
WASTED WEALTH

SEATTLE, WA



How the Wall Street Crash Continues to Stall Economic Recovery and Deepen Racial Inequity in America.

By **Ben Henry, Angel Torres** and **Allyson Fredericksen** • Alliance for a Just Society



INTRODUCTION

People of color are experiencing one of their most basic needs — housing — pulled out from under them at alarming rates. And they are losing their homes because they were targeted with loan products — which lenders called “ghetto loans” — that were designed to fail. Banks offered incentives to their loan officers to target these communities with subprime loans, while not bearing the consequences of this risky behavior. This twisted form of moral hazard manifested when American taxpayers provided several trillion dollars in bailouts, from which banks profited by the billions.

But America’s foreclosure victims were left hung out to dry. These practices resulted in the mass transfer of wealth out of communities already under siege by an economy rigged against them. And the crisis, which sparked the Great Recession, has snowballed, resulting in fewer jobs for America’s communities of color, which, in turn, results in weaker and unsustainable local economies. This study quantifies that lost wealth and measures the extent of the disparities between communities of color and the rest of America, and offers evidence that shows principal reduction is the solution.

ANALYSIS

In 2012, the city of Seattle lost \$289 million in wealth due to the foreclosure crisis. While that number in itself shows the toll that the foreclosure crisis has had, the data confirms that Majority Communities of Color had more foreclosures per household and that those communities saw significantly more lost wealth per household than communities with proportionately fewer people of color. If homeowners with underwater mortgages go into foreclosure, even more wealth will be lost. Principal reduction would help homeowners with underwater mortgages in Seattle see a savings of \$770 per month — money that could instead be used to boost the economy and create jobs. A look at our findings:

- **Lost Wealth:** Citywide, communities in Seattle lost \$289 million in wealth due to the foreclosure crisis in 2012, or \$900 per household. However, communities with higher concentrations of people of color saw more wealth lost per household: \$1,400 per household for Majority

Communities of Color and only \$600 in Segregated White communities. Even communities with only Above Average Percentage People of Color saw one-and-a-half times the amount of wealth lost per household than Segregated White communities.

- **Foreclosures:** On average, communities in Seattle saw seven foreclosures per 1,000 households. As with lost wealth, communities with higher concentrations of people of color saw higher foreclosure rates: Majority Communities of Color and communities with Above Average Percentage People of Color saw 11 and seven foreclosures per 1,000 households, respectively, while Segregated White communities saw only five foreclosures per 1,000 households
- **Foreclosures-in-Waiting:** In addition to the households already facing foreclosure in Seattle, more than 48,000 homes citywide are worth less than the amount that

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PERSPECTIVE: *Rob,* Seattle, Wash.*

I’ve been negotiating with my lender for more than a year to modify my mortgage loan. No one should have to live like this. The uncertainty of what tomorrow may bring is overwhelming. From one day to the next, I have no idea of whether or not I can continue to live in my home, or whether I will be told that my application has been denied and I must move out.

Do I bother to change the color of my daughter’s room, or let it stand? Should I start looking for boxes to gather our belongings, or will we be here next month? I am stuck in a state of uncertainty.

Things weren’t always this way. We bought the home in 1987. My children were raised here. It wasn’t until the economy crashed that I fell into hard financial times. I am an accountant with my own small business. My profits dwindled in 2008. By

2011, I couldn’t make the payments on my home.

Lately, business has slowly recovered, and things are falling back into place. With the increase in business revenue, I am hoping my application for a loan modification will be approved. I am certain that I qualify. I have provided my lender with all of the necessary financial information needed in making their decision.

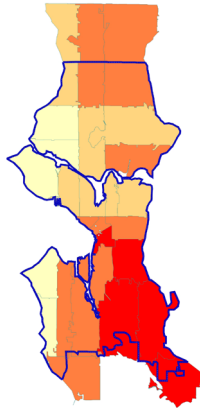
When I call to get an update on the status of my loan request, I am placed on hold for what seems an eternity. Most of the time, I am dispatched to various representatives who are not familiar with the facts of my case at all. Each time, I have to explain what is going on; each time they transfer me to someone new; each time, more paperwork with no answers.

I live in fear that my bank will begin the foreclosure process
SEE ‘PERSPECTIVE’ ON BACK PAGE

FINDINGS

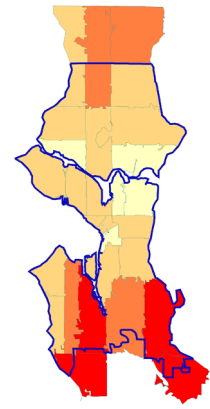
PEOPLE OF COLOR POPULATION

- Map Layers
- Zip Code
 - City Limits
- Percent People of Color
- Less than 15%
 - 15-25%
 - 25-50%
 - 50%>



LOST WEALTH, PER HOUSEHOLD

- Map Layers
- Zip Code
 - City Limits
- Lost Wealth
- Less than \$500
 - \$500-\$1,000
 - \$1,000-\$1,500
 - \$1,500>



SEATTLE, 2012

TOTAL LOST WEALTH

\$289 MILLION

LOST WEALTH, FORECLOSURES IN WAITING

\$805.4 MILLION

LOST WEALTH, PER HOUSEHOLD

All Communities	Majority Communities of Color	Above Avg % People of Color	Segregated White Communities
\$890	\$1,410	\$970	\$640

FORECLOSURE RATE, PER 1,000 HOUSEHOLDS

All Communities	Majority Communities of Color	Above Avg % People of Color	Segregated White Communities
7	11	7	5

LOST WEALTH, FORECLOSURES IN WAITING, PER HOUSEHOLD

All Communities
\$2,500

UNDERWATER HOMES

All Communities
48,100

BENEFITS OF PRINCIPAL REDUCTION

	Seattle	Washington
Average annual savings per homeowner	\$9,300	\$8,200
Total annual stimulus	\$511,000,000	\$3,933,100,000
Jobs created	\$7,600	\$58,100

UNITED STATES, 2012

Total Lost Wealth

\$192.6 BILLION

Lost Wealth Per Household

All Communities	\$1,700
Majority Communities of Color	\$2,200
Above Avg % People of Color	\$2,000
Segregated White Communities	\$1,300

Foreclosure Rate, Per 1,000 Households

All Communities	13
Majority Communities of Color	17
Above Avg % People of Color	15
Segregated White Communities	10

Total Lost Wealth, Foreclosures in Waiting

\$220.7 BILLION

Underwater Homes

All Communities 13.2 million

Economic Benefits of Principal Reduction

Average annual savings per U.S. homeowner	\$7,708
Total annual stimulus	\$101.7 billion
Jobs created	1.5 million

ANALYSIS

homeowners still owe on their mortgages. Using an estimate of a 13% foreclosure rate for underwater homes, we expect an additional \$805 million in lost wealth citywide, or \$2,500 per household.

- **Benefits of Principal Reduction:** Renegotiating mortgages for homeowners with underwater mortgages will save homeowners money and benefit the local economy by increasing consumer spending and creating jobs. Homeowners in Seattle will save an average of more than \$9,000 annually. If all underwater homeowners renegotiate based on these terms and spend those savings on goods and services, this will mean an economic stimulus of more than \$510 million, which can create over 7,500 jobs.

METHODOLOGY: In this study, we calculate total wealth lost in our communities as a result of the foreclosure crisis, by city and by community-type. Community-types include those with Above Average People of Color Populations, Majority-People of Color communities, and Segregated White communities. The basic formula for lost wealth includes: total decline in property values of the foreclosed home and neighboring homes; total impact on property taxes; and total municipal cost of maintaining bank-owned properties.

We calculate the foreclosures-in-waiting potential lost wealth by applying the same methodology to a Catalist database of 2012 underwater mortgages. We estimate that 13% of underwater mortgages will go into foreclosure, as discussed

in the 2013 Congressional Budget Office report “Modifying Mortgages Involving Fannie Mae and Freddie Mac: Options for Principal Forgiveness.”

The benefits of principal reduction findings used the underwater home count and data from Zillow and CoreLogic to calculate average savings per homeowner and total annual stimulus. Job creation calculations utilized the Annual Stimulus and dividing by the estimated cost to create one job as described in “The Win/Win Solution.”

We define communities by ZIP codes and community-types by the percentage of minority or white residents in a given community. Above Average People of Color Population is defined as having a minority population higher than the national average of 15.8 percent. Majority-People of Color communities are defined as ZIP codes with greater than 50% minority residents. Because Above Average People of Color Population communities include all ZIP codes with greater than 16% minority population, Majority-People of Color communities are included in this number, as well. A minority is defined as individuals who are not “White, Not Hispanic,” as captured by the U.S. Census Bureau in the 2012 American Community Survey. This captures all people of color, including white individuals who self-identify Hispanic. Segregated White communities are those in which greater than 84% of the residents identify as “White, Non Hispanic.”

For a full description of the methodology, download the national report at: www.allianceforajustsociety.org/4482/wastedwealth.

PERSPECTIVE

while they are stringing me along with the modification request. I stress that I will be on a dual track with no protections of saving our home. My mortgage is underwater. I owe \$635,000, while the property is worth \$450,000.

If the banks were truly interested in saving money, they would lower my principal to my home’s current value and modify my

payment terms accordingly. The money they will receive from an auction or a short sale is less than what I am able and willing to pay. Instead, banks have been blinded by their own greed to see the value they could save by working with homeowners.

* A pseudonym was used to protect the story subject’s identity.



THE NEW
BOTTOM LINE



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