U.S. Department of Justice
Office of Justice Programs
National Institute of Justice

Mortgage Fraud, Foreclosures, and Neighborhood Decline

Meeting Minutes

Charlotte, North Carolina

March 31-April 1, 2009

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In Attendance:

- Bernie Auchter, National Institute of Justice (NIJ)
- Dr. Eric P. Baumer, Florida State University
- Brandon Behlendorf, University of Maryland
- Michael Bess, Charlotte-Mecklenberg Police Department
- Timothy Brown, NIJ
- Ann Fulmer, Interthinx Corporation
- Lisa R. Gore, Department of Housing and Urban Development
- Dr. G. Thomas Kingsley, National Neighborhood Indicator Partnership
- Dr. Vivian B. Lord, University of North Carolina (Charlotte)
- Jim Lucht, Providence Plan, Providence, RI
- Thomas Ludden, University of North Carolina (Charlotte)
- Dr. Christopher D. Maxwell, Michigan State University
- Rodney Monroe, Charlotte-Mecklenberg Police Department
- Dr. Peter J. Nigro, Bryant University
- Dr. Derek J. Paulsen, Eastern Kentucky University
- Terry Quillen, Wells Fargo
- Winnie Reed, NIJ
- Robert Renner, Housing and Urban Development (HUD)
- Dr. Thomas R. Simon, National Center for Injury Prevention and Control
- Dr. Sally S. Simpson, University of Maryland
- Cornelia Sorenson-Sigworth, Bureau of Justice Assistance (BJA)
- Deborah Spence, Community Oriented Policing Services (COPS) Office
- Dr. Ralph B. Taylor, Temple University
- Glenn Theobald, Miami-Dade Police Department
- Dr. George E. Tita, University of California (Riverside)
- Louis Tuthill, NIJ
- Roger L. Vanderpool, Arizona Department of Public Safety
- Dr. Kirk R. Williams, University of California (Riverside)
- Ronald E. Wilson, NIJ
- Rosemarie Wolfe, Equifirst Corporation
- Kevin Wolff, Florida State University
- Richard Woodcock, City of Charlotte Neighborhood Development
- Dr. Margaret A. Zahn, NIJ

Tuesday, March 31, 2009

Welcome and Meeting Objectives — *Dr. Margaret Zahn*

Dr. Zahn thanked participants for coming to the meeting. She stated that this topic, although largely unexplored, is important to both the National Institute of Justice (NIJ) and the nation. Crime and justice research are focus areas for the NIJ. Each participant was invited to this meeting because she or he has specific expertise related to this topic. Because many of the meeting participants do not typically interact with each other, Dr. Zahn expressed hope that this group will create a research agenda for the future. The desired outcomes of this meeting are a research agenda and a list of questions that need to be answered over the next couple of years.

Introductions and Review of Meeting Agenda — *Bernie Auchter*

Mr. Auchter acted as timekeeper and facilitator for this meeting. His goal was to have as much discussion as possible. Mr. Auchter stated that he would remain neutral within the discussion but would seek clarification and guide discussion. He asked attendees to introduce themselves and also reviewed the meeting agenda.

After the meeting, presentations given will be posted to a Web site. A compact disk with the presentations may also be sent to meeting attendees.

Backdrop — *Louis Tuthill, Ann Fulmer*

A presentation entitled "The Buildup to Foreclosure and Crime" was provided by Terry Quillen. He reviewed the history of mortgages. Between 1970 and 2000, the foreclosure rate fluctuated between 0.03 percent and 1.1 percent. Subprime mortgages allowed people to purchase homes that they normally would not be able to. This type of mortgage has a higher rate of foreclosure. The foreclosure rate increased from 8.6 percent to 20 percent between 2001 and 2006. Mortgage rate securities are sold on the stock market to reduce risk "on the books" for these mortgages. This practice led to cheap credit and reduced lending standards. "Dot com" investors invested in real estate, and speculative investors "flipped" houses.

The housing market began to correct itself in late 2006. Median housing prices dropped by 3 percent by early 2007. Foreclosure rates and delinquencies began to increase as well. Investors began to pull out of the stock market because these mortgage-backed securities were decreasing in value.

This is part of a larger economic crisis that also includes energy and food costs. Banks were often unable to loan money due to insolvency. Unemployment rates increased.

In summary, the reasons for this crisis are multi-faceted and global. The social impacts have not yet been examined.

Ann Fulmer presented a "Foreclosure Overview". Foreclosures began to increase in 2005. Three documents are established when one secures a mortgage: a deed of conveyance, a note, and a deed to secure debt (or a deed of trust). A foreclosure occurs when the note is not paid. It is a legal proceeding by which the lender exercises their right to be paid. In many cases, losses will average about 50 percent of the original note. Nobody wins when there is a foreclosure. This is why there is a lot of effort to try to stop foreclosures. Mortgage-backed securities are sometimes limited by how they can be handled because of the restrictions on the mortgage (e.g., the interest rate can't be changed).

The foreclosure process can differ by state and by bank. There are often many efforts to help the borrower become current on a loan. When a loan goes unpaid, it goes into default for a period of time and then the foreclosure process is initiated. Often, loans are corrected in the foreclosure process. A "completed foreclosure" is one that has gone all the way through the foreclosure process and the property has been sold on the courthouse steps.

There are criminals who will "rescue" the borrower from foreclosure. Judicial foreclosure goes in front of a judge. This type of foreclosure can take up to a year to complete. In a non judicial foreclosure, the process can be completed within 30 days (in the state of Georgia, for instance). There is a redemption period in some states. This means that after the foreclosure has been completed, the borrower can still buy the property back if they can come up with money. Redemption is more expensive because additional fees have been imposed.

Real Estate Owned (REO) refers to property that is owned by a lending institution. It is expensive and ripe for fraud because the banks are trying to quickly get this real estate off of their books. Some mortgage fraud includes the sale of real estate to "charitable" organizations.

Investors are buying houses and creating a large rental market for houses. We are also seeing many foreign investors purchasing property.

National Level Patterns of Foreclosures — *Ron Wilson, Dr. Eric Baumer, Glenn Theobald*

Ron Wilson addressed the geography of foreclosures. Foreclosure data at a national level has only been captured since 2006, and data aggregation is not yet refined. The highest foreclosure density (foreclosures per square mile) exists mostly in larger metropolitan areas and areas where there is a prevalence of second homes. In 2007, these foreclosure trends increased. Mapping shows that the problems are much worse in some areas than in others.

Dr. Eric Baumer has been doing research for the past several years on metropolitan crime data. He discussed "Assessing Recent Patterns of Foreclosure and Crime in America." There are many nuances to foreclosure data. Dr. Baumer used RealtyTrac data, which includes notices of default, sales, and REOs. He also used Housing and Urban Development (HUD) data. The states of California, Arizona, Nevada, and Florida accounted for almost half of all foreclosures in 2008. Other states with higher foreclosure rates are Colorado, Ohio, and Michigan. Dr. Baumer also explored foreclosure rates by zip code, neighborhood, and county. The percentages of loans considered high risk are those mortgages comprising 35 percent or more of household income. These high-risk mortgages were also considered in the analysis.

Simple analysis of foreclosures and crime is not possible because there are too many variables. Crime rates are affected by increased stress and frustration. Other factors, such as population density, size, divorce rates, etc., can also affect data. The theoretical mechanisms are complex, and this will take some time to analyze. There is some evidence that foreclosures affect the crime rate, and Dr. Baumer is investigating this.

Glenn Theobald discussed mortgage fraud data, which has been recently updated. Mortgage fraud turns into foreclosures. Types of real estate fraud include *fraud for property* and *fraud for profit*. Foreclosure rescue schemes are prominent now. It is simple to file a false quit-claim deed. The correct form can be easily downloaded and falsely notarized. For only $10.00, one can file a deed of claim and steal someone else's property. Clerks are often required to file deeds but do not check the legitimacy of the transactions. Notice of deed change is often not made to the "selling" owner. People who already have a mortgage may not notice that this has occurred. The thief takes out a loan against the (wholly owned) property. It is almost like identity theft. Mortgage fraud is responsible for between 80 and 85 percent of foreclosures. Fraud on the "front end" of the purchase (no credit verification, inflated value assessment of property, etc.) has led to the majority of mortgage fraud cases. Many types of people can be involved in this fraud; the seller, appraiser, real estate agent, attorney, and others. The valuation of property is often artificially inflated, which also inflates taxes.

A "straw buyer" is someone with good credit who poses as purchaser. This buyer has no intent to live in the property being purchased from an unsuspecting seller. Sometimes the property actually being purchased is not the property initially documented. A straw buyer receives a fee for use of their good credit. The purchased property ends up in default after six or eight months of payments, which hurts the lender.

The state of Florida passed laws at the local and state levels to allow law enforcement involvement as early as possible to prevent and detect mortgage fraud. Different avenues can hide fraudulently filed documents.

Commentary: The Impact in Arizona — *Roger Vanderpool*

Mr. Vanderpool addressed “Crimes Related to the Housing Market.” Arizona has the third highest foreclosure rate in the United States (U.S.). Between 2006 and 2008, Arizona’s foreclosure rate rose by over 600 percent. The state of Arizona is also at the forefront of the immigration battle. Foreclosure issues facilitate the criminal element in finding cheap, easy places to have a “drop house” to place illegal immigrants coming to the U.S. They can be “dropped” in any neighborhood, in any type of house. Communities on smuggling routes are targets, as are neighborhoods with high vacancy rates. Often, families of the illegal immigrants are then extorted for more money. The illegal immigrants are held as prisoners until payment is made by their families. Drop houses are usually fortified to prevent escape and sometimes have torture rooms. A typical three-bedroom house may hold between 20 and 50 aliens. Utilities are often shut off in these houses. These homes are often severely damaged and require significant repair to be sellable. Property management companies that are supposed to be taking care of vacant houses are instead trying to rent them cheaply. “Stash houses” follow the same concept as drop houses but are used to store drugs. Marijuana is the cash crop for drug cartels. Likewise, there are often no utilities, and the property is abused.

Vacant houses are also used by “party crews” to make a profit. For a fee, one can attend a party that often has live music, alcohol, and drugs. Attendees are frequently underage and there is potential for sexual abuse, fights, and drug use. These parties are advertised through social networking tools and are held on a street with a high vacancy rate. Legitimate neighbors are strongly intimidated so that they will not interrupt the party. This is all facilitated because there are so many empty homes on the market.

Discussion of Research Issues — *Open Floor*

- Subprime loans were overused. This is a crime of affinity. People were put into subprime (or other high-risk) mortgage products because they were assisted by people they were affiliated with in their community. Everyone thought that real estate would only appreciate in value.

- An immigration crack-down means that renters are lost.

- Committing fraud for property (e.g., reporting inflated income) used to be somewhat acceptable, as it was somewhat perceived to be simply “stretching” their income to get into a home. Traditionally, these folks have not been considered criminals. However, falsifying data to obtain a mortgage is now considered criminal activity.

- Why are some locations so low in foreclosures? Often, these are areas without a lot of new loans, where people have lived for a long time.

- We need to remember that foreclosures do occur on a regular basis. We are now in an era of increased foreclosures. The “hot spots” for mortgage fraud exist in the high-density areas of mortgage foreclosure. There is probably a direct correlation between escalated housing prices and foreclosures.

- These crimes have been easy to commit because there was no regulation or licensing in the industry. Because the crime was easy to commit, others were easily recruited to this type of crime. Some criminals are very organized (street gangs, drug dealers), but others are social networks. Everyone gets involved in this type of crime.

- Local dynamics exhibit unique vulnerabilities for an area. This should be considered in prevention efforts.

- Spatial distribution and dynamics of *time to default* would be interesting to see. For example, military families are frequently targeted to become involved in properties that they cannot afford.

- A critical issue is how crime is interrelated with the whole foreclosure process. What are the plausible dynamics that contributed to foreclosure, and how, in turn, does foreclosure affect criminal activity? What do foreclosures mean to communities, and how are they related to criminal activity? What are those causal links? Foreclosure is one path to vacancy, but what are others? What is the neighborhood “tipping point” that leads to crime? Vacancy is one issue, but houses that are not maintained may be another.

- We do not know how economic change affects social ills, solutions, and political conflict. Fraud can be a catalyst for other processes. Comparison of lock groups against median age compared to foreclosures shows that a higher number of foreclosures corresponds to a median age of approximately 33 years. The financial strain can lead to domestic issues and property neglect. This can occur even before a mortgage default. What are the long-term consequences of a high concentration of these situations? The foreclosure process and its affects can be viewed as a continuum. Some foreclosures are concentrated, and some are spread out. High foreclosures in one neighborhood can affect a nearby neighborhood.

- Homeowners are being counseled to default on their homes because it is a less painful course of action. This exacerbates opportunities for fraud; it will be characteristic of the next wave of foreclosures.

- What role does policy play in foreclosures? The federal push for home ownership encouraged people to own homes even if they did not qualify. This also needs to be addressed.

National and Local Data Sources and Limitations — *Robert Renner, Dr. Eric Baumer, Ron Wilson, Dr. Peter Nigro*

Robert Renner discussed HUD's experience with foreclosure-related data sets. The definition of a foreclosure must first be addressed. Stages may be default, bank auction, and REO (bank-owned). Not all stages are entered into, and status may vacillate between stages. There is no single authority for foreclosure data. Data sets can be obtained at different levels: ZIP code, county, state, and so on. There are some prohibitive licensing agreements such that data cannot be shared. HUD prefers to publicly share data but cannot always do that with data from private data sources. The Neighborhood Stabilization Program (NSP) is intended to provide emergency housing assistance.

Mr. Renner discussed private data sources pertaining to foreclosure. The Mortgage Bankers Association (MBA) provides quarterly data at the state level, for a fee. RealtyTrac data is not complete. Loan performance data (also known as “True Standings”) is available at MSA and ZIP code levels. A potential data source is the Federal Housing Authority (FHA), Fannie Mae and Freddie Mac.

Mr. Renner next discussed public data sources pertaining to foreclosure. There is no national source for foreclosure data. Data is available at various levels of geography but is more uniform at the national level. Data from these sources can be shared with the public. The Home Mortgage Disclosure Act (HMDA) requires lending institutions to report public loan data. The Federal Financial Institutions Examination Council (FFIEC) is a formal interagency body empowered to prescribe uniform principles, standards, and report forms for the federal examination of financial institutions. These data are used to identify high-cost and highly leveraged loans and are also used as a proxy for subprime loans, although it is not a perfect representation. The Office of Federal Housing Enterprise Oversight (OFHEO) Housing Price Index for metropolitan areas is an index that is adjusted for seasonality and other factors. Peaks and declines in these data are used in calculations. The OFHEO is now the Federal Housing Finance Authority (FHFA). The Bureau of Labor Statistics (BLS) data on labor force participation and unemployment is also useful as well as the U.S. Postal Service data on address vacancies.

These data sources are used for out-of-state and within-state allocation of foreclosure rates. Drivers of foreclosure within a state include decreasing home prices, high-cost loans, and the local area's unemployment rate.

The Federal Reserve compared HUD estimates with Equifax data and found high intrastate correlations at the county level. Counties with a population over 15,000 had an even higher level of correlation. The NSP methodology and data can be found at http://www.huduser.org.

HUD is working at a macro level. Where data are lacking, proxy data are used. Foreclosure estimates were created at a basic level of geography to target NSP funds toward areas in most need. Address-level data on where funds were used will be collected.

The problem with using sales data is that the data are available only for sold properties. Many properties on the market are not selling.

Dr. Peter Nigro discussed mortgage fraud's impact on housing markets, focusing on a neighborhood in Atlanta, Ga. Data on mortgage fraud is difficult to obtain, and we need more detail. This research is preliminary.

As background, the FBI initiated a probe of 26 financial firms in September 2008. There is significant mortgage fraud, but we cannot get data to analyze. High foreclosure rates, losses, and property value depreciation all lead to mortgage fraud. Mortgage lenders eventually exit neighborhoods where fraud has increased. The mortgage market has changed as a result. Mr. Renner would like to see a broader study done in the future.

Data used for case analysis includes three-digit ZIP codes for Atlanta MSA, home sales, and average sales price data, loan application data, origination and rate spreads, demographic data for census tracts, and criminal indictment mortgage fraud data. Mortgage fraud can occur anywhere. There is more housing turnover in tracts that have fraud. We need more data.

The more non-bank originations there are, the higher the likelihood for fraud. Mortgages that were sold on the secondary market contributed to fraud. Mortgage brokers need more monitoring. There was often no oversight of mortgage brokers between 2004 and 2007. Black and Hispanic customers pay higher fees, and this disparity could not be logically explained through the loan data. It takes both borrower and lender to engage in fraud, so both sides need to be monitored. We need better data on the borrower side. Improved financial literacy is needed in this country because our housing consumers are largely uneducated on this topic.

Ron Wilson and Brandon Behlendorf focused on the micro level. There is not much local data. The Charlotte Police Department has been tracking local data through the court system and is very rich in data. This data can be massaged. The Charlotte Police Department performs a quality-of-life survey every two years. This doesn’t always match with census data, which provides socioeconomic data. A foreclosure is a recorded event at the court level. Tax assessors may also keep track of this parcel data, which includes some property characteristic data. There is no one place for all data; it must be compiled from various sources. There are private sources of data (real estate agents, banks), but it comes at a cost. The U.S. Postal Service records a property as vacant after 90 days, but that data is not publicly available now. Parcel data is one of the keys to build on. It also helps to know about the individuals in the household. Starting at the lowest geographic level (parcel) allows data aggregation and is a key factor for useful analysis. This approach can help us understand the context of this problem; however, data is needed. At the local level, a standard methodology cannot be applied; different data sets will be available. However, some strategies for allocating data can be provided. Mr. Wilson and Mr. Behlendorf are trying to understand how economic factors play a role in foreclosures and crime. The Bureau of Economic Analysis carves up geography by economic activity. Examples of economic activity are journey to work data, business transactions between cities, and newspaper subscriptions. The regions created are Northeast, Southeast, Mississippi Valley, Central, West, and Great Lakes. These areas are not confined by state lines. This geography makes sense for what is being studied.

Dr. Baumer suggested that it is time to assess the measurement properties of some of the existing data. The source of data and exactly how the data was derived and defined is important. Data may be named and aggregated differently, so precise matching is not always possible. Data issues need to be explored before research commences.

Discussion of Research Issues — *Open Floor*

- It would be useful to develop a data archive where data sets, descriptions, and characteristics could be accessible. This is being developed for geographic crime data. A test case is currently being used, but more data is needed. We are trying to create a longitudinal data set across multiple years, using data from various sources. A county economic business set is also being developed. Often, counties do not associate economic data with crime. There is a public justice aspect to this as well. Dr. Zahn commented that archiving and maintaining a database is very expensive. Funding streams are not keeping pace with the need. This is an issue for both the BJS and NIJ.

- Municipalities have to maintain parcel data over time. Smaller municipalities may only be able to provide rolling estimates every two or three years. Virginia, Kentucky, Pennsylvania, and Massachusetts are all commonwealths and are not under the jurisdiction of the county. Parcel data are further disseminated by boroughs and townships. This creates a different level of maintenance on parcel data.

- Government policy on privacy and reporting prohibits release of granular data in many cases. An organization that wants to share data is at risk for being sued. The creation of a "safe harbor" may help.

Lunch Speaker — *Rosemarie Wolfe*

Ms. Wolfe talked about the issue of mortgage fraud. She shared three recent illustrations. In one case, the Federal Bureau of Investigations (FBI) and HUD combined forces to arrange a sting.

The defendants fabricated tax returns and other financial documents and had no intention of paying the mortgage on the foreclosed homes owned by HUD. There were nine indictments from this one situation. In another case, title was falsely claimed to properties and “straw buyers” were recruited. Loans were refinanced using fabricated paperwork and loans were soon defaulted. Mortgage fraud is continuing to spike.

A definition of mortgage fraud is “a material misstatement, misrepresentation or omission relied upon by an underwriter or lender to fund, purchase, or insure a mortgage loan.” This is not the same as predatory lending. One definition of predatory lending is “the practice of a lender deceptively convincing borrowers to agree to unfair and abusive loan terms, or systematically violating those terms in ways that make it difficult for the borrower to defend against.” Who really benefits in the mortgage transaction is what defines predatory lending. The borrower should benefit. Perpetrators can be industry insiders (brokers, appraisers, settlement attorneys, realtors) or real estate investors, lenders, or borrowers. Anyone who touches a loan or gets near a piece of real estate can perpetrate fraud. This can occur at many levels.

The following may drive people to commit mortgage fraud:

- *Fee income.* Originators willing to manipulate for remarkably little compensation
- *Continuance of business stream,*=With the focus on volume, the business stream equates to employment and a continued income/lead base
- *“Because everyone else is.”*
    - The “herd” mentality.
    - No perceived victim.

    - No perceived or actual punishment.
    - General market acceptance of behavior.
- *Most of us do something that is "a little bit" wrong.*

Fraud is categorized as either *fraud for housing* or *fraud for profit*. The first is perpetrated solely by the buyer and has been more common. Home ownership is the goal and the intent is to pay the mortgage. The latter is more complex and uses more insider involvement. Whereas fraud for housing has been more common, fraudfor profit has become much more prevalent.

Common examples of mortgage fraud include:

- Not disclosing kickbacks.
- Creating a silent second mortgage, in which a borrower without a down payment can commit mortgage fraud by borrowing the down payment from the seller in exchange for giving the seller a silent second mortgage.
- Falsifying employment income.
- Non-owner claiming occupancy.
- Receiving down payment gifts the borrower will repay.
- Inflating the purchase price.
- Falsifying deposits.
- Committing identity theft of an appraiser.
- Grossly misrepresenting the occupancy status.
- Altering or inventing documentation.
- Marketing "novelty" documents.

Mortgage fraud is a crime of ethics, ignorance, and exploitation. This is the heart of what drives mortgage fraud. There is more opportunity now than ever for mortgage fraud.

The loan process is different through a mortgage broker versus a bank. A mortgage broker can originate and close mortgage loans and be compensated for both. Regulatory oversight of mortgage brokers can vary significantly from state to state. There are few entry barriers to be a mortgage banker. HUD's FHA connection is a fabulous process. It provides unique identifiers to each loan, which can lead to real enforcement. Ms. Wolfe would like to see other organizations adopt the same process.

Overview of White-Collar Crime and Its Relation to Mortgage Fraud — *Dr. Sally Simpson*

Dr. Simpson addressed the problem from the perspective of corporate crime. Recent examples include Bernard Madoff 's Ponzi scheme and Allen Stanford's investment fraud. In a declining economy, there seems to be more focus on white-collar crime. This can be thought of as the new "terrorism." Many experts claim that the current financial crisis has been instigated by white collar crime. The general public, as well as the government, is very upset by white-collar crime. There is increased focus by law enforcement agencies on combatting white-collar crime. Regulatory agencies have been blamed extensively for allowing this type of crime, and there are calls for more regulations, resources, and punishment.

The research community has been strangely silent on this issue. There is an extensive body of literature about white-collar crime. However, the kind of scholarship that has dominated the field is not based on data.

White-collar crime can be defined as crime by a person of respectability and high social status in the course of his or her occupation (Sutherland, 1939, 1949). Organizational actors are unique and their actions tend to differ from individual actors. White-collar crime can also be defined as illegal acts or a series of illegal acts committed by nonphysical means and by concealment or guile to obtain money or property (Edelhertz, [year]). Both definitions are accurate. However, both the powerful and the less powerful need to be included in the definition. Known fraudsters are those who have been caught and tend to be minor criminals.

Types of fraudsters include:

- *Preplanned fraudster* — for both profit and housing.
- *Intermediate fraudster* — starts honestly but turns to fraud (for housing).
- *Slippery slope fraudster* — in their own eyes, just trying to stay in business (for profit).

Mortgage fraud extracts a tremendous cost to society and victims as a whole. It is a cumulative and dynamic process. There are blurred boundaries between offenders and victims. There appear to be some clear links between fraud and deterioration of local communities.

Theories on what causes white-collar crime include:

- A large differential between [what] and [what].

- Low self- control, greed, and hubris.
- Institutional anomie.
- Social control.
- Opportunity.
- Financial strain.
- Lack of deterrence and rational choices.

Ethics do matter.

As previously discussed, there are many problems with available data.

Criminogenic tiers are the pressures and strains that produce crime in one market and may push crime into another market. Mortgage fraud seems ripe for this type of analysis.

Economic Impact of Mortgage Fraud — *Ann Fulmer, Dr. Peter Nigro*

Because most of us do not think like criminals, it is difficult to imagine how mortgage fraud can be committed. Fraud for housing has traditionally not been seen as fraud. Tolerating some kind of fraud encourages more fraud. All fraud is fraud for profit for somebody. Everyone is capable of fraud, even ministers and police officers. This is a huge problem. Because mortgage fraud data is imperfect or has not been collected yet, we do not yet know the extent of the damage.

It requires $1,000,000 in mortgage fraud to open a lawsuit. Mortgage fraud is a high-yield, low-risk criminal enterprise. The industry has the paradigm backward. They only recognize crime after it has occurred. We need to prevent fraud before it occurs. Audits on failed loans show that 50 percent of conforming loans have fraud, whereas 60 percent of Alt-A originations and 60 percent of federal loans are fraudulent. The sooner a loan goes bad after origination, the more likely that fraud has occurred.

Fallout from mortgage fraud includes:

- Inflated tax assessments.
- Inflated values and affordability issues for subsequent sales in the neighborhood.
- Vacant, vandalized properties.
- Destabilized neighborhoods.
- Losses for property insurers.

Kevin Wiggins operated fraudulent mortgages in one area of Atlanta and acquired 88 properties. Fraudulent houses are overvalued and create a second wave of victims who move into a neighborhood, try to fix up a house, and then cannot sell it. Even in expensive neighborhoods, vacant homes and homes acquired fraudulently can produce violent situations with drug dealers in the neighborhood.

People who owe more than the house is worth are in a desperate situation, and this creates the opportunity for mortgage fraud. Lenders are now verifying income through the Internal Revenue Service. This promotes fake tax returns. A corrected amendment can be filed later. We reward sales and not quality in the mortgage industry. The secondary loan market is now the government. Government policies often will not allow data to be shared, which is why the industry needs a “safe harbor” where specific data can be shared. *Affinity rings* target minorities, single mothers, and religious groups, who are protected by law.

U.S. taxpayers are now footing the bill for all of this fraud. Fraud ends in foreclosures. Until we can stop this, we are putting money into a black hole.

Discussion of Research Issues — *Open Floor*

- By dollar volume, commercial mortgage fraud far exceeds residential fraud. Judging by number of cases, residential fraud is larger than commercial fraud. Commercial fraud does not receive a lot of publicity. Commercial ownership varies. Shop spaces and office spaces can be owned as condominiums or by a single owner.

- Mortgage fraud generally has to be prosecuted as theft or grand larceny, which does not accurately fit the nature of this class of crime.

- How can we explain the timing of mortgage fraud?

- States have budget deficits and are cutting state government funds. This decreases the ability for states to address mortgage fraud. The federal government needs to participate in a mortgage fraud solution. Grant dollars have been available to states to provide training and personnel. However, after three years, states have to be able to sustain the effort.

- BJA does have a grant out to hire prosecutors and local police without the sustainability requirement.

- Fifteen states have statutes that allow local law enforcement to investigate and prosecute mortgage fraud. This can be prosecuted as wire fraud, mail fraud, and bank fraud.

- This crime pays very well. It has been allowed to continue, and we need to do a better job of preventing it.

- The National Archives just released 15 years' worth (1994-2007) of complaints filed in federal prosecutors' offices. There is no federal mortgage fraud charge. The type of charge that captures mortgage fraud would be included in this data set. Defendants and conviction data are also included. There are case-level data available from 1977-2008 from every state. Due to budget cuts, these data will no longer be collected.

- The average take on a bank robbery is $3,000. The average take on mortgage fraud (given limited data) is about $50,000. Prevention can be accomplished by independent data verification. There are tools to assist with this. What we do know about fraud is not well quantified, and the cost of collateral damage should be included.

- Asset forfeiture is involved in this type of prosecution, which can help cover law enforcement costs. Repossession of property can occur, but it takes time to realize the value of those assets. Law enforcement needs immediate funding dollars in order to address the problem.

Housing Foreclosures and Domestic Violence: A Theoretical Foundation — *Dr. Kirk Williams, Dr. Christopher Maxwell*

The determinants of social disorganization theory (SDT) proposed that the characteristics of crime within a neighborhood stay constant. This theory fell into disfavor but was revived in the 1980s by Rob Sampson, who offered the concept of *collective efficacy*. These neighborhoods have trusting, cohesive relationships. Neighborhood residents are willing to intervene for the common good. These neighborhoods tend to have low crime. Neighborhoods with concentrated disadvantages, residential instability, and homogeneous populations tend to have higher crime rates.

The determinants of SDT are related to domestic violence. Nested, hierarchical level data has been used but still needs further analysis. SDT does provide a rationale, but with exceptions. Economic distress is related to intimate partner violence, no matter what type of neighborhood.

General strain theory deals with negative relationships among individuals that occur when:

- Something that is highly valued is taken away.
- Threatening or adverse conditions are present.

- Something interferes with or threatens to interfere with a goal

These sources of strain can be associated with housing foreclosures and call for corrective action, although not everyone under these conditions will react violently.

In disadvantaged neighborhoods, the strain may be greater because there may be less support than in a stable neighborhood. However, the reverse could be argued. Disadvantaged neighborhoods may have more renters, so those individuals are not actually losing an asset. In an affluent neighborhood, there may be greater embarrassment due to financial strain.

Service providers of domestic violence shelters have experienced a recent, significant upsurge of clients. Historical data was reviewed in which poverty always seemed to be co-mingled with domestic violence. Contemporary criminal research was reviewed and attempted to pair data with theories. Although the analysis was not stringent, it was clear that money issues are a predictor of domestic violence. The differential theories (large differential of income or employment between partners) also influence domestic violence. Those who have less to lose (e.g., the unemployed) may be more likely to exhibit violence. There is evidence that domestic violence causes people to lose their jobs. Sometimes it is difficult to tell which causes what. None of the studies investigated what happens when people transition from being unemployed to being employed; does domestic violence decrease?

The economics of family life have changed dramatically in the past 20 years. Females now work more hours in the workplace than males do. Because there has been so much societal change, historical data is not reflective of today's economy.

Commentary — *Dr. Margaret Zahn*

It would be useful to have more data about the types of foreclosures that occur and which ones are more likely to be related to domestic violence.

What is a home? Foreclosures are changes in ownership but do not reflect emotional attachment to a space. There is not a necessary relationship between foreclosure and domestic violence.

Housing and family structural variables do not related well to theories about these issues.

Unemployment affects a lot of different people. Unemployment in relation to alternative resources may be the important factor. How do unemployment benefits affect domestic violence?

One factor of unemployment is excessive alcohol consumption, often resulting from a situation where household members are spending more time together than they ever have.

Collective efficacy is the willingness to intervene, but it does not mean that someone actually will intervene. Many people still view domestic violence as a private matter and may be reluctant to intervene. Cultural background may affect collective efficacy. Partnerships with local police are perhaps a form of collective efficacy. This concept is important but needs more examination.

Domestic violence is not just between intimate partners. Elders and children are also victims. We know very little about elder abuse. There are different key forensic markers for elder abuse.

Discussion of Research Issues — *Open Floor*

- New neighborhoods do not immediately have collective efficacy. There is a certain time lag before determining whether intervention will occur. The size of a lot or dwelling may determine whether domestic violence can even be detected. For instance, members of a household in the suburbs on a large lot may be able to conceal domestic violence more easily.

- Employment history is only one economic factor that is examined. Multiple measures are used to determine economic distress. Reviewing all of the factors helps determine the likelihood of domestic violence.

- Domestic violence may cause foreclosure if the house cannot be afforded on one income. In addition, couples who are splitting up may not be able to sell their home in this housing market.

- Some neighbors only care about surrounding issues if it affects their own home's property value.

- There is a difference between a house and a home. A “home” implies emotional and identity attachment. Survey instruments could capture sentiments about property ownership.

- Stressors can be considered in a broader context, beyond the foreclosure issue. Are foreclosures an independent causal influence? There will be different reactions to the same stressor.

- Do we make distinctions in domestic violence committed by people in different types of partner relationships (e.g., those who have a history of battering vs. those who are more sensitive to situational violence)?

- The current surge in clients at domestic shelters may be more reflective of a need for shelter than an increase in domestic violence.

- Police responses to domestic violence may be reported as responses to noise (screaming) rather than domestic violence.

- Any occasion that causes people to spend more time together (e.g., holidays, rainy days) tends to exhibit a higher level of domestic violence.

Perspectives From Public Health — *Dr. Thomas R. Simon*

Dr. Thomas Simon spoke about "Foreclosures and Economics Related Suicides." Violence does present a public health burden. Homicide and suicide are the second and third leading causes of death among young people. Suicide rates for males are four times higher, on average, than for females. Lifetime suicide patterns are also different for males and females: Males are much more likely to use highly lethal methods for suicide, and females are much more likely to attempt suicide than males. The highest recorded year for suicides in this country was 1933. It was at the end of the Depression, and the unemployment rate was 25 percent.

Economic circumstances that are risks for suicide include job loss, dealing with bill collectors, loss of retirement or health insurance, foreclosure, and eviction. Any individual indicator is not enough to cause suicide, but those more vulnerable to suicide may be more influenced by these factors.

The National Violent Death Reporting System (NVDRS) includes data from 2003 to 2008. It is growing and includes data from 16 states, plus four counties in California. Circumstance information is gathered from law enforcement and medical examiners. Included circumstance fields are mental health/substance abuse, interpersonal factors, life stressors, and suicide events. The data are available six months after the end-of-year count of violent deaths. Circumstance information is available 18 months after the end of each year. A search tool identifies text strings related to foreclosure and suicide and has identified 577 eviction/foreclosure cases involving suicide. Another 169 cases involving a person being "kicked out" of their home are reviewed next. The study will further compare eviction/foreclosure suicides to suicides in whichother financial problems were a contributing factor.

Homicides related to foreclosures could also be investigated. However, it may be harder to determine the correlation of homicide to foreclosures.

Discussion of Research Issues — *Open Floor*

- It was pointed out that the suicide rate among college students seems to be increasing, possibly due to the fact that parents cannot pay tuition.

- County-level linkages between suicide rates and foreclosure rates would be useful.

- How do we isolate and attribute suicide to foreclosure? Are foreclosures unique among the economic indicators? Foreclosure is a defined event; which milestones within the foreclosure process may be suicide triggers? If someone is vulnerable to suicide, how do we know that foreclosure was causal? How does this relate to bankruptcy? How is mortgage fraud related to foreclosure and bankruptcy?

- One can file bankruptcy and still stay in the home. Foreclosure is distinct physical displacement of the resident. Individuals who go through foreclosure lose a social base.

- We'd like to understand the longer-term ramifications of foreclosures on property and communities. The quantity of foreclosures is a collective loss for society. Neighborhoods are in decay as a result, and the outcome and resources required are uncertain.

- Stigma depends upon a person's sensitivity. So many people are going through foreclosure that it does not have the financial and social stigma that it used to. Foreclosures affect the entire local economy, including retail outlets, tax revenues, and the ability to provide public services. There is a lot of collateral damage.

Wednesday, April 1

Meeting Objectives for Day Two — *Bernie Auchter*

NIJ wants to determine whether or not foreclosures and crime is worth studying.

Neighborhood Deterioration and Crime — *Ron Wilson, Dr. Derek Paulsen, Dr. Ralph Taylor*

What are the long-term consequences of foreclosures on neighborhoods? How quickly are neighborhoods that are besieged with foreclosures degrading into dangerous locations? In the past, neighborhoods declined when properties were not taken care of. Foreclosed neighborhoods are largely vacant. People with fewer resources get forced into neighborhoods like this. They do not have resources to maintain properties. Crime can begin to take place. We are seeing a city/suburban reversal. It used to be that the suburban areas were "nice," whereas city neighborhoods could be dilapidated and draw a criminal element. How we police these areas is affected by these patterns. These are dynamic systems that change over time and go through stages.

Neighborhoods can go through stages of decline, although they do not begin this way. The quality of construction and size of homes and lots does matter. Neighborhoods that decline are typically "affordable housing," which is of poor quality construction, with garages in the front, small lots, and other features that create opportunities for crime. Original owners start to move out, and renters replace them, one after the other. These neighborhoods are not intended for long-term occupation and are often "starter" homes. Some better neighborhoods with foreclosures are more of an investment/bargain opportunity than a crime opportunity. These neighborhoods do not tend to have the concentration of foreclosures that other neighborhoods do. Foreclosure may be speeding up the neighborhood decline dramatically.

More information can be found at www.rbtaylor.net/unoccupancy_impacts.pdf.

Crime theories include:

- Incivilities —the focus of convenience, in urban settings, is a cluster of social and physical problems.
- Crime pattern theory — focuses on the spatial position and clustering of targets, and identifies key features of targeted spatial patterns.

- Social disorganization — collects efficacy matches between internal and external social relations. Neighborhoods that are well connected externally are sometimes not well connected internally. Public control is vital in terms of resource issues.

How do we co-produce crime prevention? Crime pattern theory helps highlight vulnerabilities. This helps us understand and target where to put law enforcement resources. Human territorial functioning advocates occupancy as a simple policy solution. We could strategically determine which houses need to be occupied in order to help control crime dynamics. All models suffer the same deficit of a disconnect between crime theory and suburban theory.

Commentary — *Dr. George Tita*

Often, crime is thought of as urban crime. We now find ourselves in a different situation as foreclosures are affecting suburbs. We need a better understanding of the geography of foreclosures. Social networks distinguish between linking capital versus bridging capital, and this also plays a role. In neighborhoods, we find that an increase in violence precedes the number of home sales in a neighborhood. There are “push” and “pull” factors to home sales that are largely unexplored. We are missing housing policy. What is the implication for public housing? How do we manage neighborhoods that face large-scale abandonment? How do we entice people to move back into these neighborhoods? When a home becomes unoccupied, the previous tenants went somewhere. Where did they go?

Discussion of Research Issues — *Open Floor*

- The challenge is managing the level of housing vacancies. Neighborhood change is a complicatedchallenge. The same management methods will not work for every neighborhood. Surveys that track household moves show that in low-income neighborhoods, two-thirds of the families with children have moved. Half of these moves were within two miles. These moves impact schooling and health care issues for families. There has been little research on the effects of moves on these families. There are economic and race-based components to these moves.

- William Grigsby's research frames neighborhoods in terms of housing "sub-markets" and how neighborhoods affect change in other neighborhoods. Crime is a reflection of some of those impact changes. Today's transportation capabilities affect social networks and human territorial functioning. People from one neighborhood can travel to another neighborhood to hang out or commit crime.

- What will we do with empty neighborhoods? It's not that people do not care; there is nobody there to care. The neighborhood loses all sense of guardianship. From the police perspective, neighborhoods are the mission field. Neighborhood relationships are built between residents and police. However, police can't be in an empty neighborhood every hour of every day.

- If we can find ways to keep people in their homes by offering lower payment plans or other means that may help improve the foreclosures and crime problem.

- “The Camden syndrome” studied various data that suggest that race and ethnicity are less important considerations.

- The effects of foreclosure versus bankruptcy were discussed. Foreclosures have more far-reaching effects on society than does bankruptcy. Bankruptcy filings have also increased dramatically. The stigma attached to bankruptcy has diminished because there are so many people filing for bankruptcy. In the case of a bankruptcy, the individual is making a decision to file. In the case of foreclosure, the action is being imposed and there is less control on the part of the individual.

- In Lincoln, Neb., many of the starter homes were built to last only 25 or 30 years. Areas with this type of construction are now one of the most problematic and drain community resources.

- Where do gangs fit into the foreclosure and crime scenario? Should we study gang migration? This may depend upon the flow of residents. Gang migration suggests purposeful movement, which often is not what happens. It is more of a cultural migration. Conditions of probation and parole may partially dictate where gang members can live.

- From experience, we need to stop and look at what we have created. Many of the dynamics and social issues haven’t changed, even if the neighborhoods are different. Sometimes the location is different, but the mindset and crimes are the same. The public housing model included guardianship in the form of a local-level manager. Vacant neighborhoods have no enforcement.

- In Arizona, there are planned new communities that are 20 percent complete and construction stopped for economic reasons. Some infrastructure and homes are partially complete. This is also a new phenomenon.

- An urban crime simulator is being developed. The purpose is to connect city administrators with law enforcement. Based on historical data, a change to an urban environment can be imposed and the result can be observed. Quality of construction and social demographics can be altered to capture the change between the contextual and the structural. What independent role does foreclosure play in this process? The volume, mass, and spatial concentration of foreclosures is what makes them influential. Foreclosures can alter the social fabric or prevent a community from developing in the first place.

- Displaced people sometimes move in with family members, creating different density patterns. Sometimes. adult children are moving in with parents.

- Housing costs increase 3.5 percent annually, on average. In areas with higher increases precipitated by investors and easy-credit practices, real estate values became artificially inflated and foreclosures ensued. Our economy has never experienced anything quite like this situation. It is a “perfect storm.”

- Some areas have an excess supply of affordable housing, which led to more foreclosures.

- Likely themes for upcoming housing policy include mixing income levels in communities and preventing concentrations of poverty. The emphasis is on finding ways to guide transition and restructure placement.

- We need to be careful about policy that moves people around. People identify with the spaces they inhabit, and their social networks are important. We will recognize further change, as there are more foreclosures and adjustable rate mortgage adjustments to come.

Local Level Case Studies — *Dr. Eric Baumer, Brandon Behlendorf, Dr. Derek Paulsen, Jim Lucht*

Dr. Baumer shared a study on foreclosure and crime across Florida. There is anecdotal evidence that foreclosures encourage crime, but researchers need to approach the possibility empirically.

Subjective economic realities could elevate personal stress and alter consumer behavior as well as other risky behaviors. This issue is complex and highly conditional. Data that can be captured may include:

- Population turnover.
- Extended vacancies and high rental rates.
- Foreclosure data.

- Unemployment data.
- Illicit drug activity.

Dependent variables might be:

- Homicide.
- Domestic violence.
- Acquisitive crimes.

Florida counties averaged nine properties in foreclosure per 100 mortgages in 2008. Areas with higher foreclosure rates have had higher rates of crime for some time. This is not a new occurrence.

After multi-variate analysis, foreclosure rates were found to be higher in counties with higher unemployment rates and where mortgages were over 35 percent of gross income. Foreclosure does not solely affect homicide rates, but there is a stronger correlation when coupled with other factors. It is too early to see the full effect of massive numbers of foreclosures. It would be useful to distinguish between types of foreclosures, for example, people losing their primary home versus a secondary property.

A research agenda focused on foreclosures and crime should be a more general effort to facilitate a comprehensive and policy-relevant research agenda that is capable of addressing these sorts of issues. A strategic crime-monitoring program in preparation for studying these issues would be helpful.

Dr. Paulsen focused on Lexington, Ky., with a population of about 290,000. The local economy is based on education, health care, and agriculture (including horses). Between 2000 and 2007, 15,000 single-family units were added. Median income increased but nowhere near the rate of home values. Foreclosures grew by 24 percent from 2001 to 2008, but that rate was fairly stable, considering the home units that were added. Lexington has become slightly more suburban over the past three years, and foreclosures have also become a more suburban phenomenon. Lexington is not a high-foreclosure location compared with other areas of the country. There are two foreclosure problems in Lexington:

1. Foreclosures are concentrated in the disadvantaged areas of the city. They are characterized by housing and economic disadvantages, severe family disruption, and high crime. The government's HOPE VI relocations were concentrated within traditionally high-foreclosure neighborhoods.
2. New foreclosure areas are concentrated in suburban areas built since 2000. These are characterized by smaller, cheaper construction, lower median incomes, lower median housing values, and more residential mobility. Crime is beginning to increase in these areas, and so are disorder issues, such as loitering and code enforcement issues. There is a decrease in owner-occupied housing and a change in the populations living there.

One neighborhood had 17 foreclosures. There were significant robberies and sanitation (garbage) issues in this neighborhood. In high-foreclosure areas have spread to the suburbs.

Jim Lucht represented the Providence Plan, which is a nonprofit organization dedicated to urban planning issues. Mr. Lucht tries to get data at the parcel level and prefers to use maps and geography to collect his data. People relate to places that they are more familiar with. He often works with raw health and education data and aggregates it. Mr. Lucht works with a variety of tools, including neighborhood profiles, special portals, and an Internet map server. The Providence Plan was slow to start foreclosure mapping because it was seen as being in the purview of the city and state. However, it was dictated by need. Foreclosure data and crime data can be combined. The Providence Plan mapped boarded-up and abandoned houses. They started with basic foreclosure mapping that included thematic, hot spots, animations, and parcels. Heavy foreclosure areas were Hispanic. Almost 21 percent of all residential property has had a foreclosure initiation. Sixty percent of properties with foreclosure initiation do complete the process and are foreclosed.

Foreclosure response could include a distressed-property management system. This could include commercial and municipal data feeds, asynchronous data listings, and others.

Brandon Behlendorf spoke about the neighborhood context of foreclosures and crime. Any type of home can be foreclosed upon. He discussed the types of foreclosure and the process of foreclosure. Mr. Behlendorf focused on foreclosure as a completed event, when the property changes hands and the owner leaves the property. One way to think about this is a disorganization approach. Foreclosure disrupts the existing social network and can generally lead to reduced social control and higher levels of crime, especially violent crime. An incivilities approach maintains that the property falls into disrepair and the community withdraws from the area. This can lead to petty crimes and then more serious crimes. If people are removed from the network, possible effects are increases in vacancies, property crimes, and then violent crimes.

Charlotte, N.C., data for closed foreclosures was matched with Charlotte's property data. The city of Charlotte did not suffer from overinflated property values; Charlotte's economic base is diversified. Do foreclosures have an additive effect on crime? The affect of foreclosures can also be viewed in the context of the neighborhood type.

The primary question is, "Do foreclosures increase the level of crime in the neighborhood?"

There was a spike in affordable new home construction around 1985. Foreclosures occurred in both newer and older neighborhoods. A negative binomial regression model was used, including completed foreclosure data from 2005 to 2007. Results showed that the only significant effect was on residential burglary at the census-tract level. Effects migrate to different types of crime over time. Foreclosures increasing in disadvantaged neighborhoods do not show an increase in crime. The context of the neighborhood matters. We may want to consider whether foreclosures have more of an effect on moderately priced, stable neighborhoods.

A closed foreclosure leads to a vacancy.

Law Enforcement Perspectives — *Rodney Monroe, Michael Bess*

The Charlotte-Mecklenburg Police Department is a metropolitan police department. There is both an urban and a suburban mission for the department. "Starter home" communities to the north and east of the city have been built within the past 15 years. The Sheriff maintains the jail and courthouse security and handles subpoenas. The loss of jobs in Charlotte’s banking industry has probably not yet been factored into the data, as they are ongoing.

Domestic violence calls in Charlotte are probably underrepresented, as they may be coded as a different type of call (noise, for instance).

In 2007, the foreclosure issue took the Charlotte-Mecklenburg Police Department by surprise. Data tracking within the department influences department managers’ resource decisions. They began noticing problems in newer neighborhoods that they would have expected to see in older neighborhoods. They began to realize that some of these problems resulted from foreclosures. Foreclosures also cause reduced revenues for the department, resulting in fewer resources to address the neighborhood problems. The department values community partnerships. Chief Monroe’s approach is to have a very visible police force that is accountable to the community. The community is also held accountable for their behavior. There are 120 administrative or specialized department employees who were previously working in the office but who are now back in uniform and on the street. They are becoming a much more visible police force. There are also plans to hire new officers.

Code enforcement is part of neighborhood development in Charlotte. The police department and code enforcement do have some different priorities but attempt to work together.

Discussion — *Open Floor*

- Crime will probably increase as a result of fewer resources. Many code enforcement personnel have been laid off as well. Sometimes the code enforcement function has been delegated to law enforcement.

- Police departments that have been hardest hit could share lessons.

- Law enforcement could work with regulators to have licenses pulled for violators in the mortgage and real estate industries. Communities should be responsive to instances of home foreclosure, board up and maintain those homes, and ask neighbors to watch them. In Florida, pools at vacant homes have to be drained and filled with sand to prevent potential injuries. Communities should be proactive and work with legislators to pass ordinances that allow law enforcement to take property management actions.

- Law enforcement resources should perhaps be added to our working models. There may be fewer law enforcement resources available to address problems brought about by foreclosures.

- Fraud involving affinity groups often involves a first wave of immigrants. People bring cultural understandings with them that are different from our culture. Immigrants suffer from language disparities. This group is a target ripe for mortgage fraud.

Lunch Speaker — *Dr. G. Thomas Kingsley*

There is a need for local information infrastructure. Ongoing data at the neighborhood level is essential. National data sets will never be enough. Local departments define crime differently. The National Neighborhood Indicator Partnership (NNIP) was started in 1995 and is a collaborative network with local partners from 31 cities.

To join NNIP, an organization must be:

1. In the process of building and operating information systems with integrated and regularly updated data on neighborhood conditions.
2. Facilitating and promoting the direct, practical use of its community resources.
3. Emphasizing their use of the information to others.

Those in the network are interested in sharing information with each other. Many large cities are included (e.g., Los Angeles, Denver, Chicago, Atlanta, Philadelphia, and New York City).

Their success is due to geographic information software technology and institutional innovations that follow an aggressive agenda. In the beginning, most data was at the neighborhood level, often census-tract data. Now, almost all of the participants have parcel-level data. Most network members have some type of foreclosure data, although some data is better than others. Data on the status of public programs is also included.

Institutional homes are typically nongovernmental. Civic leadership has decided to support this information system because they can act as an effective neutral broker of data amongst the providing agencies. This provides an effective one-stop shop for data, with economies of scale. A major accomplishment is that agencies are sharing data. It is harder NOT to share data than it used to be. Care is taken with the cleaning and release of data. Fee or project income can cover the majority of the cost, although some local general support is often required. Useful data has to be provided, or no one will pay for it. The emphasis is on information for change. The direct use of data by stakeholders is facilitated. A central mission is the strengthening and empowering of low-income neighborhoods. It has been discovered that this information can be a bridge for collaboration.

Types of NNIP applications include using indicators in local change initiatives and using comprehensive indicator reports and reviews. The missions of the partnership are to advance the state of practice, build and strengthen local capacity, influence the national context, and partner with other communities.

Cross-site initiatives include using neighborhood data to drive more effective policies and programs. Recent topics include prisoner re-entry and land markets. Current topics are school readiness/early childhood and community development. A priority now is the foreclosure crisis. The Home Mortgage Disclosure Act data was restructured to show the density of subprime lending by race and by poverty in the 100 largest metropolitan areas. Foreclosure is most dense in ethnic neighborhoods with lower poverty rates. There can be a lot of variation in foreclosure effects by area. When looking at foreclosure density in urban versus suburban areas, density differed by geographic area. This is not a problem with only one solution. Not enough analysis has been done. The Web site, www.foreclosureresponse.org, has information about how to address the crisis. An effective response can be very different in different places. Market condition is the most important variable to consider. In a strong market, there are many natural forces at work to help solve the problem and not much extra effort is required. In a weak market with many foreclosures, spending significant public money would not be worthwhile because there will not be an owner who can sustain the property. Money spent in this manner is probably wasted. We need to understand the appropriate course of action, given a local situation. The highest leverage is where the money invested returns gains. There is not only one kind of neighborhood. We want to know the likely nature of crime in these various types of neighborhoods.

The definition of “neighborhood” can be individualized. The data is freely available to community groups. However, most partners will sell a customized analysis of data in order to sustain themselves. Community training should include how to use data. We need to learn how to use data in order to make decisions.

These Web sites may contain helpful information:

www.urban.org/nnip

www.foreclosure-response.org

nnip@ui.urban.org

Ron Wilson pointed out that many foreclosures are occurring in neighborhoods where there are young families.

Responses to Stabilizing Neighborhoods — *Louis Tuthill, Cornelia Sorenson-Sigworth, Roger Vanderpool*

The mortgage crisis requires strategies of prevention and intervention, both in communities and in policing. The federal government is responding by increasing lending, buying toxic mortgages, and attempting to stimulate job growth. The Federal Reserve is taking various actions. The BJA had a two-day conference to address intervention to prevent foreclosures. Five cities were invited to attend.

Many lessons were learned from the meeting. A city has to devise an appropriate response, not simply leave the response to law enforcement. The city should include partners in this effort. Cities need data on where abandoned properties are, which does not necessarily correspond with data on foreclosure properties. Cities can use various strategies: They can leverage a local tax on the title holder of an abandoned property. Cities can create legal requirements to maintain abandoned properties. Local laws are antiquated; updating them can help municipalities deal with abandoned properties. Task forces to combat mortgage fraud are helpful. Focusing public attention on prevention is helpful. Cities should collaborate, enforce where possible, prosecute when necessary, and get the best data possible. Cities should figure out a way to reuse or sell abandoned properties in accordance with a comprehensive strategy.

The most effective response to foreclosures is to build an effective strategic-planning process. BJA will post results of the meeting on their Web site. The lessons learned can be shared with other communities. Foreclosure is complex and needs to be dealt with at the local level. BJA now has an open solicitation containing two topics related to foreclosure and crime: "comprehensive and community-based data approaches to reducing violent crime.", and "reducing mortgage fraud and crime related to vacant properties."

Richard Woodcock shared that the city of Charlotte had low to moderately priced neighborhoods that were funded with subprime loans and that experienced heavy foreclosures three or four years old into the loan period. Previously, foreclosures were an individual problem instead of a neighborhood problem. The vacant properties were attracting crime, and surrounding property values were declining. Some of these homes were owned by speculators, who wait for property values to increase before selling. Foreclosures were addressed in a comprehensive fashion. Charlotte does not have many abandoned properties. The property values are strong enough that owners will not walk away from their properties. Initially, there were problems getting participation in community meetings because some of those affected were struggling. Habitat for Humanity is helping. Charlotte has applied for available state and federal funds to help. Vacant houses do result in code enforcement issues. The city does not want to own houses and would prefer that individuals own the houses instead. Unfortunately, a homeowner must miss two payments before the City will counsel them or banks will talk to them. House Charlotte is a down-payment assistance program. Applicants must go through a home-ownership training program to qualify for assistance. Properties under the HUD Neighborhood Stabilization Program (NSP) must be purchased at a 15 percent discount. Under the program, properties cannot be condemned. Those who make 50 percent of the median income are usually not good candidates for home ownership.

Commentary — *Lisa Gore, Roger Vanderpool*

Mr. Vanderpool shared that many western U.S. communities under foreclosure are in unincorporated areas, so other rules apply. Most western city police departments do not perform evictions. In the southwest, traditional community policing has been applied on the front-end of the real estate transaction, engaging the new homeowner in the Neighborhood Watch-type effort. Arizona has task teams to address the existence of drop houses. The Arizona identity task force goes after falsified driver's licenses, social security cards, and green cards. Police gang units work well with the Arizona department of real estate. One-third of the Arizona state budget is in deficit. Discovery is tighter in the federal system than in the state system.

Discussion — *Open Floor*

- The Miami-Dade Police Department gained the cooperation of banks by pointing out that banks would be victims of mortgage fraud and that they could recover some losses by working with law enforcement. See www.miamidade.gov for a history of the mortgage fraud actions taken. A coordinated effort at the national level would ensure that an effective, duplicative model could be followed. Resources and training are limited and could be shared. Training, local response, and a centrally coordinated effort seem to work. One response that takes the best practices from all states and coordinates them at the national level could be effective. A nationwide mortgage fraud task force bill is now in Congress to centralize such an effort within DOJ. Laws and penalties for mortgage fraud vary on the state and federal levels. and It is unclear what amount of prison time would be a deterrent for this type of crime; besides, states cannot afford to house any more prisoners,.

- Mortgage fraud is the lynchpin of our current economic crisis. The media generally doesn’t cover the issue because it is complicated, the time to report is limited, and the situation does not have great visuals. There is media coverage, but typically not television coverage. The fraud attracted a lot of amateurs, who have since washed out of the system. Those left committing the fraud are professional thieves.

Roundtable Discussion: Setting the Research Agenda — *Facilitated by Bernie Auchter*

Mr. Auchter asked the group to think broadly about where our research attention should be focused. Following are contributions from the participants:

- Mortgage fraud began with a noble concept of allowing low-income families to own homes but ended with abuse of the subprime mortgages in the securities market. Research should consider potential unintended consequences of these actions. NIJ may want to partner with other federal agencies for this research.

- Practitioners operationalize research results. In the field, how do we spot mortgage fraud? What are the indicators to be aware of?

- Communities and affinity groups could help spot fraud.

- Consumer financial illiteracy is a huge problem. The FHA just developed a public service announcement — about how to spot mortgage fraud — that will be viewed in movie theaters. Education is a large component of stopping mortgage fraud. Banks and lending institutions are now willing to be a part of this effort because they now know how it affects them.

- How did the people who lost their homes get to the point of foreclosure? Did the situation lead to domestic violence? Because they are not in the same housing anymore, it is difficult to follow-up with those individuals. It is necessary to reach the people who are still in the foreclosure pipeline but are still in their homes. These people should be interviewed to more fully understand their situation. There also might need to be a control group.

- We need to develop and test models related to foreclosure and crime.

- An immediate need is to formulate recommendations for the federal government on how to monitor the various program funds currently being released and to develop protocols for disbursement of funds to prevent their fraudulent use. There are committees forming right now for fraud prevention.

- It is useful to know locations where vacancies are increasing but crime is not. Also, what are the processes by which crime contributes to vacancy? How is all of this conditioned by the local context? We need to understand what is driving what; these dynamics will continue to evolve. We know much more about processes at the individual level but not what processes are used at the aggregate level. Prevention will not be effective if it iss not correctly targeted. We need to have both strategic and tactical responses.

- It is important to know the source of the loan — whether it is a mortgage broker, lender, or bank. Many non-bank channels are used in crimes of affinity. This is often a path to predatory lending.

- The central concern is perhaps not process, but how vacant buildings lead to crime.

- There are different ways to get to the same vacancy rate. The key issue is what is going on ecologically.

We do need to determine how each foreclosure was reached to understand whether crimes were committed.

- When banks rent property back to the owner, is there an effect on crime?

- We could create a model that would allow isolation of foreclosure vacancies versus other causes of vacancy. We do have 35 years of research on vacancies. This is an opportunity to add interaction terms. What is different now is the abruptness of the vacancies.

- High foreclosures do not necessarily lead to vacancies.

- We may want to compare areas of the country without high foreclosure rates with those that do have high rates. Transient populations and growing states have some effect on these trends.

- What can prevent this type of mortgage fraud? How could the process be regulated so that it does not happen again?

- Research questions that would help inform prevention strategies would be useful. What has been successful in terms of prevention? What seem to be community resilience factors? We are at the forefront of a major social change in this country and do not really understand all of the social implications of it. However, we need to establish the link between foreclosures and crime before we can determine what prevention strategies will be effective.

- Are foreclosure rates associated with perceptions of social disorder and crime? It is dangerous to draw conclusions without adequate data.

- Is there research on how these properties are handled after foreclosure?

Mr. Auchter provided a handout asking two questions:

1. What do you see as the most important research question that needs to be addressed in the short term (next two years)?
2. What do you see as the most important research question that needs to be addressed in the long term (beyond two years)?

He asked that the completed forms be returned before leaving. Responses to these questions are contained in the appendix of these minutes.

Closing Remarks — *Dr. Margaret Zahn*

Dr. Zahn thanked the participants for attending. These ideas will be taken back to NIJ, and there will be results from this meeting. Participants may be contacted later by NIJ and should feel free to contact NIJ with subsequent thoughts on these issues.

Appendix: Questionnaire Responses

Question 1: What do you see as the most important research question that needs to be addressed in the short term (next two years)?

Responses:

- We need prevention-oriented research. The foreclosure and economic crisis has come on quickly, has deeply impacted some communities, and may continue for some time. I would like to see research that evaluates promising programs and policies that are being implemented in communities to determine if they are having an effect on rates of crimeand violence. I also suggest that you examine community-level protective factors that provide a buffer to families against the risks from foreclosure and other economic stressors. This research could have broader implications for prevention practice.

- Try to get a handle on the true scope of mortgage fraud. Develop some common terms and definitions. Develop and test models of foreclosure impact; does foreclosure have a direct effect or does it moderate or interact with other determinants?

- What is the relationship between the types of neighborhoods and housing structures experiencing foreclosures, vacancies, and crime? For instance, we do not want to base our assumptions about conditions in suburban, fragile, middle-class, single-family home communities on research conducted in densely populated urban centers.

- Establish the empirical association between housing foreclosures, crime, and violence and determine whether it varies by level of analysis (individual, neighborhood, community, region), by time, by type of crime or violence, and urban location. This research should explore variable aspects of foreclosure (as events in a sequence, whether driven by fraud or not), measurement issues of foreclosures, crime, and violence, and research design issues so that the evidence of the (patterns of) association is defensible. Descriptive ethnographic work should supplement such efforts.

- Compare the role that mortgage fraud and other factors play in the foreclosure crisis, related crimes, and unintended consequences and what the desirable community and law enforcement responses would be.

- Which came first, the chicken or the egg? Is foreclosure being caused by crime, or is crime caused by foreclosures? Whatever you do, involve law enforcement, but from different jurisdictions: local, county, state, and federal. Does strict immigration enforcement reduce crime?

- Coordinate better with the Departments of Finance and Treasury to assist in the detection of white-collar crimes such as mortgage fraud. A database on mortgage fraud to help to assess foreclosures' impact on crime.

- Do foreclosures impact all communities/neighborhoods in the same manner, or are there differences by location, neighborhood type, or mortgage type? We need better data on the problems and their impacts.
- Develop a typology of foreclosure in terms of (a) time to failure/default (how old is the mortgage?), (b) whether it results in a vacancy, and (c) how long it takes before the building is reoccupied. (see also the presentations by Drs. Eric Baumer and Ralph Taylor).

- ***What?*** Are foreclosure rates associated with perceptions of neighborhood deterioration, investment in neighborhood life, intentions to stay or leave, perceptions of physical disorder, or perceptions of crime? ***How?*** Conduct a national survey of occupied households and attach foreclosure and other neighborhood data. Repeat annually for three years.

- We heard almost "a tale of two cities," that the foreclosures were the result of mortgage fraud and. on the other hand. the result of housing and monetary policies. In order to arrive at a solution for the future, it would be important to know the proportion each contributed and identify methods to identify each.

- What is the separate ecological effect of foreclosures on levels of crime within different neighborhood contexts?

- What is the tipping point related to the number of foreclosures a neighborhood can absorb before the crime rate begins to increase and while also controlling for the variability of neighborhood conditions?

- (1) Identify bank/lending cultural elements that encourage mortgage fraud (or discourage fraud prevention) and recommend changes. (2) Identify legal impediments to preventing mortgage fraud (HMDA, Gramm-Leach-Blyley, Fair Credit Reporting Act, Bank Secrecy Act, no “safe harbor” for reporting, etc.) and recommend changes. (3) Identify sources or channels of mortgage fraud (non-bank/broker vs. financial institution) and their correlation with high-cost loans and minorities preying on minorities. (4) Model mortgage fraud law at the state and federal levels. (5) Submit recommendations to keep NSP and TALF stabilization funds from being diverted to criminals or to perpetration of additional frauds.

- NIJ — perhaps with input from BJA folks — can answer the following research question, looking at a number (10? 20? 30?) of regional *(*not city) police departments and using foreclosure data: What are the places where vacancies are going up but crime is not? “Places” means whatever you want. Secondary data analysis is followed up by “on the ground” peeks to see what is happening in the safer places — vacancies went up but crime did not. Maybe police were doing something to reduce crime.

- Is there a link between white-collar crime, foreclosures, and neighborhood crime? How do we establish a link? What is the nature of the relationship, if it does exist? What are the mechanisms? Would it be possible to use a criminogenic tier approach to establish these links? What kinds of data and analysis (e.g., networks, case-studies) could be used to study the problem? Are there links between some kinds of white-collar crimes and some types of neighborhood crimes, but not others?

Question 2: What do you see as the most important research question that needs to be addressed in the long term (beyond two years)?

- (1) Development of databases that are reliable and a consensus on operationalized concepts/variables at macro/micro levels. (2) Program outcome evaluations — responses to stabilizing neighborhoods and limiting crime. (3) Could we learn anything from other countries? For example, supposing Japan experienced some of the same issues, did they experience foreclosures? How did they handle it? What impact did it have on crime?

- Is there a link between fraud and disorganized neighborhoods? How do we establish this link empirically and identify the path to causation?

- Theory-driven (with explicit identification of underlying control processes), multi-level modeling, over time and across geographic locations, that isolates the effects of foreclosures on crime/violence apart from larger social, economic, and demographic dynamics occurring within communities.

- NIJ could be charged with creating model state statutes for crimes relating to mortgage fraud, regulations regarding the real estate and mortgage industries, and best practices for the industry.

- What happens long term to the communities that are involved, and what is the cost in funds and the impact on people,particularly the children and families? How do we relocate Washington D.C. to St. Louis? The beltway needs to reattach itself to the rest of America.

- (Will send more ideas after more thought.) Excellent to get many different perspectives on the impact of foreclosures on crime rates. I hope for more cross-fertilization of different disciplines — I learned a ton!

- We need to focus on suburban crime patterns. How are patterns changing as crime becomes more suburban? Are the issues that develop in urban settings the same as in suburban settings?

- “Where did everyone go?” Measure the flows of people into and out of foreclosed properties.
- What attributes of American neighborhoods are most pertinent to disrupting social networks, stimulating physical and social disorder, and the like. This could include foreclosure rates but should not be limited to this.

- What are the current and longitudinal effects of foreclosures on neighborhoods?

- How does housing policy (i.e., design and concentration of affordable housing and starter homes) relate to foreclosure patterns?

- (1) Quantify direct costs of mortgage fraud to lenders, and indirect costs to the neighborhood from the impact of foreclosures, law enforcement, social services, code enforcement, tax revenues, and so on. (2) Create a central database to collect information on mortgage fraud, perpetrators, and addresses of properties that were flipped or defrauded (i.e., improve communication and data sharing and thus better prevent fraud by weeding out bad actors before they are funded).

- Noting that this was phrased as a research question, the big question is understanding crime as a contributor and crime as an outcome of rapidly increasing rates of unoccupiedproperties. What are the processes by which crime is contributing to this increase? What are the processes by which the increases are contributing to crime? How do both of these dynamics shift at different levels of aggregation — MSA, county, city, neighborhood, and street block? How is all of this conditioned by the local context, where "local" means different things at different levels of analysis. It is important to move beyond connecting demographic data to crime data. Useful prevention models will not be feasible until we know what is driving what.

- How can NIJ facilitate the collection of systematic data in areas where data is poor (e.g., white-collar crime, neighborhoods, and crime)? I would love to see a blue-Ribbon task force take on white-collar/corporate crime data collection.