FORECLOSURE RISK AND THE PHILADELPHIA REGION: THE CONTINUING SAGA

This report addresses the pattern of foreclosure risk in the greater Philadelphia region that existed as of December, 2010. Using data and information provided by the Local Initiatives Support Corporation (LISC) and the Urban Institute,[1] we are able to map the patterns of foreclosure risk and housing market strength across the region. In addition, we are able to compare Philadelphia's experiences of foreclosure with MPIP's comparison metropolitan areas, suggesting that the region's experiences with foreclosure are less pronounced than in many metropolitan areas. Nonetheless, there are reasons for concern, especially with respect to foreclosure of subprime mortgages. We are also able to provide some depth of understanding for a persistent pattern of higher rates of subprime mortgages and foreclosures in the communities of southern New Jersey.

Background: Foreclosed properties and their links to the collapse of the subprime market have been recurring issues in the recovery of local housing markets, economic recovery overall, and, the increasing difficulties that local municipalities in the greater Philadelphia region face in addressing budget shortfalls. The roots of the collapse of the housing market are several, including unregulated marketing of suspect and inappropriate mortgages and a larger economic downturn. This downturn was accelerated by the housing collapse and also created household economic crises in many communities. The longer term effects of this crisis include a sharp decline in housing prices, persistently high unemployment rates, and ongoing fiscal tensions in state and local government.

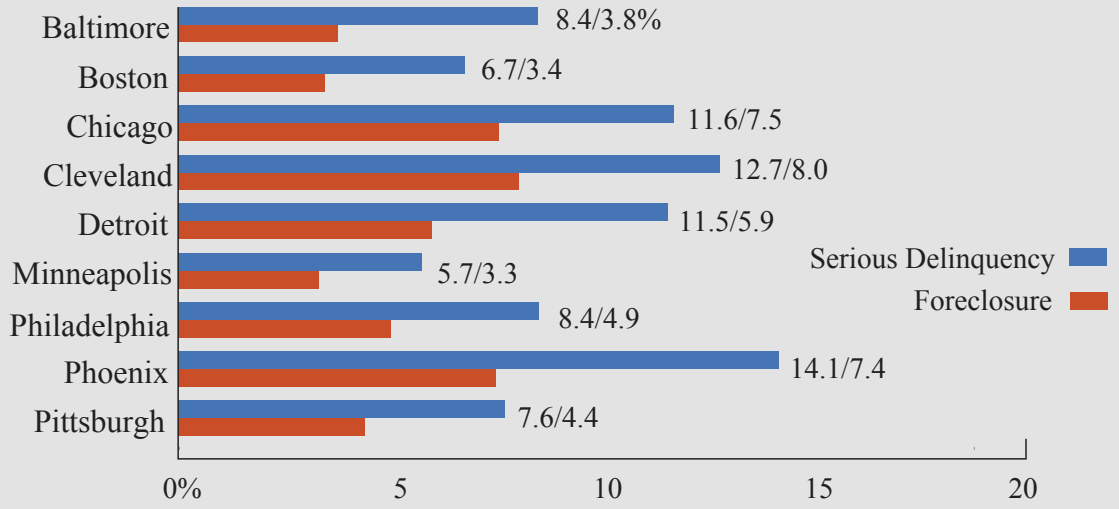
As housing markets weaken in many of the communities in this region, homeowners see their houses go "under water," as the amount owed on mortgages can easily exceed the price at which they could either sell or refinance their homes. Over the past decade, the increased reliance on subprime mortgages has, combined with job losses, fueled a surge in foreclosures.[2] While foreclosures have occurred with both prime and subprime mortgages, it has become clear that concentrations of subprime loans are more associated with foreclosure risk in most metropolitan areas.[3]

Uneven housing market strength, i.e., market weakness, creates a downward pressure on home prices, leading to reduced real estate assessments and lower property tax revenues. As a result, local governments which rely on property taxes as a key element in funding local services, especially education, face fiscal constraints. Since state budgets are also constrained by reduced tax revenues—whether because of ideological commitments not to raise taxes or because diminished economic capacity—states have reduced their support of local government services, leaving local governments facing additional burdens. This weakness of local housing markets and the burden that property taxes already impose in many communities underlie many of the anti-tax, anti-government expenditure protests which further fuel reduced public expenditures.

The patterns of subprime lending and foreclosure in this region have not markedly changed in the past several years. MPIP has commented on these patterns in several of its *Where We Stand* reports (in 2009 and 2010 we reported on foreclosures; in 2005 and 2006, we focused on subprime lending). In this report we can extend the analysis to consider the relationship of housing market strength to foreclosure, suggesting that foreclosure is not entirely the result of weak housing markets. We have also been able to examine information from the banking regulators that indicates that some parts of the region are systematically more susceptible to subprime lending patterns.

Foreclosure Risk in the Philadelphia Region: While foreclosure has affected every U.S. metropolitan area, there are variations in the location and incidence of these troubled housing markets. While news headlines feature the overbuilding and excessive use of subprime mortgages in places such as Las Vegas, Miami, or southern California, most communities experience significant, but much lower levels of delinquency and foreclosure.

Figure 1: Metropolitan Area Comparisons of Foreclosure and Serious Delinquency Rates, 2010

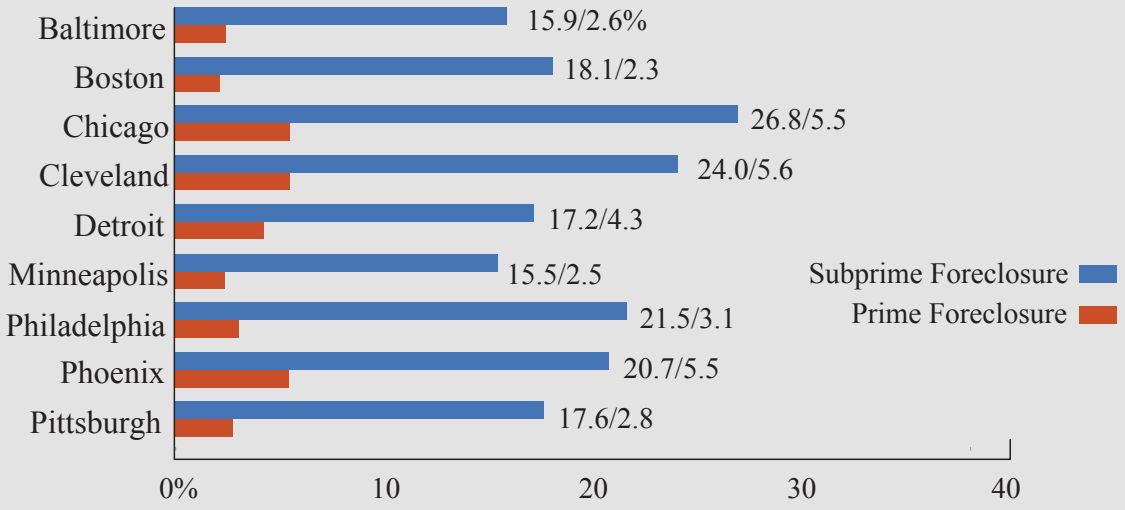


Source: LPS Applied Analytics from Local Initiatives Support Corporation and the Urban Institute, December, 2010

Philadelphia, for instance, ranks 136th among the 366 U.S. metropolitan areas in its foreclosure percentage (4.9 percent of properties). While it is in the top 40 percent of all areas and suffers from significant foreclosure activity, its percentage is as whole, nothing like the levels of such communities as Miami (18.2 percent), Orlando (14.7 percent), or Las Vegas (14.1 percent).[4] Even within the nine metropolitan areas that MPIP uses for its traditional comparisons (see Figure 1), it falls barely within the top half of the comparison metropolitan areas. Its 4.9 percent level is well below rates exceeding seven percent in Chicago, Cleveland, Detroit, and Phoenix. Its rate of serious mortgage loan delinquency also indicates a similar pattern: 151st of 366 metropolitan areas, and in the middle of the group of nine metropolitan areas, with an 8.4 percent serious delinquency rate (tied with Baltimore, and again exceeded by the same metropolitan areas that are more seriously impacted by foreclosure).

It should be noted, however, that this region's subprime market has a much higher than average foreclosure rate when we examine the subprime sector of mortgages (see Figure 2). Its national rank is 104th of all

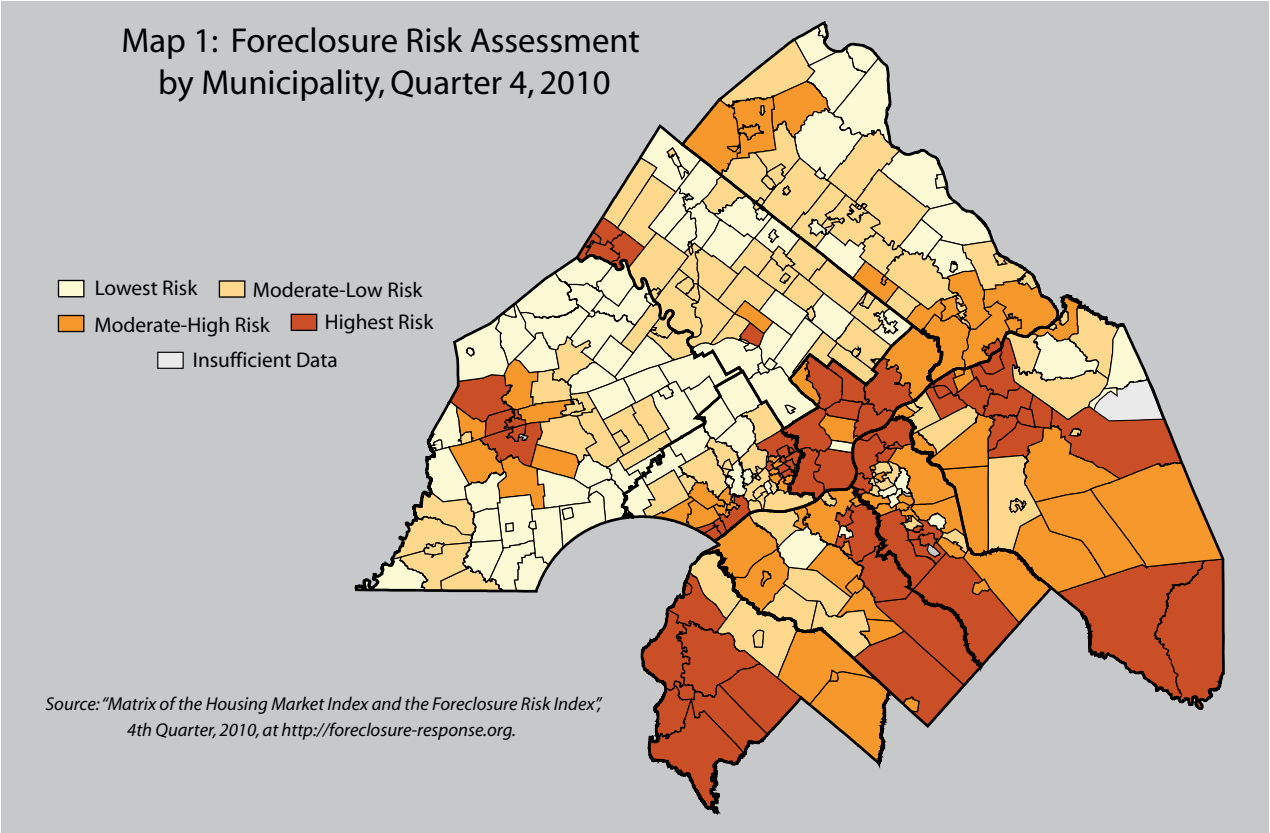
Figure 2: Metropolitan Area Comparisons of Prime and Subprime Foreclosure Rates, 2010



Source: LPS Applied Analytics from Local Initiatives Support Corporation and the Urban Institute, December, 2010

metro areas (within the top 30 percent) of all metropolitan areas, and the third leading metropolitan area among the nine comparison metropolitan areas. The comparatively low rate of foreclosures from prime mortgage loans strongly reinforces a sense of a dichotomy within the region's communities as they work through the current housing market troubles. Subprime mortgages have more than seven times the odds of ending in foreclosure than those mortgages that are prime rate.

In the past two years, it has become possible to calculate the foreclosure risk of individual communities within a metropolitan area, based on estimates prepared by the Urban Institute and LISC. This analysis of the level of foreclosure risk comes from using state and county level data on foreclosures and adjusting them to local conditions. It is based on examining the vacancy levels and rates of subprime mortgages in communities, and norming them against county and statewide foreclosure levels.[5] These levels are then calibrated for each metropolitan area in the country by assessing the comparative risk that each community has compared to all other communities in the metropolitan area. The levels are then ranked against all communities in the metropolitan area and expressed as a comparative likelihood of foreclosure for each community.



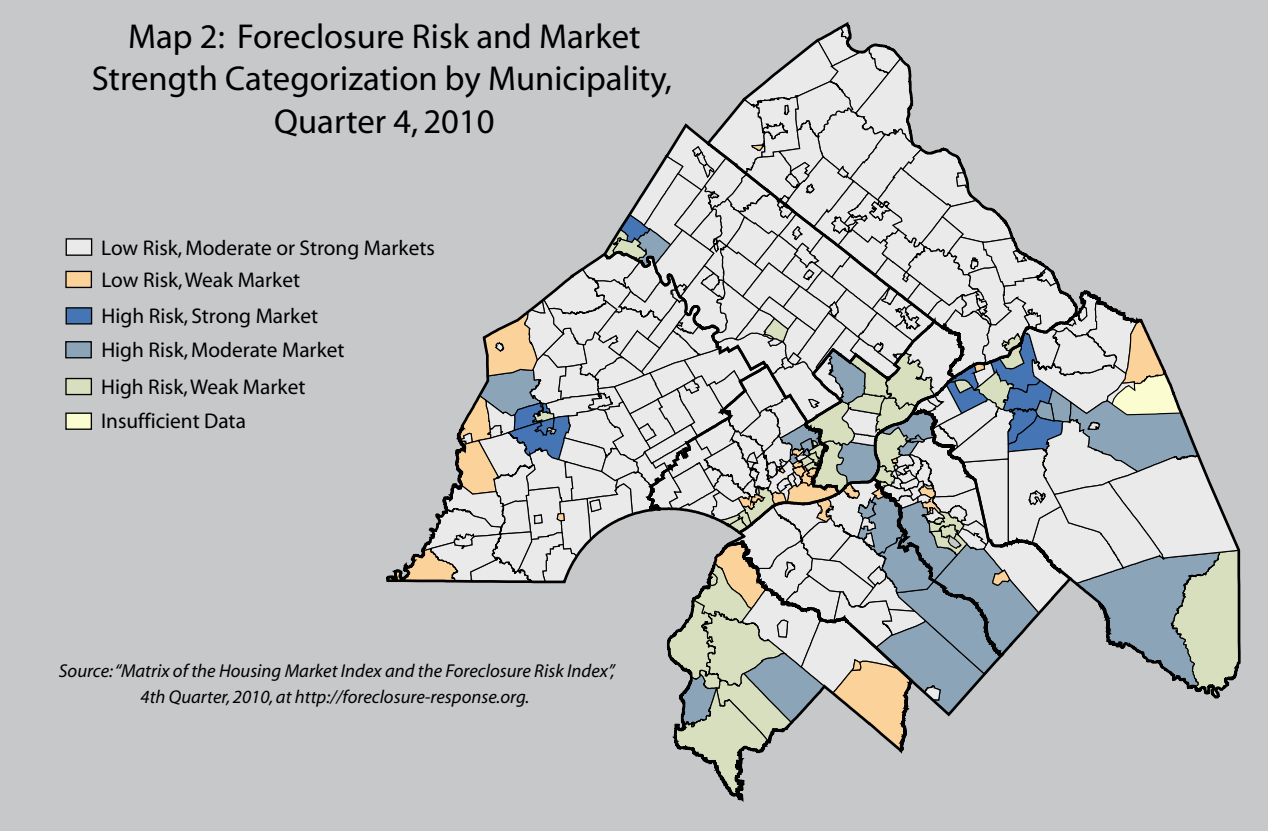
Within the Philadelphia region, the risk of foreclosure is illustrated in **Map 1**, Foreclosure Risk Assessment by Municipality. The categories on the map (high, moderately high, moderately low, and low risk) reflect the distribution of overall risk within the region. The estimate of risk is a composite index which provides a percentile ranking of communities based on a weighted average of the percentage of first lien mortgages in foreclosure, the percentage of subprime first lien mortgages, the percentage of first lien mortgages which are delinquent for 30 days or more, and the percentage of housing units that are vacant.[6] The high category contains the region's communities ranking roughly in the top 40 percent on the index. The low risk group represents approximately the 20 percent of communities lowest on the index, while the moderately high category comprises those ranking from 40-60 percent and the moderately low those ranking from 60-80 percent.

This distribution reflects a pattern of community variation in subprime home mortgages that has been noted in past reports, as noted above, and is also available for mapping on the *MetroPhilaMapper* service (http://mpip.temple.edu). The communities that have the highest risk of foreclosure are in some of the older manufacturing communities of the region, such as Philadelphia, Camden, Coatesville, Pottstown and Norristown, with very high risk levels found in the older communities on either side of the Delaware River.

A persistent pattern of elevated risk also extends to many communities in the southern New Jersey segment of the region. This specific concentration is discussed further, below.

Foreclosure risk, taken by itself, is an inadequate indication of local housing market dynamics. As a result, Foreclosure-Response.org, a joint Urban Institute and LISC effort, (which sponsors a national website that provides assistance to communities wrestling with high foreclosure levels at www.foreclosure-response.org) developed a second analysis of housing market strength to see if foreclosure was a simple consequence of subprime lending levels, or was affected by market strength as well. (Market strength is also an index generated by LISC that combines and weights the median value of first-lien mortgages, the percent of first lien mortgages that are high cost, or subprime, the velocity of home purchase mortgage transactions to owner-occupants, and the percentage of first lien mortgages to owner-occupants, as opposed to investor owners.) We obtained data from their website to produce a second map.

Combining measures of market strength and foreclosure risk, we created **Map 2**, Foreclosure Risk and Market Strength. For clarity in this presentation, we divide foreclosure risk into high and low, with the top ranking of risk being compared to the remainder of the communities in terms of foreclosure probability. As with foreclosure risk, market strength was grouped by percentiles, with the lowest 30 percent of communities representing the weakest markets, the next 30 percent representing moderate markets, and the top 40 percent representing the communities with the strongest housing markets in the region.



This map generally reflects the most likely pattern of communities with higher foreclosure risk being associated with lower strength housing markets, and lower foreclosure risk associated with stronger markets. But it also reveals important anomalies that demand closer attention. Thus, in areas of southern New Jersey, noted earlier as having higher foreclosure risk, there are a large number of communities shaded blue, to indicate their position within the upper categories of risk, but where the housing market strength is either moderate or strong. This was also the case in the communities near Pottstown, in upper Montgomery County, and in and around Coatesville, in Chester County.

The converse is also of interest, if only in passing, namely that there are communities which exhibit low foreclosure risk despite evidencing weak housing markets. Many of these communities sit on the periphery

of the metropolitan area, but some of them are in some of the suburban communities in Delaware County (adjacent to, and immediately to the southwest of Philadelphia) and in smaller communities in southern New Jersey. We suspect that the relatively small size of some of these housing markets, and the relatively low turnover rates in others produces indications of weaker market strength that would not necessarily be associated with higher levels of foreclosure risk.

Implications and Questions: The region as a whole faces the realities of a national housing market that has been slow to respond to its implosion in 2008. This analysis has identified communities in the Philadelphia region that face comparatively high foreclosure and delinquency rates. The combination of market strength and foreclosure rates highlights an important dimension of this recovery—that some communities may face higher foreclosure rates despite being strong housing markets, and conversely, that many communities, while weak in the overall operation of the housing market, do not exhibit high foreclosure rates.

In re-examining past analyses of subprime lending patterns in the region, we suspect that past patterns of higher rates of subprime lending in the older manufacturing cities of the region, as well as some of the older suburban communities that have smaller homes and comparatively dense residential housing clusters, will be slower to recover from the difficulties affecting the home credit market. For the foreseeable future, the health of the region's housing markets appears to be wedded to the availability and eligibility of its residents for prime rate mortgages.

In these past analyses, we have speculated about the higher than expected rates of subprime lending in many communities in southern New Jersey. Communities in southern New Jersey are also particularly susceptible to an increased risk of foreclosure. In earlier reports, MPIP has indicated that these communities have lower than the regional average purchase price, and a higher than average rate of subprime mortgages. They now show an increased level of foreclosure risk—even where the strength of the housing market is comparatively high.

These patterns are supported by an independent information source, the New York Federal Reserve Bank. In **Table 1**, we can see that New Jersey counties have higher foreclosure percentages and rates, and that Philadelphia is the major outlier among the Pennsylvania counties in terms of delinquency rates, although it is still lower than the New Jersey counties.

Table 1: Foreclosure and Delinquency Rates of Prime Mortgage Loans by County, Philadelphia Metropolitan Area, 2010

State/County	Percentage in Foreclosure	Percentage Delinquent (90+ Days Past Due)	Foreclosure Rate (Per 1,000 Units)
New Jersey			
Burlington	4.0%	2.6%	13.3
Camden	4.8%	3.5%	14.3
Gloucester	4.3%	3.1%	14.1
Salem	5.6%	3.4%	12.4
Pennsylvania			
Bucks	1.5%	1.9%	4.3
Chester	1.2%	3.0%	3.4
Delaware	1.9%	2.4%	5.2
Montgomery	1.2%	1.6%	3.5
Philadelphia	2.8%	3.4%	4.9

Source: New York Federal Reserve Bank, Downloaded February, 2011; Credit Conditions by County, 2010.

While these data validate the basic pattern we identified in the maps, they do not adequately explain why this pattern is present. There are slight, but not major, differences in the region's housing market. While the answer to this issue lies beyond the constraints of this analysis, some additional data on employment suggests that New Jersey counties have suffered greater employment losses since 2005, and have experienced lower wage gains over the same time period (see **Table 2**). This suggests that the southern New Jersey counties of the Philadelphia Metropolitan Area are positioned less well in the overall economy of the region and will continue to present a challenge in terms of economic recovery, both in housing and employment.

Table 2: Employment and Wage Gains Across the Philadelphia Metropolitan Area, by County, 2005 to 2009

State/County	Percentage Decline in Employment	Percentage Wage Gain
New Jersey		
Burlington	3.9%	8.0%
Camden	7.4%	6.5%
Gloucester	4.9%	5.9%
Salem	7.3%	11.3%
Pennsylvania		
Bucks	5.6%	8.1%
Chester	-0.3%	6.4%
Delaware	2.3%	7.0%
Montgomery	3.8%	6.9%
Philadelphia	1.7%	10.2%

Source: Bureau of Labor Statistics, Quarterly Wage and Employment Data, 2005-2009.

This suggests a final observation. The over-reliance on subprime mortgages and the subsequent collapse of the securities market that underwrote those loans may well have been a prime mover in the onset of the recession. It is, however, far too simplistic to assume that an uptick in the housing market alone will yield an economic recovery. At its roots, home ownership is leveraged by viable credit markets, stable employment, and incomes that support the long-term debt payments of a mortgage. The future economic viability of communities, specifically a lowered risk of foreclosures, will require a more robust jobs economy. It is also true that anti-foreclosure strategies will be important for communities addressing the backlog of vacancies and half-completed houses that dot their landscape. Both efforts will need to work together—jobs and housing—if communities are to recover.

Endnotes

[1]These two organizations provide research and programmatic resources for local community organizations and governments seeking to address the impacts of foreclosure in their communities. The data for this report is largely drawn from materials available at http://www.foreclosure-response.org.

[2]This is best seen in Dan Immergluck's work, *Foreclosed*, Cornell University Press, 2009.

[3]See the discussion of concentrated foreclosure risk at http://www.lisc.org/section/ourwork/special/ra/foreclosure; areas of greatest foreclosure risk are defined as those areas in the top quintiles nationally based on the percentage of residential mortgage loans that were high cost and the numbers of loans per dwelling unit.

[4]Effective December, 2010; data from http://foreclosure-response.org.

[5]The entire documentation of this effort can be found on the foreclosure response website; a good discussion of the use of this index is found in G. Thomas Kingsley, Leah Hendey, and David Price, 2011. "Setting Priorities for Neighborhood Stabilization: A Guide to Using Foreclosure-Response.Org Indexes" at http://www.foreclosure-response.org/maps_and_data/data_for_strategic_targeting.html.

[6]Full documentation can be found in Walker, Chris and Francisca Winston, "A HMDA-Based Housing Market Index to Track Neighborhood Change," found at website http://www.foreclosure-response.org.