Mortgage Fraud, Foreclosures and Neighborhood Decline

Meeting Summary

Introduction

With the current upswing in foreclosures that is sweeping the nation, the National Institute of Justice (NIJ) convened a meeting in Charlotte, N.C., to test the effects of foreclosure on crime. Foreclosure can cause major social and societal woes for a family. Families going through foreclosure face the loss of their home, the strain of relocating to a different neighborhood (which can entail changing schools and medical providers), the social stigma associated with losing one's property, the added financial stress, and difficulties in the credit market, insurance market, and even the job market. Of the many concerns that occur during a foreclosure, increased crime in a community is one possible indirect effect. NIJ brought together federal staff members, researchers, practitioners, and industry insiders from across the country to discuss the question: Is there a link between foreclosures and crime? If the answer is yes, then what should the research agenda include to address this concern? In this paper, we provide a short summary of the outcomes of our meetings. There does appear to be some relationship between foreclosures and crime, but much more research needs to be conducted to further delineate this relationship. Three areas are discussed in detail below: mortgage fraud, intimate partner violence, and neighborhood change.

Mortgage Fraud

Eighty to eighty-five percent of recent foreclosures are due to mortgage fraud (Wilson, Baumer, and Theobald, March 31, 2009). Mortgage fraud is defined as "a material misstatement, misrepresentation or omission relied upon by an underwriter or lender to fund, purchase or insure a mortgage loan" (Wolfe, March 31, 2009). Two types of fraud fall under this category:

fraud for housing and *fraud for profit*. Fraud for housing is most likely perpetrated by the buyer and is the most common form of mortgage fraud. In this instance, the goal is homeownership and the buyer has an intent to pay the mortgage. The second form, fraud for profit, is a bit more complex. Although fraud for property has been more common, fraud for profit has become more prevalent in recent years. Fraud for profit requires the assistance of other industry insiders to pull it off. The goal for this type of fraud is monetary, and no involved party intends to pay the mortgage. “Mortgage fraud is a crime of ethics, ignorance, and exploitation” (Wolfe, March 31, 2009).

Mortgage fraud can occur in many ways. In the early stages of a home purchase, fraud can take place at the following points: the value assessment of the property, a silent second mortgage (a practice in which the borrower without a down payment can commit fraud by borrowing the down payment from the seller in exchange for giving the seller a silent second mortgage), improper or absent verification of the buyer’s credit worthiness, identity theft of the appraiser, altered or invented documents, falsified bank deposits, and so on. These are just a few examples of front-end mortgage fraud. It can also occur when false loan documents are filed. A popular scheme is to file a falsely notarized quit-claim deed: The new owner listed on the deed applies for and receives a mortgage loan on a property that they do not own. Other types of mortgage fraud include undisclosed kickbacks, advanced occupancy misrepresentations, and inflated purchase prices. Mortgage fraud can involve several actors on different levels of the buying platform. The seller, appraiser, real estate agent, buyer, and attorney can all be involved in the plan to commit fraud.

Although some of these tactics were legally acceptable practices in previous years, the combined result has led to the large number of foreclosures in the housing market today.

Reporting inflated income, for example, was once viewed as being somewhat acceptable. The line is crossed, however, when one proceeds from what was once considered “stretching one’s income” to actually falsifying data to obtain a mortgage. The latter is criminal activity. These crimes were easy to commit because there was no regulation or licensing in the industry. Some argue that because this crime was easy to commit, it was also easy to recruit others into committing the criminal act. Even now, homeowners are being counseled to default on their home mortgages because this would be a less painful course of action.

A problem with pinpointing mortgage fraud is the lack of a perceived victim. Some take on a bit of a herd mentality, feeling as though “everyone is doing it.” Others feel that there is no perceived punishment for committing this act and that everyone does something that is “a little bit” wrong. Still others were ushered into fraudulent activities because they thought that they were abiding by generally accepted market practices.

Several relevant research questions arose from the group:

- What role does policy play in foreclosures? What role has federal policy played in encouraging homeownership and the mortgage fraud pandemic?
- What is the spatial distribution of foreclosures and the dynamics of time before default? An example is the targeting of military families to purchase homes they cannot afford.
- What are the causal links between escalated housing prices, mortgage fraud, and foreclosures?

Intimate Partner Violence

Whether utilizing the tenets of social disorganization theory or strain theory, one thing is agreed upon: Economic distress is related to intimate partner violence. Social disorganization theory asserts that neighborhoods with concentrated disadvantages, residential instability, and homogeneous populations tend to have higher crime rates. Although strain theory contends that negative relationships occur between individuals when something of high value is taken away, when a threat or adverse conditions are present, or when something interferes with or threatens to interfere with a goal. Housing foreclosures can be associated with these sources of strain, although not everyone will react violently to these conditions.

Service providers of domestic violence shelters have experienced a recent upsurge in the number of clients. In a review of historical data, domestic violence seems to correlate with poverty. Although the present state of the economy may account for some of the variance, the current state of foreclosures may also account for some of it. Having reviewed recent criminal research, one speaker was convinced that money issues are a predictor of domestic violence. Causal linkages need to be further assessed.

Much research is needed in this area to expand our understanding of the causes for the recent upsurge in domestic violence shelter clients. Several research questions, areas of concern, and issues to contend with were discussed at the meeting:

- More data is needed on the types of foreclosures that occur, and which ones are more likely to be related to domestic violence.
- The loss of employment and dependence on one income in the family may lead to foreclosure (or the threat of foreclosure) and therefore increase strain and possibly lead to domestic violence.

- Some couples may want to divorce but find themselves unable to sell their property in the current market. This situation may also lead to domestic violence.
- The relationship between receiving unemployment benefits (and being unemployed) and domestic violence is another area of concern.
- The upsurge in domestic violence shelter usage may point to a greater need for shelter rather than to an upsurge in domestic violence.
- Foreclosures are changes in ownership but do not necessarily reflect emotional attachments to a space, especially if mortgage fraud is involved. Defining what “home” is may help to determine whether there is a causal relationship between foreclosures and domestic violence.

Ultimately, the question is: Are foreclosures an independent causal influence on domestic violence? When answering this, the issues of child abuse and elder abuse should also be included as relevant concerns.

A related topic is homicide and suicide. In 1933, during the Great Depression, the United States experienced its highest rate of suicide. “Economic circumstances that are risks for suicide include job loss, dealing with bill collectors, loss of retirement or health insurance, foreclosure and eviction” (Simon, April 1, 2009). Persons who are more vulnerable to suicide attempts may be influenced by these factors.

Neighborhood Decline

In the present foreclosure crisis in the United States, when several properties in the same neighborhoods are foreclosed, this often creates mass vacancies in these neighborhoods. “The quality of construction and size of homes and lots does matter” (Wilson, Paulsen, and Taylor, April 1, 2009). Declining neighborhoods being affected by foreclosure are typically those labeled "affordable housing," which is often of poorer quality construction, in smaller housing lots, and with garages at the front of the property, all of which can create opportunities for crime. These are often "starter homes" and are not built for long-term occupancy. These neighborhoods typically experience many social and physical changes, whereas foreclosed homes are often purchased as investment opportunities only. Renters are moving into neighborhoods that once had fewer numbers of rental properties. Social theories will need to be reviewed in light of this new situation.

Crime theories that may be applicable to the relationship between foreclosures and neighborhood decline include: the theory of incivilities, crime pattern theory, and social disorganization theory. The theory of incivilities posits that, in urban settings, the focus is on 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 theory posits that neighborhoods that are well-connected externally are sometimes not well connected internally.

Increasingly, crime is becoming not just an urban problem but also a suburban problem. With the rising number of foreclosed homes, the question remains: Is there a link between foreclosures and the increase in suburban crime? We need to better understand the geography of foreclosures. In home sales data, George Tita found that an increase in violence precedes an increase in the number of home sales in a neighborhood. He further asserts that there are "push–pull" factors in this body of literature that need further exploration. We are left wondering, what is the implication for public housing? How do we manage neighborhoods that face largescale abandonment? How do we entice people to move back into these neighborhoods? Where are all the families going who have been evicted from these foreclosed homes?

Discussion of the relationship between foreclosures and neighborhood changes pointed to several areas where more research is needed. For example, very little research has been conducted on the effects of having to move on the families. What are the effects of this migration on schooling for children and on health care for families? Are there race-based components to these moves? Unoccupied housing is another example. What will we do with empty neighborhoods? We have to figure out how to manage the high level of vacancies. Another concern is the role of gangs in neighborhood crime, and where they fit into this discussion. Neighborhood population density can also be an issue; how can communities be protected from criminal activity in situations where housing construction was halted because of the current economy, leaving the houses unfinished and unoccupied by their owners?

Conclusion

As stated by one of the presenters, Derek Paulsen, “A research agenda focused on foreclosure and crime should be part of a more general effort to facilitate a comprehensive and policy-relevant research agenda.” This is a clear sentiment that seemed to be shared by all of the meeting attendees. Several suggestions were offered for this research agenda, including the following:

- Collect data to establish that there is a link between foreclosures and crime. This can include looking at particular types of crime, the different stages of foreclosure and the opportunities for criminal activity at each stage, the differences in types of neighborhoods in which the foreclosures occur (moderate income areas compared with more affluent and lower income areas), and housing structure.

- Conduct research oriented to preventing crime in neighborhoods with high foreclosure rates.
- Collect data on the true extent of mortgage fraud.
- Understand the law enforcement response to increases in neighborhood crime due to to the rise in housing vacancies and foreclosures. Police departments that have been impacted the most can share the lessons learned.
- Add law enforcement resources to our working models to assess whether there may be fewer law enforcement resources available to address these problems.
- Develop more local information infrastructures. Ongoing data at the neighborhood level is essential.
- Involve the local jurisdictions in devising an appropriate response to crime and not simply leave all of the responsibility to law enforcement.
- Determine, in each case, which came first — did crime cause the foreclosure, or did the foreclosure cause the crime?
- Develop a typology of foreclosure that assesses the time frame for each foreclosure, whether it results in a vacancy, and how soon the home will be reoccupied.
- Conduct research on how foreclosures are related to perceptions of the neighborhood, perceptions of crime, intentions to stay or leave, perceptions of physical disorder, and so on.
- Determine the tipping point regarding the number of foreclosures a neighborhood can absorb before the crime rate begins to increase.
- Conduct research to measure the flow of people into and out of foreclosed properties.
- Determine the long-term effects of foreclosures on neighborhoods.
- Conduct research on how crime patterns change as neighborhoods become more suburban.

- Determine whether there is a link between mortgage fraud and disconnected or unorganized neighborhoods?

Meeting attendees also suggested the need for collecting systematic data, at the national and neighborhood levels, that can be shared. Ultimately, participants at this meeting believe that there is a relationship between foreclosures and crime. Attendees agreed with NIJ’s suggestion that a research agenda is necessary to establish the nature of this relationship. One thing is certain, based on discussions at the meeting: Foreclosures used to be a problem only at the level of the individual homeowner; now, foreclosures have become a problem for entire neighborhoods and communities.