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Operation Neighborhood Recovery

Urban Essex County, New Jersey, one of the hardest hit areas in the state by the ongoing foreclosure crisis, could be the laboratory for a reinvention of community development. A local CDC there has completed the successful acquisition, by way of an alliance of nonprofits, of 47 mortgages expected to foreclose with an eye toward stabilizing neighborhoods in some of the oldest suburban communities in New Jersey. By [MATTHEW BRIAN HERSH](#)





Wayne Meyer scans a master list of properties and tries to locate them on a foreclosure-ravished street in an impoverished neighborhood in Irvington, NJ. There are so many to choose from, he has to first get his bearings as he figures out which empty house he's looking for. It's just one of countless streets that feature the boarded-up visages of homes—some majestic and some modest—that have deteriorated as they lay vacant as a

result of the ongoing foreclosure crisis in this part of the state.

Meyer's goal is to figure out which of these properties can be saved, and which cannot, all in the name of preserving and stabilizing these historic neighborhoods that have fallen victim to all of the classic effects of hard times: crime, drugs, gangs, and property deterioration. This toxic stew has created what many worry is a long-term decline, with neighborhoods taking decades to rebound.

“This is probably the hardest area here—this is where the police officer was shot about 18 months ago. It's really a tough area.” Meyer, housing director for the Orange, NJ-based community development corporation Housing & Neighborhood Development Services, Inc., (HANDS) points to one house and notes without embellishment that police had been there 30 times in recent months. He's been to neighborhood watch meetings, heard residents' horror stories about the decline of the neighborhood, and can only hope to be part of the solution that brings these areas—some of the original New York City suburbs—vitality.

Welcome to Urban Essex County, New Jersey, one of the hardest hit areas in the state by the ongoing foreclosure crisis. But it's here that could serve as the laboratory for a reinvention of community development, as HANDS completes the successful acquisition of 47 mortgages on troubled properties with an eye toward stabilizing neighborhoods in some of the oldest suburban communities in New Jersey.

The acquisition project, dubbed Operation Neighborhood Recovery (ONR) and spearheaded by HANDS, is being touted as the first instance nationwide that a nonprofit organization has achieved that type of large-scale bulk purchase of mortgages. The properties, all vacant and abandoned, and many deteriorated, are located primarily in the New Jersey municipalities of Newark, Orange, East Orange, and Irvington.

The mortgage portfolio was purchased at a discount from Washington Mutual Bank (which has since become J.P. Morgan Chase) at roughly \$50,000 per mortgage, according to Meyer, then-housing director at HANDS. The additional expense for rehabilitation of the properties is anticipated to bring the total cost to about \$5.4

million. New Jersey Community Capital, a Trenton-based community development financial institution where Meyer has since been appointed as president, headed up the transaction, coordinating the debt and equity from financial partners that include Prudential Social Investment, LISC of Greater Newark and Jersey City, NeighborWorks America, and Enterprise Community Partners, as well as community partners consisting of a handful of prominent area community development corporations.

What's interesting here is that while the partners could change, this project could serve as a national blueprint for similar initiatives. ONR is the cornerstone project for CAPC—the Community Asset Preservation Corporation. CAPC, a New Jersey nonprofit corporation, is separate from ONR and HANDS, but is working with ONR partners on the project. CAPC seeks to stabilize fragile neighborhoods and to protect homeowners and tenants from the toxic effects of the foreclosure crisis. It has established a long-term goal of recovering 1,000 to 1,500 living units in the next five years, and a one-year goal of one or two purchases of either notes or REOs, seeking \$12 to \$15 million of debt and equity financing.

Preserving Neighborhoods

Irvington, located in New Jersey's Essex County, is part of the dense suburban North Jersey tract near Newark. The area's towns, which grew out of the larger Clinton Township in the late-1800s, embodies diversity as towns, some rich, some poor, flow imperceptibly into to one another. Crossing municipal lines is as eventful as crossing the street, and because of this, the density of this area is like kindle for the corrosive effects of foreclosures. Neighborhoods and towns are so close to one another, that when one street goes, so can the next, and before long, Meyer worries, you have a problem of regional proportions, blind to socio-economic standards, that hurts the schools, the overall housing market, and the quality of neighborhoods within the area.

This particular house, where the shootings took place, was a mortgage foreclosure that HANDS bought from Chase on a short sale, and is next to another house that was acquired on a tax lien. The homes were rehabbed, and new homeowners moved in, but then other homes began to deteriorate, and the crime rebounded. It's one of the reasons, Meyer said, that while piecemeal property recovery can be effective, a large-scale campaign is the way to go. This street, Schuyler Terrace, in East Orange, just near the Irvington boarder, is mostly rental and sublease, with police routinely patrolling the area as squatters and drug dealers occupy some of the vacant properties.

With Newark being the exception, Orange, East Orange, Irvington, are not major cities in New Jersey, and don't necessarily attract the resources that places like Camden do. They have a lot of the same demographics in terms of poverty levels, median income, and homeownership rates, but are not typically viewed as one, unified area. If seen as one, organizers say, it presents a clearer picture as to how to stabilize the region.

Moving Quickly to Stave Off Decline

Real-estate-owned properties (REOs) are on the rise, and neighborhoods are paying the price when banks simply sit on distressed properties. “Basically, what happens is when these properties go into foreclosure, and they become vacant, they become abandoned, and they deteriorate,” according to Alan Mallach, a senior fellow at the National Housing Institute and the Brookings Institution. Once vacant, the properties destabilize neighborhoods “very dramatically in so many ways.

“Unless you can get a handle on some of these properties, your ability to stop the bleeding and stabilize that neighborhood is very limited. It’s a critical issue.”

Stopping that bleeding is a key component of the ONR model. And while it serves as the first large-scale purchase of mortgages as a means of stabilizing neighborhoods, other efforts are beginning to mushroom around the country in order to ward off, or stop in its tracks, the devastating effects of foreclosure. Those efforts include Mercy Portfolio Services, Inc. in Chicago working with the city to create a nonprofit to redevelop vacant, foreclosed properties; Enterprise Home Ownership Program (EHOP)-Dallas, Inc., which hopes to develop 345 post-foreclosure properties over the next three years; and Cleveland’s Neighborhood Progress, Inc., whose pilot program works in six neighborhoods, identified as Strategic Investment Initiative areas, and involves foreclosure mitigation, demolition, and redevelopment. Other high-impact projects are underway in Detroit; Washington, DC; Los Angeles; Minneapolis/St. Paul; Massachusetts; New York City; and Rhode Island.

A report recently released by NeighborWorks America, “Post-Foreclosure Community Stabilization Strategies: Case Studies and Early Lessons,” examines 14 case studies involving 13 nonprofits that can provide “the sort of large sale solutions that will be required to restore neighborhood housing markets to equilibrium.” The report looks at each individual case, outlining the financing structure, and the carefully arranged partnerships involved in putting each project together.

In addition to having existing financial tools like the New Market Tax Credits program and CDFIs, CDCs and municipalities are also beginning to see foundation support. The Neighborhood Community Stabilization Trust (NCST), a partnership composed of community-based nonprofits, of which HANDS is a member, recently received a \$50 million Program Related Investment from the Ford Foundation to assist NCST in providing acquisition and construction financing to local CBOs that attempt to address the effects of foreclosure. NCST aims to act in over 100 localities by the end of this year.

Careful Collaborations

Patrick Morrissy, HANDS’ executive director, as well as National Housing Institute board member, credited existing CDC work, renovating, rehabbing, or developing housing with a particular purview, but pointed to the more regional scope of ONR. “The subprime mortgage crisis and subsequent economic fallout has caused the greatest downward pressure on urban neighborhoods that we have ever seen,” he said at a news conference unveiling the project, adding “three decades of important

neighborhood stabilization work is threatened and could be undone in a very short period of time.”

But Morrissy pointed to 16 collaborators involved in ONR that were pivotal in securing the bulk portfolio. Among the projects redevelopment partners include Brand New Day in Elizabeth, NJ, Unified Vailsburg Services Organization in Newark, Episcopal Community Development in Newark, HOME Corp in Montclair, NJ, the Greater Newark Housing Partnership, and La Casa de Don Pedro in Newark.

“Never in all this time have we come together with a single resolve that if we don’t work together, our individual efforts aren’t going to add up to enough to meet this crisis,” Morrissy said.

HANDS first made contact with then Washington Mutual in 2007 looking to deal with the particular properties, but had limited success in making sustained contact with the bank, Meyer said. “But what we did was go to an auction that they were having and we bought a property.” That purchase gave HANDS a good idea of what it cost for WaMu to go through the foreclosure process. Meyer noted that after that single property transaction, HANDS was ready to pursue the whole portfolio of 47 mortgages.

Once the negotiation process became serious, WaMu gave HANDS a 45-day due diligence period for HANDS to go into each property and do a floor-by-floor, room-by-room, and systems renovation analysis. Then they made the purchase offer.

Meyer said that only a handful of properties would need to be demolished because of their condition, and replaced with new houses. Out of the properties acquired, 14 will be developed as market rate, intended to support the development of the other properties as affordable housing.

Having the financial partners, national community development intermediaries and a financial investment insurance company in NeighborWorks America, LISC, Prudential, and Enterprise, working together in a local context was a major facilitator in achieving the project’s financing, said Robert Zdenek, the former president of New Jersey Community Capital.

Michael Meyer, Newark’s director of housing and real estate, who also sits on the regional Essex-Newark Foreclosure Task Force and is an advisor to the CAPC initiative, suggested the scale of the ONR project, as well as the partnerships involved, could prove to be a model for other localities, as well as presenting future potential when it comes to handling the estimated 900 REO properties that currently exist in Newark. “The scale of community reinvestment that is required to stabilize our neighborhoods is substantial,” he said.

“ONR is one more weapon we have in our arsenal,” said Gerard Haizel, executive director of Episcopal Community Development.

The federal government's Neighborhood Stabilization Program (NSP) could supply additional funding for future projects, Newark's Michael Meyer said, pointing to last summer's \$3.9 billion in emergency NSP funding, to be distributed to states and localities. New Jersey is receiving \$64 million with some of the money funneled to localities. Another NSP round of \$2 billion in funding, will allow states, localities, and nonprofits to collaborate, as is the case with ONR, and apply directly for those resources.

Stopping the Bleeding

The subprime mortgage crisis and resulting economic fallout has caused the greatest downward pressure on urban neighborhoods seen in a generation—or perhaps ever. As a result, decades of neighborhood stabilization work could be undone in a relatively short period of time. As such, HANDS' Morrissy said, putting a team together to address these challenges is essential: “Without collaboration, we have no chance of success: None.”

The 16 ONR partners, Morrissy added, really had no choice but to work together. “Our individual efforts weren't going to add up to enough to meet this crisis” in the face of the downward pressure. As such, a mix of early intervention, neighborhood impact, and close collaboration could be what ultimately puts these struggling neighborhoods back on the map.

Matthew Brian Hersh is a New Jersey native who joined *Shelterforce* magazine in April 2008 as associate editor. For five years prior to coming to *Shelterforce*, he was editor of a central New Jersey newspaper and is a longtime freelance writer working mostly in the nonprofit sector. A graduate of Rutgers University, Matthew has worked for the New Jersey State Legislature and was communications director for a nonprofit transportation organization. E-mail Matthew at mhersh@nhi.org.

Matthew's views do not necessarily reflect those of the National Housing Institute.