September 15, 2011

Federal Housing Finance Agency (FHFA)
1700 G Street, NW
Washington, DC 20552

Subject: Response to: Request for Information: Enterprise/FHA REO Asset Disposition
(Issued on August 10, 2011)

Submitted electronically to: REO.RFI@fhfa.gov

<table>
<thead>
<tr>
<th>Type of Strategy</th>
<th>Type of Respondent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Outright Purchase</td>
<td>Private Capital</td>
</tr>
<tr>
<td>X Joint-venture</td>
<td>Real Estate Company</td>
</tr>
<tr>
<td>X Rent-and-hold</td>
<td>Rental Property Management</td>
</tr>
<tr>
<td>Lease-to-own</td>
<td>Asset Management</td>
</tr>
<tr>
<td>X Other (specify)</td>
<td>X Nonprofit</td>
</tr>
<tr>
<td></td>
<td>Other (specify)</td>
</tr>
</tbody>
</table>

Dear Ladies and Gentlemen:

On behalf of NeighborWorks® America (also known as Neighborhood Reinvestment Corporation), I want to thank the Agencies for the opportunity to provide comments in regard to the “Request for Information: Enterprise/FHA REO Asset Disposition (RFI).”

The RFI presents an opportunity to provide input and insight into the use of Enterprise and FHA REO to meet the tremendous affordable housing needs of the nation and to promote and advance the important but nascent community stabilization efforts occurring in communities across the country. The significant number of assets in inventory at these institutions creates the rare opportunity both to meet the demand for affordable workforce housing with existing housing stock and to stem the tide of community deterioration.

Given the range of properties held, the diverse geographies, and the varied economic climates, this is not a one-size-fits-all situation. There are attributes in both the for-profit and nonprofit sectors that should be leveraged. As such, we encourage the FHFA and FHA to entertain a broad set of approaches to handling the disposition of REO that include both joint venture and independent structures of for-profit and nonprofit organizations. Each sector has its strengths, and both sectors should be provided opportunities to participate in this opportunity. In particular, the nonprofit community has built tremendous capability since the onset of the foreclosure crisis, increasing its ability to handle acquisition, rehabilitation, and management of assets in communities across the country. In the past few years, the nonprofit community has deepened its
collaborations with civic and private-sector partners, and strengthened their organizations to meet the demands of their communities.

NeighborWorks America and its network of more than 235 nonprofit community development corporations have been working this way for decades. NeighborWorks America has more than 33 years of experience in working in low- and moderate-income communities across the nation. Local, community-based NeighborWorks organizations have been at the forefront of community building and the provision of affordable rental and for-sale housing. Collectively the NeighborWorks network owns or manages more than 80,000 affordable rental housing units. Professional asset management has been a core principle for NeighborWorks and its network for the past 10 years. In addition, this network has built or rehabbed more than 1,200 housing units for sale in the last year alone.

These nonprofit organizations know their communities, have resident representation on their Boards, and work in their communities to create healthy, stable environments of quality, affordable owner-occupied and rental housing for community residents. Based on their professional expertise and their standing within their respective communities, these organizations have the following relevant critical characteristics and should be considered relevant entities for any development activity occurring within their target areas:

- Diverse community representation;
- Trusted resources within the community, particularly in the midst of the economic crisis;
- Historical expertise in Neighborhood Stabilization Program and other local community stabilization / rebuilding efforts;
- Committed to community engagement and building resident leadership;
- Success in the development of affordable housing that meets community resident needs and enhances community cohesion;
- Experienced in property and asset management, and tenant relations;
- Experienced in preparing residents for sustainable homeownership; and
- Focused on long-term stability and investment in their communities.

Through their efforts, these organizations provide quality affordable housing opportunities to thousands of low- and moderate-income families across the nation. Providing affordable housing is a difficult assignment that must balance the costs (for example, acquisition, rehabilitation, and management expenses) with the ability of a household to afford the home. These community builders are committed to providing decent, affordable housing that with a manageable housing cost burden to working families.

Many of these community-based organizations have worked for years to rebuild distressed communities. In recent years these organizations have been at the forefront of responding to the community de-stabilizing impacts of the foreclosure epidemic. The
successes and positive impact of their work are evident across the country (for example) -

- “Chelsea Neighborhood Development Corporation” in Boston that makes strategic decisions on which foreclosed units to purchase based on detailed neighborhood planning and work with residents that will protect and build on existing community assets.
- “Beyond Housing” in St. Louis, Missouri that rehabilitates foreclosed homes to rent to low-income families and offers an array of other services and supports to strengthen their tenancies.
- “Dayton’s Bluff” in St. Paul, MN that participates in a variety of local and regional partnerships to access technical assistance, capital, and bulk purchase of the foreclosed housing inventory it needs to stabilize neighborhoods.
- Los Angeles Neighborhood Housing Services in Los Angeles, CA that brings together other CDCs, local and state governments, and private sector entities through the Los Angeles County Center for Foreclosure Solutions to concentrate and focus resources to help affected homeowners and stabilize neighborhoods.

These and many other nonprofit organizations have emphasized from the beginning that the response to the current economic/mortgage crisis should not be one that just transfers property, but that ensures the property transferred is a quality, affordable home that adds value to the community while providing suitable, stable and sustainable housing for the resident. In considering the next steps with respect to Enterprise and FHA REO, these organizations’ greatest concern is that flooding the market with REO property transferred to for-profit private interests without a community benefit, without a commitment to quality rehabilitation and management, and/or without long-term community stability in mind, could further de-stabilize already fragile communities.

Opportunity and Risk

The REO of the Enterprises and FHA offer opportunity and risk. The opportunity is twofold: first, that this resource of FHA and Enterprise REO could provide a substantial amount of affordable rental and for-sale housing for low- and moderate-income families at a time of desperate need for such housing in our nation; and second, this resource, if properly structured, could help stabilize fragile environments by assuring community input over the assets presently deteriorating these communities. The risk is that the opportunity to produce a public benefit with this resource will be missed in favor of quick disposition without regard to community interests, including longer-term stabilization of very fragile communities.

With this in mind, the concept of facilitating bulk disposition of Enterprise and FHA REO inventory to private investors for rental purposes raises the following concerns relative to the desire to see communities improved and affordable housing delivered as an outcome of this REO disposition.
Recent and emerging neighborhood stabilization will be at risk if there is not an alignment of the investment by third parties with the commitments to community stabilization activities already underway in these communities.

- Long-term affordability would not be served by a blanket transfer of properties without consideration for pricing discounts, tied to affordable income qualifications for the buyers.
- A long-term downward drag on these communities could continue if for-profit investment is not focused on managing these assets as a long-term investment strategy (for at least 3 to 5 years). Short-term investment strategies may require assets to be sold at distressed values and thus perpetuate the current situation.
- Community value is not strengthened if investors neglect maintenance and repair of properties. Good stewardship of properties during the transition phase is important to strengthen viability of communities and protect other asset values in neighborhoods.
- Property values will continue to suffer without sufficient reinforcement of appraisal guidelines on valuation in distressed communities to ensure that bulk transfers do not further erode property values in these communities.

The Proposals

NeighborWorks offers the following two suggestions for FHFA in drafting a Request For Proposals (RFP). The first suggestion provides a set of principles that should be addressed by any for-profit private market response to the RFP. The second suggestion offers an outline for a programmatic structure for carrying out a strictly nonprofit opportunity within the RFP.

Principles for Private For-Profit Request For Proposals

The principles outlined below are intended to produce stronger community outcomes including quality affordable housing for low- and moderate-income families; productive assets in the community that add to the community rebuilding efforts underway; ensuring a coordinated response in the community that creates synergy of action and minimizes conflicts; demonstrating collaboration across for-profit, nonprofit, and civic sectors, effectively linking community residents and landlord interests; and providing an opportunity for low- and moderate-income families to purchase and / or rent these homes.

The following are core principles that should be addressed in any for-profit response to an RFP.

- Capital should have a minimum investment horizon of 3 years.
- Buyers should partner with community-based nonprofits where properties are in community stabilization target areas (e.g., NSP markets).
- Buyers should demonstrate a viable plan for responsible ownership of the properties they acquire. This can be accomplished through partnership with community groups qualified to handle property management.
The opportunity to improve these assets for the long term with emphasis on energy efficiency and healthy housing should be a consideration in pricing of transfer of assets in order to take advantage of the rare opportunity to improve these assets to endure longer and cost less to operate.

- Buyers should be incentivized to create affordable housing through discounted pricing structures that also require commitment to provide homes to income-qualified households.
- Pricing needs to factor all costs of asset transfer, rental management, sales disposition, energy efficiency and healthy housing improvement needs.
- Mortgage credit should be made available by Enterprises and FHA that is flexible and affordable to low- and moderate-income families to purchase these homes when they are made available for sale as owner-occupied homes.
- To preserve value in the community, guidance on how to appraise in distressed communities should be emphasized around bulk transfers.

Nonprofit Community Development / Affordable Housing Programmatic Model

The RFP should further provide a specific opportunity only available to nonprofits with community commitments. This concept creates a partnership between the Enterprises and FHA and the nonprofit community to rebuild communities seriously distressed by the foreclosure crisis and to address the significant need for affordable housing for low- and moderate-income families.

The partnership model proposed below leverages many experiences of nonprofits working on community stabilization efforts. For example, the National Community Stabilization Trust (an entity formed by NeighborWorks America, Enterprise Community Partners, the Local Initiatives Support Corporation, Housing Partnership Network, National Council of La Raza, and the National Urban League) in response to the foreclosure crisis, provides the critical function of aggregating REO inventory across servicers --- providing a platform for offering this inventory to nonprofits across the country on a “First Look” basis, and simplifying the transfer of these assets.

This partnership model can deliver on several fronts:

- It can collectively reach a substantial volume of property transfers that individual relationships would not be able to achieve – thus creating a wholesale-like execution.
- It can connect REO assets in these communities to nonprofit community developers who are critical to rebuilding the communities and establishing new residents and quality housing.
- It can ensure that those assets of most strategic value to the community and most influence community value are handled by local interests.
- It can leverage the established tools in the marketplace (such as the National Community Stabilization Trust) to handle aggregation and transfer of multiple assets to multiple locations from multiple servicers.
- It allows for quality rehab to take place (including energy efficiency to create long-term financially and environmentally sound properties) and returns housing assets to productive use.
- It can ensure that when assets are made available for sale as owner-occupied units that low- and moderate-income households have opportunity and options to purchase these assets.
- It recognizes that the Enterprises and FHA should be compensated for the asset if the market returns.

In general terms, the nonprofit community development / affordable housing program alternative would feature the following characteristics:

- The Enterprises and FHA identify and reserve assets that are located in either NSP-eligible markets or similar targeted geographies being serviced by nonprofits (“target markets”).
- These assets are made available to NCST or qualified nonprofits through a “First Look” clearinghouse for qualified nonprofits. The assets are available for acquisition by qualified nonprofits for a set period of time after which the assets revert to broad market sales.
- Qualified nonprofits working in the target markets would purchase assets at a prudent, transparent discount price that considers the balance between the costs of acquisition, rehabilitation, and management and feasible rents to low and moderate income families in these markets; in consideration for this discounted price the nonprofits would execute an agreement to share gain on sales with Enterprises or FHA.
- Nonprofits take title to assets from Enterprises or FHA.
- Nonprofits rehabilitate the housing stock to appropriate levels at a target percentage of appraised value and improve the longevity and operating cost of the home by including energy efficiency improvements. To facilitate this rehabilitation, the Enterprises or FHA offer the nonprofits the opportunity to take out a mortgage as the mortgagor from Enterprises or FHA that covers the rehabilitation costs of the home. The nonprofit improves the property and makes the home available to a low-/ moderate-income family. The mortgage would be assumable by a future buyer of the property. The nonprofit manages the asset as rental property (or sells property if a buyer is interested) and uses rental income to cover mortgage note payment (or line of credit costs) and operating costs; any additional rental income proceeds are kept by nonprofit to further its community improvement strategy.
- At a point in time when values have stabilized, the nonprofit markets the property as an affordable homeownership unit to a low / moderate-income family.
- The Enterprises and FHA make available specific mortgage products with flexible terms to allow low-moderate-income families to purchase these homes.
- Nonprofit sells asset and shares 30% of the difference between costs of asset (e.g., rehabilitation costs, holding costs, sales costs, developer fees) and sales price with the Enterprises or FHA.

The nonprofit community development / affordable housing approach is offered as a strategy to deliver quantities of quality affordable housing and simultaneously address the destabilizing impacts of foreclosure. It achieves these goals by creating strong, community-based owners of assets with an interest in community improvement through a partnership between the Enterprises
and FHA in the redevelopment of these communities along with fair consideration for the assets. The positive outcomes of this approach are many. Existing homes are used to provide affordable housing and meet the demand for this product throughout the nation. Properties are improved to make them longer-term assets that meet higher energy efficiency standards; thus preserving assets for the long term and making the homes more economic to operate for lower income households. The rental properties are maintained to high standards in community. The property values are not diminished in the community, as the nonprofit will market to preserve value in the community as sales will occur when market stabilizes. The Enterprises and FHA get performing assets on their books in the rehabilitation loans and they are compensated for assets through a shared gain on sales approach. And, in the end, quality, affordable homes are returned to low- to moderate-income families for rental and eventual homeownership.

Respondent Organization Summary

The respondent organization is:

- NeighborWorks America -- also known as the Neighborhood Reinvestment Corporation, a public nonprofit corporation established by the United States Congress in 1978 pursuant to Public Law 95-557 et. seq.

Contact information:

- Tom Deyo, Deputy Director of National Initiatives and Applied Research (at 202-220-2301 or tdeyo@nw.org)
- Eileen Fitzgerald, Chief Executive Officer (at 202-220-2452 or efitzgerald@nw.org)

Size of organization in terms of revenue and employees:

- Annual Revenue: $263 million
- Number of Employees: Approximately 300

Years in business:

- 33 years – created in 1978

Type of entity:

- A public nonprofit corporation established by the United States Congress in 1978 pursuant to Public Law 95-557 et. seq.

Background Information Regarding NeighborWorks America

NeighborWorks America was established by Congress in 1978 as the Neighborhood Reinvestment Corporation. The Corporation receives a direct annual federal appropriation, and also receives other non-appropriated revenues. The corporation’s Board of Directors is made up of senior representatives of the federal financial regulatory agencies (the Federal Reserve; the Federal Deposit Insurance Corporation; the Comptroller of the Currency; the National Credit Union Administration) and the Secretary of HUD.
The primary mission of NeighborWorks America is to expand affordable rental and homeownership opportunities and to strengthen distressed urban, suburban and rural communities across America, working through a national network of local community-based organizations, known collectively as the NeighborWorks network. The NeighborWorks network includes more than 235 nonprofit organizations, serving urban, suburban and rural communities across the United States -- in all 50 States, the District of Columbia and the Commonwealth of Puerto Rico.

In FY 2010 alone, the NeighborWorks network generated nearly $4 billion in direct reinvestment in distressed communities across the nation, and helped more than 270,000 low- and moderate-income families purchase and preserve their homes, or live in safe, decent rental housing. NeighborWorks organizations also own and manage more than 80,000 units of affordable rental housing.

NeighborWorks America has a 30+ year history of facilitating lending to non-conventional borrowers – including lower income families, borrowers with impaired credit and others who would not normally qualify for a conventional mortgage.

By providing quality pre-purchase homeownership education and counseling, financial capability training and working with borrowers to improve their credit rating, improve their budgeting, and commit to a savings plan (including Individual Development Accounts and other vehicles), local NeighborWorks organizations are able to prepare foreclosure-resistant borrowers who have been able to qualify for reasonably priced traditional mortgage loans and achieve sustainable homeownership.

NeighborWorks America also knows that homeowners’ odds of success are increased even further when they have access to post-purchase counseling and homeowner education.

NeighborWorks America has been tracking the loan performance of the many low-income families assisted by NeighborWorks organizations over the years. These loans continue to perform well, in comparison to other loans.

NeighborWorks America is also a nationally recognized leader in the fight against foreclosures. The Corporation identified the problem of rising foreclosures over six years ago and, with the encouragement and support of its Board of Directors, created the NeighborWorks Center for Foreclosure Solutions -- an unprecedented partnership between leading nonprofit organizations as well as State, local and federal agencies and members of the mortgage lending and servicing sectors, that involves a comprehensive, multi-faceted approach to the foreclosure crisis.

NeighborWorks America also administers the National Foreclosure Mitigation Counseling Program, which has provided congressionally-appropriated funding to HUD-approved housing counseling intermediaries, State housing finance agencies and local NeighborWorks organizations – funding which has supported the work of more than 1,700 sub-grantees, and as
of this date had provided foreclosure counseling to more than 1.2 million individuals and families in all 50 states, Puerto Rico and Guam.

It is from this base of experience that NeighborWorks America provides these comments in response to the Request for Information.

**Closing Comment:**

NeighborWorks America would like to thank the Enterprises and FHA for entertaining comments on the strategy and thinking of the needs of community stabilization and affordable housing.

These comments have not been submitted to or approved by NeighborWorks America’s board of Directors. These comments reflect the views of NeighborWorks America’s management, and do not necessarily represent the views of its board members, either collectively or as individuals.

Please feel free to contact me, or Tom Deyo, Deputy Director of National Initiatives and Applied Research (at 202-220-2301 or tdeyo@nw.org for any further information or clarification of these comments.

Sincerely,

Eileen M. Fitzgerald
Chief Executive Officer
NeighborWorks America