
WASTED WEALTH

PROVIDENCE, RI



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

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THE **NEW**
BOTTOM LINE



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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 Providence lost over \$200 million 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 Providence see a savings of \$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 Providence lost over \$200 million in wealth due to the foreclosure crisis in 2012, or \$1,900 per household. However, communities with higher concentrations of people of color saw more wealth lost per household: \$2,700 per household for

Majority Communities of Color and only \$1,700 in Segregated White communities.

- **Foreclosures:** On average, communities in Providence saw 14 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 communities with Above Average Percentage People of Color saw 20 and 15 foreclosures per 1,000 households, respectively, while Segregated White communities saw only 13 foreclosures per 1,000 households
- **Foreclosures-in-Waiting:** In addition to the households already facing foreclosure in Providence, more than 11,000 homes citywide are worth less than the amount that homeowners still owe on their mortgages. Using an estimate of a 13% foreclosure rate for underwater homes, we expect an additional \$185 million in lost wealth citywide, or \$1,700 per household.

SEE ‘ANALYSIS’ ON BACK PAGE

PERSPECTIVE: *George Flemming,* Providence*

We bought our home in 2007. We made the house our home. The girls got to pick out the colors they wanted to be painted in their bedrooms. My wife insisted on installing the hardwood floors she’s always wanted. We carefully selected just the right cabinets and appliances that fit our style. The financial investment was over \$30,000; the emotional investment was priceless. We turned four walls into our loving refuge from the world, and it became the central base of our family.

The mortgage payment was \$1,500 month.

In 2009, my wife lost her job. I worked two jobs to make up the loss of income. She obtained unemployment and that helped for a while, but, after six months, we lost that income as well. I began dipping into our savings to help meet our needs,

but soon even that was gone. I was able to keep up with the mortgage until later in that year, when my hours at work were decreased (I was a Team Leader at a cable company).

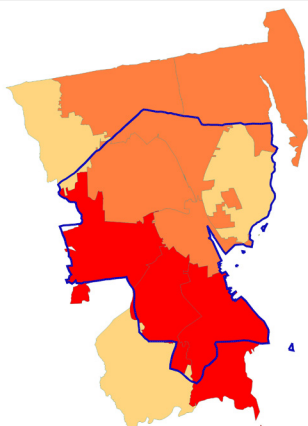
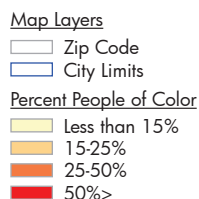
I called my lender to notify them of my change of income. I called several times, but they never answered my call. So, I stopped making payments for two months. I knew that would get their attention. They told me to apply for a modification.

My lender told me that I didn’t have enough income to qualify for a modification and that my only option would be to sell the house. That wasn’t an option. I asked them to lower the payments just for a time, but they refused. They told me that

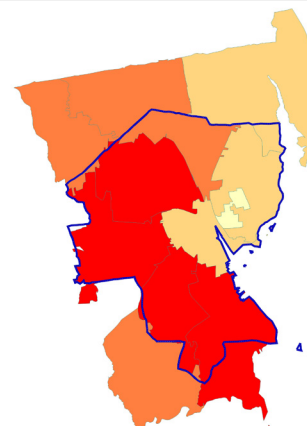
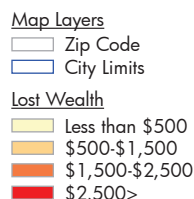
SEE ‘PERSPECTIVE’ ON BACK PAGE

FINDINGS

PEOPLE OF COLOR POPULATION



LOST WEALTH, PER HOUSEHOLD



PROVIDENCE, 2012

TOTAL LOST WEALTH

\$200.4 MILLION

LOST WEALTH, FORECLOSURES IN WAITING

\$185.4 MILLION

LOST WEALTH, PER HOUSEHOLD

| All Communities | Majority Communities of Color | Above Avg % People of Color | Segregated White Communities |
|-----------------|-------------------------------|-----------------------------|------------------------------|
| \$1,900 | \$2,700 | \$1,900 | \$1,700 |

FORECLOSURE RATE, PER 1,000 HOUSEHOLDS

| All Communities | Majority Communities of Color | Above Avg % People of Color | Segregated White Communities |
|-----------------|-------------------------------|-----------------------------|------------------------------|
| 14 | 20 | 15 | 13 |

LOST WEALTH, FORECLOSURES IN WAITING, PER HOUSEHOLD

All Communities
\$1,700

UNDERWATER HOMES

All Communities
11,100

BENEFITS OF PRINCIPAL REDUCTION

| | Providence | Rhode Island |
|--------------------------------------|--------------|---------------|
| Average annual savings per homeowner | \$7,600 | \$7,600 |
| Total annual stimulus | \$83,700,000 | \$445,900,000 |
| Jobs created | \$1,200 | \$6,600 |

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 |
|-----------------|--------------|

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

- **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 Providence will save an average of more than \$7,500 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 \$83 million, which can create over 1,000 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 16%. 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 value of my home was only \$135,000, but my loan was \$230,000.

In June 2011, I lost my job completely. Again, my lender gave me no option but to short-sell our home. I refused. I frantically looked for programs to help me. I learned about Direct Action for Rights and Equality (DARE) and they told me about the Rhode Island Hardest Hit Fund and the funding available to homeowners like me. They pay 70% of the mortgage. I pay the rest.

Without this program in place, my family and I would be homeless. Lenders need to apply common-sense solutions to face the reality of the effects of the Great Recession. I didn't

have anything to do to with the collapse of the economy. The banks got us into this crisis by making poor lending decisions. They got bailed out, but do nothing to help others who are placed in a position of need from the harm they created.

When we signed the loan in 2007, the economy was much different; the loan should reflect the change of what the housing market was before the collapse to what it is now. Lenders should bring the principal down to what the value currently is. Even if they sell it, they won't get what they are currently charging me for. No one wins when the banks are being this unrealistic.

** A pseudonym was used to protect the story subject's identity.*



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