

THE IMPACT OF THE MORTGAGE CRISIS ON FAMILY CHILD CARE PROVIDERS AND CHILDREN IN PROVIDENCE

December 2008

Impact on children

The cause of the nationwide foreclosure crisis is not self-evident, yet the impacts are clear: children and families suffer. The foreclosure crisis has had and will continue to have a profound effect on working families, and consequently, the present and projected success of their children. First Focus, an advocacy organization for children and families, released *The Impact of the Mortgage Crisis on Children* in May 2008, a comprehensive analysis detailing the effects of the mortgage crisis on children. “When foreclosures force children from their homes, their education is disrupted, their peer relationships crumble, and the social networks that support them are fractured. Indeed, their physical health, as well as their emotional health and well-being, is placed at risk.” The report cites an estimated 2 million children will be “directly impacted” by foreclosure and that “this number will rise even higher when accounting for other populations, such as children being evicted from rental units...”¹

The Dream Foreclosed: 2008, a research report commissioned by the Annie E. Casey Foundation, also describes the impacts of foreclosure on children. “Parents struggling through the foreclosure process and its aftermath may have children who attend school sporadically and have their academic, social and emotional development interrupted or impaired. This means that foreclosure affects two generations.”²

Additionally, children impacted by foreclosure are more likely to experience homelessness and excessive mobility, and as a result, “are only half as likely to be proficient in reading as their peers.” They can also experience physical, mental and behavioral health problems as families are less likely to have money for health care and health insurance.³

But what happens to children when a family child care provider becomes the victim of foreclosure?

Family child care providers offer the services necessary for families to be able to work, ensuring their children are in a safe and educational environment. The challenge of foreclosure and loss of housing for family child care providers introduces instability into continuity of care for the children they serve. Research has long supported the importance of a stable and secure relationship between young children and their caregivers. Consequences include less adult-child interaction in a care setting, aggressive tendencies, and other behavioral problems.⁴

The Department of Children, Youth, and Families (DCYF) grants licenses to persons interested in becoming family child care providers upon completion of the following requirements: an application which includes a medical reference, physical examination and proof of immunization; a criminal record check; a DCYF record check; and fire and health inspection of the applicants’ homes. Once applicants obtain licensure, they must become CPR and First Aid certified, in addition to completing 24 hours of professional development training every two years. Licenses are designated to individuals’ home addresses and are therefore non-transferable. Thus, when providers are forced to leave their homes, they must obtain new licenses. Licenses are subject to renewal every two years.⁵

By examining the correlation between the foreclosures of family child care providers and their ability to maintain licensure or stay in busi-

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ness, many questions arise. Where are the children who were once served by these providers? What happens to children's development when a family child care provider experiences foreclosure? What services, if any, are the working families who once utilized family child care providers turning to? What is the economic impact when a provider is no longer in business?

“Their physical health, as well as their emotional health and well-being, is placed at risk.”

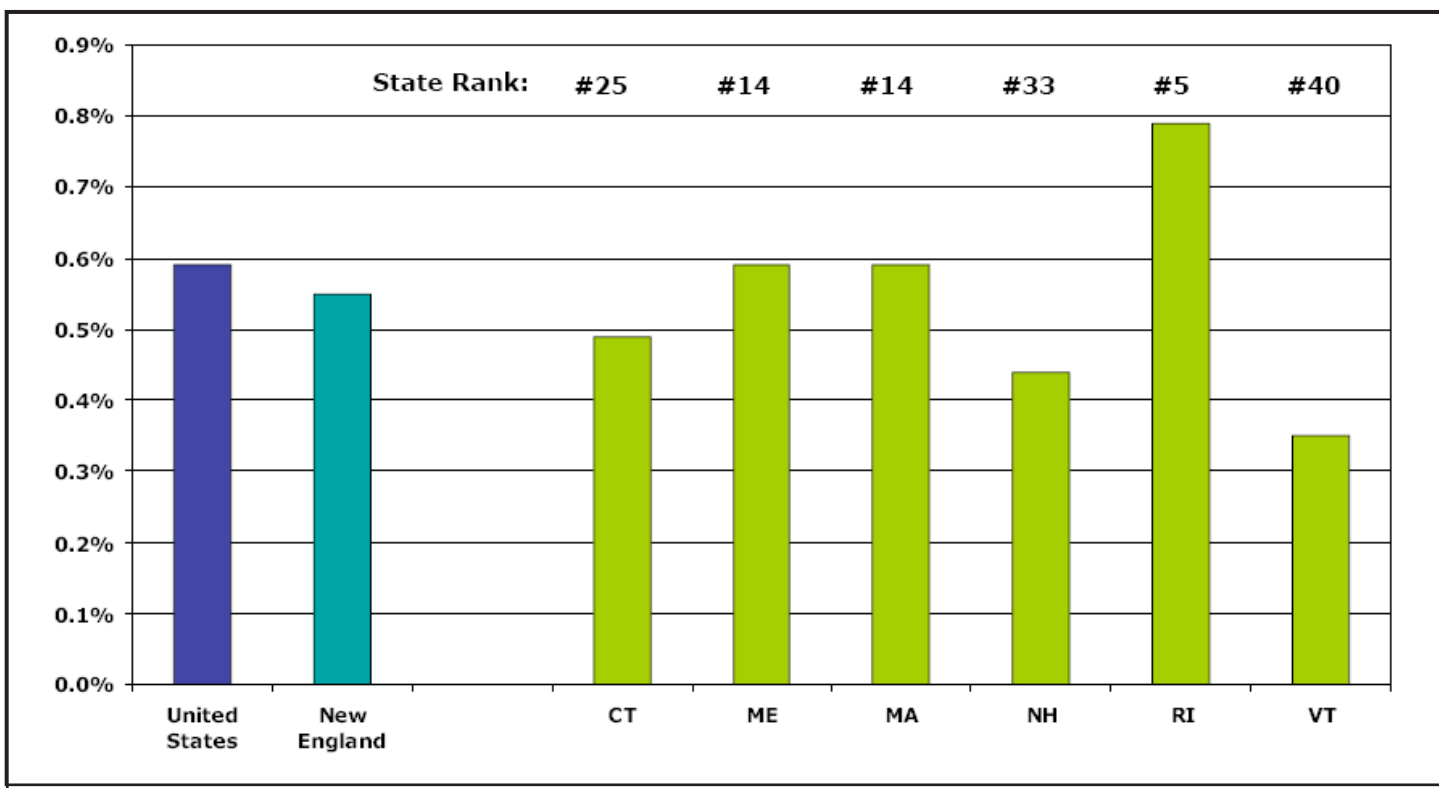
What is happening in Rhode Island?

Since 2006, Rhode Island has maintained the highest rate of foreclosures in New England.⁶ As shown in Figure 1, RI's foreclosure rate is nearly 0.8%. According to the Federal Reserve Bank of Boston, this ranks Rhode Island as fifth highest nationwide, an alarming figure for a relatively small population. (The state with the highest foreclosure rate is Michigan at 1%. North Dakota has the lowest at 0.2%).⁷ During the state's famed banking crisis,⁸ the foreclosure rate was 2 out of every 1,000 mortgages (second quarter, 1991). The current foreclosure rate is four times that, or 8 out of every 1,000 (second quarter, 2008).⁹

From December 2007 to May 2008, 1,832 foreclosures occurred in the state of Rhode Island.¹⁰ The high rate of foreclosure in Rhode Island – and around the country – is largely due to subprime mortgage lending. The term subprime simply refers to a loan with an interest rate higher than the current prime rate, a convoluted and widely disputed practice. Typically offered to borrowers with poor credit histories, lower incomes and disproportionately to minorities,¹¹ subprime mortgages frequently lead to default, seizure of collateral, and foreclosure more often than prime mortgages. Rhode Island currently maintains the highest rate of subprime mortgage foreclosures in New England (see Figure 2).¹² An economist who specializes in housing at Global Insight, an economic forecasting firm, notes “These high-cost loans have shown up in large concentrations in poorer communities and former industrial cities such as Providence.”¹³

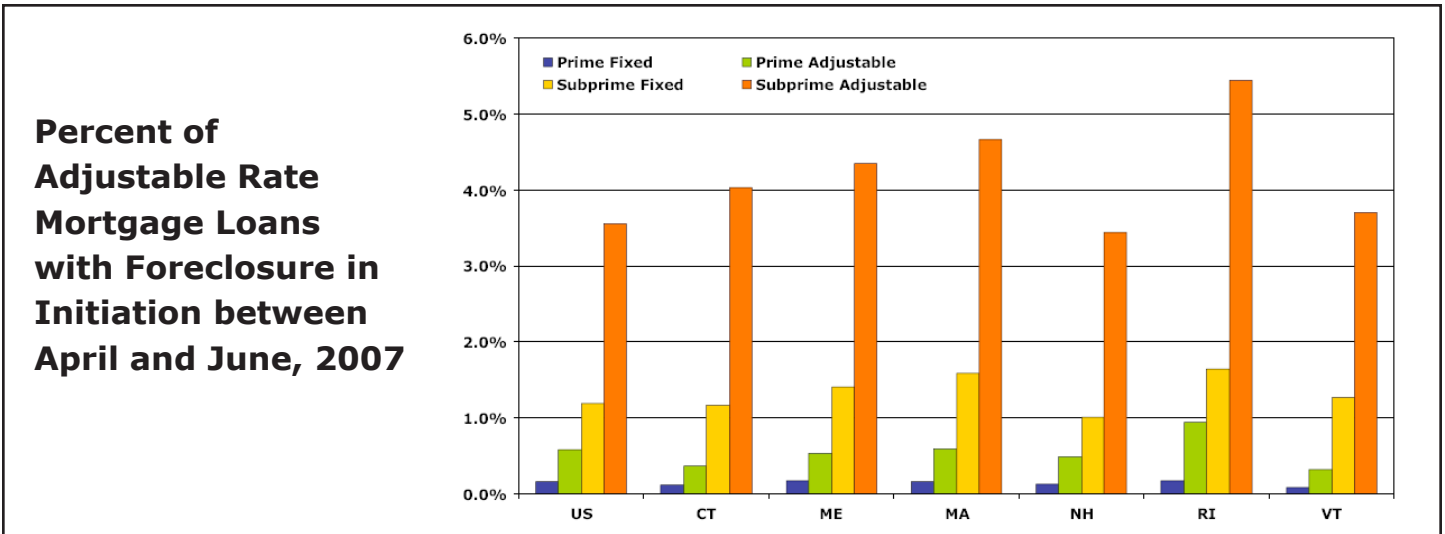
Figure 1

Percent of Loans with Foreclosure Initiation between April and June 2007, with state rank



Source: Federal Reserve Bank of Boston, Mortgage Bankers Association/Haver Analytics

Figure 2



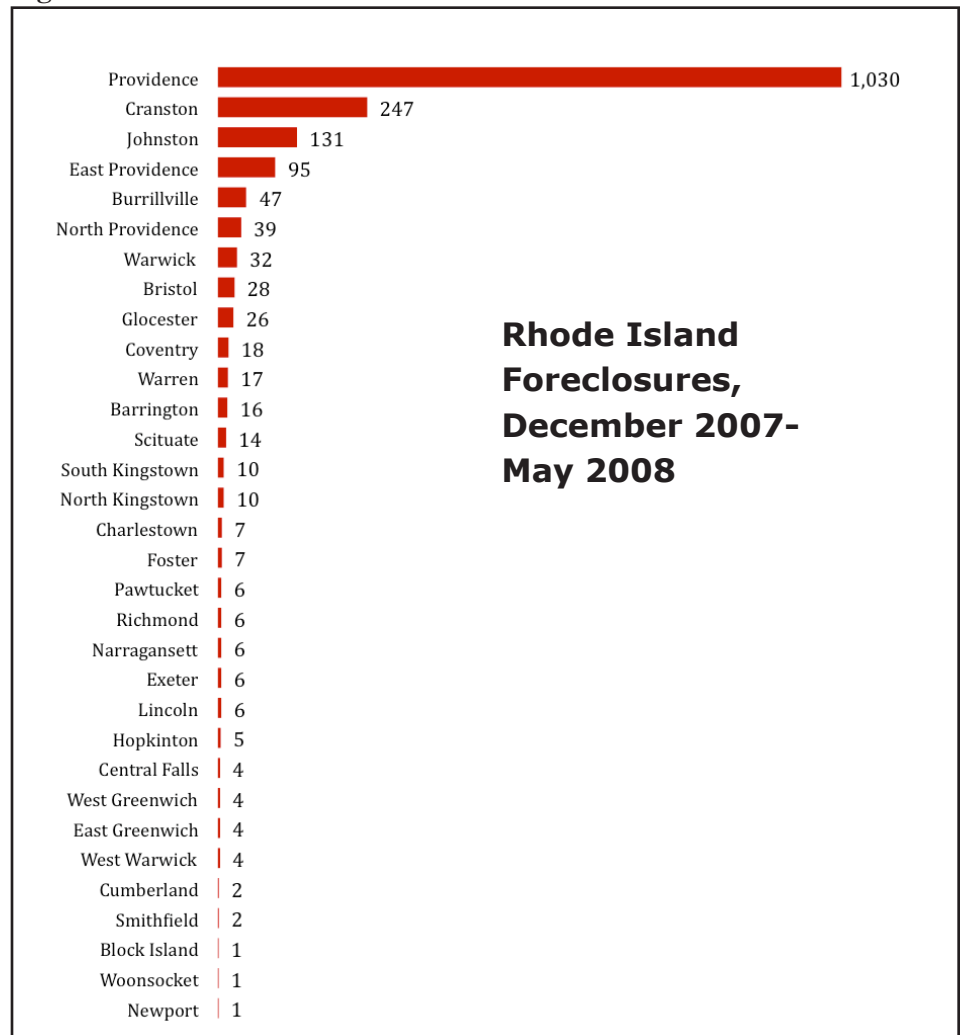
Source: Federal Reserve Bank of Boston, Mortgage Bankers Association/Haver Analytics

What is happening in Providence?

The effects of foreclosure can be devastating – not only to the individual, but on the community as well. “As foreclosures sweep through neighborhoods, they cut a wide swath of abandoned housing, lowering property values and thus the homeownership “equity” of the entire neighborhood.”¹⁵ When family child care providers foreclose on their properties, it presents a serious economic issue for both the provider and the families they serve. The loss of a home for any provider is also the loss of a business. When small businesses close within the neighborhoods they serve, the local economy suffers. When working families lose stable child care, their employment is often compromised. If families are forced to leave their jobs or work part-time, the economy at large suffers.

As previously noted, 1,832 foreclosures occurred in the state of Rhode Island from December 2007 to May 2008 (Figure 3).¹⁶ During that time, a total of 46 licensed child care providers lost their homes to foreclosure, representing 3.4% of all licensed providers and 2.5%

Figure 3



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Source: The Warren Group

What is happening in Providence?

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of all foreclosures.¹⁷ Of these 46 providers, 91% were from Providence.

From a statewide perspective, a population representing 3% of all foreclosures may not seem like a significant figure; yet when viewed from a citywide perspective, this small percentage translates to 6% of all licensed child care providers in Providence and 5% of all foreclosures throughout the city.¹⁸

According to HousingWorksRI, the median selling price for a single-family Providence home in 2007 was \$212,475. The household income required to afford that house was \$68,656, with a typical monthly payment of \$1,716.¹⁹ In 2002, the average annual net income for

family care providers who were members of the Daycare Justice Co-op, a membership association of family child care providers in Rhode Island, was \$20,166 (or about \$6.31 per hour).²⁰ With only one-third of child care workers earning minimum wage, homeownership is often a vital part of providers' financial and personal security. "Loss of homeownership destroys credit and increases the risk of homelessness."²¹

When a provider is able to afford a home, the sustainability of her business is greatly improved. The safe learning environments and security for working families a provider is able to offer creates vitality within the neighborhood economy and simultaneously invests in the future of our children. Inversely, when providers experience foreclosure,

the security of their families, businesses, and people they serve become jeopardized. Of the 46 child care providers who foreclosed on their homes, 28 were the property owners, 25 of whom resided in Providence.²²

In June 2008, DCYF listed 936 licensed family child care providers, a 30% decline from October 2007 when there were 1,337 licensed providers in the state.²³ Providers who were licensed in October 2007 but not June 2008, just six months later, represent a 36% (485) decline in statewide licensures. Although we cannot determine if the loss or non-renewal of licensures is at all related to the 46 child care providers who experienced foreclosure, a correlation is implied as 23 of the 46 providers no longer have their license.

Analysis and Methodology

Statewide data of all licensed child care providers in October 2007 (1,337) was obtained by R2LP from DCYF. Statewide data of all foreclosures within the past six months (1,832), December 2007 to May 2008, were provided to R2LP by The Providence Plan and Rhode Island Housing and Mortgage Finance Corporation who obtained it through The Warren Group. From these datasets, R2LP matched identical properties, identifying 47 foreclosed properties occupied by a licensed child care provider. It is important to note that one provider resided in two separate foreclosed properties; thus, the total number of foreclosures is 47 where only 46 individuals were identified. It is assumed the foreclosed properties served as both residence and place of business for each provider.

Homeownership of foreclosed properties was determined by using the Providence Tax Assessor's Database

(<http://providence.ias-clt.com/parcel.list.php>). Where a property owner's name was congruent with that of a licensed child care provider, ownership of the foreclosed property was assumed to be that of the provider; where a property owner's name did not match that of a licensed child care provider, ownership of the foreclosed property was assumed a rental.

The most recent statewide dataset of all licensed child care providers available, June 2008, was obtained by R2LP from DCYF in order to determine the total number of providers who no longer have their licenses. This figure was used to calculate the decline in licensures from October 2007 to June 2008 as well as to identify those providers affected by a foreclosed property who are no longer licensed. There is no way to determine if the nationwide increase in foreclosures is causal to the loss, non-renewal, or decline in new

licensures; however, a correlation is implied for those providers who resided in a foreclosed property and ceased to maintain their licenses.



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(Endnotes)

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Retrieved August 15, 2008 from <http://www.bos.frb.org/commdev/foreclosures/reads111407.pdf>. State population: Rhode Island is the eighth least populated state (1,076,189). Worldatlas.com, Inc. Retrieved August 15, 2007 from <http://www.worldatlas.com/aatlas/populations/usapops.htm> [United States population statistics]. ⁸The state banking crisis refers to the Rhode Island Share and Depositors Insurance Corporation (RISDIC) going into receivership. *RISDIC provided depositor insurance for more than thirty banks, savings and loan institutions, and credit unions in the state. The failure of RISDIC meant that the funds deposited in those institutions were no longer insured. By state law the institutions could not continue to operate without insurance... On January 1, 1991, he [Governor Sundlun] ordered the immediate closing of the banking institutions insured by RISDIC. They were to remain closed until such time as they could obtain federal insurance from the Federal Depositors Insurance Corporation or the National Credit Union Association. Until they could obtain federal insurance, the funds of depositors in those institutions were frozen and unavailable to the depositors. Many of the RISDIC insured institutions were able to obtain federal insurance very quickly and reopen in a matter of days. Others, including many of the largest institutions, were unable to do so.* University of Rhode Island, University Libraries Special Collections (n.d.) *Governor Bruce Sundlun Papers 1990-1995 MSG#120*. Retrieved August 18, 2007 from http://www.uri.edu/library/special_collections/political_papers/sundlun/seriesV.html. ⁹Arditì, L. Foreclosures threaten Providence neighborhoods' vitality (2007, October 16). *The Providence Journal*. Retrieved August 14, 2008 from http://www.projo.com/news/content/fore_10-14-07_T87FVGO.4f07c9c.html. ¹⁰The Warren Group. (2008) [Ready to Learn Providence and Rhode Island Housing and Mortgage Finance Corporation data request of Rhode Island foreclosures]. Unpublished raw data. ¹¹NBR Enterprises (Producer). (2008, July 22). *Nightly Business Report* [Television broadcast transcript]. Miami, New York, Washington, DC, and Chicago: Public Broadcasting Service. Retrieved August 18, 2008 from <http://www.pbs.org/nbr/site/onair/transcripts/080722c/>. "In a 2007 study of six metropolitan areas, it was found that African American borrowers were 3.8 times more likely to receive a higher cost loan than white borrowers and that Latino borrowers were 3.6 times more likely than whites to get a high cost loan." Cited from Motika, S. (2008). *The dream foreclosed: 2008*. Baltimore: The Annie E. Casey Foundation. 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Providence, RI: Department of Children, Youth, and Families. ¹⁵Motika, S. (2008). *The dream foreclosed: 2008*. Baltimore: The Annie E. Casey Foundation. ¹⁶The Warren Group. (2008) [Ready to Learn Providence and Rhode Island Housing and Mortgage Finance Corporation data request of Rhode Island foreclosures]. Unpublished raw data. ¹⁷*Ibid.* Figure represents 46 providers and 47 foreclosures. One provider resided in 2 foreclosed properties. ¹⁸Department of Children, Youth, and Families Licensing [Data file]. (2007). Providence, RI: Department of Children, Youth, and Families. The Warren Group. (2008) [Ready to Learn Providence and Rhode Island Housing and Mortgage Finance Corporation data request of Rhode Island foreclosures]. 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