



Policy Brief: Foreclosure in the Philadelphia Region: The Gift that Keeps on Giving

As foreclosures continue to gradually decline, the effects of the protracted period of lending uncertainty and lowered property values are likely to persist. The negative outcomes of the real estate market crash cannot be fixed with a simple reversal of bad policies or the remediation of bad banking/lending behaviors. Communities face devalued and "underwater" (housing with market values below the amount owed to mortgagees) properties that complicate the process of clearing the backlog of delinquent properties. Major Federal initiatives to address these issues have been only slightly effective, as banks and other mortgagees appear to be reluctant to revise existing mortgages. Foreclosure itself has a negative halo effect as well, reducing the sales prices of nearby homes. As housing values in communities decline, the impact is also felt in the taxes that are collected and in the potential reduction of educational, policing, and other local governmental services.

Foreclosure, while driven by many economic factors such as increased unemployment and lower wages, has been significantly linked to the levels of subprime lending in risk sensitive regions, states, and local communities, which we have documented in several previous reports.¹ This policy brief focuses on the continuation of high foreclosure risk communities in the aftermath of the collapse of the subprime mortgage market. At its peak, subprime mortgages increased participation in the homeownership market, but also increased the risk profile of households, and with the collapse of this market, increased the likelihood of foreclosures, especially with the concomitant issues of declines in wages, incomes, and refinancing options for homeowners.²

A number of researchers have looked at national, regional, and local effects of foreclosure on daily life that transcend the housing market itself, demonstrating the importance of dependable and affordable housing for a variety of family, educational, and behavioral outcomes. It is important to recognize that there are a variety of larger community and behavioral risks attached to increased foreclosure. While we cannot explore these issues in great detail in this particular study, challenges to health, school success, family stress, and even crime levels in some communities have been reported. Several of these studies incorporate housing value and neighborhood effects of foreclosures as well, especially the work done at the Urban Institute.³

Foreclosure Effects in the Greater Philadelphia Region

Foreclosures have been driven by the collapse of the home finance/mortgage market, and the job losses that accompanied the 2007 recession, the effects of which continue to dog economic growth. The spatial pattern of foreclosures nationally follows concentrations of subprime lending, but it also varies because of state-by-state differences in foreclosure proceedings, local foreclosure intervention programs, and the comparative strength of local and regional economies.⁴

Put simply, while the country as a whole has wrestled with the painful effects of economic crisis and financial market paralysis, the patterns of foreclosure rates have been uneven. Because foreclosure filings and sheriffs' sales vary across states, and at times county jurisdictions, the legal process itself can accelerate or retard the rate of foreclosures. MPIP has analyzed the national data set on foreclosure risk (the comparative probability of a mortgaged property entering foreclosure in the neighborhoods and communities of a city, metropolitan area or state) through 2011.⁵ The uneven aspect of this risk is evident across MPIP's comparison metropolitan areas as well as within the Philadelphia metropolitan region. As **Figure 1** indicates, the Boston region had the highest risk of foreclosure in 2011, followed by Phoenix, Chicago, Philadelphia, Cleveland, and Pittsburgh. Baltimore, Minneapolis and Detroit had substantially lower regional risk levels.

The variation in housing prices and affordability across metropolitan areas is widely recognized, and has been a regular component of MPIP's assessment of the Philadelphia region's housing market compared to that of other metropolitan areas. We know that both Boston and Chicago have had markedly higher housing prices, and in Boston's case particularly, a very high ratio of housing prices to median income. This issue of affordability is a key factor in understanding these results. Likewise, the boom housing market in Phoenix, financed by a high proportion of subprime lending, helps us understand the higher risk of foreclosure in that housing market.



Figure 1: Foreclosure Risk Score by Metro Areas, 2011

Source: Foreclosure-Response.org, Risk, Market Strength Matrix for Metropolitan Areas, December, 2011

Foreclosure, it must be noted, is not a standardized financial or legal process from one state or jurisdiction to another. Many states have "non-judicial foreclosures," allowing for the sale of the defaulted mortgage in an essentially private transaction, as is the case in Michigan, Arizona, and Minnesota (Detroit, Phoenix, and Minneapolis). The remaining metropolitan areas in our comparison metropolitan areas all have judicially supervised foreclosures, but the processing period, the number of days between publication of the sale of the property, and supervising office (Sheriff, Trustee) vary from place to place. Additionally, in some of the core cities of these metropolitan areas, special court proceedings have been established to mediate or negotiate alternatives to foreclosure.⁶

A strong case has been made in both public discourse and public policy circles that rising foreclosure levels were in part the result of increased use of subprime mortgage loans for home purchases and refinancing. Even as the levels of subprime lending have largely subsided, the legacy of these loans continues, as many households find themselves with levels of debt that they had not anticipated. While subprime lending patterns drove a major segment of the foreclosure pool in many cities and metropolitan areas, the data displayed in **Figure 2** suggest that the subprime loans appear to vary in their effects on foreclosure, at least across our comparison metropolitan areas. In this graph, the ratios of foreclosures for subprime and prime mortgages were calculated, and the proportions of the two rates measured. Thus, for Baltimore, the ratio of foreclosures on subprime mortgage loans was over six times the rate for prime mortgages. By comparison, Phoenix' subprime foreclosures were less than five times that of prime rate mortgages.

Two points need to be made. First, metropolitan areas with high levels of subprime lending, and a higher ratio of foreclosures driven by these loans, can easily reflect very competitive housing markets with affordability challenges in their housing markets, e.g., Boston and Chicago. In cities that have price-depressed housing markets, and where the underlying employment challenges in the regional economy depress household incomes, the foreclosure problem is more widely shared across both prime and subprime mortgages. Hence, Detroit and Cleveland, while economically challenged, have lower ratios of subprime mortgages associated with their foreclosure risk.





The Philadelphia Region

The remainder of this report focuses on the impacts of foreclosure in the communities of the Philadelphia region. We examine changes in housing markets within the municipalities of the region, particularly the indirect effects of increased foreclosure risk and declining housing prices on municipal budget capacity. Weak housing markets are likely to negatively affect real estate tax collection and the provision of local services.

In two earlier reports (MPIP, 2008, 2011), we outlined the impact of subprime lending on the growth of foreclosures, and examined this region's patterns of foreclosure risks. These reports pointed to concentrations of potential foreclosures in several of the cities of the region as well as in several suburban communities that had not been expected to experience high levels of this problem. Surprisingly, comparatively affluent suburbs which appear to have suffered from elevated unemployment levels, especially in southern New Jersey, had much higher risks of foreclosure than other suburban communities.

To a large extent, mapping the most recent data on mortgage foreclosure risk (www.foreclosureresponse.org, 2012) shows the persistence of this pattern (see **Map 1**). Some of the older municipalities of the region (Philadelphia, Camden, Chester, Coatesville, Norristown, Pennsauken, and Bristol) reflect a traditionally weak housing market compared to the region.



More striking, however, is the broad swath of foreclosure risk across a large number of New Jersey communities, and to a less pronounced degree, in areas of Chester and Bucks Counties. While there is some correspondence with levels of high-interest rate/subprime loans, the reductions in overall lending across the region seen in **Table 1**, particularly in subprime loans, suggests that subprime lending is no longer a major driving force in assessing foreclosure risk going forward. Table 1 summarizes mortgage activity from 2006 through 2011. However, the lower mortgage numbers suggest that while the home purchase market has improved, it will take a significant amount of time before the home mortgage market—like unemployment levels--attains the level seen before the housing bubble, when over 60,000 home purchase mortgages were reported in this region.

Year	All Mortgages	Subprime Loans	Pct Subprime Loans
2006	75,404	16,041	21.3%
2007	62,762	9,301	14.8%
2008	47,059	3,302	7.0%
2009	42,469	1,526	3.6%
2010	36,595	545	1.5%
2011	32,259	909	2.8%
2006/2011(%) 42.8%		5.7%	

Table 1: Percentage of High-Cost (Subprime)Mortgages in the Philadelphia Region, 2006-2011

Source: Home Mortgage Disclosure Act Data, 2006-2011.

As these data demonstrate, home mortgage financing changed radically after the collapse of the housing bubble and the belated removal of problematic mortgages from lender portfolios. As a result of these two events home sales dramatically dropped, as evident from the decline of overall mortgage volume from 2006 through 2011. Correlatively, the percentage of high cost loans diminished from more than 21% of the loans made ion 2006 to just 1.5% of loans in 2010 and 2.8% 2011.

These data are important as recent research has linked the level of subprime lending in a community or region to foreclosure risk. The LISC/Urban Institute measure of foreclosure risk (essentially the measure used by HUD for its Neighborhood Stabilization Program, or NSP) that we have used in prior reports and that has been updated in 2011, suggests that the risk level, while strongly predicted by the level of foreclosures, is also strongly affected by the level of vacant housing in a community. The persistence of foreclosure risk even as the volume of mortgage loans has declined, and as access to subprime loans has dramatically decreased, indicates that it will be a number of years until the effects of past subprime lending work themselves through the foreclosure process.

Foreclosures occur in both weak and strong housing markets. To characterize the municipal housing markets in the region, we employ the percentage of municipal housing units that are vacant as the measure reflects the demand for the available housing. Dividing this measure of housing market strength into two categories, we cross-classify it with a dichotomized version of the prior measure of foreclosure risk seen in **Map 1** to describe the region's municipal housing markets in four categories: high risk, strong or moderately strong market, high risk, weak market, low risk, strong or moderately strong market. When we look at the combination of market strength and risk levels across the region, both the complexity of the foreclosure pattern and the persistence of spatial patterns of foreclosure risk become more evident (see **Map 2**).



We highlighted high and low risk markets in order to see if there was an expected correlation between strong markets and low foreclosure risk, as well as between weak housing markets and higher foreclosure risk. The map indicates that while this is substantially true, it is also the case that higher risk levels for foreclosure can be found in strong real estate markets (deep red shading), and that weak housing markets can demonstrate lower foreclosure risk (dark blue shading). Those in the light blue/gray tone reflect an expected relationship between strong markets and lower foreclosure risk. The light pink shading indicates the obverse – an expected relationship between weaker housing markets and higher foreclosure risks.

The communities with darker shades of red and blue indicate unexpected, and for some communities, potentially troubling findings. The dark blue shades point to communities that have a combination of weak housing markets and low risk. These communities might be lulled into complacency, as their foreclosure levels are not likely to raise public policy debates on recovering from the housing slump. The dark red communities face a more troubling situation; they have comparatively strong housing markets and higher than expected levels of foreclosure risk.

The remainder of this report examines some of the housing vacancy and local fiscal dilemmas that may be in store for the region's communities, set against a backdrop of a gradually improving housing market.

Comparing High Risk Communities to the Remainder of the Region

Communities that were at the highest risk of foreclosure in 2011 differ in some significant ways from those at lower risk levels. We have categorized these differences along demographic, socioeconomic and housing indices. **Table 2** presents a composite comparison of these differentials. A final section of this policy brief identifies the fiscal challenges faced by communities in the highest risk group in the region.

It should not be surprising to find that there are fundamental relationships between the demographic and socioeconomic composition of communities and the levels of foreclosure risk that are found across the region. Foreclosure risk is closely associated with the levels of subprime mortgages that have underwritten the expansion of home ownership in communities that have been defined as higher risk by mortgage lenders. We would expect to find racial and economic differentials across these communities. Likewise, as the subprime market, and mortgage lending itself, declined precipitously in the years after 2006, there were likely to be declines on the levels of home ownership, and a higher incidence of longer term vacancies in these communities.

The data presented in **Table 2** document socioeconomic, demographic, and housing differentials between communities with lower foreclosure risk levels and those with higher risk levels. The recovery of local housing markets is driven by both national and regional economic forces, but also depends upon the human and economic capital within the region's communities. The lower income levels, higher levels of families in poverty, disparities in racial composition and population growth, as well as the disproportionate growth of long-term vacancy in higher risk communities suggest that that these communities will continue to struggle even after the mortgage market rebounds. These disparities will continue to challenge public policy makers as they seek to balance the security of mortgage lending businesses against the needs of maintaining a vibrant housing market (a foundational concern for long-term economic recovery for the country and the Philadelphia region alike.

		Lower Risk Communities	Higer Risk Communities
Socioeconomic Indices	Median HH Income (2000)	\$79,276	\$58,655
	% Families in Poverty	3.7%	8.2%
	Mean Adj. Gross Income	\$73,098	\$46,314
Demographic Indices	% Non-White (2000)	10.6%	31.3%
	Population Change (2000-10) 10.3%	5.4%
Housing Indices	% Long-Term Vacant, 2000	0.9%	1.3%

Table 2: Comparison of Socioeconomic, Demographic and Housing Indices across Risk Levels

*Higher risk communities have a log-risk score \geq to 9; details on indices used are provided in the endnote.⁷

A Fiscal Challenge Facing the Region's Communities

MPIP has routinely monitored the contributions of real estate taxes to the annual budgets of the region's communities. Communities typically have different mixes of revenues that they use to fund their operations and provide services to their residents. To the extent that their budgets are especially sensitive to real estate tax revenues they depend upon an appreciating housing market to generate property tax revenues. Decreased collections from foreclosed properties or from the potential effects on neighborhood property values might the affect the fiscal strength of the community, as the unfortunate combination of decreased property tax revenues with steady increases in the costs of providing public services could pose continuing fiscal problems for these towns-especially in the larger context of the continuing efforts of state and federal governments to reduce their contributions to municipal revenues.

Each community has its own mix of services to contend with, and has developed its own resolution of such core functional responsibilities as public safety, education, infrastructure, and land use regulation. It is possible however to investigate the sensitivity of those communities with the highest foreclosure risk to property tax revenues. Table 3 lists the 25 communities with the highest risk of foreclosure, based on the data that is displayed in **Figure 1**. The list includes older manufacturing centers, inner ring suburban communities, towns from the metropolitan area's fringes, and municipalities in both New Jersey and Pennsylvania.

Table 3: Communities with the Highest Risk of Foreclosure, 2011

Names

Colwyn

Willingboro Lindenwold Laurel Springs Clementon Pine Hill Winslow **Gloucester Township** Yeadon Darby

Collingdale Philadelphia Monroe Millbource East Lansdowne Camden Alloway Township Landsdowne

Ouinton Chester Pennsauken Burlington **Burlington Township** Norristown Woodbury Pemberton

We calculated the aggregate property tax sensitivity for these 25 communities by comparing their property tax revenues to the total revenues they collected (for the 2009-2010 fiscal year), and then compared that ratio to the aggregate ratio for the remainder of the region. The data presented in **Table 4** reveal that the communities with the highest risk of foreclosure have a higher dependency on property tax revenue than the remaining communities of the region.

Table 4: Property Tax Sensitivity in High Foreclosure Risk Communities, 2009-2010					
	Total Revenues and State, US Aid	Property Tax Revenues	Percentage		
Highest Risk Other	\$275,394,582 \$1,711,709,321	\$176,628,240 \$969,640,869	64.1% 56.6%		

However, this finding suggests that a more extensive analysis needs to be undertaken by each community experiencing significant foreclosures. As the material discussed at the outset of this report implied, many communities that experience foreclosure face not just the personal financial losses of homeowners, but the added impacts of shrinking property values, and by extension, of declining tax revenues as well. It is apparent in this region that the communities facing the highest risks of foreclosures are the ones which also have the greatest fiscal sensitivity with respect to these revenues and reduced state and federal contributions.

Endnotes

¹ Immergluck, Dan Foreclosed: High-Risk Lending, Deregulation and the Undermining of America's Mortgage Market, Ithaca: Cornell University Press, 2011; MPIP, "Subprime Lending," Focus Report, 2008; MPIP, "Foreclosure Risk and the Philadelphia Region: The Continuing Saga", Policy Brief, 2011.

² The past several years have forced us to realize that limited punitive actions against banks have provided limited amounts of economic justice as well, with some indication that these regulatory actions are too little, too late, and may well be "gamed" as banks develop alternative strategies for defining and handling risk. The U.S. Attorney General has suggested that his office was loath to bring actions against banks that were "too big to fail," and recent testimony by Morgan Stanley Chase senior officials have suggested that the mix of lax oversight and ethically problematic approaches to information transparency have not yet been removed from the derivatives market.

³ A summary of key studies and the community correlates of foreclosure include:

Vidmar, Christine. "Seven Ways Foreclosures Impact Communities," Report from Neighborworks, 2008:

- Increased Crime
- Financial hit
- Vulnerable to financial scams
- Youth stress and instability
- Displaced residents
- Blighted by neglect
- Disproportionate minority impact

Center for Responsible Lending, "Soaring Spillover: Accelerating Foreclosures to Cost Neighbors \$502 billion in 2009 alone; 69.5 million homes lose \$7,200 on average," 2009; Also see Mallach, Alan, "Stabilizing Communities: A Federal Response to the Secondary Impacts of the Foreclosure Crisis," 2009, Brookings Institution.

- Devaluation of homes by \$7,200 on average
- Property tax reductions at \$20,300 /household

Miller, Wilhelmine, Craig Pollack, and David Williams, 2011. "Healthy Homes and Communities," American Journal of Preventive Medicine, 548-667.

• General relationship between stable homes and child health

Lee, Kai-yan, 2008. "Foreclosure's Price-Depressing Spillover Effects on Local Properties: A Literature Review," Federal Reserve Bank of Boston, Community Development Division, Discussion Paper.

• Range of financial effects on local housing markets between -0.9% to -8.7%.

Kingsley, Tom, Robin Smith and Donald Price, 2009. "The Impacts of Foreclosures on Families and Communities," The Urban Institute.

- · Displacement and housing instability
- Financial insecurity and economic hardship
- Personal and family stress
- Declining values and physical deterioration
- Crime, disorder and population turnover
- Local government fiscal distress

⁴ Mortgage Bankers Association, 2010. "Judicial vs. Non-Judicial Foreclosure," available at http://www.mbaa.org/files/ResourceCenter/ForeclosureProcess/JudicialVersusNon-JudicialForeclosure.pdf

⁵ For further discussion of this measure, and the data themselves, access http://foreclosure-repsonse.org, which has generated these estimates over the past four years?

⁶ While somewhat dated, Cutts, Amy & William A. Merrill, 2009 "Interventions in Mortgage Default," Joint Center for Housing Studies, UCC08-15, is a good starting point. Also, see Immergluck, Dan, Frank Alexander, Katie Balthrop, Philip Scheaffing and Jessie Clark, 2011, "Making Home Affordable Program; Servicer Performance Report through January 2011, United States Treasury Department. In Philadelphia, see Goldstein, Ira and Colin Weidig, (2011), Philadelphia Residential Mortgage Foreclosure Diversion Program: Initial Report of Findings, The Reinvestment Fund.

⁷ The community indices were derived from MPIP data items, as follows:

Median HH Income	U.S. Census Bureau, 2000
% Families in Poverty	U.S. Census Bureau, 2000
Mean AGI (Adjusted Gross Income)	IRS Income Statistics, 2005
• % Non-White (2000)	U.S. Census Bureau, 2000
Population Change (2000-10)	U.S. Census Bureau, 2000, 2010
N of Vacant Addresses	USPS Address Files, Vacant > 36 Months
• % Long-Term Vacant, 2000	U.S. Census Bureau, 2000 (Vacant Other)

• % Long-Term Vacant, 2010 U.S. Census Bureau, 2010 (Vacant Other)