



May 7, 2008

A New Direction for Housing & the Economy: Neighborhood Stabilization Act

Key Points:

- This week, the House will vote on the most comprehensive response yet to the American mortgage crisis. The package of housing measures will help families facing foreclosure keep their homes and help other families avoid foreclosures in the future (in H.R. 5830), and help the recovery of communities harmed by empty homes caught in the foreclosure process (in this bill, H.R. 5818).
- This bill (H.R. 5818) makes \$15 billion in loans and grants to states to acquire foreclosed homes standing empty, to rehabilitate foreclosed property, and to restore home values in neighborhoods hit hard by the crisis.
- If you take a one-eighth square mile --the size of a city block -- and you end up with one foreclosure on that city block, two things happen immediately: the value of every other home on that city block declines by one percent immediately, and the crime rates go up two percent immediately. There are also lost revenues for police, and fire, and social services. [Chairman Dodd, NPR, 3/28/08]
- The measure is no bailout. Instead, it guards against overpayment for foreclosed and abandoned properties requiring that only loans, and not grants, can be used for purchase and loans must be paid back to the federal government. In no event may the purchase price exceed 110 percent of local average. And governments and non-profits may not even bid on purchase properties for sixty days after foreclosure.
- The bill is supported by the National Governors' Association, U.S. Conference of Mayors, National Association of Counties, National Association of Local Housing Finance Agencies, National Community Development Association, and the National Council of State Housing Agencies, as well as a wide range of civil rights, community development, labor, and low-income housing groups, including: AFL-CIO, AFSCME, Catholic Charities, Enterprise Community Partners, Local Initiatives Support Corporation, National Low Income Housing Coalition, National Housing Conference, and the National Urban League.
- This is no time to standby and do nothing as the housing crisis depresses our economy. Every taxpayer in America pays when there are large numbers of foreclosures with higher crime, declines in home values, impacts to school districts, and cities and states run deficits.

Today, the House will consider H.R. 5818, Neighborhood Stabilization Act. The bill would establish a \$15 billion, HUD-administered loan and grant program for the purchase and rehabilitation of vacant, foreclosed homes with the goal of occupying them as soon as possible. One half of the funds (\$7.5 billion) would be in loans, and the other half (\$7.5 billion) would be for grants.

- **Rehabilitating and buying vacant homes in high foreclosure states.** The bill allocates the loan and grants based on the State's percentage of foreclosures over the last four calendar quarters and the number of subprime loans delinquent over 90 days. States then allocate funds to government entities or

for profit and nonprofit organizations for the purchase, rehabilitation, and resale of housing to sell and the purchase, rehabilitation, and operation of rental housing.

- **Government will recoup loans and profits from home sales.** The zero-interest loans will finance acquisition and rehabilitation costs. The federal government would be paid back from resale or, in the case of rental properties, refinance proceeds. Loans for homeownership properties must be repaid within three years. For rental properties, the maximum loan term is five years. The federal government would receive up to 50 percent of any appreciation a property owner realizes at resale.
- **Targets housing to low-income families and families striving to get into the middle class.** Homes must be sold to families with incomes that do not exceed 140 percent of local area median income (AMI). Rental housing must serve families having incomes at or below local AMI. Preferences will be given to activities serving the lowest income families for the longest period and homeowners whose mortgages have been foreclosed. They may focus on otherwise eligible first responders, veterans, public school teachers, workforce, and homeless persons. At least 50 percent of the grant money must be targeted to families at or below 50 percent of local AMI, and not less than half of this money must target families at or below 30 percent of local AMI.
- **Neighborhoods face rising crime and increasing need for services.** “In 2005 http://www.chicagofed.org/cedric/files/2005_conf_paper_session1_immergluck.pdf a Federal Reserve Bank of Chicago study found that “higher foreclosure levels do contribute to higher levels of violent crime.” This increased crime burdens states, cities, and towns with dramatically increased costs to secure abandoned homes and provide police, fire and other services, and with even lower home values. There are widespread reports of increased crime in high foreclosure areas (see, for example, <http://www.washingtonpost.com/wpdyn/content/article/2008/04/26/AR2008042601288.html>).
- **State and local governments face lost tax revenues and jobs.** One study estimates that in just 10 states (AZ, CA, FL, GA, IL, MA, MI, MN, NV, NY), lost tax revenue in 2008 will total \$6.6 billion due to foreclosures. Further, an estimated 524,000 fewer jobs are projected to be created this year because of the foreclosure crisis. [Global Insight, *The Mortgage Crisis: Economic and Fiscal Implications for Metro Areas*, November, 2007]

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