RESEARCH REPORT

How Newark, New Jersey, Provides a Template for Targeting the Homeowner Assistance Fund

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A Template for Targeting the Homeowner Assistance Fund

Homeownership provides a key path to economic security and wealth accumulation. Supporting more people to become homeowners is important for the nation and a pivotal strategy to reduce wealth disparities. Traditionally, efforts to expand homeownership seek to spread its benefits to a larger proportion of the population. But these efforts should also ensure that current homeowners can maintain homeownership.

The Great Recession and its aftermath caused significant homeownership loss. American Community Survey data indicate that the number of homeowners peaked at 75.5 million nationwide in 2007 before falling 2.1 percent to a low of 73.9 million in 2013, roughly its level in 2004. New Jersey homeownership peaked at 2.13 million homeowners in 2004 before falling 5.9 percent to a low of 2.01 million homeowners in 2015. In Newark, New Jersey, the number of homeowners also peaked in 2007 at 25,697. By 2011, the number of homeowners had dropped 28 percent to 18,581.

These stark homeownership declines suggest that periods of economic shock, such as a recession, can result in fewer homeowners. The local effects, however, may still be felt more than a decade later. In 2019, the 78.8 million households considered homeowners nationwide has climbed 4 percent higher than the 2007 level. But the 2.08 million homeowners in New Jersey as of 2019 remains 2 percent lower than the state’s 2004 peak. In Newark, the number of 2019 homeowner households, 24,589, is 4.3 percent lower than its 2007 high of 25,697.

The impacts of recessionary episodes should also highlight the risks associated with the COVID-19 recession. So far, mortgage forbearance and the foreclosure moratorium for federally backed mortgages have kept foreclosure rates low, even as mortgage delinquencies have spiked. With the prospect that these policies will sunset, however, assessing and comparing their localized impacts on homeownership are important next steps.

Because the city’s 24 percent homeownership rate is already low, policymakers and other stakeholders should remain cognizant of foreclosure risks. To support vulnerable homeowners, the federal government has created the Homeowner Assistance Fund (HAF) to provide states the financial artillery to help vulnerable homeowners in the absence of forbearance and the foreclosure moratorium. This analysis will demonstrate that homeowners in Newark merit special consideration because they face greater risk of foreclosure than the state overall.
How Does the COVID-19 Recession Compare with the Great Recession?

The cause of the Great Recession differs markedly from that of the COVID-19 recession. From 2003 to 2006, housing activity was inflated by loose mortgage credit conditions that raised home sales and cash-out refinances to unsustainable levels (Neal, Zhu, and Schwartz 2020). A housing bust resulted from a collapse in the for-sale housing market, which spread to financial markets and to the broader economy. The COVID-19 recession resulted from transmission of the novel coronavirus that led to sickness, hospitalization, and death. In response to the pandemic and to shelter-at-home orders, economic activity ground to a halt and financial market functioning deteriorated. In Newark, the unemployment rate rose from 6.3 percent in February 2020 to 21.8 percent in June 2020 and was 12.2 percent in June 2021.

The economic and housing market response to the COVID-19 recession was similar to the Great Recession in important ways, but it differed as well. The combination of these similarities and differences is reflected in the divergent foreclosure rates between the two recessions. But the public policy response to the COVID-19 recession will soon sunset, and the loss of this policy action could raise the foreclosure rate, a trend observed during the Great Recession.

In this report, we track the key determinants of the foreclosure rate nationally and in the Newark area and demonstrate how the trends in each of these inputs differ amid the COVID-19 recession relative to the Great Recession. We then assess how current economic, housing market, and public policy trends will affect foreclosures. Finally, we evaluate how expiring foreclosure protection programs will affect the foreclosure rate.

Foreclosure Rates Soared during the Great Recession but Are Low and Falling in the Current Recession

Although some homeowners sell their homes to become renters, foreclosure is the primary driver of homeownership loss. During the Great Recession, foreclosure rates soared. The US foreclosure rate increased from 0.5 percent in 2006 to its peak of 3.6 percent in 2011, a nearly eightfold jump (figure 1). Across New Jersey, the foreclosure rate soared even higher and over a longer period, from 0.4 percent in 2006 to 7.4 percent in 2013. The steeper trajectory was partly driven by the catastrophic conditions
in Newark. The city's foreclosure rate jumped from 2.1 percent in 2005 to 22.7 percent by 2013, a tenfold increase.

The 2003–06 housing boom was characterized by loose mortgage credit conditions that boosted home sales and cash-out refinance. The typical cash-out refinance during the boom period left the borrower with a higher mortgage rate in addition to using a portion of the home's equity. The for-sale inventory reached record levels, partly spurred by the flurry of residential construction. A housing bust resulted from a collapse in the for-sale housing market, which spread to financial markets and the broader economy. The mortgage credit box tightened considerably from greater borrower credit overlays while some mortgage products were no longer offered. And tightening of credit was more severe for refinances than for purchase mortgages. During the Great Recession, the key economic determinants of mortgage delinquency—the unemployment rate and house price changes—showed significant stress, and many homeowners lost all their housing equity or even lost their homes to foreclosure. From November 2007 to October 2009, the unemployment rate rose from 4.7 percent to peak at 10.0 percent, according to the Bureau of Labor Statistics (figure 1).

**FIGURE 1**
Foreclosure Rates in the United States, New Jersey, and Newark, 2005–21

In contrast to the Great Recession, foreclosure rates have continued to decline both nationwide and regionally during the COVID-19 recession. Across the country, the foreclosure rate fell from 0.38
percent in February 2020, the month before the statewide foreclosures in response to the pandemic began in the US, to 0.27 percent in December 2020, the last month of data. Across New Jersey, the foreclosure rate has fallen from 0.65 percent to 0.49 percent over the same period. In Newark, however, the rate has dropped 0.7 percentage points from 2.1 percent to 1.4 percent. The continued declines suggest that institutional forbearance policy and the foreclosure moratorium, implemented in response to the COVID-19 recession, are keeping foreclosure rates low and falling.

But both policies will soon end, and in their absence, foreclosure rates may rise. To determine the potential and extent of a foreclosure rate increasing, and how public policy can target the areas most at risk, it is worth exploring the key factors behind the city’s foreclosure and mortgage performance.

**Significantly Delinquent Homeowners Were Likely to Lose Their Homes during the Great Recession, but This Is Not the Case This Recession**

During the Great Recession, homeowners who missed three or more mortgage payments (becoming 90 or more days delinquent) were likely to enter foreclosure (figure 2). During the COVID-19 recession, however, the relationship between the 90-or-more-day delinquency rate and the foreclosure rate was broken. In recent months, 90-or-more-day delinquency rates have declined from their recent peaks as the economy has improved. But they have not returned to pre-COVID-19 recession levels.
At the state and city level, 90-or-more-day delinquency rates are key drivers of foreclosure rates, particularly in the initial foreclosure rate run-up. But other factors may have contributed to the foreclosure rate in New Jersey and Newark. For example, real estate taxes are higher in New Jersey than they are nationally, and property tax delinquency may have been a specific problem in Newark, given the higher property taxes homeowners living in the city must pay. Still, the 90-or-more-day delinquency rates played a sizeable role in the New Jersey and Newark foreclosure rates during the Great Recession. But like the nationwide story, the 90-or-more-day delinquency rate diverged from the foreclosure rate amid the COVID-19 recession in both the state and the city (figure 3). In the next sections, we further explore the reasons for the divergence in foreclosure rates, highlighting the role foreclosure moratoriums played.
Job Loss Contributed to Foreclosures during the Great Recession but Has Had No Impact Today

Research indicates that losing a job is associated with losing one’s home. Not having a job typically reduces a homeowner’s ability to make the payments associated with homeownership. For example, losing a job makes it more difficult to make one’s mortgage payments (Brent et al. 2011). It also makes it difficult to make other payments, such as property taxes, which could also result in foreclosure (Miller and Nikaj 2016).
Looking at the experience of the Great Recession, by the middle of 2007, the nationwide unemployment rate began to rise, boosting the foreclosure rate (figure 4). After peaking at 10 percent in 2009, the unemployment rate began to fall, and the foreclosure rate fell soon after. But when the unemployment rate spiked during the COVID-19 recession, the foreclosure rate did not follow and instead continued to fall.
The comparative trends in the unemployment rate and the foreclosure rate are similar in both New Jersey and Newark (figure 5). In the state and the city, the unemployment rate began to rise in 2008, increasing the foreclosure rate. Today, only the unemployment rate is elevated. The foreclosure rates in both jurisdictions continue to fall.

**Falling Home Prices Boost Foreclosures; Rising Prices Lower Them**

Mortgage performance and unemployment might not, by themselves, result in foreclosure. Homeowners with enough housing equity might be able to sell their home instead (Been et al. 2011). But homeowners are less likely to have housing equity when home prices fall. Falling home prices
increase the possibility that a homeowner will have negative equity, which, when combined with unemployment and mortgage delinquency, often results in foreclosure (Foote and Willen 2018).

**FIGURE 6**

**US Home Price Change and Foreclosure Rates, 2005–21**

-Sources: National Bureau of Economic Research and Urban Institute calculations of CoreLogic data.

-Note: Gray shading indicates a recession.

Amid the Great Recession, slowing home price appreciation and ultimately declining home prices correlated with a rising foreclosure rate nationwide (figure 6). As home price changes stabilized and then recovered following the Great Recession, the foreclosure rate followed suit. But during the COVID-19 recession, home price growth has accelerated. Amid faster home price growth, the foreclosure rate continues to fall, and measures of housing equity continue to improve (figure 7).
Similar to the nationwide trend, the slowdown and ultimate decline in home prices during the housing bust coincided with higher foreclosure rates in New Jersey and in Newark (figure 8). Furthermore, foreclosure rates began to decline amid signs of home price increases following the Great Recession. During the COVID-19 recession, home price growth locally has continued, and the city has experienced both a parallel decline in foreclosure rates and an improvement in housing equity measures.
But it is worth pointing out the variation in home price changes between the United States, New Jersey, and Newark between the end of the housing bust and the beginning of the COVID-19 recession (figure 9). Between 2014 and 2017, the pace of home price growth was more moderate both state- and citywide relative to the nation. This may reflect New Jersey’s status as a judicial foreclosure state.5
Judicial foreclosures lengthen the process and delay when these foreclosed properties can return to the market.6 As these homes come to market, they increase the supply of for-sale homes and limit home price increases (figure 9). Nationwide, the number of real-estate-owned (REO) home sales peaked in 2009 and has declined since then. After stabilizing at a postrecession low in 2013, REO sales across New Jersey began to rise again in 2014. REO sales set a new high in 2017 at 18,267, more than double its 2009 level of 7,866 (figure 10).
Similar to the statewide trend, the number of REO sales in Newark also began to rise again in 2014 and peaked in 2017 at 460. Unlike New Jersey, Newark’s 2017 level was less than its 2009 high of 695. The fewer REO homes added to the Newark inventory relative to the state may have contributed to the increase in citywide home prices from 2014 to 2017.

Despite the influence of the judicial process, the stabilization and general recovery in home prices overall have helped local homeowners’ housing equity position. Across both the state and Newark, the recovery in home prices have coincided with an increase in average household equity and a decline in the share of households with negative equity (figure 11). But the extant housing equity position of Newark remains low relative to comparable areas (Neal and Pang 2021).
FIGURE 11
Five-Year Home Price Changes and Housing Equity Measures in New Jersey and Newark, 2009–21

New Jersey

Newark

Sources: National Bureau of Economic Research and Urban Institute calculations of CoreLogic data.
Note: Gray shading indicates a recession.

Forbearance and Foreclosure Moratoriums Have Kept Foreclosures at Bay

In response to the COVID-19 recession, the federal government passed the Coronavirus Aid, Relief, and Economic Security Act, or CARES Act, in March 2020. As part of the CARES Act, homeowners with mortgages backed by the federal government—including those purchased by Fannie Mae or Freddie Mac and those insured by the Federal Housing Administration, the US Department of Veterans Affairs, or the US Department of Agriculture—could receive forbearance if they were affected by the COVID-19 recession (Neal and Pang 2021).
Mortgage forbearance protects homeowners from foreclosure by giving homeowners a grace period during which they are not legally required to make their mortgage payments. The threat of foreclosure is further weakened by the foreclosure moratorium, also enacted under the CARES Act. Even if homeowners with federally backed mortgages are delinquent and not in forbearance or delinquent on another payment, such as property taxes or association dues, they will not lose their homes.  

The economic impact payments and unemployment assistance provided through the CARES Act also helped homeowners (Goodman et al. 2021). And homeowners with lower payments were more likely to find this assistance beneficial (Goodman et al. 2021, xvii). This financial assistance would have helped homeowners make their payments and thus reduce the prospect of mortgage delinquency. The benefit of these forms of financial assistance are largely reflected in the 90-or-more-day delinquency rate.

Despite elevated unemployment and 90-or-more-day delinquency rates, institutional forbearance and the foreclosure moratorium have helped homeowners remain in their homes and reap the benefits of rising home prices. But as the economy improves, these policies will sunset before every homeowner
has fully recovered from the recession. Rising home prices have reduced the share of underwater homeowners nationwide to near zero, but the underwater share of homeowners in Newark has remained elevated since the Great Recession. Although home prices in Newark are rising and pulling more homeowners into positive equity, the still-high share of homeowners with negative equity poses a great risk that a larger portion of city homeowners could lose their homes.

Structural Barriers in Newark’s Housing and Labor Markets Contribute to Its High Foreclosure Rate

We have asserted that foreclosure rates reflect mortgage performance, labor market conditions, housing market fundamentals, and federal policy. The previous sections illustrated how the economic and financial determinants of foreclosure behave over a business cycle. Generally, they tend to worsen when the economy is shrinking and advance when the economy is growing.

But Newark also has particular structural barriers that influence its foreclosure rate. Alongside cyclical fluctuations, these structural disparities are partly reflected by the persistently higher 90-or-more-day delinquency rate and unemployment rate across the city relative to New Jersey or the nation.
In addition, Newark home price changes over a longer period are more volatile than in the state overall.

**FIGURE 14**
Unemployment Rates in the United States, New Jersey, and Newark, 2005–21


Note: Gray shading indicates a recession.

Despite the stronger home price growth across Newark since 2018 (figure 9), average sales prices are only 2.6 percent higher than their housing boom peak, having only recently recovered from the Great Recession. In contrast, home prices nationwide are 36 percent higher than their housing boom peak. Across New Jersey, they are 11 percent higher than their housing-era high. As a result, the ramifications of the Great Recession are still being felt acutely in Newark. Larger numbers of Newark homeowners have negative equity, and the average housing equity ratio for Newark homeowners is lower (figure 15).
One explanation for these structural barriers within the city may lie in the city’s racial and ethnic composition. In 2019, 84 percent of the city’s population was Black or Hispanic. But these two groups accounted for only 34 percent of the New Jersey population and 30 percent of the country’s population. Research has illustrated how Black and Hispanic households traditionally have higher unemployment rates and how homes in majority-Black and majority-Hispanic neighborhoods tend to be more volatile (Ajilore 2020; Mora and Dávila 2018; Zonta 2019).
In addition, the city has lower household income, even for homeowners, and a higher poverty rate than the nation and state overall (figure 16). Lower incomes may coincide with persistently higher unemployment rates (Bohn and Schiff 2011). And lower home prices, which may partly reflect the lower cost of living, are traditionally more volatile (State Street and HFPC 2021).

Taken together, the analysis suggests that when the foreclosure moratorium sunsets, the foreclosure rate in Newark will be higher than in both the nation overall and New Jersey. The conclusion reflects cyclical factors, the unemployment rate spike, and, for the city, a slowdown in home price growth early in the COVID-19 recession. It also reflects structural challenges. The foreclosure rate and its key determinants are persistently worse in the city relative to the country and the state overall, regardless of economic conditions.

What can data tell us about how Newark might fare? In the next section, we use statistical analysis to determine the area’s foreclosure rate absent forbearance and the foreclosure moratorium.
Estimating the Foreclosure Rate Absent Forbearance and the Foreclosure Moratorium

Trends in indicators of mortgage stress and labor market conditions suggest that the foreclosure rate in Newark will be higher when forbearance and the foreclosure moratorium sunset and could exceed the statewide foreclosure rate. Given foreclosure’s adverse consequences on the local economy, quantifying the possible increase could help policymakers and other stakeholders limit this outcome.

Data constraints restrict our ability to estimate foreclosure rates immediately after forbearance and the foreclosure moratorium end. The data we use to assess trends consistently across increasingly granular levels of geography are about three months behind. To overcome this hurdle, we explore what the foreclosure rate path might have been had the foreclosure moratorium not been enacted.

We quantify this path in two steps. The first step is to estimate the foreclosure rate across New Jersey under various conditions using the inputs discussed earlier: the 90-or-more-day delinquency rate, the unemployment rate, and five-year home price changes (FHFA 2020). We start with New Jersey instead of Newark to establish the coefficients we need to then estimate the foreclosure rate in Newark. In addition, our focus on the state will incorporate its status as a judicial foreclosure state, a characteristic we cannot account for if we analyze national data.

In the second step, we use the coefficients estimated by our regression analysis of New Jersey’s foreclosure rate to estimate how it would have performed if the foreclosure moratorium were not in place, under current conditions. We do this for both New Jersey and Newark. We then compare the size of the estimated foreclosure rates in each of these regions. This illustrates the relative extent of duress homeowners avoided across these two regions thus far. And it provides a target for the actual foreclosure rate once the moratorium ends.
We conducted a regression analysis using ordinary least squares regressions to examine the key contributors to the foreclosure rate (Table 1). In column 1, we use the 90-or-more-day delinquency rate. In column 2, we add five-year home price changes and the unemployment rate to the 90-or-more-day delinquency rate. In column 3, we add forbearance and the foreclosure moratorium. Forbearance and the foreclosure moratorium is a dummy variable that equals 0 in each month before March 2020, when these policies were not in place, and equals 1 during and after March 2020, when these policies were in effect.

A positive coefficient means the independent variable is associated with a higher foreclosure rate. For example, the coefficient on the 90-or-more-day delinquency rate in the first column is 1.121***. This means a 1 percentage-point increase in the 90-or-more-day delinquency rate leads to a 1.121 percentage-point increase in the foreclosure rate. In this example, the two asterisks indicate that the coefficient is statistically significant at the 95th percentile, which is weaker, and three asterisks indicate that the coefficient is statistically significant at the 99th percentile, which is stronger.

The key findings from Table 1 are as follows:

<table>
<thead>
<tr>
<th></th>
<th>Column 1</th>
<th>Column 2</th>
<th>Column 3</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dependent Variable</td>
<td>Foreclosure Rate, March 2005–March 2021</td>
<td></td>
<td></td>
</tr>
<tr>
<td>90-or-more-day delinquency rate</td>
<td>1.121***</td>
<td>0.286**</td>
<td>0.902***</td>
</tr>
<tr>
<td></td>
<td>(0.092)</td>
<td>(0.004)</td>
<td>(0.104)</td>
</tr>
<tr>
<td>Five-year home price change</td>
<td>-0.042***</td>
<td>-0.012***</td>
<td></td>
</tr>
<tr>
<td></td>
<td>(0.006)</td>
<td>(0.004)</td>
<td></td>
</tr>
<tr>
<td>Unemployment rate</td>
<td>0.172***</td>
<td>0.300***</td>
<td></td>
</tr>
<tr>
<td></td>
<td>(0.062)</td>
<td>(0.042)</td>
<td></td>
</tr>
<tr>
<td>Forbearance and foreclosure moratorium</td>
<td></td>
<td></td>
<td>-0.056***</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>(0.004)</td>
</tr>
<tr>
<td>Constant</td>
<td>-0.001</td>
<td>0.018***</td>
<td>-0.009**</td>
</tr>
<tr>
<td></td>
<td>(0.003)</td>
<td>(0.004)</td>
<td>(0.003)</td>
</tr>
<tr>
<td>Observations</td>
<td>193</td>
<td>193</td>
<td>193</td>
</tr>
<tr>
<td>$R^2$</td>
<td>0.435</td>
<td>0.576</td>
<td>0.813</td>
</tr>
<tr>
<td>Adjusted $R^2$</td>
<td>0.435</td>
<td>0.569</td>
<td>0.809</td>
</tr>
<tr>
<td>Residual standard error</td>
<td>0.018</td>
<td>0.016</td>
<td>0.010</td>
</tr>
<tr>
<td></td>
<td>(df = 191)</td>
<td>(df = 189)</td>
<td>(df = 188)</td>
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<tr>
<td>$F$-statistic</td>
<td>339.629</td>
<td>85.456</td>
<td>204.010</td>
</tr>
<tr>
<td></td>
<td>(df = 1,192)</td>
<td>(df = 3,192)</td>
<td>(df = 4,192)</td>
</tr>
</tbody>
</table>

Source: Authors’ calculations.
Note: df = degree of freedom.
** $p < 0.05$; *** $p < 0.01$.  

We conducted a regression analysis using ordinary least squares regressions to examine the key contributors to the foreclosure rate (Table 1). In column 1, we use the 90-or-more-day delinquency rate. In column 2, we add five-year home price changes and the unemployment rate to the 90-or-more-day delinquency rate. In column 3, we add forbearance and the foreclosure moratorium. Forbearance and the foreclosure moratorium is a dummy variable that equals 0 in each month before March 2020, when these policies were not in place, and equals 1 during and after March 2020, when these policies were in effect.

A positive coefficient means the independent variable is associated with a higher foreclosure rate. For example, the coefficient on the 90-or-more-day delinquency rate in the first column is 1.121***. This means a 1 percentage-point increase in the 90-or-more-day delinquency rate leads to a 1.121 percentage-point increase in the foreclosure rate. In this example, the two asterisks indicate that the coefficient is statistically significant at the 95th percentile, which is weaker, and three asterisks indicate that the coefficient is statistically significant at the 99th percentile, which is stronger.

The key findings from Table 1 are as follows:
1. **The 90-or-more-day delinquency rate is a key contributor to the foreclosure rate.** By itself the 90-or-more-day delinquency rate alone explains nearly 44 percent of the variation in the New Jersey foreclosure rate. Interestingly, the coefficient on the 90-or-more-day delinquency rate may reflect that other foreclosures unrelated to mortgage foreclosure, such as property tax delinquencies, may have also contributed to New Jersey’s foreclosure rate. But the coefficient falls below 1 as we add more variables to the model.

2. **The addition of home prices and labor market conditions improves the fit of the New Jersey foreclosure rate model.** The adjusted R-squared, which accounts for the boost to the R-squared simply from adding more variables, rises from 0.435 in column 1 with only the 90-or-more-day delinquency rate to 0.569 in column 2. This means that after controlling for the number of variables, the model explains 56.9 percent of the variation in actual foreclosure rates. The coefficient on five-year home price changes is negative, indicating that an accelerated rise in home prices lowers the foreclosure rate. For unemployment, which is also a key input into property tax delinquency, the coefficient is positive, indicating that an unemployment rate increase also boosts the foreclosure rate beyond its direct impact on delinquencies. The coefficient on the 90-or-more-day delinquency rate drops and its statistical significance weakens, but it remains significant at the 95th percentile with the addition of home prices and unemployment. Unemployment and home prices are statistically significant at the 99th percentile.

3. **Institutional forbearance and the foreclosure moratorium play an important role.** Despite a jump in the unemployment and 90-or-more-day delinquency rates, the foreclosure rate in New Jersey has continued to decline (figure 17). Part of this reflects continued home price growth. But the presence of forbearance and the foreclosure moratorium, enacted through the CARES Act, have played a role as well. The inclusion of a dummy variable to identify when these two policies were implemented raises the model’s adjusted R-squared from 0.569 to 0.809. The sign on forbearance and the foreclosure moratorium is negative, indicating that its presence corresponds with a lower foreclosure rate while its absence has no impact on the foreclosure rate. Second, the presence of this dummy variable reduces the impact of home price changes found in column 2, when the moratorium is not factored. The coefficient on five-year home price changes in column 3 is -0.012, smaller than its coefficient in column 2, -0.042. Although this reduces the impact of five-year home price changes, it strengthens the impact of 90-or-more-day delinquency and unemployment rates. When combined with the significant increase in the adjusted R-squared, it may indicate that the presence of the policy dummy variable strengthens both the model overall and its individual components. The 90-or-more-day
delinquency rate, five-year home price changes, the unemployment rate, and forbearance and the foreclosure moratorium are statistically significant at the 99th percentile.

**FIGURE 17**

*Actual and Predicted Foreclosure Rates in New Jersey, 2005–21*

![Graph comparing actual and predicted foreclosure rates in New Jersey from 2005 to 2021.](image)

Sources: National Bureau of Economic Research and Urban Institute calculations of CoreLogic data.

Note: Gray shading indicates a recession.

Figure 17 compares the actual foreclosure rate in New Jersey with the estimated foreclosure rates from the model in table 1, column 3. By setting the foreclosure moratorium to 0 in the model for all months, we illustrate one potential path of the foreclosure rate caused by 90-or-more-day delinquency, unemployment, and home prices but absent the moratorium.

The predicted foreclosure rates are closely related to the actual foreclosure rates through February 2020, though the “fit” is not perfect. Most notably, the model predicts that the statewide foreclosure rate would have risen from 1.5 percent in March 2020 to 9.1 percent by June 2020, absent mortgage forbearance and the foreclosure moratorium. Similarly, the statewide foreclosure rate may have declined in the ensuing months but would have remained elevated at 5.2 percent at the end of 2020.
Figure 18 compares actual foreclosure rates with predicted foreclosure rates in Newark using the coefficients estimated across New Jersey. This strategy allows us to hold the statewide relationships between the foreclosure rate and the model inputs in place and then determine how conditions in Newark would affect the Newark foreclosure rate absent the foreclosure moratorium.

The predicted foreclosure rate based on statewide coefficients fits the Newark foreclosure rate well, but the fit is not as strong. This may suggest that Newark homeownership market characteristics, including citywide economic disparities, imply that the foreclosure rate may be more sensitive to labor and housing market conditions than even in the state overall. Nonetheless, absent forbearance and the foreclosure moratorium, the foreclosure rate citywide may have soared to 16 percent in July 2020 from 3.8 percent in March 2020. In the months after July, the foreclosure rate would have declined but still would have been elevated.

Sources: National Bureau of Economic Research and Urban Institute calculations of CoreLogic data.

Note: Gray shading indicates a recession.
Figure 19 plots the predicted foreclosure rate for New Jersey and for Newark. It also illustrates the difference between the two rates. The results from our model indicate that the Newark foreclosure rate remains higher than the statewide rate through the COVID-19 recession to date. The results also suggest that even though the foreclosure rate would have risen both statewide and in Newark, the increase across the city would have been greater. And although the foreclosure rates both across New Jersey and within Newark are declining, the pace of decline remains broadly proportional, so the gap has been generally flat during the COVID-19 recession recovery.

Although we have performed this analysis as rigorously as possible, our interpretations of the results are subject to change. Our analysis has a few caveats. First, our results illustrate only one potential path for foreclosure rates, both statewide and in Newark. For example, a model that includes credit scores, loan-to-value ratios, or property tax delinquency may yield different, and richer, foreclosure rate predictions (FHFA 2020, 3). In addition, by using coefficients grounded in state-level analysis, our model does not include all the differences in Newark. For example, the state unemployment rate appears to be a leading indicator of statewide foreclosure rates while the citywide...
unemployment rate moves in sync with it. And even though financial assistance provided under the CARES Act is likely reflected in mortgage delinquency rates, an employed homeowner with housing equity may find it difficult to meet tax or other liens associated with homeownership. Finally, our analysis covers 2005 to 2021, but data over a longer period may alter the predicted foreclosure rate.

Foreclosure is a key means by which homeowners can lose their homes. The process of unwinding homeownership through foreclosure has a materially adverse impact on the financial and credit profile of the homeowner and, if widespread, the community. But amid rising home prices, some financially stressed homeowners may be forced to sell their homes and may not purchase another one soon. The financial and credit impacts on the home seller from a forced sale would be less severe than impacts from a foreclosure, but forced sales would also result in a lower homeownership rate. Although less obvious in the data, this trend, too, would produce long-term negative consequences for the community.

Federal Policies to Target Vulnerable Homeowners Should Focus on Newark and Similar Cities

Largely in response to the prospect of more foreclosures after institutional forbearance and the foreclosure moratorium end, the American Rescue Plan Act of 2021, passed in March 2021, provides up to $9.961 billion from the US Department of the Treasury for states to provide relief for most vulnerable homeowners. A minimum of $50 million is available for each state, the District of Columbia, and Puerto Rico. The act created the Homeowner Assistance Fund (HAF) to prevent mortgage delinquencies and defaults or foreclosures. The funds can also be used to prevent loss of utilities or home energy services, as well as physical displacement.

Homeowners are eligible to receive financial assistance under the HAF if they experienced a financial hardship after January 21, 2020, and have incomes up to 150 percent of the area median income. Sixty percent of the assistance must be used for qualified expenses that assist homeowners earning up to 100 percent of the area median income or up to 100 percent of the US median income, whichever is greater (US Department of the Treasury 2021). Any amount not made available to homeowners who meet this income-targeting requirement must be prioritized for assistance to socially disadvantaged homeowners, with funds remaining after such prioritization being made available for other eligible homeowners.
According to the HAF guidance, socially disadvantaged individuals are those who have been subjected to racial or ethnic prejudice or cultural bias because of their identity as a member of a group, without regard to their individual qualities. The social disadvantage must stem from circumstances beyond their control. There is a rebuttable presumption that Black, Hispanic, Native American, Asian American, and Pacific Islander homeowners are socially disadvantaged.

New Jersey has developed a prospective HAF program to be administered by the New Jersey Housing and Mortgage Finance Agency (NJHMFA) (Oliver and Walter, n.d.). Subject to US Treasury approval, the NJHMFA, through its proposed Emergency Rescue Mortgage Assistance (ERMA) Program, plans to authorize funding of up to $35,000 per household to cover qualifying delinquent homeowner obligations and expenses, such as mortgage payments (including principal, interest, taxes, and insurance, or PITI), reinstatement assistance, and other housing-related cost assistance, such as escrow shortages, delinquent taxes and insurance payments, and payments to lienholders who have advanced these delinquent payments during the homeowner’s COVID-19-related hardship. Although the HAF allows some flexibility for program development, the prospect of mortgage delinquency and the potential for tax delinquency might make these two areas to prioritize.

The ERMA Program will not cover utility payments because programs to assist with utility payments will be available through other state entities, including the Department of Community Affairs’ expanded Low Income Home Energy Assistance Program. Additionally, the NJHMFA will implement a housing counseling program that will assist eligible families at no cost to the consumer. These services include financial planning, locating resources for which families are potentially eligible, and ERMA application assistance. The HAF program will provide financial assistance for homeowners who have experienced a significant reduction or loss of income because of COVID-19 and have been unable to remain current with their mortgage payments. As of this writing, the US Treasury is reviewing the plan.

In addition, the NJHMFA will provide a data portal to enhance the user experience throughout the process and make the application process more efficient. That said, alternative application submission methods may be necessary, as data suggest that low-income homeowners are more likely than others to lack an internet subscription (Neal and Pang 2021). Newark households are less likely to have an internet subscription than households in many peer cities.

Research suggests that the current funding allocated to the HAF will be enough to cover only 30 percent of PITI payments nationwide (Black Knight 2021). This does not include other missed payments that could lead to foreclosure, such as homeowners’ association dues. In New Jersey, HAF funds are
estimated to cover only 18 percent of delinquent PITI payments statewide. Research estimates approximately $1.79 billion in missed PITI payments between February 2020 and June 2021. But the state will be allocated only $326 million.

If these calculations hold true, the HAF funds New Jersey receives must target key problem areas. This analysis suggests that Newark should be considered a key target. First, the threat of foreclosure is potentially greater in the city relative to the statewide average. Second, citywide average household income is low. Third, socially disadvantaged groups make up most of the city’s population. Eighty-five percent of Newark households are nonwhite households, with 82 percent of Newark homeowners being Black (50 percent) or Hispanic (32 percent). In addition, 67.6 percent of all Newark homeowners and 64.2 percent of all Newark homeowners with a mortgage have median income below the greater of 100 percent of the area median income or 100 percent of the US median income (table 2). And the typical Newark homeowner is cost burdened, largely reflecting the amount of real estate taxes Newark homeowners pay relative to their lower household incomes.

**TABLE 2**

*Share of Homeowners That Fall under Homeowner Assistance Fund Thresholds*

<table>
<thead>
<tr>
<th></th>
<th>All homeowners</th>
<th>Mortgaged homeowners</th>
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<tbody>
<tr>
<td>Number of homeowners with household incomes at or below the greater of 100% of the AMI or 100% of the US median income</td>
<td>16,669</td>
<td>11,497</td>
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<tr>
<td>Number of homeowners with household incomes above 100% of the AMI or 100% of the US median income but less than 150% of the AMI</td>
<td>5,952</td>
<td>4,493</td>
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<tr>
<td>Total number of homeowners</td>
<td>24,671</td>
<td>17,912</td>
</tr>
<tr>
<td>Share of homeowners with household incomes at or below the greater of 100% of the AMI or 100% of the US median income</td>
<td>67.6%</td>
<td>64.2%</td>
</tr>
<tr>
<td>Share of homeowners with household incomes above 100% of the AMI or 100% of the US median income but less than 150% of the AMI</td>
<td>24.1%</td>
<td>25.1%</td>
</tr>
</tbody>
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Sources: US Department of the Treasury and Urban Institute calculations of 2019 American Community Survey data.

Note: AMI = area median income.

At the same time, Newark’s economic and financial conditions can be a template for identifying other cities most in most need of HAF funds. The additional financial help from the federal government will give Newark and other financially vulnerable homeowners additional time to recover and stabilize from the impact of COVID-19.
Conclusion

Homeownership provides the opportunity for economic security and wealth accumulation. Through no fault of their own, households around the country, including in Newark, were severely affected by the COVID-19 recession. Forbearance and the foreclosure moratorium enacted by the CARES Act have helped homeowners keep their homes and maintain their credit scores despite possibly losing their jobs and falling behind on their mortgage payments.

These federal policy buffers will end soon. Although foreclosure is not likely to rise dramatically nationwide, this analysis indicates that Newark homeowners may be more vulnerable to foreclosure than homeowners elsewhere.17 The unemployment rate is falling, and home prices are at record highs nationwide, but labor market conditions in Newark lag this national trend, and many Newark homeowners remain underwater from the home price collapse during the Great Recession. In addition, the high concentration of Black and Hispanic households combined with higher-than-average poverty rates have entrenched disparities in homeownership outcomes across the city relative to the state and country overall.

Without financial assistance, a disproportionate number of homeowners within the city could lose their homes, reducing the homeownership rate. And the growing affordability challenge stemming from rising home prices and a lack of supply could prevent renters from becoming homeowners. Meanwhile, evidence suggests that few renters in the surrounding area are moving to Newark to become homeowners (Goodman and Zhu 2020).

Newark and similar cities should be a top public policy priority. This policy stance not only will help the city overcome the economic downturn but will weaken the structural barriers that have built up over decades. These efforts should level the probability of recovery across different demographic groups and ensure that all homeowners have the chance to keep their homes, build wealth, and maintain economic security.
Notes


2 Delinquency rates here refer to any homeowner who has missed a mortgage payment and is reported by mortgage servicers. Institutional forbearance, enacted under the Coronavirus Aid, Relief, and Economic Security Act of 2020, allowed homeowners missing mortgage payments to remain current for credit reporting purposes.


4 We use five-year home price changes instead of one-year changes to capture both the direction of home prices and the accumulation of housing equity.


6 The foreclosure process in New Jersey is a two-tiered system involving both Superior Court General Equity judges and Office of Foreclosure staff members.

7 According to the Newark Housing Pulse, two-thirds of purchase mortgages originated in 2019 were backed by the federal government (e.g., Federal Housing Administration, government-sponsored enterprises, Veterans Affairs, or Rural Housing Service).

8 Michael Neal and Caitlin Young, “Delinquent Homeowners in Neighborhoods of Color Are Less Likely to Be Protected by Forbearance,” Urban Wire (blog), Urban Institute, December 2, 2020, https://www.urban.org/urban-wire/delinquent-homeowners-neighborhoods-color-are-less-likely-be-protected-forbearance. Goodman and coauthors (2021) note that the economic impact payments and unemployment assistance provided through the CARES Act also helped homeowners. And homeowners with lower payments were more likely to find this assistance beneficial. This financial assistance would have helped homeowners make their payments and thus reduce the prospect of delinquency, including 90-or-more-day delinquency.

9 Urban Institute calculations of CoreLogic data.

10 The Federal Housing Finance Agency model for mortgage delinquency includes other variables in addition to unemployment rates and home price changes. But these data were largely not available at the city level and over the needed time period.

11 The impact of property tax delinquency would likely be a valuable addition to this analysis. Evidence from Neal, Goodman, and Young, “Why It’s So Hard to Own a Home,” indicates that real estate taxes are higher across New Jersey, while Newark homeowners face high real estate taxes with lower household incomes.

12 This difference may partly reflect seasonality. The Bureau of Labor Statistics seasonally adjusts both the national and statewide unemployment rates, but the Newark unemployment rate is not seasonally adjusted.


The income thresholds are provided by the US Treasury and vary by household size. We calculate the number of homeowners that fall under these government-provided thresholds by aggregating across household size.

Neal, Goodman, and Young, “Why It’s So Hard to Own a Home.”

References


About the Authors

Michael Neal is a senior research associate in the Housing Finance Policy Center at the Urban Institute. Previously, he worked at Fannie Mae, where he was a director of economics in the Economic and Strategic Research division. Before his service at Fannie Mae, Neal was the assistant vice president at the National Association of Home Builder’s Economic and Housing Policy department. As a housing economist, Neal has an in-depth knowledge of housing market trends and has provided expert analysis and commentary on housing to media outlets around the country. Previously, Neal worked at Congress’s Joint Economic Committee, the Federal Reserve System, the Congressional Budget Office, and Goldman Sachs. Neal has a bachelor’s degree in economics from Morehouse College and a master’s degree in public administration from the University of Pennsylvania.

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