

National Foreclosure Settlement Update: States Should Not Divert Funds from Cost-Effective Prevention Programs

The “robo-signing” settlement agreement can help resolve our nation’s foreclosure crisis – but only if the money negotiated for foreclosure prevention is actually spent on lawyers and housing counselors who help families stay in their homes. We strongly urge states not to take the short-sighted step of diverting settlement funds for other purposes.

The approximately \$2.5 billion flowing directly to states for foreclosure prevention funding is critical to the success of the settlement agreement.

- On March 12, 2012, the Obama Administration and 49 state attorneys general filed a complaint and settlement agreement in federal court detailing allegations of “robo-signing” and other rampant misconduct by the nation’s biggest banks in their handling of thousands of foreclosure cases.
- As part of the \$25 billion settlement, these banks have promised approximately \$2.5 billion to the states, for lawyers and housing counselors to help prevent homeowners from unnecessary foreclosures.
- This investment will not just benefit struggling homeowners – it will also pay off in huge dividends for states that are impacted by the foreclosure crisis and economic downturn.

Investing in foreclosure prevention is cost-effective for state governments.

- Foreclosure prevention protects property values in neighborhoods.
 - A study of 140 zip codes in 13 states found that foreclosure can cause property values within 300 feet to drop by 1.3 percent. This means that a foreclosed home is not only losing its own value – it’s also dragging down neighborhood values by thousands of dollars.¹
 - A New York City study found an even greater impact: homes within 500 feet of three foreclosure filings lose 3 percent of their value.²
- Foreclosure prevention saves government money and protects public revenue.
 - Lost property value leads directly to lost tax revenues and other public costs.
 - A case study in Chicago estimates that a single foreclosed property costs local government \$20,000 in lost property taxes, unpaid utility bills, property upkeep and other maintenance.³
- Foreclosure prevention reduces crime and policing costs.
 - Crime rates increase in neighborhood blocks with vacant, bank-owned properties. Just one vacant foreclosed home on a block can lead to a startling 5.7 percent increase in violent crime.⁴
- Foreclosure prevention protects against costly disruptions in education.
 - Foreclosures dislocate families and disrupt children’s educations. In many cases, these moves force children to enroll in lower performing schools.⁵

Investing in foreclosure prevention is a cost-effective way to avoid all of these unnecessary costs.

- The total costs to lenders, homeowners, neighbors and government can add up to nearly \$80,000 per foreclosed home, according to a 2007 study by the U.S. Senate Joint Economic Committee.⁶
- The cost of foreclosure prevention is far less. In New York, a statewide network of legal services and housing counseling providers has saved over 14,000 homes from foreclosure, avoiding an estimated \$3.4 billion in property value and tax base losses to the state.⁷ *This results in an estimated \$68 return for every dollar spent on housing counseling and legal services.*⁸

Funding for housing counselors and legal assistance is critical to prevent mortgage abuses from happening again.

- Lawyers protect the integrity of the legal process – catching forged documents, and making sure that banks have the legal right to bring a foreclosure action. Without lawyers working alongside homeowners, we never would have uncovered “robo-signing” or other misconduct.
- Too many homeowners have to navigate this process alone.
 - In New Jersey, 93 percent of defendants in foreclosure had no legal representation.⁹
 - In Franklin County, Ohio, 87 percent of cases scheduled for foreclosure mediation did not have attorneys on record representing the borrower.¹⁰
- Lawyers and counselors are needed to help negotiate loan modifications with mortgage servicers, whose mismanagement of the process is well documented.
 - In a recent survey of 260 consumer attorneys, over 80 percent reported representing homeowners who had been wrongfully charged fees.¹¹
 - Over ninety percent represented homeowners who had been placed in foreclosure while in the process of negotiating a loan modification.¹²

Foreclosure prevention for our hardest-hit families and neighborhoods will lift state budgets and our national economy. This long-term investment in our future makes more sense than diverting funds.

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¹ John. P. Harding et. al, *The Contagion Effect of Foreclosed Properties* (Leaving the Board Social Science Research Network Working Paper 1160354, 2008).

² Jenny Schetz, Vicki Been and Ingrid Gould Ellen, *Neighborhood effects on concentrated mortgage foreclosure*, 17 J. OF HOUSING ECON. 306, 314 (2008).

³ WILLIAM C. APGAR AND MARK DUDA, NAT’L. MULTI-HOUSING COUNCIL, COLLATERAL DAMAGE: THE MUNICIPAL IMPACT OF TODAY’S MORTGAGE FORECLOSURE BOOM (2005).

⁴ INGRID GOULD ELLEN, JOHANNA LACOE & CLAUDIA AYANNA SHARYGIN, FURMAN CENTER FOR REAL ESTATE & URBAN POLICY, DO FORECLOSURES CAUSE CRIME?, (2011), *available at* http://furmancenter.org/files/publications/Ellen_Lacoe_Sharygin_ForeclosuresCrime_June27_1.pdf.

⁵ KATHRYN L.S. PETTIT AND JENNIFER COMEY, URBAN INSTITUTE, THE FORECLOSURE CRISIS AND CHILDREN: A THREE CITY STUDY 35 (2009), *available at* <http://www.urban.org/UploadedPDF/412517-The-Foreclosure-Crisis-and-Children-A-Three-City-Study.pdf>.

⁶ S. REP. NO. 110-251, at 41 (2007).

⁷ *Empire Justice Testimony on Foreclosure Funding and Process: Hearing on Mortgage Foreclosures in New York Before the State Assembly Standing Comm. on Housing, Assembly Standing Comm. on Judiciary, Assembly Standing Comm. on Banks*, 2011 Leg. 235th Sess. (Nov. 7, 2011) (statement of Rebecca Case- Grammatico).

⁸ *Id.*

⁹ NABANITA PAL, BRENNAN CENTER FOR JUSTICE, FACING FORECLOSURE ALONE: THE CONTINUING CRISIS IN LEGAL REPRESENTATION 4 (2011).

¹⁰ *Id.*

¹¹ NAT’L. ASSOC. OF CONSUMER ADVOCATES ET. AL., SERVICERS CONTINUE TO WRONGFULLY INITIATE FORECLOSURES: ALL TYPE OF LOANS AFFECTED (2012), *available at* http://www.nclc.org/images/pdf/foreclosure_mortgage/mortgage_servicing/wrongful-foreclosure-survey-results.pdf.

¹² *Id.*