

United States House of Representatives
Committee on Financial Services
2129 Rayburn House Office Building
Washington, D.C. 20515

July 30, 2019

Memorandum

To: Members, Committee on Financial Services

From: FSC Majority Staff

Subject: August 2, 2019, “An Examination of the Housing Crisis in Michigan, 11 Years after the Recession”

The Subcommittee on Oversight and Investigations will hold a hearing entitled, “An Examination of the Housing Crisis in Michigan, 11 Years after the Recession,” at 12:00 p.m., on Friday, August 2, 2019, at the Wayne County Community College – Northwest Campus, Larry K. Lewis Education Center, 8200 Outer Drive West, Detroit, Michigan 48219. This will be a single-panel hearing with the following witnesses:

- Hector Hernandez, Director, Housing Opportunity Center, Southwest Economic Solutions
- Ted Phillips, Executive Director, United Community Housing Coalition
- Antoine Thompson, Executive Director, National Association of Real Estate Brokers
- Bernadette Atuahene, Senior Research Scholar, University of Michigan
- Lauren Mason, Member, Housing Committee Chair – Detroit Action
- Taz George, Senior Research Analyst, Community Development and Policy Studies Division, Federal Reserve Bank of Chicago
- Vanessa Fluker, Fellow Practitioner, Vanessa G. Fluker, Esq., PLLC

Background

The 2008 financial crisis disproportionately impacted minority borrowers, partially as a result of predatory lending where mortgage products sold to minority communities came with less-than-favorable, higher-cost terms as compared to mortgage products sold to similarly situated White borrowers.¹ By 2011, at the height of the foreclosure crisis, about a quarter of Black and Latino homeowners had lost their homes or were seriously delinquent, compared to nearly 12 percent for White homeowners and 14 percent for Asian homeowners.² During this same time period, 86 percent of Black homeowners and 36 percent

¹ Barbara Reynolds, Minorities fall victim to predatory lenders, Washington Post (2012), available at https://www.washingtonpost.com/blogs/therootdc/post/minorities-fall-victim-to-predatory-lenders/2012/07/16/gJQAraMYpW_blog.html?utm_term=.98fd65e9d93b.

² Debbie Gruenstein Bocian, Wei Li Carolina Reid, & Roberto G. Quercia, Lost Ground, 2011: Disparities in Mortgage Lending and Foreclosures, Center for Responsible Lending (2011), available at <https://www.responsiblelending.org/mortgage-lending/research-analysis/Lost-Ground-2011.pdf>.

of Hispanic homeowners were more likely to have underwater mortgages than White homeowners, meaning that their homes were worth less than the principal still owed on their loan.³

Even minority homeowners who were able to remain current on their mortgages were disproportionately affected by the financial crisis due to historic patterns of racial residential segregation. Patterns of neighborhood segregation compounded the effects of foreclosures concentrated in Black and Latino neighborhoods and subsequent blight suppressed home values across the board in these communities.⁴ Leading up to the crisis, minority households held nearly half of their wealth in home equity.⁵ Therefore, drastic depreciation in home prices resulted in the loss of nearly half of Black and Asian American wealth (45 percent and 48 percent respectively), compared to just 21 percent of wealth lost among White households.⁶ Latino households lost 58 percent of their net worth following the Recession.⁷

In 2015, Detroit News analyzed 65,000 foreclosed mortgages in Detroit.⁸ Of these 65,000 homes, 36,400 or 56 percent, resulted in blight or abandonment.⁹ Subsequent demolition of 13,000 of the 36,400 blighted homes cost taxpayers nearly \$195 million and another \$300 million in lost tax payments.¹⁰ For many neighborhoods in Michigan, including Detroit, the devastating impacts of the 2008 financial crisis and resulting foreclosures are still being felt today.¹¹

Homeownership Trends in Michigan

For many people homeownership is their main source of wealth. Between 2011 and 2018, home equity rose from \$7 trillion to \$15.5 trillion¹² and home prices continue to rise.¹³ Yet, access to homeownership remains out of reach for many, especially when observed across racial lines. In the second quarter of 2019, the national homeownership rate was at 64.1 percent. Broken down by race, White homeownership was at 73.1 percent and Latino homeownership stood at 46.6 percent, while Black homeownership marked a

³ Rebeca Tippet et.al., *Beyond Broke: Why Closing the Racial Wealth Gap is a Priority for National Economic Security*, Center for Global Policy Solutions (2014). This report further found that racial gaps remained in terms of whether or not a homeowner in underwater even after accounting for several mortgage characteristics including age, education, income, marital status, and living in a crisis state., *available at* https://globalpolicysolutions.org/wp-content/uploads/2014/04/BeyondBroke_Exec_Summary.pdf.

⁴ Gillian B.White, *The Recession's Racial Slant*, *The Atlantic* (2015)., *available at* <https://www.theatlantic.com/business/archive/2015/06/black-recession-housing-race/396725/>.

⁵ William R. Emmons, *Homeownership and the Racial Wealth Divide*, Federal Reserve Bank of St. Louis, (2017), *available at* <https://www.stlouisfed.org/publications/housing-market-perspectives/2017/homeownership-racial-wealth-divide>.

⁶ Rebeca Tippet et.al., *supra* note 3.

⁷ *Id.*

⁸ Christine MacDonald and Joel Kurth, *Foreclosures fuel Detroit blight, cost city \$500 million*, *The Detroit News*, (2015), *available at* <https://www.detroitnews.com/story/news/special-reports/2015/06/03/detroit-foreclosures-risky-mortgages-cost-taxpayers/27236605/>.

⁹ *Id.*

¹⁰ *Id.*

¹¹ Erika C. Poethig et. al., *The Detroit Housing Market*, Urban Institute (2017) *available at* https://www.urban.org/sites/default/files/publication/88656/detroit_path_forward_finalized.pdf.

¹² Joint Center for Housing Studies of Harvard University, *The State of the Nation's Housing 2019*, (2019), *available at* https://www.jchs.harvard.edu/sites/default/files/Harvard_JCHS_State_of_the_Nations_Housing_2019.pdf.

¹³ Alcynda Lloyd, *This is how a lack of housing affordability is impacting America's middle class*, *HousingWire*, (2019), *available at* <https://www.housingwire.com/articles/49648-this-is-how-a-lack-of-housing-affordability-is-impacting-americas-middle-class>.

50-year low at 40.6 percent.¹⁴ According to Harvard's Joint Center for Housing Studies, between 2011 and 2018, the White-Black homeownership gap widened to 30.1 points while the White-Latino homeownership gap remained unchanged.¹⁵

A 2018 Reveal News investigative report found that Black and Latino borrowers are more likely to be denied home mortgages compared to their White counterparts.¹⁶ Just as there exists a racial homeownership gap, the opportunity to build wealth through homeownership is also limited by race. Even when Black families own their homes, they are not typically accumulating wealth at the same rates as White homeowners. A 2018 report by the Brookings Institution found that the average home in Black neighborhoods is undervalued by \$48,000, amounting to a cumulative loss of \$156 billion in home equity potential.¹⁷

These national homeownership trends appear to hold true in Michigan as well. As of June 2018, 70 percent for white non-Latino households owned their homes nationwide.¹⁸ In 2016, only 40% of Black households in Michigan owned their own homes. This is an 11% decrease from 2000 when 51% of Black households in Michigan owned their own home.¹⁹ The current rate of Black homeownership in Michigan is even lower than before the passage of the Fair Housing Act in 1968. From 2000 to 2016, the Black-White homeownership gap increased 8 percent to 36 percent.²⁰ Like the rest of the nation, racial residential segregation compounds these economic trends throughout Michigan. According to the Urban Institute, "the 10 most populous counties in Michigan were home to 93 percent of the state's Black households in 2016, compared with 63 percent of the state's total households."²¹

Tax Foreclosures

A tax foreclosure is the sale of a property when a homeowner fails to pay their tax liabilities, including property and income taxes. Residents of Detroit are impacted by a general lack of information regarding tax liabilities on the properties they live in and government assistance programs intended to help homeowners avoid foreclosure. In a report released in 2019 by the Quicken Loans Community Fund and the United Community Housing Coalition, 21 percent of homeowners in Detroit did not know they were behind on their taxes.²² Tax foreclosures can come as an even greater surprise to renters. In the same

¹⁴ Quarterly Residential Vacancies and Homeownership, Second Quarter 2019, U.S. Census Bureau (2019), available at <https://www.census.gov/housing/hvs/files/currenthvspress.pdf>.

¹⁵ Joint Center for Housing Studies of Harvard University, *supra* note 12.

¹⁶ Aaron Glantz and Emmanuel Martinez, For People of Color, banks are shutting the door to homeownership, Reveal News (2018), available at <https://www.revealnews.org/article/for-people-of-color-banks-are-shutting-the-door-to-homeownership/>.

¹⁷ Andre M. Perry, Jonathan Rothwell, and David Harshbarger, The Devaluation of Assets in Black Neighborhoods: The Case of Residential Property, Brookings Institution, (2018) available at <https://www.brookings.edu/research/devaluation-of-assets-in-black-neighborhoods/>.

¹⁸ Carl Hedman and Rolf Pendall, Rebuilding and Sustaining Homeownership for African Americans, Urban Institute (2018), available at https://www.urban.org/sites/default/files/publication/98719/rebuilding_and_sustaining_homeownership_for_african_americans.pdf.

¹⁹ *Id.*

²⁰ *Id.*

²¹ *Id.*

²² Quicken Loans Community Fund, Neighbor to Neighbor: The First Detroit Property Tax Foreclosure Census, 2019, available at <https://www.quickenloans.com/press-room/2019/05/02/quicken-loans-community-fund-study-shows-2018-property-tax-foreclosures-in-detroit-hit-lowest-level-in-over-a-decade-company-commits-to-continuing-citywide-effort-to-help-homeowners/>.

timeframe, 61 percent of renters in tax-delinquent properties were unaware of home's tax status.²³ Furthermore, approximately 74 percent of homeowners surveyed said they may have been eligible for a property tax exemption suggesting that many homeowners lose their homes in foreclosure for property taxes that they should have had the opportunity not to pay.²⁴

Wayne County does not disclose the race of the occupant of a foreclosed property in their records, but demographic data suggests that Black residents were the largest racial group affected in the top five municipalities in Wayne County with the highest tax foreclosure rates (Detroit, Ecorse, Highland Park, Inkster, and River Rouge).²⁵

Between 2003 and 2017, Detroit experienced 155,171 tax foreclosures brought to auction. Tax foreclosures peaked in 2015 when 28,158 foreclosures went to auction.²⁶ Tax foreclosures have fallen dramatically since 2015 but remain a significant impediment to homeownership in Detroit and other predominately Black jurisdictions in the state of Michigan.²⁷ In 2015, at the peak of tax foreclosures in Detroit, the city's property tax foreclosure rate was 3,949 properties per 100,000 people, compared with 52 per 100,000 for New York City, 4 per 100,000 in Los Angeles County, and 197 per 100,000 in St. Louis County, Missouri.²⁸

When homeowners lose their homes through tax foreclosure, the property is often abandoned and then purchased cheaply by real estate speculators who sometimes allow it to deteriorate.²⁹ Of the 135,000 Detroit properties that have been tax foreclosed since 2005, approximately 86,000 properties did not sell at auction and are currently owned by the Detroit Land Bank Authority.³⁰

Land Installment Contracts

During the 1930s to 1960s period, Black neighborhoods and other communities of color faced exclusion from federal homeownership programs, which in turn blocked access to the traditional mortgage market and federally backed home/mortgage loans.³¹ As a result, many Black residents were pushed into land installment contracts.³² Land installment contracts or contracts for deed occur when a "seller finances the sale of a residence directly to a buyer, often through monthly installment payments."³³ These arrangements, compared to traditional mortgage lending are less stable for buyers because the contracts are often not legally registered. Further, if a buyer misses a payment, the seller can terminate the agreement and take back the land. Following the 2008 Recession, Black communities in areas like Michigan and across the nation have seen a boost in these land contract sales, but still lack access to traditional mortgage financing.³⁴

²³ *Id.*

²⁴ *Id.*

²⁵ Erika C. Poethig et.al., *supra* note 8.

²⁶ *Id.*, at 1-2.

²⁷ *Id.*

²⁸ Bernadette Atuahene and Timothy R. Hodge, *Stategraft*, *Southern California Law Review* (2018), available at https://southerncalifornialawreview.com/wp-content/uploads/2018/01/91_263.pdf.

²⁹ Quicken Loans Community Fund, *supra* note 22.

³⁰ *Id.* at 10.

³¹ Carl Hedman and Rolf Pendall, *supra* note 18.

³² *Id.*

³³ *Id.*, at 2.

³⁴ *Id.*