

# 2011 HOMES AND THE ECONOMY

## RHODE ISLAND AT THE MOMENT BY THE NUMBERS

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**The past decade has unquestionably proven the critical link between homes and the economy.** Good homes are needed for workers of all incomes. Home sales, renovation and construction make up a huge sector of our state domestic product. As everyone knows, and the numbers on the following pages dramatically demonstrate, over the past three and a half years, Rhode Island has been tested on both the home and economic fronts. During these challenging times, Rhode Island Housing has continued its commitment to provide good homes, ensure credit to homebuyers, create jobs, and ease the pain of those who may be losing a home. While we haven't been able to spare all of the pain, we have been able to do a lot.

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#### Rhode Island Housing has:

- Helped more than 2,000 families buy their first home during the past three years.
- Created an \$80 million foreclosure prevention program with funds from the U.S. Treasury.
- Financed the construction of 1,000 new affordable homes since 2007.
- Helped Providence, Warwick and Cranston create foreclosure mediation programs.
- Highlighted program to help homebuyers purchase and repair distressed properties.
- Focused construction in key neighborhoods, such as on Broad Streets in Pawtucket and Providence.
- Used federal stimulus funds to create exciting new housing opportunities from Tiverton to Burrillville.
- Ranked top-rated agency in use of TCAP stimulus funds.
- Targeted funding to populations with special concerns including male and female homeless veterans.
- Invested nearly \$10 million per year to combat homelessness.
- Formed an unprecedented interagency partnership creating KeepSpace communities where neighbors meet, people work and children play.



**Rhode Island Housing**  
working together to bring you home

# POPULATION

# JOBS

**POPULATION**  
 1990: 1,003,464  
 2000: 1,048,319  
 2010: 1,052,567

## Changing demographics

After two decades of steady growth, Rhode Island's population is leveling off. The 2010 Census revealed that Rhode Island had the smallest population growth of any state since 2000. Population stagnation is usually a symptom of broader issues, including the loss of jobs as well as the shortage of safe and healthy homes that are affordable to Rhode Islanders. While overall growth slowed, the state's minority population increased significantly with black, Hispanic and Asian populations growing by 23 percent, 44 percent and 28 percent respectively.

Already suffering from comparatively lower wages than its New England neighbors, such as Massachusetts and Connecticut, Rhode Island has exceeded the national unemployment rate since 2006, according to the U.S. Bureau of Labor Statistics. Since 2007, Rhode Island's unemployment has been ranked in the top 10 (out of 50 states and the District of Columbia), and second worst in the nation in 2008. With a labor force of approximately 575,000, the state's Department of Labor and Training (DLT) estimates there was an unemployed workforce of more than 68,500 in 2010. 2011 will likely see hiring start to pick up but the jobs recovery will be slower than the fall.

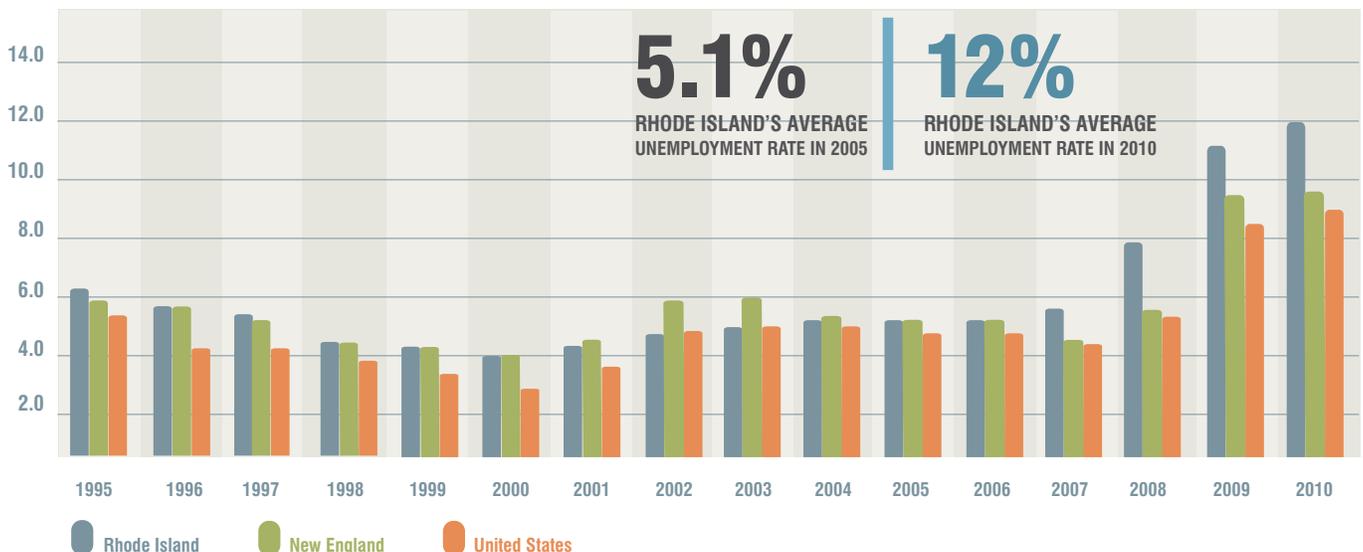
## Job trends

Of the state's major industries, the construction sector has been hit particularly hard with jobs declining by more than 28 percent from a high point in 2006 of 23,000 jobs to 16,400 in 2010. Construction sector workers represented nearly 15 percent of the state's unemployed workers with 2,657 claims in 2010. Construction job recovery is also likely to trail recovery in other sectors.

## What this means

It is not surprising in the current economic climate that unemployment and underemployment are the primary reasons families have trouble paying their mortgage or end up in foreclosure. Approximately 75 percent of HelpCenter and Hardest Hit Fund Rhode Island (HHFRI) clients identify loss of income as the reason they're unable to pay their mortgage. Unemployment or underemployment increases cost burdens for renters as well, as they lose income from second jobs or overtime pay. Consumers worried about housing costs tend to stop purchasing other goods. This leads to an economic ripple, which impacts all businesses.

**UNEMPLOYMENT RATES** Like the rest of the nation, Rhode Island's unemployment rates rose quickly during the last few years. In 2005, Rhode Island saw a 5.1 percent average unemployment rate; in 2009 it rose to 11.2 percent; and in 2010, 12 percent (all averages seasonally adjusted).



# LENDING

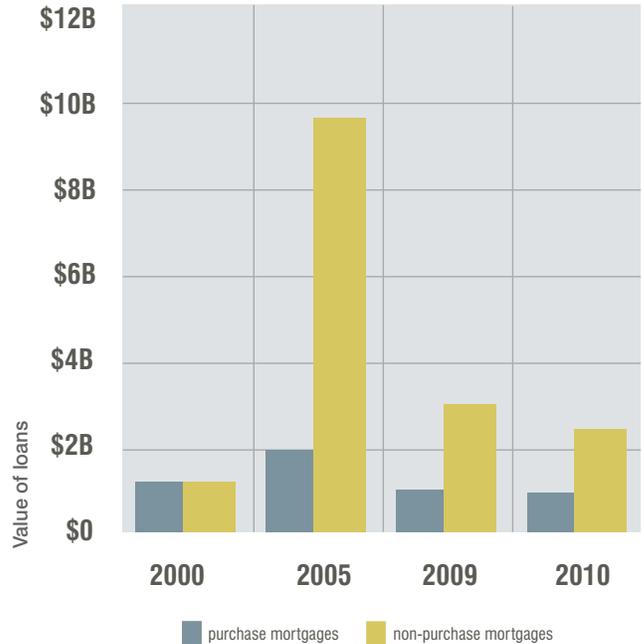
## RI HOME PURCHASE MORTGAGES:

2005: 10,959-\$2.0 billion  
 2009: 7,453-\$1.1 billion  
 2010: 6,183-\$0.9 billion

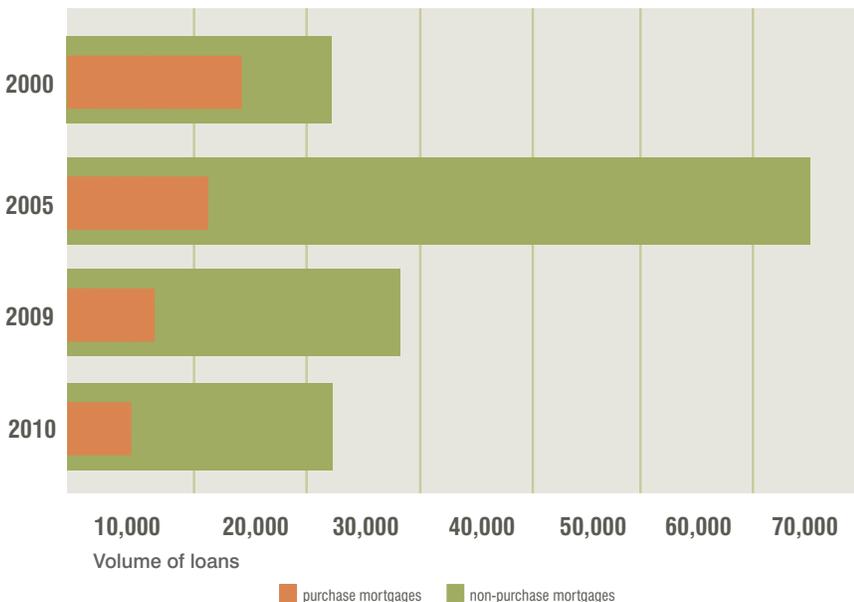
The drop in lending activity is a result of continuing economic uncertainty and instability in financial markets, and the fact that financial institutions are now using much more conservative lending practices. To combat this issue, Rhode Island Housing continues to make loans directly and through our participating lenders. The agency's prudent lending practices and low-borrowing costs allow Rhode Island Housing to pass that affordability on to its buyers.

### Safe-lending program

Housing Finance Agencies (HFAs), such as Rhode Island Housing, have been able to continue offering historically low interest rate loans due to direct purchases of our bonds by the U.S. Treasury Department. As a result, Rhode Island Housing was able to make \$60 million worth of mortgages in 2010 to first-time homebuyers across the state and was the second largest home purchase mortgage lender in the state.



**LENDING DOWN** The number of “home purchase mortgages” below \$250,000 has dropped 44 percent since 2005, while “non-purchase mortgages” (mortgage refinancing) have dropped 53.3 percent. The loss of this economic activity represents a nearly \$4.5 billion decline statewide.



### HOME PURCHASE MORTGAGES

**44%** ↓  
 SINCE 2005

### NON-HOME PURCHASE MORTGAGES

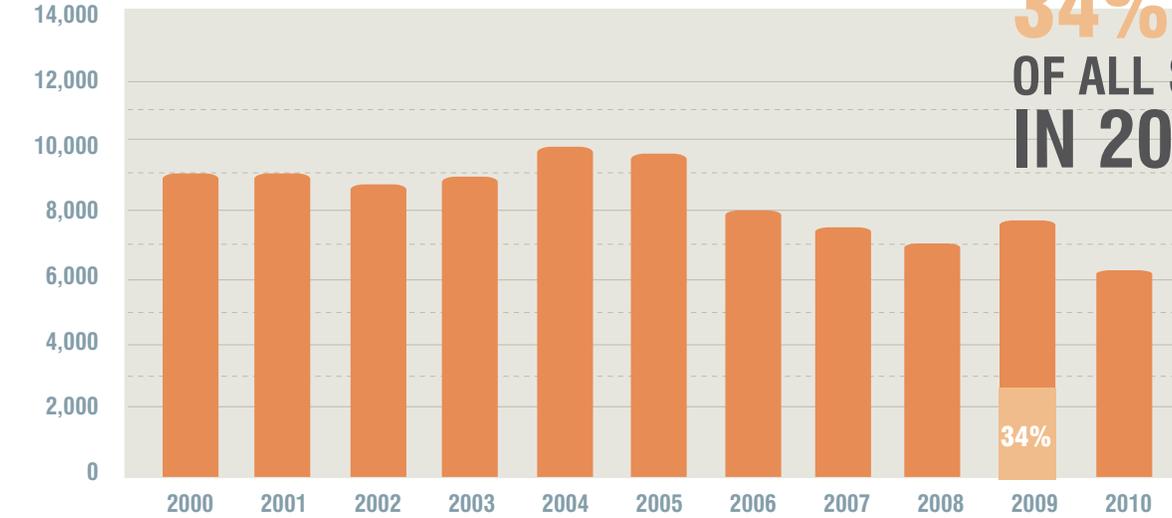
**53.3%** ↓  
 SINCE 2005

**total loss statewide**  
 OF VALUE OF LENDING ACTIVITY  
**\$4.5 billion**

# EXISTING SINGLE-FAMILY HOME SALES (NUMBER OF SALES AND VALUES)

RI SINGLE-FAMILY HOME PRICES AND SALES

NUMBER OF SALES



DISTRESSED SALES COMPRISED  
**34%**  
OF ALL SALES  
IN 2009

**HOME SALES TRENDS** There were fewer single-family homes sold in Rhode Island during 2010 than in 2009. However, the homes that sold did so somewhat faster and typically at a marginally higher price than in 2009. Another factor affecting the drop in sales was the end of the federal homebuyer tax credit program in April of 2010, which had helped to buoy home sales in 2009. The slight increase in home prices has been helped by the fact that there were fewer distressed sales (foreclosure or short sales) last year. Distressed sales comprised 26.7 percent of all sales in 2010, which is down from 34.1 percent in 2009.

SALES	
Year End	Median Prices
2005: 9,711	\$282,900
2009: 7,720	\$199,400
2010: 6,833	\$210,000

ANNUAL MEDIAN HOME PRICE



**Conservative lending**

Although interest rates are currently at historic lows, credit standards are more conservative—even people who now have steady incomes may have tarnished credit as a result of earlier job loss or underemployment. Since private mortgage insurance has been devalued, most homebuyers seeking a mortgage for more than 80 percent of the value of their home must be insured through the Federal Housing Administration (FHA) or guaranteed by the Veterans Administration (VA) or Rural Development (RD).

Rhode Island Housing uses these programs and other tools to help first-time homebuyers overcome these challenges and purchase a home. Rhode Island Housing's homebuyer education programs help families feel supported, secure and confident about committing to the big purchase of a new home. We need a vibrant homebuying sector not only for its direct impact on employment but also such linked areas as home furnishings and remodeling.

**Silver lining**

While home prices are still out of reach for many Rhode Islanders, for those with a stable job and good credit, now is a good time to buy. Home prices have come down significantly from their highs in 2005 and 2006 and low interest rates make those homes even more affordable. Prospective homebuyers should do a household budget that shows what they can safely pay toward a mortgage, which is usually less than 31 percent of gross income.

**Special product for rehabs and foreclosures**

In addition to Rhode Island Housing's FirstHomes100 loans – which include low interest rates and no funds needed for a down payment – the agency offers a 203(k) rehab loan called FirstHomes100+.

FirstHomes100+, winner of a national award, offers funding to make repairs and upgrades in one single loan without an extra closing. Rhode Island Housing staff and a HUD approved consultant work with the customer to determine what repairs are needed and see the repairs through to the end. This extra assistance ensures that the repairs occur properly and the contractor gets paid.

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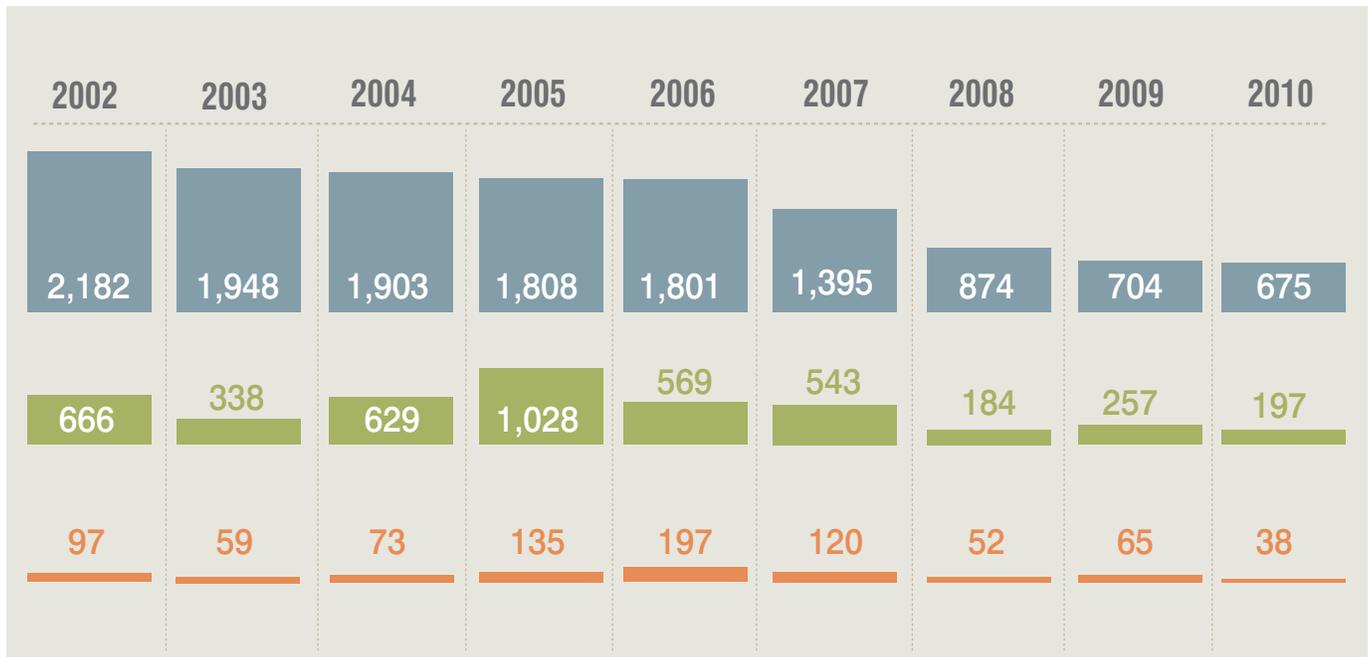
**Programs such as HHFRI have helped Rhode Islanders, who've lost a job or had their hours cut back, to stay in their home.**

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# NEW HOME CONSTRUCTION

NEW HOME CONSTRUCTION		
	Units	Permits
2005	2,836	1,943
2009	961	769
2010	872	713

## RI BUILDING PERMITS AND UNITS



■ single-family building permits/units   ■ multi-family housing units   ■ multi-family building permits

**BUILDING RATES CONTINUE TO FALL** The number of building permits issued has dropped precipitously and continues to decrease in both single-family and multi-family sectors. Since 2002, there has been a 70 percent decline in permits for both areas.

BUILDING PERMITS DECLINED  
**70%** ↓  
 SINCE 2002

### We must do better

The low number of building permits is not for lack of a need. In 2005, there was a shortage of 13,000 affordable homes in our state. Since then only 2,000 have been built. According to the National Home Builders Association, the development of 100 homes creates approximately 324 jobs and generates more than \$21 million in income as well as \$2.2 million in taxes and other revenues locally. The much-needed economic activity provides homes for families and a source of wages for hard-working Rhode Islanders.

### Disappearing funding

Many of the federal and state funding sources that have contributed to the development of affordable homes are drying up. One such program that ends this year is Building Homes Rhode Island (BHRI), a state initiative created in 2006 by a majority of voters who approved a \$50 million bond to create affordable apartments and for-sale homes throughout the state.

Another state funded program, the Neighborhood Opportunities Program (NOP), has been significantly reduced in recent years. NOP is designed to provide homes for low-wage working families and individuals with disabilities.

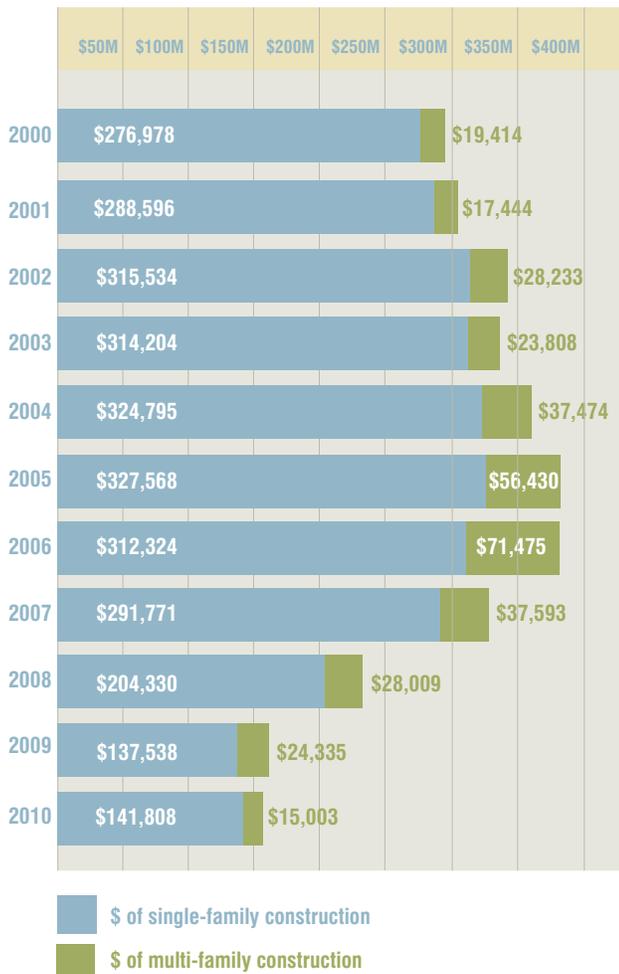
In addition, the federal government is also pulling back on spending. A number of programs that fund the development of affordable homes in Rhode Island, including HOME, the Community Development Block Grant program (CDBG), and programs that fund the development of homes for the elderly and disabled, are facing cuts of 10-70 percent in the President's proposed fiscal year 2012 budget, and Congress is considering even deeper cuts.

These cuts could further dampen building activity resulting in continuing economic declines for the construction industry. HousingWorksRI has reported that construction activity supported by the BHRI program has represented 48 percent of the total estimated cost of residential construction permitted in Rhode Island from 2007 to 2009. Rhode Island Housing has also been investing stimulus funds, which are soon to disappear, to help create and preserve jobs for those in the construction and related industries. The loss of the bond program and cuts to other state and federal investments in affordable homes will mean fewer jobs in construction and related industries that benefit from housing development.

**Keeping what we have**

Further increasing the urgency of the issue is that the existing affordable developments are beginning to age. They now need additional resources to update the property and maintain their long-term affordability. These "preservation" projects are now competing with new development or rehabilitation proposals for dwindling resources.

RI SINGLE-FAMILY & MULTI-FAMILY CONSTRUCTION



VALUE OF SINGLE FAMILY CONSTRUCTION

55% ↓  
SINCE 2002

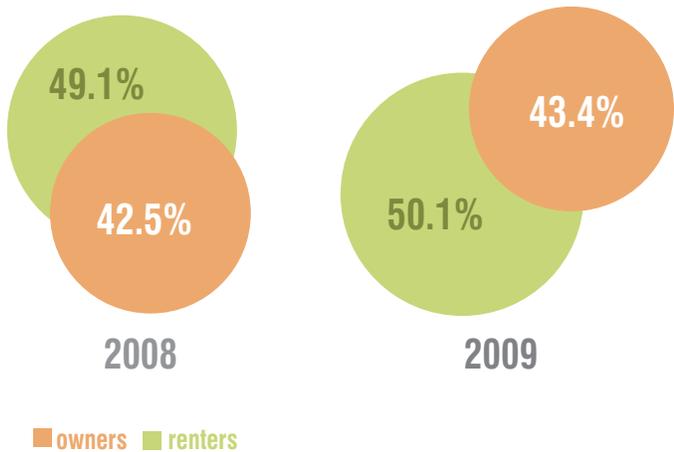
VALUE OF MULTI FAMILY CONSTRUCTION

47% ↓  
SINCE 2002

**DECLINE IN PERMITS HAS HAD AN IMPACT ON THE ECONOMY**

The value of single-family construction has decreased 55 percent since 2002, and the value of multi-family properties have declined 47 percent. This represents a \$187 million loss in annual economic activity.

# HOME AFFORDABILITY

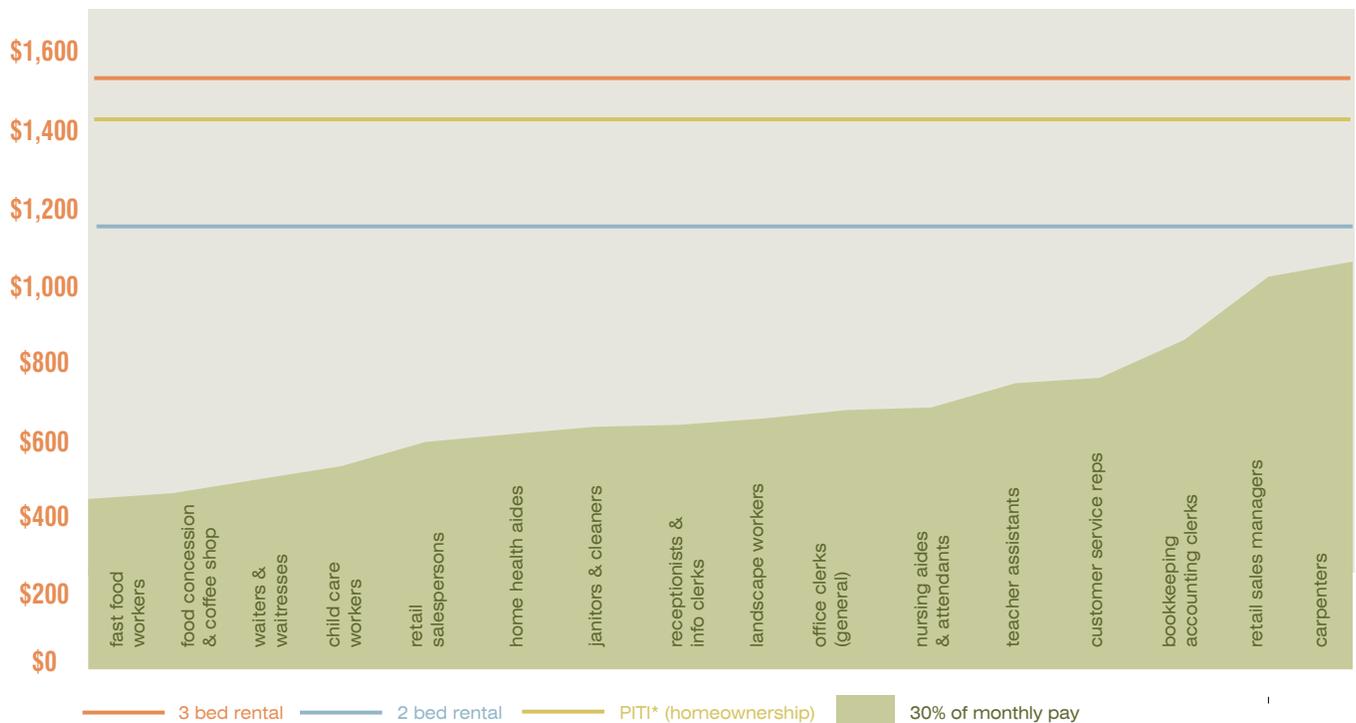


**50%**  
OF RHODE ISLAND RENTERS  
SPEND MORE THAN  
**30%**  
OF THEIR INCOME  
ON RENT

**RENTS HISTORICALLY HIGH** While home prices have started to stabilize after declining since 2008, rents never experienced a dip. As a result, 50 percent of Rhode Islanders are spending more than 30 percent of their income on rent. Generally, 30 percent of a person’s monthly income is seen as a sustainable cost for rent, which means many people have less money for other expenses. Rhode Island has the third highest gap between what renters earn and what it costs to rent a two-bedroom apartment.

### AVAILABILITY OF AFFORDABLE HOMES TO WORKING RHODE ISLANDERS

Of the 50 top growth occupations projected for Rhode Island from 2008-2018, 32 will not earn enough to pay for the average 2-bedroom rent, based on 2009 average wages and 2010 rents. By 2018 these 32 occupations are projected to represent a total of 180,577 Rhode Island workers, one-third of the state’s total projected workforce. For Rhode Island to attract new businesses and badly needed jobs, there must be homes that are affordable to working Rhode Islanders.



\*Principal, Interest, Tax and Insurance

In 2010, the average three-bedroom rent was \$1,531 per month, which exceeds the assumed monthly housing cost of \$1,400 per month to own a home with three bedrooms. (This housing cost includes principal, interest, tax and insurance.)

### Affordability gap widening

The gap between incomes needed to rent or buy a home and Rhode Island median household earnings widened in 2010. The average cost to rent a two-bedroom apartment in Rhode Island has increased 45 percent in the last decade. The result is a rental wage gap for many Rhode Island households. The 2010 Out of Reach report by the National Low Income Housing Coalition showed that in 2010 a renter would need to earn an hourly wage of \$18.90 to be able to comfortably afford the cost of renting an apartment in Rhode Island. However, the average renter wage was only \$12.01 per hour.

An affordability gap exists for homes for sale as well. Even with home prices down from their historic highs, Rhode Island's median household income falls short of the income needed to afford a median priced home in 2010.

### How can we compete?

For Rhode Island to attract new businesses and badly needed jobs, there must be attractive homes that are affordable to working Rhode Islanders.

## HHFRI helps those struggling to make a mortgage payment

On December 1, 2010, Rhode Island Housing started disbursing \$80 million in federal funding to help Rhode Island homeowners at risk of losing their homes due to foreclosure. The program is called Hardest Hit Fund Rhode Island (HHFRI) and the funds will be distributed over two years.

HHFRI assistance is individually structured to each family's unique situation but it generally breaks down into four primary areas:

**1** Loan Modification offers assistance to achieve a loan modification and helps homeowners who have mortgages through national and local lenders or servicers, whether or not the lender participates in the Home Affordable Modification Program (HAMP).

**2** Temporary Unemployed Homeowner Assistance provides funds to homeowners who are currently unemployed or underemployed. This funding is intended to help families through the unemployment/underemployment period with the goal of eventually stabilizing homeowners' financial situations through mortgage reinstatement or modification.

**3** Immediate Assistance helps Rhode Islanders avoid foreclosure during an acute crisis. The funds can be used to pay delinquent property-related expenses, including taxes, insurance and condo or homeowner association dues.

**4** Moving Forward Assistance offers assistance to homeowners who, while not yet in foreclosure, have suffered a severe financial crisis and are no longer able to stay in their home. (The funds are available to homeowners who participate in a short sale or deed-in-lieu of foreclosure.)

There are only two ways to apply for HHFRI assistance: Through a local bank or credit union that has a loan-servicing office in Rhode Island. If a lender is Rhode Island Housing, those customers can call 800-854-1180; the other way is through a HUD-approved and HHFRI certified counselor including the Rhode Island Housing HelpCenter.

To learn more, visit [www.HHFRI.org](http://www.HHFRI.org); call the HHFRI center at 401-277-1500; or email [info@HHFRI.org](mailto:info@HHFRI.org).

## FORECLOSURES AND CONDITION OF HOMES

### **The beginning of Rhode Island's foreclosure crisis**

In 2003, the Mortgage Bankers' Association (MBA) estimated that Rhode Island led the United States in use of subprime mortgages, which accounted for 14 percent of the state's mortgage market at the time. By 2007, the first wave of households to experience significant delinquencies and mortgage failure were those that had been targeted by subprime lenders.

### **An evolving problem**

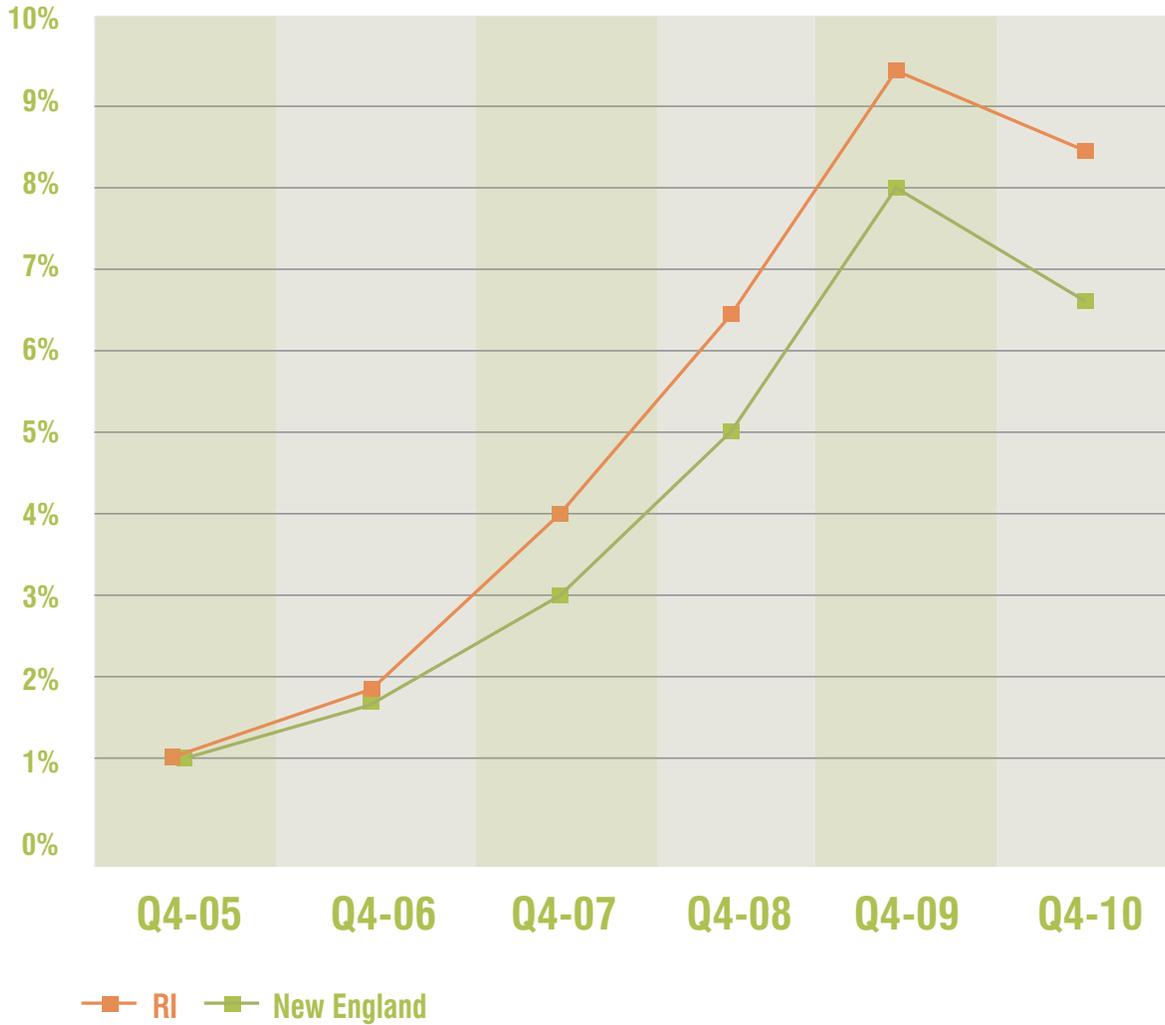
According to the MBA's National Delinquency Survey, by Q3 2007, Rhode Island ranked fifth in the country for seriously delinquent subprime loans, with nearly 15 percent of these mortgages at least 90-days delinquent or in foreclosure inventory. Since then, the state has consistently ranked similarly for seriously delinquent loans, and 12,000 loans currently fall into this category, even though those numbers are beginning to level off.

Foreclosures of multi-family properties constitute the majority of this activity in Providence, Pawtucket, Woonsocket and Central Falls. For every owner of a foreclosed multi-family property, one to five families tend to lose their home. The affect of abandoned and vacant properties in Rhode Island's neighborhoods has been widely reported by our state's media, which consistently shows images of Rhode Islanders' reduced quality of life and dropped values of properties. Another major consequence has been lost revenues for municipalities.

## **Preventing Foreclosure**

Rhode Island Housing's HelpCenter is providing some relief for Rhode Islanders struggling to pay their mortgage. Homeowners receive free counseling from HUD approved housing counselors at the HelpCenter or through other community-based agencies who explain their options and help them identify the best solution for their situation, including financial assistance through the Hardest Hit Fund Rhode Island.

SERIOUSLY DELINQUENT MORTGAGES INCLUDE THOSE THAT ARE 90-DAYS+ DELINQUENT AND IN FORECLOSURE INVENTORY.



**SERIOUSLY DELINQUENT LOANS DROP SLIGHTLY IN 2010** According to the MBA's National Delinquency Survey, since 2007, the state's rank for seriously delinquent loans has wavered between 10th and 12th in the nation, and we have consistently led New England's numbers in this category. Rhode Island is currently ranked 12th in the nation and first in New England with a seriously delinquent loan rate of 8.52 percent, which is down from 9 percent in Q4 2009. Approximately 12,000 loans in Rhode Island are 90 or more days delinquent or in foreclosure inventory.

APPROXIMATELY  
**12,000**  
**LOANS IN RI**  
 ARE 90 DAYS OR MORE DELINQUENT  
 OR IN FORECLOSURE INVENTORY

# HOMELESSNESS

## Shelter visits increasing

The rise in foreclosures due to the struggling economy has caused a marked increase in the number of Rhode Islanders seeking refuge at area shelters. Nearly, 45 percent of those needing shelter in 2010 were families and 27 percent were children.

The number of people in shelters is only part of the problem. Anecdotal evidence suggests that many people who are unable to afford housing are doubling or tripling up in homes, or moving in with family members.

## Viable answer

The long-term solution to homelessness is to provide affordable homes and permanent supportive housing, which offers social services, such as job training and counseling. The state's Neighborhood Opportunities Program (NOP) is one of the few sources of funding available to make homes affordable to our most vulnerable residents.

### RI HOMELESS POPULATION

2009	4,228
2010	4,398

Source: RI Homeless Management Information System (HMIS)

## HelpCenter – a safe place for home help

The Rhode Island Housing HelpCenter is an independent, HUD-approved counseling agency. The HelpCenter is dedicated to providing professional support and education to help Rhode Islanders protect themselves from losing their homes and to make safe, informed decisions for their futures. In 2010, HelpCenter staff counseled more than 3,200 Rhode Islanders. This is a 25 percent increase over 2009. The success rate has approximately 43 percent of the clients who have completed counseling stay in their homes.

## Services and housing

A 2007 analysis of the state's Housing First program showed that the cost to the state of providing permanent housing connected to social services to chronically homeless Rhode Islanders saved \$8,839 per person as a result of reduced institutional costs. Better coordination between community groups and departments of state government to connect homeless with services and housing reduces government costs.

Rhode Island Housing is the lead agency in applying for and administering HUD homelessness funding. In addition, the agency budgets its own resources to prevent homelessness, finance the development of affordable supportive homes, and provide rental assistance for homeless families and individuals.