

# THE SPILLOVER EFFECTS OF FORECLOSURES: WHAT CAN BE DONE?

PRESENTATION TO THE  
JEFFERSON COUNTY HOUSING MARKET UPDATE: FORECLOSURE

FEBRUARY 17, 2011



# Spillover Effects of Foreclosures

Homebuyer



Lender



Neighboring property owners, local governments, children, families

Investors, ratings agencies, etc.

# Three Types of Foreclosure Spillovers

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1. Declining Property Values
2. Social Disorder and Crime
3. Local Government Stress

# Falling Property Values

Examples of former resident belongings dumped at curb



# Property Values

- Surrounding properties within 1/8 mile (660 feet) are negatively affected.
- Chicago Study: 0.9% decline; \$159,000 per foreclosure
- Center for Responsible Lending estimate for Jefferson County
  - ▣ Subprime loans originated in 2005-2006
  - ▣ 913 foreclosures affecting 14,463 neighboring homes
  - ▣ Average loss in value \$1,399
  - ▣ Total loss of property value = \$20,228,217

# Crime

- “Broken Windows” Theory
- A 1% increase in foreclosure rate increases the number of violent crimes by 2.33% (Chicago).
- 1.7 violent crimes per 100 houses in high foreclosure neighborhoods versus 0.6 for low foreclosure neighborhoods (Charlotte/Mecklenburg)

# Effects on Children

- 2 million children directly affected; 33,900 in Missouri (2009 estimate, Center for Responsible Lending)
- Educational Effects: frequent moves reduce the chance of graduating from high school by 50%
- Behavioral effects: 20% increased chance of violent behavior in high school
- Health Effects: unstable housing has negative effects on diet and healthy body weight
- Homelessness
- Family stress: divorce, child abuse and addictions

# Falling Local Government Revenues

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1. Declining property tax revenues
2. Delinquent payment of property taxes and utility service fees
3. Rising property tax rates



# Extra Costs to Municipalities

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- Five scenarios: From \$430 to \$34,199 (Chicago Study, 2005)
- Average Cost: \$19,227 (U.S. Congress, Joint Economic Committee)

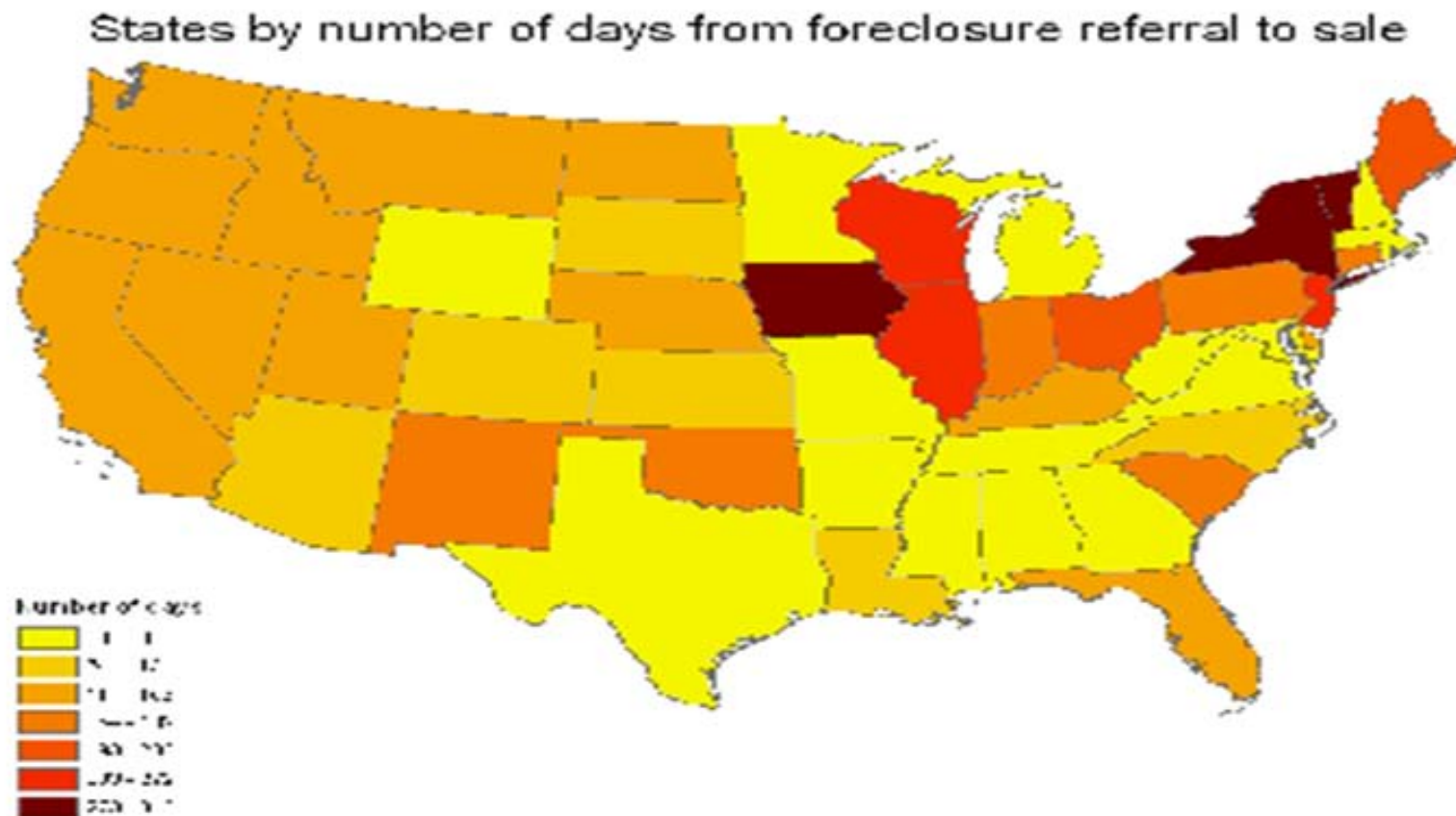
**What Can We Do to  
Prevent Foreclosures?**

# Non-judicial Foreclosure Process in Missouri



Source: Analysis by Amy Crews Cutts and William A. Merritt, "Interventions in Mortgage Default: Policies and Practices to Prevent Home Loss and Lower Costs." In *Borrowing to Live* (Brookings/JCHS, 2008). Based on Freddie Mac data.

# Foreclosure Process and Speed of Foreclosure



Source: Analysis by Amy Crews Cutts and William A. Merritt, "Interventions in Mortgage Default: Policies and Practices to Prevent Home Loss and Lower Costs." In *Borrowing to Live* (Brookings/JCHS, 2008). Based on Freddie Mac data.

# Foreclosure Counseling

- NeighborWorks America: \$475 million of federal support (2007 – today)
  
- Urban Institute Evaluation (2009) of Foreclosure Counseling
  - Over 1 million homeowners have received counseling
  - 60,892 households in experimental and control groups
  - 11% of clients received a loan modification
  - 60% more likely to “cure” a foreclosure
  - Reduced monthly payments (\$454)

# Foreclosure Counseling Can Work



Sue Livingstone

Client of Beyond Housing, St. Louis

“I tried working with my servicer,” Sue said. “They kept putting me off, kept sending notices. They would say things like, ‘Maybe you need to go to church and ask for help.’ You feel worthless. It’s a real self-esteem deflater.

The swift response that their counselor, Linda Ingram, received from her servicer amazed and frustrated Sue.

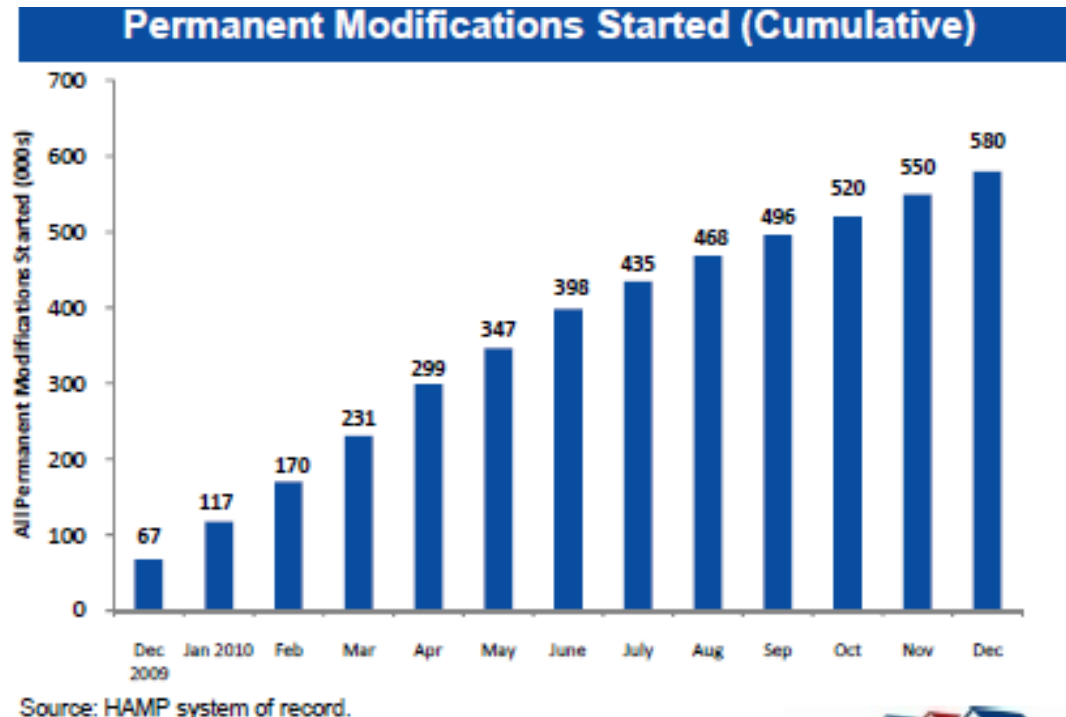
“We brought in all the paperwork, along with the 25 pages of the same documents I had faxed in. [Linda] picked up the phone and got it taken care of. Why did I have to cry for six months, and she just picks up the phone and, poof, it’s done?” she said.

# Home Affordable Modification Program (HAMP)



- Began in March 2009
- \$75 billion
- Loan payments adjusted to 31% of income; median monthly savings = \$520.68
- Incentives to servicers

# HAMP Performance as of January 1, 2011



- Permanent modifications nationwide = 579,650
- Permanent modifications in Missouri = 5,619



# Don't Wait: Act Now!

If ineligible for HAMP, modifications can be worked out directly with the lender.

Banks have ramped up their modifications in recent months.