

The Neighborhood Foreclosure Problem amidst Rapid Housing Development in San Antonio, TX

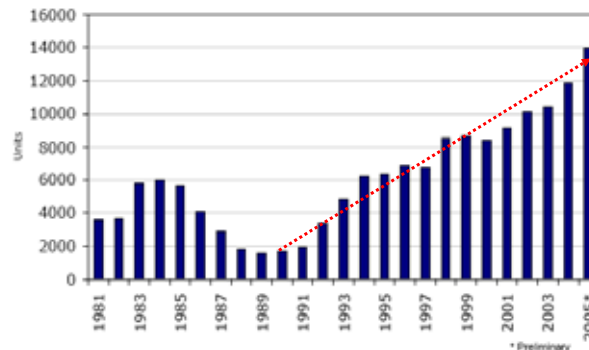
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Rapid Housing Development in San Antonio

Single family building permits increased to 14,000 in 2005 from fewer than 2,000 in 1990, averaging an annual increase was 40 percent.

San Antonio MSA Single-Family Building Permits



Source: U.S. Census Bureau and Real Estate Center at Texas A&M University (1999 definition)

High Cost in this Development



San Antonio Metropolitan Statistical Area (MSA) ranked 8th highest in foreclosure among the top 100 MSAs in the first quarter of 2006

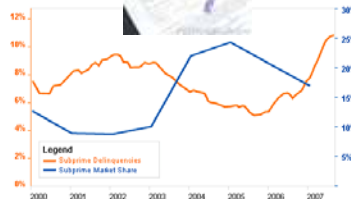


National average = 1 foreclosure / 358 homes
San Antonio MSA = 1 foreclosure / 133 homes

-- RealtyTrac San Antonio Business Journal 2006

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Sub-prime Lending in San Antonio



Sub-prime lending has made substantial penetration in San Antonio MSA in recent years, especially among minority groups.

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Refinance Loans Analysis



In a sample of 331 MSAs, SA ranked 8th highest in Subprime refinance loans (Bradford 2002).

National Urban Total = 25.3%
San Antonio = 41.9%

- The area ranked 6th highest in subprime refinance loans to African Americans (64.08%) and
- 2nd highest in subprime refinance loans to Hispanic borrowers (51.46%).

Black-to-White disparity = 2.16
Hispanic-to-White disparity = 1.75

Bradford (2002)

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ANALYSIS OF 2005 HMDA for SAN ANTONIO



- **In neighborhoods where minority rates are highest, high-cost loans accounted for**
 - 64.2 percent of the refinance loans and
 - 56.7 percent of the home purchase loans
- **In neighborhoods where white population dominates, high-cost loans accounted for**
 - 23.2 percent of the refinance loans and
 - 13.8 percent of the home purchase loans

-- ACORN (2006)

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Neighborhood Foreclosures in Bexar County



DATA

- Foreclosure auctions filed in court (Sept. 2003 – Sept. 2005, N = 11,426)
- 87 percent of these mortgages were originated in the end of last century and after 2000
- U.S. Census (2000) information for 278 census tracts in Bexar County

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FINDINGS

Multiple Regression Analysis



- Neighborhood median income had little impact on foreclosure level
- Neighborhoods with more recent housing development (low median house age) had higher foreclosure rates
- Blacks and Hispanic population rates were significantly associated with higher foreclosure rates respectively.

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A CASE STUDY OF NEIGHBORHOOD FORECLOSURES

- A New Single-Family Subdivision



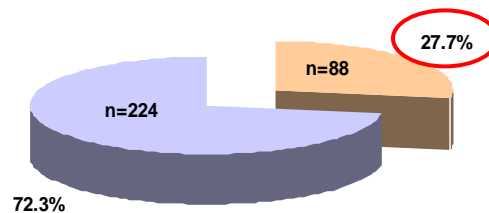
The subdivision is Located in a census tract of moderate median income with an above-average rate of minority residents, black residents, homeownership, newer homes, foreclosures.

Characteristic	276 Census Tracts (Mean)	Census Tract of Interest
Median income (\$), N = 275	44,570	32,025
Below poverty (%), N = 275	16.9	17.43
Minority population (%)	64.8	79.37
Black population (%)	7.1	25.20
Hispanic population (%)	54.7	49.90
Homeownership (%)	57.3	67.00
Median house age (years)	29.1	15.00
Foreclosure rate (%), N = 275	4.1	15.50

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Extent of Cumulated Foreclosures

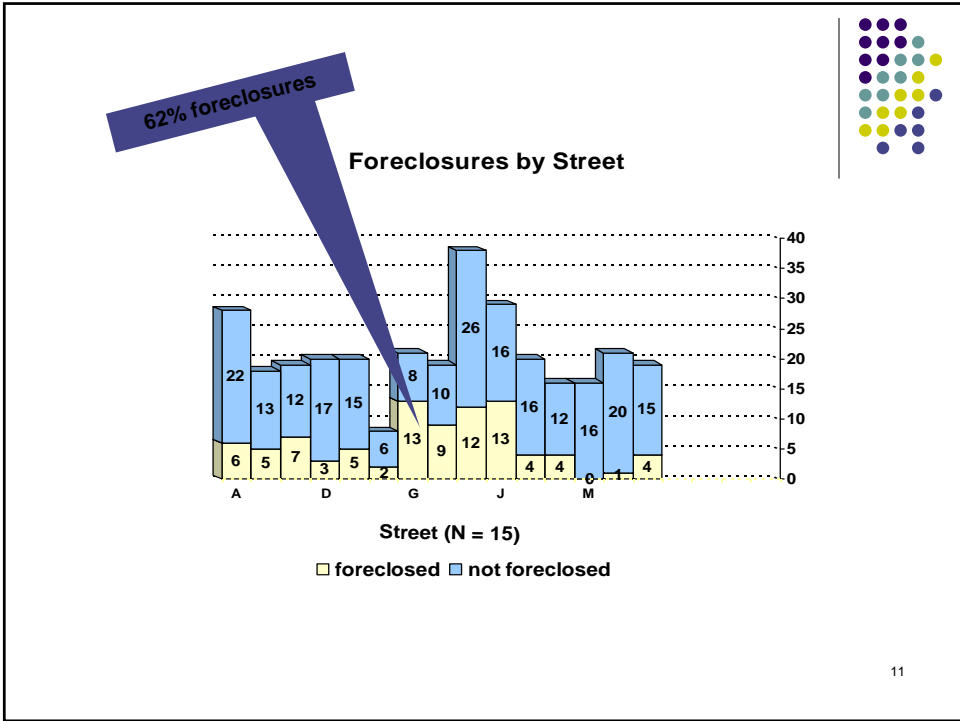
The construction of the subdivision started in 1999 and was completed in 2003. All home were sold by 2004. The 88 foreclosures were recorded between May 2001 and March 2005.



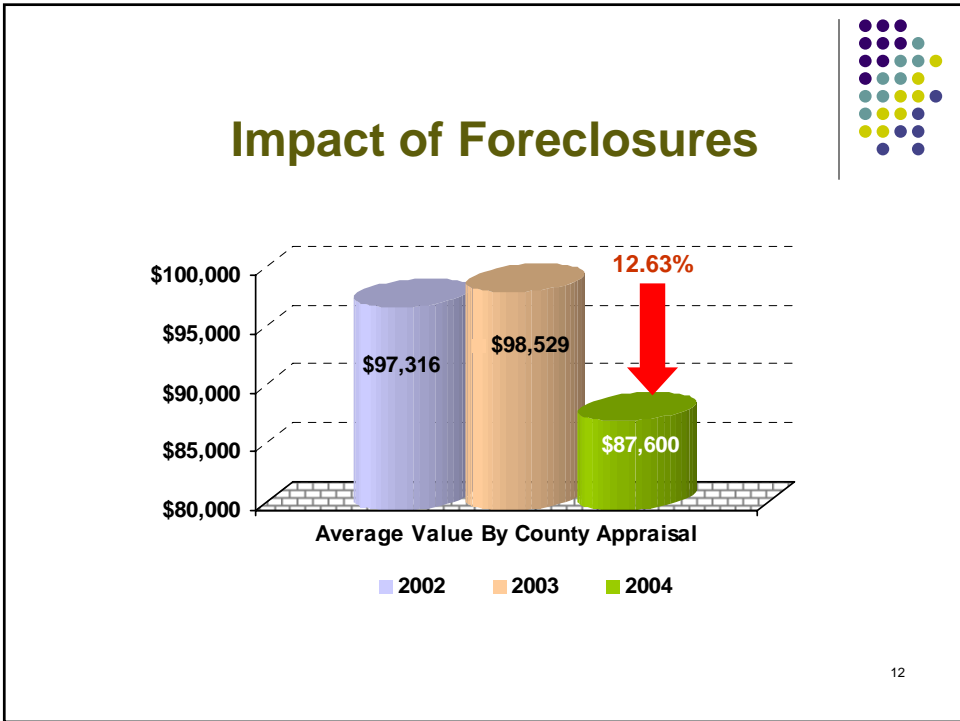
Total home basis = 313

■ Foreclosed or Toward Foreclosure By March 2005
■ Not Foreclosed By March 2005

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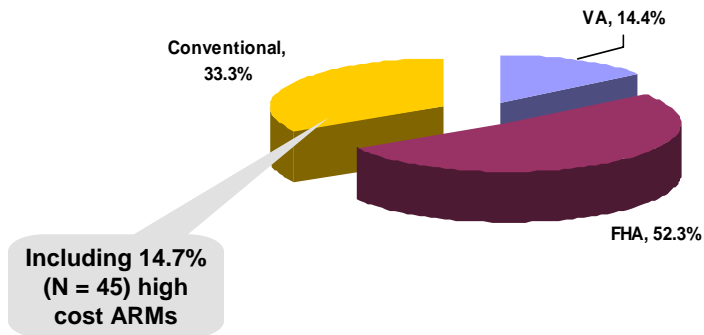
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Distribution of Loan Programs

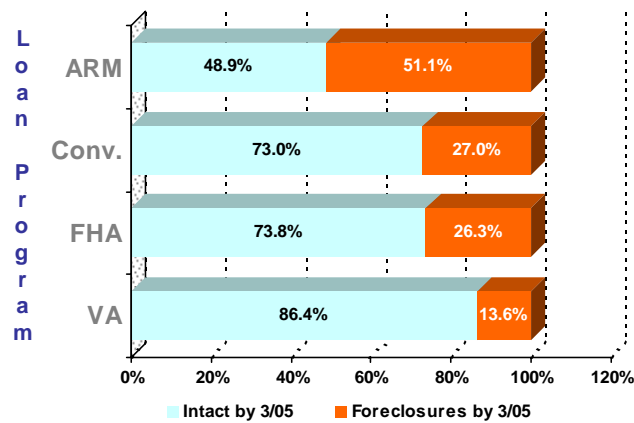
loan originations = 306



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Foreclosure Distribution by Loan Program

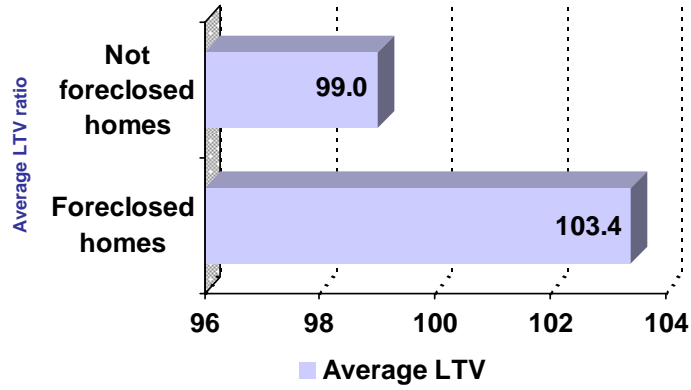
(n = 306)



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Average LTV

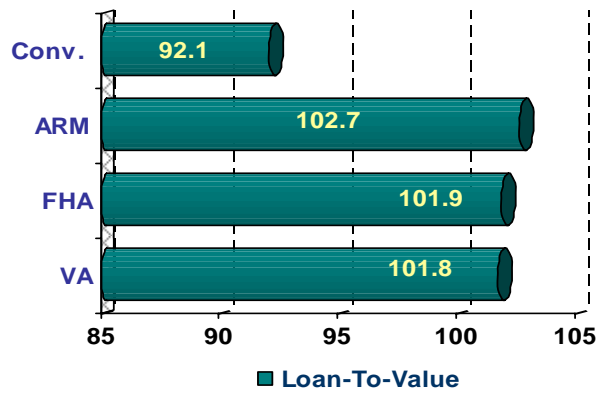
County appraisals in 2003 were used to compute the LTV ratios



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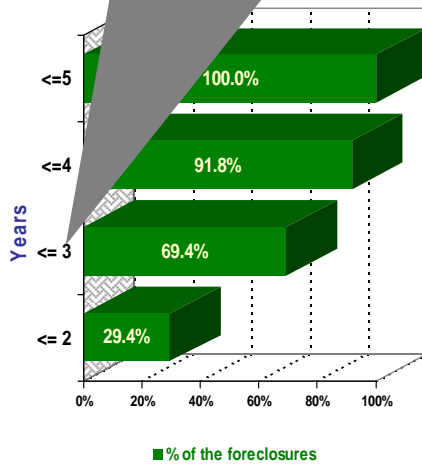
Average LTV by Loan Type

(Property value = 2003 Tax Value)



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More than two-thirds of the 86 foreclosures took place within three years. About one-third took place in two or less than two years



HUD:

Foreclosures filed within two years of the loan origination are strong indicators of fraudulent and abusive lending practices.

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Beyond Statistics



- ARMs, regardless its extremely high foreclosure rate (51%), accounted for only 26% of all foreclosures in the community.
- FHA and non-ARM conventional loans had similar foreclosure rates (26.3% vs. 27%) despite the substantial difference in their average LTVs (101.8 vs. 92.1)
- Lending dynamics: Stories from borrowers

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Summary of the Interview Information



Characteristics	HOUSEHOLD					
	1	2	3	4	5	6
Race/Ethnicity	Black	Black	White	W & Hispanic	Black	Black
Homeownership	1 st time	2 nd time	2 nd time	2 nd time	1 st time	1 st time
Occupation	bakery	Veteran	Church	military	truck driver	chef
Credit History*	blemished	blemished	excellent	excellent	excellent	no history
Closing date	Apr-2000	Mar-2001	Feb-2001	Feb-2001	July 2000	Aug-2000
Lender/lien holder	Enterprise	Sterling & Enterprise	SouthTrust	Broker (Superior)	CTX Mortgage	World Savings Bank
Living area (sq. ft.)	1543	1445	1275	1824	1152	1189
Garage	yes	no	yes	yes	no	no
Purchase price	\$102,990	\$ 101,100	\$ 94,500	\$ 124,137	\$ 89,722	\$ 84,446
2004 appraisal value (depreciation)	\$ 79,600 (-22.7%)	\$ 86,200 (-14.7%)	\$ 81,000 (-14.3%)	\$ 107,800 (-13.2%)	\$ 70,100 (-18.1%)	\$ 70,600 (-16.4%)
Cash paid at closing	\$ 5,210	\$ 1,000**	\$ 2,606	\$ 1	\$ 2,690	\$ 9,432

* Self identified.

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Summary of the Interview Information, Cont.



CHARACTERISTICS	HOUSEHOLD					
	1	2	3	4	5	6
Race/Ethnicity	Black	Black	White	W & Hispanic	Black	Black
Cash paid at closing	\$ 5,210	\$ 1,000**	\$ 2,606	\$ 1	\$ 2,690	\$ 9,432
Loan Size	\$ 98,167.81	\$10,2210	\$93,989	\$125,400	\$88,988	\$76,001
LTV	95.3	92.1	99.5	101	99.2	90
Loan type	ARM	ARM	FHA	VA	FHA	ARM
Interest rate	9.5-11.5	10.25-16.25	6.6	7.15	5.75 Mortgage insurance \$36/mo	Primary loan-9.026; 2nd loan- 12.429
Tax assessment at closing	Under-estimated (\$357.25 vs. \$2,530)		Based on land value (\$322 vs. \$2,570)		Under-estimated \$29.77/mo	Under-estimated (\$248 for 9 months)
Loan status at the time of the interview	Foreclosed in March 2003. Living in a rental home	Could not refinance because of prepayment penalty	Refinanced to an ARM at 3.75-5	Refinanced at a lower rate for 15 years.	The same loan.	Intended to refinance. Response was hesitation due to depreciation of the community.

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The Experience of Case 1



- **Profile:** A minority couple, 1st time homebuyers, low education, inexperienced with mortgage lending.
- **Mortgage experience:**
 - High cost ARM (9.5-11.5)
 - Property taxes were underestimated by 85% and was deliberately left out from the escrow even after the borrower asked to include it
 - The tax confusion cost them homeownership in just two years
 - Their last effort to save their ownership was destroyed by getting into an Ad Valorem Property Tax loan.
- **After foreclosure:** The couple is now renting; the rent (\$1,200/mo.) is more than what they would have to pay for their home, including taxes (\$866 + \$197).

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The Husband:



“Whether you got bad credit or not, they have a way to get you in there. All they want to do is sell it.”



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INDICATION

This deceptive practice
may well be a key factor
which led to many
foreclosures in this
subdivision

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REFLECTIVE THOUGHT

Community Disinvestment for Minority Groups

- In light of its destabilizing effects, the high concentration of foreclosures in minority neighborhoods is more than a matter of equal consumer protection,
- It is a problem of community disinvestment for minority groups.

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REFLECTIVE THOUGHT



No qualified guardians looking for the interest of the borrowers in the entire loan transactions.

- All interviewed families used an in-house mortgage broker of the builder (recommended by the sales person).
- The title company, as the last line in the loan transactions, did not represent the borrowers.
- It did not alert any of these families at the closing to the deceptively low tax assessment which could devastate the borrowers later.
- The buyer-beware approach alone will have limited effects on curbing market steering and predatory lending because
- traditionally underserved groups have so little understanding of the market structure and complex mortgage products and papers.

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Acknowledgement



- ❖ The San Antonio Fannie Mae Partnership Office and San Antonio Mortgage Brokers Association for their timely funding support for this study.
- ❖ Miranda Vela, a former undergraduate student, who brought my attention to the problem and opened the investigation under my supervision.

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