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After Foreclosure:
The Social and Spatial Reconstruction of Everyday Lives in the San Francisco Bay Area

By

Anne Julien Martin

A dissertation submitted in partial satisfaction of the

requirements for the degree of

Doctor of Philosophy

in

City and Regional Planning

in the

Graduate Division

of the

University of California, Berkeley

Committee in charge:

Professor Karen Chapple, Chair

Professor Karen Christensen

Professor Paul Groth

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Abstract

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This dissertation examines the experiences of former homeowners in the San Francisco Bay Area who have lost their homes to foreclosure from 2006-2012. Against the backdrop of the ongoing foreclosure crisis that is part of the larger recession, this study asks what foreclosed households have experienced during this period, and how those experiences have shaped the personal meanings they have drawn from foreclosure. While displacement due to foreclosure includes both tenants and former homeowners, this research focuses solely on the effects of the displacement of former homeowners. I ask how former homeowners recover after foreclosure, how foreclosure continues to affect households after foreclosure, and how moving after foreclosure plays a role. In this dissertation, I start to extrapolate theories of larger effects outside of solely that of the built environment, looking at where people have gone after foreclosure in the San Francisco Bay Area and how they discuss their experiences and beliefs about homeownership, moving, renting, credit, and home, after going through foreclosure.

This research is a mixed-methods investigation of the spatial and social impacts of foreclosure in the San Francisco Bay Area. Mixed methods allows an understanding of the spatial movements of households and social organization of neighborhoods across the metropolitan region due to foreclosure, as well as an understanding of how these moves are incorporated into individual household-level strategies towards household recovery. This research uses foreclosure record data and matches the addresses of each foreclosed home and the name on the deed to the individual's new address in the US Postal Service's Change of Address data to examine patterns of moving, after foreclosure through GIS analysis. Between May 2010-April 2012, I conducted 55 one-hour semi-structured interviews, 45 with former homeowners who lost their residence to foreclosure in the San Francisco Bay Area between 2006-2011.

I use interview data with former homeowners to analyze the impacts of foreclosure, ranging from the mechanics of the foreclosure process, to the impacts on desires to buy a home again, to

impacts on credit and personal finances, and the meaning of home. I use interview data to investigate former homeowners' actions and beliefs, after foreclosure.

Chapter 2 describes the experience of the foreclosure process, from the perspective of the homeowner. This chapter describes the foreclosure triggers that interview participants discussed, the experience of the foreclosure process and homeowners' attempts to contact the bank, their experiences of trying to secure loan modifications or do short-sales, experiences of losing their savings, and their experiences moving.

In Chapter 3, I analyze former homeowners' interest in buying a house again in the future, and how this relates to changed ideas about renting. While former homeowners in their 20s-40s look forward to being able to buy again, they have envisioned financial strategies for how they will buy again and protect themselves. However, after foreclosure, life goals shift, and many consider what really matters in their lives, outside of material goals.

In Chapter 4, I look at the relationship between foreclosure and credit. Many former homeowners resist declaring bankruptcy as part of their foreclosure, but with tax and mortgage deficiency liabilities may consider declaring bankruptcy after foreclosure. The damage to credit caused by foreclosure may be long-lasting, and affect employment opportunities, the ability to consolidate consumer debts, and the ability to secure rental housing, which is discussed in Chapter 5. During the foreclosure process, homeowners experience intense pressure from collections or delinquent loan divisions. This contributes to homeowners' efforts to avoid debt after foreclosure. I uncover a paradox where former homeowners feel that credit recovery is important to their personal recovery after foreclosure, however, common strategies of resisting and rejecting consumer credit, and repeated testing for access to credit may actually contribute to slower recovery of credit scores.

In Chapter 5, I analyze where households have moved after foreclosure. Using spatial analysis techniques with mapping, I find that in general in the San Francisco Bay Area, the locations with the greatest concentrations of foreclosure are also the locations where households are relocating after foreclosure. The second half of the chapter describes how former homeowners found a rental home, through disclosure of their foreclosure and looking for a sympathetic landlord.

The final chapter concludes by discussing a disconnect between non-profit foreclosure prevention, and preventing foreclosures, and summarizing these ways in which experiences during and after foreclosure have shaped the perspectives of those interviewed in this research, and extends this to the implications for policy.

The ongoing foreclosure crisis will continue to affect increasing numbers of homeowners, and we should consider whether housing policy and financial institutions are doing enough to prevent the loss of home, financial resources, and human dignity described here. Currently, foreclosure is the only reliable solution for exiting homeownership when property values have fallen. Foreclosure has operated as a machine, and, as I discuss in the chapters to follow, once a homeowner enters that machine, it is difficult to escape. Foreclosure is a process of great uncertainty for the homeowner, and even after foreclosure, their legal and financial situation has not been resolved. The experience has a life-changing effect on many former homeowners, who

change their beliefs and behaviors, not just in relationship to homeownership, but also in terms of their life goals, their relationship to banks and financial institutions, their use of debt and credit, and where they live after foreclosure. While there have been policy changes to improve the numbers receiving loan modifications at the margins, there has not been the political will to create a large-scale significant alternative to foreclosure. Without a larger policy intervention, the process of foreclosure presented here will continue to be the only guaranteed resolution for those who cannot stay in their homes, or for whom it is not financially sustainable for them to continue to stay.

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Chapter 1: Introduction and Methods

“The foreclosure was the operation, but I think the weight on our shoulders was the debt. It's just, that's what was feeling unsustainable. Now, if home prices truly had stayed elevated and they weren't being propped up by easy lending or all the shenanigans that have gone on, then maybe it's a different story, and maybe that's just the reality that you deal with, you know? And that's how we went into it prepared to look at it.

But when everything else collapsed and then we realized, “Wow, the emperor has no clothes,” -type moment, then it's like, “Uhhhh!” Then it felt like a heavy burden.

-Dawson

Introduction: The foreclosure crisis in context

This dissertation examines the experiences of former homeowners in the San Francisco Bay Area who have lost their homes to foreclosure from 2006-2012. In order to understand the experience of former homeowners and the ways in which their lives have been affected by foreclosure, I will start by providing context, leading up to the foreclosure crisis and the subsequent recession. US housing policy strongly supported homeownership for the century leading up to the crisis, but even while the economy was doing well, studies were showing that the benefits attributed to homeownership may depend largely upon the race and class of the homeowner. As the foreclosure crisis unfolded, the Federal government unveiled a series of largely ineffectual programs to try to help keep homeowners in their homes. While researchers started to try to understand the roots of the crisis and the impact of the foreclosed houses on neighborhoods, the government struggled to offer a policy response, and non-profits struggled to prevent foreclosures on behalf of homeowners, millions of homeowners churned through a mechanized system of foreclosure, losing their homes.

At the date of writing of this dissertation, the high rate of foreclosure continues to deeply affect neighborhoods and cities across the country, albeit unevenly, and is one feature of the larger recession. In the San Francisco Bay Area, home prices have fallen to 2000 levels, from their peak in 2006 (S&P 2012). Though home prices have started to rise slightly and unevenly in the region, the median home price in California in 2011 was \$239,000, half what it was in 2007; 30% of mortgages have negative equity and are “underwater,” many by hundreds of thousands of dollars (Center for Responsible Lending 2012). According to the report *Losing Ground, 2011: Disparities in Mortgage Lending and Foreclosures*, as of February 2011, the United States was only halfway through the foreclosure crisis, based solely on the high-risk mortgages originated in 2004-2008 that are already in default or have started the foreclosure process, and not including foreclosures related to unemployment, health, strategic default, or unsustainable mortgages originated before this period (Bocian, et. al 2011).

Wide-scale foreclosures in the San Francisco Bay Area are projected to continue into the foreseeable future, due to unsustainable high-risk loans that have not yet foreclosed, the volume of underwater mortgages, as well as the unemployment rate. California's unemployment rate in November 2012 had fallen to 10.1%, down from its 2010 peak at 12.4%, while the San Francisco Bay Area counties had lower rates than the state as a whole (Employment Development Department 2012). Unemployment duration, the length of time spent unemployed, has also been at historic rates. While unemployment increases the number of foreclosures, there is evidence to suggest that foreclosures and underwater mortgages may also increase unemployment rates, due to constraining the mobility of labor (Estevao and Tsounta 2011).

Against the backdrop of the ongoing foreclosure crisis that is part of the larger recession, this study asks what foreclosed households have experienced during this period from 2006-2012, and how those experiences have shaped the personal meanings they have drawn from foreclosure. While displacement due to foreclosure includes both tenants and former homeowners, this research focuses solely on the effects of the displacement of former homeowners. I ask how former homeowners recover after foreclosure, how foreclosure continues to affect households after foreclosure, and how moving after foreclosure plays a role. In this dissertation, I start to extrapolate theories of larger effects outside of solely that of the built environment, looking at where people have gone after foreclosure in the San Francisco Bay Area and how they discuss their experiences and beliefs about homeownership, moving, renting, credit, and home, after going through foreclosure.

In this introduction, I will first briefly discuss how homeownership has been promoted by policy, creating a nation where the majority of residents were homeowners. While social, psychological, and financial benefits have been ascribed to homeownership, even before crisis, researchers were finding that these benefits did not accrue to all homeowners, particularly for low-income and minority homeowners. Then, I provide a very brief discussion of the foreclosure crisis, which morphed into a general recession, and the largely ineffectual policy responses from the federal government that have done little to save people's homes from foreclosure or stabilize neighborhoods. Then, I describe my mixed-methods approach in this study of former homeowners' experiences of the foreclosure process and its aftermath. I map where former households have moved after foreclosure, using foreclosure records matched to US Postal Service data, and send some households letters asking them to participate in interviews. I describe my semi-structured interviews with former homeowners and community organization representatives. I then outline the dissertation chapters to follow.

Homeownership before the Crisis

For the last century in the United States, homeownership has been promoted as a tool of economic growth, an unassailable political platform, and an institution of social stability. Since World War II and escalating in the 1990s, public policy in the United States has promoted homeownership as a policy goal, both to support the economic benefits to the homebuilding and financial industries, and to promote economic and socio-psychological benefits for the household, as well as their neighborhoods and greater society (Rohe and Watson eds. 2007). Rates of homeownership in the US were at historic highs in the early 2000s, and in 2004, 69% of

households owned their homes, and amongst married-couple households, 84% were homeowners (Schwartz 2006). Before the first hints of the economic slowdown presented themselves in 2006, and before the subprime mortgage meltdown beginning in 2006-2007 or the subsequent economic recession, homeownership was heavily promoted through policy and through the relatively unregulated innovation of new mortgage products to reach greater portions of the population (Quercia and Ratcliffe 2010). As of 2003, housing subsidies for homeownership through the mortgage interest deduction vastly exceeded housing subsidies for public housing or housing subsidies for the poor (Schwartz 2006). Social benefits attributed to homeownership include civic participation, an improved neighborhood, an increased social support network, and better outcomes for children (Green 2001; Rohe, et al. 2007; Harkness and Newman 2002). Persistent homeownership promotion by the federal government has contributed to widespread aspirational conceptions of home as ideally owned (Rohe and Watson eds. 2007; Green 2001; Harkness 2002; Perin 1977). The policy goal of “creating and maintaining widespread homeownership” that has persisted over more than a century demonstrates the power of the ‘myth’ of the citizen-homeowner in US policy problem definition, regardless of evidence to the contrary that this ideal does not benefit everyone equally (De Neufville and Barton 1987, p. 185).

Before the foreclosure crisis, housing policy on the issue of homeownership was especially concerned with access for minority and low-income households, so the social and financial benefits would not be denied to these populations. Before the economy started to flag, housing researchers investigated whether the purported social, psychological, and financial benefits attributed to homeownership were equally distributed amongst low-income and minority households, as well as their higher-income home-owning counterparts. Even at the peak of homeownership in the US, homeownership did not benefit all homeowners equally. The income and race of a homeowner was found to have a stronger effect in determining whether a homeowner lives in a better neighborhood than their renting counterpart (Reid 2007), and much of the benefit to children can be explained through neighborhood residential stability, rather than homeownership (Harkness and Newman 2002). African American homeowners, before the crisis, were found to have significantly less home equity, the rate of equity appreciation of their homes was generally significantly lower, and homeowners in low-income and minority neighborhoods experienced less appreciation (Goetz 2007; Schwartz 2006). Financial assistance for first-time homebuyers was offered by FHA, states, and even local municipalities. These policies assumed that once one became a homeowner, that it would be a permanent shift to homeownership. A longitudinal study of homeownership by Donald Haurin and Stuart Rosenthal (2004) instead found that the duration of ownership spells must be considered, and even before the foreclosure crisis, whites stay in homeownership longer than African-Americans or Latinos. Even during the peak of the homeownership rate and housing prices, researchers were piecing together evidence that the social and financial benefits to homeownership were not accruing equally, particularly for low-income and minority homeowners. However, the promotion of homeownership, particularly for minorities was a policy goal that even the subprime mortgage providers claimed they were advancing (Quercia and Ratcliffe 2010).

Homeownership in Crisis: The Foreclosure Crisis: 2006-2012+

The foreclosure crisis has produced a wave of displacement, where households have been forced to move from their homes, starting in 2006 that continues unabated today in 2012. In 2008-2011 alone, four million homes have been lost to foreclosure (Schwartz 2012).

From the beginning of the rise in the number of foreclosures in 2006, researchers have felt an urgent need to understand why the foreclosure crisis has occurred, and what could be done to prevent a meltdown of this scale in the housing sector in the future. Foreclosure has been studied and understood as a structural failure of the mortgage industry, as a failure of housing policy and regulation of the mortgage industry, and as a problem of predatory lending to minorities and to households with low incomes and low levels of education. In this literature, households primarily function as the seekers of mortgage debt and providers of capital that enable the entire mortgage system to continue to operate, as well as the unlucky victims of an unsustainable system providing mortgage capital.

A number of studies investigate the structural causes of the mortgage and foreclosure crisis, linking the rise in foreclosures to lending practices, risky mortgage products, securitization, and the lack of a meaningful regulatory framework for the mortgage industry (Immergluck 2009, Foote et al. 2008, Gerardi et al. 2007, Carr 2007, Newman 2008, Newman 2009, Quercia and Ratcliffe 2010). While these studies point fingers at the mortgage and financial industries and lack of regulation, the supply-side of the crisis, other researchers look to the demand-side of the crisis, and blame homebuyers and the industries that supported them for sharing a “collective belief that housing prices would rise rapidly and could never fall” (Foote et al. 2012, 38).

The foreclosure crisis has not only been a crisis for the lending institutions bailed out by the federal government, and for households losing their homes, but also for neighborhoods, cities, and regions forced to deal with the effects of lending institutions becoming absentee property owners (Immergluck and Smith 2006a, Immergluck 2009, Swanstrom et al. 2009, Aalbers 2009, Newman 2009). Vacant foreclosed homes negatively affect neighborhoods and have been correlated with both an increase in violent crime and further depression of property values within an eighth-mile radius of each vacant property, although foreclosures appear not to affect the crime of a metropolis as a whole (Immergluck and Smith 2006a, Immergluck and Smith 2006b, Jones and Pridemore 2012). Neighborhoods with large proportions of minorities, lower-income households, and people with lower levels of education were disproportionately targeted for high-cost loan products, and these neighborhoods experience stronger negative neighborhood effects due to the concentration of foreclosures (Perkins 2008, Newman 2009, Ojeda 2009). These neighborhoods may now face additional social stigma, due to the high rate of foreclosures, and residents who remain in the neighborhood find it difficult to refinance or sell, due to sinking property values. Housing subdivisions or condo complexes that were built during the mid-2000s, at the peak of high-cost lending, may experience high concentrations of foreclosure, as many buyers were encouraged by realtors to use high-risk products to finance their mortgages. As concentrations of foreclosures vary widely across cities and regions, so do the external effects of foreclosures, with some neighborhoods noticing little change, while in others, run-down vacant foreclosed homes are visible to even the casual observer (Immergluck 2011).

A series of federal programs and interventions were introduced to mitigate the crisis, both for distressed homeowners and for communities impacted by foreclosures. Homeowners in default held out hope for mortgage rescue from the Obama administration's Making Home Affordable's Home Affordable Modification Program (HAMP) and Home Affordable Refinancing Program (HARP), which was funded and began in 2009. These programs were developed to serve 7-9 million troubled homeowners, but by the end of 2011, under 2 million have gotten permanent modifications through these programs (Schwartz 2011). A number of reasons have been offered for the failure of these programs, including voluntary lender participation, a failure to address modification needs of those whose distress related to employment loss or negative equity, a lack of modification options for those with second mortgages, and little use of principal reduction as a modification tool (Schwartz 2011).

The Neighborhood Stabilization Program (NSP) started in 2008 with the passage of the Housing and Economic Recovery Act (HERA), as tool for local community-based organizations to purchase and rehab or demolish foreclosed homes. While the NSP program has undergone several iterations, few communities have had success in using the program to buy a significant number of homes, particularly as private investors are much faster, more nimble actors in buying foreclosed housing, and community organizations did not have developed capacity to undertake these types of projects (Immergluck 2011; Immergluck 2012). This may not be a problem in terms of returning foreclosed housing back to the market, either as rental or for sale, however, the program has not been successful in improving neighborhood stability, and has tied up resources that could otherwise be used to benefit homeowners in default or to benefit impacted neighborhoods. The question of whether foreclosure investors will be good neighbors in neighborhoods impacted by foreclosure has yet to be closely studied, but many are skeptical.

My research fills a gap in the literature by asking not about the homes that have been foreclosed upon and their impacts on neighborhoods, but about the post-foreclosure households that have been displaced. Foreclosure touches an ever increasing number of families in the Bay Area, and their communities. This research asks where these families are going, how their presence reshapes their communities, and how their experiences of foreclosure changes the way they think about housing, credit, and their lives, and what this might mean for urban planning.

Methodology

This research is a mixed-methods investigation of the spatial and social impacts of foreclosure in the San Francisco Bay Area. Mixed methods allows an understanding of the spatial movements of households and social organization of neighborhoods across the metropolitan region due to foreclosure, as well as an understanding of how these moves are incorporated into individual household-level strategies towards household recovery. Without asking participants about their experiences of moving, including how they moved and why they moved where they did, only where they moved would be revealed, which would tell us nothing about how moving and selecting a new residence factors into processes of household recovery. Also, without investigating the processes of recovery and the meanings constructed by individuals, the significance of the patterns of displacement after foreclosure would be lost. This mixed-methods

research allows a more multifaceted understanding of the process of post-foreclosure household recovery than would either of these two approaches alone.

The effect of foreclosure on households shapes the greater metropolis, through households' recovery processes and households' movement after displacement from their foreclosed residence. This research employs a case study of a metropolitan area in order to examine the ways in which household recovery experiences differ across a region, how households experience and understand recovery, and how and why they move across metropolitan space.

The San Francisco Bay Area metropolitan region was selected as a case study as it encompasses wide variety in its cities and neighborhoods, including neighborhoods that have historically had strong housing markets and that do not have large numbers of foreclosures, such as many neighborhoods in the City of San Francisco, to neighborhoods where the majority of housing units have been foreclosed upon in the last six years, such as neighborhoods in Hayward or Antioch. The wide variety in the region made it a valuable case study, to attempt to draw a diversity of experiences. The San Francisco Bay Area has had high housing cost-to-income ratios, particularly as prices quickly rose through the 1990s and 2000s, making foreclosure more swift with a loss of income as housing costs are high and homeowners cannot continue making high payments very long when income changes, but it also allowed subprime and high-cost lending to gain traction to be able to finance these homes (Jones and Pridemore 2012).

The resilience of metropolitan areas to respond to the foreclosure crisis varies due to states' regulatory frameworks surrounding the foreclosure process, and the existing funding and capacity of housing non-profits to take on foreclosure prevention efforts (Swanstrom, Chapple, and Immergluck 2009). Compared to other states, foreclosure prevention is more difficult in California as the non-judicial foreclosure process is shorter, and as home values have fallen by hundreds of thousands of dollars in some areas this has produced widespread negative equity which prevents many households from being able to sell or refinance (Swanstrom, Chapple, and Immergluck 2009).

The San Francisco Bay Area has an uneven distribution of foreclosures, with a concentration in Alameda and Contra Costa Counties; these two counties comprise the census-defined Oakland metropolitan region, which ranks high nationally in levels of foreclosure in metropolitan areas (Swanstrom, Chapple, and Immergluck 2009; Housing and Economic Rights Advocates and California Reinvestment Coalition 2007). This case study of post-foreclosure spatial mobility and recovery, using a metropolitan region that is internally diverse allows for analysis of a wide variety of different experiences after foreclosure, building grounded theory about processes of recovery that could be tested and refined in the context of foreclosure in other cities.

Methods: Where Have they Gone?

This methodology for tracking households after foreclosure was designed to provide a new insight into the displacement homeowners faced after foreclosure. This research uses foreclosure record data from DataQuick and matches the addresses of each foreclosed home and the name on the deed to the individual's new address in the US Postal Service's Change of Address data, provided by Satori Software. The Notice of Trustee Sale data was used to indicate foreclosure,

as it is the final notice recorded before a property is auctioned, and this data includes former homeowners' names and other loan information. It is possible that a small number of homeowners may have been able to reinstate their loans after the Notice of Trustee Sale, however, reinstating loans or finalizing a short sale when they have progressed through the foreclosure process this far is uncommon. The name and address from each foreclosure was then matched to the new address using the US Postal Service's Change of Address data. This USPS data is aggregated from the Change of Address requests that individuals voluntarily register with the USPS when they move, and in the aggregate form is used by marketers and catalog distributors in updating their mailing lists. The USPS requires direct mailers to update mailing addresses, and sells the Change of Address data wholesale to third-party data vendors who sell the change of address data to individual direct mailers. The query provided the former-homeowners' current addresses as of July 21st, 2010, regardless of how many changes of address might have taken place between the time of the foreclosure and the time of the query. This change of address data has been used by other researchers in tracking a research population for follow-up surveys or interviews; the data has not yet been used by researchers as a data set for examining displacement (Rohe, Quercia, Van Zandt 2007).

Table 1 provides a summary of the address matching of the two data sets. The 2006-2007 data provide a lower matching rate than the subsequent years, likely due to a longer duration between the foreclosure and the 2010 query date, where multiple subsequent moves may be taking place, increasing the likelihood of failing to register a new address. Also, those who were foreclosed upon at the beginning of the foreclosure crisis in 2006-2007 may have felt a greater sense of shame and a feeling of greater vulnerability in having possible bills follow them to their new address.

As this methodology is designed to track homeowners through the homeowner's name on the title in the foreclosure data, renters displaced from foreclosed properties are not captured in the scope of this research. According to a 2011 report, at least 38% of homes in foreclosure in California are rentals (Tenants Together 2011), which means that the data on homeowners presented here is still missing new addresses for approximately 19-34% of foreclosure-displaced homeowners. The vast majority of homeowners displaced by foreclosure in the San Francisco Bay Area relocated within the Bay Area, and there are relatively few moves outside of California, with moves to Texas representing the highest volume of those moves compared to all other states.

Table 1. Post-Foreclosure New Address Data Summary 9-County San Francisco Bay Area, 2006-2009

	2006-2007	2008	2009
Total Notice of Trustee Sale Records	15,225	37,790	28,290
New Address Known - USPS Records	4,337	17,132	12,066
New Address Unavailable	10,888	23,368	16,224
Post-Foreclosure Address Matches (%)	28%	45%	43%
Out-of-California Moves	228	553	514
Known Foreign Moves	6	4	9

Data Source: USPS Change of Address, Data Processing Summary Report, Processed by Satori Software 7/21/10
 Custom Run of Notice of Trustee Sales data by DataQuick

This research uses GIS for spatial analysis of the post-foreclosure mobility of households in the San Francisco Bay Area, and uses the 2000 Census and 2005-2009 American Community Survey data to explore how the presence of these foreclosed households may be shaping their new neighborhoods. These maps produce a new lens on the foreclosure crisis, showing not maps of absence, of vacant homes, but maps of the presence of the foreclosed households.

Methods: What are the Impacts of Foreclosure, and How are they Experienced?

In this research, I examine this experience of foreclosure, the reevaluation of homeownership, the effects on a former homeowner's credit, and their changed perspectives through an analysis of interviews with 45 foreclosed former homeowners in the San Francisco Bay Area.

Between May 2010-April 2012, I conducted 55 interviews, 45 with former homeowners who lost their residence to foreclosure in the San Francisco Bay Area between 2006-2011. (See below for the break-down of the other 10 foreclosure-related interviews.) Some lost their homes just days or weeks before the interview, some lost their home years before. I interviewed most of the participants at coffee shops near their home or work; a few former homeowners invited me into their current homes for the interview.

I use interview data selected from these 45 one-hour semi-structured interviews with former-homeowners who have lost their homes to foreclosure in the Bay Area. The interview subjects were recruited in the following ways: 1) a snowball sample technique, beginning with non-profit organization staff-members working on issues of foreclosure, 2) letters mailed to former homeowners at a new address they provided to the US postal service, 3) fliers on public bulletin boards in coffee shops soliciting volunteers to participate in the research study, 4) posts on craigslist in the volunteer section, and 5) personal contacts, as I met people in my life who had been through foreclosure in the San Francisco Bay Area. Interviewees were provided \$40 gift cards as compensation for their participation in the interviews.

Using several different recruitment techniques allowed me to recruit people with a wide variety of experiences after foreclosure. Several people were referred through community-based organizations or churches. However, getting referrals through organizations was not very successful. There are no dedicated services or non-profits focusing on assistance for people who have been through foreclosure, and most organizations who do foreclosure prevention do not stay in contact with people who have been foreclosed.

About half of the former homeowners were recruited with a mailed letter describing the project and asking them to participate, using the post-foreclosure mailing address from the USPS change of address data to contact them. Out of a total of 343 letters sent, about one in thirty former homeowners responded to my letter. A third of the letters were returned by USPS as undeliverable, as the person's address had changed since the 2010 address database query. As the interviews later revealed, the foreclosure process entails receiving a volume of mail from the lender as well as solicitations from realtors and others, offering services or scams. Due to the persistent letters and calls, many people stopped opening their foreclosure-related mail, stopped answering their phone, or changed their phone number. One interview participant told me that

from the moment he saw the envelope, he knew it must be about the foreclosure. As I discovered in the interviews, former homeowners are wary of being targeted as such, and mailing letters may have alienated some potential participants.

The most successful way to reach open and willing participants was through posting information about the project publicly and recruiting volunteers. This was facilitated by the HUD dissertation grant, which allowed me to pay interview participants with a \$40 gift card. I recruited approximately half of the participants through posting fliers in coffeeshops or other businesses in locations where there is a concentration of post-foreclosure households, and posting the flier in the volunteers section on craigslist.

Of the 55 interview participants, 3 were representatives of churches or community organizations, and 52 shared their personal experiences of foreclosure. Of these 52, seven participant's experiences did not fully fall into the scope of the project, though were still informative in understanding the larger foreclosure picture. One was a child in the 1980s when his mother was foreclosed upon, and he had purchased a foreclosed home during the crisis. Another was a man who lost a shared-investment property in Sacramento but not his own Bay Area home to foreclosure. One was the mother of an adult child whose home was foreclosed upon in Tracy, while she was technically the owner of the home, she lived in Hayward and was not the occupant. Another participant lived in an accessory unit on her son's property, and bought the house across the street as an investment property; both she and her son lost the houses they owned and were displaced. One was a 50-year old man who tried to help his elderly parents avoid foreclosure of their home. Two of those interviewed were still in the foreclosure process at the time of the interview, as their houses had not yet been sold at auction. The remaining 45 participants were former homeowners whose residence had been foreclosed upon in the San Francisco Bay Area.

There was representation across different racial groups: 24 were White, 11 were Latino, 10 were African-American, seven were Asian, two were Filipino, and one was Indian. There were nearly even numbers of men and women interviewed for this study, with 25 interviews with women and 30 with men; counting just foreclosed homeowners, 22 interviews were with women, and 23 were with men. Only 12 in this group had school-aged children living at home during the foreclosure, and one woman was pregnant during her foreclosure.

The majority of interview participants, 20, lost their home to foreclosure in Contra Costa County, and 17 in Alameda County; these two counties have had the greatest volume of foreclosures in the Bay Area. Of the remaining participants, three lost their homes in San Mateo County, two in Sonoma County, two in Santa Clara County, and one in the City and County of San Francisco. Of those 20 who lost homes in Contra Costa County, the largest concentrations were the eight in Antioch and three in adjacent Brentwood, where the subdivisions give way to the farmland of the Central Valley. Three were in Concord, the largest city in Contra Costa County. Of the 17 who lost homes in Alameda County, eight lost homes in Oakland, one more in adjacent Emeryville, and four lost homes in the working class suburb of Hayward, and two more in the adjacent middle class suburb of Castro Valley.

After foreclosure, most of the interview participants relocated in Alameda and Contra Costa Counties, with 24 in Alameda County, 15 in Contra Costa County, two in San Francisco, and one each in San Mateo, Santa Clara, and Sonoma Counties (several did not disclose their current location). In Alameda County, the majority now live in Oakland, San Leandro, and Hayward, while in Contra Costa County, the majority now live in Antioch and Brentwood. It worth noting that the cities hardest hit by foreclosure are the same cities were these households have relocated, and in fact, without exception, those who lost their home in Antioch stayed in Antioch, and the same with Brentwood. In Alameda County, there was a little more mobility amongst the cities, as most of those foreclosed in Oakland moved to adjacent cities, like Emeryville, Alameda, and San Leandro, though a couple stayed in Oakland.

Most of the interview participants told me they had not spoken about their foreclosure experience with many people. For some, I was the only person they have spoken to about the foreclosure, outside of calling their lender to try to refinance or secure a modification. For most, I was the only person outside of a few select family members or friends that they spoke with. Several spoke openly about their foreclosure with coworkers or the members of their church, and became someone others came to for advice with their mortgages. One woman interviewed is an activist against foreclosure and has participated in demonstrations against the major banks, as well as in a non-profit organized trip to Washington, D.C. to testify to policy makers. Interview participants chose their own pseudonyms, except for those who explicitly consented and preferred to have their full name used. Those who chose to have their true name used in this study were told that this was only intended for those who were already in the public spotlight on this issue, and several participants chose this option, such as Realtor Merre Ward who has already been interviewed by newsmidia on foreclosure issues.

The interviews were semi-structured. Each interview started by my prompting the homeowner to tell me when they first realized they might not be able to keep their house, how the foreclosure process progressed, how they found a new place to live, and what has happened since the foreclosure. This first part of the interview provided the facts about each person's foreclosure case, and set the tone for the interview. I would occasionally interrupt the narrative to ask clarifying or factual questions. Following the foreclosure narrative, I asked a number of standard questions that investigated the meaning of foreclosure, as well as the impacts of foreclosure on everyday life.

This research did not attempt to generate a representative sample of former homeowners, but instead, attempted to reach a wide variety of former homeowners to attempt to understand how people make sense of the experiences of foreclosure, across a wide variety in demographics, locations, and foreclosure triggers.

Outline of Dissertation

In the following chapters, I use interview data with former homeowners to analyze the impacts of foreclosure, ranging from the mechanics of the foreclosure process, to the impacts on desires to buy a home again, to impacts on credit and personal finances, and the meaning of home. I use interview data to investigate former homeowners' actions and beliefs, after foreclosure.

Chapter 2 describes the experience of the foreclosure process, from the perspective of the homeowner. This chapter describes the foreclosure triggers that interview participants discussed, the experience of the foreclosure process and homeowners' attempts to contact the bank, their experiences of trying to secure loan modifications or do short-sales, experiences of losing their savings, and their experiences moving.

In Chapter 3, I analyze former homeowners' interest in buying a house again in the future, and how this relates to changed ideas about renting. While former homeowners in their 20s-40s look forward to being able to buy again, they have envisioned financial strategies for how they will buy again and protect themselves. However, after foreclosure, life goals shift, and many consider what really matters in their lives, outside of material goals.

In Chapter 4, I look at the relationship between foreclosure and credit. Many former homeowners resist declaring bankruptcy as part of their foreclosure, but with tax and mortgage deficiency liabilities may consider declaring bankruptcy after foreclosure. The damage to credit caused by foreclosure may be long-lasting, and affect employment opportunities, the ability to consolidate consumer debts, and the ability to secure rental housing, which is discussed in Chapter 5. During the foreclosure process, homeowners experience intense pressure from collections or delinquent loan divisions. This contributes to homeowners' efforts to avoid debt after foreclosure. I uncover a paradox where former homeowners feel that credit recovery is important to their personal recovery after foreclosure, however, common strategies of resisting and rejecting consumer credit, and repeated testing for access to credit may actually contribute to slower recovery of credit scores.

In Chapter 5, I analyze where households have moved after foreclosure. Using spatial analysis techniques with mapping, I find that in general in the San Francisco Bay Area, the locations with the greatest concentrations of foreclosure are also the locations where households are relocating after foreclosure. The second half of the chapter describes how former homeowners found a rental home, through disclosure of their foreclosure and looking for a sympathetic landlord.

The final chapter concludes by discussing a disconnect between non-profit foreclosure prevention, and preventing foreclosures, and summarizing these ways in which experiences during and after foreclosure have shaped the perspectives of those interviewed in this research, and extends this to the implications for policy.

Conclusion

The ongoing foreclosure crisis will continue to affect increasing numbers of homeowners, and we should consider whether housing policy and financial institutions are doing enough to prevent the loss of home, financial resources, and human dignity that I describe in the coming chapters. Currently, the only reliable solution for exiting homeownership when property values have fallen is foreclosure. Foreclosure has operated as a machine, and, as I discuss in the chapters to follow, once a homeowner enters that machine, it is difficult to escape. Foreclosure is a process of great uncertainty for the homeowner, and even after foreclosure, their legal and financial situation has not been resolved. The experience has a life-changing effect on many former homeowners, who change their beliefs and behaviors, not just in relationship to homeownership, but also in terms of their life goals, their relationship to banks and financial institutions, their use of debt and credit, and where they live after foreclosure. While there have been policy changes to improve the numbers receiving loan modifications at the margins, there has not been the political will to create a large-scale significant alternative to foreclosure. Without a larger policy intervention, the process of foreclosure presented here will continue to be the only guaranteed resolution for those who cannot stay in their homes, or for whom it is not financially sustainable for them to continue to stay.

This research is important to urban planners, as local communities deeply impacted by foreclosure are home to many former homeowners who rent near the house they lost. Calculations of housing needs may not account for the volumes of new renters in concentrated areas, and the new aversion to traditional mortgage lending may change not only the balance of tenure in communities, but also shape local economic development, and but may inspire new thinking about neighborhood and community stabilization that incorporates support for renting.

Research on foreclosure is quickly expanding, and where previous research has primarily focused on the impacts to communities in terms of foreclosed homes, this research expands an analysis of foreclosure to understand how the process that foreclosed homeowners experience continues to affect them after the foreclosure is final.

Chapter 2: The Experience of the Foreclosure Process

“I always liked watching my dog chase his tail, and would go around and round and catch his tail, and let it go, and go round and round. And he would do it multiple times in a day.

And I felt the same way, as my dog. ‘We don't have anybody doing that only, so try this number. Try this number. Oh, let me transfer to that.’”

-Mari

Introduction

We know that very few loans are being modified, even where it would be in investors' best interest financially (Quercia and Ding 2009). Nationally four million homes have gone into foreclosure since 2006, but only 1.1 million homeowners have gotten permanent loan modifications via the HAMP program through October 2012, and of those, only 840,835 of those homeowners are paying the modified mortgage, and presumably the remainder have gone back into default (Schwarz 2012, Department of the Treasury 2012).

With modern mortgage lending, what is thought of as “the bank” in mortgage lending is actually a collection of financial entities. The originating bank may be a branch office of a local or national bank, but the loan itself is sold immediately afterwards and securitized, with a servicer collecting mortgage payments from the homeowner, then passing these funds through to investors who collect revenues from a bundle of similar mortgages. The mortgage servicer passively collects payments and fees on mortgages. This anatomy of the lender becomes important when homeowners go into default and enter the foreclosure process. Almost all of those interviewed here seek a loan modification, however, as the originating bank has no ownership or authority over the servicing of the loan, the servicer has financial disincentives to modify loans and incentives to foreclose or encourage short sales. For example, Fannie Mae and Freddie Mac pay servicers more to do a short sale than for a loan modification, and when servicers tack on and collect delinquent payment fees, they are able to either collect these higher monthly fees from the homeowner, or they are able to collect the fees owed at the time of foreclosure (Thompson 2009). Servicers lose no money on a foreclosure, and modifications create expenses, and yet, it is the servicer who borrowers are attempting to secure loan modifications from (Thompson 2009). Second mortgage lien holders complicate loan modification, as the first-mortgage risks subordinating itself to the second lien when a loan is modified, unless they voluntarily participate in the second lien program that HAMP initiated in 2010;

In the San Francisco Bay Area, home values fell unevenly throughout the region. However, the drastic drop in home prices set the stage for the following discussion of all of the individual foreclosures that follow. In California, and even more so in the Bay Area, home prices had steadily climbed from the 1990s, and in the early 2000s, home prices were rising by 10% or more each year. Several studies argue that it was the speculative promise of ever increasing home prices that were at the root of both the boom and the collapse. With collective “overly optimistic beliefs about house prices” on the part of buyers and the mortgage and financial

professionals, these expected rising home prices would allow homeowners to refinance, remodel, sell, buy rental properties, send their children to college, and go on vacation (Foote et al 2012, 2). Few of the foreclosures discussed here would have occurred, if housing prices had continued to rise, and homeowners were able to sell their homes to exit their mortgage, or to refinance into a loan with more sustainable terms. The collective belief in the growth of property values turned out to be false. With rapidly falling home prices as the subprime crisis unfolded, and mortgages exceeding the property value by hundreds of thousands of dollars, options to avoid foreclosure quickly vanished.

The extraction of money and wealth by the lender from households in foreclosure is constantly described in their experiences of the process. This occurs where borrowers in default liquidate their assets and retirement funds to save their homes, to lenders that string homeowners along with the hopes of loan modifications and foreclosures so that they continue to make payments, to enticing homeowners to make temporary loan modification payments, only to turn around and inform the homeowner that they do not qualify. This extraction of funds during the foreclosure process is a direct transfer from the homeowner in default to the lender, and is done in a good faith effort on the part of the homeowner, ultimately leaving them without their house, and in a difficult financial position. Where homeowners decide earlier in the foreclosure process that they will not compromise their financial health to try to save their home, they are in a better position financially after foreclosure, as in the case of Dawson and Clare, whose experiences are discussed later in this chapter (Elias 2011). The potentially intergenerational loss of wealth from the foreclosure crisis will be a lasting legacy of the crisis, particularly for minorities where the foreclosure crisis is the latest in a series of historical housing and capital losses (Saegert et al. 2011).

Regardless of the cause of foreclosure, as a life experience, it is highly stressful, frustrating, and demoralizing. Psychologists rank foreclosure as one of the most stressful life experiences, following other stressful life events including death of a spouse or close family member, divorce, serving a jail term, and pregnancy (Alder 1999). However, it is not simply the housing displacement caused by foreclosure that creates this trauma, but also the process itself of the foreclosure which I will address in this chapter, as well as experiences after foreclosure, which I will address in the chapters to follow.

The Foreclosure Trigger: External to Loan Terms

With rising unemployment during the recession, many individual and couples who own homes have an unexpected loss in income, and are unable to make their monthly mortgage payments. Many people have found it difficult to find a new job with similar compensation to their old job, making it impossible to make their payments. With unemployment and the stress of the foreclosure process, many couples divorce or separate. These foreclosure triggers are outside of the terms of the loan, but put many homeowners in the same position as those whose foreclosure trigger was due to high-risk or subprime loans.

What started as a “foreclosure” crisis due to subprime lending in 2006-2007, quickly turned into a generalized recession by 2008, with loss of employment further contributing as a cause of foreclosures. In the San Francisco Bay Area, the previously hot housing market supported

growth in a number of different employment sectors. As the foreclosure crisis became prolonged, these industries started shedding jobs. The Finance, Insurance, and Real Estate (FIRE) sectors had long been drivers of the Bay Area's economy, and provided many high-paying jobs, until the economy started to change in 2006-2007, and in 2010-2011, the rate of financial sector job loss was greater in the San Francisco Bay Area than the country as a whole (Bureau of Labor Statistics 2011, Srivastava and Nemirow 2012). Employees in the real estate sector, who previously relied upon sales commissions for their salaries, found their take home pay significantly reduced as real estate prices started to fall. New home sales and resales, outside of foreclosure or short-sale, were less common. Real estate developers, due to falling home prices, put housing developments on hold or let construction projects go into foreclosure, and shed their workforce. With this, the construction sector began to shed jobs (Bureau of Labor Statistics 2011, Srivastava and Nemirow 2012). Nationally, new housing construction and renovation of existing housing from 2008-2012 has been at its lowest in 60 years (Schwartz 2012). Insurance brokers who previously relied on commissions on home insurance policy sales to new homeowners found their business drying up and their incomes reduced. The collapse of banking institutions and the decline in the banking sector, initially fueled by issuing high-risk mortgages, also led to finance jobs disappearing, sometimes overnight. Throughout the state, public sector employees found themselves faced with mandatory furloughs, starting in 2008, to reduce salary expenses in the state budget without resorting to mass layoffs. The state unemployment rate from 2006-2012 has been as high as 12.4% at the peak in 2010 (State of California Employment Development Department).

While these larger structural changes were happening in the region's economy, at the level of the individual, unemployment or a loss of household income became another major reason for foreclosure.

Changes in Employment

For Amelia, she and her husband both suffered a loss of income that made them unable to afford their mortgage payments. They purchased a townhouse in Alameda in 2002, refinanced to a 15-year mortgage with the hopes of paying off the loan more quickly, but the monthly payments were too high, and in 2007 refinanced back to a 30-year loan. However, starting in 2007, Amelia and her husband experienced employment changes that made it difficult to afford even the 30-year loan term payments.

Amelia: I've worked off and on for 20 years as a paralegal for a law firm in San Francisco. New York law firm, San Francisco office. Because of the economic downturn, they closed.

Anne: What year was that?

Amelia: I had left right before they closed. I think they closed 2008. But I left in October 2007, and in October 2008 took a job as a marketing person, because I had been a journalist, and then nonprofit marketing, before I became a paralegal. Anyway, so then the company I worked for doing marketing in the healthcare area, I didn't feel comfortable working there anymore, let's just say that. I just chose not to work there anymore.

Anne: So you left.

Amelia: I left. And we thought we'd be okay, by cutting back. But then my husband got furloughed, and took this 8% pay cut, and it was happening at the same time as our three children, their expenses were increasing.

(...) So then when I called the mortgage company, I said, "What can you do for us." I said, "My husband's got a furlough, we just can't...we have three kids, all of whom have special education needs." We had no savings, we've been spending money on our kids for years. And they said, "Oh, well, we can lower your house payment \$600/month." At that point we were paying almost \$6,000 a month on housing costs, between the two mortgages, \$420 a month for homeowner's dues, \$500 a month for taxes, and we had a roof assessment coming due. Well, the rumor was at that time it was going to be as much as \$10,000. It turned out to be, I think, \$5,000, but we didn't pay it.

So, all that was looming. We had no disposable income anymore, and we were putting so much on credit cards just to live. We started putting the groceries on the credit cards. We knew we were really house-poor – [it was] not working.

-Amelia, 60s, married, works as a freelance writer

Amelia's high monthly mortgage burden, coupled with her and her husbands' loss of income, and falling home prices, limited their options.

Divorce, Separation, and Default

Amelia and her husband stayed together during this stressful time, although the stress of unemployment and pending loss of a home is too stressful for many couples, contributing to separation or divorce, and the permanent loss of one partner's income is the final nail in the coffin in the ability to make high monthly payments.

For Run, a former banking industry professional, the combination of the dissolution of the bank that employed him and his divorce led to an unsustainable financial position in meeting his monthly mortgage obligation.

Run: I had a job. And, as long as I had a job, I could afford the house.

Anne: Where were you working? What industry?

Run: In the financial, banking industry. And then, at that point, I had a wife, and we were a two-income household. But then, I asked her...we split up, and then, so it became a one-income house. So I had to pay for the house, as part of our agreement, whoever stays in the house pays for the house. So I got the house, and I had a job, I could pay for it. But then, rumors were that the bank was going to collapse, so...and it did. It kind of happened overnight, so to speak, and then we were not sure if we were going to have jobs or not.

Anne: Oh, the bank you were working for.

Run: Yeah. And for about a month we were in that phase. We tried to sell the house earlier, but the market was going downwards, and we were not able to find any buyers. (...)

So, then I got laid off. I knew I was going to be in trouble, and tried to do a haphazard sale, we tried to do it ourselves. Because we couldn't afford... As long as we set it at a certain price, we'd break even. And we wouldn't have to pay the 5-6% of a Realtor, and we'd be reducing the cost of the house. That didn't work either.

So, what we ended up doing was, I worked with my financial institute, which was Wells Fargo. I wrote them a letter saying, this is my condition, this is how much money I'm making on unemployment, and I can pay only this much. So for three years, can you reduce the interest rate to meet my financial situation? And in three years my business – which, I'm working on a business - would hopefully do well, and I can then go back to the original payment. Wells Fargo basically said no.

- Run, 40s, divorced, online import/export business

While Run and his wife bought a house where the mortgage payments were within their means, but when the banking industry and their marriage collapsed, Run became unable to make the mortgage payments. Individuals who lost their well-paying job, their house, and their spouse or partner in a short period of time found everyday life ruptured from what they previously experienced, and previously shared dreams for the future were lost. Similar to Run's experience, across the Bay in San Bruno, when Sam lost his job as a financial analyst, he and his partner were unable to make their mortgage payment, and they separated. Sam and his partner broke up when they moved away from the house, during the foreclosure process.

Sam: We did, we made phone calls, we talked to the branch manager, we talked to the people in the loan department - they aren't interested. [laughs] After that, we decided we're not going to make mortgage payments, because what's the purpose? So, when that happened, we stayed about 3 months in the house because we didn't know where we were going to go. I couldn't go to my partner's...in-laws... I didn't want to go and live with them, it's just not something I can do.

Anne: So what did you guys end up doing?

Sam: So, we had to go separate ways for a little while, because, well, she went with her parents. And I was staying with friends. But, yeah, it was a very difficult moment.

Anne: So you went and stayed with friends - have you since moved?

Sam: I stayed with friends, but you know, it sounds a little bit cliché, but it's true what they really say, it's when you're in a jam [laughing], friends disappear, too. So, you know, it can also compromise a long-standing friendship or relationship with people. (...)

Anne: So, the foreclosure, did it end up splitting you and your partner apart? Are you still seeing each other, or did it come between you?

Sam: No, it pretty much killed the relationship. We're on a friendship basis, whatever they call it. Which is, I think, better than a situation of antagonism. There was familial pressure - her family. (...) The relationship was not resting on a very solid foundation, no, it didn't. It inflicted such a big blow, that I don't think it would ever recover.

Anne: And do you think, if you had not lost your job, and none of this had have happened, do you think you'd still be together?

Sam: Oh yeah, definitely. There are other factors that you can never predict in a relationship, but, yeah.

Anne: But it seemed like this was what really drove you apart?

Sam: Oh yeah. Yeah. Yeah, because it just became very hard, because it was a purely financial matter. The fleeting nature of it all, seeing that, when that happens also that the future is a little compromised - we were actually merging in that direction, thinking about kids, all that stuff. All of a sudden, that seemed like a very remote scenario for us to contemplate.

-Sam, 30s, single, financial consulting

The financial strain leading up to foreclosure and of the foreclosure process, for many couples, is too much stress to bear. For Run, his wife left before the foreclosure occurred, but for Sam, when the house foreclosed, they went separate ways. One man interviewed stayed in an unhappy marriage with his wife after foreclosure, for the sake of their school-aged children, but he ended up finding work where he was living away from the household much of the time. For another couple who stayed together, they had decided to postpone having children, as they had a clear order of life events in mind, similar to what Sam described, above, that first they buy a home together, and second, they have children. This cultural standard of the expected order of homeownership and child-rearing is described by Constance Perin (1977), and this expectation of homeownership as being an important step in starting a family is tied up in relationship strain relating to foreclosure.

Cascading Foreclosures: Owning and Losing Multiple Houses

For some homeowners interviewed, they were both homeowners and small-time investors, owning one rental or a handful of rental properties. Where one or more loans was unsustainable, often this led to all of the houses being lost to foreclosure. For small-time investors, they did not have the protection of a Limited Liability Corporation (LLC) or other business structure to try to protect their own home and assets. Especially where investors expected home price increases in the short-term, that is, the cash flow from operating any one of the properties as a rental did not cover the full expense of the mortgage and taxes, when house values started falling, the houses fell to foreclosure like a house of cards.

Faith got caught in the middle of buying a new house and selling the old house, when property values started falling in 2006, and was unable to sell either house. She paid both mortgages for a year, spending \$100,000, and emptying out her savings to do so. Ultimately, both houses were foreclosed upon.

So I found another property that I wanted to get and what the plan was that I was gonna do it the same way I did it before. Was, get a line of credit equity to put a down [payment] on the new place, and then sell, and then hopefully within just a month or two be paying rent on two places and then sell that, the other place, and move fully over. That's how I did it before, that's how everybody does it, you know - I mean things are selling quick, no problem, right? This was the atmosphere - this was the, you know, the climate.

-Faith, 40s, partnered, non-profit employee

If property values had not fallen so precipitously, or if Faith had sold her house before buying the second house, this could have been avoided. Ultimately, she also declared bankruptcy to clear the debt that was not eliminated through the foreclosures. Faith also had roommates who paid her rent in the old house who were also displaced by the foreclosure, and while she was losing the new house she rented it as well. Faith's foreclosures of the two houses affected both tenants and homeowners, complicating the usual story that the foreclosure can be categorized as affecting one or the other.

Mari had used equity from her residence to buy a rental property. When she lost her residence to foreclosure, she moved into her rental property, but was uncertain if she would be able to prevent foreclosure on this residence in the future. David similarly owned his own residence and a rental property, and lost both to foreclosure. Neeta and Yvonne owned several investment properties that they planned to rehab and re-sell, but the rental cash-flow did not cover the mortgage payments on the investment properties. When they were unable to sell the investment houses, they ended up losing their investment properties as well as their own house to foreclosure, and at the time of interview, were living in the final investment property that they owned and were unsure if they were going to be able to prevent foreclosure there.

Especially in California, real estate had been seen as a stable investment, and several of those interviewed in this research had rental units as investments. However, if any of the loans were high-cost, this quickly created a cascade effect and the homeowner lost their own home to foreclosure as well.

Divorce or separation, related to a loss of income and the stress of the foreclosure process, has both significant costs in terms of the ability to make mortgage payments, as well personal costs. These foreclosure triggers have the ability to impact higher-income households that did not anticipate difficulties in making mortgage payments, and that often had traditional, fixed-rate 30-year loans. The foreclosure crisis initially unfolded with subprime lending identified as the primary trigger of foreclosures, but regardless of the trigger of the foreclosure process, those who found themselves faced with foreclosure found themselves stuck in the same frustrating, confusing, and degrading process.

The Foreclosure Trigger: Within the Mortgage Terms

Those who found themselves facing foreclosure due to a high-risk loan often had expected that they would have sold or refinanced the property before their monthly payments changed. The terms of the loan, in these cases, were directly what triggered the foreclosure. Due to fallen property values, borrowers are unable to refinance out of these high-risk, high-cost loans, and are unable to sell the property to repay their loan. Often lumped together as ‘subprime’ loans, the very features of these high-risk loans that made them attractive when they were originated made them unsustainable. These loans left homeowners few options outside of foreclosure when property values started to fall. The following section will discuss some of the high-risk loan features that trigger foreclosure, as well as stories from homeowners that explain why they chose these loans originally, and how they ultimately became unsustainable.

Interest-only loans were heavily promoted in the mid-2000s, as they allowed borrowers to make monthly payments consisting of only the interest on the principal for 5 or 10 years, giving them lower monthly payments during this period. After the initial teaser period, the principal of the loan has not been touched, and the fully-amortizing balance and principal monthly payment is significantly higher than the previous payment. These loans also often required **no downpayment**, so the loan principal was the full value of the property, often at the peak of housing values. This combination is particularly difficult for borrowers because they started with no equity in the home, and while making monthly payments, these payments are applied only to the interest. As property values fall, homeowners quickly are in a situation of owing more than their home is worth at the current market value, which is commonly called being ‘underwater.’

Some people have also had **adjustable rate mortgages** (ARMs) with low teaser rates, and after a period the interest rate adjusts to the current market interest rate.

Upon the interest rate adjustment with an ARM, or at the time that the principal payments are added to the monthly payment with an interest-only loan, the monthly amount due jumps dramatically.

Several people interviewed had **negative amortization** loans, sold to them as “pick your payment” loans, where the monthly payment is less than the monthly accumulated interest, making the homeowner increasingly indebted with each payment.

Stated income loans allowed mortgage brokers to submit the income of the household on mortgage origination paperwork without verification. While this facilitated a faster loan origination process, it also encouraged either homebuyers or mortgage brokers to falsify incomes to qualify buyers for a loan that their verified income would not support.

Another high-risk loan feature, occasionally seen with second-loans, was a **balloon payment** of the full balance due at the end of 5 years (double-check).

Some homeowners took out a second mortgage, as a home equity line of credit for home improvements, increasing their debt-to-value ratio, and preventing them from being able to refinance as home prices fell.

It was either explicit in conversation with the realtor, or assumed, at the time of purchase, that this loan will be sold or refinanced before the loan “resets” with the payment due including both principal and interest. In California, home values had steadily appreciated for twenty years before the foreclosure crisis began, and there was widespread faith that this pattern would continue into the foreseeable future. With increasing property values, the assumption was, anyone would be able to refinance or sell their home as needed, in the future.

The following interview participants describe the high-risk features of their interest-only loans, and the ways in which they were not critical of these terms when they purchased the houses. Daryl describes how his house in Castro Valley quickly became financially unsustainable, due to his interest-only loan.

“Daryl: When we first started? It was pretty cheap, actually, it wasn't that bad. It was about \$3,500. It was still high, but it was manageable with two people.

Anne: And then when it started going up, what was your monthly payment?

Daryl: It ballooned a lot. It probably ballooned up to \$5,000.

Anne: A month?

Daryl: Yeah. We were paying interest-only, and then they started tacking on other stuff. It was my fault, too. Well, it was both of our faults at the time.

Anne: Why do you say that?

Daryl: Well, it was both of our faults in the sense that me and the significant other should have read more closely with what we were doing. We were just kind of excited about housing values going up and we got caught up in the excitement of everything.

Anne: And when you got the loan, did you realize that it was going to jump so dramatically?

Daryl: Did I realize what?

Anne: That the payments were going to increase so dramatically.

Daryl: I think we had an inkling in our mind, but kind of put it in the back of our heads and swept it away, just saying, oh you know, we can always refinance into a fixed mortgage or something. So we always thought better times would be ahead, which is a fallacy at this point. Yeah, I was in a fantasy-land [sad laugh].

Anne: I have spoken with a lot of people, who, either they believed that, or their brokers led them to believe that was...

Daryl: Yeah, that you could always refinance, and don't worry you could always keep up these low payments. I had no idea it was going to balloon like that.”
-Daryl, 30s, single, works at a nightclub

Daryl blames himself for not being critical of the interest-only loan terms, but also describes his excitement about buying a house, and the prospect of participating in homeownership during a time of rising property values. His faith in rising property values and the ability to refinance allowed him to enter into a loan that ultimately caused his foreclosure, and his separation from his girlfriend.

Dawson and Clare describe their experience buying a house as new teachers, and how the state agency CalHFA came to Clare's school to sell interest-only, no downpayment loans to teachers. They were excited to qualify for a loan that enabled them to buy a house, and fearful that if they didn't buy right away, that the rapidly rising home prices would permanently prevent them from ever being able to buy a home. As CalHFA was a state agency that approached Clare through her school, it felt like a trustworthy program. While they were anxious about the total amount of debt they were about to shoulder, the real estate broker jokingly encouraged them not to think about it, as they would be able to sell and make money off the house. For Clare and Dawson, these high-risk initial loan terms directly triggered their foreclosure.

Dawson: So we're driving through and we notice the housing prices from \$500 [thousand] to \$700, \$800--it's just what we thought it was, you know? So we come down and rent, though, we're in our first year of teaching and headed towards our '06 marriage date summer and in the springtime, we're just trying to check all those boxes off, so, we start looking around and, "How are we gonna do this? How are we gonna buy a house?" We start talking to people...

Anne: And you guys were teaching at that point?

Clare: Yes, yes. It was a big year - first year teachers and a brand new area... planning a wedding. We ended up getting puppies... and searching for our first home.

Dawson: And during that search, the common theme was, "Oh, you just gotta buy now or you'll be priced out *forever*." Heard that over and over and over again. Thinking back, there was only one person who mentioned anything slightly negative about our decision at the time, and that was my dad. And he just said, "You know, are you sure you're not taking on more than you can handle?" And, of course, with 99:1 odds we felt like, "No, it's great," you know? So anyway--on two teaching salaries though, a half a million dollar starter home is hard to swing. So we started looking around at different programs, and we found CalHFA...

Clare: Yeah. They had come, actually, to our school--well, my school--and they were targeting teachers. And they had some incentives there.

Dawson: Yeah, it was a no downpayment, interest-only for the first five years.

Clare: Which now, in hindsight, it just makes me cringe.

Dawson: Well, this is part of our edification, you know? And part of it, too--I mean I have an economics degree and I'm like, "How did I miss this?" You know, I went through a period of, like, "What kind of idiot were you for not realizing what was going on?" but it was the timing and place--it was the mindset.

Clare: And I think also from an emotional standpoint, there were so many new things--like really big milestones that we were kind of trying to process. We were just like, "Ok, we need a home, we need some stability with all these big changes."

Dawson: Even though we had a nice rental, and we were comfortable and happy--the one thing was we talked to our landlord about getting dogs and he wasn't sure about that, but that's not really a reason to go out and buy a house. It was one of those little things, you know?

Anne: Right. And what were you guys paying in rent at the time?

Dawson: \$1,650. And so through that program, you work with a local broker and, you know, the broker just loved us--"Oh, you guys are great." 'Cause we had perfect credit, you know, we had two incomes, no kids, we didn't have any other debt to speak of, besides our student loans, which were very small, luckily. And when they sent it in to CalHFA, the response we got back was, "You guys are perfect--exactly what we look for." And at that point though I mean the house that we ended up buying was \$520 [thousand], and we were making a combined \$90 [thousand], so that's almost six times our income right there. At the time, I wasn't aware of traditional income to housing price norms, or what it had typically been, and we just thought, "Hey, we can DO it!" But there wasn't much more thought given to "What about retirement? What about when kids come?", you know, things like that.

Clare: Or taking vacations or--

Dawson: Somehow it made sense to double our housing payment, every month - 'cause that's what it did, to just buy a house.

Clare: And the first five years of the loan arrangement was interest-only.

Dawson: Yeah, so we're not paying down the principal, and then we're gonna get a \$500-kicker after five years, you know? So we closed in March of '06--

Clare: But I do remember when we were signing the mountain of paperwork and I remember seeing the actual amount of what our monthly mortgage was gonna be and I just remember, like, my heart kinda started to go, and I was just like "Ok, Clare. You

cannot get--you know, this is pretty much where everything that we're working towards, from a financial standpoint, is going towards, so there's no other types of big expenses that you're gonna be able to accumulate." You know, not that I'd want to. You don't want to carry debt, but it was just, you know, that vacation to Europe, or this or that--I mean that was kind of like "Hey! If I'm gonna really jump into this..."--But it was just really startling to see that amount and it wasn't gonna fluctuate really.

Dawson: Not only that amount, but then, you know, over time the total payment after thirty years.

Clare: Yeah, the woman-- she covered it up.

Dawson: Yeah, she said, "Don't look at that! You'll sell it in five years and the price will double."

Clare: And they did say with us not putting any money down, as a down payment, with the private mortgage insurance, they said, "Oh, generally at the rate that it's going in about two years, your house will be appreciated--and you'll lose PMI." Yes. So that was kind of what I was working toward in my head.

Dawson: If we think back on it, we're just like, "Aww, man. Sucker!"

-Clare and Dawson, 30s, married, teacher and financial planner

Clare and Dawson describe the ways in which they were able to rationalize entering into a loan with high-risk terms, as well as the ways in which they were encouraged to do so. While Dawson was a teacher at the time of buying the home, his experiences navigating through the foreclosure process led him to enter into a new career as a financial planner.

Jose describes how he initially bought a house when he was only 19 and working in the real estate industry. While his purchase loan was a high-risk loan with a teaser rate for the first three years, he refinanced into an even higher-risk negative amortization, adjustable rate loan. When his monthly mortgage payment tripled overnight, he was unable to continue to pay.

Jose: Yeah, the whole time. And saved - saved about \$6,000 the first year, and when I was 19, I purchased my first home. And I - I couldn't believe it, but I qualified. That's because the sub-prime lenders were just qualifying anyone. (laughing) So -

Anne: Did you - did you realize that at the time, or you just felt like you had the - the income to justify it, and...

Jose: Well I was in the business, and my manager said, why don't you buy a house. And, now I realize, my manager, I mean, she was - she had very little education, and she was just going off of gut instinct, and so it was bad advice, but I took it, you know, I was - I was like, hey, my manager says do it, you know. So, I bought a house with my mother's co-signing it. My credit was established, and found that's why I could do it, so...

Anne: And that also was here in Hayward?

Jose: In Hayward. And so we bought it in Hayward, we got a loan from Countrywide, it's like a 6.25% interest rate, I think it's for three years. Then the -

Anne: So you bought it in 2003?

Jose: Yeah, we bought it in 2003. Towards the end of 2003. We got credit back from the seller. They paid for all our closing costs, and they gave me an additional \$10,000 to remodel it. And it was good. I mean, it seemed like the right thing, and throughout the years I refinanced it one time. Just to try to drop the payment. And I got -

Anne: So after the loan reset, or before it reset?

Jose: About six months before it reset.

Anne: Ok. And you were able to refinance...

Jose: Yeah. So I financed a new loan through Countrywide. And back then, it was really popular to do the pick-a-payment option, which was the negative amortization loan. But my payment went down significantly to about \$1,300 for about \$475,000 worth of mortgage. So it was very affordable.

Anne: Did you - did you understand kind of the mechanisms of how it worked?

Jose: I didn't. I didn't understand the index and the margin that I do now. And I was still young and new in the business, it was a new program, and everybody was going into it. So I was like, well, if properties keep appreciating... so even if my negative amortization amortizes, say, \$10,000 a year, if I'm appreciating \$20 [thousand] a year, I'm still justifying that. So I - I thought I had it down, but the bubble burst.

Anne: Right. And then as soon as property values weren't keeping up, then it was a problem.

Jose: Exactly. Because, it came to the point where it was declining in value, it went to \$400 [thousand], and I was like, hey, I'm upside-down now, but I - you know what, I - it'll come back. And it just kept declining, and it got to the point where in 2007, it was worth \$180,000. So I was really upside-down.

Anne: Yeah. So how did it work - so you have this pick-a-payment loan, and then did you try to refinance out of that, or what happened with that?

Jose: I tried. I - I called the bank, and I said, hey, can I either refinance out of this, or can I get a - what's called a special forbearance. There's a clause inside the contract that says you can qualify for a special forbearance for a certain amount of time, and I was like,

maybe that'll be a good fit. But they declined me for both. And, they said because they cannot lend to someone more money than what the property's worth. So I was like, well, ok, so I kept paying it, but the problem was that the amortization - the negative amortization loan - it reaches a cap. And that's at about 115%. So, they range - some of those 115, one - one goes to 120, one goes to 110. So, which means, if I'm negative am[ortization] on \$100,000, let's say it's \$115 [thousand], my loan amount. Then it just jumps to adjustable completely. So -

Anne: So is that what happened?

Jose: Yeah, that's what happened. So I reached my cap, and my payment went 100% adjustable, at about a 7.9%, and, it's like -

Anne: So what was the difference in your monthly payment?

Jose: Oh, ok, so it went from about \$1,200-\$1,300 a month to about \$3,900.

Anne: Overnight.

Jose: Overnight. So I was like, oh my gosh, I can't afford that. So that's when I called the bank, and I was like, listen, I need a modification, I need something.

-Jose, 20s, married, works in real estate

While Jose worked in the real estate industry, and was encouraged by his bosses' urging that he should buy a home, he did not foresee the risk of falling home values with his high-risk initial mortgage or refinance loan. Rejected upon attempts to refinance or get a forbearance, the high-cost loan triggered his foreclosure.

Dawn and her partner bought a home, and while their first mortgage was an adjustable rate, interest-only loan, they believed that their second mortgage was a fixed-rate, 30-year loan. While the purchase process with a stated-income loan made Dawn uncomfortable, they were not aware that their second mortgage was interest-only with a large balloon payment of the entire principal due after the 5-year introductory period. This balloon payment, on top of their already precarious financial situation due to their high-risk loan, and fallen property values in their neighborhood, triggered their foreclosure.

Dawn: Yeah, we have lived here a couple of years- in San Francisco. And then we decided- because the market was going up and up and we were like if we don't buy something now we'll never get a house and we'll be poor the rest of our lives. [laughing]

Anne: What year was this?

Dawn: This was in late 2004 and early 2005.

Anne: Yeah, the market was really hot.

Dawn: At first we were looking with a friend, we were going to buy a duplex but we just couldn't find anything that suited us, and then we kept getting outbid – we'd put a bid on a property and then somebody would come behind us and bid \$100,000 over the asking price. And that happened, we were looking, looking, looking, like six or seven months went by – every weekend spent looking for a house until finally-

Anne: Were you mostly looking in the Laurel [District of Oakland] or were there other areas where you were looking?

Dawn: All over – Berkeley, Oakland, we even looked in Richmond. And of course we were all professionals making pretty decent earnings with no kids and we were like, how could this be possible that we can't find a house? And so we finally got rid of the third person, it's too hard to do with you, and then these mortgage brokers – we were like, okay, forget it, we can't afford it. We need to save more money, get a down payment, and these mortgage brokers were like, "Oh no, I can work a deal with you." And we were like, hmm not so sure. We didn't have any money to put down. We only had like \$10,000.

Anne: And the properties you were looking at were in what price range?

Dawn: Between \$300,000 and \$500,000 but we should've had \$100,000 to put down. (...) So finally my partner, one of her colleagues at work, her husband was a mortgage broker, so he was like "I'll meet with you guys, let's talk, I'll tell you..." ...and we trusted him. I honestly think everybody was just in the game then. Every single person wanted their cut of the money. We were swept up in it because they were like, "You don't need any money down, get in now, you can make a ton of money, the value of your house is going to go up." And then our real estate agent's mortgage broker was like, "Oh no, come over here make a deal with us, we'll give you-" – they totally wanted to sell us this subprime- probably what we got was subprime – but this was even worse, because the interest...it was interest-only, and the interest was never enough to actually make it up to the actual payment that it should have been so we would've been in negative equity. And they were like, "Oh, this is a great deal, because the value of your house is going to go up faster than..." And we were like, "No way, that's a scam!" And we were like, "We may be a little bit naïve first-time home buyers, but we're not stupid."

So then the guy who said he could cut us a deal, he kept wavering, he was like, "maybe I can, maybe I can't"- because my partner, it turned out her credit took a hit because she's co-signed on a loan, school loan, for her sister and her sister defaulted. So her and I had excellent credit when it started and the next time we checked it, it was like, ooh, I don't know about this.

So then, he was like, "I know, we'll put it in your name" – because my credit was like 800- "We'll put it in your name, we'll do stated income." Even though we had the income to pay. And he was like, "It's the drug dealer loan." He actually told us that. He's like, it doesn't matter how much you make, you're just telling us you can pay it, right? And normally, we might think that it was wrong, but we really could pay it. Between my

partner and I, we make \$160,000 a year. We could pay \$3,500 a month for this house. It would have been a lot, it would have been a stretch, but we could have done it.

Anne: And you were renting in San Francisco at the time and that was pretty expensive.

Dawn: Yeah. The house we were renting in San Francisco was \$2,000 a month. Our mortgage was going to be \$2,400 a month. But then there were taxes and insurance, which first time home owners never take into account. But we were like, it's a little bit more we can do it. So then that guy said "Your first loan is going to be a 5-year ARM, so you know, it's interest only." But it's okay, because we told him "We're probably only going to live in it five years, fix it up, and sell it, and then get the house of our dreams." And he was like, "It's okay because you won't even be there five years." We'll just sell it and get out of there. Then the second loan was going to be a 30-year fixed, and normally they would've made you pay insurance on the second loan, but there were all these ways to get around it then. But they ended up making money off of us anyway because they charged us all this interest up front. (...)

Anne: So you ended up getting approved to buy the house?

Dawn: We got approved to buy the house. I was like... something in my gut was like, "don't do it." My partner was like, if we don't take this house we're going to go crazy, and we'll probably break up, and things will be bad because this has been such a struggle – she didn't really say we'd break up, I'm inferring that. So I said alright. Against my instinct, I said yes. So we get the house, move in, find that all these things are wrong with it, but because we're doing this interest-only thing, which, by the way, don't let me forget to comment on low-income neighborhoods and interest-only loans, because I learned *a lot* from going through this.

So we moved in, we're uncovering things, but one good thing with an interest-only loan is that you get a lot of taxes back, so every year we got \$10,000, so every year that's what we would use to slowly fix it up. We did a lot of the work ourselves, like, someone that I call my brother (he's not really, he was my band-mate) but he came out and helped put new plumbing in and stuff like that. It was hard because we started to uncover the things that were wrong- huge leaks- the first couple of months we were there, when it rained, it literally rained in our bedroom. Just really bad stuff happened, and it sort of started to eat away at us and our relationship. So we finally got the roof replaced, we fixed this huge hole in the bathroom floor; we put a whole new bathroom in, like literally for three years gave up our lives for this house. So then the economy... In 2005 we bought the house, in the end of October. The economy started to tank I think the next year, in the middle of the year- was it the end of '06 or '07?

Anne: Right in there.

Dawn: So at first our house was going up in value and we were like woohoo, it's worth half a million dollars- we paid \$460,000 for it. So things were kind of okay. Then the

economy started to tank. And we weren't freaking out; the house was in Fruitvale, which is a pretty transitional neighborhood in Oakland. (...)

Dawn: So finally we learned that Wells Fargo bought the second. So I called both of the loans, and was trying to talk to the banks. When I called Wells Fargo, the woman was like, "By the way, do you know you have a balloon mortgage, and you're going to owe us \$100,000 in a year?" And I said, "What?" So I requested the paperwork from their vaults - and I got this stack, everything I signed at closing. I went through it, and sure enough, there was the top papers - the first couple of papers were the ones I thought I signed, with the 30-year fixed- then a couple of papers later was the same set of papers with completely different terms. I have no idea how...it had my signature on it. I don't know how I signed it.

It's not what I thought I signed. And they were two completely different sets of paperwork. It was shocking, my partner, both of us thought, swore he said thirty year fixed. Things, right when we closed, they rushed us through the closing in seven days. I ended up talking to a lawyer and he was like, they totally did everything they were doing then. What's the word...it's not mortgage fraud, it's um mortgage...predatory lending. And he charged us points, which he said he wasn't going to charge us. I had to pay a couple thousand dollars. Sorry I'm going backwards to that crooked mortgage guy. Because we were friends, he said, "You don't have to pay points," but then he said, "The interest rate is going to be 5.6%,"..."Oh, the interest rate is going to be 5.4%" - when you go to sign, "Oh, it's 6.3%." And you're like, what? "Oh sorry, you can never guarantee these things, I couldn't lock it in," and bullshit bullshit. And then he said, "You can buy it down with \$2,000." Our closing costs that we thought were going to cost \$10 grand ended up costing \$14,000. Because we only had \$10 grand, he offered to roll our closing costs on the back of the loan so everything was like, that's the part I'm going to comment on later, about how people get caught up in the no-interest stuff. So fast-forward to us finding out we have this balloon mortgage. So the paperwork comes, only thing that showed that it was a balloon, the only difference, wasn't a word, it was a fraction. So like on the paper I thought I signed, it said 360 payments slash (over) 360 months. Yeah, because it's 30 years. On the second set of papers it said 60 over 5 - 60 payments due in 5 years. And then all the way at the bottom of the paper was a balloon disclosure that I signed. Because literally, if you've ever bought a house, make sure your lawyer looks at it first. They didn't follow the rules that they were supposed to, they were supposed to give me some paperwork to review and to have a certain amount of time to do that, and they didn't do that, and I didn't know. So anyway. One other thing before I forget- my own real estate agent was in on the game too, like I said, she tried to get her mortgage broker to sell us that crappy loan. And her son is a colleague of mine at work. It's not just some random person.

Anne: Yeah, both of these people were people that you knew, personally.

Dawn: Yeah. So she tried to charge us at the closing \$400 for her assistant to send a fax. And I caught it and I was like, "No," and she took it off. So just to let you know, everybody was playing this game, *everybody*. And I'm not saying that I'm without fault

because I should have known... but you know, they don't teach us this stuff in school, like why you put 20% down, you know, or why you don't do certain things.

-Dawn, 30s, partnered, works for a non-profit

While Dawn and her partner were somewhat uncomfortable during the process of purchasing their house, after being engaged in the homebuying process for months, and working with a mortgage broker in their social circle, they went ahead and purchased the house. As Dawn describes, she was shocked to later find out that the second loan had a balloon payment of \$100,000 after 5 years. As property values had fallen significantly in their neighborhood, due to widespread foreclosures, they were unable to refinance or sell to pay off the second mortgage. The loan terms directly triggered their foreclosure.

Some borrowers who have high-risk loans are aware of the unsustainability of their loan, and attempt to be proactive about their situation. The proactive high-risk borrower contacts the bank before they are unable to continue making payments. The lender tells the borrower that as long as they are current on their payments, there is nothing they can do to help. The lender suggests, either directly or indirectly that they should stop making their monthly payments, so that they will be eligible for a loan modification, starting the homeowner in the foreclosure process.

Charles: Yeah. And '08... I read about loan modifications for people who had high interest rate loans. My loan was a sub-prime loan.

Anne: Ok. What were the qualities of it? Was it adjustable rate or...?

Charles: Yeah, adjustable rate, high interest rate.

Anne: What was the interest rate?

Charles: 10 plus. Something like that. And so I went to my lender, who was Ocwen. And I said, "I'd like a loan modification," and he said, "You can't get a loan modification because you're current." So they said "You have to be delinquent 90 days in order to get a loan modification." So I stopped paying the loan. And after 90 days, I started to request the loan modification.

-Charles, 50s, single

Charles describes what was one of the most common refrains in all of the interviews in the study: when the homeowner contacts the bank because they can see that their company will be having layoffs in the future, or that their loan will re-set and their monthly payment will sharply increase, the homeowner is told that they are not eligible for a loan modification because they are current on their loan. They are told they must be in default to be considered for a loan modification. So, homeowners either pay until they can no longer pay, and approach their lender for a loan modification, or they stop paying to try to negotiate a loan modification. Where Charles stopped paying when he was told he must be in default, David paid until he could no longer afford to make his payments.

David: I started trying to tell the bank that I was having a little bit of a hard time. And they're all, "Well, just see what happens, but we can't start helping you out until you miss a couple payments." I was all like, "Okay...[laughs] So I guess I'm going to ruin my credit..." And eventually I couldn't make the payments anymore, and I was like, okay...

Anne: And then, I'm sure you called them back.

David: Yeah, and then I called them back and I was all, "Yeah, I'm missing payments." And they were all, "Oh, well you have to miss a certain amount." I was like, "Okay, fine, I'm going to miss a certain amount [laughing] then, and I'll see what happens from there."

Anne: And were they able to offer you any help or anything?

David: No, they were really... I don't know, it was weird. I tried talking to them, and it was just like talking to a robot. It was like, "Alright, I'm warning you guys." And they're like, "Well, you know, it's very important. You signed a piece of paper, it's your obligation." I was like, "I realize that, but I'm telling you right now I'm not going to be able to make the payment unless some miracle happens." And they're all, "We'll see what happens, but can't help you out, we've got to follow these procedures."

Finally when I started missing payments, they were all like, "Oh, you know, you missed this payment, you're in default." Started going from there. You may try to call them back and ask them what does this exactly mean. I thought I understood what they said, but apparently I didn't, and then I started getting more notices.

Anne: In the mail?

David: Yeah, exactly. I mean, they didn't really call you or anything, all these mailing notices. Then, when you do call them, I don't know who they have on the line. I felt like I was just talking to a wall sometimes. I was getting pretty mad and frustrated. And then from there... I didn't hear anything for a while, and it was like, okay, I don't know what's going on now. And you see what's happening in the news, everyone's being foreclosed on. And finally I get this notice in the mail saying, yeah, we're going to start foreclosing procedures because you've missed so many payments.

-David, 30s, single, works in auto repair

Other homeowners with high-risk loans prolong the period before foreclosure, as they are in denial of the long-term sustainability of their ability to make high loan payments. The homeowner tries to hide from their impending financial situation and puts off contacting the bank until after they are unable to make their payments in full. Once in default, these households have little savings to fall back upon, and some have even cashed in retirement savings in an attempt to continue making payments.

Then, there are people who bought a house at the peak of housing values, and home values have fallen drastically all around them, and make the decision to move forward with a strategic

default. Amongst those interviewed, this decision was not made lightly, and came when the homeowner examined their own financial struggles to keep up with high mortgage payments, realizing that they would not be able to refinance, or even sell, in the foreseeable future due to fallen home values. With home prices significantly lower all around them, it no longer seemed like the monthly struggle to make payments was worth the cost, as others may be paying significantly less for similar housing in the same location. While not necessarily triggered by a high-risk loan, due to the features of the loans listed above, strategic default is also closely related to the terms of the original loan, as well as the features of others' loans in the community. As the local community is impacted by high rates of foreclosure and home values fall, homeowners struggling to make payments on high cost loans may decide that strategic default is one of their only options, and some who have the ability to pay feel it is no longer worth it neighboring homes are selling for half of their mortgage value.

One example is Roberto, whose foreclosure appeared to be what some might call a "strategic default," but upon closer examination, it was clear that he had a financially unsustainable high-risk loan that he was escaping. Roberto bought a new house and moved on somewhat of a whim, after being told by his lender he would be unable to refinance his old house due to fallen property values. He had a vague idea he would rent the old house, and when he bought the new house in 2008, he had not decided that he would let the old house go to foreclosure. He bought the new house when he had excellent credit, before he decided to stop making payments on the old house, and the new house has a 30-year-fixed loan. The old house had a 3-year interest-only adjustable-rate loan, and rents would not be able to cover the mortgage payment, if he rented it out. So after months of paying both mortgages out of his savings and realizing that he was not in a financially sustainable position, he ended up letting the old house go to foreclosure.

Roberto: So, alright, during the latter part of 2007, I think it was Countrywide at the time, had the loan, kept sending me notices that the adjustment period was coming up, and call them to refi[nance]. So I called to refi, and the guy told me that the value had fallen to a point that if I refinanced, I'd have to carry mortgage insurance, and a guy from Countrywide told me, "My advice to you at this point is, you still have a year and a half before the mortgage re-sets. My advice is to not refi at this time. Either interest rates are going to come down, or the government is going to step in and do something." I was really taken aback - somebody who's trying to sell me a loan, telling me "don't refi." So I followed his advice. About the same time, the Realtor friend of mine apparently needed a paycheck. So he got back in touch with me, really pushing pretty hard to try to sell. He said, "What are you looking for in a house?" I said, "Well, you know, a pool would be nice." All of a sudden, we're going to look at all these houses with pools. And finally I bid at one - his encouraging me to make Robert St. a rental. Well, I found out with the adjustable mortgage I had, and the rents, that there was just no way it would work out.

While Roberto made what might be called a strategic default on his old house, underlying that decision was a high-cost loan that was financially unsustainable. He consulted with real estate professional friends to make a decision to let the house go. Upon further discussion, Roberto revealed that payments on his new fixed-rate mortgage consumed two-thirds of his income, and that the mortgage broker had factored in the rental income from the other house into his income when arranging the loan, while not accounting for the old house's mortgage payments. The new

loan is also unsustainable, and forcing Roberto to draw \$500 from his savings every month. The property tax re-assessment has valued the house at \$189,000, down from his purchase price of \$305,000. The new mortgage is less unsustainable than his old one, but led me to wonder if Roberto might end up in foreclosure again.

Regardless of the trigger of the foreclosure, the foreclosure process that former homeowners describe is very similar. The next section describes the common features of the experience.

The Foreclosure Process

Regardless of whether the foreclosure process is triggered by unemployment, divorce, or high-risk loan terms, once the homeowner has gone into default, the experience of the foreclosure process is strikingly similar. Here, I describe not the legal process of foreclosure in terms of the number of days required in each step, but the experienced process of foreclosure as presented in by former homeowners in the interviews.

When the homeowner misses a payment, or makes a partial payment, the foreclosure process is triggered, and once 90 days in default, a Notice of Default is sent to the homeowner, the first official notice in the foreclosure process. Many people make partial payments as a good faith effort to demonstrate to their lender that they are doing their best under difficult circumstances, and some people liquidate all of their assets to continue to make payments even when their income no longer supports their mortgage payments. At some point, homeowners either choose to stop paying, or have exhausted all of their resources and cannot pay.

At some point in the foreclosure process, and often at many points in this process, they contact their lender to try to secure a loan modification or refinance, only to be given the run-around by low-level call center employees who do not have record of the homeowner's former contact with the lender, and do not have the authority to make loan modifications. During the foreclosure process, the homeowner is repeatedly, and sometimes daily, contacted by their servicer's delinquent loan division who make collections calls, telling the homeowner to pay their past due payments and fees. For those who learn about loan modification alternatives, they find that the loan modifications do not offer the principal reductions that they had heard about in the media, and do not offer a modification that feels like it will be financially sustainable or a fair deal for the homeowner, but instead may force them to pay more in fees and interest over the life of the loan. For those who had the money to come current, and simply stopped paying to try to negotiate a loan modification or their circumstances improved since when they first went into default, they realize that it is difficult to pay off the past due amount and exit the foreclosure process. Many attempt to arrange a short-sale, only to have their bank reject seemingly reasonable offers from prospective buyers. As the house goes up for auction, some homeowners actually go to the auction to see their home get no bids and go back into bank ownership as real estate owned (REO), some find out through realtors who were at the auction, or from an investor who purchased their home, and others have moved long before the foreclosure auction, and choose not to follow the sale of their home, trying to move on. In moving, almost everyone who stays in the home until the auction date nears, or after the auction, are offered cash for keys by a third-party broker, on behalf of their lender, in order to move and leave the house in good condition. A few homeowners moved when they first realized they were not going to be able to make their payments, while their credit was still intact, trading certainty, peace of mind, and ease of securing rental housing for any time they might be able to spend in the house not making payments, and any cash for keys moving money. This process, experienced over months, or for some homeowners, years, from when they first realize that they will not be able to make their payments, is financially and emotionally exhausting.

Making Partial Payments

While some homeowners are under the impression that if they make partial payments and pay as much as they are able towards their monthly mortgage payment, there will be some leniency by the servicer, however, the process is the same for those who stop making payments completely. Any money paid toward the mortgage after the first partial payment is essentially a direct transfer of funds from the struggling homeowner to the bank, towards an unpayable debt, and does nothing to prevent or delay the foreclosure. With fallen housing prices and underwater mortgages, homeowners cannot sell to pay their loan, nor can they refinance to take advantage of lower interest rates. The mortgage essentially becomes an unsecured loan, no longer anchored by the value of the house, and unpayable from the perspective of the homeowner who can see their income and wealth running out. Carl, an accountant for a real estate developer, lost his job when the developer lost a condo conversion project to foreclosure. When he started having trouble making his mortgage payments, he paid as much as he could.

Carl: I didn't stop paying, but I started paying a lower amount, see if there was anything they could do, because it was eating up my savings. The biggest issue, I couldn't find a steady position. I was doing contract temp work, so it was okay, but it wasn't full time, it wasn't the rate I was making before. The wife, her income is basically just to help, discretionary income, was more like saving up, utilities, and so forth. It's not really to pay the mortgage. So that was, basically, what happened. Then I started getting NOT's [Notices of Trustee Sale] after a couple of months. Going toward the end of the third month, I think, it was August-September, somewhere around beginning of November.

-Carl,40, married, accountant

The former homeowners who do their homework on the foreclosure process and instead stop making payments before they have exhausted all of their savings, in general, come out ahead financially. Homeowners face a great deal of uncertainty once they enter into the foreclosure process; those interviewed here report not understanding the process, legal steps and timeline. Homeowners in default may have a difficult time finding good advice online, but Dawson reported looking to several financial blogs that discussed foreclosure, and several prominent non-profits like Housing and Economic Rights Advocates have great online resources describing the foreclosure timeline and what to expect. Nolo Press also has a great guide to the foreclosure process (Elias 2011).

Liquidating Assets: Losing Retirement

Many people assume that their fortune will improve in time to save their house from foreclosure, either through finding a new job, or getting a loan modification. Linda, a single mom with grown children in Antioch, described that she cashed in her entire retirement to make payments while making repeated attempts to try to get help from her bank. Carl, who above describes making partial payments, pulled out 30% of his 401K to be able to do this. Not only does using 401K funds draw from their future financial security in retirement for these former homeowners, but it also creates an additional tax burden when these funds are removed before retirement age, creating an additional tax burden at a financially desperate moment.

The Final Straw: Stopping Payments

For some homeowners, there is a clear final straw where they stop making payments. For Alex, it was when she attempted to pay her property taxes of \$10,000, and the assessor's office would not let her split the payment between two different methods of payment. She did not have enough in her bank account to cover the taxes, and her credit card limit was not high enough to put the entire payment on her card. After struggling, working two jobs to make her mortgage payments, the logistical problems of paying her hugely expensive property taxes were the last straw. While some former homeowners continue to make partial payments hoping that this will forestall foreclosure, for others, there is a definitive moment when they choose to stop paying, resigning themselves to foreclosure.

Contacting the Lender

Often, once a homeowner is unable to make full payments or is considering stopping making payments altogether, the first thing they do is to contact the loan servicer. The difficulty of homeowners in default getting assistance from their lenders is also documented in earlier focus group research, where homeowners were subjected to disrespectful treatment by those they called for help at the lender, procedural run-around, and rebuffs of any kind of assistance until the homeowner was behind in making payments, and once behind, very little assistance to prevent foreclosure (Fields, Libman, and Saegert 2010). The servicer asks the homeowner to complete letters of hardship and loan modification forms. The forms are often repeatedly lost by the lender, requiring homeowners to fax and mail the same forms repeatedly.

Homeowners often try visiting their local bank branch, of either the originating bank, or the servicer, however, the local bank does not have authority to make loan modifications. Many former homeowners had mortgages and other accounts or credit cards at the same bank, and tried approaching their local bank branch for help, only to be told that they do not handle loan modifications.

California is a non-judicial foreclosure state, so the foreclosure process proceeds outside of the court system. Once a homeowner is 90 days delinquent in making a full payment, the bank sends notices to the homeowner in the mail, starting with a Notice of Default. Then, a Notice of Trustee Sale is mailed to the homeowner 20 days before the auction date, and notifies the homeowner that the auction date for the property has been set. If the homeowner is actively working with the bank trying to secure a loan modification, the initial trustee sale date may be postponed, and a second (or third) Notice of Trustee Sale may be sent to the homeowner.

In January 2013, a new law in California will go into effect that the foreclosure process may not advance if the servicer is working on a loan modification with a homeowner in default. Several of the former homeowners interviewed in this study believed the servicer was working with them to secure a loan modification when they discovered the house had been foreclosed, in what is now known as "dual tracking." A federal settlement in October 2012 with five of the largest mortgage lenders also banned this practice.

Collections Calls

Homeowners start receiving collections calls multiple times a day at their home and office. Many people disconnect their home phones, as it is the only way to stop the automated calls. The collections callers do not have authority to make loan modifications, but instead try to guilt and shame homeowners to make them pay, regardless of their circumstances. Many homeowners in the foreclosure process repeatedly try to explain their circumstances to the collections callers and are frustrated by their lack of willingness to understand their situation. This experience is described in greater detail in Chapter 4.

Loan Modifications: Hard to get...but even the right kind of help?

There are a number of financial and logistical disincentives for servicers to approve loan modifications. Servicers' function is primarily automated, passing through funds collected from homeowners to investors of mortgage-backed securities, collecting late fees, and collecting investment returns on homeowners' payments before they are passed to the investors. "Servicers lose no money from foreclosures because they recover all of their expenses when a loan is foreclosed, before any of the investors get paid. The rules for recovery of expenses in a modification are much less clear and somewhat less generous" (Thompson 2009, vii). Servicers are also able to keep any fees levied upon the delinquent mortgage as stated in in the the Pooling and Servicing Agreement, including late fees or delinquency fees, and at the foreclosure sale these are reimbursed, creating an incentive to foreclose.

People who struggle through sending repeated paperwork for a loan modification, and are determined eligible for a loan modification often discover that it is not a good deal, and does not adequately address their financial concerns about continuing to stay in the house. Some former homeowners, like Juan, who was interviewed here, called his lender in 2008 to ask for a loan modification and they told him that they did not have a department that did that. Homeowners want the bank to lower the principal, as home values have fallen and in some areas dramatically, but often the lender will only reduce the interest, and either extend the loan term, effectively collecting more interest over the course of the loan, or tack on a balloon payment at the end of the term, adding in missed payments and thousands in late fees.

Though the media widely covered that principal reductions would be available through the federal HAMP program, as of October 2012, only 108,000 homeowners received loan modifications with principal reductions through the program, with an average principal reduction of approximately \$66,000, and the median loan to value ratio of these mortgages before loan modification with principal reduction was 154% (Department of the Treasury 2012, Luhby 2010). Before 2007, most loan modifications simply re-capitalized past due payments and fees, or offered principal forbearance which only temporarily delayed full payments, while between 2007-2009, more borrowers have got freezes or reductions in interest rates (Quercia and Ding 2009). In October 2012, of all active permanent loan modifications, "97.1% feature interest rate reductions; 60.9% offer term extension; 32.0% include principal forbearance" (Department of the Treasury 2012). The small numbers of homeowners nationally receiving permanent modifications with principal reduction, by servicer, makes the lack of widespread availability of

this type of modification more apparent; Chase and Ocwen completed approximately 20,000 each, representing 11% of all permanent modifications for Chase and nearly 20% for Ocwen, while CitiMortgage and GMAC only completed approximately 2,000 each, which is 3% and 4% of permanent modifications, respectively (Department of the Treasury 2012).

While principal reductions are rare in loan modification, in my research particularly where property values are deeply underwater, homeowners in default hold false hope for principal reduction. For homeowners who owe hundreds of thousands more on their property than it is worth, even if a modest principal reduction close to the average of \$66,000, this would likely not be significant enough of a reduction and would not change monthly payments enough for the loan to feel sustainable, or allow the homeowner to sell the property and move in the near future, if desired. Nearly every homeowner interviewed here inquired about principal reduction when talking to their lender, but none were offered this type of loan modification. It is also worth noting that, at the time of this writing, the Mortgage Forgiveness Debt Relief Act is due to expire at the end of 2012, and any principal reductions after this point would be treated as taxable income for tax purposes, unless this law is renewed. This would create further incentive for households to choose foreclosure over a loan modification, as a large lump sum of taxes would be the penalty for loan modification, and the tax burden could push some homeowners back into the foreclosure process.

Some homeowners apply for a loan modification and are initially told that they will qualify, and are later determined to be not eligible. Some are even told if they make payments on time during a trial modification, it will be made permanent. When the end of the trial modification nears, they are told they were denied a permanent modification. If homeowners appeal the decision, prolonging the foreclosure process, and making additional trial modification payments, many are only told again that they do not qualify.

One example from my interviews was a former homeowner, Kaila. She and her husband were making just under \$200,000 annually, both working in emergency services for a local city government. She was sick for a year, on disability, and contacted the bank to refinance or get a loan modification on their \$4,000 a month mortgage payments. After a year of being sick, the doctors realized she had appendicitis and removed her appendix, and she was able to go back to work full-time. She continued to follow up with the bank to try to get a loan modification, and when there were title problems as the new owner of the mortgage had not registered this on the title, she dealt with it personally. She got a trial loan modification, and as the couple's income had rebounded from the setback, they were able to make their payments in full. However, after making trial modification payments, the modification was not made permanent and the house was sold by the bank at auction.

Coming Current: Harder than it May Seem

Some homeowners have the money to come current on their payments, but find that they cannot make payments on their past due balance. These homeowners stopped paying because they knew that either the monthly payments were not financially sustainable over a longer term (but had savings or a reduced income with which they could currently make their payment), or because they did not feel that their payments were reasonable due to the drastically fallen

housing prices, and were hoping to negotiate a loan modification with principal reduction, and were told that they had to stop making payments in order to qualify.

For Belinda, she and her husband were in a difficult financial position and had fallen behind on their payments, but were hoping to avoid foreclosure. She describes how she came up with the money to come current, but the check was sent back to her by her lender, twice.

Belinda: We first figured out with my brother-in-law exactly how far behind we were, called the mortgage company, Countrywide at the time. Countrywide said, "You owe nine-thousand-some-odd-dollars." Ok fine. We sent them a check for \$10,500. It got returned. It got returned because it was not the correct amount of money. So, we did not know that you have to be to the penny or they kick it back.

Anne: Even though you sent a check that was over.

Belinda: Yeah. They don't want it over. So it came back, so I had my brother - at this point I'm basically pissed - and Countrywide, every time you call, you get somebody different. So I had my brother-in-law call. "You figure it out, I'm just up to here with it." So he called, and he found out that we had over paid. But now, we've lived a month on the money again, so now it's like, "now you owe ten-thousand-some-odd-dollars." Okay, so we barely scrape it together, we send it in, it's wrong. How could it be wrong. "Well, you were quoted nine-thousand-some-odd." "Yeah, but you guys said add another month. We added another month." "No, you added another month without the P&I," or something crazy like that. So it got kicked back again. So now we were just like, "We're screwed. We're just totally screwed."

Belinda was not alone in being unable to come current on her loan, although she had the means to do so. After this happened, she paid an attorney that \$10,000 as a retainer, in order to help her prevent the foreclosure. The effort was unsuccessful.

Short-Sale as Foreclosure Alternative?

Some homeowners attempt a short-sale, and either their bank, or the second loan holder do not approve the short-sale. In short-sale, the property is sold for less than the current amount due on the loan. A homeowner works with a Realtor to show the house, and receives an offer, which the lender must approve. If there is a second loan, the second lien holder can veto the short-sale, even if the first lender approves it. The first loan lender receives all of the money in the short-sale, and as any second loan is a "non-recourse" loan, the second lien holder receives nothing (or they must negotiate for a payoff from the first lender). If there is a second loan on the property, which is common in housing financing in California as housing is so expensive, the short-sale is not likely to be approved.

In the case of short-sale, the lender may send the homeowner a 1099, requiring them to pay taxes on the difference between the short sale purchase price and the total loan principal, as for tax purposes, this amount forgiven is essentially categorized as a "gift" of that much money from the

bank to the homeowner's previous loan balance. This is supposed to be waived if the house was the homeowner's primary residence, however, primary residence status is often contested by the bank if the homeowner owns any other properties. If the house was an investment property, the tax is due. Depending on how much is forgiven in accepting the short-sale offer, this is potentially a very large tax liability for the former homeowner.

Amelia: The purchase price was \$479,000. (...) And as you know, because these are Jumbo-sized loans, we had a second on it.

Anne: How much was the second?

Amelia: That was from PNC and I want to say that was for \$80,000-something. In the end, we owed \$550,000 on the house, and we had put new windows in the house, took out money for that. So, it sold at foreclosure, from what I understand...

Well, first of all, we listed it for what was it listed for originally, for \$475,000, because that was what we felt we had to get out of it, to do a short-sale. We attempted to do a short-sale. Chase was going to do the short-sale, but PNC wouldn't go for it. And I think that there was money to be made, by them, to foreclose. That's the problem. So we ultimately... Let me just show you, I brought this [shows me documented appraisal]. So the reason that we felt like we could maybe sell this when my husband retired, look at this evaluation, \$522,000.

Anne: And that's from 2010?

Amelia: That's 2010...2010-2011. I understand it sold for \$412,000 at the auction. But Chase was willing to buy the closing costs, so it really went for less than that.

-Amelia, 50s, married, works as a writer

Dawson and Clare contacted their lender, CalHFA, and when it quickly became clear that they would not easily be able to do a short-sale, they met with an attorney who advised them of the legal impacts of foreclosure. They stopped making payments and moved to a rental house. However, they continued to maintain their old house and yard until the foreclosure auction, six months after their move.

Dawson: Because we talked about--listen, there's foreclosure, there's short-sale, there's deed in lieu--I mean we talked about all those, ran those through. We had some assets to our name, and we didn't want to lose all those and still not be able to make up the difference of our house because then we were talking about, "Hey, what about when we want to send our kids to school? What about when we retire? Who should be--what's the focus for us here?" I mean--do we want to--yeah, we've never defaulted on a debt in our life. We take that very seriously, we didn't go into it thinking, "Oh, well, if things go bad, we'll just walk," but at the end of the day we had to think about our survival, you know, in a sense.

So, you know, short-sale and deed in lieu, we approached CalHFA, but they wanted to do a real detailed financial analysis, to their credit, they should do their diligence there, but we felt like showing what else we had, which wasn't enough to cover what we were under, we felt like they would force us to liquidate everything, just to go through that, and that didn't make sense to us. And, you know, what I was reading about the difference between the credit impact of short-sales and foreclosures, there wasn't a huge difference, you know? So it's like, "What am I saving there?"

-Dawson, 30s, married, financial planner

While most of the former homeowners inquire about short sale with their lender, some decide that it is not worth their effort to attempt it and would not benefit them enough in terms of their credit, and do not pursue it. Others pursue short sale, only to have seemingly reasonable offers rejected by their lender. This can be due to the second lien holder stopping the sale, but often the former homeowners get no explanation as to why the offer was rejected.

House up for Auction

Finally, the house is put up for sale at auction. While some homeowners are acutely aware of the auction date, and several even go to see their house being sold at auction, most homeowners do not know the date, and do not know the eviction process, and move before the auction. The new owner, or the bank, must file a three-day notice to quit and follow the eviction process, if the former homeowner does not leave voluntarily.

Some homeowners find out that their home was sold at auction after it has already happened, believing that the bank was still working with them to try to refinance or secure a loan modification. What these homeowners don't realize is that there the credit-rating agencies encouraged that "servicers adhere to a two-track system: pushing through foreclosures as fast as possible even while pursuing loan modifications," as the servicer's duration of the foreclosure process affects the servicer's credit rating, and foreclosure or short-sale is rewarded in the rating over modifications (Thompson 2009, 14). The servicer's credit rating then affects their ability to service new mortgage pools at profitable rates. The dual-track system has now been stopped, with new legislation going into effect in California in January 2013, and the October 2012 federal settlement with the largest lenders. However, sadly, as happened with a number of the former homeowners interviewed in this study, "Homeowners engaged in negotiation often believe or are led to believe that they can safely ignore the foreclosure papers—only to discover that their home is sold out from under them" (Thompson 2009, 15). This was the case for Kaila, Lynne, and Charles.

Kaila believed that her lender was working on her loan modification, and she had faxed them all the requisite paperwork multiple times, when they told her they did not have record of her previous faxes. When her husband saw someone peeking over the back fence one day, her husband asked what he was doing. The man said the house was at auction that day, which was a surprise. Kaila immediately called the servicer, who confirmed it, but said that the sale had been postponed to Tuesday and she could try to fax her materials in. Frustrated by already having

done this multiple times to no avail, and with work scheduled all weekend, she did not even attempt to fax in the paperwork the last time.

Lynne was fighting breast cancer and believed that Wells Fargo was still “working with her.” One day Lynne came home to find that someone had entered her house and left the door open. Later that day a local real estate broker showed up and introduced himself as the new owner of the house. She did not realize her house was going up for auction, and believed that the lender was still working on her loan modification.

Charles had an adjustable rate loan, and though he could make his payments, he had a high-cost loan and wanted to get a loan modification. At the time of the interview, Charles had stayed in the house for more than a year after the auction, and hired an attorney to try to find a way to stall his eviction and get the house back.

Charles: So I continued not to pay and at a certain point I found out about a group called NACA. So I went to the NACA "revival"--is what it's like. Went through their program and they attempted to help me get a modification. Meanwhile, Ocwen initiated foreclosure proceedings. You know, they send you all these Notices of Default, stuff like that. A date of foreclosure was announced. NACA was able to get it postponed. Then my request for loan modification was declined because they said that it was not my principal residence.

Anne: Was it?

Charles: It was. So they said, "You have to submit copies of utility bills, bank statements, driver's license," stuff like that. Whatever it was they requested, I submitted. It was declined again, and then because there's nobody to talk to with Ocwen, even though I tried numerous times, then... basically, I was trying to get them to admit they'd made a mistake and correct it, and grant me the loan modification. And then, at a certain point, I said... Well, I offered to bring the loan current, and made some other possible settlement offer, but they never approved any of that. And then the next thing I knew was that I got a call from a Realtor who said, "Did you know your house was sold today?" Well, it turns out that if they postpone a foreclosure that they don't need to notify you when they do the auction.

Anne: Oh, I didn't realize that. Wow.

Charles: That's the rule. So when it did go to auction I wasn't notified.

Anne: Oh my God. So who was the Realtor?

Charles: Some Realtor who happened to be at -You know how auctions are done? At the courthouse steps? - happened to be there.

Anne: Did he buy the property?

Charles: Oh, the property was not sold. It went back to Ocwen. Not technically to Ocwen,

but to Deutschebank.

-Charles, 50s, single

Most homes are not sold at auction, but instead go into bank ownership. The bank's minimum bid reserve price is often set prohibitively high, at or near the original mortgage price. Where property values have fallen significantly, prices indexed to the peak housing values of the mortgage boom are not attractive for investments. House purchase at auction requires the purchase to be made in cash, rather than with a mortgage, so the vast majority of those bidding on houses at auction are investors, and they approach each auction with a pre-selected list of houses that they believe will be attractively priced for investment.

Moving Out & Cash For Keys

If the household is still in the home as the auction date approaches, or immediately following auction, they will be approached by a real estate agent who will offer the family "Cash for Keys" – a payment of several thousand dollars in exchange for leaving the house clean, empty of personal possessions, and undamaged. A move-out date is often negotiated at this time. The bank would prefer to have the property empty while it is in bank ownership, as it will be easier to sell without occupants, and they will not be liable for property management.

Conclusion

Regardless of the foreclosure trigger, whether it is due to a high-cost loan, loss of employment, personal health, divorce, an unsustainable financial situation, or simply serious drops in neighboring home prices that no longer make financial sacrifices seem worthwhile, the foreclosure process is strikingly similar. Homeowners contact their lender, and are initially told that they cannot help until the homeowner is in default. Some homeowners continue to pay until they can only make partial payments, others liquidate their assets to continue making payments, and there is either a last straw where they stop making payments, or they pay until they cannot. When they contact the lender, now in default, to inquire about a loan modification, they have a hard time finding someone who can help them, and then find out that they cannot get a principal reduction as part of their loan modification. Often the homeowner realizes that if they are eligible for a loan modification, it may not even be something that they are interested in, and do not feel it will financially benefit them. Some make trial loan modification payments, only to be told that they do not qualify for a permanent modification. During this time, they are subjected to repeated harassing collections calls, multiple times a day. Some homeowners may attempt to come current, only find that the lender will not accept their payments. Short-sale offers are often denied by the lender, with second lien holders complicating the short-sale. The house may go up for auction without the knowledge of the homeowner, believing that the lender is still arranging a loan modification. Many former homeowners move out in advance of the auction, not knowing the date of the auction and afraid that they will be thrown out on the street without warning. For those homeowners who stay closer to the auction, they are approached by a broker and offered "cash for keys" in order to leave.

During the foreclosure process, homeowners expect that the bank will treat them like a customer, and discover that instead they are being treated like a debtor. Former homeowners report that they approach their bank first, with the expectation that they can make some arrangement to avoid foreclosure, and as the process progresses, they might try to reach out to attorneys, real estate professionals, non-profits, or simply closely follow the news about policy changes. Similar to the focus groups of homeowners in default studied by Desiree Fields, Kimberly Libman, and Susan Saegert (2010), homeowners proactively try to get assistance to avoid foreclosure, but their repeated efforts are repeatedly rebuffed. Instead, they often find themselves spending large amounts of money trying to fix their situation and quickly running out of savings, paying partial payments, making trial loan modification payments only to be rejected for a permanent modification, being hassled by collections calls from both first and second lenders, and paying attorneys for retainers that quickly run out.

For former homeowners, the foreclosure process is financially and emotionally exhausting. In the process, they have lost not only their home, but also often their savings, their faith in the banking industry, trust in real estate professionals, and in government policy or regulation to assist them.

Chapter 3:

Renting vs. Homeownership: New Experiences and New Ideas

“I think I'm recovered (...) like an alcoholic is never fully recovered, you know? But they can function and be a functional happy person without alcohol, you know? So yeah, so I think I'm recovered. (...)

Yeah, now I feel it's totally behind me, I feel fine, I'm moving forward, but at the same time, I don't know that I'd buy a house, so I don't want go back to the bottle, you know? Gun-shy of that. I don't know that I could just have a drink. You know what I mean? Like that's the analogy I'm making, like, you know, yeah, I'm fine...but the thing that caused the crisis I don't think I could be part of anymore. So, yeah, that's my answer.

Full recovery? Maybe when I'm able to buy a house again.”

-Belinda

Introduction

In this chapter, I analyze former homeowners' new ideas about homeownership and their thoughts about renting following foreclosure. This research addresses gaps in the literature on foreclosure and homeownership and provides insight for planners as they plan for areas that are home to large populations of post-foreclosure households, examining the transformative power of foreclosure on ideas about homeownership and renting.

Visions of Homeownership

As discussed in Chapter 1, homeownership in the United States was long promoted by the federal government as a social good, in terms of creating social, psychological, and financial benefits to households, as well as in terms of the benefits to the broader economy from the homebuilding and related industries.

The social benefits generally attributed to homeownership are improved self-esteem and life satisfaction (Schwartz 2006). Interestingly, in a study of the effect on self-esteem, it did not improve with homeownership by itself; “it is the condition of the house and neighborhood, rather than tenure status, which is particularly important to a person's self-esteem” (Rohe, et al. 2007, p. 231). As I will discuss in the case of foreclosed homeowners, the condition of the house lost to foreclosure, as well as the neighborhood, influences the way individuals think about renting.

The foreclosure crisis has not only been a crisis for the lending institutions bailed out by the federal government, and for the households that have lost their homes, but also for neighborhoods, cities, and regions forced to deal with the effects of lending institutions becoming absentee property owners (Immergluck and Smith 2006a, Immergluck 2009, Swanstrom et al. 2009, Aalbers 2009, Newman 2009). Vacant foreclosed homes negatively

affect neighborhoods and have been correlated with both an increase in violent crime and further depression of property values (Immergluck and Smith 2006a, Immergluck and Smith 2006b). Neighborhoods with large proportions of minorities, lower-income households, and people with lower levels of education were disproportionately targeted for high-cost loan products, and these neighborhoods initially experienced stronger negative neighborhood effects due to the concentration of foreclosures (Perkins 2008, Newman 2009, Ojeda 2009). Although with the crisis becoming more generalized to include more and more neighborhoods, many higher-income and less diverse neighborhoods have also become impacted. These neighborhoods may now face additional social stigma, due to the high rate of foreclosures, and residents who remain in the neighborhood find it difficult to refinance or sell, due to sinking property values. Neighborhoods or condo complexes that were built during the mid-2000s, at the peak of high-cost lending, experience high concentrations of foreclosures, as many buyers were encouraged by realtors to use high-risk products to finance their mortgages. As concentrations of foreclosures vary widely across cities and regions, so do the external effects of foreclosures, with some neighborhoods seeing little change, while in others, vacant foreclosed homes are visible to even the casual observer.

My research fills a gap in the literature by asking not about the homes that have been foreclosed upon or the impacts on neighborhoods, but about the people that have been displaced. In this chapter, I examine these human impacts of foreclosure through exploring former homeowners' thoughts about homeownership and renting. Foreclosure touches an increasing number of families and their communities. This chapter asks how foreclosure affects ideas about homeownership and renting.

Do They Want to Buy Again? Former Homeowners Rethink Homeownership

The answer to the question of whether a former homeowner wants to buy a house again in the future varies from those who report they never want to buy, to the majority who report they will buy again someday, after their credit recovers. However, a few key themes emerge about the ways in which people think differently about buying a house again, after foreclosure. In discussing whether to buy again, former homeowners consider their life trajectory and future earnings. Those who would like to buy again develop personal guidelines for how they would buy in a way that would provide them protection against losing their house again. Others who envision themselves being financially able to buy in the future instead question homeownership as a life goal. The process of questioning ideas about the benefits of homeownership also opens former homeowners to appreciate new aspects of renting. It is worthwhile to note that several of the former homeowners interviewed owned their home as well as one or more rental properties, and most in this position had lost, or were in the process of losing, more than one property to foreclosure. However, the experience of being displaced from their home made their perspective on future homeownership more similar than different to those who only owned a single property.

Considering Life Trajectories

Former homeowners, when talking about buying a house again, often describe their own life trajectory in relationship to home purchasing, from considering the timing of buying, to ruling it out completely if they are nearing retirement or are retired. Constance Perin (1977) One single mom said she would not buy a house again as an individual, but only if she was in a romantic relationship where they could buy the property together on two incomes and share the responsibility for the mortgage. A married couple described a similar decision-making logic dependent on their relationship; they would like to buy again, but at a price that depends only upon one income, rather than being dependent on both of them working. In both instances, the former homeowners see their relationships, their jobs, and their future financial stability intertwined when they think about buying again. In both instances, these former homeowners would leverage a partner's income so they would not be overburdened by mortgage payments.

Many former-homeowners in their twenties, thirties, and forties report they would like to buy again, however, they redefine the terms under which they would want to do so. By doing this, they envision a new version of homeownership outside the current framework which led to their foreclosure. In almost all cases, this new vision of homeownership focuses on reducing the debt burden and avoiding or exiting a debt relationship as fast as possible.

15-Year Mortgage

Many of the former-homeowners imagine changing the mortgage terms as a way to prevent a future foreclosure, should they buy again. Choosing a mortgage with a shorter term is one way that former-homeowners imagine buying again, although this means that these households will be able to afford a much less expensive house, relative to their income. For those contemplating a shorter mortgage, most take into account their current age and when they would like to retire, determining a mortgage term that would end at the age of retirement. For Carl at age 40, he would like to buy again, but only a house he and his wife could afford on a 15-year mortgage, allowing him to pay off the loan while he is still working and retire without mortgage debt. This restriction on home price will also restrict the locations in which these households will look for a home, but at least for Carl, choosing a low-cost house that he can pay off in the shortest possible loan period will outweigh concerns over location.

Self-Insurance through Savings in the Bank

Others weigh the time/money trade-off in terms of increasing the time to save money before purchasing again, instead of reducing the repayment time in the mortgage term. These former homeowners imagine that if they had a larger 'cushion' in the bank, they would have been able to make their mortgage payments while they were under or unemployed, and so plan to increase the amount of savings in the bank before buying again. A 29-year-old man interviewed wants to buy again as soon as possible after finding a new job, once his credit score recovers. But he would like to have savings of 18-months of salary as 'cushion,' before buying. A woman in her thirties also identified a desired amount of savings of \$100,000 before she would want to buy again.

This mitigation strategy is interesting, as it presumes that having money in the bank to cover potential shortfalls in future mortgage payments is a superior alternative to using the funds as down-payment, which would secure a lower monthly payment and a lower total loan cost. These households are willing to pay interest on a larger principal, when they have the funds in the bank to reduce the principal, but plan to instead save the funds, in the event they have a loss of employment. This strategy will increase the amount of time before these households buy again, as it may take several years for them to amass their personal threshold level of savings before they feel comfortable. While wanting to essentially self-insure their ability to make payments if they undergo a period of underemployment, they step back from a consumer perspective of saving for some future purchase, but instead saving to avoid a potential future loss. They do not feel they can rely upon institutions, unemployment insurance, or the prospect of regular low monthly payments to protect themselves financially, but want to have a significant rainy day fund that they would be willing to lose in order to save their home. Buying a home is no longer a secure investment for these former homeowners, but a risk that if there is a future period of unemployment, that only large cash reserves will be able to preserve homeownership.

Avoiding a Mortgage – Buying in Cash

Many households describe the converse strategy, and would only want to buy if they could increase the down-payment. Dave's plan is to put down 50-70% in cash. Increasing the purchase money is the single most common strategy former homeowners describe about how they would buy again, putting more equity into the house from the beginning of the loan, having lower monthly costs, and paying less interest. However, many former homeowners do not see a large down-payment as enough to protect them.

Multiple former homeowners said they would only own a home again if they could buy it outright, in cash. David, who lost his home and a rental property to foreclosure, said that he would only buy again if he could do it in cash. David also reflected that even when you own the property outright, there are still property taxes and insurance payments that one is responsible for, so there is never a situation where one would be free of monthly payment responsibilities, and concluded that renting might be better. Interestingly, Jeff, whose mother was foreclosed upon in the Bay Area twice when he was a child, as an adult chose to save and buy a foreclosed house outright in cash, at an auction in 2009. After buying the house outright, he found himself stricken with buyer's remorse, feeling trapped with all of his financial assets locked into a house in a low-income neighborhood that he cannot sell for what he invested in the property in purchase money and repairs. Owning the house outright, he suddenly felt that owning the house is a liability; he worries about someone on his property suing him, or someone vandalizing the house and being responsible for large repair costs. With all of his assets tied up in the house, he feels vulnerable and more afraid of losing it. While many former homeowners discuss buying a house outright as an alternative to indebtedness, and freedom from monthly mortgage costs, it is unclear how many will pursue this strategy. If there is a significant move towards outright ownership, this means that many will significantly postpone homebuying while saving large amounts of their personal resources, and many will face opportunity costs of having their resources tied up in their single investment of their home.

The majority of former homeowners who are in their twenties, thirties, and forties have hopes to buy again in the future, but they will only buy when they feel financially secure. These households have very little trust in lenders and real estate professionals, and deeply distrust that the institutions and the mortgage products offered to them will serve their interests. A new aversion to indebtedness amongst former homeowners is repeatedly discussed during interviews. Almost all former homeowners reduce and eliminate credit card use, pay off car loans, and eliminate other monthly debt payments, reducing and eliminating any debt. The new ideas of self-imposed thresholds for homeownership in terms of financial stability, savings, down-payments, and delay of purchase may have broader implications for the economy as a whole, and may define a new framework for homeownership. At any rate, even upper-income families like Kaila and her husband, who together earn just under \$200,000, find themselves more comfortable renting for now, as their rent for a comparable house is less than their former mortgage payment. They are taking advantage of the lower housing costs to save, and expect that they will have saved a down-payment in two to three years, albeit for a less expensive home than the one they lost.

But Not Everyone Plans to be Able to Buy Again

Upon reflecting on one's life-course and homeownership, not everyone plans to buy again. Most of the former homeowners in their fifties and sixties do not report the expectation or desire to buy again. One woman in her sixties, upon losing her home, was able to find an opening in non-profit managed subsidized housing for seniors, which is affordable to her on a fixed income. While she hopes to secure a larger, two-bedroom in the senior complex and get approval for her adult son to move in as a live-in caregiver, she has no desire to try to buy again and no plans to leave the senior housing. Several women in their fifties and sixties who were interviewed in this research developed cancer while they were struggling to save their homes, and with the impact of the stress of the foreclosure on their health, have reflected on their own mortality. As will be discussed in the final section of this chapter, foreclosure-related health impacts often trigger a rejection of homeownership, prompting former homeowners to develop new life goals, including enjoying the company of friends and family. The other group who does not plan to pursue homeownership again are those who inherited houses and who either were not able to make the inherited mortgage payments or who struggled for ownership with co-inheritors. I interviewed two former homeowners who lost inherited family homes, and whose previous employment was part-time and temporary. These individuals, after losing the inherited homes, had nowhere to live and no family to support them, and both found themselves living in subsidized affordable housing. These inheritors were by far the most marginal of the former homeowners interviewed, and neither felt they would ever have an opportunity to own a house again.

In every interview, former homeowners discuss their aversion to debt, having been overwhelmed by the debt of homeownership. In evaluating one's life course and future employment or retirement, future homeowners determine whether they would like to buy again. Homeowners who would like to buy again develop alternative visions of homeownership, under self-imposed conditions, to determine how they would be comfortable buying, simultaneously justifying their inability to buy now. Often, these conditions entail either a significant reduction in the house price they would be willing to pay, such as those who would buy with a 15-year loan, or entail an increase in the time before they will buy again, such as those who would like to have significant

savings or make large downpayments. Donald Haurin and Stuart Rosenthal's 2004 study found that former homeowners did not return to ownership for nearly 11 years for whites, and 14 years for African-Americans and Hispanics (viii). Regardless of purchase strategy, the former homeowners interviewed here are unlikely to become homeowners again in the near future, and based on previous research, perhaps not for a decade or more.

Do They Want to Rent? Former Homeowners Rethink Renting

For former homeowners who find themselves renters, either for the first time, or after years of homeownership, rethink their former ideas about renting as an inferior alternative to homeownership. In Marianne Culhane's 2012 study of bankrupt foreclosed homeowners, 70% rented following foreclosure, while 6% bought another house, 8% moved in with family or friends and paid no rent, and the remaining 16% reported some "other" arrangement (125). Many former homeowners in the San Francisco Bay Area are able to stay in nearby neighborhoods to the homes they lost, keep children in the same schools, and many in suburban neighborhoods prefer and are able to rent single-family homes, albeit generally smaller, older homes than the one they lost. Amongst all of the former homeowners interviewed who are renting, and not living with family or living in what was formerly their investment property, there is new appreciation for renting as a housing option, particularly where they previously owned aging homes or homes in high-crime neighborhoods.

Where former homeowners previously owned aging homes or 'fixer-uppers,' they are especially appreciative of maintenance being the landlord's responsibility, and see renting as a freedom from being responsible for repairs. Similarly, when a former homeowner had previously owned in a troubled, high-crime neighborhood, renting provided freedom to be able to relocate to a neighborhood where they felt safer and more secure. These households described improved daily living conditions after foreclosure, however, during the foreclosure process they still fought to save their homes, and did not see this upside at the time.

Owning older houses necessarily comes with a burden of maintenance that falls upon the property owner. Where homeowners owned self-acknowledged 'fixer-uppers,' put a large amount of sweat equity into the property, but lost them to foreclosure, they experience maintenance fatigue as well as a deep disappointment in the time investment they considered wasted when they lost the house. Similarly, as households go through the process of foreclosure, maintenance is frequently deferred, and homeowners live through the period of uncertainty about the future of their home with broken furnaces, unfinished repair projects, and makeshift temporary solutions. In many of the interviews, people described living in a house with no heat during the foreclosure process and using the oven, fireplace, or space heater to survive the winter. One former homeowner of a 1960s home said that part of her recovery from foreclosure included "Freedom to know that if something breaks, I'm not going to have to fix it." Becoming renters allows the burden of maintenance to shift off of their shoulders, giving especially those who used to own older homes, a new appreciation for renting. The case of Belinda provides a useful insight into how renting after foreclosure can provide relief from maintenance and poor housing quality in homeownership.

Losing “a Fixer-Upper” or a Troubled Neighborhood to Foreclosure

Belinda and her husband owned a turn-of-the-20th-Century house in Daly City for 22 years, and the repairs, maintenance, and customization of the house consumed a huge amount of energy, creating tensions in their relationship. The house had no foundation (block-pillars on sand), termite damage, fire damage that had been covered over by a previous owner, substandard electrical wiring, fragile pipes, as well as other problems requiring routine maintenance. Their foreclosure occurred after she was laid off from her job and her husband was injured and was on state disability, and they fell behind on mortgage payments. Their lender would not accept their check for the full payment to come current and returned all attempted payments to them. They contracted a local attorney who specialized in foreclosure, spending \$10,000 on his retainer. While Belinda and her husband had the resources to come current (until they paid the attorney), their lender would not take their delinquent payments, and they could not find procedural assistance in coming current either from the lender or an attorney. They lost their home to foreclosure in 2008, and since then have lived in two rental houses. Freed from the responsibility of home-repair, she reflects on the financial and time burden of maintenance:

Belinda: My in-laws are big on 'you have to own a house.' But then you become *house-poor*. And I learned that lesson when we first bought the house because everything you do, it goes to the house. The water heater goes out? You have to fix it. You know, the fence falls down? You have to fix it. So everything's on you. And I don't know if I want that responsibility any more. Right. I have a landlord, I call him when anything's wrong. Sometimes he takes care of it, sometimes he doesn't. You know what I mean?

For Belinda and her husband, the demands of repairs and his construction projects customizing the house also created tensions in their relationship. Her expectations that her husband would work on repairs after work which did not match his home-repair ambitions, and the work that was done on the house was not agreed upon between the two of them in advance. These unanticipated projects included her coming home to an illegal bedroom subdividing the living room to accommodate a relative who came to live with them, and the construction of a ramp replacing the front steps and construction of double doors to the living room, so her husband could park his Harley in the house, since the house did not have a garage. Her experience renting allows her to look to someone outside her household to take on the responsibilities of repairs, without the possibility of coming home to surprise construction projects, and is not eager to return to a fixer-upper lifestyle of maintenance. Belinda reflects on the maintenance and repairs that her fixer-upper required:

Belinda: You know, we came home every night, my husband didn't really want fix it up. If you don't fix it up, it's just a little piece of crap. Right? And that's kind of what it becomes, it becomes like this little hell-hole that you just kind of come home to, and you live there, but it's not *everything*. Right. You know, it wasn't some big mansion, it was just a little crappy house that we were going to eventually tear down. (...)

You know, he's starting to want a house again. But I'm like, you won't take care of it. That's my big thing. I mean, because, I became very handy. And I can fix a lot of stuff. So, in that regard, I would probably do it. But I mean, if I can't get him out to mow the

lawn... You know what I mean? You have a landlord and a carpenter to do that. I mean, my husband, sometimes he's a lazy slob. (Laughs) And he is! So it's like, in that regard, you can't be that way if you have your own house. Everything you do, you do for your house.

The case of Belinda and her husband who lost their fixer-upper demonstrates the ways in which household repair projects become an unwelcome necessity of homeownership for households in aging homes. The experience of renting frees them from the work, responsibility, and relationship negotiations that their previous experience of homeownership entailed. While Belinda and her husband had been living in their house for 22 years, Dawn and her partner, as first-time homebuyers, had only been in their fixer-upper for 5 years before losing it to foreclosure. Dawn reflected, "So we finally got the roof replaced, we fixed this huge hole in the bathroom floor; we put a whole new bathroom in, like literally for three years gave up our lives for this house." For Dawn and her partner, they made significant sacrifices in their time and lifestyle that they regretted after losing the house.

For Dawn and her partner, though, homeownership came not only with the burden of repair of an aging house, but also with the stress of living in a high-crime neighborhood with a high rate of foreclosures. Renting became more attractive as a way to get access to living in lower-crime nearby neighborhoods, and to not be locked into a neighborhood. Dawn and her partner's experience of homeownership was influenced by the perception of violence in the neighborhood and directly next door:

Dawn: Also at the same time some weird shit was happening in our neighborhood, like murders, and little kids throwing a rock through our huge Mediterranean front window and \$1,200 in damage - yeah, our neighbor kids. Stuff like that was happening. It was just kind of miserable to live there, and then the economy was doing really bad. What happened was that people started foreclosing all around us. (...)

Unfortunately, what I can afford right now is some pretty bad neighborhoods, and I've been there, done that, and I don't need to live my life scared, or have neighbors who are involved in domestic violence every day. That's what we were living with in Fruitvale. I'm not going to say the whole neighborhood was like that, but my neighbor's boyfriend would come over and bash in the windows in their cars. Our neighbors would go, 'Call the police! Police!' And then I'd call and the police would get there and they would go, 'Nothing happened. No, he didn't hit me. No, he didn't smash in the window.'

Similarly, John was a first-time homebuyer who bought a fixer-upper duplex in Richmond, a city known for its high crime rate, where he discovered he didn't feel safe living. He learned to be street-smart, and did not go out at night, but after his foreclosure, he said he would not choose to live in Richmond again.

Former homeowners who have relocated from fixer-uppers or neighborhoods with high crime rates may find renting a relief, both in terms of having the freedom from being forced to make repairs or live with the consequences of a lack of maintenance, and in terms of the freedom of being able to leave a house or neighborhood if the situation becomes intolerable. Former

homeowners, especially from troubled properties or neighborhoods, may newly value some of the freedoms of renting.

Reframing Renting vs. Owning

For many former homeowners, they reframe the question about renting vs. owning, as after this experience, many feel strongly that you do not really own the house, even when you are paying the mortgage. They see the bank as actually owning the house, and many describe homeownership with deep indebtedness as a form of slavery, in contrast with a new perspective on renting as providing new freedoms, as described in the last section of this chapter.

At age 60, Alex has been a life-long renter, save for her two-year experience as a homeowner with her adult son, where they bought a townhouse in a new construction housing development in Oakland. Not long after buying the house, her son moved out, leaving her needing to work 60 hours a week at two jobs to make the payments, and unable to retire. She struggled each month to cover the \$4,000/month mortgage payment and \$300/month homeowner's association dues. When the City of Oakland would not take part of her \$10,000 property tax payment paid by credit card and part by check, and her adjustable rate mortgage was on the verge of increasing, she decided not to continue to try anymore. She declared bankruptcy, and the townhouse was foreclosed upon. Alex said:

There's this whole hype about homeownership. I feel like, now, it's a real propaganda thing. I hear on the radio and tv now, 'homeownership, it's what drives our economy. This is what gives jobs to builders, and to people who do the financing.' You know, all the things related to homeownership is the big driver for the economy. And I'm thinking, it's sort of like this mad circle, it doesn't make any sense. I just felt like I was a slave, somehow, to the system. I got trapped into this. And I was working two jobs. (...) I thought, this is really a form of slavery.

Alex felt burned by her brief experience of homeownership, and a year after the foreclosure, she investigated the possibility of traveling abroad to do organic farming and considered joining an intentional community in Eastern Europe where she has extended family. She has instead decided to have open-ended travel plans with her new partner, and doesn't have firm plans for where she will live, but does not plan to buy again.

Steve described his experience of homeownership as one where you “mortgage your life for the company,” a sentiment about the life experience of foreclosure that gestures towards the ways in which homeownership and foreclosure have larger impacts than housing alone. There is no longer a stark line between owning vs. renting, but a clearer understanding of either being forced into or choosing unsustainable, exploitative living conditions for the pursuit of the idea of homeownership. When former homeowners are able to break free of the intolerable conditions they have been living with, during the foreclosure process, they allow themselves to re-imagine their lives in a way where they can be fulfilled and find happiness.

New Goals Replacing Homeownership

During the process of foreclosure, people spend a lot of energy trying to reconcile an identity as a responsible, trustworthy person, and an American ideal of citizenship typified by property ownership, with the simultaneous inability to stop the foreclosure process and subsequent loss of property. Constance Perin, in 1977, said, “the social function of this higher status is found in the meaning of the length of the mortgage contract, one that puts the homebuyer in the position of permanent debtor, in contrast to the renter who is free from any obligations at the end of the lease term” (72-73). Perin believed it was the permanent debt burden that attributed the social status associated with homeownership, and that permanent debt functioned to create social stability and predictability in housing markets and banking.

For almost everyone who has been through foreclosure, the extreme stress of being in this position, and involuntarily losing status as a homeowner forces them to examine their lives and reframe their life goals with what is important to them. Particularly where people have experienced a significant loss in wealth or social status, the experience of foreclosure can dramatically reshape their espoused world view. This is seen in the case of Leo, whose identity had been wrapped up in real estate and property ownership until the foreclosures forced him to reevaluate how he spends his time.

Leo is a real estate professional in his mid-20s, and had purchased two rental houses where he rented out rooms individually, and reserved a room in each house for his own use. The high-cost loans that he used to buy the houses, combined with increasing HOA dues from foreclosures in the developments, created an unsustainable financial position. He spent his entire personal wealth of over \$100,000 trying to save the houses from foreclosure, and failing to do so. This loss of status and loss of ability to assist his mother financially was a big blow to his sense of self. He came out of his depression and came out of the experience of foreclosure with a renewed sense of purpose in life. Where he had previously spent up to 80 hours a week working in real estate, the foreclosure and downturn in business forced him to re-evaluate what was important to him. Leo started attending church regularly, became a volunteer football coach at the local Boys & Girls Club, and joined a touch football team. He also began spending more time with his family, intentionally making time in his schedule for them.

Many people re-evaluate their career choices and education while they are going through the foreclosure process, as they are no longer dependent upon their current job as a means to homeownership, and allow themselves to imagine a future where they can pursue happiness. While Dawn was going through the foreclosure process, she learned that her company had a scholarship program to help employees get their Master's degrees, and decided that since she was losing the house she might as well apply. She received an 85% scholarship towards her Master's degree in Education Leadership, and the motivation was catalyzed by her disappointment in foreclosure, and the desire to create a life for herself that she enjoyed. For Sophia, she realized how much time and happiness in life she was sacrificing as a dental assistant, and decided to go to nursing school to pursue her dream of becoming a nurse. For Faith, after the foreclosure, bankruptcy, and ensuing depression, she decided to leave her job at a natural foods store and pursue her life's passion of working for animal rights causes. While she makes significantly less

at the non-profit where she now works, no longer being responsible for the mortgage payments allows her the freedom to pursue her passion, as she no longer had anything to lose.

Faith: Something as massive as that, as crisis as that, can sometimes like jolt you into... I mean it's like kind of like mid-life...I'm 42 and... when it was all happening I was just like, "Oh, my God! What is happening... What am I doing with my life?" Those kind of questions came up with all--you know, lost all--you know, everything. All my money and I'm like "What's happening?" And so I decided, I made the decision to shift into doing full-time what has always been my passion, which is animal rights. So now I work for a non-profit. That was a big blow financially though, too, 'cause it's a lot less money than I was making at the health foods store. So that's been interesting, you know, but at the same time very heart-fulfilling, you know? Like I know that I'm doing what I need to be doing when I'm supposed to be doing what I was put here to do. So sometimes big crises can awaken things in yourself that, you know, you realize what's more important than money.

In smaller ways, former homeowners describe emerging from depression after foreclosure having a new appreciation for family, friends, and the simplicity of enjoying nature, growing plants, bicycling, and other activities that are not centered on making or spending money. Foreclosure has not only an impact on housing choices, and decisions about whether to buy or to rent, but also gives people perspective on their lives and allows them to see their work and their lives as an end, rather than as a means. Based on the strength of the conviction around these transformational changes in thinking, this re-evaluation and re-orientation in thinking may be one of the deepest shifts caused by the foreclosure crisis. Former homeowners are turning away from living a life of work as a means to an end to pay for or repair a house, and towards living a more fulfilled life that is defined by pursuing happiness and new goals.

Conclusion

Former homeowners, after foreclosure, are not simply waiting to buy. They are thinking fundamentally differently about homeownership, renting, housing and neighborhood quality, and about debt. Renting is becoming newly valued and de-stigmatized, as an increasing share of households move back to renting, and as many foreclosed homes become converted into rental properties. As many people are choosing to stay within close proximity to the house they lost to foreclosure, rental housing becomes newly valuable in preserving some community stability and keeping people who would like to stay in their communities, as discussed in Chapter 5.

While former homeowners are thinking differently about housing and homeownership, they are also spending their time in a different ways, not focusing on saving money to buy, or to pay the mortgage, or to repair the house. Those who experience foreclosure newly value spending their time with family and friends, engaging in community, pursuing fulfilling work and higher education, and in general, have a new perspective on not taking life for granted.

City planners need to consider housing and tenure mix in communities, and strengthen policies and programs that would allow former homeowners to remain in their communities, if they choose. Emphasizing improvements in community quality of life such as neighborhood safety,

youth development, and parks and open space improvements will also have far-reaching impacts, reaching all in the community, regardless of tenure, and may be particularly appreciated by former homeowners who are focusing on improved quality of life, rather than homeownership.

Also, as there is very little construction right now in communities across the country, the majority of the new rental housing in these communities is coming from the rental of formerly owner-occupied houses or condos, many of which were foreclosed homes purchased by investors. This rental stock of single-family homes is desirable to former homeowners, as it allows a continuation of a similar lifestyle, although the question of how many of those homes will remain in the rental pool as the housing market rebounds is unknown. To create certainty in local rental markets, creating policies such as eviction or tenure conversion protections will help to create stability for renters and neighborhoods that have been impacted by foreclosure. Interestingly, most renters in the San Francisco Bay Area, during the foreclosure crisis, still aspired to homeownership, however, those with lower incomes and those who live in zip codes with high rates of foreclosure are more pessimistic about homeownership (Collins and Choi 2010). In the long run, we may see a demand for a greater variety of housing types in rental markets as well as a larger overall demand for rental units, which we can be sensitive to when creating housing plans and housing development incentive programs.

While the answer to the question of whether a former homeowner wants to buy a house again in the future varies from those who never want to buy, to those who will buy again when their credit recovers, key assumptions about the desirability of homeownership have been undermined by the foreclosure crisis, changing the way in which former homeowners evaluate their life choices. Whether in terms of housing, careers, or family relationships, former homeowners are pursuing happiness and developing strategies to reduce their risks of again becoming trapped in housing and debt that is unsustainable.

Ch. 4: Recovery After Foreclosure and The Link Between Housing, Credit, and Debt

“I haven't applied for any credit, really, any new lines of credit. And I was going to say, we pretty much go 90% cash, and the rest on my credit, or my wife's credit. So, we're using less credit than before.”

-Carl

Introduction

Losing one's home to foreclosure forces one to reflect not only on housing, but on money, debt, and the consumer credit system that facilitates homeownership in the United States. For former homeowners, whose credit scores have been damaged by foreclosure, both their attitudes about consumer credit and debt have changed, as well as the ways they use credit in practice. This is partly shaped by the emotions aroused by the repeated delinquent loan division phone calls, letters, and notices, and partly shaped by the larger emotions evoked by the foreclosure itself. For former homeowners, where homeownership was originally seen as a secure investment, now homeownership is also seen as an inescapable debt. As the former homeowners interviewed prided themselves in maintaining good credit, the experience of collections was not one they had previously encountered, and one that made a deep impact on those interviewed.

In this chapter, I first outline the history of the US consumer credit system and the history of aggregated consumer credit histories and credit scoring. High credit scores have allowed homebuyers access to lower-cost, lower-risk loans. Foreclosure damages the credit score of the former homeowner, with greater and longer-lasting damage to those who started with higher credit scores. Former homeowners express a lot of anxiety about the uncertainty over the timeline of credit recovery, which is important to them in the overall personal recovery of foreclosure.

I then look at three of the ways in which former homeowners' credit have affected their lives after foreclosure, factoring into their decisions over whether to declare bankruptcy, in employment screening, and in securing consumer credit/financing. I then present an analysis of the experience of collections during the foreclosure process, and discuss how this experience creates a debt-aversion that is not specific to mortgage debt, but spills over into consumer debt as well.

This creates a paradox where former homeowners identify credit score recovery as an important part of their personal recovery, however, through the beliefs and behaviors they describe in the interviews related to their discomfort with debt, they undermine their credit score recovery. By rejecting and resisting using credit cards after foreclosure, former homeowners do not build their credit scores quickly, and through testing by applying for lines of credit, to see if their credit has improved, will actually damage their credit when they are rejected.

The future spending patterns of former homeowners has broader implications for the economy at large, as more people choose not to participate in debt-financed consumer spending, which, in earlier periods in the US economy allowed for economic expansion. If former homeowners

persist in avoiding debt and the consumer credit system without a larger structural change in the way that creditworthiness is assessed, there may be longer-term social equity concerns, particularly if foreclosed homeowners decide to buy a home again in the future, and hope to access traditional mortgage products.

Consumer credit and foreclosure

Consumer credit scoring, on a national scale, with a centralized database of consumer records, is a recent technological and institutional innovation in the financial system in the United States, dating to the 1980s (Spader 2010, 63). The first credit card, Diners Club, was developed in 1949, and was quickly followed by Carte Blanche and American Express for limited retailers, and in 1958 Bank of America's BankAmericard offered the first revolving credit card to the general public, for purchases at any retailer (Vyse 2008, 98). This card later became Visa. This expansion of consumer credit in the postwar period accompanied the expansion of credit in mortgage lending, and facilitated a boom in homebuying and consumer spending. Electronic funds transfer (EFT) in the late 1960s and early 1970s created a nationwide network of ATM machines that shared banking information, and in 1973, the electronic authorization system which read the magnetic strip on a credit card and automated the payment approval process created the familiar system of credit card payment we know today (Vyse 2008, 107). By the mid-1970s, it was common to spend money by using your Visa, MasterCard, American Express, or Discover credit card (Vyse 2008, 99).

In the 1980s, the advances in computing allowed credit bureaus to aggregate credit data, making it possible for individuals' payment histories and FICO (originally Fair, Isaac and Company, now simply FICO) credit scores to be generated nationwide (Spader 2010, 1; Barron and Staten 2003). In 2003, John Barron and Michael Staten said "the United States has the most complete credit files on the largest percentage of its adult population of any country," which allowed for the development of credit risk-based pricing in mortgages and consumer lending (274-276). This also facilitated a drastic expansion of credit, both in terms of the number of households with mortgages and consumer credit, and in the higher monetary amounts of credit that these consumers accessed (Barron and Staten 2003, 282). This innovation in credit reporting, which led to the expansion of credit, was produced through aggregating consumer lending data at the individual level.

The three credit bureaus access voluntarily provided payment histories on consumers from utilities, credit cards, student loans, mortgage payments, collections agencies, and other debt servicers (Spader 2010, 62). Monthly rent payments, insurance, cell phones, utilities, car leases, HOA dues, school tuition, child care, and child support payments are not included in the credit score. A consumer's debt payment history is collapsed into a single numeric FICO score, which reflects the consumer's risk of default on any of their debt obligations, and is an index composed of payment history, amount owed out of total credit available, length of credit history, new lines of credit, and type of credit. The FICO score ranges from 300-850, and the cutoff between prime and subprime lending varies between 660-720, depending on the time period, the lender, and the loan product (Brevoort and Cooper 2010).

In general, during the mortgage underwriting process, the credit score of a potential homebuyer is checked, and those with a higher score are generally offered lower-cost loan products to reflect their lower risk of default, with lower interest rates, fewer points, and conventional 30-year fixed terms. Those with credit scores below the prime threshold may be offered higher-risk loans, with higher interest rates, higher closing costs, and adjustable rates. During the 2000s, the link between good credit and conventional prime loans became weaker, with financial incentives for mortgage brokers to funnel homebuyers into higher cost loans, regardless of their credit score (Immergluck 2009; Brooks and Simon 2007). And this link between prime credit scores and prime loans was even weaker for people of color. In Carolina Reid and Elizabeth Laderman's 2009 study of foreclosure and race in California, they found that "more than 1 in 5 Black and Hispanic borrowers with FICO scores above 720 received a higher-priced loan, compared to 1 in 20 white and Asian borrowers" (13). Housing advocates tried to ensure equal access to homeownership for people of color, and in neighborhoods that had previously been denied equal access to traditional 30-year fixed mortgages, through the banking system and the lending requirements of the Community Reinvestment Act (CRA). However, not only was there a disconnect between credit scores and loan terms, there was increasingly a disconnect between the CRA-regulated institutions and who was doing the lending and refinancing in these historically underserved communities. In fact, Reid and Laderman (2009) suggest that people of color, regardless of their credit score, may have actually ended up with higher risk mortgages simply through the mortgage channel through which they bought their home. However, a lower numeric credit score following foreclosure does not distinguish between individuals who had higher-risk, higher-cost loans, and foreclosed, versus those who may have foreclosed on a 30-year fixed rate loan; the credit score does not disclose the sustainability of the mortgage (Spader 2010).

At the time of foreclosure, the FICO score drops to account for the default and subsequent foreclosure. The extent to which the foreclosure negatively impacts an individual's score is determined by their other debt obligations, payment history, and previous credit. Interestingly, the higher the initial credit score, the harder the blow of the foreclosure. Kenneth Brevoort and Cheryl Cooper's 2010 study found that a borrower with a score of 780 would lose 200 points due to foreclosure, while a score of 680 would go down only by 170 points. While record of the foreclosure will remain on the individual's credit report for seven years, the credit score may make full recovery in as little as two years for those whose scores started below 660, but may take 10 years or longer for those with prime credit scores for their scores to fully recover (Brevoort and Cooper 2010, 11-13). This damage to the credit score due to foreclosure may continue to impact the former homeowner in seeking rental housing, employment, or access to credit for cell phones, car loans, or credit cards. Brevoort and Cooper (2010) show that credit scores for individuals with formerly high credit do not in practice resume to their former levels after foreclosure, but explain the subsequent greater delinquency in consumer credit as changed "borrower behavior" (23). Based on my research, I suggest that this phenomenon occurs because of former homeowners' changed relationship to debt and financial institutions, lowered use of credit which reinforces lower scores, closure of credit accounts, and, perhaps, less concern with credit as a measure of status.

The uncertainty over how long it will take for an individual's credit score to recover produces a lot of anxiety for former homeowners. While some expect their credit to improve in a couple years following foreclosure, others are convinced that their credit will not be fully restored until

the full seven years when the foreclosure will be no longer be reported in their credit history. There is a lot of uncertainty over when one's credit score will improve, and when they will no longer be financially constrained by the foreclosure. To be fair to the individuals experiencing this anxiety, the uncertainty over the impact of foreclosure on credit scores and time to future score recovery is reflected in even foreclosure self-help guides (Elias 2011).

None of the former homeowners interviewed were aware of the clause in Section 202.6(b)(6) of the Equal Credit Opportunity Act (ECOA) that states that you can submit additional payment histories when you are being considered for credit, and they must be taken into account. The consumer credit agency Payment Reporting Builds Credit (PRBC) and eCredable.com offers online services where you can input all your other monthly on-time payments, to present to a landlord, bank, or other entity that you are trying to seek credit from. This FICO score alternative essentially tries to cast a wider net of financial surveillance across accounts, so that any on-time monthly payments will count towards a credit decision. While this expansion of financial tracking might enable some with poor FICO scores, mostly from lack of history, to have better access to credit, this kind of self-initiated expanded financial surveillance is unlikely to be attractive to those who have been through foreclosure.

There remains a lot of uncertainty and fear for many homeowners after foreclosure, particularly that a mortgage lender will legally or financially pursue the former homeowner. This might occur to collect on a second mortgage, as only the primary mortgage is secured by the house in the event of foreclosure, or for the deficiency between what was collected at the foreclosure auction and the loan balance. Especially for those who lost the home they lived in to foreclosure with an additional investment property or properties, the potential tax implications feel uncertain and troubling. While many foreclosed households might benefit from filing for bankruptcy, both in terms of the financial clarity and certainty it would provide, they instead endure the uncertainty in the hopes that the stigma of bankruptcy might be able to be avoided. This does raise the issue that those who have been through foreclosure may need to subsequently file for bankruptcy, if their lender(s) does in fact attempt to collect. Where bankruptcy was considered after foreclosure, resetting the seven year clock on credit due to the bankruptcy was a big deterrent.

Declaring Bankruptcy

Few of the former homeowners interviewed here chose to declare bankruptcy as part of their foreclosure. There are benefits in bankruptcy to the homeowner in default, including an automatic stay of the foreclosure process, delaying the process, structured repayment plans for missed payments, converting second or third mortgages into unsecured debts which only require partial payment, and eliminating credit card debts (Elias 2011; Culhane 2012). But, as stated in Marianne B. Culhane's study of bankruptcy and foreclosure, "homeowners desperate to save their homes often seek refuge in bankruptcy court, but they find only limited relief there," and most of those who declare bankruptcy are not able to prevent the loss of their home to foreclosure (2012, 122-123).

When I discussed with former homeowners whether declaring bankruptcy as part of the foreclosure was considered, most had specifically wanted to avoid bankruptcy. In *The Fragile*

Middle Class (2000, 33), Teresa Sullivan, Elizabeth Warren, and Jay Lawrence Westbrook described how many viewed bankruptcy as “a regrettable but necessary step to taking control of their out-of-control financial lives.” Those interviewed here might be more likely to describe foreclosure in similar terms, being regrettable and unavoidable, but, they deeply want to avoid bankruptcy.

The Bankruptcy Abuse Prevention & Consumer Protection Act of 2005 made declaring bankruptcy more expensive and reduced dischargeable debts, reducing the benefits to those seeking bankruptcy as mortgage relief since Sullivan, Warren, and Westbrook’s earlier study (Li, White, and Zhu 2010). Since the 2005 change in law, households with incomes over the state’s median are required to file bankruptcy as Ch. 13 instead of Ch. 7. Ch. 13 bankruptcy requires a 3-5 year payment plan on unsecured debts, as well as a cap on exempt mortgage debt, making bankruptcy less desirable as a way to avoid foreclosure or recover from foreclosure (Li, White, and Zhu 2010).

While declaring bankruptcy may have helped many of the households, very few opted to declare bankruptcy to avoid foreclosure or to allow for a more orderly foreclosure, with potential debt relief. Instead, many proceeded with the foreclosure, and later became concerned that they may be liable for taxes, deficiency payments, or second mortgages, and later consider bankruptcy as a way to limit their liability for foreclosure-related costs. In interviews, participants attributed more stigma, moral weight, and a fear of deeper and longer-lasting consequences associated with bankruptcy than foreclosure.

David owned two properties, the home he lived in, and a rental income property. He lost both houses to foreclosure, and worries about the outstanding mortgage balance that the bank wants to collect. He’s considering bankruptcy, and the biggest factor for him is the seven years that the bankruptcy will remain on his credit report, and how old he will be when that time has passed.

David: But, I'm still kind of lost on what's going to go on. They occasionally send me notices that I owe a couple hundred thousand dollars. And I'm like, "Cool." [laughs] "Cool - you keep on telling me I owe that, but I don't know how I'm going to pay you." I write them letters sometimes that... And I've seen a couple lawyers here and there. A lot of them are telling me at this point, unless you want to hire somebody full time to go through all the documents you signed, it's kind of a moot point because they're so backed up, they don't even know what's going to go on.

Anne: Did you think about declaring bankruptcy as part of that?

David: Yeah, I've actually been exploring that, too, because I don't like having that cloud over my head right now. My credit's already ruined - I might as well start the clock, and...I think it's like seven years, or something like that. Might as well start the clock now, at least I won't be too old by then when my credit clears again. I can kind of start over again from there. So, I've been exploring that as an option as well. Because the nice thing about mortgage debt is if you declare bankruptcy, it clears that, and I guess that's one of the debts you can clear off.

David describes the difficulty he has had in understanding the notices to pay that he receives from his former lenders, and is considering bankruptcy as a way to create certainty and removing the emotional weight – the “cloud” – of collections. His concern had been the seven year period that the bankruptcy will be on his credit history, but is considering this now, after foreclosure.

Former homeowners often have legal questions, either during the foreclosure, or afterwards. While some former homeowners have attorney friends who can help make sense of their personal situations for free, most interviewed here find they cannot afford the full cost of an attorney to help them. Some former homeowners pay retainers or fees, only to find out they cannot continue to pay, and never see any real benefit. There are three potential roles for attorneys in foreclosure: 1) advice and a legal perspective on a homeowner’s options, 2) representing the homeowner during the foreclosure process and intensively trying to assist the homeowner in trying to get a loan modification and forestalling foreclosure, and 3) suing a lender or broker who may have defrauded the homeowner in some way. Those going through the foreclosure process in this research mainly looked to legal resources for the last two roles, but, save for Dawn who joined a class action lawsuit, were unsuccessful in either preventing foreclosure or suing someone.

Daryl bought a house with his girlfriend in 2006, and took out a \$75,000 home equity line of credit for improvements to the house, including landscaping, refinishing the floors and remodeling the kitchen. Now, after foreclosure, the lender on this unsecured home equity line of credit is trying to collect.

Daryl: Yeah, they've been trying to, because they said that's separate, that's another mortgage that's separate from the mortgage on the house. So they've been trying to go after me on that, and so I'm like...[silent pause]. I've just been writing back letters and just...it's been kind of going in circles. That's not really resolved either, so I kind of have that over my head too. I didn't know, I thought it was all together, but apparently it's two separate things because it's two separate lines of credit, and I didn't know that.

Anne: At some point, did you ever consider bankruptcy as part of this?

Daryl: Yeah, I'm actually still considering that, just because, apparently that can wipe out everything. I think I'm probably going to have to research which bankruptcy court to go to and, ahhh, I don't know, you don't feel so great about it, so you kind of put it off and ignore it, but I shouldn't because the faster I start this, the faster my credit will start over again, probably.

Daryl, like David, faces a lender pursuing him for past due balances, after the foreclosure. Daryl describes how he does not have a clear understanding of the loan product, and how the home equity line of credit lender is pursuing him. Both Daryl and David write letters to the lenders in response, but neither find that strategy gets them closer to a resolution. Daryl admits that he may consider bankruptcy, but has been in denial. He acknowledges that his credit may take another hit before he can start recovering.

Although bankruptcy might have practical benefits to homeowners facing foreclosure, whether in avoiding foreclosure, or in structuring the foreclosure process and limiting liability, few of those interviewed here turned to bankruptcy as part of the foreclosure process. Most interviewed here explicitly wanted to avoid bankruptcy, and feared the consequences of bankruptcy on their credit. Both David and Daryl describe how it is only after the foreclosure process that they are considering bankruptcy, to limit their liability on outstanding mortgage-related debts. For both former homeowners, the impact to their credit if they declare bankruptcy is a concern.

Consumer Credit and the Link to Employment

For those whose foreclosure was triggered by unemployment or underemployment, the damage to credit from foreclosure can have perverse effects, making it more difficult to find work. There has been a rapid expansion in the use of credit checks as a background check during the hiring process in the last decade (Nielson and Kuhn 2009). Where checking credit history of job applicants was once justified as a way to reduce theft in finance-related jobs, the use of credit checks has expanded to screen for many different types of jobs, as a measure of general character and responsibility (Nielson and Kuhn 2009). I will discuss two different former homeowners' experiences with bad credit and employment credit checks, one in a working class position, another in a professional position.

For Rigged, his family's foreclosure had multiple triggers including his job loss, but also with his son's mental health care needs, his wife's management (or lack thereof) of the family's finances, and their trust of a Realtor who told them they would be able to buy back their house from him. Rigged declared bankruptcy as part of the foreclosure process, further damaging his credit record. He feels unable to find comparable work to what he did before, as his last employer in the formal economy stressed the importance of good credit in getting and keeping a job there. He felt his job prospects were deeply hampered by his damaged credit from the foreclosure.

Rigged: No, I know, because when I applied at TSA, Transportation Security Administration, (...) at our orientation they mentioned, "Hey guys, this is a thing that you have to take care of, your credit record." You could kill so many people, and still they could accept you. (...) That's why the government say "We don't care about your criminal record, the only thing we care is about your credit! You've got the bad credit, we're sorry." That's when I came to know, oh! So! So that's why, probably that's why I got a hard time getting a job. When they look at my background, they see all the things that the private sector is not telling everybody. They are looking also at your credit record. If you've got a bad credit record, you know, sorry. I'm sure about that.

Whether employers are rejecting Rigged because of his credit record, criminal record, or simply his qualifications for the job, Rigged feels employment credit checks are a big hurdle in his recovery after foreclosure. A friend at his church helped him to get a job at a retirement home, where he worked for a week before being let go because his background check revealed domestic violence on his criminal record. He feels frustrated, as he served his time for domestic violence, declared bankruptcy, and lost his house to foreclosure, but feels like the record of these things are holding him back in being able to recover. For Rigged, the most important step in his recovery after foreclosure is finding steady work again.

For Belinda, who works in tech support in the financial industry, she knew that her credit might be a problem. She describes how both she and her husband got new jobs without their credit reports being examined. For Belinda, full disclosure to her future boss meant that he did not run her credit, so her credit history would not be in her HR file. While a risk, disclosing personal information during the hiring process, Belinda got the job.

Belinda: ...I'd probably have a tendency to just tell people right off the bat. Because they're going to find out anyway. And that happens with a lot of jobs, they're like "oh." But now, if you have a job where they run your credit report, they see foreclosure, they're like " Well, what happened to you?" And you kind of have to go...(shrugs) "Well, 2007 sucked!" (gestures with hands & laughs)

Anne: So, did they run it for your part time job?

Belinda: No, he didnt, he didn't. He said he was going to, and I was like, "Okay, let me just tell you what's going on." And he was like, "Wow, that's way too much information, I don't need to know all that." Right? And he was like, "I don't want to run you now." (says suprised) Oh, okay, that's good. And I was worried about, when my husband got hired at the City that they would do it, and they didn't. They said it's too expensive. Which is, like, wow, that's crazy, okay. But my husband also knew the supervisor, he had known him for 20 years, and he'd been trying to get him to get over there, so now it was just...that kind of worked out.

As discussed in Chapter 3, many people are able to successfully secure rental housing by strategically disclosing their foreclosure history up front, and avoiding a credit check that might disqualify them. Similarly, with employment, many who have been through foreclosure and are looking for work may be either avoiding jobs they believe will run their credit as a part of the hiring process, or they may pre-emptively disclose their foreclosure history to avoid rejection by credit check.

Lack of Access to Refinancing: Consumer Credit

In the experience of foreclosure, homeowners find that they cannot refinance or modify their mortgage to save their house. For one former homeowner in this study, this dynamic played out again after foreclosure with his credit cards, due to his poor credit from the foreclosure. Jack paid for a number of expenses during foreclosure on his credit cards and wanted to consolidate to a single account with a lower interest rate, and he was rejected. This, combined with misestimating his income taxes without the mortgage interest deduction, created further credit card debt, after foreclosure.

Jack: ... Recently, I tried with my credit union to consolidate. Besides having issues with that, it was tax problems. Man, the year after all this happened, they just hit me hard, and it was like \$12,000 that I owed the Fed's alone.

Anne: On what? On your income, or on the house?

Jack: Yeah, they said that I claimed too much. I didn't realize, because I kept telling them, well it's the same amount when I owned the house and I was paying on it, that I made. But it wasn't right, I didn't owe that because of the interest. So the tax problems, and credit, it's a bind. I've got three more years, put on a payment plan. I stayed up, put it on a credit card, made a payment plan with the Feds, and three more years I'll be out of that. I figure in 2015, I'll be a normal person again.

The damage to Jack's previously good credit, which is forcing him to pay higher interests as he pays off his large tax debt, and the change in income taxes due to losing the mortgage interest deduction have long-acting financial consequences. The payment plan with the IRS creates a further constriction on finances, and if Jack cannot keep up with payments, the IRS has the ability to garnish his wages to collect the back taxes. These consequences of foreclosure make it more likely that Jack will have credit damage that extends beyond simply the foreclosure itself. Where households in the foreclosure process rely on consumer credit to pay basic expenses, they may find themselves further constrained in trying to pay back their debts where they are locked into higher interest rate accounts due to the credit damage of foreclosure. As homeowners are rewarded in the income tax code with the mortgage interest deduction, losing this deduction means higher income taxes, which may come as a surprise to some former homeowners.

Collections and delinquent loan divisions

When a mortgage is delinquent, the homeowners begin to receive repeated calls and automated messages from the delinquent loan division. The primary role of these calls is to convince individuals to pay overdue payments. The employees making these calls do not have the authority to offer any assistance nor to authorize loan modifications. Homeowners initially try to reason with these representatives and explain their circumstances. When they find they cannot negotiate, or even engage in a meaningful dialogue with these representatives from the bank, they create ways to ignore these communications. However, the experience of being hounded for money that one does not have, with no understanding of the individual's situation, leaves a deep emotional impact. For those who declare bankruptcy as part of their foreclosure, the pressure from collections companies as well as the bank becomes intense.

Mari describes the frustrating experience, where after she has been aggressively trying to find someone who will help her at her mortgage company, she starts receiving collections calls from her lender. The collection calls were moralizing and disrespectful, and collection calls would happen simultaneously on all of her phone lines.

Mari: And they say that, "if you're not paying, you have money." Well, no, not really, because you stop paying other things to make sure that everything's hunky-dory, because you have HOAs, so you have to pay that, there's, you know, kids' supplies, dental surgery, or things like that. Things start piling up. These people would call up and say, "You owe us this money. You know, since you haven't been paying, you should have money." Nice me would explain to them what's happening. At the beginning they were

nice, that worked. "I don't care. You owe us this money. You *owe it* to the *bank*. Do you understand that." At the beginning, was the collection department at the bank, then later on they transferred it out. And the calls... You asked how many calls? At the beginning, there wasn't that many, I would say...once a day. Then it progressed on to three, and then four, and then all the phone lines. And, it's funny, one time the landline rang, I picked it up, and then my cell phone rang. And I said "Can you please hold on," and I picked up the other phone, it was the same GMAC. And then, soon after that, less than an hour later on, I would call up my job phone to pick up voicemail. They left a message there, too. It just went on and on.

Former homeowners describe enormous frustration in dealing with their lender, and in receiving collections calls from their lender. Mari described her fatigue, frustration, and feelings of harassment at the moralizing of the collections callers from her lender who would not change their approach after hearing her story. Combined with the lack of traction on securing a loan modification in her repeated and extremely persistent calls to her lender, this accumulated in incredible frustration. Faith describes her almost identical experience, with multiple daily calls, and the lack of assistance or sympathy shown by the collections callers.

Anne: Were they calling you?

Faith: Oh, yeah. Oh, my God. All the...yeah. I had three mortgages - two on Funston and one on the new one. They were all calling. All calling. I wasn't answering my phone.

Anne: How many phone calls a day did you get?

Faith: Maybe two or three or four...a day. I wasn't even answering my phone. Yeah, it was awful.

Anne: Were you getting stuff in the mail?

Faith: And it's like--you know, yes. Totally. And I'd talk to them and, at first, I was having these long conversations and I was doing the whole sob story and I was like, "Ok, this is the situation and I'm so sorry, can you please reduce?" No. Na-na-na, you know? And finally I just started hanging up on them... 'cause they weren't listening to my sob story. They weren't hearing me, you know? They didn't wanna hear anything, but "I'm sending you a check," you know? And I couldn't do that. So...

Rigged describes a similar experience with frustrating hourly collections calls, describing the information disconnect between the collections department and the foreclosure or loan modification department.

Rigged: My payment was \$2,200, not including property tax. And I was asking for a break, to go down - because my unemployment was roughly the same amount - I said, can you reduce it down to \$1,400, and then this way I can eat and still stay in the house.

Anne: So you essentially got no response from the bank when you sent them this letter.

Rigged: I got a flat no. Then shortly after that, they started calling every hour. (...) "Pay up, pay up." It was like as if the one person I talked to didn't talk to the other person, and tell them, "Hey, I just talked to this guy." And then, at one point I just unplugged the phone from the wall socket. There was no way that... I mean, they were so... As if calling every hour would make me suddenly pay up. It was not going to work.

For most of these former homeowners, this was their first experience in being the target of collections. Dawn discusses how she received collections calls from both her first and second lenders. Wells Fargo, who serviced her second mortgage, continued to pursue her with collections-style tactics for the full balance of the second mortgage, plus fees and penalties, even after the foreclosure had occurred. In this instance, not only was Dawn incredibly frustrated by the number of daily phone calls from the delinquent loan departments, but both afraid and outraged that the second loan servicer illegally attempted to collect after the foreclosure. For Dawn, and likely for many other former homeowners who had second mortgages with Wells Fargo and other lenders, the calls and threatening letters did not cease after the foreclosure.

Dawn: So, the really fucked up thing that happened after all of this was that Wells Fargo kept calling me and telling me I owed them money.

Anne: On the second (mortgage)?

Dawn: Yeah, and that's why I really needed HERA [Housing and Economic Rights Attorneys, a nonprofit] because HERA - I was like, "they're telling me I owe them money." And HERA was like, "Nope, you don't owe them money, and this is the law." And then I was telling them, "This is the law, you can't charge me this money; you can't say I owe it."

Anne: They were calling you, or coming to your house?

Dawn: Yeah, they were calling. Oh God, they called ten times a day, all those months.

Anne: They called ten times a day for months?

Dawn: They did. They - both of them, both lenders. But there was a period where they couldn't call, that was right when we went into the foreclosure process, they had to stop calling, and I think that they did, but they still called to tell me I owed them that money - this was like three days before the house went to foreclosure. And I was like, "Actually, the house is going to be foreclosed in a few days, and according to this law you guys have to...what's the word...submit to the first lender." And they were like, "Oh, it sounds like you know what you're talking about, so OK." And then they hung up, but then I got a letter that said they were going to sue me if I didn't pay them. (...)

So I get this letter and HERA said, "Come in, bring in the letter," and this guy Noah, who works there, he called a big for-profit attorney that does class action, and there had

already been...there were a couple of banks that had been doing the same thing. What they told me was they were basically testing these laws, and even though they were on the books, they hadn't been fully tested yet. And they said, "We want to encourage you to do a class action on this, because there are probably thousands of other people who got this letter." And I was like, "I have nothing to lose, OK." So they were like, "It could take five years, it takes a really long time, you don't get a lot of money, and your name is on it so people who do an internet search they might find it." And I said, "That's OK because I can't imagine paying this back, and I can't imagine anyone in my little neighborhood who can't even read English paying it back."

And so I sued Wells Fargo [almost a whisper], and they settled. They settled for \$225,000 or \$250,000, and, I just got the call. They didn't even want to mess around with it, they knew they were wrong. They agreed to stop sending the letters. All the people that paid [due to the illegal letters] are going to get their money back. Twenty-five percent is going to go to HERA and this other attorney, they're going to split it. I'm getting like \$5,000, which I'm thankful for, even though it's not that much money. The rest is going to charity. Like \$70,000 is going to go to the Opportunity Fund, which does small loans, you know about them. There's going to be another \$70,000 going to another non-profit that works with people with disabilities, I guess probably housing stuff. So I was like, "Don't fuck with..." No, now I can say that, but at the time it was really scary. I was totally crying, like every day.

While Dawn was fortunate to have HERA's advice and emerged from the settlement with Wells Fargo with \$5,000 due to their illegal collections harassment, the experience of being pursued by collections for money with repeated phone calls and letters was a big emotional burden. While Dawn received advice on a consultation basis with HERA, she did not feel she had HERA behind her, representing her, in the same way one might if they hired an attorney to follow their foreclosure case in particular. Dawn acknowledges that the stress and emotions she endured during the foreclosure process, exacerbated by the relentless phone calls and letters, were so severe as to compromise her physical and mental health.

Debt collection style tactics against homeowners in default adds insult to financial injury. Mari, Faith, Rigged, and Dawn describe incessant phone calls from the servicer, demanding that they pay. This type of call does nothing to help the homeowner in default to correct the underlying problem that has caused them to go into default, gets them no closer to a sustainable mortgage, pressures them to pay money they do not have which will not even be enough correct the problem, and instead gives them reason to believe that their lender is not interested in trying to work out an alternative to foreclosure. Any late fees or penalties collected by the servicer is kept by the servicer, not forwarded to the investors as principal payments would be, which creates a financial incentive to try to shake down borrowers in default (Thompson 2009). This experience of harassment and uncivil treatment are degrading to the former homeowners' dignity, and give former homeowners another reason to avoid debt following foreclosure.

Credit Score Recovery: Foreclosure Recovery

Homeowners often describe foreclosure recovery first as credit recovery. However, with this goal emerges a paradox, where the resistance and rejection of credit that I have described above negatively impacts credit score recovery. Where an individual's recovery is measured in terms of credit, their hyperawareness of the dangers of credit and the harassment of potential collections may actually undermine their credit score. Homeowners describe how credit recovery is important to their vision of personal recovery after foreclosure, with differing emphases on what they would like the credit recovery for.

For Edna, when asked what recovery after foreclosure would entail for her, the first thing she mentions is credit recovery. However, the conversation around recovery shifts to having financial independence and a sense of self-pride and purpose. Here, while building credit back is key, it is towards her larger goal of financial independence, and she does not plan to use the credit in any particular way.

Edna: Recovery would be, for me, personally, building back my credit. Building back up, and... Just learning how, once again, to get on my feet. Emotionally, financially... I'm in a relationship, I have a boyfriend, but, even thinking in terms of, if we don't work out, just being able to provide for my child, just being a success to me and not to anybody else. Not to my parents, not to my friends, there's - it's not a competition - there's no perfect way to do this. And I just have to remember that, that I just have to live life, do what's acceptable to me, and - I'm a religious person too, so I stay prayerful, and, just - just trying to stay focused. And if I have to get a second job again, I don't have a problem with doing that. But, it's just taking care of me and who I am now. It's like, before, it was all about what everybody else thought, and being perfect to everybody else, and now I just can't do it anymore.

Edna looks to build her credit to recover from the foreclosure, but does not specify how she might utilize her credit in the future. Run, on the other hand, discusses how his credit has recovered enough that he does not care if it matches his previous credit score, but that credit recovery, for him, is not so that he can go back into debt.

Run: It did come down from high-700s, to probably 610 at some point, but then it went back up. So, from a score perspective, I don't think it's... I don't even care. I'm not buying anything. I have a car already, I don't plan to buy another piece of real estate in the future. If I do, I'm going to probably buy cash down, and I don't have cash, so that won't happen. So, no more loans. That's just put it this way - I'm just so turned off by the whole concept of the way they treat...I mean, they treat you really well when you're signing and when you're a high-net-worth customer. But when things go wrong, they're not there at all to stand by your side. I guess that's how the capitalist world works - you have it [money], you're nice, we're good to you. If you don't have it, you're poor, and we don't give a shit about you. (...)

In terms of credit score, I've been checking [my] credit score maybe at least once a year, maximum twice. Except for that foreclosure part, there's nothing else that's detrimental on me. So my score is still in the 700s.

Run's experience of the foreclosure process and of the debt collections and his experiences with his credit card companies after foreclosure have made him averse to going into debt in the future. Run's experience is very different than Jose, who also focuses on credit recovery, and is ready to jump back into mortgage debt as soon as he can, with investment properties as well as a house to live in. For Jose, in his 20s, the experience of foreclosure has not soured him to buying again. While his timeline may be overly optimistic, recovery of credit is the first step for him to buy again, which is a prerequisite in his vision of recovery.

Jose: Ok. The ideal recovery for me would be my credit. Once that's fixed, that's big for me. Secondly, I - you know, I want to be able to buy a home for my wife and I. Within the next two years. And the house that we currently have is living with my mother, my stepdad, my brother - in the studio, and we can pay the mortgage off. And, probably own, you know, get two, three investments just for the cash flow purposes. In my opinion, that would be the full recovery.

These three former homeowners all focused on credit recovery, however, one for personal satisfaction and future financial security, one to monitor damages from foreclosure and wants to avoid debt, and one so that he can incur future mortgage debts. The goal of credit recovery highlights a paradox, as many of the former homeowners may undermine their goal of credit recovery, through their resistance to credit, as well as through testing their credit.

Credit Score Recovery: Rejection and Resistance

The former homeowners interviewed took pride in their good credit prior to the foreclosure, and most felt their good credit score was evidence of their good character and general trustworthiness. The credit score was a status symbol, proof of good citizenship beyond evidence of payment history. Many former homeowners knew their pre-foreclosure FICO score, and while a couple knew exactly how far their score had dropped after foreclosure, most preferred not to know exactly what had happened to their credit. There was a general sense of loss over the credit damage caused by foreclosure, and injustice, that the former homeowner feels their personal reputation is being unfairly punished by an intractable situation. Jack described this loss of status well when he said, "It took something I took a lot of pride in, especially being a black man. There's so many stigmas on us having bad credit, it's been tough." With this personal reputation at stake in the credit score, and having lost their home due to an unpayable debt, many former homeowners find themselves rejecting and resisting the system of consumer credit and debt.

Credit emerges as a paradox, as former homeowners see credit as debt while also seeing credit as freedom. While a good credit score allows them the freedom to qualify for financing and access to homeownership and consumption, using credit also opens up the individual to the risks of debt and the possibility of the system of collections, escalating debts and payments, and potential future mismatch of income and expected debt payments. From this emerges a paradox in the

behaviors that former homeowners describe, as related to consumer credit, and how they define personal recovery from foreclosure. Homeowners reject and resist consumer credit in daily life, which has real and practical implications, which will be described below. Few have had actual difficulties using their credit to secure something post-foreclosure, however, more importantly almost all of those interviewed avoid instances that would require a credit check. As homeowners describe credit score recovery as a metric of their personal recovery after foreclosure, through the simultaneous rejection and resistance of consumer credit in daily life, they may find themselves undermining their own recovery.

Dawson describes the credit score impact that he and his wife experienced after foreclosure, as well as their orientation of being “debt averse,” avoiding use of consumer credit.

Dawson: Yeah, it dropped--I would say it dropped 200 to 250 points right away, and we didn't use credit for anything anyway. But that was a big thing. We just became so debt averse. We're just like, "I hate that feeling." It's like you're enslaved. And so that was part of our plan too is listen if we want something we'll pay cash or if it's a bigger purchase we'll plan for it. We don't mind taking on some credit if it makes sense, but use it judiciously.

After their experience of foreclosure, he describes *the feeling of debt* as something to avoid, likening debt to feeling like slavery, as a system of forced labor and entrapment. While Dawson and Clare did not altogether cease use of credit cards, they continue to resist the use of credit even nearly three years after their foreclosure.

After her foreclosure, Amelia and her husband, while both working professional jobs, have a very limited income due to the foreclosure and Chapter 13 bankruptcy settlement, which included a deficiency judgment and 5-year payment plan which consumes most of their discretionary income. Due to their bankruptcy and foreclosure, they have chosen to no longer use the credit system.

Anne: So we talked about the bankruptcy. Have there been ways in which that, or your credit, has impacted your life? Did you need to get a cell phone, or a home loan, or something that you needed your credit for?

Amelia: Yes. We have decided we will never have credit again. By choice. And, we actually have not encountered a problem yet. But, we have one cell phone that we share between my husband and I, and we use our debit card. Yeah, we just haven't.

Anne: So you haven't had any problems.

Amelia: Not really, but we're not big consumers anymore, either. Which we weren't before either. Yeah, you can pretty much do everything with a debit card.

Amelia and her husband very pragmatically have chosen to manage their limited income using an avoidance of debt strategy, effectively rejecting the consumer credit system. While rejecting the credit system has not presented them with any particular problems, the effect of living

“paycheck to paycheck” has affected Amelia and her shopping habits in very practical ways. Below, Amelia discusses her experience buying clothes. What she buys has changed, but also where she shops, how much clothing she buys, and she checks that she has the money in her bank account before making a purchase.

Amelia: I need new slacks. I went to WalMart - I hate shopping at WalMart - but I went to WalMart, because they've got the cheapest pants. I can't find them in Goodwill in my size very easily. It used to be, I'd go to Target, or Kmart, or WalMart because I'd stopped going to JC Penney's or Sears; that was too expensive when we were getting eaten alive by our mortgage payment. But now, I go to WalMart, and it's the beginning of the change of the season, and I can't buy three or four or five pair of pants, and some new tops. I buy *one* item, and I look in the checking account to make sure there's enough there.

While she's able to manage her consumer spending without relying on credit cards to finance her purchases using debt, their rejection of credit and their post-foreclosure financial position has concrete practical impacts. In describing her clothes shopping, above, she describes how she has changed where she shops, what she buys, how much she buys, and has a new practice of checking her bank balance before making a purchase. For Amelia, these changes in consumption accumulate to a loss in status. This loss in status is one she is reminded of in the consumption experience, however, her few new clothing items from WalMart also likely visibly symbolize this embodied loss in status to others. As they do not anticipate being able to buy another house, due to their ages and how close they are to retirement, this avoidance may have not have larger implications for them. One of the other reasons that they are avoiding consumer debt is likely the intensely emotional collections process that they experienced during their bankruptcy and foreclosure.

Similarly, Belinda describes how she and her husband avoid the use of credit after foreclosure. They had looked into replacing her husband's motorcycle after an accident, and were approved for financing, albeit at a very high interest rate. They decided against using credit, and did not purchase the motorcycle, and describe how they only have a single credit card for gas purchases.

Belinda: No, my husband wanted to get a motorbike. Another motorbike. We had a '92 Harley, and it got in an accident, so he wanted to go... So I called around and I found out, yeah, we could get a bike loan...at 20% interest. And I was like, \$20,000 bike at 20%...okay... And he was like, "Well, what you do is, you make payments of \$320/month," and I'm like, that's crazy! Because both of our cars were paid for. We were the kind of people who had good car loans, we, you know, we had credit cards, but we also realized that credit cards are also big...just no-nos. I mean, if you really don't understand your credit card, don't get a credit card. Because it will just screw you up, it seriously will. So we really didn't have credit cards. I mean, we have one credit card now, it's a gas card. And then we have a Visa debit card. But that's basically all we have.

For Run, who formerly worked in the banking industry, the issue of his damaged credit was one that he paid close attention to and tracked. His high prime credit score, in the high 700s, fell to a subprime ranking of 610, and although his foreclosure occurred in late 2009, by mid-2012, less

than three years later, his score was back up in the 700s. However, importantly, his perspective on credit changed significantly. Before the foreclosure, he had four credit cards: two business and two personal. However, after foreclosure, Citibank dramatically lowered the credit limit on one of his personal cards without notifying him.

Run: But I built a credit limit, from, I think it started at \$1,400, and I took it all the way to \$27,000. And I always paid my credit cards - I never had any burdens there. But they lowered it, and I was shocked, because I actually got it - because one of my cards was rejected. Because, I think, every month I spend at least \$1,000 on gas, food, and all the other expenditures. And so, towards the end of the month, or the end of the cycle, I was rejected, and I was like, "Why was this rejected, I use this card all the time?" And then I found out when I called them up, they said, "Oh your credit limit is.." and I said, "I didn't change my credit limit, my credit limit is so high." They said, "No, it's now \$1,000." So I cancelled the cards. I actually called them up, and said, "Guess what, I'm going to cancel both of your cards."

While he continues to use a credit card for basic expenses, rather than seeing debt and credit as being a tool to get access to products and services, Run has a much more cynical view of the banking industry following his foreclosure, and wants to avoid all loans and debt.

Several former homeowners attempted to test how far their score had dropped by applying for a credit card or a car loan. However, the majority of those interviewed in this study chose to avoid the credit system following foreclosure.

Credit Score Recovery: Testing the waters

In the testing the waters mode for measuring credit recovery, former homeowners do not actively track their credit score, and in fact, may not want to know their credit score. Instead, they test to see if their score has recovered enough to give them access to new lines of credit. Daryl tries to get a Macy's card at the encouragement of a clerk, for a 10% discount, and is rejected and feels embarrassed. He said "Yeah, I was just curious, too. I had a feeling it was, but you still feel stupid."

Daryl: Yeah, I tried to see if I could get a car loan, just to get a new car, or a used car. Yeah, I got rejected, too. Yeah, you just get all these rejections left and right. There's nothing I can do for at least 7 years...actually, I'm not sure, is it 7 years, or longer? Could be longer. I forgot how long it is. But it's a decent amount of time before your credit clears again.

Other former homeowners have a strategy of avoidance of use of credit, while Daryl's strategy might be described as an avoidance of awareness of credit. He was willing to experience rejection, rather than researching his credit score in private, and whether he would qualify for the credit cards or car loans he was interested in. He also has uncertainty over when he should expect his credit to improve, focusing on when the foreclosure will 'clear' his credit history. Jose, similarly, tested his credit score by applying for a car loan and a credit card, and was also

rejected. Jose, however, researched his credit score and found out that his credit had been severely damaged by the multiple foreclosures of his home and investment properties.

Jose: Tried...tried to get a car, didn't qualify. Tried to get a credit card, nothing. What else have I tried... well I actually ran my credit, and it was like, in the upper 100s.¹ Now it's going back up. It's actually in the 560s. So I think that, probably a year or two later, it's gonna be ok. But yeah, I don't qualify for nothing. I - I have to - cell phone, nothing. Everything's under my wife's name right now.

While former homeowners are resisting and rejecting consumer credit, and some test the waters with credit applications, these approaches to credit after foreclosure may have deeper implications for their credit recovery. In fact, independent of the foreclosure, the behaviors discussed in this chapter may further damage credit scores. The FICO score is negatively impacted both by credit card accounts being closed, as well as by the reduced total available revolving credit, making the debt to available credit ratio higher. With reduced usage, if some months there is no payment required, this also reduces the history of on-time payments. Every time one applies for and is rejected for credit, this also damages one's score. For former homeowners like Daryl and Jose, testing their credit without having an awareness of their credit score actually further damages their credit. However, there is also the possibility that for those who are actively avoiding credit on the assumption that the foreclosure has completely destroyed their credit, they may not realize that their credit has largely rebounded, and may continue to avoid using credit where they otherwise would not.

Implications for City Planning

For city planners, the credit impacts of foreclosure and the resistance of debt may have very tangible implications in local communities. As discussed in Chapter 5, the areas where foreclosures are concentrated are often the same locations where foreclosed households are concentrated. In their first move, away from their foreclosing/foreclosed home, this is the time when the post-foreclosure homeowner's credit is the most damaged, and is at greatest risk of rejection, which can further damage credit. This suggests that there will be a concentration of households with damaged credit, as well as changed attitudes towards debt and credit. Local retail spending may be reduced due to the lack of willingness to use credit cards, which may have an effect on the viability of local businesses. Particularly for durable goods and larger purchases, there may be a localized chilling effect on retail, and more households may look to discount and big box retailers to meet more of their basic needs.

Planners need to keep in mind the long tail on foreclosure recovery, when measured in credit recovery. While those who had excellent credit, in the prime range before foreclosure, their credit may have substantially improved in three years. While the foreclosure remains on a former homeowner's credit history for seven years, as Brevoort and Cooper (2010) found, total recovery for those with prime credit may take 10 years or more. Future research in areas hard-hit by foreclosure might investigate whether rental housing becomes tiered, not only on income and

¹ The FICO credit score range is 350-850. I interpreted this to mean that Jose's score was near the bottom of that range. A score of 560 is considered a poor credit score.

rental prices, but by credit scores, spatially sorting households. Also, as former homeowners in their 20s-40s are mostly interested in buying again, as described in Chapter 3, structured credit recovery programs for former homeowners may be necessary. As former homeowners place importance on credit recovery, targeted credit counseling for these households may help these former homeowners to embrace their debt aversion in ways that will not undermine their ability to buy a home again in the future. Combined credit and homebuyer counseling may give these homeowners the deeper understanding of the credit system as well as give them the educational tools they need to buy again while exposing themselves to less risk.

Conclusion

Foreclosure forces former homeowners to reflect on the system of debt, lending, money and credit that facilitates homeownership. Credit scores are heavily damaged by the foreclosure in the short-term, and while credit scores rebound after several years, it may be seven to ten years or longer before scores equal pre-foreclosure levels. Importantly, peoples' attitudes towards credit and debt have changed, as well as the way they use credit. Most homeowners in foreclosure attempt to avoid bankruptcy due to the moral stigma and impact on credit, even where bankruptcy might provide a financial benefit to them. Unfortunately, many homeowners find themselves considering bankruptcy after foreclosure to limit their financial liability for taxes or payments to their lender. While many former homeowners do not experience any difficulties due to their damaged credit after foreclosure, those looking for work in industries that use credit checks to screen applicants have an additional hurdle to getting employment. For one homeowner interviewed, his damaged credit due to the foreclosure prevented him from being able to consolidate his consumer debts, forcing him to pay higher interests on the debts he amassed during the foreclosure process. During the process of foreclosure, homeowners are subjected to an intense collections experience, which contributes to their debt aversion after foreclosure, to avoid future collections experiences.

Former homeowners put emphasis on credit score recovery being a key part of their overall recovery after foreclosure. However, almost universally, former homeowners reduce their use of credit and debt, cancelling credit cards, and rejecting and resisting new debts. Some former homeowners test their credit's recovery by trying to open new credit cards, and get rejected. This creates a paradox in credit recovery, as these actions taken by the former homeowners will extend the time to credit score recovery.

Former homeowners' new orientation to debt and credit may have lasting positive impacts on a personal level in terms of avoiding personal indebtedness, and control over personal finances. However, the financial system and interlocking employee screening, consumer credit, and homeownership requires good credit scores to create access. Building and maintaining a good credit score requires a "responsible" use of debt. Many of these former homeowners demonstrated this and previously had excellent credit, but were heavily penalized when foreclosure was unavoidable. The paradox of credit recovery, the simultaneous wish for recovery and resistance to the credit system, emerges as a common theme. Although personal empowerment may be a positive outcome, the structural pressure for continued participation in the credit system makes recovery more difficult.

Ch. 5: Where Did My Neighbors Go? Revealing Geographies of Post-Foreclosure Households in the San Francisco Bay Area

Introduction

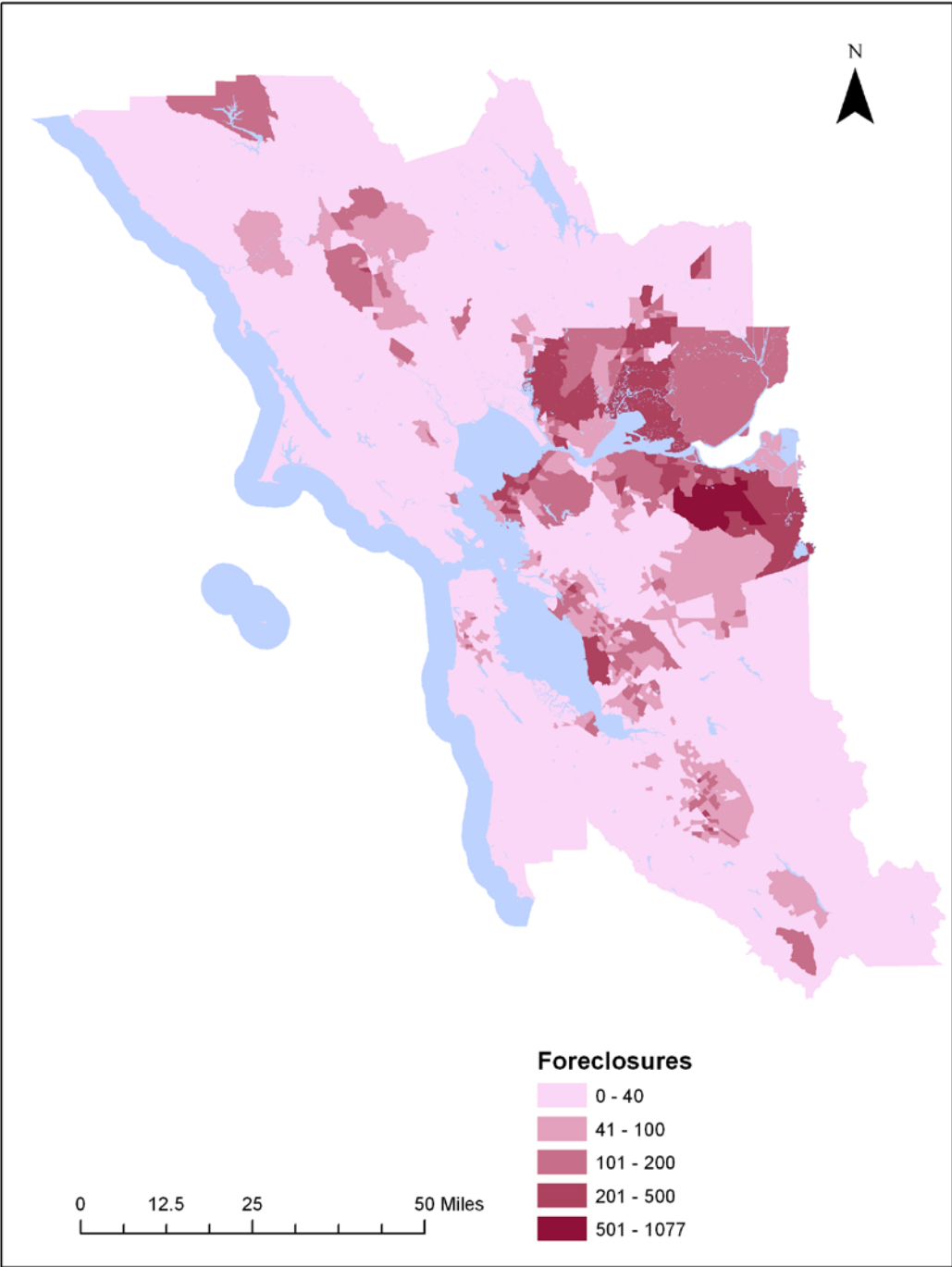
The popular press and academic literature has largely focused on the impacts of foreclosures on the financial and mortgage industries, and on neighborhoods with vacant homes. However, the impacts of foreclosure and displacement on families continue to be profound after they have moved away. The current foreclosure crisis has led to large-scale displacement of homeowners and their families. From 2006-2012, this crisis has produced a wave of displacement which still shows little sign of slowing, and is predicted to continue. This chapter examines the geographies of post-foreclosure families, using the San Francisco Bay Area metropolitan region as a case study. I analyze where people have moved after foreclosure, how their presence reshapes the neighborhoods to which they move, and in the second part of the chapter, discuss how they decided to move where they did, using interview data. Foreclosure recovery in our cities and neighborhoods hinges on understanding both where these post-foreclosure families live and the unique challenges they face.

In the second part of the chapter, I use examples from former homeowners about the ways in which they found housing after foreclosure. While it is tempting to frame post-foreclosure movement patterns as housing choice, it is clear from the former homeowners' experiences that these are housing choices made under severe constraints, and the first post-foreclosure housing does not adequately meet all of their needs. As their credit has been severely damaged, discussed in depth in Chapter 4, they find that avoiding the credit check by being forthright and upfront about their foreclosure, and finding a sympathetic landlord allows them to secure rental housing.

Post-Foreclosure Mobility

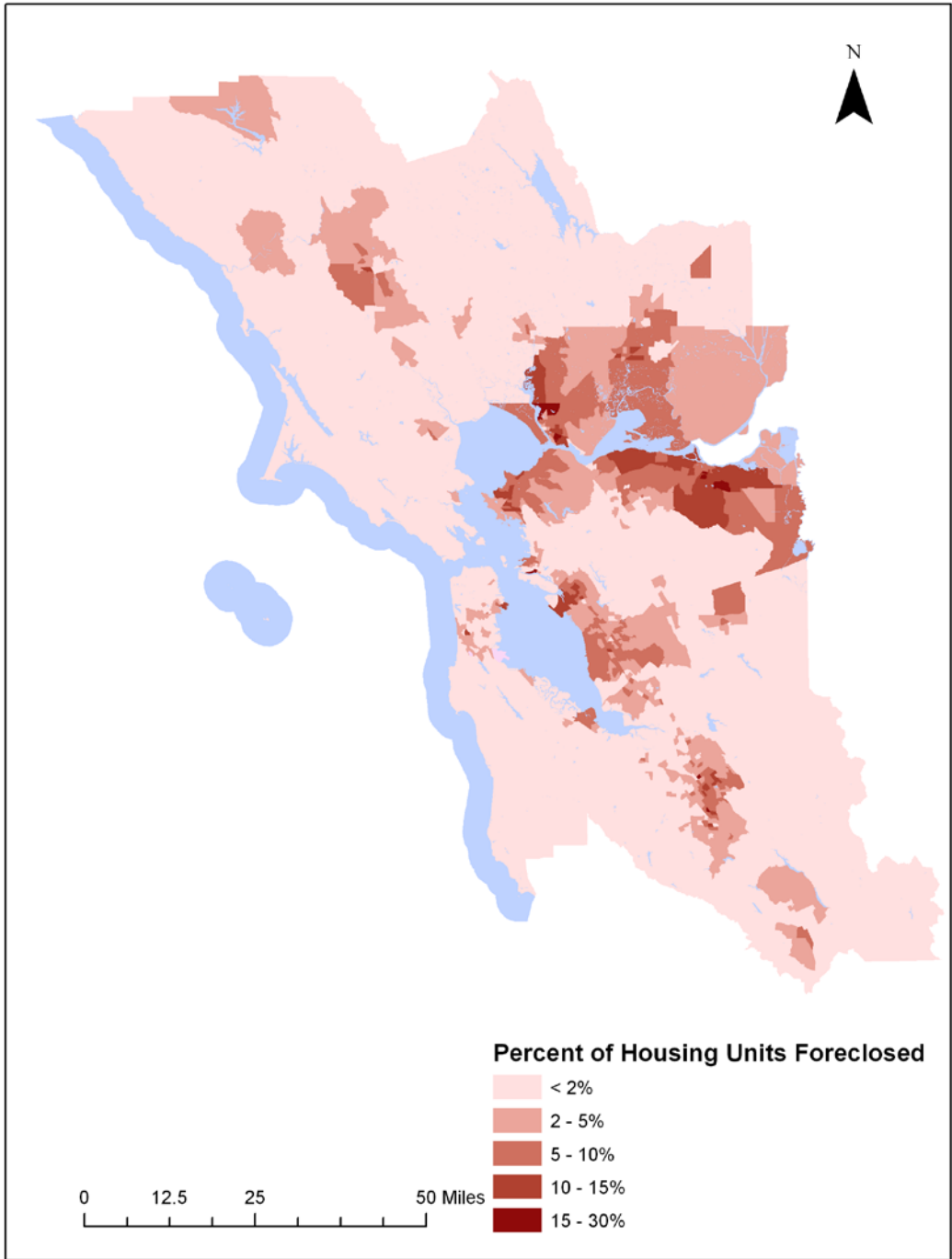
Foreclosures in the San Francisco Bay Area, 2006-2009

Foreclosures in the San Francisco Bay Area are mostly concentrated in a few parts of the region, and the following maps show the concentrations of foreclosures, in number of units and in the percentage of units in an area that have been foreclosed upon. Figure 1 shows the raw numbers of foreclosures by Census tract, which is used here to approximate impacts at the neighborhood scale. We immediately see that several counties are minimally affected by foreclosures, while several are severely impacted. The highest-income counties, Marin, Napa, San Francisco, and San Mateo all have relatively few foreclosures during 2006-2009, while the counties with greater income diversity and larger numbers of lower-income households have been severely impacted: Sonoma, Solano, Contra Costa and Alameda. There are sweeping parts of the region that have experienced few foreclosures. The tracts with the largest raw numbers of foreclosed homes are in the Antioch/Brentwood area, Hayward, and in San Jose.



Map: Anne J. Martin, UC Berkeley
 Data Source: Notice of Trustee Sale, DataQuick; USPS Change of Address, Satori

Figure 1: Numbers of Homes Foreclosed by Tract, 2006-2009



Map: Anne J. Martin, UC Berkeley
 Data Source: Notice of Trustee Sale, DataQuick; USPS Change of Address, Satori

Figure 1: Percent of Housing Units Foreclosed by Tract, 2006-2009

Figure 2 shows the foreclosed units as a percent of all housing units in the tract; several tracts in the cities of Antioch, Vallejo, San Jose, as well as Bayview/Hunter's Point in San Francisco have had as much as 15-30% of housing foreclose during the 2006-2009 period. As the foreclosure crisis has continued unabated through the current moment in 2012, the total percentages of housing in any given neighborhood that has been foreclosed upon in these areas

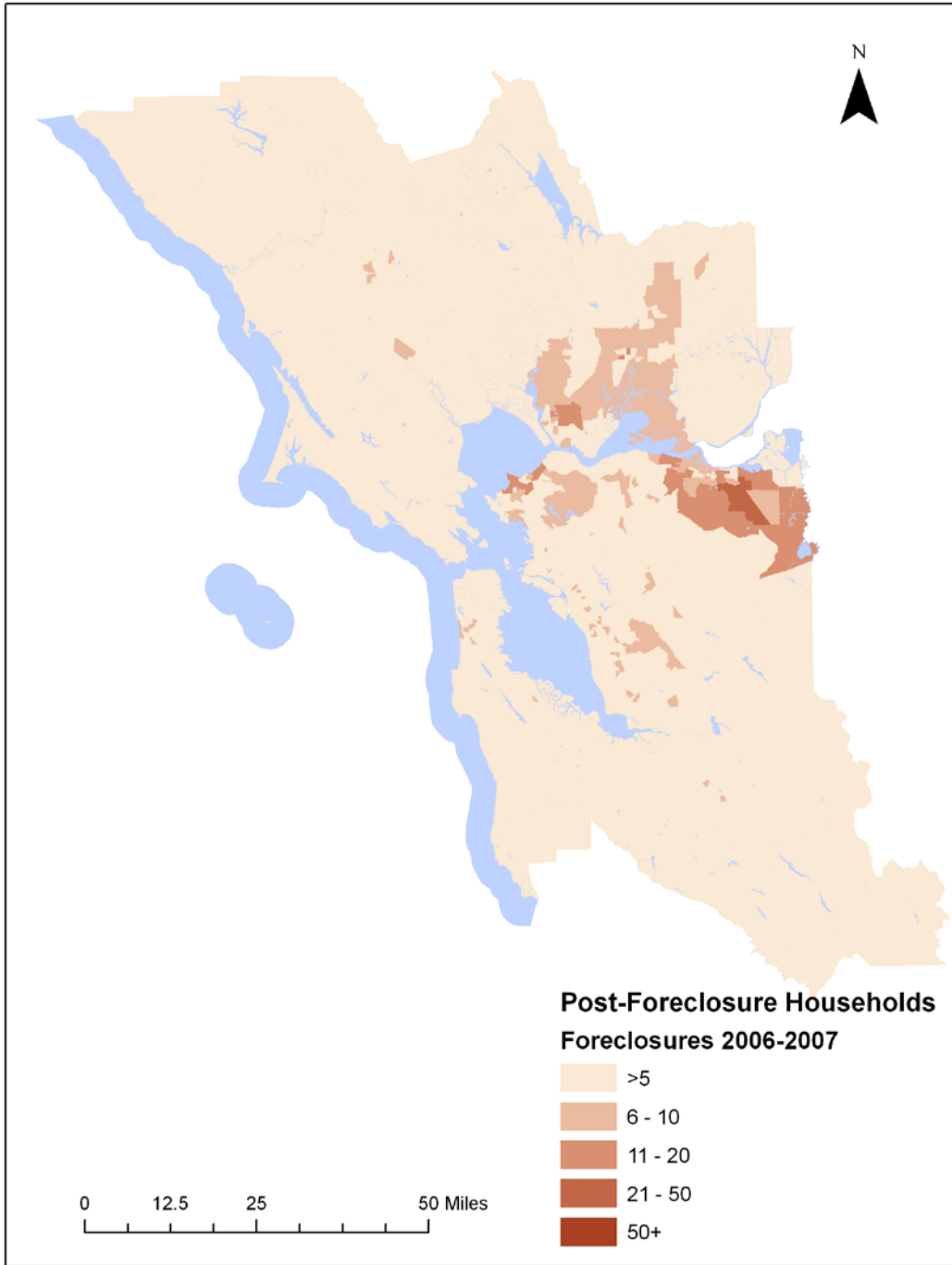
would be higher still. It is important to note that while some neighborhoods in these cities are severely impacted, there are entire counties in the region that have not had many foreclosures.

Post-Foreclosure Households in the San Francisco Bay Area, 2006-2009

When the USPS Change of Address data for foreclosed households is mapped, the results show post-foreclosure households are strikingly concentrated in specific tracts and cities, again with the same counties that have escaped the brunt of the foreclosure crisis housing few of the post-foreclosure households. Figures 3, 4, and 5 provide a time series of post-foreclosure households in the region.

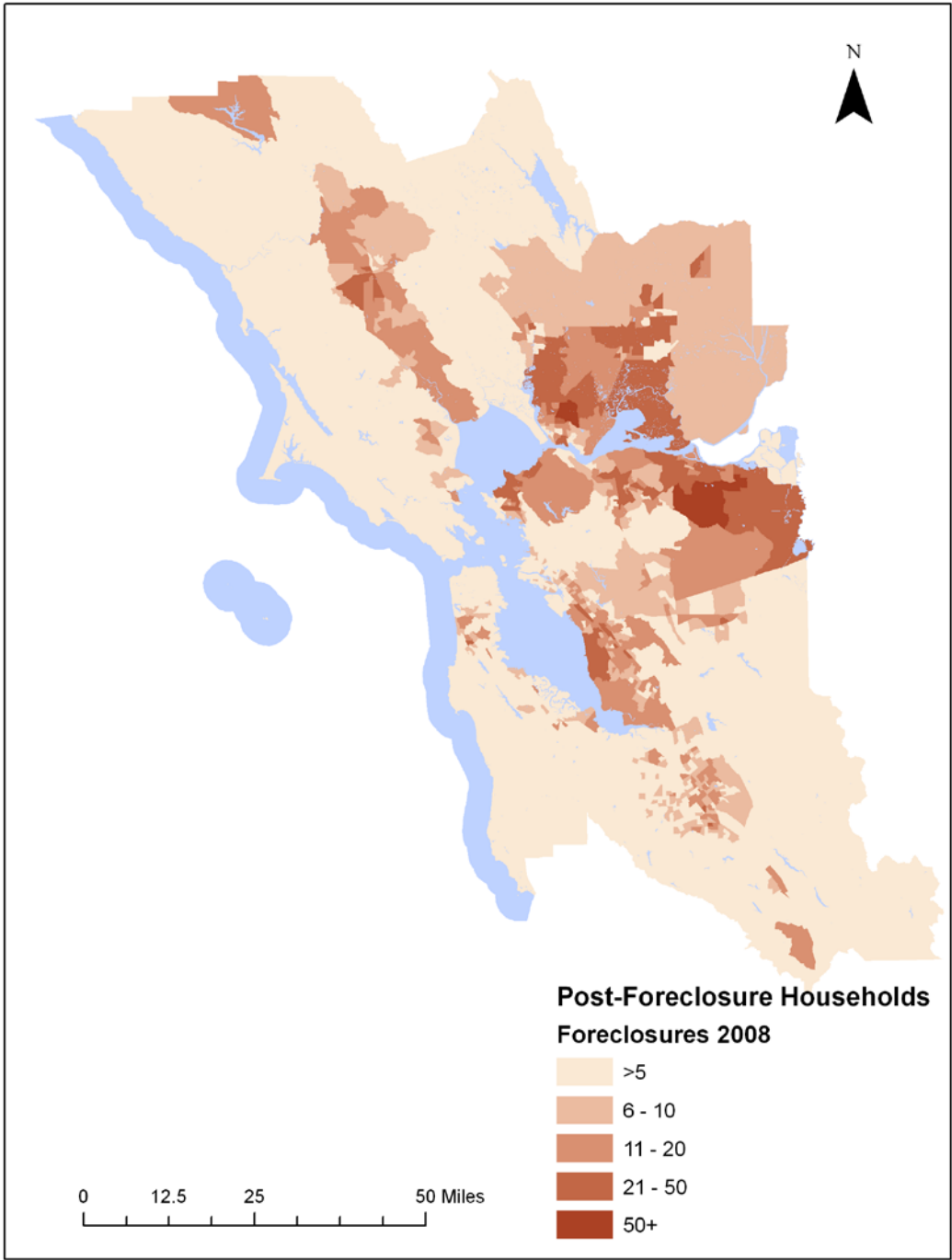
Figure 3, shows that at the beginning of the crisis, the majority of post-foreclosure households relocated in Eastern Contra Costa County, in the cities of Pittsburg, Antioch, Brentwood, and Oakley, or in Solano County in Vallejo or American Canyon. However, by 2008 and 2009 (Figures 4 and 5), we see that there are post-foreclosure households in cities across the region, but with continuing strong concentrations in the same Eastern Contra Costa County and Solano County cities. There are strikingly few post-foreclosure households who relocate to the job centers of San Francisco or the Peninsula/Silicon Valley, or to Marin County to the north. In all of these locations, housing costs are higher than the region's average.

Figure 6 shows a composite of all post-foreclosure households in 2010, from 2006-2009 foreclosures, by tract. In short, Figure 6 shows where households have gone after foreclosure. This map shows that, in general, the cities and neighborhoods hardest hit by foreclosures are the same cities and neighborhoods where households relocate, after foreclosure. In drilling down to the individual records in the data, we see that many homeowners stay within one to two miles of the foreclosed home they left behind, and some simply move around the corner from the house that was foreclosed upon. While there are many good reasons why that may be the case, such as keeping kids in the same schools, and maintaining social networks, many familiar with the recent migration of minority families to Bay Area's suburbs from urban areas might expect families to return to the urban core, but there was little evidence of this type of large-scale movement. It is important to note that during interviews, many former homeowners described moving several times in the years following foreclosure, so these maps represent a snapshot in time of where these households were located, and many may have continued to move one or more times since then. It appears post-foreclosure households have not, at least in the first several moves after foreclosure, come back to the cities in the urban core, like San Francisco, Oakland, or Berkeley, but are instead remaining in the suburbs, whether in older post-war suburbs like Hayward, Union City, or Newark in the East Bay or the suburbs with more recent housing development, like Vallejo and American Canyon in the North Bay, or Pittsburg and Antioch in the most eastern corner of the East Bay.



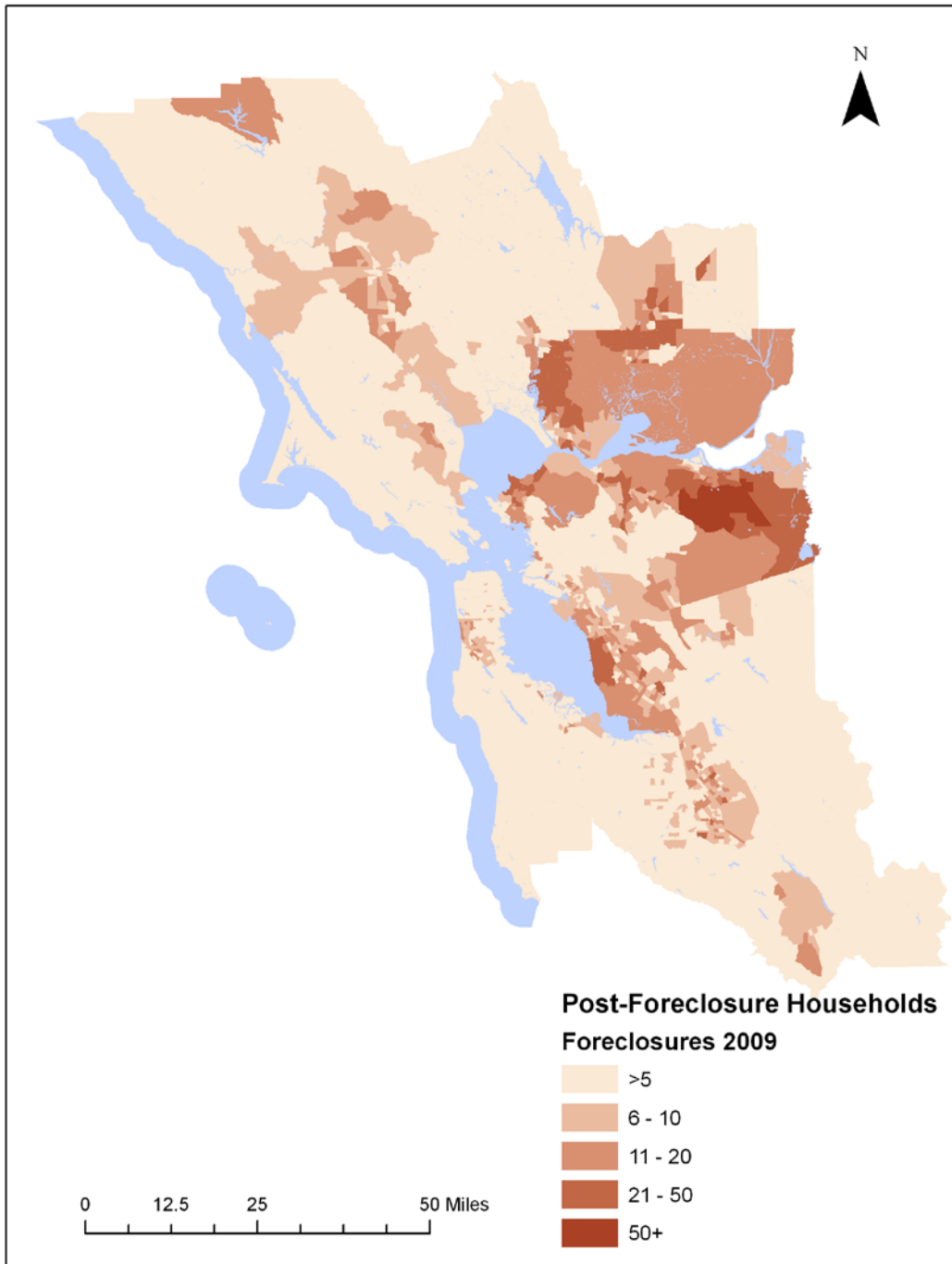
Map: Anne J. Martin, UC Berkeley
 Data Source: Notice of Trustee Sale, DataQuick; USPS Change of Address, Satori

Figure 2: Post-Foreclosure Households by Tract in July 2010, Foreclosed 2006-2007



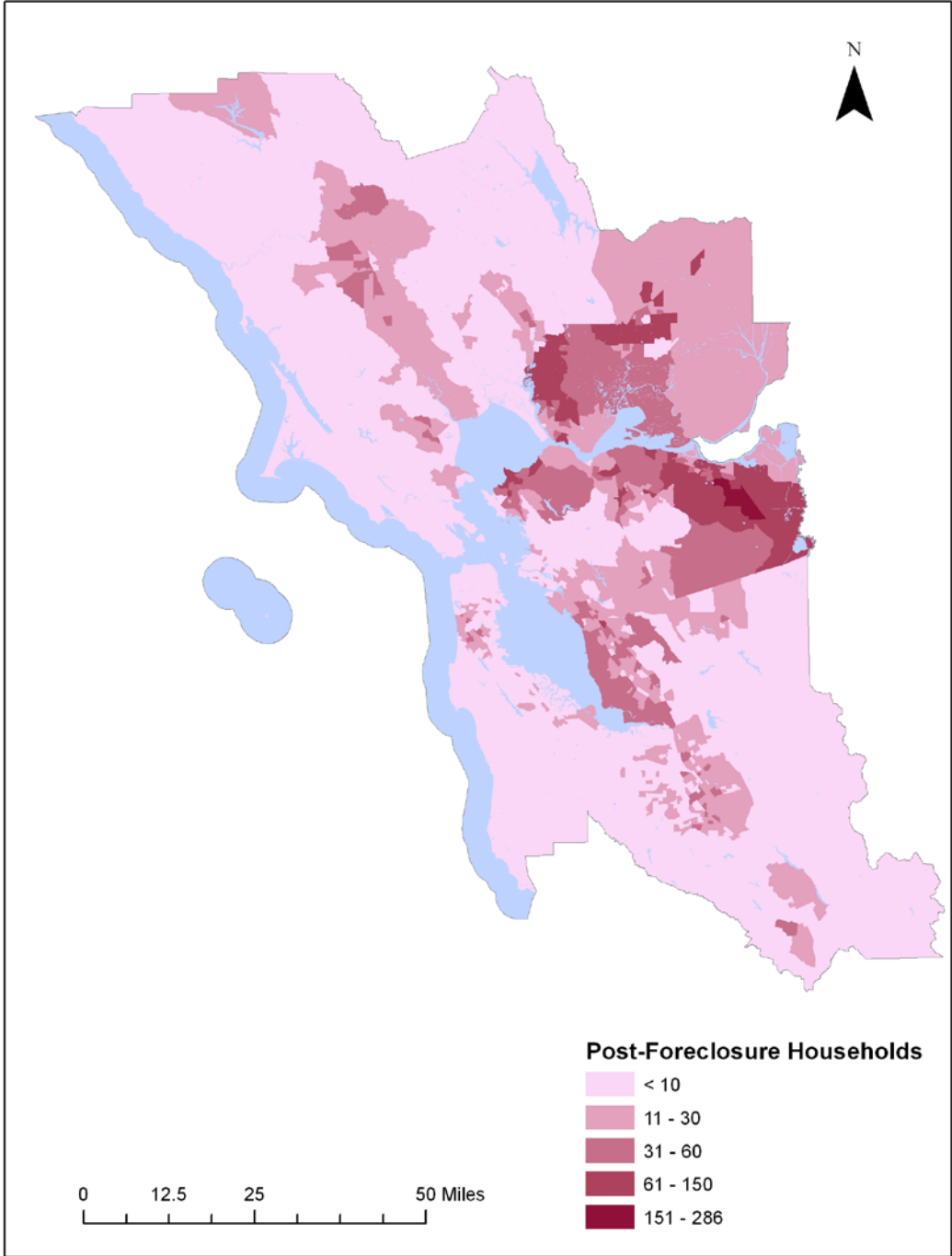
Map: Anne J. Martin, UC Berkeley
 Data Source: Notice of Trustee Sale, DataQuick; USPS Change of Address, Satori

Figure 3: Post-Foreclosure Households by Tract in July 2010, Foreclosed 2008



Map: Anne J. Martin, UC Berkeley
 Data Source: Notice of Trustee Sale, DataQuick; USPS Change of Address, Satori

Figure 4: Post-Foreclosure Households by Tract in July 2010, Foreclosed 2009



Map: Anne J. Martin, UC Berkeley
 Data Source: Notice of Trustee Sale, DataQuick; USPS Change of Address, Satori

Figure 5: Post-Foreclosure Households by Tract on July 2010, Foreclosed 2006-2009

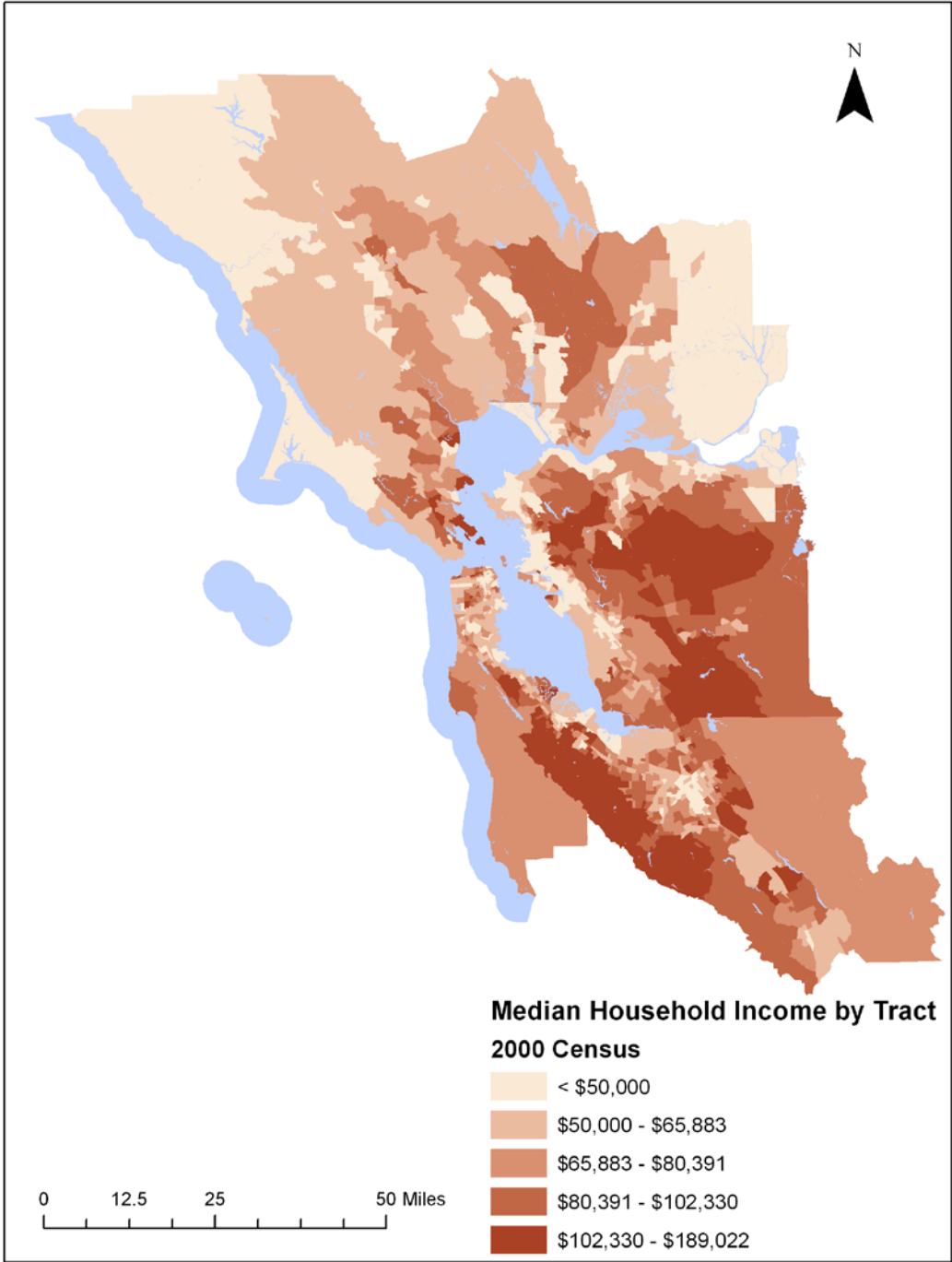
That the landscape of foreclosure and post-foreclosure are nearly identical raises concerns over the ability for local non-profit and social service providers to meet needs that arise for more vulnerable households, after foreclosure. A 2009 study examining regional resilience during the foreclosure crisis pointed out that housing and community-development non-profits are clustered in the older cities and suburbs of the San Francisco Bay Area, and newer suburbs and unincorporated cities may be less able to provide housing and community-development related services that ameliorate the foreclosure crisis for individuals and neighborhoods (Swanstrom et al. 2009). Particularly in older suburbs that have built social service infrastructure through the community development block grant programs, there may be more capacity to assist with the needs of hardest-hit families after foreclosure.

With so much research emphasis on the neighborhoods that were being impacted by foreclosures, from concerns over absentee landlords, to property values, to crime (Immergluck and Smith 2006a, Immergluck 2009, Swanstrom et al. 2009, Aalbers 2009, Newman 2009), I was concerned that the needs of foreclosed households and their new neighborhoods were not being considered. However, this research suggests that the NSP program, and organizations and local governments focusing on improving the neighborhoods hardest-hit by foreclosure may have the right geography, but may need to simply widen their scope to consider how their programs might also provide services that would benefit the neighborhoods as well as post-foreclosure households.

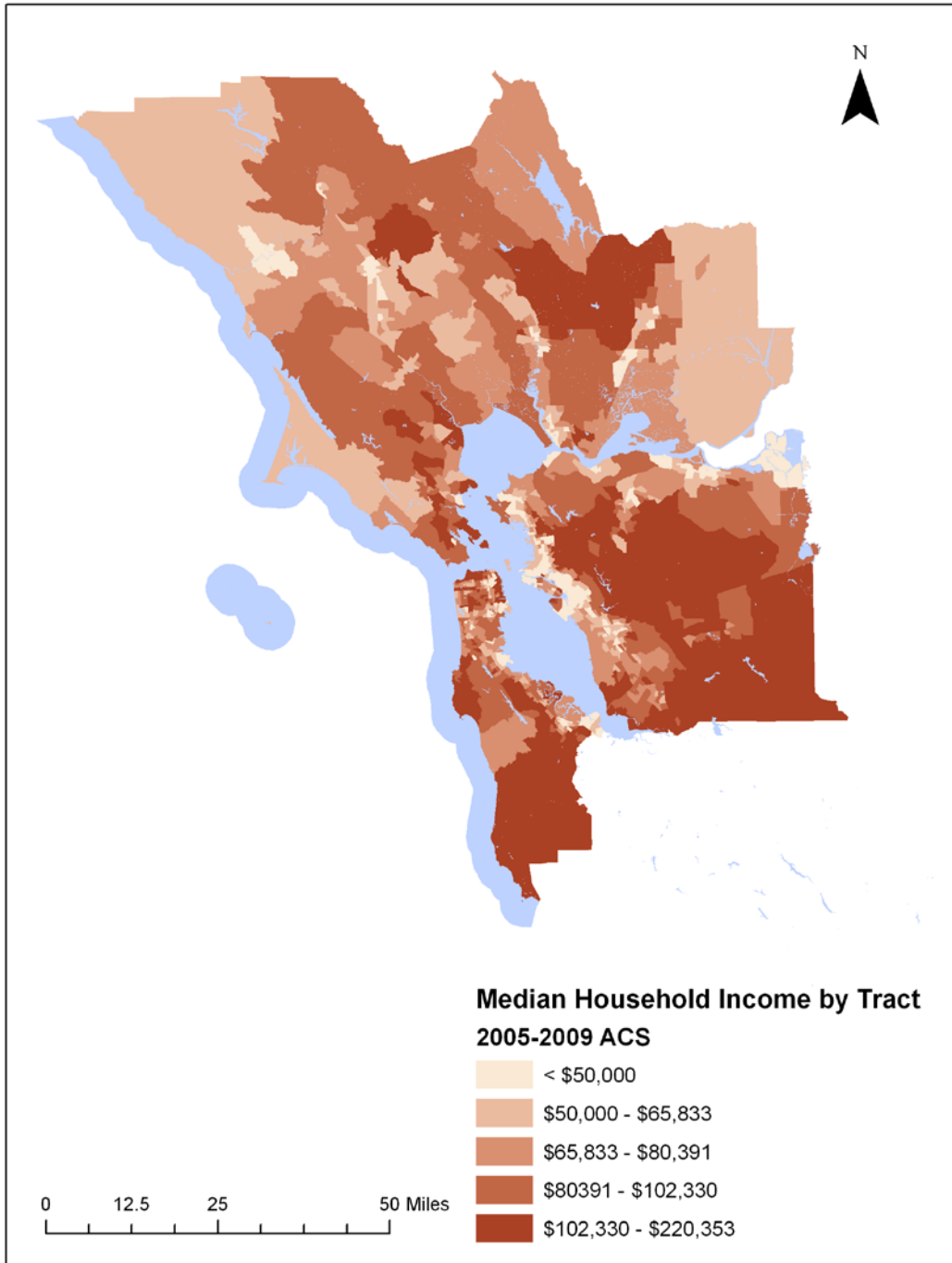
Shaping Neighborhoods: Census 2000 and American Community Survey 2005-2009

In order to better understand the neighborhoods where post-foreclosure households are relocating, I mapped data from the 2000 Census and the 2005-2009 American Community Survey (ACS). This allows a better understanding of how affluence and its converse, poverty, related to these neighborhoods. I analyzed neighborhood stability, looking at the change in owner-occupied housing and overall residential mobility within the last year.

Figures 7 and 8 examine how affluence, measured by the median household income, changes between 2000 and 2009. One of the striking changes is that many of the areas that have not been seriously impacted by foreclosures or post-foreclosure households appear to be becoming more affluent. There are increased numbers of households in upper-income categories in Marin, San Mateo County, Eastern Alameda County, and Central Contra Costa County, all areas where there have been relatively few foreclosures.



Map: Anne J. Martin, UC Berkeley
Figure 6: Median Household Income by Tract, 2000 Census

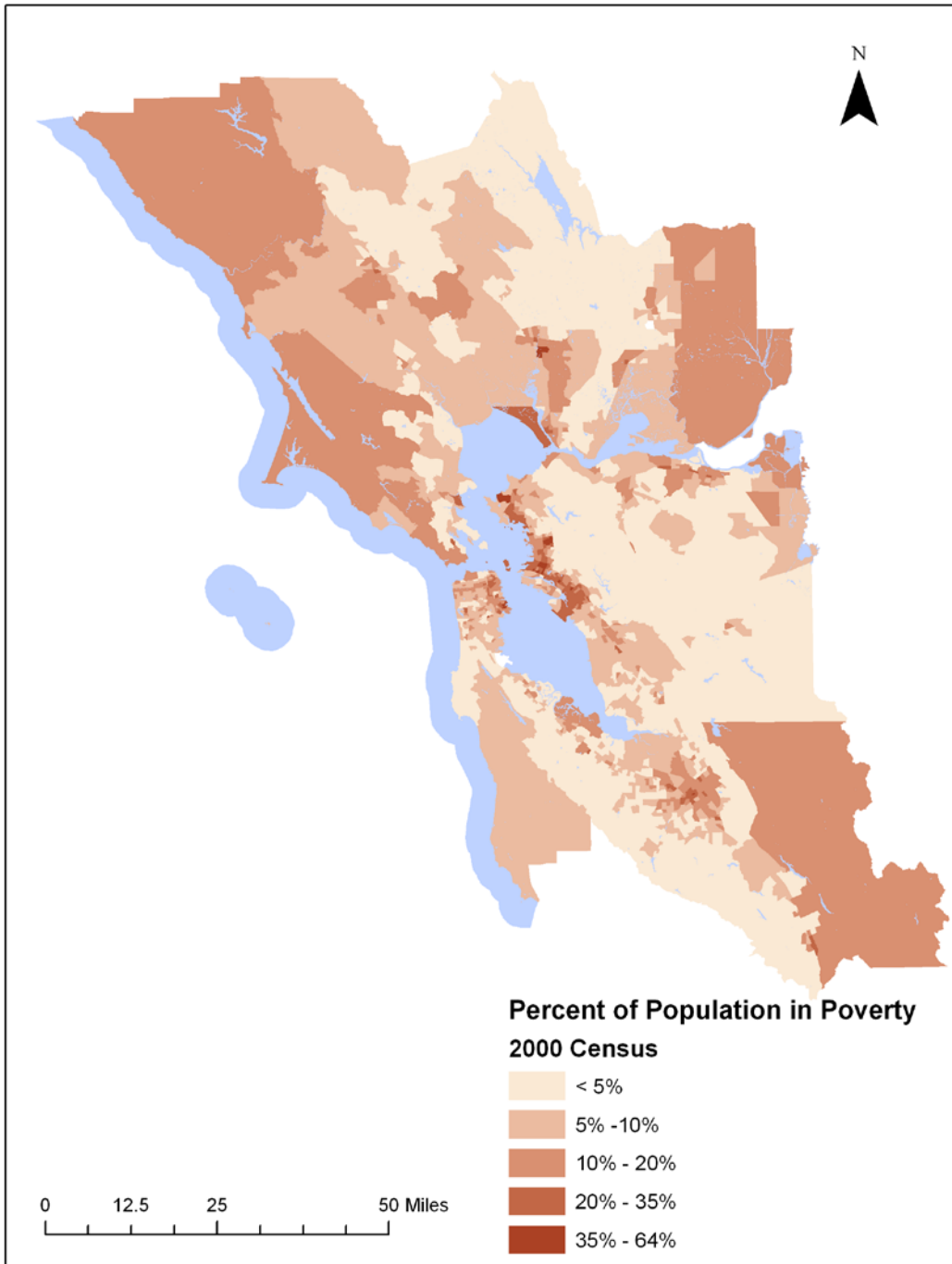


Map: Anne J. Martin, UC Berkeley

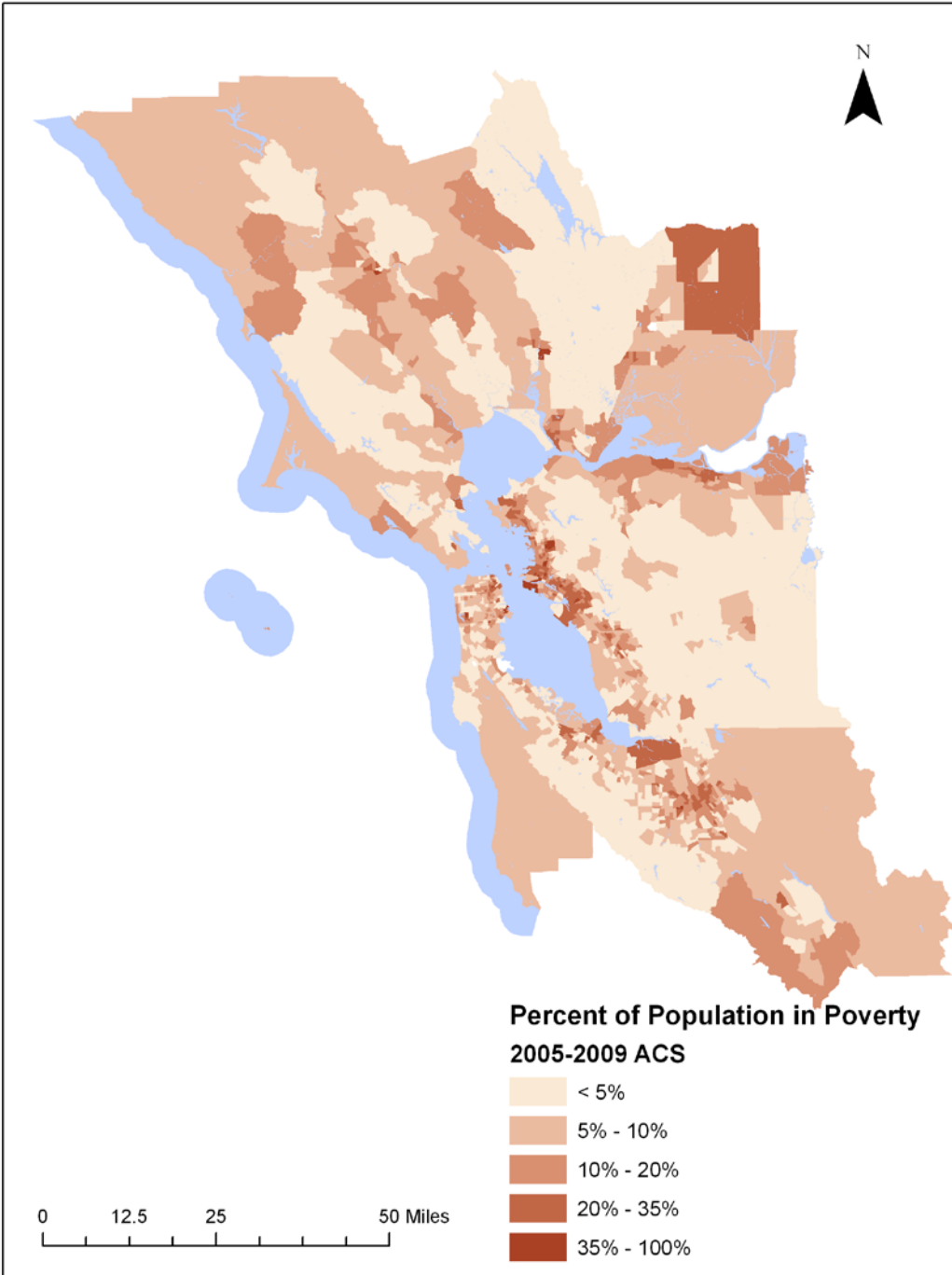
Figure 7: Median Household Income by Tract, 2005-2009 American Community Survey

In Figures 9 and 10, it appears that there has been a decrease of the percent of the population in poverty across most of the region, however, Oakland and Richmond, two of the cities of the urban core, appear to have the same or greater percent of the population in poverty in 2005-2009. The other place we see an increase in the percentage of the population in poverty is in the Pittsburgh/Antioch areas in Eastern Contra Costa County, in North San Jose in the South Bay, and in Dixon. We see the greatest overlap between high percentages of the population in poverty

and high rates of foreclosures and large numbers of post-foreclosure households in the Pittsburgh/Antioch areas.



Map: Anne J. Martin, UC Berkeley
Figure 8: Percent of Population in Poverty, 2000 Census

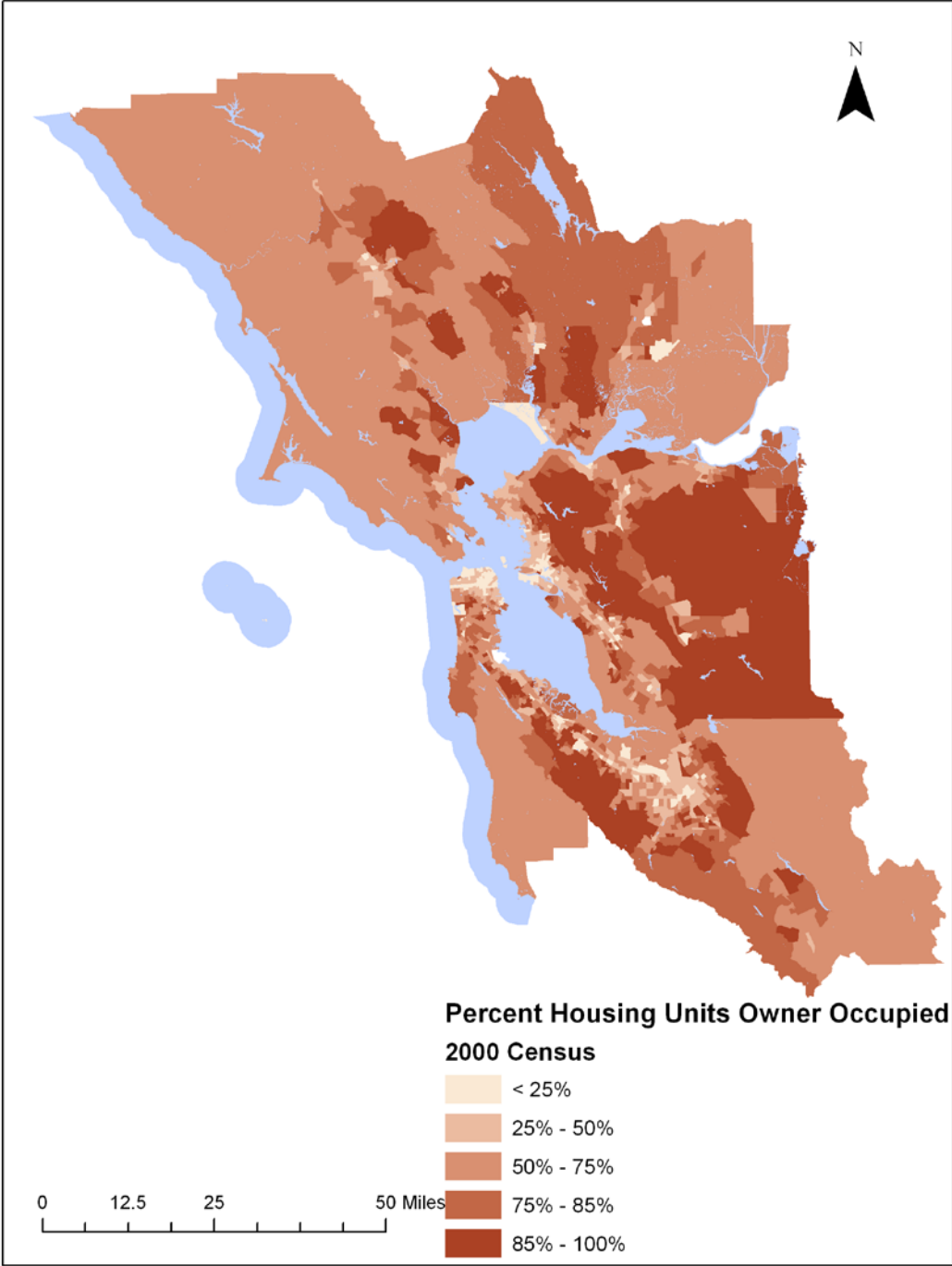


Map: Anne J. Martin, UC Berkeley

Figure 9: Percent of Population in Poverty by Tract, 2005-2009 American Community Survey

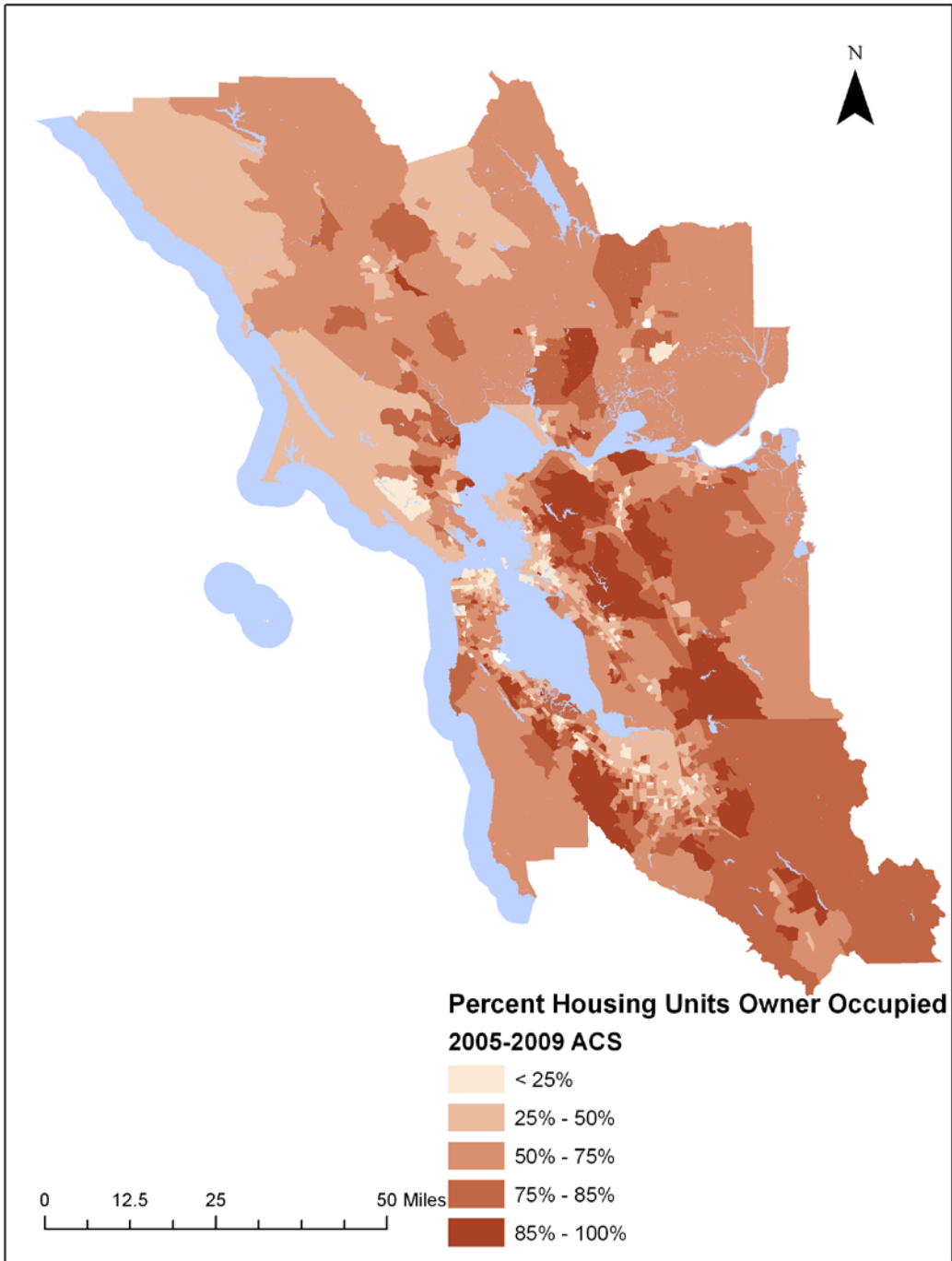
The change in owner-occupied housing shown in Figures 11 and 12 is surprising, as the change in owner-occupied housing seems to be small in terms of the region as a whole, and the most striking locations where there has been a reduction in the percentage of housing units that are owner-occupied do not match the locations that have been hard-hit by foreclosures. It appears that the biggest reduction in owner-occupied properties has been in Marin, Sonoma, and Napa counties, as well as Eastern Alameda County. These locations have not been impacted by

foreclosures, and as housing values have not dramatically fallen in these areas, it may be that more homeowners are able to either sell their homes or have short-sales approved by their lender to avoid foreclosure, when they experience employment shocks or have unsustainable mortgages. Future research examining the geography of short-sale would help us to understand if these homeownership exit strategies are spatially stratified.



Map: Anne J. Martin, UC Berkeley
Data Source: Notice of Trustee Sale, DataQuick; USPS Change of Address, Satori

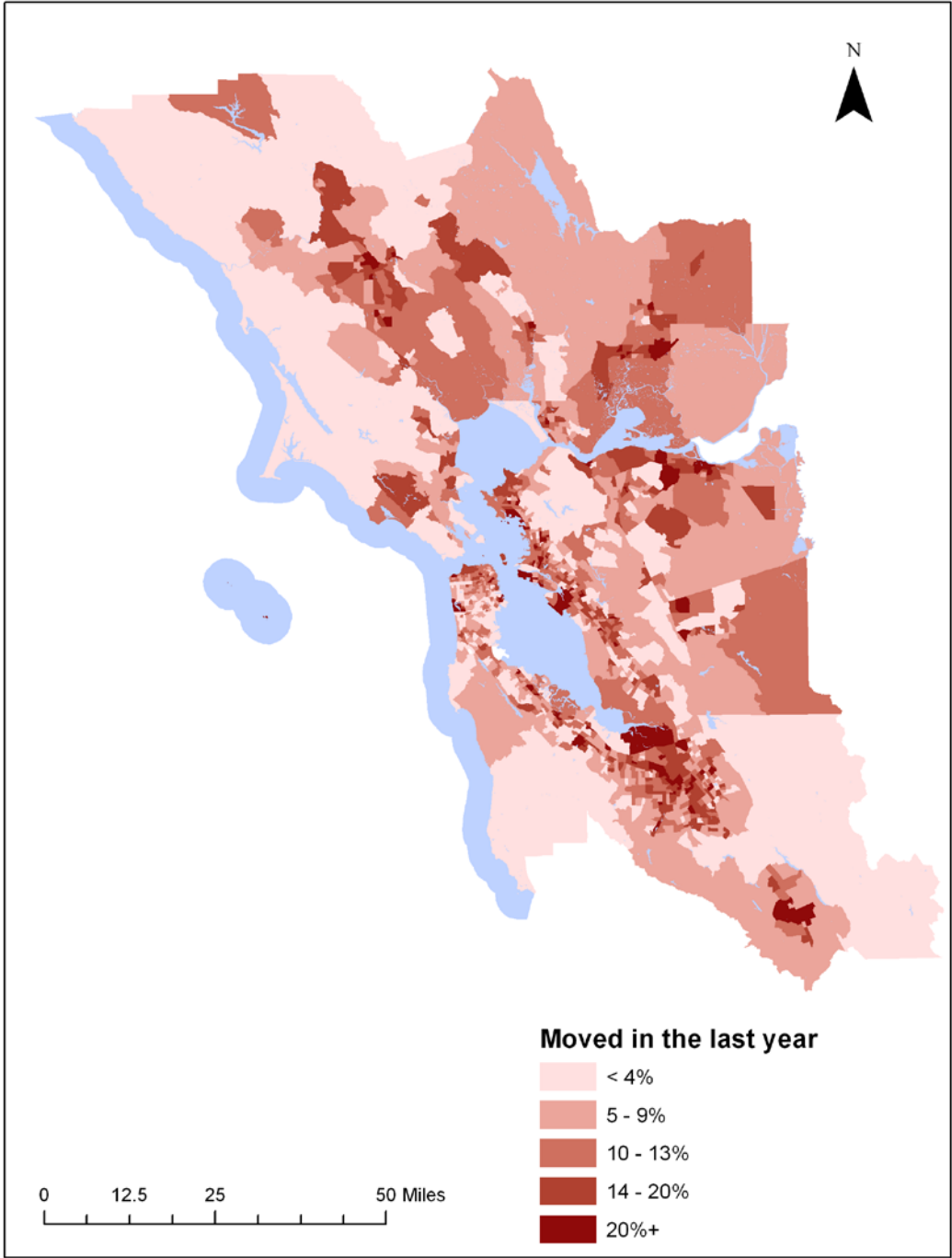
Figure 10: Percent of Housing Units Owner Occupied by Tract, 2000 Census



Map: Anne J. Martin, UC Berkeley

Figure 11: Percent of Housing Units Owner Occupied by Tract, 2005-2009 American Community Survey

I also examine neighborhood stability by analyzing the percent of residents that have moved in the last year, from the 2005-2009 ACS data. I find there is much higher mobility in the last year than from foreclosures alone. In only a few neighborhoods in San Jose, Oakland, Hayward, Pittsburg/Antioch, Pinole, and Fairfield do we see, in Figure 13, that foreclosures compose the majority of the mobility. For the rest of the region, the high rates of mobility do not appear to be directly related to foreclosure or post-foreclosure moves. For example, many Census tracts in San Francisco and Silicon Valley have high rates of moves in the last year during this period, which may be related to employment growth in the tech industry. When looking at Figures 1 and 2, it is immediately obvious that there were few foreclosures in San Francisco (aside from in Bayview/Hunter's Point) or Silicon Valley, and Figure 6 shows few post-foreclosure households moving in to these areas. In the East Bay, particularly in the city of Richmond, and post-war suburbs Hayward, Union City, and Newark in Western Alameda County, we see much more of a direct relationship between areas with high percentages of households who have moved in the past year, and the rate of foreclosures. In the neighborhoods where we see a high level of instability, as measured by a large percentage of households who have moved in the last year, that overlap with high numbers of post-foreclosure households, these neighborhoods are simultaneously those that are providing the catchment to large numbers of post-foreclosure households while also being some of the most volatile in terms of population change. These areas should be of particular concern for both service providers as needing additional support, as well as to researchers as locations to study for other concurrent related problems due to rapid demographic changes, such as in education.



Map: Anne J. Martin, UC Berkeley

Figure 12: All moves in the Last Year by Tract, 2005-2009 American Community Survey

Together, these measures of the affluence and poverty, as well as neighborhood stability demonstrate ways that foreclosures and post-foreclosure households are having an impact in some parts of the region, but we also see that the region is rapidly changing around these households. Particularly in terms of income, we see other areas of the region become more affluent around the neighborhoods that have been hard-hit by foreclosures or where post-foreclosure households have moved. A future comparative case study could be made examining

Hayward/Union City/Newark and Pittsburg/Antioch, as they differ in terms of neighborhood stability, with the Hayward area demonstrating greater neighborhood stability and a higher percentage of older, post-war housing, but otherwise both areas have both been impacted by the foreclosure crisis and post-foreclosure moves.

The discussion this far has examined where post-foreclosure households have moved in the Bay Area on an aggregate, regional level, but has not considered the mechanisms by which post-foreclosure households end up staying in the same town where they lost their home. The following section uses interview data to understand a significant way in which social meaning around foreclosure shapes many of the post-foreclosure moves, rather than a notion of housing choice determining household sorting.

Moving, in Their Words: Finding Sympathy and Finding Constraints

While the maps suggest a process of post-foreclosure households choosing to stay in their neighborhoods, interviews reveal it is important not to fall into a logic of choice and rational decision-making to understand the relocations faced by families after foreclosure. In the section that follows, I present three former homeowners discussing how they found a place to live after foreclosure, and how they negotiated their foreclosure-damaged credit scores by finding someone sympathetic to their foreclosure. For one woman, she was able to find someone in her social network to be the sympathetic landlord, but for the others, finding housing relied upon the generosity of strangers and their own willingness to divulge their foreclosure and difficult position. Many of these relocation stories reveal that landlords who either live in the same town as the foreclosure or have some shared common identity may be more likely to extend their sympathy. While the former homeowners are grateful for the personal connection and the place to live, they have all had to make difficult compromises in terms of the housing or location, in order to take what was offered.

Moving Home to Hard-Hit Hayward

Sophia is a Latina single mother of two teenage sons who lost her two-bedroom condo in San Ramon to foreclosure. Sophia's move from the quiet, affluent suburb to working-class post-war suburb of Hayward was made possible because of Sophia's social network. Originally from Hayward, she still has friends and family there and was able to use her social connections to find a sympathetic landlord who did not exclude her due to the foreclosure and damaged credit.

Sophia: Luckily I have a friend that manages the apartments I'm at, and she's like, 'just come in, I have an open...a vacant place,' that they were touching up. It wasn't ready, but it was almost ready.

Anne: So they didn't have to run your credit or anything?

Sophia: No, no, which was great. And I told her, you know, 'I'm moving because I'm foreclosed,' and she was like, 'Everyone is.' So they were understanding. They said more than half of their tenants are foreclosed.

Sophia's friend, the property manager, is not only sympathetic to her about the foreclosure, but to others who are strangers. By divulging her foreclosure status, Sophia was affirmed that she would not be rejected due to it, and discovered that she was not alone in her situation. Hayward, where the apartment complex is located, is one of the cities hardest hit by foreclosure in the Bay Area. Landlords in a hard-hit city may find themselves changing the rules to accommodate those looking for housing after foreclosure, much as Sophia's friend has done. While Sophia and her two sons found a place to move with sympathetic management and her family nearby, Sophia laments that the schools are not as good in Hayward. As she had to transfer them both to new schools during the middle of the school year, she's concerned that the change hurt her 16-year-old's academic performance during his Senior year. They moved from a two-bedroom condo, where the boys shared a room, to a one-bedroom apartment where she shares the bedroom with the boys, and she plans to save for a deposit for a larger one-bedroom. "I miss my room," she says and laughs. "I miss my privacy and my space. That's probably what I miss the most." Sophia's move across the region was facilitated by use of her social network to secure housing, but the housing is not what she would choose. Sophia freely admits that this apartment will likely only be a stepping stone to housing that better meets her households' needs, once her financial situation has stabilized, freeing a one-bedroom in hard-hit Hayward for perhaps another post-foreclosure family.

Staying in Hayward

Lynne, an African-American woman in her 50's, was living in the Hayward home that her parents bought in the 1960s. She had refinanced in 2006 with an adjustable-rate mortgage to do some work on the house, and her attempts to subsequently refinance or get a loan modification were repeatedly denied or postponed. The overwhelming stress of her situation started to deteriorate her health, and during the process of trying to work with the bank to modify her loan, she was diagnosed with breast cancer. While she thought Wells Fargo was continuing to work with her, she only found out that her house was sold at auction when the Realtor who bought it came to the house to introduce himself. Lynne found herself sick with cancer and forced to move from her home; she was able to negotiate with the new owner several months' time to move out of her home, but the process of finding a new place to live was very difficult.

Lynne: But the problem was, two years working with Wells Fargo and getting farther behind on your mortgage destroys your credit. So I had no credit. No credit to get no apartment. People want people with good credit.

Anne: So did you look at apartments?

Lynne: I did, I was out looking at apartments, and I got turned down a lot.

Anne: How many applications did you put in?

Lynne: Oh, man, I'd say twelve, minimum. Twelve. By now I'm panicking because I know I have to be out, but I found a wonderful young woman who heard my story, I just told her the truth, you know, what it was. She said, 'well, don't worry, I don't want even an application, and here's the keys.' So that's how I ended up *with* something. Nothing, I believe, just the grace of God to provide for my needs.

For Lynne, it was only after a long string of rejections from apartments in the more distant suburbs where she was hoping to relocate that she finally found someone locally who sympathized with her. The woman who owned the condo in Hayward extended the offer to Lynne, after she divulged her foreclosure story. The two were both women homeowners in the same hard-hit town of Hayward; shared gender and location may have helped to foster a sympathetic response to Lynne's story. Finding this sympathy, for Lynne, not only solved her immediate housing need, but also bolstered her faith in God, that after surviving cancer and the foreclosure, that she was able to find the sympathetic person who helped her meet her needs.

While staying in Hayward allowed Lynne to remain in a familiar place where she is active in her church community, she is still conflicted about remaining in Hayward in the long term. For Lynne, the break in continuity of homeownership and being displaced from her childhood home opened up both real and imagined possibilities of further mobility, although so far, her attempts to relocate outside of Hayward have not been realized.

Lynne: It's right here in Hayward. Right downtown here. So that was really nice, and I'm still in my area, still around the things I know because I grew up here, and so it was nice. I looked out of the area, because I thought I really wanted to get away, I didn't want to be close or nothing, it just never worked out.

Anne: Where were you looking?

Lynne: Like Antioch, just further...Pittsburg or Walnut Creek. I wanted to just be away...from this area. None of those ever worked out. So I guess it wasn't meant to be. I tried... (laughs) But you know, I'm winning, it's only a year lease. Maybe I want to travel. Maybe I want to live in Dallas. I can! Maybe I want to go somewhere else. Maybe I want to work for the airline.

While the Hayward rental met Lynne's immediate need for housing, accepting the housing came at a huge personal price for her, which she had not reconciled, and which she only revealed towards the end of the interview.

Lynne: I had two wonderful dogs I had to give back to the animal shelter, the SPCA, because I could not take them with me to the apartment. They were *big* dogs, so... It's a loss. It's a complete loss.

It was a terrible day. Hard, hard, hard, hard day to have to surrender my animals. That's what this does. It was a terrible... Finding a place was hard enough, finding a place that took pets was nearly impossible. Nearly impossible. Even though in my apartment, they

do allow little animals, but my animals weren't little, and it would just be wrong to put a big dog in a little area with just a balcony all day, and they had a whole yard. They had the full run of the yard, and the garage, and the inside of the house, they had the whole thing.

The condo building that Lynne moved into had a companion animal size restriction of 30 pounds, and neither her senior 120-pound Rottweiler-mix nor her 60-pound Pit bull-mix qualified. And she describes the way that her companion animals had access to the house, yard, and garage at her foreclosed house, and how even if the condo didn't prohibit them, she felt that her new housing would not meet their needs. The dogs had provided Lynne much support during her cancer treatment. She related that the only way she was able to cope with this loss was to not think or talk too much about them, because giving up her beloved dogs hurt her so badly. For Lynne, finding the sympathetic person to rent to her was key in meeting her immediate needs, and to support her self-esteem and her personal faith. However, the lack of housing choice due to her foreclosure-damaged credit prevented her from being able to meet all of her needs, and came at a huge personal cost of losing her beloved dogs and having to return them to the SPCA.²

Staying in Antioch

Juliana, a Latina in her 40's, and her husband, children, and niece had a similarly difficult time in finding someone who would rent to them. After rejections for months, Juliana's strategy for looking for housing was ultimately successful when she was upfront and direct in divulging her foreclosure and credit, and found a sympathetic Realtor who was able to secure a rental for her family.

Juliana: I try for 3 or 4 months looking for a rent house, nobody want to rent me a house.

Anne: Why?

Juliana: Because of the credit. Even if you explain to them. It was when I start thinking about it, now it's another thing. And I explained to them, and it worked. One day, I said, 'God, you already take the house from me. At least give me a chance to live in a place.' Cause what I gonna do? Most of our family, or his [her husband's] family that he have around, he was in the same boat. No credit. Because of the same thing. They already lose three houses, one of them.

So, I was in front of the church when I see the sign of a realtor, and it was those kinds of signs, like you see. And I stopped in the door, and I said, 'I want to rent a house, and I know you rent houses, but I want to tell you before you tell me that you're gonna run the credit, my credit's ruined.' Everything is going to be worst [*sic*] than what I expect, because, by that time, I don't even pay the credit cards or anything. Because of the money - it's not because I don't want to do it, you know? They said... 'I have the record,

² As I volunteer at a monthly event at this SPCA, I was able to confirm with shelter staff with the description of the dogs that both dogs were adopted into new homes, and were not euthanized.

because they already charged me three times to run the credit, so I don't want to pay for that anymore. I give you the record, see what it was from the time I told you that we started losing the house, and see how it was in the back, that's the only way you're gonna trust me. You want to give me a chance? Tell me right now, if not, don't make me lose my time. Because I have to rent a house as soon as I can, because the house is going to be for sale.'

And I remember he told me, 'You know what, I think you're telling me the truth. Let me see how many houses I have, and which one you like.' I don't even look for any house, I just want *one*. So I don't even care if they're big or small. But later on, my daughter was like, 'Mom, why you pick the worst house. Mom, this house is ugly, it's old. Everything is...' And it's true. But it was like, you know, if I don't get this one, I don't know I'll get anything.

Similar to Lynne, the difficulty in finding housing forced Juliana to rely on her personal faith in God that somehow she would survive. In being direct and upfront about her foreclosure, it allowed for the sympathetic response to override the administrative process of credit checks that was leading to her denial of housing. Similarly to Lynne, Juliana found the sympathetic landlord local to the house she was losing. Juliana saw the Realtor's sign outside of her church in Antioch, and their new rental home was only blocks from their previous home. But Juliana made it clear that this was not the house that her family would *choose*, as it's "ugly" and "old," and located in a working-class neighborhood that has more crime, although it is only blocks from their former middle-class neighborhood. She expressed that the house also felt very small for her family, and the teenage children no longer brought their friends to the house to hang out because the house was so much smaller, so Juliana felt that the new house had a big impact on their family life, and her ability to monitor her teenagers' activities.

For Sophia, Lynne, and Juliana finding a new place to live depended upon a sympathetic person to offer them a rental, in spite of their poor credit and foreclosure. In fact, it was only when freely sharing that information up front that they were able to find someone who could respond to their needs. Those who did extend sympathetic housing offers were more likely to have shared characteristics, whether in terms of gender or location. However, in each of these cases, the housing offered was not what they would have chosen, if they were able to seek housing that met their family's needs. Due to this, each of them discussed how they would like to move away from their current rental, and anticipated moving in the next year or two.

Conclusion

In the San Francisco Bay Area region, the maps show that there is a strong tendency for post-foreclosure households to relocate in areas hard-hit by foreclosures, often relocating nearby where one was foreclosed upon. The interviews, in which former homeowners describe how they found housing either in staying or moving across the region, identify social mechanisms whereby the search for housing post-foreclosure, due to badly damaged credit, becomes more about searching for an understanding landlord, rather than searching for desirable housing or

moving to a desirable location. Both using social ties and invoking the kindness of strangers are utilized as strategies for trying to secure post-foreclosure housing.

The maps of post-foreclosure households and the 2000 Census and 2005-2009 American Community Survey data suggest that the mobility of post-foreclosure households is a small factor in the overall forces shaping the geography of income and neighborhood stability in the region, but that neighborhoods where post-foreclosure households live have seen decreased household incomes between 2000-2009, and the neighborhood stability varies.

The discussion of future moves in the interview data provides an important reminder that the locations of these post-foreclosure families displayed in the maps is a snapshot in time in July, 2010. The maps display important tendencies towards staying nearby the town one was foreclosed in, particularly for the first few years after foreclosure. It would be interesting to run the same 2006-2009 foreclosed households through the Change of Address database in several years to see whether the same families continue to stay in the same vicinity of the house they lost to foreclosure, even in subsequent relocations, however, over time, there is a loss of new addresses in the dataset as people move multiple times and do not always register new addresses.

In the Bay Area, families who would never imagine that they would lose their homes have found themselves losing their homes, due to high-cost loans, a loss in employment, falling home values, and widespread inability to secure loan modifications. Their experiences of having difficulty in securing housing due to damaged credit after foreclosure should lead us to ask whether credit is the appropriate metric for landlords to use in screening all tenants, or whether an alternate system of character-checking might be offered (or even mandated) for households who have been through foreclosure. Relying more on personal references, payment histories from before the foreclosure, and allowing former homeowners to present a narrative description about their foreclosure and how their finances are or are not affected by the foreclosure may be more useful in evaluating potential tenants than evaluating them by a foreclosure-damaged credit score alone. Many former homeowners approach Realtors for help in finding rental housing, rather than solely looking through rental listings or approaching leasing offices at apartment complexes. Real estate professionals in hard-hit areas may choose to advertise their services in specializing in finding rentals for post-foreclosure households, and provide a much needed link between these families and landlords that will accept them regardless of their credit. There is a high rate of companion animal ownership among homeowners in the United States, and those interviewed who lived with companion animals expressed their desires to live where their animals could remain with them post-foreclosure. Increasing the pool of pet-friendly rental housing would create greater stability within households, and may decrease the desire for repeat moves after foreclosure, potentially helping to stabilize hard-hit neighborhoods. This would also help reduce the volume of animals surrendered to animal shelters in hardest-hit areas, due to foreclosure. Also, we should consider how programs like NSP and local non-profit programs might be expanded in cities hard-hit by foreclosure to try to ameliorate some of the needs of the post-foreclosure households that have relocated nearby. As families with children undergo the stress of foreclosure and potentially repeated moves, schools in these hard-hit areas may find it more difficult to keep these students up to speed. Any assistance in helping these households move to housing that meets their needs will reduce the number of repeat moves after foreclosure. Post-foreclosure households are not gone; they are amongst us, and if we can consider how

policy and programs will affect not only their ability to both meet their housing needs and have some choice in housing, our communities will become more stable and some of the suffering during the foreclosure process can be relieved.

Chapter 5: Concluding - Losing a Home

“And I think that's the lesson is - you know, 'cause you never truly own your home, you're still gonna pay taxes until you die, it may be a smaller chunk, but... at the end of the day, I mean it's just where you lay your head and raise your family and spend your life. So it was a crazy time where housing became an investment instead of just a home.”

-Dawson

To conclude, I discuss the limits of foreclosure prevention as experienced by those who have lost their homes. There has not been a strong enough political will to pass foreclosure prevention initiatives that force lenders to participate, leaving foreclosure as the only guaranteed way to exit homeownership when it is no longer sustainable, but creating a web of financial, social, and economic consequences as discussed in the preceding chapters.

For households who have been through foreclosure, losing a home means more than simply a loss of a house or residence and being displaced. Foreclosure prevention efforts through policy, non-profits, and the homeowners themselves failed. The process of foreclosure creates frustration with banks, mortgage lenders, government policy, and non-profit foreclosure prevention assistance. Some former homeowners were able to successfully get legal advice they found useful from non-profits, attorney friends, or in paying for legal services, while others paid money they could not afford and found little help from attorneys.

Those interviewed in this study described an incredible frustration with banks in their lack of ability to treat individuals with dignity, respect, and offer meaningful alternatives to foreclosure, frustration with policy makers in their lack of ability to develop a government response to the crisis. People feel entitled to assistance through federal mortgage modification programs and foreclosure prevention initiatives described in the press, such as Making Home Affordable/Home Affordable Modification Program (HAMP), but when they are unable to access these programs through their lenders, or are denied loan modifications when they believe they should qualify, creates a culture of greater distrust of financial and government institutions. There is little transparency by financial institutions about an individual's foreclosure and the likelihood of preventing that outcome. Many former homeowners feel that their government has failed them, and they feel strongly that their lender has failed them; feelings of distrust that will not be reconciled overnight.

Non-profit Foreclosure Prevention

Non-profits have played a large role in trying to ameliorate the foreclosure crisis, most often through providing foreclosure prevention counseling, funded through the Neighborhood Stabilization Program, Community Development Block Grants, local city funding, and charitable funding. In this study, I both spoke with former homeowners who utilized non-profits' services and still lost their homes, as well as those who did not utilize the services, but wondered if it might have changed their outcome. Bonnie describes her experience with the Neighborhood

Assistance Corporation of America (NACA), a national non-profit that has held foreclosure prevention counseling workshops in cities across the country:

Bonnie: ...She put me in touch with NACA, and that – I think they may have gotten me maybe one postponement. But that was a frustrating process too because I had to physically go down there to see someone at NACA's offices here in Oakland. Because trying to do it over the phone did not work at all. I went to their initial workshop here in Oakland, and that was when it hit me that this is really big, to see all those people in one place with firsts and seconds on their houses and all the different stories was just amazing. She put me in touch eventually with a law group in downtown Oakland.

While Bonnie was able to get a postponement of the foreclosure through NACA, they were unable to help her get the modification she needed. She met with attorneys to pursue a legal challenge to the foreclosure, paying for a legal service she could not really afford, which also did not save her house from foreclosure. One of the benefits of going to the NACA workshop for Bonnie, was realizing that she was not alone in being foreclosed upon, but this did not materially help her.

Dawn also accessed non-profit foreclosure prevention counseling through a local non-profit, however, she too turned to legal services after this was not successful. Dawn utilized a non-profit legal resource, and while she did not prevent foreclosure, she was provided with clear legal advice on how to proceed with the foreclosure, and ultimately received a small cash settlement from the bank through this non-profit resource.

Dawn: And so luckily, *thank God*, there was some money going to the Unity Council, and HERA (Housing and Economic Rights Advocates), and HERA was the one that saved my life. The Unity Council, they were really sweet and they meant well, and I think they helped a lot of people. But when you actually gave them the paperwork to do the follow-through, they were just as stuck as the other guy that we were working with. There was some follow up from them, so... What I really needed was a lawyer, because I needed to figure out if I would owe them money, if I would owe taxes, could I just walk away, would I need to do bankruptcy, all this stuff.

Anne: Did the Unity Council refer you to HERA? How did you find HERA?

Dawn: I can't remember. I think I got referred to Unity Council from the government website, from HUD. And I also got referred to the Liberty people through that way, too. So when the Liberty people couldn't help me, I called Unity Council- and also because the Unity Council is in my neighborhood and I work with them sometimes for my job.

So I got a flyer that said there was going to be a meeting and my partner and I went. Everyone in the room was Latino except for me and my partner and this other white couple, which was really weird, it was just really weird because the pitch he was giving was, it's okay - because I think the Latino community they have a lot of pride, and like for them to foreclose it was a big deal. He was telling them it's not worth your health or all of your savings. You're in America, and in America there are laws to protect you and

you can just walk away. And I was totally stunned by that. But it was good for me to hear that, too. The really weird thing is that we found out that that other couple, the white couple, when he was saying it's not worth your health, I guess that that guy ended up having a heart attack and dying. He told us that, when we went in to meet with him and give him all the paperwork.

Similarly to Bonnie's situation, Dawn felt like the services available in non-profit foreclosure prevention counseling would not save her house, and as they were not able to give her answers to her legal questions, she sought legal advice. As Dawn was able to utilize a free non-profit legal resource, unlike Bonnie, she had significantly less cost in receiving legal guidance, and ultimately received a greater personal benefit. When the second mortgage lender was illegally harassing Dawn, she contacted the non-profit firm HERA again, who put her in contact with an attorney coordinating a class-action suit against Wells Fargo. Wells Fargo settled and Dawn received \$5,000. While Bonnie and Dawn utilized non-profit foreclosure prevention counseling, they questioned the overall value of the foreclosure prevention assistance provided.

Yvonne and Neeta owned several investment rental properties, in addition to their own home, but one at a time lost each one to foreclosure. At the time of the interview, they had lost their own home to foreclosure, and had moved into the final rental property they owned, and were uncertain whether they would be able to prevent the foreclosure process which had already begun on this final property. They briefly voiced their frustration with the limitations of the non-profit foreclosure prevention assistance through NACA, as at first, their investment properties first limited their ability to receive help, and now, they were limited by old information in their records.

Neeta: We're working with NACA.

Yvonne: Well, we're trying to work with NACA.

Anne: When did you first get involved with NACA?

Neeta: Oh, we heard about them a couple years ago, they wouldn't work with us because we had two mortgages - no, we had three mortgages in our name. And then we got down to two mortgages, and now Neeta just have to get that paperwork from the County Recorder, because the credit report, it shows three mortgages.

Yvonne: This is after we've been talking to them for months.

Neeta: So, it's very frustrating working with them.

Other former homeowners believed that non-profits would not be able to help them, and did not access non-profit resources during the foreclosure process. Particularly for professionals who previously earned higher than the region's median salary, and had good customer experiences in banking in the past, there was an expectation that they should be able to solve their own problems directly with their lender. Solano, who was laid off from his job when the company he

worked for relocated overseas, describes his skepticism of non-profit foreclosure prevention assistance:

Anne: Yeah, so other than selling your stocks and financially trying to fix that on your end - and, you said that the lender wasn't much help - did you interact with any community agencies or organizations that tried to help do modifications, or anything like that?

Solano: No, at that point in time, there really wasn't a whole lot going on. I did pick up the phone and call some credit counselor, but there was no high credit card. They only want to help people who were over \$20,000 in credit card debt or \$10,000--I don't have that. The housing people, loan modification, I didn't try calling those folks 'cause I really didn't... I guess there was kind of a distrust in me to try to believe that they would actually help me, that I couldn't do...if they're not gonna talk to me, the direct person, how is a third party gonna help? That was my thought process. And I tried to go to, at Wells, all the higher-ups. But the managers, they didn't want to have nothing of it. I mean I was a bank customer. It ended up--eventually, it ended up being just--after this was all said and done, you know... I was a customer of Wells. I'm no longer a customer of Wells.

Bonnie, Dawn, Yvonne and Neeta all describe how they attempted to utilize non-profit foreclosure prevention services, and how this did not change their outcomes. For Solano, while he called a credit counseling agency, they could only help with consumer credit debts, not in getting loan modifications, and his experience there led him to feel that housing non-profits would also not be able to help him. He believed that he should be able to talk to the bank and work out his mortgage problems directly with the bank, and be treated like a valued customer.

While this study focuses only on those who went through foreclosure, and does not include any success stories of loan modification, this perspective is valuable as there are significantly more homeowners than have been foreclosed than have had successful long-term loan modifications. One question that this study raised was why there has been such an effort to put the responsibility for loan modifications onto non-profits, rather than on creating and mandating effective foreclosure prevention divisions within the lender or servicer? As every former homeowner interviewed here first approached their lender for assistance, it would be streamlined for the borrower in distress if there was an accountable, transparent, good faith system of foreclosure prevention internal to the mortgage lenders' systems, rather than external to it. If there was a transparent, systematic way of preventing foreclosure, the media could help to carry this message to borrowers in distress; nearly everyone interviewed said that their most important source of information on foreclosure came from what they saw in the media.

Lending and Borrowing in a Time of Price Decline

One of the most pernicious aspects of the foreclosure crisis is that the crisis was triggered by falling home values. Before the crisis, there had been a shared expectation and faith in property appreciation, by those inside the mortgage and finance industries and those who purchased properties. This shared expectation allowed borrowers to take out loans that would not be

financially sustainable, if they could not be refinanced when property values increased. The interviews here suggest that possibility was rarely given serious consideration. In California's San Francisco Bay Area, where property values had increased rapidly since the 1980s, these expectations of future refinance and property value increase were shared by everyone who participated in real estate purchases. Falling property values created a domino effect, particularly in areas of concentrations of high-risk loans, making them quickly financially unsustainable. With fallen property values, former homeowners were unable to refinance, sell, and when they turned to their lender, found short-sale and loan modifications were not always available alternatives to foreclosure. This became a vicious cycle, with foreclosed homes further depressing local property values, and more homeowners facing financially unsustainable mortgages. If a new regulatory and cultural environment surrounding homeownership included the possibility of price decline as full disclosure in any purchase, it might create a slower and more cautious housing market, but may create greater financial sustainability and less risk of vicious cycles.

There has been no political will to create a widely available, transparent, easily accessible alternative to foreclosure. As millions of homeowners have been foreclosed upon in the last six years, we might ask whether the process they endure, the siphoning of financial resources, the aftermath and damage to their credit, their loss of faith in the government and financial institutions, their aversion to debt and credit, the difficulty finding satisfactory housing for their households, the loss of wealth, particularly to communities of color, and their personal health and family stability crises have been acceptable losses. While many take a broader macro-economic perspective that foreclosure is clearing the market of bad loans and adjusting inflated housing prices, the *laissez-faire* approach to foreclosure does not account for the personal and societal costs of this adjustment. While policy reform around loan modification has slightly increased the numbers receiving modifications, many loan modifications are also not financially sustainable, and many end up in default even with a loan modification (Been et al. 2011). Foreclosure is the default for many struggling homeowners, and the only certain way to exit homeownership. Homeowners struggle with the weight of uncertainty of their personal situation surrounding their mortgage, and are frustrated by the lack of alternatives, and experience huge personal stress in trying to avoid foreclosure. Until there are transparent, systematic, universal alternatives to foreclosure, struggling homeowners may continue to experience foreclosures similar to what is described here.

Responses to the Loss of a Home through Foreclosure

Former homeowners reflect on the meaning of the loss of their home, and this destabilization in their life allows them to consider their life goals more holistically. As described in Chapter 3, many homeowners question the sacrifices they made to pursue homeownership and as a homeowner. While they would still like to buy again someday, they are no longer willing to make the same personal sacrifices in order to do so. Several former homeowners re-evaluated their jobs and careers. As Steve said, you “mortgage your life for the company,” and once his life was no longer mortgaged, it took the pressure off of his job. And for Sophia, losing her home allowed her to consider going back to school to change careers, a change she would not have been able to risk when she needed to make her former mortgage payments. Shifts to

investment in human capital, rather than in real estate, may be a valuable shift both for individuals in the long run and for the economy.

Conclusion

The ongoing foreclosure crisis will continue to affect increasing numbers of homeowners, and we should consider whether housing policy and financial institutions are doing enough to prevent the loss of home, financial resources, and human dignity described here. Currently, foreclosure is the only reliable solution for exiting homeownership when property values have fallen. Foreclosure has operated as a machine, and once a homeowner enters that machine, it is difficult to escape. Foreclosure is a process of great uncertainty for the homeowner, and even after foreclosure, their legal and financial situation has not been resolved. The experience has a life-changing effect on many former homeowners, who change their beliefs and behaviors, not just in relationship to homeownership, but also in terms of their life goals, their relationship to banks and financial institutions, their use of debt and credit, and where they live after foreclosure. While there have been policy changes to improve the numbers receiving loan modifications at the margins, there has not been the political will to create a large-scale significant alternative to foreclosure. Without a larger policy intervention, the process of foreclosure presented here will continue to be the only guaranteed resolution for those who cannot stay in their homes, or for whom it is not financially sustainable to stay.

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