

Ameliorating Local Impacts with Architectural Research: Subprime Mortgages & Housing Quality

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ABSTRACT: Shock waves from the current housing crisis that still echo through Wall Street's largest financial firms, not only have threatened to topple financial markets and drive the country into a depression, but have also undermined the all-time high homeownership rate in the United States. The most attention-grabbing dimensions and headlines of the current crisis seem to be the staggering losses incurred by the likes of Bear Sterns and Citigroup, and the demise of some of the large corporations such as Washington Mutual. However, the real crisis is not on Wall Street or in the banking sector, but in low- and moderate-income and minority homes and neighborhoods throughout the country. At least ten years before the present subprime foreclosure crisis became mainstream news, these marginalized communities were feeling the negative effects of mortgage fraud and predatory lending practices occurring with regularity in the subprime market. This paper discusses an ongoing study of Subprime Lending, Mortgage Fraud and Housing Quality in process since 2002. This four-part study has employed foreclosure data with statistical and mapping analysis, detailed interviews with victims of predatory lending, systematic documentation of the resulting housing environments, and documentation of property improvements in light of victims' legal settlements. While subprime lending has supported the expansion of homeownership in the United States, this on-going study suggests that this expansion has sometimes been at the expense of safe, code-compliant living environments for low-income, minority and elderly homeowners. Some of the victims of predatory lending and mortgage fraud have sought legal redress through the courts but many have suffered personal financial, health, emotional, and family crises as well. The current broad-scale discussion of the topic has given attention to the lack of regulation facilitating these unethical practices, but it is unclear that current discussions will lead to meaningful and lasting reform.

Human context: social, cultural, and economic studies
Housing quality, Subprime, Mortgage, Fraud

INTRODUCTION

Subprime lending has supported the expansion of homeownership in the United States. However, it has also been linked to practices that have exposed homeowners to unsafe, non-code-compliant living environments, often resulting in personal financial, health, emotional, and family crises. This paper discusses an ongoing study of subprime lending, mortgage fraud and housing quality in process since 2002. To date, this four-part study has employed foreclosure data with statistical and mapping analysis, detailed interviews with victims of predatory lending, systematic documentation of the resulting housing environments, and documentation of property improvements in light of victims' legal settlements. This ongoing action-research endeavour in the Metro-East St. Louis region of St. Clair County, Illinois, addresses linked issues that have been increasingly in the news over the past two years, subprime lending and mortgage foreclosure. However, this project began in the summer of 2002, long before the present crisis hit

the news. The darker side of the present crisis is that it began to impact minority communities at least ten years before it became mainstream news. This paper will provide brief background for the ongoing study and information about the project's various community partners; it will illustrate results and actions from different phases of the project and will discuss the future of the project.

1. CONTEXT

1.1. Homeownership

In the United States homeownership has served as a benchmark on a national, municipal and personal level. Homeownership is considered by most in the United States as an integral component of the American Dream. Becoming a homeowner is a sign that one has made it; this is particularly true in lower-income and minority communities where the percentage of homeowners has historically been substantially lower than among white middle and upper-income households (Callis & Cavanaugh, 2005).

NeighborWorks, FannieMae and other non-profit and government entities, promote increasing homeownership as a way to stabilize declining neighborhoods (Neighborhood Reinvestment Corporation, 2009). Community-based non-profits often follow a similar philosophy in their strategies for neighborhood improvement (Dearborn, 2004).

Since the post-depression era in the U.S., we have judged improving living standards by the increasing percentage of the population that becomes homeowners. Single-family homeownership has also been tied to the health of the construction industry as new housing starts are used as an indicator of the overall economic health of the country. In the late 1980's, those involved in the housing industry noted that the percentage of the U.S. population that were homeowners was beginning to decline for the first time in the post World War II era, having stalled at just under sixty-four percent. In the United States, we have a love affair with owning homes and our government policies have focused on single-family homeownership as the best method to house the population (Bratt, Stone, & Hartman, 2006). When the homeownership rate began to stall and decline in the late 1980s, bankers and policy-makers started to contemplate modifications to the system that might be needed in the conventional mortgage market to nudge the stalled homeownership percentage upward.

1.2. Subprime and Predatory Lending

A number of factors influence the percentage of households who are homeowners. One of those is related to the formula used to qualify mortgage default risk posed by an individual. In 1993, the mortgage industry began to classify borrowers by the default risk they posed (Pennington-Cross, Yezer, & Nichols, 2000). The people representing the least risk were rated as A borrowers while B, C, and D-rated borrowers represented successively more risk. Those with B, C, and D ratings were classified as subprime borrowers and were offered subprime loans, with higher interest rates, more stringent terms and sometime including illegal clauses and attachments (Renuart, 2004). The characteristics of subprime loans will be discussed in more detail later with respect to the research project that is the topic of this paper. Suffice to say, minority individuals and properties in minority neighborhood are often judged as more risky ventures by lenders. The impact of the subprime market forged in the early 1990s is illustrated in substantial increases in the percentage of homeownership that occurred in the 1993 to 2004 time period, leading to a historic high of sixty-nine percent in 2004. Other modifications to the market during this time period, such as "innovative mortgage products," contributed to this increase as well; many of these were in the subprime market.

The project that is the subject of this paper begins with data from 1996, the height of the historic increase in homeownership. Four phases of the project have been conducted, with a fifth begun in the fall of 2009. The

project engages both quantitative and qualitative methods. The community partners in the project to date have been St. Clair County Intergovernmental Grants Department, and the Land of Lincoln Legal Assistance Foundation. The project has been run through the East St. Louis Action Research Project, an outreach center housed in the University of Illinois' College of Fine and Applied Arts. This project is an investigation of predatory lending and its impacts on housing quality in St. Clair County, Illinois. Predatory lending stories have become more commonplace news items over the last seven or eight years. In recent years predatory lending has been regularly discussed in the *New York Times* and *The Wall Street Journal*. While this project has employed specific characteristics to identify abusive and predatory lending, the essence of predatory lending is that it is lending targeted toward vulnerable populations, which is offered in a deceptive and pressured manner, with abusive terms, and without regard for the ability of the borrowers to repay the debt (Goldstein, 1999). As a result, this set of practices often strips the equity built up through the homeownership process and leaves victims without the wealth-building that homeownership promises and often, as the third part of the present study will show, in very poor quality housing conditions.

1.3. Study Socio-Spatial Context

St. Clair County, Illinois is located some 350 miles southwest of Chicago, in the southwest part of the state of Illinois. It is across the Mississippi River from St. Louis, Missouri and about 170 miles from Champaign, Illinois. The County is characterized by lowlands, or bottoms, along the Mississippi River, contrasted with the highlands or bluffs to the east of the dashed line in the map in Figure 1 below. The racial composition of the population in the towns and cities in the bottoms area is majority African American, while all areas in the bluffs have predominantly white populations. Historically, homeownership has been much higher in the places with concentrated white populations. Minority areas have increased their percentage of homeowner through the 1990s as a result of both the Community Reinvestment Act and changes in the ways that mortgage lenders determine who they will lend to, including the explosion of subprime lending. However, locations with large minority populations still lag behind in overall percentages of homeowners versus renters. Illustrating this phenomenon in St. Clair County, Belleville, where the population is eighty-two percent white has an ownership rate of sixty percent while East St. Louis, where ninety-eight percent of the population is black, has an ownership rate of fifty-three percent.



Figure 1: Map of St. Clair County, Illinois. Source: (Author 2009)

2. STUDY DESCRIPTION

2.1 Study Stages

The four components of this action-research project to date have included:

- 1) In 2002, The Intergovernmental Grants Department of St. Clair County commissioned the initial part of this study – to examine the characteristics of residential property foreclosure filings between 1996-2000. The County had been concerned with the perceived increase in residential foreclosures in the recent past and suspected that abusive lending was in part responsible. This stage of the project involved traditional data collection – a twenty-percent sample of the residential foreclosures in each of the five years studied.
- 2) The second stage of the project involved qualitative research, via a series of interviews that allowed a better understanding of how predatory lenders operate among the vulnerable populations in the county. Armed with these data, the county re-examined its first-time homebuyer assistance program and added more financial counseling and more oversight to the home buying process.
- 3) The third stage of the project took place during 2005 and 2006; it involved the systematic documentation and assessment of housing conditions for victims of predatory lending. This again had both research and action components. While St. Clair County Intergovernmental Grants Department and other county entities were peripherally involved, the primary community partner in this part of the project was the Land of Lincoln Legal Assistance Foundation. The research undertaken has provided

this partner with documentation for lawsuits, which have provided relief to the victims and punished the perpetrators of abusive lending. This work has also offered a more global look at housing quality deficits and issues impacting low- and moderate-income homeowners and first-time homebuyers in a depressed urban area. Such a systematic look is important in part because many of the neighborhood organizations in the Metro-East Region base their community redevelopment efforts on the power of an increasing base of homeowners to stabilize and improve the conditions in the neighborhoods. Expert witness testimony in this collection of cases has resulted in changes to the ways that judges involved view these types of cases. Setting a precedent for similar cases in Illinois, judges in this set of cases have required sellers, mortgage brokers, and property appraisers to pay reparations to the homebuyers. As a result, the low-income homeowners have been able to make needed repairs on the properties to render them livable for their families.

- 4) In the fourth stage of the project conducted in the spring of 2007, five of the twenty homes in the previous cycle were visited to document post-repair property conditions and to provide advice on the repair work that had been completed on the homes.

2.2 Stage 1

Data collection for the first phase of the project took place in the St. Clair County, County Clerk's Office. A twenty-percent sample of foreclosure records, supplemented by tax records, and property transaction records at the county and state levels were collected and entered into a database. In this part of the project, the data was mapped using GIS (Graphic Information Systems) and analyzed graphically as well as statistically. While the overall project report presents Stage 1 and 2 findings in-depth (Dearborn, 2003), Figure 2 illustrates one of the initial maps created in this part of the project. The County and the Metro St. Louis Coalition to Promote Reputable Lending have used the maps generated in this study to target information campaigns, which alert neighborhood residents to the potential of abusive practices in the residential mortgage and home repair markets. Within the research study, the data and analysis have been used to better understand the distribution of foreclosures geographically and socially as well as the distribution of abusive practices. Mapping the sample of foreclosure complaints (see Fig 2.) shows that there are census block groups where complaints are concentrated but these are spread across the county. This statistical analysis showed that a census block group's percent black population, median income and percent 65 and over have a significant relationship with complaints, while education level does not.

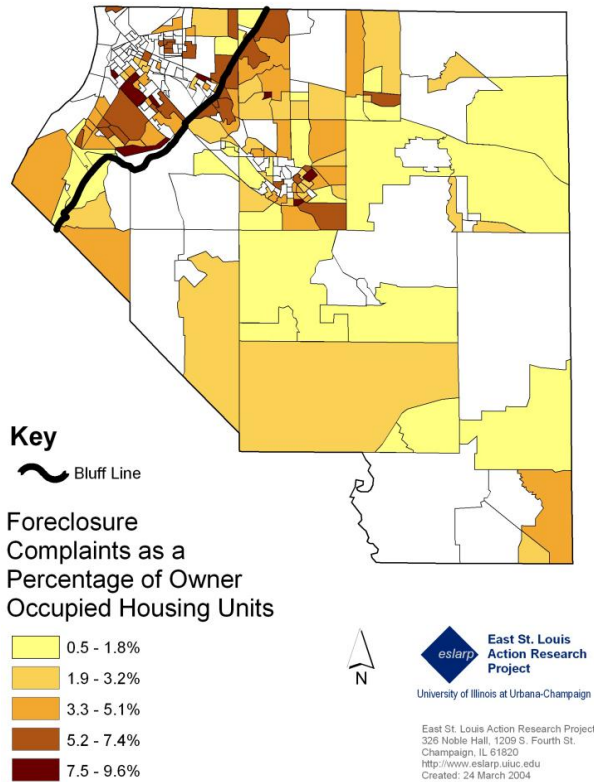


Figure 2: Foreclosure Complaints Map from Data.
 Source: (Author 2004)

Once a complaint is filed with the County Clerk, it is possible for the homeowner to negotiate with the mortgage holder to restructure debt or attend to payment delinquency in another way. If there is not successful negotiation then the case goes through county court and a judgment to foreclose is made. The family loses their home and often the house becomes vacant. Increasing vacancies as a result of foreclosure can have serious negative consequences on neighborhoods, as a vacancy is an invitation for violence and drugs (for example crack houses) to gain a presence. The map in Figure 3 shows the concentration of judgments is more intense in the lowlands below the bluff, in the primarily African American communities. Our statistical analysis confirmed that judgments are significantly related to a block group's percent black population and percent 65 and older.

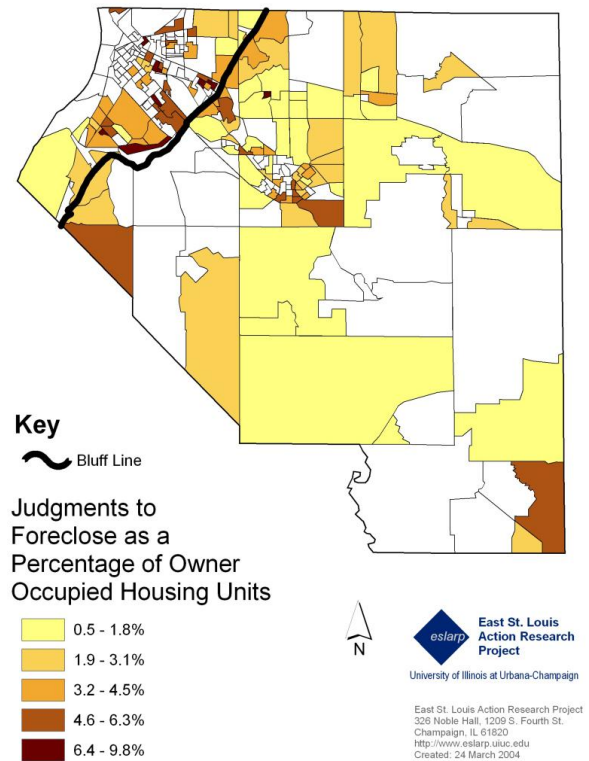


Figure 3: Judgments to Foreclose Map from Data.
 Source: (Author 2004)

In the data collection process, the characteristics of these mortgages were examined in the court files. This allowed identification of loans with any of the following seven characteristics: single premium credit insurance, mandatory arbitration clauses, prepayment penalties, balloon payments, excessive interest rate, large sales price difference (often an indication of property flipping), and loan-to-value ratios over 1.25. These characteristics have been associated with abusive loan terms by HUD, the US Department of the Treasury, and the Association for Community Action Now (also known as ACORN). These characteristics generated the study's list of suspect predatory loans that were used to generate the map in Figure 4. The map in Figure 4 shows that the mortgages with these abusive terms are primarily concentrated in the area below the bluff. What we found statistically was that the percent black population and the percent 65 and over in a block group has a significant relationship with concentrations of abusive loan terms in our sample, while income and education level were not significant. We also examined loans in the sample of foreclosure filings with high loan-to-value ratios. We found these were significantly related to the median income level in the census block group; the lower the median income, the greater the concentration of high LTV loans.

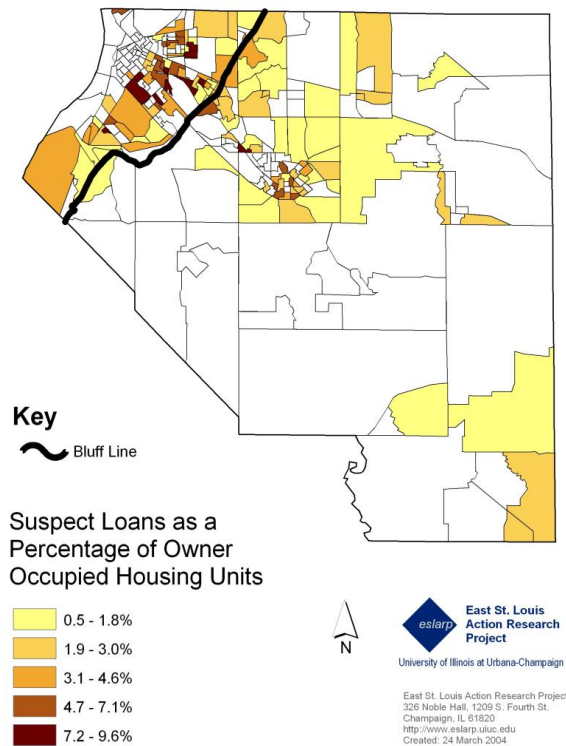


Figure 4: Map of Data, Suspect Predatory Loans.
Source: (Author 2004)

2.3 Stage 2

A series of interviews in the next stage of the project, allowed a better understanding of how predatory lenders operate among the vulnerable populations in the county. This component of the project sheds light on the specifics of predatory behavior by lenders, brokers and real estate agents. The interviews allowed disentanglement of complicit behaviors on the part of others involved in the mortgage and home buying process. Findings illuminate the pressures brought to bear upon those who have little or no experience in the home buying market, and the pressures applied to those vulnerable households with limited housing options and limited options to refinance for home repair. These findings show the motivations of low and moderate-income minority household who are grasping at the illusive "American Dream" of homeownership. Information from this stage of the project has helped St Clair County as well as others who assist first-time homebuyers and are involved in homeownership counseling. The information has also been helpful in developing educational material and programs such as the one currently being employed by the Metro St. Louis Coalition to Promote Reputable Lending.

2.4 Stage 3

In the third stage of the study, detailed property assessments were performed on twenty properties where, through the legal system, a client of Land of Lincoln Legal Assistance Foundation was negotiating a

settlement with those involved in refinancing or selling them their house. In each case, fraud by one or more of those involved in the selling or lending was an underlying factor in the condition of their home as well as in the predatory behaviors of the actors. We identified a number of different types of housing quality deficits and serious code violations in this sample of houses caught up in predatory lending processes. The Figures 5 and 6 show the broad range of conditions of the homes from board-ups to poor-quality but inhabited properties, to properties in seemingly habitable condition.



Figure 5: Board-up, Housing of Purchase Fraud Victim. Source: (Author 2005)



Figure 6: Habitable Condition, Housing of Purchase Fraud Victim. Source: (Author 2005)

The detailed property assessments performed on the twenty properties highlighted major housing quality deficiencies existing in subsurface, plumbing and waste, electrical and enclosure system. Deficiencies in subsurface conditions included subsidence and major structural damage in foundations as well as severe water infiltration in basements and crawl spaces. Deficiencies in plumbing and waste systems consisted of missing or broken fixtures, and improper waste disposal (e.g. non-functional septic fields or

disconnection from city sewer line). Electrical system deficiencies involved outdated electrical service (e.g., knob-and-tube wiring, or sixty amp or lower service), substantial exposed wiring (especially in finished attic spaces) and outdated outlets and fixtures. Finally, deficiencies in the building envelope (i.e., wall enclosure and roof) included missing or rotted siding, missing or inadequate insulation, mortar that was deteriorating, missing or poorly repaired, and extensive problems with roof leakage.

Many of these were conditions that the first-time buyers did not have the background or experience to identify as problems as they toured the homes before purchase. Problems with plumbing and waste disposal problems were either obscured by the seller or real estate broker before purchase or if apparent, promises were made that repairs would be forthcoming after closing. These promises were never put in writing and were not kept. These range of housing quality deficits have had very real impacts on the quality of life for these victims of predatory practices. They have significant health-related consequences for household members, particularly for children, elderly and those with chronic breathing problems.

In some cases, the perpetrators of the abusive lending had attempted to cover up the problems with very low-quality repair work. At other times, the substandard work was part of a refinance-home-improvement scam, leaving the owners with uninhabitable houses. Research assistants on this project systematically conducted evaluations to identify code deficiencies as well as other types of quality deficits. A construction task list was generated for each property, noting issues of high, moderate and low criticality for the lives of the occupants. Finally, a construction cost estimate was generated identifying what it would take to make the properties safe and habitable for the residents.

In a process that began in the summer of 2006 each property report became the basis of expert-witness testimony in individual lawsuits to gain compensation for victims. This housing assessment research and the expert-witness reports have supported Land of Lincoln Legal Assistance Foundation's work with low-income clients. These reports have provided an important contribution to evidence against Marivs Bownes, a defendant who was sentenced to 17.5 years in federal prison for orchestrating a property-flipping scheme involving eighty-four homes in St. Clair County. By documenting damages suffered by Land of Lincoln's clients, this research provided the evidentiary basis that has allowed some clients to be released from predatory mortgage obligations while keeping their homes and for others to receive significant cash settlements to repair their properties. While this work has led to improved quality of life for specific homeowners, it has more broadly supported the work of Land of Lincoln by demonstrating to defendants (for example, mortgage brokers and contractors) that despite Land of Lincoln's low budget they can retain experts to provide detailed

and accurate building and financial assessments that can be used to redress criminal endeavors.

2.5 Stage 4

Documentation of post-repair property conditions has provided advice to both the homeowners and the lawyers at Land of Lincoln on the repair work that has been completed on the homes using cash settlements. Further, post-repair documentation conducted as part of this project has prompted staff at Land of Lincoln to increase oversight of the contractors employed for these repairs and to monitor financial transactions of homeowners in the repair process. In some cases, the post-repair visits highlighted that the homeowners were being taken advantage of yet again by contractors who were performing construction work that did not meet the standard of care that would be expected if the work were constructed in non-minority neighborhoods in the bluffs of the county. In other cases, repairs had been done in proper fashion, addressing quality concerns.

3 IMPACT OF THE RESEARCH

3.1 Community Research and the University

Abusive and Predatory Lending are critical issues for the low- and moderate-income communities in St. Clair County, as one example of many similar minority communities across the US. This research project highlighted very real economic and quality of life issues for residents in these communities as well as the individual households who fall victim to predatory schemes and mortgage fraud. To date, this project has allowed the study of many facets of the processes and outcomes of homeownership, subprime and abusive lending, and the nature of housing repair in minority communities. The work has involved multiple community partners and has provided information fueling a greater understanding of the forces at work in this community dynamic.

This action-research endeavor has improved educational efforts to combat the abusive lending problem; it has promised punishment for the perpetrators and compensation for the victims. It has also been an eye-opening experience for all those involved in the research, middle-income white research assistants from the suburbs and Professor alike. We have seen and begun to understand first-hand the major housing quality deficits that poor and moderate-income families live with as well as the impact of these environmental conditions on family health. Further, we now better understand the veiled nature of dimensions of discrimination at work in the housing market today. Ultimately the project has resulted in opportunities to improve housing quality and quality of life for low- and moderate-income, mostly minority and elderly homeowners in St. Clair County.

3.2 Next Steps

The 5th stage of this project began in the fall of 2009 under the aegis of a community informatics grant to employ a service-learning model in a research-based

architecture course. This next step brings together various types of community and regional housing data to create a web-based tool that will make these data easily accessible and useful for housing advocates and service providers in the Metro East St. Louis area. By working with old and new community housing partners and facilitating access to current data and analysis this new project is helping our partners address pressing questions about conditions of housing and homelessness in the Metro-East St. Louis area. While several umbrella organizations addressing housing issues meet on a regular basis, housing advocates and service providers in the region suggest there are gaps in their ability to address the housing needs of the area as a result of the lack of up-to-date comprehensive data and analysis that link different types of housing data together. One of the most pressing housing problems currently facing the Metro East St. Louis area is mortgage foreclosure. While this has been an ongoing problem in the lowest-income census tracts since the mid-1990s, the problem has spread to moderate-income areas and threatens neighborhood stability and property values throughout the region. One important goal of Stage 5 of this ongoing project, which responds to questions of community housing partners as well as those being raised on the National level, is to use GIS mapping of foreclosure concentrations to better understand how many of the foreclosed upon houses are left abandoned, and to survey how many vacant foreclosed homes would be eligible for rehab dollars coming from the Federal Government's Neighborhood Stabilization Grant Program. These are just a few of the questions that are being addressed in Stage 5 of this project.

4 CONCLUSION

The significance of this long-term research project lies in the fact that the provision of safe, healthy residential environments for those in all social strata is a critical contemporary issue in an increasingly urban world. Many architects approach the provision of basic housing as a primarily physical endeavor. However, this research demonstrates that physical concerns necessarily intersect with economic, social, political and legal conditions when designers wish to offer families a healthy place to live. The problems addressed by this research are critical components of a socially, culturally, economically, politically and environmentally sustainable urban future, which will afford everyone the opportunity for a safe and healthy residential environment. The discourse of architecture, in both the academy and practice, is bereft of any substantive engagement with the economic, social, political and legal conditions underlying the provision of residential environments that are safe and healthy. This research adds to the body of knowledge within an expanded understanding of architecture by addressing issues of residential quality for disadvantaged populations in an era when home ownership has become the *defacto* means by which shelter is offered to a majority of the US population. It brings the social, cultural, economic

and political dimensions of the physical environment to the fore for students as it allows them the opportunity to engage with a complex, real-world set of issues and clients so that they can prepare to engage the same set of issues as they become professionals.

ACKNOWLEDGEMENTS

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