



Great American Dream Neighborhood Stabilization (GARDNS) Plan

Protecting Neighborhoods by Converting Foreclosures to Productive Use

For the first time in 40 years, Americans across the board are finding their homes are worth less today than they were just the year before. Foreclosures are rampant, with scores of communities drowning in a growing glut of vacant, lender-held homes. Foreclosed properties depress neighboring house values and attract vandalism, arson, and other criminal activity, further threatening to destabilize neighborhoods.

By buying up bank-owned and abandoned properties and selling them to qualified buyers as affordable housing, we can reduce downward pressure on house prices while also creating opportunities for sustainable homeownership. Debating whether subprime borrowers were more at fault than unregulated mortgage companies is no more productive than arguing about whether the negligent camper or the neglected forest clearance practices contributed more to the rapid spread of a wildfire. The first order of business is putting out the fire before it consumes more homes.

To accomplish the overriding goal of stemming swiftly the part of the foreclosure crisis driven by rapid price deflation and locally frozen housing markets, we propose an up to \$20 billion Great American Dream Neighborhood Stabilization Fund, or GARDNS Fund for short. Basic program attributes of the GARDNS Fund would include the following:

Local Community Involvement

GARDNS funding would be primarily for the acquisition of foreclosed and abandoned homes by a local community land trust, community development corporation, or other non-profit or governmental agency. They would purchase foreclosed or vacant absentee-owned homes in low- and moderate-income neighborhoods with high concentrations of foreclosures or high rates of loan defaults. The purchase price for individual properties, or ideally, for bulk purchases, from banks holding title would be based on an as-is

appraisal of the properties. The price paid would be at a steep discount from the original mortgage balance, preventing scarce resources from becoming a bailout to banks.

Long-Term Affordability

Once purchased (and sometimes rehabilitated), these homes would be promptly resold to a low- or moderate-income homeowner who would receive appropriate home buying counseling and a fixed-rate mortgage product that is affordable to the family's particular situation—based on standard guidelines established by the state or local participating jurisdiction. The initial homeowner would enter into some form of shared equity affordability arrangement, monitored by a local organization with some expertise in affordability arrangements such as a community land trust, consistent with existing federally subsidized homeownership programs. Where no appropriate homebuyer is promptly available, the home could be rented to a low- or moderate-income household at affordable rents, with preference given for rent-to-own arrangements.

Easily Utilized Block Grant Funding

Funding would come through an additional appropriation of block grant money under HUD's HOME or Community Development Block Grants programs, with some relaxation of certain otherwise applicable restrictions such as the local match requirements. To address local implementation needs and the desirability of keeping the targeted neighborhoods secure, a limited portion of the HOME and CDBG funds should also be available to local governments for police, fire, and code enforcement efforts in the same neighborhoods where the GARDNS purchase effort focuses. The funds for GARDNS would be above and beyond existing funding levels, as the need for affordable housing has increased with the current housing and credit crunches.

Appropriate Safeguards

Some fiscal controls on the use of GARDNS funding are necessary to avoid waste and overspending, but overregulation should be minimized as much as possible. It is questionable, for example, whether there is much value in requiring appraisals of a recently foreclosed home in advance of acquisition. Appraisals are inherently uncertain in a local submarket when foreclosures may be the primary comparable sales. Using a somewhat broader area median house price figure as a cap—given that each local stabilization buyer has only a limited pool of resources to work with—the local parties have every incentive to pay only what is necessary to purchase the home in question.

Interest in GARDNS

The GARDNS proposal has received significant interest on Capitol Hill, with its core provisions incorporated into Majority Leader Harry Reid's housing stimulus package and House Financial Services Committee Chairman Frank's bill. Rep. Maxine Waters has also proposed a GARDNS-type program. In addition, there has been interest at the state and local levels for GARDNS.