

Does Foreclosure Increase the Likelihood of Homelessness? Evidence from the Greater Richmond Area

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Collaborative Impact:
The Case for Ending Homelessness
September 27, 2013

Middle Class and Homeless -- Unlikely Families Face Foreclosure

Chicago Defender, May 21, 2007

Subprime crisis: US foreclosures bring homelessness to the middle class

The Guardian (US edition), June 25, 2008

Foreclosures, homelessness surge in Alabama

AL.com, January 13, 2011

Report: Foreclosures increase number of homeless children in Utah

KSL.com, December 14, 2011

Foreclosures Force Ex-Homeowners to Turn to Shelters

New York Times, October 18, 2009

New Faces Join Homeless Ranks

USA Today, June 25, 2008

More being foreclosed into homelessness

The Boston Globe, April 22, 2009

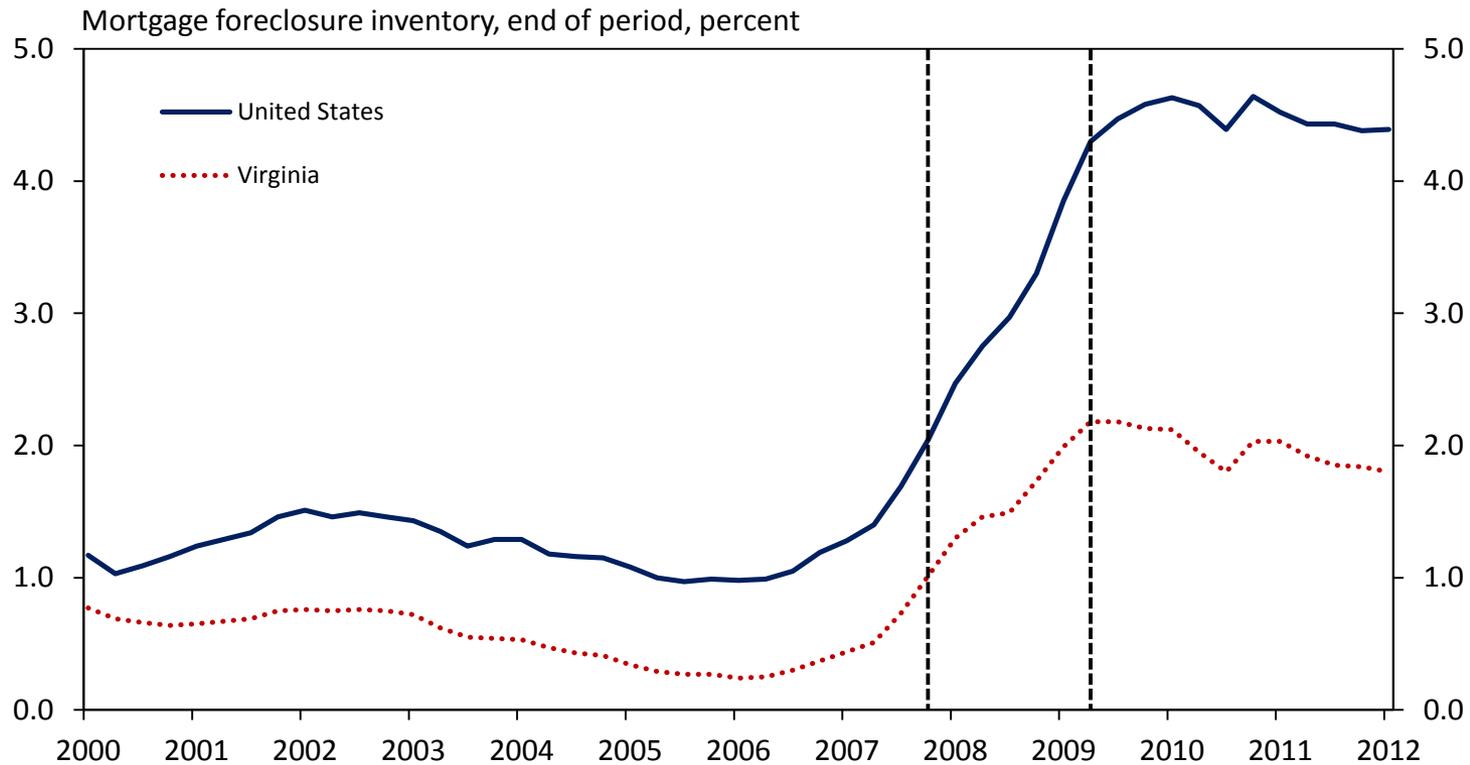
One family's journey from foreclosure to homelessness back to home ownership

Lewiston-Auburn Journal , April 22, 2012

The VA Joins Big Banks in the Foreclosure Business: A New Wave of Veteran Homelessness

The Huffington Post, January 21, 2011

Foreclosure rates: 2000 - 2012



Source: Mortgage Bankers Association, Haver Analytics

The foreclosure process

- Failure of the borrower to meet her mortgage obligation to the lender.
- Lender can obtain court order and seize the property under lien.
- Borrower needs to vacate the property and seek new housing arrangements.
- Failure to find new housing arrangement may result in homelessness.
 - Homeowners vs. renters

Existing theories on homelessness

-O'Flaherty (1995):

Homelessness occurs when individual income constraints become too extreme.

This becomes especially pronounced when there is an increase in housing prices.

-Quigley, Raphael and Smolensky (2001):

When the demand for low income housing increases, its price goes up.

This raises the price threshold below which homelessness becomes a preferred outcome.

-Empirical evidence supporting the theories: Elliott and Krivo (1991); Honig and Filer (1993); Early and Olsen (2002); Lee, Price-Spratlen and Kanan (2003); Quigley et al. (2001).

Focus of our study

Our study examines whether foreclosure is one of the risk factors of homelessness for low-income population.

- This is a population whose income constraints are already quite tight.
- It can be argued that this type of population consumes special kind of housing, “affordable housing,” which may be in short supply.
- Directly, the presence of foreclosure in one’s life may be an indicative that the individual has faced financial hardship that could have further constrained her budget.
- Indirectly, increase in foreclosures, especially of rental properties, in the area may limit the number of available housing units, which can indirectly affect those who rent.

Risk factors for homelessness

Author	Year	Data	Type of analysis	Significant factors
Early	1999	1987 Urban Institute study of homeless and 1985-1988 AHS	Likelihood	Age, income, mental health Older men, with low incomes and high levels of depression are more likely to be homeless.
Early	2004	1996 NSHAPC and 1996 SIPP. [2]	Likelihood	Age, gender, race Households headed by women and by persons of more than 50 years old are less likely to be homeless. African Americans are more likely to be homeless.
Early	2005	1996 NSHAPC and 1996 SIPP	Likelihood	Age, gender, race, substance abuse Households with children, with younger heads of household and where the head has problems with substance abuse have higher likelihood of homelessness
Allgood & Warren	2003	1996 NSHAPC	Duration	Age, gender, substance abuse, criminal history Older men with substance abuse and criminal history have longer spells of homelessness

AHS: American Housing Survey

NSHAPC: National Survey of Homeless Assistance Providers and Clients

SIPP: Survey of Income and Program Participation

Contribution

- The first client-level study examining the link between homelessness and foreclosure (to the best of our knowledge).
- In addition, we examine the role of other adverse events on homelessness such as bankruptcies and evictions.
- Our results are based on newer data from greater Richmond area.

Data Methodology

Data

- The data used in the study are based on 3,971 observations obtained from the 2009-2011 twice-yearly surveys of homeless and housed low-income individuals in the Greater Richmond area.
- The survey contains questions about demographic and socioeconomic characteristics of survey participants, such as age, gender, race, marital status, educational attainment and employment.
- Participants are also asked whether they have experienced adverse life events in the past, such as layoff, eviction, bankruptcy and foreclosure, whether they have ever used drugs or alcohol and whether they have ever been in jail or prison.
- Participants who report about having experienced foreclosure are also asked whether they were homeowners or tenants at the time of foreclosure.
- In addition, participants are asked whether they had ever lived in subsidized housing.

Procedure

- Participants are surveyed at area shelters and local meals programs, and through street outreach efforts.
- Prior to taking the survey, participants learn about the purpose of the survey, the time requirement, and the fact that their participation is voluntary and anonymous.
- Participants at one of the lunch programs have access to a service fair on the day of the count, and they are offered a bus ticket (whether or not they choose to take the survey).
- The survey is usually administered by a volunteer or staff member or self-administered.

Participants

- **Homeless participants** were surveyed during point in time counts (at shelters, local area meal programs and resource fairs, streets, parks, etc. through outreach efforts of Homeward).
- **Housed participants** were surveyed at local area meal programs and through outreach and represent a narrow segment of the low income population.

	<u>PIT Counts</u>	<u>Survey Data</u>		<u>Used in Analysis</u>	
	Adults/Homeless	Homeless	Housed	Homeless	Housed
Jan-09	1014	653	207	416	151
Jul-09	906	565	143	468	128
Jan-10	881	661	154	563	130
Jul-10	748	521	141	452	127
Jan-11	943	705	187	604	163
Jul-11	772	693	181	606	163

Summary statistics

- 75% of the participants in the sample are homeless (by the definition used by the Department of Housing and Urban Development).
- Around 10% of the participants had experienced foreclosure and half of them were previous homeowners.
- The majority of participants are Black, single men, with an average age of 44 years.
- More than half of the participants have only a high school education or GED, and 17% did not complete high school.
- 28% of participants had experienced evictions in the past, and around 12% had prior bankruptcies.
- 25% of the participants used subsidized housing in the past.
- More than 75% had a history of incarceration, and approximately 50% reported substance abuse issues.

Analysis and Results

Sampling issues

- Response based sample
 - Homeless respondents are oversampled.
 - The subsample of housed respondents is choice based and not necessarily representative of the low-income population.
 - Since the true underlying population is unknown, our findings should be interpreted with care.

Empirical models

In our model, we estimate an individual's probability of being homeless, conditional on a number of individual observable characteristics:

- Demographic characteristics: age, race, gender, marital status
- Socio-economic characteristic: employment status, education, layoffs
- Behavioral characteristics: substance abuse, criminal history
- Adverse life events: foreclosure, bankruptcy, eviction
 - foreclosure: former homeowners or tenants
- Time variables: to control for time specific (unobserved) factors

We do not observe these probabilities of homelessness directly in the population. Instead, we observe the **realized outcomes** (homeless or non-homeless).

Given the nature of our dependent variable, we estimate the model using the maximum likelihood method with logistic specification on the underlying distribution.

Results

Variables	Model 1 Odds ratios	Model 2 Odds ratios	Model 3 Odds ratios
Age	1.10 ***	1.08 ***	1.08 ***
Age squared	0.999 ***	0.999 ***	0.999 ***
Male	1.29 ***	1.00	1.12
Black	0.49 ***	0.57 ***	0.58 ***
Hispanic	0.83	0.87	0.85
Divorced	1.06	1.07	1.03
Separated	1.25 *	1.23	1.24
Widowed	0.64 **	0.66 **	0.63 **
Married	0.95	0.94	0.94
High school	0.82 **	0.83 *	0.88
Less than high school	0.59 ***	0.63 ***	0.67 ***
Employed	1.32 ***	1.30 **	1.32 ***
Subsidized housing		0.54 ***	0.51 ***
Criminal history		0.91	0.92
Substance abuse		1.75 ***	1.69 ***
Laid off			0.88
Evicted			1.79 ***
Bankruptcy			1.30 **
Foreclosed homeowner	1.53 **	1.50 **	1.38
Foreclosed tenant	0.89	0.86	0.85
Intercept	1.34	1.85	1.73
N	3971.00	3971	3971
Log-likelihood	207.06	289	327
Pseudo R ²	0.05	0.0695	0.0786

Results

Variables	Odds ratios		
	No foreclosure	Foreclosed homeowners	Foreclosed tenants
Age	1.08 ***	0.95	0.93
Age squared	0.999 ***	1.00	1.000
Male	1.03	0.98	4.43 **
Black	0.56 ***	5.38 ***	0.54
Hispanic ¹	0.85	---	0.51
Divorced	1.00	0.49	0.88
Separated	1.23	0.92	1.27
Widowed	0.58 **	1.53	1.08
Married	0.97	0.21 *	1.44
High school	0.87	1.35	0.73
Less than high school	0.62 ***	7.89 **	2.29
Employed	1.36 ***	0.35 *	1.06
Subsidized housing	0.53 ***	0.45	1.26
Criminal history	0.95	0.73	0.95
Substance abuse	1.67 ***	3.09 **	0.98
Laid off	0.92	0.72	0.71
Evicted	1.78 ***	1.84	0.90
Bankruptcy	1.12	4.64 **	2.79 *
Foreclosed homeowner	3.55	---	---
Foreclosed tenant	10.15	---	---
Intercept	1.72	---	---
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N	3971	3971	
Log-likelihood	374.52	374.52	
Pseudo R ²	0.09	0.09	

Summary of key results

- Having experienced a foreclosure as a **homeowner** is associated with a higher likelihood of homelessness, although this effect becomes insignificant in the presence of other adverse life events, such as bankruptcies. On the other hand, the effect of foreclosure on former tenants is **not significant**.
- Adverse life events such as **evictions** and **bankruptcies** significantly increase an individual's likelihood of becoming homeless.
- Factors such as **drug and alcohol abuse** are associated with significantly higher risk of homelessness.
- Access to **subsidized housing** is associated with a significantly lower risk of homelessness.

Policy implications

- We found that access to subsidized housing significantly reduces an individual's likelihood of homelessness. This finding, however, should be considered with care, as shown in Early (1998) and Early and Olson (2002).
- We also found that drug and alcohol abuse are associated with a higher likelihood of homelessness, so programs that specifically address these issues may be helpful in reducing the incidence of homelessness.

Suggestions for future research

- While we found that former homeowners whose homes were foreclosed upon had a higher chance of homelessness, the pathways that lead them to homelessness are not well explored.
- It would be interesting to replicate this research for areas where the foreclosure crisis was especially severe.

Acknowledgments

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