



Americans for Financial Reform
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We All Pay A Price For the Foreclosure Crisis

Foreclosures don't just hurt the family who loses their home – they damage the neighborhood, the community, and the larger economy. That's why economic forecasts almost always highlight the state of the housing market and the impact of foreclosures. As Federal Reserve governor Joseph Tracy recently put it in his economic outlook for 2011ⁱ:

“The growing inventory of defaulted mortgages continues to weigh down any recovery in the housing market....Problems in housing markets can impact economic growth. Housing directly effects growth through incentives for builders to build new houses... Falling house prices can also negatively impact consumption growth to the extent that homeowners increase their savings in an effort to offset declines in their housing wealth...the protracted process of resolving the overhang of negative equity resulting from the overvaluation of housing during the boom will remain a headwind restraining economic growth for years to come.”

Numerous peer-reviewed research studies have measured the impact of foreclosures and demonstrated the ways their spillover effects harm local neighborhoods and economies.

Foreclosures Harm Housing Values: Multiple studies have demonstrated that foreclosures have a negative impact on local property values, particularly during periods of recession. Each foreclosure leads to a drop of about 1 percent in the value of nearby homes.ⁱⁱ Using these estimates, the Center for Responsible Lending has calculated that over the 2009-2012 period foreclosures will cut house values by some \$1.9 trillion in total. Each foreclosure leads to total home value losses of about \$70,000 across the surrounding neighborhood.ⁱⁱⁱ Some of the reasons for these effects include “distress sales” of foreclosed properties, the blight effect of abandoned homes, vandalism, and increases in crime.

Foreclosures Harm the Broader Economy: The negative economic effect of foreclosures doesn't end with declines in home values. Falling home prices have strong negative effects on both consumer spending and investment in new construction.^{iv} Declines in consumer spending and declines in construction spending are both major drivers of job loss and unemployment. This increase in unemployment in turn drives further declines in foreclosures, as well as further independent declines in spending and investment. This cycle creates a large “multiplier effect” for the negative economic impacts of foreclosures. [See Figure 1].

Economists have begun to quantify the actual impacts of foreclosures on spending and investment in the current economic recession. By comparing economic outcomes in states which require a judge to make a ruling to approve a foreclosure sale (“judicial states”) vs. those that do

not require judicial approval for foreclosures (“non-judicial states”), economists from the University of Chicago and the University of California at Berkeley were able to estimate the effects of foreclosure on the broader economy. Non-judicial states had significantly higher levels of foreclosure than judicial states, and also had greater declines in housing prices and lower levels of consumer spending. These impacts were closely correlated with changes in foreclosures and were dramatic. In fact, the economists estimated that some 15 to 30 percent of the decline in new home construction since 2007 and 20 to 40 percent of the decline in auto sales over the same period is traceable to increases in foreclosures.^v

Foreclosures Create Direct Costs For Local Governments: The negative economic impacts of foreclosures already have major effects on local governments, as they drive declines in tax revenues. At least two thirds of local government revenues come from the property tax, which is directly impacted by declines in home prices and by foreclosures.^{vi} In addition, sales taxes, the other major source of local revenues, are also very sensitive to the slowdown in consumer spending linked to foreclosures.

But foreclosures also lead to direct costs for local governments at a time when the economic downturn has already stressed their budgets. Harvard economist William Apgar carefully tracked the direct municipal costs incurred by the city of Chicago in executing a foreclosure and then maintaining the home to make sure it was not damaged or vandalized.^{vii} He found that it cost the city about \$5,400 to secure and conserve a foreclosed property that had not been abandoned by the owner. If the owner had abandoned the property prior to the foreclosure, which often meant the home had been damaged or vandalized, then costs jumped to over \$19,000.

In 2010 there were 2.9 million foreclosure filings. If just 25 percent of these foreclosures led to an abandoned property, then Apgar’s research implies that this created over \$25 billion in direct foreclosure-related costs for local governments in 2010.

ⁱ Tracy, Joseph S, “The Shape of the Recovery”, Federal Reserve Bank of New York, Remarks at the Connecticut Business and Industry Association/MetroHartford Alliance Economic Summit, Hartford, Connecticut, January 7, 2011. Available at <http://www.newyorkfed.org/newsevents/speeches/2011/tra110107.html> .

ⁱⁱ Studies differ in the exact size of the effect, but most find an impact of about 1 percent per foreclosure for nearby homes. The studies addressing these issues include: Immergluck, Dan and Geoff Smith. “The External Costs of Foreclosure: the Impact of Single-Family Mortgage Foreclosures on Property Values.” *Housing Policy Debate*, 17(2006): 57-79; Harding, John P., Rosenblatt, Eric and Yao, Vincent W, “The Contagion Effect of Foreclosed Properties”, [Journal of Urban Economics](http://papers.ssrn.com/sol3/papers.cfm?abstract_id=1160354), Vol. 66, No. 3, pp. 164-178, Available at http://papers.ssrn.com/sol3/papers.cfm?abstract_id=1160354; Lin, Zhenguo, Eric Rosenblatt and Vincent W. Yao. “Spillover Effects of Foreclosures on Neighborhood Property Values.” *Journal of Real Estate Finance and Economics*, Volume 38, Number 4 (May, 2009), Available at <http://www.springerlink.com/content/rk4q0p4475vr3473/>

ⁱⁱⁱ “Soaring Spillovers”, Center for Responsible Lending, May 2009, available at <http://www.responsiblelending.org/mortgage-lending/research-analysis/soaring-spillover-3-09.pdf> .

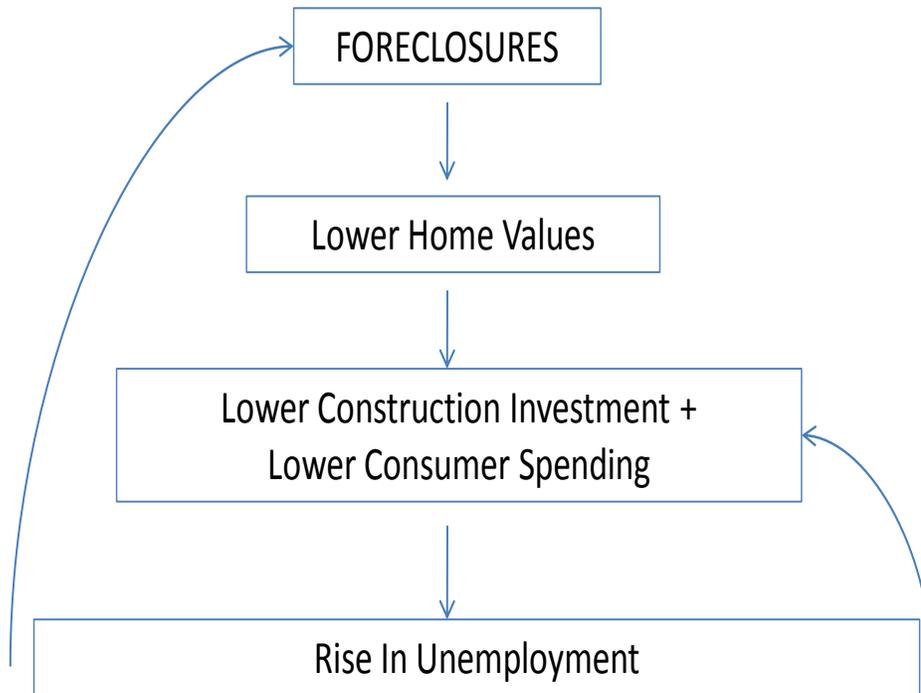
^{iv} See Congressional Budget Office, *Housing Wealth and Consumer Spending*, Background Paper, January, 2007, available at <http://www.cbo.gov/ftpdocs/77xx/doc7719/01-05-Housing.pdf>; Orszag, Peter, “The Current Economic Situation”, Tracy, Joseph S, “The Shape of the Recovery”, Federal Reserve Bank of New York, Remarks at the Connecticut Business and Industry Association/MetroHartford Alliance Economic Summit, January 7, 2011.

^v Mian, Atif, Amir Sufi, and Francesco Trebbi, “Foreclosures, Home Prices, and the Real Economy”, National Bureau of Economic Research Working Paper 16685, January, 2011. Available at <http://www.nber.org/papers/w16685>

^{vi} Rockefeller Institute State Revenue Report, October 2010. Available at http://www.rockinst.org/pdf/government_finance/state_revenue_report/2010-10-19-SRR_81.pdf

^{vii} William Apgar and Mark Duda. 2004. *The Municipal Impact of Today’s Mortgage Foreclosure Boom*. Minneapolis, MN: Homeownership Preservation Foundation.

FIGURE 1: THE FORECLOSURE CYCLE



Following are the partners of Americans for Financial Reform.

All the organizations support the overall principles of AFR and are working for an accountable, fair and secure financial system. Not all of these organizations work on all of the issues covered by the coalition or have signed on to every statement.

- A New Way Forward
- AARP
- ACORN
- AFL-CIO
- AFSCME
- Alliance For Justice
- Americans for Democratic Action, Inc
- American Income Life Insurance
- Americans for Fairness in Lending
- Americans United for Change
- Calvert Asset Management Company, Inc.
- Campaign for America's Future
- Campaign Money
- Center for Digital Democracy
- Center for Economic and Policy Research
- Center for Economic Progress
- Center for Media and Democracy
- Center for Responsible Lending
- Center for Justice and Democracy
- Center of Concern
- Change to Win
- Clean Yield Asset Management
- Coastal Enterprises Inc.
- Color of Change
- Common Cause
- Communications Workers of America
- Community Development Transportation Lending Services
- Consumer Action
- Consumer Association Council
- Consumers for Auto Safety and Reliability
- Consumer Federation of America
- Consumer Watchdog
- Consumers Union
- Corporation for Enterprise Development
- CREDO Mobile
- CTW Investment Group
- Demos
- Economic Policy Institute
- Essential Action
- Greenlining Institute
- Good Business International
- HNMA Funding Company
- Home Actions

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- Housing Counseling Services
 - Information Press
 - Institute for Global Communications
 - Institute for Policy Studies: Global Economy Project
 - International Brotherhood of Teamsters
 - Institute of Women's Policy Research
 - Krull & Company
 - Laborers' International Union of North America
 - Lake Research Partners
 - Lawyers' Committee for Civil Rights Under Law
 - Move On
 - NASCAT
 - National Association of Consumer Advocates
 - National Association of Neighborhoods
 - National Community Reinvestment Coalition
 - National Consumer Law Center (on behalf of its low-income clients)
 - National Consumers League
 - National Council of La Raza
 - National Fair Housing Alliance
 - National Federation of Community Development Credit Unions
 - National Housing Trust
 - National Housing Trust Community Development Fund
 - National NeighborWorks Association
 - National People's Action
 - National Training and Information Center/National People's Action
 - National Council of Women's Organizations
 - Next Step
 - OMB Watch
 - Opportunity Finance Network
 - Partners for the Common Good
 - PICO
 - Progress Now Action
 - Progressive States Network
 - Poverty and Race Research Action Council
 - Public Citizen
 - Sargent Shriver Center on Poverty Law
 - SEIU
 - State Voices
 - Taxpayer's for Common Sense
 - The Association for Housing and Neighborhood Development
 - The Fuel Savers Club
 - The Leadership Conference on Civil and Human Rights
 - The Seminal
 - TICAS
 - U.S. Public Interest Research Group
 - United Food and Commercial Workers
 - United States Student Association
 - USAction
 - Veris Wealth Partners
 - Western States Center
 - We the People Now
 - Woodstock Institute

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- World Privacy Forum
 - UNET
 - Union Plus
 - Unitarian Universalist for a Just Economic Community

Partial list of State and Local Signers

- Alaska PIRG
- Arizona PIRG
- Arizona Advocacy Network
- Arizonans For Responsible Lending
- Association for Neighborhood and Housing Development NY
- Audubon Partnership for Economic Development LDC, New York NY
- BAC Funding Consortium Inc., Miami FL
- Beech Capital Venture Corporation, Philadelphia PA
- California PIRG
- California Reinvestment Coalition
- Century Housing Corporation, Culver City CA
- CHANGER NY
- Chautauqua Home Rehabilitation and Improvement Corporation (NY)
- Chicago Community Loan Fund, Chicago IL
- Chicago Community Ventures, Chicago IL
- Chicago Consumer Coalition
- Citizen Potawatomi CDC, Shawnee OK
- Colorado PIRG
- Coalition on Homeless Housing in Ohio
- Community Capital Fund, Bridgeport CT
- Community Capital of Maryland, Baltimore MD
- Community Development Financial Institution of the Tohono O'odham Nation, Sells AZ
- Community Redevelopment Loan and Investment Fund, Atlanta GA
- Community Reinvestment Association of North Carolina
- Community Resource Group, Fayetteville A
- Connecticut PIRG
- Consumer Assistance Council
- Cooper Square Committee (NYC)
- Cooperative Fund of New England, Wilmington NC
- Corporacion de Desarrollo Economico de Ceiba, Ceiba PR
- Delta Foundation, Inc., Greenville MS
- Economic Opportunity Fund (EOF), Philadelphia PA
- Empire Justice Center NY
- Enterprises, Inc., Berea KY
- Fair Housing Contact Service OH
- Federation of Appalachian Housing
- Fitness and Praise Youth Development, Inc., Baton Rouge LA
- Florida Consumer Action Network
- Florida PIRG
- Funding Partners for Housing Solutions, Ft. Collins CO

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- Georgia PIRG
 - Grow Iowa Foundation, Greenfield IA
 - Homewise, Inc., Santa Fe NM
 - Idaho Nevada CDFI, Pocatello ID
 - Idaho Chapter, National Association of Social Workers
 - Illinois PIRG
 - Impact Capital, Seattle WA
 - Indiana PIRG
 - Iowa PIRG
 - Iowa Citizens for Community Improvement
 - JobStart Chautauqua, Inc., Mayville NY
 - La Casa Federal Credit Union, Newark NJ
 - Low Income Investment Fund, San Francisco CA
 - Long Island Housing Services NY
 - MaineStream Finance, Bangor ME
 - Maryland PIRG
 - Massachusetts Consumers' Coalition
 - MASSPIRG
 - Massachusetts Fair Housing Center
 - Michigan PIRG
 - Midland Community Development Corporation, Midland TX
 - Midwest Minnesota Community Development Corporation, Detroit Lakes MN
 - Mile High Community Loan Fund, Denver CO
 - Missouri PIRG
 - Mortgage Recovery Service Center of L.A.
 - Montana Community Development Corporation, Missoula MT
 - Montana PIRG
 - Neighborhood Economic Development Advocacy Project
 - New Hampshire PIRG
 - New Jersey Community Capital, Trenton NJ
 - New Jersey Citizen Action
 - New Jersey PIRG
 - New Mexico PIRG
 - New York PIRG
 - New York City Aids Housing Network
 - NOAH Community Development Fund, Inc., Boston MA
 - Nonprofit Finance Fund, New York NY
 - Nonprofits Assistance Fund, Minneapolis M
 - North Carolina PIRG
 - Northside Community Development Fund, Pittsburgh PA
 - Ohio Capital Corporation for Housing, Columbus OH
 - Ohio PIRG
 - OligarchyUSA
 - Oregon State PIRG
 - Our Oregon
 - PennPIRG
 - Piedmont Housing Alliance, Charlottesville VA
 - Michigan PIRG
 - Rocky Mountain Peace and Justice Center, CO
 - Rhode Island PIRG
 - Rural Community Assistance Corporation, West Sacramento CA
 - Rural Organizing Project OR

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- San Francisco Municipal Transportation Authority
 - Seattle Economic Development Fund
 - Community Capital Development
 - TexPIRG
 - The Fair Housing Council of Central New York
 - The Loan Fund, Albuquerque NM
 - Third Reconstruction Institute NC
 - Vermont PIRG
 - Village Capital Corporation, Cleveland OH
 - Virginia Citizens Consumer Council
 - Virginia Poverty Law Center
 - War on Poverty - Florida
 - WashPIRG
 - Westchester Residential Opportunities Inc.
 - Wigamig Owners Loan Fund, Inc., Lac du Flambeau WI
 - WISPIRG