



# Joint Economic Committee ECONOMIC FACT SHEET

Senator Charles E. Schumer, Chairman  
Congresswoman Carolyn B. Maloney, Vice Chair

## SHELTERING NEIGHBORHOODS FROM THE SUBPRIME FORECLOSURE STORM

**Home Foreclosures are on the Rise.** Foreclosures continue to rise across the nation as more and more subprime borrowers' loans reset to higher rates in a weak housing environment. The Mortgage Bankers Association (MBA) reported that first quarter foreclosure inventory rates for subprime loans in 2007 rose from 4.53 percent to 5.10 percent, or 57 basis points relative to the previous quarter. This represents an 81 basis point increase compared to the first quarter of 2006. According to RealtyTrac, new foreclosure events in May 2007 totaled 176,137, an increase of 19 percent since April and of 90 percent since May 2006.<sup>1</sup> (See data attached.)

**Foreclosures Exact a High Toll on Families.** Families who fall victim to foreclosure pay a heavy price. A home is the primary asset for the majority of America's families. This is particularly true for low-and moderate-income families, minority families, and young couples, as most have a large portion of their wealth and assets tied up in their homes. These are the same groups who are most at risk of foreclosure due to unsuitable subprime loans. A family who loses its home to foreclosure not only loses a stable place to live, but risks permanently ruining its credit and faces substantial barriers to buying a home in the future. The Center for Responsible Lending estimates that the 2.2 million households in the subprime market that could foreclose over the next several years would result in losses totaling \$164 billion, primarily in lost home equity.<sup>2</sup>

**Foreclosures are Costly to Communities.** Concentrated home foreclosures can impose significant costs on entire communities. A foreclosed property that remains on the residential market too long and becomes vacant can become an economic and administrative drain for cities and towns. Local governments lose property tax revenue, neighboring homeowners take a hit to the value of their house, and taxpayers foot the bill for foreclosure-related services provided by their local governments:

- **Neighboring Homeowners Lose 1 Percent in Property Value Per Foreclosure on Their Block.** A prominent housing study estimated that each foreclosure results in a 0.9 percent decline in nearby property values. For a city block with ten foreclosures, this implies that neighboring homes would lose 10 percent in value. The impact is even higher in lower-income communities.<sup>3</sup>
- **A Vacant Property Can Cost Local Taxpayers \$20,000 in Annual Maintenance.** A property left vacant from foreclosure can cost a local government nearly \$20,000 in lost property taxes, unpaid utility bills, property upkeep and maintenance.<sup>4</sup>

**Foreclosure Prevention Counseling Saves Families' Homes and Communities.** Non-profit organizations that specialize in foreclosure prevention counseling are operating throughout the country



# Joint Economic Committee ECONOMIC FACT SHEET

with a high rate of success. Estimates suggest that foreclosure prevention services cost non-profit counseling organizations as little as \$3,300 per household assisted. These programs provide financial counseling for borrowers at risk of losing their homes and work with lenders to create “work-out” options for at-risk families, such as reducing monthly payments, or enabling families to successfully sell their homes without ruining their credit. These programs report a high rate of success in helping families avoid foreclosure.<sup>5</sup>

**Foreclosure Prevention is a Cost-Effective Strategy.** Increased funding for foreclosure prevention could help stem the tide of rising foreclosures that threatens to devastate some communities across the nation, particularly in the manufacturing region of the Midwest. Foreclosure prevention is cost-effective for lenders, families and communities, saving millions in families’ assets and avoiding spillover foreclosure costs. Senators Charles Schumer, Sherrod Brown, and Bob Casey have requested \$300 million in additional funding for foreclosure prevention programs within the HUD Housing Counseling Program. The funding would be channeled to HUD-approved organizations with a proven track record of helping homeowners navigate the

complicated process of contacting lenders, banks and legal services to modify their mortgage loans and save their homes from foreclosure.<sup>6</sup>

## Endnotes

<sup>1</sup> Mortgage Bankers Association, “Delinquencies Decrease in Latest MBA National Delinquency Survey,” June 14, 2007; RealtyTrac, “Foreclosure Activity Increases 19 Percent in May,” June 12, 2007. RealtyTrac foreclosure events include default notices, auction sale notices, and bank repossessions.

<sup>2</sup> Ellen Schloemer et al, *Losing Ground: Foreclosures in the Subprime Market and Their Cost to Homeowners*, Center for Responsible Lending, December 2006.

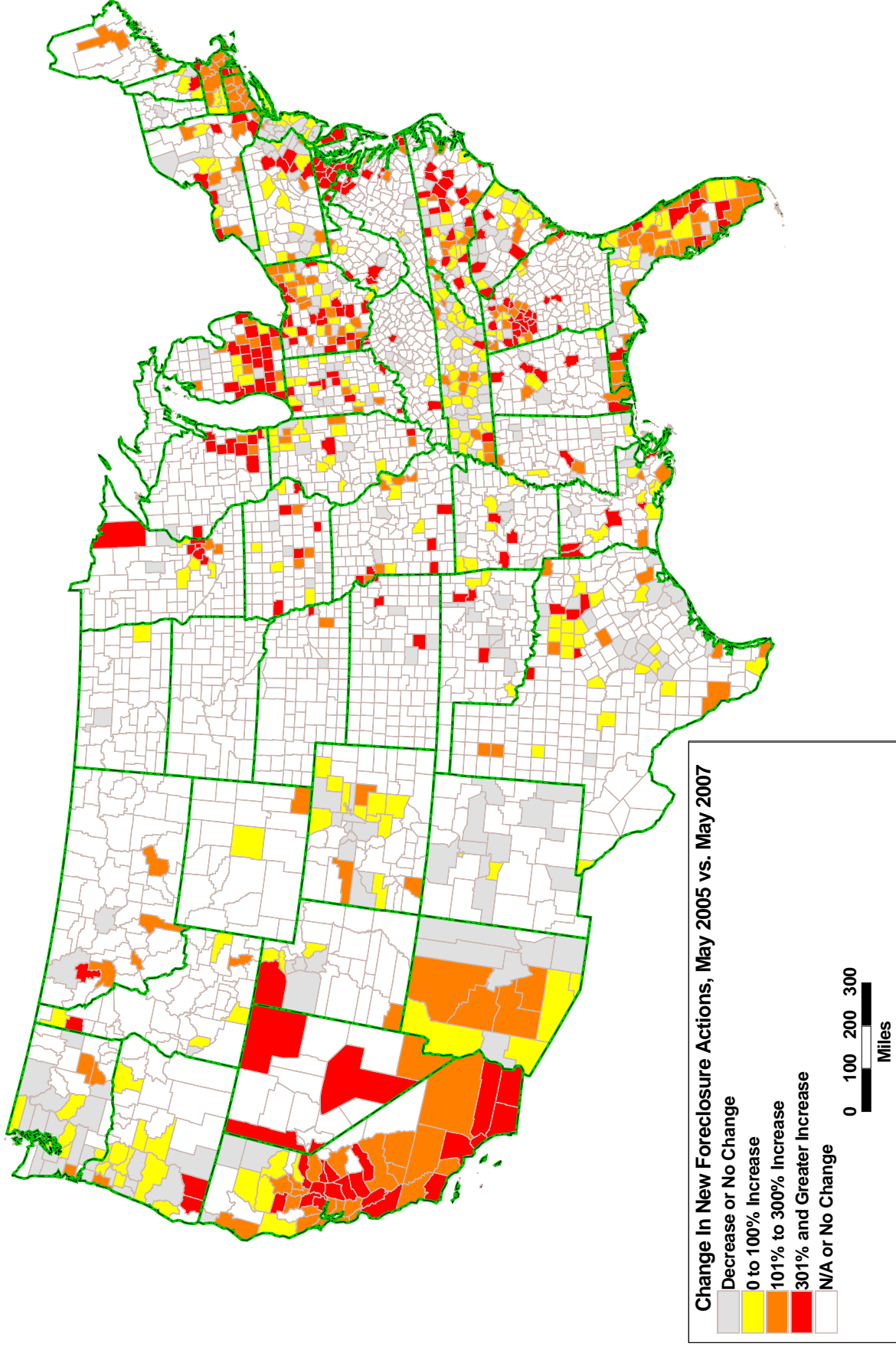
<sup>3</sup> Dan Immergluck and Geoff Smith, “The External Costs of Foreclosure: the Impact of Single-Family Mortgage Foreclosures on Property Values,” *Housing Policy Debate*, Vol. 7, Issue 1, 2006.

<sup>4</sup> William C. Apgar and Mark Duda, *Collateral Damage: The Municipal Impact of Today’s Foreclosure Boom*, National Multi-Housing Council, May 11, 2005.

<sup>5</sup> Center for American Progress, *From Boom to Bust: Helping Families Prepare for the Rise in Subprime Mortgage Foreclosures*, March 13, 2007; NeighborWorks, *Effective Community-Based Strategies for Preventing Foreclosures*, September 2005.

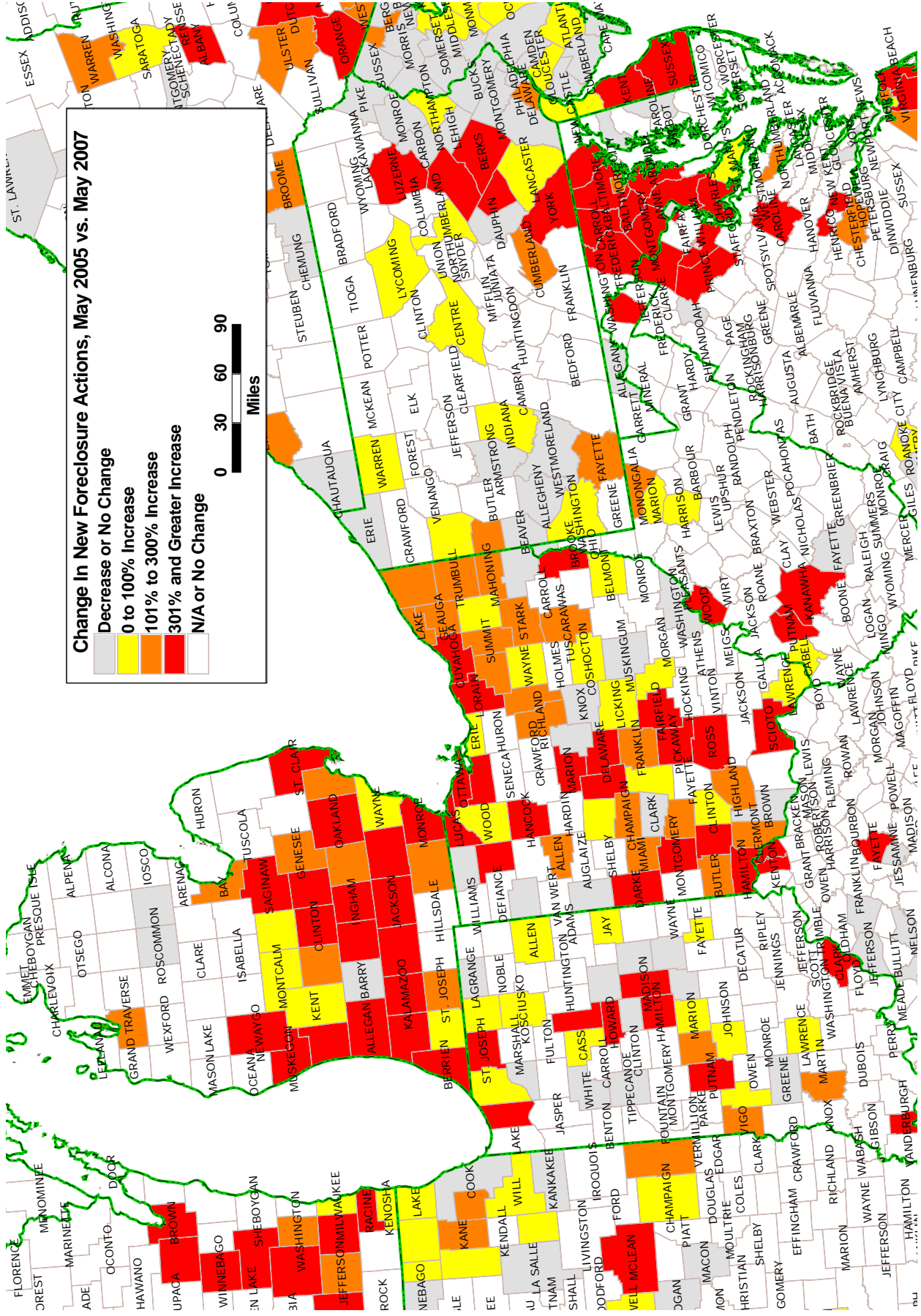
<sup>6</sup> Letter from Senator Charles Schumer, Senator Sherrod Brown and Senator Bob Casey to Chairman Patty Murray and Ranking Member Christopher Bond, Subcommittee on Transportation, Housing and Urban Development and Related Agencies, Appropriations Subcommittee, May 15, 2007.

# Change In Foreclosure Actions May 2005 vs. May 2007 — The United States



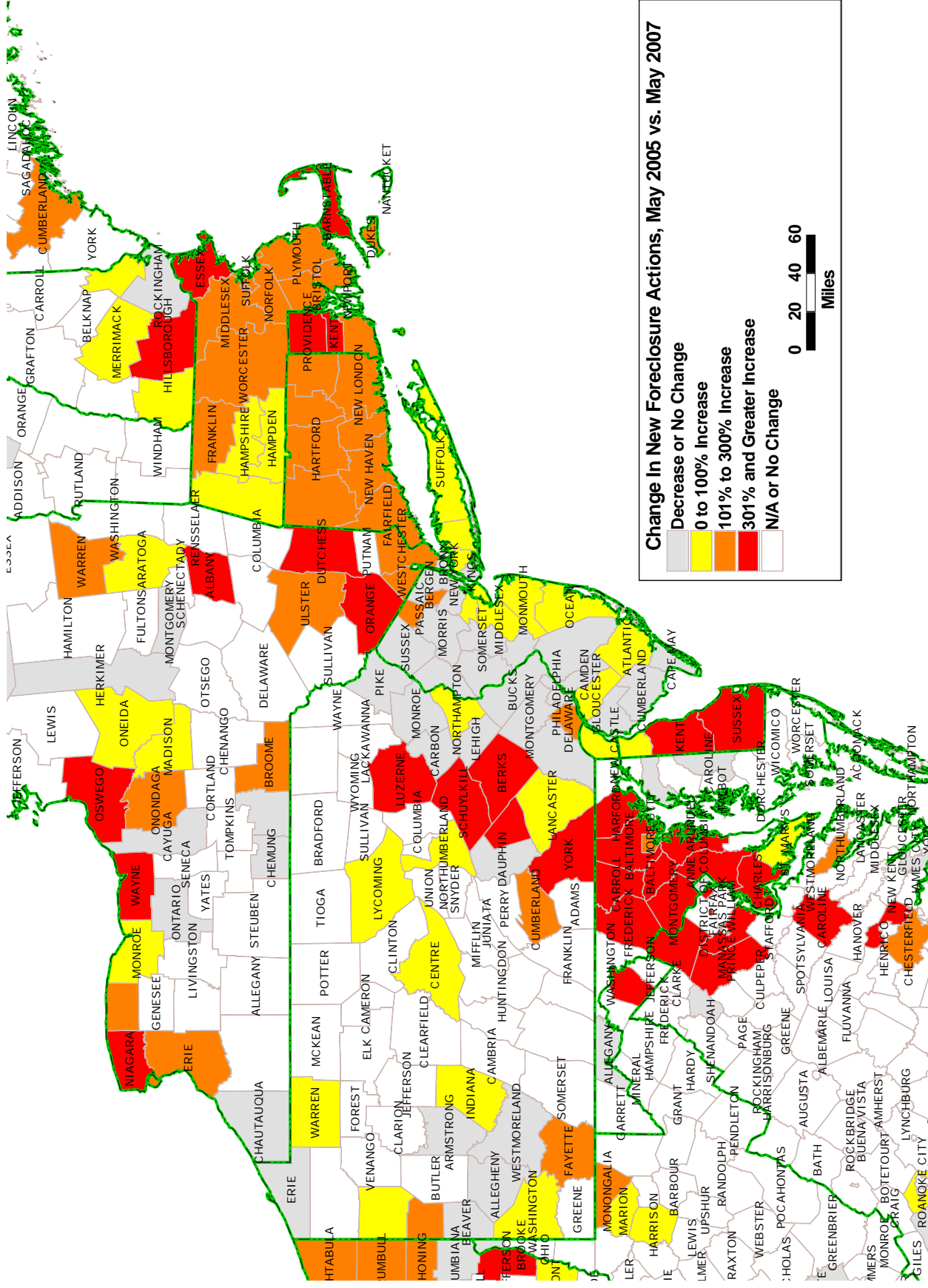


# Change In Foreclosure Actions May 2005 vs. May 2007 — Ohio, Michigan, Indiana



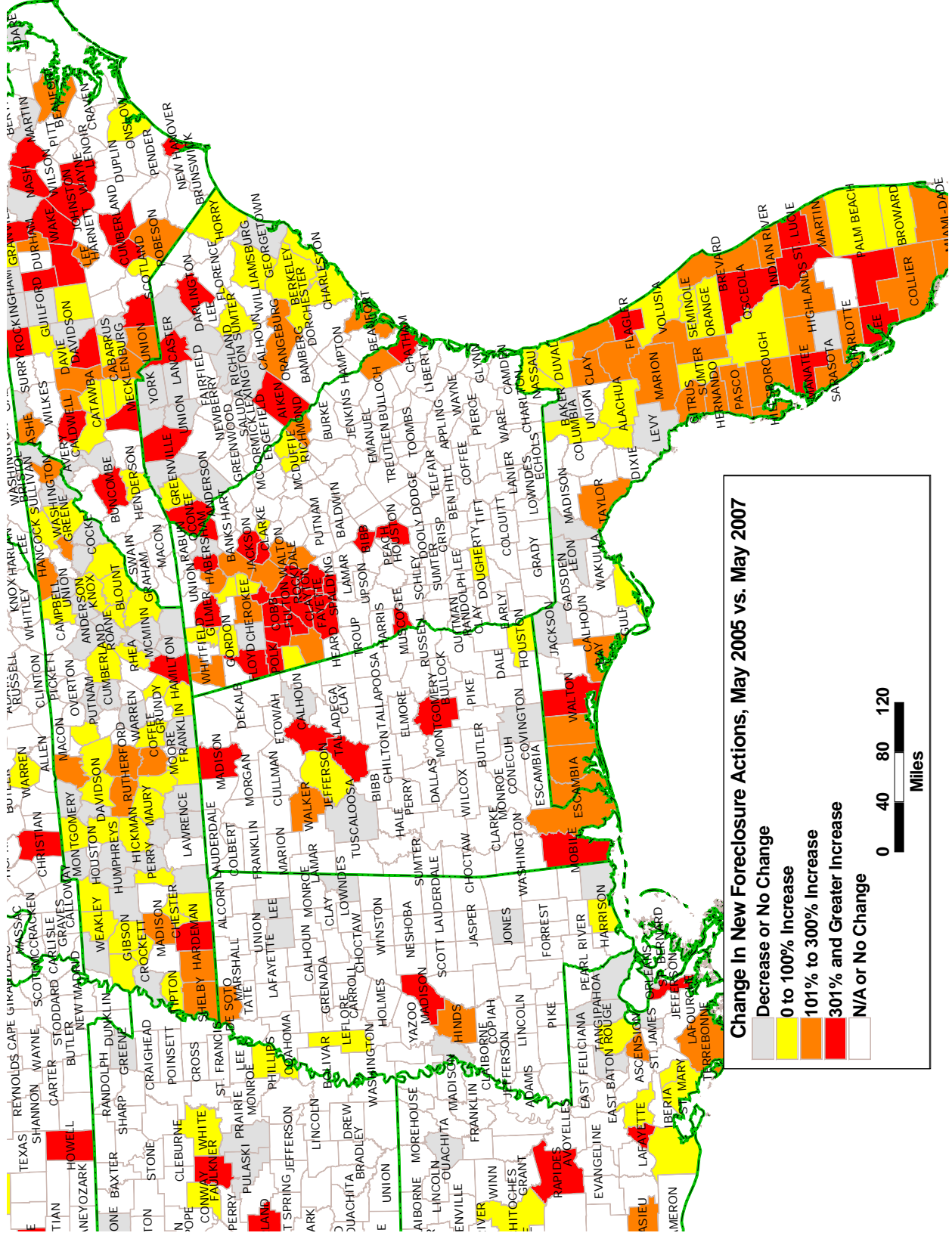


# Change In Foreclosure Actions May 2005 vs. May 2007 — The Northeast





# Change In Foreclosure Actions May 2005 vs. May 2007 — The Sunbelt





## Subprime ARM Foreclosures Are On the Rise in 49 States—Mortgage Bankers Association Data (1st Quarter 2005 vs. 1st Quarter 2007)

State	Foreclosures Started <sup>1</sup> (Percentage of All Sub- prime ARM Mortgages)			Foreclosure Inventory <sup>2</sup> (Percentage of All Sub- prime ARM Mortgages)			Percentage Pt. Increase 2005-2007			
	Q1 2007	Q1 2005	Pt. Increase 2005-2007	Q1 2007	Q1 2005	Pt. Increase 2005-2007	Q1 2007	Q1 2005	Pt. Increase 2005-2007	
	Q1 2007	Q1 2005	Pt. Increase 2005-2007	Q1 2007	Q1 2005	Pt. Increase 2005-2007	Q1 2007	Q1 2005	Pt. Increase 2005-2007	
Alabama	2.95	1.60	1.35	6.08	3.34	2.74	Missouri	3.51	2.06	1.45
Alaska	2.50	1.14	1.36	4.07	2.63	1.44	Montana	2.26	1.45	0.81
Arizona	1.93	0.80	1.13	2.41	1.16	1.25	Nebraska	4.00	1.87	2.13
Arkansas	2.93	2.04	0.89	5.61	3.63	1.98	Nevada	3.02	0.53	2.49
California	3.31	0.70	2.61	4.84	0.83	4.01	New Hampshire	2.98	1.40	1.58
Colorado	3.43	1.83	1.60	7.34	3.67	3.67	New Jersey	3.09	1.19	1.90
Connecticut	3.28	1.61	1.67	6.18	3.26	2.92	New Mexico	2.25	1.81	0.44
Delaware	2.66	1.34	1.32	5.46	3.56	1.90	New York	3.13	1.46	1.67
D.C.	1.96	1.18	0.78	3.44	1.46	1.98	North Carolina	2.63	1.72	0.91
Florida	2.87	1.02	1.85	4.67	1.92	2.75	North Dakota	2.31	0.85	1.46
Georgia	3.41	1.94	1.47	6.61	3.28	3.33	Ohio	4.51	2.70	1.81
Hawaii	2.45	0.68	1.77	3.58	1.36	2.22	Oklahoma	3.70	2.29	1.41
Idaho	2.06	1.72	0.34	3.11	3.62	-0.51	Oregon	1.52	1.20	0.32
Illinois	3.49	1.74	1.75	8.17	4.95	3.22	Pennsylvania	2.65	1.59	1.06
Indiana	4.54	2.77	1.77	12.93	8.17	4.76	Rhode Island	3.80	1.07	2.73
Iowa	3.89	2.24	1.65	12.08	7.75	4.33	South Carolina	3.19	1.99	1.20
Kansas	3.45	2.34	1.11	8.07	5.30	2.77	South Dakota	2.95	1.69	1.26
Kentucky	3.75	2.24	1.51	9.49	6.64	2.85	Tennessee	3.04	1.87	1.17
Louisiana	2.78	1.80	0.98	8.43	4.72	3.71	Texas	2.87	1.88	0.99
Maine	3.52	1.12	2.40	10.06	3.72	6.34	Utah	1.42	1.85	-0.43
Maryland	1.78	0.80	0.98	2.81	1.39	1.42	Vermont	2.15	1.05	1.10
Massachusetts	4.17	1.59	2.58	8.89	2.84	6.05	Virginia	2.18	0.78	1.40
Michigan	4.60	2.21	2.39	12.48	5.37	7.11	Washington	1.90	1.36	0.54
Minnesota	3.86	1.87	1.99	9.79	3.88	5.91	West Virginia	3.72	1.14	2.58
Mississippi	4.10	2.73	1.37	9.06	5.34	3.72	Wisconsin	3.53	1.72	1.81
Missouri	3.51	2.06	1.45	6.77	3.49	3.28	Wyoming	1.62	1.00	0.62
Montana	2.26	1.45	0.81	3.64	3.03	0.61	<b>United States</b>	<b>3.13</b>	<b>1.44</b>	<b>1.69</b>
										<b>6.46</b>
										<b>3.28</b>
										<b>3.18</b>

Source: Mortgage Bankers Association, Haver Analytics

<sup>1</sup>Foreclosures started refers to the percentage rate of loans for which a foreclosure has been initiated during the quarter, that is, the number of loans sent to the foreclosure process as a percentage of the total number of subprime ARM mortgages.

<sup>2</sup>Inventory of Mortgages in foreclosure refers to the total number of loans in the legal process of foreclosure as a percentage of the total number of mortgages in the pool during a quarter. The number of loans in the process of foreclosure during a quarter means that some foreclosures may have started in other quarters but have yet to be resolved.

## New Foreclosure Actions By State, May 2007 - RealtyTrac, Inc. Data

State	One New Foreclosure Action Per Every _____ Households (May 2007)			Percent Increase in Total New Foreclosure Actions in May 2005 vs. May 2007		
	Total New Foreclosure Actions During May 2005	Total New Foreclosure Actions During May 2007	One New Foreclosure Action Per Every _____ Households (May 2007)	Total New Foreclosure Actions During May 2005	Total New Foreclosure Actions During May 2007	Percent Increase in Total New Foreclosure Actions in May 2005 vs. May 2007
Alabama	3,544	201	554	176%		
Alaska	2,023	91	128	41%		
Arizona	702	1,296	3,117	141%		
Arkansas	2,911	269	403	50%		
California	718	3,727	17,010	356%		
Colorado	615	2,602	2,960	14%		
Connecticut	1,097	453	1,263	179%		
Delaware	3,812	21	90	329%		
D.C.	13,088	22	21	-5%		
Florida	572	5,744	12,766	122%		
Georgia	563	1,016	5,826	473%		
Hawaii	4,074	66	113	71%		
Idaho	2,265	220	233	6%		
Illinois	1,134	3,571	4,313	21%		
Indiana	1,034	1,565	2,443	56%		
Iowa	3,502	58	352	507%		
Kansas	5,713	14	198	1314%		
Kentucky	3,952	415	443	7%		
Louisiana	8,678	156	217	39%		
Maine	36,216	3	18	500%		
Maryland	1,492	175	1,420	711%		
Massachusetts	1,593	491	1,646	235%		
Michigan	685	2,085	6,177	196%		
Minnesota	2,143	109	965	785%		
Mississippi	6,540	76	194	155%		
Missouri	1,237	760	1,973	160%		
<b>Total</b>	<b>1,166</b>	<b>46,900</b>	<b>99,456</b>	<b>112%</b>		

Source: Preliminary data provided by RealtyTrac Inc.

Notes: RealtyTrac's monthly foreclosure data counts the number of unique home addresses with some type of foreclosure action filed against them during the month, not including properties already in RealtyTrac's active foreclosure database. The types of foreclosure actions tracked by RealtyTrac are notices of default, Lis Pendens, auctions (Notice of Trustee Sales and Judgments of Foreclosure Sales) and REOs (properties that have been foreclosed on and repurchased by the bank). According to RealtyTrac, auctions and REOs, which take place at later stages of foreclosure in most states, are much more likely to lead to the immediate or near immediate loss of a home.

RealtyTrac analysts estimate that a near 5% increase can be accounted for by increased coverage and improved data over the past two years. The data listed here do not include any counties which were not included in the 2005 data set and every county included has experienced an increase far greater than the 5% that could be accounted for by data bias from increase coverage.