Metropolitan Policy Program
at BROOKINGS

HOUSING FORECLOSURES

# STABILIZING COMMUNITIES
## A Federal Response to the Foreclosure Crisis

### Background

The wave of home mortgage foreclosures that began in 2006 continues to surge, greatly destabilizing neighborhoods, towns and cities across the United States. Over 1.2 million residential properties went into foreclosure in 2008, and analysts project that perhaps 8 million more will be in foreclosure over the 2009 to 2012 period.

Secondary effects of the mortgage crisis—spurred by the close relationship between foreclosure, disinvestment, vacancy and abandonment—now threaten America's communities. The impacts range from deterioration and loss of value of the foreclosed properties to elevated crime. Local governments, meanwhile, have reduced fiscal capacity to combat these problems

The Housing and Economic Recovery Act of 2008 created the Neighborhood Stabilization Program (NSP). Last year, $3.92 billion was appropriated to state and local governments to acquire and rehabilitate foreclosed or vacant properties. But NSP is too small to fully mitigate the community-level impacts of foreclosure. Further, many jurisdictions lack the capacity to use these limited funds strategically. And the market alone is unlikely to correct the problem in even formerly high-demand Sunbelt markets, suggesting that serious public intervention will be needed to avert potentially devastating losses.

### Recommendations

The federal government should provide state and local leaders with the tools to stabilize affected neighborhoods and promote market recovery in the wake of the mortgage crisis by:

- Creating a redesigned and multi-year neighborhood stabilization program that includes competitive grant awards to support strategic, high-leverage, collaborative projects
    - A redesigned NSP should embrace a series of statutory and regulatory fixes to the current program; target a greater share of resources to areas of market potential; and build the capacity of local governments to address foreclosures through training, technical assistance, and small grants. It should also revise certain restrictive income targeting rules that may impede market recovery
- Financing the acquisition of distressed properties via a new federal Land Banking Entity, and using it to encourage state reforms that mitigate the impact of foreclosures on families and communities

    - The entity would use market-based standards to govern acquisition decisions; adopt a clear plan of action to manage properties on its books; and grant eligibility or preference to states and localities that adopt responsible laws that enhance the impact, cost-effectiveness, and ultimate return on federal investments

- Enacting a targeted tax credit that assists individuals to buy homes for occupancy in areas destabilized by foreclosures, to speed neighborhood housing market recovery

- Developing a national mortgage and foreclosure database to aid neighborhood stabilization efforts

## Metropolitan Policy Program experts on this issue

**Alan Mallach,** nonresident senior fellow, is research director at the National Housing Institute in Montclair, New Jersey, and former Director of the Department of Housing and Development for the city of Trenton.

**Bruce Katz**, vice president and director, was chief of staff at the U.S. Department of Housing and Urban Development from 1993–1996; prior to that he was staff director of the Senate Subcommittee on Housing and Urban Affairs. (On leave)

**Amy Liu,** deputy director, was special assistant to HUD Secretary Henry Cisneros

**Alan Berube,** senior fellow and research director, was a policy advisor at the U.S. Department of the Treasury

## For More Information

Alan Mallach, "Stabilizing Communities: A Federal Response to the Secondary Impacts of the Foreclosure Crisis," February 2009

Alan Mallach, "Tackling the Mortgage Crisis: 10 Action Steps for State Government," May 2008

## Acknowledgments

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