

Researchers team up with Federal Reserve to help nation respond to foreclosure crisis

The economic epoch that has shaken the foundation of the American Dream and swallowed housing markets into a nationwide financial sinkhole has had several epicenters.

One is the City of Cleveland. Foreclosures and vacant properties in many neighborhoods have stock piled, values have plummeted, and numerous parcels are being bought at below-market values of \$10 thousand or less by real-estate speculators, most of whom are corporations that have no vested interest in planned and coordinated community development.

Researchers at the Mandel School's Center on Urban Poverty and Community Development (Poverty Center) have been among the first responders in the foreclosure crisis in Cleveland and Cuyahoga County. They have gathered up housing-related data and provided analyses to understand what happened, how to slow and stop it, and how local governments, non-profit organizations, charitable foundations, and community banks might help individuals, families, and communities recover from the mess.

A Report to the Nation

The Poverty Center's research team, lead by Co-Director Claudia J. Coulton, Ph.D., Lillian F. Harris Professor of Urban Research & Social Change, has published four important reports on the foreclosure crisis, which essentially describe the causes and consequences of the glut of undervalued, unoccupied housing stock throughout Cuyahoga County, especially in neighborhoods of Cleveland.

Now, Coulton and her colleagues are teaming up with the Federal Reserve Bank of Cleveland and The College of Urban Affairs at Cleveland State University in a multidisciplinary, multi-institutional partnership to provide a report to the nation, titled "Facing the Foreclosure Crisis in Greater Cleveland: What Happened and How Communities are Responding." The new report is being funded in part by the Federal Reserve. Coulton's four previous reports were funded mainly by the The Cleveland Foundation and The George Gund Foundation, with additional support from Enterprise Foundation and Neighborhood Progress, Inc.

Filling a Knowledge Gap

According to Coulton, the new report fills a gap in the nation's knowledge, because most research on the foreclosure crisis focuses upon distinct components of the crisis—for instance,

the selling of subprime mortgages—during a specific period of time. In addition, most published research does not include analyses of responses to the crisis by organizations in the private and public sectors. In contrast, the Poverty Center has been studying neighborhood housing patterns since the early 1990s and has been providing technical assistance about the data to local agencies and organizations to help inform their responses. The new report, Coulton adds, describes key strategies that might serve as models for other communities around the country.

"The Cleveland area was in a foreclosure crisis several years before the rest of the nation due, in large part, to population decline and job losses," she says. "However, what we have found in our analyses is that this crisis was not inevitable. It was likely preventable. There is a pattern, a process that lead up to this. In short, large national mortgage companies—not local banks—sold subprime variable rate mortgages in low-income and primarily African-American neighborhoods to people who were financially vulnerable."

A Rich Data-Pool

In her career of almost 30 years, Coulton has engaged in over 100 research and evaluation projects and policy analyses of urban poverty and community development and has published numerous journal articles and book chapters.

She was a member of the original team that created the Poverty Center in the 1980s and was instrumental in creating its web-based data warehouse of neighborhood indicators and property information, called North East Ohio Community and Neighborhood Data for Organizing (NEO-CANDO). The data system collects, archives, and makes available to the public a variety of neighborhood-based data from multiple sources, including the U.S. Census, Cleveland Police Department, Ohio Department of Health, and Cuyahoga County Employment and Family Services, among others. Coulton explains that data for her research on the foreclosure crisis came from the Cuyahoga County Auditor, Recorder, Sheriff and Court of Common Pleas and from the Federal Financial Institutions Examination Council, among others.

A Brief History

The City of Cleveland reached the height of its population and density in the 1920s with 1.2 million people, when manufacturing dominated the local economy. Today, the City of Cleveland has approximately 450 thousand people, and Cuyahoga County has 1.2 million people, but even this number has been declining steadily over the past 15 years. So, the number



“Cleveland may be the epicenter of the foreclosure crisis, but it is also nationally recognized as a place aggressively working on many fronts to make its way forward.”



Claudia J. Coulton, Ph.D., Lillian F. Harris Professor of Urban Research & Social Change.

of vacant houses, storefronts, warehouses, and industrial properties in neighborhoods has, for the most part, occurred gradually, not overnight.

Despite the troubling conditions, Cuyahoga County's public, private, and nonprofit organizations have been developing programs and partnerships to convert vacant properties to new uses and to make them available to local residents with safe financial incentives, such as tax abatements and low-interest fixed-rate mortgages. However, when this system of property conversion (recycling) became overwhelmed with too many foreclosed and, thus, vacant structures, a crisis ensued.

Previous Research

Evidence of the crisis emerged in Coulton's data from the 1990s with a sharp increase in subprime lending, particularly in communities where housing values were low. Subprime lending then spiked, increasing fourfold from 1995 to 2007. The Poverty Center's analyses also found the following:

Mortgage Loans

- Subprime home mortgages had an 816 percent greater chance of going into foreclosure when compared to other loans.
- A borrower's race influenced the type of loan he or she received.
- Across all income levels, African-American borrowers were more likely to receive subprime loans.

Foreclosure, Sheriff's Sale & Housing Value

- A high number of foreclosures of single and multiple family homes created a high number of sheriff's sales, which overwhelmed the system that usually brings these properties back to productive use.
- When homes were resold, they were often sold for much less than their value before foreclosure.
- Many properties became Real-Estate Owned (REO), meaning they were owned by financial institutions. This delayed the conversion of the property to productive use.

REO Property & Distressed Prices

- REO properties sold for alarmingly low prices, often \$10,000 or less.
- REO properties were often sold by financial institutions in bulk to organizations that knew little about the value and condition of the properties and little about local rehabilitation initiatives and programs.

Possible Implications

Understanding the distinct way in which the foreclosure crisis has played out in Northeast Ohio is important, Coulton explains, because the national story does not reflect what happened here. Therefore, it is important for policymakers not to impose recovery policies and processes developed elsewhere. She and her co-authors anticipate their new report about Cleveland will help communities with similar characteristics in the U.S. develop effective solutions. ■

—by Paul M. Kubek