

# **A Look at the U.S. Mortgage Crisis**

**Implications for Housing Markets  
and Communities**

**College of Architecture Research Forum**

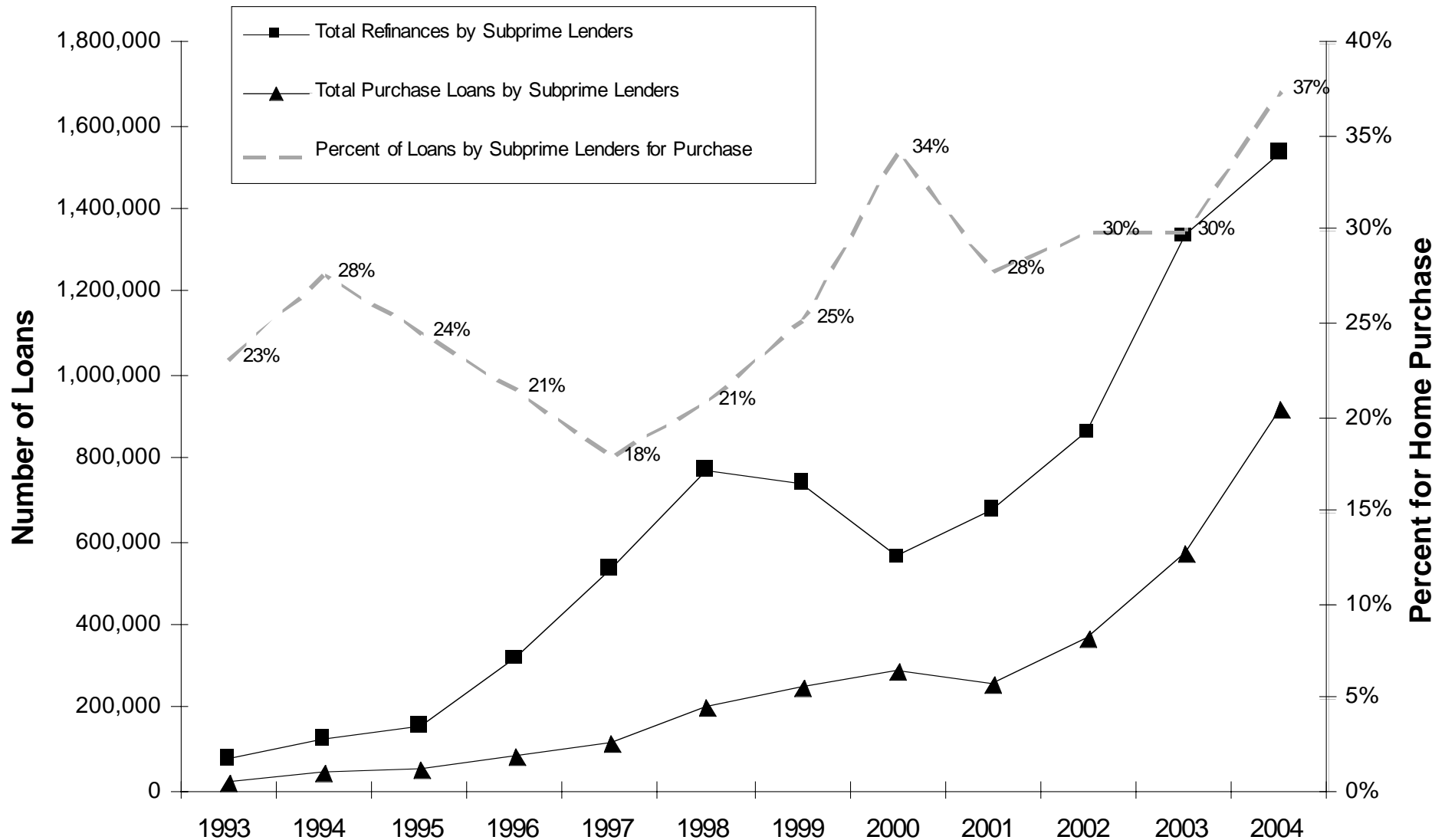
**February 28, 2008**

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City & Regional Planning Program**

- How we got here
- Loan markets hypersegmented by race & space
  - spatial concentration of foreclosures
- Foreclosures and their social costs
- Recommendations for policy & planning
- Broader implications for urban planning and scholarship

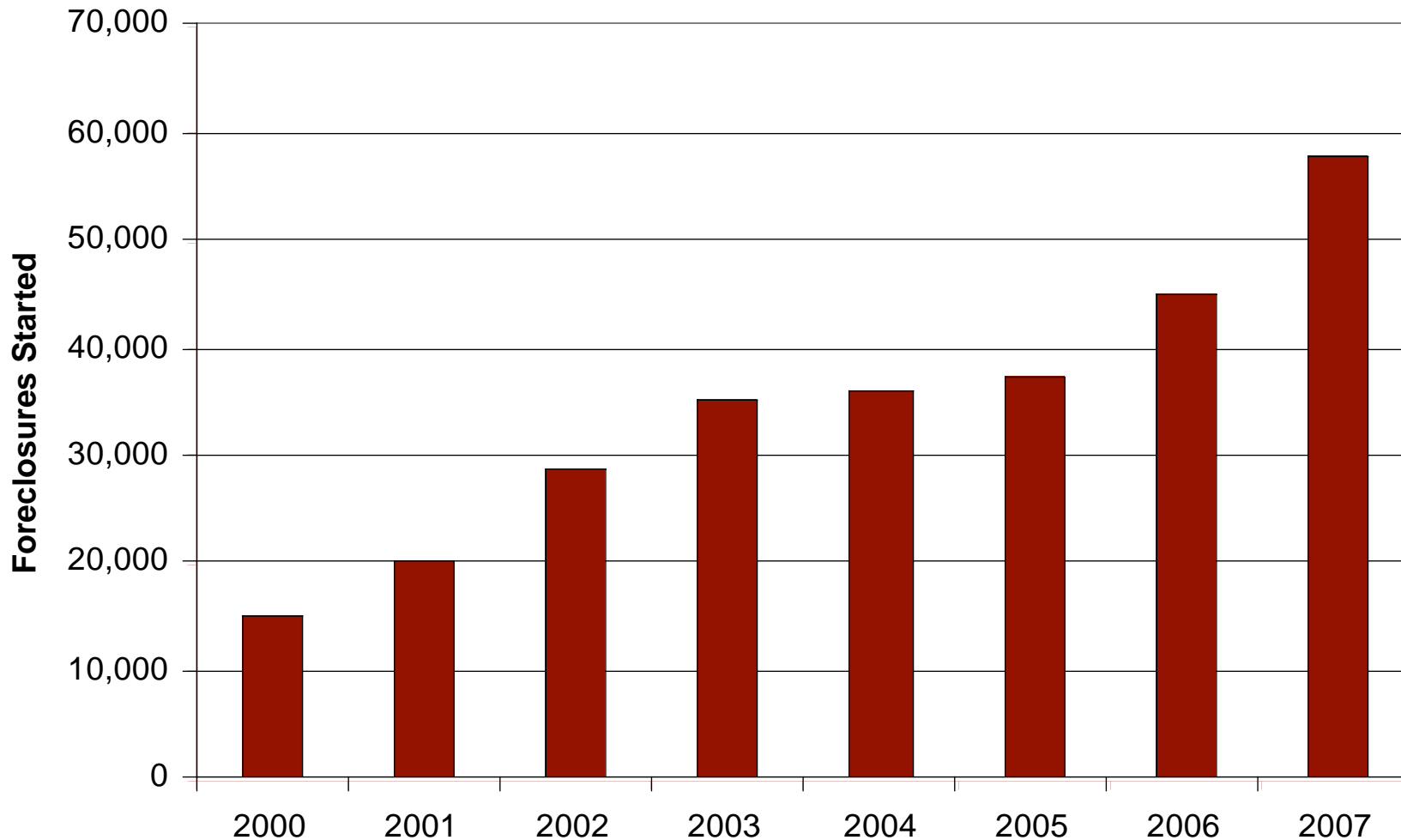
# A Tale of Two High-Risk Lending Booms



Data source: Home Mortgage Disclosure Act data, U.S. Department of Housing and Urban Development

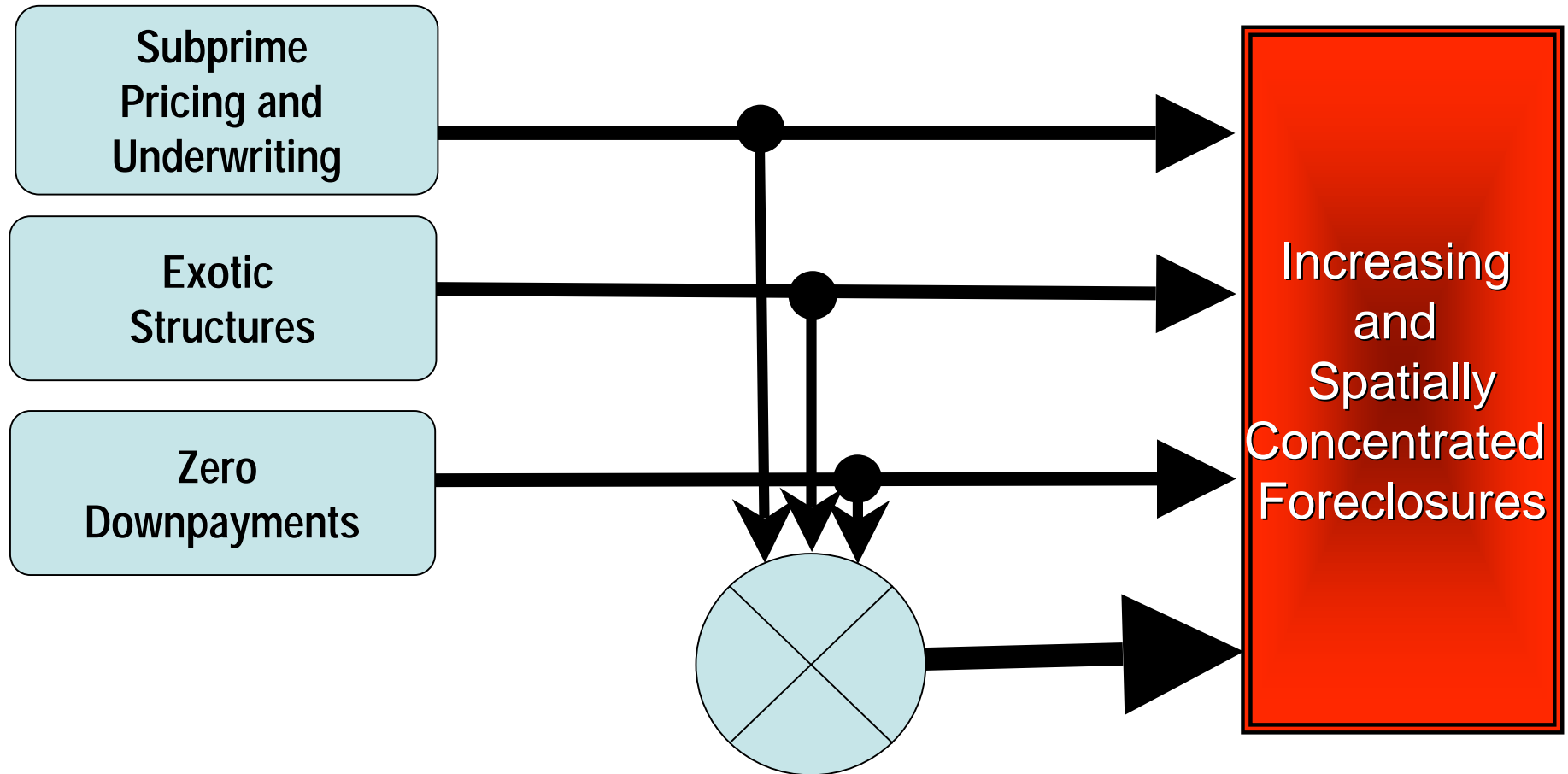
# A New Scale of Homeownership Risk

**Foreclosures Started in 13-County Metropolitan Atlanta**

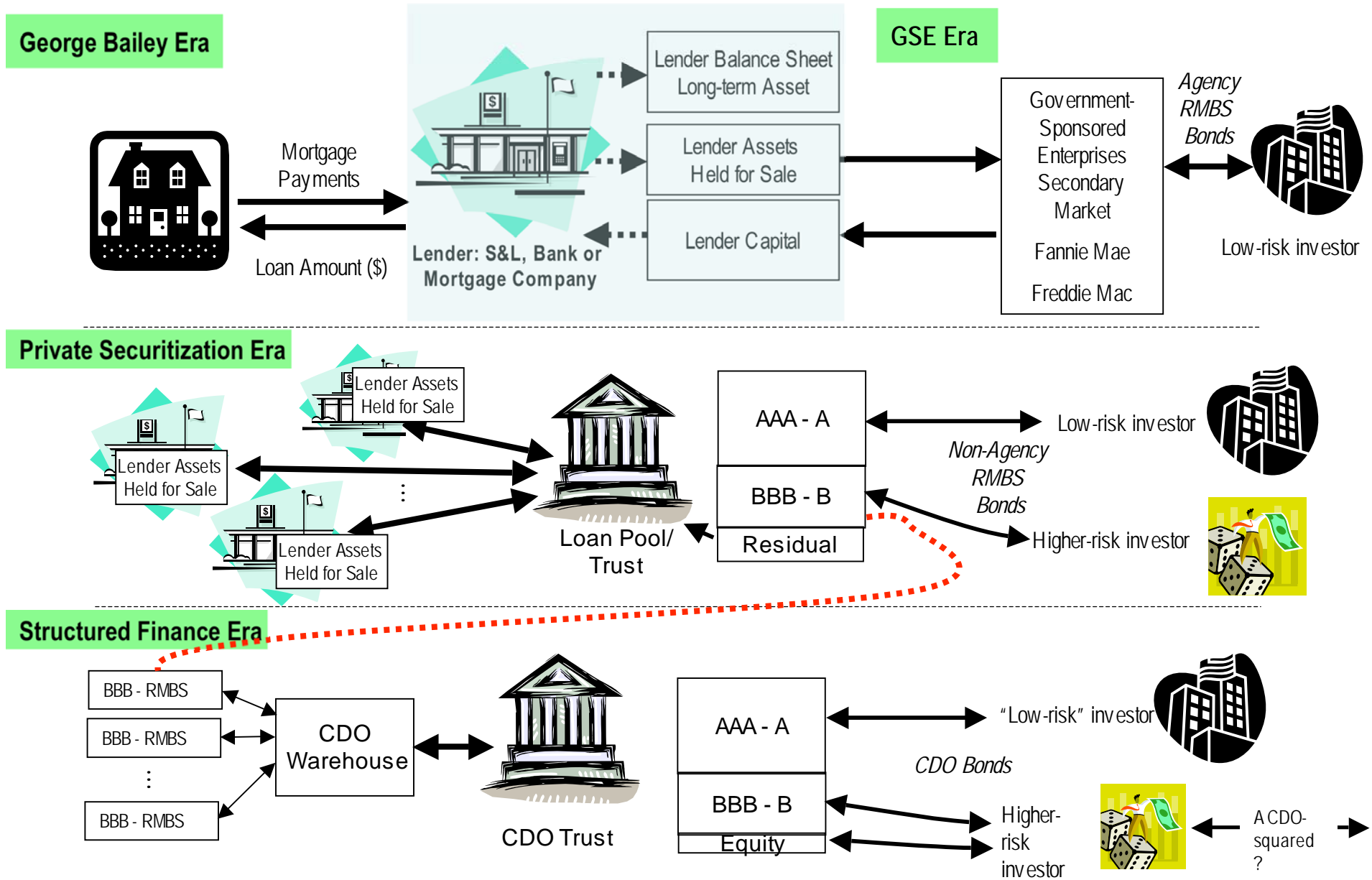


Source: EquityDepot, Atlanta Foreclosure Report

# Risk-Increasing Trends in Mortgage Markets, 1995-2006

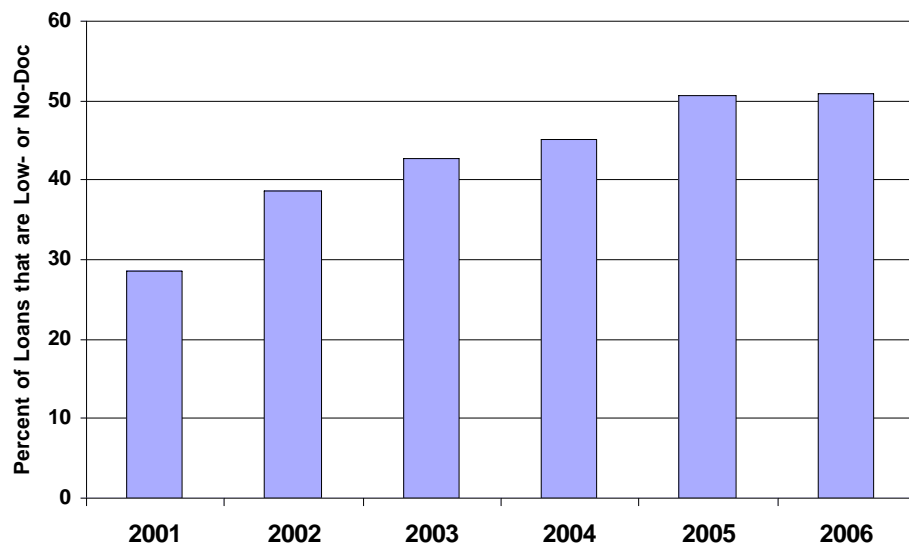


# Spreading of investor risks & risk-avoidance by intermediaries → increased capital flow to high-risk loans → increased foreclosures

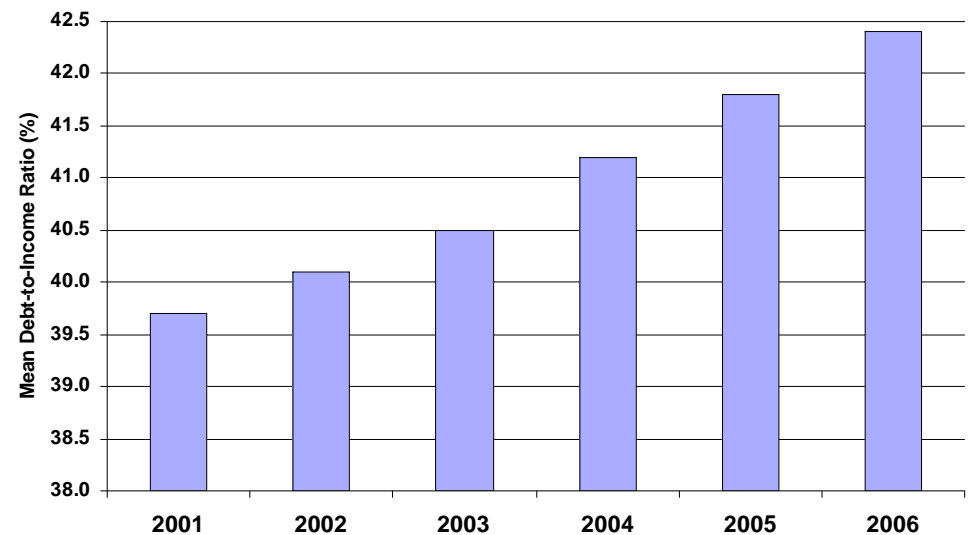


## 2000→2006+: Standards, What Standards?

Share of Subprime Loans that were Low- or No-Doc

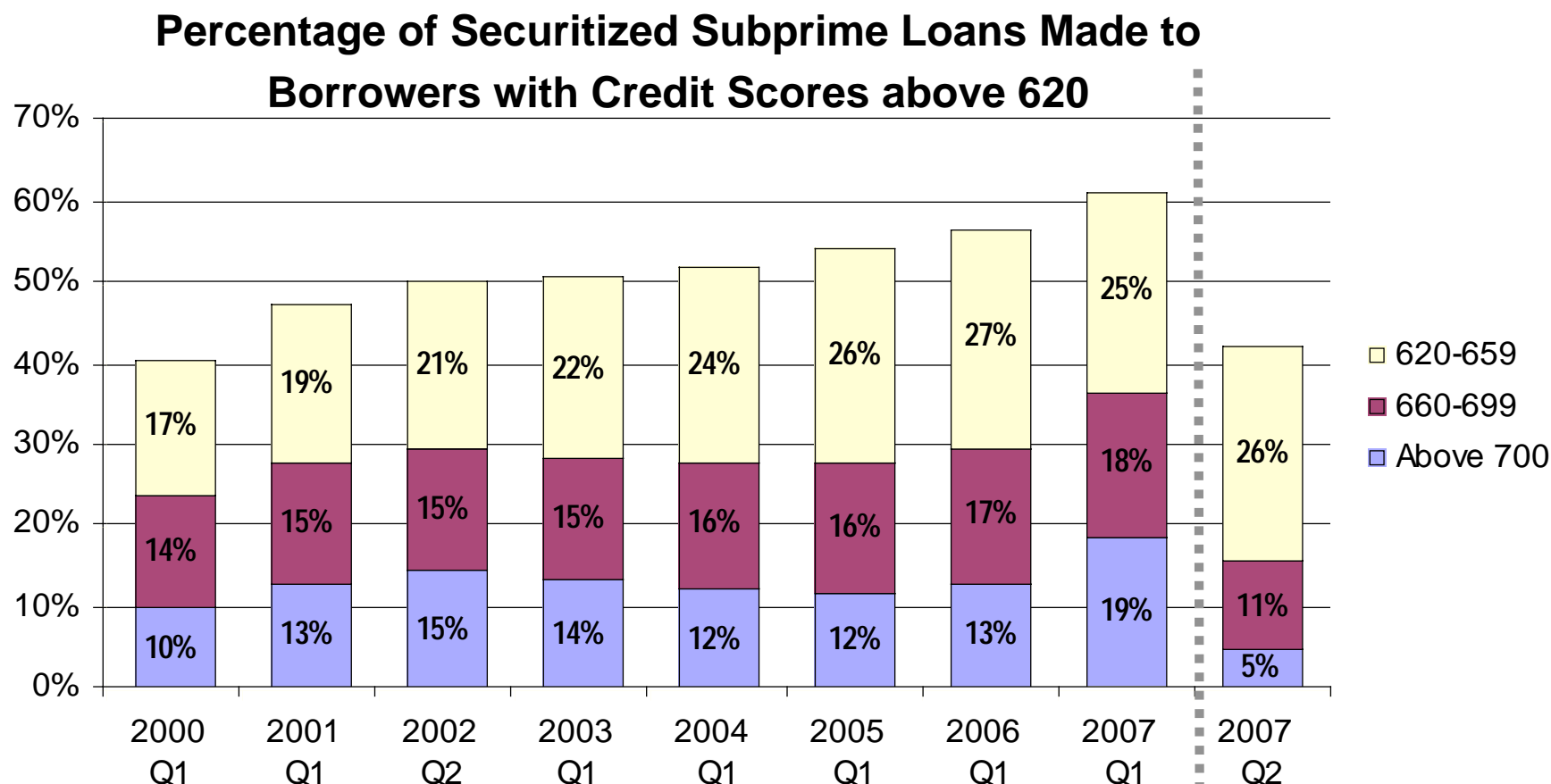


Debt-Income Ratios for Subprime Home Purchase Loans



Source: Freddie Mac data compiled in Senate Joint Economic Committee *Report, The Subprime Lending Crisis: The Economic Impact on Wealth, Property Values and Tax Revenues, and How We Got Here*, October, 2007.

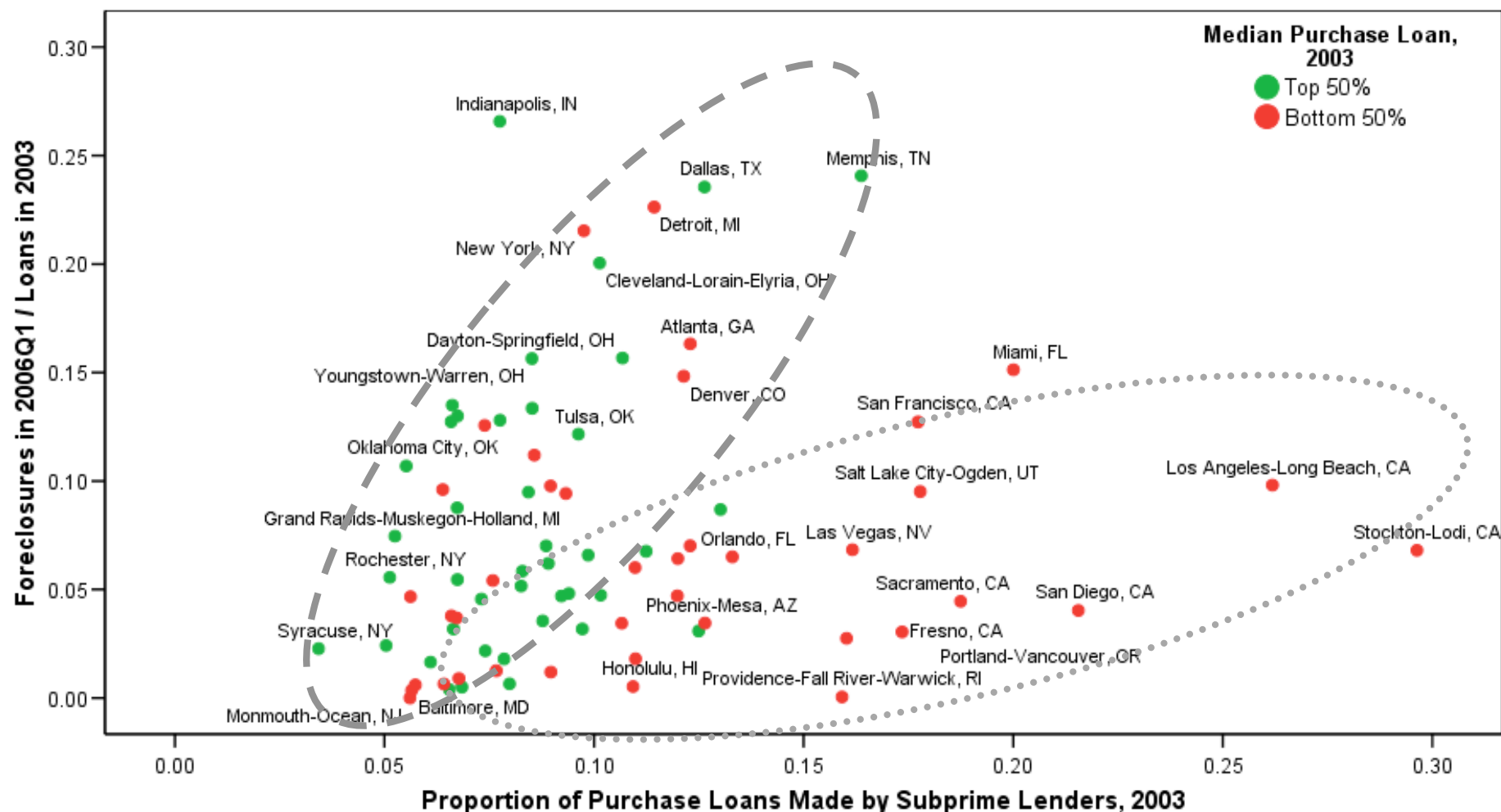
# Over-engineered Capital Chasing Borrowers → Subprime Loans to Prime Borrowers



Source: Loan Performance, Inc. data calculated by R. Brooks and R. Simon, Subprime Debacle Traps Even Credit-Worthy, *Wall Street Journal*, p. 1, December 3, 2007

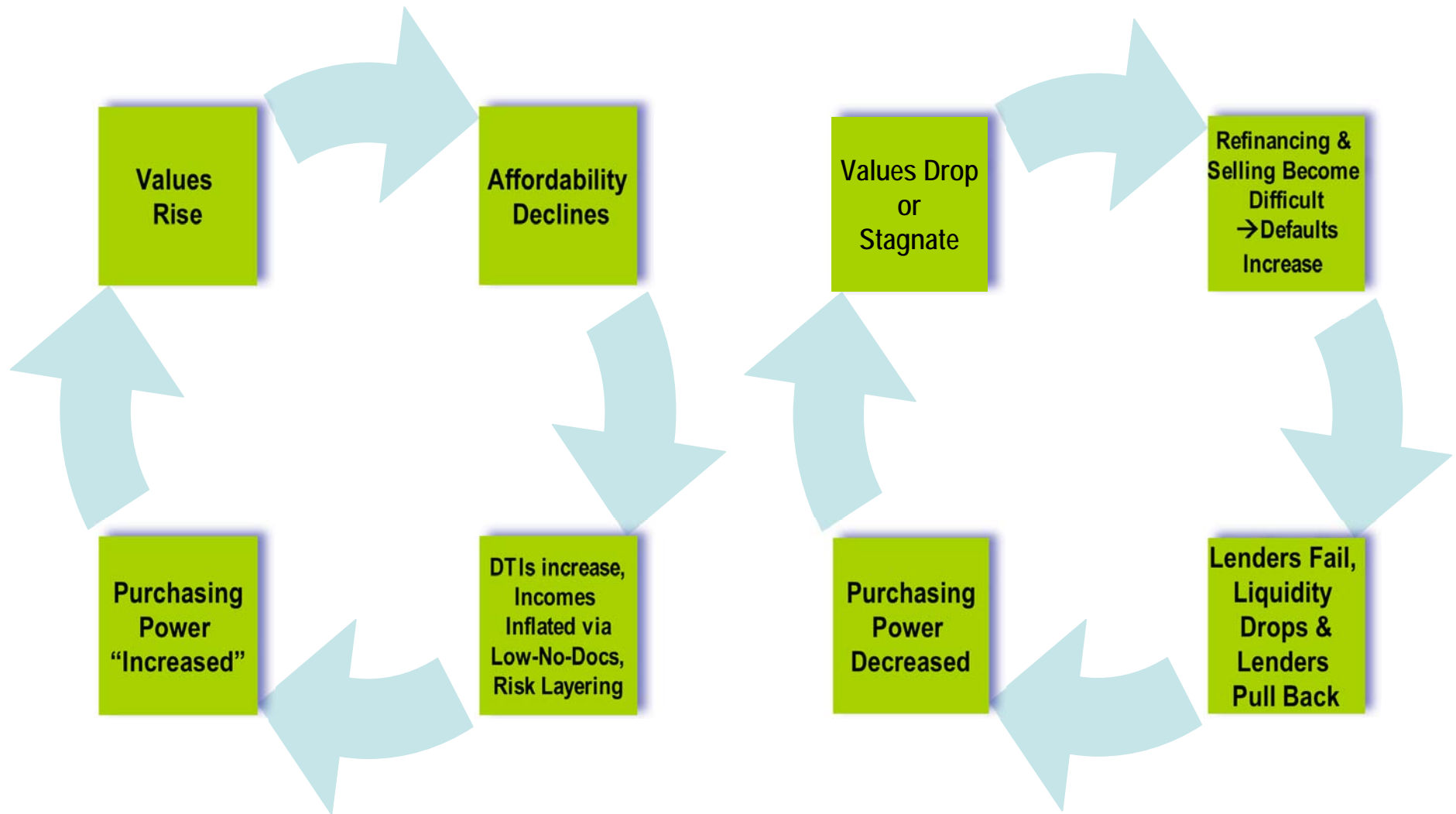


# Until late 2006, national loan performance was “propped up” by hot housing markets



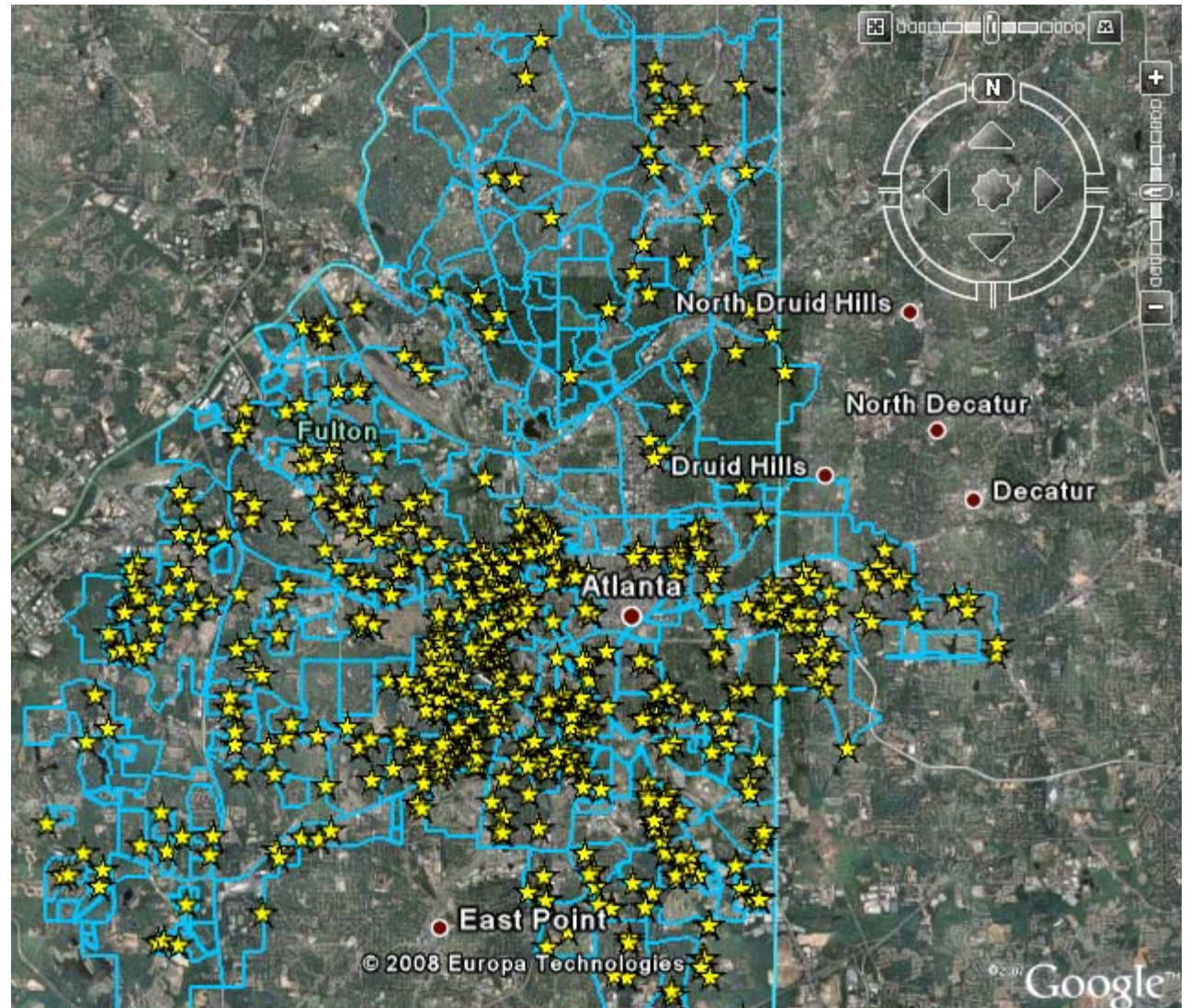
D. Immergluck. From the Subprime to the Exotic: Excessive Mortgage Market Risk and Foreclosures. Journal of the American Planning Association 74 (2008): 59-76

# From the “Virtuous” Cycle to the Vicious Cycle



# The Growth and Spatial Concentration of Foreclosures

## Foreclosure Filings, City of Atlanta, October-November 2001

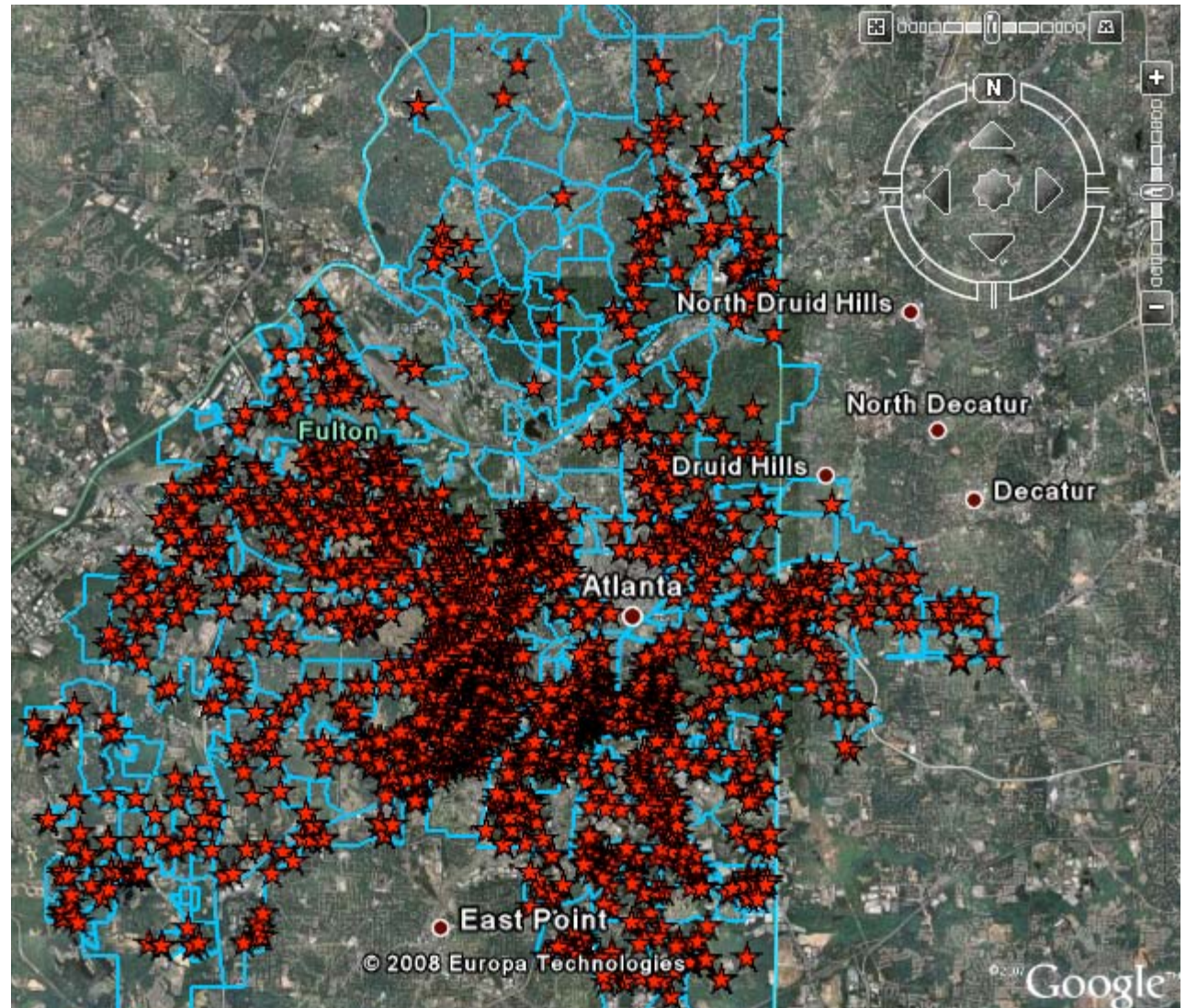


Data source:  
EquityDepot.net



# The Growth and Spatial Concentration of Foreclosures

## Foreclosure Filings, City of Atlanta, October-November 2007

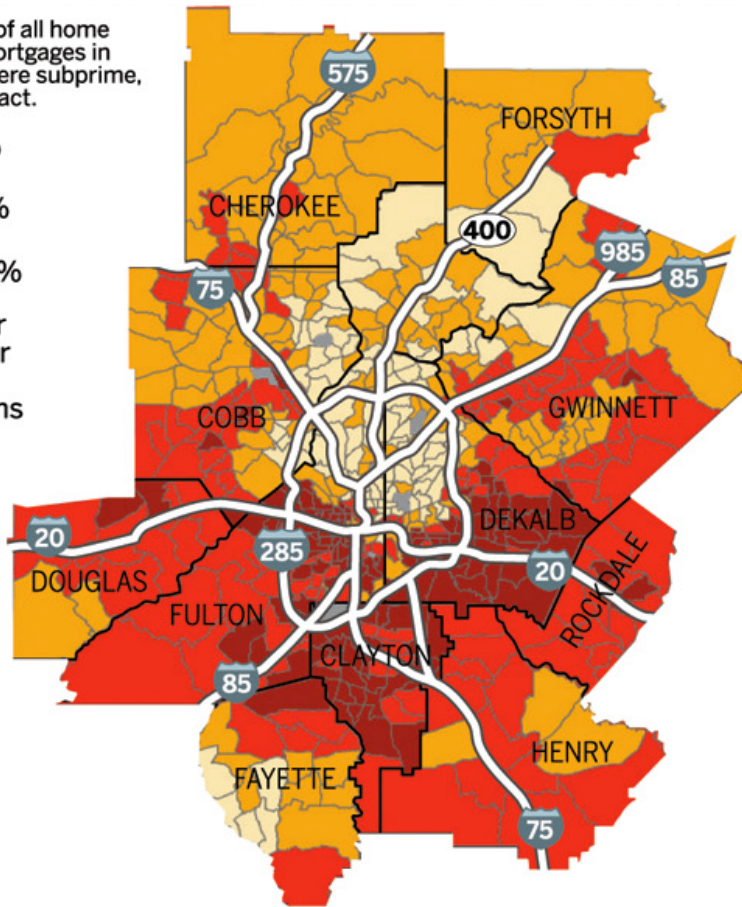
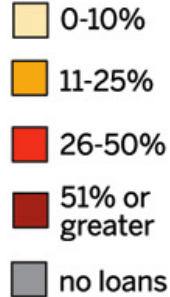


Data source:  
EquityDepot.net

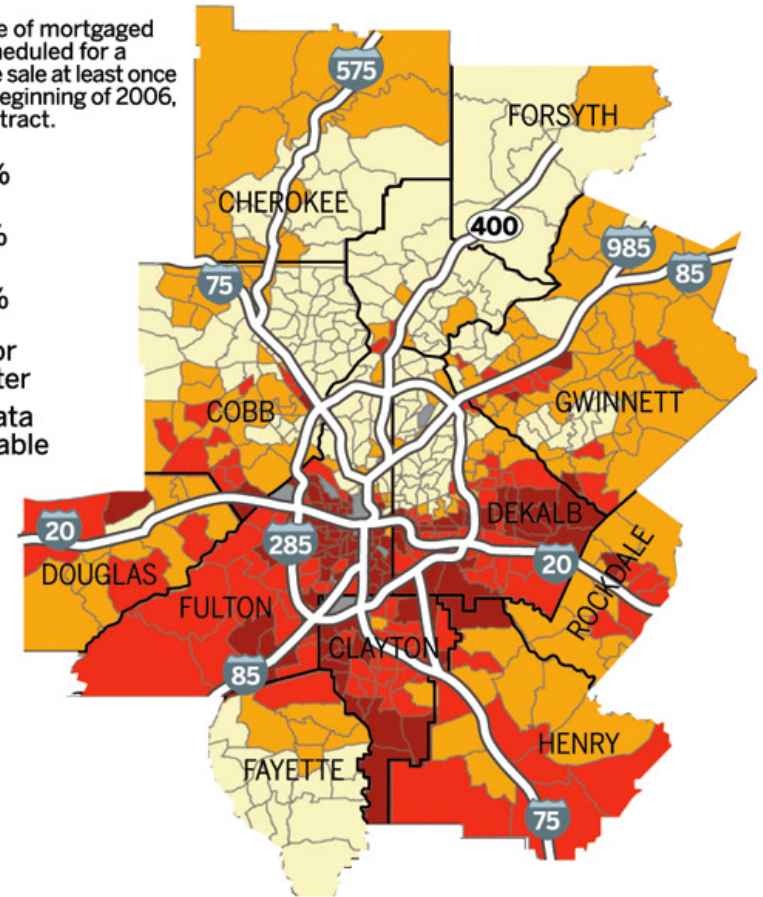
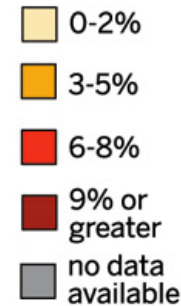


# High-Risk Lending & Foreclosures Racial and Spatial Patterns

Percentage of all home purchase mortgages in 2005 that were subprime, by census tract.



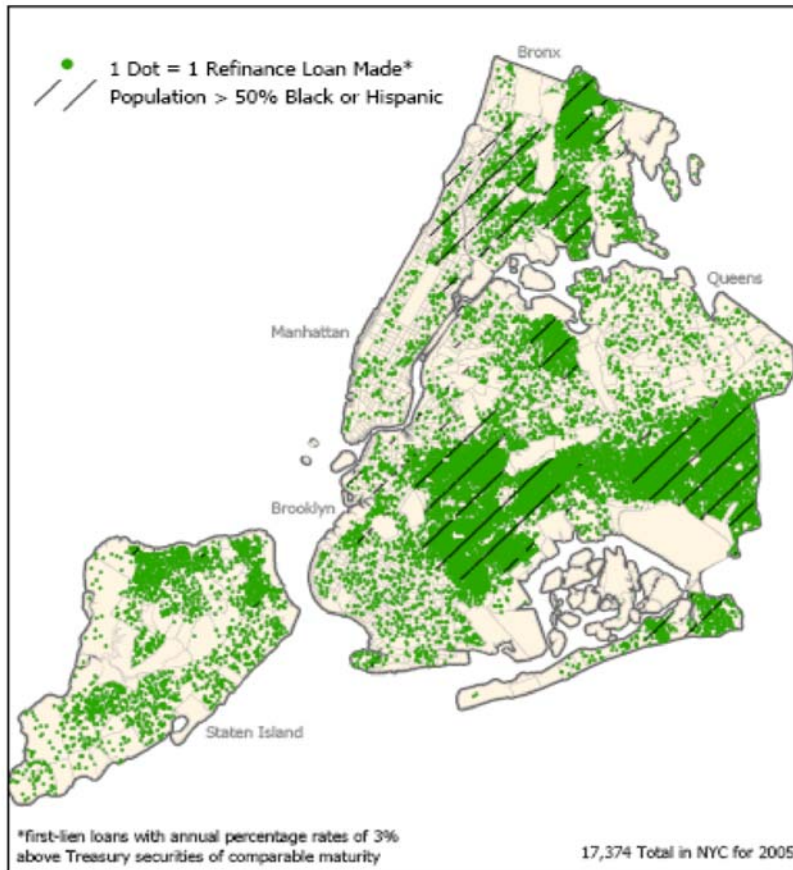
Percentage of mortgaged homes scheduled for a foreclosure sale at least once since the beginning of 2006, by census tract.



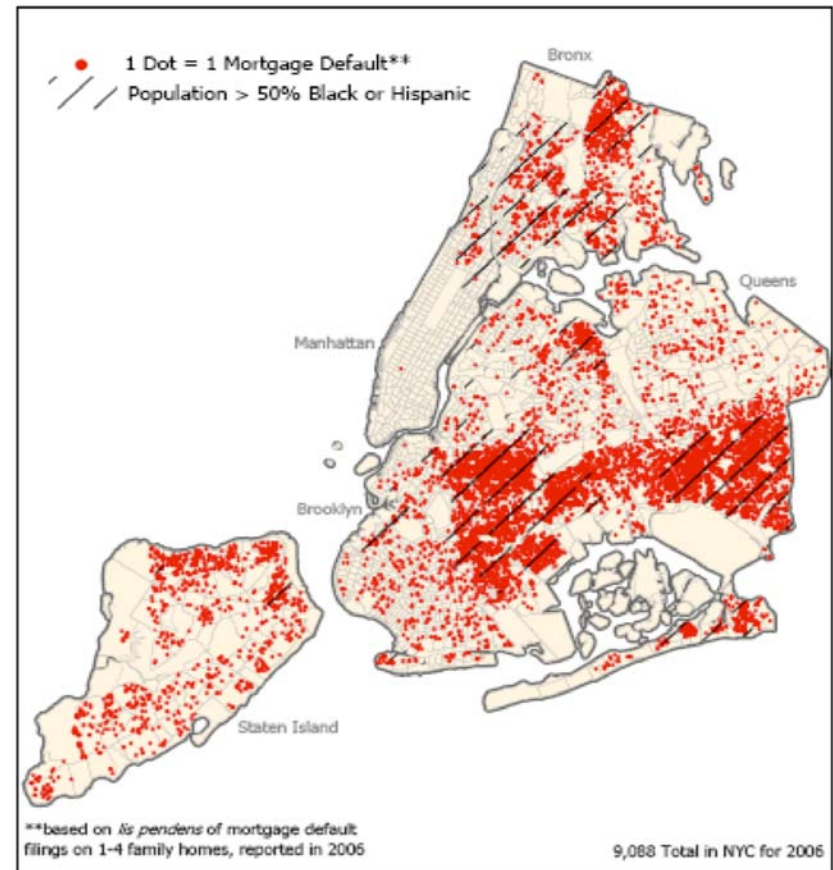
From: Carrie Teegardin, "Mortgage Crisis Hits Home," *The Atlanta Journal-Constitution*, September 7, 2007

# New York City

HIGH-COST REFINANCE LOANS MADE - 2005

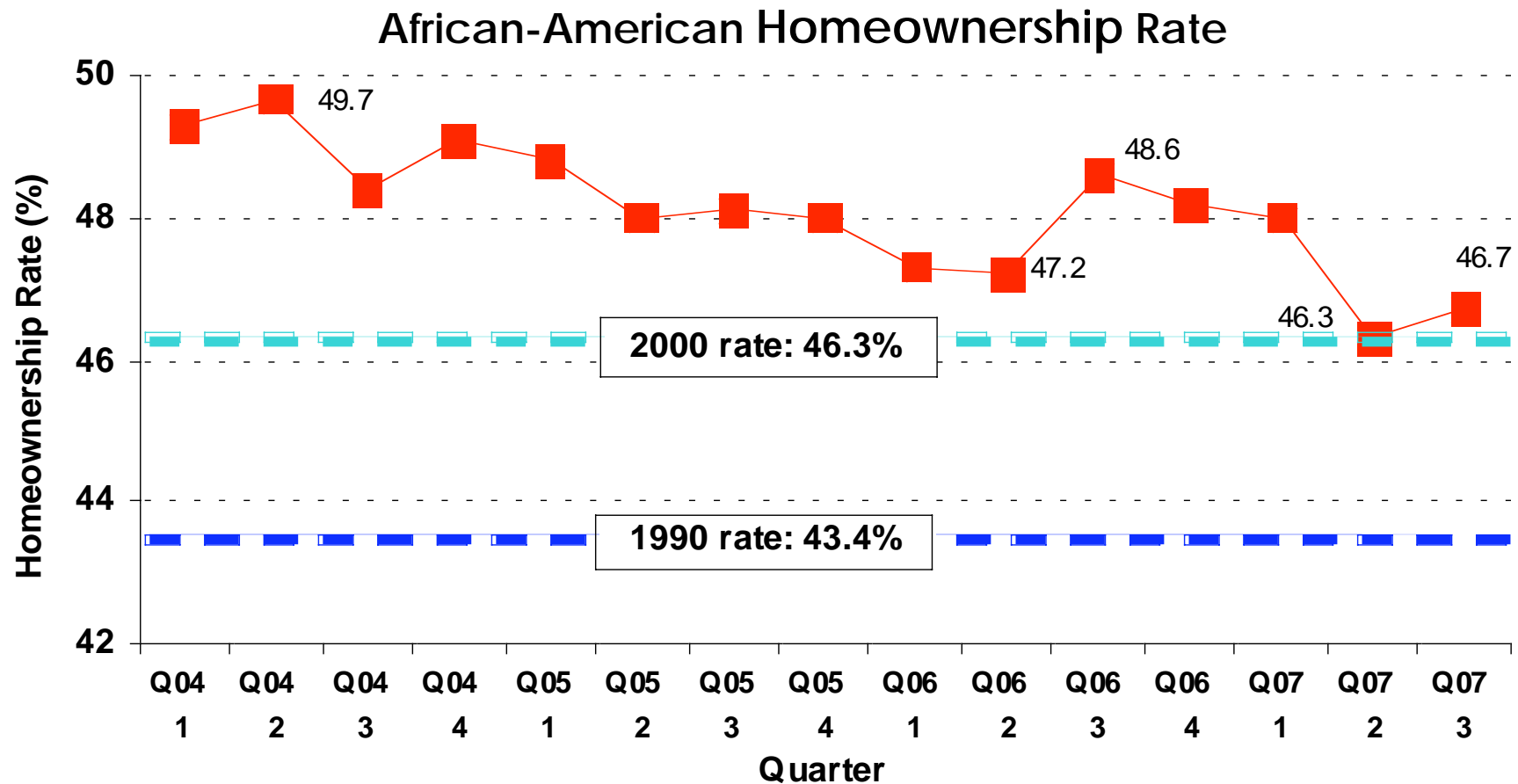


FORECLOSURE PATTERNS - 2006



From: The Board Blog, *New York Times*, October 26, 2007 at <http://theboard.blogs.nytimes.com/tag/new-york-city/>.  
Maps made by the Neighborhood Economic Development Advocacy Project, [www.nedap.org](http://www.nedap.org)

# Illusory Gains in Minority Homeownership and Wealth



Data source: U.S. Census Bureau

# Beyond the Borrower and the Bank: The Social Costs of Foreclosures

↓ neighborhood instability and school mobility

→ renters and homeowners

↑ vacancy, blight & abandonment → ↑ crime

↓ neighborhood property values

↓ property tax revenues

↑ government fiscal costs – police, fire, etc.

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↓ government/pension investments

↓ access to credit for low-income/low-wealth households

↓ access to credit for firms, government

↓ credit histories in “impacted” communities

→ further segmentation of rental, employment & insurance markets



# Myths of the Mortgage Crisis

- The problem was caused by irresponsible borrowers
- A foreclosure only hurts the lender and the borrower
- There weren't really any problems in the subprime market until 2007
- Federal regulators were "asleep at the wheel"
- Better *disclosure* will solve the problems going forward will enable borrowers to make good decisions
- The market worked and is correcting itself  
— we don't need any more regulation
- I have not benefited from government involvement in mortgage markets, why should "they"?

# **Government Support & Subsidy for Mainstream Mortgage Borrowers & Homeowners**

- Interest & property tax deductions on income tax
- Regulatory infrastructure - federal and state regulators
- Federal Reserve lending
- Fannie Mae, Freddie Mac, and Home Loan Bank System
- Federal Housing Administration, VA, Ginnie Mae
- Investor regulatory structures
- Deposit insurance

# What Should Policy-makers & Planners Do?

		TRIAGE	SYSTEMS CHANGE
Federal	Allow Bankruptcy Courts to Modify Mortgages	X	X
	A <i>New</i> Home Owners Loan Corporation	X	X
	Require Lenders/Funders to Keep Equity in Derivatives		X
	Back to Basics Discouraging/limiting “alternative” loan products Reestablish the 15/30 fixed rate loan as the standard		X
	Regulate Credit Rating Agencies, Bond Insurers		X
Federal & State	Financing for Acquisition and Rehab of Vacant Properties	X	X
	<u>Expand</u> and <u>Enforce</u> CRA & Fair Lending Laws		X
	Expand Support for Rental/Limited-Equity Tenure		X
State	Foreclosure Process – not too fast, not too slow...	X	X
	Require Lenders to Escrow Taxes and Insurance		X
	Toughen Appraisal Licensing/Regulation		X
Local	Tax Lenders Filing Foreclosure Notices	X	X
	Create Effective Land Banking and Reclamation Vehicles	X	X
	Create Early Warning Systems for Targeting Interventions		X

# Broader Implications for Urban Planning and Scholarship

Global economic forces, federal policy, and the limits to  
traditional land use planning and policy

The commoditization & “financialization” of homeownership

Booms and busts -- The benefits of the steady state

Lessons for Henry George? -- Land values are a fickle thing

# Ongoing Research & Scholarship in this Area

- Regional responses to the foreclosure crisis
- Property tax assessment implications of foreclosures and property flipping
- A book on how we got here and where we need to go...
  - Federal, state and local policy frameworks for sustainable housing finance
  - Homeownership policy and alternative tenure
  - Neighborhood recovery and rebuilding