



Spotlight on the Housing Market in Chicago-Joliet-Naperville, IL-IN-WI



The Obama Administration's Efforts to Stabilize the Housing Market and Help American Homeowners | March 2012

The Chicago-Joliet-Naperville, IL-IN-WI Metropolitan Statistical Area (Chicago) is located along the western and southern coastlines of Lake Michigan and includes 14 counties in 3 states: Cook (includes City of Chicago), DeKalb, and six other counties in Illinois; Lake (includes City of Gary), and three other counties in Indiana; and Kenosha County in Wisconsin. The challenges in the diverse Chicago housing market have been more severe than those in most areas of the nation. During the early part of the last decade, local home prices grew at a slower pace than the national average; however, prices have since fallen by a greater percentage than in the nation as a whole. Declining property values in Chicago were fueled in part by excess housing construction in the years prior to the crisis, but also by rising defaults driven first by unsustainable mortgages then by the economic downturn and climbing unemployment. The foreclosure crisis in Chicago also came at the end of a significant uptick in suburban poverty rates. While the city's low-income population remained basically flat during this time, the low-income population in surrounding Cook County increased by 7.4 percent. Other suburban areas saw increases by more than 50 percent. Economic conditions in Chicago are starting to improve, but the local housing market remains fragile - with high concentrations of distressed mortgages (those 90 or more days delinquent or in foreclosure), large numbers of vacant homes, and many severely underwater mortgages. Contributing to the high share of distressed mortgages is a longer than average foreclosure processing time in Illinois (averaging 575 days) which keeps those homes in the foreclosure pipeline longer. However, the Administration's broad approach to stabilize the housing market has been a real help to homeowners in Chicago and surrounding cities. This addendum to the Obama Administration's Housing Scorecard provides a summary of trends and conditions in the local economy and the impact of the Administration's efforts to stabilize the housing market and help local homeowners.

Population Growth, Employment, and Housing Market:

With 9.46 million people according to the most recent Census, the Chicago MSA is the third largest in the nation. From 2000 to 2010, population growth was slow, increasing at an average rate of just 0.4 percent per year. Natural population growth (births minus deaths) accounted for all of that increase, as an average of 36,300 more people moved out of the Chicago MSA each year than moved in. In Cook County, the population declined by an average of 18,200 people, or 0.3 percent, annually. During the decade spanned by the Census, new housing production exceeded household growth in the Chicago MSA; net annual housing unit growth at 1.0 percent was approximately twice the corresponding population and household growth rates. This excess construction contributed to an oversupply of housing and led to steeper price declines after the housing bubble burst. According to the Census Bureau, the number of vacant units in Chicago increased by an average of 13,900 units, or 7.7 percent annually during the 2000s, almost twice the national rate during the same period. Unlike in other parts of the nation where investor speculation was a major cause of overbuilding prior to the crisis, investor home purchases in Chicago represented a relatively small share of total purchases. Specifically, from the first half of 2000 to the first half of 2006, home sales to investors in the Chicago-Joliet-Naperville Metropolitan Division rose from 5 to 10 percent of all sales, while the corresponding increase for the nation was 7 to 16 percent. Speculative construction of inner city condominium units occurred in Chicago, and these units did not sell to owner occupants or to investors, contributing to the overbuilding.

Chicago Housing Unit Growth Outpaced Population and Household Growth During the Past Decade		
Date of Census	4/1/2000	4/1/2010
Chicago Population	9,098,970	9,461,105
Annual Growth Rate	-	0.4%
Chicago Households	3,280,055	3,475,726
Annual Growth Rate	-	0.6%
Chicago Housing Units	3,462,197	3,797,247
Annual Growth Rate	-	1.0%

Source: Census Bureau (2000 and 2010 Decennial)

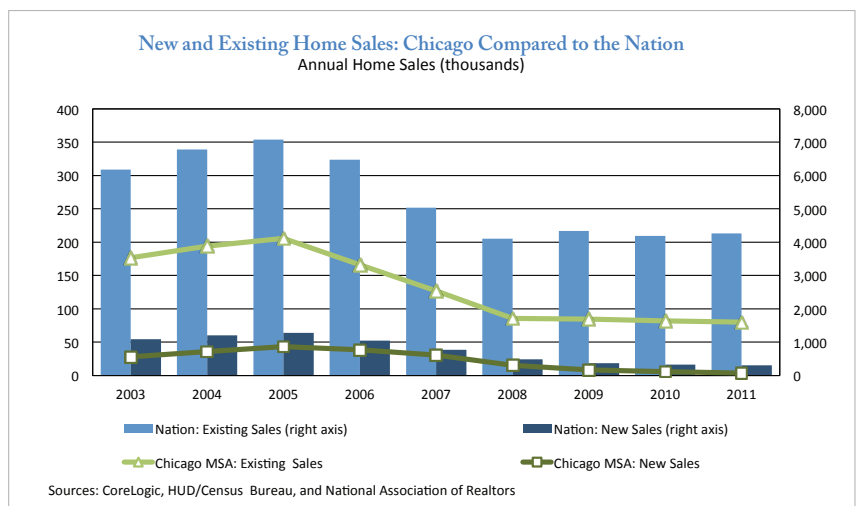
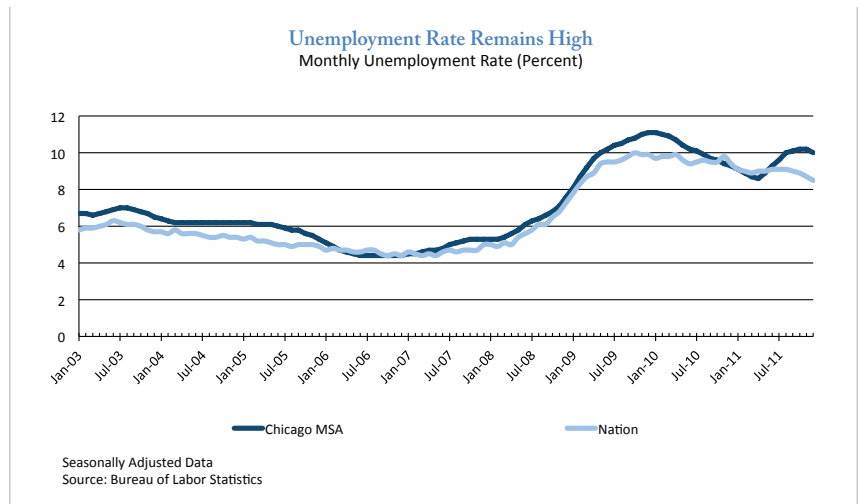
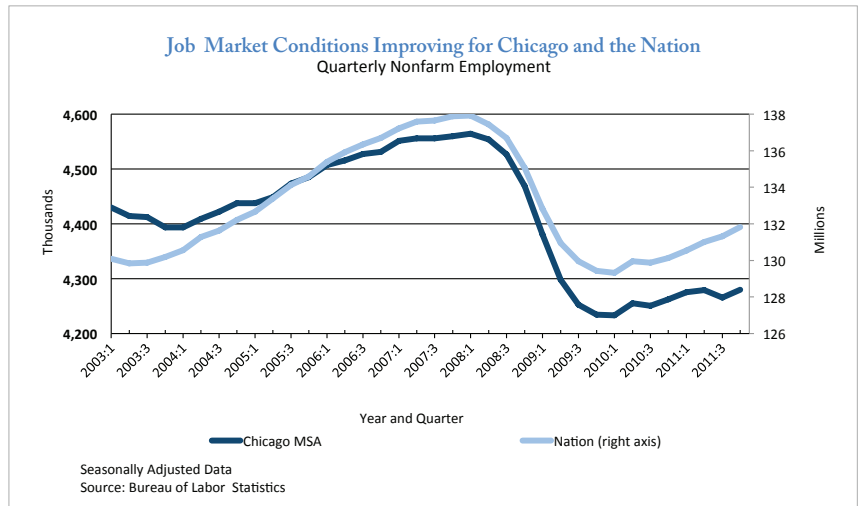


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Economic conditions in Chicago are showing strong signs of improvement. Although the local economy expanded by an average of 42,700 jobs per year, representing a 1 percent pace of growth during the 4 year period from the second quarter of 2004 through the first quarter of 2008, job losses were significant as a result of the recent recession. During the two year period from the second quarter of 2008 through the first quarter of 2010, the region averaged 165,500 jobs lost, or 3.6 percent per year. A modest recovery has been underway since, with annual job gains averaging 26,700, or 0.6 percent. The professional and business services, construction, and wholesale trade sectors have been the major contributors to job growth during 2010 and 2011, increasing jobs by a combined total of 40,700 per year. Offsetting job gains during this same period were declines in the government and information sectors, with average annual losses of 6,500 and 3,400 jobs, respectively. Compared to the national unemployment rate - which peaked in October 2009 at 10.0 and fell to 8.5 by December 2011 - the unemployment rate for the Chicago MSA remains high, but has improved from a high of 11.1 in January 2010 to 10.0 percent in December 2011.

Home sales in the Chicago MSA remain at low levels. Existing home sales began a steep decline in 2006, but have leveled off since 2008. New home sales have been falling since 2005 but leveled off by 2009. Sales of bank-owned properties and short sales remain high at 35 percent of existing home sales in the Chicago market compared to 29 percent nationally, which contributes to continued weakness in Chicago home prices. During the bubble years, a relatively sluggish economy and slow population growth kept Chicago home price increases lower than national rates. The CoreLogic repeat-sales house price index (HPI) shows that the rise in home prices in the Chicago-Joliet-Naperville, IL Metropolitan Division was less than two-thirds the national pace between 2000 and mid-2006. From their peak in 2006 to the end of the house price bubble in April 2009, home prices fell by 23 percent in Chicago, about three-quarters of the national average peak-to-low decline of 31 percent. However, Chicago home prices have continued to fall - an additional 14 percent from their peak in 2006 - compared to an additional 3 percent decline for national sales prices.

The Chicago rental housing market remains strong. Rental vacancy rates in Chicago have historically been lower than the national average, but according to Reis Inc., the overall apartment vacancy rate in Chicago was just 4.6 percent in the fourth quarter of 2011, down from 5.6 percent a year earlier and well below the current national average of 5.2 percent. During the fourth quarter of 2011, average rents in Chicago increased by 2 percent from a year ago to \$1,086. The average rent nationwide also increased by 2 percent to \$1,064 during the same period.





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Trends in Mortgage Delinquencies and Foreclosures:

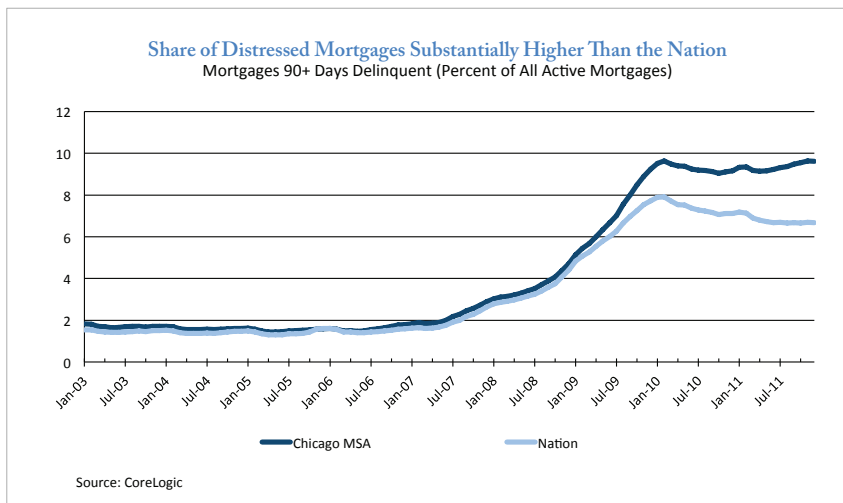
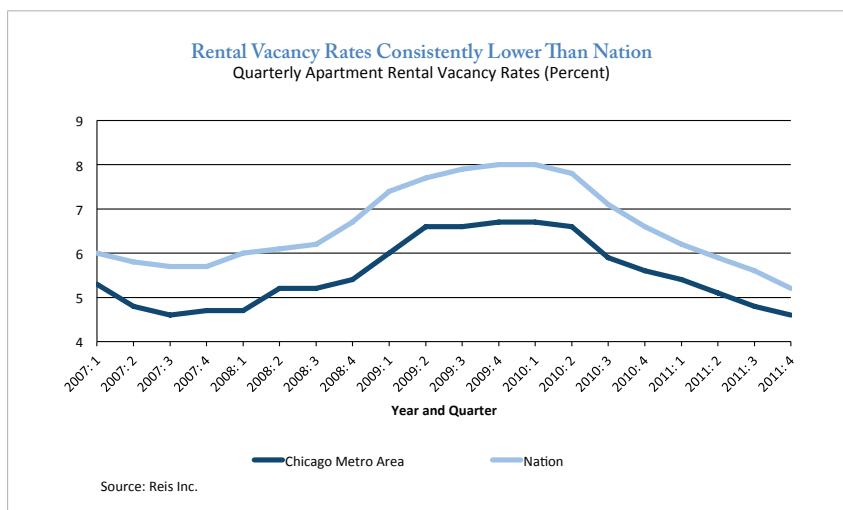
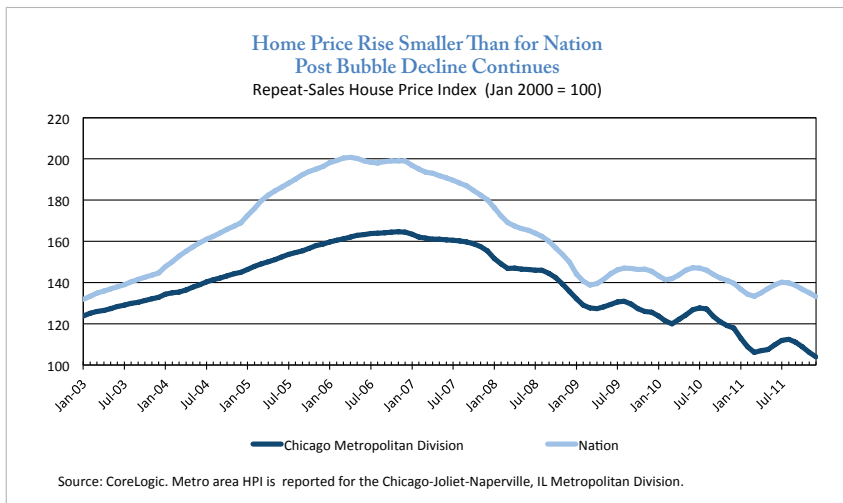
Chicago homeowners continue to struggle with some of the highest levels of mortgage delinquencies and foreclosures in the nation. As of January 2012, Chicago placed 28th out of 366 metropolitan areas ranked by share of mortgages at risk of foreclosure (90 or more days delinquent or in the foreclosure process) according to LPS Applied Analytics. LPS data also show that Chicago area mortgages at risk of foreclosure increased by 1.5 percent during the past year, from 125,400 in January 2011 to 127,300 in January 2012, compared with a national decline of 10.4 percent during the same period. CoreLogic data show that the rate of mortgages at risk of foreclosure in Chicago since 2006 has been consistently higher than in the nation, with a sharp spike upward in 2009. Realty Trac data also show that foreclosure starts increased abruptly (47 percent) in the Chicago MSA in 2007 and 2008, when single-family foreclosures were largely driven by unaffordable loan products. Beginning in 2009, foreclosures were increasingly triggered by loss of income, unemployment, and strategic defaults, according to the Federal Reserve Bank of Chicago.

Although the foreclosure rate in Chicago remains higher than in the nation overall, it has improved. According to Realty Trac, foreclosure completions in Chicago declined from 45,555 during 2010 to 36,043 for 2011, although lender process reviews continue to affect foreclosure completions locally and nationally. A major issue of concern, however, is the relatively high concentration of distressed mortgages in many of Chicago's neighborhoods. CoreLogic data show that almost one-fourth of mortgage loans in Chicago are in neighborhoods where the share of distressed mortgages is more than twice the national rate. These hardest hit areas are also experiencing high levels of residential vacancies, underwater mortgages, and home price declines. In an effort to stabilize these neighborhoods, numerous programs sponsored by state and local entities in partnership with the federal government are currently underway. CoreLogic reports that 25 percent of mortgages in the Chicago MSA are currently underwater – compared to 23 percent nationally - representing additional homeowners and loans potentially at risk.

The share of distressed mortgages in Chicago is currently at 9.6 percent, matching its February 2010 peak level; in contrast, national rates have declined from a high of 7.9 percent in February 2010 to 6.7 percent currently. A partial explanation for Chicago's higher share of mortgages at risk of foreclosure is the time it takes to complete a foreclosure in Illinois. According to Realty Trac, the average foreclosure processing time in Illinois, which uses the judicial foreclosure process, was 575 days in the fourth quarter of 2011 (fourth longest among states) while the national rate was 348 days.

Foreclosure Completion Rates in the Chicago MSA				
Area	Fourth Quarter 2011		Since April 1, 2009	
	Foreclosure Completions	Foreclosure Rate	Foreclosure Completions	Foreclosure Rate
Chicago MSA	9,400	0.2%	111,900	2.9%
Nation	175,800	0.1%	2,574,400	2.0%

Note: Foreclosure Rates as Percent of All Housing Units;
Data through January 2011 for Foreclosures since April 2009
Source: Realty Trac and Census Bureau





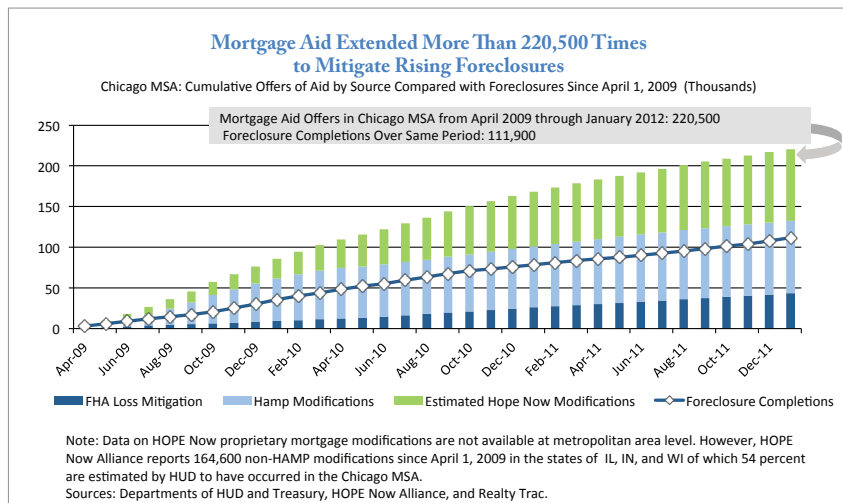
The Administration's Efforts to Stabilize the Chicago Housing Market:

From the launch of the Administration's assistance programs in April 2009 through the end of January 2011, more than 220,500 mortgage assistance interventions have been offered to homeowners in the Chicago metropolitan area. More than 132,500 interventions were offered through the Home Affordable Modification Program (HAMP) and the Federal Housing Administration (FHA) loss mitigation and early delinquency intervention programs. An estimated additional 88,000 proprietary mortgage modifications have been offered through HOPE Now Alliance servicers. While some homeowners may have received help from more than one program, the number of times assistance has been offered in the Chicago MSA is nearly double the number of foreclosures completed during this period (111,900). In addition to offers of mortgage aid to homeowners, the Administration's Neighborhood Stabilization Program (NSP) and Hardest Hit Fund have helped to stabilize the Chicago housing market.

Given over three rounds, the **Neighborhood Stabilization Program** has invested \$7 billion nationwide to help localities work with non-profits and community development corporations to turn tens of thousands of abandoned and foreclosed homes that lower property values into homeownership opportunities and the affordable rental housing that communities need.

NSP1 funds were granted to all states and selected local governments on a formula basis under Division B, Title III of the Housing and Economic Recovery Act (HERA) of 2008; NSP2 funds authorized under the American Recovery and Reinvestment Act (the Recovery Act) of 2009 provided grants to states, local governments, nonprofits and a consortium of nonprofit entities on a competitive

Chicago MSA NSP Activity (Housing Units)	Projected	Completed
NSP1 Total	865	248
Construction of new housing	2	1
Homeownership assistance to low- and moderate-income	33	56
Rehabilitation/reconstruction of residential structures	830	191
NSP2 Total	864	0
Construction of new housing	30	0
Rehabilitation/reconstruction of residential structures	834	0
NSP3 Total	94	0
Rehabilitation/reconstruction of residential structures	94	0



basis; and NSP3 funds authorized under the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 provided neighborhood stabilization grants to all states and select governments on a formula basis.

In addition to stabilizing neighborhoods and providing affordable housing, NSP funds have helped save jobs. Each home purchased, rehabilitated and sold through the NSP program is the result of the efforts of 35 to 50 local employees.

Overall, a total of \$264.9 million has been awarded to twelve grantees in the Chicago MSA: the cities of Chicago, Elgin, Gary, and Evanston; the counties of Cook, DuPage, Kane, McHenry, Will, Lake County, IL, and Lake County, IN. Eleven government jurisdictions received a total of \$119.3 million in NSP1 funds, two received \$116.1 million in total NSP2 funds, and five received \$29.5 million in total NSP3 funds. Approximately 248 households have already benefited from NSP, and activities funded by the program are expected to provide assistance to an additional 1,823 owner and renter households. Examples of how these funds have been put to use are provided below.

- The **City of Chicago's** NSP strategy has been to invest in strategically chosen neighborhoods with additional investment support from local and national partners. The city has formed a unique partnership with Mercy Portfolio Services (MPS), a major non-profit housing agency, to invest its NSP1 funds of \$55.2 million through an extensive network of more than 50 competitively selected developers and non-profit neighborhood entities. MPS has experienced management staff and protocols established for quickly purchasing and rehabilitating units to halt neighborhood deterioration. Mercy has been successful at acquiring and renovating both single-family and multifamily units in the city's NSP1 target areas.
- With NSP2 funds of \$98.0 million, the **City of Chicago** has tailored programs to the local conditions of three neighborhood types to reverse the decline caused by foreclosed and abandoned homes: a) communities prone to growth and quick recovery, b) communities that can be stabilized around targeted investment areas, and c) communities requiring consolidation to reduce the negative impacts of blighted structures. The city's goal is to reverse the decline in home sales, lock in housing affordability for buyers and renters, and support local economic development and job growth. The City of Chicago is a national innovator in both the scale and intensity of this type of targeting.



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- Under NSP3, the **City of Chicago** has targeted areas where a modest investment can have a significant impact and act as a market stimulus. The program has invested in such areas throughout the city, focusing on communities that have high shares of REO properties (foreclosed properties still owned by banks). With an NSP3 grant of \$16.0 million, the program is turning vacant multifamily properties into very-low income rental housing and acquiring and demolishing homes that impose safety and health hazards. These latter properties have been land banked for future redevelopment. All of the NSP3 activities will provide much-needed affordable housing, eliminate blight, and put neighborhoods on a path to stabilization.
- The **City of Elgin** was awarded \$2.2 million in NSP1 funds. A portion of these funds have been used to rehabilitate 5 single-family homes and the city is working with Habitat for Humanity of the Northern Fox Valley to complete four additional homes. These homes are both affordable and in close proximity to such resources as the Hemmens Cultural Center, Gail Borden Public Library, and commuter rail lines.
- **Lake County, IL** was awarded \$4.6 million under NSP1 and \$1.4 million under NSP3. Single-family foreclosed properties in the Waukegan, Round Lake, Round Lake Beach, and Mundelein areas of Lake County, have been purchased and rehabilitated with part of these NSP funds. In all of these areas, the foreclosed properties had lowered property values and increased rates of vandalism and crime.
- In **Will County**, a portion of the county's \$5.2 million NSP1 grant has gone towards a program designed to minimize risk to the county by finding a buyer before a foreclosed or abandoned home is purchased and rehabilitated. The success of this program has been set in motion by the partnerships the county has developed with construction and insurance companies, realtors, and housing counselors.

As part of the State of Illinois' housing recovery efforts, the **Illinois Hardest Hit Fund** program was launched in July 2011 to help Illinois homeowners who have experienced a substantial decrease in income due to job loss or underemployment, by providing a mortgage payment bridge while they seek new or better employment. The Illinois Hardest Hit Fund program is funded by a grant of more than \$400 million from the Administration's **Hardest Hit Fund** and administered by the Illinois Housing Development Authority (IHDA).

Assistance is provided primarily through the **Homeowner Emergency Loan Program (HELP)**, which provides up to 18 months of payments (with a cap of \$20,000 to \$25,000) to the mortgage lender to assist unemployed and underemployed borrowers with their first mortgage until they can resume full payments on their own. Homeowners who have recently become reemployed after a stretch of unemployment may also be eligible for assistance to cure arrearages.

Homeowners must meet all eligibility requirements to be considered for the program. Homeowners experiencing a reduction in household income must have a documented hardship due to unemployment or underemployment through no fault of their own. The homeowner's household income is reviewed to determine the level of assistance needed and the minimum mortgage payment that may be contributed by the borrower. Eligible homeowners close on a zero percent interest rate subordinate loan similar to a home equity line of credit. The loan term is for ten years, and the loan will be forgiven at a rate of 20 percent per year over the final five years.

To date, 188 mortgage servicers have agreed to participate in the Illinois Hardest-Hit Fund programs. Illinois homeowners who believe they may be eligible for these programs should visit www.illinoishardesthit.org. Additionally, homeowners seeking additional assistance with their mortgage can visit the website of the Illinois Foreclosure Prevention Network at www.keepyourhomeillinois.org.

IHDA is also offering assistance through the **Mortgage Resolution Fund (MRF)**, which uses funds from the Hardest Hit Fund to purchase delinquent loans in the Chicago area and modify those loans to affordable levels. The MRF is operated by Mercy Portfolio Services, a subsidiary of the national nonprofit organization Mercy Housing, in partnership with Enterprise Community Partners, the Housing Partnership Network and the National Community Stabilization Trust. This program does not take applications, and homeowners whose mortgages qualify for MRF will be contacted by IHDA or the partners listed above.