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Connecticut's Action Plan for the Neighborhood Stabilization Program
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Congressman Joe Courtney

When I voted for the American Housing Rescue and Foreclosure Prevention Act (P.L. 110-289) in July 2008, I did so because of the assistance promised to communities hardest hit by the foreclosure crisis. The language specifically stipulated priority for the use of funds:

(2) Any State or unit of general local government that receives amounts pursuant to this section shall in distributing such amounts give priority emphasis and consideration to those metropolitan areas, metropolitan cities, urban areas, rural areas, low- and moderate-income areas, and other areas with the greatest need, including those—

(A) with the greatest percentage of home foreclosures;
(B) with the highest percentage of homes financed by a subprime mortgage related loan; and
(C) identified by the State or unit of general local government as likely to face a significant rise in the rate of home foreclosures.

As you know, eastern Connecticut communities, large and small, are facing high foreclosure rates.

I appreciate the difficult task that the DECD faced in implementing this program based on the expedited nature of the roll-out of the program and the enormity of the crisis. In comments to the DECD concerning their draft Neighborhood Stabilization Program (NSP), I suggested an alternative way of allocating the $25 million based more in line with current CDBG funding so as to maximize the intent of the law – to provide funding to both entitlement and smaller communities. Seven entitlement communities would receive almost all of the funding. Further, the allocation was made on the basis of sheer number of foreclosures and subprime mortgages, not necessarily on the rates as outlined in the statute.

Unfortunately the final DECD plan still shortchanges the smaller communities in eastern Connecticut and across the entire state. While I am pleased that the funding distribution may reach a few more towns, the bulk of the $25 million is still going to seven of the largest entitlement communities across the state – none in eastern Connecticut. Further, there is a new category -- a Tier Two list of nine towns – and they themselves are all entitlement communities. No small town in Connecticut is going to have a chance to benefit from the federally funded National Stabilization Program. Further, these nine entitlement communities designated as Tier Two towns must compete for a $2.6 million fund and it is expected that no more than three towns will receive NSP funding. In my view, different data, such as LISC or HUD's predictive data, could have been used to calculate rates of foreclosure to better exemplify the intent of the federal NSP.

I wanted to see how other states, in similar situations, planned to distribute their NSP funds to compare how the DECD plan stacks up. We compared the data used, the selection of towns and the amount allocated by Washington, Iowa and Rhode Island. Like Connecticut, all three states received all of the NSP funding -- there were no entitlement communities specified to receive up front funding.

- Neither state used foreclosures counts statewide as most significant measurement
- Washington and Iowa deliberately insured that non-entitlement towns receive money
- Rhode Island used foreclosure percentage data that spreads money to non-entitlement areas.
- Non – entitlement towns in each of the three states are guaranteed to get money
  50% of Iowa's $21 million is going to non-entitlement areas
  21% of Washington's $28 million for the towns went to non-entitlement areas
  13% of Rhode Islands $16 million for the towns went to non-entitlement areas
  0% of DECD's tier one or tier two towns are non-entitlement areas

Washington relied heavily on Local Initiatives Support Corporation (LISC) data to create a needs score incorporating the criteria in NSP, -- percent of subprime loans, delinquent loans, foreclosed loans, loans in Real Estate Owned (REO) status, and vacancy rates. LISC data is now available for all communities across the US by zip code, not just for entitlement areas.

Similar to Connecticut, Iowa has high rates of foreclosures in smaller towns. Iowa decided to split the money and give half to entitlement areas and half to non-entitlement areas and use different data respectively. For entitlement communities, data used the percent of foreclosures in the community compared to the rest of the state (weighted 80%) and percent of sub-prime loans in the community (weighted 20%). For non-entitlement communities, Iowa used HUD data on Block Groups Foreclosure Risk Score.

Rhode Island utilized HUD's predictive foreclosure rate to identify those areas which are likely to face a significant rise in the rate of home foreclosures, actual foreclosure counts as supplied by the Warren Group, and sub-prime mortgage foreclosure data from the

Federal Reserve Bank. Both HUD's and Warren Groups information was found to be reliable, highlighting similar communities and both are available to Connecticut. A combination of foreclosure risk rate and number of foreclosures was used in a formula to select towns.

All of these states used different data than Connecticut and were able to send some funding to non-entitlement areas of their states, better exemplifying the intent of the federal statute.

I know the DECD final plan has already been submitted to HUD for approval, but if there is any collaboration between HUD and DECD in the intervening weeks before a final approval is given, I hope that DECD can work with HUD to assist non-entitlement areas. I look forward to working with DECD in the future to maximize resources to assist eastern Connecticut communities facing foreclosure crisis.