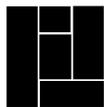


THE IMPACTS OF FORECLOSURES ON FAMILIES AND COMMUNITIES

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Section 1

INTRODUCTION

This decade may well turn out to be the most tumultuous in the history of U.S. housing markets. The period from 2000 to 2006 saw an unprecedented acceleration in home prices almost everywhere, and homeownership expanded markedly as access to subprime loans and other factors made it much easier for lower-income families to purchase a home of their own. Then it all fell apart. Prices in most regions have since plummeted and foreclosure rates have increased dramatically. Almost all American communities are affected, but levels of foreclosure are much higher in some neighborhoods and metropolitan areas than others.

Recognizing that this turnabout was still quite new, in mid-2008 the Open Society Institute asked the Urban Institute to scan available research and other sources to assess how much we now know about the way foreclosures impact families and communities, and then to offer initial suggestions on what the findings have to say about the need for additional research and about how to address the crisis at the local level. Doing the latter required that we also devote some attention to available information on the efforts now underway to respond to the foreclosure crisis in various metropolitan areas.

This report is one of the outputs of this work. It attempts to distill the important findings and recommendations from the review in a manner that will be useful to local leaders and practitioners working on the issue in their own communities. Local practitioners are likely to be most interested in ideas about how to address the crisis, but boiling down a better understanding of the impacts should also be useful to them, both in designing a strategy that fits local conditions and in motivating local decisionmakers to provide adequate support.

Accordingly, this paper has three main sections: impacts on families, impacts on communities, and the foreclosure response system. A final section offers the authors' views on priorities for further research in these areas. The contents of the first three main sections are as follows:

Impacts on Families

It is important to recognize at the outset that, while a considerable amount has been written recently about some aspects of the foreclosure crisis—its incidence, its causes, and its implications for the financial system—comparatively little research has been completed on its local impacts, the central subject of this project. That is understandable in part because the crisis is itself so recent. Researchers have not had the time to gather and assess evidence on what is taking place.

There is another and more troubling reason, however, for the dearth of information about impacts on families—namely, that the families affected by foreclosure are extremely difficult to identify and track. At some point between the first notice and soon after the completion of a foreclosure, the family that has been living in the property (renter or owner) typically moves out; there is no easy way to find them again. Assembling a list of new addresses for these families, as would be needed for a reliable survey on how they were affected, is prohibitively expensive after the fact.

We have addressed this problem in two ways. First, even though there is little evidence on what happens to families post-foreclosure, there has been considerable research on what happens to families after they move for other reasons; these are the references we have relied on in this paper. The literature pertaining to families that were forced to move because of problems in their lives (loss of a job, family changes, illness, or other circumstances leading to eviction) is particularly relevant to this issue.

Second, we conducted a series of interviews with individuals who have been dealing with families at risk of foreclosure (employees of counseling agencies, legal services groups, etc.). While these individuals cannot report with certainty on what happens to these families after foreclosure, they have been close enough to offer reasonable speculations about likely outcomes. Their views of the characteristics of these families and what may be happening to them offer at least a basis for forming hypotheses.

When foreclosures occur, the families living in the foreclosed properties are almost always obligated to move, but other effects may well touch on virtually all aspects of their well-being. The major types of impacts and questions that guided our inquiry within each are as follows:

- *Displacement and Housing Instability.* Where did the families affected by foreclosure move? How did they decide where to go? What are the characteristics of their new housing and neighborhoods in comparison to those they left behind? To what extent and in what ways are they doubling up with other households? To what extent did foreclosures result in homelessness? How many moved to a different city?
- *Financial Insecurity and Economic Hardship.* How did the household's financial circumstances change as a result of the foreclosure (i.e., assets, debts, net worth, credit rating) and how are they coping with these changes? How many receive public assistance after the foreclosure? Did the foreclosure result in employment change for one or more adults in the household? If so, how do the new jobs compare to those held before?
- *Personal and Family Stress, Disrupted Relationships, and Ill Health.* Did the family split or add members due to the foreclosure process? Which members left and what was their situation after the change (the characteristics of their new household or institution)? Did the foreclosure and related events have effects on the physical and mental health of adults in the family? If so, what types and how severe? Did the foreclosure and its aftermath lead to negative behaviors (e.g., spousal abuse, child abuse, and neglect)?

This section explicitly recognizes that the nature of the impacts in each category is likely to vary for different types of families. There are many ways that families can be characterized, but within our review of findings we will focus on impacts for three groups in particular: renters, children, and the elderly.

For example, the legal protections for renters in the foreclosure process are normally weak to nonexistent¹—renters are usually summarily evicted—and, although the financial losses may not be as sizeable as those for many owners, they too face financial losses. Children must be singled out because they are likely to be affected more deeply than adults by foreclosure impacts (e.g., being forced to move to a new neighborhood and school, loss of friendships, disruption in daily routines, stress within the family). Similarly, the elderly are particularly vulnerable—financially, physically, and emotionally—to such major disruptions as foreclosure implies, and strategies for supporting them may differ from those for younger families.

Impacts on Communities

There are also three major types of impacts on neighborhoods and communities. Within each of these categories we are particularly mindful that the extent of the impacts can vary dramatically across different neighborhoods and cities. In some cases, where there are only a few foreclosures and steps are taken to minimize the time the properties stand vacant, impacts may be slight. In contrast, where the number of foreclosures is sizeable in a compact area, there may well be strong secondary effects on nearby properties and the impact on the neighborhood as a whole can be dramatic.

- *Declining Property Values and Physical Deterioration.* Given metropolitan market conditions, to what extent are various levels of initial foreclosures in a neighborhood likely to induce additional foreclosures? How are various levels of foreclosure likely to affect vacancy rates and then property values and physical conditions? What are the trends in rates of structural fires and the undermaintenance of properties and public spaces?
- *Crime, Social Disorder, and Population Turnover.* What effects are varying levels of foreclosures and vacancies likely to have on physical and social conditions in the neighborhood; more specifically, on measures such as crime rates, public health, and school performance? How are foreclosures and accompanying neighborhood changes likely to alter the rates at which families move in and out of the neighborhood and the characteristics of both streams of migrants? How do these alter the balance between owners and renters in the neighborhood?
- *Local Government Fiscal Stress and Deterioration of Services.* What additional activities by local government will be required to directly address the neighborhood impacts, and what are their probable costs (administrative costs related to the foreclosure process, as well as the costs of additional fire and police protection and maintenance activities)? How might the response to the foreclosure crisis strain the city's capacity (i.e., divert resources so as to diminish performance in other programs and neighborhoods)? What impact will foreclosures have on property taxes and other local government revenues?

The Foreclosure Response System

The answers to the questions posed above about the impacts of foreclosures on families and neighborhoods suggest a framework for examining the types of policies and programs that attempt to prevent or mitigate those impacts. This section reviews literature on the response systems being developed for that purpose and is divided into four major components.

- *Develop a Coordinated Foreclosure Response Strategy.* What individual institutions are participating in the local response system and what are their roles and capacities? What policy and regulatory changes are being proposed and implemented locally to facilitate the work of the response system and otherwise mitigate the local affects of the crisis? What analyses have been done on the extent and nature of the foreclosure problem at the local or metropolitan level as the basis for a strategy? What coordinated strategies have been developed? What systems have been established to monitor changes in the nature and extent of the foreclosure problem and the performance of local foreclosure response efforts?
- *Prevent Foreclosures and Keep Families in Their Homes.* What programs are in place to counsel, help negotiate loan modifications, and otherwise support owners in default to prevent foreclosure? What are their capacities and how have they performed?
- *Stabilize Neighborhoods.* What programs exist to secure vacant properties, sustain them in good condition, and reduce adverse impacts on the surrounding neighborhood? What programs exist to expedite the reoccupancy of foreclosed properties either to renters or new owners? What programs are in place to acquire foreclosed properties, rehabilitate them, and hold them in the public interest?
- *Help Families Recover.* What programs exist to help families with relocation and other impacts after foreclosures occur (including programs aimed at helping renters as well as owners)?

We have identified and reviewed references under all of these categories. However, this section of the report gives more emphasis to categories that deal with *impacts* after foreclosures have occurred, rather than the category that covers the *prevention* of foreclosures. In the section on developing a coordinated foreclosure response strategy, we also focus on addressing secondary impacts, although we recognize that coherent strategies must consider both prevention and impact mitigation simultaneously.

Section 2

IMPACTS ON FAMILIES

Behind each foreclosure is a family, or multiple families, whose lives will change. While change is not necessarily negative, there is considerable concern that the changes experienced by families as part of the current foreclosure crisis will lead to poor outcomes. Historically, households entered foreclosure primarily when a precipitating event such as divorce, job loss, illness, or accident dramatically changed a family's financial situation. In addition to these triggering events, much of the current foreclosure wave was fueled by widespread use of high-cost, unsuitable loans; a sharp decline in property values; and a softening housing market. This situation (including related investment vehicles) contributed to the nationwide recession.

Such troubled economic times are not good environments for families trying to bounce back from foreclosure. These families are likely to be financially vulnerable and may be experiencing illness, job loss, or other traumas. While this is not unexpected of families facing foreclosure, the number of households in crisis coupled with the economic downturn exacerbates problems. Families in foreclosure need help at a time when people, organizations, and institutions that may be traditional sources of assistance are overburdened and underfunded. With unemployment rising, coming back from a job loss is made even more difficult. Even though we can speculate that foreclosure is hard on families and that foreclosure during these trying days is even more difficult, there is little research on specific foreclosure-related impacts on families or on the magnitude, incidence, and longevity of those impacts.

To fill the research void on foreclosure-related impacts, this section reviews what we know happens to families when they move for other reasons, especially when such moves are not spurred by positive events. While we know that foreclosure has some elements that differentiate it from other forms of eviction or displacement (such as the

uncompensated loss of a major financial investment), a review of this related literature helps us see what we can *expect* are the impacts of foreclosure on families. In addition, as noted in section 1, we spoke with people working with families currently at risk of and in foreclosure to gather their views on what happens to families.

This section begins with a short review of the foreclosure process. When foreclosures occur, the families living in foreclosed properties are almost always obligated to move, but other effects may well touch on virtually all aspects of their well-being. The majority of this section discusses foreclosure-related impacts on families and is divided into three categories:

- Displacement and Housing Instability,
- Financial Insecurity and Economic Hardship, and
- Personal and Family Stress, Disrupted Relationships, and Ill Health

The nature of the impacts will vary for different types of families. A key distinction when understanding and anticipating potential impacts is the family's tenure type—are they homeowners or renters? As the crisis began to unfold, policy concerns focused almost solely on owners, but a number of recent studies have shown that rental units make up a sizeable share of all units in properties being foreclosed. The rental share has been estimated at 38 percent nationally,² but is as high as 45 percent for New England³ and 60 percent in New York City.⁴

Moreover, certain groups such as children and senior citizens may have particular needs and be subject to certain impacts. To the extent that information is available for different tenure types or groups, it will be woven in to the discussion of three major categories of impacts on families listed above.

The Foreclosure Process

Foreclosure is an abridged name for the legal process that a lender must follow to take possession of a property after an owner defaults on a mortgage.⁵ In states where the law prescribes a “judicial” approach, the process starts when a lender, in effect, sues the borrower for failing to make payments consistent with the loan agreement (in some states this entails filing a Notice of Lis Pendens). The parties are then supposed to appear before a judge, where the lender must demonstrate that the claim is valid. If the judge agrees that the borrower is in default, he or she sets a date when the property will be sold. In fact, in the vast majority of cases, the borrower does not appear, leading to the entry of a default judgment.

Many states, however, have a “nonjudicial” foreclosure process. In these states, when lenders find borrowers to be in default on the mortgage, they simply send a Notice of Foreclosure (also called Notice of Default) to the borrowers directly with a copy to the recorder of deeds. The lender sets the date of the prospective sale consistent with the mortgage terms. If the borrower contends that the debt is not valid, he or she must challenge and potentially bring suit against the lender to halt the foreclosure process.

Under either approach, the sale can be averted if the borrower meets all outstanding obligations beforehand or alternatively enters into a new “workout agreement” with the lender. If either of these occurs, the foreclosure process is cancelled by filing an appropriate notice with the recorder of deeds.

Under both legal systems, if the borrower is unable to stop the process, the property is offered for sale at a public auction and title is transferred to the highest bidder. Typically, however, the lender sets a minimum price and if there are no bids above that price, the title reverts to the lender. When the latter occurs, as it often does, particularly in weak markets, the property is termed real estate owned, or REO. In most places, if the property has been rented, the tenants are subject to eviction as soon as the title has been transferred, even if they are up to date on their rent. They do not have the legal protections with respect to eviction they would have had with the former owner.

Displacement and Housing Instability

Residents of foreclosed properties are almost always forced to move. The most logical question about these families is, where do they go? We have not been able to identify any systematic information that would enable us to answer this question reliably, even for one city—no doubt for the reasons enumerated in section 1.

The National Coalition for the Homeless asked the question in a survey of homeless coalitions; they received responses from groups in 29 states.⁶ The most frequent response was “staying with family and friends,” and large numbers also talked of families going to emergency shelters and even living on the streets, although many also thought former homeowners with more resources were able to find places to rent. However, more respondents said they got their information from the media than from shelter operators or others who dealt with the families directly. Counselors and others we interviewed as a part of this study generally thought these same responses were the most likely for low-income groups, but they too lacked direct contact with many families after foreclosures occurred.

There is general concern that foreclosure is the first step on a path of unstable housing for some former homeowners and renters but without reliable data, there is no clear answer on when, where, how, or if families in foreclosure are rehoused. Homeowners in foreclosure see their credit ratings plummet, making it difficult to purchase or rent another home. Even if a family can find a landlord willing to rent to them, many have used up any financial reserves during the foreclosure process, making down payments or deposits difficult.

Renters may be given short notice of an eviction due to the foreclosure of their building. If they do not leave once served by a notice of eviction they may be sued, with the resulting lawsuit on their rental record.⁷ Even those who leave may not be refunded rent or security deposits they might use to secure a new unit.

We know that the homeless shelter system is seeing an increase in people served, suggesting that some families in foreclosure, both former owners and renters, move into homelessness.⁸ Our interview respondents suspect these increases will grow, given that a first move for families experiencing foreclosure might be to double up with family and friends. As these housing arrangements deteriorate over time, additional families will become homeless.

Since there is no sound research on where the families move, we also do not know how the properties and neighborhoods where foreclosed families previously lived compare to their new locations. For homeowners, the family's decline in financial resources and credit standing do not bode well for a positive change. Some studies say that rental housing is more expensive than owned housing of comparable size and quality, suggesting that families may not be able to afford something better or on par with where they were living prior to foreclosure.⁹ Other studies report that when households (particularly low-income households) must make relatively quick housing decisions, they are more likely to make poor choices.¹⁰ This is particularly troubling for renters who may be given short notice of eviction. Moreover, some renters may have a history of housing instability that is intensified with the foreclosure-related move.

Housing instability is very worrisome for groups who may be hit hard by volatility and change. Persons at the ends of the age range—the very old and the very young—are of special concern. We know the elderly are often adversely affected by moving, particularly forced or involuntary relocation.¹¹ Moving can trigger a series of emotional and physical setbacks from which older people may not recover. The importance of place for seniors is well documented.¹² As health declines and independence lessens, seniors rely on their connections to place to help them control and predict their environment during a time of life when other areas are increasingly out of their control.¹³

Whereas a single move can be quite traumatic for an older person, multiple moves may contribute to poor outcomes for kids. There is concern that foreclosure may be part of a path of ongoing housing instability for families. This could have profound and lasting impacts on children. Lack of a stable home can negatively influence behavior and social development. Frequent school change is related to poor academic performance and educational attainment.¹⁴ Housing instability can also contribute to “family turbulence” that inhibits a parent’s ability to keep a consistent bedtime, mealtime, or homework schedule, all of which can have negative outcomes for children.¹⁵ What heightens concerns about the effects of housing stability on young children is the longevity of the consequences. Findings suggest that school-age children who move frequently during their young years are less likely to graduate from high school than their less-mobile peers.¹⁶

Financial Insecurity and Economic Hardship

The financial losses associated with foreclosure are substantial. For homeowners, credit ratings are damaged, which affects their ability to move on to a new home and lessens their ability to get loans for other purchases.¹⁷ Poor credit ratings may also negatively influence terms and prices for services such as insurance and may impede efforts to get jobs, because some employers access credit ratings for new hires.¹⁸ The net worth for homeowners in foreclosure decreases, since they lose their home as an asset along with any accumulated equity and the tax advantages of homeownership. In the mid-1990s, the Family Housing Fund in Minneapolis estimated the average family lost \$7,200 through foreclosure.¹⁹ Current estimates are most likely higher, as figures are adjusted for inflation and recent decreases in housing values further erode equity and negate previous financial investments in the foreclosed home. One observer noted, “foreclosure can wipe out the homeowners’ savings and leave them owing debt on homes they no longer own.”²⁰

While renters may not see the same type of financial impacts from foreclosure, they too can be adversely affected. As noted above, they may not receive (or not in a timely manner) monies to which they are entitled. They also incur the costs associated with a housing search (application fees, credit checks) and moving. Furthermore, a move has the potential to lead to less-affordable housing situations with possible increases in monthly household costs such as rent, utilities, and transportation.

The financial implications of foreclosure are gloomy but do not necessarily evoke economic hardship for all families, depending on their other assets and job status. That said, we would expect that a significant number of households in foreclosure would experience economic hardship. We do not know how many of these families will receive

help from private sources (personal loans, food banks, etc.) or access public assistance (TANF, the Supplemental Nutrition Assistance Program, etc.). We know that the states with the highest rates of foreclosure in the current crisis (Nevada, Florida, Arizona, and California) also saw their food stamp caseloads jump by almost 20 percent in 2008.²¹ We also know that the rise of mortgage default and foreclosure rates in the 1990s was accompanied by an increase in personal bankruptcy.²² While troubled economic times make it unwise to attribute these increases to foreclosure, we expect some portion of families experiencing foreclosure are reflected in these and other measures of economic hardship. Hardship is easiest to see in the lives of individual families that report dramatic impacts as they “lose everything,” have no place to live, and must start over.

Starting over is not always an option for older Americans. Little is known about the financial impact of foreclosure on older persons, but given the overwhelmingly negative financial implications coupled with declining home values, we can expect older Americans involved in foreclosure will be particularly hard hit, given the limited time and incomes they have to recover from such a setback. Our interview respondents were particularly concerned about this group, since they may be more vulnerable to the machinations of opportunistic family members and predatory lenders. In some instances, unscrupulous family members may have put the senior’s housing in jeopardy with an unwise refinance package. Historically, older Americans relied on their homes for financial security and as a retirement safety net. While this is still the case for many, owners increasingly carry mortgage debt into their retirement years, with more than half of all households with a head over 50 currently carrying a mortgage.²³

While little is documented regarding the financial effects of foreclosure specifically for older Americans, we can speak to the size of the potential problem and thus characterize its importance. AARP says that in the last half of 2007, 28 percent of all mortgage delinquencies and foreclosures were held by household heads age 50 and older.²⁴ They also note that in cases where the loan-to-value ratio is greater than 100 percent (which is growing given falling home values), the foreclosure rate of persons over 50 is double the national rate, suggesting that persons with more fixed incomes find sustaining high debt levels particularly difficult.²⁵

Personal and Family Stress, Disrupted Relationships, and Ill Health

The disruption, displacement, and economic impacts of foreclosure are substantial but do not exhaust the list of possible effects experienced by families. Repercussions may be felt in many areas, from parenting to self-esteem, as turmoil, fear, and uncertainty rise. For some families, increased personal and family stress feeds marital problems and exacerbates negative behaviors (child abuse, addictions, etc.). Stress may also have a

negative effect on health, as do compromised or unsanitary housing conditions. While these effects are in some ways the most difficult to document, they are serious and troubling, with long-term consequences.

Stress is a part of everyday life, but high levels of stress and poor coping mechanisms can contribute to a host of physical and mental illnesses. It can be assumed that most, if not all, people involved in foreclosure have some kind of anxiety and stress. Our interview respondents were generally in agreement that the trauma of losing one's home with all the related confusion, shame, and fear is damaging to the emotional and physical health of adults. We know that stress exacerbates chronic conditions and damages body systems.²⁶ We also know that stress negatively affects mental well-being. A dramatic example of the damage to mental health can be seen in suicide by people facing foreclosure (and related financial ruin).²⁷ While the number of calls to crisis hotlines is up, as well as requests for therapists, it is difficult to determine what is related specifically to foreclosure.²⁸ None of our interview respondents offered to estimate the magnitude of the problem or the long-term effects on mental and physical health. However, a noted psychologist said to ABC News, "It is very depressing to lose one's home. It represents loss of stability, a feeling of failure...It is scary and overwhelming."²⁹

Families in foreclosure may be more vulnerable to health crises than other families. We know that poor health, with related costs and missed employment, contributes to a significant number of mortgage defaults. Estimates from credible reports vary (from 22 to 50 percent) but we know that poor health is a major contributing factor in foreclosure filings.³⁰ For individuals already in poor health, the stress of foreclosure may be particularly dire. This would include the threat to older Americans, who are more likely to be battling chronic health conditions. We also know this group finds relocation and adjusting to new neighborhoods very stressful.³¹

There are concerns that incidents of spousal and child abuse may escalate among households under the stress of foreclosure. We know that financial stress is a major contributor to domestic violence. There is no systematic evidence to address this issue as related to foreclosure, and our interview respondents were uneasy in attempting to estimate or generalize about such situations but felt they were likely to be happening. They noted raised voices and increased tension during office visits with families in foreclosure.

Section 3

IMPACTS ON COMMUNITIES

As noted in the introduction, there are three major types of impacts of foreclosures on neighborhoods and communities.

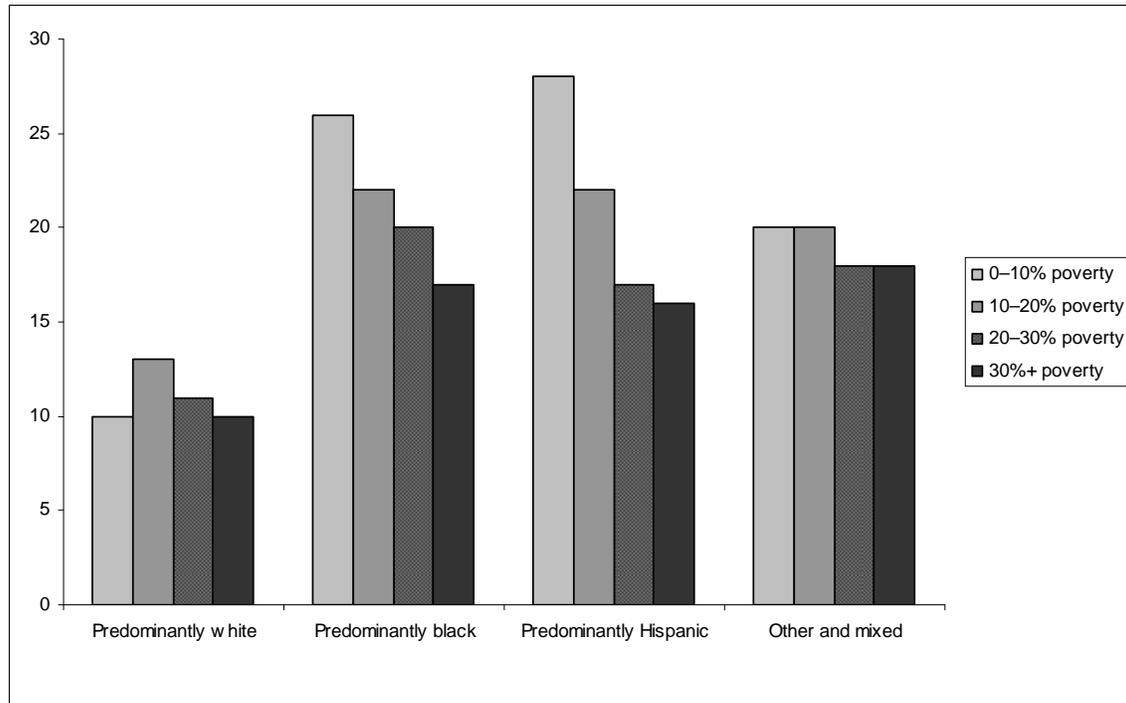
- Declining Property Values and Physical Deterioration;
- Crime, Social Disorder, and Population Turnover; and
- Local Government Fiscal Stress and Deterioration of Services

The main purpose of this section is to summarize what is known about each. However, the nature and extent of these impacts will differ in important ways in different types of neighborhoods. Accordingly, before we consider the impacts we briefly introduce information on the way the problem varies across types of neighborhoods.

Variations across Neighborhoods

It would be ideal to be able to examine the likely pattern of foreclosures directly, but complete and consistent national data on foreclosures are not available. However, subprime lending densities should serve as a reasonably good proxy.³² Some who have studied the current crises have looked at data on subprime loans as a share of total lending in an area, but that is not a good indicator of probable impact. An area could have a very high subprime share but a very low volume of total lending, so that the number of risky loans was very small in relation to the size of the housing stock. A much better measure for this purpose is the number of subprime loans per 1,000 existing housing units (in 1–4 unit structures). This can be thought of as the “density” of subprime lending, and it is the density that generally heightens the risk of foreclosure and negative spillover effects like declines in property values and increasing crime rates.

FIGURE 1
DENSITY OF SUBPRIME LOANS BY PREDOMINANT RACE AND POVERTY
RATE OF CENSUS TRACT, 100 LARGEST METRO AREAS
 (Average no. of high-cost loans per year, 2004–2006, per 1,000 units in 1–4 unit structures)



Source: G. Thomas Kingsley and Kathryn L. S. Pettit. 2009. *High-Cost and Investor Mortgages: Neighborhood Patterns*. Washington, DC: The Urban Institute.

Figures cited below are average densities of subprime (high-cost) loans per year from 2004 through 2006 for the 100 largest metropolitan areas (from an analysis by the Urban Institute).³³ The measure varies dramatically for different types of neighborhoods.

First, there are major differences by the predominant race of the neighborhood. For the large metros nationally, the rate was 13 on average across all tracts and 11 where whites were the predominant race. (We define a predominant race as one accounting for 60 percent or more of a tract's 2000 population.) The subprime density was a much higher 20 where blacks predominate, 19 where Hispanics were the predominant group, and 19 when another race was predominant or there was no predominant race. But there were major variations depending on the poverty rate of the tract as well. For these areas, across all races, the density was highest at 17 in the groups with 20–30 percent living below the federal poverty level and almost as high (16) for those in the 10–20 percent group and for the highest (more than 30 percent below the federal poverty level) group. It stood at only 11 for tracts with poverty rates below 10 percent.

Putting both variables together for the 100 largest metros, figure 1 shows a strikingly contrasting pattern. Within race categories, subprime densities are almost always highest in the lowest-poverty category and drop down consistently as poverty rates increase. The highest densities occur where Hispanics are predominant, ranging from 28 per 1,000 units in low-poverty tracts down to 16 in the highest-poverty group. Predominantly African American tracts come next, with 26 in the lowest-poverty group and 17 in the highest.

In short, the neighborhoods hardest hit by the subprime crisis have been those where minority residents predominate, but within those, the highest subprime densities are found in those with higher-, not moderate- or lower-income, residents. This may seem surprising, but it occurs because of a point noted earlier. Subprime loans do account for a higher “share” of all loans in poorer neighborhoods, but because the volume of home lending (per 1,000 units) is so much lower in such neighborhoods, subprime “densities” are lower there as a result.

Foreclosures and High Foreclosure Density—the Expected Scenario

What is it about the foreclosure process that creates deleterious impacts for neighborhoods? Several factors may be involved:

- After receiving a notice of foreclosure, the original owner may defer maintenance to try to keep up with payments.
- After the foreclosure, the home may remain vacant for a period of time with no one keeping it secured and well maintained while it is vacant.
- A high concentration of foreclosure sales in an area will lower comparables and knowledge of them may diminish lender confidence.

Periods of vacancy are among the most problematic. In many cases, the title to the property has been transferred back to the lender and the properties have become REOs. If the property is in a neighborhood with a strong real estate market (i.e., increasing prices), the lender has a powerful incentive to avoid prolonged vacancy and deterioration. A substantial profit can be made if the property is sold quickly, and the lender will want to maintain it in good condition while it is on the market.

If, however, the home is in a neighborhood where prices are lower and declining, those incentives disappear. The lender may try to avoid spending anything on securing and maintaining it. In fact, following through on the legal process that leads to foreclosure can be very costly, since the lender has to pay attorneys fees and cover property

management and other services (estimated at around \$40,000 to \$50,000 in the Washington, D.C., area).³⁴ There are many reports of lenders paying cash to residents to get them to move out without formal eviction (the “cash for keys” approach). Alternatively, whether the home is occupied or not, the lender may decide that the least costly approach is to simply walk away, leaving the property unattended in a sort of legal limbo.

When the property is vacant and it is evident that no one is taking care of it, realtors and prospective buyers will take note and see that as a threat of potential decline in neighborhood property values. A modest amount of undermaintenance may not have much effect, but things can get worse. The property may be invaded by squatters or by vandals who gut it (i.e., remove anything of value, including copper piping and hardwood floors as well as appliances). Some unsecured homes may become drug houses. A wider array of criminals sensing the disorder may lead to increased risks of crimes of all types for residents in surrounding homes and apartments.³⁵

As the period of vacancy is extended, and no one is paying for heat and electricity or maintenance, the building will begin to deteriorate physically. The likelihood of structural fire goes up, in some cases because indoor fires set by squatters to keep warm get out of control. There are also stories of unscrupulous owners of rental properties in default who to continue to collect rent from tenants for as long as they can, but stop paying for maintenance until they finally lose title (i.e., the property declines physically even though it is still occupied).

In a strong market neighborhood, one or two foreclosures may not be much of a concern. There are natural self-correction mechanisms in play. The surrounding owners, with considerable equity in their homes, are likely to exert great pressure on the owner of the affected property, the government, and anyone else who might be able to help get the problem corrected one way or another as soon as possible. But suppose the number of foreclosures jumps from 2 to 20. The problem is much more serious and harder to correct. It is not the existence of any foreclosures but a high density of foreclosures that creates serious impacts on neighborhoods.

In a weak market neighborhood, where property values may be going down already, even a small number of foreclosures are likely to accelerate the trend, and a higher density of them would do so yet more rapidly. Depending in part on the metropolitan context, a continuation of these trends can well lead to substantial abandonment and losses of neighborhood population.

Declining Property Values and Physical Deterioration

There has now been considerable research to demonstrate that the outcomes predicted in the above scenario do in fact occur. The first analysis of note, by Dan Immergluck and Geoff Smith, entailed hedonic regression analysis relating data on 3,750 1997–1998 foreclosures in Chicago to 9,600 single-family property sales transactions in 1999.³⁶ The analysis showed that foreclosures indeed had an impact. They found that each new foreclosure within one-eighth mile of a home resulted in a 0.9 percent decline in the value of that home (i.e., more foreclosures means more declines at that amount). In low- and moderate-income neighborhoods, they found that the marginal drop in property value from one new foreclosure in the same radius was 1.8 percent.

More recently, others have employed similar techniques and found varying results in different cities.³⁷ The most compelling to date, by John P. Harding, Eric Rosenblatt, and Vincent W. Yao, was based on foreclosure and sales data for 140 zip codes in 13 states (628,000 repeat sales transactions).³⁸ They found a negative effect on values of 1.3 percent within a 300-foot radius of the home (i.e., a foreclosure probably in one of the nearest two to three properties), but a drop of only 0.6 percent for a one-eighth mile (660 feet) radius (i.e., a foreclosure probably in the next block). This level is one-third lower than that found in the initial Chicago study for the same distance.

The Center for Responsible Lending has made estimates of possible national and state impacts on property values, applying the results of the Chicago study to their own data on foreclosures.³⁹ They now project that around 2.2 million foreclosures of subprime loans will occur primarily in late 2008 through the end of 2009, and that 40.6 million homes in neighborhoods will suffer price declines averaging \$8,667 per home, resulting in a \$352 billion total decline in property values. Applying the results of the broader-based study by Harding, Rosenblatt, and Yao would reduce these estimates, presumably by one-third (to a \$5,780 per home average and a \$235 billion total). Even in the latter case, the results will be traumatic nationally.

Crime, Social Disorder, and Population Turnover

Research has also been conducted that supports the effects hypothesized in our scenario of foreclosures on crime. One local example is a study conducted by the Charlotte-Mecklenburg (North Carolina) Police Department. They identified 13

neighborhoods in their metropolis with high “clusters of foreclosure” from 2003 through 2007—typically not the area’s most distressed neighborhoods but places where home prices were considered to be in an “affordable” range (\$90,000 to \$150,000). They then identified another 12 neighborhoods in the same price range that had not yet had high levels of foreclosure. They found that violent and property crime rates had gone up in both types of neighborhoods but that they were significantly higher in the high-foreclosure clusters. In 2005 and 2006, there was an annual average of 1.7 violent crime incidents per 100 houses in high-foreclosure clusters, almost three times the 0.6 average for the comparison group.⁴⁰

A more carefully constructed statistical analysis was conducted for Chicago. The researchers’ regression analysis related crimes in all census tracts in 2001 to tract foreclosure rates (foreclosures per 100 owner-occupied properties in 2001) and a host of other neighborhood characteristics. They found the relationship between foreclosures and violent crime to be statistically significant and sizeable. “A 1 percentage point increase in the foreclosure rate (which has a standard deviation of 0.028) is expected to increase the number of violent crimes in a tract by 2.33 percent, all other things being equal. A full standard deviation increase in the foreclosure rate is expected to increase the violent crime rate by 6.68 percent.” While the effect on property crime was not found to be statistically significant, the coefficient in the regression was positive.⁴¹

So far, we know of no well-documented case studies of neighborhoods suffering substantial abandonment or population loss primarily due to a high density of foreclosures. However, there are anecdotal accounts about this happening, for example, in recently built suburban developments where subprime loans predominated and there had been significant overbuilding and, more broadly, in some of the nation’s weakest housing markets, like Detroit.

Local Government Fiscal Stress and Deterioration of Services

The final impacts of the foreclosure crisis to be reviewed in this section are those that befall local governments. On one hand, given the discussion above on how foreclosures reduce property values in a neighborhood, there will obviously be a reduction in the property taxes that the local government can derive, so municipal revenues will go down. Less obvious perhaps is that, on the other side of the equation, an increase in expenditures will be inevitable.

It is now well known that America’s local governments are facing dire fiscal problems. An April–June 2008 survey of city finance officers by the National League of Cities (NLC) yielded these findings:⁴²

- 64 percent reported that their cities were less able to meet fiscal needs in 2008 than in the previous year.
- They predicted that in 2008, revenues will decrease by 4.3 percent and spending will decrease by 1.5 percent.
- Property tax revenues are expected to decline by 3.6 percent by the end of 2008.

There are many causes for these problems, but foreclosures and the declining housing market rank prominently among them. In another NLC survey, elected officials were asked what conditions had impacted their communities most severely. “Increased foreclosures” came in third behind “decreased city revenues” and “decreased funding for other programs and projects.”⁴³ Of the respondents, 62 percent said that foreclosures had increased some or a lot over the past year and one-third said the same about abandoned and vacant properties and other forms of blight.

FIGURE 2
COSTS OF FORECLOSURES TO LOCAL GOVERNMENT

| | A | B | C | D | E |
|---|------------------|------------------------------|-----------------------------|------------------------------|-------------------------|
| | Vacant & secured | Vacant & unsecured conserve. | Vacant & unsecured demolish | Vacant & unsecured abandoned | Abandoned & fire damage |
| Cost | \$430 | \$5,358 | \$13,452 | \$19,227 | \$34,199 |
| Lis Pendens filing | ■ | ■ | ■ | ■ | ■ |
| Chancery court, register sale, new owner | ■ | ■ | ■ | - | - |
| Vacancy intake, inspection, maint. registry | ■ | ■ | ■ | ■ | ■ |
| Serve notice to secure | - | ■ | ■ | ■ | ■ |
| Boarding, lien issuance | - | ■ | - | - | - |
| Prepare/hold administrative hearing | - | ■ | - | - | - |
| Police call | - | - | ■ | ■ | ■ |
| Demolition notices | - | - | ■ | ■ | - |
| Contractor demolition, lien issued | - | - | ■ | ■ | - |
| Property tax loss from demolition | - | - | ■ | ■ | ■ |
| Prepare/conduct demolition court | - | - | - | - | ■ |
| Unpaid property/utility tax losses | - | - | - | ■ | ■ |
| Unpaid water, mow lawn, remove trash | - | - | - | ■ | ■ |
| Fire suppression | - | - | - | - | ■ |

Source: William Apgar and Mark Duda. 2004. *The Municipal Impact of Today's Mortgage Foreclosure Boom*. Minneapolis, MN: Homeownership Preservation Foundation. Analysis for the City of Chicago.

Why do foreclosures cause local governments to spend more? In a study of the City of Chicago, William Apgar and Mark Duda enumerated the reasons.⁴⁴ They estimate the costs (as of 2005) of actions that the city must take under five different scenarios (summarized in figure 2). In scenario A, the property is vacant but secured by its owner. Only a few administrative processing tasks are required (\$430). Where the current owner has not secured the property, the city has to step in and take action itself. If the decision is to secure and conserve the property (scenario B) the costs of required processing jump up to \$5,400, but if the decision is to demolish (scenario C), they go up even higher to over \$13,000. If the owner abandons the property (scenario D) the city's financial exposure is even steeper because of unpaid property and utility taxes, and new outlays to continue water service and provide lawn mowing and trash removal (almost \$20,000). The city's exposure is highest by far if a fire occurs (scenario E). In this case, there are the costs of fire suppression, the eventual costs of demolition and site clearance, and the costs of keeping the building from being a threat to safety in between (more than \$34,000).

These are direct costs related to the foreclosed property itself. If foreclosure densities go up, there will be additional expenses for enhanced maintenance and trash collection in the broader neighborhood and outlays by the police department to address increased vandalism and crime in the area.⁴⁵ Furthermore, there will be additional costs to provide services to vulnerable residents who are displaced. In the NLC survey last cited, 53 percent of the officials said that needs for temporary assistance had increased some or a lot over the past year. Considering the weakening revenue position of most municipalities in the current environment, it seems likely that many of them may have to respond by cutting back on services rather than expanding outlays, unless more federal or state assistance is forthcoming.

Cost Summary

Taken together, an individual foreclosure imposes significant costs on a number of different parties. Figure 3, taken from a report prepared for the U.S. Senate Joint Economic Committee, attempts a summary of these costs.

First, there is a typical \$7,200 cost to the homeowner, a figure not including any imputed values for the effects of stress on the family. Second, as noted earlier, are the high legal and administrative costs born by the lender/servicer: as much as \$50,000. Next are the costs to local government: \$19,229 under scenario D from Apgar and Duda's analysis explained above. Finally, there is a \$3,016 drop in property value for the adjacent homes (calculated based on information from the Immergluck and Smith study). The estimated total cost is \$79,443.

FIGURE 3
THE HIGH COSTS OF FORECLOSURE

| Stakeholder | Est. cost/ foreclosure | Source/basis |
|---|---------------------------|--|
| Homeowner | \$7,200 | Anna Moreno, "The Cost of Mortgage Foreclosure Prevention," Minneapolis Family Housing Fund, 1995. |
| Lender/servicer | \$50,000 | Desiree Hatcher, "Foreclosure Alternatives: A Case Study for Preserving Homeownership," <i>Profitwise News and Views</i> , 2006. |
| Local government | \$19,229 | Estimate assumes property is abandoned before foreclosure completed. William C. Apgar and Mark Duda, "Collateral Damage: The Municipal Impact of Today's Foreclosure Boom," Homeownership Preservation Foundation, May 2005. |
| Adjacent neighbors (home values) | \$3,016 | Assumes two adjacent homes each experiencing a 0.9% home-price depreciation based on the \$167,500 national 2005 median home price (American Community Survey). Dan Immergluck and Geoff Smith, "The External Costs of Foreclosure: The Impact of Single-Family Mortgage Foreclosures on Property Values," <i>Housing Policy Debate</i> , 17(1), 2006. |
| Estimated total cost of a single foreclosure | \$79,443 | |

Source: Joint Economic Committee. 2007. *Sheltering Neighborhoods from the Subprime Foreclosure Storm*. Washington, DC: Joint Economic Committee. Special Report, April.

Section 4
THE FORECLOSURE RESPONSE SYSTEM

While there is little hard research on magnitudes and details, it is self-evident that foreclosures can have devastating, often ruinous, impacts on families (section 2). Impacts on neighborhoods can also be devastating, and there is more solid evidence to back up that claim (section 3).

As the number of foreclosures accelerates in early 2009, how ready is America to address these impacts, and what lessons have been learned so far about how to do so effectively? These are the two questions that motivate this section. As noted earlier, much of what has to be done to address the crisis ultimately has to be implemented at the local level—within the nation’s metropolitan areas for the most part. Accordingly, we continue to regard city and metropolitan leaders and practitioners as our primary audience, although we recognize that a part of what local stakeholders have to do is to press for essential changes in state and federal policies that will enable an appropriate local response.

A workable local foreclosure response system must develop appropriate tools and mobilize local institutions to do four things:

- Develop a Coordinated Foreclosure Response Strategy
- Prevent Foreclosures and Keep Families in Their Homes
- Stabilize Neighborhoods
- Help Families Recover

In this section we discuss the kinds of work involved in each area and summarize what is known about the response to date, nationally and at the local level.

Develop a Coordinated Foreclosure Response Strategy

In states, cities, and suburban communities across the country, task forces and coalitions are forming to coordinate and improve local responses to the foreclosure crisis. This coordination is an essential part of the development and execution of an effective strategy to prevent foreclosures and stabilize communities.

This section reviews the basic approaches the stakeholders are taking to develop a coordinated response strategy, including the following actions:

- Get Organized for Foreclosure Response
- Strengthen the State and Local Policy Environment
- Develop a Local Action Strategy
- Assess Progress

Get Organized for Foreclosure Response. The first necessary task in getting organized to develop an effective foreclosure response is to identify which organizations are already involved in addressing various aspects of the crisis. Stakeholders will likely include local nonprofit community development agencies and housing counseling agencies, philanthropic groups, local real estate agents and developers, banks, legal-aid organizations, advocates, and local and state political officials.

Some areas may find that the foreclosure crisis has reached the point where local stakeholders are eager to engage with each other, but in other areas groups may need to publicize the crisis and educate public and private actors about why they should be concerned with and involved in a coordinated foreclosure response strategy.

Getting Organized at the State Level. Since many of the laws and regulation that will determine the effectiveness of foreclosure response occur at the state level, it is important that priority be given to organizing at that level. So far, this need has been addressed in a number of states by establishing a foreclosure response task force.

Creating a broad-reaching task force can help ensure that all facets of a state's approach to addressing the foreclosure crisis are woven together into a comprehensive foreclosure plan. So that communities' solutions can be both quick and comprehensive, the recommendations of a task force can be implemented on a rolling basis. According to a study released in April 2008 by the Pew Center on the States, 14 states have created foreclosure task forces.⁴⁶

Foreclosure task forces should have a diverse membership, including government officials, community-based nonprofits, real estate agents, financial institutions, attorneys,

developers, and business leaders. Increased awareness of and attention to foreclosure issues may be an immediate benefit of creating a task force, while stronger foreclosure prevention and mitigation policies and assistance for struggling homeowners and neighborhoods tend to follow as a task force's plans are devised and implemented.

Getting Organized at the Local and Regional Levels. At the local level, the first priority is to mobilize foreclosure response teams within local governments, since they (municipalities and counties) have the legal power and the responsibility for many of the requisite actions (particularly with respect to neighborhood stabilization—securing properties and bringing them back into use). Governments at this level had the responsibility for preparing the Neighborhood Stabilization Plans called for under the Housing and Economic Recovery Act of 2008 (HERA). The first step is to establish a cross-departmental team or task force, probably under the aegis of a deputy mayor or other official with enough power to assure coordination across disparate agencies. Important here too is involving local community development corporations and other nonprofit housing and community development advocates in the planning process so they will be prepared to play much-needed roles in implementation.

Interestingly, there also is a growing recognition of the need for new or stronger mechanisms at the metropolitan level; such efforts would examine how the nature of the problem varies across neighborhoods metro wide, develop a foreclosure response strategy (offering guidance on where and how to target resources), mobilize local interest and participation, press higher levels of government to support needed reforms, and track the performance of all groups working on the issue. These functions fill a real gap. Individual jurisdictions may face difficulties performing these functions because they cannot take advantage of economies of scale in mobilizing and coordinating the deployment of nonprofit resources. State governments cannot take them on because they are too removed from the local scene and may not be accepted as truly representing the metropolis at hand.

There is only a small collection of stories to go by, but it appears that a growing number of metropolitan areas are now trying to strengthen their coordination of foreclosure response activities. There is no single right answer to the question of how local practitioners, advocates, and policymakers should structure and govern their regional collaborations. Instead, a variety of institutional forms are emerging.

In Baltimore, for example, several local counseling and advocacy groups came together to form the Baltimore Homeownership Preservation Coalition (BHPC), which has since become the “central place” where those working on the issue in the area meet to try to track the problem and discuss ideas for response.⁴⁷ BHPC now has 58 member organizations, which include government agencies and legal services and community

development groups as well as counseling organizations. While focusing on the city, the coalition has been reaching out to work with metro and state actors as well.

In Atlanta, the Atlanta Regional Commission (ARC, in effect, the region's council of governments) has taken the lead in analyzing information about how the incidence of foreclosure filings varies across the region. ARC is now working with the city, individual county governments, universities, and other local nongovernmental partners on the development of strategies to expand foreclosure prevention and stabilize impacted neighborhoods.⁴⁸

In many other regions, the existing council of governments or metropolitan planning organization may be best positioned to exert leadership on this issue and stimulate the creation of coalitions of interested stakeholders (like the BHPC) and of rich partnering relationships with individual local governments. Alternatively, a nongovernmental coalition might form first, as it did in Baltimore, and then play the central role in engaging the council of governments and other local players.

Once organizations are engaged on the issue, they will likely take on different roles in the coalition. The Memphis coalition, for example, has three subgroups: a working group, a resource group, and a leadership group.

- *Working group.* This group consists of the local community development councils, legal services, and other leading nonprofit agencies, together with data support provided by the Center for Community Building and Neighborhood Action (based at the University of Memphis). The working group does most of the planning and implementation work of the coalition.
- *Resource group.* This group is made up of organizations and local agencies that can provide specialized resources for the working group, such as housing counseling or code-enforcement strategies.
- *Leadership group.* This last group is made up of community leaders, including city and county officials and local foundations. While this group may not participate in the day-to-day work of the coalition, the success of the coalition's strategy depends on getting their input and buy-in.

Strengthen the State and Local Policy Environment. Once coalitions evolve at the state, regional, and local levels, they should be well positioned to advocate for more effective tools and resources from the federal government. However, as noted, many of the needed policy changes and other necessary actions have to occur at the state level. It is the state that typically controls many of the most relevant legal, regulatory, and

budgetary levers, and local coalitions need their states to deliver in order to be effective. Alan Mallach has developed a full menu of what states can do in this regard:⁴⁹

- revising laws and regulations to ensure a fair foreclosure process, prevent predatory and deceptive foreclosure “rescue” schemes, move properties into reuse more rapidly, and support the creation of entities that can ensure foreclosed properties will be conveyed to responsible owners;
- using their leverage to encourage creditors to pursue alternatives to foreclosure where possible and, when foreclosure does occur, to recognize their obligations to keep properties well maintained while they are in REO status; and
- providing more funding and other supports for local counseling and neighborhood stabilization activities.

This component of the work also includes better informing local governments about the evolving nature of the foreclosure crisis, promising responses, and then taking steps as needed to encourage revising local laws, regulations, and policies to be more conducive to realistic solutions. Relevant policies controlled by cities and counties include eviction protection for renters, definitions and enforcement of property code violations, and differential tax treatment for vacant properties.

Develop a Local Action Strategy. The main components of a foreclosure response strategy will include preventing foreclosures, addressing neighborhood spillover effects, and helping families recover. But assigning priorities is no easy task. Section 3 showed that the nature and extent of foreclosure problems differ dramatically across neighborhoods in most metropolitan areas. Some neighborhoods warrant higher priority than others, and solutions that work well in one may not prove effective in others.

It is apparent, therefore, that devising strategies to respond to the foreclosure crisis depends more on good data than on efforts to address many other issues. Local coalitions should strive to assemble and evaluate pertinent data at the neighborhood level and to use that data to develop strategic guidance for policy change, targeting specific types of mitigation actions to different types of neighborhoods.

Needed data include neighborhood-level information on the numbers of loans and foreclosures but also on a host of other social, economic, and physical characteristics that allow analysts to better interpret the implications of any particular risk of foreclosure. The good news is that the cost of assembling such data from local records has dropped dramatically in recent years. University institutes and civic groups in a sizeable number of metro areas have already obtained, and are using, much of the data that are needed.

A rapidly growing network of such organizations in 31 cities—the National Neighborhood Indicators Partnership (NNIP)—works to advance techniques in this field and spread capacity to other cities.⁵⁰

But even groups that do not have access to local foreclosure data can get started using nationally available data to begin to understand how the foreclosure problem is playing out in different neighborhoods. Access to such data can be obtained, for example, at <http://www.Foreclosure-Response.org>.

Local analysts may ultimately develop sophisticated analyses of available data as they work with policymakers and practitioners to craft sensible interventions in different neighborhoods. It may make sense, however, to start with a fairly straightforward framework that classifies neighborhoods by housing market strength and the risk of being impacted by foreclosures, consistent with themes suggested by Alan Mallach.⁵¹ Figure 4 is an example of such a framework:

- the rows classify market strength as (1) strong, (2) intermediate, or (3) weak, and
- the columns classify the foreclosure impact risk as (A) low risk of a high concentration of foreclosures (high foreclosure density), (B) high risk of high foreclosure density, or (C) actual high foreclosure density.

This type of framework could help communities tailor strategies and make informed choices about how to target scarce resources. The central goals are to prevent foreclosures from destabilizing sound neighborhoods and to revive those already in decline. In a resource-scarce environment, this means investing time and resources in those neighborhoods where the investments will have the most significant payoff. At the simplest level, planners might apply guidelines like the following:

FIGURE 4
FORECLOSURE RESPONSE STRATEGY FRAMEWORK

| Market strength | Foreclosure Impact Risk | | |
|-----------------|---|--|---|
| | A. Low risk of high foreclosure density | B. High risk of high foreclosure density | C. Actual high foreclosure density |
| 1. Strong | <i>Lower priority</i> | <i>Lower cost effort to prevent foreclosures and vacancies, low/no subsidy</i> | <i>Facilitate rapid sales to sustainable owners, rehabs as needed, low/no subsidy</i> |
| 2. Intermediate | <i>Lower priority but watch carefully, head off emerging problems early</i> | <i>Highest payoff/priority, prevent foreclosures and vacancies, emphasize neighborhood maintenance</i> | <i>2nd highest payoff/priority, rehab & rapid sale to sustainable owners, target subsidies, neigh. maint.</i> |
| 3. Weak | <i>Lower priority but watch carefully, head off emerging problems early</i> | <i>Lower cost effort to prevent foreclosures and vacancies, low/no subsidy</i> | <i>More emphasis securing/demolishing, land banking to hold until market rebound</i> |

1. Local strategies probably do not need to invest much in the way of foreclosure-response resources in neighborhoods where there is a low risk of many foreclosures, regardless of market strength (see 1A, 2A, or 3A in figure 4), although trends should be monitored so that low-cost interventions could be mounted in intermediate- and weak-market neighborhoods to head off problems quickly if risks start to increase.
2. Strong-market neighborhoods are not likely to demand much attention until risks of foreclosure impacts increase substantially (1B and 1C). There are not likely to be many neighborhoods in these categories but when they emerge, cities should act quickly to prevent actual foreclosures and minimize vacancy in any properties where foreclosures do occur. With prompt intervention to do that, the strength of the market may prevent serious further slippage, so less subsidy is likely to be needed than in areas where the market is weaker.
3. Markets where there is an intermediate level of demand may be the highest-priority targets for government investment, since they are close to a tipping point—susceptible to rapid decline if foreclosures are not prevented or the properties are not swiftly brought back into reuse. Where many properties are at risk but foreclosures have not yet occurred (2B), the emphasis should be on prevention: outreach and counseling for troubled borrowers and help (sometimes financial) so they can refinance on terms that will be sustainable. Also needed in

these areas will be code enforcement and public maintenance to “keep up appearances” in properties and public spaces not yet directly threatened.

4. Intervention in intermediate markets where a sizeable number of foreclosures have already occurred (2C) is also likely to be urgent. Officials should continue all of the types of actions suggested for 2B above, but also add forceful direct public action to restore foreclosed properties to use as soon as possible. Rehabilitation may be needed, and subsidies are likely to be appropriate in many cases. Rehabilitation will only be warranted, however, where the market is strong enough so that the new owners (investors or owner-occupants), taking into account the full costs of rehab as well as available subsidies, will subsequently be able to operate the property in an economically stable manner over the long term. Public acquisition and transfer of ownership to nonprofit housing groups may be appropriate for some properties.
5. Neighborhoods with both a weak market demand for housing and high risk of foreclosure impacts (3B and 3C) represent an even more difficult challenge. In some places, sizeable, strategically placed public investments can turn market conditions around. Generally, however, funds are not likely to be adequate to recreate a stable private market everywhere. Where this is so, research has shown that revitalization funds will have more impact if clustered in a few locations rather than spread evenly in all distressed neighborhoods.⁵² In remaining areas where the market is likely to remain weak for some time, it may be difficult to justify investments in rehabilitation because the prices or rents needed to cover the costs will exceed what people are willing to pay. With investments in renovations that are not targeted, communities may find they quickly run through available funds and in the end do not have enough to successfully stabilize these neighborhoods. In a worst-case scenario, much of the available funding could ultimately be lost.

An alternative approach would be for government to acquire the foreclosed properties, demolish the structures, and hold the parcels as a part of a land bank until market conditions rebound enough to justify further investment. This is, of course, a difficult decision to make, and significant discussion will be needed with many constituencies to reach a level of community acceptance that will allow this strategy to move forward successfully.

Real neighborhoods, of course, may not fall neatly into just one of these boxes. When a neighborhood fits between two of them, a blending of the actions suggested for the two will be appropriate.

Also, even though market conditions and concentration of foreclosures are the most important indicators for these purposes, other information should be consulted as well in developing an action strategy. One additional factor to consider is the extent of other investment—both past and present—by the private or public sectors. Some neighborhoods may already have had substantial private or public sector investment, in which case no additional funding may be needed. On the other hand, these areas might require new funding to protect the long-term investments that have been made and prevent the neighborhoods from sliding into decline. Other neighborhoods may have community resources and assets, including anchor institutions or strong community groups that will be able to leverage new public investments to stabilize the neighborhood, even if the housing market data indicate a weaker market. Additionally, certain neighborhoods may have a greater capacity to influence the trajectory of areas that surround them; any funds targeted to these areas would have a higher impact than funds targeted to a neighborhood that is more economically and socially isolated.

A good example of a strategic planning effort that followed this “different treatments for different types of neighborhoods” approach is one developed in Columbus County and Franklin County, Ohio, with technical support provided by Community Research Partners, the local NNIP affiliate. This effort explicitly sought to “(1) prevent neighborhood decline associated with foreclosure in traditionally stable markets...; (2) address the issue of backslide due to foreclosure in ‘tipping point’ neighborhoods; and (3) focus resources in neighborhoods traditionally targeted by revitalization efforts, preventing further disinvestment and decline.” “Weak-market” neighborhoods were identified and “comprehensive acquisition and holding plans” were devised for each.⁵³

Finally, while addressing the current foreclosure issue is the highest priority, local coalitions also may want to be on the lookout for opportunities to use this immediate crisis to further broaden housing policy goals, such as increasing the supply of affordable rental housing, promoting mixed-income neighborhoods, developing homeownership opportunities for the local workforce, and increasing green space.

Assess Progress. There is a growing expectation that publicly supported initiatives should be held accountable for results. This means that responsible entities should prepare regular “report cards” on the nature and scope of the problem they are dealing with and on the success of local efforts to address it. With respect to the foreclosure crisis, we know of no local government that is doing that as yet, presumably because it has been particularly difficult to assemble the relevant data.

However, the future for such reporting is starting to look promising. A number of cities now have potentially linkable automated records on foreclosure notices, and transfers of

monthly or quarterly title reports on several aspects of the problem could be produced for the city or county and for individual neighborhoods:

- number of properties entering the foreclosure pipeline (notices),
- disposition of properties in the pipeline (foreclosure cancelled or title transferred after sheriff's sale), and
- number of REO properties subsequently sold to a new owner (by months since a sheriff's sale).

Information along these lines is now available in a number of cities, including Baltimore, Cleveland, Memphis, and Washington, D.C. Some have done sophisticated analyses of the results of the process. One report available in Cleveland, for example, allows assessments of the probabilities of foreclosure given varying characteristics of the loan. Another report using the Cleveland data system analyzes how long institutional investors are holding properties after foreclosure and the prices at which properties are ultimately sold.⁵⁴

Other elements needed for performance reporting on this topic relate to data on program activities, and data collection here is also getting easier. For actions taken by the local government on specific foreclosed properties (e.g., demolition, boarding up, rehabilitation) the need is to link a description of what was done (type of action, dates, and dollar amounts) to the address and track other indicators of neighborhood change. It will then be possible to conduct analysis and assess performance for individual neighborhoods as well as the jurisdiction as a whole.

The hardest part of program reporting in this field is assembling data from the many nonprofit counselors and advocacy groups involved. However, there seems to be a growing interest in doing this too, because counselors are feeling a need for data on "who else is doing what and how much" so they can target their own activities efficiently. This topic (how to get coordinated reports on counseling activity) is now being seriously considered, for example, by the Baltimore Homeownership Preservation Coalition.

Prevent Foreclosures and Keep Families in Their Homes

This work entails counseling owners to help them keep up to date on their mortgage payments. Where that fails, counselors can attempt to help owners and their loan servicers work out modifications to the terms of the loans, making them sufficiently affordable over the long term so that foreclosure can be averted. Where that fails as well, the work may also entail devising arrangements to allow the former residents

(owners or renters) to remain in the property as renters, possibly under a plan that might restore some to ownership at some point.

There is ample guidance available on approaches to homeownership counseling and loan modification.⁵⁵ An effective foreclosure prevention system should include the following elements:

- A substantial program of ongoing outreach to inform at-risk owners of their rights, encourage them to contact responsible counseling organizations, and avoid being taken in by unscrupulous parties offering to provide assistance. A coordinated outreach program involving local government agencies as well as nonprofit counselors and coordinating groups should be the goal. These efforts should be proactive in terms of use of all media to get their message across. Many establish a 24-hour hotline and a one-stop foreclosure prevention service.
- The development of a sizeable number of competent nonprofit counseling organizations that have established working relationships with servicers and lenders as well as relevant government agencies. An efficient computer-based system is important for all to maintain adequate records on clients, loans, and events in the process.⁵⁶
- Access to resources that allows organizations to provide financial assistance to help their clients overcome short-term emergencies and enhance the feasibility of alternative refinancing plans in working out loan modifications with servicers.
- Appropriate legal assistance to assure adequate representation of clients in loan modification and in other issues that could arise in the foreclosure process. The state of Ohio and its bar association for example, have made aggressive efforts to mobilize attorneys to assist struggling homeowners in the foreclosure process. Many have registered on a voluntary basis.

The task of loan modification is the most challenging. If the principal balance of the loan is not written down or the interest rate reduced (either through the injection of subsidy funds or the lender writing off some amount), all that can be done to make payments more affordable is to adjust the terms (e.g., reduce the monthly amount but extend the period of payment). This is often not enough to make the revised loan sustainable.

If the loan cannot be modified satisfactorily, there is an alternative that, while far from ideal, is generally a better resolution to the issue than foreclosure: helping the borrower negotiate a short sale. This is where the lender agrees to allow sale for less than the full outstanding balance of the mortgage and, in return for that amount, to eliminate the debt. The borrowers benefit—while they lose their homes and damage their credit histories to some extent, they walk away debt free—and the lenders gain a sizeable payment early

and avoid what we have seen can be a considerable additional expense in following through on the foreclosure process.⁵⁷

Sizeable national efforts have been mounted to expand counseling in the current crisis. The federal government provided funding to NeighborWorks America (NW) to create and lead a consortium of banks and other groups called the Hope Now Alliance; the consortium facilitates *voluntary* loan modifications and provides additional counseling through its \$180 million National Foreclosure Mitigation Counseling Program.⁵⁸ In both cases, the work is actually carried out by hundreds of local counseling and advocacy groups (many affiliated with the existing NW network) that already exist in most metropolitan areas. In addition, HERA (H.R. 3221 enacted in July 2008) created a broader HOPE for Homeowners program in the Federal Housing Administration (FHA) that supports refinancing loans for borrowers in or at risk of default at better terms.⁵⁹

However, through early 2009, the lenders had been generally unwilling to write down principal or reduce interest rates voluntarily, and the federal government had not come up with incentives and supports that caused them to do so. Accordingly, results have been modest. The comptroller of the currency recently reported that more than half of the owners whose mortgages were modified in hope of stability during the first half of 2008 ended up in default again within six months.⁶⁰ Furthermore, the Department of Housing and Urban Development's (HUD's) new HOPE for Homeowners program, which was supposed to help 400,000 owners avoid foreclosure, has had negligible participation to this point. According to HUD's secretary, this has been due to high cost and onerous requirements.⁶¹

There remains debate as to which cases warrant government subsidy and how much should be provided. Some have argued that the owners now in default on a loan they cannot afford "should have known better," but many recognize that very large numbers were induced to take on their current loans by predatory brokers and did not fully understand what they were getting into. There seems general agreement that government funds should not be used to (1) bail out owners that have the means to sustain a loan on their own with modest adjustments to the terms, or (2) keep owners in homes that they realistically cannot afford over the long term (although many of these will need other types of support in the transition). Subsidies to make ongoing ownership workable should be targeted to those in between.

Even where there is agreement that a borrower should be helped, however, questions remain in many cases as to the best way to do it. One study by the National Low Income Housing Coalition, for example, suggests that while subsidies may be warranted in many cities, fully bailing out the loans may not make sense in formerly hot markets like Los Angeles or Boston—cities where the cost of home ownership may be "two to three times

that of renting a comparable unit.” Sustaining borrowers in their current units in these circumstances may be much too wasteful of subsidy funds—the same amount of subsidy in other markets could help a number of families.⁶²

In February 2009, the Obama administration announced an extensive (\$75 billion) new national program to prevent foreclosures (the Homeowner Affordability and Stability Plan). It intends to assist as many as 7 to 9 million homeowners but, as of this writing, the details on how the program will be implemented have not been released.

Stabilize Neighborhoods

Neighborhood stabilization programs aim to mitigate the deleterious community impacts of foreclosures enumerated earlier and restore healthy market conditions. As stressed in section 3, some of the most negative impacts on neighborhoods are created by the vacancies (and sometimes abandonments) that result from foreclosure. The goal of programs to mitigate neighborhood impacts, therefore, emphasizes minimizing vacancies and their effects.⁶³ There are several possible courses of action.

Secure and Maintain Vacant Properties. This entails rapid action by local governments to assure that vacant properties are properly secured and then to find some way to arrange for adequate ongoing maintenance.⁶⁴ This starts with pressures to get the banks that now own many vacant properties (now REOs) to perform these functions. This can happen through (1) setting differential property tax rates,⁶⁵ (2) requiring owners of vacant properties to register them and pay an associated fee; (3) placing a lien on a vacant property, justified by the additional costs incurred due to the vacancy; and (4) providing financial incentives for the servicer to maintain and improve a vacant property (e.g., grants and below-market loans, tax abatements, forgiveness of liens).

If these approaches fail, nuisance abatement provisions in state laws usually allow municipalities to act directly to secure these properties and keep them well maintained. This can include government employees (or their contractors) mowing lawns, removing trash, making various repairs, boarding up buildings, and even demolishing buildings.

As the number of foreclosures mounts in any area, neighborhood-wide code enforcement will have to be intensified and general public maintenance and repair efforts enhanced to do a better job of keeping up the appearances of the neighborhood’s buildings and public spaces. The municipality may also want to engage the residents in fix-up and improvement campaigns.

Expedite Private Resale of the Property. The above efforts are only buying time, however. Agencies must move to the second step as soon as possible. Where market conditions are strong enough to allow it (refer to the strategy matrix in figure 4), the starting point should be to encourage responsible private parties (investors or prospective owner-occupants) to purchase the property (and, in many cases, rehabilitate it) and then expedite reoccupancy. State and local governments can play a role in this. First, they can put pressure on REO owners to move quickly in a number of ways. One may be to institute a legal requirement that creditors who initiate the foreclosure process move forward within specified time periods or relinquish the right to foreclose. Second, they can make doing so more attractive for REO owners, for example, by streamlining processing, helping in marketing, and, in some cases, providing financial incentives.

Public Acquisition and Management. Alternatively, where market conditions are at weak to intermediate levels, it may be necessary for government agencies to play the central role in acquiring foreclosed properties and getting them back into use. Local governments should make a clear assignment of the agency to be responsible for this role and most need to make a serious effort to expand staff capacity. Staff should be able to enter into tough negotiations with REO owners (many of whom have not adequately acknowledged how the values of their properties have declined). There may be need for new state legislation that penalizes REO owners who turn down responsible offers by government but later sell the property for a lower price.

It may be advantageous to try to negotiate bulk purchases with larger REO owners rather than on a property-by-property basis. Local governments should also be aggressive about acquiring properties at low cost through tax foreclosure when the circumstances warrant. They should also be alert to other opportunities to reduce public acquisition costs. FHA's 602 Nonprofit Disposition Program, for example, allows local governments and nonprofits in specified asset control areas to purchase foreclosed FHA properties at substantial discounts.⁶⁶

A problem is that in many communities, there is no public or quasi-public entity that has the capacity (or in some cases, the appropriate legal authority) to handle the acquisition, management, and disposition of property in the public interest in an effective manner. Specialized agencies may have to be created (or strengthened) to perform this "land-banking" function at scale⁶⁷ (one of the most successful land bank examples is that implemented in Genesee County, Michigan).⁶⁸

When public agencies (land banks or otherwise) have acquired foreclosed properties, they must make sensible decisions about the future of each one consistent with market realities (again see the framework in figure 4 and more detailed guidance offered by Alan Mallach and the Furman Center at New York University).⁶⁹ One option is to

rehabilitate the property and then market it to a private buyer. Another is to convey the property to a nonprofit housing group to both implement the rehab and then manage the property as affordable rental housing over the long term. Alternatively, a community land-trust model may make sense (where families can purchase a unit at a below-market price but the community trust retains ownership of the land, and the unit owners and the trust typically share profits from appreciation at resale).⁷⁰

The decision to rehab the property and try to bring it back into use, however, must be carefully considered. Even with a reasonable amount of subsidy the market in the neighborhood (either for rentals or homeownership) may not be strong enough to make doing so feasible in the short term. If so, the only reasonable course of action may be to board up or demolish the structures and then hold the land for a fairly prolonged period until the market improves again. After demolition, in an effort to reduce maintenance costs, the practical thing is sometimes to provide planting and convert the land into public park space. Another approach (where feasible) is to convey the land to abutting owners so that they have more expansive side lots, eliminating the need for ongoing public outlays altogether.

Federal Support: the Neighborhood Stabilization Program. There is hardly any documentation on what stabilization actions like these had been implemented before HERA became law.⁷¹ However, in addition to the mortgage-modification effort discussed above, HERA also created the Neighborhood Stabilization Program (NSP), which provided \$3.9 billion to be allocated by formula to states and localities to support just the kinds of efforts to mitigate neighborhood impacts discussed above.⁷² HUD implemented the allocation formula expeditiously, promulgating it and related regulations on September 27, 2008. Jurisdictions receiving allocations had to complete their action plans by December 1. They are scheduled to receive their allocations by the end of the first quarter of 2009 and will be obligated to use all funds within 18 months of their receipt.

While the original NSP was important, observers generally considered it problematic in two respects. First, given the haste with which funds must be spent, there are doubts that many jurisdictions will be able to spend them wisely. Section 3 emphasized that the extent and nature of the foreclosure problem varies significantly across neighborhoods in most metro areas. There is the concern that most local governments do not have the skills to target actions sensitively in relation to market differences, and many may not have the administrative capacities needed to implement these kinds of programs effectively once targets have been set.

Second, although no one has yet made a supportable estimate of the total amount of public funds needed to address neighborhood impact mitigation, advocates have

generally considered the initial \$3.9 billion to be woefully inadequate. This has been addressed at least partially in the Obama administration's economic recovery package by the provision of an additional \$2 billion for NSP (H.R. 1, the American Economic Recovery and Reinvestment Act, passed in February 2009). Unlike the existing program, the new NSP allocation is to be allocated via a competitive process. Nonprofits, as well as states and local governments, will be eligible to submit proposals.

Help Families Recover

What local actions are needed to mitigate the deleterious impacts of the foreclosure crisis on families, as itemized in section 2? The enhanced availability of many types of services is foremost.

Some of the former owners who have lost their homes via foreclosure may still have income and be relatively stable in other ways. Still, as the discussion of the trauma of foreclosure in section 2 implies, many of them may well develop needs for more intensive services. And certainly many displaced renters are likely to require more.

Emergency Housing Assistance. For renters and the most troubled former owners, the foreclosure-related displacement may simply be one of a series of disturbing events that face the nation's most vulnerable families (e.g., illness, job loss, family stress). They are likely to require the full array of services that are in some places now being thought of and planned collectively under the rubric of homelessness prevention.⁷³

This is likely to start with emergency housing assistance (financial and other) to help them secure and be able to pay for a new place to live. There may be needs for additional in-kind assistance (food and clothing) as well. Over the past decade, assistance in finding a new place to live in these circumstances has improved under many local continuum of care programs.⁷⁴ The level of information about such assistance has also increased in most areas.⁷⁵

An important opportunity at this point is to make sure that housing counseling agencies advising families in the foreclosure process are aware of the types of assistance that are available and are providing relevant information to their clients. Several new programs are targeting resources specifically to families displaced by foreclosure. The State of Massachusetts, for example, now requires participating lenders to provide \$5,000 to housing counseling agencies for each of their borrowers being served. These funds cover the costs of moving and security deposits for the families, with the provision that any leftover amounts go back to the counseling agency.

A Wider Range of Social Services. For a sizeable number, there will be requirements for counseling and advocacy that will help them connect with other resources to stabilize their lives over the longer term:

- counseling on family financial management and, for some, help preparing for and finding new jobs;
- legal assistance with housing and other issues;
- special programs in the schools to help the children of displaced families cope with the transitions; and finally,
- services to deal with more severe issues like mental health problems, spousal abuse, and drug addiction that may have been exacerbated by the displacement.

In these areas, America does not need new types of services to address the impacts of the foreclosure crisis on families but, rather, an expansion—in many areas, a significant expansion—and improvement in effectiveness of the types of social services that already exist at some level in most of our metropolitan areas.⁷⁶ A step in this direction was taken with the passage of the American Recovery and Reinvestment Act, which provides a new \$1.5 billion homelessness prevention fund that can be used to cover many of these services, targeted to people who would be homeless but for this assistance.

Repairing Credit Histories. A service that is particular to this crisis, however, is helping former owners who have been foreclosed upon develop and stick to realistic plans for repairing their credit histories over time. Even displaced families from previously higher-income groups are likely to need this type of assistance, since the task is both challenging and new to them. Guidance on how to provide such counseling is now widely available,⁷⁷ and there is growing evidence that such counseling can be effective. One study, by the Indianapolis Housing Partnership, found that families' credit scores were significantly improved by their counseling program, helping improve the families' borrowing power by an average of more than \$4,500.⁷⁸

Section 5

PRIORITIES FOR FURTHER RESEARCH ON SECONDARY EFFECTS

The foreclosure crisis is center stage among America's policy concerns in early 2009. It is having marked impacts on families and neighborhoods across the country and yet its effects, and efforts to address it, have not been the subject of considerable rigorous research to this point. A number of excellent studies have been completed (noted throughout this report). But in many ways, they have only scratched the surface.

Part of the reason is that the crisis has emerged so recently that scholars have not had time to design and implement well-structured studies. A possibly more important reason, however, is that in several respects this crisis is an extraordinarily difficult phenomenon to research. As noted in section 1, efforts to document the impacts on families are frustrated by the families affected being extremely hard to identify and track. Foreclosure has caused them to move, and there is no easy way to find them again.

With recent advances in the development of local parcel-based data systems, research on neighborhood effects should be easier than it has been in the past. But the problem in this case is that results are likely to vary in different kinds of metropolitan areas and different kinds of neighborhoods within them. Good studies will demand a considerable amount of contextual data as well as data on the foreclosed properties themselves. The same problem affects the research on the efficacy of interventions—even more so. Researchers need definite time- and property-specific facts about often-complex programmatic actions on top of data about the properties themselves and their contexts.

What follows is a brief listing of ideas about research opportunities in each of these categories related to secondary effects. The list is far from exhaustive in these categories (they deal only with what we see as the priorities at this point) and they do not cover other key topics in the broader field (e.g., foreclosure prevention, revising the

regulatory environment). We conclude, however, with another topic that may be even more important than the research: the need for improvements to data systems at all levels to support more effective planning and promote accountability.

Research on Impacts on Families

After so many stories about victims of the foreclosure crisis have appeared in the press over the past two years, the public does not seem to need much more convincing that the problems are serious. Still, all of the anecdotes do not add up to a balanced understanding of the impacts and how they occur. We still do not have “numbers” on the incidence of all of the potential effects we raised questions about in section 1. We know very little about how these effects overlap or how incidence varies for different types of families and locations. We think that two types of studies are warranted at this point.

Comprehensive Study of Impacts on Families. Normally, when social scientists want to learn how a problem is affecting a population, they find a list of the people affected, draw a sample, and conduct interviews. Here, as noted, the problem is finding the list. From commercial or local sources in most cities, it is now possible to get a list of addresses of the properties where foreclosure sales have occurred, but not a list of the families that used to live there at the time those sales occurred.

To our knowledge, there is only one viable approach to developing a sample survey of all families affected by foreclosure: one designed by Claudia Coulton of Case Western Reserve University.⁷⁹ The steps are as follows:

- Acquire a list of properties that just recently entered the foreclosure process in a city (i.e., notice of foreclosure has been sent but sheriff’s sale has not yet occurred).
- Select a sample from that list and recruit families in a short time to form a panel.
- Conduct multiple interviews with all families on the panel, one before foreclosure and two or more after (setting up procedures as needed to track them after they move).

Coulton suggests that the surveys would cover changes in “living arrangements, neighborhood quality, family economic status, employment, material hardships, physical and mental health, [and] children’s schooling and activities.” She further writes, “Historical data will also be collected on how the household came to be in the foreclosed property. For renters, the survey will cover leasing arrangements and rental history.”

To be satisfying, this study should be conducted in several cities with contrasting market environments. The approach has been proposed to several foundations but, as of this writing, it has not yet been funded.

Study of Impacts on Subgroups. Another, less-comprehensive, approach would be to match a list of addresses of foreclosed properties after the fact with administrative records on a subpopulation, with residential addresses over time linked by unique identifiers (i.e., so one could identify many of the families that lived in each foreclosure just before the sale). With these matches, it should be possible to find the families at their current addresses and either interview them or track subsequent events that happen to them in the relevant administrative files.

A version of this approach—involving public school children—has been funded by the Open Society Institute and Fannie Mae and is being implemented by the Urban Institute and local research organizations in Baltimore, New York, and Washington, D.C. Automated school records in these cities from different points in time record residential addresses for students, and a match with foreclosed properties controlling for the time of foreclosure is possible. This study plans not to interview the families of the matched students, but, rather, to track what happens to them in the school records at multiple points in time after the foreclosure (e.g., changes in reading and math proficiency, subsequent residential mobility, changes in rates of absence).

This approach will not lead to the identification of all families affected for any time period, but it is likely to identify large numbers of them and it gets at some of the most critical impacts of interest for policy. It is also much cheaper than the comprehensive interview approach so it should be possible, as well as valuable, to implement it in a larger number of cities.

This approach could be applied to other vulnerable populations for which some address-based administrative records exist.

Research on Impacts on Neighborhoods

Past research on neighborhood impacts reviewed in section 3 has been important in demonstrating the critical nature of the issue: that foreclosures do indeed cause serious problems for communities. But, among other things, it does not say very much so far about how results are likely to vary in different neighborhood and metropolitan settings or how effects work themselves out—the sequences of effects—in any one neighborhood.

Integrated Studies of Multiple Effects. In the studies of the relationships between foreclosures and property values completed so far, the magnitudes of the effects have differed notably in different places. There are good reasons to expect that locational characteristics may well cause variations in crime and other outcomes as well. This suggests the need for more controlled studies in a number of additional metropolitan areas. Fortunately, good parcel- or address-based data sets on the outcomes of interest are now available in a number of cities, so the potential of doing this work well at a reasonable cost is much better than it was even five years ago. In each study, we suggest the following:

- Conduct analyses of the relationships between foreclosures and all indicators of interest simultaneously (vacancies, problem buildings, crimes of different types, property sales volumes, sales prices, etc.) and look for recursive relationships (e.g., to what extent do foreclosures lead to crime, which in turn leads to more foreclosures?).
- Incorporate substantial data on the economic, social, and physical characteristics of neighborhoods and look explicitly for how these characteristics affect foreclosure impacts (areas with high foreclosure densities include outer suburban tracts with fairly high incomes as well as more distressed tracts in inner cities and inner-ring suburbs).
- Look explicitly for nonlinear relationships (as the number of foreclosures increases, there may well be thresholds or tipping points beyond which negative impacts accelerate).
- Look at sequences of change in relation to thresholds to see if the most opportune times for intervention can be identified.
- Examine changes in characteristics of surrounding communities over the same time periods to learn about how and to what extent foreclosure impacts spread across neighborhood boundaries.
- Use advanced econometric techniques to model temporal and spatial effects simultaneously (one candidate that has been suggested for such work is the Space Time Analysis of Regional Systems, or STARS, approach).⁸⁰

Further Research on Municipal Costs. Apgar and Duda's Chicago study was valuable in identifying the types of added costs that municipalities could face, resulting from a single foreclosure. Similar studies should be conducted elsewhere (municipalities with different legal processes, etc.). Also, case studies of broader costs would be beneficial (i.e., costs related to more intensified code enforcement and social services in neighborhoods hit hard by foreclosures). It would also be of interest to examine how local governments are making the tradeoff decisions about foreclosure response at present. To what extent are they recognizing the need for expanded services in affected neighborhoods but postponing the expenditure due to today's budget problems?

Research on Foreclosure Response to Neighborhood Impacts

Research that can inform response strategy probably merits the highest priority at this point. One convenient way to get started would be with examination of the plans various jurisdictions prepared in response to HUD's NSP grant process. There has been a helpful initial analysis of 87 of the plans, covering only a few descriptive characteristics, that provides an orientation.⁸¹ Staff of the regional banks in the Federal Reserve System are now planning more detailed individual case studies of a selection of these plans. These will contain a description of the targeting of resources, geographically and by type of expenditure, but they will also include analysis of how decisions were made in the planning process and some documentation of early implementation experiences.

Preparations should be made now, however, for more comprehensive assessments of what cities are doing to stabilize foreclosure-impacted neighborhoods—work that marries the best of case study techniques with considerable quantitative analysis. Again, to gain an understanding of the range, these assessments should be conducted in several (i.e., 5–6) cities with contrasting market environments. They would cover not only the local NSP experience but all other elements of the city's strategy as well.

The quantitative analysis would require that agencies provide data on the actions taken (and associated expenditures) on a property-by-property basis (HUD is requiring that all grantees submit parcel-level information like this for all NSP activities). The data on program activity would then be related to all of the types of parcel-level information on changing neighborhood conditions suggested in the previous section as being needed to assess impacts.

Systematic reviews of the descriptive statistics (program activities and neighborhood change) should offer a general sense of what is working, recognizing that isolating the effects of program actions with certainty in community development has always proven difficult. If the impact-assessment work suggested above yields reasonable models of the process in different types of neighborhoods, it might be possible to go further—ultimately comparing real resulting neighborhood conditions to those the models predict would have likely occurred without the interventions.

The quantitative studies in these cities should be paralleled by a thorough program of interviews with key informants, focus groups, and document reviews. This would support understanding of the planning and implementation processes, including the views and activities of all participants—residents as well as government and nonprofit actors.

Significantly Strengthening Databases for Mortgage Market Assessment and Neighborhood Stabilization Planning

All of this research can make important contributions to America's ability to work its way out of the current foreclosure crisis effectively. But there is another set of tasks that may be even more important to these ends: the significant strengthening of data for use in mortgage market assessment and neighborhood stabilization planning.

The first challenge is the creation of a national mortgage and foreclosure database. At present, nationwide data on these topics can only be obtained from a small number of fragmentary systems maintained on a proprietary basis. No one of them tells the full story, most have serious inadequacies, and all imply substantial costs for would-be users. Alan Mallach states,⁸²

a lack of even marginally accurate and complete data on the characteristics of mortgages, or the level and nature of foreclosure activity, poses a recurring challenge for policymakers...Much as it has done in areas such as health care and construction, the federal government should establish a national mortgage and foreclosure database which can provide data disaggregated to the census tract level...The system could be based on a simple reporting form that would be required at the closing or recording of each mortgage and a second set of forms that would be filled by the entity in each state responsible for managing the foreclosure process.

Even if such a database existed, however, a second challenge would remain: strengthening local parcel-based data systems for use in neighborhood land management. This report has several times noted that local neighborhood- and parcel-level data systems have improved dramatically in recent years. Some cities have assembled and recurrently update a host of good data on almost all of the topics that might be considered in assessing foreclosure impacts as discussed above. They have shown it can be done. What remains is to spread this type of capacity to the bulk of the country's city and county governments. A national fund should be established to make this happen. Given the improvements in local decisionmaking likely to result, the investment should pay for itself many times over.

Notes

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Quote from Nadine Kaslow, chief psychologist at Grady Memorial Hospital in Atlanta and professor at Emory University's School of Medicine.

³⁰ Christopher Tarver Robertson, Richard Egelhof, and Michael Hoke, "Get Sick, Get Out: The Medical Causes of Home Mortgage Foreclosures," *Health Matrix* 18(65), August 2008. This article surveyed homeowners "on the brink of foreclosure" in California, Florida, Illinois, and New Jersey. It finds health crises contribute to half of foreclosure filings. See also Roberto G. Quercia, Spencer M. Cowan, and Ana B. Moreno, "The Cost-Effectiveness of Community-Based Foreclosure Prevention" (Minneapolis, MN: Family Housing Fund, December 8, 2005). This article tracked client data from participants receiving intensive casemanagement and counseling in foreclosure prevention in Minneapolis-St. Paul.

³¹ Robin E. Smith and Kadija Ferryman, "Saying Good-Bye: Relocating Senior Citizens in the HOPE VI Panel Study" (Washington, DC: The Urban Institute, 2006).

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³³ Kathryn L. S. Pettit and G. Thomas Kingsley, *High-Cost and Investor Loans: Neighborhood Patterns* (Washington, DC: The Urban Institute, 2009). For another analysis that takes different approach but has similar findings on patterns, see Christopher J. Mayer and Karen Pence, *Subprime Mortgages: What, Where, and to Whom?* Working Paper 14083 (Cambridge MA: National Bureau of Economic Research, June 2008).

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³⁵ *Ibid.*

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⁴⁶ Pew Charitable Trusts, *Defaulting on the Dream: States Respond to America’s Foreclosure Crisis* (Washington, DC: Pew Charitable Trusts, April 2008)

⁴⁷ Julia Pierson, "Evaluation of the Baltimore Homeownership Preservation Coalition Activities in 2005, 2006, and 2007" (Baltimore, MD: Baltimore Homeownership Preservation Coalition, 2008).

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⁴⁹ Alan Mallach, *Tackling the Mortgage Crisis: 10 Action Steps for State Government* (Washington, DC: Metropolitan Policy Program, Brookings Institution, May 2008).
http://www.brookings.edu/papers/2008/0529_mortgage_crisis_vey.aspx (accessed April 29, 2009).

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⁶⁴ Josiah Madar, Vicki Been and Amy Armstrong, *Transforming Foreclosed Properties Into Community Assets* (New York: Furman Center for Real Estate and Urban Policy, New York University, December 2008).

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