Emerging Issues for the Chicago Housing Market

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Overview of Topics

• Negative equity
• HAMP and HELOC resets
• Mortgage lending and disparities
• Zombie properties
Bubble, Bust, and Some Recovery

Source: Raymond, Elora, Kyungsoon Wang, and Dan Immergluck. 2015. Race and Uneven Recovery: Neighborhood Home Value Trajectories in Atlanta before and after the Housing Crisis
Chicago Region Data

• 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
Negative Equity by Race

LTV Ratios of Mortgaged Properties, 4th Q 2011
Home Equity by Race

Average Home Equity and Mortgage, 4th Q 2011

- 10 Percent or less Minority
- 10-19.9 Percent Minority
- 20-49.9 Percent Minority
- 50-79.9 Percent Minority
- 80 Percent or more Black
- 50 Percent or more Hispanic
Uneven Recovery, 2010 to 2014

Change in Average Home Value Index, 2010 - 2014

- < 10% Minority: -2.8%
- 10-19.9% Minority: -0.1%
- 20-49.9% Minority: -3.9%
- 50-79.9% Minority: -7.5%
- >=80% Minority: -7.6%
- >=50% Latino/a: -10.8%
Negative Impacts of Negative Equity

• Drives foreclosures
  – can’t refinance or downsize
  – increase risk if LTV > 110
  – 7 times greater if LTV > 150

• Limits opportunity
  – can’t move

• Reduces incentive to maintain property
  – increases blight, with spillover effects
Policy Implications

• Need to find ways to get homeowners out of negative equity status
  – principal reduction
  – short sale, deed in lieu

• Need to act soon
  – avoid spillover
  – threat increase with resets on HAMP modifications and HELOCs
HAMP and HELOC Resets

• HAMP modifications
  – 40 years, payment based on current income
  – rate reset in two years
  – balloon payment at end of term

• HELOCs
  – 10 year, interest only
  – then fully self-amortizing
Mortgage Lending and Disparities

• CFPB QM and QRM rules
  – ability to repay standard limited DTI ratio
  – banks are more risk-averse
  – TRID requirements

• Rise of nonbank lenders
  – pullback by banks
  – Countywide again?
  – 18% of GBLs in 2010, 64% now
Potential Steering

Percent Government-backed Purchase Loans, by Race of Borrower

- African American: 81.8% Purchase, 34.7% Refinance
- Asian: 23.1% Purchase, 3.3% Refinance
- White: 35.3% Purchase, 7.1% Refinance
- Hispanic: 70.8% Purchase, 15.4% Refinance

Source: HMDA 2010
Potential Redlining

Percent Government-backed (FHA/VA) Purchase Loans, by Race of Census Tract

Source: HMDA 2010
Potential Redlining Mapped

Government-backed loans as percentage of all loans made, by census tract:
- No Loans Made
- 0% - 15%
- 15% - 40%
- 40% - 65%
- 65% - 100%
- Non-white Population > 50%

Non-white population: Total population excluding non-Hispanic whites. Government-backed mortgage loans are insured or guaranteed by the Federal Housing Administration or Veterans Affairs.
Sources: Home Mortgage Disclosure Act (2010); U.S. Census Bureau (2010)

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Zombie Properties Defined

• Zombie properties are
  – properties stuck in the foreclosure process
  – foreclosure action filed
  – case unresolved for more than three years
  – no transfer of title on record

• Zombie properties are not
  – necessarily vacant or abandoned
Estimated Number of Zombies

- Quintile 1: 3,260
- Quintile 2: 3,475
- Quintile 3: 2,343
- Quintile 4: 1,676
- Quintile 5: 955

Legend:
- Green: Resolved with owner still in possession
- Light Blue: Title transferred
- Blue: Sold at auction
- Orange: Dismissed and refiled
- Maroon: Case still pending (zombie properties)
Spatial Distribution of Zombies

Cook County Income Quintiles by Census Tract

Estimated Zombie Properties per Thousand Mortgageable Properties in Cook County

Source: Woodstock Institute Analyses of Data Provided by Record Information Services for Foreclosure Filings 2008 - 2010
Policy-related Issues

• Zombie properties are concentrated in lower-income neighborhoods
• Impact will depend on condition of the property
  – servicers may not maintain properties in some neighborhoods as well as in others
• Zombie properties may further destabilize already distressed neighborhoods
  – hindering recovery
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