
WASTED WEALTH

CHICAGO, IL



How the Wall Street Crash Continues to Stall Economic Recovery and Deepen Racial Inequity in America.

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INTRODUCTION

People of color are experiencing one of their most basic needs — housing — pulled out from under them at alarming rates. And they are losing their homes because they were targeted with loan products — which lenders called “ghetto loans” — that were designed to fail. Banks offered incentives to their loan officers to target these communities with subprime loans, while not bearing the consequences of this risky behavior. This twisted form of moral hazard manifested when American taxpayers provided several trillion dollars in bailouts, from which banks profited by the billions.

But America’s foreclosure victims were left hung out to dry. These practices resulted in the mass transfer of wealth out of communities already under siege by an economy rigged against them. And the crisis, which sparked the Great Recession, has snowballed, resulting in fewer jobs for America’s communities of color, which, in turn, results in weaker and unsustainable local economies. This study quantifies that lost wealth and measures the extent of the disparities between communities of color and the rest of America, and offers evidence that shows principal reduction is the solution.

ANALYSIS

In 2012, the city of Chicago lost over \$3.1 billion in wealth due to the foreclosure crisis. While that number in itself shows the toll that the foreclosure crisis has had, the data confirms that Majority Communities of Color had more foreclosures per household and that those communities saw significantly more lost wealth per household than communities with proportionately fewer people of color. If homeowners with underwater mortgages go into foreclosure, even more wealth will be lost. Principal reduction would help homeowners with underwater mortgages in Chicago see a savings of more than \$600 per month — money that could instead be used to boost the economy and create jobs. A look at our findings:

- **Lost Wealth:** Citywide, communities in Chicago lost over \$3.1 billion in wealth due to the foreclosure crisis in 2012, or \$2,900 per household. However, communities with higher concentrations of people of color saw more wealth lost per household: \$3,700 per household for Majority

Communities of Color and only \$1,300 in Segregated White communities. Even communities with only Above Average Percentage People of Color saw nearly two-and-a-half times the amount of wealth lost per household than Segregated White communities.

- **Foreclosures:** On average, communities in Chicago saw 22 foreclosures per 1,000 households. As with lost wealth, communities with higher concentrations of people of color saw higher foreclosure rates: Majority Communities of Color and Above Average Percentage People of Color saw 28 and 24 foreclosures per 1,000 households, respectively, while Segregated White communities saw only 10 foreclosures per 1,000 households
- **Foreclosures-in-Waiting:** In addition to the households already facing foreclosure in Chicago, more than 126,000 homes citywide are worth less than the amount that homeowners still owe on their mortgages. Using

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PERSPECTIVE: *Connie Gates-Brown, Chicago, Ill.*



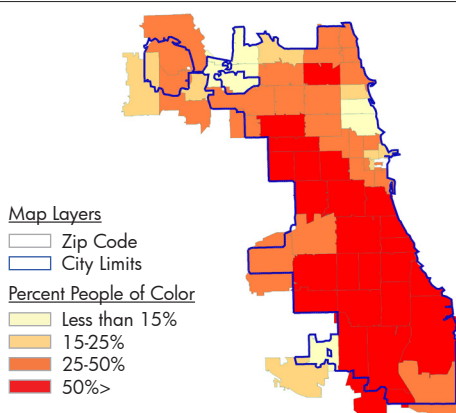
My husband and I were upper-middle class when we first bought our condo in 1999. We had considered buying a house, but the idea of shared maintenance for landscaping and repair costs were very appealing. We easily qualified for a fixed-rate, conventional loan. Our payments were \$800 each month.

In 2009, my husband got laid off from work. With his unemployment check, we were able to still afford our mortgage payments. The loss of his income took some adjustment; but we coped and made the sacrifices that were needed. Neither of us knew that the Great Recession would have the impact on jobs that it had. What we thought would be a short term of unemployment turned into years of searching, often with no luck.

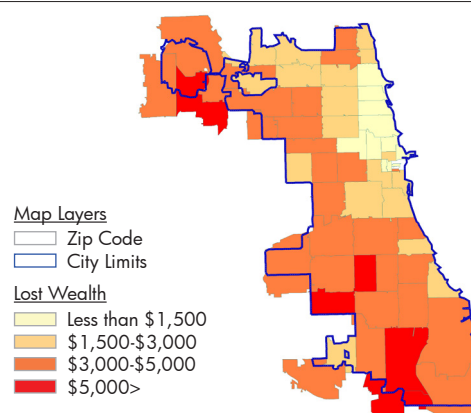
SEE ‘PERSPECTIVE’ ON BACK PAGE

FINDINGS

PEOPLE OF COLOR POPULATION



LOST WEALTH, PER HOUSEHOLD



CHICAGO, 2012

TOTAL LOST WEALTH

\$3.185 BILLION

LOST WEALTH, FORECLOSURES IN WAITING

\$2.109 BILLION

LOST WEALTH, PER HOUSEHOLD

All Communities	Majority Communities of Color	Above Avg % People of Color	Segregated White Communities
\$2,900	\$3,700	\$3,100	\$1,300

FORECLOSURE RATE, PER 1,000 HOUSEHOLDS

All Communities	Majority Communities of Color	Above Avg % People of Color	Segregated White Communities
22	28	24	10

LOST WEALTH, FORECLOSURES IN WAITING, PER HOUSEHOLD

All Communities
\$1,900

UNDERWATER HOMES

All Communities
126,100

BENEFITS OF PRINCIPAL REDUCTION

	Chicago	Illinois
Average annual savings per homeowner	\$7,700	\$7,400
Total annual stimulus	\$912,600,000	\$5,819,600,000
Jobs created	\$13,500	\$86,000

UNITED STATES, 2012

Total Lost Wealth

\$192.6 BILLION

Lost Wealth Per Household

All Communities	\$1,700
Majority Communities of Color	\$2,200
Above Avg % People of Color	\$2,000
Segregated White Communities	\$1,300

Foreclosure Rate, Per 1,000 Households

All Communities	13
Majority Communities of Color	17
Above Avg % People of Color	15
Segregated White Communities	10

Total Lost Wealth, Foreclosures in Waiting

\$220.7 BILLION

Underwater Homes

All Communities	13.2 million
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Economic Benefits of Principal Reduction

Average annual savings per U.S. homeowner	\$7,708
Total annual stimulus	\$101.7 billion
Jobs created	1.5 million

ANALYSIS

an estimate of a 13% foreclosure rate for underwater homes, we expect an additional \$2.1 billion in lost wealth citywide, or \$1,900 per household.

- **Benefits of Principal Reduction:** Renegotiating mortgages for homeowners with underwater mortgages will save homeowners money and benefit the local economy by increasing consumer spending and creating jobs. Homeowners in Chicago will save an average of more than \$7,700 annually. If all underwater homeowners renegotiate based on these terms and spend those savings on goods and services, this will mean an economic stimulus of more than \$912 million, which can create over 13,000 jobs.

METHODOLOGY: In this study, we calculate total wealth lost in our communities as a result of the foreclosure crisis, by city and by community-type. Community-types include those with Above Average People of Color Populations, Majority-People of Color communities, and Segregated White communities. The basic formula for lost wealth includes: total decline in property values of the foreclosed home and neighboring homes; total impact on property taxes; and total municipal cost of maintaining bank-owned properties.

We calculate the foreclosures-in-waiting potential lost wealth by applying the same methodology to a Catalist database of 2012 underwater mortgages. We estimate that 13% of underwater mortgages will go into foreclosure, as discussed in the 2013 Congressional Budget Office report “Modifying

Mortgages Involving Fannie Mae and Freddie Mac: Options for Principal Forgiveness.”

The benefits of principal reduction findings used the underwater home count and data from Zillow and CoreLogic to calculate average savings per homeowner and total annual stimulus. Job creation calculations utilized the Annual Stimulus and dividing by the estimated cost to create one job as described in “The Win/Win Solution.”

We define communities by ZIP codes and community-types by the percentage of minority or white residents in a given community. Above Average People of Color Population is defined as having a minority population higher than the national average of 15.8-percent. Majority-People of Color communities are defined as ZIP codes with greater than 50% minority residents. Because Above Average People of Color Population communities include all ZIP codes with greater than 16% minority population, Majority-People of Color communities are included in this number, as well. A minority is defined as individuals who are not “White, Not Hispanic,” as captured by the U.S. Census Bureau in the 2012 American Community Survey. This captures all people of color, including white individuals who self-identify Hispanic. Segregated White communities are those in which greater than 84% of the residents identify as “White, Non Hispanic.”

For a full description of the methodology, download the national report at: www.allianceforajustsociety.org/4482/wastedwealth.

PERSPECTIVE

The next year, in 2010, I joined the ranks of the unemployed. I thought, surely I would be rehired, or easily find a new job; I have a graduate degree, and I am very good at the work I do. I was wrong. Despite my efforts, I cannot find employment anywhere.

Unemployment benefits helped for a while, but when the funds were gone, we got cut from the program. My lender began the foreclosure process. I called them, and they initially were very understanding. Because of our hardship, the bank agreed to give us a grace period of six months to find new jobs. Our home was saved — at least for a while.

When the year passed, we met up again to explore the option of receiving a loan modification. This time, our lender wasn't as accommodating as it had been before. My husband was able to secure a part-time, minimum-wage job; however, my employment search continues. We were told that we didn't qualify for the modification because we didn't meet their income requirement. They insisted we short-sell our home.

The emotional toll has been unbearable. I cry a lot. I see my husband trying to be strong to comfort me, but he cries, too. He believes that a man should provide for his family, so the difficulty in doing so has really affected his esteem. I never would have imagined that we'd be in this situation. Before the economy collapsed, we were making six figures, and now we are scraping to get by.

Today, our housing situation is bleaker than ever. The housing association assessment fees have gone unpaid. They have filed motions to have us removed from our home for non-payment. We are waging a battle on two fronts: one with our lender, and the other with the housing association. We go to court soon to learn whether or not we will be forced to leave. We can't afford an attorney, and do not know of a program that can help us. I hope the court will give us time to pack our belongings and find a place to stay. I will try to hold myself together and take each day as it comes.



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