Without a Helping Hand: Experiences with mortgage foreclosure mitigation strategies in US Sunbelt city

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One of the hallmarks of the recent Great Recession in US cities was the dramatic increase in mortgage foreclosure rates, especially (although not exclusively) in communities of color. The causes of mortgage foreclosure are multiple: foreclosures are linked to predatory lending practices (Rugh and Massey 2010); inflated housing prices and speculation (Strom and Reader 2013); unemployment and even health vulnerabilities (McDonald and Stokes 2013). The US federal government launched several programs aimed at preventing households from losing their homes, with states, cities and nonprofit organizations acting to carry out these initiatives, but none of these programs was able to help more than a small number of borrowers (Fields et al 2010). This paper explores the failure of public policies to mitigate the impacts of the collapsing housing market and high indebtedness by considering the perspectives of "street level" participants as well as the critiques of academic and government evaluators.

This research builds on a previous study on the causes of mortgage foreclosure (Strom and Greenbaum 2013). This study included interviews with 28 homeowners at risk of foreclosure; we identified several factors that helped explain why they had found themselves in this predicament and why resolving their problems was proving problematic. Among these issues were tremendous information asymmetries (Andelino et al 2013) between homebuyers/borrowers and the myriad intermediaries (real estate agents, mortgage brokers, mortgage servicers) who orchestrated the home search, purchase and mortgage process. Few respondents, regardless of education levels, fully understood the roles of these intermediaries or grasped the nature of the transactions to which they had agreed. This confusion, plus a sense of shame for having "failed" in the role of homeowner, made it difficult for some respondents to act prudently and expeditiously to prevent foreclosure.

A new pilot study aims to extend this research to households that lost their homes because of mortgage delinquency, and focus on the public policy interventions that were intended to slow the collapse of the housing and mortgage markets. Thus far we have interviewed five households in which a home has been lost to foreclosure, and four mortgage counsellors with nonprofit agencies contracted to provide advice and support for at risk homeowners.

These initial interviews suggest that information asymmetries, lack of transparency, and incompatible interests among key stakeholders continue to prevent homeowners with delinquencies from understanding or accessing public programs. Many of these programs have narrow eligibility criteria that are difficult to understand. Many are administered by mortgage servicing companies that have little incentive to help homeowners. These "street level" interactions can partly explain why programs intended to help tens of millions of delinquent borrowers have in fact been able to help far fewer.

The experiences of homeowners and counsellors are considered in the light of programmatic critiques from scholars (Gerardi and Li 2013) and government auditors (SIGTARP 2015), who note the contradictions that have rendered federal (and other) governmental foreclosure mitigation programs ineffective. Efforts to secure conservative political support; legal and political difficulties in forcing lenders to share the costs of declining values with borrowers; and perverse incentives built into borrowing, lending, and real estate industries have all conspired to create obstacles to making and implementing effective policies.

Nonetheless, past research (Strom and Greenbaum 2013) and findings from our current study suggest that households continue to value the emotional and status benefits they attribute to homeownership. These emotional attachments at times lead household to make financially imprudent decisions about their housing tenure.

The research is conducted in the Tampa Bay region of Florida, a metropolitan area that has been among the hardest hit by mortgage defaults. The region is ideal for this research, as there are many households that have experienced foreclosure, and they span racial, ethnic, economic and ideological communities.

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