ADDRESSING THE FORECLOSURE CRISIS:

ACTION ORIENTED RESEARCH IN METROPOLITAN WASHINGTON DC:

FORECLOSURE INTERVENTION STRATEGY

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REPORT PREPARED FOR FANNIE MAE

THE URBAN INSTITUTE
WASHINGTON, DC

1. Introduction and Overall Approach

In September 2008, Fannie Mae provided a grant to the Urban Institute and the National Neighborhood Indicators Partnership (NNIP) to work with local stakeholders in metropolitan Atlanta, Chicago, and Washington, D.C., using data to help them design more effective strategies to address the foreclosure crisis.

We hypothesized that creative applications of neighborhood level data could be developed and begin to have influence on local policy within a year's time. Accordingly, we designed a one year project to conduct a practical test of this idea. NNIP partners in the three sites would be given through March 2009 to conduct initial analyses, establish working relations with local stakeholders and develop a strategy for one or more policy applications (which would most likely extend beyond the project period). In the next six months they would work with the decision makers to begin implementation. It was recognized that no meaningful strategy to address important aspects of the crisis could be completed in six months, but we expect some demonstrable progress in this time period

This document presents the proposed intervention strategy, and relevant background information, for Washington DC and its region. It was prepared by NNIP's partner in the region, *NeighborhoodInfo DC,* a collaboration between the Urban Institute and the Washington DC Local Initiatives Support Corporation, LISC.

We at *NeighborhoodInfo DC* have conducted a number of studies of housing conditions in the city and its region over the years, including some analyses of subprime lending and foreclosure patterns. Through the development and application of tools to monitor affordable housing in the city, we have has built a close relationship with the District of Columbia's Department of Housing and Community Development (DHCD) and key nonprofit groups concerned about the crisis in the city; most prominently, the Affordable Housing Alliance (AHA) and the Coalition for Nonprofit Housing and Economic

Development (CNHED). It has also become well known to the region's Council of Governments (COG) where it has also presentations on these topics.

In this cross-site effort, it was proposed that *NeighborhoodInfo DC* take advantage of the analytic work in two other Fannie Mae funded projects, extend those analyses and help local stakeholders apply the information and related tools in addressing the crisis locally.

The first of these projects was a grant enabling *NeighborhoodInfo DC* to provide analytic support to DCHD in monitoring and managing the city's foreclosure problem. This has entailed building historic files on parcel level foreclosure data to complement their substantial existing data on DC properties. The new data have been used to construct what we believe to be the nation's first "foreclosure report card;" a system for recurrently reporting on the changing status of the foreclosure problem in the city by ward and neighborhood. Results were presented to key audiences in May 2009[1] and received coverage in the local media.[2] The tools developed in that project offer models that can help other jurisdictions in the region manage their foreclosure problems. Accordingly, a part of this cross-site project entails work with stakeholders in selected other jurisdictions to apply the approaches developed in the DC work.

The second Fannie Mae project was a grant to the Urban Institute to prepare another edition in its *Housing in the Nation's Capital (HNC)* report series, this time featuring analysis of the foreclosure crisis region-wide. The current cross-site project supports us in extending the HNC research and applying all of the results in direct work with officials from various regional jurisdictions, helping them plan and implement foreclosure response programs.

As the work under these first two projects was getting underway, we worked to set the stage for the applications. We contacted officials in several of the region's jurisdictions being hardest hit by the foreclosure crisis to learn about their data holdings and any steps they were taking to address foreclosure issues. We also contacted COG staff several times to learn about work they had underway or were contemplating relevant to the crisis.

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[1] At a public "Housing Monitor Forum" on May 5, 2009, which was attended by over 60 representatives of government agencies and community nonprofits, and in City Council testimony on May 28. (See "Statement of Peter A. Tatian before the Council of the District of Columbia on the Impact of Foreclosures on Home Ownership and Affordable Housing in the District of Columbia," May 28, 2009)

[2] Washington Business Journal, May 8, 2009, "Still on the rise, foreclosures complicate D.C.'s housing plans, " http://washington.bizjournals.com/washington/stories/2009/05/11/story1.html?b=1242014400^1824572.

If it was to be real, the *NeighborhoodInfo DC* approach had to relate to actual foreclosure response activities of these governmental actors. It took more time than expected for their plans to be clear enough for us to be able to relate to them. Fortunately, however, substantial progress has now been made. The work with the District in tool development has progressed sufficiently so that guides can be developed for other jurisdictions. And most important, the COG and several other jurisdictions have decided to prepare a regional consortium proposal for HUD Neighborhood Stabilization Program (NSP) funding and they have asked us at *NeighborhoodInfo DC* to play the central analytic support role in this program.

In response, we assembled a baseline regional analysis (based on HNC data and other sources) and made a presentation to COG and the participating jurisdictions on May 22, 2009. And we are now actively working with this group in developing the proposal, including planning for data-driven implementation.

This report has three additional sections. Section 2 summarizes analyses conducted for the District of Columbia including the development of our reporting system approach to addressing the crisis. Section 3 summarizes analyses conducted so far related to the foreclosure crisis in the region. In light of this research, Section 4 discusses our plans for applications.

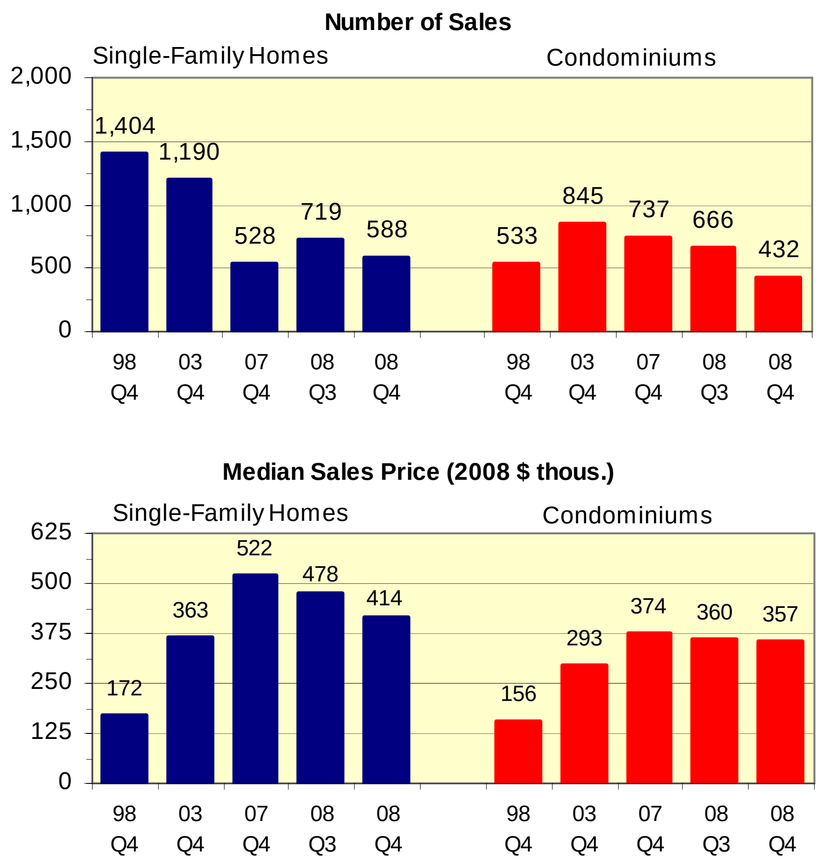
2. Monitoring Foreclosures and Other Housing Market Trends in Washington DC

Our analysis shows that the national housing market slowdown has reached D.C. Prices have declined in almost all wards. Foreclosure activity is increasing, and will likely continue to grow. Areas hardest hit by foreclosures are the lower-priced neighborhoods in the city. And, indeed, D.C. renters are also at risk from foreclosures

Findings on the market slowdown

- Sales volume for the end of 2008 was almost half the volume 5 years earlier, following the slump in the housing market that started in late 2007 (figure 1). There were 588 sales of single-family homes in 2008 Q4, up 11 percent from 2007 Q4 but down 50 percent from 2003 Q4 and 58 percent from 1998 Q4.

Figure 1. Single-Family Home and Condominium Quarter-to-Quarter Sales Trends, 1998 Q4 - 2008 Q4



- Condominium sales have also slowed. There were 432 sales in 2008 Q4, down 41 percent from 2007 Q4 and 49 percent from 2003 Q4. But the total volume remains on par with 10 years earlier (533 units sold in 1998 Q4), with the increase in the supply of condominium units over the past decade offsetting much of the market slowdown.

- The median price of a single family home fell sharply over the past year, but condo prices dropped only slightly. In inflation-adjusted, 2008 dollars, the median price of a single family home fell 21 percent over the year, from $478,000 in 2007 Q4 to $414,000 in 2008 Q4. The median sales price was only 14 percent higher than 5 years earlier, however, and 141 percent higher than in 1998 Q4.

- Condominium prices were "stickier," declining only 5 percent since 2007 Q4. The median price was $357,000 in 2008 Q4, which remains higher than prices five and ten years earlier.

- Real estate listing data confirm market slowdown. Listings per sale: grew since 2005. 10.8 listings for every single-family home sold in 2009 Q1; 12.6 for every condo/coop unit sold. Highest levels since 1997 Q1.

- Time on market also increased: over half of all homes spent 60+ days on the market in 2009 Q1, compared with one quarter in 2005 Q1. One third of homes spent 120+ days on the market.

The market slowdown in different Wards

- Single-family home prices fell in all wards in the city during 2008, except for Ward 2. The steepest declines were in Ward 4 (26 percent between 2007 Q4 and 2008 Q4) and Ward 5 (25 percent). Ward 8 fell 19 percent over the year, and Wards 6 and 7 declined 15 percent each. Even Ward 3 slumping.

- Prices in Ward 2 had fallen from 2006 through 2007, but actually started to rebound in 2008. Between 2007 Q4 and 2008 Q4, the median price of a single family home in Ward 2 rose 14 percent.

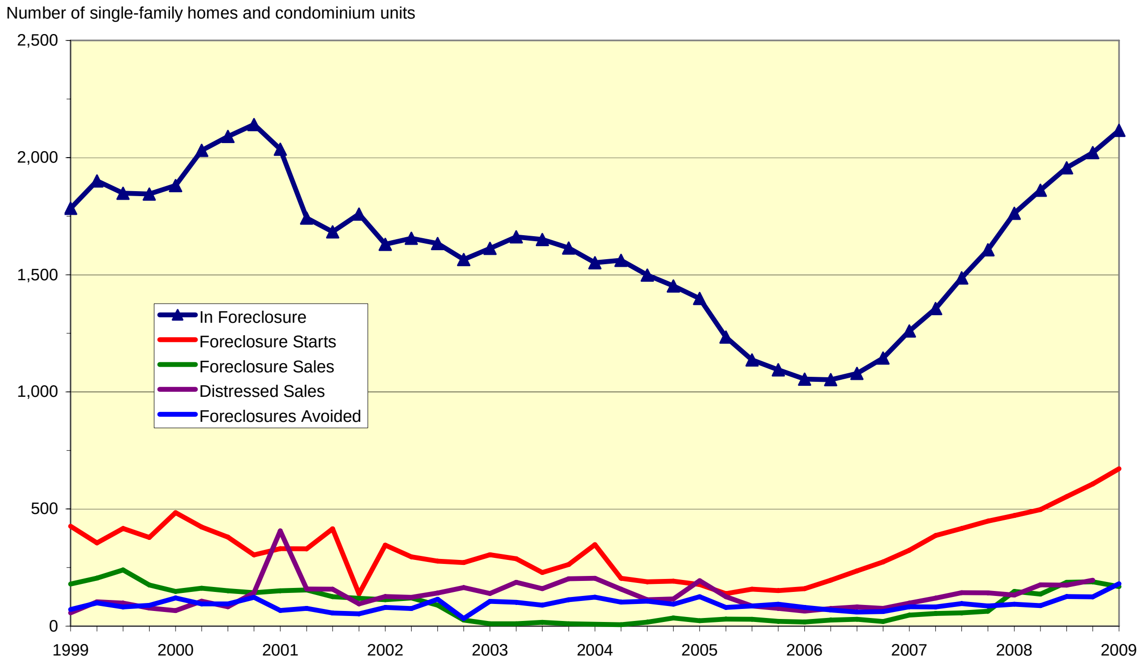
- Trends for condominium prices were negative in every ward except Ward 5 over the past year. The median condo price fell 14 percent between 2007 Q4 and 2008 Q4 in Wards 2 and 8; 13 percent in Wards 1 and 7. But, the median price rose 7 percent in Ward 5.

Our analysis shows that the District of Columbia has not been as deeply affected by foreclosure as many other cities around the country or even other jurisdictions. But the problem is growing here as it has been in most of the nation.

Foreclosure trends overall

- Foreclosure notices have been steadily increasing since 2006. The number of properties issued a foreclosure notice in 2009 Q1 was the highest level for all first quarters in the past 10 years. In 2009 Q1, 911 single-family homes were issued one or more foreclosure notices, almost four times the number in 2006 Q1. An additional 255 condominium units were issued foreclosure notices in 2009 Q1, more than five times the number in 2006 Q1. Annual totals from 1999 to 2008 show similar trends.

Figure 2. Residential Foreclosure Trends, 1999 Q1 - 2009 Q1 (Quarterly)
Washington, D.C.



Source: D.C. Recorder of Deeds and Office of Tax and Revenue data tabulated by NeighborhoodInfo DC.

- The number of single family homes and condominiums in foreclosure has reached the highest level in the past eight years (figure 2). Between 2001 and 2006 the number of homes in foreclosure fell by half, from 2,141 to 1,052. Between 2006 and 2009, however, the number has increased again, reaching 2,116 by the start of the 2009.

- Of greater concern, the number of new foreclosure starts has shot up and is continuing to rise. In 2006 Q1, there were 160 new foreclosure starts, the lowest level this decade. Since then, the number has increased steadily, reaching 672 new starts in 2009 Q1.

- Foreclosure sales have also increased over this period. Between 2003 and late 2006, there were virtually no foreclosure sales in the city. Since early 2007, the number has risen to 169 in 2009 Q1. Foreclosures avoided and distressed sales also increased.

- The share of properties reaching foreclosure completion (foreclosure sale) is also increasing dramatically. In 2003, only 3 percent of the single-family homes and condominium units in foreclosure at the beginning of the year reached a foreclosure sale by year's end. In 2008, however, this rate had risen to 38 percent. While this is not as high as the 45 percent in 1999, the rate could go even higher if home prices continue to fall and if the economy does not quickly improve.

- The time for homes to go through the foreclosure process in D.C. is getting shorter. For single-family homes and condominiums that started the foreclosure process in 2003, the average time to a foreclosure sale was about 19 months (591 days). The time to foreclosure sale was slightly higher for single-family homes (603 days) than for condominiums (322 days).

- The time to foreclosure has been steadily decreasing since then. By 2007, the average time to foreclosure was under 1 year (240 days), and for properties starting the process in 2008 Q1, only 190 days. Again, the time to foreclosure is much faster for condominium units than for single-family homes.

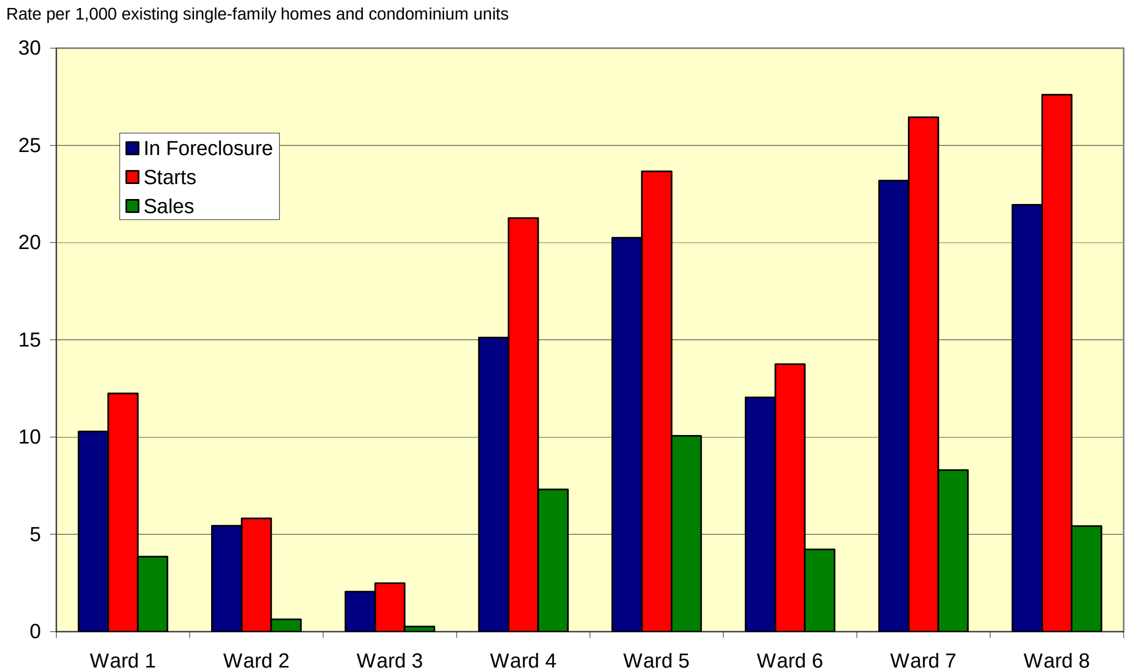
Foreclosure activity by Ward

- Note: in this section, to allow comparison between wards and neighborhood clusters, we have normalized foreclosure indicators as rates per 1,000 existing single-family homes and condominium units.

- Foreclosure activity is not uniformly distributed throughout the city; some wards and neighborhoods have more foreclosures than others. In particular, lower-priced areas have higher foreclosure activity. Wards 7 and 8, which are the wards with the lowest home prices, had the highest rates of properties in foreclosure and new foreclosure starts in 2008 (figure 3). Ward 7: 23/1,000 in foreclosure; 27/1,000 starts. Ward 8: 22/1,000 in foreclosure; 28/1,000 starts. Ward 5, however, had the highest rate of foreclosure sales: 10/1,000. Ward 4, which is in the middle of the city's price distribution, also has relatively high levels of foreclosure.

- Wards 1 and 6 had moderate levels of foreclosure activity. The lowest levels of foreclosure activity are in the city's two highest priced areas, Wards 2 and 3.

Figure 3. Foreclosure Inventory, Starts, and Sales by Ward for Single-Family Homes and Condominiums, 2008 Washington, D.C.



- This chart compares new foreclosure starts (for single-family homes and condominiums) against median sales prices (of single-family homes) for neighborhood clusters. (Note: Each dot on the chart represents a neighborhood cluster. D.C. is divided into 39 neighborhood clusters, which are groupings of 3 to 5 neighborhoods used for local planning purposes.)

- The correlation between foreclosure starts and sales prices is close to perfect (it explains about 75 percent of the variation in foreclosure start rates). The three clusters with the highest rate of foreclosure starts are also at the bottom of the price distribution: Cluster 28 in Ward 8 (Historic Anacostia; 42.5 foreclosure starts per 1,000 existing units; median home sales price of $246,000); Cluster 31 in Ward 7 (Deanwood/Burrville; 41.4 foreclosure starts per 1,000 existing units; median home sales price of $255,000); and Cluster 23 in Ward 5 (Ivy City/Arboretum; 34.9 foreclosure starts per 1,000 existing units; median home sales price of $260,000).

- This chart adds further confirmation to the relationship between home prices and foreclosure activity. One interpretation is that this is an income effect, that is, the persons owning homes in higher-priced neighborhoods have higher incomes, and are therefore less likely to have trouble repaying their mortgage.

Furthermore, lower-income borrowers were more likely to take out subprime home purchase or refinance loans, which constitute the largest share of loans in foreclosure.

- Renters can be affected by foreclosure. Many of the homes and condominiums in D.C. are occupied by renters. Furthermore, multifamily rental properties are also entering foreclosure at increasing rates. In 2008, 16.3 per 1,000 renter-occupied single-family homes and condominiums had received a notice of foreclosure sale, up from only 5.5 in 2005. The rates were even higher for small multifamily rental properties of 2 to 4 units. In 2008, 23.7 per 1,000 such properties received a foreclosure notice. The lowest foreclosure rate for renter-occupied properties was larger apartment buildings: 10.6 per 1,000 units in 2008.

- A separate report prepared for the Annie E. Casey Foundations showed that from 2006 through 2008 Q3, approximately 1,000 renter-occupied single-family homes & condos.; 1,500 rental apartments in small buildings; 300 apartments in large buildings have been in the foreclosure process. (Peter Tatian, "Foreclosures and Renters in Washington, D.C.")

3. Market and Foreclosure Trends in the Washington DC Region

As a separate set of analyses conducted to support the work of the Metropolitan Washington Council of Governments (MWCOG), we examined the spatial patterns of foreclosure and vacancy risk scores from HUD and mortgage delinquencies and foreclosures using loan performance data from McDash Analytics, Inc. These data were used in a meeting held by MWCOG in May 2009 to explore the possibility of a regional NSP round 2 proposal.

- To qualify for NSP 2 funding, an area must have an average HUD foreclosure risk or vacancy score of 18 or greater. Our analysis of HUD scores for the region showed that many more Census tracts in the region are eligible under the foreclosure risk score. However, in the District of Columbia, no tracts had a foreclosure risk score of 18 or higher, and only a few D.C. tracts qualified under the vacancy score (map 1).

- Prince George's County has almost half of tracts in the region eligible for NSP round 2 funds using the foreclosure score. Prince William County has the 2nd highest number of eligible tracts, and 90 percent of all tracts in the county have a foreclosure risk score of 18 or higher.

- But, the HUD scores are just a starting point. The NSP round 2 NOFA asks applicants to justify selection of specific areas and mix of activities using housing market data. The applicant must demonstrate an understanding of the causes of foreclosures and strength of local housing markets. Furthermore, to make the most effective use of NSP funds, local jurisdictions must use additional data to help select appropriate activities for different neighborhoods.

- The spatial patterns of delinquency and foreclosure from the McDash Analytics loan performance data do not always coincide with HUD high-scoring tracts (maps 2 and 3). For example, Wards 7 and 8 in the District of Columbia are areas with high shares of delinquent loans and foreclosed homes. But, these areas do not score highly on the HUD indices. Additional examples include areas in Montgomery County near the border with Prince George's.

- Even within counties with many high-scoring census tracts, such as Prince George's and Prince William Counties, there is more variation in the spatial patterns of foreclosures than the HUD measures indicate. In Prince William, for instance, delinquencies and foreclosures are concentrated in and around Manassas city.

- Additional maps were used to examine home sales volume and prices. Since only 10 percent of NSP round 2 funds can be used for demolition, jurisdictions should identify submarkets where home sales have slowed, but not completely stopped. These are areas where market recovery is plausible using NSP-supported interventions.

4. Strategy: Applying Data in Developing and Monitoring a Regional Response to the Foreclosure Crisis

As noted earlier, *NeighborhoodInfo DC* held discussions related to this work with COG and representatives of other jurisdictions in late 2008, but the most substantial opportunity to further the idea was the meeting convened by COG on May 22, 2009. This meeting, attended by the housing directors of COG member local governments as well as COG staff, was held to discuss the possibility of developing a regional consortium proposal to HUD for the second round of NSP funding. *NeighborhoodInfo DC* presented analysis completed so far on recent trends in foreclosures and other housing market indicators (summarized in the section above) as the substantive basis for the approach. Oramenta Newsome, director of Washington DC LISC, one of the *NeighborhoodInfo DC* partners, facilitated the discussion.

Several County and City governments have since agreed with COG to put together a consortium NSP round 2 proposal. Building off of data presented at the initial exploratory meeting of the housing directors, *NeighborhoodInfo DC* has been invited to join the proposal development working group and will continue to provide the analytic support (involving further market analysis and relating foreclosure risk levels and market conditions for different types of neighborhoods to various mixes of program activity) for the consortium proposal. If the proposal is successful, NeighborhoodInfo DC expects to be included as a partner to work with the consortium in planning and monitoring implementation of the NSP round 2 plan. At this point, the following are the steps now expected in this work program:

- The consortium working group will continue to meet regularly to discuss progress towards the regional proposal.

- Consortium members will submit materials needed for proposal, including lists of census tracts and neighborhood stabilization activities to be included in the regional approach.

- The consortium working group will make decisions as to what aspects of the NSP round 2 program will be carried out by individual jurisdictions (with MWCOG acting as a pass-through) and which will be centralized.

- *NeighborhoodInfo DC* will provide additional data and supporting exhibits (tables, charts, maps) to justify the selection of target areas and the choice of activities to be carried out in particular neighborhood types.

- MWCOG will compile all materials into a written proposal, for review by the working group. The working group members will give final approval of the proposal before submission to HUD.

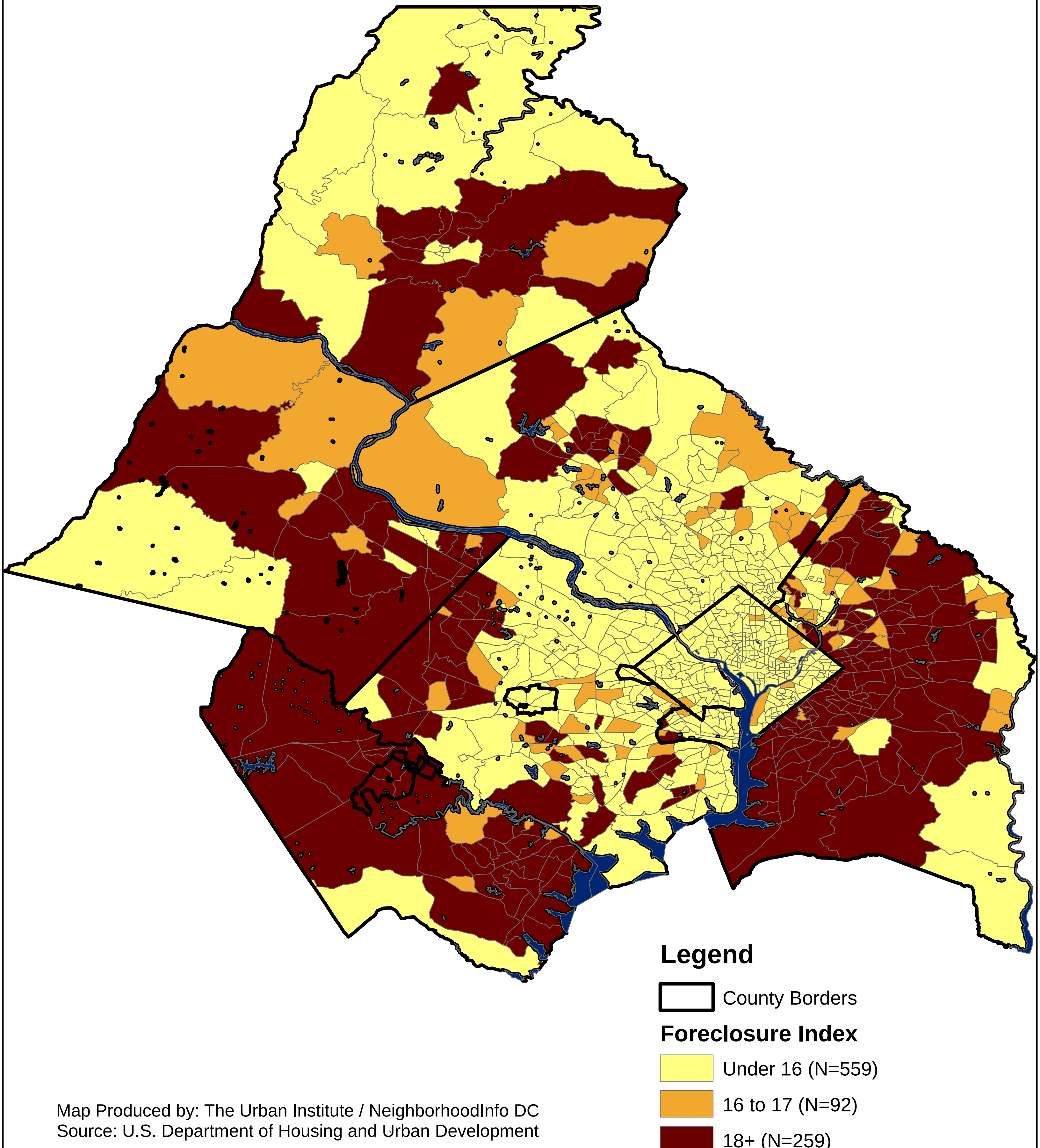
Regardless of HUD's acceptance of the region's NSP 2 proposal, however, *NeighborhoodInfo DC* will continue to work with COG and individual jurisdictions that have participated in the consortium. This will include assistance them in: (1) using data the Urban Institute has already developed in strategic planning; (2) improving their own local parcel level data bases for this type of work; and (3) developing an approach to providing recurrent report cards on the status of foreclosure problems within their boundaries (using the approach developed for DHCD as a model).

NeighborhoodInfo DC also plans to work with COG to build on the foundation established through the NSP discussions in promoting more regional approaches to housing and community development issues. This may include putting on additional region-wide forums on foreclosure issues, highlighting how various local governments are responding to the crisis and presenting updated data on the problem itself. Efforts will be made to gain ample press coverage of these events, and exploit other opportunities for disseminating results, so they will make inroads in public education.

Attachment A: Maps

Map 1.

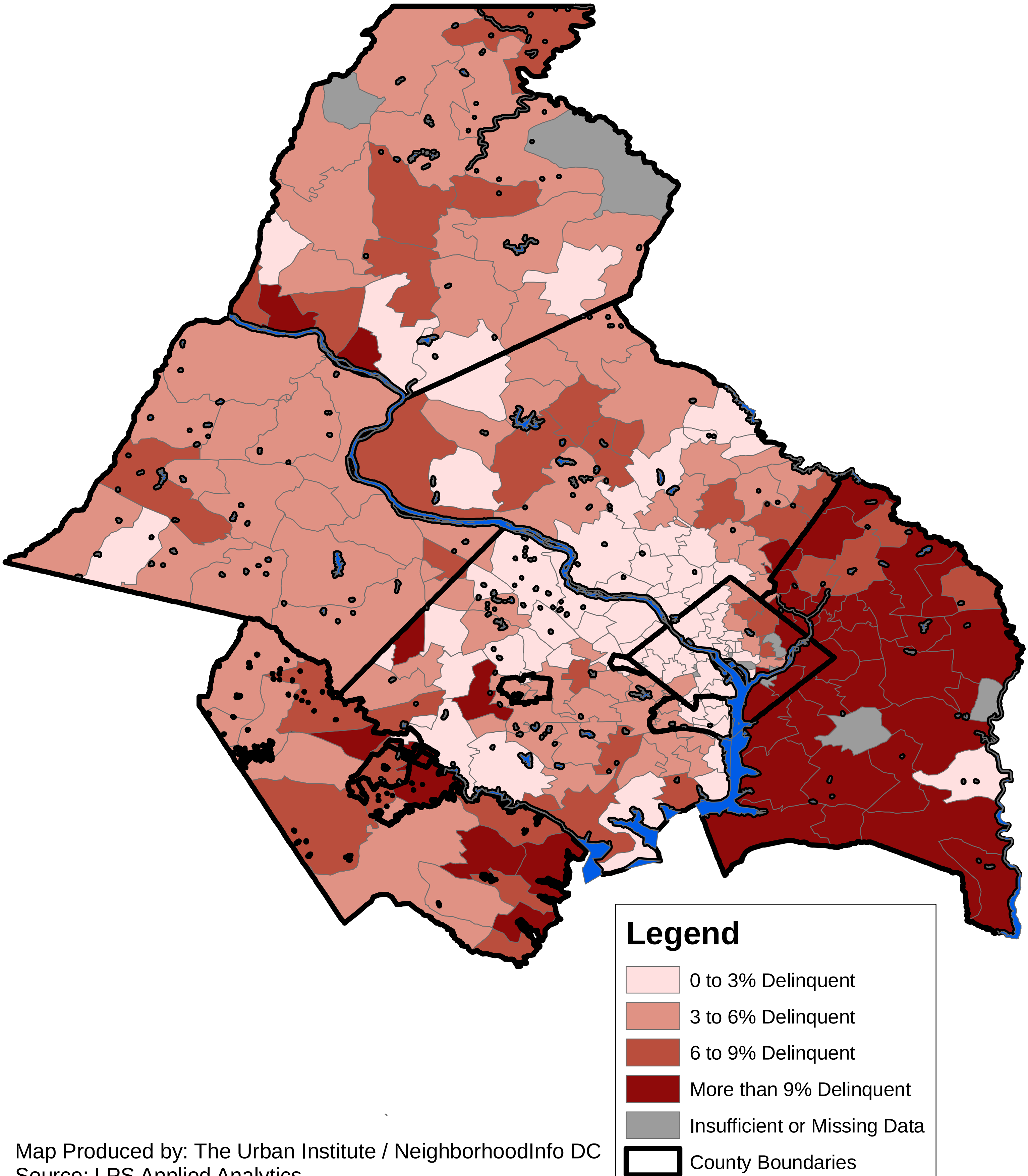
HUD Foreclosure Risk Index
Washington Region by Census Tract



Map Produced by: The Urban Institute / NeighborhoodInfo DC
Source: U.S. Department of Housing and Urban Development

Map 2.

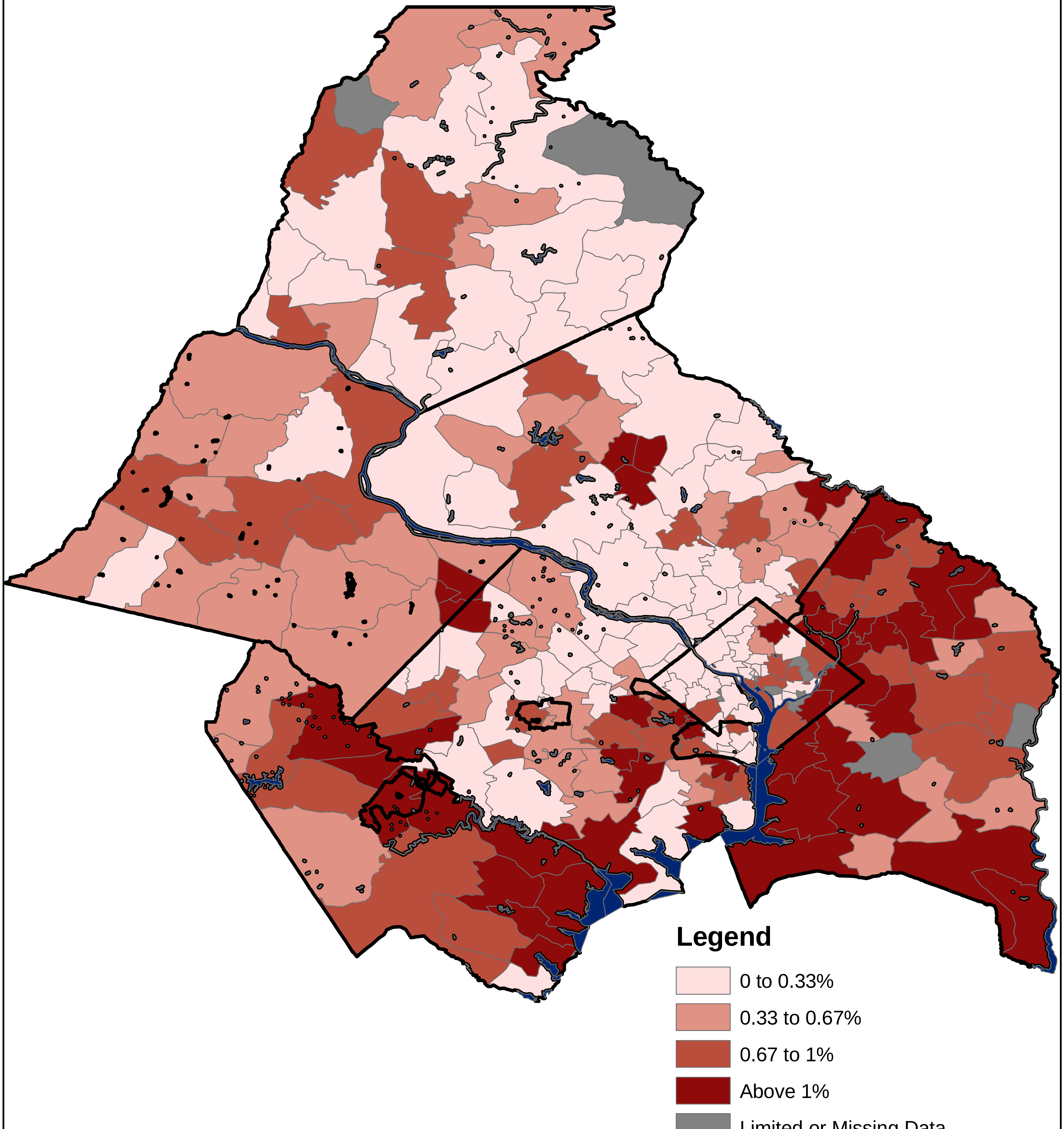
Share of All Loans that were Delinquent
Washington Area Zipcodes, March 2009



Map Produced by: The Urban Institute / NeighborhoodInfo DC
Source: LPS Applied Analytics

Map 3.

Percent of All Loans in Post-Sale Foreclosure Washington Region by Zipcode, March 2009



Map Produced by: The Urban Institute / NeighborhoodInfo DC
Source: LPS Applied Analytics