



Written Testimony of Lori Gay,
President

Los Angeles Neighborhood Housing Services

The Impact of CDBG on our Communities

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Committee on Financial Services
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Community Opportunity

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Good afternoon, Subcommittee Chairman Ney and Ranking Member Waters. My name is Lori Gay and I am the president of Los Angeles Neighborhood Housing Services (LANHS). I have worked in the community development field for the past 18 years, and have focused my efforts on rebuilding impoverished communities and creating mechanisms for community empowerment and ownership. I am here this morning to talk with you about the impact of the Community Development Block Grant Program on our communities based on the experience of the LANHS.

Los Angeles Neighborhood Housing Services

Let me first say a word about the LANHS, where I have worked since 1990. Since 1984, LA NHS has served over 1.4 million families, developed and rehabilitated over 6,400 housing and commercial units, established 150 block clubs, educated and counseled over 72,000 home buyers, and employed over 200 neighborhood youth, investing more than \$1.1 billion back into some of Los Angeles' toughest neighborhoods. LA NHS is the largest, comprehensive provider of affordable homeownership in Southern California, putting 42 families a day on the road to homeownership.

I also serve as Chair, California Organized Investment Network (COIN), former Board Member, Federal Reserve Bank of San Francisco--Los Angeles Branch, The Gas Company--Consumer Advisory Council Member, and Washington Mutual National Advisory Council Member.

Member of the NeighborWorks Network

Los Angeles Neighborhood Housing Services is a member of Neighborhood Reinvestment Corporation's NeighborWorks network. The Neighborhood Reinvestment Corporation strengthens communities and transforms lives across America by supporting innovative local partnerships of residents, businesses, and government, collectively known as the NeighborWorks network, and by advancing broader community development goals. In FY 2002, the NeighborWorks system generated nearly \$1.7 billion of direct investment in more than 2,300 lower-income urban, suburban and rural communities nationwide; helped more than 35,000 lower-income families purchase, improve and maintain their homes; provided pre-purchase and post-purchase homebuyer counseling to more than 72,000 families. NeighborWorks organizations also owned and managed over 34,000 rental or mutual housing units. The Corporation provided more than 188,000 contact hours for training participants, and purchased more than \$60 million in non-conventional loans through its affiliated secondary mortgage market operation.

Neighborhood Reinvestment acts as an umbrella organization for a national network of more than 223 locally run, 501(c)(3) private/public partnerships. As of September 2002, the NeighborWorks network was operating in more than 2,300 communities in 49 states, the District of Columbia and Puerto Rico. Each locally governed NeighborWorks organization operates a revolving loan fund for non-conventional loans to meet community credit needs that cannot be funded through bank and public loan sources.

Local NeighborWorks® organizations are responsible for setting strategy, raising funds and operating their program. Most provide homebuyer counseling, rehab monitoring, and targeted lending services that complement conventional lending activity.

The NeighborWorks® System integrates public and private support, leveraging federal funding to attract private resources. Private investors have viewed the NeighborWorks network as an increasingly sound investment; in fact, the typical NeighborWorks organization receives most of its funding from private sources and earned fees. Neighborhood Reinvestment does provide a critical financing vehicle to NeighborWorks organizations in the form of equity capital grants for real-estate development and local revolving loan funds. The NeighborWorks® organizations, in turn, use these funds to draw private capital in a variety of ways, including equity and gap financing for home-purchase loans, including down payments and closing costs.

Loan recipients are typically underserved families. Seventy-one percent of loans made through NeighborWorks® revolving loan funds are made to very low- or low-income households, 53 percent to minority-headed households, and 43 percent to female-headed households. Loans carry a rate and term that the borrower can afford to pay back. The NeighborWorks® System is the only national nonprofit network with expertise in designing, originating and servicing small non-conventional loans to lower-income families. These loans help create first-time homebuyers, often prevent mortgage delinquencies, provide money for repairs, and may ensure accessibility for those with disabilities. Generally, the loans offered by local NeighborWorks® organizations provide a blanket of security for neighborhoods of modest means. By designing loans to fill the gap between the capacity of the borrowers and the parameters of conventional lenders, the NeighborWorks® organizations complete transactions that could not otherwise be prudently realized.

The Need for Community Development Block Grants

In low to moderate income communities, many families are challenged by the lack of affordable housing, minimal economic and commercial resources such as

financial institutions, grocery stores and insurance companies. These communities also lack neighborhood facilities and services which enhance the quality of life for families, such as neighborhood parks, community centers and hospitals. In Los Angeles, which is comprised of more than 300 neighborhoods, low to moderate income families are in danger of losing the limited economic resources they already have if CDBG dollars are not available to improve or expand the communities in which they live.

For example, one of the primary barriers to achieving the American Dream of Homeownership for low- and moderate-income people is the lack of accumulated wealth and disposable income. Lower-income renters are at a disadvantage in accumulating cash to cover down payment and closing costs. In order to accumulate wealth, households must consume less and save more or they must receive inheritances or cash gifts from relatives or other benefactors. Lower-income households generally have to spend most of all of their small incomes for basic needs such as shelter, health care and food, leaving little for savings.

The City of Los Angeles has made available some of its CDBG allocation to assist low-income families to achieve the dream of homeownership through providing down payment and closing cost assistance, as well as funds to rehabilitate the newly purchased property. Working in conjunction with local lenders and nonprofit housing counseling groups, the City, has assisted thousands of families to become triumphant homeowners who can assist their neighborhoods in the revitalization process.

LANHS EXPERIENCE WITH CDBG

LA NHS helps low to moderate-income residents achieve and preserve the American Dream by participating in state, county and city programs that benefit these potential and existing homeowners by providing down payment and closing cost assistance, home and rental rehabilitation loans, foreclosure prevention and anti-predatory lending assistance.

LA NHS' Revolving Loan Fund (RLF) was developed to further assist very low to low-income borrowers who needed more assistance than the City' program could provide. As local financial institutions merged and as our targeted communities became more underserved, LA NHS increased direct lending efforts. This significantly increased the number of residents able to combine our funding with available public-sector assistance and conventional loan programs offered by lenders affiliated with Fannie Mae and Freddie Mac. The City of Los Angeles also provided initial funding to the RLF through a CDBG Lump Sum Grant.

LA NHS has also worked with the City of Los Angeles, through the Los Angeles Housing Department (LAHD) to administer the Neighborhood Preservation

Program, HomeWorks! Program and Earthquake Loan Program. All of these programs provide home rehabilitation funding, down payment and closing cost assistance, and gap funding, using CDBG as a funding source to assist low-income families, seniors and the disabled to live in decent, safe and affordable housing. LA NHS also serves on the City' Anti-Predatory Lending Task Force and has provided counseling and loan assistance to families who have been victims of predatory lending.

For example, during 2002, LA NHS worked in partnership with LAHD to assist more than 300 low-income families to achieve homeownership utilizing the HomeWorks! homeownership assistance program. By providing up to \$75,000 as a second mortgage at zero percent for 30 years for eligible families, the City of Los Angeles quadrupled the number of families that had been assisted in prior years. In another example, in administering the Neighborhood Preservation Program on behalf of LAHD, LA NHS has been able to assist more than 50 low-income seniors on an annual basis to rehabilitate their properties, improving health and safety code violations, and enhancing their quality of life and health environment. A typical scenario involves LA NHS lending staff providing financial counseling and loan packaging services, construction staff providing project management services and ultimately, our neighborhood resource team helping to develop a block club or neighborhood watch for longer term neighborhood revitalization. For every participant, LA NHS works with the City to provide lead abatement to all properties so that these families are not subjected to the hazards which are prevalent in older, distressed neighborhoods. LA NHS also works to create economic development opportunities by hiring local, minority contractors at every opportunity to participate in the neighborhood revitalization process. All of these programs would not be possible without CDBG funding as a part of the resource base for these families.

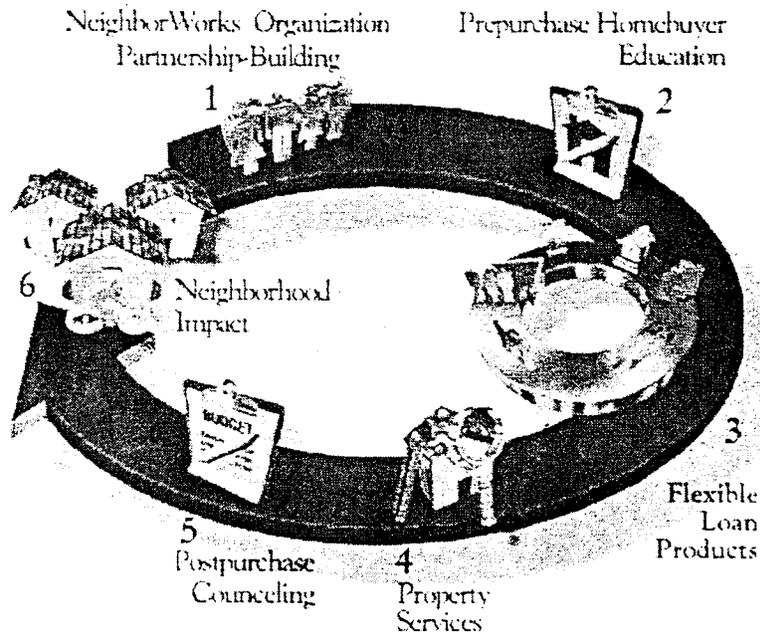
A Comprehensive Neighborhood Revitalization Strategy

LA NHS has utilized a systematic approach since its inception to revitalize distressed neighborhoods throughout Los Angeles. As a member of the national NeighborWorks® network, LA NHS helped to create a system that reaches local families, teaches them about home ownership and home preservation, while reducing the risk of delinquency and foreclosure. This system has been service marked as Full Cycle LendingSM. This system includes pre-purchase homebuyer education, flexible loan products, property services and post-purchase counseling.

Full Cycle LendingSM is a process that benefits all stakeholders in the homeownership arena. Residents can overcome hindrances to ownership as the process is demystified; they save for a down payment and they secure their home and mortgage. Lenders can invest with confidence about an owner's

ability to repay the mortgage. Local government officials can take pride in watching neighborhoods change. More and more homeowners will stake a claim in their communities, enhancing the tax base and contributing to overall community renewal.

The Steps of NeighborWorks Full-Cycle LendingSM



1. **Organization Partnership-Building.** The NeighborWorks® organization makes a commitment to the process by creating a partnership of residents, business and local government leaders. A plan for targeted community revitalization is put in place.
2. **Pre-purchase Homebuyer Education.** The homebuyer learns about the purchase process with a supportive organization that helps them clear up credit problems, find a home they want to buy, and coordinate the rehabilitation needs of the property.
3. **Flexible Loan Products.** Local lenders work with the NeighborWorks® organization to create mortgage products the customer can afford -- with features like lower down payments, downpayment assistance, and rehabilitation loans even when the total cost exceeds the value of the home. Property casualty insurance and mortgage insurance companies provide products that allow for the high loan-to-value ratios. The lender can hold the loans in portfolio or package and sell them to Freddie Mac or Fannie Mae's secondary markets. Neighborhood Housing Services of America purchases special-needs first mortgages as well as second- and third-mortgage rehabilitation loans. The secondary markets return funds to the lender, who recycles them by originating additional mortgages to the community.

4. **Property Services.** The NeighborWorks® organization inspects the property, offers technical assistance to the homebuyer and assists with the property's rehabilitation.
5. **Post-purchase Counseling.** The NeighborWorks® organization trains the new owners in home maintenance and budgeting, and supplies early intervention delinquency counseling so that defaults and foreclosures are avoided.
6. **Neighborhood Impact.** Homeowners gain a stake in their communities; lenders reach a significant market in which risk has been mitigated; the tax base increases; and the nonprofit partnership is one step closer to achieving its goal of neighborhood self-sufficiency. Everyone benefits.

NeighborWorks® Full-Cycle LendingSM is a means, not an end. As this comprehensive system is established, home-ownership rates among lower-income families rise, resulting in more stable communities with longer term residents, increased savings and civic involvement for individuals and families, and increased high school and college graduation rates for their children. By stimulating reinvestment in NeighborWorks® communities, Full-Cycle LendingSM is a powerful force that leads to a renaissance in lower-income neighborhoods across America.

LA NHS utilizes the Full Cycle Lending Model to implement its affordable homeownership programs, home improvement loan and neighborhood revitalization programs. LA NHS views the opportunity for neighborhood revitalization as a means to encourage potential homeowners, existing homeowners, local government and the business community to join together to stabilize and strengthen neighborhoods throughout Los Angeles. Utilizing CDBG as one of many sources of financing leverages the opportunities available to families throughout the city.

Profile: Naomi and Jae Beck

Naomi and Jae Beck, originally from Korea, were able to purchase a home through Los Angeles Neighborhood Housing Services (LA NHS). For the last 12 years Naomi has been a nurse at Shriners's Hospital, and Jae manages a garment factory. Neither ever expected they would be fortunate enough to buy a home.

Then Naomi noticed a small ad in the L.A. Times for an introductory seminar being offered by LA NHS for potential first-time, lower-income homebuyers.

Naomi attended a full two-day homebuyer-education class and was told by NHS staff that her family's income and stable work history would qualify them for an affordable home loan.

The Becks began searching for a home and spotted one near their daughters' school. Although previous tenants left the home in terrible condition, the Becks

were excited about the prospect of purchasing in this community. In January 2002, the Becks purchased a three-bedroom, one-and-a-half-bath home in Sunland, CA, in the San Fernando Valley. LA NHS financed the first mortgage, and the city of Los Angeles provided the Becks with a \$75,000 soft second mortgage through its **HomeWorks!** program. **HomeWorks!** Encourages residents to purchase in neighborhoods targeted for revitalization by providing funding for renovations and bridging the affordability gap between what a house costs and what the purchaser can afford to pay. Of the \$75,000, \$25,000 was used to rehabilitate the home.

The Becks' monthly mortgage payment of \$1,018 is only \$68 more than their previous rent. LA NHS also monitored the rehabilitation of the Becks' home, which included a new kitchen, flooring, bathrooms, garage, windows and doors, paint and a fireplace.

Naomi is active in the Korean community and in February 2002, LA NHS staged a press conference at which the Becks were interviewed by **The Korean Times, Los Angeles and the Korean Television Enterprises, Ltd.** Publicity from this event resulted in 400 Korean residents showing up for an introductory seminar on home ownership, and eventually more than 3,200 Korean families attended LA NHS' homebuyer education program. Naomi is now an active volunteer with LA NHS and refers customers on a frequent basis.

Neighborhood Reinvestment projects that the entire NeighborWorks network will provide over \$10 billion in down payment and closing cost assistance in Fiscal Year 2003. The average interest rates of these loans is 5.34 percent, with some falling to as little as 1.88 percent, depending upon the borrower's ability to repay.

Conclusion and Summary

Let me close by thanking the Subcommittee for the opportunity to speak about the work of Los Angeles Neighborhood Housing Services and the broader NeighborWorks® Network. The continued assistance of the Community Development Block Grant to further our work is critical. However, merely creating homeowners is not sufficient to stabilize the communities I work in as well as the 2,300 communities served by the NeighborWorks network. Through pre- and post-purchase education combined with financial assistance, the Los Angeles Neighborhood Housing Services and the NeighborWorks Network will continue to create sustainable homeowners who will work to revitalize this nation's communities.