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Mortgage Foreclosure in Buckhead

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Buckhead. For anyone familiar with Atlanta, Georgia, the name conveys wealth, privilege, and luxury (Fleming, 2009; Hennie, 2008; Thurman, 2009). The Buckhead residential community is a combination of high-rise condominiums (10%) and single-family homes (90%). Encompassing approximately 2% of the single-family homes in Atlanta, Buckhead is home to 40% of those homes valued over $500,000 (Tucker, 2006). One third of the homes in this community sold for more than $1 million in 2007 (Hennie, 2008). Yet, despite its reputation as the most affluent community in Atlanta, Buckhead has experienced the same unfavorable real estate trends that have affected the nation. One in every 320 housing units in Buckhead has been subject to a foreclosure notice, with 281 such notices recorded in 2009, an increase of 67% over 2008. Prices have also decreased by 25% since 2006, with fewer $1 million-plus homes on the market in 2009 than in 2008. Of those, only 26 sold for more than $2 million, a decrease of 40% ("Bonfire of the Vanity Buys," 2010).

What factors have contributed to these rising numbers in this high-income neighborhood and what can be done to reduce the incidence of foreclosure? The purpose of this study was to examine the relationship between occupancy type, purchase price, residency duration, and incidence of foreclosure to determine whether investors or noninvestors were more active in mortgage defaults in Buckhead. Based on this information, recommendations to minimize the incidence of foreclosure and changes needed within the government and the financial and housing industries to reduce the strategic use of foreclosure were developed.

The Foreclosure Crisis

Home ownership has historically been a priority for most people living in the United States, recognized as an asset in the promotion of wealth, in leveraging funds, and in improving
credit status. Research has shown that owning a home can improve the quality of life for all members of a household (Fogel, Smith, & Williamson, 2008).

However, the real estate and mortgage industries have been notoriously volatile and unpredictable, subject to the cyclical rise and fall of prosperity attributable to recessions, policy implementation, employment, and growth of lending standards (Downs, 2010; Vitner & Khan, 2010; Wenli & Fang, 2010). The rapid increase in home purchases related to the aggressive practices of consumers between 1994 and 2005 ultimately caused the housing market bubble to burst, resulting in home depreciation, rising interest rates, and increased housing supply (Joint Center for Housing Studies, 2008).

Foreclosures affect not only the home owners and banks or mortgage companies holding these home loans but also municipal governments, neighborhoods, and others with financial interests in nearby properties (Duda & Apgar, 2005; Immergluck & Smith, 2006; Swanstrom, Chapple, & Immergluck, 2009; U.S. Government Accountability Office, 2010). The costs associated with foreclosures ultimately affect all taxpayers in the community as the loss of property taxes affects the ability of local governments to provide typical community services (“Foreclosed,” 2009; Immergluck & Smith, 2006; C. Johnson, 2008).

The U.S. government response to foreclosure issues has not been as strong as its promotion of home ownership (Sunwoong, 2010). Through several policies, including the Housing and Economic Recovery Act, Troubled Asset Relief Plan, and the Home Affordable Modification Program, the government has attempted to assist homeowners in default through mortgage loan modifications (Joint Center for Housing Studies, 2008; Sunwoong, 2010). However, these responses have been short-term solutions (Weiss, Carpenter, Getter, & Murphy, 2009) and have been focused on homeowners in low-income communities. Those in high-
income communities at risk of foreclosure have been excluded from such programs (Cook, 2009).

**Nation-wide crises in the housing market and mortgage loans.** Housing prices overall increased continuously from 1968 to 2006, resulting in some Americans believing that prices would continue to rise regardless of economic conditions. The largest increase in home ownership occurred from 1994 to 2000 because of several factors, including decreases in mortgage interest rates and home prices, economic growth, federal efforts to meet low-income and minority housing needs, and improved underwriting and loan performance models. With the stock market crash in 2000, investors sought alternative investments in real estate, pouring capital into the real estate market. This resulting excess spurred competition among investors, increasing property prices and decreasing capital rates (Downs, 2010).

Gains in home ownership were also achieved through looser underwriting standards, increased use of leverage, and generous tax treatments for residential real estate (Vitner & Khan, 2010). After the recession of 2001, property values appreciated rapidly due to low-mortgage interest rates and tight housing markets, increasing housing demand from all types of homebuyers, including investors.

However, from the mid-1990s through 2007, Americans consumed more than they could afford (Downs, 2010). From 2003 to 2005, home prices surpassed incomes; and new construction exceeded long-term demand (Joint Center for Housing Studies, 2008). Thus, increasing interest rates and home prices ultimately resulted in decreasing housing demand. In addition, the homeowner vacancy rate (i.e., inventory overhang) surged from 2.0% in 2005 to 2.8% in 2007, the equivalent of approximately 600,000 vacant units (Joint Center for Housing Studies, 2008).
As a result of the crisis in the housing market, unprecedented increases in foreclosure rates occurred across the country (Joint Center for Housing Studies, 2009). In the 2010 Joint Center for Housing Studies annual report, the National Association of Realtors (NAR) reported that one third of existing home sales in 2009 (1.8 million units) involved foreclosures or short sales. By the end of 2010, the loan balance for 1 in 7 homeowners exceeded the value of the property. The NAR also reported that the number of existing home sales during July 2010 decreased by 27.2%, or 3.83 million after seasonal adjustments, the lowest total since the NAR began compiling data in the mid-1990s (Joint Center for Housing Studies, 2010). The metropolitan Atlanta area was no exception in this experience (Atlanta Neighborhood Development Partnership [ANDP], 2008).

The mortgage default crisis was one of the biggest financial crises since the Great Depression (Mian & Sufi, 2009). From 2004 to 2006, the growing popularity of subprime mortgage loans allowed a wider variety of applicants to obtain mortgage loans. Subprime loans were created for borrowers with blemished credit or circumstances that did not qualify them for prime loans (Mian & Sufi, 2009; Perry & Motley, 2009). The number of these mortgages increased from 8% of originations in 2003 to 20% in 2006 (Joint Center for Housing Studies, 2008). Noteworthy characteristics of the mortgage default crisis were its concentration in zip codes heavily populated with subprime loan borrowers and its focus on borrowers who were less well-educated and less financially knowledgeable than prime-market borrowers (Mian & Sufi, 2009; Perry & Motley, 2009). The characteristics of these subprime borrowers were justification for higher risks of default, evident in higher rates and fees than prime mortgages.

During this period of subprime loan growth, lenders relaxed debt-to-income and down payment requirements. Some neglected to verify applicants’ income and assets. Lenders also
began offering exotic subprime products, including stated income loans and products with initial low monthly payments that could later be reset to higher payments. Despite accumulating risks, loan performance was maintained, while home appreciation resulted in borrowers refinancing or selling their homes.

Prices began to plateau in 2006 in the hottest real estate markets, spreading to many other areas by 2008. As property values decreased, the number of subprime loans entering foreclosure conversely increased to 4.1%, breaking housing market records. The foreclosure issue eventually spread to the prime market, tripling the share of loans in that market entering foreclosure from 2006 to 2008. In 2006, adjustable rate loans were beginning to be reset. Lenders responded by tightening credit in 2007, further intensifying the extent of the housing crisis (Joint Center for Housing Studies, 2009). The result of these actions was a high volume of mortgage defaults in 2006 and 2007, which led to a collapse in the asset-backed commercial paper market (Lang & Jagtiani, 2010). In 2007, the foreclosure rate more than doubled. Even though subprime loans accounted for only a quarter of total loans, more than half of all foreclosures were associated with subprime mortgages (Perry & Motley, 2009).

As mortgages continued to deteriorate, the mortgage crisis had a larger effect than anticipated on the overall financial system. Subsequent to this discovery, the Federal Reserve approved a final rule for consumer protection for mortgage loans: Lenders were required to include information about rates, monthly payments, and other loan details in their advertising. However, the rules only applied to lenders regulated by the Federal Reserve. Many independent mortgage brokers and finance companies, including affiliates and subsidiaries of regulated institutions, were exempt. These unregulated lenders were responsible for more than half of the
subprime mortgage originations in 2005 and 2006. By 2007, many of these firms had gone out of business (Perry & Motley, 2009).

**The Atlanta metropolitan area.** The Atlanta metropolitan area is home to almost half of the entire population of Georgia and is composed of more than half of the owner-occupied housing in the state. Home prices in Atlanta increased by 31.2% from 2000 to 2005 (Duda & Apgar, 2005). In 2005, Georgia ranked third nationally in mortgage fraud and fifth for the percentage of subprime mortgage loans. By 2008, more than 85,000 foreclosures had been filed in Georgia, an increase of more than 44% compared with 2007 and 117% compared with 2006. In 2009, Georgia had the seventh highest foreclosure filing rate in the United States, with 1 in every 37 homes receiving a foreclosure notice (ANDP, 2011).

The Atlanta metropolitan area has consistently accounted for most (approximately 81%) of the foreclosures in Georgia (ANDP, 2010a). In 2006, the Atlanta area had the highest number of foreclosures nationally, nearly 64,000 (Wingfield, 2007). In 2009, Atlanta ranked third nationally, behind Las Vegas and Detroit, in the number of vacant rental units and single-family homes (ANDP, 2010; Harlan & Associates, 2009). In 2010, Georgia ranked sixth nationwide in foreclosure filings, with more than 13,000 Atlanta metropolitan area homes being repossessed in the first 6 months (ANDP, 2010). The Atlanta metropolitan area was included in RealtyTrac’s (2010b) report on the 25 worst cities for foreclosures in 2010, ranking 25th (Brennan, 2011).

From 1996 to 1999, although the volume of foreclosures in Atlanta declined, the volume of subprime foreclosures increased by 232%. Although these foreclosures increased rapidly in neighborhoods of all income levels, they were most concentrated in largely urban, low-income, minority neighborhoods consisting of older housing stock (Duda & Apgar, 2005; Gruenstein & Herbert, 2000; Immergluck, 2008; Swanstrom et al., 2009). Duda and Apgar (2005) also found
that, on an annual basis, the rate of foreclosure filings was twice as high in the city as in suburban areas. However, because more suburban housing units existed in Atlanta, three quarters of all foreclosure actions were related to suburban homes. In addition, nearly half of all foreclosures occurred in suburban neighborhoods in which household incomes were above the median for Atlanta. The areas with the highest shares of nonprime lending had the highest foreclosure rates.

**High-income homeowners.** Historically, home ownership has been most advantageous for homeowners in high-income communities because of tax exemptions, which also encourage investment in real estate. As the foreclosure crisis spread from lower-income communities to higher-income neighborhoods (Edmiston, 2010; Karmin & Hagerty, 2010; Nuiry, 2008), researchers found that subprime loans had an equal likelihood of foreclosure regardless of the income level of the neighborhoods involved (Bunce, Gruenstein, Herbert, & Scheessele, 2006; Post, 2011; van Order & Zorn, 2000). In 2007, a Gallup poll revealed that financial anxiety was prevalent among both affluent and low-income Americans (Saad, 2007). Similarly, the hardship score for the high-income group was 16.4 in 2008, the highest it had been in the 6-month history of the index.

As economic conditions worsened, high-income homeowners also succumbed to foreclosure. From 2007 to 2009, the percentage of high-end defaults doubled (Epstein, 2011; RealtyTrac, 2010a). Previously, homeowners in high-income communities had been resistant to foreclosure because (a) they could obtain jumbo mortgages that required down payments of 10%–20%; (b) they experienced significant asset and income growth; (c) and their homes held their value well, neither increasing nor decreasing in value rapidly. However, the unfavorable
economic climate caused these homeowners to lose much of the equity in their homes, making them worse off than other borrowers because of the jumbo mortgages (Cook, 2009).

The increase in foreclosure rates in high-income communities was attributable to high unemployment (RealtyTrac, 2010b), which increased foreclosure activity by 72% in U.S. metropolitan areas. By 2009, the prime mortgage foreclosure rate was closely aligned with the unemployment rate, indicating the foreclosure rate was closely linked to economic weakness and job loss (Dunne & Fee, 2010).

Unemployed homeowners in high-income communities found it more difficult to sell their properties than individuals in low-income households. High-value properties were usually too expensive for first-time home buyers. Buyers wishing to upgrade to high-value homes had difficulty selling their own properties. Refinancing high-value homes became too costly because investors lost interest in big mortgages and because jumbo loan rates were too big for Fannie Mae or Freddie Mac to purchase (Coy & Burnsed, 2009).

High-income home owners who did not experience unemployment might have experienced reduced income nonetheless. In a Unity Marketing survey of consumers with incomes exceeding $250,000, 39% reported cuts in their bonuses or commissions, 29% reported reductions in their income, and 4% reported reductions in their hours (Samuelson & Zhang, 2009). Some jobs were eliminated because of the decrease in the financial sector; technical jobs were being transferred overseas. Given the economic conditions and the high volume of qualified candidates for job openings, employers also reduced their pay scales (Foroohar, 2009; Gandel, 2009; Mendenhall, Kalil, Spindel, & Hart, 2008).

The metropolitan Atlanta area lost 82,000 jobs between December 2007 and December 2008, an unemployment rate of 7.6% (Percy, 2009). The unemployment rate in Atlanta rose to
10.7% by August 2009 (Thurman, 2009) and had decreased only to 10.2% by February 2011 (Georgia Department of Labor, 2011; U.S. Bureau of Labor Statistics, 2011; Unger, 2011). The Fulton County unemployment rate in February 2011 was 10.5% (Georgia Department of Labor, 2011; U.S. Bureau of Labor Statistics, 2011). As the unemployment rates for Georgia, the Atlanta metropolitan area, and Fulton County continued at all-time highs, Atlanta consumers fell deeper into debt (Fishman, 2011).

**Strategic default.** High-income borrowers experienced difficulty refinancing their debts and convincing banks to do short sales. They also did not have access to many of the government programs created to respond to the foreclosure crisis (Cook, 2009). Thus, many were motivated to choose foreclosure or strategic default to deal with loans they could not afford. Affluent homeowners considered their properties to be the same as stock (Blackstone, 2011), selling them or walking away if the investments were not favorable. High-income homeowners discovered that walking away could be advantageous, saving them as much as $1,000 per month through renting instead of paying significantly overvalued mortgages (Cook, 2009). Default was an attractive option because they usually had sufficient income to rent properties equal to or better than their mortgaged properties. They had enough liquid cash to pay the first and last months’ rent and a security deposit (Cook, 2009; Draut & Garcia, 2010). Thus, it made more financial sense for high-income borrowers to walk away.

High-income homeowners were also motivated to default if they had nonrecourse loans and believed they were unlikely to receive deficiency judgments or to be held personally liable. They were also not as concerned about their credit scores as low-income homeowners (Cook, 2009). Because high-income borrowers were typically more financially knowledgeable than low-income borrowers, default among this group increased much faster. According to
Blackstone (2011), 1 in 7 homeowners with loans over $1 million was seriously delinquent, compared with 1 in 12 homeowners with mortgages below $1 million. The banks tended to move more slowly in foreclosing on high-income homeowners than on those in the low-income group because of the high taxes, costs, and maintenance associated with such foreclosures (Blackstone, 2011; Cook, 2009; Epstein, 2011). Banks were also less willing to take high-value properties back because they were harder to sell on the market and because empty houses were detrimental to everyone’s bottom line (Cook, 2009). Thus, high-income homeowners were able to live in their high-value properties without paying their mortgages for longer periods before walking away (Epstein, 2011).

In defaulting, however, high-income borrowers faced an ethical conflict. Borrowers from the baby boomer generation grew up with the moral conviction that one must pay one’s debts regardless of circumstances (Cook, 2009; Coy & Burnsed, 2009; Safer, 2010). Some homeowners who were afraid of owning the shame and guilt associated with foreclosure experienced great anxiety about the consequences of foreclosure (White, 2009). By walking away from debts they could afford to pay, these homeowners punished honest, paying homeowners. They also made it more difficult for the rest of society to get home loans, refinance existing homes, or maintain the quality of their homes and their neighborhoods. Thus, one could view walking away as an immoral, selfish act based on neglecting to consider what the effects on the community and society might be (Moran, 2010; Safer, 2010). Despite these ethical conflicts, some homeowners ultimately decided to default because it was the most advantageous business decision to make (Epstein, 2011; Safer, 2010).

**Investors.** The foreclosure crisis affected real-estate investors as well as homeowners in high-income communities. The relaxed underwriting standards and a variety of mortgage
products resulted in greater opportunities for investors within the high-income group to participate in the housing boom, with many subprime borrowers obtaining mortgages to buy investment properties (Gopal, 2007). In 2004, the NAR reported that the second-home market accounted for 36% (2.82 million units) of all homes sold that year (Dymi, 2007). However, as mortgage interest rates increased, many investors who had obtained interest-only loans defaulted before their interest rates were reset. Therefore, some industry experts considered investor loans riskier than other subprime loans.

By 2005, investors had begun to exit the housing market, with some opting to walk away from their investment properties. In the third quarter of 2007, approximately 18% of foreclosure actions were owned by investors and involved non-owner-occupied homes (Gopal, 2010), with 1 in 5 of these loans owned by investor borrowers. The exit of investors widened the gap between housing supply and demand and also increased the depreciation of prices (Belsky & Richardson, 2010; Miller, 2008).

Investment foreclosures affected renters as well as owners. In 2008, 31% of the 862,664 foreclosures reported were non-owner-occupied properties, which resulted in the eviction of over 260,000 tenants (Blomquist, 2011; “Foreclosure Crisis Affecting Renters, Too,” 2008). Historically, tenants had no legal remedies when confronted with eviction because of foreclosure actions against their landlords. Although the federal government passed the Protecting Tenants Foreclosure Act of 2009 to provide some relief for tenants, the law contained ambiguities that could be used to favor landlords. In addition, states could overturn some of the protective measures included in the law (Lydersen, 2010; Williams, 2010). Thus, foreclosures further strained social programs for the homeless and impoverished.
Mortgage default was glaringly prevalent in the Atlanta metropolitan area (Boas, 2007; Brock, 2009; Duda & Apgar, 2005; Williams, 2008). Although mortgage default in the Buckhead community might be partly attributable to the growth of subprime loans, the increase of prime loan foreclosures suggested that other factors, such as unemployment and salary reduction, were implicated in the increase of foreclosures (Coy & Burnsed, 2009; Dunne & Fee, 2010; Foroohar, 2009; Gandel, 2009; Mendenhall et al., 2008; Von Hoffman et al., 2009). Factors including financial literacy, consumer behavior, and ethics also had roles in the decisions by high-income homeowners to default strategically on their mortgages as a way to handle their debts.

**Methodology**

The Buckhead community of Atlanta, Georgia, was the geographic location for this quantitative ex post facto study. The following zip codes comprised the Buckhead community: 30305, 30309, 30318, 30319, 30324, 30326, 30327, and 30342. The population consisted of the high-income individuals who either resided in Buckhead or owned property there. Using an alpha level of .05, a power criterion of .95, and an effect size of .30, 145 participants for each combination of research conditions were needed to ensure statistically measurable results.

Participants were identified from the 2009 archival records of foreclosure properties in the Georgia Public Notice Statewide Database of public foreclosure records, the Fulton County Property Appraiser records, and the Fulton County tax records. The median annual family income in this area was approximately $160,000 (Lee, 2007). For this research, neighborhood-level independent variables representing the demographic, socioeconomic, and housing characteristics were obtained from the 2000 census, the only publicly available recent data
source disaggregated by zip code. These neighborhood characteristics were assumed to be closely associated with the 2009 foreclosure filing rate.

Foreclosure filing data up to the past 90 days were publicly available from the Fulton County Clerk of Court office. Foreclosure filing data were also available from the Georgia Public Notice Statewide Database Web site. Although a foreclosure filing does not necessarily mean that a foreclosure will occur (Schiller, 2007), filings that both were labeled deed-foreclosure or FCD in the Fulton County foreclosure records and were listed in the Georgia Public Notice Statewide Database indicated foreclosure had taken place. The names of the owners of foreclosure properties, derived through the archival data analysis, were matched with the Fulton County Property Assessor and Fulton County Tax Assessor records. Each record included the property owner’s name, the purchase date, and the purchase price. This information was also aligned with information from the Fulton County Tax Assessor Web site, which was used to check the congruency of the tax billing address and the residential address to determine occupancy. Homestead exemption status was checked by reviewing the tax records to determine whether the property was a primary residence or an investment property. Because homeowners in Fulton County were required to reside in their primary residence to receive the homestead exemption (Qualifications for Homestead Exemptions, 2011), occupancy status was determined by noting which properties did not have homestead exemptions.

Information from a total of 236 foreclosed properties from the Buckhead community was gathered for analysis. The foreclosure records were divided into two occupancy groups: primary residence owners and investors. Based on purchase price information, the sample was divided into two price groups: properties costing $227,001 or more and properties costing $227,000 or
less. The purchase date information was used to divide the sample into two residency-duration groups: 2 years or less from the purchase date and more than 2 years from the purchase date.

To minimize any internal or external threats to validity, all archived records for homeowners in the Buckhead community were examined for the entire year of 2009. This ensured a sample large enough to perform statistical analysis, to eliminate seasonal trends or debt payoffs, and to generalize findings to other high-income populations and communities. To increase the reliability of the study, nonparametric tests and archived raw data were used to ensure reliability of the data analysis.

SPSS version 16.0 software was used to analyze the data. Analysis consisted of chi-square tests to perform two-tailed tests of proportions to assess differences between two categorical variables. Determining the statistical significance of the results involved comparing the calculated chi-square coefficient ($X^2$) and the critical value coefficient.

**Results**

Of the 236 properties included in this study, 70 properties (29.7%) were in zip code 30318, 49 (20.8%) were in zip code 30342, 41 (17.4%) were in zip code 30326, 21 (8.9%) were in zip code 30319, 18 (7.6%) were in zip code 30327, 17 (7.2%) were in zip code 30305, 11 (4.7%) were in zip code 30324, and 9 (3.8%) were in zip code 30309. In terms of purchase price, 127 properties (53.8%) cost less than or equal to $227,000; 109 properties (46.2%) cost over $227,000, with only 6 of those properties (2.5%) costing more than $1 million. The average purchase price was $275,772.44 ($SD = $335,922.28). Of the 236 properties analyzed, 181 were classified as long-term residencies of more than 2 years; 55 were short-term residencies of 2 years or less. The average occupancy duration was 5.15 years ($SD = 4.82$). In terms of
occupancy, 155 (65.7%) were non-owner occupied or were occupied as investment properties; 81 (34.3%) were owner occupied or were occupied as primary residences.

In terms of occupancy, the chi-square analysis for foreclosure incidence revealed that more foreclosures in zip codes 30319 and 30324 were owner-occupied properties. The reverse was true in all the other zip codes. However, no significant difference existed between the numbers of owner-occupied and non-owner-occupied foreclosures \( \chi^2(7, 236) = 14.074, p = .050 \).

Analysis of foreclosure incidence according to purchase price revealed that the majority of the foreclosed houses originally cost less than $227,000. While the majority of the houses foreclosed in zip codes 30318 and 30319 were low-tiered homes (less than or equal to $227,000), the majority of the houses foreclosed in zip codes 30326, 20327, and 30342 were high-tiered homes (greater than $227,000). A significant difference did exist between the numbers of foreclosures according to purchase price \( \chi^2(7, 236) = 21.822, p = .003 \), with more foreclosures in the low-tiered properties.

The results for the foreclosure incidence according to residence duration revealed a significant difference between the numbers of short-term (less than 2 years) and long-term (2 years or longer) homeowner foreclosures \( \chi^2(7, 236) = 27.332, p < .01 \), with more foreclosures occurring among long-term residents.

**Discussion**

The findings showed that investor and non-investor high-income homeowners experienced foreclosure. Although many of the foreclosed properties were purchased for less than $500,000, many of them were also additional properties that consumers did not really need. The statistically significant difference between the numbers of high-tiered and low-tiered home
foreclosures suggests that borrowers may have obtained loans beyond their means or that investors who gambled on the purchase of homes had unfavorable results.

The data also suggest that home foreclosures may have resulted from investors or first-time homeowners attempting to capitalize on the increased short sales and lower-priced homes in affluent communities because of the housing market slump. The average residency duration in the study was 5 years, indicating that many of these high-income individuals were still fairly new homeowners in the Buckhead area when they experienced foreclosure. However, the statistically significant difference between the numbers of short-term and long-term homeowner foreclosures suggests elimination of speculation or flipping as a cause for foreclosure.

The findings suggest the need to address the ethics, accountability, and education not only of consumers but also of those working within the government, housing industry, and financial industry.

**Questionable ethics.** The increase in high-income homeowners failing to fulfill their financial obligations suggests the ethics of these individuals are questionable. Although these homeowners may be protecting themselves from risk and financial loss, their decisions to default affect the broader community, adding to the depreciation of housing values, local neighborhoods, and local governments (Edmonds, Stevenson, & Swisher, 2011; Gaskin, 2011). Consumers often begin unethical practices early in the home buying process with the submission of false information, including inflating their incomes and limiting documentation to obtain homes they cannot afford (Nguyen & Pontell, 2010; Pyburn, 2007; Volpe & Mumaw, 2010). Years later, they walk away from their homes and their financial obligations, with no regard for the effect their foreclosures may have on their communities, cities, and states.
Homeowners who strategically default choose not to pay their mortgages while continuing to pay their other consumer debts (Shenn, 2010). According to Fair Isaac Corporation (FICO) data, the rate of strategic default is positively correlated with FICO scores, with the majority of the defaults being made by individuals with scores higher than 620 (Gaskin, 2011). FICO data also show that mortgage default risk for homebuyers with high FICO credit scores now exceeds their credit card default risk, indicating a change in priority of payments for these consumers. Although society may deem ethical and acceptable defaults resulting from life-changing events that force individuals to default (Yohem, 2010), the findings of this study suggest that homeowners who have taken out too much equity or whose homes are underwater default to prevent risking their future wealth opportunities. Such decisions are unethical.

In this study, the average residency duration of 5 years suggests that the decision to default strategically may not have been a prolonged decision, another indication of these consumers’ lack of ethics. Determining the success of most real estate investments takes time. The results of the study suggest that homebuyers who speculated or planned to flip the properties were forced to hold the properties when the housing market collapsed (Gopal, 2010). Ultimately, some homeowners walked away from these investments, counting them as lost gambles (Gopal, 2007). The length of residency in this study is affirmation of the need for consumers having sound initial investment plans and rational exit strategies (“How to Avoid Foreclosure,” 2011; Martin, 2008; Martin & Gilmartin, 2011; Phelan & Zeckhauser, 2010; Scanlon, 2008). People often overlook sound exit strategies when they are purchasing real estate. Their plan is simply to buy some investment properties and hold them. However, when buying properties, investors must consider market volatility and economic conditions that may take time to improve (Scanlon, 2008).
The pursuit of profitable opportunities (such as speculation and flipping) while ignoring their effects on others is known as the Goldman rule (Watkins, 2001). It refers to the Goldman Sachs organization, known for its participation in ethically questionable activities that resulted in massive profits. The primary assumption of the Goldman rule is that increases in profitable opportunities affect the opportunity cost of ethical behavior. Evidence of this rule is seen in the average residency duration of 5 years for the high-income homeowners in this study. In comparison, less than 20% of participants in an NAR study had residency duration periods of 5 years or less (Molony, 2010). This minimal residency duration may indicate the willingness of homebuyers to make quick profits and to make the unethical decision to default when market conditions worsen.

Consumers have not been alone in committing unethical practices. The Goldman rule specifically suggests that financial institutions are less likely to exhibit ethical behavior when opportunity costs are high (Watkins, 2011). The foreclosure crisis in part was due to laissez-faire policies that resulted in a mindset that homebuyers and organizations can pursue profits without limitations. Because of their pursuits of profit, they eliminated their ethical considerations and reduced their visions of tradeoff (Watkins, 2011). As the profit opportunities grew, financial institutions increasingly engaged in unethical behaviors, losing regard for the consequences. These unethical practices included relying on the information provided by consumer clients who may have misrepresented their personal information to obtain the loans they desired. Industry leaders’ negligence in adopting ethically responsible practices has resulted in losses, lower stock values, and decreased consumer confidence and spending, all of which exacerbated recession issues (Edmonds et al., 2011; Mackenzie, 2010; Nguyen & Pontell, 2010).
The magnitude of unethical actions by some industry leaders was diminished only by these individuals’ allegiance to their organizations. They believed that they were merely complying with business policies and protocols. Loan agents were encouraged to think of their unethical acts as creative financial skills to get mortgage loans approved. Individual mortgage brokers often diffused their responsibilities to be ethical and placed the blame on the leaders or brokers of their offices (Nguyen & Pontell, 2010). Thus, the Goldman rule has clearly affected the housing market, including high-income communities, as the absence of ethics by consumers and financial institutions resulted in excessive profit-making opportunities that led to excessive behavior that resulted in an explosive number of foreclosures (Watkins, 2011).

**Minimal accountability.** The results of the study suggest a lack of accountability among high-income homeowners and industry leaders. Because of lender euphoria, weaker underwriting standards and policies resulted in consumers taking on more risk than they could handle (Edmonds et al., 2011; Kohn & Bryant, 2010). The literature suggests that risk increases with increases in negative equity, resulting in homeowners becoming less accountable and more motivated to default strategically. In their study, Guiso, Sapienza, and Zingales (2009) found that strategic default can be contagious. In communities in which defaults are widespread, the social stigma related to foreclosure and default is less harsh, thus presenting foreclosure as an acceptable alternative. Based on the historical number of foreclosures in the Buckhead community, the increase in foreclosures shown in this study suggests that the affluent in this community have increasingly accepted the concept of strategic default.

Lack of accountability among housing and financial industry leaders may also account for the rapid increase in mortgage default. Real estate agents and mortgage lenders placed their risk on investors in the hope of securing financial gain. This led to the writing and approval of
bad loans, which affected both U.S. and European markets unfavorably (Francis, 2009). Government leaders have suggested that industry leaders be required to share some of the risk of the loans they write to increase their accountability. However, this recommendation will only be successful if other requirements are enforced. Otherwise, organizations that write a large volume of loans may still generate enough profit to cover their losses from additional risk (Francis, 2009). Based on the purchase price data in this study, housing and financial leaders who are incentivized by financial gain may lose sight of their personal and organizational accountability.

**Mortgage education and literacy.** The results of the study suggest that high-income homeowners may lack adequate education and literacy in mortgage lending. This absence of financial sophistication among homeowners results in devastating consequences when combined with the relaxed lending standards of mortgage lenders (Volpe & Mumaw, 2010). The results of the study suggest that because they lacked sufficient financial literacy, high-income homeowners signed agreements to repay debts that were more than they could afford. They were rationally willing to take these risks because of the expected utility that they would receive from mortgage equity and financial gain. According to Sages and Grable (2010), understanding risk tolerance is an important component in improving and understanding financial literacy.

Consumers must receive a more thorough financial literacy education. A number of foreclosures could have been averted had homeowners been better educated concerning the types of mortgage products (McWeeney, 2008). Because of the increases in home values during the real estate boom, homeowners had developed false perceptions that could have been avoided with a thorough understanding of personal finance. Thus, the absence of financial literacy increased homeowners’ vulnerability and contributed to their false sense of security (Volpe & Mumaw, 2010).
By becoming more financially literate, consumers may also learn how to deal better with unfavorable economic conditions. If the homeowners in Buckhead had had better financial literacy and financial management skills, they might have been able to keep their homes out of foreclosure.

**Transformational leadership.** The results of the study indicate a strong need for leaders in both the government and the housing and financial industries to shift paradigms from transactional leadership, characterized by short-term financial gain, to transformational leadership, emphasizing long-term rational investments and financial prosperity. The results of the study suggest that transactional leadership may have affected the incidence of foreclosure. Leaders were building leader–follower relationships based on bargaining exchange and situational awarding. This leadership style persisted for years because under the transactional leadership approach, as long as the leader and followers are content with the exchange, the performance and rewards remain consistent (Mert, Keskin, & Bas, 2010). Similarly, the increase in unfavorable loan products continued because transactional leaders did not interfere or approach followers until problems arose, resulting in a management-by-exception method.

Followers were satisfied with the transactional leadership approach because transactional leaders had complete trust in their followers’ capabilities. They had the space not only to feel empowered but also to conduct unfavorable and unethical mortgage loan transactions.

Under the transformational leadership approach, leaders prioritize the welfare of the group or community over their own self-interests. Transformational leaders are futuristic and visionary and, thus, allow for long-term planning and wealth building. More important, transformational leaders emphasize intelligence, learning, and rational decision making (Mert et al., 2010). With a shift to a transformational style, leaders may encourage evaluation of
alternative methods to solve problems and of alternatives that may have been overlooked or omitted. A change to transformational leadership in the housing and financial industries may result in individualized consideration as leaders focus on the potential of each homeowner and that person’s specific situation in developing the mortgage loan package (Mert et al., 2010). Transformational leadership may also result in the development of followers through appropriate educational opportunities.

Leaders may also adopt higher levels of corporate social responsibility as they recognize the value of synergy. Greater emphasis on corporate social responsibility may result in leaders being held accountable for improving the economic development of their local communities through rational and ethical business practices (Crisan & Borza, 2012). The results of this study suggest that as the number of transformational leaders in the housing and financial industries that recognize the importance of corporate social responsibility increase, the more protected and enhanced the welfare of high-income communities such as Buckhead will be.

A shift to transformational leadership may also indicate an endorsement of community collaboration through collective dialogue. In community process theory, collective dialogue can result in solutions and improved unity during turbulent times (Elias; 2010; Novicevic, Harvey, Buckley, Wren, & Pena, 2007; Simms, 2009). If transformational leaders use community process theory as a basis for initiating dialogue within their communities, they may bring homeowners together to see the collective struggles in their communities. As a result, homeowners may become more involved in preserving their homes and their neighborhoods. Thus, communities such as Buckhead should come together to discuss the issue of foreclosure with local leaders. Communities may also collaborate to find solutions through discussions of personal experiences. Such self-governance may only be achieved through transformational
leaders that recognize the strength communities can achieve through cooperation and collaboration to resolve identified issues.

**Recommendations**

The conclusions drawn from this study revealed the need for changes within the housing and financial industries, as well as the government, to minimize the use of strategic default, especially among high-income homeowners and investors. Individuals in the housing and financial industries must educate potential borrowers diligently concerning the risks of purchasing properties that are beyond their financial means. They must inform and educate consumers thoroughly and push for processes to create unity within communities. This involves not only improvements in financial literacy education and ethics but also improvements in government and industry standards. Industry leaders must move from transactional leadership based on financial motivations and short-term gains to transformational leadership based on corporate social responsibility.

Neither consumers nor housing and financial leaders must be allowed to adhere to the Goldman rule by gambling without concern for the greater community. Financial profit and gain should not be the determining factors in decisions industry leaders make concerning consumers. Standardized policies and audits exempt of financial incentives should be implemented for all lenders and agents. These policies should contain check points that include implications for default and risk scenarios. They should also contain formal organizational statements warning agents and lenders that legal action may be taken if proof of any fraudulent or unethical activity is found. Improvements in disclosure and investor protection should be enforced, as should tougher government requirements. These requirements should include audits to monitor potential insider fraud and underwriting standards (Francis, 2009; Nguyen & Pontell, 2010).
Housing and financial leaders must exhibit greater professionalism and adhere to their fiduciary duties in their agency relationships with clients (Nguyen & Pontell, 2010). Leaders of real estate and mortgage companies should be required to provide employees and management personnel with continuing education and legal awareness programs specifically related to risk and investment planning. The foci of these programs should be full disclosure of loan terms, financial projections based on income, risk implications of short-term planning, professional and ethical standards for each individual employee, and the corporate social responsibility of the organizations. By altering the transactional belief systems of consumers and agents and emphasizing the importance of rational long-term planning, industry leaders may adequately provide consumers with mortgage options based on sound decision making.

The loan application process should be improved to include additional verification steps to ensure each application is examined thoroughly. This could involve creation of an independent department or the employment of an unbiased third party to evaluate the applications for errors and potentially fraudulent or unethical transactions based on financial incentives.

The compensation structures of real estate agents and mortgage brokers should reflect bonus payments based on the quality of the loans submitted rather than on the quantity prepared. Such a structure should incentivize industry leaders to screen applications properly. In addition, bonuses should be paid out retroactively rather than upfront to emphasize the importance of processing legitimate applications and of writing good loans.

Housing and financial leaders, along with the government, must also act proactively to educate potential borrowers regardless of income levels or status. Leaders should not assume that affluent individuals are adequately educated concerning home buying and lending processes.
All potential borrowers should receive the same type of education to promote rational decision making and long-term wealth building. To accomplish this, real estate and lending organizations should have a standardized home buying education program that includes handouts, online resources, and one-on-one risk and scenario discussions. This program should also include psychosocial questions related to financial numeracy, net worth, and financial management skills. Evaluating borrowers’ responses to these questions is a valid method to distinguish borrower needs from their preferences (Sages & Grable, 2010).

In addition, the government must realize that foreclosures affect everyone and stunt economic growth and should set the standard for enforcing fines or penalties to reduce the perceived benefits of strategic default. Both borrowers and industry leaders should be held accountable for their actions. Penalties should be stricter for individuals who strategically default, and lenders should be required to repurchase faulty mortgages. The period it takes to foreclose on a property should also be reduced to eliminate the perceptions that writing bad loans will not result in consequences for years or that defaulting is the easy way out of risky investments (Ghent & Kudlyak, 2010).

Conclusion

Increasing the rate of home ownership has always been viewed as producing desirable social outcomes. According to former Federal Reserve Board Vice-Chairman Ferguson (2005), “Homeownership is one of the cornerstones of wealth creation and is generally associated with a range of socially desirable outcomes including better schools, less crime, and neighborhood stability” (as quoted in Volpe & Mumaw, 2010, p. 63). To revitalize this American dream, all parties should collaboratively promote social responsibility, financial accountability, and financial literacy.
The study findings included insights about consumer decision making and the financial literacy of the higher-income population. These findings could be used to promote awareness of the need for all consumers to be thoroughly informed of the risks associated with purchasing real estate properties. Additionally, the findings indicated the need for industry leaders to shift their leadership style paradigm from a transactional style to a transformational style. With such a paradigm shift in leadership practices, government, financial, and housing industry leaders could implement programs and policies to encourage financial literacy and rational long-term decision making in making purchases.

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