



Dreams Deferred:

Impacts and Characteristics of the
California Foreclosure Crisis

Debbie Gruenstein Bocian, Peter Smith,
Ginna Green and Paul Leonard

August 2010

Roots of the Foreclosure Crisis



- High-cost loans with risky features that were highly profitable for Wall Street
- Lax or non-existent underwriting
- Steering borrowers of color into dangerous subprime loans, even when they qualified for better products

Impacts of the Foreclosure Crisis



- Wealth loss
- Family displacement
- Diminished tax receipts
- Neighborhood destabilization
- Decreased property values



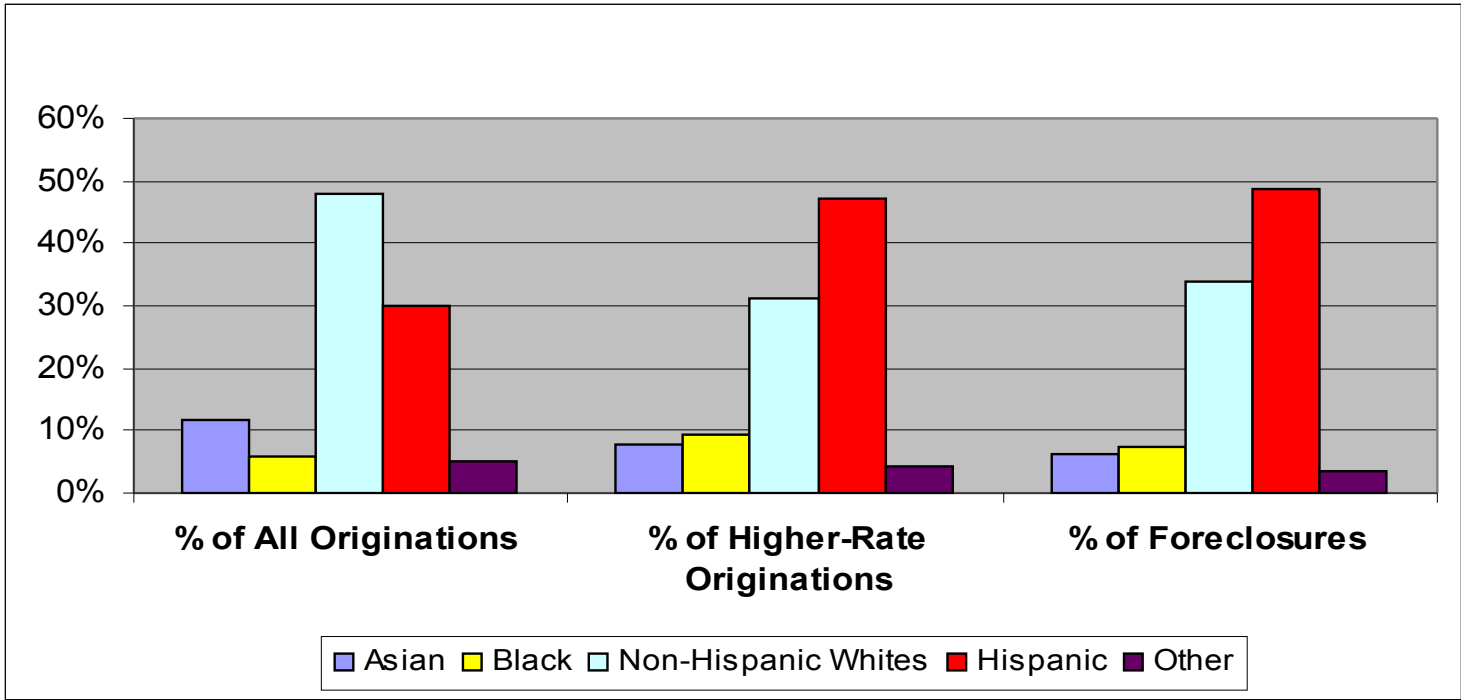
- Studied more than 600,000 California foreclosures
- Matched foreclosure data with information on loan characteristics and demographics
- Revealed geographic and demographic dimensions of foreclosures, as well as characteristics of foreclosed properties

Dreams Deferred: Key Finding 1.

Latino and African-American borrowers in California have experienced foreclosure rates **2.3 and 1.9** times that of non-Hispanic white borrowers.

Given the high foreclosure rates for loans made in recent years and the large number of loans to Latinos in those years, **almost half of all California foreclosures have been of Latino borrowers.**

Dreams Deferred: Key Finding 1.



Latino and African-American shares of foreclosures generally match their shares of high-cost loans.

Dreams Deferred: Key Finding 2.

The concentration and volume of foreclosures in California differ dramatically by region.

The **Central Valley and Inland Empire** regions have the highest proportions of foreclosures, while the volume of foreclosures has been highest in major cities, like **Los Angeles**.

Dreams Deferred: Key Finding 2.

Total Foreclosures by Metropolitan Statistical Area (MSA)

MSA	Total FCs
Los Angeles-Long Beach-Santa Ana, CA	206,048
Riverside-San Bernardino-Ontario, CA	184,475
San Francisco-Oakland-Fremont, CA	69,851
Sacramento--Arden-Arcade--Roseville, CA	69,146
San Diego-Carlsbad-San Marcos, CA	63,488
Stockton, CA	29,832
Bakersfield, CA	26,494
San Jose-Sunnyvale-Santa Clara, CA	25,681
Modesto, CA	24,294
Fresno, CA	19,428

Dreams Deferred: Key Finding 2.

Foreclosure Density (% of Homes in Foreclosure) by MSA

MSA	FC Density*
Modesto, CA	16.1%
Merced, CA	16.0%
Stockton, CA	15.8%
Riverside-San Bernardino-Ontario, CA	15.6%
Bakersfield, CA	11.4%
Yuba City, CA	11.1%
Madera-Chowchilla, CA	11.0%
Vallejo-Fairfield, CA	10.7%
Sacramento--Arden-Arcade--Roseville, CA	9.7%
El Centro, CA	9.3%

Dreams Deferred: Key Finding 3.

Contrary to some claims, most foreclosures have not been on sprawling “McMansions” but rather on modest properties that were typically valued significantly below area median values at origination.

Dreams Deferred: Key Finding 3.

<i>All Origination Cohorts</i>		<i>Share of Foreclosed Properties</i>
No. of Bedrooms	0-1	8.9%
	2-3	58.6%
	4+	32.5%
Square Feet	Median = 1,494 Average = 1,704	
2004-2008 Originations Only		
Est. Home Value at Origination	\$396,483	
Percent of Homes with Est. Home Values Below Median at Origination	76.4%	

Key Policy Recommendations



- A. Require servicers to complete the review of any loan modification application before beginning the foreclosure process or referring the loan file to a foreclosure attorney. *SB 1275, now being considered in the California Legislature, would accomplish this.*

- B. Incorporate principal reduction into loan modification programs, especially where housing prices have contributed to lack of affordability.

- C. Lift the ban on the modification of principal residence mortgages by bankruptcy judges.

Fair and Responsible Credit in the Future



- A. Create a strong Consumer Financial Protection Bureau and the regulatory rules to ensure that the tough legislative standards of the Dodd-Frank legislation are given their full effect.
- B. Focus on the need for access to credit for communities of color and lower-income communities.
- C. Require that documents and disclosures related to mortgages or other loan products, as well as appropriate advice and counseling on these products, be available in non-English languages.

Dreams Deferred:

Impacts and Characteristics of the California Foreclosure Crisis

August 2010

Visit our [web site](#) for the full report, executive summary (also in Spanish) and press release.

For more information, contact Ginna Green at 510.379.5513 or ginna.green@responsiblelending.org.