MORTGAGE CRISIS

Foreclosures highlight the need for a more balanced housing policy

by Julia Stasch

If there is one thing we should learn from the current mortgage foreclosure crisis, it is that homeownership is not always the best choice for every American.

Certainly, there is the potential to build wealth through equity, the emotional appeal of a home of one's own, and in the past, the easy availability of attractive mortgages. But the hard truth is that America's single-minded pursuit of the promise of homeownership is having tragic consequences for many people in Chicago and other communities across the country.

Nearly half of all subprime loans were made in low-income communities, often to borrowers who did not fully understand the loan terms and may have little or no capacity to repay them, according to a report from Harvard University's Joint Center for Housing Studies.

Despite the high rates of foreclosure so far, industry experts predict that loans that originated in 2006 and 2007 will be the most foreclosure-prone in history. While some families will be able to stay in their homes or purchase others, many will join the increasing ranks of renters, putting even greater pressure on the shrinking supply of more affordable homes and apartments.

While they have been largely ignored by the media, renters also are affected by the foreclosure crisis. In 2007, nearly 20 percent of foreclosure actions affected one- to four-unit properties with an absentee landlord. In most states, even stable renters with excellent payment histories lose their leases and are evicted when their building is foreclosed. In Chicago, 35 percent of the almost 14,000 foreclosure filings last year were in small, multifamily buildings, affecting potentially thousands of renters. In some neighborhoods, the percentage of such properties runs as high as 60 percent to 80 percent.

Fair market rent for a two-bedroom apartment in Illinois is $844. To afford this — without paying more than 30 percent of income on housing — would require an annual income of $33,758.

SOURCE: *National Low Income Housing Coalition*

With subprime mortgages concentrated in minority and urban communities, the presence of vacant, boarded-up buildings threatens the stability and appeal of neighborhoods, especially those recently on their way up as part of America's urban renaissance. The overall economy, too, is affected, as the overheated mortgage market makes a painful correction, involving individuals, lenders, investors and major corporations alike.

Our country's almost exclusive focus on homeownership in recent years has left us woefully unprepared to absorb an increasing number of rental households — one million in 2007 — let alone provide rental spaces for those who have lost their homes due to the foreclosure crisis. Construction of rental units is down to only a third of its 1986 high. And there is a particular lack of affordable rental housing. Across the country, it requires an average wage of $16.31 per hour — 2½ times the new federal minimum wage — to rent a modest two-bedroom apartment. In 2006, more than half of the lowest-income renters spent more than half of their incomes on housing, leaving very little money for other basic needs such as food, transportation, clothing and health care.

We need to address the effects of the subprime mortgage "meltdown," but we also need to acknowledge a simple truth. Virtually all of us are renters at some time in our lives, either by choice or because it is the only workable option. We need to strip the myth from homeownership, restore respect to rental housing and seek and sustain a more balanced national housing policy.

Such a policy would make affordable homeownership possible without exposing borrowers to devastating penalties and changes in terms. It would provide incentives for the construction of new homes and rental apartments for people of modest means. It would encourage residential development near places of employment and transportation.

It would help local communities to keep homes in productive use and maintain the stability of neighborhoods as markets change over time. And a balanced housing policy would stem the loss of existing housing by making it easier to preserve and improve as many affordable homes as possible.

Harry Truman said, "A decent standard of housing for all is one of the irreducible obligations of modern civilization." A thoughtful, balanced national housing policy would help us go a long way toward meeting that obligation. ❑

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From the report *America's Rental Housing: The Key to a Balanced National Policy*

- As early as 2004, some 240,000 subprime home mortgages were seriously delinquent (with payments 60 days late or more and/or just entering into foreclosure).
- As more and more households struggled to buy in the face of rapidly rising home prices, the number of seriously delinquent subprime home mortgages rose to 750,000 in 2007.
- More than 12 percent of all subprime loans were seriously delinquent by the end of 2007, compared to 1.7 percent of prime loans.
- Although the mortgage market meltdown only emerged as the dominant national housing policy issue in 2007, serious mortgage delinquencies and foreclosures have been on the rise in Ohio, Michigan and Indiana for more than 10 years.
- The plentiful supply of mortgage capital also fed a substantial rise in high-risk lending to absentee owners of one- to four-unit rental properties. While varying from one state to the next, in 2007 nearly one in five of all foreclosure actions started were on loans made to nonresident owners.
- Mirroring the concentration of subprime lending, foreclosures are also highly concentrated in the lowest-income and minority communities where many of the most disadvantaged renters live. Nationwide, loans in low-income minority communities are more than twice as likely to be foreclosed than loans in high-income white areas.
- High levels of foreclosures produce collateral damage that can easily destabilize already vulnerable communities, by depressing property values, lowering local property tax revenue, and imposing additional costs on cash-strapped public agencies.
- Mortgage foreclosures are adding to the number of units held off the market, while the weak home-buying market also is helping to expand the supply of higher-priced rentals as owners attempt to rent out their newly vacant condominiums and single-family homes. But because most renters do not have adequate income to take advantage of these opportunities, the market has limited ability to absorb the current excess supply.
- After averaging just 0.7 percent annual growth from 2003 to 2006, the number of renter households jumped by 2.8 percent or nearly 1 million in 2007.
- The minority share of renter households increased from 37 percent in 1995 to 43 percent in 2005, with Hispanic renters accounting for nearly half of the minority gains. The number of black and other minority renter households rose more modestly, while that of white households fell by about 433,000.
- Of the nearly 37 million renter households in 2005, one in six were headed by an immigrant. More than 80 percent of the 1.6 million immigrants who had lived in the United States for five years or less in 2005 rented their housing, though only one-third of the immigrants who came to the United States before 1990 remained renters in 2005, nearly matching the share of same-aged native-born households.
- Some 19 percent of all households reported a change of residence between 2003 and 2005, including 1.9 million owners who became renters. Over this period, homeowners in the bottom income quartile were three times more likely than those in the top income quartile to switch from owning to renting.
- The mean debt of renters in the lowest income quartile surged 62 percent in real terms, growing from $3,200 in 1995 to $5,200 in 2004. While up across all age and racial groups, mean debt for renter households with heads aged 55 and older increased by 76 percent, to $8,800, and for minorities by 61 percent to $7,900.
- Last year, completions of multifamily units for rent fell to 169,000 units — just two-thirds of the 2002 figure and only one-third of the 1986 record high.
- The national median gross rent rose 2.7 percent in real terms from 2001 to 2006 while the median renter income fell by 8.4 percent.
- Nearly half of all renters paid more than 30 percent of their incomes for housing in 2006, and about a quarter spent more than 50 percent. Among renters in the bottom income quartile, fully 52 percent spent more than half their incomes on housing in 2006, up from 47 percent in 2001.
- In 2006, 42.6 percent of all working families did not earn enough to afford an appropriately sized housing unit.
- From 1995 to 2005, nearly 2.2 million (or 6 percent) of all rental units were demolished or otherwise permanently removed from the inventory, including 1.4 million units with inflation-adjusted rents of $600 or less in 1995.

SOURCE: *America's Rental Housing: The Key to a Balanced National Policy* by Harvard's Joint Center for Housing Studies, a MacArthur Foundation-funded report.