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

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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

- Over 70,000 filings in 2009
- Concentrated in communities of color
  - blue = <10/1000
  - red = >50/1000
- Impact on property values
  - overall down > 30%
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

Conventional Mortgage, Rising Home Value

- Value
- Mortgage
- Equity

2004 2005 2006 2007 2008 2009 2010 2011
Declining Housing Market

Conventional Mortgage, Declining Home Value

- Value
- Mortgage
- Equity

2004 2005 2006 2007 2008 2009 2010 2011

$120,000 $100,000 $80,000 $60,000 $40,000 $20,000 $0 ($20,000)
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 $1/4 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.)

Average Home Equity and Mortgage, 4th Q 2011

- < 10% Minority
- 10-19.9% Minority
- 20-49.9% Minority
- 50-79.9% Minority
- > 80% African American
- > 50% Latino/a
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 strategy questionable
  – inherent risk of mortgage finance model
  – non-diverse, illiquid, in a fixed location
  – highly leveraged

• Negative equity dilemmas
  – can’t afford to pay the mortgage, but can’t afford to sell and make up the difference
  – trapped in bad investment or foreclosure

• Need to consider alternatives
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