



**Testimony of Ali Solis
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Good afternoon. Thank you for inviting me to testify today. My name is Ali Solis, senior vice president for Public Policy and Corporate Affairs at Enterprise Community Partners, Inc. Enterprise is a family of companies working together to build opportunity in communities across the country. Opportunity begins when people have a safe, healthy and affordable place to call home in communities with access to good jobs, excellent schools, efficient transportation and healthy living environments. For 30 years, Enterprise has introduced solutions through public-private partnerships with business, philanthropy, community development corporations, advocates and social entrepreneurs that share our vision that one day, every person will have an affordable home in a vibrant community, filled with promise and the opportunity for a good life. Since 1982, Enterprise has raised and invested more than \$11 billion in equity, grants and loans to help build or preserve nearly 300,000 affordable rental and for-sale homes to create vibrant communities and more than 410,000 jobs nationwide.

Given the chance, people will climb the ladder of opportunity. But for so many of us, the middle rungs of the ladder have been broken, with individuals and families sliding all the way to the bottom. This has been especially true over the past several years as the economic and foreclosure crises have devastated families and neighborhoods across the country. Communities that are traditionally underserved by mainstream mortgage lenders have been even more severely impacted by the concentration and volume of foreclosures and vacant real-estate owned (REO)

properties. Consequently, they will take longer to recover. Enterprise is dedicated to helping these families and communities by providing comprehensive neighborhood stabilization strategies and advancing policies to achieve this goal. Though the foreclosure crisis is relatively recent, vacant and abandoned homes are not. For decades, Enterprise has worked nationally to promote neighborhood stabilization policies and help communities at the local level cope with the destabilizing impact of vacant and abandoned houses.

In my testimony today, I will focus on the holistic approaches and wide range of tools necessary to truly stabilize neighborhoods. By keeping whole communities in mind, as opposed to more siloed approaches, we can ensure that the right solutions are available and tailored to both impacted individuals and the wide-ranging needs of diverse communities. Therefore, our primary policy recommendations are:

1. *Attempt to keep families in their homes.* Avoiding vacancy is the best neighborhood stabilization strategy. We recommend that a wide range of tools be available, including principal reduction and other sustainable mortgage modification programs for at-risk homeowners.
2. *Return vacant properties to productive use as quickly as possible and expand the supply of affordable rental housing.* Vacant and poorly maintained buildings invite blight and crime, drive down neighborhood property values and counteract attempts to stabilize neighborhoods. In addition, demand for affordable rental housing has grown, putting pressure on the neediest families. We recommend that the federal government encourage responsible public and private efforts to acquire and rehabilitate vacant and foreclosed homes so that they can provide affordable rental opportunities to low- and moderate-income families.
3. *Ensure that affordable homeownership remains available for low- and moderate-income families.* We know that low- and moderate-income households, given responsible financial products, can remain homeowners even in times of stress. We recommend that the federal government continue to promote policies that provide fairly-priced, responsible and sustainable mortgage access to credit-worthy borrowers.

4. *Target stabilization efforts.* In this world of limited resources, we must target our efforts to ensure that we can make a real difference in any given neighborhood. We recommend that federal efforts be coordinated and build upon existing stabilization strategies. We encourage banks to develop robust, well-integrated anti-blight strategies for their own portfolios.

Enterprise was among the first to recognize the importance of proper REO disposition in order to facilitate neighborhood stabilization. We testified at one of the first Congressional hearings before the Senate Banking Committee on January 31, 2008 and urged Congress to implement comprehensive foreclosure stabilization policies. We formed the Save America's Neighborhood Campaign, a broad-based coalition of 39 national and local organizations concerned about the foreclosure crisis' impacts on communities, including real estate developers, Realtors, housing advocates, civil rights groups and state and local governments. This coalition championed the passage of the Neighborhood Stabilization Program (NSP), and we have continued to work with our partners on the ground to both implement and leverage NSP to ensure maximum impact. We are grateful to Representative Maxine Waters and the many members of this caucus for their leadership in ensuring that homeowners and communities were not forgotten in the midst of the financial crisis. Because we know how important NSP has been in communities around the country, we are strong supporters of H.R. 3502, the Project Rebuild Act of 2011.

In addition, we were one of the six founding members of the National Community Stabilization Trust (NCST) an entity created in 2009 to boost government agency and non-profit efforts to revitalize distressed neighborhoods by providing efficient, streamlined access to vacant and abandoned properties from financial institutions and flexible financing for neighborhood stabilization activities. As founding members, Enterprise, the Housing Partnership Network (HPN), Local Initiatives Support Corporation, National Council of La Raza, National Urban League and NeighborWorks America are currently working with NCST to provide local private and public entities with innovative programs and services that facilitate the acquisition and productive reuse of foreclosed and vacant properties. NCST works with over 300 local housing providers in 46 states and maintains a working partnership with the Department of Housing and Urban Development to administer the National First Look Program, a property transfer platform

that connects NSP-funded housing providers with the REO inventories of the nation's largest servicers, Federal Housing Administration (FHA), Freddie Mac and Fannie Mac in a program that permits the streamlined acquisition of distressed properties in neighborhoods disproportionately impacted by foreclosures and abandoned housing.

I am also here today as a member and co-founder of the National Foreclosure Prevention and Neighborhood Stabilization Task Force. Convened in November 2007, the Task Force is a cross-industry group of local and national organizations working to address the impacts of the foreclosure crisis on communities. Our mission is to bring together advocates, practitioners, local governments and other experts from across the country around foreclosure prevention and neighborhood stabilization efforts to exchange critical information and to help craft policy, legislative and programmatic initiatives that primarily support low- and moderate-income individuals, families and communities.

The nearly 200 organizational members of the Task Force encourage multiple new policy responses to resolve this crisis and return healthy neighborhoods to the housing market. To this end, the Task Force is focusing on the following three issues during 2012:

1. Foreclosure prevention
2. Restoring vibrant housing markets and neighborhoods
3. Empowering communities to control the damage from foreclosures

At Enterprise, we continue to work with our partners to develop the national tools and local capacity to implement holistic neighborhood stabilization in the wake of the foreclosure crisis. We help homeowners, renters and communities at all points in the foreclosure timeline. The foreclosure process is a continuum that begins with an already distressed or soon-to-be-distressed homeowner and, without intervention, typically ends with a vacant, foreclosed home. Enterprise, in conjunction with our partners, seeks to find the various intervention points where we can influence the outcome so that it is better for the homeowner and the community. For example, to help families still in their homes, we purchase delinquent loans for the purposes of principal reduction. But recognizing that not all foreclosures are preventable, we are also working with partners to facilitate responsible REO-to-rental programs so that we can help stabilize

neighborhoods by reducing the inventory of vacant, unsold homes and creating affordable rental stock. Both solutions are a marked improvement for both the neighbors of foreclosed homes and the new families living in the homes.

Mortgage Resolution Fund

Our recommendations are based on our practical, evidence-based work on the ground in all 50 states as we develop innovative solutions to revitalize neighborhoods and bring economic, health and environmental benefits to communities. Enterprise has 11 regional offices from coast to coast, and we've witnessed first-hand the devastating impact of foreclosures on communities. I'd like to focus for the moment on a pilot program we are running in Illinois that writes down the mortgages of homeowners in targeted low- and moderate-income neighborhoods. This is a very real example of what can be done today to help these homeowners and communities. I will be happy to report back to Congress on the outcomes of this pilot later this year.

Enterprise, HPN, Mercy Housing and NCST together formed the Mortgage Resolution Fund (MRF) in Illinois. The mission of MRF is to create stable options for homeowners for whom homeownership is still financially viable and to provide rental options for homeowners whose loans cannot be modified. MRF is designed to purchase distressed mortgage notes from financial institutions and other servicers/investors with the explicit intent of reducing the mortgage principal and modifying the note to keep the homeowner in their home whenever possible. MRF's note acquisition pricing model is consistent with the market price established in the current distressed mortgage note sales market.

Specifically, MRF is acquiring the delinquent note at the current market price for nonperforming note sales, reducing principal to between 85-90 percent of the current home value, and providing credit counseling to help the homeowner meet the new payment amount and reduce all of their monthly debt to 45 percent of their total income. We do significant due diligence before we decide which notes to purchase. We target homeowners who are still living in their homes, earning documentable income and want to remain in their homes. Also, we provide comprehensive homeowner counseling so that our participating families are financially prepared to assume the new mortgage payments.

Geographic targeting is important to MRF. We are targeting harder-hit neighborhoods, concentrating on communities that are recipients of NSP funds. MRF uses two filters to arrive at its optimal geographic target areas. The first filter defines the core geography for the program in a given market:

- The census tract must score between 12 and 19 out of 20 on the HUD NSP2 needs scale.
- Eligible census tracts must show a U.S. Postal Service vacancy rate of 10 percent or less.
- Eligible census tracts must have an Average Median Income (AMI) of 120 percent of household income or below.

The second filter defines local market viability by analyzing sales data, such as average sales prices and foreclosure sales prices. This filter forms the basis for determining whether there is market viability in a particular zip code.

Using the states' Hardest Hit Funds allocated by the U.S. Treasury to state housing finance agencies, MRF is establishing socially responsible principal reduction solutions for the borrowers. Moreover, the notes are being purchased in geographically targeted hard-hit markets, using local community nonprofit organizations to directly assist the delinquent borrowers in getting back on track with payments. The state of Illinois has led the way by committing \$100 million in Hardest Hit Funds to MRF, which has provided an example to other state HFAs to begin working with MRF to implement this program in their states.

We expect to be able to modify 60 percent of the notes we purchase, a much higher success rate than private equity funds – the private firms we talked to keep 20-25 percent of homeowners in their homes. We anticipate that we can modify this larger-than usual percentage of loans because of the intensive housing counseling aspect of our program. MRF conducts comprehensive financial counseling that takes all of the homeowner's debt into account. Therefore, we can work with homeowners to ensure that the new loan payments are affordable and sustainable. Our mortgage resolution specialists work with the other 40 percent of

homeowners for up to six months to educate them about their options, including short sales, or deed-in-lieu of foreclosure. Foreclosure is the absolute last resort and in all cases, we provide relocation expenses to the owners and do our best to ensure a transition to other affordable housing.

MRF is ultimately the best outcome for struggling homeowners because we will reduce principal below market value in order to restore some of the lost equity to the homeowner, which is achieved through a soft-second mortgage with anti-flipping provisions. It also achieves permanent long-term affordability for the homeowner and stability for the neighborhood. MRF is managed by four high-capacity non-profits who have been working in communities for decades and are community development experts. Therefore, as we scale up MRF and demonstrate that principal reduction is a sustainable modification solution for struggling homeowners, we will share these lessons more broadly so that they can inform the national debate on principal reduction.

Principal Reduction

Partially based on our MRF experience, we at Enterprise believe that principal reduction is one of several important tools to help correct the over-leveraging that occurred during the housing boom. There are of course many additional tools that can be used, including refinancing, short sales, deed-in-lieu and rent-to-own strategies. The Federal Reserve estimates that since 2006 Americans have experienced a \$7 trillion decline in housing wealth.¹ As we recover from this crisis, we need to help homeowners and neighborhoods realize the true value of their assets. When we have access to all tools, we have a better chance of helping the nation's housing markets truly recover.

Unlike forbearance, which often leaves a lead balloon hanging over homeowners' heads—due on sale or when the last mortgage payment is made—principal reduction doesn't trap owners in their otherwise underwater properties. During the long term, that looming balloon payment increases the likelihood that the borrower will go into default again should the borrower suffer

¹ Federal Reserve Board. "The U.S. Housing Market: Current Conditions and Policy Considerations." January 4, 2012. Available at: <http://federalreserve.gov/publications/other-reports/files/housing-white-paper-20120104.pdf>

another hardship. And unlike refinancing, principal reduction can better address loans that are deeply underwater, more than a rate reduction or term extension can solve. Principal reduction can be a powerful mechanism to achieve sustainable modifications that grant families the future flexibility to meet their needs, whether that is to move to another state for a good job or buy a larger or smaller home to accommodate changing family needs.

Congress, the Administration and the media have engaged in many recent conversations about principal reduction. In part, this attention is due to the landmark \$25 billion national mortgage settlement that requires the five biggest servicers to offer more than \$10 billion in meaningful principal reduction to struggling homeowners. Indeed, since October 2010, all Home Affordable Modification Program (HAMP) servicers have been required to evaluate borrowers for principal reductions on loans not owned by Fannie Mae or Freddie Mac or insured by FHA/VA. As a result, nearly 16 percent of HAMP modifications at the end of 2011 included some write-down of the loan balance.² When banks hold the mortgage on their own balance sheets, they reduce principal more than a quarter of the time.³ For these mortgage holders, principal reduction clearly makes financial sense.

However, the housing Government Sponsored Enterprises (GSEs), Fannie Mae and Freddie Mac, are currently not permitted to do principal reduction at the direction of their conservator, the Federal Housing Finance Agency (FHFA). The economic question is whether the GSEs should offer principal reduction when it is more valuable to the GSEs—and by extension, the taxpayers—than alternative modifications or letting the home go into foreclosure. Initial analysis released by the FHFA in March 2012 indicates that, yes, it may be more cost effective to the GSEs to reduce principal given the new HAMP incentive payments offered by the Treasury Department.⁴ However, the FHFA is continuing to analyze the data and we have not yet heard a final decision regarding principal reduction. We recommend that FHFA lift its blanket

² Office of the Comptroller of the Currency. “OCC Mortgage Metrics Report.” Forth Quarter 2011. Available at: <http://www.occ.gov/news-issuances/news-releases/2012/nr-occ-2012-55a.pdf>

³ Office of the Comptroller of the Currency. “OCC Mortgage Metrics Report.” Forth Quarter 2011. Available at: <http://www.occ.gov/news-issuances/news-releases/2012/nr-occ-2012-55a.pdf>

⁴ Remarks of Edward J. DeMarco, Acting Director of the Federal Housing Finance Agency. The Brookings Institution. April 10, 2012. Available at: http://www.fhfa.gov/webfiles/23876/Brookings_Institution_-_Principal_Forgiveness_v11R-final.pdf

prohibition on principal reduction and allow it to be one tool among many available to help borrowers with GSE-backed loans.

REO-to-Rental

We recognize that not all homeowners can or want to stay in their homes, and long delays in the foreclosure process have negative impacts on neighborhoods. For many properties in certain markets, demolition may be the best option, and for that reason we support H.R. 4210, the Restore our Neighborhoods Act of 2012. This bill would provide additional resources to states and localities seeking to eliminate blighted properties. As we seek solutions to the foreclosure crisis, we must choose the REO disposition method that best reflects the needs of each individual property and community.

We are also looking to the public and private sector to convert many of these foreclosed homes into rentals because it can stabilize neighborhoods, expand the supply of affordable rental properties and ultimately make good financial sense for banks and servicers. Filling these homes with renters is a viable solution to help stabilize neighborhoods because it reduces vacancies and keeps homes off the for-sale market during this volatile time. It also can expand the supply of affordable rental homes, which is critical in this country where more than 26 percent of renters pay more than half of their income for rent.⁵

At the end of 2011, there was an anticipation of large bulk sales from FHA and FHFA. Though it is currently unclear just how large those bulk dispositions will be, this is a good opportunity for the government to set standards for the sale, disposition and management of REO homes. That will allow this new REO-to-rental initiative to benefit all communities, including low- and moderate-income communities.

Enterprise and the National Foreclosure Prevention and Neighborhood Stabilization Task Force are in favor of public and private efforts to convert foreclosed properties into rental and

⁵ Statistic from 2001-2009. Joint Center for Housing Studies of Harvard University. "The State of the Nation's Housing 2011." Available at: <http://www.jchs.harvard.edu/research/publications/state-nation%E2%80%99s-housing-2011>

commend the FHA and FHFA's ongoing efforts to address the significant REO inventory held by government entities. However, we are concerned that the FHFA pilot announced by Fannie Mae earlier this year does not include essential elements to ensure that the REO disposition process helps, rather than hurts, ongoing efforts to reduce vacancy and revive the hardest hit housing markets. We urge FHFA and FHA to make sure this pilot complements, rather than complicates or undermines, those actions by encouraging partnerships with non-profits, pricing and sizing the bundles so that non-profit and local actors can participate. This would ensure that private sector actors are properly monitored and vetted so as to avoid poor property management.

We at Enterprise have entered this REO-to-rental market looking for gaps in the private market that can be filled with community stabilization as the primary goal. Thirty years of experience have taught us that private capital will not be attracted to all neighborhoods and that certain low-income or minority neighborhoods may be left out of this new stabilization trend. Therefore, Enterprise has entered into a partnership with a for-profit equity fund to develop programs in neighborhoods that private equity alone currently will not reach. Our community relationships and expertise are helping ease the concerns of the equity fund so that they feel more comfortable bringing their private capital into certain low- and moderate-income neighborhoods.

Access to Capital

Ultimately, the foreclosure system only works if there is capital available for homebuyers and investors to purchase properties. Vibrant communities need new homebuyers to help communities grow and stabilize prices. As we are dealing with the foreclosure crisis, we are also working through myriad issues related to the availability of mortgage capital. Currently, we are seeing a dramatic tightening of lending standards in the neighborhoods that have been hardest hit by the foreclosure crisis, many of which are minority and low-income. Creditworthy borrowers are often unable to access mortgage capital in these neighborhoods. This translates into a much longer period of time for these neighborhoods to stabilize due to the inability, but not unwillingness, of buyers to purchase properties.

We believe it is critical to ensure there are responsible, mainstream lending products. However, we are concerned about the potential impact of overly strict lending and downpayment standards

on future mortgages and borrowers. The Consumer Financial Protection Bureau is currently working on final rules for Qualified Mortgages (QMs) and Qualified Residential Mortgages (QRMs). Both rules have the potential to set up new barriers to homeownership that could effectively lock out low-income, moderate-income and first-time homebuyers. For example, a strict 20 percent down payment requirement would be devastating in low-income neighborhoods because it will take years to for the average family to save such an amount, even if that family has good credit and would otherwise be able to responsibly support mortgage payments. In 30 years, we have seen that loan characteristics, proper underwriting and homebuyer counseling are more important predictions of loan performance than size of down payments. We recommend that the regulators focus on these characteristics as a way to determine QRMs, not down payment size. Let's not let the pendulum swing too far the other way, shutting out otherwise qualified borrowers.

Conclusion

Enterprise and the Foreclosure Task Force will continue to look for ways to help families and communities recover from this devastating foreclosure crisis. We will need many tools to address this problem, including MRF, principal reduction and REO-to-rental. Neither the housing market nor the broader U.S. economy can fully recover without addressing this debilitating foreclosure crisis. We look forward to continuing to work with you to address this problem. Thank you.

Enterprise is a leading provider of the development capital and expertise it takes to create decent, affordable homes and rebuild communities. For 30 years, Enterprise has introduced neighborhood solutions through public-private partnerships with financial institutions, governments, community organizations and others that share our vision. Enterprise has raised and invested more than \$11 billion in equity, grants and loans to help build or preserve nearly 300,000 affordable rental and for-sale homes to create vital communities. Visit www.EnterpriseCommunity.org and www.EnterpriseCommunity.com to learn more about Enterprise's efforts to build communities and opportunity.