

Negative Equity in Communities of Color in the Chicago Six County Region



November 16, 2012

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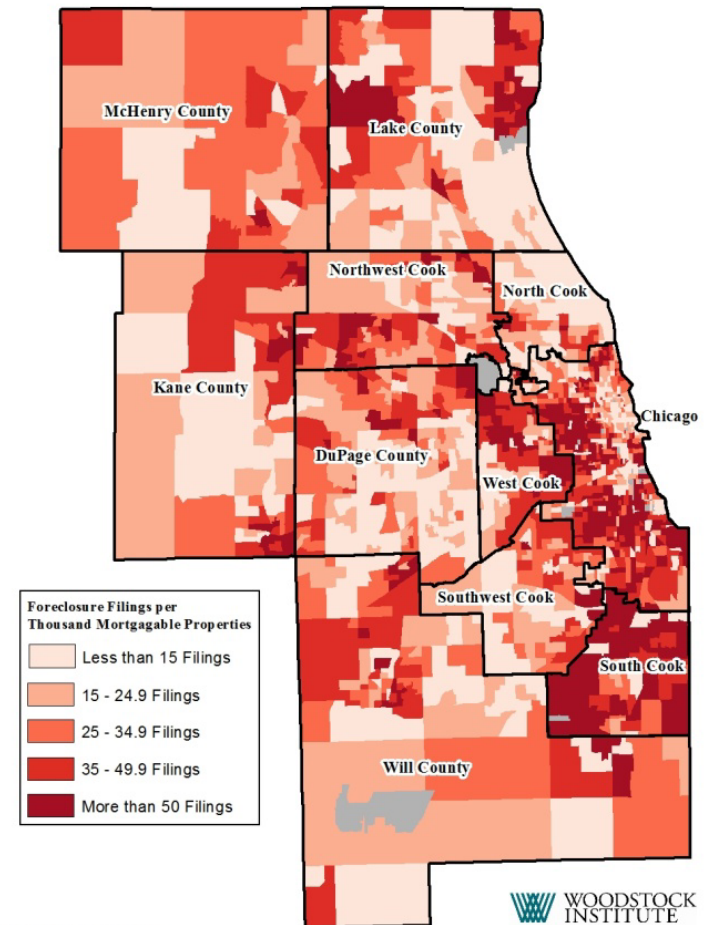
Overview

- Foreclosures in the Chicago region
 - context
- Impacts of negative equity
- Inherent risks of mortgage finance
 - for the borrower
- Data analysis and findings
 - disparate impact on communities of color
- Conclusions

Foreclosures in the Chicago Region

- 64,877 foreclosure filings in 2011
 - down from 79,986 in 2010
 - back up to 34,978 in 1st half of 2012
- Concentrated in communities of color

Concentration of Foreclosure Filings, 2011

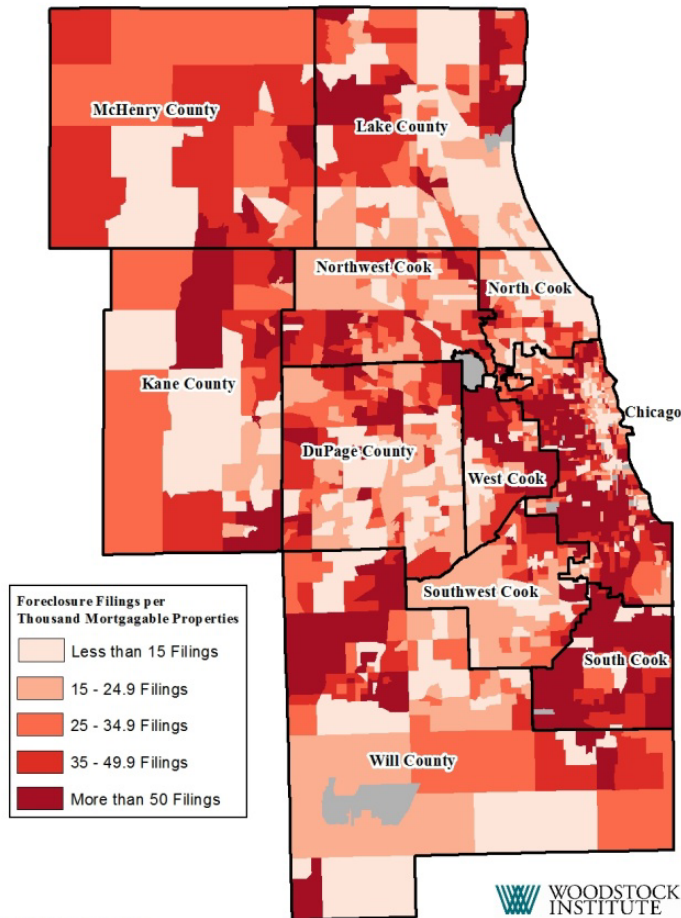


Source: Woodstock Institute analysis of data provided by Record Information Services

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Foreclosures in the Chicago Region

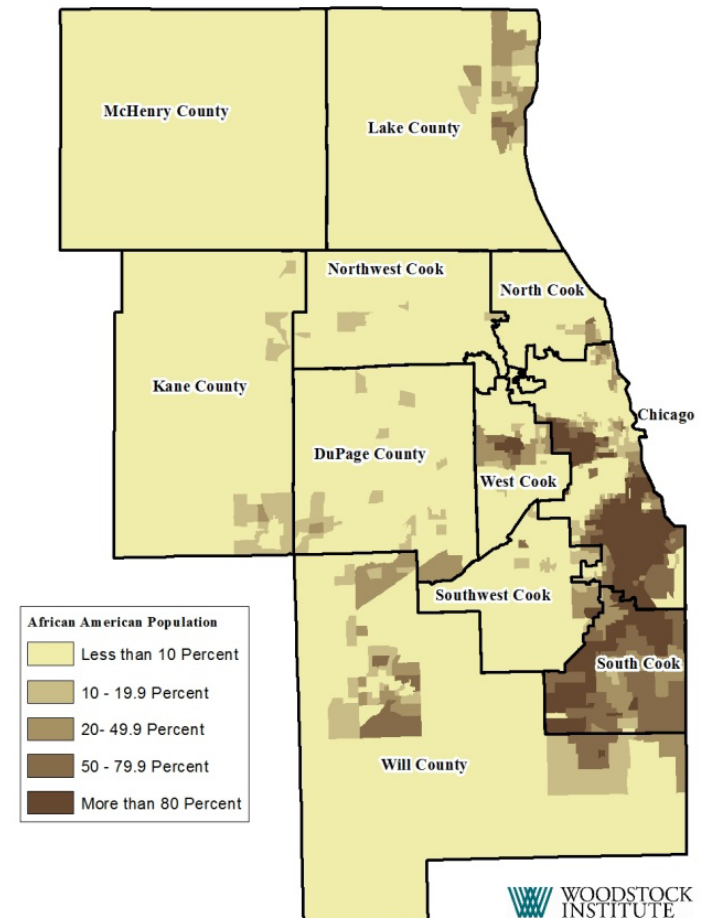
Concentration of Foreclosure Filings, 2010



Source: Woodstock Institute analysis of data provided by Record Information Services

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Location and Concentration of African American Residents in the Chicago Six County Region, 2010



Source: 2010 Decennial Census, Census Bureau

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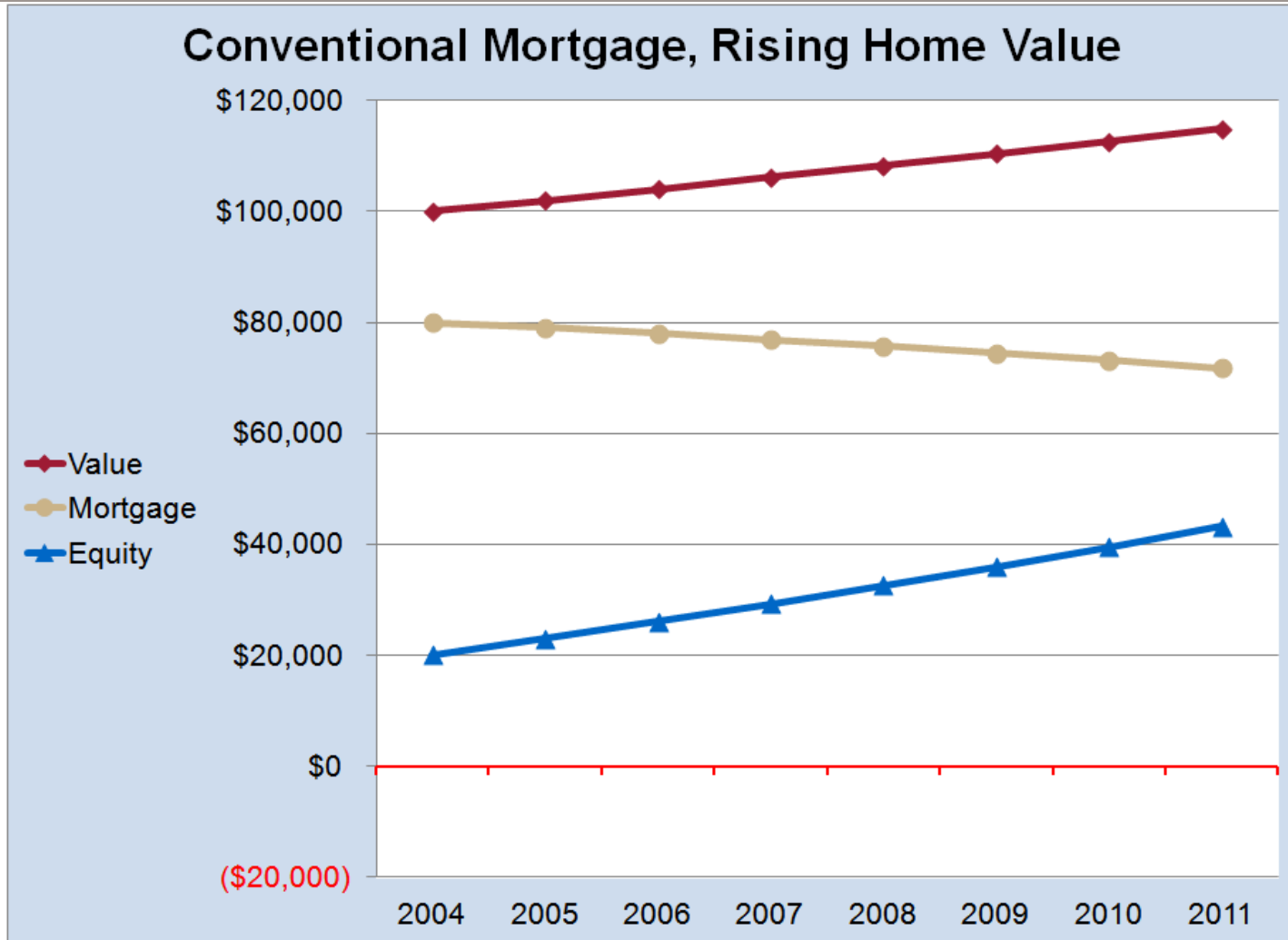
Negative Impacts of Negative Equity

- Drives foreclosures
 - increase risk if LTV > 110
 - 7 times greater if LTV >150
- Limits opportunity
 - can't move
 - can't refinance
- Reduces incentive to maintain property
 - increases blight

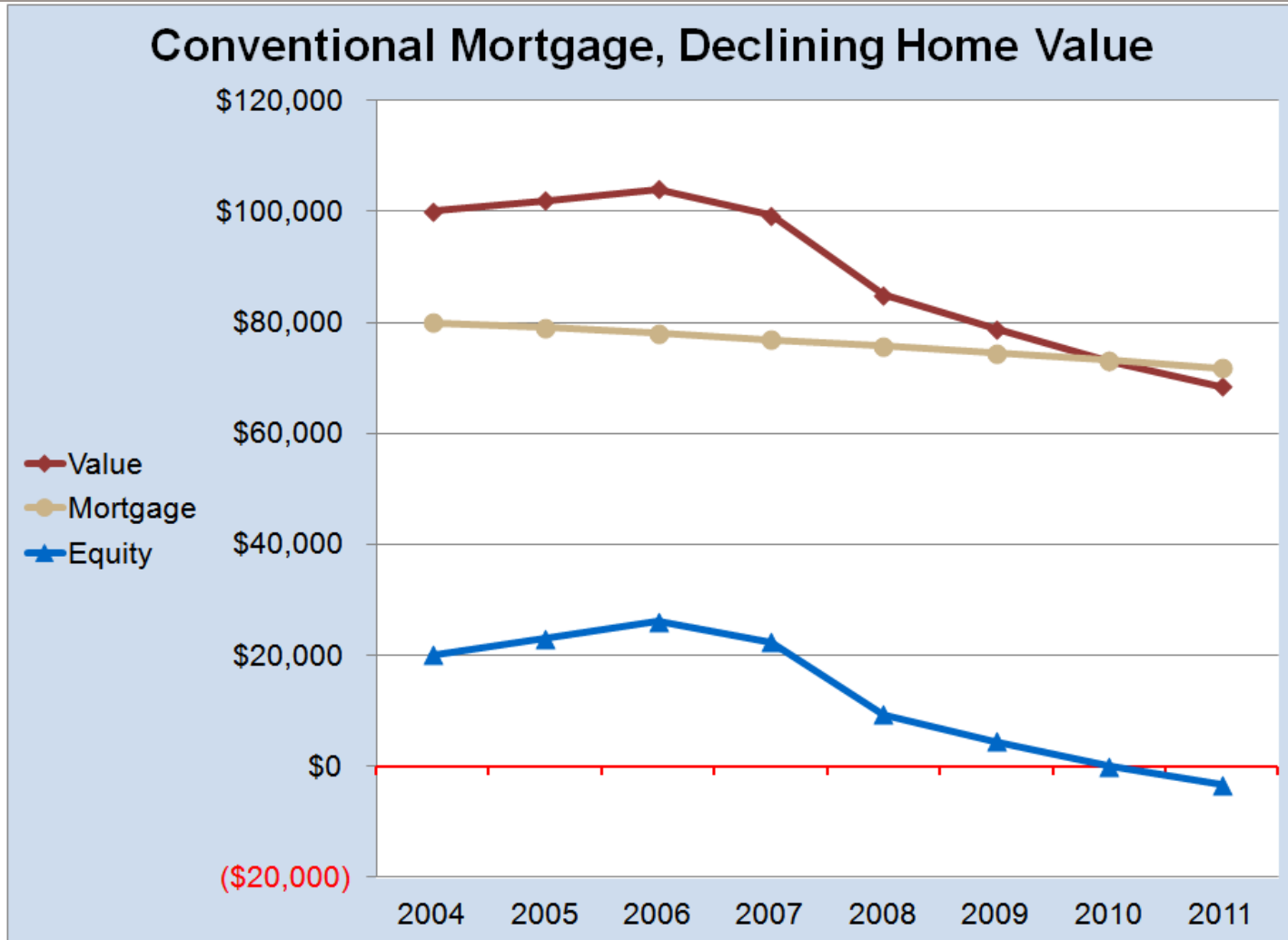
Inherent Riskiness of Mortgages

- Conventional mortgage
 - 30 year, 20% down, self-amortizing
- Slow growth in equity for first several years
 - less than 10% of principal paid in first 6 years
- Works well in rising housing market
 - that is the unstated assumption

Rising Housing Market



Declining Housing Market



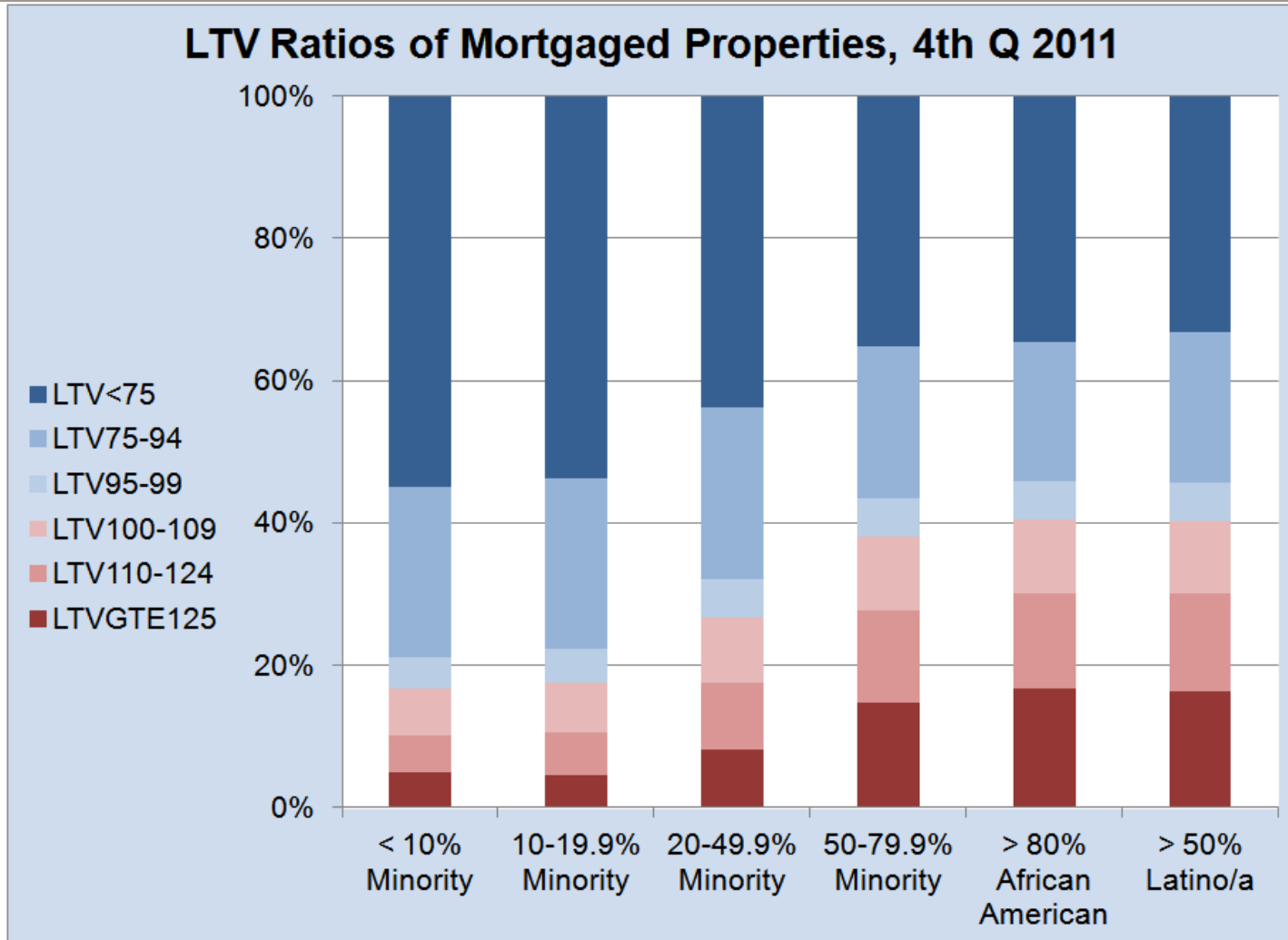
Data Analysis

- Mortgage data for 4th Q 2011, zip code level, included:
 - LTV range
 - number of mortgaged properties
 - total amount of mortgage debt
 - total value of mortgaged properties
- Merged with 2010 census data

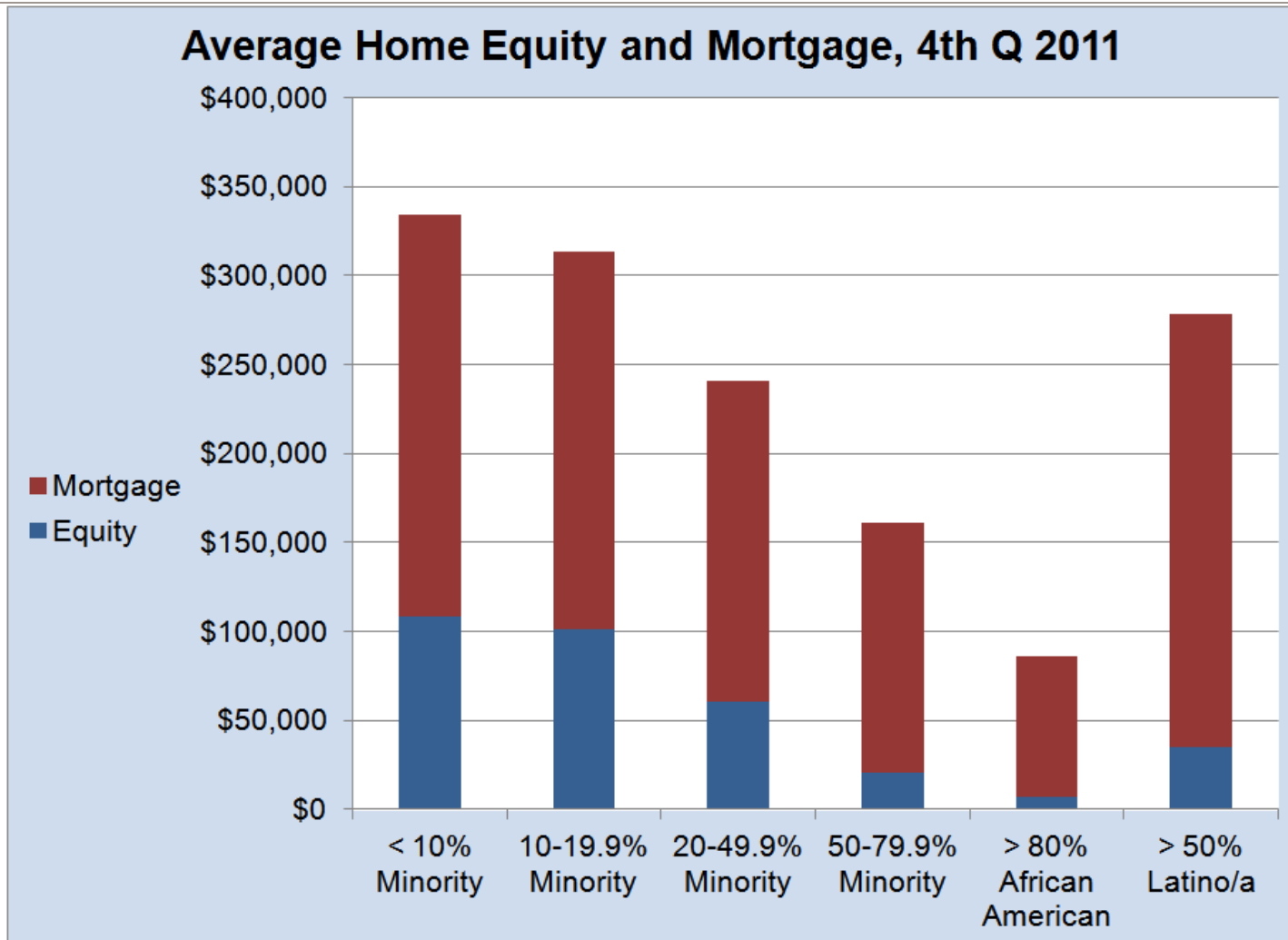
Findings

- ~ \$24.7 billion in negative equity
 - nearly ¼ of all mortgaged properties
- In communities of color
 - over 40% with negative equity
 - over 30% with LTV > 110
- In predominantly white communities
 - ~17% with negative equity
 - ~10% with LTV > 110

Findings (cont.)



Findings (cont.)



Findings (cont.)

- White neighborhoods
 - average ~\$108,000 in equity
 - average LTV of 67.7
- African American neighborhoods
 - average ~ \$6,800 in equity
 - average LTV of 92.1
- Latino/a neighborhoods
 - average ~\$35,000 equity
 - average LTV of 87.4

Conclusions

- Homeownership as wealth-building tool
 - inherent risk of mortgage finance model
 - non-diverse, illiquid, in a fixed location
 - highly leveraged
- Need to consider additional factors
 - access to good schools and jobs
 - neighborhood opportunity structure
 - impact on options in shorter time periods

Conclusions

- Need to consider downside risks
 - reduced mobility
 - can't adapt easily to changing circumstances
 - negative equity dilemmas
 - can't afford mortgage, but can't afford to sell
 - trapped in bad investment or foreclosure
- Need to consider alternative strategies

Recommendations

- For homeowners
 - loan modifications and principal reduction
 - including FHFA/Fannie/Freddie
 - facilitate short sales
 - preserve tax protections for homeowners
- For policymakers and regulators
 - make sure assistance reaches hardest hit communities
 - include data on neighborhoods and borrowers receiving principal reductions under robo-signing agreement

Recommendations

- For advocates
 - broader approach to wealth building needed
 - homeownership as one approach among many
 - full disclosure of benefits and risks of different options

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