

Good evening, Senator Collins and Members of the Illinois Residential Mortgage Board and Foreclosure Prevention Network. Thank you for inviting me to testify on housing trends in the Chicago region.

My name is Spencer Cowan, and I am Vice President for Research at Woodstock Institute, a leading nonprofit research and policy organization in the areas of fair lending, wealth creation, and financial systems reform. Woodstock Institute works locally and nationally to create a financial system in which lower-wealth persons and communities of color can safely borrow, save, and build wealth so that they can achieve economic security and community prosperity.

Although recent reports show that the housing market in the Chicago region has begun to recover slowly, we must remain aware of the enormous distress that some neighborhoods experienced and the fact that the recovery is not occurring evenly throughout the region. Some areas are seeing modest increases in home values, but too many areas in the region are still suffering. Woodstock Institute research shows that, in the Chicago six county region, the overall average equity was slightly over \$72,000 for homeowners with a mortgage, but nearly a quarter of those homeowners were underwater as of the end of 2011. The average figures for the region, however, mask some alarming differences among neighborhoods within the region. In neighborhoods with less than 10 percent minority population, the average equity is \$108,000 for homeowners with a mortgage, and just under 17 percent of those homeowners were underwater. In neighborhoods that were 80 percent or more African American, the average equity for homeowners with a mortgage was \$6,800, and over 40 percent of those homeowners were underwater. In fact, in some neighborhoods of color in the Chicago region, the average equity in mortgaged homes is negative.

The slight recovery that we have seen in recent months has most likely done nothing to significantly change the situation. Foreclosure filings increased this year, with nearly 35,000 new filings in the first half of 2012. Although that number represented only a slight increase over the number of filings during the first half of 2011, some community areas and municipalities in the region saw filings increase by over 20 percent compared with the same period last year. The crisis has not passed—not for everyone.

When homeowners are underwater, they face challenges and have limited opportunities. If their incomes decline, they may be trapped in a situation in which they know they can't afford the mortgage, but they can't sell and downsize to a home they can afford unless the lender is willing to approve a short sale. But if they are approved for a short sale, their credit rating may drop so much they can't qualify for a mortgage for a smaller home. They can't use the equity to start a business or help their children go to college. They can't use the equity to help fund their retirement.

We need to continue to look at all options to address the problems facing so many homeowners, including principal reduction, loan modification, and any other approach that will help homeowners in distressed neighborhoods build equity to reduce the enormous disparities in wealth that the data show. We need to fund pre- and post- purchase homeownership counseling so that more families can take advantage of low mortgage rates and home prices to become successful homeowners. We also need to consider all options, such as land banks, to address the vacant and abandoned properties that continue to drive down home prices and contribute to neighborhood distress. Home equity is one of the principal pathways to opportunity and economic security, and, in too many neighborhoods, that pathway barely exists.