U.S Department of Housing and Urban Development
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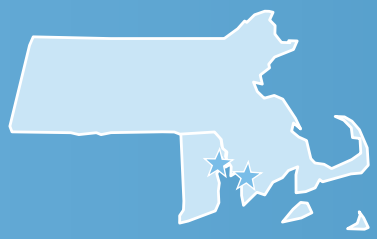


Spotlight on the Housing Market in the Providence-New Bedford-Fall River, RI-MA MSA

The Obama Administration's Efforts to Stabilize the Housing Market and Help American Homeowners | October 2013

The Providence-New Bedford-Fall River, RI-MA Metropolitan Statistical Area (Providence) is located in southeastern New England and includes the state of Rhode Island and Bristol County in Massachusetts. The foreclosure crisis in the Providence MSA developed somewhat differently than in most areas of the nation. Home price appreciation during the housing bubble in Providence peaked six months earlier and rose at a pace that was 28 percent greater than the national average. However, the decline in home prices during the second half of the bubble was virtually the same as the national average. Falling property values and the resulting underwater mortgages were partially fueled by investor speculation and excess housing construction in the years leading up to the housing crisis, but were primarily due to unsustainable mortgage lending and rising unemployment during the subsequent recession. From 2000 through 2006, the share of distressed mortgages in the Providence MSA–those 90 or more days delinquent or in the foreclosure process–were actually lower than comparable shares in the rest of the nation. In 2007, when the rapid rise of distressed mortgages in the nation began, the share of distressed mortgages in the Providence MSA soon followed suit. As with the nation, rapid increases in local mortgage distress continued in 2009 with the downturn in the economy. Economic and housing market conditions in the Providence MSA are improving, but the foreclosure crisis has taken its toll. The Administration's broad approach to stabilize the housing market has been a real help to homeowners in Providence and the surrounding cities. This addendum to the Obama Administration's Housing Scorecard provides a summary of trends and conditions in the local economy and the impact of the Administration's efforts to stabilize the housing market and help local homeowners.

Population Growth, Employment, and Housing Market:

With 1.6 million people according to the most recent Census, the Providence MSA is the 37th largest in the nation. From 2000 to 2010, the population increased by an average of nearly 1,800 people, or 0.1 percent a year. Natural population growth (births minus deaths) accounted for the entire net population increase. During the last decade, an average of nearly 2,400 people per year moved out of the Providence MSA. Those leaving the area reached an average of 10,350 per year from mid-2004 through mid-2007 when economic growth was sluggish.

Providence MSA Housing Unit Growth Outpaced Population and Household Growth During the Past Decade

Date of Census	4/1/2000	4/1/2010
Providence MSA Population	1,582,997	1,600,852
Annual Growth Rate	-	0.1%
Providence MSA Households	613,835	626,610
Annual Growth Rate	-	0.2%
Providence MSA Housing Units	656,755	693,923
Annual Growth Rate	-	0.6%

Source: Census Bureau (2000 and 2010 Decennial)

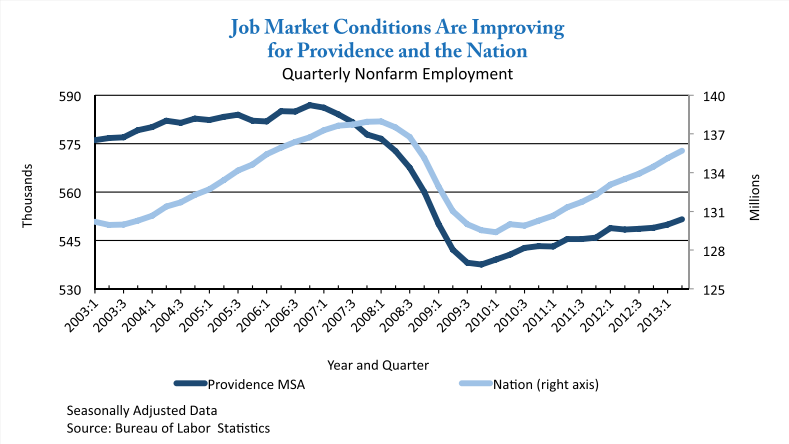
During the decade spanned by the Census, new housing production exceeded household growth in the Providence MSA. Net annual housing unit growth of 0.6 percent was greater than the corresponding population and household growth rates of 0.1 and 0.2 percent, respectively. This excess construction, while not as great as in some parts of the nation, nevertheless contributed to an oversupply of housing. According to the Census Bureau, the number of vacant units increased by an average of more than 2,450 units, or 5.7 percent annually during the 2000s compared with a 4.4-percent national increase. The excess supply of housing is likely to have contributed to the sharp decline in house prices that began in late 2005. Investor speculation, although less substantial than in some areas of the nation, was a factor in the overbuilding in the years leading up to the housing crisis, as a fairly large share of home purchases in the Providence MSA were by non-occupant investors. Specifically, from 2000 to 2005 investor home sales rose from 9.8 to 11.3 percent of total sales in the Providence MSA, while the corresponding increase for the nation was from 7.7 to 16.0 percent of sales. Subprime lending is likely to have contributed more significantly to the overbuilding in the Providence MSA. A study by the National Bureau of Economic Research shows that in 2005, Providence ranked 16th out of the top 107 metropolitan areas with the highest share of subprime mortgage originations relative to housing units. A conservative estimate based on HMDA (Home Mortgage Disclosure Act) data indicates that subprime originations tripled nationally between 1998 and 2005. According to a study by the Center for Responsible Lending, approximately 90 percent of subprime mortgages experience increases in monthly payments of 30 to 50 percent within a few years, causing subprime loans to typically default at more than 7 times the rate of other mortgages.

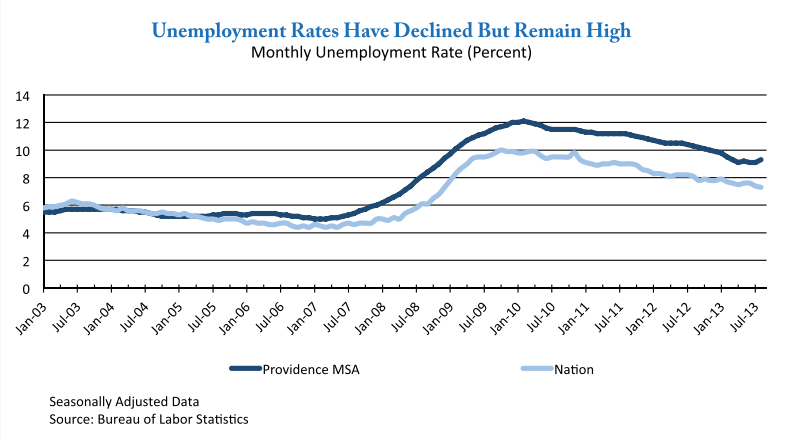
A modest economic recovery is underway in the Providence MSA. The local economy grew slowly before a steep decline that began in 2007. From the second quarter of 2003 through the fourth quarter of 2006, nonfarm payrolls increased at an average annual rate of 2,875 jobs, or 0.5 percent, compared

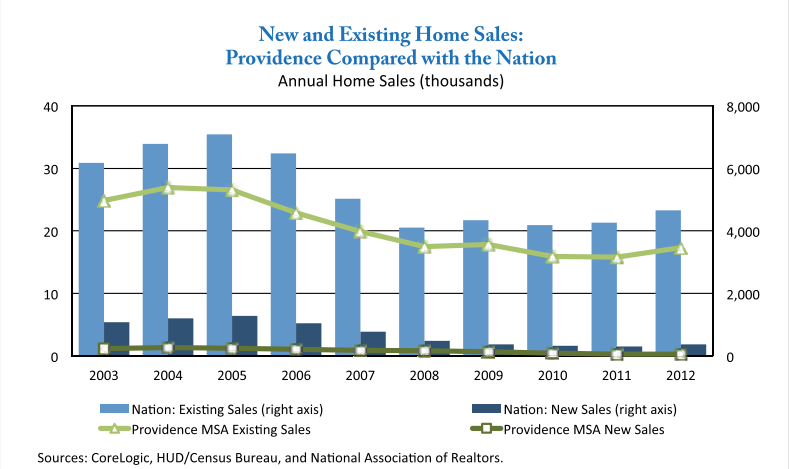
with a national increase of 1.3 percent during the same period. The impact of the 2007-2009 Recession was more severe for the Providence MSA than for the nation. Jobs in the Providence MSA declined at an average annual rate of 16,450, or 2.8 percent, from the first quarter of 2007 through the end of 2009, compared with a national annual decline of 1.8 percent during the same period. The recovery from the Great Recession has been weaker for the Providence MSA than for the nation, with jobs increasing at an average annual rate of 4,025, or 0.7 percent, from the first quarter of 2010 through the second quarter of 2013, compared with a national increase of 1.4 percent.

The Providence MSA is known for its hospitals and institutions of higher learning. During the recent recession, a period when every other private sector in the MSA lost jobs, the education and health services sector expanded at an average annual rate of 1,400 jobs, or 1.2 percent, a year. Job losses were most severe during this period in the construction and manufacturing sectors, which declined at average annual rates of 9.8 and 8.0 percent, respectively; declines were also substantial in the financial activities sector (4.8 percent). The recovery in Providence's economy has been led by leisure and hospitality and professional and business services sectors, which have expanded at average annual rates of 3.4 and 3.3 percent, respectively. The transportation and utilities sector (2.0 percent) and the financial activities sector (1.4 percent) also contributed to the expansion. Gains in the education and health services sector continued, but slowed to an average annual rate of 0.2 percent during this period. Growth in these sectors more than offset average annual job losses of 2.2 percent in the construction sector and 0.7 percent in the government sector. The unemployment rate for the Providence MSA peaked at 12.1 percent in February 2010 and has since fallen to 9.3 percent as of August 2013. The national unemployment rate peaked in October 2009 at 10.0 percent, falling to 7.2 percent by September 2013.

Home sales in the Providence MSA are beginning to improve. After reaching a peak of 26,950 units sold in 2004,existing home sales dropped by an average annual rate of 11 percent between 2006 and 2008 and continued to decline, although more slowly, from 2009 through 2011 at an average annual rate of 3 percent. Existing home sales began to rise again in 2012, increasing at an average annual rate of 10 percent (albeit on a low base) and reaching a pace of 17,300 homes sold during the year. New home sales also peaked in 2004 at 1,350 units, before falling each year from 2005 through 2011 by an average annual rate of 11 percent. New home sales stabilized during 2012, increasing by less than 1 percent to 300 homes sold.







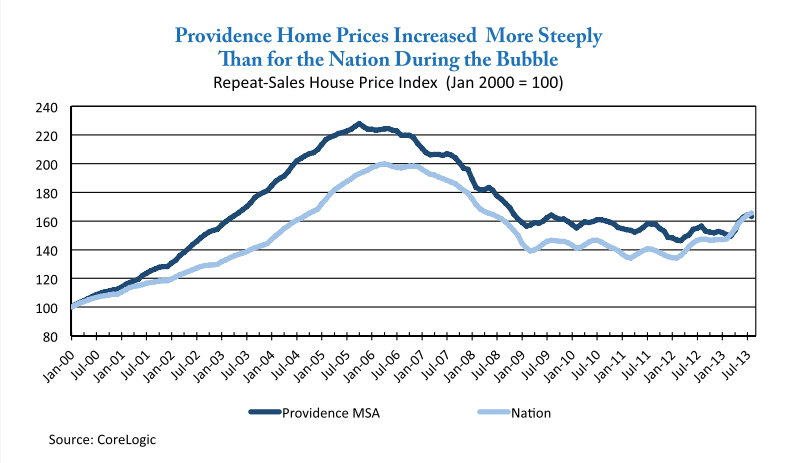
Providence MSA home prices rose more steeply than for the nation during the housing bubble. The CoreLogic repeat-sales house price index (HPI) shows that home prices in the Providence MSA peaked six months earlier and rose 28 percentage points higher than for the nation. However, the decline in home prices was nearly the same for Providence and the nation, with prices falling by 31 percent from their peak in October 2005 to their low in February 2009 in Providence, compared with a national peak-to-low

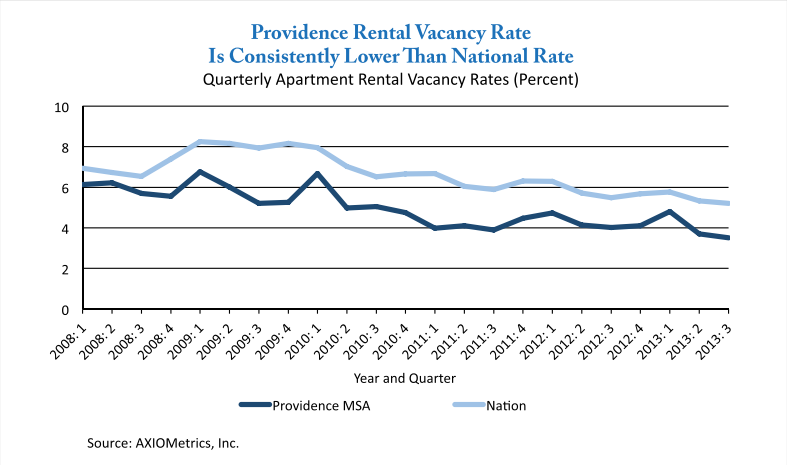
drop of 30 percent. The rise in home prices in Providence during the bubble was likely spurred by investor speculation, as home sales to investors averaged 12 percent during the upturn - slightly higher than the 11 percent share nationally. As described earlier, subprime lending is also likely to have spurred demand and fueled home prices. A relatively high level of distressed sales (involving bank-owned properties or short sales) played a role in the price decline in Providence, as distressed sales–at 14 percent of existing home sales during this period- -were equivalent to the national rate. Home prices in the Providence MSA have since increased by 4 percent from their February 2009 low, much less than a 19 percent increase for the nation since the end of the bubble. Data from the 2011 American Housing Survey, which included a survey of the Providence MSA among the metro areas surveyed on a rotating basis, indicate the cost of owning a home in Providence remains higher than that for the nation: median monthly housing costs (including utilities and real estate taxes) for owner-occupied units in Providence during 2011 were $1,309 compared to $1,008 at the national level.

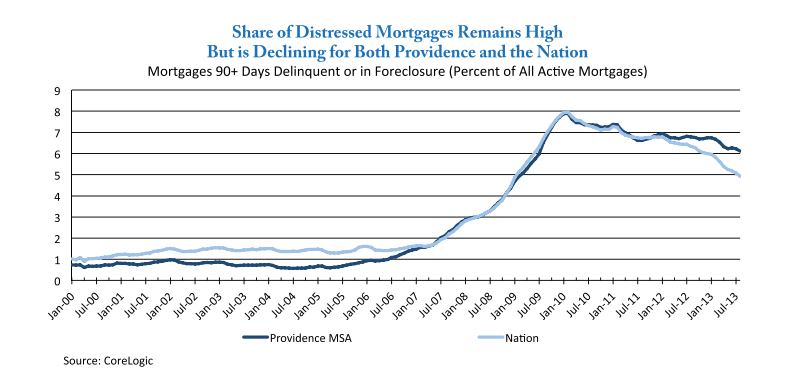
Although the rental market in the Providence MSA continues to be tight, construction activity remains low. According to AXIOMetrics, Inc., the Providence apartment vacancy rate was 3.5 percent in the third quarter of 2013, down from 4.0 percent a year earlier, representing tight market conditions. The slight decrease in the vacancy rate occurred because, despite increased renter demand, additions to the rental market were extremely limited during the past year. The national apartment vacancy rate declined from 5.5 to 5.2 percent over the same period. During the third quarter of 2013, the average apartment rent in the Providence MSA increased by 4.7 percent from a year earlier to $1,292; the average rent nationwide increased by 3.7 percent to $1,127 during the same period.

Trends in Mortgage Delinquencies and Foreclosures:

Providence homeowners continue to struggle with high rates of mortgages at risk of foreclosure. According to LPS Applied Analytics, as of August 2013, the Providence MSA placed 58th out of 381 metropolitan areas ranked by share of mortgages at risk of foreclosure (90 or more days delinquent or in the foreclosure process). LPS data show that mortgages at risk of foreclosure decreased by 34 percent during the last year in Providence from 11,350 in August 2012 to 7,550 in August 2013, compared with a national decline of 40 percent during the same period. A lengthy foreclosure processing timeline does not explain the high share of distressed mortgages in Providence. As of the second quarter







of 2013, the average time period to complete a foreclosure in Rhode Island was 259 days compared to a national average of 526 days. CoreLogic data indicate that from 2000 through 2006, the rate of mortgages at risk of foreclosure in the Providence MSA were consistently below the national rate. By 2007 and 2008, when the foreclosure crisis began for most of the nation, and single-family foreclosures were largely driven by unaffordable loan products, the increase in mortgages at risk of foreclosure in Providence paralleled the national trend. The share of mortgages in distress rose from 1.5 percent in Providence and 1.6 percent

in the nation in the beginning of 2007, to 4.4 percent for both by the end of 2008. Beginning in 2009, foreclosures were increasingly driven by loss of income, unemployment, and strategic defaults as the economy worsened, according to research by the Federal Reserve Bank of Chicago. A sharp spike upward in the rate of distressed mortgages occurred in 2009 for both Providence and the nation. By early 2010, mortgages at risk of foreclosure reached a peak of 8.0 percent nationally, and have since fallen to 4.9 percent. The share of distressed mortgages in the Providence MSA reached a peak of 7.9 percent in early 2010 but has fallen more slowly to 6.1 percent as of August 2013.

Realty Trac data indicate that the foreclosure completion rate in the Providence MSA has been lower than the national rate. As of August 2013, the number of foreclosure completions as a percent of all housing units in the Providence MSA since April 1, 2009 is 2.0 percent compared with a national rate of 2.7 percent. Foreclosure completions have been trending downward nationally as well as in Providence. During the third quarter of 2013, completed foreclosures in Providence were down 13 percent from a year earlier, while completed foreclosures in the nation declined 24 percent during the same period. During the third quarter of 2013, the rate of foreclosure completions as a percent of housing units in Providence was 0.07 percent, slightly lower than the 0.09-percent national rate.

Foreclosure Completion Rates in the Providence MSA

Area	Third Quarter 2013		Since April 1, 2009	
	Foreclosure Completions	Foreclosure Rate	Foreclosure Completions	Foreclosure Rate
Providence MSA	500	0.07%	13,850	2.0%
Nation	119,500	0.09%	3,546,500	2.7%

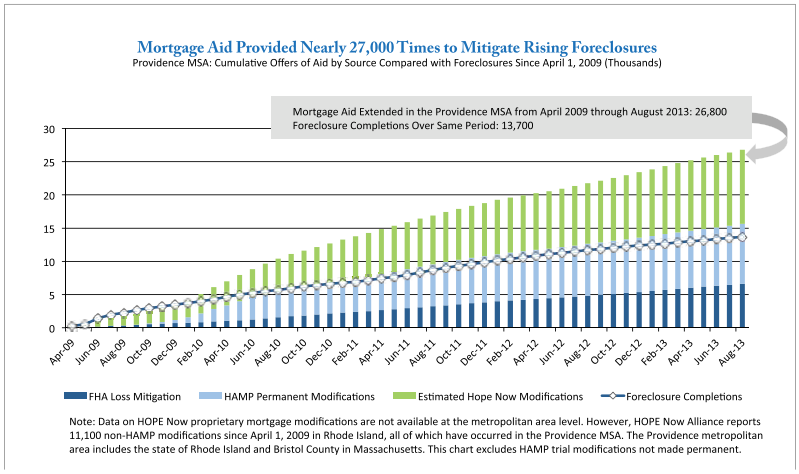
Note: Foreclosure Rates as Percent of All Housing Units;
Data through September 2013 for foreclosures since April 2009
Source: Realty Trac and Census Bureau

The efforts of numerous state and local entities and financial institutions in partnership with the federal government have helped contain the rate of foreclosures. A lengthy judicial process has also contributed to the national decline in foreclosure activity. Recent legislation in Rhode Island has had an impact on foreclosure activity as well as the share of distressed mortgages in the state. In mid-2011, a U.S. District Judge ordered a halt to all foreclosures in Rhode Island until serious attempts at mediation were made. This may be part of the reason why the foreclosure rate in Providence is lower than the nation, while the share of distressed mortgages is higher. In September 2013, however, the judge dissolved the injunction in response to an Appeals Court order and 825 pending foreclosures in Rhode Island will be impacted, which may lead foreclosure activity in Providence to temporarily increase. CoreLogic reports that 17.3 percent of mortgages in the Providence MSA were underwater as of the second quarter of 2013, down from 21.5 percent a year earlier, but higher than the 14.5 percent national rate- -still representing additional homeowners potentially at risk.

The Administration's Efforts to Stabilize the Providence MSA Housing Market:

The Administration's mortgage and neighborhood assistance programs–the Home Affordable Modification Program (HAMP), the Federal Housing Administration (FHA) mortgage assistance programs, the Neighborhood Stabilization Program (NSP), and the Hardest Hit Fund (HHF) program–combined with assistance from the HOPE Now Alliance of mortgage servicers and the National Mortgage Servicing Settlement have helped stabilize the Providence MSA housing market.

From the launch of the Administration's assistance programs in April 2009 through the end of August 2013, nearly 26,800 homeowners received mortgage assistance in the Providence metropolitan area. More than 15,600 interventions were completed through the HAMP and FHA loss mitigation and early delinquency intervention programs. An estimated additional 11,200 proprietary mortgage modifications have been made through HOPE Now Alliance servicers. While some homeowners may have received help from more than one program, the number of times assistance has been provided in the Providence MSA is nearly twice the number of foreclosures completed during this period (13,700). Under the landmark National Mortgage Servicing Settlement, more than 2,000 Rhode Island homeowners had benefitted from over $150 million in refinancing, short sales and completed or trial loan modifications, including principal reduction on first and second lien mortgages provided as of June 30, 2013. Nationwide, the settlement has provided more than $50 billion in consumer relief benefits to more than 640,000 families. That is in addition to the $2.5 billion in payments to participating states and $1.5 billion in direct payments to borrowers who were foreclosed upon between 2008 and 2011.



Given over three rounds, the **Neighborhood Stabilization Program** has invested $7 billion nationwide to help localities work with non-profits and community development corporations to turn tens of thousands of abandoned and foreclosed homes that lower property values into homeownership opportunities and the affordable rental housing that communities need.

NSP1 funds were granted to all states and selected local governments on a formula basis under Division B, Title III of the Housing and Economic Recovery Act (HERA) of 2008; NSP2 funds authorized under the American Recovery and Reinvestment Act (the Recovery Act) of 2009 provided grants to states, local governments, nonprofits and a consortium of nonprofit entities on a competitive basis; and NSP3 funds authorized under the Dodd–Frank Wall Street Reform and Consumer Protection Act of 2010 provided neighborhood stabilization grants to all states and select governments on a formula basis.

In addition to stabilizing neighborhoods and providing affordable housing, NSP funds have helped save jobs. Each home purchased, rehabilitated and sold through the NSP program is the result of the efforts of 35 to 50 local employees.

Overall, a total of $25 million has been awarded to the State of Rhode Island and the City of Providence through NSP1 and NSP3. Including program income earned, over $28 million will be expended in the Providence MSA. Approximately 365 households in the Providence MSA have already benefited from NSP, and activities funded by the program are expected to provide assistance to an additional 95 owner-occupied and renter households. Examples of how these funds have been put to use are provided below.

State of Rhode Island

- The **State of Rhode Island** received $19.6 million in NSP1 funds and $5 million in NSP3 funds. Including program income, the State has expended more than $26 million since 2008 to development activity within the Providence MSA. To date, the Rhode Island Neighborhood Stabilization Program has played a pivotal role in finding new homes for more than 300 families and revitalizing neighborhoods across the state. The State has also been very successful at targeting low-income households who are earning 50 percent of area median income or less. One of NSP's requirements is that grantees use at least 25 percent of their grant funds for the purchase and redevelopment of abandoned or foreclosed homes to house individuals or families whose incomes do not exceed 50 percent of area median income. The State's 25 percent requirement was $4.9 million, but the State has committed over $9.5 million for this set-aside requirement, far surpassing its original goal.

Providence MSA NSP Activity (Housing Units)	Projected	Completed
Rhode Island Federal Program		
NSP3 Total	**34**	**2**
Construction of new housing	5	0
Rehabilitation/reconstruction of residential structures	29	2
Rhode Island State Program		
NSP1 Total	**360**	**363**
Clearance and demolition	2	2
Construction of new housing	6	6
Homeownership assistance to low-and moderate income	178	136
Rehabilitation/reconstruction of residential structures	174	219
NSP3 Total	**66**	**0**
Construction of new housing	11	0
Rehabilitation/reconstruction of residential structures	55	0

The State awarded its NSP dollars to several community development corporations or non-profits working throughout its targeted neighborhoods in the Providence MSA. One such organization, SWAP Inc., a non-profit committed to providing affordable housing opportunities, has acquired and rehabilitated a vacant two family home into a four-bedroom unit that will be sold to an eligible family. Neighborworks Blackstone River Valley (NBRV), a community development corporation, is rehabilitating a multi-family foreclosed building into a nine unit rental property for families earning up to 50 percent of the area median income level. A third community developer, OMNI Development Corporation, is rehabilitating several foreclosed, vacant, and abandoned properties in the West End neighborhood of Providence into affordable rental housing.

City of Providence

- The **City of Providence** received more than $2 million in NSP1 funds from the State of Rhode Island and an additional $1.3 million as a direct recipient of NSP3 funds. In developing its NSP strategy, the City coordinated with its Green & Healthy Housing Initiative to achieve environmental sustainability goals. The City encouraged all applicants for funding to incorporate "green and healthy" design and construction principles in their proposals. The funds were used for demolition of severely deteriorating and abandoned homes and the construction of new homes for homeownership and rental, as well as extensive rehabilitation of foreclosed properties. To date, the City has been able to assist over 25 families to find decent, affordable housing with its NSP funding.

One example of the use of state-awarded NSP funds was the acquisition of an architecturally significant building by Community Works Rhode Island (CWRI) that was left neglected and vacant for nearly three decades. The home, referred to as the "Wedding Cake House," is located in the Broadway Local Historic District as well as the Broadway-Armory National Register District. The property was listed on the Providence Preservation Society's (PPS) Most Endangered Properties list in 2010 and was recently foreclosed upon. CWRI is working to rehabilitate the building to create five energy-efficient, affordable condos–2 one-bedroom, 2 two-bedroom, and 1 three-bedroom unit(s). CWRI is leveraging both NSP and HUD HOME dollars to renovate the property. HOME is a HUD grant program to States and localities that communities often use in partnership with local non-profit groups to fund affordable housing activities or provide direct rental assistance to low-income people.

The Administration allocated $79.3 million from its **Hardest Hit Fund** to the state of Rhode Island. Rhode Island Housing oversees the Hardest Hit Fund Rhode Island (HHFRI), which was launched in December 2010. On January 31, 2013, HHFRI became the first Hardest Hit Fund program in the country to stop taking applications because they reached full commitment of their allocated funds. As of June 30, 2013, the most recent quarter for which data are available, HHFRI had assisted 2,968 Rhode Island homeowners with $44.7 million, or 66% of their total program allocation. HHFRI helped homeowners at high risk of default or foreclosure through several programs: Loan Modification Assistance, Temporary and Immediate Homeowner Assistance, Moving Forward Assistance, Mortgage Payment Assistance – Unemployment, and Principal Reduction. For additional information, see http://www.hhfri.org/.