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Mental health in the foreclosure crisis[☆]

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A B S T R A C T

Current evidence suggests that the rise in home foreclosures that began in 2007 created feelings of stress, vulnerability, and sapped communities of social and economic resources. Minority and low SES communities were more likely to be exposed to predatory lending and hold subprime mortgages, and were the hardest hit by the foreclosure crisis. Little research has examined whether and how the foreclosure crisis has undermined population mental health. I use data from 2245 counties in 50 U.S. states to examine whether living in high foreclosure areas is associated with residents' mental health and whether the foreclosure crisis has the potential to exacerbate existing disparities in mental health during the recessionary period. I use county-level data from RealtyTrac and other data sources, and individual-level data from the Behavioral Risk Factor Surveillance Survey from 2006 to 2011. I find that – net of time invariant unobserved between-county differences, national time trends, and observed confounders – a rise in a county's foreclosure rate is associated with a decline in residents' mental health. This association is especially pronounced in counties with a high concentration of low SES and minority residents, which supports the perspective that the foreclosure crisis has the potential to exacerbate existing social disparities in mental health.

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1. Introduction

In 2007, following decades of financial deregulation and increasingly risky borrowing practices, defaults in the subprime mortgage market resulted in the worst economic collapse in the U.S. since the Great Depression. The housing market crash led to a historically unprecedented rise in home foreclosures – from 650,000 in 2007 to a record 2.9 million homes in 2010, when more than 2% of all U.S. homes received a foreclosure notice (RealtyTrac, 2010). However, there is a great deal of variation in the geographic distribution of foreclosures. Some communities escaped relatively unscathed by the crisis, while others were devastated. Because the foreclosure crisis was concentrated in the subprime mortgage market (Immergluck, 2009), low SES and minority communities – who primarily had access to loans with poor terms and high interest rates – bore the brunt of the foreclosure crisis (National Fair Housing Alliance, 2012; Rugh and Massey, 2010). The massive scope of the foreclosure crisis, as well as its disproportionate impact on vulnerable communities, raises questions about its potential impact on the well-being of the U.S. population.

Recent research shows that foreclosure is a devastating stressful life event that undermines mental health. However, little research examines whether foreclosures undermine the mental health of all community members. In this study, I examine how living in high foreclosure localities is associated with residents' mental health. I ask two questions: First, is a rise in the local foreclosure rate associated with changes in individual residents' mental health and wellbeing? And second, does the foreclosure crisis have the potential to exacerbate existing social disparities in well-being? Put differently, is the foreclosure-mental health association larger in disadvantaged areas than in more advantaged areas?

2. Background

The Great Recession was unique in that it was a three pronged crisis. It was a global financial crisis where credit markets dried up; it was a traditional unemployment crisis with double-digit unemployment rates; and it was the worst housing market crisis in the history of the U.S., where millions of people lost their homes to foreclosure. Deregulation of the banking industry and the rise of subprime and predatory lending are well-documented causes of the foreclosure crisis (Been et al., 2011; Fligstein and Goldstein, 2011; Gerardi et al., 2009). The foreclosure crisis

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began in the subprime mortgage market, but high unemployment rates eventually drove the spread of foreclosures into the prime mortgage market, as out of work families struggled to keep up with their mortgages (Been et al., 2011). Despite the massive scope of the foreclosure crisis, we know relatively little about how it is associated with the mental health of the U.S. population.

Recent research shows an association between foreclosure and mental health. Foreclosure and default are associated with worsened mental health (Alley et al., 2011; Currie and Tekin, 2011; McLaughlin et al., 2012; Osypuk et al., 2012), in part because foreclosure is a stressful life event that also invokes feelings of shame, loss, and regret (Nettleton and Burrows, 1998). This is particularly germane to the United States, where homeownership is central to identity and losing one's home is seen as a failure to maintain or achieve the American Dream (Libman et al., 2012). As such, foreclosure is often conceptualized as a stressful life event that undermines the mental health of current and former homeowners and their families.

But while prior research provides important insights on how foreclosure is linked to mental health, most research conceptualizes foreclosure as an individual-level stressful life event that impacts the well-being of those who experience it. Foreclosures are geographically distributed across communities, and some areas have been hit harder than others (Immergluck, 2009; Rugh and Massey, 2010). In areas where foreclosure is most common there is evidence that foreclosures may alter the social fabric of communities and affect the mental health and well-being of all residents, regardless of whether they are homeowners or are going through foreclosure.

Research shows that foreclosures can lead to a decline in *stress-mitigating community resources* and a rise in *community stressors* in the surrounding area. For example, a rise in local-area foreclosures are associated with declines in economic resources, such as home values, where each additional foreclosure reduces the value of nearby properties by 1% (Harding et al., 2009; Immergluck and Smith, 2006a). Rising foreclosures also lead local governments to scale back on community investments (Kingsley et al., 2009), in part due to declining tax revenues (Joint Economic Committee, 2007), and because foreclosures create expensive administrative costs (Kingsley et al., 2009). Foreclosures are also associated with declines in social capital, civic engagement (Estrada-Correa and Johnson, 2012), and residential instability (Li and Morrow-Jones, 2010). Such community resources are important social resources for mental health and well-being (Araya et al., 2006; Jia et al., 2009; Robert, 1999; Yen and Syme, 1999), and thus a reduction in these resources due to foreclosures may undermine residents' mental health.

Foreclosures are also associated with a rise in community stressors. During the crisis, many foreclosed properties became abandoned and blighted (Joint Economic Committee, 2007). These vacant properties, along with diminished social capital, are associated with elevated crime rates (Arnio et al., 2012; Immergluck and Smith, 2006b; but see Kirk and Hyra, 2012). Moreover, living in high foreclosure communities creates feelings of insecurity and mistrust towards lenders and the government (Ross and Squires, 2011). Such community stressors tax residents' mental health (Kim, 2010; Latkin and Curry, 2003; Ross, 2000), and an increase in these stressors due to rising foreclosures may undermine residents' mental health. Although I do not measure these variables, I expect that these *social costs* of rising foreclosures – reductions in community resources and elevated community stressors – are the primary mechanisms that link the rise in foreclosures to individual resident's mental health. Based on the above literature, I hypothesize the following:

H1. Rising local foreclosure rates will be associated with declines in residents' mental health, net of individual characteristics and area-level confounders.

2.1. Social inequality, rising foreclosures, and mental health

The foreclosure crisis has profound implications for social inequality in the United States (Pfeffer et al., 2013; Rugh and Massey, 2010). Rising foreclosures have disproportionately impacted disadvantaged communities, in part because residents of these communities had access primarily to risky, high cost subprime mortgages (National Fair Housing Alliance, 2012; Rugh and Massey, 2010; Williams et al., 2005). But in addition to facing higher *rates* of foreclosure, there is evidence that low SES and minority communities faced greater *social costs* – a greater loss of community resources and a higher level of community stressors – than did more affluent, white communities at equivalent levels of foreclosure.

Recent evidence suggests that rising foreclosures could have a stronger association with wellbeing in low SES and minority communities compared to more advantaged communities, in part because these communities face greater social costs to foreclosure. For example, foreclosed homes in Low SES and minority areas tend to be left vacant for longer periods of time, and are more likely to become abandoned than in more affluent, white areas (Immergluck and Smith, 2006b). Low SES and minority communities also experienced a greater decline in wealth and property values than did more affluent communities during the recession (Immergluck, 2009; Pfeffer et al., 2013). Moreover, disadvantaged communities saw greater increases in crime in the wake of the foreclosure crisis than did more affluent areas (Teasdale et al., 2012). Why might this be the case? One potential reason for these differences is lender neglect. At the height of the foreclosure crisis the National Fair Housing Alliance (2012) found massive disparities in lender's upkeep of foreclosed, Real Estate-Owned (REO) homes. Lenders are responsible for maintaining REO properties, and these homes are at-risk of lying vacant and becoming abandoned. REO homes in minority and disadvantaged communities were found to be far more likely to be allowed to fall into disrepair, to lack visible for sale signs, and have boarded up windows. Contrast this with homes in more affluent areas, which were well-maintained, and in some cases security services were hired to protect the lender's investment. As such, disadvantaged communities experienced greater social costs to rising foreclosures than did more affluent communities, which may in turn lead residents of these communities to experience more mental health problems as a result of rising foreclosures.

The above evidence suggests that the foreclosure crisis intersects with existing social inequalities in ways that may exacerbate disparities in mental health. For example, the above evidence suggests that at equivalent levels of foreclosure, disadvantaged communities are likely to face greater social costs to foreclosure than are more affluent communities. If this is the case, we would expect the association between rising foreclosure rates on mental health to be stronger in low SES and minority communities than in more affluent, white communities. Following this logic, I hypothesize the following:

H2a. The association between foreclosure and mental health will be amplified in lower SES areas compared to higher SES areas.

H2b. The association between foreclosure and mental health will be amplified in areas with a larger proportion of minority residents compared to those that have a lower proportion of minority residents.

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