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The Local Side of Foreclosure

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La Cara Local de las Ejecuciones Hipotecarias

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Resumen

Conforme la crisis hipotecaria adquiere dimensiones mayores en California y los Estados Unidos, los encargados de políticas públicas tratan de ayudar tanto a individuos como a instituciones financieras. La autora de este ensayo argumenta que los encargados de formular programas y políticas no deben olvidar que no todos los individuos son afectados de la misma manera, además, entre de los individuos y las instituciones financieras existe un nivel intermedio que pasa desapercibido y que carga con mucho de este impacto: las ciudades y los vecindarios.

The Local Side of Foreclosure

Kristin L. Perkins

Abstract

As the foreclosure crisis reaches major proportions in California and the United States, policy makers are looking to help individuals and lending institutions alike. The author argues that policymakers should not forget that not all individuals are affected equally, and that in between national effects and households exists an intermediate level which bears the impact in unforeseen ways: cities and their neighborhoods.

Amidst the daily reports of the worsening foreclosure problem in the United States, a great deal of attention has been focused on the impact of this crisis on individuals and the web of industries connected to mortgage finance. Driven by federal policy, a widely held belief that homeownership is a quintessential part of the American dream, and the increasing availability of nontraditional mortgage products, many households have become homeowners during the last decade that would not have been able to do so even 15 or 20 years ago. Financial institutions feasted on risky debt, spreading the impact globally and undermining the foundations of some of the country's largest and oldest banks. Now the country finds itself in the midst of a housing and credit crisis, and both banks and at-risk households are looking to policymakers for solutions.

Yet the effect of foreclosure is not limited to individuals or lenders: minority and low-income neighborhoods in particular are disproportionately affected by foreclosure and resulting vacancies. Many of the same neighborhoods historically disadvantaged by white flight, urban renewal and other planning interventions are particularly affected, along with newly built exurban locales whose large houses and quiet streets seemed to justify inflated housing prices. One look at one of the hot spots of foreclosure, Contra Costa County in the San Francisco Bay Area, shows that policy responses must adequately consider foreclosure's effects on neighborhoods and specific groups of people, not simply on undifferentiated individuals and large financial institutions.

The problem of foreclosure is especially dire in California, where 52,000 homes were lost to foreclosure in 2007, an increase of over 200 percent as compared to 2006.[1] Among Bay Area counties, Contra Costa has been most affected by foreclosure, with the highest rate of increase in foreclosures in 2007, at 290 percent. Contra Costa County is experiencing alarmingly high rates of delinquency, with nearly 2,000 Notices of Default filed in September 2007, three times the number filed in September 2006. Contra Costa County alone accounted for over one-third of the Bay Area's Notices of Default in September 2007. In the fourth quarter of 2007 over 3,800 county homeowners received Notices of Default, up from just 1,500 in the fourth quarter of 2006.[2] Between January and August 2007, foreclosure affected 23 of every 1,000 homes in one ZIP code in Antioch while ZIP Codes in East Oakland, Richmond's Iron Triangle, and Concord had rates of 15 per 1,000 homes.[3] Contra Costa County has a diverse

[1] California State Senate. Senate Bill No. 926, Amended in Senate January 18, 2008.

[2] Anthony, Laura. California mortgage defaults hit 20-year high. KGO San Francisco, CA. January 22, 2008.

[3] Zito, Kelly, Erin McCormick, Carolyn Said. Mortgage Meltdown, Neighborhoods Crumble in Wave of Foreclosures, Local Trouble Zones: Epidemic repossessions hit several ZIP codes. The *San Francisco Chronicle*, October 14, 2007.

yet somewhat segregated population, with African-American and low-income communities concentrated in western cities, higher income and white communities concentrated in the central area of the county, and Latinos concentrated in both the older western cities and rapidly growing eastern communities. This diversity makes the county a good place in which to test the hypotheses that foreclosure disproportionately affects neighborhoods with high concentrations of minority, low-income, and less-educated households.

The neighborhoods with the lowest foreclosure rates are located in the central area of Contra Costa County, in the cities of Moraga, Orinda and Walnut Creek. El Cerrito, in Western Contra Costa County, is home to three of the lowest foreclosure rate tracts. These cities have relatively high median incomes and include some of the more established and expensive neighborhoods and homes. The neighborhoods with the highest rates, however, are concentrated in the lower income and higher minority areas of Western Contra Costa County (Richmond and San Pablo) and the new rapid growth areas of Eastern Contra Costa County (Antioch, Pittsburg, Brentwood and Oakley).

Overall, evidence from Contra Costa County supports the argument that foreclosure is associated with subprime lending and that foreclosure is common in neighborhoods with high proportions of minority residents, lower-income households, and less educated households. Nearly 80 percent of neighborhoods with low rates of subprime lending have low rates of foreclosure while most neighborhoods with high rates of subprime lending have higher foreclosure rates. Almost half of the neighborhoods in which the population is under eight percent black have low rates of foreclosure while over 80 percent of neighborhoods in which the population is over 30 percent black had high rates of foreclosure. The positive association between the percent Hispanic and foreclosure rate is not quite as strong; however, in no neighborhood with a low rate of foreclosure is the population more than 30 percent Hispanic.

Foreclosure is less common in neighborhoods with higher family incomes and more educated residents. Nearly three-quarters of the neighborhoods in which median family income is above $100,000 had a low rate of foreclosure while only two percent of these high income neighborhoods had high rates of foreclosure. Sixty-two percent of neighborhoods with median family incomes under $72,000 had high rates of foreclosure. The negative relationship between education and foreclosure rate is even stronger. Over three-quarters of the neighborhoods in which at least half of the population above age 25 has a college degree have a low rate of foreclosure. No neighborhoods with a high proportion of college-educated adults have a high rate of foreclosure. Seventy-one percent of low education neighborhoods, defined as less than 21 percent of adults have a college degree, have high rates of foreclosure.

Contra Costa County shows that foreclosure disproportionately affects neighborhoods with certain demographic and socioeconomic characteristics, but the policy recommendations suggested by the federal government and private sector in the wake of the surge in foreclosures focus on macro (national and industry-wide) and micro (individual), not intermediate (neighborhood), scales. Multiple local government officials in Contra Costa County report that while the foreclosure problem is bigger than their individual jurisdictions, it is local governments that are forced to contend with the consequences of foreclosure on a daily basis [4]

Mitigating the current foreclosure crisis will surely require federal adoption of a stricter regulatory and supervisory structure that puts greater responsibility on all lending institutions to ensure that they are providing appropriate mortgage products and disclosing risks to consumers. This will limit the number of risky loans originated and will potentially reduce future foreclosures. The federal government must also provide direct help to homeowners currently in delinquency, including providing support to CBOs that provide counseling to these vulnerable households. But it would be a critical mistake to ignore the local impacts of foreclosure, or to pretend that this crisis affects all households equally, regardless of race, class and education. Recognizing this intermediate level means policymakers must consider the role of cities in addressing the foreclosure crisis, and promote policy responses that address inequities in the types of neighborhoods and individual susceptible to high rates of foreclosure.

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[4] Douglas, Kara. January 16, 2008. Personal Communication; Kennedy, Janet and Denise Skaggs. January 17, 2008. Personal Communication; Reed, Kwame. January 28, 2008. Personal Communication.