campaigns very seriously. Under his and others' tutelage, many City Life members have learned not just to formally protest foreclosures but to take action against banks attempting to evict residents who have fallen on hard times. Since 2007 City Life has arranged more than twenty blockades to prevent evictions from going ahead, most of which have been successful. The group has also effectively pushed BCC to become more involved in buying back distressed homes.

When the discussion section of the weekly meeting ends, the organizers lead a shout-out. “What do we do when the banks attack?” they ask their audience. “Stand up, fight back!” 100 people roar. “What do we do when the banks attack?” The audience members rise up out of their seats, fists clenched and pointing skyward. Grossman and his students stand too. “Stand up, fight back!”

Creating Jobs and Transforming Communities: Funding for the Small Business Administration and the Community Development Financial Institutions Fund

Director Donna J. Gambrell
Testimony before the Senate Appropriations Subcommittee on Financial Services and General Government
May 25, 2011

Introduction

Good morning Chairman Durbin, Ranking Member Moran, and the distinguished Members of the Senate Appropriations Subcommittee on Financial Services and General Government. My name is Donna J. Gambrell and I am the Director of the U.S. Department of the Treasury's Community Development Financial Institutions Fund, known as the CDFI Fund. Thank you for inviting me to speak today about the CDFI Fund's fiscal year (FY) 2012 Budget Request and the critical ways in which the CDFI Fund is promoting economic development efforts throughout the country.

I would like to start by expressing my deep appreciation to this Subcommittee and to Congress for its long history of support. The CDFI Fund's programs stimulate the economy in communities often considered too risky for mainstream financial institutions. Community Development Financial Institutions (CDFIs) are strategically positioned to help some of the most vulnerable populations in the nation at a time when they are facing many financially challenging situations. CDFIs are often the only source of financing in underserved communities. CDFIs support productive small businesses, affordable housing for low-income Americans, high-quality community facilities, and provide retail banking services to the un-banked and others often targeted by predatory lenders.

I have been Director of the CDFI Fund for over three years, during a time when our nation has endured the greatest recession in generations. The recession has had far-reaching consequences for our entire nation, but nowhere has there been a more detrimental impact than on distressed and low-income communities. Many of these same communities were already suffering before the financial crisis, and their recovery will now take much longer than in other parts of the country.

My principal role as Director is to ensure that the CDFI Fund is doing everything possible to alleviate the economic burden on low-income communities, primarily through support of CDFIs and other institutions that focus their efforts on serving these at-risk communities.

CDFIs are financial institutions that take a variety of forms–they are loan funds, credit unions, community banks, and venture capital funds. They are local, regional, and even national organizations that spur economic and community development in distressed areas from a grassroots level. CDFIs, as a class of financial institutions, have years of experience providing financial products and credit counseling services that permit borrowers to enter into and participate successfully in the financial mainstream. CDFIs fill a critical gap in the financial industry—they serve target markets that are historically underserved and they provide economic development services for niche areas that require specialization. The CDFI Fund encourages the growth and capacity of this valuable industry through a strategic deployment of resources.

The CDFI Fund's Role

The United States Congress established the CDFI Fund as a bipartisan initiative under the Riegle Community Development and Regulatory Improvement Act of 1994 (Public Law 103-325). Recognizing the need to bolster a fledgling industry that was making significant inroads in economic development in low-income communities, the bill's authors designed the CDFI Fund to provide financial and technical support to CDFIs with the goal of improving economic conditions in low-income neighborhoods across the country. The mission of the CDFI Fund is to increase economic opportunity and promote community development investments for underserved populations and in distressed communities in the United States.

As a vital component of the Department of the Treasury, the CDFI Fund closely aligns itself with Treasury's core priority of strengthening economic growth. The CDFI Fund's programs are designed to generate a maximum economic benefit to low-income communities with a minimum federal cost.

It begins with CDFI certification. To be certified as a CDFI by the Treasury Department, organizations are required to meet a strict set of criteria, including having a primary mission of community development, as well as serving a target market that meets at least one of the CDFI Fund's definitions of a distressed or low-income community. One common type of target market is a census tract that has a poverty rate of at least 20 percent, or an unemployment rate 1.5 times the national average, or a median family income at or below 80 percent of the statewide or metropolitan average.[i] As organizations must be certified as CDFIs in order to be eligible for funding under many of the CDFI Fund's programs, the certification criteria allow Treasury to verify that awards are going to the neighborhoods that need them the most. Almost 200 CDFIs were certified or re-certified in FY 2010 alone, and as of April 2011 there are 949 certified CDFIs across the nation and the United States territories.

Once certified, the most common way for a CDFI to participate in the CDFI Fund's programs is through our core program, the CDFI Program. The CDFI Program provides Financial Assistance and Technical Assistance awards to qualified CDFIs. These awards are intended as seed money to attract more private capital into CDFIs and their investments in distressed communities. The awards also allow CDFIs to leverage resources to increase the size of their service area and to build their own internal capacity so that they can better serve their target markets.

Demand for CDFI Program awards has significantly increased over the years. For the FY 2011 award round, the CDFI Fund received 393 applications from CDFIs requesting a total of almost $465.9 million in assistance, nearly three times the $169.7 million available. Because of the continual high demand coupled with limited resources, the CDFI Fund capped the maximum award at $1 million in FY 2009, and even lower at $750,000, in FY 2010.

Another CDFI Fund program, the Native Initiatives, also continually faces demand well beyond its available resources. The Native Initiatives provides Financial Assistance awards, Technical Assistance grants, and training to Native CDFIs and other Native entities proposing to become or create Native CDFIs. Through the Native American CDFI Assistance Program (NACA Program) demand for financial and technical assistance continues to grow at a rate that eclipses available resources. In FY 2011, the CDFI Fund received more applications than ever in the history of the NACA Program, receiving 88 applications requesting $35 million—a 48 percent increase over the $23.7 million requested in FY 2010. Such an increase in demand demonstrates that the Native Initiatives is successfully reaching and building the lending capacity in communities that have lacked such capabilities until now.

The CDFI Program and the Native Initiatives are complemented by efforts to provide technical assistance and training to CDFIs. First is the Native Initiatives' "Economic Developments in Indian Country" workshops, co-sponsored by the Federal Reserve Bank of San Francisco, Seattle Branch. The 2010 workshop series featured presentations by four other federal development agencies, and allowed the participants to network and brainstorm solutions to economic development difficulties in Native communities.[ii] Forty percent of the FY 2011 NACA Program applicants attended at least one of the workshop sessions in 2010.

Second, the CDFI Fund's Capacity Building Initiative provides support to all forms of CDFIs in areas of key business practices or economic development interests. The Capacity Building Initiative was designed based upon input received from CDFIs nationwide to significantly boost the ability of CDFIs to deliver financial products and services to underserved communities. The initiative has already had a phenomenal response from the industry. CDFIs have demonstrated a demand for the initial four capacity-building training and technical assistance tracks, which will allow them to build their own internal capacity and expand their expertise in key areas currently affecting the communities they serve, such as affordable housing, business lending, and providing financing for healthy food activities. In addition to training, the CDFI Fund has also commissioned a research project to review CDFI coverage in distressed communities across the nation, which will allow CDFIs to determine where low-income communities are lacking access to CDFI services.

One of the key drivers of the Capacity Building Initiative is that innovation and a nimble response to changing economic conditions are stalwart traits of the CDFI industry. CDFIs have demonstrated these traits time and time again during the uncertain economy of recent years.

The CDFI Fund also administers other programs in support of community and economic development. The Bank Enterprise Award Program (BEA Program) rewards banks for completing community development investments in eligible census tracts. To date, the CDFI Fund has made over $336 million in awards under this program, supporting increases in investments in CDFIs and low-income communities across the nation. Beginning in the FY 2009 funding round, the CDFI Fund required that all BEA awardees use their BEA awards for future CDFI support and community development activities, as defined under the BEA Program regulations. Awardees that receive awards over $50,000 are required to report to the CDFI Fund on how the award was deployed.

No overview of the CDFI Fund's programs would be complete without the New Markets Tax Credit Program (NMTC Program), although it does not fall under the purview of this Subcommittee. The NMTC Program attracts investment capital to low-income communities by permitting individual and corporate investors to receive a tax credit against their federal income tax return in exchange for making equity investments in Community Development Entities (CDEs). CDEs in turn make loans and investments in businesses and real estate projects in low-income communities. CDEs must apply for the authority to issue New Markets Tax Credits to their investors. In any given application round, requests are generally seven to eight times higher than the available allocation authority. To date, NMTC investors have invested over $20 billion into low-income urban and rural communities throughout the United States, approximately two-thirds of which has been invested in communities characterized by severe economic distress—census tracts with a poverty rate of 30 percent or with a median income at or below 60 percent of the area median family income.

Impact of CDFIs

CDFIs serve distressed and low-income communities through innovation, specialization, and targeted services. The customers of certified CDFIs, on average, are 70 percent low income, 60 percent minority, and 52 percent female. These traditionally underserved target markets benefit from services provided by CDFIs that they could not receive from mainstream financial institutions.

For example, Boston Community Capital, a CDFI headquartered in Massachusetts, has developed a new Stabilizing Urban Neighborhoods initiative, where the CDFI partners with other organizations to buy foreclosed properties and sell them back to the original owners with a reduced mortgage payment, preventing displacement. As a result, low-income urban neighborhoods in Boston are at less risk of population loss due to unaffordable housing costs.

Another organization, Access to Capital for Entrepreneurs (ACE), which is a certified CDFI as well as an SBA Microloan Intermediary and USDA Intermediary Relender, has done excellent work encouraging the growth of small business ventures in the rural southeast. For example, an ACE microloan to Melissa Bennett allowed her to expand her cosmetics store to a second retail location in Georgia and to hire more help. The Dazzle Cosmetic Company now has eight employees in a rural area with a high poverty rate.

CDFIs have pioneered new youth financial education initiatives; encouraged the development of green industries and rural manufacturing; invested in transit-oriented development, charter schools, health care centers and other community facilities; and have created thousands of jobs through the steady support of small businesses. After both Hurricane Katrina and the Gulf Coast oil spill, CDFIs were at the forefront of re-building the Gulf Coast region and providing support for small business owners who saw their livelihoods threatened.

The CDFI Fund supports the growth of a stable community development financial institution industry that will make long-lasting and continual impacts across the nation.

The President's FY 2012 Budget Request

The CDFI Fund's programs offer critically needed funding and resources that result in sustainable growth for the nationwide network of CDFIs. Due to the phenomenal track record of CDFIs leveraging the CDFI Fund's awards with private investment, there is a clear benefit of a large local impact for a small federal cost. In fact, CDFI Fund awardees leverage their awards with private investment by a factor of 13:1 on average, so it is possible that we may ultimately see over one billion dollars worth of investment stemming from the $104.8 million in CDFI Program Financial and Technical Assistance awards that were announced in FY 2010. The broad impact that the CDFI Fund's awards make in low-income and distressed communities throughout the country is why the President's 2012 Budget Request included funding for the CDFI Fund.

The President's 2012 Budget Request includes funding for Financial Assistance and Technical Assistance grants for the CDFI Program. The stability inherent in a CDFI Program Financial Assistance award provides the most patient capital available to CDFIs, which is one of the reasons why this program is in such demand. The continued oversubscription of this program guarantees that there will be a high demand for the full amount of funding requested in the President's budget. In a similar vein, the funding proposed for Native Initiatives will support a growing economic development industry in Native communities that consistently request more funding than the CDFI Fund has available.

Included in the CDFI Program is grant funding for the Healthy Food Financing Initiative (HFFI). HFFI is a multi-year, multi-agency effort to increase the availability of affordable, healthy foods in underserved urban and rural communities. Through HFFI, the CDFI Fund will provide competitively awarded grants to CDFIs that are improving access to healthy food in low-income and underserved communities, particularly through the development or equipping of grocery stores, farmers' markets, and other healthy food retailers.

The CDFI Fund also requests administrative funding for FY 2012. These funds will allow staff to meet the resource demands, and to address the significantly increased compliance monitoring requirements. The CDFI Fund anticipates increased information technology and research investment needs in order to continue serving and monitoring CDFIs effectively.

The President's 2012 Budget Request also supports the Bank on USA initiative. Designed to address the troubling fact that more than one out of every four American households is unbanked or under-banked, the Bank on USA initiative will promote access to affordable and appropriate financial services and basic consumer credit products for households without access to such products and services. Bank on USA will support community-based efforts to identify strategies for serving unbanked and under-banked populations, including the development and delivery of innovative products and services.

The CDFI Fund has seen considerable support from this Subcommittee in recent years for program development and appropriations. My deepest thanks go to its Members and to Chairman Durbin for your unwavering confidence in the CDFI Fund and our programs. As the economy continues to recover, the CDFI Fund will continue to effectively administer its programs, so that the hardest-hit communities in the country have every opportunity for success and growth.

Thank you and I look forward to continuing to work with you in the future.

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[i] In order to become certified, an organization must submit a CDFI certification application to the CDFI Fund for review and approval. The application must demonstrate that it meets each of the following requirements:

- Be a legal entity at the time of certification application;
- Have a primary mission of promoting community development;
- Be a financing entity;
- Primarily serve one or more target markets;
- Provide development services in conjunction with its financing activities;
- Maintain accountability to its defined target market; and
- Be a non-government entity and not be under control of any government entity (Tribal governments excluded).

An eligible target market may consist of an:

- Investment Area, which is a geographic unit or contiguous geographic units that has a poverty rate of at least 20 percent; or an unemployment rate 1.5 times the national average; or a median family income at or below 80 percent of the statewide/metropolitan average; or is wholly located within an Empowerment Zone or Enterprise Community; or
- Low-Income Targeted Population, which is a geographic unit comprised of individuals whose median family income is at or below 80 percent of the statewide/metropolitan average; or
- Other Targeted Population, which is an identifiable group of individuals who lack adequate access to capital and have been historically denied credit.

[ii] The other federal agency participants in the 2010 Economic Development in Indian Country workshops were the U.S. Department of Commerce, the U.S. Department of the Interior's Office of Indian Energy and Economic Development, the Small Business Administration, and the U.S. Department of Agriculture Rural Development.

NONPROFIT NEWS

REBA teams with Boston Community Capital in SUN Initiative

REBA has teamed with Boston Community Capital (BCC) in BCC's Stabilizing Urban Neighborhood (SUN) Initiative, which is designed to stop the foreclosure-related displacement in Massachusetts and to prevent the neighborhood destabilization caused by vacant and abandoned properties. REBA members have volunteered their services *pro bono* for homeowners to purchase their foreclosed or pre-foreclosed properties.

BCC, a nonprofit community development financial institution, established the SUN Initiative in the fall of 2009 to address the foreclosure crisis in the neighborhoods hardest hit by foreclosures.

SUN buys occupied properties in foreclosure from the banks and mortgage companies through short sales or at auction. SUN then sells the homes back to their former owners or tenants, passing along 75 percent of the savings achieved through a discounted purchase price. The remaining 25 percent funds loan loss reserves that help secure the investments of SUN funders. Since its inception, SUN has been able to purchase distressed properties at an average discount of 53 percent off the original mortgage amounts, so SUN clients are able to significantly reduce their housing debt. On average, SUN clients' monthly housing expense is reduced from approximately $3,000 to about $1,700.

SUN financing is designed to meet the needs of low-income borrowers. All mortgages are 30-year, fixed rate, with no prepayment penalty. The payment plan requires automatic biweekly deduction of payments from the borrower's bank account. A reserve account is established to supplement a mortgage payment shortfall or needed improvements to the property approved by SUN. Bi-weekly payments translate, in effect, into 13 monthly payments, or an extra month's payment each year. At the end of each year, this additional payment is either used to pay down the principal balance or is deposited into the reserve account.

In order to avoid moral hazard, SUN strictly screens applicants and only assists homeowners who have had a loan-related, economic or personal hardship. SUN also includes a zero-percent, zero-amortizing, shared appreciation second mortgage, which limits return to the borrower to a share of eventual appreciation equal to the principal balance of the new mortgage, divided by the outstanding principal balance of the foreclosed mortgage. For example, if the homeowner's prior mortgage was $300,000, and BCC is able to purchase the property and resell it to the occupant for a purchase price of $150,000, BCC will place a shared appreciation second mortgage on the remaining $150,000, or 50 percent of the prior mortgage balance. In the event of resale, the homeowner will be entitled to 50 percent of appreciation over his or her BCC first mortgage. If the property sells for $250,000, the homeowner will repay BCC's $150,000 first mortgage, and will split the remaining $100,000 with BCC, 50-50. In the case of tenants, who had no prior mortgage or foreclosure, BCC does not include a shared appreciation second mortgage.

SUN works closely with a wide range of partners across the community, such as Greater Boston Legal Services, Harvard Legal Aid, City Life/Vida Urbana and HUD-approved foreclosure counseling agencies to accomplish its goal of helping homeowners stay in their homes. The support of REBA provides valuable representation to ensure the borrowers have a complete understanding of the mortgage transaction, which is vital to the success of the program. SUN has successfully purchased distressed properties from every major mortgage servicer and lender in the country and from most of the smaller mortgage companies. The program has bought properties from and has working relationships with Bank of America, Wells Fargo, Chase, FHA, Fannie Mae, Litton, GMAC, Ocwen, Saxon and many others.

The SUN Initiative provides working families and individuals facing eviction due to foreclosure with the opportunity to remain in their homes with mortgages they can afford. With REBA's partnership, BCC looks forward to expanding SUN to reach even more families in Massachusetts.

For information about BCC's SUN Initiative, please call (617) 933-5880 or go online at www.SunHomeHelp.org. To participate in REBA's *pro bono* partnership with BCC, contact Kathy Schreck at kschreck@auramortgage.com.

REBA *PRO BONO* OPPORTUNITIES

Here are the *pro bono* programs currently offered by REBA. Our goal is to establish *pro bono* opportunities for REBA members that are tailored to their skills, their resources, and their availability, while satisfying the SJC goal that every lawyer provide 25 hours of *pro bono* public assistance each year. For more information about the REBA *pro bono* programs, or to learn more about how you can volunteer your services, contact Andrea Hardy at hardy@reba.net.

Department of Neighborhood Development

The Association's Affordable Housing Committee teamed up with the City of Boston Department of Neighborhood Development (DND) to provide *pro bono* legal counsel to qualifying homeowners facing foreclosure. This program is available to homeowners whose income does not exceed 120 percent of the area mean income for the Boston area. DND will prescreen applicants and refer qualifying homeowners to REBA.

REBA has an immediate need for any lawyers willing to donate their time and a specific need for lawyers whose practice experience includes Federal Bankruptcy Court experience, particularly on Chapter 7 matters, lender renegotiation, TILA and/or RESPA issues. Multilingual lawyers are particularly welcomed.

Boston Community Capital

REBA has teamed up with Boston Community Capital (BCC) in their Stabilizing Urban Neighborhoods Initiative (SUN), which provides support to families affected by the foreclosure crisis in Massachusetts. SUN is designed to stop the displacement of families before evictions occur and to prevent the neighborhood destabilization caused by vacant and abandoned properties.

We invite all REBA members to volunteer their services as a *pro bono* attorney for homeowners to purchase their foreclosed or pre-foreclosed properties. We anticipate receiving one-to-two case referrals per month. It is unlikely that any one REBA volunteer would handle more than one or two *pro bono* matters in the course of a year.

Visit www.bostoncommunitycapital.org for more information on the Stabilizing Urban Neighborhoods Initiative. Contact Kathy Schreck to volunteer at kschreck@auramortgage.com or (617)933-5876.

Bankruptcy Court Volunteer Mediation

Members of the Real Estate Bar Association can volunteer to mediate borrower/lender residential foreclosure issues in the context of federal bankruptcy proceedings. The REBA/Bankruptcy Court foreclosure mediation project is a perfect opportunity for our lawyer members to use their real estate skills, on a *pro bono* basis, to help Massachusetts homeowners facing the loss of their homes.

Chief Judge Frank J. Bailey of the U.S. Bankruptcy Court for the District of Massachusetts welcomed REBA's volunteer effort, as so many individual bankruptcy cases involve mortgage-related disputes that would be better addressed by mediation than litigation.

Department of Justice

The United States Attorney's Office Mortgage Fraud group has asked REBA members for *pro bono* support for tenants or property owners who have become unwittingly involved in mortgage fraud cases. These buyers and renters, innocent collateral victims of fraud, often learn that their property or condominium unit is subject to foreclosure with little or no advance notice.

The U.S. Attorneys' Office cannot give legal advice, and in any event, is not generally familiar with real estate law. REBA has agreed to provide independent representation to these individuals by assigning them a *pro bono* REBA member volunteer. We anticipate receiving one-to-two case referrals per month. It is unlikely that any one REBA volunteer would handle more than a single *pro bono* matter in the course of a year.

This program will provide our members with an opportunity to collaborate with the U.S. Attorneys' Office, while providing much needed legal assistance to mortgage fraud victims.

BANKER & TRADESMAN
ESTABLISHED IN 1872

Lynn Charter School Gets $26M To Build New Campus
June 9, 2011

The Friends of KIPP Academy Lynn Charter School Foundation Inc., the supporting organization for KIPP Academy Lynn Charter School (KAL), has been given a $26 million New Markets Tax Credits financing package from MassDevelopment to build a 68,000-square-foot middle and high school.

The financing package includes $17.5 million in tax-exempt and taxable bonds issued on the organization's behalf, according to a statement. The school will use proceeds to purchase a six acre site on High Rock Street in Lynn. The new facility will replace the 14,000-square-foot space KAL currently leases from the Boston Archdiocese on Bessom Street in Lynn.

"KIPP Academy students receive the kind of quality education necessary to power the commonwealth's innovation economy," said MassDevelopment Executive Vice President of Finance Programs Laura Canter. "This low-cost financing will help the school enroll more students in better facilities and extend KIPP's record of success."

The new facility will include 36 classrooms, 16 specialty rooms, a gymnasium with locker rooms and storage, cafeteria, library media center, athletic fields and outdoor recreational space. The school will also have space for car and bus circulation as well as parking for 152 cars.

Boston Private Bank & Trust Co. purchased the bond, with participation by Citizens Bank and Boston Community Capital. JP Morgan Chase purchased the tax credits.

The Boston Globe

State aid leads to Lynn school’s growth

Charter gets boost via credits, bonds

June 30, 2011|By John Laidler, Globe Correspondent

A state agency has provided the key financing needed by a Lynn charter school for its project to construct a new middle and high school.

MassDevelopment provided two types of financing for KIPP Academy Lynn’s $28.5 million project, which calls for construction of a 68,000-square-foot school on 5.5 acres next to High Rock Tower Park in Lynn’s Highlands neighborhood.

One was the allocation of federal tax credits, which when purchased by an investor generated $7.35 million for the project. The other was the issuance of $17.5 million in tax-exempt and taxable bonds on behalf of the academy.

Josh Zoia, executive director of the school, called the state financing assistance crucial to the building plan, the remaining costs of which will be covered through private funds raised by the academy.

“The project would have been impossible without MassDevelopment,’’ he said. “They have been a great partner in the process.’’

MassDevelopment’s board approved the financing in March, and a closing on its various components took place May 3.

The academy broke ground on the project in March, prior to the financing being finalized. Zoia conceded there had been some risk in doing so, but he said the academy needed to get construction underway to meet a timetable that calls for the building to open in the summer of 2012. And he said KIPP had been “highly confident’’ the financing would become available.

Charter schools are public schools that operate independently from local school committees. The Lynn academy is part of a nationwide network of 99 KIPP charter schools that share core principles and methods, including providing their mostly low-income students with a longer school day.

Founded in 2004, KIPP Academy Lynn currently operates a fifth- to eighth-grade middle school in 14,000 square feet of space leased from the Archdiocese of Boston in a Bessom Street building adjacent to the Holy Family Church.

The new building will allow the academy to expand through the addition of a ninth- to 12th-grade high school and increased enrollment in the middle school. At full capacity, the new building will house 750 students in grades 5-12.

The tax credits provided by MassDevelopment are from allocations received from the US Treasury under the federal New Markets Tax Credit Program, created by Congress in 2000 to spur investment in low-income communities. JP Morgan Chase purchased the tax credits for the Lynn project for $7.35 million, money the academy can apply directly to the project costs.

The Boston Private Bank & Trust Company purchased the $17.5 million in bonds, with participation by Citizens Bank and Boston Community Capital. MassDevelopment's issuance of tax-exempt bonds on behalf of organizations enables them to benefit from low interest rates.

While MassDevelopment has issued larger bonds for two other charter school projects in Worcester and Springfield, the Lynn project represents the largest financing the agency has provided for a charter school project combining New Market Tax Credits and bonds, according to agency spokeswoman Kelsey Abbruzzese.

The new facility will include 32 classrooms, 16 specialty rooms, and a gymnasium.

Emerging Leader

Reaching out

Boston Community Capital vice president taps into her entrepreneurial spirit

W. MARC BERNSAU | BUSINESS JOURNAL

Community outreach has defined the career path for Jessica Brooks, vice president of development and communications for Boston Community Capital.

By Keith Regan | Special to the Journal

When she was leaving her job 10 years ago as director of online communities for Abuzz, the Cambridge startup that had been acquired by the New York Times, a colleague pointed out to Jessica Brooks that the part of her job that seemed to give her the most satisfaction was doing community outreach.

"As an unofficial part of my job, I coordinated our community involvement — volunteering in schools, hosting student interns, providing technology assistance to a local elementary school," Brooks said. "A colleague pointed out that while I was always excited about our work, I got a special gleam in my eyes when I talked about our partnerships with community groups."

The co-worker suggested Brooks find a way to make that work her career and after some time off spent traveling and volunteering — she built houses for Habitat for Humanity in Nepal and worked on an organic farm in Tuscany — she found that opportunity at Boston Community Capital.

Brooks was drawn to the entrepreneurial nature of the community development financial institution, which has invested $550 million into Boston-based initiatives since 1985.

"I felt like I could learn a lot from the leadership team," Brooks said. "Coming from the startup world, I could never have imagined staying at a company for 10 years. But while I've been here, we've raised over $500 million, launched five new business lines and continued to re-envision the role we can play in low-income communities. So the mission's the same, but we've managed to take on new challenges and keep it interesting."

What are your top three goals for the year?

To build out our foreclosure-relief program here in Boston and Revere, and then scale it to communities across Massachusetts and nationwide. To date, we've helped over 100 families facing foreclosure to buy back their homes, but we want that number to be in the thousands, or hundreds of thousands. Also, to communicate our impact to investors and key partners, and enlist their support as we dream up our plans for the next five years, and to strengthen our team with key hires who can help us launch new ventures and build our business.

What are your guiding principles for good management?

Bring together talented people from a range of backgrounds and perspectives, and look for common ground and points of difference. Build on the strength that comes from that diversity — helping individuals expand their range, pushing the group for solutions that are better than the sum of their parts, and refusing to deliver anything short of excellence.

JESSICA BROOKS

Title: Vice president of development and communications, Boston Community Capital
Age: 39
Hometown: Newton
Education: Bachelor's degree, American history, Brown University, 1993

What is the best business decision you've made?

When I left the New York Times 10 years ago, I took eight months off to travel and volunteer before looking for another job. It gave me the opportunity to reflect on where my strengths and passions were; when I came back, I landed at Boston Community Capital.

What is the toughest business decision you've made?

Saying no to a would-be investor who was pushing us in directions we knew didn't make sense for our communities. The investment might have opened doors, but ultimately they would've been the wrong ones.

Who were or are your mentors?

Elyse Cherry, CEO of Boston Community Capital — for almost a decade now, she's been showing me how to operate at the intersection of sound business practice and community values. John Rizzi, the former CEO of e-Dialog, who was my boss at Abuzz. He taught me to listen first and talk later — understand your partners' goals and priorities so you can figure out how best to work together. Andy Sack, who was one of the founders of Abuzz, taught me the value of tenacity and follow-through.

For more with Jessica Brooks
visit bostonbusinessjournal.com

Lessons Learned

How closely have you stuck to your original business plan?

PHIL NOONAN, Contravisory Investment Management

We began as a research organization and made the strategic decision some years later to leverage this research to manage assets instead of selling the research to institutional houses. That was a major shift from our original plan, and one that has proven to be very successful.

MICHAEL MCMAHON, Hill & Partners

Our business plan emphasized providing true value and flexibility, where our clients were liberated from the "one size fits all" relationship. In an ever-changing business environment, we have maintained these core values, which speaks very well of the original plan 15 years later.

NATHALIE MAJOREK, Dermatique MedSpa

I initially focused on skin care, but new technologies like the Zerona laser and the consumer focus on looking and feeling better created a natural progression for expansion. We now offer body contouring to cater to a changing market.

Next week's Lesson Learned: What, if anything, are you planning for a summer outing this year?

Send your answer in 25-30 words to cmahoney@bizjournals.com. Be sure to include a high-resolution headshot.

NOT CONTAGIOUS:
Renegotiated Home Mortgages Aren't a Moral Hazard, They're Common Sense

By ELYSE CHERRY

Instead of foreclosing on homeowners who default on their mortgages, why not reduce outstanding principle and renegotiate loan terms to keep families at home, in their communities?

Our current foreclosure crisis is not due to poor choices by individual homeowners. Most people caught up in it fell prey to a national bubble mentality and flagrantly bad lending practices. They are schoolteachers and medical technicians, sales clerks and mechanics, taxpayers and co-workers, veterans and parents of soldiers in Iraq and Afghanistan. They are our friends, neighbors, and relatives who deserve a second chance, not losers or deadbeats.

Foreclosures on this scale are no more the problem of individuals than the damage earthquakes or hurricanes cause individual homes. They're a systemic failure–beyond any individual's control—which calls for a systemic solution.

Why have we not provided one, as we would do for owners of earthquake or hurricane-damaged homes? The mortgage industry usually cites "moral hazard," the fear that helping homeowners in foreclosure will just encourage others "under water," but not yet in foreclosure, to stop paying their mortgages.

Moral hazard is not a strategy for recovery. It is a judgment masquerading as an economic theory that prevents us from cleaning up the mortgage mess now ruining our economy. And there's no evidence that the dire consequences it conjures up even exist.

As CEO of Boston Community Capital, a 27-year-old non-profit, community development finance institution I've led for 14 years, I've been intimately involved with renegotiating mortgages on foreclosed homes. I have yet to see a credible study — or even a persuasive, verifiable data set — that offers evidence that foreclosure is contagious. That doesn't mean that no one ever strategically defaults. It does mean we should not be embracing a strategy that has little to do with how millions of Americans act.

Foreclosure is no picnic. Today, a good credit score is required for transactions most of us take for granted. But foreclosure destroys personal credit scores. Foreclosed homeowners won't qualify for another mortgage for many years. Foreclosed families no longer qualify for college loans. They can't buy a new car – or even a used one – without paying astronomical interest, if they qualify for a car loan at all.

Finding a place to live becomes problematic. Landlords check credit scores and often won't rent to people in foreclosure. Even employers now often refuse to hire anyone whose credit report shows a foreclosure.   Laid-off workers who lost their homes because they lost their jobs wind up ejected from the workforce.

Why would this parade of horribles encourage homeowners to rush en masse to foreclosure?

Although we can find no evidence that the risks of "moral hazard" are real, we had no trouble finding studies documenting the trauma that widespread foreclosures trigger — the tremendous stress on already-strained families, the vandalism and crime that leave deep gashes in the fabric of neighborhoods and the long-term threats to communities' overall economic health.

Since 2009, Boston Community Capital's SUN (Stabilizing Urban Neighborhoods) Initiative has, to date, prevented the eviction of more than 130 Massachusetts homeowners and their households by securing reduced mortgage payments that align with real incomes — rather than with a real estate bubble that burst long ago.

SUN's formula is straightforward.   We buy foreclosed homes at current, distressed market values – often 50% less than the original value -- then resell them to their current occupants with a new 30-year mortgage at a fixed, 6.25% interest rate. We qualify our clients by closely analyzing their financial and employment situations. We work with local civic groups to understand history and personal dynamics. Even after accounting for charges for loan loss reserves, emergency repairs, and closing expenses, this lowers monthly housing expense and the overall cost of mortgage credit to affordable levels.

Because we do that, we also require homeowners to share potential appreciation if the market rebounds.   All this discourage speculators and people who are not serious about keeping their homes.

Financed, largely, by large foundations and high-net-worth individuals that expect a return on their investment, SUN is not a bailout or a charity. It is a sustainable model that can offer relief to a substantial percentage of homeowners in foreclosure, and relieve mortgage industry gridlock. It's easily scaleable and easy to adopt in other markets across the country.

(Federal Reserve Chairman Ben Bernanke recently called SUN an "an innovative strategy that prevents properties from becoming vacant and creating a strain on the community; and provides families with a sustainable and affordable housing situation…designed to start small and expand as needed.")

Renegotiating realistic mortgages and manageable interest rates that keep people in their homes is a win-win-win. It's a win for homeowners who would otherwise suffer through foreclosure. It's a win for neighborhoods that need locally-based homeowners to thrive and grow. And it's a win for the mortgage industry.

Foreclosure and eviction are lengthy and expensive. As more homes become part of the REO – real estate owned by mortgagees – inventory, lenders bear increasing responsibility for paying local property taxes, insurance and maintenance costs and steep fines for failing to comply with local building codes and municipal ordinances.

As the foreclosure crisis grinds on, the fear of moral hazard discourages sensible and systemic solutions. Hiding behind wishful thinking, instead of acting to keep families in their homes and stabilize their communities, is the real hazard — to our neighbors, our communities and our nation's economic health.

We cannot indulge in the luxury of basing our response to the foreclosure crisis on the unproven myth of moral hazard. Our nation's economic recovery hangs in the balance.

#

Elyse Cherry is Chief Executive Officer of Boston Community Capital (BCC) and the President of Boston Community Venture Fund. Ms. Cherry is an attorney and a former partner at the law firm of Hale and Dorr, now known as Wilmer Hale, where her transactional practice focused on commercial real estate finance and development.

Boston Community Capital

Response to Enterprise/FHA REO Asset Disposition Request for Information
September 2011

	Type of strategy
X	Outright purchase
	Joint venture
	Rent-and-hold
X	Lease-to-own
	Other (specify)

	Type of Respondent
X	Private capital
	Real estate company
	Rental property management
	Asset management
X	Nonprofit
X	Other (specify): Mortgage lender

A.) Respondent organization or team summary

Boston Community Capital (BCC) is pleased to submit this response to FHFA's Request for Information on strategies to augment and enhance REO asset disposition programs of Fannie Mae and Freddie Mac (The Enterprises) and the Federal Housing Administration (FHA).

A.1 Name(s) or organization(s) and addresses:

Boston Community Capital
56 Warren Street
Boston, MA 02119

A.2 Contact information

Elyse D. Cherry, CEO
Phone: 617-427-8600 x 208
Direct: 617-513-0115
Email: echerry@bostoncommunitycapital.org

A.3 Size of organization(s) in terms of revenue and employees

2010 Revenues: $13,127,900
Employees: 25
Assets under management: nearly $700 millions

A.4 Years in business

27

A.5 Types of entities

Nonprofit community development financial institution (CDFI), licensed mortgage lender

Summary

BCC is a 27-year-old nonprofit community development financial institution (CDFI) that has nearly $700 million in assets under management and has invested over $700 million in underserved communities across the United States – financing affordable housing, child care centers, schools, community facilities and businesses that are the building blocks of healthy communities.

BCC's Stabilizing Urban Neighborhoods (SUN) foreclosure relief initiative, launched in 2009, purchases foreclosed-upon, but still occupied, properties at current market values and resells them to existing occupants with 30-year fixed rate mortgages, stabilizing properties and reducing homeowners' average monthly mortgage payments from $3,200 to $1,700. Highlighted by Federal Reserve Chairman Ben Bernanke as "an innovative strategy" for addressing "the challenges of tough times in troubled communities," the SUN model

> prevents properties from becoming vacant and creating a strain on the community; and provides families with a sustainable and affordable housing situation. It is designed to start small and expand as needed."[1]

SUN's focus is on lower-income urban communities that have been hardest hit by the foreclosure crisis. To date, the program has focused on Massachusetts; over the next 18 months, BCC plans to expand the program to target communities around the country, from Oakland to Atlanta, from New York to Chicago.

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[1] Bernanke, "Community Development in Challenging Times," Keynote speech at Federal Reserve Community Affairs Research Conference, Arlington, Virginia, April 29, 2011.
http://www.federalreserve.gov/newsevents/speech/bernanke20110429a.htm

While the initial stage of the SUN Initiative has been small (130 families assisted since 2009) in order to allow us to put systems and processes in place and test our hypotheses, the program is, as far as we know, the only one of its kind in the nation up and running and focused on growing to scale and keeping homeowners in place. Assuming that roughly 20% of the Enterprises' and FHA's REO residential properties in Massachusetts are occupied by homeowners or tenants who can support a mortgage for their properties' current value, BCC today has sufficient capital in hand to purchase and re-convey all of these properties to existing homeowners and tenants at current market rates; we have the systems and infrastructure in place and seed capital to help start similar programs in lower-income urban areas around the country.

The SUN model has attracted national attention – and not just from the Federal Reserve Chairman. Private sector capital partners including the Open Society Foundations, Citibank and Housing Partnership Network (among others) have offered substantial financial support to help us expand the model nationwide. The program has also been highlighted on PBS *NewsHour* and *CBS Evening News*, in *The New York Times*, *The Christian Science Monitor*, *The Huffington Post* and *The Nation*.

BCC is led by Elyse Cherry, a CDFI-industry leader with nearly three decades of experience providing innovative financing to underserved communities. Cherry is an attorney and a former partner at the law firm of Hale and Dorr (now Wilmer Hale), where her transactional practice focused on commercial real estate finance and development. She leads a seasoned team of 25 finance and community development professionals with deep experience in affordable housing and commercial real estate finance, banking, and venture capital.

BCC's entire business and mission is focused on addressing the financial needs of low-income people and communities, and maximizing the social and financial return to those communities. The organization operates several distinct business units aimed at providing financing to underserved markets, including a community loan fund that provides financing for affordable housing development and community facilities including child care centers, charter schools and community health centers; two venture capital funds that invest in companies that provide investors with social, environmental and financial returns (BCC was the first institutional investor in Zipcar); a New Markets Tax Credit program that has provided over $300 million in financing to distressed communities nationwide in the last five years; a renewable energy financing company that is one of the largest non-utility owners of solar generation facilities (solar panels) in New England – all of them installed on existing multi-family affordable housing developments, municipal buildings and communities facilities; an energy tracking company; and the real estate acquisition company and licensed mortgage lender and broker through which BCC operates its SUN foreclosure relief effort.

The comments provided here are based on BCC's 27-year track record of investing in low-income communities and our direct experiences operating the SUN foreclosure relief program and working with Fannie Mae on the purchase of individual properties from its REO portfolio. We share FHFA, HUD and Treasury's commitment to stabilizing neighborhoods and local home values, and offer these recommendations with a combined goal of maximizing value of the Enterprises and FHA's overall portfolio, minimizing taxpayer costs and providing long-term stability to lower-income neighborhoods, the housing market and the overall economy.

B.) Approach

B.1. Recommendations for REO purchases, ranging from clear sale to joint venture or some other partnership structure

BCC recommends that FHFA consider the clear sale of REO properties to private sector and non-profit parties, who share FHFA and HUD's commitment to neighborhood stabilization and revitalization. These parties should have a demonstrated track record of investment in community development, and may include certified CDFIs, community development entities (CDEs), community-based developers and community development corporations. While we recognize that the scale of the problem requires large scale solutions, we believe that maximizing the value of the Enterprises' and FHA's overall portfolios and providing support to the overall housing market requires solutions tailored to both to geography and to property type (occupied or not and condition). Working with capable on-the-ground partners committed to building healthier communities helps ensure that large scale solutions do not lead to "one size fits all" approaches that jeopardize the long-term health and sustainability of low-income communities.

With respect to the disposition of **occupied REO properties** – those properties *from which homeowners and/or tenants have not yet been evicted* – BCC urges FHFA, Treasury and HUD to direct the Enterprises and FHA to work with groups that can implement the SUN model – purchasing the properties via clear sales at current market value and reselling them to current occupants with 30-year fixed rate mortgages they can afford. This model leverages private sector technical capability and financial capital to:

- prevent vacancies and preserves family and neighborhood stability;
- minimize cost to the Enterprises and FHA;
- maintain economic value (and equity) in the neighborhoods; and
- align the interests and housing market stabilization objectives between the Enterprises, FHA and private sector partners – keeping equity in the communities where it belongs while contributing to local and national housing price stability and recovery.

As noted above, BCC has launched a successful, scalable program in Massachusetts and currently has capital in hand sufficient to purchase and re-convey to foreclosed homeowners the roughly 20% of the Enterprises and FHA's total Massachusetts REO portfolio that we estimate may be currently occupied. BCC has raised seed capital to support national expansion and is currently planning to expand to target cities across the country over the next 18 months.

Track Record of Successful Purchases of Occupied REO Properties from Fannie Mae

BCC has a track record of purchasing occupied REO properties from Fannie Mae through its SUN Initiative. Since August 2010, BCC has purchased or entered into agreement to purchase 15 REO properties in Massachusetts from Fannie Mae, and has an additional 5 properties under negotiation. For each of the purchased properties, the original homeowner has remained in the property with a mortgage s/he can afford, without re-default. BCC's purchase of the property has prevented vacancy, thereby preventing/minimizing the need for property rehabilitation or repair and assisting in neighborhood and home price stabilization efforts.

To date, BCC has purchased REO properties from Fannie Mae on an individual basis; however, gaining access to a portfolio of occupied properties, including both REO assets and pre-foreclosure assets, would be a more cost effective approach for both the Enterprises and for BCC.

How the SUN Model Works

BCC works with foreclosed homeowners (or tenants) to determine income and current debt, and to ascertain what level mortgage the family or individual can support. If income is sufficient to support a 30-year fixed rate mortgage at approximately 6.25% interest on the property at current market values for the neighborhood, BCC will inspect the home and put together an Offer to Purchase.

In designing the SUN model, BCC set out to create a product offering that satisfies the particular requirements of low-income borrowers, while at the same time creating impediments that weed out speculators and others looking for a quick windfall. BCC also recognized the unique credit risks involved in lending money to families or individuals deep into the foreclosure process. To deal with both of these realities, BCC's loan product contains several important features:

- **a 30-year fixed-rate, properly underwritten mortgage** with no prepayment penalties that assures a manageable, predictable monthly payment
- **automatic deposit of paychecks and automatic withdrawal of mortgage payments**, timed to assure that the mortgage is the first bill paid, not the last
- **bi-weekly payment plans set up to occur coincident with paydays,** to help with budgeting and also create an additional monthly payment per year that can be used for shortfalls or home repairs, with loan officer approval. (If not tapped, these bi-weekly payments will reduce the term of the mortgage from 30 to 24 years.)
- **up-front reserves to help manage the lack of a financial cushion and to cover unexpected emergencies** such as illness, the loss of a job, or emergency household repairs
- **a zero-percent, zero-amortizing, shared-appreciation second mortgage**, which limits return to the borrower to a fraction of eventual appreciation equal to the principal balance of the new mortgage, divided by the outstanding principal balance of the foreclosed mortgage. For example, if the homeowner's prior mortgage was $300,000 and BCC is able to purchase the property and resell it to the occupant for a purchase price of $150,000, BCC will place shared-appreciation second mortgage on the remaining $150,000, or 50 percent of the prior mortgage balance. In the event of resale, the homeowner will be entitled to 50 percent of the appreciation over his or her BCC first mortgage. If the property sells for $250,000, the homeowner will repay BCC its $150,000 first mortgage, and will split the remaining

$100,000 evenly with BCC. In the case of tenants who had no prior mortgage or foreclosure, BCC does not include a shared-appreciation second mortgage

- **25% loan loss reserves** to help secure the investments of BCC's funders.

B.2 Planned use of properties, with a focus on maximizing returns under strategies tailored to local economic and real estate conditions

As described above, BCC resells properties to their current occupants (homeowners and tenants), typically reducing their monthly housing expense by 30-70%. The SUN model maximizes returns with a strategy tailored to local economic and real estate conditions by:

- **Preventing displacement of homeowners or tenants –** and thereby avoiding time and financial costs of eviction proceedings. Foregoing the need for eviction saves the Enterprises out-of-pocket costs and the costs of insuring and maintaining properties during the period between foreclosure and eviction.

- **Reducing taxpayer costs by preventing vacancies.** Keeping homes occupied reduces the need for property repair and rehabilitation. In lower-income neighborhoods hardest hit by foreclosures, these costs typically require tax payer dollars in the form of subsidy (NSP grants and other subsidy); by preventing vacancy, the SUN model avoids many of these costs. Vacant properties may then become a haven for drug dealing and other illegal activity. Ultimately, foreclosed properties lead to an increase in violent crime. According to one study, for every 2.8 foreclosures per 100 owner-occupied properties in a neighborhood, violent crime rises by approximately 6.7 percent.[2]

  Vacant homes contribute to downward spiral of housing prices, thereby adversely impacting not just REO properties but all properties in which the Enterprises have an interest. Nationally, every foreclosure brings down property values within a block of the home by between 0.9 and 1.14%. In low and moderate income neighborhoods, the decline is higher – between 1.44 and 1.8%.[3] In neighborhoods with high concentrations

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[2] Immergluck, Dan and Geoff Smith. *The Impact of Single-Family Mortgage Foreclosures on NeighborhoodCrime*. Woodstock Institute: Chicago, 2005, page 1.
[3] Dan Immergluck. Woodstock Institute, *There Goes the Neighborhood: The Effect of Single-Family MortgageForeclosures on Property Values, 2005.*

of foreclosures, this decline in surrounding property values for neighbors as a result of vacancy and foreclosure is far more costly than the “cost” of selling occupied foreclosed properties to SUN at current market values (despite the fact that these values are lower than the prior mortgages on these homes.

In addition, lower property values reduce the level of real estate taxes available to support local municipal services (e.g. fire and police) and therefore require greater levels of federal subsidy to the states and local communities. While the cost of foreclosure for taxpayers is poorly documented, because the costs are spread over myriad agencies and scales of government, the Homeownership Preservation Fund, together with William Apgar of Harvard University, undertook a case study of the costs of foreclosed properties in a neighborhood of Chicago on local government. They found that the direct costs to Chicago city government involve more than a dozen agencies and two dozen specific municipal activities, costing approximately $30,000 per foreclosure (including the reduction of property values and therefore tax revenue).[4]

- **Reducing the risk of future default.** BCC’s initiative provide borrowers with a properly underwritten mortgage sized to their ability to pay, and includes upfront reserves designed to cover the costs of emergencies (e.g. needed repairs, temporary loss of income, etc.)
- **Addressing the issue of “moral hazard.”** There’s little dispute that keeping homes occupied stabilizes prices; however many argue that allowing homeowner to remain in their homes creates moral hazard - the fear that helping homeowners in foreclosure will just encourage others whose mortgages are “under water,” but who are not yet in foreclosure, to stop paying their mortgages. Moral hazard is not a strategy for recovery. It is a wrench in the works – a moral judgment masquerading as an economic theory – that prevents the clean-up of a mortgage crisis that is ruining our nation’s economy. And there’s no evidence that the dire consequences usually conjured up by the specter of moral hazard even exist.

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[4] Apgar, William, Harvard University. *The Municipal Cost of Foreclosures: A Chicago Case Study.* Homeownership Preservation Foundation. Housing Finance Policy Research Paper Number 2005-1 February 27,2005.

BCC has been intimately involved with renegotiating mortgages on foreclosed homes. We have not found a credible study — or even a set of verifiable data — that offers evidence that foreclosure is contagious, that "under water" homeowners stop paying their mortgages when assistance is provided to foreclosed homeowners. That doesn't mean that no one has ever made a strategic default decision; it does mean we should not be embracing a strategy that has little to do with the average American's response.

Foreclosure is not contagious. And it's no picnic. A good credit score is a core requirement for transactions that most of us take for granted – but foreclosure destroys personal credit scores. Foreclosed homeowners will not qualify for another mortgage for many years. Foreclosed families have trouble sending their kids to college because they no longer qualify for student loans. They can't buy a new car – or even a used car – without paying an astronomical rate of interest on a car loan, if they qualify for a loan at all. Finding a place to live becomes problematic. Landlords check credit scores and are not interested in renting to people in foreclosure.

As Americans, we believe in pulling ourselves up by our own bootstraps. But, in the unkindest cut of all, even employers now check credit scores and often refuse to hire when a credit report shows a foreclosure. Laid-off workers who lost their homes because they lost their jobs wind up summarily ejected from the workforce.

Why would this parade of horribles encourage homeowners to rush en masse to foreclosure?

Although we can find no evidence that the risks of "moral hazard" are real, we had no trouble finding studies documenting the trauma that widespread foreclosures trigger — the tremendous stress on already-strained families, the vandalism and crime that leave deep gashes in the fabric of neighborhoods and the long-term threats to communities' overall economic health.

(Notwithstanding the absence of evidence of "moral hazard," BCC's shared appreciation second mortgage requires homeowners to give up a share of the future proceeds from the sale of their home equal to the percentage by which their original mortgage was reduced – weeding out speculators and/or individuals looking for a "windfall." Adding the shared appreciation mortgage to the property serves as a form of "rough justice" – reassuring neighbors who are struggling to pay their own underwater mortgages that the SUN homeowner isn't receiving a "free ride."

- **Maintaining equity in the neighborhoods.** At the same time, BCC's shared appreciation second mortgage, payable upon re-sale of the property, allows homeowners to retain and build equity in their homes by providing them with a share of future appreciation equal to the share of the original mortgage they continue to pay (i.e., a homeowner whose mortgage is reduced by 50% will be entitled to 50% of future appreciation on the home up to the value of the original mortgage, plus 100% of appreciation over that original mortgage amount). To the extent that home values appreciate, BCC's share of any future profits will be returned to the communities we serve through scholarships and/or investment in future community and economic development efforts in these communities. Because BCC, the Enterprises and FHA share a goal of neighborhood stabilization and revitalization, we would be open to entering into a joint venture where the Enterprises and FHA share in any future appreciation on the acquired properties, thereby maximizing return to the Enterprises and FHA on the particular properties as well as supporting return by stabilizing neighborhoods.

B.3 Conditions and usage restrictions that can best achieve the stated objectives

BCC's SUN model has proven effective for the disposition of occupied REO properties. Required conditions:

- Homeowner and/or tenants must have income sufficient to support a mortgage at current market value for the property and neighborhood. Income can include Social Security, Disability, etc.
- To best achieve FHFA's stated objective of reducing taxpayer costs, the sale of properties should take place as soon after default as possible, reducing the cost of upkeep, eviction, etc.

The shared appreciation second mortgage, described above, covers the need for a usage restriction.

B.4. Scale of proposed transactions and the ability to scale up over time

As Federal Reserve Chairman Bernanke noted in his April 2011 speech citing the BCC model, SUN is "designed to start small and expand as needed." BCC's initiative has capital sufficient to support approximately $50 million in transactions in Massachusetts. BCC has also begun a set of conversations aimed at selling the least risky portion of the income stream from our mortgages in order to recapitalize the initial pool. BCC expects its initial capital will be sufficient to support approximately $200 million in transactions in Massachusetts.

As noted above, BCC has received funding from Open Society Foundations, Citibank, Housing Partnership Network and others to support expansion of its SUN model to communities across the country. In the next 18 months, we plan to work with on-the-ground partners to launch programs in communities such as Oakland, New York, Atlanta and Chicago. BCC will work with private capital partners to secure debt capital sufficient to support the launch of the program in these communities, and has had initial conversations with national banks interested in providing financing to support this expansion. As with initial investors in the SUN Initiative, BCC will provide these debt capital partners with fixed rate returns (currently 4.25%), thereby ensuring that equity resulting from the transactions remains in the neighborhoods, where it belongs.

B.5 Implementation steps and timeline, specifying the earliest feasible date for the first transaction settlement

BCC is ready to implement immediately. As noted above, BCC has already completed individual REO purchases from Fannie Mae, and has sufficient capital to support as many transactions in Massachusetts as the Enterprises and FHA can provide. BCC proposes to work with the Enterprises and FHA to identify these properties and negotiate their purchase on an individual or portfolio basis following the implementation steps and timeline below:

1. **BCC works with Enterprises and FHA to identify eligible properties** (occupied one-to-four family homes and condominium REO properties) – This step can begin immediately.
2. **BCC and/or Enterprises/FHA contact homeowners and tenants in these properties to assess interest in the program**. BCC has recently embarked on a pilot program with

Bank of America where the Bank contacts foreclosed homeowners and informs them of the SUN program; if homeowners express interest in the program, the Bank transfers them to BCC for pre-screening for income. – 1-2 weeks for contact of homeowners

3. **BCC screens interested homeowners and tenants to determine eligibility** for the program based on income and debt profiles. – Less than one month from initial contact to offer

4. **BCC provides Enterprises/FHA with Purchase Offers on eligible properties.** If offers are accepted, BCC is prepared to close within 30 days.

B.6 Extent that approaches should vary by local market or property characteristics

BCC believes that approaches should vary by local market – and that the response to the housing foreclosure crisis requires a series of solutions tailored to the markets in which the crisis must be solved. With respect to mortgages, individual income level can be plotted on a bell curve – middle income people make up the bulge in the middle and low-income and higher-income people reflect the smaller numbers on each end of the curve. At high income end of the curve, high net worth individuals and communities need and demand customization, and because the size of their transactions can support the associated costs, they often receive them. The individuals, families and communities at the bottom of the curve also require custom solutions tailored to meet their needs. BCC's SUN model is designed to meet those needs.

Cities in which housing supply exceeds demand – where population numbers have substantially declined – e.g. Detroit or Cleveland – or where overbuilding has led to a glut of unoccupied are not good candidates for the SUN model; nor are cities in which housing prices have remained stable throughout the housing crisis.

B.7 Steps taken to ensure that the properties are well maintained and managed during the period they are rented or otherwise held off the market.

By preventing vacancy, SUN avoids holding properties "off the market," reducing the need for rehabilitation or repair. By entering into agreements to resell properties to their existing occupants (either immediately or after a brief "lease-to-own" period) and allowing occupants to maintain and grow their equity in the homes, BCC's model ensures that occupants' interests are aligned with the goal of well-maintained and managed property throughout the life of the loan, a strategy that maximizes the value of the Enterprises' overall portfolio.

The Agencies' proposal to sell Enterprise and FHA REO inventory in bulk for the purposes of turning these properties into affordable rental housing, in contrast, will diminish the value of the Enterprises' remaining assets by negatively impacting home price stability.. As Quinn Eddins, director of research at Radar Logic, concluded in the latest RPX Monthly Housing Market Report, "bulk sales of REO properties could have an adverse effect on the appraised values of homes, and therefore home sales," resulting in markets with a large number of low-priced homes with "misleadingly low appraisals" on REO properties — skewing home prices across the board.

These low appraisals have the potential to impact the value and sale prices of non-REO properties. Writes Eddins, "Even if local appraisers do not use the bulk-sale properties as comps, there are many automated valuation models that would likely incorporate the prices of those properties unless there was some way to designate them as bulk-sale properties. This issue should be taken into consideration by anyone trying to implement a bulk-sale program."

His report goes on to say that bulk sales will likely result in the Enterprises and FHA recording losses on the REO properties when comparing the sale amount to the principal on the defaulted loan – losses that will be passed on to taxpayers. Instead of going the route of selling the properties to investors, Eddins recommends that the Enterprises and FHA focus on restructuring delinquent or distressed loans to cut down on the flow of properties to government portfolios.

BCC's SUN Initiative, on the other hand, promotes homeownership for responsible borrowers, maximizing the value of all Enterprise assets and supporting a national economic recovery. By promoting owner occupancy, the strategy supports the development of a sustainable and positive price trend, thereby maximizing return to the taxpayer not just with respect to the REO inventory but for the entire loan portfolio.

The Enterprises, themselves, have a long standing recognition of the value of owner occupancy. In buildings subject to condominium regimes, for example, the Enterprises now require that a high percentage of all units be owner-occupied before they will agree to purchase the mortgage for any individual condominium unit. As prices have trended downward, that percentage has trended upward. If Enterprise policy in a condominium requires a high percentage of owner occupancy to maintain price stability, how can price stability in a neighborhood be achieved with a high percentage of rental units?

C.) Economics, Risk, and Financial Arrangements

BCC addresses the risk and economics of its foreclosure relief work in five ways:

1) To date, BCC has committed $2.6 million of its own assets to develop and cover the start-up costs of the SUN Initiative.

2) We've raised a cash reserve of 7% to cover losses on the overall portfolio.

3) Our loans include a 25% loan loss reserve on every loan in which the borrower is receiving a substantial reduction in mortgage amount.

4) We rigorously underwrite borrowers, recognizing, however, that our underwriting criteria must be tailored to these borrowers' financial situations. For example, although we always pull a credit report to understand the nature of the borrower's obligations and payment history, there's not much point in relying on credit scores – all of our borrowers have been through or are currently involved in the foreclosure process.

5) We add a shared appreciation, zero percent, zero-amortizing second mortgage on the property to assure that speculators and homeowners who simply want a lower mortgage principal do not access the SUN Initiative. As described above, to date, BCC has been the holder of this shared appreciation second mortgage. In our view, to the extent that the interest develops value over time, we believe this value should remain in the neighborhood, so we've refused to sell a share in this interest to investors. While we recognize that the Enterprises and FHA have an obligation to maximize value from the REO portfolio, we also believe they should share our view that value should remain in the neighborhoods, because in the final analysis, it will help support housing prices and ensure stability, thereby helping the Enterprise and FHA to preserve their missions. However, we are willing to discuss a sharing arrangement.

C.1. Pricing methodology for purchased properties

We would anticipate purchasing properties from the Enterprises and FHA at roughly current distressed market values.

C.2. Financing requirements and structures

BCC has private capital in hand sufficient to purchase roughly 20% of the Enterprises' and FHA's Massachusetts REO portfolio – the percentage we estimate would be occupied with homeowners able to support a mortgage at current values. As noted above, we've begun a series of negotiations with non-traditional secondary market portfolio purchasers (e.g. religious and labor organization pension funds) to purchase a participation (currently estimated at the least risky 70% of the portfolio) to allow us to recapitalize the fund to support roughly $200 million in transactions in Massachusetts. We have not yet estimated the size of the national market, but we have begun initial conversations with a large national bank to provide debt capital to support our national expansion.

C.3. Required Enterprise and/or FHA infrastructure and capital

<u>Infrastructure:</u> Our primary need is a steady of occupied properties at distressed market values and a commitment to convey these properties in a timely fashion.

<u>Capital</u> : To date, most of BCC's work in the SUN Initiative has been supported by private individuals and foundations. We are also grateful for the support of the CDFI Fund of the US Department of Treasury and the MA Executive Office of Community and Economic Development. As noted above, BCC has capital sufficient to support $50 million in Massachusetts transactions and have a plan in place to support recapitalization. We have also begun discussions around raising debt to support national expansion

C.4 Counterparty, credit, and other risks to an Enterprise and/or FHA, and approaches to minimize such risks and control the residual risks

N/A. We are proposing a clear sale.

C.5 Tradeoffs between various structures and approaches, as well as mitigation strategies

An effective equation for maximizing the value of Enterprise REO inventory must solve for three integrated components:

1. Maximizing return from the individual or bulk disposition of REO properties,
2. Assuring that disposition of REO properties does not diminish the value of the remaining assets of the Enterprises; and
3. Assessing the potential of any solution to promote or detract from recovery of the national economy.

With respect to the challenge of maximizing return, Enterprises and FHA must recognize that principal reduction is critical to keeping homeowners in their homes – and is consistent with current market prices for distressed properties. A key factor in the current foreclosure crisis was the disparity that arose between resident incomes in lower-income neighborhoods and the values of mortgages underwritten during the housing bubble. In the Boston neighborhoods where BCC launched SUN, from 2003 to 2006, while rents and incomes remained relatively stable, sale prices for condo units, single-family, and two-to-four-family homes more than doubled, from an average of $159,000 to an average of $359,000. These increases coincided with the expansion of subprime mortgages, meaning that residents were able to obtain mortgages their income levels would not have supported. Property values in these neighborhoods have since fallen by approximately 60%, bringing them back in line with resident income levels. The occupants of foreclosed properties SUN seeks to purchase have incomes consistent with neighborhood income levels and can support properly underwritten mortgages at these levels. The prices at which SUN is willing to purchase properties are consistent with current distressed market values in these neighborhoods, and consistent with what local residents can afford to pay. By selling these occupied properties to buyers who will keep residents in place as homeowners, the Enterprises and FHA preserve value by preventing vacancy and maintaining levels of homeownership in fragile neighborhoods.

As described above, we do not believe that turning REO properties into rental property on a wholesale basis will maximize economic value. In fact, we think that approach is likely to reduce value not just for the REO properties but also for the other homes in the neighborhood, many of which have been financed through the Enterprises. As described above, the proposal to turn REO properties into rental housing flies in the face of the Enterprises' own understanding of how to create value and stability in a property or neighborhood as that understanding is reflected in their policies.

Two reasons are generally cited to support the conversion of owner occupants to renters are:

1) Low income owners are not responsible borrowers and should never have been given a mortgage in the first place. However, historically, during the period loans were underwritten in a manner that took into account the ability of the borrower to service the mortgage, low-income borrowers had an annual average default rate about the same as the rest of the mortgage market. Thus, the issue is not about the inability of low-income borrowers to pay a mortgage. The issue is about proper underwriting.

2) The so-called "moral hazard" issue, namely, that assisting low-income borrowers in foreclosure to remain in their homes by reducing the outstanding principle amount of their mortgages will encourage other home owners not currently in foreclosure but whose mortgages are "under water" to strategically default. As noted above, the moral hazard argument, despite its appealing simplicity, has no basis in fact.

Scattered-site rental management of many small properties is a very expensive and labor-intensive activity. In low-income communities, rents are rarely sufficient to cover the full costs of managing and maintaining the properties to adequate standards. In fact, in many cases, portfolios of scattered site rental properties are often the worst buildings in the neighborhoods in which we work and have the most negative impact on the surrounding properties and property values. We believe a large-scale scattered site rental strategy in these neighborhoods is likely to contribute further to destabilization those neighborhoods, undermining current property values and stabilization efforts.

Moreover, turning a large group of homeowners into long-term renters has economic implications beyond the issue of home values. Historically, home equity is what has allowed many lower- and middle-income Americans to send their children to college, start new businesses, and support their own children's first home purchase. By turning these homeowners into renters, we jeopardize not only their ability to participate in a future rebound of the market, but also their ability to provide for the next generation. By creating a "renter class," we also remove people's own sense of investment in their neighborhoods and destroy the concept of a level playing field.

Boston Community Capital believes that the FHFA should structure a request for proposals that takes advantage of local nonprofits' expertise with respect to their communities and that encourages continued home ownership among as many people as possible. We would suggest that taking the SUN Initiative to scale across the country is one way to accomplish that task.

C.6 Use of proceeds from cash flows, operating profits and losses, gain or loss on property disposition and preferred returns/fees

As a nonprofit, community development financial institution, BCC has 27 year history of investing any "profits" (or operating surpluses) back into community-focused activities, supporting the development of innovative new financing tools for low-income communities (including the SUN Initiative and our renewable energy and conservation financing businesses), loan loss reserves to new loan products or riskier loans,

C.7 To the extent any joint venture partnerships are proposed, how financial interests are structured between the Enterprises/FHA and the private partners.

Not applicable, except the possible sharing of future appreciation on mortgages, which will need to be the subject of a discussion between the Enterprises/FHA and Boston Community Capital.

D.) Describe the qualifications and experience that the Enterprises/FHA should consider in any potential partners for recommended approaches

D.1 Single family property valuation, operations, and asset management capabilities, including any experience in operating in any geographically targeted market(s)

As described above, BCC believes the Enterprises/FHA must take into account a potential partner's track record of investing in solutions that benefit low-income people and communities -- preserving equity in the neighborhoods (rather than draining it), and creating opportunities for low-income people to build wealth. We urge the Enterprises and FHA to give priority to mission-based organizations, including certified CDFIs, community development entities (CDEs), community-based developers and community development corporations. Working with capable on-the-ground partners who share the Enterprises and FHA's commitment to neighborhood stabilization and revitalization and who are committed to building healthier communities helps ensure that large-scale solutions do not lead to "one size fits all" approaches that jeopardize low-income communities' long-term health.

D.2 Analytic modeling and software capability to support and structure transactions, select appropriate geographic areas and properties, and assess rent vs. sell decisions

BCC supports working with potential partners who understand that analytic models often fail to capture the full value (or cost) of a strategy to a neighborhood, and who recognize the value of a comprehensive strategy that meets the needs of individual communities while maximizing value of the overall Enterprise/FHA portfolio (including non-REO). While using modeling software to assess rent versus sell decisions may be effective for measuring the impact of a particular transaction or strategy on a company's balance sheet, it is an ineffective means for understanding the impact of these transactions on a neighborhood, or on the housing market as a whole.

D.3 Property management experience and capabilities to maintain and support the sustainability of any acquired properties

BCC encourages the Enterprises and FHA to consider potential partners' experience and capabilities as they pertain to the partners' overall strategy. In particular, the Enterprises/FHA should consider a partner's

1) track record and reputation in the communities in which it seeks to operate or its ability to leverage on-the-ground partners in those communities; and
2) its demonstrated ability to execute on the particular strategy it suggests (e.g. if a partner proposes to resell properties to homeowners, that partners' property management may not be relevant to its ability to execute).

E.) To the extent applicable, discuss your organization's ability to execute any recommended approaches

As described above, BCC is already executing in Massachusetts, is prepared to purchase any eligible occupied properties in the Enterprises and FHA's REO portfolio, and is already embarking on a strategy to expand nationally.

In our view, the key issue with respect to maximizing the value of the overall portfolio is to ensure that local strategies and circumstances play a substantial role. We recognize that loans associated with the housing foreclosure crisis measure in the trillions of dollars. However, this does not mean that the solution to the crisis should be measured in a similar way. What is required is to distinguish between what challenges are best met locally and what challenges require a national focus. In this instance, the resolution of the mortgage foreclosure crisis may require national, or even global financial solutions. However, the disposition of property is a local matter and must remain under local control.

"You cannot solve a problem from the same consciousness that created it. You must learn to see the world anew." -- Albert Einstein