Neighborhood Stabilization: Challenges and Emerging Federal Responses

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National Foreclosure Trends
(March 2007 – February 2009)

U.S. Foreclosure Filings

Source: RealtyTrac

The Furman Center for Real Estate and Urban Policy
Problem of Concentrated Foreclosures

- Enormous scale of problem
  - Hundreds of thousands of REO properties
  - 1.7 million properties entered foreclosure in 2008 (MBA)
  - An estimated 8 million properties at risk of foreclosure in next four years.

- Foreclosures are highly concentrated
  - in particular states and metro areas (FCAAZNOMI)
  - in particular neighborhoods

- Foreclosures can generate negative externalities
  - Concentrated foreclosures are source of blight and diminish value of surrounding properties
Notices of Foreclosure
NYC, Q1-Q3 2008
1-4 Family Properties

Sources: NYC Dept. of City Planning (Bytes of the Big Apple) Public Data Corporation
NYC Dept. of Finance (Real Property Assessment Data)
Created by: Furman Center for Real Estate and Urban Policy
Federal Policy Responses

- Foreclosure prevention
  - Facilitating loan modifications
  - Encouraging refinancing
- Foreclosure mitigation
  - Communities
  - Renters
- Regulatory restructuring and reform
Federal Response: Neighborhood Stabilization Program (NSP)

- Program
  - Passed as part of HERA bill in July 2008
  - $3.9 billion to support acquisition, renovation, and disposition of abandoned and foreclosed properties in hard-hit neighborhoods
  - Funds distributed by formula, based on foreclosures

- Lessons Learned from NSP I:
  - Funds spread widely, with little effort at targeting
  - Some grantees have targeted areas with highest need, but resources are probably too limited to make difference
  - Few communities have leveraged private funds
  - Enormous capacity challenges on the ground
New, Improved Neighborhood Stabilization Program - NSPII

- $2 billion
- Included in the Economic Recovery Act, signed into law in February
- To be allocated through competitive grants
- NOFA released last week
- States, localities, and nonprofits all eligible to apply
Goals for NSP II Plans

- Short-Term
  - Stem decline in home values
  - Reduce the amount of vacant and abandoned property

- Long-Term
  - Increase sales of residential properties
  - Increase median market value of homes/land
Rating Factors in Depth

- **Major** (125 points together)
  - Targeting to high-foreclosure areas; understanding causes of foreclosures, and strength of local market
  - Soundness of approach/justification for mix of activities
  - Demonstrated capacity

- **Minor** (25 points together)
  - Leveraging other funds
  - Energy-efficiency of improvements and plans
  - Coordination with comprehensive regional plan
Matching Strategies to Community Needs: Three Types of Communities

- *Strong neighborhoods*: experienced minimal foreclosures
- *Vulnerable/transitional neighborhoods*: experienced concentrated foreclosures but market recovery plausible
- *Weak neighborhoods*: experienced concentrated foreclosures on top of underlying economic distress
What about weak markets?

- Provide block grant funding to state and local governments to support
  - Stepped-up code enforcement
  - Acquisition/Land banking
  - Demolition
  - Greening strategies

- Encourage passage of state and local laws that help localities address/mitigate negative spillover effects of foreclosures