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Foreclosures have been a persistent problem for certain neighborhoods in the Chicago region since the late 1990s, however the current regional foreclosure crisis began in 2006. This was the first year that saw the dramatic increases in foreclosure activity that have persisted to the present day. Highly concentrated levels of risky, and often abusive, subprime mortgages targeted to African American and Latino communities led to subsequent high levels of foreclosures in these communities. The volume of subprime lending in these neighborhoods peaked in 2005. With the collapse of the subprime lending industry and drop in home values that began in late 2006 and early 2007, already high levels of foreclosures in these communities began to increase dramatically. While the regional foreclosure crisis began in lower-wealth, African American and Latino communities largely in the City of Chicago and suburban Cook County, it has since transitioned, and the most rapid growth in foreclosure filings in 2008 and 2009 occurred in more affluent, white communities in urban and suburban Chicago. However communities of color continue to have high levels of foreclosure activity and the impacts of persistent high levels of foreclosures are likely to be felt in these communities for many years.

Some of the key characteristics of the foreclosure crisis in the Chicago region include:

Neighborhood segregation and targeted subprime lending lead to highly concentrated foreclosure activity in African American and Latino communities. The intensity of the foreclosure problem in certain communities in the Chicago region was exacerbated by high levels of racial segregation in the metropolitan area. The Chicago metropolitan area is the fifth most segregated metropolitan area in the United States when ranked by white/Black dissimilarity.¹ This high level of segregation led to highly concentrated subprime lending in African American communities. In the Chicago region in 2006, for example, 59 percent of the mortgages made to communities 80 percent or greater African American were higher cost compared to 21 percent in communities that were less than 10 percent minority.² In previous years, Chicago was found to have the highest disparity ratios in the country when comparing the percent of conventional lending that was higher cost in African American census tracts and non-African American census tracts.³

The primary early driver of rising foreclosure rates was unsustainable mortgage products which were largely confined to the subprime segment of the market. Because of the extreme concentration of these loans in the large and highly segregated African American communities in the Chicago region, the earliest impacts of the foreclosure crisis were disproportionately felt in these communities. In 2006, there were 33.9 foreclosure filings per 1,000 mortgageable properties in communities greater than 80 percent African American, compared to 6.8 foreclosure filings per mortgageable properties in communities less than 10 percent minority.⁴ This means the density of

¹ See http://www.censusscope.org/us/rank_dissimilarity_white_black.html

² See Woodstock Institute. April 2008. *2006 Chicago Area Community Lending Fact Book*. Woodstock Institute: Chicago, IL.

³ See Bradford, Calvin. May 2002. *Race or Risk? Racial Disparities in the Subprime Refinance Market*. Center for Community Change: Washington, D.C.

⁴ See Woodstock Institute. April 2008. *2006 Chicago Area Community Lending Fact Book*. Woodstock Institute: Chicago, IL.

foreclosures in highly African American communities was 5 times greater than in predominantly white communities in 2006.

Since 2008, growth in foreclosure activity has largely shifted away from African American communities to the suburban part of the region. This is in part due to the declining levels of subprime loans left on which lenders and servicers can foreclose, and in part due to the effects of persistent high levels of unemployment and the large numbers of home owners who owe more on their mortgage than their properties are worth. New foreclosure filings in the Chicago Six County region increased to over 70,000 in 2009, up 21 percent from 2008, and the fourth quarter of 2009 had the highest level of regional foreclosure filing activity for any quarter since the foreclosure crisis began in 2006 with 24,053 new filings. Areas in the region with the most rapid rate of growth in foreclosure filings include the affluent suburban communities and higher-income or gentrifying neighborhoods in the city.⁵ Conversely, parts of the region that for many years have been hard hit by the foreclosure crisis, such as African American communities on Chicago's West and South side and in parts of suburban Cook County, saw declines in new foreclosure filing activity in 2009.⁶

High concentrations of foreclosures in communities of color have substantial, long term impacts on community economic stability and future economic opportunity. While all communities in the region feel the impacts of foreclosure, there are clear indications that African American communities will have to address the negative impacts of foreclosure for far longer than white communities. A recent Woodstock Institute research report has shown that vacant foreclosed properties are disproportionately concentrated in African American communities. The report found that 60 percent of the foreclosed, lender-owned properties in the City of Chicago that were vacant were located in African American communities and that the density of these vacant lender owned properties was 7.5 times greater in African American communities than in predominantly white communities. For lender-owned foreclosed properties that were eventually sold to a new buyer, those that were in African American communities took 25 percent longer to be absorbed into the market than those lender-owned foreclosed properties located in predominantly white communities.⁷

As the economy begins a modest recovery there are substantial concerns that communities that were the first and hardest hit by the foreclosure crisis will also be the last to recover. The effects of the foreclosure crisis, such as damaged credit scores and weakened local real estate markets, combined with other factors such as high unemployment, high levels of debt, and increasingly restrictive lending and investment standards for large financial institutions are all indicators that point to potentially widening an already substantial prosperity gap between the Chicago region's African American and white communities.

⁵ See Woodstock Institute. February 2010. *Government Interventions have Limited Impact on Chicago Area Foreclosure Activity in 2009* at <http://www.woodstockinst.org/publications/download/government-interventions-have-a-limited-impact-on-chicago-area-foreclosure-activity-in-2009/>.

⁶ Ibid.

⁷ See Woodstock Institute. September 2009. *Roadblock to Recovery: The Disparate Impact of Vacant Lender-Owned Properties in Chicago* at <http://www.woodstockinst.org/publications/download/roadblock-to-recovery%3a-examining-the-disparate-impact-of-vacant-lender%11owned-properties-in-chicago/>.