

HUD's Methodology for Allocating the Funds for Neighborhood Stabilization Program 3 (NSP3)

Overview

The Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 provided an additional \$1 billion for the Neighborhood Stabilization Program (NSP) that was originally established under the Housing and Economic Recovery Act of 2008.

The statute calls for allocating funds to States and local governments with the greatest need, as determined by:

- (A) "The number and percentage of home foreclosures in each State or unit of general local government;
- (B) "The number and percentage of homes financed by a subprime mortgages in each State or unit of general local government; and
- (C) "The number and percentage of homes in default or delinquency in each State or unit of general local government."

The statute also requires that a minimum of 0.5 percent of the appropriation, \$5 million, be provided to each state.

The Department has determined that for NSP3, the states and local governments with the greatest need for neighborhood stabilization funding are those communities that have high numbers of foreclosed and/or vacant properties in the neighborhoods with the highest concentrations of foreclosures, delinquent loans, and subprime loans. The basic formula allocates funds based on the number of foreclosures and vacancies in the 20 percent of US neighborhoods (Census Tracts) with the highest rates of homes financed by a subprime mortgage, are delinquent, or are in foreclosure. This basic allocation is adjusted to ensure that every state receives a minimum of \$5 million. The net result is that these funds are highly targeted to communities with the most severe neighborhood problems associated with the foreclosure crisis.

Estimating Greatest Need

To target the funds to States and local communities with the greatest need, HUD estimated the number of loans 90 days delinquent or in foreclosure for each Census Tract in America. This estimate was based on a model that was comprised of three factors that explain most foreclosures and delinquent loans (see note 1):

- **Rate of Subprime Loans.** This is measured with HMDA data on high cost and high leverage loans made between 2004 and 2007. These data are available at the Census Tract (neighborhood) level.

- Increase in Unemployment Rate between March 2005 and March 2010. These data are from the BLS Local Area Unemployment Statistics, at the city and county level.
- Fall in Home Value from Peak to Trough. Home value data at the Metropolitan Area level is available quarterly through March 2010 from the Federal Housing Finance Agency Home Price Index.

In addition to wanting to capture loans that are currently delinquent or in the foreclosure process, HUD sought to capture the aggregate impact of the foreclosure crisis on individual neighborhoods between 2007 and 2010. To do this, HUD estimated for each neighborhood the number of foreclosure starts between January 2007 and March 2010 as well as the number of foreclosure completions between January 2007 and June 2010 (see note 2). Each neighborhood was assigned the larger of the two estimates.

Finally, HUD has March 2010 administrative data from the United States Postal Service on addresses not picking up mail for 90 days or longer. These data are very good current indicators of neighborhood stress from vacant housing. This number is adjusted using Census 2000 tract level data to remove vacant vacation properties from the count.

The Formula

Using the estimated rate of loans in foreclosure or delinquent, HUD identified the 20 percent of neighborhoods likely to be most distressed. This equates to an estimated serious delinquency rate (90 days delinquent or in foreclosure) of greater than 17.8 percent. Using the methodology described above, the national rate was estimated at 8.9 percent.¹

For each place and balance of county in the United States we add up only from the 20 percent of neighborhoods with the greatest need the greater of the estimated number of homes that either have started the foreclosure process or become REO between 2007 and 2010 and separately the number units 90 days or more vacant in March 2010.

This "jurisdiction level" file is then used to run a formula to allocate the funds available, \$969,700,000. Sixty percent of these funds are allocated based on each jurisdiction's share of foreclosures and 40 percent of the funds are allocated based on each jurisdiction's share of vacancies.

¹This is less than the Mortgage Bankers Association National Delinquency Survey rate of 9.54 percent for March 2010 and slightly more than the McDash Analytics rate of 8.39 percent as of July 2010.

Minimum Grant Threshold

If a place gets less than HUD's established minimum grant threshold of \$1 million, its grant is rolled up into the county grant. If the county grant is less than the minimum grant threshold of \$1 million, its grant is rolled up into the state grant.

State Minimum Grant of \$5 million

For any state government that would receive less than \$5 million, its grant is increased to \$5 million with all grant amounts above the minimum grant threshold reduced on a pro-rata basis to only allocate the amounts available.

Note 1: Identifying Census Tracts with High Rates of Foreclosures, Delinquencies, and Subprime Loans

To estimate which neighborhoods are likely to have high rates of foreclosures, delinquencies, and subprime loans, HUD used a July 2010 extract of county level serious delinquency rates from McDash Analytics to develop a predictive model using public data that was available for every Census Tract in the United States. The predictive model, which was weighted on number of mortgages in each county, was able to predict most of the variance between counties in their serious delinquency rate (R-square of 0.821). The model used is as follows:

- 0.523 (intercept)
- +0.476 Unemployment Change 3/2005 to 3/2010 (BLS LAUS)
- 0.176 Rate of low cost high leverage loans 2004 to 2007 (HMDA)
- +0.521 Rate of high cost high leverage loans 2004 to 2007 (HMDA)
- +0.090 Rate of high cost low leverage loans 2004 to 2007 (HMDA)
- 0.188 Fall in Home Value Since Peak (FHFA Metro and Non-Metro Area)

The predictive rate of seriously delinquent mortgages was multiplied times the number of loans made between 2004 and 2007 (from HMDA) in a Census Tract to estimate the number of seriously delinquent loans in a Census Tract.

Note 2: Calculating Number of Foreclosures at the Neighborhood Level

To estimate the number of homes in a neighborhood that have completed, or are at risk of becoming Real Estate Owned in a Census Tract, was done by allocating the statewide total of the greater of the sum of all foreclosure completions between January 2007 and June 2010 (from RealtyTrac) or the sum of all foreclosure starts between January 2007 and March 2010 (from the Mortgage Bankers Association) based on each Tracts share of a states estimated number of seriously delinquent loans. The estimated number of seriously delinquent loans was calculated by multiplying the estimated rate of seriously delinquent loans times the number of mortgages made between 2004 and 2007 (from Home Mortgage Disclosure Act data).

Neighborhood ID: 5581298

NSP3 Planning Data

Grantee ID: 0622500E,0604700C

Grantee State: CA

Grantee Name: MERCED, MERCED COUNTY

Grantee Address: 678 W. 18th Street Merced CA 95340

Grantee Email: niroumandm@cityofmerced.org

Neighborhood Name: merced

Date: 2010-12-30 00:00:00

NSP3 Score

The neighborhoods identified by the NSP3 grantee as being the areas of greatest need must have an individual or average combined index score for the grantee's identified target geography that is not less than the lesser of 17 or the twentieth percentile most needy score in an individual state. For example, if a state's twentieth percentile most needy census tract is 18, the requirement will be a minimum need of 17. If, however, a state's twentieth percentile most needy census tract is 15, the requirement will be a minimum need of 15. If more than one neighborhood is identified in the Action Plan, HUD will average the Neighborhood Scores, weighting the scores by the estimated number of housing units in each identified neighborhood.

Neighborhood NSP3 Score: 19.46

State Minimum Threshold NSP3 Score: 17

Total Housing Units in Neighborhood: 26497

Area Benefit Eligibility

Percent Persons Less than 120% AMI: 66.59

Percent Persons Less than 80% AMI: 50.47

Neighborhood Attributes (Estimates)

Vacancy Estimate

USPS data on addresses not receiving mail in the last 90 days or "NoStat" can be a useful measure of whether or not a target area has a serious vacancy problem. For urban neighborhoods, HUD has found that neighborhoods with a very high number vacant addresses relative to the total addresses in an area to be a very good indicator of a current for potentially serious blight problem.

The USPS "NoStat" indicator can mean different things. In rural areas, it is an indicator of vacancy. However, it can also be an address that has been issued but not ever used, it can indicate units under development, and it can be a very distressed property (most of the still flood damaged properties in New Orleans are NoStat). When using this variable, users need to understand the target area identified.

In addition, the housing unit counts HUD gets from the US Census indicated above are usually close to the residential address counts from the USPS below. However, if the Census and USPS counts are substantially different for your identified target area, users are advised to use the information below with caution. For example if there are many NoStats in an area for units never built, the USPS residential address count may be larger than the Census number; if the area is a rural area largely served by PO boxes it may have fewer addresses than housing units.

USPS Residential Addresses in Neighborhood: 30636

Residential Addresses Vacant 90 or more days (USPS, March 2010): 1246

Residential Addresses NoStat (USPS, March 2010): 2050

Foreclosure Estimates

HUD has developed a model for predicting where foreclosures are likely. That model estimates serious delinquency rates using data on the leading causes of foreclosures - subprime loans (HMDA Census Tract data on high cost and highly leveraged loans), increasing unemployment (BLS data on unemployment rate change), and fall in home values (FHFA data on house price change). The predicted serious delinquency rate is then used to apportion the state total counts of foreclosure starts (from the Mortgage Bankers Association) and REOs (from RealtyTrac) to individual block groups.

Total Housing Units to receive a mortgage between 2004 and 2007: 12796

Percent of Housing Units with a high cost mortgage between 2004 and 2007: 22.9

Percent of Housing Units 90 or more days delinquent or in foreclosure: 20.99

Number of Foreclosure Starts in past year: 1283

Number of Housing Units Real Estate Owned July 2009 to June 2010: 725

HUD is encouraging grantees to have small enough target areas for NSP 3 such that their dollars will have a visible impact on the neighborhood. Nationwide there have been over 1.9 million foreclosure completions in the past two years. NSP 1, 2, and 3 combined are estimated to only be able to address 100,000 to 120,000 foreclosures. To stabilize a neighborhood requires focused investment.

Estimated number of properties needed to make an impact in identified target area (20% of REO in past year): 254

Supporting Data

Metropolitan Area (or non-metropolitan area balance) percent fall in home value since peak value (Federal Housing Finance Agency Home Price Index through June 2010): -61.6

Place (if place over 20,000) or county unemployment rate June 2005*: 9.41

Place (if place over 20,000) or county unemployment rate June 2010*: 18.01

*Bureau of Labor Statistics Local Area Unemployment Statistics

Market Analysis:

HUD is providing the data above as a tool for both neighborhood targeting and to help inform the strategy development. Some things to consider:

1. Persistent Unemployment. Is this an area with persistently high unemployment? Serious consideration should be given to a rental strategy rather than a homeownership strategy.
2. Home Value Change and Vacancy. Is this an area where foreclosures are largely due to a combination of falling home values, a recent spike in unemployment, and a relatively low vacancy rate? A down payment assistance program may be an effective strategy.
3. Persistently High Vacancy. Are there a high number of substandard vacant addresses in the target area of a community with persistently high unemployment? A demolition/land bank strategy with selected acquisition rehab for rental or lease-purchase might be considered.
4. Historically low vacancy that is now rising. A targeted strategy of acquisition for homeownership and rental to retain or regain neighborhood stability might be considered.
5. Historically high cost rental market. Does this market historically have very high rents with low vacancies? A strategy of acquiring properties and developing them as long-term affordable rental might be considered.

Latitude and Longitude of corner points

-120.510406 37.275146 -120.510406 37.348872 -120.436592 37.348872 -120.435562 37.275965

Niroumand, Masoud

From: helpdesk@huduser.org
Sent: Monday, January 03, 2011 4:01 PM
To: Niroumand, Masoud
Subject: NSP3 Project Summary for niroumandm@cityofmerced.org
Attachments: Project Summary.pdf

	Project Summary for NSP3	
Project Name	Total Housing Units	NSP3Need Score
city of merced	0	0
merced	26497	19.46

Total Housing Units for All Shapes: 26497
Total NSP3 Need Score: 19.46

City of Merced NSP 3 DATA

State	NSP3 Grantee	NSP 3 Allocation Amount	Estimated Greater of Foreclosure Starts or REO completions in greatest need neighborhoods (3+ years)	Homes 90+ days vacant in greatest need neighborhoods (USPS, March 2010)	Unemploy- ment Change June 2005- June 2010 (BLS)	Percent Loans Low Cost/High Leverage 2004-2007 (HMDA)	Percent Loans High Cost/High Leverage 2004-2007 (HMDA)	Percent Loans High Cost/Low Leverage 2004-2007 (HMDA)	Metro Area Decline in Home Price Since Maximum (FHFA)
CA	MERCED	\$1,196,182	3,680	1,138	8.6%	19.7%	14.4%	8.0%	-61.6%