Building Family Economic Success

FORECLOSURE

Family Economic Success

Building strong financial futures for families and communities

When a family loses its home to foreclosure, it loses more than a physical structure. Family members lose their accumulated equity and their credit worthiness and often face a long uphill climb to become re-established financially. Foreclosure can affect a family's employment stability and the ability of their children to remain in their schools, and can jeopardize long-time ties to important neighborhood support networks. Foreclosure also challenges the strength and resiliency of the entire community, since neighborhoods with an increase in empty or abandoned properties will likely see a decrease in property values and overall social capital.

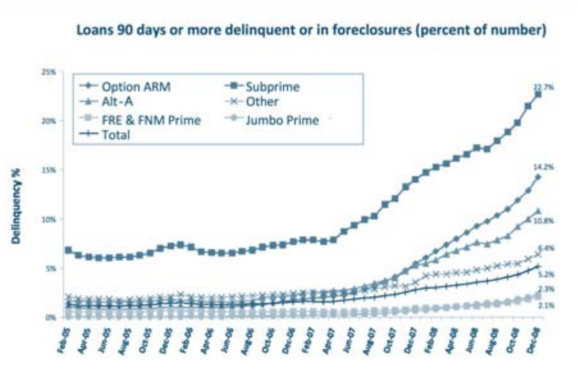
The Importance of Addressing Foreclosure and the Stability of Homeownership and Rental Housing

As home foreclosures continue to spread across the country—with a new foreclosure every 13 seconds[1] and projections of up to 13 million foreclosures through 2014[2]—families and communities are increasingly affected in deep and lasting ways. This problem will not be solved any time soon. One in 12 home loans is either delinquent or in foreclosure. The number is worse for subprime mortgages: one in four is either delinquent or in foreclosure.[3] Minority borrowers are more likely to hold subprime mortgages than white borrowers, so foreclosures are more prevalent in communities of color. A 2008 report from United for a Fair Economy estimates that "Black/African American borrowers will lose between $71 billion and $92 billion, while Latino borrowers will lose between $75 billion and $98 billion."[4]

Some additional important facts about foreclosure:

- The spillover costs of foreclosure include reduced property values (from 0.6 percent to 1.6 percent for each foreclosure in proximity to a home—resulting in decreased property values conservatively estimated to be $501.9 billion across the nation in 2009[5]), lost state and local tax revenues, losses to the construction and real estate industries, reduced employment, and long-term impacts on the housing and credit markets and the national economy.
- Evictions from foreclosures affect many families who rent homes. The National Low Income Housing Coalition finds that 40 percent of families facing eviction are renters, driven by the 20 percent of foreclosures that involve multiple-family rental properties.[6] Thirty percent of the foreclosures in 2009 were of homes that were occupied by someone other than the owner.[7]
- Foreclosure activity has increased steadily since 2005.

Serious Delinquencies by Loan Type: Dec. 31, 2008[8]



Sources: LPS Applied Analytics; Office of the Chief Economist, Freddie Mac.

Strategies for Family Economic Success

The Annie E. Casey Foundation believes that the children in greatest trouble in America today are those whose parents lack the earnings, assets, services or social support systems required to consistently meet their families' needs. Most of these children are growing up in impoverished communities that are disconnected from the economic mainstream. The Foundation is working to help these isolated families secure adequate incomes, accumulate savings and live in stable, economically viable neighborhoods through a combination of workforce development, family economic supports and community investment strategies—an approach known as building *family economic success,* or FES. This fact sheet is one in a series outlining the key strategies of the Foundation's FES grantmaking agenda.

Centers for Working Families

The Earned Income Tax Credit (EITC)

Financial Planning and Education

Financial Services

Foreclosure

The High Cost of Being Poor

Homeownership and Predatory Lending

Individual Development Accounts (IDAs) and Other Savings Tools

Workforce Development

Work Supports

A number of factors have contributed to the current foreclosure crisis. These include:

- The growth of "exotic" mortgages that were marketed to borrowers who could not sustain them. Many of these loans also carried predatory fees and features, such as prepayment penalties.[9]
- Loose underwriting standards that based the ability of the borrower to repay the loan on low "teaser" rates and used unverified, and sometimes, false income information.[10]
- Incentives for mortgage brokers that were often in conflict with the best interests of the borrowers. Brokers were rewarded for placing borrowers in loans with higher interest rates than they qualified for, and for adding prepayment penalties that make it expensive to refinance before the interest rate reset.[11]
- Appraisals that assigned unrealistically high values to houses to facilitate the approval of mortgage loans.[12]
- Financial institutions that bundled loans into securities and sold them, thus eliminating their incentive to make sure the loans performed.[13]
- Declining housing values that left many borrowers owing more than their home is worth. As of March 2009, one in five U.S. homeowners owed more than his/her home was worth.[14] Borrowers cannot refinance out of adjustable-rate mortgages when they have negative equity in their homes.
- Widespread foreclosure among families who have lost their jobs, or had their wages slashed, due to the economic downturn.

FES and Foreclosure

Asset building is a key component of the Casey Foundation's Family Economic Success strategy because assets and savings help a family to become self-sufficient and have a cushion against unexpected setbacks. The family home is usually the greatest portion of household net worth, and often the largest purchase a family makes, so homeownership is a cornerstone of Casey's asset-building efforts. Now, many families stand to lose their largest asset.

Because of the scope and scale of the foreclosure crisis, the Casey Foundation has looked for ways to complement existing programs and resources. Through grants and social investments, the Foundation is supporting organizations that are working to mitigate the effects of foreclosure on families in communities in which Casey has already made significant investments. Local organizations that are familiar with the economic, political, and social landscape of those communities are working to keep families in their homes or, where that is not possible, to minimize the disruptions due to foreclosure.

The Foundation's desire is to pursue strategies that have a local focus and offer the potential for replication and policy influence. Casey is particularly interested in programs and policies that help families who rent; they comprise the bulk of residents in "Casey places" and of vulnerable families, and are receiving the least support and attention during this crisis.

Some strategies Casey is employing: connecting municipal and nonprofit leaders with those doing innovative work; providing supportive services for families who must move; supporting policy changes to protect renters through preventing or delaying eviction; and protecting children from school disruption. Efforts currently underway:

- *Supporting and expanding local counseling capacity.* The President's Making Home Affordable Program offers credit-worthy homeowners the chance to remain in their homes. Connecting them to mortgage servicers and financial institutions so that they can access the program *before* they enter the foreclosure process requires expanding the availability and capacity of housing counseling resources. Ensuring a sufficient corps of trusted counselors to provide good information on eligibility to refinance a mortgage or eligibility for a loan modification—and how to avoid scams—is one area where Casey has been able to make value-added investments. Purchasing a home remains an aspiration for many families and an excellent way to build wealth, so connecting first-time home buyers with counseling and information will help them find affordable, fairly-priced mortgages.

- *Increasing local capacity to access and use Neighborhood Stabilization Program (NSP) funds.* Properties that have been foreclosed and are owned by banks ("REO properties") are liabilities to the financial institutions, neighborhoods, and city and county governments. The longer a property sits empty after foreclosure, the greater its negative effect on neighboring property values, neighborhood safety, and community stability and desirability. Nearly $6 billion in federal monies have been designated for neighborhood stabilization. Few existing community-based organizations have the capacity to acquire, rehab, and sell or rent REO properties at the scale that is needed to stop the decline in property values. Our support of training and technical assistance to expand local capacity among housing agencies and non-profit partners is helping to stem the decline in communities.

- *Promoting programs and policies that help mitigate the effects of foreclosure on renters.* While news stories have focused on owners who are losing their homes, renters—whose investor landlords are being affected by subprime resets and foreclosures—are also being displaced. In many places, there is a shortage of affordable rental housing, and the loss of investment properties to foreclosure exacerbates that shortage. While getting foreclosed investment properties into community land trusts[15] can help address this, other practices and policies need to be considered as well. For example, giving tenants more time in their homes before eviction procedures begin; ensuring that Section 8 lease terms are enforced and not bypassed by lenders/owners; providing tenants with legal representation in eviction actions; and ensuring that renters receive notice of foreclosure before it happens so that community-based organizations, land trusts, and other entities can try to purchase the property and keep tenants in place.

  In May 2009, the President signed a law that requires the immediate successor in interest at foreclosure to provide tenants with 90-days notice prior to eviction, and to allow tenants with leases to occupy the property until the end of the lease term. The lease can be terminated on 90-days notice if the unit is sold to a purchaser who will occupy the property. The American Recovery and Reinvestment Act provides money for homelessness prevention. These funds are aimed at helping those dislocated by foreclosure find and move to new homes; they may be used for rental assistance, moving expenses, utility and rental deposits, and other up-front expenses that can be a financial burden for working families. Support to educate families about available resources and their rights as renters, as well as support to better protect renting families, are two ways that Casey is helping this vulnerable population.

- *Expanding legal assistance for homeowners.* In all states, regardless of whether the foreclosure process is conducted through the court system, having legal assistance gives homeowners more time and options to find solutions that will keep them in their homes. Legal assistance is also valuable when prospective homeowners are choosing their mortgages, since borrowers are less likely to enter into predatory mortgages when they have legal representation while negotiating their loan. With this in mind, Casey is supporting organizations that are either directly providing free or low-cost legal services or are enlisting and training networks of lawyers to do so. Additionally, Casey is supporting pilots that are modeled after a successful foreclosure diversion program in Philadelphia. The program uses the power of the courts to bring lenders and homeowners together to explore alternatives to foreclosure: workouts with lenders that prevent the sale of their homes; homeowner and lender agreements about the sale of property that avoid long-term damage to credit; or where foreclosure cannot be avoided, foreclosure in an environment where the homeowner is supported and clearly understands what is happening and why.

Resources

Center for
Responsible Lending
www.responsiblelending.org

Consumer Federation
of America
www.consumerfed.org

Enterprise Community
Partners
www.enterprisecommunity.org

Housing Partnership
Network
www.housingpartnership.net

Local Initiative
Support Corporation
www.lisc.org

National Consumer
Law Center
www.consumerlaw.org

National Housing
Conference
www.nhc.org

National Low Income
Housing Coalition
www.nlihc.org

NeighborWorks® America
www.nw.org

- *Building local capacity to access and use data to advocate for change.* Being able to map and track foreclosures in real time provides community-based organizations and public agencies with important information to help them target their outreach, education, and programs. Loan level data with borrower characteristics can provide researchers, like those in the National Neighborhood Indicator Project, with rich information for analyzing foreclosures and communities. Casey supported an analysis of mortgage originations, foreclosures and delinquencies in Maryland that is being used to inform the state's programs and response to help preserve homeownership.

ENDNOTES

[1] Center for Responsible Lending foreclosure ticker. Accessed 5/29/09 at http://www.responsiblelending.org/mortgage-lending/tools-resources/national-foreclosure-ticker.html.

[2] J. Hatzius & M. Marschoun. (2009, January 13). *Home Prices and Credit Losses: Projections and Policy Options,* Goldman Sachs Global ECS Research. As cited in *Soaring Spillover: Accelerating Foreclosures Cost Neighbors $502 Billion in 2009 Alone; 69.5 million homes Lose $7,200 on Average Over Next Four Years, 91.5 Million Families to Lose $1.9 Trillion in Home value; $2,300 on Average* by the Center for responsible Lending, accessed 5/29/09 at http://www.responsiblelending.org/mortgage-lending/research-analysis/soaring-spillover-3-09.pdf.

[3] Center for Responsible Lending. (2009, May). *Soaring Spillover: Accelerating Foreclosures Cost Neighbors $502 Billion in 2009 Alone; 69.5 million homes Lose $7,200 on Average Over Next Four Years, 91.5 Million Families to Lose $1.9 Trillion in Home value; $2,300 on Average.* Accessed 5/29/09 at http://www.responsiblelending.org/mortgage-lending/research-analysis/soaring-spillover-3-09.pdf.

[4] Rivera, A. (2008, January). *State of the Dream 2008: Foreclosed. Accessed 6/22/09 from http://www.faireconomy.org/files/StateOfDream_01_16_08_Web.pdf*

[5] Center for Responsible Lending, *Soaring,* p.2.

[6] National Low Income Housing Coalition. (2008) *Renters in Foreclosure: Defining the Problem, Identifying Solutions.* Accessed 4/14/09 from http://www.nlihc.org/doc/renters-in-foreclosure.pdf.

[7] Leland, J. (2009, May 1). "The Rent Is All Paid Up, but Eviction Still Looms." Accessed 5/29/09 at http://www.nytimes.com/2009/05/02/us/02renters.html?pagewanted=1&_r=1&th&emc=th

[8] Neighborhood Funders Group. (2009, May). *The Foreclosure Crisis: A Blueprint for Foundation Intervention,* p.6.

[9] Center for Responsible Lending. (2008, June). *Funder's Briefing on Foreclosure: Draft prepared for the Asset Funders Network,* pp2-3.

[10] Center for Responsible Lending, *Funder's Briefing,* p.3.

[11] Center for Responsible Lending, *Funder's Briefing,* p.3.

[12] Center for Responsible Lending, *Funder's Briefing,* p.3.

[13] Center for Responsible Lending, *Funder's Briefing,* p.3.

[14] Miller, Don. (2009, May 6). "Surge in Underwater Mortgages Forces Obama Administration to Review Loan Limits", *Money Morning. Accessed 6/22/09 from http://www.moneymorning.com/2009/05/06/underwater-mortgages/.*

[15] Casey is helping to fund Living Cities' pilot on promising local approaches that mitigate the effects of concentrated foreclosures by supporting the Community Housing Land Trust of Rhode Island's work in Providence.

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