



**SETTING PRIORITIES FOR
NEIGHBORHOOD STABILIZATION:
GUIDE TO USING FORECLOSURE-
RESPONSE.ORG INDEXES**

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INTRODUCTION¹

Designing an effective neighborhood stabilization strategy may be among the most challenging tasks facing local governments in this troubled time. Many of their neighborhoods have already experienced sizeable numbers of foreclosures and there are more to come. Yet funds available to preserve and stabilize neighborhoods are woefully inadequate everywhere. Investments have to be targeted with great efficiency.

With neighborhood stabilization, however, this is no easy undertaking. Appropriate solutions for neighborhoods depend on their market strength as well as their level of foreclosure risk. In neighborhoods with fairly strong real estate markets, a recovering private sector may address the foreclosure problem without a need for public intervention. At the other extreme, in neighborhoods with very weak markets, public efforts to rehab distressed properties might well be unworkable.² There will be insufficient demand from home buyers and other investors to purchase the rehabbed properties and operate them sustainably, and available subsidies are nowhere near sufficient to cover the full costs (capital and operating) over the long term. For these types of neighborhoods, demolition and land-banking may warrant more consideration. Alternatively, neighborhoods in-between, sometimes called “warm” markets, may be the ideal place for agencies to try to spur rehabilitation since fairly modest public investment may be enough to overturn the risk foreclosures present to the neighborhood and revive self-sustaining property ownership.

The implication of the examples above is that neighborhood-level data on market strength as well as foreclosure risk are essential for designing effective stabilization strategies. However, very few localities have had access to such data. To address this need, *Foreclosure-Response.org* is now providing indexes of both market strength and foreclosure risk that localities can use to set their neighborhood stabilization priorities.

From its beginning in 2008, *Foreclosure-Response.org* recognized that analysis of relevant data is essential to developing a sensible neighborhood stabilization strategy and, in particular, that measures of foreclosure risk and market strength need to be examined together (See “*Developing a Neighborhood Typology for Targeting Funds*” in the “Develop a Local Action Strategy” section of our Policy Guide). Our site has provided an index on foreclosure risk for some time, and a new LISC Housing Market Index was added in early 2011. Accordingly, we are now able to offer guidance on how you can use both indexes jointly to help develop your local strategy.

¹ Note: the preparation of this guide was supported by the Annie E. Casey Foundation.

² Problems like this are now receiving considerable emphasis in the literature (see, for example, Goldstein, 2010).

This document is a guide that begins by defining the indexes and then explains how they and related resources can be used to set priorities. It then offers more detailed guidance on a three-step approach to using these materials, summarized as follows:

- **Step 1 – Find out where neighborhoods fall in relation to market strength and foreclosure risk.** This step entails an initial review of a matrix you can access on this site that combines the housing market and foreclosure risk indexes for any U.S. metropolitan area to gain an understanding of how many and which census tracts fall in different places on the matrix. For example, which tracts have fairly high foreclosure risk and very weak market conditions, which tracts fall into the middle range of both foreclosure risk and market strength, etc.
- **Step 2 – Apply local knowledge and data to define zones for different targeted actions.** The next step requires local research and consultations so you can calibrate the matrix to local market conditions. We suggest holding meetings with knowledgeable local practitioners (e.g. planning officials, realtors, and housing specialists). In the meetings, participants would, from their own local market knowledge, estimate the level of the critical market strength and foreclosure risk thresholds for the metropolitan area and, using the matrix, review which tracts are grouped in key cells around these thresholds. For example, how high of a local foreclosure risk level is the most critical for intervention, and which census tracts have a risk level near that threshold? What level of market strength divides the census tracts where market-oriented rehabilitation is likely to be viable versus those in which market-oriented strategies are unlikely to be viable? The answers to these questions will help to define zones where different types of targeted actions are appropriate.
- **Step 3 – Use the targeted action zones to select census tracts for priority action.** The great benefit of the matrix is that it groups tracts together in each cell that are likely to justify similar priorities and programmatic treatment so you do not have to try to develop approaches for tracts one-by-one. The consultations above are likely to lead the participants to a good sense of which cells warrant the highest priority and the general stabilization approach appropriate for the tracts in these cells. You do not need to devise strategies for all cells in the matrix. Rather, the data help you select the census tracts (probably a small group) that should be the focus of stabilization work in the short term.

After a more detailed discussion of this process, the guide illustrates how it could be applied in one metropolitan area: Washington, D.C.

THE INDEXES

The two indexes were developed by the Local Initiatives Support Corporation (LISC). They make use of the most recent nationally available data that is pertinent for setting neighborhood stabilization strategies. Index values are presented for all census tracts in U.S. metropolitan areas. Values for census tracts are calculated relative to the metropolitan area in which they are located. You can access all of the data for your metropolitan area, and a description of the source data and methodology, directly on Foreclosure-Response.org. In each case, several separate measures were woven together statistically to form the index.

The Foreclosure Risk Index. The Foreclosure Risk Index identifies the relative risk of foreclosures for each census tract within a metropolitan area. The method for developing this index, and the source data behind it, are described in *Walker and Winston, 2009*.³ The component indicators used in constructing the index are:

- First-lien mortgages in foreclosure as a percent of all units with a residential mortgage (data from LPS Applied Analytics, updated quarterly)
- Sub-prime first lien mortgages as a percent of all units with a residential mortgage (data from LPS Applied Analytics, updated quarterly)
- First-lien mortgage delinquencies of 30 days or more as a percent of all units with a residential mortgage (used as an indicator of risk for future foreclosures) (data from LPS Applied Analytics, updated quarterly)
- Vacancies as a percent of occupied units in ZIP-codes with high rates of subprime loans (to reflect the Neighborhood Stabilization Program's emphasis on vacant properties) (special tabulation of U.S. Postal Service data created by the U.S. Department of Housing and Urban Development)

The Housing Market Index. The Housing Market Index identifies the relative housing market strength for each census tract within a metropolitan area. The method for developing this index, the source data behind it, and the analyses conducted to test it, are described in *Walker and Winston, 2010*. All of the component indicators are for home purchase mortgages only and are two-year averages from the Home Mortgage Disclosure Act (HMDA) data files for 2008 and 2009. The component indicators used in constructing the index are:

- Median value of first lien mortgages, 2008-09
- Percent of all first-lien mortgages that are high-cost, 2008-09
- The origination rate for owner-occupant mortgages (ratio of first-lien owner-occupant mortgages originated in 2008-09 to owner-occupied units in 2000).
- The origination rate for investor mortgages (ratio of first-lien investor mortgages originated in 2008-09 to single-family rental units in 2000).

³ The source data for the Foreclosure Risk Index is available at the ZIP code level. For the purposes of this analysis and for comparison to the Housing Market Index, the data has been converted to the census tract level, by using ZIP Code Tabulation Areas and weighting the data by the number of housing units.

- Percent of all first-lien mortgages with owner occupant borrowers, 2008-09

GENERAL APPROACH

These indexes are designed for use in the first stage of neighborhood stabilization planning, which includes:

- Assigning priorities and selecting neighborhoods (in this case represented by census tracts) for targeted stabilization, and
- Deciding on the general stabilization approach to be followed in each neighborhood selected.⁴

The matrix in Table 1 (also online in the "[Develop a Local Action Strategy](#)" section of Foreclosure-Response.org), illustrates the approach with broad categories for the two measures:

- The rows classify market strength as (1) strong, (2) intermediate, or (3) weak, and
- The columns classify the foreclosure risk as (A) low, (B) intermediate, and (C) high

In practice, the dividing lines between these cells are not sharp, but the matrix does indicate important differences in terms of both priority and appropriate types of actions moving from cell to cell. Clearly, the best circumstances are found in the upper right hand corner (strong market and low foreclosure risk). Here, there is little need for stabilization investment.

The worst circumstances are found in the opposite corner (lower left – weak market with high foreclosure risk). This is the case noted in the introduction where, while there is considerable need, the wrong sort of investment at the wrong time could be wasteful. The market may be too weak to support investment in rehabilitation. More efficient strategies here may emphasize securing properties, demolition and land banking – holding actions until market conditions improve (strategies actually now being employed in sections of Detroit and other weak market cities).

⁴ Later stages in the process involve more detailed planning of activities *within* the selected neighborhoods, including decisions about actions to be taken on individual parcels (e.g., purchase and rehab, intensive code enforcement, demolition). If they are to be made well, these decisions too should be based on analysis of a considerable amount of data. However, the information needed to support these decisions has to be developed from local records (not national data files). There are some excellent examples of local data development to support neighborhood stabilization planning within neighborhoods noted later in this guide.

Table 1
NEIGHBORHOOD STABILIZATION RESPONSE STRATEGY FRAMEWORK

MARKET STRENGTH	FORECLOSURE RISK		
	C. High foreclosure risk	B. Intermediate risk	A. Low foreclosure risk
1. Strong	<i>Facilitate rapid sales to responsible owners, rehabs as needed, low/no subsidy</i>	<i>Priority to prevent displacement, foreclosures and vacancies, low/no subsidy</i>	<i>Lower priority</i>
2. Intermediate	<i>High priority to rehab & expedite rapid sales to responsible owners, target subsidies, neigh. maint.</i>	<i>High priority to prevent displacement, foreclosures and vacancies; more subsidy & neighborhood maintenance</i>	<i>Lower priority but watch carefully, head-off emerging problems early</i>
3. Weak	<i>Targeted reinvestment, & more securing properties, demolition & land banking to hold until market rebound</i>	<i>Priority to prevent displacement, foreclosures and vacancies, low or modest subsidies justified</i>	<i>Lower priority but watch carefully, head-off emerging problems early</i>

But where should the priorities be set? Local circumstances could justify investment in many places on this chart, but increasingly researchers and HUD suggest that the most cost-effective investments will be near the middle – see for example, Mallach, 2010, and Goldstein, 2010. Some have called the ideal neighborhoods “warm” (as opposed to “hot”) markets. These are places where relatively small investments may be able to regenerate a healthy market; e.g., places where there may have been just a few foreclosures that are just starting to have negative effects on surrounding properties. The idea is to catch these neighborhoods in time and invest so as to avoid major declines in neighborhood conditions and property values.

Whatever the adopted goal, developing a local strategy requires three things: (1) finding out where various neighborhoods fall relative to each other in relation to both market strength and foreclosure risk; (2) defining different thresholds to demarcate zones for different types of actions; and (3) using these demarcations in forming the strategy.

STEP 1 - FIND OUT WHERE NEIGHBORHOODS FALL IN RELATION TO MARKET STRENGTH AND FORECLOSURE RISK

To help you find where neighborhoods fall in terms of market strength and foreclosure risk, *Foreclosure-Response.org* is now providing the values of both indexes for all census tracts in U.S. metropolitan areas, and various exhibits based on those values. With data for metropolitan Washington, D.C., Table 2 is an example of what a market strength/foreclosure risk matrix looks

like. It is arrayed similarly to the simpler presentation in Table 1; best conditions in the upper right corner, worst in the lower left.

The numbers in each cell are the number of tracts in the metro that fall in that cell. For example, 8 is recorded in the cell second from the bottom in the third column from the left. We name that cell “2-3.” It means that 8 tracts in metro Washington, D.C. fall in the 2nd worst decile with respect to market strength and the 3rd worst with respect to foreclosure risk.

The specific tools you can find on our site at http://www.foreclosure-response.org/maps_and_data/data_for_strategic_targeting.html are as follows (in each case, you can select any U.S. metro area, and the information appears):

1. A map showing foreclosure risk index ranges for all census tracts within the metro (5 categories from low to high - you can click on any tract on the map and its exact percentile on this index will pop up).
2. A map of showing housing market index ranges for all tracts within the metro (5 categories from weak to strong - similarly, you can click on any tract and its exact percentile on this index will pop up).
3. Our “market strength/foreclosure risk matrix” for the metro showing the number of local census tracts in each cell formed by cross-tabulating a total of 10 categories for each index. For example, you can see how many tracts are in both the 2nd highest 10% according to foreclosure risk *and* the 5th highest 10% according to market strength.
4. This same Excel workbook will also allow you to view lists of the identification numbers of the census tracts that fall in each cell of the matrix (so you can pin down their locations on local maps). This list also contains the data published by HUD for the third round of the Neighborhood Stabilization Program funding, including the NSP3 Foreclosure Needs Score, the minimum necessary score for NSP3 eligibility, and a flag for whether the census tract is eligible for NSP3 assistance.⁵

As noted, the data in Table 2 represent the allocation of tracts in the Washington, D.C. metropolitan area. This is the first time a matrix like this has been produced and it shows some interesting characteristics of the overlay of these two measures. Not surprisingly, the two measures are somewhat correlated with each other; in other words, many census tracts with strong markets also have low foreclosure risks and vice versa. However, the correlation is far from perfect⁶. There is considerable spread – that is, sizeable numbers of census tracts fall in almost all cells in the matrix. Some of the metro area’s census tracts with stronger housing markets have relatively high foreclosure risks, and some lower foreclosure risk areas have fairly weak housing markets.

⁵ For more information, see: <http://www.huduser.org/portal/datasets/nsp.html>

⁶ The Pearson correlation coefficient is -0.457.

Table 2
EXAMPLE MARKET STRENGTH/FORECLOSURE RISK MATRIX
 (Number of census tracts in the selected metropolitan area that falls into each cell.)

Name of Metro: _____												
Market Strength	Strongest	10	0	2	1	0	3	2	4	9	39	39
		9	2	2	5	5	5	13	13	18	13	23
		8	4	1	3	4	15	13	15	25	9	10
		7	4	3	12	5	10	14	19	14	10	8
		6	2	9	10	13	11	14	19	11	5	5
	Weakest	5	8	8	16	6	12	12	15	5	10	7
		4	12	10	11	11	16	19	4	10	3	3
		3	12	20	18	22	8	5	7	2	4	1
		2	27	18	8	22	7	4	3	3	5	2
		1	28	26	14	12	12	3	0	1	2	2
		1	2	3	4	5	6	7	8	9	10	
		Highest			--->	--->	--->	Lowest				
Foreclosure Risk												

Note: 1 = worst (weakest market, highest foreclosure risk)
 10 = best (strongest market, lowest foreclosure risk)

STEP 2 - APPLY LOCAL KNOWLEDGE AND DATA TO DEFINE ZONES FOR DIFFERENT TARGETED ACTIONS

The data from our tools noted in step 1 above, provide only a part of the information you need to do an effective job of prioritizing areas for stabilization in your metro. This site has provided the matrix that shows the relationships between the tracts in your metro. The next step requires you to do local research and consultations to identify at least two critical thresholds on this matrix, based on local conditions.

The Market Strength Threshold. What level of market strength is sufficient for market-oriented rehabilitation to be viable? In other words, where would the likely market value of a rehabbed property exceed the costs of acquisition and rehab? These questions help to set the market strength threshold. This threshold should approximate a horizontal line on the matrix,

illustrated as A-A' in Tables 3 and 4. In a comparatively strong metropolitan market the majority of tracts are likely to be above this line (illustrated in Table 3). However, where the market is very weak in the metropolis overall, comparatively few census tracts may be above this threshold (illustrated in Table 4). Detroit is clearly in the latter category. Alan Mallach (2010) notes:

In many parts of Detroit, for example, a house that costs \$10,000 to acquire needs another \$40,000 to \$50,000 in rehab but will not appraise after rehab higher than \$30,000 to \$35,000. In such a market, a responsible rehabber would soon go broke, unless he has access to public subsidy funds.

Table 3
KEY THRESHOLDS IN AN EXAMPLE METROPOLIS WITH:
STRONG MARKET, MODEST FORECLOSURE PROBLEM
 (Number of census tracts in the selected metropolitan area that falls into each cell.)

		X											
		Name of Metro: _____											
A	Market Strength	Strongest	10	0	2	1	0	3	2	4	9	39	39
			9	2	2	5	5	5	13	13	18	13	23
			8	4	1	3	4	15	13	15	25	9	10
			7	4	3	12	5	10	14	19	14	10	8
			6	2	9	10	13	11	14	19	11	5	5
		Weakest	5	8	8	16	6	12	12	15	5	10	7
			4	12	10	11	11	16	19	4	10	3	3
			3	12	20	18	22	8	5	7	2	4	1
			2	27	18	8	22	7	4	3	3	5	2
			1	28	26	14	12	12	3	0	1	2	2
		1	2	3	4	5	6	7	8	9	10		
		Highest			--->	--->	--->	Lowest					
		Foreclosure Risk											
		X											

The Foreclosure Risk Threshold. How high a level of foreclosure risk level justifies public intervention in your metropolitan area? This question helps to set the foreclosure risk threshold. This threshold should approximate a vertical line, illustrated as X-X' in Tables 3 and 4. It is meant to be the level of foreclosure risk below which local data suggest that current dangers are not sufficient to warrant concern for public policy. It is well known that the extent of current foreclosure problems vary widely across as well as within metropolitan areas. In metro areas that have not been hit very hard, most tracts will fall to the right of this line (the low end according to the foreclosure risk index) (illustrated in Table 3). In metros with the worst foreclosure problems, in contrast, most tracts will lie to the left of this line (illustrated in Table 4)

Table 4
KEY THRESHOLDS IN AN EXAMPLE METROPOLIS WITH:
WEAK MARKET, INTENSIVE FORECLOSURE PROBLEM
 (Number of census tracts in the selected metropolitan area that falls into each cell.)

		X											
		Name of Metro: _____											
A	Market Strength	Strongest	10	0	4	0	1	2	3	11	13	25	56
			9	0	1	0	4	6	8	21	19	28	29
			8	0	1	2	6	11	13	24	28	22	8
		---^	7	0	3	6	6	13	22	20	18	18	10
		---^	6	0	4	3	13	21	23	19	10	15	7
		---^	5	2	9	12	17	25	26	10	10	3	2
		Weakest	4	4	18	25	19	15	13	5	11	4	1
			3	13	23	28	23	17	3	4	4	0	1
			2	46	24	19	14	7	4	0	0	0	1
			1	50	29	20	11	0	1	1	1	2	1
		1	2	3	4	5	6	7	8	9	10		
		Highest			-->	-->	-->	Lowest					
		Foreclosure Risk											
		X'											

While the two illustrated metros are quite different from each other, the same rules apply. In both cases, the census tracts likely to yield the highest per dollar payoff from NSP investment are likely to be those to the left of line X-X' and just above (or close to) line A-A'. These are the areas highlighted in yellow on both tables; a very different location on Table 3 than on Table 4.

The Local Calibration Process. In reality, the two threshold lines we suggest are likely to be fuzzy rather than sharp, but the concepts behind them offer a place to start. How can local stakeholders find reasonable approximations of these thresholds? We recommend a collaborative process in which NSP program designers: (1) download and/or access the metropolitan area's market strength/foreclosure risk matrix, maps and data from this site; (2) assemble and map any other relevant and available local data (block group, block, and parcel levels within census tracts); and (3) walk through these materials in one or more analysis/planning sessions attended by local real estate specialists as well as other program participants.

The real estate specialists would be asked ahead of time to consider how acquisition/rehab costs and sales prices relate to each other and vary across the metropolitan area. In the sessions, they would take the lead in reviewing the data (particularly the market strength maps) and suggesting, at least roughly, the probable level of the Market Strength Threshold.

After jointly reviewing and discussing local data on foreclosures in relation to Foreclosure Risk Index results, the real estate specialists would join with the other participants in determining the approximate level of the Foreclosure Risk Threshold.

These selections would then lead to the identification of a cluster of cells on the matrix (thus implicitly the set of tracts included in those cells) that would represent a first cut selection as NSP investment priorities.

It is important to point out that a community could legitimately choose groups of tracts other than the types we have suggested are likely to warrant highest priority in most places (i.e., the yellow areas on the matrixes where NSP investment are most likely to induce market regeneration in the near term). For example, the community might choose areas with somewhat lower current market strength but propose a program of strategic demolition and land banking in those areas to reduce public outlays for upkeep over the next few years and hopefully shorten the period before market regeneration might actually occur.

Our point is that using the matrix (and additional local data) to set priorities should push decision makers to think through the options in market terms and, thereby, match action programs to neighborhood conditions in a more cost-effective manner.

STEP 3 – USE THE TARGETED ACTION ZONES TO SELECT CENSUS TRACTS FOR PRIORITY ACTION

As noted in the introduction, the great benefit of the matrix is that it groups tracts together in each cell that are likely to justify similar priorities and program treatments (so you do not have to try to develop approaches for tracts one-by-one). The consultations above are likely to lead the participants to a good sense of which cells warrant the highest priority and the general stabilization approach appropriate for them. It is not necessary to devise strategies for all cells in the matrix. Rather, the data help you identify the cells (probably a small group) that should be the focus of stabilization work in the short term. We call these “targeted action zones.”

STRATEGIC PLANNING WITHIN NEIGHBORHOODS

As noted earlier, the selection of groups of tracts as priorities for NSP actions is only the first phase in designing a strategy. The subsequent stages in the process involve more detailed planning of activities *within* the selected neighborhoods, including decisions about actions to be taken on individual parcels (e.g., purchase and rehab, intensive code enforcement, demolition).

We suggest that these decisions also should be based on analysis of a considerable amount of data if they are to be made effectively – data that almost always have to come from local records rather than national data files.

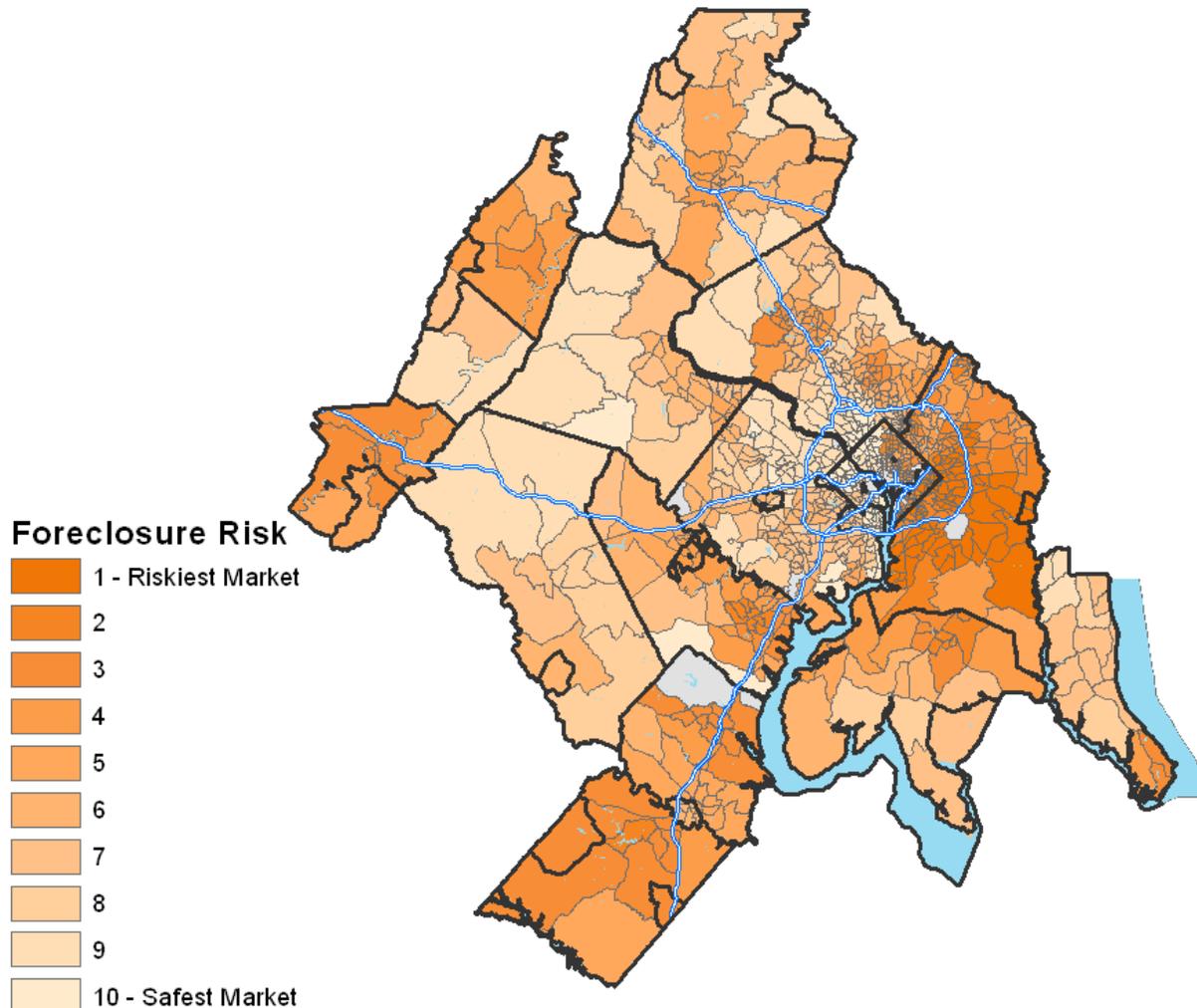
Two good examples of data-driven approaches to strategic planning at the neighborhood level are:

- Philadelphia (using the Market Value Analysis approach developed by TRF – see Goldstein, 2010), and
- Cleveland (using thorough parcel level data on foreclosure and a host of property conditions by Case Western Reserve University - see Coulton, et al, 2010, and Sand and Bush, 2011).

AN EXAMPLE – APPLYING THE INDEXES IN METROPOLITAN WASHINGTON D.C.

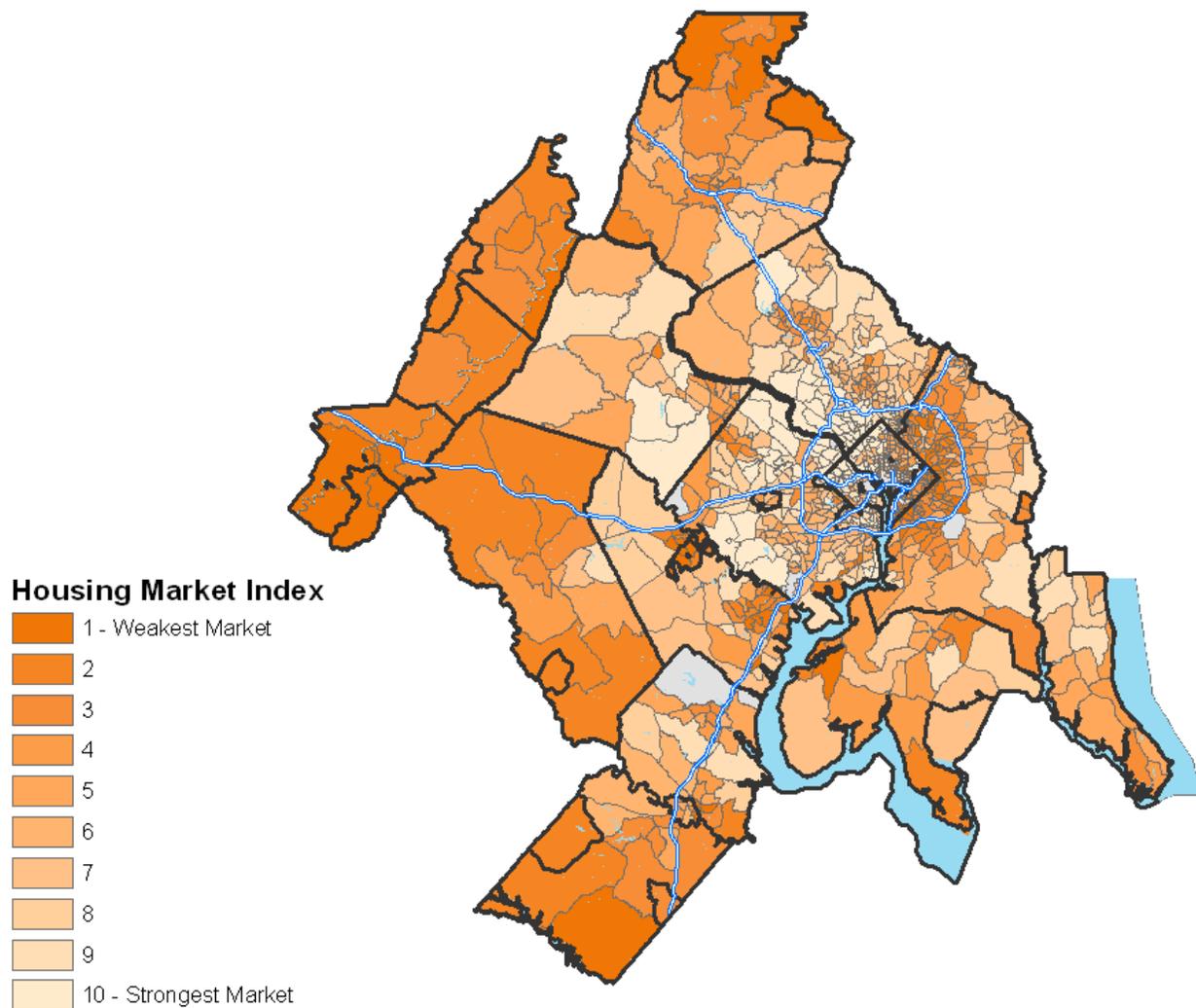
To test out how the matrix classifies neighborhoods in Washington, D.C. we used data downloaded from Foreclosure-Response.org to locate each census tract's position on the matrix for foreclosure risk and market strength. We then took advantage of local analysis already completed to calibrate the matrix and identify targeted action zones. This example will help us understand more about what targeted action zones might look like in practice. NSP planners in metropolitan Washington, D.C, have explored an approach similar to what we have proposed, and assembled considerable relevant local data to do so.

Map 1 – Foreclosure Risk Index for the Washington, D.C. Metropolitan Area



As background, the decile values for our Foreclosure Risk and Market Strength indexes for the Washington, D.C., metro are shown in Maps 1 and 2. Map 1 shows that the region's highest foreclosure risks fall mostly in Prince George's County, MD, (just east and somewhat south of the central city) and in Prince William County, VA, (southwest of the city, but farther out). Map 2 shows the housing market strength index by decile in the region. On either map, the more troubled areas in terms of either foreclosure risk or housing market strength are in darker orange. As shown in Table 5, the overall pattern of the market strength index, as expected, is roughly (negatively) correlated with foreclosure risk, but there are clear variations in market strength among neighborhoods that have serious foreclosure risks.

Map 2 – Housing Market Index for the Washington, D.C., Metropolitan Area



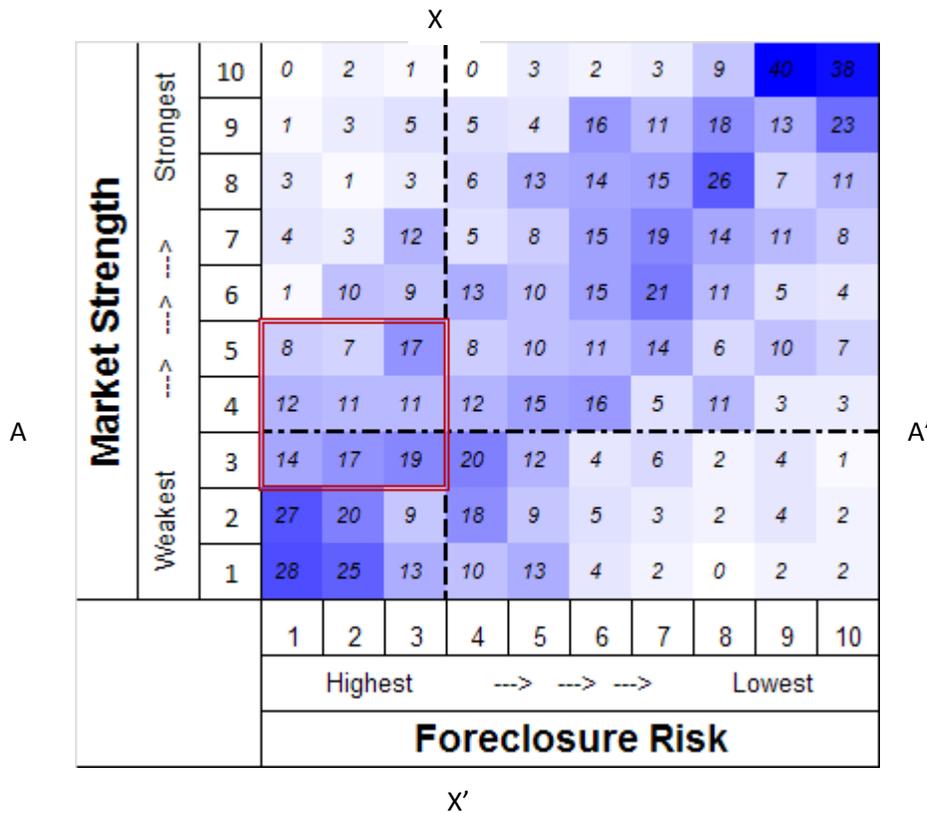
In 2009, the Metropolitan Washington Council of Governments (COG) asked Urban Institute staff to undertake analyses that would assist in selecting priority neighborhoods for investment in its NSP2 application to HUD. The Urban Institute team had just completed a thorough analysis of how the foreclosure crisis was playing out in the area and, with the agreement of COG staff, developed an approach similar to that outlined here (relying on analysis of foreclosure risk and market strength in accord with the framework in Table 1).⁷

The team had neighborhood level data on actual foreclosure experience from LPS Applied Analytics and on several indicators of market strength (e.g., trends in property sales volumes

⁷ The full analysis is presented in Pettit, et al, 2009. The work for COG and its results is described in Urban Institute, 2009, and can be accessed directly on Foreclosure-Response.org.

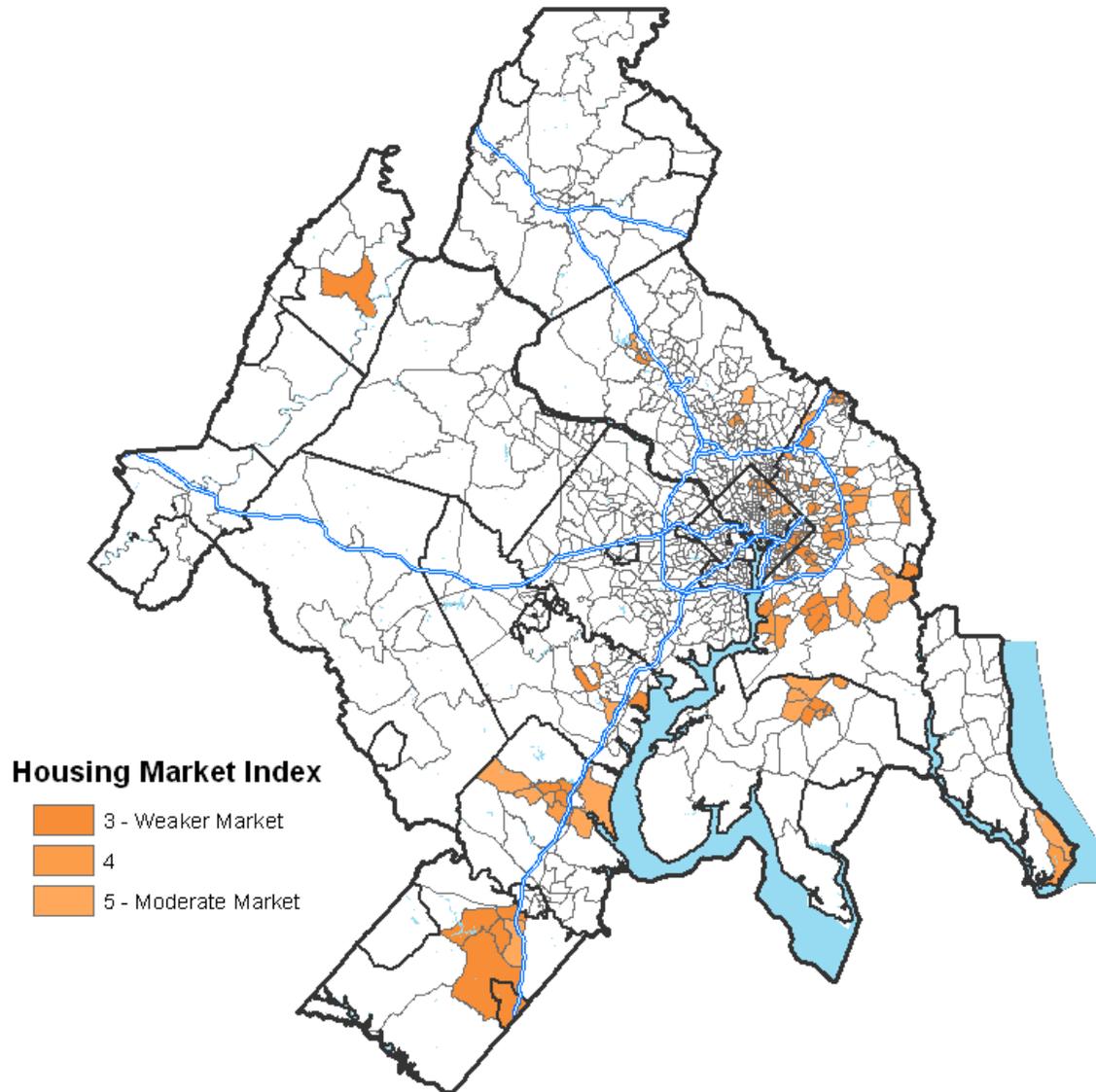
and amounts and on the number of months needed to clear the excess sales inventory) from the local multiple listing service, Metropolitan Region Information System. They also used indicators on other topics that helped provide understanding of neighborhood potentials (e.g., on comparative accessibility from a transportation standpoint). Their analysis was then used as the primary basis for COG’s selection of neighborhoods (neighborhoods that generally fit the “troubled but warm market” circumstances discussed earlier).

**Table 5
KEY THRESHOLDS AND TARGETED ACTION ZONES
WASHINGTON, D.C., METROPOLITAN AREA**



Using our experience from the COG analysis and from studying housing market conditions and foreclosure patterns in the Washington, D.C. metro area, we were able to calibrate local thresholds (as defined earlier in this Guide) using the foreclosure risk and market strength indexes. On the foreclosure side, all of the neighborhoods that were considered to warrant priority for neighborhood stabilization had a foreclosure rate of 4% or more (in local data sources). A foreclosure rate of 4% in the Washington, D.C. metro area translated to a

Map 3 – Targeted Action Zones, Washington, D.C., Metropolitan Area



foreclosure risk index score of about 15 or higher. Roughly 30% of all tracts in the metropolis had foreclosure risk index scores above that level so the “Foreclosure Risk Threshold” (vertical line X-X’) is drawn in just to the right of the 3rd decile in Table 5.

Unlike foreclosure, there are many market indicators that determine market strength (including sales volume, prices, days on market, owner occupancy, etc.) so establishing the key threshold based on local knowledge on that dimension was somewhat more complex. Given the high cost of housing in the Washington, D.C. region, even in the weakest markets, we felt that the first and second deciles would require intensive investment in rehab and acquisition to stabilize those neighborhoods. However, by moving up the housing market index to the 3rd to 5th deciles

(again, intended to represent “warm markets”), the level of investment and subsidy required to stabilize neighborhoods is reduced. Accordingly, our judgment is that the line just above the 3rd decile should be set as the “Market Strength Threshold” for metropolitan Washington (drawn in as line A-A’ on Table 5).

Therefore, this analysis suggests that the Targeted Action Zone for NSP investments in metropolitan Washington should fall in 9 of the 100 cells in the matrix (the cells inside the red border in Table 5): cells to the left of the Foreclosure Risk Threshold and somewhat above and below the Market Strength Threshold. The tracts that are in this zone are shown in orange in Map 3. In these census tracts, the foreclosure risk levels are high enough to warrant intervention and the housing markets are strong enough to suggest that public resources invested in acquisition and rehabilitation strategies there would be effective.

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