

EMPTY HOUSES AND BROKEN DREAMS

An Analysis of the
Impact of Foreclosures in
Durham's Neighborhoods



A report from
**The Community
Reinvestment
Association
of North Carolina**



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EXECUTIVE SUMMARY

The mortgage foreclosure crisis will have a strong impact upon homeowners, banks, and the broader real estate market in Durham, North Carolina. The impact will shortchange years of work by the City of Durham, non-profits, and other community development agencies that have sought to reinvigorate declining neighborhoods. In stripping home equity from homeowners, it will wipe out significant assets and remove homeowners from the trajectory of building wealth. Key findings include:

- Seventy-three neighborhoods in Durham County had a home enter foreclosure in the first 10 months of 2007.
- In Durham County, approximately 78 percent of homes in default or foreclosure are resided in by African-Americans.
- A 2007 study found that African-Americans were 3.88 times more likely to pay a high cost interest rate than were non-Hispanic whites in Durham.
- One in six households in the foreclosure process is owned by a person older than 55. Three-quarters of those seniors are African-Americans.
- By contributing to conditions that foster urban blight, foreclosures threaten the outcomes of ongoing City and County efforts in community revitalization and crime reduction.
- The Southside and Fisher Heights neighborhoods have the greatest density of foreclosures.
- Wells Fargo, followed by Countrywide, GMAC, HSBC and Washington Mutual are the lenders with the most homes in foreclosure in Durham.
- There is no one-size-fits all remedy for foreclosures. Some neighborhoods will respond to home ownership programs. Others face more threats and offer fewer financial incentives to redevelopment.

CRA-NC urges lawmakers to prepare a set of policies for the coming wave of mortgage foreclosures. This crisis takes communities in an entirely different direction than the one charted by community development planning agencies. Its roots exist in actions outside of the control of government agencies. Nevertheless, the impact will be felt by not just borrowers and lenders but also by neighborhoods and even within the fiscal health of municipalities. We believe that the foreclosure problem engages policy makers at multiple levels. The appropriate policy response is accordingly inter-jurisdictional.

Going Forward

Many groups have worked together in North Carolina to craft policy on the regulation of financial institutions. We hope that the needs of people in foreclosure will generate that same attention and concern. We offer the following set of suggestions.

At the municipal level:

- Work with nonprofits to provide out reach and counseling to borrowers
- Build capacity among nonprofits to acquire distressed properties in targeted areas. Potentially, create sources of funds to subsidize the resale of distressed properties to Habitat, land trusts, and other community development groups.
- Seek the standardization of shuttering and winterization of foreclosed homes.
- Provide funding for emergency services (food pantries, shelters, et al)

At the state level:

- Expand opportunities for judicial review in the foreclosure process.
- Support efforts to expand the foreclosure prevention program
- Provide financial assistance to borrowers in some instances.
- Provide more funds for affordable rental housing and the NC Housing Trust Fund.
- Disseminate availability of the Hope Hotline at (888) 995-HOPE.
- Provide more funds for housing counselors and legal services.
- Create a revolving loan fund for non-profits to borrow from in order to buy distressed properties.

At the Federal level:

- Support Treasury department efforts to increase flexibility among servicers
- Place a moratorium on rate increases among adjustable rate mortgages
- Enforcement of existing fair lending laws by federal regulators
- Pass anti-predatory lending laws.
- Expand regulatory definitions of deceptive and unfair practices. Require lenders to document a borrower's ability to repay a loan.

Foreclosures in Durham

James Martin has spent almost 20 years paying down his mortgage on his home in Durham, North Carolina. He takes care of his property. He serves on the neighborhood association. Martin, who was a teenager during the Civil Rights era, bought his home by making a way for himself through a career in the Navy. In spite of his contributions, he cannot counter the threat which may hinder all of his efforts at building his assets and his community: the recent string of foreclosures striking at home equity and neighborhood stability. Maybe that is because people are naturally less than forthcoming about not making last month's mortgage payment.

It is a secret, a big one. Milan Woods, by all appearances a peaceful suburban neighborhood of 230 homes, has nine homes that were either foreclosed or experienced a notice of default in the first ten months of 2007.

Milan Woods is not unusual, though. In fact, it is but another example of a neighborhood caught in the wave of foreclosures that have hit the County in 2007. RealtyTrac, an Irvine, California provider of foreclosure data, reports that more than 1000 homes entered some stage of foreclosure in Durham in the first ten months of the 2007 calendar year.

As the attached maps show, they have happened all over the City and County, in neighborhoods of various income levels, ages, and racial makeup.

They have come not just in down-on-their-luck places, but in middle-class areas, too. RealtyTrac includes nine foreclosures records in Woodcroft, eight in Northgate Park, eleven in Old North Durham, and twelve in Parkwood. The increasing occurrence of foreclosures threatens to hurt both the families that experience them and their surrounding neighborhoods, undermining personal stability and community development efforts in the process.

It is not unique to Durham. The U.S. Conference of Mayors suggests that foreclosures will impact communities across the country. Still, the widespread nature of the crisis does little by itself. In a recent report, the group predicts that Durham County will witness a loss of \$97.6 million in gross product, owing to curtailed construction and downward demand for goods¹.

Many of the very loans that first got borrowers into trouble were subprime loans with unfavorable terms. Loans with adjustable rates were widespread. Some held the potential for negative amortization - where borrowers actually

see their equity go down in their home as time passes. Financial innovations such as “stated-income” loans seemed to skirt the chance to evaluate a borrower’s ability to repay a loan.

Race plays a role in this crisis, too. When African-Americans bought a home in 2005 and 2006, they were more than three times as likely as white borrowers to pay a high cost rate on their mortgage compared to white non-Hispanic borrowers. In both years, more than half of African-American borrowers paid a high cost rate on home purchase loans, compared to approximately 17 percent of white borrowers, according to a 2007 study by the Federal Reserve².

Race	Count	Pct. of Foreclosures	Pct. of Voters
Asian	2	0.3%	1.2%
African-American	428	69.7%	37.2%
Indian	2	0.3%	0.2%
White	113	18.4%	57.1%
Other	3	0.5%	2.0%
Unknown	4	0.7%	1.7%
Mixed	3	0.5%	0.6%
Two or More Races, not Black	8	1.3%	**
Two or More Races, Black	51	8.3%	**
Total	614*	100%	100%

* includes the 614 or 1005 foreclosures records at addresses with registered voters
 ** In BOE data, voters choose one designation.

Now African-American borrowers are being hit the hardest by the impact of foreclosures. In Durham County, more than 78 percent of households whose homes were in the process of foreclosure (when race could be identified from voter registration data supplied by the Durham Board of Elections) included African-Americans.

Local data tells the same story as the national statistics. In 2007, a study by the National Community Reinvestment Coalition found that African-American households in Durham were 3.88 times more likely to pay a high cost rate for a home loan than non-Hispanic whites. That was the second highest rate in the nation³.

The impact is not just in poor neighborhoods. It is felt in each House District, in neighborhoods up and down the economic scale.

Milan Woods is one of those well-off neighborhoods. In Census 2000, Martin’s block group had a median income of approximately \$53,000⁴. At the time, that amount of income put in well in the top half of Durham neighborhoods.⁵ The houses, often colored white, tan, or gray, offset by siding and window shutters of colors like black, bright red, blue, and aqua, are large. They sit on large lots with trim lawns and fixtures like

swing sets, trampolines, and grills. Some homes have new fences. Residents have organized to put playground equipment in land set aside for a park. Several speed bumps have been added.

“One of the board’s efforts, my wife encouraged that one,” James says with a chuckle. Every few blocks one notices signs reading

home improvement permits. We were concerned with property upkeep, making sure vehicles in the area had licenses and insurance.”

His years have witnessed a steady, if unspectacular appreciation in housing values.

“When I moved here,” he says, recounting how he built wealth through his home, “homes were



James Martin rakes leaves outside of his home in the Milan Woods subdivision in Durham, North Carolina.

“Children Playing, Slow Down” or “Neighborhood Watch.”

He believes a lot of this comes from the Homeowner’s Association’s proactive efforts. “When I served, we were in charge of all the

worth \$115,000 and lower. But home improvement equity has gone up \$10,000-\$20,000. Homes have a market value over \$135,000 now.”

This is a middle-class neighborhood, with police officers, nurses, and construction workers.

James describes his neighborhood as “about 50% African-American, 40% White, and 10% Hispanic.” He also describes a broad age range of homeowners, “Not all retired. Most fall between 25 and 65. And out of the 230 homes here, I would say maybe 30 homes are for rent.”

Martin boasts that his neighbors come from the “middle class, [working] in corporate America, Duke Hospital, the police department, a few contractors,” in the same breath he acknowledges the underlying truth: “If you miss a paycheck, you might be gone.”

Glossary of the Foreclosure Process

Notice of Default (NOD)

A publicly recorded notice that a property owner has missed scheduled loan payments for a loan secured by a property. Some states require lenders to record a notice of default to begin the foreclosure process.

Real Estate Owned (REO)

Real Estate Owned by the lender, this status indicates the property is now owned by the lender or bank as a result of a foreclosure.

Foreclosure

A process that allows a lender to recover the amount owed on a defaulted loan by selling or taking ownership (repossession) of the property securing the loan. The foreclosure process begins when a borrower/owner defaults on loan payments (usually mortgage payments) and the lender files the necessary documents to begin the foreclosure proceedings.

source: RealtyTrac

Striking at the Elderly and Poor

The foreclosure crisis reaches into all types of neighborhoods, even ones where many residents bought their homes a long time ago. In Durham, CRA-NC’s analysis finds that one in six household in foreclosure is owned by a person older than age 55. To again underscore the imprint of race on this issue, more than three-quarters of those households were African-American.

Gloria Jones has owned her East Durham home for eighteen years. Although she is in her sixties, she still works at running the Steps and Ladders Day Care Center.

She lives in a neighborhood bound by North Driver to the west, Holloway to the north, Raynor to the east, and Taylor to the south. In the first ten months of the year, these blocks have witnessed nine foreclosures. This is not a middle class neighborhood. More than one in six households lives below the poverty line. The homes are older. Almost three in four rent. In 2006, residents in her census tract were almost as likely to refinance their homes (38 times) as they were to take out a mortgage to purchase a home (43 purchase loans)⁶.

“People get older, they’re retiring, and they

just don't have much money from just one source of income," she says, explaining why several foreclosures have occurred in her neighborhood. It is hard enough just getting by, she reasons. "\$600

good happening to foreclosed homes, like at 418 N. Guthrie around the corner. The small house looks like it has already been resold. A bike lies on the grass and garbage bags sit at the curb. A small



Gloria Jones shuts the door to her minivan outside her home on Taylor Street in East Durham. She lives in a neighborhood with many foreclosures. Some homes have been sold in distress on her block in the last few months.

a month does not go far when you are facing a house note every month. And then, you got to look at taxes and upkeep."

Jones surveys her neighborhood from her front porch at 1914 Taylor Street. There is some

banner that reads "It's a Boy!" hangs on the front porch light. 416 N. Guthrie is also a foreclosed property. The grass stands close to knee height. A sign indicates that its pipes are full of antifreeze, so that they will not burst during a bout of cold

weather. An abandoned DirecTV dish perches on the warped roof over a front porch with boarded up windows and door. Just down the broken sidewalk, 412 N. Guthrie looks like it was recently re-sided and cleaned inside but its front yard is all dirt and littered with empty McDonald's boxes, discarded Malt Liquor cans, and an infant's shoe.

Nonetheless, homes do not come back right away. Sometimes, a home sits empty for months. They invite trouble. When they are finally sold, it is often at a much lower price.

Jones is more worried about taking care of the eight infants under her watch than she is about the regulation of mortgages. Still, she knows that 1917 Taylor, across the street, was sold recently to an investor. For the last few months, it has set vacant. The house was winterized, unheated and empty. Dead leaves cover most of the dirt lawn. While a paint crew arrived this week, the gray siding looks faded and the half of the deck has been destroyed.

The passage of the home through foreclosure involved several turns: 1917 Taylor, purchased in November 2006 for \$112,000, was bought out of foreclosure by the trustee in August 2007 for \$72,000. That trustee, the Bank of New York, sold the home in November 2007 for just

\$52,000. In 12 months, the gray house down the street from Gloria Jones lost approximately 54 percent of its value. Vacant homes pose a potential hazard across from her day care.

How did this happen?

What caused foreclosures to strike these neighborhoods? It is the combination of a few things. For one, the continued popularity of adjustable-rate mortgages, which start with low interest rates that often quickly rise to unaffordable levels after only a few years, have caught people off guard.

The economy doesn't make things easy right now. Filling a minivan with regular gas costs \$60. The cost of buying a gallon of milk has increased 21 percent in just the last 12 months⁵. Prices for everything are going up.

Mrs. Jones has a loan with an adjustable interest rate. She has refinanced her property twice, both times through Washington Mutual.

"Up, down, up, down," she says. "It gets too high after so much time and down the road it's a huge payment."

She can explain mortgage terms from real life experience. A good friend lost a house when facing a balloon payment. "She had to let it go. Without

the income, people have to sell the houses.”

It used to be that a borrower could go to their lender and negotiate a means to keep their home. Counseling, both before a borrower takes out a loan and also when a borrower begins to fall into arrears, can make a difference.

Most of the people, when they come in, their mind set is that they want to do whatever it takes to keep the house,” says Angella Coleman, a home ownership counselor with the Durham Affordable Housing Coalition. “For the mortgage company, too, it is in their best interests to have the borrower keep the house instead of getting into foreclosure.”

Working out any arrangement, though, is much harder in an era of mortgage securitization. The mortgage on a home in Durham might have a servicer in Texas, be owned by a mutual fund in California, and see payments collected through a trustee in Boston. Many of the mortgage companies directly connected with most of the city’s foreclosures, like Wells Fargo, Citigroup, HSBC, GMAC, H&R Block, JP Morgan Chase, US Bank and DeutscheBank, are not regulated by the North Carolina Commissioner of Banks. Instead, they answer to regulators such as the Office of the

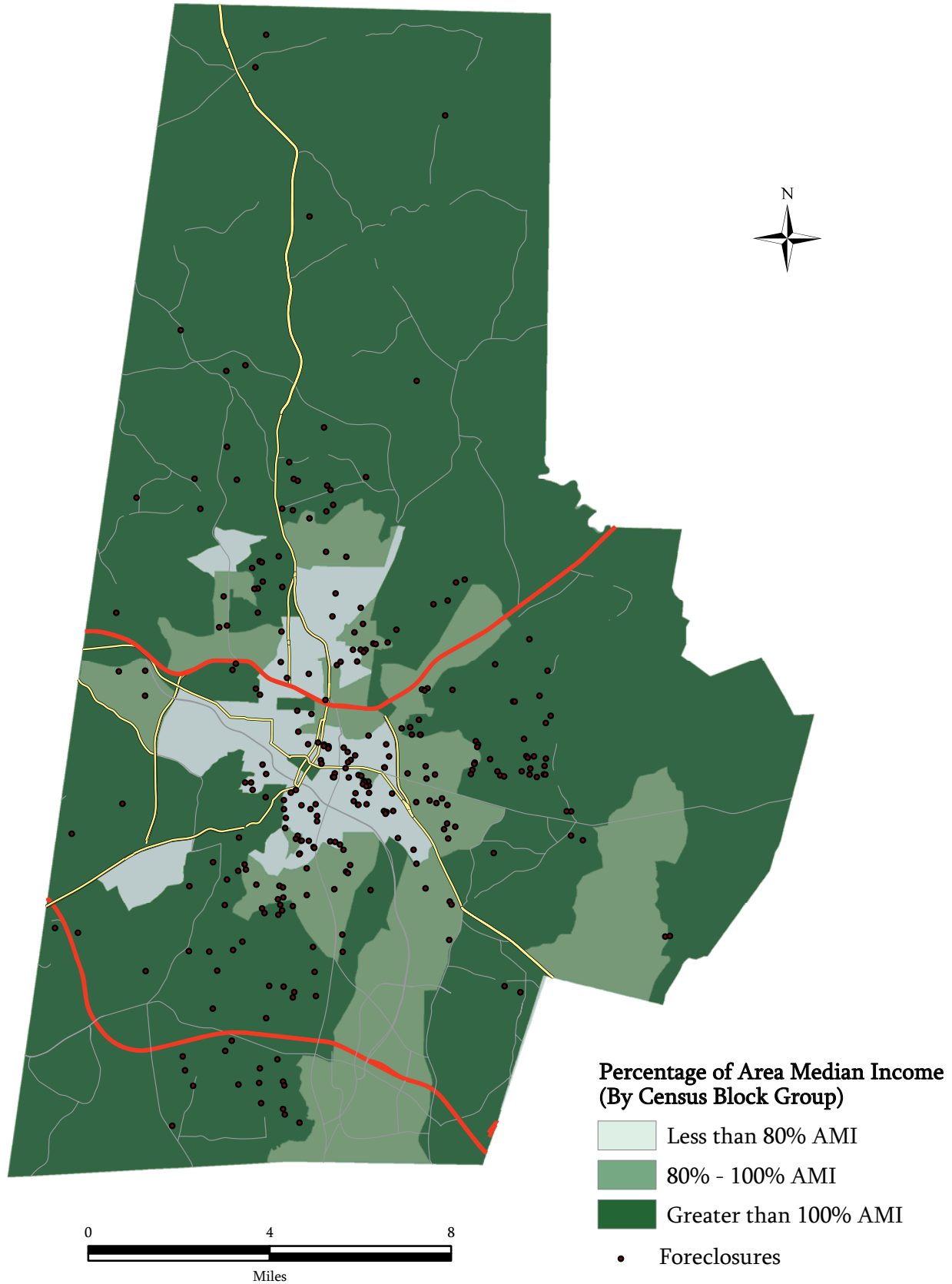
Comptroller of the Currency, the Federal Reserve, or even to overseas regulatory institutions. Page 20 includes a list of the top 20 leading lenders holding mortgages on homes in the foreclosure process.

Neighbors Share the Pain

The price of foreclosures is not confined to just the homeowners, but spreads to their surrounding neighborhoods. Studies suggest that vacant houses can tarnish the image of a neighborhood and make it harder for other homes to be sold⁸. A study conducted by the Woodstock Institute found that foreclosures decrease the property values of the surrounding homes. One reason is that the presence of abandoned homes often contributes to community physical disorder which can “create a haven for criminal activity, discourage social capital formation, and lead to further disinvestment.”⁹ Therefore, while a person may be intimidated by the abundance of loud, zealous dogs in the North Durham neighborhood, it is the slovenly abandoned properties that mask the neighborhood’s assets and hinder investment from within the community or outside of it.

The researchers examined neighborhoods in Chicago. They estimated a 0.9% decline in value

The Intersection Between Property Foreclosure and Income



Sources: Realty trac, 2007; U.S. Census Bureau, 2000

for single family homes within an eighth of a mile of a foreclosed property.¹⁰ The 3,750 foreclosures in Chicago in 1997-1998 led to an overall loss of \$598 million, or \$159,000 per foreclosure. They also found heightened effects when isolating low and moderate-income census tracts. That would translate into an average loss of \$1,155 per home in Durham, based on the average 2000 Census value for owner-occupied homes of \$128,300¹¹.

Even as Mrs. Jones continues to make her payments, though, foreclosures in her neighborhood threaten her finances. Once in foreclosure, homes

are sold to liquidate debt and not at the highest potential price. Ultimately, distress sales reduce the value of surrounding homes. Subsequent appraisals, using comparable valuation methods, will incorporate the lower sale amount into estimates of the value of surrounding homes. That will matter if the Jones or her heirs ever seek to sell 1914 Taylor.

In the meantime, foreclosures set the conditions for urban blight. After foreclosure, a home can sit vacant for some time. That creates problems.

Rank	Neighborhood	Square Miles	Foreclosures	Foreclosures/sq mile
1	Southside Neighborhood	0.09	11	124.87
2	Fisher Heights	0.08	6	77.56
3	Riddle Heights	0.03	2	74.65
4	C.C. Spaulding	0.10	6	62.71
5	Milan Woods	0.15	9	58.22
6	Marquis-Pierre	0.02	1	56.96
7	Cleveland-Holloway	0.23	13	56.78
8	Sun Ridge	0.02	1	49.46
9	Albright	0.15	7	46.60
10	Buckwater	0.06	3	46.22
11	Rawdon	0.02	1	43.97
12	Ridges at Parkwood	0.07	3	43.72
13	Unity Village	0.05	2	37.53
14	Colonial Village	0.22	8	36.72
15	Lassiter St.	0.03	1	36.20
16	Abercromby	0.03	1	29.56
17	Grand Park	0.07	2	28.20
18	Old North Durham	0.40	11	27.54
19	Horton Hills	0.19	5	26.12
20	Greyson's Green	0.72	18	25.08

This shows the density of foreclosures within areas that have neighborhood associations. Data comes from Realty Trac and from Durham County.

East Durham, where Gloria Jones lives, is in an area that has been the attention of significant efforts at community revitalization. Most recently, the Durham Police Department has begun a program, Operation Bulls Eye, to reduce crime in a 2-mile area that includes Taylor Street.

“In the Bulls Eye area, we have 3,400 houses,” says Major B.J. Council of the Durham



RealtyTrac identifies this Northern Durham as in the process of foreclosure.

Police Department. “We went out to tell people what’s coming [with the Bulls Eye program]. They were able to find a reason to believe that people were living at 2,825 addresses. 599 were vacant or abandoned.”

Council says vacant, boarded-up homes confound efforts at building a neighborhood.

“Vacant and abandoned is contributing to blight. It is the broken window theory. You cannot get around it. You have more stability when you have people owning property. People have a tendency to take care of their homes and build communities. It is hard to create a community when people are not living there. Vacant homes are definitely a problem. We were shocked.”

After a Borrower Falls Behind

Once in trouble, it is hard for a borrower to turn things around. This is probably especially true this year, when prices for staples like gasoline and food

have risen considerably. When a borrower falls behind, the securitization market makes it more difficult for borrowers to renegotiate the terms of their mortgage. Extending repayment, for example, might not even involve of the mortgage, but also the servicer.

Records of recent sales of homes at auction suggest that poor underwriting swamped borrowers in unwieldy loans. In a set of December and January foreclosure sales of 189 homes by one North Carolina trustee (Grady & Ingle, LLP), only twenty went for a price that was higher than the outstanding mortgage. In several cases, the winning bidder only paid \$1 more than initial price.¹²

The market is saying that outstanding mortgage debts on these properties still exceed the underlying value of the homes. The fact that most were originally underwritten for even larger sums points to mistakes made by loan underwriters.

Some help is on the way to prevent foreclosures in the future. A new North Carolina law, the North Carolina Home Loan Protection Act, will place protections on loans made beginning in 2008. A new federal plan will freeze interest rates on some adjustable-rate mortgages.

These actions may help staunch the pace of future foreclosures. Nonetheless, they will not address the pain of foreclosures that have already occurred. There is no doubt that helping families who have been foreclosed is a good thing, but eventually we must stem the tide and try to

Foreclosure Reports by Neighborhood

Cleveland-Holloway	13
Parkwood	12
Southside	11
Old North Durham	11
Milan Woods	9
Hope Valley Farms North	9
Woodcroft	9
Colonial Village	8
Northgate Park	8
Latta Road	8
Albright	7
Fisher Heights	6
C.C. Spaulding	6
Grove Park	6
Duke Park	6
Horton Hills	5
Watts Hospital-Hillandale	5

Includes homes at addresses within designated neighborhoods notification zones, in neighborhoods with five or more notices of default or auction sales recorded in the first 10 months of 2007. In some cases, neighborhood notification zones exceed the perceived or real boundaries of neighborhoods. Whenever possible, the names of neighborhoods whose notification area exceeds the neighborhood's physical footprint have been removed from this list.

About this project

CRA-NC utilized data from RealtyTrac, a provider of mortgage foreclosure records, to analyze the foreclosure crisis within Durham County, North Carolina. The selected data included mortgage foreclosures in the first ten months of 2007. The properties in the data set included both bank-owned properties as well as notice of default listings. The data was supplemented by interviews and visits with neighborhood residents and community leaders.

We subsequently paired foreclosure data with addresses of registered voters. This data came from the most current records at the Durham County Board of Elections.

Mapping data comes from Census 2000. Neighborhood definitions come from the City of Durham's list of neighborhood notification areas.

prevent them from happening so excessively in the first place. Safe and affordable housing can be the basis for creating neighborhood stability and fostering community values but foreclosures stand as obstacles to that aim with their distressing impacts.

For borrowers who are falling behind on their mortgages, housing counseling can make a difference. But a lot of people do not know about their options, or they avoid facing the problems.

"People feel shameful," says Coleman. "I think sometimes that is why people do not go for help."

Coleman estimates that she must spend between one and a half to two and a half hours on an initial consultation with a borrower in a loss mitigation session. Subsequent negotiations require more time. There are five basic options for borrowers. In a repayment plan (where a borrower catches up on payments over time), a loan modification (where the terms of the loan are changed), or a partial claim (where HUD steps in with an interest-free subordinated loan), the arrangement allows borrowers to stay in their home. In a short sale or a deed-in-lieu of foreclosure, borrowers give up their home.

Undermining Years of Community Development

Individuals are not the only ones who have committed to fixing up homes in these neighborhoods, and thus not the only ones whose efforts are put at risk when foreclosures threaten

to sap property values. Their work takes place side-by-side with efforts by the City of Durham's Community Development Department and several non-profits. The City of Durham is working to revitalizing several of its neighborhoods, including Lakewood, Cleveland Holloway, Northeast Central Durham, Morehead Hills, Southside, Burch Avenue, and Lyons Park. They have numerous projects in place.

Nonetheless, each additional foreclosure threatens to undermine the years of revitalization that has already taken place. In Jones' neighborhood, Durham Public Schools has begun a joint \$13.5 million City-County effort to rehabilitate the abandoned Holton Middle School at 401 N. Driver Street into a recreation and job training center. It is a strategy that seeks to not only bring opportunities to an impoverished part of a city, but also to make it tougher for crime to ferment by reducing the amount of blight.

Durham's Weed and Seed program, operating in the Hayti neighborhood with U.S. Department of Justice funding, works on the logic that community revitalization goes hand in hand with crime reduction.¹³ Similarly, the City of Durham Police Department's participation in

the Partnership Against Crime program utilizes community involvement.

When a family cannot make payments and lets their home go into foreclosure, the resulting loss of equity can undo years of savings. The foreclosure crisis matters because it strikes at one of the most widespread and certain safety nets for American families. Owning a home is an important, and sometimes the only, means for all families to build wealth. Conventional wisdom says that the value of a home will increase over time. It takes sacrifice. Homeowners repay mortgage loans over a lengthy period of time, typically between fifteen and thirty years. Yet the discipline pays off. A home can generate assets to pass from one generation to the next. Assets, in turn, create opportunities for things like college educations. Assets shield a family from hardship.

Once off the wealth trajectory, getting back can be challenging. A foreclosure stays on record for up to seven years. According to a report from the PEW Research Center, the median net worth of renters is only one percent of the level of the net worth of homeowners.¹⁴

African-American families have less of a safety net in the first place. Median household

income in Jones' ninety percent minority census tract is approximately \$30,000, or less than half the average in the entire Durham metro area. Chances are that most of the families in the tract lag other Durham residents in terms of assets by an even larger multiple. A 2004 study found that median net worth among African-American households was just \$5,988, less than one-tenth of the \$88,651 for white households.¹³

The same 2004 study found that home equity accounted for about two-thirds of the mean net worth of Hispanic and African-American households. Owning a home is the most common path, instead of stocks or bond, through which minority families build wealth. Foreclosures will only widen the wealth gap between racial and ethnic groups.

Coming Back

There were more foreclosures in the 3rd quarter of 2007 than in any period since the Mortgage Bankers Association began tracking them in 1972¹⁴. Mortgage delinquency data suggests that more foreclosures are on the way. Almost six percent of mortgages are considered delinquent, the highest level since 1986¹⁵.

Countrywide Home Loans, the nation's largest lender, said that delinquencies and foreclosures on the 9.03 million loans in its mortgage servicing portfolio rose to their highest rates since records were first kept during December 2007.¹⁶

The scale of the problem leads to questions about how it can be resolved. The machinations of the market, acting independently, will find a means to attract buyers.

Evidence of work being done on homes coming out of foreclosure is evident in Durham.

It can be seen in Gloria Jones' neighborhood. At 610 N. Driver in East Durham, four men work to renovate a foreclosed property. Someone is interested in fixing it up for resale and commissioned the crew. One man uses a roller to paint the front steps a vivid burnt-orange. "It's going well," he says.

Two doors down, 606 N. Driver has also been renovated. "Individuals are buying the properties and fixing them up," says Aidil Collins, an organizer with Uplift East Durham¹⁷.

Larger efforts are underway in Southside that should produce the kind of systemic support that might be a model for non-profit intermediation in the foreclosure crisis. Self-Help's Credit Union is buying distressed homes in this neighborhood, which

itself has witnessed 11 homes enter the foreclosure process.

It is one of two demonstration projects that Self-Help is operating in North Carolina. They hope to rehabilitate these homes and then sell them to local groups like Habitat or the Durham County Land Trust at subsidized rates. Those groups would offer the homes to first time home buyers, low and moderate income applicants, and other targeted groups.

They are working closely with the Southside Neighborhood Association.

"It's a new lease on our life," says Southside Neighborhood Association President Ray Eurquhart. "We get a chance to buy up all up of these dilapidated homes. We got a partnership with Self-Help. They are buying lots, maybe fifty. We are going to put a fence around and put in a community center, do workshops. Train people to do construction."

To replicate that effort, though, will require subsidies to allow non-profits to resell homes at low prices. Another group would also need a source of low-cost funds to buy and hold properties. Evan Covington-Chavez, Residential Development Director for the project, estimates that such an endeavor would need the ability to access funds at an interest rate of no more than two percent.

"If we can prove that this will work," she says, "then there will be other non-profits and City governments that will say 'we now know what works.' We can do it to make a difference in hard hit distressed neighborhoods. But to buy and hold the distressed properties, you are going to need that revolving loan fund."

Foreclosures have struck in almost every neighborhood in Durham County. Just looking at the foreclosures that have occurred in communities with neighborhood associations reveals the startling fact that 73 neighborhoods contained a home that went into foreclosure in the first ten months of 2007. Many other homes went into the process in places that are beyond the boundaries of a subdivision.

Trends indicate that the pace of foreclosures are increasing. One recent study by the North Carolina Administrative Office of the Courts and the North Carolina Commissioner of Banks identified 1,707 homes in one stage of foreclosure in Durham County at the end of the year. That would point to an acceleration after the period of this study.

Most likely, the paths that neighborhoods take in revitalization will cluster into some common patterns. The market splits two ways. Some homes can be turned back on to the market with minimal amounts of cash. Those situations often consist of

homes that are relatively new, located in desirable subdivision. Then, restoration is only a matter of new paint, light landscaping, and minimal repairs. Milan Woods is that kind of place. Most likely, a foreclosure strategy will exit through homeownership.

On the other hand, some neighborhoods are full of homes where the cost of fix-ups would make a home ownership program infeasible beyond a limited scale. Each home requires substantial investment.

“You will not be able to turn them around in a month,” says Covington-Chavez. “You will need twenty to thirty thousand dollars in renovation to occupy each one.”

For these homes, the set of fixes are less optimistic. These include neighborhoods with high rates of non-owner occupied rental housing. The threat of foreclosure is but one additional environmental threat to overall stability. Crime, lack of jobs, deteriorating housing stock, and other problems are already present. In this pattern, where residents were renting in the first place, home ownership does not fit as well.

Gloria Jones’ East Durham neighborhood fits this pattern. Already, some homes are being purchased and outfitted as rental properties. The

margins are tight. It is less likely that as many homeowners, behind on payments, can “stay and pay” through a lease-purchase program, nor is it likely that distressed homes, upon repair, will regain \$30,000 in value after a quick turnaround.

The stories revealed by homeowners in East Durham and Milan Woods could be found elsewhere, in neighborhoods as different as Woodcroft, Parkwood, or Glendale Heights.

Gloria Jones is one of many who are feeling pressure today.

“We’re down on our luck,” she says. She doesn’t have much hope that a turnaround will help her, either.

“There is nobody who is going to uplift us.”

Breakout: Policy proposals

At the Municipal level:

Work with nonprofits to provide outreach and counseling to borrowers.

- Studies show that community-based foreclosure prevention can keep borrowers in homes while at the same time representing the interests of investors, lenders, and servicers.
- In comparing the rate of recidivism among borrowers who got counseling with those who didn't, counseled borrowers were almost half as likely to fall back into delinquency within 12 months.
- Utilize non-profits as intermediaries, instead of corporate servicers, can make a difference. Borrowers may react differently when they believe that an intermediary does not have a financial stake in the resolution of their loan.

Incentivize non-profits to acquire distressed properties in targeted areas.

- Durham is a community with an active set of non-profits capable of turning around these homes.
- Non-profits can land bank both lots and homes to develop long-term plans that guarantee a mix of affordability in communities that are otherwise facing gentrification or high percentage of non-owner occupancy/investor ownership. One Durham non-profit (Self-Help) has already established this practice in the Southside and Lakeview neighborhoods in Durham.
- Becomes an opportunity for non-profits to build assets.

Develop procedures for shuttering and winterization of homes.

- Work with inspections department to insure uniform lock-up procedures.
- Standards for protecting pipes, HVAC units, and other assets that can break or be the target of opportunistic crime.
- Include observation of foreclosed homes in procedures for community policing.

Expect more demand for emergency services (food pantries, emergency shelter) for families immediately after eviction from a foreclosure.

At the State level:

Support efforts to expand the foreclosure prevention program.

- Ongoing post-purchase counseling to protect home ownership. These programs provide tips on housing maintenance, education about predatory loans, and budgeting. These programs do not prevent foreclosures directly.

Encourage servicers to work out loan modification, forbearance, and partial claim workouts.

- Studies indicate that mortgage foreclosure prevention programs are cost-effective². The collective costs associated with one foreclosure, by one estimate, exceed the costs experienced by all parties (servicers, investors, counselors, lenders) in four successful workouts³.

Allocate funds for financial assistance for borrowers

- Rates of recidivism were as low as 5 percent in cases where borrowers received financial assistance.
- A 1995 study in Minneapolis found that when interveners could bring financial resources (making a few payments, reduced interest rates, silent second mortgages), that more than 95 percent of borrowers stayed out of delinquency⁴.

Increase funding for housing counselors and for legal aide to low-income homeowners.

- In most cases, a non-profit would need to add staff or at least add to its budget in order to handle an increased case load of housing counseling.⁵
- Consider funding for legal assistance for borrowers who need help getting out of predatory loans.
- Recognize that one impact of foreclosures will be an increase in demand for affordable rental housing.

Expand judicial review in the foreclosure process.

Create a revolving loan fund to finance the short-term acquisition and rehabilitation of foreclosed homes by non-profits

At the Federal level:

Pass anti-predatory lending laws that reflects the new challenges brought out by recent innovations in financial products.

- H.R. 3609, the "Emergency Home Ownership and Mortgage Equity Protection Act."
- S 2636, the Housing Stimulus Bill, sponsored by Senator Dick Durbin (D-IL), to give borrowers in foreclosure a chance to "pay and stay."

Seek flexibility with servicers in working out loan modification plans

Expand Home Mortgage Disclosure Act data to include notations for relevant characteristics:

- loan characteristics: (loan-to-value, adjustable rate, stated-income)
- borrower characteristics (age, credit score) in today's market of innovative financial products and risk-based lending.

Expand the moratorium on rate increases among adjustable-rate mortgages.

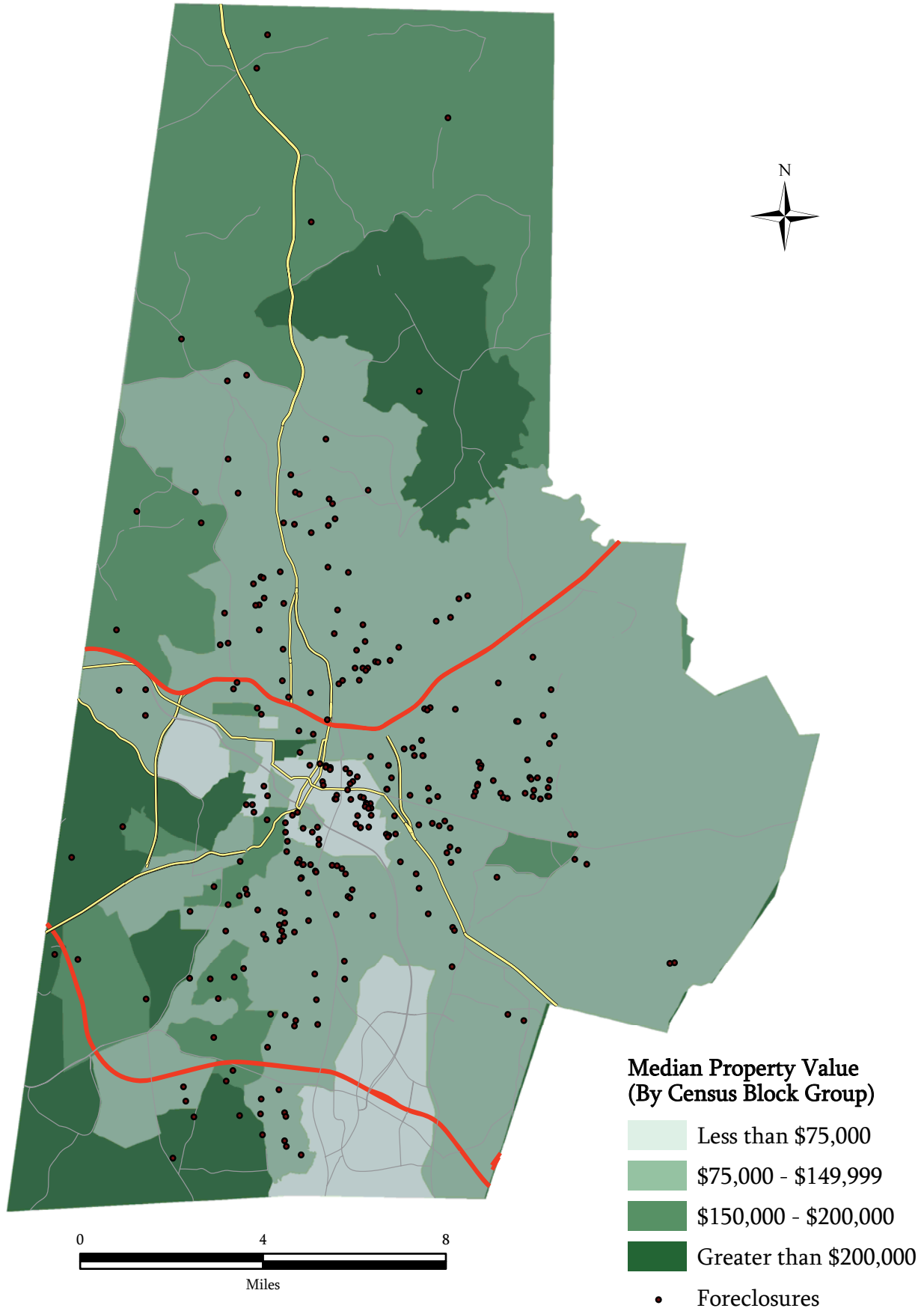
Address unfair and deceptive lending practices. Require that lender evaluate loans based upon borrower's ability to repay the loan. Declare that it is an example of an unfair or deceptive practice to:

- exclude from repayment analysis the cost of escrows and taxes.
- fail to verify and account for all sources of income using tax or payroll records, bank account statements or other reasonable substitutes.
- Include prepayment penalties

Establish lender liability for loans originated through brokers.

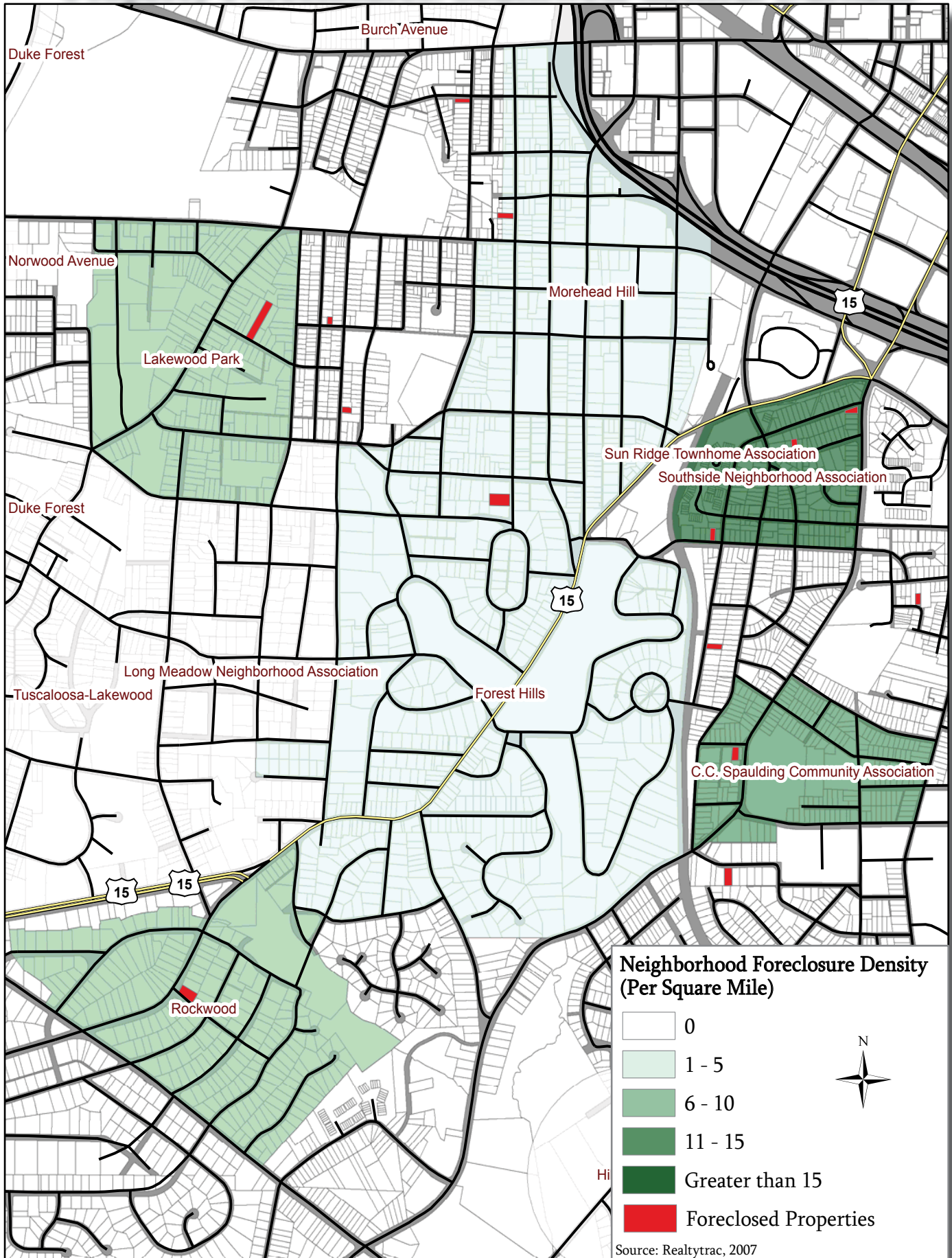
Seek to utilize the laws that are already on the books. Enforce existing fair lending laws by federal regulators.

The Intersection Between Property Foreclosure and Property Value



Sources: Realty trac, 2007; U.S. Census Bureau, 2000

Property Foreclosures: Southwest Central Durham



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Foreclosure Activity by Lender (top 20)

Rank	Lender Name*	Notice of Default	REO
1	Wells Fargo	61	10
2	Countrywide	38	8
3	GMAC	35	4
4	HSBC	22	10
5	Washington Mutual	22	9
6	Bank of America	17	10
7	Bank of New York	17	10
8	JP Morgan Chase	22	4
9	Branch Bank & Trust	16	9
10	Citigroup	20	4
11	Deutsche Bank	18	5
12	US Bank	17	6
13	SunTrust	18	4
14	H&R Block	21	0
15	Fremont	16	4
16	Merrill Lynch	15	3
17	City of Durham	14	1
18	Ameriquest	11	3
19	Fannie Mae	0	11
20	Regions Financial	9	0

***-includes all subsidiaries. For example, H&R Block includes loans from both H&R Block Mortgage and Option One.**
-Some corporations hold the note as a balance sheet lender, others through purchases on the secondary market.

Property Foreclosures: South Durham

