By Maria Krysan

On March 19, 2013, IGPA teamed with the Illinois Service Federal Savings and Loan Association and the Coalition of African-American Leaders to host a conference about the effects of the foreclosure crisis on Cook County and surrounding Illinois communities. The conference, "Foreclosing on Community: The Crisis and the Search for Solutions," was organized by IGPA Senior Fellow Clarence Wood and IGPA sociologist Maria Krysan. This summary, compiled by IGPA Communications Coordinator Kelsey McCoy, incorporates information shared at the conference (updated to reflect recent data and events) and a new analysis by Krysan of the racial dynamics of the crisis in the Chicago area.

Foreclosing on Community:

Residential segregation and the long-term effects of the housing crisis in Cook County

Communities across the nation continue to struggle with the long-term effects of the housing market crash and resulting foreclosure crisis of 2006-2007. In Cook County, which includes the city of Chicago and several surrounding suburbs, foreclosure and resulting vacant buildings continue to pose complex problems even as foreclosure rates slow and the market begins to level out.

In Chicago, a long history of racial residential segregation and the sub-prime lending crisis has concentrated the effects of foreclosure in African-American and minority communities. Why is this true? And what does it mean for the future of the city and surrounding suburbs?

The foreclosure crisis in Cook County

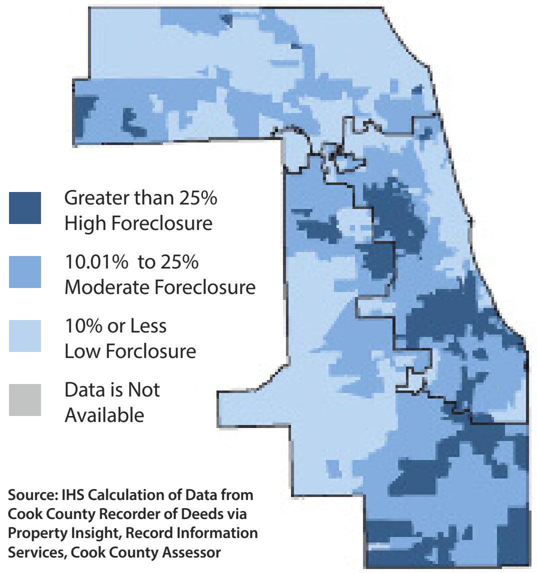
Records indicate that the foreclosure crisis occurred in many areas of Chicago, but some neighborhoods were clearly hit harder than others. According to a review of foreclosure data, areas near Lake Michigan and the Loop experienced the lowest foreclosure rates between 2005 and 2011. The crisis has been concentrated in the south and west sides of the city, which saw much higher rates of foreclosure over the same time period (Map 1).

These high-foreclosure areas also have a much higher percentage of homes that have been vacant for more than two years (Figure 1). With this breakdown of property ownership, the market has changed. High-foreclosure areas are now experiencing a substantial increase in the percentage of cash sales and a decrease in the number of mortgage sales. Figure 2 shows a comparison of how people buy homes in low-foreclosure versus moderate- and high-foreclosure areas, and how this has changed since 2005.

Increased cash purchases could also be attributed to the decrease in access to credit in the high-foreclosure areas. In 2005, high-foreclosure areas had easy access to credit (most often in the form of sub-prime loans, which were a major cause of the housing market bubble). Yet by 2011, these communities had seen a 90 percent decrease in lending (Figure 3).

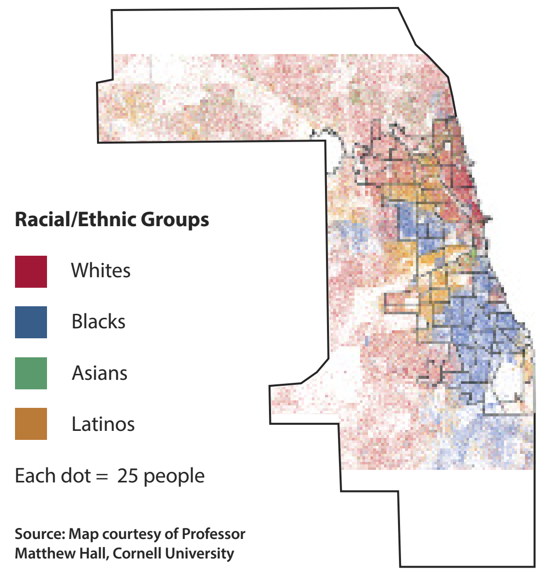
All of these dynamics – long-term (2+ years) vacant properties, increases in cash sales and corresponding decrease in mortgages, and an extraordinary decrease in lending – have had profound effects on the communities' property values. The gap between the strongest and weakest markets continues to grow.

Map 1
Percent of Residential Parcels with at Least One Foreclosure Filing by 2010 Cook County Census Tract, 2005 - 2012



Source: IHS Calculation of Data from Cook County Recorder of Deeds via Property Insight, Record Information Services, Cook County Assessor

Map 2
Distribution of Metro Chicago Racial/Ethnic Groups



Source: Map courtesy of Professor Matthew Hall, Cornell University

Access to credit, residential segregation and the implication of race in the foreclosure crisis

Foreclosures are not distributed randomly. There is substantial evidence that the race of the homeowner and the racial makeup of the neighborhood substantially shape the size and rate of foreclosures. Evidence also shows that race is a clear factor in the closely related issue of sub-prime lending.

A comparison of Map 1 (demonstrating the distribution of foreclosures throughout the region) with Map 2 (the racial composition of the region) reveals the racialized nature of the story. The foreclosure crisis has been concentrated in minority communities.

Considered from a variety of angles and using a range of data sources, the message is consistent: dynamics associated with race are deeply implicated – above and beyond the social and economic factors often correlated with race – in both the causes and consequences of the foreclosure crisis.

To begin, it is clear that minority neighborhoods were hardest hit in terms of the volume of foreclosures.[1] For example, a 2008 article in the *Journal of the American Planning Association* found that between 1995 and 2002 in Chicago, foreclosures in predominantly white census tracts increased by 215 percent; but among predominantly minority tracts, foreclosures increased by a stunning 544 percent.[2] This is closely related to Chicago's status as one of the most segregated cities in the nation.

A national study of the relationship between segregated housing patterns and foreclosures found that metropolitan areas with higher levels of segregation

[1] Apgar, William and Mark Duda. 2004. "Preserving homeownership: Community development implications of the new mortgage market." Chicago: Neighborhood Housing Services of Chicago. See also: Rugh, Jacob S., Len Albright, and Douglas S. Massey. 2013. "Layered Discrimination and the Cumulative Disadvantage in the Subprime Mortgage Collapse: A Case Study of Baltimore, Maryland." Paper presented at the annual meetings of the American Sociological Association, August 2013.

[2] Immergluck, Dan. 2008. "From the subprime to the exotic: Excessive mortgage market risk and foreclosures." *Journal of the American Planning Association* 74(1): 59-76.

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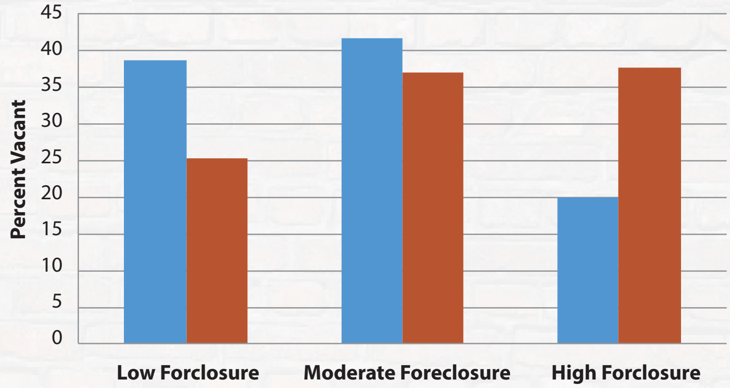
Figure 1

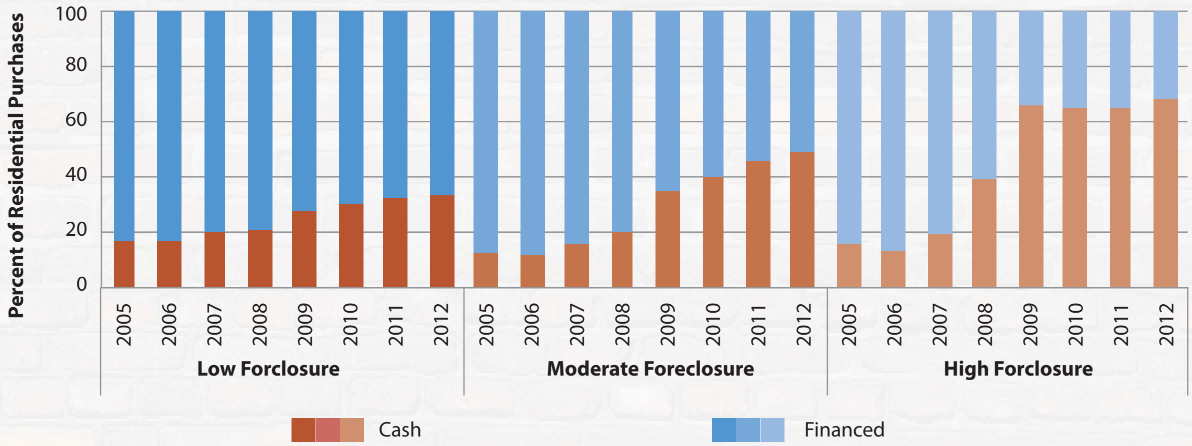
Share of Total Addresses Compared to Share of Addresses Vacant More than 24 Months as of 2013 Q2 (Incl. No-Stat Addresses)



Source: IHS Calculations of Data from HUD/USPS

Figure 2

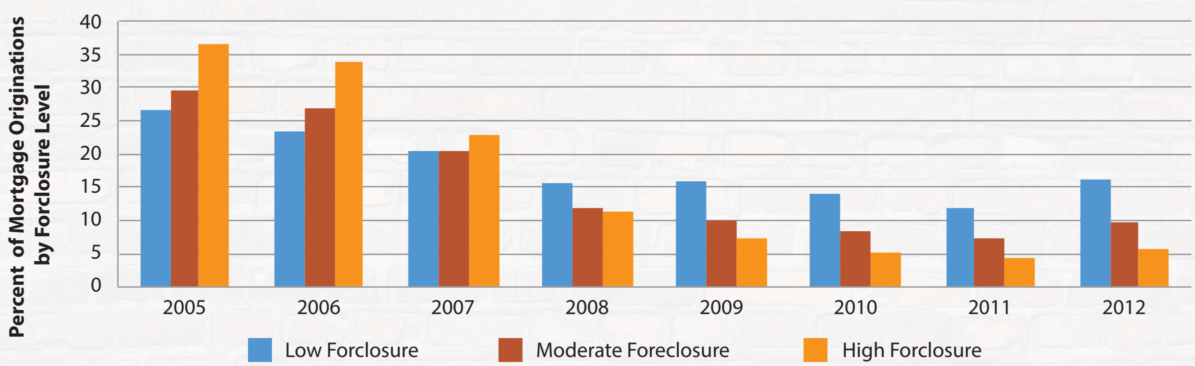
Residential Purchases by Method of Acquisition and Neighborhood Foreclosure Level, 2005 to 2012



Source: IHS Calculations of Data from Cook County Recorder of Deeds via Property Insight, Cook County Assessor, Record Information Services, Midwest Real Estate Data (MRED)

Figure 3

Mortgage Originations per 100 Residential Parcels by Neighborhood Foreclosure Level, 2005 to 2012



Source: IHS Calculations of Data from Cook County Recorder of Deeds via Property Insight, Cook County Assessor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experienced substantially higher levels of foreclosures. This was true even when economic factors such as creditworthiness, overbuilding, sub-prime lending rates, housing price inflation, and Community Reinvestment Act lending were taken into consideration.[3] The authors found that the effect of residential segregation on the number and rate of foreclosures substantially exceeds (sometimes as much as double) the effect of these other economic factors.

Residential segregation, which itself was established through decades of discriminatory policies and practices, has set the foundation for the continuation of a racially stratified housing system in which African Americans and other minorities continue to be disproportionately disadvantaged.

Why the disparity? In short: sub-prime lending. In addition to the tremendous growth in volume of such loans during the lead-up to the housing crisis, sub-prime loans have foreclosure rates that are estimated to be somewhere between 10 and 20 times higher than prime loans.[4]

Evidence is clear that African-Americans and those living in minority neighborhoods were targeted for high-cost loans, even though many who received them would have qualified for conventional loans.[5] For example, a national study published in the journal *Social Problems* found that in 2000, 21 percent of African-Americans in the highest income level received a sub-prime loan compared to just 7 percent of those who were not black but also in the highest income category.[6] The National Community Reinvestment Coalition showed similar racial disparities in an audit that factored in wealth and credit scores.

A 2009 study in the *Fordham Urban Law Journal* found that Hispanic borrowers are also treated differently than whites, though African-Americans are typically the most disadvantaged of the three groups. As is true for foreclosures, the study found that residential segregation is implicated: in metropolitan areas with high levels of segregation, African-Americans, and to a lesser extent Hispanics, are more likely to get high-cost loans than are whites.[7]

Residential segregation, which itself was established through decades of discriminatory policies and practices, has set the foundation for the continuation of a racially stratified housing system in which African-Americans and other minorities continue to be disproportionately disadvantaged. Segregation has concentrated poor and minority residents in an area, making them prime targets for predatory lending. The sub-prime mortgages that flow from these practices then set the stage for heightened risk of foreclosure and ultimately losing one's home, and the capital invested in it, and de-stabilizing families and the neighborhoods in which they live.

A 2013 case study of Baltimore, Maryland by Jacob Rugh and colleagues showed how this series of disadvantages accumulate.[8] The study is compelling because the researchers had measures of characteristics not typically available, including the credit characteristics lenders actually used to evaluate customers, and details about loan origination and performance (not just pricing).

The analysis revealed that African-Americans in Baltimore were substantially more likely to (1) receive a sub-prime loan; (2) enter into foreclosure; and (3) lose their home. The excess borrowing costs, risks, and foreclosures all translate into financial "penalties" paid by African-American borrowers that their white counterparts escape. For example, the researchers found that as of 2009, "Black borrowers experiencing foreclosure paid an estimated penalty equal to 9 to 15 percent of monthly payments, and those that completed foreclosure lost $38,000 to $48,000 in home equity."

The process is not yet complete, and the researchers estimate that the potential losses to the black community in Baltimore may approach $3 million.

Sociologists Rugh and Massey made the following conclusion in 2010: "Segregation racialized and intensified the consequences of the American housing bubble. Hispanic and black homeowners, not to mention entire Hispanic and black neighborhoods, bore the brunt of the foreclosure crisis. This outcome was not simply a result of neutral market forces but was structured on the basis of race and ethnicity through the social fact of residential segregation."

Chicago is one of the most segregated cities in the country. Similar patterns found in Baltimore are likely to be found in the Cook County region. As the city of Chicago continues to search for solutions to the crisis, the role racial residential segregation played in the crisis must be understood.

A search for solutions

At IGPA's event in 2013, a panel of individuals working on housing issues in the communities hardest hit by the foreclosure crisis shared possible solutions. All members of the panel work closely with local governments, community organizations, and public officials. The panel included:

- Rob Rose, Vice President of Lending at the Chicago Community Loan Fund, which strategically utilizes investor funds to address housing issues and community development.
- Adam Gross, Director of the Affordable Housing Program at Business and Professional People for the Public Interest (BPI), which works with community organizations to develop programs that preserve and create affordable housing opportunities.

3 Rugh, Jacob S. and Douglas S. Massey. 2010. "Racial Segregation and the American Foreclosure Crisis." *American Sociological Review* 75: 629-651.

4 Immergluck, Dan. 2008. "From the subprime to the exotic: Excessive mortgage market risk and foreclosures." *Journal of the American Planning Association* 74(1): 59-76.

5 See: Gramlich, Edward. 2004. "Subprime Mortgage Lending." *National Mortgage News* May 31, p. 4. See also: Raines, Franklin D. 2000. "Remarks by Franklin D. Raines, Chairman and Chief Executive Officer of Fannie Mae, before the Rainbow/Push Wall Street Conference, 'Building Bridges to Expand the Marketplace,' New York, NY, January 13, 2000." *Fannie Mae.* http://www.fanniemae.com/media/speeches/printthispage.jhtml?repID=/media/speeches/2000/speech_114.html

And: Medine, David. 2000. "Prepared statement of the Federal Trade Commission before the House Committee on Banking and Financial Services on Predatory Lending Practices in the Subprime Industry. May 24, 2000." *U.S. Federal Trade Commission*. http://www.tfc.gov/os/2000/05/predatorytestimony.htm

6 Williams, Richard, Reynold Nesiba, and Eileen Diaz McConnell. 2005. "The Changing Face of Inequality in Home Mortgage Lending." *Social Problems* 52(2): 181-208.

7 Been, Vicki, Ingrid Ellen, and Josiah Madar. 2009. "The High Cost of Segregation: Exploring Racial Disparities in High-Cost Lending." *Fordham Urban Law Journal* 36: 361-93.

8 Rugh, Jacob S., Len Albright, and Douglas S. Massey. 2013. "Layered Discrimination and the Cumulative Disadvantage in the Subprime Mortgage Collapse: A Case Study of Baltimore, Maryland." Paper presented at the annual meetings of the American Sociological Association, August 2013.

Long-term loss of homeowners translates into a loss of community, and individuals have begun leaving the area for good. This has a huge effect on the individuals who choose to stay.

- Deavay Tyler, Executive Vice President of A&D Property Services, which stabilizes, maintains, and preserves vacated properties.

The panel discussed their organizations' work in high-foreclosure areas, the challenges they face, effective tactics, and possible solutions. A theme throughout the discussion was the importance of taking a holistic view of the foreclosure crisis and its effect on a community's overall value – not only on property value, but also on public safety, social institutions, and the community psyche.

"The biggest impact I have seen on the communities we work with, beyond increased crime, or increased perception of crime, is the breakdown in the psyche of the communities," said Rob Rose. "Boarded up homes, properties in disarray, insecurity…have impacted these communities in a meaningful way."

Deavay Tyler agreed. "It goes down to the core of affecting the actual underlying, or true value, of the property. The value of the property is really in what people believe it is worth."

In some communities, homes can remain vacant for more than a year. Adam Gross used the example of predominately African-American neighborhood Chicago Lawn on the city's southwest side, where homes stay vacant for an average of 533 days. This long-term loss of homeowners translates into a loss of community, and individuals have begun leaving the area for good. This has a huge effect on the individuals who choose to stay.

"You see this especially in a lot of south and west suburban communities where you have major population loss, in part as a result of foreclosure," Gross said. "That means the need for services in those communities is going up and up, but the property tax base to pay for those services is falling. And that's recipe for disaster."

As out-migration continues, churches, schools and local businesses suffer. A multiplier effect occurs that threatens the livelihood of local businesses and social service providers, only decreasing the perceived and actual value of the community and making it more difficult to recruit new homebuyers.

The panelists shared several specific tactics they are using to combat the cycle. Perhaps one of the most important first steps is the immediate security of the vacant properties to prevent illegal use of the unit.

Deavay Tyler said A&D Property Services aims to prevent vandalizing, stripping of the home's infrastructure, and illegal squatting to make sure the home can be a viable asset once it re-enters the market.

Sometimes, the owner of a vacant property – often a bank or other financial institution – cannot maintain or secure the property in time due to the long, drawn-out foreclosure process. Gross said that his organization is working with community groups and local governments to enforce the regulations for property maintenance, and has worked

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successfully on state legislation that provides more money to local governments to clean up vacant properties and creates a faster foreclosure process for those homes that are verified vacant (see box at right).

The panelists agreed that two important factors going forward will be time and coordinated effort. Strategic investments must be made down to the block in order to stabilize the communities that are struggling the most. Each decision should be made with the goal of having a lasting impact.

To have the most lasting impact, the panelists said they strive to involve community members in the process and empower them to secure and stabilize their neighborhoods. Whether through meeting regularly with community leaders, seeking investors with deep roots in the community, or employing ex-offenders and veterans from the community, all three organizations emphasized the importance of a grassroots effort.

Yet in the end, the panelists agreed it is essential to recognize that this will be a long-term situation, and will require perseverance and coordinated effort both within communities and between communities.

Senate Bill 16: Maintaining Abandoned Properties

In 2013, the Illinois General Assembly passed and Gov. Quinn signed Senate Bill 16. The law will:

- **Generate approximately $200 million for vacant property programs and housing counseling** through an additional foreclosure filing fee paid by lending institutions (based on a sliding scale determined by the number of foreclosures they file each year). These fees are expected to provide about $28 million annually to local governments to maintain abandoned properties and get them back into productive use, as well as about $13 million annually for housing counseling assistance to help thousands of Illinois families at risk of foreclosure.

- **Create a "fast track" foreclosure process that reduces the foreclosure process for abandoned properties** from almost two years to roughly 90 days. This provision will ensure that properties are returned to productive use much faster, preserving neighborhoods by helping eliminate the blight, crime, and reduction in property values that abandoned homes bring.

Information from the Affordable Housing Program at Business and Professional People for the Public Interest.

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