NEWARK HOMEWRECKER

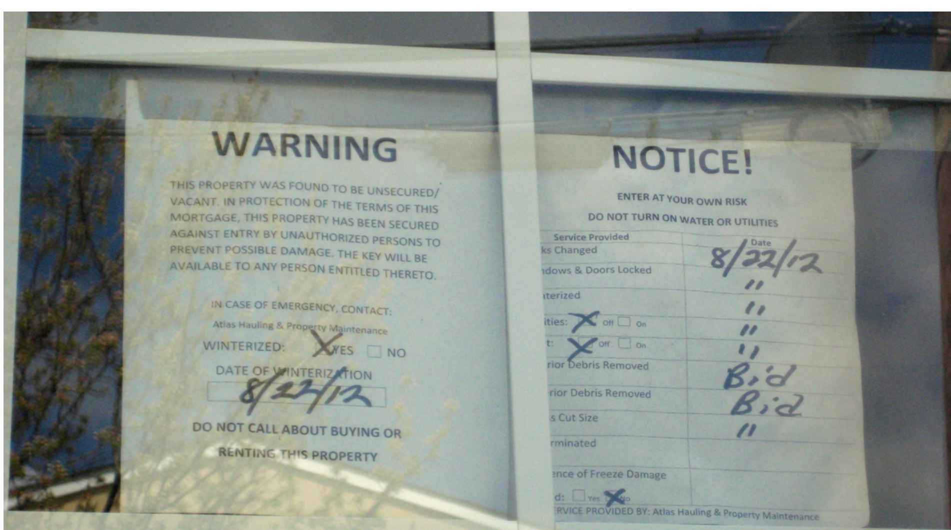
The Impact of the Foreclosure Crisis on Newark — **April 2013**

As Wall Street Banks continue to foreclose on our neighborhoods, the cost to taxpayers adds up.

Wall Street banks shattered our economy and left our communities to pick up the pieces.

Wall Street's toxic lending practices and recklessness created the housing crisis, and now New Jersey homeowners, taxpayers and their families are paying the price. The banks created the housing bubble that led to the economic crash in 2008. Now, without immediate action at the state and local level, residents are facing a multi-billion dollar hit to neighborhoods, communities and schools, undermining our children's future and the economic recovery we desperately need.

The typical foreclosure costs local governments more than $19,000 for increased costs of safety inspections, police and fire calls, trash removal, and maintenance. In Newark these costs are estimated to be more than $56 million.



Top Banks Foreclosing in New Jersey

- *Wells Fargo Bank*
- *Bank of America*
- *JP Morgan Chase*
- *Citigroup*

The Picture in New Jersey

- There have been 88,000 foreclosures in the state since 2008, with twice that many in the pipeline due to a substantial backlog.[1]

- One in six mortgages taken out in New Jersey between 2004 and 2008 are currently in the process of or have completed foreclosure; and in low income communities the percentage rises to more than one in four.[2]

- New Jersey has the second highest rate of homes currently in foreclosure nationally.[3]

- Nearly one in four New Jersey mortgage holders are underwater, owing more on their mortgage than the home is worth.[4]

- There are nearly 340,000 vacant homes in New Jersey, 38% more than the number a decade ago.[5]

Newark by the Numbers

- **Foreclosures harm all homeowners:** Newark homeowners have lost an estimated $1.9 billion in home values as a direct result of the 6,810 foreclosures for 2008-2012.

- **Foreclosures erode the property values, while property taxes go up:** While property values have declined, Newark's average property tax has increased 42% over four years.

- **Foreclosures cost local governments:** The typical foreclosure costs local governments more than $19,000 for increased costs of safety inspections, police and fire calls, trash removal, and maintenance. In Newark these costs are estimated to be more than $56 million.

- **Foreclosures undermine an economic recovery and cost jobs:** More than 9,000 Newark homeowners owe on average $70,000 more on their mortgages than what their homes are worth.[6] Together that adds up to $630 million in underwater debt that is strangling the Newark economy. If banks wrote down those mortgages, it could pump $66 million into the local economy in Newark and create nearly 1000 new jobs each year.

A July 2011 Pew Research analysis found the median wealth among Hispanic households fell by 66% and among African-American households it fell by 53% after the bursting of the housing market bubble in 2006 and the recession that followed.

The National Fair Housing Alliance has found in city after city around the country that banks are much less likely to maintain foreclosed properties in communities of color than in mix and white communities, further devaluing their properties and putting those communities' safety at added risk.

Foreclosures Impact the Families Losing their Homes, but the Costs Hit All of Us.

Foreclosures harm home values within a neighborhood. Overall, Newark homeowners have lost an estimated $1.9 billion in home value because of the foreclosure crisis.

When a home falls into foreclosure, it loses, on average, 22% of its value.[7] For the average Newark home that means a loss of $90,000.[8] That adds up to more than $600 million in lost home value for the 6,810 foreclosures estimated for the period 2008 through 2012.[9]

But the value lost in foreclosed properties themselves is just the tip of the iceberg. Foreclosures reduce the value of neighboring properties as well. **Newark homes lose on average $3,700 in value just by being within an eighth of a mile of a foreclosed property.**[10] As a result, neighboring homeowners in Newark have lost $1.3 billion in home value since the beginning of 2008.[11] This is in addition to the $600 million lost in the foreclosed properties, adding up to a total of $1.9 billion of lost home values in Newark. With lower home values, families have less home equity to use to fund retirement, pay tuition, grow their small businesses, or pay medical bills. For the average pre-retiree, at least two-thirds of their total assets are tied up in their home.[12]

Newark's losses represent only half the losses to Essex County overall. There have been 13,500 foreclosures throughout the county in the past five years; as a result, Essex County homeowners have lost an estimated $3.7 billion in home values.

The losses up until now are just the tip of the iceberg. In New Jersey it takes up to three years to complete a foreclosure process, and the state has a substantial backlog due to court filings. In 2012 the number of foreclosures surged 55% and with recent court settlements, the pipeline of homes in the process of foreclosures is expected to speed up.[13] If foreclosures were simply to maintain their 2012 level without any speed ups, the loss in value to New Jersey homes over the next year would be an additional $2.2 billion.

New Jersey's foreclosure problem has been aggravated by the state's failure to distribute funds designated specifically to help homeowners. In 2010, the state received $300 million from the federal government's Hardest Hit Program to help unemployed and underemployed families struggling to keep up with their mortgages. However, as of December 2012, the program had accepted only 1922 applicants. New Jersey is among the states with the worst record, having dispersed a mere 8.9% of its allocated funds, which is far below the national state average of 17.6%.[14]

Foreclosures erode the property tax base and increase tax rates

The bank-induced foreclosure crisis has decimated property values in neighborhoods across the state. At the same time, counties, cities, school districts and other special taxing districts all depend on property taxes to provide critical services that residents rely on like education and public safety. And as the state has cut funding to cities and counties, and other sources have declined due to the economic crisis, property taxes have filled an increasing portion of the budget. As a result, New Jersey residents are seeing their property tax rates continue to rise even as they lose equity in their homes and their neighborhoods suffer.

Newark homeowners' property tax bills have increased as both the city and their school district depend more on property tax revenues to provide critical services like public safety and education. Between 2007 and 2011, the average residential tax bill in Newark increased 42% from $4,268 to $6,063.[15]

Newark's estimated $56 million in foreclosure-related costs would have covered more than twice over the $24 million in state aid that Governor Christie tied to additional city cuts.

Foreclosed properties require increased police and other services, further draining public budgets.

Foreclosure-related costs for Newark's local government are estimated to be $56 million and if the problem continues unabated, the city could face an additional $74 million in costs in 2013 based on the 2012 foreclosure rate.[16] When houses sit empty, it's the city that has to spend money and staff time to monitor and maintain blighted foreclosed properties. City resources are spent identifying vacant homes, providing maintenance, doing inspections, removing trash, responding to increased public safety calls, and conducting other code enforcement services. Foreclosure costs also include evictions, providing transitional assistance and shelters, and other safety net support to families. In addition, it is estimated that violent crime increases 2.33% for every 1% increase in foreclosures, making neighborhoods more dangerous and requiring greater police presence.[17] The increased need in a police presence has occurred at a time when the city's police force has declined by 25% due to layoffs and unfilled vacancies from attrition.[18]

Responding to these needs is a gargantuan task that involves multiple agencies and multiple levels of local government. The costs to taxpayers add up very quickly to more than $19,000 per foreclosure and potentially much higher.[19] A National League of Cities survey found that foreclosures and the declining housing market are among the leading causes of fiscal budget crises. At a time when local governments contemplate slashing services, they are also being asked to pick up the tab for cleaning up the banks' foreclosure mess. As a result, cities are hard-pressed to pay for services like libraries, parks, police and fire.[20]

The City of Newark has already begun to address the issue of blight. The City has provisions within the Municipal Code to secure vacant buildings and to demolish or rehabilitate those that are uninhabitable. In 2011, the City Council approved an ordinance that requires the registration of vacant properties that have fallen into disrepair. The ordinance also provides for daily fines when the building is not registered, secured, and/or does not provide contact information on the premises. All of this is a good start; however, the registration fees only begin to cover the cost of administering the program, the ordinance does not address other forms of blight associated with vacant properties (accumulated trash, overgrown lawns, etc) and most importantly excludes all properties up for sale or rental, which could potentially include many of the foreclosed properties owned by the banks.

Foreclosures undermine our economic recovery and cost New Jersey jobs.

An alarming impact of the housing crisis is the immense drag that underwater mortgage debt has on economic recovery. Negative equity, often referred to as an “underwater mortgage” or “being upside down on your mortgage,” means that borrowers owe more on their mortgages than their homes are worth. Nearly one in four New Jersey homeowners is under water on his/her mortgage.

On average, New Jersey homeowners are underwater by $70,000[21] which amounts to a total of $38.7 billion. That means as New Jersey homeowners overpay on their mortgages, Wall Street devours nearly $3.9 billion annually in inflated payments. If banks wrote down underwater mortgages to the actual market value of homes, that money that would go directly into New Jersey’s economy in the form of consumer spending, helping to spur nearly 58,000 jobs in the state.[22] To do this, banks would have to reset mortgage principals to market value and refinance homeowners into 30-year fixed-rate loans at current market interest rates.

Newark has 9,000 homeowners who are $630 million underwater. If banks wrote down those mortgages, it could pump $66 million into the local economy and spur nearly 1,000 jobs annually.[23] That would reduce the city’s unemployment rate by nearly 1%.[24]

In July 2012, five people including 4 children died in a rapidly moving fire in that began in one of Newark’s many vacant properties in the West Ward.

The Cost of the Foreclosure Crisis in Newark

by Zip Code (2008-2012)

Zip Code	Foreclosures 2008-12	Foreclosed Home Value Loss	Impacted Surrounding Homes Value Loss	Total Home Value Lost	Local Government Cost
07101	3	$270,600	$553,500	$824,100	$57,687
07102	106	$9,561,200	$19,557,000	$29,118,200	$749,931
07103	1060	$95,612,000	$195,570,000	$291,182,000	$9,402,981
07104	967	$87,223,400	$178,411,500	$265,634,900	$8,114,638
07105	576	$51,955,200	$106,272,000	$158,227,200	$3,903,487
07106	932	$84,066,400	$171,954,000	$256,020,400	$7,653,142
07107	980	$88,396,000	$180,810,000	$269,206,000	$8,499,218
07108	939	$84,697,800	$173,245,500	$257,943,300	$8,230,012
07112	965	$87,043,000	$178,042,500	$265,085,500	$7,614,684
07114	279	$25,165,800	$51,475,500	$76,641,300	$2,153,648
07199	3	$270,600	$553,500	$824,100	$57,687
Newark Total	**6,810**	**$614,262,000**	**$1,256,445,000**	**$1,870,707,000**	**$56,437,115**
Essex County Total	**13,452**	**$1,213,370,400**	**$2,381,894,000**	**$3,695,264,400**	**$106,374,828**

**Foreclosure data from RealtyTrac. Data is for zip codes fully or partially within city boundary.*

It's Time for Solutions: Big Banks Should Pay Their Fair Share

Exploring Eminent Domain to Stabilize the Housing Market: The City of Newark has an interest in preventing foreclosures. More and more economists believe that resetting mortgages is the best way to stabilize the housing market by reducing foreclosures. Cities and counties elsewhere in the country are considering using eminent domain to reset mortgages, prevent foreclosures, and stabilize the housing market. The City Council should direct staff to explore all legal options at the City's disposal to reset mortgages to fair market value, including the use of eminent domain to acquire underwater mortgages and write down the principal on those loans.

Enforcing the Vacant Property Registration Ordinance: The City's Vacant Property Registration Ordinance allows for fines of up to $1000 a day for failure to comply with the registration and maintenance of vacant properties. The City should begin by fully enforcing the ordinance that would bring much needed revenue to the City's coffers. However, the definition of vacant properties is limited to the most precarious structures and so only begins to address the deterioration of our communities and related municipal costs from boarded up, unkempt, foreclosed properties. The City should therefore explore ways to strength the ordinance to cover the full extent of the vacancy problem and ensure that those responsible for the foreclosure crisis pay the cost.

Who's responsible for this mess?

Wall Street's reckless and predatory lending practices have devastated New Jersey and New Jersey neighborhoods. Bankers often profited from pushing homeowners into high-cost loans they couldn't afford and then promptly cashed out by selling the loans to investment banks that turned them into mortgage-backed securities (MBS). This widespread practice, which started among subprime lenders but was quickly adopted by the big banks, created and inflated the housing bubble. Bankers and brokers raked in mega-bonus checks making homeowners vulnerable. When Wall Street's bets went sour, the bankers were bailed out by taxpayers and got to keep their bonuses but New Jersey residents lost hundreds of millions in savings in their homes.

Wall Street's recklessness is well-documented and continues to have devastating consequences as they use flawed-and, in some cases, fraudulent--procedures to flood the housing market with foreclosures that are throwing more nearly a hundred thousand New Jersey families out of their homes. The total disregard for mortgage laws and standards is one of the latest examples of a predatory industry that continues to devastate families already hit hard economically.

Last year, the five largest mortgage companies in the U.S. agreed to a $26 billion settlement with 49 state attorneys general and federal officials for their role in these practices.[25] Recently, ten of the largest banks agreed to an additional $8.5 billion settlement to end a review of fraudulent foreclosure practices.[26] However, neither of these is anywhere near enough to compensate communities for the harm that has been done, as this report documents.

Endnotes

1. Data provided by RealtyTrac; De Poto, Tom, “New Jersey plays catch-up in foreclosure market,” The Star-Ledger, January 17, 2013, http://www.nj.com/business/index.ssf/2013/01/new_jersey_plays_catch-up_in_f.html.

2. http://www.responsiblelending.org/mortgage-lending/research-analysis/lost-ground-State-data-by-neighborhood-income.pdf

3. De Poto, Tom, “New Jersey foreclosure numbers are high for a reason,” The Star-Ledger, January 17, 2013, http://www.nj.com/business/index.ssf/2012/12/new_jersey_foreclosure_numbers.html.

4. Corelogic

5. http://www.gao.gov/new.items/d1234.pdf, p.14

6. Data purchased from www.corelogic.com.

7. Pennington-Cross, Anthony,The Value of Foreclosed Property, Marquette University, April 1, 2006, http://epublications.marquette.edu/cgi/viewcontent.cgi?article=1031&context=fin_fac.

8. For the median home value we used zillow.com’s Home Value Index for Coon Rapids for June 2007. The date was selection because it was just before the housing prices began to decline. At that time the median home value was $206,000, http://www.zillow.com/local-info/MN-Coon-Rapids-home-value/r_10940/#metric=mt%3D34%26dt%3D1%26tp%3D6%26rt%3D8%26r%3D10940%26el%3D0.

9. The direct impact to foreclosed homes was calculated based on the methodology from the U.S. Joint Economic Committee using a) the median city home value from zillow.com of $206,000, decline estimate of 22% of the median value ($45,320), and the number of foreclosures (3,900) from RealtyTrac.com. The 22% decline estimate uses the most conservative decline ranging from 22% to 28% based on Anthony Pennington-Cross’s, The Value of Foreclosed Property, Marquette University, http://epublications.marquette.edu/cgi/viewcontent.cgi?article=1031&context=fin_fac and RealtyTrac 2010 sales report.

10. It is conservatively estimated that a foreclosed property will cause the value of neighboring homes within an eighth of a mile to drop 0.9%. Immergluck, Dan and Geoff Smith, The External Costs of Foreclosure: The Impact of Single-Family Mortgage Foreclosures on Property Values. Housing Policy Debate (2006) 17(1):57-79, http://findaforeclosurecounselor.net/network/neighborworksProgs/foreclosuresolutions/pdf_docs/hpd_4closehsgprice.pdf.

11. Neighboring home value decline was calculated using methodology from the U.S. Joint Economic Committee using median county home value from U.S. Census, decline in value of 0.9%, and number of foreclosures from RealtyTrac.com. The decline estimate is based on a conservative decline estimate of 0.9% to one eighth mile radius (approximately 50 homes) based on Dan Immergluck and Geoff Smith, The External Costs of Foreclosure: The Impact of Single-Family Mortgage Foreclosures on Property Values. Housing Policy Debate (2006) 17(1):57-79, http://findaforeclosurecounselor.net/network/neighborworksProgs/foreclosuresolutions/pdf_docs/hpd_4closehsgprice.pdf. Higher estimates are a 1.4% decline in low to moderate income communities and others double the impact radius to a quarter of mile.

12. Hoak, Amy, Consumer Finance: Tapping Home Equity in Retirement, The Wall Street Journal, March 17, 2011. http://www.marketwatch.com/story/tapping-homeequity-in-retirement-2011-03-17

13. De Poto, Tom, “New Jersey plays catch-up in foreclosure market,” The Star-Ledger, January 17, 2013, http://www.nj.com/business/index.ssf/2013/01/new_jersey_plays_catch-up_in_f.html.

14. http://www.njhomekeeper.com/spv-55.aspx; http://www.treasury.gov/initiatives/financial-stability/TARP-Programs/housing/Pages/Program-Documents.aspx; data based on fourth quarter 2012 state-specific Treasury reports.

15. State of New Jersey Department of the Treasury, Division of Taxation, General Tax Rates by County and Municipality, http://www.nj.gov/treasury/taxation/lpt/aveg_res_tax.shtml.

16. Methodology based on The Municipal Cost of Foreclosures: A Chicago Case Study. Many experts, including the U.S. Joint Economic Committee, use the $19,229 cost from the Chicago study as an approximate cost of foreclosure. Also, the Chicago study from 2005 likely does not capture the full post-crisis level

17. http://www.nw.org/network/neighborworksprogs/foreclosuresolutions/reports/documents/7ForeclosureImpacts.pdf

18. http://www.huffingtonpost.com/2012/07/26/newark-blues-budget-cuts-_n_1707546.html

19. Cost per foreclosure of $19,229 based on U.S. Joint Economic Committee report using estimates The Municipal Cost of Foreclosures: A Chicago Case Study.

20. CA Board of Equalization, CA Property Tax Oveview. http://www.boe.ca.gov/proptaxes/pdf/pub29.pdf

21. The Win-Win Solution: How Fixing the Housing Crisis Will Create One Million Jobs, The New Bottom Line, August 2011, http://www.newbottomline.com/download_report_the_win_win_solution.

22. Catalyst modeled underwater data and methodology from The Win/Win Solution. The New Bottom Line. Aug 2011.

23. Catalyst modeled underwater data and methodology from The Win-Win Solution: How Fixing the Housing Crisis Will Create One Million Jobs, The New Bottom Line, August 2011, http://www.newbottomline.com/download_report_the_win_win_solution. That report relies on Robert Pollin and Heidi Garret-Peltier’s, The U.S. Employment Effects of Military and Domestic Spending Priorities: An Updated Analysis. Political Economy Research Institute, University of Massachusetts, Amherst. Oct 2009, p.5. http://www.peri.umass.edu/fileadmin/pdf/published_study/spending_priorities_PERI.pdf. Pollin and Garret-Peltier’s study shows that giving Americans a $1 billion tax break for personal consumption would create 14,800 jobs, which translates to $67,658 per job. Reducing homeowners’ monthly mortgage payments would have a similar impact to a tax cut for personal consumption by freeing up dollars for households to use on other things like buying groceries and school supplies. We therefore divided the $23.6 million in annual savings by $67,658 per job to determine that loan modifications with principal and interest rate write-downs to market value would create 347 jobs in Coon Rapids.

24. Based on information from the Bureau of Labor Statistics, retrieved on January 31, 2013, http://data.bls.gov/pdq/SurveyOutputServlet;jsessionid=592639C549A4B5B009DD18D7A2D03566.tc_instance4.

25. Schwartz, Nelson and Shaila Dewan, “States Negotiate $26 Billion Agreement for Homeowners” New York Times, February 2012, http://www.nytimes.com/2012/02/09/business/states-negotiate-25-billion-deal-for-homeowners.html?pagewanted=all.

26. Zibel, Alan and Dan Fitzpatrick, “Banks, Regulators Reach Foreclosure Settlement, “ Wall Street Journal, January 7, 2013, http://online.wsj.com/article/SB10001424127887323936804578227513083582172.html

Community Values.

Collective Action.

A Strong New Jersey.

About New Jersey Communities United

New Jersey Communities United is a new and growing progressive grassroots community organization committed to building power for low and moderate income people, predominantly in Newark.

At NJCU, we work to ensure that everyone has access to the American Dream by amplifying the voices of low- and moderate-income communities, communities of color, and immigrant Americans though collective action. We develop the capacities essential to hold government and corporations accountable, improve the health of our families, economy and environment, and reform our public schools, workplaces and financial institutions.

NJCU is a new organization with tremendous potential. It is a partner of the Leadership Center for the Common Good, a national training and support center for community organizations based in Washington, DC.