Reflections on the Ford Foundation's Housing Opportunity Convening:
Social justice in the wake of the foreclosure crisis

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The subtitle of the Ford Foundation's Housing Opportunity Convening, "Toward a Shared Vision," reflects their goal of developing a meta-narrative and cohesive plan of action among leaders from three fields: civil rights, affordable housing, and community development. The objective is laudable, the conversation positive, and the speakers inspiring. The Convening also displayed that leaders of these fields are united in their emphasis on using the Low Income Housing Tax Credit (LIHTC) to reach the shared aim of social justice in the wake of the foreclosure crisis. As we met on the main floor assembly space of the Federal Reserve Bank of San Francisco, I was honored to be included in the dialogue and truly reverential of the many practitioners who have dedicated their lives to social justice. I admired their depth of knowledge as they critiqued and advocated for aspects of the LIHTC, although I left curious about what opportunities would be unleashed if their level of deep understanding and passion were applied to efforts outside of the LIHTC framework.

The Convening was like a master class on the LIHTC's 25-year history, with over 30 speakers and over 50 attendees discussing ways to slice, dice, and distribute the shrinking pie of annual federal allocation for the credit. From its inception through 2012, about $2.4 billion of housing has been built making use of the highly-competitive credit. The program has improved the lives of many people when well run, and some (though little) is utilized in opportunity neighborhoods. The way the LIHTC is administered varies state by state but is always complex, restrictive, and requires long lead times. According to LISC, "Right now, 90 percent of the development of all affordable housing is financed through the tax credit." Nationally, fewer than 70,000 housing units are created or rehabilitated each year using the LIHTC.

In stark contrast in terms of volume and impact, the next 18-36 months will determine the fate of over seven million homes, and the ramifications of that fate will reverberate across the nation. Currently, the financial institutions that wrought the havoc of the crisis are also the beneficiaries of subsequent opportunities. They are intent on gathering the falling fruit that is distressed housing in areas that are already zoned, supported by infrastructure, and with constituents already organized to guarantee some level of public realm benefits. Many of the distressed properties are in opportunity housing areas with good schools, fire, and police protection. None of this housing has been earmarked for nonprofit operation, for affordability, for those with special needs, or for those with special impediments to locational choice. In short, the housing has all of what housing advocates desperately need to advance social justice but with none of the protections built into the disposition process. Opportunistic investors and investment bankers share none of the mission-based objectives of the Ford Foundation participants, such as combating racism and securing access to opportunity housing for racial minorities. This unprecedented opportunity must be wrought from investment bankers and placed in the hands of social justice advocates and those for whom they advocate.

In perhaps the best illustration of the vastly different approaches currently playing out, Michael Stegman, of the Treasury Department, spoke at the Convening, then set off for a conference of investment bankers. That conference also focused on housing, though its goals and values are diametrically opposed to the Housing Opportunity Convening's. These "single-family aggregators" navigate a new field born of the financial crisis that sources capital from an investment banking community built on mortgage-backed securities. *Forbes* reports that as of September 2012, financial institutions have acquired 1.5 million housing units through foreclosure, and when counting distressed and underwater properties, 5.7 million more housing units are at risk. Goldman Sachs reports that the financial institutions' real estate owned (REO) is valued at $264 billion and growing. All of these housing units must be disposed of by lending institutions, yet only FNMA and Freddie Mac are required to report their holdings and their strategies. The size of the inventory—and opportunity—is immense, representing 100 times the entire value that the Treasury has provided in the 25 year history of the LIHTC.

The fate of these vast numbers of properties will be determined in the next 24 months. The Ford Foundation itself characterizes policy response as "distressingly slow," and states that "conventional community development approaches have proven inadequate for addressing these challenges as the collapse of the world finance system has frozen these efforts in place." In light of the fact that impoverished, revitalized, and opportunity communities hit the hardest by predatory lending and the foreclosure crisis continue to suffer aftershocks, it is clear that by focusing too narrowly on the LIHTC, we risk the future of opportunity housing, as the credit alone is not powerful or swift enough to redress the damage of the greatest housing crisis in the nation.

We must reverse-engineer the profit-driven model and infuse it with the mission-driven consciousness of civil rights experts, affordable housing advocates, and community development leaders.

Nonprofit, community-based developers versed in LIHTC have precisely the skills required to seize this generational opportunity. With knowledge of their individual neighborhoods, affordable delivery pathways, solid third party professional service providers, cost certification and compliance procedures, appropriate underwriting requirements, housing management, and enhanced service delivery practices, these organizations have been proven in the marketplace. By contrast, the residential aggregators have none of the long-term infrastructure required to deliver on the promise of this opportunity, save one: networked access to Wall Street capital. Though at first blush, it may appear that this latter resource trumps all, the truth is that the core skills of the nonprofits create a much lower risk scenario for capital investment, and therefore, the risk-weighted return is higher for investors to participate with nonprofit community developers working with the inventory of bank owned or controlled properties. The Housing Opportunity Convening provided some examples of successfully using resources outside the framework of the LIHTC. Doug Shoemaker, of the Bay Area LISC, discussed the Mortgage Resolution Group, which is trying to buy pools of mortgages before they go into foreclosure in order to directly and fairly deal with homeowners at risk. Kris Siglin of Housing Partnership Network, located in Boston, spoke of the need to look at real estate owned properties. MidPen Housing was started by residents and academics of Berkeley and Oakland who fought deplorable housing conditions. To date, they've developed over 9,000 units of housing in the Bay Area, exemplifying the progress that's possible through an innovative prototype.

With an initial investment in research, a sustainable, mission-based model can be developed. The federal government should be a friend in this process, and the civil rights community should use the power of fair housing to insist on this. Their partners in this process, community developers, should be prepared to fund the civil rights effort, up front, if possible, and by compensation in arrears if necessary so that there is sufficient fuel for the fight. Philanthropic organizations have a major part to play in this process not only as program-related investors, but also as aggregators of socially-based capital, by vouching for the organizations that step forward, and by purchasing the most at-risk tranches of investment pools to reduce overall cost. Even a relatively small philanthropic commitment can catalyze significant investment capital, because it is additive in a marketplace that is already assembling opportunity capital. If we don't invest in the promise of a mission-driven model now, we risk forfeiting the chance to shape the future of fair housing.

Currently, housing advocates are uniquely and powerfully situated, because it is exactly the same finely-honed skills they use to navigate the LIHTC that are required to further social equity through a mission-driven model. Their wealth of expertise in housing, experience in compliance, and knowledge of long-term planning and coalition-building are formidable advantages financial institutions lack. Now is the time to leverage that power. At this pivotal moment in history, "housing opportunity" represents not simply an opportunity for individual communities and families, but it also represents an unparalleled opportunity for social justice advocates to create exponential and lasting progress.

Approach and effects of the current profit-driven model versus a mission-driven model

	Profit-driven model	Mission-driven model
Model	Exploitive; high-risk, high return	Sustainable; low-risk, modest returns
Informed by	Wall Street	Main Street
Players	Financial institutions	Affordable housing advocates, civil rights leaders, community developers, philanthropists, social entrepreneurs, government
Focus	Moves value from the public sector to private sector and exacerbates inequality. Takes advantages of banks' power and others' previous investment in infrastructure	Restoring community values and social justice
Relationship to housing market	Currently, dominates the market it nearly destroyed	Required to restore balance
Approach to tenants and rental property	Charge as much as possible. The emphasis on gouging tenants and accruing fees may compel financial institutions to retain high-rent properties rather than create paths to homeownership	Well-being of community and tenants is central. Emphasizes affordable, quality housing
Approach to home ownership	Dictated by the ability to create a profit. Fee-, market-, and profit-driven. Little or no regard for the long-term prospects of the future owner	Establishing a path to homeownership is an intrinsic goal. Dictated by ability of future owner and supported by a multitude of resources (credit counseling, access to down payment assistance, home ownership training)
Relationship to community	Distant, informed by computer models	Local, informed by community members
Resources, tools, and partners,	Profit models, capital, connections, data mapping	Powerful national organizations; nimble, knowledgeable, local groups; data mapping; capital via tax-exempt bonds
Results	Chronic harm spreads. Financial institutions benefit.	Benefits within the community spread, catalyzing healing, revitalization, and justice. Tenants are given a fair deal, and homeowners are equipped to protect their assets