

Sustaining Homeownership

The Case of Foreclosure Prevention

Michael Neal, Aniket Mehrotra, and Daniel Pang

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Increasing homeownership among households of color is critical to eliminating the broader racial wealth gap. Much of the activity around closing the racial homeownership gap has focused on helping households get into a home. But helping them keep their home is key as well. Arithmetically, the change in the number of homeowners is a product of both the inflow of new households into homeownership and the outflow of households exiting homeownership.

Foreclosure is one critical piece of the outflow factor. A mortgage foreclosure occurs when the servicer takes possession of a property after the homeowner misses several consecutive months of payments. A foreclosure is not only the loss of homeownership but a penalty that stays on a credit report for seven years, impeding one's ability to access credit or purchase another home for that period. And foreclosure can have important health implications (Currie and Tekin 2015).

Although missed mortgage payments likely account for most foreclosures, other sources of missed payments can lead to foreclosure. Tax foreclosure can occur when a homeowner falls behind on the property taxes owed to state and local governments. In addition, failure to make homeowners' association (HOA) payments can lead to HOAs placing a property in "super-lien" status until unpaid dues are paid.¹ As a result, an HOA can initiate a foreclosure based on missed HOA payments, even if the homeowner is current on their mortgage and tax payments.

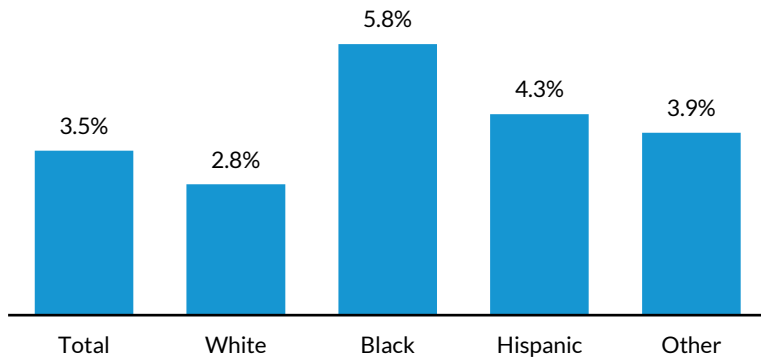
Research suggests that a homeowner's likelihood of foreclosure largely depends on the incidence of unexpected payments, whether they have a job, and whether they have positive home equity (Gerardi et al. 2013). In addition, homeowners of color—particularly Black and Hispanic homeowners—tend to have higher risks of foreclosure because they are more likely than white homeowners to become unemployed and have less housing equity and financial reserves, outcomes partially attributable to racial discrimination (Neal, Choi, and Walsh 2020; Neal et al. 2021, 2023). These structural barriers can be compounded by cyclical shocks, which can increase foreclosure rates overall, with homeowners of color historically facing greater foreclosure rates (Kermani and Wong 2021). For example, during the Great Recession, unemployment rates for many workers of color rose faster than those for white workers, while home prices tended to be more volatile (Neal and McCargo 2020).²

¹ "Navigating HOA Foreclosures in DC," Gordon James Real Estate Services, April 24, 2023, <https://www.gordonjamesrealty.com/resources/knowledge-hub/navigating-hoa-foreclosures-in-washington-dc>.

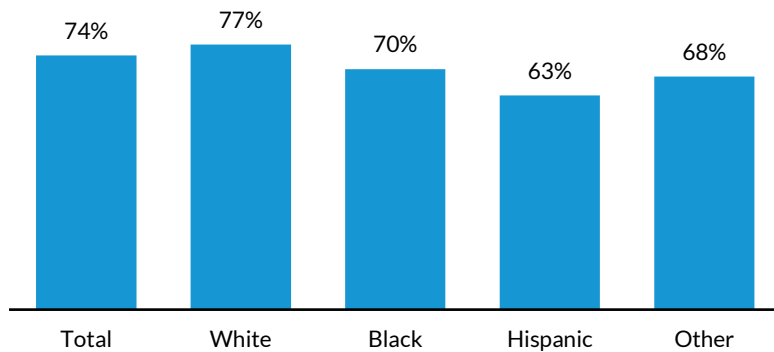
² See also Michela Zonta, "Racial Disparities in Home Appreciation," Center for American Progress, July 15, 2019, <https://www.americanprogress.org/article/racial-disparities-home-appreciation/>.

FIGURE 1

Racial Variations in the Key Determinants of Mortgage Performance
Homeowner unemployment rates, by race or ethnicity



Median housing equity share of home values, by race or ethnicity



Sources: 2022 American Community Survey and 2022 Survey of Consumer Finances.
Notes: The unemployment rate shows the employment status of heads of households in the labor force. Median housing equity is the dollar value of the median homeowner's home minus the debts owed on the home.

A HEALTH SHOCK'S IMPACT ON HOMEOWNERSHIP

Health and homeownership outcomes are closely connected:

COVID-19, along with stay-at-home orders, contributed to higher unemployment, which caused many homeowners to miss their mortgage payment.

Federal public policy took significant action to support the homebuying and mortgage origination processes and to prevent foreclosures.^a

Research on the Great Recession highlights the health implications from foreclosures, especially for people of color.^b

^a [Coronavirus Aid, Relief, and Economic Security Act](#), Pub. L. No. 116-136 (2020); and Office of Inspector General (OIG), "[FHFA Did Not Document Reviews of Desktop Appraisal Reports](#)" (Washington, DC: Federal Housing Finance Agency, OIG, 2023).

^b Mario Sims, Kiarri N. Kershaw, Khadijah Breathett, Elizabeth A. Jackson, Lisa M. Lewis, Mahasin S. Mujahid, and Shakira F. Suglia, "How Does Housing Affect Heart Health?" *Housing Matters*, January 6, 2021, <https://housingmatters.urban.org/research-summary/how-does-housing-affect-heart-health>.

RECENT PUBLIC POLICIES TO STEM FORECLOSURE

Federal policies to prevent foreclosure have been in place for decades. They gained heightened attention amid the Great Recession, when home prices fell dramatically and unemployment soared. Although homeownership lending was at the center of the Great Recession, a health shock was at the center of the COVID-19 recession, posing substantial risks to homeownership sustainability. In response to this health shock, the government acted swiftly with policies that directly, and indirectly, helped prevent foreclosures and stabilize housing for many homeowners.

Federal foreclosure moratorium. Homeowners with a government-related loan were prevented from foreclosing by a foreclosure moratorium through the Coronavirus Aid, Relief, and Economic Security (CARES) Act.

Loss mitigation toolkit. The loss mitigation toolkit includes forbearance, a process that allows a homeowner to pause or defer their mortgage payments until their situation improves, with deferred payment.³ And when forbearance ends, borrowers can, broadly, make repayments, defer payments, or reduce payments through a modification. If the borrower does not qualify for any of these options postforbearance, the mortgage servicer would recommend a foreclosure alternative, short sale, or deed in lieu of foreclosure before going to foreclosure.

The Federal Housing Administration and the Federal Housing Finance Agency, which oversees the government-sponsored enterprises (GSEs) Fannie Mae and Freddie Mac, has made the loss mitigation toolkit permanent for GSE loans. The Veterans Administration is working through how it can do so within its authorities.

Homeowner Assistance Fund (HAF). Through the American Rescue Plan, the HAF provided nearly \$10 billion to support homeowners facing financial hardship associated with COVID-19.⁴ Funds from the HAF may be used for assistance with mortgage payments, homeowners' insurance, utility payments, and other specified purposes.

Direct financial support. Through the CARES Act, the federal government created three new unemployment insurance programs—Pandemic Unemployment Compensation, Pandemic Emergency Unemployment Compensation, and Pandemic Unemployment Assistance—designed to strengthen the safety net for workers losing their jobs (NELP 2020). In addition, the CARES Act provided three separate Economic Impact Payments that provided assistance to eligible individuals and their dependent children.⁵

In addition, state and local governments adopted foreclosure prevention policies, at times financially aided by the federal government. These policies included foreclosure moratoriums, foreclosure mediation, and housing counseling information.⁶ And they were aided by state-level unemployment insurance policies and income supports (Martinchek 2024).

Amid these policies, the foreclosure rate remained low, a marked departure from the experience during the Great Recession. The low foreclosure rate through the pandemic emergency highlights the tools across all levels of government that are available to prevent foreclosure. At the same time, it suggests that the policy steps taken successfully prevented foreclosures and should be made permanent. Understanding the levers that can be pulled and the level of government with the corresponding authority can boost the effectiveness of a policy response to future events that risk foreclosure and help homeowners, including homeowners of color, maintain homeownership.

³ "Loss Mitigation," Federal Housing Finance Agency, last updated November 1, 2023, <https://www.fhfa.gov/PolicyProgramsResearch/Programs/Pages/Loss-Mitigation.aspx>.

⁴ "Homeowner Assistance Fund," US Department of the Treasury, accessed April 25, 2024, <https://home.treasury.gov/policy-issues/coronavirus/assistance-for-state-local-and-tribal-governments/homeowner-assistance-fund>.

⁵ "Economic Impact Payments," US Department of the Treasury, accessed April 25, 2024, <https://home.treasury.gov/policy-issues/coronavirus/assistance-for-american-families-and-workers/economic-impact-payments>.

⁶ "Guidelines for Mortgages Affected by COVID-19," Maryland Department of Housing and Community Development, accessed April 25, 2024, <https://dhcd.maryland.gov/Residents/Pages/COVIDMortgageGuidelines.aspx>; and "Foreclosure Prevention," DC Department of Insurance, Securities, and Banking, accessed April 25, 2024, <https://disb.dc.gov/service/foreclosure-prevention>.

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ABOUT THE AUTHORS

Michael Neal is a senior fellow, Aniket Mehrotra is a policy assistant, and Daniel Pang is a research analyst in the Housing Finance Policy Center at the Urban Institute.

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