

Foreclosures in the Nation's Capital

October 2009

A Housing in the Nation's Capital • Brief

This brief summarizes the major findings about the foreclosure crisis in the *Housing in the Nation's Capital 2009* report. The full report contains more detail about foreclosures and policy implications of the problem for our region, as well as chapters reviewing the general economy and housing market. This year's report, background data tables, and a list of the project's Advisory Board members are available at <http://www.urban.org/center/met/hnc/>.

Housing in the Washington, D.C. metropolitan area might not be in freefall, but it's proving to be a hard ride down from the top of the bubble. In just seven years, starting in mid-2000, the median price of existing single-family homes in the Washington, D.C. region shot up an incredible 106 percent. Since the summer of 2007, prices have fallen by about 30 percent in real terms. Foreclosures skyrocketed more than eightfold. The unprecedented growth in foreclosures was initially dominated by riskier sub-prime loans, but the problem is now spreading rapidly into the prime market as the economy worsens. Although the housing market shows early signs of bottoming out, the foreclosure crisis will continue to have widespread effects on households and neighborhoods throughout the Washington region. And foreclosures are likely to have a disproportionate impact on the many minority families and communities that had gained—and are now losing—a new foothold on the American dream during the boom.

What's Inside:

- ▶▶ How big is the foreclosure problem?
- ▶▶ Which areas have the most foreclosures?
- ▶▶ What are the spillover effects of foreclosures?
- ▶▶ What are the prospects for the housing market?
- ▶▶ What are the policy implications of this crisis for the region?



How big is the foreclosure problem?

Quick Facts

- ▶ In January 2007, 4,000 home loans were in foreclosure; by June 2009, the figure had climbed to 33,600.
- ▶ Subprime loans accounted for 11 percent of the region's mortgages in June 2009 but about half of the region's foreclosures.
- ▶ Prime loans made up another third of the loans in foreclosure, and their share has been growing more rapidly since fall 2008.
- ▶ Four out of five District households entering foreclosure in 2007 lost their homes.
- ▶ From 2004 to 2006, eight out of 10 high-cost loans in the region went to minority borrowers.

According to data published by RealtyTrac, 13.7 of every 1,000 Washington, D.C. metropolitan area housing units were listed in a foreclosure filing during the first half of 2009, which slightly exceeded the national average of 11.9 and ranked 55th out of 203 metropolitan areas. Las Vegas topped the list with about 74.5 filings per 1,000 units—more than five times the Washington area rate.¹

Foreclosures began to rise rapidly in our region in spring 2007. Loan performance data collected from major loan servicers enable tracking of the region's "foreclosure inventory," or the cumulative number of mortgages that have entered foreclosure but have not yet been remedied, paid off by a sale of the property, or had the title transferred to the lender.² From January 2007 to June 2009, the number of loans in foreclosure increased eightfold from only 4,000 to 33,600 out of 1.2 million loans. As of

Mortgage Loan Grades:

Prime: The most common type of loan issued. These loans are issued to borrowers with high credit scores, steady incomes with full documentation, and all the supporting paperwork.

Subprime: Loans issued to higher-risk borrowers (meaning lower income and/or poor credit) and carrying a higher interest rate than prime loans.

Alt-A: Short for "alternative a-paper." These loans are often issued to borrowers with less than full documentation and/or lower credit scores and high loan-to-value (LTV) ratios.

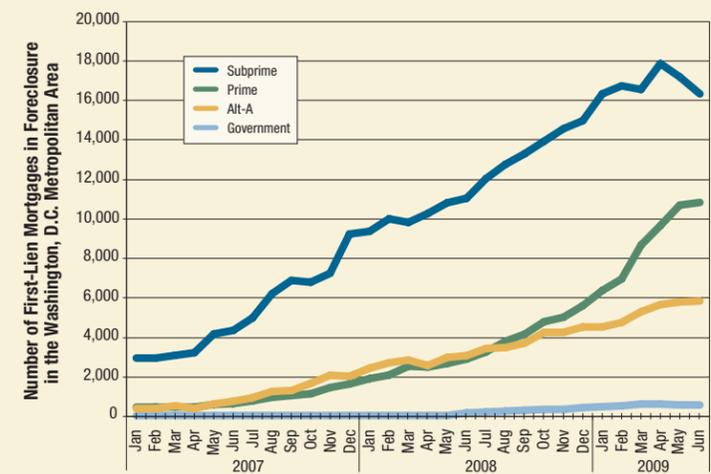
Government: These are loans insured by the federal government for borrowers with steady incomes but lower down payments or credit scores.

June 2009, about 2.7 percent of all mortgages in the Washington region were in the foreclosure inventory, comparable to the national rate of 2.9 percent.³

Subprime loans are most likely to be in default; about 12 percent of them in June 2009 had begun the foreclosure process (Figure 1). These risky loans drove the initial surge in the region's foreclosures and are still disproportionately represented in the foreclosure inventory. Subprime loans accounted for about 11 percent of all mortgages in the region, but about half the mortgages in foreclosure.

Prime loans make up another third of the loans in foreclosure. While the prime loan foreclosure rate was still low at 1.2 percent, the number of these loans in foreclosure began to accelerate in fall 2008. Another 5,800 loans, or 17 percent of the inventory, were Alt-A, which have a foreclosure rate (7.2 percent) between prime and subprime

Figure 1: Foreclosure Inventory Climbed for All Loan Types, but Subprime Far Outpaced Others



SOURCE: Urban Institute analysis of data from LPS Applied Analytics, formerly McDash Analytics, LLC.

loans. The remaining 1.7 percent of the foreclosure inventory were government-backed loans, such as those insured through the Federal Housing Administration (FHA). With fewer than 600 loans in foreclosure in June 2009, these loans consistently have the lowest foreclosure rate—only 0.5 percent. Even though they were created to serve households with financial profiles similar to subprime borrowers, the government required full income documentation, and its guarantee enabled FHA lenders to offer loans with low fixed rates and much more affordable payments than subprime loans.⁴

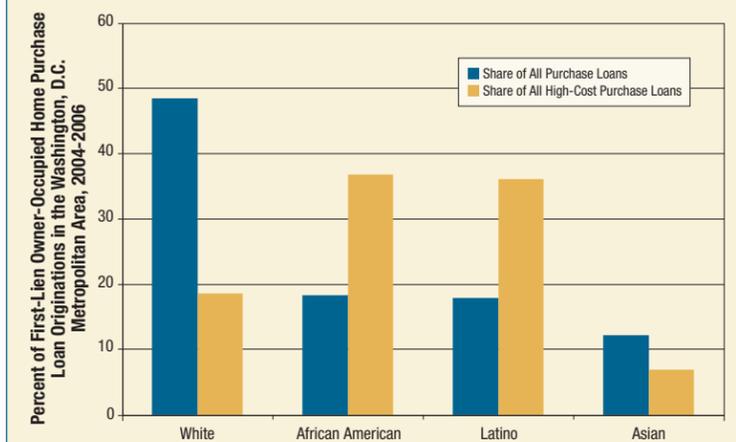
Few households in the District of Columbia entering into foreclosure managed to keep their homes, and foreclosure sales alone underestimate the number of households forced to move due to the foreclosure crisis. These insights from local administrative data give a sense of individual outcomes for households entering foreclosure, which are not available through the summary regional data.⁵ Of the households that started the foreclosure process in 2007, nearly half eventually lost their property in a foreclosure sale. However, another 34 percent sold their property within 12 months of the last notice of fore-

closure. Given the proximity of the sale to the foreclosure, these households likely moved as a result of financial difficulties they were not able to resolve.

High-Cost Lending Threatens Recent Gains in Minority Homeownership

Information about the race of households with subprime loans is not available in the mortgage performance data, but Home Mortgage Disclosure Act data provide the race of borrowers for new mortgage loans and identify "high-cost" loans, defined as those with relatively high interest rates.⁶ From 2004 to 2006, minority homebuyers made up about half of all the owner-occupant borrowers in the region but accounted for about 80 percent of all the high-cost loans. African Americans and Latinos each made up over one-third of the high-cost lending, with Asian households making up another 7 percent (Figure 2). Even when controlling for income, minorities were much more likely to have a more expensive loan than white borrowers. About one-third of high-income African American and Latino borrowers used high-cost loans, but only 5 percent of high-income whites received high-cost loans.

Figure 2: Most High-Cost Lending Used by Minority Homebuyers



SOURCE: Data from the Federal Financial Institutions Examination Council, Home Mortgage Disclosure Act, 2004 to 2006.
NOTE: The white, African American, and Asian race categories exclude Latino borrowers.

This high-cost lending helped fuel increases in minority homeownership. From 2000 to 2007, the African American homeownership rate increased more than 3 percentage points ending at 53 percent.⁷ Latinos saw remarkable gains over this period, as their homeownership rate jumped from 44 to 58 percent. Given the high foreclosure rates for subprime loans, the current crisis will likely erode some of the progress the region had made in minority homeownership.

Which areas have the most foreclosures?

Quick Facts

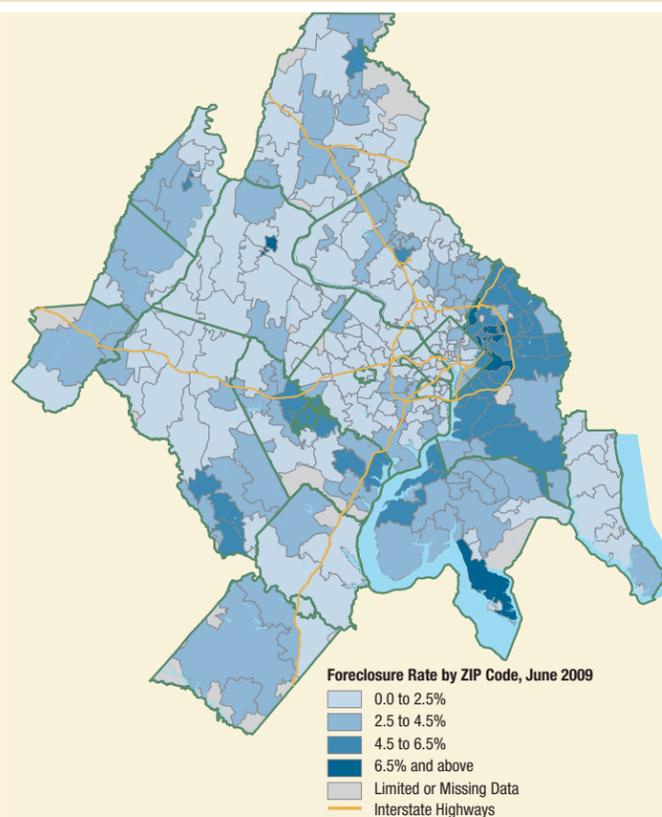
- ▶▶ County foreclosure rates in June 2009 were highest in Prince George's (5.2 percent), Charles (3.9 percent), and Prince William (3.7 percent).
- ▶▶ The region's hardest hit ZIP codes were located in the Prince George's communities of Bladensburg (20710), Riverdale (20737), Adelphi (20783), and Brentwood (20722), where 7 to 9 percent of loans were in foreclosure.
- ▶▶ All counties except Arlington, Stafford, and Warren had some ZIP codes with foreclosure rates over 3 percent.

Foreclosures are hitting Prince George's, Charles, and Prince William counties the hardest, though some neighborhoods in the other suburban areas and the District are also being distressed by foreclosures (Figure 3). Prince George's County—one of the wealthiest predominantly black counties in the country—had the highest county foreclosure rate in June 2009 (5.2 percent) and accounted for nearly a third of foreclosures in the region.⁸ The county's high rate results from having more subprime

loans, which have the highest foreclosure rates in all places. Subprime loans accounted for 25 percent of all the mortgages in Prince George's, compared with only 11 percent regionwide. Within the county, the ZIP codes of Bladensburg (20710), Riverdale (20737), Adelphi (20783), and Brentwood (20722) were among the most distressed areas in the entire region. These areas had foreclosure rates ranging from 7.4 to 9.3 percent.

Charles' and Prince William's foreclosure rates rank second and third of the region's counties, at 3.9 and 3.7 percent, respectively.⁹ In Charles County, the communities of Indian Head (20640) and Bryans Road (20616) had rates over 5 percent. Across Prince William and Manassas city, the ZIP codes in Manassas (20109, 20111, and 20110) Dale City (22193), and Woodbridge (22191) were the most affected, with 4.5 to 5.2 percent of all loans in foreclosure.

Figure 3: Foreclosure Rates Highest in Eastern and Outer Suburbs



SOURCE: Urban Institute analysis of data from LPS Applied Analytics, formerly McDash Analytics, LLC.

The remaining outer-ring suburban jurisdictions had much lower foreclosure rates (from 1.5 to 2.9 percent), but some of their neighborhoods had twice the average rates. Bealeton (22712) in Fauquier County, Ranson (25438) in Jefferson County, Sterling (20164) in Loudoun County, and Lusby (20657) in Calvert County had foreclosure rates of 4.1 to 5.2 percent.

Montgomery and Fairfax Counties, with 2.3 and 1.8 percent of loans in foreclosure, respectively, are faring much better than outer counties. But the general affluence of these counties does not extend to all their neighborhoods. Gaithersburg (20877), Silver Spring (20903), and Burtonsville (20866) have been trouble spots in Montgomery County, with foreclosure rates ranging from 4.3 to 5.4 per-

cent. Within Fairfax County, the foreclosure problems were most extreme in Herndon (20170), Springfield (22150), and Lorton (22079), along with a few ZIP codes near Alexandria (22309, 22306, and 22312); from 3.1 to 3.7 percent of the loans in these ZIP codes were in foreclosure.

In the District of Columbia, 1.8 percent of all loans were in foreclosure. The communities of Deanwood (20019), Congress Heights (20032), Barry Farm/Anacostia (20020), and Brightwood Park/Petworth (20011) were facing the most difficulties with rates of 3.1 to 4.7 percent. Alexandria and Arlington had the lowest foreclosure problem in the region; together less than 1 percent of their loans were in foreclosure, and no ZIP code rate exceeded 2.1 percent.

Latino Homeownership in Prince William County Threatened by Foreclosure Crisis

The boom and bust story in Prince William County is, in part, a story of Latino households who moved to the county seeking economic prospects. From 2000 to 2008, Prince William County's population grew 29 percent to 364,700. The Latino population accounted for over half that growth, climbing dramatically from 27,800 to 69,700.

Latino home buying grew from 900 home purchase loans in 2000 to about 5,300 in 2006.¹⁰ Moreover, the share of all owner-occupied home purchase loans to Latino borrowers jumped from 10 percent in 2000 to 37 percent in 2006. Subprime loans with relaxed credit standards helped fuel the home buying rush in Prince William and played a particularly large role among Latino homebuyers. From 2004 to 2006, Latino households accounted for over half of the county's high-cost loans. Almost two in five Latino mortgage borrowers purchased their homes in Prince William with high-cost loans during this period, compared with only one in five for borrowers overall.

Many Latino men in Prince William benefited from the housing boom, with almost half the male workers employed in construction in 2006. These jobs were particularly vulnerable when the construction industry contracted sharply in the following two years. With less secure employment and greater shares of high-cost loans, many Latino households who attained the American dream of homeownership are now hit with unaffordable mortgage payments.

Difficult housing market conditions compounded problems of unemployment and expensive loans faced by Prince William's Latinos. From June 2007 to June 2009, median home values in Prince William County dropped 47 percent from \$380,000 to \$207,500, putting recent borrowers underwater and precluding many from refinancing. As of June 2009, about 3,700 mortgages in Prince William were in foreclosure, and another 10,400 were delinquent by 30 days or more.

What are the spillover effects of foreclosures?

Quick Facts

- ▶ Roughly half the households in the District of Columbia affected by foreclosure in April 2009 were renters—about 1,900 households.
- ▶ About 1,400 District public school children in the 2008–09 school year lived in a home that was in foreclosure, more than double the number just two years ago.
- ▶ As of June 2009, lenders owned at least 15,200 foreclosed homes in the region.
- ▶ Twenty ZIP codes accounted for almost one-fifth of all lender-owned properties, even though those ZIP codes had only 7 percent of all mortgage loans.
- ▶ From 2004 to 2006, predominantly African American low-poverty neighborhoods had 84 high-cost loans per 1,000 housing units—over two and a half times the high-cost density in white low-poverty areas.

Certainly, homeowners in the Washington region are enduring the worst of the foreclosure crisis: losing their homes, damaging their credit, experiencing residential instability, and suffering personal trauma. But the size of the foreclosure problem, coupled with the national economic recession, is sending ripple effects across the Washington region to influence those not directly tied to foreclosures. Renters, school-age children, and whole neighborhoods are feeling the secondary effects of the foreclosure problem.

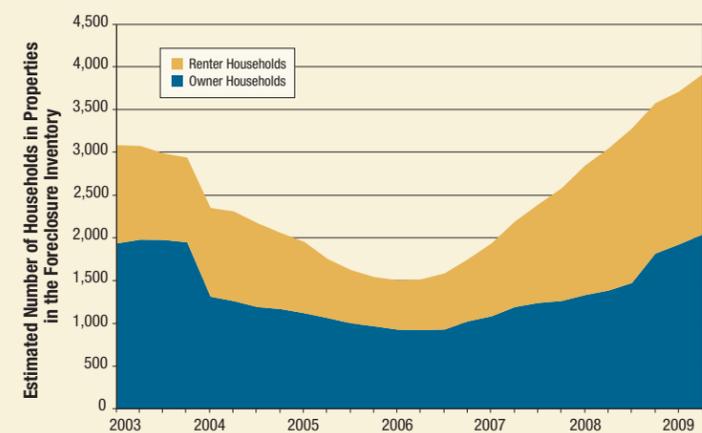
Many Renters in the District at Risk of Displacement from Foreclosure

A large number of unsuspecting renter households who are paying their rent on time and complying with their leases may face moving or eviction because their landlords are entering foreclosure. District of Columbia administrative data help to demonstrate the importance of including renters in the portrait of the foreclosure crisis. Although the data only provide categorical information on the size of rental apartment buildings, we can estimate how many renter households are affected by the crisis by making assumptions about the number of units in foreclosed properties. The lower-bound estimate assumes that all apartment buildings with five or more units have only five households. Using this conservative method, at least 1,900 renter households in April 2009 were living in properties in the District's foreclosure inventory—almost half of the 3,900 households affected by foreclosures (Figure 4). The share of households affected by foreclosure that are renters grew from 37 percent in October 2005 to 55 percent in July 2008, before falling slightly to 48 percent in April 2009. Shifting to an upper-bound assumption that larger buildings contain an average of 33 households results in many more renter households affected (3,100), about 60 percent of all households at risk of displacement.¹¹

While the District has the highest renter population of the region, all counties have some foreclosed properties that are rental, and displaced renters may have fewer housing options available to them in primarily homeowner areas. Tenure information from public mortgage data distinguishes those buyers planning to use the home as a primary residence from other borrowers, but it does not differentiate among investors who plan to rent the property, those who plan to use the property as a second home, and those who leave the property unoccupied to fix up and resell. Nonetheless, the share of high-cost

purchase mortgages that are investor owned provides a sense of the share of homes in the suburban areas that may be renter occupied and are at risk of foreclosure. About 9 percent of all high-cost loans were made to investors in the metropolitan area. The investor role of high-cost lending was relatively large in the District (23 percent), Arlington (15 percent), and Alexandria (13 percent). The remaining suburban counties had a smaller share—investors made up about 8 percent of the high-cost loans.

Figure 4: About Half of District Households Affected by Foreclosure Are Renters



SOURCES: Data from the District of Columbia Recorder of Deeds Online Public Records and the Office of Tax and Revenue.
NOTE: Rental apartment buildings with fewer than five units are estimated to have three households, and those with five or more units are conservatively estimated to have five households.

Despite protections provided by the federal Helping Families Save Their Homes Act and District law preventing renters from being evicted in the event of a foreclosure, many renters, particularly low-income renters, will ultimately have to move and potentially face trouble finding a new unit, particularly in the District and the close-in suburbs where the rental market remains unaffordable to most low- and moderate-income households.¹² Further, renter households facing foreclosure often lose their security deposit and incur unexpected moving costs. A family in Washington, D.C., for example, is likely to face expenses of \$2,500 to \$5,000 for a security deposit, first month's rent, and storage and moving fees.¹³ For a family

on a fixed income or tight budget, expenses like these may be a severe financial shock.

Public School Students Affected by Foreclosure Growing in Number and Concentrated in a Few Neighborhoods

Moves triggered by foreclosures (or the threat of foreclosure) can be particularly disruptive for children. Research indicates that frequent residential moves as well as switching schools due to moving outside a school boundary area can result in negative academic effects such as poor academic performance, grade retention, and dropping out of high school.¹⁴ Given that both the foreclosure levels and the share of households with children in the District of Columbia are relatively low, we expect that most school-age children facing the disruption of foreclosure live in the suburbs. Nonetheless, local data from the District allow for matching the addresses of public school students to the addresses of properties in foreclosure and can shed some light on this vulnerable population.¹⁵

Approximately two out of every 100 District public school students (1,380 students) who were enrolled in October of the 2008–09 school year were affected by foreclosure. While the number is relatively small, it increased sharply from 672 just two years ago. Similar to foreclosures overall, public school students in foreclosed properties are concentrated in certain neighborhoods, such as Brightwood, 16th Street Heights/Petworth, Trinidad, H Street NE/Kingman Park, and Deanwood/Lincoln Heights.

African American children are the primary student group affected by foreclosures in the city, but the share of Latino students in foreclosed homes has been increasing. In 2008–09, African Americans represented 87 percent of the students in foreclosed properties and 81 percent of the student body, compared with 96 and 83 percent, respectively, in 2003–04. In contrast, the share of students

living in homes in foreclosure that are Latino grew steadily, from 3 percent in 2003–04 to 12 percent in 2008–09, while the Latino share of the student body remained fairly level at 11 percent.

Low-Poverty African American Neighborhoods Most Threatened by Foreclosures

When foreclosures lead to high rates of vacant properties, the spillover effects can depress home values and diminish the quality of life for neighbors who have played no role in the foreclosures. No direct information is available about vacant foreclosed properties, but about 15,200 of the loans tracked in the servicer data as of June 2009 were real estate owned (REO)—that is, they completed the legal foreclosure process and ownership has been transferred to the lender.¹⁶ These properties are likely to be vacant for longer periods than non-REO properties. If vacant foreclosed homes and lots are poorly maintained, they can attract loitering and crime, damaging the fabric of the neighborhood and exacerbating the property value decline.¹⁷

REO properties are concentrated in selected neighborhoods across the region. The 20 ZIP codes with the highest share of REOs account for about one-fifth of these properties but only 7 percent of all mortgage loans. Higher shares of REO properties are correlated with indicators of weak housing markets: more severe recent price declines, higher sales listing inventories, and higher foreclosure inventory rates.

The density of high-cost loans in a neighborhood is another way to explore the characteristics of areas most heavily affected by foreclosures. Minority neighborhoods have substantially higher concentrations of high-cost loans. Predominately African American neighborhoods had more than twice the density level of high-cost loans (71 loans per 1,000 one- to four-family units) than predominately white neighborhoods (32 loans per 1,000 one- to four-family housing units) from 2004 to 2006.¹⁸

African American census tracts make up about one-fifth of tracts in the region but two-fifths of tracts in the top quintile of high-cost loan density.

While one might think that most high-cost lending took place in the poorest areas, the density of these loans is actually higher in neighborhoods with lower poverty rates. Neighborhoods that have more than 60 percent African American population and the lowest poverty rates had the highest density of any group—84 high-cost loans per 1,000 one- to four-family housing units in 2004–06. This rate is 2.6 times higher than the high-cost loan density of predominately white census tracts with low poverty rates (32 loans per 1,000 one- to four-family units).

What are the prospects for the housing market?

Quick Facts

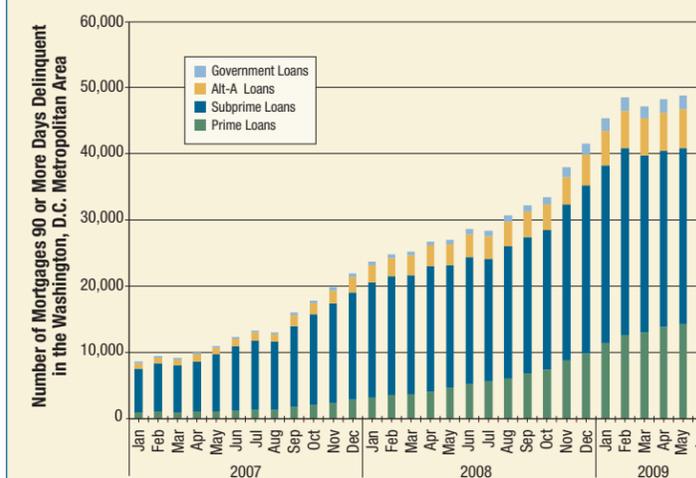
- ▶ **About 104,200 mortgages—about 8 percent of all loans—were delinquent but not yet in foreclosure in June 2009. Of these, 51,500 were more than 90 days past due.**
- ▶ **Prime loans made up 11 percent of the mortgages delinquent more than 90 days in early 2007, but the prime share rose to 31 percent by June 2009.**
- ▶ **There were 35,900 homes listed for sale in June 2009, about five months of sales, and upcoming foreclosures could pile an additional 44,000 homes onto the market.**

Continued growth in the foreclosure inventory—with the prime market accounting for a much larger share of failed loans—is expected. In June 2009, about 104,200 mortgage loans were delinquent but not yet in foreclosure, about 8 percent of all loans in the Washington,

Terry is a 33-year-old single mother who came to Housing Counseling Services, Inc. (HCS), a HUD-approved counseling agency, seeking assistance because she was three months behind on her mortgage payment. Terry became delinquent after facing major complications during her pregnancy, and she was unable to work when her baby was delivered two months early and required extra care. While Terry managed to stay afloat with her basic necessities for several months by living off her savings, she eventually began missing mortgage payments. She returned to work, but had a significant decrease in hours due to the economic downturn. HCS helped Terry complete a loan modification application, but the mortgage company denied it, offering only the option of a six-month forbearance plan with a decrease in payment during that period. Although she was disappointed that the forbearance offered only a short-term reprieve from her problems, Terry was grateful that HCS was able to help. She is hopeful that either her income will improve or that the lender will offer a long-term affordable option once the six-month forbearance expires.

D.C.metropolitan area. Almost half of these households were seriously delinquent—more than three months behind on their payments and very likely to end up in foreclosure.¹⁹ The delinquency rate pattern for prime versus subprime loans mirrors that for foreclosure rates. About 20 percent of all subprime loans were seriously delinquent, compared with only 2 percent of prime rate loans. While delinquencies have climbed among all loan types, households with prime loans are increasingly likely to be in trouble (Figure 5). At the beginning of 2007, prime loans accounted for 11 percent of the serious delinquencies;

Figure 5: Serious Delinquencies Signal More Foreclosures to Come, with Rising Prime Loan Share



SOURCE: Urban Institute analysis of data from LPS Applied Analytics, formerly McDash Analytics, LLC.

by June 2009, the figure had climbed to 31 percent. Given the rise in unemployment in the region from 3.8 percent in June 2008 to 6.6 percent in June 2009, we expect the prime role to continue to grow. More homeowners will have reduced income or lose their jobs completely and will struggle to keep up their mortgage payments. This has sobering implications for the chances of successful loan modifications; in these cases, just changing the loan terms will not compensate for a sudden loss of income or prolonged unemployment.

What do these indicators mean for the region's housing market? As of June 2009, 35,900 homes were on the market in the metropolitan area, with about 6,800 homes having sold that month. At this sales rate, the inventory will take 5.3 months to clear, within the generally accepted range for a market in equilibrium. However, the upcoming foreclosures and the homes that are 90 days delinquent could pile an estimated 44,000 homes onto the market in the coming months.²⁰ Additionally, a shadow supply of homes potentially looms from homeowners who have delayed putting their homes on the market until prices stabilize.

On the demand side, the region's economic fundamentals are relatively sound, with a growing population and employment performance that significantly outpaces the nation. Reduced prices, low interest rates, and the federal tax credit for new homeowners are beginning to draw buyers back into the market. In fact, this year's home sales through June were 11 percent higher than in the first half of 2008. Even with early signs of improvement, however, longer-term housing market recovery is inextricably linked to clearing the backlog of REOs and reducing the number of future foreclosures.

What are the policy implications of this crisis for the region?

The region will be facing the fallout of the foreclosure crisis for years to come. Displaced homeowners will slowly work to rebuild their credit, but reduced wealth makes them more vulnerable to future financial misfortunes. The sales and rental markets may find the equilibrium the region lacked in the boom era, but many neighborhoods will need to adjust

to more renters than before. Nonprofit groups and public agencies called on to help families and neighborhoods are facing significant cuts in funding as they struggle to meet the overwhelming demand for services.²¹ Finally, the disproportionate impacts of the crisis on minority households raise fair housing implications that merit serious attention.

Individual jurisdictions will bear the brunt of the burden in addressing these impacts, but collaborative regional work can help catalyze responses and enhance their effectiveness. A key regional contribution could be the regular provision of "report cards" on the progress of the crisis and the regional response activities. Combining the foreclosure and REO indicators presented in Figure 6 with the monthly realtor information on sales volume and prices provides the building blocks for a regularly-updated regional system. Quarterly scheduled review forums convened by the Metropolitan Washington Council of Governments would add much credibility to the process. These orderly reviews of new data and

discussion of implications across jurisdictions would motivate new policy ideas and commitments to action around priority concerns. As the economic recovery phases in, the region can shift its focus to broader housing market issues, such as the long-standing challenge of ensuring affordable homeownership and rental opportunities across the region.

The table below reviews a few implications for regional programs and policies in hopes of stimulating conver-

sations across program silos, political boundaries, and organizational sectors. We focus on regional action, but recognize our local efforts will be set in the larger context of federal policy and the economic climate. The final chapter in the full *Housing in the Nation's Capital* report contains more detail on these topics, as well as discussion of the federal policy and response activities already in place.

Figure 6: Mortgage Performance Indicators, June 2009

	Percent of Mortgages 30-89 Days Delinquent	Percent of Mortgages 90 or More Days Delinquent	Percent of Mortgages in Foreclosure Inventory	Percent of Mortgages that are Real Estate Owned (REO)
Washington, D.C. Metropolitan Area	4.2	4.1	2.7	1.2
District of Columbia	3.9	3.0	1.8	0.9
Inner Core	1.4	1.2	0.9	0.5
Arlington County, VA	1.3	1.0	0.8	0.4
Alexandria city, VA	1.6	1.5	1.2	0.6
Inner Suburbs	4.1	4.2	2.9	1.3
Montgomery County, MD	2.9	2.9	2.3	0.8
Prince George's County, MD	8.1	8.3	5.2	2.3
Fairfax County, VA	2.4	2.5	1.8	0.8
Fairfax city, VA	2.0	2.6	1.7	0.9
Falls Church city, VA	1.5	0.9	1.1	0.5
Outer Suburbs	4.6	4.6	3.0	1.3
Calvert County, MD	5.1	3.9	2.2	0.6
Charles County, MD	7.1	6.0	3.9	1.1
Frederick County, MD	4.0	3.6	2.5	0.8
Loudoun County, VA	2.9	3.3	2.2	0.9
Prince William County, VA	5.0	5.5	3.7	2.1
Stafford County, VA	5.5	5.1	2.3	1.4
Manassas city, VA	4.6	6.3	4.5	2.7
Far Suburbs	6.1	2.6	2.7	1.6
Clarke County, VA	4.5	0.9	2.9	0.7
Fauquier County, VA	5.0	4.2	2.6	1.3
Spotsylvania County, VA	6.3	2.9	2.7	1.6
Warren County, VA	7.3	8.3	2.6	1.5
Fredericksburg city, VA	5.4	2.5	1.5	1.5
Jefferson County, WV	6.5	2.6	2.9	2.2

SOURCE: Urban Institute analysis of data from LPS Applied Analytics, formerly McDash Analytics, LLC.
 NOTES: Mortgage performance indicators for Manassas Park city cannot be reported separately because its ZIP codes cross into other jurisdictions. The REO indicator significantly underestimates the lender-owned properties since it excludes properties that are no longer in the active loan portfolio.

Foreclosure Prevention

Findings	Implications
<p>33,600 loans are in foreclosure.</p>	<p>▶ Local early warning systems can use delinquency and foreclosure notice data to help counseling agencies identify areas for marketing, actively engage individual owners in loan remediation strategies, and notify renter households of their rights regarding eviction. The data used in this brief provide a great start for targeting foreclosure prevention outreach to particular neighborhoods. In one model, the Urban Institute merges the District of Columbia addresses of new foreclosure notices with property characteristics data and sends a weekly list including owner name, the type of housing, and likely owner/renter status to a counseling agency that then reaches out directly to the household. Suburban counties could explore this type of analytic partnership using their own local administrative data.</p>
<p>104,200 mortgages are delinquent.</p>	<p>▶ A regional housing counseling network, possibly housed at the Metropolitan Washington Council of Governments (MWCOCG), could help promote best practices like the early warning system and coordinate public education about foreclosure counseling. Such a group could help counseling agencies streamline outreach materials and provide a regional network stamp of approval that could help differentiate this information from scam solicitations. The network could also coordinate an assessment of the region's foreclosure counseling capacity and advocate for the expansion of counseling in areas with the largest service gaps or for additional supports, such as specialized training for counselors. Finally, it could also provide a forum for counselors to share successful strategies and identify emerging issues of concern.</p>

Neighborhood Stabilization

Findings	Implications
<p>At least 15,200 properties are owned by lenders.</p> <p>Twenty ZIP codes account for one-fifth of the region's REOs.</p>	<ul style="list-style-type: none"> ▶▶ One direct way to address REO properties' harm to neighborhoods is for governments or nonprofits to acquire the troubled properties and transfer them to responsible owners or renters. Recently, a MWCOG-led coalition of local governments applied for federal Neighborhood Stabilization Program (NSP) funds using housing market conditions, delinquency rates, foreclosure rates, and information on community assets as a basis for targeting the acquisition and rehabilitation of foreclosed homes. This path-breaking collaboration sets a promising precedent for all neighborhood stabilization activities, and incorporating frequent monitoring of the mortgage and sales indicators in this analysis will help officials invest in areas where government intervention will have the greatest impact. ▶▶ Even with the additional NSP funds, most lender-owned properties will go into the private market. In places with stagnant markets, REO homes may stay vacant indefinitely; in other areas, prices have dropped sufficiently to entice investors to purchase homes and wait for the market revival. Localities could ensure their code enforcement systems hold absentee owners responsible for upkeep of their homes and lots. Cities will need to watch areas hard hit by foreclosures for emerging problems. Coordination of code enforcement agencies with police and neighborhood associations could strengthen any response efforts. ▶▶ To implement either idea above, cities need to know which homes, both REOs and those still in foreclosure, are vacant. Several area governments have current or proposed vacancy registries either specifically related to foreclosed homes or more generally to any home unoccupied for a given period. A review of the requirements and implementation of these systems would help other places in the region consider vacancy regulations. By ensuring these data are publicly and promptly available in electronic form, agencies and other neighborhood stakeholders will be able to incorporate current and accurate information into their decisionmaking.

Recovery Assistance for Displaced Households

Findings	Implications
<p>80 percent of homes entering foreclosure in the District are foreclosed or sold.</p> <p>At least 1,900 renter households in the District are impacted by foreclosure.</p>	<ul style="list-style-type: none"> ▶▶ Households affected by foreclosure may have little information about the recovery services available to them, and renters affected by foreclosure may not know about their rights regarding eviction. An online resource list of service providers would help families look for credit repair counseling, housing rights information, housing search, rapid re-housing, and homeless services. The information could be promoted through foreclosure counseling agencies, legal aid clinics, and other human services agencies. ▶▶ Homeowners unable to avoid foreclosure will ultimately have to move and may need immediate help finding landlords who will rent to households with damaged credit. A nationwide housing locator database would offer online listings of available housing to assist in their search. The District of Columbia and Maryland have such sites where users can filter listings by rent level, whether a credit check is required, and other factors. (See http://www.dchousingsearch.org/ and http://mdhousingsearch.org/.) The region could use these systems as models and benefit from their lessons about launching and maintaining their sites. Expanding landlord outreach would increase the number of affordable units and make the database more effective. ▶▶ Homeless service providers could coordinate with foreclosure counselors and other nonprofits to make sure low-income households at risk of homelessness, particularly renters affected by the crisis, are aware of rapid re-housing services available, including assistance with first month's rent and security deposit, or, if needed, short- and medium-term housing subsidy. To ensure rapid re-housing services are going to those who need them the most, homeless service providers could target rapid re-housing resources to households at imminent risk of homelessness.

Services for Children in Foreclosed Homes

Findings	Implications
<p style="text-align: center;">About 1,400 D.C. public school students were affected by foreclosure in one school year.</p>	<p>▶ Students affected by foreclosure who become homeless or have to double up with friends or family qualify for McKinney-Vento services, which require that schools provide services to mitigate the potential effects of residential instability on academic achievement for school-age children. Services typically include transportation to the school of origin, the right to immediate enrollment in a new school, tutoring, and after-school care. Those households who moved on to a rental unit after foreclosure (i.e., are not homeless) do not qualify for McKinney-Vento protections and may be forced to switch schools midyear. A program similar to McKinney-Vento could help non-homeless students affected by foreclosure remain in their school of origin until the end of the school year. Because transportation and additional services have cost implications, these services could be targeted to high-need students.</p> <p>▶ Prevention organizations could partner with schools in areas with high delinquency or foreclosure rates and reach out to parents in financial trouble—to promote foreclosure prevention services, host public education events, inform renters of their rights, and make families aware of McKinney-Vento services. School districts could share information about programs for homeless students with housing counseling agencies who are serving families.</p>

References

- Adelino, Manuel, Kristopher Gerardi, and Paul S. Willen. 2009. *Why Don't Lenders Renegotiate More Home Mortgages? Redefaults, Self-Cures, and Securitization*. Boston, MA: Federal Reserve Bank of Boston.
- Coulton, Claudia, Tsui Chan, Michael Schramm, and Kristen Mikelbank. 2008. *Pathways to Foreclosure: A Longitudinal Study of Mortgage Loans, Cleveland and Cuyahoga County, 2005-2008*. Cleveland, OH: Center on Urban Poverty and Community Development, Mandel School of Applied Social Sciences at Case Western Reserve University.
- District of the Columbia Office of the Tenant Advocate. 2009. "DC Law Protects Tenants During Foreclosures." Press Release, June 22.
- Experian. 2008. *Shifting Consumer Delinquency Trends and the Potential Impact on Lending Policies*. Costa Mesa, CA: Experian.
- Federal Housing Administration. 2009. "Common Questions About an FHA-insured Loan." http://portal.hud.gov/portal/page/portal/FHA/Home/consumers/fha_loans (accessed August 21, 2009).
- Kingsley, G. Thomas, Robin E. Smith, and David Price. 2009. *The Impact of Foreclosures on Families and Communities*. Washington, DC: The Urban Institute.
- LPS Analytics, Inc. 2009. *Mortgage Monitor, July 2009 Mortgage Performance Observations*. PowerPoint presentation. Jacksonville, FL: LPS Analytics, Inc.
- RealtyTrac. 2009. "Sun Belt Dominates First Half 2009 Foreclosure Rankings But Unemployment-Related Foreclosures May Be Spreading." Press release, July 30. Irvine, CA: RealtyTrac.
- Scanlon, Edward, and Kevin Devine. 2001. "Residential Mobility and Youth Well-Being: Research, Policy and Practice Issues." *Journal of Sociology and Social Welfare* 28(1).
- Tatian, Peter A. 2009. *Foreclosures and Renters in Washington, D.C.* Washington, DC: The Urban Institute.
- Walker, Christopher. 2008. Testimony at the Joint Hearing on "Targeting Federal Aid to Neighborhoods Distressed by the Subprime Mortgage Crisis" for House Oversight and Government Reform Committee, Domestic Policy Subcommittee and House Financial Services Committee Housing, Community Opportunity Subcommittee, May 22.

Notes

- 1 RealtyTrac (2009). RealtyTrac's reports include documents filed in all three phases of foreclosure: foreclosure starts, foreclosure sales, and real estate owned properties.
- 2 The main analysis in this brief uses mortgage loan data provided by LPS Applied Analytics (formerly McDash Analytics, LLC), a commercial firm that collects data from the major loan servicers. The data represent first-lien mortgages on one- to four-unit properties (including condominiums) and cover both owner- and renter-occupied units. The data have been adjusted using several sources to account for the incomplete and biased coverage of the LPS Applied Analytics data. For a full description of the source data and methodology, see the technical appendix of *Housing in the Nation's Capital 2009*. The size of the foreclosure inventory can be influenced by many factors including lenders' and courts' administrative capacity, foreclosure moratoriums by lenders or states, and the level of loan mitigation efforts.
- 3 LPS Applied Analytics (2009).
- 4 Federal Housing Administration (2009).
- 5 See technical appendix for more details on the District of Columbia administrative data sources and processing routines for the data.
- 6 As one measure of subprime lending, Home Mortgage Disclosure Act data identify "high-cost" loans, defined as those with interest rates 3 percentage points above a comparable U.S. Treasury yield. The indicators reported

here represent conventional first-lien owner-occupied home purchase loans. While 2007 data are available, we use the sum of all loans from 2004 to 2006 for the high-cost indicators (about 65,200 loans) because it is the peak period of the housing boom and by 2007, the housing and credit markets had already started to tighten up and the number of high-cost loans decreased to 8,000 loans—31 percent of the 2006 level. Incomes are categorized based on relationship to the U.S. Department of Housing and Urban Development area median family income for each year. In 2006, for example, borrowers with less than \$72,240 annual household income are classified as low income; households with income of \$72,240 to \$108,360 are moderate income; and households with more than \$108,360 are high income.

- 7 These rates are calculated from the 2000 Decennial Census and the 2007 American Community Survey, and differences are statistically significant at the 95 percent level.
- 8 Of the eight U.S. counties in 2006 where African Americans made up more than 50 percent of the population, Prince George's was the wealthiest, with a median household income of \$65,900 (American Community Survey).
- 9 Manassas City, an independent city located within the Prince William County boundaries, has a rate nearly as high as Prince George's (4.5 percent).
- 10 See footnote 6 for more detail about loan characteristics in Home Mortgage Disclosure Act data.
- 11 Thirty-three units is the weighted average number of units in renter-occupied buildings with more than five units from the 2005 to 2007 3-year estimates in the American Community Survey. Both the lower- and upper-bound estimates presuppose that apartment buildings with fewer than five units have an average of 3 households. Tatian (2009) looks in depth at renters and foreclosure in the District of Columbia.
- 12 The federal Helping Families Save Their Homes Act of 2009 allows tenants the right to stay in their homes after foreclosure for 90 days or through the term of their lease. The bill, enacted in May 2009, also provides similar protections to housing voucher holders. See also District of Columbia Office of the Tenant Advocate (2009).
- 13 These costs are based on rent for one month and a one-month security deposit in a two-bedroom apartment (2009 fair-market rent of \$1,288 times 2 = \$2,576); \$1,500 for moving costs; and \$1,000 for storage costs and utility hook-up.
- 14 A literature review of the effects of mobility on children is summarized in Scanlon and Devine (2001).
- 15 The public school data include both District of Columbia Public Schools and District of Columbia Public Charter School students. A forthcoming brief explores the effect of foreclosures on students in the District in more detail as part of a three-city project sponsored by the Foundation to Promote Open Society. A project description is at <http://www2.urban.org/nnip/foreclosures.html>.
- 16 This figure significantly underestimates the REO properties in the region since it excludes loans that are no longer reported to LPS Applied Analytics as part of its active loan portfolio. LPS post-sale/REO foreclosures are all loans that have completed the foreclosure litigation process but still must be tracked by the servicer. This means that a sheriff sale has occurred and the property has reverted to the lender's ownership; the loan is awaiting transfer to government product; or a third party has acquired the title, entitling certificate, or title subject to redemption.
- 17 Kingsley, Smith, and Price (2009).
- 18 In this analysis, neighborhoods are census tracts that are classified as having a predominant race when a given race is more than 60 percent of the population. See footnote 6 for the definition of high-cost loans. Walker (2008) and Coulton et al. (2008) document the connection between high-cost loans and foreclosures.
- 19 Adelino, Gerardi, and Willen (2009) report that only about 30 percent of 60- to 89-day delinquent borrowers "self-cured" without receiving a loan modification. Given the financial burden of an additional month's payment, we would expect the cure rate for 90-day delinquencies to be even lower.
- 20 This estimation is based on figures from Experian (2008) and analysis of the District of Columbia administrative data by the Urban Institute. For a full description, see the technical appendix of *Housing in the Nation's Capital 2009*.
- 21 Information drawn from the Housing in the Nation's Capital advisory board meeting, August 2009.

Authors

Kathryn L.S. Pettit, Mary K. Cunningham, G. Thomas Kingsley, Leah Hendey, Jennifer Comey, Liza Getsinger, and Michel Grosz

About The Urban Institute

The authors are researchers at the Urban Institute, a nonprofit organization nationally known for its objective and nonpartisan research and educational outreach on social, economic, and governance problems facing the nation. Within the Institute, they work in the Metropolitan Housing and Communities Policy Center, whose work concentrates on factors that shape the quality of life in communities, the opportunities they offer residents, and the effectiveness of federal, state, and local public policies that govern urban housing and neighborhoods.

The views expressed are those of the authors and should not be attributed to the Urban Institute, its trustees, or its funders.

About Fannie Mae

Fannie Mae exists to expand affordable housing and bring global capital to local communities in order to serve the U.S. housing market. Fannie Mae has a federal charter and operates in America's secondary mortgage market to enhance the liquidity of the mortgage market by providing funds to mortgage bankers and other lenders so that they may lend to home buyers. Our job is to help those who house America.

This publication was funded through a grant from Fannie Mae. The findings reported and the opinions expressed in this publication are those of the authors and do not necessarily represent the views of Fannie Mae or its officers or directors.

Acknowledgements

The authors thank Fannie Mae for providing us with the opportunity to examine housing conditions in our city and region; in particular, Patrick Simmons and Rosie Allen Herring reviewed content throughout the project and supported the community advisory process. Staff from three counseling agencies generously contributed client stories on which we based the case studies in the report: Marian Siegel from Housing Counseling Services, Inc.; Mary Hunter from the Housing Initiative Partnership, Inc; and Amy Mix and Kerry Diggin from the AARP-Legal Counsel for the Elderly. The in-depth analysis of foreclosure issues would not have been possible without the data supplied by the District of Columbia city agencies and The Community Partnership for the Prevention of Homelessness. Margery Austin Turner and Peter Tatian of the Urban Institute offered constructive advice at key points in the research. Maida Schifter provided management and editorial assistance, and Kaitlin Franks supplied vital research assistance. And we acknowledge with appreciation the editing contributions of David Martin, formerly of Fannie Mae, and Fiona Blackshaw of the Urban Institute. Finally, we greatly appreciate the comments provided by the advisory board. Of course, all errors and omissions remain the responsibility of the authors.

The Urban Institute
2100 M Street, NW
Washington, DC 20037
<http://www.urban.org/center/met/hnc>

