Office of the Comptroller of the Currency

Community Developments *Investments*

February 2018

Expanding Housing Opportunities

Single-Family Rehabilitation Financing Programs

Expanding Housing Opportunities:

Single-Family Rehabilitation Financing Programs

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Community-based NeighborWorks America member organizations are engaged in a variety of efforts to stabilize communities through acquisition and rehabilitation of vacant, foreclosed, and distressed properties. By pairing responsible mortgage products with home buyer education programs, NeighborWorks affiliates in several cities are ensuring that their initiatives are providing lower-income home buyers with sustainable homeownership solutions.

Building the American Dream, One Homeowner at a Time

U.S. Bank's American Dream mortgage program extends purchase-money mortgages with low down payments, as well as a rehabilitation loan option. The bank offers home buyer education along with support to help low- and moderate-income home buyers manage the rehabilitation phase of their project.

- U.S. Bank American Dream Mortgage Product

National Community Stabilization Trust—A Bridge for National Bank and Community-Based Partnerships

The National Community Stabilization Trust is working closely to build partnerships between banks, mortgage servicers, investors, and community-based organizations to combat blight in communities that have been hit hard by mortgage foreclosures.

- Florida Minority Community Reinvestment Coalition
- National Community Reinvestment Coalition GROWTH Fund

A Look Inside …

Barry Wides, Deputy Comptroller for Community Affairs, OCC

It takes imagination, innovation, resourcefulness, and persistence to transform a neighborhood. It also takes a huge investment of financial resources and an available supply of mortgage credit. This edition of *Community Developments Investments* discusses how the availability of home rehabilitation financing is critical to the success of initiatives to stabilize and revitalize older communities, particularly those that are severely distressed.

Changing demographics and market forces are driving up overall demand for rehabilitation financing, which totaled $220 billion in 2015.[1] Today's housing rehabilitation trends are fueled by strong sales of existing homes, which continue to be a more affordable option than new homes.[2] Older housing stock typically needs systems upgrades or accessibility improvements so elderly homeowners can age in place.

Before: A distressed bungalow before it was rehabilitated by Redmellon Restoration & Development, a real estate development company in New Orleans.

Redmellon Restoration & Development

After: The rehabilitated bungalow became a gem and a catalyst for community rejuvenation in the nearby neighborhood.

Getting the right public-private partnerships in place to finance rehabilitation of older, more affordable homes is particularly important for minority and younger home buyers. At 42.2 percent in 2016, which is slightly below the 1994 level, the homeownership rate for black households has declined sharply since 2004.[3] Household formation rates for younger adults remain at post-recession lows, in large part because lower incomes and high home prices are keeping this group from taking the step to buy a home.[4]

Community Developments

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On the cover
Before-and-after image of a home in New Orleans rehabilitated by Redmellon Restoration & Development, a mission-driven real estate development company.

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Articles by non-OCC authors represent the author's own views and not necessarily the views of the OCC.

1 "Demographic Change and the Remodeling Outlook," Joint Center for Housing Studies of Harvard University, 2017, page 4.

2 "Summary of May 2017 Existing Home Sales Statistics," National Association of Realtors. Despite rising median sales prices for existing homes, 41 percent of these sales were priced between $100,000 and $250,000. The median price of a new home sold in May 2017 was $322,800, compared with $252,800 for an existing home. One-third of existing-home sales were to first-time buyers; one-quarter of the homes that first-time buyers purchased were built before 1960.

3 "The State of the Nation's Housing 2017," Joint Center for Housing Studies of Harvard University, pages 4–5.

4 Ibid.

In stronger housing markets, homeowners can rely on home equity loans or cash-out refinance mortgages to finance repairs or major renovations. Home buyers can use purchase and rehabilitation loan programs, such as the Federal Housing Administration (FHA) Section 203(k) program or Fannie Mae's HomeStyle mortgage. These financing solutions, however, may not address the need for rehabilitation financing in more highly distressed cities or blighted neighborhoods.

Many older industrial cities suffer from disinvestment, depopulation, and unemployment or underemployment. The economic downturn inflicted a devastating blow on neighborhood health as concentrations of mortgage foreclosures contributed to declining home values.[5] Once foreclosure looks imminent, homeowners often neglect maintenance, and some abandon the property. Vacant homes deteriorate further after foreclosure. The character of some neighborhoods changed as cash purchases by investors won out over offers from potential homeowners.

A variety of market conditions frustrates revitalization in distressed communities and has combined to bring mortgage financing to a near halt in some cities. Distressed sales, including short sales and foreclosures, have negatively affected home values. Limited property sales in distressed areas make it hard for lenders to get accurate appraisals. The cost to rehabilitate a property can exceed the post-renovation market value, particularly in low-value markets. Some lenders are reluctant to make low-balance loans, even if a borrower is creditworthy.

Although this paints a somber picture, in many cities there is active interest in rehabilitating structurally sound but aging or deteriorated housing stock.[6] Housing that is suitable for rehabilitation is a potential source of affordable housing and, as such, is a valuable community asset. Leveraging that asset, however, requires available financing.

To address some of the financing barriers just described, the Office of the Comptroller of the Currency (OCC) recently issued OCC Bulletin 2017-28, "Mortgage Lending: Risk Guidance for Higher-Loan-to-Value Lending Programs in Communities Targeted for Revitalization." This guidance, which aims to spur revitalization in distressed communities, describes how national banks and federal savings associations (collectively, banks) can develop mortgage programs for originating permanent first-lien mortgage loans with a loan-to-value ratio at origination that exceeds 100 percent and without mortgage insurance, readily marketable collateral, or other acceptable collateral. In addition, banks are working on innovative programs to ameliorate the impact that concentrated foreclosures have had on communities.

This newsletter highlights successful rehabilitation financing initiatives that banks have developed to revitalize and stabilize communities. Banks are devoting resources and expertise to offer refinance loan programs such as the FHA 203(k) and Fannie Mae HomeStyle programs. Partnerships with banks have enabled community-based organizations to acquire foreclosed properties to rehabilitate for sale as affordable housing. The article by TD Bank explains how the bank partnered with a community organization and used historic tax credits plus city and state funds to finance the rehabilitation of affordable housing for a mixed-income population. An article by U.S. Bank highlights one such partnership. U.S. Bank coupled a local down payment assistance program with its rehabilitation loan program and partnered with a housing counseling organization to ensure that the program's low- and moderate-income buyers were well-prepared to manage the responsibility of owning an older home.

Many of these initiatives to increase revitalization and stabilization of communities are just the types of activities that the Community Reinvestment Act encourages banks to invest in every day. There are plenty of opportunities through programs such as these for banks to rejuvenate cities, neighborhood by neighborhood, and help stabilize communities home by home, family by family.

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5 A survey of the literature regarding home price decline due to foreclosures is discussed in "Which Way to Recovery? Housing Market Outcomes and the Neighborhood Stabilization Program," Finance and Economics Discussion Series, Divisions of Research and Statistics and Monetary Affairs, Federal Reserve Board, Washington, D.C., 2015, pages 4–5.

6 The National Association of Home Builders Remodeling Market Index for 2017 shows a steady increase in remodeling since 2009, with strong acceleration since the end of 2012.

OCC Guidance for Higher-Loan-to-Value Lending Programs in Communities Targeted for Revitalization

Ammar Askari, Director, Community Affairs Outreach, OCC

The Office of the Comptroller of the Currency (OCC) recently issued OCC Bulletin 2017-28, “Mortgage Lending: Risk Guidance for Higher-Loan-to-Value Lending Programs in Communities Targeted for Revitalization” to spur community revitalization by national banks and federal savings associations (collectively, banks) that are interested in offering higher-loan-to-value mortgage programs in targeted areas.[1] The guidance sets out principles for managing risks to banks and borrowers associated with the origination of higher-loan-to-value mortgage loans to finance the purchase or the purchase and rehabilitation of owner-occupied residential properties in eligible communities. Specifically, the guidance applies to permanent first-lien mortgage loans with loan-to-value (LTV) ratios over 100 percent, without mortgage insurance or other acceptable collateral, and with an original loan balance of no higher than $200,000.

Existing interagency real estate lending guidelines include certain supervisory LTV limitations, including that owner-occupied residential mortgage loans in excess of 90 percent of property value should have appropriate credit enhancements.[2] These interagency

Before: Redmellon Restoration & Development took on a major rehabilitation of this abandoned duplex in New Orleans.

Redmellon Restoration & Development

After: The now-purple duplex is elegant inside and out and shows no signs of its former self.

[1] OCC Bulletin 2017-28, “Mortgage Lending: Risk Management Guidance for Higher-Loan-to-Value Lending Programs in Communities Targeted for Revitalization,” August 2017.

[2] For national banks, refer to 12 CFR 34, “Real Estate Lending and Appraisals,” appendix A to subpart D, “Interagency Guidelines for Real Estate Lending Policies.” For federal savings associations, refer to 12 CFR 160.101, “Real estate lending standards,” appendix to 12 CFR 160.101, “Interagency Guidelines for Real Estate Lending Policies.” The supervisory LTV limits generally provide that owner-occupied residential loans with LTVs above 90 percent should have appropriate credit enhancements.

guidelines also recognize that, evaluated on a case-by-case basis, loans in excess of supervisory LTV expectations can be consistent with safety and soundness standards, provided that banks maintain appropriate risk management controls. OCC Bulletin 2017-28 offers guidance regarding the circumstances under which a bank may establish a program to offer higher-LTV loans in areas targeted for revitalization consistent with safe and sound lending, including certain risk management controls.

The OCC took this step to address concerns that depressed housing values in certain distressed communities may inhibit mortgage lending and slow the recovery of these communities. Home values in some U.S. communities remain depressed, in part because the financial crisis led to an increase in distressed sales, including short sales and foreclosures. Further, in communities with minimal sales activity, finding comparable property sales for appraisals or evaluations may be challenging. These factors contribute to the financing difficulties facing creditworthy borrowers in these communities, particularly when financing must cover the often substantial rehabilitation costs to make properties habitable. In markets where these factors are present, and particularly in communities with low-value properties, supervisory policies addressing maximum LTV ratios can affect mortgage credit availability. By providing mortgage purchase and rehabilitation financing, banks can support efforts to stabilize and revitalize these areas.

Supervisory Expectations

OCC Bulletin 2017-28 provides guidance and supervisory expectations for higher-LTV loan programs.[3] Before offering a higher-LTV program, a bank should notify the appropriate OCC supervisory office in writing at least 30 days before it intends to begin originating program loans so the agency can assess whether the program is consistent with safe and sound lending practices and that bank management has ensured appropriate controls to manage the risk are in place.

The guidance focuses on higher-LTV programs established to extend mortgage loans into communities that are officially targeted for revitalization. This designation can be made by a federal, state, or municipal government entity or agency, or a government-designated agency such as a land bank. By focusing on areas targeted for revitalization, the guidance is intended to carefully stimulate lending activity and encourage improvement in housing values community-wide. The guidance identifies specific policies and procedures banks should include in their programs. The bank should define the geographies where its programs will be active. The bank also should set the program's parameters, including maximum loan size, which should not be greater than $200,000. Additional factors that bank policies and procedures should address include

- the specific revitalization criteria used by the government entity or agency,
- financing incentives and assistance programs available to qualifying borrowers,
- underwriting standards and the approval process for program loans,
- appraisal or evaluation criteria applicable to program loans, and
- compliance with applicable laws and regulations.

Ongoing monitoring and internal reporting are necessary to assess the performance, impact, trends, and success of these programs.

Higher-LTV programs should be designed for borrowers who will occupy the property. The program loan should be a permanent first-lien mortgage, the proceeds of which are used for either the purchase or the purchase and rehabilitation of a property. The higher-LTV program can allow for instances in which a buyer may need to pay cash for a property and secure financing later, provided that the buyer receives a bank loan commitment within six months to cover the purchase price plus projected rehabilitation costs. This flexibility should allow buyers to compete more effectively against investors or bid at property auctions that require cash payment.

While the OCC bulletin is intended to encourage credit availability and reinvigorate neighborhoods, it also addresses potential risks to borrowers who secure higher-LTV loans. At origination, a borrower's mortgage balance will exceed the market value of the underlying property. Until the borrower builds equity, either by paying down principal or through market appreciation, the risk of selling

[3] The OCC will consider other bank efforts to support revitalization in distressed communities that fall outside the scope of this bulletin, as long as such efforts are consistent with safe and sound lending practices, promote fair access to credit and fair treatment of borrowers, and comply with all applicable laws and regulations.

at a loss remains. To ensure that prospective borrowers understand this risk, the bulletin instructs banks to provide notices to borrowers addressing the potential financial risk a higher-LTV loan could present.

Managing Risk, Promoting Success

Appropriate risk management controls are essential to the success of higher-LTV programs. The OCC also expects compliance with applicable laws and regulations. Banks must have sound eligibility, underwriting, and approval standards, as well as strong credit administration processes. These controls are particularly critical for rehabilitation lending.[4] In addition to risk controls, ongoing monitoring and internal reporting are necessary to assess the performance, impact, trends, and success of these programs.

The OCC evaluates each bank's higher-LTV program during scheduled supervisory activities. Additionally, the OCC will undertake an annual review to assess the collective impact of these programs on community revitalization efforts. This annual review considers the effect of these programs on housing markets and other economic indicators, and whether banks are adequately controlling the various risks of these loans.

The agency recognizes that meaningful transformation may take a number of years, but there are many ways that community-based organizations can partner with banks to increase the success of higher-LTV programs. Offering homeownership education and home maintenance counseling programs may help borrowers understand potential risks and responsibilities and, ultimately, may improve loan performance.

Many homeowners are unprepared to take on rehabilitation projects, so technical assistance programs to help owners manage this phase could be helpful. Some land banks and affordable housing organizations are managing the acquisition and rehabilitation phases and then selling the property to income-eligible buyers, but this approach is capital intensive.

Community Reinvestment Act Consideration

Banks may earn Community Reinvestment Act (CRA) consideration for higher-LTV loan programs. Loans to low- and moderate-income (LMI) borrowers as well as grants or investments to finance the purchase or rehabilitation of affordable housing may meet the CRA's definition of community development. Loans to, and grants and investments in, financial intermediaries, such as community loan funds or community development financial institutions, may also qualify. Additionally, grants to support the work of nonprofit counseling agencies that serve LMI borrowers may be considered to be CRA-qualified investments.

Higher-LTV loan programs that help to attract new or retain existing residents or businesses in LMI geographies may be considered as community development that revitalizes or stabilizes the LMI area. There is a presumption in the CRA guidance that a lending activity revitalizes or stabilizes an LMI area if the activity is consistent with a bona fide government plan for revitalization or stabilization or a disaster recovery plan for the area. Additionally, higher-LTV loan programs may be considered responsive in helping to meet credit needs in the community, particularly if there is a financial education component. Also, the lending test for large institutions evaluates community development lending, so an examiner may consider the extent to which innovative or flexible terms or products augment the effectiveness of community development loan programs or address credit needs of LMI individuals or areas when evaluating a large bank's community development lending performance.

The OCC's Community Affairs division and our 11 locally based District Community Affairs Officers are resources for banks considering ways to lend and invest in communities. The OCC is ready to provide assistance to banks that are offering or considering higher-LTV loan programs and their community-based partners to enhance the success of this critical work.

For additional information, please contact Ammar Askari at ammar.askari@occ.treas.gov.

[4] Loans to an LMI borrower for the purchase or rehabilitation of a dwelling may be considered home mortgage loans under the retail lending test. Banks may not receive consideration for such loans as both home mortgage and community development loans. See "Community Reinvestment Act; Interagency Questions and Answers Regarding Community Reinvestment; Guidance" (Q&As), 81 Fed. Reg. 142, July 25, 2016, Q&As 12(h)-2 and 3, and 43(b)(2)-2.

How Community Development-Related Rehabilitation Efforts Can Qualify for Community Reinvestment Act Consideration

Vonda Eanes, Director for CRA and Fair Lending Policy, OCC

The Community Reinvestment Act (CRA) was passed in 1977 to prevent redlining and to encourage national banks and federal savings associations (collectively, banks) to help meet the credit needs of all segments of their communities, including low- and moderate-income (LMI) neighborhoods and individuals. Today, banks are assessed by federal financial institution regulators, such as the OCC, to evaluate their performance in activities that comport with the CRA. Qualifying CRA community development activities must fall under one of the categories listed under the definition of community development[1] and meet the geographic requirements of the regulations by benefiting a bank's assessment area or a broader statewide or regional area that includes the bank's assessment area.[2]

This article provides examples of how banks may receive consideration under the CRA for qualifying housing rehabilitation efforts.

Affordable housing is a core component of community development under the CRA regulations. Banks may receive CRA consideration for loans, qualified investments, and community development services with a primary purpose of revitalizing or stabilizing LMI areas, or providing affordable housing for or community services to LMI individuals, including consideration of activities related to community stabilization, such as the rehabilitation of affordable housing.

TD Bank

Before: Abandoned row houses in the historic Oliver neighborhood of East Baltimore. After: The block of row houses is transformed, contributing to the revitalization of the neighborhood.

Community Development Lending

Loans for single-family affordable housing rehabilitation may qualify as community development. For example, financing loans to nonprofit organizations serving primarily LMI individuals, or loans to other community financial intermediaries that develop or provide financing for affordable housing targeted to LMI individuals, may be considered community development as long as these loans are not otherwise evaluated under the retail portion of the applicable lending test. Rehabilitation activities that may receive CRA consideration include, but are not limited to, abatement, remediation, or other actions to correct environmental hazards, such as lead-based paint, asbestos, mold, or radon that are present in the home or property.

Qualified Investments

Similarly, banks can receive community development consideration for making qualified investments that support affordable housing rehabilitation efforts. Qualified investments include, but are not limited to, investments, grants, deposits, or shares in or to certain types of organizations that focus on community development activities.[3]

1 See 12 CFR 25.12(g).

2 See "Interagency CRA Questions and Answers Regarding Community Reinvestment," 81 Fed. Reg. 142, July 25, 2016, pages 48506, 48529, __.12(h)—6.

3 Ibid., pages 48506, 48532, .12(t)—4.

Activities that can be considered under the CRA as community development include grants and investments to entities engaged in affordable housing rehabilitation or to financial intermediaries. The intermediaries include community development financial institutions, community development entities, and community development corporations, and minority- and women-owned financial institutions, community loan funds, and low-income credit unions that primarily lend or facilitate lending in LMI areas or to LMI individuals to promote community development. Additionally, grants to support the work of nonprofit counseling agencies that provide homeownership or home maintenance counseling for LMI individuals may be considered as CRA-qualified investments.

An in-kind donation or discounted sale of a property classified as other real estate owned (OREO) to a qualified community development organization to rehabilitate for use as affordable housing targeted to LMI individuals may be considered a community development activity. In the case of a sale, the amount of the qualified investment would be the portion of the in-kind donation that represents the difference between fair market value (FMV) and the discounted disposition price of the property. If the property is donated outright, then the property's FMV would be the amount of the in-kind donation. FMV should be established based on an accepted method of valuing OREO property.[4]

Community Development Services

Community development services include technical assistance activities on behalf of nonprofit or governmental community development organizations to help these entities set up programs to purchase, or purchase and rehabilitate, affordable housing. Examples of technical assistance activities include serving on a loan review committee or lending employees to assist in developing guidelines and underwriting standards for an acquisition and rehabilitation program when the properties will be used for a qualified CRA purpose, such as affordable housing for LMI individuals. Technical assistance may be particularly useful to help community-based organizations understand the intricacies and risks of rehabilitation lending. A bank could provide technical assistance to a nonprofit affordable housing organization by managing the rehabilitation phase directly or by helping to develop systems for the nonprofit organization to manage construction draws and disbursements.

Community development services also include providing credit counseling, home buyer and home maintenance counseling, financial planning, or other financial services education to LMI borrowers or to promote community development and affordable housing.[5] Home purchase and home maintenance counseling can increase homeownership sustainability. Such counseling programs could be particularly helpful for borrowers who plan to rehabilitate a property and could benefit from working with a counseling agency that is qualified to provide guidance on managing the rehabilitation phase.

Community Revitalization

Generally, activities that revitalize or stabilize LMI geographies by attracting new—or retaining existing—businesses or residents meet the CRA definition of community development.[6] Revitalization-related activities in designated disaster areas are also considered community development.[7] Activities are presumed to revitalize or stabilize such areas if they are consistent with a bona fide government revitalization or stabilization plan or disaster recovery plan.[8] For example, the targeted neighborhood rehabilitation programs sponsored by the City of Detroit (see "Detroit Home Mortgage: Innovative

4 Consult the appropriate supervisory office for more information.

5 "Interagency CRA Questions and Answers Regarding Community Reinvestment," 81 Fed. Reg. 142, July 25, 2016, pages 48530-31, 12(i)—3.

6 Ibid., page 48527, .12(g)(4)(i)—1.

7 Ibid., page 48527, .12(g)(4)(ii)—2.

8 Ibid., page 48527, .12(g)(4)(i)—1 and .12(g)(4)(ii)—2. An "eligible community" for a higher-LTV program must be officially targeted for revitalization by a federal, state, or local government entity or agency, or by a government-designated entity such as a land bank. See OCC Bulletin 2017-28, "Risk Management Guidance for Higher-Loan-to-Value Lending Programs in Communities Targeted for Revitalization."

Rehabilitation Financing") would be examples of a government revitalization initiative. Programs to rehabilitate affordable housing for LMI individuals may meet the CRA definition of community development even if they are not located in LMI areas, areas designated for revitalization, or disaster recovery areas.

Higher-Loan-to-Value Loan Programs in Communities Targeted for Revitalization

On August 21, 2017, the OCC issued OCC Bulletin 2017-28, "Mortgage Lending: Risk Management Guidance for Higher-Loan-to-Value Lending Programs in Communities Targeted for Revitalization," to spur community revitalization by banks that want to offer higher-loan-to-value mortgage (LTV) programs. This bulletin proves guidance for managing risks to banks and borrowers associated with programs in which certain residential mortgage loans are originated when the LTV ratio at origination exceeds 100 percent. Higher-LTV programs addressed by the bulletin are those in communities officially targeted for revitalization. This designation can be made by a federal, state, or municipal government or by a government-designated entity such as a land bank. The higher-LTV loans are those to borrowers who will occupy the property, and loans should have an original balance of $200,000 or less. The mortgage should be a permanent first-lien for either the purchase or purchase and rehabilitation of a property. In some situations a buyer may need to pay cash for a property and secure financing later. This situation is covered by the guidance if the buyer receives a bank loan commitment within six months to cover the purchase price plus projected rehabilitation costs. More information about these programs is provided in the article "OCC Guidance for Higher-Loan-to-Value Lending Programs in Communities Targeted for Revitalization."

A higher-LTV loan program may be considered a community development activity if it revitalizes or stabilizes an LMI area by helping to attract new or retain existing residents or businesses.[9] Activities related to such a program may receive consideration for their innovativeness, flexibility, or complexity. For a large institution whose lending test includes an evaluation of community development lending, consideration may be given for the extent to which innovative or flexible terms or products augment the success and effectiveness of community development loan programs or address credit needs of LMI individuals or areas. The large institution investment test evaluates the innovativeness and complexity of qualified investments.[10] Similarly, the large institution service test evaluates the innovativeness and responsiveness of community development services.[11]

Under the community development performance criteria, a higher-LTV loan program that helps to revitalize or stabilize an LMI area may be considered responsive in helping to meet credit needs in the community, particularly if there is a financial education component.[12] Offering homeownership education and home maintenance counseling programs may help borrowers understand potential risks and, ultimately, may improve loan performance.

Banks can also partner with community-based organizations to increase the success of higher-LTV programs. CRA consideration as a community development service may be available for banks with qualifying higher-LTV programs when technical assistance is provided to partners, such as nonprofit organizations and financial intermediaries that are engaged in rehabilitation efforts.

For more information, contact Vonda Eanes at vonda.eanes@occ.treas.gov.

9 Ibid.

10 Ibid.

11 12 CFR 25.24(e)(2).

12 "Interagency CRA Questions and Answers Regarding Community Reinvestment," 81 Fed. Reg. 142, July 25, 2016, page 48536, 12 CFR 25.22(a)—1.

Detroit Home Mortgage: Innovative Rehabilitation Financing

Frank Altman, President and Chief Executive Officer, Community Reinvestment Fund

In the years following the Great Recession, many home buyers throughout the city of Detroit could not qualify for a mortgage, nor could they finance necessary property rehabilitation. These were home buyers with stable incomes and good credit histories, but the appraisals were falling short. Houses across Detroit were inexpensive to purchase relative to homes just outside the city limits, but the lack of financing forced many families to move outside the city to purchase a home. For those staying within the city, the choice was to purchase a home with cash or to rent instead of building equity and investing in their futures.

The Reinvestment Fund

This couple, both architects, purchased their home in a distressed Detroit neighborhood with a Detroit Home Mortgage and used their design skills to rehabilitate it.

Depressed real estate values also made it difficult for longtime residents with good credit to get secured real estate loans to make basic health and safety repairs. Consequently, many homeowners were forced to use expensive credit card debt to pay for property improvements, often piecemeal over a period of years, or deferred required maintenance altogether. The lack of availability of mortgage financing had stalled the real estate market, limited entry into the market to those buyers with cash, and contributed to a lack of property rehabilitation and maintenance.[1]

In response to this problem, in February 2016 the Detroit Home Mortgage program was launched as a collaborative effort of local and national banks, foundations, and nonprofit groups. The program has since expanded and now includes Huntington Bank, Flagstar Bank, Chemical Bank, Liberty Bank, Independent Bank, AAA Bank, Citizens Bank, Comerica Bank, The Kresge Foundation, the Michigan State Housing Development Authority (MSHDA), the Ford Foundation, the Community Foundation of Southeast Michigan, Community Reinvestment Fund USA (CRF), and others. The program was established in the belief that a distressed real estate market, with a dysfunctional mortgage market, can be changed to support the financing needs of aspiring, creditworthy Detroit homeowners. In the Detroit market the vast majority of homes need rehabilitation to make them habitable and the number of move-in ready homes is insufficient.

The idea for the Detroit Home Mortgage program was born at the urging of Mayor Mike Duggan, with organizing support from the federal government and the Clinton Global Initiative. Further supporting the collaborative effort is the Office of the Comptroller of the Currency, as it continues to foster responsible, prudent lending by national banks in a manner that can restore market forces in communities struggling with blight and high vacancies (see “OCC Guidance for Higher-Loan-to-Value Lending Programs in Communities Targeted for Revitalization”). As a result of this unified vision of needed change, and a pooling of ideas, experience, and resources, Detroit Home Mortgage was launched and Detroit is slowly seeing change.

1 According to Home Mortgage Disclosure Act reporting and Realcomp data, less than 12 percent of residential home sales in Detroit had been financed with a mortgage from 2011 to 2014. The same data show that 80 percent of the home equity requests were declined due to a lack of collateral.

How Detroit Home Mortgage Supports Homeowners

- Extensive home buyer education and counseling, including high combined loan-to-value ratio (CLTV) education
- Affordable loans (low loan amounts, no lender fees, and low interest rates)
- Integrated equity protection (includes a rider to the second mortgage note)
- Alternative financing for rehabilitation (i.e., preferable to unsecured loans at higher interest rates)
- Project management support for homeowner rehabilitation
- A tailored product and origination process (based on Federal Housing Administration standards)
- Loan compliance with qualified mortgage guidelines (including ability-to-repay rules)
- Customized borrower disclosure for high CLTV at loan origination
- Personalized servicing between banks and CRF
- Integrated post-purchase counseling referrals and support (including foreclosure)

Today, the program has been made widely available to those seeking to purchase or rehabilitate a home in Detroit. Early success can be seen toward achieving the main objectives of the program in addressing the "appraisal gap" issue, including supporting increased access to home purchase in Detroit, and providing a basis for normalized (higher) property values through purchase, occupancy, rehabilitation, and maintenance to help restore the market. Detroit Home Mortgage has helped support value stabilization, and the city has already seen the number of mortgages increase by more than 25 percent year over year since the launch of the program as these efforts begin to restore home buyer confidence, with approximately half of the increase due to the Detroit Home Mortgage program.

Further, the program is supporting both Detroiters themselves (with more than 80 percent of Detroit Home Mortgage home buyers coming from a Detroit address) and new home buyers from outside the city.

From 2015 through year-end 2017, Detroit Home Mortgage has helped to increase home buyer confidence, and participating program lenders have increased lending efforts and utilization of the mortgage. Also, the program has begun to see some indications of property value normalization as appraisal values are beginning to make the properties eligible for conventional financing.

As of December 31, 2017, approximately 75 families have been prequalified for a mortgage and are actively shopping for the home of their dreams in the Detroit neighborhood of their choice; and over 150 families have closed on their mortgage or are approved. Some have moved into their dream home and others are eagerly waiting for construction to finish. Life is changing in Detroit—home by home, family by family, and neighborhood by neighborhood.

With Detroit Home Mortgage, banks are now able to lend to a qualified home buyer the full amount needed to purchase an already renovated home or to buy and rehabilitate a home. In addition, banks can loan qualified existing homeowners the full amount needed to rehabilitate their current homes.

How It Works

With Detroit Home Mortgage, qualifying borrowers receive a first mortgage for the appraised value of the house (less 3.5 percent down payment) and a second mortgage of up to $75,000 to fill the gap between the appraised value and the sale price plus any renovation costs (see sidebar "Detroit Mortgage Financing: Challenges and Solutions"). The program aims to increase homeownership, eventually raise property values, and spur reinvestment in any Detroit neighborhood where the appraisal gap exists. The program does not have a minimum loan size and does not have income restrictions.

All participating Detroit Home Mortgage program lenders offer the same low fixed interest rates, with no bank fees, and utilize the same underwriting guidelines (based largely on the Federal Housing Administration's "Single Family Housing Policy Handbook" 4000.1). First mortgages are fixed-rate and fully amortizing over a maximum

Detroit Home Mortgage—A Home Buyer's Perspective

The house in Rosedale Park had been vacant for a year and needed work, but Marcie Kansou had a strong intuition the moment she walked in. "It felt like home and I knew this was the place I should be," she said. Kansou closed on the home at the end of June 2016. In so doing, she became the first person to purchase a home through Detroit Home Mortgage, a collaboration of participating banks, nonprofit organizations, foundations, and the Michigan State Housing Development Authority that provides borrowers the opportunity to borrow up to $75,000 more than a home's current appraised value.

Kansou works at Southwest Solutions, supervising its infant mental health program. She grew up in Rosedale Park, in a home a few streets away from the one she wanted to buy. Her family moved out when she was a teenager because of crime and other issues. Because of this past experience, Kansou had security concerns and talked to the immediate neighbors. They assured her that the area was safe and the neighbors look out for each other.

"Without a doubt, if not for Detroit Home Mortgage, Marcie would not have been able to get the financing for this home," said Scott Gutschow, the Huntington Bank loan officer who helped her. Kansou purchased the house for $53,000, but it needed $40,000 of rehabilitation work. The house was appraised at $75,000. After her down payment, she got a first mortgage for $72,000 (20-year fixed at 3 percent) and a second mortgage (20-year fixed at 5 percent) to cover the rest of the renovation costs. Kansou was able to roll in her closing costs, first-year payments of property taxes and insurance, and other expenses. She also does not have to pay private mortgage insurance. "I feel that I got a great deal," Kansou said. "I was renting before. Now I have a place that I can truly call and make my own, where I can bring family together and continue traditions that actually began in this neighborhood."

The Financial Services Consulting Group

Marcie Kansou was the first buyer to purchase a renovated home in Detroit's Rosedale Park neighborhood under the Detroit Home Mortgage program.

The home Kansou bought is the last vacant house on the block. She feels a deep sense of nostalgic comfort moving back into the neighborhood. She appreciates houses with historical character and, although the home she bought needs some major electrical and plumbing work, she can tell it was loved by the previous occupants because of the amenities and careful touches.

of 20 years, and are held on the balance sheets of the banks. All second mortgages have a 5 percent fixed interest rate (which is kept low through affordability support provided by MSHDA), with amortization terms that match the first mortgage. After any necessary rehabilitation is completed on a property, the second mortgages are sold into a loan fund, developed and administered by CRF, an innovative facility that many of the local and regional financial institutions have funded, along with support from The Kresge Foundation and MSHDA.

Home Buyer Education and Consumer Protection

Borrowers utilizing the Detroit Home Mortgage must complete the standard home buyer education curriculum from the U.S. Department of Housing and Urban Development and MSHDA, which is offered by 10 housing counseling agencies. In addition, a specialized component of the curriculum has been developed to help ensure borrowers understand the financial risks involved in borrowing an amount that exceeds the appraised

Detroit Mortgage Financing:
Sample Mortgage Financing Challenge

- Value of property = $40,000
- Mortgage = $32,000 (80% LTV)
- Down payment = $8,000 (20% down)
- Additional cost of repairs = $20,000
- Total cost of property and repairs = $60,000 ($8,000 down + $32,000 mortgage + $20,000 repair financing)
- Mortgage amount = $52,000 ($32,000 + $20,000)
- LTV = $52,000 / $40,000 = 130%
  - Not eligible for traditional financing
  - Would require $28,000 down to be eligible at 80% LTV (initial $8,000 down and $20,000 in repairs)

value of a home. Information about this risk is also incorporated into a disclosure form that a borrower must sign at closing. Further, additional support is provided for those borrowers who will use the program to finance the home's rehabilitation, including additional specialized curriculum and assistance provided by a dedicated team of construction project managers.

Like all loans, Detroit Home Mortgage first and second mortgages must be repaid. Another innovative feature of the program, however, is the protection offered to the homeowner. In cases of hardship that require a homeowner to sell a home at a short sale, The Kresge Foundation has made a guaranty to forgive that portion of the second mortgage necessary to make the borrower whole.

Alignment With Public Rehabilitation Efforts

The Detroit Home Mortgage program aims to help eliminate blight from communities by turning vacant and deteriorating houses into safe and appealing homes for individuals and families. As residential properties are targeted for rehabilitation through the program, which has up to approximately $150 million in lending capital available, the physical appearance of Detroit neighborhoods will greatly improve and the number of residents will continue to grow.

One example of this is a recent collaborative effort with the Detroit Land Bank Authority. Since its inception in 2014, families acquiring homes through the land bank faced the daunting challenge of finding a mortgage to support the rehabilitation of the property to make it safe and livable. In fact, many land bank home purchasers made the tough choice to complete renovations as personal cash flow permitted, putting them at odds with rehabilitation timelines, which are a condition of the land bank purchase. Today, the land bank is working with past and current purchasers of primary residence properties by providing information on Detroit Home Mortgage as a possible option to complete the renovations for a move-in ready home. Since the program's inception, 300 land bank homeowners have been contacted regarding Detroit Home Mortgage, with almost 60 individuals electing to discuss their personal situation with a Detroit Home Mortgage lender, and 19 applying for a program loan.

Another example of support from the Detroit Home Mortgage program is the city's initiative to redevelop a low- to moderate-income area of the Fitzgerald neighborhood (the first of several targeted efforts planned). The city issued requests for proposals for both housing rehabilitation and productive landscape development. The development includes 100 publicly owned structures to be renovated and hundreds of lots that will be placed into land stewardship.

The city has asked the Detroit Home Mortgage program to work closely with the selected developer and city officials on converting renters in the development area to homeowners, in an effort to prevent the potential effects of gentrification. The development area has 1,700 residents. The Detroit Home Mortgage teams will focus on engaging this community with a series of education events to increase awareness of its program and how it can assist in the rehabilitation of residents' properties.

Grassroots Community Engagement

The Detroit Home Mortgage program is supported by direct outreach by program lenders, a strong social media campaign that resonates with the target market, media support for the co-branding

Detroit Mortgage Financing:
Sample Detroit Home Mortgage Solution

- Cost to buy and repair home = $60,000 (mortgage + repairs + down payment)
- Value of home = $40,000
- First mortgage = $38,600 (96.5% value)
- Down payment = $1,400 (3.5% down)
- Second mortgage = $20,000 (amount above value)
- CLTV = ($38,600 + $20,000) / $40,000

  = $58,600 / $40,000

  = 146.5%

Note: CLTV = (first mortgage balance + second mortgage balance) / property value.

of the program with bank partners to play off the strength of their market presence, and a strong community marketing outreach. This community outreach spans neighborhood efforts and events, ministerial and coordinated congregation events on homeownership, counseling agency courses and events, and targeted campaigns to existing property owners with uncompleted renovation work. The partnerships necessary to transform the real estate market include outreach, education, and promotion to real estate agents.

In August 2016, more than 250 real estate agents gathered at an outreach event for updates on planned neighborhood changes and city initiatives; to build new networks with Detroit Home Mortgage lending staff and home buyer counseling agencies; and to receive training on specifics of the Detroit Home Mortgage program. Based on the overwhelming response and enthusiasm, Detroit Home Mortgage lenders continue to meet one-on-one with realtors to provide education on the program. Another example of direct outreach was a December 2016 gathering of 75 residential property developers who came together to learn about the program and the opportunities it presents to support homeownership in the city.

The program also supports neighborhood-based community development corporations (CDC) that have a long-term commitment to their communities. In addition to real estate development, these CDCs add value to neighborhoods through community building, blight removal and beautification, commercial revitalization, public safety initiatives, and other activities.

The support of CDC efforts is especially important in Detroit since, for many would-be home buyers, the prospect of purchasing a home that must be renovated prior to occupancy is a daunting challenge they are often unprepared to face. Most would prefer to purchase a home in move-in condition over a home that they need to renovate. To accelerate the rate of homeownership in Detroit, it is necessary to bring more renovated homes to the market, and Detroit realtors have lamented that housing market recovery in some neighborhoods is already being stunted by a lack of move-in ready inventory. To help address this, CDCs and other private developers (including those supported through new programs related to the Detroit Home Mortgage effort[2]) are now able to begin to acquire and renovate properties with an expectation that home buyers will be able to finance a purchase at a normalized property value (using conventional financing or the Detroit Home Mortgage product).

The Detroit Home Mortgage program is available citywide, allowing home buyers to decide which neighborhood fits their needs. Some areas will see faster change than others for several reasons. First, some areas benefit from targeted efforts by CDCs and the city. Second, some natural clustering of home buying is expected, and finally, some neighborhoods have not seen the same level of disinvestment. These neighborhoods will most likely be the first areas to see the appraisal gap shrink, making the Detroit Home Mortgage unnecessary—and therefore, making it ultimately successful.

For additional information, please visit the Detroit Home Mortgage website. To learn about the Community Reinvestment Fund, please visit the fund's website.

2 Beyond addressing mortgage financing with the Detroit Home Mortgage product, the teams from CRF, through the support of The Kresge Foundation, have worked extensively with private, public, and nonprofit stakeholders to address challenges and develop integrated strategies for rebuilding Detroit's single-family home buyer "ecosystem."

FHA Section 203(k) Rehabilitation Mortgage Insurance Program

Michael Carrier, Community Development Expert, OCC

The Federal Housing Administration (FHA) has a special loan guarantee program that offers a solution to the challenge of obtaining financing to rehabilitate distressed properties and assist in the revitalization of neighborhoods affected by the economic downturn. Established in 1978, the FHA 203(k) Rehabilitation Mortgage Insurance Program offers a loan product that combines a property acquisition and rehabilitation loan into one instrument, which is backed by the full faith and credit of the U.S. government.

Borrowers interested in purchasing homes in a distressed neighborhood may find it difficult to obtain financing because the cost to purchase and renovate the home to make it habitable often exceeds the supervisory loan-to-value limits set by bank regulators.[1] The FHA 203(k) loan program addresses this valuation challenge by enabling borrowers to borrow up to 110 percent of the as-improved value, which is the value of the home after the rehabilitation work is finished.

The FHA 203(k) loan program is also a good financing option for first-time home buyers or other types of borrowers unable to make substantial down payments, because the program permits down payments of as little as 3.5 percent. These loans can also be used by homeowners who want to refinance their existing mortgage and borrow additional funds for home renovation purposes.[2]

203(k) Loan Types

The 203(k) program offers two different loan types: Standard 203(k) loans and Limited 203(k) loans. The choice of loan type depends on the borrower's home renovation project needs. Standard 203(k) loans are designed for borrowers who need to do extensive structural work and repairs on their properties. At least $5,000 of a Standard 203(k) loan must be used toward repairs. There is no maximum amount that can be financed for repairs. The total amount borrowed for acquisition and rehabilitation purposes, however, cannot exceed the FHA's maximum loan amount, which varies by location and is up to $636,150 in high-cost areas. For Standard 203(k) loans, the FHA requires a consultant approved by the U.S. Department of Housing and Urban Development (HUD) to write a rehabilitation work plan and cost estimate as part of the loan approval process. The consultant also makes sure that FHA building and local code requirements are met, and oversees and inspects the rehabilitation project from start to finish.

Limited 203(k) loans are intended for borrowers with relatively small renovation projects to repair, improve, or upgrade homes that do not require structural changes. The maximum amount that can be financed for repairs is $35,000, and there is no minimum. The FHA does not require Limited 203(k) borrowers to use a HUD-approved consultant.

Table 1 lists some examples of renovation projects that can be undertaken with Standard 203(k) and Limited 203(k) funds. The FHA does not permit financing the installation of recreational or luxury items, such as exterior hot tubs, outdoor barbecue pits, or swimming pools, under either the Standard 203(k) or Limited 203(k) loan. An example of project costs can be seen in the sidebar to this article, "Sample Financing Costs Under the Standard 203(k) Program."

Loan Amount

A borrower can borrow up to 110 percent of the as-improved value of the property, and the loan can include the purchase price of the property, closing costs, and repair costs. Inspection fees and fees to obtain building and other permits may also be included in the loan amount. If the property cannot be occupied during the rehabilitation phase of a Standard 203(k) loan, the borrower may also include six months of mortgage payments in

1 12 CFR 34 subpart D, appendix A.

2 See HUD's FHA 203(k) program website.

Table 1: Examples of Improvements Eligible for Standard 203(k) and Limited 203(k) Loans

Standard 203(k)	Limited 203(k)
Room additions	Repair roofs, gutters, and downspouts
Septic and well systems	Exterior and interior painting
Structural work	Weatherization
Heating/cooling units	Appliances such as refrigerators, washer/dryers, and dishwashers
Energy efficiency items	Lead-based paint abatement

Source: HUD Handbook 4000.1.

the loan amount to pay the loan while the borrower lives elsewhere. The total amount borrowed for acquisition and rehabilitation purposes cannot exceed the FHA loan limit for the area in which the property is located. FHA loan limits vary by geography and are adjusted annually. As of January 1, 2017, the nationwide loan limit for a single-family unit was $275,665. FHA loan limits, however, are adjusted up to $636,150 in high-cost areas. The FHA maintains a loan limits section on its website to identify the loan limit for a particular geographic region such as a state, county, or metropolitan statistical area.

Property Types

Any one- to four-unit dwelling is eligible for 203(k) financing as long as it is at least one year old. The borrower must intend to live in the home; investor properties are ineligible for 203(k) loans. Demolished homes are eligible if their existing foundations remain intact. Under certain circumstances, a 203(k) loan can be used to finance the purchase and rehabilitation of a condominium unit. For example, the financing can be used only for the interior improvement of the condominium unit. Additionally, the maximum amount financed for a condominium cannot exceed 100 percent of the as-improved value of the unit. Other restrictions apply for condominiums and are listed in the FHA's *Single Family Housing Policy Handbook*.[3]

How the Program Works

To obtain a 203(k) loan, the borrower must apply for the loan with an FHA-approved lender. The FHA maintains an online Lender List which enables borrowers to search for FHA-approved lenders in their area. If the rehabilitation costs are likely to exceed $35,000, the borrower must apply for a Standard 203(k) loan and submit a write-up that includes a detailed construction plan with architectural exhibits, along with an accurate cost assessment. The write-up must be prepared by a HUD-approved consultant, who may charge a preparation fee based on the cost of repairs. See table 2 for the fee schedule for preparing a 203(k) write-up.

If the rehabilitation costs are likely to be $35,000 or less, the borrower can apply for a Limited 203(k) loan without using a HUD-approved consultant to prepare the work write-up and cost estimate.

At closing, the borrower and lender are required to complete a rehabilitation loan agreement and establish a rehabilitation escrow account. The rehabilitation loan agreement identifies the conditions under which the lender will release rehabilitation funds. The FHA may require a lender to establish a construction contingency reserve of up to 20 percent of the cost of repairs to cover unforeseen project costs and mitigate the risk of cost overruns.[4] A contingency reserve is required when there is evidence of termite damage in a structure less than 30 years old, and when utilities are inoperable in a structure that is 30 years old or more.

As construction progresses, the lender disburses funds from the rehabilitation escrow account after completed work is reviewed by a HUD-approved inspector. A 10 percent holdback is placed on construction phases until all outstanding contracts are complete. The FHA allows for five draws from the rehabilitation escrow account during the construction phase. When a draw is needed from the escrow

Table 2: Fee Schedule for Preparing 203(k) Write-Up[5]

Cost of repairs	Consultant fee
$7,500 or less	$400
$7,501 to $15,000	$500
$15,001 to $30,000	$600
$30,001 to $50,000	$700
$50,001 to $75,000	$800
$75,001 to $100,000	$900
More than $100,000	$1,000

Source: HUD Handbook 4000.1.

3 HUD Handbook 4000.1.

4 HUD Handbook 4000.1 identifies when lenders are required to establish a contingency reserve.

5 A HUD-approved consultant is authorized to charge fees for other activities, such as preparing a feasibility study or a draw inspection. HUD Handbook 4000.1 provides a description of the activities and permissible fees.

Table 3: Annual Mortgage Insurance Premium

Loan amount	Loan-to-value ratio	Premium (in basis points)	Duration
Mortgage Term of More Than 15 Years			
$625,500 or less	90.00% or less	80	11 years
	90.01% to 95.00%	80	Mortgage term
	95.01% or more	85	Mortgage term
Greater than $625,500	90.00% or less	100	11 years
	90.01% to 95.00%	100	Mortgage term
	95.01% or more	105	Mortgage term
Mortgage Term of 15 Years or Less			
Loan amount	**Loan-to-value ratio**	**Premium (in basis points)**	**Duration**
$625,500 or less	90.00% or less	45	11 years
	90.01% or more	70	Mortgage term
Greater than $625,500	78.00% or less	45	11 years
	78.01% to 90.00%	70	11 years
	90.01% or more	95	Mortgage term

Source: HUD Handbook 4000.1.

account to pay a contractor, an FHA-approved inspector must review the work before release of the funds. The FHA requires borrowers to complete rehabilitation within six months.

Mortgage Insurance

The 203(k) loan program provides mortgage insurance against loan default, which reduces the risk banks face in originating and holding 203(k) loans. When a loan defaults, the FHA pays the lender the remaining principal balance of the loan and certain other expenses. The FHA requires borrowers to pay an up-front mortgage insurance fee of 1.75 percent of the total loan amount. This fee can be financed into the total loan amount. Borrowers must also pay an annual mortgage insurance fee with the amount depending on the loan term, loan-to-value ratio, and loan amount. See table 3 for the annual mortgage insurance premium schedule.

Risk Management

Banks need to have sufficient management and underwriting capacity to offer 203(k) loans. Banks should consider their capacity to monitor real estate construction activities and administrative oversight to manage rehabilitation escrow accounts. Some banks do this internally through a separate construction draw unit; others outsource this function to other lenders. Lenders also must conduct proper borrower screening to ensure the borrower is not a for-profit investor.

Conclusion

A successfully executed 203(k) loan program can be an integral tool for improving residential properties, preserving homeownership, and revitalizing neighborhoods. Additionally, 203(k) loans help banks reduce the inventory of foreclosed and deteriorating homes. Banks also may receive Community Reinvestment Act consideration for making and buying 203(k) loans eligible for such consideration.

For more information, please see the OCC's Community Developments Insights report "FHA 203(k) Mortgage Insurance Program: Helping Banks and Borrowers Revitalize Homes and Neighborhoods."

Sample Financing Costs Under the Standard 203(k) Program

Example is based on a home purchase price of $200,000 with an additional $50,000 in rehabilitation costs.

Home purchase price	$200,000
Rehabilitation costs	$50,000
Minimum down payment required (3.5%)	$8,750
Loan amount (excluding closing costs and fees)	$241,250
Closing costs and fees that can be financed	
Consultant fee for preparing a 203(k) write-up	$1,000
Draw inspection fee: $350 per inspection for a maximum of five inspections	$1,750
Up-front FHA mortgage insurance premium: 1.75% of loan amount	$4,221
Lender origination fee: up to 1.5% of rehabilitation costs	$750
Total closing costs and fees that can be financed	$7,721
Total loan amount including closing costs and fees	$248,971
FHA annual insurance fee of .85% assuming a 30-year loan term and a loan-to-value ratio over 95.01%	$2,050

Source: FHA.

Single-Family Historic Redevelopment Efforts in East Baltimore

Phyllis Reich, Tax Credit Investment Officer, Community Capital Group, TD Bank

TD Bank is joining forces with ReBUILD Metro (initially known as TRF Development Partners, or TRF DP) to stabilize and revitalize the East Baltimore community of Oliver by financing the rehabilitation of historic row houses. The two organizations are using a combination of tools that include federal historic tax credits. This initiative is known as the East Baltimore Historic Redevelopment Project.

TD Bank

Before: The deteriorating façade of this brownstone in Baltimore is typical of the need for rehabilitation of homes in the city's historic Oliver neighborhood.

After: The townhouse with its distinctive keyhole entry was completely renovated, inside and out, while maintaining its historic character.

Background

Baltimore's Oliver neighborhood is adjacent to the Johns Hopkins University Medical Campus, on the east side of the city. In 2003, Oliver was known for suffocating crime and blight, famously portrayed in the HBO series *The Wire*. Despite these obstacles, Baltimoreans United In Leadership Development (BUILD), a faith-based community coalition of 40 Baltimore churches representing 20,000 residents, believed an opportunity to resuscitate the local market existed.

The coalition sought the expertise of the Reinvestment Fund, a nationally recognized community development financial institution, to implement the vision and renew East Baltimore.

The Reinvestment Fund and BUILD formed a partnership, TRF DP, to implement the East Baltimore plan, working with the city of Baltimore, Johns Hopkins University, and several of the city's leading foundations. The Reinvestment Fund's policy solutions team provided the data and analysis, and BUILD mobilized community residents to survey every parcel in Oliver, including more than 1,100 abandoned buildings and vacant lots. The community planning effort was designed to connect the area to the northwest of Johns Hopkins Medical Center with other major city assets (Penn Station, Station North Arts and Entertainment District, the University of Baltimore, and Maryland Institute College of Art).

TRF DP's investment and capitalization leveraged the in-depth, data-based analysis of the neighborhoods and the parcel-level surveys to formulate a community-based plan to acquire and develop land and buildings for affordable housing without displacing existing residents. The plan targeted sites identified as key "build from strength areas" because they were contiguous to stronger clusters of buildings and community facilities.

The overarching goal of the plan was to provide families with access to affordable housing within a mixed-income population area and ensure that the existing low- and moderate-income residents are able to remain in the community and benefit from these improvements. The majority of the buildings identified in the redevelopment plan were owned by the city of Baltimore and conveyed to TRF DP at a nominal cost; the remaining row houses were purchased from private owners.

The target area is a series of contiguous historic districts, encompassing approximately 42 square blocks, and is covered by dense row house developments. Each vacant row house undergoes a total rehabilitation, which includes new Energy Star windows and new appliances and HVAC systems. Both the interior and exterior design are consistent with federal historic standards.

The East Baltimore Historic Redevelopment Project financing structure involves the initial development of rental properties using federal historic tax credit equity, and the slow conversion of rental units to homeownership as the market develops. The model uses an innovative master financing structure that allows for scale redevelopment of individual vacant historic buildings. This master financing structure allows for buildings to be redeveloped individually or in small groups based on a predetermined pro rata capital allocation. The structure allows TRF DP to use a pipeline approach, in which four to six buildings are grouped and then rehabilitated one at a time. The pipeline redevelopment approach lowers the project's holding costs, spreads the legal and professional costs across a greater number of units, and allows local contractors to more easily participate. Because the contracted value of four to six buildings is at a manageable cost, smaller firms can participate. The approach increases the number of local jobs created, maximizing the benefit for the neighborhood.

TRF DP had previously redeveloped 74 vacant properties, between 2012 and 2014, using this method in two separate phases; the first phase closed in 2013 and the second phase closed in 2014.

In 2016, a third phase began for the construction of 48 additional units. As of September 2017, 12 units are completed, with the remaining units expected to be completed by the summer of 2018. As a result of these and other redevelopment efforts, the percentage of vacant and abandoned properties in the Oliver investment area, which includes over 1,750 properties, has been cut in half, from 36 percent to 18 percent. TRF DP's investments have attracted other developers to the area. In 2006, the area averaged less than one building permit per month. In 2016, the area averaged five building permits per month. Although the neighborhood is seeing an increase in redevelopment and property values, this project's focus on affordable rental housing seeks to minimize the displacement of existing community residents.

The favorable financing structure allows for rents that are affordable to families and individuals earning between 50 percent and 80 percent of area median income. The East Baltimore Historic Redevelopment Project has demonstrated that it is possible to provide a range of affordable housing options for a mixed-income population.

With the first two phases complete, entire blocks have been transformed. Subsequent phases will connect with these newly revitalized nodes as renovation efforts expand to additional blocks on the periphery of the original target area. This process is drawing private investors into the community, amplifying the redevelopment impact of TRF DP's work.

As row houses approach construction completion and obtain certificates of occupancy, the leasing process gets underway. Tenants come from neighborhoods throughout the city, but as many as 30 percent come from within the Oliver neighborhood.

Tax Credit Financing and Structure

TRF DP approached TD Bank with a proposal to incorporate historic tax credit equity into the financing of the East Baltimore Historic Redevelopment Project in 2012. The bank recognized the high level of community involvement and research that had gone into developing the revitalization plan and agreed to an initial investment of $2.2 million. The bank subsequently agreed to provide additional equity investments of $1.7 million in 2014 and $2.7 million in 2016, as well as construction loan and term financing for these later phases. The figure on the following page shows the structure of the historic tax credit transaction. Each phase of the project is financed through a unique partnership. All transactions are structured using a single-tier "master tenant" structure, under which the bank purchases a 99 percent ownership interest in a special purpose entity created to own the fee-simple interest in the properties associated with that partnership. This entity leases the properties to a master tenant entity, which is also created for the specific partnership. The master tenant leases individual units to the residential tenants. Through its ownership interest, the bank receives historic tax credits as well as a "cash on cash" return on its investment.

The initial historic tax credit equity contribution was made at the time the designated buildings were acquired by the partnership. Construction-period financing included a conventional loan made by TD Bank as well as a loan from the state of Maryland and the TRF DP Affordable Housing Fund (TRF DP-AHF), a loan fund created by TRF DP for Baltimore to further its affordable housing development activities.

Upon construction completion and receipt of certificates of occupancy, the remaining historic tax credit equity contribution was made; Community Development Block Grant and HOME Investment Partnerships funds were disbursed; a portion of the TD Bank construction loan converted to a five- year term loan; and the TRF DP-AHF capital was recycled into the next acquisition/construction project.

Tables 1 and 2 illustrate the project costs.

The Model

Because this effort focused on expanding rental housing, the East Baltimore project offers a valuable model for using historic tax credits as an effective tool in the revitalization of neighborhoods without displacing lower-income residents. In all, 74 individual row houses have been restored to their original character and 78 households have safe, clean, affordable homes. Several key factors have been essential to the success of this project and are critical considerations if this model is to be replicated in other communities. They include the following:

- A clearly defined target area combined with a thorough understanding of the needs of local residents and the economic strengths and weaknesses of the community.
- Active participation on the part of the local municipality, which is engaged in long-term acquisition and redevelopment planning.
- A strong development team with the expertise to navigate federal historic tax credit requirements.
- An investor/lender with defined Community Reinvestment Act (CRA) goals consistent with the objectives of the project.

Table 1: Sources of Funds

	Total	Per unit
TD Bank construction loan	$ 12,175,500	$ 100,624
TRF DP-AHF loan	$ 6,648,364	$ 54,945
TD Bank historic tax credit equity	$ 6,438,534	$53,211
City of Baltimore	$ 3,171,000	$ 26,207
State of Maryland	$ 3,100,000	$ 25,620
Deferred developer fee	$ 2,340,782	$ 19,345
U.S. Treasury Capital Magnet funds	$ 600,000	$ 4,958
Managing member capital contribution	$ 10,000	$ 83
Total	**$34,484,180**	**$ 284,993**

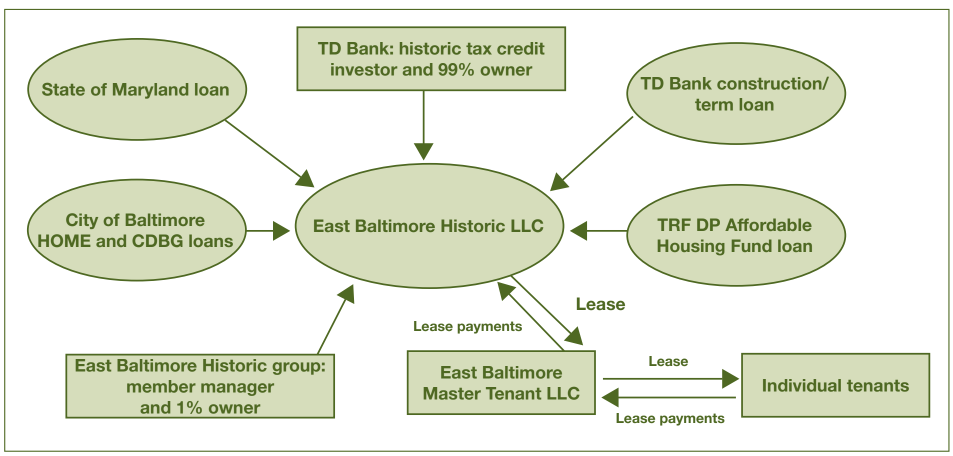
Source: TD Bank.

Table 2: Uses of Funds

	Total	Per unit
Construction contract	$ 24,461,633	$ 200,912
Developer fee	$ 4,414,436	$ 43,653
Soft costs	$ 2,317,667	$ 13,234
Project contingency (8% of hard costs)	$ 2,134,034	$ 17,637
Operating reserves (six months)	$ 586,341	$ 4,846
Site acquisition	$ 570,069	$ 4,711
Total	**$ 34,484,180**	**$ 284,993**

Source: TD Bank.

Figure 1: East Baltimore Historic Tax Credit Structure



TD Bank has had a decade-long lending relationship with the Reinvestment Fund and has invested in two new markets tax credit (NMTC) transactions for which the Reinvestment Fund provided the NMTC allocation. The bank's positive experience with the Reinvestment Fund lent credibility to the fund's initial proposal seeking TD Bank's investment in the East Baltimore Redevelopment Project. The bank was able to draw on TRF DP's reputation for high-quality research and analysis to evaluate the feasibility of the concept. TRF DP also assembled a capable team of professionals, with the knowledge and skills to structure a complicated financial transaction.

The TD Bank equity and lending teams were able to underwrite the transaction based on a well-crafted project budget and cash flow projections. The bank's due diligence included site visits to the Oliver neighborhood and the offices of TRF DP and the Reinvestment Fund, as well as an analysis of the financial capacity of the project sponsor, TRF DP, and its property management capabilities.

In addition to its assessment of the financial and structural integrity of the proposed project, TD Bank considered the community development benefits of this investment. The bank regulatory agencies have determined that banks may receive favorable CRA consideration for investing in historic tax credits if the investment meets the definition of community development in the CRA regulations.

The East Baltimore Historic Redevelopment Project will enable TD Bank to receive CRA consideration for this investment based on the dramatic improvement to the housing stock as well as affordability restrictions that ensure the project will be accessible to low- and moderate- income residents. The community development benefits are safeguarded by the commitment of state and city resources, which incorporate specific affordability covenants.

To date, TRF DP has completed $70 million of a $150 million investment plan for East Baltimore, including the redevelopment of more than 250 TRF DP homes, with an additional 110 units under construction. TRF DP's strategy has attracted several other private developers to the area, which is consistent with the initial goal of stabilizing the real estate market. In this way, TRF DP is viewed as a market catalyst, not exclusively as a housing developer.

TD Bank is an active community development partner, lending more than $423 million and committing $450 million in tax credit investments over the past three years to community development partners and projects across its footprint.

For more information, contact Phyllis Reich at Phyllis.Reich@td.com, or visit the ReBUILD Metro website.

Overview of the East Baltimore Historic Redevelopment Project

Project Partners:

- **TRF Development Partners Inc. (TRF DP):** A nonprofit support corporation of the Reinvestment Fund Inc. TRF DP is a 501(c)(3) nonprofit organization and designated community development financial institution. It was formed in 2006 by TRF and Baltimoreans United In Leadership Development, a community organizing effort that represents over 20,000 residents. TRF DP was established to spur development in deteriorated inner-city neighborhoods by leveraging available public and private resources to finance new construction and rehabilitate abandoned properties, with the goal of creating sustainable and affordable communities.
- **TD Bank:** One of the 10 largest banks in the United States.
- **State of Maryland:** Department of Housing and Community Development, which contributed financial support to the project.
- **City of Baltimore:** Office of Housing, which works directly with TRF DP to target and secure site control over abandoned properties. This partnership has secured site control over more than 500 properties.

Project Financing:

- **State of Maryland:** Department of Housing and Community Development's Community Legacy Program and Rental Housing Program funds and Smart Growth infrastructure grants.
- **City of Baltimore:** HOME Investment Partnerships funds; Affordable Housing Trust Fund; and Community Development Block Grant funds.
- **TRF DP Affordable Housing Fund (TRF DP-AHF):** Revolving loan fund created by TRF DP to further its affordable housing development activities. TRF DP sold 10-year unsecured and non-recourse promissory notes to 26 investors, generating $9.5 million in capital.
- **U.S. Treasury:** Capital Magnet Fund Program.
- **TD Bank:** Equity investor through the purchase of federal historic tax credits, and construction/term lender.

Fannie Mae's HomeStyle Renovation Mortgage Program

Sarah Parada, Director, Corporate Marketing and Communications, Fannie Mae

John Kissinger of Dayton, Ohio, purchased a foreclosed home in February 2016 for $55,000. The house was affordable but clearly a fixer-upper. "The house was in our price range," said Kissinger. "But we needed to strip and repair the roof, repair the garage door, and re-carpet." So when he closed on the home, he rolled the cost of rehabilitation, $23,000, into a single Fannie Mae HomeStyle Renovation mortgage.

HomeStyle Renovation mortgages allow for financing of home improvements up to 50 percent of the as-completed value of the improved property in a purchase or refinance transaction. This type of financing can be less costly for borrowers than taking out a second mortgage or home equity line of credit, since it combines the cost of the home and renovation into one single-cost mortgage.

HomeStyle Renovation can be used by individual home buyers, investors, nonprofit organizations, and local government agencies.

"If we were to sell now, we would have some equity," Kissinger said. "It's a really nice home, and we plan to stay here a long time." He said the as-completed estimated value of his home was $112,000.

Mini Economic-Stimulus Packages

Bank-owned (also called real estate owned) homes are for sale in many parts of the country, and can be more affordable than non-bank-owned properties, according to Realtytrac.

Dustin Swigart, a loan originator in Cincinnati who closed 30 HomeStyle Renovation loans last year, sees this as a niche for serving low- to moderate-income customers. "With renovation loans, the buyer can do light to moderate repairs, such as flooring, roofing, electrical, and plumbing repairs, all the way up to major renovations like room additions and foundation repairs," he said.

Plus, lenders can use HomeStyle Renovation to save deals that have repair contingencies, such as repairing a wall or ceiling. "We can do all of this while still being affordable," Swigart said. "That's what makes these loans so appealing."

Swigart works with local real estate professionals, contractors, and nonprofit organizations like Cincinnati's Over-the-Rhine (OTR) Advancing Derelict and Obsolete Properties through Transfer (ADOPT), a nonprofit group that works to restore housing to productive use as part of community revitalization efforts.

"I'm able to personally help in the revitalization of the communities I serve by educating project partners on the benefits of this type of financing," he said.

OTR ADOPT uses HomeStyle Renovation loans for purchasing vacant properties to demolish and rebuild affordable housing. Those homes are sold to new owner-occupants.

Swigart likens the projects to mini economic-stimulus packages for the community: "You have the sale of the home, the purchase of new materials for the renovation, and the hiring of contractors. Plus, we're moving bank-owned inventory, which helps bring up home values by updating an aged housing stock."

Love the House, Hate the Kitchen

According to Zillow, 11 percent of all U.S. homes were constructed before 1950. Those homes could use some updating to accommodate the tastes and expectations of today's buyers.

"You have the 'Love the house, hate the kitchen' scenario, 'We

HomeStyle Renovation Lender Requirements

To originate HomeStyle Renovation loans, lenders must

- receive prior approval from Fannie Mae,
- have two years of direct experience originating and servicing renovation mortgages within the past five years, and
- meet certain financial capacity and operational requirements.

HomeStyle Renovation Facts-at-a-Glance

Special lender approval required?	Yes
Lender recourse required to deliver the loan before completion of the renovation work?	Yes
Buyer must pay off existing debt?	Not applicable
Basic weatherization and water efficiency	Permitted
Loan level price adjustment credit	$500 if energy improvements are part of the renovation
Financing improvements	Up to 50% of the as-completed appraised value
Escrow requirements	Escrow required
Property eligibility	1- to 4-unit principal residence, 1-unit second homes, or 1-unit investment properties, including condos and co-ops

Source: Fannie Mae.

need three bathrooms,' or whatever it may be," Swigart said. "Buyers like the idea of being able to roll improvements into the purchase cost and closing with some equity." Equity-at-close figures cover a broad range, and he said he's seen consumers close with $10,000 to $90,000.

With a HomeStyle Renovation loan, borrowers can do repairs or renovate a kitchen, add a bedroom to accommodate a growing family or relatives requiring care, or modify the home to age in place.

But renovation loans are not without challenges. They can be tricky to underwrite and take longer to close. And unlike credit lines, renovation loans require lenders to administer the renovation funds by escrowing the funds and issuing draws once periodic and final inspections confirm the planned work is on track or has been completed.

Still, Swigart said he finds these loans, and working with borrowers who use them, highly rewarding. "I've made renovations my focus and have gotten really good at them by systemizing the process," he explains, "so we end up closing in 45 days or less in most cases."

His 2017 goal was to fund 50 HomeStyle Renovation loans. "It's a product I really believe in."

Learn more about HomeStyle Renovation at FannieMae.com.

Articles by non-OCC authors represent the authors' own views and not necessarily the views of the OCC.

Purchase-Rehabilitation Programs Can Transform Communities

Rae Malis, Resource Analyst, NeighborWorks America
Crystal Cosentino, Chief Operations and Compliance Officer, Home HeadQuarters Inc.
Amy Wright, Consultant, NeighborWorks of Western Vermont

More than 240 community development and affordable housing nonprofit groups across the nation are part of NeighborWorks America's network. Among the range of services these groups offer is rehabilitation of homes in neighborhoods most in need of revitalization. Instead of allowing vacant homes to further decay or become hotspots for crime, purchase-rehabilitation programs are restoring them to become safe, healthy homes that are sources of pride for residents in the community. Along with improvements to individual homes, NeighborWorks organizations typically engage in activities intended to improve whole neighborhoods—working with residents, securing infrastructure improvements, and engaging local resources.

NeighborWorks organizations (charter members of NeighborWorks America's network) recognize that the financial burden of purchasing and rehabilitating a house is typically too great for their clients to handle alone. Many of the properties in distressed neighborhoods require a capital investment that exceeds the current fair market value of the home. Strategic investments in key properties, along with other neighborhood improvement activities, are intended to benefit current homeowners and increase the future market value of properties in the neighborhood.

When blight is eliminated, the housing market improves and private investment follows. Without a concentrated and comprehensive effort of neighborhood stabilization, many properties will languish and neighborhoods will become more costly to rehabilitate.

The following success stories illustrate the benefits of purchase-rehabilitation solutions and demonstrate the way organizations can tailor their programs and offerings based on the needs of their clients and communities. These examples—from Home HeadQuarters of Syracuse, N.Y., and NeighborWorks of Western Vermont—are just a few of many. The physical changes to rehabbed homes help ensure better health and security for the individuals and families who occupy them, and the relationship-building outreach by the nonprofit organizations helps restores pride and confidence in communities as a whole. This two-pronged neighborhood approach—a focus and investment in homes as well as in the people who live there—is at the heart of NeighborWorks' mission and success.

Home HeadQuarters

This house at 318 Marcellus St. in Syracuse was abandoned. Its rehabilitation included a new porch and Victorian front, helping revitalize the historic Salt District area.

Syracuse Sees Turnaround

For the past 20 years, Home HeadQuarters (HHQ) has purchased vacant or blighted properties in New York State's Onondaga and Cayuga counties to substantially rehabilitate and sell them to owner-occupants. In Syracuse, the organization has invested heavily in four areas of the city—Near Westside, Southside, Skunk City, and Northside. These areas are located in Neighborhood Revitalization Strategy Areas designated by the city's Department of Neighborhood and Business Development as a part of its comprehensive community revitalization strategy.

These areas encompass Syracuse's most distressed communities, which struggle with low rates of homeownership, large numbers of abandoned or vacant properties, and high unemployment. HHQ has taken a multifaceted approach to property redevelopment, working to improve homeownership rates and increase quality, affordable rental opportunities.

HHQ has invested more than $30 million in neighborhoods across Syracuse that are distressed or in transition. The organization also has purchased strategically located properties from the local land bank (a land aggregator) and the National Community Stabilization Trust to redevelop and sell to first-time home buyers.

HHQ is typically able to purchase properties through the city of Syracuse or the local land bank at nominal costs. In addition, HHQ works with local lenders to purchase bank real estate owned inventory that is in need of rehabilitation within the strategy areas. "These properties are often sold at a nominal cost and can also come with bank funds to help with the rehabilitation," said Kerry Quaglia, HHQ's Chief Executive Officer. HHQ expects that with the recent passage of the "zombie properties"[1] legislation in the state of New York, the nonprofit group will see its relationship with local lenders develop further, since HHQ is interested in these assets as part of its community redevelopment efforts.

HHQ has struggled with a gap in available financing for its base clientele—low-income households, minorities, and single, female heads of household—wanting to purchase vacant/foreclosed properties. This has resulted in HHQ offering more first-mortgage financing to the core base, traditionally low- and moderate-income (LMI) consumers who sought pre-purchase education and counseling at HHQ's U.S. Department of Housing and Urban Development-certified Homeownership Center. This is another area HHQ believes will provide opportunity to develop more meaningful relationships with local lenders. HHQ plans on selling its first mortgage portfolio to these local lenders once the loans have been seasoned.

As a certified community development financial institution (CDFI), HHQ is exempt from the Consumer Financial Protection Bureau's ability-to-repay (ATR) requirements, provided the group meets certain other applicable requirements.[2] Lenders can therefore purchase HHQ loans and not be subject to conditions in the ATR rule. Further, HHQ has created Superior Servicing LLC, a subsidiary that will continue to service these first mortgages for the lender, allowing HHQ to maintain the quality, personal servicing they have been providing to their borrowers.

HHQ provides a full suite of services to those purchasing the rehabbed homes. Clients can participate in home buyer education classes and receive down-payment and closing-cost assistance, as well as help clearing up their credit issues and preparing for homeownership. HHQ often seeks local lenders to participate as trainers in their home buyer education classes. These classes produce more than 400 graduates a year. These graduates are great candidates for affordable first mortgages, with flexible underwriting and low down payments. HHQ also provides participants with a flyer on affordable mortgage products available from banking partners.

Salt District Revitalization

In conjunction with Syracuse University and the Gifford Foundation, HHQ's Near Westside Initiative revitalized the Salt District area of Syracuse. With help from federal, state, and local grants, as well as construction financing from banks, HHQ purchased 64 houses at the center of the Near Westside neighborhood. The organization demolished some units, rebuilt some homes, and sold others "as is," with low-interest financing for renovations. While poverty persists in the greater community, these efforts have culminated in reduction of crime, code violations, and vacancy rates.

One of HHQ's clients first heard about the organization through a classmate at the State University of New York College of Environmental Science and Forestry while in graduate school. He was tired of renting and believed he was ready to buy his first home. He started looking at homes in the city and registered for HHQ's certified home buyer education course, which helped him understand his responsibilities as a homeowner and made ownership seem possible. Right away, the client was drawn to the Near Westside neighborhood. He enjoyed its diversity, hardworking residents, and proximity to excellent

1 The term "zombie property" refers to a residential property abandoned by a homeowner after the initiation of a foreclosure action but before the completion of such action.

2 Ability-to-repay requirement under the Truth in Lending Act (Regulation Z), 12 CFR 1026.43 (a)(3)(v)(A).

services and the downtown district.

Meanwhile, as he searched for his future home, HHQ had just begun renovating a new property. The rehabilitation included roof installation, updates to the plumbing and electrical systems, new windows, a fresh paint job, and a complete rebuild of the interior, converting the building back into a single-family home. The house appraised and sold for $75,000. The property was eligible for a variety of local, state, and federal subsidies to write down the cost to make it affordable to the buyer. The initial acquisition of the property, purchased from an estate, was $19,171. It was roughly assessed at $30,000 when HHQ purchased it. The organization invested a total of $226,305 to complete the project. The financing components required to purchase and rehabilitate this home are described in the following table.

Now the homeowner enjoys the benefits of energy-efficient windows, a new heating system, closed-cell spray-foam insulation, and the joy of a brand new kitchen and bathroom. In addition, the rehabilitation retained some of the home's original character, including the front staircase and the detail on its curved wall.

Syracuse, N.Y., Salt District Rehabilitation Case Study—318 Marcellus Street

Sources of Funds	
Restore New York grant	$80,332
First mortgage from HHQ	$75,000
HUD Neighborhood Stabilization Program grant	$50,973
New York State Neighborhood Stabilization grant	$20,000
Total, sources of funds	$226,305
Uses of Funds	
Construction/rehabilitation costs	$187,033
Acquisition of property	$19,171
Carrying costs (insurance, taxes, maintenance, line of credit)	$14,793
Consultant fees (architect/environmental testing)	$5,308
Total, uses of funds	$226,305

Source: Home HeadQuarters.

Purchase-Rehabilitation Transforms Vermont Neighborhood

NeighborWorks of Western Vermont (NWWVT) has been purchasing properties in LMI communities since 1986, when it first opened its doors. The organization has used a "scattered-site" model, purchasing homes in need of repair in three counties spanning about a quarter of Vermont. In 2009, in conjunction with other civic groups, NWWVT began a more concentrated effort to meet the challenges that were coming to a head in a 10-square-block of the Rutland, Vt., neighborhood known as Northwest Rutland. Once a neighborhood of worker housing, the area had transformed over a 20-year period into a place known for drug use, abandoned homes, and crime. NWWVT and its partners wanted to help residents regain their lost neighborhood and the equity in their homes. A Community Development Block Grant was secured by the city of Rutland and NWWVT to support this effort.

As a part of a multi-pronged initiative called Project Vision, NWWVT secured capital to remove blighted properties and worked with residents to market the strengths of the neighborhood. These efforts were supported by community policing and a more comprehensive approach to opiate addiction, among

Rutland, Vt., Project Vision Case Study—39 Pine Street

Sources of Funds	
Grant funds to NWWVT from Vermont Community Development Program, City of Rutland, Green Mountain Power	$122,320
Home buyer mortgage from People's United Bank	$103,000
Home buyer equity	$5,000
Homeland grant from Vermont Housing and Conservation Board	$22,000
Total	$252,320
Uses of Funds	
Construction	$174,330
Other development costs	$39,300
Property acquisition	$18,690
Cost to install solar system	$15,000
NWWVT development fee	$5,000
Total	$252,320

Source: NWWVT.

other initiatives.

NWWVT targeted 11 of the 27 vacant homes in the neighborhood. Four of the targeted homes were blighted beyond repair and required demolition. The first of the demolition sites has been transformed into a park—the neighborhood's first new park in 47 years. Another lot, now owned by the city, has outdoor movie nights, informal ball games, and other events where residents show up in droves, and where community police interact with the neighbors informally as a part of community-building neighborhood activities.

NWWVT purchased and rehabbed seven homes in the worst condition, with the intent to refurbish and sell them to low-income homeowners. Two properties have been sold, and five others are in the rehabilitation process.

Local banks contributed construction, permanent financing, and bridge loans. Grants were also provided by the state of Vermont, the city of Rutland, Green Mountain Power Company, and the Vermont Housing and Conservation Board. The financing sources and uses needed to purchase and rehabilitate this home are described in the Rutland, Vt., case study table on the previous page.

The seven properties were selected to send a signal of confidence to the neighborhood. A prime example of this is the rehabilitation of three notorious properties seized by the federal government as the location of drug activities. When the U.S. Marshals Service seized these properties, it brokered an agreement to sell the homes to the city of Rutland and NWWVT. The city provided tax forgiveness so that NWWVT could improve the properties and return them to single-family ownership. "This type of effort reassures neighbors," said Ludy Biddle, Executive Director of NWWVT, citing the fact that for the first time in many years, a neighboring property owner secured a loan for repainting his home. "The fact that locals are interested in giving their own homes a facelift is a promising sign for the neighborhood."

NWWVT has invested considerable time and effort into transforming the acquired homes into bright spots in this Rutland neighborhood. Some were in such poor condition that the houses had to be lifted off their foundations, transported to the back of the property, and later moved back. The organization's goal is to ensure that each home is retrofitted to need absolutely no updating for at least 10 years. In addition, thanks to a Green Mountain Power grant, solar energy panels have been installed on three of the houses to minimize energy costs.

One thing NWWVT staff say they're most proud of is the community spirit they help foster. A community coordinator on NWWVT's staff is almost always out in the neighborhood—not at a desk. Community gardens have been created to benefit the residents and their children. Several block parties were held over the summer, and beyond enjoying food and fun, residents got to know their local police officers, the mayor, and each other.

These connections already have made a difference in Rutland. When Morgan Overable, head of NWWVT's building team, realized that all of her tools had been stolen out of a near-finished rehabilitation property, neighbors took action. The stolen items were quickly recovered because residents felt comfortable working with the law enforcement officers they had met through community events. This collaboration remains a source of pride for law enforcement and residents alike, and illustrates how far the Rutland community has come.

"It's one thing to fix up the houses," said Ms. Biddle. "It's another to build trust between neighbors and fix the feelings about the neighborhood."

For additional information about the Home HeadQuarters Inc., please contact Crystal Cosentino at crystalc@homehq.org. For additional information about NeighborWorks of Western Vermont, please contact Amy Wright at amybwright87@gmail.com.

NWWVT

This three-bedroom home at 39 Pine St., in Rutland, Vt., was gutted and renovated to include new solar roof panels, an open floorplan, eat-in kitchen, and two new porches.

Articles by non-OCC authors represent the authors' own views and not necessarily the views of the OCC.

Building the American Dream, One Homeowner at a Time

Susan L. Beatty, Vice President and External Communications Manager, U.S. Bank

For many people, the American dream starts with a beautiful house they can call their own. Homeownership has long been at the core of most people's financial goals. It represents stability, community, and confidence. Studies have shown that children and families are better positioned to thrive and succeed in a home that is safe and permanent.

With this in mind, U.S. Bank started the American Dream home loan program in the 1990s to provide a solid and ethically priced product to help consumers with limited resources become homeowners. The sidebar to this article gives further details on this product.

The American Dream program is a good option for low- to moderate-income (LMI) borrowers and in LMI neighborhoods, because it allows for a low down payment and offers, in addition, rehabilitation loan options. In 2016, about 1,200 households used this program to realize their dream of homeownership, resulting in over $145 million in mortgages, helping to revitalize communities across the U.S. Bank footprint.

LMI individuals and households buying in LMI neighborhoods often have a hard time saving enough money for the traditional mortgage down payment amount (5 to 20 percent, or more). In addition, these buyers often find that homes in their price range need repairs before they can be occupied. Over the past 10 years, especially during the Great Recession, many lenders pulled out of this niche market and stopped offering low-down-payment programs. U.S. Bank did not pull back and is proud of continuing to offer this product, as the need in many communities during this time was greater than ever.

"Helping consumers achieve the goal of homeownership is one of the most rewarding things we do as a bank," said Melissa Borino, U.S. Bank's Senior Vice President and Managing Director, Community Development and Community Reinvestment Act. "It is our goal to earn our customers' trust by helping them reach their financial objectives, and homeownership is often at the top of the list. The American Dream program has been the beginning for so many individuals and families across our footprint. When people first walk into their new home, there is a feeling of great achievement."

The program includes home buyer education in an effort to increase financial capacity and options for consumers to make good choices for their future. At U.S. Bank, we hope the program serves as a path to home buying, and most importantly as a means to sustainable homeownership.

"At the end of the day, we want our customers to not only achieve homeownership but feel confident in their ability to improve and maintain the property and repay the loan," said Lisa Ekstrom, Community Programs Manager for U.S. Bank.

Home Buyer Counseling

Beyond the American Dream home loan program and other lending programs, U.S. Bank is committed to supporting buyers through the home purchase process. We partner with several housing counseling agencies to provide first-time home buyer training and participate in numerous down payment assistance programs. In 2016, nearly 1,500 U.S. Bank mortgage customers benefitted from down payment assistance programs.

U.S. Bank

Keona Tate enjoys her new kitchen in the home she rehabilitated as an American Dream homeowner in Chicago.

U.S. Bank requires that all customers seeking an American Dream rehabilitation home loan receive home buyer counseling. In some cases, customers may need to repair their credit or save additional funds to purchase a home, which can take several months. Once the home buyer becomes pre-approved and starts looking for a home, it can take additional time to find the right home. When a home is selected, the bank sends out a rehabilitation advisor to determine the amount of work needed to make the home move-in ready. The potential home buyer is then required to find at least two bids from contractors to complete the needed repairs. The bank also has an appraiser estimate the after-rehabilitation value to ensure that the market value will be there once the repairs are done.

"First-time home buyer education is critical for consumers," said Lenny McNeill, Senior Vice President of National Strategic Markets for U.S. Bank. "We recommend this to all of our potential buyers. Having a basic understanding of how taxes, appraisals, loan financing, and even the closing process work is paramount for consumers to understand the home buying process. We take great responsibility in making sure our customers have all the information they need when they complete the program."

There are times when the appraisal done after the rehabilitation doesn't support the amount of property repairs. In this situation, additional negotiations may need to take place between the home buyer and seller, or additional grants or gap financing located. This process can take six months or more. Seeing the look on a home buyer's face at closing when the documents are signed and ownership is official, however, is recognition that all the hard work was worth it," Borino said. In addition, rehabilitating a home in an underserved or LMI community often spurs others to fix up their homes, changing the community over time and increasing home values.

The American Dream loan is a product that needs to be highlighted, by individuals familiar with the products to potential home buyers interested in LMI communities. That is why U.S. Bank is focused on hiring a diverse team of lending officers to meet market demands with staff who reflect the market's diverse population. We are working to increase and improve our recruiting efforts to help create more homeownership opportunities in our communities.

U.S. Bank American Dream Mortgage Product

The American Dream program is a fixed-rate home loan financing program that allows rehabilitation funds to be included in its loans. U.S. Bank has made nearly 3,700 of these loans over time, totaling nearly $400 million.

Borrowers' family income must be less than 80 percent of area median income. There are no income limits if the purchased property is located in an LMI census tract. The borrower must provide a minimum of $1,000 or 2 percent of the purchase price, whichever is larger, from the borrower's own funds. The bank's American Dream program also allows for some flexibility in credit guidelines. There are no minimum credit scores, and a borrower cannot be rejected because of a lack of established credit history. U.S. Bank has a no-interest deferred assistance loan program that can be used in conjunction with the American Dream product. This no-interest loan program assists with a down payment, closing costs, and rehabilitation gap funding.

Maximum assistance under this program is $5,000.

Keona Tate's Story

Keona Tate recently closed on a fully rehabilitated home in the Woodlawn neighborhood on the south side of Chicago, using the American Dream product. Although she secured the contract at a relatively low sale price, the home required an extensive amount of rehabilitation before she could move in and enjoy the space.

"Keona came to us eager to become a homeowner," said Chester Bell, CRA Mortgage Sales Manager for U.S. Bank in Chicago. "We were able to get her into the American Dream program and ultimately into a fully renovated home. That is the ultimate win-win."

The rehabilitation advisor who worked with Tate and the bank concluded that improvements for the home would cost $40,000. An appraisal was completed based on the after-rehabilitation value to ensure the acquisition cost and improvements were within reason. The entire process, including construction, took roughly six months. With the help of a local down payment assistance program, coupled with the American Dream product, Tate was able to move into a like-new home with over 30 percent equity. We believe that the new value will act as a tide that lifts other home values in the area.

"The beauty of homeownership in some communities is that it has a ripple effect for the entire area," said Eva Brown, Community Development Regional Manager for U.S. Bank. "Success and stability encourage additional success and stability. A strong and vibrant community is the end goal, and homeownership is a large part of reaching that goal."

For additional information, please contact Melissa Borino at melissa.borino@usbank.com.

National Community Stabilization Trust—A Bridge for National Bank and Community-Based Partnerships

Julia Gordon, Executive Vice President, National Community Stabilization Trust

A decade after the start of the financial crisis, today's U.S. housing market remains uneven. Many areas have rebounded significantly from the recession and have a robust housing market. Others—especially communities of color, lower-income areas, and cities where economic activity remains depressed—continue to grapple with high rates of vacant, abandoned, and distressed properties.[1]

Established in 2008, the National Community Stabilization Trust (NCST) is a nonprofit organization that works in partnership with banks, mortgage servicers, secondary market institutions, and other partners to support healthy neighborhoods and fight blight. Our real estate owned (REO) and distressed asset programs move distressed and vacant residential properties into the hands of those who will rehabilitate the houses either (1) for sale to an owner-occupant or (2) for rental as safe and affordable housing. Additionally, the NCST engages in housing policy research and advocacy, and provides a source of capital to organizations engaged in housing acquisition and rehabilitation work.

Florida Minority Community Reinvestment Coalition

Before and after: This deteriorated home in Northwood Hills, a historic area of Palm Beach County, Fla., was purchased and renovated through the NCST's First Look program. Many of its original 1926 features were restored, and the home was then purchased by a first-time LMI home buyer.

Background

One problem that has destabilized many communities is the persistence of vacant and abandoned homes, which are exposed to vandalism and continued decay. In some instances, mortgage servicers and investors make an economic decision not to complete the foreclosure process, particularly for low-value properties. The result, which is often described as "zombie foreclosures," is that properties continue to deteriorate and exert a viral influence on the community. This virus can weaken nearby home values, create health and safety risks, reduce local tax revenues, and contribute to further neighborhood decay.

In many of these distressed markets, moving vacant properties into the hands of new owner- occupants or responsible landlords faces significant barriers. Home values in these markets often suffer from a valuation gap, because the costs to acquire and rehabilitate one of these properties for safe and healthy occupancy exceed the fair market value of the home.[2] If these properties are not acquired and rehabilitated, they may remain

[1] See Michela Zonta and Sarah Edelman, "The Uneven Housing Recovery," Center for American Progress, November 2, 2015.

[2] See Kendall Baer, "The Valuation Gap: A Growing Issue for Housing Market Recovery," The M Report, February 29, 2016.

Florida Minority Community Reinvestment Coalition

Florida Minority Community Reinvestment Coalition

Before and after: Rehabilitation of this home in Florida included a kitchen with new appliances, cabinets, and flooring, making it ready for a low-income family looking for an affordable home to buy.

The Florida Minority Community Reinvestment Coalition (FMCRC) is a nonprofit organization dedicated to improving the quality of life for low-income and minority communities in Florida. The FMCRC's goal is to empower low-income and minority communities and the organizations that serve these communities. The FMCRC advocates for attracting investments in community revitalization, health, education, homeownership, employment, and minority entrepreneurship. Over the last 24 months, the FMCRC has completed the rehabilitation of 66 homes, including single-family homes, condominiums, and townhomes.

"The demand in minority communities for affordable, decent housing is enormous," said Al Pina, Chairman and Chief Executive Officer of the FMCRC. "And capital is critical to increasing the stock of affordable housing. Community development financial institutions cannot be the only source of this capital. Grants and government funds are finite; there will never be enough. We need other sources of flexible capital to accomplish our best work." Pina noted that a community development organization must first set up a proper financial system to build relationships with banks. The flexible capital his organization has received from banks allows it to scale its work more effectively than small organizations typically can. He uses a construction line of credit, which has currently allowed the FMCRC to build a pipeline of almost 100 homes—homes that will provide affordable housing for Florida families.

"Whether we renovate a home or build a home from the ground up, the neighborhood is our top customer," said Pina. "Our goal is to raise the values in that neighborhood, which then helps the people living nearby, and it helps the banks as their mortgage customers are now achieving equity in their homes."

Over time, Pina has learned how to reduce the costs associated with renovating and building homes, such as buying construction materials like tile and granite in bulk. With flexible capital raised from banks, he can purchase the materials and avoid upcharges typically requested by a contractor. These savings allow the FMCRC to build a quality product for home buyers, yet keep the end price affordable.

Pina said the banks are also much faster in releasing capital for the projects, at about 40 days on average, compared with an average of 180 days for community development financial institutions. He added, "Participating with an NCST community partner organization in revitalizing our communities is good business for the banks. They profit from interest on the money they loan, plus they may receive CRA [Community Reinvestment Act] consideration." He also said banks may benefit by acting as the mortgage lender for customers purchasing the homes.

For more information, visit the FMCRC website.

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vacant, falling further into disrepair to the point where demolition is the only option.

The housing recovery in distressed communities depends on efforts to responsibly acquire and rehabilitate properties. Investors, at times from outside the community, have shown an appetite to purchase distressed properties, but often do not make repairs to bring the properties up to code, and simply opt to rent to low-income tenants or leave the property vacant with plans to flip it once values increase. In the worst-case scenario, investors have abandoned properties entirely when values remained low.

There are a number of efforts to stabilize these communities by affordable housing developers and nonprofit organizations. These buyers want to acquire and rehabilitate these properties for sale to low- and moderate-income homeowners or to expand the stock of affordable rental housing. (For more information, see the "National Community Reinvestment Coalition GROWTH Fund.") The NCST's community partners report, however, that stiff competition from investors with deep pockets remains one of their biggest obstacles in stabilizing neighborhoods and fighting neighborhood blight.

First Look/REOMatch

First Look, powered by the NCST's online REOMatch platform, is the NCST's longest-running and largest program. For financial institutions with REO portfolios, First Look provides a mechanism to sell those properties to community partner organizations such as local nonprofit groups, community development corporations, and other neighborhood stabilization-focused buyers that are pre-qualified by the NCST. Current First Look sellers include Fannie Mae, Freddie Mac, and other private financial institutions.

First Look gives local NCST partner organizations working to stabilize communities an opportunity to purchase REO properties before they are listed on the Multiple Listing Service (MLS) or auction sites. Selling properties through the REOMatch platform saves repair, maintenance, and marketing costs and reduces the risk of further property value declines from vandalism or other damage.

The First Look program solves two of the most daunting problems facing distressed communities. First, because the sellers often pass on their savings to local buyers, the property pricing can help fill the valuation gap between low market value and higher rehabilitation and purchase costs. Second, giving NCST partners the opportunity to acquire properties before they are offered on the MLS or auction sites reduces investor competition and solves the problem of sourcing suitable properties in communities that are being targeted for revitalization.

NCST buyers, our community partner organizations, appreciate the cost savings and look for additional savings wherever possible. One NCST community partner has formed partnerships with local banks, which provide a resource for "flexible capital" that helps further hold down costs. Read more about this program in the sidebar "Florida Minority Community Reinvestment Coalition."

When First Look sellers take possession of newly foreclosed properties, they immediately place those properties on REOMatch. The REOMatch platform gives local buyer-partners an opportunity to customize their property searches. Updated daily, REOMatch provides NCST buyers with immediate notice of any properties that become available in their target neighborhoods.

Buyers have 48 hours to indicate initial interest in the properties, and then have eight days to inspect the property and determine whether they would like to receive a purchase price from the seller. After receiving that price, they have 48 hours to accept the seller's offer price. If no NCST buyers are interested in obtaining pricing, or if the buyer rejects the pricing after inspection, the financial institution is free to prepare the property for marketing to the general public, having lost very little time.

Although the volume of REO properties available through the platform has declined as foreclosures have decreased, the program received a boost in recent years with the participation of Fannie Mae and Freddie Mac. These entities now use the NCST's REOMatch system for their Neighborhood Stabilization Initiative, which offers Fannie- and Freddie-owned REO properties to local affordable housing and community development organizations in 28 strategic markets around the country, mostly east of the Mississippi River.

National Community Reinvestment Coalition GROWTH Fund

In 2014, the National Community Reinvestment Coalition (NCRC) established the GROWTH initiative—Generating Real Opportunities for Work Through Housing. GROWTH's objectives include the following:

- Using a national impact investment fund (NCRC Housing Rehabilitation Fund LLC) to support purchase and renovations of affordable properties and properties in low- and moderate-income (LMI) neighborhoods.
- Building an inventory of affordable, quality housing for rent or sale to LMI families that will support neighborhood stabilization.
- Preparing qualified prospective home buyers with housing and financial capability counseling.
- Creating jobs (renovating affordable housing units) and workforce development training (in the construction trades) within the communities.

The NCRC Housing Rehabilitation Fund describes itself as "a self-sustaining, for-profit, mission-driven LMI neighborhood investment fund." The fund attracts both capital for lending and investment funds for equity. Together, the fund manager and each investor can tailor the investment target to best meet the investor's social impact needs.

Through the fund, homes in need of renovation are purchased, usually in LMI neighborhoods; the renovation is completed; and the houses are offered for sale to qualified buyers or as lease-to-own opportunities for families not financially ready to buy. Both home buyers and lease-to-own participants agree to participate in housing and credit counseling to improve their understanding of ownership requirements and responsibilities, and their likelihood of success.

The GROWTH initiative also supports workforce/job training in the construction trades. Using the homes purchased through the fund as resources for on-the-job training, program participants on the workforce development tract apprentice with home renovation crews for about six months. When the program is completed, each trainee apprentice works with a program job developer to find permanent employment in the local commercial construction industry.

Today, after two years, the initiative is showing positive results. The NCRC has acquired 130 properties, signed three lease-to-own agreements with LMI families, sold 20 homes to LMI families, and produced an annualized unleveraged return of 15.8 percent on the sold deals.

To qualify for the lease-to-own program, interested families must require time to improve their credit score, reduce their debt level, or save for a down payment. The program requires a minimum credit score of 550, a $50 application fee, a criminal background check, and gross monthly income that is at least three times greater than the monthly rent on the property. The lease-to-own program also requires a minimum two-year lease term, and the lease-to-own tenants must exercise their right to purchase by December 31, 2021, the program end date.

NCRC

After divorcing and selling her family home, this homeowner worked with GROWTH to buy an affordable townhome for herself and her son in Delaware.

The NCRC's rehabilitation-to-sale program offers immediate homeownership opportunities for individuals interested in purchasing in an LMI neighborhood or for LMI families in any neighborhood. GROWTH buys and renovates properties and makes them available to interested buyers. Buyers are responsible for seeking out and obtaining a mortgage.

For further information, visit the GROWTH by NCRC website.

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The ReClaim Project Initiative

In collaboration with the Housing Partnership Network, a business collaborative of the nation's leading affordable housing and community development nonprofit groups, the NCST owns and manages a small portfolio of long-delinquent mortgages donated by financial institutions, including national banks. This program, known as the ReClaim Project, contributes to overall neighborhood revitalization efforts in markets still recovering from the housing crisis. By offering a community-positive resolution for pre-foreclosure loans on low-value properties, the ReClaim Project addresses situations that otherwise might result in a zombie foreclosure.

The ReClaim Project has accepted donations from national banks of low-value nonperforming mortgage loans along with a financial contribution, sized to pay the costs associated with resolution of the properties. This contribution can cover costs for servicing and loan remediation or property resolution expenses, such as homeowner counseling, property security and maintenance, title and property tax deficiencies, property repairs, and, when necessary, demolition. After transferring the loan, a specialized servicing firm that has experience with this asset class handles all servicing functions and initial loss mitigation efforts.

The ReClaim Project team and the special servicer then work with local government and community housing partners to create the best property-specific resolution. This partnership leverages the on-the-ground expertise of the NCST's network of community-based providers and the Housing Partnership Network's local members, along with community, city, and state officials, to identify a disposition strategy for each property. The team considers several factors, including the borrower's financial condition, the property's condition, alignment of a disposition strategy with community goals, and any local ordinances related to tax foreclosure, property preservation, and other relevant issues.

After weighing all factors, the team either modifies the loan so the borrowers can afford the monthly payments or arranges for a foreclosure alternative, such as a short sale or a deed in lieu of foreclosure. When the team is unable to contact the owner or work out a foreclosure alternative, the foreclosure process is completed and the property is moved into the NCST's First Look program to end up in the responsible hands of a local NCST partner.

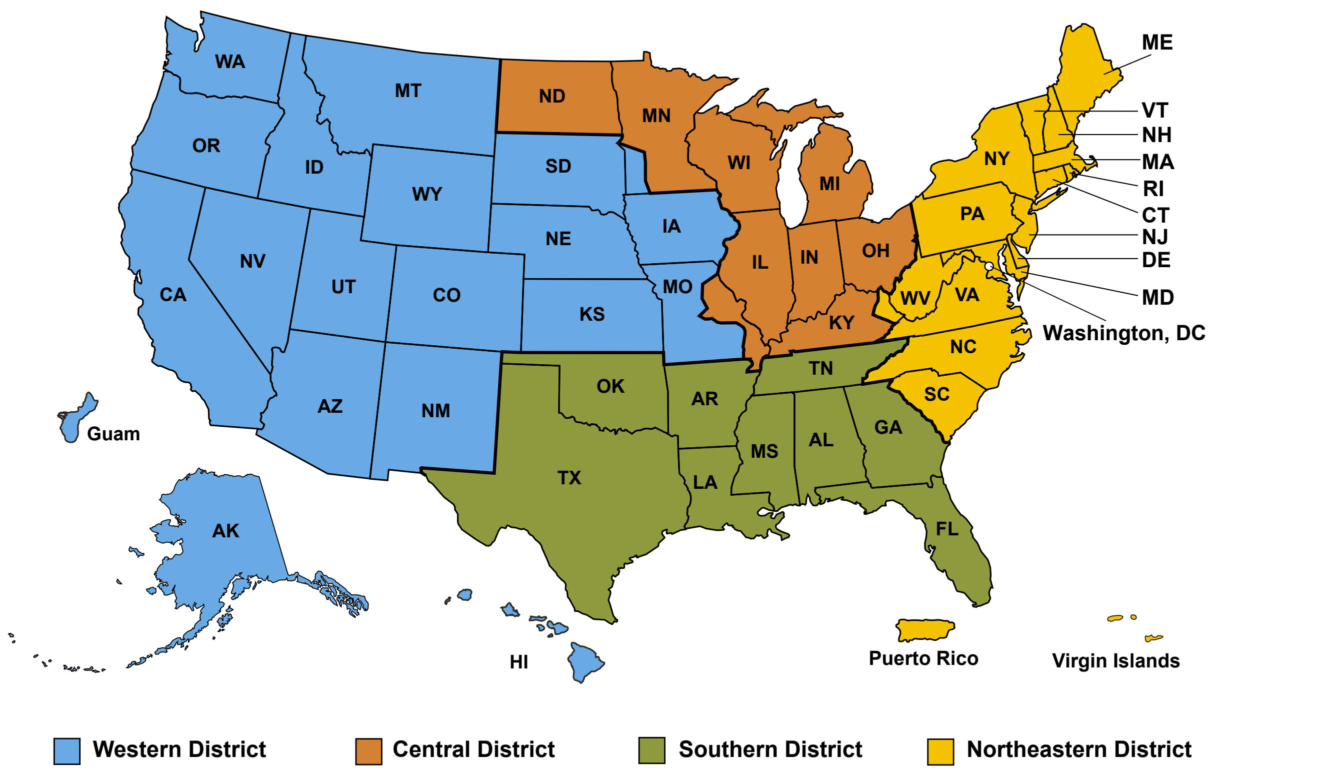
Participating financial institutions can benefit in several ways. Most important, conveying a mortgage note or a pool of mortgage notes to the ReClaim Project avoids the cost and economic uncertainties associated with foreclosure and property disposition. By prioritizing homeowner retention and community-focused solutions, this initiative reduces a bank's potential reputation risk. Additionally, partnering with a single national intermediary is more cost effective than negotiating individual conveyances to hundreds of local organizations with varying levels of note resolution experience.

The REO Capital Fund

The NCST also operates the REO Capital Fund, which aggregates capital from philanthropic and social investment sources to provide financing for local organizations to acquire and rehabilitate single-family homes. Effectively deploying this fund has been challenging, however, due to the cost of these monies and limitations on their use that screen out too many applicants. While the fund has provided capital for a number of important efforts, the NCST's experience in administering the fund has underscored how great the need is for better, more flexible capital sources. The NCST is looking for financial institutions to partner with in this effort.

For more information, please visit the NCST website.

Community Affairs supports the OCC's mission to ensure a vibrant banking system by helping national banks and federal savings associations to be leaders in providing safe and sound community development financing and making financial services accessible to underserved communities and consumers, while treating their customers fairly.



E-mail and telephone information for the OCC's District Community Affairs Officers is available at www.occ.gov/cacontacts.

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