San Diego Land Bank- An Overview
Jim Bliesner – Reinvestment Director

The City/County Reinvestment Task Force (RTF) after a data analysis and public hearings starting in 2006 early on identified the geographic and economic footprint of the pending sub prime foreclosure problem. The RTF made a series of recommendations to local government ranging from code enforcement to foreclosure counseling but also included the establishment of a local **"land bank".** The proposed non-profit entity would function for the duration of the foreclosure epidemic and would be funded by private capital. Its focus would be **neighborhood stabilization** through the bulk purchase of foreclosed properties, rehabilitation and resale at affordable levels.

The proposed land bank evolved from a number of conditions in the local market. One, property values in low mod communities decreased faster than higher income communities with the same number of foreclosures. Two, the steeper the decline in values the higher the rate of foreclosure. Third, high foreclosures in low mod neighborhoods inhibit stability and escalate decline; foreclosures equal foreclosures. Fourth, property purchase at the bottom of the market stabilizes the market.

If any broad benefit is to accrue to highly impacted neighborhoods then acquisition must occur at a large enough scale to establish the affordability. The negotiation of **discounts** in the acquisition is key to the goal of creating affordable home ownership. Discounts are related to **bulk purchase**. The experience of speculative investors provides evidence to this model but lack the goal of affordable housing or neighborhood stability (i.e. jobs, improved housing, affordable rent or resale prices).

The assignment of the land bank function by the RTF to a sister non-profit equity funds (San Diego Capital Collaborative (SDCC)) is key to its success. Government agencies are not prepared nor are they willing to function in the private market to provide return on investment, expedite rehab and face the risks of prolonged resale of properties. In addition their funds and government negotiation practices are fairly slow and constricted by regulations thereby inhibiting them from the rapid bid, negotiate and purchase scenario required by bulk acquisition. The link between the RTF and the SDCC has to do with the maintenance of social goals and some level of oversight and evaluation in achieving those goals.

The key to the land bank model is its ability to implement **multi tiered disposition** strategies. All of the homes purchased will not be in low mod neighborhoods and will not be sold as affordable housing. The reality of bulk purchase requires that bundling occur on a larger geographical scale (countywide) The value of homes varies from neighborhood to neighborhood and to constrict the acquisition practices by boundaries which are not market driven will diminish the opportunity to achieve affordability for a major share of the homes. Including market rate products provides the opportunity to transfer some properties to a long-term land trust as well.

Funding for the land bank can include more than public funding. It can include 501 ©(3) bonds, redevelopment tax increment funding, New Market Tax Credits, grants, and provide an excellent opportunity for investment, which qualify for Community Reinvestment Act credit.

CRA investment or reduced interest loans provide opportunity for lenders to reinvest in neighborhoods in decline where the value of the banks other loans is being dramatically reduced. This type of investment will assist the bank in stabilizing its portfolio. Second, since the primary goal of the land bank is home ownership, participating lenders can access new home loans with qualified borrowers. Third, there is an opportunity for banks to make CRA investments with reasonable return in the fund. Fourth, banks can benefit and free capital for additional lending by removing foreclosed properties from their balance sheets. Cash reserve obligations will be reduced with fewer bad loans on their books.

The land bank as a response to the foreclosure problem in a city or region cannot succeed by itself. It can be more effective if a comprehensive program to increase and pre qualify **new homeowners** is in place. Other non-profit partners experienced in financial education and reducing bad credit can provide a stream of homebuyers for the land bank products. One of the greatest problems facing a land bank is holding large numbers of properties for extended periods of time. An assessment of the potential homebuyer market is basic in deciding to proceed.

In addition, a functioning program of **foreclosure intervention** is vital to addressing the overall foreclosure issue. Being able, to intervene early in the foreclosure process, to identify ownership structures The funding of this activity, coupled with the preparation of new homebuyers provides a holistic approach to the foreclosure problem and will assist in stabilizing communities.

Regional partnerships can also serve to **evaluate success** by looking at sales prices, property values and sales volume, particularly in lower income communities. Broad assessment of supplemental impacts like jobs, improved quality of housing, reduced crime, increased homeownership in targeted neighborhoods is also possible. Enabling local non-profits to participate in renovation as well as the preparation of new buyers assists in strengthening community networks. Utilizing small contractors serves to activate this hard hit segment of the low-income community.