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
Foreclosures in the Chicago Region

Concentration of Foreclosure Filings, 2010

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

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

Source: 2010 Decennial Census, Census Bureau
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

$0  $20,000  $40,000  $60,000  $80,000  $100,000  $120,000

($20,000)
Declining Housing Market

Conventional Mortgage, Declining Home Value

- Value
- Mortgage
- Equity


Value: $120,000 to $0
Mortgage: $80,000 to $0
Equity: $20,000 to $(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 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.)

LTV Ratios of Mortgaged Properties, 4th Q 2011

- LTV < 75
- LTV 75-94
- LTV 95-99
- LTV 100-109
- LTV 110-124
- LTV GTE 125

- < 10% Minority
- 10-19.9% Minority
- 20-49.9% Minority
- 50-79.9% Minority
- > 80% African American
- > 50% Latino/a
Findings (cont.)

**Average Home Equity and Mortgage, 4th Q 2011**

- **< 10% Minority**
  - Mortgage: $100,000
  - Equity: $50,000
- **10-19.9% Minority**
  - Mortgage: $100,000
  - Equity: $50,000
- **20-49.9% Minority**
  - Mortgage: $100,000
  - Equity: $50,000
- **50-79.9% Minority**
  - Mortgage: $100,000
  - Equity: $50,000
- **> 80% African American**
  - Mortgage: $100,000
  - Equity: $50,000
- **> 50% Latino/a**
  - Mortgage: $100,000
  - Equity: $50,000
Findings (cont.)

- **White neighborhoods**
  - average $\sim$108,000 in equity
  - average LTV of 67.7

- **African American neighborhoods**
  - average $\sim$ $6,800 in equity
  - average LTV of 92.1

- **Latino/a neighborhoods**
  - average $\sim$ $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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