



Dreams Deferred: Impacts and Characteristics of the California Foreclosure Crisis

California and the United States are in the midst of the worst foreclosure crisis since the Great Depression. Across the country, foreclosures have hit an all-time high, with nearly one in ten homes with a mortgage currently in some stage of foreclosure. In California, nearly one in eight—or approximately 702,000 homes—is currently in foreclosure, the economy is in ruins and unemployment remains at 12 percent. This report paints a picture of the foreclosure crisis in California, examines the who, the where and the why of foreclosures in the Golden State and discusses what we should do to prevent as many avoidable foreclosures as possible.

Key Findings

- Latino and African-American homeowners in California have experienced foreclosure rates 2.3 and 1.9 times that of non-Hispanic white borrowers. Latino borrowers alone make up 48 percent of all foreclosures.
- The concentration and volume of California foreclosures differ dramatically by region. The Central Valley has had the highest concentrations of foreclosures while the volume of foreclosures is highest in major cities.
- Contrary to the popular narrative, most foreclosures were not on sprawling “McMansions” but rather on modest properties that were typically valued significantly below area median values at origination.

Negative Impacts of Foreclosures

The damages to families resulting from foreclosures are twofold: displacement and loss of intergenerational wealth. First, the disruption and upheaval associated with being evicted from one’s home, and the effects this displacement can have on a family’s education, health and employment, are major impacts. Second, the loss of homeownership and its accompanying tax benefits and wealth is significant. Homeownership is also the primary means by which wealth is transferred to future generations.

Affected Communities

It is therefore critical to understand not just the number of foreclosures that have and will occur, but the distribution of foreclosures among various communities and populations. In this report, we shed light on which demographic groups have been hit hardest by the foreclosure crisis in California, describe the geographic distribution of foreclosures, and provide details on the profile of homes being foreclosed.

Key Policy Recommendations

- Require servicers to complete the review of any loan modification application before beginning the foreclosure process.
- Incorporate principal reduction into loan modification programs, especially where housing prices have contributed to lack of affordability.
- Lift the ban on judicial modification of principal residence mortgages by bankruptcy judges.
- Expand funding and capacity of housing counseling agencies and legal aid providers.