



# Mitigating the Negative Impact of Foreclosures

Federal Reserve Bank of San Francisco

Stabilizing Communities Series

March 10, 2009

Ellie Carothers Kelly  
Self-Help California

# About Self-Help



- Self-Help is a nonprofit Community Development Financial Institution (CDFI) that was formed in 1980
- Mission: to provide economic opportunity and wealth-building strategies for low income families
- Assets of \$1 billion
- Direct Services
  - Home lending (in NC and Washington DC MSA)
  - Lending to small businesses and nonprofits
  - Real estate development
  - Retail credit unions
  - Nonpartisan policy research on abusive financial services (Center for Responsible Lending)
- Secondary Market (nationwide)

# Neighborhood Preservation Program Goals



## ➤ Neighborhood Goals

- Minimize cost of foreclosures and vacant homes
- Turn foreclosures into wealth building assets for low-income families and communities

## ➤ Household Goals

- Provide path to homeownership for first-time homebuyers and credit-impaired homeowners

## ➤ Program Path

- Hands-on pilots to test
- Financing product to scale

# Neighborhood Preservation Program Scalability Strategy



- Provide financing tools:
  - Acquisition / rehab
  - Lease-to-purchase for longer-term holding period



# SELF-HELP'S SECONDARY MARKET PROGRAM



**LOW-INCOME HOME BUYERS**  
visit local banks to obtain loans with  
flexible lending guidelines.



**PARTICIPATING LENDERS**  
sell loans to Self-Help.



**SELF HELP**

sells loans to Fannie Mae  
with recourse.



**INVESTORS**  
receive monthly payments.



**FannieMae**  
pools loans and sells  
mortgage-backed securities  
to investors.

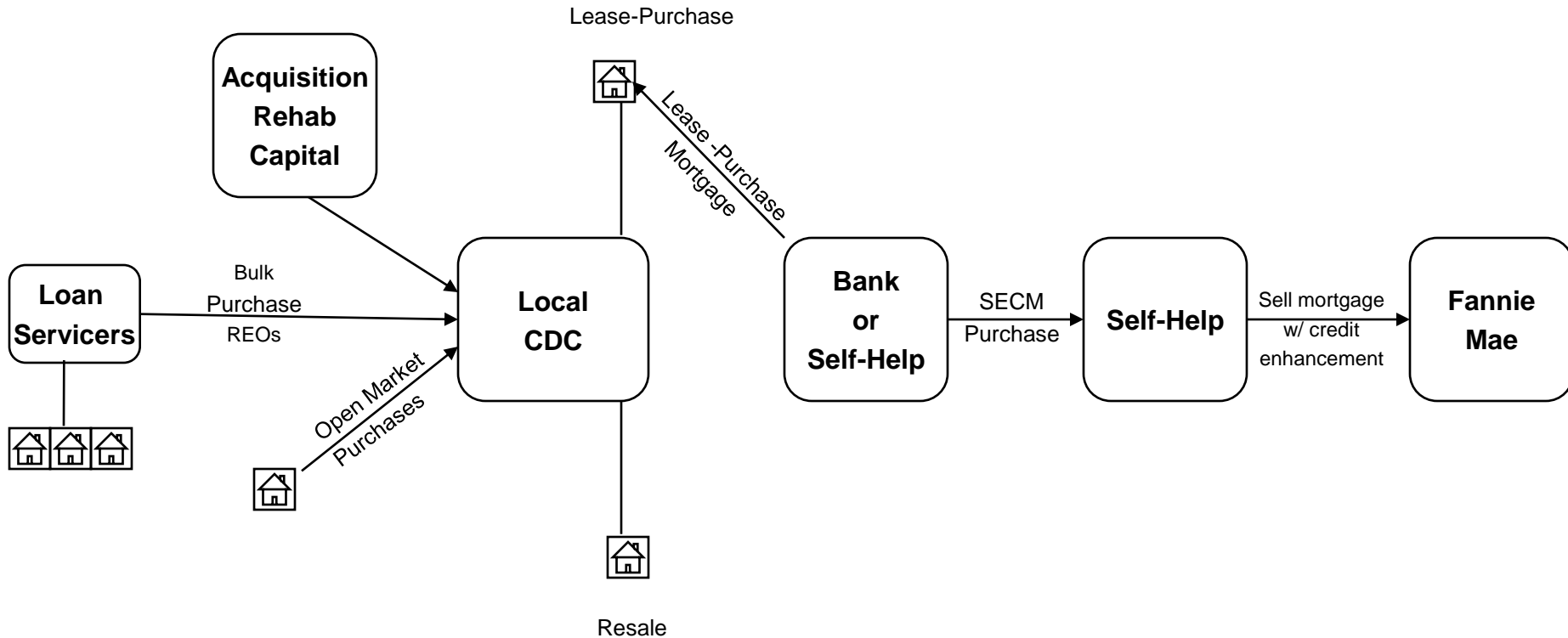


**Ford  
Foundation**

\$50 million grant provides Self-Help  
with equity to cover potential losses.



# Lease-Purchase Pilot Structure



# Lease-Purchase Mortgage Product



- Variation on Self-Help MCM (30-yr fixed rate)
- Initial borrower is local nonprofit partner
- Target for tenant to purchase home and assume loan within 5 years
  - Tenant lease payments cover mortgage and operating expense during rental period (and will not exceed FMR)
  - Tenants screened for affordability at origination
  - Affordability and credit capacity evaluated at assumption
  - Credit and homeownership counseling required
  - Contribution to savings required

# Key Partners

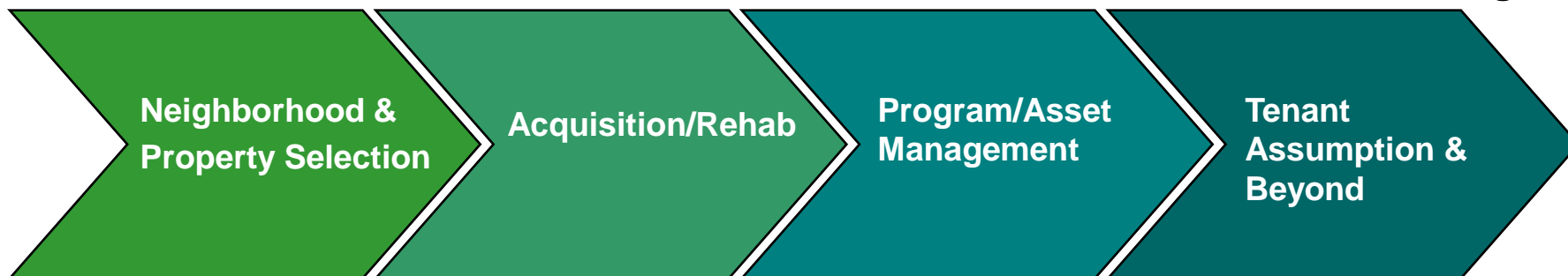


- Local CDC
  - Foreclosure scouting & acquisition
  - Takes title to home
  - Rehab
  - Tenant scouting/selection
  - Property management
  - Homeownership counseling
  - Neighborhood involvement
- Acquisition / Rehab Lender
- Mortgage Originator
- Fannie Mae
  - Secondary market for lease-purchase mortgages to scale program
- Self-Help
  - 10-year guarantee on lease-purchase mortgage (FNMA approval for \$200M)
  - 20% risk reserves

# Lease-Purchase Critical Issues

**Vacant REO**

**Wealth-Building Asset**



- Find location where economics work and capacity exists
- Price/market stability
- Volume/efficiency

- Acquisition strategy (bulk vs. retail)
- Capacity
- Financing
- Costs

- Broad skill set (counseling, asset & prop mgmt.)
- Counterparty risk

- CDC risk & return
- Qualifying tenants
- Turnover capacity of nonprofit
- L-P loan performance unknown – 20% risk capital reserve

- Pilot in NC – PeachTree Hills
  - 150 homes
  - 13 homes purchased so far
  - 5 homes sold, 1 for sale, 2 in rehab, 5 soon to be in rehab
- Approval from Fannie Mae for up to \$200M in lease-purchase mortgages
- Atlanta CDC approved for lease-purchase
- Discussing partnerships in:
  - CA: Richmond & East Oakland
  - Chicago, New Haven

# Questions

- Questions?
- Ellie Carothers Kelly – [ellie@self-help.org](mailto:ellie@self-help.org)