

Give Me Shelter:

How the Home Mortgage Crisis Has Affected East Oakland

In East Oakland, signs of the home mortgage crisis aren't difficult to find. From the windows of the AC Transit #62 bus that serves the Foothill BART station in Oakland's Fruitvale neighborhood, one can see one house after another with a sign in the front that reads, "Home for Sale." At grocery stores, in churches, at schools and on the street, mothers and fathers and children talk about homes that are in danger of being foreclosed, families in crisis. There is anger, confusion and desperation; families contemplate calling the bank and asking for more time, or even suing the real-estate agent who told them that they could afford a home, the American dream.

Nowadays, being a homeowner seems to be a nightmare for many American families. Millions of American homeowners are facing economic problems after buying a house with an adjustable home mortgage rate. The best way to avoid losing a home is by getting a fixed rate mortgage, but only 25 percent of U.S. homeowners got a fixed-rate when they bought a house (Damian). The home mortgage crisis is affecting East Oakland by taking away homes from families, destroying credit ratings, and causing stress among students at Media Academy.

Sink or swim: Adjustable vs. fixed-rate mortgages

A home mortgage is "a legal claim on somebody's house that secures a loan and is paid in installments over a set period of time" (FreddieMac.com). The mortgage secures the homeowners' promise that they will repay the money they borrowed to buy their home. There are two main types of mortgage rates: adjustable and fixed. According to interest.com, with an adjustable mortgage rate, homeowners get a lower interest rate in the beginning, but their monthly payments may go up or down over the period of time, depending on the movement of interest rates.

On the other hand, a fixed-mortgage rate "charges a set rate of interest that does not change throughout the life of the loan" (Investopedia.com). When homeowners buy a house, they look for the home mortgage that best meets their financial needs; some pick adjustable-rate mortgages because that is cheaper in the beginning. But if rates rise, this decision can result in higher mortgage payments. And, if a homeowner is unable to keep up, the next step is foreclosure. According to Wisegeek.com, a home foreclosure is when a borrower misses a significant number of mortgage payments and the lender chooses to take away the home from the homeowner.

Jose Rodriguez, a senior at Media Academy, says that his family has been affected by the home mortgage crisis. Rodriguez said he does not know what to do because he needs to work to help his parents meet their monthly payments, yet he is still in high school. Initially, Rodriguez thought that working and contributing money to his house would help his family to avoid the home mortgage crisis, but as crisis deepened, he realized that he could not fight against the economy of the United States. "I hope things get better, because we do not want to lose the money we invested in our home," he said.

Research shows that most of the homeowners that are sending their payments late are seeing their credit rating fall. Foreclosures have more than doubled in November 2007, and late payments continue to rise (Foreclosedataonline.com). According to California Governor Arnold Schwarzenegger, in a Feb. 4 article in the San Francisco Chronicle, foreclosures in California went up 400 percent in 2007 compared with the previous year.

A bubble ready to burst: History of the home mortgage crisis

The home mortgage is not a crisis that was created in two days; events over the past three years have contributed to this crisis. According to wisegeek.com, the home mortgage crisis is an ongoing event, likely to affect buyers who purchased homes in the early 2000s.

The first reason for the housing crisis was cheap money: Adjustable-rate mortgages are attractive since they can be offered with low initial interest rates. Bruce Spence, an economist, reported that because the housing market was appreciating rapidly until a couple of years ago, many people assumed they could take on a low initial interest rate and just refinance before their adjustable mortgage rate increased (Spence).

Unfortunately, dropping home property values made it impossible for many people to refinance their loans. According to a Feb. 19 article by John Schoen on msnbc.com, in 2005 houses began to decline in price. People who refinanced, especially those who did so with an adjustable mortgage rate, suddenly had homes valued at less than the purchase price.

As interest rates rose and home prices fell, homeowners began to struggle. According to a Feb. 4 article in the San Francisco Chronicle by Joe Garafoli, declining home values and sharply higher interest rates have combined to drive foreclosures. According to Realty Trac, 635,159 foreclosures in America were reported during 2007. As a result of these foreclosures, and the reduction of existing credit, housing equity is falling, reported Steve Geissinger in a Jan. 30 article at insidebayarea.com.

The result is a crisis that seems certain to continue for years to come. According to a report by the staff of U.S. Senator Barbara Boxer, following nearly a decade of exponential growth in the housing market, we are now facing one of the biggest financial crises of the past half-century (Boxer.senate.gov). Paul Krugman, a Princeton economist, reported that by the end of the year 2008, home prices would fall, and about 20 million people would have negative equity in their homes. This means that the homeowners are not going to have any money left on the property they bought and will actually owe more on it than it is worth.

Homeownership in the Golden State loses its luster

Research shows that the top three states in the United States most affected by the home mortgage crisis are Nevada, California, and Arizona. Dozens of states, counties, and cities across the nation are being hit by the home mortgage crisis. According to real estate expert Stephanie Simon, 24 states reported that their tax collections had taken a hit because of the housing crisis. A report by the staff of U.S. Senator Barbara Boxer confirmed that California has the second-highest foreclosure rate in the country.

Oakland, one of America's most racially diverse cities, has the nation's 10th-highest foreclosure rate (Dellums). The top five cities most affected are Stockton; Riverside/San Bernardino; Sacramento; Bakersfield; and Oakland (Harmon). The home mortgage crisis has not only affected the housing market, but it has also affected the sale of goods in the United States. Homeowners who have less equity in their homes, and higher mortgage payments, are limiting their spending, trying to save money and are only buying what they need. In turn, lower consumer spending hurts the economy as a whole.

Uneven impact: Mortgage crisis hits harder at African-Americans and Latinos

Real estate expert Zack Kaldveer reported that 500,000 Californians have lost their homes (Kaldveer). The housing crisis has affected many communities, regardless of race or income. But African-American and Latino households are suffering the greatest impact from the home mortgage crisis (Npr.org). According to DailyPress.com, the home mortgage crisis has disproportionately affected African-American and Latinos because they are three times more likely to have an adjustable mortgage rate. According to Dedrick Muhammad, in a Jan. 17 article on democacynow.com, the subprime industry focused on the weak in U.S. society, taking advantage of people who do not read through long forms and fine print when taking out a home loan. Whether or not lenders intended to take advantage of minorities, the result is that many Americans suffered. According to Seattle Real Estate News, in a Jan. 31 article on seattlepi.nwsource.com, the home mortgage crisis is also going to impact millions of working and middle-class white Americans, as well as people of color.

Subprime adjustable-rate mortgages encouraged people who had no hope of owning a home to take on debt with no guarantee that they could get help if they fell into financial trouble. According to Juan Gonzalez, in a Nov. 29 article on democacynow.org, many people with bad credit made a mistake by purchasing a house because they were taking out loans that they could not afford. A lot of the homeowners made the bad decision of buying a house with an adjustable mortgage rate without being aware of the consequences. However, once homeowners get the adjustable mortgage rate they cannot change it to a fixed-rate. According to real estate adviser Johnny Oliver, it is the bank's decision to choose if they want to help the homeowner to change the mortgage rate. "The bank has the option and they choose the best option that does not affect them" (Oliver). In order for the bank to change the borrowers mortgage

rate, the bank needs to make sure that they don't get affected at all.

Mortgage crisis hits home at Media Academy

Jose Rodriguez, a senior at Media Academy, has been affected by the home mortgage crisis since last year. Jose's parents bought their house two years ago with an adjustable mortgage rate. The Rodriguez family didn't wait until they had enough money to purchase a fixed mortgage rate because the payments were low, and all of Jose's seven brothers had a job. Rodriguez's family was aware that the payments were going to increase, but they didn't think that they were going to increase from \$1,800 to \$3,800 in a year. "The payments went up a lot, and we can barely pay the rent," Rodriguez said. "We are late on our other bills, like water, gas, and garbage." There is also an emotional cost: "My brother lost his job, and now I have to work and study at the same time," Rodriguez says. "I feel bad when I hear my parents arguing because they don't have the money to pay our home monthly payments."

Azal Ahmed, a sophomore at Media Academy, also has been affected by the home mortgage crisis. Her parents purchased their home 17 years ago. The Ahmed family started with a monthly mortgage of \$2,000, and now they are paying \$4,000. The home mortgage crisis has affected the Ahmed family by not providing Azal and her brothers and sisters with enough money to attend college. The anxiety of Azal's parents to give their seven children a house to live in made them purchase their home without being aware that their monthly payments would increase or decrease depending on the economy. The only thing they knew was that they had to pay their mortgage every month. Even though Azal and her family have a big house with two floors, six rooms, four bathrooms, and a big yard, they still worry about what will happen tomorrow if the payments increase, and they do not have enough money to pay for their house.

Richard Yacco, a radio/television/broadcasting teacher at Media Academy, has been a homeowner for eight years, and he is also an owner of an income property that could not be sold two years ago because the house's prices dropped. "The home mortgage crisis is one of the main causes of the recession, because many homes are or have been foreclosed," Yacco said. "As a result, many lending institutions are no longer lending money, or making it very hard to borrow money, and home values are dropping dramatically."

The pie chart that follows shows the percentage of Media Academy students who have been affected by the home mortgage crisis. Respondents ranged from ninth graders through 12th graders. In all, 16 freshmen, 23 sophomores, 15 juniors, and 17 seniors answered the survey. The survey was designed to find out how much students know about the home mortgage crisis.

Click here for a link to the chart: <http://nces.ed.gov/ipeds/data/ipedsdataviz/createagraph/graphwrite.asp?ID=0b78b1783a86489793d7e22a8b6667d&file=png>

The data clearly show that the sophomore class has the highest percentage of students affected by the home mortgage crisis. On the other hand, the freshman class has the lowest percentage of students who are affected by this crisis. This graph also demonstrates that the second-highest group to be affected by the home mortgage crisis is the seniors. There is a 35 percent difference between the sophomores and the seniors, and a 45 percent difference between freshmen and sophomores. These statistics suggest that the parents of the sophomore class need assistance from their banks and from their real estate agents to see if there's anything else that they can do to get their homes back.

The survey also asked students to identify the cause of the home mortgage crisis. Forty-one percent of the students were not sure of what caused the home mortgage crisis; 12% thought that buying an expensive house is what caused the home crisis; and another 12% of students thought that the home mortgage crisis was caused because people bought houses with low interest rates.

Knowledge is power: Why we should understand the home mortgage crisis

Understanding the home mortgage system is important because future homeowners should know what interest rate they should get when purchasing a house. The majority of the people facing foreclosure are those who either spent too much or simply were not financially ready to own a house. According to real estate expert Andrea Hopkins, 1.5 million homeowners are facing foreclosure this year (Hopkins). According to Alex Johnson, in a Jan. 31 article in msnbc.msn.com, the home mortgage crisis is affecting the housing and stock markets, the banking industry, the global money markets, families and neighborhoods. It could be leading to a recession.

In a recession, the economy of a country weakens. Interest rates go up and during recovery the interest rates go down. According to Princeton economist Paul Krugman, the home mortgage crisis is the number four reason why the United States is going into a recession. Krugman believes that the U.S. recession started in January 2008, and it will stop in 2010 or 2011 (Krugman). Until then, U.S. homeowners are likely to continue to suffer from high interest rates and lower demand by homebuyers.

President George Bush has a plan to help borrowers who have less than three percent of equity in their homes, and who are unable to afford an adjustment in their interest rate. Bush's plan is to freeze the homeowner's mortgage rate for five years. President Bush is not the only one who has plans to end the home mortgage crisis; state governors do, too. According to California Governor Arnold Schwarzenegger, the number-one thing that we can do for California's economy is to increase access to the capital needed to purchase or refinance homes. Another solution to the housing crisis could be in the form of re-educating the consumer about home ownership, and requiring banks to adopt more realistic standards for originating mortgages.

Conclusion

Technically, the home mortgage crisis only affects people with adjustable rate mortgages. But anyone who knows anyone with an adjustable rate also can feel bad about what a friend is experiencing. People often make economic decisions based on the problems they perceive. So all the negative media coverage of the home mortgage crisis could, for example, cause a company to decide not to expand and not to hire more workers, or cause consumers to hold back on the spending that supports the economy as a whole. African-American and Latino households are being the most impacted by the home mortgage crisis. Oakland has the nation's 10th highest foreclosure rate and California has the second-highest foreclosure rate in the country. For students, the housing crisis causes stress at home and lower grades at school, due to confusion over the future. The home mortgage crisis is more than a housing crisis because it has destroyed lives, families and the dream of owning a house.

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