Foreclosure crisis and cities

Foreclosure Crisis in US The origin of the foreclosure crisis can be traced back to a decade ago when financial s relaxed lending conditions with the hope of availing high returns from the sale of securitized mortgages and this simple and liberal policies of the banks led to the emergence of millions of adjustable- rate mortgages. The loans were actually designed to provide home loan to anybody who wants to take it. But later, when interest rates on the adjustable mortgages were hiked during 2006-07, many borrowers faced the difficulty of repayment, leading to a series of defaults. At the beginning of 2008, with the weakening of US economy and losing of jobs, these defaults became millions and many Americans with plain-vanilla prime mortgages were also in trouble for making the repayment. Some borrowers were compelled to give up the repayment, finding that they had paid inflated prices for houses while others were in trouble by borrowing against the equity in their homes. According to Federal Reserve, more than $1. 1 trillion of equities were withdrawn in 2007-08. Even the borrowers who have stable jobs started to see these negative equities as reason for stopping the payments and by the beginning of 2009, one-sixth of the homeowners found default borrowers, culminating the foreclosure crisis (Immerdeck, 2009). A large number of foreclosed dwellings all around the country were left vacant when the owners just walked away from the properties as they were unable to repay the loans. These empty dwellings created blight and contributed to the deterioration of neighborhood. This resulted in the drop of property value and increase of crimes. Alex Kotlowitz (2009) in his article provides the instance of Cleveland where there was a sudden emergence of real estate flippers and mortgage companies which mainly targeted to use the situation as also drastic and deep fluctuations in the prices of houses and frenzied negotiations between buyers and flippers, flippers and sellers and borrowers and mortgage companies (5-9). With the culmination of foreclosure crisis, a large number of banks and government repossessed the houses and this again led to the decreasing value of properties. When the foreclosure proceedings became widespread, majority of the investors in property stopped repayment and just left the properties without giving any attention. This resulted in a host of vacant houses in all cities and caused the neighborhood problem. The US Government and city authorities have tried to solve the problem in all possible ways. One common method adopted by the city authorities was to purchase vacant foreclosed and repo property. For this purpose, special funding was given by the federal government and in some parts, for example in Charlotte, local authorities sought the help of the non-profit habitant organizations to revive the empty foreclosed houses (Kotlowitz, 2009). With the help of residents and students, local authorities conducted field works in the subdivisions and in Windy Ridge, the efforts were to repossess the empty homes to avail them to the families. Many of the properties were possessed by the investors who earn income by giving them for rent. For decades, bankruptcy has been used as an important legal mechanism for the financial crisis of consumers. But bankruptcy could not be adopted in the present foreclosure crisis, as there exists special protection to the home mortgages. All the debts except home mortgages can be modified in bankruptcy by debtors and in the case of mortgages, a bankrupt debtor has to pay the last penny of the debt according to the terms and conditions of the mortgage. And hence, many house owners, who could not do this, lost their homes in foreclosure and thus, created significant economic deadweight cost further depressing the housing market. Hence, in the present situation permission of modification of the home mortgages in bankruptcy offers a solution to the crisis and it may be the best method for stabilizing the housing market (Levitin, 2009). Immerdeck, Dan (2009), “ Foreclosed: High Risk Lending, De regulation and undermining of America’s Mortgage Market”, Cornell University Press, London. Levitin, Adam J (2009), " Resolving the Foreclosure Crisis: Modification of Mortgages in Bankruptcy", Wisconsin Law Review, 565 available at: http://works. bepress. com/adam_levitin/12 Kotlowitz, Alex (2009), “ All Boarded Up “, available at http://www. theatlantic. com/magazine/archive/2008/03/the-next-slum/6653/