

State of Metropolitan Housing Report

Homeownership at risk



2004

Metropolitan Housing Coalition



metropolitan housing coalition

LETTER TO MHC MEMBERS

This year, the Metropolitan Housing Coalition releases its second *State of Metropolitan Housing Report*, an ongoing report card of the affordable housing challenges and successes in this region. In it, we look at nine measures of housing conditions in the metropolitan region.

The 2004 State of Metropolitan Housing Report tells us that:

- Subsidized housing remains highly concentrated in the Louisville MSA.
- Since 1999, the number of people living in poverty in Jefferson County has increased from 84,114 to 97,425.
- The percent of renters with excessive cost burdens has increased from 36.2% to 42.3%, yet the production of affordable rental housing remains relatively stagnant.
- One in four of the people in the metropolitan region living in homeless shelters is working.
- Finally, by far the most dramatic news in this report is the continued, significant rise in foreclosures in the region.

For many years housing advocates, elected leaders, neighborhood activists, and a host of others committed to decent housing opportunities and neighborhoods have touted homeownership as the single best tool for low-income people to obtain affordable housing and gain economic stability. And for many years, this nation has invested time, money and our hopes in increasing homeownership opportunities across the country.

For this reason, the corresponding surge in foreclosures is of considerable concern. This report examines the foreclosure data and what it might tell us about our homeownership dreams. The report also provides updates on the other eight measures outlined in 2003.

Certainly, a period of one year does not offer an opportunity to track major changes on all measures. In some cases, where the report card tracks Census data for the 2000 Louisville MSA, this year's report restates a statistical picture. For Louisville Metro, the 2003 American Community Survey allows us to examine any significant change on housing indicators from the 2000 Census.¹

MHC's 2003 in Review

The year since MHC released its first *State of Metropolitan Housing Report* has been a busy one. Among other things, we celebrated 15 years as the region's affordable housing advocate at our May Annual Meeting. At that meeting, over 500 people honored some of our founders including Davis Bos, Dennis Bricking, Janet and Bill Dakan, Dolores Delahanty, Joe Gliessner, Galen Martin, Ella Roberts, Jenny Stoner, Jack Trawick and Sue Speed.

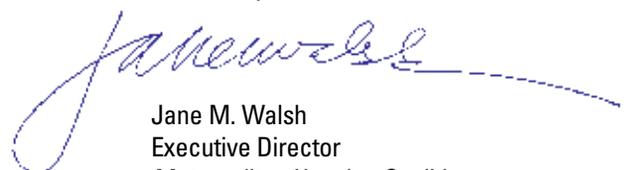
Fifteen years later, the over 150 members of MHC have gone a long way toward our founders' vision for this united voice for fair, decent and affordable housing in the metropolitan region. Between October 2002 and October 2003:

- MHC published two Issue Papers. In February, we examined the relationship of school/student success and housing in our paper *Moving On: Student Mobility and Housing Affordability*. In June, MHC provided neighborhood groups and advocates with an examination of *Community Development Block Grant Funds: A Tool for Neighborhoods*.
- We brought educational forums on a variety of issues to the community. These included a half-day forum on Best Practices in Mixed-Income Design featuring Nicholas Retsinas from the Joint Centers for Housing Studies of Harvard University; an examination of the proposed 2005 Housing and Urban Development budget; and an April Fair Housing Month program on the relationship between Health and Housing.
- MHC facilitated working groups to address key issues in affordable housing and affordable housing funding. These included ongoing work on the Alternative Development Incentives in the Land Development Code, community response to the increasing Section 8 Voucher waiting list and the threat to that housing program in the federal budget, the preservation of the Kentucky Affordable Housing Trust Fund, and the continued struggle to pass a National Affordable Housing Trust Fund.
- We administered low-interest loans to non-profit housing developers who are members of MHC.
- MHC received the financial support of over 150 organizations and nearly 200 individuals, of the Louisville Metro Government, the Kentucky Housing Corporation, Making Connections Louisville, the Fifth Third Foundation, the Gannett Foundation, and the Judah Foundation. This support allowed us to maintain a strong focus on safe, decent and affordable housing in the region.
- We welcomed 13 new member organizations to the Coalition.
- Finally, MHC welcomed new staff – our energetic Membership Coordinator, Nancy Reinhart, joined us in March of this year.

We count on the work and support of our committed board of directors and hundreds of active members and volunteers. Thank you – and we look forward to our continued good work to ensure that every person in the metropolitan area enjoys the very basic dignity of a safe, decent and affordable place to call home.



Kathi Whalen
President, MHC Board of Directors
Community Investment Officer, Bank One



Jane M. Walsh
Executive Director
Metropolitan Housing Coalition



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key DEFINITIONS

Foreclosure Rate in Louisville MSA – Indiana Counties:

Number of foreclosures (foreclosure actions filed) as a percentage of the number of owner-occupied homes with mortgages for Indiana counties in the Louisville MSA.

Foreclosure Rate in Louisville MSA – Kentucky Counties:

Number of foreclosures (orders of sale) as a percentage of the number of owner-occupied homes with mortgages for Kentucky counties in the Louisville MSA.

Foreclosure Rate in U.S., Indiana and Kentucky: Percentage of mortgage loans in the process of foreclosure as reported to the Mortgage Bankers Association by approximately 130 lenders, including mortgage bankers, commercial banks, thrifts, and life insurance companies.

Foreclosures Started in U.S., Indiana and Kentucky:

Percentage of loans that entered the foreclosure process, or new foreclosures, as reported to the Mortgage Bankers Association.

Foreclosures Started in Louisville MSA – Indiana Counties:

Number of foreclosure actions *filed* in the circuit courts in each county.

Foreclosures Started in Louisville MSA - Kentucky Counties:

Number of foreclosures *ordered* by the circuit courts in each county.

Louisville MSA: Louisville Metropolitan Statistical Area as delineated in the 2000 Census. Kentucky counties include Jefferson, Bullitt, and Oldham. Southern Indiana counties include Clark, Floyd, Harrison, and Scott. In 2004, the Louisville MSA was redefined as the Louisville KYIN Metropolitan Statistical Area. See definition section for the most recent delineation of the Louisville KYIN MSA.

Subprime Mortgage Loan: A loan to a borrower who has less than optimal credit. In order to compensate for the added risk associated with subprime loans, lending institutions charge higher interest rates and other fees. Subprime mortgage loans are higher cost loans than conventional prime mortgage loans.



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FORECLOSURES

homeownership at risk

INTRODUCTION

For most Americans, purchasing a home is the single most complex financial procedure of their lifetimes. For many, it is also one of the most satisfying. In this country, becoming a homeowner is recognized as the realization of “the American dream” and as the surest path to increased assets and economic security. Furthermore, neighborhood advocates, elected leaders, housing advocates and others point to homeownership as a tool to increase neighborhood stability. Studies have even shown that children who live in homes owned, rather than rented, are more successful in school.²

This is why the significant increase in both the rates and absolute numbers of foreclosure is alarming. Foreclosure is devastating to household financial security and future opportunity. But the problems of foreclosure go beyond individual consumers.

Increased foreclosures lead to property abandonment and blight that can potentially destabilize entire neighborhoods. They come at a cost to the lender. Indirectly, the school, health care, and social service systems all face increased costs from foreclosures. Everyone loses when we see families take one step forward, then two steps back, from the “American Dream.”

The data in this report show a powerful surge in foreclosure rates in the Louisville MSA. The report also points to a lack of adequate and accessible information about the failures of homeownership for families in our region. It may be that the foreclosure rates are the canary in the coal mine, compelling more extensive examination of our

homeownership goals for the metropolitan region.

DATA

Nationally, the percentage of loans in foreclosure, or foreclosure rate, on conventional prime mortgage loans has remained relatively stable over the past several years (1998-2003), hovering well below 1 percent. However, foreclosure rates for subprime mortgages paint a more uneven picture, with significant shifts over the same period. In fact, the percentage of subprime loans increased from 3.18 percent in early 1998 to 5.63 in the last quarter of 2003, peaking at 9.35 percent in 2000 (Figure 1). Compared to all other types of mortgage loans, subprime mortgage loans yield the highest rates of new foreclosures and highest percentages of loans in foreclosure.

A powerful predictor of foreclosures is the delinquency rate, or the rate of mortgages with late payments. At the end of 2003, delinquency rates had decreased for both prime and subprime mortgage loans. Still, homeowners with subprime loans were experiencing a delinquency rate of 12.41 percent, meaning that more than one in ten subprime mortgage borrowers found sustaining homeownership for themselves or their families a significant challenge.

Kentucky and Indiana have each experienced unusually high and increasing foreclosure rates in recent years, particularly for subprime loans. While both states began to see foreclosures decline in 2002 (Figure 2), percentages of foreclosures for subprime loans in Indiana and Kentucky are roughly twice that of the nation (Figure 3).

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Percentage of Loans in Foreclosure in the U.S.,
1998-2003 Quarterly



Figure 1 – Source: Mortgage Bankers Association, National Delinquency Survey, 2004. Data reflect foreclosures rates for all mortgage types (prime, subprime, FHA, and VA combined), based on quarterly reports from 1998 to 2003

Foreclosures Started for Prime and
Subprime Loans, 1998-2003

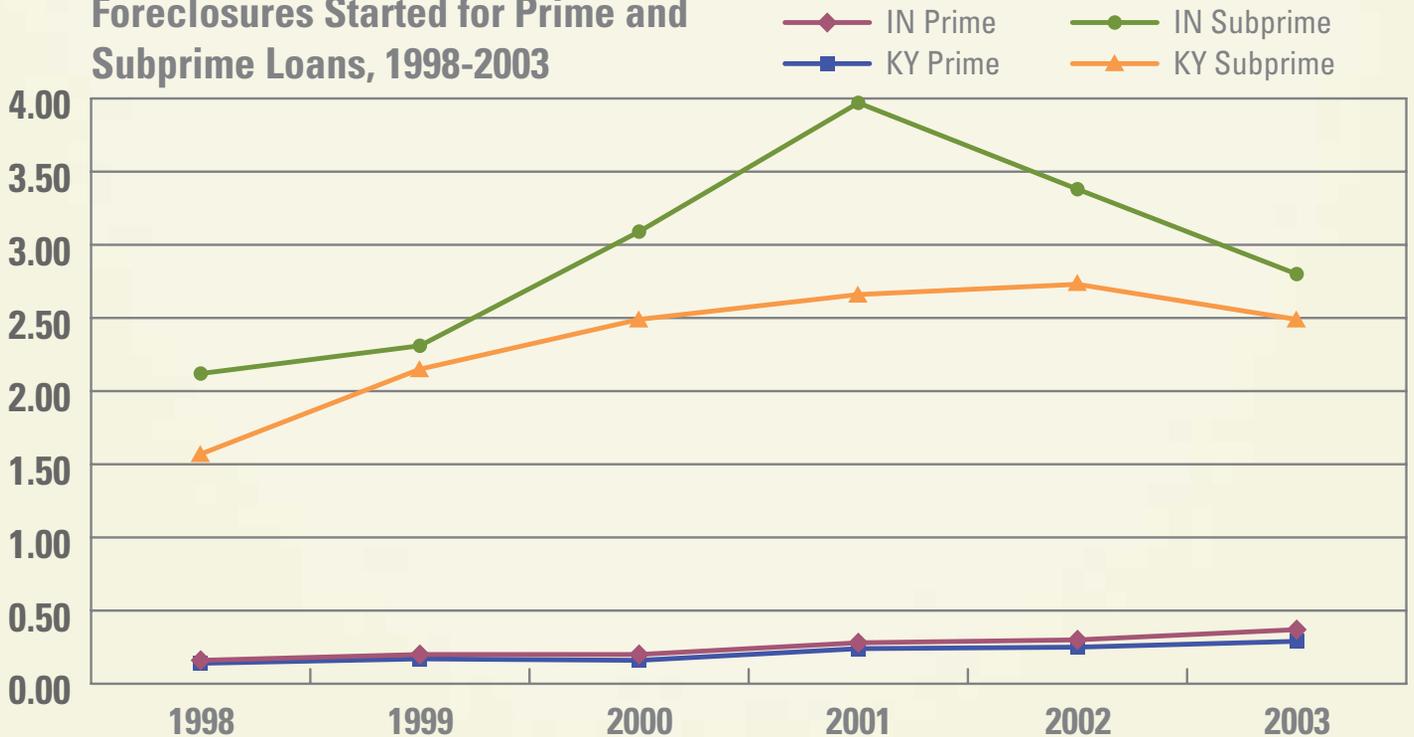


Figure 2 – Source: Mortgage Bankers Association, National Delinquency Survey, 2004.

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Percentage of Subprime Loans in Foreclosure, 1998-2003 Quarterly

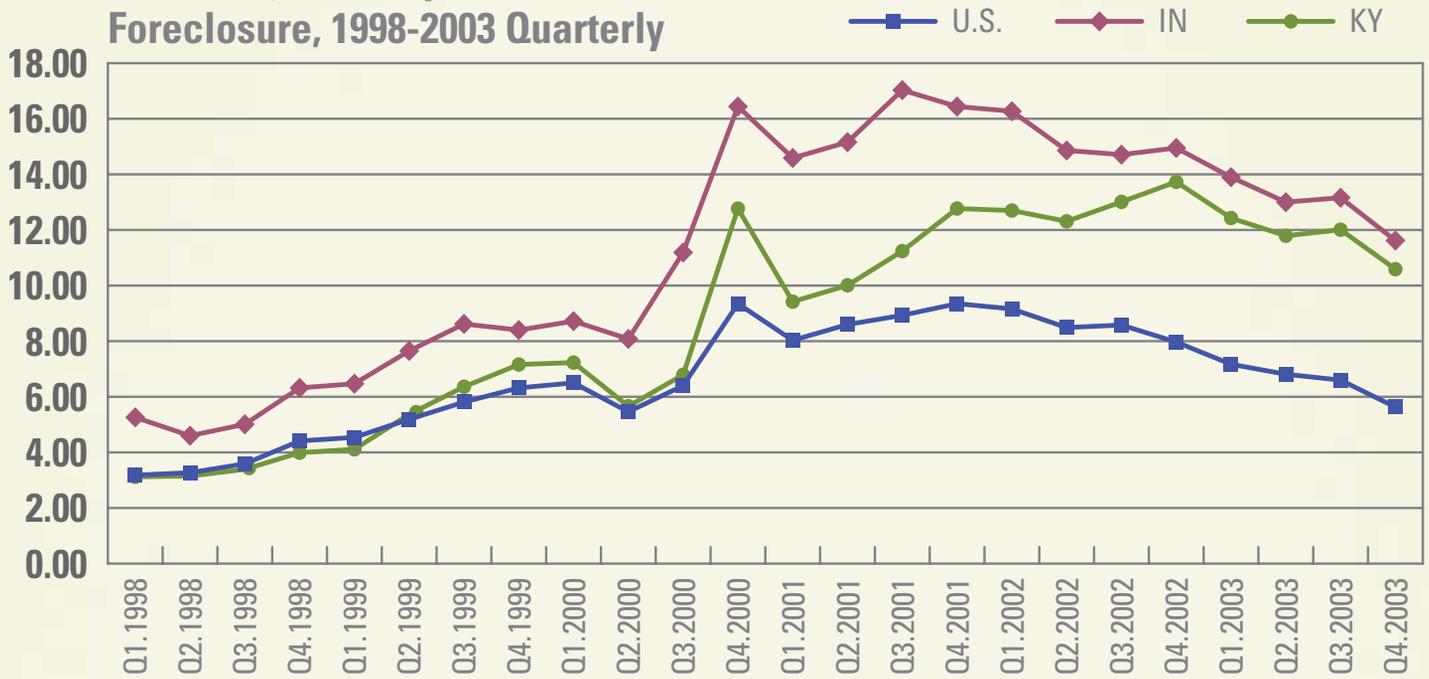


Figure 3 – Source: Mortgage Bankers Association, National Delinquency Survey, 2004.



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Numbers of Foreclosures Started (Ordered) in Kentucky Counties in the Louisville MSA

	2002	2003	% Change
Bullitt	104	171	+ 64%
Jefferson	1262	2161	+ 71%
Oldham	71	89	+ 25%

Numbers of Foreclosures Started (Filed) in Indiana Counties in the Louisville MSA

	2002	2003	% Change
Clark	369	385	+ 4%
Floyd	253	212	- 16%
Harrison	112	141	+ 26%
Scott	123	178	+ 45%

For the Louisville MSA, statistics on foreclosures indicate a dramatic upsurge, particularly in Jefferson County. As two-thirds of the area's owner-occupied units with mortgages are in Jefferson County, the MSA rate is driven largely by Jefferson County's rate. Statistics for Jefferson County show an increase in court-ordered foreclosures from a low of 437 in 1996 to 2,161 in 2003, an increase of almost 400 percent in less than a decade (Figure 4). Cumulatively over that

time period, more than 7,700 households were subject to foreclosure; more than 5,200 since 2000.

In one year alone, from 2002 to 2003, Jefferson County saw a 71 percent increase in foreclosures, from 1,262 to 2,161 properties. Preliminary data for 2004 indicate that the rising foreclosure trend is not losing steam, with mid-year numbers of foreclosures up 43 percent from the same period in 2003.

Foreclosures Started in Louisville Metro, 1996-2003

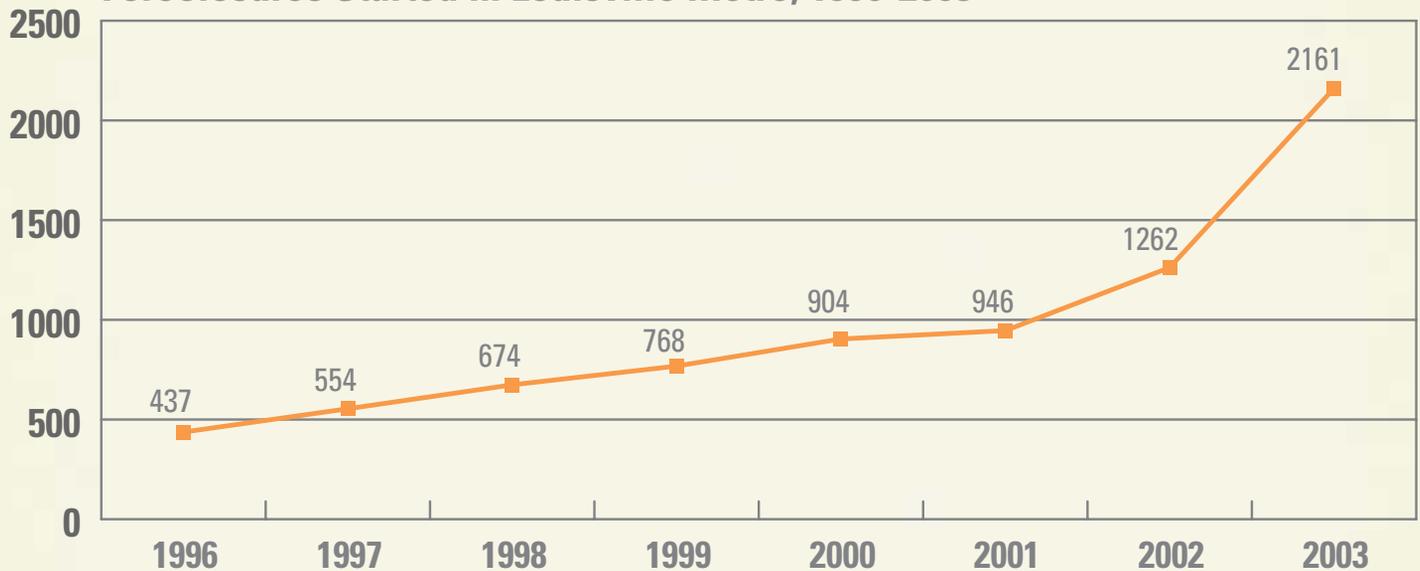


Figure 4 – Source: Jefferson County Circuit Court, 2004. Data represent the annual number of mortgage foreclosures for which there were “orders of sale” in Louisville Metro (for years prior to 2002, data reflect combined numbers for Jefferson County and the City of Louisville).

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Within the Louisville metropolitan area, the rate of new foreclosures varies from less than 1% in Oldham County to 5.38% in Scott County. Southern Indiana counties in the Louisville MSA tend to have higher foreclosures rates than Jefferson, Oldham, and Bullitt Counties (Figures 5 and 6). This is consistent with Indiana's higher statewide foreclosure rate and the fact that court

records are maintained on foreclosure filings in Indiana rather than on orders to sell property as in Kentucky. Undoubtedly, a higher number of foreclosures are filed than are eventually ordered to sale. However, a rise in either measure is cause for serious concern for family and neighborhood stability.

Foreclosures in Kentucky Counties (Louisville MSA), 2003

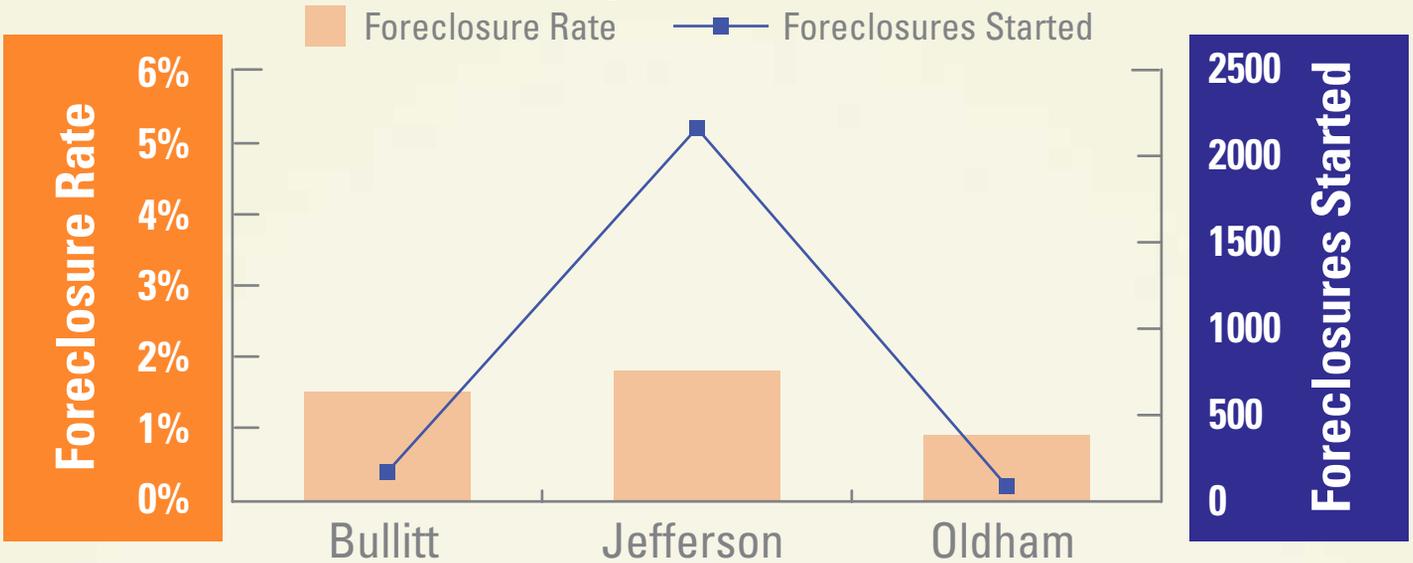


Figure 5

Foreclosures in Indiana Counties (Louisville MSA), 2003

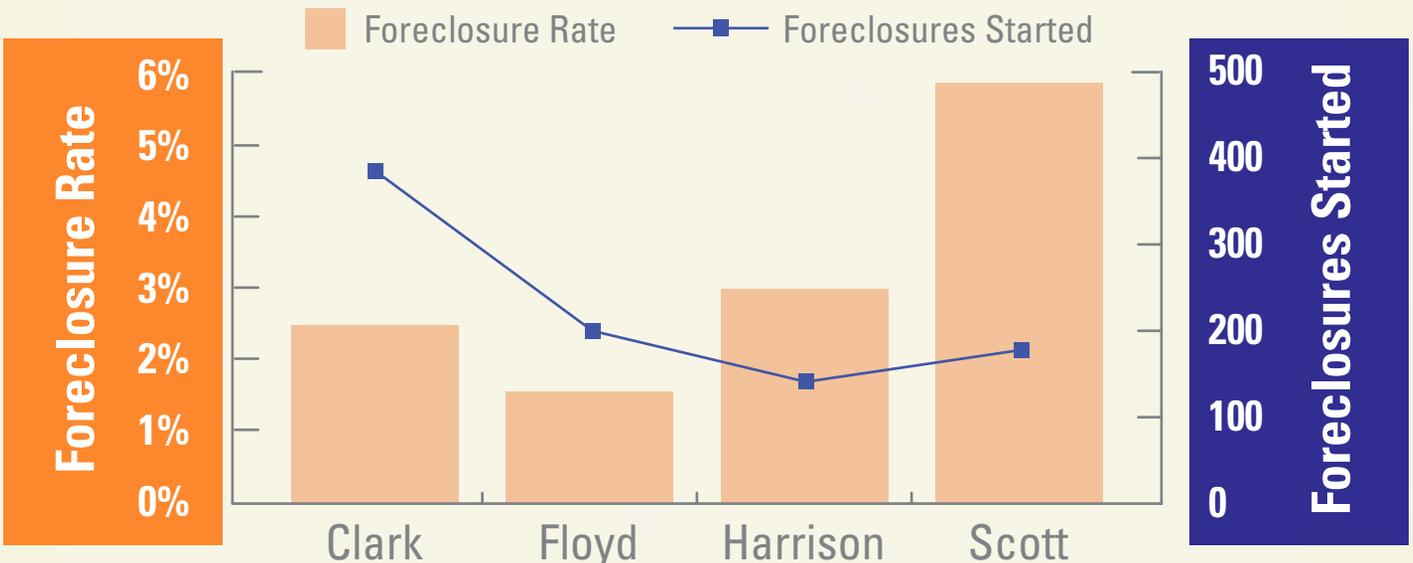


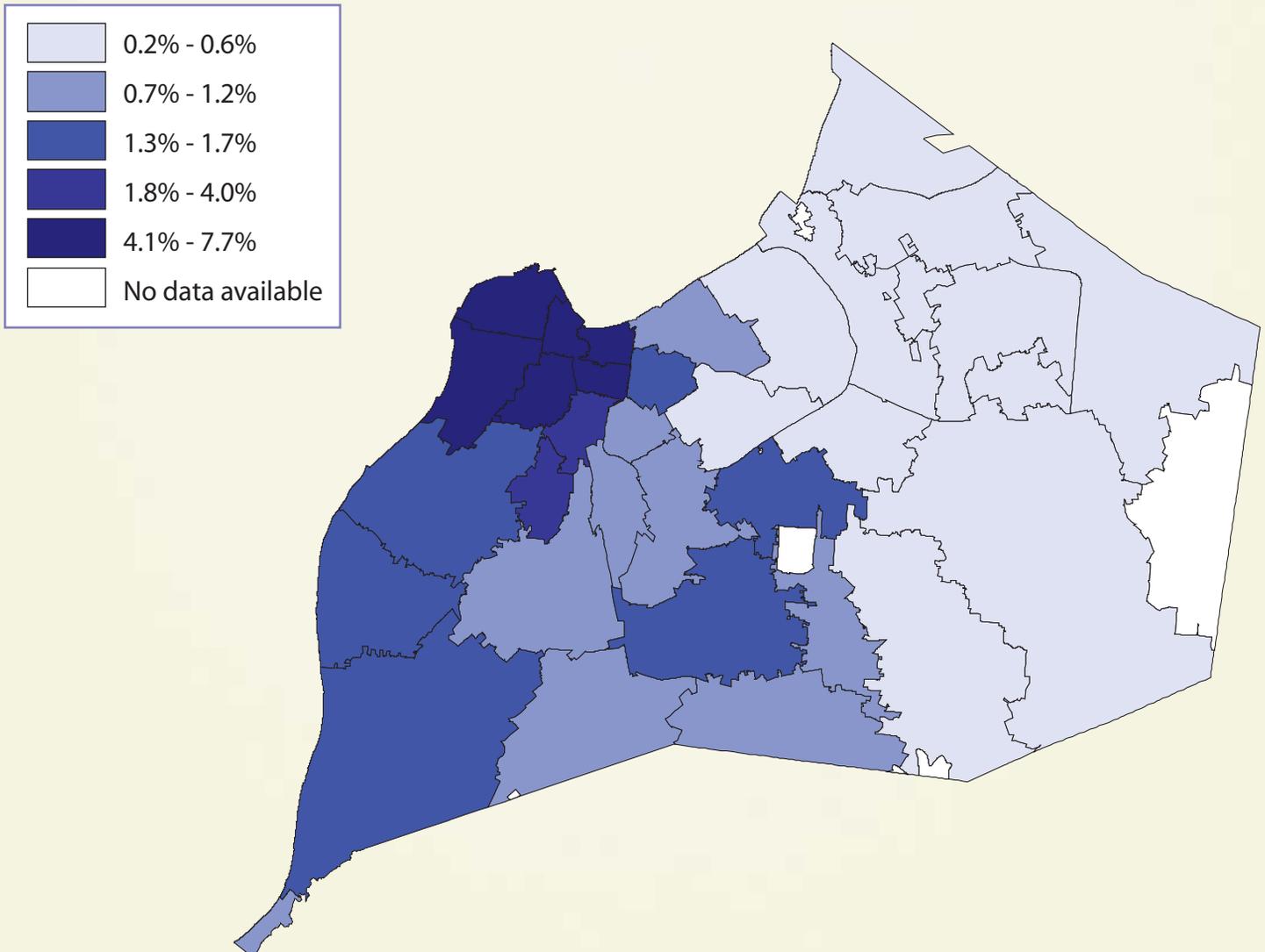
Figure 6

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Foreclosures are not tracked at the Metro Council District level on an ongoing basis. However, the University of Louisville's Urban Studies Institute compiled these data for the 2003 report, *"Predatory Lending in Jefferson County."* Sample data on foreclosure rates from 2000-2002 across Louisville Metro indicate that while no Metro Council District is immune from foreclosures, the highest rates were in neighborhoods with higher

rates of low-income and minority families. Citywide, the foreclosure rate was 1.2 percent during the 2000-2002 period, yet rates varied from a low of .2 percent in 40209 (which includes parts of Metro Council Districts 6,10,13,15,21, and 24) to a high of 7.7 percent in 40202 and 40203 (which include parts of Metro Council Districts 4,5,6, and 10).

Mortgage foreclosures as a percentage of owner-occupied houses with mortgages by zip code, Jefferson County, 2000-2002



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Exploring the Rise in Foreclosure Rates

According to the *2004 State of the Nation's Housing Report* published by the Joint Center for Housing Studies of Harvard University, the combination of rapid home price appreciation and low interest rates has produced unusually favorable conditions for homeownership, pushing the national homeownership rate up to 68.3%.³ As homeownership rates increase, however, so do foreclosure rates – and at a far more rapid clip.

Unfortunately, we don't know definitively why foreclosures are increasing. In the Louisville MSA, we do not have consistent information available

about the characteristics of the borrowers of foreclosed loans, or even of the loans themselves. Public records do not indicate the mortgage interest rate, or in many cases whether the loan is prime, subprime, or government insured (VA or FHA). We don't know which loans represent investment properties and which represent homeownership. We don't have critical information about the structure of the loans – including terms, fees, whether the loans are for purchase or refinance. The lack of good information on a growing and significant trend is a real barrier to addressing the problem.

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We Need Better Data

To develop meaningful strategies to help families in the Louisville Metro region keep their homes, the following data should be available:

- ▶ Types of properties going through foreclosure
 - ▶ Single family homes
 - ▶ Investment property
- ▶ Types of mortgages
 - ▶ Subprime, FHA, VA, or conventional prime mortgage loans
 - ▶ Home purchases or subsequent refinanced mortgages
- ▶ Mortgage interest rates, terms, or fees
- ▶ Time period after purchasing property that homeowners face foreclosure
- ▶ Value of homes under foreclosure
- ▶ Whether foreclosures occur most often on first mortgages or on second or third mortgages

However, foreclosure analyses here and across the country report consistent findings and themes. While studies of foreclosure activity conducted to date differ in terms of the quality and extent of available data, and even in definitions of lending practices, these studies consistently report a rising incidence of foreclosure, especially in lower-income and minority neighborhoods. They also point to most-likely causes that fall into two categories - the explosion of the subprime mortgage lending market, and the increase of homeowners with severe housing costs burdens and inadequate savings.

Subprime Mortgage Lending

In 1994, subprime mortgage lending constituted about a \$43 billion market. By 2003, that market had exploded to \$385 billion. The fact that foreclosures are much more likely on subprime loans does not suggest that the entire industry is flawed. Nor are subprime loans the equivalent of predatory loans in most instances.

The subprime market provides risk-priced credit to borrowers who may be unable to qualify for prime rate loans. These riskier loans have played a significant role in the expansion of homeownership opportunities to many low-income and minority households. The subprime mortgage lending industry has extended credit to borrowers who may have previously been denied mortgages because of a poor credit history or inadequate income.

However, it is clear that the rise in the subprime market, and the new availability of high-risk credit, corresponds to the recent rise in foreclosures. It is also true that these loans are much more likely to end in default than are prime loans or government insured loans.

New foreclosures in 2003 affected 2.94% of mortgaged homes in Indiana and 2.18% in Kentucky, compared with 1.33% nationally.⁴ New foreclosures occur with greater frequency on subprime mort-



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gages than on more conventional loans. In assessing the national subprime market, the Urban Institute concludes that subprime borrowers are more likely to be low-income, have fewer financial literacy skills, and be less familiar with banks than primary market borrowers.⁵ Without local data on the types of mortgages undergoing foreclosure, we cannot assess whether the Louisville MSA's statistics mirror national or state-level trends on subprime mortgage foreclosures.

Homeowners with severe cost burdens and Borrowers with inadequate savings

Ongoing efforts to extend homeownership opportunities to low-income and low-wealth households have contributed to the highest homeownership rate in the nation's history. The number of home mortgages to low-income families surged by 79 percent from 1993 to 2000. Nationally, public policy and funding has encouraged increased homeownership opportunities for low-income households. However, when the homeownership dreams of low-income families fail, much of this good is undone.

According to the *State of the Nation's Housing Report*, as of 2001, two million moderate income homeowners spent more than half of their incomes on housing costs (which include taxes and utilities.) In the Louisville MSA, 7.7% of homeowners spend more than half their incomes on their mortgages, creating a "severe cost burden" for families and individual homeowners.⁶ This means that they have less money for child care, transportation, food, and household goods or - and perhaps more importantly in the case of mortgage default - for emergencies. It may be that this level of housing cost burden makes homeownership too risky an endeavor for some families.

Furthermore, Americans at all points in the economic scale are proving to be poor savers. A recent bankruptcy study found that since the early 1980's, American families' average savings had dropped from 11 percent of their incomes to negative 1 percent, while credit card debt increased from 4 percent of income to 12 percent.⁷

The combination of severe housing costs burdens and inadequate savings to address emergencies which inevitably arise - an illness, the need for a new car or roof or hot water heater, the loss of a job - places many families at risk of foreclosure.

Preserving Homeownership in the Metropolitan Region

Many of MHC's 150 member organizations have long been working to promote and preserve homeownership opportunities for low-income families. The foreclosure rates certainly affect the ways organizations provide services.

In the last year, enrollment in the Louisville Urban League's Mortgage Default/Foreclosure Prevention counseling program doubled to nearly 200 people. At the Homeownership Partners (part of the Housing Partnership, Inc) 17% of new clients to the organization came for foreclosure counseling.

Both of these MHC members have provided homeownership counseling for many years, and have worked to prepare hundreds of low and moderate income families for the challenges of homeownership. When clients can afford it, they pay for the counseling on a sliding scale. Kevin Dunlap, of the Louisville Urban League, says the counseling turns out "really savvy mortgage shoppers" and families who understand the financial complexities of the contract they enter when they take on a mortgage. Dunlap believes that good homeownership counseling, which

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averages a year-and-a-half to prepare a family to purchase a home, is an excellent tool in the prevention of foreclosures.

However, Christie McCravy of Homeownership Partners notes that, even though study after study indicates that pre-purchase counseling from HUD certified counselors can go a long way toward preventing mortgage foreclosure, this “counseling has been de-emphasized and de-funded.” As she watches the percent of her clients in foreclosure counseling increase, she also sees funding for homeownership counseling threatened.

In April 2004, the Louisville Urban League and Homeownership Partners teamed with Freddie Mac on the “Don’t Borrow Trouble” campaign – a marketing effort to encourage people to get informed before they sign on *any* dotted line. The effort prompted a dramatic rise in requests for help – and may also prove useful in preventing foreclosures by offering good financial education before mortgage contracts are signed.

Even while the foreclosure rates in the region surged, the local Habitat for Humanity affiliate built and sold its 200th house. Habitat, which has been providing homeownership opportunities for the very poorest of homeowners (at 30 – 60% of median income) since 1985, has seen only one foreclosure in its 19 years. Their success, says Janel Temple, Family Services Coordinator at Habitat, is due in large measure to their organization’s small size and intensive program.

Habitat not only builds houses and provides financial literacy for families, it holds the 0% interest mortgages on each house it builds. Janel Temple says that while homeowners pour sweat equity into their homes, they make a connection with the people of Habitat that makes foreclosure less likely. Habitat mobilizes thousands of volunteers to build both houses and families’ abil-

ities to be successful homeowners. Volunteers work one on one with families to prepare them to buy their houses and teach the budgeting and financial skills that will enable them to keep their new homes.

When Habitat homeowners hit hard times and get behind in a payment, they don’t just get a late notice in the mail. They get a phone call from Habitat director Diane Kirkpatrick – and they come in for a face to face meeting with Habitat staff to address the issues that are keeping them from making timely mortgage payments. This is an expensive way to do business – but based on Habitat’s foreclosure rate, it appears to be working. At the end of the day, says Temple, “they remember that there was somebody here at Habitat who cared for them.” And that, she says, is the support necessary to prevent foreclosures.

For mortgage companies processing not tens, but many thousands of mortgages each year, that kind of intense interaction with mortgage holders is virtually impossible. Still, programs like those offered by Habitat for Humanity, the Louisville Urban League and Homeownership Partners indicate that homeownership counseling and immediate intervention go a long way toward preserving homeownership.



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MHC's RESPONSE

Across this community, and in the nation, there is a growing consensus that homeownership can provide family and neighborhood stability. In fact, national public policy and public funding have conspired to advance the goal of increased homeownership over the last ten to 15 years.

However, the foreclosure trends here and across the nation implore us to pay close attention to what may be happening to low-income homeowners in particular. Are we preparing families for financial success or failure? Are the successes of our homeownership programs undermined by foreclosures?

As a result of the information in the *2004 State of Metropolitan Housing Report*, MHC is facilitating a Foreclosure Working Group between November 2004 and June 2005. The Working Group will be comprised of representatives from financial institutions, consumer groups, the court system, elected leaders, and service providers to study local data and begin to form policy/program recommendations. By mid-2005, this group will advance two or three policy initiatives designed to stem the dangerous rise in foreclosures – and the membership of MHC will then lend its significant weight to advancing these initiatives.

The goal of increasing homeownership among low-income families is increased assets and stability. Foreclosures undermine that goal and destroy that stability – for neighborhoods, for the mortgage industry, and most importantly, for the very families who saw in the purchase of their home their chance to realize the American Dream.

Some of the ways MHC Member Organizations Work to Promote & Preserve Homeownership

- ▶ The **New Albany Community Housing Development Organization** (CHDO) received a donation of 17 houses from Floyd Memorial Hospital. They will relocate, rehabilitate and sell to low-income, first-time homebuyers on a vacant property being developed by the CHDO into a new 23-lot subdivision.
- ▶ **New Directions Housing Corporations** utilizes thousands of volunteers in its annual Repair Affair. By making needed home repairs for very low-income seniors and disabled persons, they enable these families to stay in their homes and maintain their investment.
- ▶ **Bank One** created a full-time Financial Literacy Education program at **The Center for Women and Families** to provide custom-designed training to the clients of local non-profit agencies.
- ▶ In 2004, local architect and developer **Legacy Homes** created Rowan Place, an intergenerational community in the historic Portland neighborhood. This former brownfield site will soon be home to apartments for seniors along with single family homes and townhomes sharing a common open space.
- ▶ **River City Housing** provided 11 newly-built homes for first-time home buyers who needed a little financial boost over the threshold to help them become homeowners.
- ▶ Through its Family Self-Sufficiency (FSS) and Individual Development Account (IDA) programs, the **Louisville Metro Housing Authority** allows residents to save funds, some of which may be matched by LMHA, to apply toward their own home, education, or small business. Residents may purchase a home with LMHA providing mortgage assistance for up to 15 years (up to 30 years in the case of resident's with disabilities and the elderly). New homeowners are also enrolled in a Post-Purchase IDA program to assist with home repairs as well as on-going case management to help greatly reduce the risk of foreclosure.
- ▶ **BB&T** promotes homeownership in the low-to-moderate (LMI) market through mortgage products such as Community Homeownership Incentive Program (CHIP)- a 97% LTV loan with no PMI for borrowers at 80% of HUD median income.

measures of housing conditions

MEASURE 1

concentration of subsidized housing

MHC opposes the concentration of subsidies that make housing affordable primarily in specific areas of the metropolitan region and instead advocates increasing housing opportunities for all people in all areas of the region.

Public Housing has historically been concentrated in inner-city neighborhoods where there are high concentrations of low-income households. The current Housing Choice Voucher Program (that is, tenant-based Section 8) is designed to give families more locational choices than was the case with project-based Public Housing. The movement toward scattered-site Public Housing has a similar goal. In contrast, the Low Income Housing Tax Credit program provides incentives for developers working in high-poverty census tracts.

Within Jefferson County, Public Housing continues to be concentrated primarily in three council districts (4, 6, and 15). A majority of council districts have no Public Housing units at all. This is also true for Bullitt, Oldham, Harrison, and Scott

Counties. Section 8 units are more spread out, but in Jefferson County they still tend to be concentrated in low-income districts (1-6 and 15). Across the Louisville MSA, Public Housing and Section 8 together are disproportionately highly represented in districts 1-6 and 15, and in Floyd County. Nearly 47% of all Public Housing and Section 8 units would have to be relocated to other districts or counties to be distributed in proportion to the population. This represents no change from our revised estimate of 47% for last year.

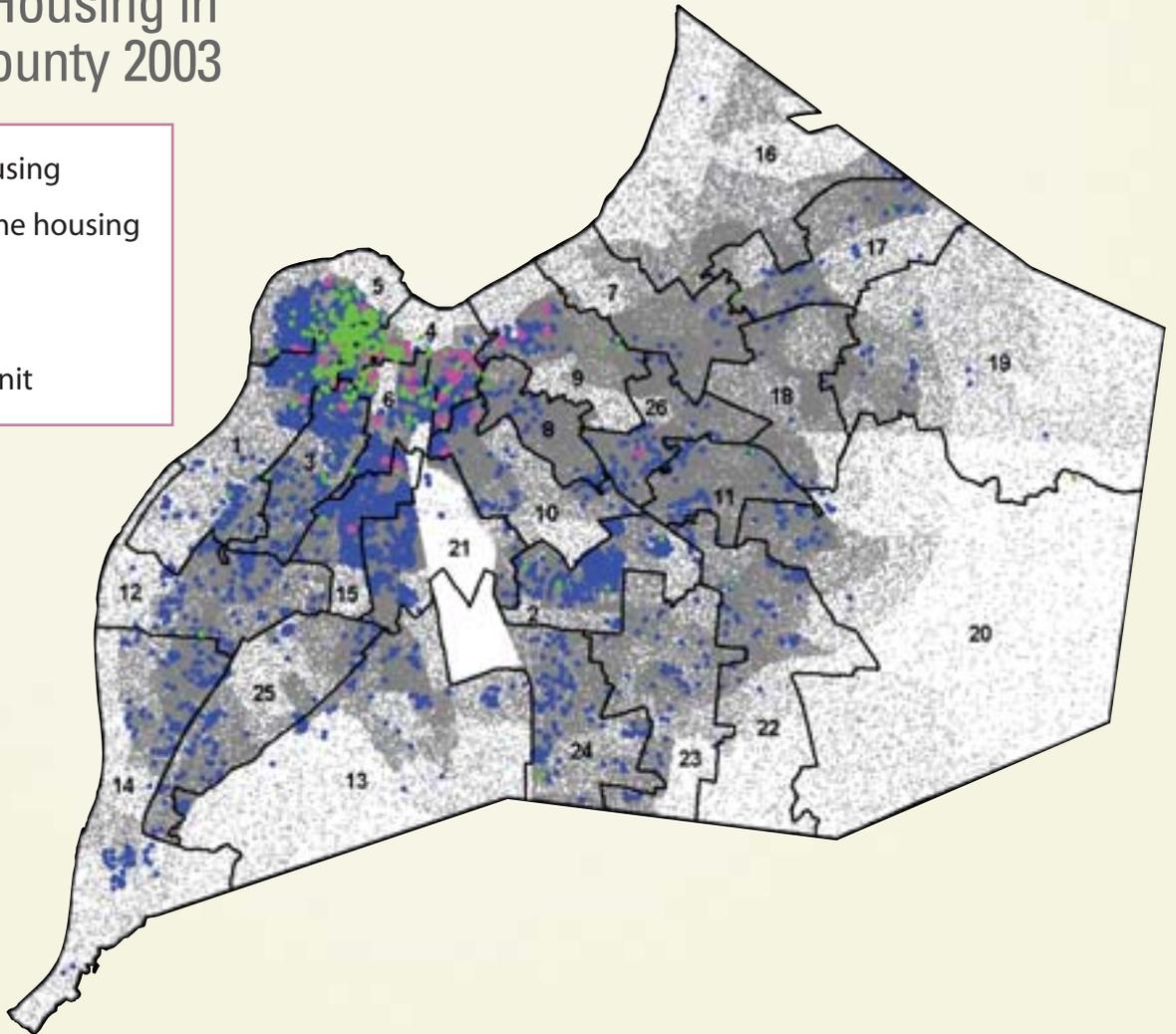
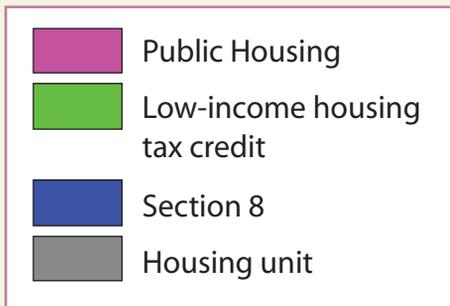
Low Income Housing Tax Credit units are also highly concentrated, with disproportionately high numbers in Districts 1, 3-6, 8, and 9, as well as Bullitt and Scott Counties. Some 51% of Tax Credit units would have to be relocated to other districts or counties to be distributed in proportion to the population. Last year, we reported that 53% of these units would have to be relocated, indicating that there has been a small improvement in the distribution of these units.



MHC advocates increasing subsidized housing opportunities for all people in all areas of the region.



Subsidized Housing in Jefferson County 2003



measures of housing conditions

MEASURE 2

housing segregation by race and income

Concentrated poverty and racial segregation in neighborhoods builds walls between families and access to services, educational attainment, and job opportunities that offer families sustaining wages. MHC continues to advocate for policies that will reverse housing segregation and increase opportunities for all families in the region.

According to the 2003 American Community Survey, the number of people living in poverty in Jefferson County increased to 97,425 from 84,114 in 2000, raising the percentage of the total population in poverty from 12.4% to 14.2%, a significant move in the wrong direction.

Concentrated poverty in some areas of the Louisville MSA, particularly in Louisville Metro Council Districts 1 through 6, 13, 15, and 21, affects much more than those individual families

living in poverty. Homeowners in high poverty neighborhoods do not build assets as steadily as those in neighborhoods with less concentrated poverty, where home values keep pace with regional housing values. At the same time, the concentration of poverty in or near the central business district detracts from a vital, growing business core.

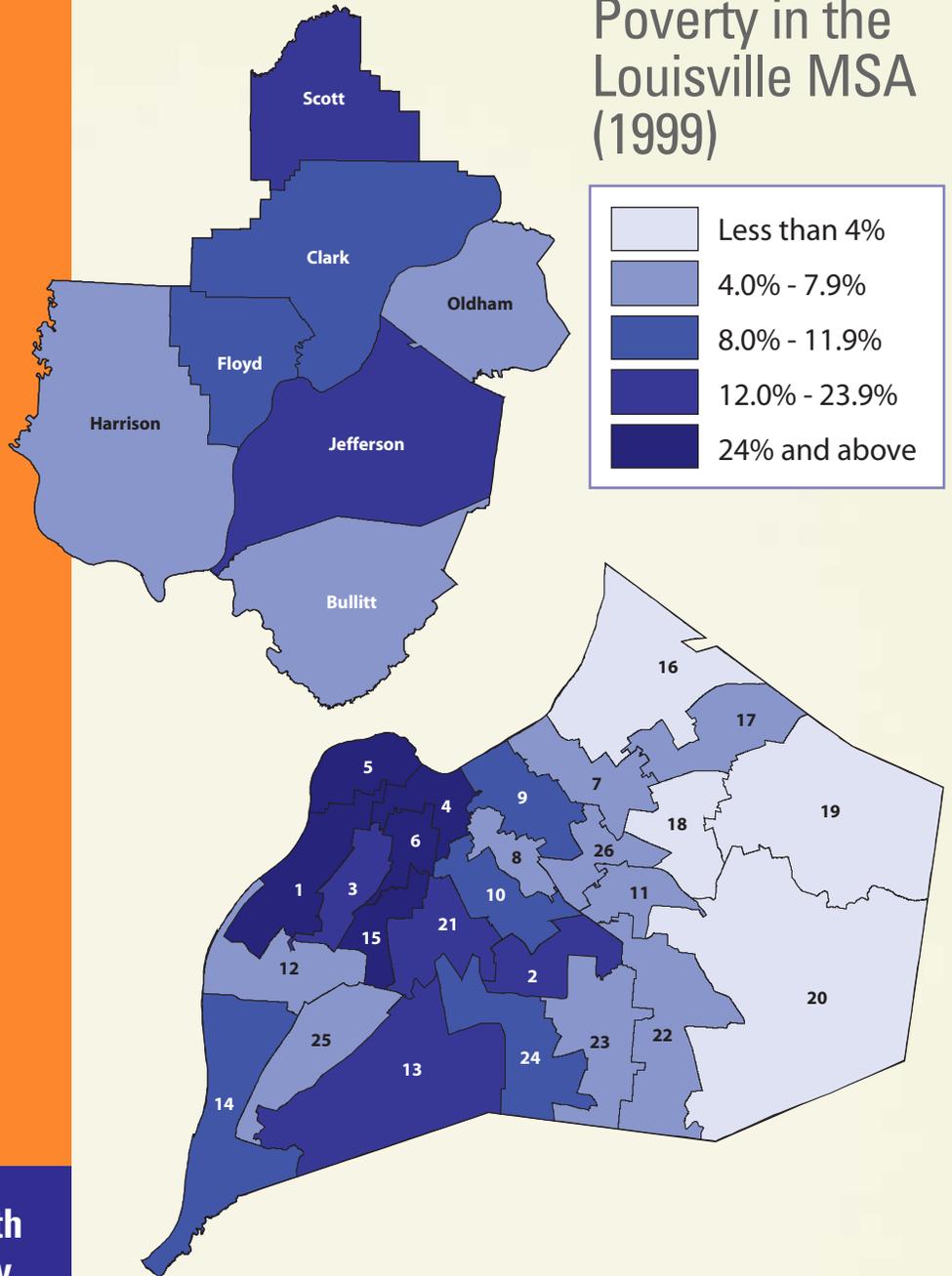
While poverty in the Louisville MSA overall became less concentrated during the 1990s, racial segregation remains the great divide, particularly among Louisville neighborhoods. This division is in large part linked to lower incomes among African American families. In the 2000 Census, 25 percent of African American families in the Louisville MSA were living in poverty, making them three times more likely to live in poverty than all families.



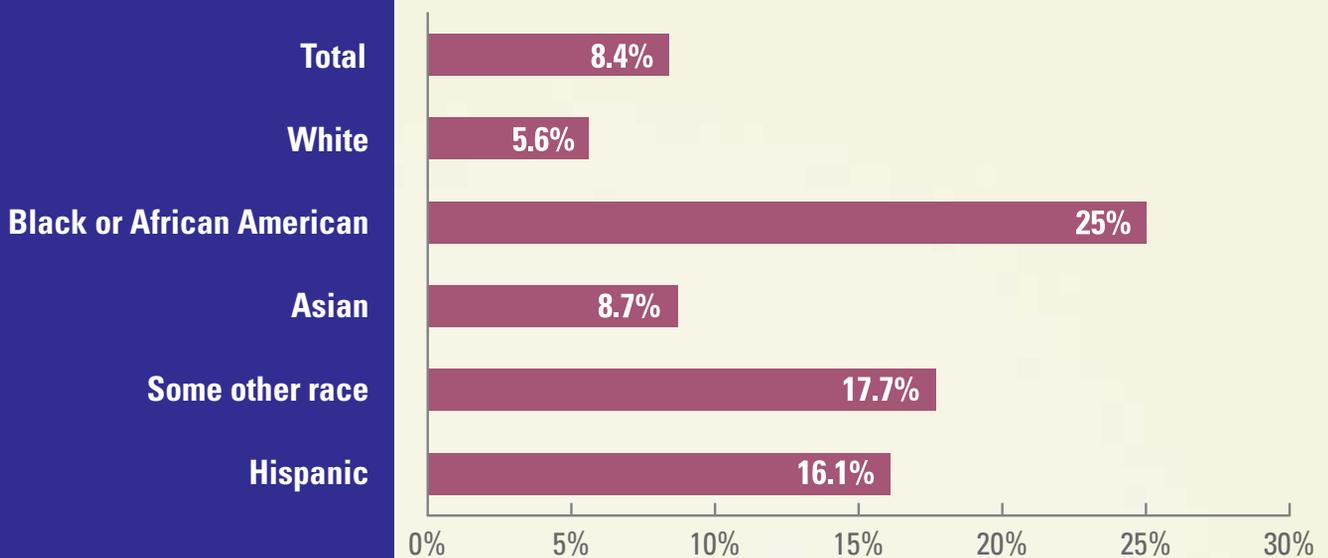
MHC continues to advocate for policies that will reverse housing segregation and increase opportunities for all families in the region.

In 2003, the number of people living in poverty in Louisville Metro rose to 97,425, or 14.2% of the population.

Poverty in the Louisville MSA (1999)



Percent of Families with Incomes Below Poverty Louisville MSA, 1999



measures of housing conditions

MEASURE 3

renters with excessive cost burden

In the metropolitan region, a third of all renters experience an excessive housing cost burden – making them more likely to experience hunger, homelessness or to forgo other necessities to meet the rent payment. MHC is working hard to protect the programs and income supports that provide low-wage workers the opportunity for stable housing.

According to the U.S. Department of Housing and Urban Development, a low-income household paying more than 30% of income on gross rent (which includes utilities) has an “excessive” housing cost burden.

In 2003, the American Community Survey reported that the percentage of renters with excessive cost burdens in Jefferson County had risen to 42.3% of all renters, up from 36.2% in 2000. This is a significant increase for Louisville families

who find it difficult to balance housing with other necessities such as health care, child care, and transportation.

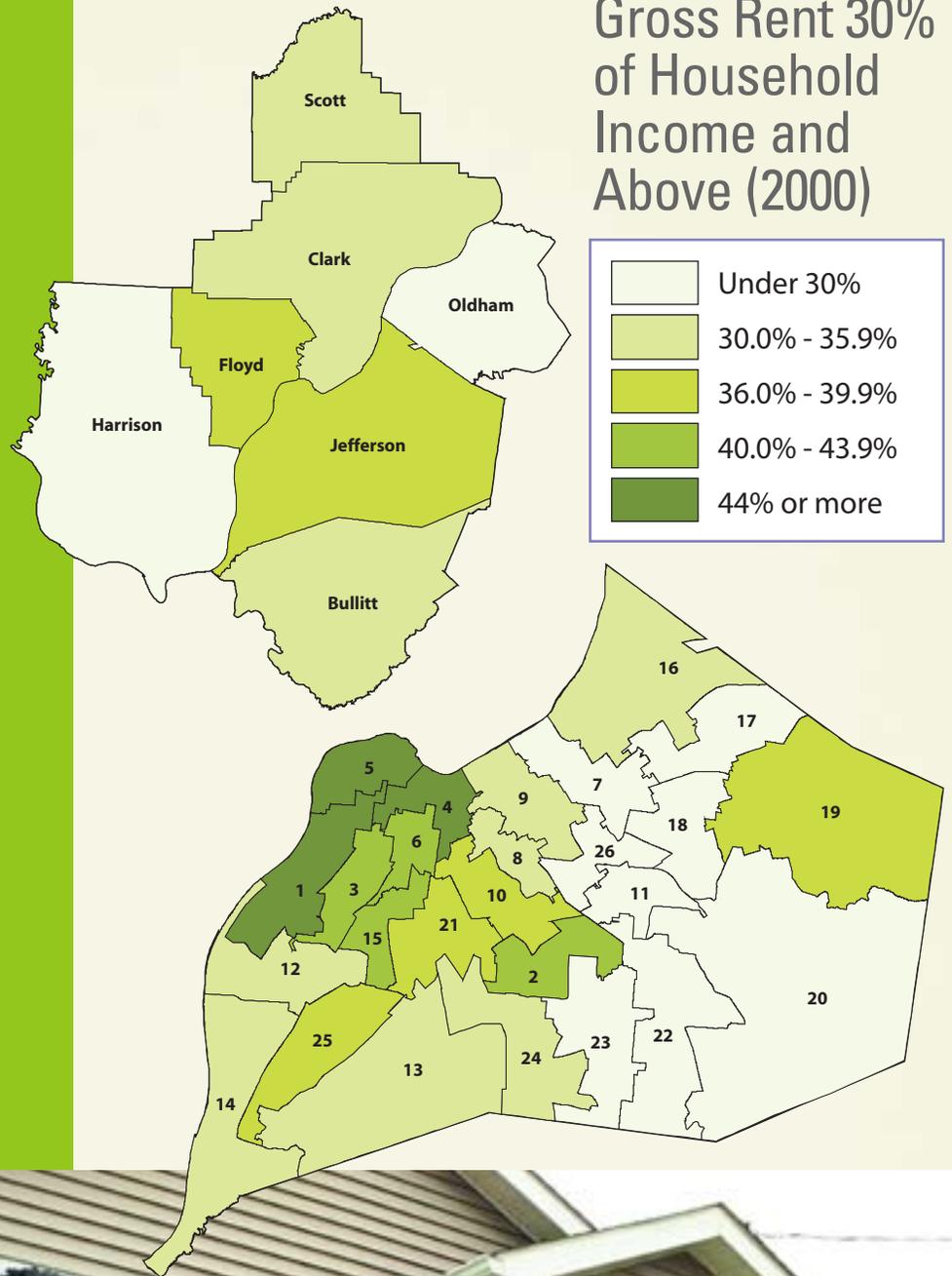
For the Louisville MSA, the 1990 census reported that 35.3% of renters paid more than 30% of income on gross rent. By 2000, the percentage paying more than 30% had dropped slightly to 33.1%. Most of these renters were low income. For example, in 2000, 64.6% of renters with incomes less than \$10,000 and 67.8% of renters with incomes between \$10,000 and \$20,000 experienced excessive cost burdens. The largest concentrations of renters with excessive cost burdens were in low-income neighborhoods: In Districts 1 through 6 and 15, more than 40% of renters paid more than 30% of income on gross rent.



MHC is working hard to protect the programs and income supports that provide low-wage workers the opportunity for stable housing.

In 2003, the percentage of renters with excessive cost burdens in Louisville Metro rose to 42.3% of renters.

Gross Rent 30% of Household Income and Above (2000)



measures of housing conditions

MEASURE 4*production and rehab of affordable rental housing*

In recent years, in lieu of increased federal investments for affordable rental housing, there has been a greater emphasis on the provision of homeownership opportunities. MHC believes that increasing foreclosure numbers may indicate that many families are not yet ready to purchase a home, or maintain homeownership, which highlights the need for a greater focus on affordable rental housing.

There are three primary low-income rental housing subsidy programs in the federal budget; the Section 8 existing-housing tenant-based voucher program, the public housing program, and the Low Income Housing Tax Credit (LIHTC).

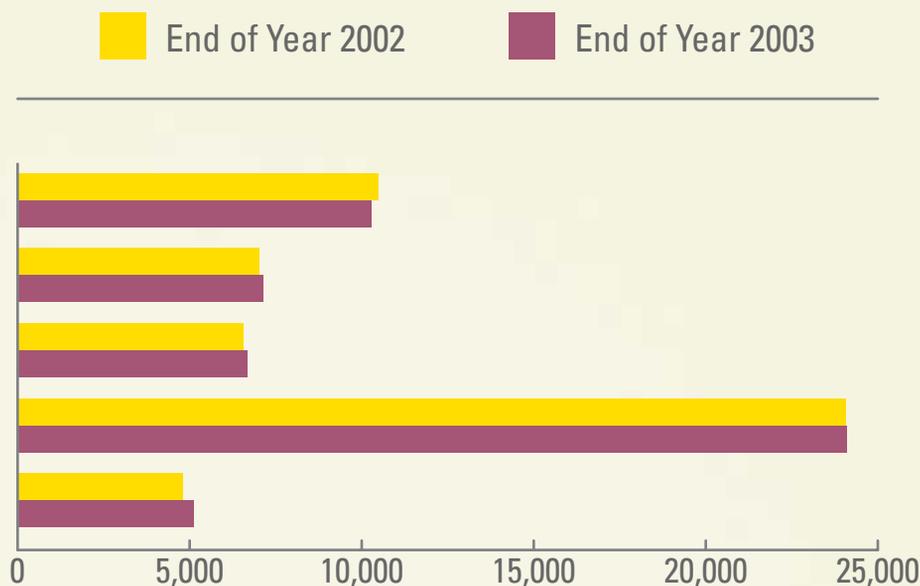
At the end of 2003, there were 24,109 public housing and Section 8 tenant and project based units combined allocated to the various housing authorities in the Louisville MSA, an overall gain of 62 units since 2002. While the MSA experienced a loss of 201 Section 8 tenant-based

vouchers since 2002, there was an increase of 148 Section 8 vouchers in Jefferson County. The numbers of public housing units in both Clark and Floyd Counties remained constant, but the number in Jefferson County increased by 153, in large part due to acquisition of new scattered site housing in preparation for the HOPE VI revitalization in Clarksdale.

The total number of public housing units reported at the end of 2003 included 714 units in the HOPE VI revitalization of Clarksdale. Beginning in 2004, these units will be demolished. However, the Louisville Metro Housing Department has committed to the replacement of each unit incrementally over a two-year period, with full replacement to be completed by 2006.

Numbers of Subsidized Rental Housing Units, Louisville MSA

Section 8 Vouchers
Section 8 Project Based
Public Housing
Section 8 and Public Housing
Low Income Housing Tax Credits



measures of housing conditions

MEASURE 5

homeownership rate

In the Louisville metropolitan region, homeownership patterns reflect neighborhood segregation and poverty levels. Furthermore, foreclosure rates strongly reflect the same patterns indicating a clear lack of opportunity across the metropolitan region. MHC advocates for increased homeownership opportunities for all families, supported by the sustained incomes and financial management skills necessary to maintain homeownership.

There is tremendous variation in homeownership rates in Jefferson County, ranging from a low of 25.9% in District 4 to a high of 85.9% in District 20. Of the outlying counties, Scott had the lowest rate at 70.0% and Oldham had the highest rate at 86.8%.

While homeownership among white residents in Louisville Metro increased from 69 to 71 percent from 1990 to 2000, homeownership rates for African American residents fell from 42 percent to 40 percent, in contrast to a national trend of increased homeownership among all racial categories.

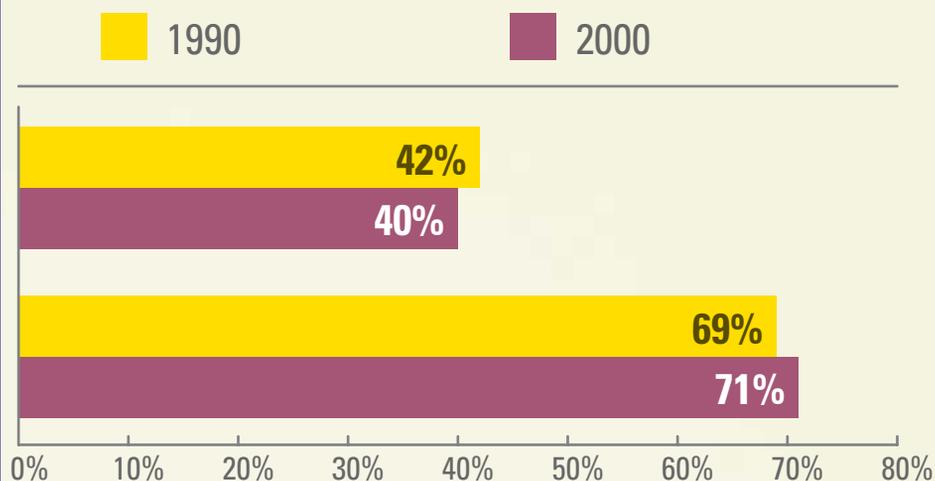
In neighborhoods with the highest concentrations of low-income families, we see the most severe declines in homeownership. At the same time, the startling rise in foreclosure rates indicates that many families are purchasing homes without the capacity to keep one step ahead of their mortgage payments. In fact, in 2000 in the Louisville MSA, 7.7% of homeowners spent more than half their incomes on their mortgages.

According to the 2000 census, the homeownership rate for the Louisville MSA was 68.6%, representing a one-percentage point increase over the rate for the same set of counties as reported in the 1990 census. In Jefferson County, the homeownership rate increased from 64.5% in 1990 to 64.9% in 2000. While the 2003 American Community Survey reported a slight drop in Jefferson County's homeownership rate (from 64.9% to 64.5%), the decline was not enough to indicate a trend.

Homeownership in Louisville Metro by Race, 1990 and 2000

Black

White



measures of housing conditions

MEASURE 6

affordability of homeownership

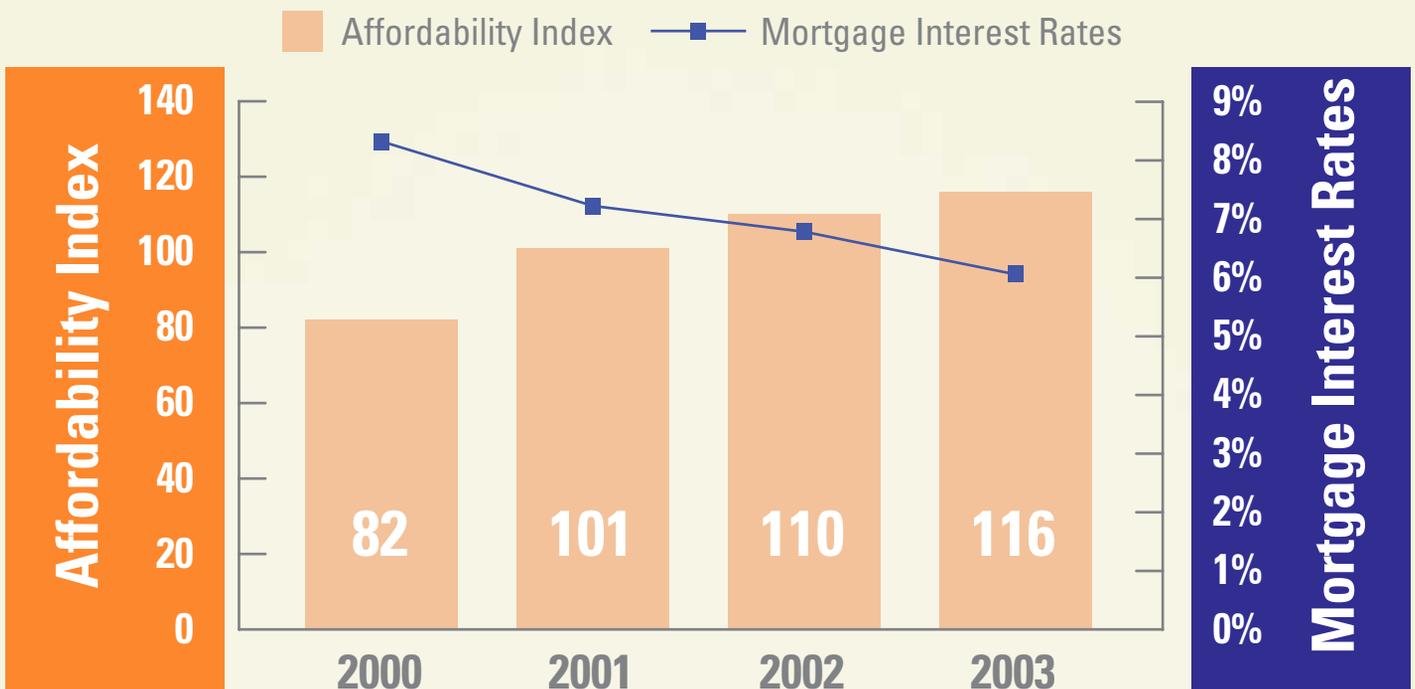
Homeownership continues to be generally affordable for the average first-time homebuyer in the metropolitan region. However, after overcoming the affordability hurdle, homebuyers face the challenge of maintaining homeownership. As this report indicates, for an increasing number, qualifying to purchase a home does not mean that buyers have the ability meet their mortgage obligations. MHC advocates for the increased availability of first-time homebuyer education opportunities to help families make their best decisions regarding property choice and loan terms when purchasing their home.

The First-Time Home Buyer Affordability Index for the Louisville region tracks the affordability of homes to first-time buyers. A higher ratio indicates that homeownership is more affordable and

a lower ratio implies that homeownership is less affordable. Ratios below 100 indicate that a family at about 70% of median income cannot afford a home priced at 85% of the median for all houses sold.

The affordability index has risen over the past several years from 82 in 2000 to 116 in 2003, meaning that purchasing a first home has become more affordable, allowing an increasing number of renters to become owners. As interest rates continue to fall and median incomes rise, this trend should continue despite the gradual, but steady, increase in home values.

First Time Homebuyer Affordability Index



measures of housing conditions

MEASURE 7

foreclosure rate

see page 8



“It may be that the foreclosure rates are the canary in the coal mine, compelling more extensive examination of our homeownership goals for the region.”

metropolitan housing coalitions

MEASURE 8

numbers of homeless

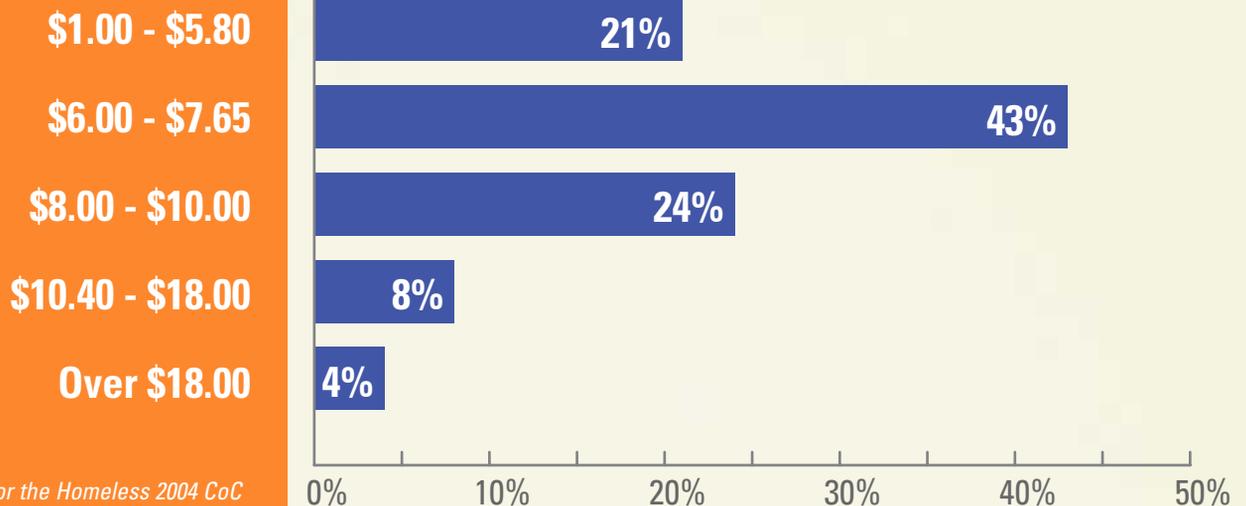
In the metropolitan region, homeless shelters provided services to over 12,000 people last year. More than one in four were employed, but unable to afford decent housing. To decrease this community's homeless population, MHC advocates reducing the gap between available wages and the cost of housing.

Estimates tell us that 0.9% and 1.3% of the national population experiences homelessness during the course of a year.⁸ In the Louisville MSA, the majority of shelters for the homeless are found in Jefferson County. Data collected by the Coalition for the Homeless indicate that some 11,032 men, women, and children used shelters in Jefferson County during 2003. In Clark County, Indiana, Haven House adds another 1,623 persons to the MSA statistics. In addition, the Scott County Community Clearinghouse served 190 families in

2003. In total, these numbers represent about 1.3% of the estimated MSA population for 2003 — the upper limit of the national range of homeless population estimates.

According to the National Low Income Housing Coalition's report *Out of Reach 2003: America's Housing Wage Climbs* report, in order for a person living in the Louisville MSA to afford a two bedroom apartment at fair market rent, he or she must earn \$11.21 per hour, for forty hours a week. A January 2004 survey of 866 homeless shelter residents in Jefferson County indicated that more than one in four were employed. While data do not indicate whether they were employed in temporary, seasonal, or full-time, year-round work, below are the wages they reported earning.

Wages Earned by Homeless Population in Louisville Metro, 2003



Source: The Coalition for the Homeless 2004 CoC Point-in-Time Survey, Louisville Metro

measures of housing conditions

MEASURE 9

use of CDBG funds

Community Development Block Grant funds are the most significant infusion of funds for housing and neighborhood development in the metropolitan region. MHC advocates prudent use of these funds to increase housing opportunities for low-income families.

Within the Louisville MSA, CDBG funds, administered by the U.S. Department of Housing and Urban Development, are allocated to Louisville Metro and the City of New Albany. Other local governments must apply to the Indiana Housing Finance Authority or the Kentucky Department of Local Government for CDBG funds. HUD stipulates that funds are to be used to aid low- and moderate-income persons.

In 2003, Louisville Metro operated under its first CDBG budget as a merged city. The total combined CDBG entitlement funds for Jefferson County and the former City of Louisville in 2002 were roughly \$15.5 million. In 2003, the Louisville Metro total budget was \$14.5 million, a loss of about \$1 million for housing and community development. However, under the new merged budget, administrative costs associated

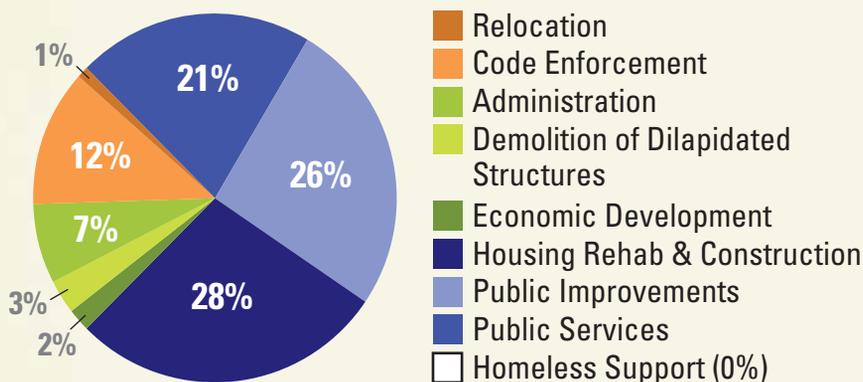
with CDBG in Louisville Metro dropped by almost two-thirds (64%), creating a savings of over \$1.2 million.

In 2003, expenditures in housing, public improvements, and public services dropped significantly from previous years, as nearly \$5 million of budgeted CDBG dollars went unspent. These funds are available for allocation in 2004. In 2003, the greatest expenditures of CDBG funds were for housing rehab and construction at 28 percent of the budget. Close behind housing related supports were public improvements such as park, sidewalk, and street improvements and public services such as vacant lot clean-up efforts and child care vouchers.

In the City of New Albany, 32 percent of the total CDBG budget was allocated to housing (rental and rehab or construction), and 48 percent was allocated to community development projects, most of which targeted youth service programming such as after-school activities. The total CDBG budget for the City of New Albany dropped by five percent (\$46,000) from \$919,000 in 2002 to \$873,000 in 2003.

Community Development Block Grant Expenditures Louisville Metro, 2003

Total \$9,531,158



Louisville Metro CDBG Expenditures, 2003

Economic Development	\$ 150,000
Clearance (Demolition of Dilapidated Structures)	\$ 270,276
Administration	\$ 689,040
Homeless Support	\$ 23,362
Code Enforcement	\$ 1,148,938
Relocation	\$ 104,255
Housing Rehab & Construction	\$ 2,704,256
Public Improvements	\$ 2,485,115
Public Services	\$ 1,955,916
Total Expenditures	\$ 9,531,158

appendix

DATA SOURCES

Measure 1: Concentration of Subsidized Housing, *pg 15*

Statistics on subsidized housing by council district were obtained by geocoding administrative data by street address and then capturing the data for the districts.

Subsidized housing data were provided by the Louisville Metro Housing Authority, the US Department of Housing and Urban Development, the Kentucky Housing Corporation, and the Indiana Housing Finance Authority.

The population data (used as the basis for assessing the geographic distribution of subsidized units) are drawn from the 2000 census Summary File 1. Within Jefferson County, census block group data were aggregated to obtain statistics for the districts. Where a district boundary split a block group, the data were partitioned by overlaying a land use map on a map of the LOJIC master address file. Residential addresses were then captured for each “split” and census data were allocated to the “splits” based on their share of residential addresses in the entire block group.

Measure 2: Segregation by Race and Income, *pg 17*

The poverty and minority data are drawn from the 1990 and 2000 census Summary File 3. Minorities were defined to be everyone except non-Hispanic whites. Census block group data were aggregated to obtain statistics for the districts. Where a district boundary split a block group, the data were partitioned using by overlaying a land use map on a map of the same technique as for Measure 1.

Residential addresses were then captured for each “split” and census data were allocated to the “splits” based on their share of residential addresses in the entire block group. We compared the number of persons in poverty with the number of persons for whom poverty level was determined (rather than the total population) in each geographic area.

Measure 3: Renters with Excessive Cost Burdens, *pg 19*

The cost burden data were drawn from the 1990 and 2000 census Summary File 3. Census block group data were aggregated to obtain statistics for the districts. Where a district boundary split a block group, the data were partitioned using by overlaying a land use map on a map of the same technique as for Measure 1. Residential addresses were then captured for each “split” and census data were allocated to the “splits” based on their share of residential addresses in the entire block group. American Community Survey data, specific to Louisville Metro as a whole, reflect 2003 sample data on renters with excessive cost burdens.

Measure 4: Production and Rehabilitation of Affordable Rental Housing, *pg 21*

Subsidy data were obtained from the Indiana Housing Finance Authority, Kentucky Housing Corporation, Louisville Metro Housing Authority, New Albany Housing Authority, Jeffersonville Housing Authority, Charlestown Housing Authority, Sellersburg Housing Authority, and the Indiana and Kentucky offices of the U.S. Department of Housing and Urban Development (HUD). Section 8 and Public Housing numbers refer to units allocated by HUD; LIHTC numbers refer to units in service.

Measure 5: Rate of Homeownership, *pg 22*

Two measures for homeownership are presented. The 2000 Census asks households to state whether they are owner occupants or renters. American Community Survey data, specific to Louisville Metro as a whole, reflect 2003 sample data on whether those surveyed are owner occupants or renters. The definition of the Louisville metropolitan area changed between 1990 and 2000, and between 2000 and 2004; however, we report 1990 data for the same counties as those included in the 2000 census.

appendix

DATA SOURCES

Measure 6: Affordability of Homeownership, *pg 23*

The Kentucky Real Estate Commission affordability indexes (1990-2000) are produced by the Center for Real Estate Studies at the University of Kentucky and are published on the World Wide Web at <http://gatton.uky.edu/CRES/>. The first-time home buyer indexes were updated for 2001 and 2002 using the method described on that web site. House price data for the Louisville region are obtained from the Greater Louisville Association of Realtors. For 2001-2003, the first-time homebuyers affordability index for the Louisville MSA was calculated by the Metropolitan Housing Coalition based on the following assumptions: median purchase prices for first-time home buyers are about 15% lower than the median for all houses sold; first-time buyers make a 10% down payment; consequently they must pay for mortgage insurance, which increases the cost of financing; and first-time homebuyer incomes are about 30% lower than median household incomes.

Measure 7: Mortgage Foreclosures, *pg 24*

Court records regarding foreclosure data are maintained differently in the two jurisdictions of the Louisville MSA. Therefore, for all Kentucky counties in the Louisville MSA, The foreclosure rate is defined as the number of actual foreclosures (or orders of sale) as a percentage of the number of owner-occupied homes with mortgages. The foreclosure rates for Indiana counties in the MSA reflect the number of foreclosures filed as a percentage of the number of owner-occupied homes with mortgages for all Indiana counties in the MSA. The number of foreclosures was obtained from the relevant court clerks in each county. The number of owner-occupied homes with mortgages was obtained from the 2000 census Summary File 3.

Measure 8: Number of Homeless, *pg 25*

Shelter usage data were provided by the Coalition for the Homeless for the Kentucky counties and Haven House and Scott County Community Clearinghouse for the Indiana counties. The data may include some duplication of individuals. The wage data for individuals using homeless shelters were provided by the Coalition for the Homeless, based on a survey conducted by The Coalition for the Homeless of persons living in Louisville area shelters in 2004, the *CoC Point-in-Time Survey*.

Measure 9: Targeting of CDBG Funds, *pg 26*

Data were obtained from Louisville Metro Housing and Community Development and the New Albany Economic and Redevelopment Department.

appendix

DEFINITIONS

CDBG - The Community Development Block Grant program (CDBG) is a federal program aimed at creating prosperous communities by providing funds to improve housing, the living environment, and economic opportunities, principally for persons with low and moderate incomes. The CDBG program was established in 1974. At least 70 percent of the CDBG funds received by a jurisdiction must be spent to benefit people with low and moderate incomes. The remaining 30 percent can be used to aid in the prevention or elimination of slums and blight or to meet an urgent need such as earthquake, flood, or hurricane relief.

Emergency Shelter - Emergency shelter is basic, overnight accommodation provided for persons and families. The shelter is generally for one night only, and provides a cot for sleeping and perhaps a meal. Shelters typically provide service referrals to clients.

HOPE VI - The Housing Opportunities for People Everywhere VI grants allow a public housing authority to eliminate severely distressed public housing. Under the program, demolished housing is to be replaced with mixed income housing. Market-rate housing may be built alongside housing for households with varying income levels, financed through other programs such as Low Income Housing Tax Credit. Often HOPE IV projects decrease the overall density of the housing. The program also encourages the development of amenities such as schools, stores, parks, and community centers. The Louisville Metro Housing Authority has been awarded two HOPE VI grants: one to revitalize the former Cotter and Lang projects in Park DuValle, and one to revitalize the Clarksdale public housing site.

HUD - The United States Department of Housing and Urban Development is the cabinet level department of federal government whose mission is to ensure "A decent, safe, and sanitary home and suitable living environment for every American." HUD allocates federal funds for housing to states and local governments and public housing authorities.

Louisville KY-IN MSA - In 2004, the Louisville MSA was redefined by the U.S. Census Bureau to include the following counties: Clark (IN), Floyd (IN), Harrison (IN), Washington (IN), Bullitt (KY), Henry (KY), Jefferson ((KY), Meade (KY), Nelson (KY), Oldham (KY), Shelby (KY), Spencer (KY), and Trimble (KY). The total population of the Louisville KY-IN MSA in 2000 was 1,182,832.

Louisville MSA - The Louisville Metropolitan Statistical Area, MSA, is a geographic definition used to discuss regional trends. As of June 2003, and for the purposes of this report, the Louisville MSA comprised Bullitt, Jefferson and Oldham counties in Kentucky and Clark, Floyd, Harrison and Scott counties in Southern Indiana. The total population of the Louisville MSA in 2000 was 1,039,599.

Low Income - HUD defines low income as being 80 percent or less of metropolitan area median family income. This figure is adjusted for the size of the family.

Low Income Housing Tax Credit - Created by the Tax Reform Act of 1986, the Low Income Housing Tax Credit (LIHTC) has assisted in the production of more than one million affordable homes for low-income renters by providing investors in eligible affordable housing developments with a dollar-for-dollar reduction in their federal tax liability. Developers, including nonprofit community-based organizations, typically do not have sufficient tax liability to use the tax credits, so they sell the credits to corporations. Corporations purchase 98 percent of all housing credits, as tax code rules effectively prevent individuals from investing. Developers then use the cash they receive from the corporations to finance the affordable housing. The Credit accounts for most new affordable apartment production and drives up to 40 percent of all multifamily apartment development.

There is some overlap between LIHTC and Section 8. For this reason, LIHTC units are presented separately from units subsidized by the other programs.

appendix

DEFINITIONS

Median Income - Median income is the midpoint of the income distribution; 50 percent of families are above the median and 50 percent are below the median.

Moderate Income - HUD defines those of moderate income as having income greater than 80 percent up to 120 percent of area median income.

Poverty Threshold - The US Department of Health and Human Services defines the poverty threshold and, except for adjustments for household composition, it is the same across the 48 contiguous states. The original poverty thresholds were developed in the early 1960s and they have been revised annually by the Consumer Price Index since then. Poverty thresholds are significantly lower than the low-income thresholds defined by HUD.

Public Housing - The public housing program is the nation's oldest effort to provide decent and affordable housing for families, elderly persons, and people with disabilities who have very low incomes. Public housing was created in the 1937 Housing Act, and is owned and operated by public housing agencies (PHAs) that are chartered by the states in which they operate and governed by locally appointed or elected Boards of Commissioners.

Section 8 - Also called Housing Choice Vouchers, Section 8 is federal tenant-based rental assistance. It works two ways. One is by providing certificates and vouchers, each with different rental payment formulas. Housing vouchers are one of the major federal programs intended to bridge the gap between the cost of housing and the incomes of low wage earners and people on limited fixed incomes. The Housing Choice Voucher program provides flexibility and options by issuing vouchers to eligible households to help them pay the rent on privately owned units. Project-based Section 8 provides a housing subsidy directly to the leasing agent of buildings that are designated as Section 8 properties.

Subsidized Housing - The term subsidized housing refers to houses and multi-family dwellings (generally apartments) that receive some federal funding either in their construction, or in the form of assistance to families renting the units.

acknowledgements

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- 1 The American Community Survey is an annual Census Bureau survey that provides estimates of demographic, housing, social, and economic characteristics every year for all states, as well as for all cities, counties, metropolitan areas, and population groups of 65,000 people or more. Available on line at <http://www.census.gov/acs/www/>.
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- 5 Tempkin, Kenneth, Jennifer E.H. Johnson, and Diane Levy. *Subprime Markets and the Role of GSEs and Risk-based Pricing*, prepared by the Urban Institute for the U.S. Department of Housing and Urban Development, Office of Policy Development and Research, March, 2002.
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- 8 Burt, Martha, Laudan Y. Aron, Edgar Lee, and Jesse Valente, *Helping America's Homeless: Emergency Shelter or Affordable Housing*, Urban Institute Press, 2001.

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Supporting Members (cont'd)

New Albany Housing Authority
New Albany Redevelopment Commission
Presbyterian Community Center
Prudential Parks & Weisberg
Republic Bank & Trust Co.
River City Housing
Sacred Heart Village
Sandbek Corp/Service USA
Seven Counties Services
U of L School of Public Health
UFCW Local 227
Ursuline Sisters
Wellspring

Sustaining Members

AARP of Kentucky
Arcadia Apartments Community Center
Architectural Investments
Cabbage Patch
Cedar Lake Residences, Inc.
Choices, Inc.
Cloister LTD Partnership
Community Builders
Day Spring
Dreams With Wings, Inc.
Fairness Campaign
Fannie Mae
FBM Properties
Greater Louisville Inc.
Habitat for Humanity
HCK
Honeywell DMC Services
Housing Associates
JFVS
Kentucky Youth Advocates
Laneh Prospect and Land Management Corp.
Legal Aid Society
Louisville Community Development Bank
Louisville Metro Community Action Partnership
Louisville Metro Dept. of Human Service
Louisville Metro Lead Poison Prevention Project
Louis & Henry Group
Louisville Central Community Center
Louisville Metro Health Department
Marian Manor c/o IHM Church
Mental Health Assn. of Kentucky
Metro United Way
Miter Construction Co., Inc.
National Council of Jewish Women
Neighborhood Development Corp.
New Albany-Floyd County CHDO

Sustaining Members (cont'd)

Office of KY Legal Services Programs
Painters Local Union #118
Partners Mortgage, Inc.
Project Women
River Fields, Inc.
Sheet Metal Workers Local #110
SIHI c/o Haven House
St. Boniface Church
Thomas Jefferson Unitarian Church
U of L, School of Urban & Public Affairs
Urban Development Enterprise Group
Vision Homes LLC
Wesley House Community Services
Women 4 Women
YouthBuild Louisville

Neighborhood Members

ACLU of Kentucky
Americana Community Center
AU Associates
C.A.R.E. Kentucky
Centro Latino of Shelbyville
Cherokee Realty
Commonwealth Service Coordination
CWA Local #3310
Elderserve, Inc.
GuardiaCare
Heine Brothers Coffee
House of Ruth
Jewish Community Center
Kentucky Opportunities
Kentucky State AFL-CIO
KY Fair Housing Council
KY Jobs With Justice
Lanham and Associates
Louisville Tenants Association
Multi-County Clients Council
Neighborhood House
Nurses Professional Organization
PCOG's "We Can" CDC
Phoenix Hill Association
Pipe Fitters Local #522
Prevent4closures
Project Warm
Road Sprinkler Fitters Local Union 669
Shelby Park Neighborhood Corp.
Society of St. Vincent De Paul
TMG Properties, Inc.
United Crescent Hill Ministries
Zion Community Development Corp.



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