



# Kids and Foreclosures: New York City

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## Introduction

The mortgage foreclosure crisis has affected millions of households around the country. Researchers and policy makers have begun to pay attention to the external costs that these foreclosures impose on surrounding properties and neighborhoods (Schuetz et al., 2008; Harding et al., 2009). But few have considered the collateral costs for children, who may, as a result of foreclosures, be forced to leave their homes, communities and schools. Moreover, even children whose families are able to stay in their homes may experience considerable stress from the foreclosure process.

In this report, we use a unique data set on New York City students to examine the characteristics of the City's students and schools that have been affected by foreclosures. Specifically, we link student-level academic records to building-level foreclosure data in New York City to address three questions about children living in properties entering foreclosure. First, how many students live in properties entering foreclosure? Second, what are the characteristics of those students and how do they compare to those of the full population of students attending New York City's public schools? Third, are students living in properties going through foreclosure concentrated in particular schools, and if so, what are the characteristics of those schools? We focus on students from the 2003-04 and 2006-07 academic school years.

## Key Findings

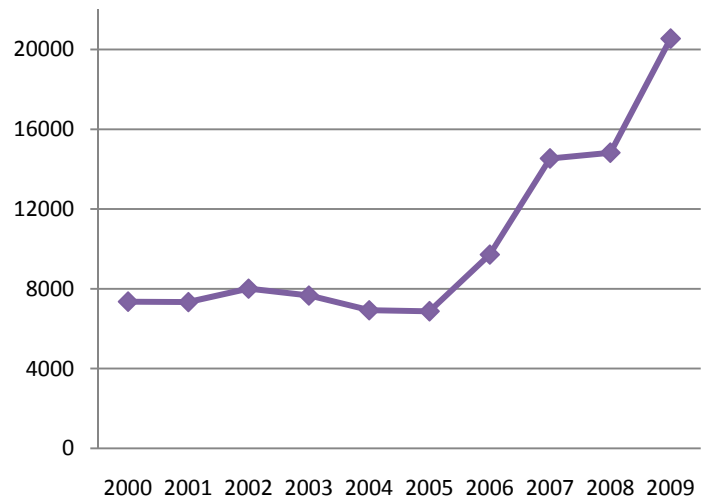
- The number of public school students facing foreclosure has increased over time; in the 2006-07 school year, the number of students living in homes that received a foreclosure notice rose to 18,525.
- 57 percent of students facing foreclosure are black, as compared to just 33 percent of public school students in New York City as a whole.
- Students facing foreclosure are no more likely to be poor than other public school students in New York City.
- Half of the students living in properties entering foreclosure in 2006-07 attended just 17 percent of all City schools.
- A small number of schools – mostly located Brooklyn and Queens – educate a large number of students facing foreclosure.
- The schools with larger shares of students facing foreclosure on average have:
  - Larger percentages of black students;
  - Higher shares of students receiving free or reduced-priced lunch; and
  - Lower shares of students scoring proficient on standardized math and reading tests

## Foreclosures Are Rising in New York City

While New York City may not have been hit as hard by foreclosures as some other cities such as Cleveland and Detroit, it has experienced a significant spike in recent years. The number of properties receiving a notice of foreclosure (*lis pendens* or “LP”) each year more than doubled between 2000 and 2009, with sharp upturns occurring in 2005-6 and again in 2008-09 (see Figure 1).<sup>1</sup> In 2009, almost 21,000 properties received a notice of foreclosure.

The rise in foreclosures came as housing prices in New York started to fall. New York’s housing market enjoyed strong price appreciation through most of the last decade. Between 1996 and 2006, prices in the City rose steadily, and by 2006, prices were on average 124 percent higher than they were in 1996, even after controlling for inflation (Furman Center, 2009). That price appreciation probably helped borrowers avoid foreclosures; while many New Yorkers financed their home purchases with risky high cost loans in the early years of this decade a relatively small share of them ended up in foreclosure through 2005, most likely because they were able to refinance their mortgages or sell their homes if their loans became too burdensome.

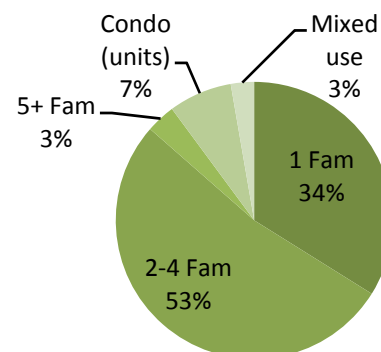
Figure 1. Properties that Received a *Lis Pendens* Filing (2000-2009)



## Foreclosures Affect Renters as well as Homeowners

Counts of foreclosures in New York City understate the number of households affected. As Figure 2 illustrates with data for 2009, most of the properties receiving notices of foreclosure in New York City have been small multifamily properties with 2-4 units.<sup>2</sup> As a result, the roughly 21,000 properties that entered foreclosure in 2009 contained 45,991 separate housing units.

Figure 2. Properties that Received a *Lis Pendens* Filing, by Housing Type



<sup>1</sup> In New York State, after a mortgage has gone unpaid for a minimum of three consecutive months, the lender can file a *lis pendens* (LP), which essentially is a notice of the lender’s intention to sue the property owner and reclaim the property if the loan is not repaid. The LP is filed with the county clerk’s office and is therefore a public record. A number of private data vendors collect and sell information on LP filings; we have purchased data from the vendor we believe to be most reliable. We have done considerable work with that data to eliminate duplicate records and liens unrelated to foreclosures (such as mechanic’s liens and tax liens).

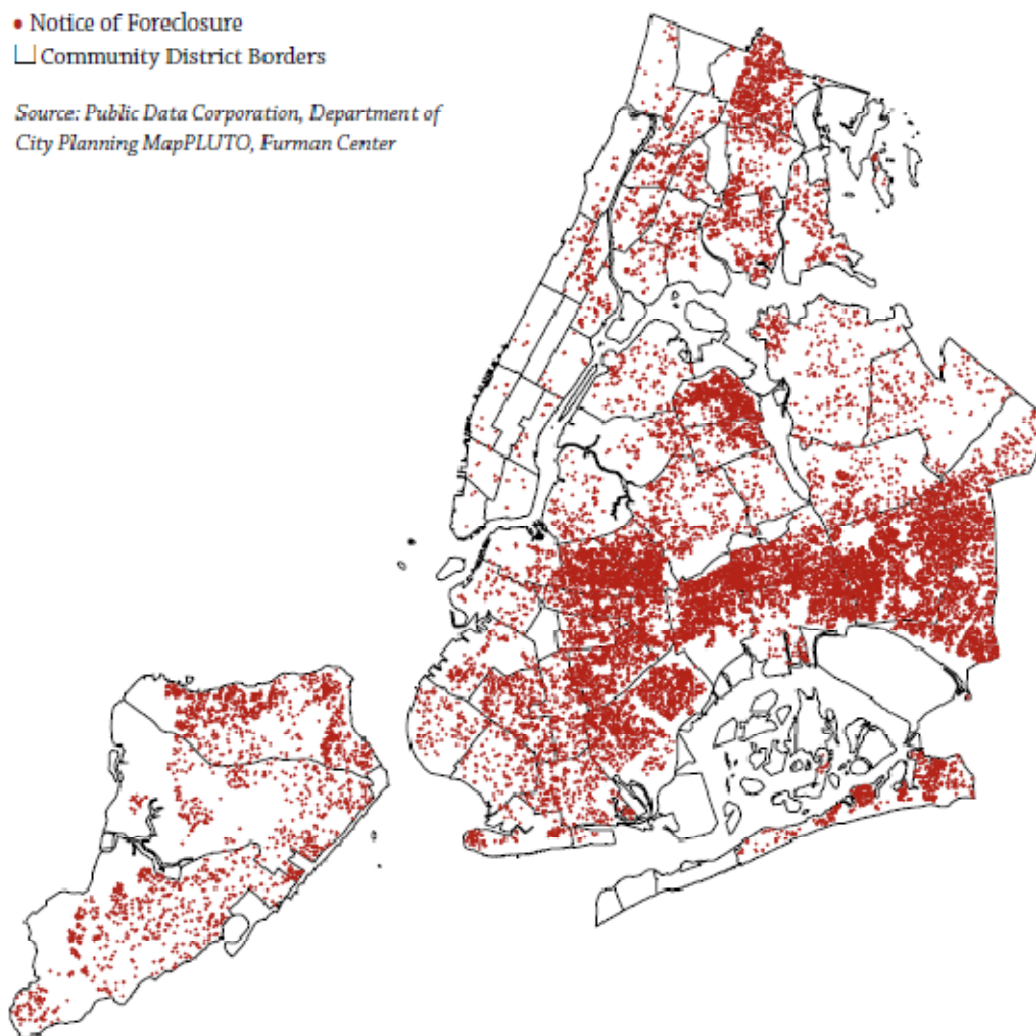
<sup>2</sup> The distribution of building types was very similar in other years as well. In every year since 2000, the largest category of properties receiving foreclosure notices has been 2-4 family homes.

Moreover, the fact that many of the buildings entering foreclosure are multifamily properties means that many affected households are renters. Even if we make the conservative assumptions that all single-family homes are owner-occupied and that one unit in each 2-4 family building is owner-occupied, then it is still true that more than half of the housing units in properties entering foreclosure in 2004 were occupied by renters. Using these assumptions we find that the estimated share of units entering foreclosure that are occupied by renters has increased in the past five years, reaching 57 percent in 2009.

### Foreclosures are Heavily Concentrated in a Few Neighborhoods

Foreclosures in New York City have mostly occurred in the boroughs outside of Manhattan, especially Brooklyn and Queens (see Figure 3). Moreover, as shown in Figure 3, foreclosure filings are concentrated in particular neighborhoods within these two boroughs. Most notably, foreclosures are heavily concentrated in North-central Brooklyn and Southeastern Queens. Virtually all of these neighborhoods are majority minority and most are predominantly black (Furman Center, 2010).

**Figure 3. Notices of Foreclosure, NYC, 1-4 Family Properties (2009)**



## Foreclosure Outcomes

Not all properties receiving foreclosure notices go through the entire foreclosure process, ending at auction. Some owners are able to resolve the delinquency and become current on their loans, while others sell their properties to pay off the mortgage. If owners are quickly able to resolve a foreclosure without leaving the home, children should be less affected than if the family must sell the property or loses it to the lender. We identify four separate outcomes of a notice of foreclosure (LP) within a three-year window of the foreclosure start: Unknown Outcome (which could mean the borrower is able to become current on his/her loan, or could mean that borrower is still negotiating with his/her lender); Subsequent LP (which would typically occur if an owner becomes current on her mortgage but then subsequently re-defaults); Arms-Length Sale or Other Transfer (such as a divorce settlement or a non-arms-length sale); and Sold at Auction/REO (REO properties are those that revert to lender ownership because no auction participant makes a bid that the lender is willing to accept). In New York, the time between the filing of an LP and the auction of the property – the final step in a foreclosure, reached if all other attempts to resolve the delinquency have failed – is typically about 18 months.

Table 1 shows the outcomes of *lis pendens* filed in New York City between 2002 and 2005 for the three years following the filing of the *lis pendens*. During this period in New York City, a relatively small share of properties entering foreclosure ended up at a foreclosure auction. Fewer than 10 percent of *lis pendens* issued in a given year typically went to auction within the subsequent three years. About half of the properties affected were transferred to new owners, either through an arms-length sale or through other means. About 17 percent received a subsequent *lis pendens* notice, while another 27 percent had no subsequent outcome (again, the owner could have renegotiated his or her mortgage, or the foreclosure could still be pending).

**Table 1: Distribution of LP Outcomes within 3 Years of LP Filing**

	2002		2003		2004		2005	
	N	%	N	%	N	%	N	%
Sold at Auction/REO	695	9%	492	6%	412	6%	519	7%
Arms length sale/other transfer	3668	47%	3766	51%	3372	51%	3041	46%
Subsequent LP	1277	16%	1148	16%	1164	17%	1290	19%
Unknown Outcome	2111	27%	1933	26%	1739	26%	1771	27%
Total	7751		7339		6687		6621	

## Foreclosures and Children

There has been little research into what happens to households that live in foreclosed properties, either in New York City or around the country, largely because foreclosure records are property-based, and it is rarely possible to identify and follow occupants. Anecdotal evidence indicates that some homeowners leave the property to become renters or move in with relatives and friends. Others end up homeless (Goodman, 2009). As for renters, New York, like most other states, offered few protections to tenants living in properties going through foreclosure until just recently (Been & Glashausser, 2009). As a result, many renters likely moved out during the foreclosure process or were evicted when properties sold. Even those who were able to stay in their apartments may have suffered if landlords neglected their properties, perhaps as an effort to save money, after receiving a notice of foreclosure.

Housing instability may affect a student's school performance through at least five broad mechanisms. First, students whose families are experiencing housing instability often move residences, which can be disruptive

for children, especially when moves are unexpected. Students' families may have to temporarily double-up with friends or family, or even become homeless, with negative effects on school performance (Goux & Maurin, 2005; Maxwell, 2003).

Second, foreclosures may induce families to move from their neighborhood, which will disrupt the social networks of the children (Gruman et al., 2008; South et al., 2007). Pettit and McLanahan (2003), as well as Pribesh and Downey (1999), find that residential mobility reduces the quality of children's social networks.

Third, instability may force students to move schools, perhaps in the middle of the year, and maybe more than once. Any school move may cause problems getting restarted (including more absences, difficulties with the subject matter, decreased academic performance, or tensions with classmates (Alexander et al., 1996; Lash & Kirkpatrick, 1994; Mehana & Reynolds, 2003; Nelson et al., 1996; Schwartz et al., 2007; Xu et al., 2009).

Fourth, housing instability may cause trauma or stress for students and their families, which could in turn affect students' ability to focus, cause depression, cause more absences and so on (Kingsley et al., 2009). Thus, students may be affected by housing instability even if they do not move homes, neighborhoods or schools. Moreover, if they do move, the trauma of the foreclosure may lead the move to be more difficult than it would have been if motivated by other reasons.

Finally, even children whose families have not been directly affected by housing instability may suffer spillovers from students whose families are affected, as high levels of mobility may slow the class down (Hanushek et al., 2004; Mehana & Reynolds, 2004). Further, children living in communities with high foreclosures may be more exposed to crime and instability among peers, which may affect their educational performance even if their own housing is not disrupted (Calvó-Armengol, et al., 2009; Lavy and Schlosser, 2007; Weinberg, 2006).

## Results and Analysis

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### **How many public school children live in buildings affected by foreclosures in New York City? Has the number changed from 2003-04 to 2006-07?<sup>3</sup>**

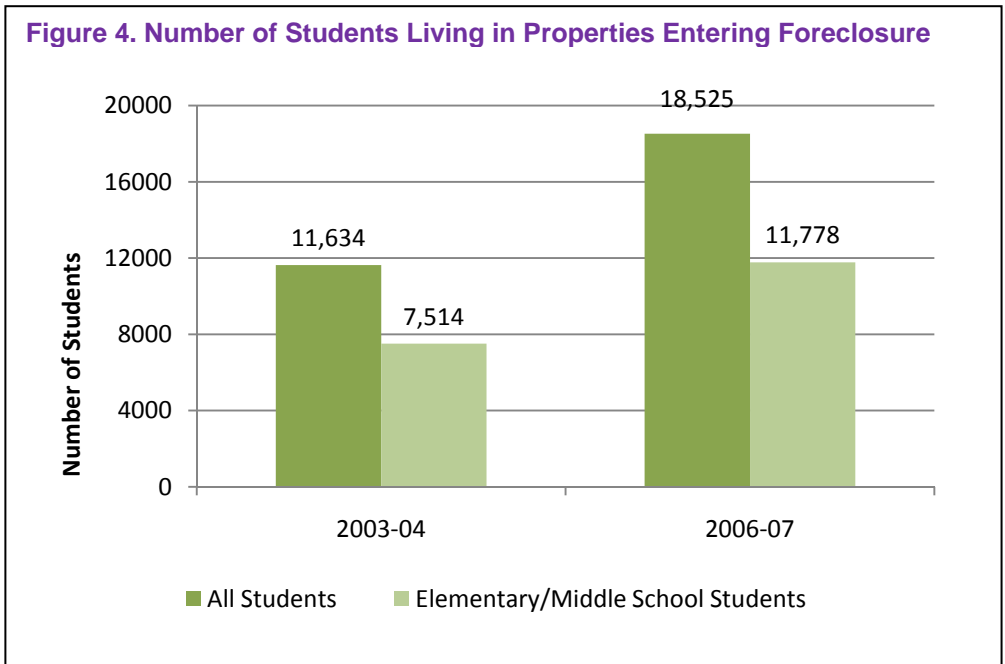
Our initial analysis suggests that a sizable – and growing – number of New York City school children live in buildings that entered foreclosure. The total number of students directly affected by foreclosure in the 2006-07 school year rose to 18,525, 59 percent more than the number affected in the 2003-04 school year.<sup>4</sup> Younger students may be particularly affected by foreclosures, in part because the residential moves those foreclosures may precipitate are more likely to lead to moves to new schools than are residential moves of high school students who can more easily travel to school on their own. Our results show that the number of elementary and middle school students affected by foreclosure rose from 7,514 in 2003-04 to 11,778 in the 2006-07 school year.

As shown in Figure 4, over 18,500 students lived in a property that entered foreclosure during the 2006-07 school year. This amounted to close to 1 in 50 students (2 percent) enrolled in the 2006-07 school year. Almost 12,000 of those students were in elementary and middle schools.

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<sup>3</sup>We thank the New York City Department of Education for matching the building foreclosure data to the residential addresses of students for these two school years.

<sup>4</sup>Includes all students in grades K-12.



**What are the social and demographic characteristics of students living in properties entering foreclosure? How have these characteristics changed overtime?**

Table 2 shows the demographic characteristics of the students affected by foreclosure in our two school years and compares them to the demographics of all public school students. The most striking difference is their racial composition, and specifically, the share of students who are black. While black children made up 33 percent of the public school population in 2006-07, they made up 57 percent of the public school students living in properties entering foreclosure.

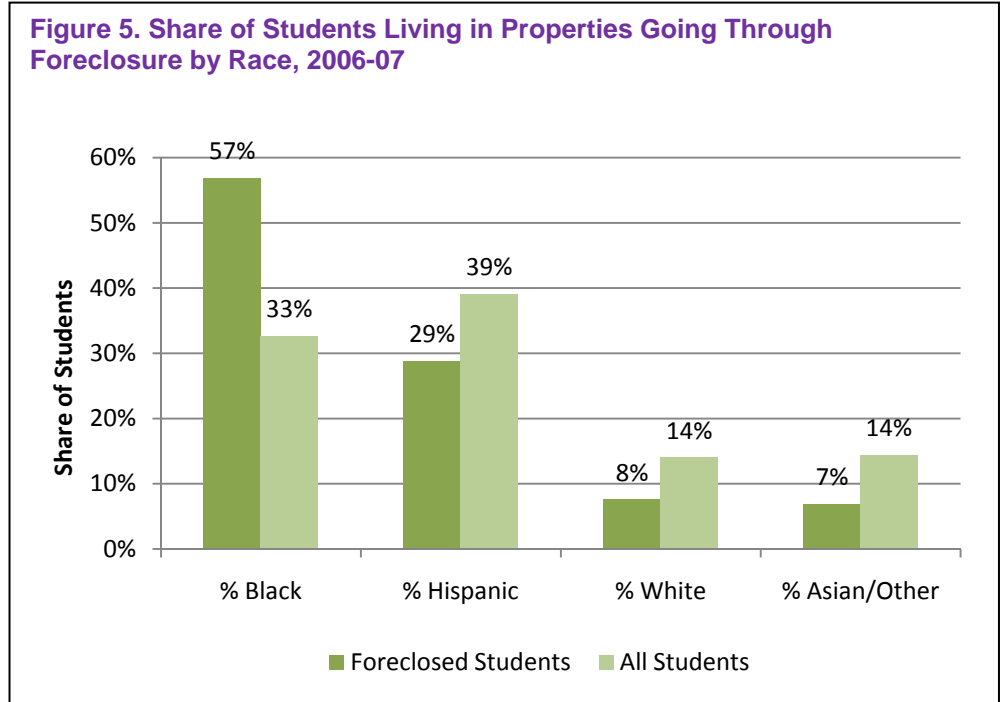
**Table 2. Student Demographic Characteristics: Students Living in Properties Entering Foreclosure and All Students**

	2003-04		2006-07	
	Foreclosed Students	All Students	Foreclosed Students	All Students
Number of Students	11,634	1,055,015	18,525	971,189
% Black	58%	34%	57%	33%
% Hispanic	28%	38%	29%	39%
% White	9%	14%	8%	14%
% Asian/Other	6%	13%	7%	14%
% Female	49%	49%	49%	48%
% Recent Immigrant	7%	8%	5%	6%
% Free/Reduced Lunch	69%	75%	78%	78%



Figure 5 highlights these racial differences for the 2006-07 school year. Given that the neighborhoods most affected by foreclosures in New York are disproportionately black, the fact that a disproportionately large number of students living in buildings entering foreclosure in the 2006-07 school year were black is not all that surprising. More surprising is our finding that students living in properties entering foreclosure were significantly less likely to be Hispanic (29vs. 39 percent) than the full population of students. Note that we see little change from 2003-04 to 2006-07 in these percentages; the racial breakdown of students living in foreclosed properties is fairly similar in both school years.

**Figure 5. Share of Students Living in Properties Going Through Foreclosure by Race, 2006-07**

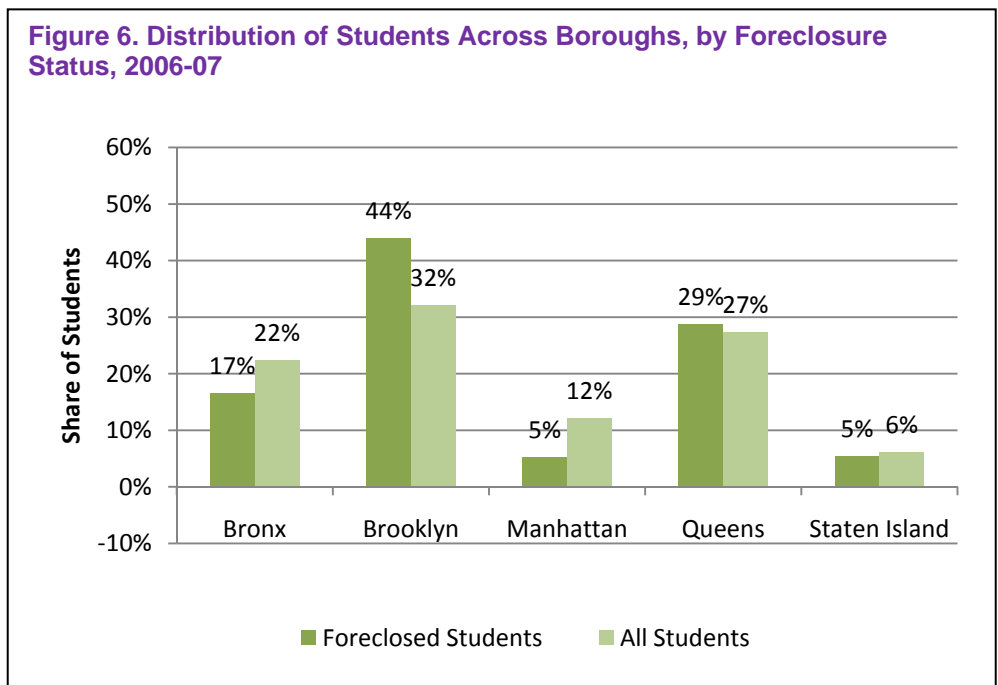


**Are these students clustered in particular schools? What are the characteristics of those schools?**

Students affected by foreclosure are not evenly distributed across schools. As shown in Figure 6, most of the affected students lived in Brooklyn and Queens. In 2006-07, 44 percent of students living in properties entering foreclosure lived in Brooklyn, while 29 percent lived in Queens.

While the proportion of students affected by foreclosure in Queens roughly matches the overall share of public school students in that borough, students living in Brooklyn were disproportionately affected by foreclosure. Although 32 percent of all students lived in Brooklyn during the 2006-07 school year, 44 percent of the students affected by foreclosure lived in the borough. Children in Brooklyn were disproportionately affected both because of the high foreclosure rates in that borough, but also because more of the buildings entering foreclosure were multifamily buildings and therefore housed a greater number of children. The distribution of affected students across boroughs was almost identical in 2003-04.

**Figure 6. Distribution of Students Across Boroughs, by Foreclosure Status, 2006-07**



Even within these boroughs, students were concentrated in particular schools. Half of the students living in properties entering foreclosure in 2003-04 attended just 14 percent of all City schools, and 75 percent of those students attended just 31 percent of all schools. The level of concentration stayed roughly similar in 2006-07 with half of students living in properties entering foreclosure attending 17 percent of the City's schools.

Several schools were hit particularly hard. In one school in Brooklyn, for example, over 14 percent of the students lived in properties that entered foreclosure during the 2006-07 school year. In 2003-04, there were 14 schools, or 1.5 percent of all New York City schools, in which more than 5 percent of the student body lived in properties entering foreclosure. By 2006-07, the number had grown to 93 schools, or nearly one in 10 schools, in which more than 5 percent of the student body lived in properties entering foreclosure.

As Figure 7 shows, the majority of these higher-concentration schools were located in Brooklyn, and roughly one-third were located in Queens. The distribution of hard-hit schools is similar to that of foreclosed properties, with most of them concentrated in Northern Brooklyn and Southeastern Queens.

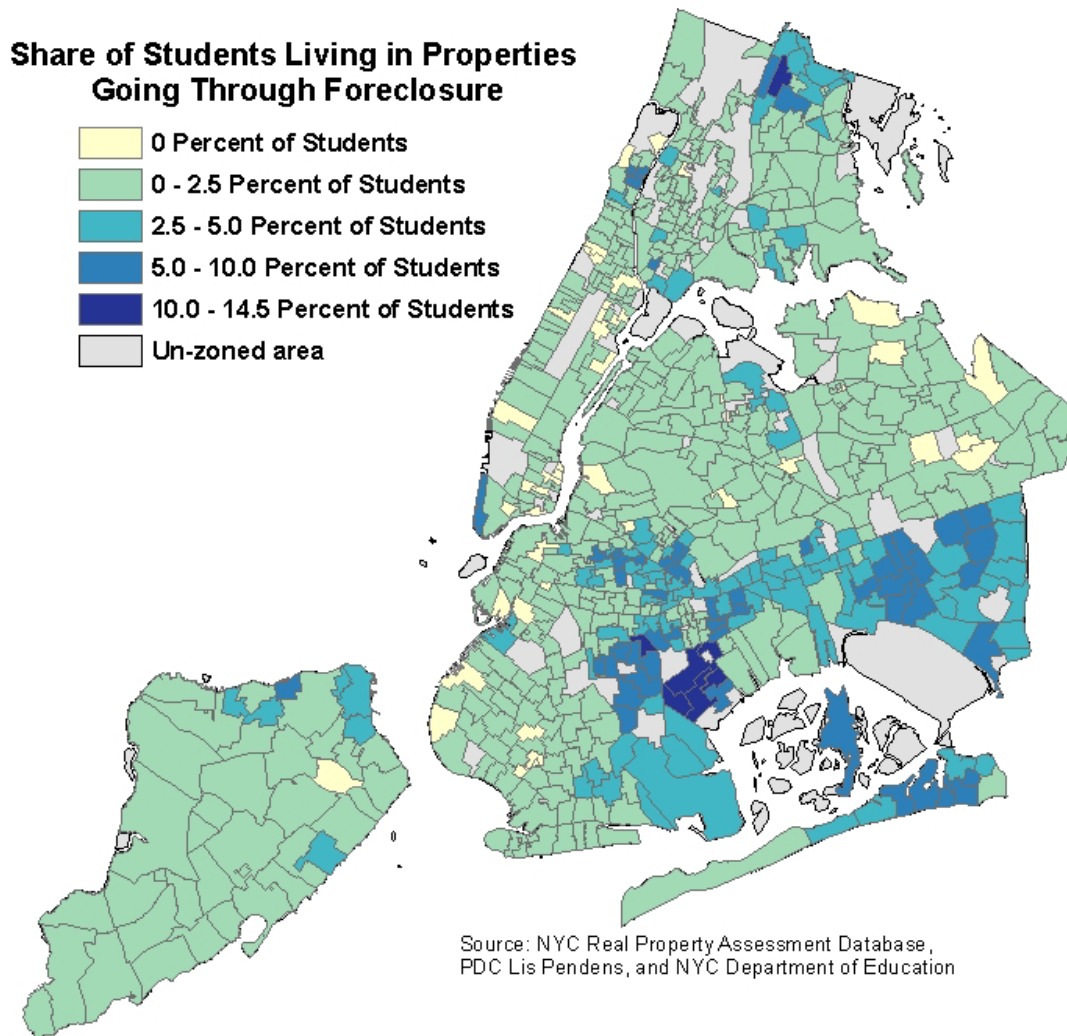
The schools with relatively higher concentrations of students living in properties that entered foreclosure differed from the full set of schools in many ways, as Table 3 shows. Most notably, the proportion of students who are black was far higher in the higher-concentration schools. In 2006-07, in the quartile of schools with the highest share of students living in foreclosed properties, the proportion of students who were black was 56 percent, as compared to just 31 percent of the student population as a whole. In the higher-concentration schools, all other racial groups were under-represented. In addition, as compared to other schools, the percentage of students eligible for free or reduced priced lunch was higher in the higher-concentration schools, while the percentage of foreign-born students was lower. Finally, in the schools most affected by foreclosure, both reading and math test scores were significantly lower than in other schools.

**Table 3. Characteristics of New York City Elementary/Middle Schools, by Proportion of Students Living in Properties Entering Foreclosure, 2003-04 and 2006-07**

	Schools, by Quartile of Foreclosure Incidence					
	2003-04			2006-07		
	All Schools	Top Quartile	Bottom Quartile	All Schools	Top Quartile	Bottom Quartile
% Black	33%	54%	18%	31%	56%	16%
% Asian	13%	7%	19%	14%	8%	22%
% Hispanic	40%	31%	47%	40%	30%	44%
% White	14%	9%	16%	14%	5%	18%
% Receiving Free or Reduced Priced Lunch	83%	87%	81%	83%	89%	80%
% LEP	14%	9%	19%	16%	11%	21%
% Testing Proficient of Advanced on Reading	45%	41%	49%	55%	50%	61%
% Testing Proficient of Advanced on Math	54%	48%	58%	71%	67%	79%
Number of Schools	960	240	240	1085	271	271
Number of Students	721,387	194,294	151,663	665,496	168,037	162,434



**Figure 7. Distribution of Schools by Share of Students Living in Properties Entering Foreclosure, School Year 2006-07**



## Implications of Findings

The number of New York City public school students who lived in buildings that entered foreclosure grew to over 18,000 in the 2006-07 school year, and the number of affected students has surely continued to grow in more recent years as foreclosures have risen in the City. The affected students are concentrated in a relatively small number of schools in Brooklyn and Queens that are already lower performing and disproportionately poor and black. The performance of these already disadvantaged schools may decline further as a large share of their students face residential upheavals and turnover increases, suggesting that schools may need to monitor the performance of these students to ensure that they stay on track as their families experience upheavals.

In future work, we will examine how these foreclosures have affected the mobility of students. Specifically, we will examine whether foreclosures are leading students to move more and at different times of the year. We will also explore whether students living in properties entering foreclosure are more likely to move to lower-performing schools, as measured by test scores, attendance, and resources.

## About the project

The National Neighborhood Indicators Partnership (NNIP) has launched a cross-site project funded by the Open Society Institute and the Foundation for Open Society to explore how the foreclosure crisis is affecting school-age children in New York, Baltimore, and Washington DC. The Urban Institute is coordinating the project in partnership with New York University's Furman Center for Real Estate and Urban Policy and Institute for Education and Social Policy, as well as the Baltimore Neighborhood Indicators Alliance-Jacob France Institute at the University of Baltimore.

This brief is the first of two about the New York City, and tells the basic story of the trends and characteristics of students affected by foreclosure. The second brief will focus on the residential and educational options for families living in foreclosed properties by examining if they move or change schools and how new schools and neighborhoods differ from the previous ones. To conclude the project, the findings from the three cities will be summarized into a cross-site report.

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## APPENDIX

### Identifying Students Affected by Foreclosure

#### *Student and school data*

We would like to thank the New York City Department of Education (NYCDOE) for their work in supporting this research. We use student-level data from NYCDOE, for all students enrolled on October 31<sup>st</sup> of each year. The dataset identifies each student's birth date, country of birth, race, ethnicity, gender, free and reduced price lunch status, and home language. The data set also includes the student's grade, information on annual school attendance, Limited English Proficient (LEP) status, special education status, and standardized test scores. Data for individual students can be linked across academic years, as long as a student attends a New York City public school.<sup>5</sup>

The student data includes information on school attended, allowing us to link to school-level data, including school demographics (e.g. percentage black, Hispanic, Asian, or white; percentage eligible for free or reduced price lunch), as well as resource data (expenditures, teacher characteristics), average test scores, and attendance.

#### *Matching Students to Residential Parcels in Foreclosure*

To link students to properties receiving foreclosure notices, the NYCDOE matched the students' addresses for the 03-04 and 06-07 school years to the addresses of all properties (other than condominiums) receiving foreclosure notices.

As is inevitable in empirical research, we have to use some approximations in identifying students whose families live in buildings that received a foreclosure notice in a given academic year. For one thing, we only observe a student's address at three different times during each academic year, on October 31<sup>st</sup>, March 1<sup>st</sup>, and June 1<sup>st</sup>. Thus, if a student's family moves between October and March, we do not know exactly when they moved. At the same time, we are not always sure when a foreclosure is resolved. If, for instance, we see no subsequent sale or LP for a property within a year after the initial LP is issued, we cannot be sure whether the default has been resolved, the lender is forbearing on the foreclosure because the owner is still struggling to get current on his or her mortgage, or the foreclosure is just working its way through the process slowly. Depending on the windows we use to define foreclosure, these uncertainties can lead to under- or over-counting of the number of kids entering foreclosure.

We chose to balance these different measurement issues by using a fairly conservative definition of foreclosure. For example, for the 2003-04 school year, we classified a student as living in a building that received a foreclosure notice if:

- The student lived in a property on October 31<sup>st</sup>, 2003, which received an LP between October 31<sup>st</sup>, 2003 and February 29<sup>th</sup>, 2004;
- The student lived in a property on March 1<sup>st</sup>, 2004, which received an LP between March 1<sup>st</sup>, 2004 and May 31<sup>st</sup>, 2004; and
- The student lived in a property on June 1<sup>st</sup>, 2004, which received an LP between June 1<sup>st</sup>, 2004 and October 30<sup>th</sup>, 2004.

We use the same methodology for the 2006-07 school year.

This definition is conservative for several reasons. First, because we only count foreclosure notices that are issued after the date on which we know a child's address, we can be certain that the foreclosure was not

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<sup>5</sup> For each year, we exclude students who are missing admit/discharge dates, school, or grade codes. Excluding students with missing grade codes decreases the number of full-time special education students in our sample because these students typically are not assigned to a graded classroom. In most cases these students would be dropped from analysis in any event because of the absence of test score data and/or because there is limited information available for schools serving primarily special education students.

resolved or completed before the student's family moved into the building. Second, because we only match students to LPs issued in the four months after we capture a student's address, we can be fairly confident that the student's family was still living in the property at the time the notice was issued.

To be clear, we are not assuming that foreclosures only last 3-5 months. As noted, the foreclosure process is slow in New York City and takes about 18 months on average. We use the windows noted simply to match students to foreclosures.

This conservative definition may miss students who move into a unit after a foreclosure is filed, but before a foreclosure is resolved. So, for example, if a property receives an LP in August, and a student moves into that property in September, we will not count them as affected. Yet the foreclosure may not yet be resolved, and may therefore affect the student.

Through this matching process, we create a student-level data set that includes a set of variables identifying whether that student lived in a property that entered foreclosure during that academic year and when the foreclosure started. We also include information on the date and nature of the resolution of the foreclosure so we can look separately at children living in properties that sell at auctions, go to REO, or sell through arms-length sales within 12 months of the foreclosure notice.



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