FOSTERING EQUITABLE FORECLOSURE RECOVERY

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SUMMARY

The foreclosure crisis, which began in 2006 and is ongoing, has left few communities untouched and has been particularly devastating for low-income communities and communities of color. By the time the crisis abates, 10 million homeowners will have lost their homes to foreclosure. Many of them will lose their standing in the middle class and suffer tremendous economic and personal losses.

But the crisis does not only affect those who undergo foreclosures themselves. Foreclosures also affect neighborhoods, dragging down the prices of nearby homes, dampening the housing market, and draining cash-strapped municipalities of precious resources. In many hard-hit neighborhoods, another destabilizing force is the wave of investors who swept in and bought much of the distressed property stock. Foreclosures also affect the economy, since strong neighborhoods are integral to the economic health of the regions in which they are located.

In the face of the crisis, communities and consumer advocacy organizations have organized around a range of strategies at a variety of scales and points in the foreclosure cycle, including preventing further foreclosures, protecting tenants living in foreclosed homes, holding banks accountable, and reclaiming foreclosed properties for community benefit. They also have taken action to reform the broader financial system that created and perpetuated the crisis. Their advocacy helped shape the Bureau of Consumer Financial Protection, created in July 2010 to write and enforce new, transparent standards for mortgages and other financial products. At a time when federal programs are on the chopping block, these organizations have fought against cuts to critical homeownership counseling and foreclosure recovery programs.

While these efforts have been important, too few people have been engaged in this policy debate. All residents have a stake in how their communities recover from the foreclosure crisis, and all should be involved in the search for solutions. Those working to reduce poverty and increase economic and social inclusion, in particular, should contribute their voices to the ongoing discussions and needed reforms.

This report provides essential information to inform policy discussions about foreclosure recovery. It presents information about the foreclosure crisis and its consequences, describes the federal program created to help communities recover from the impacts of foreclosures, shares case studies of foreclosure recovery efforts in three regions in the Northwest – Minneapolis-St. Paul, Portland, and Seattle – and suggests the following policy recommendations for ensuring equitable recovery and building a more just system of housing finance for future generations:

1) **Increase local capacity to take control of distressed properties through land banks and other legal and institutional mechanisms.**

2) **Strengthen code enforcement and regulatory approaches to prevent irresponsible investor ownership from leading to neighborhood decline.**

3) **Improve data systems and the capacity of local governments and housing organizations to use data to respond to housing market changes.**

4) **Ensure fair access to safe credit for low- and moderate-income homebuyers.**

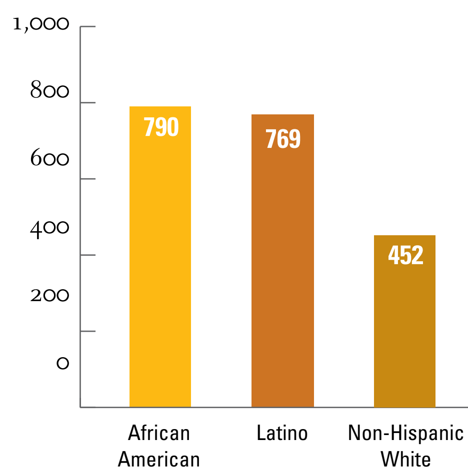
5) **Expand existing models of sustainable homeownership for lower-income buyers to help reduce the racial gap in homeownership and wealth.**

INTRODUCTION

Beginning in 2006, housing prices in the United States took a downward turn after a decade of seemingly unstoppable growth. A toxic mix of predatory mortgage products, unscrupulous lenders and brokers, and deregulation of the lending industry led to the collapse of the housing market and ultimately the financial crisis, resulting in the worst spike in mortgage foreclosures since the Great Depression. During the first three years of the crisis (from January 2007 through the end of 2009), 2.5 million foreclosures took place. Currently, 5.7 million homeowners are at risk, and an estimated 10 million foreclosures will have occurred before the crisis abates.[1]

While the foreclosure crisis touched nearly every community, it hit unevenly and some communities have felt the crisis more severely. African American and Latino homebuyers were disproportionately targeted for the high-cost, subprime loans most likely to end in foreclosure, and they have disproportionately experienced foreclosure. Between 2007 and 2009, foreclosure rates for African Americans and Latinos were 7.9 and 7.7 percent, while the rate for whites was 4.5 percent (Figure 1).[2] Altogether, the foreclosure crisis has added up to the greatest loss of wealth for people of color in U.S. history.

Figure 1. Completed Foreclosures per 10,000 Loans by Race/Ethnicity, 2007–2009*



*On loans made in 2005–2008 to owner-occupants
Source: Center for Responsible Lending, 2010

Communities and policymakers are taking a variety of actions to halt further foreclosures, reform the housing finance system that led to this disaster, and put hard-hit neighborhoods on the path to stability – all essential actions for recovering from the foreclosure crisis and restoring the link between homeownership and economic opportunity.

This research brief focuses on neighborhood recovery efforts taking place at the local level. With support from the federal Neighborhood Stabilization Program (NSP) and other resources, states and cities are in the process of implementing a variety of different strategies to rebuild their neighborhood housing markets and stem further decline.

Given the disproportionate impacts of the crisis, public investments in foreclosure recovery should deliver significant benefits to the low-income communities and communities of color that have suffered most. But while fairness should be a key consideration in the design of programs and policy, it is not the only reason to care about foreclosure recovery. Stabilizing the hardest-hit neighborhoods will have a positive effect on regional economic health and competitiveness. The costs of foreclosures do not accrue only to individual homeowners or even neighborhoods: foreclosures and concentrated foreclosures create additional public costs while decreasing the public revenues generated by property taxes. Fostering equitable foreclosure recovery is critical for those most impacted, but the benefits will be shared by all.

This brief was written to provide practitioners and policymakers who care about poverty reduction, but are not necessarily familiar with foreclosure recovery, with a framework for understanding these efforts and the policy changes that can support the best ideas generated through community practice. It includes four main sections:

1) **A discussion of the foreclosure crisis and its impacts.**

2) **A review of the policy tools for addressing neighborhood stabilization.**

3) **Case studies of concentrated foreclosures and recovery strategies in three northwestern metro areas (Minneapolis-St. Paul, Portland, and Seattle).**

4) **Recommendations for how policy at the local, state, and federal levels can lift up the community strategies that have the best chances of success.**

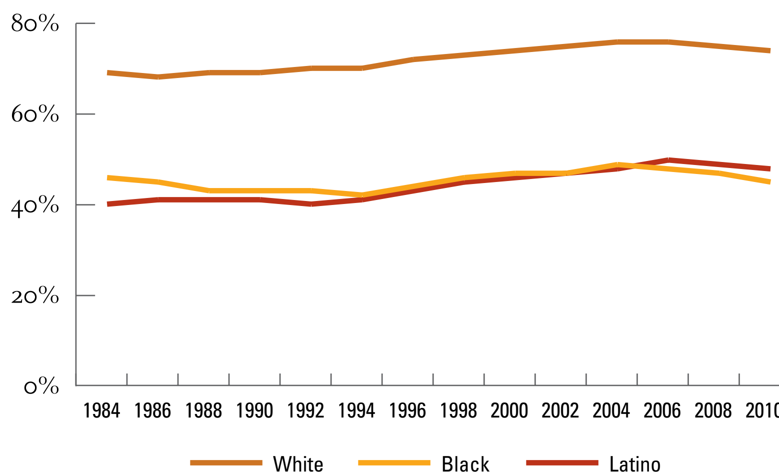
THE FORECLOSURE CRISIS AND ITS IMPACTS

The foreclosure crisis is linked to recent developments in the banking and finance industries, including the rise of subprime and predatory lending, the bundling and selling of mortgage-related securities, and the lack of government regulation and oversight. But to understand the crisis and its impacts on neighborhoods and their residents, it is also important to recognize the history of housing policy and financing in relation to low-income communities of color.

Since the 1930s, the federal government has played a significant role in homeownership through tax policy, subsidies to consumers, and regulation of and participation in the housing finance system. The Federal Housing Administration (FHA) insured private home mortgages beginning in 1937, and the Servicemen's Readjustment Act of 1944 – more commonly known as the G.I. Bill of Rights – provided zero-interest loans to returning World War II veterans. These federal policies helped increase overall homeownership rates from about 45 percent to more than 65 percent between 1940 and 1965.[3] But not all homebuyers or neighborhoods were able to benefit from these subsidies. The underwriting criteria used by the FHA, and then adopted by the private lending industry, rated neighborhoods' creditworthiness based on their racial and ethnic characteristics, giving negative ratings to the urban neighborhoods where African Americans, Latinos, and Jews lived.[4] Neighborhood credit ratings were mapped, and those with the worst ratings and that were ineligible for financing were colored in red. Nearly all FHA loans made until 1968 (98 percent) went to whites who were buying suburban homes,[5] and many urban neighborhoods were "redlined" and starved of needed investment.

By 1976 there was about a 24 percentage point gap in homeownership rates between whites versus African Americans and Latinos.[6] This gap is particularly important because homeownership is so closely linked to American families' accumulation of wealth. Federal policy recognized the issue and embraced minority homeownership as a goal beginning in the late 1960s, when President Kennedy issued an executive order mandating equal opportunity in the FHA and Veterans Administration mortgage insurance programs. In the 1990s, Presidents Clinton and Bush both actively sought to increase homeownership among nonwhite families.[7] Despite these efforts, the homeownership gap has remained above 20 percentage points for African Americans and Latinos for the past three decades (Figure 2).

Figure 2. Homeownership Rates by Race/Ethnicity, 1984–2010



In the mid-1990s, new mortgage products proliferated, including subprime loans, which carry higher interest rates to compensate for the increased credit risk for buyers who lack strong credit ratings. The subprime mortgage market grew tenfold between 1993 and 1999.[8] While some subprime loans helped people with low credit scores access homeownership, many subprime loans were predatory, manipulating financially vulnerable people into taking out excessively high-cost, risky investments.[9] The Center of Responsible Lending found that only 9 percent of the subprime loans originated between 1998 and 2006 went to first-time homeowners; the vast

majority of subprime loans were for refinancing.[10] The growth in subprime lending occurred at the same time that banks were being deregulated, and the majority of subprime loans (75 percent) were made by independent mortgage brokers or unregulated subsidiaries of regulated banks.

Subprime lenders disproportionately targeted people of color and communities of color. Minority borrowers who should have qualified for prime loans were instead steered toward subprime loans: African Americans and Latinos were 30 percent more likely to receive high-rate subprime loans compared with white borrowers, even when controlling for their risk profiles.[12] The National Community Reinvestment Coalition found that in most regions in the country, middle- and upper-income African Americans and Latinos were more than twice as likely to receive subprime loans compared with whites with similar incomes.[13] This was true in Portland and Seattle, and particularly in the Minneapolis-St. Paul region, where middle- and upper-income African Americans and Latinos were 3.5 and 2.8 times more likely than middle- and upper-income whites to receive subprime loans, respectively.[14]

An analysis by the Urban Institute revealed a clear geographic pattern: nonwhite neighborhoods had the highest densities of high-cost subprime loans, and among those neighborhoods, the highest densities of these loans were in the neighborhoods with the lowest poverty rates.[15] The researchers also found differences between cities and suburbs: within suburbs, the areas with the highest densities of subprime loans were in low-poverty neighborhoods, but within cities, neighborhoods with the highest densities of subprime loans were high-poverty tracts. The finding that it was actually the suburban neighborhoods with lower poverty rates that had the most foreclosures is disconcerting, because it suggests that people of color who were able to move to better neighborhoods were then set back by the foreclosure crisis.[16]

In early 2009, a second wave of foreclosures began as job losses precipitated additional foreclosures among borrowers holding prime, fixed-rate loans.[17] Low-income people and people of color were hit first and worst by the larger economic crisis, and they have disproportionately suffered from unemployment and income losses.[18]

Foreclosures can have cascading impacts on individual families and entire neighborhoods, including the following:

Loss of home equity and wealth

The foreclosure crisis stripped trillions of dollars of wealth from American families: $8 trillion, according to the Economic Policy Institute.[19] These losses have been particularly devastating for communities of color. United for a Fair Economy first estimated that African Americans and Latinos lost an estimated $200 billion in assets due to foreclosures between 2006 and 2009.[20] A more recent analysis by the Center for Responsible Lending estimates that between 2009 and 2012, foreclosures will cost African American and Latino families another $370 billion.[21] Low-income families also have less intergenerational wealth to help them cushion economic setbacks and losses, making their economic situations more precarious.

Displacement, disruption, and other impacts on families

Foreclosure has far-reaching negative impacts on families that affect virtually all aspects of well-being. For homeowners, the loss of savings and credit standing associated with foreclosure make it difficult to afford rental housing of comparable size and quality with their previous home.[22] When low-income families are displaced, they tend to relocate to lower-quality homes in neighborhoods that are more isolated and provide fewer community assets.[23] Foreclosure can also increase economic hardship, stress, and mental illness. A recent study of Latino families by the University of North Carolina at Chapel Hill and the National Council of La Raza found that families facing foreclosure experienced high rates of depression, marital discord, and decline in academic performance.[24] Children and older adults are often adversely affected by moving, particularly by forced or involuntary relocation. High levels of stress can also lead to chronic health problems and undermine mental well-being. The most extreme evidence of the potential damage to mental health can be seen in suicides among people facing foreclosure.[25]

Neighborhood impacts

Foreclosures can lead to neighborhood decline – particularly if the foreclosed properties become vacant and boarded up. The link between foreclosures and vacancy is stronger in neighborhoods with weak housing markets where home prices and demand are low. When unoccupied and boarded up, those homes become magnets for vandalism and crime, driving down the values of neighboring properties.[26] Studies have shown that foreclosed properties dampen nearby home values by an average of $7,200, or between 0.6 and 1.6 percent.[27] In 2009 foreclosures caused 70 million neighboring homes to lose $510 billion in value. By 2013 that loss is expected to increase to $1.86 trillion.[28] Foreclosures can also be a significant drain on local governments: in Chicago a foreclosure can cost a local municipality up to $34,000 for inspections, court actions, police and fire department efforts, potential demolition, unpaid water and sewage, and trash removal.[29] In addition, concentrated foreclosures reduce property tax revenues, both from the foreclosure itself and from the reduced values of surrounding properties. The State of Washington is projected to lose $19.5 billion in home equity wealth due to nearby foreclosures between 2009 and 2012.[30]

Destabilizing effects of irresponsible absentee investors

Investors played a role in creating the foreclosure crisis, and some investors have thwarted recovery efforts as well. Nearly one in five subprime loans went to investors, most of whom were buying properties in urban communities of color.[31] In the hardest-hit neighborhoods of Minneapolis and St. Paul, approximately 50 to 60 percent of foreclosures were investor-owned properties.[32] Investors are disproportionately represented in the market for distressed properties: more than 60 percent of damaged bank-owned properties, and about 20 percent of bank-owned properties and short sales, are purchased by investors.[33] Investors also have the potential to play an important role in neighborhood recovery by helping absorb homes on the housing market, which can restore prices and reduce the likelihood of long-term vacancies and abandonment.[34] However, if investors are quickly flipping properties without making needed repairs, acting as slumlords, operating fraud schemes, or "mothballing" (temporarily boarding up) the property until the market revives, they might further destabilize neighborhoods already hard-hit by foreclosures.[35]

POLICY STRATEGIES TO FOSTER FORECLOSURE RECOVERY

In the face of the crisis, communities across the country have organized around a range of strategies to bring about foreclosure recovery, including preventing more foreclosures, protecting tenants in foreclosed properties, reclaiming foreclosed properties and returning them to productive use, ensuring properties are well-maintained and managed through legal and regulatory frameworks, and proposing policy changes to reform the broader financial system. These strategies have taken many forms – from old-fashioned community organizing aimed at holding banks accountable to coordinated regional collaboratives comprising funders, government agencies, financial industry representatives, and housing organizations, and everything in between.

The primary policy vehicle for addressing the neighborhood impacts of the foreclosed properties in communities with concentrated foreclosures is the Neighborhood Stabilization Program, or NSP, which is administered by the United States Department of Housing and Urban Development (HUD). There have been three rounds of NSP funding:

- **NSP1, created by the Housing and Economic Recovery Act (HERA) of 2008,** provided $3.9 billion in grants to 309 states and localities based on a formula that considered the extent of the foreclosure problem in the area. As an economic stimulus program and an emergency fund to address the problems associated with foreclosures, NSP1 required funds to be obligated within 18 months on "shovel ready" projects.

- **NSP2, authorized under the American Reinvestment and Recovery Act (ARRA) of 2009,** provided an additional $1.92 billion, as well as $50 million for an NSP technical assistance program (NSP-TA). Unlike NSP1, which allocated funding based on a needs assessment, NSP2 granted funds to states, local governments, nonprofits, and consortia via competition. The 56 winners included 33 regional consortia and four national consortia.

- **NSP3, authorized by the Dodd-Frank Wall Street Reform and Consumer Protection Act in 2010,** provided an additional $1 billion in funding, to be distributed by formula to 270 state and local governments (similar to NSP1).[36]

NSP TIMELINE

Deadlines for spending funds are approximate because they are based on the date of the grant agreement.

NSP funds can be used for five types of activities:

1) **Providing low- and moderate-income homebuyers with financial incentives to purchase and redevelop foreclosed homes.**
2) **Acquiring and rehabilitating foreclosed homes and buildings for sale, rent, or redevelopment.**
3) **Establishing a land bank to assemble, maintain, and dispose of vacant land for the purpose of stabilizing neighborhoods.**
4) **Demolishing foreclosed, blighted properties.**
5) **Redeveloping demolished or vacant properties.**

Under the program, grantees could either carry out the activities themselves or contract with other entities to carry out the work as subgrantees.

The program is targeted to high-need areas and to low- and moderate-income individuals and families. All funds are to go to programs that serve people at or below 120 percent of the area median income. The program's key equity provision is a low-income set-aside. Grantees are required to use at least 25 percent of their funding to purchase and redevelop abandoned, foreclosed, vacant, or demolished properties to house individuals or families whose incomes are below 50 percent of the area median income.[37] Another NSP guiding principle is to ensure the "longest feasible continued affordability" of homes assisted with the funds in order to maximize the number of households served by the program. NSP3 includes an additional emphasis on the provision of affordable rental housing and on hiring people or contracting with small businesses owned and operated by people living near the projects.

CONNECTING COMMUNITIES TO BANK-OWNED PROPERTIES

Launched in 2008, the National Community Stabilization Trust (NCST) is a collaboration of six national nonprofits that came together to facilitate the transfer of foreclosed and abandoned properties from banks to community developers. NCST improved the process for all involved: NSP grantees were provided with an exclusive window for viewing and bidding on foreclosed properties prior to their sale on the open market, and banks could work with a single entity to dispose of its foreclosed properties. NSP grantees in 41 states have been able to access more than 45,000 properties through the Trust, at an average cost of 15 percent below fair market value.[42] In September 2010, HUD launched the National First Look program in partnership with the Trust, offering NSP grantees an exclusive window of opportunity to preview and purchase REO properties located in NSP target areas.[43]

NSP was created quickly to address the foreclosures crisis, and the program was unprecedented. The cities, counties, and states that received the initial NSP1 grants had very little experience conducting NSP-type activities and were experiencing a crisis of unknown proportions. As would be expected in such a situation, NSP grantees have faced several challenges in implementation. One key challenge has been the scale mismatch between the size of the foreclosure problem and the level of program funding available. In the Twin Cities, for example, there were 8,659 foreclosures and short sales in October 2010.[38] Together, Minneapolis and St. Paul received $24.7 million in NSP1 dollars, which allowed them to acquire, demolish, or rehabilitate 382 properties. While this is an impressive number, it is less than 5 percent of the properties touched by the foreclosure crisis.[39] Another challenge has been the lack of systems in place for acquiring foreclosed properties. In the face of a gargantuan task, most of the grantees were inexperienced in acquiring bank-owned properties (also called REO, or real estate owned), and at the same time, the banks themselves did not have procedures and infrastructure in place to convey the properties. Competition from investors has been an additional challenge. Many grantees had a hard time initially acquiring foreclosed properties because they could not compete with private investors who were not constrained by NSP restrictions and could pay in cash.[40] Finally, the tight timeline for obligating NSP1 funds (within 18 months) was also a challenge for many grantees, although the majority of the grantees (at least 275 out of 309) were in fact able to meet this deadline.[41]

Innovations are often spawned by crisis, and this was the case with foreclosure recovery. New institutions and strategies have been developed to address some of the challenges communities face in implementing recovery strategies using NSP funds. One important innovation is the rise of intermediaries such as the National Community Stabilization Trust and the REO Clearinghouse, which help connect the sellers of foreclosed properties to the localities and nonprofits looking to purchase them for their NSP programs see "Connecting Communities to Bank-Owned Properties," above. Another is the development and expansion of land banks – entities that are formed expressly for the purpose of acquiring, holding, and transferring land. The increasing number of community land trusts that reclaim foreclosed properties to add to their trusts – and maintain as affordable housing in perpetuity – is another innovation coming out of the foreclosure crisis.

FORECLOSURE TRAJECTORIES AND RECOVERY STRATEGIES IN THREE NORTHWESTERN REGIONS

National data tells us that the foreclosure crisis had a disproportionate impact on people of color and that neighborhoods with high shares of nonwhite residents have been hit the hardest. But we also know that there have been significant regional variations in the housing crisis as well as the broader economic crisis.[44] Some regions are "weathering the storm" while others face multiple challenges to recovery. These broader conditions of the regional economy and housing market shape the context for how easily neighborhoods with concentrated foreclosures can bounce back.

To inform the discussion about housing market recovery and neighborhood stabilization in the northwestern states, we conducted case study research in the three northwestern metropolitan regions of Portland, Minneapolis-St. Paul (the Twin Cities), and Seattle.[45] Beyond geographic proximity, these three regions share several similarities. They are relatively similar in population size, they are all experiencing moderate population growth, and they experienced the recession similarly (home prices fell significantly, but job losses were relatively slow until 2010). Seattle and Portland, like many coastal metro areas, have higher housing costs than the Twin Cities (and the national average), but all three metro areas have experienced about average declines in housing prices.

Despite these similarities, it is clear that the Twin Cities region was harder hit by foreclosures than Portland or Seattle. The average number of REO properties for Portland and Seattle is 3.3 and 4.6 per 1,000 properties, compared with an average of 4.3 for America's largest 100 metro areas. The Twin Cities had an average of 9.2 per 1,000 properties – the 6th worst rate among the top 100. Regions with similar REO densities included Cape Coral, Phoenix, and Atlanta. Seattle and Portland were closer to the middle of the pack, ranking 20th and 37th, along with regions like San Francisco, Chicago, Kansas City, and Salt Lake City.[46]

Table 1. Population and Economic Indicators for Case Study Metro Areas

	Population, 2010	Population Change, 2000–2010	Unemployment Rate, September 2011	Change in Employment Peak* to 2011Q3	Change in Real Housing Price from Peak** to 2011Q3	REOs per 1,000 Properties, 2011Q3	One-Quarter Change in REOs per 1,000 Properties, 2011Q3
TWIN CITIES	3,279,833	10.5%	6.0%	-5.0%	-33%	9.2	-0.7
PORTLAND	2,226,009	15.5%	8.7%	-5.8%	-31%	3.3	-0.3
SEATTLE	3,439,809	13.0%	8.5%	-4.9%	-32%	4.6	-0.3

Sources: 2000 Census, 2010 Census, and Brookings Institution MetroMonitor.
* The unemployment peak for Minneapolis-St. Paul was 2007Q1; for Portland and Seattle the peak was 2008Q1.
** The housing peak for Minneapolis-St. Paul was 2006Q1; for Portland the peak was 2007Q1; and for Seattle the peak was 2006Q4.

Foreclosures have been concentrated in lower-income communities and communities of color in each of the regions; however, the degree of concentration varies widely among them. As shown in Table 2, the Portland region, where poverty is generally less concentrated, exhibits the most equitable distribution of foreclosures: the share of people of color is only slightly higher in the highest foreclosure Zip codes than the share of people of color city-, county-, and regionwide. Median incomes also are not extremely different. Foreclosures in Seattle and the Twin Cities are much more concentrated in lower-income communities and communities of color. In the city of Seattle, for example, there is a 26-percentage-point spread between the share of nonwhite residents living in the 10 highest foreclosure needs Zip codes and the share of nonwhite residents citywide. In the Seattle and Twin Cities metro areas, households in the top 10 foreclosure Zip codes earn $19,000 to $20,000 less than the average metro household, and they are more likely to be people of color.

The following case studies describe how the foreclosure crisis played out within each region, focusing on the relationship between concentrated foreclosures and communities of color, and the type of response that has taken place in each region. Because the scale of the foreclosure challenge has been much greater in the Twin Cities, and because there are many foreclosure recovery strategies being implemented, the first case study is longer than the other two.

Table 2. Concentration of Foreclosures in Vulnerable Communities in the Three Regions

	SHARE OF PEOPLE OF COLOR			MEDIAN HOUSEHOLD INCOME		
	Top 10 Foreclosure Needs Zip Codes	All Zip Codes	Difference	Top 10 Foreclosure Needs Zip Codes	All Zip Codes	Difference
TWIN CITIES						
Minneapolis and St. Paul Cities	50%	37%	13%	$37,328	$45,826	-$8,497
Hennepin and Ramsey Counties	50%	26%	24%	$37,328	$56,858	-$19,530
Minneapolis-St. Paul-Bloomington, MN-WI	38%	19%	19%	$46,298	$65,109	-$18,811
PORTLAND						
Portland City	32%	29%	3%	$39,939	$39,315	$624
Multnomah County	32%	29%	4%	$40,315	$43,777	-$3,462
Portland-Vancouver-Beaverton, OR-WA	27%	24%	3%	$46,366	$47,404	-$1,038
SEATTLE						
Seattle City	57%	31%	26%	$43,759	$58,990	-$15,231
King County	35%	31%	4%	$52,673	$67,246	-$14,574
Seattle-Tacoma-Bellevue, WA	39%	28%	11%	$44,364	$64,219	-$19,855

Demographic data for top 10 foreclosure Zip codes are from GeoLytics 2010 population estimates. Demographic data for the cities, counties, and regions are from the 2005–2009 American Community Survey.

HOW WE DID THE ANALYSIS

To understand where foreclosures were concentrated within each region in relation to race and income, we used the Local Initiatives Support Corporation's (LISC) intrametropolitan foreclosure-risk dataset to identify the Zip codes with the highest foreclosure risk; GeoLytics' 2010 population projections for census tracts to examine the demographic characteristics for those Zip codes; and 2005–2009 American Community Surveys to examine demographic data for the cities, counties, and regions.

LISC developed the foreclosure-risk dataset to help states and communities make informed decisions about how to allocate and spend their resources for foreclosure prevention and neighborhood stabilization. The intrametropolitan dataset provides foreclosure-risk scores for Zip codes within a metropolitan area based on several indicators, including subprime lending, foreclosures, delinquency, and vacancies. The risk score measures the relative foreclosure risk of all Zip codes within the region. An intrastate dataset is also available for state-level analyses.

To analyze whether foreclosure risk was more concentrated in lower-income neighborhoods and communities where people of color live, we mapped the 10 highest foreclosure-risk Zip codes within each metro area and compared the median household income and share of people of color living in those 10 Zip codes to the metro average.

Twin Cities

The two largest cities in the Twin Cities metro area, Minneapolis and St. Paul, are mixed markets that, prior to the housing crisis, had stable housing appreciation over the last 10 years. Overall, the region's stronger housing market has helped the region reduce its inventory of foreclosed properties. There are significant differences within the region, however, and particular neighborhoods were hard-hit by foreclosures and vacant properties.

The areas most affected by foreclosures are located in Minneapolis's North Side neighborhoods and in the Payne/Phalen Lake neighborhood on St. Paul's East Side. These are the same Minneapolis neighborhoods that had the highest densities of subprime lending in 2006.[47] They are also predominantly communities of color, although this is less the case in St. Paul than in Minneapolis. The other areas with significant foreclosures are in the older, inner-ring suburbs of Minneapolis such as Brooklyn Center, and in the outer northern suburbs such as Anoka that are experiencing rapid growth and population change (between 2000 and 2010, Anoka County's nonwhite population doubled, from 6.4 percent to 13 percent).[48]

The Twin Cities region is a national leader in taking early action on the foreclosure crisis and developing a coordinated response. Minneapolis and St. Paul have targeted efforts under way to reclaim foreclosed and vacant properties using NSP resources and additional funding sources, and both cities were among the winners in the NSP2 competition.

St. Paul's foreclosed property efforts build upon its targeted neighborhood improvement strategy, Invest St. Paul (ISP), which began in 2006 and was funded by $25 million from a half-cent sales tax. The ISP neighborhoods align with the areas in the city that have the highest foreclosures and include the East Side community, which contains the second-highest foreclosure-risk Zip code in the whole region. As of June 2011, $10.6 million in NSP1 funds have been used for acquisition and rehabilitation, demolition, and land banking of 71 foreclosed properties. The additional ISP funding has allowed St. Paul to address more than 200 additional properties.[49] The city's $18 million in NSP2 funds will allow it to reach another 227 properties: the city will acquire and rehab 85 properties, demolish 28 condemned homes, land bank 28 properties, and provide incentives for 86 homebuyers to acquire foreclosed homes. St. Paul also will receive an additional $2.1 million through NSP3, to acquire and redevelop 25 properties and land bank three vacant lots for future reuse within the Payne/Phalen Lake neighborhood on the east side of the city.[50] This adds up to about 525 properties impacted through NSP and ISP activities.

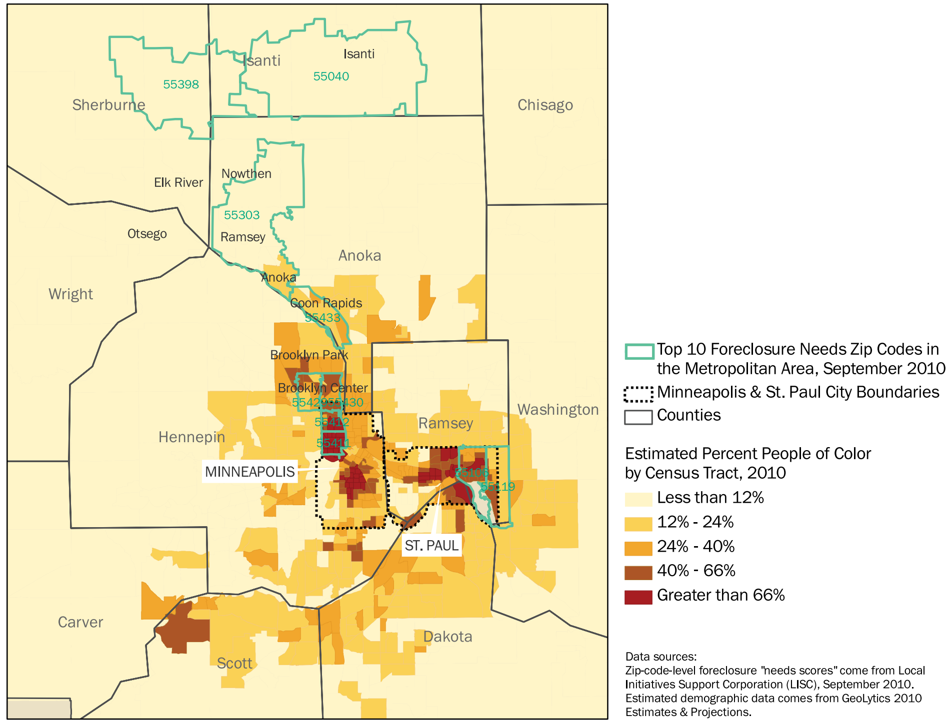
Minneapolis also adopted a targeted approach and is partnering with nonprofits to acquire and rehabilitate foreclosed properties in six neighborhood "clusters" highly impacted by foreclosures, with a focus on North Minneapolis. The city and its partners will reclaim nearly 600 properties through NSP and related programs. To date, $14 million in NSP1 funds have been used to rehabilitate 96 properties, acquire 68 properties for future development, and demolish 111 condemned and blighted structures. One of the city's partners is the City of Lakes Community Land Trust, which provides low-income homebuyers up to $60,000 in assistance to buy and renovate a foreclosed property that is then placed in the land trust and remains affordable in perpetuity. The city operates its own down-payment assistance program, Minneapolis Advantage, which provides smaller grants of $5,000 to $20,000 and has helped about 260 residents buy foreclosed homes. Currently, the city is collaborating with Hennepin County and the inner-ring suburb of Brooklyn Park to reclaim 260 foreclosed properties using $19.5 million in NSP2 funds and $37.5 million in leveraged dollars. Minneapolis will use its $3.4 million NSP3 allocation to improve 56 foreclosed properties in several high-need neighborhoods.[51]

Two additional innovative foreclosure recovery tools that have been important in the region include the National Community Stabilization Trust's First Look program and the Twin Cities Community Land Bank. NCST's First Look program, which helps public agencies access properties from banks prior to their being offered for sale on the market, was piloted in the Twin Cities in 2008 and has facilitated the purchase of 339 foreclosed properties.

Figure 3. Foreclosures and Communities of Color in the Twin Cities Region

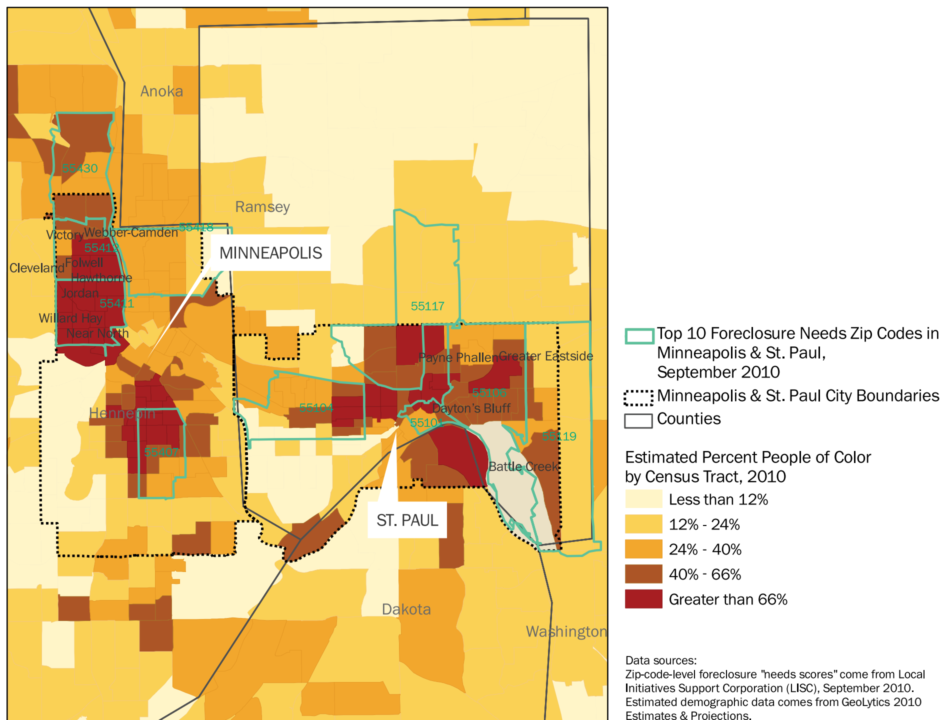
MINNEAPOLIS-ST. PAUL-BLOOMINGTON METRO

Nineteen percent of the region's residents are people of color, but twice that share (38 percent) of those living in the region's 10 highest foreclosure needs Zip codes are people of color.



CITIES OF MINNEAPOLIS AND ST. PAUL

Thirty-seven percent of the residents of both cities are people of color, and 50 percent of residents living in these cities' 10 highest foreclosure needs Zip codes are people of color.



The Twin Cities Community Land Bank, which was formed in the fall of 2009, has raised $30 million to help the region acquire, hold, and convey vacant and foreclosed properties while furthering the economic development and affordable housing goals of communities throughout the region. So far, the land bank has acquired nearly 290 foreclosed properties and is working with 60 developers in 131 cities throughout the region.[52] Both of these tools are helping the community compete with many out-of-town investors who have rushed to the region to buy foreclosed homes, often using business models that contribute to further neighborhood decline.

CREATING LOCAL JOBS THROUGH FORECLOSED PROPERTY REHABILITATION

The Twin Cities Community Land Bank operates according to eight guiding principles that emphasize community engagement, affordable homeownership, neighborhood revitalization, and business and economic opportunities, particularly for communities of color. More important, the land bank is putting those principles to work. All developers who contract with the land bank sign a community standards agreement that outlines hiring goals, including that at least 25 percent of the work hours on the project will be performed by minority workers or that 25 percent of the contracts will be awarded to minority-owned business enterprises.[53]

In addition to these efforts, Minneapolis and St. Paul have taken steps to ensure that the owners of properties not touched by the NSP efforts maintain their properties in good condition. Minneapolis maintains a rental licensing program and a vacant-property-registration program, reclaimed 141 properties from an irresponsible landlord through a successful lawsuit, and recently made its list of rental license revocations and condemned properties public on its website. St. Paul has a strong vacant-properties ordinance that requires new buyers to rehabilitate vacant homes.

Portland

The Portland region is a strong market, and it is also home to some of the most powerful regional smart-growth policies in the country. Over the 1990s, the region experienced high levels of home appreciation and rapid gentrification of neighborhoods in the city of Portland. Equity advocates, and the national media, documented how high housing prices pushed the city's lower-income and nonwhite residents – particularly African Americans – toward the outer edges of the city and into neighboring jurisdictions such as Gresham.[54] In the city of Portland, policy discussions have focused on the racial gap in homeownership. A 2004 report to the Portland City Council revealed that 59 percent of Portland's white residents owned their homes, but the homeownership rate for the city's nonwhite residents was only 34 percent.[55] The city adopted a goal of closing this gap by the year 2015.

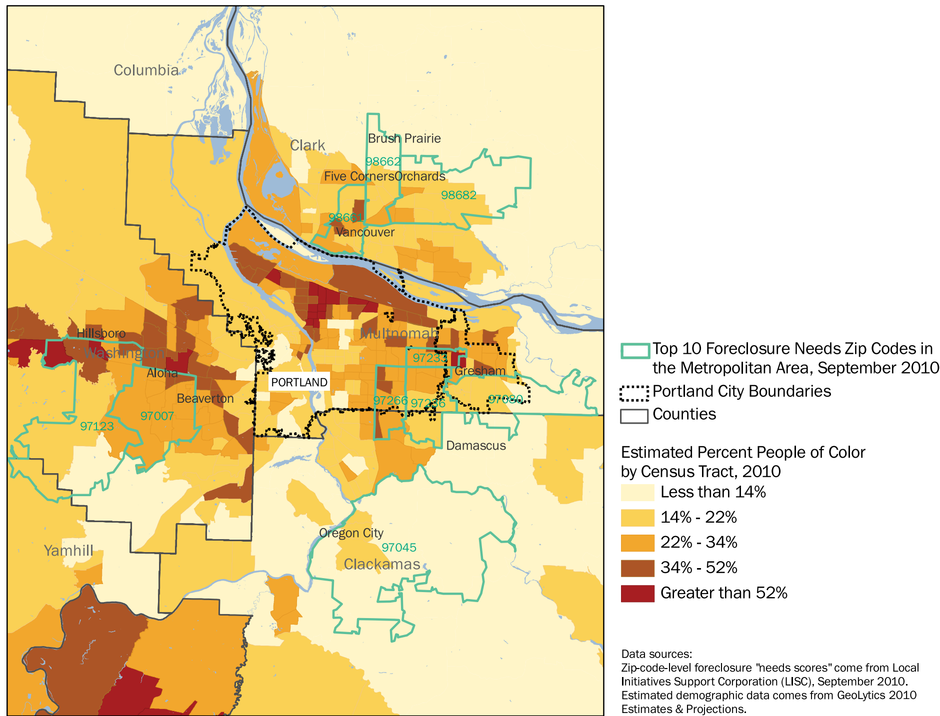
Compared with the Twin Cities and national averages, the Portland region has not been as hard-hit by the foreclosure crisis. One reason is that rates of subprime lending were generally lower in the region. Within the region, foreclosures have been highest in Vancouver, Washington, across the river from Portland; southeastern Portland; and the southern part of Gresham, a suburb east of Portland that is actually the state's second-largest jurisdiction. The region's high-growth exurbs in Clark, Clackamas, and Washington counties also have high foreclosure rates relative to the rest of the region. Following the trend described by The Urban Institute, foreclosures did not concentrate in the highest poverty areas in the city but rather on the edges of the city in lower poverty areas that are home to growing minority populations. Foreclosures also have recently extended into higher-income suburbs such as Sherwood and St. Helens.[56]

Given its lower foreclosure rates, Portland did not receive a large allocation of NSP funds. The state of Oregon received the minimum NSP1 allocation ($19.6 million), which was distributed to areas throughout the state, including approximately $3.4 million to the Portland Housing Bureau and about half a million to the city of Gresham. The state also received $5 million in NSP3 funding, which it is targeting to Medford, Redford, Gresham, and Portland. In addition, the state and the cities of Bend, Medford, and Salem, as well as Clackamas and Washington counties, applied for and received a $6.8 million NSP2 grant to address the rapid increase

Figure 4. Foreclosure Needs and Communities of Color in the Portland Region

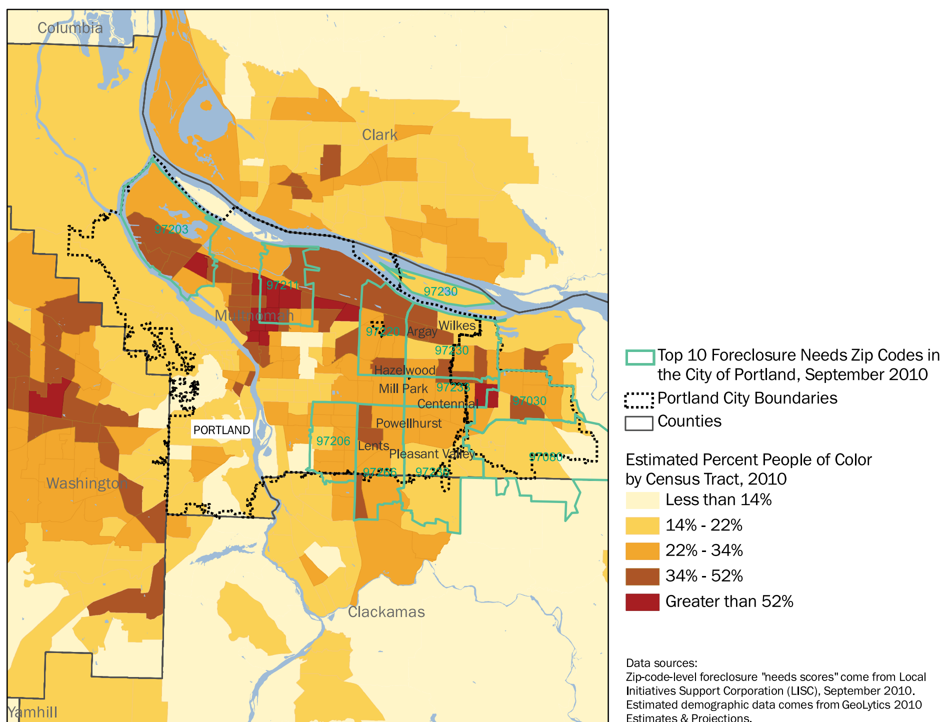
PORTLAND-VANCOUVER-BEAVERTON METRO

Foreclosures are only slightly more concentrated in communities of color: 24 percent of the region's residents are people of color, and 27 percent of residents living in the 10 highest foreclosure needs Zip codes are people of color.



PORTLAND CITY

Similar to the regional trend above, 29 percent of city residents are people of color, and the share of people of color living in the 10 highest foreclosure Zip codes is slightly higher at 32 percent.



in foreclosures in the state's more rural counties following significant job losses.

Given the stronger regional housing market, there has been high demand for foreclosed homes. Both Portland and Gresham have been able to use their NSP funds to provide down-payment assistance to help low- and moderate-income homeowners purchase foreclosed homes. Portland provided 17 homebuyers with up to $50,000 to buy foreclosed homes in targeted areas with high foreclosures including north, northeast, and southeast Portland. The demand for this assistance was so high that the Portland Housing Bureau had to conduct a lottery for the applicants. Similarly, Gresham provided 20 down-payment assistance loans of up to $25,000 to buy foreclosed homes in high foreclosure areas.

COMMUNITY LAND TRUSTS (CLTS): STRIKING A BALANCE BETWEEN INDIVIDUAL ASSET BUILDING AND ONGOING AFFORDABILITY

CLTs and other models of long-term affordable homeownership (sometimes called shared equity homeownership) balance the goal of enabling low-income renters to own a home and accrue home equity with the goal of keeping the home affordable for the next low-income family, and the ones after that. Methods for maintaining this balance vary among CLT models. Proud Ground CLT uses a straightforward formula: upon resale, the homeowner keeps 25 percent of what the home could be sold for on the open market, and the home is resold at a rate that is affordable to families with incomes below 65 percent of the region's median. Any affordability gap is filled in by the CLT.

Portland's funds also have gone toward programs that seek to narrow the minority homeownership gap and create economic opportunities for communities of color. Habitat for Humanity used its $1.3 grant to purchase a large site in southeast Portland upon which to build 45 homes for families with incomes between 50 and 80 percent of the regional median. Proud Ground Community Land Trust and its partner NAYA Youth & Family Center received $1.15 million to move 11 low-income families into homeownership. Founded in 1999, Proud Ground has helped 137 low-income families access sustainable homeownership in Portland and, more recently, Gresham. The average income of Proud Ground residents is 60 percent of the regional median, and more than half are people of color. Through the NSP program, five of the homes are being acquired, rehabbed to be more energy efficient, and sold to low-income homebuyers. The goal is to have minority- or women-owned businesses do 45 percent of the rehabilitation work. For the other six homes, potential homebuyers will shop for a foreclosed home and then receive $50,000 to $65,000 in down-payment assistance from Proud Ground to buy the home as a land trust property and then rehab it. Portland's Minority Homeownership Assistance Collaborative (MHAC) also received a $120,000 grant to help 80 low-income senior homeowners in north and northeast Portland who are at risk for losing their homes to foreclosure.[57]

While Portland's overall foreclosure rate has not put it in the same categories as other heavily impacted regions such as the Twin Cities region, the crisis continues to play out at a steady rate. Since October 2008, Portland's unemployment rate has remained higher than the national rate, making continued foreclosures a looming threat over the region. For that reason, the U.S. Treasury allocated $220 million from its Hardest Hit fund to support Oregon's foreclosure-prevention efforts. Oregon has used the funding to implement the Oregon Homeownership Stabilization Initiative (OHSI), which is helping 5,000 distressed homeowners (predominantly white, low-income, and rural) stay in their homes by paying their mortgage for up to one year – or providing up to $20,000 in cash assistance.[58]

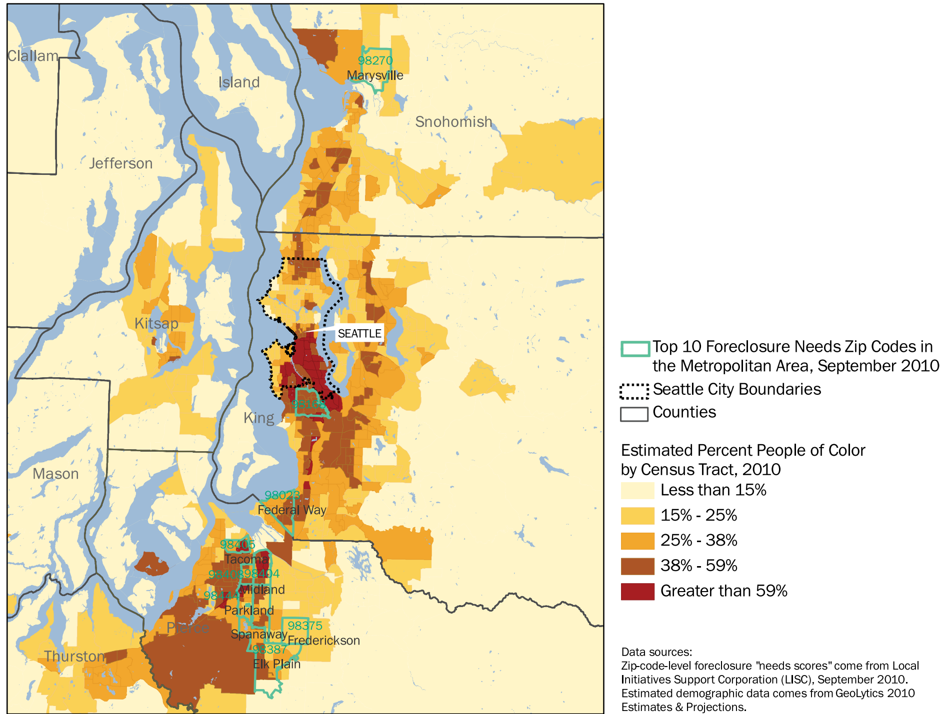
Seattle

Like Portland, Seattle has been one of the country's most robust housing markets, with strong appreciation rates leading up to the housing crisis. Numbers show that the region's housing market was holding up relatively well until 2010. But by the end of the third quarter of 2010, RealtyTrac reported that the Seattle region had the largest annual increase (71 percent) in foreclosure filings of all metropolitan areas with populations over 200,000. One in every 129 homes in the region was in foreclosure compared with just one in every 908 during the summer of 2009.[59]

Figure 5. Foreclosure Needs and Communities of Color in the Seattle Region

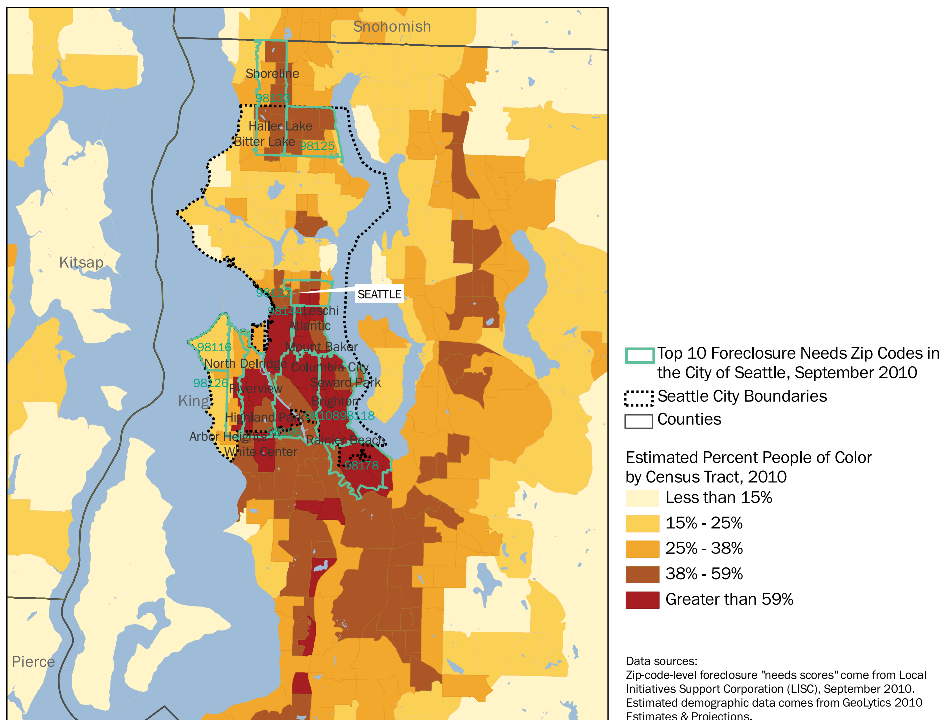
SEATTLE-TACOMA-BELLEVUE METRO

Regionwide, foreclosures are concentrated in communities of color: 29 percent of residents are people of color, yet the share of people of color in the 10 highest foreclosure Zip codes is 38 percent.



SEATTLE CITY

Within the city, foreclosures are much more concentrated in communities of color: 31 percent of residents are people of color, but 57 percent of residents in the 10 highest foreclosure Zip codes are people of color.



The hardest-hit communities in the region have primarily been outside of the city of Seattle in the southern part of King County and in and around Tacoma (Figure 5). These are largely lower-income families and communities of color who have migrated outside of the city in pursuit of more-affordable homeownership opportunities. These communities were among the first to be affected by the housing crisis in 2008–2009. At the time, affected homeowners were predominantly those with riskier loan products. Over time and as the economy worsened, foreclosures in the region have spread to middle-class homeowners who have become unemployed or underemployed.[60] Within the city of Seattle, the largest concentrations of foreclosures have been in the southeastern neighborhoods.

At the time when NSP1 allocations were made, foreclosures in Washington still lagged behind the nation, so the entire state was allocated a total of $28 million, which was further distributed to local governments and nonprofit organizations based on need. The state did not receive funding for NSP2, but was allotted $5 million from NSP3. The city of Seattle initially received a modest $450,000 of the NSP1 money but was later allocated an additional $450,000. King County received approximately $2.3 million. The county contracted with nonprofit agencies to build rental properties, develop homeownership projects and affordable housing, as well as rehab properties.[61]

Homestead Community Land Trust was the main recipient for Seattle's NSP1 funds and used its first round of funding to purchase four banked-owned homes in the hardest-hit areas of the city. In the second round of funding, Homestead CLT was given $600,000 to purchase a cul-de-sac of 20 homes in the Rainier Beach neighborhood after a builder went into foreclosure last summer and halted construction.[62] Homestead leveraged funding from NSP, the Federal Home Loan Bank, the Washington State Housing Trust Fund, and the Seattle Office of Housing to purchase and finish the properties. As a part of the land trust, the homes will be sold well below their initial market prices ($299,950 to $359,950, compared with $190,000 to $235,000) and remain permanently affordable even once the home changes hands in the future.[63]

The city of Tacoma received about $2 million in NSP1 funds, and used it to provide down-payment assistance to help 34 families purchase foreclosed homes, and to acquire, rehab, and sell 15 homes to low- and moderate-income households.

Although there have been limited NSP funds provided to the region, the city, state, and philanthropic sector have consistently allocated funding in their budgets for foreclosure prevention and neighborhood stabilization work.[64]

King County was involved in a campaign as early as 2004 to address the predatory subprime lending in lower-income communities. In anticipation of the inevitable wave of foreclosures, the county, along with other stakeholders, implemented media campaigns, public education workshops, and hotlines, and trained lawyers to assist distressed homeowners. They suspect that their efforts may have helped contain and stabilize communities before the housing crisis became full-blown.

Beginning in 2008, the region's nonprofit, public, and private sectors organized themselves into the Foreclosure Prevention Action Team. The collaborative, which includes government agencies, financial and philanthropic institutions, legal-service providers, and nonprofits, has hosted a series of "Mortgage Help Day" workshops where lenders and counselors provide information and answer questions for distressed homeowners. The collaborative targeted its outreach efforts to communities of colors through flyers, blogs, radio announcements, public service announcements, and interviews on AM/FM radio.[65] Solid Ground, a nonprofit that provides foreclosure counseling, noticed a significant decline in calls to its Mortgage Counseling Client Hotline following the workshops.

POLICY RECOMMENDATIONS

While recovery strategies are the emphasis of this paper, equitable foreclosure recovery depends on building a more just system of housing finance for the future generations – one that promotes equitable access to credit, homeownership, and home equity. The following recommendations address ongoing foreclosure recovery efforts as well as these broader systems changes.

- **Continue to build local capacity to take control of distressed properties through land banks and other acquisition mechanisms.** Localities have used foreclosure recovery funds to develop new or strengthened land banks that acquire, hold, and transfer vacant properties. These institutions are particularly important in weaker market regions that have long suffered from vacant and abandoned properties.

- **Strengthen code enforcement and regulatory approaches to prevent irresponsible investor ownership from leading to neighborhood decline.** One lesson coming out of NSP is that the number of foreclosed properties that can be touched with subsidy dollars is extremely small. Communities need to use their existing tools, including code enforcement, vacant-property regulations, and rental property regulations, to ensure that foreclosed properties are well-maintained and do not further destabilize neighborhoods.

- **Improve data systems and the capacity of local governments and housing organizations to use data to respond to housing market changes.** In a comparative study of foreclosure responses in six metropolitan areas, researchers found that Cleveland's and Chicago's use of data systems played an important role of informing and sustaining the attention of policymakers and the general public, which subsequently shaped the regions' responsiveness to the growing foreclosures crisis. Northeast Ohio Community and Neighborhood Data for Organizing (NEO CANDO) and Policy Matters in Cleveland, and the Woodstock Institute and the city's housing department in Chicago, used data to raise public awareness about foreclosures, inform interventions, and track the evolving situation.[66]

- **Ensure fair access to safe credit.** With the tightening of the credit market and higher requirements for homeownership since the housing market downturn, there is concern that re-redlining is taking place and that low-wealth families will not have adequate opportunities to access homeownership and its multiple benefits. Reforms to the housing finance system need to end the dual credit market that has historically hindered homeownership among communities of color. Government-supported mortgage credit or rental financing should be structured to allow credit to flow to all communities.[67] Ensuring access to flexible and affordable mortgage products, including 30-year fixed-rate mortgages with low down-payment requirements, and alternative measures of credit worthiness is also important.

- **Expand sustainable homeownership opportunities.** Reducing the racial gap in homeownership will require a base of renters prepared to take on the financial weight of ownership. One proposal is to expand permanently affordable (or shared equity) homeownership as a third form of tenure that is between renting and owning. Recent studies have shown that such affordable homeownership programs offer a less risky entrée into the housing market. Community land trust (CLT) owners have one-tenth the rate of foreclosures compared with the market average, and recent evaluations show that most CLT owners go on to buy market-rate homes.

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