



Subprime Spillover: Foreclosures Cost North Carolina Neighbors \$861 Million

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In this report, we estimate how many homes—including families who are paying their mortgage on time—will suffer a decline in property values because of foreclosures in their neighborhoods. We also estimate how much the average family will lose in home equity, and how much of an impact the foreclosure crisis will have on city and county coffers.

Background When a home goes into foreclosure, the negative effects experienced by the family who is losing their home "spill over" to surrounding neighbors and the wider community. Specifically, published research indicates that a foreclosure on one home lowers the price of other single-family homes nearby. The downward pressure on housing prices extends to houses that sell as far as two years after the neighbor's foreclosure. The negative impact is cumulative; that is, each additional foreclosure on a neighborhood block lowers property values an additional amount. The impact is even higher in lower-income neighborhoods.

For this analysis, CRL used the most conservative estimate of home devaluation per foreclosure. In addition, our findings understate the total foreclosure spillover impact because we only include counties located in Metropolitan Statistical Areas (MSAs). Approximately 70 percent of North Carolina's population lives in an MSA.

It is beyond the scope of this research to analyze the spillover impact of subprime foreclosures on African-American and Latino homeowners in particular, but we note that communities of color are especially harmed, since these communities disproportionately receive subprime home loans regardless of income and other credit factors.

Key North Carolina Findings

We project that foreclosures on subprime home loans originated in 2005 and 2006 will have the following impact on North Carolina's neighborhoods and communities:

- **332,375 neighboring homes will experience devaluation because of subprime foreclosures that take place nearby.**
- **The total decline in home values and the local tax base that results from nearby foreclosures will be \$851 million.**
- **Homeowners living near foreclosed properties will see their property values decrease \$2,561 on average.**

The chart below shows CRL estimates of the spillover impact for all North Carolina counties located in Metropolitan Statistical Areas.

**Foreclosure “Spillover” Impact on Neighboring Homes and Local Tax Bases by
County within North Carolina MSAs
(Home Loans Originated in 2005 & 2006)**

	Projected # Total Homes Lost to Foreclosure	Number of Neighboring Homes Experiencing Devaluation	Decrease in House Value/Tax Base from Foreclosure Effect (\$)	Average Decrease per Housing Unit Affected (\$)
NORTH CAROLINA	53,254	332,375	\$ 851,125,236	\$ 2,561
Alamance	1,116	5,690	\$ 10,710,151	\$ 1,882
Alexander	220	270	\$ 554,928	\$ 2,053
Anson	205	122	\$ 188,907	\$ 1,544
Brunswick	791	1,437	\$ 5,590,514	\$ 3,891
Buncombe	1,612	8,184	\$ 23,543,327	\$ 2,877
Burke	590	1,469	\$ 2,664,435	\$ 1,813
Cabarrus	1,833	9,121	\$ 20,177,336	\$ 2,212
Caldwell	687	2,125	\$ 3,527,686	\$ 1,660
Catawba	1,235	4,815	\$ 10,286,972	\$ 2,137
Chatham	302	274	\$ 662,019	\$ 2,413
Cumberland	2,154	21,061	\$ 40,004,642	\$ 1,899
Currituck	265	121	\$ 520,643	\$ 4,296
Davie	269	264	\$ 700,060	\$ 2,655
Durham	2,049	17,304	\$ 39,793,073	\$ 2,299
Edgecombe	392	1,627	\$ 2,211,071	\$ 1,359
Forsyth	2,852	19,096	\$ 39,216,855	\$ 2,054
Franklin	463	305	\$ 676,217	\$ 2,213
Gaston	2,191	11,477	\$ 21,936,382	\$ 1,911
Greene	78	37	\$ 55,483	\$ 1,485
Guilford	4,341	40,546	\$ 81,929,190	\$ 2,021
Haywood	500	925	\$ 2,501,091	\$ 2,704
Henderson	735	2,548	\$ 8,530,708	\$ 3,347
Hoke	258	324	\$ 515,830	\$ 1,592
Johnston	1,504	1,973	\$ 4,759,385	\$ 2,413
Madison	108	43	\$ 113,504	\$ 2,664
Mecklenburg	10,014	95,977	\$ 276,758,114	\$ 2,884
Nash	653	2,416	\$ 4,355,959	\$ 1,803
New Hanover	1,818	15,528	\$ 56,833,049	\$ 3,660
Onslow	758	3,317	\$ 7,199,363	\$ 2,172
Orange	396	1,990	\$ 7,112,909	\$ 3,574
Pender	328	155	\$ 604,738	\$ 3,894
Person	239	263	\$ 481,840	\$ 1,831
Pitt	914	4,451	\$ 9,907,234	\$ 2,226
Randolph	959	2,371	\$ 4,264,453	\$ 1,798
Rockingham	788	1,785	\$ 2,608,584	\$ 1,462
Stokes	299	327	\$ 640,319	\$ 1,955
Union	2,198	4,468	\$ 12,362,233	\$ 2,767
Wake	6,364	45,729	\$ 142,464,012	\$ 3,115
Wayne	579	2,291	\$ 3,892,367	\$ 1,700
Yadkin	209	149	\$ 269,655	\$ 1,806