TARGETING FEDERAL AID TO NEIGHBORHOODS DISTRESSED BY THE SUBPRIME MORTGAGE CRISIS

JOINT HEARING

BEFORE THE

SUBCOMMITTEE ON DOMESTIC POLICY

OF THE

COMMITTEE ON OVERSIGHT AND GOVERNMENT REFORM

AND THE

SUBCOMMITTEE ON HOUSING AND COMMUNITY OPPORTUNITY

OF THE

COMMITTEE ON FINANCIAL SERVICES

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TARGETING FEDERAL AID TO NEIGHBORHOODS DISTRESSED BY THE SUBPRIME MORTGAGE CRISIS

THURSDAY, MAY 22, 2008

HOUSE OF REPRESENTATIVES, SUBCOMMITTEE ON DOMESTIC POLICY, COMMITTEE ON OVERSIGHT AND GOVERNMENT REFORM, JOINT WITH THE SUBCOMMITTEE ON HOUSING AND COMMUNITY OPPORTUNITY, COMMITTEE ON FINANCIAL SERVICES,

Washington, DC.

The subcommittees met, pursuant to notice, at 2:15 p.m., in room 2154, Rayburn House Office Building, Hon. Dennis J. Kucinich (chairman of the Subcommittee on Domestic Policy) presiding.

Present from the Subcommittee on Domestic Policy: Representatives Kucinich and Issa.

Present from the Subcommittee on Housing and Community Development: Representative Waters, Lynch, Green, and Cleaver.

Also present: Representative Turner.

Staff present from the Subcommittee on Domestic Policy: Jaron R. Bourke, staff director; Jean Gosa, clerk; Charisma Williams, staff assistant; Leneal Scott, information systems manager; John Cuaderes and Larry Brady, minority senior investigators and policy advisors; and Benjamin Chance, minority professional staff member.

Mr. KUCINICH. In the interest of time and out of respect to for our panelists, we are going to start. The committee will come to order.

This is a joint hearing of the Domestic Policy Subcommittee of the Oversight and Government Reform Committee and the Housing and Community Opportunity Subcommittee of the Financial Services Committee. The title of today's hearing is, "Targeting Federal Aid to Neighborhoods Distressed by the Subprime Mortgage Crisis."

In addition to being joined by more of our colleagues, we are joined today by a distinguished group of panelists who will be able to provide this subcommittee with information that we think will be helpful in helping to shape Federal policy with respect to the effects of the subprime mortgage crisis.

Today's joint hearing concerns the availability of relevant data and how best to use those data to target Federal funds to neighborhoods distressed by the default of millions of subprime mortgages.

Now, without objection, the Chair and the ranking minority member will have 5 minutes to make opening statements, followed by opening statements not to exceed 3 minutes by any other Member who seeks recognition. And without objection, Members and witnesses may have 5 legislative days to submit a written statement or extraneous materials for the record.

Yesterday, the Domestic Policy Subcommittee heard testimony about a largely unrecognized, deeply suffering, and totally blameless victim of the subprime mortgage meltdown and foreclosure crisis: neighborhoods.

While awareness has grown that the default of millions of subprime loans has been a genuine tragedy for individual borrowers and a significant cost to lenders, we have learned that not all foreclosures pose a lethal threat to neighborhoods. Some foreclosed properties have new buyers, and when they do, the property tends to be maintained and the neighborhood preserved. But many foreclosures do not attract new owners. Instead, they become vacant and are often neglected by the lenders. When this happens, surrounding neighborhoods and local municipalities suffer significant consequences.

Those effects include falling property values of surrounding houses, loss of equity held by neighbors in those houses, loss of rental units for renters, loss of sales to neighborhood merchants, rise in crime, rise in costs for public services like municipal costs for police and fire, due to vandalism and arson in particular, increased demolition and building inspection costs, increased legal expenses, increased demand on city social services and a direct loss of property tax revenues.

The costs imposed on neighboring property owners, renters, taxpayers, by vacant and abandoned houses stemming from the collapse of millions of subprime mortgages will tally into the many billions of dollars. These significant costs are signs of failure in the market. Their long-term consequences will be severe in some regions; and without Federal intervention, the future for many individuals and neighborhoods is bleak.

This Congress has taken a significant step to help the neighbors deal with the problems they are now facing. Two weeks ago, the House passed H.R. 5818, the Neighborhood Stabilization Act of 2008. This bill creates a new Federal program to address the effects on neighborhoods caused by the foreclosure crisis. The bill authorizes $15 billion in grants and loans to be spent by localities on a variety of strategies, including vacant property acquisition, building rehabilitation and demolition. Nevertheless, the President has promised a veto. And as I said yesterday, I can't understand that, and I hope that today's and yesterday's hearings will do something to change his mind; for if we can't help the totally innocent—and the neighbors of vacant properties are innocent victims of the foreclosure crisis—then whom should we help?

Today this committee will be pleased to be joined by Chairwoman Maxine Waters who is the primary author of 5818. And when she arrives I will provide her with a suitable introduction.

In this joint hearing, we will be receiving testimony from experts on the question of how we can optimize the targeting of Federal aid to distressed neighborhoods to deal with the problem of rising rates of vacant and abandoned buildings that are caused by the subprime mortgage meltdown. This hearing will concern the various kinds of data that should be utilized to target new Federal funds, a discussion of the limitations of available data, opinion to which data are most appropriate, and how they may be best used, and thoughts about what an optimal formula might look like.

We have some of the Nation's leading analysts here to help our subcommittees and committees achieve the purposes of the Neighborhood Stabilization Act. They have all done a lot of work to prepare for this hearing and I want to say how grateful we are for your presence.

At this point, I will recognize the distinguished ranking member of our Subcommittee on Domestic Policy and Oversight, and that is the gentleman from California, Mr. Issa.

Thank you for the ongoing partnership that you've shown in this endeavor and I am grateful for your statement.

[The prepared statement of Hon. Dennis J. Kucinich follows:]

Opening Statement
Of
Dennis J. Kucinich, Chairman

At a Joint Hearing of the
Domestic Policy Subcommittee
Oversight and Government Reform Committee
And
Housing and Community Opportunity Subcommittee
Financial Services Committee

2154 Rayburn HOB
May 22, 2008
2:00 p.m.

"Targeting Federal Aid to Neighborhoods Distressed by the Subprime Mortgage Crisis"

Yesterday, the Domestic Policy Subcommittee heard testimony about a largely unrecognized, deeply suffering, and totally blameless victim of the subprime mortgage meltdown and foreclosure crisis: neighborhoods.

While awareness has grown that the default of millions of subprime loans has been a genuine tragedy for individual borrowers and a significant cost to lenders, we have learned that not all foreclosures pose a lethal threat to neighborhoods. Some foreclosed properties find new buyers. And when they do, the property tends to be maintained and the neighborhood preserved. But many foreclosures do not attract new owners. Instead, they become vacant and then are often neglected by the lenders. When this happens, surrounding neighborhoods and local municipalities suffer significant consequences.

Those effects include: falling property values of surrounding houses, loss of equity held by neighbors in those houses, loss of rental units for renters, loss of sales to neighborhood merchants, rise in crime, rise in municipal costs in police and fire (due to vandalism and arson), increased demolition and building inspection costs, increased legal expenses, increased demand on city social service programs, and a direct loss of property tax revenues.

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Today, I am pleased to be joined by Chairwoman Maxine Waters, the primary author of HR 5818. She knows that when Wall Street sneezes, America's neighborhoods get pneumonia, and she has used her position as Chairwoman of the Housing and Community Opportunity Subcommittee to come to the aid of the America's neighborhoods. She has made a significant contribution to the future of our communities in this bill, and I hope that it will soon be enacted into law.

In this joint hearing, we will be receiving testimony from experts on the question of how we can optimize the targeting of federal aid to distressed neighborhoods to deal with the problem of rising rates of vacant and abandoned buildings that are caused by the subprime mortgage meltdown.

This hearing will concern the various kinds of data that could be utilized to target new federal funds, a discussion of the limitations of available data, opinion as to which data are most appropriate and how they may be best used, and thoughts about what an optimal formula might look like.

We have some of the nation's leading analysts to help our committees achieve the purposes of the Neighborhood Stabilization Act. They have all done a lot of work to prepare for this hearing, and for that we are very grateful.

Mr. ISSA. Well, thank you, Mr. Chairman, and thank you for holding this important hearing. I might note that yesterday was the 1-year anniversary of the two of us being at a field hearing in Cleveland, OH at the Federal Building. Little did we know in May 2007 how the foreclosure problems, which were then an epidemic in Cleveland, would spread beyond Cleveland and the Midwest; that, in fact, it would lead to the collapse of some of our oldest and theoretically some of our most stable financial institutions.

Yesterday and today we have focused—and today we will continue to focus—on the dynamics of this crisis and how it affects neighborhoods, and suggestions on how we can help solve these. Furthermore, we will look at how each community is affected differently. And I think that is probably the most important point that all of us on the dais are going to want to learn more about, because Mr. Kucinich and I are both native Clevelanders, but I now represent San Diego, CA. We couldn't be more similar in our background and our families and the ethnic neighborhoods that we grew up in. We couldn't be more different in the cost of homes, the size of those mortgages, or the characteristics that have lead to foreclosure rates in Stockton, CA, in Temecula, CA—which I represent—and others, being just as catastrophic as they are in Cuyahoga County in Cleveland; Orange County, CA; Denver, CO. The list is endless and each of these areas has huge differences.

In short, the foreclosures which were a problem to a few cities have now become a problem to us all.

Mr. Chairman I applaud you on being one of the handful of Members who highlighted this problem early on when it was the problem of a community that had $100,000 or even $70,000 homes being foreclosed on; neighborhoods that had previously been on the mend becoming blighted. You were quick to recognize it.

In fairness to the rest of us, I believe we didn't heed your warning soon enough that this was going to spread throughout America.

Mr. Chairman, these 2 days of hearings, however, are as important in dealing with where we are today as they are in where we will be in the future. I believe that this crisis is a crisis that could repeat itself. The fundamental underpinnings of how we create financial instruments in America are in doubt.

Homes, which have always been about a substantial piece of capital investment normally, with the exception of special government-backed loans, these have been with substantial equity placed by the potential homeowner, and, when refinanced, they were refinanced only out of surplus equity.

Today we find that is not the case. But worse than that, the financial instruments on which these home loans were based in some cases were based on margins as small as 15 percent real underlying equity.

Mr. Chairman, I look forward to the testimony today and to our continuing to work, as we have been for more than a year on a bipartisan basis, on this important issue, too important to have partisan politics get in the way.

Finally, I also ask unanimous consent that my colleague, Mike Turner, the former mayor of Dayton, OH—and himself no stranger to the problems that foreclosures in a community can cause—would be allowed to sit on this committee today and ask questions, as appropriate.

Mr. KUCINICH. So ordered, without objection.

I want to say that one of the strengths of this subcommittee is that we have been able to have Mr. Issa as ranking member, because it is not just your experience in Cleveland, but the business background that you developed that then enables you to bring a perspective here that sometimes we don't have, and we need to hear it in order to come up with an approach that actually gets to the truth. So I appreciate your participation.

I have the honor, the pleasure, of making an introduction for the next speaker. Chairwoman Maxine Waters is the primary author of H.R. 5818. She knows that when Wall Street sneezes, America's neighborhoods get pneumonia. And Congresswoman Waters has used her position as chairwoman of the Housing and Community Opportunity Subcommittee to come to the aid of America's neighborhoods. Congresswoman Waters has made a significant contribution to the future of our communities with her work on the bill, and I hope that bill will soon be enacted into law.

In this joint hearing we are pleased to be joined by Congresswoman Waters, and the invitation is extended to other members of her subcommittee. I thank you so much for being here, Congresswoman Waters, and we look forward to your statement.

Ms. WATERS. Thank you so much, Mr. Chairman. I appreciate the opportunity that you have afforded me to jointly chair this hearing today. And I am sorry I was a little late. We were in a special task force of the Judiciary Committee where we have the executives of the largest oil companies in America testifying before us, and it took me a little bit longer to get here, but I am delighted to be here.

You have been holding these hearings for 2 days. This is the second day. And I wasn't able to attend yesterday's hearing, but I know that the witnesses painted a clear picture of the devastating impact of the foreclosure wave on neighborhoods, which the hearing title accurately identified as the blameless victims of this debacle. Notably, it was clearly established that no community or type of housing market is immune to the spillover effect of foreclosures.

Professor Been was able to quantify, in the context of New York City, the tremendous effect on neighboring home prices that a foreclosure has, as well as highlight another group of innocent victims of the foreclosure crisis, perhaps 15,000 renters facing eviction in the nearly 60 percent of 2007 New York City foreclosure filings that involved two to four-family or multifamily buildings.

Meanwhile Professor Betz illustrated the equally damaging impact of foreclosures in the very different housing market of Memphis, TN, where slowly but inexorably rising foreclosure rates have led to foreclosure filings on fully one-quarter of Memphis' single-family housing stock since the year 2000.

In short, yesterday's hearing reaffirmed, by putting into the record rigorous research and indisputable data, the clear need for Federal intervention to assist States and localities in addressing the neighborhood destabilization impacts of the foreclosure crisis.

On May 12th, of course, the House passed a bill I introduced that would provide such assistance, H.R. 5818, the Neighborhood Stabilization Act, which authorizes HUD to administer a $15 billion grant and loan program to State and local governments to purchase, rehabilitate, and resell or rent foreclosed homes. Through the amendment process, Chairman Kucinich was extraordinarily helpful in ensuring that States, counties, and cities receiving funding under H.R. 5818 will target the funds wisely, bringing to bear the policy knowledge he has gained from his work as Chair of the Domestic Policy Subcommittee and his hard-earned real-world experience as a Member representing the city of Cleveland.

Chairman Kucinich made sure that in the plans States cities and counties submit to HUD, priority is given to low- and moderate-income neighborhoods with concentrations of vacancies coupled with large increases in the rate of vacancy in the past 2 years and a higher incidence of subprime loans at risk of foreclosure.

I see today's joint hearing as the logical and necessary next step to the work Chairman Kucinich and I did together on H.R. 5818 as we, I hope, move forward quickly to conference on H.R. 5818 with the Senate counterpart that provides $4 billion in CDBG grants for a singular purpose. We need to continue to examine the best data and strategies available to States and localities to target any resources they receive from Congress in such a way that they have the maximum impact.

I look forward to hearing from today's witnesses about the tools at our disposal to do so. I thank you and I yield back.

Mr. KUCINICH. I thank the gentlelady.

One of the things that Members of Congress—one of the strengths Members bring is their experience. Prior to becoming a Member of Congress, Councilwoman Waters was well known in southern California as an activist and a public servant. And I know that you would agree that the lessons that were learned at that local level have really prepared us to be able to bring some—a new perspective that can help resolve this crisis.

This also relates to the next person we are about to introduce who is a Congressman from Ohio, the former mayor of the city of Dayton, who is quite familiar with these issues. And I want to thank Mr. Turner for his participation in this hearing and we ask that you proceed with your opening statement.

Mr. TURNER. Thank you, Mr. Chairman. I was able to participate yesterday in the first part of these joint hearings that you are having, and I want to thank you for your efforts in highlighting this issue.

As we got to hear yesterday, and as each of us know from our experience in working in urban issues, the foreclosure crisis for urban America is a crisis of abandoned structures and negative impacts to neighborhoods. We see that when a house goes into foreclosure, the spiral of a house on its way to abandonment, on its way to demolition and neglect, and the scar that it makes in the neighbor results in everyone in the neighborhood being subject to the catastrophic effects of that foreclosure; not just the family that is there, not just our financial markets and the loss of capital, but the increase in crime, the blighting influence, the reduced property values, and the difficulty of those in the neighborhood that see this happen. And when it happens in the magnitude we are seeing, then the spiral impact on neighborhoods is extraordinary.

The measures that Congress recently has taken in looking to try to help families that are entering the foreclosure process and to help neighborhoods and communities to respond to the scars of this foreclosure are going to be very important.

I appreciate your work on this. Cleveland and Dayton are not different in what their experience has been, and I am very appreciative that we are moving into the issue of looking at the problem, but how do we find solutions and how do we look at how do we aid communities, how do we look at how do we aid families. And that is why I appreciate this hearing, because we are going to go into the steps of hearing ways in which we might be able to tailor responses to areas to effectively address their needs.

So, Mr. Chairman, I want to thank you and I look forward on the testimony.

Mr. KUCINICH. I thank the gentleman. We are pleased to be joined by a member of the Subcommittee on Housing and Community Opportunity, Congressman Al Green from Texas.

He brings an important perspective because he represents the Houston area, and we are grateful for your presence and you may proceed with your opening statement.

Mr. GREEN. Thank you, Mr. Chairman. I also thank your ranking member for his bipartisan support on these efforts. I thank my chairman, Congresswoman Maxine Waters, for her stellar efforts to help us with the concerns that have been raised in this crisis that we are confronting.

It is my opinion that we are confronting social issues as a result, economic issues as a result of the crisis. But also there are quality-of-life issues to be contended with because we sleep in houses and live in neighborhoods. Neighborhoods are being impacted by what we are doing. Parks will be impacted. The quality of life in and around your home may very well be impacted.

And we should not allow ourselves to believe that there are subprime neighborhoods, because we have subprime loans in prime neighborhoods. And all neighborhoods could very well be at risk because the housing market is very much akin to a giant condo. And in this giant condo, we all have a stake. And if something happens to one unit, it impacts the maintenance fees for everyone. And maintenance fees are, of course, taxes. Maintenance fees are, of course, services that are rendered pursuant to trying to maintain this giant condo.

So I think we have to see this as something that all of us should be concerned with and all of us should try to do what we can to make a difference.

With reference to H.R. 5818, it is a great piece of legislation that the chairlady has presented. It provides $7.5 billion in loans, $7.5 billion in grants. These moneys will be utilized to take the properties that people are walking away from and put them back into the marketplace, and to help some persons, who may very well not have the opportunity to own a home, acquire a piece of property. So it has a multifold purpose.

And I am honored to be supportive of my Congresswoman, the chairlady of the Housing Subcommittee, and I think she has a great piece of legislation.

And I yield back the balance of my time.

Mr. KUCINICH. I thank the gentleman from Texas.

If there are no additional opening statements from Members, the subcommittee will now receive testimony from the witnesses before us today.

I would like to start by introducing our witnesses. From my left to right, Mr. Frank Alexander. Welcome.

Mr. Alexander is a professor at Emory University School of Law and founding director of the Center for the Study of Law and Religion. He is also the director of the project of affordable housing and community development. His work focuses on affordable housing, urban redevelopment, and State and local government. Mr. Alexander has published numerous articles in his area of specialty and has received more than 20 awards for his teaching and public service.

Next we will hear from Todd Richardson. Mr. Richardson, welcome.

Mr. Richardson is the Director of the Program Evaluation Division of the Office of Policy Development and Research, U.S. Department of Housing and Urban Development. The Program Evaluation Division conducts research, evaluations and demonstrations across a wide range of topics. It carries out most of the Department's research efforts related to homelessness, assisted housing that includes section 8 and public housing, fair housing and equal opportunity, crime, community economic development empowerment zones, housing rehabilitation, home ownership, housing for the elderly. You cover a broad area. We are glad that you are here.

Next is Mr. G. Thomas Kinglsey. Welcome.

Mr. Kingsley is senior researcher in housing and urban policy and governance issues at the Urban Institute. He is the author of numerous publications in these fields. He currently directs the National Neighborhood Indicators Partnership, an initiative to further the development of advanced data systems for policy analysis and community building in U.S. cities.

Finally we will hear from Mr. Christopher Walker. Thank you for being here, Mr. Walker. Welcome.

Mr. Walker is the director of research for the Local Initiatives Support Corporation. He is responsible for assembling, conducting, sponsoring and disseminating research on community development's contributions to the well-being of individuals, families and communities.

He also supports the research activities of the 33 LISC field offices throughout the United States. Currently Mr. Walker is working on the value of low-income housing tax credits to neighborhood stabilization and new ways to measure the market potential of low-income urban neighborhoods.

Now, gentlemen, it is the policy of the Committee on Oversight and Government Reform to swear in all witnesses before they testify. I would ask that each of you rise and raise your right hands.

[Witnesses sworn.]

Mr. KUCINICH. Let the record reflect that each of the witnesses has answered in the affirmative.

I would ask that each of the witnesses now give a brief summary of your testimony. Keep in mind that we ask that the summary be kept to 5 minutes in duration. Your complete written statement will be included in the hearing record. Members have access to these and they become part of our permanent archives. They are very important.

Mr. Alexander, you are going to be our first witness and we ask that you proceed.

STATEMENTS OF FRANK S. ALEXANDER, PROFESSOR OF LAW, EMORY UNIVERSITY SCHOOL OF LAW; TODD M. RICHARDSON, DIRECTOR, PROGRAM EVALUATION DIVISION, OFFICE OF POLICY DEVELOPMENT AND RESEARCH, U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT; G. THOMAS KINGSLEY, SENIOR RESEARCHER, HOUSING AND URBAN POLICY AND GOVERNANCE ISSUES, THE URBAN INSTITUTE; AND CHRISTOPHER WALKER, LOCAL INITIATIVES SUPPORT CORP.

STATEMENT OF FRANK S. ALEXANDER

Mr. ALEXANDER. Thank you, very much. Chairman Kucinich, Chairwoman Waters, members of the committees, my name is Frank Alexander and I am delighted and honored to be here today.

What I would like to do first is express my deep appreciation for your leadership on H.R. 5818. The Congress has undertaken in recent months several significant steps to deal with our housing crisis. But 5818 addresses something quite different from the basic housing stimulus package. Most of the housing stimulus package now under consideration in the Senate is oriented toward foreclosure prevention, appropriately so, to avoid foreclosure whenever possible.

One of the two things that makes 5818 different is that it is not focused on foreclosure prevention. It is focused on real estate post-foreclosure. In focusing on this inventory, this dramatic rise in all of our neighborhoods, it is also then focusing on the rest of us who bear the burdens of this property. Whereas many people may debate the moral hazards embedded in the housing stimulus package, those moral hazards are not present in 5818. We, the neighbors, the communities, the cities, the counties, are the victims of this large increase in foreclosed, vacant, and abandoned housing.

Yesterday's testimony focused on the costs to local governments, the cost to the neighborhoods of these properties. One of your witnesses yesterday was Alan Mallach. In another context, he testified that vacant property is not a victimless crime. And that is the basic thrust of 5818.

We heard yesterday that vacant and abandoned properties increased property deterioration, resulting in reduced property values, reduced property tax revenues, higher police and fire costs. As Representative Green alluded to, vacant, abandoned properties also destroy the fabric of neighborhoods, they destroy the community.

The very thrust of 5818 is to acknowledge for the first time in this country the huge problem being imposed on our cities and our communities by the foreclosure crisis. The debate for all of us is not the question of the predatory loan or how to avoid the foreclosure. Those are relevant to the stimulus package.

The question before us now is how to save our neighborhoods from these foreclosures.

H.R. 5818 allocates $15 billion. It does so using primarily three variables. The first variable is the relative percentage of foreclosures nationwide over the past 12 months. The second variable for allocating the formula is a relative percentage of delinquencies on subprime mortgages. And then there is a third subvariable: adjusting for median sales price differences across the States.

While I fully support 5818, what it is designed to accomplish—and I certainly hope it passes. I would like to recommend in response to Representative Waters' intimation that there will be continued discussions about this, the possibility of further refining the allocation formulas to target them most effectively.

First and foremost, I am concerned that the allocation of the $15 billion does not go to the areas of greatest need. It allocates the money according to foreclosures, not to where the foreclosures are occurring in a concentrated fashion.

I recommend the addition of a variable for allocating the money which would be based upon high concentration of foreclosures. This can be done by Census tract, perhaps by either by 5-digit or 9-digit zip code. An individual foreclosed home may not pose a great deal of burden; multiple foreclosures create the problems exponentially.

The second modification I would recommend is the priority of uses of the money. Under the current bill, the money can be used to acquire qualified foreclosed housing, but that could include occupied housing. For the most part, occupied housing does not impose the external cost.

The final change I would recommend is that the grant funds be available for acquisition of the real estate, not just the loan funds. I do hope that 5818 becomes the hallmark of legislation, not for foreclosure prevention, but for saving our cities from the burdens of this foreclosure crisis. Thank you very much.

Mr. KUCINICH. Thank you, very much Mr. Alexander.

[The prepared statement of Mr. Alexander follows:]

Testimony of

Frank S. Alexander*
Professor of Law
Emory University School of law

Before the Subcommittee on Domestic Policy of the House Committee on Oversight and Government Reform

Hearing on Targeting Federal Aid to Neighborhoods Distressed by the Subprime Mortgage Crisis

Thursday, May 22, 2008

Chairman Kucinich, Representative Issa, Members of the Subcommittee, it is my pleasure and honor to be invited to meet with you this afternoon to discuss the best strategies for providing assistance to local governments as they confront the consequences of the dramatic rise in residential mortgages over the past eighteen months. In the hearing held yesterday afternoon you heard testimony from some of the foremost experts in the country who are dealing with the adverse consequences of vacant and abandoned properties. Drawn from a broad range of public leadership, not-for-profit organizations, and private sector developers, these key individuals spoke succinctly and forcefully in one voice. Their message was clear: once foreclosures have occurred the costs of vacant houses are borne by the adjoining property owners, the neighbors down the street, the surrounding community, the schools and the local governments. As Alan Mallach observed, "vacant property is not a victimless crime".

The focus of today's hearing, and the related pending legislation, is not on the causes of the recent "crisis" in residential mortgage foreclosures, or on the important steps that need to be undertaken to avoid the recurrence of such problems in the future. Similarly, today's hearing does not focus on the plight of those individuals and families who are facing an impending foreclosure and the loss of their homes. These are each incredibly vital issues that deserve and require a strong federal response, and I am pleased that Congress is working hard to fashion appropriate legislation.[1]

Instead, these two days of hearings before the Domestic Policy Subcommittee focus on the key strategic decision to recognize the tremendous costs borne by neighborhoods, communities and cities as a result of large volumes of foreclosed homes becoming vacant and abandoned, and the methods of directing appropriate financial

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[1] American Housing Rescue and Foreclosure Prevention Act of 2008, H.R. 3221, as passed the House of Representatives May 8, 2008.

resources to mitigate these costs. The precise focus is the legislation passed by the House of Representatives two weeks ago, the Neighborhood Stabilization Act of 2008.[2] Because much work remains to be done by both the Senate and the House of Representatives before these bills become law, it is indeed appropriate to make sure that federal financial assistance is targeted in the most effective manner.

The Challenge of Vacant and Abandoned Properties

Not all foreclosed homes become vacant, and not all vacant properties become abandoned. In the presence of weak housing markets and depressed economic conditions, however, the rate at which homes sit vacant for many months post-foreclosure increases, and the higher the prevalence of vacancy the greater the incidence of abandonment. When real estate foreclosures are coupled with mortgage fraud, bankruptcy, and extended litigation, the time period for vacancy is only extended further. Crucial to the current crises is the fact that while a neighborhood may be able to remain relatively unaffected by a single residential foreclosure or a limited number of homes remaining on the "For Sale" market for several months, when the number of such home reaches a certain "tipping point" there is a rapid de-escalation in real estate values. The declining market creates a downward spiral as fewer investors can purchase or are willing to purchase in neighborhoods perceived as weak, existing homeowners can no longer refinance as their equity positions evaporate, and vacant properties not only lack all routine maintenance but become easy targets of vandalism and crime.

Vacant and abandoned properties quickly become liabilities to the surrounding community. When owners chose to ignore their responsibilities, the costs of these properties are imposed on everyone else. The external costs of vacant and abandoned properties occur across a number of categories:[3]

- Declining property values of adjacent properties
- Declining property tax revenues from nonpayment of taxes
- Declining property tax revenues from declining property values of adjacent properties
- Increased costs of police and public safety surveillance and responses
- Increased incidence of arson and fire prevention
- Increased costs of local government code enforcement activities
- Increased costs of judicial actions

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[2] Neighborhood Stabilization Act of 2008, H.R. 5818, as passed the House of Representatives on May 8, 2008.

[3] William C. Apgar & Mark Duda, COLLATERAL DAMAGE: THE MUNICIPAL IMPACT OF TODAY'S MORTGAGE FORECLOSURE BOOM (Homeownership Preservation Foundation, May 11, 2005).

In additional to these objective and empirical costs, vacant and abandoned properties result in a broad range of intangible costs to the community:

- Decline in neighborhood confidence and social cohesion
- Instability in school age populations and weakening of public school resources
- Loss of incentives to invest and maintain existing occupied properties
- Fear of social engagement

Over the past decade the National Vacant Properties Campaign of Smart Growth America[4] has focused on a broad range of strategies to address these external costs imposed on the larger community by the present of vacant and abandoned properties. With technical assistance of the Campaign, new local ordinances have been adopted in Indianapolis, Little Rock, Flint, Baltimore, Atlanta, Buffalo, Columbus, Cleveland, New Orleans and a host of other cities. These strategies include reform of property tax foreclosure laws,[5] creation of vacant properties registration ordinances, and enhanced procedures for code enforcement and receivership actions. All of these strategies share a common conviction that vacant and abandoned properties are liabilities which could and should become productive assets for the community at large.[6]

One of the strategic options which has been most successful in addressing large concentrated volumes of vacant and abandoned properties is the creation of land bank authorities.[7] Land banking is a recent concept in historical terms. First proposed as a new form of urban land planning in the 1960s, it began to take root in the experience of a handful of metropolitan communities in the last twenty years. As with most new approaches to land use and land planning, some of these recent efforts have been more successful than others, but they all share a common characteristic: the possibility of a new approach for federal, state and local policies in addressing market inefficiencies and building inclusive and sustainable communities for the future.

Land banks as originally proposed were intended to be public entities that would engage in early and significant land acquisition in anticipation of urban growth and urban and suburban sprawl. Conceived of as a flexible tool to mitigate the static nature of exclusionary zoning and to provide for an inventory of land to meet future strategic public needs, the early proposals for a federal state partnership did not move forward.

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[4] www.vacantproperties.org.

[5] See, e.g., Ga. Code Ann. § 48-4-75 et. seq.; Mich. Con. L. Ann. 211.78 et. seq. (1999 Public Act 123).

[6] Frank S. Alexander, RENEWING PUBLIC ASSETS FOR COMMUNITY DEVELOPMENT (Local Initiatives Support Corporation, 2000).

[7] Frank S. Alexander, LAND BANK AUTHORITIES: A GUIDE FOR THE CREATION AND OPERATION OF LOCAL LAND BANK (2005). Frank S. Alexander, *Land Bank Strategies for Renewing Urban Land*, 14 J. Aff. Housing 140 (2005).

Instead, during the last quarter of the twentieth century five metropolitan areas – St. Louis, Cleveland, Louisville, Atlanta and Flint – moved forward with the creation of their own land banks. These five land banks (and now another dozen smaller and newer land banks) share a common dominant focus on the acquisition and conversion of abandoned tax delinquent properties into new productive use. Each of these five land banks has also been able to learn from, and build upon, the experiences of its predecessors with the result that each land bank has become successively broader, stronger, and more productive.[8]

As land banks continue to evolve as flexible intergovernmental public authorities they are today the best potential models for addressing the sudden increase in the number of vacant and abandoned properties resulting from the mortgage foreclosure crisis. Land banks can reclaim the original vision as tools of urban planning; they can become managers of market distortions which create sudden excess supply of properties; they can serve as true "banks" is moderating real estate liquidity and capitalization.

The Current Federal Legislative Initiative – H.R. 5818

The primary thrust of the proposed legislation, the Neighborhood Stabilization Act of 2008, is directed precisely towards the problems imposed on our communities by vacant and abandoned properties. This bill specifically identifies its purpose as to "preserve the equity and ensure the safety of the neighbors of homes made vacant by the predatory lending and foreclosure crises, [and] to prevent and reduce the incidence of such vacancies through various means, including purchasing and rehabilitating owner-vacated, foreclosed homes with the goal of stabilizing and occupying them as soon as possible."[9]

The Allocation Formula – Eligible Recipients and Funding

This legislation would authorize $7.5 billion in federal grants, and $7.5 billion in loans to achieve the goals of the legislation.[10] The funds would be made available to "qualified" states and local governments that submit a plan that is approved by the Secretary of Housing & Urban Development.[11] Cities that can qualify for mandatory allocations are those jurisdictions that among the nation's 100 largest cities or have a population of at least 50,000 and have a foreclosure rate in excess of 125 percent of the

[8] Nigel G. Griswold, *The Impacts of Tax-Foreclosed Properties and Land Bank Programs on Residential Housing Values in Flint, Michigan* (Masters Thesis, Michigan State University, 2006). http://www.aec.msu.edu/theses/fulltext/griswold_ms.pdf.

[9] Sec. 2(1), H.R. 5818 (EH).

[10] Sec. 14, H.R. 5818 (EH).

[11] Sec. 4, H.R. 5818 (EH).

national average.[12] Counties that are eligible for mandatory allocations are limited to the fifty most populous urban counties (exclusive of qualified cities).[13] The grant amounts may be utilized by the state or local government recipients, by any unit of local government or local government entity, or by a nonprofit organization.[14]

The legislation provides that the aggregate appropriation is to be divided among the states based upon their respective percentage of (i) the national foreclosures (during the prior four calendar quarters) of mortgages on single family housing and (ii) of subprime mortgages on single family housing that are over 90 days delinquent.[15] The state allocations are adjusted to reflect variations from the median price of single family housing.[16] The primary effect of this allocation is to provide greatest funding to those states with higher than average residential foreclosures during the past two years. Pass-through allocations must be made by the states to qualified cities and urban counties based upon their respective percentages of the state's foreclosures, also adjusted for variations in median home sale prices.[17]

The loans are to be made by a governmental entity with a three year term for homeownership transfers, and five years for rental housing.[18] All loans are interest free, non-amortizing, and non-recourse loans. The loan authority is subject to a 4 year sunset provision from the date of enactment.[19]

A feature of the pending legislation that is not found in any other federal legislation is a provision that requires that any transferee of qualified foreclosed housing must agree to repay to the federal government twenty percent of the increase in value of the property upon resale.[20]

The Allocation Formula – Priority of Uses

The dominant use of the loan funds authorized by the legislation is likely to be the acquisition of "Qualified Foreclosed Housing". Qualified Foreclosed Housing consists of single family or multifamily housing that is not presently occupied by an owner, that is

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[12] Section 13(8)(A), H.R. 5818 (EH). Presumably the reference to an "improved plan" on line 3, page 36 of this bill is an typographical error, and the text should read "approved plan".

[13] Sec. 13(10), H.R. 5818 (EH).

[14] Sec. 7, H.R. 5818 (EH).

[15] Sec. 5(d), H.R. 5818 (EH).

[16] Sec. 5(c), H.R. 5818 (EH).

[17] Sections 5(f), 5(g), H.R. 5818 (EH).

[18] Sec. 6(d), H.R. 5818 (EH).

[19] Sec. 6(g), H.R. 5818 (EH).

[20] Sec. 9, H.R. 5818 (EH). The appreciation recapture amount is fifty percent in the case of for-profit owners.

owned by an entity pursuant to a foreclosure, and that has a purchase price that does not exceed the lesser of 110 percent of the average sales price or the current fair market value.[21] Such Qualified Foreclosed Housing can be used either for homeownership transfers or the creation of rental housing.[22] Both loan funds and grant funds can be utilized for housing rehabilitation.[23]

The grant funds made available under this legislation are designed to cover operating and holding costs related to acquisition of qualified foreclosed properties, administration costs and planning costs.[24]

The legislation specifies that the first priority for the use of funds shall be for rehabilitating housing, and for providing housing to members of the Armed Forces, school teachers, and emergency responders.[25] The legislation also establishes a mandatory minimum that not less than fifty percent of all grant funds must be utilized to provide housing for families at or below fifty percent of area median income.[26] More generalized priorities are for the use of funding for the purchase or occupancy of properties that will facilitate the repayment of loans made under the Act,[27] for activities that serve the lowest income families for the longest period, and homeowners (who meet income requirements) whose mortgages has been foreclosed.[28]

The Allocation Formula – Priority of Target Areas

The plans that must be submitted to and approved by the Secretary must identify targeted geographic areas for use of these federal funds. Generally the highest priority geographic areas are to be low-income and moderate income neighborhoods with high concentrations of vacancies, according to census tracts, as measured by vacancy rate

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[21] Sec. 13(7), H.E. 5818 (EH).

[22] Sec. 8(a). Homeownership transfers are limited to families with incomes at or below 140 percent of area media income, and rental housing must be made available to families with incomes at or below 100 percent of area median income.

[23] Sections 8(a)(3), 8(b)(5), H.R. 5818 (EH).

[24] Sec. 8(b), H.R. 5818 (EH).

[25] Sec. 4(b)(8), H.R. 5818 (EH). The grammatical structure of this section creates an ambiguity as to whether "rehabilitating housing" is a separate priority, or whether it is a single priority of rehabilitating housing for the categories of military personnel and others.

[26] Sec. 8(d)(1), H.R. 5818 (EH). Of this fifty percent amount, at least fifty percent (or twenty five percent of the aggregate grant funds), must be targeted to families with incomes at or below thirty percent of area median income. Sec. 8(d)(2).

[27] Sec. 4(b)(3), H.R. 5818 (EH).

[28] Sec. 4(b)(9), H.R. 5818 (EH). A key element of this allocation formula is that it is based upon mortgages on single family housing, and not multifamily housing and excludes all non residential mortgage foreclosures. Multifamily housing (consisting of 64 or few units) can, however, qualified as "qualified foreclosed housing" for acquisition using grant funds. Sec. 13(7)(A)(ii).

increases over the past two years.[29] Priority is also to be given to the areas with the greatest needs, defined according to the greatest percentage of home foreclosures, highest percentage of homes financed by subprime mortgages over 90 days delinquent, or identified as likely to face a significant rise in the rate of home foreclosures.[30]

Points for Further Consideration

If this legislation is enacted by Congress and the funds appropriated, this federal action would be a significant and dramatic step towards achieving neighborhood stabilization in the face of the current mortgage foreclosure crisis. As the legislation continues to be debated and modified in the House of Representatives, or in the Senate, however, I encourage further review and consideration of some key points.

<u>The Allocation Formula – Eligible Recipients and Funding</u>. The federal financial assistance is distributed across the states based upon their respective percentage of national foreclosures over the past two years and 90 day delinquencies on subprime mortgages. No definition is provided (and it is not clear that discretion is left to the Secretary) with respect to what constitutes a "foreclosure". Many of the current statistics that are available count foreclosure filings (in judicial foreclosure states), or foreclosure advertisements (in non-judicial foreclosure states), but these numbers do not bear any given correlation to the number of foreclosures that actually result in a foreclosure sale or transfer of the property. A more accurate unit of measure, if it is available, would be the aggregate number of foreclosure sale transfers and deeds in lieu of foreclosure. Similarly, the legislation does not offer a definition of "subprime" for purposes of calculating the 90 day delinquencies or a method a integrating the two variables of foreclosures and delinquencies.

More significant is the fact that completed foreclosures do not, by themselves, necessarily correlate with destabilization of existing neighborhoods as a result of being vacant and abandoned properties. An increase in foreclosure rates does not have the adverse impact on communities and lead to neighborhood destabilization when the foreclosed properties are scattered and isolated. I recommend first that the allocation formula of the basic grants and loans to the states be based not just on the relative rates for residential foreclosures but also on the degree of concentration of such foreclosures within a single geographic area. For these purposes the concentration of the increased foreclosures within each census tract, or within each postal zip code (either 5 digit o 9 digit), would be a far more accurate indicator of the likelihood of significant external costs being imposed on neighborhoods, communities and cities. The aggregate grants can still be made to the states, but the state share would be based on a combination of (i) concentrated foreclosures and (ii) subprime delinquencies.

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[29] Sec. 4(b)(3), H.R. 5818 (EH).

[30] Sec. 4(b)(7), H.R. 5818 (EH).

The same concern applies to the mandatory allocation of funding to Qualified Metropolitan Cities and Qualified Urban Counties. At present their allocation is similarly based on relative foreclosure rates and subprime delinquencies.[31] I recommend that this allocation follow the same approach I recommend for the state allocation, that it be based on the (i) concentrated foreclosures and (ii) subprime delinquencies.

I also recommend that the foreclosure rates (or alternative the target area priority) be adjusted to focus on previously occupied single-family foreclosed properties. To include within the calculations partially built single family construction – particularly when it is in large scale subdivisions or condominium structures – distorts both the purpose and the effect of the legislation.

The Allocation Formula – Priority of Uses. The dominant use of this emergency federal funding will, quite appropriately, be used to acquire Qualified Foreclosed Housing and then make it available to targeted families either for homeownership or as rental property. The definition of Qualified Foreclosed Housing, however, should be modified when referring to single family housing to be limited to housing that has been vacant for at least sixty days. Single family housing which was foreclosed upon and which was occupied prior to foreclosure or which is occupied post-foreclosure and has not been vacant for any period of time carries little justification for federal or state intervention in this context.

The permitted uses of the federal funding should also be extended to include demolition and remediation costs when rehabilitation is not economically viable. In many neighborhoods with high rates of single family residential foreclosure the structures were already – or will quickly become – a net liability to the fair market value of the underlying property. In parallel fashion, the permitted use of the funds by local governments should include the aggregate cost of code enforcement activities and public safety activities at least insofar as they are attributable to Qualified Foreclosed Housing prior to the purchase of the housing by the local governments. The dual limit of the purchase price for Qualified Foreclosed Housing is tied, in part, to current fair market value but no definition is provided. I recommend that current fair market value be defined by appraised value established by an appraisal not older than 90 days based upon comparable sales not older than 180 days, and with a projected resale period of 90 days.

The geographic targeting of the funds to those jurisdictions with both a high concentration of vacancies and a high rate of increase in vacancies, by census tracts, is quite appropriate. If the funding is allocated to states and local governments based upon the relative concentration of foreclosures and subprime delinquency, and then further correlated with increases in concentrated vacancy rates, the maximum impact can be achieved.

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[31] Sections 5(f), (g), H.R. 5818 (EH).

Conclusion

The Neighborhood Stabilization Act of 2008 could be a critical step in providing core capital funding for local governments to use to mitigate the external costs created by vacant and abandoned properties. The thrust of the legislation is appropriately to address the properties left vacant as a result of the current mortgage foreclosure crisis and move those properties as quickly as possible into safe, decent and affordable housing. Getting the residential properties occupied – whether by new owners or by tenants – is the quickest and most efficient strategy to minimizing the adverse consequences to the entire community. In those jurisdictions that have already created a land bank authority, or could create one under existing state authority, the local governments are positioned to take immediate action that is consistent with the purposes of the Act.

Thank you for the honor of appearing before the Domestic Policy Subcommittee, and for all you are doing on behalf of this country.

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Mr. KUCINICH. Mr. Richardson, you may present.

STATEMENT OF TODD M. RICHARDSON

Mr. RICHARDSON. On behalf of HUD Deputy Secretary Roy Bernardi, thank you, Chairman Kucinich and Chairwoman Waters, for the invitation to appear at this joint hearing. I have worked on issues related to allocation formulas at HUD since the mid-1990's. My experience with research and development of allocation formulas identifies two key ingredients for a successful formula: clearly defined goals of the need that Congress intends to target and available data that is uniformly collected across all potential grantees.

While there are promising data sets that may be able to achieve the congressional goal of targeting neighborhoods with increasing vacancy and abandonment, further analysis of the data is required to ensure accuracy and targeting funds to all communities across the country. This is especially tricky when it comes to vacant and abandoned housing because there are many causes of vacancy, and in only certain conditions will that vacancy translate into a nuisance property or an abandoned property.

Combining information from several public data sets has the greatest potential for accurately targeting funds to areas with vacant and potentially abandoned properties. To illustrate this point, I would like to present the committee with a few maps that identify communities with some of the economic and structural risk factors that lead to vacancies and potential abandonment. I will follow this with a detailed discussion on how we can measure changes in vacancy rates at the neighborhood level.

One risk factor for vacancy is declining home price. Metropolitan statistical areas [MSAs], with falling home values means more property owners will have negative equity in their properties, thus increasing the risk of foreclosure. We can use data on house price changes in recent years from the OHFEO housing price index for metropolitan areas.

On this map all the MSAs in green have had a fall in value since 2005, but those with the darkest green have had the sharpest fall. California, Michigan, Florida, northern Ohio, Nevada, jump out on this map.

Now I want to point out that falling home values and foreclosures in themselves are only a measure of risk of vacancy; many foreclosed properties will never become vacant or will only briefly be vacant. The next map, please.

A second risk factor is local economics and population flows. Reduced employment or a decline in number of households occurring in an environment where it is difficult to sell a home increases the risk for housing vacancy and abandonment. The red and the orange on this map show data from the Bureau of Labor Statistics on counties with declining labor force participation between 2005 and 2007. Rural counties jump out on this map as a few urban areas currently in economic distress.

A third risk factor, which I don't have a map for here today, relates to characteristics of the housing stock. Examples might include low home values, very high fractions of single-family rental stock or existing high-vacancy rates. These are indicators of neighborhoods and communities with properties that tend to be at the tail end of the filtering process, putting them at greater risk for home abandonment.

Census 2000 and American Community Survey 2006 data can provide some of this information.

Next map, please. A fourth risk factor could be measured at the Census tract level for borrowers who have high-cost loans, are highly leveraged as measured by a high loan-to-income ratio. These households are at risk for foreclosure or abandoning their homes.

Home Mortgage Disclosure Act data from 2004 to 2006 can provide this information.

This map of Cleveland, for example, shows Census tracts where the percentage of loans are either high cost or highly leveraged. The darker areas have higher rates.

For communities or neighborhoods identified as having structural or economic conditions that might lead to long-term vacancy and abandonment, it is possible to track neighborhood change in vacancy rates using data provided to HUD by the U.S. Postal Service. The USPS provides these data to HUD every quarter at the block level, and HUD makes them available at Census track level publicly. The USPS data reflects addresses that have been vacant and not taking mail for at least 90 days.

While these data have anomalies, they have useful tools as well: this map of Cleveland here, for example, where the orange bands show neighborhoods which have had a 3 percentage point increase in their vacancy rates between December 2005 and March 2008. As you can see, many of these overlap where a high proportion of higher-risk loans were made.

Next map. In contrast, while Los Angeles shows some concentrations for high-risk loans, it does not also show a big jump in rate of vacancy.

Next map, please. Converting this neighborhood-level data into a community-level indicator, this just final map shows CDBG entitlement jurisdictions by the percent of Census tract within a jurisdiction that has increasing vacancy rates. Dark purple indicates a worsening problem. Not surprisingly, communities in central California, Nevada, southeast Michigan, northern Ohio, Indiana, and Florida jump out on this map as having neighbor concentrations of vacant housing.

In summation, our available public data can first identify the communities and neighborhoods that have the factors placing them at risk for vacancy and abandonment, and then target the neighborhoods actually experiencing increased rates of vacancy. Thank you, very much.

Mr. KUCINICH. Thank you.

[The prepared statement of Mr. Richardson follows:]

WRITTEN STATEMENT OF TODD RICHARDSON

Director, Program Evaluation Division
Office of Policy Development and Research
U.S. Department of Housing and Urban Development

Joint Hearing before the Subcommittee on Domestic Policy and the Subcommittee on Housing and Community Opportunity

United States House of Representatives

"Targeting Federal Aid to Neighborhoods Distressed by the Subprime Mortgage Crisis"

May 22, 2008

On behalf of U.S. Department of Housing and Urban Development (HUD) Deputy Secretary Roy Bernardi, thank you Chairman Kucinich and Chairwoman Waters for the invitation to appear at this joint hearing. I am Todd Richardson, Director of the Program Evaluation Division of the Office of Policy Development and Research at HUD.

My testimony focuses on allocation formulas, what data are available related to increasing rates of vacancy and abandonment, and the analysis HUD recommends pursuing in order to develop a thoughtful formula for targeting funds to neighborhoods.

I have worked on issues related to allocation formulas at HUD since the mid-1990s, including reports in 1995 and 2005 on how the Community Development Block Grant (CDBG) formula targets to community development need. My experience with research and development of allocation formulas identifies two key ingredients for a "successful" formula:

(1) Clearly defined goals of the need that Congress intends to target; and

(2) Available data that is uniformly collected across all potential grantees.

Careful analysis is required to ensure the available data match the goals which have been set by Congress. For this hearing you have identified a specific goal: targeting federal funds to neighborhoods most affected by rising rates of vacant and abandoned properties.

While there are promising data sets that may be able to achieve this Congressional goal, further analysis of the data is required to ensure accuracy in targeting funds to all communities across the country. As you know, the United States is a very diverse nation. Where one method is effective at targeting need in Cleveland, it might not be effective in Los Angeles.

In general, for allocation formulas HUD prefers to use data collected uniformly across the nation by a public agency. This is preferred because we can be more confident the formula will produce a fair allocation. Proprietary data is not preferred for three reasons:

(1) The firms that produce the data may have other customers whose agendas conflict with those Congress has given us;

(2) Those firms might set unreasonable terms and conditions for the use of the data; and

(3) The public could not review proprietary data and therefore HUD's allocations would not be transparent.

We might, however, compare the public data to privately-collected proprietary data to serve as a check on what the public data is showing. When all or most data sources point to the same answer, we have much greater confidence in the validity of our findings.

Combining information from several public data sets has the greatest potential for accurately targeting funds to areas with vacant and abandoned properties. The public data sets I know of that could be analyzed for these purposes are:

- United States Postal Service data on active and vacant addresses as provided to HUD every quarter at the block level and that HUD makes available publicly at the Census Tract level. These administrative data have some anomalies that we have not yet fully sorted out. Nonetheless, they are a rare data set that tells us what is going on in neighborhoods across the country in real time with very current information on the trend that is the subject of today's hearing: increasing vacancy rates.

- The Office of Federal Housing Enterprise Oversight (OFHEO) Housing Price Index for Metropolitan Areas. These data are also available quarterly. They are available at the Metropolitan Statistical Area (MSA) and non-metropolitan balance of state level. MSAs with falling home values means more property owners will have negative equity in their properties, thus increasing the risk of foreclosure.

- Bureau of Labor Statistics data at the county level on Labor Force Participation and Unemployment. These data are available monthly and represent good measures of economic decline. Job loss means both a loss of income and often a need to relocate. If this is occurring in an environment where it is difficult to sell a home, the risk for housing vacancy is increased.

- Home Mortgage Disclosure Act (HMDA) data from 2004 to 2006 on census tracts with high-cost loans and/or high loan-to-income ratios. Individuals who have high-cost loans or are highly leveraged as measured by a high loan-to-income ratio could easily become unable or unwilling to continue to pay the mortgage on a home, especially if mortgage payments rise above those for which borrowers were initially qualified, if values fall, or if there is an economic downturn.

- Census 2000 Census Tract level data on vacancy and home value and American Community Survey data on vacancy and home value at the city and county level from 2006. If home values are falling and/or vacancies are increasing at the city or county level, the neighborhood-level concentration of these problems is likely reflected by 2000 census tract concentrations of low house values and vacant units. There is a very good chance that homes in these neighborhoods are not only vacant, but also are being abandoned.

It is highly likely that a careful combination of the information in these data sets could achieve the Subcommittee's goal of developing a formula that targets neighborhoods with increasing numbers of vacant and abandoned homes.

An important step in developing the formula would be verifying the precision of the formula's targeting by testing it against other available data sets that might capture some portions of the vacancy problem. As noted above, it is preferable to have multiple sets of data lead to the same conclusion. For example, there are private data sets on foreclosures, lender-owned properties, and homes for sale. While these other data sets do not have full coverage for every community in the United States, nor do they represent all of the reasons a unit may become vacant, they represent some of the country and some of the reasons a unit may become vacant, and thus can be used as a check on the public data.

Those data sets include:

- The Mortgage Bankers Association (MBA) National Delinquency Survey, which provides information on approximately 80 percent of all loans being serviced and their delinquency rates by type. MBA collects this data from loan servicers and provides this information down to the state level every quarter. States with increasing delinquencies and foreclosures might be expected to also have increasing vacancy rates.

- Loan Performance (also known as True Standings) data on delinquent loans or loans in foreclosure (but with no information on foreclosure completions). Loan Performance has information from loan servicers on roughly 80 percent of active prime loans, but a smaller share (about 50 percent) of active subprime loans. These data are available at the MSA and zip code levels to identify foreclosure risks. Loan Performance also has compiled data from the private mortgage backed securities market that covers over 50 percent of outstanding subprime loans. The Loan Performance securities data does contain information on foreclosure completions.

- McDash Analytics, which has data on approximately 30 million of the 55 million active mortgages in the U.S., and has detailed information on loan characteristics at the MSA level, including default status and whether a loan is a Real Estate Owned (REO) property.

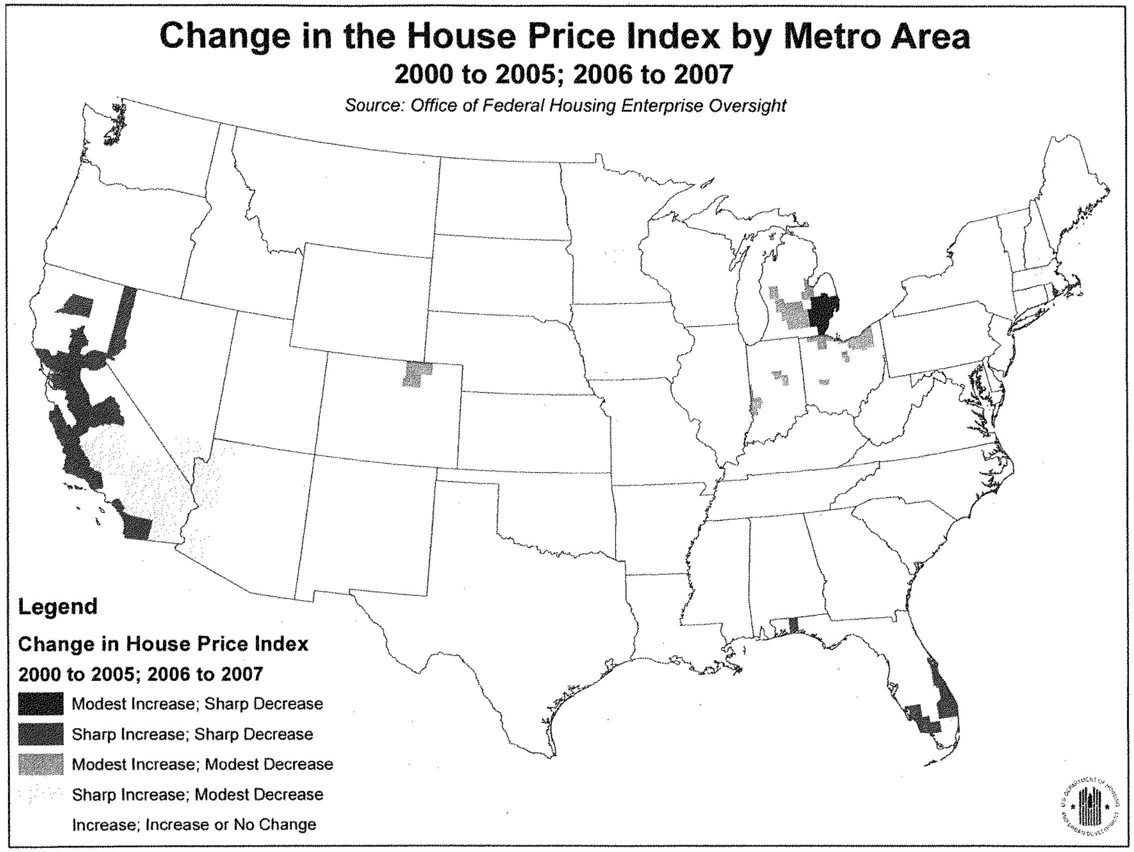
- Housing "agency" data from the Federal Housing Administration, Fannie Mae, and Freddie Mac on the number of REO properties – that is, houses which have gone through foreclosure, or other liquidation methods (such as deed-in-lieu of foreclosure), and are owned by these agencies. Fannie Mae and Freddie Mac may not wish to disclose detailed REO data because they may consider it proprietary and confidential. However, the combined agency data, if made available by the agencies, would contain REO counts for a large portion of the mortgage market. It is possible that some measure of the "time in REO" (time it takes to sell these properties) could be estimated to identify areas where foreclosed properties are sitting vacant for long periods of time.

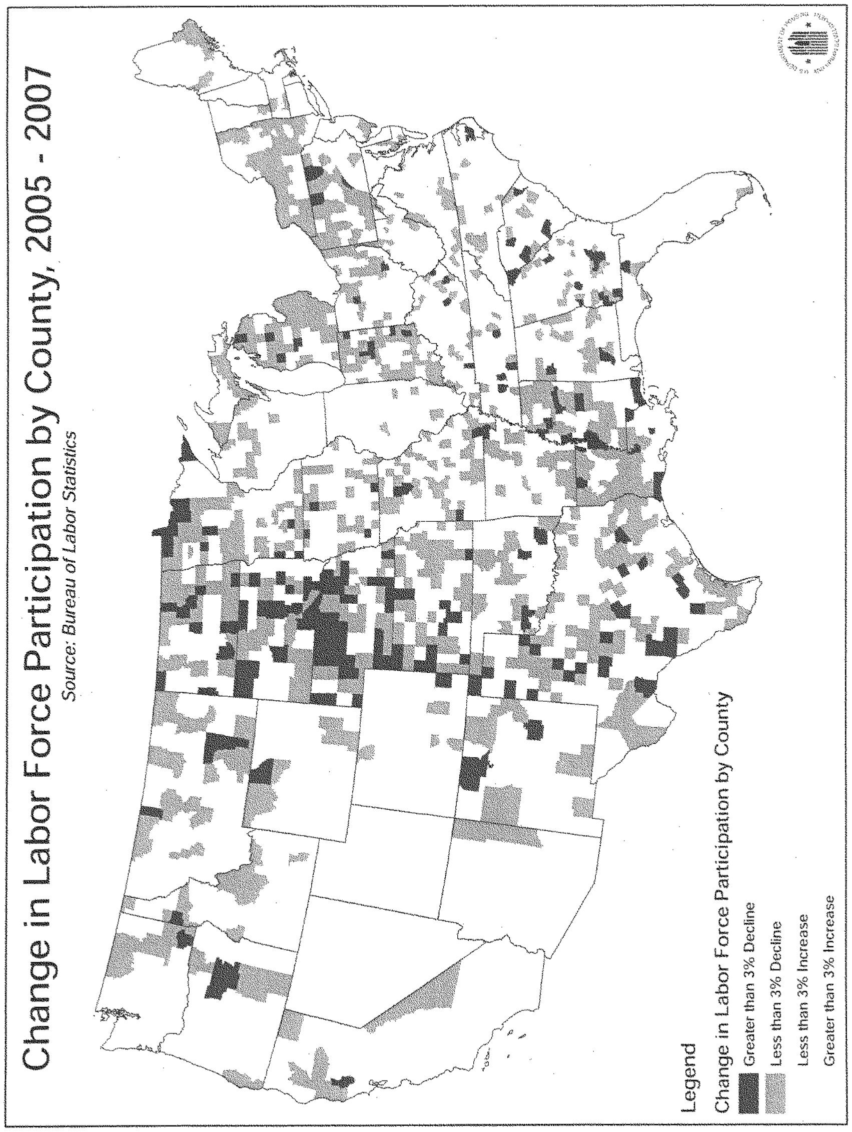
- The National Association of Realtors has data on local housing market conditions it may be willing to share.

- The Case-Shiller home price index for 20 metropolitan areas. These data can be used to compare against the OFHEO Home Price Index noted earlier.

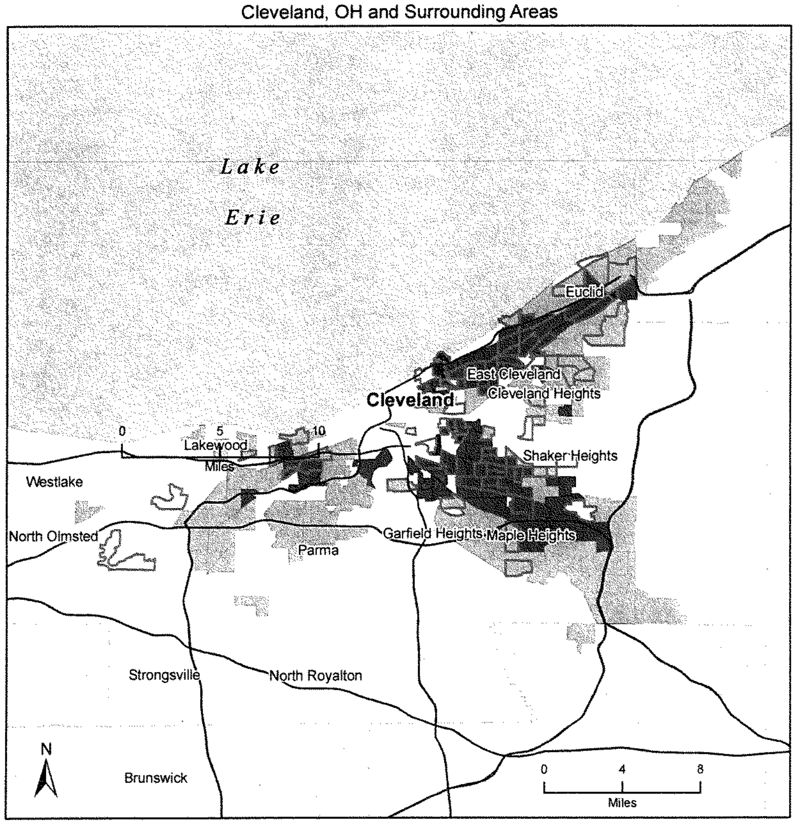
In summation, our available public data are the best data to be used for an allocation formula, but careful analysis needs to be done before a specific formula is established.

Thank you for the opportunity to appear before the Subcommittees today. The Department looks forward to working with Congress on this issue.


Change in the House Price Index by Metro Area
2000 to 2005; 2006 to 2007
Source: Office of Federal Housing Enterprise Oversight
Legend
Change in House Price Index
2000 to 2005; 2006 to 2007
Modest Increase; Sharp Decrease
Sharp Increase; Sharp Decrease
Modest Increase; Modest Decrease
Sharp Increase; Modest Decrease
Increase; Increase or No Change


Change in Labor Force Participation by County, 2005 - 2007
Source: Bureau of Labor Statistics
Legend
Change in Labor Force Participation by County
Greater than 3% Decline
Less than 3% Decline
Less than 3% Increase
Greater than 3% Increase

High Risk Loans with Change in Vacancy Rate
through March 2008 by Tract
Cleveland, OH and Surrounding Areas



Legend

Percent of High Risk Loans by Census Tract

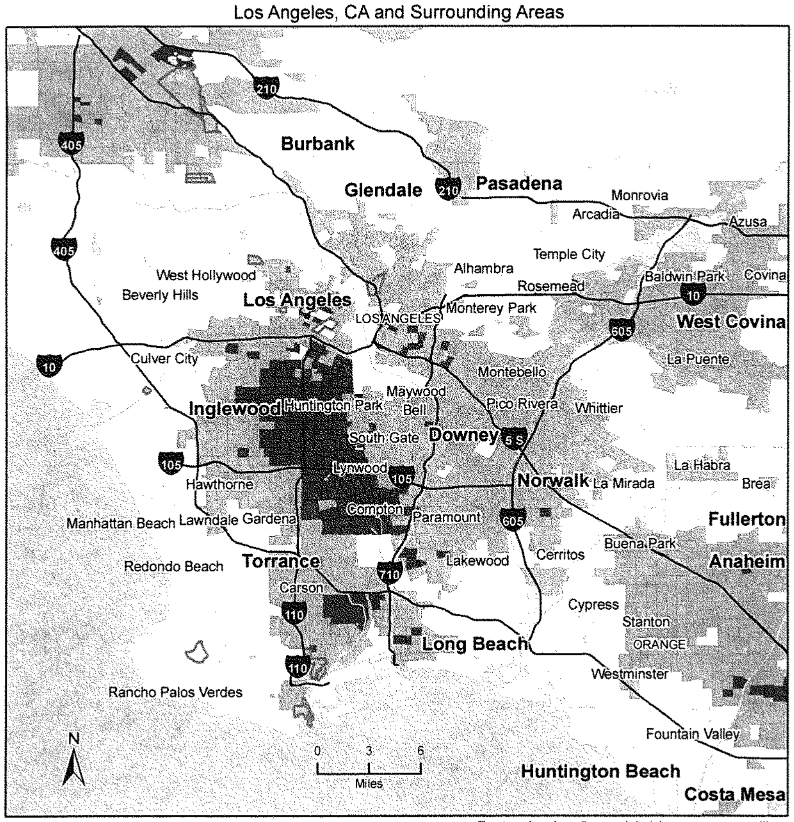
- 0.42 - 25.00
- 25.01 - 50.00
- 50.01 - 75.00
- 75.01 and higher
- Vacancy Rate Increasing by 3.1% or more

Tracts colored medium and dark brown are areas with a significant increase of high risk loans, defined as where the rate spread is 3 percentage points above the Treasury security of comparable maturity and where loan-to-income ratios equal to or above 4%. Tracts colored white were excluded due to a statistically small number of home loans. Source: Home Mortgage Disclosure Act (HMDA) data for 2004 through 2006.

Tracts outlined with orange are areas with a statistically significant (1 standard deviation above mean) increase in vacancy rates. Vacancy rates for tracts with total addresses below 300 were not shown. Tracts with vacancy rates less than 5% for March 2008 were also not shown. Vacancy rates are determined by the difference between December 2005 and March 2008 USPS address service data.

High Risk Loans with Change in Vacancy Rate through March 2008 by Tract

Los Angeles, CA and Surrounding Areas



Legend

Percent of High Risk Loans by Census Tract

- 0.42 - 25.00
- 25.01 - 50.00
- 50.01 - 75.00
- 75.01 and higher
- Vacancy Rate Increasing by 3.1% or more

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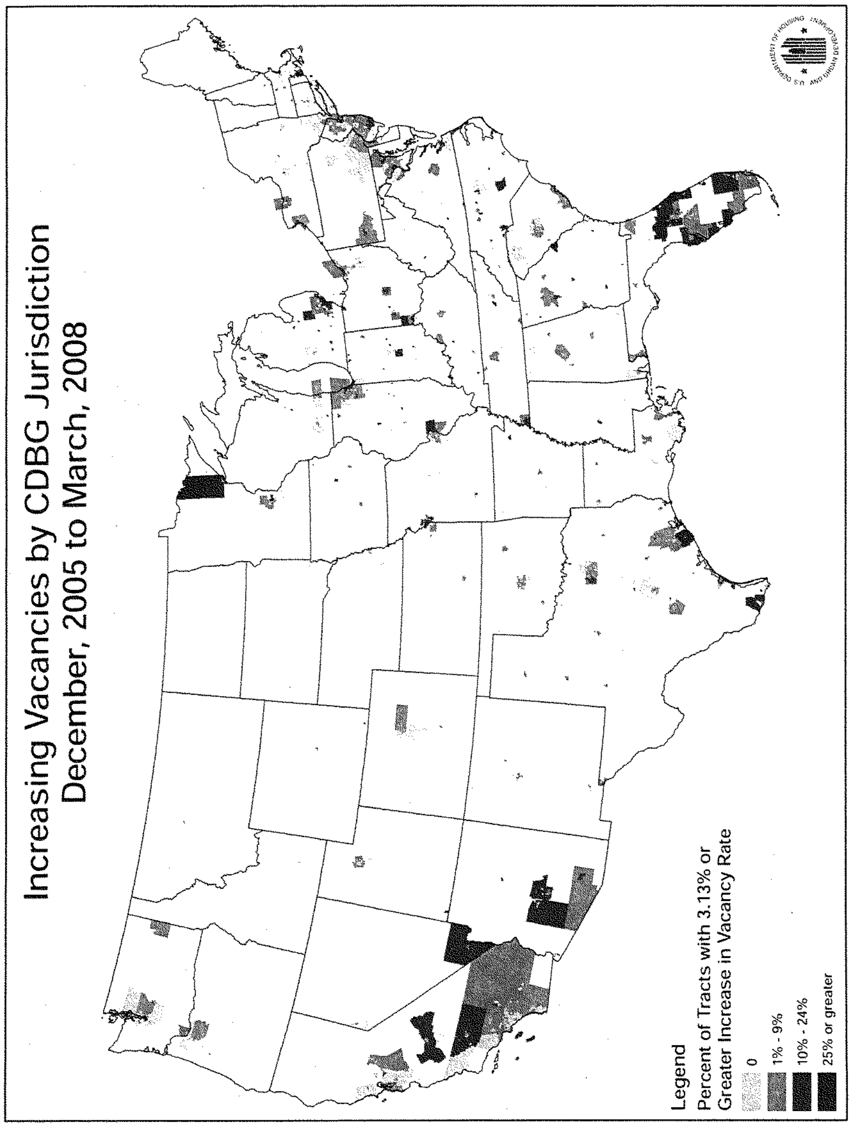
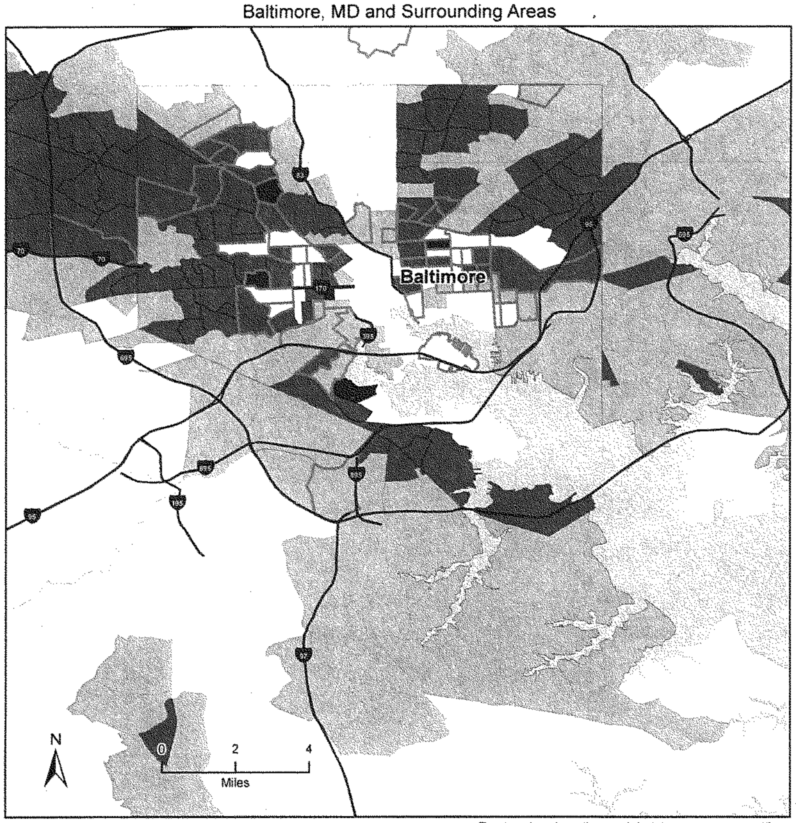

Increasing Vacancies by CDBG Jurisdiction
December, 2005 to March, 2008
Legend
Percent of Tracts with 3.13% or Greater Increase in Vacancy Rate
0
1% - 9%
10% - 24%
25% or greater

High Risk Loans with Change in Vacancy Rate through March 2008 by Tract

Baltimore, MD and Surrounding Areas



Legend

Percent of High Risk Loans by Census Tract

- 0.42 - 25.00
- 25.01 - 50.00
- 50.01 - 75.00
- 75.01 and higher
- Vacancy Rate Increasing by 3.1% or more

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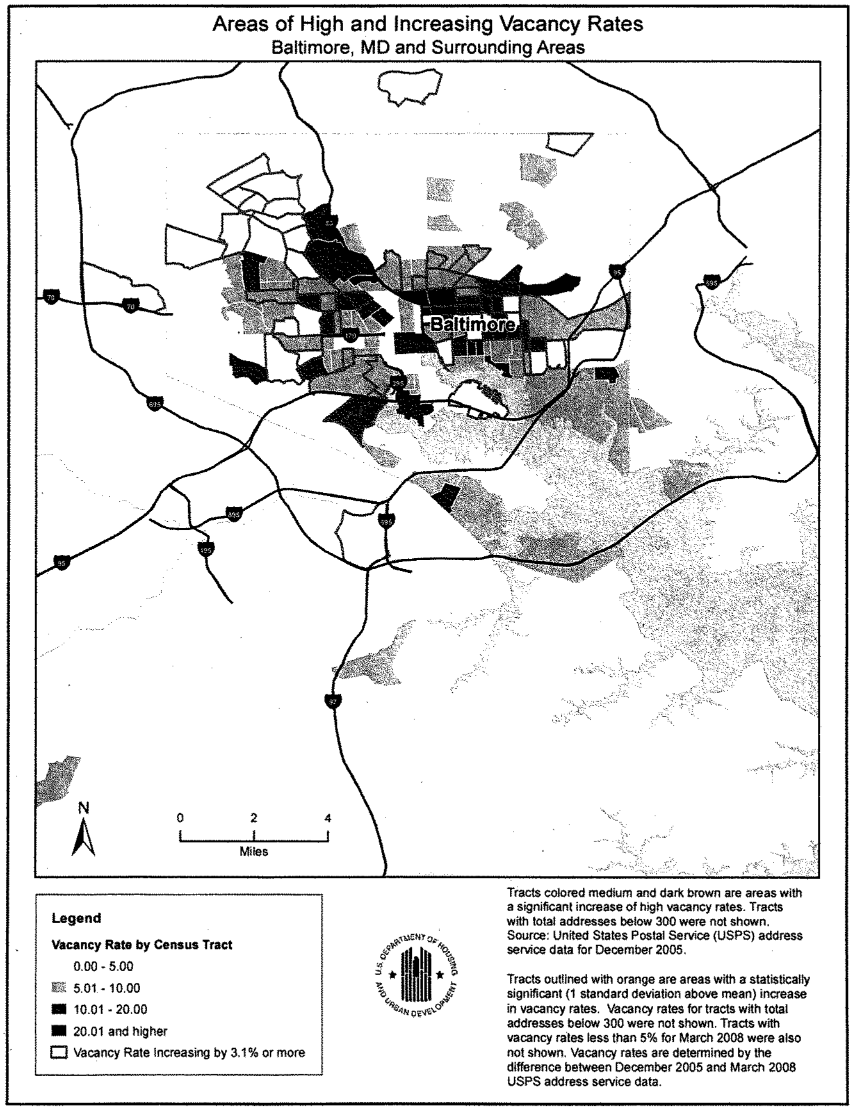
Areas of High and Increasing Vacancy Rates
Baltimore, MD and Surrounding Areas
Baltimore
N
0 2 4
Miles
Legend
Vacancy Rate by Census Tract
0.00 - 5.00
5.01 - 10.00
10.01 - 20.00
20.01 and higher
Vacancy Rate Increasing by 3.1% or more
Tracts colored medium and dark brown are areas with a significant increase of high vacancy rates. Tracts with total addresses below 300 were not shown. Source: United States Postal Service (USPS) address service data for December 2005.
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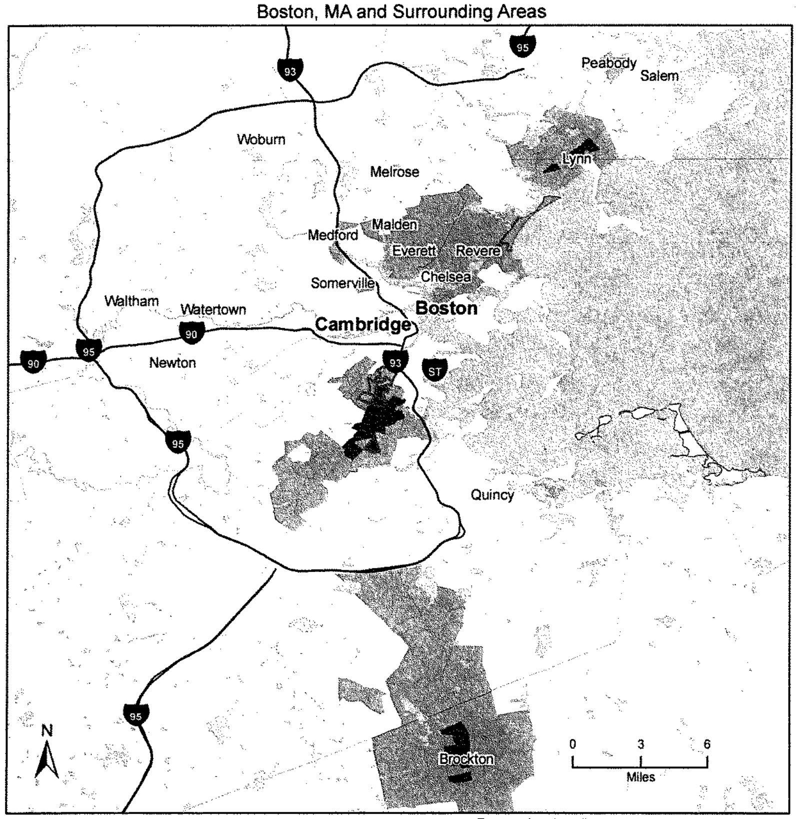
High Risk Loans with Change in Vacancy Rate through March 2008 by Tract

Boston, MA and Surrounding Areas



Legend

Percent of High Risk Loans by Census Tract

- 0.42 - 25.00
- 25.01 - 50.00
- 50.01 - 75.00
- 75.01 and higher
- Vacancy Rate Increasing by 3.1% or more

Tracts colored medium and dark brown are areas with a significant increase of high risk loans, defined as where the rate spread is 3 percentage points above the Treasury security of comparable maturity and where loan-to-income ratios equal to or above 4%. Tracts colored white were excluded due to a statistically small number of home loans. Source: Home Mortgage Disclosure Act (HMDA) data for 2004 through 2006.

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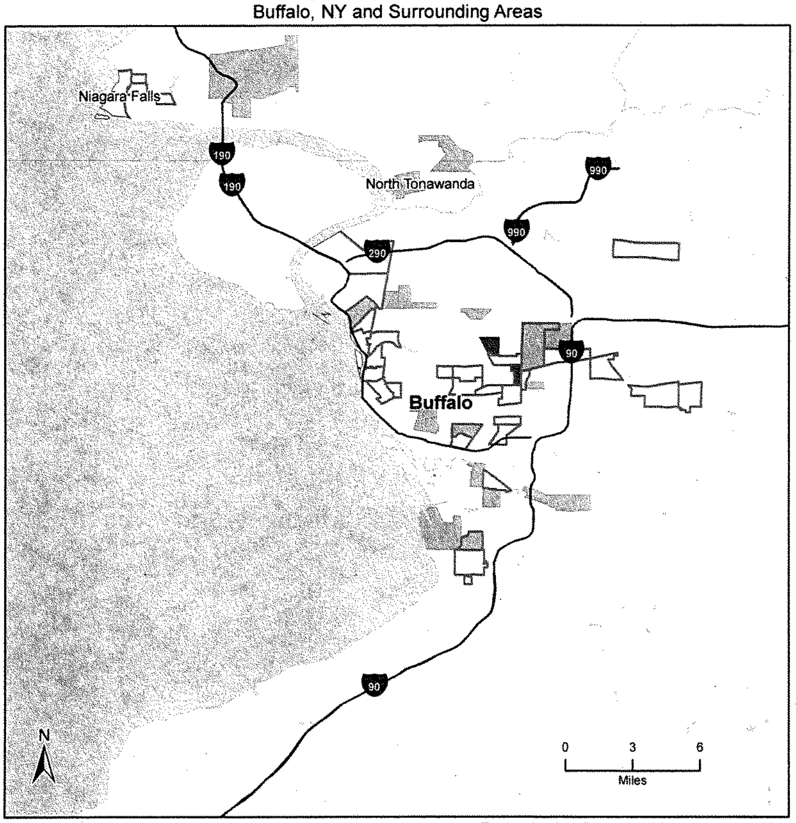
High Risk Loans with Change in Vacancy Rate through March 2008 by Tract

Buffalo, NY and Surrounding Areas



Legend

Percent of High Risk Loans by Census Tract

- 0.42 - 25.00
- 25.01 - 50.00
- 50.01 - 75.00
- 75.01 and higher
- Vacancy Rate Increasing by 3.1% or more

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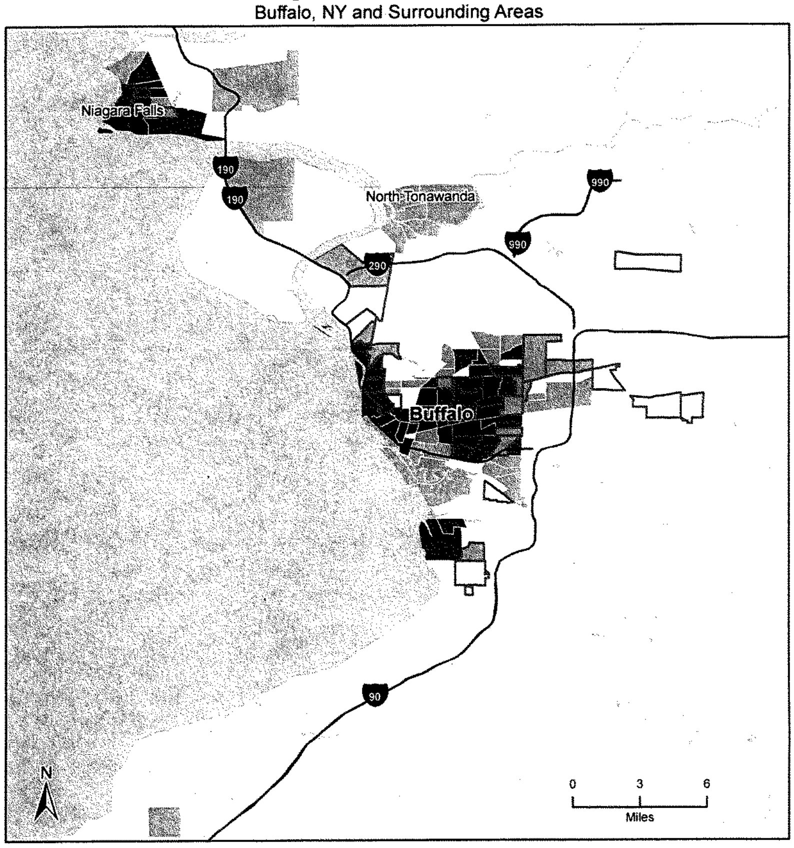
Areas of High and Increasing Vacancy Rates

Buffalo, NY and Surrounding Areas



Legend

Vacancy Rate by Census Tract

- 0.00 - 5.00
- 5.01 - 10.00
- 10.01 - 20.00
- 20.01 and higher
- Vacancy Rate Increasing by 3.1% or more

Tracts colored medium and dark brown are areas with a significant increase of high vacancy rates. Tracts with total addresses below 300 were not shown. Source: United States Postal Service (USPS) address service data for December 2005.

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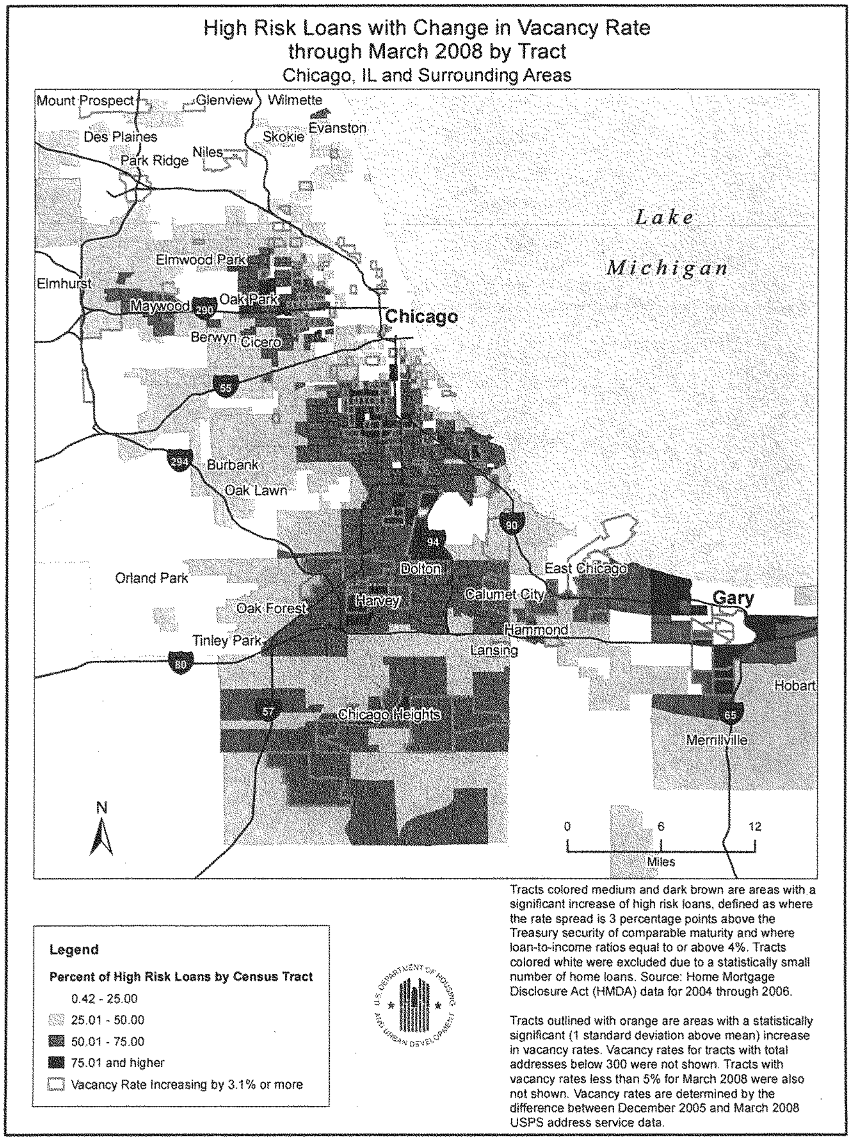
High Risk Loans with Change in Vacancy Rate
through March 2008 by Tract
Chicago, IL and Surrounding Areas
Mount Prospect
Glenview
Wilmette
Evanston
Skokie
Des Plaines
Niles
Park Ridge
Lake
Michigan
Elmwood Park
Elmhurst
Maywood
290
Oak Park
Chicago
Berwyn
Cicero
55
294
Burbank
Oak Lawn
90
94
Dolton
East Chicago
Orland Park
Gary
Harvey
Calumet City
Oak Forest
Hammond
Tinley Park
Lansing
80
Hobart
57
Chicago Heights
65
Merrillville
N
0
6
12
Miles
Tracts colored medium and dark brown are areas with a significant increase of high risk loans, defined as where the rate spread is 3 percentage points above the Treasury security of comparable maturity and where loan-to-income ratios equal to or above 4%. Tracts colored white were excluded due to a statistically small number of home loans. Source: Home Mortgage Disclosure Act (HMDA) data for 2004 through 2006.
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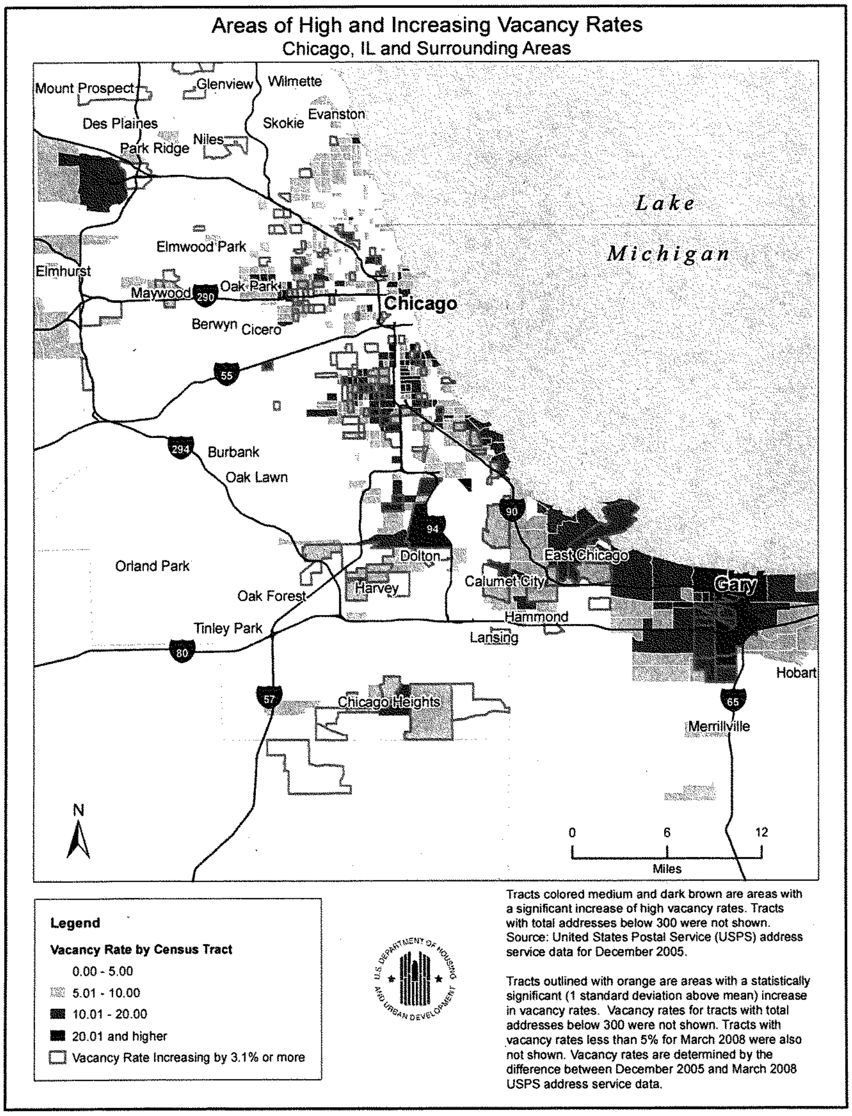
Legend
Percent of High Risk Loans by Census Tract
0.42 - 25.00
25.01 - 50.00
50.01 - 75.00
75.01 and higher
Vacancy Rate Increasing by 3.1% or more


Areas of High and Increasing Vacancy Rates
Chicago, IL and Surrounding Areas
Mount Prospect
Glenview
Wilmette
Evanston
Des Plaines
Skokie
Park Ridge
Niles
Lake
Michigan
Elmwood Park
Elmhurst
Maywood
290
Oak Park
Chicago
Berwyn
Cicero
55
294
Burbank
Oak Lawn
90
94
Dolton
East Chicago
Orland Park
Calumet City
Gary
Harvey
Oak Forest
Hammond
Tinley Park
Lansing
80
Hobart
57
Chicago Heights
65
Merrillville
N
0
6
12
Miles
Legend
Vacancy Rate by Census Tract
0.00 - 5.00
5.01 - 10.00
10.01 - 20.00
20.01 and higher
Vacancy Rate Increasing by 3.1% or more
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
Tracts colored medium and dark brown are areas with a significant increase of high vacancy rates. Tracts with total addresses below 300 were not shown. Source: United States Postal Service (USPS) address service data for December 2005.
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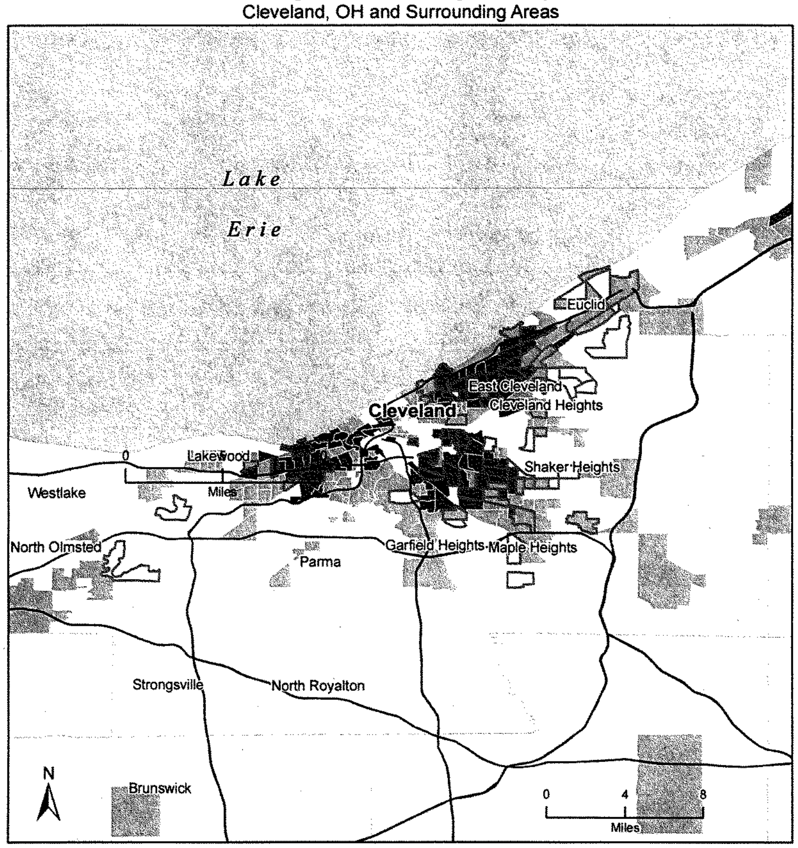
Areas of High and Increasing Vacancy Rates

Cleveland, OH and Surrounding Areas



Legend

Vacancy Rate by Census Tract

- 0.00 - 5.00
- 5.01 - 10.00
- 10.01 - 20.00
- 20.01 and higher
- Vacancy Rate Increasing by 3.1% or more

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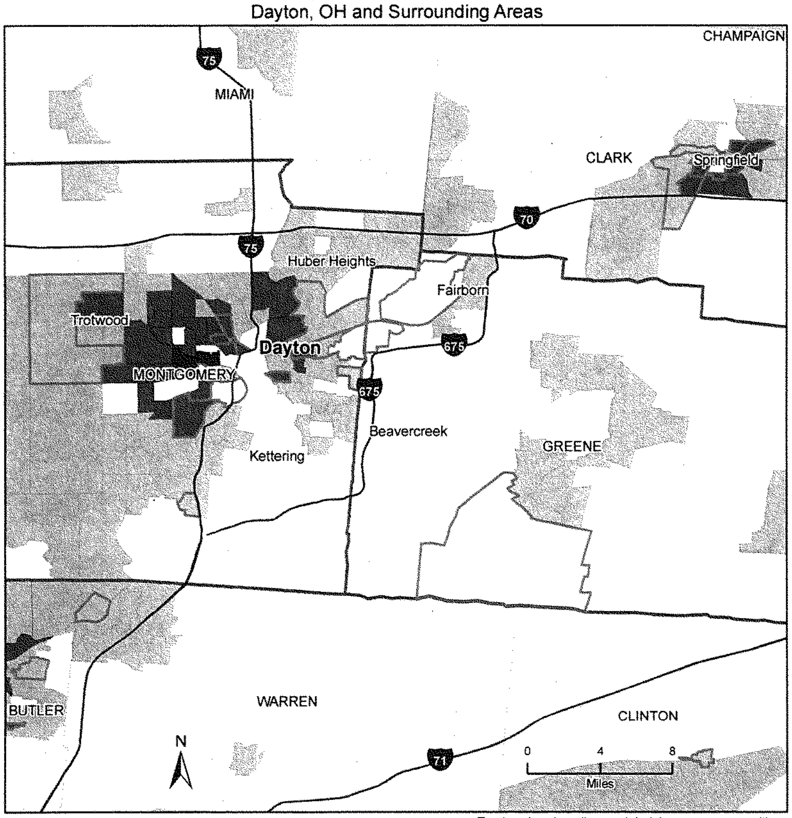
High Risk Loans with Change in Vacancy Rate through March 2008 by Tract

Dayton, OH and Surrounding Areas



Legend

Percent of High Risk Loans by Census Tract

- 0.42 - 25.00
- 25.01 - 50.00
- 50.01 - 75.00
- 75.01 and higher
- Vacancy Rate Increasing by 3.1% or more

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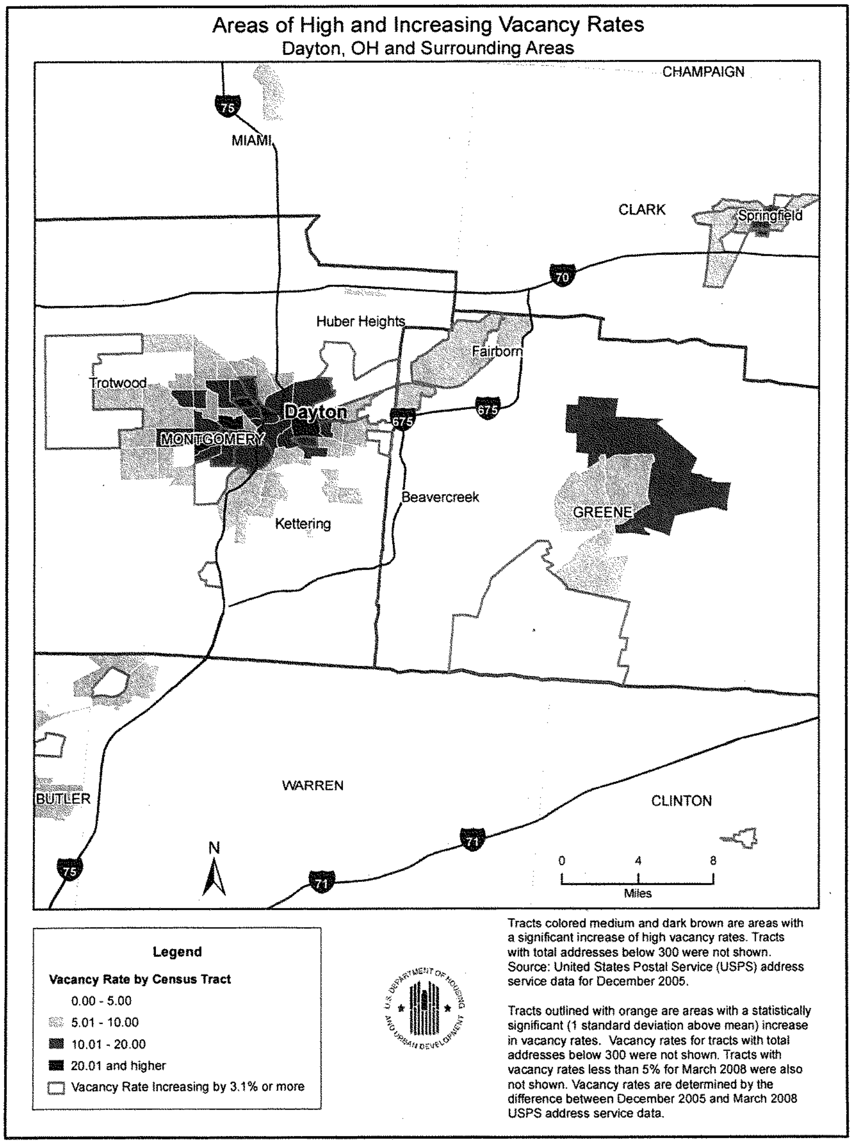
Areas of High and Increasing Vacancy Rates
Dayton, OH and Surrounding Areas
CHAMPAIGN
75
MIAMI
CLARK
Springfield
70
Huber Heights
Fairborn
Trotwood
Dayton
675
675
MONTGOMERY
Beavercreek
GREENE
Kettering
BUTLER
WARREN
CLINTON
71
71
75
N
0
4
8
Miles
Legend
Vacancy Rate by Census Tract
0.00 - 5.00
5.01 - 10.00
10.01 - 20.00
20.01 and higher
Vacancy Rate Increasing by 3.1% or more
Tracts colored medium and dark brown are areas with a significant increase of high vacancy rates. Tracts with total addresses below 300 were not shown. Source: United States Postal Service (USPS) address service data for December 2005.
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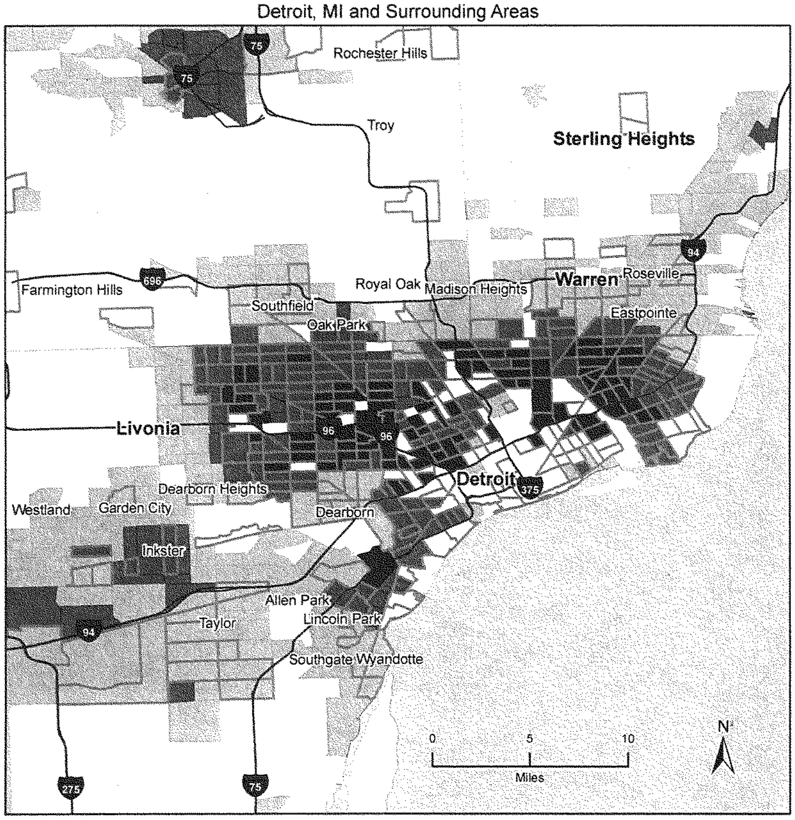
High Risk Loans with Change in Vacancy Rate through March 2008 by Tract

Detroit, MI and Surrounding Areas



Legend

Percent of High Risk Loans by Census Tract

- 0.42 - 25.00
- 25.01 - 50.00
- 50.01 - 75.00
- 75.01 and higher
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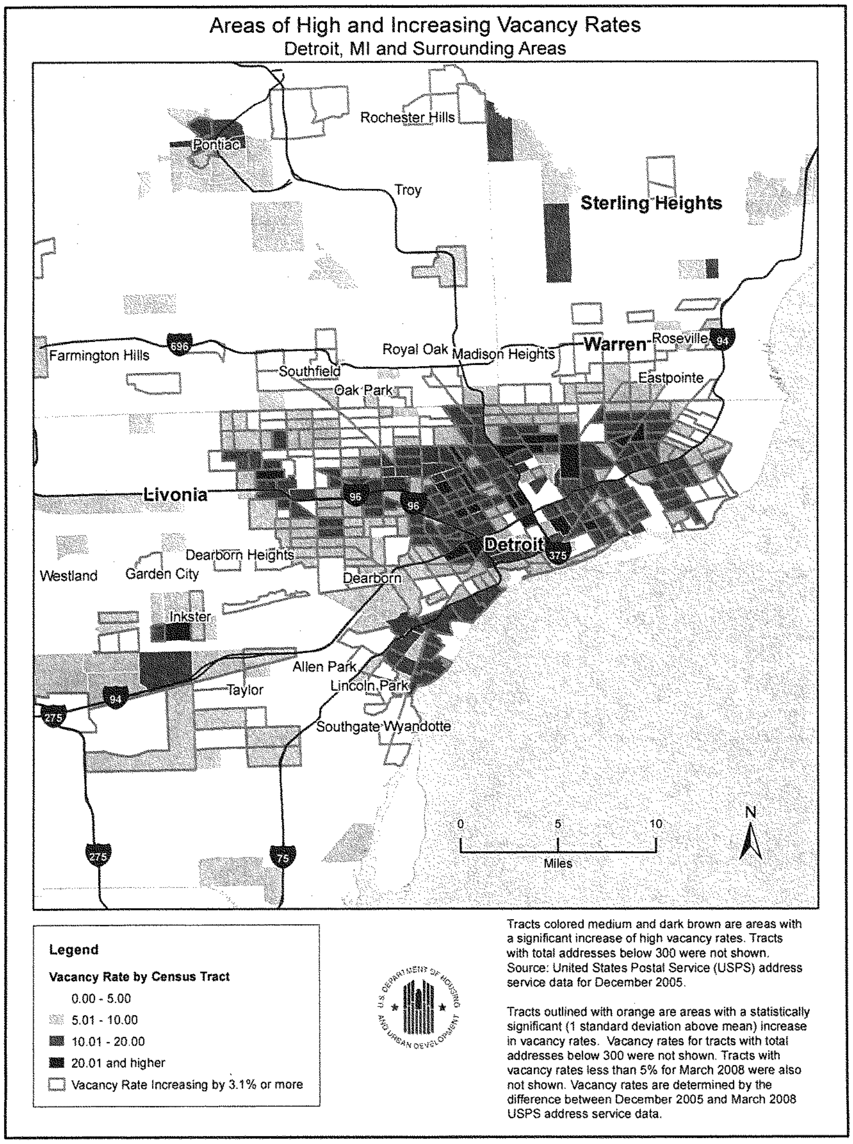
Areas of High and Increasing Vacancy Rates
Detroit, MI and Surrounding Areas
Rochester Hills
Pontiac
Troy
Sterling Heights
Farmington Hills
696
Royal Oak
Madison Heights
Warren
Roseville
94
Southfield
Oak Park
Eastpointe
Livonia
96
Detroit
375
Dearborn Heights
Westland
Garden City
Dearborn
Inkster
Allen Park
Taylor
Lincoln Park
275
Southgate
Wyandotte
75
0
5
10
Miles
N
Legend
Vacancy Rate by Census Tract
0.00 - 5.00
5.01 - 10.00
10.01 - 20.00
20.01 and higher
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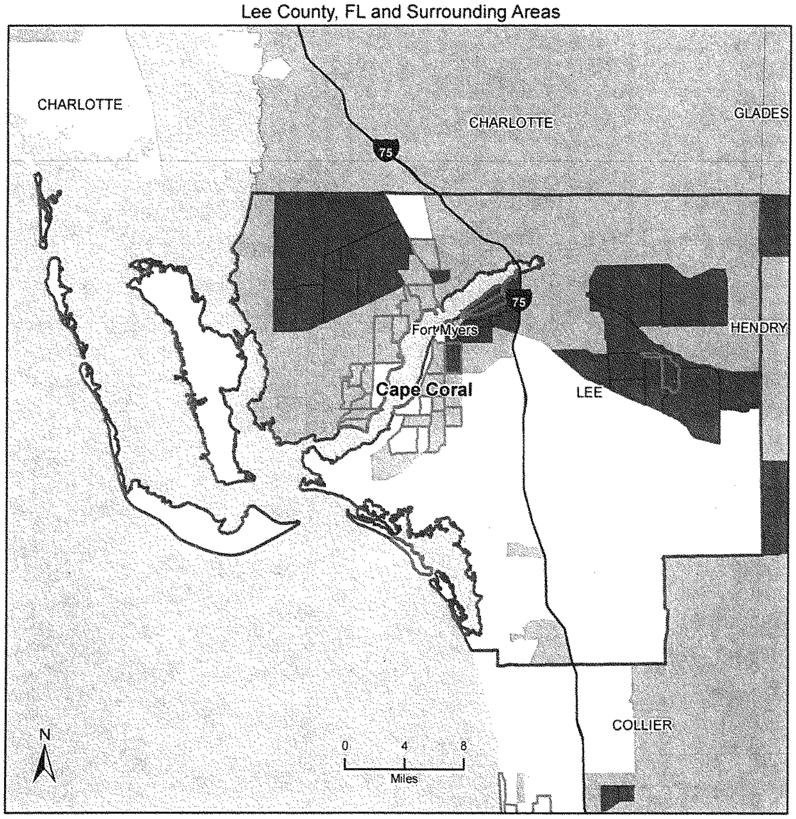
High Risk Loans with Change in Vacancy Rate through March 2008 by Tract

Lee County, FL and Surrounding Areas



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- 50.01 - 75.00
- 75.01 and higher
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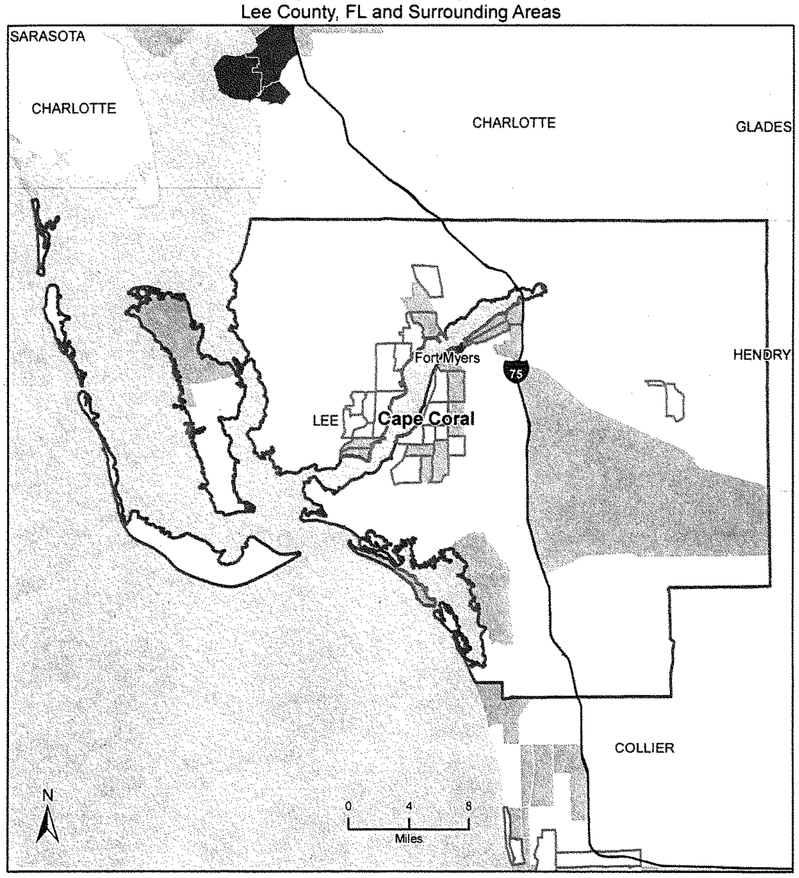
Areas of High and Increasing Vacancy Rates

Lee County, FL and Surrounding Areas



Legend

Vacancy Rate by Census Tract

- 0.00 - 5.00
- 5.01 - 10.00
- 10.01 - 20.00
- 20.01 and higher
- Vacancy Rate Increasing by 3.1% or more

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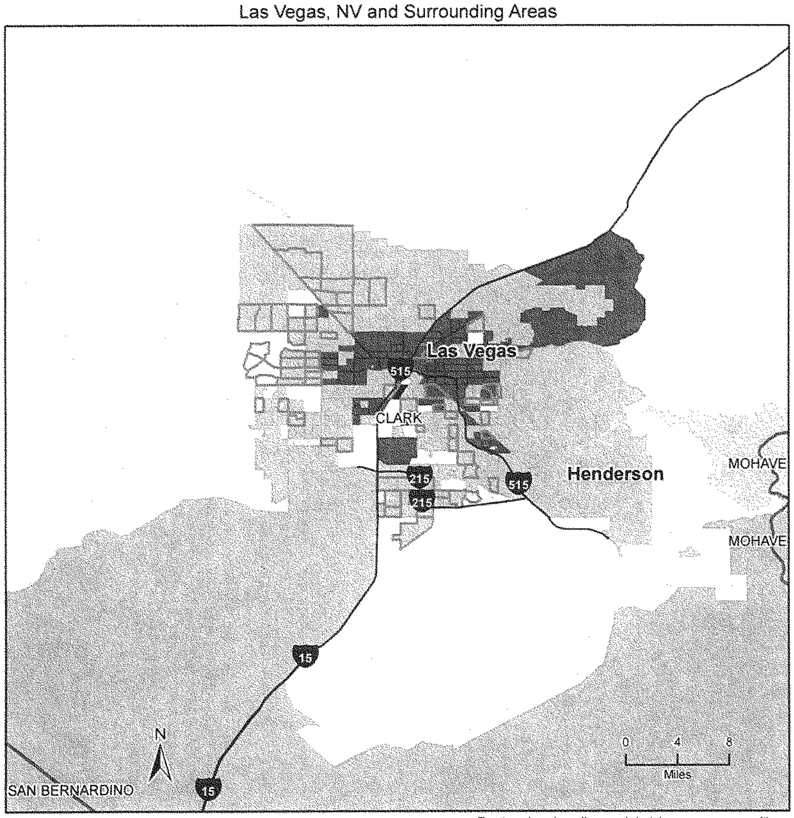
High Risk Loans with Change in Vacancy Rate through March 2008 by Tract

Las Vegas, NV and Surrounding Areas



Legend

Percent of High Risk Loans by Census Tract

- 0.42 - 25.00
- 25.01 - 50.00
- 50.01 - 75.00
- 75.01 and higher
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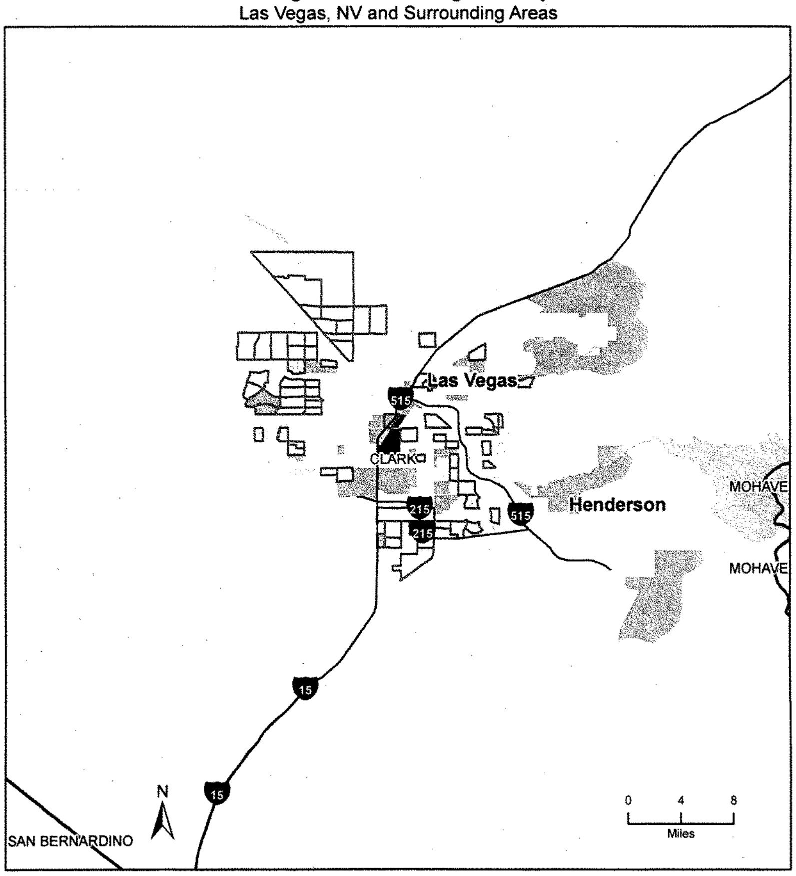
Areas of High and Increasing Vacancy Rates
Las Vegas, NV and Surrounding Areas



Legend

Vacancy Rate by Census Tract

- 0.00 - 5.00
- 5.01 - 10.00
- 10.01 - 20.00
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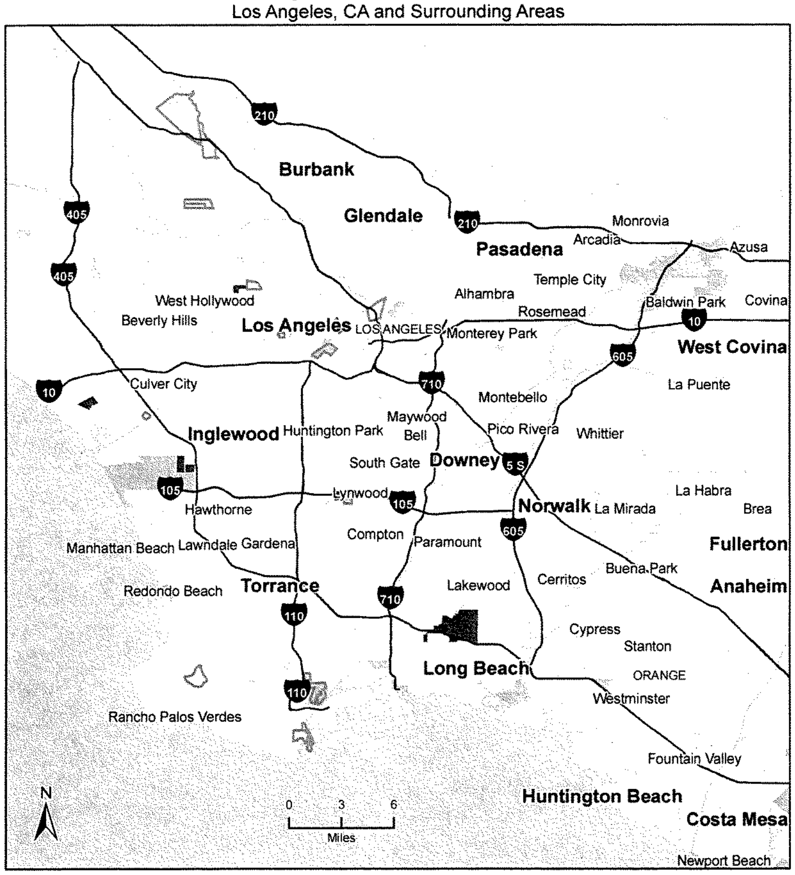
- Vacancy Rate Increasing by 3.1% or more

Tracts colored medium and dark brown are areas with a significant increase of high vacancy rates. Tracts with total addresses below 300 were not shown. Source: United States Postal Service (USPS) address service data for December 2005.

Tracts outlined with orange are areas with a statistically significant (1 standard deviation above mean) increase in vacancy rates. Vacancy rates for tracts with total addresses below 300 were not shown. Tracts with vacancy rates less than 5% for March 2008 were also not shown. Vacancy rates are determined by the difference between December 2005 and March 2008 USPS address service data.

Areas of High and Increasing Vacancy Rates

Los Angeles, CA and Surrounding Areas



Legend

Vacancy Rate by Census Tract

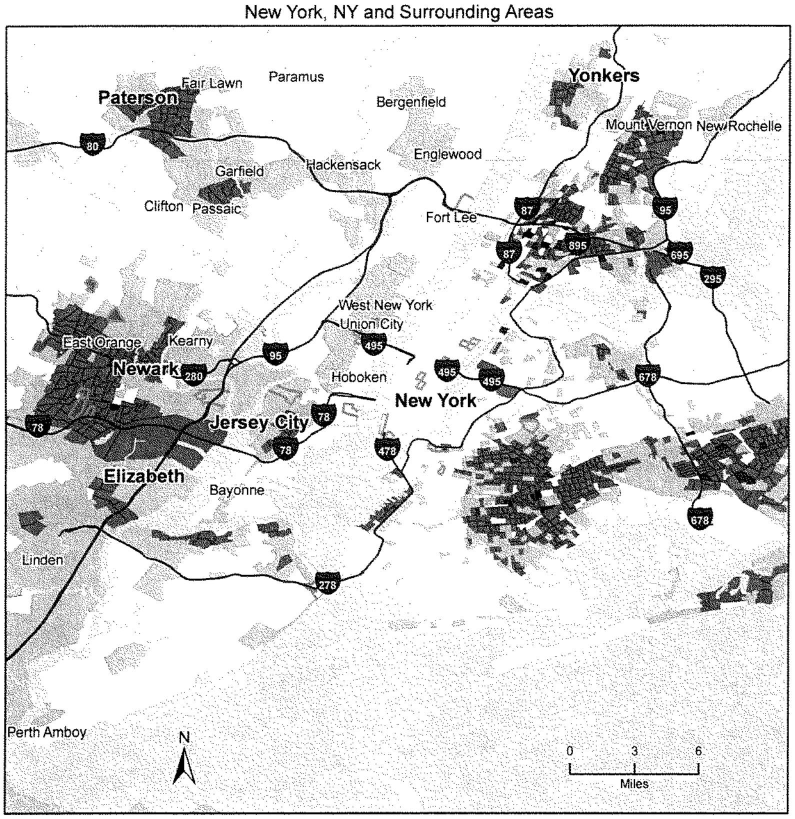
- 0.00 - 5.00
- 5.01 - 10.00
- 10.01 - 20.00
- 20.01 and higher
- Vacancy Rate Increasing by 3.1% or more

Tracts colored medium and dark brown are areas with a significant increase of high vacancy rates. Tracts with total addresses below 300 were not shown. Source: United States Postal Service (USPS) address service data for December 2005.

Tracts outlined with orange are areas with a statistically significant (1 standard deviation above mean) increase in vacancy rates. Vacancy rates for tracts with total addresses below 300 were not shown. Tracts with vacancy rates less than 5% for March 2008 were also not shown. Vacancy rates are determined by the difference between December 2005 and March 2008 USPS address service data.

High Risk Loans with Change in Vacancy Rate through March 2008 by Tract

New York, NY and Surrounding Areas



Legend

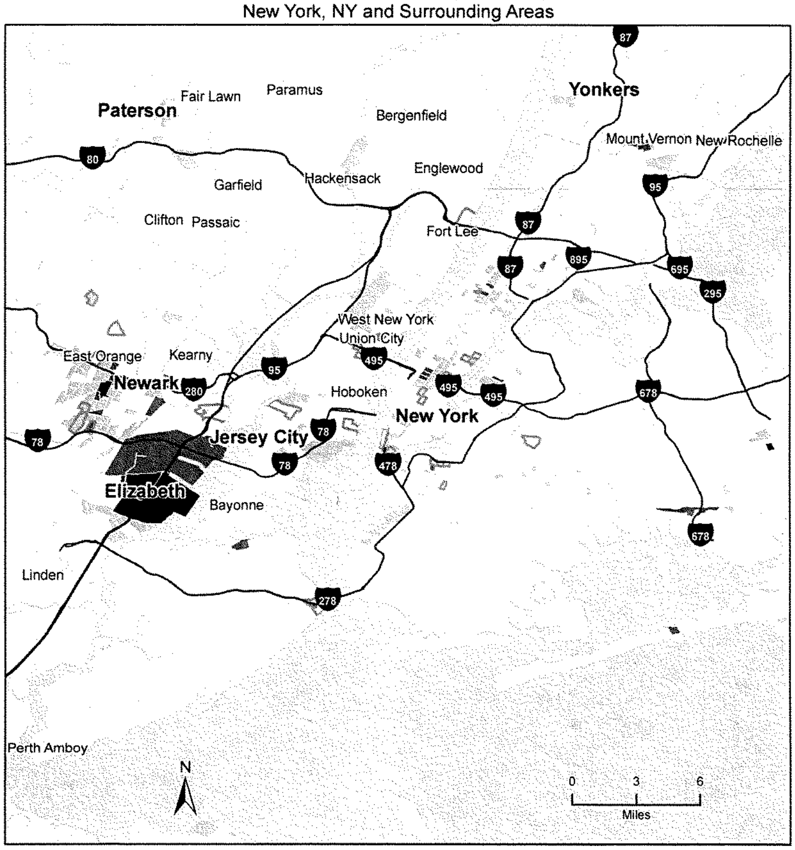
Percent of High Risk Loans by Census Tract

- 0.42 - 25.00
- 25.01 - 50.00
- 50.01 - 75.00
- 75.01 and higher
- Vacancy Rate Increasing by 3.1% or more

Tracts colored medium and dark brown are areas with a significant increase of high risk loans, defined as where the rate spread is 3 percentage points above the Treasury security of comparable maturity and where loan-to-income ratios equal to or above 4%. Tracts colored white were excluded due to a statistically small number of home loans. Source: Home Mortgage Disclosure Act (HMDA) data for 2004 through 2006.

Tracts outlined with orange are areas with a statistically significant (1 standard deviation above mean) increase in vacancy rates. Vacancy rates for tracts with total addresses below 300 were not shown. Tracts with vacancy rates less than 5% for March 2008 were also not shown. Vacancy rates are determined by the difference between December 2005 and March 2008 USPS address service data.

Areas of High and Increasing Vacancy Rates
New York, NY and Surrounding Areas



Legend

Vacancy Rate by Census Tract

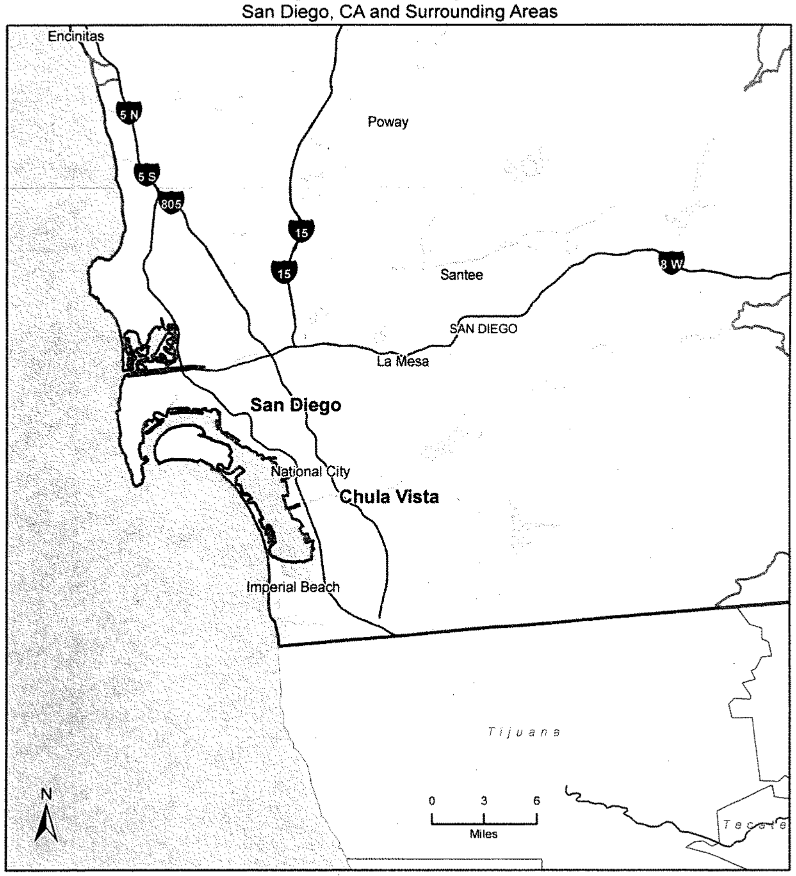
- 0.00 - 5.00
- 5.01 - 10.00
- 10.01 - 20.00
- 20.01 and higher
- Vacancy Rate Increasing by 3.1% or more

Tracts colored medium and dark brown are areas with a significant increase of high vacancy rates. Tracts with total addresses below 300 were not shown. Source: United States Postal Service (USPS) address service data for December 2005.

Tracts outlined with orange are areas with a statistically significant (1 standard deviation above mean) increase in vacancy rates. Vacancy rates for tracts with total addresses below 300 were not shown. Tracts with vacancy rates less than 5% for March 2008 were also not shown. Vacancy rates are determined by the difference between December 2005 and March 2008 USPS address service data.

Areas of High and Increasing Vacancy Rates

San Diego, CA and Surrounding Areas



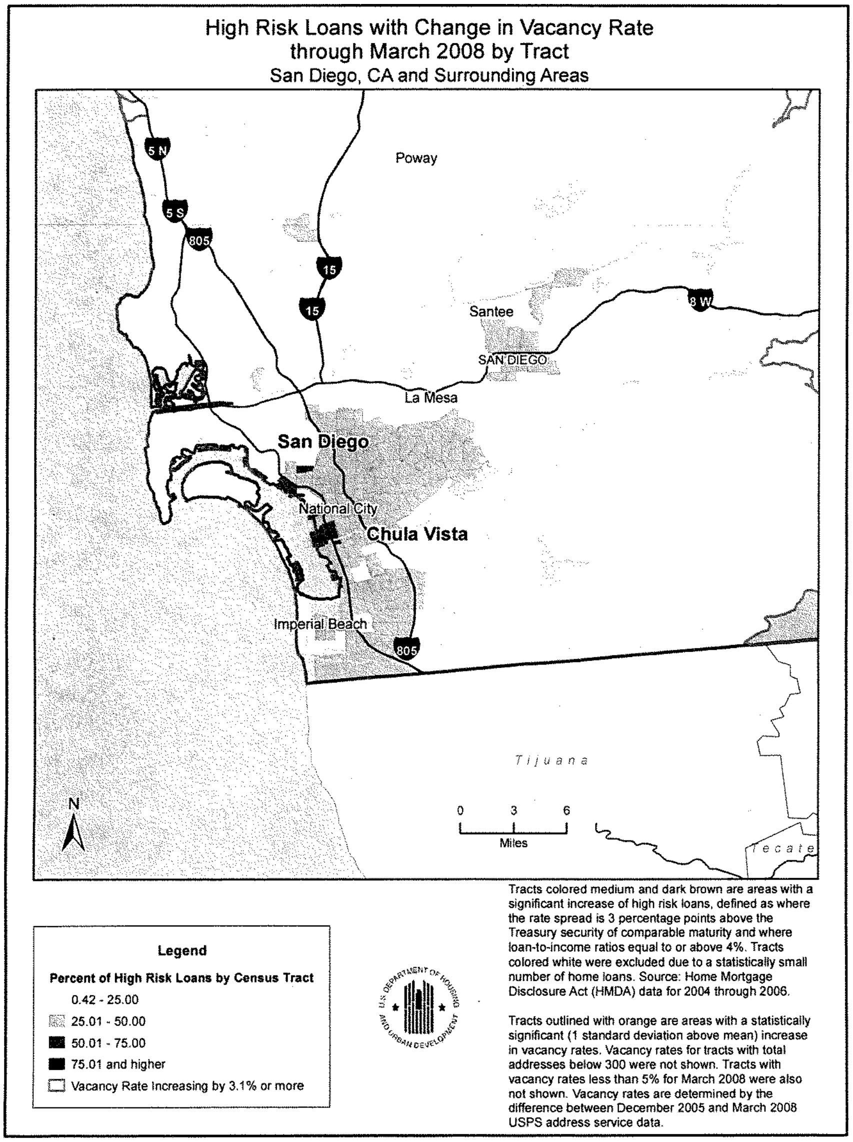
Legend

Vacancy Rate by Census Tract

- 0.00 - 5.00
- 5.01 - 10.00
- 10.01 - 20.00
- 20.01 and higher
- Vacancy Rate Increasing by 3.1% or more

Tracts colored medium and dark brown are areas with a significant increase of high vacancy rates. Tracts with total addresses below 300 were not shown. Source: United States Postal Service (USPS) address service data for December 2005.

Tracts outlined with orange are areas with a statistically significant (1 standard deviation above mean) increase in vacancy rates. Vacancy rates for tracts with total addresses below 300 were not shown. Tracts with vacancy rates less than 5% for March 2008 were also not shown. Vacancy rates are determined by the difference between December 2005 and March 2008 USPS address service data.


High Risk Loans with Change in Vacancy Rate
through March 2008 by Tract
San Diego, CA and Surrounding Areas
5 N
5 S
805
15
15
8 W
Poway
Santee
SAN DIEGO
La Mesa
San Diego
National City
Chula Vista
Imperial Beach
805
Tijuana
Tecate
N
0 3 6
Miles
Legend
Percent of High Risk Loans by Census Tract
0.42 - 25.00
25.01 - 50.00
50.01 - 75.00
75.01 and higher
Vacancy Rate Increasing by 3.1% or more
Tracts colored medium and dark brown are areas with a significant increase of high risk loans, defined as where the rate spread is 3 percentage points above the Treasury security of comparable maturity and where loan-to-income ratios equal to or above 4%. Tracts colored white were excluded due to a statistically small number of home loans. Source: Home Mortgage Disclosure Act (HMDA) data for 2004 through 2006.
Tracts outlined with orange are areas with a statistically significant (1 standard deviation above mean) increase in vacancy rates. Vacancy rates for tracts with total addresses below 300 were not shown. Tracts with vacancy rates less than 5% for March 2008 were also not shown. Vacancy rates are determined by the difference between December 2005 and March 2008 USPS address service data.

Mr. KUCINICH. Mr. Kingsley, please proceed.

STATEMENT OF G. THOMAS KINGSLEY

Mr. KINGSLEY. Thank you, Chairman Kucinich, Chairwoman Waters and members of the subcommittees. I am honored to come before you today to testify on an issue that is critical to the future of our metropolitan regions.

My name is Tom Kingsley. I am a researcher at the Urban Institute where changing conditions in urban neighborhoods is the focus of our research.

Our experience certainly confirms that neighborhoods with high concentrations of foreclosures and increasing vacancy rates are likely to generate substantial unanticipated costs for resident families and jurisdictions. Any formula distributing resources to help cover those costs must be carefully constructed if it is to be equitable.

In my written testimony, I introduced and support six points related to that goal: The first is that neighborhood-level spillover costs are likely to depend on how heavily the problem is concentrated as opposed to being spread out evenly across the neighborhoods in any jurisdiction. Preliminary research at the Urban Institute corroborates the view that such concentration is much higher in some metropolitan areas than others. This implies that a formula distributing funds simply in proportion to the total number of loans or foreclosures in a jurisdiction is not likely to be equitable.

Second, much of the research on this crisis so far has used the subprime percentage of all loans as the measure of incidence. That measure is actually not very good for this purpose, since it might give a very high score to neighborhoods that only have a very few loans. Better measures of concentration are those that calculate the numbers, loans, foreclosures, and vacancies per1,000 units in the housing stock.

My third point relates to the criteria for selecting data sets for this purpose. I believe they should do four things: one, provide indicators that closely approximate Congress' selected basis for targeting; two, be reliably developed and frequently updated by Federal agencies; three, provide data collected under rigorously enforced uniform standards nationwide; and four, be collected so that information can be made available for small geographic areas like Census tracts.

My next point is that of the data sets that meet these requirements, the two probably best-suited to address this subcommittee's purposes are the Home Mortgage Disclosure Act, HMDA, data set on mortgage originations and the U.S. Postal Service data set on vacant properties.

However, in developing a formula, further research using these data sets is needed to gain a better understanding of, one, the relationship between subprime loan concentrations under various neighborhood conditions and the probability of foreclosure; two, the relationship in time between foreclosures and vacancy rates, and three, how the risk of foreclosures and their effects in a given type of neighborhood are likely to vary in different metropolitan market contexts, most importantly the variations between comparatively strong versus comparatively weak housing markets.

My fifth point is to recognize that over the past few years, the quality and accessibility of HMDA, USPS and other relevant data sets have markedly improved. We are in a very different position than we were a decade ago when the U.S. Census was about all that was available as a reliable basis for funding formulas.

I think congratulations are due in particular to the Federal Reserve System's FFIEC for their work with HMDA, and HUD, for its work with the USPS.

My final point is that whatever happens to the allocation formula, good work with data at the local level is going to be essential to support the design and monitoring of effective programs to address neighborhood spillover effects.

At the Urban Institute, as noted, we coordinate the National Neighborhood Indicators Partnership, a network of data intermediaries in 30 cities, many of whom are already working on this issue. Two of our partners from Memphis and New York City provided testimony to you yesterday.

I hope these subcommittees will encourage support for the work of local groups like these, since their ability to shed light on the pattern and magnitude of impacts in their own areas is going to be critical to the development of really cost-effective local solutions.

Thank you. I look forward to responding to your questions.

Mr. KUCINICH. Thank you, Mr. Kingsley.

[The prepared statement of Mr. Kingsley follows:]

Testimony of
G. Thomas Kingsley
Principal Research Associate
The Urban Institute

Before the Joint Hearing of the

Committee on Oversight and Government Reform
Domestic Policy Subcommittee

and the

Committee on Financial Services
Subcommittee on Housing and Community Opportunity

U.S. House of Representatives

May 22, 2008

The Urban Institute is a nonprofit, nonpartisan policy research and educational organization that examines the social, economic, and governance problems facing the nation. The views expressed are those of the author and should not be attributed to the Urban Institute, its trustees, or its funders.

Chairman Kucinich, Chairwoman Waters, and members of the Subcommittees, I am honored to come before you today to testify on an issue that is so critical to the future of our nation's metropolitan regions. My name is Tom Kingsley. I am a researcher at the Urban Institute, where the changing conditions of urban neighborhoods is a focus of our research. We clearly recognize today's subprime crisis as an unprecedented threat to the well-being of many of those neighborhoods.

Our experience certainly confirms that neighborhoods with high concentrations of foreclosures and increasing vacancy rates are likely to generate substantial unanticipated costs for resident families and jurisdictions. Any formula distributing resources to help cover those costs must be carefully constructed if it is to be equitable. In this testimony, I make six points related to that goal.

1. The neighborhood-level spillover costs are likely to depend on how heavily the problem is concentrated—as opposed to being spread evenly—across neighborhoods in any jurisdiction. Preliminary research at the Urban Institute corroborates the view that such concentration is much higher in some metropolitan areas than others. This implies that a formula distributing funds simply in proportion to the total number of subprime loans (or foreclosures) in a jurisdiction is not likely to be equitable.

In our analysis we calculated dissimilarity index values relating the spatial distribution of loans by subprime lenders to that for prime loans for the 100 largest metropolitan areas as of 2005. The dissimilarity index was constructed so a value of 0 would indicate that the subprime share of loans was the same in all census tracts whereas a value of 100 would indicate total concentration (where all subprime loans were in different tracts than prime loans). In our analysis, the highest values of the index were in the 40–45 range: for example, Milwaukee was at 45 and Detroit at 44. Those levels were about twice as high as the values at the low end: for example, 19 for Lakeland, Florida, and 21 for El Paso, Texas.

2. Much of the research on the crisis has used "subprime loans as a percent of all loans originated" as the measure of incidence. That measure is not good for this purpose since it might give a high score to neighborhoods with very few loans. Better measures of concentration are those that calculate the numbers (loans, foreclosures, and vacancies) per 1,000 units in the housing stock.

For example, the likelihood of serious spillover costs would surely be less in a neighborhood with only 4 loans, 50 percent of which were subprime, than in one with 100 loans, 25 percent of which were subprime. The former would have a total of only 2 such loans, whereas the latter would have 25. In a preliminary analysis of all census tracts in the 100 largest metro areas in 2005, we found that the share of all loans that were subprime was considerably higher in high-poverty tracts (poverty rates of 30 percent or more) than in those with moderate poverty (poverty in the 10–20 percent range): 32 percent versus 22 percent. But the number of subprime loans per 1,000 units in buildings with 1 to 4 units was actually higher on average in the moderate-poverty tracts than the high-poverty tracts: 13 versus 11.[1] The subprime number per 1,000 units was considerably higher than these averages in tracts where the populations were predominantly African American or Hispanic. Thus, while the neighborhood poverty rate could be one factor to consider in making an allocation, it alone would not be a good predictor of the highest concentrations of subprime lending.

3. I believe the datasets used to construct the formula should do four things: (a) provide indicators that closely approximate Congress's selected basis for targeting; (b) be reliably developed and frequently updated by federal agencies; (c) provide data collected under rigorously enforced uniform standards nationwide; and (d) be collected so information can be made available for small geographic areas like census tracts.

A number of private (proprietary) datasets contain valuable information about mortgage lending, with some indicators that are particularly relevant to the issue at hand: for example, on mortgage delinquency and foreclosures. Prominent among them are the Mortgage Bankers Association's National Delinquency Survey and the Loan Performance dataset. Still, many of these datasets lack complete coverage (in terms of data and geography), and there are often worries about the uniformity of data collection. In addition, there is no assurance that these data will be updated regularly. It makes sense to use these proprietary datasets to check and help calibrate measures from the federal data sources, but only the latter are likely to have enough credibility to serve as the basis for the allocation of federal funds in relation to need.

4. Of the datasets that meet these requirements, the two probably best suited to address the Subcommittees' purposes are the Home Mortgage Disclosure Act (HMDA) dataset on mortgage originations and the United States Postal Service (USPS) dataset on vacant properties. However, in developing a formula, further research using these datasets is needed to gain a better understanding of (a) the relationship between subprime loan concentrations under various neighborhood circumstances and the probability of foreclosure; (b) the relationships in time between foreclosures and vacancy rates; and (c) how the risks of foreclosures and their effects

[1] Both the poverty rates and the number of units in 1–4 unit structures were calculated from 2000 census data.

in a given type of neighborhood are likely to vary in different metropolitan contexts (for example, those with comparatively strong versus weak housing markets).

Some research has been done on all these topics, but more could bolster the credibility of the formula that is designed. To deal with the first of them, data on foreclosures from proprietary files can be related to data on the concentration of subprime mortgages from the HMDA files and on other neighborhood characteristics from the census. The second requires more analysis of the temporal relationships between the measures just cited and the vacancy data in the USPS files. Changes in metropolitan market strength (perhaps as indicated by the Office of Federal Housing Enterprise Oversight's Housing Price Index) could be used as a background explanatory variable in all this research.

5. Over the past few years, the quality and accessibility of the HMDA, USPS, and other relevant datasets have markedly improved. We are in a very different position than we were a decade ago when the U.S. Census was about all that was available to serve as a reliable basis for funding allocation formulas. I think congratulations are due, in particular, to the Federal Reserve System's Federal Financial Institutions Examination Council (FFIEC) for its work with the HMDA data and the U.S. Department of Housing and Urban Development for its work with the USPS vacancy data.

The fact that these and other relevant datasets can now be accessed over the web is an important step forward. It means that planners and researchers nationwide can now contribute to our understanding of the way housing markets work and better anticipate their effects.

6. Whatever happens with the allocation formula, good work with data at the local level will be essential to support the design and monitoring of effective programs to address neighborhood spillover effects. At the Urban Institute, we coordinate the National Neighborhood Indicators Partnership (NNIP), a network of local data intermediaries in 30 cities, many of whom are already working on the issue in their own areas. Two NNIP partners, from Memphis and New York City, provided testimony to you yesterday. I hope the Subcommittees will encourage support for the work of groups like these, since their ability to shed light on the pattern and magnitude of impacts in their areas will be critical to the development of cost-effective local solutions.

A national formula may be able to reasonably approximate the overall magnitude of comparative need in various jurisdictions, but local data and analysis will be needed to design strategies that deliver help sensibly. Housing markets are complicated and how neighborhood spillover effects are likely to work themselves out in different metropolitan settings is certainly not well understood at this point. Richer datasets than those available nationally (including data on the capacities of local service providers) need to be assembled and examined, and such work needs to be done primarily by policy analysts who are familiar with local conditions.

* * * * * *

Our metropolitan areas are the drivers of our national economy and the places where most Americans live. Deterioration in a significant number of their neighborhoods will have deleterious effects, not only on their residents, but also on metropolitan prospects more broadly. I hope my remarks will be helpful in your deliberations about these threats.

I look forward to responding to your questions.

Mr. KUCINICH. Mr. Walker, please proceed.

STATEMENT OF CHRISTOPHER WALKER

Mr. WALKER. Thank you, Chairman Kucinich and other members of the subcommittees, for the opportunity to present the results of our work. My name is Chris Walker and I am director of research and assessment for the Local Initiative Research Corp. My organization is one of the Nation's leading nonprofit investors in low- and moderate-income communities. We strongly support H.R. 5818.

Part of my job is to provide research support to our 30 local offices throughout the country. In the past few months, my colleagues and I have worked extensively with several sources of mortgage loan performance data to identify neighborhood concentrations of foreclosed loans and real estate-owned properties. Our local staff uses this information to help move resources to areas of greatest need.

Naturally we have learned a few things about the strengths and weaknesses of these data, so at the urging of the subcommittee staff we turned our attention to how these data could be used to help direct aid to areas with concentrations of vacancies due to foreclosure. We found that although there remains work to be done, we are able to do a pretty good job in identifying neighborhoods where foreclosures are prevalent and where vacancies have increased.

We have made what I believe is a promising start in pinpointing places where foreclosures and vacancies appear to be related to one another. These, of course, are the places where aid would be directed.

Let me briefly walk through the sequence of analyses we carried out, summarize our conclusions at each stage, and then point out some of the challenges that remain.

First we examined the patterns of loan foreclosures and bank-owned real estate across all zip codes in the 20 largest States. These data came from two proprietary sources. First American Loan Performance, whose data were tabulated and supplied by the Federal Reserve and McDash Analytics, whose data service we subscribe to.

Our analyses show that these sources are in basic agreement. They generally identify the same neighborhoods as places where concentrated foreclosures have occurred. This is no surprise since they come from more or less the same source, the largest loan securitizers in the United States.

Now it is well known that these data are incomplete. The loan performance data, for example, is also covered by 50 percent of the subprime market. We worry that this incomplete coverage might distort our view of where foreclosures take place. To find out whether this was so, we checked these data against Home Mortgage Disclosure Act data on so-called high-cost loans, including those that are subprime. Originators of the great majority of mortgage loans are obliged to report this information each year, so the coverage of the market is superior to that of our proprietary sources.

Our analysis shows remarkable agreement among these sources, at least in the 20 States we studied. This is important for two reasons. It means the data on loan performance obtained from securitizers appear not to displace fatal geographic biases. It also means that the use of the widely available HMDA data as a substitute for proprietary data should yield good results.

Second, we examined a pattern in housing vacancy across all Census tracts in the United States, using data from the U.S. Postal Service. The availability of these data to researchers like me is an extremely valuable service that HUD provides. To make these data ready for analysis, we had to make sense of some of the anomalies that Mr. Richardson described earlier. We had to try to understand the ebb and flow of both occupancies and vacancies captured by the data, and I assure you that was not an easy task.

On that standard, we got the data to behave reasonably well; at least well enough to allow a test of its probable value.

Third and finally, we returned to our three sources of mortgage data and examined their relationship to the vacancy data, which of course was our primary goal. Frankly, our initial results weren't that good, producing relationships that were significant in statistical terms, but weren't much better than random. We made good progress, though, by developing neighborhood classifications that take account of typical housing patterns. It is not uncommon, for example, for the numbers of occupied units and vacancies to rise simultaneously. In growth areas, construction of new units creates new addresses. And as people move in, the number of occupied addresses goes up. At the same time, the number of vacant addresses can increase, too, as other new units await their first occupants.

This helps explain why we found that in some neighborhoods, an increase in subprime lending and resulting foreclosures was associated with an increase in the number of occupied units and an increase in vacancies at the same time, as developers sold units to those who bought with subprime loans.

In other neighborhoods, we saw a decline in occupied addresses and an increase in vacant ones as foreclosures emptied out units. This is the pattern we expect to find in many inner city areas where homeowners purchased existing homes with subprime loans.

For example, the first map I show you depicts the location of high-cost mortgage loans made to investors and single-family housing in the Detroit metropolitan area. The red and orange areas are the zip codes with the highest numbers of these loans relative to other areas of Michigan. The hatched areas are places where the numbers of occupied addresses went down and the numbers of vacancies increased. As you can see, there is a pretty good correspondence between the two, although it is not perfect. There are some red areas that don't have vacancy increases. There are green and yellow areas that do. We obtained slightly better results in northeastern Ohio as depicted in map 2.

So I think we made a considerable amount of progress in a short period of time, establishing the value of available mortgage loan data for geographic targeting uses and developing some of the classifications we need to make so that the Postal Service data becomes useful for our purpose.

In my view, there are three basic tasks remaining which I believe can be completed over the next several months. First, we need to expand our analysis of mortgage loan performance pattern to all

50 States and improve our models so we can predict the location of mortgage payment problems pretty well in every State.

Second, we need to do a better job in accounting for the factors that produce housing vacancies. We know that all subprime foreclosures don't result in vacant units. We know that all vacant units don't come from foreclosures. Various factors affect the conversion rate from foreclosure to vacancy.

Third and finally, we need to continue developing better classifications of communities according to their occupancy and vacancy trends. We can then overlay our foreclosure data to arrive at a workable targeting approach. The maps I showed you illustrated how this would work. So, in sum, I believe we made great progress in a short period of time toward an effective approach to identifying areas of foreclosure-driven vacancy.

I look forward to working further with my colleagues on the panel on this important task. Thank you for inviting me to speak today, and I will be happy to answer any questions you may have.

Mr. KUCINICH. And thank you, Mr. Walker, for your testimony.

[The prepared statement of Mr. Walker follows:]

Testimony of

Christopher Walker
Director of Research and Assessment
Local Initiatives Support Corporation

Joint Hearing on
"Targeting Federal Aid to Neighborhoods Distressed by the Subprime Mortgage Crisis"

House Oversight and Government Reform Committee,
Domestic Policy Subcommittee and

House Financial Services Committee Housing,
Community Opportunity Subcommittee

May 22, 2008

LISC

Chairman Kucinich, Chairwoman Waters, members of the subcommittees, thank you for the opportunity to present my views on this subject of pressing national importance. (Before I begin, I would like to acknowledge the expert assistance of my colleague, Francisca Winston, in carrying out the analysis I report on here.)

For nearly 30 years, the Local Initiatives Support Corporation, of which I am Director of Research and Assessment, has invested in America's low-and-moderate income neighborhoods to make them better places to work, raise families, and pursue life's opportunities. Last year alone, we channeled more than $1 Billion into affordable housing and other community revitalization projects, and into the community-based non-profit organizations that carry them out.

We have seen many of these same communities hit hard by a wave of foreclosures tied to subprime lending. Staff accounts from the 30 cities where we maintain offices, as well as reports from revitalization partners and local journalists, point toward a sharp upswing in the number of properties that remain vacant as foreclosed properties wend their way through the legal process. In turn, these vacancies trigger other vacancies, as the housing market responds to the deterioration in neighborhood quality these empty units produce. The net result is concentrations of vacant properties that undermine property values, harbor crime, and cause further deterioration.

Over the last six months, we at LISC have been exploring the patterns of subprime mortgage origination and loan performance across the United States to identify neighborhoods where concentrated foreclosures have occurred, and help our staff develop appropriate responses. For example, we ranked all US metropolitan area counties based on the numbers of neighborhoods that are most at risk of concentrated foreclosures due to subprime lending. We supplied maps of these neighborhoods to each of our offices, and we continue to track the numbers of foreclosures in these places using data available from proprietary sources.

At the invitation of committee staff, we turned our attention to the uses these and other data could be put to help the Congress target vacant property funding to areas that are most in need. These are areas with the largest increases in vacant properties resulting from mortgage foreclosures. Although our work is still in its early stages, we conclude that currently available data show considerable promise as a means to make reasonably accurate identifications of areas where increased vacancies have resulted from mortgage defaults and foreclosures. That said, a considerable amount of work remains to be done to realize that promise.

One of our tasks was to establish the strength of statistical relationships between home mortgage loan performance and residential vacancies. We had the following sources available to us:

- United States Postal Service (USPS) data on occupied and vacant addresses, and addresses that are in the process of either being withdrawn or being entered into active use. HUD makes these data available quarterly, for free, at the census tract level, but we analyzed them at the zipcode level to match the geographies available for other data. Our analysis covers changes in vacancies between April 2007 and March 2008.

- First American Loan Performance data on numbers of subprime loan originations, delinquencies, foreclosures, and real-estate-owned properties, as well as other information on loan terms for approximately 50 percent of the subprime lending market. These data were made available in late 2007 by the Federal Reserve at the zipcode level, and present a snapshot of the inventory as of October 2007. We understand that these data are no longer available in downloadable form, nor are they available for purchase to those outside the financial services industry.

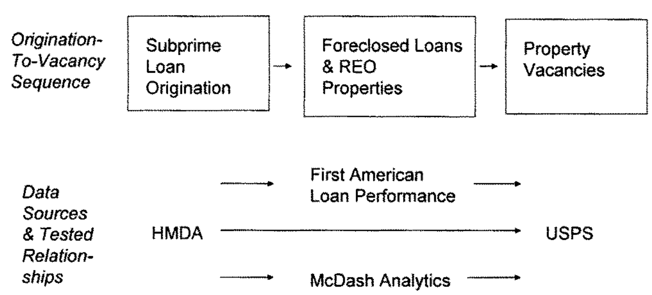
- McDash Analytics data on the principal dollar volume of subprime loan originations, delinquencies, and foreclosed loans, including those that are real estate owned. These data are available monthly at the zipcode level on a subscription basis, and cover about the same portion of the subprime market. Our analysis uses the most recent available data, which presents a snapshot of the inventory as of March 2008.

- Home Mortgage Disclosure Act (HMDA) data on origination of "high-cost" loans, which include those that are subprime. These data are available at no cost at the census tract level from the Federal Financial Institutions Examination Council. Our analysis uses data from 2005 and 2006, the most recent years for which data are available.

Before turning to our findings, it's worth noting that none of these data are perfect, and researchers are only beginning to become expert in their advantages and limitations. The USPS data are unusually fresh and on-point for analysis of neighborhood vacancies. But they were designed to help postal workers deliver mail, not carry out neighborhood analysis, so further diagnostic and data treatment efforts are needed. Each of the First American and McDash data covers only part of the subprime mortgage market, and it is not yet clear how these sources overlap. The HMDA data are very well understood by now, and they have been used in a number of high-quality statistical analyses of neighborhood conditions. But even these data must be used with some care.

Our research task was to determine whether changes in property vacancies could be linked in some way to the performance of loans in the subprime market. Exhibit 1 diagrams the commonly encountered relationships between loan origination, eventual foreclosures and real-estate-owned (REO) properties, and property vacancies. To each of these steps in the sequence corresponds a source or sources of data available to measure these elements at the zip code level.

Exhibit 1
Research Model and Tested Relationships

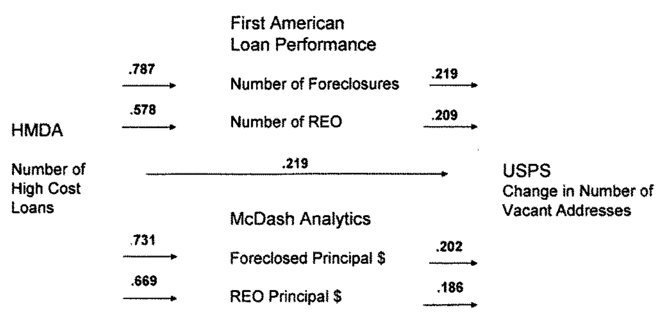


In our statistical tests, we examined the relationships between the numbers of subprime loans originated in a zip code – from HMDA – and the numbers and unpaid principal balances of foreclosed loans and real-estate-owned properties -- from First American Loan Performance and McDash Analytics. (Because of the work required to prepare data for use, we carried out these tests only for the 20 largest states.) We then examined relationships between these loan performance indicators and the *increase* in numbers of vacant properties as indicated in the USPS data. (Although all vacancies affect neighborhood quality, we wanted to capture only those vacancies likely to be the result of foreclosed loans.) Because HMDA data are more readily available to analysts than either of the proprietary sources of data, and have a broader coverage of the market, we also tested the direct relationship between the volume of loan originations on the one hand and property vacancies on the other.

Exhibit 2 shows the results of our analysis for all zip codes in the 20-state sample. The numbers above the arrows depicting each relationship correspond to the simple statistical correlations between each pair of variables. This "correlation coefficient" ranges from 0 to 100, with 0 meaning "no relationship" and 100 signifying a perfect relationship.

As the exhibit shows, high cost loans tend to be closely tied to the number (.787) and dollar volume of the unpaid principal balance (.731) of foreclosures, as well as to the dollar volume of unpaid principal for loans on REO properties (.669) and the number of REO properties (.578). In other words, knowing only the number of high-cost loans, an analyst can make a very good prediction about the number of subsequent subprime foreclosures, and to a lesser extent, the number of real-estate-owned properties.

Exhibit 2
Statistical Relationships Among Originations, Loan Performance and Vacancies



Note: Numbers are Simple Correlations

Statistical relationships between the number and unpaid principal balances of foreclosed loans, and those in REO status and the change in number of vacant addresses, are not as strong. In fact, we don't expect these correspondences to be extremely high, insofar as other factors in addition to subprime loan performance are likely to create or remove vacancies. Put another way, not all subprime loans create vacancies, and not all vacancies are the result of subprime loans.

These results point the way toward two further analysis tasks that must be carried out successfully before the data are suitable for use in targeting aid to areas of high vacancy due to foreclosure. The results from early testing argue strongly for continued work to strengthen the relationships discussed here.

The first task is to verify that the strong relationships already identified at the national level between HMDA loan originations and subsequent loan performance hold true at State levels, as well. (The appropriated funds are slated to be allocated by States.) If they do, then HMDA data can be used as a proxy for a more direct, but less available, measure of loan performance. Based on our analysis of the 20 States in our sample, we have verified the generally close tie between numbers of high-cost originations and numbers of subprime loan foreclosures.

That said, correlations in six States fell below .875, roughly corresponding to an inability to explain more than 75 percent of the variation in foreclosure volume across zip codes (a high bar by social science standards). In these States, other unaccounted for factors must influence the relationship between originations and foreclosures. The most obvious of these factors, and one easily accounted for in future analysis, is house price trends: differences in market strength across metropolitan areas within a state, for example, are very likely to influence demand for properties that have entered foreclosure and the resulting likelihood of their remaining vacant for long periods.

Second is the generally low correspondence between loan originations, foreclosures, and REO properties on the one hand and increases in vacant addresses on the other. As noted, we don't expect this relationship to be a perfect one, but it would be wise to explore patterns in the data to validate construction of indicators using this source. For example, we examined relationships state-by-state, and found the highest positive correlation between HMDA 2006 loan originations and change in vacant addresses in Michigan (.470), and the highest negative correlation (an unexpected result) in Pennsylvania (-.246). We don't yet know why this difference occurred.

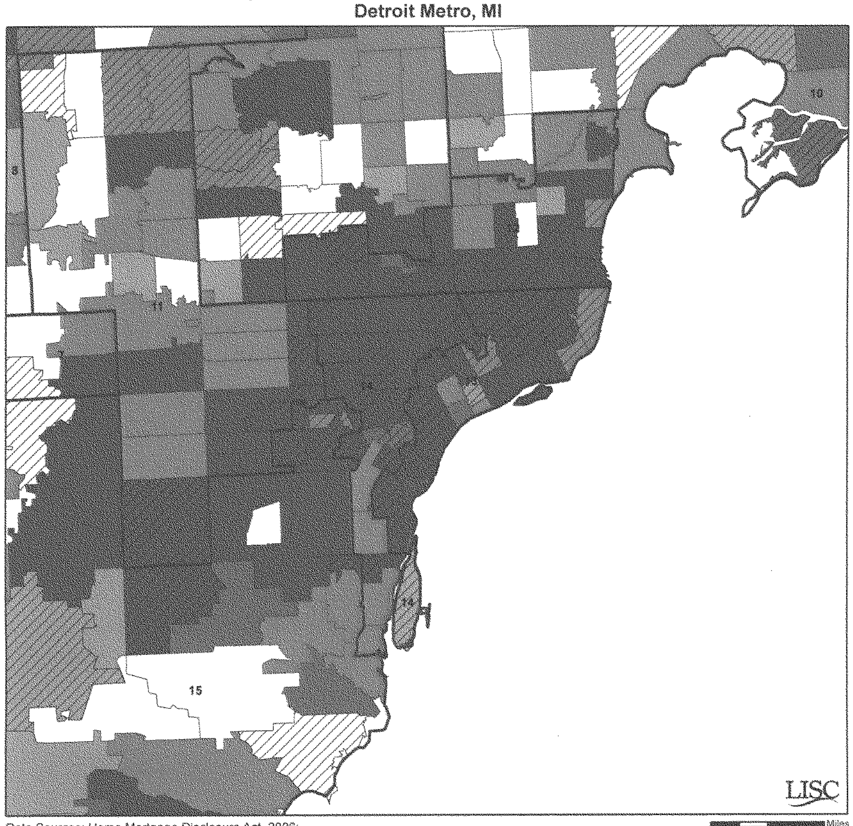
To further explore these data, we drew distinctions between metropolitan and non-metropolitan areas, included loans originated in both 2005 and 2006, distinguished between loans made to owner-occupants and investors, and considered a measure of the change in occupied residential addresses in addition to change in vacant addresses. We believe that more work on the relationship between investors and owner-occupants and changes in occupied addresses and vacancies, by metropolitan area status, offers a promising avenue to development of workable targeting criteria.

For example, in Michigan, the higher the number of high-cost loans to investors, the higher the number of vacancies from 2007 – 2008 (.552) and the lower the number of occupied addresses (-372); the corresponding correlations for owner-occupants were.425 and -.224, respectively. Correlations of this magnitude, used to guide appropriate groupings of data, may allow us to construct measures that reliably identify areas of foreclosure-related vacancy.

Continuing the Michigan example, Map 1 displays zip codes in the Detroit metropolitan area, classified according to the number of high-cost loans made to investors in 2006. The map also identifies areas where vacant addresses increased and occupied addresses declined between 2007 and 2008. As the map shows, there appears to be a reasonably strong correspondence between investor loan volume and areas of increased vacancy and declining occupancy, although there remain areas of occupancy and vacancy change that remain unassociated with large numbers of investor loans. As another example, Map 2 shows the same information for Northeastern Ohio, where there appears to be an even stronger correspondence between loans to investors and vacancy and occupancy changes.

More of these kinds of State- and metropolitan- areas analyses will have to be done to validate use of the USPS data in conjunction with HMDA and other sources for the purpose of targeted funds to areas of need. Based on the work we have done to date, we have considerable confidence that this can be done in the not-too-distant future.

Map 1
Relationship Between High Cost Mortgage Loans Made to Investors in 2006 & Change in Vacant and Occupied Addresses 2007-08
Detroit Metro, MI



Data Sources: Home Mortgage Disclosure Act, 2006;
USPS Administrative Data On Address Vacancies March 2007 & 2008

Quintile of Investor High Cost Loans by Zip Code

- 0 - 2
- 3 - 5
- 6 - 10
- 11 - 25
- 26 or more
- Increasing Vacant & Decreasing Occupied Addresses 2007-08
- No Loan Data
- Congressional Districts

Notes

Includes single-family home purchase and home refinance loans originated in 2006.

Quintiles are based on loans originated in all Michigan zip codes.

High cost loans have interest rates 3 percentage points above comparable Treasury rates for first liens and 5 percentage points above for junior liens.

Map 1
Relationship Between High Cost Mortgage Loans Made to Investors in 2006 & Change in Vacant and Occupied Addresses 2007-08
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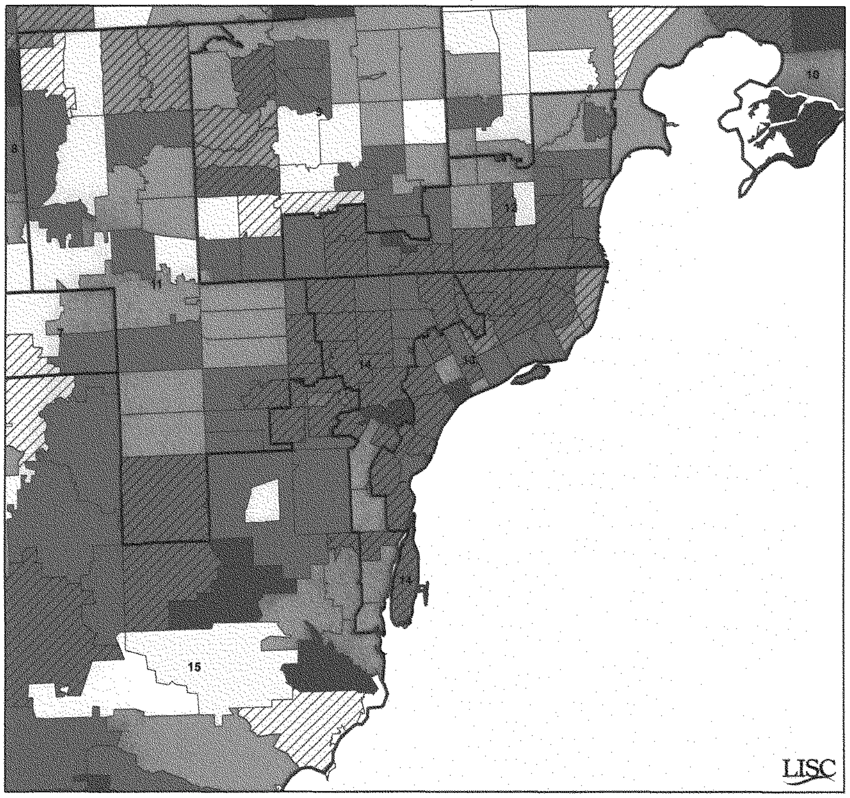

Data Sources: Home Mortgage Disclosure Act, 2006;
USPS Administrative Data On Address Vacancies March 2007 & 2008

Miles
0 2 4 8

Quintile of Investor High Cost Loans by Zip Code

- 0 - 2
- 3 - 5
- 6 - 10
- 11 - 25
- 26 or more
- Increasing Vacant & Decreasing Occupied Addresses 2007-08
- No Loan Data
- Congressional Districts

Notes

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Mr. KUCINICH. We are going to move now to questions from members of the two subcommittees. I am going to begin by asking my colleague, the chairwoman, to begin with the questioning. And the Chair recognizes Ms. Waters for 5 minutes.

Ms. WATERS. Thank you, very much. Mr. Chairman, let me thank you again for holding this hearing and our presenters who are here today who are sharing very valuable information with us.

As I have looked at the subprime meltdown and the foreclosure mess, I have gleaned from all of the information that has been afforded to us and many of the visits that I have had in some of these cities, that the conclusions that you are arriving at Mr. Walker, are basically what I think I am seeing out there in terms of the—and I appreciate the fact that Chairman Kucinich is helping us to understand how to best use these resources.

When we talk about $15 billion it sounds like an a lot of money, but it is not; $7.5 for grants, $7.5 in loans. When I contrast that to the meeting that I just left where one company had $40 billion in profits and five had $123 billion in profits, this is very little in terms of what we should be doing to stabilize these neighborhoods. And everything that you have testified to just rings absolutely true.

But I am concerned about something, Professor Alexander. I want so very, very much for many of our areas, particularly in our urban areas, that have been devastated for a long period of time where you have huge blocks of properties, land, closed factories, etc., that have been sitting there for a long time. And then on top of that, for those homes that have kind of remained there, they have fallen into the foreclosure mess.

And now you have an opportunity for the city to take a look at what they can do to revitalize these neighborhoods, utilizing some of the abandoned properties from these factories, like in Saint Louis. I was there. And of course all of you know about the projects in Saint Louis and all of that acreage right in the middle of the city that has been abandoned over 20, 30 years now. We saw two such areas.

So as I understand it, you recommend that land bank and demolition be eligible use for Federal assistance to help State and local governments address the foreclosed and abandoned property issue.

I think that may be legitimate, but I worry. In Saint Louis, it appears that as they approached, before the foreclosure crisis, this land banking not doing anything with foreclosed properties or abandoned properties for a long period of time, with an idea that they would land bank and be able to plan and develop communities where they find a lot of displacement; people who, you know, were displaced. Nobody knows where they are. And in many of these areas, homelessness certainly increased.

And this land banking, the way that they have done it is they have allowed some of the properties to just deteriorate in an effort to, you know, come up with this ideal situation that they are going to develop someday. And so land banking has been going on for a long period of time. Properties have been vacant that nothing has been done with.

So how do we avoid the kind of displacement? And how do we avoid these long-range plans for development, with the idea that you don't put any money in now because you want to dismantle all this stuff so that you can come up with these ideal communities? How do we deal with all of that? Why should we use this money for land banking and demolition if in fact we are not going to realize some relatively quick turnaround in development and stabilization?

Mr. ALEXANDER. You raise a number of excellent questions, Chairwoman Waters. Your points about the Saint Louis LBA the land bank there are quite accurate. It had the same number of properties in its inventory 15 years after it began as it did the day it began.

In contrast, we heard testimony yesterday from Treasurer Daniel Kildee of Flint, MI, Genesee County. They have acquired 12 percent of the digests of the city of Flint, but they have also put more homes into occupied housing than anyone, any other entity in Flint or in Genesee County.

I wish there were a guarantee that we could come up with that an LBA or a city government would also always use it in the most productive fashion. I am not aware of any such guarantee. But 5818 itself embodies a number of critical points that will keep that from being a ikelihood.

First, it is time-limited. It is sunset. It is designed as an emergency aid. This is not an ongoing program. This is one designed to get the excess inventory and put it back into productive use very quickly.

The demolition feature that you have in the bill does permit the demolition of things that are not cost-efficient to rehab. I agree with the purposes in the bill, that rehab is the first priority. Demo and demo costs should occur only when necessary to stabilize the neighborhood.

So I think you have the features in 5818 that can allow our local governments to preserve our neighborhoods. It is not going to cure all the problems. In a very weak market where the population continues to flee, this and this alone will not be enough. But it is an absolutely vital stage for saving those cities and neighborhoods that are going to have a tough time surviving in the face of 30 and 40 percent foreclosure rates.

Ms. WATERS. Thank you very much. Let me just ask our presenter from LISC.

Mr. Walker, do you envision that LISC would be interested in some of this rehabilitation work, because like Mr. Alexander has said, that may be the highest priority, rather than establishing, demolishing too much and, you know, trying to stabilize it. It appears that rehabilitation certainly has great possibilities. Has LISC been involved in rehab rather than new development? Would LISC be interested in this kind of thing? Is this the kind of thing that would make good sense for you?

Mr. WALKER. Chairwoman Waters, we at LISC pride ourselves in supporting community-based solutions to the problems of neighborhoods. In some communities new construction is the right solution. In other communities rehabilitation is more appropriate. Sometimes even within the same city, different neighborhoods require different solutions. So that is one of the primary reasons why we support community-based organizations that have attachments in the community already and are able to make those decisions for themselves. So either way our partners choose, we are prepared with the kinds of investments, including the kinds of investments which would go in tandem with the resources made available from 5818, to support those decisions.

Mr. WATERS. Thank you very much.

And to Mr. Kingsley, you have been involved, the Urban Institute has been involved in an awful lot of research, it appears. And how can our agencies of government be of more support to you in the work that you are doing? Is there something that we could be doing over in HUD that would be more helpful, or over in the congressional side of government, Office of Research, etc? Because it is very important that we know where to best spend money and where it will be most helpful and where it would stabilize neighborhoods the best. What do you need? Perhaps money.

Mr. KINGSLEY. Well, Chairwoman Waters, I think you have touched on a lot of things that could possibly be helpful. I think the testimony you have heard today suggests that there is already some fairly effective national-level research that is supportive of the interests and supportive of helping people to do a better job of implementing 5818. I think I would like to give stress to finding ways to support local entities more than national ones to do good local research. The decisions that get made that affect most of what happens in America, and especially at this level, are decisions that are made by people in communities and localities. And even though I think, as my colleagues here have talked about, that there is a pretty good basis and a promising basis for doing a national allocation formula, I would argue that really making sensible decisions about exactly what to do in each of these neighborhoods—in some cases, as Mr. Walker said, it is going to be rehab versus demolition, but it is also how to efficiently target resources; which neighborhoods to go into and how to do that. You want to get good people locally who are capable of producing data-driven decisions. So I think consideration of ways to allow some focus to support analytics locally, as well as simply bricks and mortar, would not be a bad feature. Thank you.

Mr. WATERS. Thank you very much.

Mr. KUCINICH. I thank the gentlelady for her work on this and also for her questioning. The Chair recognizes our ranking member, Mr. Issa.

Mr. ISSA. Thank you, Mr. Chairman. Mr. Kingsley, I think I am going to take the opportunity to sort of followup on my colleague's question, recognizing that I have one foot in Cleveland, the place of my birth and the home of the Cleveland Indians, and then I have this Padres foot in San Diego, so I will do the best I can to try to use them both to our advantage.

When you talk about local involvement and so on—this is beyond 5818, but in a sense it isn't—how much local equity, and what I mean is real money, should cities, counties, and States have in this process? How much should the Federal Government insist on leveraging of real participation by the—you know, there is no State in the Union that doesn't have money. They all have deficits, but they all have money. How much, what is the ratio, you think? Should we be in there with $15 billion at 10 percent or at 20 percent? Because if we get to 100 percent, $15 billion doesn't go very far. Can you help us understand that?

Mr. KINGSLEY. I think it is a complicated answer because of the variations in both fiscal circumstances that exist around the country as well as the variations in the extent of the problem at the neighborhood level. So I don't really—I don't really have an easy answer. I would certainly endorse the idea of some leveraging and some sense of incentives, because if local governments have a stake in this process, they are obviously going to use money more wisely. And I certainly endorse that.

Mr. ISSA. Well, following up on that question, assuming that the reason that they wouldn't do more is that they don't have more for a moment, and looking at both California with a $20 billion deficit and Ohio with about a $20 billion budget, OK, so fortunately Ohio has a smaller deficit, but they both have downturns right now. If we are to go beyond 100 percent funding, would it be better for us to—let's say we take the $15 billion—if we in fact, for example, made it $60 billion but made $45 billion in the form of loans, recognizing that better times are coming, so that they would still have equity in it in the form of debt, but it wouldn't simply be it is other people's money, go spend it, and if it doesn't work you have lost nothing?

Mr. KINGSLEY. Again, I think the loan/grant mix combination is an awfully difficult thing to settle across the board. But I do think that there is clearly a notion related to timing. And the principles here ought to be such that they do, I think, move in the direction you are talking about.

I mean, we have a short-term crisis in which the budgets of localities are being hurt very badly in the short term. So the principle of getting them to pay for everything up front ain't going to work. I think we have to inject some money into them. But certainly the principle of doing that in ways where, over the long term as the economies improve, that they are able to participate is good.

Mr. ISSA. Mr. Richardson, sort of as a steward of our money, we put it out there, we trust you to be a good steward of it; are programs like that historically a more effective way to leverage dollars, recognizing that an empty home or a foreclosed home in Cleveland, OH or in Temecula, CA represents no revenue to the city, or reduced even if it is held by a bank, can we expect that program proposals coming from the administration would include some sort of leveraging of we understand you have reduced revenues, but we would like to share in the benefit of us getting those revenues back up by loan repayment or some other process in order to make our 15 billion, as the gentlelady suggested, hopefully a far greater number?

Mr. RICHARDSON. Well, I can't speak to the policy of the administration on this specific bill——

Mr. ISSA. But you are the administration sitting here. Trust me, feel free. It is the end of an administration. Do your best to put your CEO hat on.

Mr. RICHARDSON. But I can speak to other programs that have match requirements.

Mr. ISSA. Thank you.

Mr. RICHARDSON. And programs like the HOME program, where a jurisdiction can be required—jurisdictions are required to have a HOME match, but it can be waived if they can show that they can't meet that requirement. So as in this case, some jurisdictions may be more able to be able to provide assistance than others.

In terms of an allocation formula, another way to handle it is—if you are allocating funds—is to target funds in such a way that you take into account fiscal capacity so that a jurisdiction with higher fiscal capacity, with perhaps equal need to another jurisdiction, gets somewhat less funds than a jurisdiction with low fiscal capacity.

Mr. ISSA. And if I could, Mr. Chairman, if I could just ask one exit question. You know, being from California with our $700,000–$800,000 homes in foreclosure in many cases—and these are still hardworking people at regular jobs, the homes are simply more expensive—we have full confidence that we are going to have a snap back and that homes in 10 years will be worth dramatically more than they are today, the same homes that are empty and in foreclosure.

Should the Congress be considering schemes—I mean that in the good sense—in which we extend what it takes to stabilize those markets, get people back into them on some sort of a basis they can afford today, but the Federal Government or other agencies take equity so that when they snap back we can expect a recovery?

And I would contrast it maybe in a way to what we did for Chrysler many years ago. We actually didn't give them a penny. We provided loan guarantees which they paid back, with interest, when Chrysler was restored. Can we, in a place like San Diego or Temecula, CA in my district, use techniques like that? Presently I don't know of any, but is that something Congress should be trying to make available so we not simply throw money at a time in which it is down, and then be surprised in which those same homes are now earning people huge returns?

Mr. RICHARDSON. If I could ask Frank to answer that question, he seems to have——

Mr. ISSA. You are a natural-born leader. Yes, sir.

Mr. ALEXANDER. Representative Issa, you have already got it in a small form in 5818, where you have the shared depreciation concept. Now, I am not aware of that in any other Federal loan program, that a loan or grant carries with it a shared depreciation for repayment to the Federal Government. So in that sense in some jurisdictions, yes, you are going to be capturing a portion of the upside, not only for repayment of the initial loan but of the appreciated dollar value.

Now, it is not going to be applicable across the board where you are locking it in, where the disposition of the property is to lock it into affordable housing. Odds are there will not be as much upside appreciation. But that, again, the good thing is it allows the local jurisdiction the flexibility to do shared depreciation mortgages with a recapture, or to focus much more deeply on the extremely low-income rental housing.

Mr. ISSA. Thank you, Mr. Chairman. And thank you for focusing for so long, for this year and beyond, on this problem which we share, although in different ways, between our two districts.

Mr. KUCINICH. Thank you very much, Mr. Issa. And I am going to exercise my prerogative as Chair, having yielded the time to Ms. Waters to begin to ask questions, to ask my questions. And I will make it as expeditious as possible so we can get our other members of the subcommittee involved here.

You know, one of the things, I would ask the members of the subcommittee, if you take this overlay, the page that has northeastern Ohio, I just want to—this is Mr. Walker's work. We thank you for that. When you look at this, what we have here, the Investor High Cost Loans by ZIP Code, you are really talking about the subprime loans. And when you overlay, as you have, the increasing vacant and decreasing occupied addresses, they fit rather neatly, if you are looking at the city of Cleveland, over those areas where they had the subprime loans.

Now, this subcommittee is looking at, you know, what is the most effective way to target any resource that would be available. And these maps are very helpful, because what it appears is that you have a high number of subprime loans and then people are just leaving.

One of the things that has come up in the work of this committee—and I want to just share this with the members of the subcommittee that are with us today from Congresswoman Waters' subcommittee—if you take the matter that HUD provides, which maybe staff could put that up there—go back. Further. Take a look over—that's it. Can you enlarge that a little bit? A little bit more? If you can enlarge it?

You look at it, it actually looks like a V, like this. If you look at the map, it looks like a V. That V approximates the African American community in Cleveland. If you look at this, where the concentration is in the red areas, particularly the red areas where you have the overlay of increasing vacant and decreasing occupied addresses, that also is the African American community. When you look at, going back to our map, staff, go back to this map, when you look at the overlaid areas of red—yes, that's it, try to enlarge that a little bit—for those of you who have the map, I just want to point something out. When you look at the overlaid areas of red in the Cleveland area, and then you look at the other areas to the west, that's Lorain, OH, large African American population. You look at the areas to the south, the areas of red that have an increasing vacant or decreasing occupied addresses, same thing with the African American community in Akron, OH.

When you look east of Cleveland, there is a little fringe of red there that is overlaid for increasing vacant and decreasing occupied addresses. That is Euclid, OH, a large African American population.

In the work of any of the gentlemen here, have you done any research that has looked at data that has identified the racial characteristics of the people who have had this avalanche of subprime loan defaults? Anybody here done that work? HUD?

Mr. RICHARDSON. There has been quite a lot of research actually on subprime loans and its relationship to the race of borrower. And certainly the rate of subprime loans for minority borrowers is much, much higher than it is for white borrowers.

Mr. KUCINICH. Has HUD, to your knowledge, ever considered a civil rights action? Take this data and wrap it up into a civil rights action? Has that ever been talked about?

Mr. RICHARDSON. HUD has a new division that is looking at lending patterns of discrimination. And they are using these data to try to identify lenders that look like they do activities that may suggest that they are lending money in an illegal fashion. But I am not the expert on that.

Mr. KUCINICH. I want this subcommittee—and perhaps we could do this in conjunction with Ms. Waters' subcommittee as well—to go into this a little bit more in terms of these patterns.

You know, when we had our initial work on this committee we identified those vectors that we saw. And what disturbs me is this, and I just want to put this card on the table. I was mayor of Cleveland over 30 years ago. I was one of the first mayors in America to use the Community Reinvestment Act to see that there would be investing in the inner city in neighborhoods that had not had investments in the neighborhoods but had put money in the banks. Banks weren't lending in the community. And over the years, banks tried to skirt their responsibility to follow the Community Reinvestment Act, and, in a sense, render it a nullity.

Later on, it was very apparent there were wide areas which were starved for credit. They came in with these subprime products, no documentation loans. People were desperate to have a home. Now we can say, you know, well, OK, take some responsibility. But you know what? There is an issue of financial literacy that enters into this. And you know, it is one thing to market a product to people who are aware of exactly all the parameters. But when you have the desire for a home ownership so powerful where it is the biggest dream in people's lives—my parents never owned a home. They were renters. But when I had my first home, huge.

And so we have something that goes much deeper here than just—there is a lot of great analysis here, and I appreciate it. But there is a human dimension here with part of the ugly underside of America's social life tied to the economics that this subcommittee is going to continue to explore.

And I just wanted to know if anybody at HUD was aware of that, because I think that we really should be looking at some of the civil rights dimensions of this. Because there were lending institutions, whether they were regulated or not—that's something we have to determine, regulated or not—there were lending institutions that were out there marketing these products, capitalizing on the perhaps lack of savvy financially, getting these no-document loans. And now these people have lost—and people have lost everything. I am in neighborhoods in Cleveland that are falling apart. They are just falling apart. And people who are remaining, we have talked about them, are having a great deal of difficulty holding onto their equity. So let me get my colleague.

Mr. ISSA. I just wanted to remind us both that in the hearings a little over a year ago, that was very much what we heard was on one hand banks and other institutions had been availing themselves of, finally, the requirement that they stretch to make loans to underserved communities; but at the same time the loan failure rates were high, some of it because of the very nature of subprime loans. And so in a sense they were not doing a favor to people unless, as you said—and I think, Mr. Chairman, you said it very well, that may be a part of what this committee has to look into—you have to have that sort of financial check-and-balance on first time homeowners, people with jobs that are perhaps right on the edge of being lost in a downturn. And we saw that a year ago in your hearings.

Mr. KUCINICH. Well, the buyer beware and the lender be prudent. Mr. Green.

Mr. GREEN. Thank you, Mr. Chairman. And I thank you for your wisdom and the sage advice that you have accorded us.

Again, I would like to make mention that the bipartisanship that we are witnessing is most refreshing. And I am most appreciative to be a part of it today and play some small role.

Before going to the comments that I wanted to make and the question that I would like to ask, I think it appropriate to say, also as an addendum to what you have said, we have a lot of persons who qualify for prime loans and were steered into the subprime market.

Mr. KUCINICH. Exactly. If the gentleman would yield, you are absolutely 100 percent right.

Mr. GREEN. Thank you. And there was also another element of this that causes a great degree of consternation, something called the yield spread premium [YSP]. The yield spread premium, for edification purposes, is a lawful kickback that an originator receives if the originator can cause the borrower to acquire a loan higher than the one the borrower qualified for. Qualify for 5 percent, get the borrower to take out an 8 percent loan, that originator receives now a lawful return, if you will. So as to be kind, that is an emolument that he would not ordinarily receive if the person received the 5 percent loan. That causes a great degree of consternation as well.

But I want to compliment the panel. You have done what intellectuals should do, and that is cause lay people like me to think. You really have. Because you have given me at a level of intelligence that I had not considered prior to your comments.

And one of the things that I would like to ask you is are you contemplating a bifurcated system, one wherein we acquire a certain amount of empirical evidence at the Federal level and utilize this evidence to target a local area wherein we require some entity to then share with us empirical data that we would plug into a formula? Is that the methodology that you contemplate, or do you contemplate a holistic approach at this level that will direct us specifically to an area that is in need?

And I welcome comments from whomever would like to respond. Mr. Kingsley, we will start with you. I recognized you first, and then Mr. Alexander.

Mr. KINGSLEY. I think that just as most of our comments here suggest, that there is promise in using national data to develop a formula that you could use to efficiently target these resources without having to rely on any specialized local or proprietary data sets to do that.

The remark I made about data is that once the funds are allocated, then it really makes sense to support local intermediaries to use local data to help in targeting the expenditure of those funds and in also devising efficient strategies to use those funds.

So I guess my view was clearly that I think there is promise in being able to use national data sets to develop an equitable formula for allocating the funds nationally.

Mr. GREEN. Thank you. Mr. Alexander, sir. Professor.

Mr. ALEXANDER. Representative Green, in a sense, 5818 already has the bifurcated approach. What you are hearing from the four of us, and we really are in essence speaking in one voice, recommending that the basic allocation formula be modified to focus on concentrations of foreclosures and vacant and abandoned properties.

In 5818, as it passed 2 weeks ago, it has a bifurcated approach in that the approved plan requires a focus on vacancy and likelihood of increased vacancies and higher foreclosures.

So you have two different levels already present in the basic structure of 5818. And I think that has been official. I think the basic formula for allocation to the States, qualified municipalities, and qualified urban counties can be improved upon. But then I would still even place the emphasis that you have put in the current bill, which is that the distribution must be in response to a plan of the municipality that will address the highest-risk neighborhoods, and so it does allow local flexibility.

And following up on Representative Waters' earlier question to me, it allows for the local governments to identify their action plans in order to receive the money. I think preserving that local flexibility is so important.

Mr. GREEN. Thank you. As I yield back my time, Mr. Chairman, I sincerely thank you for your thought-provoking comments that you made, because, again, some things will escape one who is not familiar with the regions and the maps. And but for your comments, I may not have picked up on this. Thank you.

Mr. KUCINICH. I thank the gentleman. The Chair recognizes Congressman Cleaver.

Mr. CLEAVER. Thank you, Mr. Chairman. The research you are doing, I think, is going to be critically important for many mayors. And like the chairman, Mr. Kucinich, I served as mayor of Kansas City, MO. And I am always looking, even now, at what is happening in the urban core. And the depreciation of housing, of the housing stock didn't begin with the subprime crisis. It has accelerated because of the subprime crisis and added some new dimensions.

One, and I haven't seen this in the research, maybe you are dealing with this, and I guess maybe in a way you have, but this is somewhat anecdotal except that I know I can call some names of people, insurance companies will not insure a vacant piece of property in Missouri more than 60 days. And so even if the house had not been just damaged and torn apart, after 60 days the chances are high that either someone will strip the copper out and the kitchen and bathroom furnishings. But in many of those houses, the drug industry will move in. And so there is a factor with insurance.

And you know, it didn't occur to me until I saw someone who wrote down the value of their home by $50,000 in order to sell it—I am sorry, $50,000 loss because they were afraid after 2 months that, you know, the house was going to be torn up. So they just took a big loss. And after seeing that, I realized that there is one component that we haven't addressed, and that is the whole issue of insurance.

No one likes to force anybody to do anything, and the people who are forced regret it and hate it more. Insurance companies. But I think we are going to have another problem around the country related to the properties that are taken off the insurance rolls, because that is going to really create some serious problems.

And then when you deal with, you know, demolition versus rehabilitation in an urban core, I think, Mayor Kucinich, would agree you try to rehabilitate? The reason you try to rehabilitate is because if you want to look at demolition, you go to the urban core and you will see, you know, a house, vacant lot, house, two vacant lots, because of demolition. And it is difficult to get developers to come in and do an in-fill housing development project. And even when they do, it creates a problem because the new housing in the older neighborhoods generally don't match the majestic old houses, even in the urban core. I mean, you know, you will have some cardboard housing put up next to housing that was put up 100 years ago, but it was really well built.

Anyway, I am not sure that's much of a question, but I would like to get your response to what I have just laid out. Any of you. Yes, Mr. Alexander.

Mr. ALEXANDER. Representative Cleaver, you are absolutely right in identifying that as one of the unspoken topics right now. As we look at the tremendous growth of REO that lenders are now acquiring as a result of these foreclosures. They are quickly discovering the insurance costs, or the lack of insurance, as it becomes vacant for extended periods of time. The good news in that is that the lenders holding this REO are going to have to wake up pretty quickly and be willing to convey that property to local government entities or to nonprofits to then rehab it and put it back into productive use.

I think that one of the challenges you are giving to us, which I am delighted to accept, is to start pressing the insurance industry and the lenders on their REO policies to find out the loss of coverage or how much it is going to cost them to continue coverage when they hold property for 6 months and a year post-foreclosure.

Mr. CLEAVER. Anyone else?

One final question, Mr. Chairman, to Mr. Walker. In your testimony you suggest that more research is needed before we will know exactly how to use the data sets that are available to achieve what we have done with 5818. How close are we today to having the detailed knowledge of whether vacancies are increasing due to the subprime mortgage crisis?

Mr. WALKER. My response, sir, is we are talking a few months and not a few years.

Mr. CLEAVER. That is good news. I was trembling over the fact— I am accustomed to having witnesses do the Capitol Hill dance. And it is just refreshing to hear somebody say it is coming.

Mr. WALKER. Well, I am a researcher, so if you ask me a question I am always going to tell you that more research is needed.

Mr. CLEAVER. Thank you. Thank you, Mr. Chairman.

Mr. KUCINICH. Thank you, Mayor Cleaver. I just would like to do just one more brief round of questions here. Before I get into this question about the data sets, I just want to point something out about what Mr. Cleaver said. I will talk to Chairwoman Waters about this. This might be another opportunity for our two subcommittees to cooperate. Because when we are talking about insurance—and you are the first person that mentioned that, and that is really important that it is mentioned—you know, we were already grappling years ago with the issue of redlining. When you look at this map again, and there is red, there is lines across that red. You can almost bet insurance companies, which are very savvy about their premiums and their investments, are a step ahead of us on this. And we should look at the insurance implications. Because if people cannot get their property insured, as you point out, they are looking at a fire-sale price for their property. And when that happens, the surrounding property also begins to drop. And businesses in the area will find their rates go up if they can get insurance. So we are looking at the beginning of a vicious cycle.

And if we are talking about neighborhood restoration, that discussion of insurance has to be part of it. And I appreciate you bringing it up.

I would like to ask all the members of the panel this question. The purpose of the aid authorized in H.R. 5818 is to help neighborhoods. Now, most of the data sets that you have discussed focus at the county or the ZIP Code levels. It is a much lower level of resolution than the neighborhoods. Or should I say it is a much higher?

Mr. WALKER. Lower.

Mr. KUCINICH. Lower resolution than the neighborhoods. Somewhere there has to be a common denominator or a high enough level of resolution that you are targeting needs to needy neighborhoods, but low enough that it is comparable among different data sets. So what is that level of resolution? Is it a State or county or Census tract? Would you like to offer your opinion on that? I will start with Mr. Alexander.

Mr. ALEXANDER. For purposes of determining concentration of foreclosures I think you must go either with Census tract or with ZIP Code, either five or nine-digit ZIP Code, to be able to really determine which communities or neighborhoods are the hardest hit. I think you can then back into the aggregate relative percentages of the concentrated neighborhoods and still do State-by-State allocations. But the variable of concentration needs to be present.

Mr. KUCINICH. Mr. Walker.

Mr. WALKER. I think one of the beauties of the correlations we have established between the foreclosure data from the proprietary sources, which is available to us generally at the ZIP Code level, and the HMDA data, which is available to us at the Census-tract level, is I think we can feel pretty confident in using Census tract level data in order to establish the kinds of concentrations we have just talked about. The Postal Service data is also available to us at the Census tract level.

And so that gives us the possibility of doing what I think is critically important in this regard, to identify the numbers of neighborhoods within communities that are subject to and cross some threshold of concentrated foreclosure.

Mr. KUCINICH. Mr. Kingsley, you have anything to add there?

Mr. KINGSLEY. No, I would endorse that. We do a lot of work on neighborhoods around the country. And most people even think in terms of really responding to what people think of as a neighborhood, the Census tract is about right and the ZIP Codeis often too big, too much an amalgam of very different circumstances. And I would endorse, I think, what my colleagues here have said, we are very fortunate because we have HMDA data and the Postal Service data at the Census tract level.

Mr. KUCINICH. Mr. Richardson, would you like to add anything there?

Mr. RICHARDSON. Well, I think as you pointed out when you were showing the map of Cleveland, and being able to show the pattern here with the map we prepared, this is Census tract level data. And it is very—it tells you a much stronger picture about what is going on in your community if you can do it at the Census tract level.

Mr. KUCINICH. So you would say Census tract data.

Mr. RICHARDSON. Yes.

Mr. KUCINICH. In your opinion, what makes a good formula then? What are the elements of a good formula?

Mr. RICHARDSON. Elements of a good formula. First off, that it has to be well-targeted to the goal that the Congress has established. Second, that it has to be fair. Communities with similar levels of need need to get similar amounts of money.

Mr. KUCINICH. How do you know if you have a good formula, then?

Mr. RICHARDSON. How do you know if you have a good formula? You want to compare it against a variety of—you can establish a formula based upon the best data that you have that is consistently collected across the country, and then you can compare it against other data sets that you might not have for every part of the country.

For example, Tom Kingsley at the Urban Institute, they have the NNIP partners for a select number of communities. They have more data at the local level than we have nationally. But if our stuff matches up well with what they have, that gives us some confidence.

Mr. KUCINICH. So if the Neighborhood Stabilization Act is going to be effective and equitable, we want to make sure that we are targeting at the most discrete level that we can possibly do that would hold up for data analysis. Is that what you are saying?

Mr. RICHARDSON. Not speaking specifically to that act. If you want to target funds to the needs of vacancy and abandoned housing and concentrate on vacant and abandoned housing, that is pretty much what you have to do.

Mr. KUCINICH. Mr. Kingsley, would you agree with that?

Mr. KINGSLEY. Yeah. I think I would agree with that.

Mr. KUCINICH. Mr. Walker.

Mr. WALKER. Certainly.

Mr. KUCINICH. Mr. Alexander.

Mr. ALEXANDER. Yes, sir.

Mr. KUCINICH. OK. Mr. Issa.

Mr. ISSA. Thank you, Mr. Chairman. You got four yeses. I should quit now.

Mr. KUCINICH. That is why I stopped.

Mr. ISSA. The problem is now I am next. You are a hard act to follow. Let me followup on that line, though, because I am very intrigued by it.

First of all, I guess it is pretty easy to see from charts that we can figure out how many impacted people there are in a given ZIP Code.

But when we are looking at on a local control—Mr. Kingsley, I think I want to focus on that—wouldn't it be true in some cases, and we will take Cleveland, Cleveland Heights, these areas—particularly the east side that I am more familiar with—I can think of neighborhoods where three or four streets the last time I was there, and I am about to go back and see it again, and I understand it is worse, but three or four streets, if they were put into an economic redevelopment zone, the dollars, many less dollars could dramatically change that neighborhood. Now, it might not be as gratifying to the person just outside the line, but if a city is trying to take a limited amount of dollars and get the maximum bang for the buck, it would seem that they would discretely draw, in some cases, just a few streets here and a few streets here and a few streets here. And although they would not serve everyone, they would serve the best interests in reversing a trend.

I see a lot of heads waving. Did I get a four in a row here, too? Does this act empower them to do that, or is that one of the areas in which administration may be difficult to make sure that a city could make that decision without being sued by the person just outside the line?

Mr. ALEXANDER. The legislation, Representative Issa, allows the local government discretion to expend the funds on the street level and not the next street. It makes relatively gross but pretty targeted allocations to the States and then qualifying municipalities and counties, but then leaves the municipality or the county with discretion to target the usage of those funds in the transitional neighborhoods to stabilize them.

Mr. ISSA. I heard that, but I didn't hear the last part, without being sued. The question is: Is it challenge-proof? Which is always a question for us. I hate to see any of this $15 billion eaten up with legal fees.

Mr. ALEXANDER. Well, as a law professor, nothing is challenge-proof.

Mr. ISSA. Move it over to the administration, probably.

Mr. ALEXANDER. And we recognize the ability of anyone to bring a challenge, but it is hard for me to see any constitutional or statutory challenge, given the way you have drafted this bill.

Mr. ISSA. OK. Mr. Kingsley, you are chomping at the bit, or am I good?

Mr. KINGSLEY. Yes, I think you are going to get another winner here, because I think that is clearly the case, and the principles we talked about with using the Census tract data even for the national allocation. But I was certainly advocating that once the allocations to jurisdictions are made, that other data and local knowledge be dominant in deciding exactly how to spend those resources in a cost-effective manner.

Mr. ISSA. OK. Now I am going to tell my good friend next to me that we are going to have to realize that our hearts may both be in Cleveland, but our constituencies are in very different parts of the country.

And I have to ask a very difficult question. A postal worker making a postal worker salary in Cleveland is, from a standpoint of a postal worker in San Diego, rich. He is doing great. He has access to $70,000, $80,000, $90,000 homes, $150,000 seeming mansions compared to a $400,000 home in California. How do we deal—and I am using a postal worker because Federal workers tend to be paid substantially similar, with very small differences throughout the country—how do we make sure that my person with the $400,000 home or $320,000 threshold for what might be half that cost in Cleveland and even less in Mississippi, how do we deal with that fairly so that what we consider to be our blighted neighborhoods and our problems are treated equally, even though they cost twice as much per home to fix? Please, Mr. Richardson.

Mr. RICHARDSON. Generally speaking, when we look at this issue, we do have to take into account that it costs different amounts of money to provide services in different parts of the country. So you can establish a formula that takes into account different costs so it adjusts an allocation up or down based upon relative costs.

Similarly, you can take into account whether a jurisdiction has the tax resources or capacity, the fiscal capacity to address the problems itself versus another jurisdiction, and you can adjust resources up or down in a formula.

Mr. ISSA. We often see that as Mississippi can't afford it, but California can.

Closing on my question, though, if it takes twice as many dollars to fix the same 12,000 homes in Temecula as it takes in East Cleveland, how am I going to be made whole; or am I going to be made whole? In other words, am I, by definition, under this act going to get the same amount of dollars for twice the dollar problem, and be told California will have to deal with the difference whether or not California is richer or the homes do cost twice as much?

And that's what I told my good friend, that we have this dichotomy so often that we have to bring out.

Mr. RICHARDSON. Well, if you are crafting language for a formula, the guidance to be provided is to tell us that you—those of us who might have to develop that—is generally speaking, is to say you need to take into account the different costs of services.

Mr. ISSA. Thank you. And, Mr. Chairman, we are never apart in ideology. We are often, though, in the strange conundrum that our homes simply cost different amounts these days.

Mr. KUCINICH. I think that's true. And let it be said that being the case, that the home that I live in, which probably lost a quarter of its value because of foreclosures in our neighborhoods since last October, is like a lot of my neighbors; you know, they are just struggling to hold on. And the house that I live in is, you know, today probably worth $75,000, if I am lucky. And I have had it for 36 years.

And so, you know, we live with this, you know, wherever we are. We are living with this. So I want to recognize Mr. Green for a final round of questions.

Mr. GREEN. Thank you, Mr. Chairman. And following up on what the ranking member has just called to our attention, we also have regions that have different economic recovery schemes, if you will. In Las Vegas, there may be a dependency upon job growth to move them out of the enigmatic situation they find themselves in; whereas in another part of the country, they can't rely on that circumstance because it doesn't exist.

So I know we have to consider all of these things, and I am not sure how the formula will adjust for this, for the variations in economic status of various regions of the country. Does someone care to give a comment on this?

Professor Alexander? Of course, you know your name means help of human kind.

Mr. ALEXANDER. You are quite a guy, Representative Green, and indeed I view the legal profession as first and foremost a service profession. The goal is that the allocation formula being based, at least in significant part, upon foreclosures will be a rough indicator of economic vitality or weakness according to different regions, both at the State level and then within the State level. So it is certainly not a perfect indication of the different economic strengths or hot market/weak markets. But by using the three, four, or five variables that you have already put in the bill and that we are recommending, it allows that the economic data will be reflected in those variables: the strength of the community or the weakness of the community. That is the goal.

Mr. GREEN. Yes, Mr. Richardson.

Mr. RICHARDSON. I may have a little different opinion than Mr. Alexander. I am not sure that foreclosures are exclusively a measure of the economic health of an area. And I think that if you want to take into account economic health, you need to specifically state that in a formula that you want to take into account, whether it be job loss or job growth, to make sure that is accounted for. Because certainly in a place where you have job loss and foreclosures, the risk of the house becoming vacant and abandoned is much higher than an area, really, of job growth and foreclosures, where that house will probably be purchased by someone fairly quickly.

Mr. GREEN. Anyone else? Quickly, I will make one additional comment and then a question.

We understand the number of homes that may go into foreclosure. We have a lot of empirical evidence on this. But do we have any intelligence on the number that may just be walked away from? Has anyone been able to come up with a prognostication as to how many homes may just be abandoned in this process?

Mr. ALEXANDER. That is why we recommend, Representative Green, that we focus on vacancies, which do pick up those who simply walk away, or do a deed in lieu of foreclosure, or turn the keys in. Foreclosure is a—foreclosure data that we have is a very rough proxy. Not all foreclosures yield vacancies; not all vacancies yield abandonment. But our measures of foreclosures are not of foreclosure sales, the data is of foreclosure filings. And that is quite different than the number of sales. And it is really between those two that we pick up what you are referring to as simply the families that turned in the keys and walked away.

Mr. GREEN. Anyone else?

Mr. WALKER. Well, we do know where bank-owned properties are. And if there is a rough measure of the vulnerability of a property to eventual vacancy, I mean that would be it.

But I would like to second what Mr. Alexander said earlier, that the fact that we are focusing on vacancies captures quite a lot, if we think of the economic performance of a region already. So that is exactly the right thing to do.

Mr. RICHARDSON. I might add, however, we might be able to get—we do have data—the Post Office data tells us how long an address has been vacant. So we can know if it has been vacant 6 months or 12 months, which certainly is a greater predictor of abandonment.

And we may be able to get data from—certainly from FHA, but also from Fannie Mae and Freddie Mac, perhaps, on how long their real estate-owned properties are sitting vacant. And so in areas where you have high lengths of time where a property is vacant, that certainly is more suggestive of risk of abandonment.

Mr. GREEN. Thank you, Mr. Chairman. I yield back.

Mr. KUCINICH. I thank the gentleman from Texas. The Chair recognizes Mr. Cleaver for a final round of questions.

Mr. CLEAVER. I don't have any additional questions, Mr. Chairman. Thank you.

Mr. KUCINICH. Would you yield, then, to me for a final question?

Mr. CLEAVER. I would like to yield a final question to the chairman of the subcommittee, Mr. Kucinich.

Mr. KUCINICH. I appreciate it. Thank you.

Mr. Richardson, as your agency would be tasked with implementing H.R. 5818, and in view of the time you and your colleagues need to finish your research, would you have any suggestions as to how Congress should craft its funding allocation if we were to do so?

Mr. RICHARDSON. My general recommendation with crafting language for a formula, I like to look at the language for the HOME formula that was passed in the Cranston-Gonzalez National Affordable Housing Act of 1991. That language is very specific about what goals they wanted the formula to accomplish and the types of data that they thought we might be able to use. But it didn't—it allowed us the flexibility to actually design the formula to reflect what kinds of information we were able to gather after the law was passed.

So I advise you to look at section 217 of 42 U.S.C. 12747. It certainly has a pretty model language for a formula that gets you what you want, but gives us some flexibility to make sure we can accomplish what you want.

Mr. KUCINICH. Any other comments before we move to adjourn this?

I want to thank all of the panelists. Your expertise has been quite valuable in getting these two subcommittees the opportunity to focus in on what is the appropriate way we proceed in the situation we are in. And I want to thank each of you for the dedication that you have to this very serious question. It is inevitable that when we make these decisions we want to make sure that it is grounded in solid research and that the research is available as we try to craft the appropriate formula. So thank you.

I am Congressman Dennis Kucinich, chairman of the Domestic Policy Subcommittee. This has been a joint hearing of the Domestic Policy Subcommittee, which is a subcommittee of Oversight and Government Reform, and the Housing and Community Opportunity Subcommittee, which is a subcommittee of the Financial Services Committee, which is chaired by Congresswoman Maxine Waters. I want to thank my colleagues from that subcommittee who were here today, and including Mr. Green and Mr. Cleaver. Thank you for your presence and your participation.

The title of today's hearing is, "Targeting Federal Aid to Neighborhoods Distressed by the Subprime Mortgage Crisis." This has been one in a series of hearings which this subcommittee has had.

And I want to thank the minority and the majority staff for the work that they have done on this, and Mr. Issa, who has been very supportive, as has Mr. Turner, who is a guest member, very supportive of this, reached deeply into meeting the challenge of this subprime mortgage matter.

This subcommittee will continue to delve even deeper into these issues. And Mr. Cleaver came up with a good suggestion today, looking at the insurance angles. And that's something that we are going to start looking at immediately.

So I want to thank the attendance of the witnesses, those in the audience, staff. Thank you. And this committee, these two subcommittees are adjourned. Thank you.

[Whereupon, at 4:05 p.m., the subcommittees were adjourned.]

[The prepared statement of Hon. Tom Davis follows:]

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CHAIRMAN

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Statement of Rep. Tom Davis
Ranking Republican Member
Committee on Oversight and Government Reform
Accountability Lapses in Multiple Funds for Iraq
May 22, 2008

Thank you, Mr. Chairman, for calling this hearing to examine the complex range of vulnerabilities and management challenges raised by our extensive security and reconstruction activities in Iraq. We are pleased the Committee is continuing this line of oversight, begun when I sat in your chair. During the 108th and 109th Congresses, the full committee and our subcommittees held a total of 19 hearings focused on complex logistical support and reconstruction contracts. In those sessions, we tried to transcend the charged rhetoric and easy generalities that can swirl around this topic and focus instead on the hard realities of using last-century business systems in a war zone on the other side of the world. I hope today's hearing follows that constructive path.

It's worth the Committee's sustained attention because the bad news is: Inadequate DOD payment processes didn't start with the Iraq war, and they're unlikely to disappear when the war is over. The DOD payment system is an aging, leaky aggregation of legacy systems that don't always provide every possible assurance taxpayers' money is being well-spent. The Department of Defense Inspector General's office, which will testify on new audit findings today, reminded us in 2002 that DOD vendor payments here at home and abroad already suffered from longstanding and serious internal control weaknesses.

But spending in Iraq presents unique challenges and provides undeniable opportunities for worthwhile oversight. Few people operating in an active combat zone would refer to the documentation requirements of the financial management process as "mission critical" work. Similarly, no one should deny the imperative to tell American taxpayers how their money is being spent. So we need to balance these two truths and approach this issue with unclouded vision. We need to know what's gotten better, what's still being fixed and what's still broken. And we need to refine our understanding of the difference between audit report findings that take an unflattering snapshot of a complex process and the real meaning of those findings to the long-term integrity of systems handling huge disbursements of taxpayer dollars.

Without question, many processes used with relative success in peacetime operations here fall far short of expectations when deployed in an active combat zone. In Iraq, a highly unstable environment and consequent security overhead greatly compounded the scope of resulting cost, performance and oversight issues. The underlying causes: inadequate planning, a lack of sustained, high-level leadership, mismatches between requirements and resources, and an insufficient number of trained financial management personnel.

That last factor – not enough trained and experienced acquisition professionals – is by no means unique to Iraq and we should not let a focus on the war blind us to the government-wide need for veteran finance officials to watch over large, and growing, expenditures.

Today we will hear from the Department of Defense Deputy Inspector General for Audit, Ms. Mary Ugone. She brings an important perspective informed by a substantial body of audit and review work. The picture painted by that work is not pretty. A volatile environment, poor security, and an arcane, ill-suited regulatory structure, have produced a succession of transactions plagued by missing documentation and other lax fiscal controls. The IG findings remind us the truth of a war zone is gritty enough. There is no need to embellish, inflate or spin it. Thoughtful oversight will steer clear of hyperbolic exaggeration and oversimplification of complex processes in the search for meaningful reforms.

We look forward to her testimony and to a frank, constructive discussion.