

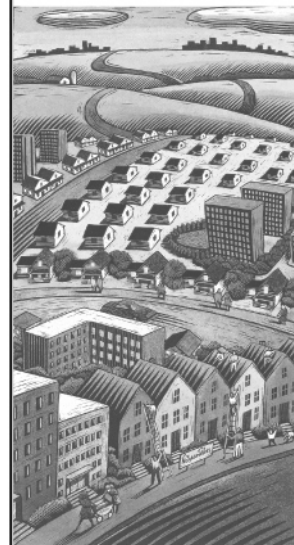
Seven Ways Foreclosures Impact Communities

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The negative impacts of foreclosure on communities are far reaching. Although little formal data exists on this subject, local news accounts and reports from local officials paint a multifaceted picture. Not only are people losing homes, but also communities are suffering economically, physically and socially. This report mainly focuses on areas that are hardest hit: metropolitan areas and their suburbs. We have identified the following seven impact areas for foreclosure.

Communities Suffer From Increased Crime

Abandoned homes from the foreclosure crisis have a direct effect on the rise in crime in communities. Thieves are breaking into houses and stripping them of valuables. Copper wire, air conditioning units, water heaters, refrigerators and even toilets are hot commodities.¹ One Atlanta police officer noted that “these are bold thieves — often pushing shopping carts of stolen goods down the streets in broad daylight.”² Destruction of property and vandalism is making the homes even more difficult to sell. Often, it takes more money to fix these homes than they would even sell for on the market.

Theft is not the only type of crime in communities with highly concentrated foreclosure. According to a recent study by Dan Immergluck of the Georgia Institute of Technology in Atlanta and Geoff Smith of the Woodstock Institute in Chicago, “when the foreclosure rate increases one percentage point, neighborhood violent crime rises 2.33 percent.”³ In Charlotte, North Carolina, Laurie Talbot was recently awakened by gunfire in her seven-year-old subdivision. One bullet shot into her house, traveled through her son's bedroom and landed on her bedroom floor. “I thought I'd bought a home in Pleasantville,” says Talbot, who moved from New York to a Charlotte suburb last year. “I never imagined in my wildest dreams that stuff like this would happen.”⁴

Vacant properties are also a magnet for other forms of illicit activities. Mark Seifert, director of the East Side Organizing Project in Cleveland, talked about an open, empty lot on one block that had been used by car thieves for months to store and strip parts from stolen cars.⁵ In Buffalo, New York, over the past two years, “at least seven dead bodies, some of them crime victims, have been discovered in or around vacant buildings.”⁶

A study in Austin, Texas, found that “blocks with unsecured [vacant] buildings had 3.2 times as many drug calls to police, 1.8 times as many theft calls, and twice the number of violent calls’ as blocks without vacant buildings.”⁷

Vandalism and violent crime do not provide healthy environments for thriving communities. Residents in some communities hard hit by foreclosure now live in fear of straying bullets, drug deals and illegal activity in their once safe neighborhoods.

Communities Take Financial Hit

Individual homeowners are not the only ones suffering financially from the foreclosure crisis. Communities and local governments experience spillover effects that result in a

reduction of their annual budget. The lower property values caused by foreclosed homes lead to a smaller tax base.

According to the Center for Responsible Lending, “Foreclosures cost neighbors \$223 billion.”⁸ The Center also cites that “Over 44 million homes in the United States will experience property devaluation as a result of foreclosures in their neighborhoods. Forty-two counties in the United States can expect to see their property tax base erode by more than \$1 billion. And households located in proximity to lost properties could see the value of their property decrease by \$5,000, on average.”⁹

Some cities are struggling more than others. Vallejo, a once flourishing town in California, recently had to declare bankruptcy when the collapsing housing market tipped their dwindling economy over the edge. “Vallejo cut 87 jobs and slashed funding for parks, a library, a senior citizens' center and other public services, but it wasn't enough to hold off the bankruptcy filing.”¹⁰

Unfortunately, social programs and public services are often first to be cut from municipal budgets. This is a vicious cycle, because the programs that are removed are the same programs that help many residents who are suffering from the crisis.

Community Members Are Vulnerable to Financial Scams

Subprime lending has played a significant role in the nation's housing boom for over a decade, allowing many people who would otherwise not be able to buy a home to do so. Many of subprime loans are considered “predatory” because the homebuyer was deliberately deceived by nondisclosure of hidden fees, penalties or ballooning interest rates. When the borrowers can't pay the loans, the lender can take the property.

The rise in foreclosures has created an even more predatory atmosphere because “foreclosure rescue” has become a lucrative business venture for scammers. Unscrupulous lenders use a few popular methods in order to take advantage of struggling residents. Rescue companies promise to help residents get their way out of foreclosure. These companies are tricking people into paying them upfront, cutting off contact with their lenders, making paperless agreements and even signing fraudulent papers to hand over the deed to their homes.^{11,12}

The poor, elderly, military personnel, minorities and less educated seem to be the most prone to mortgage scams, but anyone can fall into traps in desperate times.

Youth Experience Stress and Instability

One hard-hit victim of foreclosure is children. According to the Center for Responsible Lending, “it is estimated that over 1.95 million youth are affected by foreclosure.”¹³ Foreclosure produces a negative environment for raising youth. Brenda Jones Harden, Ph.D., wrote that “children exposed to violent, dangerous, and/or highly unstable environments are more likely to experience developmental difficulties.”¹⁴ Parents' stress seeps down to their children. Often, the kids feel that they are both a financial and emotional burden. Therefore, many children begin to make sacrifices for their families.

Some children must quit sports teams or music lessons because their parents cannot afford them. Others are finding after-school and weekend jobs to help pay their families' bills. Many times, the family vacation must be postponed until further notice.

Not only are youth sacrificing normal childhood comforts, but also they are enduring other types of side effects. Moving creates instability in a child's life. They lose friends, teachers, sports teams, social networks and, most importantly, confidence. Changing lifestyles is stressful and difficult for many youth, which can lead to falling grades and low self-esteem. Behavioral issues are also a common problem with uprooted kids because they feel that they don't belong in their new setting.¹⁵ Frequently, families cannot afford to move into housing of equal value as before. New neighborhoods may have more crime, worse school systems and fewer activities for youth.

Displaced Residents Struggle to Find Shelter

When thousands of people are losing their homes, where do they move? According to the National Coalition for the Homeless, "76% of displaced homeowners and renters are moving in with relatives and friends. About 54% are moving to emergency shelters. About 40% are already on the streets. Nearly 61% of local and state homeless coalitions say they've seen a rise in homelessness since the foreclosure crisis began in 2007."¹⁶ Communities are losing invaluable local leaders and social capital from the relocation of residents.

The National Low Income Housing Coalition reports that 928 homeless adults in Michigan listed "foreclosure" as one of the top two reasons for their homelessness in 2007. The number in the first quarter of 2008 was 217% higher than in the first quarter of 2006.¹⁷

Many previous homeowners turn to renting when their homes are foreclosed. The increased demand for rental properties has caused prices to rise. Foreclosure victims are having a tough time both paying and qualifying for the rental housing due to their damaged credit scores.¹⁸

Also, many of the foreclosed properties nationwide are multiunit buildings. "60% of the 15,000 foreclosure filings in New York City last year were on multi-unit buildings," reports the Furman Center.¹⁹ Landlords of these buildings are having a tough time paying off the banks and consequently they lose the properties. In turn, families are forced out on the streets with very little notice. According to the National Low Income Housing Coalition, "5,000 families have been evicted from their rental homes in the last 18 months in Nevada."²⁰

In the suburbs of Los Angeles a tent city of more than 200 displaced residents has emerged. High rent payments leave many people with no other option than to pitch a tent or live out of their car in settlements like this. "Amenities are basic as well, with no electricity, no plumbing, and no drainage. Also, there is nowhere to prepare or store food, apart from makeshift tables in the open air."²¹ Lack of plumbing and refrigeration can cause health risks such as poor hygiene and unsanitary foods.

In “foreclosure epicenter cities” like Cleveland, residents are moving out for good. More people left Cleveland last year than any other major city in America, according to the U.S. Census Bureau. Since 2000, only hurricane-ravaged New Orleans weathered a sharper rate of population loss. The combination of job loss, devaluation of property and foreclosure are driving people to get a fresh start somewhere else.²²

Communities Are Blighted by Neglect

When homes are abandoned because of foreclosure, the properties and communities begin to deteriorate. Garbage, unmowed lawns, pests and dilapidated roofs and porches are eyesores. The lack of care can change the entire atmosphere in a community. The people who remain may have feelings of loneliness, fear and frustration. To make matters worse, potential buyers find conditions like these unattractive, turning them away and leaving empty homes remaining.

Many neighborhoods that had made great strides in urban renewal, like Reservoir Hill in Baltimore, are now faltering.²³ Local governments and organizations invested money and time into these at-risk neighborhoods to convert them into middle-class communities. House by house and block by block, these communities came back. But now, the housing crisis is rewinding many of these community revitalization projects. The struggling neighborhoods might not be able to hold on.

In addition to the physical aspects of community neglect, abandoned homes also create health and safety issues. For example, hundreds of vacant homes in Florida now have pools that are breeding grounds for mosquitoes. "Abandoned swimming pools can, over the course of a month, produce thousands of mosquitoes," said Jonathan Day, professor at the University of Florida.²⁴ This incalculable swell in mosquito numbers increases the chance of West Nile Virus.²⁵

Another aspect of neighborhood blight is the ever-increasing amount of pets that are left behind when homes are foreclosed. Some families under financial stress are finding they cannot afford their pets anymore or their new housing doesn't permit animals. Cheryl Lang, president of Integrated Mortgage Solutions in Houston, has started a nonprofit group, No Paws Left Behind, to find homes for abandoned pets and to offer help with pets to homeowners in foreclosure. She said contractors working for her company, which manages foreclosed properties, had found abandoned animals from birds to horses.²⁶

Minorities Are Impacted Disproportionately

Although all ethnic groups have been affected by foreclosure and subprime lending, minority communities have been hit particularly hard. According to a 2008 report by the nonprofit policy center United for a Fair Economy, “the foreclosure crisis will result in the greatest loss of wealth for people of color in recent U.S. history.” The report estimates that “black borrowers will lose between \$71 billion and \$122 billion, while Hispanic borrowers will lose between \$76 billion and \$129 billion (Rivera 2008).”²⁷

Unfortunately, many minority and poor communities do not have the same resources or options as more affluent areas, such as access to prime lenders. Countless numbers of people were pushed into subprime loans, even though they could have qualified for better prime loans. "When the Federal Reserve Board analyzed the most recent pricing data, researchers found that, in 2006, 53.7% of blacks, 46.6% of Hispanics, and 17.7% of whites received high-priced loans. In minority areas 46.6% obtained high-priced loans compared to 21.7% in white communities (Avery et al. 2007)."²⁸ The Woodstock Institute out of Chicago, Illinois, found that the foreclosure rate in Chicago's high-minority neighborhoods was 2.5 times the regional rate.²⁹

Another reason for the hard strike on minority communities is the disproportionate amount of wealth assets. "While African Americans and Hispanics earn approximately two-thirds as much as whites, wealth holdings for the typical nonwhite family are approximately one-tenth that of the typical white family (Shapiro 2004; National Community Reinvestment Coalition and Woodstock Institute 2006)." Therefore, if a minority family goes into foreclosure, they lose proportionately much more of their wealth than a richer family.

The Challenge Ahead

Clearly, foreclosures are having a multifaceted negative impact on communities and threaten to undermine strides made by local organizations that have increased homeownership, lowered crime and made communities healthy places to live. What was recently written about one Cleveland neighborhood could be said for many other American communities hard hit by foreclosures: "As the number of empty lots and abandoned houses grows where houses and residents were once packed in a tight community, there are fewer and fewer neighbors to fight the battle."

¹ <http://www.msnbc.msn.com/id/21773482/>

² <http://www.cnn.com/2008/CRIME/07/22/burglarized.foreclosures/index.html>

³ http://www.boston.com/news/nation/articles/2007/11/18/after_foreclosures_crime_moves_in/

⁴ <http://www.charlotte.com/527/story/397430.html>

⁵ http://money.cnn.com/2007/11/16/real_estate/supprime_and_crime/

⁶ http://money.cnn.com/2007/11/16/real_estate/supprime_and_crime/

⁷ http://www.vacantproperties.org/latestreports/True%20Costs_Aug05.pdf

⁸ <http://blog.fortiusone.com/2007/11/13/the-spillover-effects-of-foreclosures/>

⁹ <http://blog.fortiusone.com/2007/11/13/the-spillover-effects-of-foreclosures/>

¹⁰ http://www.usatoday.com/money/economy/2008-07-21-vallejo-city-bankruptcy_N.htm

¹¹ <http://www.fraudguides.com/mortgage-foreclosure-rescue-scam.asp>

¹² <http://www.ncdoj.com/DocumentStreamerClient?directory=WhatsNew/&file=foreclosure%20tips.pdf>

¹³ <http://www.firstfocus.net/Download/HousingandChildrenFINAL.pdf>

¹⁴ http://www.futureofchildren.org/pubs-info2825/pubs-info_show.htm?doc_id=209538

¹⁵ http://www.usatoday.com/money/economy/housing/2008-07-08-children-foreclosure-homeless_N.htm

¹⁶ http://www.nationalhomeless.org/housing/foreclosure_report.pdf

¹⁷ <http://www.nlihc.org/doc/NLIHC-Knowledgeplex-07-24-Distribution.pdf>

¹⁸ <http://www.nlihc.org/doc/NLIHC-Knowledgeplex-07-24-Distribution.pdf>

¹⁹ <http://www.nlihc.org/doc/NLIHC-Knowledgeplex-07-24-Distribution.pdf>

²⁰ <http://www.nlihc.org/doc/NLIHC-Knowledgeplex-07-24-Distribution.pdf>

²¹ http://www.digitaljournal.com/article/251952/Tent_City_Numbers_Expected_To_Increase_Nationwide_As_Foreclosure_Crisis_Grows

²² http://blog.cleveland.com/metro/2008/07/cleveland_leads_big_cities_in.html

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- ²³ <http://www.washingtonpost.com/wp-dyn/content/article/2008/07/21/AR2008072102490.html?hpid=topnews&sid=ST2008072103207&pos=>
- ²⁴ <http://www.orlandosentinel.com/orl-grosspools2208jul22.0,1703790.story>
- ²⁵ <http://www.nbc4.com/news/16902777/detail.html>
- ²⁶ <http://finance.yahoo.com/real-estate/article/105157/Contractors-Are-Kept-Busy-Maintaining-Abandoned-Homes>
- ²² http://money.cnn.com/2007/11/16/real_estate/suprime_and_crime/
- ²⁷ http://www.mi.vt.edu/data/files/hpd%2018.4/hpd_j._carr_article.pdf
- ²⁸ <http://www.sharedprosperity.org/bp197/bp197.pdf>
- ²⁹ <http://www.nlihc.org/doc/NLIHC-Knowledgeplex-07-24-Distribution.pdf>