



Testimony submitted by Dr. Phyllis Betts, Director  
Center for Community Building and Neighborhood Action  
[pbetts@memphis.edu](mailto:pbetts@memphis.edu) 901-678-1187

Chairman Kucinich, members of the Subcommittee, I very much appreciate the opportunity to testify on issues raised by HR 5818: The Neighborhood Stabilization Act of 2008. My name is Phyllis Betts, and I am the Director of the Center for Community Building and Neighborhood Action (CBANA) in the School of Urban Affairs and Public Policy at the University of Memphis in Tennessee. CBANA's mission is to "link research with action" on behalf of neighborhoods and quality of life issues associated with socioeconomic disparities. Our research on foreclosure has been supported in part by a grant from The Brookings Institution Urban Markets Initiative; we also work closely with The Urban Institute's National Neighborhood Indicators Partnership, where the emphasis is on using local data to better understand local context and drive policy in areas that include housing and foreclosure. Locally, our work is supported by the Community Development Council of Greater Memphis, the City of Memphis, and Shelby County government.

First, we in Memphis that are working on foreclosure and its impact on both families and neighborhoods appreciate the House's understanding that foreclosure is more than a private trouble. The debilitating effect on neighborhoods is a public issue requiring proactive public policy, and HR 5818 speaks to that understanding. It is a good bill that can be strengthened, and I hope that my testimony is useful in that regard. **My testimony this afternoon speaks to two points:**

1) The debilitating impact of foreclosures on neighborhoods and indeed, the fiscal health of cities -- is very real; HR 5818 is critical to enabling cities to intervene and stabilize neighborhoods. Using local data from public records on foreclosures and systematic observation data from our Neighborhood Survey and Problem Properties Audit, we illustrate how foreclosures drive vacancies and blight in high foreclosure neighborhoods in Memphis. Our data also underscores the relationship, which this committee well understands, between subprime lending and foreclosure.

2) Secondly, the data that Congress and HUD use to determine areas of highest impact and drive the funding formula for HR 5818 should not be biased to favor some states, cities, and local housing markets over others. In this respect, the apparent data source of choice -- First American CoreLogic Loan Performance -- is flawed. My testimony demonstrates a systematic bias against low and moderate income housing markets and in cities outside of the hottest and highest priced markets. It appears that subprime mortgage loans from low and moderate income and more moderately priced markets are less likely to be securitized by the private sector mortgage backed securities captured by First American. This means that First American understates the number subprime loans, delinquencies, foreclosures, and Real Estate Owned properties in low-moderate income markets compared to higher income and hotter markets.

**1. The Debilitating Impact of Foreclosures on Neighborhoods: Illustrations from Memphis and Shelby County, Tennessee.** Memphis and Shelby County are among those urban areas where foreclosure trends were well-established prior to what is being described as the 2007 “mortgage meltdown” and foreclosure crisis. From 2000 (when we began tracking subprime lending and foreclosures) through 2007:

- 61,590 Shelby County households have been served notice of foreclosure, equivalent to 25% of the single family residential housing stock.
- 11,623 foreclosure notifications were served in 2007 alone, involving 4.7% of single family households.
- Annual foreclosure notifications increased 152% from 2000 to 2007.
- Foreclosures are driven by high rates of subprime lending, which escalated from 25% to 40% of all mortgage loans in from 2004 to 2005.
- Over 40,000 subprime loans were made in Shelby County during the peak 2004 through 2006, with one of three Shelby County zipcodes having subprime lending rates (compared to prime loans) of at least 50% ; for the city of Memphis, subprime lending tops 40% in one of two zipcodes.
- Modest but erstwhile desirable moderate income neighborhoods have been hit hardest; evidence suggests that predatory mortgage brokers targeted lower income buyers only marginally prepared for the costs of home ownership in those neighborhoods. African American buyers appear to have been target-marketed.

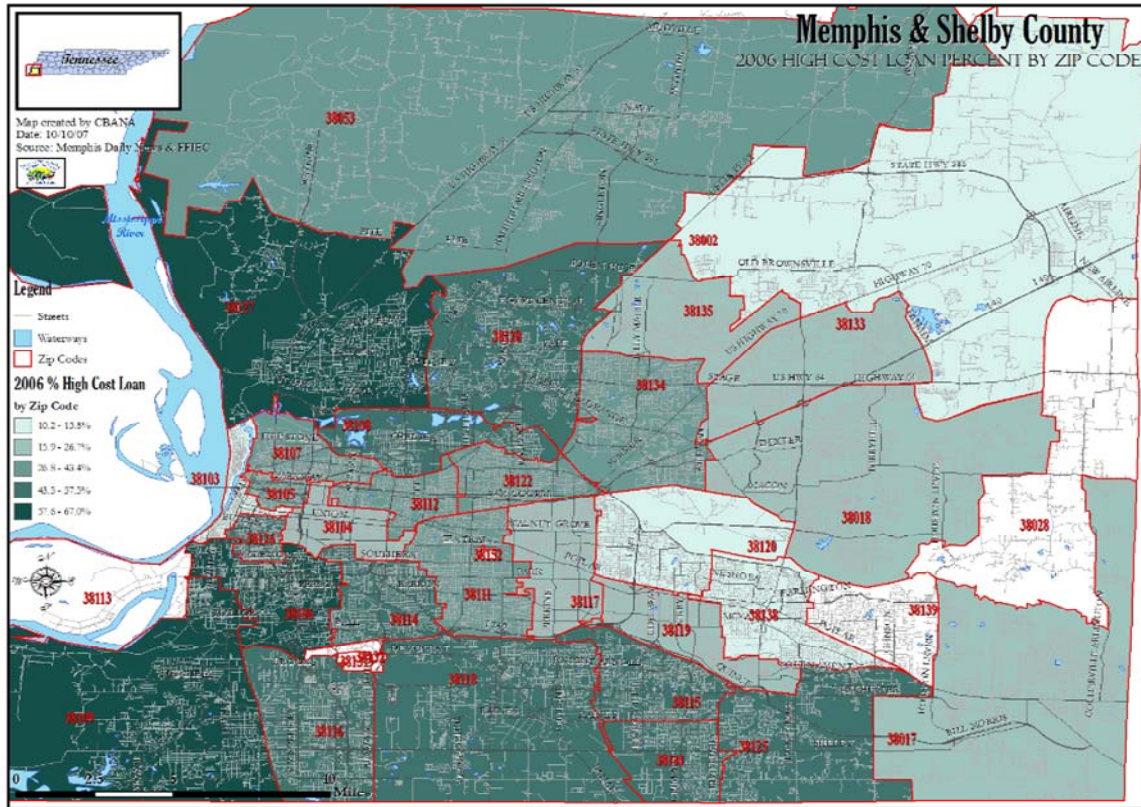
Table 1 below documents the growing number of foreclosures zipcode by zipcode and distinguishes suburban zipcodes from Memphis City.

Maps 1 and 2 below illustrates how neighborhoods at all price points have been effected, with buyers in higher priced, more upscale suburban neighborhoods ( on the right hand perimeter of the map) “pushing the envelope” with teaser and adjustable rates that stretched their capacity for successful home ownership. (The darker the teal color, the greater the number of foreclosures.)

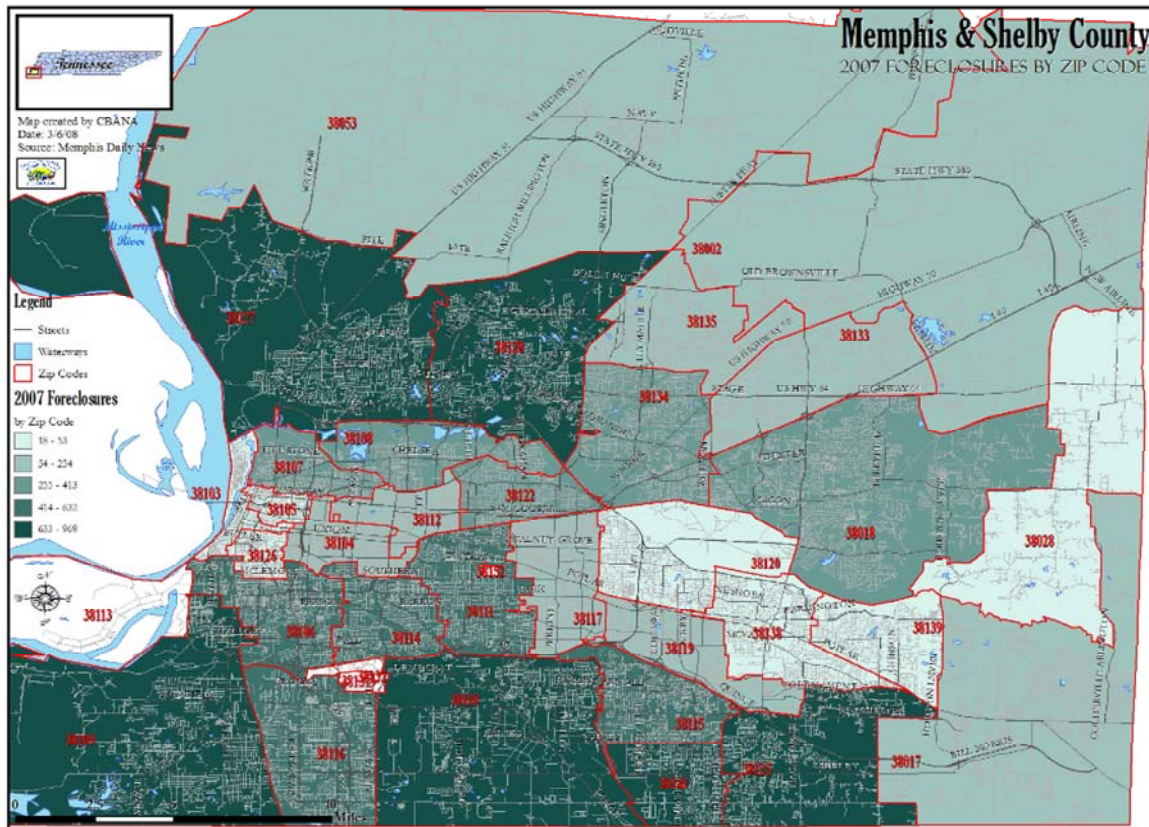
# Table 1

Shelby County Published Foreclosure Notices 2000 - 2007											Source: Memphis Daily News				
Year	2000	2001	2002	2003	2004	2005	2006	2007	07 Final	Total 00:07	% INCRS	% Final			
									Sbtrust Deed	Notices	00:07	07			
38002	20	48	74	69	98	102	196	230	109	837	1050%	47%			
38016	52	82	104	149	153	201	305	230	280	1276	342%	122%			
38017	59	88	115	123	139	136	212	215	193	1087	264%	90%			
38018	59	93	140	147	202	234	346	413	172	1634	600%	42%			
38028	2	5	7	11	10	12	11	18	10	76	800%	56%			
38053	63	82	114	134	133	150	153	192	83	1021	205%	43%			
38103	14	9	19	21	23	22	30	41	15	179	193%	37%			
38104	80	85	106	124	108	119	125	167	82	914	109%	49%			
38105	24	26	33	43	30	41	39	38	28	274	58%	74%			
38106	235	272	357	366	373	453	509	509	327	3074	117%	64%			
38107	152	151	191	246	221	218	292	294	193	1765	93%	66%			
38108	191	176	231	265	235	259	317	293	234	1967	53%	80%			
38109	385	392	501	603	625	654	829	898	497	4887	133%	55%			
38111	283	319	386	397	449	391	469	485	300	3179	71%	62%			
38112	125	125	150	158	164	154	192	212	140	1280	70%	66%			
38114	206	238	297	347	272	352	433	466	259	2611	126%	56%			
38115	292	260	310	322	364	385	548	632	352	3113	116%	56%			
38116	256	226	360	371	396	430	541	577	233	3157	125%	40%			
38117	65	88	127	116	111	136	147	168	73	958	158%	43%			
38118	337	329	462	488	499	529	710	752	385	4106	123%	51%			
38119	39	45	53	67	84	102	134	134	60	658	244%	45%			
38120	26	26	37	33	26	29	32	39	11	248	50%	28%			
38122	156	186	230	245	245	260	303	300	189	1925	92%	63%			
38125	138	199	258	318	381	477	576	827	358	3174	499%	43%			
38126	30	39	32	33	24	33	39	39	18	269	30%	46%			
38127	452	449	563	691	714	731	969	969	601	5538	114%	62%			
38128	310	342	459	463	494	529	669	868	463	4134	180%	53%			
38133	69	82	128	129	113	151	144	201	102	1017	191%	51%			
38134	105	129	171	191	233	216	307	358	155	1710	241%	43%			
38135	73	75	132	118	148	183	240	254	129	1223	248%	51%			
38138	27	48	61	69	84	63	67	53	17	472	96%	32%			
38139	13	17	29	18	36	28	39	47	14	227	262%	30%			
38141	271	310	435	403	428	457	592	704	372	3600	160%	53%			
<b>TOTALS</b>	<b>4609</b>	<b>5041</b>	<b>6672</b>	<b>7278</b>	<b>7615</b>	<b>8237</b>	<b>10515</b>	<b>11623</b>	<b>6454</b>	<b>61590</b>	<b>152%</b>	<b>56%</b>			
Legend															
Lakeland/Arlington						Millington									
Partial Memphis/Cordova - County						Memphis City									
Collierville						Bartlett									
Eads/Fisherville						Germantown									
											Revised: 10/11/2007 JDS				
											3/06/08 AF				

# Map 1: 2006 High-Cost (Subprime) Loans by Zipcode



# Map 2: 2007 Foreclosures by Zipcode



# 1. The Significance of Neighborhood Impact.

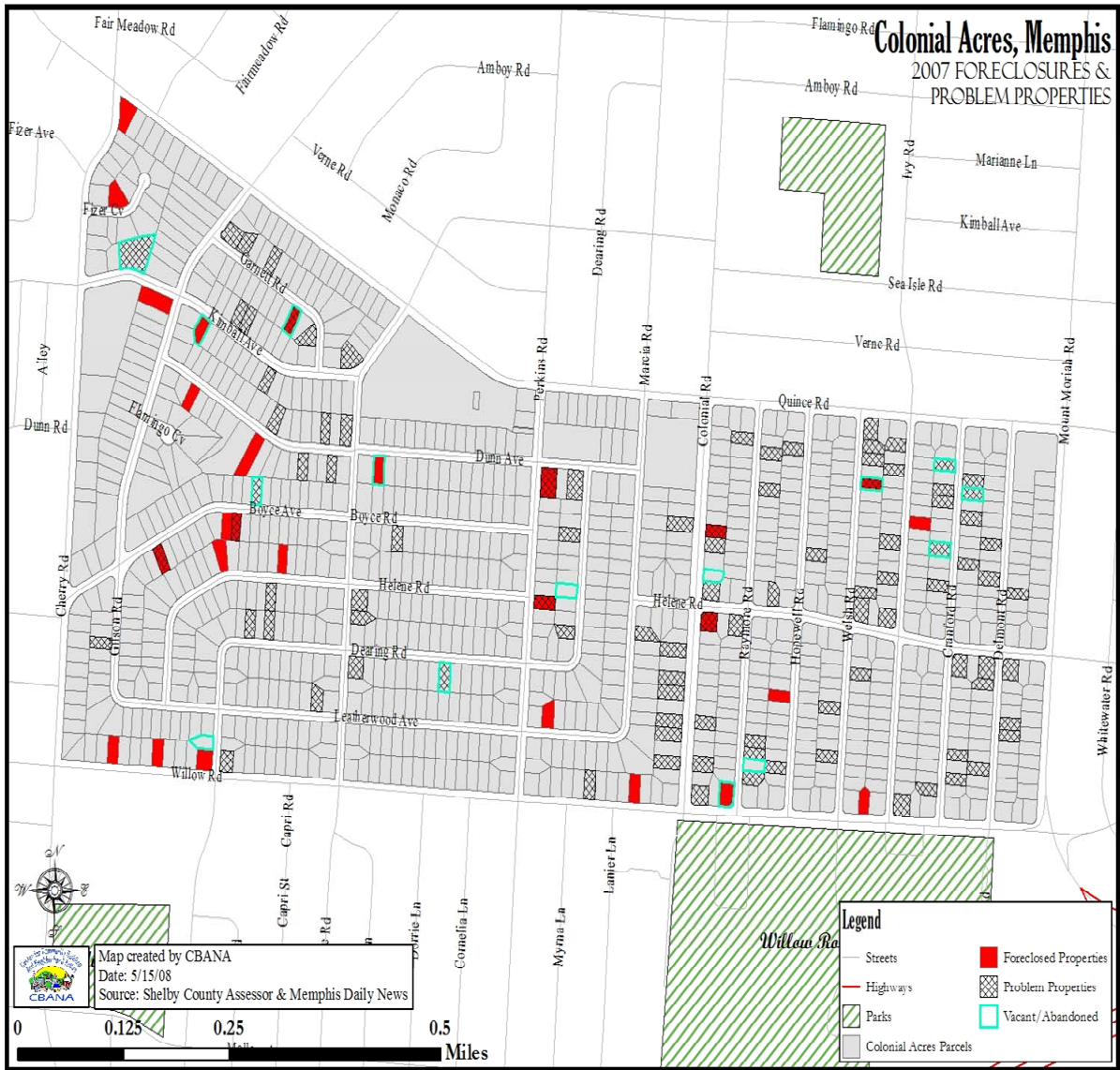
We in Memphis appreciate HR 5818's emphasis on neighborhood stabilization and applaud its support for acquiring foreclosed properties and reintegrating them into the productive housing stock. Our Neighborhood Survey and Problem Properties Audit mapped 2007 foreclosures neighborhood by neighborhood and is auditing vacancies and property conditions among those properties (and all other properties in the neighborhoods for comparison purposes.) The relationship between foreclosure, vacancies, and blight for three recently surveyed neighborhoods is summarized in Table 2 alongside, then illustrated by maps on the next pages. Colonial Acres, Sherwood Forrest, and Mendenhall Estates are three

Table 2: Foreclosures & Property Condition in Selected High Foreclosure Neighborhoods	Colonial Acres 38117		Sherwood Forest 38111		Mendenhall Estates 38118	
	#	%	#	%	#	%
√ <b>Properties with Foreclosure Notifications in 2007</b>						
Number of Foreclosures and as a % of all Residential Properties	27	2.1%	34	3.1%	65	6.5%
Number of Foreclosed Problem Properties and as a % of all problem properties identified	4	3.3%	8	4%	20	7.2%
Number of Vacant Foreclosures and Vacancy Rate Among Foreclosed Properties	5	18.5%	5	14.7%	10	15.4%
√ <b>Residential Vacancy</b>						
Total Number of Vacant Properties and Vacancy Rate Among Total	15	1%	74	7%	31	3%
√ <b>Foreclosure and Lending</b>						
Number of Foreclosure Notifications in Zip Code	171		490		753	
Percent of Sub-Prime Loans in 2006 in Zip Code	20.5%		33.8%		55.1%	
√ <b>Overall Condition of Housing Stock</b>						
Number and percent of all single family homes identified as problem properties	120	11%	198	18%	277	28%
Total Number of Single Family Homes	1,115		1,109		1,002	
<small>Memphis 2007 Foreclosure Notifications from "Neighborhood-by-Neighbor: A City-Wide Problem Property Audit," 1<sup>st</sup> Qtr 2008. Mortgage lending data from HMDA dataset, 2006. © Center for Community Building and Neighborhood Action University of Memphis</small>						

moderate income and modestly priced neighborhoods. In Colonial Acres, with a relative low 20% rate of subprime lending for 2006 and a very high rate of homeownership, foreclosures are fewer and are the **leading edge for vacancies and blight**; In Sherwood Forrest and Mendenhall Estates, where subprime lending and escalating foreclosures took root earlier, and much of the property has already moved to the rental market, blight is more serious. We expect that "Vacant and abandoned" properties on the neighborhood maps are traceable to foreclosures in 2006 and 2005, and are in the process of integrating data from earlier years into our database; some foreclosures for 2007 are already currently vacant (red framed in yellow) or have become problem properties in other ways (red with cross-hatching.)

# Colonial Acres, Memphis

## 2007 FORECLOSURES & PROBLEM PROPERTIES



Map created by CBANA  
 Date: 5/15/08  
 Source: Shelby County Assessor & Memphis Daily News

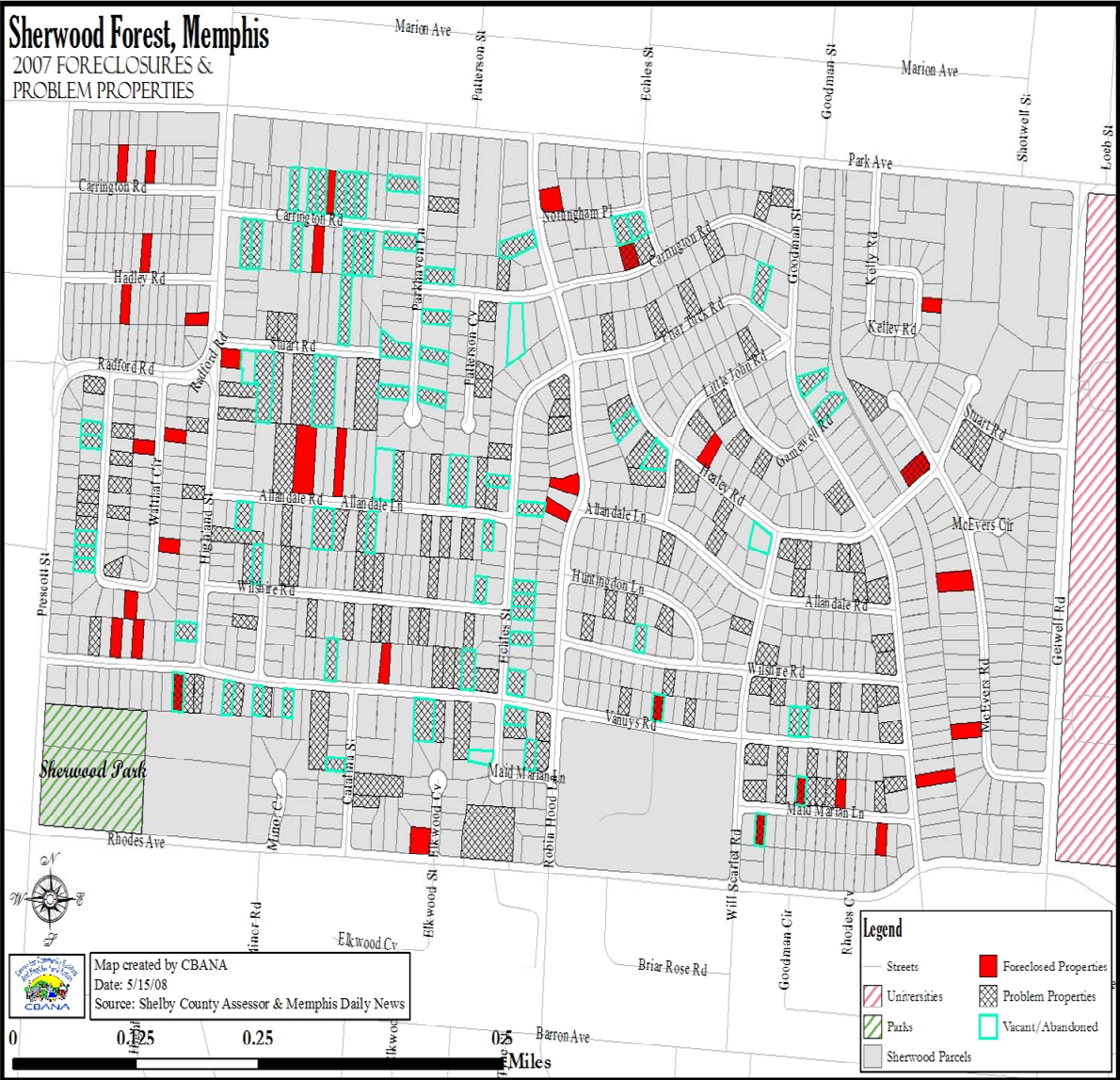
0 0.125 0.25 0.5 Miles

**Legend**

- Streets
- Highways
- ▨ Parks
- ▨ Colonial Acres Parcels
- Foreclosed Properties
- ▨ Problem Properties
- ▨ Vacant/Abandoned

# Sherwood Forest, Memphis

## 2007 FORECLOSURES & PROBLEM PROPERTIES



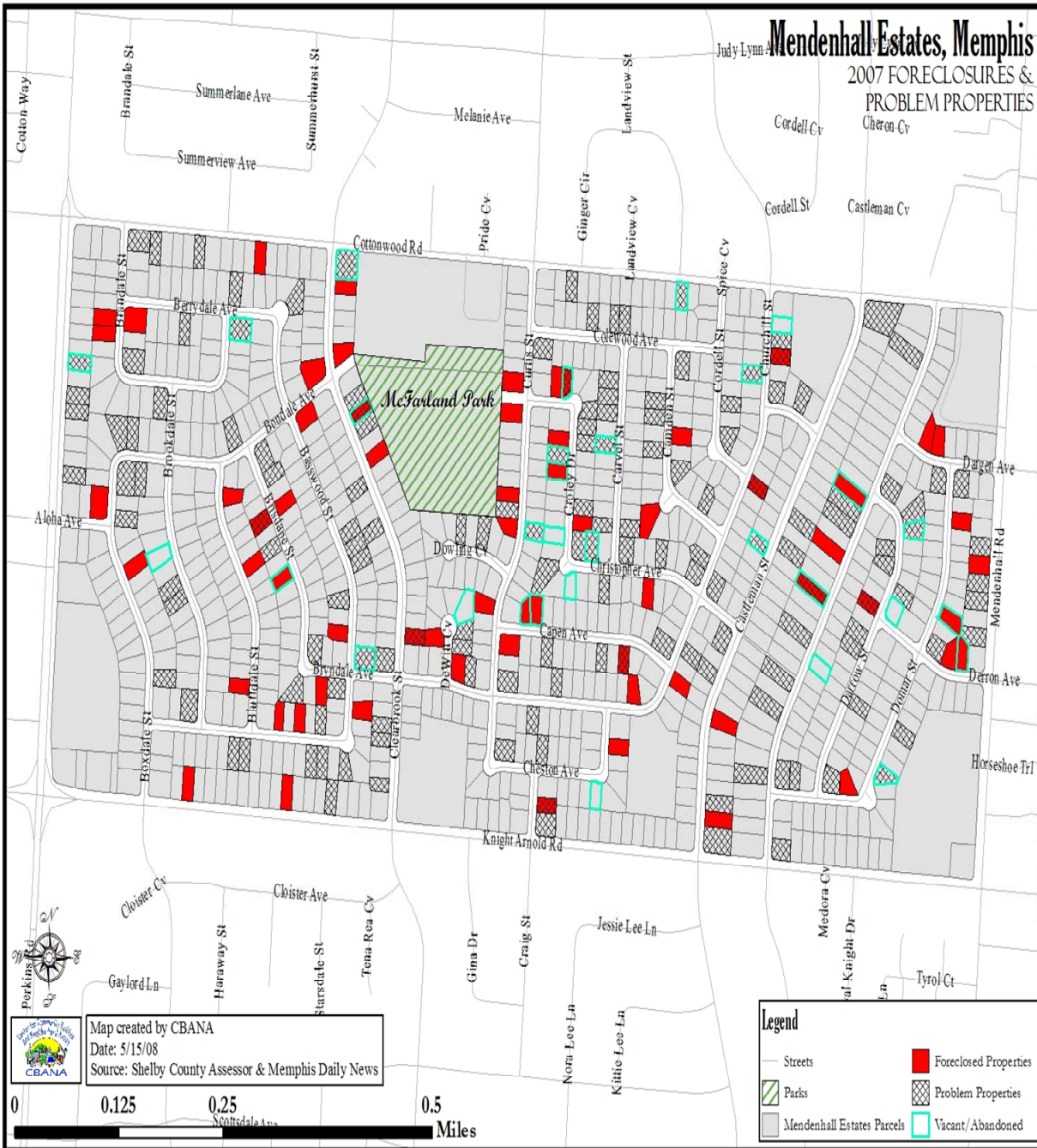
Map created by CBANA  
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**Legend**

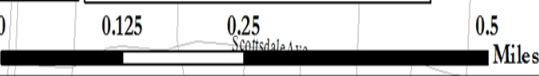
- Streets
- ▨ Unincorporated
- ▨ Parks
- ▨ Sherwood Parcels
- Foreclosed Properties
- ▨ Problem Properties
- ▨ Vacant/Abandoned

# Mendenhall Estates, Memphis

2007 FORECLOSURES & PROBLEM PROPERTIES



Map created by CBANA  
Date: 5/15/08  
Source: Shelby County Assessor & Memphis Daily News



### Legend

- Streets
- ▨ Parks
- ▭ Mendenhall Estates Parcels
- Foreclosed Properties
- ▨ Problem Properties
- Vacant/Abandoned



## 2. The Funding Formula and Bias in the First American CoreLogic Database.

The “Foreclosure Shares” funding formula for states as set out by Section 5(d) of HR 5818 is based on number of foreclosures and number of subprime loans at least ninety days delinquent. States’ loan and grant allocations from the total appropriation will equal *their proportionate share of the total number of foreclosures and ninety day delinquent subprime loans* documented for the nation as a whole. The database used to capture these numbers should 1) be equally likely to include subprime loans and delinquencies from weaker and more modestly priced housing markets as from hot and higher priced housing markets; 2) draw proportionately from different regions of the country and from different size cities; and 3) not discriminate based on borrower characteristics such as race and ethnicity. We know that First American CoreLogic Loan Performance database – the apparent database of choice for formula-driven allocations – includes only about 50% of subprime loans nationally. This would be acceptable if every housing market were equally likely to be included in that 50%. Our data from Memphis and Shelby County suggests that this is not the case. For example, comparing the number of subprime loans reported to the Home Mortgage Disclosure Act (HMDA) for 2006 with First American subprime loans originated in 2006, we find that only about 45% of HMDA loans appear to be represented. This means that some other areas have to be over-represented to make up for Shelby County’s under-representation. A difference of 5% is a big difference at the numbers of loans that are in play.

More troubling, the most dramatic gaps between HMDA numbers and First American numbers are in low and moderate income neighborhoods with the greatest number and proportion of delinquencies and foreclosures: *in Memphis’ highest foreclosure neighborhoods, **only about 25% of loans** appear to be represented in First American.* This means that weak market cities like Cleveland, Detroit, Buffalo, and other mostly medium-sized cities that tend to be in the northeast-midwest corridor are even more disadvantaged than Memphis, which is only “on the border” of being a weak market. *These cities are likely to have **as much as 75% of their loans** excluded by the First American database.* A plausible explanation is that subprime mortgage loans from low and moderate income and more moderately priced markets are less likely to be securitized by the private sector mortgage backed securities captured by First American. Funding formulas based on this kind of bias in the database are fatally flawed and should be amended as the Neighborhood Stabilization Act of 2008 is implemented.

We also recommend that the funding formula be amended to take into account another source of diversity in housing markets. HR 5818 already includes an adjustment on loan dollars for the cost of property acquisition in higher priced markets. There is, however, no adjustment for the higher proportionate cost of rehabilitating housing in weaker and lower-priced markets; in many Memphis neighborhoods hit hard by foreclosure, rehabilitation subsidies will be required since the cost of acquisition and rehabilitation will exceed market price for resale. While HR 5818 allows that grant funds may be used for rehabilitation, unlike the adjustment for the cost for housing acquisition in high-priced hot markets, there is no adjustment in the formula to take *these* market-driven requirements for subsidy into account in lower-priced and weaker markets. Subsidies are essential to neighborhood stabilization in these markets and should be taken into account as a formula adjustment; for example, the adjustment could be triggered by data showing relatively low market values and outstanding loan amounts that are close to or exceed market values. While “upside-down” loans are going to be found in all markets (where the outstanding loan amount exceeds current market value), the challenge for rehabilitation is greatest in those markets where the need for rehabilitation is greater (most likely the case in

lower cost markets) and where the cost will be disproportionately large compared to likely resale dollars generated.

**In conclusion,** HR 5818 is a strong step in the right direction: it recognizes that the neighborhood impact of the foreclosure meltdown takes the form of a ripple effect going beyond the private troubles of foreclosed families; that foreclosure-driven blight will not be reversed by a “market correction;” that foreclosure-driven blight is a public issue requiring public policy interventions. We in Memphis and Shelby County Tennessee urge veto-proof support for HR 5818 and revision of the funding formula by which the Neighborhood Stabilization Act of 2008 – or such bills as may result from House and Senate reconciliation – makes funding available to neighborhoods in need across the country.