

Summary of Remarks of Michael W. van Zalingen
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NHS of Chicago has been earnestly addressing foreclosures in Chicago's neighborhoods since 2002, when it founded the Home Ownership Preservation Initiative (HOPI) in partnership with the City of Chicago and the Federal Reserve Bank of Chicago. This partnership was designed to bring together lenders, servicers, state and federal regulators, non-profit counselors and the City of Chicago to provide an effective venue for identifying and addressing issues related to foreclosure. Our work in Chicago has become the national model for communities and local governments seeking to mitigate the impact of foreclosures on their own neighborhoods.

The topic of these remarks is the role of discrimination in contributing to the present crisis in the context of what measures are *and* are not being taken to counter the loss of homes. What appears most clearly in Chicago is that efforts to prevent the loss of homes are centered around issues of race and income.

Despite all the fanfare around loss mitigation and President Obama's Home Affordable Modification Program, there appear to be large disparities in who receives assistance that can be tied to race and income. According to the Office of the Comptroller of the Currency, only 24% of all loan modifications offered in 2009 were offered to subprime borrowers - which is a reasonably accurate proxy for middle-to-low income African-Americans and Hispanics. (OCC and OTS Mortgage Metrics Report, Fourth Quarter 2009, page 48). This seems particularly odd since only 4.2% of prime loans are delinquent whereas 22.4% of all subprime loans are delinquent. (Id. at 18).

There are several possible reasons for this disparity:

- 1. High household debt levels:** The average subprime homeowner in Chicago who is facing foreclosure has a monthly household debt ratio of 171%. In other words, his monthly expenses are 171% of his monthly net income. In situations like that, it is unlikely that a loan modification by itself will cure the problems in the household budget. The high cost of utilities, transportation, insurance, and other debt service trap that household in a matrix of debt that is virtually impossible to resolve. For upper-income borrowers, the average debt ratio is only 100%. For them, a loan modification solves the household financial crisis.
- 2. Public opinion.** As noted above, subprime is a proxy for race and income. When the foreclosure crisis began in 2006, public opinion favored not doing anything because "those people" did not deserve help. Subprime was used as a code word for race and income. Financial institutions and government regulators who apparently did not want to take action blamed the

homeowners. Since everyone knew that subprime meant African-Americans and Hispanics, no evidence was necessary to prove that they were "irresponsible" and "should never have bought a home." Indeed, Federal Reserve Board Chairman Ben Bernanke explained that no response to the foreclosure crisis was necessary because it was contained to the subprime market (i.e., only low-to-moderate income African-Americans and Hispanics were suffering).

3. **Procedural barriers.** For loan modification programs like HAMP, the borrower seeking assistance must submit his last two pay stubs, last two months bank statements, tax return, a hardship affidavit, proof of homeowner's insurance, a property tax bill, a utility bill, documentation of any other income such as SSI, unemployment, rental income, and or child support. In household where the struggle to eek out an existence is so great, recordkeeping goes by the wayside. Many families simple are not organized enough (or have the free time to keep good records) to produce all of the documentation necessary to simply apply for assistance.