



FURMAN CENTER
FOR REAL ESTATE & URBAN POLICY
NEW YORK UNIVERSITY
SCHOOL OF LAW • WAGNER SCHOOL OF PUBLIC SERVICE



NYU Wagner

Robert F. Wagner Graduate School of Public Service

The Foreclosure Crisis: Origins, Consequences, and Responses

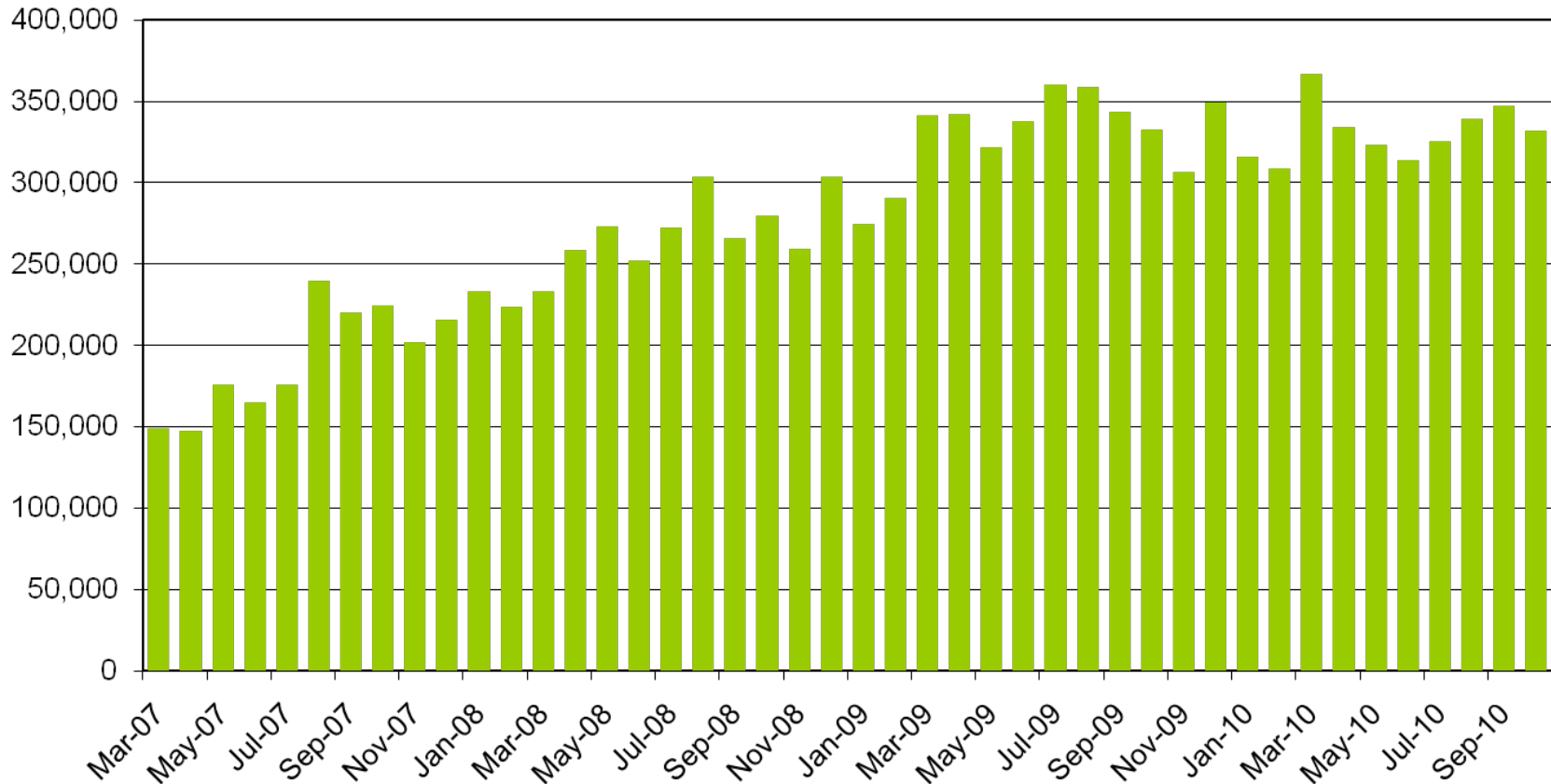
Ingrid Gould Ellen

December 9, 2010

Center for Homelessness Prevention Studies

National Foreclosure Trends

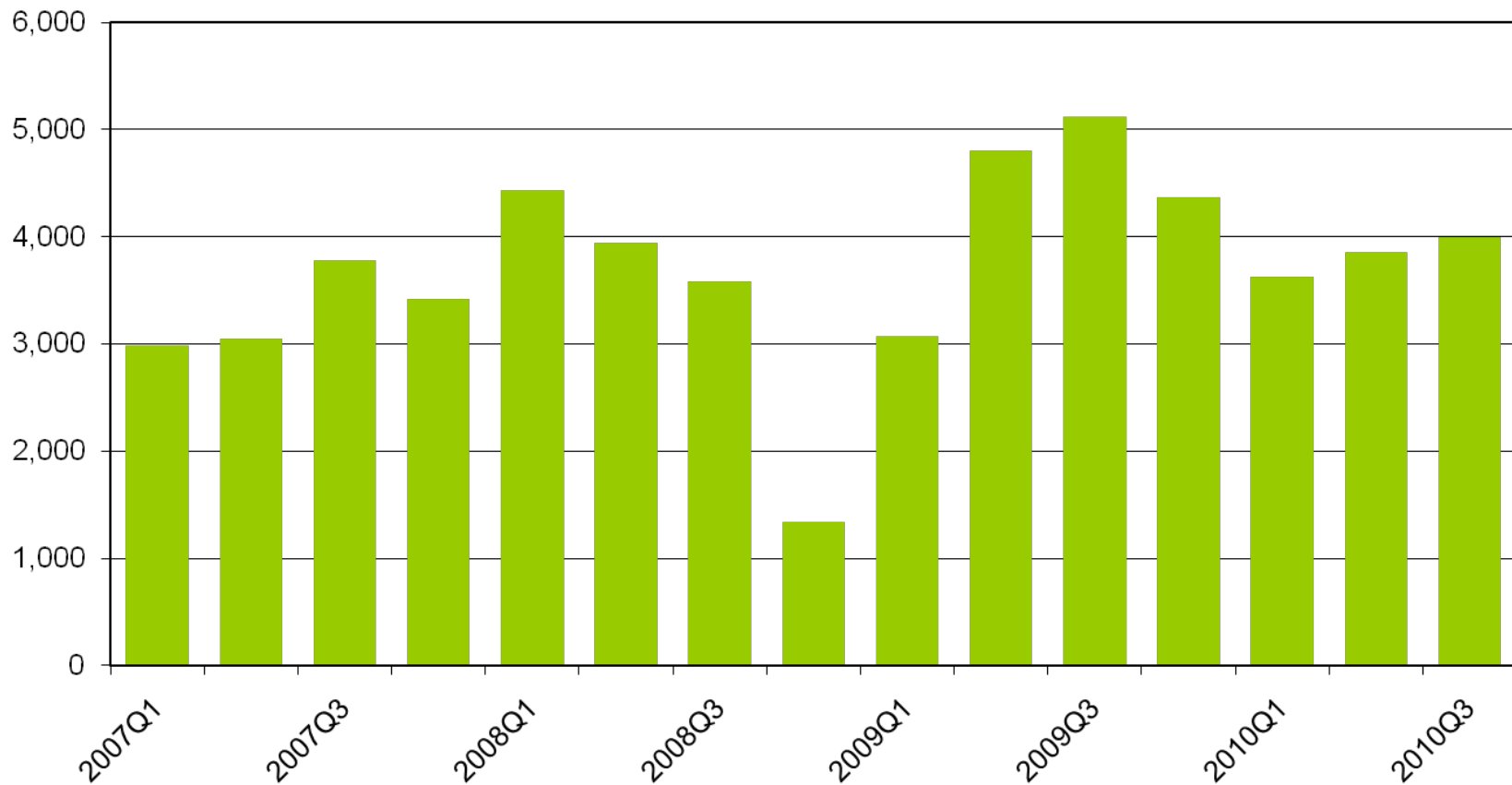
(March 2007 – October 2010)



Source: RealtyTrac

NYC Foreclosure Trends

(2007 Q1– 2010 Q3)



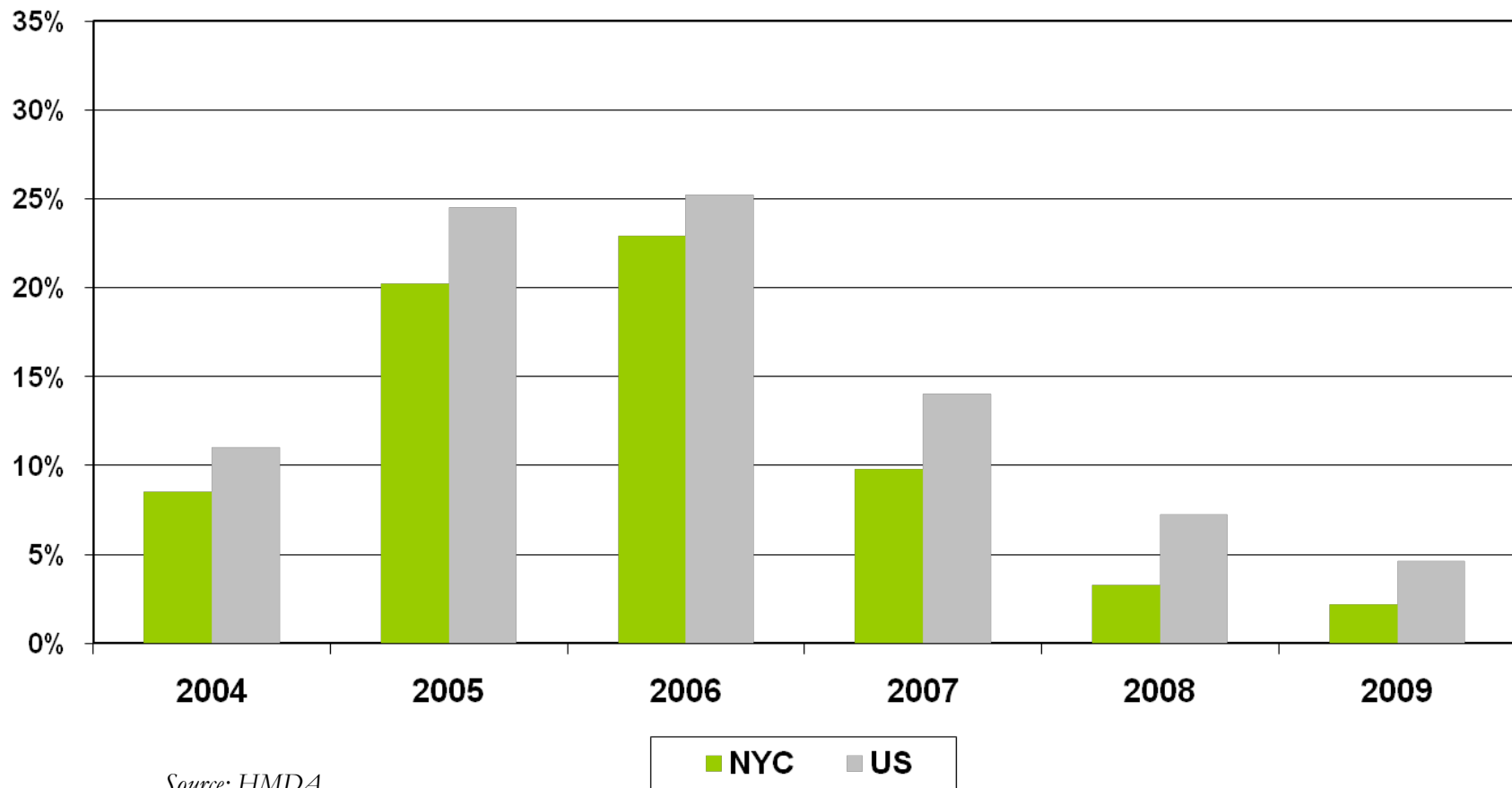
Source: Public Data Corporation, Furman Center

Reasons for Rise in Foreclosures

- Risky underwriting
 - Over-leveraged borrowers
 - High debt to income ratios
- Economic downturn
 - Job losses among borrowers
- Fall in house prices

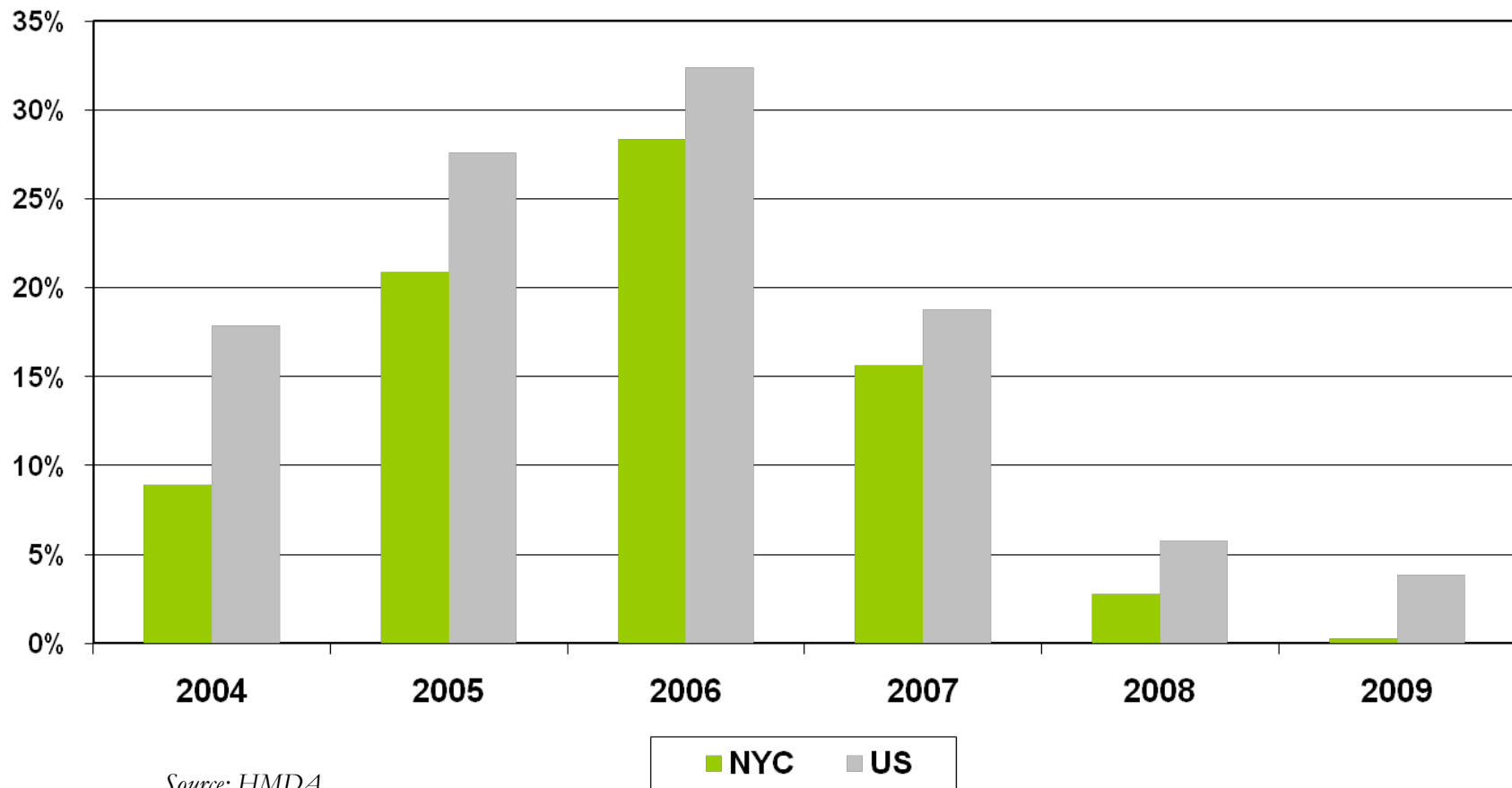
High Cost Lending Rate

Conventional, First-lien, Home Purchase Loans

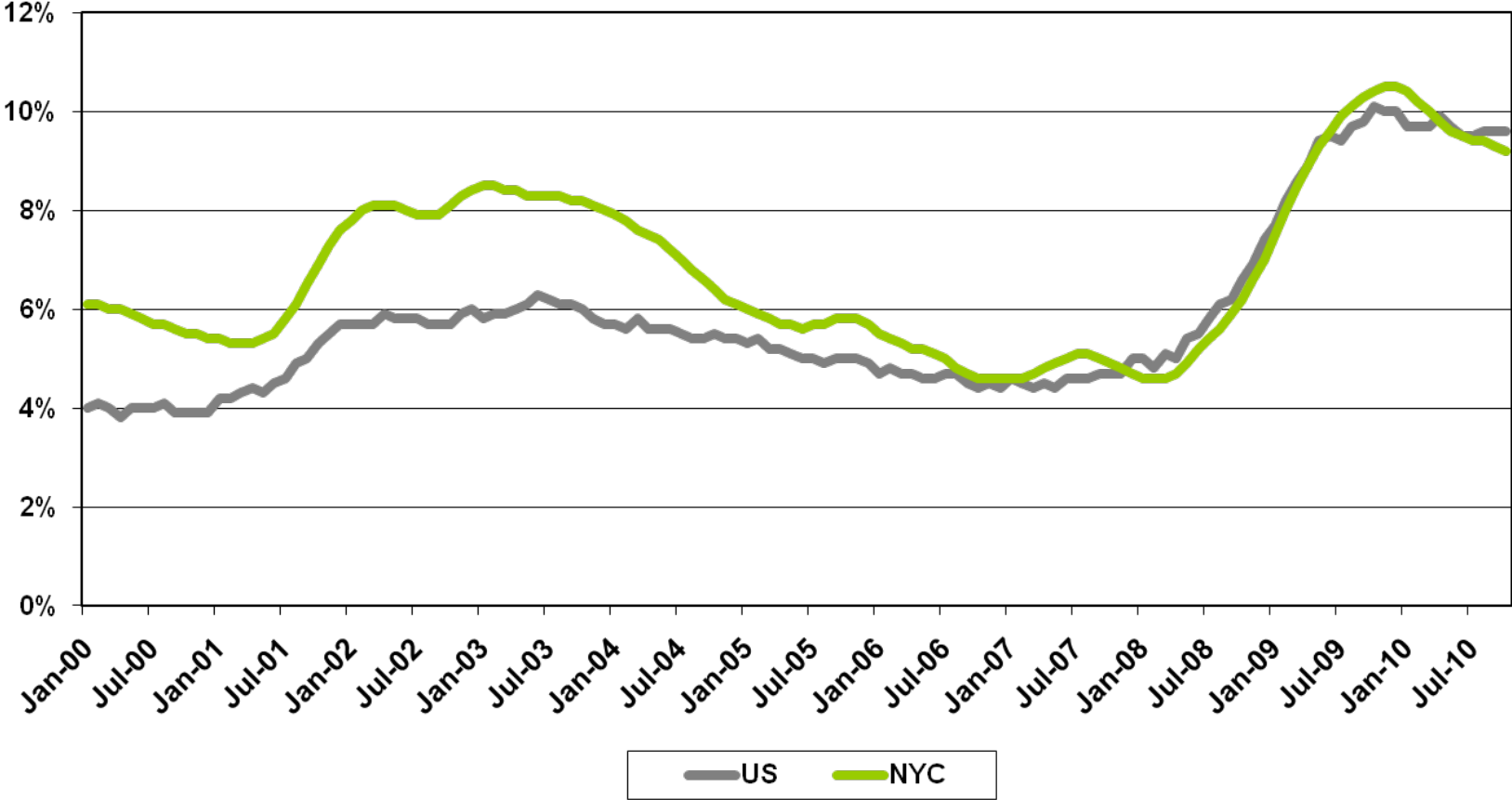


Piggyback Lending Rate

Conventional, Home Purchase Loans

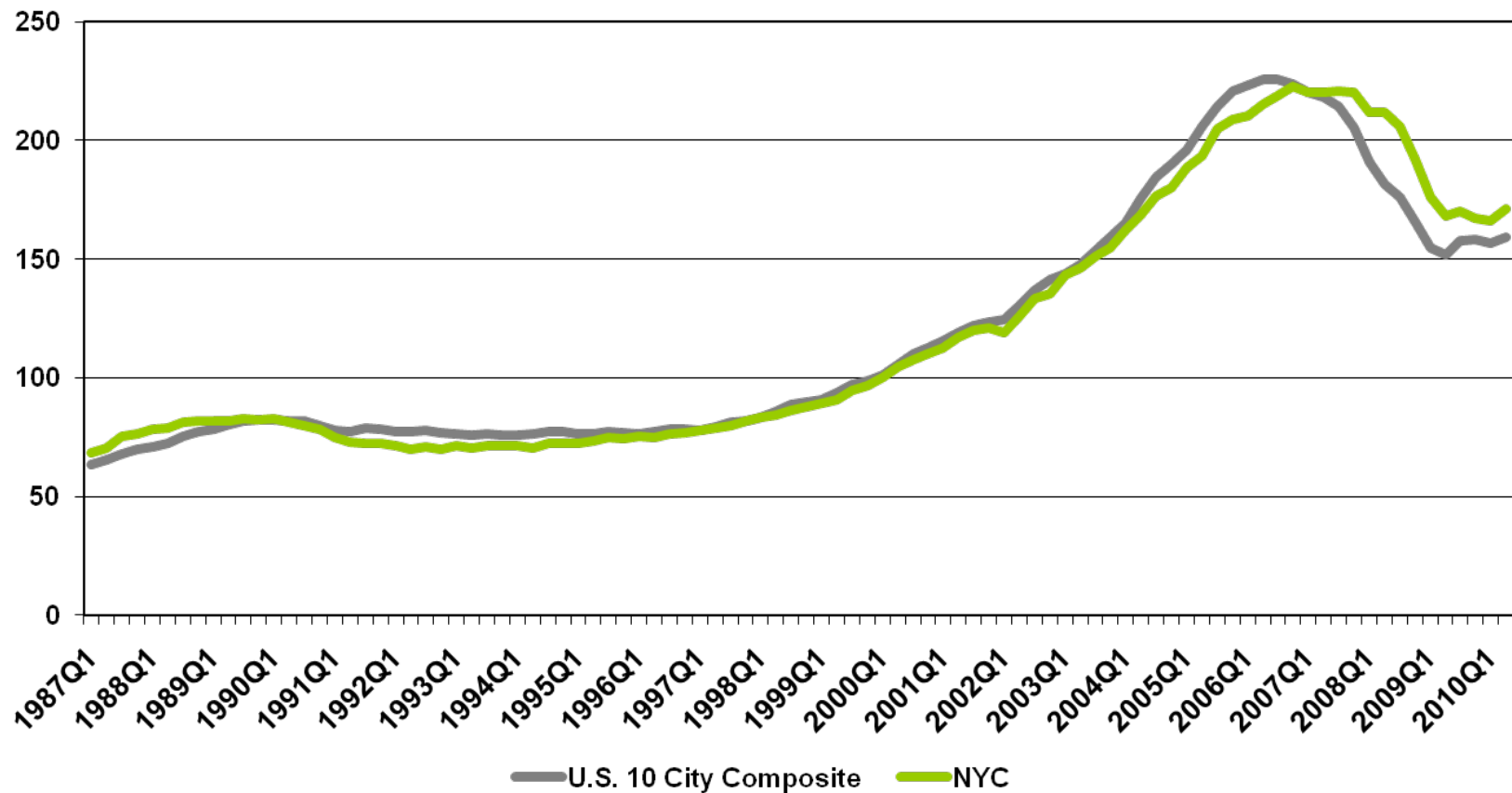


Unemployment Rate (Seasonally Adjusted)



Source: Current Population Survey, Local Area Unemployment Statistics

Housing Prices: Booms and Busts



Sources: NYC Department of Finance, Furman Center; Case-Shiller National Housing Price Index

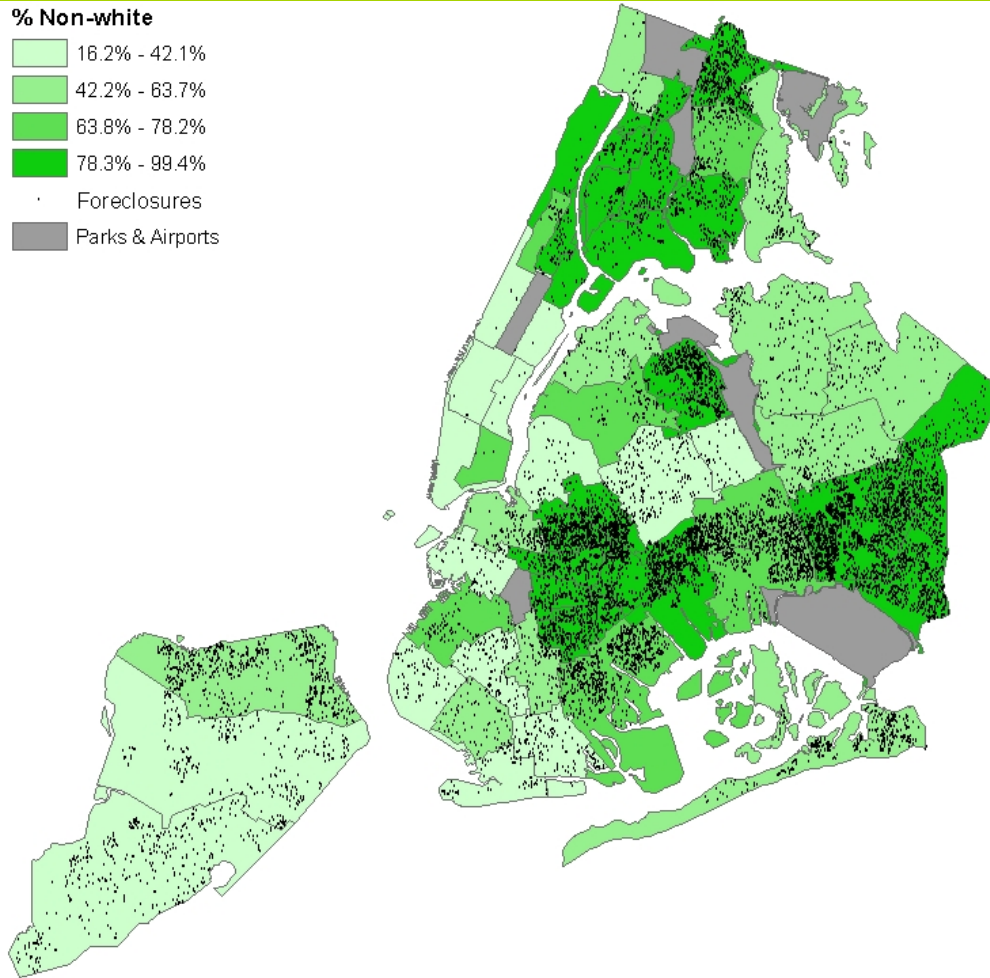
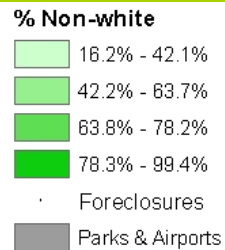
Overall Decline in Housing Prices

	Decline between Q3 2010 and Peak
New York City	-21.7%
Brooklyn	-24.0%
Manhattan	-9.4%
Queens	-30.9%

Spatial Patterns of Foreclosures in NYC

- 56 percent of foreclosure filings in 2008 took place in just 10 of the city's 59 community districts.
- Nine out of 10 of those community districts were over 85% non-white.

Foreclosures and Race in NYC



2007 Race Data (*ACS*)

2008 Foreclosures
(*Public Data Corporation & NYC
Dept of Finance*)

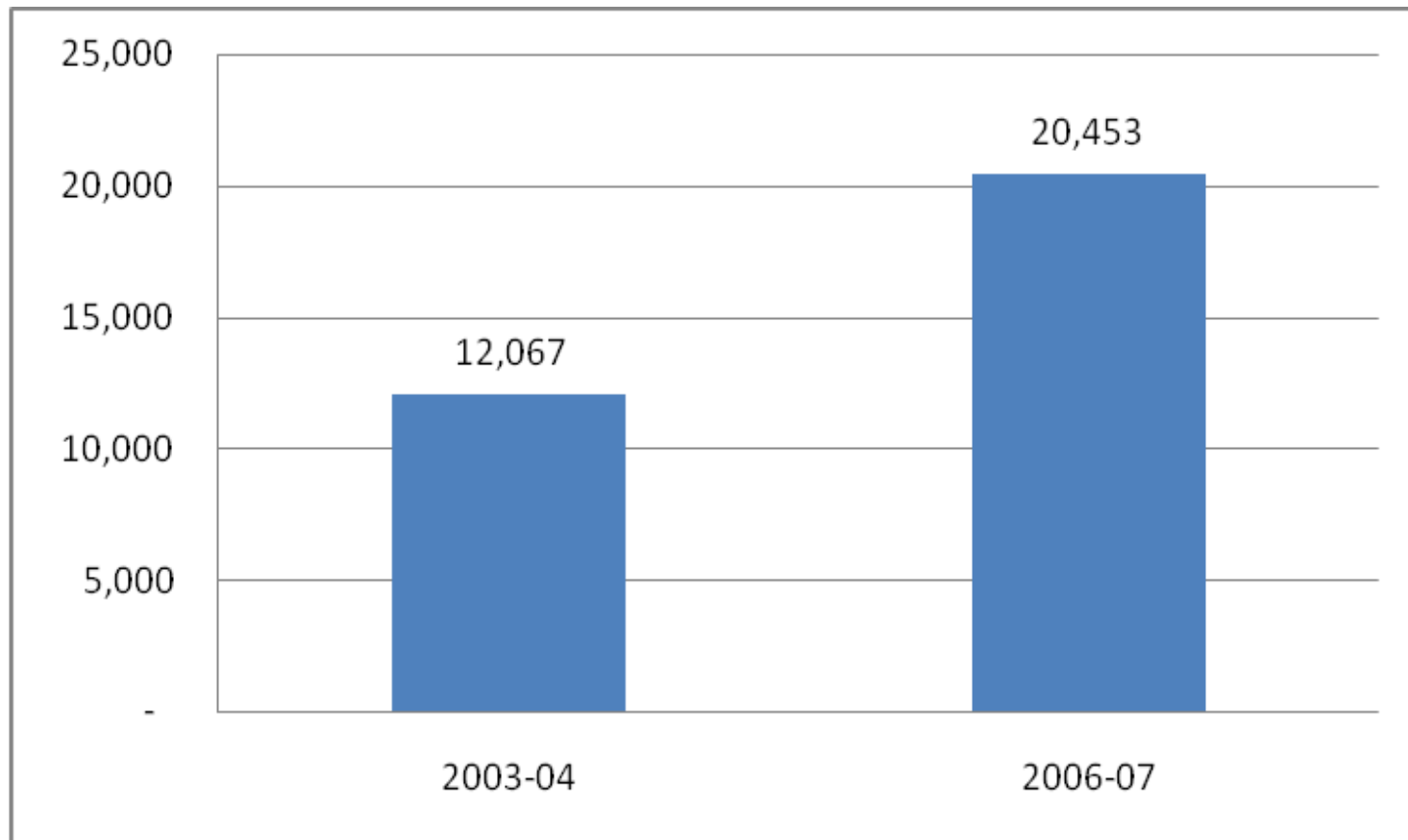
Collateral Costs of Foreclosures

- Neighboring properties and communities
 - ❑ The value of neighboring properties fall after foreclosure
 - ❑ Preliminary evidence suggests rise in neighborhood crime
- Renters
 - ❑ Renter households who had been living in properties entering foreclosure are dislocated, and can end up homeless
- Children
 - ❑ Children may suffer from moves to new schools and communities

Number of Renters Living in a Property that Entered Foreclosure, Q3 2010

- 64% of foreclosure notices in Q3 2010 were issued to multifamily buildings
- On average, 2.25 households lived in each building receiving a foreclosure notice
- We estimate that at least 58% of the affected households were renters

Number of Students Living in a Property that Entered Foreclosure, 2003-04 and 2006-07



How Foreclosures Affect Children

- Mobility: Kids may be forced to move out of home as owners sell to pay off mortgage debt or bank completes foreclosure
 - New housing situation may be less stable
 - May be forced to move to new neighborhood
 - May be forced to move to new school
- Performance: Mobility, stress from instability, and reduced parental expenditures may lead to reduced performance in school

Does Losing Your Home Mean Losing Your School?

- What are the characteristics of the students living in buildings in foreclosure?
- What are the attributes of the schools they attend?
- Do children living in properties in foreclosure switch schools more often?
- Do students who move post-foreclosure move to lower-performing schools?
- How do these school changes compare to those experienced by other students who switch schools?

Data

- Student-level data from the NYC Department of Education (NYC DOE)
 - 2003-04 and 2006-07 (and follow-up years)
 - Demographic information, school attended, and home addresses (at three different dates in each school year)
- School level data from NYC DOE
 - Test scores, student composition
- Building-level foreclosure, or *lis pendens* (LP) filings, 2003-2007

Characteristics of Students Living in Properties that Entered Foreclosure, 06-07

	Students living in property in foreclosure	Students not living in property in foreclosure
<i>Building Structure</i>		
Single family	28%	.
2-4 units	63%	.
5+ units	9%	.
<i>Racial Composition</i>		
Percent Black	57%	33%
Percent Hispanic	29%	39%
Percent White	8%	14%
Percent Asian/Other	7%	14%
<i>Number of students</i>	20,453	1,110,780

Characteristics of Schools, by Quartile of Foreclosure Incidence, 06-07

	Top Quartile	Bottom Quartile
Percent Black	56%	16%
Percent Hispanic	30%	44%
Percent White	5%	18%
Percent Asian/Other	8%	22%
% Receiving Free/Reduced Priced Lunch	89%	80%
% Testing Proficient/Advanced , Reading	50%	61%
% Testing Proficient/Advanced, Math	67%	79%
Number of Schools	271	271

Share of Students Switching Schools and Exiting System, by Foreclosure Status, 2006-07

	Students living in foreclosed property	Students not living in foreclosed property
Grades 1-4		
switched schools	13%	10%
exited school system	3%	7%
Grade 5		
switched schools	74%	71%
exited school system	4%	8%

Regressions of School Mobility

- $Y_{ij} = \beta_0 + \beta_1 X_i + \beta_2 F_i + \varphi_j + \varepsilon_{ij}$
 - Y_{ij} : whether a student i in original school j moved to a new school between school years
 - X_i : set of student characteristics (race, poverty, gender, and grade)
 - F_i : dummy variable indicating whether student i lived in a building that entered foreclosure in the initial school year
 - φ_j : series of school fixed effects, defined by the student's 'origin' school

Regression of School Move, Between 2006-07 and 2007-08

	Model 1
White	-0.015*** (0.002)
Hispanic	-0.011*** (0.001)
Asian/Other	-0.016*** (0.002)
Female	-0.004*** (0.001)
Not Poor	-0.011*** (0.001)
Foreclosure	0.022*** (0.003)
Constant	-0.038*** (0.002)
Number of students	543,749

Regression Results: Do Students in Buildings in Foreclosure Move More Often?

- The probability of moving to a new school is more than 2 percentage points higher for students living in buildings in foreclosure.
 - *Property Type?* Foreclosure effect tends to be somewhat stronger for students living in 2-4 unit and larger multifamily buildings (i.e., renters).
 - *Foreclosure Outcome?* Foreclosure effects tend to be somewhat stronger for children living in foreclosed properties that went all the way to auction.
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Regression of Exit from System, Btw 2006-07 and 2007-08

	Model 1
White	0.010*** (0.002)
Hispanic	-0.003* (0.001)
Asian/Other	-0.009*** (0.001)
Female	-0.001 (0.001)
Not Poor	0.030*** (0.001)
Foreclosure	-0.047*** (0.002)
Constant	0.069*** (0.001)
Number of students	585,584

Comparison of Origin and Destination Schools for Students Who Move Post-Foreclosure

	Origin School	Destination School
Mean attributes of pre/post-move schools of students in buildings in foreclosure		
% Testing Proficient/Advanced in Math	74%	62%
% Testing Proficient/Advanced in Reading	53%	48%
Mean attributes of pre/post-move schools of <i>other</i> students who move		
% Testing Proficient/Advanced in Math	77%	65%
% Testing Proficient/Advanced in Reading	57%	51%

Are School Declines Worse for Post-Foreclosure Movers as Compared to Other Mover?

- Estimated regressions of change in school quality.
 - Little evidence that students living in properties that entered foreclosure moved to worse schools, on average, than other students who move.
 - Modest evidence that students who lived in 2-4 unit buildings that entered foreclosure moved to relatively worse schools.
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Conclusions

- Students living in buildings that entered foreclosure were more likely to be black and attended lower-performing schools.
- Controlling for these differences, public school students living in buildings that entered foreclosure were *more* likely to move to different public schools in the year after the foreclosure, and *less* likely to exit the public school system altogether.
- Students who moved to new schools after a foreclosure tended to move to lower-performing schools. However, the change in school quality was no more dramatic than that for other students who moved schools who hadn't experienced a foreclosure.

Federal Policy Responses

- Anti-recessionary policies
 - TARP
 - Recovery Act (\$787b stimulus)
 - Macroeconomic policies to keep interest rates low
- Foreclosure prevention
 - Loan modifications (HAMP)
 - Refinancing/short sales for underwater borrowers
 - Efforts to stabilize house prices

Federal Policy Responses (cont.)

- Foreclosure mitigation
 - Neighborhood Stabilization Program (NSP) 1 and 2
 - Renters – Require lenders to provide 90 days notice before eviction
- Regulatory restructuring and reform - CFPB
 - Requires lenders to ensure borrowers' ability to pay
 - Bans yield spread premiums and prepayment penalties
 - Requires additional disclosures (e.g., max interest rate)
 - New penalties for irresponsible lending

NYC Policy Responses

- Foreclosure prevention
 - Center for New York City Neighborhoods' network of counselors
 - NYS mandated settlement conferences

NYC Policy Responses

- Foreclosure mitigation
 - NSP 1 funding: NYC received \$24M; NYS \$8M
 - \$17.7m to buy/rehab/resell REO properties to households with incomes at 120% AMI; 156 properties planned
 - \$4.2m for Rehab Abandoned Multifamily Property – 57 units
 - HPD's NSP 2 - \$20M
 - Support homebuyer assistance in targeted neighborhoods
 - The City proposed to provide homebuyer assistance, for 640 future buyers of foreclosed sites