

Remarks to State of Connecticut Banks Committee
December 10, 2008

My name is Alanna Cavanagh Kabel and I am the Deputy Chief Administrative Officer for the City of Bridgeport's Central Grants and Community Development Department. Mayor Finch sends his regrets that he is personally unable to be here today and on his behalf, I wish to extend the City's appreciation to Senator Bob Duff and Representative Ryan Barry, Co-Chairs of the Banks Committee, for inviting Bridgeport to give remarks regarding Connecticut's Action Plan for the Neighborhood Stabilization Program.

Unfortunately, the subprime, lis pens and foreclosure numbers are bad in most areas of Connecticut. Bridgeport's numbers are the highest in the State because it is the most heavily populated city in Connecticut which also has the greatest number of low and moderate income households and an overabundance of aging housing stock. The evidence that I will present to you today is clearly compelling based upon current statistics. The numbers projected down the road are even more staggering. As such, the City is most appreciative of the Department of Economic & Community Development's recommendation to award Bridgeport \$5,865,300 of Neighborhood Stabilization Program funding. The City now faces the tough choice of deciding how best to utilize this desperately needed funding to resolve what appears to be, at a minimum, a \$50 million problem for Bridgeport.

The magnitude of the housing crisis in the City of Bridgeport has no parallel in Connecticut, and few in the United States. Circumstances in Bridgeport are among the very worst in the country in terms of magnitude, rate, and concentration. Also, few cities

At the core of Bridgeport's challenges in this housing crisis are four underlying fundamentals.

1. The first is that Bridgeport has a disproportionate share of poor households, both in relation to our region and Fairfield County, and in relation to the State. This places an undue burden on the City of Bridgeport; in effect, Bridgeport is continually called upon to do more with less for our most vulnerable residents.
2. The second is that within Bridgeport, some neighborhoods in Bridgeport have disproportionate share of poor households; in some cases far more. This concentration of poverty at the neighborhood level is a major contributing factor to weak collateral, a factor that correlates with financial literacy problems, predatory lending, subprime activity, loan default rates, and foreclosure. This problem is worsened by the current housing crisis, so it is imperative that our response be aimed in part at remediating this condition.
3. The third is that the housing stocks in Bridgeport are older, the units smaller, and the properties more costly to maintain than newer homes in the county, further weakening demand in many parts of Bridgeport. So our response must also chip away at this through thoughtful demolition and rehabilitation.
4. Fourth, because of the first three, Bridgeport is housing more poor people than other city in Connecticut by far. So our response during this crisis must be both robust and strategic.

If these fundamentals aren't addressed, now, then Bridgeport's response is merely a bandaid. For this reason, Bridgeport's response is focused more on the neighborhood stabilization component of HERA's goal set.

Specifically, because the magnitude and nature of the impacts of subprime activity in Bridgeport vary not just from neighborhood to neighborhood, but in most cases from street to street, it's crucial that Bridgeport have access to sufficient funding, and the ability for the City to deploy NSP resources flexibly. Some neighborhoods in Bridgeport have so much distress that NSP funds can be most helpful in stabilization efforts if they are directed to a combination of redevelopment activity and blighted structure removal. This is the case in the East Side and the East End which have abandonment rates of 7.1% and 4.8% respectively.

In other neighborhoods severely affected by subprime activity, like the North End (12.8% subprime rate (1,161 loans)), abandonment is not the immediate problem, but if there is not an intervention, abandonment and its consequences soon will be. In this case, blighted property is less the challenge than is the work of developing financial mechanisms for acquisition and sale as affordable housing, and landbanking low-priced assets for future use as supplies of affordable housing.

In a third example, a relatively modest 32 percent of the housing in the Brooklawn neighborhood was built before 1939, the neighborhood has a high home ownership rate (57%), and almost no abandonments. But Brooklawn does have 140 subprimes and approximately 100 foreclosed properties, and is a submarket whose health is critical to the market health of the city. In this case, a combination of acquisition and rehabilitation of foreclosed homes, along with some landbanking and some financing for first time homebuyers, is the right strategy.

A micro-targeting strategy is absolutely essential for Bridgeport to stabilize its impacted neighborhoods, and the City will seek approval for the flexibility to determine

what sets of micro strategies work best in Bridgeport. This is especially important because the suggested allocation and distribution formulas established in the current draft protocols, though helpful, would be more responsive and useful to Bridgeport if we (and cities sharing our circumstances) have sufficient latitude to prioritize somewhat differently. In Bridgeport, priority #1 is stabilizing neighborhoods, and then, when and where possible, preserving valuable affordable housing stocks. The current state draft aims most of the HERA resources towards acquisition and rehabilitation. In Bridgeport, this can tend to cement destructive concentrations of poverty, so while some acquisition and rehabilitation is going to be useful in Bridgeport, our analysis is that other approaches in greater proportion - namely blight removal and financial mechanisms - are likely to be more valuable in actually stabilizing our neighborhoods.

The approach we're proposing would allow the City of Bridgeport to flexibly acquire troubled property and pursue an individualized disposition strategy based on conditions at the neighborhood level. \$1.42M in financing mechanisms mainly (but not entirely) aimed at North Bridgeport would enable the City to directly affect 150-200 units when married to Section 8 vouchers that the Bridgeport Housing Authority can dedicate. \$1.42M in blight removal capacity would allow us to acquire key parcels on the East Side and East End at low prices and open up important sites for badly needed green space and redevelopment. Our analysis of the conditions in our neighborhoods has led us to conclude that more resources for addressing blight and allowing us to landbank, rather than so much for acquisition and rehabilitation, is appropriate.

In general the challenges we face in Bridgeport stem from our city's *disproportionate share of at-risk households*, and our *large number of older homes*,

especially small apartment buildings of three and four units. Combined, we have a large population of people targeted by predatory lenders, and a large number of difficult-to-market properties. The City's proposed strategy will include a significant amount of leveraged funds from our partners in order to utilize the NSP funds in the most effective manner possible to stabilize our neighborhoods. The State's recommended NSP funds, with leveraged funds, will enable Bridgeport to tackle this problem head on and save our neighborhoods.

Neighborhood Stabilization Program (NSP) Action Plan Substantial Amendment

TO: State of Connecticut, Department of Economic and Community Development
FR: City of Bridgeport
RE: HERA/Neighborhood Stabilization Comment

The magnitude of the housing crisis in the City of Bridgeport has no parallel in Connecticut, and few in the United States. Circumstances in Bridgeport are among the very worst in the country in terms of magnitude, rate, and concentration. Also, few cities share the confluence of high percentages of housing stocks older than 1939 (31%) with high rates of recently foreclosed properties or properties in foreclosure, or otherwise affected by subprime lending activities with time bomb characteristics (approximately 23% of all properties in the City). Other cities have higher rates, such as Stockton, CA (45%), but few are also impacted by high rates of poverty, concentrations of poverty, and large numbers of hard-to-market and expensive-to-maintain housing structures, such as Bridgeport's three and four family structures.

Just as the magnitude of the challenge in Bridgeport compels sizable assistance and partnership, the nature of the housing crisis in Bridgeport necessitates maximum allowable local flexibility in determining specifically how and where to allocate the assistance on the ground in order to generate genuine impact. All neighborhoods in Bridgeport have been directly affected by subprime lending. Some neighborhoods have been far more impacted than others. It requires local flexibility to determine where the best interventions are going to be generated, in which neighborhoods, on which blocks. Furthermore, among those neighborhoods heavily impacted, the types of structures affected and the strength of the housing markets in those areas vary greatly, a further indication for the need for local flexibility.

At the core of Bridgeport's challenges in this housing crisis are four underlying fundamentals.

1. The first is that Bridgeport has a disproportionate share of poor households, both in relation to our region and Fairfield County, and in relation to the State. This places an undue burden on the City of Bridgeport; in effect, Bridgeport is continually called upon to do more with less for our most vulnerable residents.
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If these fundamentals aren't addressed, now, then our response is merely a bandaid. For this reason, our response needs to be focused more on the neighborhood stabilization component of HERA's goal set, than on affordable housing.

Specifically, because the magnitude and nature of the impacts of subprime activity in Bridgeport vary not just from neighborhood to neighborhood, but in most cases from street to street, its crucial that Bridgeport have access to sufficient funding, and the ability for the City to deploy NSP resources flexibly.

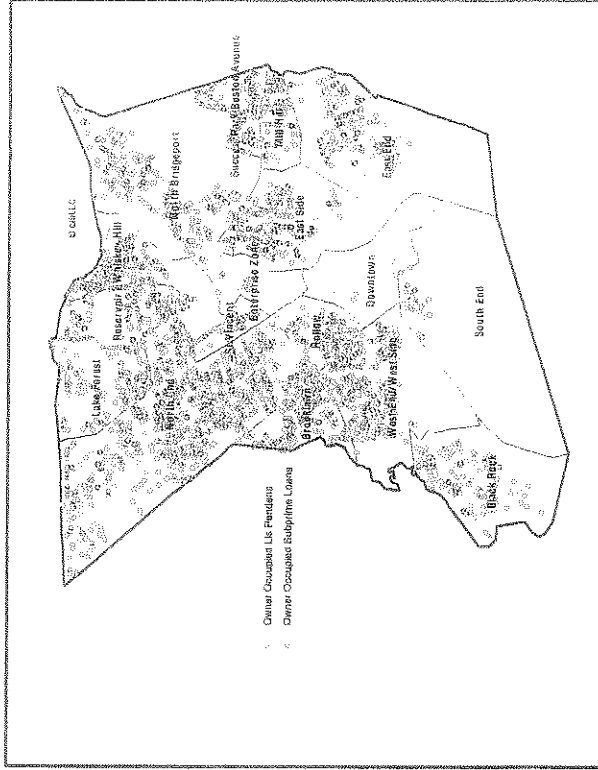
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A micro-targeting strategy is absolutely essential for Bridgeport to stabilize its impacted neighborhoods, and we seek approval for the flexibility to determine what sets of micro strategies work best in Bridgeport. This is especially important because the suggested allocation and distribution formulas established in the current draft protocols, though helpful, would be more responsive and useful to Bridgeport if we (and cities sharing our circumstances) have sufficient latitude to prioritize somewhat differently. In short, the current state draft emphasizes preservation of affordable housing more than it does neighborhood stabilization. In Bridgeport, priority #1 is stabilizing neighborhoods, and then, when and where possible, preserving valuable affordable housing stocks. The current state draft aims most of the HERA resources towards acquisition and rehabilitation. In Bridgeport, this can tend to cement destructive concentrations of poverty, so while some acquisition and rehabilitation is going to be useful in Bridgeport, our analysis is that other approaches in greater proportion - namely blight removal and financial mechanisms - are likely to be more valuable in actually stabilizing our neighborhoods.

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Financial Mechanisms

In the above neighborhood-by-neighborhood chart, we determined market conditions in the North End, North Bridgeport, Mill Hill, Brooklawn, and St. Vincent to be in the 40th - 80th percentile of potential market strength, based on factors such as tenure, education and income levels, housing stocks (age and type), subprime activity, and current real estate value. We envision the bulk of the work and resources deployed in these neighborhoods to actually be in the North End, where problem loan activity has been the highest. Our aim is to marry NSP funds to other local housing development fund programs to expand home ownership opportunities while stemming defaults and abandonment. These are middle market neighborhoods.

Acquisition and Rehabilitation

The focus of acquisition rehabilitation resources will go towards structures that are older, principally 2- and 3-Family homes that can be stabilized by assisting current (at-risk) owners, and enabling new owners to feasibly hold onto or acquire an income-producing property, the rents from which can make possible ownership, keep a property from declining into abandonment, and upgrade the property to market or, where feasible, above-market conditions. These activities would primarily occur near and around downtown, where visible improvements can help stabilize the market that in turn shapes conditions in our downtown. Most of the work would be on the East Side, though some may occur in the Hollow, the West End, West Side, the South End, and the East End.

Landbanking

It is critical to acquire as many properties as possible for future disposition, especially where site control is a key component of holding the line against the domino effect of foreclosure, or when the site is likely to have an upside as new affordable housing in the future. The North End represents a key opportunity to bank otherwise costly properties as a hedge against losses of important affordable stocks in otherwise stable neighborhoods where stability could be compromised without site control.

Blight Removal/Redevelopment

This includes *both* the work of clearing problem/distressed properties for the development of open space, *and* redevelopment of blighted properties where there is a chance for sale to a strong buyer. We estimate about 25% of our stabilization funds would be appropriate for demolition and green/community space creation, and generating opportunities for future revitalization-oriented redevelopment. This activity would be appropriately located in the East Side and East End.

	CT Proposed Allocation	Bridgeport Proposal	Bridgeport Possibility	Potential Neighborhoods	Amount (current plan)	Target AMI Population	Estimated Direct Impact HHs
Financial Mechanism	25%	25%	Down Payment Assistance	North End, North Bridgeport, Brooklawn, St. Vincent, Mill Hill	\$1.42M	50-120	150-200
Acquisition and Rehabilitation	70%	25%	Acquisition, Rehab/Sale	South End, Hollow, EE/ES, WE/WS	\$1.42M	30-80	50
Landbanking	2%	25%	Buy-hold	North End, Brooklawn	\$1.42M	50-120	25
Blight Removal	2%	25%	Green space + Redevelopment	East Side, East End	\$1.42M	40-80	50

Property Type	North End	Lake Forest	Reservoir	Whiskey Hill	North Bridgeport	Success Park/Boston Avenue	Mill Hill	East End	East Side	Enterprise Zone	Downtown	South End	Black Rock	West End/West Side	Hollow	Brooklawn	St Vincent
Residential 1-Family	49%	82%	78%	72%	47%	55%	31%	19%	12%	0%	0%	8%	31%	20%	12%	58%	13%
Residential 2-Family	13%	3%	5%	8%	17%	20%	24%	29%	37%	41%	7%	52%	23%	29%	23%	21%	30%
Residential 3-Family	6%	0%	1%	1%	4%	3%	33%	26%	21%	29%	0%	16%	17%	25%	28%	5%	50%
Residential Condominium	20%	3%	5%	5%	25%	9%	0%	1%	5%	6%	60%	0%	14%	6%	9%	11%	0%
Residential 1-4 Units	4%	3%	7%	5%	1%	4%	4%	7%	10%	6%	0%	8%	8%	7%	14%	1%	5%
Residential Other	6%	7%	5%	8%	3%	7%	5%	7%	9%	0%	7%	16%	2%	7%	13%	5%	0%
Commercial	1%	0%	0%	1%	1%	1%	2%	5%	3%	0%	20%	0%	3%	4%	1%	0%	0%
Industrial	0%	0%	0%	0%	0%	0%	0%	3%	2%	18%	0%	0%	0%	2%	0%	0%	0%
Land	0%	2%	0%	1%	1%	1%	0%	0%	0%	0%	7%	0%	1%	1%	1%	0%	0%
Exempt	0%	0%	0%	0%	0%	0%	2%	3%	1%	0%	0%	0%	1%	1%	1%	0%	3%

Use financial mechanisms to keep owners in their properties and quickly enable qualified buyers to acquire foreclosed properties.

Use resources to remove blighted property, create parks, beautify the market, and when appropriate, acquire and rehabilitate properties

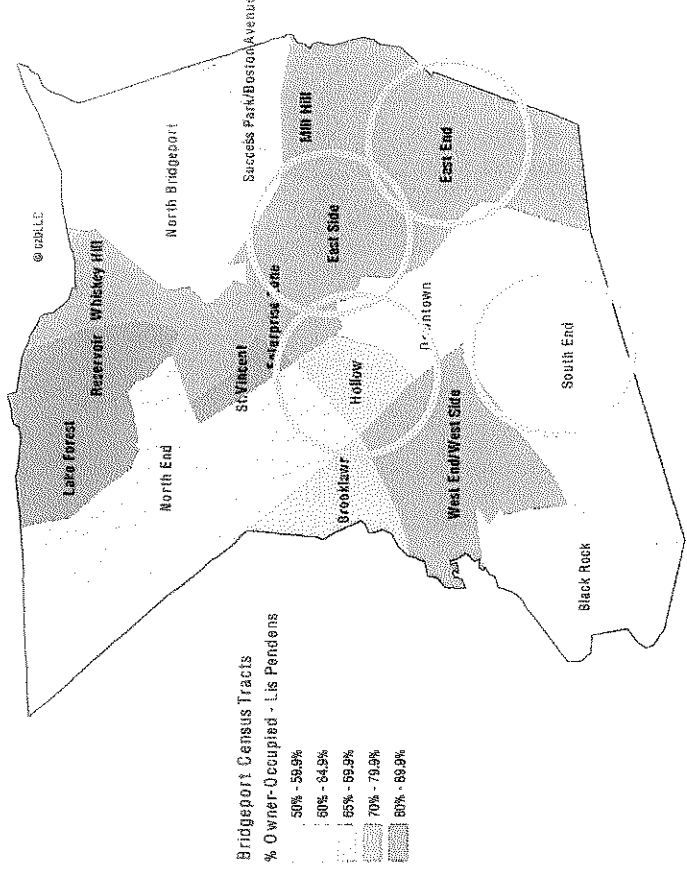
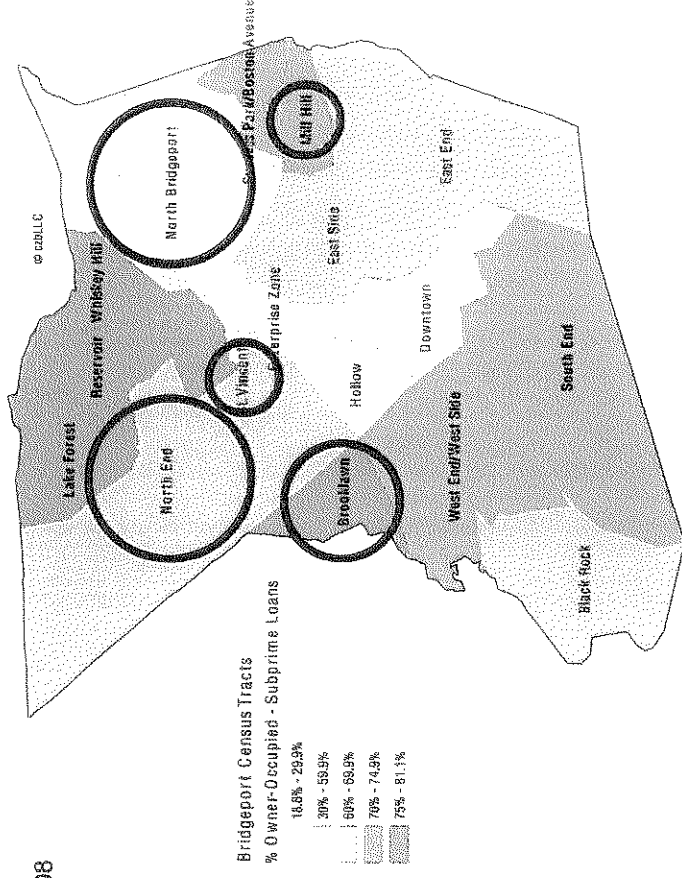
Use resources to acquire and rehabilitate properties

Use resources to acquire and rehabilitate properties and when possible, bank stocks for future use as affordable housing for LMMI HHs

Mainly Financial Mechanisms

Neighborhood	Subprime Loans			Lis Pendens		
	All	Owner-Occupied	Owner-Occupied	All	Owner-Occupied	Owner-Occupied
1 North End	975	653	612	590	378	642
2 Lake Forest	122	99	812	71	57	802
3 Reservoir	130	184	807	69	62	902
4 Whiskey Hill	355	157	752	103	76	752
5 North Bridgeport	340	378	558	200	115	585
6 Success Park/Boston Avenue	127	92	127	110	75	532
7 Mill Hill	111	89	126	70	52	142
8 Lake End	223	148	667	189	133	705
9 East Side	269	165	613	178	127	712
10 Enterprise Zone	17	10	507	14	11	076
11 Downtown	36	3	193	6	3	502
12 South End	79	71	712	46	73	122
13 Black Rock	151	109	667	101	58	542
14 West End/West Side	131	231	707	208	150	162
15 Hollow	149	82	557	77	51	665
16 Brooklawn	148	114	173	77	53	095
17 St. Vincent	41	25	612	18	15	317

Mainly Blight Removal; Some Acquisition/Rehab



Additional Summary Comments

1. In general the challenges we face in Bridgeport stem from our city's *disproportionate share of at-risk households*, and our *large number of older homes*, especially small apartment buildings of three and four units. Combined, we have a large population of people targeted by predatory lenders, and a large number of difficult-to-market properties. To be responsive, it will be necessary for cities like Bridgeport to have maximum possible flexibility deciding locally how best to allocate NSP funds.
2. The cost of acquiring REO property can be time-consuming, cumbersome, and expensive. There is a possibility that a statewide trust may be available to facilitate streamlining this process. Such a mechanism would probably rely on formulas that price the sales below appraised values. If such a mechanism is approved by the State of Connecticut, the City of Bridgeport requests that the State permit localities to adopt the method.
3. We have suggested that the initial categories for deploying NSP dollars be modified. We also urge the State to permit localities to not be bound by those percentages. Often it is the case in this particular crisis that we are moving forward with such imperfect information, that a planned strategic use of funds that seems plausible in January may prove less valuable than an alternative that does not arise until later.