CHAPTER 1

A FOUNDATION OF COMPASSION

> *We are in this world to delight others.*
>
> Adam Robinson

“ELLISON MCINTOSH WILL BE here to see you soon,” Mary Haggerty, my assistant, said as she stepped into my office. “You need to be here.”

I paused to reflect on that name, which I hadn’t heard in years. “Ellison McIntosh? He’s coming down from Lexington? Can’t you handle it?”

“No, you need to handle this one. He will be here in about an hour,” she said as she left my office with a sly smile on her face.

It felt odd. As the chief executive officer of Grubb Properties, I was extremely busy, and Mary always took pride in dealing with issues on my behalf. How could one mortgagee, whose house payment was probably less than $600 a month, warrant taking time from my busy day? Why didn’t he just call me?

I had lived in Charlotte for over a dozen years, ever since I returned to the real estate company after graduating from law school. I had helped expand our operations from Lexington, my hometown, to the much larger city of Charlotte. Our new offices in Charlotte were on the edge of downtown in a new building we had recently developed as part of a larger vision to revitalize the Elizabeth Avenue corridor. In fact, Barack Obama's campaign offices were downstairs, and I got to meet him there on the eve of his initial presidential victory.

By 2007, Grubb Properties wasn't much into the mortgage business anymore. That had been our foundation when my father launched the company more than four decades earlier by building single-family houses and providing financing for families that had been excluded from the all-white world of bank loans. Since then, we had turned our focus to commercial properties as well as multifamily housing, with increasing emphasis on urban rental communities.

But we still handled a few mortgages that originated in the company's early years. As a boy, I helped my dad and learned the business by collecting mortgages on some of those early homes in Lexington. Recalling that time helped me better place where I first met Ellison McIntosh. He was one of those homeowners. I recalled back in those days, we had seen his family through some challenging times.

But that was, what, a quarter century ago, I thought. *Why's he coming all this way, driving sixty miles and fighting the Charlotte traffic, to see me? How does he even remember me? I wonder what could be so important? I hope this isn't bad news.*

"They are here to see you now," Mary said. It had seemed that only minutes had gone by as I daydreamed about the past. "I put them in the executive conference room."

They? I wondered what she meant. Stepping into the conference

room, I found Ellison there with two of his children and three of his grandchildren. "Mr. Grubb?" he said, as he looked at me nervously. "I wanted to hand deliver you my final mortgage payment." Then he gave me a check.

I was at a loss for words. It had been thirty years to the month since he had started making payments on the mortgage for one of the houses that my father built in his redlined neighborhood. Ellison was here to make his 360th and final installment. He would now own his home outright, and he wanted his kids and grandkids to see for themselves how important this occasion was. He wanted them to know that things work out if you do what's right and keep a steady eye on the future. This was no small accomplishment. Here was a family that had achieved nothing less than the American Dream that so many deserving families had been denied.

His grandkids sat quietly around the table. They were young, about my age when I had been working with their granddaddy back in Lexington. I could see Ellison's pride as he handed me the check. He was an amazing example for his family. He had given his loved ones a legacy of security and equity.

I felt proud of the role that my father had played in helping hundreds of families beat the odds stacked against them. Dad did what few others would venture to do, which was to go against the grain making home loans to folks shut out of the system. Ellison McIntosh's success represented my father's legacy too.

"Thank you," I stuttered. I wish I had thought to say something more, but I had not a clue what to do. I wasn't even prepared to have his mortgage there to mark it canceled, much less do something more ceremonial. I was astounded that his family had come with him to deliver the final payment—and I will treasure the memory of that moment forever.

THE SHIFTING AMERICAN DREAM

The research verifies what common sense tells us: Those who grow up feeling safe and secure in a home with support are much more likely to become productive members of society. A sense of insecurity in childhood, whether emotional or physical, can severely hamper the ability to learn, grow, and operate in the world.

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Although we celebrate stories of people who have thrived despite a fractured home life in a rough neighborhood, those rags-to-riches tales are by far the exception. A lot is at stake. Substandard housing hurts our families and children. An ample supply of decent, affordable homes is critical to a healthy and prosperous society.

For generations, homeownership has been an avenue toward a better life. By building equity in a place that they could call their own, families advanced and grew in wealth. As the value of the home increased, so did the pride of ownership—and that value and pride were both assets to strengthen the next generation. Many families prospered from that opportunity. Many families did not. They were left out and kept down, often purposefully, by a society inclined to push them to the margins.

My father showed a personal touch that the lending industry lost over the years. He understood what he called "the bumps in the road," such as a factory worker's broken leg that prevented him from earning his paycheck and making his monthly mortgage payments. If you don't hit one of those bumps now and then, you must not be alive and moving. We all need a little help sometimes along the way,

and the computerized, syndicated, and overregulated world of today fails to appreciate that fact.

A lot of lenders once exercised discretion to show compassion, whether they were extending loans to home buyers or small businesses. When Ben & Jerry's opened their first ice cream shop in Vermont, they had a booming summer, but in the grip of winter it was hard to make the loan payments. Their bank understood and waived their principle payments until they hit their stride again the next summer—and an institution was born.

The human touch faded as the lending industry began to package, sell, and resell home loans, syndicating them far and wide through mortgage-backed security programs. When homeowners hit a bump, who would sit down to chat with them? They couldn't find anybody with the authority to negotiate the loan. Their only choice was to make that payment or face foreclosure. Yes, the industry should enforce responsibility and discipline, but it need not be heartless.

That loss of humanity led to the well-documented abuse of the system that caused the housing meltdown and contributed to the global financial crisis in 2008. Millions lost their homes. In the aftermath, the industry swung to the other extreme, overregulation. The result of the federal government's crackdown on home loans was that even hardworking people with decent credit couldn't qualify for mortgages at the best time in history to buy a home, when they were cheapest. That effectively kept millions of lower- and middle-class families from enjoying the equity that a home could have built.

AN EMERGENCY LINE OF CREDIT

One of my main initiatives, which I have been working on with the Aspen Institute, where I am a finance leadership fellow, is to create a mandatory home equity line of credit for all home loans with greater than 80 percent financing. The idea is simple: set up a 5 percent emergency line at the initial financing of the home purchase.

The line of credit would be maintained by the loan originator, making sure it had skin in the game and wouldn't just approve any home loan. The amortization schedule would be shorter term, like five years, so that it would be available for the next emergency. In addition, there would be specific guidelines on when the line could be used—such as medical emergencies, natural disasters, or something as simple as a tree falling on one's house.

The emergency line of credit would be good not only for the homeowner but also for the investor, providing a backstop against a lapse in payment when life happens. It would be a security net providing peace of mind for hardworking families. The investor would gain a sense of security, which often results in lower pricing that helps to make housing more affordable. The investor also would feel reassured that the loan originator did due diligence. To entice originators to offer this option, I would propose that Fannie and Freddy waive the clawback on the loans they purchase that come with this provision.

Another benefit is that these second mortgages would help to ward off predatory lenders. It's naive to think that regulations alone can stop them. However, putting them third in line to collect on a debt and even banning their ability to foreclose would certainly reduce the problem.

In Charlotte, I helped Habitat for Humanity come up with their soft second mortgage program, which successfully reduced the number of instances folks fell prey to predatory lenders. The idea was that Habitat, which would sell the homes at cost without interest on the mortgages, would add an additional $10,000 second mortgage that would go away after 15 years of payments on the first mortgage. However, they would get paid the additional $10,000 prior to a third lien holder, should one exist and try to foreclose, or if the house sold prematurely for a profit. This protected Habitat as well as the homeowner.

The primary objection I hear to the creation of ELCs is the risk of additional leverage when one is facing financial challenges; however, the reality is when crisis hits, that is when money is most precious. JP-Morgan Chase just released a lot of their statistics from the 2008 global financial crisis, and the one that stood out the most for me was the fact that defaults were not tied to the amount of equity in a home or even the amount of leverage; they were tied to ability to pay. People that were underwater were willing to pay if they could, and those with substantial equity were unwilling to pay if they could not afford the monthly costs. To me, this is the strongest evidence of why we should continue to promote homeownership for those less fortunate and provide them safety nets to get through the moments when life happens.

Meanwhile, house prices have gotten out of reach for many. The real estate website Trulia reports that in Raleigh, North Carolina, a first responder earning the median salary for that profession in 2019 could afford just 11.1 percent of homes for sale in that market. In 2014, he or she could have afforded 30 percent of the available homes.[2] The trend of rising home prices is only accelerating, putting housing beyond the reach of significant sectors of the workforce, just as the millennials are starting their careers and seeking out homes.

When people no longer dream of buying a home, or never buy into the dream to begin with, what do they do instead? They rent a home. Today, those renters include a mix of the working class who are struggling to gain better footing, the up-and-coming millennials who want freedom of movement, and the retiring baby boomers who are ready to downsize. The ranks of renters also include many of those who were stung in the housing meltdown and either have failed to recover or who have lost their desire for homeownership.

A lot of folks from many walks of life, in other words, are looking for an apartment these days—and they want apartments in urban areas near job opportunities, entertainment, and other amenities. And many are going to keep on looking. As demand pushes up prices, the cost of living has risen significantly. They are finding it a lot harder to get a place that they can afford.

The shortage of affordable housing in our urban areas will have the consequence of further stifling social and economic mobility. Many who live in the poorer urban neighborhoods are finding that they are getting pushed out by gentrification. Those who need to be in the city to advance their careers are finding that they simply cannot afford to live there—or, if they do manage to pay the high rent, they are unable to save for anything else.

Once, a high school kid could get a good job in a factory and

2 Cheryl Young, "Making a Housing Wage: Where Teachers, First Responders and Restaurant Workers Can Live Where They Work," Trulia Research, May 2, 2019, https://www.trulia.com/research/housing-costs-teachers/.

stay there until retiring. In today's global economy, that factory is likely to morph into something else soon or leave town entirely. No job there seems secure for long. The ones who are coping quite well in this high-velocity environment are those who have embraced higher education. Their families are enjoying a net worth that is greater than ever in history.

Many of the successful ones have found their niche in this new age of information and technology. They tend to want to reside in urban environments where they are most likely to find the facilities to further their education and to make the connections that will advance their careers.

Social media and job networking sites have broadened the scope of employment opportunities. Not all that long ago, a job hunter in Kalamazoo would browse the help-wanted ads in the newspaper for a position with a local employer. Today, he or she can browse the internet and quickly find openings in Spokane, Tampa, or Cincinnati.

The option of renting is important to people who want to readily go wherever their careers might take them for a better job or a promotion. In other words, folks who are interested in advancing their careers want to be able to move—that is, if they can afford it.

In the metamorphosis of the American Dream, millions of people have turned from buying a place of their own to renting a place of their own. As the shortage of affordable apartments reaches crisis proportions, those folks could be in for a big disappointment. Decent, secure housing, so essential to a healthy society, may be far beyond their reach, if they can find it at all.

CREATING VIBRANT, DIVERSE COMMUNITIES

To get to know your neighbors is to live a richer life. We miss out on so much when we fail to interact with people who look or talk or worship differently. When instead we count them among our friends, understanding and compassion have a chance to grow. We have less tolerance for intolerance.

The urban environments of America tend to offer a diversity of race, ethnicity, and religion among people of differing social and economic standing. In our cities live the wealthy, the poor, and the multitude in the middle. Within urban borders is a cross section of the world's people.

In most of America, they do not generally live in the same neighborhoods. Nationwide, the housing stock has long been largely segregated. The well-to-do have their gated communities where not just anyone can gain access. Others may have been relegated, in one way or another, to the grayer, dirtier parts of town that have been variously called ghettos, slums, barrios, hoods, or projects. For generations, the neighborhood boundaries have been drawn along racial, ethnic, and economic lines. It's white people over here, black people over there. Folks with money here; folks without, stay out.

Our society suffers from the compulsion to put up those fences.

Our society suffers from the compulsion to put up those fences. Segregation limits access to opportunity. Whatever keeps people apart will also keep some of those people down. The concept of "separate but equal" inevitably makes some more equal than others. The resources that refine us should be within reach of us all.

To that end, the policies of our institutions, and of government at all levels, must promote inclusion. That was not, however, the longstanding policy of our federal government or even our state and local governments. We tend to put lower-income people of similar economic and social standing into public housing projects where

economic and social mobility is virtually nonexistent.

One of the more recent mistakes in public housing policy has been the siphoning off of the older population. Senior housing has been the craze for the past two decades, as we have escorted grandparents to segregated accommodations. This has eliminated what is called "the grandmother effect" from many public housing communities. When a lot of kids are roaming the streets without the oversight of responsible elders, trouble is pretty much inevitable.

Grubb Properties has a lower-income property in Richmond, Virginia, where we have retained a significant number of grandparents by capping how much rents can increase for families that have lived on the property for five years or more, a policy implemented company-wide. We voluntarily implemented the program to make sure we had a stable and diverse neighborhood. There, with the grandmothers keeping an eye on things, a couple of teenagers firing up a joint in the parking lot wouldn't have a chance. Within thirty seconds, one grandmother would be hollering out the window at them. Within a minute, another would be calling the police, and ninety seconds later a third might be dragging each of those kids by the ear across the parking lot and delivering a strict lecture.

With the elders around, the environment is safer, and lessons on behavior and other important factors get passed down to the next generation. In such an environment, people take pride in improving their lives. Most of our government policies, however, tuck older folks away by themselves in a high-rise somewhere. They lose the benefit of youthful energy in their daily lives—and they aren't around to make sure the young people behave.

Communities thrive when they have a healthy mix of people of differing backgrounds, ages, and cultures, as cities worldwide are experiencing. We learn from one another. Compassion and empathy grow when people of means live next to people who sometimes struggle to pay their bills. Our differences should enrich us, not separate us. One new friendship at a time, we can help to pull down barriers that divide neighborhoods and nations.

That is why Grubb Properties has turned away from building purely luxury communities or exclusively affordable housing neighborhoods. We strive to include spaces for the working class with modest incomes alongside the many wealthy people that are still attracted by our thoughtful developments. We believe keeping apartment rents reasonable is the best way to encourage economic diversity.

We often kept diversity in mind while planning earlier developments, but we didn't loudly promote it out of concern that it would hurt the image of a project. In 2003, we built The Ratcliffe, Charlotte's first condominium high-rise with $1 million-plus condominiums. We included fourteen units that we sold for less than $200,000, something few folks knew about, including many who purchased condominiums in the building. That project attracted some of the most visible buyers in the market at the time: Bob Johnson, who had just bought Charlotte's NBA franchise after making a fortune creating Black Entertainment Television; Rodney Peete, the Charlotte Panthers quarterback, along with his wife, actress Holly Robinson, who was on the cover of TV Guide the month they bought the condominium; and arguably North Carolina's most famous active athlete at the time, NASCAR driver Jeff Gordon.

Our aim is to create vibrant communities of interesting people with a variety of pursuits in life. By getting to know one another, they can discover opportunities to advance that otherwise might never have come their way. More and more people today desire to live in diverse communities rather than in neighborhoods where everybody

seems the same as everyone else. Fortunately, the millennial generation appears to be resisting historical segregation patterns adopted by earlier generations, and neighborhood diversity is on the rise in America.

STANDING TOGETHER

In the years before the crash of the housing market and the economic crisis of 2008–09, the concept of character seemed to be disappearing from mortgage underwriting. It became a digital, computer-generated process that people learned to manipulate for profit. The excesses in the industry led to millions of people losing their homes.

The reaction to abuse tends to be an increase in regulation, which can be just as harmful as underregulation. Reasonable regulations can help the housing industry promote fairness and opportunity. The dream has slipped away from so many people, time and time again, and the government must be vigilant and take action when necessary. For example, the Fair Housing Act of 1968 and its update in 1988 prohibited discrimination based on race, color, religion, sex, disability, family status, and national origin. These are steps in the right direction, but we must continue to promote and preserve essential protections.

However, we should not overregulate to the point where even a hardworking person with a stable job can't get a home loan, as happened in the wake of the housing crash. The rules can go too far. The government clamps down, then eases up for fear of stifling prosperity. The pendulum swings, and it usually overswings. In one direction, you can get a mortgage if you're alive and breathing. In the other, you might try—but don't hold your breath. What we need is sensible balance and a renewed emphasis on character, for both borrower and lender. We must promote opportunity. Compassion should always play a role.

I think again of Ellison McIntosh and what he represented. He brought his loved ones along so that they could watch him pay off his mortgage and fulfill a family legacy. After years of diligence, he realized his dream. Were it not for my father's intervention, however, he might never have had the opportunity to take the first step.

My father put a premium on compassion, and at Grubb Properties we have worked hard to maintain that approach. It's what our nation and our communities need as we strive to resolve the housing crisis that we now face. It's high time that we invest in the future. Together we must provide good homes for the many people who need them, and we must put those homes in dynamic neighborhoods where they can better their lives. That is our huge challenge for many years to come—and a huge opportunity for those who will join in helping to solve it.