Dramatic rise in New York City home foreclosures

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Data recently released by ATTOM Data Solutions reveals that the rate of home foreclosures in New York City (NYC) rose dramatically in October. A total of 1,100 households received new foreclosure notices during the month. This represents a 37 percent increase year-on-year and is 32 percent higher than for the preceding month. These figures are another sign of the severity of the housing crisis in the city, already starkly signaled by the record high number of people in homeless shelters, over 60,000 each night, and the extreme lack of affordable rental housing.

While still below the peak of 3,200 new foreclosures in October 2007, as the mortgage bubble was bursting, the current upward trend is expected to continue. The situation is likely to be exacerbated next year, once the federal Home Affordable Mortgage Program expires. The program, which provided mortgages with interest rates as low as 2 percent, is unlikely to be renewed by the incoming Trump administration.

The impact is widespread across the city, including 400 foreclosures in the borough of Queens, nearly double the rate a year ago, and 365 in Brooklyn, up 20 percent year-on-year. Citywide, the second quarter of 2016 saw the highest rate of foreclosure auctions since 2010. For the State of New York as a whole, the foreclosure rate increased by 15 percent in October. Year-to-year, statewide the number of foreclosures increased by 10 percent.

The sharp increase in New York City stands in seeming contrast to the declining rate in the US overall, which has seen a relatively steady reduction following the peak of foreclosures in 2009-2010. However, at 105,481 new foreclosures nationwide for October, it is evident that there is considerable ongoing distress across the country. Significantly, the national rate rose 25 percent in October, the greatest month-on-month increase since December 2008, likely indicating the start of a reversal in the previous general decline. In September, approximately 340,000 homes nationwide were in some stage of the foreclosure process.

There is marked variability from state to state, with some experiencing household distress even higher than in New York. Year-on-year, foreclosure rates increased in a majority of states, a total of 28 in all. The most severe conditions exist in Colorado, where the number rose 64 percent from the previous year. This is followed by Georgia (22 percent), Pennsylvania (20 percent), Arizona (17 percent), Virginia (15 percent) and Massachusetts (11 percent).

According to the report by ATTOM Data Solutions, this pattern is not merely the continuing legacy of the collapse of the housing bubble in 2007-2008. Many of these foreclosures represent mortgages that originated since 2009; a strong indication that for many families the so-called recovery following the 2008 crash has been illusory at best.

The rising rate of foreclosures in New York City is part of the city’s overall housing crisis. This is being driven by a combination of marked and growing income inequality, rendering increasing numbers of people incapable of making their mortgage payments, and rampant speculation, in which investors take advantage of the contrast between the growing numbers of foreclosures and the rise in demand for properties by the wealthy.

The median home price in Brooklyn, for example, has risen nearly 50 percent over the last seven years. In Queens, the average sale price hit a record $526,942 during the second quarter of the year, an increase of 17 percent from the previous year. The resulting process, known as gentrification, affects low- and middle-income residents alike by driving up both home prices

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and rents to unaffordable levels.

One indication of the rapaciousness of the housing industry is the frequency of housing “flips.” In this process a real estate speculator buys a “distressed property” at a rock-bottom price, holds it for a short period of time, usually making few if any improvements, and then sells it again at a greatly inflated price. The rate of such schemes has been rising markedly. For example, flips rose by 10 percent in the NYC borough of Queens during the first half of 2016. During the same period, flips increased by 40 percent in adjacent Long Island.

According to the Center for New York City Neighborhoods (CNYCN), during the period spanning 2014-2015, more than half of the properties flipped in New York City had received foreclosure notices in the three years before they were sold. Again, this data demonstrates that the pattern of foreclosures represents an ongoing crisis, not merely the aftermath of the 2007-2008 crash. The rate of flips is approaching that which existed before that bubble burst. CNYCN reports that flipping can yield as much as a 75 percent return on investment.

Another component of the increase in foreclosures is defaults on “reverse mortgages.” These are loans taken out against the net value of a home. They are targeted at the elderly who are often on fixed incomes and in desperate need of cash for such things as medical expenses. The owners are still responsible for payment of property taxes and homeowner’s insurance, and interest on the loan continues to accumulate. The latter often eventually totals more than the original value of the loan.

If the borrower’s economic situation leads to default in the required payments, the lender takes the home. This results in the loss of all equity in a home that the residents may have lived in for decades, effectively leaving the elderly former owners homeless. The reverse mortgage “industry” is infamous for the use of complex and misleading contracts and rampant predation on older, vulnerable individuals.

The housing crisis in New York City and nationwide is the result of decades of policies by both the Democrats and Republicans that promoted the interests of the banks and real estate developers while income inequality grew rapidly. Only a socialist program of massive new construction and repair of existing housing stock, along with an elimination of the private home mortgage industry, can address the critical shortage of affordable housing and halt the catastrophic loss of family homes.

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