

## **A Historic Opportunity to Preserve America's Cities**

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Last Saturday, the Senate gave final approval to a sweeping housing bill designed to assist Americans facing foreclosure and provide financial support to allow Fannie Mae and Freddie Mac to weather the mortgage crisis. President Bush is expected to sign the bill later this week. This bill, formally known as the American Housing Rescue and Foreclosure Prevention Act of 2008, has been called a bill with something for everyone. The bill provides financial assistance to Fannie Mae and Freddie Mac that has been estimated at \$25 billion, puts additional regulations in place regarding Fannie and Freddie capital standards, provides mortgage refinancing assistance to help and estimated 400,000 families to stay in their homes, establishes a nationwide licensing and registration system for loan originators, and provides \$4 billion in emergency assistance Community Development Block Grant ("CDBG") funds for communities hard hit by the subprime crisis.

While much of the talk about this bill has been about Fannie and Freddie and the foreclosure assistance provisions, in many ways the \$4 billion allocation of CDBG funds may have the largest long-term impact. This provision, while somewhat controversial because of President Bush's threat to veto the bill if this provision were included, will provide much needed funding to America's cities to be used to purchase foreclosed properties at the currently depressed prices and preserve them as affordable housing for working families.

As housing prices increased over the last decade, many communities found that there was nothing they could do to preserve affordability for local workers. Housing costs were becoming prohibitive even for the middle class. As housing prices began to decline as a result of foreclosures and the subprime crisis, the same communities found themselves without the means to take advantage of the suddenly lower prices. There were no funds available to buy the foreclosed houses for rent or sale as workforce and affordable housing.

In many places where subprime lending has taken a toll, such as the well publicized cases of Buffalo and Cleveland, foreclosures have had a significant impact on the community. As properties are foreclosed on, the lenders take possession and board up the properties while waiting to find a buyer. There is a negative impact on the entire neighborhood. The value of existing properties declines, those looking to buy in the neighborhood see the foreclosed properties and look elsewhere, and the boarded up properties are vandalized and stripped of anything valuable, including the plumbing and wiring. Once vibrant neighborhoods become ghost towns and havens for crime.

The CDBG funds allocated under this bill provide the cities with money to address two core problems: abandoned properties; and affordable housing. The CDBG funds will be allocated to hard hit cities, who will then allocate the money to nonprofit housing organizations. The nonprofits will use the money to purchase the properties from the lenders and get families into the properties immediately, before they are boarded up and vandalized. A provision in the bill restricts the for profit resale of the buildings. This will help not only create a pool of workforce and affordable housing, but will act to stabilize those neighborhoods that have seen a disproportionate number of foreclosures. Instead of a city such as Buffalo chasing lenders to file public nuisance lawsuits, the nonprofit is able to move a family in before the property can

become a nuisance. Since the beginning of the current foreclosure crisis, housing advocates have been searching for the money to implement such solutions.

One of the reasons this bill can be expected to have a significant impact on America's cities is simply the size of the allocation. In fiscal year 2007 the entire CDBG allocation nationwide was \$4.6 billion, with only \$1.2 billion used for housing. An additional \$4 billion in funds devoted solely to housing represents a 230% increase in funding at a time when it is desperately needed. Assuming an average per unit assistance cost of \$25,000, the this bill could assist in providing affordable housing to 160,000 of America's working families and add long term affordability restrictions to 160,000 existing housing units.

While the merits of the other provisions of this bill are debated, it is clear that the additional CDBG funding fills a great need and offers a huge opportunity to create a long term supply of affordable housing in America's cities.

## **About the Author**

William S. Hettinger, Ph.D., is a nationally known expert on workforce and affordable housing solutions. He is President of The Wyndham Financial Group, a community and economic development consulting group, head of the Housing Development and Leadership Program at Bay Path College, and the author of *Living and Working in Paradise: Why Housing Is Too Expensive and What Communities Can Do About It* (Thames River Publishing, 2005).