

Home Foreclosures

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The Problem

During the housing boom, many homeowners took out expensive and often subprime mortgages under the belief that home prices would continue to rise. As the housing market went from boom to bust, too much investment went into the homebuilding sector and too little into other sectors of the economy. As homeowners saw the value of homes increase, they saved too little and often bought homes that were too expensive relative to their incomes. All of this laid the foundation for the unraveling of the housing bubble, which is clearly the source of the current recession. Individual homeowners have been forced to default on their mortgages, and, the entire U.S. economy will take years to generate sufficient growth outside the home sector to support rising employment and wages.

During President Bush's tenure in office, foreclosures have increased dramatically.

- There have been 5.6 million foreclosure filings since April 2005.¹
- Foreclosure filings were reported on 272,171 properties during July alone, meaning that for every 100,000 properties, 211 received foreclosure filings. This represents an 8% increase over June and a 55% increase from one-year ago.²
- The Congressional Joint Economic Committee estimates that roughly 2 million families will lose their homes in the next couple of years.³
- The Moody/REAL Commercial Property Price Index dropped nearly 12% since last October, causing the foreclosure crisis to spread into the commercial real estate market as well.⁴

All homeowners have been affected, even those that do not face foreclosure.

- Empty houses are often taken over by squatters who use them for illegal activities.
- Each foreclosure in a 100-house neighborhood corresponds to a 2.4% jump in violent crime.⁵
- Foreclosure on a home lowers the value of nearby homes by 0.9%, on average.⁶
- The devaluation of 40.6 million houses and the decline of the tax base caused by nearby foreclosures cost neighbors \$202 billion.⁷
- Overall, homeowners will see their property values decline by \$1.2 trillion this year.⁸ This drop in wealth will cause consumers to lower their spending, and it will make exiting the current recession harder.

Foreclosures and lower property values have led to lower tax revenues.

- The Congressional Joint Economic Committee estimated that state and local governments would lose \$917 million in tax revenues.⁹ The U.S. Conference of Mayors estimated the lost revenue would be at least \$6.6 billion.¹⁰
- Tax revenue shortfalls will force local governments to cut vital community services.

The foreclosure crisis has had a devastating effect on the economy.

- Just in 2008, the foreclosure crisis has led to 524,000 fewer jobs created and a \$166 billion loss in gross domestic product.¹¹

What President Bush has done?

President Bush expanded FHA Secure to assist more homeowners, a positive but insufficient step towards solving the foreclosure crisis.

- The expansion would allow mortgages to be refinanced into prime-rate FHA-insured mortgages if the lender voluntarily writes-down the loan principle.
- The FHA expansion is very restrictive and would only affect a small amount of borrowers. To qualify, a borrower must have an adjustable rate mortgage, have otherwise good credit, have only missed a few payments, have made six consecutive monthly mortgage payments, and have a lender that voluntarily agrees to the write-down.¹²
- The expansion would do nothing for the hundreds of thousands of homes that are currently in the process of foreclosure and nothing for homeowners with poor credit.

President Bush has touted an industry-backed alliance that has issued new guidelines which have since done little to provide assistance to homeowners at risk for foreclosure.

- The guidelines are meant to broaden and accelerate assistance to homeowners by streamlining the process that would decide if a homeowner should get assistance or not. However, they are not legally binding, and they do not guarantee that any homeowner will actually receive assistance.
- The guidelines have been ineffective: most of the assistance has been in the form of repayment plans rather than modifying the actual terms of the loans. In fact, during the first eight months of 2007, lenders only modified 3.5% of subprime adjustable-rate mortgages that will reset to higher levels.¹³
- In the month since the guidelines were issued, foreclosure filings have increased by 8%.¹⁴

What has President Bush failed to do?

President Bush opposes efforts to allow persons filing for bankruptcy to keep their homes.

- Currently, homeowners filing Chapter 13 bankruptcy are prohibited from having the bankruptcy court renegotiate their mortgage terms on their primary residence, although it

allows renegotiation for second and third residences, family farms, and commercial residences.

- The Foreclosure Prevention Act of 2008 (S. 2636) would allow homeowners facing imminent foreclosure to renegotiate their mortgage on their first home, which would allow many to keep their homes.
- The senior economist at Moody's estimates the bill would prevent 570,000 foreclosures,¹⁵ while the Center for Responsible Lending estimates the bill would prevent over 600,000 foreclosures.¹⁶ Despite the prospect of saving over half a million families from foreclosure, President Bush threatened to veto the bill.¹⁷

The Bush administration promoted home ownership for everyone but opposed new regulations on the loan process.

- President Bush promoted increased home ownership (the “ownership society”) through “financial innovation”¹⁸—which led to the proliferation of subprime mortgages—and called upon Fannie Mae and the private sector to “unlock millions of dollars to make it available for the purchase of a home.”¹⁹ The sub-prime market grew from \$210 billion in 2001 to \$625 billion in 2005.²⁰
- The Bush administration opposed regulations to protect these first-time borrowers from bad lending practices, even after it was warned.²¹
- Home-ownership rates by the end of the Bush administration's second term are essentially the same as what was inherited. The regulation-free financial innovation they promoted has paid no positive dividends in terms of promoting home-ownership, and it is responsible for the current economic downturn.

¹ Author's analysis of data provided by RealtyTrac: "U.S. State Foreclosure Data by Type by Month-Apr05-Jun08.xls"

² "Foreclosure Activity Increases 8 Percent in July," *RealtyTrac*, August 14, 2008

<http://www.realtytrac.com/ContentManagement/pressrelease.aspx?ChannelID=9&ItemID=5041&acct=64847>

³ "The Subprime Lending Crisis: The Economic Impact on Wealth, Property Values, and Tax Revenues, and How We Got There," *U.S. Congress Joint Economic Committee*, October 25, 2007

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⁴ Story, Louise. "Some Fear Commercial Property Loans Will Be Next Stage in Downturn," *New York Times*, August 22, 2008

<http://www.nytimes.com/2008/08/22/business/22commercial.html>

⁵ Mummolo and Brubaker, "As Foreclosed Homes Empty, Crime Arrives," *Washington Post*, April 27, 2008

http://www.washingtonpost.com/wp-dyn/content/article/2008/04/26/AR2008042601288_2.html

⁶ Dan Immergluck and Geoff Smith, "The External Costs of Foreclosure: The Impact of Single-Family Mortgage Foreclosures on Property Values," *Fannie Mae Foundation*, 2006 p. 57, 69, 72, 75

http://www.fanniemae.org/programs/hpd/pdf/hpd_1701_immergluck.pdf

⁷ "Subprime Spillover: Foreclosures Cost Neighbors \$202 Billion; 40.6 Million Homes Lose \$5,000 on Average," *Center for Responsible Lending*, November 13, 2007

<http://www.responsiblelending.org/issues/mortgage/research/subprime-spillover.html>

⁸ "U.S. Metro Economies: The Mortgage Crisis", *U.S. Conference of Mayors*, November 2007

<http://www.usmayors.org/metroeconomies/1107/report.pdf>

⁹ "The Subprime Lending Crisis: The Economic Impact on Wealth, Property Values, and Tax Revenues, and How We Got There," *U.S. Congress Joint Economic Committee*, October 25, 2007

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¹⁰ "U.S. Metro Economies: The Mortgage Crisis", *U.S. Conference of Mayors*, November 2007

<http://www.usmayors.org/metroeconomies/1107/report.pdf>

¹¹ "U.S. Metro Economies: The Mortgage Crisis", *U.S. Conference of Mayors*, November 2007

<http://www.usmayors.org/metroeconomies/1107/report.pdf>

¹² McKinnon and Paletta, "Bush to Expand Help on Mortgages" *The Wall Street Journal*, April 9, 2008

http://online.wsj.com/article/SB120769266029299359.html?mod=todays_us_page_one

¹³ "Voluntary Loan Modification Fall Short," *Center for Responsible Lending*, January 28, 2008

http://www.responsiblelending.org/issues/mortgage/research/updated-analysis-of-paulson-plan.html?member_key=wkei6gx2f7tjn6i

¹⁴ Author's analysis of data provided by RealtyTrac: "U.S. State Foreclosure Data by Type by Month-Apr05-Jun08.xls"

¹⁵ http://www.economy.com/mark-zandi/documents/House_Subcmt_01_29_08.pdf

¹⁶ "HR 3609 - Compromise Bill Permitting Court- Supervised Loan Modifications Would Save 600,000 Homes," *Center for Responsible Lending*, January 18, 2008

<http://www.responsiblelending.org/pdfs/hr-3609-support-brief.pdf>

¹⁷ "Statement of Administration Policy, HR 3221", *Office of Management and Budget*, February 26, 2008

<http://www.whitehouse.gov/omb/legislative/sap/110-2/saps2636-s.pdf>

¹⁸ Andrews, Edmund. "Fed Shrugged as Subprime Crisis Spread" *New York Times*, December 18, 2007

<http://www.nytimes.com/2007/12/18/business/18subprime.html>

¹⁹ Klein, Naomi. "Disowned by the Ownership Society," *The Nation*, January 31, 2008.

<http://www.thenation.com/doc/20080218/klein>

²⁰ "State of the Nation's Housing 2006" *Joint Center for Housing Studies*, Table A-9

<http://www.jchs.harvard.edu/publications/markets/son2006/index.htm>

²¹ Andrews, Edmund. "Fed Shrugged as Subprime Crisis Spread" *New York Times*, December 18, 2007

<http://www.nytimes.com/2007/12/18/business/18subprime.html>