National Institute of Justice

Mortgage Fraud, Foreclosures and Neighborhood Decline Meeting

March 31-April 1, 2009
Charlotte, N.C.

The opinions and conclusions expressed in this document are solely those of the authors and do not necessarily reflect the views of the U.S. Department of Justice.

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Mortgage Fraud, Foreclosures and Neighborhood Decline Meeting

Increasing foreclosure rates can lead to immediate and visible increases in crimes such as theft, vandalism, squatting and arson. Over time these crimes damage the social fabric of a neighborhood or a metropolitan area for decades to come.

NIJ hosted a meeting on Foreclosures and Crime to examine three main themes that relate to crime and foreclosures:

1. Mortgage fraud.
2. Intimate partner violence.
3. The onset of crime in neighborhoods with high rates of foreclosures.

The meeting was held March 31 to April 1, 2009, in Charlotte, N.C.

You may:

- Read a summary of the meeting (pdf, 9 pages).
- Read the complete meeting minutes (pdf, 65 pages).
- Review the commissioned papers, presentations, presenter information and abstracts, which are divided into these categories:
  1. Backdrop — Buildup to Mass Foreclosure
  2. National and Local Level Data.
  3. Mortgage Fraud.
  6. Case Study Examples.
  7. Federal, State and Local Law Enforcement Responses.

Backdrop — Buildup to Mass Foreclosure

Presentation: Buildup to Mass Foreclosure
- Louis Tuthill, National Institute of Justice, Presentation | Bio

National and Local Level Data

Presentation: Data Sources for Estimating Foreclosure and Abandonment Risk
- Robert N. Renner, Housing and Urban Development, Presentation | Bio

Assessing Recent Patterns of Foreclosure and Crime in America
- Eric P. Baumer, Florida State University, Bio
- Kevin Wolff, Florida State University

Joint Presentation

Acquiring reliable, consistent data on home foreclosures is challenging. First, researchers must define what actually constitutes a foreclosure. For example, some data providers report a foreclosure
filing as a foreclosure, but not all foreclosure filings actually end in repossession or an abandoned property. Then there is the issue of coverage. No one foreclosure data source covers both the entire extent of the country and the entire mortgage market.

Data on loan performance are proprietary and can be quite expensive. Those who are able to purchase these data sets are not able to share them. They require extensive recoding before they can be analyzed. Additionally, many loan performance datasets, while rich in information about the terms of the loan, are missing other useful information, such as the race of the borrower.

HUD’s new Neighborhood Stabilization Program (NSP) provides emergency assistance to state and local governments, allowing them to acquire and redevelop foreclosed properties that might otherwise become sources of abandonment and blight within their communities. HUD evaluated multiple datasets for information on foreclosures, subprime loans, defaults, and delinquencies. NSP funds were allocated to states and local jurisdictions using estimates of foreclosures (based on a formula that calculated the rate of foreclosure starts over the past 18 months.) The following publicly available datasets were used in estimating the foreclosure rates: Home Mortgage Disclosure Act (HMDA) data, the Office of Federal Housing Enterprise Oversight (OFHEO) Home Price Index and Bureau of Labor Statistics Local Area Unemployment Rate data.

In addition to estimating foreclosures at the local level, HUD also calculated an abandonment risk score for each census tract based on vacancy data provided by the United States Postal Service (USPS) to help state and local governments in their efforts to target the communities and neighborhoods with the greatest needs. Data on foreclosures can be found in court records, tax assessor offices and in other public service departments such as public works, zoning enforcement or police departments. These data are not often in a format that is conducive to analysis because of missing or incomplete data. Also, sometimes agencies are not willing to share the data, data does not exist, or data only exists in fragments that must be compiled from many agencies. Cities like Charlotte, North Carolina, or Philadelphia, Pennsylvania, record extensive amounts of data on nearly all changes (e.g., activities, transactions, services, geographic features) that occur within their jurisdictions, including foreclosed properties. Doing so allows them to analyze foreclosures within a complete context. These presentations and discussion will review the aforementioned datasets and describe how they are relevant to understanding the current foreclosure crisis.

Mortgage Fraud

Paper and Presentation: Burning Down the House — Mortgage Fraud and the Destruction of the United States Economy

- Ann Fulmer, InterThinx Corporation, Paper (pdf, 29 pages) | Presentation | Bio

Mortgage fraud is, essentially, bank robbery without a gun. Residential mortgage fraud played a substantial role in the inflationary stage of the real estate bubble and, because fraudulently originated loans almost universally end in foreclosure, it is one of the primary causes of the current economic crisis. Fraud in the United States is committed by organized rings, street gangs, terrorist organizations, drug traffickers, local real estate professionals and your neighbors. Street-level crime, ranging from vandalism and arson to prostitution, drug trafficking and violent crimes against persons, moves in with mortgage fraud. Despite severely reduced origination volumes, the incidence of fraud is rising precipitously because of desperation, the lack of effective government and lender prevention protocols, and economic stabilization efforts that have unintentionally made fraud easier to commit. The foreclosure and economic crises will not end until fraudulent loans are no longer
funded, but that will not happen until we adopt robust "zero tolerance" policies that identify and prevent the diversion of additional funds into the hands of criminal profiteers.

**Presentation: Mortgage Fraud's Impact on Housing Markets — An Atlanta Case Study in Neighborhood Collateral Damage**
- J. Nigro, Bryant University, [Presentation](#) | [Bio](#)

Reports of fraud in the mortgage loan process have grown exponentially in recent years, becoming one of the fastest growing white-collar crimes in the United States. In this paper, we examine the impact of fraud on the Atlanta metropolitan statistical area (MSA). Preliminary results from cluster analysis suggest that ZIP codes with more fraud have higher housing turnover and price appreciation. Second, using logistic regression we find that fraud is more likely to occur in zip codes with a greater nonbank and subprime lender activity during the 1997–2003 time period. Results are preliminary and would benefit greatly from additional data on both borrowers and additional MSA’s. In addition, the dramatic growth of sub-prime lending in the U.S. led to the emergence of some unscrupulous lenders and lending practices. The Office of the Attorney General of the State of New York asked us (PR. Collins and Nigro) to assist in examining the pricing practices of seven mortgage brokers suspected of over-charging minority applicants during the 2005–07 time period. This analysis briefly overviews the statistical methodology employed to examine the pricing policies of brokers and provides some summary findings of the New York Attorney General.

**Paper: Miami-Dade Mortgage Fraud Task Force**
- Glenn Theobald, [Paper (pdf, 2 pages)](#) | [Bio](#)

In 2006 and 2007, Florida ranked first in the United States for mortgage loans that contained alleged fraud against the lenders, according to the Mortgage Asset Research Institute (MARI). In 2008, Florida was ranked second in the United States. MARI ranked the Miami-Dade Metropolitan area in the top 10 metropolitan areas in the United States for instances of Mortgage Fraud. In 2007, Florida ranked second in the United States in foreclosures filed. There were 279,325 foreclosures filed in Florida. This was an increase of 124% from 2006 and 129% from 2005. In 2008, Florida was again second in the United State in foreclosures filed exploding to more than 500,000, which equates to .45 out of every 100 households filing foreclosure. MARI estimates that 70–80% of all foreclosures contain some type of mortgage fraud. In 2007, Governor Crist enacted the Mortgage Fraud Statute FSS 817.545 that made mortgage fraud a third degree felony. This new law enabled state, county and local law enforcement to arrest for violations of mortgage fraud, a crime traditionally investigated by the Federal Bureau of Investigation (FBI). In the 2008 legislative session the mortgage fraud statute was enhanced to a second degree felony for incidents over $100,000, and with the passage of FSS 193.133, law enforcement works with the property appraiser's office to reduce the tax burden on homeowners living in the area of the mortgage fraud. However, with the exception of Miami-Dade County, many law enforcement agencies are ill trained and equipped to handle the laborious task of investigating a mortgage fraud case. Now in 2009, it is clear that a concerted nationwide effort to combat mortgage fraud should be undertaken. It is recommended that through grant funding and legislative action, a nationwide Mortgage Fraud Task Force be created to combat mortgage fraud throughout the United States. The Task Force should be modeled after the Miami-Dade Mortgage Fraud Task Force. This presentation will discuss that task force and its key elements.
Mortgage fraud is a term that is used a lot in the news these days. It is a crime that is frequently misunderstood by government, law enforcement, borrowers and sometimes the mortgage banking community itself. It was only within the last few years that it was actually classified as a crime on its own, yet it costs financial institutions, mortgage insurance companies, the FHA and thousands of homeowners billions of dollars every year. Much of this loss is unidentified or misidentified. This presentation will define what mortgage fraud really is, why it is so difficult to quantify, who is behind it and who its victims are.

Intimate Partner & Household Violence

The current housing foreclosure crisis is changing the urban landscape and posing challenges to communities faced with the potential of serious attendant problems, such as crime and violence (Wilson and Paulsen 2008; Bess 2008). The present paper discusses one of those problems, domestic violence, defined as the threat or use of physical force with the intent of physically or psychologically harming others in family or family-like settings. Like crime in general, anecdotal and media accounts suggest domestic violence may be a consequence of housing foreclosures, but a relation between these disruptive events and such violence has not been systematically determined through rigorous empirical research. At the request of NIJ, therefore, the present paper proposes a theoretical foundation for anticipating this relation. Specifically, the social disorganization theoretical tradition is discussed, and domestic violence research cast within this tradition is reviewed. The applicability of this framework for anticipating a relation between housing foreclosures and domestic violence is then critically examined. Limitations are identified, and an argument is offered that the incorporation of general strain theory can compensate for identified shortcomings of social disorganization theory. The paper closes with a summary of empirical questions, issues, and problems that can be addressed by combining these two theoretical traditions.

This paper reviews the connection between several key micro-economic measures and a cadre of family violence measures. These key economic measures we focus on include family income, employment status and socioeconomic status inconsistence within the family. This review will include a discussion of why each of these three economic measure might influence the likelihood of domestic violence, an assessment of the available evidence about the extent of the connection between these measures and various forms of family violence, and a discussion about the limitations of the evidence that hinders our capacity to accurately forecast what may happen during the current
economic crisis. The paper will conclude with a summary of several possible research studies that could quickly be undertaken to fill the gaps with "shovel ready" data.

**Presentation: Foreclosures and their Relationship to Economic-related Suicides**
- Thomas R. Simon, Center for Disease Control and Prevention, [Presentation (pdf, 25 pages)]

The Division of Violence Prevention (DVP) at the Centers for Disease Control and Prevention focuses on the primary prevention of self-directed (i.e., suicidal behavior) and interpersonal violence, including child maltreatment, youth violence, intimate partner violence and sexual violence. DVP researchers are analyzing existing data to understand the associations between indicators of the economic downturn and violence-related outcomes. For example, CDC's National Violent Death Reporting System (NVDRS) is a state-based surveillance system that links data from law enforcement, coroners and medical examiners and vital statistics in a way that captures considerable information about the circumstances contributing to violent death. We are using NVDRS data to examine the extent to which economic-related crises such as foreclosure and eviction are noted as circumstances of suicides. We are also utilizing historical data on suicide rates from the National Vital Statistics System to quantify associations with economic indicators, including unemployment rates. I will describe some of the questions we are pursuing, the data being used, and initial results. The analyses are ongoing so the results are preliminary.

**Neighborhoods and Crime**

**Paper: A Theoretical Underpinning of Neighborhood Deterioration and the Onset of Long Term Crime Problems from Foreclosures**
- Ronald E. Wilson, National Institute of Justice, [Bio]
- Derek J. Paulsen, Eastern Kentucky University, [Bio]

This paper describes the importance of studying how geographically concentrated foreclosures can influence long-term crime problems. These foreclosures could lead to "bad neighborhoods" that have an impact on the quality of life for residents. This work draws from evidence in criminology, sociology, geography, economics and urban studies suggesting that researchers should study the dynamics of neighborhood deterioration and how it relates to crime. We will discuss the role of territorial expansion by the mortgage industry in the revitalizing and creating of new neighborhoods that increase the size of the metropolitan area and examine the consequences of having to maintain that new growth should decline occur. We will define links between territorial expansion, the speed of decline and the problems created for residents on the lower economic ladder that move into new neighborhoods. And we will determine how mortgage fraud and age of buyer may play a role in the geographic clustering of foreclosures and what that means for property decline. Additionally, we will discuss the process of home and neighborhood deterioration and show how deterioration can create new crimes. We will note how changes in the types of businesses in a neighborhood can further its decline and make it more difficult to reverse that decline. The paper finishes by arguing that society is witnessing a new and sudden process of entire venting of a neighborhood population. We are unsure of what will take place as a result. This decline could create deviant places in a much shorter time period and "shock" the metropolitan system.
A review of some of the most widely used models for understanding community crime differentials suggests that no one model would be a better guide than another for thinking about how to prevent increasing crime, how to encourage the most effective community crime prevention, or how to structure the most effective partnerships to co-produce public safety in the context of rapidly rising foreclosure and abandonment rates. All models have substantial deficiencies. The current foreclosure crisis may represent in its pacing and spatial patterning a substantial challenge to several of them. Only models securely grounded in an ecological framework seem designed from the ground up for modeling impacts and responses to such challenges. But even these frameworks are lacking in some ways. Most importantly, all of these models, save for the political economy one, are inadequately connected with current scholarship on the growth of suburban poverty and the connections between economics and MSA structures. Both these latter streams of scholarship point up key themes of contextual variation and historicity.
causal processes and the state of existing data infrastructures relevant to studying those processes. We then present preliminary findings from our analysis of foreclosure rates and crime rates across large U.S. cities and Florida counties, focusing on 2006–2008, a period during which foreclosures nationwide increased substantially and other dimensions of economic standing also deteriorated significantly.

Paper and Presentations: The Neighborhood Context of Foreclosures and Crime

- Brandon Behlendorf, University of Maryland, Bio
- Ronald E. Wilson, National Institute of Justice, Bio
- David Kirk, University of Maryland

Joint presentation

The recent crisis of foreclosures has raised concerns about an impending crime wave targeting abandoned properties and causing neighborhoods to deteriorate further. Questions remain, concerning the type of crime that would be affected and in what neighborhoods these changes would occur. Using crime, housing, and census data from Charlotte, North Carolina, we test the effect of foreclosures on both property and violent crime rates, controlling for social disorganization, residential construction patterns and spatial dependence. We test these effects at two different levels of neighborhood geography and incorporate individual housing data to assess the mechanisms by which foreclosures affect neighborhood levels of crime. Overall, foreclosures were significantly and positively related to violent crime and residential burglary at both the tract and block levels. Results indicate that the effect was greatest in neighborhoods with a high amount of new housing construction, rather than in disorganized or low-income communities. The results suggest that changes to crime rates that result from an increase in foreclosures could threaten the stability of new homes and neighborhoods that were built at the height of the previous housing bubble.

Presentation: Foreclosures, Crime and De-Concentrating Poverty

- Derek. J. Paulsen, Eastern Kentucky University, Presentation | Bio

Presentation: Foreclosures and Crime in Providence, RI — Examples and Evolution

- Jim Lucht, Providence Plan, Presentation | Bio

This presentation will highlight The Providence Plan's work around crime and foreclosure mapping in the City of Providence, Rhode Island. Rhode Island's capital Providence is a dense, older community that recently experienced an incredibly overheated housing market. Foreclosures have ravaged all but the most affluent neighborhoods, but are particularly concentrated in the poorest and highly transitional areas with a high concentration of Latino residents. Examples include mapping of basic crime, copper theft, foreclosure initiations, boarded/suspected abandoned properties, and a preliminary analysis of correlation between foreclosures and certain crime categories. It will also include examples where we combine crime, foreclosure, property assessment, and other data with local knowledge in a Community Safety Initiative project involving police, corrections and a local Center for Disease Controls. In terms of Foreclosure Response, it will outline a foreclosure and distressed property management application currently under development that uses open-source database and web-mapping technologies.

Back to top
Responses to Foreclosure: Federal, State & Local Initiatives

*Presentation: Responding to Foreclosure — Federal, State, and Local Initiatives.*

- Cornelia Sorenson-Sigworth, Bureau of Justice Assistance, [Bio](#)
- Louis Tuthill, National Institute of Justice, [Bio](#)

**Joint Presentation**

The factors leading up to foreclosure are multifaceted and include exotic mortgages, market speculation, falling housing prices and financially overextended buyers. These factors impair homeowners' ability to pay their mortgages. Resources and information about this issue and how it relates to crime are critical for the growing number of communities experiencing its effects.

As part of the Department of Justice's effort to help communities respond to vacant and abandoned properties, the Bureau of Justice Assistance (BJA) convened a working group of representatives from communities in different regions of the country. The group identified promising local prevention and enforcement responses to foreclosure issues. This has allowed BJA to develop a set of resources and information that will be useful to the communities experiencing this problem. Our paper will discuss these resources; examine other current Federal, State and local responses to foreclosure; and identify promising prevention and enforcement initiatives to stabilize neighborhoods.
Bernie Auchter has a bachelor's degree from Villanova University and a masters degree in social policy analysis from Rutgers University. He has worked as a child protective services caseworker in Pennsylvania and with a Probation Research and Development unit in the New Jersey Administrative Office of the Courts. For the past 33 years, he has been with the National Institute of Justice, and during that time he has been managing research programs on crime prevention, prosecution, adjudication, white-collar crime and family violence. He is currently a Senior Social Science Analyst and Acting Division Director in NIJ and has been working primarily on issues concerning violence against women, including domestic violence, sexual assault, teen dating violence, stalking and batterer intervention. In the recent years, he has also served on social service and domestic violence advisory boards at the county level. He has facilitated a variety of workshops and meetings organized by NIJ.

Eric Baumer is the Allen E. Liska Professor of Criminology in the College of Criminology and Criminal Justice at Florida State University. Professor Baumer's research focuses on how structural and cultural features of social collectivities influence attitudes and behavior. He has addressed this general theme in multilevel studies of the nature of violence, the mobilization of law, the formation of death penalty attitudes, and the disposition of felony cases; macrolevel studies of spatial and temporal crime and social control patterns; and case studies of crime and justice in unique sociocultural contexts such as Malta, Iceland, and Ireland.

Brandon Behlendorf is currently a second-year doctoral student in criminology at the University of Maryland, where he serves as the geocoding coordinator for the Global Terrorism Database at the National Consortium for the Study of Terrorism and Responses to Terrorism. His research interests include cross-national criminology, terrorism, spatial analysis, neighborhood development, and quantitative methods. From 2004 to 2007, Brandon was a researcher with the Ohio State Highway Patrol, where he conducted a multiagency evaluation of a commercial vehicle diversion program and assisted in the creation of risk management programs and assessments for the Ohio Department of Public Safety. He received his master's degree from The Ohio State University (2003), and his bachelor's from the University of California, San Diego (2001).

Michael Bess is the Senior Management Analyst at the Charlotte-Mecklenburg Police Department, North Carolina, and has been involved in law enforcement for 32 years, 24 of those as a sworn officer. He has served as a patrol officer, narcotics agent, criminal investigator, and crime analyst. Michael has concentrated on the geospatial analysis of crime and disorder over the past 10 years, and teaches in NIJ's popular crime mapping program throughout the southeast. He studied business administration at Montreat College and currently serves on NIJ's Geospatial Technology Working Group.

Ann Fulmer, a Vice President with InterThinx, has been identified by People Magazine as "perhaps the savviest mortgage-fraud sleuth anywhere" (10/27/05). Named as one of Inman News' "100 Most Influential People in Real Estate," she has helped authorities develop criminal cases resulting in more than 200 convictions. She has been quoted in leading national publications, including the New York Times, the Washington Post and USA Today and has appeared on national news programs, including ABC World News Tonight, Fox Business Channel, CNN and CNN Headline News. She has also written numerous articles for mortgage banking trade publications. Ann's work is informed by her experience as a litigator, a white-collar crime prosecutor, a tax assessor and a private detective.
G. Thomas Kingsley is a senior researcher in housing, urban policy and governance issues at the Urban Institute, where he served as Director of the Center for Public Finance and Housing from 1986 through 1997. He currently directs the National Neighborhood Indicators Partnership — a foundation-sponsored initiative to expand the development of advanced data systems for policy analysis and community planning in U.S. cities — and other research projects concerned with reforms in subsidized housing programs. In recent shorter term assignments, he has advised HUD on strategy guidelines for the Empowerment Zone and Consolidated Planning Programs, and assisted HUD Secretary Cisneros in developing a series of essays on the future of American cities. His recent work on urbanization in developing countries and Eastern Europe has focused on decentralization policy, local economic development and land and infrastructure planning and financing. Earlier, Mr. Kingsley served as director for several major policy research programs, including testing the market effects of housing allowance programs (1974–80, the HUD sponsored Housing Assistance Supply Experiment); analyzing the structure and potentials of metropolitan Cleveland's economy (1980–82, for the Cleveland Foundation); preparing a national urban development strategy for Indonesia (1982–85, for the United Nations); helping the Czech and Slovak Republics design and implement policy reforms in housing and municipal infrastructure (1991–95, for USAID); and assessing American Indian housing needs and programs (1993–95, for HUD).

David S. Kirk (Ph.D., Sociology, University of Chicago, 2006) is an Assistant Professor in the Department of Sociology and a Faculty Research Associate of the Population Research Center at The University of Texas at Austin. Kirk was formerly Assistant Professor in the Department of Criminology and Criminal Justice at the University of Maryland (from 2006-2009). Prior to earning his doctorate at the University of Chicago, Kirk worked at the Urban Institute, where he researched issues related to criminal justice policy. Kirk’s current research explores the influence of social context and neighborhood change on criminal behavior. One ongoing project examines the structural and cultural predictors of neighborhood violence. Kirk's recent research has appeared in American Sociological Review, Demography, and Criminology.

Vivan B. Lord is the Chair of the Department of Criminal Justice at the University of North Carolina-Charlotte with Adjunct Professor appointments in the Public Policy Doctoral Program and the International Studies Department. Dr. Lord received her doctorate in Psychology from North Carolina State University and is licensed as a practicing psychologist in North Carolina. She is a past chair of the Police Section, Academy of Criminal Justice Sciences, and a past president of the North Carolina Criminal Justice Association. Dr. Lord is the author of two books: Challenges for Women Considering a Law Enforcement Career: A Guide for Preparing and Succeeding and Policing and Suicide by Cop: Inducing the Police to Shoot and is the author of 40 journal articles, academic book chapters, and technical reports exploring topics primarily in community policing, women in policing, police selection, ethics, police-assisted suicide, comparative policing issues, occupational stress, and workplace violence. Her career in policing began as a sworn officer in a municipal police department in North Carolina. She subsequently instructed, then managed the Justice Services Division of the North Carolina Justice Academy, the state police academy responsible for the basic curricula and in-service training for police and sheriff agencies.

Jim Lucht serves as Director of The Providence Plan's Information Group, an initiative dedicated to promoting the use of data to inform decisions that affect the well-being of Rhode Island and its residents. A recognized leader in the field of GIS throughout New England, Mr. Lucht actively engages partners from the public and private sectors through projects that enhance their capacity to visualize and interpret data. Since joining The Providence Plan in 2001, he has spearheaded collaboration with dozens of local clients including the Rhode Island Departments of Health, Administration, Education, and Corrections, as well as the Providence Police, Weed & Seed, the Rhode Island Economic Development Corporation, the City of Providence, LISC, and the University of Rhode Island's Costal Resources Center. At the national level, he has managed projects with the
National Institute of Justice, The Urban Institute, The Brookings Institute, and the Annie E. Casey Foundation. Mr. Lucht has a bachelor's degree in urban studies from the Worcester State College and a master's degree in community planning from the University of Rhode Island.

Thomas Ludden is a GIS consultant for the Metropolitan Studies Group at UNC Charlotte. He has contributed to several GIS-related projects, including neighborhood assessment studies for the City of Charlotte, North Carolina, and City of Chesapeake, Virginia, crime analysis for Project Safe Neighborhood with the Department of Justice, and neighborhood analysis for Charlotte Housing Authority. He received his bachelor's in Liberal Arts from Virginia Tech and his master's in Geography from UNC Charlotte. He is currently a part-time doctoral student in the Department of Geography and Earth Sciences at UNC Charlotte focusing on the relationship between foreclosures and housing prices.

Christopher D. Maxwell is Associate Dean for Research in the College of Social Science and Associate Professor in the School of Criminal Justice at Michigan State University (MSU), and he is Associate Research Scientist in the Inter-University Consortium for Political and Social Research at the University of Michigan. He holds bachelor's degrees in sociology, criminal justice and psychology from Indiana University-Bloomington, and a master's degree and doctorate in criminal justice from Rutgers University. Dr. Maxwell's research interests include testing for the benefits and costs of sanctions and therapeutic treatments for spouse abusers, the impacts of police and court services on victims of domestic violence, the epidemiology of violence against women by intimates, and the extent and correlates of sexual assault by and against adolescents. His current focus is assessing the extent to which intimate partner violence offenders are prosecuted and whether more prosecution and sanctions lead to less subsequent violence. He has published numerous articles in journals, including Criminology, Criminology and Public Police, Justice Quarterly and Journal of Quantitative Criminology.

Rodney D. Monroe was appointed Police Chief of the Charlotte Mecklenburg Police Department on June 16, 2008, by City Manager Curt Walton. Chief Monroe leads the largest municipal police department in the state of North Carolina, with 1,650 sworn and 450 civilian members. He brings to this position the knowledge and experience of nearly 30 years in the law enforcement profession. He was the chief of the Richmond, Virginia Police Department from February 2005 to June 2008. His efforts there led to the lowest number of homicides in over 25 years. Under then Chief Monroe's leadership, the department regained its reputation as a leader in urban policing. Crime rates declined every year by approximately 10 percent during Monroe's tenure, and community policing initiatives were expanded. A recognized innovator and practitioner of community policing, Chief Monroe is known to refocus police departments on crime fighting and crime prevention through a more accountable organizational structure, new technology, and an enhanced strategy of community policing. A native of the Washington, DC, area, Chief Monroe served in the Washington, DC, Police Department for 21 years in a variety of assignments. He became a police officer in March 1979 and was promoted through the ranks, eventually serving as Assistant Chief of Police, where he managed the department's 2,600-member Patrol Services Bureau. He also led the Department's Criminal Investigations Bureau and the Office of Youth Violence Reduction. Chief Monroe was awarded a bachelor's degree in Interdisciplinary Studies from Virginia Commonwealth University. He is a graduate of the FBI National Academy and the National Executive Institute. He serves as a member of the International Association of Chiefs of Police, Major Cities Chiefs and the National Organization of Black Law Enforcement Executives.

Peter J. Nigro is the Sarkisian Chair in Financial Services at Bryant University in Smithfield, Rhode Island. Prior to joining Bryant, he served as a Senior Financial Economist in the Policy Analysis Division at the Office of the Comptroller of the Currency for a decade. His research interests include mortgage lending, small business finance, credit risk modeling and bank compliance issues. Mr.
Nigro received a bachelor's degree from the College of the Holy Cross, a master's in economics from the University of Southern California and a doctorate in economics from Boston College. He has published articles in journals such as the *Journal of Money, Credit and Banking*, *Journal of Financial Intermediation*, *Journal of Financial Research* and *Journal of Financial Services Research*.

**Derek J. Paulsen** is currently an Associate Professor in the Department of Criminal Justice and Police Studies and Director of the Graduate Program. Dr. Paulsen has published two books, *Crime Mapping and Spatial Analysis of Crime* and *Tactical Crime Analysis* as well as numerous articles dealing with crime mapping and crime analysis issues that have appeared in such journals as *Policing: An International Journal of Police Strategies and Management*, *Journal of Investigative Psychology and Offender Profiling*, *International Journal of Police Science and Management*, and *Journal of Criminal Justice and Popular Culture*. A frequent presenter on crime mapping topics at both academic and professional conferences, Dr. Paulsen has been an invited speaker numerous times at the NIJ MAPS Conference, NIJ Conference, UK Crime Mapping Conference, and the International Investigative Psychology Conference. In addition Dr. Paulsen is working on various projects dealing with urban growth simulators, crime and urban planning, safe design and planning, geosimulation and crime and spatial perceptions of crime issues.

**Terry Quillen** currently holds a position as a manager in FHA Loss Mitigation with Wells Fargo Home Mortgage in Fort Mill, South Carolina. Wells Fargo Home Mortgage has been a Tier 1 Servicer for FHA/HUD for 7 years running and is at the forefront of Loss Mitigation and the foreclosure issues facing our country today. Mr. Quillen has enjoyed 20 years in the mortgage industry and has recently held critical positions facing the mortgage crisis including Director of Asset Resolution and Director of Credit for EquiFirst Corporation in Charlotte, North Carolina. Mr. Quillen has long been an active participant in the foreclosure process and an interested student of the economic and societal impacts it brings.

**Winifred L. Reed** is Chief of the Crime Control and Prevention Research Division in the Office of Research and Evaluation at NIJ. She is responsible for managing the research and evaluation portfolios of the division, including those in policing, crime mapping, forensics policy, terrorism and crime prevention. She has worked in a wide range of substantive areas during her more than 35 years of experience at NIJ, including law enforcement, Indian country crime and justice, gangs, school-based programs, criminal careers, criminal behavior and crime prevention. Reed received her bachelor's and master's degrees from American University.

**Robert Renner** is a Social Science Analyst in the Office of Policy Development and Research at the U.S. Department of Housing and Urban Development. Before joining HUD, Mr. Renner was a geographic information system (GIS) consultant developing applications in a variety of fields, including crime mapping, transportation, planning, public health and housing. At HUD, Mr. Renner conducts research and geographic analyses of the Department's various programs. He is also responsible for HUD's inventory of spatial data. More recently, Mr. Renner has been involved in allocating billions of dollars in funds to state and local governments through HUD's major grant programs, including the Neighborhood Stabilization Program, which provides emergency assistance to state and local governments to acquire and redevelop foreclosed properties.

**Sally S. Simpson** is Professor and Chair of Criminology and Criminal Justice at the University of Maryland, College Park. Her research interests include corporate crime, criminological theory, and the intersection between gender, race, class, and crime. She is past President of the White-Collar Crime Research Consortium (2004-2006), Chair of the Crime, Law and Deviance Section of the American Sociological Association, and recipient of the Herbert Bloch Award from the American Society of Criminology. Simpson co-edited *Corporate Crime* (Ashgate, 2007) with Carole Gibbs and coauthored *White-collar Crime: An Opportunity Perspective* with Michael L. Benson. She also

**Cornelia Sorensen-Sigworth** is a Policy Advisor with the Bureau of Justice Assistance (BJA), U.S. Department of Justice (DOJ). Ms. Sigworth serves as a Policy Advisor in the areas of law enforcement, investigations and forensic science, and crime prevention. In this role she works with national partners to combat crime and improve the functioning of the criminal justice system. Before joining BJA, Ms. Sigworth worked with the National Institute of Justice, DOJ, where her responsibilities included the substantive, programmatic and financial management of national research, evaluation and developmental programs. Ms. Sigworth holds a Master's degree in Justice, Law and Society from American University. She earned her undergraduate degree at Northern Arizona University.

**Thomas R. Simon** is the Deputy Associate Director for Science within the Division of Violence Prevention in the National Center for Injury Prevention and Control of the Centers for Disease Control and Prevention (CDC). The primary focus of his research is on informing the development of youth violence and suicide prevention programs by studying risk and protective factors for aggressive and suicidal behavior. Dr. Simon has served as a scientific advisor on several CDC-funded etiological studies and longitudinal evaluations of violence and suicide prevention programs.

**Deborah Spence** is a Senior Social Science Analyst in the Program/Policy Support and Evaluation Division of the U.S. Department of Justice Office of Community Oriented Policing Services (COPS). Her duties vary widely from internal statistical analysis support to overseeing coordination of the COPS Methamphetamine Initiative Training and Technical Assistance grant program; she also serves as editor-in-chief of the COPS Office e-newsletter, the *Community Policing Dispatch,* which has reported on public safety challenges related to the economy throughout the past year. Deborah's areas of subject matter expertise include meth and other dangerous drugs as well as the economy and public safety, with a focus on the impact of economic conditions on law enforcement operations. Prior to joining the COPS Office in 2005, she was a Research Associate with the Institute for Law and Justice in Alexandria, Virginia. Deborah holds a master's degree in justice, law and society from American University as well as a master's in Modern History from the University of St. Andrews in Scotland.

**Ralph B. Taylor** received his doctorate in social psychology at Johns Hopkins University in 1977 after working in a residential treatment center for pre-delinquents. He has previously held positions at Virginia Tech and Johns Hopkins University. He was a Visiting fellow at the National Institute of Justice in 1997. He currently teaches and researches in the Department of Criminal Justice at Temple University, where he has been since 1984. At Temple he has served as department chair, and associate dean in the College of Arts and Sciences. He edited *Urban Neighborhoods* (Praeger 1986) and authored *Human Territorial Functioning* (Cambridge 1988), *Research Methods in Criminal Justice* (McGraw Hill 1994) and *Breaking Away from Broken Windows* (Westview 2000). His research has been funded by the National Science Foundation, the National Institute of Mental Health, the National Institute of Justice, the Department of Health and Human Services, and the National Institute of Corrections. His publications have appeared in an array of psychology, sociology, urban affairs, and criminology journals. He is currently on or has formerly sat on the editorial boards of *Environment and Behavior, Journal of Quantitative Criminology, Justice Quarterly,* and *Social Psychology Quarterly.* Current interests include communities and crime, disorder and reactions to crime, crime prevention, views toward the criminal justice system, DNA policies, police contact and attitudes, household gun collections, multilevel modeling, and seeing students complete
dissertations. His more than 50 refereed publications and 30 chapters/encyclopedia/handbook entries are listed online at www.rbtaylor.net/pubs.htm.

**Glenn Theobald** is the Chief Legal Counsel for the Miami-Dade Police Department. He currently provides legal advice and counsel to the Department Director, is the Discipline Coordinator, the Legislative Affairs and Grants Coordinator, and the chairman of the Miami-Dade County Mortgage Fraud Task Force. Chief Theobald started in 1983 as a Police Officer and worked his way through the ranks, attaining the rank of chief in November 2005. He authored and lobbied for the successful enactment of FSS 817.545 (2007), Florida Mortgage Fraud Law, FSS 193.133 (2008), and three other state statutes. He authored and is lobbying in the upcoming state legislative session to create a statewide mortgage fraud task force. Chief Theobald authored and lobbied for the successful passage in the United States House of Representatives, HR 6853 "The Nationwide Mortgage Fraud Task Force Act of 2008". He also authored and is lobbying for the successful passage of HR 529 and S 365 "The Nationwide Mortgage Fraud Task Force Act of 2009". He is working with both the Bureau of Justice Assistance and Community Oriented Policing Services to create a nationwide Mortgage Fraud Task Force. Chief Theobald has appeared and spoken as a local law enforcement mortgage fraud expert on CNN, CNBC, the NBC Today Show, and Fox News. He has also appeared in articles written by Reuters, *The New York Times*, *The Financial Times*, *The Miami-Herald*, and many other periodicals. He has appeared on numerous local television and radio shows. His article "Mortgage Fraud in Florida: an Overview" was published in the *Florida Chiefs of Police Magazine*. Chief Theobald received a bachelor's from Barry University, a masters degree in public administration and his juris doctorate from the University of Miami. He was admitted to the Florida Bar in 2002.

**George E. Tita** is an Associate Professor in the Department of Criminology, Law and Society at the University of California - Irvine. His education includes a bachelor's from the University of Pittsburgh (1986), a master's of science in economic development (1993) and doctorate (1999) from the H.J. Heinz III School of Public Policy and Management at Carnegie Mellon. His interests include the study of interpersonal violence with a focus on homicide, urban street gangs and the community context of crime. His methodological toolkit includes both qualitative and quantitative approaches, with a strong interest in mapping and spatial analysis. Dr. Tita is involved with an interdisciplinary group of scholars working to promote the use of spatial statistics and analysis throughout the social sciences. Dr. Tita is also a member of the National Consortium on Violence Research (NCOVR), a research and training center specializing in violence research. The Consortium’s mission is to advance basic scientific knowledge about the causes or factors contributing to interpersonal violence, to train the next generation of violence researchers, and to disseminate its research findings to participants, policymakers, and practitioners.

**Louis Tuthill** recently began working with NIJ in the Office of Research and Evaluation. Before that, he worked at several research centers, including the Academic Center for Excellence on Youth Violence Prevention, the Robert Presley Center for Crime and Justice Studies, and the Center for Native Nations. His research has examined issues surrounding juvenile delinquency, gangs, domestic violence and the social ecology of crime. He also has worked with communities to build effective, culturally competent interventions to these issues. Tuthill uses multiple methods in his work, including ethnography, meta-analysis, structural equation modeling, spatial analysis and hierarchical linear modeling.

**Roger Vanderpool** was appointed Director of the Arizona Department of Public Safety (DPS) by former Governor Janet Napolitano in March 2005. In his capacity as director, he oversees the operation of an organization with more than 2,000 employees and a budget of over $247 million. Director Vanderpool reports to the Governor for all statewide activities and issues associated with the Department. Director Vanderpool is a 33-year law enforcement veteran. Prior to his appointment as director, he was twice-elected Sheriff of Pinal County. He served with DPS for 20 years in various
assignments, where he retired as a Lieutenant in narcotics. Prior to DPS, Director Vanderpool was a police officer in Indiana. He is also a veteran of the U.S. Armed Forces, having served in the U.S. Army. Director Vanderpool is a member of numerous state boards and commissions, including the Arizona Peace Officers Standards and Training Board, the Arizona State Homeland Security Commission, Federal Motor Carrier Administration Rules and Advisory Committee, and the Arizona Criminal Justice Commission. He serves as a member on the Board of Directors of the Arizona Automobile Theft Authority, and served as chairman on the Southwest Border HIDTA (High Intensive Drug Trafficking Area) for the Arizona Region. Director Vanderpool is a Past President of the Arizona Sheriffs Association. He is an active member of many civil organizations and a recipient of the first Law Enforcement Coordinating Committee Ethics Award. He is a graduate of the FBI National Executive Institute, FBI National Academy, and the National Sheriffs Institute.

Kirk R. Williams received his doctorate from The University of Arizona and was a post-doctoral fellow at Yale University. He has held faculty appointments at The University of Memphis and The University of New Hampshire, where he maintained an affiliation with the Family Research Laboratory. He also was a Professor at The University of Colorado at Boulder, where he was the founding Associate Director of the Center for the Study and Prevention of Violence. Dr. Williams currently is Professor of Sociology, Co-Director of the Robert Presley Center for Crime and Justice Studies, and Co-Principal Investigator for the Southern California Center of Academic Excellence in Youth Violence Prevention at The University of California, Riverside. He has published widely on the causes and prevention of violence, particularly involving youth or adult intimate partners, with the most recent publications addressing bullying, juvenile offending, and domestic violence risk assessment. He has received numerous grants from federal and state funding sources in addition to private foundations to support his research. His most recent federal grant is from the National Institute of Justice, supporting a study of youth homicide in the nation's 100 largest cities from 1984 to 2006. He also has worked extensively with community-based groups, schools, and agencies in violence prevention planning, implementation, and evaluation.

Ronald E. Wilson is currently heading up the Mapping & Analysis for Public Safety Program (MAPS) and the Data Resources Program at the National Institute of Justice (NIJ) in Washington D.C. Mr. Wilson's education is in the physical, social and computing sciences. The first part of his career revolved around computer science and software development issues with GIS. The latter half of Mr. Wilson's career has involved applying and advising on spatial data analysis methods as they apply to various criminological research projects at NIJ. He is currently working on research projects related to changes in the urban environment as they relate to crime trends. He also teaches spatial statistics courses at the University of Maryland and University of Michigan.

Rosemarie Wolfe is currently and has been the Director of Quality Control with EquiFirst Corporation since 2004. Rose has 24 years in the mortgage banking field, encompassing roles in quality control, operational and underwriting management, as well as project management. She has background in conforming, government and subprime lending. Rose is currently the Chair of the MBA's Fraud and Ethics working group and has been part of the MBA QA Leadership Committee since 2005. Rose has held her FHA Direct Endorsement underwriting certification since 1991 and is a certified Black Belt in Six Sigma process improvement.

Richard Woodcock began his career in the public sector in 1976 serving as County Planner in Duplin County, North Carolina, as a Volunteer in Service to America (VISTA). Since that time, Mr. Woodcock has worked as a research assistant at the Institute of Government at the University of North Carolina at Chapel Hill, worked at HUD and spent 23 years with the City of Charlotte in a variety of roles. During the past nine years, he has served as Deputy Director for Neighborhood Development. Neighborhood Development includes code enforcement, affordable housing development and neighborhood education and organizing with a budget in excess of $40 million and
a staff of 130. His current responsibilities include policy and business plan development, budget and financial management, GIS and information systems and human resources. Policy issues have included researching and making presentations on the city for Charlotte’s foreclosure problems and gentrification. Mr. Woodcock serves on a number of citywide task forces on growth management, information technology policy and CIP development.

Mr. Woodcock holds a bachelor’s in industrial relations/political science and a master of public administration from the University of North Carolina. He is a certified public accountant and certified local government finance officer.

**Dr. Margaret Zahn** is currently Acting Deputy Director of the Office of Research and Evaluation at the National Institute of Justice. Prior to this position, Dr. Zahn was Director of the Girls Study Group, a 4-year study of girls in the juvenile justice system and those at risk of becoming part of the system. Dr. Zahn had a 30-year career in academia, where she studied violence in many contexts. Her numerous accomplished positions in research and academia include Professor of Criminology/Sociology at North Carolina State University, Acting Center Director of the Crime, Violence and Justice Policy Division at RTI International; Dean of Humanities and Social Sciences at North Carolina State University; and Associate Dean for Research, Graduate, and Interdisciplinary Programs for the College of Arts and Sciences at the University of North Carolina, Charlotte. In addition to performing research, teaching, and administrative duties over her 30 year career, Dr. Zahn has also held a number of consulting and external review positions, managed grants and external contracts, gained substantial knowledge in external fundraising, and has held leadership positions in a number of professional associations. Most notably, she served as President of the American Society of Criminology from 1997 to 1998 and was selected as fellow of that association in 1998. Her forthcoming book, *The Delinquent Girl*, summarizes over 1,600 pieces of literature on girls and delinquency. She is the editor of 5 books and author of over 40 articles and book chapters. Dr. Zahn is the recipient of numerous honors and awards, including the Pacesetters Leadership Award from The Ohio State University, the Outstanding Teaching Award from Temple University, and the RTI International Award for Highly Published Author. A native of Ohio, Dr. Zahn earned a bachelor of science degree in social administration (summa cum laude), a master of arts degree in sociology, and a doctor of philosophy degree in sociology, all from The Ohio State University.

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Mortgage Fraud, Foreclosures and Neighborhood Decline

Meeting Summary

Introduction

With the current upswing in foreclosures that is sweeping the nation, the National Institute of Justice (NIJ) convened a meeting in Charlotte, N.C., to test the effects of foreclosure on crime. Foreclosure can cause major social and societal woes for a family. Families going through foreclosure face the loss of their home, the strain of relocating to a different neighborhood (which can entail changing schools and medical providers), the social stigma associated with losing one’s property, the added financial stress, and difficulties in the credit market, insurance market, and even the job market. Of the many concerns that occur during a foreclosure, increased crime in a community is one possible indirect effect. NIJ brought together federal staff members, researchers, practitioners, and industry insiders from across the country to discuss the question: Is there a link between foreclosures and crime? If the answer is yes, then what should the research agenda include to address this concern? In this paper, we provide a short summary of the outcomes of our meetings. There does appear to be some relationship between foreclosures and crime, but much more research needs to be conducted to further delineate this relationship. Three areas are discussed in detail below: mortgage fraud, intimate partner violence, and neighborhood change.

Mortgage Fraud

Eighty to eighty-five percent of recent foreclosures are due to mortgage fraud (Wilson, Baumer, and Theobald, March 31, 2009). Mortgage fraud is defined as “a material misstatement, misrepresentation or omission relied upon by an underwriter or lender to fund, purchase or insure a mortgage loan” (Wolfe, March 31, 2009). Two types of fraud fall under this category:
**Fraud for housing and fraud for profit.** Fraud for housing is most likely perpetrated by the buyer and is the most common form of mortgage fraud. In this instance, the goal is homeownership and the buyer has an intent to pay the mortgage. The second form, fraud for profit, is a bit more complex. Although fraud for property has been more common, fraud for profit has become more prevalent in recent years. Fraud for profit requires the assistance of other industry insiders to pull it off. The goal for this type of fraud is monetary, and no involved party intends to pay the mortgage. “Mortgage fraud is a crime of ethics, ignorance, and exploitation” (Wolfe, March 31, 2009).

Mortgage fraud can occur in many ways. In the early stages of a home purchase, fraud can take place at the following points: the value assessment of the property, a silent second mortgage (a practice in which the borrower without a down payment can commit fraud by borrowing the down payment from the seller in exchange for giving the seller a silent second mortgage), improper or absent verification of the buyer’s credit worthiness, identity theft of the appraiser, altered or invented documents, falsified bank deposits, and so on. These are just a few examples of front-end mortgage fraud. It can also occur when false loan documents are filed. A popular scheme is to file a falsely notarized quit-claim deed: The new owner listed on the deed applies for and receives a mortgage loan on a property that they do not own. Other types of mortgage fraud include undisclosed kickbacks, advanced occupancy misrepresentations, and inflated purchase prices. Mortgage fraud can involve several actors on different levels of the buying platform. The seller, appraiser, real estate agent, buyer, and attorney can all be involved in the plan to commit fraud.

Although some of these tactics were legally acceptable practices in previous years, the combined result has led to the large number of foreclosures in the housing market today.
Reporting inflated income, for example, was once viewed as being somewhat acceptable. The line is crossed, however, when one proceeds from what was once considered “stretching one’s income” to actually falsifying data to obtain a mortgage. The latter is criminal activity. These crimes were easy to commit because there was no regulation or licensing in the industry. Some argue that because this crime was easy to commit, it was also easy to recruit others into committing the criminal act. Even now, homeowners are being counseled to default on their home mortgages because this would be a less painful course of action.

A problem with pinpointing mortgage fraud is the lack of a perceived victim. Some take on a bit of a herd mentality, feeling as though “everyone is doing it.” Others feel that there is no perceived punishment for committing this act and that everyone does something that is “a little bit” wrong. Still others were ushered into fraudulent activities because they thought that they were abiding by generally accepted market practices.

Several relevant research questions arose from the group:

- What role does policy play in foreclosures? What role has federal policy played in encouraging homeownership and the mortgage fraud pandemic?
- What is the spatial distribution of foreclosures and the dynamics of time before default? An example is the targeting of military families to purchase homes they cannot afford.
- What are the causal links between escalated housing prices, mortgage fraud, and foreclosures?

Intimate Partner Violence
Whether utilizing the tenets of social disorganization theory or strain theory, one thing is agreed upon: Economic distress is related to intimate partner violence. Social disorganization theory asserts that neighborhoods with concentrated disadvantages, residential instability, and homogeneous populations tend to have higher crime rates. Although strain theory contends that negative relationships occur between individuals when something of high value is taken away, when a threat or adverse conditions are present, or when something interferes with or threatens to interfere with a goal. Housing foreclosures can be associated with these sources of strain, although not everyone will react violently to these conditions.

Service providers of domestic violence shelters have experienced a recent upsurge in the number of clients. In a review of historical data, domestic violence seems to correlate with poverty. Although the present state of the economy may account for some of the variance, the current state of foreclosures may also account for some of it. Having reviewed recent criminal research, one speaker was convinced that money issues are a predictor of domestic violence. Causal linkages need to be further assessed.

Much research is needed in this area to expand our understanding of the causes for the recent upsurge in domestic violence shelter clients. Several research questions, areas of concern, and issues to contend with were discussed at the meeting:

- More data is needed on the types of foreclosures that occur, and which ones are more likely to be related to domestic violence.
- The loss of employment and dependence on one income in the family may lead to foreclosure (or the threat of foreclosure) and therefore increase strain and possibly lead to domestic violence.
• Some couples may want to divorce but find themselves unable to sell their property in the current market. This situation may also lead to domestic violence.
• The relationship between receiving unemployment benefits (and being unemployed) and domestic violence is another area of concern.
• The upsurge in domestic violence shelter usage may point to a greater need for shelter rather than to an upsurge in domestic violence.
• Foreclosures are changes in ownership but do not necessarily reflect emotional attachments to a space, especially if mortgage fraud is involved. Defining what “home” is may help to determine whether there is a causal relationship between foreclosures and domestic violence.

Ultimately, the question is: Are foreclosures an independent causal influence on domestic violence? When answering this, the issues of child abuse and elder abuse should also be included as relevant concerns.

A related topic is homicide and suicide. In 1933, during the Great Depression, the United States experienced its highest rate of suicide. “Economic circumstances that are risks for suicide include job loss, dealing with bill collectors, loss of retirement or health insurance, foreclosure and eviction” (Simon, April 1, 2009). Persons who are more vulnerable to suicide attempts may be influenced by these factors.

**Neighborhood Decline**

In the present foreclosure crisis in the United States, when several properties in the same neighborhoods are foreclosed, this often creates mass vacancies in these neighborhoods. “The quality of construction and size of homes and lots does matter” (Wilson, Paulsen, and Taylor,
Declining neighborhoods being affected by foreclosure are typically those labeled “affordable housing,” which is often of poorer quality construction, in smaller housing lots, and with garages at the front of the property, all of which can create opportunities for crime. These are often “starter homes” and are not built for long-term occupancy. These neighborhoods typically experience many social and physical changes, whereas foreclosed homes are often purchased as investment opportunities only. Renters are moving into neighborhoods that once had fewer numbers of rental properties. Social theories will need to be reviewed in light of this new situation.

Crime theories that may be applicable to the relationship between foreclosures and neighborhood decline include: the theory of incivilities, crime pattern theory, and social disorganization theory. The theory of incivilities posits that, in urban settings, the focus is on a cluster of social and physical problems. Crime pattern theory focuses on the spatial position and clustering of targets and identifies key features of targeted spatial patterns. Social disorganization theory posits that neighborhoods that are well-connected externally are sometimes not well connected internally.

Increasingly, crime is becoming not just an urban problem but also a suburban problem. With the rising number of foreclosed homes, the question remains: Is there a link between foreclosures and the increase in suburban crime? We need to better understand the geography of foreclosures. In home sales data, George Tita found that an increase in violence precedes an increase in the number of home sales in a neighborhood. He further asserts that there are “push–pull” factors in this body of literature that need further exploration. We are left wondering, what is the implication for public housing? How do we manage neighborhoods that face large-
scale abandonment? How do we entice people to move back into these neighborhoods? Where are all the families going who have been evicted from these foreclosed homes?

Discussion of the relationship between foreclosures and neighborhood changes pointed to several areas where more research is needed. For example, very little research has been conducted on the effects of having to move on the families. What are the effects of this migration on schooling for children and on health care for families? Are there race-based components to these moves? Unoccupied housing is another example. What will we do with empty neighborhoods? We have to figure out how to manage the high level of vacancies. Another concern is the role of gangs in neighborhood crime, and where they fit into this discussion. Neighborhood population density can also be an issue; how can communities be protected from criminal activity in situations where housing construction was halted because of the current economy, leaving the houses unfinished and unoccupied by their owners?

Conclusion

As stated by one of the presenters, Derek Paulsen, “A research agenda focused on foreclosure and crime should be part of a more general effort to facilitate a comprehensive and policy-relevant research agenda.” This is a clear sentiment that seemed to be shared by all of the meeting attendees. Several suggestions were offered for this research agenda, including the following:

- Collect data to establish that there is a link between foreclosures and crime. This can include looking at particular types of crime, the different stages of foreclosure and the opportunities for criminal activity at each stage, the differences in types of neighborhoods in which the foreclosures occur (moderate income areas compared with more affluent and lower income areas), and housing structure.
- Conduct research oriented to preventing crime in neighborhoods with high foreclosure rates.
- Collect data on the true extent of mortgage fraud.
- Understand the law enforcement response to increases in neighborhood crime due to the rise in housing vacancies and foreclosures. Police departments that have been impacted the most can share the lessons learned.
- Add law enforcement resources to our working models to assess whether there may be fewer law enforcement resources available to address these problems.
- Develop more local information infrastructures. Ongoing data at the neighborhood level is essential.
- Involve the local jurisdictions in devising an appropriate response to crime and not simply leave all of the responsibility to law enforcement.
- Determine, in each case, which came first — did crime cause the foreclosure, or did the foreclosure cause the crime?
- Develop a typology of foreclosure that assesses the time frame for each foreclosure, whether it results in a vacancy, and how soon the home will be reoccupied.
- Conduct research on how foreclosures are related to perceptions of the neighborhood, perceptions of crime, intentions to stay or leave, perceptions of physical disorder, and so on.
- Determine the tipping point regarding the number of foreclosures a neighborhood can absorb before the crime rate begins to increase.
- Conduct research to measure the flow of people into and out of foreclosed properties.
- Determine the long-term effects of foreclosures on neighborhoods.
- Conduct research on how crime patterns change as neighborhoods become more suburban.
• Determine whether there is a link between mortgage fraud and disconnected or unorganized neighborhoods?

Meeting attendees also suggested the need for collecting systematic data, at the national and neighborhood levels, that can be shared. Ultimately, participants at this meeting believe that there is a relationship between foreclosures and crime. Attendees agreed with NIJ’s suggestion that a research agenda is necessary to establish the nature of this relationship. One thing is certain, based on discussions at the meeting: Foreclosures used to be a problem only at the level of the individual homeowner; now, foreclosures have become a problem for entire neighborhoods and communities.
U.S. Department of Justice
Office of Justice Programs
National Institute of Justice

Mortgage Fraud, Foreclosures, and Neighborhood Decline

Meeting Minutes

Charlotte, North Carolina

March 31-April 1, 2009
Table of Contents

In Attendance .................................................................................................................................. 4

Tuesday, March 31, 2009

Welcome and Meeting Objectives — Dr. Margaret Zahn ............................................................... 5
Introductions and Review of Meeting Agenda — Bernie Auchter ...................................................... 5

Backdrop — Louis Tuthill and Ann Fulmer ......................................................................................... 6
National Level Patterns of Foreclosures — Ron Wilson, Dr. Eric Baumer, Glenn Theobald ............ 8
Commentary: The Impact in Arizona — Roger Vanderpool ............................................................... 10
Discussion of Research Issues — Open Floor ..................................................................................... 11

National and Local Data Sources and Limitations — Robert Renner, Dr. Eric Baumer, Ron
Wilson, Dr. Peter Nigro ..................................................................................................................... 13
Discussion of Research Issues — Open Floor ..................................................................................... 18

Lunch Speaker — Rosemarie Wolfe .................................................................................................... 18

Overview of White-Collar Crime and Its Relation to Mortgage Fraud — Dr. Sally Simpson .... 21
Economic Impact of Mortgage Fraud — Ann Fulmer, Dr. Peter Nigro ........................................... 23
Discussion of Research Issues — Open Floor ..................................................................................... 25

Housing Foreclosures and Domestic Violence: A Theoretical Foundation — Dr. Kirk Williams,
Dr. Christopher Maxwell .................................................................................................................... 27
Commentary — Dr. Margaret Zahn .................................................................................................. 29
Discussion of Research Issues — Open Floor ..................................................................................... 30

Perspectives From Public Health — Dr. Thomas Simon .................................................................. 32
Discussion of Research Issues — Open Floor ..................................................................................... 33

Wednesday, April 1, 2009

Meeting Objectives for Day Two — Bernie Auchter ......................................................................... 34
Neighborhood Deterioration and Crime — Ron Wilson, Dr. Derek Paulsen, Dr. Ralph Taylor .... 34
Commentary — Dr. George Tita .......................................................................................................... 36
Discussion of Research Issues — Open Floor ..................................................................................... 37

Local Level Case Studies — Dr. Eric Baumer, Brandon Behlendorf, Dr. Derek Paulsen, Jim
Lucht .................................................................................................................................................... 40
Law Enforcement Perspectives — Rodney Monroe, Michael Bess ........................................ 44
Discussion of Research Issues — Open Floor ........................................................................ 46

Lunch Speaker — Dr. G. Thomas Kingsley ........................................................................ 47

Responses to Stabilizing Neighborhoods — Louis Tuthill, Cornelia Sorenson-Sigworth, Roger Vanderpool ........................................................................................................................................ 50
Commentary — Lisa Gore, Roger Vanderpool ........................................................................ 52
Discussion of Research Issues — Open Floor ........................................................................ 52

Roundtable Discussion: Setting the Research Agenda — Facilitated by Bernie Auchter .... 53

Closing Remarks — Dr. Margaret Zahn ................................................................................... 57

Appendix: Questionnaire Responses ....................................................................................... 58
In Attendance:

- Bernie Auchter, National Institute of Justice (NIJ)
- Dr. Eric P. Baumer, Florida State University
- Brandon Behlendorf, University of Maryland
- Michael Bess, Charlotte-Mecklenberg Police Department
- Timothy Brown, NIJ
- Ann Fulmer, Interthinx Corporation
- Lisa R. Gore, Department of Housing and Urban Development
- Dr. G. Thomas Kingsley, National Neighborhood Indicator Partnership
- Dr. Vivian B. Lord, University of North Carolina (Charlotte)
- Jim Lucht, Providence Plan, Providence, RI
- Thomas Ludden, University of North Carolina (Charlotte)
- Dr. Christopher D. Maxwell, Michigan State University
- Rodney Monroe, Charlotte-Mecklenberg Police Department
- Dr. Peter J. Nigro, Bryant University
- Dr. Derek J. Paulsen, Eastern Kentucky University
- Terry Quillen, Wells Fargo
- Winnie Reed, NIJ
- Robert Renner, Housing and Urban Development (HUD)
- Dr. Thomas R. Simon, National Center for Injury Prevention and Control
- Dr. Sally S. Simpson, University of Maryland
- Cornelia Sorenson-Sigworth, Bureau of Justice Assistance (BJA)
- Deborah Spence, Community Oriented Policing Services (COPS) Office
- Dr. Ralph B. Taylor, Temple University
- Glenn Theobald, Miami-Dade Police Department
- Dr. George E. Tita, University of California (Riverside)
- Louis Tuthill, NIJ
- Roger L. Vanderpool, Arizona Department of Public Safety
- Dr. Kirk R. Williams, University of California (Riverside)
- Ronald E. Wilson, NIJ
- Rosemarie Wolfe, Equifirst Corporation
- Kevin Wolff, Florida State University
- Richard Woodcock, City of Charlotte Neighborhood Development
- Dr. Margaret A. Zahn, NIJ
Welcome and Meeting Objectives — Dr. Margaret Zahn

Dr. Zahn thanked participants for coming to the meeting. She stated that this topic, although largely unexplored, is important to both the National Institute of Justice (NIJ) and the nation. Crime and justice research are focus areas for the NIJ. Each participant was invited to this meeting because she or he has specific expertise related to this topic. Because many of the meeting participants do not typically interact with each other, Dr. Zahn expressed hope that this group will create a research agenda for the future. The desired outcomes of this meeting are a research agenda and a list of questions that need to be answered over the next couple of years.

Introductions and Review of Meeting Agenda — Bernie Auchter

Mr. Auchter acted as timekeeper and facilitator for this meeting. His goal was to have as much discussion as possible. Mr. Auchter stated that he would remain neutral within the discussion but would seek clarification and guide discussion. He asked attendees to introduce themselves and also reviewed the meeting agenda.

After the meeting, presentations given will be posted to a Web site. A compact disk with the presentations may also be sent to meeting attendees.
Backdrop — *Louis Tuthill, Ann Fulmer*

A presentation entitled “The Buildup to Foreclosure and Crime” was provided by Terry Quillen. He reviewed the history of mortgages. Between 1970 and 2000, the foreclosure rate fluctuated between 0.03 percent and 1.1 percent. Subprime mortgages allowed people to purchase homes that they normally would not be able to. This type of mortgage has a higher rate of foreclosure. The foreclosure rate increased from 8.6 percent to 20 percent between 2001 and 2006. Mortgage rate securities are sold on the stock market to reduce risk “on the books” for these mortgages. This practice led to cheap credit and reduced lending standards. “Dot com” investors invested in real estate, and speculative investors “flipped” houses.

The housing market began to correct itself in late 2006. Median housing prices dropped by 3 percent by early 2007. Foreclosure rates and delinquencies began to increase as well. Investors began to pull out of the stock market because these mortgage-backed securities were decreasing in value.

This is part of a larger economic crisis that also includes energy and food costs. Banks were often unable to loan money due to insolvency. Unemployment rates increased.

In summary, the reasons for this crisis are multi-faceted and global. The social impacts have not yet been examined.

Ann Fulmer presented a “Foreclosure Overview”. Foreclosures began to increase in 2005. Three documents are established when one secures a mortgage: a deed of conveyance, a note, and a
A deed to secure debt (or a deed of trust). A foreclosure occurs when the note is not paid. It is a legal proceeding by which the lender exercises their right to be paid. In many cases, losses will average about 50 percent of the original note. Nobody wins when there is a foreclosure. This is why there is a lot of effort to try to stop foreclosures. Mortgage-backed securities are sometimes limited by how they can be handled because of the restrictions on the mortgage (e.g., the interest rate can’t be changed).

The foreclosure process can differ by state and by bank. There are often many efforts to help the borrower become current on a loan. When a loan goes unpaid, it goes into default for a period of time and then the foreclosure process is initiated. Often, loans are corrected in the foreclosure process. A “completed foreclosure” is one that has gone all the way through the foreclosure process and the property has been sold on the courthouse steps.

There are criminals who will “rescue” the borrower from foreclosure. Judicial foreclosure goes in front of a judge. This type of foreclosure can take up to a year to complete. In a non judicial foreclosure, the process can be completed within 30 days (in the state of Georgia, for instance). There is a redemption period in some states. This means that after the foreclosure has been completed, the borrower can still buy the property back if they can come up with money. Redemption is more expensive because additional fees have been imposed.

Real Estate Owned (REO) refers to property that is owned by a lending institution. It is expensive and ripe for fraud because the banks are trying to quickly get this real estate off of their books. Some mortgage fraud includes the sale of real estate to “charitable” organizations.
Investors are buying houses and creating a large rental market for houses. We are also seeing many foreign investors purchasing property.

**National Level Patterns of Foreclosures — Ron Wilson, Dr. Eric Baumer, Glenn Theobald**

Ron Wilson addressed the geography of foreclosures. Foreclosure data at a national level has only been captured since 2006, and data aggregation is not yet refined. The highest foreclosure density (foreclosures per square mile) exists mostly in larger metropolitan areas and areas where there is a prevalence of second homes. In 2007, these foreclosure trends increased. Mapping shows that the problems are much worse in some areas than in others.

Dr. Eric Baumer has been doing research for the past several years on metropolitan crime data. He discussed “Assessing Recent Patterns of Foreclosure and Crime in America.” There are many nuances to foreclosure data. Dr. Baumer used RealtyTrac data, which includes notices of default, sales, and REOs. He also used Housing and Urban Development (HUD) data. The states of California, Arizona, Nevada, and Florida accounted for almost half of all foreclosures in 2008. Other states with higher foreclosure rates are Colorado, Ohio, and Michigan. Dr. Baumer also explored foreclosure rates by zip code, neighborhood, and county. The percentages of loans considered high risk are those mortgages comprising 35 percent or more of household income. These high-risk mortgages were also considered in the analysis.
Simple analysis of foreclosures and crime is not possible because there are too many variables. Crime rates are affected by increased stress and frustration. Other factors, such as population density, size, divorce rates, etc., can also affect data. The theoretical mechanisms are complex, and this will take some time to analyze. There is some evidence that foreclosures affect the crime rate, and Dr. Baumer is investigating this.

Glenn Theobald discussed mortgage fraud data, which has been recently updated. Mortgage fraud turns into foreclosures. Types of real estate fraud include fraud for property and fraud for profit. Foreclosure rescue schemes are prominent now. It is simple to file a false quit-claim deed. The correct form can be easily downloaded and falsely notarized. For only $10.00, one can file a deed of claim and steal someone else’s property. Clerks are often required to file deeds but do not check the legitimacy of the transactions. Notice of deed change is often not made to the “selling” owner. People who already have a mortgage may not notice that this has occurred. The thief takes out a loan against the (wholly owned) property. It is almost like identity theft. Mortgage fraud is responsible for between 80 and 85 percent of foreclosures. Fraud on the “front end” of the purchase (no credit verification, inflated value assessment of property, etc.) has led to the majority of mortgage fraud cases. Many types of people can be involved in this fraud; the seller, appraiser, real estate agent, attorney, and others. The valuation of property is often artificially inflated, which also inflates taxes.

A “straw buyer” is someone with good credit who poses as purchaser. This buyer has no intent to live in the property being purchased from an unsuspecting seller. Sometimes the property actually being purchased is not the property initially documented. A straw buyer receives a fee
for use of their good credit. The purchased property ends up in default after six or eight months of payments, which hurts the lender.

The state of Florida passed laws at the local and state levels to allow law enforcement involvement as early as possible to prevent and detect mortgage fraud. Different avenues can hide fraudulently filed documents.

**Commentary: The Impact in Arizona — Roger Vanderpool**

Mr. Vanderpool addressed “Crimes Related to the Housing Market.” Arizona has the third highest foreclosure rate in the United States (U.S.). Between 2006 and 2008, Arizona’s foreclosure rate rose by over 600 percent. The state of Arizona is also at the forefront of the immigration battle. Foreclosure issues facilitate the criminal element in finding cheap, easy places to have a “drop house” to place illegal immigrants coming to the U.S. They can be “dropped” in any neighborhood, in any type of house. Communities on smuggling routes are targets, as are neighborhoods with high vacancy rates. Often, families of the illegal immigrants are then extorted for more money. The illegal immigrants are held as prisoners until payment is made by their families. Drop houses are usually fortified to prevent escape and sometimes have torture rooms. A typical three-bedroom house may hold between 20 and 50 aliens. Utilities are often shut off in these houses. These homes are often severely damaged and require significant repair to be sellable. Property management companies that are supposed to be taking care of vacant houses are instead trying to rent them cheaply. “Stash houses” follow the same concept as drop houses but are used to store drugs. Marijuana is the cash crop for drug cartels. Likewise, there are often no utilities, and the property is abused.
Vacant houses are also used by “party crews” to make a profit. For a fee, one can attend a party that often has live music, alcohol, and drugs. Attendees are frequently underage and there is potential for sexual abuse, fights, and drug use. These parties are advertised through social networking tools and are held on a street with a high vacancy rate. Legitimate neighbors are strongly intimidated so that they will not interrupt the party. This is all facilitated because there are so many empty homes on the market.

**Discussion of Research Issues — Open Floor**

- Subprime loans were overused. This is a crime of affinity. People were put into subprime (or other high-risk) mortgage products because they were assisted by people they were affiliated with in their community. Everyone thought that real estate would only appreciate in value.

- An immigration crack-down means that renters are lost.

- Committing fraud for property (e.g., reporting inflated income) used to be somewhat acceptable, as it was somewhat perceived to be simply “stretching” their income to get into a home. Traditionally, these folks have not been considered criminals. However, falsifying data to obtain a mortgage is now considered criminal activity.

- Why are some locations so low in foreclosures? Often, these are areas without a lot of new loans, where people have lived for a long time.
• We need to remember that foreclosures do occur on a regular basis. We are now in an era of increased foreclosures. The “hot spots” for mortgage fraud exist in the high-density areas of mortgage foreclosure. There is probably a direct correlation between escalated housing prices and foreclosures.

• These crimes have been easy to commit because there was no regulation or licensing in the industry. Because the crime was easy to commit, others were easily recruited to this type of crime. Some criminals are very organized (street gangs, drug dealers), but others are social networks. Everyone gets involved in this type of crime.

• Local dynamics exhibit unique vulnerabilities for an area. This should be considered in prevention efforts.

• Spatial distribution and dynamics of time to default would be interesting to see. For example, military families are frequently targeted to become involved in properties that they cannot afford.

• A critical issue is how crime is interrelated with the whole foreclosure process. What are the plausible dynamics that contributed to foreclosure, and how, in turn, does foreclosure affect criminal activity? What do foreclosures mean to communities, and how are they related to criminal activity? What are those causal links? Foreclosure is one path to vacancy, but what are others? What is the neighborhood “tipping point” that leads to crime? Vacancy is one issue, but houses that are not maintained may be another.
• We do not know how economic change affects social ills, solutions, and political conflict. Fraud can be a catalyst for other processes. Comparison of lock groups against median age compared to foreclosures shows that a higher number of foreclosures corresponds to a median age of approximately 33 years. The financial strain can lead to domestic issues and property neglect. This can occur even before a mortgage default. What are the long-term consequences of a high concentration of these situations? The foreclosure process and its affects can be viewed as a continuum. Some foreclosures are concentrated, and some are spread out. High foreclosures in one neighborhood can affect a nearby neighborhood.

• Homeowners are being counseled to default on their homes because it is a less painful course of action. This exacerbates opportunities for fraud; it will be characteristic of the next wave of foreclosures.

• What role does policy play in foreclosures? The federal push for home ownership encouraged people to own homes even if they did not qualify. This also needs to be addressed.

National and Local Data Sources and Limitations — Robert Renner, Dr. Eric Baumer, Ron Wilson, Dr. Peter Nigro

Robert Renner discussed HUD’s experience with foreclosure-related data sets. The definition of a foreclosure must first be addressed. Stages may be default, bank auction, and REO (bank-
owned). Not all stages are entered into, and status may vacillate between stages. There is no single authority for foreclosure data. Data sets can be obtained at different levels: ZIP code, county, state, and so on. There are some prohibitive licensing agreements such that data cannot be shared. HUD prefers to publicly share data but cannot always do that with data from private data sources. The Neighborhood Stabilization Program (NSP) is intended to provide emergency housing assistance.

Mr. Renner discussed private data sources pertaining to foreclosure. The Mortgage Bankers Association (MBA) provides quarterly data at the state level, for a fee. RealtyTrac data is not complete. Loan performance data (also known as “True Standings”) is available at MSA and ZIP code levels. A potential data source is the Federal Housing Authority (FHA), Fannie Mae and Freddie Mac.

Mr. Renner next discussed public data sources pertaining to foreclosure. There is no national source for foreclosure data. Data is available at various levels of geography but is more uniform at the national level. Data from these sources can be shared with the public. The Home Mortgage Disclosure Act (HMDA) requires lending institutions to report public loan data. The Federal Financial Institutions Examination Council (FFIEC) is a formal interagency body empowered to prescribe uniform principles, standards, and report forms for the federal examination of financial institutions. These data are used to identify high-cost and highly leveraged loans and are also used as a proxy for subprime loans, although it is not a perfect representation. The Office of Federal Housing Enterprise Oversight (OFHEO) Housing Price Index for metropolitan areas is an index that is adjusted for seasonality and other factors. Peaks and declines in these data are
used in calculations. The OFHEO is now the Federal Housing Finance Authority (FHFA). The Bureau of Labor Statistics (BLS) data on labor force participation and unemployment is also useful as well as the U.S. Postal Service data on address vacancies.

These data sources are used for out-of-state and within-state allocation of foreclosure rates. Drivers of foreclosure within a state include decreasing home prices, high-cost loans, and the local area’s unemployment rate.

The Federal Reserve compared HUD estimates with Equifax data and found high intrastate correlations at the county level. Counties with a population over 15,000 had an even higher level of correlation. The NSP methodology and data can be found at http://www.huduser.org.

HUD is working at a macro level. Where data are lacking, proxy data are used. Foreclosure estimates were created at a basic level of geography to target NSP funds toward areas in most need. Address-level data on where funds were used will be collected.

The problem with using sales data is that the data are available only for sold properties. Many properties on the market are not selling.

Dr. Peter Nigro discussed mortgage fraud’s impact on housing markets, focusing on a neighborhood in Atlanta, Ga. Data on mortgage fraud is difficult to obtain, and we need more detail. This research is preliminary.
As background, the FBI initiated a probe of 26 financial firms in September 2008. There is significant mortgage fraud, but we cannot get data to analyze. High foreclosure rates, losses, and property value depreciation all lead to mortgage fraud. Mortgage lenders eventually exit neighborhoods where fraud has increased. The mortgage market has changed as a result. Mr. Renner would like to see a broader study done in the future.

Data used for case analysis includes three-digit ZIP codes for Atlanta MSA, home sales, and average sales price data, loan application data, origination and rate spreads, demographic data for census tracts, and criminal indictment mortgage fraud data. Mortgage fraud can occur anywhere. There is more housing turnover in tracts that have fraud. We need more data.

The more non-bank originations there are, the higher the likelihood for fraud. Mortgages that were sold on the secondary market contributed to fraud. Mortgage brokers need more monitoring. There was often no oversight of mortgage brokers between 2004 and 2007. Black and Hispanic customers pay higher fees, and this disparity could not be logically explained through the loan data. It takes both borrower and lender to engage in fraud, so both sides need to be monitored. We need better data on the borrower side. Improved financial literacy is needed in this country because our housing consumers are largely uneducated on this topic.

Ron Wilson and Brandon Behlendorf focused on the micro level. There is not much local data. The Charlotte Police Department has been tracking local data through the court system and is very rich in data. This data can be massaged. The Charlotte Police Department performs a quality-of-life survey every two years. This doesn’t always match with census data, which
provides socioeconomic data. A foreclosure is a recorded event at the court level. Tax assessors may also keep track of this parcel data, which includes some property characteristic data. There is no one place for all data; it must be compiled from various sources. There are private sources of data (real estate agents, banks), but it comes at a cost. The U.S. Postal Service records a property as vacant after 90 days, but that data is not publicly available now. Parcel data is one of the keys to build on. It also helps to know about the individuals in the household. Starting at the lowest geographic level (parcel) allows data aggregation and is a key factor for useful analysis. This approach can help us understand the context of this problem; however, data is needed. At the local level, a standard methodology cannot be applied; different data sets will be available. However, some strategies for allocating data can be provided. Mr. Wilson and Mr. Behlendorf are trying to understand how economic factors play a role in foreclosures and crime. The Bureau of Economic Analysis carves up geography by economic activity. Examples of economic activity are journey to work data, business transactions between cities, and newspaper subscriptions. The regions created are Northeast, Southeast, Mississippi Valley, Central, West, and Great Lakes. These areas are not confined by state lines. This geography makes sense for what is being studied.

Dr. Baumer suggested that it is time to assess the measurement properties of some of the existing data. The source of data and exactly how the data was derived and defined is important. Data may be named and aggregated differently, so precise matching is not always possible. Data issues need to be explored before research commences.
Discussion of Research Issues — *Open Floor*

- It would be useful to develop a data archive where data sets, descriptions, and characteristics could be accessible. This is being developed for geographic crime data. A test case is currently being used, but more data is needed. We are trying to create a longitudinal data set across multiple years, using data from various sources. A county economic business set is also being developed. Often, counties do not associate economic data with crime. There is a public justice aspect to this as well. Dr. Zahn commented that archiving and maintaining a database is very expensive. Funding streams are not keeping pace with the need. This is an issue for both the BJS and NIJ.

- Municipalities have to maintain parcel data over time. Smaller municipalities may only be able to provide rolling estimates every two or three years. Virginia, Kentucky, Pennsylvania, and Massachusetts are all commonwealths and are not under the jurisdiction of the county. Parcel data are further disseminated by boroughs and townships. This creates a different level of maintenance on parcel data.

- Government policy on privacy and reporting prohibits release of granular data in many cases. An organization that wants to share data is at risk for being sued. The creation of a “safe harbor” may help.

**Lunch Speaker — Rosemarie Wolfe**

Ms. Wolfe talked about the issue of mortgage fraud. She shared three recent illustrations. In one case, the Federal Bureau of Investigations (FBI) and HUD combined forces to arrange a sting.
The defendants fabricated tax returns and other financial documents and had no intention of paying the mortgage on the foreclosed homes owned by HUD. There were nine indictments from this one situation. In another case, title was falsely claimed to properties and “straw buyers” were recruited. Loans were refinanced using fabricated paperwork and loans were soon defaulted. Mortgage fraud is continuing to spike.

A definition of mortgage fraud is “a material misstatement, misrepresentation or omission relied upon by an underwriter or lender to fund, purchase, or insure a mortgage loan.” This is not the same as predatory lending. One definition of predatory lending is “the practice of a lender deceptively convincing borrowers to agree to unfair and abusive loan terms, or systematically violating those terms in ways that make it difficult for the borrower to defend against.” Who really benefits in the mortgage transaction is what defines predatory lending. The borrower should benefit. Perpetrators can be industry insiders (brokers, appraisers, settlement attorneys, realtors) or real estate investors, lenders, or borrowers. Anyone who touches a loan or gets near a piece of real estate can perpetrate fraud. This can occur at many levels.

The following may drive people to commit mortgage fraud:

- **Fee income.** Originators willing to manipulate for remarkably little compensation
- **Continuance of business stream,** =With the focus on volume, the business stream equates to employment and a continued income/lead base
- **“Because everyone else is.”**
  - The “herd” mentality.
  - No perceived victim.
- No perceived or actual punishment.
- General market acceptance of behavior.

- *Most of us do something that is “a little bit” wrong.*

Fraud is categorized as either *fraud for housing* or *fraud for profit*. The first is perpetrated solely by the buyer and has been more common. Home ownership is the goal and the intent is to pay the mortgage. The latter is more complex and uses more insider involvement. Whereas fraud for housing has been more common, fraud for profit has become much more prevalent.

Common examples of mortgage fraud include:

- Not disclosing kickbacks.
- Creating a silent second mortgage, in which a borrower without a down payment can commit mortgage fraud by borrowing the down payment from the seller in exchange for giving the seller a silent second mortgage.
- Falsifying employment income.
- Non-owner claiming occupancy.
- Receiving down payment gifts the borrower will repay.
- Inflating the purchase price.
- Falsifying deposits.
- Committing identity theft of an appraiser.
- Grossly misrepresenting the occupancy status.
- Altering or inventing documentation.
- Marketing “novelty” documents.
Mortgage fraud is a crime of ethics, ignorance, and exploitation. This is the heart of what drives mortgage fraud. There is more opportunity now than ever for mortgage fraud.

The loan process is different through a mortgage broker versus a bank. A mortgage broker can originate and close mortgage loans and be compensated for both. Regulatory oversight of mortgage brokers can vary significantly from state to state. There are few entry barriers to be a mortgage banker. HUD’s FHA connection is a fabulous process. It provides unique identifiers to each loan, which can lead to real enforcement. Ms. Wolfe would like to see other organizations adopt the same process.

**Overview of White-Collar Crime and Its Relation to Mortgage Fraud — Dr. Sally Simpson**

Dr. Simpson addressed the problem from the perspective of corporate crime. Recent examples include Bernard Madoff’s Ponzi scheme and Allen Stanford’s investment fraud. In a declining economy, there seems to be more focus on white-collar crime. This can be thought of as the new “terrorism.” Many experts claim that the current financial crisis has been instigated by white collar crime. The general public, as well as the government, is very upset by white-collar crime. There is increased focus by law enforcement agencies on combatting white-collar crime. Regulatory agencies have been blamed extensively for allowing this type of crime, and there are calls for more regulations, resources, and punishment.
The research community has been strangely silent on this issue. There is an extensive body of literature about white-collar crime. However, the kind of scholarship that has dominated the field is not based on data.

White-collar crime can be defined as crime by a person of respectability and high social status in the course of his or her occupation (Sutherland, 1939, 1949). Organizational actors are unique and their actions tend to differ from individual actors. White-collar crime can also be defined as illegal acts or a series of illegal acts committed by nonphysical means and by concealment or guile to obtain money or property (Edelhertz, [year]). Both definitions are accurate. However, both the powerful and the less powerful need to be included in the definition. Known fraudsters are those who have been caught and tend to be minor criminals.

Types of fraudsters include:

- *Preplanned fraudster* — for both profit and housing.
- *Intermediate fraudster* — starts honestly but turns to fraud (for housing).
- *Slippery slope fraudster* — in their own eyes, just trying to stay in business (for profit).

Mortgage fraud extracts a tremendous cost to society and victims as a whole. It is a cumulative and dynamic process. There are blurred boundaries between offenders and victims. There appear to be some clear links between fraud and deterioration of local communities.

Theories on what causes white-collar crime include:

- A large differential between [what] and [what].
- Low self-control, greed, and hubris.
- Institutional anomie.
- Social control.
- Opportunity.
- Financial strain.
- Lack of deterrence and rational choices.

Ethics do matter.

As previously discussed, there are many problems with available data.

*Criminogenic tiers* are the pressures and strains that produce crime in one market and may push crime into another market. Mortgage fraud seems ripe for this type of analysis.

**Economic Impact of Mortgage Fraud — Ann Fulmer, Dr. Peter Nigro**

**Nigro**

Because most of us do not think like criminals, it is difficult to imagine how mortgage fraud can be committed. Fraud for housing has traditionally not been seen as fraud. Tolerating some kind of fraud encourages more fraud. All fraud is fraud for profit for somebody. Everyone is capable of fraud, even ministers and police officers. This is a huge problem. Because mortgage fraud data is imperfect or has not been collected yet, we do not yet know the extent of the damage.
It requires $1,000,000 in mortgage fraud to open a lawsuit. Mortgage fraud is a high-yield, low-risk criminal enterprise. The industry has the paradigm backward. They only recognize crime after it has occurred. We need to prevent fraud before it occurs. Audits on failed loans show that 50 percent of conforming loans have fraud, whereas 60 percent of Alt-A originations and 60 percent of federal loans are fraudulent. The sooner a loan goes bad after origination, the more likely that fraud has occurred.

Fallout from mortgage fraud includes:

- Inflated tax assessments.
- Inflated values and affordability issues for subsequent sales in the neighborhood.
- Vacant, vandalized properties.
- Destabilized neighborhoods.
- Losses for property insurers.

Kevin Wiggins operated fraudulent mortgages in one area of Atlanta and acquired 88 properties. Fraudulent houses are overvalued and create a second wave of victims who move into a neighborhood, try to fix up a house, and then cannot sell it. Even in expensive neighborhoods, vacant homes and homes acquired fraudulently can produce violent situations with drug dealers in the neighborhood.

People who owe more than the house is worth are in a desperate situation, and this creates the opportunity for mortgage fraud. Lenders are now verifying income through the Internal Revenue Service. This promotes fake tax returns. A corrected amendment can be filed later. We reward
sales and not quality in the mortgage industry. The secondary loan market is now the
government. Government policies often will not allow data to be shared, which is why the
industry needs a “safe harbor” where specific data can be shared. Affinity rings target minorities,
single mothers, and religious groups, who are protected by law.

U.S. taxpayers are now footing the bill for all of this fraud. Fraud ends in foreclosures. Until we
can stop this, we are putting money into a black hole.

**Discussion of Research Issues — Open Floor**

- By dollar volume, commercial mortgage fraud far exceeds residential fraud. Judging by
  number of cases, residential fraud is larger than commercial fraud. Commercial fraud
does not receive a lot of publicity. Commercial ownership varies. Shop spaces and office
  spaces can be owned as condominiums or by a single owner.

- Mortgage fraud generally has to be prosecuted as theft or grand larceny, which does not
  accurately fit the nature of this class of crime.

- How can we explain the timing of mortgage fraud?

- States have budget deficits and are cutting state government funds. This decreases the
  ability for states to address mortgage fraud. The federal government needs to participate
  in a mortgage fraud solution. Grant dollars have been available to states to provide
training and personnel. However, after three years, states have to be able to sustain the effort.

- BJA does have a grant out to hire prosecutors and local police without the sustainability requirement.

- Fifteen states have statutes that allow local law enforcement to investigate and prosecute mortgage fraud. This can be prosecuted as wire fraud, mail fraud, and bank fraud.

- This crime pays very well. It has been allowed to continue, and we need to do a better job of preventing it.

- The National Archives just released 15 years’ worth (1994-2007) of complaints filed in federal prosecutors’ offices. There is no federal mortgage fraud charge. The type of charge that captures mortgage fraud would be included in this data set. Defendants and conviction data are also included. There are case-level data available from 1977-2008 from every state. Due to budget cuts, these data will no longer be collected.

- The average take on a bank robbery is $3,000. The average take on mortgage fraud (given limited data) is about $50,000. Prevention can be accomplished by independent data verification. There are tools to assist with this. What we do know about fraud is not well quantified, and the cost of collateral damage should be included.
Asset forfeiture is involved in this type of prosecution, which can help cover law enforcement costs. Repossession of property can occur, but it takes time to realize the value of those assets. Law enforcement needs immediate funding dollars in order to address the problem.

**Housing Foreclosures and Domestic Violence: A Theoretical Foundation — Dr. Kirk Williams, Dr. Christopher Maxwell**

The determinants of social disorganization theory (SDT) proposed that the characteristics of crime within a neighborhood stay constant. This theory fell into disfavor but was revived in the 1980s by Rob Sampson, who offered the concept of *collective efficacy*. These neighborhoods have trusting, cohesive relationships. Neighborhood residents are willing to intervene for the common good. These neighborhoods tend to have low crime. Neighborhoods with concentrated disadvantages, residential instability, and homogeneous populations tend to have higher crime rates.

The determinants of SDT are related to domestic violence. Nested, hierarchical level data has been used but still needs further analysis. SDT does provide a rationale, but with exceptions. Economic distress is related to intimate partner violence, no matter what type of neighborhood.

General strain theory deals with negative relationships among individuals that occur when:

- Something that is highly valued is taken away.
- Threatening or adverse conditions are present.
- Something interferes with or threatens to interfere with a goal

These sources of strain can be associated with housing foreclosures and call for corrective action, although not everyone under these conditions will react violently.

In disadvantaged neighborhoods, the strain may be greater because there may be less support than in a stable neighborhood. However, the reverse could be argued. Disadvantaged neighborhoods may have more renters, so those individuals are not actually losing an asset. In an affluent neighborhood, there may be greater embarrassment due to financial strain.

Service providers of domestic violence shelters have experienced a recent, significant upsurge of clients. Historical data was reviewed in which poverty always seemed to be co-mingled with domestic violence. Contemporary criminal research was reviewed and attempted to pair data with theories. Although the analysis was not stringent, it was clear that money issues are a predictor of domestic violence. The differential theories (large differential of income or employment between partners) also influence domestic violence. Those who have less to lose (e.g., the unemployed) may be more likely to exhibit violence. There is evidence that domestic violence causes people to lose their jobs. Sometimes it is difficult to tell which causes what. None of the studies investigated what happens when people transition from being unemployed to being employed; does domestic violence decrease?
The economics of family life have changed dramatically in the past 20 years. Females now work more hours in the workplace than males do. Because there has been so much societal change, historical data is not reflective of today’s economy.

**Commentary — Dr. Margaret Zahn**

It would be useful to have more data about the types of foreclosures that occur and which ones are more likely to be related to domestic violence.

What is a home? Foreclosures are changes in ownership but do not reflect emotional attachment to a space. There is not a necessary relationship between foreclosure and domestic violence.

Housing and family structural variables do not related well to theories about these issues.

Unemployment affects a lot of different people. Unemployment in relation to alternative resources may be the important factor. How do unemployment benefits affect domestic violence?

One factor of unemployment is excessive alcohol consumption, often resulting from a situation where household members are spending more time together than they ever have.

Collective efficacy is the willingness to intervene, but it does not mean that someone actually will intervene. Many people still view domestic violence as a private matter and may be reluctant to intervene. Cultural background may affect collective efficacy. Partnerships with local police are perhaps a form of collective efficacy. This concept is important but needs more examination.
Domestic violence is not just between intimate partners. Elders and children are also victims. We know very little about elder abuse. There are different key forensic markers for elder abuse.

**Discussion of Research Issues — Open Floor**

- New neighborhoods do not immediately have collective efficacy. There is a certain time lag before determining whether intervention will occur. The size of a lot or dwelling may determine whether domestic violence can even be detected. For instance, members of a household in the suburbs on a large lot may be able to conceal domestic violence more easily.

- Employment history is only one economic factor that is examined. Multiple measures are used to determine economic distress. Reviewing all of the factors helps determine the likelihood of domestic violence.

- Domestic violence may cause foreclosure if the house cannot be afforded on one income. In addition, couples who are splitting up may not be able to sell their home in this housing market.

- Some neighbors only care about surrounding issues if it affects their own home’s property value.
• There is a difference between a house and a home. A “home” implies emotional and identity attachment. Survey instruments could capture sentiments about property ownership.

• Stressors can be considered in a broader context, beyond the foreclosure issue. Are foreclosures an independent causal influence? There will be different reactions to the same stressor.

• Do we make distinctions in domestic violence committed by people in different types of partner relationships (e.g., those who have a history of battering vs. those who are more sensitive to situational violence)?

• The current surge in clients at domestic shelters may be more reflective of a need for shelter than an increase in domestic violence.

• Police responses to domestic violence may be reported as responses to noise (screaming) rather than domestic violence.

• Any occasion that causes people to spend more time together (e.g., holidays, rainy days) tends to exhibit a higher level of domestic violence.
Perspectives From Public Health — Dr. Thomas R. Simon

Dr. Thomas Simon spoke about “Foreclosures and Economics Related Suicides.” Violence does present a public health burden. Homicide and suicide are the second and third leading causes of death among young people. Suicide rates for males are four times higher, on average, than for females. Lifetime suicide patterns are also different for males and females: Males are much more likely to use highly lethal methods for suicide, and females are much more likely to attempt suicide than males. The highest recorded year for suicides in this country was 1933. It was at the end of the Depression, and the unemployment rate was 25 percent.

Economic circumstances that are risks for suicide include job loss, dealing with bill collectors, loss of retirement or health insurance, foreclosure, and eviction. Any individual indicator is not enough to cause suicide, but those more vulnerable to suicide may be more influenced by these factors.

The National Violent Death Reporting System (NVDRS) includes data from 2003 to 2008. It is growing and includes data from 16 states, plus four counties in California. Circumstance information is gathered from law enforcement and medical examiners. Included circumstance fields are mental health/substance abuse, interpersonal factors, life stressors, and suicide events. The data are available six months after the end-of-year count of violent deaths. Circumstance information is available 18 months after the end of each year. A search tool identifies text strings related to foreclosure and suicide and has identified 577 eviction/foreclosure cases involving suicide. Another 169 cases involving a person being “kicked out” of their home are reviewed.
next. The study will further compare eviction/foreclosure suicides to suicides in which other financial problems were a contributing factor.

Homicides related to foreclosures could also be investigated. However, it may be harder to determine the correlation of homicide to foreclosures.

**Discussion of Research Issues — Open Floor**

- It was pointed out that the suicide rate among college students seems to be increasing, possibly due to the fact that parents cannot pay tuition.

- County-level linkages between suicide rates and foreclosure rates would be useful.

- How do we isolate and attribute suicide to foreclosure? Are foreclosures unique among the economic indicators? Foreclosure is a defined event; which milestones within the foreclosure process may be suicide triggers? If someone is vulnerable to suicide, how do we know that foreclosure was causal? How does this relate to bankruptcy? How is mortgage fraud related to foreclosure and bankruptcy?

- One can file bankruptcy and still stay in the home. Foreclosure is distinct physical displacement of the resident. Individuals who go through foreclosure lose a social base.
• We’d like to understand the longer-term ramifications of foreclosures on property and communities. The quantity of foreclosures is a collective loss for society. Neighborhoods are in decay as a result, and the outcome and resources required are uncertain.

• Stigma depends upon a person’s sensitivity. So many people are going through foreclosure that it does not have the financial and social stigma that it used to.
  Foreclosures affect the entire local economy, including retail outlets, tax revenues, and the ability to provide public services. There is a lot of collateral damage.

**Wednesday, April 1**

**Meeting Objectives for Day Two — Bernie Auchter**

NIJ wants to determine whether or not foreclosures and crime is worth studying.

**Neighborhood Deterioration and Crime — Ron Wilson, Dr. Derek Paulsen, Dr. Ralph Taylor**

What are the long-term consequences of foreclosures on neighborhoods? How quickly are neighborhoods that are besieged with foreclosures degrading into dangerous locations? In the past, neighborhoods declined when properties were not taken care of. Foreclosed neighborhoods are largely vacant. People with fewer resources get forced into neighborhoods like this. They do not have resources to maintain properties. Crime can begin to take place. We are seeing a
city/suburban reversal. It used to be that the suburban areas were “nice,” whereas city neighborhoods could be dilapidated and draw a criminal element. How we police these areas is affected by these patterns. These are dynamic systems that change over time and go through stages.

Neighborhoods can go through stages of decline, although they do not begin this way. The quality of construction and size of homes and lots does matter. Neighborhoods that decline are typically “affordable housing,” which is of poor quality construction, with garages in the front, small lots, and other features that create opportunities for crime. Original owners start to move out, and renters replace them, one after the other. These neighborhoods are not intended for long-term occupation and are often “starter” homes. Some better neighborhoods with foreclosures are more of an investment/bargain opportunity than a crime opportunity. These neighborhoods do not tend to have the concentration of foreclosures that other neighborhoods do. Foreclosure may be speeding up the neighborhood decline dramatically.

More information can be found at www.rbtaylor.net/unoccupancy_impacts.pdf.

Crime theories include:

- Incivilities—the focus of convenience, in urban settings, is a cluster of social and physical problems.
- Crime pattern theory — focuses on the spatial position and clustering of targets, and identifies key features of targeted spatial patterns.
- Social disorganization — collects efficacy matches between internal and external social relations. Neighborhoods that are well connected externally are sometimes not well connected internally. Public control is vital in terms of resource issues.

How do we co-produce crime prevention? Crime pattern theory helps highlight vulnerabilities. This helps us understand and target where to put law enforcement resources. Human territorial functioning advocates occupancy as a simple policy solution. We could strategically determine which houses need to be occupied in order to help control crime dynamics. All models suffer the same deficit of a disconnect between crime theory and suburban theory.

**Commentary — Dr. George Tita**

Often, crime is thought of as urban crime. We now find ourselves in a different situation as foreclosures are affecting suburbs. We need a better understanding of the geography of foreclosures. Social networks distinguish between linking capital versus bridging capital, and this also plays a role. In neighborhoods, we find that an increase in violence precedes the number of home sales in a neighborhood. There are “push” and “pull” factors to home sales that are largely unexplored. We are missing housing policy. What is the implication for public housing? How do we manage neighborhoods that face large-scale abandonment? How do we entice people to move back into these neighborhoods? When a home becomes unoccupied, the previous tenants went somewhere. Where did they go?
Discussion of Research Issues — *Open Floor*

- The challenge is managing the level of housing vacancies. Neighborhood change is a complicated challenge. The same management methods will not work for every neighborhood. Surveys that track household moves show that in low-income neighborhoods, two-thirds of the families with children have moved. Half of these moves were within two miles. These moves impact schooling and health care issues for families. There has been little research on the effects of moves on these families. There are economic and race-based components to these moves.

- William Grigsby’s research frames neighborhoods in terms of housing “sub-markets” and how neighborhoods affect change in other neighborhoods. Crime is a reflection of some of those impact changes. Today’s transportation capabilities affect social networks and human territorial functioning. People from one neighborhood can travel to another neighborhood to hang out or commit crime.

- What will we do with empty neighborhoods? It’s not that people do not care; there is nobody there to care. The neighborhood loses all sense of guardianship. From the police perspective, neighborhoods are the mission field. Neighborhood relationships are built between residents and police. However, police can’t be in an empty neighborhood every hour of every day.

- If we can find ways to keep people in their homes by offering lower payment plans or other means that may help improve the foreclosures and crime problem.
• “The Camden syndrome” studied various data that suggest that race and ethnicity are less important considerations.

• The effects of foreclosure versus bankruptcy were discussed. Foreclosures have more far-reaching effects on society than does bankruptcy. Bankruptcy filings have also increased dramatically. The stigma attached to bankruptcy has diminished because there are so many people filing for bankruptcy. In the case of a bankruptcy, the individual is making a decision to file. In the case of foreclosure, the action is being imposed and there is less control on the part of the individual.

• In Lincoln, Neb., many of the starter homes were built to last only 25 or 30 years. Areas with this type of construction are now one of the most problematic and drain community resources.

• Where do gangs fit into the foreclosure and crime scenario? Should we study gang migration? This may depend upon the flow of residents. Gang migration suggests purposeful movement, which often is not what happens. It is more of a cultural migration. Conditions of probation and parole may partially dictate where gang members can live.

• From experience, we need to stop and look at what we have created. Many of the dynamics and social issues haven’t changed, even if the neighborhoods are different. Sometimes the location is different, but the mindset and crimes are the same. The public
housing model included guardianship in the form of a local-level manager. Vacant
neighborhoods have no enforcement.

- In Arizona, there are planned new communities that are 20 percent complete and
coloration stopped for economic reasons. Some infrastructure and homes are partially
complete. This is also a new phenomenon.

- An urban crime simulator is being developed. The purpose is to connect city
administrators with law enforcement. Based on historical data, a change to an urban
environment can be imposed and the result can be observed. Quality of construction and
social demographics can be altered to capture the change between the contextual and the
structural. What independent role does foreclosure play in this process? The volume,
mass, and spatial concentration of foreclosures is what makes them influential.
Foreclosures can alter the social fabric or prevent a community from developing in the
first place.

- Displaced people sometimes move in with family members, creating different density
patterns. Sometimes, adult children are moving in with parents.

- Housing costs increase 3.5 percent annually, on average. In areas with higher increases
precipitated by investors and easy-credit practices, real estate values became artificially
inflated and foreclosures ensued. Our economy has never experienced anything quite like
this situation. It is a “perfect storm.”
• Some areas have an excess supply of affordable housing, which led to more foreclosures.

• Likely themes for upcoming housing policy include mixing income levels in communities and preventing concentrations of poverty. The emphasis is on finding ways to guide transition and restructure placement.

• We need to be careful about policy that moves people around. People identify with the spaces they inhabit, and their social networks are important. We will recognize further change, as there are more foreclosures and adjustable rate mortgage adjustments to come.

Local Level Case Studies — Dr. Eric Baumer, Brandon Behlendorf, Dr. Derek Paulsen, Jim Lucht

Dr. Baumer shared a study on foreclosure and crime across Florida. There is anecdotal evidence that foreclosures encourage crime, but researchers need to approach the possibility empirically.

Subjective economic realities could elevate personal stress and alter consumer behavior as well as other risky behaviors. This issue is complex and highly conditional. Data that can be captured may include:

• Population turnover.

• Extended vacancies and high rental rates.

• Foreclosure data.
• Unemployment data.
• Illicit drug activity.

Dependent variables might be:
• Homicide.
• Domestic violence.
• Acquisitive crimes.

Florida counties averaged nine properties in foreclosure per 100 mortgages in 2008. Areas with higher foreclosure rates have had higher rates of crime for some time. This is not a new occurrence.

After multi-variate analysis, foreclosure rates were found to be higher in counties with higher unemployment rates and where mortgages were over 35 percent of gross income. Foreclosure does not solely affect homicide rates, but there is a stronger correlation when coupled with other factors. It is too early to see the full effect of massive numbers of foreclosures. It would be useful to distinguish between types of foreclosures, for example, people losing their primary home versus a secondary property.

A research agenda focused on foreclosures and crime should be a more general effort to facilitate a comprehensive and policy-relevant research agenda that is capable of addressing these sorts of issues. A strategic crime-monitoring program in preparation for studying these issues would be helpful.
Dr. Paulsen focused on Lexington, Ky., with a population of about 290,000. The local economy is based on education, health care, and agriculture (including horses). Between 2000 and 2007, 15,000 single-family units were added. Median income increased but nowhere near the rate of home values. Foreclosures grew by 24 percent from 2001 to 2008, but that rate was fairly stable, considering the home units that were added. Lexington has become slightly more suburban over the past three years, and foreclosures have also become a more suburban phenomenon. Lexington is not a high-foreclosure location compared with other areas of the country. There are two foreclosure problems in Lexington:

1. Foreclosures are concentrated in the disadvantaged areas of the city. They are characterized by housing and economic disadvantages, severe family disruption, and high crime. The government’s HOPE VI relocations were concentrated within traditionally high-foreclosure neighborhoods.

2. New foreclosure areas are concentrated in suburban areas built since 2000. These are characterized by smaller, cheaper construction, lower median incomes, lower median housing values, and more residential mobility. Crime is beginning to increase in these areas, and so are disorder issues, such as loitering and code enforcement issues. There is a decrease in owner-occupied housing and a change in the populations living there.

One neighborhood had 17 foreclosures. There were significant robberies and sanitation (garbage) issues in this neighborhood. In high-foreclosure areas have spread to the suburbs.
Jim Lucht represented the Providence Plan, which is a nonprofit organization dedicated to urban planning issues. Mr. Lucht tries to get data at the parcel level and prefers to use maps and geography to collect his data. People relate to places that they are more familiar with. He often works with raw health and education data and aggregates it. Mr. Lucht works with a variety of tools, including neighborhood profiles, special portals, and an Internet map server. The Providence Plan was slow to start foreclosure mapping because it was seen as being in the purview of the city and state. However, it was dictated by need. Foreclosure data and crime data can be combined. The Providence Plan mapped boarded-up and abandoned houses. They started with basic foreclosure mapping that included thematic, hot spots, animations, and parcels. Heavy foreclosure areas were Hispanic. Almost 21 percent of all residential property has had a foreclosure initiation. Sixty percent of properties with foreclosure initiation do complete the process and are foreclosed.

Foreclosure response could include a distressed-property management system. This could include commercial and municipal data feeds, asynchronous data listings, and others.

Brandon Behlendorf spoke about the neighborhood context of foreclosures and crime. Any type of home can be foreclosed upon. He discussed the types of foreclosure and the process of foreclosure. Mr. Behlendorf focused on foreclosure as a completed event, when the property changes hands and the owner leaves the property. One way to think about this is a disorganization approach. Foreclosure disrupts the existing social network and can generally lead to reduced social control and higher levels of crime, especially violent crime. An incivilities approach maintains that the property falls into disrepair and the community withdraws from the
area. This can lead to petty crimes and then more serious crimes. If people are removed from the
network, possible effects are increases in vacancies, property crimes, and then violent crimes.

Charlotte, N.C., data for closed foreclosures was matched with Charlotte’s property data. The
city of Charlotte did not suffer from overinflated property values; Charlotte’s economic base is
diversified. Do foreclosures have an additive effect on crime? The affect of foreclosures can also
be viewed in the context of the neighborhood type.

The primary question is, “Do foreclosures increase the level of crime in the neighborhood?”

There was a spike in affordable new home construction around 1985. Foreclosures occurred in
both newer and older neighborhoods. A negative binomial regression model was used, including
completed foreclosure data from 2005 to 2007. Results showed that the only significant effect
was on residential burglary at the census-tract level. Effects migrate to different types of crime
over time. Foreclosures increasing in disadvantaged neighborhoods do not show an increase in
crime. The context of the neighborhood matters. We may want to consider whether foreclosures
have more of an effect on moderately priced, stable neighborhoods.

A closed foreclosure leads to a vacancy.

**Law Enforcement Perspectives — Rodney Monroe, Michael Bess**

The Charlotte-Mecklenburg Police Department is a metropolitan police department. There is
both an urban and a suburban mission for the department. “Starter home” communities to the
north and east of the city have been built within the past 15 years. The Sheriff maintains the jail
and courthouse security and handles subpoenas. The loss of jobs in Charlotte’s banking industry has probably not yet been factored into the data, as they are ongoing.

Domestic violence calls in Charlotte are probably underrepresented, as they may be coded as a different type of call (noise, for instance).

In 2007, the foreclosure issue took the Charlotte-Mecklenburg Police Department by surprise. Data tracking within the department influences department managers’ resource decisions. They began noticing problems in newer neighborhoods that they would have expected to see in older neighborhoods. They began to realize that some of these problems resulted from foreclosures. Foreclosures also cause reduced revenues for the department, resulting in fewer resources to address the neighborhood problems. The department values community partnerships. Chief Monroe’s approach is to have a very visible police force that is accountable to the community. The community is also held accountable for their behavior. There are 120 administrative or specialized department employees who were previously working in the office but who are now back in uniform and on the street. They are becoming a much more visible police force. There are also plans to hire new officers.

Code enforcement is part of neighborhood development in Charlotte. The police department and code enforcement do have some different priorities but attempt to work together.
Discussion — *Open Floor*

- Crime will probably increase as a result of fewer resources. Many code enforcement personnel have been laid off as well. Sometimes the code enforcement function has been delegated to law enforcement.

- Police departments that have been hardest hit could share lessons.

- Law enforcement could work with regulators to have licenses pulled for violators in the mortgage and real estate industries. Communities should be responsive to instances of home foreclosure, board up and maintain those homes, and ask neighbors to watch them. In Florida, pools at vacant homes have to be drained and filled with sand to prevent potential injuries. Communities should be proactive and work with legislators to pass ordinances that allow law enforcement to take property management actions.

- Law enforcement resources should perhaps be added to our working models. There may be fewer law enforcement resources available to address problems brought about by foreclosures.

- Fraud involving affinity groups often involves a first wave of immigrants. People bring cultural understandings with them that are different from our culture. Immigrants suffer from language disparities. This group is a target ripe for mortgage fraud.
Lunch Speaker — Dr. G Thomas Kingsley

There is a need for local information infrastructure. Ongoing data at the neighborhood level is essential. National data sets will never be enough. Local departments define crime differently. The National Neighborhood Indicator Partnership (NNIP) was started in 1995 and is a collaborative network with local partners from 31 cities.

To join NNIP, an organization must be:

1. In the process of building and operating information systems with integrated and regularly updated data on neighborhood conditions.
2. Facilitating and promoting the direct, practical use of its community resources.
3. Emphasizing their use of the information to others.

Those in the network are interested in sharing information with each other. Many large cities are included (e.g., Los Angeles, Denver, Chicago, Atlanta, Philadelphia, and New York City).

Their success is due to geographic information software technology and institutional innovations that follow an aggressive agenda. In the beginning, most data was at the neighborhood level, often census-tract data. Now, almost all of the participants have parcel-level data. Most network members have some type of foreclosure data, although some data is better than others. Data on the status of public programs is also included.

Institutional homes are typically nongovernmental. Civic leadership has decided to support this information system because they can act as an effective neutral broker of data amongst the
providing agencies. This provides an effective one-stop shop for data, with economies of scale.

A major accomplishment is that agencies are sharing data. It is harder NOT to share data than it used to be. Care is taken with the cleaning and release of data. Fee or project income can cover the majority of the cost, although some local general support is often required. Useful data has to be provided, or no one will pay for it. The emphasis is on information for change. The direct use of data by stakeholders is facilitated. A central mission is the strengthening and empowering of low-income neighborhoods. It has been discovered that this information can be a bridge for collaboration.

Types of NNIP applications include using indicators in local change initiatives and using comprehensive indicator reports and reviews. The missions of the partnership are to advance the state of practice, build and strengthen local capacity, influence the national context, and partner with other communities.

Cross-site initiatives include using neighborhood data to drive more effective policies and programs. Recent topics include prisoner re-entry and land markets. Current topics are school readiness/early childhood and community development. A priority now is the foreclosure crisis. The Home Mortgage Disclosure Act data was restructured to show the density of subprime lending by race and by poverty in the 100 largest metropolitan areas. Foreclosure is most dense in ethnic neighborhoods with lower poverty rates. There can be a lot of variation in foreclosure effects by area. When looking at foreclosure density in urban versus suburban areas, density differed by geographic area. This is not a problem with only one solution. Not enough analysis has been done. The Web site, www.foreclosureresponse.org, has information about how to
address the crisis. An effective response can be very different in different places. Market condition is the most important variable to consider. In a strong market, there are many natural forces at work to help solve the problem and not much extra effort is required. In a weak market with many foreclosures, spending significant public money would not be worthwhile because there will not be an owner who can sustain the property. Money spent in this manner is probably wasted. We need to understand the appropriate course of action, given a local situation. The highest leverage is where the money invested returns gains. There is not only one kind of neighborhood. We want to know the likely nature of crime in these various types of neighborhoods.

The definition of “neighborhood” can be individualized. The data is freely available to community groups. However, most partners will sell a customized analysis of data in order to sustain themselves. Community training should include how to use data. We need to learn how to use data in order to make decisions.
These Web sites may contain helpful information:

www.urban.org/nnip
www.foreclosure-response.org
nnip@ui.urban.org

Ron Wilson pointed out that many foreclosures are occurring in neighborhoods where there are young families.

**Responses to Stabilizing Neighborhoods — Louis Tuthill, Cornelia Sorenson-Sigworth, Roger Vanderpool**

The mortgage crisis requires strategies of prevention and intervention, both in communities and in policing. The federal government is responding by increasing lending, buying toxic mortgages, and attempting to stimulate job growth. The Federal Reserve is taking various actions. The BJA had a two-day conference to address intervention to prevent foreclosures. Five cities were invited to attend.

Many lessons were learned from the meeting. A city has to devise an appropriate response, not simply leave the response to law enforcement. The city should include partners in this effort. Cities need data on where abandoned properties are, which does not necessarily correspond with data on foreclosure properties. Cities can use various strategies: They can leverage a local tax on the title holder of an abandoned property. Cities can create legal requirements to maintain abandoned properties. Local laws are antiquated; updating them can help municipalities deal with abandoned properties. Task forces to combat mortgage fraud are helpful. Focusing public
attention on prevention is helpful. Cities should collaborate, enforce where possible, prosecute when necessary, and get the best data possible. Cities should figure out a way to reuse or sell abandoned properties in accordance with a comprehensive strategy.

The most effective response to foreclosures is to build an effective strategic-planning process. BJA will post results of the meeting on their Web site. The lessons learned can be shared with other communities. Foreclosure is complex and needs to be dealt with at the local level. BJA now has an open solicitation containing two topics related to foreclosure and crime: “comprehensive and community-based data approaches to reducing violent crime.”, and “reducing mortgage fraud and crime related to vacant properties.”

Richard Woodcock shared that the city of Charlotte had low to moderately priced neighborhoods that were funded with subprime loans and that experienced heavy foreclosures three or four years old into the loan period. Previously, foreclosures were an individual problem instead of a neighborhood problem. The vacant properties were attracting crime, and surrounding property values were declining. Some of these homes were owned by speculators, who wait for property values to increase before selling. Foreclosures were addressed in a comprehensive fashion. Charlotte does not have many abandoned properties. The property values are strong enough that owners will not walk away from their properties. Initially, there were problems getting participation in community meetings because some of those affected were struggling. Habitat for Humanity is helping. Charlotte has applied for available state and federal funds to help. Vacant houses do result in code enforcement issues. The city does not want to own houses and would prefer that individuals own the houses instead. Unfortunately, a homeowner must miss two
payments before the City will counsel them or banks will talk to them. House Charlotte is a
down-payment assistance program. Applicants must go through a home-ownership training
program to qualify for assistance. Properties under the HUD Neighborhood Stabilization
Program (NSP) must be purchased at a 15 percent discount. Under the program, properties
cannot be condemned. Those who make 50 percent of the median income are usually not good
candidates for home ownership.

**Commentary — Lisa Gore, Roger Vanderpool**

Mr. Vanderpool shared that many western U.S. communities under foreclosure are in
unincorporated areas, so other rules apply. Most western city police departments do not perform
evictions. In the southwest, traditional community policing has been applied on the front-end of
the real estate transaction, engaging the new homeowner in the Neighborhood Watch-type effort.
Arizona has task teams to address the existence of drop houses. The Arizona identity task force
goes after falsified driver’s licenses, social security cards, and green cards. Police gang units
work well with the Arizona department of real estate. One-third of the Arizona state budget is in
deficit. Discovery is tighter in the federal system than in the state system.

**Discussion — Open Floor**

- The Miami-Dade Police Department gained the cooperation of banks by pointing out that
  banks would be victims of mortgage fraud and that they could recover some losses by
  working with law enforcement. See [www.miamidade.gov](http://www.miamidade.gov) for a history of the mortgage
  fraud actions taken. A coordinated effort at the national level would ensure that an
  effective, duplicative model could be followed. Resources and training are limited and
could be shared. Training, local response, and a centrally coordinated effort seem to work. One response that takes the best practices from all states and coordinates them at the national level could be effective. A nationwide mortgage fraud task force bill is now in Congress to centralize such an effort within DOJ. Laws and penalties for mortgage fraud vary on the state and federal levels. and It is unclear what amount of prison time would be a deterrent for this type of crime; besides, states cannot afford to house any more prisoners.

- Mortgage fraud is the lynchpin of our current economic crisis. The media generally doesn’t cover the issue because it is complicated, the time to report is limited, and the situation does not have great visuals. There is media coverage, but typically not television coverage. The fraud attracted a lot of amateurs, who have since washed out of the system. Those left committing the fraud are professional thieves.

**Roundtable Discussion: Setting the Research Agenda —**

*Facilitated by Bernie Auchter*

Mr. Auchter asked the group to think broadly about where our research attention should be focused. Following are contributions from the participants:

- Mortgage fraud began with a noble concept of allowing low-income families to own homes but ended with abuse of the subprime mortgages in the securities market. Research
should consider potential unintended consequences of these actions. NIJ may want to partner with other federal agencies for this research.

- Practitioners operationalize research results. In the field, how do we spot mortgage fraud? What are the indicators to be aware of?

- Communities and affinity groups could help spot fraud.

- Consumer financial illiteracy is a huge problem. The FHA just developed a public service announcement — about how to spot mortgage fraud — that will be viewed in movie theaters. Education is a large component of stopping mortgage fraud. Banks and lending institutions are now willing to be a part of this effort because they now know how it affects them.

- How did the people who lost their homes get to the point of foreclosure? Did the situation lead to domestic violence? Because they are not in the same housing anymore, it is difficult to follow-up with those individuals. It is necessary to reach the people who are still in the foreclosure pipeline but are still in their homes. These people should be interviewed to more fully understand their situation. There also might need to be a control group.

- We need to develop and test models related to foreclosure and crime.
• An immediate need is to formulate recommendations for the federal government on how to monitor the various program funds currently being released and to develop protocols for disbursement of funds to prevent their fraudulent use. There are committees forming right now for fraud prevention.

• It is useful to know locations where vacancies are increasing but crime is not. Also, what are the processes by which crime contributes to vacancy? How is all of this conditioned by the local context? We need to understand what is driving what; these dynamics will continue to evolve. We know much more about processes at the individual level but not what processes are used at the aggregate level. Prevention will not be effective if it is not correctly targeted. We need to have both strategic and tactical responses.

• It is important to know the source of the loan — whether it is a mortgage broker, lender, or bank. Many non-bank channels are used in crimes of affinity. This is often a path to predatory lending.

• The central concern is perhaps not process, but how vacant buildings lead to crime.

• There are different ways to get to the same vacancy rate. The key issue is what is going on ecologically.

We do need to determine how each foreclosure was reached to understand whether crimes were committed.
• When banks rent property back to the owner, is there an effect on crime?

• We could create a model that would allow isolation of foreclosure vacancies versus other causes of vacancy. We do have 35 years of research on vacancies. This is an opportunity to add interaction terms. What is different now is the abruptness of the vacancies.

• High foreclosures do not necessarily lead to vacancies.

• We may want to compare areas of the country without high foreclosure rates with those that do have high rates. Transient populations and growing states have some effect on these trends.

• What can prevent this type of mortgage fraud? How could the process be regulated so that it does not happen again?

• Research questions that would help inform prevention strategies would be useful. What has been successful in terms of prevention? What seem to be community resilience factors? We are at the forefront of a major social change in this country and do not really understand all of the social implications of it. However, we need to establish the link between foreclosures and crime before we can determine what prevention strategies will be effective.
• Are foreclosure rates associated with perceptions of social disorder and crime? It is
dangerous to draw conclusions without adequate data.

• Is there research on how these properties are handled after foreclosure?

Mr. Auchter provided a handout asking two questions:

1. What do you see as the most important research question that needs to be addressed in the
   short term (next two years)?

2. What do you see as the most important research question that needs to be addressed in the
   long term (beyond two years)?

He asked that the completed forms be returned before leaving. Responses to these questions are
contained in the appendix of these minutes.

**Closing Remarks — Dr. Margaret Zahn**

Dr. Zahn thanked the participants for attending. These ideas will be taken back to NIJ, and there
will be results from this meeting. Participants may be contacted later by NIJ and should feel free
to contact NIJ with subsequent thoughts on these issues.
Appendix: Questionnaire Responses

Question 1: What do you see as the most important research question that needs to be addressed in the short term (next two years)?

Responses:

- We need prevention-oriented research. The foreclosure and economic crisis has come on quickly, has deeply impacted some communities, and may continue for some time. I would like to see research that evaluates promising programs and policies that are being implemented in communities to determine if they are having an effect on rates of crime and violence. I also suggest that you examine community-level protective factors that provide a buffer to families against the risks from foreclosure and other economic stressors. This research could have broader implications for prevention practice.

- Try to get a handle on the true scope of mortgage fraud. Develop some common terms and definitions. Develop and test models of foreclosure impact; does foreclosure have a direct effect or does it moderate or interact with other determinants?

- What is the relationship between the types of neighborhoods and housing structures experiencing foreclosures, vacancies, and crime? For instance, we do not want to base our assumptions about conditions in suburban, fragile, middle-class, single-family home communities on research conducted in densely populated urban centers.
• Establish the empirical association between housing foreclosures, crime, and violence and determine whether it varies by level of analysis (individual, neighborhood, community, region), by time, by type of crime or violence, and urban location. This research should explore variable aspects of foreclosure (as events in a sequence, whether driven by fraud or not), measurement issues of foreclosures, crime, and violence, and research design issues so that the evidence of the (patterns of) association is defensible. Descriptive ethnographic work should supplement such efforts.

• Compare the role that mortgage fraud and other factors play in the foreclosure crisis, related crimes, and unintended consequences and what the desirable community and law enforcement responses would be.

• Which came first, the chicken or the egg? Is foreclosure being caused by crime, or is crime caused by foreclosures? Whatever you do, involve law enforcement, but from different jurisdictions: local, county, state, and federal. Does strict immigration enforcement reduce crime?

• Coordinate better with the Departments of Finance and Treasury to assist in the detection of white-collar crimes such as mortgage fraud. A database on mortgage fraud to help to assess foreclosures’ impact on crime.
• Do foreclosures impact all communities/neighborhoods in the same manner, or are there differences by location, neighborhood type, or mortgage type? We need better data on the problems and their impacts.

• Develop a typology of foreclosure in terms of (a) time to failure/default (how old is the mortgage?), (b) whether it results in a vacancy, and (c) how long it takes before the building is reoccupied. (see also the presentations by Drs. Eric Baumer and Ralph Taylor).

• **What?** Are foreclosure rates associated with perceptions of neighborhood deterioration, investment in neighborhood life, intentions to stay or leave, perceptions of physical disorder, or perceptions of crime? **How?** Conduct a national survey of occupied households and attach foreclosure and other neighborhood data. Repeat annually for three years.

• We heard almost “a tale of two cities,” that the foreclosures were the result of mortgage fraud and, on the other hand, the result of housing and monetary policies. In order to arrive at a solution for the future, it would be important to know the proportion each contributed and identify methods to identify each.

• What is the separate ecological effect of foreclosures on levels of crime within different neighborhood contexts?
• What is the tipping point related to the number of foreclosures a neighborhood can absorb before the crime rate begins to increase and while also controlling for the variability of neighborhood conditions?

• (1) Identify bank/lending cultural elements that encourage mortgage fraud (or discourage fraud prevention) and recommend changes. (2) Identify legal impediments to preventing mortgage fraud (HMDA, Gramm-Leach-Blyley, Fair Credit Reporting Act, Bank Secrecy Act, no “safe harbor” for reporting, etc.) and recommend changes. (3) Identify sources or channels of mortgage fraud (non-bank/broker vs. financial institution) and their correlation with high-cost loans and minorities preying on minorities. (4) Model mortgage fraud law at the state and federal levels. (5) Submit recommendations to keep NSP and TALF stabilization funds from being diverted to criminals or to perpetration of additional frauds.

• NIJ — perhaps with input from BJA folks — can answer the following research question, looking at a number (10? 20? 30?) of regional (not city) police departments and using foreclosure data: What are the places where vacancies are going up but crime is not? “Places” means whatever you want. Secondary data analysis is followed up by “on the ground” peeks to see what is happening in the safer places — vacancies went up but crime did not. Maybe police were doing something to reduce crime.

• Is there a link between white-collar crime, foreclosures, and neighborhood crime? How do we establish a link? What is the nature of the relationship, if it does exist? What are
the mechanisms? Would it be possible to use a criminogenic tier approach to establish these links? What kinds of data and analysis (e.g., networks, case-studies) could be used to study the problem? Are there links between some kinds of white-collar crimes and some types of neighborhood crimes, but not others?

**Question 2: What do you see as the most important research question that needs to be addressed in the long term (beyond two years)?**

- (1) Development of databases that are reliable and a consensus on operationalized concepts/variables at macro/micro levels. (2) Program outcome evaluations — responses to stabilizing neighborhoods and limiting crime. (3) Could we learn anything from other countries? For example, supposing Japan experienced some of the same issues, did they experience foreclosures? How did they handle it? What impact did it have on crime?

- Is there a link between fraud and disorganized neighborhoods? How do we establish this link empirically and identify the path to causation?

- Theory-driven (with explicit identification of underlying control processes), multi-level modeling, over time and across geographic locations, that isolates the effects of foreclosures on crime/violence apart from larger social, economic, and demographic dynamics occurring within communities.
• NIJ could be charged with creating model state statutes for crimes relating to mortgage fraud, regulations regarding the real estate and mortgage industries, and best practices for the industry.

• What happens long term to the communities that are involved, and what is the cost in funds and the impact on people, particularly the children and families? How do we relocate Washington D.C. to St. Louis? The beltway needs to reattach itself to the rest of America.

• (Will send more ideas after more thought.) Excellent to get many different perspectives on the impact of foreclosures on crime rates. I hope for more cross-fertilization of different disciplines — I learned a ton!

• We need to focus on suburban crime patterns. How are patterns changing as crime becomes more suburban? Are the issues that develop in urban settings the same as in suburban settings?

• “Where did everyone go?” Measure the flows of people into and out of foreclosed properties.

• What attributes of American neighborhoods are most pertinent to disrupting social networks, stimulating physical and social disorder, and the like. This could include foreclosure rates but should not be limited to this.
• What are the current and longitudinal effects of foreclosures on neighborhoods?

• How does housing policy (i.e., design and concentration of affordable housing and starter homes) relate to foreclosure patterns?

• (1) Quantify direct costs of mortgage fraud to lenders, and indirect costs to the neighborhood from the impact of foreclosures, law enforcement, social services, code enforcement, tax revenues, and so on. (2) Create a central database to collect information on mortgage fraud, perpetrators, and addresses of properties that were flipped or defrauded (i.e., improve communication and data sharing and thus better prevent fraud by weeding out bad actors before they are funded).

• Noting that this was phrased as a research question, the big question is understanding crime as a contributor and crime as an outcome of rapidly increasing rates of unoccupied properties. What are the processes by which crime is contributing to this increase? What are the processes by which the increases are contributing to crime? How do both of these dynamics shift at different levels of aggregation — MSA, county, city, neighborhood, and street block? How is all of this conditioned by the local context, where “local” means different things at different levels of analysis. It is important to move beyond connecting demographic data to crime data. Useful prevention models will not be feasible until we know what is driving what.
• How can NIJ facilitate the collection of systematic data in areas where data is poor (e.g., white-collar crime, neighborhoods, and crime)? I would love to see a blue-Ribbon task force take on white-collar/corporate crime data collection.
The Buildup to Mass Foreclosure

Louis Tuthill
Social Science Analyst
National Institute of Justice
March 31st, 2009
History of Mortgages

• Post-World War II
• Formation of the Federal Housing Administration (FHA)
  ▫ 15 and 30 year fixed rate
  ▫ Between 10 to 20 percent down
• Serviceman’s Adjustment Act of 1944
  ▫ Veterans get a home with little initial cost
• Fair Housing Laws Passed Between 1960 and 1980
  ▫ Community Reinvestment Act, Secondary Mortgage
    Enhancement Act, Tax Reform Act
  ▫ These laws worked to reduce unequal practices due to race or
    income
• Between 1970 and 2000 the foreclosure rate fluctuated
  between .03 and 1.1 percent
Subprime Mortgages

- The result of many laws and regulation was subprime mortgages
- Subprime mortgages were targeted at low income and minority groups redlined from homeownership
- Allowed people who did not meet the income or credit criteria to get a prime loan
- Purpose was to stabilize communities understanding that home owners were more likely to invest in the community
Subprime Mortgages

- Both historically and currently studies on subprime loans have found that:
  - They are more likely to occur in low income and minority communities
  - They are more likely to end in foreclosure
- Higher risk subprime loans increased between 2001 and 2006:
  - 8.6 to 20.1 percent
  - $190 to $600 billion dollars
Why the increase in the Subprime Loan Market?

- Monetary policies allowed for relaxed movement of risk in structured financial products
  - Focus of spread risk across investors
  - Allowed for lower interest rates
- Securitization of these mortgages are great for investors:
  - Allows investor to reduce or move risk off balance sheet
  - Allows investor to over leverage credit
  - When security is sold looks like a income bounce with no cost to investor
  - Turns future earnings to immediate cash flow in the investor
- Subprime market
  - Popularity of these investment led to availability of cheap credit and reduction of lending standards
  - Teaser rates, non-doc mortgages, piggyback mortgages, and NINJA (No Income, No Job or Assets) mortgages
Other Factors of Housing Bubble

- Crash of dot com causing investors to move assets into real estate
- The engineered decline of long term interest rates
- Speculative investors using housing to turn a profit (flipping)
- Lack of oversight to acts of mortgage fraud
The Beginning of the Housing Collapse

- July 17, 2007 Dow Jones hits record 14,000
- In 2005 homeownership was 69 percent
- In late 2006 housing market began to correct itself and dropped 3 percent by early 2007.
  - Surplus of new homes
  - Median housing price
  - Price to rent ratios
  - Increase in the interest rates
- This made it difficult or impossible for individuals to sell or refinance their homes
- Delinquent payments and foreclosures began to increased
  - Between January and June of 2007 530,000 foreclosures occurred
Housing Price Adjustments:
Comparing 1990 - 1997 to 2007 - 2008

2007 - 2009

1990 - 1997

Source:
Standard & Poor /Case-
Shiller Home Price Indexes

Used with permission from
standardandpoors.com, a
Web Site of Standard &
Poor's
Housing Price, Delinquency and Foreclosure Trends
Housing Foreclosures and the Larger Economy

- Mortgage backed securities which included high risk subprime loans declined in value
  - Investors pulled out of the mortgaged backed securities market
  - Resulted in 435 billion dollars in losses in the market by 2008
  - IMF has projected that banks will have to “write off” over 1.5 trillion dollars in subprime loans
Housing Foreclosures and the Larger Economy

- Larger Economic Crisis
  - Larger economy has had problems due to global food and energy costs
  - Recession since January of 2007
  - Banks were unable to loan money due to insolvency because of toxic loans
  - Unemployment increased to 8.1% as of February
    - Some states have double digit unemployment
  - GDP contracted by about 6%
  - Shipping has decreased globally due to lack of loans
  - Banks closed their doors
- Metropolitan Savings Bank, Pittsburgh, PA
- NetBank, Alpharetta, GA
- Miami Valley Bank, Lakeview, OH
- Douglass National Bank, Kansas City, MO
- Hume Bank, Hume, MO
- ANB Financial, NA, Bentonville, AR
- First Integrity Bank, NA, Staples, MN
- IndyMac Bank, Pasadena, CA
- First Heritage Bank, NA, Newport Beach, CA
- First National Bank of Nevada, Reno, NV
- First Priority Bank, Bradenton, FL
- The Columbian Bank and Trust, Toppena, KS
- Integrity Bank, Alpharetta, GA
- Silver State Bank, Henderson, NV
- En Español
- AmeriBank, Northfield, WI
- Washington Mutual Bank, Henderson, NV and Washington Mutual Bank FSB, Park City, UT
- Meridian Bank, Elkhorn, IL
- Main Street Bank, Northville, MI
- Alpha Bank & Trust, Alpharetta, GA
- Freedom Bank, Bradenton, FL
- Security Pacific Bank, Los Angeles, CA
- Franklin Bank, SSB, Houston, TX
- PFP Bank and Trust, Pomona, CA
- Downey Savings and Loan, Newport Beach, CA
- The Community Bank, Loganville, GA
- First Georgia Community Bank, Jackson, GA
- MagnetBank, Salt Lake City, UT
- County Bank, Mereed, CA
- Alliance Bank, Culver City, CA
- FirstBank Financial Services, McDonough, GA
- Pinnacle Bank of Oregon, Beaverton, OR
- Corn Belt Bank and Trust Company, Pittsfield, IL
- Riverside Bank of the Gulf Coast, Cape Coral, FL
- Sherman County Bank, Loup City, NE
- Silver Falls Bank, Silverton, OR
- Security Savings Bank, Henderson, NV
- Heritage Community Bank, Glenwood, IL
- Freedom Bank of Georgia, Commerce, GA
- TeamBank, National Association, Paola, KS
- Colorado National Bank, Colorado Springs, CO
- First City Bank, Stockbridge, GA
- Omni National Bank, Atlanta, GA
- Sanderson State Bank, Sanderson, TX
- Haven Trust Bank, Duluth, GA
- Bank of Clark County, Vancouver, WA
- National Bank of Commerce, Berkeley, IL
- 1st Centennial Bank, Redlands, CA
- Osage National Bank, Ocala, FL
Mortgage Crisis and the Larger Issue

- The reasons for crisis are multifaceted
- Its impacts has had large reaching effects into the global economy
- The social impacts such as homelessness, crime, violence, and suicide are yet to be seen
- The resolution to this crisis must occur at all levels of government and is multifaceted
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Data Sources for Estimating Foreclosure and Abandonment Risk

Robert N. Renner
HUD Office of Policy Development and Research
Overview

- Challenges in measuring foreclosures
- Private Data Sets
- Public Data Sets
- HUD’s Neighborhood Stabilization Program
Challenges in Studying Foreclosures

- How do we define a foreclosure?
  - Default (pre-foreclosure, grace period)
  - Bank auction
  - Bank takes ownership (REO – Real Estate Owned by Lender)
- Property may oscillate between these stages of foreclosure
Private Data Sources

- Incomplete coverage
- Inconsistent units of dissemination
- Proprietary data is expensive with prohibitive licensing agreements
- May require extensive scrubbing or recoding before it can be analyzed
- Detailed data about loan terms, but not the borrower
Private Data Sources

- The Mortgage Bankers Association (MBA) National Delinquency Survey
- RealtyTrac
- Loan Performance (also known as True Standings)
- Federal Housing Administration, Fannie Mae, and Freddie Mac
Public Data Sources

- No national source for foreclosure data
- Researchers and analysts reduced to identifying areas at risk for foreclosed, vacant or abandoned properties based on indicators from several data sources
- Varying levels of geography
- Uniform national coverage
- Data can be shared and made available to the public
Public Data Sources

- Home Mortgage Disclosure Act (HMDA) from the Federal Reserve (FFIEC)
- Office of Federal Housing Enterprise Oversight (OFHEO) Housing Price Index for Metropolitan Areas
- Bureau of Labor Statistics (BLS) data on Labor Force Participation and Unemployment
- United States Postal Service data on address vacancies distributed by HUD
Neighborhood Stabilization Program (NSP)

- Provides emergency assistance to state and local governments to acquire and redevelop foreclosed properties that might otherwise become sources of abandonment and blight within their communities

- Office of Policy Development and Research responsible for developing formula for allocating NSP funds to state and local governments
Statewide Allocation

- MBA National Delinquency Survey Data
  - Foreclosure starts over 18 months
  - Loans in default
  - Loans 60 to 90 day delinquent
- HMDA Data
  - High cost (sub-prime) loans
- USPS Vacancy Data
  - Vacant residential addresses in census tracts where percent of high cost loans is 40% or more
Within State Allocation

- Also used HMDA and USPS data
- HUD used regression analysis to create a model for estimating foreclosures at local levels as a function of the following:
  - Falling home prices from the OFHEO Home Price Index as of June 2008 compared to 2000 to 2008 peak
  - HMDA data on high-cost loans 2004 to 2006
  - Local Area Unemployment Rate data from the BLS as of June 2008
Validating HUD’s Estimates

- The Federal Reserve compared HUD estimates with Equifax data on 90+ day mortgage delinquencies and found high intrastate correlations at the county level.
- When restricted to counties > 15,000 population, correlations were even higher.
  - Equifax data is based on a 5% sample, and is more prone to sample error in small counties.
For More Information

- Go to HUDUSER.org and download all NSP data at multiple geography levels
  - HUD’s foreclosure estimates
  - MBA foreclosure and delinquency data (state only)
  - HMDA high cost loans
  - Change in home prices
  - USPS vacancy rate
  - Methodology
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Assessing Recent Patterns of Foreclosure and Crime in America

Eric P. Baumer
Kevin Wolff
College of Criminology & Criminal Justice
Florida State University

NIJ Conference on Foreclosure and Crime
March 31st – April 1st, 2009
State Level: Total Foreclosures per 100 Mortgages, 2008

Legend
State Variation in Rate of Foreclosures (per 100 Mortgages)
(Standard Deviations Presented)
-1.0 St. Dev. Below National Foreclosures Avg. (4.775 - 9.868)
-0.5 St. Dev. Above National Foreclosures Avg. (9.868 - 14.961)
0.00 - 0.5 St. Dev. (5.106 - 9.868)
0.50 - 1.0 St. Dev. (9.868 - 14.588)
1.00 - 1.5 St. Dev. (14.588 - 19.305)
1.50 - 2.0 St. Dev. (19.305 - 24.023)

* In 2008, the US experienced an average of 2.0 foreclosures for every 100 mortgages.
* Revealed the nation in foreclosures, with a rate of 19-nine times the national average and double the foreclosure rates of CA, AZ, and FL.

Source: RealtyTrac
State Level: Percentage Households Located in High Foreclosure Rate Zip Code Areas, 2008

Percentage Households Located in High-Foreclosure Rate Zip Code Areas, 2008

Legend
State Variation in % HH in High FC Rate Zip Code Areas
(Standard Deviation Present)

- < 0.50 Std. Dev. Below National Avg. (0% - 79%)  
- 0.51 - 0.80 Std. Dev. Proportion of Households Located in High FC Areas (7.99% - 25.12%)  
- 0.81 - 1.80 Std. Dev. (25.12% - 44.99%)  
- > 1.81 Std. Dev. Over Half of Households Located in High FC Areas (45.00% - 69.42%)

*On average, 16% of US Households are located within high (80th percentile) foreclosure rate zip code areas.
*Over half of the households in Nevada (89%), Colorado (85%), Florida (55%), and California (52%) are located within high foreclosure rate zip code areas.

Source: RealtyTrac
County Level: Total Foreclosures per 100 Mortgages, 2008

Legend:
- County Variation in Foreclosures (per 100 Mortgages)
- Standard Deviations Presented

- < -3.00 Std. Dev. = Below National Foreclosure Rate Avg. (3.01 - 4.51)
- -3.00 - -5.50 Std. Dev. = Range of Foreclosures (-5.42 - 3.40)
- 0.00 - 1.00 Std. Dev. = (3.41 - 5.44)
- 1.00 - 3.00 Std. Dev. = (5.45 - 9.44)
- > 3.00 Std. Dev. = Above National Foreclosure Avg. (9.47 - 13.56)
- No Data Available

* On average, US counties experience a rate of every 2 foreclosures for every 100 mortgages.
* Due to parts differences in the states of US counties, Georgia, Tennessee, Florida, and California contain the largest share of highest foreclosure rate counties.

Source: RealtyTrac
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Mortgage Fraud and the Destruction of Residential Neighborhoods

Mortgage fraud is bank robbery without a gun. It is a high-yield, low risk enterprise that has been reported in all 50 states, Puerto Rico, Guam, American Samoa, Canada, New Zealand, Australia, and England. In the United States, it is committed by organized international and domestic rings, street gangs, terrorists, drug traffickers, real estate agents, closing attorneys, appraisers, mortgage brokers,

1 The targeted victims distinguish mortgage fraud from predatory lending. In predatory lending cases the borrower is victimized by the illegal practices of the lender or its agents with respect to fees and disclosures relating to the cost of the loan. It is unfortunate that the media, consumer activists, legislators and law enforcement personnel frequently conflate mortgage fraud with predatory lending since it adds unnecessary confusion to an already complex issue and diverts attention and badly needed resources from the fight against true mortgage fraud.
2 The average “take” on a bank robbery is approximately $3,000.00. By contrast, the average straw borrower receives a “cut” of at least $10,000 and the orchestrator’s “take” in a mortgage fraud transaction frequently exceeds $100,000. In a few cases the orchestrator’s take was in excess of $1 million dollars, and in one, the perpetrator, who later fled the country, received $7 million in “profit” from the same-day flip of a mansion.
9 See, e.g., David Jackson, “Mortgage Fraud is the Thing to Do Now,” Chicago Tribune, Nov. 5, 2005.
bank executives, ministers, teachers, policemen and, frequently, neophyte property investors.

In the federal courts, mortgage schemes are charged as bank fraud, mail fraud and wire fraud and, depending on the specific structure of the scheme, conspiracy to commit bank fraud, money laundering, aggravated identity theft, bankruptcy fraud and/or false statements. A handful of states have statutes that address mortgage fraud as a specific crime, but in most state courts it is charged, if at all, as theft or grand larceny.

Although the variety of schemes is infinite and limited only by the human imagination, they are generally classified as either fraud-for-profit or fraud-for-housing.

16 See, e.g., U.S. v. Gordon, 08-21103-Jordan (S.D. Fla. 2008) (bank's managing director altered individual's credit data to inflate mortgage pools' apparent quality and value upon sale to investors); U.S. v. Levine, 1:09-CR-00554 (N.D. Ga. 2009) (executive vice president in charge of bank's community redevelopment lending department accused of knowingly over-valuing bank assets (loans to flippers) in reports to the OCC and the FDIC; the defendant is expected to plead guilty in January, 2010).
20 "Investor" borrowers on known fraud loans typically report that they were lured into the scheme by perpetrators who offered hands-off "turnkey" investment programs. The perpetrators promised to acquire the properties at less than market value with cash back to the borrower/investor at closing, to rehab the properties, to find tenants at a monthly that would provide passive monthly income in excess of the mortgage payment, and to manage the property for a year, after which the property could be sold at a profit. After the properties were purchased, the perpetrators severed all contact with the investors, who then discovered that the purchase price was substantially above market value, that properties had not been rehabbed (or that only cosmetic repairs had been made and that the value of the work was inflated), that the properties could not be rented at an amount sufficient to service the mortgage, much less for a monthly profit, and that the property could not be sold for what was owed on the mortgage. These novice investors also report that they believed the perpetrator's claims because they had watched A&E's "Flip This House" program and/or the Carleton Sheets "no money down, cash back at closing" infomercials, which gave them the impression that real estate investing was both easy and profitable, and which made the schemes proposed by the perpetrators seem both legal and credible.
30 Common schemes include: the use of "straw" (or nominee) buyers, mischaracterization of the intended use of the property (owner-occupied or second home instead of investment), undisclosed seller contributions to the borrower's down
The object in a fraud-for-profit scheme is to obtain residential mortgage loan proceeds and/or physical and legal control of residential properties. Lenders and law enforcement agencies have traditionally focused on for-profit schemes because they involve organized rings, industry insiders, and multiple properties, and millions of dollars in losses.

In fraud for-housing schemes, the object is to obtain a loan that would have been made on materially different terms, or would not have been made at all, had the lender known the truth. Fraud-for-housing schemes have largely been ignored because of the industry belief that they involved a small percentage of individual borrowers who were merely “stretching” to buy a home which they intended to pay for and, until the “mortgage meltdown,” there weren’t a lot of these cases and the majority of these loans were repaid. But by tolerating fraud-for-housing, the line between acceptable and illegal practices was blurred, fraud of all types was tacitly encouraged and millions of fraudulent loans were made.

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33 Material terms include: loan amount, interest rate, and the size of the borrower’s down payment. Misrepresentations relating to a borrower’s income and employment, source and amount of the down payment, the seller’s contribution to the borrower’s settlement costs, the borrower’s intent with respect to occupancy, and the value of the collateral property are used to mask increase the borrower’s apparent creditworthiness in order to induce the lender to grant the loan and on terms more favorable to the borrower, i.e., at a lower interest rate, a lower down payment, and/or with a waiver of mortgage insurance.
34 There are numerous instances of borrowers who report that they were told by a mortgage professional to lie about their income and were told that was acceptable because so long as they repaid the mortgage the lender wouldn’t care. One effect of the industry’s attitude is found in what became a common practice among otherwise honest real estate agents: raising the contract purchase price to disguise a seller’s contribution to the borrower’s down payment. The agents justified their conduct as “taking a little from column ‘A’ and putting it in column ‘B’” in a “net-net” transaction that would
The Scope of Mortgage Fraud

As early as 2004 the Federal Bureau of Investigation was characterizing mortgage fraud as “pervasive and growing.” 35 Chris Swecker, the FBI’s then-Assistant Director of the Criminal Division, testified to Congress that:

“Mortgage fraud losses adversely affect loan loss reserves, profits, liquidity levels and capitalization ratios, ultimately affecting the soundness of the financial institution. [If] fraudulent practices become systemic within the mortgage industry and mortgage fraud is allowed to become unrestrained, it will ultimately place financial institutions [and the stock market] at risk… [Investors may lose faith and require higher returns from mortgage backed securities [and that] may…result in higher interest rates and fees paid by borrowers and limit the amount of investment funds available for mortgage loans. 36 …”

That statement was as prescient as it was unheeded and short of the mark. As the FBI’s Deputy Director testified on March 20, 2009, what has occurred is “far worse” than what even Mr. Swecker imagined. 37 Mortgage fraud is now at epidemic levels and is placing significant strains on the Bureau’s resources. 38 The FBI’s caseload has expanded to over 2,000 active cases, including 43 corporate fraud cases relating directly to the financial crisis and 200 new investigations in the first quarter of 2009 alone. 39

The torrent will not abate any time soon: the number of mortgage fraud-related suspicious activity reports (“SARs”) reports filed with the Crimes Enforcement Network allow the deal to close with no harm being done to anyone. From a lender’s perspective the transaction was fraudulent because the risk of default posed by the borrower was understated (the less a borrower invests, the more likely he is to default), and the loan-to-value ratios were skewed. When large numbers of loans like this were pooled, the misrepresentations continued on to the ratings agencies and investors because the fact that these loans did not meet investor guidelines was obscured by the structure of the underlying mortgage transactions.

36 Id.
38 Id.
FinCEN received over 63,000 mortgage-related SARs in fiscal year 2008 and an additional 28,000 reports in the first five months of fiscal year 2009.

The sobering reality is that the figures cited above capture only the tip of the iceberg. We can only guess at the true scope of fraud because the majority of entities with relevant information relating to mortgage fraud activities are not required to file SARs. There is no “safe harbor” to protect voluntary reporters against civil or criminal actions for libel, slander, or unauthorized disclosure of confidential information relating to mortgage transactions and borrowers. A large number of lenders whose victimization is just now surfacing have closed their doors or gone bankrupt so there is no one to report it to authorities, and the substantial adverse financial consequences for fraudulently originated loans discourage lenders from investigating and reporting fraud. It is, literally, the “F” word of the financial services industry and may not be spoken of in polite banking company.

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43 Only “financial institutions” as defined in 31 U.S.C. § 5312(a)(2) (primarily federally regulated and insured banks and thrifts, credit unions, life and annuity insurers, and cash-based business such as pawnshops and casinos) are required to file Suspicious Activity Reports with the Financial Crimes Enforcement Network because this statute’s focus is money laundering.
44 Other potential sources of useful information relating to mortgage fraud include mortgage and title insurance companies, due diligence providers, and investors in the secondary market.
45 These disincentives include financial risk (repurchase of fraudulent loans, increased loan loss reserve requirements for portfolio loans, and denial of mortgage and title insurance claims). Lenders also face reputational risk and potential negative shareholder actions.
The Economic Cost to Lenders

While a comprehensive loss figure is impossible to obtain, we do know that fraud in residential mortgages is very expensive to lenders. An analysis of two million closed loans revealed that loans originated in fraud are eight times more likely to default, and 20 times more likely to enter into the foreclosure process, within the first year of origination.\(^{46}\) The loss severity to lenders from foreclosures due to “natural” events\(^{47}\) has historically ranged from 15 to 40 percent of the original mortgage amount, depending on the length of time that elapses between origination and default, and, until the mortgage meltdown and economic collapse, hovered at an average of approximately $30,000 per loan. In contrast, losses from foreclosures on fraudulently originated loans range conservatively from 40 to nearly 100 percent, depending on the type of scheme, the time lapse between origination and default, and the amount by which the mortgage was inflated.\(^{48}\) Average loss amounts today are rising because the damage caused by collateral value inflation at origination is being compounded by severely depreciating real estate market values.

Here’s what we do know about the cost of fraud:

- The FBI estimates fraud’s dollar cost from the amounts reported in SARs. Although that figure stood at $1.5 billion during fiscal year 2008, the FBI acknowledges that 93 percent of the reports it received failed to indicate a specific dollar loss.\(^{49}\)

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\(^{47}\) “Natural” or “conventional” foreclosures occur primarily because of death, divorce, job loss and unexpected medical expenses.

\(^{48}\) Investigation of fraudulent mortgage loans show that loss severity ratios approach 100 percent in cases involving “air loans” (no building on the secured property) and “double sold” note schemes (one mortgage note is sold to multiple investors simultaneously; since only the first sale is recorded, the other investors’ interest is not recorded and thus is unsecured).

\(^{49}\) Testimony of Deputy Director John S. Pistole to the House Financial Services Committee, March 20, 2009. [http://www.fbi.gov/congress/congress09/pistole032009.htm](http://www.fbi.gov/congress/congress09/pistole032009.htm) (accessed March 29, 2009). This omission may be due, in
When measured by the loss claimed by lenders in civil and criminal prosecutions, the figure stood at $5.4 billion at the end of 2008, with an additional $3.1 billion reported in the first half of 2009. Lawsuits provide an incomplete measure of the cost because fraud investigations and prosecutions are extremely resource intensive and produce little perceived return on investment. Cash-strapped lenders and overwhelmed federal prosecutors are unwilling to pursue any but the largest cases.

Rather than being a relatively uncommon and harmless form of fraud that could safely be ignored, it is increasingly clear that the incidence of fraud-for-housing was extensive:

- Quality control audits and post-foreclosure fraud investigations indicate that as much as 60 percent of all Alt-A originations through 2008 contained material misrepresentations of the borrower’s income, employment, assets, and/or collateral value, representing a potential aggregate loss of $218 billion.
- QC audits and investigations also reveal that as much as 50 percent of conforming loan originations from 2007 and 2008 failed to meet part, to lender confusion about when to state a dollar loss. While bank regulators instruct lenders to omit a dollar loss unless an actual loss has been realized, the FBI cannot judge the relative size and importance of the case or determine whether it meets prosecutorial thresholds when the amount is not stated. Without this critical information, these SARs receive a low investigative priority and the perpetrators are free to ply their trade unhindered for additional years.


51 Disincentives include: 1) the judiciary’s view of mortgage fraud as a victimless financial crime and the imposition of relatively light sentences, see, e.g., U.S. v Trester, 1:05-CR-00086 (S.D. Ohio 2005) (maximum sentence in “flipping” case involving 800 residential properties and severe damage to neighborhoods was forty-six months); 2) the lender’s expense for providing copies of documents and making personnel available to work with law enforcement and travel to and testify at trial, and c) the likelihood that restitution will not be made because the defendants either spent or hid the illicit proceeds and do not have the means to generate the legitimate income necessary to meet a restitution order that may total several million dollars.

52 While the author knows of no per se loss thresholds for bank fraud cases apart from those required to confer jurisdiction, United States Attorneys generally will not open a case unless the aggregate loss exceeds $1 million. This approach is more reasonable than it might initially appear because: a) the number of potential cases are virtually limitless; b) mortgage fraud cases are increasingly difficult to prove because the bankruptcy, failure, and consolidation of lending entities has made critical witnesses and documentation inaccessible; and c) because of the perceived difficulty, except in the most egregious cases, of overcoming public hostility towards mortgage lenders and their lending standards and practices.

underwriting guidelines relating to the borrower’s income, employment, assets and/or collateral value, putting Freddie Mac and Fannie Mae at risk of losing as much as $500 billion.

- Mark Zandi, Chief Economist for Moody’s Economy.com, calculates that the fallout from 15 million “sketchy” loans made between mid-2004 and mid-2007 will cost the U.S. financial system $625 billion.\textsuperscript{55}

As staggering as these figures are, they are still likely to be low because mortgage fraud didn’t stop in mid-2007 when the financial markets collapsed. It got worse and, after a slight lull in 2008, fraud risk indicators appear to be poised for a rebound in 2009 and beyond:\textsuperscript{56}

- An analysis of loans originated between July 1 and December 31, 2007, after underwriting guidelines were tightened in the wake of the mortgage meltdown, found critical fraud risk indicators pointing to significant inflation of the borrower’s income in more than 42,000 mortgage applications representing $11 billion in potential loans.\textsuperscript{57} Recognizing the threat posed by borrowers who misrepresent their income, many lenders now verify borrower income directly with the Internal Revenue Service, but investigations show that an increasing number of borrowers today are filing returns that fraudulently overstate taxable income in order to qualify for a purchase mortgage, to refinance an existing loan or to obtain a mortgage modification under

\textsuperscript{54} A conforming loan is a loan that is eligible for purchase by Freddie Mac and Fannie Mae. The maximum eligible loan amount was less than $417,000 for much of the boom years, but was raised to $625,500 in high-cost areas in mid-2008 pursuant to the Housing and Economic Recovery Act of 2008. The maximum amount is $938,250 in Alaska, Hawaii, Guam and the US Virgin Islands. Fannie Mae, “Loan Limits for Conventional Mortgages.” \texttt{https://www.efanniemae.com/sr/refmaterials/loanlimits/}


\textsuperscript{56} Intethinx, Q2 and Q3 2009 Mortgage Fraud Risk Reports. \texttt{http://www.intethinx.com/pdf/09_Q2MFRI_FNL.pdf} and \texttt{http://www.intethinx.com/pdf/09_Q3MFRI_FNL.pdf} (accessed January 4, 2010). Intethinx is a leading provider of fraud and compliance risk management systems for the residential mortgage lending industry.

the federal Hope for Homeowners and Making Home Affordable programs. The returns are amended to reflect the borrower’s true income after the loan is closed.

- Freddie Mac executives have said publicly that loans originated in 2008 were the “worst in history,” with an alarming number of those loans completing the foreclosure process less than one year from origination. This suggests an explanation for the sharp rise in first- and early-payment defaults, both of which are closely correlated with fraud in the origination of the mortgage.

- Many of the lenders and brokers in the subprime space who were displaced during the collapse of the residential mortgage industry have formed new companies and are obtaining FHA Direct Endorsement authority, despite their histories of bankruptcies, criminal convictions, and sanctioning by state regulators. There is a clear correlation between mortgage fraud and non-bank/brokered originations, and this “subprime creep” may be responsible for the alarming increase in first-payment defaults – a sure sign of fraud -- in FHA-insured loans originated in 2008.

- Lenders who perform QC audits on current originations which have been approved by TOTAL Scorecard, the FHA’s automated underwriting system (“AUS”), are privately reporting that 60 percent of these loans contain obvious indications of fraud. This may provide further evidence of subprime creep, but it is also evidence that too

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58 Various Freddie Mac representatives at Mortgage Bankers conferences in 2008.

59 A first payment or “instant” default is defined as a loan that goes into default without a single payment being made. An early payment default (EPD) is generally defined as a loan that goes into default within 90 to 180 days after origination. A study by BasePoint Analytics in 2007 found that up to 70 percent of all EPDs were originated in fraud. BasePoint Analytics press release, February 12, 2007.


63 For an explanation of what the FHA system does and does not do, and what elements of an application are evaluated, see http://www.hud.gov/offices/hsg/sfhlender/total_faqs.pdf (accessed January 4, 2010).
many underwriters are relying on automated underwriting tools as a substitute for due diligence and critical analysis. The FHA tool, like those of Fannie Mae and Freddie Mac, has a limited function: to examine loan characteristics such as the loan-to-value and debt-to-income ratios and determine whether the loan will meet eligibility guidelines for insurance (FHA) or purchase (Fannie and Freddie). The problem is that the borrower’s qualifications and loan characteristics can be fabricated or misrepresented. Automated underwriting tools passively accept the information submitted on the application and thus are unable to detect fraud. During the boom -- and even today -- many loan originators used the AUSs as decisioning tools without subjecting the underlying data to verification, which has exposed the GSEs and the FHA to significant levels of fraud risk.

• FBI field agents report an increase in fraud relating to low-income HUD housing grants and are expecting to see more as Neighborhood Stabilization Program funds begin to be disbursed. The stabilization programs will provide a bonanza for the career fraudsters, who no doubt are already positioned to take advantage of the opportunity to snap up federally-subsidized bargains in foreclosed housing stock that will eventually be recycled into new fraud schemes.

• Wholesale flipping, where foreclosed properties are purchased in bulk then sold to investors who flip the property to “end buyers” are on the rise, fueled by the bloated

64 Fannie Mae’s AUS is known as “Desktop Underwriter,” which is a misnomer because it doesn’t perform critical underwriting functions. Sound underwriting practices require verification of application data, scrutiny for patterns and red flags that indicate fraud, and critical analysis to ensure that the loan “makes sense” given the borrower’s financial profile and stated use. The process can be very time consuming if performed manually and speed was one of the selling points to the industry when this product was rolled out. For an illuminating article on Fannie’s system, see Michael D. Larson, “Secrets of the Automated Underwriting System Revealed at Last,” Bankrate.com (February 3, 2000). http://www.bankrate.com/brm/news/mtg/20000203.asp (accessed January 4, 2010). Freddie Mac’s AUS is known as “Loan Prospector.”

65 Many lenders feel that they do not need to use automated fraud detection technology because they now require full documentation in support of the application. These lenders ignore the fact that desk-top technology allows for the fabrication or forgery of every document needed to support an application and close the loan.
inventory of foreclosed properties held by the FDIC and banks. Although these properties can be purchased for literally pennies on the dollar, many are seriously dilapidated, or uninhabitable, and the price to the end buyer (often an investor) is illegally inflated.

- Short sale flipping, where the price is fraudulently deflated in order to generate the “profit” on the sale to the end-buyer is also on the rise. These transactions frequently are presented to the distressed borrower as a way to avoid foreclosure, and are marketed to the end buyers as the ultimate in “get rich quick” investment programs.

- Another area of major growth for fraud is in reverse mortgages. FHA-insured Home Equity Conversion Mortgages (“HECMs”), available only to those who are 62 years old or older, do not now account for a large share of the market, but they will: the total number of persons aged 65 or older will surpass 88 million by 2050. Since nearly 80% of seniors own their homes, this demographic represents trillions of dollars in untapped home equity. With that kind of money in play, and with HUD’s decision to allow HECM funds to be used for purchases, we should not be surprised that the fraudsters are already moving into this space: a title insurance company recently reported privately that the developer of a failed condo conversion project in Florida, working in collusion with a loan officer, an appraiser and a settlement agent, recruited immigrant seniors, recorded deeds of conveyance and sham purchase money mortgages and obtained HECM loans for the seniors at inflated values. The

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developer got out from under his debt obligations and made a profit, but many of the seniors were impoverished and had no funds for furniture, utility service or even groceries, much less the homeowner association dues needed for maintenance or to pay property taxes. When these mortgagors eventually default,\textsuperscript{69} U.S. taxpayers will have to pick up the tab.

**Potemkin Villages: Fraud’s Collateral Damage to Communities and Local Governments**

Mortgage fraud is not a victimless financial crime. A fraudulently acquired home sets off a long-lasting spiral of ever-widening destruction, regardless of whether it’s in the urban core or in the most exclusive suburbs, in a poor neighborhood or a rich one. If the home is acquired in an organized for-profit or investment scheme, it is likely to remain vacant and untended. These properties are pillaged by the perpetrators, and later vagrants, who strip them of appliances, heating and air conditioning systems, doors and fixtures, copper plumbing and wiring.

Abandoned and derelict properties eventually attract squatters,\textsuperscript{70} even in houses that last sold for half a million dollars or more. In the winter, the squatters light fires to stay warm. When they overload the fireplace, or start them on the floor because there is no fireplace, the house burns down. The fraudsters, keeping watch from a distance, may file a property insurance claim and immediately get a check for thousands of dollars for temporary living expenses.\textsuperscript{71}

\textsuperscript{69} Default events include failure to maintain the property and failure to pay property taxes.


\textsuperscript{71} See, e.g., U.S. v. Jackson, 1:02-CR-00030 (N.D. Ga. 2002) (defendant stole sister’s identity to complete fraudulent purchase of a home which burned and was declared uninhabitable; Jackson used the assumed identity in an attempt to obtain casualty insurance proceeds).
The insurers and the county will inspect what’s left of the structure. If the structure is severely damaged the county will order the owner to secure and repair or raze the house. If the fraudsters used a stolen identity the county will not be able to complete service of the notice because the “owner” is fictitious. If the lender refuses to foreclose, it is not legally responsible for the physical condition of the property and it may enter into a legal limbo and linger as a dangerous eyesore for years. If the neighbors are persistent, the county may eventually raze the structure, but the damage to the community will not be erased when the ruin is finally removed. If the structure is a total loss and the state has a “valued policy” law which requires payment of the face value of the policy, the insurer will be forced to pay inflated claims for structural and personal property losses, resulting in an additional economic windfall to the fraudsters and a larger loss to the insurer.

If the fraudsters are sophisticated enough to know that they need to avoid an early payment default, which would provoke the lender into scrutinizing the mortgage transaction and lead to discovery of the fraud, the home may be rented, turned into an assisted living facility, or used as a half-way house for convicted felons re-entering society. In upscale neighborhoods, the perpetrators and their criminal associates – check kiters, assault and batterers, burglars, fugitives, pimps, money launderers and drug traffickers – may move in and begin conducting “business” from their homes. These are not “day” people, nor are they much concerned with yard work or maintenance, so it’s not long before even the casual observer can see the physical neglect and discern that there’s something wrong. Obviously deteriorating properties ruin the “curb appeal” of the neighborhood and, since home purchases are motivated in part by an emotional

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72 Investigations reveal that Section 8 HUD housing vouchers are sometimes used to obtain renters. In those cases the government is subsidizing the fraudsters directly.
resonance with the house and the neighborhood, potential buyers decide to look elsewhere and sales prices begin to stagnate.

Fraud tends to cluster geographically because once the first fraudulently inflated sales price is recorded in the deed, realtor, commercial appraisal and tax databases, it can be referenced as a comparable sale to support an artificially inflated appraisal for other nearby properties.\(^{73}\) Thus a single problem property quickly mushrooms into multiple problem properties. (Figure 1) Even in upscale neighborhoods it’s not long before the accumulating weight of vacant and neglected properties makes the area look blighted.\(^{74}\) (Figure 2).

By this point the original residents, justifiably concerned about their safety and the value of their homes, begin to flee. Multiple vacancies and properties on the market indicate an unstable and declining neighborhood, which drives away more potential buyers, and asking prices begin to drop significantly. The perpetrators may play on the owners’ fears to drive hard bargains and may threaten sellers if their offers are rejected.\(^{75}\) When reputable real estate agents begin to sense that something peculiar is going on they, too, begin to flee the neighborhood because they rely on repeat business and referrals and

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\(^{73}\) One of the oldest tricks in the fraud book is to offer inexperienced or corrupt appraisers a ready-made list of “comparable” properties to help them in their evaluation. In reality these “comparables” are properties in the vicinity that were flipped by the perpetrators. When they’re accepted without question or investigation, fraudsters can drive the market.

\(^{74}\) Kevin Wiggins, a now-convicted mortgage fraudster, fraudulently “flipped” five houses in one section of Atlanta’s 30310 zip code in 2000. By 2008, he had flipped eighty-three more houses, all within a five mile radius. One street, Lucile Avenue, was particularly hard-hit: 18 houses were owner-occupied when Wiggins flipped two of them in 2000; other fraud rings moved in after Wiggins’ initial purchase and by 2008, 18 houses had been flipped, 15 of the flipped houses were vacant and only 3 houses were owner-occupied. Flipping continues on this street today. Several homes that were “sold” in 2007 and 2008 from the high $200s to over $400,000 have already been foreclosed. Post-foreclosure asking prices as of March 27, 2009, range from $18,905 to $99,000.

\(^{75}\) Residents of fraud-inflicted neighborhoods in Atlanta have reported that they were threatened with Fair Housing complaints for questioning offers from potential buyers, who never set foot in the house, for as much as $200,000 above the asking price on condition that the seller kickback the “excess” to the buyer at or after closing. In an incident in Omaha, Nebraska, according to local residents, the homeowner’s association was threatened with a Fair Housing complaint for attempting to enforce subdivision regulations against tenants and owners whose homes had been procured through alleged fraud. (For fraud related charges, see U.S. v. Williams, 8:09-CR-245 (D. Neb. 2009)). Residents of neighborhoods impacted by an alleged fraud ring in Dallas, Texas, who filed civil nuisance suits against the ring-leader, were counter-sued for $5 million for alleged harassment and racial bias. Tim Wyatt, “Neighbors Suspect Scam in Home Sales,” Dallas Morning News, December 17, 2005; http://www.dallasnews.com/sharedcontent/dws/dn/latestnews/stories/121805dnmelloanwar.2bb6980.html (accessed July 2, 2008); for fraud related charges, see U.S. v. Farrington, 3:08-CR-00153 (N.D. Texas, 2008).
do not want to lose potential customers by putting them into a troubled neighborhood.
That leaves the field open for more fraud because the only agents who are able to close any sales are the ones who work in collusion with the perpetrators. Since these agents, are the only ones able to close any sales, frequently through the use of “creative financing,” they begin to pick up the new listings. When that happens, the fraudsters control the market and gain the ability to drive pricing in the broader neighborhood market.

In the year or so before the wave of foreclosures begins, the quality of life for the remaining residents deteriorates substantially. Regardless of the relative poverty or affluence of the neighborhood, crime increases. More vacant homes pop up bringing weedy, overgrown lots, vandalism or gang graffiti “tags.” If the properties are occupied, the police are called upon to intervene in a rising tide of crime. Some crimes, like public intoxication and prostitution, are a nuisance and an offense to the community’s moral values.\(^7^6\) Some, like mail theft and auto break-ins, are relatively petty. But some, like gunfights, drug trafficking, and the conversion of McMansions into hydroponic marijuana farms, meth labs, and stash houses, are deadly serious. The criminal invasion robs the neighbors’ of their sense of safety and security, sparking additional flight and destabilization and a further erosion of property values.

As the quality of life decays for the remaining law-abiding citizens, tax assessors add insult to injury by raising property tax assessments. County appraisers are rarely trained to recognize fraudulent transactions. While they may exclude the first few sales as outliers, additional sales at fraudulently inflated prices create the appearance that the

appreciation is the result of legitimate market forces. Inflated values are accepted as legitimate market values, and fraud begins to corrupt the tax digests. (Figure 3) When a critical mass of sales is reached the neighborhoods are re-assessed. If the county appraisers fail to recognize the fraudulently inflated sales prices, the reassessment values will be inflated --- by as much as 30 percent--- in the impacted neighborhood and within a radius of several miles.\textsuperscript{77} This can occur even though property values are actually falling.\textsuperscript{78} Thus these neighborhoods become Potemkin Villages: their rising prosperity is a façade that exists only on paper.

Fraud’s inflationary effect on property tax assessments is pernicious and far reaching.\textsuperscript{79} When a foreclosure occurs due to a natural life-event such as job loss, death of a spouse, or divorce, every house within a one-eighth mile radius suffers a 1 percent drop in value.,\textsuperscript{80} The geographic clustering of foreclosures, which is common in mortgage fraud cases, amplifies that drop: if there are five such properties on the same street, the value of all homes within that radius will decline by 5 percent when they are eventually foreclosed.\textsuperscript{81} But even when the majority of sales are foreclosures, assessed tax values may, paradoxically, remain constant or even increase. This is because county appraisers are generally required to consider only sales that occur at fair market value. “Fair market value” is generally defined as the amount that a buyer is willing to pay, and

\textsuperscript{78} In the 30310 zip code in metropolitan Atlanta, which has been at the top of national fraud lists for several years, residents are being overcharged on property taxes by an estimated $10.36 million. Kevin Duffy, “Study: Poor Neighborhoods Face Unfair Property Taxes,” The Atlanta Journal-Constitution, October 9, 2008.
\textsuperscript{79} The growth in assessed values in fraud neighborhoods was significantly higher over the full eight year time span studied. Andrew T. Carswell, “Effects of Mortgage Fraud on Property Tax Assessments”, Journal of Property Tax Assessment and Administration (2009, in press).
\textsuperscript{80} Dan Immergluck and Geoff Smith, “There Goes the Neighborhood: The Effect of Single-Family Mortgage Foreclosures on Property Values,” p. 9, Woodstock Institute, June 2005.
\textsuperscript{81} Interview with Dan Immergluck, Atlanta, Georgia, 2007.
a seller will accept, in an arms-length transaction. Foreclosures are excluded because they are distress sales and the “price” is set by the mortgage balance, not market forces.

When the lender in possession re-sells the property, the price is usually at a discount to the market because the lender needs to move the property quickly and the house most likely needs repairs, so the assessors disregard these sales as well. But because the mortgages were inflated through fraud, even the foreclosure prices are above market value. In hard-hit neighborhoods, the only “willing” buyers are likely to be the fraudsters because they don’t care about the quality of the neighborhood or the asking price, and they can “flip” the property back to the level of the previous (inflated) value to make a tidy “buy low, sell high” profit. Since the foreclosed values are not considered, and the only sales that appear to be at fair market value are the second (or third or fourth) wave of fraud, tax assessments rise or are sustained at artificially high levels. (Figure 3)

In the immediate aftermath of the first wave of fraud, the sales prices of all properties within a quarter-mile rise by as much as 4 percent.82 The fraud “bump” is welcomed by sellers and those who wish to finance their spending by tapping the equity in their homes, but the appreciation is illusory and does little except to increase the housing costs for new buyers and the tax burden for everyone else. In fraudulently inflated areas, new construction will be overpriced. When the market corrects as the fraudulent loans enter foreclosure and neighborhood values decline, newly constructed homes cannot be sold, the post-fraud purchasers will lose what equity they had, and those who tapped their equity may suddenly owe more than their homes are worth. If the borrowers used financing with negative amortization features or an adjustable interest rate, the

concentrated level of foreclosures and the drop in property values will make it impossible for them to refinance into more affordable loan terms. Nor will they be able to sell for what they owe. Trapped in loans they can no longer afford or justify economically, they default. And so begins a new wave of foreclosures and depreciation.

The cascade of negative effects from dramatically rising foreclosure rates eventually spills over into local businesses and governments. As consumer spending declines and customers are forced to move, local businesses are forced to close, which reduces tax revenues and makes it more difficult and expensive for the remaining residents to acquire basic necessities. Government expenditures swell because of the increased demand for police, fire, code enforcement, building inspection and social services in these neighborhoods. Significant resources are also diverted into the materials, manpower and legal steps that are needed for the county to maintain, secure or raze vacant properties. Property tax delinquencies rise, raising the administrative costs of collections and further reducing revenues. When the neighborhood’s depreciation is finally reflected in the tax assessments and property tax revenues decline precipitously, governments whose spending was lifted by fraud during the boom suddenly find that they are heading toward a deficit. To forestall that eventuality, the governing authorities are forced to make painful cuts in budgets and services and hike property taxes. Police and fire department personnel and dispatchers may, ironically, be among the first to fall to the budget axe even as the need for their services climbs.83

Fighting Fraud: Why Law Enforcement Is Not The Answer

For-profit mortgage fraud cases are extremely complex, involving dozens –or hundreds-- of transactions, dozens of individuals, and mountains of documents. Since the bank may be in one state, the property in another, and participants who are scattered from coast to coast, mortgage fraud cases require the coordinated effort of working groups and task forces from a variety of state and federal regulatory and criminal agencies. These investigations take, on average, a minimum of two years from initiation to indictment. In many cases, the subjects continue operating their schemes until the day they are indicted. Some have committed additional frauds after their arrest in order to generate the funds needed to pay their legal defense bills. A few have continued to operate their rings from the comfort of their prison cells.\footnote{See, e.g., \textit{U.S. v. McLean}, 1:03-CR-00222 (N.D. Ga. 2003) and \textit{U.S. v. Milton}, 1:05-CR-493 (N.D. Ga. 2005).}

In the cases that are filed, and for the sake of efficiency in securing the conviction of the orchestrators, prosecutors frequently negotiate reduced sentences for minor players who facilitated the crime but who did not collect much in the way of illicit profits in exchange for testimony against those who did. Other minor players, who are not the subjects of any investigation but have learned how easy it is to commit mortgage fraud, observe the relatively favorable treatment of their peers, decide that the risk is worth the reward, and develop their own very profitable rings. In this respect, fighting mortgage fraud is a Sisyphean task akin to fighting the mythical Hydra: several new rings may spring up for every ring whose “head” is lopped off.

The economic collapse, and federal statutes of limitation, further impede prosecutors’ ability to bring perpetrators to justice. If the victim bank is a federally supervised financial institution, prosecutors have 10 years from the date of the offense to
file charges. But if the lender was a private mortgage bank charges must be filed within five years. Since the fraud may not be reported for several years after origination, and criminal investigations can take another two or more years to complete, the vast majority of cases from the boom are now beyond reach.

Even when the statutes of limitation are not an issue, a further complication arises from the bankruptcy, closure and acquisition of so many lenders. Without access to loan documents or the witnesses needed to authenticate them and testify about corporate lending practices, prosecutors are severely limited in their ability to successfully try them.

Local and state police agencies are positioned to play a critical role in the effort to prosecute fraud cases because they are much better equipped to handle the “one-off” cases that could be quickly brought to trial and serve as a warning to others. However, most jurisdictions are hampered by a lack of trained personnel, resources, and the absence of statutes that specifically criminalize the conduct. In a time of rising crime against property and persons in neighborhoods devastated by fraud, departments with reduced financial support find it difficult to justify the diversion of critical resources away from life-and-death matters. A further disincentive to the local police and prosecutors is that the general public does not understand how fraud affects them personally and so do not demand redress. Also, in today’s climate there is little sympathy for lenders, and prosecutors fear that, given the industry’s originations practices during the boom, there is a significant chance that the jury will vote to acquit. More insidious is

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86 18 U.S.C. § 3282. In 2009 Congress expanded the definition of “financial institution” to cover private banks and mortgage brokers, who will now fall under the 10 year statute of limitations. However, the law is not retroactive and applies only to loans originated after May 20, 2009. Fraud Enforcement and Recovery Act of 2009, Public law 111-21.
87 For a list of lenders that have ceased operations since 2006, see http://ml-implode.com/index.html#lists.
88 While all states have theft and larceny statutes that allow the authorities to pursue mortgage fraud cases, the procedural, jurisdictional and proof issues that must be worked through are akin to performing neurosurgery with a sledge hammer instead of a laser scalpel.
the possibility that some prosecutors are reluctant to pursue fraud cases because the “investors” and straw buyers are constituents, political contributors, or friends and relatives.

The harsh reality is that we will never have enough time, people or money to stop mortgage fraud by attacking it after the fact. There are not enough prosecutors to handle the frauds that we already know about, much less to identify, investigate and prosecute the thousands of new frauds being perpetrated every day. While vigorous prosecution at the state and federal levels is a critical component in the overall solution, the fact remains that prevention is the only cost-effective way to stem the tide. Although advanced automated fraud detection technology has been available to mortgage lenders since at least 1995, it was not utilized by the vast majority of lenders during the boom. Reasons offered by lenders include that it was “too expensive” or that they identified “too much” fraud and depressed origination volume. One has to wonder what the real reasons were, given the high likelihood that fraudulent loans would eventually default and be foreclosed, at an average loss of $30,000, compared to the cost of $15 or less per loan to run these tools during pre-funding. As long as lenders believe that some fraud is inevitable, that the incidence is insignificant, that it’s “just the cost of doing business,” and that the costs outweigh the benefits, lenders are unlikely to prioritize fraud prevention.
CONCLUSION

Seven million jobs have been lost since the Great Recession, sparked by mortgage fraud, began in 2007. Nearly two million homes have been repossessed by banks since 2006 and nearly three million newly initiated foreclosures were reported through the third quarter of 2009. $6.1 trillion in homeowner equity has been lost since 2006 due in large part to the deflationary impact of the enormous number of foreclosures. And the storm clouds continue to gather: By the end of the third quarter of 2009 nearly 10 percent of all outstanding residential mortgages were at least 30 days past due, the highest level ever recorded. Nearly $19 billion worth of adjustable rate mortgages will reset by the end of 2011. Since most of these ARMs have negative amortization features and mortgage interest rates are rising, although still at historic lows, monthly payments will likely rise when they reset, sparking even more defaults, foreclosures and fraud as desperate homeowners try to escape their debts.

In order to stabilize the economy and keep an already horrendous situation from becoming a death spiral we must stem the tide of foreclosures. To do that, we must stem the tide of mortgage fraud. We need to change the residential lending focus from detecting fraud in defaulted loans to preventing fraud. In order to do that, we must mandate that all loans be thoroughly screened for fraud before they are funded, remove

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the legal barriers that impede the industry’s ability to fight fraud and craft protections for those who engage in the battle. We must train our underwriters to be critical in their analysis, give them sufficient time for careful consideration and reasoned judgments, and reward them for producing quality, sustainable loans. We must craft clear and specific laws that define and criminalize fraudulent conduct to provide a precisely focused weapon for law enforcement, and provide them with the support and training they need to wield it effectively. We must educate industry professionals and the general public as to where the line is drawn between acceptable and illegal practices, and to warn them of the consequences for crossing it.

Fraud prevention has taken on a new urgency. As a result of its extensive intervention in the financial markets the federal government now purchases, insures or guarantees nearly 100 percent of loans originated today. The risk for fraud losses has thus been effectively shifted from the financial services sector to the taxpayer. If fraud is not contained it may well bankrupt the country. If we prioritize fraud prevention, we may yet save the country for our grandchildren, if not for ourselves.
Figure 1  **Kevin Wiggins properties, Atlanta, Georgia 30310**
This figure illustrates fraud’s geographic concentration and spread over time. The occurrence in this area is worse than represented because there were literally dozens of rings operating in these neighborhoods, and only Wiggins’ transactions are shown.

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Used with permission of Brent Brewer.
Figure 2  Lucile Avenue, Atlanta, Georgia 30310
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Figure 3  1318 Lucile Avenue, Atlanta, Georgia 30310
This figure represents a typical sales history for a fraudulently acquired property and the effect of fraudulent sales values on tax assessment values. Under Georgia law, the property is assessed as of January 1st of each year and thus assessment changes will not appear in the digest until the next calendar year.

<table>
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<tr>
<th>Date</th>
<th>Purchaser</th>
<th>Sales/Foreclosure/Tax values</th>
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<tr>
<td>10/03/00</td>
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</tr>
<tr>
<td>05/02/02</td>
<td>BBP to VM</td>
<td>$ 95,000</td>
</tr>
<tr>
<td></td>
<td>“sold” 5 days before purchase</td>
<td></td>
</tr>
<tr>
<td></td>
<td>VM’s mortgage</td>
<td>$201,000</td>
</tr>
<tr>
<td></td>
<td>Tax value (100%)</td>
<td>$137,300</td>
</tr>
<tr>
<td>07/01/03</td>
<td>FORECLOSED</td>
<td>$221,000</td>
</tr>
<tr>
<td></td>
<td>Tax value (100%)</td>
<td>$150,000</td>
</tr>
<tr>
<td>01/28/05</td>
<td>Bank to KA</td>
<td>$150,000</td>
</tr>
<tr>
<td>03/21/05</td>
<td>KA to DS</td>
<td>$320,000</td>
</tr>
<tr>
<td></td>
<td>Delayed flip</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Tax value (100%)</td>
<td>$168,200</td>
</tr>
<tr>
<td>10/12/06</td>
<td>DS to IB</td>
<td>$220,000</td>
</tr>
<tr>
<td></td>
<td>Transfer to avoid foreclosure</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Tax value (100%)</td>
<td>$234,000</td>
</tr>
<tr>
<td>01/06/07</td>
<td>FORECLOSED</td>
<td>$202,500</td>
</tr>
<tr>
<td></td>
<td>Tax value (100%)</td>
<td>$243,800</td>
</tr>
<tr>
<td>03/17/09</td>
<td>Last sale (by lender)</td>
<td>$  21,000</td>
</tr>
<tr>
<td></td>
<td>Tax value (100%)</td>
<td>$166,500</td>
</tr>
</tbody>
</table>

Last legitimate sale value (2000):  $ 99,000
Current value per last sale (2009):  $ 21,000
Depreciation over 9 years: 80%
Average value by sale price: $199,286
Total amount of defaulted debt as reflected in foreclosure values: $712,858
Over-valuation in tax assessment based on last sale: 790%
Over-valuation based on last legitimate sale price (2000): 60%
Mortgage Fraud: A Clear and Present Danger
National Institute of Justice
Ann Fulmer | March 31, 2009

fraud protection you can bank on
Definition of Mortgage Fraud

Deliberate and knowing misstatements, misrepresentations, or omissions
  • Bank robbery without a gun

• Two types:
  • For profit
  • For housing
    • Borrowers are perpetrators and victims
    • Generates illicit profits for mortgage professionals – real estate agents, appraisers, settlement and escrow agents

Committed by career criminals, mortgage professionals, gangs, terrorists, drug traffickers, police officers, lawyers, ministers....your neighbors
Mortgage Fraud is BIG

Incidence and Loss Rates Unknown, Not Quantifiable

- FBI resources “strained”
- 63,000+ SARs filed last year; 28,000 more so far in FY 2009
  - USAO/FBI: minimum loss is $1 million to open case

Fraud in 50% of closed conforming loans, 60% of total Alt-A originations, as much as 60% of current FHA originations

- Estimated direct lender losses from Alt-A “liar loans” (fraud for housing) is $218 billion
- Infests subprime; in prime as well
**Loss Severity**

**Fraud in Origination**
- 8x more likely to default
- 20x more likely to enter foreclosure process

Diagram: Delinquency Risk vs. Custom Score

The risk of delinquency in the first year is 8 times higher for loans with a score in the 0-200 range than for loans with a score in the 800-1000 range.
Loss Severity

Natural Foreclosure
= 15-60% of original loan amount

Fraud Foreclosure
= 50-100% of original loan amount

The risk of foreclosure in the first year is 20 times higher for leases with a score in the 0-200 range than for loans with a score in the 800-1000 range.
Fallout from mortgage fraud

- Inflated tax assessments
- Inflated values/affordability issues for subsequent sales in the neighborhood
- Vacant, vandalized properties, blighted neighborhoods
- Destabilized neighborhoods, declining values
- Crime
- Section 8 housing voucher abuse
- Losses for property/casualty insurers
Mortgage fraud is like cancer:

– Always spreading

– Always mutating and adapting to market conditions

What happens to a community when fraud is unchecked?
Vandalized House - Example
The View from Ground Zero

Fraud can

-- and does --

happen anywhere
Fraud is Accelerating

Interthinx saw critical risk indicators in
> 24% of applications in Q4 2008

Freddie Mac says 2007 were “worst ever;” 2008
originations even worse; “instant defaults” in
FHA programs on the rise

Motive now is desperation

– Underwater borrowers in default or facing
foreclosure
– “Specuvestors” and builders who can’t sell
– Mortgage professionals trying to maintain
income
Old Schemes, New Twists

**Fraud is alive and well**

- Some of today's schemes:
  - False tax returns
  - Rented bank deposits, manipulated FICO's
  - Short sales
  - Foreclosure "investment" schemes/flipping
  - Servicing schemes
  - Modification and refinancing frauds
  - "Buy-and-bail"
  - Builder bailouts
Impediments to Fighting Fraud

• Fraud prevention is NOT top priority
  – “Department of Production Reduction”
  – Sales departments override Risk Management
  – Underwriters report to Sales; explicitly/tacitly encouraged to approve “iffy” loans

• Secondary market doesn’t demand fraud prevention
  – 10% sampling post-closing favors bad guys
    • Faulty assumptions in sample selection
    • Too late in process

• Failure to adopt fraud prevention technology
  – Must screen 100% of production pre-funding
  – Mortgage meltdown could have been prevented for <$20 per loan
Impediments to Fighting Fraud

• Compensation structures = conflict of interest
  - Real estate agents, appraisers, brokers, settlement agents don’t get paid unless loans close
    • Adopt insurance model: small commission at origination then residual commissions over time that reward quality

• Bank Secrecy Act, Fair Credit Reporting Act
  - Prohibit sharing information about known or suspected bad actors
    • Industry needs a “safe harbor”
    • National Fraud Database
Impediments to Fighting Fraud

• Negative financial consequences for finding fraud
  - Forced repurchases, increased cash loss reserves, reduced profits, loss of reputation/trust in institution

• HMDA
  - Prohibits use of critical data elements and fraud indicators in lending decision
    • Affinity rings target minorities, single mothers, religious groups
    • Low income areas frequently targeted
    • Fraud prevention decisions may be punished if they impact minority neighborhoods
Fraud is a Clear and Present Danger

- Mortgage fraud = foreclosures
- Foreclosures = destroyed communities, loss of government revenues, increased cost to government, ratings downgrades, investor uncertainty and loss confidence
- Uncertainty = increase in repurchase demands, from individual loans to entire pools
- Repurchase demands = bank failures, liquidity crisis
- Liquidity crisis = recession
Fraud is a Clear and Present Danger

- US government now funds, purchases, or insures nearly all mortgages
  - US Taxpayers now footing the tab

- Economic stabilization programs and funds are targets

- Foreclosure crisis will not end, and confidence will not be restored, until fraud is stopped
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Mortgage Fraud’s Impact on Housing Markets:
An Atlanta Case Study in Neighborhood Collateral Damage

M. Cary Collins, Ph.D.
Bryant University

Keith D. Harvey, Ph.D.
Boise State University

Ann Fulmer, J.D.
InterThink Inc.

Peter J. Nigro, Ph.D.
Bryant University
Outline of the Presentation

- Motivation and overview
- Data sources
- Empirical methods
- Preliminary findings
- Next steps

- Quick: Overview of some other recent work on mortgage brokers and fair lending
Mortgage Fraud
Motivation and Overview

- September 2008 - U.S. Federal Bureau of Investigation announces probe of 26 financial firms, including Fannie Mae, Freddie Mac, Bear Stearns, Lehman Brothers and AIG for mortgage-related fraud
- Mortgage Asset Research Institute (MARI) show fraudulent loans issued during the first three months of 2008 skyrocketed 42% compared with the same period in 2007
- FinCEN shows mortgage fraud reports as a percentage of total SARs have more than doubled during the last decade
- FBI's mortgage fraud caseload has more than tripled in the last three years
MOTIVATION AND OVERVIEW

Behaviors leading up to the fraud discovery that impact market participants include:

- reduced affordability for new purchasers during a period of fraud for profit where housing market values are artificially inflated

- incenting existing homeowners to tap into artificially inflated equity values through refinance loans, creating a borrower lock-in after the housing market’s value correction
MOTIVATION AND OVERVIEW

Behaviors of market participants as a result of fraud discovery include:

- borrowers subject to fraud for profit **struggling with high mortgage payments, higher foreclosure rates**, and severely damaged credit histories;
- mortgage lender **direct losses on foreclosed loans** in the fraud for profit neighborhoods;
- neighboring **homeowners losing value as local foreclosure rates rise** and the nature of appraisal fraud is made known;
- neighborhood **property owners selling out prematurely in anticipation of the housing value correction** brought on by fraud for profit;
- remaining property owners facing illiquid housing markets at reasonable pricing after fraud is uncovered.
MOTIVATION AND OVERVIEW

Behaviors after the fraud in targeted neighborhoods are well-known:

- mortgage lenders exiting housing markets or neighborhoods where fraud has increased the uncertainty of housing values and made questionable the credit quality of potential borrowers;
- increased losses and higher transactions costs associated with lender repurchase of fraudulent loans previously bundled & sold in the secondary market;
- mortgage-backed security issuers setting higher performance standards to compensate for the expected increase in fraud losses; and
- the reduced availability, and perhaps increased cost, of obtaining credit for all borrowers, but especially for residents and new purchasers in geographies that have experienced higher-than-typical levels of fraud for profit.
MOTIVATION AND OVERVIEW

The purpose of this study:

· Determine whether particular neighborhood traits lend themselves to mortgage fraud for profit;

· Review the effects of fraud on home sales & home prices in the Atlanta MSA over the period 2003 through 2008;

· Determine the effects of fraud on “collateral damage” for highly-affected neighborhoods in the Atlanta MSA across this time period; and

· Motivate a broader study of several U.S. metropolitan areas through the Mortgage Bankers Association, MARI, ChoicePoint®, and the U.S. Office of the Attorney General and across a similar time period.
DATA SOURCES

- Mortgage fraud instances by 3-digit zip code for the Atlanta MSA, provided by ChoicePoint® on license from The U.S. Treasury’s Financial Crimes Enforcement Network (FinCEN) for 2003-2008
- Home sales & average sales price data from MelissaData® for the Atlanta MSA, covering the period 2001 through 2008
- Loan application, origination, and rate spreads from the U.S. HMDA data provided by the Board of Governors of the Federal Reserve System (1997-2007)
- Demographic data for census tracts (zip centroided and attached to the 3-digit zip codes) from the U.S. Census Bureau
- Criminal indictment mortgage fraud data on individual loans, borrowers as well as lenders, reported for the period 2004 through 2006 from the U.S. Attorney, Northern District of Georgia
EMPIRICAL METHODS

• Two types of analysis:
  – **Panel data & correlations** using the U.S. Census Bureau demographics matched to the ChoicePoint® data at the 3-digit zip code level (*begun*)
  – **Loan-level regression analysis** using the criminal indictment data from The U.S. Attorney, Northern District of Georgia
Proportion of Annual Mortgage Fraud Reports to FinCEN in the 3-digit Zip Codes of the Atlanta MSA

<table>
<thead>
<tr>
<th>3-digit Zip Code Cluster</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008 YTD</th>
</tr>
</thead>
<tbody>
<tr>
<td>300XX</td>
<td>33.7</td>
<td>31.7</td>
<td>27.3</td>
<td>25.0</td>
<td>22.2</td>
<td>28.6</td>
</tr>
<tr>
<td>301XX</td>
<td>5.8</td>
<td>7.5</td>
<td>5.0</td>
<td>6.4</td>
<td>11.1</td>
<td>7.1</td>
</tr>
<tr>
<td>302XX</td>
<td>5.0</td>
<td>11.0</td>
<td>7.7</td>
<td>6.0</td>
<td>13.9</td>
<td>7.1</td>
</tr>
<tr>
<td>303XX</td>
<td>20.0</td>
<td>28.0</td>
<td>26.5</td>
<td>33.2</td>
<td>26.4</td>
<td>35.7</td>
</tr>
<tr>
<td>305XX</td>
<td>1.2</td>
<td>1.4</td>
<td>0.8</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
</tr>
<tr>
<td>306XX</td>
<td>0.8</td>
<td>1.0</td>
<td>0.5</td>
<td>0.0</td>
<td>1.4</td>
<td>0.0</td>
</tr>
</tbody>
</table>
### Economic Characteristics of the 3-digit Zip Codes in the Atlanta MSA

<table>
<thead>
<tr>
<th>3-digit Zip Code Cluster</th>
<th>Tract Family Income</th>
<th>Tract Population</th>
<th>Tract Minority (%)</th>
<th>Tract Median Age</th>
<th>Tract Below Poverty Level (%)</th>
<th>Tract Housing Age</th>
<th>Tract Unemployment (%)</th>
<th>Tract Rental Housing (%)</th>
<th>Tract Vacancy (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>300XX</td>
<td>975790</td>
<td>8704</td>
<td>45.06</td>
<td>32.45</td>
<td>8.22</td>
<td>23.06</td>
<td>4.39</td>
<td>34.16</td>
<td>4.18</td>
</tr>
<tr>
<td>301XX</td>
<td>64938</td>
<td>7690</td>
<td>20.83</td>
<td>33.66</td>
<td>9.25</td>
<td>23.38</td>
<td>4.2</td>
<td>23.59</td>
<td>5.85</td>
</tr>
<tr>
<td>302XX</td>
<td>59364</td>
<td>7639</td>
<td>47.42</td>
<td>32.15</td>
<td>10.35</td>
<td>24.76</td>
<td>5.17</td>
<td>31.26</td>
<td>5.49</td>
</tr>
<tr>
<td>303XX</td>
<td>65757</td>
<td>5421</td>
<td>62.3</td>
<td>32.96</td>
<td>19.48</td>
<td>39.07</td>
<td>9.13</td>
<td>50.48</td>
<td>8.6</td>
</tr>
<tr>
<td>305XX</td>
<td>554209</td>
<td>6812</td>
<td>16.18</td>
<td>35.93</td>
<td>11.67</td>
<td>21.83</td>
<td>3.75</td>
<td>20.82</td>
<td>14.28</td>
</tr>
<tr>
<td>306XX</td>
<td>548130</td>
<td>4495</td>
<td>33.62</td>
<td>30.22</td>
<td>25.48</td>
<td>28.09</td>
<td>7.75</td>
<td>44.23</td>
<td>7.35</td>
</tr>
</tbody>
</table>
### Cluster Comparisons

<table>
<thead>
<tr>
<th>Cluster</th>
<th>Avg % &gt; 65</th>
<th>Avg % Moved In 5 yrs</th>
<th>Avg % Owner Occupied</th>
<th>Avg % Poor Families</th>
<th>Avg % Unemployed</th>
</tr>
</thead>
<tbody>
<tr>
<td>2</td>
<td>6.99</td>
<td>57.65</td>
<td>68.43</td>
<td>6.75</td>
<td>4.84</td>
</tr>
<tr>
<td>6</td>
<td>9.18</td>
<td>53.53</td>
<td>58.50</td>
<td>13.08</td>
<td>7.34</td>
</tr>
<tr>
<td>15</td>
<td>6.47</td>
<td>57.77</td>
<td>77.65</td>
<td>3.01</td>
<td>2.87</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Cluster</th>
<th>Avg % SFR</th>
<th>Avg % Vacant</th>
<th>Avg Total Housing</th>
<th>Avg Median Household Income</th>
<th>Avg Median Housing Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>2</td>
<td>72.40</td>
<td>4.49</td>
<td>11,812</td>
<td>$48,100</td>
<td>$107,035</td>
</tr>
<tr>
<td>6</td>
<td>63.13</td>
<td>6.97</td>
<td>10,384</td>
<td>$35,264</td>
<td>$50,953</td>
</tr>
<tr>
<td>15</td>
<td>80.39</td>
<td>5.30</td>
<td>12,896</td>
<td>$69,211</td>
<td>$158,340</td>
</tr>
</tbody>
</table>
**Fraud and No Fraud Tract Comparisons**

"Sales Price Change_Cumulative"

![Graph showing sales price change cumulative from 2001 to 2007.](image)

*Source: Bryant University, The Character of Success*
Fraud and No Fraud Tract Comparisons

"Num Sales Change_Cumulative"
**Very Preliminary OLS Findings Across 3-digit Zip Codes of the Atlanta MSA for Home Prices as a Dependent Variable**

**Need 5 Digit Zip Info – More Granular Data**

<table>
<thead>
<tr>
<th>Variable</th>
<th>Coeff</th>
<th>T stat</th>
<th>P value for T statistic</th>
</tr>
</thead>
<tbody>
<tr>
<td>Intercept</td>
<td>-0.7203</td>
<td>-0.65</td>
<td>0.523</td>
</tr>
<tr>
<td>Change in Sales</td>
<td>-0.0396</td>
<td>-1.01</td>
<td>0.323</td>
</tr>
<tr>
<td>Change in Sales_1</td>
<td>-0.0242</td>
<td>-0.58</td>
<td>0.570</td>
</tr>
<tr>
<td>Change in Sales_2</td>
<td>0.0427</td>
<td>1.09</td>
<td>0.290</td>
</tr>
<tr>
<td>Fraud (%) of Atlanta MSA_1</td>
<td>-0.2158</td>
<td>-2.20</td>
<td>0.039</td>
</tr>
<tr>
<td>Fraud (%) of Atlanta MSA_2</td>
<td>0.0381</td>
<td>0.36</td>
<td>0.726</td>
</tr>
<tr>
<td>Fraud (%) of Atlanta MSA_3</td>
<td>0.0980</td>
<td>1.05</td>
<td>0.304</td>
</tr>
</tbody>
</table>
Part II. Atlanta MSA Data

- Atlanta fraud data from the U.S. Attorney, Northern District of Georgia with major fraud cases from 1997-2005.
  - Logistic regression
  - Dependent Variable
    - Fraud = 1 if mortgage fraud occurred in that zip in that year
    - Fraud = 0 otherwise
  - Controls
    - HMDA / HUD data
      - percent of originations by nonbank lenders in zip code
      - HUD identified subprime lenders in that zip code in that year
    - Demographic variables from Census
    - Time controls – year dummies
**Logistic regression results**: Fraud versus No Fraud tracts relative to lending, demographic & time traits

<table>
<thead>
<tr>
<th>Parameter</th>
<th>Point Estimate</th>
<th>Standard Error</th>
<th>T Statistic</th>
<th>p Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Intercept</td>
<td>0.85050</td>
<td>2.0571</td>
<td>0.41</td>
<td>0.679</td>
</tr>
<tr>
<td>Avg % Non Bank Originations</td>
<td>1.56930</td>
<td>0.9485</td>
<td>1.65</td>
<td>0.098</td>
</tr>
<tr>
<td>Avg % High Cost Loan Originations</td>
<td>5.55480</td>
<td>1.7303</td>
<td>3.21</td>
<td>0.001</td>
</tr>
<tr>
<td>Median Head of Household Income</td>
<td>0.00003</td>
<td>0.800021</td>
<td>1.26</td>
<td>0.298</td>
</tr>
<tr>
<td>Median Tract Housing Value</td>
<td>-2.5E-06</td>
<td>3.01E-06</td>
<td>0.82</td>
<td>0.410</td>
</tr>
<tr>
<td>% Residents Moved &lt;5 years</td>
<td>-0.05710</td>
<td>0.0234</td>
<td>2.44</td>
<td>0.015</td>
</tr>
<tr>
<td>% Owner Occupied Dwellings</td>
<td>-0.03370</td>
<td>0.0183</td>
<td>1.84</td>
<td>0.066</td>
</tr>
<tr>
<td>1998 Year Binary</td>
<td>-1.00560</td>
<td>0.9703</td>
<td>1.04</td>
<td>0.320</td>
</tr>
<tr>
<td>1999 Year Binary</td>
<td>-0.02070</td>
<td>0.8319</td>
<td>0.02</td>
<td>0.980</td>
</tr>
<tr>
<td>2000 Year Binary</td>
<td>1.89280</td>
<td>0.7046</td>
<td>2.69</td>
<td>0.007</td>
</tr>
<tr>
<td>2001 Year Binary</td>
<td>1.87290</td>
<td>0.7162</td>
<td>2.62</td>
<td>0.009</td>
</tr>
<tr>
<td>2002 Year Binary</td>
<td>1.27360</td>
<td>0.7364</td>
<td>1.73</td>
<td>0.084</td>
</tr>
<tr>
<td>2003 Year Binary</td>
<td>-0.40280</td>
<td>0.7933</td>
<td>0.51</td>
<td>0.612</td>
</tr>
</tbody>
</table>
**Logistic regression interpretation:** Fraud tract likelihood based on the variables’ effects

<table>
<thead>
<tr>
<th>Effect</th>
<th>Odds Ratio</th>
<th>Point Estimate</th>
<th>Interpretation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Avg % Non Bank Originations</td>
<td>4.80</td>
<td></td>
<td>A one unit increase results in a 4.8X likelihood the tract is a fraud tract</td>
</tr>
<tr>
<td>Avg % High Cost Loan Originations</td>
<td>258.40</td>
<td></td>
<td>A one unit increase results in a 258.4X likelihood the tract is a fraud tract</td>
</tr>
<tr>
<td>Median Head of Household Income</td>
<td>1.00</td>
<td></td>
<td>The odds are 50-50 the tract is a fraud tract, no matter the change</td>
</tr>
<tr>
<td>Median Tract Housing Value</td>
<td>1.00</td>
<td></td>
<td>The odds are 50-50 the tract is a fraud tract, no matter the change</td>
</tr>
<tr>
<td>% Residents Moved &lt;5 years</td>
<td>0.30</td>
<td></td>
<td>A one unit increase results in a 0.3X likelihood the tract is a fraud tract</td>
</tr>
<tr>
<td>% Owner Occupied Dwellings</td>
<td>0.97</td>
<td></td>
<td>A one unit increase results in a 0.97X likelihood the tract is a fraud tract</td>
</tr>
<tr>
<td>1998 Year Binary</td>
<td>0.37</td>
<td></td>
<td>A one unit increase results in a 0.37X likelihood the tract is a fraud tract</td>
</tr>
<tr>
<td>1999 Year Binary</td>
<td>0.98</td>
<td></td>
<td>A one unit increase results in a 0.98X likelihood the tract is a fraud tract</td>
</tr>
<tr>
<td>2000 Year Binary</td>
<td>6.54</td>
<td></td>
<td>A one unit increase results in a 6.54X likelihood the tract is a fraud tract</td>
</tr>
<tr>
<td>2001 Year Binary</td>
<td>6.51</td>
<td></td>
<td>A one unit increase results in a 6.5X likelihood the tract is a fraud tract</td>
</tr>
<tr>
<td>2002 Year Binary</td>
<td>3.57</td>
<td></td>
<td>A one unit increase results in a 3.5X likelihood the tract is a fraud tract</td>
</tr>
<tr>
<td>2003 Year Binary</td>
<td>0.57</td>
<td></td>
<td>A one unit increase results in a 0.57X likelihood the tract is a fraud tract</td>
</tr>
</tbody>
</table>
Another Area Needing More Oversight:
Mortgage Broker Monitoring

- Examined several mortgage brokers with the Office of the NYS Attorney General to:
  - Determine whether the broker charges Black and/or Hispanic customers significantly more in broker fees than White customers in violation of federal and state fair lending laws
  - Did brokers steer borrowers into high cost products?
Legal Claims

• **Fair Housing Act (42 U.S.C. § 3605)**
  Prohibits discrimination “against any person . . . in the terms or conditions of [loans], because of race [or] national origin.”

  Prohibits discrimination “against any applicant, with respect to any aspect of a credit transaction . . . on the basis of race [or] national origin.”

• **New York State Human Rights Law (N.Y. Executive Law § 296-a)**
  Prohibits discrimination “in the fixing of the rates, terms or conditions of any form of credit, on the basis of race . . .”
Summary of Broker Findings

- Black and Hispanic customers paid on average significantly more in broker fees (YSP or non-YSP) than White customers

- Disparities could not be explained by factors that could conceivably reflect the time and/or effort involved in the transaction
Methodology

- Ran regressions when possible to determine whether gross disparities could be explained by factors that could conceivably serve as proxies for time and/or effort

- Adopted approach that incorporated numerous factors, generally erring on the side of inclusion
Controls

- Ran regressions when possible to determine whether gross disparities could be explained by factors that could conceivably serve as proxies for time and/or effort
  
- Adopted approach that incorporated numerous factors, generally erring on the side of inclusion
  
  - Correlation between several of the factors and time/effort is not clear
  
  - Model results showed that several of these factors did not have a significant impact on non-YSP fees
Sample Findings

- First Lien Only Loans: Even when we control for all of the variables, significant disparities remain
Results

- Several brokers have or are in the process of settling
  - Monetary Relief
    - Restitution for excess fee charges
    - Fees and costs of investigation and penalties
  - Injunctive relief
    - Enhanced internal monitoring and required corrective actions to address any identified disparities;
    - Enhanced fair lending training for brokers
    - Development of new fee policy that limits discretion
  - Reporting
    - Regular reports to be provided OAG
    - Maintenance of specified records
Note - Can’t Blame it all on Brokers Consumer’s Lack of Financial Literacy Also an Issue

- The NYT has another article offering examples of homeowners caught up in the shock of readjusting ARMs, except this time the examples are affluent of consumers with annual incomes of $100,000 or more. Of the 870,000 borrowers who took jumbo ARMs from 2005 to 2007, 8.10% were two or more payments late, 2.62% were in the foreclosure process, and 1.35% had been foreclosed.

Contact information for update of fraud paper when available. More information on fair lending settlements.

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Executive Summary:

In 2006 and 2007 Florida ranked first in the United States for mortgage loans that contained alleged fraud against the lenders, according to the Mortgage Asset Research Institute (MARI). In 2008, Florida was ranked second in the United States. MARI ranked the Miami-Dade Metropolitan area in the top ten metropolitan areas in the United States for instances of Mortgage Fraud.

In 2007, Florida ranked second in the United States in foreclosures filed. There were 279,325 foreclosures filed in Florida. This was an increase of 124% from 2006 and 129% from 2005. In 2008, Florida was again second in the United State in foreclosures filed exploding to over 500,000 which equates to 4.5 out of every 100 households filed foreclosure. MARI estimates that 70-80% of all foreclosures contain some type of mortgage fraud.

In 2007, Governor Crist enacted the Mortgage Fraud Statute FSS 817.545 that made mortgage fraud a 3rd degree felony. This new law enabled state, county, and local law enforcement to arrest for violations of mortgage fraud, a crime traditionally investigated by the Federal Bureau of Investigation (FBI). In the 2008 legislative session the mortgage fraud statute was enhanced to a 2nd degree felony for incidents over $100,000, and with the passage of FSS 193.133 law enforcement works with the property appraiser’s office to reduce the tax burden on homeowners living in the area of the mortgage fraud. However, with the exception of Miami-Dade County, many law enforcement agencies are ill-trained and equipped to handle the laborious task of investigating a mortgage fraud case.

Now in 2009, it is clear that a concerted nationwide effort to combat mortgage fraud should be undertaken. It is recommended that through grant funding and legislative action a nationwide Mortgage Fraud Task Force be created to combat mortgage fraud throughout the United States. The Task Force should be modeled after the Miami-Dade Mortgage Fraud Task Force.

The “Mission Statement” of the Miami-Dade Mortgage Fraud Task Force is: We are a public/private partnership created to address and reduce incidents of foreclosure and mortgage fraud by preventing victimization through effective education, legislation, regulation, law enforcement and prosecution.

The Task Force has five (5) separate committees; each committee is responsible for an important component of the Mortgage Fraud Task Force mission.
1. Law Enforcement Committee – this committee is responsible for the detection, investigation, apprehension and prosecution of the mortgage fraud subjects and enterprises. The Law Enforcement Committee is chaired by a law enforcement professional with experience in the management and investigation of financial crimes including mortgage fraud. The Miami-Dade Police Department Economic Crimes Bureau personnel, municipality, state law enforcement agencies and the FBI work collaboratively in identifying and investigating cases. The Miami-Dade State Attorney’s Office (SAO), the Florida Attorney General’s Office and the United State Attorney’s Office prosecute cases.

2. Legislative Committee – this committee is responsible for enhancing current laws and creating new laws and ordinances. All these efforts are in furtherance of the Mortgage Fraud Task Force mission. The Legislative Committee is cochaired by a current member of the Florida House of Representatives and the Florida Senate.

3. Regulatory Committee – this committee is responsible for enhancing and enforcing regulations on all parties involved in the mortgage transaction. The Regulatory Committee is chaired by an industry professional with experience in regulatory action.

4. Business Partnership Committee – this committee is responsible for creating and transmitting effective business practices to enhance cooperation with law enforcement and regulatory agencies and between different professions involved in the mortgage transaction. Businesses that are members of the committee are: banks, title insurance companies, realtors, appraisers, mortgage brokers and HUD-approved consumer advocates. The Business Partnership Committee is chaired by an Industry professional with strong business ties within Miami-Dade County and Florida.

5. Education/Prevention Committee – this committee is responsible to create public awareness of foreclosure prevention, mortgage fraud and predatory lending practices through printed literature, newspaper articles, television reports and speaking engagements. The Education/Prevention Committee is chaired by the Director of Communications for the Mayor’s Office.
Mortgage Fraud

Understanding the Crime
Dominatrix Scammed, cont.

From January 2002 to March 2009, prosecutors say the defendants engaged in a $50-million mortgage fraud involving more than 50 properties in eastern Suffolk. They say that the scheme went as follows:

- **SELLING THE SCHEME**: Clients of Arena Studios, a New York business that provides dominatrix services, were recruited as straw buyers.

- **FAKE DOCUMENTS**: The straw buyers were given fictitious employment and inflated incomes to put on mortgage applications. They received fees of $5,000 to $10,000.

- **TAKING OWNERSHIP**: At closing, the title would be transferred to the straw buyer.

- **HIDDEN BALANCES**: False title reports were created to conceal existence of outstanding mortgages on the properties.

- **LOANS REFINANCED**: Using the fabricated paperwork, they would refinance the properties and pocket the cash.

- **VIOLENT CYCLE**: A house purchased by the straw buyer was allowed to fall into arrears. A new straw buyer would obtain another mortgage on the property before allowing it to fall into foreclosure again.
Definition of Mortgage Fraud

- A material misstatement, misrepresentation, or omission relied upon by an underwriter or lender to fund, purchase or insure a mortgage loan.
  - As defined by the Federal Bureau of Investigation
Definition of Predatory Lending

- "the practice of a lender deceptively convincing borrowers to agree to unfair and abusive loan terms, or systematically violating those terms in ways that make it difficult for the borrower to defend against."
  - Investor Dictionary

- The definition of predatory lending involves who really benefits in the mortgage transaction. The fact that the homeowner does NOT benefit is what turns a legal mortgage into a predatory lending practice which can and should be reported.
  - Mortgage Daily News
Who are the Perpetrators?

- Industry insiders (brokers, appraisers, settlement attorney’s, realtors)
- Real Estate Investors
- Lenders
- Borrowers
What Drives the Perpetrators to Commit Mortgage Fraud?

- **Fee income**
  - Originators willing to manipulate for remarkably little compensation

- **Continuance of business stream**
  - With focus on volume, business stream = employment and continued income/lead base

- **Because everyone else is**
  - "Herd Mentality"
  - No perceived victim
  - No perceived/actual punishment
  - General market acceptance of behavior
Mortgage Fraud Categories

- Fraud for Housing
  - Illegal actions perpetrated solely by the borrower
  - Motive: acquire and maintain ownership of a house under false pretenses.
  - Typically involves misrep regarding income or employment

- Fraud for Profit
  - Usually complex in nature and involves multiple entities
  - Motive: obtain loan proceeds on properties whose value has been falsely inflated or fictitious properties.
  - Typically involves collaboration or collusion by industry insiders
Examples of Common Mortgage Fraud

- **Undisclosed kickbacks.**
  If you strike a deal with a home seller to give you a big wad of cash or to slip a check across the closing table, say, to pay for a new roof, and if the lender doesn’t know about it -- because it’s not disclosed in the purchase contract nor addendum nor your estimated closing statement -- it’s mortgage fraud.

- **Silent second mortgage.**
  A borrower without a down payment can commit mortgage fraud by borrowing the down payment from the seller in exchange for giving the seller a silent second mortgage, which is unrecorded (or records after closing) and hidden from the lender.

- **Falsifying employment income.**
  Stated income loans were originally created for self-employed individuals whose income is difficult to verify, but some employed borrowers inflate their income above and beyond a W-2.

1 - About.com
Examples of Common Mortgage Fraud, cont.

- **Non-owner occupant claiming occupancy.**
  Lenders offer higher interest rates and less favorable terms to non-owner occupants because the lender’s risk is higher. If you don’t intend to live in the property, don’t promise that you will.

- **Down payment gifts you will repay.**
  Both parties, the giver and the recipient, commit loan fraud if the gift is to be repaid. Gifts cannot be repaid.

- **Inflated purchase price.**
  If you have two purchase contracts and send the false contract with the higher sales price to the lender in hopes of obtaining a higher appraisal, it’s mortgage fraud.

- **Falsifying deposits.**
  Dishonest borrowers who do not have an earnest money deposit might state in the contract that the deposit was paid outside of escrow, which is fraudulent.
Examples of Sophisticated Mortgage Fraud

- **Appraiser ID Theft:** Mortgage and real estate professionals hijack appraisers' digital signatures and license numbers, or even buy the software and produce their own appraisals using another appraiser's name and license number.

- **Advanced Occupancy Misrep:** Purchase and Keeps; Owners claiming they rent; Undisclosed properties; Multiple simultaneous transactions

- **Altered/Created Documentation:** Digital manipulation
  - Bank statements
  - Paystubs/W-2s
  - VOD’s
  - Cancelled checks

- **Marketed “Novelty” documents:** Digitally altered or created documents marketing and purchased on line - *internationally*
On-Line Solicitation

Fake bank statements

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- We are now affiliated with Replicaboc.
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- Replicaboc will complete your order within 1 day.
- All bank statements and utility work will be dealt with by them.
- If you have any questions regarding your order(s), please email sales@Replicaboc.co.uk.
- They are a reputable firm and will deal with you immediately.

Charges for this service are as follows:
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- 3 MONTHS - £450 GGP / $450 USD

Packages also available

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On-Line Solicitation - more

Order before 1pm, for NEXT DAY delivery
What is the “Crime” of Mortgage Fraud

- A Crime of Ethics
- A Crime of Ignorance
- A Crime of Exploitation
What Are People Looking For?
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Housing Foreclosures and Domestic Violence: A Theoretical Foundation

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What is Social Disorganization Theory (SDT)?

The determinants

The underlying causal processes
Are the Determinants of SDT Related to Domestic Violence (DV)?

A qualified “yes”

Supportive findings but limitations
Does SDT Provide a Plausible Rationale?

Another qualified “yes”

Two troublesome findings
The distribution of owner-occupied housing and foreclosures

Research findings on personal-familial economic distress and intimate partner violence
What is the Implication of These Two Findings?

Different causal processes besides those embedded in SDT are at work
Is There a Compatible Theory that Picks Up Where SDT Drops Off?

An unqualified “yes”

General strain theory (GST)
SDT and GST combined allows for the specification of micro-level processes, moderated by macro-level dynamics

Competing arguments

Multi-level modeling techniques required

Numerous empirical questions and data issues to address
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The Nexus between Economics and Family Violence: The Expected Impact of Recent Economic Declines on the Rates and Patterns of Intimate, Child and Elder Abuse

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and

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3/9/2010

Note: This paper was initially presented at meetings to discuss home foreclosures and crime sponsored by the U.S. Department of Justice’s National Institute of Justice, March 31st, 2009 at Charlotte, North Carolina, United States. The opinions expressed in this paper do not represent the official policy or conclusions of Michigan State University, The University of Michigan, or the U.S. Department of Justice.
The Nexus between Economics and Family Violence: The Expected Impact of Recent Economic Declines on the Rates and Patterns of Intimate, Child and Elder Abuse

The 2008-09 economic recession is causing profound consequences in the U.S. and beyond: housing values have plummeted across most western societies, in some localities by nearly 30 percent in one year (National home-value drop accelerated in fourth quarter 2009); many global equities are now less than half their worth when compared to just one year ago (World Markets 2009); and the U.S. unemployment rate has increased nearly 45 percent in just two years, now exceeding the 1983 rate (United States Unemployment Rate 2009). Yet, as shocking as these quantitative measures illustrate, many scholars and others are now discussing how this recession is qualitatively different from recent dips and its forthcoming contagious, harmful effects. Some of these contagious consequences are becoming self evident (Robb 2008), while others may not materialize for years or even decades (e.g., Elder Jr. & Liker 1982). Arguments are appearing in the news and elsewhere contemplating that this recession is unlike any we have experienced since the “Great Depression”, some of these arguments are more precisely suggesting that this downturn will usher in structural changes in the global job market that will last for decades if not longer (Goodman & Healy 2009). Others have also argued that because this recession started with a decline in home values and an upswing in their foreclosures, the one notable consequence to watch for is the decline not just now, but for decades, in the ability of inner city communities and neighborhoods to foster collective efficacy (Foreclosure help needed 2009). The concentrated, mass foreclosures and the resulting systemic unoccupied housing has not only hit the long-established inner cities neighborhoods, many of which have not dealt well with the nearly forty years of decline in manufacturing jobs, but has also begun to negatively affect suburban and wealthy rural areas (Wilson & Paulsen 2008). These latter two
areas are just now beginning to wrestle with the consequence of the rapid contraction of white-collar position across all industries (Hahn 2009). If these areas too begin to demonstrate patterns of high unoccupied housing with broken windows, sidewalks, depleted streets and playgrounds, and the influx of new residents from disparate cultural backgrounds, these communities may too demonstrate a rise in the sale and use of controlled substance, incivilities, and violent crime that for decades victimized inner city neighborhoods across the United States (Tuthill 2008). These factors are in turn linked to increased risks for childhood depression, anxiety disorders, and aggression (Gorman-Smith et al. 1998).

Because many economists believe that this recession started with housing and the focus of this [BLANK] is the consequence of the resulting structural change in housing, this paper will discuss the corollaries that this economic change may have on the nature of families and patterns of family violence across America’s neighborhoods. This focus makes immense sense since a home is where most families spend the majority of their time together, expend the majority of their shared resources, and mutually build a life time of memories and the joint capital they hope to pass to later generations (e.g., homeownership is viewed as a good measure of family wealth in the near term and across generations (Boehm & Schlottmann 2001). While the specific question we seek to address is about how will home foreclosures impact family functioning, we have determined somewhat because of necessity (i.e., lack of theory, data and research) to expand the spotlight to more generally address the concern of whether or not there is a nexus between changes in a family’s micro-economic conditions and the likelihood of family violence. In this context, family violence may take one or more of a variety of forms including conventional acts of assaults between intimates and those targeting children, and also include those actions or lack of actions that result in elder abuse or neglect. While other papers will
address the ecological correlates of family violence and violence more generally, we will focus more narrowly on the individual micro-markers that will help us to understand the extent to which economic hardships and domestic violence are related.

Unfortunately, it is not too difficult to find someone who has already made the connection between today economic hardship and violence, nor is the idea that there is nexus between the two a particularly novel discussion among academics. By March 2009 the Internet and other social arenas are replete with stores about the link between home foreclosures and more generally the economic downturn and incidents of family violence. There are numerous heartbreaking stories documenting how the 2008-09 economic slump has not only caused families to lose their homes, but is also implicated as a cause of familiar violence and the breakup of families. For example, there is the 2008 suicide of an older husband and wife in Oregon that followed their home foreclosure (Armour 2008). In Los Angeles, California, an unemployed man who once worked for Pricewaterhouse and Sony Pictures murdered his wife, three sons and his mother-in-law before turning the gun on himself. He left a suicide note saying that he was in deep financial trouble and had considered killing only himself, but decided that it was more honorable to kill his entire family before committing suicide (Winton et al. 2008). Family physicians in social setting are also talking about how they now must also address familiar problems that are arising among their patients when just recently they did not.

These stories are likely not unique and in may fact represent a pattern of increased violence among family members. Across the United States (from California to Florida and up to Massachusetts), family and mental health counselors are reporting substantial increases in complaints related to money and mortgages and the resulting violence (Armour 2008). For instance, the Women Center in Stockton, California reported that during 2008 domestic violence
reports increased 12 percent and “that the majority occurred on families that are losing their homes through foreclosures” (Banks 2008). “Foreclosure, or the threat of it, can destroy families, says the group’s executive director, Joelle Gomez. ‘The housing market is stillbottoming out and we are really bracing to see far more clients utilizing both our shelter services and our help lines and counseling, she says” (Jensen 2008). Similarly, the National Domestic Violence Hotline (NDVH) reported that calls were up 21 percent in September 2008 when compared to the September 2007 count. They also reported that between mid-November 2008 and the end of the year that among 7,868 callers who agreed to participate in their study, 54 percent said that there was change in their household’s financial situation in the past year, and 64 percent also believed that “abusive behavior has increased in the past year” (Increased financial stress affects domestic violence victims 2009). This increased demand for help extends beyond domestic violence hotlines as reported by the Polk County, Florida crisis hotline in late September 2008. Their crisis phone line reported a 30 percent increase in calls, with many of their callers complaining that because of lost jobs they can no longer care for their children (Down economy means crisis calls go up 2008). Likewise, the San Diego’s Police Chief claims that because of the bad economy, calls for domestic and alcohol-related crimes, and white-collar crimes are increasing. He also reports that that there are more "identity theft, mortgage fraud, senior abuse, too — people taking advantage of seniors, trying to get to their money" (Sullivan 2008). One advocate has speculated that if the economic downturn is restricting once-functioning couples’ ability to separate, we may now face a period of rising and often dangerous relationships that more frequently turn to abuse rather than uncoupling (Bad economy makes love go wrong - Domestic violence cases sharply increase 2009; Scheerer 2009; At risk of
foreclosure? Help may be on the way 2008). As evidence of this point, some advocates have spoken about an increase in their victims needing services but not shelter (Santich 2009).

In other locations, domestic violence shelters are feeling a surge in their housing requests. In Spring Hillsborough, Florida, the number of women seeking shelter increased by more than 100 percent, going from 90-95 per month to 196 in October 2008 (Danielson 2008). Olvera Lighter, the Spring's president believes that what is “driving this [increases] is [the] increased stress over the economy,” Lighter maintains that "because domestic battery is about power and control, when you're standing on a shrinking iceberg of what you can control, some people might tend to lash out" (Danielson 2008). This increased demand for use and stay at shelters hurts in two ways: while demand for their services is up, funding is down (Danielson 2008). Although, this secondary stress may be reduced somewhat with the $50 million added to the Federal Violence Against Women Act (VAWA) Transitional Housing program through the 2009 American Recovery and Reinvestment Act (i.e., President Obama’s Stimulus plan) (VAWA Transitional Housing Assistance Grants for Domestic Violence, Dating Violence, Sexual Assault and Stalking Victims 2009).

There are also those instances were negative economic outcomes such as foreclosures are caused by domestic violence (Stop foreclosure in Virginia Beach 2009; Baird 2007). Williams (1998: 1) believes that “among the many reasons for homelessness, domestic violence and low-cost housing shortages experienced within a context of poverty are fundamental for low income women living in shelters. [W]omen's stories indicate a pattern in their persistent poverty and battering relationships prior to becoming homeless”. Others have also looked at the issue of the direction of effect more generally. For example, Barnet and LaViolette (1993) examined the link between a women’s violence victimization and her subsequent social economic status. These
two scholars contend that intimate partner violence contributes to several negative economic outcomes, particularly among poor women (c.f., Farmer & Tiefenthaler 2003a). To address this problem, many states now provide permit unemployment insurance benefits to domestic violence victims regardless of whether they are looking for work or are attempting to find a safe place to live (States that permit victims of domestic violence to receive unemployment insurance 2008).

The Nexus of Economics and Domestic Violence

Domestic violence advocates frequently claim that violence against intimates is a “classless” problem. They argue that assaults of “women and children occur in all social class, across occupation types, in all racial and ethnic groups in all types of neighborhoods, in cites, and rural areas.” (Fagan 1993: 209). Indeed, a wealth of research published over the past forty years has measured domestic violence among families in every social class, supporting the anecdotal evidence provided by advocates for this claim (Gelles 1993). For instance, analyst of both the 1985 and the 1995 National Family Violence Survey report finding violence in every social class (Straus et al. 1980; Fagan & Browne 1994). Nevertheless, a claim that the rate of family violence is independent of several socially constructed categories “runs counter to empirical evidence about the social epidemiology of violence between spouses and other intimates” (Fagan 1993: 209). Gelles (1993: 33) argues that family violence is more likely found among the poor and unemployed or those holding low-prestige jobs (c.f., Finkelhor et al. 2005). In the remainder of this paper we will review the scholarship and research that seeks to test the extent to which one or more economic dimensions (regardless of whether the dimension is measured by income, employment status, or status incompatibility) is at least minimally correlated with one or more variations of family violence.
Historical Perspective on the Nexus.

Before examining the systematic evidence collected over the past forty years (the period that marks the modern day research movement on violence against women), we will first review scholarship by historians on domestic conflict and violence including looking closely at several recently published historical reviews (e.g., Pleck 2004; Gordon 2002). While this body of scholarship is neither extensive nor consistently systematic, it is unusually rich in illustrations of the violence (particularly compared today’s quantitative modeling approaches). In the broad context of family conflict and violence, we believe it fair to claim that the two most frequently discussed linked demographic concepts include a cadre of variables that generally describe the poor or working class, and a closely related concept of alcohol abuse (c.f., Foyster 2005). Both concepts often appear together, sometimes even in the same paragraph, when the scholar is describing the nature of a domestic assault victim or offenders. For example, Haag (1992) wrote a piece titled the “‘Ill-use of a wife:’ patterns of working-class violence in domestic violence and public New York City, 1860-1880,” in which he first describes domestic violence as “‘Irish Catholics and all drunkards…men and women fighting in’ a basement rum shop” and then states that his “paper will explore violence in New York City’s working-class community from its lowest common denominator – as a male phenomenon that consequently exposes a great deal of concerning definition of masculinity. Similarly, Pleck (2004: 12) describes clients of institutions to address family violence in the 1920 and the 1960s as “mainly poor or working class; the founders were the more privileged,” and later she (2004: 57) depicts the mid-1850 survivals/victim seeking shelter as largely “poor or working class and Irish,” and then paraphrased an advocate who called one victim’s husband a “drunkard”. ¹
Similar to U.S. scholars, English academics studying the 1800s and early 1990s frequently described family violence as a crime of the poor. Behlmer (1994: 252), referencing an 1878 English article published in *Contemporary Review*, argued that the “only meaningful protection that a magistrate might give a battered working-class women… …was a judicial separation whereby she and her children could legally live apart from her husband” ². He (1994: 252) later quoted an English magistrate who in 1889 stated that “men of the prisoner’s class must understand that they cannot be allowed to assault women with impunity,” and subsequently stated that “within the working-class communities there endured an expectation of friction between husband and wives, friction produced as often by the assertion of matriarchal claims as by patriarchal aggression”, and that “each day in [magistrate] courtrooms violence was sadly commonplace in working-class marriages”.

Why several historians have frequently commingled violence with several economic conditions, a number of contemporary scholars stress that this connection is likely more spurious than causal. Williams (1998) cites for example Linda Gordon’s criticism of other’s scholarship focused on the early 1900s that too often connected family violence to poor people (Gordon 2002: 151). Gordon provides a table that shows that the level of employment and poverty varied substantially between the years 1880 and 1960 among Boston’s family violence offenders, and that the average level of unemployment was just 28 percent and poverty was at 53 percent during this period 80 year span (Gordon 2002: 148). She concludes that in some cases "what is being measured is as much the sensibility of caseworkers as the conditions of clients," and then cautions her readers that “throughout the twin crises – Depression and war – emphasis on poverty and it relief tended to hide intrafamily conflict oppression and violence. This crisis sensibility promoted a view of a family unity as essential to survival and of intrafamily tensions
as ephemeral products of economic hardship” (Gordon 2002: 158). More recently, observation of the police in the early 1960s by Cumming et al. (1965: 285) suggested that the "poor, uneducated people appear to use the police in the way that middle-class people use family doctors and clergymen- that is, as the first port of call in time of trouble [, and] that the police often enforce…laws among…poor at the same time that [they] see these laws being flouted by those in positions of power." Thus, in terms of using official data to make this connection, Fagan (1993) and Moore (1997) both assert that any comparison on several economic and demographic variables using official data will likely contain a sampling biases that is caused by the selection processes coproduced by those seeking services and those officials delivering those services (c.f., Jasinski 2003).

Contemporary Perspective on the Nexus.

For the past forty years of systematic family violence research, researches seeking to explain the epidemiology of family violence or the patterns of recidivism following interventions have included several forms of economic capital including employment (e.g., Bowlus & Seitz 2006; Cunradi et al. 2009; DeMaris et al. 2004; Rodriguez et al. 2001), income (e.g., Berger 2005; Drake & Pandey 1996; Rogers & DeBoer 2001), SES (e.g., Christy-McMullin & Shobe 2007; Weissman et al. 2003; Conger et al. 1990), or some composite measure to capture economic difference between those involved in the relationship (e.g., Hood 1986; Mahalik et al. 2005; Avakame 1999; Fox et al. 2004). Generally the choice of which these measure to model seems more often determined by their available than by a theoretical argument arguing for one over another. In this section we will focus on three of these measures: employment, income, and
difference between partner variables. We will first discuss why these measures are often linked and then review the literature that measures the extent of this linkage.

**Employment** We begin by assessing the question about the link between employment status and family violence. Of the many theoretical arguments available, the most simplistic links employment and domestic violence through a change in either or both family member’s routine activities (Cohen & Felson 1979). Out-of-the-home employment of one or both spouses removes the presence of both perpetrator and target from each others’ presence for at least some hours of the day. If both spouses are in the home throughout the day due to unemployment, frustration may build as each feels their space is invaded. During working hours, neighbors who normally serve as capable guardians (those who make noise complaints or are likely to alert police) may be at their own workplaces or alternatively addressing their own home foreclosure and therefore are unavailable to intervene or reduce the likeliness of violence disputes. This matter is of no small importance for preventing domestic violence prevention since about fifty percent of calls to police for domestic violence are made by neighbors. Similarly, children are at school during the day and not able to play the role of the “capable guardian.” Thus, any connection between employment and violence may have nothing to do with most stresses, less resources, or symbolism, but purely opportunity: more employment equates to less contact. On the flip-side of this theory, while working long hours reduces contact (and the opportunity for violence) and increases household income, it can also increase stress on the employee and his family such that when the partners are in contact, the likelihood of violence is increased (Fox et al. 2002). Thus, theories and polices linking more employment to less violence may find their antithesis in overworked individuals.
Previous scholars have also argued that an individual’s “stake in conformity” may suppress battering behavior (Sherman 1992; Fagan 1993). While the "stakes in conformity" theory is not developed well enough to specifically identify which sorts of measures ought to be good or bad indicators of a person’s stakes or even the exact nature of the interaction, most of the scholarship in the area of family violence connecting stakes to violence have relied on employment as the key proxy. Employment is consistently viewed as an overt measure of a person’s stakes since it is generally accepted that individuals wish to avoid crime and formal punishment so as not to reduce their chances of establishing or retaining employment. More specifically under the social control theme, the conditional deterrence hypothesis asserts that formal sanctions can only deter offenders if they will also suffer social costs because of their bond to conventional commitments or norms. Employment as well as home ownership serves as one of several social bonds (Hirschi 1969), insuring a person’s commitment and attachment to their family, neighborhood and community. In fact, more so than length of residence, homeownership is a critical determinant of one’s bond or attachment to their neighborhood (Brisson & User 2007; Oh 2004). Thus, just like losing a job, losing a home should weaken a person’s bond that may have deterred them from using violence.

In the context of formal social controls, sanctions such as arrest or mandated treatment are then believed to be mediated by the reinforcing stimuli of other informal controls. The hypothesis would therefore predict that the addition of a criminal sanction should have no deterrent effect among those that have no concurrent conventional "stakes", and only deter among those that do have some "stakes". Alternatively, the social control replacement hypothesis argues that criminal sanctions are only noticeably effective when other informal controls are missing. For those with social controls, the presence of a criminal sanction adds little to the
overall cost already imposed by other social control mechanisms. In other words, those without informal controls can be deterred by the direct cost of the criminal sanction (e.g., a night in jail or a monetary fine), while others are deterred by other costs (e.g., lost of a job or breakup of a marriage) arising solely from informal social controls. Finally, the additive hypothesis claims that both informal and formal controls independently deter future deviance, and that more of either type of control results in failures. As such, those with the highest degree of social control should have less frequent offending, while those with the least control should have the highest level of failing.

The “stakes” hypothesis would therefore predict that family violence should go up as men transition from an employed to an unemployed status, even if the system applies more sanction to compensate for the reduced quantity of inform social controls. In fact, Sherman (1992) suggest the application of more sanctions may make the situation worse or backfire, which may be particularly true if the men believe their lay-offs are due to the economic crisis rather than their employee performance. This process may damage a person’s belief in a fair and just economy and lower their sense of procedural justice (i.e, anomie). Conversely, in times of economic hardship, when any employment is highly valued, many more men than usual may be unwilling to risk unemployment by engaging in violent behavior. Thus, any increases in violence among those with lower stakes because they lost their jobs, may in the aggregate, be offset by an increased fear felt among those still (but now marginally) employed.

Changes in employment status or loss of a home status may also represent a ‘turning point’, as in and Laub and Sampson’s (1993) life-course model. As individuals proceed along their life-course trajectory, life changes can alter the path of the trajectory and lead individuals in a different direction, including toward or away from a criminal lifestyle. A sudden home
foreclosure caused by unemployment can be a negative turning-point, directing otherwise law-abiding individuals towards criminal behavior. When the subject’s place of employment fosters frequency, duration and intensity of pro-social bonds, sudden unemployment may result in the severing of these bonds and the formation of new, less positive attachments (Sutherland 1947). If a person was previously mixing socially with other employed peers, he may have been discouraged from offending as it would threaten these social bonds. After a lay-off, the same individual may form bonds with other unemployed peers who may be pursuing illegitimate sources of income. This leads to the normalization of criminal behavior, allowing the individual to integrate antisocial norms into his cognitive schemata and rationalize behavior he would previously have rejected. Bowker (1984) suggested that these types of bonds (through reinforcement) that can lead to violence or make it more difficult to stop.

Another casual process that is often discussed in criminology to explain delinquency, though not discuss among family violence researchers, is Agnew’s revision of strain theory (1992). Of special importance to researchers is Agnew’s notion of self-generated norms, as this may tie strain theory to theories of social learning and environment. In this context, Agnew suggests that economic capital such as employment is a source of positive stimulus and that its removal (unemployment) will trigger anger, frustration, and criminal behavior. This process would certainly also exist when someone loses their home to a foreclosure regardless of whether they lost employment as well. The resulting anger would surely arise when a home foreclosure is considered unfair and unrelated to an individual’s ability to pay prior monthly balances but can no longer keep-up because of an adjustment of the interests, as is the case with many subprime loans.
Closely related to this theoretical tangent is the frustration-aggression hypothesis (Dollard et al. 1939). When applied to layoffs and violence, the frustration-aggression hypothesis predicts that men who are laid-off will have an increased risk for violence while men who fear lay-offs will have a reduced risk. A direct test of provocation/inhibition effects (and subsequent study replication) supported this approach (Catalano et al. 2002). Layoffs have been found to increase angry, irritable and insulting behaviors (Vinokur et al. 1996). One study found that men who were laid off between the first and second study interviews were six times more likely to report poor psychiatric condition versus subjects who had retained employment (Catalano et al. 1993). Interestingly, men who were employed in relatively unstable fields (for example, contract work as opposed to stable industries) were twenty percent less likely to engage in violent behavior. Both findings remained significant when controlling for age, gender, socioeconomic status, marital status, psychiatric and alcohol disorders. Thus, it appears that the effect of employment on violence may be illustrated by a mediated rather than a linear model. Men who fear unemployment may practice greater self-control, to which Gottfredson and Hirschi (1990) attribute most desistance from crime.

Stress-fueled violence is not limited to intimate partnerships. The impact of the economic downturn may also reach children and the elderly. Inquiry into the nature and prevalence of elder abuse is only in its early stages, but risk factors have been identified that should generate concern about an increase in violence due to financial stress. As budgets tighten, family members pool their resources and move in together, often creating excess tension (Armour 2009). This is especially true in the case of home foreclosure, where moving in with family may be necessitated by losing a home. Combined with other caregiver stresses, this tension may lead to greater violence. Elderly women are at the greatest risk of abuse, as they may also be victims of intimate
partner abuse, though generally such abuse declines with age. The percentage of assaults by other family members remains fairly constant (Bachman & Meloy 2008). This suggests that, while intimate violence perpetrators “age out”, the stress of caring for a dependent elderly parent is more likely to occur later in life and incite abuse perpetration amongst an older cohort.

The National Center on Elder Abuse uses the phrase “financial abuse” to describe an assortment of property offenses, also known as fiduciary abuse, financial mistreatment, financial deprivation, monetary abuse, and so on. Property offenses can be divided into two categories—exploitation by primary contacts and fraud by secondary contacts Payne 2000). In this discussion, we are concerned with crimes within the family, and will focus on only the former. “Exploitation by primary contact” offenses are those offenses in which trusted individuals use various methods to steal items or money from the victim. For example, Hall 1989) describes a situation in which adult children would come to live with an elderly parent the first week of every month in order to exploit government assistance payouts. In situations where the child’s home has been seized, this informal living arrangement may extend for much longer than a week, straining the meager resources provided by retirement and Social Security. Elders may also be victims of “protecting the will”, when adult children restrict their parents’ access to bank accounts in order to assure themselves a larger inheritance Littwin 1995). Bachman and Meloy (2008) also find that crimes against the elderly are more likely to be motivated by the perpetrator’s potential economic gain than crimes against younger people. Greenberg and colleagues’ (Greenberg et al. 1990) inquiry into dependent adult children living with an elderly parent found that substance dependency and unemployment increased the risk of elder abuse, but that these abused elderly parents repeatedly welcomed their children back home under conditions that were inevitably violated (e.g., the child could remain in the home as long as he stayed
sober). This suggests a certain amount of role ambiguity on behalf of parent and child, where the adult child is dependent (as a child) but physically abusive (with the strength of an adult), and the elderly parent wishes to care for the child (as a parent) but is physically more fragile and easily injured (as a child). Given this finding, we find it a safe assertion that in poor economic periods, crimes against the elderly will increase, especially when the care-giving adult child sees the elder as a source of income or financial gain.

Besides symbolizing a “stake” or a “bond”, employment may also serve as a status or resource indicator in the relationship between a working partner and a non-working spouse. Feminist theories of male dominance and traditional gender roles would suggest that unemployment strips the male of one method of dominance over his spouse, leaving him only force or its threat (Goode 1971). If the female partner maintains employment, the male may feel pressured to exert his dominance through using physical aggression (Macmillan & Gartner 1999). Financial stress and ambiguity of gender roles may damage a normally loving and supportive relationship, removing the otherwise positive effects of this bond. This tension could be exacerbated by women wanting their partners to work longer hours (presumably to increase household income) (Fox et al. 2002). Comparative resource theory suggests that the interaction effect of men’s and women’s employment is “as salient to violence as the independent effect of each alone” (Fox et al. 2002).

As an alternative to the causal mechanism suggested by strain theory or the mediating model proposed by the “stakes” proponents, employment may also viewed as simple a proxy for self-control. Punctuality, compliance, and overall work ethos may all symbolize an individual commitment and attachment to one’s workplace and greater environment. Alternatively, these employee characteristics may simply provide evidence of Gottfredson and Hirschi’s 1990) “self-
control”. As this example illustrates, the relationships between microeconomic variables and intimate violence can be dangerously spurious. While not well studied within the context of family violence, some research implies that intimate or family violence, including violence directed at older family members, has more to do with personality characteristics like low self-control than stress (Pillemer & Finkelhor 1989; Sellers 2006).

Certainly, some of these theoretical augments are more supported than others. Employment has been found to deter or prevent violence, functioning as a protective factor while unemployment is a risk factor (Bachman 2000; Bowlus & Seitz 2006; Mistry et al. 2008; O'Donnell et al. 2002). In a German study, researchers found that men who were unemployed or expected to be unemployed in the near future self-reported an increase in their violent behavior, though this relationship was reduced by the presence of greater “self-awareness” (Fischer et al. 2008), a possible connection to what Gottfredson and Hirschi 1990) label “self-control”.

Tauchen and Witte 2001) also found that employed men were less likely to be violent than those who were unemployed. When combined with the earlier findings of Catalano and colleagues (2002) suggests that employment serve as a social bond that mediates aggressive behavior. When employment disappears, the resulting frustration manifests as violence.

There is also substantial evidence to support gendered theories of domestic violence. When comparing employment as a protective factor for men and women, it has been found that employment is a stronger deterrent for men than for women (Magdol et al. 1997). When considered alone, male and female unemployment did not produce significant changes in violence (Macmillan & Gartner 1999); this relationship was found to hinge upon marital equality rather than individual employment. Female employment functioned as a protective factor only when her partner was also employed; if an employed woman was partnered with an unemployed
spouse, her risk of violence increased. This certainly suggests, as feminist theories would claim, that male violence is a function of a masculine need for dominance in the relationship. This concept will be revisited in the further discussion of status incompatibility.

**Income.** Theoretical connections between income and the perpetration of violence are largely similar to those mentioned for employment and homeowners. We can consider income an important financial variable for detecting more subtle differences than employment or unemployment. The greater the income, for example, the greater the prestige of the occupation, in reference to the afore-mentioned studies highlighting discrepancies in occupational prestige between spouses. The greater the income, the greater the stakes in conformity – a man of high status with a high-earning position has more to lose than a lower-class man if his abuse is publicized. However, income is often inextricably entangled with other socioeconomic factors and may serve as a proxy for age, race, education or gender. In a culture where men have a higher average income than women, we could argue that “batterers have higher incomes than their victims” and simply be detecting gender differences rather than income effects. Finally, income is the predominant factor in socioeconomic status, and a favorite predictor of violence in the cadre of “drunken bum” (Kantor & Straus 1987) theories, with or without alcohol abuse.

Historically, income has been measured at the household level. Women of lower-income households have been found to have a higher risk of abuse Smith et al. 2002; Bachman 2000). While some may take this to mean that income is a proxy for general socioeconomic status, income has been found to have a significant negative relationship with risk of abuse when controlling for other socioeconomic variables O'Donnell et al. 2002). Based upon data from the National Family Violence Survey and the National Crime Survey, Fagan (1993) argued that
income’s effects are confounded with race and urbanism. In central cities, spousal assault rates were highest for low-income groups. However, regardless of household location, spousal assault rates were consistently over thirty percent for the poorest of African American families. These rates do decline as income increases, but only in suburban and rural areas. Rates remain high in central cities, independent of income. For white couples, spouse-assault rates are inversely associated with income in central cities but not elsewhere. Low income is also associated with high rates of child abuse, though only in single-parent families (Berger 2005).

It may be important, however, to separate female and male income in order to better detect their relationship with risk of abuse. Exploration of female income as a protective or risk factor has produced mixed results. Research has found that marital dissatisfaction and wives’ proportion of household income has a relationship resembling an inverted U-shape, with divorce rates being highest when wives contribute 40-50 percent of household income. When wives’ incomes is measured in dollars, the relationship appears to be linear – the higher the wife’s income, the higher the likelihood of divorce (Rogers 2004). Higher income and educational attainment appears to be a protective factor against emotional abuse (Kaukinen 2004). However, in a meta-analysis of common risk factors for spousal abuse, Hotaling and Sugarman (1986) found only three studies measuring female income, none of which found a significant relationship with husband-to-wife violence. Of four studies measuring male income, three found a negative relationship between income and violence, and one found no significant relationship.

Income also appears to be closely tied to women’s cycle of abuse. Researchers have identified that the consequences of abuse and the presence of dependent children impact a woman’s ability to earn, often resulting in her dependence on welfare. Welfare reforms enacted in 1996 require that welfare beneficiaries work to receive support, a demand that can seem
impossible to meet when there is a lack of court-ordered child support and few affordable childcare options (Riger & Staggs 2004). When evidence suggests that economic dependency significantly influences women to remain with an abusive partner (Barnett 2000; Scott et al. 2002), it seems unreasonable to enact welfare reforms that increase a woman’s dependency on a breadwinning partner rather than decrease dependency by providing childcare and empowering women to find and maintain employment.

**Status Incompatibility.** Current evidence points to income discrepancy and status incompatibility being a more likely risk factor for domestic violence than employment or income alone. Women appear to be at a higher risk of abuse when they are employed and their partners are not, a relationship that is not significant when employment of either spouse is considered separately (Macmillan & Gartner 1999). Studies on status relationships and marital satisfaction have found that a woman's greater status in relation to her husband is associated with the husband's marital dissatisfaction (Hornung et al. 1981). The cultural depiction of the husband as breadwinner has supported the greater rewards accorded to men in the workplace, legitimized male power within the family, and provided men with a resource for demonstrating their masculinity (Ferree 1990; Stark & Flitcraft 1996). When this resource is removed, men may resort to violence instead. Female employment functioned as a protective factor only when her partner was also employed; if an employed woman was partnered with an unemployed spouse, her risk of violence increased. This certainly suggests, as feminist theories would assert, that male violence is a function of a masculine need for dominance in the relationship. When economic dominance (through more prestigious employment) is no longer possible, men may resort to physical violence and assert their dominance through strength rather than employment.
status. Raphael (2001) argues that male dependency (a product of male unemployment and female employment, in this case) causes shame, which can then fuel violence. This argument has been supported with findings that women who can at least equalize their ‘occupational prestige’ with their husbands (no more, no less) may find a safe balance between being a threat to masculinity and being economically dependent (Lambert & Firestone 2000). Research shows that women making more money than their spouse are at a higher risk for abuse (Atkinson et al. 2005), and this risk increases as the portion of household income contributed by the woman increases (Fox et al. 2002). Anderson (1997) found that the odds of male-perpetrated domestic violence are approximately 40 percent lower when their female partners earn less than 31 percent of the couple's total income. When women earn slightly more (between 55%-69%) of the couple's earnings, men have approximately 3.5 times greater odds of perpetrating violence than men with earnings similar to their female partners. This risk increases to over 5.5 times greater odds of male violence when women earn 70 percent or more of the couple's income. In today’s economic climate, where traditionally male-dominated manufacturing jobs are disappearing, we may see women retaining employment where men do not, increasing status incompatibility and ultimately heightening the risk of domestic violence. In light of the above evidence, however, it is interesting to note that Farmer and Tiefenthaler (1997) find that external and independent sources of income for women (child support, government assistance, lawsuit payouts, family money, etc.) reduce women’s risk and that greater economic equality for women will lead to a decrease in violence. Perhaps female equality must strike a delicate balance between “not enough” and “too much” when considering the contribution to household income.
Conclusion

For as long as scholars have sought to understand the nature and etiology of violence within families and between intimates, the notion that both parties’ economic capital plays a role in the causal process is consistently found. There are tens if not hundreds of studies that explicitly model economic variables to explain the variance in the rates of family violence. Regardless of whether these variables are measuring income, employment or a composite of both (e.g., SES), or measuring the product of the difference between the two partners, the research results are fairly consistent: money matters, at least to some degree. Unfortunately, no research has specifically measured the connection between homeownership or change in homeownership and domestic violence. Nevertheless, it seems safe to say that less income and unemployment, and most likely an involuntary change in homeownership, are strongly correlated with violence within the family. This is consistent with previous statements that “to argue that intimate violence is not distinguished by socioeconomic status is inconsistent with the extant literature” (Moore 1997: 95; see also Fagan 1993). This conclusion is largely not conditional or dependent upon time or place, by type of violence, or source of data, and is likewise consistent with a cadre of theoretical models that all predict that money should matter. In fact, all but two theoretical models that we discussed above foresee that more economic resources should results in less family violence. However, the exact process that these theories use to connect the two variables is not necessarily the same. For example, one argues that less capital causes more stress which can lead to violence, while another argues that men do not use violence because they fear doing so would cause them to lose their jobs which would in turn lower their status among friends and family. Nevertheless, it appears that feminist theories of resources and relationship dominance are best supported by the literature, closely followed by theories of social bonds related to
Among the two models that do not subscribe a causal relationship between capital and violence are Gottfredson and Hirshi’s (1990) self-control explanation for crime, which argues that if there is a relationship it is simply a spurious one because low self-control can simultaneously explain a person’s poor economic performance and their higher proclivity to use violence. The second model that does not necessarily argue for a linear, negative relationship between economics and violence, is a feminist position that family violence, or at least intimate partner violence, is largely caused by a gap between men’s and women’s economic resources. This model suggests the women who are more dependent on a man’s income for their status are more likely victimized by their partner because they have fewer alternatives to protect their status. In other words, men will use violence to control their female partners because they know their partners cannot leave without costs. This concept of status may also be applied to other forms of family violence, like child abuse (high adult status vs. dependent, low-status children) and elder abuse (high adult status vs. dependent, low-status elders).

Because of the regularity of empirical findings between economics and family violence, their consistence with the ad-hoc evidence we found on the Internet, and the cadre of theoretical models predicting such a relationship, it would easy for us to conclude that family violence should rise as the 2008-09 economic crisis deepens. It fits with common sense and is consistent with what many scholars report finding after analyzing data that captures family functioning, some of which dates back beyond the 1900s. Yet, after a close assessment of this large body of literature, we have identified several methodological weaknesses that are not trivial in our opinion, and therefore we conclude that it is too soon to assert that the current economic crisis will result in significantly more family violence.
The first methodological weakness we found is that the vast majority of the studies linking economics to family violence use cross-sectional designs which ask about violence and income at the same time. Thus, it is possible that repeated violence may cause some respondents to report less income than they once could because the violence led to less wages and more physical or mental health problems. Another possibility, as indirectly suggested by Gottfredson and Hirshi 1990), is that the negative correlation between capital and violence that is detected in the cross-sectional studies is more likely driven by a third variable, self-control. Accordingly, the more self-control one possesses, the more likely he or she is employed or have higher income, not likely to take on a risky subprime home loan, and less prone to use violence to achieve their goals.

A second reason for not yet accepting the economic-violence casual process is that the few longitudinal studies that link variables such as employment to violence are weak because they rely on stagnant employment data (c.f., Catalano et al. 1993; Fox et al. 2002). As best as we can tell, just two studies have tested what happens in households or in the relationships when there is a change in one or both partners’ employment statuses or incomes. In other words, if a man transitions from employed to unemployed, does this lead him to begin using violence or to use it more frequently than before? Alternatively, does an unemployed subject who becomes employed during the study report less frequent use of violence, or do they completely desist? This latter scenario is particularly important because some suggest that for women, an improvement in their employment status should reduce the likelihood of violence (e.g., Farmer & Tiefenthaler 2003b). Some claim that as women gain resources through their employment, they should become less dependent on their male partners, who should in turn fear more that the women will leave them if they try to use violence to control the relationship. These latter two
scenarios are also consistent with predictions arising out of the “stakes in conformity” and “the turning-point” models we reviewed earlier. Both theories suggest that the male’s employment status is linked to legitimate or elicit bonds that in turn protect against or promote the use of violence.

Several other methodological issues also make our conclusions tentative to suspect. For example, when considering economic variables, it appears to be extremely important to measure not at the household or family level, but at the individual level, as status discrepancies between spouses may be more powerful predictors of violence than income or employment alone. We must also make a greater effort to control for other demographic variables that confound the effects of income and employment, such as race, age, and education. Finally, the body of literature we have reviewed offers no evidence about the connection to understand male intimate violence victimization, though there is substantial evidence to suggest this victimization often occurs.

Besides these methodological flaws and aforementioned sampling biases, we also assert that today’s employment environment may well represent something qualitatively different than it did in 2001 and certainly different when compared to the years before the 1980s; therefore, we believe there is far greater likelihood of generating false positives by generalizing from past research to today. While it is difficult for us to set aside the painful stories we noted earlier, there are several notable contemporary employment facts that make our generalizability argument fairly clear: for the most part, women are participating in today’s workforce more so than they ever did before, and less of them are unemployed when compared to men Global Employment Trends for Women 2008)4. This upward employment trend began in the early 1980s Howe 1990) and by the end of 2008 women represented 49 percent of the entire workforce...
Mulligan 2009). Nearly 20 percent of the married women today make more than their husbands Labor force participation rates, 1975-2008 2008). Furthermore, it is expected that in the near future more women will work than men. This gap is the product of the shift in the US economy from manufacturing jobs traditionally filled by men to a service economy, in which women play a much larger role (Gavin 2008). On the flip side of employment, in February 2009 the female unemployment rate had risen to 6.7 percent, but this rate is about 20 percent lower than the male unemployment rate (6.7% vs. 8.1%) (Kirchhoff 2009). This gap is because, during the first 13 months of the recession starting December 2007, men account for 82 percent of job losses Rampell 2009).

This structural employment shift offers both opportunities for women (and research) and the potential for some negative consequences. While women in 2009 generally produce and control more resources than ever before, they still do not make as much money as men, and therefore must continue to manage the burden that this gap places on them. For instance, women are now more likely than ever before to be the sole breadwinner in the family, yet their bread is still not as large nor does it come with as many fringe benefits as what their husband’s jobs once provided Warren 2006). Given both the symbolic meaning of this turn-of-events, and the practical problems caused by women still contributing a disproportionate amount of household labor, this period could cause more stress and strains then ever experienced by families. At the same time, their experience in the labor force may also bring them a better understand of their husbands’ unemployment plight and help them to adjust to their new role; a process that is in stark contrast to what happened in families facing unemployment of the male as recently as the early 1990s (Nordheimer 1990). For example, one working woman interviewed in 2009 by the New York Times, who starting work after the her husband lost his job for the first time in the
early 2000s, now claims that “[t]hings are not happy in the house if I blame him all the time, so I
don’t do any of that anymore, I know he is doing his best” Rampell 2009). At the same time,
men are reporting that they are responsible for more household tasks. The combination of these
two changes may lessen today’s strains when compared to those once felt when women became
the sole income producer.

Because of the two methodological shortcomings mentioned earlier and the need to make
our analysis more contemporary to reflect today’s economic-social climate, we recommend a
focused and rigorous program of research before ringing the alarm bells. We need to study how
changes with the economic conditions of a family or intimate relationship change the dynamics
of the relationship/partnership, and how this process interacts with changes in the long term
macro-economic shifts/ developments we experienced over the past several decades. These two
questions need answering simultaneously because the impact of people moving from the
employed to unemployed category cannot be divorced from what is transpiring among their
neighbors, across their communities, and the nation as a whole. These questions can even be
further refined, for example, by asking whether any correlations that are found are equally
related to both the onset and desistance of violence, or whether the correlations exist only for the
frequency of violence among active offenders. If it turns out that economic changes impact
different criminal career parameters then the current crisis, while creating an aggregate increase
in violence, may well impact individual households differently. If, for example, the rapid
increase in employment is touching families who have never experienced unemployment, then
the onset of violence may not increase because these families represent a different group of
households then those who are regularly live with unemployment. Alternatively, if the rapid
increase in unemployment is largely concentrated among those household that already have
systemic unemployment problems, then violence might already exist but could become more frequent or severe as the family deals with a period of household unemployment.

Fortunately, we believe there are shovel-ready data that can address these questions. Specifically, by combining the NCS and the NCVS into a stacked, concatenated database that links the six respondent interviews over three years, we can test whether the size of any relationship between a household’s absolute economic condition or the change in this condition and any form of family violence changes as a function of the absolute or change in the GNP over a nearly thirty-five year period. As of March 2009, these analyses can incorporate data that reaches back to 1973 and covers the first six months of 2008, and by August 2009 these analyses could incorporate the October to December 2008 stock and employment crash. Because of the design of the NCVS, this analysis could also incorporate several criminal career parameters such as onset and desistance, as well as frequency and severity. The initial models could first test whether there is a relationship across the six panel interviews as any given time, and then the analyst could disaggregate the data by years to test whether the correlations are stronger or weaker if the economy changes.

The weakness of the NCVS is that it does not capture some of the “subjective” meanings of employment, jobs, and income that Fox et al. (2002) argue are necessarily to fully capture the nexus of economics and domestic violence. Accordingly, as an alternative shovel-ready study, one could expand Fox et al. 2002) work by incorporating the third wave of data from the National Study of Families and Household (NSFH) to assess the stability of their findings and to extend the tests to included child abuse outcomes (the NSFH interviews took place in 1987-88, 1992-94, and 2001-2003). Along with additional years, the additional analysis could add alternative dependent measures such as child abuse and violence against the male partner. The
weakness of these data however is that they are largely collected during periods just following a recession and not during a period interning or during a recession.
References


Armour, S. (2009, 3 Feb). More families move in together; Pooling resources can help but can also cause friction. *USA Today*, sec. Money, p. 7A.


(NCJVS) and the National Violence Against Women Survey (NVAWS). Violence Against Women, 6(8), 839-67.


(Accessed March 12, 2009).

1 Pleck (Pleck 2004: 85) suggest that violence occurred in other classes when, after claiming that “anticruelty societies intervened primary in immigrant poor and working-class homes,” she states that “the occasional investigation of a middle-class family was handled more gently, because such households were better able to maintain a façade of respectability”.

2 The article titled “Wife-Torture in England” was written by F. P. Cobbe and published in Contemporary Review 32 (April 1878).

3 It is this later model that has largely driven nearly forty years of policies designed to reduce violence against women, although recent evidence finds little support for the connect between adding more resources (e.g., shelters, hotlines, legal services, counseling programs, etc.) and less violence (see Davis et al. 2006; Farmer & Tiefenthaler 2003b; Harrell et al. 2007; Post et al. In press).

4 The rise in female labor for participation is not just confined to the United States according to a March 2008 report about global employment trends for women. The reports shows that the number of employed women grew by almost 200 million over the last decade, to reach 1.2 billion in 2007 compared to 1.8 billion men. However, the number of unemployed women also grew from 70.2 to 81.6 million over the same period. (Global Employment Trends for Women 2008).
Foreclosures and Economic Related Suicides: Current Analyses

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Division of Violence Prevention
Centers for Disease Control and Prevention

The findings and conclusions presented here have not been formally disseminated by the CDC and should not be construed to represent any agency determination or policy.
Violence Prevention Priorities

- Intimate Partner Violence
- Sexual Violence
- Youth Violence
- Suicide
- Child Maltreatment
# Leading causes of death by age groups – U.S., 2005

<table>
<thead>
<tr>
<th>Rank</th>
<th>10-14 years</th>
<th>15-19 years</th>
<th>20-29 years</th>
<th>30-39 years</th>
<th>40-49 years</th>
<th>50-59 years</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Unintentional Injuries</td>
<td>Unintentional Injuries</td>
<td>Unintentional Injuries</td>
<td>Unintentional Injuries</td>
<td>Malignant Neoplasms</td>
<td>Malignant Neoplasms</td>
</tr>
<tr>
<td>2</td>
<td>Malignant Neoplasms</td>
<td>Homicide</td>
<td>Homicide</td>
<td>Malignant Neoplasms</td>
<td>Heart Disease</td>
<td>Heart Disease</td>
</tr>
<tr>
<td>3</td>
<td>Suicide</td>
<td>Suicide</td>
<td>Suicide</td>
<td>Heart Disease</td>
<td>Unintentional Injuries</td>
<td>Unintentional Injuries</td>
</tr>
<tr>
<td>4</td>
<td>Homicide</td>
<td>Malignant Neoplasms</td>
<td>Malignant Neoplasms</td>
<td>Suicide</td>
<td>Suicide</td>
<td>Diabetes Mellitus</td>
</tr>
<tr>
<td>5</td>
<td>Congenital Malformations</td>
<td>Heart Disease</td>
<td>Heart Disease</td>
<td>Homicide</td>
<td>Liver Disease</td>
<td>Cerebrovascular</td>
</tr>
<tr>
<td>6</td>
<td>Heart Disease</td>
<td>Congenital Malformations</td>
<td>HIV</td>
<td>HIV</td>
<td>HIV</td>
<td>Liver Disease</td>
</tr>
<tr>
<td>7</td>
<td>Chronic Lower Respiratory Ds</td>
<td>Cerebrovascular</td>
<td>Congenital Malformations</td>
<td>Diabetes Mellitus</td>
<td>Cerebrovascular</td>
<td>Chronic Lower Respiratory Ds</td>
</tr>
<tr>
<td>8</td>
<td>Influenza &amp; pneumonia</td>
<td>Influenza and pneumonia</td>
<td>Diabetes mellitus</td>
<td>Cerebrovascular</td>
<td>Diabetes Mellitus</td>
<td>Suicide</td>
</tr>
</tbody>
</table>

*Source: CDC vital statistics*
Suicide rates among all persons by age and sex--United States, 2005

Source: CDC vital statistics
Suicide among all persons -- United States, 1933-2005

Source: CDC vital statistics
Economic Factors and Suicide Risk

Economic Circumstances \rightarrow \text{Suicide}
Economic Factors and Suicide Risk

Economic Circumstances
- Job loss
- Bill collectors
- Loss of retirement
- Health insurance
- Foreclosure
- Eviction

Suicide
Economic Factors and Suicide Risk

Economic Circumstances
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Family Stress, Despair, Shame
- Depression, Substance Abuse

Suicide
Economic Factors and Suicide Risk

Economic Circumstances
- Job loss
- Bill collectors
- Loss of retirement
- Health insurance
- Foreclosure
- Eviction

Family Stress, Despair, Shame
- Depression, Substance Abuse

Underlying vulnerability
- Access to support

Suicide
Current Analyses:
Example from Suicide
Sample Research Questions
- Matt Gladden, PhD

- Is there evidence that evictions/foreclosures precede suicides?
  - What is the incidence of these types of suicides?

- What other circumstances are associated with suicides preceded by eviction/foreclosure?
  - Most evictions/foreclosure do not result in suicide
  - Multiple factors contribute to suicide
  - What other circumstances will help us identify the most at-risk people?

- 16 states and 4 counties in California
  - All states participating by 2005

- Four primary data sources
  - Coroner / Medical examiners (MEs)
  - Law enforcement
  - Death certificates
  - Toxicology and Forensic Labs

- Geographic information on state, city, and county
- Information: http://cdc.gov/ncipc/profiles/nvdrs/
Data Available in NVDRS

- Narratives of circumstances related to the event abstracted by state staff
  - Law enforcement narrative
  - Medical examiner/corner narrative

- 21 circumstances
  - Mental health / Substance abuse
  - Interpersonal factors
  - Life stressors
  - Suicide event

- Availability of data
  - 6 months after end of year count of violent deaths
  - 18 months after end of year circumstance information
Analysis Strategy

● Case Definition
  ◆ SAS 9.1 search tool identifies text strings related to eviction/foreclosure
  ◆ Must involve an eviction/foreclosure from a home or institution

● Cases are then reviewed by a trained coder to verify it is a real case
  ◆ Whether suicide is related to specific event such as notification of eviction/foreclosure
Sample Narratives

- Subject had been depressed and talking about suicide since he lost his job several months ago. According to friends subject was an alcoholic, suffered from depression, had lost his optometry practice, facing bankruptcy, and losing his house through foreclosure.

- He was due to be evicted from the home the day of the incident due to foreclosure. Victim’s mother said he was very depressed about losing his home but had not been making any suicidal comments. She said he has lost his job several month earlier.
SAS Program has identified 577 eviction/foreclosure cases
- Review of small sample of cases reveal a high percent of cases are valid
- Another 169 cases involve being “kicked out” of home

Increases in cases from 2006 to 2007 even though 2007 data will not be complete until June, 2009
Next Steps

● Compare eviction/foreclosure suicides to all other suicides using
  ◆ NVDRS circumstances as predictors
  ◆ Use hierarchical linear modeling to account for clustering of data within state and county
  ◆ Identify risk factors that occur more or less frequently in eviction/foreclosure suicides

● Compare eviction/foreclosure suicides to suicides where other financial problems were a contributing factor
Economic Factors and Suicide

- Previous research shows unemployment rates positively associated with suicide rates
- Limited controls for other economic factors
- DVP economists are studying other economic variables possibly associated with suicide
  - Bankruptcy
  - Foreclosure
  - High debt levels
Data Sources

- National Vital Statistics
  - Suicide rates
- Haver Analytics database (via the Atlanta Federal Reserve Bank)
  - Bankruptcy
  - Foreclosure
  - High debt levels
Using CDC BioSense Data to Assess the Impact of the U.S. Recession on Suicides
Research Questions

- Have suicide attempts and emergency room visits related to suicidal thoughts/ideation increased as a result of the U.S. recession?
  - How are suicide visits related to changes in foreclosures, employment, and business bankruptcies?

- Are certain communities more resistant or vulnerable to increases in suicide during difficult economic times?
  - Can at-risk communities be identified by other measures before the crisis?
BioSense: 2003-Present

BioSense is a national program that provides near real-time hospital surveillance data through the use of existing data from healthcare organizations.

- 581 Non-Federal Hospitals
- 368 Department of Defense (Ambulatory)
- 887 Veterans Affairs (Ambulatory)
- See http://www.cdc.gov/biosense
Non-Federal Hospitals supply:

- Patient class: Emergency Department (ED), inpatient, and outpatient data (ED data is the most common data type sent)
- Chief complaint (text provided)
- Final diagnosis from a subset of hospitals (text and ICD-9-CM codes)
- Demographics
- State, county, and zip code information
- Visit date information
Data Analysis Strategy

- Aggregate suicide attempts and suicidal thoughts by zip code and county
  - Identify areas where BioSense has full hospital coverage versus partial coverage

- Track trends in suicide indicators by zip code and county
  - Link with data tracking trends in economic indicators and other relevant data

- Use hierarchical linear modeling to see how community trends are related to trends in suicide visits
 Longer Term Opportunities

- Extend project to measure emergency room visits due to assault and overdose
- Validate system to see if we can predict summer increases in crime rates
Document Title: A Theoretical Underpinning of Neighborhood Deterioration and the Onset of Long-Term Crime Problems From Foreclosures (Working Paper)

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Introduction: Neighborhoods and the Impact of Foreclosure on These Neighborhoods

Over the past decade, many metropolitan areas went through an extensive territorial expansion through growth in new and revitalized housing. A key aspect of that expansion is that it alters settlement patterns, the location of businesses and travel behavior, all of which work toward restructuring the area. Criminal activities also change as a metropolitan area changes (Brantingham and Brantingham, 1989). Opportunities for crime emerge, disappear, or move as metropolitan areas restructure through growth, revitalization, decline and change. An emerging opportunity for restructuring that may alter crime patterns is playing out in the wake of the current housing foreclosure phenomenon. From a few vacated houses to the complete abandonment of entire neighborhoods, foreclosures have the potential to be a catalyst from which persistent crime patterns can take root. Once crime becomes entrenched in a neighborhood, and as associated social problems set in, it is difficult to reverse.

A geographic concentration of foreclosures affords an opportunity to form new and negative geographies across the landscape. It has been demonstrated that foreclosures are often not randomly scattered across a metropolitan area, nor are they solely in low income neighborhoods, as is usually thought. They are usually clustered as result of predatory lending (Immergluck and Smith, 2005; Kaplan and Sommers, 2009; Crossney, 2010) and mortgage fraud (Fulmer, 2009) that targeted specific neighborhoods. The magnitude of the problem and the long term effects of clustered foreclosed properties at the neighborhood level could have a devastating and systematic impact on nearby neighborhoods, the metropolitan area and the entire region. Our concern is that in areas of concentrated foreclosures, crime will become a primary change agent that amplifies and accelerates the decline of these neighborhoods. We begin this paper with a brief look at what
evidence the discipline of criminology has provided as a foundation to build a more comprehensive understanding of the neighborhood and crime dynamic.

Criminology has a long history of looking at the neighborhoods in relation to crime. Some of the most significant studies looked at the context of neighborhoods and the dynamics between the individual and their local environment (Wilson and Kelling, 1982; Reiss and Tonry, 1986; Rosenbaum, 1987; Stark, 1987; Bursik, 1988; Taylor, 1999; Weisburd et al., 2004; Krivo and Peterson 1996; Morenoff and Sampson 1997; Sampson, Morenoff, and Gannon-Rowley, 2002; Fagan and Davies 2004; Weisburd et al., 2004). Entire books have been devoted to the topic (Reiss and Tonry, 1986; Bursik and Grasmick, 1993; Felson, 1994; Snell, 2001; Elliot et al., 2006; St. Jean, 2007; and Wilson, 2007). These works represent an attempt to identify localized geographies (i.e., “places”) to situate criminal activity within to examine the interplay of social, economic and ecological factors from which they are formed. These geographies become a framework for examining human processes. A contributing factor in many of those findings from the above works is properties, unoccupied or not, that become deteriorated and form a context for criminal activity, a context that transfers messages that the place is not safe (Skogan and Maxfield 1981; Taylor, Shumaker and Gottfredson, 1985; Lewis and Salem 1986; Perkins et al., 1990). However, those works also found that deteriorated properties were not the sole or most influential factor in the manifestation of fear of crime. Other socio-demographic factors, interactions, and neighborhood activities were usually more influential. It appears that physical deterioration is a simple indicator of the problems a neighborhood is experiencing. The limitation of these studies, though, is that the analyses were conducted with regard to residents in the neighborhood. Perceptions from outside the neighborhood about safety and fear of crime may be
different. Folks living elsewhere do not see the daily occurrences of incivilities and will only have the conditions of the neighborhood and what they may see in the media to base their judgments on. Couple with the perceptions about a foreclosed property in general and a fear of crime from within and without the neighborhood may make it even more difficult to reverse the course of decline in neighborhoods with many foreclosures.

Although physical conditions were an understood correlate with crime-ridden neighborhoods, many of the early works on neighborhoods looked at the structural characteristics within the social disorganization framework of Clifford Shaw and Henry McKay (1942). This theory, and the research that followed, examined the problems associated with the demographic composition of a neighborhood through a focus on individuals. This lends itself to the premise that changing the socio-economic composition of a neighborhood is all that is required to end its chronic problems. Prompted by this long stretch of research, Rodney Stark (1987) wondered how neighborhoods could retain high crime and deviance rates despite a complete turnover in their populations. He observed a decoupling of crime from context in that there was too much focus on the individual and led that seemed to discount environment as having anything at all to do with crime. Stark’s research focused on neighborhoods, but only as a sampling frame from which to study the individuals and families living within them. Stark set forth a series of 30 propositions that became the Theory of Deviant Places, the main premise being that there must be something particular about places that works to sustain crime. He identified five essential ecological factors — density, poverty, mixed use, transiency and dilapidation — that will vary and change in magnitude as a neighborhood changes. They also weave together his theory that human and environmental interactions occur in specific places that lead to criminal opportunities
and subsequent changes in the levels of economic investment, quality of housing stock, types of businesses and lack of social services. Stark’s theory is the basis for this paper’s conclusion that areas of concentrated foreclosures, if left abandoned for an extended period of time, will have a higher probability of converting a neighborhood into a problematic “deviant place.”

This paper proposes a theory of interaction between the social, economic and ecological settings that could produce long-term crime problems in neighborhoods that are suffering from concentrated foreclosures. It goes further and explores the possibility for accelerated neighborhood decline that may be difficult to suppress, and which may significantly shock the local economy. To do so, we draw on a wealth of research findings from sociology, economics, housing studies, and geography, to expand on a criminological base to make the case for our concern that concentrated foreclosures may ultimately create deviant places and severely impact the progress of the metropolitan areas within which they are set.

The Foreclosure Crisis Within a Framework: A Geographical Hierarchy and Interaction

Foreclosures can have a direct negative impact on neighborhoods which can become acute if concentrated. Several studies have shown that for every house that goes into foreclosure, the value of neighboring properties decreases in value varying between 0.9 and 8.7 percent, and that this decline persists for extended periods of time (Pennington-Cross, 2004, Immergluck and Smith, 2005, Lee, 2008 and Lin, Mae, and Yao, 2009). Other studies indicate that multiple and concentrated foreclosures have cumulative negative effects on housing values that expand in
geographic range (Simmons, Quercia, and Maric, 1998; Schuetz, Been, and Ellen 2008). The range of these spatial effects is from an eighth to half a mile in distance.

The spatial effect is important because this negative-value contagion can spread across large sectors of a metropolitan area with serious financial impacts on the government’s ability to provide services and maintain the quality of life (Welsch, 2008; Harding, Rosenblatt, and Yao, 2009). It is important to note that foreclosure is an event that occurs on a regular basis. Foreclosures may arise from individual life circumstances such as defaults and bankruptcy due to medical bills, job loss, divorce, or death. When foreclosures occur from events like these they are isolated and scattered about any given metropolitan area with their direct effects on a neighborhood being minimal. Our concern here is that larger national changes in lending or regulatory policy acted as a catalyst that led to an enormous amount of people purchasing houses that were beyond their financial ability and resulted in foreclosure. These foreclosures were regionally concentrated in metropolitan areas and locally in neighborhoods indicating a vertical and horizontal dynamic that must be recognized if we are to understand the effects of the foreclosure crisis.

In a presidential address article to the Association of American Geographers, Lawrence A. Brown (1999) outlined a model for understanding geographic change over time in which global-level processes produce local-level impacts. This model posits a set of global-level circumstances that push down a set of change processes onto regions that varyingly impact their metropolitan areas underneath them. The metropolitan area’s social, economic, ecological and political conditions produce variations in the impact of those processes dictate the capacity to
withstand or suffer the effects of those changes. This same progression filters down a geographic level and will repeat itself across each metropolitan area and work down to the neighborhood level, which ultimately leads to an uneven modification of neighborhoods and contributes to the restructuring of the metropolitan area. The restructuring that occurs depends on the inter-play between local actors, institutions, culture, economics, and politics that work in concert to mitigate effects from those larger forces over which they have little control (Wilson, 1991). Each neighborhood will react differently. Some neighborhoods will have the wealth, political activeness, education and other resources to withstand the change, while others will not. Both will initiate change, albeit at different levels. Those reactions will vary both within those neighborhoods and in the spatial effect on adjacent neighborhoods. Cumulatively, they will percolate change back up to the metropolitan level, causing it to restructure through changes in development patterns, service provision, and economic activity. If other nearby metropolitan areas experience similar change and restructuring, there may be reverberating effects throughout the region with consequences to the nation.

Brown’s model serves as a very useful framework for which to situate the effects of the current foreclosure crisis and how it impacts neighborhoods. It allows us to represent both the uneven geographic patterns of the housing boom and the subsequent foreclosure fallout across the United States. It also serves as a model for understanding the resulting local-level changes, their push-back, and local jurisdictions’ ability to withstand this push back or become victim. See figure 1 for an adaption of Brown’s model.
There were several global-level forces at work that led to the current foreclosure crisis. A major factor was the federal government’s determination to increase homeownership rates, especially among minorities, in the belief that it presented the most reliable way for average citizens to achieve financial security and to community stability (Olson, 2005; and Bullard, 2009). Over the years, several federal agencies such as the Federal Housing Administration and the federal home loan banks have been created to make home ownership possible as well as homeowners’ tax benefits (Doms and Motika, 2006; and Chambers, Garriga, and Schlagenhauf, 2007). The government’s determination to increase the rate of homeownership emanates from numerous national surveys of Americans who overwhelmingly indicated that they would rather own a house than rent with many respondents stating that that they believe they should purchase a house a soon as it can be afforded (Rohe, Van Zandt, and McCarthy, 2001). This thrust led to the development of a confluence of several factors at the national-level that would ultimately end up affecting numerous neighborhoods dragging down several metropolitan economies. Factors such as the development of mortgage-backed securities, which provided lenders with massive amounts of liquidity, consumer demand, and the development of new loan products were all designed to meet homeownership goals of government policy, consumer demand and mortgage investors. These products fueled a demand for housing that took place in most metropolitan areas over the late 1990s and early 2000s (Bianco, 2008).
National Economic and Political Circumstances
(e.g. Federal push to get people into houses, deregulation of the financial industry, development of new loan packages to make purchasing a house easier.)

Exogenous Forces

Regional Characteristics
Sunbelt West
(e.g. large population influxes, significant territorial expansion, high technology industry growth.)

Regional Characteristics
Mid-West
(e.g. population and employment remain steady, growth is relatively low.)

Regional Characteristics
New England
(e.g. multiple educational opportunities, growth is primarily within city boundaries, tourism is high.)

Los Angeles, Calif. Metropolitan Area

Lincoln, Neb. Metropolitan Area

Boston, Mass. Metropolitan Area

Neighborhood 1
Neighborhood ...N

Neighborhood 1
Neighborhood ...N

Neighborhood 1
Neighborhood ...N

Figure 1: Adaption of Brown’s Model Representing Processes Leading to Foreclosure.
Interest rates were kept low as a response to the bursting of the “dot com” bubble, leading to the nationwide availability of low interest financing for purchasing a house and increased consumer demand. As time passed, the availability of those low interest rates, coupled with creative lending packages designed to make homeownership possible for riskier borrowers with less than perfect credit, led to an inconstant and large variation in regional concentrations of new mortgages across the United States, many of which the borrowers could not afford. Some states, and even regions, experienced explosive growth in new construction with mortgages in that wake while others were relatively untouched. States like Florida, Ohio, and Michigan saw this growth within their borders but states like Arizona, California, and Nevada formed an entire region of growth. Underneath those regions and states there was yet more geographic variation across neighborhoods in the metropolitan areas. In the older industrial cities of the north, the growth appeared to have primarily occurred in older inner-city neighborhoods while in the southern sunbelt cities, it primarily occurred in new suburban developments which led to significant territorial expansion of new neighborhoods. The Midwest remained relatively untouched. When the housing bubble collapsed, the geographic patterns of the foreclosures appeared to have mirrored the development patterns during the boom. Between 2006 and 2008, delinquencies in mortgage payments across both prime and subprime loans increased 192 percent (Mallach, 2009), with the bulk of these delinquencies occurring in the areas that saw the greatest growth.

With interest rates at historic lows and flexible loan programs that let almost anyone qualify, nationwide housing policy shifts by the federal government, and deregulation of the financial industry, the stage was set for geographical practices at the local level. Locally, creative loan packages were intensively targeted toward housing submarkets that represented a demographic
that was ripe for pushing people into houses (Immergluck and Wiles, 1999, Apgar and Calder, 2005; Wachter, Russo, Hershaff, 2006; Kaplan and Sommers, 2009; Pavlov and Wachter, 2009). Combinations of standard mortgages with secondary loans, lower down-payment requirements, flexible and adjustable interest rates, zero-percent financing, and an increase in the number of third party organizations to facilitate financing were worked to extend financing to more risky, less financially stable borrowers who could not qualify for prime loans (Apgar and Calder, 2005; Welsch, 2008; Fulmer, 2009). It is important to note that it has been recognized that many of the purchasers of houses under these conditions were geographically concentrated, which would later be the same neighborhoods where there were a significant amount of foreclosures (Immergluck and Smith, 2005). Recent research has also shown that mortgage fraud was a significant factor for much of the foreclosure activity that has been occurring as subprime loans were designed and initially targeted at higher-risk borrowers with damaged credit histories but mortgage brokers were incented to place even “prime” borrowers into subprime loans (Fulmer, 2009; Collins et al., 2009; Kaplan and Sommers, 2009). As a further incentive to extend financing to as many borrowers as possible, many these loans were bundled into mortgage-backed securities which theoretically reduced the risk of financial loss from defaulting borrowers. Buyers entering the market at a rapid pace created a substantial demand for housing in many markets, which caused huge price increases in submarkets across neighborhoods in many metropolitan areas. It has been shown that when rapidly escalating housing prices occur, much of the population looks to secure financing that consumes much of their monthly income and is beyond their budgets (O’Sullivan, 2003). The availability of these mortgages fueled a race to purchase a house at any cost, leading borrowers to falsify information to qualify for a loan (discarding whether or not they could afford it) in the belief that if they did not purchase now,
they would never be able to afford a home (Fulmer, 2009). This belief was founded on short-sighted assumptions on the part of the borrowers that housing prices would continue to rise and they could either sell the property for a profit or they could simply refinance and get a lower rate to reduce the amount of their income that went toward the mortgage.

**Foreclosure, Property Deterioration and Neighborhood Decline**

Foreclosures are a regular occurrence across the housing landscape and are usually the result of various personal and individual situations. However, as outlined above, there are instances when larger circumstances cause them to be more numerous and concentrated. Foreclosure is a process, not an event, which most often culminates in the removal of residents from their house due to a default on their mortgage (Giliberto and Houston, 1989). The recognition of foreclosure as a process is key to understanding neighborhood change and the onset of crime. Although a small number of foreclosed properties may not completely disrupt the neighborhood network, their presence can still affect crime by creating opportunities for disorder. The life cycle of the degradation of properties and change that occurs in the neighborhood becomes the backdrop for other structural events taking place in a neighborhood; it is a timeline to which we may pin that change. The question immediately arises about the where the process of neighborhood degradation begins in the foreclosure process. The deterioration of a property from the foreclosure process generally occurs in two stages. Stage one stems from a resident not having enough money to maintain or upgrade their property. Stage two results from the absence of any occupants to take care of the property.
We hypothesize that stage one of the degradation process starts when the family’s income starts to be outstripped by the “ballooning” of their mortgage payments. With a pending foreclosure, it is presumed that the occupants have money for little else other than keeping the property and give little thought towards maintenance and investment. The mortgage payment consumes most of the household budget leaving the residents with the diminished financial ability that delays needed home improvements due to normal wear and tear or upgrades to their homes and grounds that could increase the value of the house. Neglecting needed repairs can leave the property looking degraded, reduce its “curb appeal” and reduce its value. A lack of maintenance can lead to larger structural problems in the property making it undesirable for resale, or at least the accumulation of enough repairs the property looks appalling and degraded. These problems may be exacerbated by owners who intentionally damage the house out of spite or to exact revenge for being evicted during the foreclosure process. Once the house is repossessed and is vacant, thieves may cause further damage to the structure by stealing appliances or stripping the walls in search of valuable copper wiring and pipes.

Another factor to consider is the owners’ age and income. In an interview on National Public Radio, Joel Kotkin (2010), Distinguished Presidential Fellow at Chapman University, noted that people who bought homes more recently are younger and have incomes at the lower end of the scale. To support this, a study of the effect of macro-economic forces on neighborhoods by Galster and Mincy (1993) looked at male and female youth between the ages of 10 and 25 to control for their early-life decisions on education, marriage, and labor force participation and found that this group may be the most sensitive to changes in the current economic climate. They found that the macro-economic effect of the unemployment rate had a positive effect on
neighborhood poverty across all neighborhoods, which is consistent with Brown’s model. With the mortgage payment already consuming a significant portion of household income, the remaining funds are likely to be used for everyday basic needs such as groceries, transportation, household items, and utilities. This is also the age at which many families begin having children, whose care also consumes a substantial amount of income. Foreclosures can be spread across an area for lower counts across a range of median ages, however, if mortgage fraud affects both those who obtained subprime loans and those who have sufficient incomes to meet their basic needs and to maintain and improve their properties.

Stage two occurs once repossession takes place and the owner is removed from the property. There is no longer a caretaker to maintain and protect the property, which can accelerate deterioration. A vacant house provides a shelter for illicit activities. Such properties become magnets for trespassers and vagrants, thieves stealing remaining fixtures, partying teenagers, drug users and dealers, prostitutes, or simple graffiti. These activities cause extensive interior damage. Each of these activities excises further damage to the property, making it even less attractive for resale.

Existing networks of cohesion and trust are weakened, and the removal of residents from a neighborhood presents a threat to neighborhood security and stability. Fear of crime becomes a concern to the remaining residents, but the driving force that begins to eat away at social cohesion stems from perceived risk of being victimized from other incidents in the neighborhood (Rountree and Land, 1996). This indicates an increased concern for being victimized and can inflate the perception of the incidence of crime and contribute to a mounting confluence of
factors that work against a neighborhood (Skogan, 1986). These effects are recursive and expansive. Perceived risk works against the neighborhood from within by instilling a desire to escape, especially when a crime is committed on a property nearby (Rountree and Land, 1996). Crime now becomes a factor in the desire to move, and many residents do so (Duggan, 1999; Hipp, Tita, and Greenbaum, 2009). Minor crimes committed against the exterior of the vacant property and/or surrounding properties will contribute to general signs of abandonment, and elevates the risk of minor crimes against other homes in the immediate vicinity (Johnson et al., 2007). Fear also works against a neighborhood from the outside. Perceptions from people living in other neighborhoods are such that they would not consider visiting the neighborhood, let alone move there. A single foreclosed property that falls into disrepair can be seen as an anomaly in areas where stable residential patterns would provide enough informal social control to inhibit increasing levels of crime. However, there are likely other factors that simultaneously occur with the change in physical appearances that lead to the perceptions of safety and levels of crime in a neighborhood.

As noted above, a single foreclosed property can have a negative impact on the values of adjacent properties. The first step in neighborhood decline from the foreclosure is from the ripple effect of a stigmatized property and/or neighborhood, a stigma that is related to the perception the neighborhood is less affluent, crime-ridden, and not a desirable place to live. This is a recursive process that begins to lower the level of satisfaction with a neighborhood, which reduces remaining homeowners’ willingness to invest in their properties through maintenance and upgrading (Grigsby, 1963; Galster and Hessler, 1982). Remaining residents see no point in spending money on their property because they will likely not recoup it. The sales of these
foreclosed properties can be protracted, leaving the house vulnerable and costly to other residents as well as the city (Baxter and Lauria, 2000). The presence of foreclosed houses make it much more difficult for neighbors to sell their property. The city is also adversely impacted because it must spend money and resources to deal with issues that occur on those properties, yet it does not receive any tax revenues from that property because no one is living in it. The decline in tax revenues is compounded because every foreclosure reduces the value of nearby houses (Immergluck and Smith, 2005). Couple the geographic impacts of decreases in property values with the degradation of the properties themselves, and concentrations of foreclosures within a neighborhood can, in a short period of time, have negative repercussions for adjacent neighborhoods.

Once crime has moved into a neighborhood, it becomes increasingly difficult for a neighborhood to return to a state of stability without going through a complete renewal because businesses in the area are undergoing change as well. The number, quality and types of business change in the negative, contributing to a growing picture of a less than desirable neighborhood. The effect on business from numerous and clustered abandoned and degrading properties from foreclosure does not occur through slow change that results from the usual invasion succession process where residents slowly change the demographics. Rather, there is an abrupt break that can quickly cause businesses to close leaving many of them vacant and left to deteriorate. A process that instantaneously removes entire populations within a neighborhood and downgrades property values opens the door to the less affluent; social networks bring delinquents in with them who cause problems even though the troublemakers do not physically reside there (Browning et al., 2004). Changing perspectives on housing quality, living conditions and the quality of life in a
neighborhood begin to emerge that can affect actors from a wide range of organizations, weaving a very complex set of interactions that can seal the fate of a neighborhood. See figure 2. These housing submarkets arise because an interplay of owners, developers, builders, investors, brokers, lenders, insurers, public agencies, tourist companies, and even criminals, form general opinions of a neighborhood that sway decisions on what, if any, activity they should engage in within that neighborhood. A declining neighborhood can lead many of these actors to withdraw resources from the neighborhood, which can diminish maintenance, upgrading, new construction, and business startups, especially if residents and businesses abandon it as well. Other actors, such as owners of less desirable businesses associated with increased levels of criminal activity, may fill these voids, creating more opportunities for the engagement in crime that finds an equilibrium between payoff and risk.

Figure 2. Spectrum of Perspectives on a Neighborhood Condition and Quality of Life
The catalyst for much of this change is the fear of crime and the perceived risk of victimization. These perceptions stem from the combination of ingrained knowledge of the quality of life and visual cues of deteriorated conditions, which are essential elements that drive decisions about whether to visit or avoid a neighborhood.

*Neighborhood Decline, Fear of Crime and Perceived Risk of Victimization*

Fear of crime is a complex issue that psychologically affects people in ways that likely require more than just the look of the surrounding conditions of the neighborhood. This fear can have a profound impact on neighborhoods, including driving off more affluent would-be residents, more desirable businesses, investment and government attention. Several studies have found that the relevance of the physical environment appears contingent on a range of nonphysical factors and the type of crime or crime-related outcome in question (Garofalo, 1981; Hartnagel, 1996; Rountree and Land, 1996; Taylor and Harrell, 1996; Wilcox and Jones, 2003). That is, fear of crime is dependent on a multitude of socio-demographic factors that contribute to that fear. But the condition of the physical environment plays a role in the completeness of that.

In a study on fear of crime, Rountree and Land (1996) examined individual and contextual effects on fear of crime for burglary and perceived risk. They found that a house left unoccupied for short periods of time (i.e., occupants are out attending to other things) contributes to fear of burglary in particular but also to a perceived risk of being victimized. As houses begin to be vacated and unoccupied for extended periods, the remaining residents begin to worry about their own houses being burglarized or being otherwise personally victimized. This fear prompts the resident to consider moving. While this fear is affected by other socio-demographic factors, the
study found that the effect of unoccupied properties remained significant. Another finding from this work is that previous incidents of burglary had strong impacts on perceived safety. Based on this finding, two things that might prompt flight from a neighborhood that is experiencing an increasing number of foreclosures could occur. First, property crimes other than burglary at the abandoned houses can serve to as a mechanism to ratchet up fear because the neighborhood crime rate is rising through minor infractions. Second, if burglars become more aggressive and begin to target occupied houses, it increases the actual risk that another occupied residence will be next. This fear causes flight in those who are able, and distrust among those who are forced to remain. Social cohesion in the neighborhood is further diminished because residents are fewer and spaced farther apart physically, which reduces the opportunity for the casual conversations and social interactions that bind a community together.

These are elements of Wilson and Kelling’s (1982) classic Broken Windows Theory which posits that minor crimes in a neighborhood will eventually give way to more significant violent crimes. Under this version of the theory, visibly neglected and damaged properties are a signal to offenders that residents in the neighborhood are apathetic and do not care to deal with even minor property crimes. It is also a signal to offenders that the people who live in the neighborhood do not care enough about their own properties and would not intervene to stop delinquency should it occur.

Although these principles still hold true, the message sent to criminal is different. In the instance of multiple and geographically concentrated abandoned properties, a different message is sent to offenders, which is that there is no one there, or very few, living in the neighborhood to care for
and manage the properties. That is, neighborhoods plagued by empty, foreclosed houses send the signal that the neighborhood has been abandoned and that the properties are ripe for unrestrained and undetected criminal activity. This has significantly different implications for disorder and crime. Abandoned, neglected and obviously vandalized properties can accelerate negative neighborhood change. Neighborhoods reach their threshold of unattractiveness at an accelerated rate through decline and start to become impoverished because people who can afford to live elsewhere do so (Galster, 2005). This is because the physical signs of disorder send a signal that the neighborhood is unsafe (Galster and Hessler, 1982; Shultz and Tabanico, 2009) and higher income families that can afford to choose prefer newly built, renovated or well-maintained homes, while the less affluent have no choice but to live in whatever housing stock is left and often less desirable because of its physical condition (Ratcliff, 1949; Lowry, 1960; Fisher and Winnick, 1961; Grigsby, 1963). Grigsby et al. (1987) and Galster (1993) later recognized that larger macro-forces and micro social processes of social ills played a role in causing neighborhood change in conjunction with physical deterioration.

Although neighborhood decline is normally a slow, lengthy process that occurs over several decades, the foreclosure crisis could very well expedite this decline, bringing with it the acceleration of the onset, intensification, and supplanting of crime for some time to come. As neighborhoods fall further into disrepair, crime is only the immediate impact. Long-term trends could undo the significant progress that many metropolitan areas have made in the last few decades in terms of neighborhood quality of life and economic progress. Rountree and Land (1996) and Hartnagel (2001) both discussed how perceptions of crime impacted perception of cities. Hartnagel found that a negative relationship between perception of crime and satisfaction
with a neighborhood was persistent when controlling for social activity and neighborhood cohesion variables, meaning that residents were not enthusiastic about their neighborhoods despite interactions with other residents. These negative feelings about their neighborhoods morph into negative feelings about the city as a whole as a decent place to live, particularly in women and in those who are less educated. The researchers found however that social activity and cohesion in a neighborhood was not impacted. Despite that finding, those social bonds may not be strong enough to prevent residents from leaving because their concerns lie more with safety. This finding adds support to our hypothesis that as foreclosures occur and property crimes begin to escalate residents, will be inclined to move elsewhere. And if their feelings of dissatisfaction extend to the city as a whole, the total combined effect from all neighborhoods can eventually percolate up to the entire metropolitan area and stunt progress due to outmigration, loss of revenue, and provision of social services for the problems that are left behind. Geographically concentrated neighborhoods that contain residents who are not making a lot of money to maintain their properties and lack of investment creates the potential for the development of “the bad side of town.” That side of town usually comes with an increase in crime which is difficult to undo and attempts to rebuild the neighborhood are costly and time consuming.

Foreclosed Properties and Neighborhood Decline

High-crime neighborhoods do not simply sprout from the ground like a malicious weed. They are places that have evolved into being high-crime neighborhoods over time from conditions that fostered a downward trajectory. As a neighborhood works toward the downgrading stages of the
life cycle, crime begins to move in and acts as a reinforcing factor, both hastening and deepening neighborhood decline which in turn leads to more violent crime, an indicator long-term crime problems. Importantly, urban geographers, sociologists, and criminologists have been studying this phenomenon for decades to understand the process as well as predict its occurrence. Two of the most well-known and best-researched theories of neighborhood change are the invasion-succession model and the neighborhood life cycle model.

The process of change occurs in every neighborhood. The process from a stable neighborhood to deteriorated one is neither normal nor geographically random. This is particularly true given the fact that in neighborhoods with larger rate of foreclosures, a slow change of demographic (i.e., invasion-succession process) does not occur; rather, there is an outright venting of the previous cohort of residents that leaves entire neighborhoods instantly abandoned. Early research on the social effects of foreclosures suggests that they can alter the course of neighborhood change, especially in the racial composition of a specific neighborhood. For example, through price deflation in New Orleans, Baxter and Lauria (2000) found that foreclosures contributed to a racial transition of neighborhoods by increasing opportunities for lower-income black households to move into formerly white-occupied homes. This is the invasion-succession model and the most well-known model of neighborhood change. This model bases neighborhood transformation on changes in racial composition ratios. Originally formulated by the Chicago school sociologists (Park, 1952; Duncan and Duncan, 1957; and Taeuber and Taeuber, 1965), the invasion-succession model was based on plant and animal ecology research, and viewed competition and conflict amongst populations as natural within neighborhoods. This fits with the earlier work that Stark (1987) indicated was decoupled from the environmental context. Under
this model, members of a new population “invade” a neighborhood and slowly take over the neighborhood and the residential composition begins the process of succession into a new demographic. Importantly, this invasion-succession model is a key component in social disorganization, and works to explain how neighborhood change leads to neighborhood decline and higher levels of crime. Our concern lies with the fact that in many of the neighborhoods where foreclosure is occurring there is no invasion-succession process taking place, rather there is a venting of the previous cohort of residents that leaves entire neighborhoods instantly abandoned. Under this model, members of a new demographic “invade” a neighborhood and are either repelled or “take over” the neighborhood and begin the process of succession. This model has been a key component in social disorganization, and helps to explain how neighborhood change leads to neighborhood decline and higher crime levels. This model only captures the structural changes of neighborhoods and does not adequately address changes that occur in the physical environment. More occurs, though, than just a change in demographics from processes that steer the cycle of neighborhood change. As the demographics change so do the social, economic and physical factors that all contribute to a disruption of the social cohesion the neighborhood by breaking the network or even preventing it from occurring at all.

In the Baxter and Lauria (2000) study, the researchers document the invasion-succession process whereby neighborhood demographic changes take place because economics act as a filter for levels of affluence because the more resources a family has, the more places they can choose to or not to reside (Muth, 1969). Baxter and Lauria describe the process of how more affluent residents select newer housing because they can afford to, and that due to density and congestion in the city they seek the cheaper new construction in the suburbs. The less desirable urban
housing that is left behind is divided into multiple rental units; owners of these units will reduce maintenance to maximize profit. Since the less affluent occupy these units, the businesses that served the previous, more affluent residents either go out of business or move to more profitable locations and are replaced by less desirable businesses such as check cashing services, tattoo parlors, low-end liquor stores and bars, convenience stores and title pawns, that cater to transient and lower income populations. Basic needs met by services such as hardware stores, full-service grocery stores and restaurants, child care facilities, pharmacies, and banks, become scarce or are located farther from these less affluent areas, increasing costs to get to. It is not that there is a decrease in the overall availability of businesses and services that is the problem, rather, it is a change in business types from those that are desired to those that are not (Greenbaum and Tita, 2004; Small and McDermott, 2006). This change leads to decreased land values, less political will to resolve entrenched problems, and a lack of interest in investing for revitalization.

To illustrate these simultaneous changes, figure 3 is an adaption of a neighborhood life cycle model from Megbolugbe, Hoek-Smit, and Linneman (1996) that shows the typical process of neighborhood change, but contains elements of criminal activity that are occurring as changes are taking place. It shows changes in socioeconomic factors that lead to homeowners or investors (this includes special interest groups) to make decisions about whether to maintaining and/or upgrade their property or move out of neighborhood entirely. These decisions ultimately lead to changes in the state of the houses or other buildings that are part of a neighborhood.
Changes in social and economic variables

Cause Households, acting directly or indirectly through a system of housing suppliers and market intermediaries.

To make different decisions regarding.

Producing changes in dwelling and neighborhood characteristics.

- Number of households.
- Household size and composition.
- Per capita income.
- Societal values and attitudes as they affect housing preferences.
- Cost of housing relative to that of other goods and services.
- Technology
- Consumer product and service mix.
- Public-sector policies and programs.
- Location, amount, and type of business investment.

- Owners
- Developers
- Builders
- Repair Firms
- Sub-contractors
- Brokers
- Lenders
- Insurers
- Public Agencies
- Neighborhood Groups

- Level of maintenance.
- Upgrading.
- Conversion.
- Whether to move.
- Where to move.
- New construction.
- Boarding-up.
- Demolition.

- New household income profiles in existing neighborhoods (succession).
- Social environment change:
  - Household behavior,
  - Race/Ethnicity,
  - Social-group ties.
- Physical environment change:
  - Dwelling unit,
  - Other.
- Change in locational attributes.
- Change in prices and rents.
- Creation of new neighborhoods and elimination of old ones.

- Number of households in foreclosure.
- Property deterioration from neglect, vandalism and theft.
- Number of minor property crimes.

- Criminals
  - White Collar
  - Street
  - Organized

- Whether to offend.
- How often to offend.
- Level of offending.

- No household income profile (venting).
- Level of offending increases.
- Frequency of offending increases.
- Criminals part of community.

Figure 3: Adapted Framework for Neighborhood Change

This model can also be a framework for following the decisions of criminals on where to offend and what type of offense to commit. According to the Broken Windows Theory, negative changes in the property send signals to offenders that it is possible to offend with little intervention. Therefore, criminals become one of the actors who have an interest in the neighborhood. These lead to their decisions about where to offend and what types of offences they can get away with in those neighborhoods based on their stage of existence. The acts of criminality simultaneously impact the decisions of the homeowners with regards to their

24
perception of crime and the risk of being victimized. People begin to leave and neighborhood
demographic profile changes. Businesses follow suit and the economic profile changes. All the
while, the physical aspects of the neighborhood deteriorate and criminals alter their perceptions
of what offenses they can engage in and the frequency and severity of offending escalates and
becomes entrenched. This domino effect fits within several of the propositions of Stark with
regard to the development and existence of deviant places.

There are several things to note in relation to the foreclosure phenomenon currently underway
across the nation. First, in many metropolitan areas, the foreclosure of houses is occurring in the
suburbs and exurbs that have a different geography than the urban core, which exacerbates
problems related to proximity and scale. Regardless of whether they are in urban, suburban or
exurban communities, the concentrations of less educated, lower income residents and lower
value degraded housing stock, lead to a range of social problems and increase the difficulty in
successfully combating them. Therefore, as the number of foreclosed houses degrade as a result
of abandonment, the likelihood that social issues will emerge increases. Second, unlike what has
been described by other researchers, many of the foreclosed properties are new houses and
developments that became available to the less affluent because of cheap credit and the
availability of creative loan programs that allowed them to obtain mortgages they previously
would not have qualified for. It should be noted that the availability of these mortgages was the
result of a complex set of factors, including pressure by the government and consumer groups to
increase residential mortgage lending to economically disadvantaged and highly risky borrowers,
consumer demand for easy terms and fast approvals, unscrupulous mortgage lending
professionals, and Wall Street’s insatiable demand for mortgage-backed securities. It is too soon
to judge whether people who lost their homes to foreclosure will be willing — or able — to purchase homes again, or whether they will remain renters who become more transient as they try to avoid or escape neighborhoods where low rent and mixed-land use combine to form less than desirable conditions and higher crime rates.

As an alternative to understanding how crime moves into a changing neighborhood, the use of a neighborhood life cycle model can be a useful for describing the simultaneous change of both social and contextual processes. This model can serves as a backdrop for stages of human, physical, and economic conditions that neighborhoods go through over time. The model postulates a series of stages that neighborhoods go through over time, but the assumption is that it occurs slowly over time. We argue that mass and clustered foreclosure can alter this model in the sense that stages are advanced through quickly because the households in the neighborhood have little or no population in them and therefore no guardian to protect and invest in them; if the initial construction quality of these houses is poor or average, it could be accelerated even more. In either case, once a neighborhood has reached the downgrading stage, crime begins to move in and acts as a reinforcing factor, both hastening and deepening neighborhood decline. Even more important, once crime has moved into a neighborhood, it becomes increasingly difficult for a neighborhood to return to a state of stability without going through some form of complete renewal. It takes years and a lot of investment of time, money, and care to reverse the entrenchment of crime and other social ills in a neighborhood. Given this potentially bleak outcome, research and policy discussions are essential to stem the tide of the foreclosure problem and plan ways to rebuild in its wake.
Conclusion: Long-Term Problems for Neighborhoods and the Metropolitan Area

This is not the first time the United States has experienced a wave of foreclosures. However, the suddenness, magnitude, and geographic concentration this time around are not like we have seen in the past (Bianco, 2008). Susan M. Wachter (2009) of the Wharton School of Business at the University of Pennsylvania testified before Congress in July, 2009 stating that “Today according to the MBA, the foreclosure rate is 400 percent, four times the historical average and the highest it has ever been since the Great Depression.”

Because of the severity of the current foreclosure problem, we are compelled to put forward a theoretical foundation from which the research community can test and build upon. Our theory employs a comprehensive examination of neighborhood conditions with regards to changes in social processes, in particular, with regard to the onset of crime. It makes use of a neighborhood change (life cycle) model that accounts for both structural and physical changes as disrupters of social cohesion; cohesion that is vital to the prevention of crime. With each successive stage in the life cycle, there are commensurate changes in population, land use, population density, and condition of housing that stem from the original quality of construction (Grigsby, 1963; Galster, 2005). This is the original point for the fate of a neighborhood. With a particular housing policy that dictates type and quality of construction based on who the target population is, there could be little reason to upgrade the properties and that they could degrade at accelerated paces if not maintained due to the qualify of the materials used and the amenities initially provided.

Neighborhoods are at some stage within the life cycle, exactly where they are and how fast they progress towards decline depends on numerous factors related to land use, housing type, property conditions, population demographics and economic conditions. Factors such as quality of initial
home construction, residential housing type, demographic class, and residential mobility help determine the rate at which a neighborhood declines. Normally, neighborhoods with poor initial construction quality, predominance of multifamily housing, families with low income, and high residential mobility are more likely to decline quicker than neighborhoods with well built single family homes and stable populations (Grigsby, 1963; Metzger, 2000; Galster, 2005). The reason stems from local housing policy that initiated construction of housing for a demographic that would neither stay in those households very long nor have the finances to invest in upgrading the property. Therefore, the households deteriorate because they are not even maintained. It should be noted that this can occur in any quality of housing stock if there is no one living in or willing to maintain or upgrade the property. Our research will not examine changes in the broader long-term context of the neighborhood life cycle, but rather account for where the neighborhoods are in a particular stage in order to discuss the implications for the onset of crime problems.

Research by Tita, Hipp, Greenbaum and Petras (2004, 2006, 2008) has shown that crime serves as an engine of change in neighborhoods for both residents and businesses. In relation to foreclosed, abandoned and degrading properties this does not occur through the usual invasion succession process of one household at a time (Baxter and Lauria, 2000) but rather as a starting point. Instead of new houses being marketed in good condition to affluent buyers, foreclosed homes are less desirable due to deterioration from neglect, vandalism, weathering, and the stigma that seems to occur from a property that has been foreclosed and people who can afford to live elsewhere will do so. The foreclosure of numerous houses, the abandonment of entire neighborhoods, and the change of business types can have a larger effect on the metropolitan area leading to a cycle of further decline as tax revenue is lost. All the while, there is increased
demand for fewer resources to provide for the maintenance and prevention of neighborhoods from declining further. For example, the reduction in zoning officers being able to visit the properties needed to evaluation or being able to board-up and secure house that have been abandoned from being vandalized. This can lead neighborhoods that are at their thresholds of attractiveness to accelerate downward becoming an impoverished neighborhood (Galster, 2005). Galster further points out that this occurs due to other changes within the metropolitan system that leads to systemic changes in these neighborhoods as a result. Changes that can lead to neighborhoods of concentrated poverty and the many problems associated with them beyond crime, such as reduced educational opportunity, increased costs for basic goods and services, weak political economy, poor employment options, and lack of good transportation options that prevent them from building any kind of wealth (Kneebone and Berube, 2008.) All of which have a drag on the aggregated metropolitan economy clearly indicating that it is best to prevent neighborhoods from sliding into a distressed state because they are the building blocks.

As other changes occur throughout a metropolitan area, those forces take advantage of clusters of foreclosed houses. This fundamentally changes the urban fabric — and usually not for the better. A new set of socially disorganized neighborhoods are created just as others have been revitalized. A main concern becomes the long-term condition of these neighborhoods. Weisburd et al. (2004) and Sharky (2008) demonstrate that some neighborhoods have long-standing trajectories of crime problems that never go away despite residential turnover. Sharky refers to this type of phenomenon as “intergenerational contextual transmission” where the racial and economical status of a neighborhood is transferred from one generation to the next. The economic status is reflective of the human and physical condition of the neighborhood. Both
studies demonstrate that once a neighborhood becomes distressed, the resulting problems become long-term. These studies reflect an examination at the micro level (i.e., street blocks) that directly relates to the scales of where foreclosures hit the hardest, the neighborhoods where entire streets contain abandoned houses.\textsuperscript{1} The mounting number of these rapidly declining areas can be geographically dispersed across the entire metropolitan area that can alter traditional patterns of crime and social disorganization that can affect suburban areas as much as the inner city. Further, crime and other social ills associated with socially disorganized neighborhoods can spillover into adjacent neighborhoods (Hakim and Rengert, 1981; Barr and Pease, 1990, Hesseling, 1994). This can lead to the potential demise of these neighborhoods as well. This new spatial structure of problem neighborhoods presents new challenges for law enforcement, social services and other government agencies that attempt to deal with the emergent problems. The impacts are seen not only through changes in crime patterns, but in housing, land use, public transportation, police practices, and other economic activity patterns that have also been altered. The long-term consequences become chronic because the time required to change this built environment is slow and people become entrenched in place. People can not simply be moved or displaced. Infrastructure changes or upgrades require careful planning, significant financing, and commitment to follow through because these changes are time consuming if they are to be done correctly. To revitalize a neighborhood, governments, businesses, and residents need to be assured of stability and require strong indicators that the neighborhood will not slide back into

\textsuperscript{1} Ann Fulmer presented a case study in Atlanta at the NIJ meeting on Mortgage Fraud, Foreclosures, and Neighborhood Decline of a single fraudster that identified one house that systematically led to nearly all of the houses on the block being vacated from foreclosure. Within eight years, the neighborhood downgraded from a life cycle stage of stable to becoming thinned out, abandoned and vandalized to the point that no one wanted to purchase those houses.
disorganization before they invest any effort in becoming part of a neighborhood and community.

There appears, as we have laid out, a wealth of research from multiple disciplines to make us believe that the issue of foreclosures and the resulting neighborhood decline and onset of crime merits scientific attention. Research testing this theory will have real policy implications in understanding the processes that foreclosures can instigate, as well as the processes that lead up to them. It is hoped our work will garner interest to examine the impacts and generate research to prevent future social ills related to foreclosures.

There are many questions yet to be answered from processes yet to play out:

- What are the long-term outcomes from this trend?
- Will there be large-scale changes in future crime trends?
- Will adjacent neighborhoods decline to create suburban ghetto areas?
- What will the impact be on children growing up in these rapidly declining foreclosure neighborhoods?
- Will children be more likely to suffer academically and socially as they are forced to move from their established social fabric?
- Will abandoned neighborhoods be replenished with new residents anytime soon?
- If they are replenished, what sorts of demographic and social changes will the new residents bring?
Of course there are a host of other questions that will be of great importance. But, questions like these need to be answered because the damage from this wave of foreclosure crisis may do significant damage outward from neighborhoods and upward to the metropolitan area that could very well drag an entire region down. As the model from Brown shows, and foreclosures at the neighborhood level does as well, the linkages between the local and national levels operate in both directions. The push downward by the federal government to get people into homes and financial institutions deriving the mechanisms to make purchasing a house much easier, resulted in devastation at the local level. That devastation, especially concentrated, manifested itself enough to hurt the financial vitality of several metropolitan areas and percolated up to put the entire nation in a state of crisis, even when it was only a few regions of the United States that has the greatest impact. While the federal government works to shore up the process that led to this crisis, the state and local levels are grappling with far more problems that have resulted in the wake of the foreclosure crisis, one of which is crime; a problem that can be particularly costly in terms of lives, property and the economic vitality of a metropolitan area.

Gjerstad and Smith (2009) noted "...a financial crisis that originates in consumer debt, especially consumer debt concentrated at the low end of the wealth and income distribution, can be transmitted quickly and forcefully into the financial system." When concentrated in neighborhoods where households with lower levels of income are consumed by debt from their houses, houses become vulnerable to foreclosure which can undo all the progress a metropolitan area has made over the last few decades. It is best, then, to prevent homebuyers from purchasing a house that they will be unable to afford and have to abandon, setting off a downward trend of
housing deterioration and increase social ills that are hard to defend against once they have become deep-rooted and become “deviant places.”

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Potential Models for Understanding Crime Impacts of High or Increasing Unoccupied Housing Rates in Unexpected Places, and How to Prevent Them

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Table of Contents

Table of Contents ............................................................................................................................ 2

Statement of the Problem ................................................................................................................ 4

The Same or Different? ................................................................................................................... 6

Will Higher Foreclosure and Abandonment Rates Lead to Higher Crime, and If So How? ....... 11

Political Economy ..................................................................................................................... 12

  Ways the perspective may be useful .......................................................................................... 12

  Ways the perspective may not be useful .................................................................................. 15

The Incivilities Thesis ............................................................................................................... 16

  Ways the perspective may be useful .......................................................................................... 16

  Ways the perspective may not be useful .................................................................................. 18

Crime Pattern Theory ................................................................................................................ 20

  Ways the perspective may be useful .......................................................................................... 21

  Ways the perspective may not be useful .................................................................................. 22

Social Disorganization Theory / Collective Efficacy Theory ...................................................... 23

  Ways the perspective may be useful .......................................................................................... 24

---

Models for understanding crime impacts of unoccupied houses

---

Page 2
Ways the perspective may not be useful................................................................. 25

Routine Activity Theory and Related Territorial Concerns........................................... 26

Ways the perspective may be useful........................................................................... 27

Ways the perspective may not be useful................................................................. 28

Race-Based Models of Neighborhood Preservation and Change.............................. 29

Sense of Community/Attachment to Place/Defended Neighborhood Models ........... 29

Implications for Research Agenda Setting ............................................................. 30

References.............................................................................................................. 33
Statement of the Problem

The current work considers how spatial and temporal variations in the rates at which residential housing becomes unoccupied are likely to affect community crime rates. To figure out how this might work, current theoretical approaches to understanding community crime rates are examined to learn how they would view the relevant dynamics. If the goal is to prevent adverse impacts of unoccupied housing on community crime rates, the best prevention program will be the one that is based on the clearest and most strongly supported theory. That examination will reveal significant different advantages and disadvantages associated with each perspective. But more importantly, different theoretical perspectives considered suggest different ways to approach community crime prevention initiatives, [87] co-produced public safety, [14, 73, 76] and third party policing roles [64, 65]. Stated differently, the theoretical vantage point suggests different logic models for intervention and orients practitioners toward potential intervention points and strategies [88]. The focus is on neighborhood level or community level dynamics.

The relevant context is the current US mortgage crisis. Starting sometime in 2007, sections of the US started experiencing dramatic increases in mortgage foreclosure or home abandonment rates as the crisis in sub-prime mortgage markets spread. That has led to concerns about the potential crime impacts of these increases.

By way of introduction it is recognized that the processes of mortgage defaults, foreclosures, bank possessions and re-sales are extremely complex and varied phenomena. Because of that complexity and the range of processes and actors that may be involved, the focus
here is just on patterns of and increases in unoccupied housing. These changes in the unoccupied rate or UR arise from many sources including but not limited to: changes in the rates at which defaulting borrowers walk away from their properties pre-foreclosure; changes in the rates of post foreclosure proceedings which force residents to move out; and other market dynamics leading to houses being unoccupied, perhaps while for sale or rent, for extremely long periods. Although these properties in some instances can be taken over by criminal elements, the focus is how the levels, changes in levels, and patterning of unoccupied residential houses affects later crime and how we can prevent those effects.

The paper simply takes as starting points two considerations. First, that these interrelated phenomena are going to lead to some communities experiencing much higher prevalence rates of unoccupied single unit houses than previously experienced in those locations. Second, that although these higher URs have a range of economic, social, political, economic and cultural impacts, the concern with such impacts is only insofar as they might connect to later crime changes.

The first portion briefly compares and contrasts the current housing crisis with a preceding period of rapid shifts in house values: rapid housing turnover and associated neighborhood racial change in large cities from the late 1950s through the 1970s. This was one relatively recent time where neighborhoods in many sections of the country experienced sizable significant neighborhood demographic changes [47, 71, 72]. It also places the current crisis in the context of an emerging field, contributed to by several disciplines, on increasing suburban poverty.[62, 68] The case will be made that one of the limitations of most of the available
theoretical alternatives for understanding the dynamics around URs is their failure to theoretically integrate with these perspectives.

The next part moves through a number of theoretical perspectives on communities and crime. Each is briefly summarized. Each points to different key features of the current situation and different dynamics, and each suggests different intervention points and strategies. Each has a different idea of how or why increasing URs might lead to increasing crime or disorder. Depending upon the intervention point or intervention type, different roles are suggested for law enforcement, police community relations, housing authorities, and municipal and metropolitan governance structures. Broadly speaking, the relevant prevention initiatives connect to several areas of policy research: problem oriented policing [42, 43], co-produced public safety [74], collective crime prevention efforts [87], third party policing [65] and neighborhood economic preservation policies [1].

A short closing segment suggests there are serious limitations in the ability of any of the current communities and crime perspectives to guide future intervention efforts. All are to some degree inadequate or incomplete. It outlines some of the things we need to learn if we are to develop sound, empirically supported intervention logics.

**The Same or Different?**

Recent reports in the popular press suggest that numerous suburban counties in the United States are experiencing unprecedentedly high or dramatically increasing rates of home abandonment and mortgage foreclosure [75]. Of necessity, these foreclosures and abandonments before foreclosure can dramatically shrink community household populations. Over time,
foreclosure and abandonment rates may contribute independently to declining community house values even in a time when house values in many regions of the country are already broadly declining.

Traditionally, declining house values have been interpreted as an indicator of broader community decline, usually linked to dramatic changes in socioeconomic or racial composition of neighborhood residents, the willingness of businesses to locate in those places, and attendant increases in social problems more generally [49, 117]. Rapid neighborhood structural change can link to changing fear and changing relative crime rates.[103, 104] Rapid neighborhood house value decline, especially in the context of declining services, can lead to powerful conflicts between local community organizations and local governmental agencies, and has the potential to dramatically undermine public authority [32, 33].

A growing body of work, however, suggests structural economic changes in suburban communities may come about in ways that are different from the rapid demographic shifts seen in large central city neighborhoods in the 1960s and 1970s. Rapid population shifts in urban communities were often accompanied by and seen as driven by racial changes in who moved in versus who moved out. Changing racial composition foreshadowed for many residents declining neighborhood economic and service delivery levels [27, 28].

The linkages may be working differently in many places, however, in the last two decades. Pre-foreclosure crisis increases in suburban poverty prior to say 2005, as well as post-crisis dynamics appear to be different [96]. Following a political economy model (see below) researchers have suggested that patterns of capital circulation within and across communities are
changing dramatically without accompanying widespread changes in who moves in and who moves out [96]. Looking at the “Camden syndrome” Smith et al. (2001: 524) argued that

The historical experience of Camden County [NJ] suggests that the cyclical nature of economic expansion and recession is vital in this understanding, as regional economic shocks are localized in vulnerable neighborhoods. Yet evolving patterns of chronic capital flight also underscore the role of class and race. Racial change is not an independent variable “explaining” decline but instead reflects the uneven geography of opportunity created in large part through the operation of urban and regional housing markets.

Stated differently, the current crises altering suburban communities arise from – and presumably can only be fixed by altering – the uneven circulation of available capital across these communities. Housing market dynamics, and the unevenness within and between those community-level housing markets, appear to be more central than race or cultural differentials, although obviously related to the latter. In cities, however, race differentials continue to be key [4].

If current pre- and post-foreclosure crisis increases in URs are primarily a result of how much money is available on reasonable terms to support homebuyers, and not about impacts of
social problems, racial change, or economic changes spreading out from central cities, then this also calls for a radical reinterpretation of abandoned houses.

Empirical work on the incivilities thesis has shown that urban residents’ perceptions of problems like abandoned houses covary with their perceptions of other physical problems like poorly maintained houses, and of other social problems like unruly teen groups [105].

In contrast, the mortgage foreclosure crisis may be creating a situation leading to different interpretations of and impacts of increasing numbers of unoccupied houses in suburban neighborhoods as compared to urban neighborhoods.

It is not argued that a specific incivility like a boarded up, vacant house is interpreted in the same way in different urban neighborhoods, or even by different people in the same neighborhood. Interpretations of incivilities are complex [48, 51, 53]. But in urban locations the prevalence rates for vacant housing are likely to covary closely with a range of other neighborhood social problems and with neighborhood economic and perhaps racial and ethnic structure. It is in part because these different problems covary closely over space that vacant houses are interpreted as part and parcel of broader societal ills [78].

Since high or increasing URs in suburban locales connect differently with social problems and demographic structure than they do in urban, core city locales, the presence of these unoccupied houses may be interpreted differently. There are very few data bearing directly on this question. At its simplest, do suburbanites in the US, given the current mortgage crisis, interpret high URs in their community as a signal disorder [53] foretelling imminent community
decline? Or is the interpretation that the URs reflect an ongoing national crisis? Or does the suburban interpretation depend on the temporal pacing of the UR increase, or its spatial concentration, or other factors? It will be important to learn more about how suburban residents interpret increasing numbers of unoccupied houses in their communities, and whether or how those interpretations link to intentions to move, current community engagement, or willingness to maintain or improve their own properties. If perceptions of an appreciating local and national housing market drive reinvestment [98], perceptions of depreciating markets may drive under-investment.

Looking at the current mortgage crisis more broadly, there are several features of the context which may reduce the applicability of previous community and crime models for understanding crime and related impacts.

1. It may be happening in many places all at once. Many communities within a county, or within a metropolitan area or within a region of the state may be experiencing roughly comparable economic disruptions of circulating capital simultaneously. If this is true, perhaps the capabilities of the current crisis to generate localized crime concerns, or highly localized crime increases, may be blunted.

2. If all of the communities in one jurisdiction or in one part of jurisdiction are being affected similarly the relative ordering of communities may not shift. In other words, there may not be implications for cross community shifts in relative crime levels in the long-term, presuming that the economic changes are happening at comparable rates across communities. Spatial patterning of URs is key.
Will Higher Foreclosure and Abandonment Rates Lead to Higher Crime, and If So How?

This section considers how currently available theoretical models would expect current or future URs due to the mortgage crisis to affect later crime rates. Different models suggest different ecological pathways of influence.

The different models are presented to attune the reader to the range of dynamics which are potentially relevant. Different dynamics in turn suggest alternate prevention pathways and logics.

No claim is made that one model is better than another. What will become clear, however, is that none of the models are sufficiently contextually sensitive and nuanced, or sufficiently steeped in the relevant regional science, community change, or political economy scholarships that they could provide a roadmap for anticipating crime-related consequences or for planning crime prevention.

As the reader will see below, all of these models are to a considerable extent contextually naïve. If there is one lesson to be learned from both the previous work in urban renewal and the current work on increasing suburban poverty, is that local dynamics are complex mixes of contextual features and broader, more global operating forces [39, 68, 96, 118]. A second emerging lesson seems to be that suburban residents today, like those fifty years ago, sought security [40, 55], viewing it as a key part of achieving “the American dream” [67]. A generation earlier in the 1920s and 1930s their parents had sought the same goals by leaving large cities’ crowded central districts for those cities’ outer sections [29, 111].
Political Economy

What it says

Political economy models focus on the economic value of communities to outside interests, the functional value of communities for insiders, and the conflicts arising from potential contrasts between these two. For example, in one model the concept of exchange value captures the economic value of investments, rents, land, businesses and tax revenues potentially available to public agencies outside the community, and to outside private investors. The concept of use value captures the functional and symbolic utility of the neighborhood for the residents themselves [59, 60]. The focus is on how capital circulates into and out of communities. These circulations depend on how external investors’ and public agencies’ perceptions of potential capital gains are weighed against resource requirements.

All these shape the treatment of communities by outside powerful interests. Conflicts arise when actions toward communities undercut with the functional [35], social [39] and symbolic benefits [36, 85] of these communities for residents and local business owners.

Ways the perspective may be useful

The model focuses on capital flows. The model assumes that the current state of local and regional political economies will be among the most critical determinants for the futures of neighborhoods at risk. The factors, actors, and institutions driving capital into and out of locations of course are multi-faceted and extremely complex.
In addition, the model focuses attention on the discrepancies between the views of two groups: current residents, and outside agents, the latter including both public and private agencies. It's likely, especially as the national economy continues to crater in coming months and perhaps years that these differences will grow significantly.

For example, it makes sense for residents able to afford to continue living in their homes in neighborhoods experiencing increasing URs to lobby heavily for maintained or increased levels of local public services: more police patrols, better housing code enforcement, parks and playground maintenance, and the like. Those households which can afford to stay will want to maintain or increase current services despite visible evidence of declining community value. They will want this even though public agencies are probably experiencing declining revenues and even initiating service cuts, both of these driven by state and national as well as local changes. In short, exchange values in some communities may be declining due to more foreclosures and public agencies with fewer resources, but for the remaining financially healthy households some neighborhood use values may remain relatively high – at least in the short term. Those healthy households are likely to demand constant or increasing services in order to help sustain their use values. Conflicts around service delivery, including public safety, are likely to intensify dramatically, and these intensifying conflicts have significant implications specifically for co-produced safety initiatives [74] and more broadly for views about the legitimacy of public institutions [58].

On the positive side, however, the model suggests why residents in financially healthy households may be increasingly willing to contribute significant time and effort to community
improvement efforts such as maintaining grounds around unoccupied properties, and safety co-production efforts such as community crime prevention, especially if they receive some symbolic or tangible support from local public agencies. Residents in healthy households will find it in their best interest to engage in collective action which in the long run will help shore up neighborhood use values. It's easy to imagine efforts, and they are happening [41], where resident-based associations work with not only police but local public officials and local banking officials so those organizations are fully aware of which properties are unoccupied. The groups can maintain grounds around those properties and detail members to keep an eye on them hoping to keep vandals, in-migrating criminal elements and metal scavengers away. Suddenly, in a new and different context, neighborhood watch [86] may be relevant again. Once the ratio of financially healthy households to unoccupied houses gets too low, however, these efforts may sputter.

The third key feature of this model is its attention to external political dynamics as a separate arena. How a neighborhood conducts its “foreign relations” [24] is critical. A neighborhood’s capability to engage in successful foreign relations, to gain political leverage with outside political or economic interests, is distinct from a neighborhood’s degree of internal social and political integration and organization [24]. This idea contradicts both the revised systemic model [17] which incorporates three levels of social control [52] and the fundamental assumptions embedded into the most widely used collective efficacy indicators [90]. External political capabilities appear to be somewhat separate and distinct from internal self-regulatory and organizational capacities.
Ways the perspective may not be useful

The political economy perspective privileges economic dynamics above all other possible dynamics: political, social, cultural, historical, and contextual. In its strongest form this perspective may be too deterministic. Although this is line with some suburban economic work on the “Camden syndrome” [96] and some other work on suburban poverty growth [62, 68] its rejection of potentially relevant cultural [34] or racial [4, 32, 33] or safety related dynamics [55] may be too strong.

Second, if political economy is the key engine driving both URs and degree and type of crime impacts, it will be extremely difficult for resident-based interest groups to convince outside agencies to maintain levels of resource commitment in the current economic context. If rent prices, housing values, and business and property tax returns drive all subsequent dynamics, there is little that can be done to help cushion communities from the adverse effects, crime and otherwise, arising from increasing URs; this model predicts that external private and public agents will progressively withdraw services and investments in such a situation. These agents will be unlikely to contribute in any material way to these communities or these community efforts unless they can be convinced such actions or resources will help maintain exchange values or at least substantially slow their slide.

Third, although the model concentrates on the conflict between use values and exchange values, its meta-orientation implies that the economic dynamics usually win. Numerous counterexamples, however, describe situations where organized local interests successfully defeated investment decisions supported by local politicians, thereby preserving neighborhood
quality [3, 29, 70, 112]. In short, it is not clear if the broader economic determinism assumed by
the model is correct.

The Incivilities Thesis

The incivilities thesis refers to a family of models connecting observed and perceived
physical and social indicators of slipping neighborhood quality with changing community crime
rates, community reactions to crime, and community structural changes [105, 107]. Despite
staunch defenders [56] and vociferous critics [48], long-term longitudinal work in at least one
city over a decade has suggested that incivilities may shape prime community structure and
residents’ safety concerns, although the same incivilities are not as powerfully influential as
many had thought [107]. More recent elaboration's of this thesis [53, 77] have returned to an
earlier symbolic interactionist perspective on incivilities [51] highlighting the varying meanings
residents and others may attach to such incivilities.

Ways the perspective may be useful

Two of the most widely used assessed and perceived incivility indicators have been
vacant houses and graffiti. In short, this model has identified abandoned or under-maintained
houses and properties as key reflections of the quality of neighborhood life and as key
determinants of perceived and unfolding neighborhood futures. Therefore, in a time of
dramatically increasing URs, this model may help us understand the community dynamics and
crime consequences emerging as part of the mortgage foreclosure crisis.
The implication of this first point is that keeping houses occupied may be critical to stabilizing neighborhoods, keeping crime rates from accelerating, and allaying residents’ safety concerns. The leverage point suggested here is that financial institutions, local government, and local neighborhood organizations would want to work together to find ways to keep houses occupied and maintained, even if the original owner walks away, or if the houses in foreclosure proceedings. Creative occupancy solutions would seem to be required if the prime goal is forestalling potential community crime rate increases or structural declines. This same point comes up again after considering territorial functioning [102].

Second, the longitudinal versions of this perspective paid close attention to the rate of change of incivilities. The rate of changing incivilities may be as or more important than the level per se [95]. Focus on the rates of change aligns closely with several other ecological models which also have been applied to communities and crime [106] and the human ecology framework more generally [50]. In short, some versions of this thesis highlight the rate rather than the degree of change.

If one assumes that it is residents’ perceptions of the rate of change, and that their perceptions are driven by marginal rate changes, then this perspective also helps direct efforts. More specifically, it would direct attention to those communities where URs or abandonment rates historically been at or close to zero. It would suggest that it is in those locations specifically where public and financial institutions would want to work hardest to avoid increasing URs. It will be the first unoccupied houses in a previously fully settled community that will be most
unsettling to residents. In other words, this perspective suggests focusing attention on preventing initial changes in community URs, especially if they have been historically extremely low.

Not enough is known currently to speculate on what changes in URs will draw the attention of potential offenders from outside the community in question.

Third, at least in some forms the incivilities thesis highlights issues of interpretation. Critical to unpacking structural, crime, and reaction to crime impacts of changing URs is understanding how those are interpreted [53, 100, 102]. This issue was alluded to earlier.

Previous work on incivilities and on human territorial signage has indicated that residents and outsiders often perceive the situation somewhat differently [51, 102]. That may prove true here as well, as outside forces and residents construct different interpretations of increasing URs. 

Ways the perspective may not be useful

There are some ways in which the incivilities thesis may not prove helpful for understanding crime related consequences of increasing URs. Perhaps most importantly, the incivilities thesis implies that a range of assessed or perceived physical and social problems will cluster together and feed one another in urban settings. Residents in hard hit urban neighborhoods often implicitly or explicitly make these connections [78, 107]. Problems with more unsupervised teen groups go hand-in-hand with graffiti problems; higher rates of vacant housing go hand-in-hand with drug and gang problems because vacant buildings create opportunity spaces for gang activities including indoor markets, and places to shoot up [2, 25, 94].
The situation may be very different, however, in suburban settings. In these places, abandoned or foreclosed homes may not co-occur, at least in the short run, with other social and physical problems. Instead, the unoccupied houses symbolize severe market dysfunctionality rather than high local problem rates. Of course whether or not the connection occurs may depend on local factors.

To put the point differently, many incivilities researchers have assumed that high rates of assessed or perceived incivilities reflect higher rates of underlying disorder [56, 95, 116]. Although these assumptions have not been substantiated [105], and indeed work on convergent and discriminant validation suggest these assumptions may be in error [107], given the current housing crisis it seems highly unlikely that residents are likely to make inferences following the disorder → incivilities logic. We have the same observed condition but in a different time and with a dramatically different economic context compared to the situations to which this thesis was initially applied.

A second way the incivilities thesis may not prove helpful arises from the increasing attention [53, 77] to an old idea [51]: the importance of subjective interpretations of observed incivilities. If we accept this symbolic interactionist perspective on incivilities, public agencies, including those involved in neighborhood stabilization and law enforcement, will be unable to prioritize communities more deserving of interventions for maintaining neighborhood stability and safety. Tracking abandonment or delinquent tax or foreclosure rates, given this view, is not a reasonable way to identify the highest priority communities for intervention. Rather, this perspective suggests that it would only be through extensive interview work with residents and
leaders that one could determine the communities most at risk. Those most at risk will not necessarily be the communities with the highest URs, but rather would be the communities where the recent changes in URs are having the most sizable impact on residents’ and key stakeholders’ views of the community. This is probably too labor intensive a requirement to feasibly link to intervention strategies.

**Crime Pattern Theory**

Crime pattern theory [5, 8-10] combines the assumptions of the rational offender perspective [20, 19, 21, 23] with behavioral geography [83, 82] and information about the spatial distributions of various land uses. Some of the latter at certain times may, depending upon offender motivation and how these locations intersect with potential offender activity spaces and search areas [80], serve as crime targets.

The rational offender perspective contributes to crime pattern theory by assuming that potential offenders are constantly evaluating potential targets and victims, and weighing a range of benefits and costs associated with various types of offending [30]. Behavioral geography concentrates attention on potential targets within potential offenders’ activity spaces; the latter are often anchored by nodes such as residence, work and recreation locations [9]. It further suggests that locations adjacent to activity spaces will be entered when the potential offender seeks additional potential targets. Land use becomes relevant because it is a broader environmental back cloth against which these dynamics operate. Crime pattern theory assumes that offenders are simultaneously sensitive to both spatial and temporal variations in risks [101] and opportunities [69, 81].
Ways the perspective may be useful

Reports in the popular press have described how both vandals and burglars seeking valuable scrap metals target unoccupied homes in suburban communities [41]. Crime pattern theory is useful insofar as it offers specific predictions about the abandoned locations most likely to be chosen by vandals and burglars. This perspective draws attention to the geographic positioning of unoccupied houses, rather than the UR itself. Some examples follow.

(1) A dense cluster of abandoned houses is more likely to draw scrap metal burglars than are the same number of abandoned houses spread out over a greater area. The cluster presents more of a lure. The cluster also presents a location where the density of people keeping a watch on empty houses is lower. Research suggests burglars are sensitive to surveillance opportunities [7, 12].

(2) Burglars put a premium on moving into an area quickly and moving out equally quickly, while maximizing gain from their forays [82, 99]. Foreclosed or abandoned houses closer to high volume traffic routes are more likely to be attacked either by vandals or burglars. Foreclosed or abandoned houses deeper in the neighborhood and farther away from high-volume traffic routes are probably less likely to be targeted [6, 46]. Unoccupied houses in neighborhoods with less permeable neighborhood boundaries are probably at less risk of burglary or vandalism from those outside the neighborhood [113, 115].

(3) Earlier work on suburban home burglary has confirmed that burglars are sensitive to the relationship between the targeted house and other nearby houses which might hold people
watching what the offender does [13, 12]. Information about layout plans and occupation patterns can help create target risk profiles.

Putting this last point more generally, crime pattern theory can help law enforcement and prevention partnerships better allocate resources and watchfulness in a situation where a large number of unoccupied houses may draw burglars or vandals. Simple point mapping of unoccupied homes on map layers clearly describing the different capacities of the road system, regularly updated, combined with some guidelines about the determinants of target attractiveness may be sufficient to help both law enforcement and preventive partnerships allocate efforts both across communities and even within communities.

Second, crime pattern theory, at least as it applies to burglary, places a premium on offender knowledge [109]. That knowledge helps to explain both burglary repeat victimization patterns and burglary near-repeat victimization patterns. Therefore, in addition to the information mentioned in the above paragraph, additional information about the timing and location of burglarized and vandalized abandoned homes can help create a rolling risk profile for nearby communities hosting sizable or increasing numbers of unoccupied homes but where burglary or vandalism rates have not yet accelerated. This too, will help more closely target community-based or co-produced prevention efforts.

Ways the perspective may not be useful
To my (admittedly limited) knowledge, the applicability of crime pattern theory to a situation where target density is rapidly increasing in unpredictable ways is not yet known. Most of the studies using crime pattern theory and addressing property crimes have assumed a relatively constant or only slowly changing environmental back cloth. Rapidly increasing URs in some areas may represent a challenge to this model. How vigilant are potential offenders in keeping track of increasing numbers of abandoned or foreclosed homes in their vicinity, i.e., intersecting with their activity spaces or awareness spaces? I know of no work specifically addressing this question.

**Social Disorganization Theory / Collective Efficacy Theory**

Social disorganization theory and collective efficacy theory are addressed together. They both rely upon the same underlying dynamic. The many complexities, questions, and strengths of this theoretical perspective are not considered here [57, 108]. Each assumes that key community demographic features make it more or less likely that there will be strong local social networks and/or strong cohesiveness among residents, and each assumes that these social dynamics will lead to more or less willingness to intervene in situations where community norms of acceptable behavior are being flouted; those local social variations then link to variations in both offending and victimization rates. Classic social disorganization theory anticipates that willingness to intervene shapes subsequent delinquency prevalence and incidence rates [92] but may be less applicable to serious crime [17]. Newer versions of the theory have nonetheless expanded to consider offending and victimization rates [17, 89]. Further, as mentioned above collective efficacy theory treats internal social dynamics and the ability to leverage extra resources as...
closely covarying even though these are distinct levels of informal control. Substantial
neighborhood work, by contrast, suggests public control may not be closely linked to intra-
neighborhood, secondary control capabilities.

Ways the perspective may be useful

Social disorganization theories, since they are at heart ecological theories [50], highlight
the critical importance of rapid community changes [16]. Thus, this perspective may prove
particularly useful in a time of rapidly changing community fabrics arising from marked local
and national economic shifts.

Second, the theory directs attention to specific features of community demographic
structure that make it more or less likely that residents will be willing to intervene. More
specifically, generally these models assume that low SES, unstable, racially or ethnically
heterogeneous, or primarily minority occupied communities are the least likely to demonstrate
strong willingness to intervene [17, 61]. There is mixed empirical quantitative support for these
expected connections depending on the community element in question [79]. Nonetheless, to
some degree background easily-obtainable demographic information could be used to better
target communities at risk and in need of more prevention services, law-enforcement or third-
party policing [65] around housing issues. Given two communities, both experiencing
comparable rapidly increasing URs, this perspective suggests which of those communities will
be more likely to experience increased crime problems because of weaker internal capacities to
mount informal small group [52] or more organized collective prevention activities [87].
Demographic structure, of course, connects only weakly with actual internal capacities, but at least it provides a non-random way to allocate resources if the latter are scarce.

*Ways the perspective may not be useful*

In its classical form the social disorganization model has been embedded within a particular understanding of urban growth dynamics now recognized as most historically appropriate for the first half of the 20th century [15, 16]. If we are thinking about metropolitan areas or suburban locations more generally that embedding is probably no longer appropriate.

What is needed is a model recognizing that most metropolitan areas in the US currently are highly differentiated poly-nucleated structures [44, 45]. Suburban communities currently experiencing distress due to high foreclosure rates are nested within and shaped by those complex structures. Rethinking may be needed about how a specific suburban community’s risks reflect its position within that broader structure. This is part of what the “Camden syndrome” is about [96].

For example, in 1990, among the 27 largest metropolitan areas, Charlotte’s suburban poverty levels were closest to the poverty levels observed in corresponding central cities [62]. In other words, the way this MSA was organized economically *before* the housing crisis made the suburban communities’ poverty rates more closely match those seen in the central city of the MSA. I do not know enough about this locale to offer a guess about why that might be true.

What this finding does suggest, however, is that the seeds of Charlotte's very intense mortgage foreclosure crisis [11] were nested in part within the unfolding structure of this MSA.
over the last 20 years. If our focus is on understanding differential risk of crime and related outcomes due to high URs across MSAs, the social disorganization/collective efficacy model is of little use. Elaborations of the social disorganization/collective efficacy model are needed to clarify how such contextual variations affect local capacities across MSAs. Stronger integration with the regional science work is needed.

Also limiting this model’s utility is its emphasis on endogenous social dynamics. Debates about whether local social capacities can be built with the assistance of outsiders, or must rely solely on local native talent date back to the beginning of the 20th century and differing views about the settlement house movement [18]. If the long-term viability of local social dynamics does depend primarily upon local residents and leaders, then this would suggest that efforts to build community policing partnerships geared to enhancing social capital and thereby crime prevention capabilities may prove fruitless.

Finally, and this is not a limitation but rather a question: the spatial scale of the dynamics described by social disorganization/collective efficacy may not be appropriate for units of analysis above the community level. The social dynamics described may be outweighed by other dynamics when MSAs are the unit of analysis.

**Routine Activity Theory and Related Territorial Concerns**

Routine activity theory (RAT), like the incivility thesis and like social disorganization/collective efficacy, comes in many different variations. The model idea has been
progressively elaborated over the last quarter-century. Some versions of this theory apply to national trends [22]. Others suggest the theory only applies to crime situation dynamics that are a matter of seconds and feet [26].

These disagreements aside, core concepts in RAT include: volume of motivated nearby potential offenders, intensity and proximity of valuable targets, the absence of capable guardians, and, in recent elaborations [31], place managers and intimate handlers who can control potential offenders.

Ways the perspective may be useful

Routine activities theory proves helpful in several ways for thinking about impacts associated with high URs. To start with the obvious point, unoccupied homes and the surrounding grounds have no capable guardians.

If multiple nearby targets are under consideration, then we could say a place like a street block now has fewer place managers. The place manager idea incorporated into RAT has its origin within territorial models. In the framework of human territorial functioning a significant gap in the overlapping geographies of resident-based control has been created [102: 320]. RAT tells us this is inherently problematic. RAT, in contrast to the incivilities thesis, does not care about what the house or the grounds look like as long as those conditions are unrelated to target attractiveness. What’s important is that there is someone inside.
RAT and territorial functioning both, therefore, suggest a simple policy prescription for preventing increasing crime in the context of increasing URs. Have someone responsible live in the property. The incivilities thesis would add – and take care of the surrounding grounds.

Second, RAT like crime pattern theory suggests clustering of attractive targets may prove relevant. If there are several unoccupied homes close together all of which can provide some aluminum and copper to a foraging burglar, suddenly each home becomes somewhat more attractive. So we are directed again to the spatial relationship between potential targets, i.e. unoccupied homes. The prevention implication is that agencies and community organizations will want to survey more carefully and organize their activities more closely around clusters of unoccupied homes rather than widely separated ones.

Third, if adjoining renting or homeownersing residents are viewed as potential place managers, RAT sensitizes us to daily migration patterns within communities. A neighborhood with more mothers or fathers staying home to watch small children is at less risk of increasing vandalism or burglary than another neighborhood which empties out during the day because of dual income earning households, even though the number or density of unoccupied properties may be comparable across the two communities.

_Ways the perspective may not be useful_

RAT is fundamentally about a three-way relationship: if there are lots of potential offenders nearby, and if there are lots of attractive targets, and if capable guardians are scarce, then under these conditions crime rates will be higher. Thinking about how to translate this
contingent relationship into a workable policy and practice framework for preventive partnerships or for law enforcement personnel presents considerable complexity. Thinking about solid indicators for each concept with acceptable construct validity rather than rough proxies has been and continues to be problematic for this theory.

**Race-Based Models of Neighborhood Preservation and Change**

Substantial research considering rapid urban neighborhood change has highlighted the importance of racial residential patterns, segregation patterns, prejudice, and tolerance for diversity [33, 63, 66, 117]. This literature is enormously complex. One general finding emerging from this work, however, is that there is no one racial tipping point [38, 37, 91, 97, 114]. Rather, different people have different sensitivities and different contexts can shape those sensitivities.

In general the suburban poverty work suggests as noted above that white flight is unlikely to drive the differential growth of poverty in suburban locations. Rather, proximity to the core city in the MSA and differential capital circulation patterns are probably more relevant. I am not saying that racial or cultural dynamics are completely irrelevant; rather, given the structure of the current crisis, racial and ethnic issues may be less prominent than they have been historically.

**Sense of Community/Attachment to Place/Defended Neighborhood Models**

Communities where residents share a stronger sense of cohesion and a stronger attachment to the locale in general are likely to be more stable neighborhoods [54, 93]. Stability feeds attachment and attachment in turn feeds stability [84]. Although attachment and stability
can create political insularity [24] they also create high density webs of local knowledge and awareness of local events [39]. The implication for prevention is that in highly attached communities, groups of residents are more likely to respond more quickly to increasing URs, more likely to take collective action, and will be more effective partners with public agencies which can provide them with information about current and future foreclosure locations.

**Implications for Research Agenda Setting**

The various models reviewed represent some of the most widely used for understanding community crime differentials. Community is used loosely here to mean anything from street blocks to MSAs. It appears that no one model would be a better guide than another for thinking about how to prevent increasing crime, how to encourage the most effective community crime prevention, or how to structure the most effective partnerships to co-produce public safety. All models have substantial deficiencies. The current foreclosure crisis may represent in its pacing and spatial patterning a substantial challenge to several of them. Only models *securely* grounded in an ecological framework seem designed from the ground up for modeling impacts and responses to such challenges.

But even these frameworks are lacking in some ways. Most importantly, all of these models save for the political economy one are inadequately connected with current scholarship on the growth of suburban poverty and the connections between economics and MSA structures. Both these latter streams of scholarship point up key themes of contextual variation and historicity.
One idea presented in the suburban poverty work is the Camden syndrome. This idea highlights the importance of circulating capital pattern differentials and downplays the importance of who is moving in versus out or who is moving where. This idea seems particularly relevant to the current mortgage crisis and the attendant rapid shifts in URs and (potentially) crime rates. It will be a challenge to integrate these ideas with the more micro level dynamics more familiar to most communities and crime researchers. The integration is essential, however, if we wish to be able to provide policy guidance to various officials and agencies whose responsibilities may range from a state or metropolitan area to a municipality to a community.

The incompleteness of all the considered models aside, however, there is one obvious but perhaps critical point on which several theories seem to agree: there may be some communities whose safety would benefit substantially were it possible to keep foreclosed or pre-foreclosed but abandoned properties occupied and perhaps maintained. The occupants could be original owners or other responsible householders. Is this feasible to pursue as a policy intervention point? Structuring such a policy, were it pursued, would need to give careful attention to the differential community stabilization and safety benefits likely to be generated by such occupancy and target post-abandonment or post-foreclosure sites carefully. Crime pattern theory, RAT and territorial models all strongly endorse such a notion.

Finally, the timing of this suburban crisis follows by about two years a significant retrospective on the work of Herbert Gans [110]. Gans made many contributions to sociology, planning and other disciplines. He was ahead of his time in wanting to learn more about suburbs
[40]. Gans' seminal contribution to suburban sociology, the Levittowners, proved so informative because it was based on careful ethnographic observation [68]. Understanding how the current mortgage crisis and attendant high URs may link to local organizing efforts, to offending patterns, to co-produced safety, and to potential neighborhood instability may require not only substantial work with archival records and resident-based surveys, but also ethnographies carried out in a range of MSAs and a range of communities. Given that the cratering of the economy is likely to continue for some time, and the consequences emerging from that to continue for even longer, now is probably an opportune time to plan how to do the research to understand what is happening; only if we do this can we most effectively prevent the most adverse consequences.
References


Models for understanding crime impacts of unoccupied houses
Models for understanding crime impacts of unoccupied houses


Models for understanding crime impacts of unoccupied houses
“Round Up The Usual Suspects”

Potential Models for Understanding Crime Impacts of High or Increasing Unoccupancy Rates in Unexpected Places, and How to Prevent Them

Ralph Taylor
Temple University
The paper

- Where to find full paper
- www.rbtaylor.net/unoccupancy_impacts.pdf
- Do models help us understand:

Un-occupancy Rates

? Crime
Conclusion

- All the models
  - Dis-connected from suburban poverty work
  - Inattentive to metropolitan structures, historicities
- Some models
  - Provide clearer policy prescriptions
Incivilities Thesis “Broken Windows”

**Pro**

**Con**
- Isolated problem
- Different setting
Crime Pattern Theory

Pro
- Identifies key features of target spatial patterning

Con

![Diagram showing the relationships between different activities such as residence, crime sites, work, activity space, and recreation.](image)
Social Disorganization

Pro

Con
- Neighborhood
- foreign relations:
  underdeveloped
How to Co-Produce Crime Prevention?

- Some models give clearer guides
Crime Pattern Theory

- Highlights what creates vulnerabilities
RAT / Human Territorial Functioning

- Simple policy solution: occupancy

Resident-based Control contours (one house) shown

Teen group-based Control contours
All models: Shared Deficits

Crime theory / suburban theory
Structure of MSA seeded the crisis
Madden (2003)

Percentage of the suburban population residing in civil divisions, with poverty rates at 90% (white), 75% (grey), and 50% (black) of central city poverty rate.
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USING INFORMATION FOR COMMUNITY CHANGE

The National Neighborhood Indicators Partnership (NNIP)

Tom Kingsley
The Urban Institute
A NEW CAPACITY

♦ Need for local information infrastructure
  – Ongoing – beyond one shot studies
  – Neighborhood level data essential
  – National datasets will never be enough

♦ National Neighborhood Indicators Partnership (NNIP) – *(started in 1995)*
  – Collaborative network
  – Local partners - data intermediaries, 31 cities
  – Urban Institute serves as secretariat
LOCAL PARTNERS IN NNIP

The defining functions

✦ Building and operating information systems with integrated and recurrently updated data on neighborhood conditions

✦ Facilitating and promoting the direct practical use of data by community and city leaders in community building and local policy making

✦ Giving emphasis to using information to build the capacities of institutions and residents in distressed neighborhoods
Current National Neighborhood Indicators Partners

Atlanta
Baltimore
Boston
Camden
Chattanooga
Chicago
Cleveland
Columbus
Dallas
Denver
Des Moines
Grand Rapids
Hartford
Indianapolis
Louisville
Los Angeles
Memphis
Miami
Milwaukee
Minneapolis
Nashville
New Orleans
New York City
Oakland
Philadelphia
Providence
Sacramento
Seattle
Washington, DC
Success due to three innovations

1) Data and Technology
   GIS - People relate to data analysis at the neighborhood level.

2) Institutions
   - Long-term and multifaceted interests
   - Positioned to maintain trust of data providers and users

3) Progressive Mission: Information for Change
LOCAL PARTNERS IN NNIP
DATA FROM MANY SOURCES

Neighborhood level – social/economic/physical
◆ Employment
◆ Births, deaths
◆ Crimes
◆ TANF, Food Stamps
◆ Child care
◆ Health
◆ Schools

Parcel level – physical/economic
◆ Prop. sales, prices
◆ Prop. ownership
◆ Code violations
◆ Assessed values
◆ Tax arrears
◆ Vacant/abandoned
◆ City/CDC plans
NEIGHBORHOOD DATA–BALTIMORE

Community Statistical Areas

- Foreclosures & Fractions 2000-2003
  - # of Foreclosures 2003
  - # of Foreclosures 2002
  - # of Foreclosures 2001

Definitions

- Foreclosures
- Fractions
PARCEL LEVEL DATA – BALTIMORE
LOCAL PARTNERS IN NNIP INSTITUTIONAL HOMES

◆ NNIP Partners – mostly non-government:
  
  Government agency (Hartford, Seattle)

  Community foundations (Atlanta, Boston, Dallas, Denver, Miami)

  University-based centers (Baltimore, Cleveland, Grand Rapids, Indianapolis, Los Angeles, Memphis, Minneapolis, New York, Philadelphia, Pittsburgh)

  United Way based groups (Indianapolis, Louisville)

  Nonprofit intermediaries (Camden, Chattanooga, Chicago, Columbus, Des Moines, Milwaukee, Nashville, New Haven, New Orleans, Oakland, Providence, Sacramento, Washington)

◆ In all cases, partners must work by collaborating
◆ Offer a one-stop-shop for data
  - *Tremendous efficiency for users*
  - *Benefits of social infrastructure*

◆ Positioned to maintain trust of data providers and users over long term
  - *Not linked to short term political interest*
  - *Care with cleaning and release of data*

◆ Are, or can be, locally self sustaining
  - *Fee/project income can cover majority of cost*
  - *But some local general support required*
INFORMATION FOR CHANGE

♦ Democratizing Information
  – Facilitating the direct use of data by stakeholders - not only writing reports yourself

♦ A central mission — strengthening, empowering low-income neighborhoods
  – Partners work for many clients but influence of this theme evident in all their work

♦ Information as a bridge for collaboration
LOCAL PARTNERS IN NNIP

TYPES OF APPLICATIONS

◆ Using indicators in local change initiatives
  – Citywide analysis to change laws and policies
  – Guide program planning and implementation (spatial targeting of resources)
  – Support individual neighborhood improvement and development initiatives
  – Support program/policy evaluation

◆ Comprehensive indicator report/review
  – Well developed in Boston, Baltimore, Chattanooga, Philadelphia
  – Several other cities making progress
THE MISSION OF THE PARTNERSHIP

- **Advance the state of practice**
  1. Informing local policy initiatives (substantive cross-site work)
  2. Developing tools and guides (NNIP Elements of Practice)

- **Build/strengthen local capacity**
  3. Developing capacity in new communities
  4. Services to an expanding network (Community of Practice and Partnership)

- **Influence national context/partnering**
  5. Leadership in building the field
WORK OF THE PARTNERSHIP
ADVANCING THE STATE OF PRACTICE

- Cross site studies: neighborhood data driving more effective policies and programs
  - Earliest topics: Welfare and Health
  - Recent topics: Prisoner Reentry, Land Markets
  - Current topics: School Readiness/Early Childhood, Community Development
  - Priority: the Foreclosure Crisis
Cross-site initiatives
HOUSING MARKETS/FORECLOSURE

- Taking advantage of recent improvements in parcel-level data
- Focus on tools to bring timely and relevant information to decisions around property
- Better information will help cities, nonprofits, private actors
  - Early warning of foreclosures and impacts
  - Neighborhood targeted prevention
  - Develop neighborhood specific stabilization strategies
  - Coordinate and track progress
Subprime density by race/poverty

Subprime loans per 1,000 units in 1-4 unit structures (2004-06 annual average) 100 Metros

- Predominantly White
  - 0-10% poverty: 8
  - 10-20% poverty: 9
  - 20-30% poverty: 7
  - 30%+ poverty: 6

- Predominantly Black
  - 0-10% poverty: 13
  - 10-20% poverty: 11

- Predominantly Hispanic
  - 0-10% poverty: 14
  - 10-20% poverty: 16
  - 20-30% poverty: 22
  - 30%+ poverty: 30

- Other & Mixed
  - 0-10% poverty: 15
  - 10-20% poverty: 14
  - 20-30% poverty: 20
  - 30%+ poverty: 18
Subprime density by metro location

Subprime loans per 1,000 units in 1-4 unit structures (2004-05 annual average) 106 Metros
## Foreclosure response
### Neighborhood Strategy Framework

<table>
<thead>
<tr>
<th>Market Strength</th>
<th>Foreclosure Impact Risk</th>
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</thead>
<tbody>
<tr>
<td></td>
<td>A. Low risk of high foreclosure density</td>
</tr>
<tr>
<td>1. Strong</td>
<td>Lower priority</td>
</tr>
<tr>
<td>2. Intermediate</td>
<td>Lower priority but watch carefully, head-off emerging problems early</td>
</tr>
<tr>
<td>3. Weak</td>
<td>Lower priority but watch carefully, head-off emerging problems early</td>
</tr>
</tbody>
</table>
Milwaukee

High Cost Mortgage and Refinance Loans 2006

Green Cutline surrounds areas of Milwaukee with 75% or more African American population.
Market context

Cleveland is a weak market city being devastated by subprime lending crisis

Prepared by: Center on Urban Poverty and Community Development, Mandel School of Applied Social Sciences, Case Western Reserve University
Source: NEOCANDO (http://neocando.case.edu), Cuyahoga County Auditor
Density of Residential Sheriff's Deeds, 2000
Cuyahoga County, OH

Prepared by: [Center on Urban Poverty and Community Development, Mandel School of Applied Social Sciences, Case Western Reserve University, October 30, 2007]
Source: [NEO CANDO (http://newcando.case.edu/)
Cuyahoga County Auditor]
Model Block Early Warning Map

Prepared by: Center for Urban Poverty and Communities Development, Mandel School of Applied Social Sciences, Case Western Reserve University
Source: NED CANDO (http://newcomdev.cmu.edu)
September 12, 2007
Cleveland Strategic Investment Initiative

CATALYZING MARKET RECOVERY

- Data driven planning process managed by NPI and based on NEO CANDO

- Neighborhood specific strategies built around anchor projects and targeted foreclosure intervention

- NEO CANDO the basis for land assembly
  - Analysis of a mix of data including ownership, vacancy status, sales prices, water shut-offs, foreclosure filings
  - Analysis supports determining reasonable acquisition price range
For more information on NNIP

- Web site: [www.urban.org/nnip](http://www.urban.org/nnip)
- New site: [www.foreclosure-response.org](http://www.foreclosure-response.org)
- Email: nnip@ui.urban.org

Mailing address:

Tom Kingsley or Kathy Pettit  
National Neighborhood Indicators Partnership  
c/o The Urban Institute  
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Foreclosure and Crime Across Florida Counties

Eric P. Baumer
Kevin Wolff
Florida State University
College of Criminology & Criminal Justice

NIJ Conference on Foreclosure and Crime

March 31st – April 1st, 2009
Figure 1. Heuristic Model Linking Foreclosure Rates to Crime Rates
Figure 1. Heuristic Model Linking Foreclosure Rates to Crime Rates

- Foreclosure Rates
  - Negative Consumer Sentiment
  - Higher Expected Economic Utility of Illegal Activity
  - Other Economic Dislocations (e.g., job losses, wage reductions)

- Rates of Acquisitive Crime (e.g., Robbery, Theft, Burglary, Auto-Theft)

- Rates of Stranger Assault and Homicide
Figure 1. Heuristic Model Linking Foreclosure Rates to Crime Rates

- Foreclosure Rates
- Other Economic Dislocations (e.g., job loss, wage reductions)
- Levels of Stress and Frustration
- Alcohol/Drug Abuse
- Rates of Stranger Assault and Homicide
- Rates of Domestic Violence
Figure 1. Heuristic Model Linking Foreclosure Rates to Crime Rates
Samples

Tax Working Sample
Descriptive results on foreclosure for all 67 Florida counties
Regression analysis based on 50 counties for which relevant measures are available

Data

Three Dependent Variables (Florida Dept. of Law Enforcement)
Homicides, Acquisitive Crimes (robberies, burglaries, motor vehicle theft, and larcenies), and Domestic Violence Incidents in 2008 Known to the Police, per 100,000 Residents (FDLE)

Several Explanatory Variables (Various Sources)
- Foreclosures per 100 Mortgages, 2008 (RealtyTrac)
- Change in Foreclosure Filings per 100 Mortgages, 2006-2007 (RealtyTrac)
- 90 Day Vacancy Rates, 2008 (HUD, USPS)
- High Cost Loan Rates, 2004-2006 (HUD, FHMDA)
- Unemployment Rates, 2008 (BLS)
- Police Officers per 100,000 Residents, 2007 (Florida Dept. of Law Enforcement)
- Firearm Prevalence (of suicides committed with a gun), 2007 (Florida Dept. of Health)
- Persons in Prison, Jail, or on Community Service per 100,000 Residents, 2007 (Florida Dept. of Corrections)
- Percentage of Adults who Engage in Binge or Heavy Drinking (Florida Behavioral Risk Factor Survey)
- Illicit Drug Activity (ER visits and Drug Arrests, Florida Dept. of Health and Law Enforcement)
- Population Size and Density, Economic Achievement, percent 15-25, percent recent movers (ACS, 2005-2007)
- Divorces per 100,000 Residents, 2007 (Florida Dept. of Health)

Methods

OLS Cross-Sectional and Cross-Lag Models (including spatial effects)
Figure 2

Foreclosure Filings in Florida Counties, 2006

Legend
County Variation in Foreclosure Filings (per 100 Mortgages)
Source: RealtyTrac, 2006

- Less than 1
- 1-2
- 3-5
- 6-9
- 10-11
- 12 or more

*Florida counties averaged 1.4 foreclosure filings per 100 mortgages in 2006.
Figure 3

Foreclosure Filings in Florida Counties, 2007

Legend
County Variation in Foreclosure Filings (per 100 Mortgages)
Source: RealtyTrac, 2007

- Less than 1
- 1 - 2
- 3 - 5
- 6 - 10
- 11 - 15
- 16 -

*Florida counties averaged 4.37 foreclosure filings per 100 mortgages in 2007.*
Figure 4

Properties in Foreclosure in Florida Counties (per 100 Mortgages), 2008

Legend
County Variation in Properties in Foreclosure (per 100 Mortgages)
Source: RealtyTrac, 2008

*Florida counties averaged 9 properties in foreclosure (per 100 mortgages) in 2008.
Figure 5

HUD Estimates of Foreclosures (per 100 Mortgages), 2007-2008

Legend
County Variation in HUD Estimates of Foreclosures (per 100 Mortgages)
Source: HUD, 2007-2008

- Less than 1
- 1-2
- 3-5
- 5-8
- 8-11
- 12+

*According to HUD estimates, Florida counties averaged 7 foreclosures (per 100 mortgages) in 2008.
Figure 6. Average Rates of Acquisitive Crime for Florida Counties, 2000-2008
Figure 7. Average Rates of Domestic Violence for Florida Counties, 2000-2008
Figure 8. Average Rates of Homicide for Florida Counties, 2000-2008
Summary of Multivariate Results

Factors Associated With Geographic Variation in Foreclosure Rates

In 2008, foreclosure rates highest in:

- Counties with higher unemployment rates, areas where high cost loans were more prevalent (2004-2006), and where a larger percentage of mortgage holders whose loan to gross income was greater than 35%. These factors explain about 70% of the variation across Florida counties in foreclosure rates.

- Home price changes, presence of a large share of vacation homes, and county demographic composition not significantly associated with foreclosure rates.
Summary of Multivariate Results (Cont.)

*Foreclosure and Crime in Florida*

*No significant linear or non-linear main effect of foreclosure rates (levels or changes) on levels of acquisitive crime, homicide, domestic violence, illicit drug activity, or heavy alcohol consumption.*

*Foreclosure significantly associated with acquisitive crime rates only in context of high levels of persistent home vacancies.*

*Foreclosure significantly associated with homicide rates only in context of high levels of poverty and where the prevalence of high-cost loans is especially high.*
Cautions

Foreclosure and Crime in Florida?

* Too early to tell?

* Analysis thus far only scratches surface of what could be done with available data.

* Complex endogeneity issues unresolved.

* Data do not comprehensively capture differences in the nature of foreclosure realities for communities.

* A lot of other missing data elements (e.g., subjective economic perceptions, levels of stress and negative emotions, illegal markets, direct indicators of disorder, social cohesion, community participation, etc.).

* Perhaps counties are too heterogeneous and large to pick up on some of the processes that may link foreclosure and crime rates.
Should We Emphasize Foreclosure
in a National Research Agenda on Crime and Justice?

- Yes, but as part of a more general effort to facilitate a comprehensive and policy relevant research agenda that is capable of addressing these sorts of issues.

- Strategic crime monitoring system that would support timely policy analysis so NIJ can lead public discussion about crime trends and contribute relevant information to others (e.g., Congress and the new administration).

- Monitor crime on an ongoing basis in a modest sample of “informant” communities, routinely track a core set of potentially criminogenic conditions, and stand ready to evaluate emerging issues (such as foreclosure).
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Neighborhood Deterioration and the Creation of Deviant Places: The Aftermath of Clustered Foreclosed Properties

Brandon Behlendorf
University of Maryland

Ronald E. Wilson
National Institute of Justice

David Kirk
University of Texas, Austin
Overview

- Review of Foreclosure types
- Theoretical perspective
- Research Questions and Site Selection
- Data and Methodology
- Descriptives and Distributions of Foreclosures
- Model Results
- Conclusions and Limitations
Type of Foreclosure

• Foreclosure as process
  – Filings
  – Short sales
  – Pre-foreclosure diversions

• Foreclosure as event
  – “On the courthouse steps”
  – The transfer from property owner to bank
A Disorganization Approach

Foreclosure → Removes Actor(s) from home → Fewer Established Residents / Owner Occupants

 Higher Levels of Crime, Especially Violent Crime

Reduced Social Control → Inability to provide surveillance of unsupervised youth groups
An Incivilities Approach

- Foreclosure
  - Removes Actor(s)
  - Vacant / Abandoned Buildings
    - Increased Transience
- Disrepair / Physical Disorder
  - More serious offenders move in / higher levels of serious crimes
  - Increased fear of crime / people want to leave
  - Increase in petty or minor property crimes
  - Community withdrawal from public spaces
Possible Effects?

By removing social actors from the community, foreclosures can, in the short-term:

- Promote withdrawal of community members from public spaces, increasing minor property crimes (Wilson and Kelling, 1982)
- Reduce guardianship within neighborhoods, relaxing constraints on property victimization, especially residential burglaries (Wilcox et al., 2007)
  - Although the economic downturn might place more individuals within these communities during the peak daytime hours of residential burglaries
- Sever ties in the social network, lowering social control of crime in general, both violent and property (Sampson, Raudenbush, and Earls, 1997)
Foreclosures as Additive

- Previous research has argued that foreclosures increase violent crime *above and beyond* the ecological context of the neighborhood
  
  - Immergluck and Smith (2006) found:
    
    - 1 SD increase in FC rate = 6.7% increase in violent crime; no effect for property crime
Foreclosure as Interaction?

• The ecological context within a neighborhood may serve to enhance or mitigate the effect that foreclosures have on crime
  – Stable vs. Unstable
  – Older vs. Newer
  – Affluent vs. Non-affluent
Research Questions

1. Do foreclosures influence the level of crime within a neighborhood?

2. Does the affluence, housing stock, and stability of residential patterns within a neighborhood mitigate or enhance the effect of foreclosures on crime?
Sample

- Crime and Housing data from 2005-2007 in Charlotte, North Carolina
  - Part I Violent crimes
  - Part I Property crimes
  - Residential burglaries
  - Minor property crimes (vandalism, trespassing, and others)
- Foreclosure: those properties that have completed the foreclosure process and transferred possession from the homeowner to the bank
- Aggregated to 143 Census Tracts and 373 block groups
- Structural Covariates from 2000 Census
Why Charlotte?

- Modest appreciation of housing prices during recent boom

- Unemployment was lower than the national average during the time of the study.

- Diversity of the economy during the study reduced the risk of collapse of any one industry.
What type of homes are being foreclosed?
Distribution of Foreclosures, 2003-2007, by Year Built
What type of homes are being foreclosed?
Methodology

- **Negative Binomial Regression Model**
  - Controlling for traditional measures of Structural Disadvantage (Morenoff et al., 2001)
    - Concentrated Disadvantage
    - Residential Instability
    - Immigration Concentration
  - Other Structural Covariates
    - Assessed quality of housing stock
    - Population density
    - Prior crime rate (2 years prior)
  - Spatial dependence – Spatial Lag of 1st Order Neighbors
Methodology

- Question of Modifiable Areal Unit Problem
  - We may be aggregating too much variation
  - Analysis at both the Census tract and Block Group level

- Question of stability of effects
  - Neighborhoods are dynamic entities; Catching a moving target
  - Macro-level factors shifting the nature of the problem
  - Lagged analysis for 2006 and 2007
Research Questions

Do foreclosures influence the level of crime within a neighborhood?
## Example Model: Residential Burglary at the Block Group Level

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<th>Structural Disadvantage</th>
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<tr>
<td>Concentrated Disadvantage</td>
<td>+</td>
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<tr>
<td>Residential Instability</td>
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<td>Immigration Concentration</td>
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<th>Other Controls</th>
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<tr>
<td>Adults to Children Ratio</td>
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<td>ns</td>
<td>ns</td>
</tr>
<tr>
<td>% of Pop that are Males age 14-24</td>
<td>ns</td>
<td>ns</td>
<td>ns</td>
</tr>
<tr>
<td>% of Pop that are Divorced</td>
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<td>ns</td>
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<th>Neighborhood Construction Quality</th>
<th>(1)</th>
<th>(2)</th>
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<tbody>
<tr>
<td>% of Units Coded as Good or Better</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>% of Units Built After 1999</td>
<td>+</td>
<td>+</td>
<td>+</td>
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<tr>
<td>Median Age of Neighborhood</td>
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<th>(2)</th>
<th>(3)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Foreclosure rate / 100 single-family homes</td>
<td>+</td>
<td>+</td>
<td>+</td>
</tr>
<tr>
<td>Foreclosure * Disadvantage</td>
<td>^+</td>
<td>^+</td>
<td>^+</td>
</tr>
<tr>
<td>Foreclosure * Residential Instability</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Foreclosure * Percent Built After 1999</td>
<td>+^</td>
<td>+^</td>
<td>+^</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>2-year prior crime</th>
<th>(1)</th>
<th>(2)</th>
<th>(3)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Spatial Lag</td>
<td>+</td>
<td>+</td>
<td>+</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>AIC</th>
<th>(1)</th>
<th>(2)</th>
<th>(3)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2,878</td>
<td>2,843</td>
<td>2,829</td>
</tr>
</tbody>
</table>

^ p < 0.1
# Results – Census Tract

<table>
<thead>
<tr>
<th></th>
<th>2006</th>
<th>2007</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Property Crime</td>
<td>0.101</td>
<td>0.064</td>
</tr>
<tr>
<td></td>
<td>(0.112)</td>
<td>(0.107)</td>
</tr>
<tr>
<td>Total Violent Crime</td>
<td>0.119</td>
<td>0.168*</td>
</tr>
<tr>
<td></td>
<td>(0.103)</td>
<td>(0.096)</td>
</tr>
<tr>
<td>Residential Burglaries</td>
<td>0.242**</td>
<td>0.271***</td>
</tr>
<tr>
<td></td>
<td>(0.103)</td>
<td>(0.101)</td>
</tr>
<tr>
<td>Minor Property Crimes</td>
<td>-0.029</td>
<td>0.046</td>
</tr>
<tr>
<td></td>
<td>(0.092)</td>
<td>(0.090)</td>
</tr>
</tbody>
</table>

**note:** *** p<0.01, ** p<0.05, * p<0.1
# Results – Block Group

<table>
<thead>
<tr>
<th></th>
<th>2006</th>
<th>2007</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Property Crime</td>
<td>0.035</td>
<td>0.114**</td>
</tr>
<tr>
<td></td>
<td>(0.052)</td>
<td>(0.048)</td>
</tr>
<tr>
<td>Total Violent Crime</td>
<td>0.094**</td>
<td>0.184***</td>
</tr>
<tr>
<td></td>
<td>(0.047)</td>
<td>(0.040)</td>
</tr>
<tr>
<td>Residential Burglaries</td>
<td>0.123**</td>
<td>0.220***</td>
</tr>
<tr>
<td></td>
<td>(0.048)</td>
<td>(0.044)</td>
</tr>
<tr>
<td>Minor Property Crimes</td>
<td>0.017</td>
<td>0.109***</td>
</tr>
<tr>
<td></td>
<td>(0.045)</td>
<td>(0.041)</td>
</tr>
</tbody>
</table>

**Note:** *** $p<0.01$, ** $p<0.05$, * $p<0.1$
Research Questions

Does the affluence, housing stock, and stability of residential patterns within a neighborhood mitigate or enhance the effect of foreclosures on crime?
## Interaction Results – Census Tract

<table>
<thead>
<tr>
<th></th>
<th>Interaction: Disadvantage</th>
<th>Interaction: Neighborhood Development</th>
<th>Interaction: Residential Instability</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Property Crime</td>
<td>-0.070</td>
<td>-0.014</td>
<td>-0.053</td>
</tr>
<tr>
<td></td>
<td>(0.100)</td>
<td>(0.092)</td>
<td>(0.555)</td>
</tr>
<tr>
<td>Total Violent Crime</td>
<td>-0.181**</td>
<td>-0.202***</td>
<td>-0.199</td>
</tr>
<tr>
<td></td>
<td>(0.060)</td>
<td>(0.069)</td>
<td>(0.465)</td>
</tr>
<tr>
<td>Residential Burglaries</td>
<td>-0.187**</td>
<td>-0.104</td>
<td>0.791</td>
</tr>
<tr>
<td></td>
<td>(0.068)</td>
<td>(0.078)</td>
<td>(0.492)</td>
</tr>
<tr>
<td>Minor Property Crimes</td>
<td>-0.076</td>
<td>-0.048</td>
<td>-0.257</td>
</tr>
<tr>
<td></td>
<td>(0.063)</td>
<td>(0.074)</td>
<td>(0.445)</td>
</tr>
</tbody>
</table>

Note: *** p<0.01, ** p<0.05, * p<0.1
## Interaction Results – Block Group

<table>
<thead>
<tr>
<th></th>
<th>Interaction: Disadvantage</th>
<th>Interaction: Neighborhood Development</th>
<th>Interaction: Residential Instability</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Property Crime</td>
<td>-0.155*</td>
<td>-0.108</td>
<td>-0.003</td>
</tr>
<tr>
<td></td>
<td>(0.083)</td>
<td>(0.075)</td>
<td>(0.267)</td>
</tr>
<tr>
<td>Total Violent Crime</td>
<td><strong>-0.203</strong>*</td>
<td><strong>-0.173</strong>*</td>
<td>-0.949</td>
</tr>
<tr>
<td></td>
<td>(0.067)</td>
<td>(0.057)</td>
<td>(0.237)</td>
</tr>
<tr>
<td>Residential Burglaries</td>
<td>-0.125*</td>
<td>-0.115*</td>
<td>0.413*</td>
</tr>
<tr>
<td></td>
<td>(0.073)</td>
<td>(0.087)</td>
<td>(0.246)</td>
</tr>
<tr>
<td>Minor Property Crimes</td>
<td><strong>-0.129</strong>*</td>
<td><strong>-0.129</strong>*</td>
<td>-0.356</td>
</tr>
<tr>
<td></td>
<td>(0.071)</td>
<td>(0.092)</td>
<td>(0.224)</td>
</tr>
</tbody>
</table>

Note: *** p<0.01, ** p<0.05, * p<0.1
Conclusions

- Foreclosures have an **additive effect** on crime at the neighborhood level
  - Strongly increases residential burglaries
    - 1 SD increase in FC rate = 36 percent increase in RB
  - At smaller geographic units, increases the levels of violent crime as well
    - 1 SD increase in FC rate = 16 percent increase in violent crime

- The effects of foreclosures on crime is partially mitigated by the type of neighborhood in which they occur
  - Higher foreclosure rates in disadvantaged neighborhoods were associated with lower levels of violent crime
  - In historically unstable neighborhoods, the results were mixed depending on unit of analysis
Implications

- Foreclosures matter, regardless of neighborhood
  - Short-term effects = increase in violent crime and residential burglary
  - Accurate tracking of foreclosures essential to understand scope of problem

- Foreclosures matter differently across different neighborhoods
  - More stable and less disadvantaged neighborhoods are more susceptible to the effects of foreclosures
  - Unattended foreclosure problems could destabilize certain neighborhoods, reducing cohesion among neighbors and leading to long-term disorganization

- More research is needed to identify why they matter
  - Vacancy? Target attractiveness? Disorder? Strain?
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CRIME AND FORECLOSURES IN LEXINGTON KY

Dr. Derek J. Paulsen
Associate Professor
Center for Crime and the Built Environment (CABE)
Eastern Kentucky University
LEXINGTON, KY

32 million for 8 years
LEXINGTON, KY

- Population of approximately 290,000
- Education, Health Care, Agriculture (horses)
- From 2000-2007 there were over 15,000 single family housing permits granted.
- Housing unit growth outpaced population growth, 16% to 5%.
- Median income: $46,000 (16% increase from 2000)
  Median home value: $159,000 (44% increase from 2000)
- Foreclosures grew by 24% from 2001 to 2008, but rate was fairly stable.
ALL FORECLOSURES
2000-2008
2000 FORECLOSURES
CHANGES IN FORECLOSURES

• Foreclosures have increased, but Lexington has not been impacted as severely as most other areas of the country.
• Foreclosures have become more suburban in the last 3 years, where most of the housing growth has occurred.
• However, the vast majority of all foreclosures are still in the same urban neighborhoods as in 2000.
• Highest suburban foreclosures have been in “vinyl villages” or starter home neighborhoods.
• Lexington has two different foreclosure problems.
TRADITIONAL FORECLOSURE PROBLEM

- Traditional foreclosure areas of Lexington have been concentrated in disadvantaged areas of the city.

- Neighborhoods are characterized by:
  - Housing disadvantage
  - Economic Disadvantage
  - Severe Family Disruption
  - High Crime:

- HOPE VI relocations were concentrated within “traditional” high foreclosure neighborhoods.
RELOCATIONS & CRIME DENSITY
“NEW” FORECLOSURE PROBLEM

- “New” foreclosure areas of Lexington have been concentrated in suburban areas built since 2000.
- Neighborhoods are characterized by:
  - Smaller, cheaper construction.
  - Lower median income, lower median housing value.
  - Residential Mobility
- Crime is beginning to increase in these areas.
- Increase in disorder issues: Loitering, code enforcement issues,
- Decrease in owner occupied housing, change in populations.
"NEW" FORECLOSURES
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Foreclosures and Crime: Providence Examples and Evolution

The Providence Plan
National Institute of Justice

NIJ Conference on Foreclosure and Crime
March 31 – April 1, 2009

Jim Lucht
The Providence Plan
jlucht@provplan.org
Who is ProvPlan?

Mission to promote the economic and social well-being of the city, its people, and its neighborhoods.

- 501(c)3 non-profit created in 1992
- Public/Private Partnership

“Information for Change” Agenda
- Information intermediary and community convener
- Investments in GIS, data analysis, and web technology
- Expanding our capacity to examine statewide issues

Strong programmatic capacity
- Ready to Learn Providence
- YouthBuild Providence
- Local Learning Partnership/Making Connections
- New Roots Providence
Geography Matters

A Variety of Geographic Levels is Needed:

- People relate to places they’re most familiar with
- Differences are more readily observed at certain scales
- Address and parcel-level information provide the greatest flexibility
Tools

- Neighborhood Profiles
- Special Portals
  - Health
  - Reentry
- Internet Map Server
Background

- Slow to start foreclosure mapping
  - Seen as purview of City, State

- Dictated by need
  - 2nd NIJ Geospatial Solicitation
  - Local CDCs
Crime Mapping / Analysis

- Weekly statistics and maps
- Live mapping at staff meetings
- Specialized analysis
Copper Theft

Where's the kitchen?

Photo: Providence Journal
Foreclosure and Abandonment

- Advertised Initiations
- Student-gathered data on boarding and abandonment
Basic Foreclosure Mapping

- Thematic
- Hotspot
- Animations
- Parcels
# Neighborhood Impact

## Residential Properties Advertised for Foreclosure

**June 11, 2006 - August 31, 2006**

<table>
<thead>
<tr>
<th>Neighborhood</th>
<th>Total Residential Properties</th>
<th>Foreclosure Advertised</th>
<th>%</th>
<th>Density</th>
</tr>
</thead>
<tbody>
<tr>
<td>Greenville</td>
<td>674</td>
<td>141</td>
<td>20.0%</td>
<td>2.61</td>
</tr>
<tr>
<td>Valley</td>
<td>664</td>
<td>122</td>
<td>18.1%</td>
<td>1.52</td>
</tr>
<tr>
<td>Lower South Providence</td>
<td>917</td>
<td>158</td>
<td>17.2%</td>
<td>1.84</td>
</tr>
<tr>
<td>West End</td>
<td>1,882</td>
<td>311</td>
<td>16.5%</td>
<td>1.70</td>
</tr>
<tr>
<td>Smith Hill</td>
<td>880</td>
<td>118</td>
<td>13.5%</td>
<td>1.53</td>
</tr>
<tr>
<td>Silver Lake</td>
<td>1,958</td>
<td>263</td>
<td>13.3%</td>
<td>1.32</td>
</tr>
<tr>
<td>Upper South Providence</td>
<td>466</td>
<td>61</td>
<td>13.1%</td>
<td>1.30</td>
</tr>
<tr>
<td>Washington Park</td>
<td>1,400</td>
<td>194</td>
<td>13.9%</td>
<td>1.27</td>
</tr>
<tr>
<td>Elmwood</td>
<td>1,349</td>
<td>166</td>
<td>12.3%</td>
<td>1.27</td>
</tr>
<tr>
<td>Wanuskew</td>
<td>1,624</td>
<td>186</td>
<td>10.3%</td>
<td>0.93</td>
</tr>
<tr>
<td>Hermitage</td>
<td>1,331</td>
<td>113</td>
<td>8.5%</td>
<td>0.88</td>
</tr>
<tr>
<td>Federal Hill</td>
<td>830</td>
<td>55</td>
<td>6.6%</td>
<td>0.79</td>
</tr>
<tr>
<td>Mount Pleasant</td>
<td>2,461</td>
<td>207</td>
<td>8.4%</td>
<td>0.77</td>
</tr>
<tr>
<td>Manton</td>
<td>632</td>
<td>59</td>
<td>9.3%</td>
<td>0.69</td>
</tr>
<tr>
<td>Chaires</td>
<td>1,492</td>
<td>111</td>
<td>7.4%</td>
<td>0.68</td>
</tr>
<tr>
<td>South Elmwood</td>
<td>425</td>
<td>32</td>
<td>7.5%</td>
<td>0.65</td>
</tr>
<tr>
<td>Reservoir</td>
<td>684</td>
<td>62</td>
<td>7.6%</td>
<td>0.65</td>
</tr>
<tr>
<td>Mount Hope</td>
<td>853</td>
<td>31</td>
<td>3.6%</td>
<td>0.33</td>
</tr>
<tr>
<td>Elmhurst</td>
<td>2,772</td>
<td>96</td>
<td>3.5%</td>
<td>0.26</td>
</tr>
<tr>
<td>Fox Point</td>
<td>514</td>
<td>11</td>
<td>2.1%</td>
<td>0.20</td>
</tr>
<tr>
<td>Hope</td>
<td>942</td>
<td>15</td>
<td>1.6%</td>
<td>0.15</td>
</tr>
<tr>
<td>College Hill</td>
<td>725</td>
<td>5</td>
<td>0.7%</td>
<td>0.05</td>
</tr>
<tr>
<td>Wayland</td>
<td>496</td>
<td>2</td>
<td>0.4%</td>
<td>0.05</td>
</tr>
<tr>
<td>Backbone</td>
<td>2,179</td>
<td>6</td>
<td>0.4%</td>
<td>0.03</td>
</tr>
<tr>
<td>Downtown</td>
<td>3</td>
<td>0</td>
<td>0.0%</td>
<td></td>
</tr>
<tr>
<td><strong>Citywide</strong></td>
<td><strong>78,194</strong></td>
<td><strong>2,508</strong></td>
<td><strong>3.2%</strong></td>
<td><strong>0.80</strong></td>
</tr>
</tbody>
</table>

*Density is the number of foreclosures per acre of residential property.

Data sources: City of Providence Property Assessment Database (2006), Warren Information Services

Notes:
- The percent-based foreclosure rates may differ slightly from earlier reports due to elimination of duplicated records (multiple unrelated foreclosure initiatives).
- The intent is to count only unique affected properties rather than foreclosure initiatives.
- Data do not include condos.
Preliminary Analysis for NIJ: October 2007

- Overall crime 2.9 times higher within 50 feet of foreclosed property
- Burglary 5x City Avg.
- Vandalism 3x
- Drug Arrests 3.4x
- Time series (q1,q2 v. q3,q4) showed 50% crime and 200% Call for Service increase
### Greater Elmwood Neighborhood Services
**Crime and Safety Analysis: Focus on Parkis Ave. 2007**

#### LISC CSI

**Summary Descriptions of Crime Incidents and Calls-for-Service**

With Comparative Reference for Parkis Ave., the Greater Elmwood Neighborhood and the City of Providence

<table>
<thead>
<tr>
<th>Crime Type</th>
<th>City</th>
<th>Greater Elmwood</th>
<th>Parkis Ave. Area</th>
<th>Parkis Ave.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Violent Crime</td>
<td>0%</td>
<td>9%</td>
<td>-36%</td>
<td></td>
</tr>
<tr>
<td>Property Crime</td>
<td>0%</td>
<td>4%</td>
<td>-10%</td>
<td></td>
</tr>
<tr>
<td>Other Crime</td>
<td>-1%</td>
<td>1%</td>
<td>20%</td>
<td></td>
</tr>
<tr>
<td>Calls</td>
<td>0%</td>
<td>17%</td>
<td>-29%</td>
<td></td>
</tr>
</tbody>
</table>

#### Change between 2000-2007

<table>
<thead>
<tr>
<th>Crime Type</th>
<th>City</th>
<th>Greater Elmwood</th>
<th>Parkis Ave. Area</th>
<th>Parkis Ave.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Violent Crime</td>
<td>-20%</td>
<td>-2%</td>
<td>-10%</td>
<td></td>
</tr>
<tr>
<td>Property Crime</td>
<td>-30%</td>
<td>-10%</td>
<td>-10%</td>
<td></td>
</tr>
<tr>
<td>Other Crime</td>
<td>3%</td>
<td>18%</td>
<td>6%</td>
<td></td>
</tr>
<tr>
<td>Calls</td>
<td>-15%</td>
<td>22%</td>
<td>-15%</td>
<td></td>
</tr>
</tbody>
</table>

**City - everything within city limits**

Greater Elmwood - the neighborhood of Elmwood and a 500 ft buffer around it.

Parkis Ave. Area - 1000 ft radius buffer from the center of Parkis Ave.

Parkis Ave. - a 500 ft buffer from either side of the center line of Parkis Ave.
LISC Community Safety Initiative

- Parcels ID’d
- Crimes pinpointed
LISC Community Safety Initiative

- Combined hot spots
## LISC Analysis

<table>
<thead>
<tr>
<th>Number of Foreclosures</th>
<th>City</th>
<th>PPD 2</th>
<th>Combined Hotspots</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Ytd 083106</td>
<td>Ytd 083107</td>
<td>CNG</td>
</tr>
<tr>
<td>Crime</td>
<td>1728</td>
<td>1963</td>
<td>936</td>
</tr>
<tr>
<td>Violent</td>
<td>1897</td>
<td>1688</td>
<td>12%</td>
</tr>
<tr>
<td>Burglary</td>
<td>1583</td>
<td>1656</td>
<td>4%</td>
</tr>
<tr>
<td>Car Theft</td>
<td>2697</td>
<td>2676</td>
<td>1%</td>
</tr>
<tr>
<td>Larceny from Vehicle</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>7240</td>
<td>6956</td>
<td>4%</td>
</tr>
</tbody>
</table>
Foreclosure Response
Distressed Property Management System

- Open Source: Django, PostGIS
- Commercial and municipal data feeds
- Parcel and address-based
- Asynchronous data linking
- May add crime if funding allows
www.provplan.org
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Prevention and Intervention

- Mortgage/Debit counseling
- Mortgage Forgiveness
  - Banks are reducing or forgiving mortgage for certain conditions like job loss, financial issues, etc.
- Restructuring Mortgages
  - Private loans
- Law schools are providing free legal counseling
- Law enforcement is not evicting renters or homeowners
- Short Sales instead of foreclosure
Mortgage Crisis

- Multifaceted Problem
- Solutions are occurring at the Federal, State, and Local levels
- Solutions include strategies of prevention, intervention, legal, and policing
- In many ways can follow promising practices on intervention and prevention used to reduce violence from gangs, firearms, and drug markets
Federal Response

- There have been several federal acts to address the multifaceted economic crisis with includes foreclosure
  - Taking over of Fannie Mae and Freddie Mac
  - Housing and Economic Recovery Act 2008
  - American Recovery and Reinvestment Act – Stimulus Bill
  - Legacy Loan and Securities Program
    - 1 trillion dollars to free up toxic assets
- The goal of these Bills is:
  - Allow institutions to begin lending
  - Stimulate the economy through job creation
  - Provide financial relief to tax payers
The Federal Reserve

- Reduced the Federal Funds Rate from 5.75 to 2 percent
- Open market operation to provide banks access to funds
- Term Auction Facility (TAF)
  - Provide short term loans to banks
  - Increase the amount from 60 to 100 billion
  - Expands the institutions it will loan to
- Reducing loan principals amounts
- Tighten up mortgage lending rules
- 600 billion to purchase mortgage backed securities
Prevention and Intervention

- Mortgage/Debit counseling
- Mortgage Forgiveness
  - Banks are reducing or forgiving mortgage for certain conditions like job loss, financial issues, etc.
- Restructuring Mortgages
  - Private loans
- Law schools are providing fee legal counseling
- Law enforcement is not evicting renters or homeowners
- Short Sales instead of foreclosure
Local Policies

- City is purchasing property
  - Reselling or redevelopment
  - Attaining properties through imminent domain laws
  - Attaining properties through tax laws
  - Use demolition to remove properties
- Local tax on the title holder for abandoned properties
  - Through code enforcement making title holder maintain property
    - Sometimes difficult to find title holder
- Creating legal requirements to abandoned properties
  - Registration of abandoned properties
  - Contact person
  - Fire alarm and sprinkler system
  - Increase property insurance
  - Exterior lighting or Security service
Policing

- Increasing policing for nuisance violations
- Tracking abandoned properties through mapping and GIS systems
  - Use intelligence led policing to patrol properties
- Animal protection services for stray animals
Land Reuse or Sell

- Improvements for Vacant Spaces
  - 500 dollar empty lot program
  - One dollar side yard/garden program
  - Community Garden
  - Green Space
- Encourage and meet with real estate agents to move properties
Strategic Problem Solving and Foreclosure

- The most effective response to foreclosure is a group that can address the various impacts that foreclosure play in a community
  - Partners
    - Banks, realtors, and business community
    - Law enforcement, Prosecution, Code Enforcement
    - Social Services Agencies impacted by homelessness and strain
    - City Manger or Mayor
Strategic Problem Solving and Foreclosure

- Strategic Plan
- Building an effective strategic planning process on foreclosure
  - Foreclosure and its impact is going to look very different across communities
  - Promising practices can be drawn from other communities
  - Agencies define the specific component of their foreclosure problem
  - Use data to define the problem and focus on strategies to target these areas (use mapping to access the target area)
  - As the various agencies implement strategies a research partner monitors the process and provides feedback
  - Strategies can be modified or refined to meet their objectives
Strategic Problem Solving and Foreclosure

- Training and Outreach
  - Various communities have developed strategies to deal with foreclosure
    - These can be shared and made into formal trainings
  - Outreach really would consist of addressing the impacts of foreclosure such as homelessness, violence, crime, and suicide
    - These would require building intervention and prevention programs
  - Outreach would also include talking to individuals left in the community most impacted by foreclosure and utilizing the individuals left in the community
Strategic Problem Solving and Foreclosure

- Accountability
  - Examine on a consistent basis performance measures and outcomes in addressing foreclosure.
  - Collect data to include foreclosure, criminal activity, public health and safety issues, etc. from the target area.
  - Examine the effectiveness of various implemented strategies through evaluation.
Responding to Foreclosure

- Foreclosure is a serious problem that intensity and impact varies across communities
- The remedy for such impacts are multifaceted
- Several communities have developed grass roots resolution to deal with the problem
- Communities need should consider using strategic problem solving as a framework for addressing the problem
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