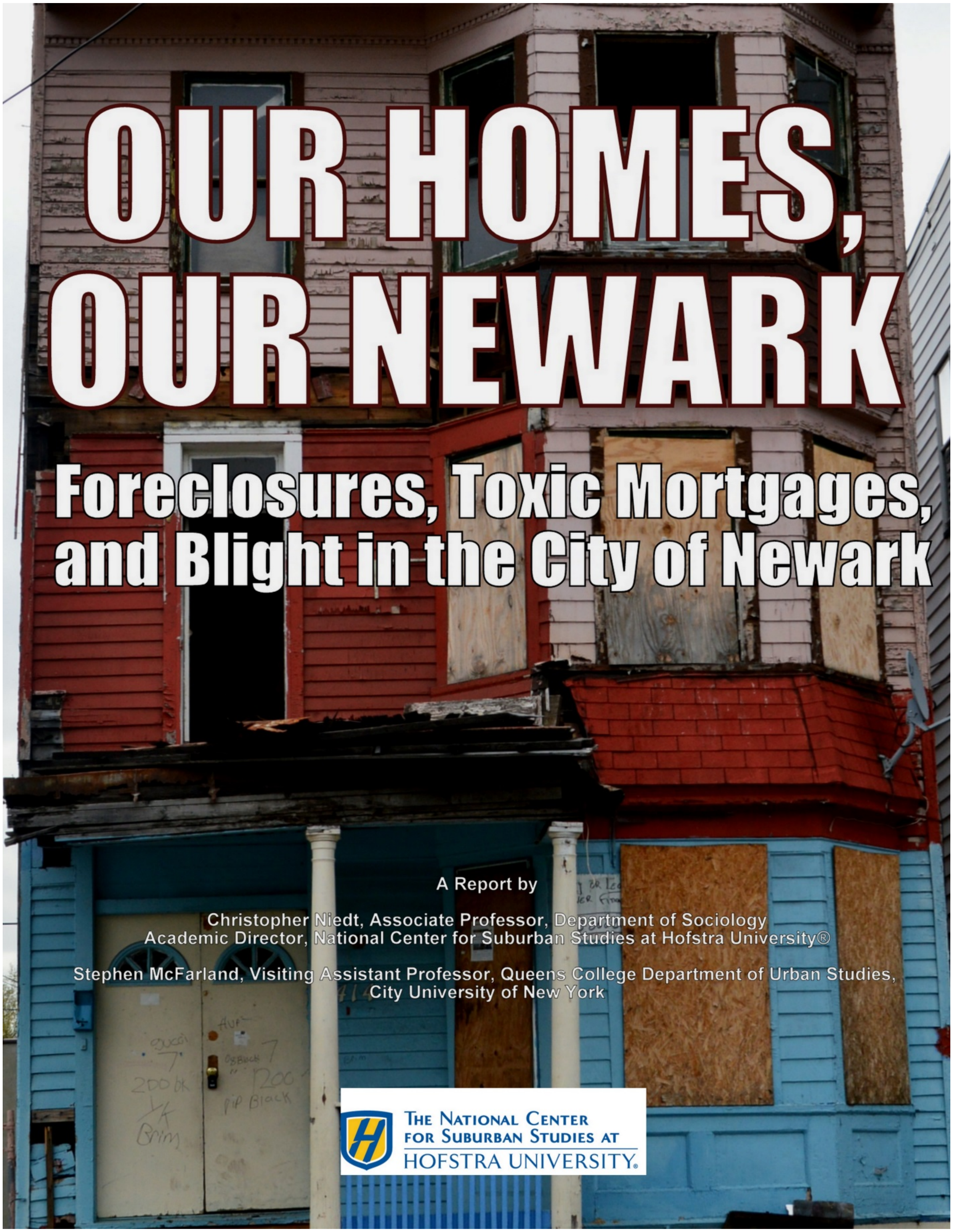

OUR HOMES, OUR NEWARK

Foreclosures, Toxic Mortgages, and Blight in the City of Newark

A Report by

Christopher Niedt, Associate Professor, Department of Sociology
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Executive Summary

The housing bubble and the subsequent economic crash of 2008 threw the global economy into turmoil. While Wall Street and Washington reeled, the true impact of the crisis was felt at the most local level – in the cities, communities, and homes of millions of working families across the country.

For those who chased the American Dream of home ownership, the early 2000's offered ready credit on easy terms, and the promise of wealth-building through the rapid appreciation in home values. For those who already owned their homes, growing home equity encouraged a wave of re-financing that families used to pay for home renovations, medical bills, and college expenses. For municipalities, rising property values generated more property tax revenue to fund public services and subsidize major development projects. The housing market created a vast amount of wealth for families, communities, and cities around the country – on paper.

Once the housing bubble burst, the wealth that had been generated disappeared. While the Federal government scrambled to protect corporate interests with taxpayer-funded bailouts, little was done to stabilize communities and families who had lost trillions in equity and were struggling with daunting levels of debt.

Municipalities were destabilized, too, as the global disruption unfolded. Unemployment jumped, property tax revenues dried up, and despite government bailouts for Wall Street, home foreclosures skyrocketed to unprecedented levels.

Seven years after the crash, Wall Street is celebrating record profits, while low-income communities of color like Newark still struggle to recover. Federal and state programs like HAMP and HomeKeeper have done little to keep families in their homes. The picture is equally bleak in New Jersey, which now leads the country in foreclosures.

Foreclosures continue to destabilize Newark's communities and, judging by the rate of underwater mortgages in the city, the crisis is far from over. Unless the City takes aggressive action, homeowners will continue to be pushed out of their homes, increasing the stock of vacant homes, feeding the vicious cycle of blight, and straining the City's budget with the costs of safety and maintenance.

Key Findings

- Data reveals that an estimated 1,151 homes in Newark are underwater and have mortgages that have been sold through Private Label Securitization (or "PLS"). PLS moves mortgages into trusts primarily composed of securitized mortgages that do not conform to standards established by the government-sponsored enterprises (Freddie Mac, Fannie Mae, and Ginnie Mae).

- It difficult for homeowners with PLS loans to negotiate mortgage modifications or principal reductions that would allow them to stay in their homes and prevent foreclosure and vacancy. While the process is still difficult, traditionally held mortgages offer more opportunities for homeowners to renegotiate the terms of their mortgage.
- Seventy-seven percent (77%) of Newark's underwater PLS loans have some type of exotic feature such as an adjustable rate, balloon payments, interest only payments, negative amortization, or a combination of these features.
- Newark data underscores the link between PLS lending and vacant housing. Among the 19 census tracts (the top quartile) with the highest rates of PLS lending during the mid-2000s, this report finds signs of distress in 17 tracts, spread throughout the city:
    - In seven tracts, the rate of vacant housing has either increased sharply or remained at elevated levels.
    - In another five tracts, foreclosure appears to have had only minor effects upon local vacancies, but a large share of residents are underwater and have PLS loans, placing them at high risk of foreclosure. In four of these five tracts, this share exceeds 10 percent of owner-occupied units.
    - Five tracts are struggling with both high levels of vacancy and underwater PLS loans. These tracts have already witnessed some of foreclosure's adverse consequences, and without government intervention, these conditions are likely to worsen.
- PLS mortgages have exacerbated the foreclosure crisis, increasing risk to homeowners, expanding the vacant housing stock, and contributing to the vicious cycle of blight in Newark.

Policy Recommendations

The City of Newark can address the devastation caused by predatory lending, the private-label securitization of mortgages, the growing stock of vacant housing, and the resulting blight by using a multi-pronged approach that includes:

1. Engaging a community development financial institution to work with homeowners to modify underwater mortgages;
2. Facilitating direct communication between the City of Newark and mortgage lenders and servicers to assist homeowners with principal reductions; and
3. Using, if necessary, the local powers of eminent domain to seize toxic PLS mortgages to achieve principal reductions for homeowners.

The following report speaks to each of these policy recommendations, but emphasizes the use of eminent domain. This approach would both restore wealth to Newark's hardest hit communities while also asserting municipalities' authority to address the consequences of the Wall Street-induced foreclosure crisis and fight the blight created by underwater PLS loans.

Roots of the Crisis: Predatory Lending and Private-Label Securitization

The effects of predatory and high-rate lending continue to devastate many communities across the United States, particularly communities of color. During the height of the housing boom in the mid-2000s, these communities were targeted by lenders employing predatory practices and received a disproportionate number of high-rate loans with exotic features. The two often went hand in hand, since predatory lenders (often mortgage companies not regulated by the Community Reinvestment Act) specialized in making unaffordable loans. As investors bought ever more loans, a much broader group of lenders – including major commercial banks – began to employ predatory strategies and offer high-rate loans, sometimes through their subsidiaries. Large banks also invested in many of the securities that were backed by these loans. And when the crisis hit, many banks bought the debt of failed subprime lenders.

According to the New Jersey Department of Banking and Finance, predatory lending "may involve fraud or deception, manipulating borrowers through aggressive sales tactics or taking unfair advantage of a borrower's lack of understanding about loan terms. These practices occur most frequently in the subprime lending market and target lower-income and minority borrowers." The practice often includes some or all of the following three elements:

- Making loans based on the assets of the borrower, rather than on the borrower's ability to repay an obligation ("asset-based lending")
- Inducing a borrower to refinance a loan repeatedly in order to charge high points and fees each time the loan is refinanced ("loan flipping")
- Engaging in fraud or deception to conceal the true nature of the loan obligation from an unsuspecting or unsophisticated borrower.[1]

Predatory lenders often find their customers in vulnerable communities – especially communities of color that have been segregated and redlined for generations. This history of exclusion creates communities that are cut off from mainstream financial institutions and rely upon mortgage companies, pawn shops, and payday lenders that provide financing at high rates. As Ta-Nehisi Coates observed of Chicago's housing patterns, "Decades of racist housing policies by the American government, along with decades of racist housing practices by American businesses, had conspired to concentrate African-Americans in the same neighborhoods [...] When subprime lenders went looking for prey, they found black people waiting like sitting ducks."[2] Similarly, sociologists have found that, "high levels of segregation create a natural market for subprime lending and cause riskier mortgages, and thus foreclosures, to accumulate disproportionately in racially segregated cities' minority neighborhoods."[3] Partly as result, black borrowers were three times more likely to receive subprime loans than white borrowers in 2006.[4] African Americans and Latinos account for 86%

of the Newark's population, and like other cities with large communities of color, Newark has been disproportionately impacted by the housing crisis.[5]

Though fraud was commonly associated with mortgage companies, banks also engaged in predatory lending and targeted communities of color. As one former Wells Fargo loan officer reported, "Wells Fargo mortgage had an emerging markets unit that specifically targeted black churches because it figured church leaders had a lot of influence and could convince congregants to take out subprime loans."[6]

Predatory lenders often issued loans with exotic features. The loans were much more complex than ordinary fixed-rate loans. Borrowers often did not understand their mortgage terms, or were actively misled by predatory lenders. These loans included adjustable-rate mortgages (ARMs), balloon mortgages, and interest-only adjustable-rate mortgages. These mortgages appear to be more affordable at first, but then become an unmanageable burden for the homeowner.

Based on our analysis of the subset of private-label securitized PLS mortgages originated between 1990 and 2007 for owner-occupied primary residences in Newark, more than three quarters of the mortgages had some exotic feature.[7] We also examined 2004-2007 Home Mortgage Disclosure Act (HMDA) data for Newark, which reports basic loan, borrower, and lender information for most mortgage processes. During this period, nearly 42 percent of mortgages originated in Newark and 48 percent in nearby Irvington were high-rate[8], compared to only 21 percent of the loans in the remainder of the Essex County.

Predatory lenders did not care whether these loans were affordable because they were able to collect a fee and then sell off them, often through private-label securitization (PLS). Private Label Securitization (PLS) Trusts were primarily composed of securitized mortgages that did not conform to standards established for the government-backed mortgage products of Freddie Mac, Fannie Mae, and Ginnie Mae. When the mortgages were securitized and resold, they were often actively misrepresented as low risk. Investors thought that they were buying safe, high-interest securities that could be tailored to their tolerance for risk. As a result, there was a surge of investor demand that pressed lenders to offer more loans with predatory features to more people -- even to those who should not have received them. Many of those borrowers would have qualified for a more affordable prime loan, while others could not afford any loan at all.

Predatory practices and exotic loan features fed rising consumer demand, driving up property values during the housing bubble. Between 2000 and 2006, home prices across the nation more than doubled.[9] This rapid inflation fed further reckless and predatory lending, as lenders and appraisers worked together to value homes at inflated prices and then underwrite new loans on that basis.

For as long as property values rose, borrowers who ran into trouble when their payments jumped could escape by refinancing their mortgages. Further, as homeowners faced stagnating incomes and increasing costs of living, many turned to their primary source of wealth – their home equity – to maintain their quality of life through second mortgages and mortgage refinancing.

Once the bubble popped, though, borrowers had few options, especially if their loans had been resold through PLS. Several government programs, initiated during the recession, have encouraged mortgage holders to renegotiate loans with borrowers who are behind on their payments. But this negotiation process is seldom successful for the unlucky homeowners whose mortgages have been sold through PLS. Because PLS loans are pooled as securities, they have many owners. Servicers are seldom willing and able to secure consent from all stakeholders for principal reduction. When modification fails, borrowers often fall into default. For this reason, PLS loans have high levels of foreclosure. The combined effect of predatory lending, exotic loans, inflated appraisals, private-label securitization, and failed modifications is a perfect storm that continues to pound New Jersey, a state on its way to filing 50,000 foreclosures in 2014.[10]

The Human Consequences of Toxic PLS Trusts

"I didn't sign up for a PLS loan, but my family is paying the consequences."
- Mervin Hodge, North Ward Resident in Newark.

Mervin Hodge, his wife and their three children reside in the North Ward of Newark, NJ. They purchased their home in 2005 when Mervin was working as a postal worker and his wife as a certified nursing assistant. Reassured by a strong economy and a stable income, the Hodge family used their life savings to purchase a home at 72 Montcla-ir Avenue in Newark, NJ. As the Hodge's pursued the dream of homeownership, they were not aware of the predatory lending and mortgage securitization practices that would haunt their lives for years to follow.

The history of the Hodge family mortgage is a case study in everything that went wrong during the mortgage bubble: a falsely inflated appraisal that resulted in negative equity, a predatory loan with multiple exotic features, and with a mortgage trapped in a toxic securitization trust.

As first-time home buyers, Mervin and his wife could not imagine that reputable companies would approve a loan that was set up to fail, but that is exactly what Lehman Brothers (defunct because of its role in the mortgage-backed securities market), JP Morgan Chase (which settled with the US Department of Justice in 2014 for $13 billion on mortgage fraud charges), and CitiBank (which settled in 2014 with the Justice Department for $7 billion) did to the Hodge family and homeowners across the City of Newark. Wall Street firms and big banks betrayed the trust of families working to achieve the dream of homeownership.

The mortgage broker from Chase submitted papers stating Mervin's income *as a postal worker* at $47,493 *monthly* with over $36,000 in cash in the bank. The creative financing used to peddle this loan included an 80/20 split between a first and second lien, with an interest-only payment at 6.25% on the first and an astronomical 8.75% on the second. The underlying toxicity of the Hodge family mortgage made it a perfect fit for inclusion in a toxic PLS trust – which is where their mortgage is currently held.

When Mervin and his wife attempted to negotiate a principal reduction with a fair interest rate, they were denied time and time again. The unsustainable payments finally overwhelmed the family. As a result, the Hodge family is drowning in an underwater mortgage that was predatory ad fraudulent from the beginning. Meanwhile Wall Street and the big banks have rebounded –with ample government support – to record profits and enormous bonuses.

Without bold action by the City of Newark, the Hodge family home could soon be vacant, abandoned by the bank, and contributing to the blight in Newark's North Ward.

Foreclosures and Blight in Newark

The foreclosure crisis has hit Newark harder than most communities throughout the country, according to a recent report by the Urban Institute.[11] More than 1,300 Newark homeowners went into default or foreclosure in 2013, placing Newark on the national radar as a symbol of the toll of the housing crisis. Foreclosures have had a devastating effect upon families, who have seen their wealth destroyed, their credit ruined, and their lives upended by displacement. But since the foreclosure process often leaves property vacant for extended periods of time, it has strong negative effects upon neighborhoods as well.

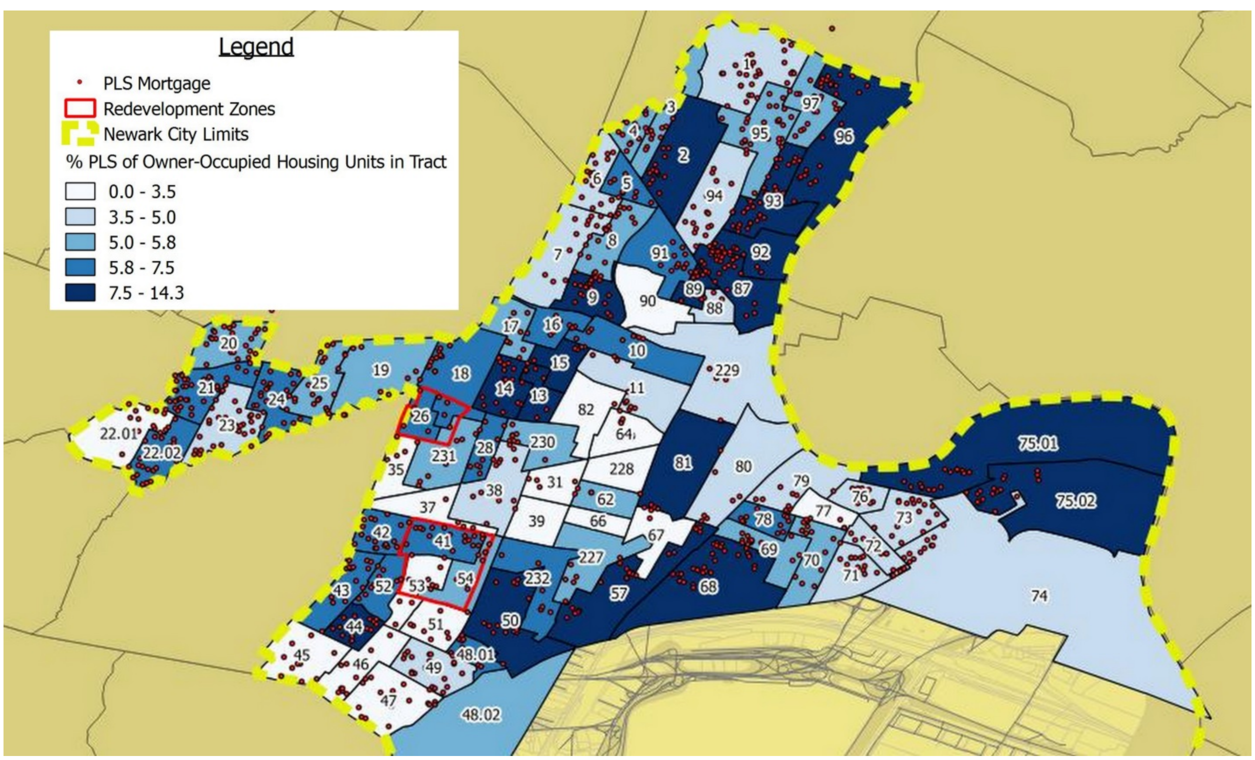
As Grace Alexander, a long-time resident, testified at the Newark City Council committee hearing on July 9th, 2013, "I am here today because I'm fighting to save my home. And I'm not alone. The impacts of foreclosure in my West Ward community are painfully evident, with boarded up homes that create huge safety hazards due to higher crime and the risk of fire. I don't want my home to become one of them."

An analysis of Newark data underscores the close relationship between PLS lending and vacant housing. This link is apparent at the level of the neighborhood, which is often approximated with census tracts. We use Home Mortgage Disclosure Act data to rank census tracts by the number of high-rate loans sold through PLS during 2004-2007, omitting tracts where less than 100 mortgages were originated.[12] The top quartile tracts (19 of 74) with the most PLS lending are shown in Table 1. Four of the six tracts recently included in the South and West Ward Model Neighborhoods fall within this high-PLS group, but overall, these 19 tracts are spread throughout Newark.[13] No neighborhood was entirely immune to the deleterious effects of high-rate and predatory lending.

Tract	Owner-occupied and for-sale housing units, 2000	High-rate PLS, 2004-2007	High-rate PLS loans per 1000 owner-occ. / for sale loans	Rank	Change in vacant other, 2000-2009/2013	Rank	Vacant other, 2009/2013	Rank	Abandoned house complaints per 1000, 2014	Rank	Underwater PLS loans as % of total owner-occupied housing units	Rank	Group
89	114	22	193.0	1	6.57%	12	9.75%	20	4.36	45	11.11%	4	PLS distressed
26	78	15	192.3	2	-4.57%	73	10.23%	17	31.61	2	6.59%	23	Vacancy distressed
16	108	18	166.7	3	9.08%	8	11.23%	13	21.08	5	7.26%	19	Both
68	228	34	149.1	4	1.79%	41	2.80%	52	0.69	61	12.02%	3	PLS distressed
13	135	19	140.7	5	-0.39%	60	10.60%	15	18.30	10	7.56%	15	Both
88	93	13	139.8	6	4.10%	22	7.75%	28	14.39	15	4.92%	50	Vacancy distressed
92	95	13	136.8	7	4.78%	20	9.06%	23	6.98	32	14.29%	1	PLS distressed
18	209	28	134.0	8	9.56%	7	18.71%	3	63.87	1	7.54%	16	Vacancy distressed
227	105	14	133.3	9	2.14%	38	3.43%	48	11.18	24	5.17%	46	
54	181	23	127.1	10	9.89%	5	12.02%	9	12.82	17	5.67%	34	Vacancy distressed
14	268	34	126.9	11	19.78%	1	25.63%	1	11.73	22	7.86%	13	Both
50	137	17	124.1	12	10.25%	4	15.91%	5	16.90	11	9.93%	5	Both
96	309	38	123.0	13	-10.72%	74	0.98%	70	3.71	49	7.81%	14	PLS distressed
43	218	26	119.3	14	2.51%	32	8.98%	24	15.21	13	6.47%	25	Vacancy distressed
231	102	12	117.6	15	9.87%	6	14.83%	6	9.28	30	5.26%	43	Vacancy distressed
232	88	10	113.6	16	1.15%	48	5.17%	38	4.50	44	5.80%	32	
9	262	29	110.7	17	6.46%	14	10.58%	16	7.63	31	9.45%	8	Both
57	92	10	108.7	18	-0.52%	62	3.18%	51	5.48	40	13.46%	2	PLS distressed
10	133	14	105.3	19	14.18%	3	16.91%	4	12.80	18	5.88%	30	Vacancy distressed

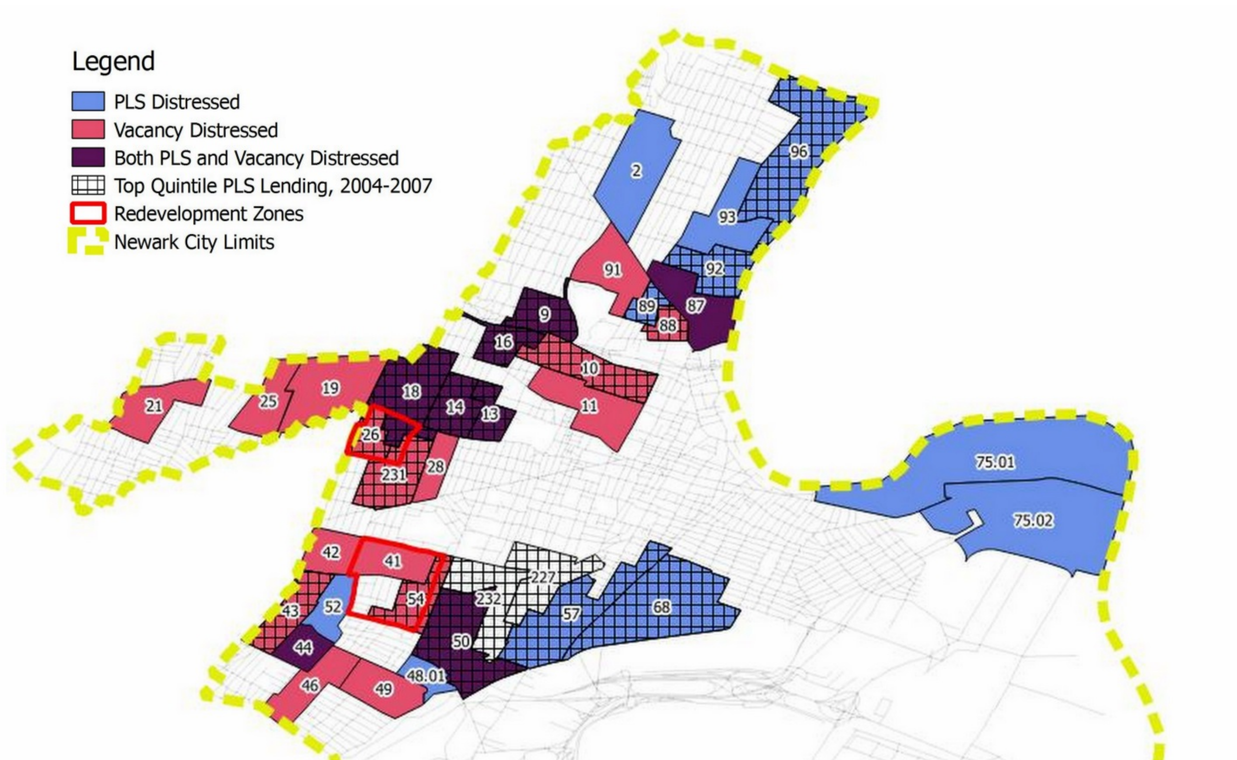
This analysis compares historical high-rate, PLS lending during the boom to two measures of neighborhood distress: (1) the percentage of homeowners who are underwater and still paying a PLS loan and (2) the prevalence of vacant housing. We use multiple measures of vacancy. We measure the rate of "other vacant" housing in 2009-2013 and its growth since 2000, both reported by the Census. We also examine 4311 abandoned housing complaints to the City of Newark during 2014.[14] While less accurate than a Census survey, it is the most recent measure of abandonment available, and more importantly reflects the real effects of abandoned housing upon neighbors and neighborhoods.[15] We also measure the share of total homeowners who are currently underwater and have PLS loans. Most of these owners are unable to modify their mortgage due to private securitization, and are at high risk for foreclosure.

Among the 19 tracts that had the highest rates of PLS lending during the 2000s, we see three general outcomes. In seven tracts, the rate of vacant housing has either increased sharply or remained at elevated levels. These "vacancy distressed" neighborhoods either (1) fall in the top quartile for "other" vacant housing as a percentage of total and change in "other" vacancy rate; or (2) fall in the top quartile for abandoned housing complaints per 1,000 units. These neighborhoods offer stark evidence of foreclosure's effects; the house at 414 South 17th Street, profiled later in this report and located in vacancy-distressed Tract 18, is just one of many homes that was financed with a high-rate PLS loan, entered foreclosure, and is now contributing to blight.



In another five tracts, foreclosure appears to have had only minor effects upon local vacancies. But these tracts fall within the top quartile when we measure the percentage of homeowners who are underwater and have PLS loans, a group that is at high risk of foreclosure. In four of these five tracts, more than 10% of homeowners fall into this category. If "vacancy distressed" neighborhoods have already suffered the blighting household- and neighborhood-level effects of foreclosure, these "PLS distressed" neighborhoods are at high risk (see Map 1).

Finally, five tracts are struggling with high levels of both vacancy and underwater PLS loans. These tracts have already witnessed some of the adverse consequences of high foreclosure rates and without government intervention conditions in these tracts are likely to worsen.



The effects of foreclosure on neighborhoods have been well-documented across the country. In general, foreclosures tend to impact communities through "declining property values and physical deterioration; crime, social disorder, and population turnover; and local government fiscal stress and deterioration of services".[16] Blight has been defined by the New Jersey Supreme Court as "deterioration or stagnation that negatively affects surrounding areas."[17] Foreclosed properties, in short, have a blighting effect on neighborhoods, and pose a challenge to local government as it tries to respond to the local impacts of a national – and global – economic crisis.

There has been extensive research on the relationship between the mortgage crisis and the health of affected households. Clearly, illness and chronic disease are among several possible "triggers" for the financial instability that has often leaves households unable to make their mortgage payments, especially when the borrower is already struggling to meet the rising monthly payments of an Adjustable Rate Mortgage (ARM). At the same time, there is some evidence that the financial stress of foreclosure *itself* leads to illness, including hypertension and depression.[18]

Once units become vacant, they may become sites of criminal activity, including potential vandalism. Several studies have shown relationships between the presence of vacant, foreclosed properties and a combination of violent, property, and public order crimes. In a recent article, researchers at New York University found positive, statistically-significant associations with all three.[19] Other research in the field has also suggested an association between housing price declines and increased incidence of arson.[20]

Vacant properties may be unsightly due to lack of maintenance, vandalism, or boarded-up windows and doors. Foreclosures thus have negative effects upon nearby property values, particularly for properties within 300 feet of a vacant Real Estate Owned (REO) property.[21] There also appear to be threshold effects, such that the negative impact of two nearby foreclosed homes, for example, may be more than twice that of a single vacant home.[22]

The Challenge for Municipal Government

Widespread foreclosures pose direct challenges to local government capacity and finances, as they greatly increase a variety of local needs. Sick residents strain the local health care system. Police calls rise in response to elevated criminal activity near foreclosed properties. Neighbors report problems related to abandoned buildings, often related to maintenance and upkeep issues.

In 2005, researchers in Chicago estimated the costs of foreclosed properties to the city government, which varied based upon whether a given property had been the target of arson or vandalism, and had or had not been maintained. The cost estimates varied considerably, but addressing problems created by the worst units required city services that cost $19,000 or more.[23] In Newark, it is estimated that foreclosures may have cost the City as much as $56 million during the last five years.[24] When a local government is unable to pay these costs, they do not disappear, but are instead borne by neighbors, who experience higher taxes, lower property values, and a greatly diminished quality of life.

At the same time, foreclosed properties are commonly in tax arrears and negatively affect surrounding property values, draining the tax base at precisely the moment that local government needs resources to address the blighting effects of foreclosure. In Newark, foreclosure has drained local financial resources and social services funding[25], and the city has struggled to meet the costs associated with fighting fires, police actions, trash removal, and squatters[26].

Abandoned: The Story of a PLS House Left Vacant

The now abandoned home located at 414 S 17th St, Newark, NJ paints a vivid picture of the impact that PLS mortgages have had on communities in the city. Located in Mayor Baraka's West Ward Model Neighborhood, this property underscores the likely outcomes for families, the community and the City if toxic mortgages are left unaddressed.

The home was purchased by the Souza family in September of 2006 for $350,000. By the spring of 2014, the home was left vacant after falling into foreclosure. Neighbors placed numerous calls to the Newark Police Department and the City of Newark about suspicious activity at the house, including squatters who routinely broke through the boarded doors and windows of the building. The City of Newark, which continues to receive calls from the community about this property, is ultimately responsible for the safety hazards created by the physical condition of the property and it's use as a hub of criminal activity.

In August of 2014, the property was finally listed for sale for $153,000. However, today the house remains vacant and, after a recent snow storm has literally started falling apart.

Underwater Homes: The Crisis Continues

The foreclosure crisis has already wreaked havoc in Newark. The crisis is not over. The depression of property values in the aftermath of the housing market crash has left many homeowners underwater, or owing more than their home is worth. According to Zillow.com, "the percent of Newark homeowners underwater on their mortgage is 45.8%, which is higher than New York Metro at 13.1%." A May 2014 report by the Haas Institute found that 54% of Newark homeowners were still underwater on their mortgages at the end of 2013, the highest rate of any city in the U.S. with a population over 200,000.[27] More than 1,300 of Newark's 21,000 homeowners went into default or foreclosure in 2013. Many underwater Newark homeowners still struggle to make payments on high-rate PLS loans. The difficulty of securing modifications for these loans places them at particularly high risk of foreclosure.

Today, approximately 1,151 PLS mortgages are underwater in the City of Newark. Seventy-seven percent (77%) have a loan with at least some type of exotic feature in the terms of the original loan. The remaining 23% were fixed 30-year mortgages.

29% - Adjustable Rate Mortgage (ARM)
15% - Balloon ARM
14% - Interest Only ARM
9% - Fixed Interest Only
4% - Balloon Fixed Rate
6% - Negative Amortization ARM
77% - Total

High-rate, unaffordable mortgages place a significant strain on family budgets. While 29% of Americans and 38% of New York-area homeowners pay at least 35% of their gross household income on costs related to owning their home, 56% of Newarkers pay at least that much, nearly double the national rate.[28] The rate is still higher (63%) in the ten PLS distressed tracts identified above, where 47% of homeowners pay more than half of their income in owner costs.

When severe housing burdens are paired with negative home equity, there are strong pressures for homeowners to default, leading to the vacancies and spillover effects described in the prior section.

While there are a handful of organizations in Newark have taken steps to assist homeowners facing foreclosure, these actions have helped one homeowner at a time, and only a tiny share of those affected. Policy responses to date have been inadequate, given the magnitude of the crisis in Newark. While lenders host workshops that focus on behavior modification for borrowers, the loans have remained largely untouched. There has been no wholesale modification of those loans, which were often predatory, laden with exotic features, and securitized through private channels in ways that make them difficult to modify.

Examples of Predatory Lending

Adjustable Rate Mortgage (ARM): ARMs begin with low initial interest rates to lure borrowers. After a period, those rates adjust to the market rate, often significantly increasing the cost to the borrower. During the boom, many lenders assured homeowners that they would be able to refinance into fixed-rate mortgages before their rate adjusted. But as home prices fell, homeowners lost equity and were unable to refinance. Additionally, the complexity of new loan products – including hybrid and option ARMs – added additional unpredictability to monthly loan payments and created further opportunities for lender deception.

Balloon Mortgages: Balloon mortgages make it more difficult for borrowers to build equity in their home. In the early years of a loan, payments go primarily toward interest. In these mortgages, after paying for some period of the loan, homeowners pay off the remaining balance in one "balloon" payment or refinance into another loan in order to avoid that payment. The payment is usually almost as much as the original loan amount. Many borrowers were unaware that their loan had a balloon payment. As with ARMs, borrowers who had balloon mortgages during the mid-2000s often found themselves unable to refinance as prices fell.

Interest Only: Interest-only loans go one step further than balloon loans, as monthly payments only cover interest and do not pay down the loan principal. These loans are supposedly a path toward a lower monthly payment. But because they never build equity, borrowers are essentially renters in their homes. At some point the payments on these loans increase and the borrowers begin to pay the principal – often this steeply increases monthly costs, because homeowners have to make up for years of not paying on the principal.

In Closing

Foreclosures continue to destabilize Newark's communities. Given the high rate of underwater mortgages in the city, we know that the crisis is far from over. Without aggressive action by the City of Newark, homeowners will continue being pushed out of their homes and onto the streets, stripping families of their wealth, increasing the stock of vacant homes, feeding the vicious cycle of blight, and straining the City's budget with the cost of maintaining homes left vacant by foreclosure. In the absence of strong action from the private sector, the federal government or the State, Newark must find its own solution.

[1] State of New Jersey Department of Banking and Insurance. (2006). "Predatory Lending- What Consumers Should Know." Available at http://www.state.nj.us/dobi/division_consumers/finance/predatory.html.
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[6] Powell, Michael (2009). "Suit Accuses Wells Fargo of Steering Blacks to Subprime Mortgages in Baltimore." *New York Times*. June 6. Accessed September 15, 2014.
[7] Our calculation is based on the portion of all Newark mortgages of underwater owner-occupied primary residences originated between 1990 and 2007 that have been sold through private-label securitization.
[8] We define loans are "high rate" when their rate spread is reported in the data – i.e., the rate spread between the loan and the comparable term treasury was over three percent for a first lien or over five percent for a subordinate lien.
[9] Dreier, et al., *Underwater America*, 8.
[10] Tyrrell, Joe. (2013). "Walkaways by Banks Run Up Number of Vacant Homes." *NJ Spotlight*, April 19.
[11] Lee, Pamela. (2013)., "Eminent Domain: The Debate Distracts from Pressing Problems." Washington, D.C.: The Urban Institute.
[12] During the subprime crisis, "Other" was sometimes used in Home Mortgage Disclosure Act reporting to designate loans that were bound for private securitization. Here we consider only those loans that were identified as sold through private securitization, producing a very conservative estimate of subprime and high-rate lending. The correspondence between PLS lending with the Other category *included* and the change in vacancy rates is even more pronounced.
[13] Tracts were normalized to maintain consistency over time.
[14] We used MOD-IV parcel data to remove non-residential and multi-family buildings from the 4311 reports and then divided the calls by the number of units in 1-to-4 family structures reported in the American Community Survey.
[15] Not all "other vacant" housing results from foreclosure – abandoned rental housing would also fall into this category, as does housing that has been left vacant for personal/family reasons. Similarly, not all foreclosed housing becomes "other vacant". REO properties may be resold and occupied, remain "vacant for sale" for extended periods of time, or turned into rental. Nevertheless, "vacant other" housing does provide the best Census-defined measure of vacancies resulting from foreclosure.
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