Center for COMMUNITY PROGRESS
Vacant Spaces into Vibrant Places

Headquarters:
111 E. Court St.
Suite 2C-1
Flint, MI 48502

National Office:
1101 14th St. NW
Suite 510
Washington, DC 20005

877.542.4842
communityprogress.org

April 17, 2023

Commissioner Julia Gordon
% Regulations Division
Office of the Assistant Secretary for Housing - Federal Housing Commissioner
Department of Housing and Urban Development
451 7th St. SW
Washington, DC 20410

Re: Request for Information Regarding Rehabilitation Mortgages
Docket No.: HUD-2023-0011 / FR-6366-N-01

Dear Commissioner Gordon:

The Center for Community Progress ("Community Progress") appreciates the opportunity to respond to the Federal Housing Administration's ("FHA") Request for Information ("RFI") regarding the 203(k) rehabilitation mortgage program.

About the Center for Community Progress

The Center for Community Progress empowers people to transform vacant spaces into vibrant places. Since 2010, their team of experts has provided urban, suburban, and rural communities battling systemic vacancy with the policies, tools, and resources needed to address the full cycle of property revitalization. As the only national nonprofit dedicated to tackling vacant properties, Community Progress drives change by uncovering and disrupting the unjust, racist systems that perpetuate entrenched vacancy and property deterioration. Community Progress has delivered customized, expert guidance to leaders in over 300 communities and provided hundreds of hours of free educational resources as well as leadership programming to help policymakers, practitioners, and community members across the country return properties to productive use.

About the National Land Bank Network

Land banks are a vital tool in the revitalization toolbox, particularly for communities challenged by systemic racism, disinvestment, and displacement pressures. Land banks are public entities focused on converting vacant, deteriorated, tax-delinquent properties into productive use according to local community goals. Through governmental powers granted to them pursuant to state-enabling legislation, land banks acquire problem properties with the intention of either immediately returning these properties to productive use, or temporarily holding and maintaining them for the purpose of stabilizing distressed markets or fulfilling long-term land use goals.

Building off our legacy of supporting land banks, Community Progress formed the National Land Bank Network (NLBN), the first nationwide effort to coordinate the constellation of over 250 land banks in an increasing majority of states (twenty-nine at present). The NLBN aims to advance equitable neighborhood development, strengthen public policy for resilient communities, and uplift innovative programs and partnerships.[1]

Our work with land banks across the country, particularly in distressed communities with low value housing markets, has shown us that the lack of access to financing products for the acquisition and rehabilitation of residential properties is a real impediment to revitalizing communities, increasing homeownership, and undoing unjust racial wealth and homeownership gaps. Given FHA's commitments to supporting underserved markets, promoting homeownership, and advancing housing justice, and the agency's demonstrated interest in evaluating the 203(k) mortgage program, we believe that working directly with the NLBN could powerfully enhance FHA's efforts to reimagine and improve it.

Land banks operate at the intersection of equitable community development efforts in under- and disinvested communities and play a critical role in local housing affordability and neighborhood stabilization initiatives. This gives land banks a unique perspective into challenges that local governments, developers, neighborhood groups, and residents experience, particularly in weaker, distressed housing markets. We invite FHA to tap into this knowledge by leveraging the NLBN and the land banks it serves as the Agency builds the evidence base and explores improvements to the 203(k) rehabilitation mortgage program.

Access to Homeownership Is Critical to Closing the Racial Wealth Gap.

Homeownership is unequivocally the primary contributor to the racial wealth gap today.[2] The persistent divide between intergenerational wealth, quality of life, and access to opportunity between white Americans and Black and Brown Americans is largely a consequence of systemic inequities and discrimination in the housing market.[3] It follows that ensuring housing equity requires a clear and intentional focus on addressing wide racial disparities in homeownership[4] and intergenerational wealth-building.[5]

There is also a renewed sense of urgency to intentionally provide opportunities for first-time homebuyers in an increasingly unreachable marketplace.[6] Lower rates of homeownership

[1] Please visit our Land Bank Information Headquarters and interactive land bank map for more information: https://www.communityprogress.net/land-bank-headquarters-pages-446.php

[2] Bowdler, Janice and Harris, Benjamin. *Racial Inequality in the United States* (July 21, 2022). https://home.treasury.gov/news/featured-stories/racial-inequality-in-the-united-states#_ftn4

[3] There are several historical factors behind the large and growing racial wealth gap including calculated housing policy which deliberately limited the scope and scale of Black homeownership, the single greatest source of wealth. See Hardy, Bradley L., and Trevon D. Logan. "Racial economic inequality amid the COVID-19 crisis." The Hamilton Project (2020). https://www.brookings.edu/wp-content/uploads/2020/08/EA_HardyLogan_LO_8.12.pdf

[4] As of November 2022, the homeownership rate for non-Hispanic White Alone householders reporting a single race was highest at 74.6 percent. The rate for Asian, Native Hawaiian and Pacific Islander Alone householders was second at 61.6 percent, and the rate for Black Alone householders was lowest at 45.2 percent. The homeownership rates for Black Alone and Non-Hispanic White Alone householders were higher than the rates in the third quarter 2021, but rates for the other race categories were not significantly different from the third quarter 2021 rates. See US Census Bureau, *Quarterly Residential Vacancies and Homeownership, Third Quarter 2022 Release CB22-170* (November 2, 2022). https://www.census.gov/housing/hvs/index.html

[5] Recent research from Freddie Mac demonstrates that "Black and Latino applicants receive lower appraisal values than the contract price more often than White applicants." See Freddie Mac, *Racial and Ethnic Valuation Gaps in Home Purchase Appraisals* (September 2021). http://www.freddiemac.com/research/insight/20210920_home_appraisals.page

[6] Median home prices have increased at four times the rate of household incomes since 1960, leading to imbalanced price-to-income ratios in most major metropolitan areas. Additionally, the price-to-income ratio often-used in assessing prospective buyers has ballooned from 2.1 in 1960 to 3.6 in 2017. See Tekin, Eylul. *A Timeline of Affordability: How Have Homes Prices and*

results in less wealth and lower quality of life and are a direct result of limited access to the financial market. The National Association of Real Estate Brokers found that only 5 percent of the conventional market were loans to Black borrowers in 2018, compared to 15 percent of the FHA/VA market. Furthermore, just ten lenders were responsible for originating 24 percent of mortgage loans to Black borrowers in 2019. Of those ten, only three were traditional depository banks. Black applicants are also more than twice as likely to have their loan applications rejected.[7]

203(k) Feedback from the Community Progress Stakeholder Community

Leveraging our social media channels, our e-mail newsletters, our National Land Bank Network, and through targeted, direct outreach, Community Progress solicited feedback from the field about the 203(k) mortgage program to inform FHA in its review. Given our deep engagement in disinvested communities with vulnerable populations underserved by traditional housing financing, and the work we support happening at land banks around the country to repurpose vacant inventory into affordable homeownership opportunities, our stakeholder base offers unique and valuable perspective into the 203(k) program.

We engaged directly with practitioners in Alabama, Georgia, Michigan, New York, and Pennsylvania about their experiences with the 203(k) program. Consistent themes from these discussions include:

- **More education and direct outreach** about the 203(k) program is needed at all levels – consumer, mortgage originator, housing counselors, nonprofit developer, contractor, local governments. Many buyers, originators, and contractors do not even know the product exists.
- **The bench of qualified 203(k) FHA consultants needs to be deepened**, in order to make the program more accessible and to make originations and rehab projects move more smoothly and quickly. We have uniformly heard highly favorable feedback about the role of FHA 203(k) consultants, but there are simply not enough of them, and investment, incentives, and outreach is needed to build the consultant bench.
- **Costs of residential construction and rehab** have skyrocketed, and **demand for licensed contractors** and skilled trades create a challenging environment for all building and rehab activity. Willingness to work with the 203(k) payment process and timeline is a challenge given this highly competitive field.
- **Land banks are a natural partner for FHA as it works to improve the 203(k) program**, given the communities land banks serve and their inventory of vacant, abandoned real estate. Meaningfully engaging with land banks to explore how to better serve the acquisition and rehab mortgage needs of underserved borrowers has the potential to jump start the 203(k) program and move the needle on affordable homeownership.

The following specific feedback and case studies articulate direct borrower and nonprofit experiences with the 203(k) program and its challenges.

Household Incomes Changed Since 1960? (August 3, 2021). https://listwithclever.com/research/home-price-v-income-historical-study/

[7] Perry, Vanessa G. et al. *2020 State of Housing in Black America: Challenges Facing Black Homeowners and Homebuyers during the COVID-19 Pandemic and an Agenda for Public Policy* (2020). National Association of Real Estate Brokers. www.nareb.com/shiba

A Land Bank in Western Pennsylvania's First 203(k) Success Story

McKeesport, Pennsylvania is a community that has struggled with population loss and disinvestment. At its height, its population was approximately 55,000, which has contracted to less than a third of that figure, with a current population of around 17,000. This community experiences severe challenges with vacancy in residential areas and in its downtown commercial district.

Recently in McKeesport, a single mother of three children worked with a local land bank to purchase a home and perform the rehab utilizing a 203(k) mortgage. This was the land bank's first experience working with a 203(k) loan; it was willing to work with this buyer in part because she came to the deal with a preapproval from a New Jersey lender familiar with the 203(k) process, and with a family member as the contractor.[8]

The land bank reported that there are only 4 FHA-approved 203(k) consultants serving the Allegheny County, Pennsylvania area. The consultant overseeing this project, as in the Birmingham, Alabama, case study, was critical to its success. The inspection process revealed changes in the project scope and other issues resulting in the termination of the borrower's original contractor mid-project. Fortunately, the 203(k) consultant was able to identify another contractor who got the project completed.

The land bank's typical disposition strategy is to include an enforcement mortgage allowing the land bank to step in and retake the property if the project is not completed within 3 years, if the rehab project does not begin within 6 months of closing, or if there is an unjustified delay for longer than 6 months. This enforcement mechanism aims to return properties to productive use and to hold purchasers – whether owner occupants or developers – responsible. The land bank board of directors was willing to waive this enforcement mortgage, which would not have been compatible with FHA's 203(k) loan requirements, once the 203(k) process and timeline was explained.

Key takeaway: FHA should engage with land banks, most of which include some type of enforcement mechanism or claw back provision to hold purchasers accountable, to explore how land bank properties and processes could be incorporated into and compliment 203(k) mortgage processes and requirements. Given the shared objectives of making rehab projects successful and getting owner-occupants into safe, affordable homes, and the inventory of land bank properties in need of rehab ripe for 203(k) mortgage projects, FHA could expand the reach of the program by partnering with land banks in the program redesign.

Nonprofit participation opportunity: As a result of this experience with 203(k), the land bank has learned a great deal about the program. They are exploring the possibility of creating a new program whereby they would rehab homes solely to the point at which it could receive a certificate of occupancy for safe habitability. With an accessible, flexible, scalable rehab mortgage product such as an improved 203(k) program, owner-occupant families could complete the remainder of the rehab, customizing it to their needs. The land bank would welcome the opportunity to engage with FHA as they work to design this program, which could serve as a demonstration for replication in other communities.

[8] That this borrower utilized a New Jersey based lender for a property in western Pennsylvania may be instructive, although the stakeholders with the land bank did not share whether the borrower attempted to secure 203(k) financing from a more local lender.

An Individual 203(k) Story from Birmingham, Alabama

I spoke with a young professional directly involved in the local land bank in Birmingham, Alabama, about their personal experience utilizing a 203(k) mortgage. Their family decided they wanted to live in the Norwood neighborhood, as their spouse is a local business owner with roots in the community. This historic neighborhood situated five minutes from downtown Birmingham experienced severe decline in the 1980s and 1990s, and now features a high number of empty lots in its residential streets. By the time they began exploring the possibility of purchasing a home to rehab in 2014, Norwood had started becoming popular again. Investor purchasers and cash sales were difficult to compete with, and also created appraisal challenges, as these investors were holding properties for single family rental. This activity kept comparables low, despite increased market activity in Norwood.

When exploring the neighborhood and meeting local residents, this stakeholder heard something in passing about the FHA 203(k) mortgage program, which stuck in their head. Once they found a home, they approached local lenders about mortgages and construction loans, but nobody had any information about 203(k). Determined to access this program, after months of online searching, they finally found an FHA consultant with experience inspecting 203(k) mortgage rehabs. This was the game-changing moment that made the rest of the pieces fall into place.

The FHA consultant shared that, in their experience, 203(k) mortgages were uncommon in Alabama, but more often used in Texas. The consultant connected the borrower to both a local lender with some experience originating 203(k) loans, and to a local contractor with 203(k) experience and willing to work on an FHA 203(k) inspection/payment schedule. Had this stakeholder not found this FHA consultant in the proverbial online haystack, the project would not have happened.

While they had positive experiences with the lender, the consultant, and the contractor, they encountered challenges finding an appraiser familiar with the 203(k) appraisal process. The scope of the project was a full gut rehab of a brick house built in the early 1920s. The purchase price of the property was $40,000, and the 203(k) loan amount was $140,000, which took substantial negotiation given the local comps and the artificially suppressed market values resulting from disinvestment and investor-driven cash purchases. They were able to stay on budget because they did their own demolition, and they were themself a licensed architect. They closed on the mortgage in July, and with one brief extension, the last 203(k) payment to the contractor was made in May of the following year.

203(k) Mortgages Appear to Be Underutilized in New York State

One high-capacity land bank operating in upstate New York reports that only a handful of buyers have successfully secured bank financing to acquire and rehab vacant buildings from the land bank's inventory. Of the 345 buildings they have sold over the past 8 years, less than half a dozen have been financed with 203(k) mortgages.

From time to time, prospective buyers that have approached the land bank with 203(k) preapprovals have failed to obtain financing once the underwriting occurs. So many families have been disappointed by the 203(k) process and feeling their time had been wasted that the land bank now cautions other prospective buyers who inquire about the 203(k) product. As an alternative, the land bank has developed a strong partnership with a local CDFI, which has originated over a dozen acquisition-rehab mortgages for purchases of land bank properties over the past 2 years. **We encourage FHA to engage with CDFIs originating these 203(k) mortgage alternatives, and we would be happy to facilitate a discussion with this CDFI.**

Partners in Newburgh, New York, a northern suburb of New York City in the Hudson River Valley, reported to us that they have rarely, if ever, worked with properties that qualified for 203(k) mortgages. Given their severely distressed housing stock, the costs of rehab always exceed the estimated post-rehab appraised value.

Conclusion

Community Progress appreciates the opportunity to share our expertise and stakeholder perspectives with FHA, and the Agency's consideration of the above feedback. We also join with our coalition colleagues from a number of national nonprofit housing and consumer finance advocacy organizations as signatory to a group letter submitted contemporaneously with this letter.[9]

We would be happy to provide any additional input FHA may request and stand ready to support FHA as it explores how to improve the 203(k) rehabilitation mortgage product. We look forward to learning about and responding to next steps.

Sincerely,

Robert E. Finn
Vice President, Policy and Research
Center for Community Progress

[9] Those organizations include HomeFree-USA, the National Community Stabilization Trust (NCST), National Fair Housing Alliance, National Housing Resource Center, the National Consumer Law Center (on behalf of its low-income clients), and UnidosUS.