Testimony of
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Subcommittee on Housing, Transportation, and Community Development

"Inequality, Opportunity, and the Housing Market"

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I. INTRODUCTION

Senator Menendez and members of the Subcommittee, thank you for this opportunity to speak with you about New Jersey Community Capital's efforts to advance the housing and foreclosure recovery. I am honored that our experience may be of value in your consideration of solutions for communities across the nation that continue to struggle with the devastation of the foreclosure crisis.

My name is Wayne Meyer, and I am the President of New Jersey Community Capital, which is the largest nonprofit community development financial institution, or CDFI, in the State of New Jersey. I would like to share with you several approaches that my organization has been taking to prevent and mitigate foreclosures and to stabilize distressed housing markets in New Jersey. But first, I think it is important to discuss the challenges facing our state, because while the housing market has begun to turn the corner in some places, New Jersey is still very much in a housing crisis.

II. CHALLENGES

A. Ongoing Foreclosures

As of June 2014, 5.7 percent of homes in New Jersey were in foreclosure and 9.3 percent more were seriously delinquent.[1] Those are the highest rates in the nation. 12.8 percent of mortgaged homes in the state had negative equity—that equals 240,000 additional homes still threatened by foreclosure and abandonment.[2] Moreover, foreclosures are actually increasing in New Jersey due to its prolonged foreclosure process: in October 2014, foreclosure auctions across the state were 118 percent higher than in the prior year, the third highest jump in the nation.[3]

These numbers reflect dire outcomes, especially in low-income areas: hundreds of thousands of families facing the severe negative outcomes of debt and displacement; communities facing high vacancies and declining property values and their dire consequences on public health and safety; and a State facing major budget deficits in large part due to the crisis, which affects all of its residents.

B. Barriers to Stable Housing

It is also worth noting the barriers faced by many lower-income families trying to recover from the crisis and to regain housing stability. First, mortgage credit has become increasingly inaccessible: over the last

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[1] CoreLogic. *National Foreclosure Report*, June 2014.
[2] CoreLogic. *Equity Report*, Second Quarter 2014.
[3] RealtyTrac. *U.S. Foreclosure Market Report*, October 2014.

two years, almost 98 percent of new mortgages have been extended to buyers with credit scores over 640, which is out of reach to even most financially stable moderate-income families, and while Fannie Mae and Freddie Mac's new guidelines will relax mortgage credit standards, the impact of these changes will take time to take effect.[4] In New Jersey, the number of available home purchase loans decreased by 55.1 percent from 2001 to 2012, the second largest decline in the country.[5] So stable homeownership is less and less of an option for recovering families.

At the same time, New Jersey has the fourth highest rental costs of any state, and these costs are rising,[6] even as wages for the bottom 50 percent of New Jersey wage earners has declined by a dollar per hour in the past year.[7] As a result, many more lower-income families are spending over 50 percent of their income on rental housing, in turn causing even greater economic and housing insecurity, with impacts that span generations. This cycle is hurting families across the state today, and without effective interventions, they will hurt thousands of additional families as foreclosures continue to release debt-ridden households into a high-cost rental market with extremely insufficient affordable housing options.

III. SOLUTIONS

For New Jersey Community Capital, an equitable and healthy housing market has always been and remains a fundamental pillar for stabilizing neighborhoods and increasing the wellbeing and economic mobility of lower income families. As first and foremost a community development lender, we annually invest millions of dollars into the creation and preservation of hundreds of affordable housing units, both for sale and rental. In a difficult financial climate, we have diversified funding sources and created new medium-term lending products to continue to provide flexible capital for this purpose.

But we know that this is not enough—development capital by itself does not prevent foreclosures or make mortgage credit more accessible, nor does our lending activity begin to approach the scale necessary to meet New Jersey's growing unmet affordable rental housing needs. So we have taken up the task of innovating additional solutions to stabilizing New Jersey's housing markets.

A. ReStart

The first of these solutions is a program we call ReStart. In 2012, we leveraged major investments from several financial partners to acquire two "NSO targeted" pools of nonperforming mortgages through the FHA's Distressed Asset Stabilization Program, a total of 261 mortgages in the areas of Newark, NJ and Tampa, FL. A year later, we partnered with private investors to directly purchase a pool of 517 additional nonperforming FHA mortgages in the nine New Jersey counties most impacted by Superstorm Sandy. Cumulatively, the total unpaid principal balance on these mortgages was over $190 million.

We were the only nonprofit to successfully win bids for multiple DASP mortgage pools, and the only thus far to complete a direct purchase from FHA. We are also the loss mitigation manager for a private purchaser of DASP pools in both Florida and North Carolina. We are using the provision of Hardest Hit Funds from each state and our existing mortgage resolution infrastructure to manage and resolve all

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4 Joe Light. "Mortgage Lenders Set to Relax Standards." *Wall Street Journal*, Nov. 28, 2014.
5 Laurie S. Goodman, Jun Zhu, and Taz George. "Where Have All the Loans Gone? The Impact of Credit Availability on Mortgage Volume," *Journal of Structured Finance* 20, No. 2 (2014).
6 National Low-Income Housing Coalition. *Out of Reach 2014, 2014 State Summary*.
7 Legal Services of New Jersey. *Assessing New Jersey's Progress in Combatting Poverty*, September 2014.

occupied homes under the mortgages in their pools, a total of more than 300 homes that will be stabilized.

Through ReStart, we are striving to produce 100 percent positive outcomes for homeowners and properties under the mortgages we acquire or manage. We first look to provide principal reductions to the distressed homeowners still occupying the homes, preventing their foreclosure and displacement. We are generally able to reduce the mortgages to 100 percent of current market value, with mortgage payments at under 35 percent of monthly income. We also provide these homeowners with high-touch financial counseling through local HUD-approved agencies, ensuring that they are stabilized for the long-term. So far, we have provided over 250 successful principal reductions, totaling over $18 million in forgiven principal, to families in need.

Mortgage modifications are just one component of the ReStart program, and not every home is owner-occupied, and not every occupant is in a position to sustain ownership. For homeowners who cannot or choose not to pursue a mortgage modification, we offer deeds-in-lieu of foreclosure and transitional assistance to help them attain new affordable housing. And for units that either were vacant or tenant-occupied—which account for about 45 percent of the units under mortgages we acquired—or become vacant over the course of the program, we are working with local community developers and contractors to rehabilitate them into new quality affordable housing opportunities.

B. CAPC

Our second major community stabilization innovation is Community Asset Preservation Corporation, or CAPC, which we incorporated as a real estate affiliate in 2009. The foreclosure crisis has almost entirely impacted one-to-four-family homes, but in the state of New Jersey, there has been a dearth of affordable housing developers with the capacity to compete with speculators to acquire these abandoned real-estate-owned homes at a scale large enough to begin to reverse trends of neighborhood decline.

Over the last five years, CAPC has used its capacity and expertise to acquire over 320 housing units, the vast majority of which have been clusters of single-family properties, and it has partnered with local community developers in order to return them to productive affordable housing. CAPC has also developed the capacity to manage many of these properties as rental housing, which is a critical and otherwise unmet function that both ensures the productive occupancy of these units and meets the needs of the growing number of low-to-moderate income renters in New Jersey.

CAPC will be serving a critical role in ReStart by acquiring and fostering the redevelopment of a number of the vacant ReStart properties. CAPC has also partnered with the City of Newark to serve as the lead redeveloper for 156 vacant properties that are primarily clustered in four distressed neighborhoods that the City is targeting for revitalization. CAPC is continuing to work with local partners to redevelop and reoccupy these units. It has also begun a series of trainings to help local contractors build their capacity to partner on this effort and in other local redevelopments, and it has committed to providing the majority of the construction jobs through this program to local workers.

C. Mortgage Bank

Our next major step is the collaborative expansion of a Credit Union Service Organization (CUSO) to provide direct access to stable mortgage credit and credit counseling to qualifying prospective low-to-moderate-income homebuyers that cannot access mortgages in the traditional market. We are currently developing a partnership with a major New Jersey-based credit union to build this platform.

The CUSO will originate and service CRA-qualifying mortgages for potential low-to-moderate income buyers of formerly-abandoned properties that we have redeveloped into affordable housing through ReStart or CAPC or have financed through our loan products, as well as buyers of other affordable for-sale homes across New Jersey. Each of these buyers will be required to complete credit counseling through an NJCC-approved agency, which NJCC will compensate for services, and therefore the buyers will be pre-approved for the available mortgage products. NJCC and its partners will also provide eligible homebuyers with access to down payment assistance programs and other subsidies. We believe we can launch this critical effort within the next year.

IV. NEEDS

Between our flexible lending products and the programs I have outlined for you today, New Jersey Community Capital is seeking to foster the comprehensive stabilization of New Jersey's distressed families and communities: not only providing financing for rental housing, but directly developing and managing it on a large scale; not only preserving homeownership, but creating new pathways to it. And we believe that these are models that could be replicated in distressed communities across the country.

But for these efforts to operate on the scale necessary to really bring New Jersey another step closer to recovering from its persistent foreclosure crisis, they require partnerships and resources from federal and state government and from private financial institutions. Decision-makers in each sector can together provide large-scale access to distressed mortgages and vacant properties and can make available substantial financial resources that will produce both social outcomes and substantial direct and indirect returns on investment. Today, I would like to suggest several low-cost or no-cost approaches that federal legislators and agencies could take to advance these steps to recovery, in New Jersey and elsewhere.

A. Improving Access to Nonperforming Mortgages

To expand ReStart to more homeowners and more vacant properties, NJCC has relied on access to discounted pools of nonperforming FHA mortgages offered through DASP program auctions. The DASP program has been a huge and vital resource in our efforts to scale up our foreclosure recovery efforts. The program has preserved homes, minimized foreclosures, protected property values, and promoted broad-based community stability, and from our perspective, it is one of the last remaining foreclosure recovery programs to preserve and create homeownership for low-to-moderate-income communities at significant numbers.

However, this program has become increasingly dominated by profit-driven private investors, which have won bids on 98 percent of DASP loans, including 88 percent in designated Neighborhood Stabilization Outcomes (NSO) pools. We believe that it is critical that FHA refine the DASP auctions to make them more accessible to nonprofits and community-based organizations. Thus far, studies of the program have shown that nonprofits and community-based organizations have produced far more positive outcomes for homeowners and for communities.

There are several straightforward solutions to this challenge. FHA could complete more direct sales of these mortgages to nonprofits, especially in NSO areas, where positive neighborhood outcomes such as foreclosure prevention and affordable housing creation are of especially high importance. Also, FHA could tighten NSO requirements by awarding additional points to those committed to social outcomes, or it could set aside certain mortgage pools on which socially-motivated nonprofits would have the first option to bid. Finally, FHA could heighten minimum NSO outcomes, such as requiring that a certain portion of vacant properties be redeveloped and sold or rented as affordable housing.

B. Continuing Programs to Finance Principal Reductions

Studies have shown that principal reductions are more effective than almost any other foreclosure prevention strategy, especially when paired with counseling. And these modifications benefit everyone involved: the homeowners, the neighborhoods, the mortgagees, and the local and state governments. But funds that are critical for producing affordable principal reductions have been difficult to access, and even more so now that Hardest Hit Funds are no longer available. We hope that similar funds can be made available for affordable principal reductions in places like New Jersey where the foreclosure crisis is still ongoing, including Department of Justice Settlement Funds. If more available, these funds could carry a program like ReStart to thousands more distressed homeowners.

An alternative approach would be to incentivize financial institutions to partner with nonprofits to directly provide principal reductions to distressed homeowners under mortgages they are servicing. We are currently working with one major financial institution to directly acquire over 500 mortgages located in communities we serve, but this transaction is just one of many that could occur if greater incentives were in place. These incentives could take the form of CRA credits or a number of other benefits.

We also believe that similar incentives—CRA credits perhaps being the best example—could spur financial institutions to increase access to stable mortgage credit for qualifying low-to-moderate-income families who are truly ready for homeownership. This could include the purchase of nonperforming mortgages that are modified and stabilized through programs like ReStart, as well as mortgages that have been seasoned though a program like our developing CUSO and would attain long-term success by being transferred into the conventional mortgage market.

C. Expanding the CDFI Bond Guarantee Program

Lastly, while we have used our existing resources and creativity to expand our provision of capital for affordable rental housing development, we simply do not have sufficient access to long term capital that is truly necessary for large-scale rental housing investments. The CDFI Bond Guarantee Program has the potential to be a truly momentous program in transforming the ability of CDFIs like ours to foster the large-scale creation of affordable rental housing, an especially severe need in places like New Jersey. The extension and expansion of this program will be transformative for the communities we serve.

V. CONCLUSION

In conclusion, I would once again like to thank the members of the Subcommittee for their time and attention to this critical issue of saving our neighborhoods from the detrimental impact of foreclosures. And I would like to acknowledge Senator Menendez' leadership in helping residents of our at-risk communities across our state. I hope this conversation can continue, as I believe that, with the right set of policies and programs, we can truly stabilize our distressed communities, to the benefit of everyone.