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The Impacts of Foreclosures on Families and Communities: A Primer

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This decade may well turn out to be the most tumultuous in the history of U.S. housing markets. The period from 2000 to 2006 saw an unprecedented acceleration in home prices almost everywhere, and homeownership expanded markedly as access to subprime loans and other factors made it much easier for lower-income families to purchase a home of their own. Then it all fell apart. Prices in most regions have since plummeted and foreclosure rates have increased dramatically. Almost all American communities are affected, but levels of foreclosure are much higher in some neighborhoods and metropolitan areas than others.

Recognizing that this turnabout was still quite new, in mid-2008 the Open Society Institute asked the Urban Institute to scan available research to assess what we now know about the way foreclosures impact families and communities and about policies and programs suggested or underway to prevent or mitigate those impacts. The results of this work have been documented in a separate report[1] and elements have also been made available on a new web site, http://www.Foreclosure-Response.org. In addition, it was felt that this companion piece would be valuable: a brief overview that enables readers to get a sense of the full story quickly—impacts and response strategies—and then identifies sources where they can find more complete information on topics that are of special interest to them.

Local practitioners and advocates who want to play a role in responding to the crisis are the primary audience for this work.

- They may use information about the potential harm to children, the elderly, neighborhood safety, and local property tax revenues to raise public awareness and build local support for action.
- This information can also be used to engage organizations—like schools, child welfare agencies, or police departments—that might not otherwise see the foreclosure crisis as relevant to their mission.
- And information about response strategies being developed in other areas can help them design strategies appropriate to their own cities and neighborhoods.

FAMILIES: Displacement and Housing Instability

Residents of foreclosed properties are almost always forced to move out of their homes, but little is known about where they go next. A recent survey of homeless-service providers in 29 states suggests that

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many people forced out of their homes by foreclosure move in with family and friends. Those who have access to more financial resources probably find places to rent relatively quickly, but foreclosure may be the first step on a path of unstable housing for some.[2]

Homeowners in foreclosure see their credit ratings plummet, making it difficult to purchase or rent another home. Even if families can find a landlord willing to rent to them, many have used up any financial reserves during the foreclosure process, making down payments or deposits unaffordable.

Renters whose landlords are foreclosed upon may receive only short notice of an eviction. If they do not leave when they are served by a notice of eviction, they may be sued and their rental record will be permanently blemished. Even those who move may forfeit rent payments or security deposits, making it hard to secure a new rental house or apartment.

Homeless shelter systems are reporting an increase in people served, suggesting that some families in foreclosure—both former owners and renters—are becoming homeless. There is reason to believe that the number of foreclosed families facing homelessness will grow over time; doubling up with family and friends may offer a short-term solution for some, but these arrangements often deteriorate over time.

Families that are able to find homes and apartments to rent probably have to downgrade their housing quality. For homeowners, the loss of both savings and credit standing associated with foreclosure makes it difficult to afford rental housing of size and quality comparable with their previous home. And research indicates that when households (particularly low-income households) have to make housing choices quickly, they are more likely to make poor choices.[3]

Moving (especially a single move) may not be a big problem for many people, but it can be particularly damaging for both the very old and the very young. The elderly are often adversely affected by moving, particularly by forced or involuntary relocation. Moving can trigger a series of emotional and physical setbacks from which older people may not recover. And research has shown that *place* is particularly important for seniors; as their health declines and independence lessens, elderly people rely on their connections to place to help them control and predict their circumstances.[4]

While a single move can be quite traumatic for an older person, multiple moves often undermine the well-being of young children—with profound and lasting impacts. The lack of a stable home can negatively affect children's social development, and frequent school changes are related to poor academic performance and educational attainment. Children who move frequently during their early years are less likely to graduate from high school than their less-mobile peers. Housing instability can also contribute to "family turbulence" that inhibits a parent's ability to keep consistent bedtime, mealtime, or homework schedules, all of which can have negative consequences for children's security, emotional development, and school success.[5]

FAMILIES: Financial Insecurity and Economic Hardship

The financial losses associated with foreclosure are substantial. Homeowners' credit ratings are damaged, limiting their ability to buy a new home or to borrow for other purchases. Poor credit ratings can also affect the terms and prices charged for services such as insurance and may impede efforts to get jobs, because some employers check credit ratings for new hires. Homeowners' net worth also declines because they lose their homes as an asset along with any accumulated equity and the tax advantages of homeownership.[6]

Renters also suffer financially when their landlords are foreclosed upon. They may have to forfeit rent payments or security deposits, or reimbursement of these payments may be delayed. They incur the costs associated with a housing search and relocation (application fees, credit checks, security deposits, and moving).

A significant number of households facing foreclosure are likely to experience serious economic hardship. States hardest hit by the foreclosure crisis (Nevada, Florida, Arizona, California) saw their food stamp caseloads jump by almost 20 percent in 2008, and the rise of mortgage default and foreclosure rates in the 1990s was accompanied by an increase in personal bankruptcy.[7]

Older Americans in foreclosure are likely to be particularly hard hit, given the limited time and income potential they have to recover from such a setback. Historically, elderly homeowners have relied heavily on the equity in their homes for financial security and as a retirement safety net. AARP reports that in the last half of 2007, more than one of every four mortgage delinquencies and foreclosures involved homeowners over age 50. And in cases where the loan-to-value ratio exceeds 100 percent, the foreclosure rate among homeowners over 50 is double the national rate, suggesting that elderly people with fixed incomes have particular difficulty sustaining high debt levels.[8]

FAMILIES: Personal and Family Stress, Disruption, and Ill Health

The disruption, displacement, and economic hardship of foreclosure are substantial but do not exhaust the list of possible effects experienced by families. Additional repercussions may affect areas from parenting to self-esteem as turmoil, fear, and uncertainty rise. For some families, intense personal, family, and financial stress feeds marital problems and exacerbates negative behaviors like child abuse or addiction.

Stress is a normal part of everyday life, but the high levels of anxiety, shame, uncertainty, and fear likely to be associated with foreclosure can contribute to a host of physical and mental illnesses. Financial stress is known to be a major contributor to domestic violence. In addition, high levels of stress exacerbate chronic health problems, damage body systems, and undermine mental well-being. The most extreme evidence of the potential damage to mental health can be seen in suicide by people facing foreclosure (and related financial ruin). Nationally, the numbers of calls to crisis hotlines and requests for therapists are rising, although this increase cannot be definitively related to foreclosures.

People who are already in poor health may be particularly vulnerable to foreclosure. Evidence shows that poor health—with its accompanying medical costs and missed employment—contributes to a significant number of mortgage defaults. And for individuals already in poor health, the stress of foreclosure may be particularly dire. This includes the elderly, who are more likely to be battling chronic health conditions and who typically find relocation and adjusting to new neighborhoods very stressful.[9]

COMMUNITIES: Property Values, Vacancies, Prices, and Rents

A large number of foreclosures can have serious consequences for neighborhoods, primarily because after a foreclosure has taken place the home remains vacant and no one keeps it secured and well maintained. In many cases, the title to the property has been transferred back to the lender or noteholder. If the neighborhood still enjoys strong market conditions (i.e., rising prices), the lender has a powerful incentive to avoid prolonged vacancy and deterioration. Selling the home quickly offers the potential for profit, and the lender will want to keep the property in good condition while it is on the market.

If, however, the foreclosed home is in a neighborhood where prices are lower and declining, this incentive disappears and a lender may try to minimize expenditures on security and maintenance. In fact, the legal process that leads to foreclosure can be very costly, since the lender has to pay attorneys' fees and cover property management and other services (estimated at around $40,000 to $50,000 in the Washington, D.C., area). Some lenders reportedly offer "cash for keys" to residents to get them to move out without a formal eviction. And whether

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the property is occupied or not, a lender may decide that the least costly approach is to simply walk away, leaving the property unattended and in a sort of legal limbo.

When a property is vacant and it is evident that no one is taking care of it, real estate agents and prospective buyers are likely to see it as a symptom of neighborhood distress and potential decline in property values. A modest amount of undermaintenance may not have much effect, but as the period of vacancy is extended and no one is paying for heat, electricity, or maintenance, a building will begin to deteriorate physically. The likelihood of structural fire increases, in some cases because indoor fires set by squatters to keep warm get out of control.

In a strong-market neighborhood, one or two foreclosures may not be much of a concern. The owners have incentives to maintain and if they do not do so, neighbors who are concerned about their own property values are likely to exert pressure on local government to address any maintenance problems that arise. But if the number of foreclosures increases substantially, the problem becomes much more serious and harder to correct. Moreover, in a neighborhood where property values are already declining, even a small number of foreclosures are likely to accelerate the trend.

Analysis conducted for Chicago found that each new foreclosure within one-eighth mile of a home resulted in a 0.9 percent decline in the value of that home. In low- and moderate-income neighborhoods, the drop in property value from one new foreclosure was even greater at 1.8 percent.[10] A similar analysis conducted for 13 states found somewhat smaller effects—a drop in value of only 0.6 percent for from a foreclosure within one-eighth mile.[11]

The Center for Responsible Lending has projected that about 2.2 million foreclosures of subprime loans will occur from late 2008 through the end of 2009, and applying the results of the Chicago study, they estimate that 40.6 million homes in the surrounding neighborhoods will suffer price declines averaging $8,667 per home, for an anticipated $352 billion total decline in property values. Applying the 13-state study results would yield an average value decline of $5,780 per home, for a $235 billion total.[12]

COMMUNITIES: Disorder, Crime, and Violence

Vacant, unsecured properties can seriously undermine a neighborhood's safety and security. Houses and apartment buildings that stand vacant for long periods can be invaded by squatters, vandalized, or gutted of valuable fixtures and appliances. Some may become drug houses. And the appearance of disorder in the vacant properties may increase risks for all types of crimes for residents in surrounding homes and apartments.[13]

Research conducted in North Carolina's Charlotte-Mecklenburg region identified 13 neighborhoods with high clusters of foreclosure from 2003 through 2007—not the area's most distressed neighborhoods but places where home prices were considered to be in an "affordable" range ($90,000 to $150,000).[14] These neighborhoods experienced higher rates of violent and property crime than a group of 12 neighborhoods in the same price range that had not yet had high levels of foreclosure. Specifically, the high-foreclosure neighborhoods experienced an annual average of 1.7 violent crime incidents per 100 houses, almost three times the 0.6 average for the comparison neighborhoods.

A more carefully constructed statistical analysis conducted for Chicago also found a strong link between foreclosures and violent crime. A 1 percentage point increase in the foreclosure rate can be expected to increase the number of violent crimes in a census tract by 2.33 percent, all other things being equal.[15]

COMMUNITIES: Public Sector Costs and Fiscal Health

It is now well known that America's local governments are facing dire fiscal problems. In an April–June 2008 survey by the National

League of Cities, 64 percent of city finance officers reported that their cities were less able to meet fiscal needs in 2008 than in the previous year. On average, they predicted that revenues would decrease by 4.3 percent by the end of 2008. In another National League of Cities survey, elected officials included increased foreclosures among the top three problems they face.[16]

Large numbers of foreclosures can significantly worsen cities' fiscal circumstances, both by reducing property tax revenues and by raising costs to local government. First, because foreclosures result in residential properties sitting vacant and unsecured, lead to undermaintenance and physical deterioration, and erode surrounding property values, they will ultimately reduce property tax revenues.

But foreclosures also require local governments to spend more. Research by William Apgar and Mark Duda estimated the costs (for the city of Chicago as of 2005) of actions that a city must take under five different foreclosure scenarios.[17]

- If the property is vacant but secured by its owner (scenario A), only a few administrative processing tasks are required and the cost is low ($430).
- Where the current owner has not secured the property, the city has to step in and take action itself. If the decision is to secure and conserve the property (scenario B), the costs of required processing jump up to $5,400.
- But if the decision is to demolish (scenario C), they go up even higher to over $13,000.
- If the owner abandons the property (scenario D), the city's financial exposure is even steeper because of unpaid property and utility taxes, as well as new outlays to continue water service and provide lawn mowing and trash removal (almost $20,000).
- The city's exposure is highest by far if a fire occurs (scenario E). In this case, there are the costs of fire suppression; eventually, the costs of demolition and site clearance; and the costs of keeping the building from being a threat to safety in between (a total of more than $34,000).

These are direct costs related to the foreclosed property itself. If foreclosure densities go up there will be additional expenses for enhanced maintenance and trash collection in the broader neighborhood and outlays by the police department to address increased vandalism and crime in the area.[18] Furthermore, there will be additional costs to provide services to vulnerable residents who are displaced.

FORECLOSURE RESPONSE: Develop a Coordinated Response Strategy

This section reviews the basic approaches local stakeholders are taking to develop a coordinated foreclosure response strategy, including the following actions:

- get organized for foreclosure response,
- strengthen the state and local policy environment,
- develop a local action strategy, and
- assess progress.

The subsequent and last sections of this primer offer pointers and references on the three implementation components that must be a part of all such strategies:

- prevent foreclosures and keep families in their homes,
- stabilize neighborhoods where foreclosures do occur, and
- help the affected families recover.

Get Organized for Foreclosure Response. Some areas may find that the foreclosure crisis has reached the point where local stakeholders are eager to engage with each other, but in other areas groups may need to publicize the crisis and educate public and private actors about why they should be concerned and involved in a coordinated foreclosure response strategy.

Since many of the laws and the regulations that will determine the effectiveness of foreclosure response occur at the *state*

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level, it is important that priority be given to organizing at that level. So far, this need has been addressed in a number of states by establishing a foreclosure response task force. According to a study released in April 2008 by the Pew Center on the States, 14 states had created foreclosure task forces as of that time.[19] These typically have a diverse membership, including government officials, community-based nonprofits, real estate agents, financial institutions, attorneys, developers, and business leaders. Those established in Ohio and Maryland are good examples.[20]

At the *local level*, the first priority is to mobilize foreclosure response teams within local governments, since municipalities and counties have the legal power and responsibility over many of the requisite actions, particularly with respect to neighborhood stabilization. Governments at this level had the responsibility for preparing the local neighborhood stabilization program (NSP) plans called for under the Housing and Economic Recovery Act of 2008 (HERA). The first step in organizing at this level is to establish a cross-departmental team or task force, probably under the aegis of a deputy mayor or another official with enough power to assure coordination across disparate agencies. Important here, too, is involving local community development corporations and other nonprofit housing and community development advocates in the planning process so that they will be prepared to play much-needed roles in implementation.

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Interestingly, there also is a growing recognition of the need for new or stronger mechanisms at the *metropolitan level;* such efforts prepare analyses of how the nature of the problem varies across neighborhoods metro-wide, develop foreclosure response strategies (offering guidance on where and how to target resources), mobilize local interest and participation, press higher levels of government to support needed reforms, and track the performance of all groups working on the issue.

These functions fill a real gap. Individual jurisdictions may face difficulties performing these functions because they cannot take advantage of economies of scale in mobilizing and coordinating the deployment of nonprofit resources. State governments cannot take them on because states are too removed from the local scene and may not be accepted as truly representing the metropolis at hand.

It appears that groups in a growing number of metropolitan areas are now trying to strengthen their coordination of foreclosure response activities and that a variety of institutional forms are emerging. In Baltimore, for example, several local counseling and advocacy groups came together to form the Baltimore Homeownership Preservation Coalition, which has since become the “central place” where those working on the issue in the area meet to try to track the problem and discuss ideas for response.[21] In Atlanta, the Atlanta Regional Commission (in effect, the region’s council of governments) has taken the lead in analyzing information about how the incidence of foreclosures varies across the region; it is now working with the city, individual county governments, universities, and other local nongovernmental partners on the development of strategies to expand foreclosure prevention and stabilize impacted neighborhoods.[22]

Strengthen the Policy and Regulatory Environment. Once coalitions evolve at the state, regional, and local levels, they should be well positioned to advocate for more effective tools and resources from the federal government. However, as noted, many of the needed policy changes and other necessary actions have to occur at the state level. It is the state that typically controls many of the most relevant legal, regulatory, and budgetary levers; local coalitions need their states to deliver in order to be effective. Alan Mallach has developed a full menu of what states can do in this regard:[23]

- revising laws and regulations to ensure a fair foreclosure process, prevent predatory and deceptive foreclosure “rescue” schemes, move properties into reuse more rapidly, and support the creation of entities that can ensure foreclosed properties will be conveyed to responsible owners;

- using their leverage to encourage creditors to pursue alternatives to foreclosure where possible and, when foreclosure does occur, to recognize their obligations to keep properties well maintained while they are in real estate owned (REO) status; and
- providing more funding and other supports for local counseling and neighborhood stabilization activities.

This component of the work also includes better informing local governments about the evolving nature of the foreclosure crisis, promising responses, and then taking steps as needed to encourage revising local laws, regulations, and policies to be more conducive to realistic solutions. Relevant policies controlled by cities and counties include eviction protection for renters, definitions and enforcement of property code violations, and differential tax treatment for vacant properties.

Develop a Local Action Strategy. The main components of a foreclosure response strategy will include preventing foreclosures, stabilizing neighborhoods, and helping families recover, as noted above. But assigning priorities is no easy task. The nature and the extent of foreclosure problems differ dramatically across neighborhoods in most metropolitan areas. Some neighborhoods warrant higher priority than others and solutions that work well in one may not prove effective in others.

It is apparent, therefore, that sensible strategies will be highly dependent on using data at the neighborhood level. The good news is that the cost of assembling such data from local records has dropped dramatically in recent years. University institutes and civic groups in a sizeable number of metro areas have already obtained, and are using, much of the data that are needed.[24] But even groups that do not have access to local foreclosure data can get started using nationally available data at the neighborhood level, for example, from http://www.Foreclosure-Response.org.

Local analysts may ultimately develop sophisticated analyses of neighborhood differences. It may make sense, however, to start with a fairly straightforward framework that classifies neighborhoods by housing market strength and the risk of being impacted by foreclosures, consistent with themes suggested by Alan Mallach.[25] Table 1 is an example of such a framework. The rows classify market strength as (1) strong, (2) intermediate, or (3) weak. The columns classify the foreclosure impact risk as (A) low risk of a high concentration of foreclosures (high foreclosure density), (B) high risk of high foreclosure density, or (C) actual high foreclosure density.

The central goals are to prevent foreclosures from destabilizing sound neighborhoods and to revive those already in decline. In a resource-scarce environment, this means investing resources in those neighborhoods where the investments will have the most significant payoff. At the simplest level, planners might apply guidelines like the following:

- Local strategies probably don't need to invest much in the way of foreclosure response resources in neighborhoods where there is a low risk of many foreclosures, regardless of market strength (1A, 2A, or 3A), or in strong market neighborhoods, even if there are some risks of foreclosure. If risks increase substantially, however (1B and 1C), these areas could command a high priority for attention. Cities should act quickly to prevent actual foreclosures and minimize vacancy in any properties where foreclosures do occur. With prompt intervention to do that, the strength of the market may prevent serious further slippage, so less subsidy is likely to be needed than in areas where the market is weaker.
- Markets where there is an intermediate level of demand may be the highest-

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TABLE 1. Foreclosure Response Strategy Framework

	Foreclosure Impact Risk		
Market strength	**A. Low risk of high foreclosure density**	**B. High risk of high foreclosure density**	**C. Actual high foreclosure density**
1. Strong	*Lower priority*	*Priority to prevent displacement, foreclosures, and vacancies; low/no subsidy*	*Facilitate rapid sales to responsible owners, rehabs as needed, low/no subsidy*
2. Intermediate	*Lower priority but watch carefully, head off emerging problems early*	*High priority to prevent displacement, foreclosures, and vacancies; more subsidy & neighborhood maintenance*	*High priority to rehab & expedite rapid sales to responsible owners, target subsidies, neighborhood maintenance*
3. Weak	*Lower priority but watch carefully, head off emerging problems early*	*Priority to prevent displacement, foreclosures, and vacancies; low or modest subsidies justified*	*More emphasis on securing properties, demolition, & land banking to hold until market rebound*

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priority targets for government investment, since they are close to a tipping point—susceptible to rapid decline if foreclosures are not prevented or the properties are not swiftly brought back into reuse. Where many properties are at risk but foreclosures have not yet occurred (2B), the emphasis should be on prevention: outreach and counseling for troubled borrowers and help (sometimes financial) so they can refinance on terms that will be sustainable. Also needed in these areas will be code enforcement and public maintenance to "keep up appearances" in properties and public spaces not yet directly threatened.

- Intervention in intermediate markets where a sizeable number of foreclosures have already occurred (2C) is also likely to be urgent. Officials should continue all of the types of actions suggested for 2B above, but also add forceful, direct public action to restore foreclosed properties to use as soon as possible. Rehabilitation may be needed, and subsidies are likely to be appropriate in many cases. Rehabilitation will only be warranted, however, where the market is strong enough so that the new owners (investors or owner-occupants), taking into account the full costs of rehab as well as available subsidies, will subsequently be able to operate the property in an economically stable manner over the long term. Public acquisition and transfer of ownership to nonprofit housing groups may be appropriate for some properties.
- Neighborhoods with both a weak market demand for housing and high risk of foreclosure impacts (3B and 3C) represent an even more difficult challenge. In some places, sizeable, strategically placed public investments can turn market conditions around. Generally, however, funds are not likely to be adequate to recreate a stable private market everywhere. Where this is so, research has shown that revitalization funds will have more impact if clustered in a few locations rather than spread evenly in all distressed neighborhoods.[26] In remaining areas where the market is likely to remain weak for some time, it may be difficult to justify investments in rehabilitation because the prices or rents needed to cover the costs will exceed what people are willing to pay. An alternative approach in some cases will be for government to acquire the foreclosed properties, demolish the structures, and hold the parcels as a part of a land bank

until market conditions rebound enough to justify further investment. This is, of course, a difficult decision to make and significant discussion will be needed with many constituencies to reach a level of community acceptance that will allow this strategy to move forward successfully.

Real neighborhoods, of course, may not fall neatly into just one of these boxes. When a neighborhood fits between two of them a blending of the actions suggested for the two will be appropriate. A good example of a strategic planning effort that followed this "different treatments for different types of neighborhoods" approach is one developed in Columbus and Franklin County, Ohio, with technical support provided by Community Research Partners, the local National Neighborhood Indicators Partnership affiliate.[27]

Finally, while addressing the current foreclosure issue is the highest priority, local coalitions also may want to be on the lookout for opportunities to use this immediate crisis to further broaden housing policy goals, such as increasing the supply of affordable rental housing, promoting mixed-income neighborhoods, developing homeownership opportunities for the local workforce, and increasing green space.

Assess Progress. There is a growing expectation that publicly supported initiatives should be held accountable for results. This means that responsible entities should prepare regular "report cards" on the nature and scope of the problem they are dealing with and on the success of local efforts to address it. With respect to the foreclosure crisis, we know of no local government that is doing that as yet, presumably because it has been particularly difficult to assemble the relevant data. However, the future for such reporting is starting to look promising since a number of cities now have potentially linkable automated records on foreclosure notices and transfers of title.[28] A few have already completed fairly sophisticated analyses of aspects of the problem.[29]

Other elements needed for performance reporting on this topic relate to data on program activities; data collection here is also getting easier. For actions taken by the local government on specific foreclosed properties (e.g., demolition, boarding up, rehabilitation) the need is to link a description of what was done (type of action, dates, and dollar amounts) to the address and track other indicators of neighborhood change. It will then be possible to conduct analysis and assess performance for individual neighborhoods as well as the jurisdiction as a whole.

FORECLOSURE RESPONSE: The Elements of Implementation

Prevent Foreclosures and Keep Families in Their Homes. As noted, this work entails counseling owners to help them keep up to date on their mortgage payments. Where that fails, counselors can attempt to help owners and their loan servicers work out modifications to the terms of their loans, making them sufficiently affordable over the long term so that foreclosure can be averted. Where that fails as well, the work may also entail devising arrangements to allow the former residents (owners or renters) to remain in the property as renters, possibly under a plan that might restore ownership at some point.

There is ample guidance available on approaches to homeownership counseling and loan modification.[30] The task of loan modification is the most challenging. If the principal balance of the loan is not written down or the interest rate reduced (either through the injection of subsidy funds or the lender writing off some amount), all that can be done to make payments more affordable is to adjust the terms (e.g., reduce the monthly amount but extend the period of payment). This is often not enough to make the revised loan sustainable.

National efforts have been mounted to expand counseling in the current crisis[31] but, as of early 2009, lenders had been generally unwilling to write down principal or reduce rates voluntarily, and the federal government had not come up with incen-

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tives and supports that caused them to do so. Accordingly, results have been modest so far. The comptroller of the currency recently reported that more than half of the owners whose mortgages were modified in hope of stability during the first half of 2008 ended up in default again within six months.[32]

There remains debate as to which cases warrant government subsidy and how much should be provided. Some have argued that the owners now in default on a loan they cannot afford "should have known better," but many recognize that very large numbers were induced to take on their current loans by predatory brokers and did not fully understand what they were getting into. There seems general agreement that government funds should not be used to (1) bail out owners that have the means to sustain a loan on their own with modest adjustments to the terms, or (2) keep owners in homes that they realistically cannot afford over the long term (although many of these will need other types of support in the transition). Subsidies to make ongoing ownership workable should be targeted to those in between.

The present crisis may be an opportunity to transfer a number of properties to nonprofit ownership to expand the nation's supply of affordable housing.

Stabilize Neighborhoods.[33] Neighborhood stabilization programs aim to mitigate the deleterious community impacts of foreclosures enumerated earlier and to restore healthy market conditions.

The first step is rapid action by local governments to *secure and maintain vacant properties.* This starts with applying pressure to get the banks that now own many of them to perform these functions.[34] This can happen through (1) setting differential property tax rates;[35] (2) requiring owners of vacant properties to register them and pay an associated fee; (3) placing a lien on a vacant property, justified by the additional costs incurred due to the vacancy; and (4) providing financial incentives for the servicer to maintain and improve a vacant property (e.g., grants and below-market loans, tax abatements, forgiveness of liens).

If these approaches fail, nuisance abatement provisions in state laws usually allow municipalities to act directly to secure these properties and keep them well maintained. This can include government employees (or their contractors) mowing lawns, removing trash, making various repairs, boarding up buildings, and even demolishing buildings.

As the number of foreclosures mounts in any area, neighborhood-wide code enforcement will have to be intensified and general public maintenance and repair efforts enhanced to do a better job of keeping up the appearances of the neighborhood's buildings and public spaces. The municipality may also want to engage the residents in fix-up and improvement campaigns.

But, many of these efforts are only buying time. Agencies need to move to programs that will *bring foreclosed properties back into use* as soon as possible. This may include incentives to get responsible private parties (investors or prospective owner-occupants) to purchase the property (and, in many cases, rehabilitate it) and then expedite reoccupancy. Alternatively, it may require arranging for government agencies or nonprofits to take these steps, with subsidies as may be needed. The present crisis may be an opportunity to transfer of a number of properties to nonprofit ownership to expand the nation's supply of affordable housing over the long term.

As noted in the strategy section, however, the appropriate action in some areas where the housing market is very weak may be for some public agency to acquire the property, demolish the structures, and then hold it for a fairly prolonged period until the market bounces back. Specialized agencies may have to be created (or strengthened) to perform this land-banking function at scale.[36]

The NSP created under HERA is providing $3.9 billion to states and localities to support the kinds of efforts to mitigate neighborhood impacts discussed above. Grants were allocated by formula and states and localities were given only a short time to prepare their NSP plans. In response to concerns that the original funding was inadequate, a $2 billion second round of

NSP was passed in February 2009 as a part of the Obama administration's recovery package (H.R. 1, the American Recovery and Reinvestment Act, or ARRA). Unlike the first version, the funding in the new program will be allocated by a competitive process. Nonprofits, as well as states and local governments, will be eligible to submit proposals.

Critics have argued that (1) substantial efforts are needed to build the capacities of local governments to plan and implement these kinds of programs effectively, and (2) the magnitude of the need for neighborhood stabilization in this crisis will substantially exceed the amounts provided thus far.[37]

Help Families Recover. What local actions are needed to mitigate the deleterious impacts of the foreclosure crisis on families? The enhanced availability of many types of services is foremost. Some of the former owners who have lost their homes via foreclosure may still have income and be relatively stable in other ways. The emphasis for them may be more on services to help them straighten out their finances and develop plans to repair their credit histories. Still, as the discussion of the trauma of foreclosure above implies, many of them may develop needs for more intensive services as well.

And, certainly, many displaced renters are likely to require more. For renters and the most troubled former owners, the foreclosure-related displacement may simply be one of a series of disturbing events that face our most vulnerable families—illness, job loss, family stress. They are likely to require a broad array of services that are in some places now being thought of and planned collectively under the rubric of homelessness prevention:[38]

- emergency housing assistance (financial and other) to help them secure and pay for a new place to live;
- additional in-kind assistance (food and clothing) as needed;
- counseling and advocacy to help families connect with other resources to stabilize their lives over the longer term, including counseling on family financial management and, for some, help preparing for and finding new jobs;
- legal assistance with housing and other issues;
- special programs in the schools to help the children of displaced families cope with the transitions; and finally,
- services to deal with more severe issues like mental health problems, spousal abuse, and drug addiction that may have been exacerbated by the displacement.

In short, America does not need a range of new services to address the impacts of the foreclosure crisis on families but, rather, an expansion—in many areas, a significant expansion—of the types of social services that already exist at some level in most of our metropolitan areas. A step in this direction was taken with the passage of ARRA, which provides a new $1.5 billion homelessness prevention fund that can be used to cover many of these services, targeted to people "who would be homeless but for this assistance."[39]

> *. . . America does not need a range of new services to address the impacts of the foreclosure crisis on families but, rather, an expansion . . . of the types of services that already exist . . .*

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