Request for Information Response from Enterprise Community Partners

Enterprise/FHA REO Asset Disposition

September 15, 2011

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<th>Type of strategy</th>
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<td>Outright purchase</td>
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<td>Joint-venture</td>
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<td>Rent-and-hold</td>
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<td>Lease-to-own</td>
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<td>Suggestions to enhance outcomes</td>
<td>Other (specify)</td>
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A.) Respondent organization:

1. Organization and addresses:
   Enterprise Community Partners
   10227 Wincopin Circle
   Columbia, MD 21044

2. Contact information:
   Robert Grossinger
   Vice President, National Community Revitalization Initiative
   rgrossinger@enterprisecommunity.org
   312.803.0778

3. Size of organization in terms of revenue and employees:
   $190,195,418 total revenue in 2010 for Enterprise Community Partners
   (nonprofit) and our for-profit subsidiary Enterprise Community Investment
   481 total employees

4. Years in business:
   29 years

5. Type of entity:
   Nonprofit national intermediary
Enterprise Community Partners appreciates the opportunity to reply to the Request for Information (RFI) distributed by the Federal Housing Finance Agency (FHFA) and the U.S. Department of Housing and Urban Development (HUD). We commend these entities for seeking public input and ideas as to how to best augment and enhance the Real Estate-Owned (REO) asset disposition programs of Fannie Mae, Freddie Mac and the Federal Housing Administration (FHA).

At Enterprise, we create opportunity for low- and moderate-income people through fit, affordable housing and diverse, thriving communities. Central to our mission is Enterprise’s fundamental commitment to give those living in poverty an opportunity to move up and out. We believe that these opportunities are best provided in communities with a diverse mix of affordable and market housing options, access to jobs and social supports, and a strong commitment to the environment. Since 1982, Enterprise has raised and invested nearly $11 billion to help finance more than 270,000 affordable homes across the country.

Enterprise has a Community Revitalization team that has worked nationally and locally over the past four years to help communities cope with the destabilizing impact of foreclosed and abandoned houses. Our team has worked with our partners to develop the national tools and local capacity to implement holistic neighborhood stabilization in the wake of the foreclosure crisis. Starting in 2001, Enterprise partnered with HUD on their Asset Control Area (ACA) Program. This program allowed qualified nonprofits and local governments to purchase HUD-owned homes at a discount, rehabilitate them and resell them as affordable housing. Through the ACA program, Enterprise facilitated the purchase, rehabilitation, and affordable resale of nearly 5,000 foreclosed homes in 20 metropolitan areas. In addition, Enterprise was among the first to recognize the importance of proper REO disposition in order to facilitate neighborhood stabilization. As a result, we were one of the 6 founding members of the National Community Stabilization Trust, an entity created in 2009 to assist government agencies and non-profits revitalize distressed neighborhoods. The Trust provided efficient and streamlined access to vacant and abandoned properties from financial institutions and flexible financing for neighborhood stabilization activities.
Therefore, with this extensive experience in affordable housing, neighborhood stabilization, and REO disposition, we offer the following comments in response to the RFI:

1. **Build upon existing programs and initiatives (corresponds to RFI item B.1.):**

   Recognizing the need for innovative solutions to address the large and increasing volume of REOs, Enterprise Community Partners recommends continuing the “first look” option offered by the Enterprises which allows a homeowner/purchaser, not-for-profit organization or a Neighborhood Stabilization Program (NSP) grantee the exclusive right to offer a purchase price during the first 15 days that an REO is on the market. Neighborhoods often benefit from homeownership or not-for-profit ownership over private investor ownership. Therefore, it is important to maintain that philosophical approach to any larger scale disposition strategy. Any new initiatives should build upon this philosophy, rather than compete with it, and permit homeowner/purchasers, not-for-profit organizations and NSP grantees and subgrantees the opportunity to purchase Enterprise- and FHA-held REO for their neighborhood stabilization purposes prior to any other bulk disposition methods being considered.

   In addition to the NSP Program, the Treasury Department initiated the Hardest Hit Fund (HHF), an effort to help homeowners stay in their homes, thus preventing future REO expansion. Whatever initiatives are adopted as a result of this RFI, coordination with existing “community stabilization” efforts is critical. The NSP and HHF programs seek to ameliorate the devastating effects that widespread foreclosures have on communities while also seeking to support affordable housing initiatives. Unless the Enterprises and HUD coordinate this REO disposition effort with existing revitalization efforts of other government programs in already targeted communities, the leveraging effect sought by those programs will be lost. In addition, these efforts may end up at cross-purposes in the overall goal of stabilizing communities if solid controls are not put in place.
Adopting a holistic approach to improving the housing market and increasing community stabilization requires the combination of all resources and an examination of all stages of the process leading to the increases in vacant REOs. As discussed below and in separate comments to be submitted by the Mortgage Resolution Fund, of which Enterprise Community Partners is a member, addressing foreclosures and preventing future REOs on the market could be achieved through a targeted Note Sale program using HHF funds as the capital source to purchase these notes. The explicit purpose of the Mortgage Resolution Fund is to acquire distressed mortgage notes and modify the note (including principal reduction), along with the provision of debt management services to keep the homeowners in their homes. Combining currently available resources, such as NSP and HHF, to address the entire spectrum of the foreclosure/REO process will maximize the overall intent of this RFI.

2. **Require affordable rental strategies (corresponds to RFI items B.2., B.3.):**

As homeownership rates fall, the demand for rental housing has increased significantly. According to Reis Inc, apartment vacancy rates fell to 5.9 percent in the second quarter of 2011, the lowest since 2006. Therefore, FHFA and HUD should require respondents to convert a significant portion of the single-family REO stock into long-term rentals. High unemployment and tight lending standards will continue to make homeownership unavailable to potential buyers in the near future, and FHFA and HUD should recognize that seeking to sell their entire REO inventory for homeownership will be impossible and impractical in some markets. Therefore, in an effort to rebalance the housing stock, a key element of this new initiative should be to promote long-term affordable rental of the single-family REO stock. Indeed, in certain markets, a significant percentage of REOs are already being sold to investors, but without any long-term affordability requirements or rehabilitation quality standards in place.

FHFA and HUD should require that respondents reserve a certain portion of REOs for affordable housing to serve low- and moderate-income families. Respondents that intend to
sell REOs for homeownership should sell at least 25% of the homes to families at or below 120% area median income (AMI). In high cost markets, respondents may choose to also include resale restrictions that promote shared equity models and long-term affordability restrictions. Respondents that intend to rent REOs should commit to renting a portion of units at or below area HUD Fair Market Rent so that low- and moderate-income families can afford to live in the houses.

3. **Encourage Strategic Partnerships with nonprofit, government entities and/or community groups (corresponds with RFI item C.7.):**

The concept of Strategic Partners has been discussed recently among many of the organizations and municipalities working under the NSP Program. Recognizing that local not-for-profit development and property management capacity, including government funding, are insufficient to address the scope of this problem, partnerships with for-profit entities have been formed and more are pending. This RFI contemplates the acquisition of large numbers of REOs by, in many cases, for-profit funds whose capital sources require maximization of return as the sole principal of activity. However, there are some private funders who can blend the maximization of return principal with a desire for beneficial outcomes for the affected community. Any potential joint ventures or other selection of for-profit partners through this initiative should include a commitment to select those entities that understand how to partner with public and nonprofit stakeholders in the affected local communities. The concept of a Strategic Partner actualizes an ongoing working relationship between the REO purchaser and the organizations and government officials who represent that community. This RFI should require evidence that the private funds intend to build relationships of those kinds. Two criteria of being a Strategic Partner could be a Memorandum of Understanding between the large scale REO purchaser and local entities, and letters of support from local organizations and municipal officials attesting that the large scale acquirer is a good community partner.
4. **Responses must be market-sensitive and NSP can provide a good model (corresponds to RFI item B.6):**

In some markets, the foreclosure crisis resulted from an over-heated home building market, and strategies to sell or rent the excess inventory will largely stabilize communities. However, in other markets, the foreclosure crisis exacerbated decades of population and economic decline, and communities must implement a variety of solutions to stabilize communities. For example, in weak market cities with declining populations and old housing stock, simply selling or renting REO properties will not be enough to stop the decline of home values and restore vibrancy and health to neighborhoods. Such communities must also demolish blighted houses, land bank excess property, and repurpose the surplus of housing stock. Therefore, the FHFA and HUD should ensure that this new initiative is integrated with the Neighborhood Stabilization Program (NSP) where the two have geographic overlap. NSP gives localities more flexibility to implement market-sensitive strategies and has developed local capacity to implement these strategies. For example, FHFA and HUD should encourage respondents to rehabilitate and sell or rent houses in NSP-designated census tracts where localities are already demolishing blighted buildings and land banking excess properties. Such geographic overlap will enhance the work of NSP grantees and attract private capital to NSP-designated neighborhoods.

5. **Good property preservation is critical to neighborhood stabilization (corresponds to RFI item B.7, D.1, D.3):**

The fifth objective listed in the RFI is to “assist in neighborhood and home price stabilization efforts.” It is imperative that properties sold through this program be sold in a single transaction that precludes using individual properties in subsequent appraisals. Otherwise, there is real risk that large numbers of individual transactions, likely at a discount to current market valuations, would further erode local property values, harming existing residents and contributing to yet more declines in the local tax base.
Post-sale, it is critical that respondents take very seriously their responsibility to eliminate blight, rehabilitate, and maintain properties. This is important for owners and tenants, but it is also important for neighborhoods. Buyers and tenants deserve quality housing, and therefore FHFA and HUD should require respondents to meet or exceed standards for housing quality for rehabilitation. FHFA and HUD may want to adopt Congress’s definition of “adequate rehabilitation” from the 1998 HUD Asset Control Area (ACA) program, defined as “homes that are in good, safe and habitable condition, where major systems are dependable and in good repair, and where the properties are marketable to owner occupants given the standards and preferences of the local community.” Similarly, we recommend that respondents consult rehabilitation standards, a guide for decision-making that details what specifications should be applied in what situations to produce uniformly safe, decent, durable, and high-performing homes. As an example of this, we recommend consulting the NSP Standards document located on the HUD website: http://hudnsphelp.info/media/resources/SingleFamilyHousingRehabilitationStandard.doc

Property maintenance for rental properties and properties held off the market is also critical to neighborhoods. This new initiative could actually harm communities if respondents acquire properties and then fail to maintain them. Neighborhoods are already suffering from abandonment and blight, and respondents that acquire REO properties must clean up the properties. For some blighted properties, demolition may be the correct option. If demolition is proposed, respondents must submit detailed proposals outlining their plans for the vacant land (hold and maintain, sell, donate to land bank, etc.). If respondents decide to hold properties for any period of time, they must maintain the exterior, mow the grass, and secure the property to avoid vandalism and crime. Failing to do so will cause the property to become more of an eyesore and problem for the community.

Scattered-site property management is a difficult and expensive business, but must be done properly for the sake of the tenants and the neighborhood. Rental properties must be maintained by property management companies with a proven record in scattered-site single-family asset management. If respondents themselves do not have this experience,
they must partner with for-profit or nonprofit entities that do. For example, FHFA and HUD may require that respondents have 2+ years experience managing 25 or more single-family scattered-site properties in markets that resemble the markets in which the respondent is proposing to work. Under this requirement, some geographies could be excluded due to a lack of experienced property managers, not from lack of foreclosure need. Therefore, respondents should work to partner with experienced property managers to bring that capacity to needy geographies.

FHFA and HUD must screen for and then assist local governments in the enforcement of proper asset management. Respondents should provide evidence of property management capacity in their applications and HUD must allow itself the ability to disqualify those that have a record of poor property management or public complaints lodged against them. Post-sale, property managers should work with local governments to ensure code compliance.

6. **Provide an acquisition discount for the financing of green rehabilitation (corresponds to RFI item D.1):**

As described above, a large portion of the FHA and GSE REO inventory is in need of rehabilitation before it can be occupied for either homeownership or rental. Therefore, this offers a unique opportunity to provide thousands of private sector houses that are healthy, safe and efficient. By incentivizing energy-efficient, green rehabilitation, the upfront cost burden will be reduced and the homes will be rehabilitated to a standard that is rapidly becoming the market norm, resulting in increased market demand for these properties. Therefore, FHFA and FHA should offer an acquisition discount to respondents that propose using a holistic green standards program. Following the precedent of NSP2 and NSP3, we recommend that FHFA and FHA encourage adhering to the Enterprise Green Communities Criteria. Enterprise has developed comprehensive green rehabilitation specifications for single-family REO properties and we recommend that FHFA and FHA incentivize their use through an acquisition discount (for more information, please view our Green Single Family Rehabilitation Specifications, available at:}
http://www.greencommunitiesonline.org/tools/resources/green_rehab_specs_gci_2008_criteria_final.pdf). Our research has shown that housing built using a holistic green building program will save operating costs over time and therefore, will save money for owners and operators (http://www.practitionerresources.org/cache/documents/672/67299.pdf). Therefore, an additional discount on acquisition price could help, in effect, to finance energy efficiency, water conservation, and indoor air quality improvements with lasting value, some of which could flow back to government through the shared-appreciation terms of the acquisition.

7. **Enforce geographic targeting (corresponds to RFI item D. 2.):**

Our experience with the NSP program has taught us that concentrating community stabilization efforts in target areas is the best way to preserve otherwise thriving neighborhoods negatively impacted by concentrations of REOs. Given limited NSP resources, localities that employed holistic solutions to smaller geographic areas were more successful than localities that employed a scattered approach across a whole city or county. Therefore, we highly recommend that this new initiative be targeted, and that respondents break down metro areas into submarkets so as to achieve a similar focus. HUD has developed several interactive mapping tools to identify NSP target areas (which are based on foreclosure need), and FHFA and HUD should use these tools to determine where to concentrate its efforts for this new initiative. By targeting, including overlap with NSP areas, this initiative can combine with existing NSP funds to achieve more holistic neighborhood stabilization. Also, as stated above, requiring a Strategic Partner approach from any potential partner under this RFI would ensure a more geographically targeted approach as the locality would be heavily involved in the process.

8. **See comments from the Mortgage Resolution Fund (MRF) for a detailed note purchase model (corresponds to RFI item C., E.):**

As mentioned above, Enterprise Community Partners, has joined with three other national organizations—Mercy Housing, the Housing Partnership Network, and the National
Community Stabilization Trust—to form the Mortgage Resolution Fund, Inc. (“MRF”). MRF has obtained a commitment of $100 million from the Illinois Housing Development Authority of their allocation of Hardest Hit Funds to acquire distressed mortgage notes with the purpose of preserving the homeowner in their home. MRF will be submitting its own comments to this RFI which will explain the economics of the program, and demonstrate that a joint venture created with the Enterprises or FHA would leverage 4-fold the HHF funds committed to this endeavor. Because MRF plans to expand to a number of other states in the coming months, a pilot note sale program under this RFI initiative would significantly increase the breadth of the funded effort and also decrease the flow of new REOs onto the already saturated market. This RFI submission will defer the more detailed description of the MRF program to MRF’s own separate submission. As a member of the Mortgage Resolution Fund, we have the ability and funding to execute a note-purchase effort designed to lessen the flow of REOs onto the market. Further MRF details are contained within the submission from MRF.

Thank you again for the opportunity to provide comments and suggestions. We commend the FHA and FHFA for their ongoing willingness to seek and respond to public input. Please contact Robert Grossinger (rgrossinger@enterprisecommunity.org; 312-803-0778) with any questions or for further discussion.