

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

***Domestic Policy Subcommittee
Oversight and Government Reform Committee
and
Housing and Community Opportunity Subcommittee
Financial Services Committee***

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

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 and members of the Subcommittee, 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. And 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 this Subcommittee’s 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 in a given type of neighborhood are likely to vary in different metropolitan contexts (for example, those with comparatively strong versus weak housing markets).

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

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 – OFHEO - 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 Subcommittee 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 they are the places where most Americans live. Deterioration in a significant number of their neighborhoods will have 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.

