Measuring Mortgage Foreclosure Impact:
New Decision-Making Tools to Address the Foreclosure Challenge

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Mr. Chairman, and other members of the Committee, thank you for the invitation to testify today regarding the mortgage foreclosure challenge facing America's communities and how innovative information tools can guide investors and government decision-makers toward improved and appropriate interventions and inform public policy decisions that result in stronger, healthier neighborhoods in which to live and do business.

I would like to begin by making three points.

1. The community development field is increasingly looking toward asset-based initiatives in response to local economic challenges and opportunities. The current foreclosure challenge poses a significant threat to the assets of homeownership, occupancy and community wealth. The response to the foreclosure challenge should remain framed by the goal of preserving and stabilizing community assets whether through public or private interventions.

2. As large and complex as is the foreclosure challenge, any satisfactory response must depend on accurate and adequate information to support an approach enabling analysis and intervention at both the macro and micro scales.

3. Under the banner of an emerging new paradigm in community economic development called "information-led development," Social Compact and Property Advisors, supported by First American CoreLogic, have piloted a forward-looking, real-time tool leveraging a variety of public and proprietary data sources capable of measuring, projecting and prioritizing the impact of foreclosures in Detroit, MI which could serve as a model for assessing and responding to this challenge in other cities similarly affected by foreclosure.

Asset-based Initiatives: Solutions for Bridging the Information Gap on LMI communities

With the foreclosure challenge continuing to accelerate across the map, there is every indication that all socio-economic segments of America will be touched by this reality. Still, low and moderate-income (LMI) communities stand to shoulder the worst of the fallout, not only because they are disproportionately exposed, but also because they will be the least equipped to respond to the accompanying market pressures and follow-on impacts. Indeed, Federal Reserve Chairman Ben Bernanke noted as much in his September 2007 testimony before the House Committee on Financial Services: "The consequences of default may be severe for homeowners, who face the possibility of foreclosure, the loss of accumulated home equity, and reduced access to credit. In addition, clusters of foreclosures can lead to declines in the values of nearby properties and do great damage to neighborhoods."[1]

This does not constitute news, but signals how the profound threat of the current foreclosure challenge could erase the hard-won neighborhood gains of community organizations and intermediaries. Such a setback for community economic development will ensure that a full understanding of the fundamentals of LMI communities will be yet further beyond our grasp.

Mr. Bernanke's testimony highlights the significance of the foreclosure challenge and underscores an important point: it is not only the defaulting homeowner who is impacted by foreclosure, but adjacent property owners and the community at large. Precisely because the foreclosure challenge will have serious repercussions even beyond housing that will further impede families' and communities' ability to weather the storm, I do not believe that a singular, simple solution exists or that such a one-size-fits-all solution will emerge. As financial institutions become increasingly risk-averse to recoup the substantial losses incurred by foreclosure fallout, we can expect diminished lending to start-up entrepreneurs and small businesses, further limiting the number of wealth creating opportunities in our neighborhoods. Concentrations of foreclosures will leave some communities with far fewer residents translating into smaller markets without the consumer density attractive to retailers and financial institutions. This has broader implications than just the investment climate; impacting some public policy goals now linked with private investment activity such as public health outcomes correlating increased rates of obesity and diabetes with limited access to full service grocery, or the relationship of incidents of crimes with the saturation of alternative financial services such as check-cashing and payday lending outlets.

With the existing shortage of timely and accurate information around socio-economic conditions in LMI communities already clouding their prospects from the perspective of public-policy makers and private sector investors, failure to properly understand the foreclosure challenge can only add greater uncertainty. In fact, the tightening credit markets are just such an indication, another barrier to capital access in these communities and continued expansion of the information gap as the number of transactions shrinks, limiting comparative measure.

Leading thinkers like Robert Weissbourd and Tom Kingsley have urged the community development field toward an understanding of how these serious information gaps compromise effective public policy and investment responses to the challenges and opportunities facing LMI communities. Firms such as Social Compact, LISC-MetroEdge, Urban Institute, and Initiative for a Competitive Inner City (ICIC) have been working to correct these information asymmetries in LMI communities through a series of asset-based approaches aimed at removing capital barriers to stimulate investment. In every instance the way forward has been lead by information innovations in concert with coordinated partnerships and framed by asset-based development strategies.

The tools and techniques emerging from this information-led development platform have produced compelling results at a micro level through combinations of public and proprietary data, enabling community successes and ensuring new opportunities for LMI neighborhood residents. Understanding that LMI communities are disproportionately affected by the foreclosure challenge, I would urge, in the rush to identify a tenable solution, a close examination of these effective

[1] Bernanke, Ben S. (Speaker). (2007). "Subprime Mortgage Lending and Mitigating Foreclosures." Washington, D.C.: Committee on Financial Services, U.S. House of Representatives.

methodologies, that we might harness an appropriate variety and depth of information rather than abandon these proven strategies for a concept too far in the offing to provide a solution desperately needed immediately.

This is not to say the solution to the foreclosure challenge already exists, but that ongoing efforts to understand and quantify it are beginning to bear fruit. These localized tools allow for nuanced approaches through the integration of varied, and alternative, data. Most importantly they can be made scalable.

Valuable datasets such as Home Mortgage Disclosure Act (HMDA) data and 2000 Census data, though standard and available in granular detail, are too dated on their own to accurately describe the velocity and impact of the foreclosure challenge to properly inform the forward-thinking, targeted decision-making that the response to the situation demands. We can ill-afford to base today's response on lending data describing trends two years old or hope to reasonably expect to assist communities based on their characteristics eight years ago given the dramatic changes experienced from the real estate boom of the last decade. Waiting for the 2010 Census estimates to become available is similarly unrealistic.

Developing Strategic and Decisive Responses to the Foreclosure Challenge

Through American Housing Rescue and Foreclosure Prevention Act, and the Neighborhood Stabilization Act, the House has begun to acknowledge the scale of the foreclosure challenge and initiated its first response. The Neighborhood Stabilization Act, in particular, is designed to help communities hit hardest by the housing foreclosure crisis. The Act proposes the authorization of a $15 billion federal grant and loan program to assist what many state and local governments are already beginning to do: purchase, rehabilitate, and resell or rent foreclosed homes.

The Bill has two primary objectives. As Congresswoman Waters states, firstly the Bill "targets assistance where it is most needed". Secondly the bill put funds "on the street" quickly enough to stimulate the economy." The National Foreclosure Prevention and Neighborhood Stabilization Task Force forecasts that the bill will generate at least $38 billion in direct and "ripple effect" economic activity nationwide, employ 120,000 people, and restore nearly $225 million per year in local government real estate tax collections.

Only by ensuring that these measures are felt on the ground in impacted communities will this legislation be effective. There will be too many losers and too few winners as the mortgage foreclosure challenge evolves, but the well-timed application of better information utilizing the best of the public and private sectors' existing tools will help us minimize the damage that is occurring to our country's homeowners, their neighbors and all of our communities.

Without an accurate, granular, dynamic and interactive overview of local housing trends, resources are likely to be spread too thin across too large a landscape with modest results. While private sector redevelopment solutions are often available, they typically remain on the sidelines in the mire of neighborhood decline.

Foreclosure Impact Analysis Tool: Capturing Complexity, Delivering Clarity

Social Compact in partnership with Property Advisors, an Ohio-based real estate consultancy, and supported by First American CoreLogic, have piloted a foreclosure impact analysis tool in Detroit, MI that:

- captures the complexity of mortgage foreclosures and their impacts in communities, and;
- provides clarity for public officials, private investors and community intermediaries with limited resources and time, to take prompt and decisive action where the initial resources available can achieve the most positive impact.

Though piloted in Detroit, this tool, designed to assess neighborhood housing health, is constructed on a robust platform of scalable data, methodologies and communications that could examine any neighborhood in any major American city and determine, in collaboration with City leadership and community stakeholders, the most important neighborhoods to target for the deployment of City, State or Federal resources toward greater economic health.

As the dimensions of the foreclosure challenge become magnified, the real estate axiom "Location, location, location" holds true. Already, the Foreclosure Impact Analysis tool pilot demonstrates this in the early findings in Detroit. The Center for Responsible Lending, in an issue paper exploring foreclosure impact in the U.S. at a county level, concluded that housing units affected by foreclosure decreased home values by $5,000 on average across the country, and estimated impact in Wayne County, MI at about $1,700 per housing unit with the cumulative negative effect on Wayne County home values at $1.0 billion[2]. Early findings from the Foreclosure Impact Analysis tool in Detroit show the loss in value of foreclosed properties at an average of over $15,000 per unit and impacting total Detroit housing stock alone at nearly $1.0 billion, or roughly $3,000 per housing unit. Considering that Detroit housing stock accounts for about 40% of Wayne County housing stock[3], the implications of these early results highlight the need for tools to go beyond macro-level analysis.

As such, the approach behind the Foreclosure Impact Analysis tool begins with an understanding of metro-level trends to define and calibrate the underlying financial, services and entitlement forces that affect all neighborhoods. An ongoing analytic process, the tool is capable of revealing the trends and concentrations of market forces that forecast any neighborhood's current housing health and potential going forward. This relevant, communicative approach fosters neighborhood impact assessment, prioritizes necessary responses, and with appropriate resources in place, begins neighborhood healing. Perhaps most importantly, this approach allows the study and communication of any neighborhood's direction at the household level.

At the rooftop level, housing portrays the granular economy of any City, the household buying power, stability and depth of sustained wealth. Neighborhood housing health can be measured through thoughtful combination of recorded housing data, demographics, value trends and modeling. From this framework, we established the baselines and metric boundaries for a rich collection of historical and current property record data provided by First American CoreLogic assembled by pertinent housing data: neighborhood, transfers, tax values, absentee ownership, parcel number, property living area and year built, for example, for the most recent, completed three years. These housing data, integrated through analytical modeling and housing value filters, are then

[2] The Center For Responsible Lending. (2008). "Subprime Spillover: Foreclosures Cost Neighbors $202 Billion; 40.6 Million Homes Lose $5,000 on Average." Durham, North Carolina.

[3] According to the 2006 American Community Survey (ACS)

correlated with current Social Compact demographic estimates to organize a detailed scan of each neighborhood's housing outlook. Combined, these data unlock embedded markers that bolster neighborhood health, and those that signal its deterioration.

This Foreclosure Impact Analysis tool allows us to evaluate and reasonably predict three property value scenarios based on current market conditions: Market, Foreclosed, and Abandoned. Without bias, the model yields a "vitality score" for each block group, ranking neighborhoods from healthiest to those most threatened by deteriorating housing assets. Some of the metrics analyzed include: ARM counts, price volatility, distressed property discounts, ownership, arms-length "market" transfer counts, foreclosure counts, pre-foreclosure counts, median sale prices, tax assessment land valuations, household counts, and household incomes.

Through careful assemblage and tracking, precise trends of value, ownership and neighborhood stability can be seen, charted and analyzed. After filtering and sorting of the housing data, historical trend charts reveal comparative tracks of median sale prices for arms-length "market" transfers against median sale prices of foreclosed properties, demonstrating the relative price volatility for the same "market" sales against the same foreclosures. Price volatility is an index used to evaluate the consistency and stability of the market's valuation of properties. This allows for trending the sales price impact of foreclosure activity by tracking corresponding relative price discount against the "market" sales, and is capable of outlining real estate tax implications affecting the City depending on whether a home sells at a market or foreclosure sale price.

Census block group level analysis allows for the gauging of market values in a given geography. By comparing foreclosed property values to their prior market sale values and combing this data with the built in scorecard modeling, an estimated "Foreclosure Discount" percentage is calculated for the specified block group. This percentage represents the approximate loss in value as related to the distressed sale. Neighboring block groups may have Foreclosure Discounts that are very similar or drastically different, depending on the health of these neighborhoods.

Because home values are only as strong as other homes in the neighborhood, foreclosed properties have feedback effects that undermine the values of surrounding homes over some period of time. In determining the impact foreclosed homes have on neighboring homes, a similar methodology is applied to calculate an estimated "Market Discount" percentage for each block group. This represents the approximate loss in value as related to the value depression caused by neighboring foreclosed homes. Homes within healthy and established neighborhoods are better positioned to be resilient to the viral effects of neighboring foreclosures than homes in transitioning neighborhoods, sometimes resulting in a positive Market Discount percentage.

Information from the tool's Neighborhood Scorecard and Real Estate Tax Impact Table can be manipulated to test the outcomes and varying scenarios and displayed in a series of Hot Spot Maps. These maps allow community leaders and officials to readily prioritize the deployment of required resources. In addition, Hot Spot Maps allow for the analysis of the feedback effects from strongly impacted communities into healthier areas.

This Foreclosure Impact Analysis tool is a richly textured analysis of public and proprietary data that weaves together the perspectives of multiple lending portfolios across varying geographies. Such a framework allows a broad community of users, from government leadership, lending institutions, community organizations, homeowners and housing advocates to determine appropriate paths to action through the ability to test the impacts of those action plans against other optional strategies. I believe this scalable tool can serve as a model for targeting and tailoring appropriate solutions to the foreclosure challenge facing the nation, as well as other broad community development opportunities and concerns. Built on sound information and capable of exploring that data at metro, neighborhood, block group and household levels, it represents a powerful analytic capable of layering multiple lenses on top of a granular geography to define the extent and impact of foreclosure activity and explore the effect of potential interventions. The results from the ongoing Detroit pilot point to considerable utility in other markets where the foreclosure narrative continues to unfold.

The approach behind this tool allows for a broad group of stakeholders to work from a common platform to correct information asymmetries. The existence of these asymmetries introduces further inefficiencies to possible solutions, as well as the public discourse itself, by diluting the impact of both public and private resource investments. Perhaps more importantly, it will continue to foster divergent and unrealized expectations among all interested parties, undermining the good faith efforts of community, government and private sector led efforts to provide solutions. Information is a practical foundation with real potential to bring parties together. The long road to recovery has to begin from a common understanding of the scope of the problem, consensus on how to measure the impact and success of new initiatives and a renewed commitment to community development to operate in a public policy framework that supports the efforts of the public and private sectors working together to realize their own, but not mutually exclusive, goals – an appropriate return on private investment and effective community renewal.

The well-timed application of better information utilizing the best of the public and private sectors' existing tools will help us minimize the damage that is occurring to our country's homeowners, their neighbors and all of our communities. Let us connect the resources marshaled today to confront this challenge to effective, information-based strategies, public and private, to preserve and protect our community assets to guarantee tomorrow in all of our communities, for all of our residents.