Atlanta
Neighborhood
Development
Partnership, Inc.
Building the region's future,
neighborhood by neighborhood

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Panelist Testimony
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I am John O'Callaghan, President and CEO of Atlanta Neighborhood Development Partnership, Inc. (ANDP). ANDP is a 20-year nonprofit serving a long-term mission to promote, create and preserve mixed income communities through direct development, lending, policy, research and advocacy that result in the equitable distribution of affordable housing throughout the Metro Atlanta region. Over the last two years, we have shifted our primary focus to addressing the impact of the foreclosure crisis on neighborhoods and families. ANDP is an active member of the Housing Partnership Network, a peer network and business alliance of the nation's top-performing nonprofit housing developers.

Georgia and Metro Atlanta have been devastated by the housing crisis. During the first six months of 2010, Georgia moved up from 7th to 6th place in the national rankings of foreclosure filings, an increase of nearly 30 percent over the same period last year. One in every 56 Georgia homes is in foreclosure. Metro Atlanta ranks as the nation's third emptiest cities following only Las Vegas and Detroit in the number of housing vacancies.

Why is Metro Atlanta a hotbed for foreclosures? The answer is linked to Atlanta's demography. Atlanta now ranks second among all metro areas for African American population, surpassing Chicago and moving up from 7th place in 1990. Predatory and subprime lenders targeted minority communities disproportionately. At the height of the subprime lending boom, Atlanta ranked fifth nationally for subprime loans and third for mortgage fraud. Today, African American borrowers are 50 percent more likely to be at imminent risk of foreclosure than their non-Hispanic white counterparts.

Atlanta's foreclosure crisis has spread outside the city limits to the suburbs. In fact, Atlanta has the highest percentage nationally of poor families living in the suburbs (85 percent). Neighborhoods throughout the region, littered with vacant and blighted homes, are at great risk of becoming slums.

At ANDP, we have realigned all of our organizational resources to combat the foreclosure crisis and protect neighborhoods that we and many others helped to build from further devastation and decay. I appreciate the opportunity to provide feedback on how to reform the Community Reinvestment Act (CRA) regulations to make them as effective as possible and to help restore hope to vulnerable, high-foreclosure communities.

CRA has been a very important influence in our Nation. For 30 years, CRA has helped ensure the availability of credit to low-income communities and families. Today, a continued and strengthened CRA is more critical than ever in helping us emerge from the greatest financial crisis since the Great Depression.

Congress passed the CRA in 1977 "to encourage depository institutions to help meet the credit needs of the communities in which they operate, including low- and moderate-income neighborhoods, consistent with safe and sound operations."

The Federal Government, partnering lenders and housing counselors are working everyday to help families facing foreclosure keep their homes. Unfortunately, this is only half of the formula needed to restore neighborhood values. We must focus equal attention on efforts to remove vacancies once they occur, restore market comparables, and create qualify reinvestment by new homeowners and private investors. The CRA needs to provide incentives that recognize the critical role private capital plays in larger neighborhood stabilization efforts.

I would like to share some of my organization's observations from the field on the current credit needs of low and moderate-income neighborhoods.

Efforts to breathe life back into struggling, high-foreclosure neighborhoods are hampered by a lack of credit for responsible investors and prospective homeowners to acquire rehab and reoccupy vacant homes. When a home is purchased by a responsible investor or homeowner, it is repaired, occupied, maintained in quality condition and kept up-to-code. As a result, home values appreciate, the tax digest grows, and neighborhoods recover. But, when access to credit is limited, blighted neighborhoods become a target for cash-purchase absentee landlords who acquire homes to quickly resell or make superficial repairs and rent to vulnerable families. These irresponsible investors send neighborhoods into deeper spirals of poverty and despair.

To resume the flow of safe credit to at-risk, high-foreclosure communities and incent responsible investment, lenders should be awarded CRA points for:

- **Developing innovative, single-family, purchase-money mortgage loan products** – safe for the borrower and the lender – that permit the borrower to finance both the purchase and repair of a foreclosed vacant property. With current home value declines ranging from 35% to 80%, affordability is no longer the primary issue. In many cases, monthly mortgage payments are less than monthly rents. Today's market presents a unique opportunity for lower-income families to safely achieve homeownership and build personal wealth.

Pilot products should be developed for potential homeowners at or below 620 credit scores that have a history of making rental payments on time and whose new mortgage is no more expensive than their current monthly rent.

Lenders also need to market and expand access to FHA's 203K loan product which allows families to finance the purchase and rehab of a home in one loan product. Thankfully, Bank of America and Wells Fargo offer this product in the Atlanta market. Unfortunately, few other lenders do. A majority of our vacant housing stock requires rehab. There is a critical need for more lenders to provide and market the product.

Homeownership has been stripped in Metro Atlanta's predominately minority neighborhoods. Research by Georgia Tech professor Dan Immergluck documents that the vast majority of foreclosure purchases are made by investors. Countless other studies document the role homeownership plays in stabilizing neighborhoods. The important balance between rental and homeownership opportunities is too greatly tilted towards rental in too many of Metro Atlanta's high-foreclosure neighborhoods.

Atlanta's foreclosure crisis did not happen because of an oversupply of purchase-money loans. It happened because homeowners in minority communities were targeted for unscrupulous loans which sapped values from homes, neighborhoods and families. With unprecedented affordability, there is great room to develop products with supportive counseling that are safe for families, neighborhoods and lenders.

- **Offering lease purchase loan products** to allow families who are not yet mortgage-ready achieve homeownership safely and responsibly while they improve their credit and receive homeownership counseling. Lease purchase programs are also useful strategies for nonprofit housing developers to manage their inventory of rehabbed homes and reduce high carrying costs. As part of our NSP program, ANDP secured $3.5 million in lease purchase capital from the non-profit Self Help Ventures Fund to enable us to offer additional lease purchase options as they are needed. There is no CRA eligible lender in the Atlanta market offering a similar product.

- **Creating loan products that allow nonprofit organizations and responsible corporate investors to acquire and rehab REO properties**. ANDP's lending arm is now making loans to quality organizations investing in restoring formerly vacant homes. With rehab costs at $20,000 or more per unit, credit is critical to ensure that properties are repaired to high quality condition. We need to incent lenders to open the flow of capital to stabilize neighborhoods in ways that protect their bottom line and enhance neighborhood investments. With appropriate resources, nonprofits and responsible corporate investors can turn blighted and vacant homes into safe opportunities for homeownership, lease purchase, or quality rental for lower-income families.

In this distressed market, a conservative acquisition/rehab (at loan-to-value ratios of 50% to 80%) is perhaps the safest real estate loan a lender can make to a developer. Rental cash flows adequately cover debt and operating costs in this market. Unfortunately, CRA eligible lenders are not serving this market. Some have shared that the Federal regulator environment prevents them from reinvesting, however safely, in neighborhoods impacted by foreclosures. ANDP approached multiple lenders about providing debt (at loan-to-value ratios at or below 50%) to leverage our HUD NSP work. We could not find a single local lender willing to participate. Fortunately, two non-profit CDFI's managed by the Housing Partnership Network and Mercy Housing provided us financing. We have been in conversation with multiple solid private-sector groups that have not been able to secure financing despite strong track records in this work.

The lack of credit is forcing out responsible investors (whose work returns value to homes and neighborhoods) who are supplanted by irresponsible investors utilizing high-return equity sources favoring speculative land investments or below housing code rehabs.

- **Improving their ratio of loans to minorities**. CRA statues do not currently require a consideration of bank services to minorities. A disproportionate number of high-foreclosure neighborhoods are majority minority.

- **Offering loans to complement local NSP efforts**. Lenders should receive additional CRA credit for providing end-loan and other financing in areas targeted for NSP, especially NSP areas that are also low-income. End loans to families making up to 120% of AMI in these areas should be CRA eligible.

Thank you for the opportunity to comment on these important issues. An open and informed dialogue with regulators will lead to enhanced and even more effective CRA regulations. As we continue to struggle with a housing crisis of epic proportions, it is more important than ever that CRA provide a framework to help struggling families and neighborhoods thrive again.

Submitted by John O'Callaghan, President and CEO, ANDP, Inc.