

For Immediate Release

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### **Surviving the Mortgage Crisis**

*The publication of Dan Immergluck's **From the Subprime to the Exotic: Exotic Mortgage Risk and Foreclosures** explores the detrimental impact that subprime and exotic mortgages can have on local housing markets, and how planners must learn to respond to increasing foreclosures and minimise the social impacts that can arise.*

The meltdown of the mortgage markets in 2007, primarily led by defaults in the subprime sector, has heightened anxieties about foreclosures and price reductions. The crisis in the mortgage markets affects not only the credit markets but also the economic sustainability of entire neighborhoods and communities. Immergluck's latest work explores the link between subprime and exotic mortgages and problems in the housing market across and within metropolitan regions, as well as ways to minimise the localized economic and social impacts created by the subprime debacle.

The subprime and exotic mortgage market involves the targeting of high-priced credit with disadvantageous terms, often charging large up-front fees or having pointless ancillary products, sold on terms likely to lead to a default. For example, adjustable rate mortgages are more than twice as likely to default as fixed rate loans. Much of the increase in ARM activity in recent years has been attributed to exotic products and subprime loans, with industry analysts estimating that as much as \$1 trillion in ARMs were subject to resetting interest rates in 2007, up from less than \$400 billion in 2006 and \$100 billion in 2005,

For planners, the problems cause by increased and geographically concentrated foreclosures is the most critical risk. Foreclosures are the clearest manifestation of how overly aggressive and high risk lending can harm neighborhoods and communities. They can result in abandoned property, crime, public safety costs, and reduced property values.

Recent changes in the mortgage markets have increased the overall level of risk; shifted risk from lenders to borrowers; increased the vulnerability of metropolitan housing markets to plateaus in home price appreciation (when a rapidly appreciating regional housing market begins to appreciate more slowly foreclosure rates increase substantially); and resulted in spatially concentrated patterns of foreclosures, particularly stressing housing markets in neighborhoods where the higher-risk products are more prevalent.

And it's on the increase. Subprime lending grew from approximately \$35 billion in 1994 to \$665 billion in 2005. This flood of credit is distorting housing markets and causing negative spillovers from directly impacted borrowers onto neighbors and communities.

While foreclosure is not likely to be a severe problem in strong real estate markets, when prices stagnate, foreclosures are likely to increase. And of course, because foreclosures both increase available housing stock and remove households from the homeownership market, higher numbers of foreclosures and stalling or declining home values can become mutually reinforcing trends.

Changes to the mortgage markets can transform the nature of the society, concentrating risk in the most vulnerable areas. The evidence suggests that the subprime market is fundamentally dysfunctional – both in terms of financial stability and in terms of longer term community planning

Yet the subprime and exotic mortgage markets are not going away. Even as the subprime foreclosures worsened in 2007, advocates of FHA reform argued to increase FHA insurance coverage to allow for zero down payment mortgages.

Planners must find ways to encourage sustainable home ownership, enable growth out of poverty and find ways to revitalise neighbourhoods & community development. And Immergluck's work suggests key actions that planners must undertake:

- Track local lending and foreclosure patterns;
- Promote healthier mortgage markets in vulnerable areas;
- Fund targeted foreclosure prevention and counseling;
- Develop refinancing/restructuring programs;
- Redesign programs to promote homeownership that is *sustainable*;
- Get foreclosed properties reoccupied quickly;
- Recognize the effect of foreclosure surges on rental housing markets;
- Be proactive in policy debates on lending regulation and foreclosure processes.

## **Notes to Editors**

### Problems in the subprime market

There has been a recorded rise in abusive practices and terms, which have been associated primarily with the subprime industry.

Even after controlling for credit scores and other factors, minority and, especially, African American households are more likely than similarly situated white households to receive subprime mortgages. Subprime disparities are particularly glaring at the neighborhood level, with subprime lenders often accounting for much larger shares of home loans in predominantly minority neighborhoods.

The sector is responsible for excessive foreclosures, with subprime foreclosure rates at over 10 to 15 times those of prime loans. While foreclosures increased in all sorts of neighborhoods, the greatest increases in the late 1990s were generally in neighborhoods with high proportions of lower-income and minority residents.

### Costs of foreclosure

For every foreclosure within one-eighth of a mile of a single-family home, property values are expected to decline by approximately 1 percent. For neighborhoods with multiple foreclosures, then, property values are impacted even more. In Chicago, we estimated the cumulative impact of two years of foreclosures on property values to exceed \$598 million, for an average of \$159,000 per foreclosure.

### Mortgage trends to watch

- Exotic mortgages, ARMs, and rate resets
- Overall build-up of mortgage debt, and likely overvaluation
- Builders, FHA lending affiliates, and worsening FHA loan performance
- Mortgage fraud scams

- Expansion of down-payment assistance programs relying on developer donations and increasing debt/income ratios

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