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Articles

The Foreclosure Crisis, Foreclosed Properties, and Federal Policy: Some Implications for Housing and Community Development Planning

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Purpose roperties at the zip c sing foreclosures, and the potential effects of likely changes in federal policy and housing finance for metropolitan housing, development patterns, and local housing and community development planning.

Methods: I used archival research and secondary and media resources to document the federal response to the foreclosure crisis. I analyzed a proprietary data set to describe the problem of the accumulation of foreclosed properties across and within metropolitan areas.

Results and conclusions: Foreclosed properties were already accumulating in metropolitan areas with weak housing markets by 2006, but formerly hot markets such as Riverside, CA, Las Vegas, NV, and Phoenix, AZ, had many more by mid-2008. Within metropolitan areas, foreclosed properties were disproportionately concentrated in central city neighborhoods, although suburban zip codes with long commute times also had relatively high levels. The federal response to rapidly worsening foreclosures was faltering and timid. More conservative finance following the crisis will put downward pressure on housing consumption, potentially shifting demand to smaller homes. However, financing may be difficult or expensive to obtain for condominium buildings, and lenders and investors may shy away from less conventional projects, due partly to higher risk premiums.

Takeaway for practice: In the short run, local governments must confront the problems
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Keywords

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Notes

1. These include two key laws effectively preempting many state lending regulations: the Depository Institutions Deregulation and Monetary Control Act and the Alternative Mortgage Transaction Parity Act. See McCoy and Renuart (2008) and Immergluck (2009).

2. Alt-A loans are loans for which the borrower pays a premium in exchange for not having to provide the usual documents to verify his or her income.

3. Delinquency rates are from the Mortgage Bankers Association's National Delinquency Survey (Mortgage Bankers Association, 2009).

4. See Immergluck (2008) for a more extensive description of the LPS Applied Analytics data.

5. The four categories of REO density are: low, containing zip codes in the bottom quartile of REO density; moderate, containing zip codes from the 25th percentile to the 75th percentile; high, containing zip codes in the 75th to the 90th percentile of REO density; and very high, containing zip codes above the 90th percentile.

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7. A thrift is a financial institution that accepts deposits like a bank. However, thrifts evolved from savings and loans, which were formed primarily to originate and service home loans. Thrifts operate under different charters than state or federally chartered banks, and are regulated by the federal Office of Thrift Supervision. Banks are regulated by state banking departments and by the Federal Deposit Insurance Corporation, the Federal Reserve, or the Office of the Comptroller of the Currency, depending on their charters. Nondepository financial institutions, which include mortgage and finance companies, are not directly regulated by any of these agencies, but are subject primarily to state regulators and the Federal Trade Commission for compliance with consumer protection laws.

8. For example, the proportion of senior mortgages with associated junior mortgages increased in Massachusetts from 26% in the second quarter of 2003 to 65% in the third quarter of 2005 (Rosengren, 2008).

9. While HERA provided some direction for allocating the funds, there are no consistent, small-area data on foreclosures or foreclosed properties that are publicly available. HUD used free or very low cost data and a regression approach to predict foreclosures at the census tract level, and then allocated funds according to these estimated foreclosures. The census tract values of the resulting indicator of what HUD called foreclosure risk was then made available for states and localities to use in allocating funds within their own juris

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