

A Look at the U.S. Mortgage Crisis

**Implications for Housing Markets
and Communities**

College of Architecture Research Forum

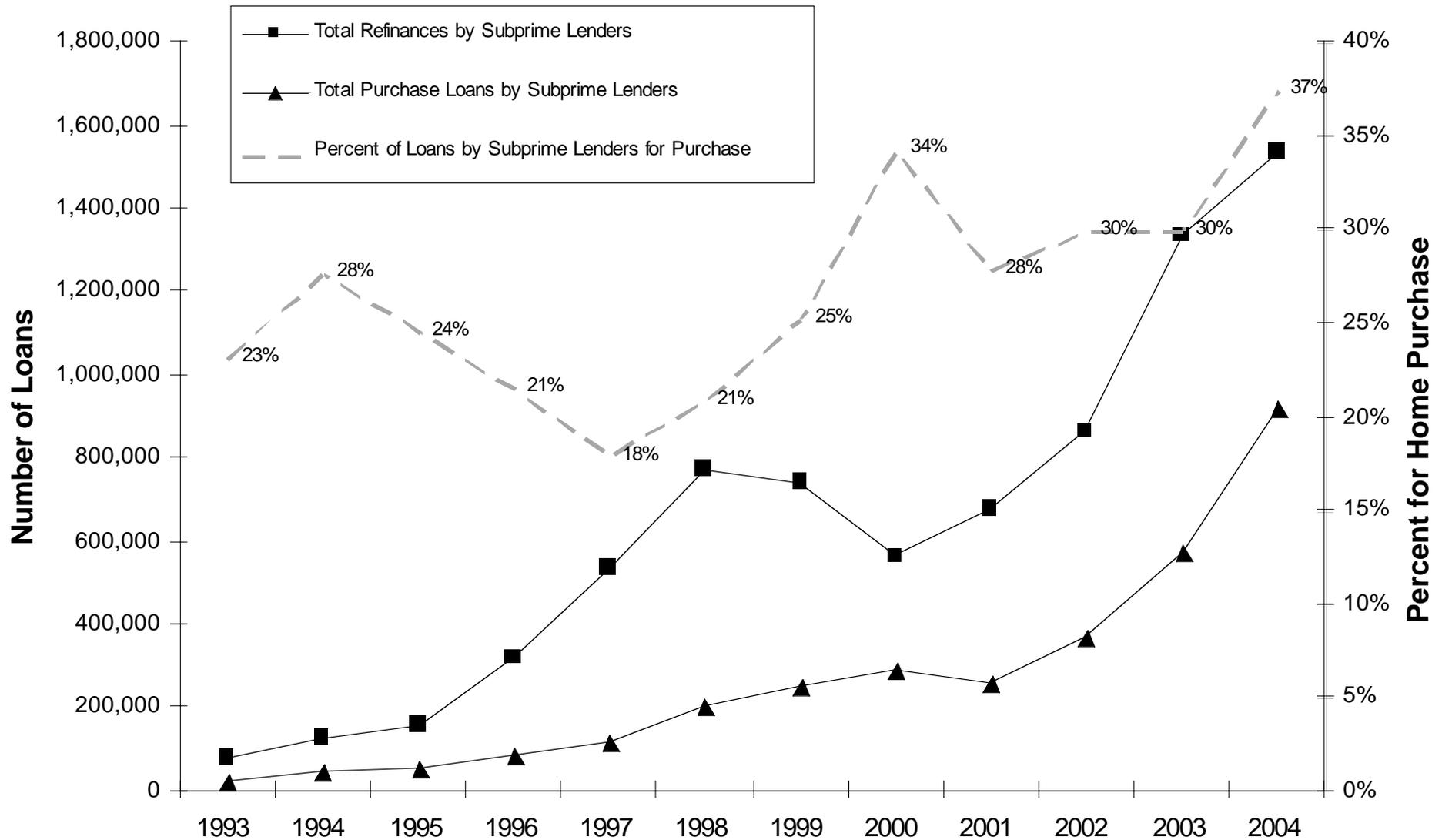
February 28, 2008

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- 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

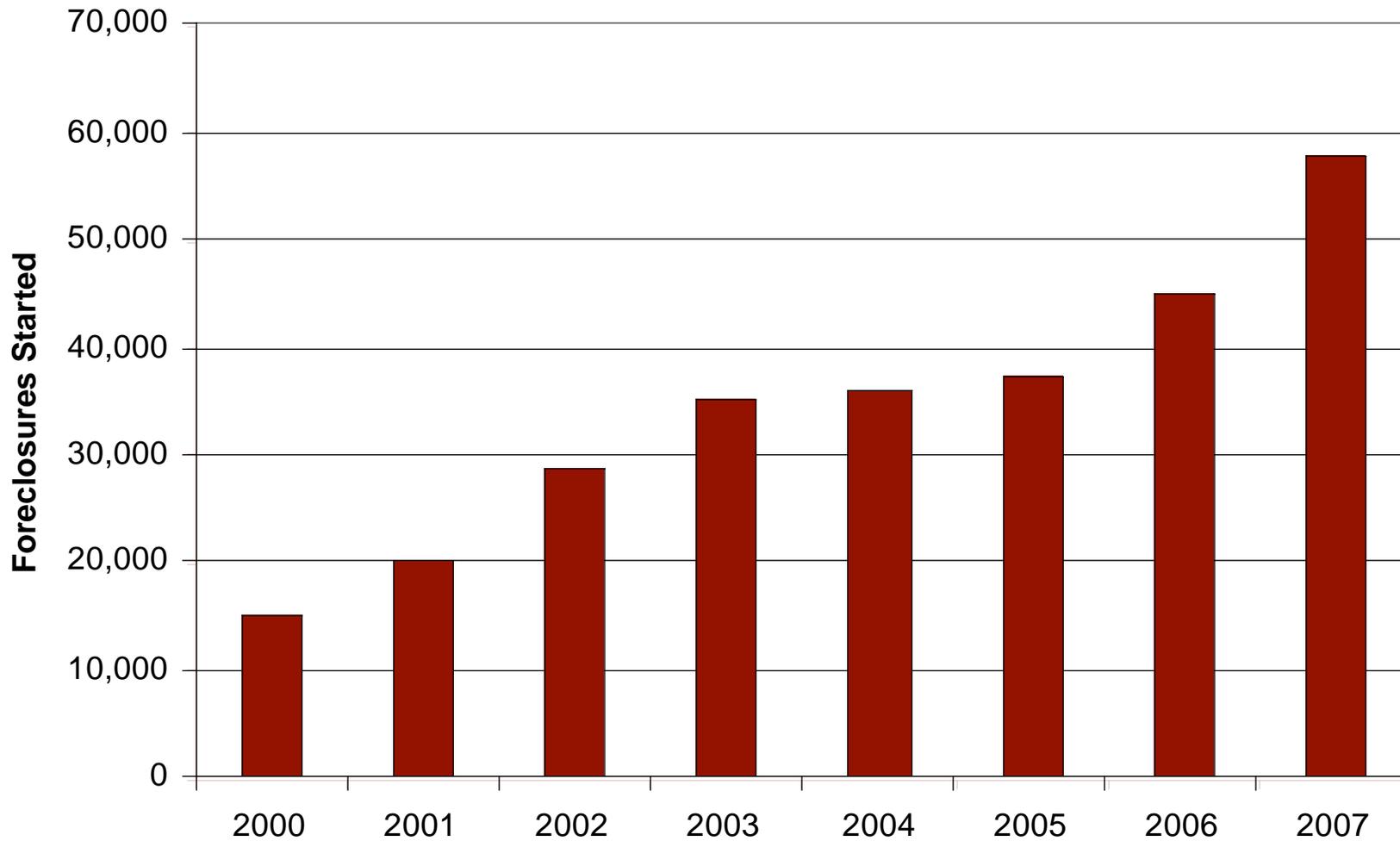
A Tale of Two High-Risk Lending Booms



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

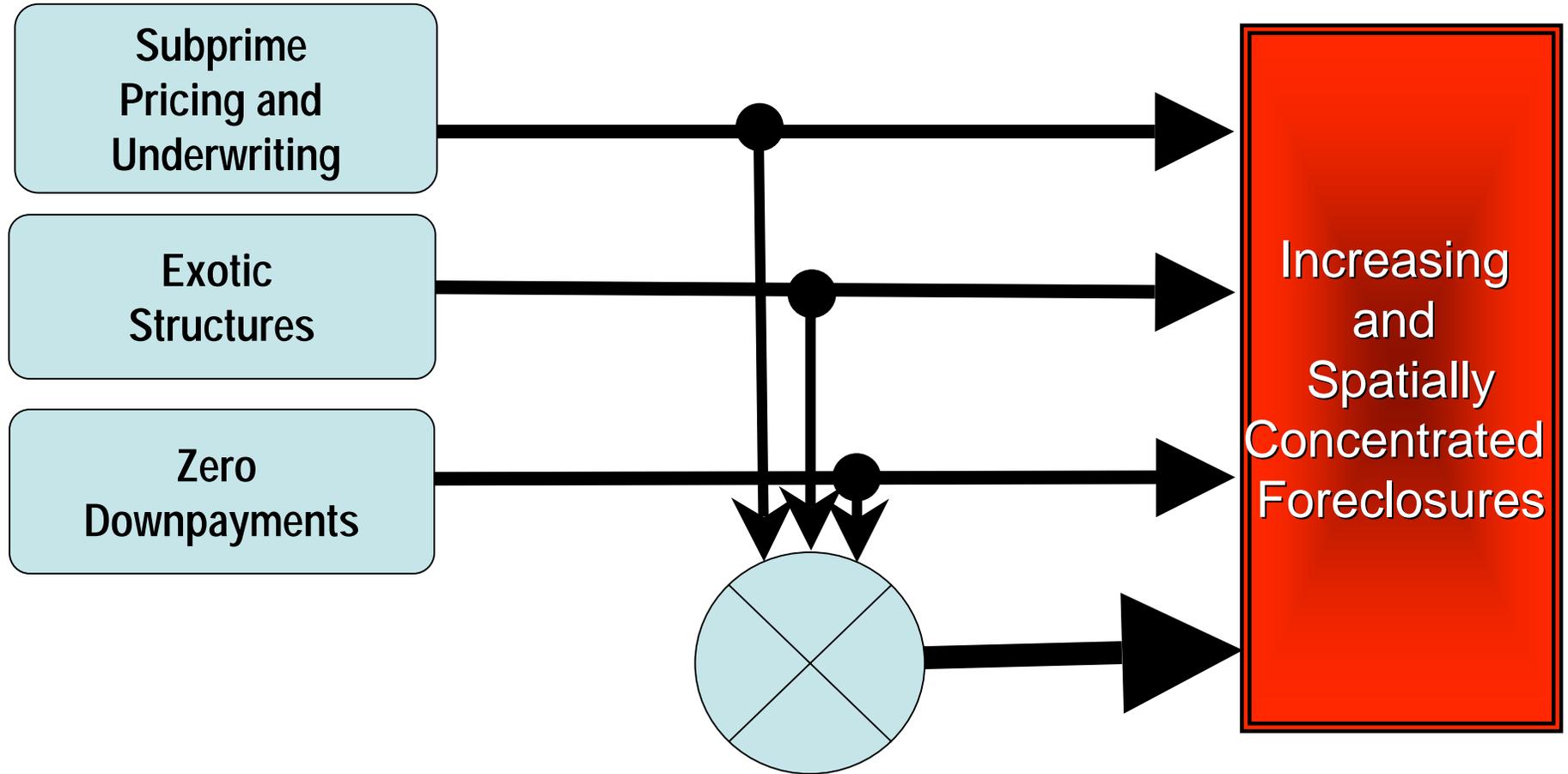
A New Scale of Homeownership Risk

Foreclosures Started in 13-County Metropolitan Atlanta



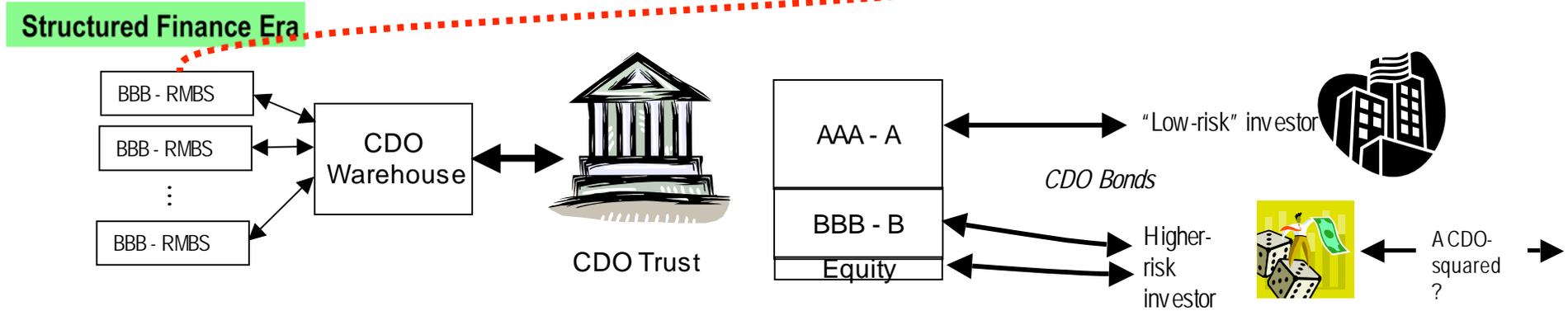
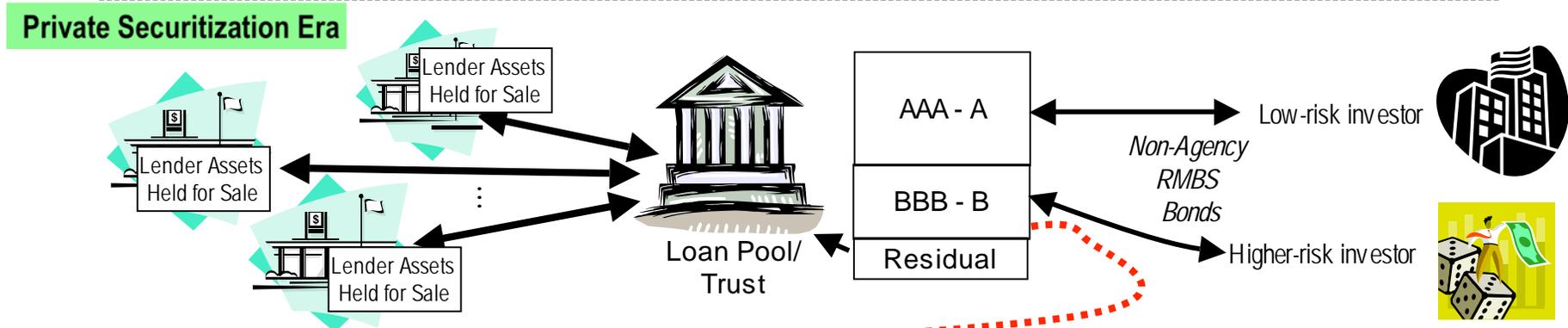
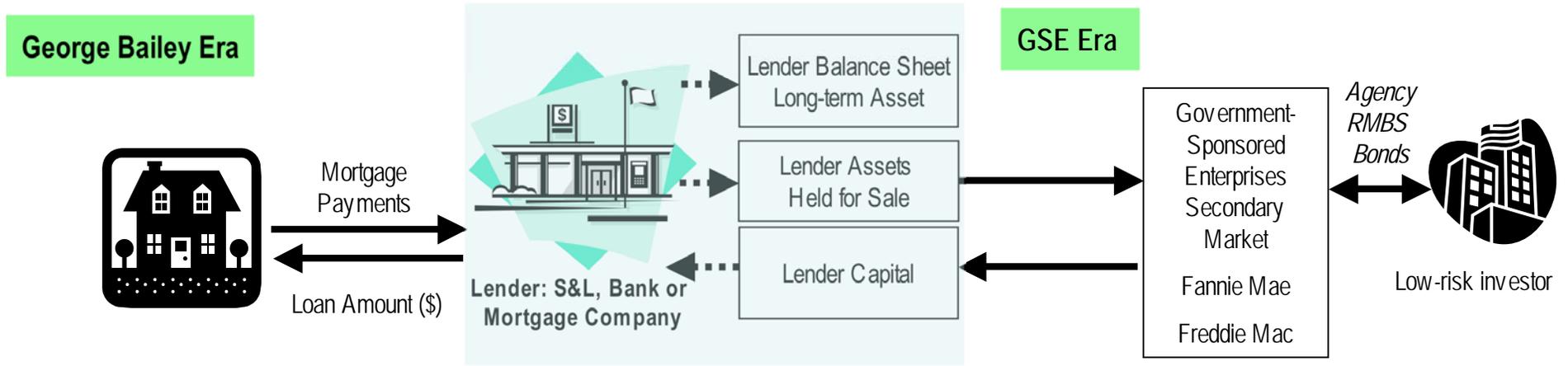
Source: EquityDepot, Atlanta Foreclosure Report

Risk-Increasing Trends in Mortgage Markets, 1995-2006



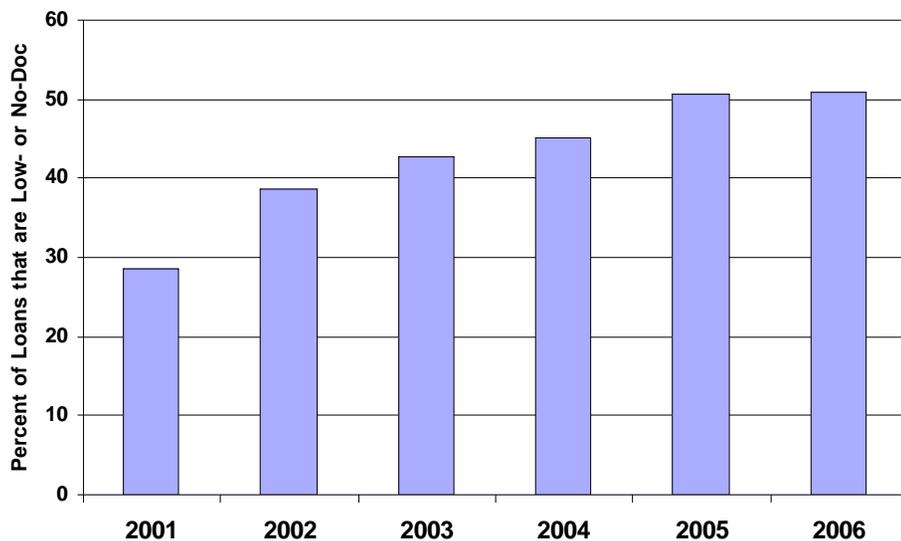
Spreading of investor risks & risk-avoidance by intermediaries

→ increased capital flow to high-risk loans → increased foreclosures

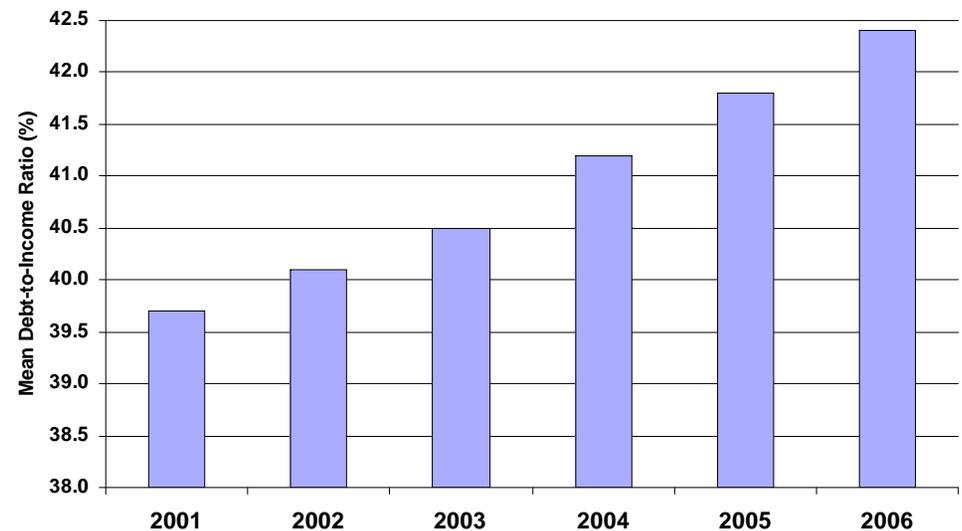


2000→2006+: Standards, What Standards?

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



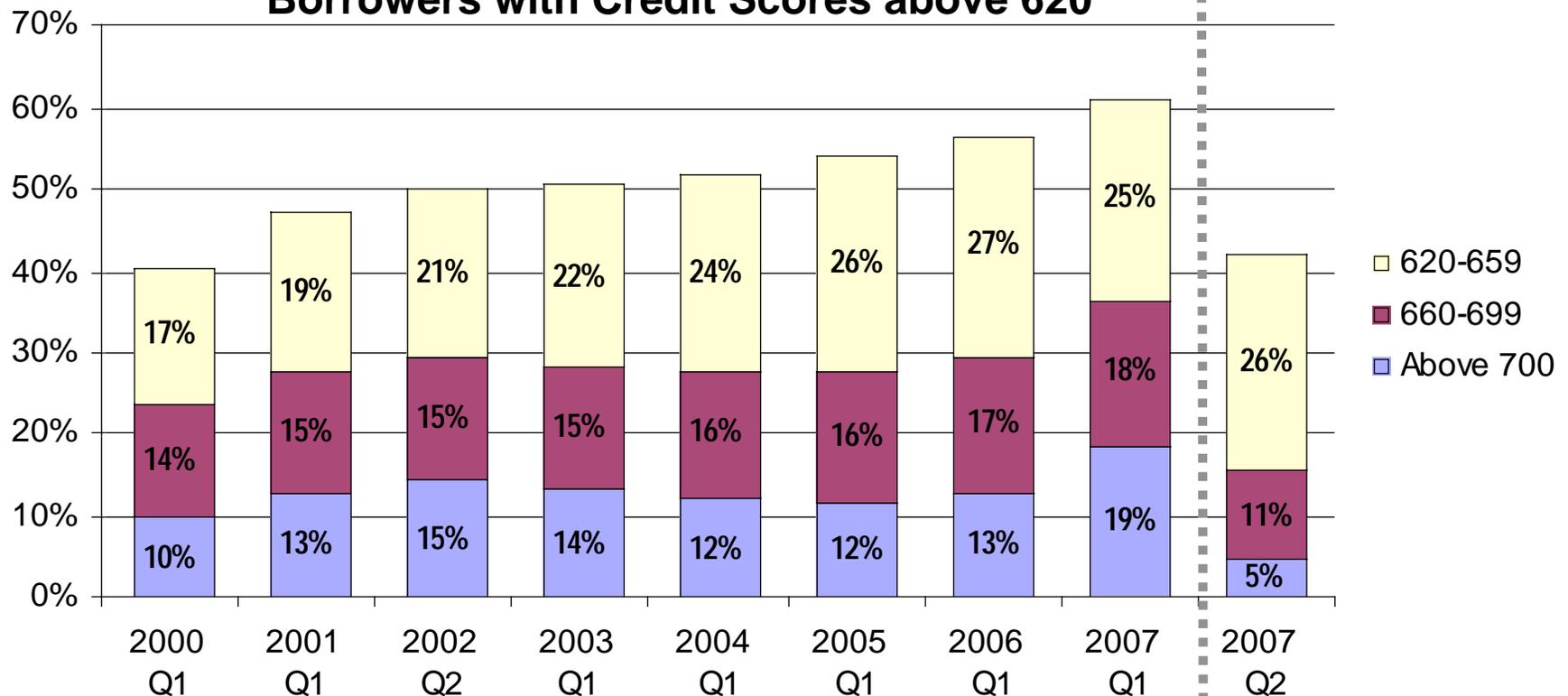
Debt-Income Ratios for Subprime Home Purchase Loans



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.

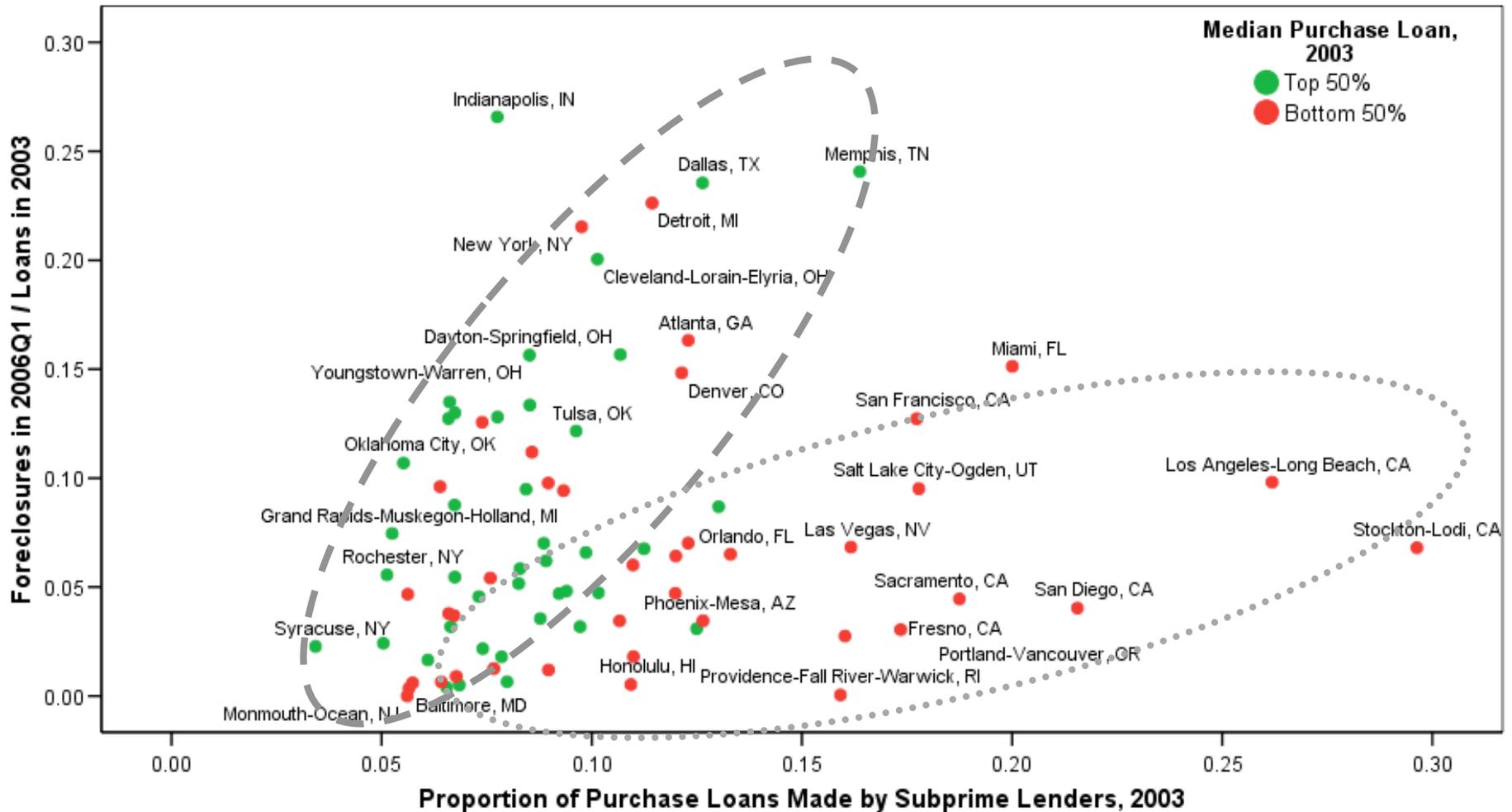
Over-engineered Capital Chasing Borrowers → Subprime Loans to Prime Borrowers

Percentage of Securitized Subprime Loans Made to Borrowers with Credit Scores above 620



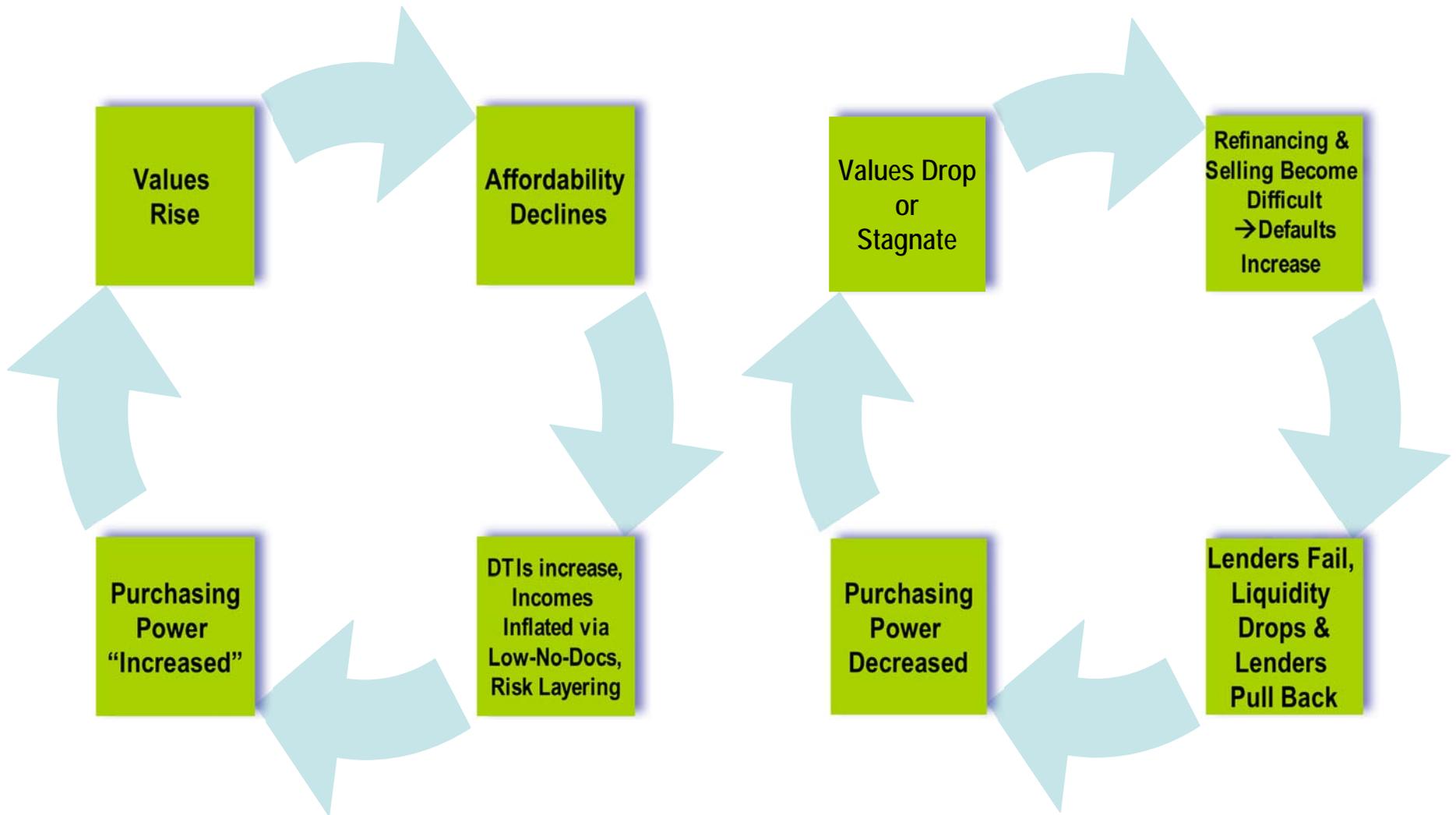
Source: Loan Performance, Inc. data calculated by R. Brooks and R. Simon, Subprime Debacle Traps Even Credit-Worthy, *Wall Street Journal*, p. 1, December 3, 2007

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



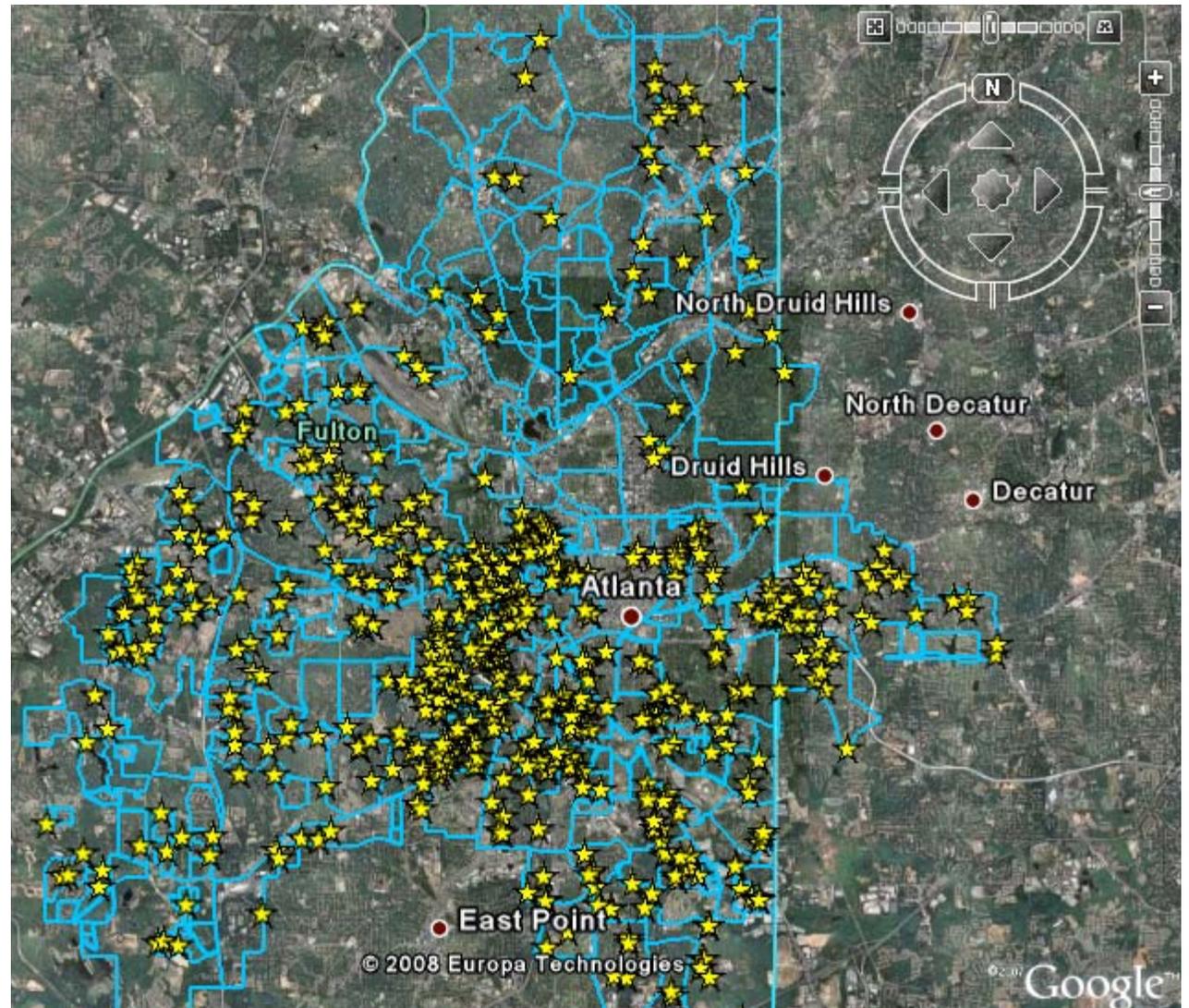
D. Immergluck. From the Subprime to the Exotic: Excessive Mortgage Market Risk and Foreclosures. Journal of the American Planning Association 74 (2008): 59-76

From the “Virtuous” Cycle to the Vicious Cycle



The Growth and Spatial Concentration of Foreclosures

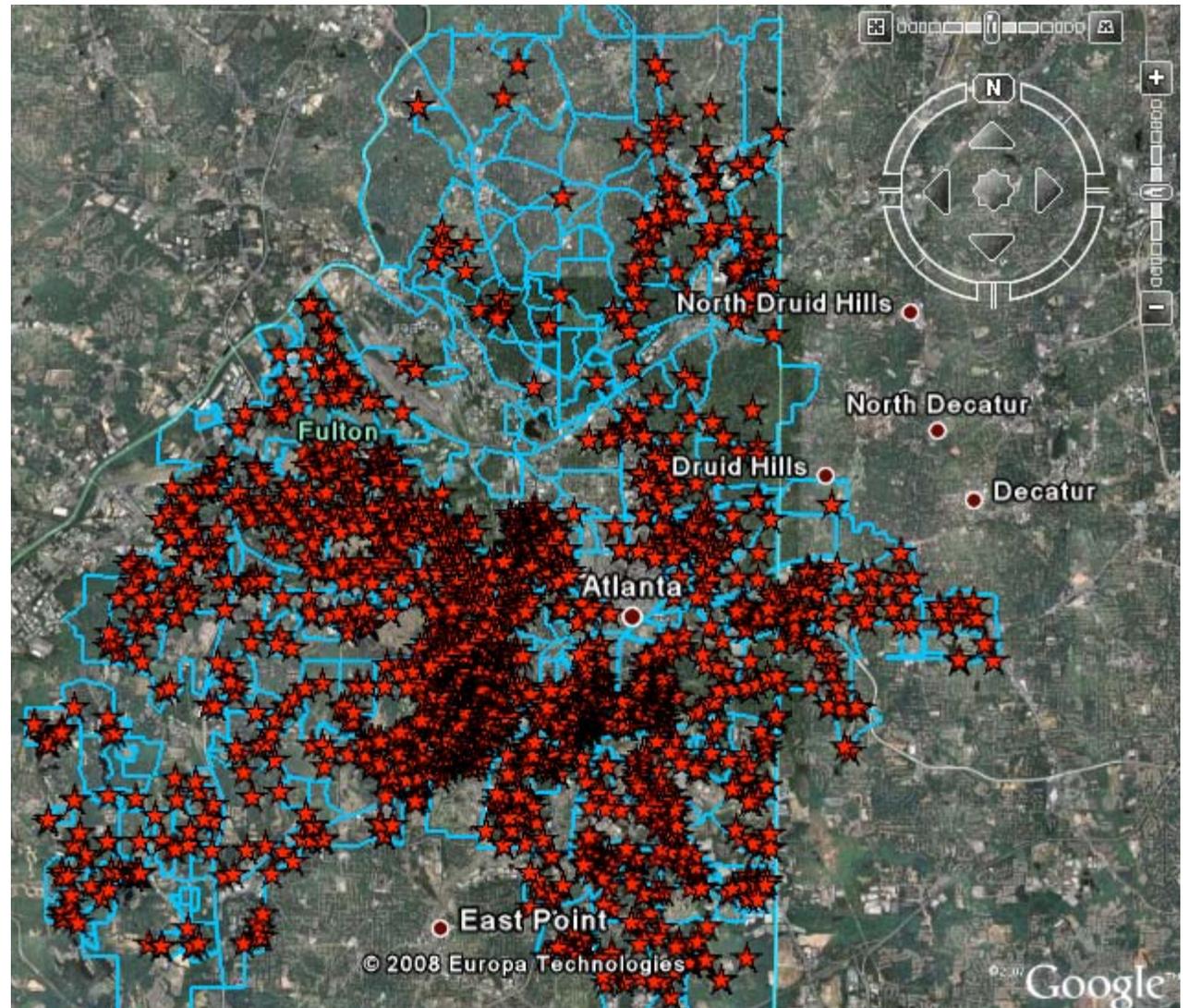
Foreclosure Filings, City of Atlanta, October-November 2001



Data source:
EquityDepot.net

The Growth and Spatial Concentration of Foreclosures

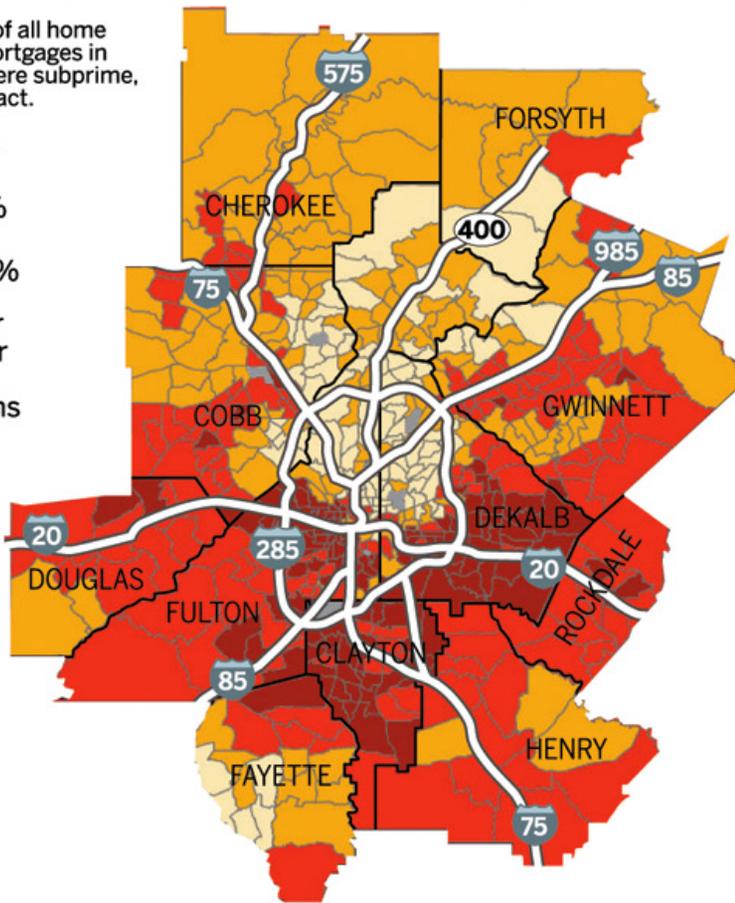
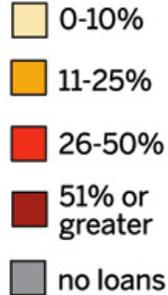
Foreclosure Filings, City of Atlanta, October-November 2007



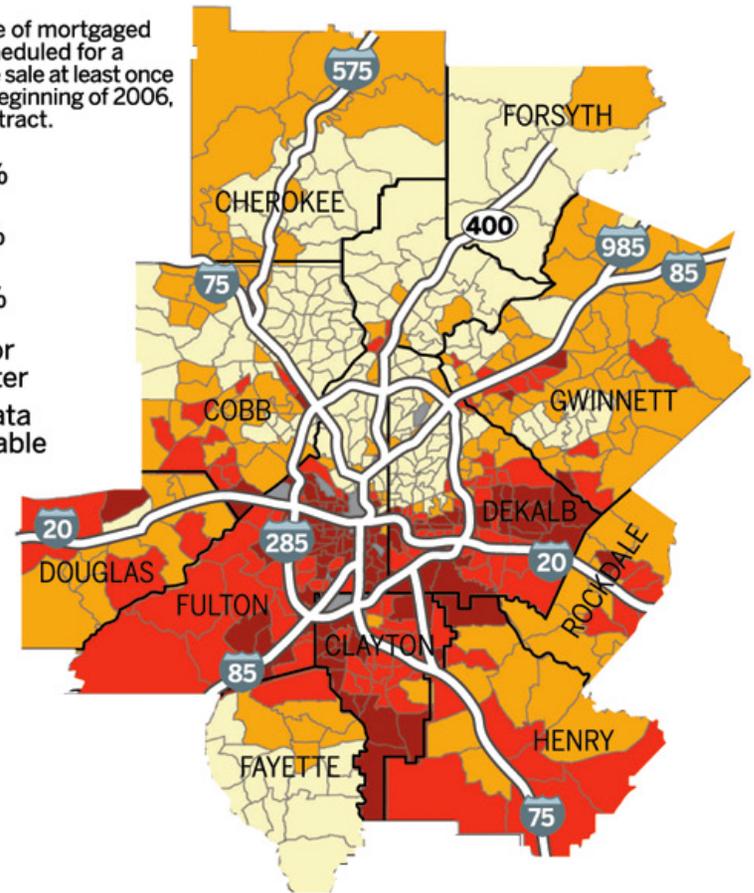
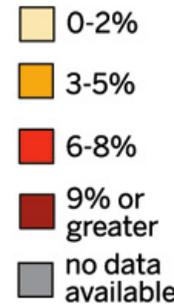
Data source:
EquityDepot.net

High-Risk Lending & Foreclosures Racial and Spatial Patterns

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



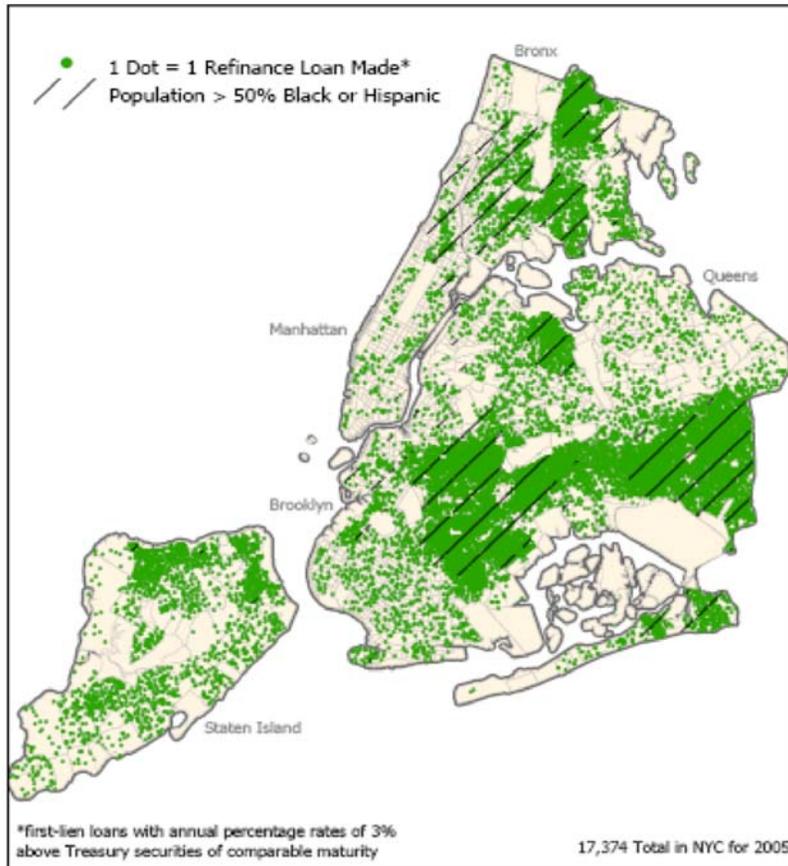
Percentage of mortgaged homes scheduled for a foreclosure sale at least once since the beginning of 2006, by census tract.



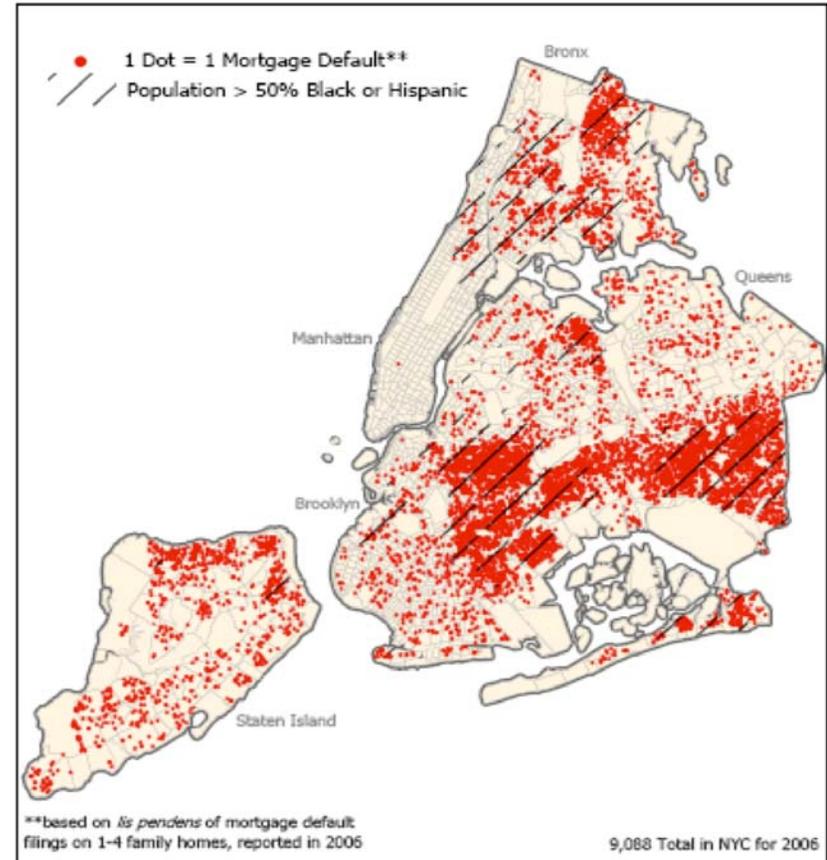
From: Carrie Teegardin, "Mortgage Crisis Hits Home," *The Atlanta Journal-Constitution*, September 7, 2007

New York City

HIGH-COST REFINANCE LOANS MADE - 2005

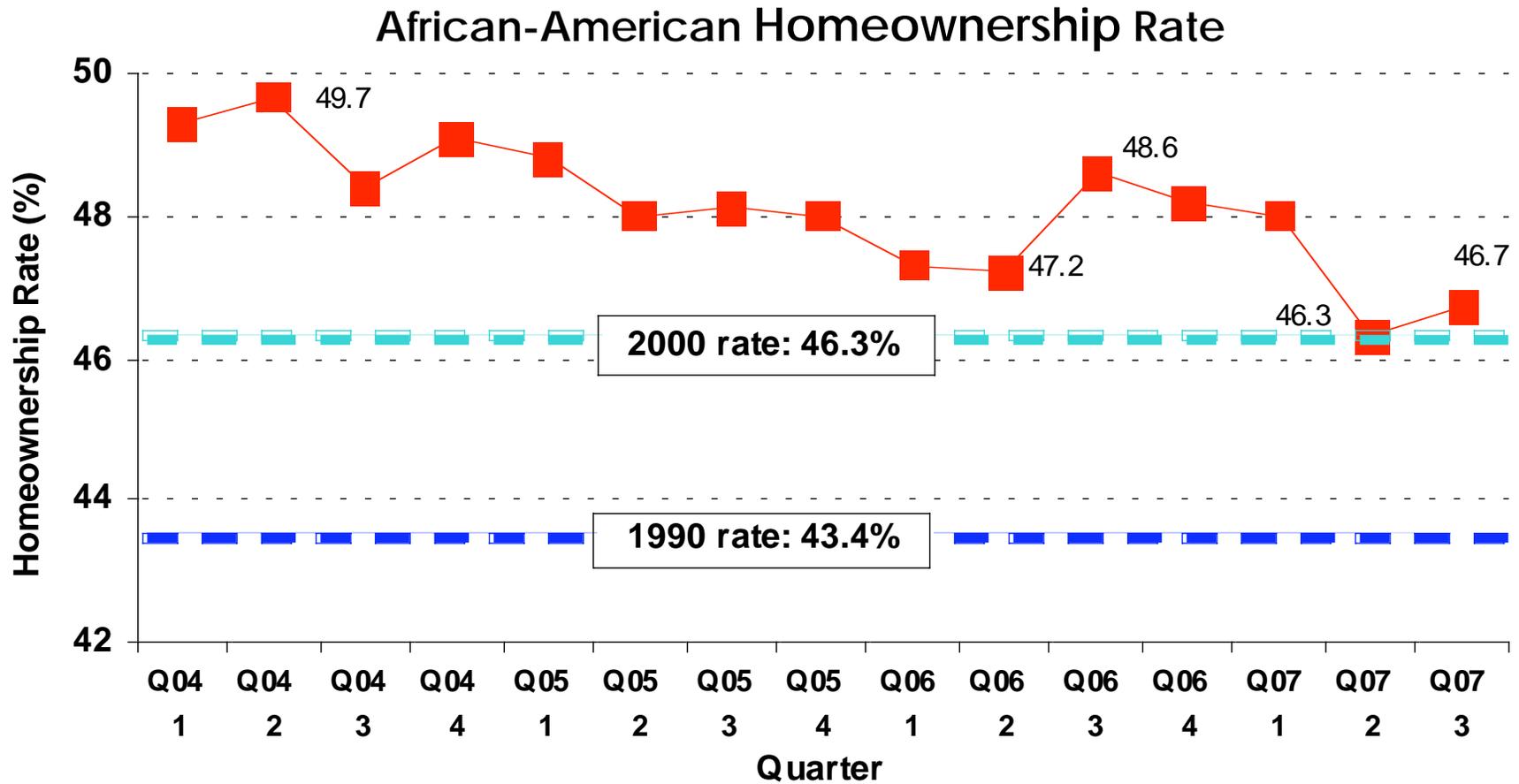


FORECLOSURE PATTERNS - 2006



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

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.

↓ 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
	<i>Expand</i> and <i>Enforce</i> 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