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RESILIENCE IN THE FACE OF FORECLOSURES

Lessons from Local and Regional Practice

RESEARCH REPORT

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INTRODUCTION

Despite the staggering volume of foreclosed and vacant properties, there are success stories to be reported about the ways in which cities, counties and their elected local leaders are responding to the continuing waves of home mortgage foreclosures. A considerable level of effort locally and regionally was and continues to be augmented with state and federal government resources and, in the best situations, with resources from the private sector and from nonprofit institutions.

The costs of foreclosures to neighborhoods and to entire communities have been devastating. Foreclosures shrink revenue at the same time that they impose additional new costs on local governments. One scholarly study[1] on the direct costs to the city of Chicago from each foreclosure identified 26 different cost factors that drew precious resources — from the administrative costs of the foreclosure process to additional police calls to the cost of cutting the grass and increased fire suppression.

Few communities are immune from this ongoing crisis. Moreover, all indicators suggest that foreclosures in 2010 will meet or exceed those recorded in the record-setting year of 2009. In the hardest hit states, decades of neighborhood and community revitalization efforts lay shattered in the rubble of demolished homes. However, many cities and counties have proven to be resilient throughout the collapse of the housing market. Leaders at the local level responded by shifting organizational routines, collaborating across sectors and levels, identifying and redirecting resources, and passing laws to make their efforts more effective.

In 2008, the Building Resilient Regions (BRR) Network funded a research project and subsequently issued a report on local responses to the foreclosure challenge.[2] BRR is a national network of scholars and practitioners, funded by the MacArthur Foundation, who are developing theoretical and applied knowledge about how regions can be resilient in the face of challenges such as rapid immigration, economic restructuring and the suburbanization of poverty. In an effort to expand the knowledge base developed through this project and make the information more accessible to practitioners, the National League of Cities (NLC) and BRR commissioned additional policy papers from six metropolitan areas: St. Louis, Atlanta, Chicago, Tampa-St. Petersburg, Fla., Cleveland, and Riverside-San Bernardino, Calif. The research scholars, key practitioners representing the public, private, and nonprofit sectors in the six metro areas, and staff from NLC came together in Washington, D.C., on April 7 and 8, 2010, for a policy forum.

This report is an effort to synthesize the original research, the findings from the six separate policy papers and the insights from individuals involved in deliberations during the forum. The central focus is on how local actors can most effectively respond to a crisis as monumental as the one impacting home mortgages and neighborhoods. The report offers a summary of significant strategies that not only helped mitigate the foreclosure challenge but also are setting the stage for the next set of initiatives designed to revitalize the neighborhoods that were adversely impacted. In short, this paper suggests not only lessons from experience but also actions to move forward.

1 Apgar, W.C. & M. Duda. 2005. Collateral Damage: the Municipal Impact of Today's Mortgage Foreclosure Boom.

2 Swanstrom, Todd, Chapple, Karen, and Immergluck, Dan. "Regional Resilience in the Face of Foreclosures: Evidence from Six Metropolitan Areas, Institute of Urban and Regional Development, UC-Berkeley, 2009.

CREATE A STRATEGIC VISION

Housing policy cannot be focused only on housing production or even affordability; the desired policy outcome is building dynamic and thriving neighborhoods that attract residents and businesses.

The participants at the NLC-organized foreclosure forum emphasized that the foreclosure crisis should not be viewed as a temporary problem that must be addressed in order to get on with business as usual. The crisis will have results that alter what is "usual," which will require a new strategic approach to manage the changed conditions. Thus, the foreclosure crisis may be viewed as an opportunity to re-orient housing strategies to focus also on creating or supporting neighborhoods that offer residents an attractive place to live.

There are several components to this vision. The neighborhoods that thrive and grow will have a balance of supply and demand, a diversity of housing types that meet the needs of people at different life stages and income ranges, solid anchor institutions, such as schools, businesses or public facilities, and access to employment.

Creating these kinds of vital neighborhoods requires cooperation across the public, private, and nonprofit sectors and coordination across policy silos — housing, transportation, education and employment. It also requires partnerships by local governments and others in the region.

CLEVELAND, OHIO

Cleveland has developed a sophisticated strategic vision that coordinates across sectors and policy silos. Opportunity Homes is a partnership among the City of Cleveland, Neighborhood Progress, Inc., the Cleveland Housing Network and the community development corporation representing each of six target neighborhoods. Homes that have been lost to foreclosure can be renovated and sold, and vacant and abandoned homes that cannot be renovated will be demolished to create green space or expand yards. Opportunity Homes is partnering with nonprofits to prevent families from losing their homes to foreclosure in the first place — through counseling and advocating for families in distress. Opportunity Homes is linked with other investments in the community — new schools and libraries, large scale housing and institutional developments, new parks and green space. The goal is to create six stable neighborhoods of choice in the City of Cleveland. For more information, visit: http://www.opphomes.com/a_opphomes.asp.

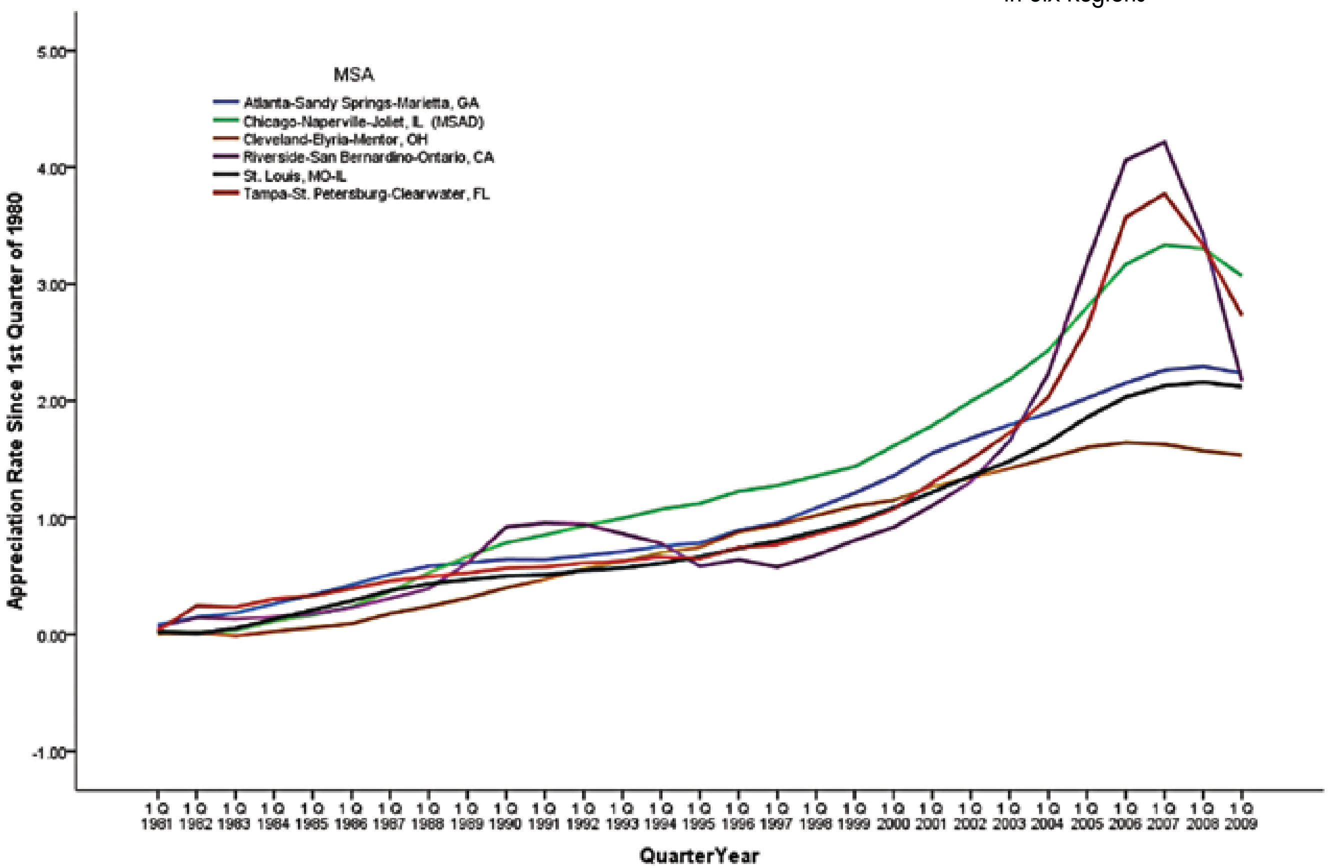
ASSESS THE PROBLEM

Local actors must quickly and accurately assess the nature of the problem in their metropolitan area.

One of the first things local actors must do is assess the nature of the problem — what is the cause of foreclosures, who is impacted the most and where can interventions be most effective? The strength of the regional housing market shapes the nature of the foreclosure challenge. Interventions need to adapt to market conditions within the region.

Figure 1 displays housing price trends in six metropolitan areas, which can be grouped into three classifications: 1) strong market metros (Riverside-San Bernardino and Tampa-St. Petersburg); 2) mixed-market metros (Chicago and Atlanta); and 3) weak-market metros (St. Louis and Cleveland).

Figure 1: Housing Price Trends in Six Regions



In strong market metro areas, the foreclosure crisis has been driven by the boom and bust in housing prices. The collapse of housing prices is a major factor in foreclosures, because when the value of a home falls below what is owed on the mortgage (being "underwater"), then the owner can no longer sell the home or refinance it to pay off the mortgage and may be forced into foreclosure. In strong market metros, like Tampa-St. Petersburg and Riverside-San Bernardino, foreclosure prevention is more difficult, because housing payments are high relative to income and many homeowners are far underwater. On the other hand, foreclosures in strong markets rarely lead to prolonged vacancies and abandonment. In such circumstances, strict enforcement of housing codes may be a good strategy to make sure that homes that go through a foreclosure do not have a blighting impact on the neighborhood.

In weak market regions, like Cleveland, foreclosure prevention can be effective, because monthly payments are relatively low and fewer borrowers are underwater. However, neighborhood stabilization and revitalization in the wake of foreclosures is more difficult. Weak market metros face more serious challenges to get foreclosed properties back on the market. Interventions need to recognize and address the class and demographic aspects of the situation, such as the fact that predatory lending was disproportionately a factor in poorer households in central cities and suburbs.

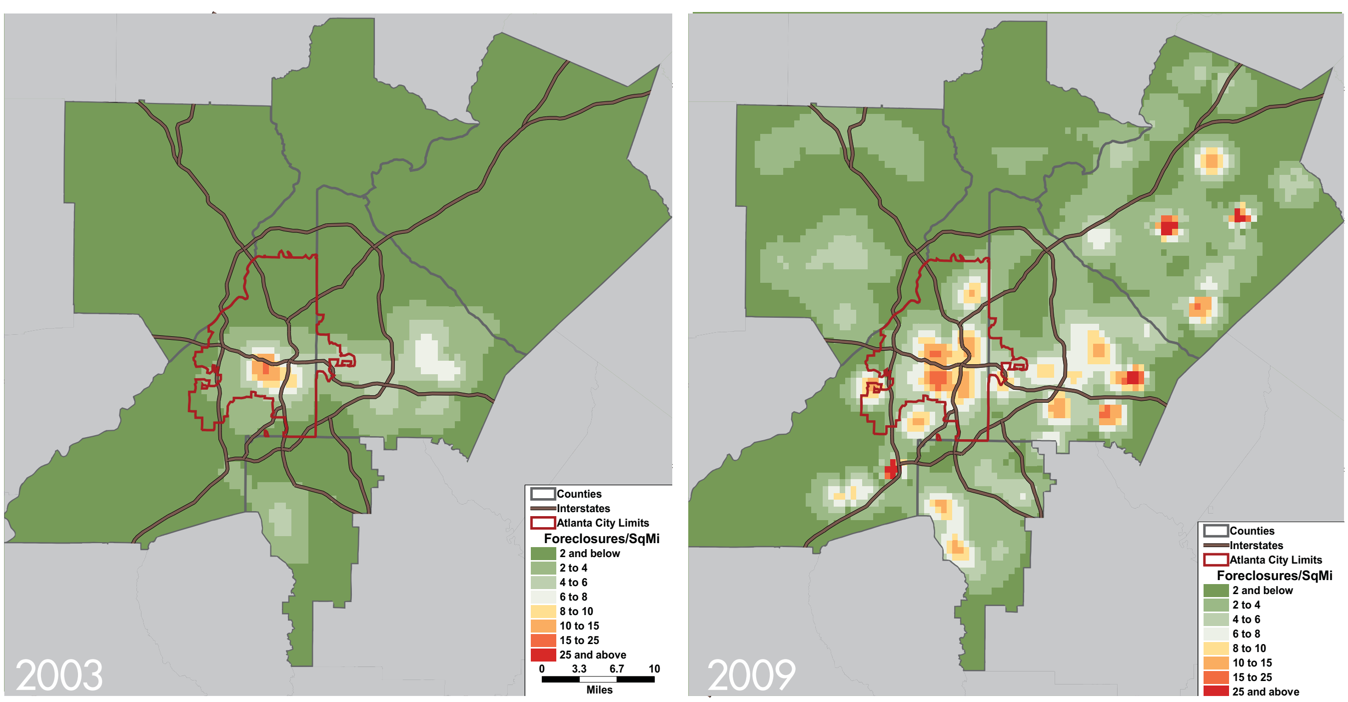
DEVELOP A REGIONAL DATA SYSTEM

Because foreclosures are a moving target, metropolitan areas need up-to-date data systems to track the problem in real time.

In order to be effective, local responders need to track the foreclosure issue as it varies across time and space. As one participant in the NLC forum put it: "My experience watching this in Cleveland is that the problem moves every several months — first it was people getting foreclosed on, then houses bought for a dollar, then banks walking away and [now] there is a shadow inventory of homes that should go through foreclosure but have not." If local actors do not constantly assess the problem using up-to-date data, they may find themselves working on one problem when the crisis has shifted and taken on a different set of characteristics.

Foreclosures are a phenomenon of both central city neighborhoods and suburban neighborhoods. In fact, new exurban developments were often hit hardest. Figure 2 depicts foreclosure "hot spots" in the Atlanta region between 2003 and 2009, using real estate tracking data. In 2003 the crisis was confined to the City of Atlanta and DeKalb County, but by 2009 foreclosure hot spots had spread to suburban Atlanta. The spread of foreclosures to the suburbs presents special challenges, because subur-

Figure 2. Foreclosure Hot Spots in Metropolitan Atlanta, 2003 and 2009



Maps provided by Michael Rich

ATLANTA, GEORGIA METROPOLITAN AREA

The Atlanta Regional Commission (ARC) collaborated with the Georgia Department of Community Affairs and a number of nonprofits to convene workshops on the Neighborhood Stabilization Program for five counties and the City of Atlanta. ARC hosts the Regional Housing Forum, which convenes meetings and publishes a quarterly newsletter sharing best practices to deal with the foreclosure crisis. For more information, visit http://atlantaregionalhousing.org/.

ban areas often lack the network of housing nonprofits present in central cities, which provide crucial foreclosure counseling and other services.

Standardized and up-to-date data on foreclosures is difficult to acquire. The best data on foreclosures is often proprietary and expensive. Much valuable, parcel-based data is controlled by county boards of assessors who are concerned with setting property tax rates and not with providing data for foreclosure first responders. Each county is different, and many do not even have the data in digitized form. Because of the difficulty and expense of compiling adequate foreclosure data, metropolitan areas are best served by creating or supporting a data intermediary that can make sure the data is available in a timely and useful fashion for the entire metro area.

MODELS OF GOOD DATA COLLECTION

Many regional data intermediaries are located in universities while others, like the Woodstock Institute, are located outside academia. In any case, they require patient funding over extended periods to develop the capacity and expertise to gather and analyze regional housing data. The Urban Institute's National Neighborhood Indicators Partnership and the National Vacant Property Campaign are both working to increase data capacities at the local level. (http://www2.urban.org/nnip/ and http://vacantproperties.org/.) One of the most well-developed regional data systems in the country is NEO CANDO, which stands for Northeast Ohio Community and Neighborhood Data for Organizing. Run by the Center on Urban Poverty and Community Development at Case Western Reserve University in Cleveland, NEO CANDO has been funded since 1988 by a variety of foundation and other grants. (For more information: http://neocando.case.edu/cando/index.jsp.)

BUILD LEADERSHIP

A credible convener will bring together stakeholders and coordinate responses.

Many different individuals or organizations can serve as credible conveners of regional stakeholders on the foreclosure issue. In order to be effective, the convener must be respected and not viewed as having an interest in one policy or approach over another. Many metropolitan areas have benefited from having a Federal Reserve Bank with an active community affairs department that has served as an effective convener. Local elected officials have led the response to foreclosures in many metropolitan areas. Leadership needs to overcome the image of foreclosures as just a problem for poor people in central cities and show how it impacts the economy of the entire region.

ST. LOUIS, MISSOURI

In the St. Louis area, the Federal Reserve played a key leadership role by helping to pull together the Metro Foreclosure Intervention Task Force (http://foreclosurehelpstl.org/foreclosuretaskforce.html).

The local public television station in St. Louis (KETC) also played a crucial role with a series of programs and public service spots educating people about foreclosures and connecting them with foreclosure counseling services (http://thinktv.org/mortgagecrisis/). KETC set up an interactive website (http://www.stlmortgagecrisis.org/), partnered with the online newspaper The Beacon, and delivered regular programs with phone banks to link people to foreclosure counseling, all of which helped to give the foreclosure issue a human face. Subsequently, the Corporation for Public Broadcasting gave grants to 25 public television stations around the country to spread the KETC model (http://www.mediaengage.org/mortgagecrisis.cfm).

RIVERSIDE, CALIFORNIA

In the Inland Empire of California, Riverside Mayor Ron Loveridge played a key role in organizing the Red Team in 2008. The Red Team was a public-private-nonprofit partnership that recognized that the Inland Empire was too dependent on single-family home construction and needed to take action to minimize the damage from foreclosures. The Red Team helped form the Inland Empire Economic Recovery Corporation (IEERC), a non-profit organized to create partnerships for stabilizing neighborhoods and communities, preventing and reducing blight, and addressing home foreclosure problems. For more information, visit http://ieerc.org/what/what.html.

DEVELOP INTER-LOCAL COLLABORATION

Cooperation among governments in the region can make local responses more effective.

Foreclosures are not confined to the urban core but are a metropolitan wide problem. For this reason, collaboration across jurisdictions — whether involving several jurisdictions or a genuine region-wide effort — is crucial to successful intervention. Often suburban areas lack the networks of housing nonprofits that provide foreclosure counseling and keep track of problem properties in the wake of foreclosures. Smaller suburban jurisdictions often lack housing planners and professionals to stay on top of the foreclosure challenge. Regional collaboration can help address these gaps. However, local actors should not significantly delay their own unique interventions on a case-by-case basis while waiting on implementation of a coordinated regional plan. Some of the most creative and innovative solutions spring from the neighborhood level.

CHICAGO, ILLINOIS

Based on a city initiative, the Chicago area created a Regional Homeownership Preservation Initiative (RHOPI), which brought together state and local governments, nonprofits, regional planning organizations and members of the financial services industry to produce an action plan to respond to the foreclosure crisis in the region. For more information, visit: http://www.regionalhopi.org/content/about-rhopi.

A committee wrote a report mapping gaps in access to housing counseling services, which was used to better target resources. Another committee helped to create two municipal collaboratives in West and South Cook County, which received $12 million in Neighborhood Stabilization Program (NSP) funds from Cook County.

ST. LOUIS, MISSOURI

Beyond Housing is a St. Louis housing nonprofit that has developed a place-based strategy targeted to the Normandy School District, an inner-ring, poor, and largely African American suburban school district. With 24 municipalities touching on the school district boundaries, Beyond Housing has convened the mayors to coordinate responses to foreclosure. A study of Beyond Housing's foreclosure counseling found that 84 percent of clients were still in their homes up to two years after seeking counseling. Beyond Housing has contracted with St. Louis County for Neighborhood Stabilization Program funds targeted to transitional neighborhoods within the Normandy area. Beyond Housing has fixed up and rented more than 200 homes in the area and has succeeded in attracting a full-service grocery store to the neighborhood. By providing a comprehensive array of services, such as daycare, financial education and individual development accounts, Beyond Housing is maximizing its chances of stabilizing the area. For more information, visit http://www.beyondhousing.org/.

REDIRECT RESOURCES AND MOBILIZE NEW ONES

Local actors need to redirect existing funding and tap new resources to respond immediately to the crisis.

It may not be prudent to be fixing curbs and sidewalks or building new park facilities in neighborhoods where families are being forced out of their homes by foreclosures and the population is declining rapidly. Because the spillover effects of foreclosures are extensive, local governments need to commit resources to prevent foreclosures where possible and to minimize the damages from foreclosures that do take place in neighborhoods that are otherwise healthy and thriving.

CUYAHOGA COUNTY, OHIO

In 2005 Cuyahoga County (Cleveland) launched a Foreclosure Prevention Program that involved 11 county agencies and nine housing nonprofits, as well as numerous municipalities and private lenders. To date, more than $4.7 million has been raised for the program. This funding came from county general funds, Community Development Block Grant funds and grants and donations from banks, corporations and foundations and special funds. Using existing funding sources more creatively was also involved, including $400,000 reprogrammed from Temporary Assistance to Needy Families (TANF) and $3 million from a special use of part of the surplus in Cuyahoga County's Delinquent Tax Administration and Collection (DTAC) funds. The state legislature authorized the use of this money for foreclosure prevention and the County Treasurer and Prosecutor together agreed to implement it. The Foreclosure Prevention Program has helped thousands of families stay in their homes. For more information, visit http://urban.csuohio.edu/community_planning/publications/foreclosure_3yr_report.pdf.

Faced with rising foreclosures, local governments find themselves needing additional resources to deal with the problem at a time when revenues are shrinking. Local officials must seek out new sources of funding in the private and nonprofit sectors. Often having benefited from the subprime lending that drove the initial wave of foreclosures, private banks, mortgage companies and financial services firms are under pressure to contribute to solutions. Local actors should approach them. Working through the community reinvestment office at a bank is often helpful. Local banks have contributed to foreclosure prevention efforts in Cleveland, Chicago and St. Louis.

Private foundations are another good source of funding. Unfortunately, many foundations have already committed their funding streams to ongoing initiatives and are not in a position to redirect funding to the foreclosure crisis. Some community foundations, however, do retain the flexibility to shift funding to foreclosure prevention and mitigation.

CHICAGO, ILLINOIS

In 2008 the MacArthur Foundation committed $68 million to foreclosure prevention and mitigation in the City of Chicago. MacArthur expects its investment to leverage more than $500 million in capital and to assist 10,000 households, providing counseling to 6,000 borrowers and preventing 2,700 foreclosures by 2010. MacArthur's initiative represents the largest effort in the United States by a private foundation to address the foreclosure crisis. One focus of the initiative is an effort to keep renters in their homes, an area that is often overlooked in foreclosure policy. For more information, visit http://www.macfound.org/site/c.lkLXJ8MQKrH/b.4196225/apps/s/content.asp?ct=6108359.

BUILD CAPACITY

Building administrative capacity and the ability to collaborate and cooperate across departments should be a high priority of local actors.

Responding effectively to foreclosures requires a great deal of administrative capacity, for example, to purchase foreclosed properties, rehabilitate them up, and return them to the market. Effective responses also require collaboration across policy silos, local governments, and sectors (public, private, and nonprofit). Collaboration requires trust that can take years to develop. Local actors need to think about how to develop capacity for both the short term and the long term.

Many national organizations can help to build local capacity. Most local governments, for example, have little experience marketing and selling rehabilitated properties. The National Community Stabilization Trust helps local governments and nonprofits to purchase foreclosed properties in a timely fashion and helps them to develop an effective strategy for putting properties back on the market. For more information, visit http://stabilizationtrust.com/.

Living Cities is a collaboration of 22 foundations and private financial institutions that takes an integrative approach to building better cities. In 2007 Living Cities funded 10 projects around the nation to enhance the capacity of local actors to respond to the foreclosure crisis. Their report, "Communities At Risk: How the Foreclosure Crisis is Damaging Urban Areas and What is Being Done About It," tells the story of how community groups and partnerships are fighting to preserve their neighborhoods in the face of the foreclosure crisis. An evaluation of their efforts at capacity building and the obstacles that cities face is available at http://www.livingcities.org/foreclosure/.

The federal Neighborhood Stabilization Program (NSP) provides funds for local governments to purchase and rehabilitate foreclosed properties and put them back on the market — or to demolish them and re-use the land. Nationwide, about 90 percent of NSP-1 funds will be obligated by the federal deadline. Pasco County, Fla., outside Tampa, is an example of a locality that developed the capacity to spend the funds in a timely fashion. The county's success is built on longstanding partnerships. The county has long partnered with housing nonprofits to dispose of foreclosed properties and now allows nonprofits to take title to foreclosed properties, with the money wired directly from the county to the seller at closing. For more information, visit http://portal.pascocountyfl.net/portal/server.pt/community/neighborhood_stabilization_program/303/neighborhood_stabilization_program.

ADVOCATE FOR SUPPORTIVE STATE AND FEDERAL ACTIONS

Local actors need to lobby state and federal governments for policies that will encourage innovative, flexible and even experimental responses.

The ability of local actors to respond effectively to foreclosures is powerfully shaped by state and federal policies.[3] The length of the foreclosure process is determined by state law. Foreclosure processes that are too short limit the ability of borrowers to modify their loans and prevent foreclosures.[4] Mortgage brokers who initiated most of the subprime lending that precipitated the crisis are now subject to stricter regulations at the state and federal levels. State governments also can use existing housing subsidy programs to help people modify their loans and stay in their homes.

The federal government also plays a key role in shaping local responses. As part of the Housing and Economic Recovery Act (HERA) of 2008, the federal government enacted the Secure and Fair Enforcement for Mortgage Licensing Act (SAFE), which established minimum standards for mortgage brokers that the states must meet. Local governments often need state-enabling legislation to develop systems to identify who owns a foreclosed property and the power to sanction absentee owners or speculators who fail to maintain foreclosed properties. The NSP program has stimulated efforts around the country to stabilize neighborhoods in the wake of foreclosure, but local actors have criticized detailed regulations that have slowed down the ability of local recipients to intervene quickly and effectively.

CUYAHOGA COUNTY, OHIO

Cuyahoga County Treasurer, Jim Rokakis, and other leaders in Cleveland realized that they had no way to purchase the foreclosed properties that were blighting neighborhoods. The huge number of vacant and abandoned properties was a problem but also represented an opportunity to assemble larger tracts of land that could be used strategically for redevelopment. In April 2009 local actors in Cleveland and their statewide allies succeeded in passing through the Ohio General Assembly a law allowing the formation of county land reutilization corporations (LRCs). Cuyahoga County was the first to set up a LRC in Ohio. Modeled on the highly successful Genesee County, Mich., land bank, the primary source of funding is from penalties and interest on property taxes and assessments that are not paid when due. Cleveland now has a powerful new tool to acquire vacant foreclosed properties and use them as part of a community revitalization strategy. For more information, visit http://cuyahogalandbank.org/.

3 PEW. 2008. Defaulting on the Dream: States Respond to America's Foreclosure Crisis. PEW Charitable Trusts.

4 Cutts, Amy Crews and William A. Merrill. 2008. Interventions in Mortgage Default: Policies and Practices to Prevent Home Loss and Lower Costs. Freddie Mac Paper #08-01.

ABOUT THIS PUBLICATION

Todd Swanstrom is the Des Lee Professor of Community Collaboration and Public Policy Administration at the University of Missouri - St. Louis. The author or co-author of six books and more than 25 scholarly articles, Professor Swanstrom has a Ph.D. from Princeton University in Politics. His applied policy work includes serving as a neighborhood planner for the City of Cleveland and as staff director of strategic planning for the City of Albany. Together with Peter Dreier and John Mollenkopf, he co-authored "Place Matters: Metropolitics for the Twenty-first Century," rev. ed. (University Press of Kansas, 2004), which examines the relationship between urban decline and suburban sprawl. His latest book (co-edited with Clarissa Hayward), "Justice and the American Metropolis," will be published by University of Minnesota Press in 2011. He has published research, sponsored by the Brookings Institution, on the prospects for alliances between central cities and distressed suburbs and on economic segregation among municipalities. His current research focuses on workforce development in construction and metropolitan responses to the foreclosure crisis. He has been a member of the MacArthur Foundations Building Resilient Regions Network since 2004.

James Brooks is program director for housing and community development in the Center for Research and Innovation at the National League of Cities. Brooks has been employed by NLC since 1988, holding prior positions in the organization's policy, communications and public affairs divisions. He also directs NLC's international programs.

The National League of Cities is the nation's oldest and largest organization devoted to strengthening and promoting cities as centers of opportunity, leadership and governance. NLC is a resource and advocate for more than 1,600 member cities and the 49 state municipal leagues, representing 19,000 cities and towns and more than 218 million Americans. Through its Center for Research and Innovation, NLC provides research and analysis on key topics and trends important to cities, creative solutions to improve the quality of life in communities, inspiration and ideas for local officials to use in tackling tough issues and opportunities for city leaders to connect with peers, share experiences and learn about innovative approaches in cities.

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