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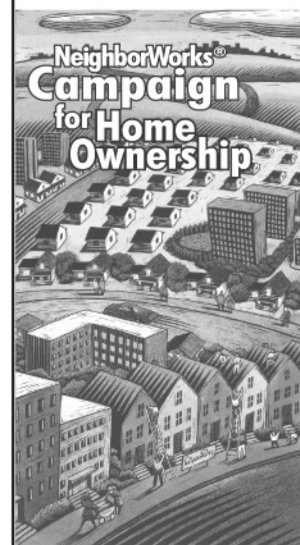
Mortgage Foreclosures in Atlanta: Patterns and Policy Issues

A Report Prepared for
NeighborWorks® America

Mark Duda and William C. Apgar

December 15, 2005



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About This Report

Metropolitan Atlanta is experiencing a foreclosure boom as the number of failed mortgages more than doubled in less than five years, between 2000 and 2005. These foreclosures impose significant costs not only on borrowers and lenders, but also on municipal governments, neighboring homeowners and others with a financial interest in nearby properties. As a result, foreclosure avoidance strategies must involve not only federal, state and local public agencies, but also responsible mortgage industry officials, consumer groups, and community-based, not-for profit organizations.

This report was commissioned by Doug Dylla at NeighborWorks® America to help build awareness of foreclosure problems and craft a comprehensive foreclosure-avoidance strategy for metropolitan Atlanta. The work presented here serves as a companion to the Foreclosure Prevention Forum cosponsored by NeighborWorks® America and the Atlanta Federal Reserve on May 23, 2005. The forum brought together more than 150 leaders from the mortgage industry, state and local government, the advocacy community, and academic and policy researchers. These participants generated a variety of collaborative approaches to address issues related to mortgage failures and foreclosures in the Atlanta region.

The report was written and researched by Mark Duda and William Apgar. It expands on research presented by Duda at the forum and is intended to characterize the current situation with respect to mortgage failures in metropolitan Atlanta, as well as previous research completed by the authors on foreclosure avoidance in Chicago and Los Angeles. The foreclosure data used in this report were generously provided by EquiSystems, LLC, producer of the *Atlanta Foreclosure Report.*

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Report Contents

About This Report ii
Report Authors ii
Report Contents iii
List of Maps and Figures iv
Executive Summary: Foreclosure Trends and Public Policy Concerns in Metropolitan Atlanta v
Spatial Distribution: Severe Clusters Exist, But Areas of Elevated Foreclosure Are Also Found Throughout Metropolitan Atlanta v
Abusive Lending Practices Work to Elevate Atlanta-Area Foreclosures vi
Potential for Stakeholders to Reduce Foreclosure Prevalence and Impact vii
Summary ix
Section 1: Introduction and Background 1
Metropolitan Atlanta and Its Housing Market 1
Section 2: Foreclosure Trends by Neighborhood Socioeconomic Characteristics 4
Data and Methods 4
Characteristics of High-Foreclosure Tracts 6
Filing Patterns by Tract Income Quintile 8
Filing Patterns by Tract Minority Share 8
Income and Racial Patterns 9
Mapping Foreclosure Patterns 12
Summary 14
Section 3: Trends in High Foreclosure Rate Areas 15
Leading Foreclosure-Filing Entities in Metropolitan Atlanta 15
Activity in Tracts With High Foreclosure Rates 17
Characteristics of Quick Failing Loans 19
Quick Foreclosures and Nonprime Lending Shares 24
Summary 25
Section 4: Policy Discussion 26
Policy Focus #1: Enhance the Ability to Monitor and Assess Foreclosure Patterns 26
Policy Focus #2: Work to Minimize the Adverse Consequences of Inevitable Foreclosures 28
Policy Focus #3: Reduce Foreclosures by Reducing the Incidence of Abusive Lending 32
Appendix: Data Cleaning and Preparation 35

List of Maps and Figures

Figure 1-1: Atlanta's Demographic and Housing Characteristics in Context 2
Figure 1-2: Atlanta's Steady Price Growth, 1987:1-2005:1 3
Map 2-1: Metropolitan Atlanta: The 12 County Study Area 5
Figure 2-1: Summary of Foreclosure Records, 2000:1-2005:1 6
Figure 2-2: Characteristics of High Foreclosure Rate Neighborhoods...................................7
Figure 2-3: Foreclosure Filing Rates Decline as Neighborhood Income Rises.......................8
Figure 2-4: Tract Racial Composition Linked to Foreclosure Propensity..............................9
Figure 2-5: Annual Foreclosure Rates by Tract Race Controlling for Tract Income 10
Figure 2-6: Filing Counts and Rates by Income and Race Groupings 11
Figure 2-7: Nonprime Lending Share by Income and Race 11
Map 2-2: High Filing Rate Neighborhoods Are Highly Concentrated 13
Map 2-3: The Overlap Between Income, Race and Foreclosure Activity 14
Figure 3-1: Leading Foreclosure Filing Entities in Atlanta Institutions Exceeding 500 Filings, 2000:1–2005:1 16
Figure 3-2: Filing Volume Leaders in Tracts with High Filing Rates..................................18
Figure 3-3: Age of Failed Loans, 2000:1–2005:1..20
Figure 3-4: Tract Characteristics by Quick Foreclosure Filing Share 21
Map 3-1: Tracts in the Top Quintile for Quick-Foreclosure Shares.................................22
Figure 3-5: Entities Ranked by Quick Filing Share in High Foreclosure Tracts..................23
Figure 3-6: Tract Nonprime Lending Share and Foreclosure Rates.....................................24
Map 3-2: The Overlap Between Nonprime Lending and Quick Foreclosures..................25
Figure A-1: Impact of Data Cleaning 35
Figure A-2: Building Permits Issued in Study Counties, 2000:1–2004:4 36

Executive Summary: Foreclosure Trends and Public Policy Concerns in Metropolitan Atlanta

Foreclosures are on the rise in low-income and minority neighborhoods across the country, and Atlanta is no exception. Many of these foreclosures impose significant costs not only on borrowers and lenders, but also on municipal governments, neighboring homeowners and others with a financial interest in nearby properties. As a result, developing appropriate foreclosure-avoidance strategies must involve the collective effort of federal, state and local public agencies, working in cooperation with responsible mortgage industry officials, consumer groups, and community-based, not-for-profit organizations, all of whom have a significant stake in mitigating the problems generated by the ongoing foreclosure boom. Such cooperative efforts are needed both to minimize the adverse consequences of foreclosures and to address the abusive lending practices that are at the heart of many of Atlanta's foreclosure-related problems.

Using data from the 2000 Census, the Home Mortgage Disclosure Act (HMDA), and foreclosure filings in 12 Atlanta counties, this report presents an assessment of the spatial distribution of foreclosure filings, the characteristics of the loans involved, and the entities involved in foreclosure activity. The study covers the period beginning January 2000 and ending in March 2005. Foreclosure filing data were obtained from EquiSystems, LLC, publishers of *The Atlanta Foreclosure Report,* a listing of all properties scheduled to be sold at the monthly foreclosure auction and the leading provider of foreclosure data for the Atlanta region. Since not all homes listed are ultimately sold at auction, in effect, the database is a comprehensive listing of properties with loans that are severely delinquent enough that they come within a few weeks of being offered at auction.

The findings that emerge from this analysis fall into three categories: (1) those concerning the spatial distribution of foreclosure activity; (2) those concerning the extent to which elevated foreclosure filing rates appear to be linked to abusive lending practices; and (3) those concerning the potential for public, private and not-for-profit leaders to take action to reduce the number of loans entering foreclosure and to minimize the costs that result from those foreclosures that do occur. The remainder of this summary discusses findings in these three areas.

Spatial Distribution: Severe Clusters Exist, But Areas of Elevated Foreclosure Are Also Found Throughout Metropolitan Atlanta

As is true elsewhere, many of Atlanta's foreclosure filings concentrate in hotspots — typically urban, lower-income, minority communities with older housing stock. These areas saw the highest foreclosure rates anywhere in the metropolitan area. Some suburban areas are also hard hit, including places with high minority shares and some in newly built subdivisions. Key findings from this portion of the analysis include:

- Over the past five years, some 90,000 different homes in the 12-county study area were listed to be sold at the monthly foreclosure auction. This translates into roughly

one in ten homes with a mortgage having experienced extremely severe delinquency, if not full foreclosure.

- On an annual basis, the rate of foreclosure filings is nearly twice as high in the city (3 percent) as the suburbs (1.7 percent). Nonetheless, because there are many more suburban housing units, three-quarters of all foreclosure actions over the study period relate to suburban homes.

- The most intense foreclosure activity occurs in a concentrated band running east-west across the southern portion of the city and extending into the suburbs. Within this band, low-income/high and/or minority share areas have especially high filing rates.

- Inside the I-285 perimeter, foreclosure actions were initiated on 7.8 percent of mortgaged homes *annually* in neighborhoods where median incomes were below $35,000 and minorities account for more than 80 percent of the population. In areas outside the perimeter with these same income and racial characteristics, the annual filing rate was 4.5 percent — well above the suburban average of 1.7 percent.

- In mostly white areas (those where minorities are less than 20 percent of the population) in the highest income quintile (tract median income greater than $71,000) in the city and suburbs, annual foreclosure filing rates were 0.5 and 0.7, respectively.

- Despite the extremely high foreclosure rates in lowest income and largely minority areas, the foreclosure boom is impacting neighborhoods across the metropolitan area. Close to half of all foreclosure actions (38,735 of 90,109) took place in suburban neighborhoods that are either integrated or largely white and with incomes at or above Atlanta's median.

Abusive Lending Practices Work to Elevate Atlanta-Area Foreclosures

Many of today's foreclosures are an unanticipated but legitimate side effect of the long-awaited increase in credit access among traditionally underserved borrowers and neighborhoods. One natural consequence of extending credit to higher-risk borrowers is that a larger share of borrowers will face delinquency and default than was the case when loans were only made to less risky borrowers. In addition to this "natural increase" in mortgage failures, however, the proliferation of alternative mortgage products and origination channels on which the credit expansion has been built provides cover for a subset of entities engaged in highly foreclosure-prone lending. One sign of such activity is relatively high shares of loans that fail soon after origination — reflecting in many, though not all, cases inadequate attention to the borrower's ability to repay.[1] While "quick fail" loans can be symptomatic of

[1] It is important to note the difference between the time it takes for a borrower to face foreclosure filing and the time it takes a lender to foreclose on a delinquent borrower. The first period relates to the quality of the underwriting and loan servicing. A borrower who quickly falls into delinquency is suggestive of a breakdown in oversight and/or underwriting standards. The speed at which a lender is able to execute a foreclosure action is a function of applicable state law. As a "non-judicial" state, Georgia allows servicers/noteholders to quickly (some say too quickly) pursue a foreclosure action, while consumers are afforded few legal protections that

originations by brokers who get paid at origination and thus have little stake in the survival of the loan, some quick fails occur on refinance loans to owners with considerable equity. Such loans pose little risk to the noteholder, even if the loan fails quickly, because any losses as well as substantial fees can be covered out of the proceeds of the foreclosure sale (all in addition to often substantial origination fees on the loan). Such practices persist due to a lack of due diligence among some loan funders and a regulatory environment that has not kept pace with the range of behaviors used to defraud vulnerable owners of their accumulated home equity. Findings related to these issues include the following:

- Almost a fifth (18.8 percent) of foreclosure filings over the study period were registered either in the same year the loan was originated or the subsequent year.

- Areas with the highest shares of nonprime lending also have the highest foreclosure rates. Of the 132 tracts in the highest foreclosure filing rate category, two-thirds are also in the highest nonprime share grouping (greater than 20 percent nonprime).

- The nation's largest players in the mortgage industry are the most active foreclosure filing entities in Atlanta's neighborhoods with the highest filing rates. Whether they originated the failed loans, purchased them later, or operate in a servicing role, these institutions have a strong financial and reputational interest in participating in foreclosure avoidance and loss mitigation efforts, as well as in improving origination performance in these areas.

- Loans that fail soon after origination are a larger share of overall foreclosure activity in high foreclosure areas. Moreover, areas where a high share of failed loans failed quickly are more likely to be areas of elevated levels of nonprime lending and have higher concentrations of minority and low-income households.

- A handful of smaller entities have relatively high shares of their total failed loans that fall into the "quick foreclosure" category. Subjecting these "quick-foreclosers" to greater regulatory scrutiny could help establish a clearer link between potentially abusive lending and elevated rates of foreclosure. Such a strategy would be especially effective in helping to determine the cause of pockets of activity that are scattered across Atlanta's suburbs, including among new homes.

Potential for Stakeholders to Reduce Foreclosure Prevalence and Impact

With Atlanta's foreclosures more than doubling over the last few years, it is essential to find ways to minimize their associated economic and social costs that impact a wide range of stakeholders. In addition to their obvious impacts on distressed borrowers, foreclosures generate losses for the mortgage industry, stress already tight county and local governments that provide the infrastructure to conduct foreclosures and remediate their neighborhood impacts,

would enable them to engage in foreclosure-avoidance efforts. This can produce the less than desirable situation where an unsuspecting borrower can be lured into taking on mortgage debt with abusive terms, but once the consumer falls into delinquency as a result of this abuse, he or she does not have sufficient time to avoid foreclosure.

and rob equity from neighboring homeowners and others with a financial interest in foreclosure-prone areas. Findings relevant to those devising policy solutions for Atlanta's foreclosure boom include:

- In almost a quarter of all filings, either the Mortgage Electronic Registry System (MERS) or one of four major trustees is listed as the party initiating foreclosure proceedings. This lack of transparency makes it more difficult for stakeholders to react to foreclosure concentrations by reaching out to those with large portfolios at risk in vulnerable areas. Efforts to remedy this problem could begin by disclosing the name of the actual noteholder and servicing agent when the loan falls into serious delinquency as indicated by the public foreclosure listing.

- Not knowing the foreclosing agent is a subset of the larger problem that the proper information necessary to make policy and take remedial action to address foreclosures is not now available to policymakers. Such data could be produced by taking advantage of the infrastructure that exists at existing venders, such as EquiSystems, LLC, in order to minimize the burden on municipalities.

- Better capacity to track foreclosures would enable government officials and mortgage industry participants to spot potential foreclosure hotspots in real time. Once a new hotspot is identified, stakeholders must be prepared to launch a "foreclosure hotspot protocol," a plan formulated in advance of problem detection that describes specific actions that will minimize the negative consequences of concentrated foreclosures.

- Many distressed borrowers could save their homes and credit standing if they knew where to turn for help. Chicago and Dallas are now partnering with the Credit Counseling Resource Center, a national alliance of HUD-certified agencies providing counseling help targeted at distressed mortgage borrowers. By participating in such an effort, Atlanta could help thousands avoid foreclosure, saving homes and credit reputations in the process.

- Even the best foreclosure avoidance system and practices cannot eliminate mortgage failures. Communities must therefore plan to reduce the negative spillover effects they generate by moving these properties quickly into the hands of viable, properly financed homebuyers. To this end, nonprofit developers can help ensure that units are rehabbed to the point that they are structurally sound investments for low-income, first-time buyers.

- Foreclosures often begin at origination when the borrower gets the wrong loan. Due to the complexity of the mortgage marketplace, borrowers need trustworthy advice and information in order to make informed decisions. Community groups can provide this service either directly or by recommending brokers committed to serving the borrower's interest. The Ford Foundation recently provided funding to one company, The Mortgage Grader, which provides community groups with accurate pricing information via mortgage quotes from leading national lenders.

- Because many foreclosures are associated with refinance lending, often to owners with substantial equity, interested parties should work together to develop a simple and effective form of pre-refinance counseling available over the phone. Borrowers would essentially vet their loan terms with qualified counselors in order to determine if the terms are inappropriate given the borrower's underwriting characteristics. Entities such as the Credit Counseling Resource Center could provide such a service with existing assets, with pilot funding from foundations such as the Homeownership Preservation Foundation.

- Responsible lenders must continue to work with public officials to craft legislation, regulations and industry best practices that drive out abusive lending practices without stemming the flow of credit to low-income, low-wealth and credit-impaired borrowers. In the case of loans that fail soon after origination — whether due to simple incompetence, a lack of due diligence or intentionally abusive behavior — such entities should be restricted in their ability to push market products to vulnerable homeowners. Armed with simple tracking statistics for this type of activity, regulators could be authorized to take suitable punitive action.

- The boom in home prices, along with mortgage industry innovations and policy initiatives at all levels to increase homeownership, have combined to create a new class of inherently more vulnerable first-time homebuyer. All entities should work to ensure that these owners have easy access to high quality, impartial pre- and postpurchase ownership and credit counseling to help counteract their inherent vulnerability to loan failure.

Summary

The foreclosure picture in Atlanta is complex and opaque, making the search for solutions challenging. These are not excuses for inaction, however, and stakeholders in the government, nonprofit and private sectors have increasingly pooled their efforts to reduce foreclosures and/or mitigate their effects. By improving assessment mechanisms and working collaboratively to bring all available public and private resources to address the problem, Atlanta can minimize the damage experienced by the direct and indirect victims of foreclosures, and in the process shore up weaker housing markets and strengthen vulnerable communities.

Section 1: Introduction and Background

When concentrated, mortgage foreclosures are responsible for a number of economic and social ills for vulnerable homeowners, and generate blight and negative spillover effects that threaten the stability of many low-income and low-wealth communities. Often these foreclosures also expose the mortgage industry to tens of thousands of dollars in lost revenue per incident. The resulting shared interest in avoiding foreclosures has engendered cooperation among parties that have historically found themselves on opposite sides of mortgage market policy and regulatory issues. Reflecting this joint interest in foreclosure avoidance and loss mitigation, several collaborative initiatives between these stakeholders — such as Chicago's Homeownership Preservation Initiative (HOPI) and the Credit Counseling Resource Center (CCRC) — are now up and running.

In partnership with the Atlanta Federal Reserve, NeighborWorks® America is helping cultivate a similar effort in the metropolitan Atlanta region.[2] Such attention is sorely needed. In 2004 alone more than 35,000 of the roughly 900,000 mortgaged housing units in metropolitan Atlanta were either foreclosed upon or endured delinquencies so severe that the borrower came within weeks of having the property sold at auction. Alarmingly, this level is more than twice as high as it was in 2000, despite a lack of powerful macroeconomic shocks to the regional economy.

Because default and foreclosure tend to concentrate in specific neighborhoods, it is important to understand the characteristics of neighborhoods in which foreclosures are most prevalent. This report identifies areas of greatest concern in order that the efforts of the Atlanta area stakeholders in business, government and community advocacy can be most efficiently and effectively targeted.

The report begins with a brief background section detailing characteristics of the Atlanta metropolitan area and its housing market. This is followed by a description of the dataset and methodological choices underpinning the analysis. The empirical portion of the report is based around a series of tables and maps that demonstrate the relationship between the rate of foreclosure filings and neighborhood socioeconomic, demographic, and locational characteristics. It also includes an analysis of the variation in foreclosure rates based on neighborhood-level credit quality. It then moves to a presentation of the characteristics of failed loans. Finally, it investigates lending patterns in the highest foreclosure areas to understand which entities are most active in foreclosure-prone zones.

Metropolitan Atlanta and Its Housing Market

Metropolitan Atlanta is home to roughly half the population of Georgia and contains more than half of its owner-occupied housing (Figure 1-1). As of 2003, the ownership rates for the MSA and state are virtually identical. In comparison with the national homeownership rate, these figures are higher, though only modestly so.

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[2] This ongoing effort began with a stakeholder meeting in May 2005 hosted by the Atlanta Fed and attended by more than 100 government, business and community leaders.

Figure 1-1: Atlanta's Demographic and Housing Characteristics in Context

	Atlanta MSA	Georgia	US
Population	4,386,262	8,438,203	282,909,885
Occupied Housing Units	1,631,984	3,152,672	108,419,506
Owners	1,120,357	2,151,821	72,418,662
Renters	511,627	1,000,851	36,000,844
Ownership rate	68.6	68.3	66.8

Source: U.S. Census Bureau, 2003 American Community Survey

House prices in Atlanta have been rising steadily, though not spectacularly, for almost two decades (Figure 1-2). Increases have been more rapid since the mid-1990s, but have lagged behind national trends. Over the study period spanning the five years from the first quarter of 2000 through the first quarter of 2005, prices have risen 31.2 percent in Atlanta, as against 32.5 percent in Georgia as a whole, and 49.6 percent nationwide.

From a foreclosure perspective, growth at this pace should have been sufficient to provide owners the option of selling in order to avoid foreclosure. However, because the metropolitan area average obscures significant county and neighborhood variation, no doubt owners in some submarkets did not have this option, even if they held homes for three, four or five years. This is particularly true for many low-income and low-wealth borrowers purchasing homes with little or no money down. In particular, families with limited home equity at time of purchase, and modest equity buildup during the ownership period, may find themselves unable to sell their home for enough to repay the mortgage (after accounting for broker fees), and cover any prepayment penalties and the deferred mortgage payments that triggered the delinquency in the first instance.

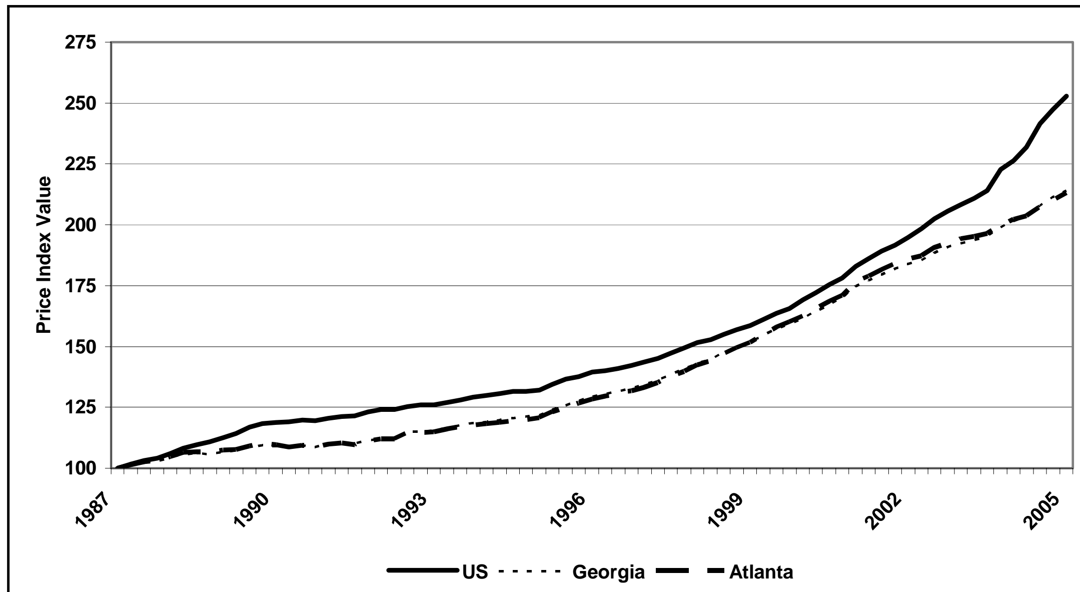
Overall, metropolitan Atlanta's foreclosure boom cannot be explained by local housing market conditions. Unemployment in Georgia did rise from 4.7 percent to 5.3 percent from June 2004 to June 2005. But this recent and modest increase does not explain why foreclosures have been trending up sharply since 2000. Credit quality has declined in the North Georgia region containing Atlanta, as personal bankruptcies in 2004 were up 80 percent from their 1994 level, yet these declines lag similar statistics for the nation as a whole, which experienced a 100 percent increase over the same period. Once again, though declining overall credit quality may have contributed to the upward movement of foreclosures in the region, it can not explain why foreclosures are moving up so much faster in Atlanta relative to other markets in the United States.

Adding to the importance of carefully understanding foreclosure trends in Atlanta is the fact that Georgia is a "non-judicial" state where the foreclosure process happens quickly.[3] In Georgia, specific rules govern the timing of notification procedures, and state law mandates that properties to be auctioned are advertised for only four weeks prior to sale. Aside from

[3] Judicial foreclosure refers simply to the fact that the foreclosure must be processed through the courts. The essential difference with non-judicial foreclosure is that the borrower has pre-authorized the sale of the property to pay off the loan balance in the event of default. (Mortgage Foreclosure Glossary, www.lawshaw.com/mortgageforeclosureglossary.php.)

servicers' internal loss-mitigation efforts that in some cases direct effort to curing rather than foreclosing on problem loans, there is little else to delay the procedure once a borrower defaults.[4] Unlike some other states, Georgia has no right of redemption, meaning that borrowers cannot reclaim their homes by repaying the outstanding mortgage balance and fees for a period following the foreclosure auction. Georgia law also allows deficiency judgments against borrowers when the amount raised by selling the property is below that owed the creditor. Though permitted, deficiency judgments are not common and must be applied for within 30 days of non-judicial sales.[5]

Figure 1-2: Atlanta's Steady Price Growth, 1987:1-2005:1



Note: Figure presents nominal, not real, price levels.
Source: Freddie Mac Conventional Mortgage House Price Index, 2005:1 release.

One implication of these rules is that once a loan becomes delinquent, the period between filing an initial foreclosure and the actual sale of the foreclosed home can take as little as 37 days. According to a recent assessment by the *Atlanta Journal and Constitution,* only Texas and Tennessee allow sale of foreclosed properties to move forward as quickly.[6] In other states, following the filing of a notice to foreclose, various consumer protection regulations may take effect, extending the time required to complete a foreclosure to months, if not years. The speedy Georgia process makes it important that those charged with conducting fore-closure avoidance initiatives do so quickly.

[4] www.stopforeclosure.com/Georgia_Foreclosure_Law.htm.
[5] www.woodandmeredith.com/articles/georgiaforeclosurelaw.html.
[6] Carrie Teegardin, Ann Hardie and Alan Judd, Swift Foreclosures Dash the American Dream, *Atlanta Journal Constitution,* January 29, 2005.

Section 2: Foreclosure Trends by Neighborhood Socioeconomic Characteristics

Once assessment of mortgage lending discrimination revolved around "redlining," the issue of whether or not the residents of minority and/or lower-income neighborhoods had *access* to mortgage credit. With the advent of risk-based pricing and nonprime lending, credit access is no longer the challenge facing credit-impaired borrowers in historically underserved neighborhoods. Instead, some advocates and housing industry experts argue that residents of some neighborhoods are systematically less likely than others to receive credit at or near the best terms for which they can qualify. As a result, credit *pricing* has replaced credit access as the relevant policy issue. This debate is relevant to mortgage foreclosures because higher-cost loans are more likely to fail and neighborhoods with more nonprime lending therefore experience higher foreclosure rates. Regardless of their source, concentrated foreclosures cause serious problems for neighbors, businesses and others invested in these communities.

This section briefly describes the foreclosure data used in this report and presents an initial description of the characteristics of places where foreclosure rates are highest. The section then examines counts and rates of foreclosure filings in metro Atlanta by neighborhood income and racial and ethnic characteristics.

Data and Methods

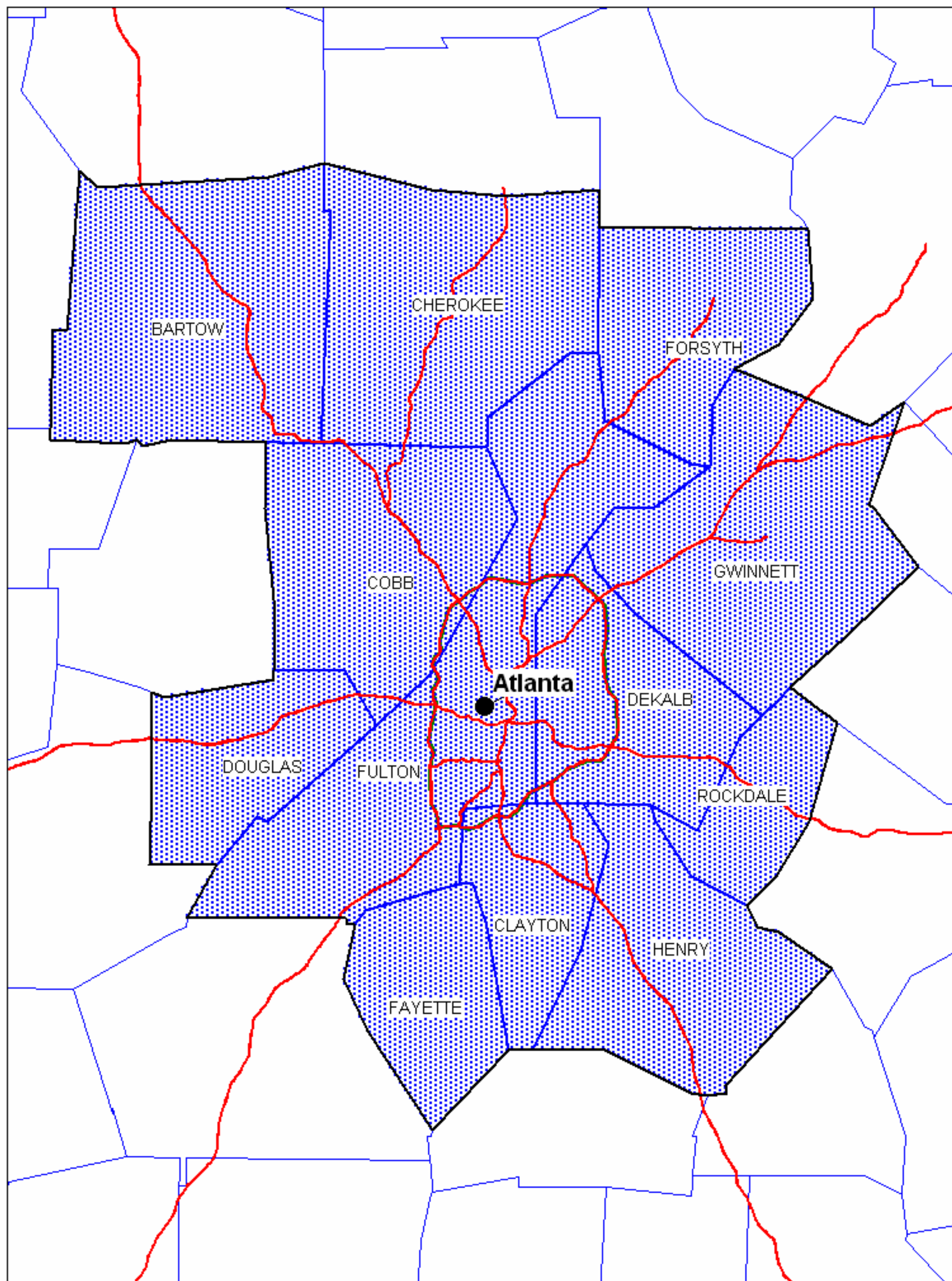
The data used in this report are a complete list of foreclosure filings in 12 metropolitan Atlanta counties for the period beginning January 2000 and ending in March 2005 (Map 2-1 on page 5). Records enter the database following borrower default when the noteholder or noteholder's agent begins the formal process of foreclosure. The data were obtained from EquiSystems, LLC, publishers of *The Atlanta Foreclosure Report*, a subscription-based monthly summary of properties to be sold at the subsequent month's foreclosure auction (held the first Tuesday of each month).[7] Not all properties listed to be sold at auction are ultimately offered and/or sold. EquiSystems estimates that only 30 percent of the records in their database result in consummated foreclosures. As a result, the database is a comprehensive listing of properties with loans that are in severe enough delinquency that either the foreclosure auction is completed or they come within a few weeks of being offered at a foreclosure auction by the noteholder.

In order to prepare the raw EquiSystems data for analysis, we took several steps to clean the data. These included eliminating duplicate records or loans with unusually small or large loan amounts, imputing census-tract identifiers for records with incomplete geocoding, and eliminating one county (Hall County) for which EquiSystems provides data but for which we could not obtain matching building permit data needed in the analysis.[8]

The primary methodological decision underpinning much of the analysis presented in this report concerns the denominator used to construct foreclosure rates at the census-tract level.

[7] www.equisystems.com/page_2.htm.
[8] The data cleaning is described in detail in the Appendix.

Map 2-1: Metropolitan Atlanta: The 12 County Study Area



While the EquiSystems dataset represents a complete count of serious delinquencies and foreclosures in Atlanta — the numerator in the rate calculation — it does not provide estimates of the total number of loans outstanding. The 2000 Census of Population and Housing provides tract-level estimates of the number of homeowners with a mortgage, but these estimates are somewhat out of date. The uneven rate at which the housing stock expands in different areas made it important to update the 2000 Census figures on the number of mort-

gages in each tract in order that our foreclosure rates not be biased downward in tracts where the housing stock was expanding.

Since we do not have tract- or county-level information on mortgage lending growth over the study period, we used the rate of building permit issuance to proxy for it. Because permit data are aggregated to the county level, we multiplied the number of mortgages outstanding as of 2000 at the tract level by the county-level increase in permits during the study period. This yields an estimate of the number of loans outstanding that reflects some, though not all, of the neighborhood-level variation in lending growth since 2000.

Several other methodological issues are more straightforward. We use the terms “city” and “suburb” as shorthand for the local terms “inside the perimeter” and “outside the perimeter,” that is, inside or outside the I-285 beltway (Map 2-1). The beltway encircles large portions of Fulton and Dekalb counties as well as slivers of Cobb and Clayton counties. Tracts either fully (183) or partially (10) inside the beltway are considered “city” and the remainder (391) are considered “suburban.” Minority status is defined such that it includes all individuals except those that identify as both “white alone” and “not Hispanic.” African Americans are those who identify as both “black alone” and “not Hispanic.”

The database created through these methodological decisions is divided with roughly one-quarter of all records in the city and the three-quarters in the suburbs. As Figure 2-1 indicates, this distribution is skewed more toward the city than the overall distribution of mortgaged units, only 15.1 percent of which are located in the city. As a result, the foreclosure rate — the share of mortgages that were listed for auction at least once during the five-year study period — was 15.9 percent (3 percent annually) inside the perimeter, well above the 9 percent (1.7 percent annually) rate outside. Other characteristics of the database and their spatial variation are discussed in the following section as appropriate to understand the results presented in each section.

Figure 2-1: Summary of Foreclosure Records, 2000:1-2005:1

Location	Foreclosure Filings		Mortgaged Units		Filing Rate	
	(#)	(%)	(#)	(%)	Total	Annual
City	21,601	24.0	135,652	15.1	15.9	3.0
Suburbs	68,348	76.0	762,707	84.9	9.0	1.7
Total	89,949	100.0	898,359	100.0	10.0	1.9

Note: City and suburbs based on Census-tract location inside or outside the I-285 beltway. Mortgaged units based on 2000 Census tract-level counts for all types of mortgages advanced by 2000–2004 county-level growth in building permits.
Sources: EquiSystems, LLC; Census 2000.

Characteristics of High-Foreclosure Tracts

As an introduction to foreclosure patterns in metropolitan Atlanta it is helpful to examine the average characteristics of tracts with different rates of foreclosure filings per mortgaged unit. Tracts that score highly on this measure are places where mortgage borrowers are more likely to default and where loans originated are more foreclosure-prone.

Figure 2-2 presents characteristics of tracts based on filing rate quartiles (i.e., the highest quartile contains the tracts in which loan failures are most likely, and the lowest quartile the tracts where they are least likely). The upper panel of the table indicates that the number of foreclosure filings in high-rate tracts is well above the number in any of the other quartile groupings. The difference in filing rates is dramatic. At 5.3 percent the annual rate in these tracts is more than twice as high as that in the next highest quartile. It is more than four times higher than the second quartile and more than eight times higher than the lowest quartile. Over the study period more than a quarter of loans in highest foreclosure filing rate tracts encountered severe defaults, meaning that the property came at least within three weeks of being sold at auction. The upshot of these findings is that loans originated in some tracts are more than eight times as likely as loans in other tracts to encounter serious delinquency.

Figure 2-2: Characteristics of High Foreclosure Rate Neighborhoods

Tract Characteristic	Foreclosure Filing Rate Quartile			
	Lowest	Second	Third	Highest
Number of Tracts (#)	144	146	145	144
Foreclosure Filings (#)	8,781	20,025	27,312	33,807
Annual Foreclosure Filing Rate (%)	0.6	1.3	2.5	5.3
Owner Occupied Share (%)	70.4	68.9	60.9	54.8
Non-prime Share (%)	5.6	7.8	12.9	21.7
Minority Share (%)	20.0	28.5	56.5	88.5
African American Share (%)	7.3	13.5	43.2	81.5
Average Tract Household Median Income ($)	75,202	56,929	44,885	30,681

Note: Foreclosure filings are for the period 2001:1–2005:1. Filing rates are based on number of mortgaged units estimated from 2000 Census level advanced by 2000–2004 county-level growth in building permits.
Sources: EquiSystems, LLC; Census 2000.

The lower panel of the table presents characteristics of the tracts in each foreclosure filing rate grouping. It shows that high-foreclosure-rate tracts tend to have relatively smaller shares of their housing stock in owner occupation. They also have much larger shares of lending by nonprime lending specialists.[9] In terms of demographic characteristics the results are striking, with the minority share in high-foreclosure tracts at 88.5 percent. This compares with just 20 percent in the least-foreclosure-prone areas. The average of tract median household incomes in the highest grouping ($30,681) is less than half as much as in the lowest foreclosure rate group ($75,202).

These results suggest several avenues for further inquiry. In particular they highlight the need for a more detailed examination of the factors associated with variation in the rate of neighborhood-level foreclosure filings. The next section begins this exercise by focusing on income levels by census tract.

[9] The classification of loans as "nonprime" is based on HUD's categorization of lender specializations, which labels all the activity of HMDA filers as "prime," "nonprime," or "manufactured housing," based on the focus of the lenders' activities.

Filing Patterns by Tract Income Quintile

Splitting the data into city-suburban location and quintiles based on census-tract median income reveals a number of interesting characteristics of metropolitan Atlanta's foreclosure pattern (Figure 2-3). (As noted in the data section "city" is defined as census tracts being entirely or partially inside of the I-285 perimeter.) In the city, low-income areas had the largest number of foreclosure filings — 13,453 accounting for 62.3 percent of all city filings. In the suburbs, the reverse is true, with just 4.2 percent of filings occurring on properties located in lowest income quintile tracts. These differences obviously reflect the fact that the city contains many more of metropolitan Atlanta's lower-income neighborhoods.

Figure 2-3: Foreclosure Filing Rates Decline as Neighborhood Income Rises

Tract Income Quintile	Foreclosure Filings		Mortgaged Units		Annualized Fcl. Filing Rate (%)	
	City	Suburbs	City	Suburbs	City	Suburbs
Less than $35,346	13,453	2,841	34,542	16,298	7.4	3.3
$35,346 - $45168	4,155	11,170	31,167	81,435	2.5	2.6
$45,169 - $55,712	2,031	20,487	26,142	164,571	1.5	2.4
$55,713 - $70,714	1,169	21,972	18,114	233,394	1.2	1.8
More than $70,714	794	11,879	25,687	267,010	0.6	0.8
Total	21,601	68,348	135,652	762,707	3.0	1.7

Note: Income quintiles are for the entire 12-county study area. Mortgaged units are estimated from 2000 Census levels advanced by 2000–2004 county-level growth in building permits. Foreclosure filings are for the period 2000:1–2005:1, so that annual rates are derived by dividing total rate by 5.25.
Sources: EquiSystems, LLC; Census 2000.

By far the highest overall filing rate appears in the lowest-income quintile tracts in the city, where 7.4 percent of loans either failed or came extremely close to doing so *annually* over the five-year study period. This is more than twice the rate of filings as occurred in lowest-income quintile neighborhoods outside of the I-285 beltway. Filing *volumes* in the suburbs are indeed high, but due to the large number of mortgaged units, filing *rates* are modest in the income quintiles where most suburban foreclosures take place.

Filing Patterns by Tract Minority Share

This section discusses a table similar to the previous one but with rows based on tract minority share instead of income. Figure 2-4 indicates that for both city and suburbs, filing rates increase steadily with tract minority percentage. In the city, the 0.5 percent annual rate in mostly white areas rises to 6 percent in mostly nonwhite places. In suburbs the rate climbs from 1.1 to 4.1 percent. Areas more than 80 percent nonwhite saw 33,234 foreclosure filings (36.9 percent of all filings) despite having only 14.4 percent of all housing units. Although mostly white tracts in the suburbs saw 19,312 filings — the most of any single cell in the table — such areas have 39 percent of metro Atlanta's mortgaged housing units and hence modest foreclosure filing rates. Interestingly, however, suburban foreclosure rates are higher than city ones except in mostly minority tracts.

In sum, Figure 2-4 indicates a clear relationship between tract minority share and foreclosure rates. In the suburbs, volumes are high across all groupings, but rates increase steadily with

Figure 2-4: Tract Racial Composition Linked to Foreclosure Propensity

Tract Racial/Ethnic Composition	Foreclosure Filings		Mortgaged Units		Annualized Fcl. Filing Rate (%)	
	City	Suburbs	City	Suburbs	City	Suburbs
Less than 20% non-white	946	19,312	33,798	349,963	0.5	1.1
20-40%	1,551	14,330	29,185	195,494	1.0	1.4
40-60%	917	10,605	9,407	91,570	1.9	2.2
60-80%	1,255	7,798	9,778	50,147	2.4	3.0
More than 80% non-white	16,932	16,302	53,484	75,534	6.0	4.1
Total	21,601	68,348	135,652	762,707	3.0	1.7

Note: Income quintiles are for the entire 12-county study area. Mortgaged units are estimated from 2000 Census levels advanced by 2000–2004 county-level growth in building permits. Foreclosure filings are for the period 2000:1–2005:1, so that annual rates are derived by dividing total rate by 5.25.
Sources: EquiSystems, LLC; Census 2000.

nonwhite share. In the city, foreclosures are very much a phenomenon of high minority neighborhoods, which saw 78.4 percent of all city foreclosure filings — well ahead of their 23.9 percent share of the mortgaged urban housing stock. In fact, the foreclosure rate in city neighborhoods that are more than 80 percent nonwhite is almost 1.5 times higher than even ones that are between 60 and 80 percent nonwhite. Even though foreclosure filing activity is high in mostly minority tracts in both cities and suburbs, the rate in city areas is 46.7 percent higher than suburban ones.

Income and Racial Patterns

The discussion of the two previous tables has considered income and race separately. However, because income and race are correlated it is useful to examine both factors simultaneously. This section looks at the extent to which neighborhood racial characteristics are related to foreclosure rates when income is controlled for. The analysis here is too crude to unearth evidence of differential treatment or impact due to actions such as race-based deployment of foreclosure-prone mortgage products and/or differential servicing practices, which would require controlling for a number of factors other than neighborhood income. However, they are of interest in the context of the NeighborWorks® America–Atlanta Fed initiative because they can potentially help refine the targeting of foreclosure avoidance and remediation efforts.

Figure 2-5 shows that within each tract income quintile, increasing minority share increases the foreclosure filing rate. This holds across both the city and the suburbs. In the city the highest annual foreclosure filing rate — 7.8 percent — is reached in the lowest-income quintile tracts with the highest minority shares. Above this income level, rates are less than half as high in mostly minority tracts and, interestingly, are stable as tract income increases. In the suburb panel, the highest filing rate cell is again the mostly minority, lowest-income quintile one, but the 4.5 percent annual rate there is only marginally above several others, including middle-income, mostly minority tracts (4.4 percent) and upper-middle-income tracts that are 60 to 80 percent minority (4.1 percent).

Three significant results emerge from Figure 2-5. The first is the fact that when neighborhood income is held constant, foreclosure filing rates increase as tract minority percentage

Figure 2-5: Annual Foreclosure Rates by Tract Race Controlling for Tract Income

Tract Minority Composition	Tract Median Income (Quintiles)				
City	Less than $35,346	$35,346 - $45,168	$45,169 - $55,712	$55,713 - $70,714	More than $70,714
Less than 20% non-white	-	-	-	0.7	0.5
20-40%	-	1.4	0.9	0.8	1.1
40-60%	3.8	1.9	-	-	-
60-80%	5.1	1.9	-	-	-
More than 80% non-white	7.8	3.7	3.6	3.4	-
Suburbs					
Less than 20% non-white	-	1.7	1.7	1.2	0.7
20-40%	2.1	2.0	1.5	1.6	1.0
40-60%	2.7	2.7	2.3	1.6	3.0
60-80%	3.4	2.6	3.0	4.1	-
More than 80% non-white	4.5	3.7	4.4	4.0	-

Note: Cells with fewer than 200 filings are suppressed.
Sources: EquiSystems, LLC; 2000 Census.

rises. The second concerns the severity of foreclosure problems in mostly minority low-income urban areas. These neighborhoods in the city have filing rates suggesting that one mortgaged property in 12 is threatened with foreclosure *each year*. Third, suburban tracts with high minority concentrations face substantial foreclosure challenges, as more than 4 percent of loans in such places face foreclosure filing *each year*.

Figure 2-6 groups the data from the previous table and presents filing counts as well as rates. The race groupings are such that there are now two tract categories — more than 60 percent minority and less than 60 percent minority. For income the two groups are formed by combining tracts in the bottom two income quintiles and tracts in the top three income quintiles.

The left panel showing filing volumes indicates that low-income, high-minority areas saw the overwhelming share (76.2 percent) of the 21,601 filings in the city. This is reflected in a much higher annual foreclosure rate (6 percent) in these areas relative to the other income-race combinations. Higher-income tracts with more than 60 percent minority residents had a rate just under half as high (2.9 percent). In areas where the minority share is below 60 percent and incomes are lower, the rate declines to 1.6 percent, and it reaches its lowest level (0.7 percent) in higher income areas with greater white shares.

Examining the suburban panel shows that volume is greatest in higher-income areas with fewer minorities. Because these areas have the vast majority of metro Atlanta's owner-occupied housing and mortgages, however, rates are actually lowest in these places. The 15,552 filings in higher-income, high-minority-share places translates into an annual filing rate of 4 percent — higher than the 3.2 percent rate in lower-income, high-minority-share suburban communities. Both groupings with lower minority shares had lower filing rates,

Figure 2-6: Filing Counts and Rates by Income and Race Groupings

Tract Minority Composition	Number of Filings		Annual Filing Rate	
CITY	Bottom 2 Income Quintiles	Top 3 Income Quintiles	Bottom 2 Income Quintiles	Top 3 Income Quintiles
Less than 60% minority	1,145	2,269	1.6	0.7
More than 60% minority	16,463	1,725	6.0	2.9
SUBURBS				
Less than 60% minority	5,462	38,785	2.3	1.3
More than 60% minority	8,549	15,552	3.2	4.0

Sources: EquiSystems, LLC; 2000 Census.

though in both cases these rates are higher than in the equivalent groupings in the city. These findings mirror findings from previous studies on foreclosures.[10]

Rather than looking at foreclosure rates, Figure 2-7 looks at nonprime lending shares by income and race.[11] The figure indicates that within each income grouping the share of nonprime lending increases with tract minority share. The highest share, 26 percent, is in the lowest-income quintile tracts that have more than 80 percent minority residents. Conversely, the lowest share, 6 percent, is in the highest-income quintile tracts where minorities are no more than 20 percent of the population.

Figure 2-7: Nonprime Lending Share by Income and Race

	Tract Median Income (Quintiles)				
Tract Minority Composition	Less than $35,346	$35,346 - $45168	$45,169 - $55,712	$55,713 - $70,714	More than $70,714
Less than 20% non-white	-	6.6	8.3	7.3	6.0
20-40%	8.0	7.8	7.0	7.6	6.3
40-60%	10.8	10.5	10.4	9.6	15.0
60-80%	15.2	11.6	11.5	20.5	-
More than 80% non-white	26.0	21.3	20.6	21.8	-

Sources: EquiSystems, LLC; 2000 Census; 2001–2002 HMDA.

As noted earlier, nonprime lending tends to be highest in areas with highest minority share. This finding holds in tracts of varying income levels. Interestingly, for a given racial category there little variation across the income categories. For instance, for the four income quintiles for which tracts with less than 20 percent minority residents exist, all fall between 6 and 8.3 percent. Similarly, in the tracts with more than 80 percent minority residents, nonprime shares range from 20.6 to 26 percent. The tendency for nonprime lending to be most common in minority areas is partially explained by differential credit quality. The fact that these differences do not narrow in areas of higher income is the type of result that fuels advocates'

[10] For example, see M. Duda and W.C. Apgar. 2004. *Foreclosure Trends in Los Angeles: Patterns and Policy Issues*.
[11] Nonprime share is based on HUD's lender specialization list for activity during the years 2001 and 2002.

allegations that some nonprime lenders target minority communities for deployment of mortgage products with costs higher than necessary to appropriately compensate for the risk presented by these borrowers.

Mapping Foreclosure Patterns

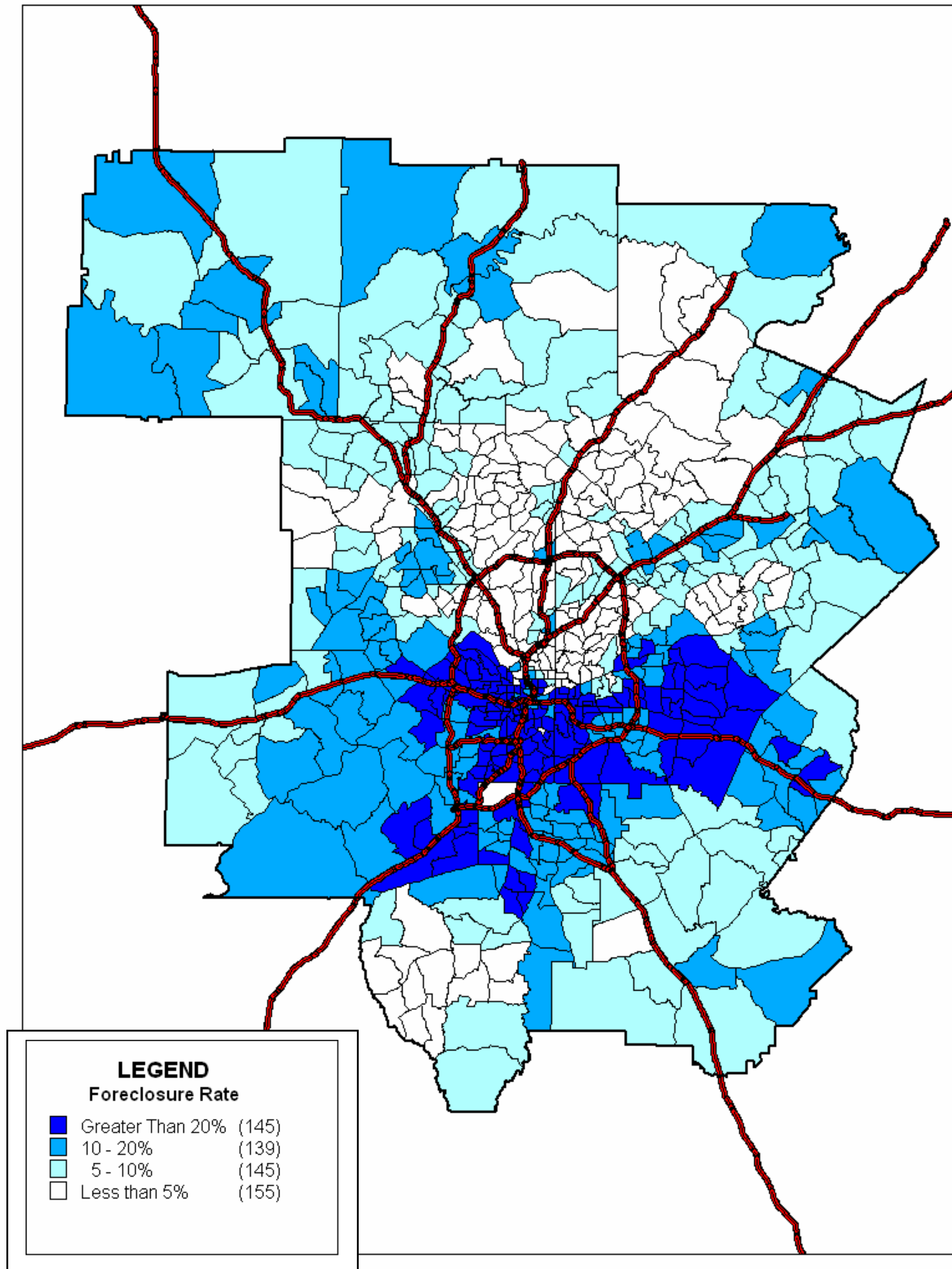
This section enriches the results presented above by mapping the pattern of foreclosure filings in metropolitan Atlanta. Map 2-2 begins by showing the distribution of foreclosure filing rates in the 12 county study area. The four groupings are for the entire study period (i.e., they are not annual rates). The map shows that tracts in both the lowest and highest rate groupings are concentrated in different regions of the metropolitan area. Low foreclosure filing rate tracts exist in a large cluster in the northern portion of the city and the north central suburbs. They also appear in the suburbs to the far south. High foreclosure tracts are located in a band across the southern portion of the city and extend well into suburban portions of Dekalb County. Additional pockets of high filing activity appear in the far northern and eastern suburbs, though at rates somewhat below those in the belt running east-west across Fulton and Dekalb counties.

As described above, high-foreclosure rate areas tend to have high minority shares and low average incomes. In order to visualize the extent to which places with all of these characteristics are clustered and hence mostly likely to generate negative spillovers, Map 2-3 overlays the foreclosure rate information from Map 2-2 with income and race information. On Map 2-3 there are three types of tracts: (1) Low-Income/High Minority/Not Highest Foreclosure Filing (i.e., those in the lowest income quintile, with minority shares of at least 80 percent and foreclosure rates below 20 percent for the study period (eight tracts colored green); (2) High Foreclosure without *both* Low-Income and High Minority Share (62 tracts colored blue); (3) High Foreclosure/Low-Income/High Minority Share (78 tracts colored red).

The focus of Map 2-3 is on the red tracts, which are sufficiently concentrated and have foreclosure problems sufficiently severe that we label this a "hotspot" where foreclosure remediation efforts from local government, the mortgage industry and neighborhood advocates should be marshaled urgently. The minority share in these tracts combined is 94.6 percent (87.9 percent African American) and average tract median income is $22,409. Based on these figures it is clear that this zone is already the target of numerous neighborhood revitalization efforts and other area-based policies such as CRA and the GSE affordable-lending goals. To the extent that foreclosures are penetrating such places at extreme levels, they are undoubtedly undoing the positive impacts of years of painstaking policy interventions, further supporting the need for urgent action in these places.

Collectively, the two maps emphasize the concentration issues suggested by the tabular results. Not only are high-foreclosure-rate tracts linked by their low incomes and high minority shares, but they are also located near, if not adjacent to, one another. This outcome is in keeping with foreclosure patterns elsewhere and supports the notion that a foreclosure contagion dynamic exists in which one foreclosure heightens the likelihood of others nearby. This dynamic is generally an urban phenomenon because it relies on high-density settlement in order for the negative impacts of unsightliness, crime, and vacancy to spread. The upshot for foreclosure remediation is that effort and resources must be targeted geographically.

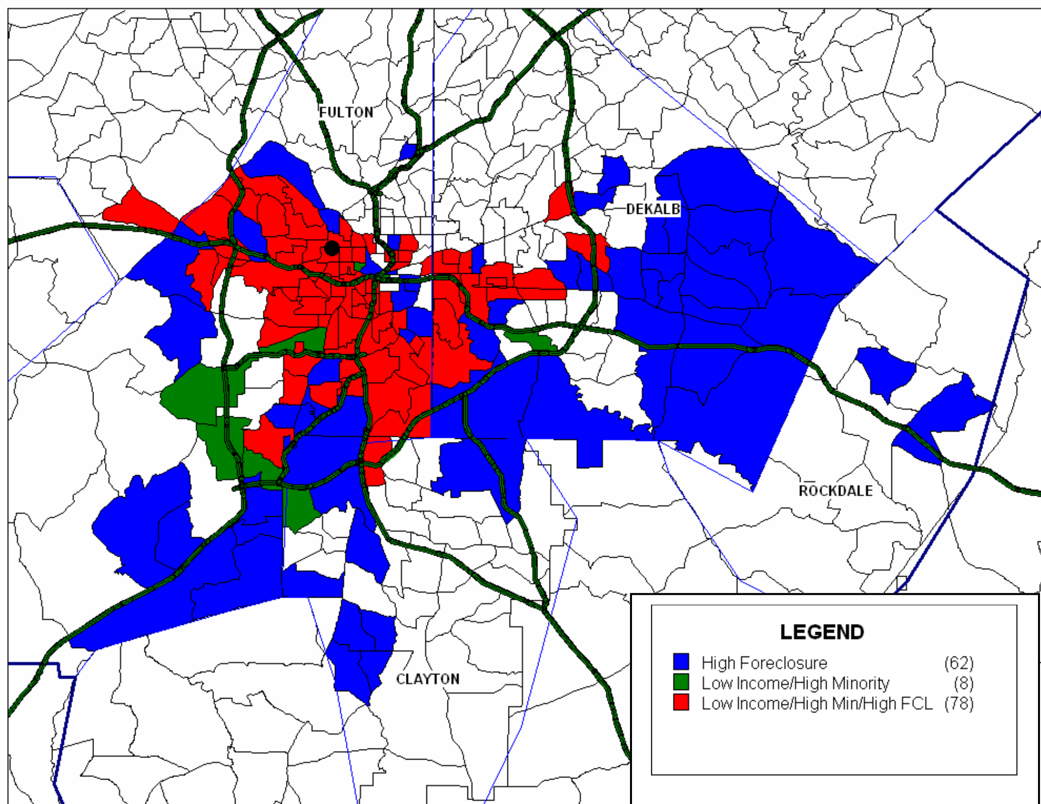
Map 2-2: High Filing Rate Neighborhoods Are Highly Concentrated



Note: Foreclosure rates are per mortgaged unit and are based on all foreclosure activity 2000:1–2005:1. Loans that enter the foreclosure process more than once are only featured once in the database. Denominator used to calculate rates is calculated by adjusting 2000 Census tract-level mortgage counts by five-year building permit growth at the county level.

Sources: EquiSystems, LLC; 2000 Census.

Map 2-3: The Overlap Between Income, Race and Foreclosure Activity



Summary

The results presented in Section 2 show that Atlanta's foreclosure problems are more severe in areas with lower incomes and larger shares of minority residents. Many areas with these characteristics are located inside the city and, broadly speaking, it is clear that metropolitan Atlanta's foreclosure-related policy challenges are most intense in urban areas. This is due not only to the volume and rate of loan failures in the city, but also their spatial concentration. Foreclosures in most suburban areas — though their numbers are large in absolute terms — appear generally to be less concentrated. It is impossible to know definitively because many tracts are large and could potentially contain pockets of concentrated activity that get swamped by the much larger areas without such concentrations. In general, however, suburban tracts have low foreclosures rates and little evidence of the type of foreclosure contagion that generates severe negative consequences for communities and the mortgage industry. No doubt, however, some suburban neighborhoods are facing foreclosure problems similar to those in the city. These places are generally united by their high minority shares. Taken together these findings indicate that there is work to be done in both cities and suburbs to help prevent the wide ranging problems that emerge from concentrated mortgage failures.

Section 3: Trends in High Foreclosure Rate Areas

One consequence of the expansion of nonprime mortgages for higher risk borrowers is foreclosure: by definition riskier borrowers are likely to experience a higher rate of loan failure than less risky, prime-rate borrowers. In combination with the changed industrial organization of the mortgage credit delivery system, and particularly the growing importance of mortgage brokers, there is a growing concern that the expansion of credit to higher-risk borrowers has brought with it new potential for abusive lending practices and the foreclosure problems that result. Fortunately, a strong coalescence of interests has emerged around foreclosure avoidance. Because foreclosures are expensive to the mortgage industry as well as to borrowers, neighborhoods and local governments — especially when they occur in geographically concentrated patterns — everyone involved has an incentive to avoid this most severe form of loan failure.

This section presents information on the leading foreclosure filers in metro Atlanta — entities with the most to gain from foreclosure avoidance efforts in the region. It then narrows focus to tracts with high foreclosure rates, mapping them and looking at the leading foreclosure filing entities in such places. The final part of this section narrows the focus still more, to examine the source of high foreclosure rates: loans that fail soon after origination. It examines the relationship between quick entry into foreclosure and other loan characteristics and presents summary information on the tracts with high shares of these loans. Finally, it looks at the pattern of activity among entities with large shares of quick foreclosures in high foreclosure rate areas.

Leading Foreclosure-Filing Entities in Metropolitan Atlanta

A key policy issue in the foreclosure arena concerns the municipalities' ability to determine who is doing the foreclosing in areas where foreclosure activity is most intense. In Fulton County and other places with foreclosure problems, the fact that entities without the legal ability to make servicing decisions are registered with the county has been identified as a major obstacle to municipal foreclosure-avoidance efforts. In order to assess the prevalence of this issue in the 12-county study area, Figure 3-1 ranks the top foreclosure filing entities by volume. All activities of holding companies are grouped, and the components of merged institutions are combined.

Figure 3-1 shows that the 24 entities with at least 500 filings were responsible for more than three-quarters of filings during the study period. At the top of the list is the Mortgage Electronic Registration System (MERS) — named as the foreclosing agent on 16.1 percent of all filings. MERS is in fact not a single entity but rather a registration convenience used by many mortgage market entities that allows them to avoid re-registering the loan with county records offices each time it is sold.[12]

[12] MERS is designed to streamline procedures associated with re-registration of county documents when mortgages are sold after origination. Loans can be registered with MERS as nominee for both lender and servicer at origination or some later date, and if either or both subsequently change new paperwork is not required. In the case of foreclosure, representatives of the servicer are in effect deputized as agents of MERS and thus the

Figure 3-1: Leading Foreclosure Filing Entities in Atlanta Institutions Exceeding 500 Filings, 2000:1–2005:1

Institution	Filings	Share of All Records
Mortgage Electronic Registry System	14,467	16.1
JP Morgan Chase	12,352	13.7
Wells Fargo	6,770	7.5
Washington Mutual	4,128	4.5
Countrywide	3,545	3.9
Bank of America	2,974	3.0
CitiGroup	2,882	3.2
Bank of NY	2,414	2.7
Deutsche Bank	2,245	2.5
National City	2,122	2.4
First Horizon	1,570	1.7
MidFirst Bank	1,436	1.6
US Bank	1,364	1.5
GMAC	1,650	1.8
ABN/AMRO	1,241	1.4
Bankers Trust	1,173	1.3
Homeside	1,164	1.3
FNMA	983	1.1
HSBC	825	0.9
Wachovia	1,533	0.9
Manufacturers and Traders Trust	642	0.7
Union Planters Bank	629	0.7
Principal Residential	552	0.6
Fairbanks/Select Portfolio Servicing	510	0.6
Total for Institutions in This Table	68,848	76.4
Overall Total	90,109	100.0

Note: Activities of holding companies and institutions that later merged are grouped.

Source: Equisystems, LLC.

The same difficulty in determining the noteholder's identity is caused when the trustee is registered with the county. Four of the 24 entities in Figure 3-1 are, in fact, trustees, and as such, have a very minor role in the mortgage process. The four trustees in the figure (Bank of New York, Deutsche Bank, Banker's Trust, and Manufacturers and Traders Trust) collectively account for 7.2 percent of all foreclosure filings in the 12 counties over the five year study period. Adding this to the MERS share indicates that 23.3 percent of all foreclosure filings during the five-year study period were made in the name of entities that have no ability to engage in foreclosure-avoidance and loss-mitigation activities on these defaulted

servicer and not MERS takes responsibility for the unit in the case where the foreclosing entity submits the winning bid at auction.

loans. To the extent that local government and neighborhood advocacy groups want to proactively engage with the mortgage industry on behalf of distressed neighborhoods and their residents, they face a challenge even in finding someone with whom to begin the conversation.

The remaining entities in Figure 3-1 include the nation's largest financial services companies, as well as some regional powerhouses. Their presence is unsurprising given the size and scope of their activities. It is important to recognize that their presence on the list does not imply that they originated the now failed loan. Many loans are originated by mortgage brokers or correspondents and quickly sold to wholesalers, who in turn pool and sell loans into the secondary market. Yet whether they originated the loan or not, the fact that these major institutions are actively engaged in so many foreclosures in the Atlanta metropolitan area suggests that they have a strong interest in partnering in the effort to minimize the impact that foreclosures in "hotspot" neighborhoods. In addition to bearing the costs associated with being the noteholder on a failed loan, their economic interest can also be harmed by mortgage failures on other loans in hotspot areas, since the concentration of mortgage failures may serve to lower property values or otherwise weaken the collateral value of their loans.

Activity in Tracts With High Foreclosure Rates

As noted throughout this report, not all foreclosures are equally damaging. Those occurring in robust housing submarkets far from other problem loans and lending have few negative external effects and invite little in the way of public-policy intervention. In places where foreclosures concentrate, however, the costs imposed on entities that are not parties to the mortgage transaction — including municipalities, neighboring owners and other mortgage industry participants invested in the area — are sufficiently high that governments have begun working on ways to address them.[13] This section looks only at foreclosure filing activity in the tracts with five-year foreclosure rates above 20 percent. These tracts experienced 34.5 percent of all foreclosure filings in the 12-county study area but had just 12.4 percent of its mortgages.

Figure 3-2 shows that concentration is once again significant, with the 22 entities with at least 250 filings in tracts with high foreclosure rates responsible for 73.9 percent of all filings there. MERS is again at the top of the list and it, along with the entities that function primarily as trustees, account for a similarly large share (24.1 percent) of all filings in tracts with high filing rates as they did in the overall study area.

[13] See William C. Apgar, Mark Duda, and Rochelle Nawrocki-Gorey, *The Municipal Cost of Foreclosures: A Chicago Case Study* (http://www.hpfonline.org/press/Apgar-Duda%20Study%20Full%20Version.pdf) for a discussion of the negative spillovers associated with concentrated foreclosures.

Figure 3-2: Filing Volume Leaders in Tracts with High Filing Rates

Institution	High Filing Rate Tracts		Institution's Total Filings	
	Number of Filings	Share of High Fcl. Rate Tract Filings	Number of Filings	Share in High Fcl. Rate Tracts
Mortgage Electronic Registry System	**4,852**	**15.6**	**14,467**	**33.5**
JP Morgan Chase	**3,831**	**12.3**	**12,352**	**31.0**
Chase Manhattan Mortgage	1,690	5.4	6,402	26.4
BankOne	1,144	3.7	3,326	34.4
JP Morgan Chase	533	1.7	1,366	39.0
Chase Manhattan Bank	370	1.2	936	39.5
Chase Home Finance	94	0.3	322	29.2
Wells Fargo	**2,275**	**7.3**	**6,770**	**33.6**
Wells Fargo Bank	1,352	4.4	3,700	36.5
Wells Fargo Home Mortgage	713	2.3	2,559	27.9
Norwest	210	0.7	511	41.1
Washington Mutual	**1,313**	**4.2**	**4,128**	**31.8**
Washington Mutual Bank	1,265	4.1	4,043	31.3
Long Beach Mortgage	48	0.2	85	56.5
CitiGroup	**1,174**	**3.8**	**2,882**	**40.7**
CitiBank	159	0.5	439	36.2
CitiMortgage	209	0.7	703	29.7
CitiFinancial Mortgage	641	2.1	1,433	44.7
Associates	165	0.5	307	53.7
Countrywide	**1,106**	**3.6**	**3,545**	**31.2**
Deutsche Bank	**963**	**3.1**	**2,245**	**42.9**
Bank of NY	**878**	**2.8**	**2,414**	**36.4**
National City	**788**	**2.5**	**2,122**	**37.1**
National City Mortgage	711	2.3	1,802	39.5
National City Bank	12	0.0	55	21.8
National City Home Loan	65	0.2	205	31.7
Bank of America	**838**	**2.7**	**2,974**	**28.2**
Bank of America	441	1.4	1,735	25.4
BA Mortgage	204	0.7	725	28.1
Fleet	94	0.3	276	34.1
NationsBank	8	0.0	29	27.6
NationsBank Mortgage	14	0.0	32	43.8
NationsCredit	77	0.2	177	43.5
US Bank	**561**	**1.8**	**1,364**	**41.1**
MidFirst Bank	**536**	**1.7**	**1,436**	**37.3**
Bankers Trust	**523**	**1.7**	**1,173**	**44.6**
ABN/AMRO	**510**	**1.6**	**1,241**	**41.1**
ABN/AMRO Mortgage	344	1.1	822	41.8
LaSalle Bank	166	0.5	419	39.6
Wachovia	**509**	**1.6**	**1,533**	**33.2**
Wachovia Bank	235	0.8	776	30.3
Wachovia Mortgage	10	0.0	33	30.3
First Union	264	0.9	724	36.5
GMAC	**498**	**1.6**	**1,650**	**30.2**
GMAC Mortgage	327	1.1	1,204	27.2
Residential Funding Corporation	36	0.1	102	35.3
Homecomings Financial Network	135	0.4	344	39.2
Homeside Lending	**428**	**1.4**	**1,164**	**36.8**
First Horizon	**302**	**1.0**	**1,570**	**19.2**
FNMA	**281**	**0.9**	**983**	**28.6**
Manufacturers and Traders Trust	**277**	**0.9**	**642**	**43.1**
HSBC	**266**	**0.9**	**825**	**32.2**
HSBC Bank	35	0.1	111	31.5
HSBC Mortgage	20	0.1	118	16.9
Household Realty	167	0.5	489	34.2
Household Finacial/Bank	44	0.1	107	41.1
Fairbanks/Select Portfolio Servcing	**251**	**0.8**	**510**	**49.2**
Fairbanks	237	0.8	476	49.8
Select Portfolio Servicing	15	0.0	34	44.1
Total for Institutions in this Figure	22,960	73.9	67,990	33.8
Overall Total	31,049	100.0	90,109	34.5

Source: Equisystems, LLC.

As a group, there is little difference between the share of these institutions' filings that is in high-foreclosure tracts (33.8 percent) and the overall share that high-foreclosure tracts represent in the database (34.5 percent). Of the 22 entities listed in the figure, however, seven exceed 40 percent. This group is led by Fairbanks (now Select Portfolio Servicing) with just under half of its foreclosure filings located in high-foreclosure-rate areas.

Another aspect of the mortgage market reflected in the figure is the fact that large mortgage entities operate multiple business units even in the same area. Examining CitiGroup, for instance, shows that its overall 40.7 percent share of filings located in high-foreclosure areas is actually the product of CitiMortgage's and CitiBank's 29.7 and 36.2 percent shares and those of CitiFinancial Mortgage and Associates (a nonprime lender purchased by CitiGroup) are significantly higher (44.7 and 53.7 percent). The same is true for several of the other, larger banking entities.

Overall, Figure 3-2 confirms the expansive reach of the nation's largest mortgage market entities. These institutions have the means to operate not only in the easy-to-serve prime lending markets, but also in the more challenging high-foreclosure districts of metropolitan areas such as Atlanta. The extent of their involvement in areas where foreclosure is most likely provides them with a strong financial incentive to participate in foreclosure-avoidance and loss-mitigation efforts devised by nonprofits and municipalities. Such activities are underway elsewhere, most notably in Chicago, and have already been shown to improve outcomes for all participants.

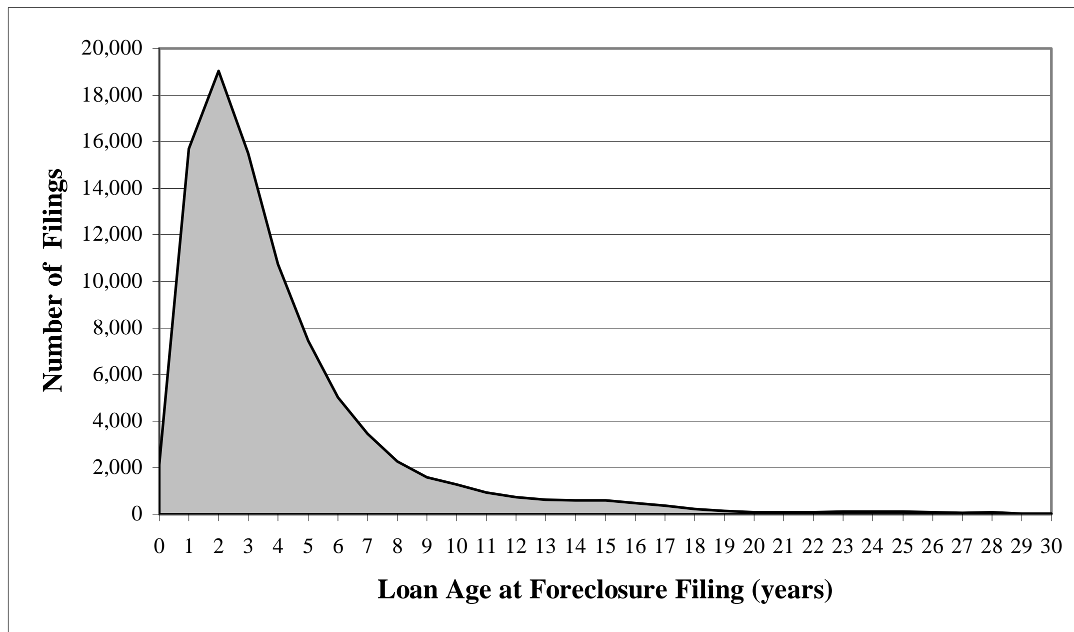
Characteristics of Quick Failing Loans

Much of the concern among attendees at the NeighborWorks® America–Atlanta Fed forum in May 2005 concerned highly foreclosure-prone lending in urban areas. While lending conducted with the expectation that the borrower *will not* be able to repay is, at a minimum, unethical, and may run afoul of various state and federal laws regarding fraud and/or fair lending, it is difficult to definitively distinguish lending that is "too likely to fail" from that which is simply risky. Concentrations of loans that not only fail but do so soon after origination, however, are suggestive of a breakdown in oversight and/or underwriting standards. Knowing the characteristics of these loans and the areas where they predominate are both essential elements to the kind of collaborative policy solutions envisioned by NeighborWorks® America in its efforts to address foreclosure problems in Atlanta.

In interpreting quick-foreclosure loans, it is important to note the difference between the time it takes for a borrower to first encounter difficulty in meeting his or her mortgage obligations, and the time it takes a lender to foreclose on a delinquent borrower. The first period relates to the quality of the underwriting and loan servicing. A borrower who quickly falls into delinquency is suggestive of a breakdown in oversight and/or underwriting standards. After that, the speed at which a lender is able to execute a foreclosure action is a function of business models and economic incentives in combination with applicable state law. Recall that Georgia is a "non-judicial" state, and hence foreclosers in Georgia are able to quickly pursue their actions.

Figure 3-3 shows the distribution of foreclosure filings by age of the loan. Age is calculated such that "zero" means the loan failed in the same calendar year as it was originated, "one" means the loan failed in the year after it was originated, and so on. All told, 17,805 failed loans experienced foreclosure filing in the calendar year they were originated or the subsequent year. The figure shows that most (84 percent) of the loans that fail do so in the six years following origination.

Figure 3-3: Age of Failed Loans, 2000:1–2005:1



Source: Equisystems, LLC.

The next subsection examines the characteristics of areas with high shares of "quick loan failures" (those in which the loan failed in the origination year or the year following origination). Figure 3-4 divides tracts into quintiles based on the share of failures that are "quick failures" so that, for example, the bottom quintile is comprised of the 115 census tracts where the loan failures that do occur are *least* likely to happen soon after origination. Conversely, top quintile areas are those where loan failures are *most* likely to happen quickly. Each grouping has about the same number of tracts and the number of total filings is fairly similar across the five groups. Total foreclosure filing rates are much higher in the top quick-filing quintile, however.

The *number* of quick filings is also substantially higher when moving from low to high quintiles of quick-filing shares. Quick filings as a percentage of all foreclosure filings rise dramatically, from a low of 8.7 percent to a high of 39.6 percent, from bottom quintile to top quintile tracts. Owner-occupied share declines as quick-filing percentage increases, reflecting the fact that many of these tracts are in the city, where more homes are rented. Quick-file tracts also have higher shares of nonprime lending relative to others, though the relationship is not linear. The bottom panel of the table shows that the places with higher shares of quick-failing loans have relatively high minority shares and relatively low incomes.

Figure 3-4: Tract Characteristics by Quick Foreclosure Filing Share

	Quick Filing Share Quinitle				
Tract Characteristics	**Bottom**	**Second**	**Third**	**Fourth**	**Top**
Number of Tracts (%)	115	116	115	116	115
Number of Total Fcl. Filings (%)	18,629	19,407	20,455	14,420	17,021
Foreclosure Filing Rate (%)	2.0	1.7	1.7	1.6	3.0
Number of Quick Fcl. Filings (%)	1,619	2,490	3,483	3,478	6,735
Quick Fcl. Filings as Share of All Filings	8.7	12.8	17.0	24.1	39.6
Owner Occupied Share (%)	70.1	73.8	67.5	62.1	49.7
Non-Prime Share (%)	10.4	9.3	9.1	8.0	11.9
Minority Share (%)	45.3	37.1	39.2	40.6	56.8
African American Share (%)	34.5	24.2	27.1	25.3	45.5
Average Median Household Income ($)	59,866	57,965	54,785	53,943	38,927

Sources: EquiSystems, LLC; Census 2000.

Map 3-1 on the next page presents the spatial distribution of tracts in the highest quick-filing-rate quintile. In the 115 tracts colored red, at least 28.4 percent of loans that failed did so quickly. The map highlights two key aspects of the spatial distribution of quick-filing-rate tracts. First, there is a substantial concentration of tracts with high quick-failure shares in the southern portion of the city, appearing to roughly overlap the area that was identified in Map 2-3 as being the foreclosure hotspot. Second, not all tracts with high quick-fail shares are in this zone, with many clearly located in the suburbs. The source of these dispersed tracts is not clear. Some are suburban areas with housing market and socioeconomic characteristics more typical of the city. Others may be the result of localized fraud schemes affecting specific subdivisions.

Map 3-1: Tracts in the Top Quintile for Quick-Foreclosure Shares

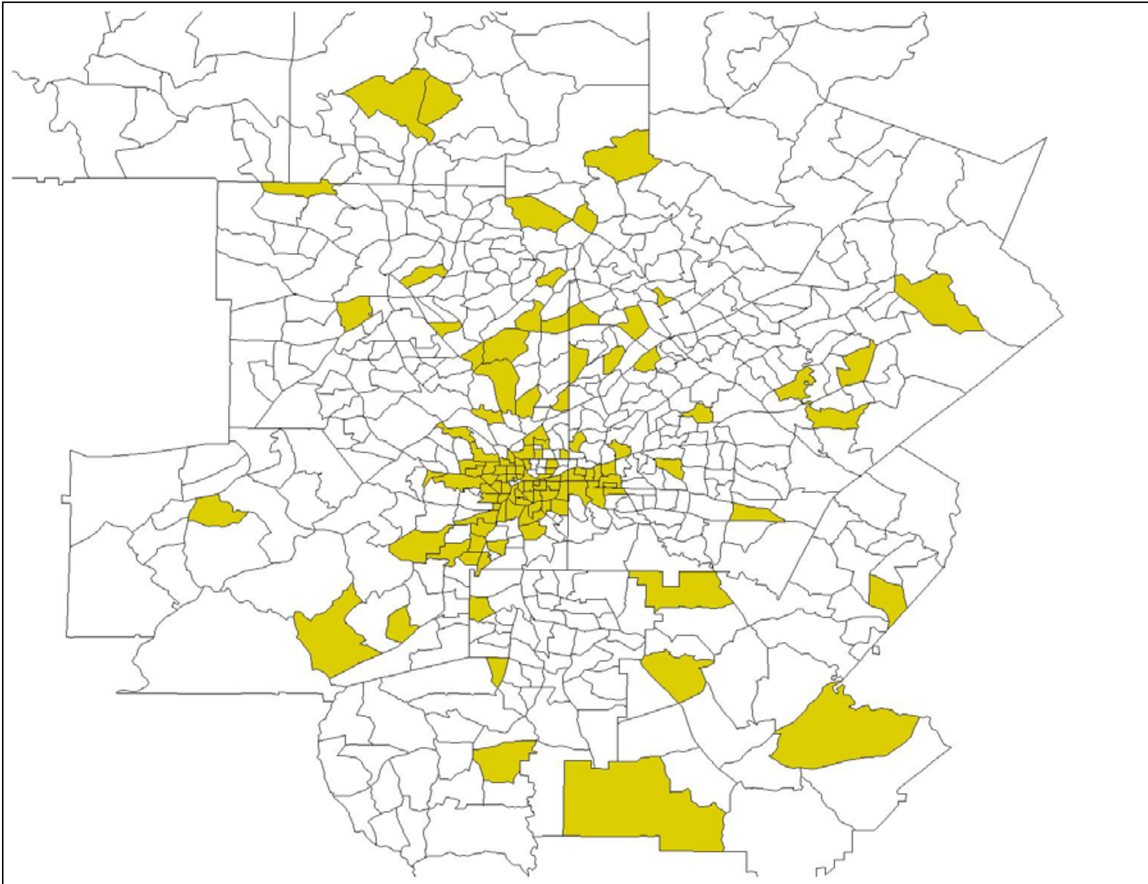


Figure 3-5 examines the leading quick-foreclosing entities in high-foreclosure-rate tracts. In the figure they are ranked by the *share of their activity in high filing rate areas that is quick filings*. Only entities with at least five such filings are included, and the figure lists only those for whom quick fails are half or more of their total foreclosure activity in high-foreclosure-filing areas. The table also includes the total number of filings for each entity, and the share of its filings that occurred in high-foreclosure-rate tracts.

The figure shows that most of the leading quick foreclosers are small players that filed well under 100 total foreclosures in Atlanta over the five-year study period. Most also have fairly small numbers of quick filings, but these often make up the bulk of their filing activity. Together, these 49 entities accounted for 11.3 percent of quick filings and 3.9 percent of total lending in high-foreclosure-rate tracts. It is important to note that these figures do not indicate the share of these entities' overall mortgage market activity that ends up as failed loans. It is possible that the quick-failing loans presented in the figure represent a small portion of the total activity of these institutions. Overall, it makes sense to think of high shares of quick-failing loans as discussed here as an indicator of *potential* problems, but further analysis is required to validate any such claim.

Figure 3-5: Entities Ranked by Quick Filing Share in High Foreclosure Tracts

Institution (Mortgagee)	Quick Filing Share in High Fcl. Rate Tracts	Quick Filings in High Fcl. Rate Tracts	Total Filings in High Fcl. Rate Tracts	Total Filings	High Fcl. Rate Tract Filings As a Share of Institution's Total
David G Kelley Jr.	100.0	8	8	8	100.0
Equity Lending Center LLC	100.0	5	5	5	100.0
Onward Financial LLC	100.0	5	5	5	100.0
United National Bank	100.0	5	5	6	83.3
Capstone Funding LLC	100.0	5	5	7	71.4
Ameriquest Funding	100.0	7	7	14	50.0
US Capital Corp	94.4	17	18	19	94.7
Bristol Investments LLC	90.0	9	10	11	90.9
City & State Factors	88.9	8	9	10	90.0
Rattan Bhavinani	88.9	8	9	10	90.0
Zahli International LLC	88.5	23	26	31	83.9
Darren Hutcheson	87.5	7	8	9	88.9
Private Equity Inc	87.5	7	8	9	88.9
Ready Mortgage	86.7	26	30	30	100.0
Notes LLC	85.7	6	7	7	100.0
ZBC Inc	85.7	12	14	15	93.3
Calmco Servicing L P	87.5	7	8	15	53.3
Fast Funding LLC	83.3	5	6	8	75.0
Equity Trust	83.3	5	6	13	46.2
Doyal C Hopkins	81.8	9	11	13	84.6
New Century Mortgage	81.8	9	11	18	61.1
Omni Financial Services	80.4	41	51	60	85.0
Long Beach Mortgage	79.2	38	48	85	56.5
Harvest Mortgage Co Inc	79.2	19	24	34	70.6
Olympus Servicing LP	78.1	25	32	54	59.3
Lehman Capital	76.5	13	17	40	42.5
Omni National Bank	74.4	122	164	200	82.0
Empire Home Lending Corp	72.7	8	11	11	100.0
Olympus Servicing LP	71.9	41	57	110	51.8
Sidney C. Berger	71.4	5	7	9	77.8
Realty Investors Funding LLC	69.2	9	13	14	92.9
Mid-Ohio Securities	68.4	13	19	28	67.9
Ameriquest Mortgage	68.2	15	22	41	53.7
Nationwide Mortgage Services	64.8	57	88	120	73.3
DLJ Mortgage Capital Inc	64.4	38	59	127	46.5
David K. Alexander	63.6	7	11	12	91.7
Residential Funding Corp	62.9	22	35	100	35.0
RBMG Inc.	62.7	32	51	88	58.0
Fremont Investment & Loan	61.5	8	13	25	52.0
Talbot State Bank	55.7	34	61	179	34.1
FNMA (Perimeter Mortgage)	55.6	10	18	21	85.7
FV-1 Inc	55.6	5	9	27	33.3
Domestic Mortgage Inc.	54.5	6	11	12	91.7
Lib Properties Ltd.	54.4	37	68	101	67.3
Taylor, Bean & Whitaker Mtg.	52.2	12	23	61	37.7
CIT Group/Consumer Finance	52.0	13	25	45	55.6
Equity One Inc.	50.0	10	20	42	47.6
Yale Mortgage	50.0	13	26	75	34.7
Capital Mortgage	50.0	11	22	54	40.7
Total	70.2	857	1,221	2,038	59.9
Share of All Filings	-	11.3	3.9	2.3	-

Note: Only includes entities with at least five quick foreclosure filings in high foreclosure rate tracts. Entities are not grouped at holding company level.

Source: Equisystems, LLC.

Quick Foreclosures and Nonprime Lending Shares

In order to examine the tract level link between nonprime lending and foreclosure activity, Figure 3-6 presents the share of tracts with varying nonprime concentrations in each filing rate grouping. The relationship in the figure is dramatic and obvious. Tracts with higher foreclosure filing rates have more nonprime lending. Almost 60 percent of tracts in the lowest foreclosure filing rate group are in the bottom nonprime share quintile, and most of the rest are in the second-to-bottom quintile. In contrast, more than two-thirds of tracts in the highest foreclosure filing rate grouping are in the top nonprime quintile.

Figure 3-6: Tract Nonprime Lending Share and Foreclosure Rates

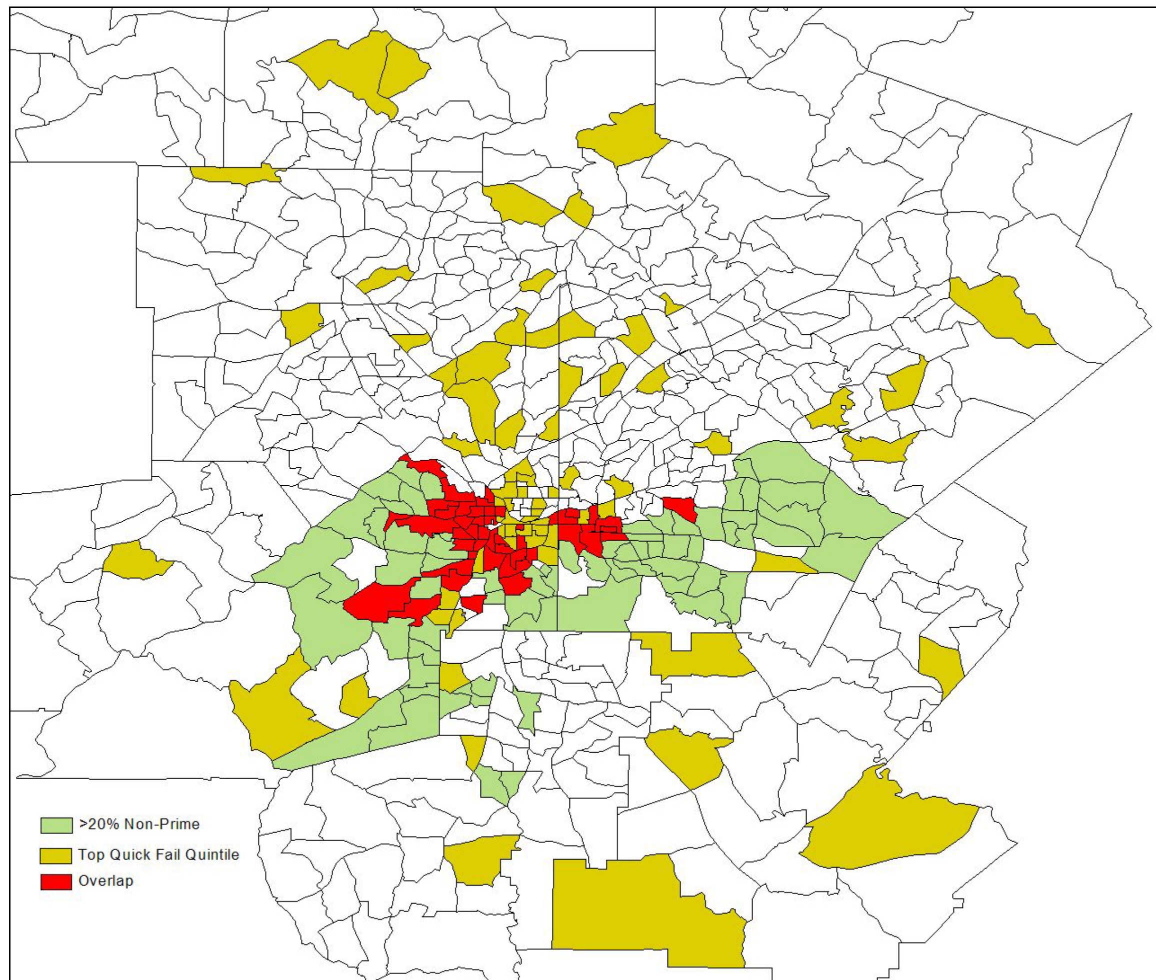
Non Prime Share Quintile	Filing Rate Grouping				
	<5%	5-10%	10-20%	>20%	Total
Bottom (less than 5.8%)	58.5	9.1	3.9	0.8	19.9
Second (5.8 to 7.6%)	34.6	36.4	4.7	-	20.1
Third (7.6 to 11.6%)	6.9	46.9	22.5	4.6	20.1
Fourth (11.6 to 20.1%)	-	7.7	48.8	28.8	19.9
Top (more tha 20.1%)	-	-	20.2	65.9	20.1
Total	100.0	100.0	100.0	100.0	100.0
Tracts	*159*	*143*	*129*	*132*	*563*

Sources: EquiSystems, LLC; 2001–2002 HMDA.

These results are unsurprising: by definition, nonprime lending is lending to more foreclosure-prone borrowers. They do, however, serve to emphasize the policy challenges emerging from concentrated nonprime lending. The 87 tracts with five-year foreclosure rates and nonprime shares both exceeding 20 percent are obviously places where localities face the greatest challenge sustaining home values and preventing the social ills than can accompany concentrated foreclosures.

Despite their conceptual linkage, little publicly available research has examined the spatial relationship between nonprime lending and quick foreclosures. Map 3-2 takes up this challenge, depicting areas that are either in the highest nonprime-share quintile (green), the highest quick-fail-share quintile (beige), or both (red). The map shows that areas with both characteristics are tightly grouped and located amid the cluster of intense foreclosure activity in the southern portion of the city. This result once again affirms the fact that particular neighborhoods are much more heavily influenced by foreclosure related phenomena.

Map 3-2: The Overlap Between Nonprime Lending and Quick Foreclosures



Summary

This section has examined issues that reflect conditions in the mortgage industry as they relate to foreclosure. Throughout, it emphasizes the effects of concentration. Concentration among originators, servicers, trustees and other participants leads to concentration among foreclosing entities. This is advantageous because it gives municipalities and community advocates powerful partners who often share their interests in mitigating the effects of foreclosures or avoiding them altogether. Concentration among foreclosures themselves is the other theme of this section. In general, foreclosure filings, quick loan failures, and nonprime lending are all highly concentrated. Further, the tracts where these are most common overlap substantially in the southern part of the city. These findings argue strongly for an area focus for policy interventions intended to address foreclosure issues. The next section takes up this challenge by presenting possible avenues with which to improve outcome for all stakeholders in Atlanta.

Section 4: Policy Discussion

With foreclosures on the rise throughout the Atlanta Metropolitan area, it is essential to find ways to minimize the associated economic and social costs on a wide range of stakeholders. In addition to their obvious impacts on distressed borrowers, foreclosures, generate losses for the mortgage industry, stress already tight county and local governments for the provision of foreclosure related services, and rob equity from neighboring homeowners and others with a financial interest in foreclosure-prone areas.

In order to mitigate the negative effects of foreclosure, public officials must work with responsible mortgage industry and community leaders to reduce the incidence of poorly underwritten and/or fraudulent high-risk loans in distressed neighborhoods, and those that are foisted on unsuspecting borrowers wherever they may live. This initial step must be reinforced with longer term efforts to improve financial literacy by providing access to unbiased credit counseling for distressed borrowers. Meanwhile, state and local officials should also carefully review legislation governing the foreclosure process and work to ensure that it treats both borrowers and lenders fairly and does not work in a way that imposes undue spillover costs on communities. The following recommendations present some ideas about how responsible parties from business, government, and the nonprofit sector can work together to help reduce the number of loans going to foreclosure, and work to reduce the costs associated with the many foreclosures that will inevitably result from a robust system of mortgage credit provision.

Policy Focus #1: Enhance the Ability to Monitor and Assess Foreclosure Patterns

Amid very low-interest rates, rising house prices, and generally solid economic growth, foreclosure filings more than doubled in Atlanta over the study period — from 15,000 to near 35,000 annually. With the economy now showing signs of weakness and interest rates on the rise, further increases are likely in the years ahead. In spite of this current and projected boom in foreclosures and growing awareness of their adverse implications, there has been surprisingly little analysis of the cause and the extent of recent trends in Atlanta. This is due in no small way to the fact that there are little data available to state and local agencies charged with tracking the mortgage sector of the economy. Although information on individual foreclosures is generally on file at courthouses across the state, there has been but limited effort to systematically review and refine these records.

Even in cases where these data are aggregated and made available, they are not intended to support regulatory oversight. The data used in this report compiled by EquiSystems, LLC, for example, are intended to alert potential buyers of homes scheduled for sale at the monthly foreclosure auction and, as such, lack many details concerning the characteristics of the mortgage loan, originator, noteholder and servicer that are essential to illuminating the factors that precipitate foreclosures. Tellingly, the EquiSystems data do not contain information on which homes are actually foreclosed upon and which ones cure. Developing the data needed to better monitor and assess foreclosure trends is an important first step.

Create a Loan Performance and Foreclosure Database. Clearly a comprehensive electronic database on loan performance is needed to support policy development and evaluation, and to detect and react to emerging foreclosure hotspots. Ideally such a database would include data on loan, lender, servicing agent, property and borrower characteristics sufficient to track foreclosures and ultimately to assess the key determinants of serious mortgage delinquency and default. At the state level, such data would support detailed analysis of the determinants of the foreclosure process, shape more effective legislation and regulations to mitigate individual and public-sector foreclosure costs, and minimize the extent of abusive lending and servicing practices that are linked to some unknown portion of the current foreclosure problem.

More importantly, access to a database that could identify areas with elevated rates of foreclosure filings would enable local city officials — working in partnership with local community-based organizations as well as interested mortgage servicers — to take appropriate remedial action. While creation of such a database could begin with efforts to improve and integrate basic county-level systems for recording and tracking mortgages and foreclosures, an alternative would be to simply work with private vendors such as EquiSystems to expand the data that they already gather and release.

Enhance the Transparency of the Foreclosure Process. Better use of existing foreclosure information would go a long way to improve monitoring of foreclosure patterns and trends. For example, the current system in which MERS (the Mortgage Electronic Registry System) or the one of several trustees is listed as the party that initiates foreclosure proceedings, limits the ability of interested parties to track foreclosure trends at the neighborhood level. While such conventions reflect a reasonable desire not to require re-filing of public documents each time a loan is sold or its servicing arrangements changed, it makes sense to require that the actual noteholder and servicing agent be directly disclosed when a loan falls into serious delinquency and the borrower is threatened with foreclosure. Although not appearing on foreclosure filing documents, this information is already available through MERS. Indeed, agents working directly for either the servicing entity or the note-holder typically execute the filing of the foreclosure documents, and hence have the required information at their fingertips. In addition, other readily available information that could be included on the notice of intent to foreclose that would assist in the efforts to conduct appropriate foreclosure avoidance strategies and/or minimize the costs — both public and private — that result from foreclosure actions.

Raise Public Awareness of the Municipal Costs of Foreclosures. Foreclosures impose numerous costs that extend well beyond the simple issue of paying off a mortgage debt. For example, to the extent that foreclosed properties are "boarded up" or otherwise not well maintained during the foreclosure process, they may undermine the appeal, and ultimately the market value, of nearby properties. A recent study funded by the Homeownership Preservation Foundation and conducted by William Apgar and Mark Duda used Chicago data to account for both the foreclosure-related costs paid for by city of Chicago and Cook County

agencies, and the impact of foreclosures on area property values.[14] Among other findings, the study reported that each additional foreclosure occurring in an area of concentrated foreclosure could impose direct costs on local government agencies totaling more than $33,000 and indirect effects on nearby property owners (in the form of reduced property values and home equity) of as much as an additional $220,000.

Foreclosure-related costs of this magnitude raise a number of policy concerns. At the core of these concerns are questions about how best to reduce the financial burden foreclosures impose on stakeholders such as neighbors and municipalities that are not parties to the mortgage transaction, and how best to pay for the unavoidable costs that arise from the many foreclosures that will inevitably occur as a byproduct of a robust mortgage market. The fact that municipalities and residents living near the foreclosed property currently bear a significant portion of the aggregate cost imposed by mortgage failures is certainly an unintended consequence of efforts to attract mortgage capital to previously underserved inner-city areas. The result, however, is that local taxpayers and area residents are forced to shoulder burdens that are rightfully the responsibility of borrowers, lenders, and others that are direct parties to the mortgage transaction. While a similar study does not exist for Atlanta, development of such a study could help to focus attention on the public costs of foreclosure that extend beyond those suffered by the borrower and investor, and rally support for efforts that vigorously confront the adverse consequences of Atlanta's foreclosure boom.

Policy Focus #2: Work to Minimize the Adverse Consequences of Inevitable Foreclosures

The increase in foreclosures in Atlanta has tested local governments' ability to efficiently and effectively intervene in the foreclosure process on the behalf of stakeholders damaged by concentrated foreclosures. Even the highly concentrated foreclosures in inner-city areas have taken time to attract public-policy attention. Better data on foreclosure trends could help identify emerging hotspots as or before they develop. This report has documented the emergence of areas of elevated foreclosures throughout the Atlanta region. Early intervention helps homeowners on the brink of foreclosure throughout metropolitan Atlanta stay in their homes. When foreclosure does occur, effective management and coordination of the foreclosure process could avoid much of this "collateral damage," including efforts to ensure that foreclosed properties are quickly sold to new owner-occupants.

Create a Special Foreclosure Hotspot Initiative. Given the high external costs associated with concentrated foreclosures, continuously monitoring foreclosure patterns is essential for detecting potential new hotspots as they emerge, for example by geocoding addresses of current foreclosure filings. Once a new hotspot is identified, public officials working in cooperation with industry and community leaders must be prepared to launch a "foreclosure hotspot protocol," a plan formulated in advance of problem detection that describes specific actions that will minimize the negative consequences of extreme foreclosure levels.[15] The

[14] William Apgar and Mark Duda, *Collateral Damage: The Municipal Impact of Today's Mortgage Foreclosure Boom* a report prepared for the Homeownership Preservation Foundation, May 11, 2005. Available online at www.hpfonline.org.

[15] Michigan recently enacted comprehensive reforms of tax foreclosures. For a discussion of how these reforms are enabling the city of Flint, Michigan, to better address issues relating its growing inventory of vacant and

hotspot protocol helps municipalities to intervene early, before the arrival of squatters or illegal activities that further aggravate the economic and social costs of concentrated foreclosure.[16] Alternatively, early intervention could help prevent the appearance of a few foreclosures in a suburban development from undermining the quality of life for all of the residents in that area. As an example of what such a protocol might entail, municipal tax-collection agencies could temporarily forbear on aggressively pursued delinquency judgments against individual owner-occupants residing in foreclosure hotspots, if such efforts would allow the homeowners to remain in their homes, thus avoiding further concentrating foreclosures in already unstable areas.

Connecting Distressed Homeowners to Impartial Credit Counseling. Many distressed borrowers could save their loans, homes and credit standing if they knew where to turn for help. Effective counseling can make the difference between saving and losing their homes. Chicago and Dallas are both now partnering with the Credit Counseling Resource Center (CCRC), a national alliance of HUD-certified housing counseling agencies, to provide distressed borrowers access to information on how to avoid a pending foreclosure. To help build public trust in the CCRC approach, Chicago Mayor Richard Daley led a highly visible campaign to introduce the system and encourage distressed borrowers to seek help before it becomes too late. In Dallas, the CCRC hotline received over 600 calls the day after the mayor and city officials announced the program.

In both Chicago and Dallas, callers have the opportunity to receive a wide range of counseling services. Since the CCRC has an ongoing relationship with participating loan servicers, as well as with various state and local sources of foreclosure avoidance assistance, callers can get general counseling information directly from CCRC, be put in contact directly with the entity servicing their own mortgage loan in order to explore the potential for a loan workout, or be referred to local sources of resources or assistance if appropriate. In each instance, the goal is to help distressed borrowers avoid foreclosure and find the best way to survive a temporary financial crisis, to mitigate the downside effects of a permanent income reduction, or to devise strategies to better manage their credit and/or to avoid foreclosure. Half of the credit counseling is paid for by lenders that have signed on to the program, while the city picks up the modest tab for the customers of others that have not joined the effort. Although it was not possible to avoid foreclosure in every instance, early experience suggests that as many as half of all program participants achieved "successful outcomes" (defined as any resolution of the situation that did not result in the property becoming vacant and abandoned).

Institute Efficient Pre-Refinance Counseling. Because many foreclosures are associated with refinance lending, often to owners with substantial equity, interested parties should work together to develop a simple and effective form of pre-refinance counseling. Such a system would be most effective to the extent that it is quick, easy and convenient to use. It should

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abandoned homes, see: Daniel T. Kildee. 2004. Reusing Forgotten Urban Land: The Genesee County Urban Land Redevelopment Initiative. *Housing Facts and Findings* 6(2).

[16] For further discussion of "Hotspot Initiatives," see: William Apgar and Mark Duda. 2004. Preserving Homeownership: Community-Development Implications of the New Mortgage Market, a report prepared for the Neighborhood Housing Services of Chicago.

not, for example, attempt to get the entire set of physical loan documents reviewed prior to signing for a significant share of borrowers. Rather, such a system should allow would-be refinancers to vet their loan terms with qualified counselors in order to determine if they are appropriate given the borrower's underwriting characteristics. A simple telephone call would be sufficient for such a service.

Entities such as CCRC and CCC of Atlanta could provide such a service with existing assets. As with the preceding proposal, cost is not the primary obstacle to success, with foundations such as the Homeownership Preservation Foundation ready to fund a pilot project in Atlanta to test the effectiveness of the initiative (after which mortgage industry players and/or municipalities could be expected to foot the modest bill for a successful program). Rather, public awareness is the key, making participation by government agencies and nonprofit agencies essential. Ultimately, the goal of such an approach would be for most prospective refinancers, especially those in foreclosure hotspots, to be aware that a ten-minute phone call could help save them thousands of dollars over the life the loan and help them avoid the fate of those who lost equity or their homes by signing up for a bad loan.

Create Programs to Transfer Properties to Community-Based Developers. Foreclosed properties, particularly in older cities and inner suburban areas, are likely to have experienced deferred maintenance and significant deterioration. After foreclosure and prior to a sale to a new owner-occupant is an ideal time to rehabilitate the properties to a standard that addresses all health and safety issues, as well as functional obsolescence of things like roofs and furnaces that can sink subsequent owner-occupiers financially. Community-based developers with strategies of building long-term, sustainable homeownership are often in the best position to manage the extensive rehabilitation process and then market and sell the property to prepared owner-occupants with solid financing, in part because they can access local, state and federal subsidies designed for this purpose. For example, in 2001, the Los Angeles City Council appropriated nearly $6 million to assist a major national nonprofit intermediary to purchase, rehab and sell a large portfolio of HUD-foreclosed properties.

Not all communities can afford a program on the scale of Los Angeles', but each can create relationships with a variety of institutions to structure programs that deeply discount or donate properties, enabling nonprofit developers to turn distressed properties into community assets. Not-for-profit organizations can begin the dialogue by identifying target areas where they want to strategically acquire properties. Financial institutions are often willing to identify REO properties in those locations that would make sense to discount or donate to these organizations. In many cases, servicers take into account the increased cost they would incur by holding and marketing the property for a higher price as opposed to a quick but deeply discounted sale to a credible community-based developer. By showing success on a few properties — a thorough rehab and a timely sale to an owner-occupant — not-for-profit organizations can set the stage for an ongoing REO discount or donation program.

Work to Sell Foreclosed Properties to Lower-Income Homebuyers. Given the high costs of substantial rehab, it may make sense to focus on homes that are less in need of major rehabilitation, but that would still expand homeownership opportunities to lower-income buyers. Unfortunately, foreclosed properties sold through Atlanta's monthly auction system often

fall into the hands of speculators that either quickly resell the property "as-is" to unsuspecting buyers, or convert the unit to rental, and in doing so erode the homeowner base of the neighborhood. Community groups can work to provide lower-income buyers the information and assistance needed (including access to appropriate rehabilitation funds) to purchase their home directly through the foreclosure auction process. Not only would this bid some speculators out of the process, but it could be an especially valuable option for expanding the number of lower-income borrowers able to purchase and rehab one of many thousands of relatively new homes now being lost to foreclosure in the Atlanta suburbs.

Even more promising would be a program that helps new owners purchase a home directly from an owner facing foreclosure. By negotiating a "preforeclosure sale," the program would avoid the costs of foreclosure. Because such a sale would greatly reduce the cost of foreclosure for the noteholder and potentially the servicer as well, mortgage industry participants should be willing to get involved in such an effort if it could be shown to function effectively. Working cooperatively with concerned servicers, it would be possible to identify homes that are in reasonably good repair, but nevertheless are moving toward foreclosure. One approach is for the servicer to offer a cash-for-keys type settlement that leaves the borrower something with which to start over, and then quickly resell the property to the loan-ready borrower. By minimizing the costs associated with foreclosure, such an approach could be beneficial to the servicoer or the investor, not to mention both the former and new homeowners.

Identifying new sources of funding for foreclosure avoidance. While the magnitude of the costs is unknown, foreclosures — especially those in hotspots — are widely thought to trigger significant costs to local, state and federal governments. Consequently, increasing funding for foreclosure-avoidance efforts can save money that public agencies would have been forced to spend cleaning up the mess later on. Determining how government money could best be deployed is a challenge, however. One promising option is to make funds available to enhance loss-mitigation and foreclosure-avoidance efforts already employed by servicers. Since resources are likely to be limited, localities must create clear borrower and neighborhood eligibility standards to ensure that limited public funds target those situations that are most deserving of assistance and/or produce the greatest public benefit.

Equally problematic is obtaining the funding needed to support these initiatives, especially in an era of limited public resources. One solution to this problem builds on a proposal by the Coalition for Fair and Affordable Lending, a national organization representing nonprime lenders.[17] Under this approach, Congress would require that nonprime lenders pay a modest fee into a central fund when they originate a mortgage. This fund could then be used to defray the municipal costs associated with foreclosure, support state and local efforts to streamline the foreclosure process, and expand local foreclosure-avoidance initiatives. Recognizing that they will inevitably bear some of the costs, however, municipalities must be prepared to use their own community-development resources to advance foreclosure-avoidance efforts, both to reduce their own exposure and to help families in distress.

[17] See: *National Standards for Mortgage Lending Gains Momentum; Industry Outlines 'Reasonable Compromise Proposals*,' press release dated November 17, 2003, from the Coalition for Fair and Affordable Lending.

Policy Focus #3: Reduce Foreclosures by Reducing the Incidence of Abusive Lending

While many factors have undoubtedly contributed to Atlanta's foreclosure boom, data presented in this report indicate that at least some of the increase stems from recent increases in abusive forms of nonprime lending. In particular, the fact that relatively high shares of loans foreclose less than two years after origination is a clear indication that many, though not all, such loans were made with little regard to borrowers' actual ability to repay. That these trends continue today is another reason to suggest that the Atlanta foreclosure boom has yet to run its course. Moreover they are a reminder that the best foreclosure-avoidance strategy is to prevent foreclosure-prone loans being made.

Deploy Effective Consumer Counseling. In the face of aggressive push marketing by nonprime lenders, community-based organizations must ramp up their efforts to ensure that low-income borrowers get the best priced mortgage credit available to them in the marketplace. One approach some groups have used is to host homebuyer fairs and invite a prescreened group of mortgage brokers and lenders to participate. These homebuyer fairs seek to educate prospective buyers, help them identify specific mortgage products, and link them up with providers committed to finding products that are best suited to meet their needs.

Drawing attention to abusive brokers and lenders can be another way to warn potential borrowers of truly abusive lending practices. Consumer awareness campaigns, such as the "Stop Before You Borrow" initiated by the Fulton County Office of Housing, can help unsuspecting buyers and borrowers from falling prey to abusive lenders. Conducting additional evaluation of loans originated by lenders with a record of foreclosing relatively quickly after a loan was originated, would be a relatively easy way to identify other potentially abusive loans and provide foreclosure avoidance assistance in a timely manner.

Enhance Consumers' Capacity to Protect Themselves. Unfortunately, even the best designed education and outreach efforts can be easily swamped in a marketplace characterized by aggressive outreach in which some sophisticated, abusive, nonprime lenders promise to approve a mortgage application in a matter of hours, if not minutes, even for borrowers with "bad credit." In the face of this marketing onslaught, many community groups are taking a more aggressive approach and expanding their capacity work with buyers individually to search for the best mortgages. Of course, for such a service to be helpful, community groups must keep abreast of mortgage market trends and developments in mortgage products, and be recognized by potential borrowers as a trusted source of information. Indeed, some community-based organizations are already gearing up to develop a mortgage brokerage business with the explicit goal of using their good standing in the neighborhood to become a "buyer's broker," while at the same time earning a small fee for offering this service like any other mortgage broker.[18] Like the trusted advisors available to many higher-income borrowers, a

[18] Community-based organizations have to be mindful of the real or even perceived conflict of interest inherent in assuming the role of a buyer's broker. For example, to the extent that an organization receives funding from a particular lending institution, it may be pressured to recommend this institution's products even in situations where more advantageous products exist in the marketplace. Needless to say, an organization's failure to provide proper safeguards to avoid either a real or perceived conflict of interest would quickly erode the trust that community residents have placed in them.

buyer's broker would provide lower-income and/or less knowledgeable borrowers access to information on available mortgage terms and pricing. Buyer's brokers would help borrowers qualify for and procure a loan but, unlike mortgage brokers, would have incentives that ensure they work on behalf of the borrower.

Provide Consumers with Better Information. Though some well capitalized and technically sophisticated community groups have the ability to launch brokerage operations, many lack the resources and scale necessary to make such activities cost effective. Fortunately, there are other avenues through which nonprofits can help borrowers search for better mortgages. Borrowing from automobile blue books, nonprofits could periodically make "rate sheets" available to recent graduates of homebuying courses, at homebuyer fairs, or to anyone interested in purchasing a home in their area. Armed with knowledge of their credit score, income and other characteristics, these rate sheets could help borrowers shop for the best product, as well as better evaluate unsolicited offers. Along these lines, the Ford Foundation recently provided funding to support the development of "The Mortgage Grader," a privately owned system that will provide a link between national-brand lenders and community counseling organizations. With Mortgage Grader, community-based agencies will have access to loan quotes that will match the best loans that participating lenders offer in the marketplace. Working to enable borrowers or their trusted advisors to be better shoppers and to resist the marketing practices of abusive lenders would go a long way toward not only reducing the incidence of predatory lending, but also toward stemming the growth of foreclosures that inevitably follow in the wake of these predatory lending practices.

Expand Legal and Regulatory Efforts to Ban Deceptive Lending Practices. Increasingly, states and localities are ramping up efforts to eliminate deceptive and abusive mortgage lending practices. While these efforts have not always reflected an awareness of the extent to which nonprime lending has expanded access to mortgage credit for millions of previously underserved borrowers, they legitimately attempt to address the fact that the recent explosion of nonprime lending has provided cover that enables many less-than-reputable operators to flourish. One clear sign of "bad lending practices" is the share of loans originated by a particular entity that go bad in the first year or two. In most instances, a quick foreclosure points to inadequate attention to underwriting and in more serious instances can reflect fraudulent behavior on the part of the mortgage broker or lender responsible for originating the loan.

Though tracking the loan performance of all loans made by a specific lender would be possible with data maintained at local court houses, this is no easy task. An easy substitute is to turn the spotlight on those entities appearing frequently on the list of foreclosures occurring on loans aged less than two years. While sorting out fraudulent lending from simple incompetence, lack of due diligence, or even bad luck is challenging, it can be argued that brokers or lenders found with a high number of quick foreclosures should not be permitted to push-market their products to vulnerable people and communities. Armed with simple tracking statistics of the type developed for this report, regulatory officials could examine carefully the entities that originated quick-foreclosing loans and take appropriate legal remedies where warranted, ranging from a simple suspension of their license to lend in the state, to more serious penalties, including fines or even criminal sanctions.

With foreclosures on the rise and strong indications of further increases in the future, all states, including Georgia, should take a new look at model antipredatory lending legislation now in place in North Carolina and elsewhere. While many industry advocates argue that expanding regulation at the state level will deny credit-impaired borrowers access to mortgage loans, these claims largely miss the point. The question is not how many nonprime loans are made in any given period, but whether these loans offer borrowers a chance to become and remain a homeowner until they chose another path. Luring an unsuspecting borrower into a loan that has a high probability of failure certainly is no favor to the borrower, not to mention the municipalities left to clean up the mess of abusive lending.

Appendix: Data Cleaning and Preparation

The data used in this report are a complete list of foreclosure filings in 12 metropolitan Atlanta counties. Records enter the database following borrower default when the noteholder or noteholder's agent begins the formal process of foreclosure. They cover the period beginning January 2000 and ending in March 2005. The data were obtained from Equi-Systems, LLC, publishers of *The Atlanta Foreclosure Report*, a subscription-based monthly summary of properties to be sold at the subsequent month's foreclosure auction (held the first Tuesday of each month).[19] The database is therefore a comprehensive listing of properties with loans that are in severe enough difficulty that they come within a few weeks of being offered at auction by the noteholder, though not all are ultimately offered and/or sold. Equi-Systems estimates that 30 percent of the records in their database result in consummated foreclosures. The duplicate removal we perform during our data editing (described below) increases this percentage among the records used in this analysis, but we are unable to know the exact share of the records here that represent consummated foreclosures as opposed to extremely severe delinquencies.

In order to prepare the raw EquiSystems data for analysis, we took several data-cleaning steps, as detailed in Figure A-1. From an initial file of 145,776 records, we first dropped one county (Hall County) for which EquiSystems provides data but for which we could not obtain matching building-permit data needed in the analysis. We next dropped records that our geocoding engine placed outside the remaining 12-county study area, as well as all non-residential loans.[20] We then focused the sample slightly by dropping very small (less than $5,000) and very large (more than $5 million) loans. All of these steps caused modest declines in the population of foreclosure records, reducing it by a total of about 8,000 records.

Figure A-1: Impact of Data Cleaning

Edit	Records Removed	Remaining Records
Raw records from Equisystems		145,776
Drop Hall County	-3,047	142,729
Drop records geocoded outside the 12 county study area	-2,711	140,018
Drop non-residential records	-2,193	137,825
Drop loans less than $5,000	-244	137,581
Drop loans greater than $5,000,000	-13	137,568
Drop multiple records	-47,459	**90,109**

A larger reduction in the dataset was caused by the fact that the possibility of loans curing prior to auction date means a significant share of the records in the raw EquiSystems database appear in more than one month. In order to prevent double counting, we used each loan-property combination only once, retaining the first appearance of each and discarding

[19] www.equisystems.com/page_2.htm.
[20] Junior liens were kept in the database and comprise approximately 5 percent of the sample.

all subsequent ones. Making this edit drops nearly 47,500 records from the remaining database.

Several other important methodological decisions underpin the analysis presented in this report. The first of these concerns the denominator we use to construct census-tract-level foreclosure rates. Using neighborhood (i.e., census tract) characteristics from 2000 is appropriate for most of the indicators we examine here, such as income and racial characteristics, because these generally do not change significantly over periods as short as five years. The number of housing units and hence the number of mortgages in an area can change significantly in a five-year period, however. The uneven rate at which the housing stock expands in different areas therefore made it important to update the 2000 Census figures on the number of mortgages in each tract in order that our foreclosure rates not be biased downward in tracts where the housing stock was expanding.

Since we do not have tract- or county-level information on growth in mortgage lending over the study period, we used the rate of building permit issuance to proxy for it. Because permit data are aggregated to the county level, we multiply the number of mortgages outstanding as of 2000 at the tract level by the county level increase in permits during the study period. This yields imperfect estimates of the number of loans outstanding but is preferable to simply using unadjusted 2000 figures because it reflects some, though not all, of the neighborhood-level variation in lending growth since 2000. Figure A-2 shows permitting by county and the multipliers for outstanding mortgage levels that we calculate from it. The figure indicates that county-level growth in the housing stock ranged from a low of 11.6 percent to a high of 69.6 percent in the five years beginning in 2000.

Figure A-2: Building Permits Issued in Study Counties, 2000:1–2004:4

County	Permits Issued	2000 level	Change (%)
Bartow	5,099	15,202	33.5
Cherokee	16,197	36,754	44.1
Clayton	11,698	45,161	25.9
Cobb	25,213	142,790	17.7
Dekalb	20,714	134,885	15.4
Douglas	7,596	21,113	36.0
Fayette	4,624	24,373	19.0
Forsyth	14,192	26,287	54.0
Fulton	25,278	146,783	17.2
Gwinnett	46,290	134,802	34.3
Henry	18,303	26,315	69.6
Rockdale	3,560	30,674	11.6
Total	198,764	785,139	25.3

Source: Census Bureau, Monthly New Privately-Owned Residential Building Permits.

Another concern involved the accuracy of the geocoding through which property information in the EquiSystems data were mapped to specific census tracts. Of the 90,109 records in the cleaned data, 75,978 (84.3 percent) could be coded directly to the tract level. The remaining 14,131 could be geocoded only to zip codes. In order to avoid losing these records we did the following. First, we used the 75,978 directly geocoded loans to determine what share of fore-

closures in each zip code occurred in each of the zip code's census tracts. We then assumed that the shares for each tract within a zip code were the same in the 14,131 records coded to the zip code level as in the 75,978 directly coded foreclosures. The actual tract-level number of foreclosures used in our analysis, and in construction of the foreclosure rates presented throughout this report, is therefore a combination of foreclosed properties geocoded directly to the tract level (84.3 percent) and foreclosed properties for which the census-tract location needed to be imputed from zip code–level geocoding.