A Look at the U.S. Mortgage Crisis
Implications for Housing Markets and Communities

College of Architecture Research Forum

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Dan Immergluck

Associate Professor
City & Regional Planning Program
- How we got here
- Loan markets hypersegmented by race & space
  → spatial concentration of foreclosures
- Foreclosures and their social costs
- Recommendations for policy & planning
- Broader implications for urban planning and scholarship
A Tale of Two High-Risk Lending Booms

Data source: Home Mortgage Disclosure Act data, U.S. Department of Housing and Urban Development
A New Scale of Homeownership Risk

Foreclosures Started in 13-County Metropolitan Atlanta

Source: EquityDepot, Atlanta Foreclosure Report

- Subprime Pricing and Underwriting
- Exotic Structures
- Zero Downpayments

Increasing and Spatially Concentrated Foreclosures
Spreading of investor risks & risk-avoidance by intermediaries
→ increased capital flow to high-risk loans → increased foreclosures

**George Bailey Era**

- Lender: S&L, Bank or Mortgage Company
- Mortgage Payments ↔ Loan Amount ($) ↔ Lender: S&L, Bank or Mortgage Company

**Private Securitization Era**

- Loan Pool/Trust
- Lender Assets Held for Sale
- Non-Agency RMBS Bonds

**Structured Finance Era**

- CDO Warehouse
- BBB - RMBS
- “Low-risk” investor

**GSE Era**

- Government-Sponsored Enterprises Secondary Market
- Fannie Mae
- Freddie Mac

- Low-risk investor
- Higher-risk investor
- “Low-risk” investor
- A CDO-squared?

Share of Subprime Loans that were Low- or No-Doc

Debt-Income Ratios for Subprime Home Purchase Loans

Over-engineered Capital Chasing Borrowers → Subprime Loans to Prime Borrowers

Percentage of Securitized Subprime Loans Made to Borrowers with Credit Scores above 620

Until late 2006, national loan performance was “propped up” by hot housing markets.
From the "Virtuous" Cycle to the Vicious Cycle

1. **Values Rise**
2. **Affordability Declines**
3. **DTIs increase, Incomes Inflated via Low-No-Docs, Risk Layering**
4. **Values or Stagnate**
5. **Purchasing Power "Increased"**
6. **Refinancing & Selling Become Difficult → Defaults Increase**
7. **Lenders Fail, Liquidity Drops & Lenders Pull Back**
8. **Purchasing Power Decreased**

"Virtuous" Cycle

"Vicious" Cycle
The Growth and Spatial Concentration of Foreclosures

Foreclosure Filings, City of Atlanta, October-November 2001

Data source: EquityDepot.net
The Growth and Spatial Concentration of Foreclosures

Foreclosure Filings, City of Atlanta, October-November 2007

Data source: EquityDepot.net
New York City

Maps made by the Neighborhood Economic Development Advocacy Project, www.nedap.org
Illusory Gains in Minority Homeownership and Wealth

**African-American Homeownership Rate**

- 1990 rate: 43.4%
- 2000 rate: 46.3%

Data source: U.S. Census Bureau
Beyond the Borrower and the Bank: The Social Costs of Foreclosures

↓ neighborhood instability and school mobility
   → renters and homeowners

↑ vacancy, blight & abandonment → ↑ crime

↓ neighborhood property values

↓ property tax revenues

↑ government fiscal costs – police, fire, etc.

↓ government/pension investments

↓ access to credit for low-income/low-wealth households

↓ access to credit for firms, government

↓ credit histories in “impacted” communities
   → further segmentation of rental, employment & insurance markets
Myths of the Mortgage Crisis

- The problem was caused by irresponsible borrowers
- A foreclosure only hurts the lender and the borrower
- There weren’t really any problems in the subprime market until 2007
- Federal regulators were “asleep at the wheel”
- Better *disclosure* will solve the problems going forward will enable borrowers to make good decisions
- The market worked and is correcting itself — we don’t need any more regulation
- I have not benefited from government involvement in mortgage markets, why should “they”? 
Government Support & Subsidy for Mainstream Mortgage Borrowers & Homeowners

- Interest & property tax deductions on income tax
- Regulatory infrastructure - federal and state regulators
- Federal Reserve lending
- Fannie Mae, Freddie Mac, and Home Loan Bank System
- Federal Housing Administration, VA, Ginnie Mae
- Investor regulatory structures
- Deposit insurance
What Should Policy-makers & Planners Do?

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<tr>
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<th>Triage</th>
<th>Systems Change</th>
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<tbody>
<tr>
<td><strong>Federal</strong></td>
<td></td>
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<tr>
<td>Allow Bankruptcy Courts to Modify Mortgages</td>
<td>X</td>
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<td>A New Home Owners Loan Corporation</td>
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<td>Require Lenders/Funders to Keep Equity in Derivatives</td>
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<td>Back to Basics</td>
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<td>Discouraging/limiting “alternative” loan products</td>
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<td>Reestablish the 15/30 fixed rate loan as the standard</td>
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<td>Regulate Credit Rating Agencies, Bond Insurers</td>
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<td><strong>Federal &amp; State</strong></td>
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<td>Financing for Acquisition and Rehab of Vacant Properties</td>
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<td><em>Expand and Enforce</em> CRA &amp; Fair Lending Laws</td>
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<td>Expand Support for Rental/Limited-Equity Tenure</td>
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<tr>
<td><strong>State</strong></td>
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<tr>
<td>Foreclosure Process – not too fast, not too slow...</td>
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<td>Require Lenders to Escrow Taxes and Insurance</td>
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<td>Toughen Appraisal Licensing/Regulation</td>
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<td><strong>Local</strong></td>
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<tr>
<td>Tax Lenders Filing Foreclosure Notices</td>
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<td>Create Effective Land Banking and Reclamation Vehicles</td>
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<td>Create Early Warning Systems for Targeting Interventions</td>
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Broader Implications for Urban Planning and Scholarship

Global economic forces, federal policy, and the limits to traditional land use planning and policy

The commoditization & “financialization” of homeownership

Booms and busts -- The benefits of the steady state

Lessons for Henry George? -- Land values are a fickle thing
Ongoing Research & Scholarship in this Area

- Regional responses to the foreclosure crisis
- Property tax assessment implications of foreclosures and property flipping
- A book on how we got here and where we need to go...
  - Federal, state and local policy frameworks for sustainable housing finance
  - Homeownership policy and alternative tenure
  - Neighborhood recovery and rebuilding