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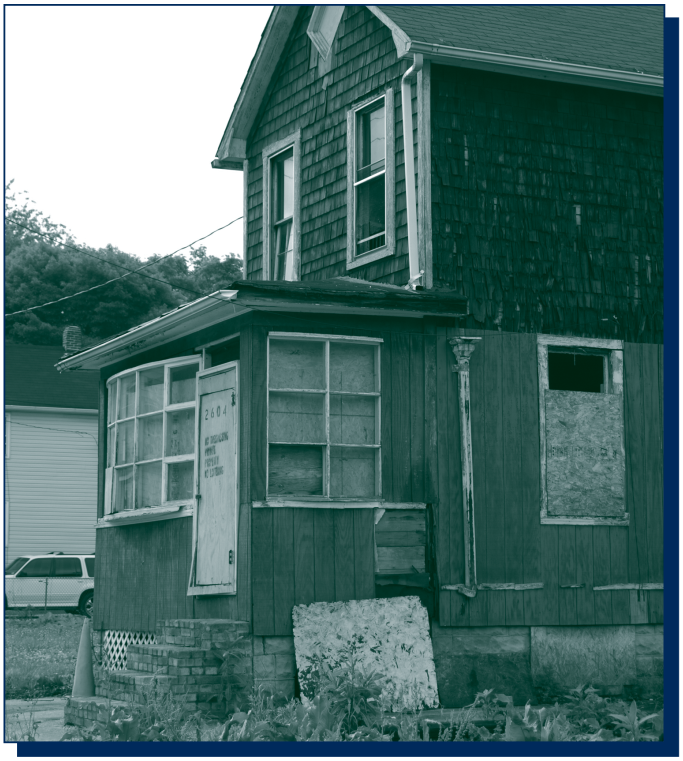
Returning Foreclosures to Productive Use with Land Banks



Vacant properties, like this Baltimore home, lower property values and contribute to neighborhood decline.

Millions of homes sit vacant as the foreclosure crisis continues to grip the nation. Vacant properties fall into disrepair and neglect and are eventually abandoned, creating a ripple effect that lowers adjacent property values and ultimately contributes to the decline of entire neighborhoods. A new report released by HUD's Office of Policy Development and Research, *Revitalizing Foreclosed Properties with Land Banks*, examines a strategy that — with the enactment of the Neighborhood Stabilization Program (NSP) — is quickly gaining momentum among those working to bring these properties back to productive use.

Land banks are governmental or nonprofit entities that acquire, hold, and manage foreclosed or abandoned properties. Enabled by state legislation and enacted by local ordinances, these legal entities acquire properties through tax foreclosure, intergovernmental transfers, nonprofit transfers, and open-market purchases. Tax foreclosures are the most common method of acquisition, in which tax foreclosed properties are sold at public auctions to recoup back taxes; properties that remain unsold are deeded to land banks. By exercising powers authorized by state and local statutes, such as the ability to waive taxes and clear titles, land banks can then help redevelop these properties.

Although land banks are an effective tool for stabilizing neighborhoods burdened with many vacant, abandoned, or foreclosed properties, communities can face a number of obstacles when executing land bank policies. First, acquiring foreclosures can be a lengthy and cumbersome process. Tax foreclosure proceedings vary from state to state and often require the involvement of several jurisdictions to obtain clear title. Second, municipalities often lack the experience to coordinate key stakeholders and achieve successful outcomes. In many cases, municipalities have the capacity to administer a land bank, but intergovernmental dichotomies inhibit regional goals. Another critical challenge is financing; allocating, renovating, and disposing of these properties can be costly. Diligent

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Returning Foreclosures to Productive Use with Land Banks

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planning and proper funding mechanisms are needed to ensure that foreclosures are not acquired by speculators, but are instead put to productive use.

In the wake of the foreclosure crisis and significant budget shortfalls among state and local governments, Congress enacted the Neighborhood Stabilization Program, or NSP — a program authorized by the Housing and Economic Recovery Act (HERA). Under NSP, grantees may establish a land bank to purchase foreclosed or abandoned properties. Subsequent to HERA, Congress passed the American Recovery and Reinvestment Act (ARRA) in 2009 to help state and local governments and nonprofit organizations further pursue NSP activities — referred to as NSP2 under ARRA. In addition to property acquisition, NSP2 authorizes land banks to receive funds to cover operating costs.

Case Studies

With the inclusion of three land bank case studies, *Revitalizing Foreclosed Properties with Land Banks* demonstrates how communities have been adapting their policies and programs to meet long-term goals. Michigan's Genesee County Land Bank Authority is independently governed by a board of directors consisting of the county treasurer and residents of the city of Flint and Genesee County. Backed by state enabling legislation, the land bank acquires tax foreclosures and determines the best use for these properties with a long-term vision for the community in mind. The land bank renovates 25 to 50 abandoned and dilapidated houses annually and then sells or rents them at affordable rates to qualified tenants with an option to own.

In 2008, the Maryland General Assembly passed Senate Bill 911, which empowers Baltimore City to create a land bank authority. This legislation creates an 11-member board of directors consisting of six city officials and five city council appointees to govern the nonprofit agency. To further the goals of the city's Project 5000 — a program that acquired 5,000 vacant and abandoned properties — the proposed land bank is charged with adopting bylaws, rules, and regulations to return vacant properties to productive use. Upon approval, the quasi-governmental organization can acquire, manage, and sell city-owned property and procure services from other public or private entities to manage operations.

The Fulton County/City of Atlanta Land Bank Authority (LBA) has been instrumental in redeveloping declining neighborhoods and increasing the city's affordable housing supply. The LBA helps community development corporations (CDCs) acquire tax-delinquent properties with insurable titles at below-market prices for use in affordable housing development. A new policy introduced in 2008 allows the LBA to hold properties CDCs have purchased for 3 years and city- or county-owned properties for up to 5 years. The properties are not taxed while held by the land bank, reducing holding costs and lowering development costs for the CDCs and other nonprofit developers.

Getting Started

The report recommends that communities looking to create a land bank authority refer to a guidebook by Emory University professor Frank Alexander, *Land Bank Authorities: A Guide for the Creation and Operation of Local Land Banks*. In a recent discussion on **www.HousingPolicy.org**, Alexander noted that "The key initial step [to creating a land bank] is to evaluate why there is an inventory of vacant and abandoned properties, and what are the barriers to the property returning to productive use. Creating a land bank makes sense if and only if it is targeted to solving a specific problem."

Neighborhood Stabilization Grantees Announced!

HUD Secretary Shaun Donovan announced the Neighborhood Stabilization Program (NSP2) **grant recipients** on January 14, 2010. Funded by the American Recovery and Reinvestment Act, 56 recipients were awarded $1.93 billion dollars to spur economic growth in hard-hit communities and create jobs. This will be accomplished by acquiring land and property, demolishing or rehabilitating abandoned properties, offering downpayment and closing cost assistance to low- and middle-income homebuyers, and/or creating land banks to assemble, temporarily manage, and dispose of foreclosed homes. The announcement and a list of grant recipients are available at **http://portal.hud.gov/portal/page/portal/HUD/press/press_releases_media_advisories/2010/HUDNo.10-012**.

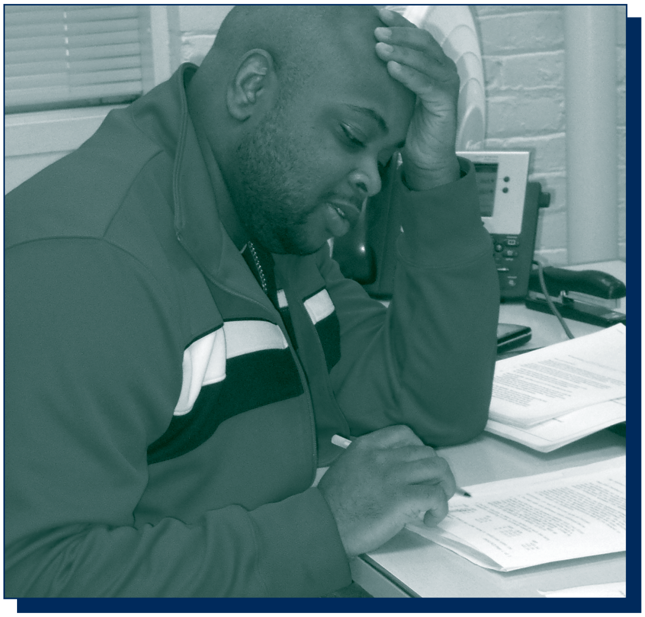
Revitalizing Foreclosed Properties with Land Banks is available as a free download at **www.huduser.org/portal/publications/affhsg/landbanks.html** or in print, free of charge, by calling HUD USER at 800.245.2691, option 1.

Preventing Foreclosures, One Community at a Time

With foreclosures expected to reach 2.4 million nationwide in 2009, the consequences of mortgage defaults are far reaching.[1] Some localities are taking steps to counteract these effects with foreclosure mitigation. Three communities — Cuyahoga County, Ohio; Philadelphia, Pennsylvania; and the state of Connecticut — have each created unique programs with proven track records of preventing foreclosures. The cornerstone of all three programs is outreach and borrower education with third-party assistance, without which homeowners might not be adequately prepared to navigate the services available. Two of the programs operate a hotline linking borrowers with counselors who are able to assist them. Outreach efforts of one locality also include public service announcements and going into neighborhoods to notify buyers of their upcoming conferences, as well as informing them of the assistance being offered. Another promotes its services with a public service announcement and through financial literacy programs. The state-run program ensures that borrowers receive information by mail regarding the mediation program, once a foreclosure is filed.

Cuyahoga County's Foreclosure Prevention Program

Cuyahoga County experienced more than 40,000 foreclosures between March 2006 and February 2009. The county's foreclosure problem is compounded by Ohio's extremely lengthy foreclosure process — at 192 days between foreclosure referral and sale, it is among the slowest in the nation.[2] In response, Cuyahoga's Board of Commissioners initiated a 3-year pilot program designed to prevent foreclosures when possible, and to hasten the foreclosure process when that step becomes unavoidable. The county successfully sought to amend state law, thereby reducing the complexity and processing time of foreclosing on tax-delinquent abandoned and



Credit: ESOP

Nonprofits in Cuyahoga County hold in-person counseling sessions to advise borrowers of the foreclosure process and services available.

vacant properties. Automating the procedures for foreclosures within the courts and adding additional staff further expedited the process.[3]

Through homeowner education, nonprofit partners in the Cuyahoga County Foreclosure Prevention Program held 5,078 foreclosure prevention counseling sessions between 2006 and 2009.[4] During these in-person meetings, homeowners were advised of the process and made aware of the services available. These meetings mitigated nearly 2,200 foreclosures.[5]

The program was expanded beyond the pilot period and continues today. A mediation program went into effect in 2008 after the Ohio Supreme Court directed counties to act. This expansion enables borrowers to opt-in to mediation once they have received a foreclosure notice from the court. Of the 2,416 cases in which homeowners chose to participate and were referred to mediation, 1,542 premediation conferences were held with 443 proceeding to mediation, where 231 of the mediated cases were resolved successfully.[6]

Philadelphia's Residential Mortgage Foreclosure Diversion Program

Philadelphia's program began in 2004 when the city's Sheriff canceled Sheriff's Sales and sought a moratorium on foreclosures. An appointed Mortgage Foreclosure Steering Committee helped the Philadelphia Court of Common Pleas create a foreclosure diversion pilot program to reduce the rate of delinquent mortgages. In this program, lenders

Preventing Foreclosures, One Community at a Time

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(able to negotiate in person or by telephone) and eligible homeowners must meet before Sheriff's Sales can proceed, thus creating an opportunity to negotiate. Most of the cases are resolved during this time, without formal mediation. In the 25 percent of cases where borrowers do not attend the conferences, thereby waiving their right to mediation, judges make the determinations.

The results of the diversion program are significant. Since its inception in 2008, 6,300 conferences have been held and 1,600 homes have been saved from Sheriff's Sales. Approximately 3,000 more homeowners are currently scheduled for a conference or are awaiting action from the lender. Additionally, the rate of borrowers failing to appear has dropped from 50 percent at the program's outset to 30 percent.[7]

Connecticut's Foreclosure Mediation Program
Signed into law in 2008, Connecticut's program is statewide and run with state funds. Once a foreclosure complaint is filed, homeowners receive information in the mail about mediation services. Interested borrowers respond by mailing a form that signifies their interest to the court. A mediation session is then scheduled between eligible homeowners and servicers (the representatives must be legally empowered to enter into a settlement agreement). Of the 18,763 foreclosures filed in Connecticut between July 1, 2008 and March 31, 2009:

- Homeowners opted for mediation in 5,041 cases;
- Mediation was completed for 2,233 foreclosures;
- Lenders and homeowners came to a resolution for 1,630 foreclosures; and
- Approximately 80 percent of the agreements (1,313) allowed borrowers to stay in their homes.

Most of the mediation meetings resulted in interest rate or term changes, although other outcomes included "graceful exits" (both parties agreeing to allow the foreclosure to proceed), short sales, or signing the deed back to the lender. The remaining unresolved cases have at least reached the initial meeting stage and are ongoing.[8]

Each of these efforts to prevent foreclosures was created and implemented based on local needs and requirements. Other communities may review these successful programs and modify them to meet local demands. For more information, contact Paul Bellamy (**pbellamy@cuyahogacounty.us**) about Cuyahoga County, Roberta Palmer (**Roberta.Palmer@jud.ct.gov**) regarding Connecticut, and Rachel Gallegos (**Rachel.Gallegos@courts.phila.gov**) concerning Philadelphia.

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[1] Center for Responsible Lending, *Soaring Spillover*, 2009, p.1.
[2] Kathryn W. Hexter and Molly Schnoke, *Responding to Foreclosures in Cuyahoga County: Program Year Three Evaluation Report*, 2009, p. 3; Todd Swanstrom, Karen Chapple, and Dan Immergluck, 2009, "Regional Resilience in the Face of Foreclosures: Evidence From Six Metropolitan Areas," p. 8.
[3] Alan C. Weinstein, Kathryn W. Hexter and Molly Schnoke, *Responding to Foreclosures in Cuyahoga County: A Pilot Initiative*, 2008.
[4] Hexter and Schnoke, p. 13.
[5] Ibid, p. 20; Swanstrom, et al., p. 15.
[6] Hexter and Schnoke, pp. 27–8.
[7] Annette M. Rizzo, Testimony at Congressional Oversight Panel, Hearing on Foreclosure Mitigation Efforts under TARP, September 24, 2009.
[8] Andrew Jakabovics and Alon Cohen, "It's Time We Talked: Mandatory Mediation in the Foreclosure Process," 2009, pp. 19–22.

Fighting Blight Pays in Philadelphia

Although urban blight is not a new problem for cities, a significant number of abandoned and vacant properties resulting from foreclosures intensify the incidence and impact of blight and contribute to community destabilization. Local responses include halting the deterioration of abandoned, neglected properties by "cleaning and greening" and with regular maintenance. The city of Philadelphia finds this to be a relatively inexpensive strategy in light of the return, costing $1.50 per square foot to clean and green a lot (about $2,000/lot), and $0.17 per square foot (about $200/lot for 14 cleanups between April and October) for subsequent maintenance.[1]

Philadelphia has a history of combating property blight with cleanup and greening activities. Significant post-WWII losses of businesses, employment, population, public revenue, property values, and morale left many of the city's neighborhoods with vacant lots and neglected houses. The city's efforts to fight this blight entwine with those of the Pennsylvania Horticultural Society (PHS), a nonprofit that promotes the use of horticulture to improve quality of life and create a heightened sense of community. PHS established Philadelphia Green in 1974 to fight neighborhood blight with innovative greening strategies.

Having observed that vacancy creates vacancy, Philadelphia Green's first initiative was to join the city in encouraging residents to plant community vegetable gardens in vacant lots. The organization next teamed up with community development corporations to replace vacant lots with open, green spaces in low-income neighborhoods, including the American Street Neighborhood Empowerment Zone.[2] By 1995, Philadelphia Green and the New Kensington Community Development Corporation (NKCDC) were targeting 1,100 vacant lots, 70 percent of which were privately owned and tax delinquent, in a deindustrialized neighborhood where the population had plunged 50 percent during the previous 40 years. Within 4 years, one-third of these lots were cleaned and greened, 108 converted to side yards, and 62 were community garden sites. Community residents and NKCDC were regularly maintaining one-half of these sites.[3]

With the unveiling of the Neighborhood Transformation Initiative in 2003, the city committed $10 million for a minimum of 5 years and $296 million in bond proceeds toward transforming deteriorated and abandoned properties into clean, green space. Contracting with PHS (who recruited the help of nonprofits, community-based organizations, minority contractors, and other businesses) to help restore neighborhoods, the city stabilized vacant land by cleaning, mowing, laying topsoil, planting seeds and trees, and adding fences. Today, 7 million square feet of vacant land is stabilized and regularly maintained.[4]

Before and after cleaning and greening a neglected Philadelphia lot at a cost of about $2,000.

Credit: Pennsylvania Horticultural Society

Economic Impact

In light of the question of whether there is adequate justification for spending public monies on blight removal and greening activities and whether greening is truly effective as a revitalization tool, Susan Wachter and her research team from the Wharton School found a way to measure the impact of vacant land management and greening investments made in Philadelphia.[5]

These researchers integrated spatial- and time-based data with city property sales information; property attributes for more than 200,000 sales of more than 120,000 properties from 1980 to 2005; data on neighborhood characteristics; and PHS records on the time and location of new tree plantings, streetscape improvements, and vacant lot stabilizations. This database provided the foundation for comparing neighborhood values before and after greening activities by analyzing nearby property sales. It also enabled an assessment of the citywide impact of many variables — as well as of individual neighborhoods — when combined with geographic data and GIS technology.

This research confirms that the physical attributes of a home and neighborhood characteristics do affect home values and sale prices. Of particular interest was whether cleaning and greening activities that eliminate blight are cost-effective. Researchers concluded that "urban greening has emerged as a potentially key land management strategy in Philadelphia." The following findings explain this conclusion:

- The value of homes near businesses and shopping centers benefited from landscape enhancements. Homes near commercial corridors in excellent condition because of such improvements as tree, container, and median plantings; pocket parks; and parking lot screens showed significant gains in value. Residences within a quarter-mile of such commercial greening experienced a boost in value of approximately 20 percent and an increase of about 10 percent within a quarter- to a half-mile. Homes increased in value by 30 percent when located in a business improvement district that provides additional public services.

- Home values were influenced by the condition of adjacent lots. Homes next to vacant, neglected lots dropped in value by approximately 20 percent, whereas homes next to lots that have been stabilized by trash removal, soil improvement, plantings, and other amenities rose in value by about the same amount.
- Planting trees in an urban environment has a significant positive economic effect. Proximity to new tree plantings was associated with an increase in house prices of approximately 10 percent.

This research demonstrates that the return on green investment is measurable, and provides a method by which policymakers can project outcomes. The findings suggest that cleaning and greening can be an effective tool in fighting foreclosure blight without being unduly costly or burdensome, especially when an effective partnership exists between local government and community groups. In addition, the results underscore what people value in their communities and neighborhoods.

Although every community has its unique municipal structures and challenges, Philadelphia Green Director Robert Grossmann stresses the following message for other cities: "Although a city does not own abandoned and neglected properties, it does own the problem. Once owned, creative solutions are possible."

[1] Susan M. Wachter, "Greening Vacant Land," presentation at Green Infrastructure Symposium, Pittsburgh, October 25, 2009.
[2] J. Blaine Bonham, Jr., and Patricia L. Smith, "Transformation Through Greening," in Eugenie L. Birch and Susan M. Wachter, eds., *Growing Greener Cities* (Philadelphia: University of Pennsylvania Press, 2008), 227–43.
[3] Eva Gladstein and Mike Groman, "Vacant Land Management and Community Revitalization Through Greening," presentation at National Vacant Properties Campaign Conference, Pittsburgh, September 24–25, 2007.
[4] December 2009 interview with Robert Grossman, director of Philadelphia Green.
[5] Susan M. Wachter, Kevin C. Gillen, and Carolyn R. Brown, "Green Investment Strategies: How They Matter for Urban Neighborhoods," in Birch and Wachter, *Growing Greener Cities*, 316–25.

Resilience Matters in Foreclosure Crisis

The MacArthur Foundation's Network on Building Resilient Regions (BRR) recently sponsored a study of regional metropolitan areas and their resilience in responding to the housing crisis. The research examined two metropolitan areas with historically weak housing markets (Cleveland, Ohio and St. Louis, Missouri); two California metropolitan areas with strong housing markets (the East Bay, or Alameda/Contra Costa Counties and the "Inland Empire," or Riverside/San Bernardino Counties); and two metropolitan areas with "mixed" housing markets (Chicago and Atlanta).

Although all six areas faced substantial rises in foreclosures of single- and multifamily dwellings, their differing responses to the challenge suggest that regional resilience is a significant factor in recovery. For purposes of the study, resilience is defined as the ability to alter organizational routines; garner additional resources; and collaborate within and among the public, nonprofit, and for-profit sectors to address the foreclosure challenge.

The most resilient metropolitan areas had strong housing nonprofits and a history of collaboration across economic sectors. To act resiliently, the authors concluded, local governments must have both horizontal collaboration with local public, nonprofit, and for-profit stakeholders and vertical collaboration with state and federal players that support and empower local collaborations. We recently had an opportunity to ask the study's principal investigator, Dr. Todd Swanstrom, about the research.

Q: ***First, how does a regional approach help us understand the recent surge in foreclosures?***
A: Foreclosures have normally been thought of as a central city or perhaps an inner-ring suburban problem. However, in this recent crisis, foreclosures have spread to the outlying suburbs and become a regional phenomenon. In our foreclosure "heat maps" — graphics showing the incidence of foreclosures overlaid on a local map — one can see the problem bleeding outward across city borders.

There is a real capacity issue — across metropolitan areas and even among various jurisdictions within them. We were more likely to find networks of robust housing nonprofits in the central city and maybe a few inner-ring suburbs. The inner city has dealt with foreclosures for decades, trying to avoid abandonment and get houses back on the market. But most outlying areas don't have that same capacity to respond — they are not used to dealing with this kind of problem.

Q: ***What are the elements for resilience in local housing markets?***
A: First, a locale's resilience depends on its organizational ability to alter how things are done. Because many of these nonprofits are small and not very bureaucratized, they are able to shift resources when a crisis emerges — for example, toward foreclosure counseling and away from first-time homeownership programs. We found that small nonprofits have flexibility and already-established networks and are often the first to respond to a foreclosure crisis.

Second, it depends on how well the community leadership is able to find and align the resources needed through its horizontal and vertical networks. Third, resilience arises from the capacity of public, private, and nonprofit entities to collaborate effectively. It is very important to have strong housing nonprofits that are in touch with each other, governments, and other private entities, and so are better able to influence local housing policy.

Resources that can shape effective responses to a rise in foreclosures also include the attention and interest of policymakers and citizens. Our analysis of newspaper coverage indicated that media attention helps put the issue higher on the public's agenda. The foreclosure heat maps we created can help communicate and get the issue on a community's agenda. In some areas, universities have played a key role in collecting data and helping to get foreclosures on the policy agenda.

Other states have nonjudicial foreclosure processes that are quicker. In Missouri, for example, foreclosures can complete in as few as 38 days, shrinking the time available for homeowners to seek help.

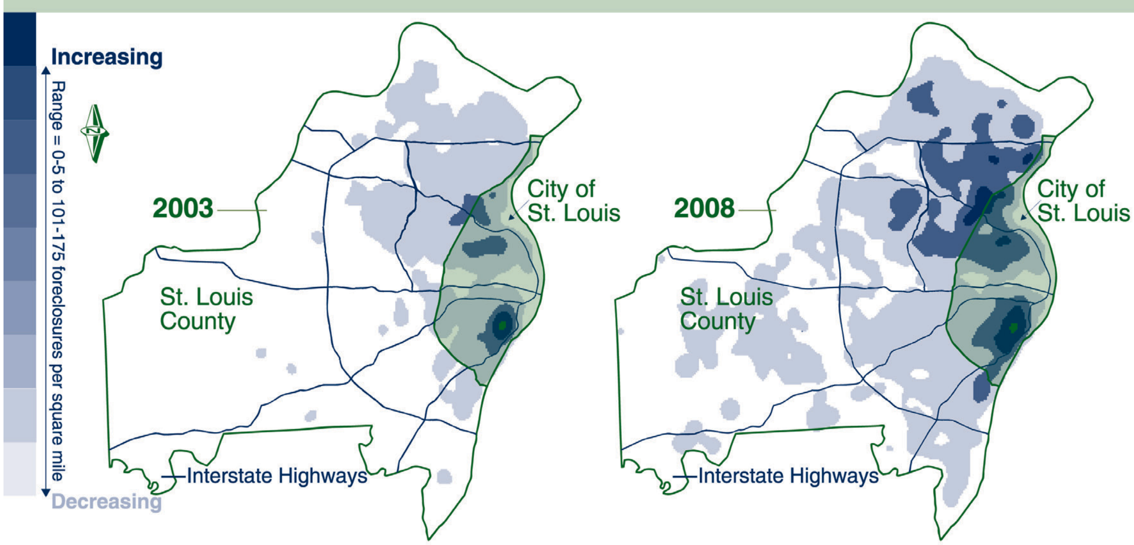
Other factors that affect resilience are federal incentives to encourage mortgage lenders and servicers to modify their loans, as well as federal incentives designed to help local governments address the crisis, such as the Neighborhood Stabilization Program. Relative to the number of foreclosures, however, the available federal funding is small. Localities need a strategy for targeting neighborhoods where they can make a difference — ideally, a foreclosure prevention strategy coordinated with other policy areas, like transportation and schools.

Building on this initial study in another round of research, BRR and the National League of Cities will examine how local actors can be more resilient in the face of foreclosures by continuing to study the experiences of Chicago, Atlanta, Cleveland, and St. Louis. Another hot market region, Tampa-St. Petersburg, will be compared with San Bernardino-Riverside.

[1] Todd Swanstrom, Karen Chapple, and Dan Immergluck, "Regional Resilience in the Face of Foreclosures: Evidence from Six Metropolitan Areas," Berkeley Institute of Urban and Regional Development and MacArthur Foundation Research Network on Building Resilient Regions, 2009 (**http://iurd.berkeley.edu/catalog/Working_Paper_Titles/Regional_Resilience_Face_Foreclosures_Evidence_Six_Metropolitan_Areas**).

Q: ***What about factors beyond the metro area itself?***
A: State laws concerning the foreclosure process also affect community resilience. In Ohio, a judicial foreclosure state, foreclosures take an average of 192 days (over 6 months) to complete. Illinois is also a judicial foreclosure state with a relatively lengthy process.

Foreclosure "Heat Maps," St. Louis County and City of St. Louis, 2003 and 2008



Source: Prepared from data provided by the Public Policy Research Center, University of Missouri - St. Louis; Recorder of Deeds, St. Louis County and City of St. Louis

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