

Novogradac Journal of Tax Credits

News, Analysis and Commentary On Affordable Housing, Community Development and Renewable Energy Tax Credits

August 2011, Volume II, Issue VIII

Published by Novogradac & Company LLP

Ohio Developer Honored for Post-Foreclosure Recovery Efforts

By Jennifer Hill, Staff Writer, Novogradac & Company LLP

Until the housing crisis hit the Cleveland, Ohio area in 2007, local not-for-profit Cleveland Housing Network (CHN) on an annual basis typically counseled between five and 10 area families at risk of foreclosure. Subprime mortgage delinquencies and a worsening economy propelled that number to more than 1,000 cases a year by 2010. To date, CHN staff members report that they have yet to see a slowdown in the number of anxious homeowners seeking the organization's foreclosure intervention programs.

Lydia Balson, CHN's resource development manager can still picture the height of the foreclosure crisis. "You could drive down streets that were just boarded-up house over boarded-up house. The visual was horrible," she said.

In answer to the blight caused by foreclosed and abandoned homes, the homeownership-oriented developer mobilized in 2009 with a multi-faceted, targeted approach to fill vacant homes with low- to moderate-income families and stabilize Northeastern Ohio's neighborhoods. CHN's efforts were recognized in June when the Ohio Housing Finance Agency (OHFA) honored the nonprofit community development corporation with a Spirit of Homeownership Excellence Award (SHEA) for its comprehensive recovery strategy that blends homeownership opportunities, financial counseling and education, energy efficiency and low-income housing tax credits (LIHTCs).



Photo: Courtesy of Cleveland Housing Network
Cleveland Housing Network won a 2011 Spirit of Homeownership Excellence Award for redeveloping vacant single-family homes into affordable housing.

Combine and Conquer

No stranger to community development endeavors, CHN decided to forego its scattered-site approach to housing development in favor of a more focused strategy that would concentrate on neighborhoods already singled out for investment under other local initiatives, initiatives such as the city's Connecting Cleveland 2020 Citywide Plan, the Neighborhood Stabilization Program Plan, and the Strategic Investment Initiative (SII). Neighborhood Progress Inc. (NPI), a not-for-profit neighborhood revitalization group, established SII in 2004 with the goal of bringing in \$950 million in investment to restore private markets in the city's Buckeye, Detroit Shoreway, Fairfax, Glenville and Wade Park, Slavic Village, and Tremont neighborhoods.

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“All that work was being undone when the foreclosure crisis hit. It threatened investment that had already taken place as well as future investment,” Balson said. CHN joined the city, NPI and six other community development corporations in 2008, undertaking a year-long planning process to counter the effects of foreclosures and vacancies in the targeted neighborhoods. The plan has transformed nearly 500 homes through the demolition of blighted homes and the rehabilitation of salvageable homes, transitioning them into CHN’s for-sale homeownership and lease purchase programs. “We changed where we developed, how we developed and how we financed,” Balson said. “The new approach is not only about strengthening families, but stabilizing neighborhoods as well,” she added, attributing the success to the combination of programs and partners.

Since CHN began implementing the targeted strategy in 2009, it has redeveloped abandoned homes for nearly 50 families through its for-sale housing program, and it has provided 121 lease-purchase homes, single-family rental houses that tenants will eventually have the opportunity to own.

Tried and True

CHN’s lease purchase program, which links LIHTCs with homeownership, dates back much further than the beginning of the economic downturn. “Their first [lease-purchase home] was placed in service in 1987 and the credit was created in 1986,” said Thomas Eastman, a vice president at Enterprise Community Investment, which has been involved in 33 of CHN’s lease purchase transactions. Eastman noted that CHN was likely the first developer in the country to establish a LIHTC homeownership program.

Participation in CHN’s lease purchase program was a life-changing experience for Cleveland homeowner Arnetta Pryor, who struggled with homelessness and alcoholism after her home was foreclosed on in the late 1980s. After another agency referred her to CHN in 1999, Pryor enrolled in every financial literacy and home maintenance course that the organization had to offer before moving into a lease purchase home in 2000. She has now owned her Linndale duplex for three years.

“CHN allowed me an opportunity to become a productive citizen once again,” she said, adding that CHN has inspired her to give back to the community. Pryor studies business administration at Cleveland State University – a 10-minute drive from her house – and recently started a support group for people with multiple sclerosis.

CHN has traditionally used its LIHTC awards to develop between 50 and 100 homes per year for households earning below 60 percent of the area median income. With the addition of the LIHTCs, many lease purchasers end up paying less per month than they

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ISSN 2152-646X

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paid previously for rental apartments. Tenants also receive residency credits of \$1,000 per month toward the purchase price of their homes. As properties reach the end of their 15-year LIHTC compliance period, CHN prepares residents for homeownership with intensive housing and financial counseling, and reduces the amount of debt from \$26,000 to \$10,000 or less.

An Adaptive Model

When the recession struck, CHN found ways to adapt the popular lease purchase program to banks' tighter underwriting standards and stricter credit requirements. "Even though [tenants] had already been living in their homes for 10 years or more and we had the history to show they'd be responsible, they couldn't make that last jump to homeownership," Balson said, noting that the Federal Housing Administration and local banks increased their minimum credit scores for home loans above the capacity of most lease purchase households. The program's historically high transition rate from renting to homeownership plummeted, prompting CHN to make even more financing tools available for lease purchasers. The developer is able to provide down payment and closing cost assistance through an OHFA grant, and has established individual development accounts to enhance its residency credit program. Additionally, a loan fund made possible by OHFA and Cuyahoga County Land Reutilization Corporation enables CHN to offer interest-free financing to lease purchasers with low credit scores. Balson said CHN intends to keep providing these tools at least until the credit markets rebound.

To maximize impact, CHN targeted lease purchase developments in the same areas as for-sale developments. This multi-pronged approach allowed CHN to rehabilitate more than twice the number of homes it would have if it had solely used the for-sale program to advance its post-foreclosure recovery efforts, Balson said.

CHN said it is always willing to share its expertise – particularly in the area of buyer readiness and preparation – with organizations that have similar programs. Balson noted that support that goes beyond bricks and mortar, such as one-on-one financial counseling and homeownership training, is key to a lease purchase program's success.

"We believe homeowners who receive education and counseling are better prepared," said Doug Garver, OHFA's executive director, adding that CHN's homeownership literacy class offerings "struck a chord" with the agency during the SHEA selection process. The award recognizes Ohio's best and most innovative homeownership programs, and emphasizes best practices and ideas that can be replicated across the state. OHFA also honored CountyCorp, a Montgomery County developer that used Neighborhood Stabilization Program funds to rehabilitate homes for low-income families, with a 2011 SHEA. ❖

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This article first appeared in the August 2011 issue of the Novogradac Journal of Tax Credits.

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