The Ongoing Impact of Foreclosures on Children

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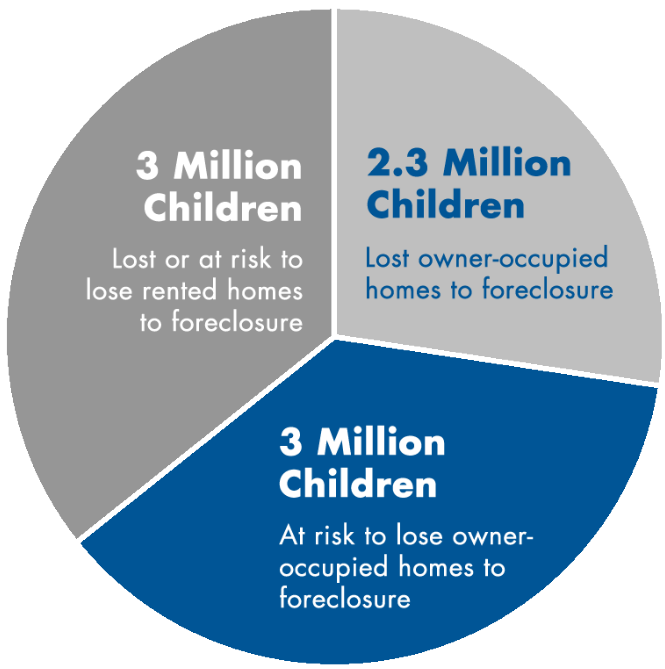
Five years into the foreclosure crisis, many American families with children continue to lose their homes through foreclosure. An estimated 2.3 million children in single-family homes have already lost their homes to foreclosure, and even more – 3.0 million children – are at serious risk of losing their homes in the future. Another three million or so children were evicted, or may face eviction, from rental properties that undergo foreclosure, suggesting that more than 8 million children are directly affected by the ongoing foreclosure crisis (see Figure 1). As single-family and rental properties continue to enter foreclosure, children face not just the loss of their homes, but also the risk of losing friends and falling behind academically if they are forced to switch neighborhoods and schools.

FIGURE 1. MORE THAN 8 MILLION CHILDREN AFFECTED BY THE FORECLOSURE CRISIS



Source: Author's estimates based on research published by the Center on Responsible Lending and data on children's living arrangements from the American Community Survey (see appendix for details).

CHILDREN AFFECTED BY FORECLOSURES

Children are the often invisible victims of the foreclosure crisis. Mortgage records do not tell how many children are in owner-occupied homes, and it is even harder to estimate the number of children in rental properties. Yet foreclosure affects not just the homeowner or landlord, but also the children living in the foreclosed properties. This brief combines state-by-state estimates on foreclosures with Census Bureau data on the living arrangements of families with children to generate estimates of the numbers of children affected by the mortgage crisis. It also synthesizes research bearing on the negative effects of foreclosure on children's schooling and overall well-being and outlines some possible policy responses.

This brief updates the author's earlier (April 2008) estimate that two million children in owner-occupied homes would be immediately affected by the foreclosure crisis, specifically on foreclosures of subprime loans made in 2005-2006.[i] Nearly four years later, the problem shows no signs of abating. In addition to the more than two million children in owner-occupied homes that already have completed foreclosure, there are even more children – more than three million – in owner-occupied homes at immediate risk of future foreclosure (as shown in Figure 1). This new analysis also is the first to quantify the millions of children in rental units affected by foreclosure.

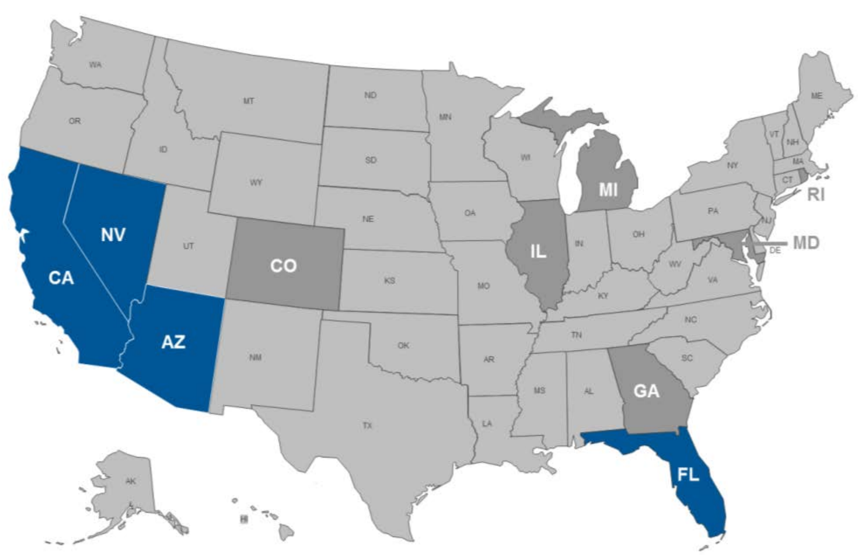
CHILDREN IN OWNER-OCCUPIED HOMES

An estimated 2.7 million homeowners have already lost their homes to foreclosure, according to a recent analysis by the Center for Responsible Lending (CRL). Even more owner-occupied single-family homes –3.6 million – are delinquent or in the foreclosure process, according to the CRL analysis, which tracks loans that originated in 2004 to 2008.[ii] How many children live in these homes? Data on living arrangements of children suggests that 5.3 million children across the nation live in these homes, including 2.3 million children living in homes where foreclosures have already been completed and 3.0 million living in homes at immediate risk for foreclosure (see appendix for derivation of these estimates).

This estimate is conservative for several reasons. First, it is based on loans made in a single five-year period (2004-2008). While this period captures the bulk of subprime and other risky loans, it ignores the risk of foreclosure on pre-2004 or post-2008 mortgages. Second, the estimate is based on loan status as of February 2011, not capturing those that may have become delinquent since then. Some analysts have predicted that there will be as many as 10 million foreclosures in the years ahead, an estimate that far exceeds the 3.6 million 2004-2008 loans already identified as seriously delinquent.[iii] Third, as explained in the appendix, it fails to adjust for the likelihood that loan delinquencies are higher in families with more children.

Children in every state have been affected by foreclosures, but the crisis is much worse in some states and communities than others. More than half a million children in California live in homes that have gone through a completed foreclosure and another half million are living in owner-

MAP 1. FORECLOSURES ON OWNER-OCCUPIED HOMES HIT CHILDREN IN 10 STATES HARDEST



- 1-7% of children in families with completed foreclosure or seriously delinquent mortgage
- 8-10% of children in such families
- 12-19% of children in such families

occupied homes where loans are delinquent (by 60 days or more) or in the foreclosure process. In Florida, an estimated 193,000 children have gone through completed foreclosures and another 397,000 live in homes that are at an immediate, high risk of foreclosure (see Table 1).

Nationally, about one in fourteen children, or seven percent of the child population, live in households that have already gone through a completed foreclosure or are at immediate risk of foreclosure, using this conservative estimate of children in owner-occupied homes. The foreclosure crisis has been considerably worse in Arizona, California, Florida, and Nevada, where the estimates of affected children run from 12 percent (Arizona) to 19 percent (Nevada). Children in Georgia, Illinois, Maryland, Michigan and Rhode Island also are disproportionately impacted, with 8 to 10 percent of the children in these states affected by foreclosures of owner-occupied homes (see Map 1).

CHILDREN IN RENTAL HOUSING

Foreclosures affect not just owner-occupied homes, but also rental properties, including single-family houses, small (two-to-four unit) buildings that may house both landlord and tenants, and large apartment buildings housing many families. About 25 million children, or approximately one-third of all American children, lived in rental houses and apartments in 2010, signaling the large number of children that could be affected by foreclosure of rental properties.

It is hard to get a handle on the number of rental properties facing foreclosure, or the number of children living in these properties. To get a rough ball-park, this analysis assumes that children in rental properties face the same approximate risk of foreclosure as children in owner-occupied homes with outstanding mortgages. Indeed, the Mortgage Bankers Association has estimated that more than one in five foreclosed properties are rental properties, which implies a similar foreclosure rate to other properties since about one in five properties in the United States are rental properties.[iv] Under this assumption, combined with Census Bureau data on the number of children living in rental properties as compared with owner-occupied homes with mortgages, there are approximately three million children living in rental units directly affected by the foreclosure process.

Adding the three million children in rental housing to the 5.3 million in owner-occupied homes, the total number of children affected by the foreclosure crisis rises to more than 8 million. In other words, more than one in ten American children (11 percent) are affected by the foreclosure crisis, under relatively conservative assumptions, and more than one third of these children live in rental housing.

The rental housing component of the estimate is quite rough, and so does not allow estimates by state, or distinctions between foreclosures that have already happened and those that are still to come. Note that the estimate only includes children living in homes or apartment buildings under foreclosure, not the children in near-by homes who may be indirectly affected by the negative effects of foreclosure on entire neighborhoods.

EFFECTS OF FORECLOSURES ON CHILDREN

Foreclosure may affect children negatively through at least four different pathways. First, and most obviously, families receiving foreclosure notices are much more likely to move than other families, and, as discussed further below, children who move frequently do less well in school. Second, homeowners receiving a foreclosure notice are under a lot of financial and psychological stress, as they struggle to stay in their house, and if that fails, to find a new home quickly. A body of research dating back to the Great Depression finds that job loss and other forms of economic hardship can affect the way parents interact with each other and their children. In particular, parents under a lot of financial distress sometimes engage in harsher and less

TABLE 1. CHILDREN AFFECTED BY FORECLOSURES OF OWNER-OCCUPIED HOMES IN EACH STATE

State	HMDA Loans Originated 2004-2008	Completed Foreclosures (February 2011)		Delinquent (60+ Days) or in Foreclosure		Total Affected Children	
		% of Loans	Children	% of Loans	Children	Number	Percent
Alabama	554,842	5	22,000	7	29,000	52,000	5
Alaska	87,013	3	2,000	3	2,000	4,000	2
Arizona	1,247,396	11	125,000	9	93,000	218,000	14
Arkansas	292,161	5	13,000	7	17,000	30,000	4
California	6,163,181	9	575,000	9	522,000	1,097,000	12
Colorado	884,382	8	54,000	5	34,000	88,000	8
Connecticut	535,567	3	15,000	8	36,000	51,000	6
Delaware	142,386	2	2,000	8	9,000	11,000	6
District of Columbia	95,638	3	1,000	5	2,000	4,000	4
Florida	3,096,957	8	193,000	17	397,000	589,000	15
Georgia	1,325,686	8	93,000	9	99,000	192,000	8
Hawaii	157,167	3	3,000	7	7,000	10,000	3
Idaho	243,640	5	12,000	6	13,000	25,000	6
Illinois	1,994,547	5	98,000	9	169,000	267,000	9
Indiana	842,079	6	44,000	8	57,000	101,000	6
Iowa	349,807	4	12,000	5	16,000	29,000	4
Kansas	344,646	5	14,000	5	15,000	29,000	4
Kentucky	467,437	5	17,000	6	22,000	39,000	4
Louisiana	473,188	3	14,000	8	31,000	45,000	4
Maine	175,572	3	4,000	8	9,000	13,000	5
Maryland	1,166,363	4	39,000	8	73,000	113,000	9
Massachusetts	968,157	4	36,000	7	54,000	89,000	6
Michigan	1,373,627	13	147,000	8	88,000	234,000	10
Minnesota	760,728	8	57,000	5	37,000	94,000	7
Mississippi	270,619	7	15,000	10	22,000	37,000	5
Missouri	875,321	6	45,000	5	38,000	83,000	6
Montana	111,479	2	2,000	4	4,000	6,000	3
Nebraska	197,381	4	8,000	5	8,000	16,000	4
Nevada	540,438	14	63,000	14	58,000	121,000	19
New Hampshire	202,757	5	8,000	6	9,000	17,000	6
New Jersey	1,303,524	2	28,000	10	114,000	142,000	7
New Mexico	244,840	3	5,000	6	12,000	17,000	3
New York	1,615,117	2	30,000	10	141,000	171,000	4
North Carolina	1,214,972	4	34,000	6	59,000	93,000	4
North Dakota	63,753	2	1,000	3	1,000	2,000	2
Ohio	1,421,055	7	79,000	9	98,000	176,000	6
Oklahoma	393,029	4	13,000	6	19,000	32,000	4
Oregon	565,895	4	17,000	6	26,000	43,000	5
Pennsylvania	1,575,238	3	33,000	7	85,000	118,000	4
Rhode Island	170,153	6	9,000	8	12,000	21,000	9
South Carolina	557,836	4	16,000	8	31,000	47,000	5
South Dakota	87,152	3	2,000	4	3,000	5,000	3
Tennessee	800,639	6	35,000	7	45,000	79,000	6
Texas	2,452,504	6	136,000	6	156,000	292,000	5
Utah	457,963	4	22,000	5	30,000	52,000	7
Vermont	75,655	1	1,000	5	3,000	4,000	3
Virginia	1,407,760	6	71,000	5	58,000	128,000	7
Washington	1,167,337	3	30,000	6	58,000	88,000	6
West Virginia	188,882	5	7,000	6	8,000	15,000	4
Wisconsin	843,467	4	33,000	6	45,000	78,000	6
Wyoming	71,277	3	2,000	3	2,000	4,000	3
U.S. Total	**42,618,210**	**6**	**2,340,000**	**8**	**2,980,000**	**5,310,000**	**7**

Note: Numbers may not add due to rounding. Source: Center for Responsible Lending (CRL) and author's estimates based on data from CRL and the American Community Survey, as explained in the appendix.

supportive parenting, which in turn can lead to negative behaviors on the part of children, making it harder for them to interact well with peers and in school.[v] Third, foreclosures and housing instability have a negative impact on physical as well as mental health, with studies finding higher rates of non-elective visits to emergency rooms and hospitals in ZIP codes with the highest foreclosure rates, as well as a strong association between housing instability and postponement of needed health care visits and necessary medications.[vi] Finally, because foreclosures are often highly concentrated in certain neighborhoods, children living in or near foreclosed homes may suffer the consequences of living in neighborhoods with more vacant houses, higher crime rates, lower social cohesion, and a lower tax base.[vii]

Children living in rental housing undergoing foreclosure may face many of the same negative effects as children of homeowners, as their parents may be forced to move with little advance notice, and their neighborhoods may also enter into decline. Renters often do not know of the financial problems of their landlords, and until recently, faced possible eviction with little advance notice. With enactment of the Protecting Tenants at Foreclosure Act in 2009, renters must be provided 90 days advance notice prior to eviction after a foreclosure, and, in fact, have the legal right to stay in the building through the terms of a valid long-term lease. Even so, many tenants do not know their new legal rights and may feel forced to leave in response to threatening letters from the new owners of foreclosed properties. Furthermore, the legal protections are temporary because the act is set to expire in 2014. In addition, many families who remain in properties undergoing foreclosures may face deteriorating living conditions, as financially strapped landlords stop paying for ongoing maintenance and repairs.[viii] In the end, many families in rental housing, as well as families in owner-occupied housing, find themselves moving after a foreclosure notice.

Negative Effects of Mid-Year Changes in Schools

A number of research studies have documented the negative effect of non-promotional school changes on student achievement. Children who switch schools have lower levels of math and reading achievement than their more stable peers, even after controlling for poverty and other family characteristics that are associated with both residential mobility and poor academic performance. Each move is associated with a reduction in math and reading scores by about one-tenth of a standard deviation, which is equivalent to about one month of school, according to a synthesis of 16 different studies.[ix]

Frequent changes in schools at both the elementary and high school level also is associated with higher rates of high school drop out, according to the same review. Dropping out may be due to a combination of academic and behavioral issues. Moving schools can be stressful; one student in California explains:

> "It's hard to change schools 'cause, well, I don't know about other people, but to me it's hard because I'm not the type of person to make friends real quick."[x]

Teachers and principals interviewed by the Governmental Accountability Office reported concerns about children's social adjustment, as well as challenges in adjusting the pace of instruction for new students and getting school records transferred in a timely manner.[xi] Time devoted to new students affects not only students who move, but also can have a negative effect on other students, because of teacher and school resources spent on high student turnover.[xii] This is another example of how high rates of foreclosure and student mobility can have impacts on the whole community, not just the students directly affected.

Much of the existing research focuses on all types of student mobility, not just moving after foreclosure. Additional challenges may face students and schools affected by foreclosure, where children are moving quickly and under conditions of financial duress. Some recent studies are trying to look at the specific effects of foreclosure on student outcomes:

- A study of foreclosures in Baltimore found that almost all (97 percent) of the city's schools had at least one student who lived in a property that received a foreclosure notice in the 2008-09 school year. Most schools had fewer than 10 students affected by foreclosure, but two schools had 50 or more affected students, including one elementary school and one high school.[xiii]

- Similar studies that linked educational records with notices on property foreclosures in New York City and the District of Columbia have documented that public school children living in homes and apartment buildings that enter the foreclosure process are more likely than other children to change residences and schools.[xiv]
- Children affected by foreclosure in New York City tended to move to schools of lower quality. Researchers also observed a similar downward shift in school performance for children who move for reasons other than foreclosure.[xv]
- Additional research is being conducted in New York City and cities in California and Florida to examine the effects of foreclosure on the children's test scores and other measures of academic performance; findings from this ongoing research are not yet available.[xvi]

CONCLUSION AND POLICY IMPLICATIONS

Millions of children have already been affected by foreclosures of their home or apartment building, but even more are expected to be affected in the future. What policies can address this ongoing disruption in the lives of so many children?

One targeted response would be to help children and schools adjust to high levels of mobility across schools. For more than two decades, the McKinney-Vento Education for Homeless Children and Youth program has provided schools with resources to identify homeless students and provide them with services designed to allow them to stay in their schools even if they are forced to move outside their home district. The foreclosure crisis is only one factor contributing to homelessness, but school districts and state departments of education identified it as the third most common reason given for the increase in homeless children in 2010.[xvii] While we know the McKinney-Vento Homeless Education program is helping identify and assist a number of homeless students to maintain stability and stay in their school of origin, the program has not been evaluated to determine whether it is reaching its potential effectiveness. Moreover, the program does not address the needs of students who move in the middle of the year, but are not homeless. Other school policies may be helpful in addressing high student mobility, such as improving intake procedures for new students, requiring old schools to transmit student records in a timely fashion, developing educational resources about student mobility for both families and school personnel, and targeting additional resources, such as family resource centers, on schools with unusually high rates of student mobility.[xviii]

Although education policies can mitigate the negative effects of students moving across schools, the root problem is not in education, but in housing – the exceedingly high number of foreclosures in many parts of the country. Some of these foreclosures may be unavoidable, but others could be prevented through more aggressive policies to encourage loan modifications.

In many cases, loan modifications can be a less costly alternative – for both lenders and borrowers – than foreclosure. Yet, lenders have been reluctant to modify loans in large numbers. The Home Affordable Modification Program (HAMP) and other new federal programs designed to prevent foreclosures have fallen short in their implementation, with only a fraction of the $50 billion allocated for such programs spent, far fewer homeowners served than expected, and numerous complaints about lost documents, unfair denials of loan modifications and other poor practices among the loan servicers that have voluntarily joined the programs.[xix] In October 2011, the Administration announced revisions to one of these programs, the Home Affordable Refinance Program (HARP), in an effort to expand its reach to more homeowners who are underwater (owing more on the mortgage then the depreciated value of their house). While these revisions are a step in the right direction, implementation of these revisions has been slow and the revised HARP still fails to reach many homeowners at risk of foreclosure.[xx]

Bolder steps may be needed given the lackluster performance of the voluntary loan modification programs and the ongoing drag that the cycle of foreclosures and declining housing prices is placing on the economy. Such steps might include developing national standards for the mortgage servicing industry, resurrecting the 2009 legislation that would amend bankruptcy laws to allow judges to modify mortgages on residential property, and following one of several creative proposals for permitting reductions in loan principal for homeowners under certain circumstances (for example, allowing the lender to share in future appreciation, tying the principal reductions to timely payment of modified loans or targeting assistance to certain ZIP codes).[xxi] While these bolder steps are not without complication, they merit further consideration in face of the slowness of the economic recovery and the millions of children and families adversely affected by the foreclosure crisis.

Unfortunately, the flood of foreclosure will continue even if aggressive policies are adopted, and so public policies should also consider how to help children, families and communities move through the foreclosure crisis with as little damage as possible. For example, a recent white paper by the Federal Reserve encourages the conversion of foreclosed properties to rental properties, in order to reduce the number of vacant properties on the market and increase the supply of rental housing.[xxii] In addition, the President's FY 2013 Budget is requesting $1 billion in funding for the National Housing Trust Fund, which was created by Congress in 2008 to increase and preserve the supply of affordable rental housing for low-income families, but has not yet been funded.[xxiii] Given the fact that many children from foreclosed homes move into rental homes – and, as this brief has shown, millions of children in rental housing are directly affected by the foreclosure crisis, it is important to consider rental housing as well as home ownership when thinking about policy responses to the mortgage crisis.

APPENDIX: METHODOLOGY FOR ESTIMATING THE NUMBER OF CHILDREN AFFECTED BY FORECLOSURES

Data on foreclosures contains limited demographic data, and so information from different data sets must be combined to estimate the number of children affected by foreclosure. Data sources and key assumptions are outlined below, first for owner-occupied housing and then for rental housing.

Owner-Occupied Housing

The estimate of children living in owner-occupied homes affected by foreclosure is based on foreclosures and delinquency estimates made by the Center on Responsible Lending (CRL) in their recent publication, *Lost Ground, 2011: Disparities in Mortgages and Foreclosures*. CRL matched data on loan performance from two national, proprietary data sets (Lender Processing Services and BlackBox) with data on loans originating between 2004 and 2008 as reported under the Home Mortgage Disclosure Act (HMDA). They then examined loan performance as of February 2011 in the matched data set (of 27 million loans) and applied the percentage of foreclosures (6.4 percent) and serious delinquencies (8.3 percent) to the universe of 42.9 million first-lien owner-occupied mortgages in the HMDA data set, resulting in estimates of 2.7 million homes that had completed a foreclosure and 3.6 million homes that were in serious delinquency (60 or more days delinquent or in the foreclosure process). In addition to the summary foreclosure and delinquency rates by state shown in Table 1, the CRL web site provides additional tables providing estimates by racial/ethnic group within each state, documenting the disproportionate impact of the foreclosure crisis on African-Americans and Hispanics.[xxiv]

CRL estimates of foreclosures and delinquencies by state and race/ethnicity were combined with unpublished tabulations of American Community Survey (ACS) data on the number of children per household, in owner-occupied homes with outstanding mortgages, again disaggregated by state and race/ethnicity.[xxv] The same racial groups were used in the ACS tabulations as in the CRL analysis (Non-Hispanic White, Black, Non-Black Hispanics, Asians and Other/Missing) to facilitate estimates of children, in households with completed foreclosures and delinquencies, in each state by race/ethnic group. These detailed tabulations were summed across racial/ethnic groups to arrive at the state estimates shown in Table 1. The final columns in Table 1 show the sum of children affected (across completed foreclosures and delinquencies) and expresses that as a percentage of the state's child population in 2010. Numbers and percentages are rounded to highlight the uncertainty in the estimates.

The key underlying assumption is that homeowners who default on mortgages have roughly the same number of children (and the same rates of childlessness) as all homeowners with outstanding mortgages in their state and racial/ethnic group. In fact, analysis of past defaults suggests that households with more children are more likely to be delinquent on housing payments than households with fewer children, suggesting that this estimate of affected children is conservative.[xxvi]

Rental Housing

ACS data on children's living arrangements were used to generate a rough estimate of the children living in rental housing. Tabulations of ACS data indicate there are 0.58 children living in rental housing for every child living in owner-occupied housing with an outstanding mortgage. Applying this ratio to the 5.3 million estimate of children living in owner-occupied homes affected by foreclosure results in an estimate of roughly three million children living in rental housing affected by foreclosure.

This approach is only sensible if one assumes that the foreclosure rate for rental properties has been roughly similar to the rate for owner-occupied properties. As already noted, about one in five or 20 percent of delinquent mortgages were for rental properties, according to a 2008 report of the Mortgage Bankers Association.[xxvii] Rental properties also comprise about one-fifth of all housing properties, according to ACS data on rental units and adjustments for properties with multiple units. This similarity in proportion of rental units (among foreclosed and all properties) supports an assumption of similar rates of foreclosure.

This comparison is somewhat shaky, however, because there is some evidence that the mix of properties undergoing foreclosure has been shifting in the past five years. Studies linking public school records with foreclosure notices in both D.C. and Baltimore find that the number of public students living in rental as opposed to owner-occupied buildings entering the foreclosure process has risen between 2004 and 2009 in both cities.[xxviii] This apparent shift in the ratio of rental as opposed to owner-occupied foreclosures makes it harder to assert with confidence that the foreclosure rates of the two types of properties are similar at any one point in time.

For another plausibility check, note that the estimate of 3 million children in rental housing out of more than 8 million children in all types of foreclosed housing implies that 37 percent of all children affected by foreclosure live in rental housing. This is roughly consistent with estimates of the percentage of foreclosed units that are rental units: analyses of state and local data suggest that 38 percent of foreclosed units in California and 45 percent of foreclosed units in southern New England are rental units, and researchers at the National Low Income Housing Coalition have estimated that roughly 40 percent of foreclosed units nationally are rental units.[xxix]

As a final comparison, the estimate that 11 percent of children are affected by foreclosure is much higher than estimates that 2 percent of school children are affected by foreclosures (owner-occupied or rental) in Baltimore, the District of Columbia and New York City.[xxx] However, the 2 percent local estimates s are for children in properties entering foreclosure in a single year, while the 11 percent national estimate is for children affected at any time in the current crisis, making it difficult to directly compare the two estimates.

Acknowledgements

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