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Panel 8 -Philanthropic and Foundation Responses  
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MS. SCHWENKER: We're going to go ahead and get started. This is Philanthropic and Foundation Responses to the Subprime Foreclosure and Race conference.

Very briefly, I'm not going to go into the full biography of both of these gentlemen in the interest of time. So obviously to my far right is Rick Cohen. Many of you heard him this morning. He writes for the Nonprofit Quarterly magazine, the nation's premier journal as NPQ's national correspondent. Are you still serving as director?

MR. COHEN: No, I left LISC after the first of the year.

MS. SCHWENKER: And Solomon Greene is senior program officer for the Open Society Institute. I'll let you go ahead and start.

MR. GREENE: People can hear me fine without it, right? I just wanted to thank the Kirwan Institute for hosting this conference at the outset because I think that the addition what's really unique about this conference is the application of the structure referring to crisis. A lot of us working for a long time and have been attending a lot of conferences, and I'm always surprised by how the racial disparity in a long history of continuing realities of racial discrimination as the crisis continues, and that's a dangerous trend.

There have been several attempts throughout the country to make an intervention into the crisis. And my talk is really going to focus on some of those efforts. And when I see some of the merging models and some of the challenges they face and then wrap up by just talking a little bit about what I see are some of the greatest opportunities for foundations in responding to the crisis.

I think Rob stole my joke which was the only one I had, but that's it is very appropriate that this meeting is being held in the Grants room. I don't know if you guys planned that I wanted -- I'm not going to have a chance to talk about this, but as a sort of a starting point mention most of my talk is focused on how does the foreclosure crisis impact the work of our grantees working specifically on this issue.

I was recently asked by the foundation to help as a transition period to manage a grant program completely unrelated to the foreclosure crisis access to granting housing and community development issues. And the grantees in the program as we started talking about the challenges that they face raising money for the work they're doing in completely unrelated fields because of the financial crisis.

So I think in addition to what we'll be talking about the specific responses, I think there is increased pressure or increase demand on philanthropic money across the board whether health and human services, whatever human rights, issues you name it. It is no longer limited to the narrow fields that some of us are more used the working in.

So this morning we've gone through a lot of the recent foreclosure trends and some of the numbers. I won't spend a lot of time on that. I will focus on what I may be able to add. And then I really want to focus on some emerging models and what I see are the

challenges and opportunities that are emerging at the local level and conclude by talking a little bit about the role of philanthropy.

We've seen variations on this theme before, the rising foreclosure rates that we've witnessed in the past couple years and you can really see I think the top line the blue line shows the percent of loans in foreclosure and subprime market and a lot of the foreclosures until recently have been driven by the subprime market.

And particularly within the subprime market, you see here the percent of loans in foreclosure by fixed rate mortgages or adjustable rate mortgages in purple. And the vast majority in the subprime market of foreclosures have been in the nonadjustable rate loans.

Unfortunately these are numbers you have seen before. It looks like the worst is yet to come. This chart which you may have seen as well it has been circulating through Internet and various groups, various reports shows the distribution of rate resets by loan category, and you'll see where we are coming off of the reset in the subprime sector, but we're looking at a much larger spike in an option of resets of option arms.

And in addition to looking at the numbers what I want to talk really quickly about is we're also moving into increasingly into a different climate which suggests the next spike of rate resets will be felt much more strongly than the previous one in the subprime sector.

And we know the home prices are plummeting around the country. Prices in the first quarter of 2008 declined in 42 states. In several cities nominal prices have decreased in excess of 20 percent just in the first quarter like Miami and Las Vegas are two examples often cited. This means roughly 8.8 million homes are currently under water. That means the homeowners owe more than on mortgages than the home is worth.

What this suggests as the rates reset in the next round more homeowners are actually going to be trapped in homes that -- in loans that are -- that exceed the value of their own home.

The same time home price is going down we see declining credit. These numbers were prepared by HUD, I'm sorry, by Fannie Mae. And you see refinancing purchasing loans have been decreasing since 2006. And 2007 numbers for HUMDA were just released two weeks ago, and they paint a pretty bleak picture in terms of how the credit crunch is being experienced.

Across the board there has been a rapid decline, a very abrupt decline in the availability of new home purchase loans, but the brunt of that has really been borne by African-American and Latino borrowers. Here you see the change between '06 and '07 in HUMDA data for white bars 20 percent decline but for Latino bars a decline of over 40 percent.

This I think I don't want to make this too simplistic a picture. I think it's fairly complicated why we see such dramatic declines particularly for borrowers of color is driven largely by the drying up of high cost loans. If you look at the high cost loan originations is now a small fraction. In '06 it was much more significant number. We're seeing less of the toxic loans being originated, and that's a good thing, but what it means is there is less credit available for borrowers of color in this new credit climate.

We've heard anecdotally talk about the cost of foreclosures. I thought the chart was interesting. It tries to empirically tally up those costs, and it comes from the joint committees report that was released last year. And you'll see these are rough numbers, but the estimated cost of a single foreclosure is about 80 thousand dollars to the various stakeholders. That number changes according to the local economic conditions, but foreclosures have several impacts on communities facing high concentrations of

foreclosures including declining property values, increased crime, increased displacement obviously. There has been recent research looking at performance of children in schools when their house has been foreclosed upon and they are forced to leave the neighborhood. Also health and environmental hazards associated with high rates of foreclosure.

I don't know if anyone saw the article in the Times about the West Nile virus emergence or high rate in areas in western states with high rates of foreclosure with lots of swimming pools not being kept up. You can go on and on about the impacts that foreclosures are having on the same neighborhood that a lot of foundations have made -- not the swimming pool neighborhood so much but urban neighborhoods that foundation have made significant investments over the past decades in communities of economic development and that really threatened in the crisis.

Here is sort of meat I think of the presentation is I think it helps to think about interventions going on at the local level along the foreclosure timeline because you see work going on at each point from before the borrower takes out the loan to the prepurchase to the point of origination at the point of default there's opportunities to prevent foreclosure, the start of the foreclosure, the auction and post auction when property goes into what's known as real estate owned status.

So you can clump these interventions together along with prevention of the foreclosure action. There is a critical period between foreclosure action and auction or complete foreclosure that is often overlooked. And I'll talk a little bit more about this. A lot of opportunities there to make very critical interventions in defending borrowers who are facing foreclosure and how to stabilize neighborhoods that have high concentrations of foreclosures.

On the prevention side, you have a whole host of strategies. And I think this where the attention has been and the most developed strategies and for good reason, the least costly and most desirable intervention to prevent foreclosures in the first place.

You can divide prevention into pre-efforts or pre-origination before the loan is even started in proving financial literacy, educating borrowers through prepurchase home ownership counseling and legislation that's aimed at purging the market of predatory practices and making sure that fair loans are sustainable.

And then at the -- in the post origination environment between origination and when the foreclosure is started, you have efforts of post purchase counseling, call centers and hotlines to help borrowers who are falling behind in their payments, and you have efforts, there is to assist borrowers through innovative refinance products or rescue funds.

I think there is the main challenges we face in foreclosure prevention is lack of -- I don't think the biggest challenge -- but lack of counseling capacity that most on the ground most counselors historically have been trained in prepurchase counseling and it has been very, a challenge to retool to address borrowers in the post purchase who are facing distress or difficulty meeting loans in post purchase time frame.

And then I think obviously the biggest issues seems to be the bottleneck in servicing and some interesting -- Mortgage Bankers Association came out with some interesting statistics which kind of hinted at this morning but although there has been a lot of media attention to the need for loan modification, the volume of modification continues to be extremely low.

According to the MBA in the first half of 2008, there are only about 2000 loan modifications among the lenders they surveyed while there were about 700 thousand loan foreclosures. In the subprime market for every one modification there were 15

foreclosures in 2008. And then so it's not just the volume of loan modifications has been modest to say the least but also the depth of those modifications. Only about 1 percent according to the MBA survey of loan modifications involved principal reduction. The rest involved extending the life of the loan or modest reduction in interest rates.

Underwater properties really presents a real challenge for foreclosure prevention efforts. It's really difficult to underwrite refinancing or loan modifications for underwater properties. It's also difficult to assist borrowers in selling the property outside of foreclosure. If they are not able to negotiate a short sale, then it is going to be difficult for them to dispose of their property outside of a foreclosure protecting credit if they are underwater.

I'm not going through the emerging models. I'll try to talk about one at each of the three intervention points. I think here one of the things that I find really promising is work that's going on with the consumer credit counseling services of Atlanta and funded by Ford Foundation in part to develop what's called an early resolution platform.

In some ways it's a technological solution to the servicer bottleneck that is low volume of loan modifications is to try to give counselors the same tools servicers use and access to the same documents.

Often what you hear servicer say they are pulling in services or legal restrictions prevent them from modifying the loan. And the idea behind the work CSA is doing is making sure the counselor is looking at the same documents the servicer is, using the same underwriting standards so when they do present a proposal for a loan mod they can say this does conform with your PSA and it is responsive to your underwriting standards.

So in the defense phase what I talked about was this middle period. There is obviously I think, you know, as an attorney I know I hadn't really heard of or wasn't aware of the details of foreclosure law until very recently. It has tended to be very esoteric of the law. Very few attorneys even housing or consumer rights specialized in foreclosure defense. Obviously that's changing, but the good news is I think that a lot of courts and judges are actually realizing that the foreclosure process in most states, in all states, is fundamentally flawed even in states like New York where I'm from that have very strong foreclosure protections, one of the lengthiest foreclosure proceedings in the country, the vast majority of borrowers who enter foreclosure default. They never answer the foreclosure complaint. Default judgment is entered against them. Something like 90 percent of borrowers in New York in foreclosure default. That should be a sign. Any judicial procedure with a 90 percent default rate, something is fundamentally wrong. It's a costly procedure not just to the borrower but also the lender. I think the lot of judges around the country are starting to realize there is a tremendous opportunity to revisit foreclosure process to make it a more meaningful judicial process to have the court be involved in bringing lenders and borrowers together through settlement conferences and mediation to try to work out a solution as a prerequisite to moved toward litigation.

Other legal reform efforts that have been talked about are moratoria and big issue I think we've heard about is reforms within bankruptcy courts which I think has one of the most tremendous opportunities to make a difference.

So the biggest challenges I see on the defense side is there is this tension between moving too fast and too slow in the foreclosure proceedings. The range of -- across the country the range of foreclosure timeline under 30 days in shotgun states like Texas where there is no judicial foreclosure process required to power of sale state up to

over two years in a place like New York, right.

So the tendency I think is to always talk about making a lengthier process. For a couple of reasons that's not always the right solution. Jim said slowing down the process can be a bridge to nowhere if you don't actually do something during the time you're buying to support borrowers.

There has been some recent research that shows as you move past sort of an optimal foreclosure timeline borrowers tend to neglect the property. They see it as free rent and especially if they are not getting assistance to get back on their feet or they think they're going to lose the property in the end if they start to neglect the property in foreclosure that brings down the whole neighborhood.

There is a sweet spot between the two long and two short foreclosure process. The vast majority of borrowers aren't represent in foreclosure. And we have a tremendous amount of work to do to build up the capacity of the legal community to support those borrowers and the difficulty in finding the right party to negotiate with in foreclosure.

We talked about the chart about how complex the securitization process is. It also makes it very complicated for the borrower and their attorney to identify who has the authority to modify a loan, who should be the named defendant in a lawsuit.

I'll just mention Philadelphia seems to be at the forefront of the court diversion efforts. The judges they have required it all Philadelphia courts for borrowers to go through a pre-litigation settlement conference. And there is an article in the New York Times which talked about kind of initial results, and they've had a tremendous positive -- they've had great outcome so far in terms of vast majority of borrowers who come to the conferences are able to work out some agreement with the lender and more importantly under the scrutiny of the court without having an advocate there where there is blatant predatory practices or repeated refinancing or equity stripping type of loan, those loans have been forgiven entirely.

In the last phase in the community stabilization front, I think there are two, you can group these interventions in two ways. One is the efforts to minimize displacement through graceful exit strategies helping borrowers losing their homes make a stable transition to whatever their next housing situation is.

There is eviction defense efforts, talked a little bit this morning about the impact foreclosures are having on renters and efforts at the local level to pass protections in Baltimore and Philadelphia there have been laws passed which add protection to renters who live in foreclosed properties.

On the bricks and mortar side, there have been efforts making sure properties that are foreclosed these are quickly put back in productive reuse through taxation or enforcement, rehab, resale, land acts and land trust and looking at innovative models like rent to own and lease back programs.

Some of the challenges we face, one thing, I won't go through them all, one thing that I think is kind of on the horizon is the tension between tenants rights protecting tenants in foreclosure and the emphasis on getting these properties turned around very quickly.

I was at a meeting in DC the VP of Countrywide who handles a lot of their REO dispositions as a matter of course they routinely evict tenants in foreclosed properties which sounds harsh, but that was instrumental for them to resell those properties in order to turn those properties around. They needed to be vacant in order to make them salable again.

I don't think the tension is a real one. I think lease to own options, through

working with nonprofit community development corporations there's opportunities to preserve tenants while at the same time getting those properties into responsible ownership, but I think that we need to think through some of those issues. Obviously a lot of issues when valuing the properties we've talked about a bit this morning. Servicers still think the properties are somewhere valued here. On the ground looking at the condition of the property, condition of the neighborhood, the local market you would know the pricing looked quite different.

So just really quickly I'll talk about some new opportunities, you know, some hope on the horizon. I think there has been compared to at least five years ago let's say when I started doing this research where there is very little awareness about predatory lending we have seen a rise in state legislation banning predatory practices as well as modest things. In federal legislation, we have the Frank Dodd bill which now seems to be eclipsed by the federal bailout which does provide credit facility within FHA to purchase nonperforming loans. It provides almost 4 billion dollars in GDC grants to work on neighborhood stabilization efforts and a tax credit for homeowners buying foreclosed properties.

I didn't talk about this, but I should have mentioned because I think it's one of the most important challenges on the REO side, insuring the pipeline of credit-ready borrowers. I think the real issue or one of the main issues is once you buy these properties what do you do with them when there is no market, no credit.

I think creative ways of thinking about new loan products, affordable loan products for first time home buyers, incentives to first time home buyers to buy properties at foreclosure.

As I mentioned, I do see a tremendous opportunity in this mobilization of judges to reform the foreclosure process. I see that as a potential lasting legacy of this crisis. If we can actually come out of it with improved foreclosure proceedings that are meaningful, that may be one kind of structural outcome that could be a benefit.

And then I think one of the second to last bullet, one of the things from a philanthropic perspective is how do we link the work we're doing on foreclosure prevention to some of our other missions like economic development and work force development.

And one of the things we've looked at doing is working with servicers at the REO departments to hire local work force development and supported work, agencies like wild cat or the civil justice court which work with difficult to employ populations or formerly incarcerated people to give them job skills, and we've had a tremendous amount of success.

In these REO disposition strategies, we are not looking at just brick and mortar practices but what hiring practices, how can we make sure that money that goes into rehabbing these properties maintaining them in the interim between when they are purchased and when they can eventually be disposed that those jobs go to community residents.

And I'll just stop with actually the big picture which I think that I've really focused on kind of doing probably impossible taxonomy of what's going on at the local level and like any taxonomy I think it tends to simplify.

I hope what we can do in the discussion is we can talk about how some of the local efforts definitions are supporting really can address some of the really the critical structural issues.

And I think from a philanthropic perspective, I think some of the three big questions we have to ask ourselves is how can foundations help government and community groups overcome the servicer bottleneck to promote more and better loss mitigation in the REO disposition strategies.

There isn't going to be enough money to support counselors. Even if you did mobilize mass numbers of housing counselor to advocate on behalf of borrowers. If servicers aren't responsive, we're going nowhere.

One of the critical questions is what can foundations do to push the industry to engage in more rapid responses to loan modification requests and more sustainable ones. How can foundations support innovative models that demonstrate sustainable and affordable home ownership is viable and essential component of wealth building for communities of color.

Here we can look at work we've done working with housing counseling groups and affordable housing groups like neighborhood housing services to show that the issue, and this goes back to the conversation this morning, we are blaming this on CRA, that when you have borrowers who have gone through counseling and given affordable loan products, you don't see foreclosure.

In our pool of existing grantees we have the story there already, and one of the roles foundations can do is bring some of the stories to light to counter this rhetoric of this is just about making loans to undeserving or reckless borrowers as coded way of saying to borrowers of color and say look that's not the case. What we actually see is when you do it right, these loans are sustainable and affordable.

The last is how can foundations help eliminate racial disparity in credit market and strengthen fair lending practices to avoid a repeat of the crisis. Almost too obvious to bare stating, but we see the pendulum swinging between historic redlining and flooding communities with toxic credit.

And I think now the pendulum is starting to swing back to redlining and credit rationing. We need to be thinking about is how to stop the pendulum from swinging and create a more just credit market and what role can foundations play.

MR. COHEN: I have a different lens that I use. Solomon is on the inside of philanthropy at one of my favorite foundations, Open Society Institute addresses civil right issues and lot of other kinds of justice issues. I'm on the outside. I've been a critic of foundations for 30 years and running the national watchdog of foundations the National Committee for Responsive Philanthropy. I would add a fourth item to your bullet, how do we get 90 thousand foundations to put their money behind the groups doing the work. The reality is most of the foundations are nowhere near the stuff. It is going to get worse because of the dynamics going on right now. I know you all know this.

What I'm saying I except everybody here to correct and to embellish, but my big problem is for the capacity of groups to take on these issues, not that foundations are going to solve the issue of subprime mortgages or foreclosures, but the capacity of the groups to address them requires capital, requires operating capital, requires flexible money, requires investment in organizations. And we need to get foundations to put their money and put more money into that work.

I hear the number 700 billion. That has a different meaning to me. I know it's the bailout number. It's also the number of the amount of assets that foundations have attached to endowments. I keep asking why don't we get foundations to stop sitting on their assets and start moving that money -- I'm sorry -- to move that money towards these issues.

Let me give you some headlines and then talk about some of the things that might be the challenges that I think dovetail with the ideas Solomon raised, but I think pose the challenge that most foundations are not OSI. You don't have Solomon Greene sitting at most foundations. In many cases when you have a good program officer, you want to

replicate and clone the person because so often it's not quite the case. Many cases you find foundations that will say we're doing stuff, but it's the stuff they've been doing a long time and just now characterized it as dealing with the foreclosure problem. It's not really new.

Here's some of the headlines first. The changing environment for all of you. There was once a foundation called Fannie Mae. Fannie Mae had a foundation. The Fannie Mae Foundation between 1998 and 2006 put 138 million dollars in terms of grants over 10 thousand in size into housing groups. They put another 106 million dollars during that period into community development and community improvement.

Now 2007 they shut the foundation and moved it into the corporation under the ostensible idea they wanted to eliminate the firewall between Fannie's corporation and Fannie's foundation, but what it really meant is a huge amount of money was lost and of course with the conservatorship it's really lost. For most of those years Fannie was the number one or number two funder in the country, foundation funder in the country for housing community development.

FROM THE FLOOR: What was the first figure?

MR. COHEN: 138 for housing, 106 community development, 1998-2006. I don't have the 2007 numbers. They claim even though they went back into the corporation they would be just as transparent as their foundation, and transparency disappeared. I'm shocked that they wouldn't reveal those numbers.

But the fact that they were the number one or number two grant maker, foundation grant maker, in this area means that money is gone. They were a funder that many CDC's, many local partnerships worked with. I used to work for LISC as a vice-president. Before then I was the vice-president for what used to be the Enterprise Foundation Community Partners. I can tell you what Fannie meant. Many people here may be getting support from a collaboration called Living Cities. When I worked with Enterprise, we sat there and designed it. Fannie Mae put 3.6 million into Living Cities. You say that's a significant number that's going to be gone.

Take it a little step further. There is a slight problem with banks in general. Banks as a sector of corporate grant making banks are the number two sector following pharmaceuticals. If you look at pharmaceuticals, it is basically taking charitable deductions for knocking down the price of high cost drugs. Banks as a sector as of 2006 were the largest, quote, sector of corporate grant making in the country. Insurance, which is another important part for us, was eleventh, and the investment bankers like Merrill and Bear Stearns they were fifteenth.

I mention those because those were the sectors that either for purposes of knowledge because they thought community development and housing was or because they saw a

strategic advantage for themselves. In funding groups that would then use their products, they were major investors in philanthropy in our sector and with the bank problems that are going on we can see some of the losses.

Here is the obvious examples. The top corporate foundation grant makers in 2006 number two was a bank called Bank of America. They're still in good shape. In that one year 144.8 million dollars. Didn't they just swallow something called Countrywide and who else, one of the investment houses, which one did they buy. Merrill. So even though B of A was healthy enough to buy Countrywide and Merrill, you might guess it might not have a lot of extra capital left to keep up that level of grant making. Number five corporate foundation J.P Morgan Chase. We were just in a panel before where the panelist referred to the slogan was JP Morgan Chase sucks or something.

FROM THE FLOOR: I think that was a direct quote.

MR. COHEN: I like it. Who did they swallow. I forget who they are buying. City Assembly 3.9. Number 7 corporate funding company was something called Wachovia. I wrote an article a week ago and said something might happen with Wachovia. Of course, by the time I finish writing it and publishing it, they were gone. And also in the top 50 Fannie and NCC, I believe NCC is in some trouble, Freddie, Prudential, Merrill, Deutsche Bank and something called Washington Mutual. I think they used to exist as a bank as well.

So some of the funders that many community development groups used to turn to in part because they understood community development and in part because they strategically funded community development we were the users of the their product may not have the capital or may not be alive to think about the capital.

It's important because in my experience with working with housing and community development groups corporate funders played a big role. The reality is when you take away those large corporations, it has a real effect. 90 percent of corporate philanthropic grant making is due to 300 corporations nationally.

For all the corporations you see out there, 300 corporations account for 90 percent of all corporate grant making that includes of course Walmart which is a huge giver and so forth. 50 percent of corporate grant making is due to 100 corporations. So if you start plucking off WAMU or Fannie or Wachovia or you start having a J.P. Morgan or Bank of America saying we just swallowed some big entity that will cost us a lot of money and until we absorb and restructure and go through the cultural merger of acquisition and the dynamics of grant making might be a little tight.

That has a real impact in terms of groups dealing with these issues. I'll point out Wachovia numbers. I tracked between 2003 and 2006, I was able to identify 161.7 million dollars of their grants. They funded 2,658 grantees. Those are all grantees they are not going to get Wachovia money. Of those, 48 million went to education groups; 14 million went to community developments; 14 million went into human services just as examples. Those are real losses.

So the challenge that I hope when people see just the range of things that are out there you have to say wait a minute we have a bigger challenge in front of us because many of the main stays we used to deal with aren't there.

Let's go to who the funders are that Solomon has to talk to. On the private foundation side, there are a number of challenges. We're talking about structural racism in the subprime mortgage lending. If you look at who controls foundation boards, you might find another dimension of what you might think is a structural racism issue.

I'm not saying this as a meanness kind of thing just a significant disparate issue. Foundation boards are 87.7 percent white people. Just to make a comparison, the Fortune 500 boards are only 86.6 white. So actually the Fortune 500 is more diverse than American's foundations.

African-Americans on foundation boards are 6.7 percent. On the Fortune 500 they're 9.1 percent. So we have a -- we're making a pitch to funders that don't look much like the communities that we're talking about based on the numbers that are in Solomon's charts, the numbers we heard all morning and so forth. It also of course is no surprise to many people that many of the nonprofits are not particularly diverse either.

I discovered that a fabulous study just came out of the Urban Institute on board composition. 18 percent of nonprofit boards have no African-Americans. One half of all nonprofit boards are all completely white which tells you something. And even in the community development field we have some challenges. 60 percent of CEC executive

directors are white, 22 percent are African-American, 7 percent Latino.

Going further than that, one of the challenges for foundations in dealing with the issue of race in terms of these dynamics is often they miss the point of the importance of supporting people of color or organizations. Colleen knows this well because it has been a battle royale in California. You can criticize both sides, but there is one undeniable fact, not a lot of foundation money goes to organizations led by people of color.

There was a group called the Greenland Institute that did its study that said they did a study of national groups -- I have problems with methodology. I was supposed to be a co-sponsor of that study, but I withdrew because of methodological problems. Their numbers are probably correct. I just didn't buy the methodology. They looked at some national foundations that said only 14.7 percent of foundations and 7.7 grants went to people of color and organizations, but if you pulled out the money that went to groups like United Negro College Fund, those numbers drop precipitously. So there wasn't much money going to people of color.

The response of the foundation community is a study called Embracing Diversity, but the Embracing Diversity study basically looks at nonprofits that serve minorities as opposed to people of color led. It makes some pretty amazing intellectual jumps and misses the point about how important it is for advocacy and voice in the dealing with the structural racism and dynamic to support the organizations that represent the people in those communities.

Then foundation money in general has them going in this direction. 9.89 percent of foundation grant dollars of the top thousand grant makers goes to racial and ethnic organizations. 1.9 percent for African-Americans 3 to 4 percent for community developed, and 1 percent for housing. This is an issue not on the foundation radar screens. So when Solomon takes the Power Point around, esoteric is talking to foundations that may be nodding their heads a bit, but they're not in the game.

This is an advocacy issue that it's one thing when in philanthropy for program officers to raise the issues. It's one thing for affinity groups like Neighborhood Funders Group raise this issue, but the voice from nonprofits from the outside has to come to say we need to have better access to these funds because we're being short changed.

So what becomes the challenge. This is my list of challenges and possible solutions. Again, I apologize because it's obvious I'm a critic of philanthropy, but I think they waste more money than you can ever imagine and miss more opportunity that you can shake a stick at and so self-congratulatory it is -- I will use some language from one of the other sessions.

FROM THE FLOOR: What do you really think?

MR. COHEN: Obviously first much of the work we're doing with is funded by banks and funded by finance related organizations so that we have to not only replace that money but get some of the other 90 thousand foundations that aren't in the game to start funding this work.

The problem with the foundations, I just did a big study for the Ann E. Casey Foundation and surveyed many people that said to me on the foundation said they are bored by community development. They are bored by housing because they think they've supported housing for years and the little CDCs haven't solved the housing crisis.

But the reality is that if it weren't for CDC and community based organizations producing affordable housing. And part of the challenges CDC faces is they are under capitalized.

The corporate money that exists that is not disappearing in terms of disappearing

WAMUs and disappearing Wachovias as well, that is still decreasing as well. With the economy tanking corporations make their grants based on bottom line thought processes. So when the bottom line on the corporate side tank, they react rather quickly.

I was just in a city which the group had a tentative commitment for a million dollars from a major national insurance company for a community development program, and they were told we've decided to rethink it, and we'll talk six months from now. All the usual excuses, the litany of excuses of we have lots of things on our mind. The reality is we know what it was. It was the economy. They're worried about whether this is going to hit the insurance companies as well.

So you will see both other corporations contracting because of economy and healthy banks contracting because they've swallowed so many other entities it takes time to work it out.

I did a study some years ago on the impact of bank mergers on bank philanthropy. In talking to the banks they said much of their effort was in trying to reduce discretionary costs in the course of the merger. If they look at what they can get rid of even if they come up with a bigger number it's over a larger geographic area so less money for improvement.

The market declined. I don't know what the market did today. It has been tanking for a long time. It will show up in foundation money. Foundations basically make their grants out of the return they get out of their investments in the market.

Foundations will say to you, well, we have a rolling average that we use on our investments so it's likely that you won't see a reduction in our grant making until 2009 or maybe 2010. Don't buy that for a moment.

Foundations have an interesting way of looking at things. Don't forget OSI is a very different foundation. They have a living donor. The donor has said let's spend down as well.

Most foundations stick to a five percent spending level as opposed to a grant's level. And that becomes problematic. And then I believe most foundations have a theory of the economy which is it's the best of the times it's the worst of times and the worst of times it's the worst of times. So they're always banking their money and not spending as much as they should.

You are going to see some foundations basically start contracting at a time when you hope they would do grant. This is the time to put more money out to address the issues not less money.

Foundations tell me that even when they're addressing these issues and taxonomy was great, they're mostly on the front end. The accounting stuff has a nice human ring to it. The stuff talking about the nasty REO materials and the negotiating with how do you get property out of Washington Mutual now that it doesn't exist, that stuff is very expensive, requires capitalization of the groups with working capital, with good operating support and so forth and it's not there. They tend to focus more on the front end.

I think this kind of conference and nonprofits ought to be generating agenda for philanthropy. And the agenda to me would have a number of elements to it.

The agenda would be, number one, if you talk to Mac McCarthy at the Ford Foundation, esoteric says foundations ought to be putting a substantial increase of money into community based organization for capacity building. The reality is the numbers were talking about in terms of foreclosure are choking numbers. When John and A and DP are looking to acquire property in Atlanta, they have the ability to actually take large numbers and redevelop them on a site basis in many cases is very, very tough. You need

capacity building money that gives him the capacity to be able to think in some of those terms. So a major investment in capacity building is personnel. A second component is the best programs I've seen on the foreclosure side I tend to focus on the groups doing real estate as they're trying to acquire those vacant and foreclosed properties, have been groups that have good, strong neighborhood strategies to go with the programs.

There is a group outside of Newark called Hands that has a phenomenal program working with five or six other CDCs as partners and worked out great strategy. It's that strategy that is a compelling strategy that helps make their plan for the acquisition for 47 properties workable. I think that's the second part.

Third part, most of the community groups you will see looking at these issues have balance sheets so shaky if you take a deep breath, you'll blow half of them over.

Our foundation sector and our government sector have done a great job of disinvesting in the capacity nonprofit sector in this country. What makes it worse is the problems we're facing with acquiring these properties and managing these properties and redeveloping the properties require extensive abilities to make arrangements that are very complex, acquire properties and hold them for significant periods of time. Solomon's just talked about the end purchaser problems means you might not be able to do the typical acquisition rehab and resale we used to do in the 80's with abandoned properties because these properties are scattered sites you are doing lease purchase deals and lease purchase of a scatter site is brain damage. So you need to be able to figure out how you will pay for that cost.

And moreover if you talk to most groups and say do you want to manage small units, they'll go no. So you have to provide incentives to get them to do that stuff. So to have foundations investing in organizations because they can't -- foundation aren't going to buy all the property, but if they invest in the organization to give them the ability to use the 4 billion that's coming down the pike, it would be a great investment.

Fourth thing you can do is investment capital. That 700 billion dollars sitting in the coffers can be invested. Part of the problem for these acquisitions of foreclosure you just can't take debt. You can't keep telling the CDC and say add on more debt until your own balance sheet is a complete mess and under water as well, but if they have mutual related investments not debt investments, if you had foundations investing their money into the deals as social investments, that's a real benefit, a real potential resource to be used.

The Rockefeller Foundation has come up with a plan to create a social investment market I believe, and I think that would be a great thing to be thinking about. There is a movement. I say that thinking in terms of agendas that have social investment is useful.

Fifth item is we get caught up with big cities. In my talk this morning I talked about Lowell and Lawrence and Massachusetts and Natchez, Mississippi. The reality is they don't have big foundations. So often we talk about foundations. We talk about who is out there even if you are talking about Detroit which is facing a miserable time big foundations that basically are there in Detroit and putting money into Detroit and Kellogg and McGregor and Kresge all putting money in Detroit. Indianapolis which again is in a terrible foreclosure crisis. The Lilly endowment is sitting right there in Indianapolis, but for many of these smaller cities, they don't have those kinds of foundation support. So the foundation community at large has to start paying attention to the communities that don't have the indigenous big grant maker there, that has not just the capital but the track record of supporting this kind of infrastructure.

Sixth is policy advocacy. We've all mentioned the issue of the attack on CRA. I would say there is two kinds of policy advocacy dimension that ought to be pursued. One is if we try to fix the problem through foreclosure counseling, through middle range defenses and through the end foreclosure acquisitions in Rio, we want to fix the system. These are systemic problems. That's where the advocacy has to go. And secondly since I've made half my career studying right wing foundations. Groups like Heritage and AIE and Hudson are mounting a huge attack on community investment act. And I can assure you the success of the right wing is not that they elect presidents like George Bush, but they get people's thinking changed. Many cases you'll find the thought processes about education, about how vouchers and charters get more leeway. It's because of the great work of the Walton Family Foundation and others.

Finally we ought to have foundations experiment, invested in new tools that nonprofits are doing. There was a former foundation program officer named Paul Hilde Soccer at the Ford Foundation, and esoteric always said that philanthropy ought to be the risk capital of social change. What a great concept. Wouldn't it be great if we had all these foundation people realize their money is risk capital that we ought to be experimenting with and doing new things with.

If we did an agenda that might go along with the fabulous array of here are the things you can do with your money that Solomon's laid out that would be a pervasive thing that the nonprofit community can advocate with the foundation sector to get changes. Let me stop there.

FROM THE FLOOR: Since you were calling me out, I'll call you out.

MR. COHEN: I apologize. You were there.

FROM THE FLOOR: I have been at Policy Link now ten years. We do a lot of advising of philanthropy and have often written agendas about what philanthropy should be in racial justice and policy change context. And some of the most progressive foundations give here today. Some progressive foundations give ear to that, but generally I would say that the agendas that we form for philanthropy don't move it hugely. I guess I would like a little more of your thinking about how when people get together and create an agenda for philanthropy that it is compelling in spite of these really conservative board rooms?

MR. COHEN: I agree with you. My history at NCRP if I can find change I've spurred it's hard to identify much less attribute it to anything I did, but I think the problem is there are many organizations like NCRP and Policy Link and others that do provide good advice, and there are some foundations that do list, but the problem is the nonprofit sector itself. We're the problem. Most nonprofits that's willing to storm into any city hall and demand changes and challenge any state legislature and march up to the White House, when they look at that foundation board, they go thank you for the crumb that fell off your budget and hit me in my budget. It's a sense of an unwilling to organize around a huge amount of capital.

I think the challenge is that many people in foundations even in those conservative foundations are looking for people to say something other than thank you very much for the crumb. And it requires nonprofits to begin organizing and advocating about philanthropy the way they do just about anything else. Because of that lack of voice it means that, you know, you get the Jesse Smith Foundation in Jesse Smith Noise. They do great work. They are this big. We can run with them only so much. We get Liberty Hill in Los Angeles. It's this big. But still it's in big.

We have to start organizing around capital the way we organize around other sources of capital, and I think that would be something as a strategy to pursue. If we

don't do a good job, probably the reason I'm not at NCRP, I took too much of an academic perspective, and they needed an organizing perspective.

I think there is some real measure. I'm not the best organizer. I think that's what we call upon otherwise we'll watch money go in the wrong direction. The good progressive foundations are often outweighed by regressive or controlling moves by other foundations.

FROM THE FLOOR: I've been tilting at windmills all day today, and I'm kind of frustrated because of a case I'm working on back home which involves a victim of a foreclosure rescue scam who is in a position to -- esoteric lost the house to the scam, and there was a straw party put into title. And the straw party was foreclosed on and my client is still in possession, and he's in a position to buy property back. Counsel for the lender or servicer is saying we can't entertain an offer. They were saying we can't entertain an offer until we get into the property. My client has already spent 300 dollars for an appraisal, but they want to do their own.

When the attorney for the servicer got in touch with the servicer, they said we don't know what you are talking about. We don't really care whether you are getting value or not. We want the house vacant, but I have a guy ready, willing and able to buy it at current market value.

So I have this dead end servicer that is not being responsive and what I relate that to what both of you have been talking about is I think we need help not just increasing the army to go to the frontline and fight this battle, we need the innovation to buy tanks to blow and machine guns or whatever to blow through the brick wall of the servicers and I mean that in a gentle way. We're not looking to fight.

MR. COHEN: Gentle tank.

FROM THE FLOOR: Having more people to call and talk to loan servicers. We need actual vehicles to be able to drive through that wall with them and say here is why we need you to be more responsive. That's a lot of what we do in Baltimore with the law center, and that's partly the success we've had and you had that up there, but we've been successful because I had a meeting with loan servicers last week who are a funder of ours. They're very responsive, but we need more of that. It is a struggle. So it is capacity but not just capacity to go to the frontline and fall down but capacity to run down and fight the battle.

MR. COHEN: OSI has a program in Baltimore. One of the things that I think foundations don't exercise enough is to use themselves a little bit as tanks as well. It's one thing to be the money and I of course find the money incredibly important and if they would get off the money, shake hands and go away, but given the fact that they're not going to get off their money totally, in the Baltimore community you have Tim Arbrestler at his foundation, Baltimore Community Foundation, something called the Anne E. Casey Foundation owning two big buildings off of St. Paul Street.

The influence that these people have in terms of being able to say make a call, let me call. I know these people. I know somebody knows these people. Only six degrees of separation and among rich people only two degrees. So they can actually put some of their nonfinancial influence behind particular issues that are faced in localities at the local level. I love the idea of foundations working together in a Baltimore or Cleveland. MMPI or East Op is doing in Cleveland is because they have Gund and several foundations thinking strategically about Cleveland itself. To get them to say how do we use your abilities beyond your dollars above moving these agendas would be a great thing for them to deploy their internal tanks.

MR. GREENE: First of all, I'm glad you mentioned that about Baltimore. We're trying to actually work with our peer foundations in Baltimore because there hasn't been a lot of correlation around foreclosure prevention strategies. And one of the challenges we've had to face is, I'll be interested to hear what you have to say, foundations that are not doing work specifically on housing issues or have done it and they're turned away from it, how do you kind of recast this issue as one that's relevant to their work. So like Anne E Casey Foundation that's really focused on family and children they're actually one of the foundations that's already pretty much on board, but kind of making a pitch that cuts across missions, but, Rob, in response to your question, I think, you know, I really strongly feel like at this point not in terms of the restructuring financial markets but dealing with the crisis that we face today is I'm very concerned about the role that foundations can play as I put in overcoming this servicer bottleneck. And I think we're so familiar and so used to funding counseling groups. That's what we know. They're great and they do great work, but increasingly I hear from groups, counseling groups, that we're not getting traction with servicers. So thinking about breaking down the walls or whatever, I think some of that happens through granting the work in terms of funding, putting pressure through litigation or more aggressive strategies on servicers but also, you know, to the extent we can to be able to have that influence in other ways and sometimes it's actually surprisingly easy.

I mentioned this work force development piece and admittedly that sort of seems like a win-win situation. We've got city loves the fact that they can say we're hiring people to manage our properties in the neighborhoods, but sometimes it takes making that phone call as well to set up the meeting and saying you are not thinking about this creatively. Some of the groups are also grantees of ours. So there are other opportunities outside of grant making. And I welcome suggestions as to what are some of the critical interventions in the services side and not just when working out, you know, expediting and increasing the volume of low modification which is absolutely essential but also the REO side consistently what you hear is servicers are completely out of touch with local markets. And that's one of the things exciting about the work Haines is doing in New Jersey. They are trying to demonstrate real value, come up with a real system to say in our neighborhood these are what the properties are valued at. Whether that's sending pictures of the properties to the servicers, whether that means basically coming up with alternative evaluation models, but I think that's, you know, going to be, that seems to be, again, you can throw money at acquisition but it's not going to be affordable in the long-term, no one is going to be able to afford to do the project with any amounts of subsidy if you can't buy the properties at a deep discount, not even a deep discount. It's at their true value.

FROM THE FLOOR: Just to follow-up, this guy is willing to buy it at today's market value. He has pre-approval. One of the other things that needs to be focused on is to move the servicers, if you will, or move the law is how you work the media and capacity to do that.

I've been somewhat successful with that. I suggested that today. This is a story, that happens to be a DC suburb, I think it is a story the Post would be interested in. Here's a guy that's willing to buy the house and it is REO. We're past foreclosure. This guy is willing to buy it tomorrow. And the servicer's wall is up, and they'll take the property vacant and winterize it and carrying it until God knows when because it's going to be winter and nothing is moving, and it is just the lunacy of that is where I think what we need not just capacity to arm the army to fight that but to actually move

that, you know. That's what I think. Again I realize I'm tilting windmills today, but I feel better now.

FROM THE FLOOR: I would like to, Lisa Reiser with the National Fair Housing Alliance. I would like to piggyback on something that was said today when it was commented that the problems that we're facing are an extension of structural racism and segregation in America. And I think esoteric said something to the effect of terrible things had happened and terrible things will continue to happen until we have effective fair housing enforcement and until we tear down those barriers.

And it strikes me that a lot of the solutions that we're talking about and a lot of the solutions that foundations are willing to fund are all bandaid approaches. And they don't get to the core and the meat of the problem, but we have had terrible, a terrible time at getting foundations to fund fair housing.

They don't want to fund fair housing enforcement. I don't understand that. I cannot figure it out. And I would love it if you would help me figure it out. No foundation that we go to -- the Ford Foundation will pay for us to cover the travel costs of our staff to attend conferences. They will pay for our members to come to our training. Anne E Casey will pay for us to operate a hurricane relief project in the gulf, but no one will fund fair housing enforcement. And I don't get it. Help me understand.

MR. COHEN: We can probably answer in talking alternating words.

MR. GREENE: We love it. We're funding and full disclosure, I just joined OSI, and I have a legal background. When I found out we were funding, we started the grant to fund the National Consumer Law Center in class action litigation against lenders for using yield spread premiums and other discretionary pricing systems under a disparate act claim. Maybe because I have a legal background, but I was very concerned about this grant for a host of reasons.

One is we have access to -- my radar was up -- will we have access to nonpublic information as a grantor that our living donor is actively involved in markets. We have to kind of shield them from, you know, information that is not publicly available. We have what happens in terms of directly funding litigation becomes complicated because the outcomes are always uncertain. We were funding discovery costs. What if they settle or prior discovery or lose on a motion to dismiss. So I don't know how much of it is, but we got through it. We sat down and worked hard with NCLC and figured out. We modified our loan grant agreement. It took a lot of work to make sure the legal protections were in place and made sure we had contingencies if the litigation settled or dismissed early on summary judgment. So I don't know how much of that is -- I'm sure most of it isn't --

FROM THE FLOOR: It is not core fair housing work. It's not the investigation. It's not testing. It's not the investigation of discrimination in the traditional sense that you have to conduct in order to bring a complaint under the Fair Housing Act. And nobody wants to fund that. Nobody wants to fund testing, for example.

MR. COHEN: I think you have a couple of situations. It's a confluence of three different factors that I see. I consistently compare this to the right wing. The right wing foundations will do all the things that all the mainstream and left wing foundations won't do because they don't care.

They believe in their ideology, and they want to get it done where we have all the hang ups and problems with things. They're willing to fund advocacy. They're willing to take the risk and fund things that are either litigation or lead to litigation. I'm not in any way criticizing what you just said, but they'll put their money out there for litigation and long-term litigation. And they'll do their money for the legal groundwork

that leads to potential litigation.

When you talk testing, I think of Pacific Legal Foundation on the west coast that does a lot of great work from the right wing side. And the funders invest in it because they believe in what they are doing. Go do it. On the mainstream and liberal foundations, it's what are you doing, how quickly is it going to be seen. How do we know what we're going to be getting for our dollar. The right wing says we funded groups that we believe in, and we can see the change because the society is moving toward the right even though it might be a Democratic president soon.

So we have to change the foundation mindset about their willingness to fund advocacy and fund the work that leads to advocacy and litigation, fund litigation itself and take the risks that are involved. We have a risk in the foundation sector in what fair housing is often involved in is risk.

MS. SCHWENKER: This is it. Last question.

FROM THE FLOOR: This conversation brings to mind lots of issues that New Orleans has faced these last years so in particular the whole perspective of philanthropy about New Orleans is it doesn't have strong community, no community sector, no development with capacity and it acted like it was the fault of community leaders their not being smart or innovative, but a lot of philanthropic money poured in after Katrina funded the groups that had historically been there, they grew. They're doing the best work. They're doing the only work. Government isn't.

MR. COHEN: They existed before foundations found them.

FROM THE FLOOR: Right. So you saw just put money there and work will get done. They have the exact dilemma when all these properties become blighted and abandoned, and they have blight twice the rate of Detroit which is the highest blighted city before Katrina.

So these organizations that have been funded and have grown up can fix a thousand houses in five years. So there's five or ten of those organizations, and there is 120 thousand damaged houses.

So in just trying to approach that systematically of saying how do you actually handle a system to turnover a lot more houses by the only sector doing that and then how do you fund that. We're three years into it, and we see the groups that could grow so more and how do you coordinate them and how do you connect the residents that need the help to those things. It looks like a 20-year project if there was consistent investment and funds of the organization. When I think about that, I think about the sheer determination of the people who love their city. They will keep trying to do that. And people will keep trying to make it more systematic, but it is different than having a major public voice project which en masse is fixing all the properties and putting them back in commerce, has the goal of making it affordable and making people able to live in these communities. That's the same problem these neighborhoods have.

Maybe this question to you, Solomon, in terms of where you see the infrastructure for growing and building the capacity that's anything like the scale of the need and who has the vision for that and how are we going to make that investment happen. Really at that level -- people call me from these cities and say how does New Orleans thinking about this because we have the same problem on a smaller scale.

I'm interested. I actually think getting together some of the leading philanthropic people like they do one of the things Rockefeller led the charge to say this a small city that doesn't have any local philanthropic or at least nobody that find in the African-American community. So they create a pool of 25 million dollars, and they started

giving these grants to those organizations. I was thinking about what really the model of that in these communities where there are great CDCs but cannot manage ten thousand foreclosures in the community.

I think that would be an interesting project, what is the model and what level of capitalization are we talking about over what period of time or what else public works project, what the models of that public works project that takes this on. We're investing seven trillion or billion because I don't know how to think about that many zeros. If it's 700 billion dollars, couldn't we have a public works project.

MR. GREENE: We're trying to do five properties in New York right now.

FROM THE FLOOR: You see what I'm saying?

MR. GREENE: I absolutely agree. If any of us have the answer I think, you know, there are a lot of years. The one in terms of who, there is the National Community Stabilization Trust four big intermediaries starting out I think it was mentioned this morning which we've been meeting with them and it's a great idea. The idea is two functions or two branches. One is to negotiate at a large scale with servicers to buy in bulk REO properties. One of the things we realized buying one or two properties you are never going to get those kind of price that you need in order to make them affordable. And also to do some sort of -- you are buying -- some performing or more marketable properties and some more distressed properties. So if you have the pools, you have the good and bad.

The second piece is lending arm where they are hoping to create a credit facility for acquisition. The key question is -- they used to talk about this trust, and say we're only going to work with groups we're going to target our cities to find the ones with existing capacity. That's great. That makes sense, but what about all those other places. And even within those cities what is the capacity to implement the work the trust is doing. I don't know. That's where we look to you guys to fund the bricks. We're just kind of operating on the negotiation and capitalization of acquisition efforts.

In terms of models, I don't know. I mean Haines is the one I think of which is there is this collaborative that happened Haines is CDC but, working on collaborative in New Jersey which is aimed at bringing together the various groups that do housing development and build up their capacity to do more acquisition and rehab. The public works is probably something at the scale of a large public works project is probably what's necessary. I'm just --

MR. COHEN: The question you raised is infrastructure, and there have been models about infrastructure. The Ford Foundation many years ago did challenge grants that paid operating support collaborators that were in 40 different cities including New Orleans, had an nice operating support collaborative and was providing operating support to a dozen CDCs in New Orleans for many years. Most of those are now gone. That was a great model of saying how do you sustain the infrastructure for groups and build their capacity so they don't have to regenerate their operating capital on a yearly basis but basically getting money from that kind of pool, and Ford had that program and stopped it. And nearly all of those collaboratives have gone out of business, but I think you are raising the fundamental question.

The Mississippi side of the gulf coast where the Knight Foundation had a choice of putting its money into a number of groups, and it put its money into something called -- Haley Barbour, the governor of Mississippi who hired the Urban Planning Group out of Milwaukee who did Celebration Florida and all of that to design the gulf coast Mississippi and find ways to put money in the casinos. The lack of infrastructure there was telling.

The heroic efforts to create an infrastructure on the fly just underscores your point so importantly about how important the infrastructure is and then you look at our two presidential candidates, and the one I support and the one I don't support, and both in response to Hurricane Gustav said put your money into the American Red Cross.

I mean we have to start getting people thinking about investing in local infrastructure otherwise we'll be regenerating crises and finding ourselves without the capacity whether it's either Katrina or a subprime mortgage crisis that we sit and say does nobody have the capacity to deal with those ten thousand units because we didn't invest. We would think in infrastructure terms and investment terms in the long-term not just the immediate crisis that hits them. I agree with your point.

MS. SCHWENKER: Why don't we continue this upstairs with refreshments and appetizers. Thank you very much.

**This is a rough draft - it has not been proofread for errors**