

Foreclosure damages not just homeowner

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In July, Georgia had the second highest rate of home-mortgage foreclosures in the country, with one out of every 299 homes being reclaimed by a lender.

If you happened to be the owner of one of those homes, the impact was probably devastating. Your credit rating was destroyed, you lost whatever equity you might have built, and most important, you lost your home.



Joey Ivansco/Staff

(ENLARGE)

While Metro Atlanta ranks among areas with the highest number of foreclosures, concerns rise about crime, lower property values and more. As some people benefit from private foreclosure auctions, as seen above, others seek stronger laws that work for those losing their homes.

JAY BOOKMAN MY OPINION



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According to Immergluck, Georgia mortgage law has made the state particularly attracting to subprime lenders, because it allows them to foreclose on homes in less than two months without having to go to court.

"Lenders know they can foreclose quickly and cheaply," Immergluck says. "And when you're peddling high-risk loans, the ability to foreclose quick and cheap is good. This place is kind of the Wild West of real estate."

By changing the law to give homeowners a little more time to catch up on their mortgage payments, the state could reduce foreclosures and also make Georgia a little less attractive to subprime lenders. And as research shows, reducing foreclosures reduces crime and forestalls tax increases.

Surely, those are valid reasons for government involvement, even here in Georgia.

Nonetheless, some state and federal officials continue to argue that the crisis is none of government's business. They resist suggestions that government should try to help homeowners facing foreclosure or to tighten laws in hopes of preventing such problems in the future.

In a recent interview, state Senate President Pro Tem Eric Johnson (R-Savannah) predicted that Georgia was unlikely to change its foreclosure or lending laws. Since mortgage lending is a private contract between borrower and lender, Johnson argued, government shouldn't interfere.

Johnson also said he opposes any effort to tighten regulation of subprime lenders, which offer expensive mortgages to homebuyers with poor credit ratings. By some estimates, subprime loans are 20-30 times more likely to end in foreclosure than standard loans, and experts attribute Georgia's high foreclosure rate to the large number of subprime loans extended in this state.

Johnson's instinct is sound, at least in some ways. The market has to be allowed to do its job of punishing lenders who gave money to bad credit risks and borrowers who got greedy and bought more house than they could afford. As President Bush noted recently, "A federal bailout of lenders would only encourage a recurrence of the problem."

Unfortunately, foreclosures on such a large scale also do serious harm to completely innocent people who played no part in the transaction between borrower and lender, according to Dan Immergluck, an associate professor of city and regional planning at Georgia Tech.

Together with co-author Geoff Smith, Immergluck has conducted research on the social impact of foreclosures, based on a database of more than 9,600 property transactions in Chicago. That research found that as foreclosures increase, violent crime jumps significantly. An annual increase of 2.8 foreclosures per 100 homes "corresponds to an increase in neighborhood violent crime of approximately 6.7 percent," their study found.

"It's probably something related to the stigma of boarded-up buildings — the 'broken windows' theory of crime and the psychological impact of all that on the community," Immergluck says.

Another study by Immergluck and Smith, using that same database, documented the impact of foreclosures on property values, a phenomenon already visible in many metro Atlanta communities. According to what they call a conservative estimate, a single foreclosure devalues every home within an eighth of a mile by an average of almost 1 percent. In Chicago in the late '90s, a foreclosure would lower the value of surrounding homes by an average total of \$159,000.

Multiply that number by the thousands of foreclosures occurring in Georgia, and you have a real problem. Among other things, as property values fall, tax revenue falls with it, forcing government to raise millage rates to stay even.

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