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Funding for Recovery in the Hurricanes' Wake, Part I

Supplemental congressional funding will aid recovery in hardest-hit areas of the Gulf Coast region.

Hurricanes visit the United States every year, but the 2005 storm season will be remembered for the unprecedented extent of damage done to housing stock across an entire region. Three powerful hurricanes, Katrina, Rita, and Wilma, hit the Gulf Coast area between August 29 and October 24, damaging more than 1.2 million housing units, with 25 percent sustaining major or severe damage. The media presented wrenching images of flooded neighborhoods and dramatic rescues, and neighboring states and communities took in thousands of evacuees. In December 2005 and again in June 2006, Congress approved emergency supplemental appropriations providing $11.5 billion and $5.2 billion in CDBG assistance for hurricane recovery relief. This article, the first of two installments, explores steps HUD is taking to ensure that allocations are based on states' greatest long-term recovery needs.

A recent HUD analysis, *Current Housing Unit Damage Estimates: Hurricanes Katrina, Rita, and Wilma,* has served as a roadmap in guiding this process, and in and of itself, represents something of a bright spot in the aftermath of the hurricanes. Thanks to this analysis, state, local, and federal officials now have detailed local-level data on the extent and location of damage to guide their recovery efforts. "The data will be very informative in planning for recovery," said Todd Richardson, Deputy Director of the Program Evaluation Division in HUD's Office of Policy Development and Research.

The analysis found that 204,737 housing units in Louisiana suffered serious damage, along with 61,386 in Mississippi, 23,199 in Florida, 12,103 in Texas, and 3,684 in Alabama. "Katrina itself was the most disruptive hurricane that we have recorded in terms of financial damage," said Richardson. Katrina was unusually costly because it hit a major metropolitan area and because the low-lying Gulf Coast areas have been heavily built up in recent decades.

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The HUD analysis began with a congressional appropriation of $11.5 billion in supplemental funds for long-term recovery in the Gulf Coast from the 2005 hurricanes. Congress directed that the Community Development Block Grant (CDBG) programs in the five affected states distribute the funds. HUD's task, explained Richardson, was to "get data to be able to make an informed decision about how much should go to each of the affected states."

The analysis combined inspection data from two major federal agencies that homeowners and landlords turn to in disaster recovery: the Federal Emergency Management Agency (FEMA), which provides grants for some damage not covered by insurance, and the Small Business Administration (SBA), which makes low-interest loans available to homeowners and rental-property owners with sufficient income and credit to qualify.

FEMA inspects almost all properties with significant damage, assigning each housing unit to one of three categories:

- Minor: It would cost less than $5,200 to make the home livable but not necessarily fully repaired.
- Major: The extent of damage lies somewhere between minor and severe.
- Severe: The home is half-destroyed or worse.

SBA, by contrast, calculates a precise estimate of the verified loss of each individual housing unit inspected and uses it to determine the loan amount.

By correlating data from individual homes that both FEMA and SBA inspected, HUD researchers were able to estimate a median verified loss for the neighboring properties that were not eligible for SBA loans, but which FEMA inspectors had placed in the minor, major, or severe categories of damage. As a result, the HUD analysis produced highly accurate estimates of numbers, types of housing, types of damage (wind or water), and cost of damages at the state, county, and (in New Orleans) neighborhood levels.

For purposes of allocating CDBG funds to affected states, the HUD analysis focused on identifying damaged housing units that were not covered by private insurance, FEMA grants, or SBA loans—what Richardson termed "the gap." In addition, HUD geocoded the address of each unit that was flooded and determined whether it was in a FEMA-designated 100-year floodplain (an area where purchasing flood insurance is necessary to obtain a mortgage). Many flood-damaged homes lay outside the areas previously designated as floodplain. Reflecting the 2005 experience, the National Flood Insurance program has produced new advisory flood elevations for Katrina-affected counties that will govern the financing available for rebuilding.

"The sheer number of housing units that were affected is just startling," said Richardson, who visited the Gulf Coast this spring. "If you go to New Orleans, you can drive through some neighborhoods where the houses were knocked off their foundations. In other neighborhoods, you can see the high water line on the houses that are standing. Also, in coastal Mississippi, you can go to a neighborhood and there's just nothing there, because it all washed out to sea with the storm surge."

"You can drive through the streets and see where the floodwaters were, or see the 'blue roofs' of houses that lost their roofs to wind and are protected only by temporary plastic sheets," Richardson continued. "This study essentially counts every one of those damaged houses."

The damage was most concentrated in seven Louisiana parishes (equivalent to counties), and four counties in Mississippi. For example, in St. Bernard, Louisiana, 81 percent of the 25,123 occupied housing units had some damage and 78 percent experienced serious damage. About 35 percent of the owner-occupied units that were seriously damaged did not have any insurance to cover the damage incurred. In Hancock County, Mississippi, 90 percent of the 16,897 occupied housing units had some damage and 70 percent had serious damage, while 61 percent of the owner-occupied units that were seriously damaged lacked insurance.

In January 2006, HUD Secretary Alphonso Jackson announced HUD's allocation of $11.5 billion in emergency disaster recovery funds to the CDBG offices in the five affected states:

- Louisiana: $6.2 billion
- Mississippi: $5.1 billion
- Florida: $83 million
- Texas: $75 million
- Alabama: $74 million

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Neighborhoods in Bloom: Targeted Community Investment Works

Like many large cities in the 1990s, Richmond, Virginia faced the challenge of revitalizing economically distressed, physically deteriorating, and older neighborhoods. It annually allocated federal funds, such as the Community Development Block Grant (CDBG), and relied on Home Investment Partnership (HOME) funds to address the needs of these communities. However, research revealed that distributing funds across many neighborhoods had failed to sufficiently address the needs of any of the participating communities. In 1999, the city developed the Neighborhoods in Bloom (NiB) program, an aggressive and innovative approach to reversing neighborhood decline and stimulating private housing market activity.

Before and after photos of a house in Carver-Newtowne West demonstrate how Richmond's Neighborhoods in Bloom program is attracting residents back into urban neighborhoods.

The NiB Strategy

Today, Richmond's NiB program focuses most of the city's CDBG and HOME allocations on six neighborhoods. In addition, the city concentrates on building and environmental code compliance in these neighborhoods, fast-tracks the historical preservation review of rehabilitated houses, and lists vacant and abandoned properties as priority dispositions. This strategy, combined with other neighborhood revitalization tools, reverses physical and economic decline in the target communities and encourages the return of private market activity.

Partnerships among the city, community development corporations, financial and educational institutions, and community residents provide much needed financial and technical resources and facilitate the development of political capital and consensus.

Identifying Target Neighborhoods

Targeting only six neighborhoods means shifting resources from other distressed communities. The city, in collaboration with the Richmond Redevelopment and Housing Authority (RRHA), the Local Initiatives Support Corporation (LISC), local Community Development Corporations (CDCs), and community groups and businesses, engaged in extensive research, data analysis, and consensus-building to identify the six target neighborhoods:

- **Blackwell:** Located on the south side of Richmond, this is a neighborhood with late 19th-Century architecture and early 20th-Century bungalows.
- **Carver-Newtowne West:** Located adjacent to the Virginia Commonwealth University campus, this neighborhood consists of frame or brick Italianate style rowhouses, some with storefront buildings located at street corners.
- **Church Hill:** East of downtown Richmond, Church Hill was the city's first historic district of restored antebellum homes, ranging from small cottages to large mansions.
- **Highland Park:** A neighborhood of Queen Anne-style homes, Highland Park is on Richmond's north side.
- **Jackson Ward:** Once known as the "Harlem of the South" and a center for black commerce and entertainment, this neighborhood includes Georgian Revival, Greek, Queen Anne, and Italianate houses.
- **Southern Barton Heights:** Located on Richmond's north side, this community includes Queen Anne, Victorian, American foursquare, and bungalow-style homes.

The city channels approximately 80 percent of its federal housing funds and other resources into 6- to 12-block areas within these neighborhoods. At the same time, LISC aligns its grants and loans with the city's investments. Increased police patrols in each neighborhood and aggressive code enforcement lay the foundation for a block-by-block rebuilding that includes improving existing owner-occupied units, rehabilitating blighted properties, and constructing new housing to create mixed-income homeownership opportunities.

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Homeownership Voucher Programs: Benefits Are Worth the Challenges

A new HUD report, *Voucher Homeownership Study*, explores the benefits and challenges of local voucher homeownership (VHO) programs sponsored by public housing authorities (PHAs). This publication, consisting of one volume of cross-site analyses and one volume of case studies, discusses program planning and design, financing homeownership, the characteristics of voucher purchasers and their communities, housing markets in these communities, and program and market factors that relate to the rate of home purchases.

In the fall of 2000, HUD authorized PHAs to develop their own VHO programs that would allow low-income households to apply their rental assistance toward the purchase of a home. By late 2005, more than 450 PHAs were operating programs that helped 4,000 households purchase a home. Under VHO programs, which are part of the broader Housing Choice Voucher program, the housing assistance payment (HAP) can directly offset mortgage payments, or can count as income for determining mortgage eligibility.

A Nationwide Profile of VHO Programs

The study surveyed PHAs that facilitated at least one VHO purchase and made detailed case studies of especially active and noteworthy programs. Site visits to 10 exemplary VHO programs in diverse locations and with varying designs allowed researchers to explore program successes and establish a context for the survey data. The 10 sites were the Bernalillo County Housing Department, New Mexico; CHAC Inc., Chicago; Housing Authority of Fulton County, Georgia; Indianapolis Housing Authority; Lorain Metropolitan Housing Authority, Ohio; Housing Authority of the City of Los Angeles; Montgomery County Housing Authority, Pennsylvania; New Hampshire Housing Finance Agency; Pinellas County Housing Authority, Florida; and Waco Housing Authority, Texas.

Program administrators at 206 PHAs that operated VHO programs and had at least one home purchase were interviewed by telephone. The surveyors asked about eligibility requirements, types and formats of partnerships for the programs, pre- and post-purchase assistance, mortgage-qualification assistance, other funding sources used to help participants, and mortgage delinquencies or defaults.

Voucher homeownership programs are helping some low-income renters become homeowners.

Main Findings and Implications

The study uncovered six key findings, each with unique implications for VHO programs:

- **The number of VHO programs is growing, but most programs still have small numbers of purchases.** About 60 percent of the PHAs reported 5 or fewer closings, with a median of 18 vouchers allocated to homeownership. Vouchers used for VHO purchases will probably always represent a small share of total vouchers. However, PHAs still see this option as a way to help families build their assets, while enhancing the PHAs' community image.

- **Most PHAs recruit VHO participants without imposing extra requirements.** Fewer than 20 percent of VHO programs have income or employment screening criteria beyond HUD's minimum standards. Additional criteria may lead to fewer purchases, so PHAs must weigh the risk of delinquencies or defaults against the possibility of discouraging homebuying.

- **Although interest in VHO programs is stronger than most administrators anticipated, high housing prices may keep significant numbers of renters from buying homes.** The interviewees noted that participants in VHO programs often had difficulty finding affordable homes in desirable neighborhoods. Therefore, VHO program administrators may need to help prospective low-income homebuyers secure additional financial resources.

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Financial Incentives

RRHA works with neighborhood organizations and residents to advance community revitalization by making available various rehabilitation loans and grants; providing homebuyer education; helping low-income residents find jobs, establish credit, and qualify for mortgages; and assisting homeowners with minor repairs. NiB matches people with the tools they need to achieve homeownership, such as:

- **Credit counseling services:** Residents can receive one-on-one counseling in credit restoration and homeownership preparation through Neighborhood Housing Services of Richmond and Housing Opportunities Made Equal.
- **Downpayment assistance:** Qualified applicants can receive forgivable loans of up to $10,000 for downpayment and closing cost assistance through Housing Opportunities Made Equal.
- **Real estate tax abatement program:** Qualified structures that are rehabilitated or replaced are partially exempted from real estate taxes.
- **State and federal historic tax credits:** The state tax credit is available to owner-occupied houses and income-producing (rental) properties and provides an investment tax credit of 25 percent for qualified rehabilitation work on historic properties. The federal tax credit is only available to income-producing properties and covers only 20 percent of qualified rehabilitation expenses.
- **Virginia Housing Development Authority:** Conventional and flexible homeownership financing options are available to low- and moderate-income families.

Program Outcomes

Between 2000 and 2005, housing prices in the six target communities grew 10 percent faster than the city average, and nearby areas experienced higher than average housing appreciation. Aggregate value for tax assessments in the targeted areas increased between 44 and 63 percent. Nearly 400 new or renovated houses were sold or are under construction, and more than 130 homes are owner-repaired or rehabilitated. During the first 3 years of the NiB program, crime in the targeted areas decreased by 19 percent (compared with a 6 percent reduction citywide), and the number of building code violations decreased by 64 percent.

A 2006 HUD Secretary's Opportunity and Empowerment Award winner, the NiB program underscores the need for a collaborative effort to tackle the economic distress and physical deterioration of inner-city communities. A concentrated infusion of resources in these Richmond neighborhoods has brought about a visible revitalization and attracted residents into city neighborhoods.

For more information about the NiB program, call 804.646.7000 or visit **www.ci.richmond.va.us/departments/CommunityDev/Neighborhoods**. HUI

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The funds were allocated based on Congress' intent that areas with the highest need and the greatest concentration of destruction receive priority consideration. In addition, HUD took into account areas experiencing acute housing needs, such as those with high concentrations of uninsured homeowners and low-income renters. HUD released the recovery funds between May and July 2006, based on approved plans submitted from CDBG offices in the field. "This money has got to get to the people and places that desperately need it," said Secretary Jackson.

For more information, see *Current Housing Unit Damage Estimates: Hurricanes Katrina, Rita, and Wilma,* which can be downloaded at no cost at **www.huduser.org/publications/pdf/GulfCoast_HsngDmgEst.pdf**.

"The Impact of Hurricanes Katrina, Rita, and Wilma on the Gulf Coast Housing Stock" appeared in the First Quarter 2006 issue of *U.S. Housing Market Conditions,* and is also available as a free download at **www.huduser.org/intercept.asp?loc=/periodicals/ushmc/spring06/USHMC_06Q1_ch1.pdf**.

Be sure to read the second installment of this article in the November issue of Research*Works,* which will focus on the process used to ensure that the second emergency supplemental CDBG assistance appropriation to states was allocated according to their specific needs. HUI

The Maturing of America's Housing Finance System

Our nation's housing finance system is rooted in informal building societies that emerged in late-1700s England. Members of these early mutual societies pooled their savings to help one another build homes. Similar communal solutions to financing homes were prevalent in the United States in the first half of the 19th century. Today, the U.S. housing finance system receives high marks around the world for bringing borrowers together with investors and savers to deliver affordable loans, competitive mortgage securities, and sound risk control practices.

Evolution of the U.S. Housing Finance System: A Historical Survey and Lessons for Emerging Mortgage Markets, released by HUD in April 2006, says that to understand the growth and development of housing finance in the United States, we must review 180 years of market-shaping events and innovations.

The March of History

The early building societies eventually gave way to formal lending institutions that included the formation of savings and loan associations (S&Ls). Initially, most loans matured within 6 to 10 years with biannual payments, interest rates were variable, and the acceptable loan-to-value ratio was 50 percent. The late 19th Century saw two innovations that helped shape the future of housing finance: the certificate of deposit, which stimulated savings and gave lenders greater liquidity, and the formation of mortgage banks, which sold mortgage-backed bonds to raise funds for originating and servicing loans. However, many of these bonds defaulted during the recession of the 1890s because of inadequate risk evaluation procedures.

The U.S. housing finance system brings borrowers together with investors and savers to deliver affordable loans.

Banks and S&Ls form the basis of America's housing finance system.

The stock market crash of 1929, the Great Depression, and the resulting spike in unemployment sparked loan defaults and an unprecedented deflation of home values. To resolve these crises, the federal government organized the Home Owners' Loan Corporation and the Reconstruction Finance Corporation, which bought both loans in default and the stock of bankrupt savings institutions. The government also established Federal Home Loan Banks to charter and regulate federal S&Ls.

The Roosevelt administration infused housing finance with new participants by creating the Federal Housing Authority (FHA). FHA insured lenders against mortgage defaults; introduced the fixed-rate, self-amortizing mortgage with a low downpayment and longer-term maturity; and established private mortgage associations that issued bonds and bought mortgages from primary lenders. In addition, the federal government created deposit insurance companies: the Federal Deposit Insurance Corporation for commercial banks and the Federal Savings and Loan Insurance Corporation for S&Ls.

During the 1970s and 1980s, the housing finance system experienced a series of macroeconomic shocks, including spikes in the inflation rate, interest rates, federal budget deficits, and energy prices, as well as changes in monetary policy. S&Ls felt the tremors on several fronts. Their profit margins shrank, demand for housing fell, mortgage originations dwindled, prepayments on existing loans slowed, and money market mutual funds created an alternative for small investors. In response to these challenges, the federal government lifted ceilings on the interest rates that

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- **Defaults and delinquencies are rare.** This finding may be attributed to the "HAP as income" model commonly used to finance VHO purchases. About 60 percent of survey respondents said they most often use this model, which, despite its reduced purchasing power, offers a lighter payment burden.

- **Although purchasers move to different neighborhoods to buy homes, these neighborhoods do not vary markedly from the neighborhoods where they rented.** Although owning did little to change the nature of the neighborhood in which they lived, some said the move helped them escape the stigma of being voucher program renters.

- **Although homebuyers call the purchasing process challenging, they are usually satisfied with PHA support and happy with their homes and neighborhoods.** Overall, the benefits—including security of ownership and accumulation of assets—are worth the challenges. As one homebuyer noted, "It was not a breeze at all. I had a disability to deal with.... But I did not give up.... [Homeownership] is a blessing, more than anything I could have been given."

Although interest in VHO programs is strong, high housing prices may keep significant numbers of renters from buying homes.

The complete two-volume *Voucher Homeownership Study* and a separate executive summary are available online from HUD USER and can be downloaded for free at **www.huduser.org/publications/homeown/voucherhomeown.html**. These documents are also available in print for a nominal fee by calling 800.245.2691 and selecting option 1. HI

The Maturing of a Housing Finance System *continued from page 6*

banks and thrifts paid on time deposits, made S&Ls more competitive with adjustable rate mortgages and money market deposit accounts, and realigned and strengthened liquidity-enhancing institutions.

Today, automated underwriting tools increasingly shape housing finance. These tools enable greater thoroughness and accuracy, allow faster and less expensive transactions, and ease the entry of new competitors into the mortgage industry. For example, computerized scoring techniques permit comprehensive and objective assessments of credit risk.

Automated underwriting tools allow faster and less expensive transactions, while still assessing credit risk.

The report suggests that the present U.S. housing finance system has more liquidity and security than in previous eras because of its diverse institutions, products, players, and competitors. Once revealed, its history can be useful for emerging mortgage markets around the world, especially by demonstrating how governments in other countries might support these developing institutions. The report further suggests that multiple options exist for achieving particular policy objectives, particularly in the areas of wholesale funding, risk sharing and management, and affordable lending products.

Evolution of the U.S. Housing Finance System: A Historical Survey and Lessons for Emerging Mortgage Markets, can be downloaded free of charge at **www.huduser.org/publications/hsgfin/US_evolution.html**. HI

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In the Next Issue of... research*works*

- HUD's Comprehensive Market Analysis Reports contain valuable information useful to builders, mortgagees, and others concerned with local housing conditions and trends. We'll check out the latest reports for 13 cities located throughout the U.S. to determine what changes in the economic, demographic, and housing inventory have occurred and what the future may hold in these geographically and demographically diverse communities.
- Our next issue features a continuation of this month's lead article, "Funding for Recovery in the Hurricanes' Wake, Part I." We'll discuss HUD's commitment to ensuring that emergency supplemental appropriations of CDBG funds for hurricane recovery relief addresses the greatest long-term recovery needs. We'll also look at the process of allocating funds based on needs that are both common and unique to each of the affected Gulf Coast states.
- In June 2004, an interagency task force was charged by Presidential Executive Order with coordinating efforts to improve the living standards and economic vitality of the Central Joaquin Valley. We'll discover how the San Joaquin Valley Affordable Communities Initiative, together with the California Partnership for the San Joaquin Valley, is expanding affordable housing and homeownership opportunities in an area with such concentrated poverty that it is sometimes referred to as "Appalachia West."

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