
LOUISVILLE'S FORECLOSURE RECOVERY
Understanding and Responding to the Impact of Foreclosure Sales
mhc
Metropolitan Housing Coalition

The last four years have proven the accuracy of MHC's warning in 2008: record-high foreclosure rates have caused massive losses to Metro Louisville, its families, and its neighborhoods.

Given the profound impact that foreclosures have on our neighborhood values, it is economically imperative to have programs that sustain home ownership and prevent foreclosures.

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Louisville Metro Council

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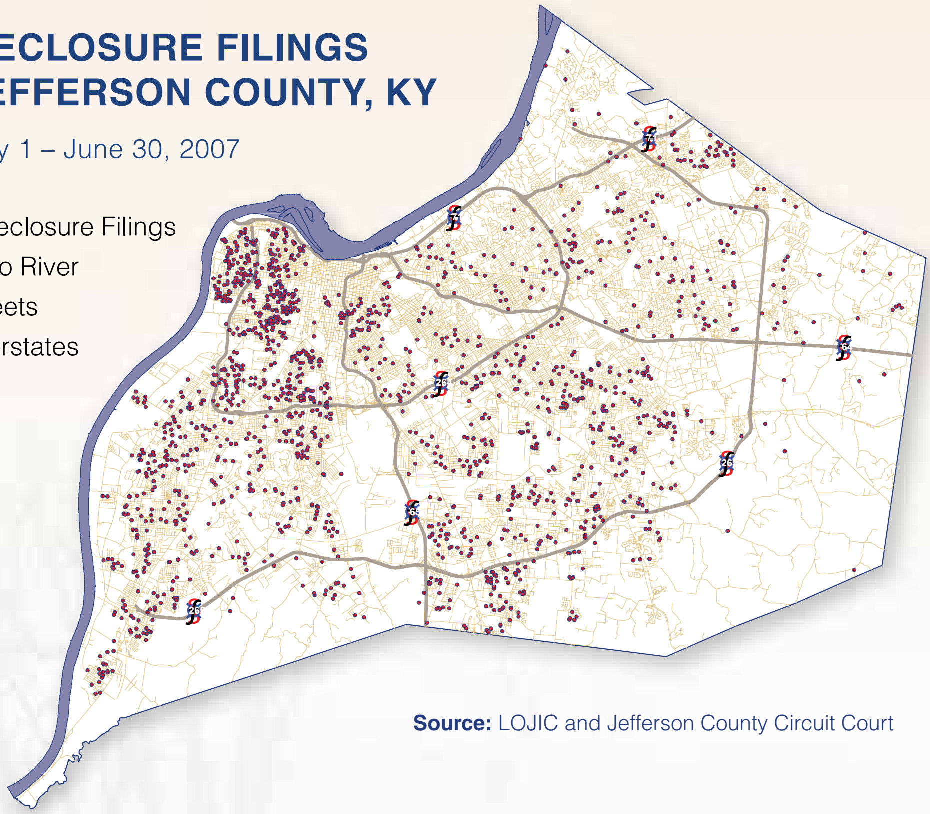
LOUISVILLE'S FORECLOSURE RECOVERY: Understanding and Responding to the Impact of Foreclosure Sales

In January of 2008, just as a huge wave of mortgage foreclosures began sweeping the United States, the Metropolitan Housing Coalition published *Louisville's Foreclosure Crisis*. This analysis of 1,699 public foreclosure records filed between January 1 and June 30, 2007 included a focus on three Louisville neighborhoods and interviews with households in foreclosure. In the report, MHC identified lending practices that increased the likelihood of mortgage foreclosure, exposed demographic trends exacerbating neighborhood instability, and shared stories of homeowners facing a combination of extreme personal set-backs and unclear or unfair mortgage lending practices. The report concluded that "the foreclosure crisis is eroding neighborhood stability and destabilizing our entire community."

FORECLOSURE FILINGS IN JEFFERSON COUNTY, KY

January 1 – June 30, 2007



Source: LOJIC and Jefferson County Circuit Court

The last four years have proven the accuracy of MHC's warning in 2008: record-high foreclosure rates have caused massive losses to Metro Louisville, its families, and its neighborhoods. From 2008 through 2010, financial institutions filed 12,945 foreclosures in Jefferson County and 21,536 in the Louisville MSA[1]. The foreclosure crisis and the subsequent shocks to both housing and financial markets continue to play a significant role the economic recession across the nation. While over four million homeowners have lost their homes, remaining homeowners have struggled with the consequences of increased foreclosures in their neighborhoods. Today, 1 in 5 homeowners are likely to default[2]. Thousands of local construction workers, builders, realtors and workers in the trades have lost work and income. Across the nation, the costs of vacant and abandoned properties have overwhelmed local communities, including Louisville.

The four years since MHC's publication have seen a range of responses to, and set backs from, the foreclosure crisis. In 2008, the Kentucky State Legislature passed mortgage lending protections. Advocates and concerned citizens have become increasingly focused on the staggering costs of vacant properties. The Federal Government has implemented a range of foreclosure responses and reforms – including the Home Affordable Modification Program (HAMP) and the Hardest Hit Fund. Recently, however, the federal government has dramatically cut funding for homeownership and foreclosure counseling. The Jefferson County Circuit Court implemented a Foreclosure Conciliation Process to address the nearly 40% of circuit court cases that are foreclosures. However, cuts in funding and other changes limited its utility. This seemed the right time to revisit the 1,699 public foreclosure records filed on residential properties between January 1 and June 30, 2007 to learn more about the community impact of a foreclosure crisis that demonstrates no sign of slowing down.

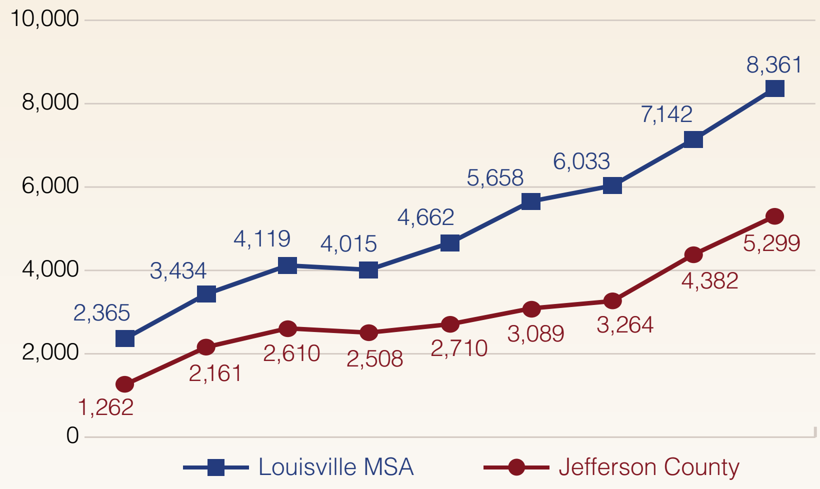
In this update report, we look at current foreclosure trends in Louisville and explore the impact of the 2007 foreclosure filings. The impact includes a tremendous loss in home value for those foreclosed properties and the subsequent loss in property tax revenue and increased costs faced by Louisville Metro Government. We conclude with recommended actions that will guide a recovery from the tremendous losses resulting from foreclosure in our city.

Trends in Foreclosure Filing and Sales in Louisville

In 2008, MHC identified lending practices that increased the likelihood of home mortgage foreclosure. *Louisville's Foreclosure Recovery* assesses the long-term impact of these 2007 loans on our neighborhoods and city– an impact that has grown with the dramatic rise in foreclosure filings since July 1, 2007.

Despite changes in mortgage lending practices, home foreclosure filings and sales have increased in Louisville and nationwide. In 2008, MHC reported on mortgage default that was largely a result of unsound mortgage lending practices. Today, mortgage default is more and more a result of deteriorating job and housing markets. In 2007, a total of 3,089 Jefferson County properties were ordered for foreclosure sale. By 2010, that number had increased by 71.5% to 5,299.

NUMBER OF FORECLOSURES 2002-2010

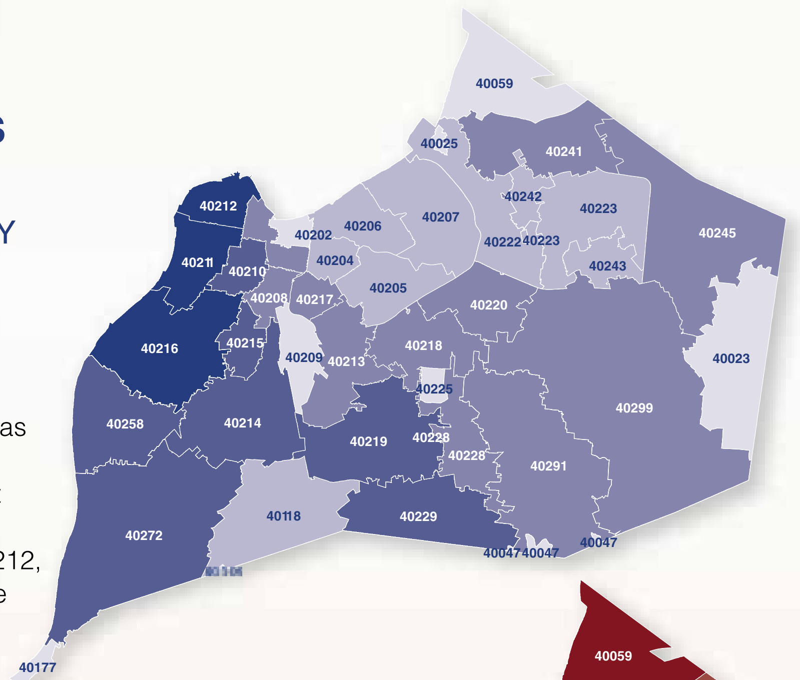


Source: U.S. Census Bureau

TOTAL FORECLOSURE SALES BY ZIP CODES

2006–2010 JEFFERSON COUNTY, KY

- 636 – 918
- 376 – 635
- 157 – 375
- 50 – 156
- 0 – 49



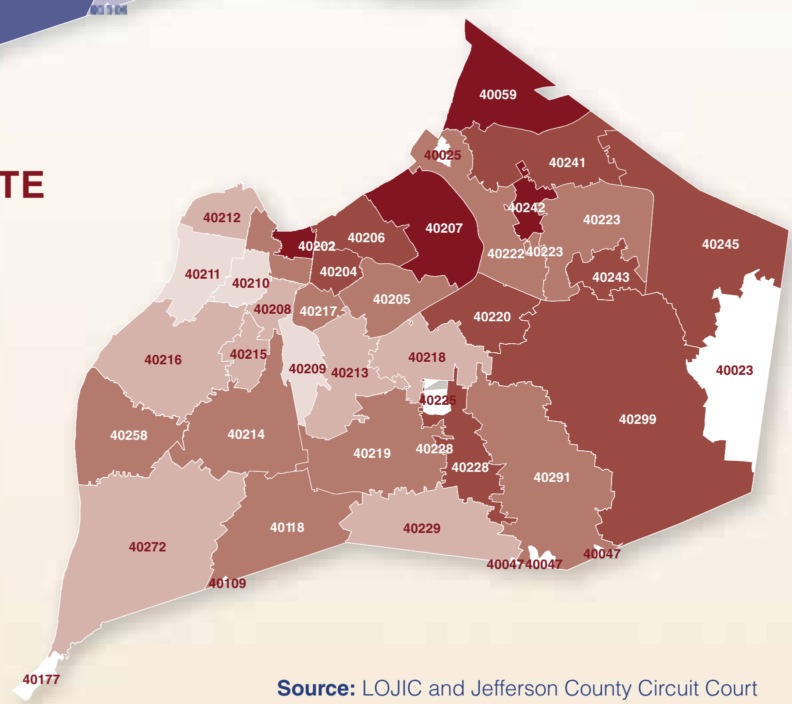
As foreclosure filings increased in Louisville, areas of the city previously unaffected felt the effects of foreclosure much more significantly. The most concentrated areas of foreclosure in Louisville remain in the Southwest part of the city (with 40212, 40211 and 40213 the zip codes representing the highest instances of foreclosure sales).

AVERAGE COMPOUND GROWTH RATE OF FORECLOSURE SALES

2006–2010 JEFFERSON COUNTY, KY

- 22.1% – 51.4%
- 13.1% – 22%
- 5% – 13%
- -8.4% – -4.9%
- -16% – -8.3%
- -16% – -8.3%

However, downtown Louisville and neighborhoods in east Louisville saw a much more significant increase in the rate of foreclosure sales between 2006 and 2010. The downtown zip codes of 40202 and 40203, 40207 and 40059 all saw increases between 22 and 51.4%.



Source: LOJIC and Jefferson County Circuit Court

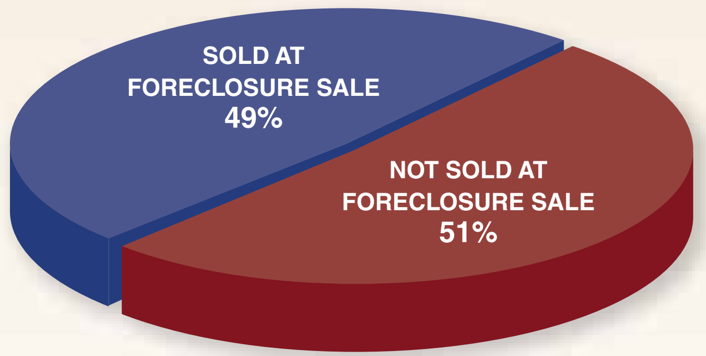
There is a significant distinction between foreclosure filings (legal actions filed in circuit court) and foreclosure sales (the sale at the Master Commissioner's office in which the former property owner loses the property as a result of legal action). Over half (867) of the foreclosures filed in the first 6 months of 2007 did not result in a foreclosure sale. For the 49% of residential foreclosure filings that were eventually sold, the time from the filing of foreclosure complaint until sale averaged just under a year (50 weeks).

Of the 867 cases that did not go to foreclosure sale, 85% (739) were dismissed. Because the Jefferson County Circuit Court does not require a recorded reason for dismissal, it difficult to know if these cases were actually resolved through a payment of the debt or a work-out with the mortgage holder. Available court data does not allow us to know if cases were dismissed because the defendant filed bankruptcy, if the owner was permitted a short sale[3], whether the owner offered a deed in lieu of foreclosure, or if there was some other outcome. Court data examined for this report does not provided details about how many of these cases resulted in a work out between the owner and the financial institution. Five years after filing, 79 (or 4.6% of) cases are still pending.

In the 2008 report, MHC focused on three neighborhoods in order to explore the ways different populations and different housing markets were affected by lending and foreclosure trends. These neighborhoods were the suburban neighborhood of Highview, the first–ring suburban neighborhood of Shively, and the urban neighborhood of California. In the first six months of 2007, 66 properties in Highview, 77 properties in Shively, and 40 properties in California entered foreclosure. In Highview, 38% of those filings ended in a foreclosure sale; 42% resulted in a foreclosure sale in Shively; and in California 65% of filings ended an a foreclosure sale.

FORECLOSURE FILINGS SOLD AND NOT SOLD AT FORECLOSURE SALE

JANUARY 1 – JUNE 30, 2007



a total of 3 properties unknown

Source: Metro IPL and Jefferson County PVA

In 2007, a total of 3,089 Jefferson County properties were ordered for foreclosure sale. By 2010, that number had increased by 71.5% to 5,299.

Changing Neighborhood Landscapes

Whether or not a foreclosure filing resulted in a foreclosure sale, property is likely to change hands following a foreclosure filing. While not quite half (49%) of foreclosure filings results in a sale, more than 65% of the 1,699 residential properties changed owners after July 2007. In 2008, MHC reported that about half (835) of the 1,699 properties had been owned for five or more years, and about 25% (407) had been owned by the same owner 10 years or longer. Therefore, the shift in property ownership is profound.

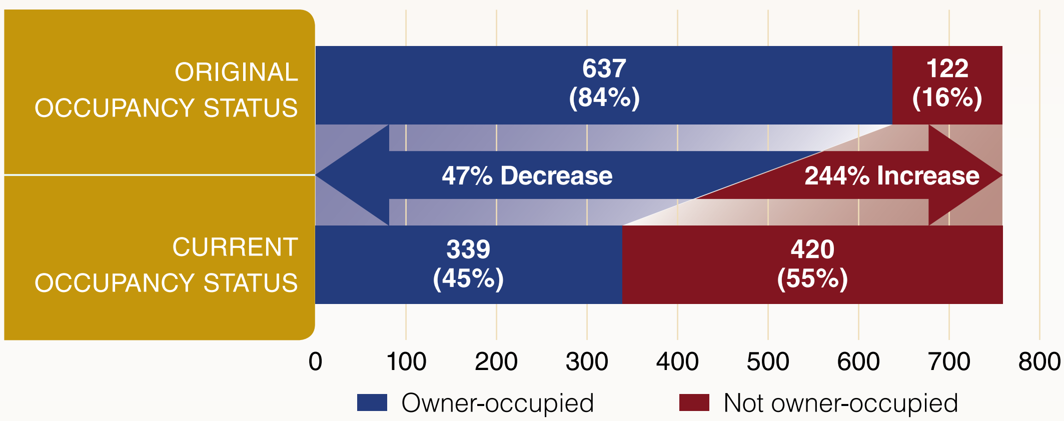
About two-thirds of the transferred properties (759, or 68.3%), were actually sold at a foreclosure sale. Another 353 properties were transferred without a foreclosure sale. This may mean that the property owner sold the property on the open market, offered a deed in lieu of foreclosure, or sold the house in a short sale[3].

The three focus neighborhoods from the 2008 report each saw a change in ownership patterns over the four years.

- In Highview, 95% of the properties subject to a foreclosure filing were owner-occupied in 2007. In 2011, 82% of those properties remain owner-occupied.
- In Shively, 96% of properties subject to foreclosure filing were owner-occupied in 2007. In 2011, 62% of those properties were owner-occupied.
- Finally in California, 50% of the properties subject to foreclosure filing in 2007 were owner-occupied. In 2011, 26% remain owner-occupied – meaning close to half of the properties that were owner-occupied are now not owner-occupied.

While 549 properties do not show a deed transfer (a change of ownership), 53 of those properties were sold at a foreclosure sale. This indicates that property may be owned by a different owner, but that owner has not recorded the ownership interest.

759 PROPERTIES THAT SOLD AT FORECLOSURE SALE AND HAD A DEED TRANSFER RECORD



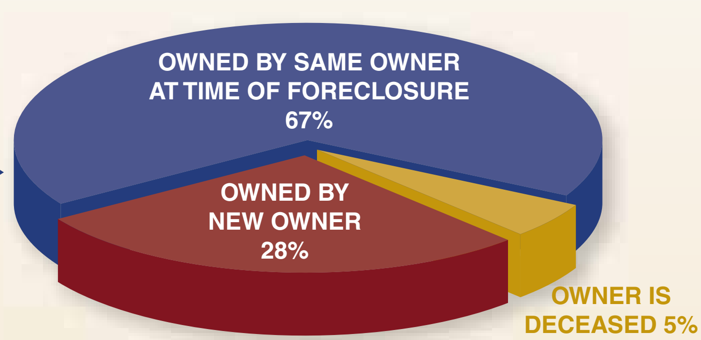
Source: Jefferson County PVA

Vacant and Abandoned Properties

The U.S. Census Bureau estimates that 9.3% of Louisville's residential and commercial property is vacant[4]. The connection between mortgage foreclosure and vacancy is important, but remains unclear. Of the 1,699 residential foreclosures filed in the first six months of 2007, 112 (6.6%) have been reported to Metro Inspections, Permits and License (IPL) as vacant. This number does not indicate the total number of vacant properties, but rather records the most distressed vacant properties in the city. However, vacancies reported to Metro IPL are currently the best county-wide data available.

112 VACANT PROPERTIES REPORTED TO METRO IPL

67 PROPERTIES NOT SOLD AT FORECLOSURE SALE



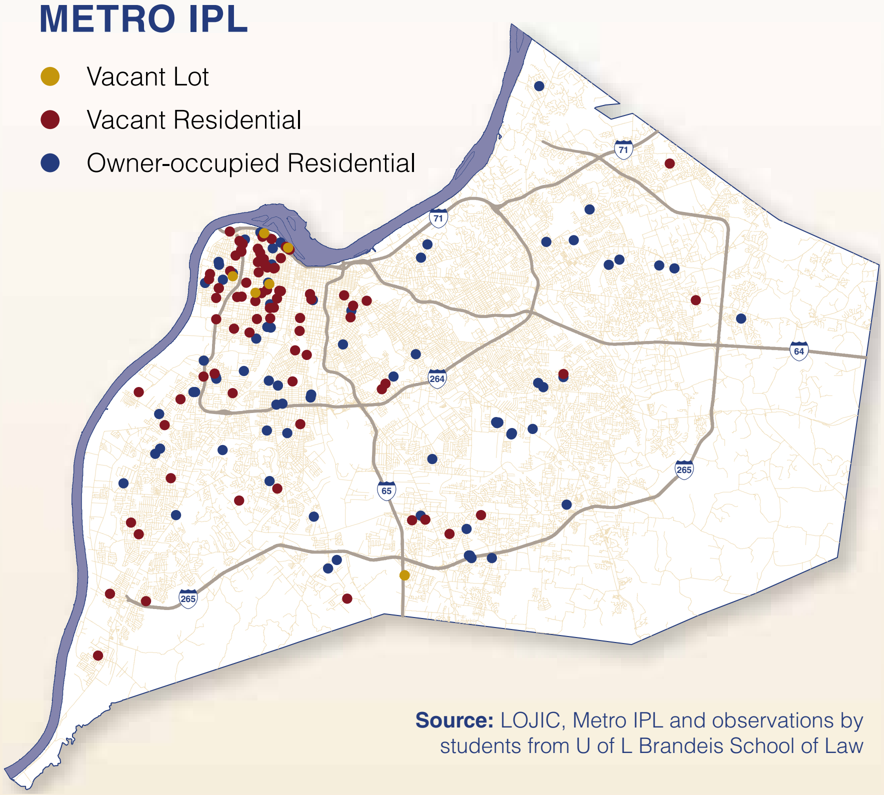
Source: Metro IPL and Jefferson County PVA

Of the properties without deed transfer, 11% were reported vacant during a direct survey of the property in January 2012.

As part of this report, we physically surveyed the 112 properties reported vacant to the Metro IPL. At the time of our survey 76% of these properties were vacant. This indicates that 24% of the properties have been re-occupied, but that there has been no notification to IPL that the properties are no longer vacant. Mapping of these properties shows vacant suburban property is more likely to be re-occupied.

Analysis of the foreclosure files found that a total of 57 properties (3.6% of the total properties in the study) were sold at foreclosure sale, but did not have a deed transferred into the name of the new owner. Of the properties without deed transfer, 11% were reported vacant during a direct survey of the property in January 2012. This illustrates the problem of adequately tracking ownership, which is particularly important when vacant properties become dilapidated.

PROPERTIES REPORTED VACANT TO METRO IPL

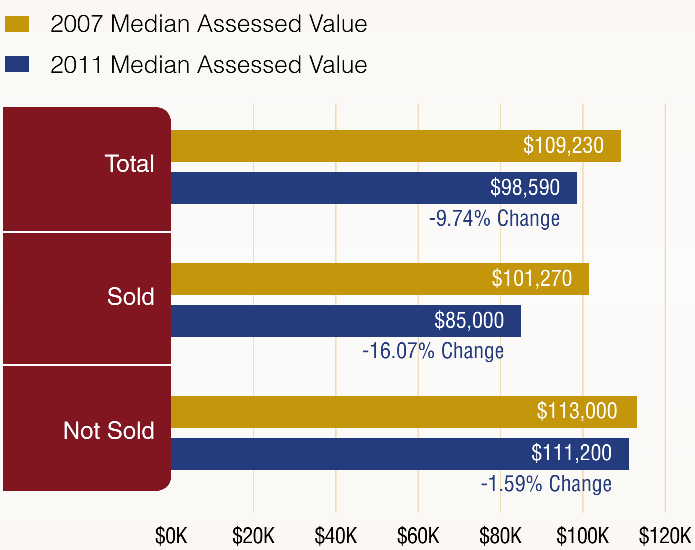


Source: LOJIC, Metro IPL and observations by students from U of L Brandeis School of Law

Change in Assessed Housing Value

While a foreclosure sale results in the immediate loss of property and equity for the former owner, it also results in significant and sustained decline in property value and wealth for the broader community. In April 2011, the Jefferson County Property Valuation Administration (PVA) reassessed, and lowered the assessed value of, over 60,000 residential properties in Jefferson County. This reduced property values between 5% and 15% which in turn caused a drop in property tax revenue needed to support Metro government services. Analysis of 1,699 filings from 2007 shows that properties experiencing a foreclosure sale will significantly decline in value over time. Because nearly half (829 or 49% of the 1,699 residential properties) were sold at a foreclosure sale, Metro Louisville has experienced alarming changes in assessed housing value.

ORIGINALLY OWNER-OCCUPIED



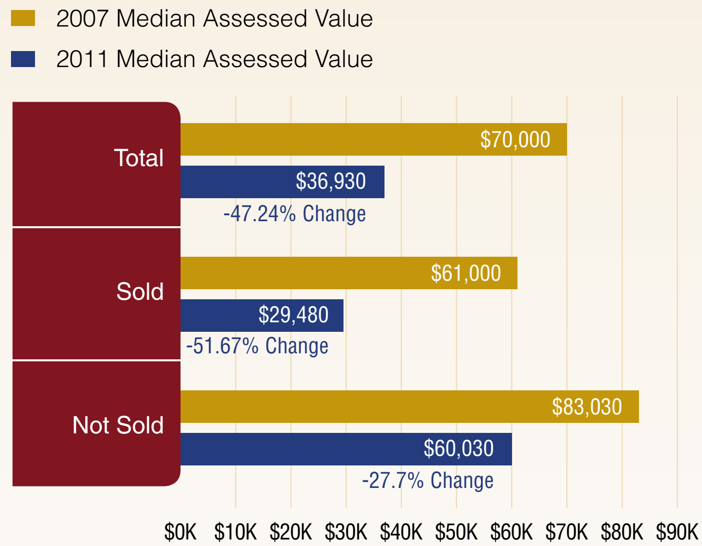
Source: Jefferson County PVA

In 2007, the median assessed value of the 1,699 properties that are the subject of this report was $104,000. Today, the median assessed value of those properties is $92,180, a decrease of 11.37%.

The median assessed value of owner-occupied properties that were the subject of foreclosure filing in 2007 decreased by 9.74% in four years. However, if that property was sold at a foreclosure sale, the loss in median assessed value was over 16%.

The loss to property value that was not owner-occupied in 2007 is much more significant. Those properties saw a 47.24% decline in median assessed value overall. While properties filed against, but not sold, lost value (a change of -27.7% in four years), properties sold at foreclosure sale lost over half the assessed value in four years.

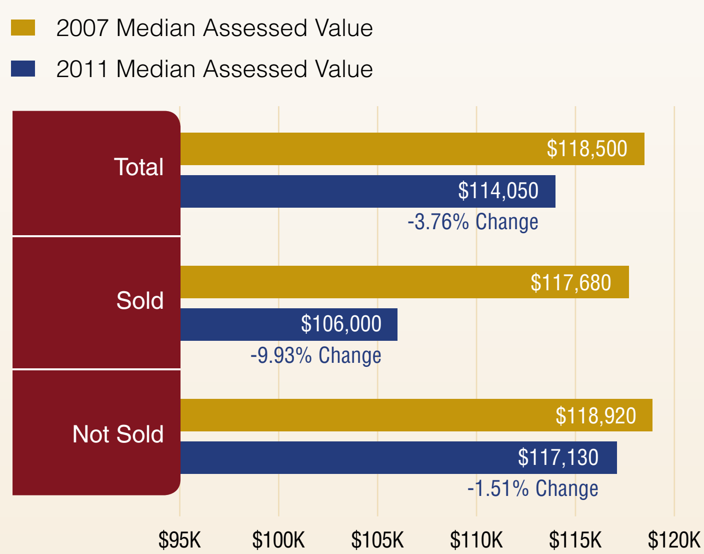
ORIGINALLY NOT OWNER-OCCUPIED



Source: Jefferson County PVA

We also examined the change in median assessed value in properties that were owner-occupied in 2011. In 2011, the median assessed value of the properties that are currently owner-occupied is $114,050. This represents 3.76% decrease from 2007, when the median assessed value was $118,500. However, if the property actually sold at a foreclosure sale, the loss to assessed value was greater. Of the currently owner-occupied properties, 373 were also sold at a commissioners sale. The median assessed value of these properties was nearly 10% higher in 2007 than in 2011 when the assessed value was $106,000. By comparison, the owner-occupied properties that did not get sold at a foreclosure sale saw only a 1.51% decrease in median assessed value over the five year period.

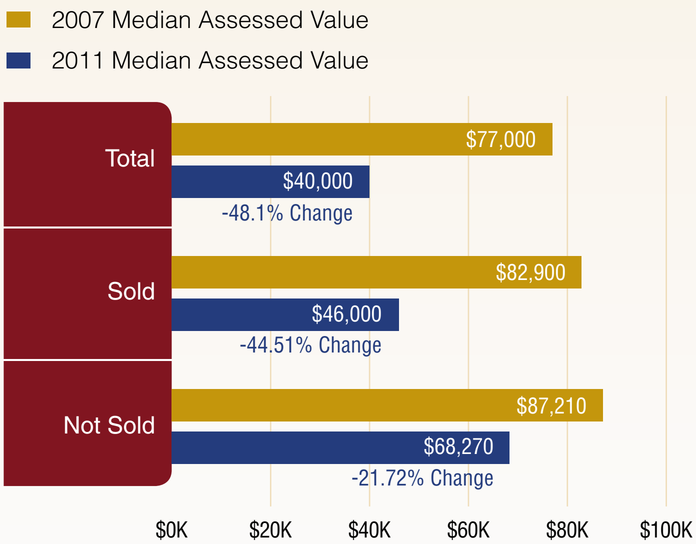
CURRENTLY OWNER-OCCUPIED



Source: Jefferson County PVA

Change in assessed value for investor-owned properties is far more dramatic. The median assessed value of the properties in 2011 was $40,000 – 48.1% lower than the 2007 median assessed value of $77,000. The properties that are currently investor-owned and did not get sold at foreclosure sale saw a 21.72% decline in assessed property value. However, the 370 investor-owner properties sold at foreclosure sale saw nearly a 45% drop in assessed value.

CURRENTLY NOT OWNER-OCCUPIED



Source: Jefferson County PVA

Of the 160 properties that entered foreclosure in in the three focus neighborhoods of California, Shively and Highview, 72 (45%) properties were eventually sold at foreclosure sale. Our analysis shows that the foreclosure sale of these 72 properties has significant impact on surrounding neighbors and on Metro Louisville as a whole.

These foreclosure sales resulted in significant changes in median assessed value in each neighborhood – although the housing market in each neighborhood is very different.

- In Highview, where the median assessed value of properties in foreclosure was $126,000 in 2007, assessed value declined by 5.25% by 2011. When the house was sold at foreclosure sale, that assessed value declined by 11.79%.
- In Shively, the 2007 median assessed value of all property in foreclosure was $103,000. In 2011, that value had dropped by 13.12% to $89,490. Properties sold at foreclosure sale lost 17.97% median assessed value in that time.
- In California, the median assessed value of properties in foreclosure was $56,760 in 2007. Assessed value there plummeted by 48.19% by 2011. When the properties were sold at a Foreclosure sale, the decline was even greater – a staggering 59.40%.

	Median Assessed Value 2007	Median Assessed Value 2011	Change in Value	Change in Value if House was Sold at Foreclosure Sale
CALIFORNIA	$56,760	$29,405	-48.19%	-59.40%
HIGHVIEW	$126,000	$119,385	-5.25%	-11.79%
SHIVELY	$103,000	$89,490	-13.12%	-17.97%

Source: Jefferson County PVA

The loss to property value that was not owner-occupied in 2007 is much more significant. Those properties saw a 47.24% decline in median assessed value overall.

Community Loss

Foreclosure sales cause tremendous economic distress not only to property owners, but to neighborhoods and to the region as a whole. While foreclosure filings indicate significant financial stress to homeowners, it is the actual sale that drives property value down community-wide. Forty-nine percent of the residential foreclosures filed in the first half of 2007 resulted in a foreclosure sale – resulting in tremendous loss community-wide. According to the Center for Responsible Lending[5], foreclosure sales depress the value of homes within a 1/8-mile (660 feet) radius of the foreclosed property. As a result, property owners in only the three focus neighborhoods (most of whom are paying their mortgages on time) have lost $4.5 million dollars in property value due to the spillover effects of foreclosures filed in just six months of 2007.

CALIFORNIA

	Number	Percent of Total Properties
Properties Sold at Foreclosure Sale	26	1.0%
Properties Within 1/8 Mile of Sales	2,094	77.5%
Total Properties	2,701	100.0%
Property Value Loss	$793,397.73	
Property Tax Loss	$10,243.56	

Source: Jefferson County PVA and Center for Responsible Lending[5]

The loss to neighborhood equity in the California neighborhood, where 77. 5% of all property is within 1/8 of a mile of a property foreclosure on in the first six months of 2007, is extreme.

832 properties sold at foreclosure sale resulted in costs of $15,998,528 to Louisville Metro Government.

SHIVELY

	Number	Percent of Total Properties
Properties Sold at Foreclosure Sale	27	0.4%
Properties Within 1/8 Mile of Sales	2,625	42.9%
Total Properties	6,117	100.0%
Property Value Loss	$2,071,877.62	
Property Tax Loss	$19,154.51	

Source: Jefferson County PVA and Center for Responsible Lending[5]

Residents of Shively have seen over $2 million in property value lost as a result of foreclosure sales that took place four years ago. This amount is certainly compounded when the full effect of four years of high foreclosure rates is considered.

HIGHVIEW

	Number	Percent of Total Properties
Properties Sold at Foreclosure Sale	19	0.3%
Properties Within 1/8 Mile of Sales	1,718	24.4%
Total Properties	7,042	100.0%
Property Value Loss	$1,691,599.17	
Property Tax Loss	$17,330.43	

Source: Jefferson County PVA and Center for Responsible Lending[5]

In Highview, in the first six months of 2007 alone, over $1.6 million in property value was lost as a result of neighborhood foreclosures.

The loss in assessed property value for individual properties and within neighborhoods yields tremendous revenue loss to Louisville Metro government. In only six months, in three neighborhoods, over $46,000 in property taxes that support Jefferson County Public Schools, Louisville Metro service, and state services was lost as a result of foreclosure and the subsequent spillover loss to neighboring properties. This loss of revenue is compounded by years of high foreclosure sales Metro-wide. Analysis by the Urban Institute estimates that a single foreclosure results in an average of $19,229 in direct costs to the local government[6]. From this perspective, the 832 properties sold at foreclosure sale resulted in costs of $15,998,528 to Louisville Metro Government.

Conclusions

The 2008 study, *Louisville's Foreclosure Crisis*, focused on trends in mortgage lending and interviewed people experiencing foreclosure. This current report focuses on the fate of the properties and on the longer term neighborhood and community effects. In it, we found that foreclosure filing accelerated change in property ownership, that this transfer of ownership increased investor-owned properties in Louisville's neighborhoods, and that foreclosure sales significantly decreased property value for both former and current property owners. We know that this loss in property value results in decreased property tax revenue in a time when demand for city, state and educational services are increasing. This report also found that foreclosure cases are still pending in Jefferson County Circuit court five years after filing, and that some of these have had no resolution at all.

In addition to these findings, we know that from July 1, 2007 through December 31, 2010 there were 14,535 additional foreclosure actions filed in Jefferson County, as well as additional filings in 2011. The February 2012 National Mortgage Settlement against large lenders for illegal practices (such as "robo-signing") will end the delays in foreclosure filings caused by those suits. A backlog of foreclosures is expected to increase filings in 2012, further compounding the negative impact of foreclosures. Due to this significant growth in foreclosure filings, the long-term impact on properties and neighborhoods highlighted in this report are multiplied almost ten-fold.

RECOMMENDATIONS

Given the profound impact that foreclosures have on our neighborhood values, it is economically imperative to have programs that sustain home ownership and prevent foreclosures. We know that properties in foreclosure lose value — as does the neighborhood — and we know that the number of foreclosures is still rising. We have the opportunity to create programs to stem the loss of value in Louisville.

- *MHC recommends that the Kentucky Attorney General use the $20,000,000 from the national foreclosure fraud settlement currently designated for "consumer protection programs" to help prevent unnecessary foreclosures across the state. He should distribute these funds to housing counselors and legal aid programs. Additionally, he should use this money to support the implementation of foreclosure mediation programs.*
- *MHC recommends that circuit courts across Kentucky implement better data tracking mechanisms for foreclosures. Currently, half of all the foreclosures in Jefferson County are dismissed. Without this data, it is extremely difficult to know what outcomes homeowners are achieving and what additional costs are being imposed on the community through the foreclosure process.*

- *MHC recommends expanded programs to help those with mortgages they cannot afford including: refinancing opportunities; loans/grants to assist borrowers in negotiating with lenders; loan servicing assistance; principal reduction for "underwater" homeowners, particularly those with mortgages backed by FANNIE MAE and FREDDIE MAC; and loss mitigation counseling to help homeowners negotiate with mortgage lenders.*
- *MHC recommends the Louisville Metro continue to work in neighborhoods to address the increasing number of properties that are not being maintained. We must create more efficient avenues that allow neighbors and neighborhood organizations to respond to issues arising from problem properties-particularly those subject foreclosure that become owned by lenders.*
- *MHC recommends that mortgage holders be required to notify local government when foreclosures are filed and provide the name of a single, consistent contact person to assist with any property maintenance issues.*
- *MHC recommends that the Federal Government ensure safe and fair access to mortgage loans that allow low-wage families access to homeownership. This includes funding credit counseling programs, money management courses, and pre- and post-purchase homebuyer education address credit rating issues. We must also ensure that mortgage lending requiring increased down payments are not overly restrictive. Low-wage homebuyers should have increased opportunities to receive down payment assistance.*
- *MHC recommends modernizing the state and local laws governing property tax collection and Land Banks to make it easier to return properties that have been left abandoned through foreclosure to productive use.*
- *MHC recommends that federal, state, and local governments develop programs that encourage investment property owners to maintain safe and decent rental properties.*

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END NOTES

1. as reported **ordered not filed** by 2011 Metropolitan Housing Coalition *2011 State of Metropolitan Housing Report*).
2. Testimony of Laurie S. Goodman, Amherst Securities Group to the Subcommittee on Housing, Transportation and Community Development of the U.S. Senate Committee on Banking, Housing and Urban Affairs, September 20, 2011.
3. A short sale occurs when a mortgage lender allows a home-owner to sell a home for less than the total amount owed to pay off the mortgage. A deficiency is the difference between the amount owed and the amount received through the short sale.
4. American Community Survey 2010
5. *Soaring Spillover: Accelerating Foreclosures to Cost Neighbors $502 Billion in 2009 Alone; 69.5 Million Homes Lose $7,200 on Average*. Center for Responsible Lending. (May 2009). CFRL analysis also utilizes research by Harding, Rosenblatt, and Yao that shows an average 0.744 percent decline in home values for properties within 1/8 mile of a foreclosure. Harding, John P., Rosenblatt, Eric and Yao, Vincent W. *The Contagion Effect of Foreclosed Properties.* (July 15, 2008)
6. G. Thomas Kingsley, Robin Smith, & David Price, *The Impact of Foreclosures on Families and Communities*, The Urban Institute (May 2009), at 21, Fig. 3

Analysis for this report relied on the following data sources: Louisville/Jefferson County Information Consortium (LOJIC), Jefferson County Property Valuation Administrator (PVA), Jefferson County Circuit Court Office, Louisville Metro Department of Inspections, Permits and Licenses, and the Jefferson County Clerk's Office

ACKNOWLEDGMENTS

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