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

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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 of foreclosed properties, especially when they are highly concentrated in certain neighborhoods. More conservative mortgage markets are likely to persist for some time, with potential impacts on housing demand. Planners should strive to diversify tax

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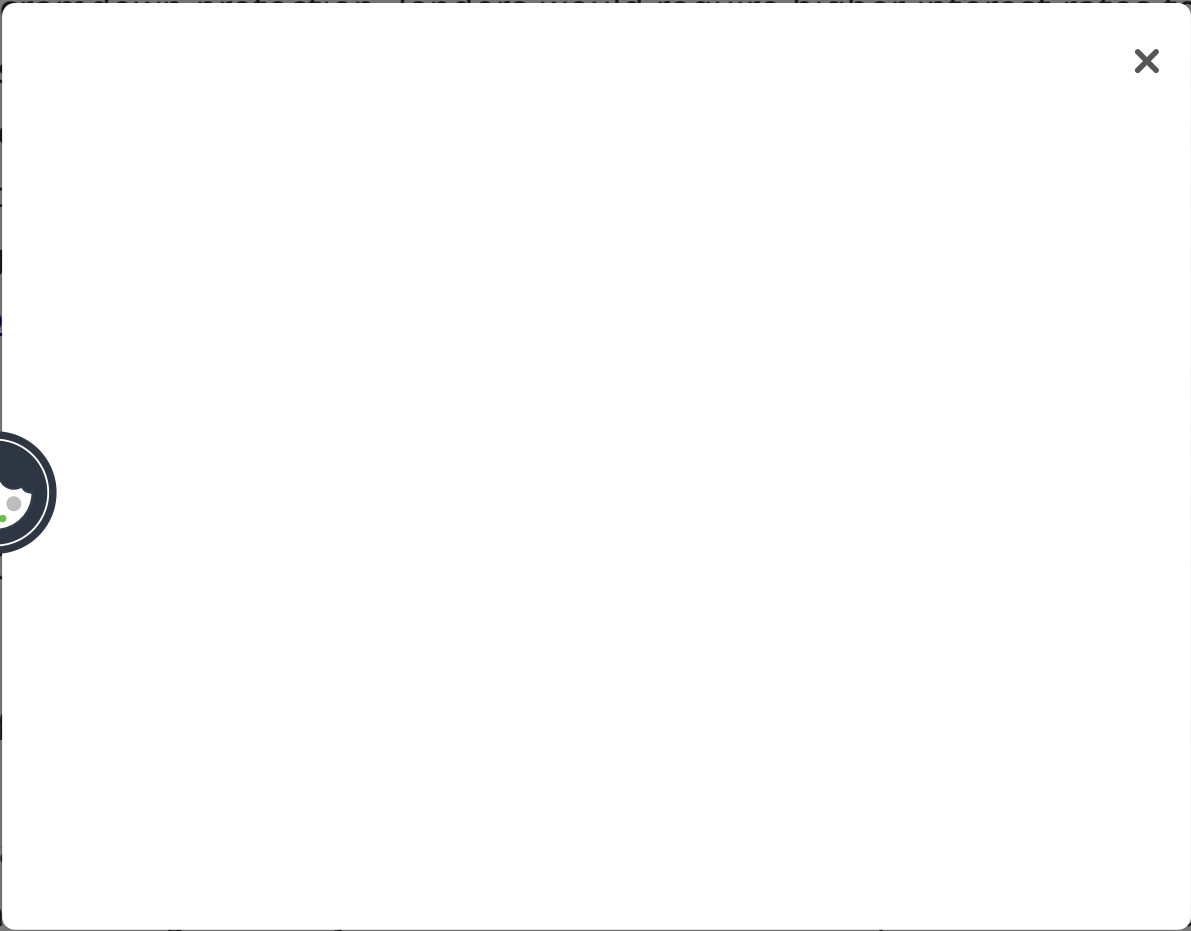


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1. These include two key laws effectively preempting many state lending regulations: the Depository Institutions Deregulation and Monetary Control Act and the Alternative Mortgage Transaction Parity Act. See McCoy and Renuart (2008) and [Immergluck \(2009\)](#).
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.
6. Researchers have only recently examined the evidence on cramdowns' effects on interest rates. Lending industry representatives argued that the proposal would raise interest rates on owner-occupied home loans by 1.5 percentage points because, without [Levitin and Goetz \(2009\)](#) compensation level and [Levitin and Goetz \(2009\)](#) higher interest rates to compensate for the increased risk. [Levitin and Goetz \(2009\)](#) using a longitudinal study of the degree to which the mortgage interest rate from 1990 to 1993. They found that the rate of only 0.05 to 0.10 percentage points was determined by the mortgage interest rate. [Levitin and Goetz \(2009\)](#)
7. A thrift evolved into a bank, and service chartered banks, a





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