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HUD/FHA-Insured Homeowners and Properties in End-Stage Default
and Foreclosure: National Context and Experiences in Massachusetts

Outcomes of Foreclosure: Literature Review and Experiences in Lowell, Massachusetts

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Abstract

This Issue Brief focuses on the outcomes of foreclosure, both in general and for a set of properties in Lowell, Massachusetts. The first section provides a short overview of various issues pertaining to the preforeclosure period and the recent record of the federal government's foreclosure prevention programs. The Issue Brief continues with a review of the literature on the outcomes of foreclosure for properties, foreclosed homeowners and renters, and neighborhoods and municipalities. Evidence from this review suggests that foreclosures typically have a range of negative outcomes. Foreclosed properties can remain vacant or abandoned for long periods of time, with a variety of negative effects for the surrounding areas. And, certainly, foreclosure is a traumatic outcome both for owner occupants and for renters of foreclosed properties, who may face displacement sometimes due to no fault of their own. Significantly, foreclosure is certain to create a range of problems, including creating adverse impacts on health and overall well-being, with children being particularly vulnerable.

The final section presents some empirical information about the impacts of foreclosure in Lowell, Massachusetts. This analysis reveals that foreclosed properties are staying vacant for about one year. We estimate that HUD/FHA is likely losing from \$46,853 to \$81,639 per FHA-insured foreclosed home. We also attempt to assess some of the economic and social costs of foreclosed properties in Lowell by examining police calls, tax arrearages, and linkages to homelessness. Although the findings from Lowell are far from conclusive, the weight of the evidence, especially in the context of numerous other studies, suggests strongly that foreclosure harms the homeowners losing their homes, the surrounding areas, and the municipalities in which the homes are located. Some of the difficulties in producing clearer findings are due to insufficient data disclosure by HUD/FHA. This leads to my recommendation that HUD/FHA be required to keep clear public records concerning the costs to the agency of each foreclosure. HUD/FHA's monetary loss (or gain) on each foreclosed property is a critical piece of information in developing appropriate policy levers to prevent this unwanted outcome. Additionally, the information needs to be easily accessible through FOIA requests or other transparent reporting mechanisms.

Series Introduction

By Erin M. Graves* and Chris Herbert**

This series of Issue Briefs was being finalized just as the coronavirus pandemic was beginning. Beyond our current and pressing concerns about health, mortality rates, personal financial distress, and impacts on businesses and the national economy, we will likely soon be facing an increase in loan defaults and foreclosures, as significant numbers of people are unable to make their mortgage payments.

Policy makers and financial institutions have taken several immediate steps to help homeowners who have lost income during this period. The Department of Housing

and Urban Development (HUD) took action by placing a 60-day moratorium on foreclosures for loans insured by the Federal Housing Administration (FHA). In addition, the Federal Housing Finance Administration (FHFA) ordered Fannie Mae and Freddie Mac loan servicers to lower or suspend borrowers' mortgage payments for up to 12 months if homeowners have lost income because of the pandemic. Under the Coronavirus Aid, Relief, and Economic Security Act, borrowers can initiate a 180-day forbearance and foreclosure moratorium for any federally-backed mortgage loan. Private non-government-backed lenders and servicers also have volunteered mortgage relief.

These short-term actions may relieve some financial distress and forestall some foreclosures and, in the longer term, the economy hopefully will recover. However, that recovery will likely be uneven and the financial challenges for millions of families could continue as workers struggle to regain a foothold. In addition, those who contracted the virus may experience long-term effects that will impact their ability to work. Should these challenges come to pass, there likely will be a spike in foreclosure rates over the next several years. Other households, unable to afford their mortgage payments, may be able to avoid foreclosure, but they may find themselves forced into a rushed sale and a destabilizing move. And, as always, those who will be hit hardest will be households with less secure employment and fewer assets, a pattern that parallels the disproportionate impact of the disease itself. This situation will therefore likely have a disparate and more serious impact on households of color and on more fragile neighborhoods.

The Federal Reserve Bank of Boston and the Joint Center for Housing Studies of Harvard University are pleased to be presenting this Issue Brief series at a time when the insights drawn from this research may be of great value as policymakers look to craft a response to this latest economic crisis. Since the research and writing for this series of Briefs were done during a period of declining foreclosures for both FHA-insured and conventional loans, the author of the Briefs, Rachel Bratt, points out that this relatively calm stretch provided “a good time to explore the extent to which a number of HUD/FHA default and foreclosure policies and procedures are serving the public interest and to identify opportunities for improvement.”

These Issue Briefs offer a number of insights about HUD's regulations and procedures concerning mortgages that are close to foreclosure, or end-stage default through the lens of mortgage market upheaval following the Great Recession. Also drawing on the experiences of local and state governments, as well as several nonprofit organizations, a number of thoughtful and innovative suggestions are offered for how homeowners in end-stage default can be assisted to retain their homes, thereby promoting family and neighborhood stability. Now is a good time to consider how to apply the lessons learned in order to safeguard the hardest-hit households and communities facing foreclosures in 2020 and beyond.

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Introduction

In the aftermath of the foreclosure crisis, a body of research tracked many of the social and economic costs of foreclosure and eviction for both households and communities. A key assumption of this Issue Brief and the others in this series, and one with a substantial amount of research support, is that when homeowners and tenants are able to remain in their homes during and following a foreclosure, families are not disrupted and do not need to seek additional shelter (possibly at the public's expense), and houses do not become vacant—with the possible negative side-effects associated with such properties.

The U.S. Department of Housing and Urban Development (HUD) is in charge of implementing and overseeing the mortgage insurance programs of the Federal Housing Administration (FHA). A deeper understanding of the outcomes of foreclosure for a set of FHA-insured loans is an important part of the overall foreclosure story. After providing some background on the systems and processes available to help at-risk homeowners avoid foreclosure, the Issue Brief addresses two questions. First, what does the literature say about the impacts of foreclosure on households and neighborhoods? Second, using Lowell, Massachusetts (one of the Federal Reserve Bank of Boston's Working Cities program grantees), as an example, what can we learn about what happens to HUD/FHA foreclosed properties and to the former homeowners of those homes?¹

The exploration of those questions necessitated a multimethod approach. First, a literature review was carried out to summarize findings regarding the outcomes for foreclosed properties and the prior homeowners. Second, I conducted interviews with key informants in the City of Lowell, Massachusetts, to explore their experiences with HUD/FHA-foreclosed or soon-to-be foreclosed homes. Third, the CoreLogic database was used to gather the addresses of all FHA foreclosed mortgagors in Lowell from 2010 through 2016. In collaboration with Richard P. Howe Jr., Lowell's register of deeds, and using material on the Middlesex North Registry of Deeds website, as much information as possible was collected about the foreclosed homes, along with whether the names of the foreclosed homeowners appeared in the Homeless Management Information System database. Fourth, using the addresses of HUD/FHA foreclosed properties and working with City of Lowell staff, efforts were made to determine the impacts of foreclosure on the municipality. More specifically, I gathered data on FHA-insured foreclosed properties in Lowell to determine the length of vacancy, monetary losses to HUD/FHA, frequency of policy calls, and other municipal costs.

*Mortgage foreclosure is a tragic and traumatic event
for any homeowner.*

U.S. Department of Housing and Urban Development, 1996²

Background: Efforts to Assist Homeowners in Default Prior to Foreclosure

A HUD report from more than 20 years ago stated, “It is now widely understood that alternatives to foreclosure are beneficial to all parties involved: homeowners, lenders and loan servicers, mortgage insurers, and Federal guarantee agencies.”³ In line with this, there are a number of systems in place to help homeowners who default on their mortgages and are at risk of foreclosure to avoid that outcome. A homeowner in default often connects with the lender, either in response to an inquiry about a late payment or to alert the lender of a problem. The lender may first offer some type of forbearance arrangement—perhaps allowing the mortgagor to miss a payment or two and then to make up the deficit over time by paying a little extra each month until the past-due balance is paid. Efforts to modify the loan would likely come later if the default persists. (For details about HUD’s rules and guidelines for mortgagees and servicers of FHA-insured loans, see Issue Brief No. 4.) The homeowner may be encouraged to participate in a counseling program, as it has been shown that households are more likely to avoid foreclosure if they take this step.⁴ The homeowner may also seek a loan modification.

During the foreclosure crisis, many homeowners were unable to obtain the loan modification needed to prevent them from losing their homes.⁵ In general, the record of the various government loan modification programs was disappointing, with none assisting nearly as many homeowners as anticipated.⁶ As the federal government’s central effort to address the crisis wound down (with the Home Affordable Modification Program or HAMP), a December 30, 2016, *Boston Globe* headline stated, “Obama’s Foreclosure Prevention Program Limp to Finish Line.” Although it had been hoped that some 4 million homeowners would be assisted, only about 1.6 million were able to lower their mortgage payments through HAMP; about one-third once again fell behind in their payments.⁷

Several reasons for the disappointing outcomes have been identified. Since many homeowners had lost jobs, divorced, had health problems etc., some simply didn’t have the income to pay the new mortgage, the loan modification notwithstanding. In other words, some modified loans failed because ultimately they remained unaffordable given income declines and the ongoing financial instability stemming from the Great Recession. In addition, studies have found various abuses, poor administration, and lack of proper adherence on the part of lenders and servicers to federal loan modification guidelines, such as instances of lenders/servicers not offering mortgagors in default a face-to-face interview. (See Issue Brief No. 4.).⁸ And in some cases, when homeowners in default tried making partial mortgage payments to prevent foreclosure, lenders were unresponsive.⁹

Another analysis of the weak loan modification results suggests that it may be financially preferable to foreclose than to offer a loan modification. This counters the widespread view “that lenders may lose a great deal of money with each individual foreclosure.”¹⁰ Certainly, at least in the short term, when a loan becomes delinquent the lender/investor loses money. However, foreclosure may not lead to greater monetary

losses for the lender/investor than loan modification would produce and may be efficient when “the issue of moral hazard is factored into the equation.”¹¹ This analysis suggests that “loan modifications might have negative NPV [net present value] if they are sometimes extended to people who are likely to pay on time anyway. And the benefits of modifications are uncertain if borrowers have lost their jobs.”¹² This may, in fact, explain “why mortgage investors are not unduly concerned about too few modifications being performed.”¹³ Whether for this or other reasons, strategies to minimize what are generally regarded as the negative outcomes of foreclosure have not been universally embraced.

Literature Review: Outcomes of Foreclosure¹⁴

Outcomes for properties are covered first, followed by outcomes for foreclosed homeowners and renters, and lastly, outcomes for neighborhoods and municipalities.

Outcomes for Properties

If a homeowner is in end-stage mortgage default, unable to resolve the indebtedness to the lender’s satisfaction, and on the verge on foreclosure, there are three likely outcomes. First, the lender or servicer may abandon the property; second, it could be purchased by a new owner, with for-profit organizations often having a competitive advantage in these transactions; and, third, should it not sell, it will become part of a bank’s real estate–owned (REO) inventory. Each of these has different outcomes for lenders, buyers, homeowners, and the surrounding communities.

Stalled Foreclosures and Bank Walkaways

Sometimes the status of properties in end-stage mortgage default becomes stalled. Although it is not likely that this would be a problem with an FHA-insured loan, since the servicer would likely want to complete the foreclosure in order to get reimbursed by the FHA, this has been identified as a problem for some loans. In such cases, a lender may initiate a foreclosure but, for some reason, the process is not completed and the property is, essentially, in limbo. One way that this can happen is if a bank literally walks away from a property, resulting in a “zombie foreclosure.” For properties with low or even negative value, the lender might have initiated the foreclosure and then not followed through on the process because the cost of the foreclosure and property maintenance is thought to outweigh the value of the property.¹⁵ Fear of some legal liability/risk may be another reason why lender/servicers choose not to complete the foreclosure process and take ownership of the property.

Alternately, the foreclosed property may go to auction but fail to receive any bids, either from the lender or from another party.¹⁶ When bank walkaways happen, ownership is unclear, but the homeowner often assumes that the lender has taken ownership and evacuates the property. Houses can thus remain vacant or abandoned for long periods of time, and the “toxic titles” associated with walkaways can thwart attempts to sell these properties.¹⁷

It is difficult to identify and measure the extent of bank walkaways. However, one study estimated that bank walkaways accounted for about 15 percent of residential

mortgage foreclosures in Cuyahoga County, Ohio, between November 2005 and April 2009.¹⁸ Other researchers found that more than one-half of bank walkaways from this period were vacant, posing challenges for local communities.¹⁹ If homeowners leave when they receive a notice of foreclosure, but banks do not complete the foreclosure process, the vacant house typically does not receive adequate maintenance, sometimes resulting in code violations. In addition, property taxes may be unpaid, and the vacant houses may become targets for looting and drug activity. Moreover, when the natural gas supply is not shut off, bank walkaways can result in explosions and fires.²⁰

New Owners of Foreclosed Properties: Competitive Advantages for For-Profit Firms

Following a foreclosure, a lender may take back the property at foreclosure auction or there may be another buyer—a for-profit investor, a nonprofit organization, or a new homeowner. Such purchases might result in flipping, conversion to rental housing, or owner-occupancy. Lower home prices during the foreclosure crisis provided a potential opportunity for first-time homeowners because the financial barrier to homeownership decreased.²¹ However, some would-be purchasers were unable to compete in the housing market as credit tightened.

This tightening of credit also increased the likelihood of investors acquiring foreclosed homes.²² While homeowners typically rely on credit to purchase homes, investors have sufficient cash to buy foreclosed properties.²³ Investor cash sales rose between 2006 and 2011, peaking in 2011²⁴ and accounting for more than 40 percent of all cash sales that year.²⁵ Studies have found that foreclosed homes purchased by investors (particularly large corporate investors) are more likely to be poorly maintained, potentially leading to a decline in neighborhood quality.²⁶

Some of the competitive advantage for-profit investors enjoyed was likely due to their professional networks, which provided information and financial support for acquiring foreclosed properties. In contrast, owner-occupants and nonprofit organizations did not have access to these kinds of resources and lost purchasing opportunities as a result.²⁷ The federal Neighborhood Stabilization Program benefited nonprofit investors, but the lengthy and bureaucratic process for accessing the funds meant that for-profits were typically able to move more quickly on purchases and outbid the nonprofits.²⁸ When nonprofits were able to acquire properties, they spent more on rehabilitation and often produced higher-quality construction or amenities than did for-profit firms.²⁹

Unsold Homes: Bank Real Estate–Owned (REO) Properties

The vigorous activity of for-profit investors notwithstanding, there are always properties no one wants to buy. One study estimated that third parties purchased only 4–16 percent of properties at the foreclosure sale, with the rest returning to the lender.³⁰ When a foreclosure sale does not result in a new owner, lenders can take properties back into their portfolio and attempt to sell them again or, as noted above, simply walk away.

These REO, or bank-owned, properties present various challenges. One study found that REO properties tended to be in worse condition than similar foreclosed

properties and that unloading a large number of REO properties in a given area resulted in decreased sales prices.³¹ Distressed REO properties, which had the lowest values, were more difficult to sell and had negative implications for neighborhoods.³² Another study found that most REO properties were sold without improvements, possibly perpetuating vacancy and unstable ownership.³³

One team of researchers found that lenders and banks were generally interested in selling REO properties, particularly those in poor condition, as quickly as possible.³⁴ Government-backed lenders, including Fannie Mae and Freddie Mac, the FHA, and the Veterans Administration, sold REO properties at a faster rate than private lenders.³⁵

In one market area studied, at least one-half of the purchasers of distressed-priced REOs were out-of-state investors.³⁶ However, patterns differed in various housing markets. In Boston and Atlanta, most investors were local or in-state.³⁷ In Cleveland, the pattern changed over time: between 2000 and 2004, out-of-state investors were less likely to make REO purchases, but between 2005 and 2012 they were more likely to make these loans.³⁸

Outcomes for Foreclosed Homeowners and Renters

Not surprisingly, there is nothing subtle about the impact of foreclosure on homeowners and tenants, who suffer many adverse impacts. The most obvious of these is household displacement. About one in 20 adults were displaced because of foreclosure between 2007 and 2012, totaling some 10 million people.³⁹ One survey found that 43 percent of responding households who lost their homes had children.⁴⁰ While there has been considerable research exploring the effect of foreclosed properties on neighborhoods, much less is known about what has happened to foreclosed households. This dearth of information is largely due to the significant costs and complexity involved in trying to track these households.⁴¹ One study observed that “data limitations have made it difficult or impossible for researchers to accurately track where specific individuals move after foreclosure.”⁴² Notwithstanding the challenges, there have been a number of studies on outcomes for residents of foreclosed homes, as well as attempts to provide an overview of this group’s key characteristics.

During the foreclosure crisis, although “the people who experienced foreclosure [were] not much different from everyone else,” they tended to be younger, were more likely to have children, and had fewer economic resources than households that did not go through foreclosure.⁴³ Several studies and at least one comprehensive review have found disproportionate rates of foreclosure among Latino and African-American households.⁴⁴ Additionally, an estimated 40 percent of families experiencing foreclosure were renters, and rental properties represented 20 percent of all foreclosed properties.⁴⁵

As the foreclosure crisis progressed, the federal Protecting Tenants at Foreclosure Act (PTFA) of 2009 (discussed in Issue Brief No. 5) codified renter protections to prevent abrupt eviction. Specifically, the law, which terminated on December 31, 2014, but then was made permanent in 2018, required landlords to provide tenants who had a bona fide lease with at least 90 days’ notice before requiring them to vacate the house or apartment. Nevertheless, during the period when PTFA’s

protections were in abeyance (between 2015 and June 23, 2018⁴⁶), many renters were displaced in the process of their homes being foreclosed.⁴⁷

Households displaced because of foreclosure often moved to less desirable neighborhoods with a lower quality of life, a greater prevalence of crime and high unemployment.⁴⁸ One study found that the new neighborhoods of foreclosed households were more likely to have higher densities, lower homeownership rates, a greater proportion of female-headed households, smaller houses, and residents with lower incomes. Former homeowners were also likely to become renters.⁴⁹

Regarding financial impacts, research found that foreclosure often resulted in a marked decrease in household net worth, with African Americans and Latinos experiencing the greatest wealth declines.⁵⁰ Additionally, a study of one group of foreclosed homeowners found their credit ratings after foreclosure were much lower than their earlier scores.⁵¹

It is well known that a family member's illness may contribute to financial difficulties and lead to eventual foreclosure, but conversely, foreclosure can contribute to health problems, including hypertension, anxiety, and depression.⁵² Children in particular experience great stress from the displacement, change in schools, and the necessity of adjusting to new places.⁵³

There also is likely a connection between foreclosure and tenure insecurity and homelessness. According to one study, 23 percent of respondent households containing a member who had both suffered a foreclosure and been displaced between 2007 and 2012 indicated that they were neither renters nor owners after the foreclosure: these households were doubled up with others, squatting, or homeless.⁵⁴ A 2009 news report asserted that foreclosure accounted for 15 percent of the newly homeless in the Midwest at that time.⁵⁵ And in a study from that year, 50 percent of service providers surveyed estimated that more than 10 percent of their clients experienced homelessness directly related to foreclosure.⁵⁶

Outcomes for Neighborhoods and Municipalities

A large number of studies have identified negative consequences of foreclosure on neighborhoods and foreclosed homes, including a lowering of the area's overall desirability and social capital, an increase in crime, and decreased property values and a corresponding erosion of the community's tax base.⁵⁷

Interestingly and somewhat surprisingly, at least one study found that foreclosures had negative impacts on the health of other households in the neighborhood, in terms of weight gain. The authors suggest that this may have been due to members of these neighboring households being less physically active in the neighborhood because the area had become less desirable and/or spending less money on health-related activities or food as a result of real or perceived financial difficulties. However, a lack of data limited a better understanding of the causes of the observed weight gains.⁵⁸

Vacant properties also can be costly for municipalities as a result of an increased incidence of fires, arson, violent crime, and other types of problems requiring police or fire department responses. One study found that the typical single-family property that had gone through foreclosure and was in bank ownership was much more likely to receive complaints from the public than prior to foreclosure—a ninefold difference.⁵⁹

A study from Newark, New Jersey, estimated that foreclosures cost that municipality some \$56 million between 2008 and 2012.⁶⁰ In what appears to be the most comprehensive effort to try to detail the costs of foreclosure for municipalities, another study projected the costs of seven potential scenarios resulting from foreclosures in Chicago.⁶¹ At the lowest end, the researchers estimated a city cost of only \$27, with a property being sold at auction and never becoming vacant. However, a home foreclosure could cost the city some \$19,000 if the bank walks away from the property, does not complete the foreclosure process, and is not assuming responsibility for the upkeep of the home. Unpaid property taxes and water fees are a major component of the costs to the city, but with the property vacant and untended, considerable additional costs are likely due to illegal dumping and police calls, and demolition may be required. In an even more extreme scenario—if the home has not been demolished and a fire occurs—the municipal costs can increase another \$15,000, for a total of more than \$34,000. And the authors say the costs could be much higher in certain circumstances.

A related area of research has involved estimating the cost of vacant and abandoned properties (not specifically foreclosed properties) to municipalities. This is relevant because the connection between foreclosed and vacant properties is well established. In studies of three locales (Pittsburgh, Toledo, and Atlanta), researchers found that such properties do indeed cost municipalities millions of dollars in direct service costs, as well as losses in property taxes.⁶²

In the wake of the foreclosure crisis, communities of color experienced uneven recovery. One study of the greater Atlanta area found that zip codes with higher percentages of black and Hispanic residents were less likely to experience a full or even partial recovery following the foreclosure crisis than zip codes that had more white residents; black neighborhoods in particular were most prone to experiencing no recovery.⁶³

In summary, foreclosures typically have serious consequences for properties, neighborhoods, municipalities, and for the prior residents. Houses can remain vacant or abandoned for long periods of time and a variety of negative externalities for the surrounding areas have been identified. And, certainly, foreclosure is an unwanted outcome for both owner occupants and for renters of foreclosed properties.

We should all be reminded of a basic lesson we learned from the Great Recession: failing to protect consumers has consequences not only for individuals and families, but also for the health of America's economy. The failure by regulators to hold Wall Street banks and unscrupulous mortgage lenders accountable for complying with consumer protection laws was detrimental to American families and

brought the global financial system to near collapse. The cost of that failed oversight and accountability has been the loss of millions of American jobs, millions of homes, and trillions of dollars in retirement, college, and other savings.

—Sen. Tim Johnson (D-SD), chairman of the Committee on Banking, Housing, and Urban Affairs, 2011⁶⁴

Foreclosure in Lowell, Massachusetts: Selected Outcomes for HUD/FHA Foreclosed Homes and Their Former Owners

With a population of about 110,000, Lowell is the fourth-largest city in Massachusetts, located in the northern part of the state, 20 miles from Nashua, New Hampshire, and 30 miles from Boston. The city has a rich history as a mid-19th century industrial center, particularly for textile manufacturing. One hundred years ago, Lowell was a growing, thriving city, with a population about equal to its population today. After World War II, Lowell's trajectory changed dramatically: the city experienced population and job losses as manufacturing firms exited the city.

During the Great Recession, there was a sharp increase in Lowell's foreclosure rate.⁶⁵ Between 2007 and 2012 there were an average of 438 foreclosures per year, compared with only 54 foreclosures per year between 2000 and 2005.⁶⁶ From 2006 to 2007, the number of foreclosures in Lowell increased nearly threefold, from 93 to 283.⁶⁷ Between 2010 and 2016, Lowell experienced a total of 1,927 foreclosures, including both homes that had been FHA-insured and those that had been conventionally financed.⁶⁸

In 2013, nearly 25 percent of Lowell's population was black or Latino and nearly 20 percent was Asian, including a large Cambodian community. Residents of Lowell have a considerably lower median income than the residents of Massachusetts' other 26 "Gateway Cities" (midsized cities with lower income and educational levels than the state's median). Nearly 17 percent of Lowell's population has incomes below the federal poverty line, and some 23 percent of households receive food assistance. In 2013, the median value for a home was about \$25,000 less in Lowell than in other Gateway Cities, and about \$100,000 less than the median for the state as a whole.⁶⁹

Lowell's resurgence in the latter part of the 20th century and early in the 21st century is attributed in part to the political influence of Paul Tsongas, a local leader and later a U.S. senator, and to the growth of new employment opportunities, educational institutions, and recreational facilities. The Lowell campus of the University of Massachusetts is the second-largest of the five campuses in the UMass system, and it has a growing reputation for research and overall academic standards. In addition, Lowell has been successful in transforming many of its older industrial areas; the Lowell National Historical Park is a major tourist attraction.

The Federal Reserve Bank of Boston's Working Cities program selected Lowell as one of its grantee communities and is focused on the city's poorest neighborhood,

known as “The Acre.” The program focuses on three key areas: educational attainment, employment opportunities with family-sustaining wages, and diversity and inclusion.

Approach to Data Analysis

A key goal of this project was to gather specific information about a set of FHA-insured foreclosed properties and their residents in one city. Lowell was selected because it is a Working City community and because it has many characteristics typical of older American cities. The project aimed to collect the following data, which the literature review suggests are key areas of interest. Additional information on these points from a single city could be useful in helping to guide policy directions.

- 1) The amount of time FHA-insured foreclosed properties likely remained vacant
- 2) The net gains/losses to HUD/FHA on the disposition of FHA-insured foreclosed properties
- 3) The frequency with which fire and police departments were called to FHA-insured foreclosed properties
- 4) The frequency of property tax arrearages for FHA-insured foreclosed properties.⁷⁰
- 5) The frequency with which the names of former residents of FHA-insured foreclosed properties appeared in the Homeless Management Information System database

Research assistants at the Federal Reserve Bank of Boston⁷¹ used the CoreLogic database to determine the addresses of FHA-insured foreclosed properties in Lowell, 2010–2016 inclusive. Thirty-one cases with foreclosure auction dates before 2010 (usually in 2009) but with a sale to a third party occurring in 2010 or later are included in the sample. The decision to include these properties resulted in the sample being more robust than if the homes with foreclosure auction dates prior to 2010 had been excluded. After a number of additional steps and calculations, the final number of properties totaled 114.⁷²

The Middlesex North register of deeds, Richard P. Howe Jr., provided an enormous amount of help in this effort.⁷³ Much of the information discussed below is presented in tabular form (see Tables 1–6). Additionally, the excel spreadsheet that includes detailed information for all the cases in this sample is available as an appendix to this Issue Brief. All references in the text or endnotes to specific columns refer to data presented in that appendix. Regrettably, despite two detailed Freedom of Information Act (FOIA) requests submitted to HUD and numerous follow-up phone calls and emails over the course of nearly two years, HUD provided virtually no information that would have been useful for this analysis.

It is important to underscore that this should be viewed as a pilot exercise that is, primarily, exploratory, constrained by the time and resources available. Without control groups, it is not possible to assess how the various experiences with the FHA-insured foreclosed properties in our sample compare with a broader sample of foreclosed

properties or, in the case of police/fire calls and property tax arrearages, with properties not going through foreclosure.

Length of Property Vacancy

As shown in Table 1, FHA-insured homes in Lowell that were foreclosed between 2010 and 2016 were likely to remain vacant for nearly one year—an average of 340 days. The median was about nine months (271 days; column Q in the appendix). This number was calculated by determining the number of days that elapsed between the date of the foreclosure auction and the date of the sale of the property to the third party, the new owner (columns L and O in the appendix).⁷⁴ Nearly one-third of the properties (N = 36) took over one year to be sold to a new owner (calculation based on column Q in the appendix). This is of concern because it is widely believed that “the longer a house sits vacant and abandoned, as many foreclosures do, the higher the likelihood its condition will deteriorate—resulting in either higher downstream repair costs, or lower proceeds, or both.”⁷⁵

Table 1 | Length of Property Vacancy for FHA-Insured Foreclosed Properties, Lowell, Massachusetts, 2010–2016

	Days from date of auction to date of sale to third party (Q)	Years/months from date of auction to date of sale to third party (R)
Minimum	17	0 years, 1 months
25th Percentile	176	0 years, 6 months
Mean	340	0 years, 11 months
Median	271	0 years, 9 months
75th Percentile	468	1 years, 3 months
Maximum	2,179	6 years, 0 months

Source: Analysis of Middlesex North Registry of Deeds data. For data for all properties in the sample, please see the appendix. Letters in parentheses refer to column numbers in the appendix.

HUD/FHA’s Net Gains/Losses on Foreclosed Properties

Information on the net gains/losses to HUD/FHA on the foreclosed properties in the Lowell sample would, ideally, have been available from HUD. However, as noted above, FOIA requests yielded no response from HUD and, further, a HUD official told me that this information was not available.⁷⁶ In an attempt to estimate HUD/FHA’s net gains/losses for the properties in the sample, the following two methods use numbers that are available from deed recordings. Both calculation methods, which are described below and explained further in the endnotes, show that in the great majority of cases,

sales prices to the new owners are less than the likely amount that HUD/FHA is paying to mortgagees from the MMIF. (See Issue Brief No. 2.)

HUD's guidelines are clear about the minimum amount of money that can be accepted when a foreclosed property is being offered for sale. In order for a mortgagee to file a claim for FHA insurance, the property must be sold for no less than the estimated fair market value in "as-is" condition.⁷⁷ Thus, while the sales price of the foreclosed home is not linked to the amount of outstanding debt on the property, it is instructive to try to assess how these foreclosures have affected the insurance fund.

In the first calculation method the original (or refinanced) mortgage amount is subtracted from the amount that the third-party purchaser paid for the property. Since most of the earlier payments in the life of a mortgage consist of interest, there is little principal reduction, even several years into the mortgage. Whatever principal reduction there was likely would be offset, if not surpassed, by additional interest, late fees, charges, and the cost of foreclosure, all of which are rolled into the amount of indebtedness under the mortgage.⁷⁸

For 92 percent of the properties (N = 105), the amount for which the property was sold to the third party was lower than the mortgage indebtedness at the time of foreclosure (columns AB and AC in the appendix). Using the first calculation method, the overall average loss for all the properties in the sample was \$81,639 and the median loss was \$77,838. Looking only at the 105 properties for which the third-party sale amount was lower than the mortgage indebtedness at the time of foreclosure, the average loss was \$91,392 per home, with the median being \$82,620. Of the nine homes that were sold to third parties for more than the mortgage amount, the average gain was \$32,137 and the median was \$25,000. Table 2 shows all the information cited here, as well as additional data. (Also see columns AD, AE, and AF in the appendix.)

In the second calculation method, the amount paid by the purchaser at the foreclosure auction—that is, the foreclosure deed amount (rather than the mortgage amount)—is subtracted from the amount paid by the third party for the property. Using the foreclosure deed amount is another way to approximate the bank's indebtedness and, therefore, the amount of HUD/FHA's liability. The basis for this calculation method is as follows: since the foreclosing lender is usually the buyer at the foreclosure auction, presumably that lender would want to essentially reimburse itself for the amount that it is owed on the loan. According to Richard P. Howe Jr., "The amount stated on the foreclosure deed in most cases represents the amount of money that the bank has essentially paid itself at the foreclosure auction."⁷⁹

Based on this method of analysis, for nearly three-quarters of the 112 properties for which this information was available, the property was sold to the third party for less than the foreclosure deed amount (N = 83; columns AI and AJ in the appendix).⁸⁰

Table 2 | HUD/F4HA’s Net Gains/Losses on Foreclosed Properties, Lowell, Massachusetts, 2010–2016

	Mortgage amount (K)	Foreclosure deed amount (N)	Third-party payment amount (P)	Third-party payment amount (–) mortgage amount (AD)	Cases in which third-party payment amount < mortgage amount (AE) N = 105 (AB + AC)	Cases in which third-party payment amount > mortgage amount (AF) N = 9 (AB + AC)	Third-party payment amount (–) foreclosure deed amount (AK)	Cases in which third-party payment amount < foreclosure deed amount (AL) N= 83 (AI + AJ)	Cases in which third-party payment amount > foreclosure deed amount (AM) N= 29 (AI + AJ)
Minimum	\$40,500	\$59,000	\$52,000	–\$361,289	–\$361,289	\$6,500	–\$293,289	–\$293,289	\$719
25th Percentile	\$198,634	\$149,531	\$127,125	–\$113,713	–\$117,850	\$9,619	–\$98,664	–\$118,377	\$14,000
Mean	\$244,745	\$209,959	\$163,106	–\$81,639	–\$91,392	\$32,137	–\$46,853	–\$77,243	\$36,895
Median	\$237,910	\$195,000	\$158,500	–\$77,838	–\$82,620	\$25,000	–\$28,423	–\$56,518	\$25,171
75th Percentile	\$285,750	\$247,442	\$186,625	–\$45,000	–\$54,712	\$40,250	\$739	–\$25,100	\$59,858
Maximum	\$728,000	\$660,000	\$366,711	\$103,500	–\$5,000	\$103,500	\$135,000	–\$92	\$135,000

Source: Analysis of Registry of Deeds data. For data for all properties in sample, see appendix.

Letters in parentheses refer to column numbers in the appendix.

Definitions provided by Middlesex North Register of Deeds Richard P. Howe Jr., private email communication, July 2017.

Mortgage amount: Amount of the mortgage that was foreclosed. (This may be the original mortgage amount or the amount of the new mortgage if the property was refinanced.)

Foreclosure deed amount: Amount paid by the purchaser at the foreclosure auction.

Third-party payment: Amount third party paid for the property.

Table 2 shows that based on the results obtained using the second method, the average HUD/FHA loss for the 112 properties was \$46,853 per home, with the median being \$28,423. Looking only at the homes that were sold to third parties for less than the foreclosure deed amount, the average loss was \$77,243 and the median was \$56,518. Of the 29 homes that were sold to third parties for more than the foreclosure deed amount, the average gain was \$36,895 and the median was \$25,171. (Also see columns AK, AL, and AM in the appendix.) It is not clear how much of this gain can be viewed as profit or whether the funds were needed to cover other expenses associated with the foreclosure, such as legal fees, property taxes, insurance, and past-due interest payments. However, if the gains are used for these purposes, presumably they would reduce the amount of money to be paid by the MMIF, whose specific purpose is to insure mortgagees against foreclosure losses. On average, over the past decade, foreclosure has resulted in losses of about 50 cents on the dollar.⁸¹

The following additional observations can be made about the 114 foreclosed FHA-insured homes in the study:

- 57 percent (N = 65) had been refinanced at some point prior to foreclosure; 43 percent (N = 49) of the foreclosed homes had involved the original purchase mortgage (columns S and T in the appendix).⁸²
- For refinanced properties, the average time elapsed between the original purchase mortgage and the refinanced mortgage was 8 years, 7 months, and the median was 4 years, 6 months (columns U, V, and W in the appendix).⁸³
- Additional data was available for 60 of the 65 refinanced mortgages: 23 percent of this group (N = 14) of those homeowners refinanced their homes for less than the original cost of the home, suggesting that rather than extract equity from the home they likely refinanced to get better terms, particularly a lower interest rate. The remaining 77 percent (N = 46) refinanced their homes for an amount greater than the original mortgage amount. An average of \$120,048 in equity was extracted from the home; the median was \$102,550.⁸⁴ (column AA in the appendix).
- For both methods of calculating the approximate net gains/losses to HUD/FHA on foreclosed properties, properties that were refinanced lost more value than properties that were not refinanced (columns AG, AH and AN, AO in the appendix).

Police/Fire Calls to Foreclosed Properties⁸⁵

Another measure of the impact of foreclosure on both the surrounding community and community resources is the frequency with which foreclosed properties demand public-safety services. We obtained police and fire logs to determine the number of such calls to the foreclosed properties in the sample.⁸⁶

Data on calls to the police and fire departments cover the period from January 1, 2010, to December 31, 2016. As shown in Table 3, to the extent possible, police and fire calls to each property covered three time periods: within three years prior to the date of

foreclosure, from the date of foreclosure to the date of sale to the third party, and within three years after the date of sale to the third party.⁸⁷

Table 3 | Properties with Calls to Police and/or Fire Departments, from Three Years Prior to Foreclosure Date Through Three Years After Date of Sale to Third Party

	Number of properties	% of total properties	Number of police/fire calls	% of total police/fire calls
Police/fire calls within three years prior to date of foreclosure	34*	30.3**	142	26.3
Police/fire calls from date of foreclosure to date of sale to the third party	41*	36.6**	60	11.2
Police/fire calls within three years after date of sale to the third party	85*	75.9**	337	62.5
Total			539	100.0
Police/fire calls in at least one of the three periods	93	81.6		
Properties with no police/fire calls recorded at any point	21	18.4		
Total	114	100.0		

* These numbers do not add up to the total number of properties in the sample (114), because many properties had calls to police/fire departments in more than one period (e.g., both before foreclosure and from foreclosure to date of sale to a third party).

**Similarly, these numbers do not add up to 100% because many properties had calls to police/fire departments in more than one period.

Source: City of Lowell data provided by Heather Varney, deputy chief financial officer, and Robin R. Smith, supervisory intelligence analyst, Crime Analysis/Intelligence Unit, Lowell Police Department. Compilation of the data performed by Jennifer Haynes, Federal Reserve Bank of Boston. Analysis of the data by the author.

Table 3 shows that the police and/or fire departments were called to more than one-third of the properties in the sample (N = 41) in the approximately one year between

the date of the foreclosure and the date that the property was sold to the third party—a period during which they were most likely vacant. Thirteen properties required police/fire assistance more than once, resulting in a total of 60 police/fire calls to the properties during this period.

The vast majority of properties in the sample, 82 percent, triggered police and/or fire calls at one or more points from three years prior to the date of foreclosure through up to three years following the date of sale of the home to a third party.

One might expect that during the preforeclosure period, police/fire calls might relate to the family's increasingly stressful situation as it faces serious financial difficulties and the impending loss of the home. Indeed, there were 142 police/fire calls to 34 properties (30%) at some point prior to the foreclosure sale date. One property had 28 police/fire calls during this period, and two others each had 12.⁸⁸

Another expectation would be that, upon the sale of the property to the third party, the situation would become stabilized and require fewer police/fire calls. However, for this sample, the exact opposite occurred. There were 337 police/fire calls to three-quarters of the homes in the sample (N = 85) during the postsale period.

Dan Immergluck offers a possible explanation for this pattern. If the foreclosed homes were purchased predominantly by absentee investors, then the properties would likely either be vacant or occupied by tenants; studies from other cities reveal that police and fire calls can be expected to increase under those conditions.⁸⁹ However, developing a database on the purchasers of the foreclosed homes, tracking the occupancy status of these properties, and matching this information with police and fire calls was beyond the scope of this effort.

In order to put the number of police and fire calls to the FHA-insured foreclosed homes in the sample in context, a more robust research strategy would have been needed: (1) identification of a control group, consisting of approximately 100 houses in roughly the same neighborhoods and overall conditions as each of the foreclosed properties, and (2) compilation of comparable police and fire call data for these properties, covering the same years as those for the properties in the sample. This, however, was also beyond the scope of this project.⁹⁰

Property Tax Arrears Associated with FHA-Insured Foreclosed Homes, 2010–2016

Out of the 114 homes in the sample, the City of Lowell provided property tax information for 111 properties. As shown in Table 4, of these, 82 percent experienced tax arrears for some period of time from three fiscal years before the foreclosure auction date to the date of the sale of the home to a third party, the new owner.⁹¹ Only 18 percent of the sample had no arrears during this period. A relatively small percentage of homes, 10 percent, did not have property tax arrears from the foreclosure auction date to the date of sale of the home to the third party, but there were arrears either before the foreclosure auction date or after the date of sale to a third party, or both.

Table 4 | Property Tax Arrears for FHA-Insured Foreclosed Homes, City of Lowell, 2010–2016

Period during which there are property tax arrears	N	%	Number of FYs with arrears
Homes with NO PROPERTY TAX ARREARS from three years before foreclosure auction date to date of sale of home to the third party, the new owner, to three years after date of sale to the new owner	20	18	0
Homes with no property tax arrears from foreclosure auction date to date of sale of home to the new owner, BUT ARREARS AT SOME OTHER TIME from three years before foreclosure auction date to three years after date of sale of home to the new owner	14	13	38
No arrears from foreclosure auction date to date of sale to the new owner, but ARREARS anytime within three years BEFORE foreclosure auction date	6	5	13
No arrears from foreclosure auction date to date of sale to the new owner, but ARREARS anytime within three years AFTER date of sale to the new owner	3	3	6
No arrears from foreclosure auction date to date of sale to the new owner, but arrears anytime within three years BEFORE foreclosure auction date AND to anytime within three years AFTER date of sale to the new owner	5	5	19
Homes WITH PROPERTY TAX ARREARS anytime within three years BEFORE foreclosure auction date to anytime within three years AFTER date of sale of home to the new owner	77	69	233
Properties WITH PROPERTY TAX ARREARS ONLY from foreclosure auction data to date of sale to the new owner	18	16	22
Properties WITH PROPERTY TAX ARREARS anytime within three years BEFORE foreclosure auction date to date of sale to the new owner	37	33	121
Properties WITH PROPERTY TAX ARREARS from foreclosure auction date to anytime within three years AFTER date of sale to the new owner	8	7	25
Properties WITH PROPERTY TAX ARREARS anytime within three years BEFORE foreclosure auction date AND to anytime within three years AFTER date of sale to the new owner	14	13	65
TOTAL	111	100%	271

Source: Data provided by Alexander G. Haggerty, assistant collector, Office of the Treasurer/Tax Collector, City of Lowell. Compilation and analysis of the data by the author.

Nearly half of the 77 homes that had property tax arrears from the foreclosure auction date to the date of the sale of the home also were in arrears at some period of time within three fiscal years before the foreclosure auction date. Overall, one-third of the sample experienced this pattern.

These findings are what one would expect. Property tax arrearages would be most likely prior to the foreclosure auction date and from that point to the date the home is sold. Prior to foreclosure, as a household is moving toward losing their home, property tax payments, typically bundled with the mortgage payment, would likely be unpaid. However, in order to protect the lender's interest in the property, the servicer may advance property tax monies to the municipality and then add that to the final reimbursable costs of foreclosure upon the sale of the home. Not paying the property taxes is not an option. As the senior lien holder, the municipality could move to foreclose for unpaid property taxes, leaving the lender in a precarious position in terms of recouping the money due on the loan. The timing of past-due property tax payments notwithstanding, the municipality will eventually receive the amount due.⁹²

The data also shows that the sale of the foreclosed home does not automatically end the property tax collections problems. Over one-quarter of the sample experienced arrears at some point within three fiscal years after the sale of the home. (See Table 4.) This could be related to the financing used to purchase the property from HUD. If it is a cash sale, then not paying taxes seems more likely (since taxes are not paid with the mortgage), especially if the property is investor-owned and the investor has not been able to resell or rent the property quickly.⁹³

Another interesting way of looking at the data is to calculate the number of fiscal years that the homes in the sample were in property tax arrears. As noted above, only 20 homes were never in arrears. The remaining 91 homes were in arrears for a total of 271 fiscal years for an average of three years per property. How much these arrearages cost the city is difficult to determine, but suffice it to say that each home with unpaid property taxes, for however long it takes to recoup the money, likely results in tangible municipal costs. (Examples of all the categories discussed above are shown in Table 5.)

Table 5 | Examples of FHA-Insured Foreclosed Homes and Property Tax Arrears Status, City of Lowell

Address	Foreclosure Auction Date (FAD)	Date of Sale to Third Party (DOS3P)	FY Span from FAD to DOS3P ("Q" refers to quarters of the fiscal year)	Property Tax Arrears Category	Property Tax Arrears from FAD to DOS3P	Arrears 3 FYs Before FAD	Arrears 3 FYs After DOS3P	Total no. FYs in Arrears
134 Baldwin St.	6/15/2010	10/15/2010	FY 2010 Q 4–FY 2011 Q 2	No Arrears: 3 yrs < FAD to 3 yrs > DOS3P	NO	NO	NO	–
124 Bunker Hill Ave.	4/2/2012	9/18/2012	FY 2012 Q 4–FY 2013 Q 1	No Arrears: FAD to DOS3P; Arrears: < FAD	NO	FY 2010, 2011 only	NO	2
139 Virginia Ave.	2/23/2015	5/26/2016	FY 2015 Q 3–FY 2016 Q 4	No Arrears: FAD to DOS3P; Arrears: > DOS3P	NO	NO	FY 2017, 2018 (no data for 2019)	2
10 Burnaby St.	8/19/2010	11/22/2010	FY 2010 Q 1–FY 2011 Q 2	No Arrears: FAD to DOS3P; Arrears: < FAD AND > DOS3P	NO	FY 2008, 2009, 2010	FY 2012, 2013 only	5

Owners of FHA-Insured Foreclosed Homes Whose Names Appear in the HMIS Database

HUD directs units of government to collect data on housing and services provided to homeless individuals and families. In Lowell, this information is contained in its Homeless Management Information System (HMIS) database. Nine of the former owners of the 114 FHA-insured foreclosed properties in the sample appeared in the HMIS database.⁹⁴ Of these, three names were associated with more than one client ID in the HMIS and were excluded (i.e., if there were multiple people named “John Smith” in the HMIS database, we excluded that name). Since client IDs in the HMIS database do not include information on the last permanent address, it was not possible to match these individuals with the foreclosed owner by that name in this project’s sample. Data for the six remaining properties whose owners showed up on the HMIS is shown in Table 6.

Table 6 | Owners of Foreclosed FHA-Insured Homes Whose Names Appear in HMIS

	Foreclosure auction date	Date entered shelter	Date exited shelter	Nights in shelter	Time elapsed from foreclosure to first shelter entry
Case 1	1/9/12	8/14/15	8/21/15	7	~ 3 years, 7 months
Case 2	6/8/10	3/21/16	4/22/16	32	~ 5 years, 9 months
		9/6/16	5/21/17	257	
Case 3	11/18/09	11/6/13	11/17/13	11	~ 4 years
Case 4	5/5/10	9/7/15	10/2/15	25	~ 5 years, 4 months
		10/8/15	10/12/15	4	
		10/14/15	10/22/15	8	
		10/26/15	11/4/15	9	
Case 5	6/29/09	6/4/13	6/6/13	2	~ 4 years
Case 6	3/19/12	5/1/15	3/1/16	239	~ 3 years, 1 month
Total				594	

Source: Data from HMIS database provided by Christopher Samaras, community development director, City of Lowell. Compilation of the data and analysis by the author.

Several interesting points emerge from this analysis. First, none of the six foreclosed homeowners went into shelter immediately after foreclosure. In each case, there was a span of several years (ranging from three to more than five) from the date of the foreclosure auction to shelter entry. Without more detailed information and case histories, it is impossible to know what happened to the owner and her/his family in the intervening years and the extent to which the foreclosure played a role in the journey toward homelessness that followed.

Second, two of the six former owners had repeated shelter stays (Cases 2 and 4). Third, while most shelter stays were relatively short, about one month or less, two lasted for approximately eight months (Cases 2 and 6). In total, among only these six former owners, 594 nights were spent in shelter facilities. Fourth, and finally, although it would be informative to know what additional social services these individuals accessed, that information was not available.

I also sought data on the percentage of the homeless shelter population that became homeless due to foreclosure (either as homeowner or tenant), but the City of Lowell does not have this information.

Conclusion

Although the findings from Lowell are partial at best, the weight of the evidence from this project, as well as the numerous other studies about the outcomes of foreclosure, indicate that foreclosure has serious consequences and costs. (See Table 7 for other observations, questions, and implications.) By looking at the externalities of foreclosure—the demands on public-safety services, losses to municipal tax revenue, and increased demand for homelessness services—we can better understand the range of associated costs and provide some insights into the ways foreclosure is detrimental not only to the families immediately displaced, but also to the surrounding areas and to the municipalities in which the homes are located. To the extent that foreclosed homes carry FHA insurance, questions arise about agency operations and oversight. Is HUD/FHA doing all it can to prevent foreclosures? This is a key question addressed in Issue Briefs No. 4 and 5.

The data from Lowell on FHA-insured foreclosed mortgages reveals that foreclosed properties are likely staying vacant for long periods of time—about one year—and that HUD/FHA is likely losing tens of thousands of dollars on each foreclosure. Using two different methods of calculating average losses, the figures were \$81,639 and \$46,853 per each foreclosed property.

This analysis is relevant to a discussion in Issue Brief No. 5. Since foreclosure typically results in payouts from FHA's MMIF of tens of thousands of dollars for each home, does HUD/FHA have some leeway to negotiate terms with lenders/servicers that could save the fund money while at the same time enabling owners to remain in their homes and enabling municipalities to avoid the adverse consequences associated with vacant properties? (See Issue Brief No. 4.)

Although the exact costs to a municipality of each police/fire call and for carrying properties with tax arrearages have not been determined, we do know that the foreclosed

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properties in the Lowell sample had numerous instances of police/fire calls and property tax arrearages. The police and/or fire departments were called some 60 times to more than one-third of the properties in the sample in the approximately one year between the date of the foreclosure and the date that the property was sold. The great majority of the properties in the sample, slightly over 80 percent, triggered police and/or fire calls during the period from three years prior to the date of foreclosure through up to three years following the date of sale of the home. A similar percentage of properties, slightly over 80 percent, experienced tax arrears for some period of time, from three fiscal years before the foreclosure auction date to the date of the sale of the home. There was a small degree of overlap between those properties that had neither police/fire calls nor property tax arrearages at any point covered by this analysis (N = 5). It is important to note, again, that this type of analysis would be greatly enhanced by the availability of comparative information from a control group.

The exploration into the overlaps between the names in the sample and the HMIS database shows a modest number of connections, with six of the foreclosed homeowners showing up in the HMIS database. It was not possible to make a more definitive analysis of the links between foreclosure and homelessness in this inquiry.

From this analysis, a key recommendation emerges. HUD/FHA should be required to keep clear records concerning the costs to the agency of each foreclosure, and those records should be readily accessible through FOIA requests. Since FHA's MMIF pays claims on FHA-insured foreclosed loans, a HUD official's assertion that the amount of HUD/FHA's indebtedness on each loan in the dataset was not available does not seem plausible. HUD/FHA's monetary loss (or gain) on each foreclosed property is a critical piece of information in developing appropriate policy levers to prevent this unwanted outcome.

Table 7 | Observations, Questions for Further Research, and Policy Implications: Outcomes of Foreclosure: Literature Review and Experiences in Lowell, Massachusetts

Observations from the study	Questions for further research	Policy implications for HUD
<p>1) There is a great deal of evidence that foreclosure and the displacement of homeowners and tenants is detrimental to households and to the neighborhoods and municipalities in which the homes are located.</p>		<p>1) Reducing the frequency of foreclosure should be a major policy goal, with several specific strategies, suggested below.</p>
<p>2) Based on the analysis of deed recording data, HUD/FHA is likely losing from \$46,853 to \$81,639 per FHA-insured foreclosed home. Insufficient data disclosure by HUD/FHA hampered the analysis of the Lowell data.</p>	<p>2) What are the costs of providing various types of relief to homeowners facing foreclosure? How do these compare with the costs of foreclosure?</p>	<p>2) In order to make informed policy choices about possible statutory changes to FHA's restrictions concerning principal debt reduction options, more precise information, such as the cost to the agency of each foreclosure, is needed and should be available from HUD/FHA through FOIA requests or other transparent reporting mechanisms.</p>
<p>3) Based on data from Lowell, foreclosed properties are likely staying vacant for about one year.</p>		<p>3) Reducing the amount of time that foreclosed properties are vacant is an important priority.</p>
<p>4a) Comparative information about municipal impacts of foreclosed properties (i.e., police/fire calls, property tax arrearages) vs. similar non-distressed properties is needed.</p> <p>4b) More information is needed to track the housing trajectory of foreclosed owners and tenants in order to determine the frequency of homeless shelter use.</p>	<p>4) How can this information be best collected and analyzed in order to develop policy options and decisions?</p>	<p>4) HUD could encourage municipalities to make a full accounting of the many costs associated with foreclosed, vacant properties. Regardless of which level of government pays, it is important to fully understand the costs to the public associated with foreclosure as a further way to encourage actions to prevent this outcome.</p>

About the Author



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Rachel G. Bratt recently was a visiting scholar at the Federal Reserve Bank of Boston and is professor emerita at the Department of Urban and Environmental Policy and Planning at Tufts University. She is also a senior research fellow at the Joint Center for Housing Studies of Harvard University and the author of numerous works in the field of housing policy.

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Endnotes

¹ The Working Cities initiative is a grant-based program aimed at local economic development and generally improving the lives of low-income residents of smaller postindustrial cities in New England. The research presented in this Issue Brief dovetails with that goal.

² U.S. Department of Housing and Urban Development, "Providing Alternatives to Mortgage Foreclosure: A Report to Congress," March 1996, 2, retrieved from <https://www.huduser.gov/portal/Publications/pdf/alt.pdf>.

³ *Ibid.*, vii.

⁴ Studies supporting this, listed in order of publication, include Amy Crews Cutts and William A. Merrill, "Interventions in Mortgage Default: Policies and Practices to Prevent Home Loss and Lower Costs," in *Borrowing to Live: Consumer and Mortgage Credit Revisited*, ed. Nicholas P. Retsinas and Eric S. Belsky (Washington, DC: Brookings Institution, 2008); J. Michael Collins and Maximilian D. Schmeiser, "Estimating the Effects of Foreclosure Counseling for Troubled Borrowers," FDIC Center for Financial Research Working Paper 2010-06, June 2010, retrieved from <https://www.fdic.gov/bank/analytical/cfr/2010/wp2010/2010-06.pdf>; Anna Jefferson, Jonathan Spader, Jennifer Turnham, and Shawn Mouton, "Foreclosure Counseling Outcome Study: Final Report Housing Counseling Outcome Evaluation," U.S. Department of Housing and Urban Development, May 2012, retrieved from https://www.huduser.gov/portal/publications/hsgfin/foreclosure_counseling.html; Kenneth Temkin, Neil S. Mayer, Charles A. Calhoun, and Peter A. Tatian, "National Foreclosure Mitigation Counseling Program Evaluation: Final Report, Round 3 Through 5," Urban Institute, September 2014, retrieved from [http://www.neighborworks.org/Documents/HomeandFinance_Docs/Foreclosure_Docs/ForeclosureCounseling\(NFMC\)_Docs/2014_NFMC_UrbanInstituteReport.aspx](http://www.neighborworks.org/Documents/HomeandFinance_Docs/Foreclosure_Docs/ForeclosureCounseling(NFMC)_Docs/2014_NFMC_UrbanInstituteReport.aspx); Sewin Chan, Claudia Sharygin, Vicki Been, and Andrew Haughwout, "Pathways After Default: What Happens to Distressed Mortgage Borrowers and Their Homes?" *Journal of Real Estate Finance Economics* 48, no. 2 (2014), 342–379.

⁵ See Anne J. Martin, "After Foreclosure: The Displacement Crisis and the Social and Spatial Reproduction of Inequality," working paper, Berkeley, CA: Institute for the Study of Societal Issues, 2010, retrieved from <https://escholarship.org/uc/item/3551q7sd>; Alan Mallach, "REO Properties, Housing Markets, and the Shadow Inventory," in *REO and Vacant Properties: Strategies for Neighborhood Stabilization*, ed. Lisa Wilson (Boston and Cleveland: Federal Reserve Banks of Boston and Cleveland, 2010), retrieved from <https://www.bostonfed.org/publications/one-time-pubs/reo-vacant-properties-strategies-for-neighborhood-stabilization.aspx>.

⁶ See, for example, Rachel G. Bratt and Dan Immergluck, "Housing Policy and the Mortgage Foreclosure Crisis during the Obama Administration," in *Urban Policy in the Time of Obama*, ed. J. DeFilippis (Minneapolis, MN: University of Minnesota Press, 2016); Dan Immergluck, "Too Little, Too Late, and Too Timid: The Federal Response to the Foreclosure Crisis at the Five-Year Mark," *Housing Policy Debate* 23, no. 1 (February 2013), 199–232.

⁷ Renae Merle, "Obama's Foreclosure Program Limpers to Finish Line," *Boston Globe*, December 30, 2016, retrieved from <https://www.bostonglobe.com/business/2016/12/30/obama-foreclosure-prevention-program-limps-finish-line/KBbADhg9Cwx1QbotkorkYL/story.html>. More positively, however, the article noted that HAMP had helped to change lender and servicer behavior by raising industry standards and setting "common expectations that banks adopted even when operating outside HAMP." Although the various government interventions to assist homeowners in default have focused on trying to make mortgages more affordable, a team of economists have argued that the focus of such programs should be more on ameliorating the immediate effects of job loss and reduced income (Christopher L. Foote, Kristopher S. Gerardi, Lorenz Goette, and Paul Willen, "Reducing Foreclosures: No Easy Answers," Working Paper No. 2009-15, Federal Reserve Bank of Atlanta, May 2009). Indeed, one study found that changes in respondents' mental, physical, and general health were "associated with transitions in employment, income, marital status, and residential quality, rather than with loan modifications or foreclosure sales" (Mark R. Lindblad and Sarah F. Riley, "Loan Modifications and Foreclosure Sales During the Financial Crisis: Consequences for Health and Stress," *Housing Studies* 30 no.7 (2015), 1092).

⁸ Office of the Special Inspector General for the Troubled Asset Relief Program, "Quarterly Report to Congress," April 26, 2017, 63, 65, 82, retrieved from https://www.sigtarp.gov/Quarterly%20Reports/April_26_2017_Report_to_Congress.pdf. Also see Issue Brief No. 4.

⁹ Anne J. Martin, "After Foreclosure: The Displacement Crisis and the Social and Spatial Reproduction of Inequality."

¹⁰ Christopher L. Foote et al., "Reducing Foreclosures: No Easy Answers."

¹¹ *Ibid.*

¹² *Ibid.*, 34.

¹³ *Ibid.*, 27.

¹⁴ This section was written with assistance from Whitney Airgood-Obrycki, PhD, a research analyst at the Joint Center for Housing Studies of Harvard University.

¹⁵ Linda E. Fisher, "Shadowed by the Shadow Inventory: A Newark, New Jersey, Case Study of Stalled Foreclosures and their Consequences," *UC Irvine Law Review* 4, no. 4 (2014), 1265–1294.

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- ⁶⁶ Richard P. Howe, Jr., "Ten Foreclosures," *Merrimack Valley Housing Report* 8, no. 9 (September 2015).
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- ⁷⁰ Information was also sought on the number of code violations during the period when the properties were vacant. Unfortunately, this information was not provided by City of Lowell officials.
- ⁷¹ I am indebted to Allie Wainer, Amy Higgins, and Jennifer Haynes, all current or former employees of the Federal Reserve Bank of Boston, for their work on this part of the project.
- ⁷² CoreLogic did not flag FHA-insured loans until mid-2009. Therefore, 2010 was the first full year that information on FHA-insured loans was available. The resulting N = 125 were found in two separate data pulls. That number was reduced to 98 because a search through the Middlesex North Registry of Deeds failed to turn up foreclosure deeds for 23 properties. For three properties there was a deed-in-lieu of foreclosure, and for one property multiple foreclosure deeds were found. In a further effort to capture all relevant foreclosures, the CoreLogic database was again used to identify all FHA-insured properties. Those properties that already had been identified as having been foreclosed were excluded. The remaining information was manually cross-referenced with a list of all foreclosed properties (FHA-insured and conventional) from the Middlesex North Registry of Deeds database. Forty-six possible additional properties were identified. However, upon further research, either no foreclosure deed was found (coincidentally, again 23 properties) or the available information was not sufficient to perform the prescribed analyses (7). The remaining 16 properties are included in the expanded database. Thus, the final N = 98 + 16 = 114.
- ⁷³ In addition to explaining how deed recordings could provide relevant information, Richard P. Howe, Jr., and his staff researched the deed recordings of each of the properties in the sample. Matthew Arck, associate analyst at the Joint Center for Housing Studies of Harvard University, performed the various Excel calculations, based on the formulas I provided, in consultation with Mr. Howe.
- ⁷⁴ Richard P. Howe, Jr., has pointed out that "not every homeowner moved out of the property at foreclosure; some had to be evicted. Conversely, some homeowners abandoned the home long before the foreclosure auction. We have no way of knowing the frequency of either, but they might average each other out. I suspect the majority of homeowners did leave at the time of the auction. So that's a good unit of measurement." Email communication, December 2017.

⁷⁵ Laurie Goodman and Dan Magder, "Selling HUD's Nonperforming Loans: A Win-Win for Borrowers, Investors, and HUD," Urban Institute and Center Creek Capital Group, January 2016, retrieved from <https://www.urban.org/research/publication/selling-huds-nonperforming-loans-win-win-borrowers-investors-and-hud/view/exhibits>.

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⁷⁸ Explanation offered by Richard P. Howe Jr., private email communication, December 2017.

⁷⁹ According to Mr. Howe, "Since the bank is both the foreclosing lender and the purchaser at the foreclosure, it is likely that money doesn't actually change hands and is, instead, a bookkeeping transaction. However, since the amount that the bank bids at the foreclosure auction is typically set at no less than 70 percent of the current appraised fair market value of the home, the bid price may be more or less than the amount of indebtedness. If, for example, the bank was only owed \$50,000, and the house appraised for \$150,000, the bank would have a fiduciary responsibility to the foreclosed homeowner to bid a price closer to the latter amount. Since anything above the amount of the indebtedness is supposed to be returned to the foreclosed homeowner, a bid of only \$50,000 would be in violation of the bank's responsibility to the latter. Thus, the bid amount, under this scenario, would be much more than the indebtedness on the foreclosed loan." Mr. Howe further noted, "The amount that the bank bids at the foreclosure auction is the figure used to determine the homeowner/borrower's potential liability on a deficiency lawsuit." To take another example, "If the foreclosure deed amount (the price bid at the auction) is \$100,000 and the indebtedness on the mortgage was \$150,000, there would be a deficiency of \$50,000, which are the damages the lender would seek in a subsequent lawsuit against the borrower on the promissory note." Richard P. Howe, Jr., private email communications, July 2017, and December 2017.

⁸⁰ N = 112 in this set of calculations because two of the properties (ID nos. 85 and 106) had a foreclosure deed amount exactly equal to the amount a third party paid for the home.

⁸¹ If sales proceeds are likely to cover (or exceed) the indebtedness, a short sale or a deed-in-lieu process will likely be used instead of going through a foreclosure. On average, the loss severity rate between 2007 and 2017 ranged from 42 percent to 64 percent, with the peak in 2009 during the height of the housing crisis. U.S. Department of Housing and Urban Development, "Annual Report to Congress Regarding the Financial Status of the Mutual Mortgage Insurance Fund, Fiscal Year 2017," November 15, 2017, 101, retrieved from <https://archives.hud.gov/news/2017/2017fhaannualreport.pdf>.

⁸² This calculation was done by comparing the deed date (column H in the appendix) and the mortgage date (column J in the appendix). If they are the same, it's a purchase mortgage; if they are different, it's a refinanced mortgage.

⁸³ Where columns H and J (in the appendix) are different, the calculation is based on the time elapsed between the two dates.

⁸⁴ This calculation is based on the difference between the amount borrowed on the refinanced mortgage (column K in the appendix) (-) the original deed amount (column I in the appendix). If this number is positive, it indicates the homeowner is extracting equity from the home in the form of cash.

⁸⁵ Sincere thanks to Heather Varney, deputy chief financial officer in Lowell, for expediting the collection of this information and to Robin R. Smith, supervisory intelligence analyst, Crime Analysis/Intelligence Unit, Lowell Police Department, for providing the raw data. I am also indebted to Jennifer Haynes, business support analyst, associate, Federal Reserve Bank of Boston, for her expert analysis of this data.

⁸⁶ Often, there was both a police and a fire entry pertaining to the same event. In all such cases, it was counted as one call. Also important to note is that many of the properties in the sample had multiple units. In cases where the foreclosed property included a unit number, we counted only those police/fire calls that identified the unit number in the sample. For example, one property in the sample is identified as 261-265 Dutton St., no. 4. Although the police/fire logs note 22 calls to this property, unit no. 4 is referenced only three times. Since we counted only those three calls, it is likely that the police/fire call numbers underestimate the number of actual calls to particular units in the sample.

⁸⁷ As noted previously, we included 31 properties for which the date of sale to the third party was in 2010 or later, but that had a foreclosure date prior to 2010. The fact that the start date of the police/fire logs was after the foreclosure date for these properties means that data on police/fire calls occurring prior to the foreclosure of these properties is not available. Therefore, once again, both the preforeclosure data on calls as well as the data on calls between foreclosure and sale to the third party likely underrepresent the total number of calls. In addition, since the great majority of the properties in the sample (nearly 90 percent) were foreclosed prior to 2013, data on police/fire calls for the full three years prior to foreclosure is only available for 12 of the properties in the sample. It is likely that this at least partially explains the disparity between police/fire calls three years prior to foreclosure and three years after the sale of the home to the third party, discussed in the text that follows.

⁸⁸ Again, it is important to remember that we do not have information for the full three years prior to the date of foreclosure for the great majority of properties.

⁸⁹ Private email communication, November 2018.

⁹⁰ Instead, an attempt was made to obtain estimates of the number of household-related police and fire calls from the relevant departments, for the entire City of Lowell, for the years covered in the study. However, data and estimates were only provided for calendar year 2017, which was long after the foreclosure date of most of the properties in the sample. In addition, the data from the City of Lowell is not sufficiently detailed to be able to determine the extent to which police and fire calls are related to property-related disturbances (such as vandalism or other problems associated with vacant or derelict structures), as opposed to an array of other reasons, particularly medical emergencies. Ultimately, this ex post facto comparative effort was abandoned as being too crude to offer useful information.

⁹¹ In order to do the calculations presented in this section, the calendar years between the foreclosure auction date and the date of the sale of the home were converted to fiscal years. Lowell's fiscal year runs from July 1 to June 30, and taxes are paid quarterly. A home was considered to be in arrears in a fiscal year if any type of lien was placed on it anytime during that year or if there were recorded actions of the city moving toward taking of the property. Fines charged for a late payment, for example, or a notation that a demand notice was sent, were not counted as a property tax arrearage. Files for the 111 homes in the sample were provided by the City of Lowell; special thanks to Alex Haggerty, assistant collector, Office of the Treasurer/Tax Collector, and his staff. This part of the project could not have been completed without their assistance.

⁹² According to Alex Haggerty: "When the liens are sold in an auction, the city gets fully reimbursed for what is owed on that property, all fees and fines included." Private email communication, October 2018.

⁹³ Dan Immergluck, private email communication, November 2018.

⁹⁴ I am indebted to Christopher Samaras, Lowell's community director, and his staff for providing this information.