



**Platform Ideas for Revitalizing America's Urban Communities**  
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The foreclosure crisis facing our nation is a threat not only to the thousands of homeowners faced with losing their homes but also to low and moderate-income communities that will become plagued with concentrations of foreclosed properties that lenders/investors will be unable to sell over the next few years. These lender/investor foreclosed properties are known as "real estate owned" or REOs and can trigger cycles of disinvestment and abandonment. Without innovative disposition programs and incentives for lenders/investors, these REOs will cause a significant drain on the overall community: decreased property values, increased blight, rise in crime, etc.

Past experience indicates that when the number of vacant homes reaches a critical mass and property values are falling, demand from potential owner-occupants can evaporate. Investor speculators typically replace the demand left by owner-occupants and formerly owner-occupied homes become rental units. Unless these trends are reversed, many of the remaining owner-occupants will eventually sell their homes, typically to investor-landlords. Declining markets such as these tend to attract investors whose primary goal is short-term profits. Generally, investor-landlords have little invested in the broader community, which leads to landlord absenteeism and poorly maintained properties. Indeed, if the number of foreclosures forecast by the mortgage finance industry actually materializes, the existing disposition avenues (foreclosure auctions, discounted sales) will not suffice.

Lenders/investors need new incentives from federal regulators and Congress to proactively address concentrations of REOs in America's communities. Outlined below are several ideas for consideration.

**Incentives for Lenders Regulated by Banking Agencies**

The federal banking agencies (The Federal Reserve Bank, Office of the Comptroller of the Currency, Federal Deposit Insurance Corporation and the Office of Thrift Supervision) examine and rate banks and thrifts on the performance of their obligations under the Community Reinvestment Act ("CRA"). These regulators can be a part of the solution to this crisis by (i) encouraging banks to participate in loan programs, grants and other investments that give relief to low- and moderate-income homeowners facing foreclosure; (ii) encouraging banks to participate in lending and investment activities that support the rehabilitation and resale of foreclosed properties in low and moderate-income communities; and (iii) applying significant weight to the investment test portion of the CRA evaluation for banks that make such investments.

**REO Dispositions as Qualified Investments**

Federal banking agencies evaluate large banks' (assets over \$250 million) CRA performance, in part, on the number and amount of qualified investments they make. A qualified investment is a lawful investment that has as its primary purpose community development, and although the CRA regulations and guidance documents do not specifically discuss the donation of real estate as a qualified investment, a donation of real estate to a nonprofit organization or a state and local agency with the capacity to restore the property to productive use would seem to fit within this purpose.

