



National Community  
Stabilization Trust

New Approaches to Distressed Properties

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## **Stabilizing Neighborhoods in 2014**

Federal Reserve Bank of Cleveland

*Getting Back in Gear: Finding Ways to Move Stalled and Vacant Foreclosures Forward*

March 11, 2014



## About the National Community Stabilization Trust

- A national nonprofit launched in 2008 to help reclaim neighborhoods devastated by foreclosures and abandonment.
- NCST creates a **bridge** between **two worlds** – *the financial institution servicer/REO departments and local community housing providers.*

### What does NCST do?

#### Transfer Properties

- Facilitates the effective transfer of foreclosed and abandoned properties to localities

#### Financing

- Provides flexible financing to support local and state efforts

#### Capacity Building

- Organizes and facilitates local collaborations working through our sponsor organizations

#### Focal Point

- Server as an industry 'voice' for foreclosure remediation and neighborhood stabilization



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## NCST Services

### Property Disposition

*The go-to source for executions that provide access to distressed assets*



### Subsidiary Services

*Resource for tools that adds capacity, promote efficiency, and improve local strategies*



### Financing

*Direct capital provider and advisor on innovative financing*





## Persistent Problem...New Solution

### ***The Problem:***

Despite declining REO inventories, many communities must still contend with vacant, low value property sitting in pre-foreclosure.

- + Servicers call these low value assets “charge-offs”. Communities see these properties as “walk-aways”.
- + **Loans in Limbo:** Pushing these low-value assets through foreclosure process is not an economically viable option for Servicers, especially in judicial foreclosure states.
- + **These are the properties holding back neighborhood revitalization.** They tend to be concentrated in the communities hit hardest by the housing crisis, and disproportionately affect low-income and multicultural neighborhoods.
- + Federal agencies and state and local providers are increasing the focus on how to move these assets out of the current intractable state to reinvigorate community reclamation efforts.

### ***The Solution:***

**Convey non-performing notes for ‘walk-away’ properties to a special non-profit entity that can work with local providers to facilitate the proper community sensitive solutions for each asset.**



## Lien Releases Hurt Families and Damage Communities

### *Why not just release the lien on “charge off” properties, especially occupied homes?*

- + **Perpetuates a Problem:** Releasing the lien is an abdication of responsibility; not a solution. It leaves the borrower situation and property condition unaddressed.
- + **Unknown Conditions:** NCST due diligence has found that the data available regarding occupancy of low value property is often wrong or out-of-date.
- + **A Holistic Approach:** Localities are seeking to remediate all distressed assets, including these assets. A lien release precludes local providers from being successful.
- + **Moral Hazard:** A lien release, particularly in hard hit neighborhoods, creates a “moral hazard” far more ominous than a principal reduction.
- + **Corporate Risk:** Servicers that charge off assets and release the lien are likely to be criticized by local housing providers in the future. This is the last “frontier” of stabilizing neighborhoods. Community developers need the cooperation of servicers on these assets.
- + **Reputational Benefit:** Dealing with these properties responsibly by donating notes to a national intermediary will engender reputational benefit to the Servicer.



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## Non-Profit Investors & Charge-Offs: The CRC Example

NCST and HPN established the ***Community Restoration Corporation (CRC)*** as a tax exempt non-profit holding entity that accepts non-performing notes as donations, with a financial contribution from the Servicer for the resolution of each asset.

CRC provides Servicers with a better solution to “charge-offs” or other low value pre-foreclosure assets, when the alternative in most cases would be to either release liens and walk away or pursue the high cost and uncertainty of a foreclosure.

### PRIMARY OBJECTIVES

- + Provide a pre-foreclosure pathway for the efficient transfer low-value distressed assets that takes loans out of limbo and helps Servicers mitigate their ongoing risk and liabilities and
- + Minimize the costs associated with the disposition of non-performing notes to all parties, including providing servicers with a more cost-effective solution than foreclosure.
- + Enable communities to take control of distressed properties in a transparent and predictable manner that will leverage existing skill sets, capacity, and resources.



## How it Works: Key Components

CRC serves as an intermediary investor, taking full ownership of non-performing mortgage notes:

- + Servicer/Investor **donates** non-performing mortgage loans to CRC in as-is condition, with title encumbrances. The transaction is structured similar to a standard NPL sale.
- + Servicer/Investor provides a **financial contribution** with each note. The financial contribution would be applied towards servicing and legal expenses to move assets to foreclosure or alternative (DIL/Short Sale/Mod), for property security and maintenance, and where necessary, to expedite demolition
- + CRC has a dedicated **specialized servicer** with extensive experience with this asset class.
- + CRC, the special CRC servicer, and **local Asset Resolution Teams** will work towards the most productive resolution for each asset based on the property-specific circumstances, including property condition, location, ability to establish contact and negotiate with existing borrower, other liens and encumbrances, and community needs.



## Disposition Strategies

CRC can manage a waterfall of disposition strategies for assets that are most conducive and cost effective for local providers and communities:

- a. **Right Size Payments:** Restructuring mortgage monthly carrying costs to affordable levels for some owner-occupied properties, to keep families in their homes;
- b. **Sell to Community Developers:** Facilitating the conveyance of pre-foreclosure assets to community-based housing providers or new owner-occupants via short sale or deed-in-lieu, where necessary
- c. **Foreclose and Remediate:** Initiating and finishing foreclosure proceedings, in instances where owners of record are unreachable or uncooperative, in order to redevelop or demolish dangerous structures.





## Non-Profit Advantages with Charge-Offs

### Using a non-profit vehicle for charge off properties can achieve savings over standard resolution costs for Servicers:

- 1) Better positioning to negotiate and provide flexible solutions for borrowers as alternative outcomes to foreclosure.
  - + *Increased number of borrowers who will be able to retain their homes through modifications recast based on property values instead of loan balances, or properties for which extended foreclosures can be avoided via deed-in-lieu or short sale negotiations.*
- 2) Ability to reduce costs by negotiating fines levied due to code violations and/or delinquent taxes.
  - + *A non-profit investor can better orchestrate comprehensive resolutions at the local level by operating in partnership with foundations, local non-profits and developers, state and local gov't entities, and national partners.*
- 3) Ability to access and leverage public subsidy in partnership with state and local entities for comprehensive resolution for borrowers, properties, and communities.
  - + *This may be possible when properties are in states with Hardest Hit Funds, when properties fall within NSP target area hits, or when other subsidies can be determined (settlement funding, philanthropic capital, state and federal funds, local contributions)*



# About Community Restoration Corporation

- The Community Restoration Corporation (CRC) is a non-stock, non-profit corporation
- **Members:** Created by **NCST** and the **Housing Partnership Network** (Program Members), with support and board leadership from the **Ford Foundation** and the **F. B. Heron Foundation** (Foundation Members).
- **Charitable Purposes:** CRC is organized and operated exclusively for charitable purposes under IRS section 501(3)c.
  - CRC can accept gifts of low-value assets in distress and other assets for the purposes of contributing to overall neighborhood stabilization and revitalization efforts
  - In furtherance of its charitable purposes, CRC may carry out activities to help local nonprofit organizations and units of governments reclaim low-value distressed real properties in areas negatively impacted by foreclosure and abandonment in order to contribute to overall neighborhood stabilization and revitalization efforts.
- Pilot activities for CRC began in Cuyahoga County, Ohio in 2011.
- In 2014, CRC expanded into a national provider of non-performing loan resolutions.



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## Contacts

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### **About Us:**

**National Community Stabilization Trust (NCST)** is a national nonprofit organization working with the nation's largest financial institutions and local housing providers across the U.S. to reclaim neighborhoods hard hit by high levels of foreclosure and abandonment. To support the recovery of distressed neighborhoods, NCST ensures local housing providers have the right tools to transform empty, foreclosed properties into community assets that increase the stock of affordable ownership and rental housing.

Please visit [www.stabilizationtrust.com](http://www.stabilizationtrust.com) for more information