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Foreclosure migration and neighborhood outcomes: Moving toward segregation and disadvantage☆

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A B S T R A C T

The US housing crisis during the late 2000s was arguably the most devastating residential disaster of the last century, sending millions of families into foreclosure and destroying billions in household wealth. An understudied aspect of the crisis was the spike in local migration that followed the foreclosure surge. In this paper, we assess the residential consequences of these moves, by exploring how foreclosure-induced migration affected the racial and socioeconomic composition of affected families' neighborhoods. To do so, we use the Panel Study of Income Dynamics to track foreclosure, migration, and neighborhood outcomes for samples of white, black, and Hispanic homeowners. Findings from our analysis show clearly that foreclosure was linked to migration to less white and more residentially disadvantaged neighborhoods, with foreclosed Hispanic householders, in particular, tending to move to poorer and more racially isolated neighborhoods.

The foreclosure crisis that struck the US during the second half of the last decade had profound economic and social consequences on family and community well-being. The impacts of the crisis on economic insecurity, mental and physical well-being, civic engagement and social capital within communities, and local tax revenues have been devastating (see Arcaya et al., 2013; Currie and Tekin, 2015; Houle, 2014; Libman et al., 2012; Pfeffer et al., 2013). Less known, however, are the residential repercussions of the crisis despite the surge in foreclosures producing one of the largest waves of residential migration in the last century (Hall et al., 2015a; Stoll, 2013). The growth in local moves spawned by the rising number of foreclosures is likely to not only have altered social relations within neighborhoods and communities, but also to change the neighborhood environments of families who were forced to move as a result of foreclosure. The implications of this migration surge are potentially considerable, given decades of social science research detailing the variety of ways that neighborhood conditions structure opportunities and affect well-being (see Brooks-Gunn et al., 1997; Chetty et al., 2015; Sampson, 2012; Wodtke et al., 2011).

These residential impacts of foreclosure are potentially especially large for ethnoracial minorities who were hit hardest by the housing crisis. Extensive reporting and empirical work has shown that their vulnerable economic position, together with lender targeting of minority communities, legacies of racial discrimination, and risky borrowing, combined to produce rates of foreclosure among black and Latino homeowners that were dramatically higher than those for whites (Engel and McCoy, 2011; Hall et al., 2015b; Immergluck, 2011; Rugh, 2015). Given these conditions, along with underlying migration tendencies, the foreclosure crisis likely meant that racial/ethnic minorities were especially prone to experience neighborhood change following foreclosure.

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Yet, foreclosure-induced migration may bring about unique forms of stratification, given that foreclosure nearly always corresponds with economic hardship. This financial and, often, familial insecurity – the loss of a job or a marital dissolution –means that households (or household members) are likely to move to less-advantaged neighborhoods following foreclosure. Residential moves toward lower-status neighborhoods are likely compounded by the change in tenure – from owning to renting – brought about by foreclosure. These tendencies are also likely to have implications for neighborhood racial contexts; leading blacks and Hispanics to not just poorer, but more racially isolated areas. If this patterns holds, foreclosure migration will heighten racial inequality in residential domains simply by the fact that black and Latino households have higher risks of foreclosure. Yet, this stratification may be further intensified by underlying racial differences in neighborhood mobility, which make black and Latino households more likely than whites to move into poor, segregated neighborhoods (South and Crowder, 1997, 1998; South et al., 2005).

In this analysis, we seek to explore these issues by assessing the racial variation in the neighborhood dynamics of post-foreclosure migration. To do so, we use household-level data from the Panel Study of Income Dynamics linked to Census data on neighborhood socioeconomic conditions and racial compositions to assess how migration events following (or during) foreclosure impact the context of households' neighborhoods in racially-selective ways. More specifically, we test whether changes in neighborhood conditions (i.e., between origin and destination neighborhoods) among foreclosed households – namely in terms of co-ethnic concentrations, poverty levels, and ownership rates – are patterned racially. To assess whether any racial differentiation in the neighborhood consequences of foreclosure migration simply reflects underlying racial differences in migration, we compare changes in neighborhood conditions for foreclosed households to similar households making residential moves without experiencing foreclosure.

1. Background

The recent housing crisis was one of the most profound residential disasters in the nation's history, pushing millions of families into foreclosure, many more into financial distress, and destroying generations of wealth. It was precipitated by a potent combination of unsustainable lending practices, irresponsible borrowing, and faulty valuations of home prices (see Immergluck, 2011). In the run up to the crisis, housing prices rose steadily in most markets reflecting not only general economic prosperity during the last years of the twentieth century, but the assumption by homeowners, speculators, and lenders that housing prices would continue to rise. This expectation of ever-increasing equity helped to justify the increasing use of risky financing strategies, all enabled by years of federal deregulation of the banking industry. With the growing popularity of zero-down mortgages, loan-to-value ratios soared and an increasing share of homeowners had little or no equity even at the origination of their loans. These problems were exacerbated by the proliferation of predatory lending practices that left millions of homeowners vulnerable to the financial burden of large balloon payments and unsustainably high interest rates. Moreover, even owners who had been in their homes for years were tempted by low interest rates and rising prices to borrow against the value of their homes. The end result was that by 2007, more than one in five homeowners had negative equity in their homes, owing more than the value of the property (CoreLogic, 2010). These housing dynamics were combined with a sharp economic recession that led to job and income loss. This period was unprecedented in combining high rates of unemployment with mortgage distress and residents in markets that faced both forms of precarity were especially vulnerable to foreclosure (Dwyer and Lassus, 2015). Ultimately, the crisis is estimated to have resulted in more than 16.2 million homes entering foreclosure since 2006 (RealtyTrac, 2015).

The loss of housing and destruction to equity has rightly been the focus of work on the consequences of the foreclosure crisis. Yet because a great number of families who entered foreclosure ultimately had to leave their homes, the foreclosure crisis also had substantial consequences for patterns of residential migration. While migration rates have been in steady decline for the last several decades, there was an observable uptick in migration during the recession that was driven entirely by increases in local (within county) moves, particularly in markets with the highest foreclosure rates (see Stoll, 2013; Hall et al. 2015a,b).

The housing crisis – and its outcomes – were patterned strongly along racial lines (Bocian et al., 2010; Rugh and Massey, 2010; Rugh, 2015). African American and Hispanic families were not only the most susceptible to layoff during the recession (Hoynes et al., 2012) but they also fell victim to explicit targeting campaigns by subprime lenders to sign unfavorable mortgage terms (see Engel and McCoy, 2011). This combination of vulnerable loan agreements and job loss put minority owners in a weaker position to sustain mortgage payments and, consequently, the surge in foreclosures was shouldered largely by minority homeowners (see Bocian et al., 2010).

Severe racial/ethnic stratification in the dynamics of the crisis not only made minority homeowners especially likely to fall into foreclosure, but there is reason to believe that the moves they were compelled to make following foreclosure slowed gains in broader patterns of racial integration in US neighborhoods. Racial segregation – especially between whites and blacks – has been in steady decline for the last several decades, but changes in neighborhood racial composition tied to local foreclosure rates were found to have slowed further declines during the 2000–2010 period. Specifically, Hall et al. (2015a,b) find that neighborhoods with high foreclosure rates, especially initially racially-mixed ones, experienced relative increases in nonwhite populations and reductions in white populations, which intensified segregation by accelerating processes of racial succession. Unanswered in this work is the role that underlying migration behaviors played in this process. In particular, it is unclear whether this process of neighborhood change was a result of foreclosed households making segregating moves or other households reacting to concentrations of foreclosures and their associated social ills (e.g., crime, vacancy, deterioration). Also unanswered in prior work is how residential moves induced by foreclosure led to changes in the socioeconomic mix of households' neighborhoods. Economic insecurity combined with limited credit opportunities may have forced foreclosed households to search for affordable housing in less-advantaged neighborhoods, ultimately amplifying disparities in residential contexts between groups.