2007

Legal Action of Wisconsin Report on Milwaukee's Housing Crisis, Foreclosure, Evictions, and Subprime Lending

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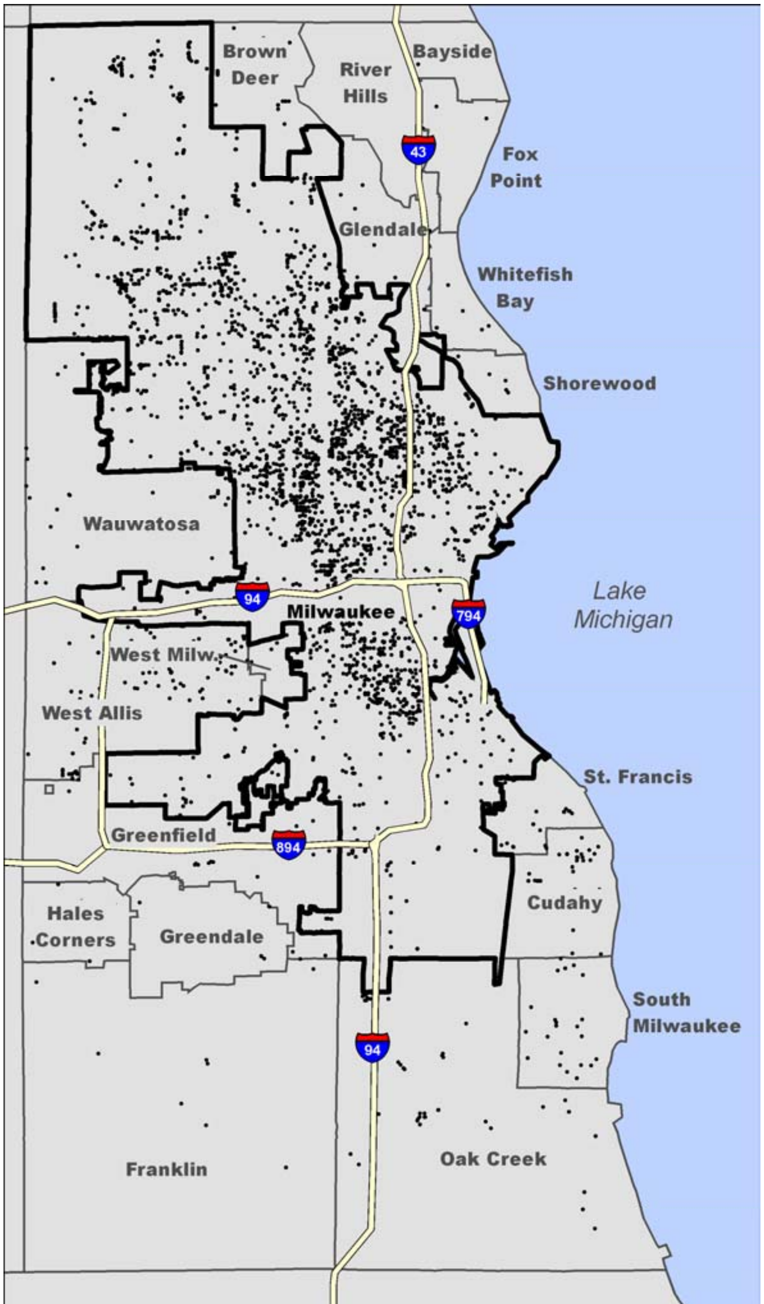

Evictions on file in Milwaukee County:
January 2006 - April 2007

Prepared by
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2007

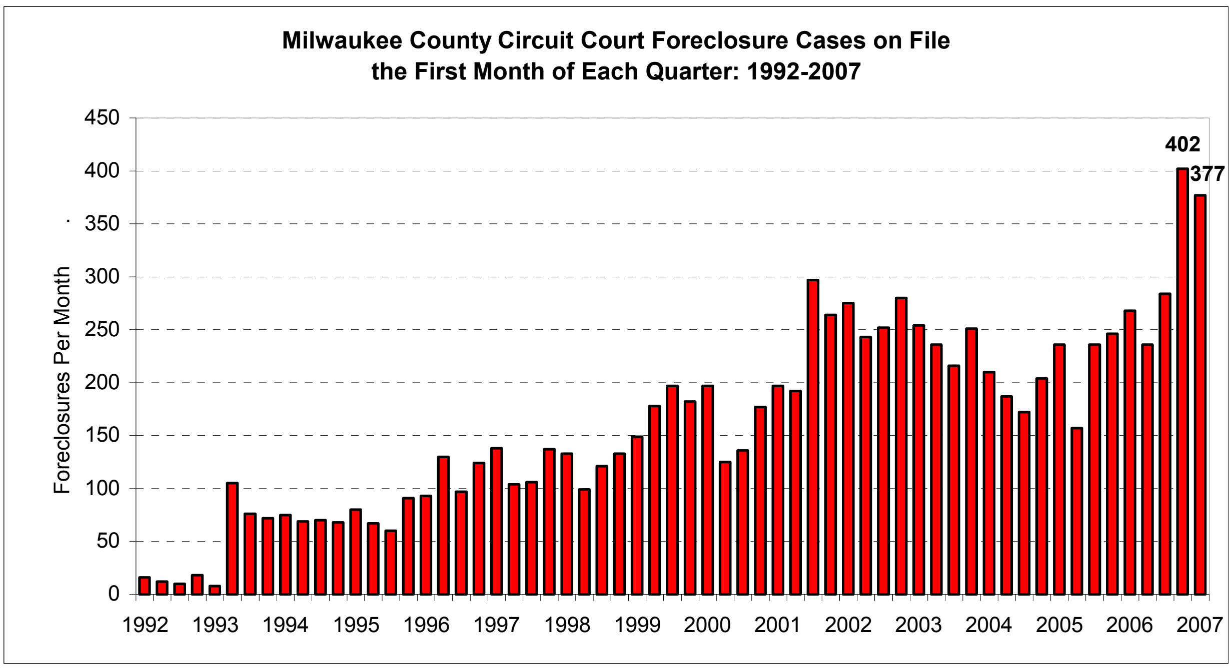
Legal Action of Wisconsin Report on Milwaukee's Housing Crisis: Foreclosures, Evictions, and Subprime Lending

by John Pawasarat and Lois M. Quinn, University of Wisconsin-Milwaukee Employment and Training Institute, 2007

This publication was prepared for Legal Action of Wisconsin to identify low-income populations with housing legal needs related to evictions, foreclosures, and mortgage lending practices in low-income households throughout Milwaukee County.

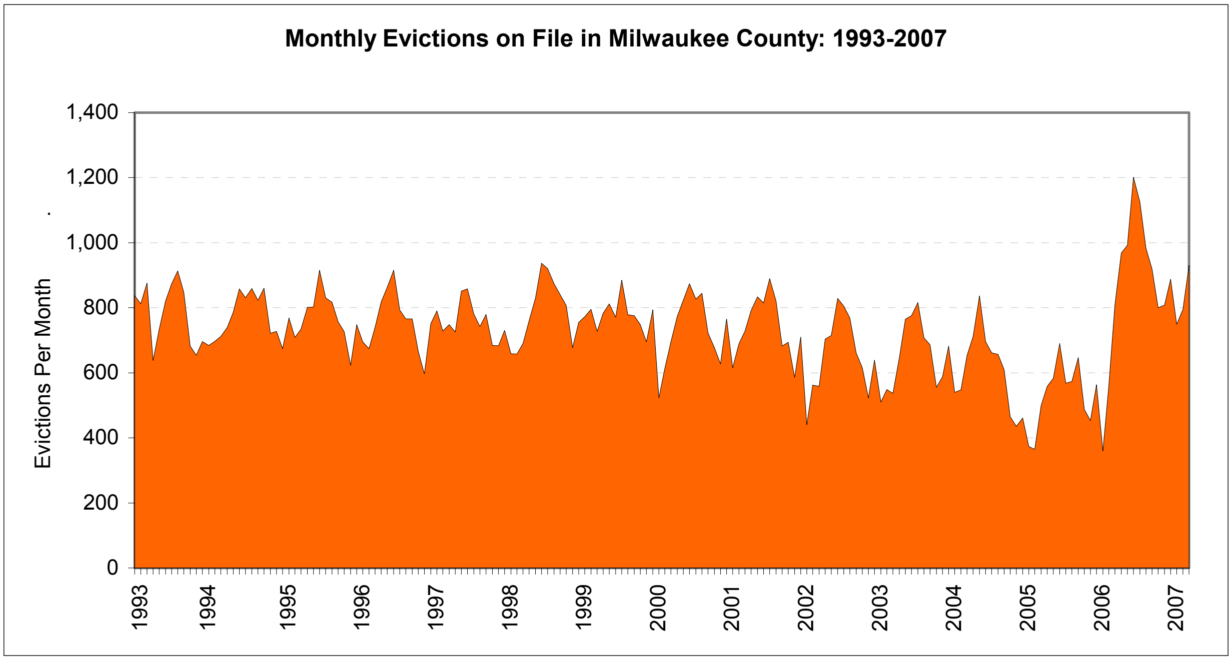
Summary of Findings

1. In the last few months foreclosure cases filed with the Milwaukee County circuit courts have risen to all-time highs, directly tied to increased mortgage lending activity to low-income households.



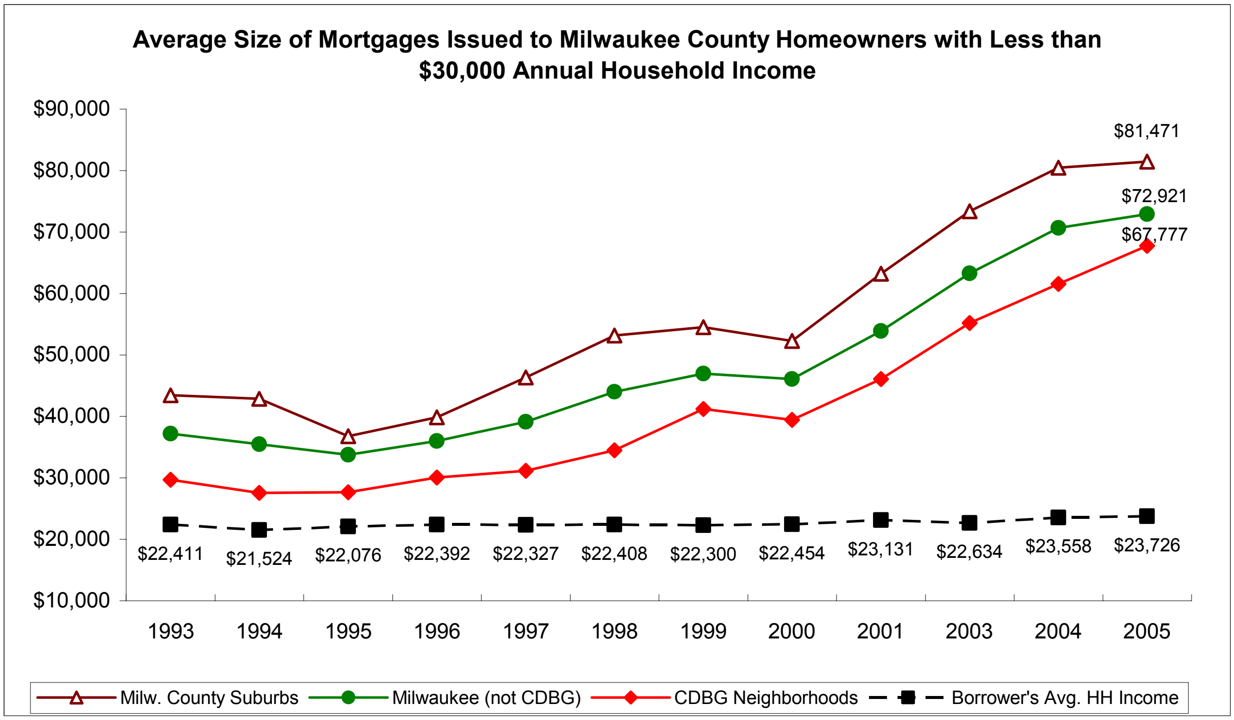
2. Foreclosure cases reaching the Milwaukee County Sheriff's Office for auction sales have also shown dramatic increases and in the last five years averaged 143 per month, peaking at an all-time high of 229 in January 2007.

3. Eviction cases filed with the Milwaukee County small claims court have increased to an all-time high during the past year. While many evictions are for failure to pay rent, foreclosure-related evictions make up an increasing share of eviction cases and are well above the levels reported in prior years.

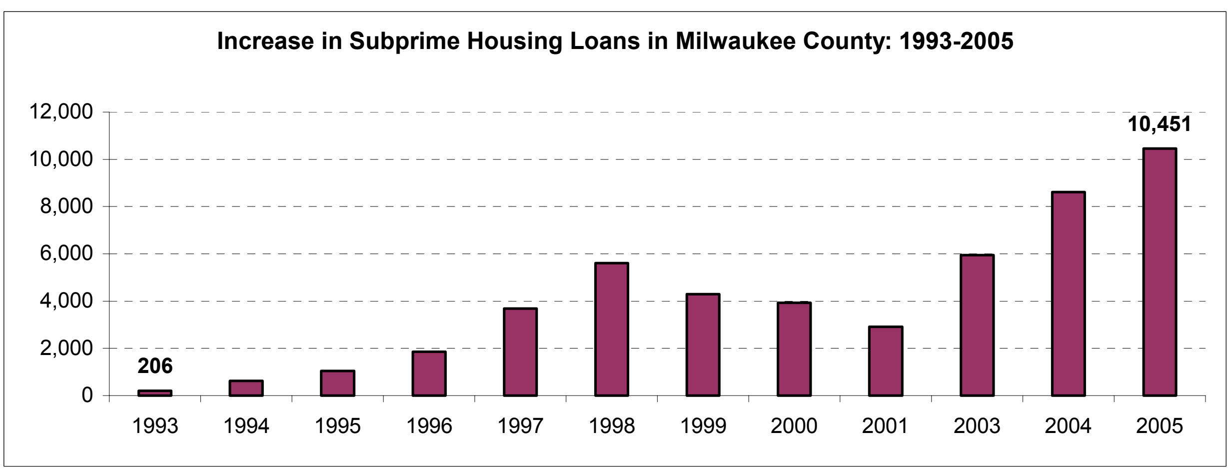


4. The most troubling of the mortgage lending trends is the large volume of loans (47,630) issued since 1993 to low-income families throughout Milwaukee County with household incomes below $30,000. During the last three years of data (2003 through 2005), 11,459 mortgage loans (26% subprime loans and 74% regular loans) were issued to households with less than $30,000 in income and for unparalleled amounts of mortgages. About half (45%) of these mortgages were made to home buyers in the CDBG neighborhoods.

5. The average amount of loans taken out by low-income households throughout the county in 2003-2005 have sky-rocketed to levels that are often four times the average mortgage loans during the 1993-2000 period and well above the ability of households to pay, particularly given adjustable rate mortgages (ARMs) with balloon payment requirements after the first 2-3 years. Many households with these loans are now in imminent danger of foreclosure as their ARM payment increases have kicked in since origination of their loans.



6. Subprime housing loans in Milwaukee County have risen from 206 mortgages totaling $7.7 million in 1993 to 10,451 subprime mortgages totaling over $1 billion in 2005, the last year reported. Subprime loans, which are largely unregulated, are typically made to individuals with poor credit histories, offer less favorable terms of repayment (often with low initial interest rates, so-called "teaser loans," escalating into higher payment schedules 2-3 years after the mortgage is issued), may involve high fees and prepayment penalties, often do not escrow accounts for property taxes and insurance, and may not verify the income and capability of the borrower to meet the mortgage payments.



7. While most of the foreclosure activity is concentrated in the poorest neighborhoods, subprime lending activity is taking place throughout the county, with 37% of recent subprime loans issued in the central city CDBG (Community Development Block Grant) neighborhoods, 37% in the rest of the City of Milwaukee, and 26% in the Milwaukee County suburbs.

8. Artificially high housing assessments have been driven by home sales in the city's poorest neighborhood (zipcode 53206), which have risen from less than a handful a month to a very high volume of sales in the last 3 years. In addition, average housing sale prices have risen dramatically, almost doubling in 53206 since 2001, likely driven by unprecedented loan activity.

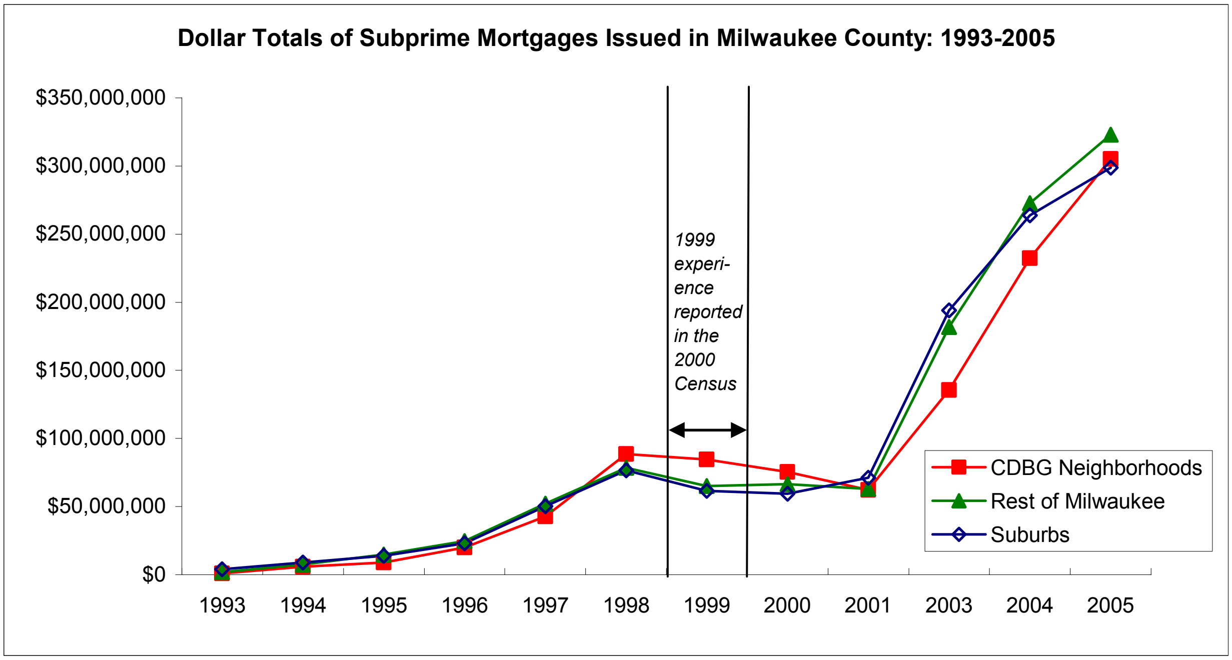
9. In Milwaukee's poorest neighborhoods property tax levies have increased disproportionately due to the dramatic increase in city housing assessments due to increased mortgage lending activity. While all areas of the city show housing price increases, the disproportionately high increases in property assessments in the CDBG neighborhoods (9 innercity zipcode areas) drove up property tax bills by 62% on average for duplexes and 50% for four-bedroom houses from 2000 to 2006.

<u>**Findings on the Households Most Affected**</u>

10. Most at risk of housing evictions and mortgage foreclosures are an estimated 56,752 Milwaukee County residents (including 18,367 children) living in households spending excessive amounts on their housing costs. According to data collected for the 2000 Census, these residents spent 70% or more of their household income (more than twice the 30% level recommended by the U.S. Department of Housing and Urban Development, HUD) on housing costs. Most of these residents are renters (42,450) with very low household income levels. These residents have since faced escalating costs for utilities and any rent increases which may have taken place since 2000.

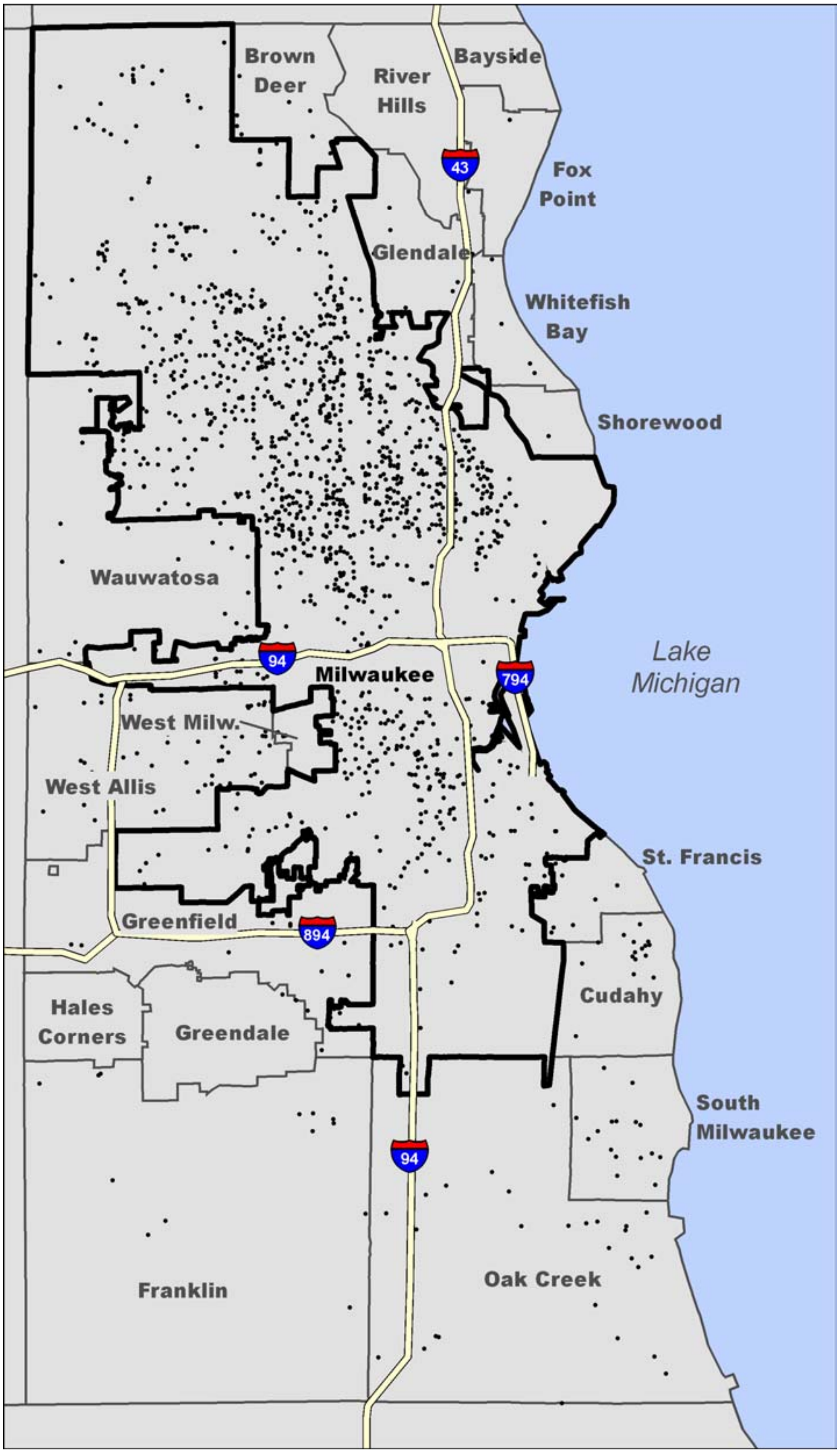
11. There is another estimated population of 14,302 county residents who live in homes they own and who were spending at least 70% of their income on housing costs (including mortgage payments, property taxes, utilities, insurance) at the time of the 2000 Census. These residents are mostly white, older, and with very low incomes. They have seen their home equity rise dramatically in market value since 2000 while these mostly fixed-income households have faced increased property taxes and utility costs.

12. By 2000, the first surge in subprime lending during the 1995-1999 period was clearly in evidence. Two-thirds of homeowners paying 70% or more of their income for housing costs had taken advantage of their increased home equity by securing a second mortgage or a home equity loan.

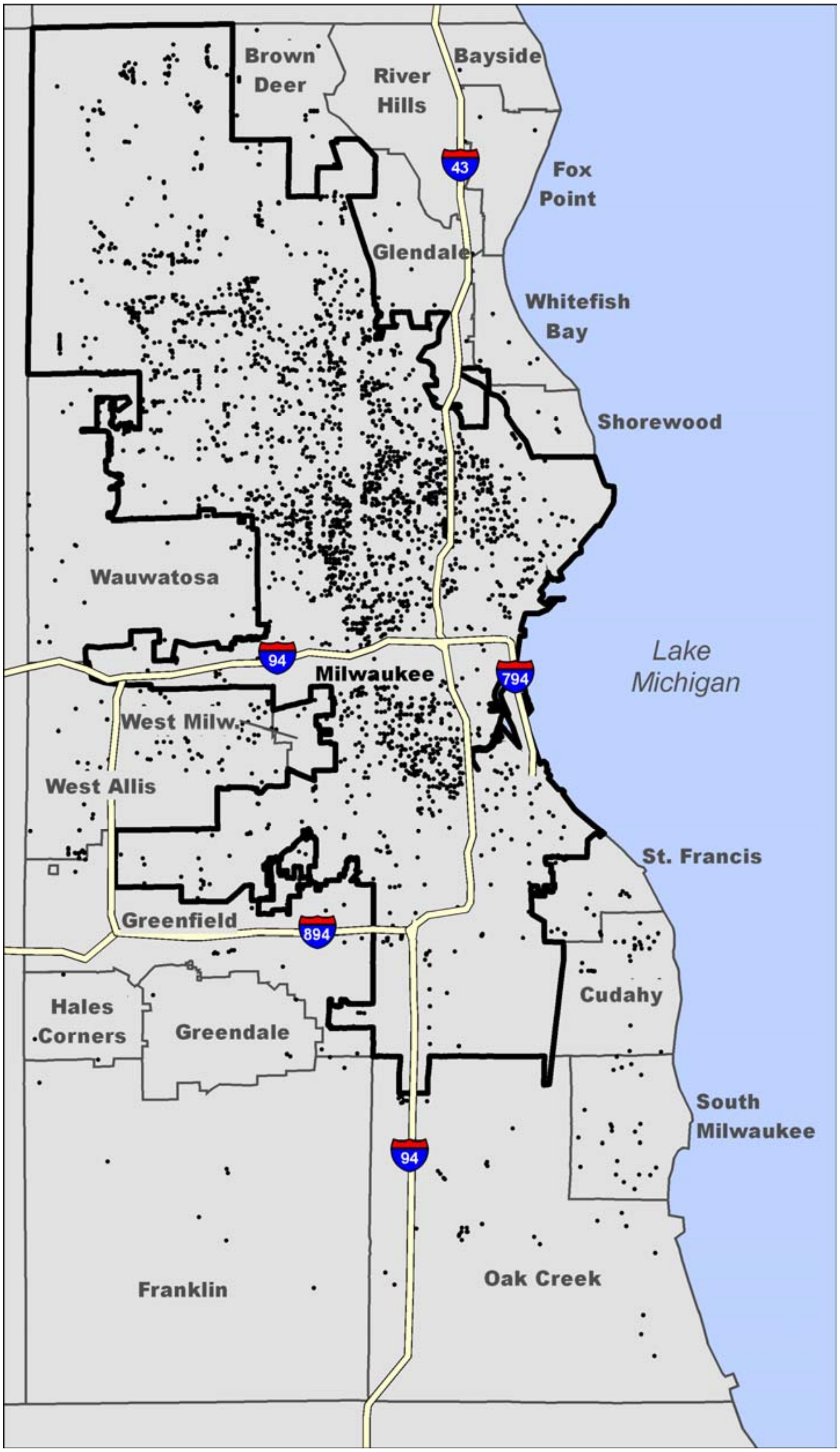


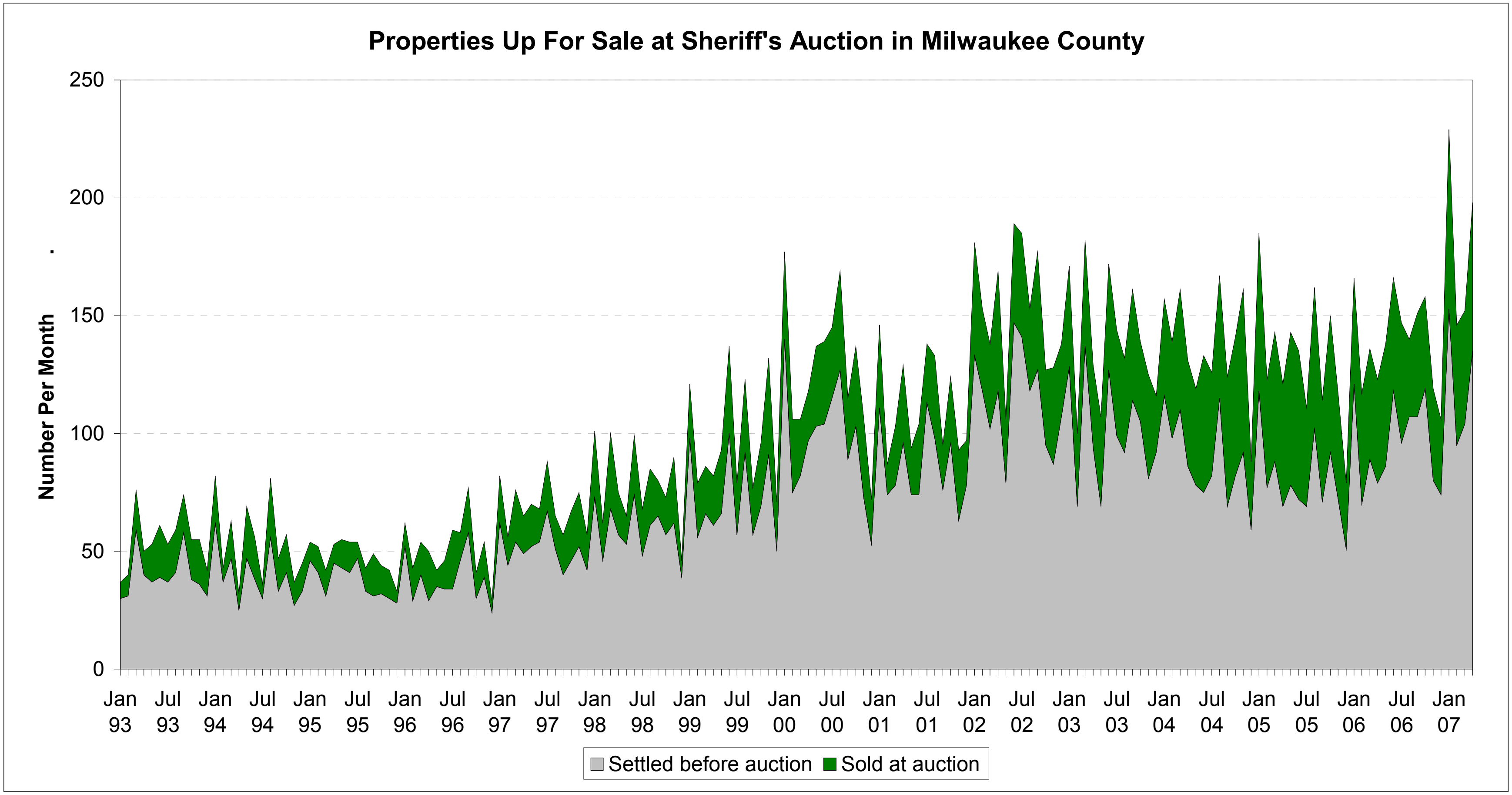
13. If anything, the costs of homeownership have risen significantly since 2000 due to the high volume of subprime mortgages targeted to the poorest populations throughout Milwaukee County, the dramatic increases in the amounts of mortgages, rising utility costs, and rising property tax bills. Further increases in high-risk mortgages are fueled by unbelievable property assessments in the poorest city neighborhoods based on the growing volume of mortgage activity in neighborhoods which had previously shown only modest sales activity.

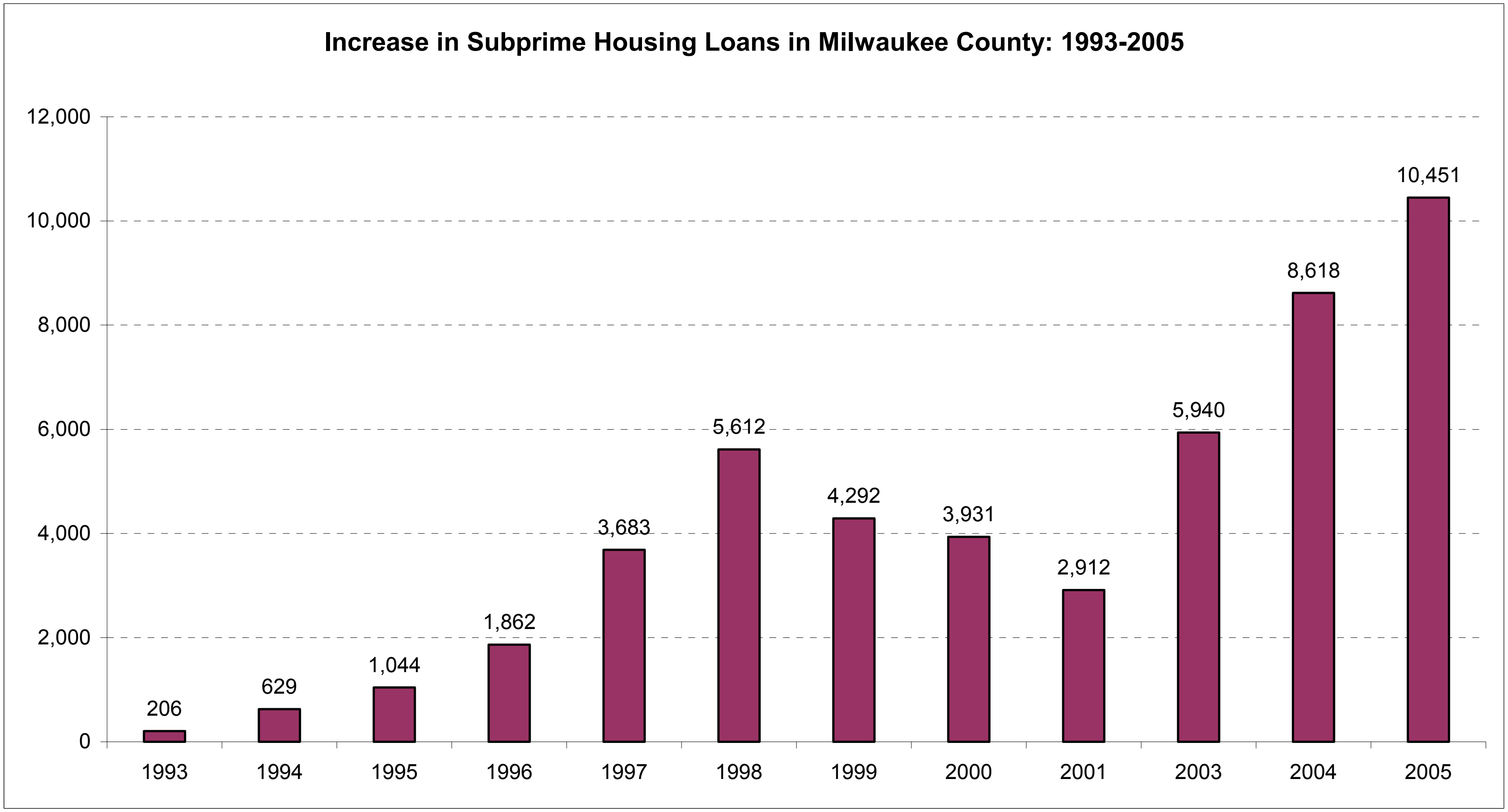
Foreclosure Cases on File with Milwaukee County Circuit Courts: January 2006-April 2007

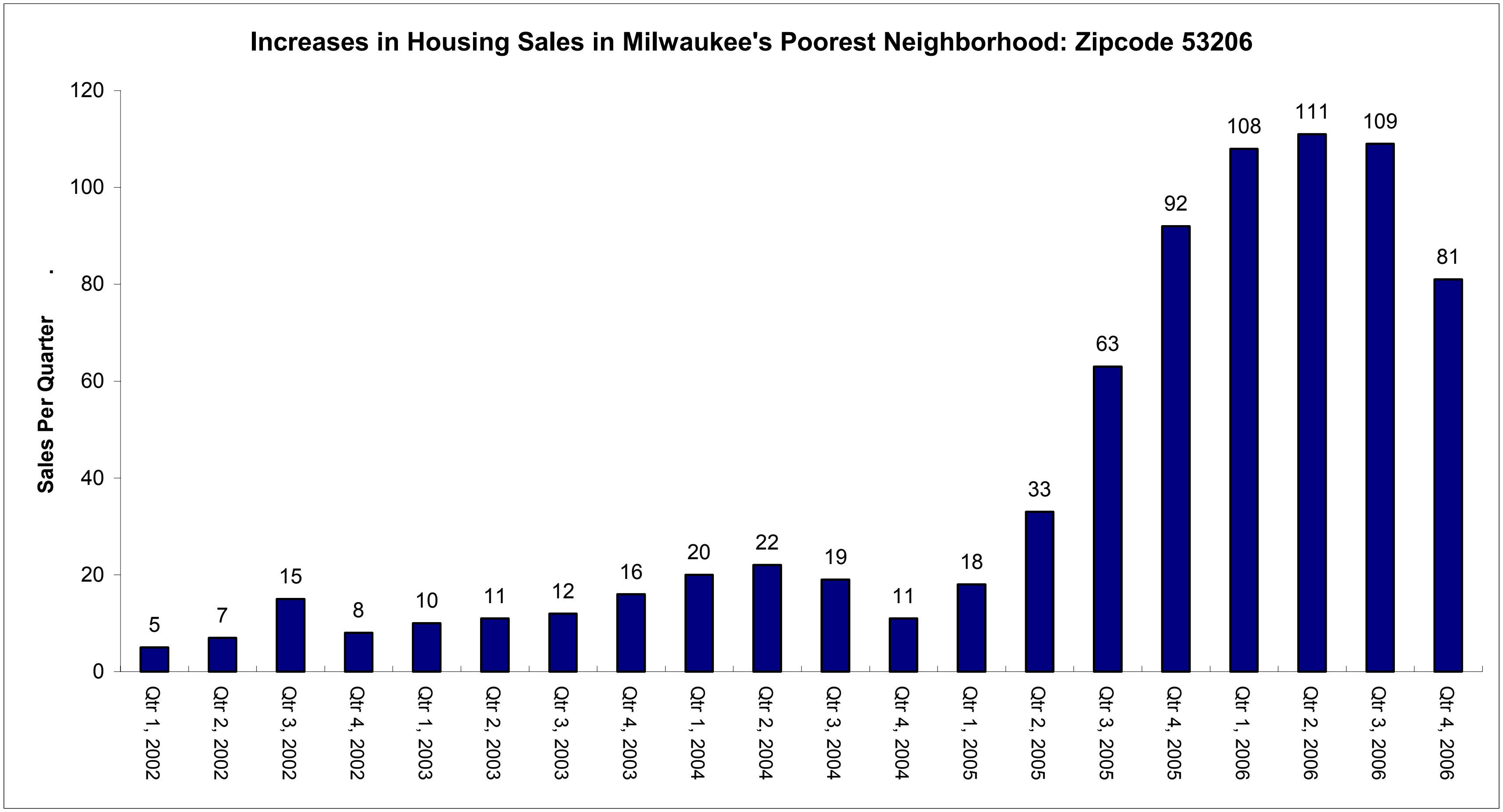


Evictions on File in Milwaukee County: January 2006 to April 2007




Properties Up For Sale at Sheriff's Auction in Milwaukee County
Number Per Month
0
50
100
150
200
250
Jan 93
Jul 93
Jan 94
Jul 94
Jan 95
Jul 95
Jan 96
Jul 96
Jan 97
Jul 97
Jan 98
Jul 98
Jan 99
Jul 99
Jan 00
Jul 00
Jan 01
Jul 01
Jan 02
Jul 02
Jan 03
Jul 03
Jan 04
Jul 04
Jan 05
Jul 05
Jan 06
Jul 06
Jan 07
Settled before auction
Sold at auction


Increase in Subprime Housing Loans in Milwaukee County: 1993-2005
12,000
10,000
8,000
6,000
4,000
2,000
0
206
629
1,044
1,862
3,683
5,612
4,292
3,931
2,912
5,940
8,618
10,451
1993
1994
1995
1996
1997
1998
1999
2000
2001
2003
2004
2005


Increases in Housing Sales in Milwaukee's Poorest Neighborhood: Zipcode 53206
Sales Per Quarter
120
100
80
60
40
20
0
5
7
15
8
10
11
12
16
20
22
19
11
18
33
63
92
108
111
109
81
Qtr 1, 2002
Qtr 2, 2002
Qtr 3, 2002
Qtr 4, 2002
Qtr 1, 2003
Qtr 2, 2003
Qtr 3, 2003
Qtr 4, 2003
Qtr 1, 2004
Qtr 2, 2004
Qtr 3, 2004
Qtr 4, 2004
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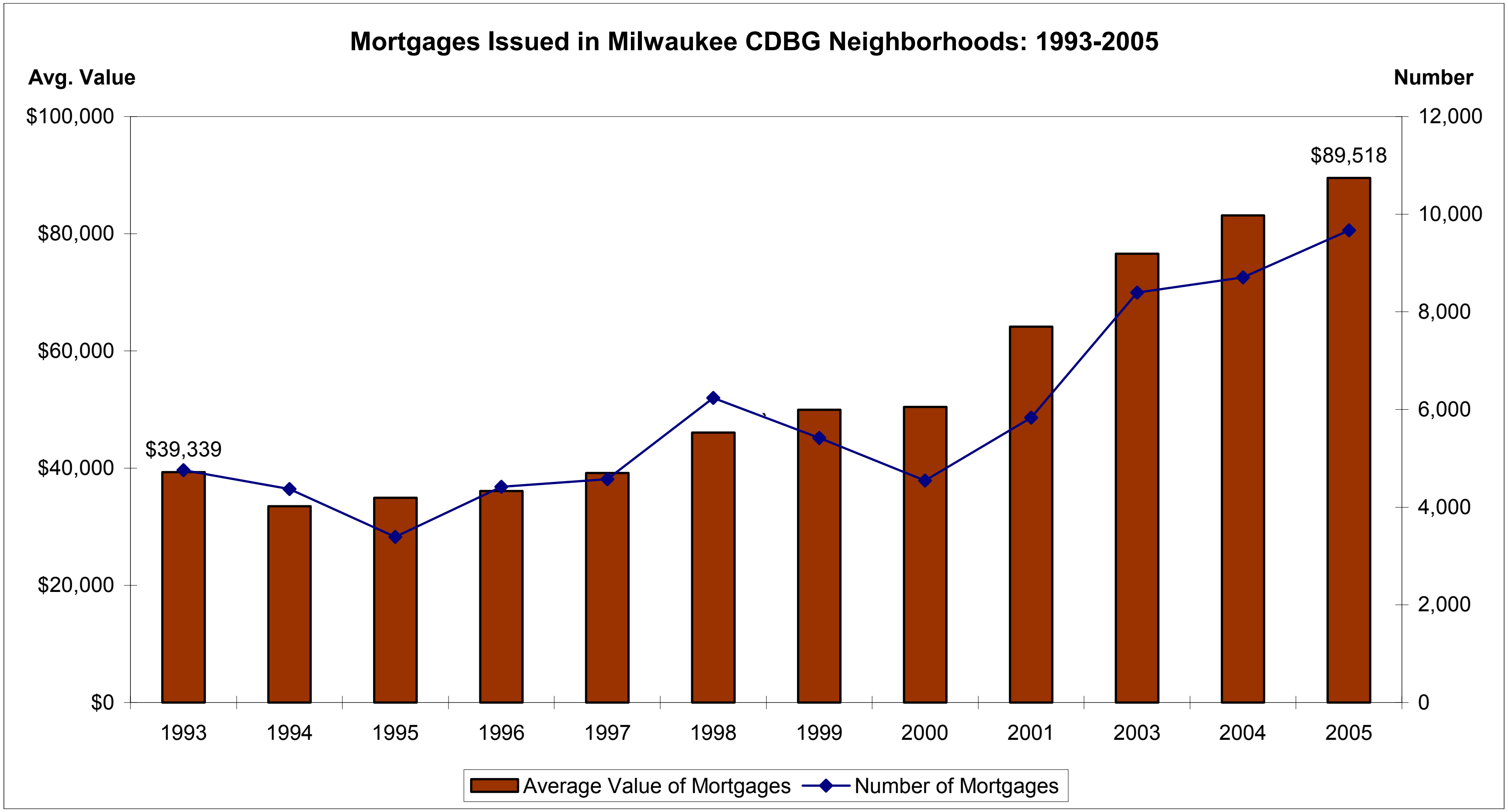
Qtr 3, 2006
Qtr 4, 2006



Mortgages Issued in Milwaukee CDBG Neighborhoods: 1993-2005
Avg. Value
Number
$100,000
$80,000
$60,000
$40,000
$20,000
$0
12,000
10,000
8,000
6,000
4,000
2,000
0
$39,339
$89,518
1993
1994
1995
1996
1997
1998
1999
2000
2001
2003
2004
2005
Average Value of Mortgages
Number of Mortgages

Profile of Milwaukee County Residents Most At Risk of Foreclosures, Evictions and Subprime Lending

One measure of the severity of Milwaukee County's housing crisis is the number of households spending 70% or more of their income on housing related costs (e.g., mortgage, rent, utilities, property taxes, insurance) at the time of the 2000 Census. Detailed Census data from Milwaukee County shows that an estimated 56,752 county residents living in 25,636 households were spending 70% or more (well over twice the HUD-recommended 30% level of household income) on their housing costs.

Renters Paying 70% or More for Housing Costs

Most of the financially at-risk are 42,450 residents (18,549 households) living in rental units. These renters show **very** low incomes (82% had incomes of less than $10,000 per year), and include 18,367 of Milwaukee County children (73% African American) living at the lowest poverty levels. While these households are heavily concentrated in the City's poorest neighborhoods, 21% live in the suburbs and consist mostly of households with no children (78%) and elderly persons (45% are aged 60 or above, 48% are aged 55 or above).

Homeowners Paying 70% of More for Housing Costs

There is also a population of 14,302 Milwaukee County residents living in 7,087 households which are homeowners but at financial risk with housing related costs at or above 70% of their income. This population is majority white (69%), and 38% of these households live in Milwaukee County suburbs (with 25% in the southern and western suburbs and 12% in the northern portion of the county).

Almost half of these households are older adults (47% are aged 55 or over, 41% are 65 or older). Most have high housing values: 39% of these older households had a house value in 2000 of over $100,000, 20% reported values of $80,000 - 99,999; and 15% reported values of $50,000 – 79,999. One third (33%) own their home free and clear (but still are incurring housing costs exceeding 70% of their income). However, most of the rest (64%) had a 2nd mortgage or home equity loan. Most of these households had very low incomes (56% had incomes below $10,000, and 88% had incomes below $20,000).

The financially at-risk homeowners under age 55 are majority white (61% are white, 31% are African American), more likely to have a mortgage (88%), including 42% who also have a second mortgage or home equity loan. Most of their housing values are relatively high (44% reported homes worth $100,000 or above in 2000), 20% reported housing values of $80,000-99,999, and 23% reported values of $50,000 – 79,999. At the same time, their household incomes are very low with 49% reporting income below $10,000 and 81% reporting household incomes below $20,000.

Overall, African Americans in this population (homeowners paying more than 70% of their income on housing) own homes in poorer neighborhoods, with only 11% of their houses valued at over $100,000 while 54% of whites own homes worth $100,000 or more. Significantly, 42% of African American households are single parents and 45% are older non-family households. Most (69%) had household incomes below $10,000 and 97% had incomes below $20,000. Whites in this population (homeowners paying more than 70% of their income on housing) appear somewhat better off with 47% reporting income below $10,000, 79% with income of $20,000 or more, and 92% of income of at least $30,000. For whites, 20% were single parent families and 56% were in non-family households.

I. Data Sources

This publication examines foreclosure and eviction data from the Milwaukee County Sheriff's Office and the Circuit Courts (1992-2007), property assessments from the City of Milwaukee Assessor's Office (1993-2006) and recent property sales, and 59,652 subprime and high interest mortgage loans issued in Milwaukee County (1993-2005) according to Home Mortgage Disclosure Act (HDMA) records. Detailed 2000 Census data is reviewed for the estimated 61,880 Milwaukee households with income below 200% of poverty to assess home ownership and rental patterns prior to the most recent escalation of subprime lending. The Census data identifies the high portion of household income that many Milwaukee families were spending on housing costs before the latest energy crisis drove up heating and utility costs and before the unbelievable 2000 to 2006 rise in City property assessments. Two (overlapping) populations are examined in detail: (1) financially high-risk Milwaukee County households that spend excessive amounts -- 70% or more of their income or more -- on housing (summarized on pages 4-5 and page 12), and (2) all poor City of Milwaukee households, that is, households with income below 200% of the federal poverty standard (summarized on pages 14-20 below). The 2000 Census benchmark data is updated with the most recent state Department of Revenue income tax filing data (2006 filings of 2005 income) to assess employment earnings for individuals and families in the central city neighborhoods targeted by the subprime lending companies since 2000.

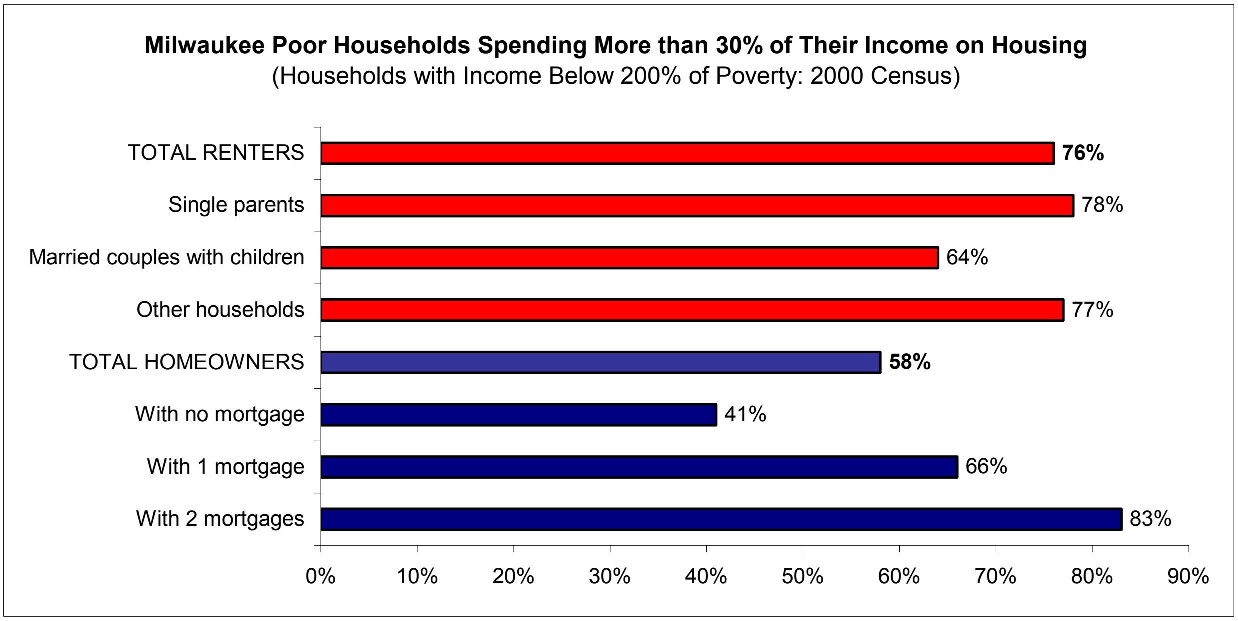
II. Home Ownership Patterns Among City of Milwaukee Poor Households

The low-income working poor and elderly or disabled are most at risk of foreclosures and evictions as property assessments and taxes show dramatic increases. According to the 2000 Census data collected from City of Milwaukee residents, 19,358 poor households in the City of Milwaukee (with income below 200% of poverty) are homeowners.

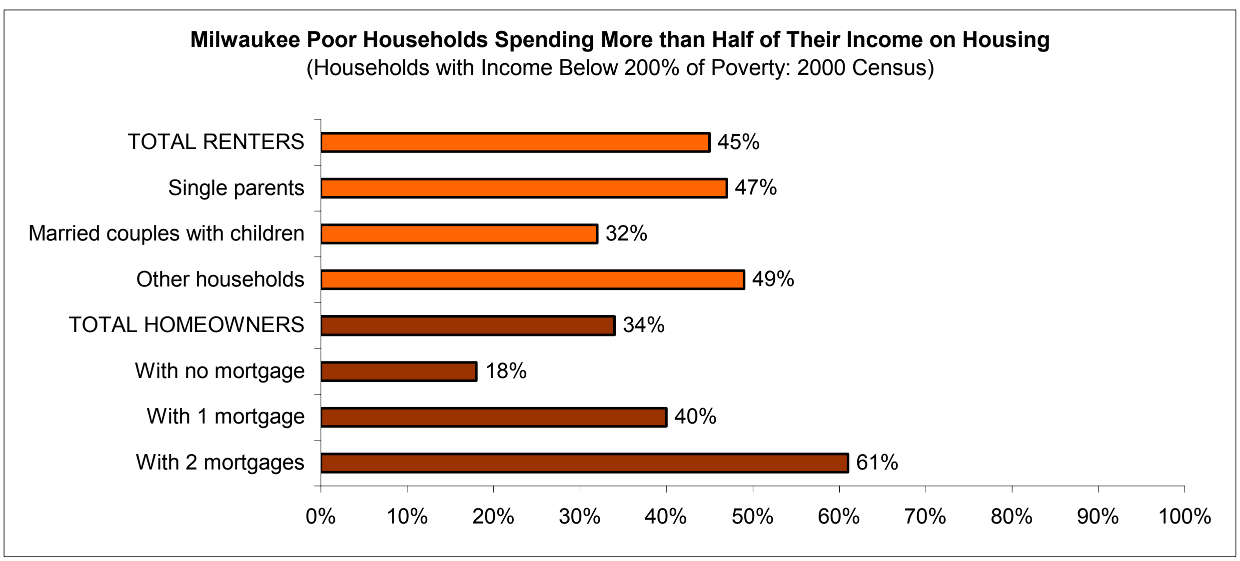
- Elderly made up 51% of these 19,358 households, while the working poor accounted for 41% of the poor household home owners.

- Another estimated 42,552 poor households are renters. Of these 67% are working poor, and 18% are elderly or disabled. Most of the working families consist of single parents and 47% spend more than half of their income on housing related costs, while 78% spend more than 30% of their income on housing.

That lower-income Milwaukee households have a very difficult time meeting their housing costs is well documented by the 2000 Census, which reports the numbers of households renting, buying a home, or living in a home already purchased, along with the portion of household income spent on housing related costs. The analysis of poor households shows a majority spending well above the level recommended by the U.S. Department of Housing and Urban Development (i.e., no more than 30% of household income) for housing costs (including rent, mortgage, property taxes, utilities, insurance, etc.).



A sizeable minority of renters and homeowners were spending more than half of their household income on housing costs.

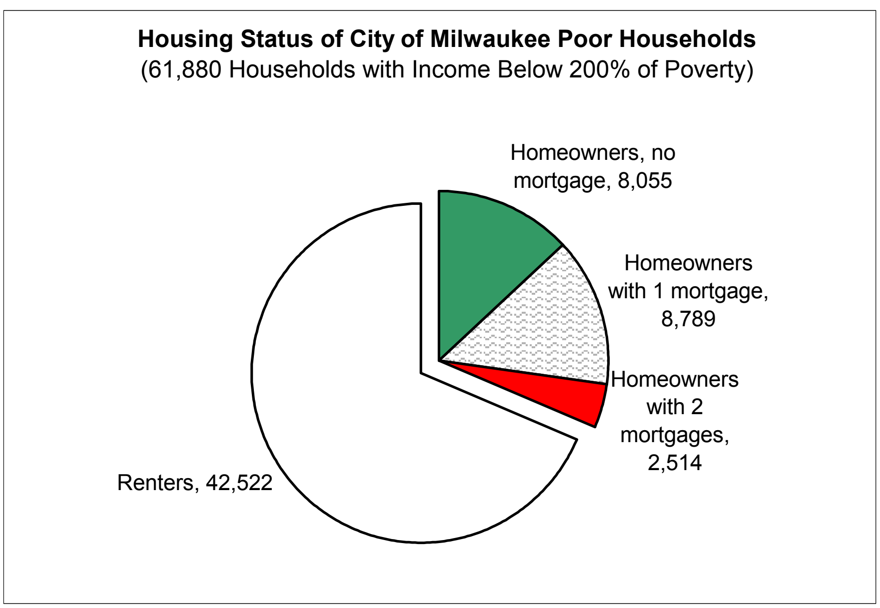


III. Milwaukee's Central City Residents Hit Hardest

While subprime lending is occurring throughout the county (and the state), many subprime lenders have targeted central city neighborhoods where property values skyrocketed making residents (and particularly homeowners) easy targets for high-risk lenders providing cash income to families lacking means to meet the adjustable payment schedules and those living on fixed or low incomes. The future of these neighborhoods is now tied to national stalls in housing values and concurrent financial problems of subprime lenders.

The Census 2000 special tabulation files for the PUMS (Public Use Microdata Sample) in the City of Milwaukee were used to help describe housing and income factors related to problems facing residents related to eviction or foreclosure activity. The Census files identify the housing status of households and detail housing expenditures for household renters and home owners. This analysis examines the housing and expenditure patterns for poor households, defined as households with income below 200% of poverty.

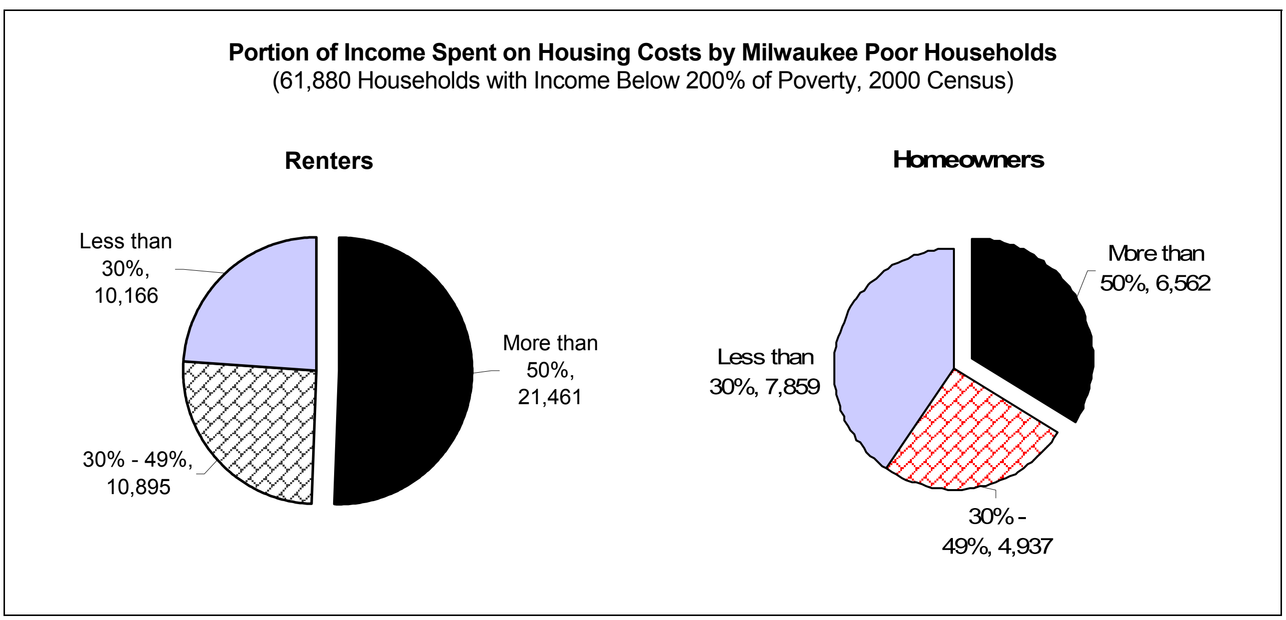
- A sizeable number of poor households live in houses which they own. While a majority (69%) of the 61,880 households in the City of Milwaukee with income below 200% of poverty in 2000 are renters (N=42,522 households), almost a third are home owners (N=19,358 households).



- The population of poor households who live in a house they own outright without a mortgage consist mostly of elderly persons on fixed incomes (80% are 60 and older). Likewise, 76% of those poor households with a mortgage are 60 or older.

- Historically, very low housing prices in Milwaukee's central city neighborhoods allowed many families to not only buy a house but to also own it without any remaining mortgage debt. (As recently as 1993, for example, the full value assessment of 3-bedroom houses averaged from $20,000 to $29,000 in Milwaukee zipcodes 53204, 53205, 53206 and 53233.) At the time of the 2000 Census, an estimated 8,055 poor households owned their homes free and clear without a mortgage. Another 8,789 households were homeowners with one mortgage, and 2,514 households had 2 mortgages on their homes.

The Census 2000 special data files PUMS offer an excellent baseline to assess the impact of the very high levels of subprime lending in the years just prior to the 2000 decennial census, when housing assessments in the City's poorest neighborhoods were still reasonably set at relatively low full value assessment levels. This 2000 data set shows a population already on the financial brink. Households on fixed incomes (who were already spending far too much on housing costs in 2000) have had their economic status put even further at risk in the years since, making them prey for subprime lenders offering an easy source of cash for their properties in the years since 2000. With assessment values doubling in the central city neighborhoods, mortgage lenders promised immediate economic relief. The predictions of ever increasing market values were reinforced by the almost unbelievable rise in full value property assessments in the last few years. This rise also contributed to further financial strains for home owners with increases in property tax bills coming at the same time that energy prices for gas and electricity were jumping substantially.



Signs of Trouble Even for Those Who Own Their Homes Free and Clear (N=8,055 Households)

- At the time of the 2000 Census a remarkable 42% of the 19,358 poor home owners in Milwaukee reported that they had no mortgage, clearly placing them at an economic advantage above new home buyers, those with existing mortgages, and renters.

- Most (58%) had purchased their home prior to 1970, while another 18% had purchased their home in the 1970s (from 1970 – 1979).

- In the 2000 Census, 11% of these homes were reported as worth more than $100,000, 44% were reported as worth $50,000 – 99,999, and 45% were reported as worth less than $50,000.

- Notably, this population is comprised mostly (84%) of older households (age 55 and older) with no dependent children.

Even without mortgage payments, however, **these homeowners were spending far more than recommended for housing-related costs.**

- 41% of the homeowners without a mortgage spent more than the HUD recommended 30% of their income on housing-related costs (i.e., property taxes, utilities, insurance, etc.) even though they had no mortgage payment requirements.

- 18% of the homeowners without a mortgage spent **at least half** of their household income on housing costs.

Poor Families with One Mortgage (N=8,789 Households)

- Out of 8,789 poor Milwaukee households with one mortgage only, 38% were married couple families, 39% were single parents, and 24% were other households without children.

- As of 2000, homes valued at below $50,000 accounted for 41% of the households (poor and with only 1 mortgage), while 42% had a reported value of $50,000 – $100,000, and 16% were worth over $100,000.

- **Notably, 29% of these mortgages were secured during the surge in subprime lending in Milwaukee from 1995 through 1998.**

The high values of the homes for this group of poor householders with 1 mortgage is reflected in the number of households which were over-extending their finances.

- 66% spent over the HUD-recommended level of 30% on the housing costs (i.e., mortgage payments, property taxes, utilities, insurance, etc.).
- 39% spent over half of their household income on housing costs.

Families with Two Mortgages – Most at Risk (N=2,514 Households)

- Some 2,514 poor households in Milwaukee had taken on 2 mortgages by 2000. These households with a second mortgage appear most at risk financially.
- Only 28% were in homes valued below $50,000, while 57% reported housing values of $50,000 - $100,000, and 15% reported values above $100,000.
- **34% of these homes were purchased during the dramatic increases in subprime lending during 1995 through 1998, and still by 2000 the household had already taken out a second mortgage.**

Most of the poor households with a second mortgage were seriously overspending for housing costs.

- 83% were allocating more than the HUD recommended 30% of household income for their housing-related costs (i.e., mortgages, property taxes, insurance, utilities, etc.)
- 61% were spending **over half** of their household income for housing costs.

Poor Families Renting Are At Risk of Evictions (N=42,522 Households)

Given their income status, and particularly during this housing upheaval, low-income renters are at risk of evictions due to property speculators and over extending on housing costs.

- 64% of the poor renters are concentrated in the poorest neighborhoods of the near southside and near north side where subprime lending and non-owner occupied investor properties have dramatically increased in the last 4 to 5 years.
- Most of the 42,522 poor households renting in the city are made up of single parents (55%) or non-family households (30%), while only 16% are married couples with children.

A majority of poor family and household renters in all categories are spending far more than recommended for their housing, leaving little income for other basic needs.

Single Parent Household Renters (N=23,245 Households)
- 78% of the 23,245 single parent households spend above the HUD-recommended 30% of their income for housing costs (i.e., rent, heat, utilities, etc.).
- 47% of the single parent households spend **more than half of their income** on housing costs.

Married Couples with Children Renters (N=6,668 Households)
- Almost two-thirds (64%) of 6,668 married families with children spent above the HUD-recommended 30% of their income for housing costs (i.e., rent, heat, utilities, etc.).
- A third (32%) spend **more than half of their income** on housing costs.

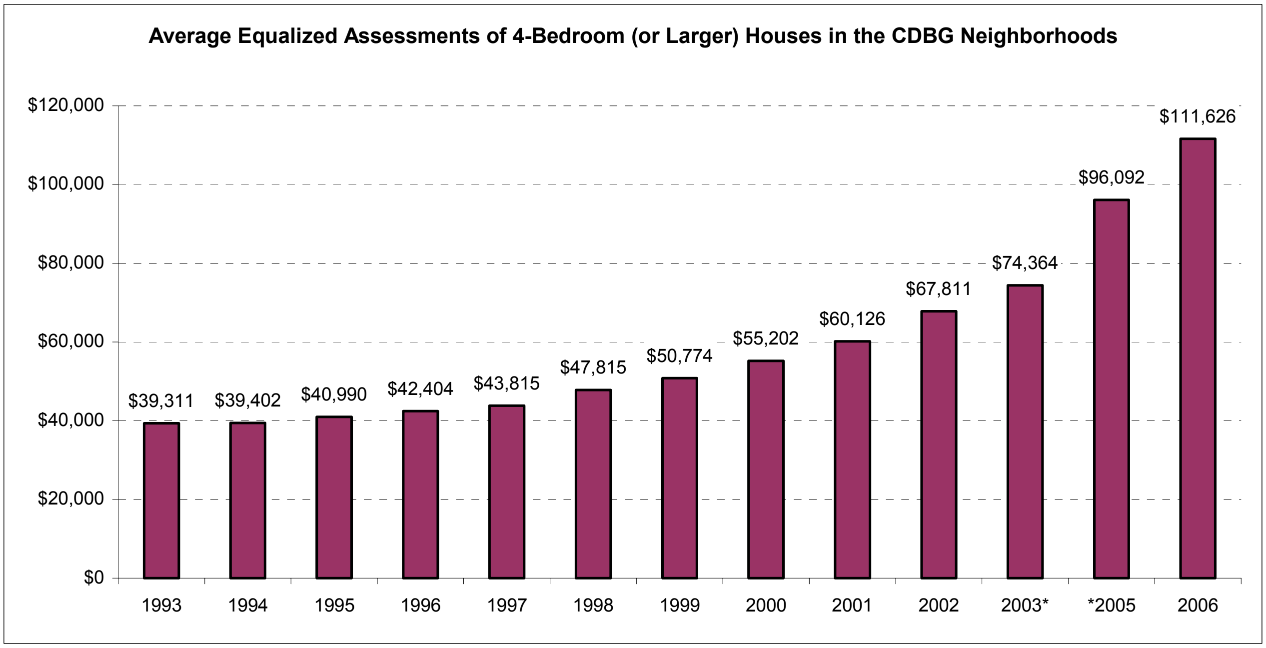
Other Household Renters (N=12,609 Households)
- 77% of the 12,609 households without children spend above the HUD-recommended 30% of their income for housing costs (i.e., rent, heat, utilities, etc.).
- Nearly half (49%) spend **more than half of their income** on housing costs.

IV. Property Assessments Spur Further Subprime Loan Activity

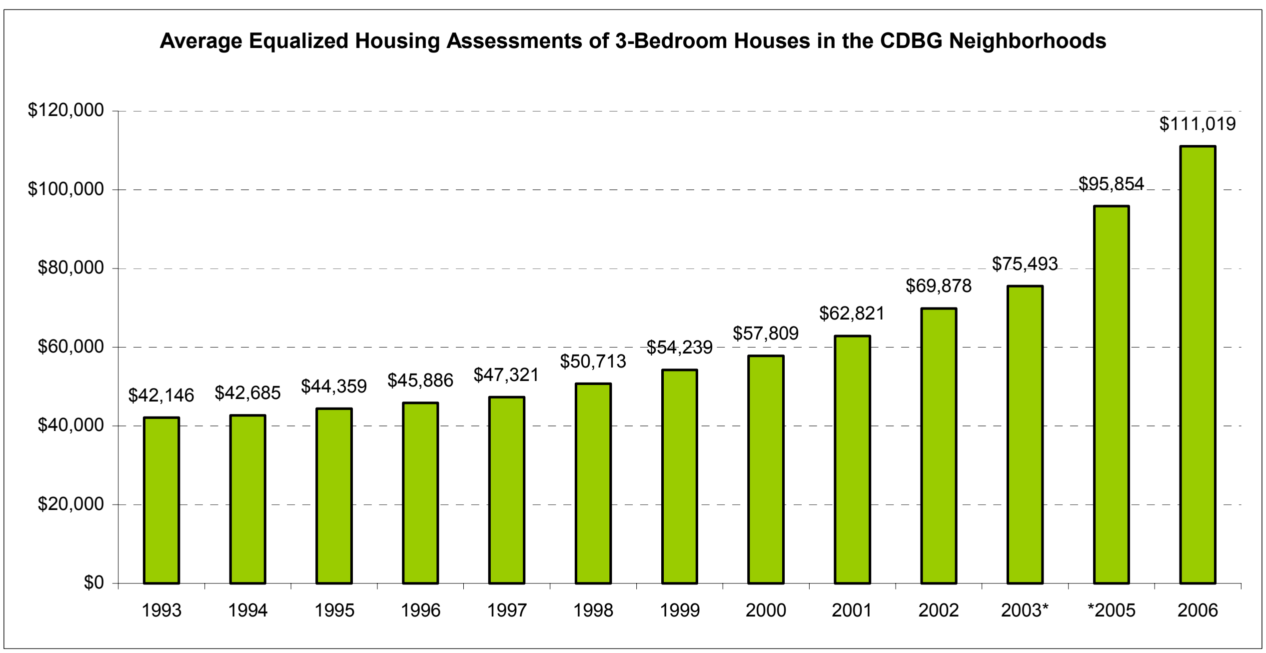
The high increases in overall loan activity including subprime loans, and particularly refinancing loans, appear to have been driven in part by the unbelievable spiraling increases in property assessments, particularly in the working poor neighborhoods.

The CDBG neighborhoods showed a doubling of equalized property tax assessments between 2000 and 2006, making residents and landlords targets for subprime lenders who could provide cash for refinancing of existing mortgages to cash-strapped residents whose housing values had reported increases of $25,000 to $60,000, or more. These refinancing loans provided new found cash and illusory relief for consolidating credit card and other debts.

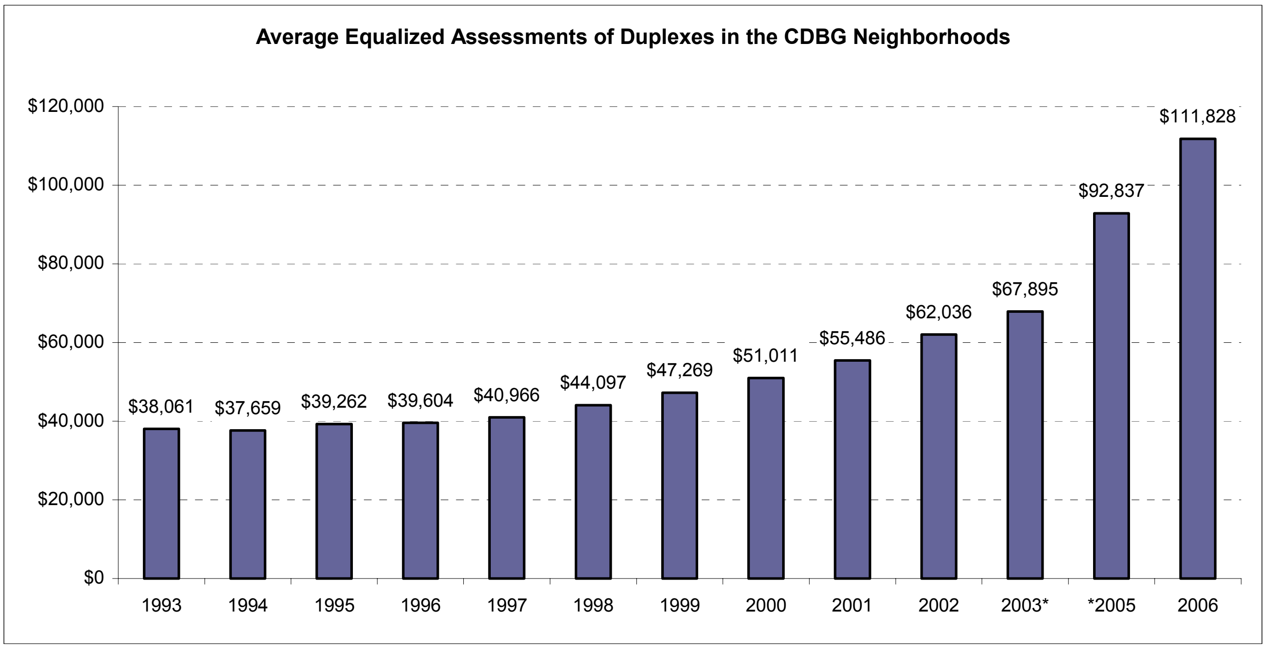
In the CDBG neighborhoods, the City of Milwaukee reported property assessment increases (at full value) averaging over $55,000 per property from 2000 to 2006 for single family houses with four or more bedrooms. According to the City Assessor's Office, the average value of 4-bedroom (or larger) homes was $111,626 in 2006.



Similarly, the Assessor's Office reported very large jumps in estimated market values for 3-bedroom houses from a $57,809 average value in 2000 to reportedly rose in value to an $119,019 average value in 2006.



The greatest jumps in property assessments occurred with duplexes, where the full value assessments were reported as rising from a $51,011 average in 2000 to an $111,828 average in 2006. This rise resulted in an increase in property tax share for home owners (and renters) in the neighborhood and appears to have placed additional pressures supporting loan refinancing. In the CDBG neighborhoods, where three-fourths of the occupants of duplexes are renters and one-third of the occupants of single family houses are renters, many tenants are directly affected by fallout from subprime and high risk lending activities.

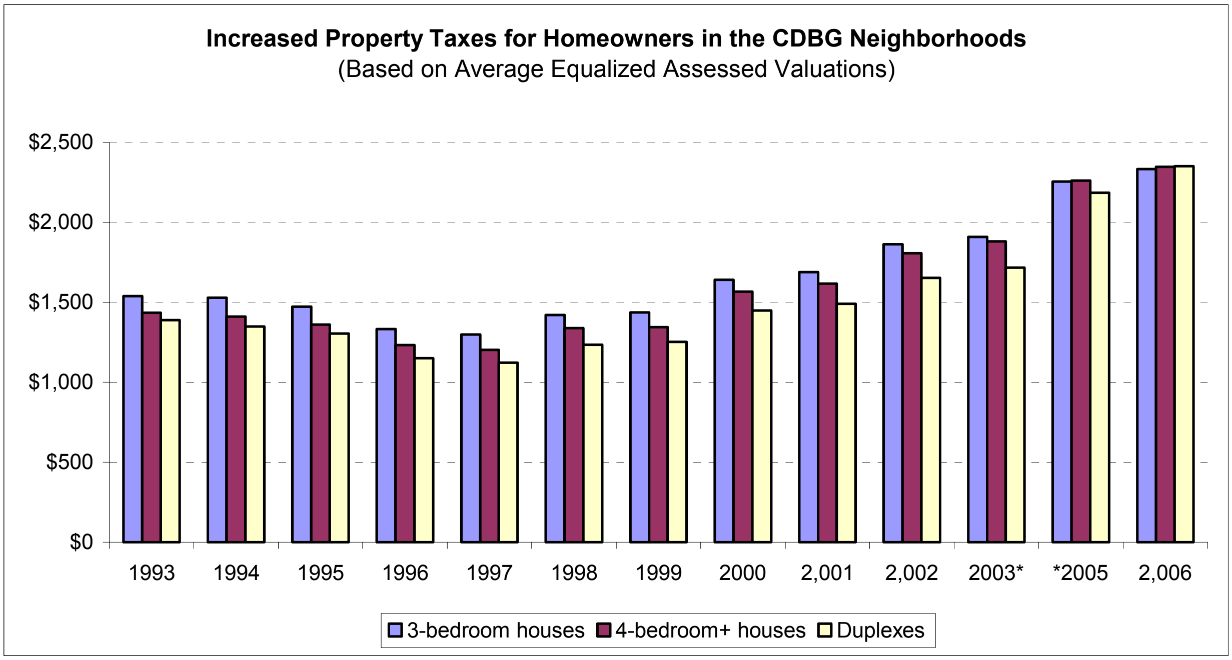


V. Rising Assessments = Rising Tax Bills

When assessed property valuations rose in the central city so too did local property tax bills for most central city Milwaukee homeowners. Even though property values were rising throughout the city, the doubling and tripling of housing valuations in the CDBG neighborhoods still resulted in a 50% to 67% increase in property taxes owed on these properties. Particularly hard-hitting were the tax bill jumps in 2005 and 2006, given the full value assessment increases reported those years. For duplexes the property taxes (which had risen **15%** from an average of $1,305 in 1995 to $1,448 in 2000) rose **62%** from 1,448 in 2000 to $2,347 on average in 2006. For larger single family homes, when property assessments doubled from 2000 to 2006, property tax bills increased by 50%.

Increases in Property Assessments (Full Value) and Est. Property Tax Bills in the CDBG Neighborhoods

	1995	2000	2006	1995-2000 Increase Dollar	1995-2000 Increase Percent	2000-2006 Increase Dollar	2000-2006 Increase Percent
Average Assessment (Full Value)							
2-BR single family houses	$35,411	$45,217	$86,570	$9,806	28%	$41,353	91%
3-BR single family houses	$44,359	$57,809	$111,019	$13,450	30%	$53,210	92%
4+BR single family houses	$42,404	$55,202	$111,626	$14,212	35%	$55,424	102%
Duplexes	$39,262	$51,011	$111,828	$11,749	30%	$60,817	119%
Property Taxes for the Average Valuation							
2-BR single family houses	$1,177	$1,284	$1,820	$107	9%	$536	42%
3-BR single family houses	$1,474	$1,641	$2,334	$167	11%	$693	42%
4+BR single family houses	$1,362	$1,567	$2,347	$205	15%	$780	50%
Duplexes	$1,305	$1,448	$2,351	$144	11%	$903	62%



VI. Rises in Utility Costs

High heating bills, a consistent challenge for Milwaukee homeowners and renters, also showed large increases from 2000 to 2006.

According to the Consumer Price Index, the household energy costs for gas and electricity rose 46% between 2000 and 2006 in the Milwaukee-Racine metropolitan area.

VII. Central City Incomes Stagnate as Housing Costs Increase

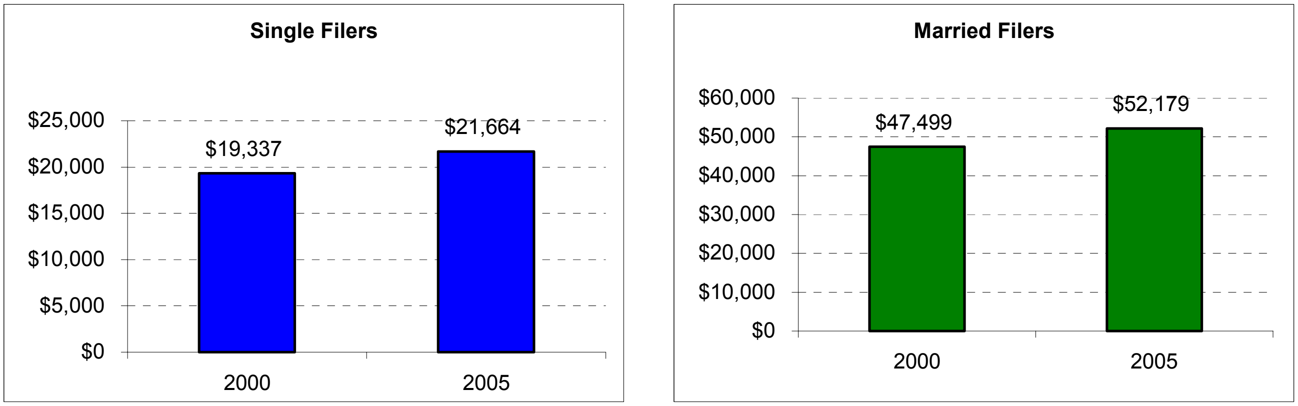
Since 2000, while housing costs have increased, data from the Wisconsin Department of Revenue shows incomes remaining flat for many of the working poor in Milwaukee. The DOR income tax data was used to gauge the extent to which the earnings of employed individuals and families are keeping pace with increased housing costs and financial need in the central city neighborhoods that are showing concentrations of mortgage and foreclosure problems. The experience varies widely by neighborhood and individual families, but a number of trends are notable. Overall, income earnings are very low for single parent families (the dominant pattern in the central city) and overall, inflation-adjusted earnings of residents have declined. This analysis describes changes in income of working age (i.e., non-elderly and non-dependent) tax filers for 9 zipcode areas in the Community Development Block Grant (CDBG) target area (i.e., 53204, 53205, 53206, 53208, 53210, 53212, 53216, 53218, and 53233). The 2005 income data is based on tax returns filed in 2006. See "Background Notes" for a description of data sources, definitions, and limitations of the tax data used.

- The number of **working age tax filers** (single and married, with and without dependents) decreased in the CDBG areas by 6%, from 88,231 in 2000 to 82,925 in the 2005 tax year (i.e., taxes filed in 2006 based on earnings in 2005).

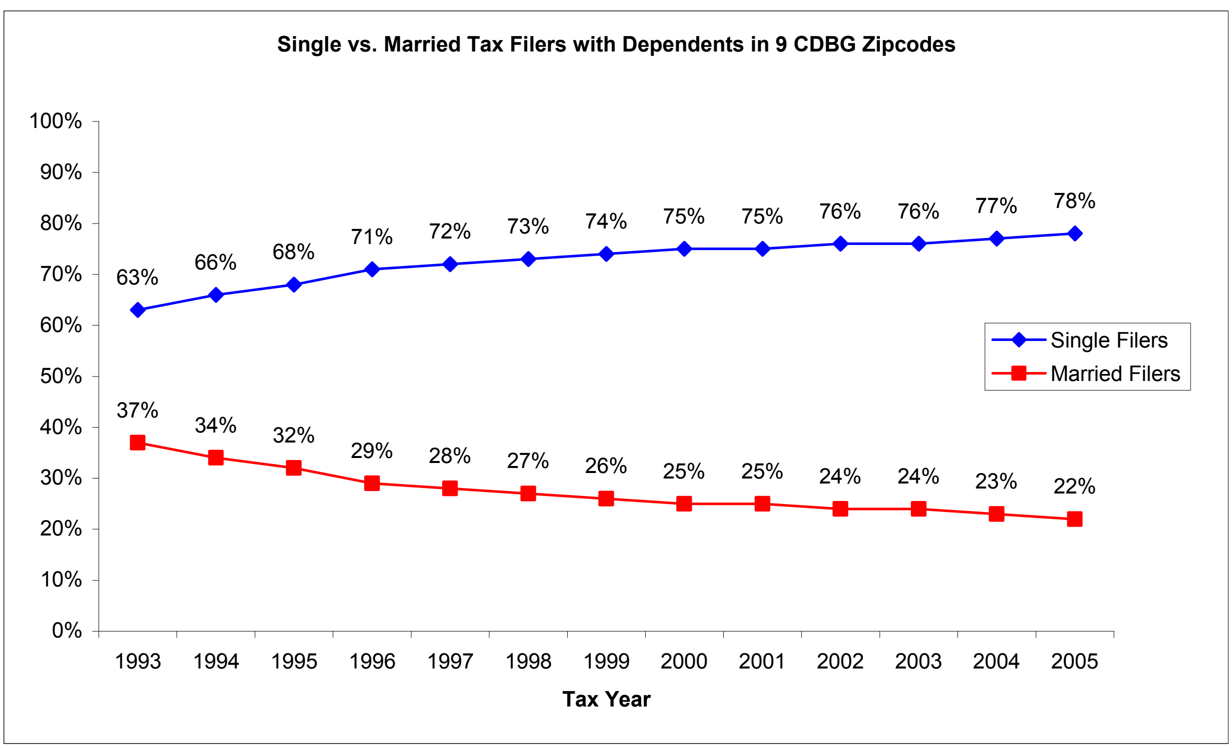
- Over $2 billion in income earnings were reported for the neighborhoods in 2005, with earnings up by $77 million since 2000. The total adjusted gross income of working age tax filers increased by 3.5% between 2000 and 2005, going from $2.208 billion to $2.285 billion. During this same period, the cost of living, as measured by the Consumer Price Index for the Milwaukee-Racine area, increased by 9.8%. **When inflation is considered, the real income earnings of residents in the CDBG neighborhoods declined by 5.8% over the 5-year period.**

- On average, single tax filers (with and without dependents) were earning $21,664 in 2005, only slightly above the $19,337 average earned in 2000. Even with their combined incomes, married tax filers (including those with and without dependents) were earning $52,179 in 2005 compared to a $47,499 average in 2000. When inflation is considered, single person tax filers showed a 2% growth in earnings and married filers showed earnings that were virtually flat over the five year period.

Average Gross Income (AGI) of Working Age Single and Married Tax Filers (With and Without Dependents) in the CDBG Neighborhoods

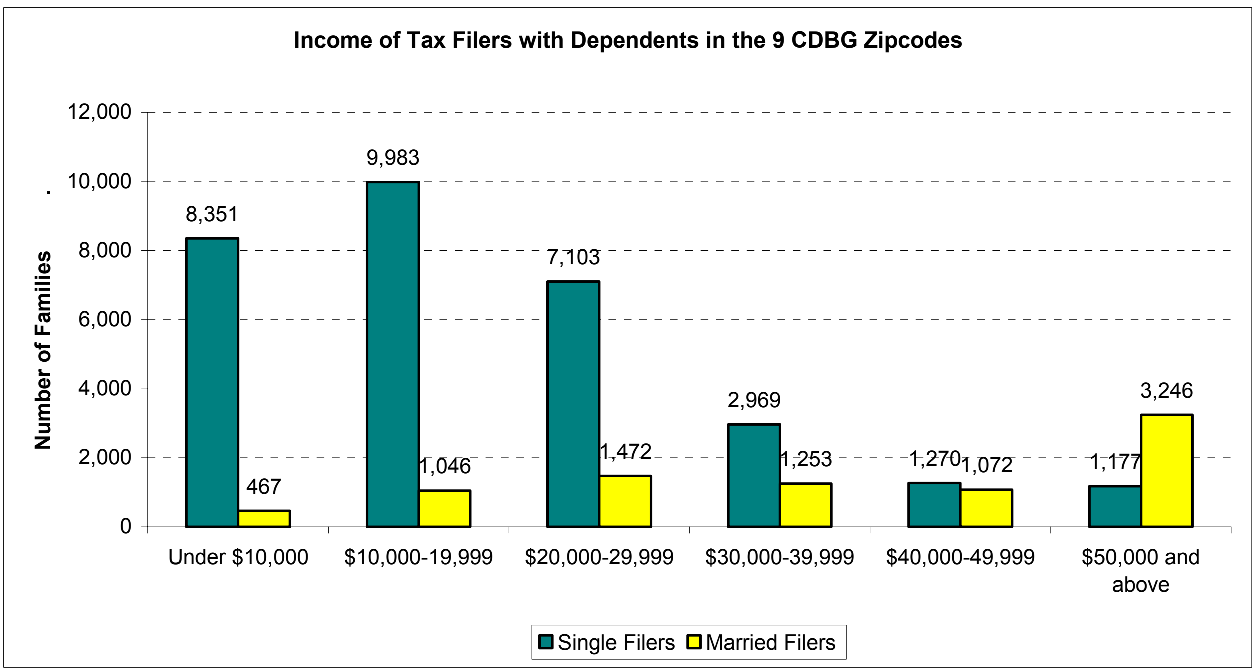


- In the CDBG neighborhoods the vast majority of state income tax filers **with dependents** are single rather than married filers. (Note: Only legally married couples may file joint married tax returns; in some cases, other adult earners may be living in homes with single tax filers.) In 1993 single filers made up 63% of tax filers with dependents, but by 2005 single filers made up 75% of those with dependents. The percentage of filers with dependents who are married dropped from 37% in 1993 to 22% in 2005.

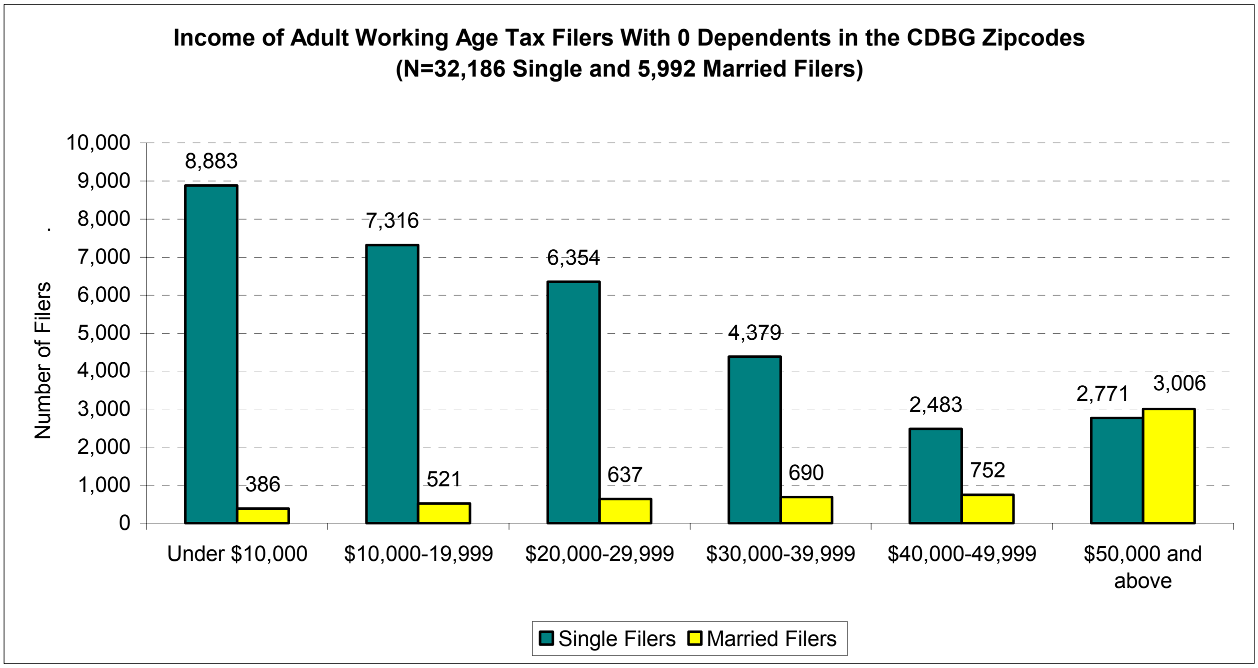


- Analysis of the 30,853 single tax filers with dependents by their income category suggested that a large number of single parents in the CDBG neighborhoods remain only marginally employed. In 2005, a total of 3,404 single filers with dependents (11% of the total) reported AGI below $5,000, and another 4,947 filers (16%) reported income below $10,000. Only 5,416 single parent filers with dependents (18%) earned $30,000 or more.

- Married filers were more likely to have higher combined incomes. The 8,556 married couples with dependents living in the CDBG neighborhoods – although far fewer in number – were more likely to have incomes meeting the poverty level thresholds than the single heads of households. In 2005 nearly three-fourths (74%) had income at or above $25,000, and half had income of $40,000 or more, when income from all jobs is considered. Still, 1,513 married filers with dependents (18%) showed incomes of under $20,000.



- A similar picture emerges for the 38,178 working-age adult income tax filers <u>without dependents</u> (that is, non-elderly tax filers who claim no dependents and are not claimed as dependents on another tax form). The majority (70%) of single filers reported income below $30,000 in 2005. While 63% of married filers without dependents showed combined incomes of $30,000 or more, their numbers were small (i.e., 3,758 filers with income of $30,000 or above).

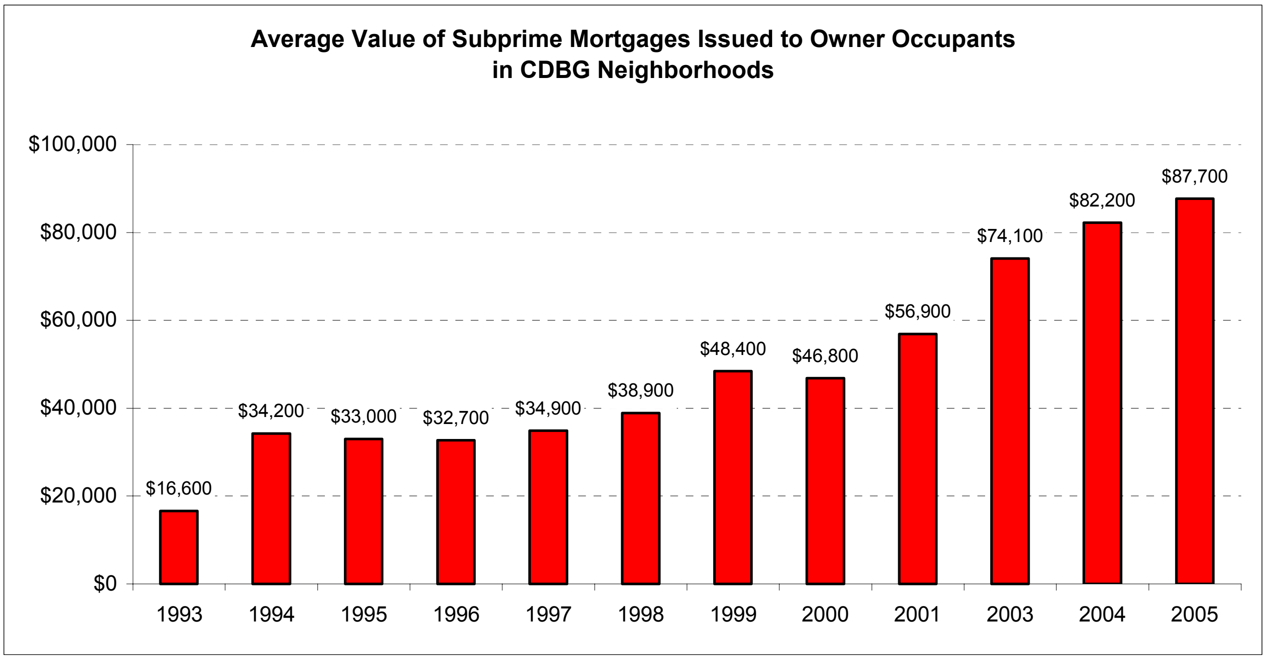


For many CDBG neighborhood home owners, the jumps in equalized property values as reported by the City Assessor's Office from 2000 to 2006, suggested home equity increases that exceeded their wage and salary increases on the job. Houses which had seen assessment increases of only $10,000 to $14,000 between 1995 and 2000 were reported in more recent years to have market value increases of $25,000 to $60,000 or more. Subprime lenders have aggressively sought out the owners of such properties to convert this new "market value equity" into cash through subprime refinancing loans – mortgages the income data for the neighborhood suggests most residents cannot afford. For a number of national subprime lenders, property tax assessments are used as the primary vehicle for estimating market value, rather than physical inspections of individual properties by qualified appraisers.

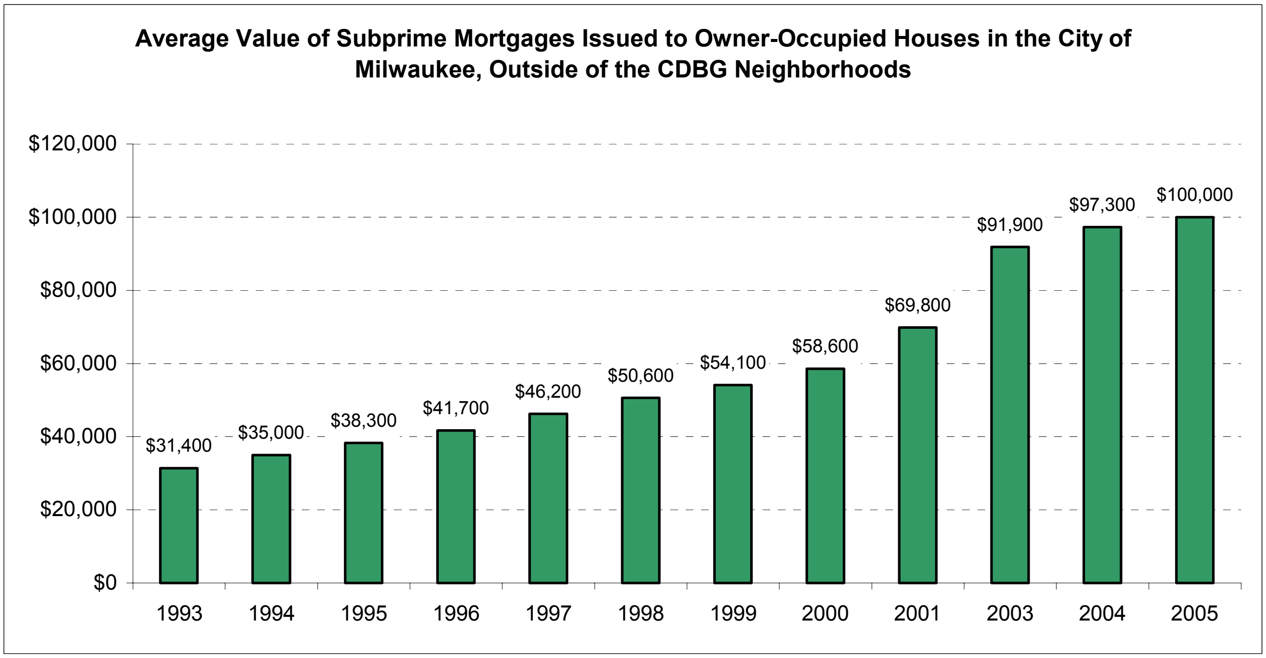
VIII. Substantial Increases in Amounts Borrowed Using Subprime Mortgages

The use of subprime mortgages as an income source can be seen in the large increase in the size of housing loans secured in the CDBG neighborhoods, even though the income tax data does not show a similar rise in income among the local residents.

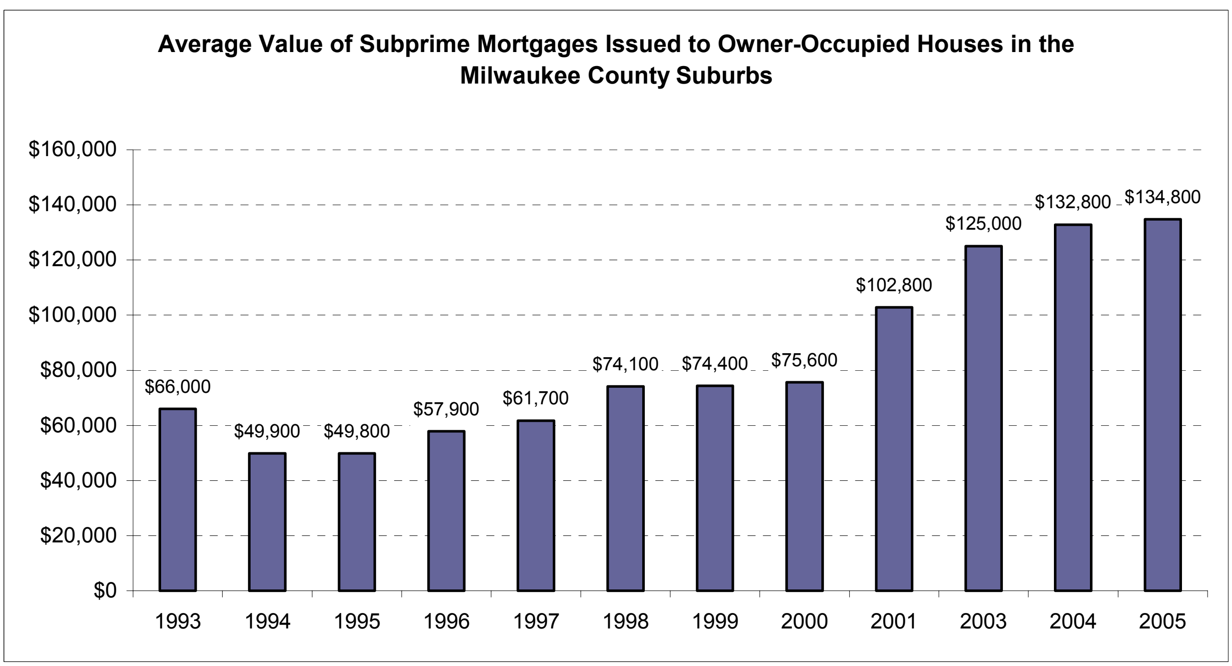
The average mortgage for owner occupants using subprime lenders jumped dramatically during the period studied for the CDBG neighborhoods.



The rest of the City of Milwaukee, outside the CDBG neighborhoods, showed large increases in subprime mortgages as well beginning in 2003.



Subprime mortgages issued in the Milwaukee County suburbs averaged $134,800 in 2005.

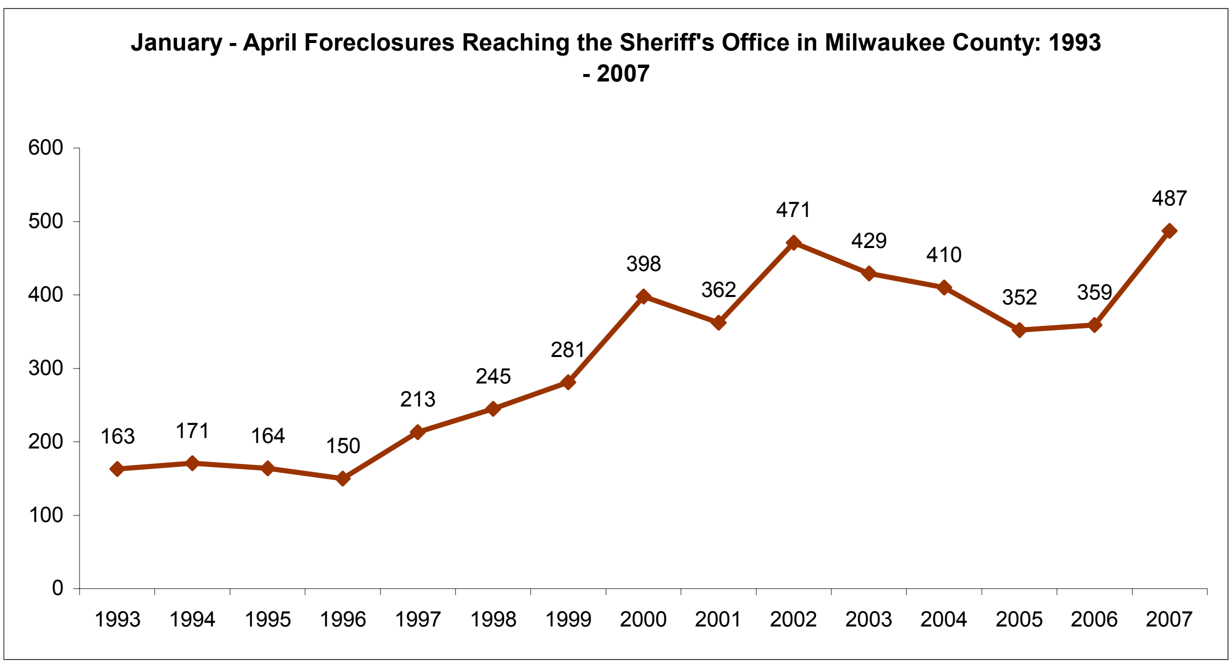


IX. Foreclosures and Evictions

Consistent with the national fallout over subprime and high-risk lending, foreclosures cases in Milwaukee County Circuit Court have taken a dramatic increase since the subprime lending crisis began escalating in spring of 2006.

- In January 2007 the Milwaukee County courts listed 377 foreclosure cases on file for properties in the City of Milwaukee for that month alone. As the subprime lending industry faces a growing national crisis, further increases in foreclosures will be seen, particularly in the central city. Foreclosures strip homeowners of their housing equity savings, present safety and health risks for nearby residents, and reduce the value of the local property tax base.

- The county is also seeing an increase in foreclosure cases reaching the Sheriff's Office as a result of the mortgage lending problems. In the first four months of 2007 the Milwaukee County Sheriff's Office reported 487 foreclosures, a record high in the last fifteen years for these months.



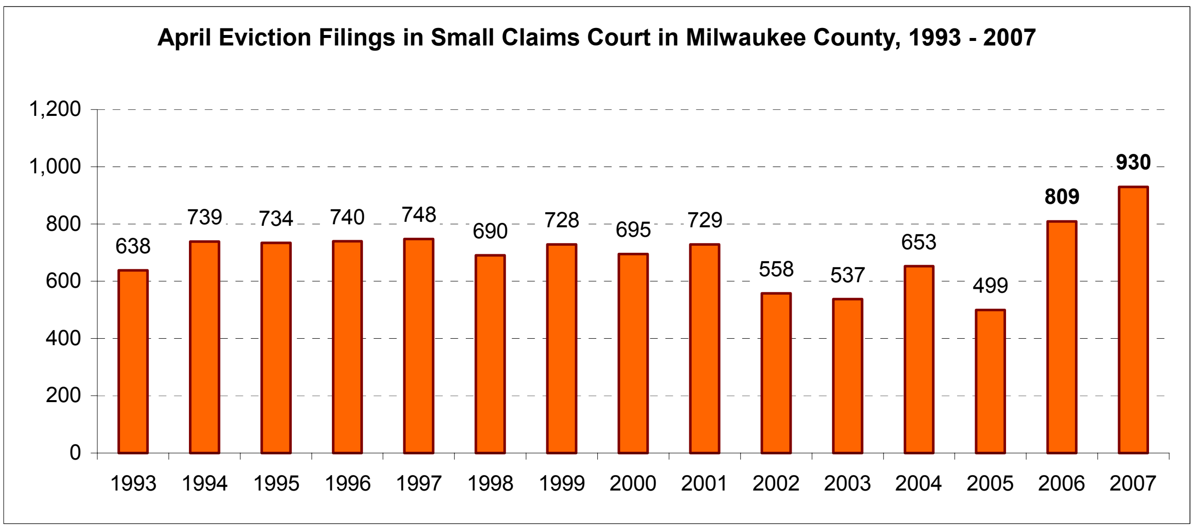
Foreclosure activities and subprime lending problems are creating legal problems for both home owners and renters. Tenants are often caught unaware of their landlord's financial difficulties, incur moving costs, and if evicted may lose their current rent payment as well as security deposits previously paid.

- **Evictions** rose dramatically in 2006 and 2007 after a 15-year low in 2005, according to data from the courts for the first four months of each year.

- During 2006, at least one out of ten evictions involved foreclosed properties.

- Evictions in 2007 are continuing at levels well above those reported before the most recent subprime lending crisis. Comparisons of evictions reported for each April (the first four weeks of the month) since 1993 show 2006 and 2007 eviction levels at an all-time high.

- In the first four months of 2007, 3,362 eviction orders were served on Milwaukee County households, according to Circuit Court records. Again, this is a high for the last fifteen years.



Background Notes

HMDA (Home Mortgage Disclosure Act) data is collected federally from lending institutions in metropolitan areas on loans for home purchases, refinancing and home repairs. (Home equity loans taken out for consolidation of credit card debt are not reported in this database unless some part of the loan proceeds is intended for home improvements or home purchase.) See www.ffiec.gov/hmda for definitions of loans included in the database and www.huduser.org/datasets/manu.html for the methodology used by the Department of Housing and Urban Development (HUD) to define subprime lenders. For the purpose of this analysis, housing loans are identified as "subprime" if they are issued by a lender considered by HUD to be a subprime lender. **Subprime loans** are typically made to individuals with poor credit histories, and offer less favorable terms of repayment (often with lower initial interest rates that escalate into higher – and usually adjustable – interest rates 2 to 3 years after the loan is first made). These mortgages offer considerable risk to the borrower.

State Department of Revenue-reported "**adjusted gross income**" includes income from wages, salaries, tips, taxable interest, dividends, alimony, business income, capital gains income, rental income, etc. and excludes certain business losses, capital gains losses, alimony payments, etc. See state and federal tax forms for definitions of adjustments made to calculate Adjusted Gross Income. Income tax data have several advantages as neighborhood indicators: they are available annually and they provide more comprehensive listings of income than may be volunteered for the U.S. Census long form or survey research projects. They miss, however, income of persons not filing taxes, "earnings" from the underground economy, and the cash value of food stamps, medical assistance, and child care subsidies. Also, they are subject to the vagaries of the income tax code and may understate income for persons with rental properties, self-employment expenses, tax-deferred annuities, etc. The income tax returns analyzed in this report are for **working age tax filers**, excluding dependents (teenagers, students and others) claimed on another adult's tax return and senior citizens claiming the elderly credit or elderly exemption.

For more on subprime lending practices in Milwaukee County, see **A New Economic Indicator of Neighborhood Well-Being: Analysis of Subprime Lending in Milwaukee County** by the Employment and Training Institute, and posted at www.eti.uwm.edu.

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