

Foreclosure: The Cost Communities Pay

By Corinne Wilson, Center on Policy Initiatives | June 2011

Foreclosure has a clear impact on the families losing their homes, but also touches all of us. The lack of regulation of the subprime market allowed predatory lending practices to flourish and banks to profit at the expense of communities. Wall St. recklessness is well documented and has had devastating consequences. Currently, the five largest mortgage companies in the U.S. are in negotiation with 50 state Attorneys General to pay a settlement of \$20 billion for foreclosure fraud.¹ However, this amount is not nearly enough to compensate communities for the harm done, as this report documents.

Foreclosures harm the value of all homes within a neighborhood.

Homes left vacant and untended during and after a foreclosure can become nuisance properties, deterring potential homebuyers and lowering home values in the neighborhood. Homes in foreclosure experience an average 22% loss in value, and homes within 1/8 of a mile of a foreclosure also decline in value.^{2,3}

Foreclosures undermine the financial stability of homeowners and their neighbors.

Lower home values mean families have less home equity to use to fund retirement, pay tuition, start businesses, or pay medical bills. Home equity is generally at least two-thirds of the average pre-retiree's total assets.⁴

Foreclosures erode local tax bases and revenues, impacting services for everyone.

Lower home values result in less property tax revenue raised. The reduction in property values has decimated the tax bases that support state and local budgets. A National League of Cities survey found that foreclosures and the declining housing market are among the leading causes of fiscal budget crises.⁵ As a result, cities are hard-pressed to pay for services like libraries, parks, police and fire.

Foreclosures require police and other services, further draining local government coffers.

Local government agencies have to spend money and staff time on blighted foreclosed properties, providing maintenance, inspections, increased public safety calls, and other code enforcement services. In addition, violent crime increases 2.33% for every 1% increase in foreclosures.⁶ Altogether, a single foreclosure can cost local governments between \$5,000 and \$34,000.⁷

The foreclosure crisis is also an unemployment crisis.

In 2009, unemployment began to be the main driver of foreclosures, overtaking subprime mortgages.⁸ The main programs to help borrowers are based on interest rate or principal reduction. However, if borrowers have lost their jobs or had their wages or hours cut, and are unable to meet even the lower payment levels, these programs cannot help.

City of San Diego Foreclosures, 2008 – 2012*

Foreclosures projected in the City of San Diego.....	56,689
Homeowner wealth lost.....	\$19.2 billion
Property taxes lost**	\$117 million
Loss to Local Governments	\$134 million – \$855 million

* Foreclosure data from RealtyTrac. Data is for zip codes fully or partially within the City of San Diego. City of San Diego, since City boundaries do not exactly match zip codes. 2011 - 2012 numbers are projections based upon recent trends.

** Amounts reflect property taxes lost to all government jurisdictions, not just City of San Diego.

The Cost of the Foreclosure Crisis in the City of San Diego, 2008-2012*

	Total Foreclosures*	Home Value Lost ¹	Property Taxes Lost ²	Cost to Local Government	Cost to Local Government
				(low) ³	(high) ³
California	1,874,219	\$632,321,429,854	\$3,857,160,722	\$4,857,262,752	\$31,002,898,256
City of San Diego	56,689	\$19,204,209,950	\$117,145,681	\$133,868,558	\$854,455,175
92014	258	\$87,469,562	\$533,564	\$581,879	\$3,714,011
92037	1,133	\$383,754,918	\$2,340,905	\$2,162,489	\$13,802,716
92067	271	\$91,873,529	\$560,429	\$533,657	\$3,406,220
92101	3,113	\$1,054,716,244	\$6,433,769	\$8,308,115	\$53,028,969
92102	2,386	\$808,297,346	\$4,930,614	\$5,248,697	\$33,501,340
92103	1,179	\$399,473,693	\$2,436,790	\$2,655,425	\$16,949,024
92104	1,964	\$665,202,292	\$4,057,734	\$4,697,894	\$29,985,683
92105	3,762	\$1,274,304,819	\$7,773,259	\$9,112,886	\$58,165,659
92106	467	\$158,339,556	\$965,871	\$885,142	\$5,649,675
92107	633	\$214,507,074	\$1,308,493	\$1,454,161	\$9,281,609
92108	1,240	\$419,935,201	\$2,561,605	\$3,057,275	\$19,513,949
92109	1,442	\$488,501,581	\$2,979,860	\$2,844,026	\$18,152,829
92110	872	\$295,336,809	\$1,801,555	\$2,027,467	\$12,940,902
92111	1,561	\$528,747,065	\$3,225,357	\$3,730,240	\$23,809,344
92113	2,768	\$937,570,719	\$5,719,181	\$6,459,605	\$41,230,314
92114	4,285	\$1,451,479,803	\$8,854,027	\$10,236,995	\$65,340,609
92115	2,939	\$995,703,085	\$6,073,789	\$7,306,169	\$46,633,756
92116	1,578	\$534,709,359	\$3,261,727	\$3,727,025	\$23,788,824
92117	1,410	\$477,661,047	\$2,913,732	\$3,081,922	\$19,671,265
92119	842	\$285,309,315	\$1,740,387	\$2,262,148	\$14,438,818
92120	954	\$323,183,432	\$1,971,419	\$2,189,279	\$13,973,711
92121	126	\$42,616,851	\$259,963	\$326,838	\$2,086,139
92122	1,125	\$380,977,031	\$2,323,960	\$2,600,773	\$16,600,195
92123	848	\$287,409,668	\$1,753,199	\$1,947,097	\$12,427,917
92124	404	\$136,929,500	\$835,270	\$888,356	\$5,670,194
92126	2,961	\$1,002,952,692	\$6,118,011	\$6,938,610	\$44,287,705
92127	1,741	\$589,928,331	\$3,598,563	\$3,683,089	\$23,508,393
92128	1,824	\$617,842,707	\$3,768,841	\$3,917,770	\$25,006,309
92129	1,598	\$541,213,680	\$3,301,403	\$3,281,239	\$20,943,468
92130	1,281	\$433,960,143	\$2,647,157	\$2,554,694	\$16,306,083
92131	1,620	\$548,666,547	\$3,346,866	\$4,419,278	\$28,207,335
92139	2,358	\$798,947,385	\$4,873,579	\$6,123,122	\$39,082,617
92154	4,395	\$1,488,879,647	\$9,082,166	\$10,976,399	\$70,060,071
92173	1,350	\$457,470,552	\$2,790,570	\$3,648,798	\$23,289,519

*Foreclosure numbers from RealtyTrac. Data is for zip codes associated with the City of San Diego. City of San Diego totals are estimates as city boundaries do not strictly match zip codes. 2011 - 2012 numbers are projections based upon recent trends.

Note: Zip codes with 0 foreclosures are not shown. 92134 had one foreclosure and is not shown.

Methodology:

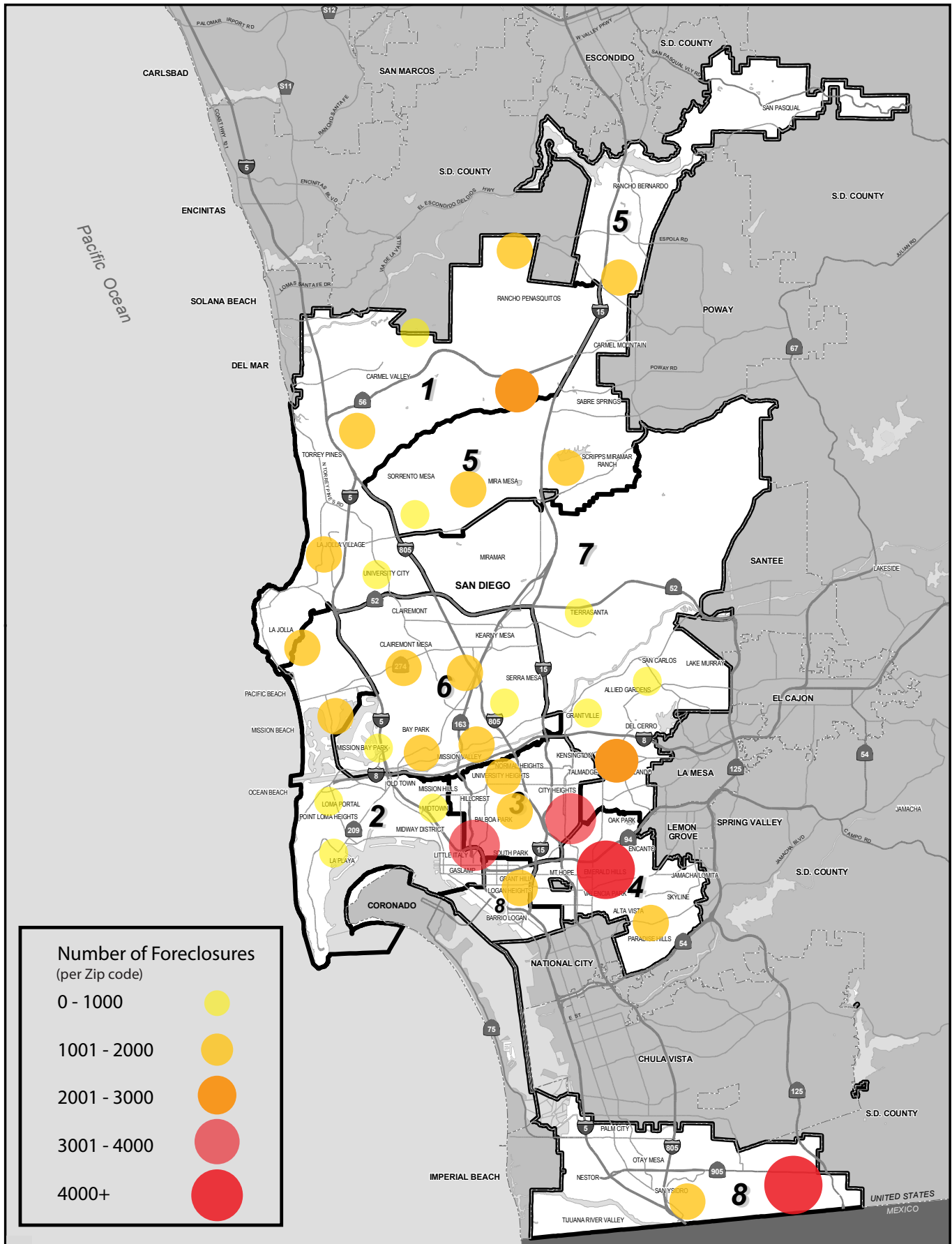
¹ Direct impact to foreclosed homes was calculated using median home value for a principal city of a Metropolitan Statistical Area (2007) from the U.S. Census, number of foreclosures from RealtyTrac and the most conservative decline of 22% based on *The Value of Foreclosed Property*, Anthony Pennington-Cross, Marquette University.

Neighboring home value decline was calculated using median home value for a principal city of a Metropolitan Statistical Area (2007) from the U.S. Census, number of foreclosures from RealtyTrac and decline in value of 0.774% based on *Soaring Spillover: Accelerating Foreclosures Cost Neighbors \$502 Billion in 2009 Alone*, Center for Responsible Lending. Decline is calculated to impact homes within 1/8 mile radius of a foreclosure (approximately 50 homes) based on *The External Costs of Foreclosure: The Impact of Single-Family Mortgage Foreclosures on Property Values*, Dan Immergluck, Georgia Institute of Technology and Geoff Smith, Woodstock Institute.

² Property tax losses were estimated using lost home values (foreclosed and impacted homes as described in previous footnote) and an effective tax rate of 0.61% from the U.S. Census and Tax Foundation. Amounts reflect property taxes lost to all government jurisdictions, not just City of San Diego.

³ Based on *The Municipal Cost of Foreclosures: A Chicago Case Study*, the cost to local government of unsecured foreclosed homes ranges from \$5,358 to \$34,199. Estimates use a conservative method of calculation, using only REOs (bank-owned properties) to calculate the cost.

Foreclosures in the City of San Diego, 2008-2012*



*Foreclosure numbers from RealtyTrac. Data is for zip codes associated with the City of San Diego. City of San Diego totals are estimates as city boundaries do not strictly match zip codes. 2011 - 2012 numbers are projections based upon recent trends.

Note: Zip codes with 0 foreclosures are not shown. 92134 had one foreclosure and is not shown.

Foreclosure: The Cost Communities Pay



Recommendations

Analyses indicate that lack of oversight and lax regulation contributed significantly to the foreclosure crisis. Most of the options available for stemming the foreclosure crisis are available only at the state and federal level. All of the options – legislation, regulation and assistance programs – are moving slowly.

Action must be taken both to stem the foreclosure crisis and to mitigate the negative impacts of large numbers of foreclosed properties on local economies and local government.

Appropriate solutions are available:

1. Create local registries for foreclosed properties. This could assist cities in allocating resources to better enforce proper maintenance of foreclosed properties.
2. Fine financial institutions for not properly maintaining foreclosed properties they own. Nuisance properties should carry penalties for the financial harm caused to neighborhoods and local governments.
3. Recover local governments' expenditures on maintaining foreclosed and blighted properties from the financial institutions responsible for the properties.
4. Require financial institutions to accept loan modifications that include principal reduction.
5. Strengthen regulation and increase oversight through the federal Consumer Finance Protection Bureau.
6. Create and protect jobs with good wages and benefits that enable homeowners to make payments and stay in their homes.

End notes

¹ Foreclosure Settlement Divides State Attorneys General. Brady Dennis, The Washington Post. June 7, 2011.

² The Value of Foreclosed Property. Anthony Pennington-Cross, Marquette University. 2006.

³ Soaring Spillover: Accelerating Foreclosures Cost Neighbors \$502 Billion in 2009 Alone. Center for Responsible Lending.

⁴ Consumer Finance: Tapping Home Equity in Retirement. Amy Hoak, Wall St. Journal. March 17, 2011.

⁵ Housing Finance and Foreclosure Crisis: Local Impacts and Responses. Christina McFarland and William McGahan, National League of Cities. April 2008.

⁶ The Impact of Single-Family Mortgage Foreclosures on Neighborhood Crime. Daniel Immergluck and Geoff Smith, Federal Reserve Bank of Chicago. 2005.

⁷ The Municipal Cost of Foreclosures: A Chicago Case Study. William Aggar, Mark Duda and Rochelle Nawrocki Gorey, Homeownership Preservation Foundation. 2005.

⁸ Unemployment Spike Compounds Foreclosure Crisis. Renae Merle, The Washington Post. August 18, 2009.

For more information, please contact

David Lagstein

(619) 754-9407

www.calorganize.org

Corinne Wilson

(619) 584-5744 x23

www.onlineCPI.org