

# Equitable Development Toolkit

# Foreclosed Properties

Updated July 2009

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# What Is It?

The mortgage foreclosure crisis that has unfolded over the past several years has, for many, turned homeownership into more of a nightmare than a dream. Beginning in 2006, housing prices in the United States took a downward turn after a decade of seemingly unstoppable growth. A combination of bank deregulation, subprime loans, loose underwriting standards, declining home values, and rising job losses has led to the worst spike in mortgage foreclosures since the Great Depression.

While the foreclosure crisis has hurt both homeowners and renters – across the nation, certain places and certain groups of people have been disproportionately impacted. In 2007, almost [half of African Americans](#) who moved out of their homes did so through foreclosure rather than sale. Between 1998 and 2006, African American borrowers lost an estimated \$92 billion of wealth and equity from subprime loans, while Latino borrowers lost an estimated \$98 billion. This amounts to the [greatest loss of wealth for people of color](#) in modern U.S. history, reversing recent progress in homeownership.

Foreclosures have clustered in distressed and “on the edge” neighborhoods in older cities such as Cleveland and Philadelphia as well as in new communities in high-growth areas including Phoenix and Florida. In the highest cost housing markets in the nation such as the San Francisco Bay Area, foreclosures followed working families out to the far edges of regions where they “drove until they qualified” for mortgages on homes they could afford.

The foreclosure crisis has further devastated poorer neighborhoods with weak housing markets. In more affluent neighborhoods where home values are strong, foreclosed properties are quickly absorbed by the market. But in neighborhoods that are not typically homebuyers’ first choice, foreclosed properties are likely to remain vacant, barring some kind of intervention. Unoccupied, those homes become magnets for

vandalism and crime, driving the neighborhood’s property values down. A [study](#) in Philadelphia found that the presence of just a single boarded up home on a block reduced the value of neighboring properties by \$6,500 each; a national study by the [Center for Responsible Lending](#) calculated a reduction of \$5,000.

In the face of this crisis, housing counseling and advocacy groups, local and state governments, public housing authorities, community development corporations, community land trusts, citizen advocates, and other community stakeholders are rallying to respond by reclaiming vacant, foreclosed properties and returning them to productive use:

## The Scale of the Challenge.

In 2008, [one in 54](#) homeowners had received at least one foreclosure filing – over [3 million](#) homes. Within the next few years, that number is expected to rise to [one in 33](#).

## Racial/Ethnic Disparities in Subprime Loans.

Communities of color were disproportionately targeted for subprime loans. According to Federal Home Mortgage Disclosure Act data, in 2007, 34 percent of subprime loans were issued to African Americans and 29 percent were issued to Latinos, compared to 11 percent that went to whites.

- In Providence, Rhode Island two local nonprofit housing developers and a statewide organization are partnering to acquire foreclosed properties in two of the city's hardest-hit neighborhoods and place them in a community land trust to provide permanently affordable housing for lower-income residents. (See Case Study section).
- In Cleveland, Neighborhood Progress, Inc. and the Cleveland Housing Network are collaborating on the Opportunity Homes strategy to stimulate market recovery in six Cleveland neighborhoods. The strategy is three-pronged: 1) rehabilitate vacant homes as energy-efficient homes; 2) demolish blighted homes that cannot be rehabilitated; and 3) partner with community groups such as Empowering and Strengthening Ohio's People (ESOP) and others to prevent families from losing their homes to foreclosure in the first place. (See Case Study section).
- In the Twin Cities, a statewide group, the Minnesota Foreclosure Partners Council, is coordinating efforts to gather data, create financing tools, implement recovery strategies, and enact policy changes to combat the foreclosure crisis. Minneapolis and St. Paul are also acquiring properties in targeted neighborhoods and participating in the National Community Stabilization Trust's *First Look* program to preview and acquire foreclosed properties. (See Case Study section).

### Front-End Strategies: Foreclosure Prevention

This tool focuses almost exclusively on what communities can do to steer neighborhoods on a course of sustainable recovery after foreclosure processes are well underway. Efforts to prevent foreclosure in the first place, and keep owners in their homes, though absolutely critical, are outside its scope. See this [Fact Sheet](#) from the Center for Responsible Lending outlining key prevention strategies.

This tool provides a framework for developing a comprehensive foreclosure recovery plan and showcases the most innovative and promising strategies for the acquisition, maintenance, management, and transfer of these properties to low-income renters and homeowners, or for other beneficial neighborhood use. Communities can use this information to develop effective foreclosure recovery plans and compete for the additional \$2 billion in new funding available in the federal stimulus package's Neighborhood Stabilization Program (NSP). Funding applications are due July 17, 2009.

#### Quick Guide to Tool Sections:

- **Getting Started** presents 11 key action steps for developing a foreclosure recovery plan.
- **Menu of Strategies** describes acquisition, disposition and stewardship strategies for foreclosed properties.
- **Choosing a Strategy** prioritizes strategies based on neighborhood market strength.

### THE NEIGHBORHOOD STABILIZATION PROGRAM (NSP): A MAJOR FUNDING SOURCE FOR FORECLOSURE RECOVERY

*The Housing and Economic Recovery Act (HERA) of 2008 established the Neighborhood Stabilization Program to help communities reclaim foreclosed properties and reduce their negative impacts on neighborhoods. The \$3.9 billion program subsequently received a \$1.92 billion boost from the American Reinvestment and Recovery Act (ARRA) of 2009. Local governments may use the NSP grants to finance the purchase of foreclosed and abandoned housing and to redevelop or re-sell these homes to help stem the decline in property values for the surrounding neighborhood. Its key requirements are:*

- *Finance acquisition of bank-owned foreclosures for no more than 85 percent of the home's appraised value.*
- *Local governments are prohibited from making a profit on any sale.*
- *HUD's guidelines allow local governments to rent properties to income-eligible applicants, if they can't find buyers.*
- *An 18-month window for local governments to spend funding; but local agencies have up to five years to spend funds recaptured from a property's resale.*
- *Assisted homes must be maintained as affordable housing for "as long as practicable."*

The Enterprise Foundation has published a [summary of the changes to NSP](#) and a [summary of the competitive application requirements](#) for the second round of funding.

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# Why Use It?

**Opportunities for much-needed affordable housing.** Many communities across the country have long struggled with a supply of affordable homes that is inadequate to meet the needs of moderate- and low-income households. In other places, the bulk of affordable housing is concentrated in just one or two areas, which are typically far from transit, jobs and other amenities. Foreclosures are worsening this deficit by reducing even further the stock of affordable homes for purchase or lease. By acquiring, rehabilitating and re-selling foreclosed properties, communities can create affordable units in areas where soaring property values had made the cost of building new affordable units prohibitive; or they can stabilize economically vulnerable communities. Four important objectives include:

- **Long-term affordability.** Maximizing the initial subsidy to ensure that homes remain affordable and neighborhoods stable well into the future.
- **Opportunity housing.** Extending to low-income families housing opportunities in communities that have good schools and transportation.
- **Quality housing.** Ensuring that homes are well maintained by their new owners.
- **Secure housing.** Helping homeowners stay in their homes down the road, in the face of the next economic downturn.

**Increased neighboring property values and reduced blight.** Having a foreclosed property in the neighborhood [decreases surrounding home values by an average of \\$5,000](#) according to the Center for Responsible Lending in a report commissioned by the Fannie Mae Foundation. Heavily concentrated in low- and moderate-income neighborhoods and communities of color, foreclosures exert a multiplier effect in these areas, erasing decades of community revitalization work.

**Reduced burden for local governments.** Municipalities spend money to care for foreclosed properties, enforcing code violations, boarding up vacant properties, and policing areas with abandoned properties, all while tax revenues decline. A Chicago study found that [each vacant foreclosed home costs local government between \\$5,000 to \\$34,000](#). These costs include inspections, court actions, police and fire department efforts, demolition, unpaid water and sewage fees, and trash removal. For instance, inspecting, securing and maintaining empty buildings in St. Paul, Minnesota [costs the city nearly \\$2.3 million per year](#). By returning the property to productive reuse, the new owners or tenants contribute, rather than deplete, the city's revenues.

**Restore housing markets.** Distressed sales of foreclosed properties made up the majority of home sales in the latter half of 2008. The witches' brew of massive inventories of foreclosed homes, aggressive speculation,

## Rental Units Are Also Being Lost.

While single family home foreclosures dominate the press, [in many cities multifamily rentals are also being foreclosed upon](#). Thirty-five percent of the nearly 14,000 foreclosures in Chicago in 2008 involved two- to six-unit apartment buildings. In [Providence](#), Rhode Island, there were more foreclosures of multi-family properties than of single family homes in 2007. The diminishing affordable rental supply makes it even harder for foreclosed homeowner households and displaced tenants to find a place to live.

and reduced access to credit have thrown the entire housing market off-balance. By quickly bringing foreclosed properties back to productive re-use, communities can begin to restore functioning markets.

**Create new jobs.** Each time a city or neighborhood repairs or demolishes a vacant property to create a more energy-efficient building or a green space; jobs are created, at a time when millions need work. Workers must be hired to repair, inspect, demolish or sell the foreclosed properties, and, when cities move to weatherize vacant properties, that effort requires skilled workers as well.

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# Getting Started

There is no one-size fits all plan for addressing foreclosures. This section describes 11 key steps that can be taken to develop an effective plan. It is important to note that there is no particular sequence, nor is it necessary to take all 11 actions. The critical action step is to do something NOW. The longer communities wait to take action on foreclosed properties, the harder it will take to revive neighborhoods.

**1. Understand the local foreclosure process.** Knowing how the foreclosure process works in your community is essential for effective intervention. There are several steps that are taken before a bank or lender forecloses on a home including:

- Sending owners a notice of default after several months of missed payments;
- A redemption period during which owners can make payments to make the loan current; and
- A notice of sale establishing a date by which the home will be auctioned.

## How accurate are free national foreclosure databases?

Private companies offer [lists](#) of REO (lender-owned) properties in communities across the country and include full addresses. Unfortunately, the data is not always accurate or comprehensive. Housing Link of Minnesota analyzed the accuracy of one national company, RealtyTrac. Comparing the number of foreclosed properties found on the RealtyTrac site compared to county sheriff's sale data, they found that RealtyTrac listed fewer than 14,000 of the 20,000 foreclosures in the state in 2007 (see this [presentation](#)).

the [Data and Maps](#) section.

## Understanding Key Foreclosure Terms

This tool assumes some prior knowledge of the foreclosure process and key terms. See this brief [Foreclosure Glossary](#), which defines some of the most important terms used in this tool (such as “REO properties”).

[Foreclosures.com](#) also provides an extended foreclosure glossary.

Foreclosure processes and procedures, including the timing of all of these stages vary considerably from place to place and are governed by state laws. The website [www.foreclosurelaw.org](#) provides information about foreclosure laws in every state.

## 2. Identify the number and locations of foreclosed properties.

Local city or county records provide the best source of data on foreclosures (national companies track foreclosures, but their databases are not comprehensive – see text box, above right). Though foreclosure procedures vary, it is an almost universal requirement that to file for foreclosure, a lender or servicer must file with a court or a county agency, such as the sheriff's office, and provide the street address of the property being foreclosed upon. Communities can keep this information in both list form and mapped using geographic information system (GIS) mapping software to provide a visual snapshot of foreclosure concentrations that can guide strategy. Universities and Metropolitan Planning Organizations typically have GIS mapping capabilities. Several sources for general maps of foreclosures across the country or in a particular county or region are available and some are listed in

New laws might be needed to make foreclosure data readily available. Cities and states are passing vacant and foreclosed property registration ordinances to help track foreclosed properties and hold their owners responsible for their maintenance and upkeep. Georgia passed [legislation](#) in 2008 that requires the identity of the responsible owner to be included in the advertisement and in court records. Boston passed an [ordinance](#) requiring that vacant and foreclosing properties are registered and maintained, Milwaukee requires registration when an owner first goes into default. New Haven requires institutions foreclosing on local properties to register with the city and designate a local caretaker or face fines of up to \$250 per day.

### Needed Infrastructure: Online Property Information Systems

*Some municipalities have developed online foreclosure databases to provide the public with accurate data. Gathering and assembling this data is no small task, but once created, a foreclosure database allows a community to identify how many foreclosed properties it has within its borders and track how that number changes over time. For example, Miami-Dade County's Mortgage Foreclosure Online System provides [statistics](#) on the number of foreclosure filings every month, and also provides full addresses for foreclosed properties. See this [report](#) from the Lincoln Land Institute showcasing promising applications of land information systems, including early foreclosure assessment efforts in the Twin Cities and Cleveland.*

**3. Identify owners of foreclosed properties.** Identifying the owner or servicer of a foreclosed property is a prerequisite to purchasing it. Unfortunately, as a result of the common practice of pooling mortgages and selling them to large institutional investors (pension funds, hedge funds, banks, etc.), identifying the owner or servicer can often be a complex and frustrating undertaking. Most REO properties are owned not by banks, but by trusts operating for the benefit of investors. The majority of subprime and “Alt-A” loans (loans with credit risks between prime and subprime) originated in recent years were securitized by non-agency sponsors (e.g., financial institutions other than Freddie Mac, Fannie Mae and Ginnie Mae). The trusts typically contract out the day-to-day management and disposition of REO properties to specialized servicers. As a result, the parties initiating most foreclosures in distressed neighborhoods are trustees or servicers representing the investors in the mortgage pool that contains the delinquent loan.

### Giving Communities a First Look at REO Properties

The [National Community Stabilization Trust](#) is a consortium of national nonprofit housing and community development organizations including Enterprise Community Partners, the Housing Partnership Network, the Local Initiatives Support Corporation and NeighborWorks America. Currently being piloted in the Twin Cities (see Case Study), *First Look* gives local housing organizations a chance to view and acquire properties owned by Wells Fargo, CitiGroup, and Chase at below-market prices before they are offered on the general market.

To determine the identity of the lender or servicer who has control of the foreclosed property, a local government or nonprofit can:

- Perform a title search on each property to identify the last owner of record
- Search tax assessment records where a portion of the mortgage was placed in escrow to pay taxes and/or hazard insurance
- Review legally required notices or advertisements of foreclosure
- Use the MERS® national database of mortgages. The MERS database was created by the mortgage banking industry

to simplify the way mortgage ownership and servicing rights are originated, sold and tracked. MERS® seeks to register every mortgage loan in the United States on its system. The database can be found [here](#) and instructions for its free use are located [here](#). Note that the database may not include every foreclosed property.

Once the lender involved has been identified, to obtain appropriate contacts for a lender or servicer a local government or nonprofit can:

- Search the list of property preservation contacts on the Mortgage Bankers Association [website](#). For each lender or servicer, there is the name of the appropriate contact and a telephone number.
- Search the list of lender and servicer contacts established by the federal Office of the Comptroller of the Currency [here](#). The website provides phone numbers and websites but no individual contact information.
- Some lenders and servicers are listing their REO properties on their websites as a marketing tool. These include [Countrywide REO](#); [Bank of America REO](#) and [HSBC REO](#); [JP Morgan Chase Bank REO](#); [Wells Fargo REO](#); [American Home Mortgage REO](#); [Fannie Mae REO](#); [Freddie Mac REO](#); and [HUD REO](#).
- Sign up for the First Look program operated by the [National Community Stabilization Trust](#) (see text box, right).

*“The Housing and Economic Recovery Act (HERA) of 2008 established a goal of 15 percent below market value for REO properties purchased by a city or nonprofit with Neighborhoods Stabilization funding.”*

**4. Determine the market value of foreclosed properties before entering into negotiations.** Having a clear understanding of a vacant property’s value is essential when deciding whether there is sufficient financing to buy and rehabilitate the property and for negotiating the purchase price. But valuation is challenging in the context of the housing market crisis. Continuing housing price decline, low demand from qualified buyers, and low sales rates of distressed property comparables have made traditional methods such as evaluating comparable properties less useful.

Sellers and buyers have different perspectives on valuation. Sellers have an obligation to investors and their key objective is to maximize value and minimize losses in a declining market. When weighing how quickly to sell foreclosed properties, sellers must consider the rapid depreciation of foreclosed homes and continuing holding costs, including insurance and property taxes. A buyers’ key objective is securing a fair price in a declining market so that they can fix up the property and get it back in the hands of a responsible owner.

One preferred method for determining the value of a property is called its “net realizable value” (NRV). The value of the property is determined by calculating the property’s market value minus the cost of disposition. The NRV is calculated by: 1) determining the estimated selling price in the ordinary course of business for a property; and 2) subtracting holding costs (insurance, real estate taxes and maintenance), administration (seller/servicer costs), rehabilitation required for code compliance and marketing, and the possible decline in value over the holding period.

The benefit of the NRV approach to sellers is that it takes into account both the market in which the seller purchases the property as well as the market in which it sells the property. Potential for further price decline, a lengthy holding period and the cost to rehabilitate the property are all considered in valuing the property.

NRV provides buyers with a good negotiation tool, reflects market risks and program feasibility concerns and complies with requirements of HERA. See this [paper](#) for more information about NRV.

**5. Assess the capacity of government agencies, authorities and nonprofits to reclaim foreclosed properties.** Few cities or counties, and even fewer community development corporations and other nonprofits, can handle thousands, or even hundreds, of scattered-site vacant properties. Each stage of reclamation – acquisition, rehabilitation, maintenance, disposition, stewardship – requires specialized knowledge and might be accomplished by different entities. Many municipalities have never before needed to acquire properties for non-public use, whether to rehabilitate them or bank them. It is essential that every municipality or nonprofit be completely honest with itself about whether it has the expertise, resources and staff to carry out tasks needed to recover foreclosed properties.

### The Cost of Rehabilitation

*“The rare home that we find in “move-in” condition is referred to real estate brokers who can sell it. We focus on the homes that need work,” said Stephanie Gruver at Greater Minneapolis Housing Corporation (GMHC). The goal is to find homes that can be rehabilitated with a relatively small subsidy, some of which may be able to be recovered at resale. GMHC’s average acquisition price on 45 recent rehabs was \$63,000. Average development costs were \$167,000. Average resale price was \$135,000, leaving an average subsidy gap of \$32,000. The properties were rehabilitated to comply with standards that assured the new owner will not have major repairs to deal with for the next seven years.’*

When the capacity is not there, cities or towns can sub-contract out some work, or create new entities. The city of Los Angeles, for example, created the Restore Neighborhoods nonprofit holding company, which contracts with teams of for-profit vendors to rehabilitate homes (see Case Study). Minneapolis and St. Paul are hiring subcontractors to acquire REO properties (see Case Study). In Ohio, Cuyahoga County launched a new [nonprofit land bank](#) to aggressively acquire vacant properties in April 2009. Nonprofits can similarly take advantage of private market contractors to do the work but still must have sufficient expertise on staff to provide appropriate oversight.

When looking at capacity, a city or county should ask whether there is sufficient knowledge of current property inventory, location and condition and sufficient staff expertise and time to inspect and value each property, negotiate for its purchase and determine the best property disposition method. The Neighborhood Stabilization Program requires local governments to gear up quickly. Many are gearing up by outsourcing the work to capable nonprofit or for-profit companies.

**6. Calculate costs of restoring the property.** Homes of borrowers in financial distress often fall into disrepair, requiring significant repairs and capital improvements (including painting, plumbing repairs, replacing appliances and carpeting, and repairing water damage). In addition, angry former owners or thieves looking for copper and any other materials may vandalize a property. Prior to purchase, an expert in housing rehabilitation should inspect each home, determine whether the property can be made safe and livable and, if so, estimate costs.

The majority of REO properties need some rehabilitation work. Where rehabilitation for a house will cost considerably more than existing subsidy dollars for each home, then demolition must be considered, particularly if the house has no special characteristics that would entice a buyer to purchase it as a fixer-upper. Prospective nonprofit or municipal buyers also must remember to check for liens on the property, because if the owner is unable to pay mortgage payments, there is a good chance that he or she has not paid tax, utility, or other bills, which create debts attached to the property that a new owner must pay.

**7. Create priority areas to target efforts.** If funds are scattered about rather than used strategically, some properties will be rehabilitated or demolished, but cities and towns are unlikely to see any sustained improvement in their neighborhoods or the city's fiscal condition. Identifying priority areas is essential to achieving an impact, particularly when the number of foreclosures far exceeds available resources.

Choosing priority areas can be politically difficult. Every councilperson wants the city to address the foreclosure problem in their district. Every resident wants action taken in their neighborhood. As a result, it is essential to develop clear criteria for targeting efforts. The criteria must take into account the stability of the neighborhood market and the ability of foreclosure recovery efforts to have an impact. Decades of experience have shown us that governments and nonprofits have a greater impact in asset-rich, stable neighborhoods that are at risk from abandonment and vacancies than they have in low-asset neighborhoods with large concentrations of vacancy and foreclosure and low buyer interest.

*“If we can only acquire two homes in a two block area that has 15 homes, then we must have made no impact. We must target our efforts very strategically. The NSP money at most allows us to acquire 200 homes over 20, 000 vacant homes.” –*

*Deborah McCullough, Director,  
Philadelphia Office of Housing and Community Development.*

The municipality or nonprofit should calculate how many homes it can acquire and rehabilitate in a neighborhood, and then evaluate whether the number of homes that can be restored is sufficient to

## Understanding Neighborhood Markets

The Reinvestment Fund (TRF), a nonprofit community development financial institution based in Philadelphia, has developed a **“market valuation” approach** to identify areas where reclaiming vacant foreclosed properties will have maximum impact. TRF uses extensive data points to identify areas where foreclosure-related vacancies are a potentially destabilizing force.

positively impact the neighborhood. The reason is simple. If a neighborhood with extensive vacancies is targeted and the city can afford to buy only a quarter of the foreclosed properties in the neighborhood, the remaining vacant homes will continue to drag down home values and will lower demand from buyers. Years ago, the philosophy was to throw a few seeds into a neighborhood and then to watch them grow as the private market did the rest. That approach did not work. The intervention made in any neighborhood must be substantial enough to change the market or it will have little impact. Also, different lenders and servicers control REO properties on a single block. When a nonprofit or municipal entity plans to target an area, it must assume that it will only be able to acquire some of the properties and this percentage of the properties must be sufficient to have an impact. In fact, the location of foreclosed properties owned by a lender or servicer who is willing to sell at a fair price may be a factor in the selection of targeted areas, since fixing up multiple properties in close proximity will have a greater impact.

Another strategy is to funnel foreclosure recovery efforts into neighborhoods where new residents will have access to assets such as transit, good schools or employment clusters. Other factors that can affect decisions on where to focus recovery efforts includes prioritizing neighborhoods that are scheduled to receive major public or private investments, or communities where schools, transit or other assets might be jeopardized by blighted or abandoned properties. If demolition is the city's strategy of choice, the priority area may be very different than if rehabilitation is the city's strategy of choice.

*“Neighborhoods devastated by foreclosures are at a tipping point... Getting these properties into the hands of community groups, instead of speculators, will go a long way toward stopping the downward spiral.” - Mark McDermott, Enterprise Community Partners, Columbia, Maryland*

**8. Discourage speculators.** Speculators currently account for the majority of foreclosed property sales. The requirements for acquiring foreclosed properties give speculators an advantage since they are more likely to be able to round up quick cash, participate in a rapid 30-day closing process, and take properties in as-is condition without an inspection (see this [article](#)). Yet speculators have a poor record of maintaining their properties. Their primary interest is to “flip” the property, making, at most, some cosmetic repairs, and then re-selling it at a time when they can make a significant profit. Three key actions to discourage speculators from buying and leaving properties vacant or blighting a neighborhood are:

- ***Regulate vacant properties and property maintenance to ensure properties are well maintained.*** Numerous municipalities have added regulations requiring owners of vacant properties to register those properties and bring them up to code within a specific period of time. Registration fees of up to \$1000 annually pay for enforcement of this program. Other municipalities have increased code enforcement for vacant properties and implemented significant fines for failure to keep vacant properties in good condition.
- ***Encourage homebuyers and trusted builders to purchase and fix up foreclosed properties.*** Homebuyers and local builders are at a disadvantage when it comes to the purchase of foreclosed properties. They do not have the resources to put into researching what properties are being foreclosed upon nor can they typically buy in bulk or pay in cash. A community can encourage homebuyer owners or trusted developers to purchase and rehabilitate foreclosed properties through low interest loans, grants, tax incentives and down payment assistance. In addition, communities can

negotiate with banks and try to remove the current priority for cash purchase of foreclosed properties – a practice that clearly benefits speculator buyers over homeowner buyers.

- ***Gain control of foreclosed properties to sell them to homeowner buyers who will benefit the neighborhood.*** A key purpose of the Neighborhood Stabilization Program is to allow communities to purchase foreclosed properties strategically, rehabilitate them and bring them back into productive reuse. As the Twin Cities case study makes clear, often municipalities have a difficult time competing with investors for key properties. When they can obtain properties, they can immediately rehabilitate and sell them to a qualified homebuyer or keep them in a land bank until there is sufficient market demand.

## Green is a Smart Community Investment

A [study](#) by New Ecology Inc. for its Green CDCs Initiative found that greener affordable housing projects on average cost 2.4 percent more to build but save purchasers an average of \$12,637 in utility costs over the life of the home.

**9. Define standards for rehabilitation that include energy conservation.** The standard for rehabilitation adopted by a municipality, state or region determines the cost to repair foreclosed properties. Energy efficient rehabilitation provides an opportunity to reduce utility bills and the incidence of health problems such as asthma and other respiratory illnesses. Weatherizing homes, removing mold, and adding energy efficient appliances also creates good-paying jobs. The standard used by Minneapolis Neighborhood Housing Services is for a rehab to require no major repairs for a period of at least seven years after transfer. Other cities plan set as a goal cosmetic fixes, such as painting, in addition to requirements that the roof does not leak, the furnace works and the property is structurally viable. Cities should account for at least the potential of costly repairs when determining income-level requirements for owners.

**10. Promote alternative models of housing tenure that incorporate protections to prevent a repetition of the present foreclosure crisis.** Banking regulation and homebuyer education are not the only strategies to prevent a repeat of this crisis. Forms of housing tenure that incorporate stewardship and community ownership mechanisms protect residents from foreclosure. These include nonprofit-owned rental housing and shared equity homeownership models such as community land trusts, limited equity cooperatives, and deed-restricted units. Community land trust homes, for example, are six times less likely to go into foreclosure than non-land trust homes. See Stewardship Strategies in the next section for a description of these models.

**11. Establish a detailed foreclosure recovery action plan.** A good plan should include details such as objectives, timeframes, and budgets, and document all commercial activity in a target area, such as streetscape or façade improvements, redevelopment of brownfields, economic development efforts, and tourism projects. Questions to be answered in an action plan include:

- What are the goals for the action plan?
- What are the specific strategies for achieving that goal?
- What action steps are to be completed to meet each objective?
- What conditions and trends may impact success?
- Who is responsible for getting the work completed?

- How will work be done?
- When will the work be completed?
- What resources are needed?
- How will success be measured for each action step?
- What safeguards will be put in place to protect recovered properties so they do not slip back into foreclosure in the near future?

<b>Action Steps</b>	Obtain site control of 30 foreclosed properties in fairly good condition in a 10-square- block area
<b>Persons Responsible</b>	Records Department to determine ownership; Property Maintenance Bureau re-inspectors to judge condition of properties; RDA to contact owner/servicer; Lawyer to negotiate terms with owner
<b>How Work Will Be Done</b>	Records Department, RDA and Lawyer will meet once owner is identified, all communications will be in writing, all parties to be kept informed, all properties to be inspected prior to purchase
<b>When Work Will Be Completed</b>	September 2009
<b>What Resources Are Needed</b>	Staff time: Budget:
<b>How Success Will Be Measured</b>	Municipal control of good- condition properties in close proximity to one another

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# Menu of Strategies

Reclaiming foreclosed properties involves three general stages: 1) acquisition, gaining legal control of the property; 2) disposition, transferring it to a responsible owner or manager to ensure it is then used for a community benefit, such as a neighborhood park or affordable rental housing; and 3) stewardship, developing systems and tenures that safeguard the long-term affordability, quality, and security of homes. This section presents strategies that can be used for each of these stages.

Each of these stages is taken up in turn in the next three sections. The Choosing Strategies section describes the most effective strategies based on the type of neighborhood housing market in which you are working.

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# Acquisition Strategies

Foreclosed properties can be acquired at different junctures after they have been vacated. Most will be acquired when they become part of an REO inventory.

1. Acquire properties at auction. Buying a property at a foreclosure auction is one of the most expensive and risky methods of purchasing foreclosed property, and it is rarely used. Foreclosure sales begin with a minimum bid that includes the loan balance, any accrued interest, attorney's fees and any costs associated with the foreclosure process. In order to bid at a foreclosure auction, a prospective buyer must have a cashier's check in hand for the full amount of the bid. Since what is owed to the bank is almost always more than what the property is worth, very few foreclosure auctions result in a successful sale. In the event that there is, the successful bidder receives the property in "as is" condition, which may include someone still living on the property, or liens against the property, leaving open the possibility that the former owner or the IRS will exercise their right of redemption.

2. Acquire REO properties for rehabilitation and resale. When a property fails to sell at auction, it "reverts" to the bank and becomes an REO, or "real estate owned," property. Ninety-seven percent of properties that go to foreclosure auction end up in REO inventories (up from an average of 70 percent of properties that did not sell at auction prior to 2007). Properties are particularly concentrated in inner city communities – where they average [9.2 REO per square mile](#) – and this large inventory puts tremendous downward pressure on local real estate values.

The Rise of REO Properties.

In 2007, [four out of every 1,000](#) homes in the U.S. became REO. Wells Fargo, alone, held more than \$900 million in foreclosed property nationwide in December 2008.

Lenders typically lose a significant part of their investment when foreclosures occur. Several independent studies have found that lenders tend to lose approximately \$50,000 per foreclosed home, or between 30 to 60 percent of the outstanding loan balance (see this [report](#)). Nonetheless, lenders are usually unable to sell at bargain prices because of their fiduciary responsibility to provide the highest investment returns possible.

There are several steps to negotiating with servicers or lenders:

*Determine what properties the lender owns* and whether they fall within a targeted area.

*Identify the department or individual* responsible for disposition, whether it is a servicer or REO broker.

*Determine the value of the property.* To negotiate purchase terms, it is best to begin with the property valuing formula discussed in Getting Started, but it may also be helpful to prepare a market analysis. It is common for lenders to have little knowledge of market values, neighborhood conditions, or even the condition of the properties they own.

Acquisition Challenges in Massachusetts

In early 2008, Massachusetts created a \$20 million revolving loan fund for the purchase of REO properties, but by September of 2008 had only purchased 14 properties. This slow pace was due in part to the time-consuming research undertaken to identify disposition contacts. But the larger factor was lenders' disinterest

in either bulk sales or short sales. Their estimates of market value were well above those of communities trying to buy. See the report [here](#).

*Negotiate a discounted price.* Sec. 2301(d)1 of HERA specifically provides that: “Any purchase of a foreclosed upon home or residential property under this section shall be at a discount from the current market appraised value of the home or property, taking into account its current condition, and such discount shall ensure that purchasers are paying below-market value for the home or property.” The discount price requirement makes it more difficult to negotiate a purchase and to compete with speculators. As pressure from the federal government continues or increases, new innovations appear (such as the nonprofit National Community Stabilization Fund), and costs to lenders mount each month they hold a property, this acquisition timeframe is likely to shorten.

HUD is a promising source for REO properties. The agency has no responsibility to private investors or profits and is taking aggressive steps to transfer the properties to municipalities and nonprofits. Every year HUD obtains thousands of residential properties when loans issued under FHA, VA and other government-insured lending programs are foreclosed upon. HUD has historically sold more than half of its REO properties to new owner-occupants or to nonprofits. HUD’s three key programs for foreclosed property recovery are:

#### Baltimore

Baltimore has used its broad receivership powers to rehabilitate vacant properties. Once repairs are complete, the city manages and rents out the property for up to two years to recoup money spent on operating and construction costs.

[Dollar Home Program](#) - HUD sells some of its most troubled REO properties to local governments for a nominal price.

[602 Nonprofit Disposition Program](#) - nonprofits or local governments purchase and redevelop for affordable re-sale all HUD-owned REO homes in a designated area, called an Asset Control Area (ACA).

[Good Neighbor Next Door Program](#) - HUD sells homes in designated areas to law enforcement officers, pre-kindergarten through 12th grade teachers, firefighters and emergency medical technicians at a 50 percent discount, provided they live in the home for three years.

3. Acquire properties through donation. This method obviously stretches limited resources, but to date, few owners have been willing to donate. The exception is Fannie Mae. In December, 2007 Fannie Mae transferred 182 foreclosed homes, most of them in Detroit, to the Michigan State Housing Development Authority and the Michigan Land Bank Fast Track Authority. The agencies paid \$32,000 for the entire group of 182 homes - enough to cover title-processing charges on each home. Once the titles were cleared, the agencies donated the properties, which range in value from \$5,000 to \$70,000, to Michigan municipalities, charities and housing programs. A bank that agrees to donate properties will receive [Community Revitalization Act](#) consideration for an in-kind donation that represents the difference between the fair market value (based on a recent, independent appraisal) and the discounted sales price of the property. If the bank donates the property outright, the property’s fair market value will represent the in-kind donation for CRA purposes.

4. Establish or expand a community land trust to create permanently affordable housing. A Community Land Trust is a mechanism for the acquisition, disposition and stewardship of foreclosed properties. See a complete description in the [Stewardship section](#) below.

5. Acquire properties using tax foreclosure. Cities or counties across the United States have the legal right to seize tax delinquent properties for unpaid taxes, if the owner has been delinquent for the period of time specified in the local tax lien statute. The municipalities' property tax lien has priority over the lender's claims. This allows a municipality to use tax foreclosure to ensure a property is held in its control rather than the lenders' control. The ability of municipalities to use tax delinquency to obtain properties, however, is complicated by the fact that many jurisdictions have bundled and sold tax liens for unpaid property tax revenues and no longer control the lien they originally placed on the properties. In addition, if the city does use tax foreclosure, lenders may recover the property by paying the delinquent property taxes. (Note: Lenders are also responsible to pay delinquent taxes while the property is held in their REO inventory.) Tax foreclosure may prove to be a far more important tool over the next few years as speculators who acquired REO properties fall behind on paying their taxes and violate property maintenance regulations.

6. Rehabilitate nuisance properties using receivership. Receivership, while not an acquisition tool, is an effective method for gaining control of vacant buildings that are neighborhood blights. Receivership laws differ, but typically, local authorities issue a citation, ordering the owner to bring the property up to code. If the owner fails to comply, the local government asks the court to appoint a receiver – often either the local government itself or a CDC or management firm – to restore the property to code. The receiver restores the property and places a lien on the building to pay for the repairs. Since there must be sufficient equity in the property to pay back the lien at sale, receivership works best in moderate or strong markets.

7. Increase foreclosed property owner costs to encourage sale. Cities across the country are passing ordinances to tax or fine owners of foreclosed properties. The goal is to encourage the owner either to maintain the foreclosed properties or to quickly sell them to a responsible owner. The goal of the fines is to make it cheaper to sell a foreclosed property at a loss than to wait for better times and continue to incur taxes and fines. Many of these ordinances are so new that their effectiveness is yet unclear, although legal penalties are certainly a tool worth considering. Critics of the fines predict that the fines, added to back taxes, repairs and legal costs, may cause lenders to walk away from low-value foreclosed properties, stopping foreclosure efforts and leaving the ownership of the property in limbo. These orphaned properties would deteriorate quickly.

Cities that have imposed fines or requirements on foreclosed property owners include:

Providence, Rhode Island, where Mayor David Cicilline submitted an ordinance to the city council that would fine the owner 10 percent of a building's value if it remained vacant a year after receiving a warning from the city.

Louisville, Kentucky, passed an Abandoned Urban Property Tax requiring owners of tax-delinquent or code-violating vacant properties to pay property taxes three times the normal tax rate. (See Providence and Louisville case studies [here](#))

[Buffalo](#), New York, where lenders are sanctioned in housing court. Under the state property maintenance code, not just owners but those who have "control" over the premises are liable for code violations. Housing Court Judge Henry Nowak contends that foreclosure notices are evidence that lenders assert some measure of control over the property. When banks ignored summonses for code violations, Nowak entered default judgments against them, imposing fines of up to \$15,000. A lien was placed on the property for the fine amount and the lien's existence prevented the lender from buying or selling properties in the area or seeking the court's assistance to evict tenants.

Trying a more cooperative approach, Boston's Mayor Thomas Menino negotiated agreements with several of the largest mortgage companies to improve maintenance of foreclosed properties and work with the City on selling those buildings as soon as possible. During the summer of 2008, the Federal Deposit Insurance Corporation sent a letter warning banks to maintain their foreclosed properties and to continue paying taxes on them.

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# Disposition Strategies

For local governments, transferring properties to a responsible owner as quickly as possible is key to restoring the housing market. Doing so ensures that municipalities will not become long-term property owners and landlords of scattered foreclosed properties. The goal for any municipality is to limit the holding period and get properties back into the hands of responsible owners.

Disposition strategies should fully align with community planning goals for neighborhoods that have been crafted with broad resident input. Often when faced with a crisis, local governments overlook the importance of planning and rush to implementation without clear objectives. Neighborhood plans not only describe the neighborhood and its assets but also set out a vision for its future that can guide foreclosure recovery efforts. For instance, where a neighborhood plan calls for reducing density, demolition and the creation of green spaces will accord with the planning goals. In a neighborhood that is attempting to increase its single family properties and undo years of conversions into multiple units, an emphasis on rehabilitating foreclosed multiple unit properties and restoring them as single family may be a key objective. Each neighborhood is unique and requires a disposition strategy that accords with neighborhood planning goals as well as market realities.

## A Lesson on Property Management from NYC

All cities can learn from the mistakes [New York City](#) made in the 1970's and 80's, when the City became the reluctant and poor-performing landlord of 10,000 distressed, occupied multifamily buildings that were tax delinquent, and by the mid-1990s, was paying \$220 million a year to manage and maintain them. This time around, NYC will subsidize the efforts of a nonprofit group to purchase, rehabilitate, and transfer properties to working families.

## The Rental Market: Strong By Comparison

Rents dropped – though slightly – in 54 of 79 metropolitan areas during the fourth quarter of 2008 according to an [analysis](#) by the research firm Reis Inc.

**1. Sell property as affordable housing.** The foreclosure crisis and downturn in the economy provide an unprecedented opportunity for governments and nonprofits to buy up foreclosed properties and to rehabilitate them and create affordable housing units for low- and moderate-income households. These affordable homes can be rented, sold, or kept in a community land trust so that the initial subsidy can provide affordable homes for generations. To create affordable housing with limited subsidy, all of the steps in this tool must

be achieved efficiently, including the acquisition and rehabilitation of each property.

**2. Rent property for short or long term.** In today's market, the highest and best use for many properties may be rental housing. Despite massive overbuilding during the real estate boom, and a flat sales market that has expanded the pool of rentals in some areas, rental housing is being lost every day to foreclosure. As a result, only a small surplus exists and there is a strong rental market in most areas of the country.

Foreclosed properties can be used to create two different types of rentals: short-term rentals designed to generate income while the property is on the market, keeping the foreclosed property occupied and less vulnerable to theft and vandalism; and traditional long-term rentals with multi-year leases. Short-term rents

tend to be lower to encourage immediate occupancy and often are just enough to cover utilities, taxes and maintenance. In return for the low rent, tenants are informed that they will receive very limited warning before eviction. Opportunities may even be presented for “reoccupancy” of the property immediately by former owners under short-term leases. Short term rentals may not be legally permissible in rent control jurisdictions and those with strong tenant protections that prohibit the owner from selling the property quickly. Traditional long-term rentals are attractive where the sales market is not strong or where an inadequate amount of rental products exists.

Some cities have proposed that lenders and servicers consider short-term rental of REO homes to offset carrying costs and protect the properties. The challenge is that most banks do not want to become rental property managers and in states with strong tenant protections, are worried about the difficulty of removing a tenant, limiting their flexibility and ability to sell the property. Fannie Mae, however, is agreeing to keep approximately 4,000 tenants in its foreclosed rental properties. Beginning January 9, 2009, Fannie Mae began acting as an interim landlord.

**3. Use a lease-purchase model to move people into homeownership.** When a home is offered as a lease-purchase, the lessee typically makes monthly lease payments based upon the home sale price and the monthly operating costs. Payments go into an escrowed savings account that is used to pay the down payment the closing costs, or both, at the time of purchase. Home prices are fixed at the beginning of the lease, which can help stabilize neighborhood prices. The period of the lease varies greatly, as does the extent to which the participant is responsible for repairs and maintenance on the home during the program. Often, there is a requirement that lessees must attend homeownership education classes or counseling sessions to learn about important homeowner responsibilities.

A lease-purchase model offers many advantages to a community with a lack of qualified buyers and a surplus of available homes. Lease-purchase ensures that homes are occupied and protected from crime and vandalism and prepares households for homeownership by giving them time to repair their credit, raise a down payment, and learn about the responsibilities of homeownership. Lease-purchase programs tend to target households below 80 percent of median income threshold who are motivated to save for homeownership and do the work necessary to transform their lease into a deed. The disadvantage of the lease-purchase model is the significant administrative costs needed to acquire the property, coordinate the rehab work, provide education on household budgeting and credit repair, and manage and maintain the property until the household

### Reno’s Rental Strategy

[Reno](#), Nevada has as part of its foreclosure recovery plan a strategy to purchase foreclosed homes, re-mortgage them, and offer them for rental to households at or below 50 percent of AMI. By re-mortgaging the properties, the Reno Housing Authority can stretch the \$5 million in Federal NSP money to buy other distressed properties.

### Habitat Gets to Work on Foreclosed Properties

In [Atlanta](#), the nonprofit Habitat for Humanity is adding acquisition and rehabilitation of foreclosed properties to its mission. Despite the fact that it is harder to attract volunteers to rehabilitate an existing property than build a new house, Habitat feels it can get more people in homes this way. Habitat affiliates across the country may be willing to delve into home renovations in communities receiving the federal grants, said Stephen Seidel, a field director for Habitat for Humanity International. Habitat will only work on homes that can be sold for between \$90,000 and \$140,000.

can assume the mortgage and other homeowner responsibilities.

Self-Help, a nonprofit community development lender and real estate developer, has been offering lease-purchase locally in Charlotte, North Carolina, and is hoping to extend the program nationally. Self-Help received approval to deliver \$200 million of its lease-purchase mortgages to Fannie Mae and will work with local nonprofit housing organizations that acquire and rehab vacant or foreclosed properties in neighborhoods throughout the nation. The nonprofits identify “tenant purchasers” – renters who are likely to be able to assume the mortgage on the property in one to five years – and provide credit and homeownership counseling and property management services during the rental period. Self-Help will offer some financing for acquisition and rehab. Once rehab of the property is complete, the nonprofit pays back the acquisition/rehab financing by taking out a lease-purchase mortgage on the property. This mortgage is originated by a bank partner and sold to Self-Help. Self-Help retains the credit risk and sells the mortgage to Fannie Mae. After the rental period, when the tenant-purchaser can qualify for the mortgage under standard underwriting criteria, the tenant-purchaser will assume this lease-purchase mortgage from the nonprofit. See a case study of Self-Help [here](#).

**4. Enlist nonprofits and CDC’s as partners:** As a general rule, local governments will not have the capacity or desire to rehabilitate and manage foreclosed rental homes. While some governments will contract directly with for-profit contractors, brokers, and property managers to provide this capacity, many will sell the newly acquired properties to a nonprofit with the necessary expertise and resources and fund the nonprofit to complete this work. A nonprofit’s fitness for the job is determined based on its response to an RFP. Once the nonprofit demonstrates that it can handle the task and commits to selling or renting the properties to residents at specified income levels, selections are made. While some municipalities will partner with CDC’s to work in a single neighborhood, others, such as New York City, will hire a city-wide nonprofit to handle all the work.

The capacity of nonprofits to reclaim foreclosed vacant properties at scale varies significantly from city to city. Some cities, such as Cleveland or Philadelphia, who have tackled repair and rehabilitation of an older housing stock for decades, may have CDCs well equipped to fix up foreclosed homes. In other areas, CDCs have focused on new construction and have little experience improving older homes. In addition, many CDCs are so small that a city or county could easily give them more properties than they can handle effectively.

**5. Land bank properties for future development.** Land banks are a key tool where the supply of vacant properties exceeds demand. A land bank is a government-authorized public authority created to efficiently acquire, hold, manage and sometimes develop vacant and abandoned properties. A land bank authority can be created as a nonprofit or as part of a redevelopment authority or other government agency. A land bank is essentially a virtual entity — since it is not possible to shelve land as we can dollar bills. However, it acquires

### Varieties of Land Banks

The Fulton County/City of Atlanta Land Bank Authority operates like a literal bank, accepting land “deposits” from local governments and nonprofits that pay fees to the land bank to manage properties until they are “withdrawn” to be disposed of by the depositor for affordable housing or other public uses. Other land banks, like the Genesee County Land Bank in Michigan, serve as redevelopment bodies, accumulating property that they themselves aggregate and market for comprehensive reuse. The operation costs of a land bank are typically funded through property sales and interest and penalties assessed against delinquent property taxes, or through the fees and contributions of the entities depositing properties.

the property, clears title to the property, owns the property, and rehabilitates and markets the property. In some jurisdictions, the land bank is restricted to holding vacant land lacking homes or structures. This was the case in Cleveland, which prompted Cuyahoga County to create a new land bank with expanded powers to acquire, hold, and transfer buildings as well as vacant lots. Land banks usually will possess property management capacities and have clear public purpose responsibilities for the subsequent disposition of property, such as neighborhood stabilization or affordable housing. Land banks are responsible for maintaining the properties they own and it is not uncommon for the land bank to be responsible for hundreds of code violations as they direct their energies toward getting properties ready for market.

To create a land bank, the entity must be given legal authority. This may require a change in state or local laws if they currently do not allow for a land bank. When establishing a land bank, certain decisions should be made up front:

- Will the land bank be a separate nonprofit entity or a part of municipal government?
- What are the primary tools the land bank will use to acquire properties? Will it include condemnation?
- How will the land bank be financed?
- What is the land bank's mandate with regard to holding properties long-term for assembly or selling individually where possible?
- Who needs to approve clear, written policies and procedures for the land bank?
- Who needs to approve an individual acquisition or an individual transfer?
- How can the land bank streamline processes in order to deliver homes to buyers and land to developers on a fast, predictable basis?
- Who are appropriate purchasers for land-banked properties?
- What clear guidelines can be established for disposition of individual homes, agreements with contractors, and developer's agreements for larger tracts of land?

**6. Demolish non-viable properties.** Preservation offers many advantages over demolition, including a much stronger potential to stabilize nearby property values. In fact, a study found that [demolition may cause surrounding property values to fall by as much as \\$1,300](#), while rehabilitation tends to raise property values. However, demolition is an invaluable tool when a property is:

1. imminently dangerous;
2. obsolete and of a type for which there is little demand; or
3. needed for assembly of a developable site.

Other factors to consider in determining whether demolition is appropriate are location, historical significance, and the cost of rehabilitating the structure in relation to the market value of the property.

Demolition costs vary considerably among cities. Philadelphia, with its attached row homes, pays over \$20,000 for the demolition of each house. Single-family detached housing that predominates in other cities is less expensive to demolish.

Where a city contracts for the demolition of a number of structures, instructions should be clear that dangerous and public nuisance properties should be removed first. Otherwise, contractors may choose to

demolish the homes in the best condition with the nicest features first because they can recover the most money through salvage for those homes' marble, mahogany, copper and stone. In the absence of a priority list, funding may run out before public nuisances are eliminated.

Vacant lots may be used as green space or side yards for adjacent properties or left empty and well-maintained until the residential building market is active again. The Pennsylvania Horticultural Society and the City of Philadelphia have developed a series of inexpensive vacant lot treatments, involving simple plantings and fencing, that discourage illegal dumping and make the lots a more attractive part of the neighborhood. For further information, see this [report](#).

Demolition is a critical strategy being deployed in Cleveland, both by the city and by community development groups. The reason why demolition is the strategy of choice is the lack of market demand for older homes in Cleveland and the poor structural condition of many foreclosed homes. Many would require substantial subsidy dollars that could not be recovered at resale. City demolitions have been occurring at a rate of about 200 a year throughout the decade, but 1,000 homes were demolished in 2007 and 2008. The City is allocating three-fourths of its \$25 million in NSP funds toward demolition. See the Case Study section.

[Dayton](#), OH, plans to employ strategic demolition. In the past, the city's policy was to mothball vacant properties, hoping they would be worth restoring and reusing some day. But Director of Planning and Community Development John Gower now explains that "the region is stunningly overbuilt." The City is now increasing its strategic demolition and studying how zoning can encourage concentrating the population in areas with good housing stock.

**7. Employ real estate agents and other professionals to sell foreclosed homes.** Some cities are working directly with selected real estate agents or brokers to hasten sale of foreclosed properties. Approaches vary from taking prospective buyers on real estate tours, to establishing strong working relationships with selected real estate brokers.

- Boston's Department of Neighborhood Development is offering [trolley tours of foreclosed homes](#) located in targeted neighborhoods. Interested buyers first take a free home-buying course and a seminar on how to buy a foreclosed property, and then spend a day touring as many as 50 available homes.
- The [Center for New York City Neighborhoods](#), established in 2007, has created a mission-driven nonprofit broker (MDB) for short sales, which is the most common method in NYC by which foreclosed houses exchange hands. The Center aims to prevent short-sale properties from being purchased by speculators, and instead to facilitate their sale to working families who can be in-residence homeowners and members of a neighborhood. The Center expects to work with 90 families in its first year and handle 500 properties through its acquisition, rehab, and re-sale program.
- In 2003, the City of Baltimore created a program called [SCOPE](#) (Selling City-Owned Property Efficiently), in which it partners with the Baltimore Economy and Efficiency Foundation and the Greater Baltimore Board of Realtors. The goals of SCOPE are to obtain the best prices for city-owned, vacant properties by exposing them to the broadest possible market, to handle the process efficiently, and to revitalize neighborhoods. Many of the properties sold by the SCOPE program are seriously deteriorated and need extensive rehabilitation. To sell them, the City contracts with experienced realtors, who list the properties on the MLS. When they receive offers, listing agents give the offers to the Baltimore City Real Estate Officer, and a City Committee selects the best offer. When a sale

occurs, the City pays the broker \$2,500, or 8 percent of the sales price, whichever is greater. Buyers are required to accept a property “as is,” and to prove that they can afford to rehabilitate the property in question within 18 months; to date, not all buyers have accomplished the renovations. Buyers also must agree to allow checks of court and housing inspection records to make sure they are not negligent landlords or property flippers. In SCOPE’s first two years, [98 properties had sold out of 174 listed, and the City was experiencing a net financial gain](#) through the program.

**8. Offer homeowner buyer incentives or financing for purchases of foreclosed properties in targeted areas.** Several cities are offering incentives to encourage qualified homeowner buyers to purchase, repair, and occupy foreclosed homes. HERA’s Neighborhood Stabilization Program specifies that grants can be used to “establish financing mechanisms for purchase and redevelopment of foreclosed upon homes and residential properties,” including “soft-second, loan loss reserves and shared-equity loans” (Sec.2301(c)(3)(A). The goal is to offer incentives for qualified homeowners to buy a foreclosed home, rather than to repeat the mistakes of the past and offer “too good to be true” deals to households that cannot sustain homeownership.

- Providence, RI, introduced a loan program to encourage people to buy foreclosed homes. The city will make no-interest loans of up to \$20,000 to help buyers make repairs to foreclosed homes that they purchase.
- Baltimore is providing loans of up to \$50,000 - depending on the scope of renovations - to pay for settlement costs, restoration work or to buy down the mortgage amount. The loan is in the form of a second mortgage, the balance of which would be forgiven if the buyer lives in the home for about 15 years. Baltimore’s requirements for buyers include good credit and a stated intention to live there. Eligibility is capped at about \$78,000 annually for a two-income household and about \$40,000 for a single wage earner. Housing counselors will help prospective buyers with home selection and renovation estimates.
- Minneapolis is offering the Minneapolis Advantage Program, which aims to stabilize key neighborhoods by providing \$10,000 in down payment and closing cost assistance to each buyer of a home that either has been foreclosed upon, or is in the same block as a foreclosed home. The \$10,000 is offered as a zero-percent interest loan that is forgiven if the buyer occupies the home for five years. The program began in 2008 and has been renewed for 2009. Seventy-eight percent of the buyers to date were first-time homeowners.
- Los Angeles has implemented a Walk in Program to ensure homeowners rather than speculators buy foreclosed properties in its priority target areas. The Program encourages realtors to show homes in fairly good condition to homebuyer households with incomes up to 120 percent of area median income (AMI) (\$90,960 for a family of four), and provides those houses with a soft second mortgage underwritten by the city. See case study.
- Minnesota is using contract for deed as a financing tool to help residents purchase homes. A contract for deed, also known as a “bond for deed,” is used for homebuyers who can not obtain traditional financing. Under a contract for deed, a nonprofit organization buys the REO property and then finances its sale to a homeowner. The buyer agrees to pay the purchase price of the property in monthly installments. The buyer immediately takes possession of the property, often paying little or nothing down. The seller retains the legal title to the property until the contract is fulfilled. In a typical contract for deed, there are no formal applications, or high closing and settlement costs. Yet the

contract for deed offers far greater risks and fewer protections for the buyer than traditional financing. If the buyer defaults on payments in a typical contract for deed, the seller may cancel the contract, resume possession of the property, and keep previous installments paid by the buyer as liquidated damages. The Greater Metropolitan Housing Corporation has sold two foreclosed homes using contract for deed in 2008 after they were full rehabilitated. The official launch of the Contract for Deed program was in January 2009. See the Case Study.

Nationwide, HUD is offering incentives to purchasers of HUD homes. The incentives vary by State. In Pennsylvania, Michigan, and Ohio, the maximum incentive program is operating, and it includes a provision that buyers need to offer only \$100 as a down payment on a HUD home when the buyer uses FHA-insured financing. The program in these states also provides a sales allowance that can be used to cover closing costs, finance repairs, or pay down the mortgage amount, and broker bonuses for sales of homes that will be occupied by the new owners.

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# Stewardship Strategies

Though they must be developed quickly, foreclosure recovery strategies also need to incorporate mechanisms that ensure the long-term viability and affordability of homes. *The Housing and Economic Recovery Act of 2008* encourages using Neighborhood Stabilization Program funds for long-term affordability. It specifically provides “...to the maximum extent practicable and for the longest feasible term, that the sale, rental or redevelopment of abandoned and foreclosed upon homes and residential properties under this section [shall] remain affordable to individuals or families described in subparagraph (A).”

This stewardship requires effective management and oversight as well as housing types and tenures designed to maintain affordability. Nonprofit rental housing is one vehicle for ensuring that properties remain affordable over the long run. Over the past several decades, there has also been significant growth in shared equity homeownership models: forms of tenure that bridge rental and homeownership.

These programs balance individual wealth creation through home appreciation and continued affordability for future buyers. In so doing, they put homeownership – and the multiple benefits it brings – within reach of lower income families – and the security of tenure and wealth-building. Models include deed restrictions, community land trusts and limited equity housing cooperatives.

Shared equity homeownership models also protect owners against foreclosure. The National Community Land Trust surveyed member CLTs and found that people living in community land trusts were [six times less likely to go into foreclosure](#) than market-rate homeowners. Three key policies are responsible for lower rates of foreclosures among shared equity homes:

- **Review of mortgages or liens.** The majority of co-ops and governments that impose deed restrictions maintain the authority to review and approve any mortgage or lien. As a result, experienced professionals are available to judge the terms of the loan and the qualifications of the owner and avoid predatory or unwise loans.
- **Homeowner education.** Most shared equity programs require homeowner education prior to sale or lease to ensure that the individuals understand what they are agreeing to and have the skills to be knowledgeable housing consumers.
- **Alerts of delinquent payments.** Shared equity programs often require the lender or owner to inform them of any delinquent mortgage payments so that they may intervene in a timely fashion and avoid foreclosure.

The following stewardship strategies can be incorporated into foreclosure recovery plans. For further information, see this [paper](#) by NCB Capital Impact, which provides model language to incorporate into NSP applications.

## The Evolution of Community Land Trusts

84 community land trusts existed in the nation in 2000. In the past eight years 20 to 30 new community land trusts have been added annually so that by 2008, 230 existed nation-wide. A number have extended their scope to encompass regions or states. And they have expanded their inventories to include rentals, condos, parks, gardens, and more.

## 1. Establish or expand a community land trust to create permanently affordable housing.

A [community land trust](#) (CLT) is a nonprofit, community-based organization that owns real estate to provide benefits to the community, and particularly to provide secure, affordable access to housing for residents who cannot otherwise afford it. CLTs stabilize communities and preserve housing affordability. They do this by purchasing land within a designated geographic area with the intention of permanently owning that property, and then selling the homes that sit on the land to eligible homebuyers. In exchange for affordable, high-quality homes, residents agree to resell their homes to the land trust or to another low- to moderate-income household if they move, taking only a minimal profit. A contractual agreement—the long-term ground lease agreement—is signed that describes the rights and responsibilities of the CLT and the building owner. This contract provides the occupant with affordable housing and a fair return on their investment should they decide to sell, while preserving the affordability of the property in perpetuity. CLTs protect against foreclosure because community land trusts typically educate their buyers and advise against their acceptance of risky mortgage products. In addition, the trust stewards the land and supports the homeowner.

### Limited Equity is Still A Great Investment

A study of CLT homes sold to a second generation of buyers showed that members were realizing a [net gain of 29 percent](#) on the money they had invested.

In addition to enabling housing affordability and greater control over local land use and development, CLTs have an organizational structure that is set up to be representative of the community. In the [classic model](#), CLTs are membership organizations that consist of community members and are governed by a board of directors that comprises residents of CLT homes, other community members who live in the targeted area but are not CLT leaseholders, and local representatives from the government, philanthropy, and the nonprofit sectors.

CLTs are able to leverage public resources, commonly working in cooperation with government agencies. A number of states and municipalities have allocated funding, such as Community Development Block Grant and HOME funds, and land to CLTs. NSP funds can be used for CLTs and a number of states and localities are implementing or considering community land trusts as a method for increasing their stock of permanently affordable housing. The Rhode Island Community Housing Land Trust (CHLT-RI), for example is acquiring foreclosed properties in two Providence neighborhoods and selling them to homeowners using a community land trust model. See Case Study for further details.

In Oakland, the Urban Strategies Council, a nonprofit community building and advocacy organization, was recently awarded \$5.025 million loan from the city's NSP funds to create the Oakland Community Land Trust. Urban Strategies anticipates acquiring 200 properties for the CLT, providing permanently affordable home ownership for residents earning 50-80 percent of AMI. The land trust will be governed by a community board with significant resident participation. Financing and funding for start-up and operation would be provided through a combination of sources including banks currently holding the properties, private philanthropy, private investment and state and federal funds. The city predicts that the project will create an estimated 240 jobs.

## 2. Create a Deed Restriction Program to provide permanently affordable homeownership opportunities for low- and moderate-income households.

Deed restrictions are the most commonly used form of shared equity homeownership. Restrictions are placed on a deed to limit the resale price the home can be sold for in order to ensure that low- or moderate-income households can afford to purchase the house permanently or for thirty years or more. They

restrictions are typically placed on properties that were built, rehabilitated or purchased with government subsidy or were created in response to an inclusionary zoning regulation that requires private developers to build a certain percentage of affordably priced homes within their projects. The goal is to protect the affordability that government subsidy has created and extend it to future generations, rather than allowing price appreciation to quickly bring the price of the home out of the range that low- and moderate-income households can afford.

Deed-restricted homes can take a wide range of forms of owner-occupied housing, from detached houses to condominiums. The specific legal documents involved in restricting affordability are: a covenant or agreement recorded with the homeowner's deed, which details resale restrictions; various disclosures the buyer must sign as to the type of homeownership; and often a soft second or performance mortgage provided by the government, which asserts that as long as the owner adheres to resale restrictions, the second mortgage does not need to be paid. In addition, there may be a preemptive option for the government that is imposing restrictions to have the right to re-purchase the home at a defined price.

## Choosing a Strategy

Different strategies will work for different communities. The primary influence on how strategies will play out is the condition of the neighborhood housing market: how great the demand is for homes located in the neighborhood, and what people will pay to live there. In strong, higher-priced markets such as Naples, Florida, for example, foreclosed properties are being bought promptly in the private market without any incentives or intervention from government: [Sixty percent](#) of home sales in Lee County were REO properties in 2008. In contrast, a weak market city facing overall decline in its population and employment base may find hundreds of foreclosures destabilizing a single neighborhood and receive little interest from private buyers. In such places, strategic government action is clearly needed and could include targeted acquisition, demolition of dilapidated units, land banking of others, and, where appropriate, the rezoning of land uses.

The need for additional affordable housing may define the strategies. In a market where affordable housing has been in short supply, this crisis presents an opportunity to change that dynamic by rehabilitating homes and selling them for affordable prices, by creating permanent affordable housing through the use of a community land trust, and by empowering first time homebuyers with lease-purchase programs.

Neighborhood planning goals vary considerably and are too unique to include in the chart, but they should also receive due consideration. Finally, it is essential that communities evaluate each approach they are considering to determine if it is equitable (fair to all persons in the community, including low-income households and households of color), efficient, politically feasible, and likely to have a significant positive impact.

Meant as a guide – and not a prescription – the chart on the following page illustrates which strategies are likely to work best in four general types of markets:

- Weak markets with limited, scattered foreclosures
- Weak markets with significant foreclosures where supply outweighs demand
- Strong markets with scattered foreclosures and a functioning real estate market
- Mixed markets with substantial foreclosures and a slow but functioning real estate market

	Weak market, limited scattered foreclosures (I.e. Philadelphia, PA)	Weak market, significant foreclosures, supply outstrips demand (I.e. Cleveland, OH)	Strong market, scattered foreclosures, functioning real estate market (I.e. Los Angeles, CA)	Mixed market, substantial foreclosures, slow but functioning real estate market (I.e. Twin Cities, MN)
<b>Acquisition Strategies</b>				
Acquire targeted vacant foreclosed properties through negotiation or at auction	Top priority strategy for market type	Top priority strategy for market type	Important strategy for market type	Important strategy for market type
Use receivership to acquire right to upgrade condition of property and impose lien	Important strategy for market type	Important strategy for market type	Low priority strategy for market type	Important strategy for market type
Offer buyers incentives to acquire and rehabilitate properties	Important strategy for market type	Important strategy for market type	Top priority strategy for market type	Top priority strategy for market type
<b>Disposition Strategies</b>				
Rehabilitate and resell property as affordable or market rate housing	Top priority strategy for market type	Important strategy for market type	Important strategy for market type	Important strategy for market type
Rehab and rent or sell via lease purchase agreement	Important strategy for market type	Important strategy for market type	Important strategy for market type	Important strategy for market type
Use land bank to hold property until there is market demand	Important strategy for market type	Top priority strategy for market type	Low priority strategy for market type	Important strategy for market type
Demolish structure and use land as sideyard, parklet or other needed neighborhood use	Important strategy for market type	Top priority strategy for market type	Low priority strategy for market type	Important strategy for market type
Maintain properties - take action to ensure properties are kept in quality condition	Top priority strategy for market type	Top priority strategy for market type	Top priority strategy for market type	Top priority strategy for market type
Use brokerage strategies to sell foreclosed homes to stable, responsible owner	Important strategy for market type	Important strategy for market type	Top priority strategy for market type	Top priority strategy for market type
<b>Stewardship Strategies</b>				
Utilize Community Land Trust or other shared equity approaches to create permanently affordable units	Important strategy for market type	Important strategy for market type	Important strategy for market type	Important strategy for market type

**Key**

- Top priority strategy for market type
- Important strategy for market type
- Strategy worth considering by market type
- Low priority strategy for market type

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# Key Players

Many different stakeholders need to be brought together to create an effective foreclosure recovery team. Building broad cross-sector partnerships of local government agencies, nonprofits, lenders and servicers, real estate brokers, state housing finance agencies, for-profit developers, private foundations, and state agencies will facilitate a coordinated, effective approach.

## Local Government

Strong leadership from the Mayor and City Council is a prerequisite to creating and implementing a city-wide foreclosure recovery plan. Not only is the Mayor and Council's leadership needed to unify the public and private sector around a single plan, but also their signatures may be needed to authorize property acquisitions and/or dispositions. Local government agencies that typically work in silos must work together to handle foreclosure: housing agencies that administer the Neighborhood Stabilization Program, Community Development Block Grant funds and low-income housing tax credits; planning departments that can map foreclosures and identify targeted areas that will preserve past city investment; police and fire departments that will fight crime and fires at foreclosed sites; and the RDA or land bank that has expertise in holding and transferring vacant properties.

## Lenders and Servicers

Lenders and servicers who hold the properties in their REO inventories are critical partners. A key goal of foreclosure recovery is to reclaim these REO properties from bank inventories. Enlisting lenders and servicers as partners is important so they will rapidly negotiate fair sales terms for banked owned properties and maintain those properties until they are transferred out of their REO inventory.

## Community-Based Organizations

State and local governments can and will contract with nonprofit entities, such as community development corporations to carry out many of the property acquisition and rehabilitation activities. Community groups' knowledge of the neighborhood, capacity to perform rehabilitation or redevelopment and relationship with residents makes them invaluable partners. Across the country, nonprofit community based organizations have pioneered best practices on how to address abandoned and vacant properties. In addition, community development financial institutions are experts at leveraging capital for community development projects.

## Private Market Real Estate Professionals

Brokers, attorneys, and appraisers are "capacity" partners, providing staff and skills the municipality will need to achieve its goals. Real estate brokers play a vital role by selling both foreclosed properties in move in condition and others in less viable condition once they have been rehabilitated. Appraisers are essential as the Housing and Economic Recovery Act's Neighborhood Stabilization Program requires local governments to pay 15 percent less than a property's appraised value.

## Private Foundations

Private foundations that have historically invested in neighborhoods may be willing to fund efforts to protect these neighborhoods and their prior investments. Since mid-2008, [Living Cities](#) has disbursed \$7 million in grants and loans to test the most promising local approaches for returning foreclosed properties to

productive use. The John D. and Catherine T. MacArthur Foundation is investing \$68 million to fund foreclosure prevention and recovery in Chicago neighborhoods. With a portion of this funding, the City of Chicago expects to collaborate with Mercy Housing Inc., to develop the capacity to acquire for resale, rental, rent-to-own, and redevelopment as many as 3,500 properties in Chicago's hardest hit communities. The redevelopment work will be done in collaboration with numerous developers and community partners.

### **Private Developers and Contractors**

Developers and contractors have the skill sets to acquire, rehabilitate and sell foreclosed properties. Hiring for profit professionals to take on these tasks under the watchful eye of local government officials or nonprofit staff will allow government to stretch their capacity quickly.

### **Universities and schools**

Universities' use of GIS mapping and other interactive web based technologies has grown tremendously. Foreclosure recovery is assisted greatly through online mapping and planning tools that universities are making available to agencies. Universities can also provide concrete data and analysis needed to demonstrate foreclosure inequities and improve the ability of economically challenged cities to compete with wealthier cities for larger shares of available funding.

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# Data and Maps

## Data Points

- The US Census Bureau reported that 2.9 percent of the nation's homes were vacant in the First Quarter of 2008, the highest share since the government started counting in 1957. The vacancy rates for homes built in or after April 2000 was 9.8 percent, more than triple that of houses constructed earlier.
- Declines in property values from foreclosures nationwide through the end of 2009 will exceed [\\$352 billion](#).
- Lenders do not make money on foreclosures. Losses range from 20 cents to 60 cents on the dollar. Lenders typically lose [\\$50,000 or more](#) on one foreclosure.
- In November, 2008, there was an average [3,100 foreclosures per day](#) in the U.S., according to RealtyTrac Inc., an Irvine, California real estate data company. That's triple the 1,000 per day average in 1933, the worst year of the Great Depression, according to the Federal Reserve Bank of St. Louis.
- Nearly 61 percent of local and state homeless coalitions are seeing an [increase in homelessness](#) since the foreclosure crisis began in 2007, according to an April 2008 study by the National Coalition for the Homeless.
- Recent analyses by the Woodstock Institute indicate that [nearly 35 percent of foreclosure filings in 2007 occurred in two-to-six unit, multi-family properties](#). Therefore, many renters are losing their homes as a result of foreclosures.
- The states most affected by foreclosure are California, Colorado, Michigan, Ohio, Georgia, Illinois and New Jersey. Most of these states with the highest foreclosure rates saw unprecedented growth fueled by subprime loans while Michigan's and Ohio's rates were caused by job losses and low housing demand. The lowest foreclosure rates are being experienced by slow growth states like North Dakota, West Virginia and Vermont.
- An estimated [300,000 renters](#) live in units at risk of foreclosure over the next few years.

## Data Resources

There are a number of free data resources that may prove helpful to understanding the foreclosure situation in a particular region, municipality or region.

### [Foreclosure Needs Score](#), Local Initiatives Support Corporation (LISC)

Local Initiatives Support Corporation (LISC) researchers calculated a foreclosure needs score for all CDBG entitlement jurisdictions and ZIP codes in each state, using measures of subprime lending, foreclosures, and delinquency from Lender Processing Services, Inc. (LPS) Applied Analytics (formerly McDash) and vacancy rates from the U.S. Postal Service. The score for any jurisdiction is relative to that of the neediest jurisdiction within the state, which is assigned a score of 100. Thus, if a jurisdiction receives a score of 50, it is estimated to be half as needy as the worst-off jurisdiction.

### [Home Mortgage Disclosure Act \(HMDA\)](#), Federal Financial Institutions Examination Council

Provides HMDA data covering home purchase and home improvement loans and financing. The data is broken down into census tract levels. The information is provided in September of each year for the previous year. The data contain information about loan originations; loan purchases; and denied, incomplete, or withdrawn applications.

### [Neighborhood Stabilization Local Level Data](#), U.S. Department of Housing and Urban Development (HUD)

Data set includes the number of households from the 2000 U.S. Census, estimated number of foreclosure starts from January 2007 to June 2008, estimated number of mortgages, estimated foreclosure rate, number of residential addresses vacant 90 or more days as of June 2008, total residential addresses, estimated 90 or more day vacancy rate, number of conventional loans made between 2004 and 2006 where the rate spread is 3 percentage points above the Treasury security of comparable maturity (HMDA), number of conventional loans made between 2004 and 2006 (HMDA), percentage of high-cost loans made between 2004 and 2006 (HMDA), June 2008 county or place unemployment rate (Bureau of Labor Statistics), and a measure of price decline in home values using the OFHEO Housing Price Index to calculate price decline from peak value in Q2 of any year between 2000 and 2008 and the Q2 home price in 2008 for the particular MSA.

### [Neighborhood Watch](#), U.S. Department of Housing and Urban Development (HUD)

The system provides the ability to identify and analyze patterns, by geographic area or originating lender, in loans which became 90 days delinquent during their first two years. Information is available at the state, region, county, city, homeownership center and zip code levels.

### [Preforeclosure and REO Data](#), RealtyTrac

RealtyTrac offers data on foreclosure filings by state, county and zip code monthly with about a two month time lag and provides maps and lists of information on specific properties up for auction, bank owned, or resale. Because states have differing foreclosure laws, foreclosure data should not be used to make comparisons across state lines. In addition, RealtyTrac obtains its data from administrative records. Comparisons of the growth in foreclosures from one county to the next also may not be precise.

### [Vacancy Data](#), U.S. Postal Service (USPS)

Provides monthly numbers of vacant properties at the census tract level with about a two month lag. Recently, the U.S. Department of Housing and Urban Development (HUD) entered into an agreement with the United States Postal Service (USPS) to receive quarterly aggregate data on addresses identified by the USPS as having been "vacant" or "No-Stat" in the previous quarter.

## Mapping Resources

There are several sources that provide maps of foreclosures across the country or in a particular county or region that may prove helpful.

- [PolicyMap](#), created and maintained by The Reinvestment Fund, is an online geographic information system that provides free access to thousands of indicators at a variety of geographic levels in the form of maps, tables, and charts. The site includes HUD Neighborhood Stabilization Program Targeting data down to the census tract level and vacancy data from the USPS and the US Census.
- The Wall Street Journal has posted an [interactive map](#) of the United States showing delinquency rates for each area.

- The [Federal Reserve Bank of New York](#) has created regularly updated maps that display regional variations in owner-occupied foreclosures. The maps display information for each state, county and zip code including loans in foreclosure per 1,000 housing units, REO's per 1,000 housing units, share of loans that are adjustable rate mortgages, and share of loans that are 90 days or more delinquent.
- [Hotpads Foreclosure Heat Maps](#) at provide a very general look at how high foreclosure numbers are in each city, county or state. Heat maps show whether a city or county has high foreclosures (red) or low (blue) or somewhere in between. The map is based on RealtyTrac data. This free internet service does not show the actual location of foreclosed properties.

Many localities have used local foreclosure records to create detailed maps to guide their foreclosure recovery plan. These include [Chicago](#), [Boston](#) and [Los Angeles](#).

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# Challenges

- **Bringing abandoned properties back into productive re-use is not easy.** Weak-market cities such as Cleveland, Baltimore and Philadelphia have struggled for several decades to acquire abandoned properties and move them back to the market. Their experience confirms that vacant property recovery, particularly at scale, is complex and difficult, often requiring approvals from several agencies, the City Council and Mayor. To cut through the red tape, some municipalities establish a holding company or nonprofit land bank that, liberated from the bureaucracy, can perform more flexibly. Second, acquisition is difficult because it requires the identification of the owner and negotiation of a fair price when there is no accepted standardized formula for calculating market value for foreclosed properties. Third, handling foreclosure is challenging because local governments were set up to provide meat and potato services like policing and building infrastructure; some will not be able to expand their roles to include those of property owner, contractor and broker. Finally, no matter how effective local government is, the nation-wide scale of foreclosed properties is so vast, it will be difficult to slow or stop negative impacts.
- **Finding buyers for foreclosed properties may be difficult in some communities.** According to a recent survey, many people are hesitant to consider buying a foreclosed property. "Negative sentiment associated with buying foreclosures" increased several percentage points between surveys in April and November of 2008, RealtyTrac Inc. chief economist Rick Sharga said. Buyers are demanding discounts of 25 percent to 50 percent compared with the price of a comparable home not in foreclosure, because "they are concerned that these properties will continue to lose value," Sharga said. Nationally, the [average discount is 31 percent](#), although some individual properties are discounted as much as 87 percent. In some areas of central California, discounts are 70 percent, Sharga said. Peter Flint of Trulia.com said 80 percent of 2,033 adults surveyed in November of 2008 focused on the "negative" aspects of foreclosure, citing hidden costs and loss of value as concerns.
- **Local governments can limit liability for tort or environmental injury on government-owned foreclosed properties.** Federal environmental law and state tort law offer immunities to governments that control property as part of their normal government functions. The risk of a court finding a government with temporary control of foreclosed vacant properties liable for an environmental or tortious violation is small.
- **Environmental liability for governments that acquire abandoned land was limited in January 2002 by the Small Business Liability Relief and Brownfield Revitalization Act.** This amendment to The Comprehensive Environmental Response, Compensation and Liability Act (CERCLA), commonly known as the Superfund Act, explicitly offers immunity to governments that acquire vacant land through eminent domain or tax foreclosure. The Act also states that a municipality or a land bank entity qualifies as an innocent landowner and is not liable for environmental hazards on properties acquired through other means if three conditions are met:
  - Release of hazardous substance was caused by unrelated third party;
  - Government acquired the property after the placement of the hazardous substance and exercised due care and took precautions against release of the substances; and

- Either the new owner had no direct contractual relationship with the prior owner (i.e. obtained property via tax foreclosure or eminent domain) or if there was a formal property transfer, then the current owner did not know or have reason to know about the hazard.
- **Once government is protected, so are subsequent buyers of properties from government.** To further protect themselves from environmental liability, local governments should request any environmental assessments the lender performed prior to making the loan and perform both a title search and an exterior inspection to look for any existing or potential environmental hazards.

**Tort law differs in each state but typically provides full immunity to governments for trespassers' negligent acts on government owned property.** Typically a government is liable only for injuries to individuals who are legally and rightfully on the premises and for children injured by an attractive nuisance. An attractive nuisance is a dangerous condition that would attract a child, such as an accessible swimming pool or an empty refrigerator with its door still on that could trap a child inside. To avoid tort liability, government should evaluate state tort law and should inspect the premises of an acquired property to ensure there are no attractive nuisances.

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# Success Factors

- **Set up a standardized formula for acquisition of foreclosed properties.** Thousands of foreclosed properties sit in lender's inventories. Setting up a set of criteria that each REO property the city acquires must satisfy, and then getting buy-in from elected officials on the criteria, will create a much more effective acquisition process. Examples of criteria include the following: the location is within a targeted area that is attractive to new buyers; the condition of the property is sufficient to keep down rehabilitation costs; or the property negatively influences the neighborhood housing market, such as by being adjacent to schools or transit or by being a nuisance or corner property.
- **Establish well-defined standards and specifications for rehabilitation.** The goal for many municipalities is to buy, rehab and sell foreclosed properties, but it is unclear to what standard they will be rehabilitating the property. Knowing the selected standard will help inspectors choose houses to acquire and will define when demolition may be warranted. Minnesota has adopted a seven-year standard, meaning that rehabilitation is completed to a standard that assures the owner will not need to pay for significant repairs for seven years. Other cities set a funding maximum for rehabilitation such that no home will be rehabilitated if the total cost exceeds \$20,000.
- **Create nonprofit capacity for Community Land Trust or other shared equity approach to ensure affordability for generations to come.** If the volatile housing markets of the last few years demonstrated anything, it is that there is a risk associated with buying a home. Prices may go up, but they also may go down. The crisis has also shown that subsidized affordable housing can be lost to high property values seemingly overnight. Community Land Trusts provide permanent affordability and offer buyers a great deal of security from foreclosures. Communities with a nonprofit community land trust should consider protecting some of the foreclosed housing stock they acquire.
- **Regularly re-map areas to determine impact of acquiring and re-selling foreclosed properties.** Once vacant foreclosed properties are mapped, continue to update the map to keep a relevant view of the housing market and neighborhood market values. Tracking real estate transfers and newly foreclosed properties regularly will offer a tremendously valuable view of neighborhood health and provide feedback on the success of the city's programs.
- **Consider requiring lenders in the jurisdiction to register all foreclosed properties and provide an REO property distribution manager as a contact person.** So many cities are scrambling to determine what properties have been foreclosed upon and spending thousands of dollars to collect and analyze data that is often imperfect. Then the city or its nonprofit partners is spending weeks trying to identify the lender and contact them about the property. Adding a registration requirement allows the city to avoid both of these time consuming steps for future foreclosures.
- **Take action to regulate and deter copper theft since it removes substantial value from empty homes.** Vandals frequently destroy homes to obtain copper or aluminum to sell. According to a 2008 survey of agents for Inside Mortgage Finance by Geosegment Systems and Campbell Communications, 50 percent of foreclosed properties suffer significant property damage before becoming bank owned properties. The damage reduces a single property's value by about 25 percent. The price for these commodities lowered significantly during 2008 but their value has still increased

markedly over the last few years as the global market for metals increased. Consider strategies to deter gutting of empty properties by discouraging the stolen copper pipe market, with criminal penalties for house-stripping and for receiving the products of house-stripping. Half the states in the nation have attempted to address metal theft by passing laws that enforce stricter penalties for stealing copper as well as tightening the record-keeping requirements of scrap yards (see report [here](#)). Minnesota passed a law recently to prevent copper theft that requires dealers to keep records of all copper-selling transactions, including details about the sellers, and make the information available to the police. The reason is clear. According to an FBI [report](#), as of April 2008, highly organized theft rings specializing in copper theft from houses and warehouses were operating in Minneapolis, Minnesota. These rings or gangs hit several houses per day, yielding more than \$20,000 in profits per month. The targets were most often foreclosed homes.

- **Partner with employers to create employer-assisted housing.** Employers across the country are offering assistance to employees buying homes near their workplace (see the [Employer Assisted Housing tool](#)). Providing assistance to employees buy or rent homes near work helps the employer to retain quality employees, improves employees' performance that may be negatively impacted by at risk housing or over long commutes, and revitalizes the surrounding neighborhood. Cities can adopt a number of strategies to involve employers in foreclosed property recovery. First, they can sell foreclosed properties surrounding the workplace to employers for a nominal fee and in return obtain an agreement from the employer to rehabilitate the property and sell it or rent it to an employee who will maintain it. Second, the employer can contribute to the purchase price and repair costs for foreclosed homes in the immediate area and in return its employees will receive priority as purchasers. Third, the employer could offer financial incentives for employees to purchase foreclosed properties in the immediate area and to fix them up. Each of these options will guarantee the foreclosed properties will be reoccupied and will act as a stabilizing influence on the neighborhood.

**Improve neighborhood infrastructure to ensure neighborhood is no longer at risk.** Housing is a key neighborhood infrastructure, but so are roads, transit, parks, and other important pieces of the neighborhood fabric. Re-selling homes may not be sufficient to tip a neighborhood market up if assets like transit or parks are in poor condition and go largely unused because they are unsafe or poorly lit. An investment in neighborhood assets will ensure the housing investment has a significant impact on the market while improving quality of life for residents.

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# Financing

Knowing the best way to address the foreclosure crisis and stabilize neighborhoods is only half the battle. Finding the resources to pay for a coordinated approach is essential. The fact that many local and state governments are facing a decline in tax revenues and an increase in foreclosure-related costs makes this all the more difficult. While the federal government has provided \$6 billion dedicated resources to foreclosure recovery through NSP and NSP2, these resources alone are not sufficient. To implement ambitious recovery strategies, communities are leveraging NSP dollars with many additional sources of funding.

Efforts in the Twin Cities and Minnesota illustrate how multiple funding streams can come together in coordinated efforts. In 2008, the Family Housing Fund launched the Home Prosperity Fund Housing for strategic acquisition and rehabilitation and programs to assist affordable, sustainable homeownership throughout the Twin Cities with initial investment loans of \$16 million from Wells Fargo, US Bank, TCF Bank, Thrivent Financial, and Minnesota. New commitments from the McKnight Foundation and Wells Fargo in 2009 put the total pool at \$24 million. Minnesota Housing released \$9.2 million in federal HOME funds to provide down payment and entry cost assistance with the acquisition of foreclosed homes by new homeowners and allocated \$1.5 million to the cities of Minneapolis and Saint Paul and local partners for affordability gap funds to support foreclosure remediation efforts. In addition, the City of Saint Paul approved \$17 million in bond issues supported by a portion of a half cent sales tax to fund the Invest Saint Paul Initiative. See a full description in the Case Study section.

## Potential funding sources include:

**Bond Issues:** While this is a difficult time for municipalities to take on debt, bond issues are a traditional tool for cities to raise money for major investments. For instance, in 2006, to finance Philadelphia's ambitious Neighborhood Transformation Initiative (NTI), the City authorized the issuance of \$300 million in bonds over five years to eliminate vacant and dangerous buildings and to provide support for neighborhood preservation initiatives in so-called transitional neighborhoods—those neighborhoods that have a low number of vacant units and stable housing market values. As credit becomes more readily available, cities should consider bond issues to finance foreclosure recovery. In some jurisdictions this may require voter approval.

**Community Development Block Grant (CDBG):** The Community Development Block Grant (CDBG), one of the longest-running programs of the U.S. Department of Housing and Urban Development, funds local community development activities such as affordable housing, anti-poverty programs, and infrastructure development. CDBG, like other block grant programs, differ from categorical grants, made for specific purposes, in that they are subject to less federal oversight and are largely used at the discretion of the state and local governments and their sub-grantees.

**Community Revitalization Act Investment:** This law, passed in 1977 and revised in 1995, encourages depository institutions to help meet the credit needs of communities in which they operate, including low- and moderate-income neighborhoods. The Act requires federal agencies responsible for supervising such institutions to evaluate their compliance periodically and to take their records into account in considering applications for deposit facilities. CRA encourages financial institutions not only to extend mortgage, small

business, and other types of credit to lower-income neighborhoods and households, but also to provide investments and services to lower-income areas. Banks can fulfill their CRA obligations by donating their foreclosed, REO properties, or selling them at a discount, to nonprofit community development organizations if the organizations will use the homes for qualified CRA purposes such as offering them as affordable housing for low- to moderate-income homebuyers. Providing foreclosed homes to local government or nonprofits provides an investment opportunity with a reasonable return for investors.

**EQ2 Investments:** Equity Equivalent Investments, or EQ2, are bank loans that are deeply subordinated and have a rolling term so that they function like equity. The Wells Fargo Community Development Corporation, for example, offers EQ2 to nonprofits or government agencies that are buying foreclosed homes for rehab and re-sale to low- and moderate-income owners. In the Wells Fargo program, applicants may receive up to \$1 million with a 2 percent interest rate and loan maturity in five years. The Cincinnati Development Fund uses the EQ2 loan as one of 6 types of loan funds available for financing community development. The loans typically provide bridge financing for projects. To apply, contact a federally regulated financial institution.

**Developer Incentives such as Tax Abatements:** Cities across the country, in an effort to encourage real estate development, offer property tax abatements for most new construction and for significant improvements to existing buildings. In Philadelphia, tax abatements were responsible for generating approximately two-thirds of the residential development since 2000, representing investment and construction that otherwise would not have occurred in the City because market values were so low and building costs so high. Other cities provide low interest loan or gap financing or some other incentives to build in their cities. By providing incentives for those who responsibly acquire, rehab and re-sell foreclosed properties, cities can help get these back into productive re-use more rapidly.

**Federal Home Loan Banks:** The affordable housing and economic development programs of the twelve [Federal Home Loan or FHL Banks](#) consist of grants and low-interest loans to member financial institutions to provide financing for economic development and housing activities. In 2006, a combined total of \$295 million was made available for regional housing projects. The Community Investment Program (CIP) is a lending program that provides below-market-rate loans that enable banks to extend long-term financing for housing and economic development that benefits low-and moderate-income families and neighborhoods. The Affordable Housing Program (AHP) is a competitive program that provides grants twice a year through financial institutions for investment in low- or moderate-income housing initiatives. Member banks partner with developers and community organizations to finance the purchase, construction, or rehabilitation of owner-occupied or rental housing.

**FHA 203K Loan (combination purchase and rehabilitation loan):** The Federal Housing Administration funds [FHA 203K](#), a mortgage program for the repair and rehabilitation of single-family dwellings. FHA 203K can be combined with HUD's HOME, HOPE, and CDBG programs to finance both acquisition and rehab of a property, with the mortgage amount being based on the projected value of the property after rehab is completed. Eligible properties are one-unit to four-unit dwellings, can include mixed-use buildings and groups of row houses, and can include condominium units if individual condominium buildings contain a maximum of four units each. FHA-approved lenders are authorized to provide the loans.

**FHA 602 Disposition Agreements to acquire all FHA foreclosures in an Asset Control Area:** FHA's 602 Nonprofit Disposition Program allows a nonprofit and/or municipality to buy from HUD all of the FHA foreclosures in a designated Asset Control Area (ACA) at a substantial discount below appraised values. The purchases occur within a 60-day window. The nonprofit or municipality must agree to take all the properties

regardless of their condition and then rehabilitate the homes and within 18 months offer them all for sale to owner-occupants. The ACA is an area judged to be attractive to purchasers after home rehab is complete. Within the 602 program, purchasers must be low-income households and must complete HUD counseling; these buyers may receive other subsidies in addition to 602. The re-sale price of a property must be anticipated to be high enough to cover acquisition and repair costs, so in many cases the ACA is located in a healthy neighborhood with relatively high property values. However, with declining values, this is not always the case. For instance, in Rochester, NY, home prices in the ACA were not high enough to cover the acquisition and rehab costs: homes rehabbed under the 602 Program sold for \$22,000 less than development costs, so the City earmarked additional subsidies to cover the extra costs.

**Foundations and Philanthropic Organizations** – Private foundations are providing grants and loans to support many types of foreclosure recovery, including purchase, rehab, and re-sale of foreclosed properties. In Chicago, for instance, the MacArthur Foundation is giving \$68 million to both foreclosure prevention and the mitigation of urban problems caused by foreclosed properties. Nationally, Living Cities is providing \$7 million to fund the most promising local approaches for returning foreclosed properties to catalyze and test models and to extract and disseminate knowledge to the field.

**Historic Tax Credits:** The federal government and many state governments have historic tax credit programs designed to preserve historic buildings and communities. The federal program, [Historic Tax Credits](#), allows owners of homes built before 1936 to take between 10 percent and 26 percent of rehabilitation costs as a tax credit (closer to 10 percent for structures built before 1936, and upwards of 20 percent for structures certified as historic) on their federal taxes. State Tax Credit programs vary widely but many could be utilized to acquire, rehabilitate and re-sell foreclosed properties. For instance, in Hartford, Connecticut, the Northside Institutions Neighborhood Alliance purchased 11 foreclosed, bank-owned properties, rehabbed them, and sold them to owner-occupants. The Alliance relied on State Historic Credits to make up the difference between the cost to acquire, hold and rehab the property and the re-sale price.

**HOME Funds:** [HOME](#) provides formula grants to States and localities that communities utilize – often in partnership with local nonprofits – to fund a wide range of activities that build, buy, and/or rehabilitate affordable housing for rent or homeownership, or provide direct rental assistance to low-income people. HOME requires that participating jurisdictions match 25 cents of every dollar of funding using nonfederal sources, which can include donated materials, labor, bond financing, and other sources. In addition to using HOME money for building, buying, or rehabbing affordable housing, communities may use it for site acquisition or improvement, demolition in preparation for new development, or payment of relocation expenses. HUD now has various resources in place to help communities use HOME money for the creation of energy-efficient and environmentally friendly housing in order to improve long-term affordability.

**Housing Trust Fund:** Funds established by cities, counties and states that dedicate sources of revenue to support affordable housing. Trust funds are usually created by legislation or ordinance to receive ongoing deposits of public funding, making affordable housing independent of annual budget allocations. Trust funds allow municipalities to create housing programs and give developers a reliable funding source. At present, there are more than 38 state housing trust funds, and more than 550 city and county funds, in the United States. The [Center for Community Change](#) and the [National Low Income Housing Coalition](#) both provide information about HTFs. In addition PolicyLink published an equitable development [tool](#) and a [report](#) on HTF financing sources. Most trust funds are financed with real estate transfer taxes or deed and mortgage recording fees. As a result, trust fund resources have declined as real estate activity has come to a near stop in many communities.

## HUD Section 4 Capacity Building For Affordable Housing And Community Development Grants

(14.252): A grant open to four national organizations, Enterprise Community Partners, Inc. (formerly The Enterprise Foundation), Local Initiatives Support Corporation, Habitat for Humanity, and YouthBuild USA, to help improve the capacity of community organizations to develop affordable housing and other community development projects. Grantees may use the grant for training and education or loans and grants to CDCs and community housing development organizations (CHDOs).

**Loan Fund:** Both Los Angeles and New York City have created loan funds to finance the construction of affordable housing from foreclosed properties and through other resources. With the help of Enterprise Community Investment, Inc, Los Angeles has created a [New Generation Fund](#). The New Generation Fund LLC offers acquisition and pre-development loans to developers committed to the creation and preservation of affordable housing in the City of Los Angeles. Based on soft commitments from public agencies to provide subsidies and financing in the future, the Fund makes loans to developers of affordable housing to bridge the period between acquisition and final construction. The Fund finances both the new construction of affordable housing and the preservation of at-risk affordable housing. The Fund serves both nonprofit and for-profit borrowers and provides both flexible underwriting criteria and expedient turn-around time. Nonprofit borrowers are eligible for a maximum loan-to-value of 130 percent, including capitalized interest; for-profits are eligible for up to 95 percent. The Fund's loans are interest-only, with principal re-paid from construction loan proceeds. The maximum loan term is 36 months. The City created the New Generation Fund with \$10 million of general budget funds and \$5 million from foundations. This \$15 million leveraged a \$120 million credit line.

**Neighborhood Stabilization Program:** HUD's [Neighborhood Stabilization Program](#) (NSP) provides emergency assistance to state and local governments to acquire and redevelop foreclosed properties that might otherwise become sources of abandonment and blight within their communities. The program is authorized under Title III of the Housing and Economic Recovery Act of 2008. See the **What is It** section for a further description of NSP.

**New Market Tax Credits:** As part of the Community Renewal Tax Relief Act of 2000, an individual or corporate investor who makes an investment in a Community Development Entity (CDE), including Community Development Financial Institutions (CDFIs), receives a tax credit worth 39 percent (30 percent net present value) of the initial investment, distributed over 7 years, along with any anticipated return on their investment in the CDE. The CDE must then make a Qualified Equity Investment or loan to a qualified business in a Qualified Low-Income Community (LICs). Most commercial and mixed-use real estate development projects located in LICs are qualified businesses. (Residential projects without a commercial component do not qualify.) The New Markets program is designed to encourage investments in LICs that traditionally have had poor access to debt and equity capital.

**Pension Funds:** Pension fund investment in America's cities has grown dramatically. While some of this investment is in infrastructure, equally important components in investors' portfolios are property, real estate and development projects. For instance, the City of San Diego is gathering private money to buy, rehabilitate, and re-sell hundreds of foreclosed properties. Two of the pension fund investors are the [California State Retirement System and Washington Mutual bank](#). In New York City since 2002, four of the five pension funds have been investing in the AFL-CIO Housing Investment Trust (HIT), which is working to expand the supply of affordable housing in the city.

**Private Redevelopment Dollars:** Private development dollars can be used in a variety of ways, from financing home purchase and rehabilitation or accomplishing demolition to obtaining loans for the responsible nonprofits or the new homeowners. In Cleveland, the Hough Initiative, aimed at revitalizing a neighborhood beset by foreclosures, is being funded by the national law firm of Morris|Hardwick|Schneider, The Lucian Development Group, the 4KIDS Leadership Endowment Foundation, and the Consortium for Economic and Community Development. The Hough Initiative is not using government funding, but rather depends on the contributions of private sponsors and partners. The 4KIDS Foundation works with families and organizes the efforts of the various program partners. Morris|Hardwick|Schneider works with asset managers at banks to identify and research land titles on properties that are selected by the Consortium for Community and Economic Development. The Lucian Development Group works on securing private equity funding and assistance from lenders and donors.

**Section 108 Loan Guarantees:** The [Section 108 Loan Guarantee Program](#), which is part of the CDBG program, finances economic development, housing rehabilitation, public facilities rehab, construction, or installation for the benefit of low- to moderate-income persons, to aid in the prevention of slums, or to meet urgent community needs. Local governments can turn part of their CDBG funds into federally guaranteed Section 108 loans that are large enough to finance substantial projects with neighborhood-wide impact. Local governments pledge their current and future CDBG allocations to cover the loan amounts and provide security for the loans. Projects that are eligible for Section 108 financing include economic development activities eligible under CDBG; purchase and rehabilitation of property; housing rehab; construction of public facilities such as sidewalks, and some housing construction.

**State Housing Finance Agency Grants or Loans:** State Housing Finance Agencies (HFAs) are state-chartered authorities designed to meet the affordable housing needs of their states by administering affordable housing and community development programs. Cities, counties, and nonprofits may apply for funding for acquisition, rehab, or construction of homes. Check with the State Housing Finance Agency for more information.

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# Policy

Reforms to federal and state law and policy are needed to reduce the damage the current foreclosure crisis is inflicting upon homeowners, neighborhoods and local governments, and to address the causative factors of this crisis. Foreclosures are not new to lenders, homeowners or local governments. What is so different about this crisis is: the unprecedented scale of foreclosed properties, the fact that lax underwriting standards forced borrowers into default even while their income remained stable, and the disproportionate negative impact it has had on low-income communities of color. Advocates across the country are proffering specific changes to law and policy at the federal and state levels to assist with neighborhood stabilization. Some key proposed policy changes include the following.

**Improve regulation of the mortgage brokerage industry.** Federally regulated financial institutions such as commercial banks provided just a fraction of the mortgages now in default. Non-bank lenders and mortgage brokers originated more than 50 percent of all mortgage and refinance loans, yet they are, for the most part, unregulated by the federal government. As a result, it is critical that new regulation be promulgated to restrict the conduct of brokers and non-bank lenders. Alan Mallach, Director of Policy for the National Housing Institute, proposes that all individuals and institutions that provide mortgage loans should be licensed and should be required to adopt an explicit fiduciary duty to act in the borrowers' interest and provide the "best available product" to meet the needs of the borrower.

**Reform the appraisal process to ensure appraisals are accurate.** In February, 2007, an independent study conducted by the October Research Corporation found that 90 percent of appraisers were pressured by mortgage brokers, realty agents and others to raise property valuations to enable deals to go through, nearly double the findings of a similar study three years ago. Moreover, the survey found that 75 percent of appraisers reported "negative ramifications" if they did not cooperate, alter their appraisal, and provide a higher valuation. The appraiser should be a vital independent service provider in any mortgage transaction. Yet appraisers have been used by loan sellers to support larger loans for which they will receive a larger fee. Regulation to ensure appraisers are providing their best, independent estimate of value is critical.

**Lenders and servicers should be required under state or federal regulation to assume property maintenance obligations for homes they assert control over.** To hold lenders and servicers accountable, cities and states should amend property maintenance and nuisance abatement laws to expand the definition of owner to include mortgage holders who have issued a notice of default or foreclosure. The law should specify that it applies only to vacant properties where the title holder is no longer occupying the premises. The lender or servicer is responsible for keeping the property up to code and must provide a local agent who can be contacted regarding any violations. Fines for failure to comply should be substantial.

**Adopt well-reasoned, sustainable practices to provide lower-income households with housing choices** For a short time, the subprime market was revered as a hero for extending credit to lower-income households and offering them homeownership. Soon, however, it became clear that offering credit with little concern for the borrower's ability to pay it back, and offering products that look attractive but put the borrowers at risk of losing their homes, are not appropriate methods for extending homeownership. National rhetoric talks about homeownership as a key part of the American dream, and the federal government facilitates

homeownership with tax deductions, low interest rates and other incentives. Even in the face of a \$700 billion drop in the value of households' real estate holdings from mid-2007 to the present, home equity still accounted for the largest element of household wealth in the second quarter of 2008. However, this foreclosure crisis has made very clear that for some households, preserving and expanding affordable rental options is critical. The affordable rental sector provides housing for the majority of lower-income households. Homeownership may be the American dream for some, but as this crisis illustrates, it is a nightmare for others. Rental housing plays an important role in sheltering Americans and should be strongly supported by state and federal governments.

**Prohibit loan prepayment penalties.** According to the Center for Responsible Lending, two-thirds of subprime loans charge prepayment penalties, compared to only 2 percent of conventional loans. Lenders assert that such penalties are necessary because the lender is selling that cash flow to someone and depends on the loan being outstanding for a set period of time. These penalties are harmful because they stop borrowers from getting out of loans once their credit or income improves. The borrower is prevented from refinancing to a lower-cost conventional loan or refinancing to a loan that will not endanger their homeownership. Prepayment penalties should be eliminated.

**Create statewide databases of foreclosure information.** Local governments are struggling to collect data and map it so that they can define foreclosure concentrations and appropriate actions in response. State governments should create statewide databases of foreclosed properties by requiring each foreclosure to be registered with the state and include the identity of the lender and the contact information for a disposition manager.

**Support the development and dissemination of community land trusts and other shared equity homeownership models.** A national Shared Equity Coalition has proposed a [national demonstration project](#) to raise the visibility of shared equity homeownership and address challenges involved in taking this model to scale. The project would provide 8 to 10 state, regional and local jurisdictions with funding to test different approaches for taking shared equity homeownership to scale.

**Reform Low Income Housing Tax Credits (LIHTC) policies to encourage investment.** LIHTCs finance the rehabilitation and construction of rental housing affordable for households at 120 percent of median income and below. Now that most companies have few if any profits to shelter, however, the once-valuable credits are going begging, leaving many pipeline properties with an allocation of credits but no equity investor. Making matters worse, the biggest buyers of the credits – mortgage giants Fannie Mae and Freddie Mac – started pulling out in 2007, leaving a huge void. New York Governor David Paterson, in a letter to President-Elect Barack Obama, asks for federal help in making the LIHTC program more attractive to investors. He suggests that federal reforms include:

- Reducing the tax credit program from 10 years to five years on a temporary basis in order to attract corporations that are willing to invest over a shorter period instead of making a 10-year commitment.
- Expanding Community Reinvestment Act areas by 25 percent for two to three years to encourage financial institutions (typically the largest LIHTC purchasers) to invest over a larger area
- Extending the time housing financing agencies have to allocate credits by an additional year before the agency must return unused credits to the national pool. According to the Affordable Housing

Institute, historically it took six to nine months for a corporation to make a decision to make an LIHTC equity investment and that time interval is much longer in today's financial climate.

- Preparing for the loss of equity due to LIHTC price decline by providing more credits, soft loans and grants to fill the financing gap. A December 2008 [report](#) commissioned by the Massachusetts Housing Partnership found that LIHTCs that were valued at above \$1 per dollar of LIHTC in 2006 are now valued at below 80 cents. The report predicts that Massachusetts' allotment of credits will only go 77 percent as far as it did last year.

**Allow bankruptcy court to modify foreclosure loans.** Bankruptcy judges can modify most loans other than loans for primary residences. This means a bankruptcy judge can modify a loan for a yacht or a vacation home to prevent the household from losing those assets, but cannot modify a loan for a primary home. Allowing judges to modify principal amounts of mortgages on primary residences in Chapter 13 bankruptcy cases filed by debtors would allow many to avoid the worst impacts of a bad loan. Instead of using a standard formula, judges would be able to look at each situation and resolve it on its own merits. As proposed in existing legislation (HR 3609/S2136), this option would apply only to families on the verge of losing their home. Current proposals to permit such restructuring have built-in protections for lenders: only families who fail a means test and therefore face foreclosure would be eligible; interest rates would be set at commercially reasonable, market-based rates; the loan term would not be able to exceed 40 years; and the principal balance would not be able to be reduced below the fair market value of the property. One negative impact of this course of action may be to induce many more homeowners to file for bankruptcy.

**Require lenders to work with homeowners before foreclosing.** The Center for Responsible Lending supports legislation entitled the Foreclosure Prevention and Sound Mortgage Servicing Act of 2008 (HR 5679) that amends the Real Estate Settlement Procedures Act of 1974 to require loan servicers to engage in reasonable loss mitigation activities before foreclosing. If passed, this could help reduce foreclosures and increase constructive efforts to work with struggling homeowners.

**Provide additional funding for neighborhood foreclosure recovery.** The Neighborhood Stabilization Program was Congress' initial response to the foreclosure crisis, yet the money will allow cities to restore only a small percentage of foreclosed properties to productive use. Many more resources will be necessary before the negative impact on neighborhoods can be healed.

**Provide incentives to lenders/brokers who donate foreclosed properties to nonprofits and local governments.** By offering lenders tax incentives and credit under the Community Reinvestment Act for donations of foreclosed properties in bulk to local governments, a major impediment to quickly getting property into a new responsible owner's hands will be eliminated.

**Enact municipal measures that discourage speculative flipping of foreclosed properties.** Cities must take action to ensure that properties are transferred to responsible owners rather than speculators leave properties vacant, in disrepair, or only superficially rehabbed – further destabilizing neighborhoods. They can: 1) regulate vacant properties and require strict property maintenance standards to ensure the properties purchased by speculators are kept up; 2) encourage homeowner buyers and trusted builders to rehabilitate the property for their own or other homebuyers' use; and 3) gain control of the property through purchase and once it is within the government's or a nonprofit's control, sell it to homeowner buyers.

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# Providence: Building a Community Land Trust in Two Neighborhoods

## Program Snap-Shots

**Strategy:** Target limited subsidy to single-family home acquisition and rehabilitation and guarantee permanent affordability by placing homes in a Community Land Trust.

**Market:** Providence, RI is a weak market City. The state as a whole contains a mix of markets.

**Funding:** United Way of Rhode Island, Living Cities, Neighborhood Stabilization Program, Rhode Island Foundation, and HOME funds; potential for a HUD 108 Loan

**Partners** Community Housing Land Trust of RI, Olneyville Housing Corporation, West Elmwood Housing Development Corporation, Housing Network of Rhode Island, City of Providence, Rhode Island Housing, United Way, Rhode Island Foundation, LISC

## Background

A primary reason why owners have lost their homes to foreclosure is the state's affordable housing shortage. Throughout Rhode Island, the cost of housing grew exponentially in the first half of the decade as a result of low interest rates, easy credit, and access to financing that appeared affordable. Even middle-income families cannot afford available homes, and [a disproportionate number of Rhode Islanders turned to sub-prime loans to enter the housing market](#). The foreclosure challenge entered a second phase due to resetting of variable interest rate mortgages. And a third, even more devastating phase, has set in as mortgage holders lose their jobs. As of April 2009, Rhode Island had the fourth highest [statewide unemployment rate](#).

To address the foreclosure challenge and ensure long-term affordable housing, the Rhode Island Community Housing Land Trust (CHLT-RI), a state-wide association of eight nonprofit community development corporations (CDCs), is working with two community development organizations in Providence to acquire foreclosed properties, rehabilitate them and sell them to low-income homeowners using a [Community Land Trust](#) model.

## The Land Trust Model Explained

Under a Community Land Trust model, the trust acquires a property and resells the house to an owner who will occupy the land. But the trust retains ownership of the land so that it will always benefit the community. The cost to the buyer for a single-family house without title to the underlying land is about 25 percent less than full market value. The owners of the house lease the land for 99 years or more and can pass it down to family members. If the homeowners do re-sell it, the land lease requires that the home be sold either back to CHLT-RI or to another lower-income household for an affordable price. The homeowner receives a percentage of the equity

## 2500

From January to June 2007, nearly [2,500 homes in Providence were foreclosed upon](#). Approximately a quarter of them were owner-occupied and the rest were owned by investors.

With the eleventh highest foreclosure rate in the country, Rhode Island is, [according to one economist](#) "ground zero" for the nation's housing bust. Much of the problem is concentrated in the capital city of Providence, which is home to six out of every 10 foreclosures.

that goes with the house but the remainder stays with the land, allowing the property to be affordable to homeowners for years to come.

The benefit to the homeowner of buying a home under this shared equity model is a lower price and a much lower risk of future foreclosure because the trust is co-owner and can take action to ensure the property does not become vulnerable. The benefit to the community is permanently affordable housing that will allow for mixed income neighborhoods even as market values rise. All buyers of a CHLT-RI house are required to complete a 12-hour home buyer training course prior to purchase.

### Implementing the Foreclosed Property Recapture Program

In July 2008 the CHLT-RI developed a partnership with two nonprofit housing organizations with decades of experience working to revitalize Providence's distressed neighborhoods: West Elmwood Housing Development Corporation (West Elmwood) and Olneyville Housing Corporation (OHC). The partnership received funding from Living Cities to pilot a foreclosure strategy emphasizing the land trust model land trust model that would create permanently affordable housing in these communities. United Way of Rhode Island also invested \$50,000 in the effort.

The partnership will target 10 neighborhoods that make up approximately one half of the city. West Elmwood and Olneyville Housing are each responsible for the acquisition and rehabilitation of properties in one half of the project area. CHLT-RI will steward the properties and hold the land lease at the time of resale. During the interim CHLT-RI will be working in a supporting role on the overall administration of the program and will also help with the paperwork and documentation needed for the acquisition and rehabilitation stages, but will not serve as the lead during these early stages.

Two of the ten neighborhoods targeted, Olneyville and West Elmwood, are low-income communities hard-hit by foreclosures. In Olneyville, the lowest income neighborhood in the city, [one in five](#) houses has been advertised for foreclosure auction — the highest rate of any neighborhood, according to The Providence Plan. Like the rest of the state, in both Olneyville and West Elmwood, home values were skyrocketing earlier in the decade. Between 2002 and 2005, homes appreciated 300 percent. Speculation became a big issue in the two neighborhoods. Absentee landlords purchased a substantial and very visible percentage of available properties. Properties often were flipped five or six times in the three-year period, each time making a profit for their new owners. By 2005, prices had gotten way ahead of actual property values. For instance, a multi-family property might be sold for \$100,000 a unit, yet in reality, each unit could only bring in \$75,000 in rent over the course of the investment. As a result, many investors were left with upside-down loans and unable to make payments. Speculators are again returning to the neighborhood, this time buying up the foreclosure properties in the best condition and holding on to them until property values rise again.

### How much equity is shared?

Rhode Island Community Housing Land Trust uses a complex formula to determine the sale price for a house to ensure it will be affordable. The price is based on the size of the new buyer household (number of bedrooms they will +1) and what they can afford if their monthly house expense are to be no more than 30 percent of the household's monthly gross income. Monthly house expenses include the mortgage payment based on the mortgage interest rate at the time of resale (Freddie Mac interest rate is used), property taxes, insurance and property fees for the ground lease, and sometimes condominium or homeowner association fees.

Many families are impacted by these trends. Duplexes and triplexes make up most of the housing stock in these neighborhoods. Some homeowners who took out home equity loans or ARMs on their primary residence now cannot pay the monthly mortgage payments. Some owners decided to try their hand at real estate investment, buying an adjacent house in the duplex or triplex, often purchasing the added property with the equity from their home with plans to find a tenant. At a time when it seemed property values could only rise, this appeared to be a good investment decision, but some of these owners have ended up losing their own houses as well as the investment properties.

### **Choosing the Community Land Trust Model**

The Community Land Trust Model offers these two neighborhoods many advantages. Sharon Conard-Wells, Executive Director of West Elmwood Development Corporation, said that her organization became interested in the Community Land Trust model to protect the investments they had already made in the neighborhood. By placing the properties under the stewardship of the land trust, West Elmwood can guarantee that homeowners with the ability to maintain them will occupy them. Furthermore, the next time property prices skyrocket, homes affordable to low- and moderate-income households will still exist in the neighborhood.

Frank Shea of Olneyville Housing Corporation has an even longer term view: he sees the current economic downturn as just another part of the cycle, so he wants to buy as many properties that are harming the surrounding neighborhood as he can while property values are once again at a level at which a CDC can purchase them. To acquire and rehabilitate a home costs \$100,000 on average, based on Shea's experience. Shea wants to use the land trust to protect this investment and these properties' affordability so Olneyville and the other neighborhoods he is working in will be healthy, mixed-income neighborhoods for decades to come. Shea says it is an interesting experience explaining to a potential buyer exactly how a community land trust works and the advantages and disadvantages to the buyer. Most are very positive because they understand this as an opportunity for their family that they would not have in the private market; they also see that when they leave, this will be an opportunity for another family. Of course, there is a real temptation for people to hear the advantages and not the disadvantages of this shared-equity program, so Shea is very careful to explain exactly what will happen and to review each document thoroughly with the buyer. "With property values lowering, it is more challenging to find people to buy into the community land trust because the lower prices are not as great an incentive," he says.

Demolition is not a real option in Providence because much of the city has been zoned for single family dwellings and the city's zoning ordinance prohibits the building of duplexes or triplexes on a lot where a building of comparable size was demolished in an area zoned for single family housing. Since the early 1970's, Rhode Island has enforced a zoning provision that prohibits non-conforming development, which states that if a building is demolished, the new housing must conform to the zoning designation for the previous property at the time of reconstruction. As a result, when a house is demolished in Providence, it is often necessary that one parcel be combined with an adjacent parcel to ensure sufficient square footage to meet modern setback requirements. Building a single-family house after demolishing a multi-family building will not allow the CDC's to recapture much of the subsidy they invested, and will only provide affordable housing for a single household. In addition, often a single family home does not fit within a neighborhood of duplexes and triplexes and will disturb the neighborhood fabric and look out of place. West Elmwood is exploring the possibility of demolishing houses and using the vacant lots for off-street parking. In the West Elmwood

neighborhood, there are a large number of multi-family properties, and on-street parking overnight is prohibited in Providence. West Elmwood is considering whether it makes sense to create new parking alternatives for tenants and owners and is exploring how those parking lots would be maintained.

Both West Elmwood and Olneyville have dealt with abandonment before. Applying lessons learned from decades of community revitalization work, The Olneyville Housing Corporation is strategically acquiring properties with the most significant negative impact on the surrounding neighborhood – for instance, a house across from a school, key corner locations, or nuisance properties – and have the potential to significantly improve the neighborhood. Olneyville is aggressively acquiring these properties, 20 units in 12 properties to date, and storing them in the State Land Bank. Once the properties have been rehabilitated, Olneyville Housing Corporation plans to rent them out until a sales market exists.

CHLT-RI's two partners in this pilot program are both members of the Housing Network of RI, a state-wide association of 22 nonprofit community development corporations.

## Challenges

Finding enough funding to implement the program at a meaningful scale is the primary challenge, but the partners are looking into various financing sources. West Elmwood and Olneyville Housing hope to acquire federal Neighborhood Stabilization Funds to fund rehabilitation. The State NSP dollars were placed in a state-wide land bank organization established by Rhode Island Housing, Rhode Island's Housing Finance Agency, on behalf of the Rhode Island Housing Resources Commission and the State Housing and Community Development Office. Providence manages its own NSP funds. West Elmwood and Olneyville will each submit applications for NSP money to Providence and the Rhode Island Housing to help finance the rehabilitation of the properties.

West Elmwood had purchased a series of properties intended for affordable housing just before the rise in property values, so they were able to move forward even when prices became prohibitive. Currently, they have a line of credit with LISC that provides \$900,000 for acquisitions, and they want to aggressively buy foreclosed homes on streets where they have already made significant investments. However, Sharon Conard-Wells reports, they have been unable to compete against the speculators and have had little or no success buying REO properties. Conard-Wells estimates the average cost for rehabilitation at between \$50,000 to \$60,000 on targeted foreclosed properties with an acquisition price of between \$30,000 and \$40,000. As they begin purchases, they will refine these estimates.

CHLT has been coordinating efforts with the city, Rhode Island Housing, the State, and a number of local area foundations (including the United Way and the Rhode Island Foundation), as well as LISC and Living Cities.

### "People were shocked,"

Rhode Island, with the 10th worst foreclosure rate of any state in the nation, expected to receive as much as \$55 million in Neighborhood Stabilization Program funding. Instead they received the small-state minimum of \$19.6 million – the same as Wyoming, which has the lowest percentage of loans in foreclosure at 0.63 percent. "People were shocked," said Frank Shea, executive director of the Olneyville Housing Corporation. "We will not be able to attack all the neighborhoods that need funding," said Richard Godfrey, executive director of Rhode Island Housing, the State Housing Finance Agency that is co-administering the federal grant.

The City of Providence is also fundraising to gain sufficient resources to attack the foreclosure recovery at scale. The City of Providence received \$9.6 million of Neighborhood Stabilization Program money – more than half of the funds designated for Rhode Island cities and towns. In addition, the City plans to use HOME program funds where caps on per-unit investment have been raised by 20 percent, from to \$50,000 to \$60,000. Furthermore, the City will utilize Lead Hazard Reduction Program funding and Closing Cost Assistance for new homeowners of foreclosed homes in the form of a no interest soft second mortgage for renovation of the foreclosed house. The City of Providence is also [proposing a \\$10 million HUD 108 loan](#). The proposed activities to be financed with the HUD 108 will include:

1. 10 percent down payment loans and rehab loans to homeowners that are 10 percent forgivable, with no payments due until resale of the property;
2. Rehab loans to developers to rehabilitate formerly foreclosed vacant houses for resale to homebuyers, with no payment due until the house is sold;
3. Strategic property acquisition; and
4. Selective demolition of houses "beyond salvation."

## Conclusion

Community developers in Providence view the foreclosure crisis as an opportunity to create permanently affordable housing and to move properties from investor ownership to homeowners. Acquiring properties in bulk and placing them in a community land trust is a difficult task that the Community Housing Land Trust and its partners are diligently engaging in. Often they feel like they are building the plane while flying it, but they have a clear goal, experienced partners, and, unfortunately, an extensive supply of foreclosed properties at their disposal. It is their hope to transform a sufficient percentage of properties into permanently affordable housing to create mixed-income neighborhoods for generations into the future.

# Cleveland: Foreclosure Recovery and Prevention in Six Neighborhoods

## PROGRAM SNAP-SHOTS

**Strategy:** Stimulate market recovery in six pilot neighborhoods through a three-pronged program of foreclosure prevention, rehabilitation of vacant homes and demolition of blighted homes not suitable for rehabilitation.

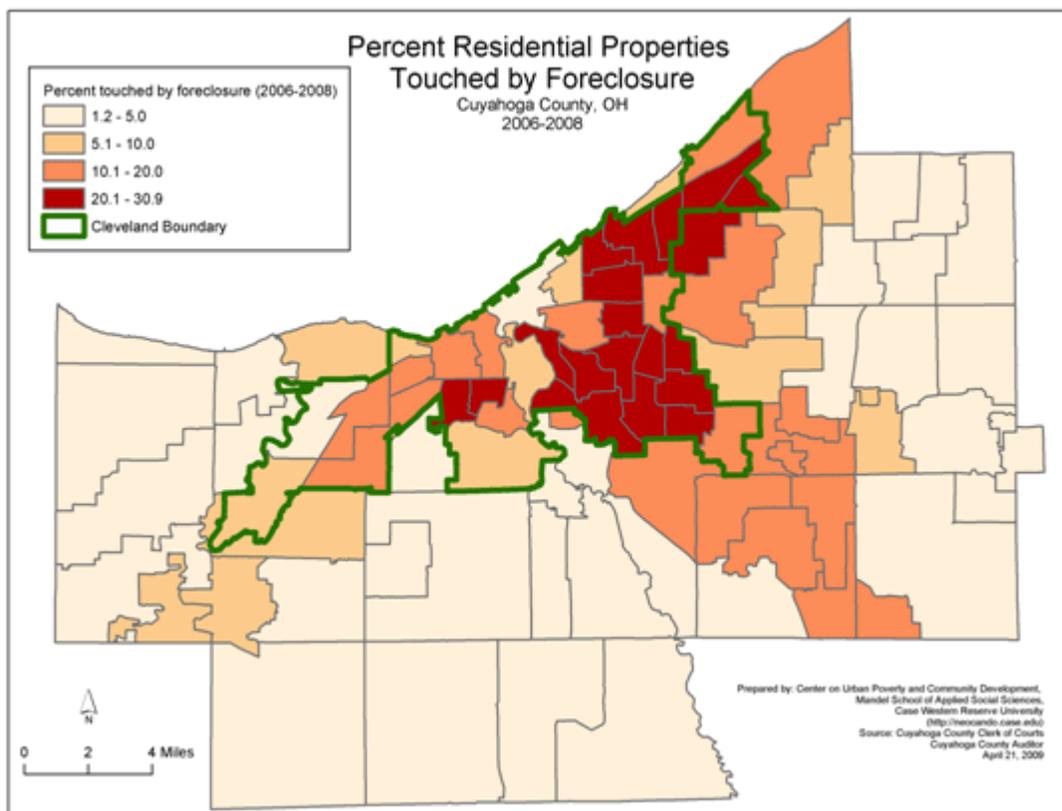
**Market:** Weak Market City

**Funding:** Neighborhood Stabilization Program, Ohio Housing Finance Agency and City of Cleveland (CDBG and HOME funding)

**Partners:** City of Cleveland, Cleveland Housing Network and Neighborhood Progress partnered to create the Limited Liability Company called Opportunity Homes; Enterprise Foundation, Ohio Housing Finance Agency, Living Cities, and Key Bank.

## Background

The scale of foreclosures in Cleveland is vast. In 2007, Cleveland had more bank owned (REO) properties than any city in the nation other than Detroit; [3 percent](#) of its owner-occupied properties were owned by banks or servicers. Foreclosures in Cleveland are concentrated in a small number of [low- and moderate-income neighborhoods](#). African- American neighborhoods were particularly hard hit: in some of Cleveland's African-American neighborhoods, [over half the homes](#) are in foreclosure. Home values in Cuyahoga County have dropped [up to 50 percent](#), and the median home sales price has dropped 28 percent.



Cleveland has a three-decade long history of trying to return vacant and abandoned properties to productive use. The City of Cleveland and its extensive nonprofit community that includes over fifty community development corporations have been fighting for the last thirty years to revitalize city neighborhoods and reclaim abandoned properties.

At the beginning of the decade, progress was visible to all: neighborhoods had started to experience revitalization and newfound market strength. People were paying more for newly constructed homes and quality rehabilitated homes in virtually all areas of the city. John Wilbur, the City's Assistant Director of the Department of Community Development, says the City was caught unawares when the impacts of the foreclosure crisis and the economic downturn landed at its door. They had underestimated the power of these global forces to weaken neighborhood real estate markets. Neighborhoods that were stable prior to 2000 seem to be surviving well but the neighborhoods that were just starting to see progress between 2000 and 2005 with a few new development projects in place are not doing so well. Home values in these fragile emerging successes are now dropping precipitously.

Two different but related foreclosure recovery efforts are now being carried out to reclaim this progress and stabilize neighborhoods: the Opportunity Homes effort led by nonprofit intermediaries and the Neighborhood Stabilization Program led by the City.

### Opportunity Homes

*“What few realized was that while great strides were being made to revitalize neighborhoods and stimulate neighborhood housing markets, while new housing starts were increasing, while private developers seemed to have re-discovered neighborhood markets once abandoned, while new homebuyers were rediscovering the attraction of city living.....a cancer was taking root. That cancer, which first emerged around 1995 but has since grown quietly and steadily, was a growing network of mortgage brokers, mortgage lenders and investment banks engaged in irresponsible mortgage lending and investing.” - Frank Ford, Neighborhood Progress, Inc*

Neighborhood Progress, Inc. and the Cleveland Housing Network are partnering to implement the Opportunity Homes effort to recover foreclosed properties in six neighborhoods. The six targeted neighborhoods, selected through an RFP process, share three characteristics: each neighborhood is attractive to new residents, has a local community development corporation with capacity to acquire and rehabilitate foreclosed properties, and is planning a large-scale project to anchor the recovery of the neighborhood. (Note: Since the national economic downturn, construction for many of these large anchor projects has been postponed.) Overall, the program is expected to meet the following goals over the next three years:

- Rehabilitate 150 homes;
- Demolish 300 residential structures; and
- Prevent 300 foreclosures adjacent to or very near to houses being rehabilitated in order to protect that rehabilitation investment.

Resources are being targeted to small four- to six- block areas surrounding the anchor project, called “Model Blocks,” in order to maximize impact. CDC’s coordinate relevant resources, including home repair and landscaping assistance, to bolster the model block efforts, engage residents in home improvement and restore healthy markets. This foreclosure recovery project is an extension of the community revitalization work that Neighborhood Progress and partner CDCs have been performing for the past 15 years in these neighborhoods.

The annual budget for the Opportunity Homes effort to reclaim and rehabilitate 50 vacant homes each year for three years is \$6,350,000. The budget assumes an average cost for acquisition and rehabilitation of \$127,000 per house. The annual budget to demolish 100 homes per year is \$1 million and assumes a demolition cost of \$10,000 per property, an increase over the past couple of years due to more stringent asbestos remediation requirements. The City of Cleveland will pay for the demolitions.

So far, Opportunity Homes is on schedule to meet its targets. Twenty-six properties have been acquired, 46 have been demolished and 21 foreclosures have been averted, as of April 2009

### **Citywide Neighborhood Stabilization Program**

The second major Cleveland foreclosure recovery program was recently launched by the City and has an even greater emphasis on demolition. The City of Cleveland received \$25 million in Neighborhood Stabilization Program Funds. Eight million dollars will be used to acquire and rehabilitate housing. The remaining \$17 million will be used for demolition. According to John Wilbur, Cleveland's Assistant Director for Community Development, demolition has become the default plan of action for vacant properties in Cleveland. The city has over 8,000 abandoned and vacant homes in a physically distressed condition. This is after demolishing 200 distressed properties a year for the first part of the decade, and demolishing 1,000 homes in both 2007 and 2008. In 2008, the City sent staff to survey vacant properties. Wilbur's staff recommended that two-thirds of the single-family and small multi-family (up to 3 units) properties be demolished because the structure was not viable or because there were a significant number of other vacant and abandoned buildings on the block that made the neighborhood unattractive to buyers. Today, the presumption is that the property will be demolished unless there is interest from a buyer or a developer. The City has relationships with a group of developers who review all available foreclosed properties on the city's website and can prevent demolition with an online expression of interest.

The City is currently focusing on two sources of properties: city tax foreclosed properties and HUD REO properties. The city has control of the properties in foreclosure for unpaid taxes so it is actively demolishing or rehabilitating those properties to return them to market. The City also reached an agreement with HUD to buy HUD homes valued at less than \$20,000 in bulk for \$100 each and to buy HUD homes valued at over \$20,000 for a 50 percent discount. Furthermore, the City is in active conversation with Fannie Mae and with banks that act as depository banks for the City of Cleveland about their foreclosed inventory. They have tried to bring other lenders to the table but have found it incredibly difficult to locate an individual with the power to negotiate for the investors. Neighborhood Progress is working with two lender collaboratives – the "National Community Stabilization Trust" and the "REO Clearinghouse" to establish a vehicle for moving post-foreclosure vacant property into productive reuse by community development entities like Opportunity Homes, LLC. The City is actively watching these two pilot efforts with Neighborhood Progress to see if they will result in a more successful way to connect the City and its community development organizations with REO inventories.

### **Challenges**

Substantial subsidy is required to rehabilitate each home due to a significant decline in market values. According to Frank Ford, Sr. Vice President for Research and Development at Neighborhood Progress, Inc, dramatic reductions in property values make it necessary to provide a greater subsidy to fill the gap between costs to acquire and rehab and the resale price. Over the last decade, typical costs were \$30,000 for acquisition of a vacant house and \$80,000 for substantial rehab; a sales price of \$130,000 was then typical. That allowed \$20,000 for soft costs and a developer fee. Today, however, even if Neighborhood Progress can

acquire a foreclosed home for \$15,000, it will need to invest an additional \$85,000 for rehabilitation, while soft costs such as negotiating for acquisition, title search, appraisals and legal fees will amount to at least \$25,000. As a result, neighborhood organizations put \$125,000 into each property but in the current market may only be able to sell them for \$85,000 or less. If Neighborhood Progress and its partner, Cleveland Housing Network, are not able to sell the homes they do acquire and rehabilitate, they plan to transfer them to responsible homeowners through a short-term lease-purchase program.

A growing network of flippers and speculators, many of them from out of state, is competing for these same properties: they will typically invest only about \$10,000 worth of cosmetic repairs and attempt to sell for a profit. They specialize in helping lenders who have come to a decision that they want to “dump their garbage,” according to Ford. Speculators, for instance, will buy from a lender 150 properties located throughout the city for prices that are generally less than \$10,000 per property, and in some cases perhaps only \$1,500. Lenders don’t seem to be as interested in selling to a CDC or even to Neighborhood Progress – since they are only able to acquire foreclosed properties in the targeted areas in which they are working.

Will the Opportunity Homes program restore healthy markets to these 30 blocks? Frank Ford of Neighborhood Progress is hopeful but uncertain. The foreclosure crisis and its impact are unprecedented. “Under our feet, we have seen the foreclosure rates increase five-fold since 1995.” Market values for homes in challenged neighborhoods have always been low, but now values are slipping even further, as is demand. One impact that Ford hopes this project will have is to restore the capacity of CDC’s in Cleveland to rehabilitate and repair older housing stock. While historically nonprofit developers rehabilitated the properties in their neighborhood, during the 1990s the priority became new construction and the existing stock deteriorated.

### **Additional Efforts**

As existing blight is eliminated either by renovation or demolition, Neighborhood Progress believes it is also imperative to prevent new foreclosure – and new abandonment – on the very streets being stabilized. Accordingly, the intermediary expanded its focus to include foreclosure prevention. Neighborhood Progress purchased proprietary mortgage data from First American Title Company for \$9,000, so that they would be able to identify homeowners with adjustable rate mortgages due to reset between July 2008 and December 2010. Michael Schramm, an analyst-programmer at Case Western Reserve University's Center on Urban Poverty and Community Development, cross-referenced the databases with sheriffs’ sales and other public records to make sure nonprofits could approach at-risk homeowners identified by this early-warning data. A GIS mapping and data system maintained by the Center on Urban Poverty and Community Development’s Northeast Ohio Community and Neighborhood Data for Organizing ([NEO CANDO](#)), provides the neighborhood teams with the information they need to act to prevent the foreclosure of individual properties within the target area. Neighborhood Progress pays a nonprofit organizing group called Empowering and Strengthening Ohio’s People (ESOP) \$20,000 to knock on doors of homeowners at risk for foreclosure to counsel them on their options. See a case study of the effort [here](#).

In addition to ESOP, Neighborhood Progress is also working with three other foreclosure prevention agencies to prevent the foreclosure of one hundred homes per year over three years. The four agencies are already funded to do counseling and loan modification and collectively a success rate of helping 52 percent of the mortgage holders who seek their help.

## Tracking Property Conditions and Activities in the Buckeye Neighborhood Model Block Area



Neighborhood Progress has also participated in a city-wide attempt at policy reform. Neighborhood Progress co-convened with Cleveland Neighborhood Development Coalition (CNDC), a CDC trade association, the “Vacant Property Coordinating Council,” which has been meeting monthly for the past three years to address policy reforms at the City and County level. It has brought together for the first time funders, CDC’s, two local universities, City council, the Mayor’s office, the Cleveland Housing Court, representatives of County government, and the Cleveland Federal Reserve Bank. Frank Ford chairs this group. This Council has been effective at coordinating resources and bringing about changes in policies and practices but Ford concedes that the group is not an advocacy group so is limited in its ability to compel change.

Neighborhood Progress is also suing two of the lenders holding the largest inventories of vacant REO property. The lawsuit alleges that Deutsche Bank and Wells Fargo own hundreds of vacant houses, and, in an effort to “off-load” their liability, are “dumping” these houses to speculators who flip the properties or hold onto them without any level of investment, waiting for a windfall and letting them blight the community in the interim. John Wilbur states that the City has not been approached by either lender with any proposals to donate or sell their REO inventory at a discount but the City is hoping this will be part of the lawsuit’s resolution.

### Reforming the City’s Land Bank

The City of Cleveland has also found that its dated land bank structure no longer meets its needs. The existing land bank, one of the first land banks established in the country, has a policy of only banking vacant land, so structures must be demolished first. During the last few months of 2008 it amended its policy to accept land bearing a structure if a demolition order for the structure is already in place. The land bank has very limited resources so often cannot compete with speculators, who are contributing to the decline of Cleveland’s housing market. Cuyahoga County recently created a new land bank that will bank residential homes until the housing market is once again viable; this land bank will have the resources to competitively

purchase foreclosed properties, board them up, maintain them, or demolish as necessary. The City is deeply involved in establishing this new land bank and hopeful that it will succeed in preserving more homes until certain neighborhood markets are once again viable.

## **Conclusion**

After dealing with abandonment for decades, Cleveland is ramping up to deal with the foreclosure crisis with far more experience than many other cities. Nonetheless, Cleveland has found that some of its tools, like its land bank that is often cited as a national best practice, are unable to meet the demands of the crisis and that resources are too limited to allow effective response in every neighborhood. By targeting resources and by having the City and nonprofits jointly attack the foreclosure problem, Cleveland hopes to regain the community revitalization progress made over the last ten years and establish healthy real estate markets throughout the city.

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# Los Angeles: Helping New Homeowners Move into Foreclosed Properties

## PROGRAM SNAP-SHOTS

*Strategy:* Stabilize neighborhoods by maximizing the use of viable real estate in the city; provide incentives for home buyers to purchase foreclosed properties; create a nonprofit holding company to acquire and rehabilitate foreclosed properties for occupancy by lower and moderate-income households; target both programs to areas most impacted by foreclosures

*Market:* Strong Market City

*Funding:* Neighborhood Stabilization Program, Affordable Housing Trust Fund, HUD Lead Abatement Grants, State funding

*Partners:* City of Los Angeles, Restore Neighborhoods LA, Enterprise Community Partners, real estate brokers, lenders

## Background

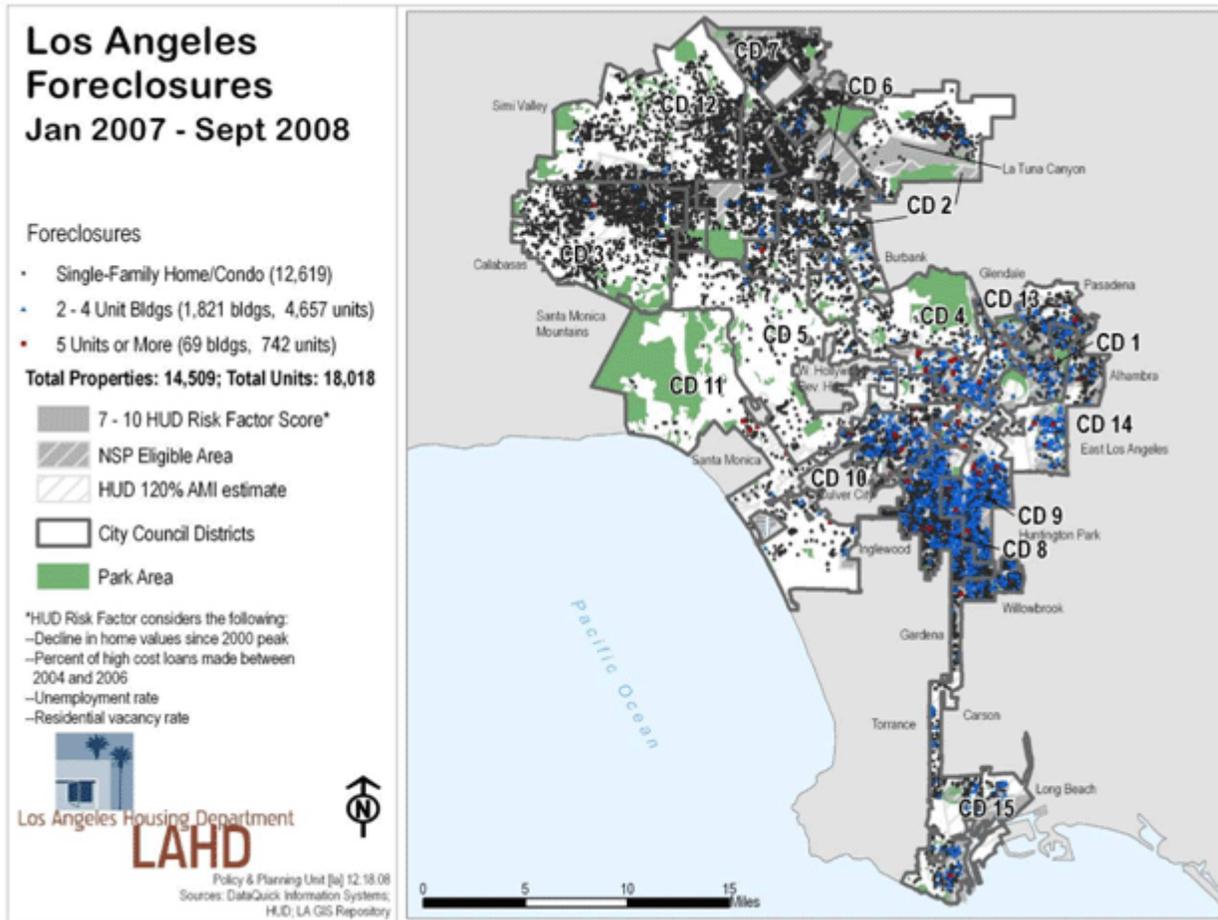
Like many U.S. cities, Los Angeles has a fast-growing inventory of thousands of foreclosed properties. Unlike many cities, Los Angeles has a viable real estate market: approximately one hundred foreclosed homes are sold on the private market in Los Angeles every day. The mortgage crisis has reduced property values in one of the most expensive cities in the country and increased affordability for low- and moderate-income homebuyers. However, the corresponding tightening of the credit markets has made it more difficult for these potential homebuyers to obtain mortgage financing.

To capitalize on this healthy market for foreclosed properties and overcome the barriers to homeownership, Los Angeles Housing Department (LAHD) is implementing a number of programs to aid in foreclosure recovery. The City is using its Neighborhood Stabilization Program allocation to fund two initiatives. The Walk-In Program will provide low and moderate-income buyers with incentives to purchase a foreclosed home in targeted neighborhoods. And a newly established nonprofit property holding company, Restore Neighborhoods LA, will acquire, rehabilitate and sell properties to homebuyers with low and moderate incomes, or to mission-driven organizations.

## First Steps: Defining the Foreclosure Problem

The City launched an intense effort to define the foreclosure problem through data collection and mapping in 2007. In a city that encompasses 468 square miles and contains 1.36 million housing units, a total of 24,611 units have been foreclosed between January 2007 and March 2009. One of the first goals of this effort was to determine the extent of the crisis and to identify geographic concentrations of foreclosures. To achieve the best results, the LAHD created a data committee to help identify and map relevant foreclosure-related data in the City of Los Angeles. This committee consisted of industry and academic experts, including: Enterprise Community Partners, the Federal Reserve Bank, the Lusk Center at the University of Southern California, and LAHD consultants.

The City, in consultation with the data committee, began its analysis of the impact of foreclosures in the City. The City supplemented foreclosure data (purchased and analyzed from DataQuick) with HUD data on foreclosure and abandonment risk estimates of areas that contained more than 50 percent of persons at or below 120 percent of area median income. Locally-collected gang activity and crime data was also used to identify target areas.



The City identified three major areas of foreclosure concentration: South Los Angeles, Central/East Los Angeles and the San Fernando Valley. The LAHD also individually mapped each of the fifteen City Council districts. Each map depicts foreclosures to determine concentrations in the each of the Council districts, but does not provide sufficient detail for speculators to identify the addresses of the properties. With this information in hand months before NSP funding was available, the LAHD approached City Council offices and asked them to identify 10-square-block areas within their districts with high foreclosure concentrations to target the City’s limited foreclosure recovery resources and leverage other investments to stabilize the neighborhoods.

### The Walk-In Program: Providing Homeownership Opportunities

The City created its Walk-In Program to assist low- and moderate-income homebuyers purchase foreclosed homes that need little to no rehabilitation in the priority NSP areas. Under the Walk-In Program, the City will partner with lenders, realtors and homebuyer educators to assist households at or below 120 percent of area median income (AMI). The City will provide eligible homebuyers in the priority areas a soft second mortgage of up to \$75,000 underwritten by the LAHD to make the home affordable. (A soft second mortgage does not replace the primary mortgage financed by the bank. Instead, it fills the gap between the amount that a borrower can afford for a first mortgage and the purchase price of a home.) The City will also provide an additional loan up to \$50,000 to assist homebuyers with rehabilitation of the home. The rehabilitation loan is limited to \$50,000 in order to encourage homebuyers to “cherry-pick” the foreclosed homes in the best condition in the targeted areas. The LAHD learned from past experience that more extensive repairs were problematic for new buyers. As part of the Walk-In Program, buyers will use FHA and other standard fixed-

rate mortgage loan products to purchase homes. These home purchases will have an immediate stabilizing impact on the neighborhoods.

### Home Price Decline in Two NSP Target Areas

	2007		2008	
	South LA - 90011	Valley - 91406	South LA - 90011	Valley - 91406
Median Single Family Home Sales Price*	\$435,000	\$530,000	\$241,000	\$375,000
Percent Decrease			-45%	-29%
Mortgage Payment+	\$2,520	\$3,070	\$1,396	\$2,172
Income Needed to Pay Affordable Mortgage^	\$80,000	\$97,000	\$44,000	\$67,000
Estimated AMI	110 % AMI	130 % AMI	60 % AMI	90 % AMI

Source: LAHD Policy & Planning Unit analysis. \*DataQuick; +Assumes 30yr fixed 5.5% rate, 20% down payment w/ Taxes & Insurance; ^38% of income

### Restore Neighborhoods: Lining up the Opportunities

The City established a nonprofit holding company to swiftly acquire and rehabilitate properties. The holding company, Restore Neighborhoods LA (RNLA), was incorporated as a Community Based Development Organization (CBDO) under federal regulations. The reason for creating a new nonprofit was simple: it would be more flexible in this market and have fewer bureaucratic requirements to satisfy before it could purchase and transfer properties. Enterprise Community Partners provided the technical assistance required to create the nonprofit organization. RNLA will work to acquire REO properties with more extensive rehabilitation needs. RNLA will use a Request for Qualifications (RFQ) process to hire contractors to rehabilitate foreclosed properties. LAHD will verify that the work is completed satisfactorily. Once properties are sold, the City will provide a soft second mortgage to the buyers of these homes to get the rehabilitated homes quickly re-occupied by homeowners. RNLA will also use some of its resources to “right-size” some homes to meet the needs of the impacted neighborhoods. For instance, a bedroom and bath may be added to a two-bedroom, one-bathroom house in order to meet/accommodate the needs of today’s families.

RNLA will also address multi-family buildings. One particular goal of RNLA is to buy and rehabilitate 2 to 4 unit multi-family rental properties in South Los Angeles. RNLA will acquire and transfer these buildings through an RFQ process to other mission-driven affordable housing providers with the capacity to rehabilitate, own and manage the properties as affordable rental housing.

The LAHD has acquired key information on the City’s multi-family housing stock through its program that inspects every rental property every four years. The City will use this information to help identify foreclosed buildings with code deficiencies or nuisance properties where a neighborhood would strongly benefit from the rehabilitation of these types of property by RNLA.

LAHD is also working with Enterprise Community Partners to integrate cost effective “green” specifications into the rehabilitation of NSP properties.

### LA NSP Eligible Property Website

In an effort to assist real estate professionals, servicers, and prospective homebuyers to participate in the NSP program, the LAHD launched a searchable map-based property search [website](#) in March 2009. The new website contains NSP related information as well as maps of all the NSP priority areas in the City. The website enables users to input an address or the parcel number of a property and immediately determine if the property is located within an NSP priority area. The LAHD NSP website utilizes Microsoft LiveEarth so that users can view the property and surrounding area from a variety of vantage points.

### Financing

Because of the high cost of housing in Los Angeles, the city estimates that the NSP funding will affect just over 300 housing units. To have greater impact, the City and RNLA are working to establish a revolving line of credit facility to leverage the NSP funds for the acquisition and rehabilitation of foreclosed properties. The

line of credit will be similar to the City's New Generation Fund, which is a new program that offers acquisition and predevelopment loans to developers committed to the creation and preservation of affordable housing in the City of Los Angeles.

To further assist families and neighborhoods hurt by the foreclosure crisis, the LAHD will be applying for the State of California's NSP 25 percent set aside to assist households up to 50 percent of AMI as well as the NSP2 funding available through ARRA.

### **Other City Measures**

In November 2008, the Los Angeles City Council approved the Foreclosure Protection Moratorium Ordinance (effective December 19, 2008), prohibiting lenders who foreclose on single-family homes or non-RSO multi-family properties from evicting a tenant merely because the property has been foreclosed. This ordinance provides renter protections that were previously only available to residents of units covered by the Rent Stabilization Ordinance. This moratorium will sunset on December 17, 2009; however, the City Council can amend and extend this ordinance. In May 2009, the City has also addressed fraudulent foreclosure counseling activity by regulating mortgage modification consultants.

### **Challenges**

Mercedes Marquez, General Manager, City of Los Angeles Housing Department, says these programs will only address a small part of the problem because of limited funding. Even at \$32.8 million, the NSP funds will not go far in dealing with 24,611 units in 19,652 properties. Ms. Marquez estimates that the City will be able to acquire and rehabilitate at most 200 or 300 hundred foreclosed properties with the funding.

### **Conclusion**

Los Angeles shaped its foreclosure recovery plan to take advantage of its viable real estate market. With a data-based approach to foreclosure recovery, the city will offer incentives for buyers to purchase foreclosed properties in targeted areas through the Walk-In Program, and has established a nonprofit holding company to quickly purchase foreclosed properties, rehabilitate them, and get them back on the market. Additionally, the City is working to create a line of credit to help finance these efforts. And as City officials like Mercedes Marquez will tell you, this is only the beginning of L.A.'s substantial efforts to manage the foreclosure crisis and, where possible, turn it to the City's opportunity to create new affordable housing.

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# Twin Cities: Implementing a Coordinated Strategy

## PROGRAM SNAP-SHOTS

**Strategy:** *Implement neighborhood cluster approach for strategic acquisition; Create financing tools to help stable homeowners buy foreclosed properties; Leverage funding resources*

**Market:** *Mixed Market City*

**Funding:** *Twin Cities LISC with a grant from Living Cities, Minnesota Housing, Family Housing Fund, Greater Minnesota Housing Fund, City and County funds, Federal funds, philanthropic and private donors*

**Partners:** *City of Brooklyn, City of Cottage Grove, City of Minneapolis, City of Saint Paul, Dakota County, Dayton's Bluff Neighborhood Housing Services, Duluth LISC, Emerging Markets Homeownership Initiative, Family Housing Fund, Fannie Mae, Greater Metropolitan Housing Corporation, Greater Minnesota Housing Fund, Hennepin County, HousingLink, League of Minnesota Cities, Metropolitan Consortium of Community Developers, Minnesota Home Ownership Center, Minnesota Housing, Ramsey County, Saint Cloud Housing and Redevelopment Authority, Three Rivers Community Action (Twin Cities), and the University of Minnesota – Center for Urban and Regional Affairs*

## Background

From 2005 through April 2009, there have been [70,111 foreclosures in Minnesota](#). The majority (68 percent) have been concentrated in the seven-county Twin Cities metro area. In some Saint Paul neighborhoods where real estate markets were hot just three years ago, the median sales price of homes has dropped close to \$80,000 per home, or 43 percent of homes' value, since 2005.

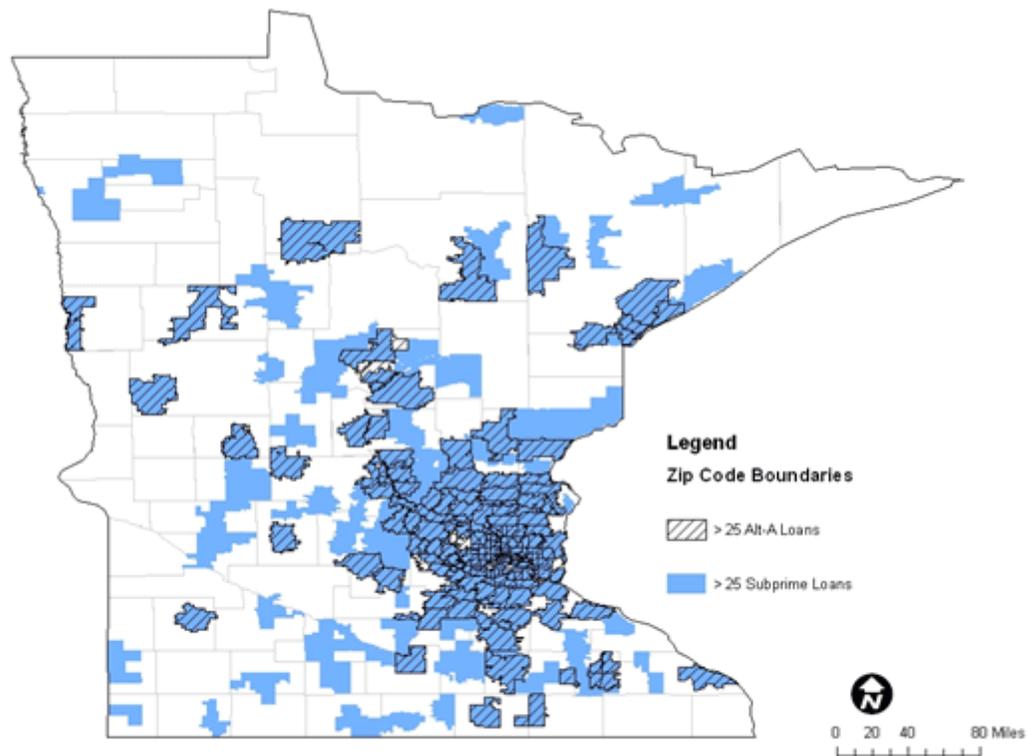
Lower-income households and households of color have been hit the hardest. In the Twin Cities, households of color were much more likely to receive adjustable rate subprime mortgages, a mortgage type created for homeowners with a less-than-perfect credit score that often required higher interest rates or balloon payments which many homebuyers ultimately were unable to pay. This has resulted in clusters of foreclosures that threaten neighborhood deterioration in minority neighborhoods such as North Minneapolis, South Minneapolis, and the north central and northeast quadrants of Saint Paul.

A statewide Minnesota partnership is working to understand the foreclosure crisis in the state, reach out to and counsel distressed renters and homeowners, reclaim foreclosed properties, and create innovative financing products. A focus of the Minnesota Foreclosure Partners Council's efforts is the acquisition, rehabilitation and disposition of foreclosed properties and the creation of innovative financing products that will enhance the Council's ability to transfer foreclosed properties to responsible owners. Members of the Partners Council are working throughout Minnesota communities to rehabilitate foreclosed properties into affordable and market rate housing and restore a healthy housing market.

## The Minnesota Foreclosure Partners Council

The Family Housing Fund, a nonprofit dedicated to providing affordable housing in the Twin Cities, along with the state's housing finance agency, established the Minnesota Foreclosure Partners Council in 2007 to create a coordinated effort that addressed the rising number of foreclosures across the state. Partners in the Council originally were limited to funder organizations but soon cities, counties, nonprofit organizations and

others joined the Council. Today Council members include Saint Paul Housing Finance Agency, Fannie Mae, LISC, the University of Minnesota, several funders, nonprofits, and community developers.



Data Source: Federal Reserve Board estimates based on securitized subprime and alt-a mortgage data from First American LoanPerformance, August 2008.

The efforts of member of the Minnesota Foreclosure Partners Council have been funded with state, county, city and federal, philanthropic lenders' support. For example, the Family Housing Fund, launched the Home Prosperity Fund in 2008 with initial investment loans of \$16 million from Wells Fargo, US Bank, TCF Bank, Thrivent Financial, and Minnesota Housing for strategic acquisition and rehabilitation and programs to assist affordable, sustainable homeownership throughout the Twin Cities. New 2009 commitments from the McKnight Foundation and Wells Fargo put the total pool at \$24 million. Minnesota Housing released \$9.2 million in federal HOME funds to provide down payment and entry cost assistance with the acquisition of foreclosed homes by new homeowners as a primary target and provided \$1.5 million between the cities of Minneapolis and Saint Paul and local partners for affordability gap funds to support foreclosure remediation efforts. In addition, the City of Saint Paul approved \$17 million for use in Saint Paul to finance the foreclosure recovery program that they named the Invest Saint Paul Initiative. Saint Paul raised this money through a bond issue that was supported by a portion of a half cent sales tax.

### Targeting Efforts: Invest Saint Paul and Clusters in Minneapolis

The Invest Saint Paul Initiative targets foreclosure recovery resources to four key neighborhoods. In Saint Paul, 1,706 vacant buildings were identified as of April 8, 2008. Of these, at least 50 percent were estimated to be homes that were foreclosed upon during the past 2 years. By the end of 2008, projections predict over 2,300 foreclosed buildings. The greatest concentrations of vacant properties and foreclosures are in neighborhoods with the greatest numbers of rental properties. Invest Saint Paul's mission is to address vacancies, home foreclosures, and commercial neighborhood decline and create healthy neighborhoods. Their challenges include declining property values, inability to locate the lenders and servicers for the

foreclosed properties, and the presence of few buyers for the foreclosed properties. Invest Saint Paul is targeting their limited resources to four neighborhoods. Jim Erchul of Dayton's Bluff Neighborhood Housing Services works on the East Side of Saint Paul in one of these targeted neighborhoods. In the hardest hit neighborhoods, Erchul says there may be six to eight vacant buildings on a block. Many of the foreclosures are in neighborhoods where a hot market caused a great deal of recent sales activity. Erchul says that his organization is focusing on recently stable areas with one or two foreclosures that are negatively impacting the area. His organization chooses not to put limited resources into areas with large numbers of foreclosures and vacancies at the block level because they do not possess the resources required to have a significant impact.

The City of Minneapolis similarly adopted a targeted approach and is partnering with nonprofits to acquire and rehabilitate foreclosed properties. Minneapolis is targeting six neighborhoods. This focus on six relatively small geographic areas, or "clusters," is intended to make a visible impact on the housing stock and to stabilize and strengthen the homeownership market in those neighborhoods. The city selected the clusters by issuing a request for proposals and asking neighborhood groups in North Minneapolis to identify two-block areas that contained three or more condemned vacant properties. Twenty neighborhoods responded with approximately 20 areas and six were chosen.

Each of the six Minneapolis clusters is located in North Minneapolis, a neighborhood with very high foreclosure rates. Northside was a stable neighborhood, but was hit hard by predatory lending and as early as 2004, vacant properties were starting to appear. Northside Home Fund (NHF), a partnership begun in 2005 among Northside neighborhood organizations, nonprofits, governmental and enforcement agencies, private housing developers, and financial institutions, is taking the lead on remediating vacant foreclosed homes. The core focus of the NHF effort aims to make big changes in small neighborhood areas through the redevelopment of vacant and boarded homes for re-sale to stable owner-occupants, home repair assistance for existing homeowners, and foreclosure prevention programs. The City committed \$1 million in un-programmed funds to "seed" the NHF. Since 2005, the NHF partners have removed the blighting influence of more than 87 boarded and vacant properties through property acquisition, demolition, and working with property owners to bring their buildings up to code. Poor housing market conditions, coupled with the increased foreclosures and vacant and boarded properties in North Minneapolis, have posed a challenge to cluster development plans. "Cluster development partners have been forced to slow production of new housing units and have increased efforts to improve the market on the north side," explains Jill Kiener of the Northside Home Fund. In addition to acquisition and rehabilitation, in each cluster, NHF performs community outreach and organizing, a health impact assessment survey, a housing inspections component, foreclosure prevention, and the establishment of a development partnership to identify and implement residential development opportunities within the cluster.

### **Developing the First Look Program to Acquire Properties**

Minneapolis and Saint Paul were selected for a pilot program by the National Community Trust – the First Look Program – that has significantly sped up their property acquisitions. Before First Look, the Minneapolis nonprofit Greater Metropolitan Housing Corporation (GMHC), a nonprofit that has a mission to preserve, improve and increase affordable housing in the Minneapolis metropolitan area, had a tough time locating officials at mortgage companies who have the authority to sell the properties, said Carolyn E. Olson, president of GMHC. First Look makes it much easier to locate and inspect the properties. The First Look Program is a national program developed by the National Community Stabilization Trust, a consortium of nonprofit housing and community development organizations (Enterprise Community Partners, the Housing

Partnership Network, the Local Initiatives Support Corporation, the National Urban League and NeighborWorks America) that will coordinate the transfer of real estate-owned properties from financial institutions nationwide to local housing organizations, in collaboration with state and local governments. The Stabilization Trust is working with a number of the leading national financial institutions, including Bank of America, Chase, Citigroup, Fannie Mae, FHA/HUD, Freddie Mac, GMAC, Wells Fargo – who will make the properties available pre-market at adjusted pricing. A key component of recovery efforts is to gain control of properties and then manage the disposition and redevelopment of those properties at a scale large enough to build confidence and stimulate investment. Minneapolis and Saint Paul were chosen for the pilot program because of their innovative work before many communities had even diagnosed the extent of the problem. Two organizations have been identified for the test period to serve as the buyer of these properties on behalf of the effort: Greater Metropolitan Housing Corporation (GMHC) will work with Minneapolis, and Dayton's Bluff Neighborhood Housing Services, Inc. (DBNHS) will work with Saint Paul.

First Look, soon to be available nationally in additional locations throughout Minnesota and the nation, will identify REO properties and provide cities with the opportunity to purchase the properties once the redemption period has passed and before they are listed for sale through traditional mechanisms. This will allow homes to be acquired quickly, saving on expenses associated with prolonged holding periods by both the cities and the lenders. The financial institutions will provide access to the property for inspection and will provide an offer price for the property. Prices will be adjusted to reflect a number of factors, including current local market conditions, changes in home values, long holding periods and increased vacancies. In addition to working with the cities of Minneapolis and Saint Paul on property acquisition, the lenders have also agreed to provide funding for the rehabilitation of some of the foreclosed properties, and provide end-loan programs and other assistance to homeowners.

## Keys to Success

**Property Inspections.** Each foreclosed property must be inspected to determine whether it should be saved or demolished. The majority of REO properties in Minneapolis need some rehabilitation work, according to Stephanie Gruver at Greater Minneapolis Housing Corporation (GMHC). “The rare home that we find in move-in condition is referred to real estate brokers who can sell it. We focus on the homes that need work,” said Ms. Gruver. The goal is to find homes that can be rehabilitated with a relatively small subsidy, some of which may be able to be recovered at resale. GMHC’s average acquisition price on 45 foreclosed single family properties that needed rehabilitation was \$63,000. Average development costs for these properties were \$167,000. The average resale price for the rehabilitated foreclosed property was \$135,000, leaving an average subsidy gap of \$32,000. Repairs include everything from installing a new roof to removing a chimney to allow direct access to a bathroom and make the property more appealing. Many properties, however, are demolished because they are not structurally viable, are no longer attractive to modern buyers, or would require too much funding to make them marketable.

**Creative Financing.** Innovative financing using contracts for deed helps rehabilitated foreclosed properties sell to first-time buyers. After rehabilitating a foreclosed house, Dayton’s Bluff in Saint Paul and GMHC in Minneapolis must sell it. This is not always easy given the tight credit market. As a result, Dayton’s Bluff and GMHC created the Sustainable Home Ownership Program and the Bridge to Success Contract for Deed Program. A contract for deed is a seller-financing tool under which a buyer receives the deed to a property only after making all payments. Under the contract for deed program, Dayton’s Bluff or GMHC will buy a property and retain title to it, but give possession to a buyer who will pay monthly installment payments. The nonprofit therefore replaces the traditional lender, with another significant difference: the buyer does not

build up equity. They must make every payment before they obtain title to the property. This also means that if they miss one installment payment even after paying regularly for years, Dayton's Bluff or GMHC could legally take full possession of the property. The nonprofits do not plan to take such draconian measures because they want the homeowner to succeed in gaining title. "It's open for a lot of abuse," said Gary Beatty, who will run the new program for GMHC, a nonprofit agency. "But if it's done properly, it's a very good tool that opens the door for a lot of home ownership opportunities."

The program is aimed at people who do not qualify for mortgage loans under current tighter mortgage underwriting standards, but who can show financial counselors that their family budget can cover house payments. While paying off the contract for deed, the buyer can repair their credit so that they can refinance with a traditional mortgage. The program offers up to \$200,000 in financing at a fixed 7.5 percent interest rate for owners who plan to occupy the property. It is available for one- to four-unit housing, including townhouses and condos.

To establish this program, the Family Housing Fund made an initial loan of \$500,000 to Dayton's Bluff Neighborhood Housing Services (DBNHS) and Greater Metropolitan Housing Corporation (GMHC). These two organizations used the loan to obtain a lender commitment—similar to a line of credit—for up to \$1 million from a private lender. The funds from the Family Housing Fund will make up 20 percent of the purchase price, with a balance of 80 percent funded by the lender. GMHC rehabilitated 11 foreclosed homes in 2008. GMHC sold 5 of those homes in 2008, two of which were sold via contract for deed. As of January 23, 2009, Dayton's Bluff has sold one house using a contract for deed. The program is so new that evaluations on buyer performance are not available. See this [article](#) by the Minneapolis Federal Reserve Bank for more information on contracts for deed.

### **Additional Programs**

A Minneapolis program, Minneapolis Advantage, provides a \$10,000 forgivable loan to cover down payment and closing costs for homes in the twenty neighborhoods with the highest foreclosure rates. In addition, many municipalities in the state have put "Point of Sale" ordinances in place that require sellers to bring their property up to code prior to selling it or establishing escrow accounts for the buyer to do so. The goal is to hold the owner responsible for the property's condition and discourage buyers from allowing the properties to deteriorate while they wait for an opportunity to flip them.

Recently both Minneapolis and Saint Paul launched the [Take Credit!! First-time Home Buyer Mortgage Credit Certificate Program](#), where new home owners can take 20 percent of the interest paid on their mortgage annually and apply it toward the amount of Federal Income taxes they owe at the end of each year, for as long they live in their home. In conjunction with this program the Saint Paul Heroes First-time Home Buyers Loan Program offers up to \$15,000 in interest-free loans for down payments or mortgage payments. The loan is forgivable after ten years. The Heroes Program is reserved for active military personnel, reservists and veterans, the National Guard, firefighters, emergency service workers, health care workers, law-enforcement, teachers and civil service employees. Both programs can be used with the \$8,000 Federal First-Time Home Buyer program.

### **Going Forward**

Minnesota's work has gained the attention of Living Cities, a consortium of foundations and financial institutions. On behalf of the Minnesota Foreclosure Partners Council, Twin Cities LISC received \$500,000 to develop disposition strategies and test new models for reclaiming vacant properties Minnesota also received

\$58 million in federal Neighborhood Stabilization Program grants which can be used to supplement existing financing of Partners Council activities and municipal and county programs.

## **Conclusion**

Minnesota officials recognized the scale of the foreclosure problem before most of the nation's experts and took quick action. The Minnesota Foreclosure Partners Council is an extraordinary example of organizations and government working together on a statewide basis to solve important issues. Their work is both visionary and grounded, focusing on innovative financing, buyer incentives and quick, strategic acquisition of REO properties as pilot communities for the National Community Stabilization Trust's First Look program. Their efforts send a powerful message to funders and organizations looking for worthy projects to invest in.

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# Resources

## Organizations

[Center for American Progress](#)

[Center for Responsible Lending](#)

[Enterprise Community Partners](#)

[Local Initiatives Support Coalition](#)

[National Community Stabilization Trust](#)

[National Housing Conference/Center for Housing Policy](#)

[NeighborWorks](#)

[The Reinvestment Fund](#)

[Woodstock Institute](#)

## Tools/Presentations/Webinars

[Foreclosure-Response.org](#), Maintained by the [Center for Housing Policy](#), [KnowledgePlex](#), [Local Initiatives Support Corporation \(LISC\)](#), and the [Urban Institute](#), this site offers resources to help states and localities respond to the foreclosure crisis.

[National Neighborhood Indicators Partnership \(NNIP\) Foreclosure Resources](#). NNIP's data intermediary partners in 35 regions have been at the forefront of analyzing the effects of foreclosures on neighborhoods and developing data-driven responses to the crisis. This webpage provides their websites, presentations, publications, tools, and protocols.

## Readings

### 2010

[REO and Vacant Properties: Strategies for Neighborhood Stabilization](#). Federal Reserve Bank of Boston and Federal Reserve Bank of Cleveland, 2010.

### 2009

[Communities at Risk: How the Foreclosure Crisis is Damaging Urban Areas and What Is Being Done About It](#) [Living Cities](#). Living Cities, 2009.

[Community Development Investment Review: Foreclosure Issue](#). Federal Reserve Bank of San Francisco, 2009.

[Neighborhood Responses to the Foreclosure Crisis](#). Kris Nelson. Center for Urban and Regional Affairs, 2009.

[Purchasing Properties at Scale: Lessons on Acquiring REOs During the Foreclosure Process from Pioneering Projects in New Jersey, Phoenix, and the Twin Cities.](#) Living Cities, 2009.

[Regional Resilience in the Face of Foreclosures: Evidence from Six Metropolitan Areas.](#) Todd Swanstrom et al., 2009.

[Tenants: Innocent Victims of the Nation's Foreclosure Crisis.](#) Vicki Been and Allegra Glashauser. Albany Government Law Review 2(1):2-27 (2009).

[The Impacts of Foreclosures on Families and Communities.](#) G. Thomas Kingsley et al., The Urban Institute, 2009.

[The Untold Costs of Subprime Lending: Examining the Links among Higher-Priced Lending, Foreclosures and Race in California.](#) Carolina Reid and Elizabeth Laderman. Federal Reserve Bank of San Francisco, 2009.

[Stabilizing Communities Affected by Foreclosures: Lessons Learned from Vacant and Abandoned Properties Initiatives, A Foreclosure Response Working Paper.](#) Maya Brennan. Center for Housing Policy, 2009.

## 2008

[Community Response to the Foreclosure Crisis: thoughts on Local Interventions.](#) Dan Immergluck. Federal Reserve Bank of Atlanta Community Affairs, 2008.

[Defaulting on the Dream: States Respond to America's Foreclosure Crisis.](#) The PEW Charitable Trusts, 2008.

[Foreclosed: State of the Dream.](#) Amaad Rivera, et al., United for a Fair Economy, 2008.

[How To Spend \\$3.92 Billion: Stabilizing Neighborhoods By Addressing Foreclosed and Abandoned Properties.](#) Alan Mallach. Federal Reserve Bank of Philadelphia Community Affairs Department, 2008.

[Nonprofit Strategies for 1- to 4-unit REO Properties: An Analytical Framework.](#) Daniel Fleischman. NeighborWorks America and Harvard Joint Center for Housing Studies, 2009.

[Tackling the Mortgage Crisis: Ten Action Steps for State Government.](#) Alan Mallach. The Brookings Institution, 2008.

[Transforming Foreclosed Properties into Community Assets.](#) Furman Center for Real Estate and Urban Policy, 2008.

## 2005

[The Municipal Cost of Foreclosures: A Chicago Case Study.](#) William C. Apgar et al., Homeownership Preservation Foundation, 2005.

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