

## Testimony of Katie Buitrago before the Bipartisan Policy Center Housing Commission on Negative Equity in Communities of Color

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I would like to thank the Bipartisan Policy Center Housing Commission for the opportunity this afternoon to discuss Woodstock Institute research illustrating the concentration of negative equity in communities of color. My name is Katie Buitrago, Policy and Communications Associate at Woodstock Institute, a leading nonprofit research and policy organization in the areas of fair lending, wealth creation, and financial systems reform. This afternoon, I would like to focus my comments on the disproportionate impact of negative equity on communities of color and urge bipartisan support for initiatives promoting principal reduction loan modifications and short sales.

### Negative equity and community stability

The prevalence of homes with negative equity—in which homeowners owe more than their homes are currently worth—prolongs the foreclosure crisis and delays economic recovery. Homeowners with negative equity are often referred to as being underwater.

Negative equity contributes to community decline by potentially leading to increased foreclosure activity, threatening the success of foreclosure prevention programs, and draining neighborhood wealth. In addition, the destruction of assets caused by negative home equity may disproportionately threaten the economic security of people of color because home equity is a larger proportion of their net worth than it is for white people.

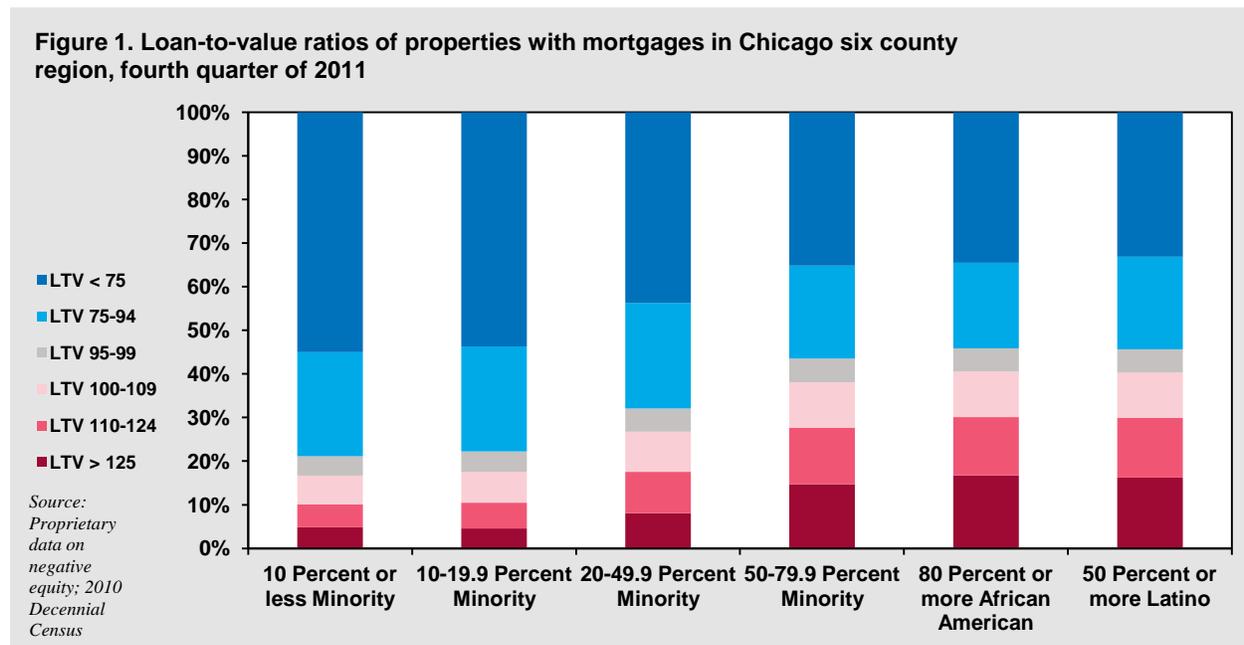
In our report “Struggling to Stay Afloat: Negative Equity in Communities of Color in the Chicago Six County Region”, Woodstock Institute examined patterns of negative equity in communities of different racial and ethnic compositions in the Chicago six county region in 2011. We found that negative equity is disproportionately concentrated in the Chicago region’s African American, Latino, and majority minority neighborhoods, and that borrowers in communities of color have much lower equity than do borrowers in predominantly white communities. This means that communities of color face additional barriers to housing market recovery compared to predominantly white communities.

### Negative equity in the Chicago area’s communities of color

Our research showed that, as of 2011, nearly one in four residential properties in the Chicago six county region is underwater, with just under \$25 billion of negative equity. On average, each underwater property has 31.8 percent more outstanding mortgage debt than the property is worth, or \$60,987 of negative equity.

Negative equity is not equally distributed throughout the region. “Struggling to Stay Afloat” showed that almost half of the properties in communities of color are underwater or nearly underwater. Forty percent of properties in African American, Latino, and majority minority communities are underwater, while another five percent are nearly underwater. In contrast, 16.7 percent of properties with mortgages in predominantly white communities are underwater and 4.4 percent are nearly underwater. Borrowers in communities of color are more than twice as likely as are borrowers in white communities to have little to

no equity in their homes. In addition, almost three times as many properties in communities of color are severely underwater compared to properties in white communities—that is, their loan-to-value ratio is greater than 110 percent.



Negative equity erodes wealth in communities of color. “Struggling to Stay Afloat” showed that only one-third of homeowners with mortgages in communities of color have more than 25 percent equity in their homes, compared to more than half of homeowners with mortgages in white communities. Borrowers in white communities are more than one and one-half times more likely to have significant equity in their homes than are borrowers in communities of color.

## Recommendations

Woodstock Institute believes that concentrated negative equity in communities of color threatens housing market recovery and destroys neighborhood wealth. When a home is underwater, that means the homeowner has fewer assets to use for retirement, home maintenance, or financing an education or small business—not to mention that it poses hurdles to selling the home and may raise the likelihood of default. We need concerted bipartisan action to restore equity and set us on the path to stabilizing communities hard hit by the foreclosure crisis. Important steps include:

- **Servicers should use principal reduction as a foreclosure prevention tool more broadly.** While reducing interest rates and extending loan terms may be appropriate for borrowers experiencing problems with affordability, they do not adequately address the factors that contribute to default for underwater homeowners. Servicers should use principal reduction loan modifications more often when they reduce the likelihood of default on underwater loans.
- **The Federal Housing Finance Authority (FHFA) should permit loans backed by Fannie Mae and Freddie Mac to be eligible for principal reductions.** The Federal Housing Finance Authority does not permit principal writedowns on loans backed by Fannie Mae and Freddie Mac, the Government Supported Entities. This means that a large percentage of underwater borrowers do not have access to a principal reduction loan modification, even if it could prevent foreclosure. The FHFA should explore ways to make principal reduction an option for GSE-backed loans.

- **Servicers should streamline processes for short sales.** Negative equity poses challenges when a homeowner wants to sell his or her home, since it is unlikely that the homeowner will be able to sell the home at a price that will cover the outstanding mortgage debt. A short sale allows the homeowner to sell at a price lower than the outstanding debt, but often take longer to complete than conventional sales, which can deter potential buyers. Servicers should continue initiatives to streamline the short sale process.

Thank you to the Bipartisan Policy Center Housing Commission for the opportunity to share our research on the impact of negative equity on communities of color. For more information, please contact Katie Buitrago at [kbuitrago@woodstockinst.org](mailto:kbuitrago@woodstockinst.org) or 312-368-0310.