



THE FORECLOSURE CRISIS: LESSONS FROM NSP RECIPIENTS

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FEDERAL RESERVE SYSTEM NSP RESEARCH EFFORT -- OVERVIEW

- In the Fall of 2009, researchers from the Federal Reserve Board, eleven of the Federal Reserve Banks, and Enterprise Community Partners conducted surveys of NSP grant recipients.
- 51 Direct Recipients, \$2 million to \$40 million, averaging \$10.6 million. [\$541 million total.]
- 39 Indirect Recipients, \$143,000 to \$9,000,000 with an average of \$2.7 million. [\$90 million total.]



Location of NSP Communities Surveyed

		Direct Recipient	Indirect Recipient	Total
1	AZ	2		2
2	CA	5		5
3	CO	1		1
4	DE		2	2
5	FL	16	4	20
6	GA	2		2
7	IL		1	1
8	IN		1	1
9	KY		2	2
10	LA	1	3	4
11	MA	1		1
12	MD	1		1
13	MO	3		3
14	MS	1	4	5
15	NC	1		1
16	NJ		1	1
17	NV	1		1
18	NY	1	3	4
19	OH	5	1	6
20	PA	2	3	5
21	SC		1	1
22	TN	2	12	14
23	TX	5		5
24	VA		1	1
25	WI	1		1
	Total	51	39	90



FEDERAL RESERVE SYSTEM NSP RESEARCH EFFORT - OVERVIEW

- Novel program.
- Comparison to CDBG funds which are usually smoothly distributed by entitlement communities and states.
- NSP encourages (demands) targeting.



FEDERAL RESERVE SYSTEM NSP RESEARCH EFFORT - OVERVIEW

- Still, a couple of million doesn't necessarily buy what you'd like it to.
- For example, consider the place where I live: Montgomery County, MD.
- The County received \$2.1 million in NSP allocation from HUD and an additional \$2.5 million from the state.
- Yet what does this \$4.5 million get? The County expects to be able to buy and rehab 15 to 20 foreclosed houses for lease to low-income county residents.
- In a county with nearly 1 million residents, we can't expect much relative impact from this rehab activity.



FEDERAL RESERVE SYSTEM NSP RESEARCH EFFORT – THE ISSUES

- For most communities, there are up to 3 likely drivers of the foreclosure crisis:
 - Unaffordable Subprime Loans
 - Poor Economic Conditions
 - Declining Home Values

	<u>Issues Driving the Foreclosure Crisis in Your Community</u>	<u>1st</u>	<u>2nd</u>	<u>3rd</u>	<u>Top 3</u>
1	Substantial decline in home values	23	16	12	51
2	High numbers of subprime borrowers in loans they can't afford	37	29	11	77
3	Job loss and general economic conditions	20	23	31	74
4	Oversupply of housing due to population decline	3	2	3	8
5	Oversupply of housing due to excessive recent construction	3	8	11	22
6	Mortgage Fraud	1	5	13	19
7	Other	1	2	4	7
	Total	88	85	85	

FEDERAL RESERVE SYSTEM NSP RESEARCH EFFORT – THE ISSUES

- “IO States” (for the Interest Only loans that so many borrowers took out) are Arizona, California, Nevada, and Florida.
- Here, “North Coast States” refers to Illinois, Indiana, Kentucky, Ohio, Pennsylvania, and Wisconsin.

Comparison by Selected Markets	% listing this as the Lead Issue		
	All	IO States	North Coast
<u>Issues Driving the Foreclosure Crisis in Your Community</u>			
1 Substantial decline in home values	27%	48%	18%
2 High numbers of subprime borrowers in unaffordable loans	43%	30%	47%
3 Job loss and general economic conditions	23%	4%	35%
4 Oversupply of housing due to population decline	3%	7%	0%
5 Oversupply of housing due to excessive recent construction	3%	4%	6%
6 Mortgage Fraud	1%	4%	0%
7 Other	1%	4%	0%



FEDERAL RESERVE SYSTEM NSP RESEARCH EFFORT – THE ISSUES

- The cause of the problem often impacts the solutions, e.g.
- Declining Home Prices →
 - Rehab, Financial Assistance
- Subprime Problems →
 - Rehab, Rental housing
- Poor Economy →
 - Financial assistance, Land banking
- Overbuilding →
 - Demolition, Land banking



FEDERAL RESERVE SYSTEM NSP RESEARCH EFFORT - TARGETING

- How did these communities target the areas where they intended to spend their grants?

Which of the following reasons were justification for the neighborhood(s) that you choose to target?

	Ct.	Pct.
1 The neighborhood(s) in the most dire situation(s)	53	60%
2 "Tipping point" neighborhood(s)	44	49%
3 Politics were involved	6	7%
4 Previously spent CDBG dollars there	20	22%
5 Had other (non-CDBG) programs there	23	26%
6 Because of future development plans	15	17%
7 To meet HUD's criteria	54	61%
Total Responding	89	



FEDERAL RESERVE SYSTEM NSP RESEARCH EFFORT - TARGETING

- How a community targets affects the programs it develops and also affects the likelihood of success:
- For many communities, choosing the most dire neighborhoods can be counter productive.
- Tipping point neighborhoods currently have the cachet of development professionals, but for NSP I, it may turn out that the most successful interventions will be in those neighborhoods with ongoing development plans or skilled development partners.
- Trying to do too much could also be a problem.



FEDERAL RESERVE SYSTEM NSP RESEARCH EFFORT – LOCAL CAPACITY

We Define "high capacity" as having expertise, capability, and resources to work on a substantial number of units.

Grant Size	Count of Awardees	Count of High Capacity Partners	Average Number of High Capacity Partners per Recipient
Under \$2 Million	17	40	2.4
\$2 to \$5 Million	18	40	2.2
\$5 to \$10 Million	21	78	3.7
\$10 to \$20 Million	8	34	4.3
Above \$20 Million	4	19	4.8
All Respondents	68	211	3.1



FEDERAL RESERVE SYSTEM NSP RESEARCH EFFORT - EXPERIENCE

So much activity is focused on Acquisition and Rehab and Financing Mechanisms. This, however, makes sense when looking at the prior experience of grantees or their partners.

Percent of Communities with Program or Partners in Place Before NSP

Eligible Purpose	Grant Size					All
	Under \$2 Mill.	\$2 to \$5 Mill.	\$5 to \$10 Mill.	\$10 to \$20 Mill.	\$20 Mill. plus	
Housing acquisition and Rehab	78%	77%	75%	89%	60%	77%
Financing mechanisms	71%	83%	91%	89%	100%	84%
Demolition	20%	30%	55%	88%	60%	44%
Land banking	7%	11%	29%	33%	0%	17%
Redevelopment	38%	38%	78%	75%	40%	55%



FEDERAL RESERVE SYSTEM NSP RESEARCH EFFORT – DOING TOO MUCH?

Two-thirds of the recipients of grants under \$10 million reported three or more eligible uses in their initial applications to HUD.

Number of Eligible Uses						
Grant Size	1	2	3	4	5	Total
\$2 to \$5 Million	0	5	2	6	1	14
\$5 to \$10 Million	1	6	4	4	3	18
\$10 to \$20 Million	1	2	2	4	1	10
Over \$20 Million	0	1	1	3	2	7
Total	2	14	9	17	7	49



FEDERAL RESERVE SYSTEM NSP RESEARCH EFFORT – HOUSING STOCK

The bulk of NSP implementation is centered around Single Family Housing although there are more total units covered in the large multi-family unit category.

Number of Grantees Anticipating Involvement in Each Eligible Use, by Type of Housing Stock

Eligible Use	Number Responding	None	Single Family	2 to 4 units	5 to 9 units	10 or Larger	% Doing Nothing
Acquisition and Rehab	79	6	62	26	14	22	8%
Financing Mechanisms	68	10	54	17	6	6	15%
Demolition	63	24	35	11	8	6	38%
Land Banking	53	39	12	6	5	2	74%
Redevelopment	61	20	33	13	9	11	33%



FEDERAL RESERVE SYSTEM NSP RESEARCH EFFORT – A&R

- 38 (out of 49 communities) reported plans for acquiring and rehabbing just under 4,000 units of housing.
 - Half reported that their NSP A&R activities were completely new.
 - About one-quarter (9 of 39) reported that their NSP A&R efforts were part of ongoing activities and
 - another one-quarter (11 of 39) reported that their NSP A&R efforts had both new and continuing elements.
- 56% were planning to leverage NSP funds with dollars from other sources.
- Two-thirds expected their A&R activity to generate future revenue streams (such as through a revolving loan fund).
- Finally, 69% reported that they or their partners had a ready source of working capital to cover NSP A&R outlays before being reimbursed by HUD.



FEDERAL RESERVE SYSTEM NSP RESEARCH EFFORT – A&R

The following table details the A&R activities performed 5 to 7 months into the NSP contract. Activity in this eligible use is furthest along.

Acquisition and Rehab Activity After 5 to 7 months	Count	Pct.
Established processes and procedures	37	76%
Identified one or more properties	37	76%
Purchased one or more properties	26	53%
Contracted with partner(s)	31	63%
Currently rehabbing one or more properties	18	37%
Completed rehabbing one or more properties	10	20%
Marketed one or more properties	11	22%
Sold one or more properties	9	18%
Submitted some expenditures to HUD for reimbursement	17	35%
Reimbursed by HUD	12	24%



FEDERAL RESERVE SYSTEM NSP RESEARCH EFFORT – FIN. MECHANISMS

- Nineteen (out of 45 respondents) reported plans for financing mechanisms resulting in just under 1,677 units of housing.
- Only 2 of 19 respondents reported that their NSP FM activities were completely new.
 - About 40% (8 of 19) reported that their NSP FM efforts were part of ongoing activities and
 - another half (9 of 19) reported that their NSP FM efforts had both new and continuing elements.
- 63% were planning to leverage NSP funds with dollars from other sources.
- Two-fifth (8 of 19) expected their FM activity to generate future revenue streams (such as through a revolving loan fund).
- Finally, 53% reported that they or their partners had a ready source of working capital to cover NSP A&R outlays before being reimbursed by HUD.



FEDERAL RESERVE SYSTEM NSP RESEARCH EFFORT – FIN. MECHANISMS

The following table details the FM activities performed 5 to 7 months into the NSP contract.

30% (3 out of ten) report that without NSP funds, they would not have moved ahead with the specific A&R activities.

Financing Mechanisms Activity After 5 to 7 months	Count	Pct.
Established processes and procedures	17	38%
Conducted marketing efforts to inform households of the program	12	27%
Contracted with partner	10	22%
Provided assistance to one or more homebuyers	9	20%
Submitted some expenditures to HUD for reimbursement	6	13%
Received reimbursement from HUD	4	9%



FEDERAL RESERVE SYSTEM NSP RESEARCH EFFORT – DEMOLITION

- Twelve (out of 45) reported plans for demolition of 1,765 units of housing.
- Only 3 of 12 respondents reported that their NSP FM activities were completely new.
 - About 40% (5 of 12) reported that their NSP Demolition efforts were part of ongoing activities and
 - another third (4 of 12) reported that their NSP Demolition efforts had both new and continuing elements.
- Half were planning to leverage NSP funds with dollars from other sources.
- One-quarter (3 of 12) expected their Demolition activity to generate future revenue streams (such as through property sales).
- Finally, 50% reported that they or their partners had a ready source of working capital to cover NSP Demolition outlays before being reimbursed by HUD.



FEDERAL RESERVE SYSTEM NSP RESEARCH EFFORT – DEMOLITION

The following table details the Demolition activities performed 5 to 7 months into the NSP contract.

17% report that without NSP funds, they would not have moved ahead with the specific Demolition activities.

Demolition Activity After 5 to 7 months	Count	Pct.
Established processes and procedures	12	27%
Identified one or more properties for demolition	11	24%
Contracted with a partner	7	16%
Navigated all/most legal requirements	7	16%
Purchased one or more properties for demolition	3	7%
Demolished one or more properties	6	13%
Submitted some expenditures to HUD for reimbursement	3	7%
Reimbursed by HUD	3	7%



FEDERAL RESERVE SYSTEM NSP RESEARCH EFFORT – LAND BANK

- Eleven (out of 45) reported plans for Land Banking 409 units of housing or lots.
- Six of 11 respondents reported that their NSP Land Bank activities were completely new.
 - About one-quarter (3 of 11) reported that their NSP Land Banking efforts were part of ongoing activities and
 - another 18% (2 of 11) reported that their NSP Land Bank efforts had both new and continuing elements.
- More than half were planning to leverage NSP funds with dollars from other sources.
- One-third (4 of 11) expected their Land Bank activity to generate future revenue streams (such as through property sales).
- Finally, 60% reported that they or their partners had a ready source of working capital to cover NSP Land Bank outlays before being reimbursed by HUD.



FEDERAL RESERVE SYSTEM NSP RESEARCH EFFORT – LAND BANK

The following table details the Land Banking activities performed 5 to 7 months into the NSP contract.

Three of ten reported that without NSP funds, they would not have moved ahead with the specific Demolition activities.

Land Bank Activity After 5 to 7 months	Count	Pct.
Established processes and procedures	10	22%
Contracted with a partner	4	9%
Navigated all/most legal requirements	5	11%
Identified one or more properties for land banking	6	13%
Purchased one or more properties for land banking	3	7%
Submitted some expenditures to HUD for reimbursement	0	0%
Reimbursed by HUD	0	0%



FEDERAL RESERVE SYSTEM NSP RESEARCH EFFORT – REDEVELOPMENT

- Seventeen (out of 45) reported plans for Redevelopment of 853 units of housing.
- Five of 21 respondents reported that their NSP Redevelopment activities were completely new.
 - About 40% (8 of 21) reported that their NSP Land Banking efforts were part of ongoing activities and
 - another 40% (8 of 21) reported that their NSP Land Bank efforts had both new and continuing elements.
- More than half (12 of 21) were planning to leverage NSP funds with dollars from other sources.
- One-third (7 of 21) expected their Redevelopment activity to generate future revenue streams (such as through property sales).
- Finally, 57% reported that they or their partners had a ready source of working capital to cover NSP Redevelopment outlays before being reimbursed by HUD.



FEDERAL RESERVE SYSTEM NSP RESEARCH EFFORT – REDEVELOPMENT

The following table details the Redevelopment activities performed 5 to 7 months into the NSP contract.

Only two of twenty reported that without NSP funds, they would have moved ahead with the specific Redevelopment activities.

Redevelopment Activity After 5 to 7 months	Count	Pct.
Developed a redevelopment strategy	17	38%
Selected one or more partners	16	36%
Navigated all/most legal requirements	12	27%
Identified one or more properties	16	36%
Purchased one or more properties	7	16%
Started redevelopment on the ground	6	13%
Submitted some expenditures to HUD for reimbursement	3	7%
Completed redevelopment of at least one property	0	0%
Reimbursed by HUD	1	2%



FEDERAL RESERVE SYSTEM NSP RESEARCH EFFORT – THE FUTURE

- Three-quarters of all have respondents report having a strategy to continue neighborhood stabilization efforts after NSP ends.
- About 60% plan on performing an evaluation of their NSP program.
 - Yet 13% are not planning any program evaluation and
 - 28% are not yet sure about doing an evaluation.



FEDERAL RESERVE SYSTEM NSP RESEARCH EFFORT – WRAP UP

- We're just learning about implementation efforts.
- Based on our sample we are looking at 30,000 to 50,000 strategically-placed, affordable units being created and/or fixed up and put on the market by cities and counties and a similar number by states through NSP I.
- In less than one year from now, we'll be able to see which plans were successfully implemented.
- And a few years after that, we may be able to determine which efforts had the greatest impact.



FINAL POINTS ON NSP

- It's real money.
- It's enough like CDBG that communities have a sense of how to make it work (and can still adapt existing program).
- It requires targeting which keeps resources from getting diluted.
- It's sustainable. Programs can be set up to allow funds to flow back to the community.
- It extends HUD's usual LMI focus to Middle Income (which can improve the economic fundamentals of many projects).
- It causes to be brought together a newer and broader network of community development service providers.

