South Suburban Chicago Foreclosure Crisis Case Study: Where the Dots Connect

John Petruszak

Copyright © The John Marshall Law School
South Suburban Chicago Foreclosure Crisis Case Study:  
Where the Dots Connect

By
John Petruszak*

Historic Demographic Patterns of Segregated Residential Housing

South Suburban Housing Center (SSHC) is the private, non-profit, regional fair housing and housing counseling agency serving more than 100 communities in the southern Chicago metropolitan region since 1975. The suburbs that comprise SSHC’s service area are the most racially diverse, outside the city limits of Chicago, in the entire metropolitan area. However, this sub-region’s housing patterns contain a wide spectrum of diverse inclusiveness, economic disparities, high mortgage default and foreclosure rates, as well as segregated neighborhoods and communities.

The racial, ethnic, and other demographic characteristics for the 50 south/southwest suburban Cook County communities that make up SSHC’s primary service area display two distinct living patterns. Thirty suburban communities directly south of Chicago from the Indiana border on the east, to approximately Interstate 57 on the west, and Will County on the south, are generally known as Chicago’s “South Suburbs”. These communities have a collective majority-minority population of 261,925 or 62.3 percent of the overall population of 420,789 (U.S. Census data1 from 2000, more recent estimated figures for the entire sub-region are not available). The percentages of minority group residents in the South Suburbs break down as follows: African-Americans 52.7 percent; Hispanics (any race) 9.4 percent; and all other races 0.2 percent. During the decade of the 1990s the white population of this area shrank dramatically from a majority of 62.6 percent in 1990 to 37.6 percent in 2000. A 2002 report published jointly by Roosevelt University (Chicago) and Northern Illinois University (NIU),2 concluded that Chicago’s suburban communities continue to experience a high degree of racial separation. Over the last two full decades, the report observes that the South Suburban sub-region had undergone the most thorough racial change in the metropolitan area. In the 1990s, the south suburban region lost 96,336 white residents while increasing its African-

---

* John Petruszak is the executive director of the South Suburban Housing Center.
1 U.S. Census Bureau, data obtained and analyzed by SSHC from (May 2008) searches at Quick Facts, http://quickfacts.census.gov, for this and all subsequent references to the U.S. Census in this section.
American population by 86,347. The Roosevelt/NIU study documents the decline of white populations in Chicago and suburban Cook County, which coincides with the rise of black, Latino, and Asian populations. The rise in the white populations of the further out collar counties, over this same time is also noted by the report. A relatively low constant percentage of black and other minority group populations for the collar counties is documented for the last two decades while the white populations of the collar counties is growing at a rate of 20 percent.

The 23 communities directly west of the South Suburbs is an area of suburban Cook County generally known as the “Southwest Suburbs”. These communities have been traditionally perceived to be "closed" by African-Americans, who comprised at the last census, only 3.4 percent of the population or 14,062 of 419,611 total municipal inhabitants. The Latino and other minority race population of 44,852 (10.6 percent of total) is three times the African-American population of this area. During the 1990s, the minority African-American, Hispanic (any race), and all other race numbers combined, grew at the same rate of the previous decade. Continuing growth and development in this sub-region since 2000 will probably show these minority populations leveling off or decreasing in percentage by the time of the 2010 census.

Will County to the immediate south and southwest of Cook County presents a more traditional example of segregated housing patterns. The population center of this county is the small older industrial city of Joliet. Practically all of the African-American and other minority group residents, mainly Latinos, are segregated in the older neighborhoods of Joliet. Newer developing western areas of Joliet, suburban communities located around the perimeter of this urban center, as well as immediately adjacent to the county, borders with south and southwest Cook County, are, with only a few exceptions, exclusively white. The remainder and overwhelming majority of the territory outside this population center is rural farmland. Will County's census estimated population in 2006 was 70.7 percent white, 10.7 percent African-American, 13.8 percent Latino and 4.8 percent all other races. This county experienced a 128,000 increase in residents over the decade of the 1990s that calculated out to a 36 percent growth rate, making Will, at that time, the fastest growing county in Illinois. While this county’s white population percentage has decreased from 77.5 percent in 2000 to the estimated 70.7 percent in 2006, the African-American percentage has remained level, increasing little from 10.3 percent to 10.7 percent over that same period. Latino origin populations have increased the most from 8.7 percent to 13.8 percent. The City of Joliet had a substantial 12.3 percent Latino population based on the 1990 census that grew to 18.4 percent in 2000, making Latinos the fastest growing minority group in that municipality.
Cook County and Will County have both prepared consolidated plans with analysis of impediments to fair housing choice, which were examined or prepared with input from SSHC. Some of the impediments cited by the Cook County Consolidated Plan, most relevant to the proposed project, included: 1) historical patterns of segregated housing that are still in place; 2) scarce resources limit the ability of municipalities to address fair housing issues; 3) the segregation of households that use rental housing choice vouchers; 4) subprime and predatory lending; and 5) despite progress, discrimination in housing persists. Will County’s Analysis of Impediments addresses an overall lack of resources devoted by municipalities to “disseminating fair housing information and responding to fair housing complaints” and “a lack of on-going dialogue between public and private entities on fair housing issues.” The plan recommended evaluating the need for a locally based fair housing agency.

**Racially Segregated Housing Patterns and Concentrations of Predatory Lending Lead to the Heightened Mortgage Foreclosure Crisis**

SSHC’s own fair housing enforcement testing program results revealed that individuals in the sales market have been historically steered by race. Statistical data from the program shows that African-Americans seeking to purchase homes in the SSHC service area are likely to be steered or offered options in communities that are already racially diverse or that are predominantly African-American. By the late 1990s, complaints received by SSHC’s fair housing compliance program and studies conducted by the Chicago based National Training and Information Center (NTIC), established a sharp increase in predatory lending practices throughout the Chicago metropolitan region. The current national mortgage foreclosure crisis has had devastating effects on the housing markets in many communities of the South Suburbs magnified by the high degree of racial segregation. The clear correlation between areas of substantial minority homeownership, the clustering of high cost subprime lending, and high rates of default/foreclosures in the South Suburbs is extremely dramatic. This is where the dots connect.

Several recent academic publications highlight these striking relationships. Data from extensive Home Mortgage Disclosure Act analysis conducted by the Woodstock Institute, which was published in their 2006 Chicago Area Community Lending Fact Book, shows that 17 of the top 20 mortgage lenders issuing loans in South Suburban Cook were “higher cost share” subprime lenders.

---

Another analysis by Woodstock,6 of mortgage foreclosure data for 2008, shows that the South Suburban Cook had the highest rate of foreclosure at 46 per 1,000 loans in the entire metropolitan area. The rate in the City of Chicago was next highest at 36 per 1,000 with the average for the entire region at 25 per 1,000. This is the second straight year South Suburban Cook has led the area in the rate of foreclosures. Studies relate the high rate of new foreclosures (75 percent in 2007) to be associated with Adjustable Rate Mortgages (ARMs) and mortgage products featuring balloon payments.7 The use of exotic ARM and balloon mortgage products and predatory lending practices has been directly linked with the current astronomical increase in mortgage foreclosures throughout the Chicago area. Data revealing racially differential mortgage product steering practices by lenders began being released in the late 1990s. A 1999 study linked and analyzed the dramatic rise in predatory lending with the correlation of the race of the homeowners.8 Key findings of this study show that 58 percent of refinance loans in the Chicago area’s predominantly African-American neighborhoods were made by subprime lenders, while less than 10 percent of the loans made in predominantly white neighborhoods were subprime. The report concludes that failure to adapt federal regulations for subprime lending markets has resulted in the de facto deregulation of mortgage lending in African-American communities with white communities being served by more regulated and responsible lenders.

High rates of foreclosure destabilize neighborhoods already vulnerable to disinvestment, blight, and economic problems. The effects of a foreclosed property on the cumulative property values of homes on the same block in the Chicago area has been estimated at a $159,000 decrease per foreclosure. With this loss of property value and wealth to individual homeowners in the area, the community is also gravely affected by the decrease of tax revenues and consequent inability to maintain the level of services.

Families of color caught up disproportionately with mortgage delinquency/foreclosure problems also find it harder to obtain mortgage modification and refinance remedies from lenders who have tightened up access to these types of credit. In 2008, the share of refinance loans in major metropolitan areas in predominantly white communities was four times greater than in neighborhoods of color, and in Chicago, from 2006-2008, mortgage

refinance lending increased by 10 percent in predominantly white communities while declining by 49 percent in communities of color.\textsuperscript{9}

The rising foreclosure rates have not only affected the single family home and sales markets, but have profoundly impacted the rental markets in the south Chicago area. One notable consequence has been a tightening and increase in demand throughout the rental market, especially for “affordably priced” units caused by the overall displacement of households from foreclosed properties. Where demand for scarce units is heightened, so is the opportunity for discriminatory practices, and the need for monitoring by fair housing testing of those markets.

**Housing Counseling and Fair Housing Enforcement Programs Address the Obvious Need to Affirmatively Further Fair Housing**

SSHC’s Department of Housing and Urban Development (HUD) certified housing counseling program is designed to directly address the impediments to fair housing described and to affirmatively promote diversity. Aside from offering traditional pre-purchase housing and rental counseling, the program is designed to expand individual clients: 1) housing choice options; 2) home mortgage product options and 3) homeownership capabilities. Fair housing, predatory lending, and mortgage fraud awareness education is an important component of each one-on-one and group counseling session. The housing counselors work with clients individually to expand options to include the total marketplace, and to avoid any limitations based on race or membership in any protected class. Broadening housing options and loan product information and providing education counteracts the discriminatory forces described that are primary causes of the default/foreclosure crisis.

SSHC also implements a full-service fair housing enforcement program receiving HUD Fair Housing Initiatives Program (FHIP) funding for the last 20 years. SSHC’s housing counseling program works hand in hand with its fair housing enforcement programs to provide fair housing (including fair lending), predatory lending, mortgage fraud, and mortgage rescue fraud awareness training and information at all group and in individual counseling sessions held. Last year, SSHC provided these services making 471 households aware of potential discriminatory practices. One of the major objectives of SSHC’s homeownership counseling efforts are directed at providing information that will prevent families from becoming caught up in predatory lending scams and to avoid default and foreclosure problems.

As a FHIP funded, Qualified Fair Housing Organization, with fair housing enforcement programs, SSHC has the direct capacity to do intake of fair housing complaints, investigate the validity of the fair housing claims using testing techniques, and if evidence of discriminatory practices are found, has the ability to process formal legal and administrative complaints to be filed with HUD, local FHAPs (both in Illinois and northwest Indiana), or federal court. Individuals receiving housing counseling who indicate that they may be experiencing some form of discrimination can be immediately referred to SSHC’s fair housing enforcement program, get a legal analysis of the issues from the attorney on staff, and receive assistance.

SSHC’s organizational mission to eliminate discriminatory housing practices and foster integrated living patterns dictates the embracing of affirmative marketing practices. SSHC, in the mid-1980s, along with several local municipalities, brought ground breaking federal court litigation that recognized the importance of affirmative marketing activities to expand the options of individuals in the housing markets, to prevent the growth of segregated communities.10 Given this legacy, all of SSHC’s counseling efforts utilize some form of affirmative marketing effort to make clients aware of all of their options and to encourage them to expand their options.

Pre-purchase counseling stresses the importance of getting information about several different mortgage products from different lenders before making a decision and looking at several different homes and communities throughout the area before making a choice. Rental counseling efforts incorporate, advise, and assist, lower-income African-American clients, who make up 85 percent of the individuals served, to locate rental options in mobility areas where job growth, educational, and community service amenities are optimal.

SSHC advocated for and helped establish the first mobility counseling program in the Chicago metropolitan area aimed at assisting low-income Housing Choice Voucher families in suburban Cook County. An early 1990s study that SSHC commissioned showed that 70 percent of the voucher families (90 percent African-American) administered by the local public housing authority, Housing Authority of Cook County (HACC), were concentrated in six south suburban communities. Cook County is comprised of 210 municipalities.11 SSHC and other fair housing groups pressured HACC to fund mobility counseling efforts to address this pervasive segregation of voucher families. The result was a contract in 1996 to fund Housing Choice Partners (HCP) of Illinois to conduct mobility counseling efforts for HACC issues certificate families. Over the first eight years

of operation HCP of Illinois assisted 2,200 families in making mobility moves. SSHC remains actively involved in HCP through continuous service since the organization’s inception, by serving on its board of directors, and by providing fair housing training and complaint assistance for HCP. SSHC’s rental counseling services work closely with HCP to encourage and refer eligible certificate holding families to seek mobility assistance.

Recommendations to address these south Chicago area fair housing impediments that cause a magnified impact of the mortgage foreclosure crisis include the following:

1. Addressing segregatory housing forces through the strengthening of federal authority requiring the “affirmatively furthering” of fair housing by all local government units accepting federal housing dollars.

2. Increasing funding for fair housing enforcement monitoring to document and remedy the most blatant discriminatory practices, and provide additional resources to development more involved techniques to monitor mortgage brokerage and lending industry practices.

3. Prioritizing resources to allow for the recovery of communities hardest hit by the mortgage lending crisis. Offering increased redevelopment incentives, but also providing additional relief directly to homeowners by putting pressure on mortgage lenders to modify a higher percentage of loans and provide resources for counseling assistance for victims of predatory practices that led to mortgage delinquency problems.

4. Strengthening the regulation of mortgage lending practices through the establishment of a federal consumer protection agency with authority over all mortgage lenders that complement existing state and federal banking regulators.