FURMAN CENTER
FOR REAL ESTATE & URBAN POLICY
NEW YORK UNIVERSITY
SCHOOL OF LAW • WAGNER SCHOOL OF PUBLIC SERVICE

Foreclosure Crisis in New York City:
Causes and Consequences

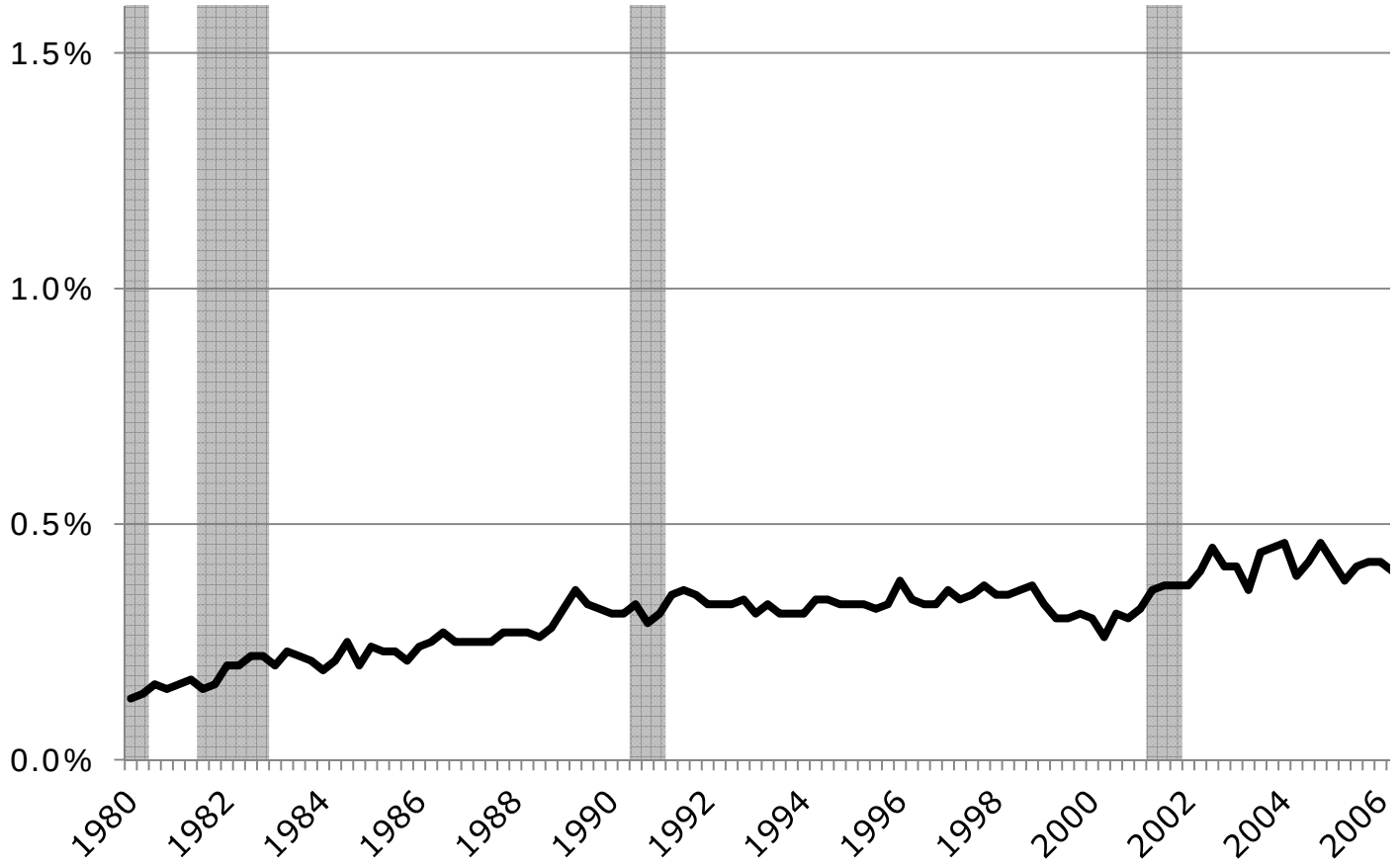
American Planning Association: New York Metro Chapter

Max Weselcouch

February 16, 2012

Foreclosure Start Rates

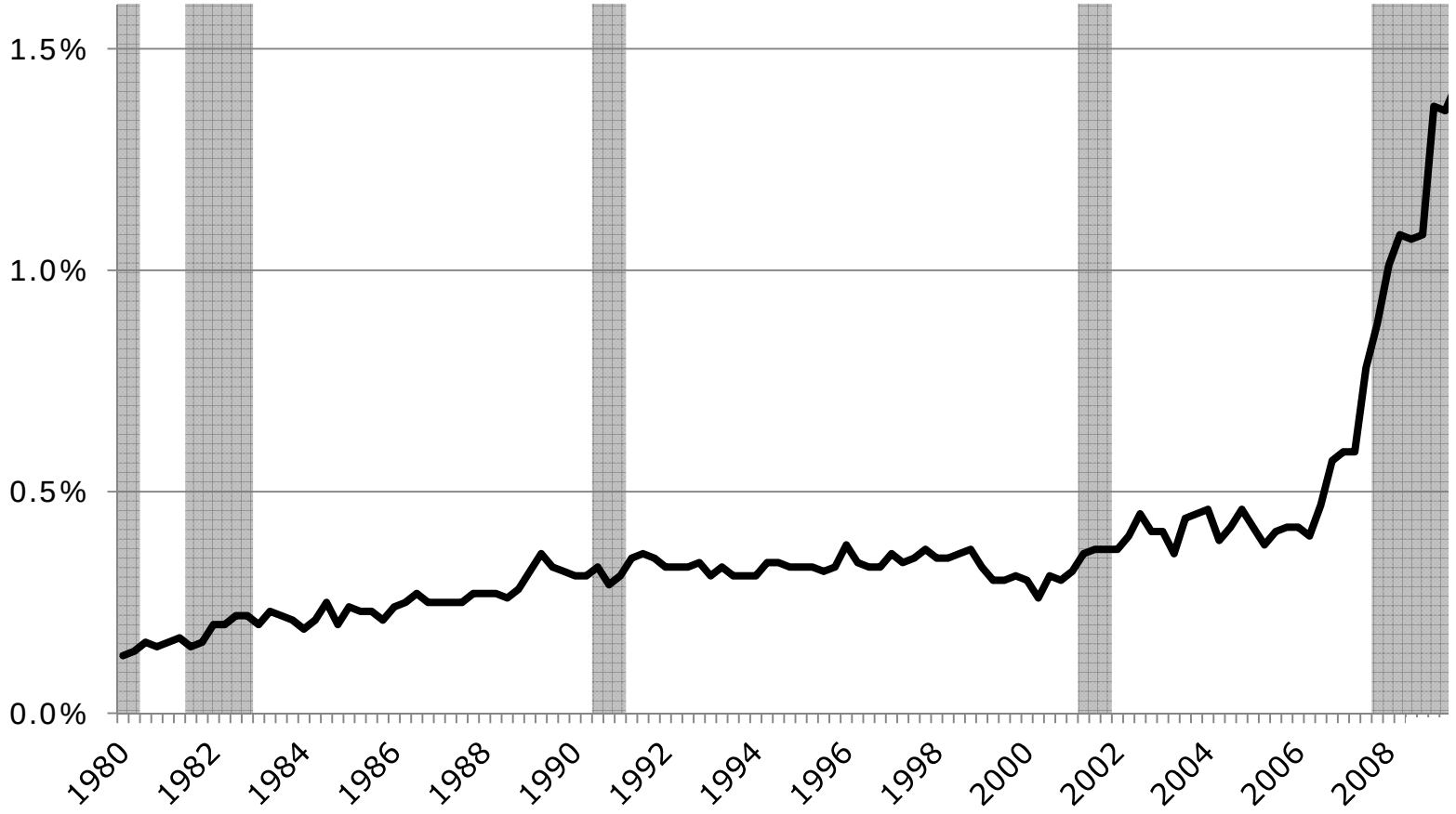
United States, Quarterly



Source: Mortgage Bankers Association, National Delinquency Survey

Foreclosure Start Rates

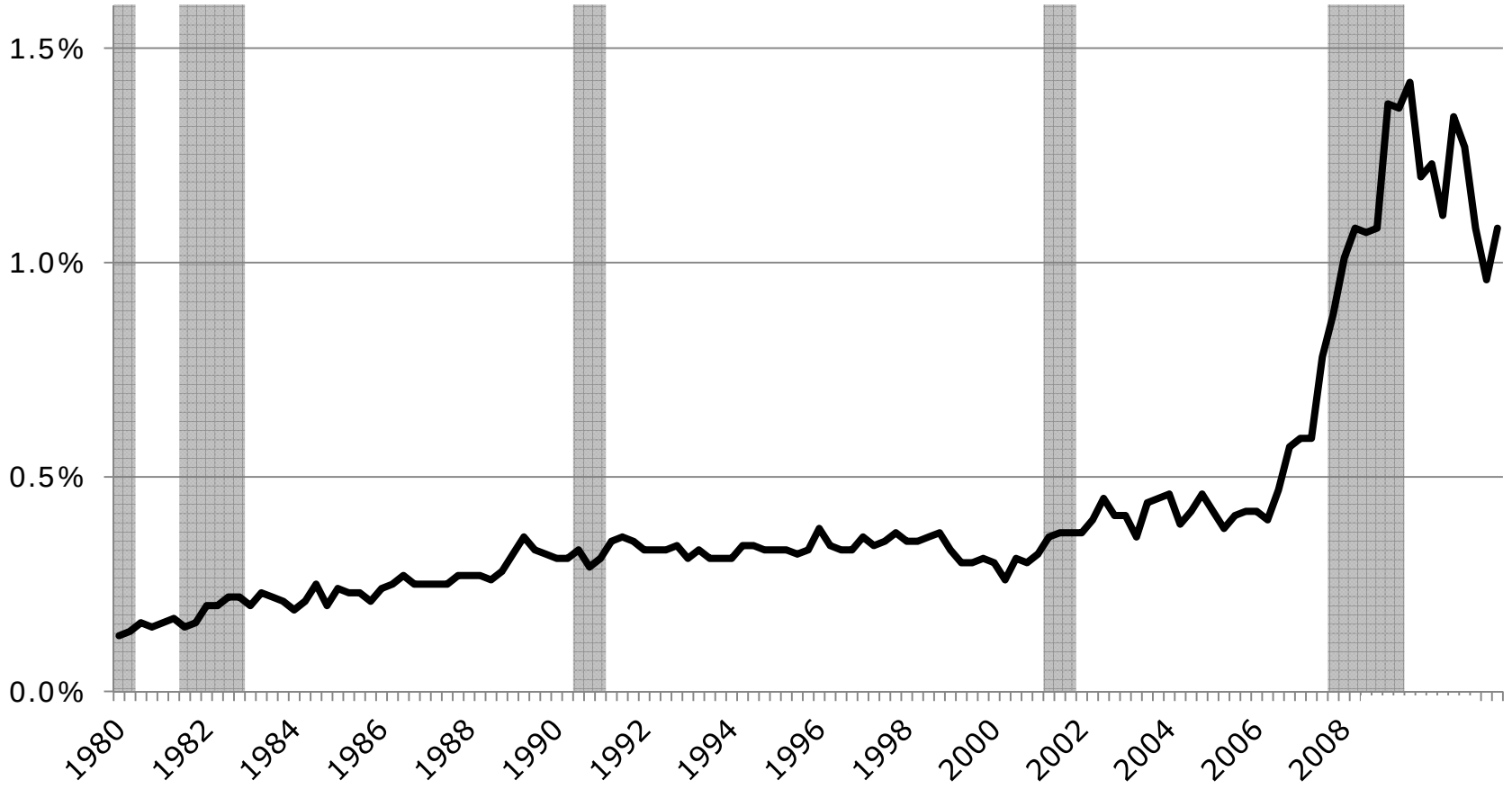
United States, Quarterly



Source: Mortgage Bankers Association, National Delinquency Survey

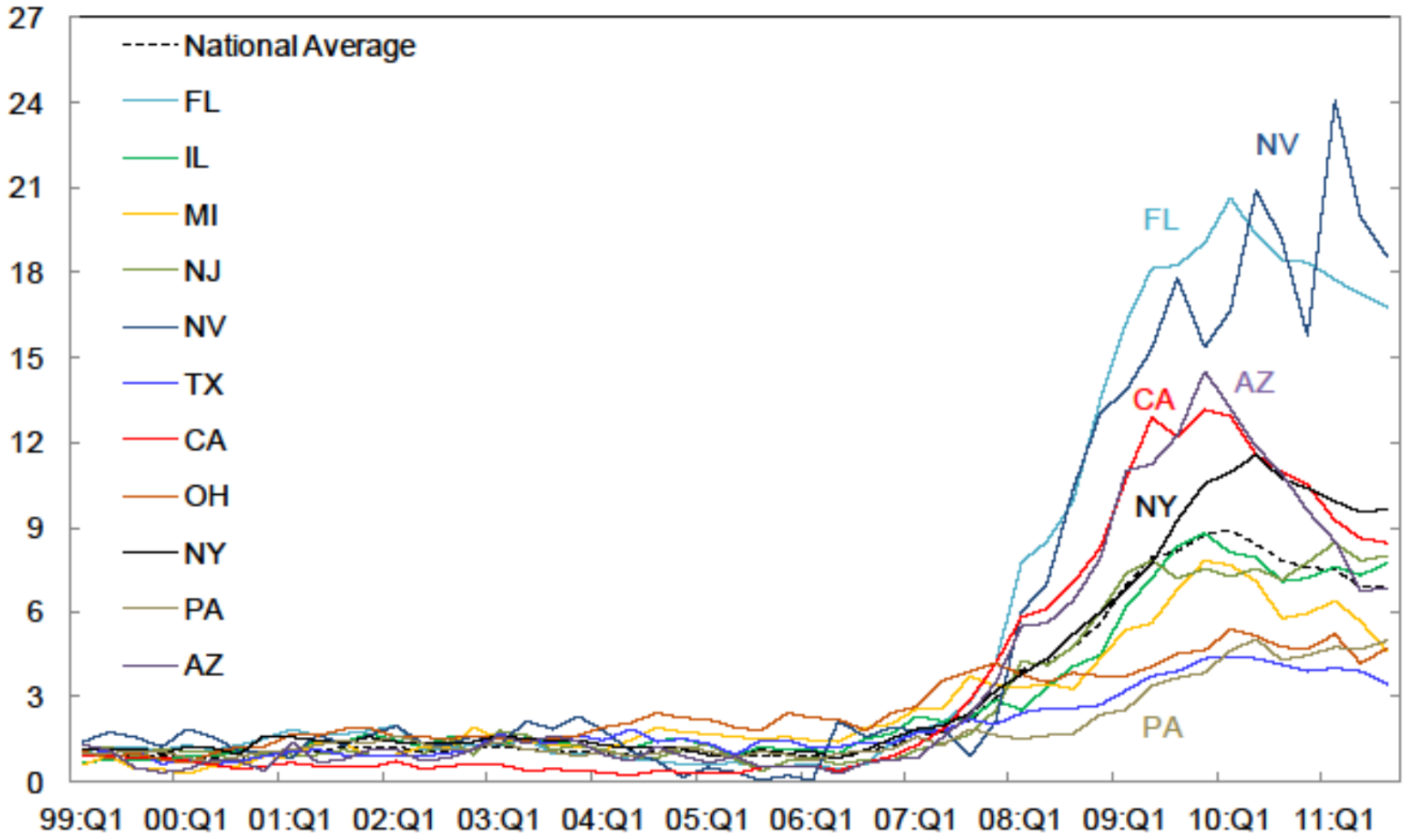
Foreclosure Start Rates

United States, Quarterly



Source: Mortgage Bankers Association, National Delinquency Survey

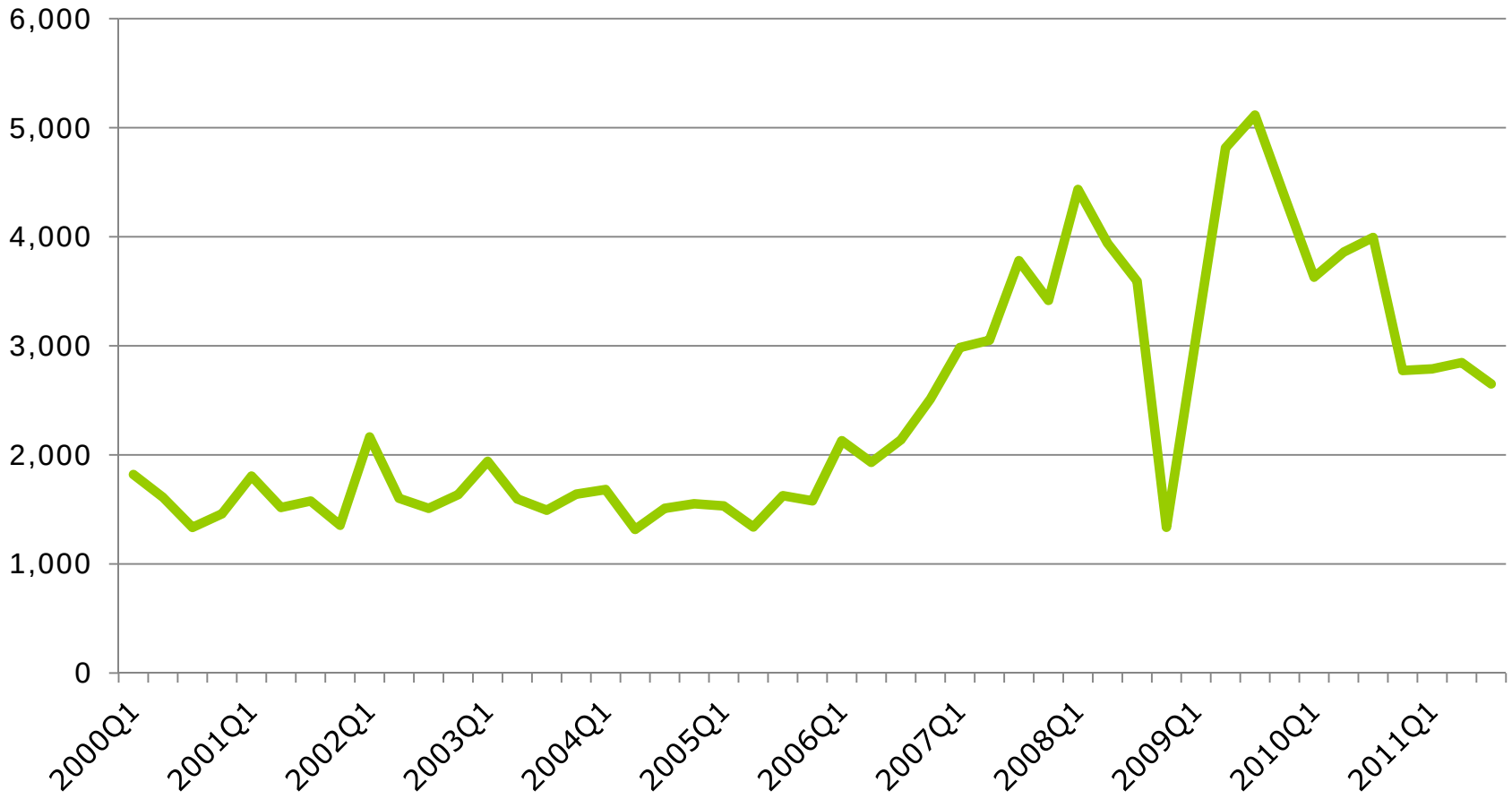
Percent of Mortgage Debt 90+ Days Past Due, by State



Source: Federal Reserve Bank of New York

Foreclosure Starts

New York City, Quarterly



Source: Public Data Corporation, Furman Center

Foreclosures in the US & NYC

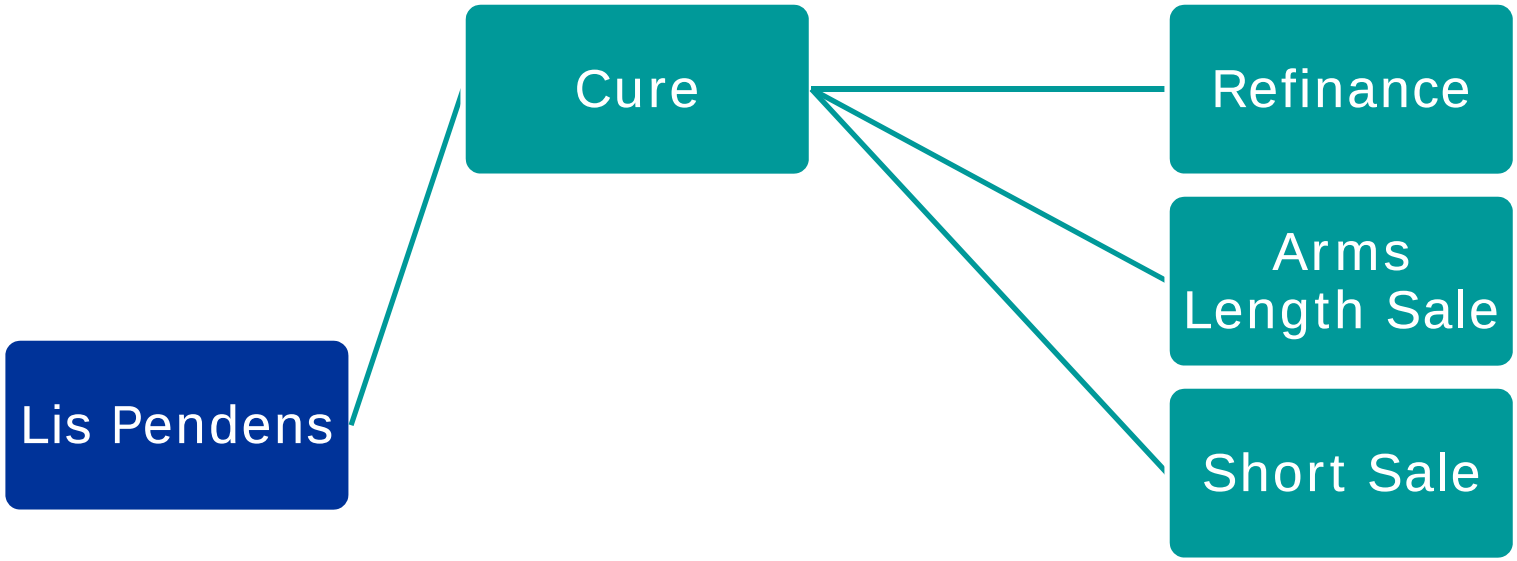
	2005	2006	2007	2008	2009	2010	2011
Bronx	829	1,254	1,660	1,628	1,962	1,974	1,617
Brooklyn	2,586	3,569	5,310	5,067	6,984	6,240	4,772
Manhattan	179	207	262	334	724	722	536
Queens	2,457	3,716	5,964	6,235	8,294	6,246	4,158
Staten Island	784	989	1,262	1,538	2,138	1,729	1,059
New York City	6,835	9,735	14,458	14,802	20,102	16,911	12,142
U.S.	885,462	1,259,098	2,203,295	3,157,806	3,957,643	3,825,637	2,698,967

Source: Public Data Corporation, Furman Center, Realty Trac

Foreclosure Process in NYC

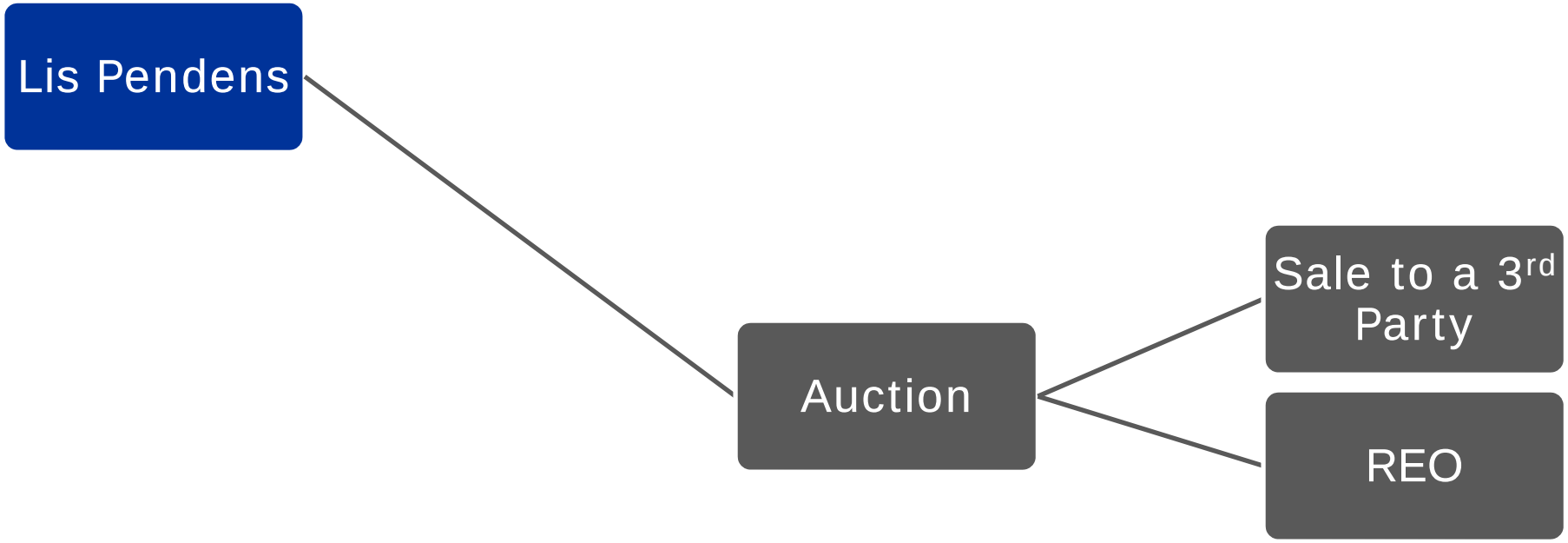
Lis Pendens

Foreclosure Process in NYC

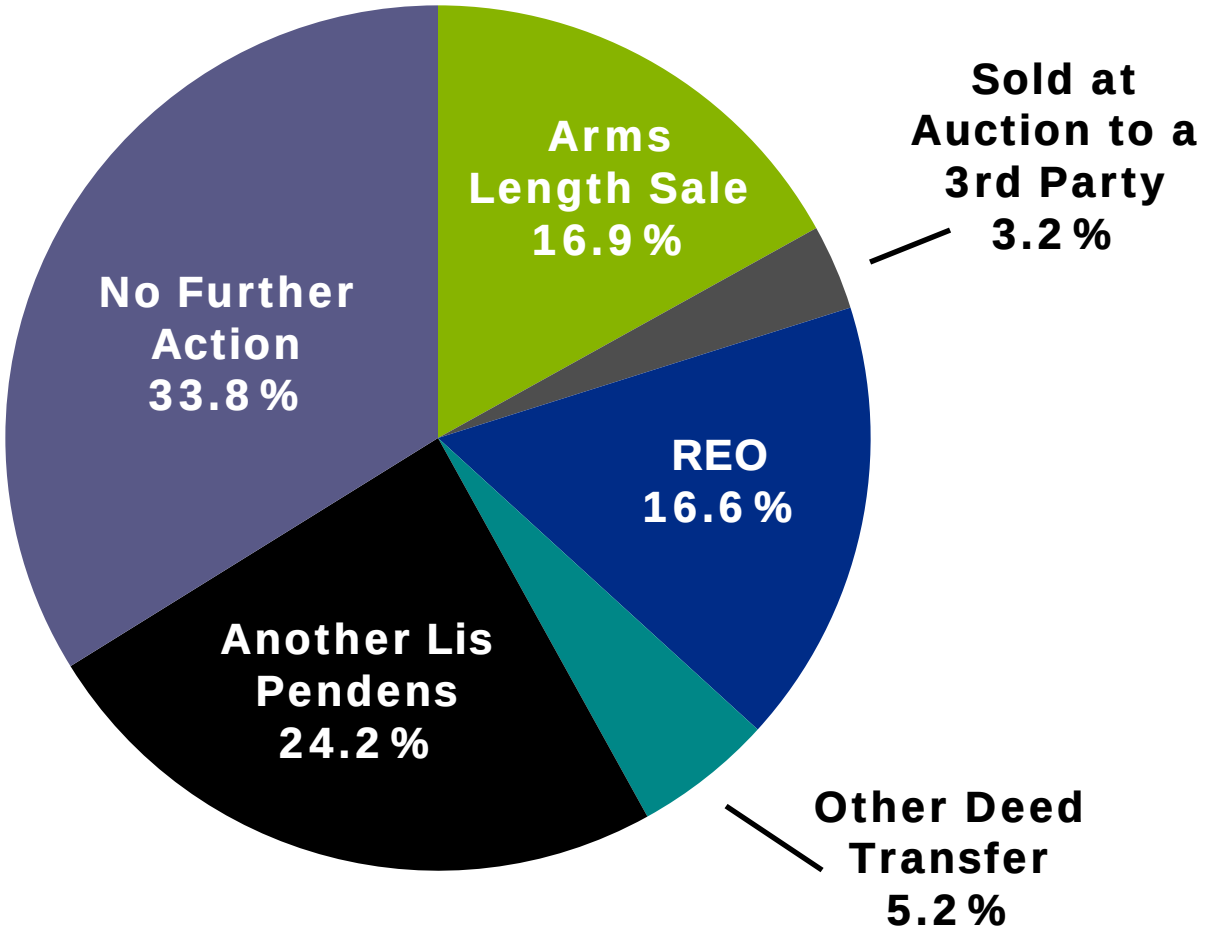


Foreclosure Process in NYC

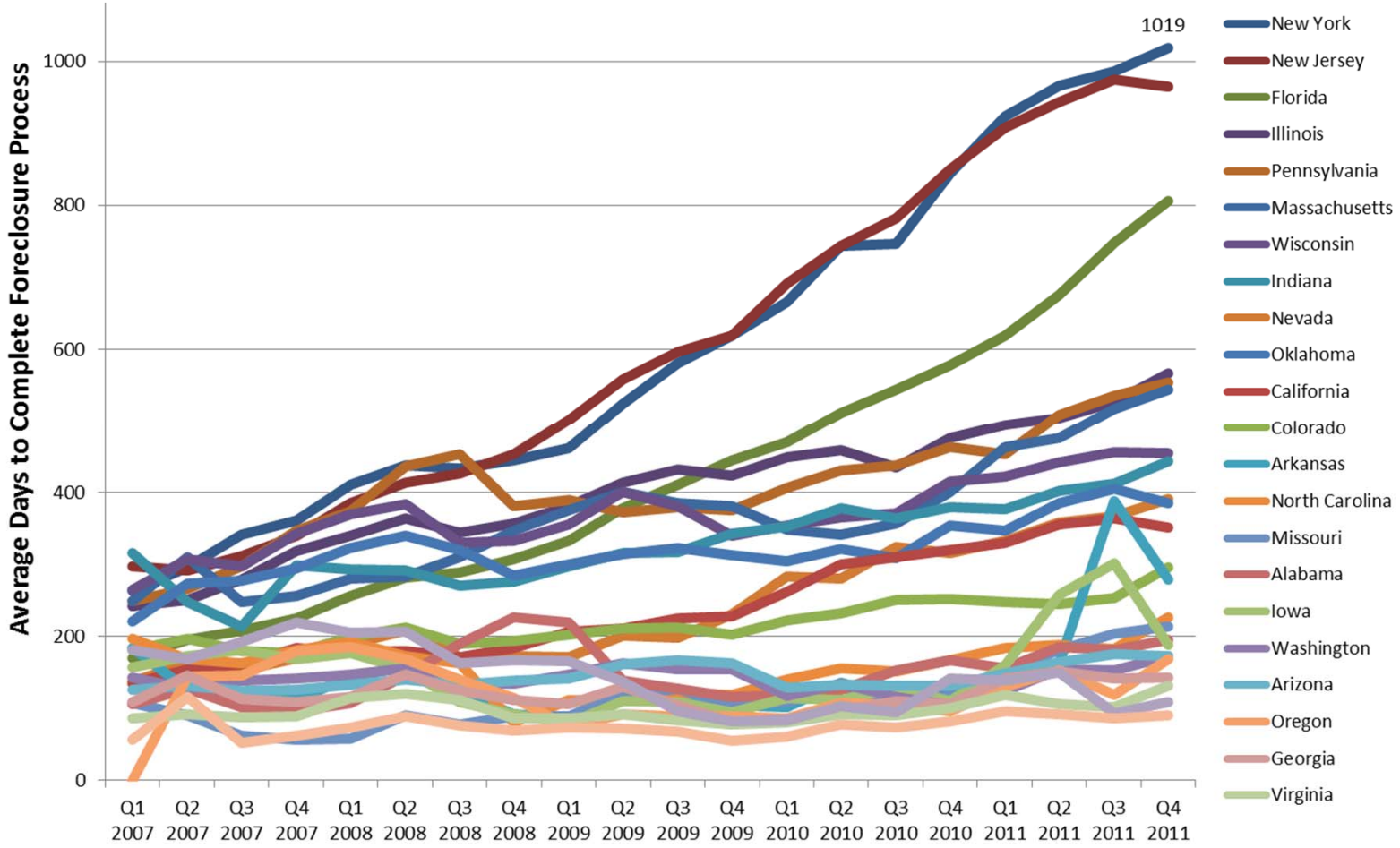
Foreclosure Process in NYC



Outcomes of Properties that Received a Lis Pendens in 2007



State Foreclosure Timelines



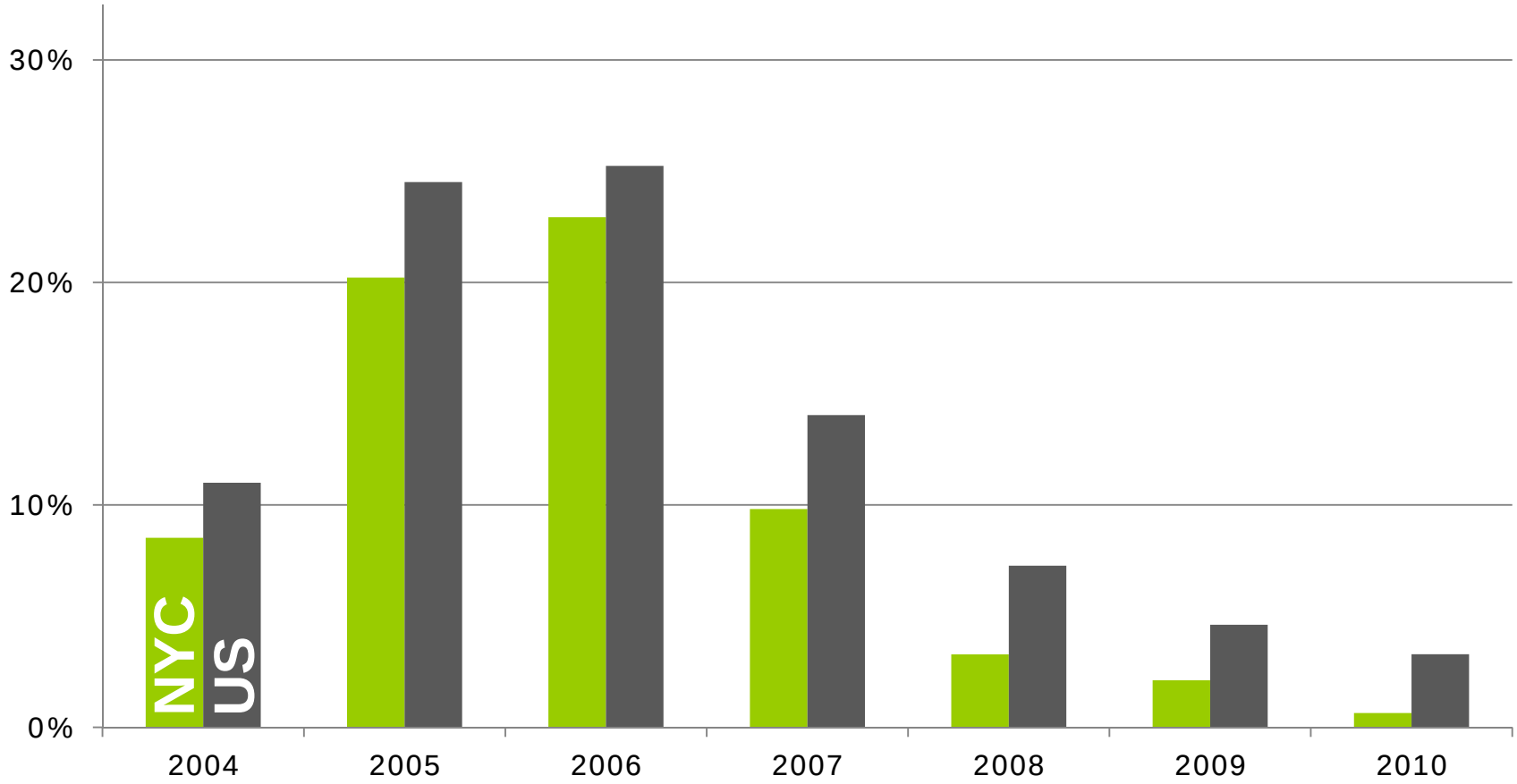
Source: Realty Trac

Reasons for Rise in Foreclosures

- Risky underwriting
  - Over-leveraged borrowers
  - High debt to income ratios
- Economic downturn
  - Job losses among borrowers
- Fall in house prices

High Cost Lending Rate

Conventional, First-lien, Home Purchase Loans

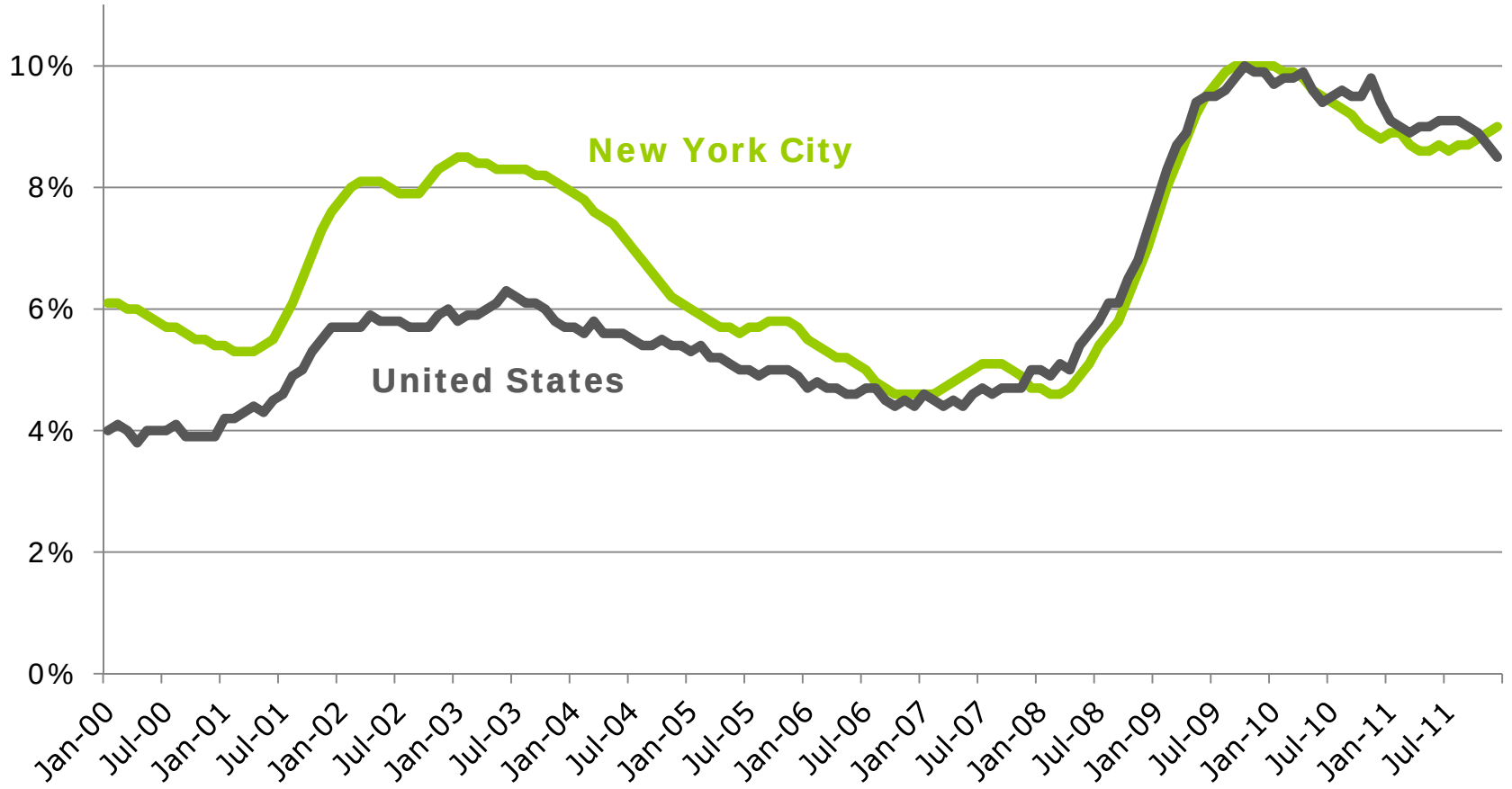


Source: Home Mortgage Disclosure Act, Furman Center

Loan-to-Value at Origination
Median, 1-4 Family Homes and Condos

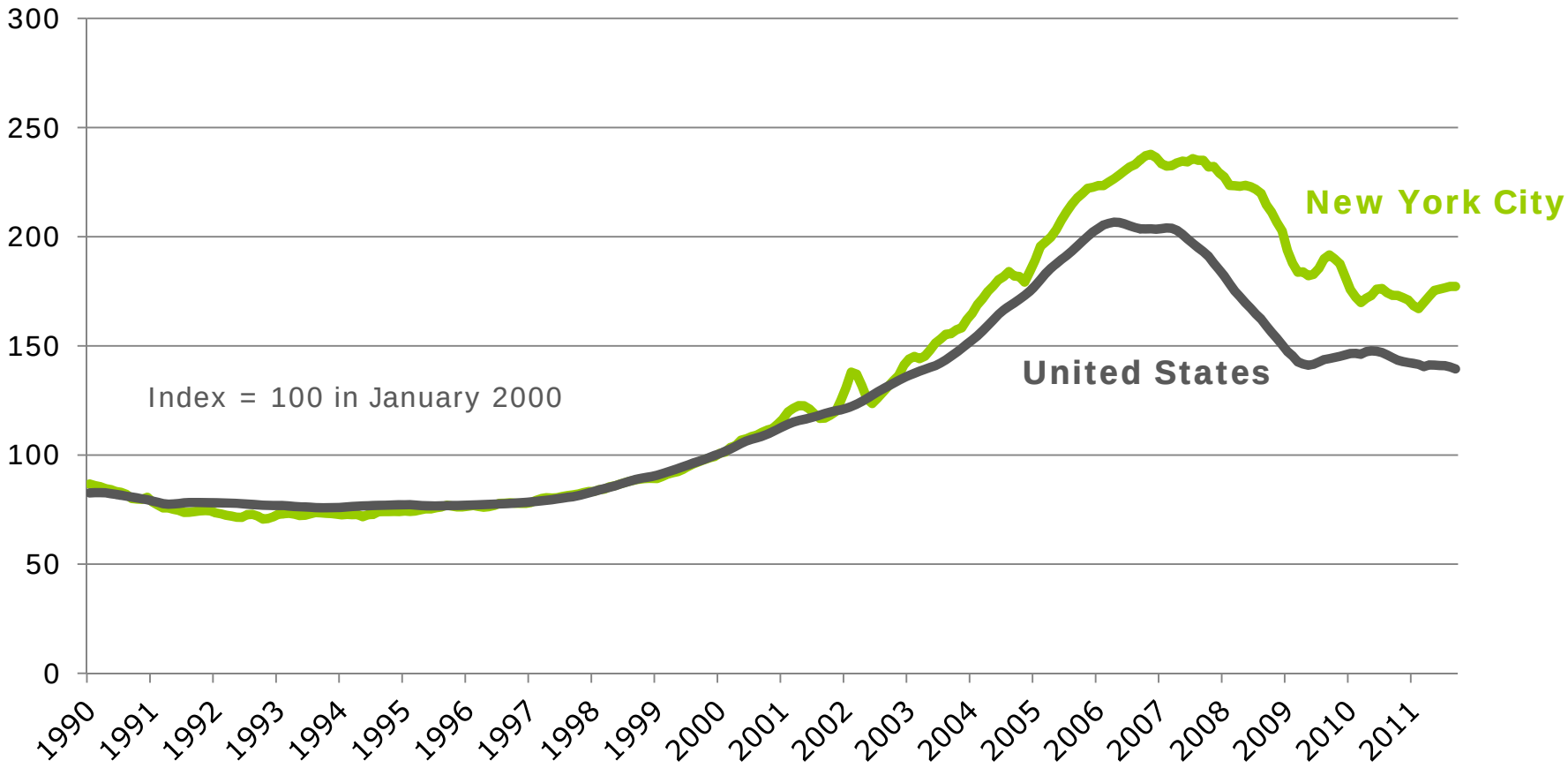
	2003	2006
New York City	0.90	0.94
Bronx	0.90	0.95
Brooklyn	0.89	0.93
Manhattan	0.84	0.80
Queens	0.90	0.95
Park Slope/Carroll Gardens	0.80	0.80
Brownsville	0.95	1.00
Bayside	0.75	0.80
Jamaica	0.95	1.00

Unemployment Rose Dramatically



Source: Public Data Corporation, Furman Center

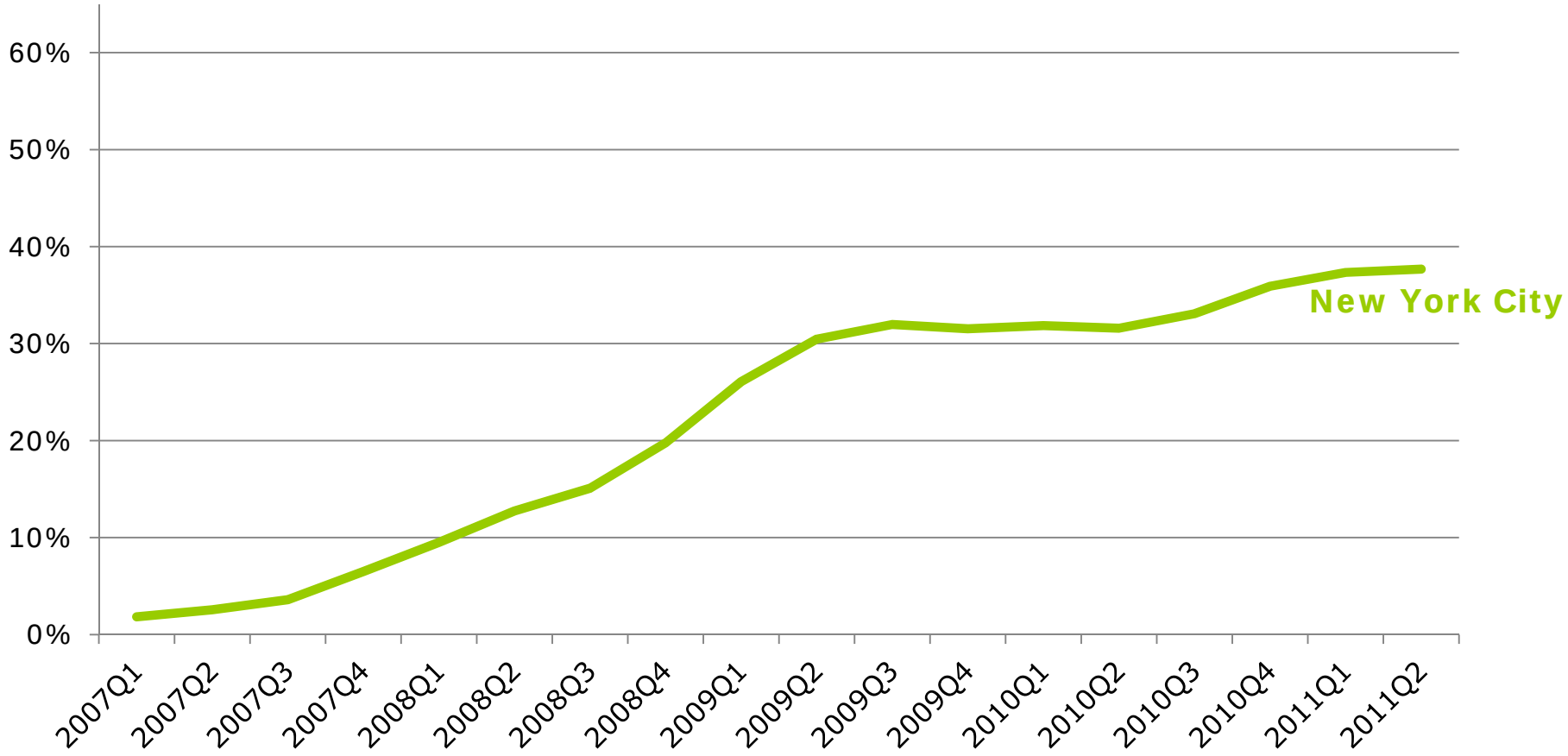
Housing Price Indexes



Source: Case-Shiller House Price Indexes, NYC Dept. of Finance, Furman Center

Share of Loans Underwater

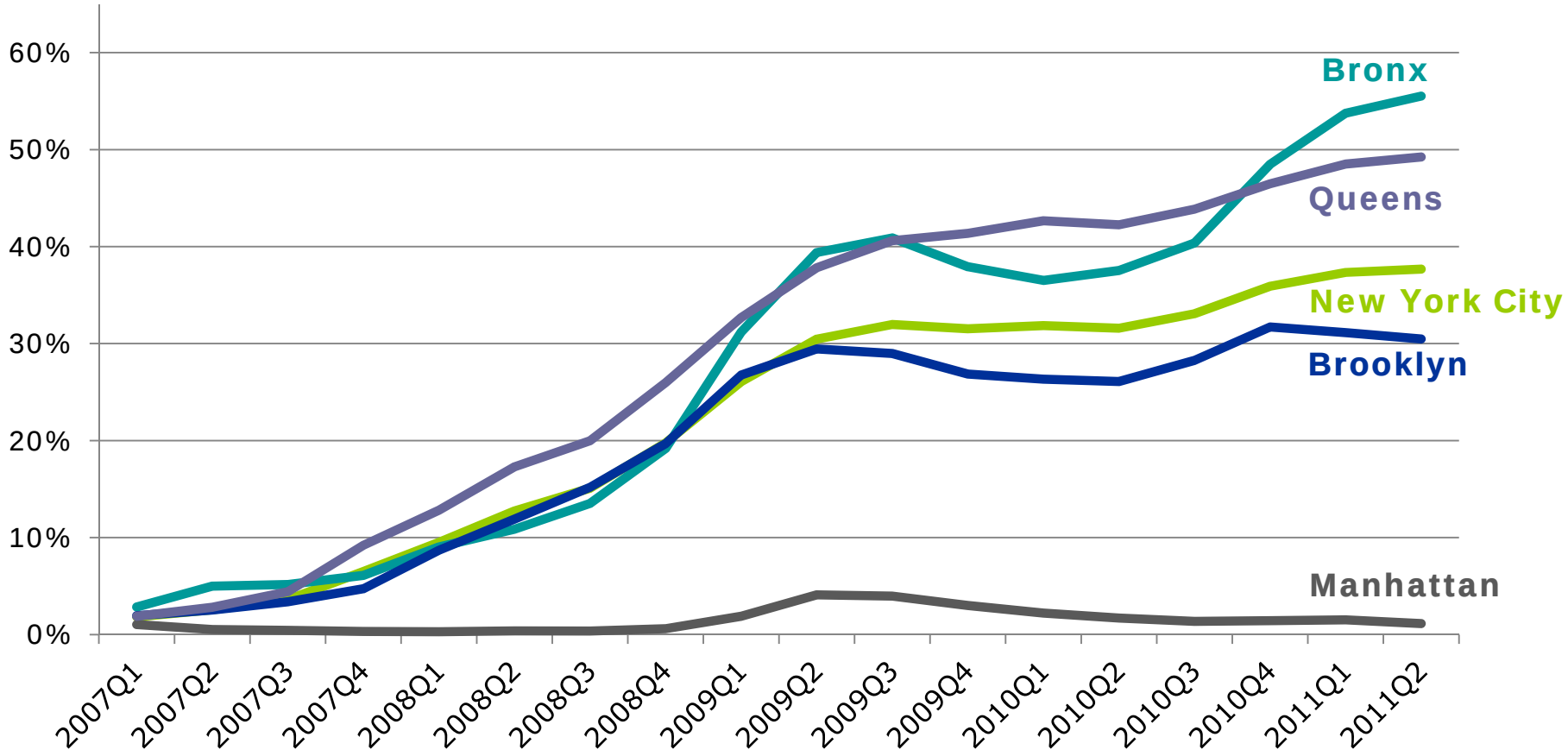
1-4 Family Homes and Condos, purchased since 2003



Source: NYC Department of Finance, Furman Center

Share of Loans Underwater

1-4 Family Homes and Condos, purchased since 2003



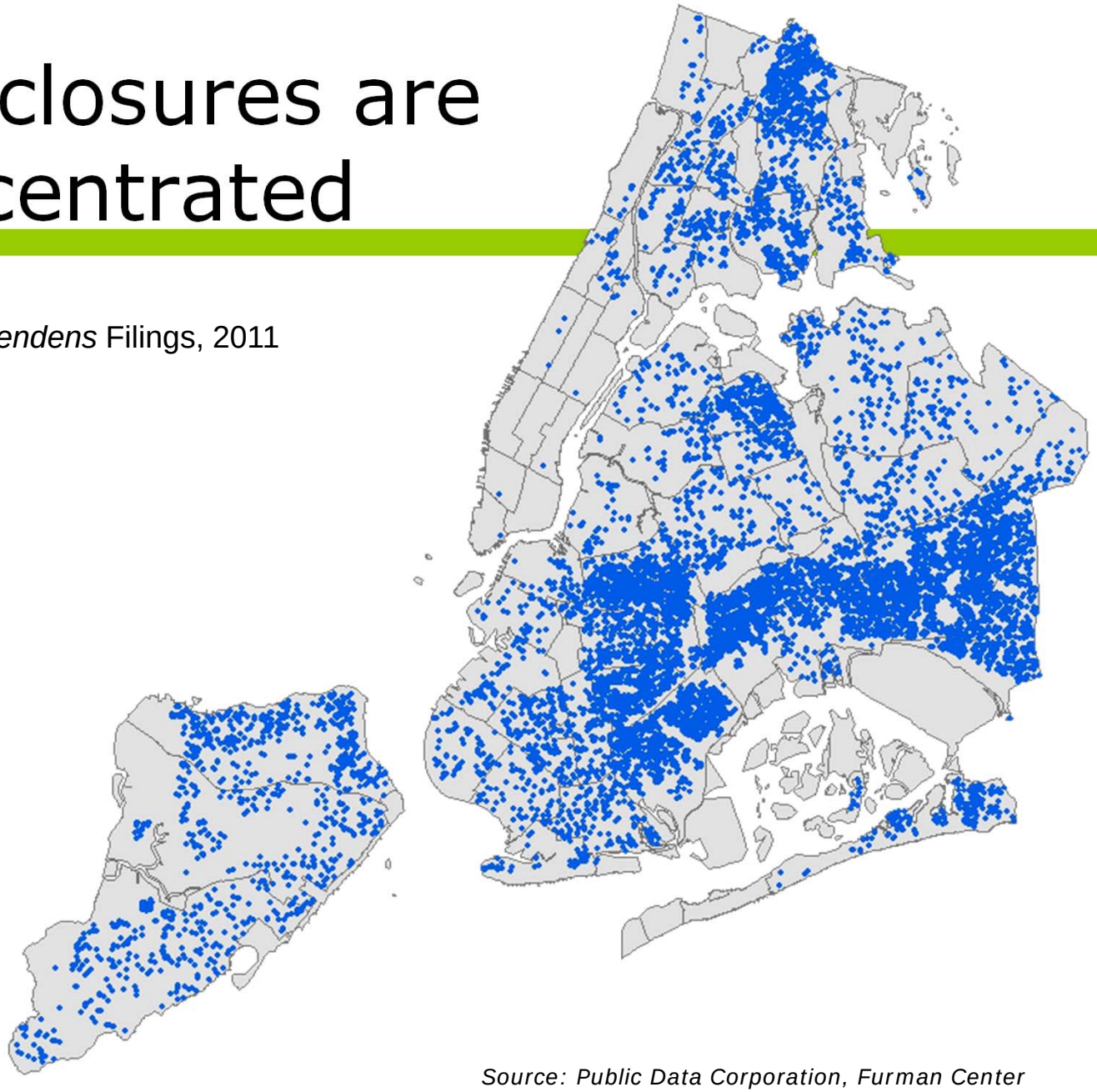
Source: Public Data Corporation, Furman Center

Why Should We Care?

- Foreclosures are concentrated
- Foreclosures cause property values to fall
- Foreclosures are associated with increased crime
- Renters are affected by foreclosure
- Children are affected by foreclosure

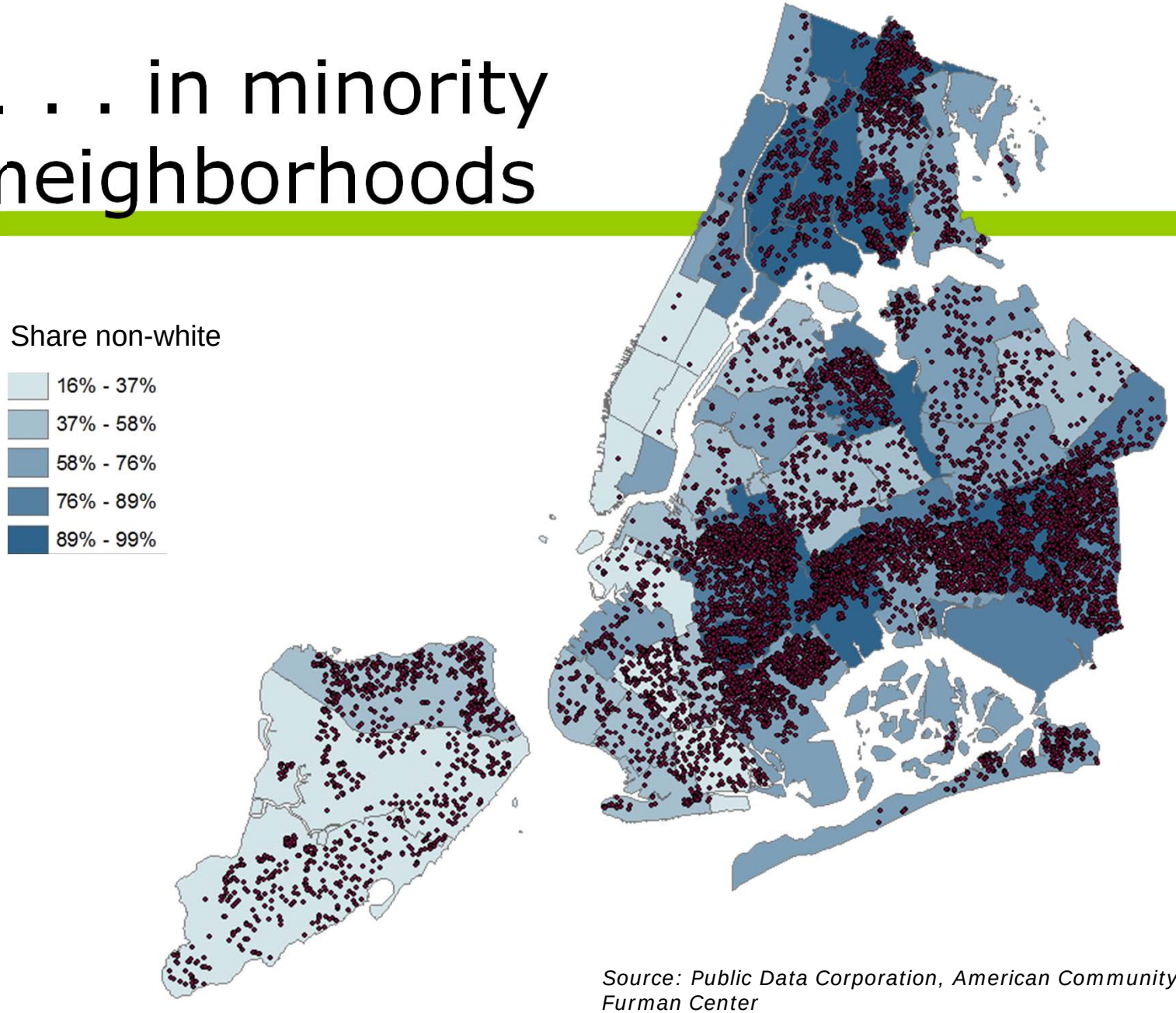
Foreclosures are Concentrated

Lis Pendens Filings, 2011



Source: Public Data Corporation, Furman Center

. . . in minority neighborhoods



Source: Public Data Corporation, American Community Survey, Furman Center

Is currently REO
Was REO
Went to Auction
Got an LP
Not in Foreclosure

Why Should We Care?

- Foreclosures are concentrated
- Foreclosures cause property values to fall
- Foreclosures are associated with increased crime
- Renters are affected by foreclosure
- Children are affected by foreclosure

Neighborhood Effects: Surrounding Property Values Fall

- One *lis pendens* within 250 feet reduces the sale price of a home by 2%

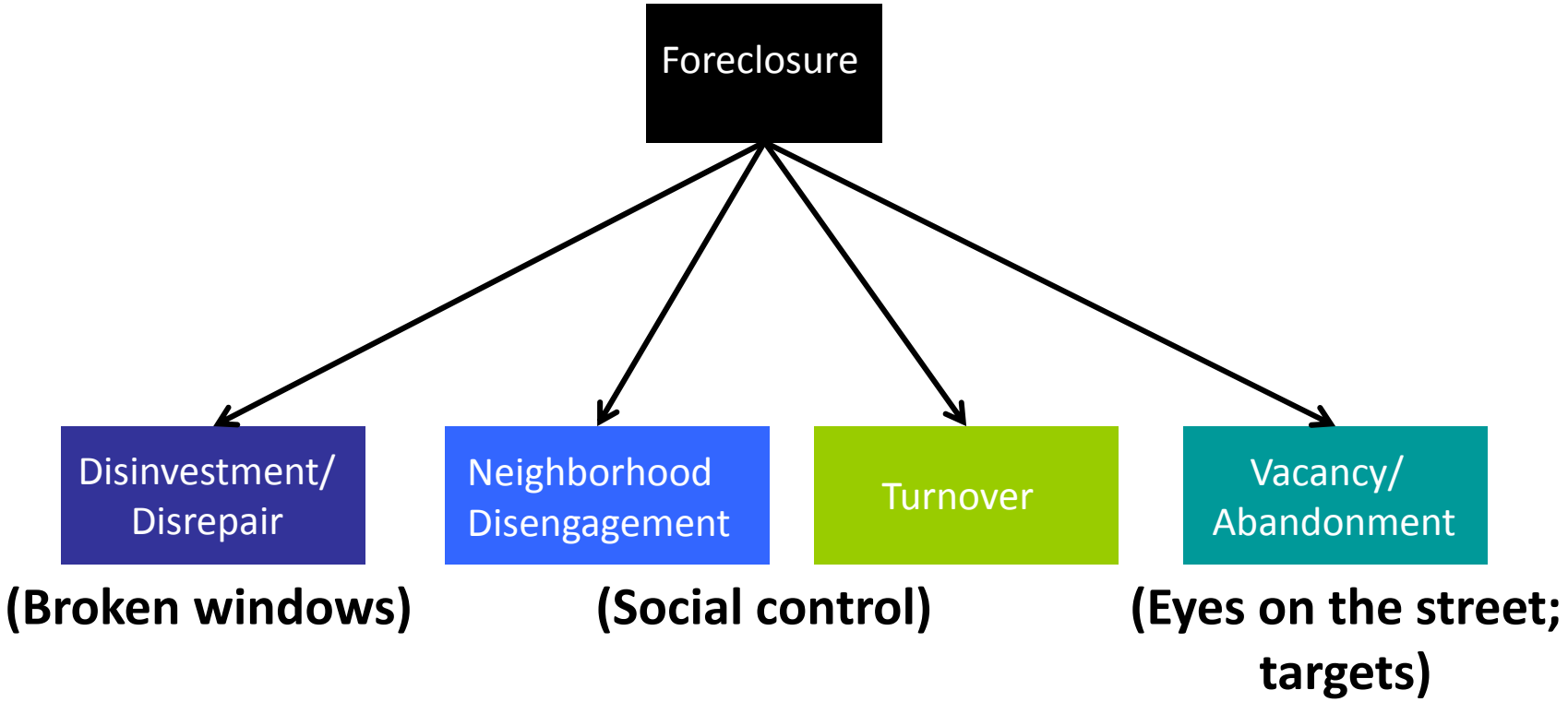
- Three *lis pendens* within 500 feet reduces the sale price of a home by 3%

Source: Schuetz, J., Been, V., and Ellen, I.G. (2008). "Neighborhood Effects of Concentrated Mortgage Foreclosures." *Journal of Housing Economics:* 17(4).

Why Should We Care?

- Foreclosures are concentrated
- Foreclosures cause property values to fall
- Foreclosures are associated with increased crime
- Renters are affected by foreclosure
- Children are affected by foreclosure

Neighborhood Effects:
How might foreclosures affect crime?



Neighborhood Effects:
Increase in Crime

- An increase in foreclosure activity on a given blockface is correlated with an increase in crime on the blockface.
  - No evidence that crime today predicts future foreclosure activity.
- Effects are strongest for violent crime and public order crime.

Source: Ellen, I., Lacoe, J., and Sharygin, C. (2012). "Do Foreclosures Cause Crime." Furman Center Working Paper.

Why Should We Care?

- Foreclosures are concentrated
- Foreclosures cause property values to fall
- Foreclosures are associated with increased crime
- Renters are affected by foreclosure
- Children are affected by foreclosure

Estimated Share of Households in Foreclosed Buildings Who Are Renters

	2008	2009	2010	2011
Bronx	62.9%	69.3%	66.7%	65.1%
Brooklyn	57.4%	59.3%	61.0%	56.7%
Manhattan	87.4%	77.7%	96.0%	88.9%
Queens	40.0%	39.6%	41.6%	38.6%
Staten Island	27.1%	26.3%	25.9%	26.5%
NYC	52.6%	54.4%	66.5%	56.8%

Why Should We Care?

- Foreclosures are concentrated
- Foreclosures cause property values to fall
- Foreclosures are associated with increased crime
- Renters are affected by foreclosure
- Children are affected by foreclosure

Household Effects:
School Mobility

- Children living in foreclosed homes are more likely to change schools.

- New schools tend to be of poorer quality.

Loan Modifications

- From November 2007 through March 2011, over 2.1 million mortgages were modified[1]
- Successful modifications could benefit the
  - Borrower
  - Lender
  - Servicer
  - Neighborhood

1. Office of the Comptroller of the Currency. *OCC Mortgage Metrics Report for the Second Quarter of 2011.* September 2011

HAMP

- Introduced in 2009
- Borrower eligibility
  - Delinquent on loan (or at imminent risk of default)
  - Owner occupied property
  - Mortgage originated before January 1, 2009
  - Mortgage balance less than $729,750
- Monthly payments are reduced to 31% of a borrower's income by:
  - Reducing the interest rate
  - Extending the loan term
  - Forbearing principal (and waive interest on deferred amount)
  - *(Servicers may also forgive principal at any step in the process)*

Loan Modifications

- Delinquent loans are more likely to be modified:
  - if they are non-prime
  - as LTV rises
  - if borrowers have not already experienced a large drop in their credit score
  - if the borrower received foreclosure counseling

Performance of Loan Modifications

- Studied 6,541 loans that received a modification between January 2008 and November 2010.
  - 2,159 HAMP Modifications
  - 4,382 non-HAMP Modifications
- 29.3% re-defaulted after modification

Successful Modifications

- HAMP modifications have a 35% lower conditional odds of re-default than non-HAMP modifications

- A 1 percentage point increase in the percent of **payment reduction** is associated with a 1.6% decline in the conditional odds of redefault

Successful Modifications

- Principal Reductions
  - A 1 percentage point increase in the percent of **balance reduction** is associated with a 1.6% decline in the conditional odds of redefault
- Interest Rate Reduction
  - A 1 percentage point decrease in the **interest rate** is associated with a 10% decline in the conditional odds of redefault
- Term Extension
  - No independent effects after controlling for the monthly payment reduction

Modifications

- We find difference in the performance loans modified by different servicers.

- Foreclosure counseling has no effect on the probability of redefault even though counseling is associated with a greater propensity to modify.

Policy Implications

- Principal balance reductions are the most helpful kind of modification.
- Foreclosure counseling has positive impacts for borrowers.

Thank You

Max Weselcouch
max.weselcouch@nyu.edu