

# SCHUBERT CENTER *for* CHILD STUDIES

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The Schubert Center for Child Studies  
College of Arts and Sciences  
Case Western Reserve University

## Understanding the Impact of Foreclosures on Children, Families and Neighborhoods in Cuyahoga County

The foreclosure crisis in the United States has been grabbing headlines across the country. With 250,000 families entering foreclosure every three months, and with mortgage bankers predicting that 1 in 200 homes will be foreclosed upon, the magnitude of the crisis cannot be ignored.<sup>1</sup>

The city of Cleveland and Cuyahoga County have been at the center of the crisis, including national media coverage of the local problem in the *New York Times* in March 2009. The foreclosure rates in Cuyahoga County more than quadrupled from 2000 to 2007 and the number of homes being sold at Sheriff's sales have similarly increased.<sup>2</sup>

Children are among the most vulnerable victims of the crisis. While there is no data specifically concerning the number of children whose homes are in foreclosure, recent projections estimate that 2 million children will be directly impacted by the foreclosure crisis nationally over the next two years. This number represents 68,500 children in Ohio alone. This estimate is likely low as it relied on rates of default in the sub-prime market, but did not take into account that all the defaults now will be in the prime lending market credit crunch, nor does it include those children evicted from rental units in default.<sup>3</sup> In Cleveland, for example, 50 percent of the foreclosures are on rental properties; therefore, none of the children of any of these renters would be included in the above estimate.<sup>4</sup> Apart from the significant stress and trauma of losing their homes, these children will likely experience considerable disruption in their educational and social lives.

Schools are frequently on the frontline of serving children displaced by homelessness, one of the major consequences of foreclosure, and are likely to see an increase in the numbers of homeless students.<sup>5</sup> In Cleveland, for example, the Cleveland Metropolitan School District (CMSD) served 2,100 homeless students by April 1, 2008, a 30 percent increase in the number of homeless children served from the prior year.<sup>6</sup>

While most families going through foreclosure do not necessarily become homeless, the costs of foreclosure on children and families are nevertheless potentially far-reaching. Foreclosures directly affect children through residential instability, frequent school changes and, in some cases, homelessness. Residential mobility that results in changing schools, whether because of foreclosure or any other reason, has serious implications for a student's academic success and classroom participation.<sup>7</sup> Homeless and highly mobile students have long term lower academic achievement and slower growth, despite remaining a very heterogeneous group with varying academic needs overall.<sup>8</sup> The mental health of children may also be at risk as a result of unstable housing, due to increased levels of stress and anxiety associated with frequent moves.<sup>9</sup> Moreover, some research has shown that life crises such as foreclosure can increase the likelihood of child abuse in a home.<sup>10</sup>

A better understanding of the impact of foreclosure on children would help to inform policymakers and practitioners in targeting and expanding necessary social services to support children and families experiencing the fallout from foreclosure.

**THE SCHUBERT CENTER FOR CHILD STUDIES** in the College of Arts and Sciences at Case Western Reserve University strives to bridge research, practice and policy and to promote educational initiatives across disciplines. Our focus is on children and childhood from infancy through adolescence and in local, national, international and global contexts.

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## A Closer Look at the Local Foreclosure Crisis



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Dr. Claudia Coulton is interested in describing the details of the foreclosure crisis and better understanding the effects of these foreclosures on children. To date, her research has focused on the foreclosure crisis in Cuyahoga County, specifically, what lead the homeowner to be put in a position of being foreclosed and what happens subsequently to foreclosed properties.

### Study Aims

Dr. Coulton and colleagues were interested in understanding both the path a foreclosed property takes from the initial mortgage lending practices at property purchase to the ownership and subsequent devaluation after the fact. Utilizing existing and publicly available data, they sought to answer the following study questions in both studies:

- What is the connection between foreclosures and the circumstances surrounding the mortgage loans that are the subject of these foreclosure filings?
- What entities take ownership of these foreclosed properties and for how long do they hold them? Who purchases these homes next, and how do the sales prices compare to the value of the homes prior to the time they entered the foreclosure process? And have these patterns changed as the number of properties being auctioned at sheriff's sale has skyrocketed?

### Pathways to Foreclosure<sup>11</sup>

**METHODS** Using probabilistic matching techniques to link mortgage records from HMDA (Home Mortgage Disclosure Act) with locally recorded mortgage documents and foreclosure filings between 2005 and 2008, this study analyzed matched records of purchase loans and refinance loans originating in Cuyahoga County during that time period.

**FINDINGS** The study finds that by far the strongest predictor of a loan foreclosing is its status as a high cost subprime loan.<sup>12</sup> Holding other factors constant (race of borrower, income of borrower, owner occupied, piggy back loan, and name of lender), home purchase loans that were high cost subprime had an 816 percent higher chance of going into foreclosure than other loans. Indeed subprime lending accounted

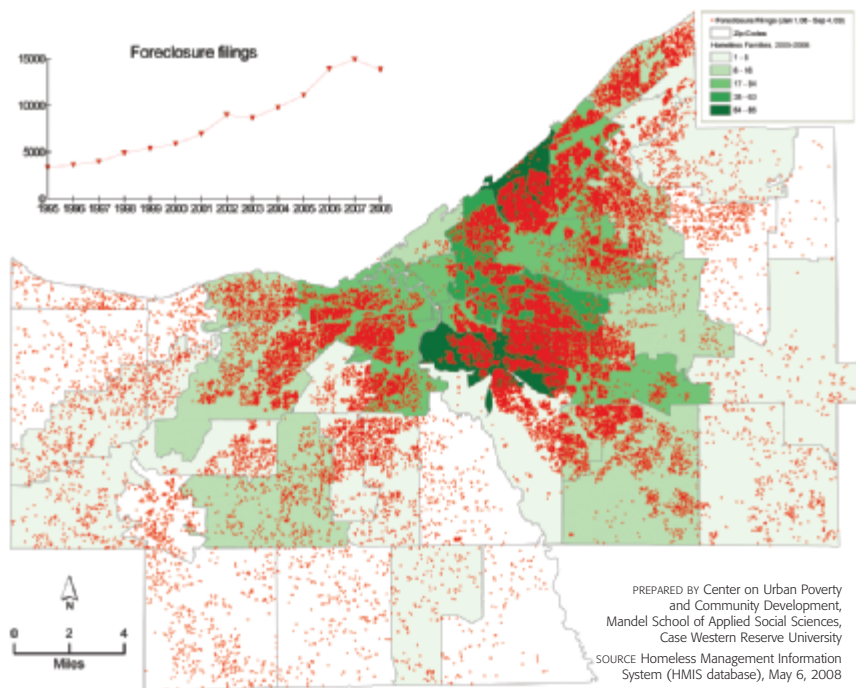
for 84 percent of the foreclosures on home purchase and refinance loans in the study period. And because the study tracked loans for only three years at the most, this is an underestimate of the ultimate subprime foreclosure impact. Additionally, African-Americans at all income levels in Cleveland, as in other highly segregated industrial cities, were more likely to receive high cost subprime loans compared to their white counterparts.

### Foreclosure and Beyond<sup>13</sup>

**METHODS** This study tracked all residential properties in Cuyahoga County with Sheriff's deed transfers from January 2000 to September 2007, looking specifically at to whom the deed was transferred, estimated market value of the property prior to Sheriff's sale, and the price at which the property was sold. The study data come from computerized records of the Cuyahoga County Recorder and the Cuyahoga County Auditor and are provided by the Center for Housing Research and Policy at Cleveland State University.

**FINDINGS** This study finds that the typical foreclosed home spends an extended period in the ownership of a financial institution or real estate organization (i.e. inactive ownership) before it transitions back into productive use as an owner occupied or rented dwelling. As foreclosure rates have increased, the period of inactive ownership and probable vacancy has lengthened from four months in 2000-2002 to eight months in 2006 and the lengthening trend continuing in 2007 at the conclusion of the study. Increasingly, as homes transition back to home owners or investors, they have lost more of their value than was the case for foreclosed properties prior to the crisis. For example, a house sold at Sheriff's sale in 2000 and resold in 2001 recovered 75 percent of the value

FORECLOSURE FILINGS IN CUYAHOGA COUNTY  
with Homeless Families in Cuyahoga County 1995-2008 and  
Last Zip Code Before Becoming Homeless 2005-2008



This figure shows the number of foreclosures in Cuyahoga County over time, the location of the foreclosures, and the number and location of homeless families in the county demonstrating the disproportionate geographic distribution and resulting burden of the foreclosure crisis in Cuyahoga County.

of the home versus a house sold at Sheriff's sale in 2006 and resold in 2007 only recovering 44 percent of the value.

**Research Conclusions and Recommendations**

Local efforts should focus on supporting homeownership and credit availability, especially for people of color and neighborhoods that were specifically targeted during the recent subprime lending epidemic. Better education is needed regarding the lending process, so that borrowers can make more informed decisions when contemplating their financial options. The creation of entities that can receive and hold properties that go into foreclosure until productive development can take place and conditions are more stable is imperative,

especially in areas of high impact. Due to the disproportionate effect on certain geographic areas, monitoring systems are required to prevent these properties from sitting vacant and deteriorating. Finally, enforcing property maintenance and upkeep rules, particularly as more properties are sold to entities located outside of this region, raises a vital role for advocacy. Policies also should focus on strengthening the market in these specific areas.

**Support**

These are two reports in a series on the foreclosure and lending crisis made possible through the generous support of The Cleveland Foundation and The George Gund Foundation.

<sup>1</sup> Federal Deposit Insurance Corporation. Neighborhood Works America: Foreclosure Statistics. Retrieved from [http://www.fdic.gov/about/comein/files/foreclosure\\_statistics.pdf](http://www.fdic.gov/about/comein/files/foreclosure_statistics.pdf)

<sup>2</sup> Coulton, C., Mikelbank, K., Schramm, M. (January 2008) Foreclosure and beyond: A report on ownership and housing values after sheriff's sales, Cleveland and Cuyahoga County, 2000-2007. Center on Urban Poverty and Community Development.

<sup>3</sup> Lovell, P. and Isaacs, J. (2009). The Impact of the Mortgage Crisis on Children and Their Education. First Focus; Washington D.C.

<sup>4</sup> Coulton, C. September 2, 2009 Interview.

<sup>5</sup> Ott, T. August 27, 2009 "Cleveland Schools Open with High Hopes for Stable Enrollment." *The Plain Dealer*.

<sup>6</sup> Lovell, P. and Isaacs, J. (2009). The Impact of the Mortgage Crisis on Children and Their Education. First Focus; Washington D.C.

<sup>7</sup> Crowley, S. (2003). The affordable housing crisis: Residential mobility of poor families and school mobility of poor children. *The Journal of Negro Education*, 72(1), 22-38; Gruman, D. H., Harachi, T. W., Abbott, R. D., Catalano, R. F., & Fleming, C. B. (2008). Longitudinal effects of student mobility on three dimensions of elementary school engagement. *Child Development*, 79(6), 1833-1852.

<sup>8</sup> Obradovic, J. Long, J. D., Cutuli, J. J., Chan, C., Hinz, E., Heistand, D., & Masten, A. (2009). Academic achievement of homeless and highly mobile children in an urban school district: Longitudinal evidence on risk, growth, and resilience. *Development and Psychopathology*, 21, 493-518.

<sup>9</sup> Bartlett, S. (1997). The Significance of Relocation for Chronically Poor Families in the USA. *Environment and Urbanization* 9(1), 121-132; Guzman, C. Bhatia, R., and Durazo, C. (2005). Anticipated Effects of Residential Displacement on Health: Results from Qualitative Research. San Francisco Department of Public Health. Retrieved from [http://www.sfpbes.org/publications/reports/Trinity\\_Focus\\_Groups.pdf](http://www.sfpbes.org/publications/reports/Trinity_Focus_Groups.pdf)

<sup>10</sup> Justice, B. and Duncan, D.F. (1976). "Life Crisis as a Precursor to Child Abuse." *Public Health Reports*, 91(2), 110-115.

<sup>11</sup> Coulton, C., Chan, T., Schramm, M., Mikelbank, K. (June 2008). Pathways to foreclosure: A longitudinal study of mortgage loans, Cleveland and Cuyahoga County, 2005-2008. Center on Urban Poverty and Community Development.

<sup>12</sup> "Subprime loan" is defined for the purposes of the study as a loan where the annual percentage rate is more than three percent (or five percent in the case of junior-liens) above the yield of a Treasury security of comparable maturity at the time the loan was made.

<sup>13</sup> Coulton, C., Mikelbank, K., Schramm, M. (January 2008) Foreclosure and beyond: A report on ownership and housing values after sheriff's sales, Cleveland and Cuyahoga County, 2000-2007. Center on Urban Poverty and Community Development.

## IMPLICATIONS FOR POLICY AND PRACTICE

The findings of these two studies further illustrate the extent of the foreclosure crisis in Cuyahoga County. Behind the bare statistics of the issue are families and children being affected in their everyday lives by the displacement caused by foreclosure. The consequences of both home instability and frequent mobility on a child's educational achievement can be dire; as such, supporting children and families during these crises and transitions is among the more pressing policy challenges. This may include enhancing existing services, such as the school-based mental health services, specialized tutoring, and transportation and counseling assistance to homeless and highly mobile children. While school based strategies are effective for some students, the fundamental issue of affordable housing availability is a more viable long term solution to the problem of student mobility.<sup>14</sup> A recent Urban Institute report focusing on the impacts of foreclosures on families and communities recommends a three-part response to the foreclosure crisis: (1) Work with families to prevent foreclosures and keep families in their homes with counseling and loan modifications; (2) Implement neighborhood stabilization programs to mitigate the harmful community impacts of

foreclosures; and (3) Enhance the availability of existing services that help families recover from foreclosure, such as emergency housing assistance, increased in-kind assistance (i.e. food and clothing), special school programs to assist families in transition, and counseling and support services to address more severe issues (i.e. mental health) that may have been exacerbated by foreclosure.<sup>15</sup> A clearer understanding of the magnitude of the foreclosure crisis on children will better equip policymakers and practitioners to coordinate and target the most needed services for the most vulnerable children.

### A Call to Action for Further Research

Recent studies have only begun to expose the foreclosure crisis and its potential impact on families and children. This is in part due to the fact that the extent of the mortgage crisis has only been a very recent development and also because families affected by foreclosure are extremely difficult to track. In order to understand the constellation of issues surrounding a foreclosure, further research needs to be done to contextualize the impact of foreclosure on children, and not just on the properties themselves. A more comprehensive study

of the impacts on families affected by foreclosure, with both a qualitative approach to understand the context of the children in these families and a thorough review of the relevant demographic and administrative data, would yield substantive information. Understanding the scope and pathways to foreclosure for families will better enable policymakers and administrators to shape effective preventative policies and programs. In addition, better information about the kinds of help that is useful for highly mobile children and families under duress would enable service delivery systems to identify points of intervention and better support children and families in transition. Similarly, gaining a more accurate picture of the recovery process – regaining fiscal security, finding stable and affordable housing, re-establishing credit – would inform the design of programs aimed to help families experiencing a foreclosure crisis get back on its feet. Finally, as federal stimulus dollars through the American Recovery and Reinvestment Act of 2009<sup>16</sup> become available to address the foreclosure crisis, research and evaluation funds should be directed to tracking and assessing the impact of those programs specifically on children and families.

<sup>14</sup> Crowley, S. (2003). The affordable housing crisis: Residential mobility of poor families and school mobility of poor children. *The Journal of Negro Education*, 72(1), 22-38.

<sup>15</sup> Kingsley, G. T, Smith R., & Price, D. (2009) The impacts of foreclosures on families and communities: A Primer. The Urban Institute: Washington D.C. Retrieved from <http://www.urban.org/publications/411909.html>

<sup>16</sup> The American Recovery and Reinvestment Act of 2009 (ARRA) includes more than \$12.5 billion to help address the foreclosure crisis (i.e. increasing emergency shelter and food funds; providing rental and utility assistance; providing education and emergency services to displaced children and families through the McKinney-Vento Homeless Education for Children and Youth Program; rebuilding distressed neighborhoods hard hit by the foreclosure crisis through the Neighborhood Stabilization Program).



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