



**National League of Cities**

**RESPONDING TO THE HOUSING CRISIS**

**A Report on the NLC Thought  
Leaders Forum on Housing**

**National League of Cities**

**January 8, 2010**

## PREFACE

In response to the mortgage foreclosure crisis, the federal government has committed billions of dollars to the goal of stabilizing neighborhoods and helping homeowners in distress. But the federal largesse is worth little in the absence of determined leadership in city and town halls across the country. Municipal officials and staff, together with community housing specialists and other grassroots partners, are working every day to shape and implement smart, creative and cost-effective solutions. To paraphrase Margaret Mead, it is inspired and passionate local leadership and a healthy dose of innovative thinking that can truly change the world.

What's next for cities as they continue to dig out of this crisis, and how can local officials best respond? These were among the questions at the heart of a Thought Leaders Forum on Housing convened at the National League of Cities on December 2, 2009.

The forum provided an opportunity to explore housing conditions in communities across the country in the wake of the economic recession and the continuing foreclosure crisis, and to assess the responses of government and other actors. The resulting discussion and insights from the forum participants are captured on the pages that follow. The group's day-long dialogue brought three key themes to the fore:

1. A broad mix of sustainable housing options – including rentals, shared equity, and owner occupied – must be available to fit the myriad of individual and family needs.
2. Capacity to address housing in a holistic manner – including employment, education, transportation, family services, and commerce – is at best uneven and in need of improvement at the local, regional, and federal levels.
3. Given sufficient flexibility and resources, local governments will achieve innovative solutions to problems – innovations that can be shared and replicated across the municipal sector.

NLC thanks the participants for their perspectives and ideas, and most of all for the practical advice they offered about steps that our organization can take to support municipal leaders and their communities as they respond to these issues. The recommendations and ideas contained in these pages represent a considerable resource to NLC as the organization continues its ongoing work to help improve and strengthen the unique character of the nation's communities.

James A. Brooks  
National League of Cities  
Washington, D.C., USA  
January 8, 2010

## PART ONE: OVERVIEW AND KEY THEMES

On December 2, 2009, twenty individuals with expertise across an array of housing issues gathered in the Washington offices of the National League of Cities for a discussion of current trends and directions in local housing practice and national housing policy. The Thought Leaders Forum on Housing also offered a chance for participants to advise NLC about steps that the organization can take to support municipal leaders and their communities as they respond to these issues.

The full-day discussion was structured to focus participants on three key topics in a morning session: homeless families and local ten-year plans to end homelessness; rental housing; and affordable home ownership. In the afternoon session, participants responded to the presentation of a research report, *Regional Resilience in the Face of Foreclosures: Evidence from Six Metropolitan Areas*.

### **Key Themes in the Discussion**

This paper includes summaries of the morning and afternoon sessions. Among the key themes that emerged in the course of the day were the following:

**More coordination needed.** Participants agreed that the organizations and agencies working on housing issues at the local and federal levels tend to operate in silos. The discussion at the forum regularly touched on the need for enhanced coordination and integration among government agencies, community-based organizations, social service providers and others.

At the community level, for example, participants noted the importance of municipal planning, housing and transportation staffs working together to coordinate local and regional responses to the housing crisis. Localities also can do a better job leveraging the knowledge and capacity of CDCs and other community-based organizations to respond to the crisis, and coordinating municipal responses with the work of nonprofit agencies.

Participants also emphasized the need for more coordination at the federal level. They noted that HUD's capacity to respond effectively to the crisis has been hampered by program silos within the agency, as well as a lack of coordination between HUD and other federal agencies (such as the Department of Transportation). One speaker noted the "sedimentary layers" within HUD and suggested that the complexity and diversity of federal funding sources can complicate housing solutions.

**Emphasizing a continuum of housing options.** Participants talked about the need to promote new ways of thinking about housing. Many agreed that the pendulum has swung too far in favor of promoting home ownership as the ultimate goal of local and federal housing policies. Policymakers and consumers should consider a continuum of housing choices and options, including rental housing. Participants suggested that local leaders and their partners should take steps to erase the stigma associated with renting and promote it as a viable housing option for many individuals and families.

Rather than emphasizing home ownership in and of itself, forum participants suggested that the goal should be “sustainable” or “responsible” homeownership. This means ensuring that people are in homes they can afford (and that provide access to transportation, quality schools and other needs), and then providing support as needed to help keep people in those homes.

**In search of creative solutions.** Participants touched on a variety of creative options that local governments and other actors should explore to address housing problems in their communities. Some participants, for example, noted the promise of “rent-to-own” programs in reducing homelessness and providing a stepping-stone to home ownership for lower-income individuals and families.

Other participants noted the potential impact of shared-equity homeownership where the government helps an individual or family purchase a home and shares in the benefits of home price appreciation. Community land banks and land trusts also were cited as potential avenues for local governments and their partners to consider as they seek to create more affordable housing opportunities in their communities.

**Building financial and consumer literacy.** Forum participants agreed that any response to the housing crisis must include efforts to build greater financial literacy among consumers. In particular, people need help understanding that owning a home is not always the answer, especially if it doesn’t make sense for them financially.

Several participants said there is a need to change how consumers and the nation think about homeownership. Too many people today view their homes as an investment and not as shelter. This attitude has led many low-income families to purchase homes in undesirable neighborhoods with high crime and inferior schools, when they could have paid the same amount or less to rent in a better neighborhood.

Participants also emphasized the importance of credit counseling in addition to homeowner education. Education for consumers on these issues also can play a role in combating mortgage fraud, participants said.

**Improved local government capacity and the NLC response.** Participants said that local governments need more information and resources as they seek to respond to the housing crisis in their communities. They cited numerous potential roles for NLC in highlighting best practices and in advocating on behalf of federal actions that support local capacity to address these issues.

## **PART TWO: KEY ISSUES IN HOUSING**

During the morning session of the forum, participants focused on three issues: homeless families and local ten-year plans; rental housing; and affordable home ownership. The discussion centered on recent trends in each of these issue areas and policy responses at all levels of government. Participants also suggested opportunities for NLC to become more involved in assisting local leaders and their communities in these areas.

### **1) HOMELESS FAMILIES AND LOCAL TEN-YEAR PLANS**

As of the end of 2008, according to the U.S. Interagency Council on Homelessness, 860 cities and counties had partnered in 355 10-year plans to end homelessness. Among the questions at the heart of the NLC forum were: what these plans have achieved to date; how to strengthen these plans; and how to achieve further progress in reducing homelessness in America's cities and towns.

**What the ten-year plans have achieved.** Michael German of the Interagency Council said the plans have achieved “documented results,” reducing chronic homelessness by as much as 30 percent in some areas. However, he also made note of the rise in homelessness among families and young people in recent years, a rise that other participants linked to an increase in families who lost homes to foreclosures, or who have been pushed out of affordable rental properties.

**Strengthening the ten-year plans.** There was some discussion among forum participants about whether or not the ten-year plans are, in fact, “living plans” – i.e., plans that are regularly updated to address changing circumstances.

German asserted that they are indeed living plans – noting that they are meant to be adjusted as needed to address emerging problems. Others around the table noted that, from their perspectives, the 10-year plans were not being regularly updated to keep current with local conditions.

Part of the problem, some participants noted, is a lack of capacity and resources in some areas to implement their ten-year plans successfully. “Looking across the country, you have some areas, like the Twin Cities, that really know what they are doing, but we need to think about how to make sure that all areas have the capacity and the resources they need,” said Barbara Burnham of LISC.

**Need for resources.** The question of resources provoked additional debate among the forum participants. Linda Couch of the National Low Income Housing Coalition asserted that the ten-year plans need to be backed by additional resources.

“Where is the battle cry for more resources?” Couch asked. “We cannot get results with the resources local governments have today.” She added that investments to reduce homelessness can produce “huge” cost savings for government by reducing costs for police, emergency and other services.

Karen Anderson of the Family Housing Fund in Minneapolis agreed about the need for more resources, especially given the fact that homelessness is on the rise.

German, however, countered that “we have more resources than we ever had” to support local efforts to reduce homelessness. The federal government, through the American Recovery and Reinvestment Act (ARRA) and other measures, has increased its investments. The challenge, German said, is not to produce new resources but to ensure that local plans are guided by best practices and business models to ensure success.

In addition, German noted that the Interagency Council is working to identify other funding streams for local anti-homelessness efforts, including corporate grants, and that cities are creating their own dedicated funding streams for this work through housing trusts, local parking taxes and other measures.

One participant noted that HUD’s Neighborhood Stabilization Program (NSP) has been an important resource for cities in connecting with additional resources to address homelessness. However, another participant said NSP has produced “tremendously uneven” results. There was also some debate about the effectiveness of the Community Reinvestment Act (CRA) in providing incentives for financial institutions to increase their investments in this work.

**Political will in short supply.** As important as resources are to the success of local plans, forum participants also emphasized the role of political will. Burnham noted the contrast between the time when most localities established their ten-year plans (when the housing market was in significantly better shape in most places) and today. “Right now, mayors have to decide between paying first responders or putting money into the homeless problem,” she said, suggesting that the recession made it difficult for local leaders to support needed investments in reducing homelessness.

**Additional responses to reduce homelessness.** One potential response to the homeless problem is opening up government-foreclosed properties (those with tax liens) to homeless residents. Phil Bracken of Wells Fargo, who serves on the board of a large homeless transition center in St. Louis, said his organization is proposing to local officials that the city do this. “There is no shortage of residential real estate and we can’t sell these properties, so why not make them available,” he said.

Saul Ramirez of the National Association of Housing and Redevelopment Officials called this a good idea but noted that many foreclosed properties are in significant disrepair and require investments for renovation. Other forum participants noted the promise of “rent-to-own” programs in reducing homelessness.

Anderson said the political will to address the homeless problem will come in part from regional collaborations; she mentioned the city-county partnership in Minneapolis and surrounding Hennepin County as a model approach.

**Roles for NLC.** Participants suggested that NLC could play an important part in spreading the word about successful local efforts to reduce homelessness.

## 2) RENTAL HOUSING

Despite increased vacancy rates and the wave of foreclosures brought on by the recession, individuals and families across the country still are having trouble finding affordable rental housing. The discussion at the NLC forum focused on how to expand and refine existing mechanisms for siting and financing rental housing so there is an adequate supply to meet people's needs.

**Demand trends.** Jeffrey Lubell of the Center for Housing Policy noted the variable impact of the housing crisis, as families who lose their homes have become renters at the same time that foreclosed properties have been converted to rentals. He said there has been an overall increase in vacancies – due primarily to “doubling up” among residents. Looking ahead, Lubell projected rising demand and even a potential shortage of affordable rental units in many places, as families return to the norm of smaller households in the aftermath of the recession.

German also noted the impact of doubling up on the supply of rental housing. He said the housing surplus is most evident in middle-tier and top-tier housing markets. German predicted that the housing market will bottom out in the next couple of years and those local governments, particularly in weak markets, will at that time have a good opportunity to invest in new rental housing.

Brooke Mueller of the National Association of Home Builders cited research by the University of Maryland suggesting that the best way to keep rents affordable is to increase the inventory of homes. She said projects need to be in the pipeline today in order to deliver four to five years out, adding that local governments should take actions to “allow new supply to come online more quickly.”

However, governments would be wise not to focus solely on buying and developing new rentals but also on preserving the old, according to Couch. Cities need to “preserve what they already have so there is affordable housing available when these neighborhoods rebound,” she said. “When a community loses a 100-unit apartment building, it could take a decade to get those units back.”

**Political will and the backlash against rental housing.** Participants suggested that government efforts to sustain and increase the supply of affordable rentals will continue to be challenged by the public perception of rentals as undesirable. Anderson said that the same rhetoric that has been used in the past to castigate affordable housing now is applied to renters – many people simply do not want to have renters living in their communities. Anderson said it will be up to city leaders, working with their partners at the community level, to “change the dialogue” on these issues.

Todd Swanstrom of the University of Missouri, St. Louis, offered a few suggestions for persuading suburban local governments and others of the value and importance of rental housing. Supporters of rental housing should talk about issues such as air pollution and traffic congestion, and about how distributing affordable rental units throughout metro areas can cut down on traffic and allow people who work in a community to live there. In

addition, he suggested taking opponents and skeptics on tours of well-managed, attractive rental properties as a way of beating back stereotypes.

**Breaking down silos.** Another barrier to meeting the need for rental housing at the local and national levels is the lack of coordination among government actors. Kristin Siglin of Enterprise Community Partners talked about the “sedimentary layers” within HUD. She said the complexity and diversity of federal funding sources for rental housing can complicate solutions. Other participants also pointed to “siloing” as a problem at the federal level.

But local governments, too, can often create their own counterproductive silos that limit effectiveness. Ramirez said that when he was Mayor of Laredo, Texas, the local housing authority and the CDBG program each had their own plans for rental housing. He said similar barriers exist between city planning and building departments across the country. “There isn’t a lot going on to encourage communities to bring all of these assets to the table at the same time,” he said.

Others agreed that silos are a key problem and cited the convening power of local mayors and other officials as a possible tonic.

**Talking about solutions.** Participants identified a number of potential responses to the ongoing need for affordable rental housing in America’s cities and towns.

Steven Tuminaro of NeighborWorks America emphasized the need for comprehensive community revitalization strategies, rather than a unit-by-unit focus on housing. He said that when cities take up the issue of affordable rental housing, it is usually in response to a proposal presented by a private developer.

A better approach, Tuminaro said, is to “take a hard look at the community and its strengths and weaknesses and its needs” and respond accordingly. Focusing on rental housing in and of itself is not enough; cities also need to pay attention to other community needs such as childcare, job training and afterschool programs. While admitting that finding resources to meet these other needs can be difficult, Tuminaro said it is essential to ensuring the success of local housing efforts.

Participants also discussed the impact of inclusionary zoning as a solution, agreeing that it is not a solution in and of itself but that such ordinances must be thoughtfully designed and implemented in concert with other efforts to expand the supply of affordable housing.

Ramirez noted that the City of Laredo has achieved some success through the use of incentives such as reduced impact fees for developers of affordable housing. He and others also noted the impact of lease-purchase arrangements and shared-equity homeownership where the government helps an individual or family purchase a home and shares in the benefits of home price appreciation.

**Roles for NLC.** Facilitator Barry Zigas of Zigas and Associates emphasized the importance of considering the impact on housing availability of the ways in which aid flows to cities – primarily through block grants. He suggested NLC could play a role in

spurring a national conversation on this question, while also spotlighting successful local efforts to break down silos and get better results.

### **3) AFFORDABLE HOME OWNERSHIP**

Given the recent (and continuing) turmoil in housing markets across the country, participants in the NLC forum wrestled with an array of difficult questions, including: the degree to which government policies should actively encourage home ownership; what more needs to be done to resolve the foreclosure crisis; and how to ensure an adequate supply of affordable housing at the community level.

**A pendulum swung too far.** There was a lot of discussion at the forum about the degree to which home ownership should be promoted as a core element of the American dream. Many participants suggested that the pendulum of public policy had swung too far in support of home ownership. Tuminaro said the advocacy of realtors, home builders and other business interests had a hand in promoting home ownership as “an unquestioned good,” suggesting that the role of government should be to “guard against abuses and over enthusiasm” in the housing markets.

However, Bracken expressed his belief that housing is “the main driver of the economic engine of the United States.” Citing \$4 trillion in lost real estate value in recent years, Bracken urged the group to consider “sustainable home ownership” as an important goal for policymakers and the nation as a whole.

Sustainability, Bracken suggested, means ensuring that people are in homes they can afford, and then providing support as needed to keep them in those homes. He added that the United States is at “a critical juncture” -- with 11 months of inventory of single-family homes and an “avalanche” of new defaults. “The economic situation is not getting better, and we need aggressive policy accommodations” to stem foreclosures and free up capital for loans, he said.

Participants noted that sustainability also should include consideration of education, transportation and other issues related to housing. Lubell noted that cities may want to pursue strategies such as land trusts and shared-equity purchases to ensure an adequate supply of affordable housing in areas that are near transportation and job hubs, where he said prices are likely to rise in the years ahead.

**Education, counseling needed.** Kheng Mei Tan of HUD said consumers need help understanding that owning a home is not always the answer, especially if it doesn’t make sense for them financially. “What is wrong with talking about rental housing as an alternative?” she asked, saying that “responsible home ownership” should be the goal of housing policy at all levels.

Tan also cited the importance of education in combating mortgage fraud. Lubell agreed, adding that renters who formerly owned homes may need credit counseling in addition to homeowner education. For his part, Bracken suggested that mandatory pre-purchase counseling for homebuyers might be “the only way” to prevent housing crises in the future. He also urged that repaid TARP funds be used to support counseling.

Tuminaro said that for every five potential homebuyers counseled by NeighborWorks America, one ends up in a new home. “And I regard every one of those people as a success if they end up as educated consumers,” he said. He said one problem with the prevailing approach to counseling for home buyers is that it is often designed with the express purpose of getting people to buy homes when home ownership may not always be in their best interests.

Several participants said there is a need to change how consumers and the nation think about homeownership. Too many people today view their homes as an investment and not as shelter. Couch said this attitude has led many low-income families to purchase homes in undesirable neighborhoods with high crime and inferior schools, when they could have paid the same amount or less to rent in a better neighborhood.

**Roles for NLC.** Lubell noted the importance of exchanging information among communities about what is working to keep families in their homes and to stabilize neighborhoods. He noted that the Center for Housing Policy is working with LISC on these issues and would welcome opportunities to work with NLC to help localities develop a more fine-tuned sense of what works.

Other participants noted that NLC can provide cities with encouragement and ideas for bringing city housing departments together with transportation, public works and schools so that a city has a coordinated approach to these issues.

Lubell referenced tools available on his organization’s website, [www.housingpolicy.org](http://www.housingpolicy.org). Lastly, Tan suggested that NLC get involved in advocating for more stringent education requirements for brokers.

## **PART THREE: REGIONAL RESILIENCE**

Todd Swanstrom led off the afternoon session of the forum with a presentation on his research report, *Regional Resilience in the Face of Foreclosures: Evidence from Six Metropolitan Areas*. The afternoon session was designed to prompt discussion of the report and the issues it raises regarding how best to support local and regional capacity to respond to the foreclosure crisis.

### **REGIONAL RESILIENCE**

Swanstrom and colleagues Karen Chapple of the University of California, Berkeley, and Dan Immergluk of the Georgia Institute of Technology studied responses to the foreclosure crisis in six metropolitan areas. Their research sought to identify “how larger systems can or cannot promote regional resilience in the face of foreclosures,” Swanstrom told the forum participants.

He defined resilience as “the ability to redeploy assets or expand repertoire, to collaborate or to mobilize external resources” in support of local and regional efforts. The paper by Swanstrom and his colleagues further defined the type of resilience at the heart of their research as “action aimed at maintaining stable neighborhoods with a balance of supply and demand and minimal involuntary displacement.” One characteristic of cities that have more resilience on these issues is a diversity of housing stock, Swanstrom said.

Swanstrom noted that the main program to prevent foreclosures right now is conducted by NeighborWorks America under HUD’s National Foreclosure Mitigation Counseling (NFMC) program. Funded at approximately \$410 million to date, the program has achieved some success in keeping homes out of foreclosure, according to an Urban Institute evaluation. Swanstrom said community-based organizations such as NeighborWorks have proved “very resilient” in shifting the focus of their work toward foreclosure counseling.

However, Swanstrom noted that while federal funding has been essential in jumpstarting local counseling efforts, “the supply of counselors is clearly inadequate in a nation where more than 300,000 homeowners face foreclosure each month.” He added that metro-by-metro prevention activities are “enormously uneven,” and even within metro areas such as St. Louis, different municipalities have widely varying levels of capacity to do this work. Complicating the problem is the fact that CDBG regulations make it hard to shift funding to areas of high need.

Beyond looking at foreclosure prevention, Swanstrom and his colleagues also looked at what happens *after* foreclosures to try and stabilize the affected neighborhoods. With NSP funds focused on transitional neighborhoods where foreclosures could cause contagious declines, the study showed that a combination of jurisdictional limits and restrictions on spending have made it hard for communities to be “nimble and resilient” in their spending decisions.

“It is proving very hard to target this money,” Swanstrom said.

Where communities have been successful, he noted, is where there are knowledgeable and capable nonprofit organizations that understand where the problems are and how to stabilize properties and neighborhoods. He cited the example of Cleveland, where a variety of actors – including LISC, Enterprise and the Cleveland and Gund Foundations – are all involved in the work of neighborhood stabilization. However, Swanstrom noted that this kind of “external capacity” varies across metropolitan areas, arguing that it is the role of government to help level the playing field among metro areas.

Government also has a role to play in spurring collaboration among jurisdictions within metropolitan areas. In St. Louis, for example, with its 28 aldermanic districts, block grants are divided into 28 pieces, which prevents targeting and collaboration. “The question is how you get past distributive politics in some of these places where everyone gets their piece of the pie,” Swanstrom suggested.

## **DISCUSSION OF RESILIENCE AND LOCAL/REGIONAL CAPACITY**

Participants’ discussion of the findings focused on how to build resilience and local and regional capacity to respond to the foreclosure crisis. Most were in agreement that despite a surge in resources, local and federal capacity to address these problems has not advanced in the last decade, and governments have failed to use new resources as effectively as they could.

**Incentives for credit markets.** Ramirez noted that access to credit and finance is the key issue, and that there are not sufficient incentives for the private sector to open up credit. Bracken cited research showing that only 1,700 homeowners in the federal mortgage modification program are in “permanent modifications.” He said the federal government needs to consult with financial institutions on the design of these programs. “This is not how we would have designed it,” he noted.

The current environment – with high levels of economic uncertainty and unemployment – is not conducive to banks coming forward with solutions, added Angie Lathrop of Bank of America. She said it is time for government and the private sector to come together to figure out what the “housing continuum” should be in the United States.

One major challenge is a huge backlog of properties that need to be absorbed. Ramirez asserted that servicers in many cases are not letting go of inventory because they continue to believe they can maximize their return by holding on. Bracken, however, noted that longer holds in this market inevitably will lead to higher costs. “The idea now is to find the easiest, cheapest loss,” he said.

Among the possible responses for cities that participants mentioned: co-ops, land trusts and shared-equity arrangements.

**Promoting more collaboration.** Participants agreed that federal policies intended to bolster local capacity tend to be characterized by a “bipolar” approach – with some programs taking a highly prescriptive approach and others (such as CDBG) being hands-off. “I understand why cities want more discretion but that doesn’t create incentives for different silos to work together,” said Lubell. He suggested that HUD needs to adopt a “new model” that promotes collaboration without constraining local discretion.

Anderson noted that the Twin Cities region has had some success in incentivizing development of affordable housing with an eye to transportation impacts.

**Leveraging outside assets.** Cities can do a better job leveraging the knowledge and capacity of CDCs and other community-based organizations. Building on their morning discussion about the benefits of counseling for consumers, participants emphasized the role of counseling in building local resilience. Jeremie Greer of LISC said his organization has financial opportunity centers around the country focused on employment and asset building. He said LISC's experience shows that counselors need new skill sets to address homeowners' needs.

But very few federal dollars are supporting the work of nonprofit intermediaries such as LISC, Greer said, suggesting that the work of these organizations could be more "robust" if additional resources were available. Federal policy needs to shift, he added, from an emphasis on national technical assistance providers who "parachute" into these communities to working with and through the people on the ground.

**The HUD response.** Tan of HUD said that the department is working on collaborations with other federal agencies (including HHS, DOT and EPA) to address these issues, but funding for these collaborative efforts is limited. HUD's focus right now, she said, is looking at how to better use existing discretionary dollars for these purposes. Another question that the department is wrestling with is how to balance between supporting communities that HUD is certain will use federal resources most effectively to mitigate the crisis and those that lack capacity but have the same problems or worse. She invited the group to come back to her with suggestions.

Zigas noted that HUD's workforce has shrunk from 12,000 to 4,100 over the last decade and that the department can't possibly do everything it is being asked to do. "The issue of capacity at the local level begs the question not of what HUD *should* do but what it *can* do," he said.

However, Lubell pointed out that HUD does have resources for this work in the FY 2010 budget. He noted the funding available through HUD's Transformation Initiative, which is intended to dedicate 1 percent of the agency's budget to new research, technical assistance and capacity-building activities. In addition, Greer noted that funding through HOME and other programs also can be used for technical assistance. And, noting that HUD's IT budget is \$750 million per year, Ramirez suggested that the agency can do more in the area of technology to address these issues.

German urged cities to work through their HUD field offices to spur collaboration both within metropolitan areas and across local, state and federal lines. But others noted that HUD field offices themselves are characterized by varying levels of capacity (in addition to a lack of true authority) to address these problems. Lubell also emphasized the importance of using transportation dollars, rather than HUD dollars, to force interagency collaboration at the local level on these issues.

One priority for HUD should be to reestablish accountability for results among cities and regions, according to Tuminaro. He mentioned the concept of "performance pools" as a

way to “create some incentives and unleash energy and creativity” at the local level. Right now, NSP funds are not accompanied by sufficient incentives or accountability, he added. Siglin agreed, noting an Enterprise study of NSP plans that showed that cities with the biggest problems are not coming up with adequate plans. In addition to more incentives, she issued a plug for more training for local officials in developing and implementing effective plans. Right now, she suggested, most training is on how to follow existing HUD rules and regulations.

**Issues not covered.** The afternoon discussion ended with a round-the-table survey of participants to assess what important issues and topics had *not* been covered in the course of the day’s conversation. Among the topics people raised: employer-assisted housing; energy-efficiency work as it relates to housing; the impacts of racial disparities and racial segregation; the importance of policies linking housing and community revitalization efforts; and the use of Section 203k financing to rehabilitate foreclosed properties.

**Roles for NLC.** Participants in the forum suggested that NLC can play an important role in exploring how cities are managing the current crisis and to spotlight best practices and successful strategies for building regional resilience. Among the specific suggestions were that NLC create a special task force on these issues; that NLC should work with HUD to educate municipalities about what other cities have done; and that NLC should advocate for more standardized data on these issues.

Jim Brooks of NLC closed the discussion by saying that NLC will be exploring these and other opportunities for action on these issues in the weeks and months ahead. He thanked all of the forum participants for their contributions during the day and promised to keep the group informed of NLC’s future actions.

#### **APPENDICES:**

- (1) Swanstrom Study
- (2) List of Participants

## **Regional Resilience in the Face of Foreclosures: The Role of Federal and State Policies**

The foreclosure issue provides a good laboratory for testing how federal and state policies can support innovative local responses. At the beginning of the foreclosure crisis, federal foreclosure policies to aid local responses were largely absent. Many local actors devised innovative responses on their own. In this research, we draw from the foreclosure responses in six metropolitan areas to examine how vertical relations in the federal system (federal-state-local) can support horizontal collaborations in metropolitan areas among the public, private, and nonprofit sectors to prevent foreclosures and minimize their negative spillovers.

### **The Concepts of Resilience and Opportunity Space**

Our research was guided by the concept of resilience. Resilience is the ability of a system (region, government, nonprofit, company, or individual) to bounce back from an external stressor, or challenge, and recover healthy functioning. In the face of a stress or challenge, a system can change its structure and function, creating a new system. In the face of the foreclosure challenge, for example, resilient regions do not just return to the *status quo ante* but reinvent themselves with new relationships that are more likely to support healthy functioning housing markets.

We use the concept of resilience to focus our case studies on the processes by which regions adapt to the foreclosure challenge, identifying some of the barriers and supports of resilient processes. We find evidence of resilience in the ability of metropolitan areas and the organizations within them to respond to a challenge by:

- 1) redeploying assets or expanding organizational repertoires;
- 2) collaborating within and across public, private, and nonprofit sectors; and
- 3) mobilizing or capturing resources from external sources.

Here, the type of resilience we focus on is action aimed at maintaining stable neighborhoods with a balance of supply and demand and minimal involuntary displacement. We also acknowledge that resilience cannot be simply engineered into a region by linear, top down interventions based on simple cause and effect.

We also draw upon the concept of “opportunity space,” defined as the economic, legal, and institutional conditions that expand or constrict the opportunities for local actors to be resilient. For example, foreclosure prevention is difficult in hot market metropolitan areas where many homeowners face much larger debt loads and often owe much more on their mortgages than the house is worth. By contrast, in housing markets that are weak and where housing prices have not fallen as much, borrowers often need relatively modest expenditures by rescue funds to come current on their mortgages.

On the other hand, minimizing the negative spillovers of foreclosures is more difficult in weak market metro areas where foreclosed homes are more likely to be vacant and

abandoned, blighting the neighborhood. Although the basic market conditions are difficult to change, collaboration among housing nonprofits, governments, and private lenders shapes the opportunity space and can be influenced by leaders and state and local policies.

### **Foreclosure Prevention**

The idea that localities can “prevent” foreclosures is something of a misnomer because local actors largely lack the legal power to address the major causes of many foreclosures. Here we address foreclosure prevention in a narrower sense -- the ability of local actors to prevent foreclosures *after* a borrower is in default on a mortgage, usually through counseling and loan modification.

The main effort to prevent foreclosures is being conducted by HUD-certified counselors who are paid per case by the federally funded National Foreclosure Mitigation Counseling (NFMC) Program. To date, since the program was enacted in December 2007, the federal government has appropriated \$410 million for this program. According to a recent report to Congress by NeighborWorks America, the implementing agent, as of March 31, 2009 the program had counseled 373,169 homeowners nationwide (NeighborWorks America 2009). A recent evaluation of the FNMC program by the Urban Institute was generally favorable, reporting that 9 percent of clients had successfully completed loan modifications and 76 percent of clients who had received counseling had not entered foreclosure as of February 2009.

The federal funding has been essential for jumpstarting local counseling efforts, but the supply of counselors is clearly inadequate in a nation where over 300,000 homeowners face foreclosure *each month*. Our research shows that local support for foreclosure prevention varies significantly. We found that local resources committed to foreclosure prevention were significantly greater in Cleveland, Chicago, and the Inland Empire of California, than in St. Louis, Atlanta, or the Bay Area. This suggests that we cannot rely on local political processes or charity to fund a crucial service like foreclosure prevention. Federal and state funding is essential.

Aside from lack of adequate funding, lack of time is a major obstacle to foreclosure prevention. Foreclosure processes are regulated by state law. They are either judicial, that is, regulated by public courts, or nonjudicial, regulated by the conditions in the mortgage contract, with the addition of required public notices. States with nonjudicial foreclosure laws have foreclosure processes as short as 33 days (from first legal notice to sheriff’s sale), thus, restricting the time that households and foreclosure counselors have to prevent foreclosure by raising funds or modifying the mortgage (Cutts & Merrill 2008). Short foreclosure processes restrict the opportunity space for foreclosure prevention and state laws to lengthen the process would improve local resilience.

## **Neighborhood Stabilization: Uneven Capacity Across and Within Metro Areas**

What can local actors do to stabilize neighborhoods *after* foreclosures? In contrast to foreclosure prevention, neighborhood recovery is generally easier in strong market regions than in weak market regions. In traditionally strong market regions, market demand is more likely to soak up foreclosed properties, though lender-owned properties (REOs) can accumulate in hot market areas with high foreclosure rates (Immergluck 2009). In weak markets, foreclosed homes are more likely to lie vacant and abandoned, spreading blight to neighboring properties.

Weak markets also exist *within* metro areas. For example, both the Cleveland and St. Louis metropolitan areas are characterized by strong demand for housing on the urban fringe linked to weak demand in the urban core, which leads large numbers of vacant and abandoned units. Both Cleveland and St. Louis rank in the top ten metropolitan areas by the ratio of building permits for new units of housing relative to growth of new households (Bier & Post 2006: 185). As new housing construction is built (mostly on the suburban fringe) and exceeds the growth of new households within the region, housing abandonment in the urban core areas is inevitable, making neighborhood recovery after foreclosures more challenging. Also, exurban areas with long commute times may find it more difficult to absorb foreclosed properties in the housing market (Immergluck 2009).

Effective neighborhood stabilization requires adequate resources, careful targeting strategies, and collaboration across governments, as well as across functions and sectors. One of the findings of our study is that suburban areas are often ill-prepared to stabilize neighborhoods in the face of foreclosures. Housing nonprofits have been the “first responders” to the wave of foreclosure. But maps of housing nonprofits show that housing nonprofits are concentrated in central cities; many suburban areas have no housing nonprofits at all (Swanstrom, Chapple & Immergluck 2009: 11-12, 26, and 40-41). Second, we found that governments that are CDBG-entitlement cities were much better prepared to devise plans for neighborhood stabilization. The many suburban governments that fall below the 50,000 population threshold for entitlement status often have no housing planners on staff. How metropolitan areas respond to these two capacity issues is crucial for neighborhood stabilization.

The contrast between neighborhood recovery efforts in two hot market California metro areas, San Bernardino-Riverside (Inland Empire) and the East Bay of the San Francisco Bay Area, illustrates the problem of uneven capacity. Given the high price of housing in hot market metro areas such as the East Bay, neighborhood recovery is more expensive and it threatens to push out low and moderate income residents. With the exception of a couple small efforts by ACORN to start community land trusts, the East Bay has been slow to act and most of the interventions have been local and not regional. The mature multi-family rental housing industry is not equipped to conduct acquisition and rehabilitation of scattered-site suburban properties, and with the crisis concentrated in outer areas, the region’s central cities, San Francisco and San Jose, have not exerted their usual policy leadership.

By contrast, the Riverside-San Bernardino region, the “Inland Empire,” has developed an impressive regional collaboration, called the Red Team, to stabilize neighborhoods. The Red Team was formed by Riverside Mayor Ron Loveridge and County Supervisor Tavaglione in conjunction with the Inland Empire Economic Partnership. Apart from the Riverside governments, the most active members of the Team are the building industry, the real estate trade association, Bank of America, a local credit union, a few of the cities near Riverside, and the Western Riverside Council of Governments. Whatever ultimately materializes from the effort, the Team’s collaboration has already pushed local government to be more proactive. For instance, locals have already organized an acquisition/rehab program under the auspices of the National Community Stabilization Trust, the effort led by Enterprise, the Housing Partnership Network, LISC, NeighborWorks, and the National Urban League.

How can federal and state policies address the problem of uneven capacity for neighborhood stabilization? Neighborhood stabilization capacity has two dimensions. The first kind refers to implementation capacity, the ability of local governments to purchase properties, rehab them, and get them back on the market quickly. HUD regulations, such as the requirement that properties be purchased at a 5 to 15 percent discount, can impede local implementation and need to be streamlined. Many NSP recipients find that private buyers, sometimes out-of-town speculators, buy up the most attractive properties, leaving them with the more difficult properties. HUD has allocated \$50 million for capacity-building and the National Community Stabilization Trust is working to speed up purchases of foreclosed properties.

The second kind of capacity issue is more difficult to address. This might be called longer-term strategic or collaborative capacity. The limited funds available under NSP will be ineffective if they are spread around – the so-called peanut butter approach. In weak market cities, fixing up and marketing a few homes in one neighborhood may only lead to abandonment of homes in another neighborhood. Instead funds need to be targeted to “transitional” neighborhoods which were previously stable but could tip over into decline from foreclosures. Targeted investments in these neighborhoods could stabilize them (Mallach 2008, The Reinvestment Fund 2008). Targeting can be very difficult in areas with ward-based politics or fragmented suburban jurisdictions. Also, the public sector needs to collaborate with community-based organizations that possess the fine-grained local knowledge of housing markets that is essential for successful neighborhood recovery. Finally, stable neighborhoods need more than good housing; they need jobs, good schools, low crime, parks, and transportation. Effective neighborhood recovery needs to coordinate across these functions.

The second round of the Neighborhood Stabilization Program (NSP2) is a competitive grant and criteria were included to encourage regional collaboration. However, more could be done to encourage strategic targeting and collaboration across sectors and functions (policy silos). HUD could lift up best practices and partner high capacity regions with low capacity regions to facilitate learning. One of the dangers of competitive grants that reward collaboration is that by rewarding the high capacity regions they can end up increasing the gap between high- and low-capacity regions.

## Conclusion

Metropolitan resilience to foreclosures benefits from local relations of trust and collaboration across public, private, and nonprofit actors that are supported by strong federal, state, and private sector policies. Local actors cannot adequately address the crisis on their own. The right kinds of policies by higher level actors can support metropolitan resilience; the wrong kinds of policies can undermine it. Local actors not only lack the resources – the hardest hit areas often have the fewest resources – but they often also lack the ability to collaborate across metropolitan areas and coordinate across sectors and policy functions. Federal and state policies should reward areas that have strong strategic and collaborative capacities while simultaneously building up low-capacity areas.

At the same time, policy makers need to recognize that centralized policies will be ineffective without strong local actors to organize and target the interventions. Local housing counselors often need to work face-to-face with homeowners to keep them in their homes. Local nonprofits understand local housing markets and how to build on local assets to stabilize neighborhoods. The foreclosure crisis presents an opportunity to shift housing policy from a bricks and mortar approach to a more comprehensive place-based strategy to build stable neighborhoods of choice where families can both be linked to opportunity and find quiet repose from the fast pace of urban life.

*This original research was conducted by Todd Swanstrom, University of Missouri-St. Louis, Karen Chapple, University of California, Berkeley, and Dan Immergluck, Georgia Institute of Technology. July 18, 2009, Revised Sept. 1, 2009.*

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