



**Sacramento  
Housing &  
Redevelopment  
Agency**

**REPORT TO COUNCIL**  
**City of Sacramento**  
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[www.CityofSacramento.org](http://www.CityofSacramento.org)

Staff Report  
**April 29, 2008**

**Honorable Mayor and Members of the City Council**

**Title: Sacramento Foreclosure Trends and Potential Local Initiatives**

**Location/Council District:** Citywide

**Recommendation:** Informational report for Council consideration

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**Presenters:** Cindy Cavanaugh, Assistant Director, Kevin Stein, California Reinvestment Coalition

**Department:** Sacramento Housing and Redevelopment Agency

**Description/Analysis:**

**Issue:** In 2007, Sacramento experienced the fifth highest rate of foreclosure among the nation's 100 largest jurisdictions. Representing a six-fold increase from the previous year, there were 7,472 foreclosures in Sacramento County or one foreclosure for every 67 households.

In general, the presence of high cost or subprime loans has correlated to high rates of foreclosure. In Sacramento County, over one third of the loans made in 2005 and 2006 were high cost or subprime loans. Nationally, about one in five subprime mortgages made during this period ended in foreclosure. In general, foreclosures tend to be concentrated in lower-income and predominantly minority census tracts. For the City of Sacramento, the communities hit hardest with incidents of foreclosure are Oak Park, Meadowview, and North Sacramento. Attachment 1 is a summary report of foreclosure trends in Sacramento prepared by the California Reinvestment Coalition.

## Sacramento Foreclosure Trends and Potential Local Initiatives

As the housing market continues to decline and the bulk of subprime loans with adjustable rate mortgages (ARM) reset in 2008 and 2009, Sacramento's families and neighborhoods will continue to experience the negative social and economic impacts of additional foreclosures. While cities and counties may hope to mitigate these impacts, local budgets are affected by reductions in property taxes, transfer tax revenues, and sales tax attributable in part to the foreclosure crisis.

The Sacramento Housing and Redevelopment Agency (SHRA), working in partnership with City and County staff (Code Enforcement, Neighborhood Services, City Attorney and District Attorney) recognizes that, due to limited resources, local efforts are constrained in addressing the national crisis. However, the City can take strategic action aimed at reducing the rate of foreclosures and minimizing neighborhood impacts. By necessity, cities and counties throughout the nation are developing innovative strategies and approaches and advocating for their interests at the national and state level, as well as in the courts and with lenders. Through proactive and collaborative efforts, Sacramento can position itself to aggressively pursue new resources and take advantage of strategic interventions and opportunities.

A local foreclosure strategy should address 1) preventing additional foreclosures; 2) mitigating community impacts; and 3) asking for help at the federal and state level to do these things.

In addition to providing data on foreclosure trends in Sacramento, this report and presentation discuss the following:

- What principles should be applied when crafting a local response?
- What role should local government and local agencies play in responding to the foreclosure crisis?
  - How do you prevent additional foreclosures?
  - How do you mitigate the impacts once foreclosures occur?
- How do we align our local strategy with federal and state initiatives and resources? What local resources may be available?
- What is currently underway in Sacramento and elsewhere? Which local initiatives are most promising?
- Where is more work needed?

## Sacramento Foreclosure Trends and Potential Local Initiatives

To provide some of the national context, Attachment 2 summarizes federal and state legislation introduced to prohibit or curtail the most reckless subprime lending practices, to prevent further foreclosures through assistance for refinancing or restructuring loans, and to provide funding to local governments to help rehabilitate and sell foreclosed homes to new homebuyers. On March 4<sup>th</sup>, the City's Law and Legislation Committee accepted staff's recommendation to support the bills outlined in Attachment 2 and to encourage stronger regulation by the Federal Reserve of predatory practices.

**Next Steps**

SHRA will request approval from Council as more specific programs and responses are developed. Programs and resources will seek to position SHRA, the City and the County to take advantage of current resources, as well as state, federal and lender resources that may become available in the future.

SHRA, the City and County will continue to monitor trends and impacts, coordinate and share existing efforts and explore new strategies to address foreclosure prevention and mitigate neighborhood impacts. SHRA will continue to provide monthly updates through the release of the "SHRA Foreclosure Newsletter" available to interested parties and through its website.

**Policy Considerations:** The report updates the Council and seeks input on the actions underway or under consideration by SHRA, the City and the County to address foreclosure issues. Actions considered in this report align with policies and programs in the draft 2008-2013 Housing Element, reviewed by the Council on April 15, 2008.

**Environmental Considerations:** This report is not a project as defined by the California Environmental Quality Act (CEQA) Section 21065 and CEQA Guidelines Section 15378 (b)(4).

**Committee/Commission Action:** This report was presented to the Sacramento Housing and Redevelopment Commission on April 16, 2008.

**Rationale for Recommendation:** This is an informational report and contains no recommendation.

April 29, 2008

## Sacramento Foreclosure Trends and Potential Local Initiatives

**Financial Considerations:** None at this time. SHRA or the City will return at a later date to seek authorization to implement particular strategies and utilize local funding resources so as to be in position to leverage additional federal, state, and lender funding.

**M/WBE Considerations:** The items discussed in this report have no M/WBE impact; therefore, M/WBE considerations do not apply.

Respectfully Submitted by:



LA SHELLE DOZIER  
Interim Executive Director

Recommendation Approved:

  
RAY KERRIDGE  
City Manager

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# **Foreclosure Trends in Sacramento and Recommended Policy Options**

**A Report for the Sacramento Housing and Redevelopment Agency by  
The California Reinvestment Coalition**

*April 11, 2008*

Christi Baker  
Kevin Stein  
Mike Eiseman

## 1.0 Introduction

Over the past couple of years a foreclosure crisis has been intensifying across the United States. According to RealtyTrac's 2007 U.S. Foreclosure Market Report, a total of 2.2 million foreclosure filings<sup>1</sup> were reported on 1.3 million properties nationwide during 2007, up 75 percent from 2006. This crisis has had a significant impact in Sacramento County, where foreclosures increased by nearly sixfold in 2007, while default notices nearly tripled<sup>2</sup>. With a mission of revitalizing communities and providing affordable housing opportunities in the City and County of Sacramento, the Sacramento Housing and Redevelopment Agency (SHRA) is concerned about the area's high foreclosure rates that threaten the health and vitality of families, neighborhoods and the local economy.

This report summarizes and analyzes foreclosure trends and impacts within the City and County of Sacramento and recommends local policy responses to support homeowners and neighborhoods based on the analysis. It builds from the research that was conducted for *Foreclosures and the Subprime Mortgage Crisis: A Sacramento Perspective* by SHRA in December 2007. Section 2 details Sacramento's foreclosure and high-cost lending trends. Section 3 quantifies the direct and indirect costs of foreclosures in Sacramento. Section 4 offers policy strategies to help delinquent borrowers avoid foreclosure and minimize the spin-off effects of foreclosed properties based on the local context. Finally, Section 5 provides concluding remarks.

Most of the analysis in this report relies on data regarding notices of default (NOD), notices of trustee sale (NOTS) and Real Estate Owned (REO) filings. While some data sources report findings that double or triple count properties that are the subject of multiple filings, the analysis in this report focuses instead on a non-duplicated count of properties in distress.

## 2.0 Foreclosure and High-Cost Lending Trends in Sacramento

### 2.1 Who are the players?

There are several different actors playing key roles in today's mortgage market. It is helpful to know which institutions are most active in a community and to consider engaging them in a dialogue about how to stem foreclosures. For the purpose of this analysis, we note the following:

- Lenders originate or fund loans. Often, lenders originate a loan and then sell the loan to another institution or investor. This is especially true in the subprime market. A lender, whether it holds onto the loan or sells it, may retain the rights to service the loan.
- Servicers are the companies that process mortgages on behalf of the mortgage holders. Frequently, the servicer will be the only party with whom the homeowner has any contact.<sup>3</sup> Servicers receive and record borrower payments, and are in the position to work with borrowers in distress, consistent with pooling and servicing and any other

<sup>1</sup> Foreclosure filings include default notices, auction sale notices and bank repossessions.

<sup>2</sup> DataQuick Information Systems.

<sup>3</sup> For more information, see National Consumer Law Center, [www.nclc.org](http://www.nclc.org).

agreements that may apply. Companies may service the loans they originated as lender and/or service the loans originated by other companies.

- Trustees are companies, often national banks, which have contracts to represent the interests of investors in pools of mortgage backed securities. Often, when loans go into foreclosure, the court filings will be in the name of the trustee. When properties go through the foreclosure process and revert back to the “owner” of the loan, the property may be listed in the name of the trustee.

Sometimes, these labels are used interchangeably or differently. As such, the data have certain limitations in that companies sometimes appear to be mislabeled, and this complicates efforts to understand who is doing what at the local level.

Top Servicers in the County. Based on estimates from Notices of Default filed, the top six servicers of delinquent mortgages in Sacramento in 2007 based on volume were:

- Wells Fargo
- Countrywide
- Washington Mutual
- Litton Loan Servicing
- Chase
- GMAC.

Top Holders of Foreclosed Property. The three companies with the most real-estate owned (REO) properties in Sacramento in 2007 were:

- Countrywide
- Wells Fargo
- GMAC.

## 2.2 Foreclosure statistics and trends

Filings are up. Following regional and state trends, default and foreclosure activity soared in Sacramento last year, as detailed in the table and figure below. Notices of default (NODs), which typically indicate that homeowners have missed several payments and are in danger of foreclosure, rose 159 percent in 2007 in Sacramento to 17,828, with a default rate of one filing for every 28 households<sup>4</sup>. Sacramento foreclosures jumped 482 percent in 2007 to 7,472, with a foreclosure rate of one filing for every 67 households. These trends can be seen in Table 1 and Figure 1, below. Nationally, Sacramento was ranked as the fifth top metro area by foreclosure rate<sup>5</sup> in 2007 by RealtyTrac.

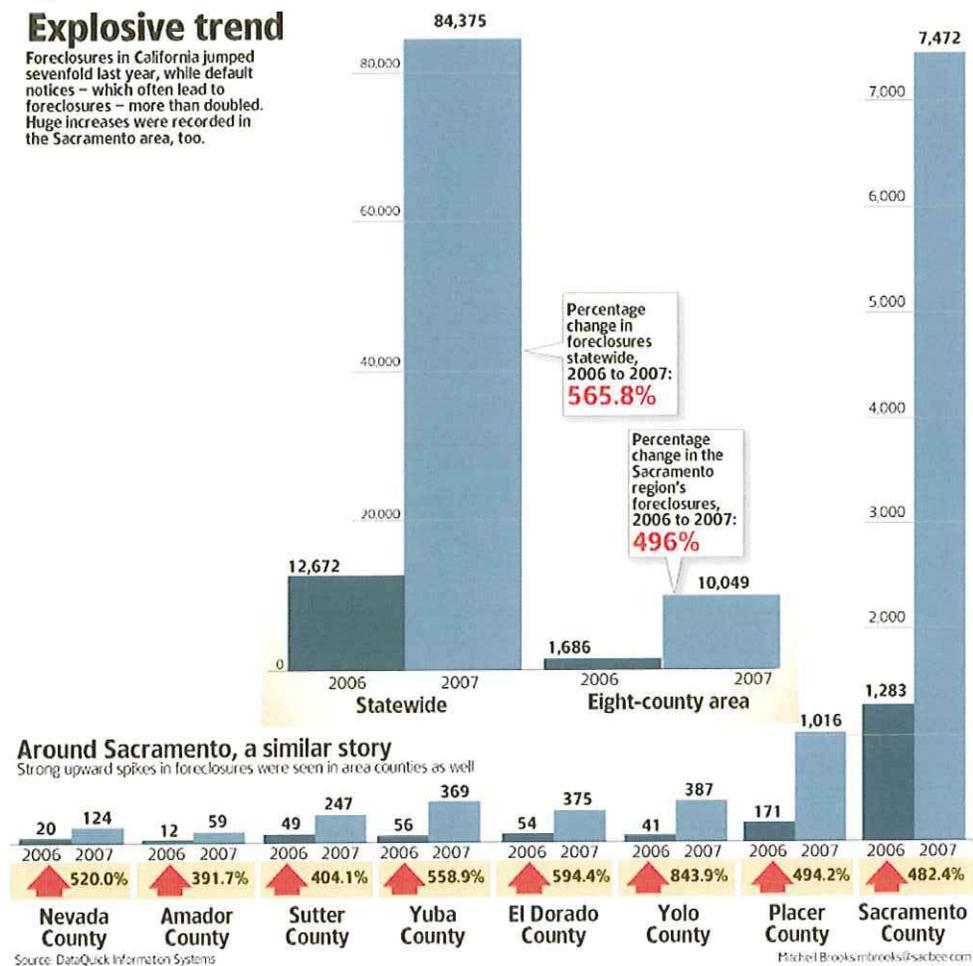
<sup>4</sup> The per-household calculation is based on 2006 household estimates from the U.S. Census. This means that for 2007, the number of NODs for 2007 will be divided into the 2006 household estimate number (500,292). This will inflate the final per-household calculation since it does not take into account the growth in total households from 2006 through 2007. Even though 2007 household numbers are not yet available, the 2006 number was used to provide an opportunity to note the scope of the problem in Sacramento County.

<sup>5</sup> Based on all foreclosure-related filings, including default notices, auction sale notices and bank repossessions.

Table 1: NODs and REOs for Sacramento County, Region and State in 2006 and 2007						
Filing and Year	2006 NOD	2007 NOD	% Change NOD	2006 Foreclosures	2007 Foreclosures	% Change Foreclosures
Sacramento	6,884	17,828	159%	1,283	7,472	482%
Placer	1,498	2,723	82%	171	1,016	494%
Yolo	414	1,095	165%	41	387	844%
El Dorado	459	1,023	123%	54	375	594%
Yuba	289	851	195%	56	369	559%
Sutter	263	588	124%	49	247	404%
Amador	105	184	75%	12	59	392%
Nevada	248	495	100%	20	124	520%
8-county region	10,160	24,787	144%	1,686	10,049	496%
Statewide	104,977	254,824	143%	12,672	84,375	566%

Sources: DataQuick Information Systems and Sacramento Bee

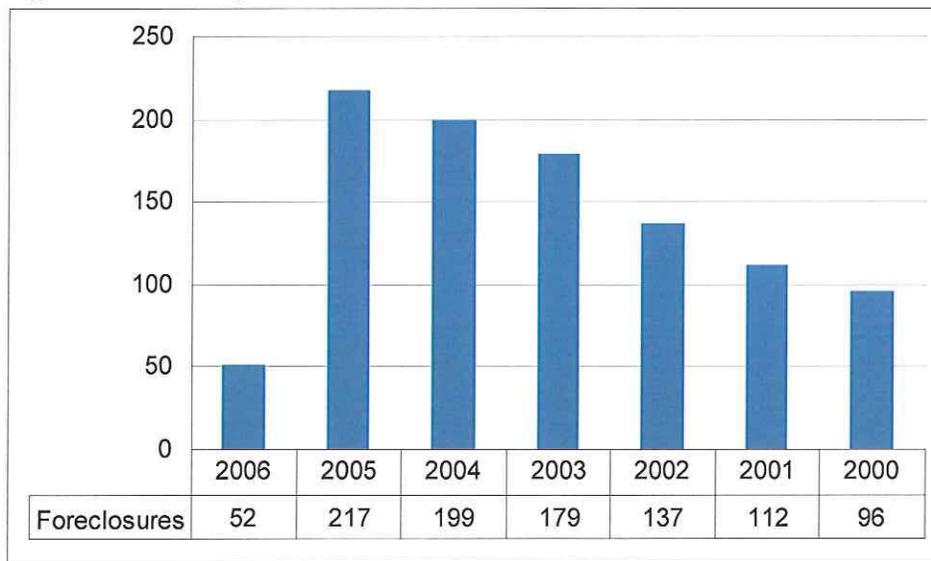
Figure 1: Foreclosures in Sacramento County, Region and State in 2006 and 2007



Recent loans are problematic. More than 80 percent of the loans that went into default in 2007 in Sacramento were originated between 2005 and 2006 when nontraditional and subprime loans with relaxed underwriting guidelines were particularly common in California. Of the owners that were in default in 2007, an estimated 44 percent lost their homes through foreclosure.<sup>6</sup>

Recent construction provides a partial explanation. There is concern that recent overbuilding in the Sacramento region has helped to fuel the current foreclosure crisis. Analysis of REO data for 2007 suggests that the number of foreclosures on homes constructed in recent years increased as the construction date approached 2005, as shown in Figure 2. But the vast majority of foreclosures in the county—6,480 of the 7,472 REO filings in 2007—were on homes constructed prior to 2000.

**Figure 2: Recently Constructed Homes that Went into Foreclosure in 2007, by Year Built**



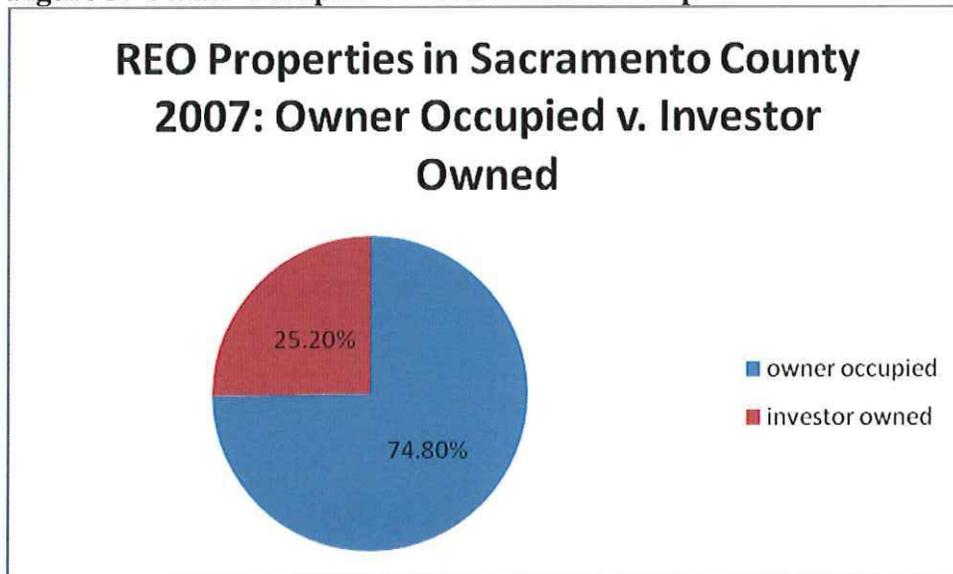
Owner Occupied v. Investor Owned. Policymakers may be quite interested to know whether those most impacted by local foreclosures are owner occupant families living in their own homes, or investors who have purchased additional homes to rent out. Generally, the former group is thought of as more sympathetic and worthy of assistance. Investors are also thought to be quicker to walk away from investment properties in which they do not reside. Importantly, while investor owned properties may be quicker to go to foreclosure and may have fewer resources available to them, these properties often directly impact those most blameless – tenants.

A quick review of REO data suggests that approximately 75 percent of homes that went through foreclosure were owner occupied, and 25 percent of these properties were investor owned. The percentage of investor-owned properties may be lower, as site addresses which were not

<sup>6</sup> County Recorder data, accessed by New Century Title. This estimate was calculated by dividing the number of REOs by the number of NODs.

recorded identically to mailing addresses for a particular borrower were deemed to be investor-owned, though some of these addresses may have in fact been the same.

**Figure 3: Owner Occupied v Investor Owned Properties**



Latino households are impacted. While data on default notices by borrower ethnicity is lacking, Latino ethnicity can be approximated by identifying borrowers with Spanish surnames. Using this method, approximately 25 percent of delinquent borrowers in Sacramento in 2007 were Latino.<sup>7</sup> This is slightly higher than the proportion of Latino residents in the county.

### 2.3 Impacted areas

#### *City of Sacramento*

Slightly more than one-third (35 percent) of all defaults in Sacramento County were within the City of Sacramento in 2007. While defaults and foreclosures were spread across the City of Sacramento, they tended to be concentrated in lower-income and predominantly minority census tracts, as shown in the figures below.

#### Hot Spot Sacramento City Council Districts

- District 1 (963 notices of default filed)
- District 8 (826 notices of default filed)
- District 2 (675 notices of default filed)

#### Hot Spot Sacramento City Zip Codes (in order from highest to lowest)

- 95823 (819 NODs)
- 95838 (493 NODs)

<sup>7</sup> County Recorder data, accessed by New Century Title, which was tested against a list of 11,500 Spanish language surnames generated by the U.S. Census. This methodology can approximate the number of Latino borrowers. However, it may inadvertently identify Filipino households as Latino. Filipinos constitute about three percent of the population in Sacramento County.