KIRWAN INSTITUTE for the Study of Race and Ethnicity

THE FUTURE OF FAIR HOUSING and FAIR CREDIT

Sponsored by: W. K. KELLOGG FOUNDATION

An Ethnographic View of Impact: Asset Stripping for People of Color

HANNAH THOMAS

Brandeis University (IASP)

PRESENTED BY

KIRWAN INSTITUTE

FOR THE STUDY OF RACE AND ETHNICITY

THE OHIO STATE UNIVERSITY

The **Kirwan Institute for the Study of Race and Ethnicity** is a university-wide interdisciplinary research institute. We generate and support innovative analyses that improve understanding of the dynamics that underlie racial marginality and undermine full and fair democratic practices throughout Ohio, the United States, and the global community. Responsive to real-world needs, our work informs policies and practices that produce equitable changes in those dynamics.

An Ethnographic View of Impact: Asset Stripping for People of Color

I finished the interview with Edna, and then used her bathroom, taking the opportunity to poke my head around the rest of the house. It was small. The bathroom led off the TV room and had a door through to the kitchen on the other side. In the dining room, the dining table was laid out with a full dinner set, and table cloth. There was a sofa and armchair in the living room area. It felt middle class, but not excessive. Enough to say respectable, but certainly not extravagant. There were few knick-knacks or clutter in the house in general. In the bathroom, there was the minimum of "stuff" - just hand soap and a small vase. The towels matched, but were frayed, indicating their use and age. She came into the kitchen and opened up the blinds "to let fresh air into the house." She explained how her neighbor would help her out, and she'd help out the neighbor. Take each other's trash out.

Edna was a grandmother. She'd been married, but was now separated and had bought a small home in a community in the southern part of Boston to look for a quieter, safer place to live. Two guys at a local mortgage company offered to help her buy the home but inflated her income on the loan application. She couldn't afford the mortgage payments. So she started using her 401K (retirement plan) to manage the mortgage payments and cover the deficit. She didn't feel like she had a choice.

An older woman, her health had started taking its toll and she was struggling to stay at work, meanwhile rapidly building up medical debts. She was in foreclosure now, about to lose her home and any assets that she'd accumulated, poured into the mortgage to save the house. She was a single elderly African-American woman.

We climbed into her car. I asked her about her job. She was wearing the housekeeping uniform for her job. It was the second job that she'd taken on to afford the mortgage. It was over on the other side of the city. She'd been sick this week and unable to work her first job, also in housekeeping. I asked her about her family. She was originally from Birmingham Alabama. Her father was Jamaican. She had three kids. She said it was rough at the moment. Life was hard. She asked me what I was studying. I said inequality. She laughed and then said I would find out about inequality through living it.

Edna was by no means unique. In the thirty-five interviews that I did with individuals in foreclosure around the city of Boston, I encountered many situations like hers: people working hard to save their homes and using up their assets like retirement plans and savings accounts to do so. Most of the people I talked to bought a house to provide safety and stability, to live the "American Dream" and secure a future for themselves and their children. But these individuals got caught up in the turbulence of a speculative housing market where subprime mortgages were driven by profit-driven Wall street investors and the mortgage lenders and brokers who capitalized on the seemingly never-ending increases in housing prices and the fees and interest rates they could extract.[1] In the following chapter I plan to explore some of these stories and draw out some themes about what the current foreclosure crisis might mean in terms of losses not just of people's homes, but also of their asset cushions like retirement savings and their children's college savings.

[1] The subprime mortgage market transitioned from including three stakeholders in the 1970s to over 40 by 2007 Petersen, Chris. 2007. "Predatory Structured Finance." *Cardozo Law Review* 28..

FORECLOSURES

To date the academy has mainly focused on large scale studies of foreclosure, looking at the characteristics of the loans themselves, with few studies of the details of people who are in foreclosure (race, age, family structure, class), let alone documenting their stories and experiences. As a result we have a good idea of the types of loans that are going into foreclosure (subprime high loan-to-value ratios, often adjustable rate mortgages or interest only mortgages with prepayment penalties and balloon payments) (Affairs 2006; Center for Responsible Lending 2008; Ernst et al. 2006; Foote et al. 2008; Foote, Gerardi, and Willen 2008; Gerardi, Shapiro, and Willen 2007; Immergluck and Smith 2005; Newburger 2006; Quercia, Stegman, and Davis 2007) and we have a sense that these loans, and the associated foreclosures have been disproportionately located in communities of color through spatial analyses of foreclosure filings and foreclosure sales (Reid 2009).

We also have a sense of some of the impacts of earlier waves of foreclosures on individual households in Europe from studies in Britain and Sweden that focused on the health and psychological impacts. Nettleton (1998) found that the impact of mortgage arrears increases the frequency of visits to family practitioners in Britain. Nettleton suggested this was related to the basic lack of security and a social context in Britain where individuals were held responsible for foreclosure (repossession) (Nettleton and Burrows 1998). Another study by Nettleton and Burrows (2001) based on interviews with 30 families demonstrated increased agency as families fought to save homes at the same time as they experienced negative impacts on their health and emotions. Nettleton and Burrows describe this as the "new landscapes of precariousness".[2]

A study of repossessions in Sweden in the 1980s provides insight into the experiences of homeowners in that country (Bjork 1994). This study is particularly relevant since it followed a similar methodology to the current study using interviews with homeowners experiencing loss of homeownership, and addresses a similar question of the experience of a home repossession (foreclosure). A critical observation from the study was that loss of homeownership was equivalent to loss of identity for homeowners. Bjork (1994) described the "general scheme of grief" she observed from her interviews: an initial stage of denial of the problem, followed by shock, then blame, action, bitterness, and finally constructive action. Bjork noted that many were forced to take decisions when they were at inappropriate stages of this "scheme of grief". Importantly Bjork pointed to the tension between the commodity or investment value of the home, and the use-value of the home to the inhabiting family. These studies point to the social and psychological impacts on families but they do not describe the financial impacts of repossession.

In sum, the studies completed to date at the individual level do not provide us with a clear picture of the financial impacts of foreclosure and while the aggregate studies give us some sense of the scale of foreclosure, we are not able to see clearly the impact that foreclosures have financially on a family beyond just the actual loss of the house. We might expect that there are impacts on credit scores, financial savings and debts, but prior to this study we don't have much evidence of the overall impact of foreclosure on

[2] Nettleton's notion of a "landscape of precariousness" is embodied in work by Jacob Hacker (2006) in his book "The Great Risk Shift". Hacker suggests families are living in a world where risk is being taken on increasingly by the individual or family, instead of institutions and governments. This creates a precarious existence that Nettleton suggests increases stress.

families' financial situations. This study does not attempt to provide a representative sample of families in foreclosure, nor does it claim to look at the full range of possible impacts. It offers a detailed picture of some families (n=30) who were in different stages of foreclosure in Boston in 2007 and 2008, exploring the financial path to foreclosure as well as the resulting impacts on the family's financial balance-sheet. The families in this study are predominantly families of color, and as we'll see, this follows the pattern of foreclosure petitions and foreclosure sales being disproportionately located in communities of color in Boston.

METHOD AND DATA

Sample and Recruitment

The interviews used in this chapter were completed in two stages: as part of a partnership with the City of Boston; and subsequent interviews funded by the department of Housing and Urban Development (HUD). The first set of data comes from semi-structured interviews[3] with individuals who were in foreclosure and who lived in the City of Boston. Interviews were not recorded, but detailed notes were taken. The second set of data comes from analysis of an additional five interviews in Boston with individuals who were in foreclosure between January and August 2008. These interviews were fully recorded and transcribed. The following analysis is based on coding and analysis of both sets of interviews.

Individuals were recruited through the City of Boston database of foreclosures. Where phone numbers were publicly available, individuals were contacted and asked if

[3] Semi-structured interviews include a series of specific fact seeking questions, as well as open-ended questions that will be probed. (insert reference)

they wished to participate in this research with a full explanation of what was involved in the research. A time was scheduled that was convenient for the individual, or couple, and at a place chosen by the participant. In some cases this was their home that was in foreclosure, in other cases, participants felt more comfortable meeting in a coffee shop, local community facility, or other public space. The interview lasted between one and two hours, and covered how the person came to own a home, details of their mortgage, their financial situation including assets, debts, and other monthly payments, credit scores, approach to finances and details of how they came to be in foreclosure.

This set of interviews is broadly geographically representative of the locations of foreclosures in Boston. Since there is no data at the individual level to know the racial distribution of foreclosures, it is unclear whether the interview sample was representative of the economic, demographic and social backgrounds of those in foreclosure. However, the themes emerging from the interviews are very similar, suggesting data saturation (Charmaz 2005). The purpose of this paper is exploratory, and not broadly generalizable. However, this research follows other studies that have attempted to look at similar questions, and has struggled with the same set of challenges in recruiting individuals to take part in the process (Bjork 1994). Some of those challenges include: families being in a particularly stressful moment in their lives and as a result unwilling to speak with the interviewer; families no longer living at the address of the property in foreclosure; telephone numbers being disconnected as a result of financial difficulties; and a general unwillingness to share personal financial information with the interviewer.

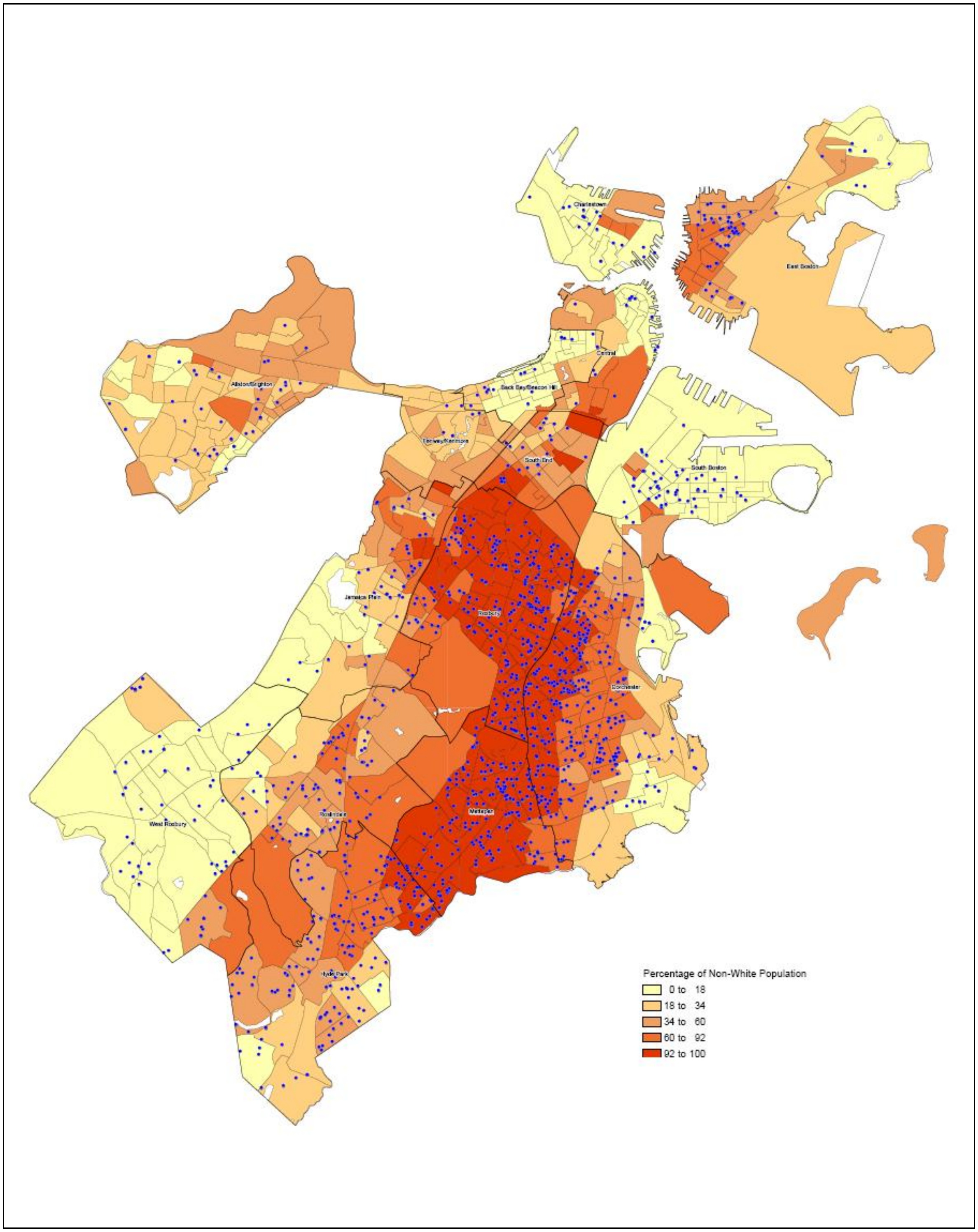
BOSTON FORECLOSURES

Foreclosures in Boston have, as in many cities (see Cleveland for example), been predominantly located in communities of color. In California Black and Hispanic borrowers with good FICO scores were four times more likely to receive a higher-cost mortgage (proxy for subprime) than were white or Asian borrowers (13), with the result that the percentage of black and Hispanic home purchase borrowers in default (stage prior to foreclosure) were four to five times higher than for white borrowers (28) (Reid and Laderman 2009). For Massachusetts Gerardi and Willen (2008) found that African American borrowers were as much as 2.3 times more likely to go into foreclosure than whites. For Boston by mapping out where foreclosures are located we can quite easily see the alignment of foreclosures, with all their associated negative impacts, with census tracts predominantly black or Hispanic (see Figure 1).

The interviews that I conducted were predominantly with black immigrants, or African-American individuals and their families, or Latinos. I did not interview any Asian-American families, and I was only able to recruit two white families in foreclosure to speak with me. There is likely a bias in my sample, however, as with all studies of foreclosure, I am unable to determine whether my sample is representative demographically of the full population that is currently in foreclosure, since we do not yet have the ability to describe the full population of foreclosures, for example in terms of race, income, family structure.[4] While we can understand patterns of foreclosures at the neighborhood level, and some studies are beginning to be able to describe the race of the individual borrowers in foreclosure, this has yet to happen for Boston, nor for national

[4] There is a lack of available data on the distribution of foreclosures by race and other demographic details. There has been some attempts to merge Home Mortgage Disclosure Act data with other sources of data that include loan performance, but we still do not have detailed breakdowns at the city level available.

data. Table 1 at the end of this paper provides a breakdown of the demographics of the participants interviewed with comparisons for foreclosures in Boston where available.



Map 1: 2006 Foreclosure Petitions and Percent Non-White Population by Census Block Group (provided courtesy of the City of Boston)

There are generally two types of foreclosures that occur in the United States, depending on the state's legal process: judicial and non-judicial. In a judicial state, the foreclosure process includes a court hearing where the borrower has an opportunity to challenge the foreclosure. Massachusetts in a non-judicial state and so there is no opportunity for a court hearing to challenge the foreclosure. So once a mortgage is delinquent for 90 days, i.e. the servicer or bank has not received payment for 90 days, foreclosure proceedings begin, and a letter is sent to the debtor to ask for full payment. If full payment for the delinquent amount is not received, the lender/servicer will begin foreclosure proceedings, and usually, somewhere between three and six months later (although this is currently potentially longer because of the volume of foreclosures and as a result of the moratorium) there will be a foreclosure auction where the house is sold to the highest bidder, which is often the bank. The property is then held by the bank as a real-estate owned (REO) property, and attempts are made to sell it, sometimes in bulk, and sometimes as an individual property.

FROM BUYING TO LOSING THE HOME

With the exception of the two white homeowners who had received a foreclosure petition, all the families I interviewed had subprime mortgages. This is perhaps no surprise when we consider that subprime mortgages have a far higher rate of foreclosures. It should also be of no surprise then to learn that all of these subprime mortgages were adjustable rate mortgages, which analysis has pointed to being at a 50 percent higher likelihood of entering foreclosure (Quercia, Stegman, and Davis 2007) and that all of them had very high loan to value ratios – the mortgage being around 90-100 percent of the value of the house. We know from basic loan underwriting that this is a risky proposition. Families of color in Boston that I interviewed were in inherently risky subprime mortgage products.

In addition, many of these families spoke about the mortgage being unaffordable from the start. They recalled observing that the mortgage payment was too high to be affordable at loan closing, and that they had told the mortgage broker this fact, only to be told that they could refinance six months later. For others, they had discovered, through the process of foreclosure counseling, that they had been subject to fraudulent activity where their income had been inflated without their knowledge, again, no surprise as Massachusetts Attorney General has litigated several lawsuits now against subprime mortgage lenders for example Fremont where the judge ruled unfair and deceptive lending under Massachusetts Consumer Protection laws.[5] What the interviews started to reveal though, was the cycle that families moved into once they had purchased a house with a toxic subprime loan. Figure 1 shows the cycle that families now found themselves within.

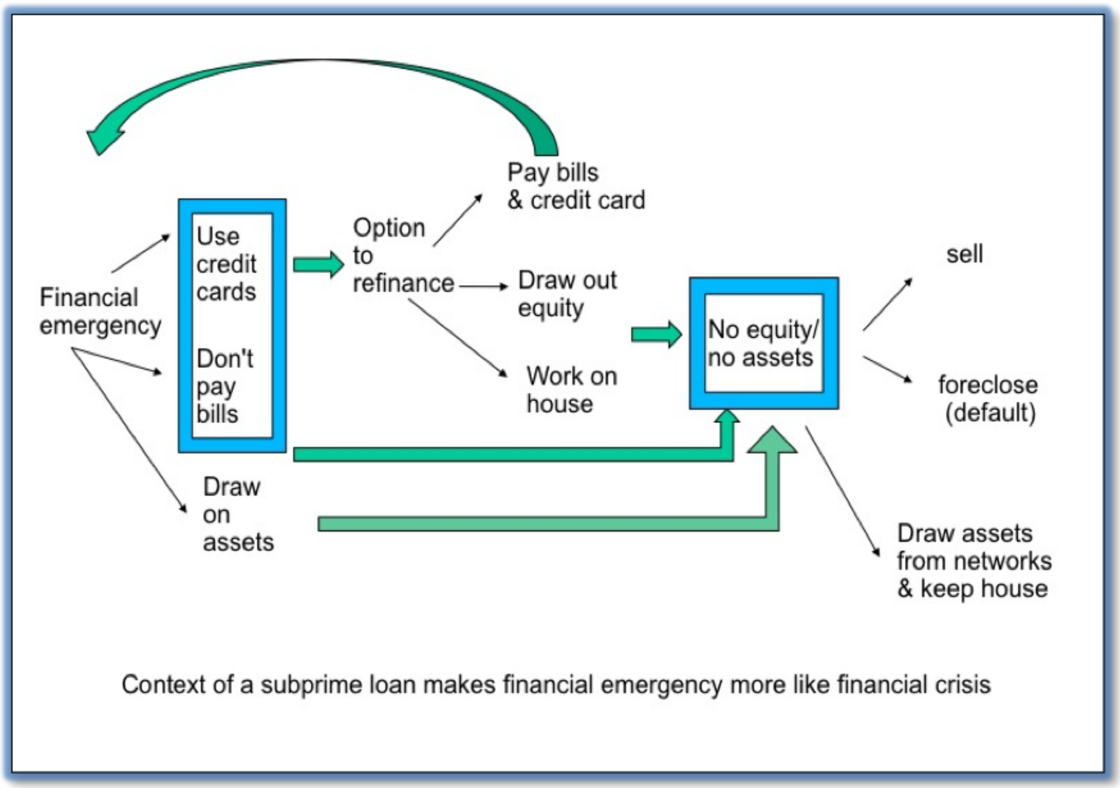
The household or individual encountered a financial emergency, such as any combination of an unaffordable mortgage, loss of a job, divorce, or other economic hardship.[6] At this point, the household had various options: to sell the house, to continue trying to pay the mortgage or let the mortgage go into default.

---

[5] COMMONWEALTH of Massachusetts v. FREMONT INVESTMENT & LOAN & Fremont General Corporation. No. 08-J-118. May 2, 2008. By the Court (COHEN, J.).

[6] Many of the people interviewed had experienced a small negative shock, such as a brief period of unemployment, loss of rental income, and temporary property tax increases that led to missing one or two mortgage payments. These events impacted them financially, but for some of these individuals it appeared realistic to get back on a payment plan with their mortgage. However, servicers were reported as being hard to get hold of, unresponsive, inflexible, or refusing to take payment. Arrearage quickly built up where an interviewee had been trying to negotiate, and quickly tens of thousands of dollars were owed. Without large asset pools to draw on, families found they couldn't get back on track with payments. This lack of

Fig 1: The path to foreclosure



Usually the household in my interviews decided to continue trying to pay the mortgage. To then cope with the financial emergency, the household or individual would use their credit cards[7], not pay other household bills described as "robbing peter to pay paul"[8], or draw on savings and other assets available to the household[9]. If there was still

---

flexibility appears to be amplifying the effects of negative economic shocks to a family's ability to maintain the mortgage.

[7] Twenty-three people (77%) had credit card debt. The mean outstanding balance was $7,066, the median was $5,000, the maximum $29,600 and the minimum $80. Other debts included medical debts, student loans and car loans. Many individuals identified themselves as debt averse, even though they did have some level of debt. This ranged from statements such as making attempts to pay off all their credit card debt to become debt free, to discussing the use of minimal debt to achieve necessary goals, to literally only paying cash for items needed. Several individuals used their mortgage refinance to consolidate their credit card debt into the mortgage, usually at the suggestion of the mortgage broker. This will mean that the credit card debt reflected above is lower for some than it might otherwise have been.

[8] Many families were "*robbing peter to pay paul*", choosing which other bills not to pay, in order to make sure they paid the mortgage, since they wanted to avoid losing the house at all costs. This led to declining credit scores, and mounting utility bills, putting them in a more precarious financial position for the long-term. Families reported high levels of stress from worrying about how to pay the mortgage. This stress was

equity in the house, the household might refinance and use the equity from the house to pay off credit cards or bills that had become delinquent. Alternatively the household could refinance earlier in the cycle instead of using credit cards or not paying the bills. In some cases individuals refinanced their houses believing that it would make the mortgage payments more affordable, a solution as they saw it, to their financial predicament[10].

Using such methods, the household could recover apparent financial stability. But the reality was that the entire financial situation was not sustainable. Another financial emergency might create urgency and stress again, further exacerbating this cycle. Eventually at some point in the cycle the household had no equity or assets remaining, and the household either attempted to sell the property, or most often defaulted on the mortgage payments, or both. In some cases, at this final point, a household might be able to draw some assets from family or friends and could maintain the property for some additional time, but this was rare in this study.

HOME AS STABILITY AND SECURITY: CONTEXTS FOR FINANCIAL DECISION-MAKING

The decisions that are made along the way towards foreclosure for the household are taken in the context of life position and meanings associated with the home. In other words, the decisions to make the mortgage payment, and build up credit card debt, or to make the mortgage payment at the expense of not paying other bills will be made in the context of what the house means to a household, family or individual.

---

adversely impacting family relationships and their own health. Families were trying to remain self-sufficient, not wanting to be a burden to anyone, until their financial situation had become a crisis.

[9] Twenty-four people, or four out of five of those interviewed either currently had, or had had in the recent past 401Ks or equivalent retirement accounts. Fourteen (47%) had depleted their 401Ks and equivalents to pay the mortgage and bills, or to complete repairs on the house. Every person interviewed had a savings account, the vast majority (n=27) of them had depleted their savings accounts to pay for their mortgages and other bills.

[10] Eleven households (37%) refinanced to lower their monthly mortgage payments.

For example sitting in Dunkin' Donuts over a coffee after he'd talked to me about why he bought a house, Charles, a Haitian immigrant living in Roslindale, spoke to me about his motivations as he tried to explain his current decisions about his home in light of being in foreclosure.

> "*I mean everything I do, I do it for my daughter. I mean I don't do it for myself. I'm done. I'm a done deal. I'm living life. …So I think the good Lord will come up for me, and show me, lead me to the right place. And get things back for, provision for her. She will be, cos I want her to be happy, not struggling like I'm struggling. This thing will ride out for her.* "
> "Charles"

This quote gives a real picture of the way that Charles was making decisions about his home based on his daughter. All the specific meanings associated with the home, and the resulting decisions he was making, were within this broader framework of looking out for his daughter's future. His role of being a father was informing how he struggled to make sure that he was providing her with a financially secure future, ensuring that he continued to own a home. The house specifically became a means to provide future economic security for his daughter.

Richard was a self-employed 61 year old African American man whose income had declined each year. He had bought the house to stabilize his housing costs, but instead had ended up in a subprime adjustable rate mortgage where the payments were becoming too much to handle.

> *"the rentals were as high as the mortgage… in this point in our life, we needed to have, something that we owned so we could, as I said, try to have a steady cost we could fix within my fixed income."* Richard

Richard saw the house as a way to provide a more secure situation for himself and his wife as they approached retirement.

As heads of household found themselves in a mortgage they couldn't afford, unable to see a clear way out, they were trying to make the best of it, and find a way to keep the house, a place full of meaning for themselves and their families, even if it meant spending down their assets built up over years.

ASSET STRIPPING

In conventional lending banks want to make sure that the potential borrower has sufficient financial assets to allow continued repayment of the loan in a period of unemployment or sickness. Responsible lenders will take into account savings and other financial assets in thinking about this ability to repay. But responsible lenders also try to give a loan to a borrower that is reasonable and not inherently set up to continually be beyond the borrowers means, nor to consistently and regularly increase. In contrast the subprime mortgages that were being made between 2000 and 2007 were often not only ignoring a borrower's ability to repay, but were frequently also set up to constantly increase (e.g. hybrid ARMs and Option ARMS).

The mortgages of those interviewed were large (median $304,925), reflecting high house prices in the Boston metropolitan region. As a result, the mean annual mortgage payment to income ratio was 58.44%, and the median was 54.04%. The minimum was 21.25% and the maximum 167.29% (based on current income, and current monthly mortgage payment). It does not account for payment increases anticipated from scheduled adjustable rate mortgages. HUD considers that for a housing payment to be affordable it should not be more than 30% of the monthly income. Only two individuals were not paying more than 30% of their monthly income on the mortgage payment alone, (not including taxes and insurance). This is certainly far from the ideal of responsible lending described above.

The interviews suggest that the only way many borrower's had to try and make the monthly mortgage payments and keep their house, was to draw on cash reserves and other financial assets they might have (savings, retirement plans, college savings plans) or to increase their debt levels (home equity, credit cards, personal loans). This process is one that in a best-case scenario prevents a family from building up protective assets, and in a worse case scenario steadily strips a household of what little assets it might have. This process is not necessarily problematic if the use of assets is in response to a temporary cash-flow challenge or a temporary income reduction. But in the case of these subprime mortgages, the monthly payment was usually unsustainable from the beginning, with temporary financial emergencies hastening the instability, and instead of assets providing a temporary buffer, they were rapidly being depleted with little chance of replenishment.

Drawing on the strength of a borrower's desire to own and keep their house, a lender can draw large amounts of regular monthly payments that are structured to provide homeownership at a premium (through higher interest rates) as well as extracting a variety of late and other fees, from the savings that a family has been attempting to accrue. As families headed towards delinquency and foreclosure, their credit scores sank lower and lower.[11] The implication is that all aspects of these families' lives are now

[11] Most of those interviewed presented a picture of confusion, fear and lack of power in dealing with their credit score. They knew their credit score if they had attempted to refinance recently. Many described their fear in looking at it, noting that it was a "depressing" and "stressful" experience. Most also anticipated that their credit score was not very good at the moment. " *it's not very good. What would I look at it for? I know what it's going to say…*" CN1 "*I try not to look at my credit score. I can't take it*." YE1
Three of those interviewed looked at their credit scores regularly and spoke with some sense of control about their score. Despite usually not knowing their credit scores, those at risk of delinquency or

impacted. A low credit score can make it harder to get insurance, to access new loans, to find an apartment or event to access some employment. Coupled with the asset stripping, this extends the financial losses of a family beyond just the loss of the house and assets.

Charles, introduced above, had bought a house that ended up having more repairs than his housing inspector had found. He'd originally bought the house to build equity to send his daughter to college and provide a home for her. A Haitian immigrant, the American Dream of social mobility sounded loud and clear. To buy the house he'd got 100 percent financing with a subprime mortgage that was clearly too expensive for his income from driving taxis. Over coffee he described how he'd decided to use the modest amounts of money he'd managed to save for his seven year old daughter's future college tuition to keep paying the mortgage, after he'd exhausted the $8,000 he had in savings. Now he was losing the house, finally giving up in the battle he'd been fighting to keep some social mobility and opportunity for his daughter. His credit score had "crashed" into the 400s and he owed extensive credit card debt having poured over $22,000 into the house in repairs, while trying to meet his monthly mortgage payment.

Doris met me in a coffee shop in Jamaica Plain. She'd lived in Boston her whole life and in her current house for over 20 years, it having been her grandmother's before her. She had two young children and due to mental health problems had recently lost her job from the school she'd taught at as a special education teacher. Describing what had happened to her house, she spoke of a systematic and ongoing process of asset stripping, from predatory contractors in the 1990s who did shoddy work at great expense to a mortgage well beyond her current ability to afford it today. Particularly egregious, she

---

foreclosure knew and anticipated that their credit score would soon be going down due to likely problems paying bills on time. This indicates that there is a general level of understanding about the credit report system, but a lack of engagement in managing their credit score. A few individuals identified their low credit score as of concern if they lost the house, particularly in gaining a new place to live.

and her husband had got caught prior to the passage of the Massachusetts anti-predatory lending law in 2005 with a $20,000 prepayment penalty that quickly reduced the equity in their home when they refinanced to a lower interest rate. She desperately wanted to keep the house because it was a family house and she had two young sons. But real estate agents had started showing the property and she was resigning herself to losing it.

These stories represent an unknown, but likely important percentage of homeowners who are currently in foreclosure in Boston's communities of color. They represent families who were slowly working towards middle-class status – college education for themselves with 401K plans, college aspirations for their children, and growing levels of homeownership. The reality is that as this foreclosure crisis worsens, more of these families who had been gaining some social mobility will be losing their financial footing, sliding back into a financially precarious situation.

In Massachusetts evidence is mounting of a traumatic story of distress and asset stripping in communities of color. Prior to 2006, increases in black homeownership were often terminating in sales, likely as home prices remained buoyant. But by 2007 most of the terminations of black homeownership were through foreclosure (Gerardi and Willen 2008). The gains in homeownership of the 2000s for black and Hispanic families that resulted from the subprime mortgage market start to look like a failed experiment that has left black and Hispanic households financially worse off than if they had never owned a house, not to speak of the psychological distress left for these families.

IMPLICATIONS FOR NEXT GENERATION

While the interviews offer little direct insight into the picture for the next generation, they do suggest significant impacts for the next generation. Children who might have hoped to attend college will have fewer options for their parents to help them out as houses and any equity and assets owned by the families are lost. Charles, the Haitian immigrant, had started saving a small college fund for his small seven-year old daughter. He used this to keep up with the mortgage payments for an unaffordable subprime loan, still ending up precariously close to losing the entire of his house and any hope of future home equity when I spoke with him in 2008. We know from work by Thomas Shapiro (Shapiro 2004) of the important role that parents play in helping out at key moments by leveraging their own assets for their children.

On the other end of the spectrum, as parents age, the security provided by owning a home and the possibility of using home equity as the means to cover retirement costs, will no longer be available. This study points to the possible impacts of older black and Hispanic families being unable to finance their retirement through their homes. As Richard, an African-American man in his sixties who'd cared for his own parents, and put his children through college, put it "*what's happened with my father was… he was able to sell the house and have a nice nest egg to go into his independent living place. I have no nest egg and this house probably in ten years would've been a nice little nest egg to have*." So "*plans just didn't work out the way I had envisioned them to*." The question is who is going to pay for Richard's retirement. Will it be his children?

If Gerardi and Willen's study bears out beyond just Massachusetts, the increases in black and Hispanic homeownership during the last decade may well have been lost in foreclosure and distressed sales. It seems not a question of whether, but more the specific details of how this intergenerational impact will play out. These questions have yet to be answered.

POLICY IMPLICATIONS

This study can only suggest the full picture of what is happening for families of color in cities across America. We need to look more closely at the patterns of asset use during financially difficult times across different demographics to understand to what degree the patterns we can see here play out for a broader range. For particularly black and Hispanic families, studies are pointing to the disproportionate impacts of foreclosures, and understanding the processes of asset loss playing out for these families, we must conclude that there will be substantial impacts from this foreclosure crisis on the racial wealth divide.

There are significant ways that policy-makers can act at both the macro and micro level. At the macro level, we need to look at the system of mortgage lending that has created such disproportionate levels of subprime mortgage lending and foreclosures in communities of color. We have seen from programs such as the Community Advantage Program at Self-Help Credit union, as well as with Neighborhood Services of America (NHSA) that safe mortgage products are less risky with risky borrowers, i.e. lower priced mortgage products can mean successful homeownership with low overall foreclosure rates. By expanding such programs, and incentivizing prime mortgage originators to extend credit to communities of color and address some of the hesitancy that some of those I interviewed expressed about going to their bank (with whom all of them had checking and savings accounts) we might find ways to build sustainable homeownership in communities of color.

At the individual level we need to start thinking about ways to build and protect assets. How can mortgage originators take account of the asset vulnerability of potential borrowers? And are there ways that we can collectivize some of the risk such that we build programs and structures that can assist asset vulnerable populations when they encounter financial emergencies, such as community resource pools available for a borrower to access to help cover the mortgage payment during a period of temporary unemployment.

In protecting assets, can we structure earlier counseling, to help borrowers before they become delinquent develop a strategy to work with their financial goals such as retirement security or saving for their children’s college education. If we understand the motivational contexts for their financial decisions, the counseling may be more effective. Currently foreclosure counseling kicks in after the borrower is delinquent, and the strategy as a result, must be one of crisis management rather than proactively considering the whole financial picture that a borrower is in.

Table 1: Characteristics of Interview Participants with Comparable Data for Boston (where available)

Category	Interviews	City of Boston foreclosure petitions (where available 2006)
African-American or black immigrant	24 (80%)	Unknown
White	2 (7%)	Unknown
Hispanic	4 (13%)	Unknown
Immigrant	12 (40%)	Unknown
Mean age	50.2 years	Unknown
Median time in house	2.5 years	3.7 years
Married or living with partner	14 (47%)	Unknown
Single	16 (53%)	Unknown
Female headed	11 (37%)	Unknown
Neighborhood		
Dorchester	11 (37%)	430 (27%)
Roxbury	3 (10%)	283 (18%)
Mattapan	5 (17%)	190 (12%)
Hyde Park	4 (13%)	200 (13%)
Central	1 (3%)	16 (1%)
Jamaica Plain	1 (3%)	56 (4%)
East Boston	2 (7%)	64 (4%)
South End	1 (3%)	25 (2%)
Roslindale	2 (7%)	
Current Household Annual Income		
<80% Area Median Income	17 (57%)	unknown
80-100% Area Median Income	5 (17%)	unknown
>100% Area Median Income	7 (23%)	unknown
Education Level		
Graduate School	4 (13%)	unknown
Completed College	3 (10%)	unknown
Some college	8 (27%)	unknown
Beyond high school not college	3 (10%)	unknown
High school graduate	7 (23%)	unknown
High-school Drop-out	2 (7%)	unknown
Renters present	14 (47%)	Unknown
Housing Type		
Condo	6 (20%)	29.6%
Single Family	10 (33%)	25.1%
Two family	10 (33%)	25.2%
Three family	4 (13%)	20.1%
Median amount of mortgage	$304,925	$311,920[12]
Median purchase price of house	$292,000	$300,000[13]

[12] Suffolk Registry of Deeds, Department of Neighborhood Development internal Policy Development and Research department analysis of foreclosure petitions between 1/1/2006 and 12/31/2006. Data available for 89% of records.

Bibliography

Affairs, Texas Department of Housing and Community. 2006. "A Study of Residential Foreclosures in Texas." edited by H. a. C. Affairs.

Bjork, Mia. 1994. "Investigating the experience of repossession: A Swedish example." *Housing Studies* 9:511-530.

Center for Responsible Lending. 2008. "Updated Projections of Subprime Foreclosures in the United States and Their Impact on Home Values and Communities." Center for Responsible Lending, Durham, North Carolina.

Charmaz, Kathy. 2005. "Grounded Theory in the 21st Century: Applications for Advancing Social Justice Studies." in *The SAGE Handbook of Qualitative Research*, edited by N. Denzin and Y. Lincoln.

Ernst, Keith, Kathleen Keest, Wei Li, and Ellen Schloemer. 2006. "Losing Ground: Foreclosures in the Subprime Market and their Cost to Homeowners."

Foote, Chris, Kristopher Gerardi, Lorenz Goette, and Paul Willen. 2008. "Subprime Facts: What (We Think) We Know about the Subprime Crisis and What we Don't." Federal Reserve Bank of Boston.

Foote, Christopher L., Kristopher Gerardi, and Paul Willen. 2008. "Negative Equity and Foreclosure: Theory and Evidence." in *Public Policy Discussion PAper*. Boston: Federal Reserve Bank of Boston.

Gerardi, Kristopher, Adam Hale Shapiro, and Paul Willen. 2007. "Subprime Outcomes: Risky Mortgages, Homeownership Experiences and Foreclosures." Federal Reserve Bank of Boston.

Gerardi, Kristopher and Paul Willen. 2008. "Subprime Mortgages, Foreclosures, and Urban Neighborhoods." in *Public Policy Discussion Papers*: Federal Reserve Bank of Boston.

Immergluck, Dan and Geoff Smith. 2005. "MEASURING THE EFFECT OF SUBPRIME LENDING ON NEIGHBORHOOD FORECLOSURES." *Urban Affairs Review* 40:362-389.

Nettleton, Sarah and Roger Burrows. 1998. "Mortgage debt, insecure home ownership and health: an exploratory analysis." *Sociology of Health & Illness* 20:731-753.

—. 2001. "Families coping with the experience of mortgage repossession in the 'new landscape of precariousness'." *Community, Work & Family* 4:253-272.

Newburger, Harriet. 2006. "Foreclosure Filings and Sheriff's Sales Experienced by Low-Income, First-Time Home Buyers." *Housing Policy Debate* 17:341-387.

Petersen, Chris. 2007. "Predatory Structured Finance." *Cardozo Law Review* 28.

Quercia, Roberto, Michael Stegman, and Walter Davis. 2007. "The Impact of Predatory Loan Terms on Foreclosures: The Special Case of Prepayment Penalties and Balloon Payments." *Housing Policy Debate* 18:311-146.

Reid, Carolina. 2009. "The Untold Costs of Subprime Lending: The Impacts of Foreclosure on Communities of Color in California ": Federal Reserve Bank of San Francisco.

[13] Ibid. Data available for 81% of records.

Reid, Carolina and Elizabeth Laderman. 2009. "The Untold Costs of Subprime Lending: Examining the Links among Higher-Priced Lending, Foreclosures and Race in California." Paper presented at the Institute for Assets and Social Policy, Brandeis University.

Shapiro, Tom. 2004. *The Hidden Cost of Being African American*.

Cover Design

Samir Gambhir
Sr. GIS/Demographic Specialist

Craig Ratchford
GIS/Demographic Assistant

For more information on Kirwan Institute, please contact Barbara Carter | carter.647@osu.edu
For more information on this report, please contact Christy Rogers | rogers.441@osu.edu

KIRWAN INSTITUTE FOR THE STUDY OF RACE AND ETHNICITY
THE OHIO STATE UNIVERSITY
433 MENDENHALL LABORATORY | 125 SOUTH OVAL MALL | COLUMBUS OH 43210
Ph: 614.688.5429 | Fax: 614.688.5592
Website: **www.kirwaninstitute.org**