The Impact of the Mortgage Crisis on Children and Their Education

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We know that the mortgage crisis is wreaking havoc on the stock market, on the housing industry, and on our economy as a whole. But there are 2 million voiceless victims of this crisis about whom we hear little. Largely over the next 2 years, an estimated 2 million children will be directly impacted by the mortgage crisis as their families lose their homes due to foreclosures. These children are not just losing their homes, but they also risk losing their friends, schools, and in many ways, their childhood.

ACKNOWLEDGING THE PROBLEM

When foreclosures force children from their homes, their education is disrupted, their peer relationships crumble, and the social networks that support them are fractured. Indeed, their physical health, as well as their emotional health and well-being, is placed at risk. As a result, our attention must turn to the unintended and often unnoticed impact of the credit crunch on our nation's children and their education.

The Center for Responsible Lending projects that one out of every five subprime mortgages that has originated in the last two years will go into foreclosure. The silent sufferers of these foreclosures are the 1.95 million children and youth who are losing their homes, ranging from 1,000 children in North Dakota to 311,900 children in California (see textbox on page two). Our estimate is based on projected foreclosures of 2.26 million single-family homes, and is likely to be low because it does not include those children being evicted from rental units that are going into default, nor does it include children whose parents default on conventional loans.

Across the country, school districts are seeing spikes in the number of homeless children entering their classrooms, much of which is being attributed to the mortgage crisis. For example, as of April 1 of this year, schools in Cleveland, Ohio, served more than 2,100 homeless students—a 30 percent increase from last year. Schools in Fairfax County, Virginia, had served 1,356 homeless students as of April. With two more months left in the school year, they are on track to far exceed the 1,405 students served last year.[1]

EDUCATIONAL IMPACTS OF MOBILITY

Research shows that children who experience excessive mobility, such as those impacted by the mortgage crisis, will suffer in school. The National Assessment of Educational Progress (known as the Nation's Report Card) has found that students with two or more school changes in the previous year are half as likely to be proficient in reading as their stable peers.[2] Math performance can also suffer, as a government study found mobile third grade students to be nearly twice as likely to perform below grade level in math, as compared with those who had not changed schools.[3]

Not only do mobile students do worse in reading and math, they are also more likely to be held back and eventually drop out. A U.S. government study found that third-graders who have changed schools frequently are 2.5 times more likely to repeat a grade than their peers.[4] Other researchers have found that school and residential changes can reduce the chances that a student will graduate by more than 50 percent.[5]

BEHAVIORAL ISSUES IN CHILDREN

We should not be surprised to learn that student mobility is also associated with poor and delinquent behavior. When students are forced to change schools, some children may try to fade into the background, while others will get into fights at the new school in order to "fit in."[6] One study found that frequent movers were 77 percent more likely than children who have not moved to have four or more behavior problems.[7] Another study, tracking 4,500 young people in California and Oregon from middle school through high school, found that attending several different elementary schools increased the likelihood of violent behavior in high school by 20 percent.[8]

CHILD HEALTH CONSEQUENCES

The mortgage crisis also places a child's physical health at risk. As families receive their foreclosure notices, they are forced into housing that, while less expensive than the homes they have lost, are still beyond their means. One study found that working families spending more than half of their income on housing have less money available than other families to spend on such crucial items as health care and health insurance.[9] Stable housing has also been shown to correlate with other health outcomes, from better nutrition to healthier body weight.[10]

POLICY SOLUTIONS

The mortgage crisis is more than a blow to our economy. It is crippling our children, their education, and as a result, the nation's future. And while our government is working to alleviate the financial damage caused by this calamity, the impact on the nation's children is going unnoticed. As economists focus on solving the problem, policy-makers must make a concerted effort to mitigate the damage of this disaster on our young people.

We call on Congress to respond to the mortgage crisis with a multi-level response, including improving regulation of mortgage lending practices to avoid a repetition of this crisis, crafting targeted strategies to reduce the number of foreclosures under the current crisis, and providing assistance to diminish the negative impact on children and families who do face foreclosure. In addition to these immediate responses to the current crisis, action must be taken to increase the availability of affordable housing for low-income families.

In addition to broader changes aimed at improving the functioning of mortgage markets, Congress should provide an emergency, one-time, infusion of funds to the Emergency Food and Shelter program to prevent families facing foreclosure from becoming homeless, as proposed by the Emergency Housing Assistance Act of 2008. These funds would provide such assistance as mortgage/rent payments, utility payments, and other housing-related assistance to help prevent families from losing their homes.

Additionally, providing an infusion of funds to school districts across the country through the McKinney-Vento Homeless Education program would help ensure that students who are forced to move from their homes do not also have to leave their schools. McKinney-Vento allows homeless students to stay in their schools even if they are forced to move outside the school district. In addition, the program provides homeless students with a variety of supports, such as tutoring, school supplies, and counseling, among others, to help stabilize their education even though the rest of their lives are fraught with uncertainty.

The mortgage crisis is impacting lower income families who rent as well as families who own their homes. The National Affordable Housing Trust Fund Act, already passed by the House of Representatives, would create an estimated 1.5 million units of affordable housing over the next 10 years, targeting lower income renters. We encourage the Senate to pass the National Affordable Housing Trust Fund Act as well. This investment in affordable housing, combined with improved regulation of the mortgage lending industry, will help to prevent this chapter of our nation's history from repeating itself.

CHILDREN SHOULD NOT BE AN AFTERTHOUGHT

Adults caused the mortgage crisis. Children are suffering because of it. The situation will not be solved over night, but we can help to ease its impact. As we lower interest rates, spend our stimulus checks, and provide support to the home building industry, let us not forget that the only hope our country has of strengthening our economy over the long term is through supporting the home buyers of the future.

ESTIMATING THE NUMBER OF CHILDREN IMPACTED BY THE MORTGAGE CRISIS

Our estimate of 1.95 million children is based on the Center for Responsible Lending's projection that one out of every five subprime mortgages made in 2005 and 2006 goes into foreclosure. In total, the Center on Responsible Lending projects a total of 2.26 million foreclosures on single-family homes, with the bulk occurring in 2008 and 2009.[11] As noted in a recent report by Pew Charitable Trusts, this projection represents 1 in 33 current homeowners in the U.S. and is in line with an estimate of 2 million potential foreclosures provided by Mark Zandi, chief economist of Moody's economy.com in his February 2008 testimony before the U.S. House of Representatives Financial Services Committee.[12]

How many children live in the 2.26 million homes projected to be in foreclosure? Although mortgage data does not contain information on the presence of children, the Home Mortgage Disclosure Act (HMDA) does provide information on the race and ethnicity of homeowners taking out high-priced loans. The Center for Responsible Lending's analysis of HMDA data finds that 17 percent of subprime loans originated in 2005 were to Latino homeowners, and 15 percent were to African-Americans.[13] Applying these percentages to the 2.26 million homeowners suggests that 388,000 Latino homeowners, 344,000 Black homeowners, and 1.53 million White/Other homeowners will lose their homes to foreclosure, as shown in the first column of Table 1.[14]

The next step is to estimate the number of children, by race/ethnicity, in each home. Recent Census Bureau data (from the 2006 American Community Survey) finds children present in 62 percent of Latino households in owner-occupied homes with outstanding mortgages, and an average of 2.08 children in such homes with children. Applying these statistics for all Latino homeowners to those in default results in a total of 504,600 Latino children directly impacted by the foreclosure crisis.[15] Black and White/Other homeowners have fewer children per household than Latino homeowners, and the same methodology results in 281,200 Black children and 1.17 million White/Other children, as shown in Table 1 below.

Combining the racial/ethnic groups, a total of 1.952 million children are estimated to be directly impacted by the mortgage crisis.[16]

We use a similar approach to develop state-by-state estimates of children affected by foreclosure, combining the Center for Responsible Lending's state-by-state projections of foreclosures with our analysis of mortgage-holding homeowners with children by state (see Table 2).[17]

TABLE 1. NATIONAL ESTIMATE OF CHILDREN DIRECTLY IMPACTED BY THE MORTGAGE CRISIS.

	PROJECTED FORECLOSURES (A)	HOUSEHOLDS WITH CHILDREN (PERCENT) (B)	AVERAGE # OF CHILDREN (C)	CHILDREN IMPACTED BY FORECLOSURE CRISIS (D)
Latino	388,000	62.4	2.08	504,600
Black	343,700	44.7	1.83	281,200
All Others	1,526,700	41.5	1.84	1,166,200
U.S. Total	2,258,457	–	–	1,952,000

Numbers may not add due to rounding.

(A) Center for Responsible Lending data on projected foreclosures [http://www.responsiblelending.org/issues/mortgage/quick-references/state-by-state-analyses-of-subprime-losses.html, accessed 4/18/2008]. As explained in textbox on page two, racial/ ethnic breakdown in Table 1 was based on subprime originations in 2005.
(B) Brookings analysis of children in owner-occupied homes with outstanding mortgages, based on 2006 data from the American Community Survey.
(C) *Ibid.*
(D) Children = (A) x (B) x (C).

TABLE 2. STATE-BY-STATE ESTIMATES OF CHILDREN DIRECTLY IMPACTED BY THE MORTGAGE CRISIS.

	PROJECTED FORECLOSURES (A)	HOUSEHOLDS WITH CHILDREN (PERCENT) (B)	AVERAGE # OF CHILDREN (C)	CHILDREN IMPACTED BY FORECLOSURE CRISIS (D)
Alabama	21,330	43.7	1.77	16,600
Alaska	3,831	46.3	1.93	3,400
Arizona	85,726	40.5	1.96	68,100
Arkansas	11,734	44.1	1.81	9,400
California	355,682	45.7	1.92	311,900
Colorado	49,923	41.2	1.90	39,000
Connecticut	18,847	44.7	1.85	15,600
Delaware	5,551	42.7	1.83	4,300
D.C.	4,190	22.7	1.62	1,500
Florida	194,796	38.0	1.76	130,500
Georgia	83,686	44.0	1.82	67,100
Hawaii	8,832	38.4	2.01	6,800
Idaho	10,035	44.4	2.05	9,100
Illinois	87,918	45.5	1.91	76,500
Indiana	48,034	43.5	1.89	39,600
Iowa	11,190	44.4	1.92	9,500
Kansas	14,347	44.8	1.92	12,400
Kentucky	21,153	42.2	1.73	15,500
Louisiana	26,306	45.5	1.83	21,800
Maine	6,597	39.3	1.75	4,500
Maryland	55,693	43.2	1.79	43,200
Massachusetts	32,976	43.8	1.88	27,200
Michigan	79,893	42.9	1.92	65,700
Minnesota	38,991	44.2	1.92	33,100
Mississippi	15,439	47.2	1.80	13,100
Missouri	42,727	42.6	1.86	33,900
Montana	3,225	42.6	1.89	2,600
Nebraska	7,390	46.4	2.00	6,800
Nevada	51,881	39.2	1.87	38,100

TABLE 2 CONTINUED ON NEXT PAGE

TABLE 2. STATE-BY-STATE ESTIMATES OF CHILDREN DIRECTLY IMPACTED BY THE MORTGAGE CRISIS. (CONT.)

	PROJECTED FORECLOSURES (A)	HOUSEHOLDS WITH CHILDREN (PERCENT) (B)	AVERAGE # OF CHILDREN (C)	CHILDREN IMPACTED BY FORECLOSURE CRISIS (D)
New Hampshire	7,422	42.7	1.82	5,700
New Jersey	57,083	47.8	1.83	50,000
New Mexico	9,093	40.9	1.92	7,100
New York	124,601	45.4	1.88	106,500
North Carolina	53,254	41.9	1.77	39,400
North Dakota	1,103	46.4	1.93	1,000
Ohio	85,618	42.1	1.90	68,500
Oklahoma	20,157	43.4	1.87	16,300
Oregon	27,827	38.6	1.83	19,600
Pennsylvania	76,055	43.3	1.86	61,200
Rhode Island	8,170	43.0	1.77	6,200
South Carolina	27,996	41.8	1.77	20,700
South Dakota	1,860	44.8	1.88	1,600
Tennessee	46,218	42.9	1.78	35,300
Texas	149,661	49.8	1.94	144,400
Utah	23,286	52.8	2.34	28,800
Vermont	2,122	41.5	1.86	1,600
Virginia	62,174	41.5	1.80	46,400
Washington	42,036	41.7	1.85	32,400
West Virginia	6,218	43.3	1.75	4,700
Wisconsin	26,334	44.2	1.94	22,600
Wyoming	2,246	41.8	1.85	1,700
United States	2,258,457	–	–	1,848,600*

Numbers may not add due to rounding. See Table 1 for notes to columns A-D.
* Preferred national estimate is 1.95 million (see Table 1 and footnote 17).

Endnotes:

[1] These data were provided by the National Association for the Education of Homeless Children and Youth, representing the homeless liaisons serving homeless children in school districts throughout the country.

[2] Rumberger, Russell, *The Causes and Consequences of Student Mobility*, Journal of Negro Education. Vol 72, No. 1, pp. 6-21, (2003).

[3] GAO (General Accounting Office) Report, *Elementary School Children: Many Change Schools Frequently, Harming Their Education,* GAO/HEHS-94-45, Washington, DC (1994).

[4] Ibid.

[5] Rumberger, 1993.

[6] Rhodes, Virginia, *Kids on the Move: The Effects of Student Mobility on NCLB School Accountability Ratings*, Penn GSE Perspectives in Urban Education, Vol. 3, Issue 3 (Spring 2005).

[7] GAO, 1994.

[8] Rumberger, 1993.

[9] Lubell, Jeffrey, Rosalyn Crain, and Rebecca Cohen, *Framing the Issues – The Positive Impact of Affordable Housing on Health*, Center for Housing Policy, Washington, DC (July 2007).

[10] Ibid.

[11] The 2.26 million projection represents cumulative foreclosures of single-family homes secured by subprime mortgages between 1998 and 2006; the bulk of the loans were made in 2005 and 2006 and are projected to foreclose in 2008 and 2009. For original projection (2.2 million homes) and detailed methodology, see Schloemer, Ellen, Wei Li, Keith Ernst, and Kathleen Keest, *Losing Ground: Foreclosures in the Subprime Market and Their Cost to Homeowners.* Center for Responsible Lending (December 2006). For updated projection (2.26 million homes), see *The Impact of Court-Supervised Modifications on Subprime Foreclosures: United States,* Center for Responsible Lending (February 2008).

[12] Pew Charitable Trusts, *Defaulting on the Dream. States Respond to America's Foreclosure Crisis,* (April 2008); and Mark Zandi, Written Testimony before the House Financial Services Committee of the United House of Representatives (February 26, 2008).

[13] Center for Responsible Lending, *Subprime Lending: A Net Drain on Homeownership*, CRL Issue Paper No. 14 (March 27, 2007).

[14] This analysis assumes the same racial/ethnic breakdowns for all subprimes originated 1998-2006 as observed in 2005; in addition, it follows the Center of Responsible Lending's assumption that default rates are similar across racial groups.

[15] The assumption that the average number of children in foreclosed homes is the same as in all homes with outstanding mortgages may provide a conservative estimate of children impacted by the mortgage crisis; analysis of defaults in the past suggests that households with more children are more likely to be delinquent on housing payments than households with few children. Canner, Glenn, Stuart Gabriel and J. Michael Woolley, *Race, Default Risk and Mortgage Lending: A Study of the FHA and Conventional Loan Markets*, *Southern Economic Journal*, Vol. 58, No. 1 (July 1991) pp. 249-262.

[16] Note that this estimate does not include children being evicted from rental units going into default, or children whose parents default on conventional loans.

[17] The state-by-state analysis undercounts children impacted by the foreclosure crisis because it ignores racial/ethnic differences, and thus does not take into account the higher incidence of subprime loans and higher family sizes among Latino households. In other words, the national estimate of 1.95 million children (shown in Table 1) is preferred to the 1.85 million total shown in Table 2.

Acknowledgements:

First Focus would like to thank **Barbara Duffield** of the National Association for the Education of Homeless Children and Youth and **Emily Roessel** of the Brookings Institution for their assistance in developing this brief.

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First Focus is a bipartisan advocacy organization that is committed to making children and their families a priority in federal policy and budget decisions. To learn more visit www.firstfocus.net.