

By Mark Perlman

## Managing Foreclosures and Vacant Properties

The collapse of real estate markets and the recession place city leaders in the unenviable position of having to mitigate or prevent future mortgage foreclosures and find ways to deal with the current stock of vacant properties. According to statistics from [RealtyTrac](#) and [Core Logic](#), nearly 4.1 million homeowners have completed foreclosure since 2007. Recent upward trends in housing markets are indicative of a recovery, but the crisis is not yet over – as of December 2011, 1.4 million homes were in the foreclosure process. After falling from its peak in 2010, the number of completed foreclosures may rise in 2012. City leaders play a key role in working with national, state, local and non-profit partners to help residents keep their homes and help communities cope with the ongoing effects of the foreclosure crisis. This Municipal Action Guide offers solutions for the challenges that cities and city leaders face in dealing with foreclosures: preventing vacancies, preventing deterioration, rehabilitation and re-use and demolition.

### NATIONAL INITIATIVES

The Department of Housing and Urban Development, the Department of the Treasury, the Federal Housing Finance Agency, the Veterans' Administration and a number of non-profit organizations administer programs aimed at keeping homeowners in their properties and helping states and cities cope with foreclosures. Over \$22 billion of taxpayer money has been set aside for foreclosure mitigation programs. A brief overview of some of the programs available to individual homeowners and cities is below:

- **Making Home Affordable Act**
  - **Home Affordable Refinance Program (HARP)** This program, funded through December 2013, allows underwater borrowers who are current on their Fannie Mae or Freddie Mac-backed mortgages to lower their monthly payments.
  - **Home Affordable Modification Program (HAMP)** This program helps struggling, employed homeowners lower their monthly payments on Fannie Mae or Freddie Mac-backed mortgages. This includes Home Price Decline Protection initiatives directed at investors to encourage loan modifications for struggling borrowers.
- **Neighborhood Stabilization Program (NSP)** NSP has been integrated into the Community Development Block Grant (CDBG) program with funding available through March 2014. Uses of NSP funds include establishing land banks, acquiring and rehabilitating vacant and foreclosed properties and demolition.
- **Hardest Hit Fund** Eighteen states and the District of Columbia were chosen for this program offered by the Department of the Treasury, which allocates funding to help struggling and underwater homeowners

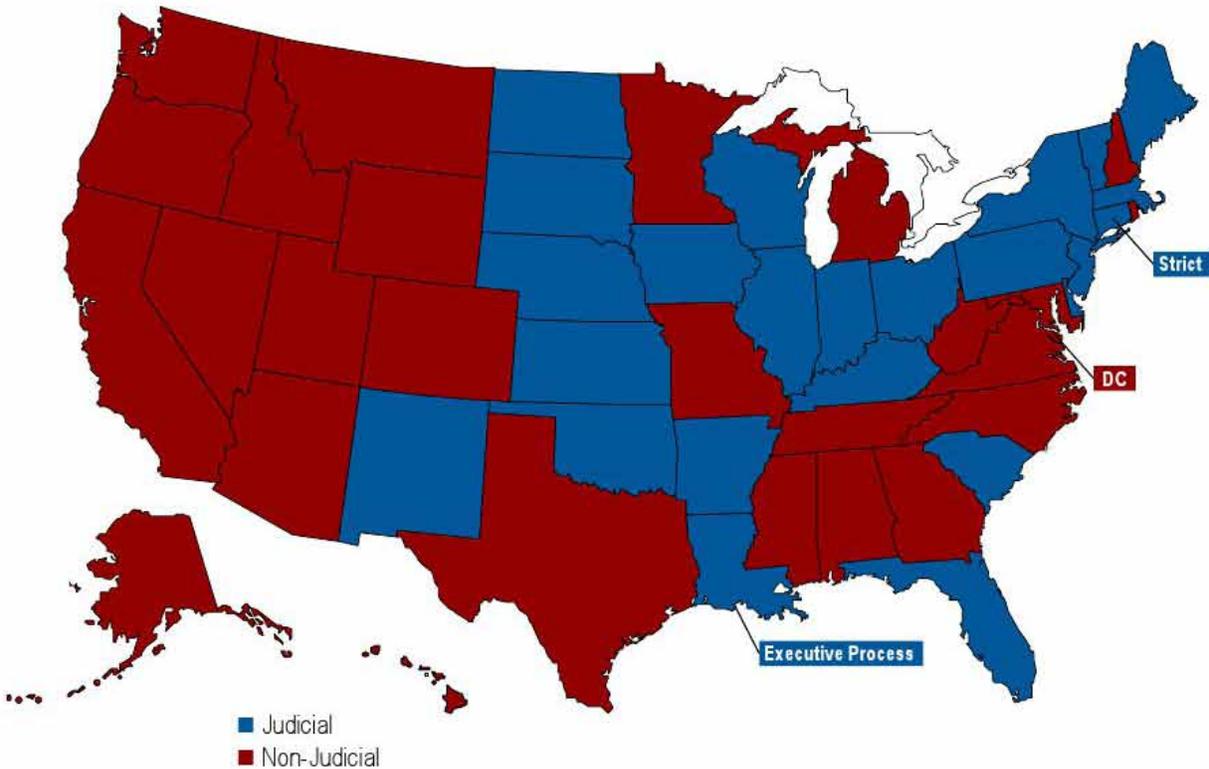




## PREVENTING VACANCY

A primary goal in coping with foreclosures is to help struggling borrowers find a way to stay in their home. Strategies such as bridge loans may not be feasible at this point in the foreclosure crisis. Negotiation between lenders and borrowers is needed, and there are two strategies that cities can use to facilitate these negotiations: mandating or providing mediation and providing foreclosure counseling to borrowers. The approach a city takes will depend upon whether or not it is in a judicial or non-judicial foreclosure state. See Figure 2 for a list of judicial and non-judicial foreclosure states.

Figure 2: Judicial and Non-Judicial Foreclosure States



- **Mediation.** Judicial foreclosure states require that lenders sue the delinquent borrower before they can proceed with a foreclosure. This gives courts in these states an opportunity to bring parties together for the renegotiation of loan terms. The [Philadelphia Housing Court](#) has successfully implemented a mandatory mediation program, which has kept 85 percent of its participants in their homes. When a suit is brought against the delinquent borrower, the lender and borrower are required to meet and discuss alternatives to foreclosure, without being bound to come to an agreement. Borrowers also are given access to pre-mediation counseling.

There are some pitfalls to mandatory mediation. Lenders may be reluctant to give credit if they believe they have to negotiate with every delinquent borrower. Furthermore, mediation is not guaranteed to result in an agreement. Florida's state-wide mandatory mediation law was rescinded, as only four percent of cases ended with an agreement between the two parties.

- **Counseling.** Counseling has been a major strategy in foreclosure mitigation since the first Neighborhood Stabilization Program grant in 2008. The purpose of counseling is to allow homeowners to independently

negotiate an agreement with their lender. In states where banks can proceed with foreclosures without a lawsuit, cities may want to focus their prevention efforts on providing counseling. In March 2012, NeighborWorks America awarded \$73.8 million to housing finance agencies and non-profit organizations as part of its [National Foreclosure Mitigation Counseling Program](#), which was in its sixth round of funding.

## PREVENTING VACANT PROPERTY DETERIORATION

In the event that foreclosure completes and the borrower leaves, cities must find a way to maintain the vacant property so that it does not become blighted, thereby increasing the cost of rehabilitation and re-integration into the market. Vacant property maintenance demonstrates that properties are being attended to which serves to deter vandals and other criminals. Below are strategies for making sure that homes are not set upon the path to blight.

- **Vacant Property Registration.** Vacant property registration requires that lien holders register any unoccupied foreclosed property with the city and then maintain the property, incurring fines if they fail to do so. For example, in [Chula Vista, Calif.](#), the lien holder must register the vacant property within 10 days of loan or deed transfer and then specifically designate an entity to uphold the specific management requirements set out in the ordinance. This establishes ownership and responsibility, making it easier for the city to seek recourse if the property begins to deteriorate.

A political question for cities considering vacant property registries is the structure of the registration fees. If a registry is viewed as a revenue-generating tool, it could easily be challenged. The state of Georgia has begun regulating vacant property registries due to this issue.

- **Community Vacant Inventory Identification.** Many municipalities struggle to inventory their vacant housing stock, with or without registration ordinances. These cities can utilize community members and municipal workers, such as police, fire and utility workers, to identify vacant and abandoned properties and to report code violations. A close example is the “Eyes on Southfield” program in Southfield, Mich., which provides guidance and a central hotline for community members to report housing code violations to the city.
- **Decorative Boarding.** Nothing invites mischief into vacant properties quite like the presence of boards in the windows. One solution is to paint those boards so that the property looks occupied. The board is painted like a window, perhaps with a lamp or some other decorative feature behind it. Cleveland, Ohio, used this method on 22 homes in its Slavic Village neighborhood and noticed a reduction in crime associated with the vacant properties.
- **Community Vacant Property Management.** For properties for which ownership has not been established, such as when a borrower abandons a dwelling before completing foreclosure, cities can empower community members to conduct basic upkeep and thus protect the value of their neighboring homes. This reduces costs to the city and prevents blight, while ownership and proper management are established. This is a strategy best employed for scattered-site vacancies, as concentrated vacancies could require more effort and resources than could be asked of a community. Hillsborough County, Fla., which encompasses the Tampa suburbs, has utilized this method of management.

## REHABILITATION, CONVERSION TO RENTALS AND RESALE

When cities are unable to keep lien holders accountable it is inevitable that properties will begin to deteriorate. Ideally there can be an intervention that puts these deteriorating properties back to use before they are blighted. Below are strategies and resources for rehabilitating properties for reuse.



- **Land Banks.** Land banks are public entities that acquire, manage, maintain and rehabilitate vacant properties. Instead of selling interest in foreclosed properties to investors who will likely not reinvest any of their profits into the community, land banks focus on putting the property back to use for community benefit. In [Columbus, Ohio](#), local investors have purchased properties through the land bank, which are now rented out at affordable rates. At the county level, [Genesee County, Mich.'s land bank](#) has acquired over 4,000 properties in the areas in and around Flint, and has facilitated rehabilitation, demolition and side lot acquisition.
- **Federal Housing Administration 203K Program.** The 203K loans cover the acquisition and rehabilitation costs of vacant properties. While individuals have the ability to access these loans, they can potentially be used by municipal housing authorities to rehabilitate properties and add them to the affordable housing stock. An advantage of 203K loans is that they are assumable; once a property is rehabilitated and ownership is transferred to another party, responsibility for the loan is transferred with it.
- **National Community Stabilization Trust (NCST).** The National Community Stabilization Trust is a national non-profit that helps community-based housing providers access bank REO listings to find properties for acquisition. Cities and housing authorities can use this resource to augment their land banks. By connecting community-based housing providers and investors with NCST, cities may be able to quicken the pace of reinvestment in communities facing a high number of foreclosures.
- **Mortgage Lender Donations.** Banks, including Wells Fargo and Bank of America, are donating some of their REO properties to cities and non-profit housing providers for reuse. For example, Bank of America donated 75 properties to Kansas City, Mo., as well as \$875,000 for rehabilitation and demolition. Many of these properties have provided returning veterans with housing. Cities can capitalize on these donations to augment their land banks, further revitalization efforts and provide housing for vulnerable populations.

## DEMOLITION AND LAND RE-USE

Some cities face a vacant housing stock so large or dilapidated that demolition is the only option. When considering demolition, cities must be cognizant of the scope of their vacancy problem. Alternative uses of newly vacant lots depend upon whether vacancies are scattered-site or concentrated. Scattered-site vacancies can be easier to manage, but the land made available as a result of demolition may only be appropriate for certain uses. Concentrated vacancies are more challenging, but the vacant land produced by demolition also provides greater reinvestment and redesign opportunity for cities. Some strategies and alternative uses are discussed below.

- **Strategic Demolition.** In cities with large stocks of vacant property, demolition should be approached with a formal strategy to maximize stabilizing effects. In Youngstown, Ohio, officials considered neighborhood stability, nearby redevelopment, nearby green space and other factors when strategizing demolition of their vacant housing stock in the [2010 City Plan](#).
- **Sidelot Acquisition.** When single homes are demolished in residential neighborhoods, the resulting lot can be offered to neighboring homeowners for acquisition. This ensures that the lot will be maintained and that the city is no longer responsible for the property maintenance. Many residents may also appreciate the opportunity to expand their property. Genesee County, Mich., has incorporated a side lot acquisition program into its land bank.
- **Community Gardens.** Converting vacant land into community gardens is especially applicable to urban neighborhoods, where residents have little garden space of their own. Community gardens can bring fresh food to neighborhoods where it is unavailable and can provide a gathering space for neighborhood



residents. Albany, N.Y., has created gardens and green space through its Vacant Lot Stabilization Program since 2009, in partnership with community organizations such as [Grand Street Community Arts](#).

- **Playgrounds and Other Uses.** Small parks and gathering spaces or playgrounds can give a neighborhood a needed element of common space. Cities must consider how well these can be integrated into the surrounding community before creating them on vacant land. Common spaces, if designed or placed poorly, can result in the same problems as vacant properties.

## KEY CONSIDERATIONS FOR CITIES

Managing the foreclosure crisis is a complex issue for cities. Myriad funding sources, programs and strategies are available, but it can be difficult to choose the best approaches. Below are a few key considerations for cities in determining the strategies that best suit their individual vacancy and foreclosure situation.

- Preventing new foreclosures means not having to manage, rehabilitate or demolish more vacant properties. Cities must be aware of their ability to facilitate mediation, reliant upon being in a judicial or non-judicial foreclosure state and the resources available.
- Awareness of the condition of a city's housing stock is a large part of determining the best strategy to deal with it. A city with a large number of vacant properties that are in good condition will be more likely to try to resell or convert the properties to rental than a city with vacant housing stock that is in deteriorated or blighted condition. Furthermore, concentrated and scattered-site vacancies require different approaches and investment.
- Leveraging federal, non-profit and philanthropic resources is essential. In some places, the scope of the crisis may be too much for city government to handle on its own. Connecting individual homeowners to federal mortgage restructuring programs and utilizing federal and non-profit funding can ease some of the burden.
- Foreclosure and vacancy management should be conducted within a long-term strategy for growth. Demolishing vacant properties in such a way that limits redevelopment prospects can lead to just as many problems as rehabilitating properties in a city whose housing stock already exceeds its population. Awareness of and honesty about a city's growth forecast will lead to better decision-making regarding foreclosures and vacancies.
- Fully incorporate the range of issues associated with managing vacant, abandoned and real estate owned (REO) properties into the city's consolidated plan so as to provide a clear and precise target for any and all funding resources (e.g., CDBG dollars) around matters affecting the existing housing stock.

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## FURTHER RESOURCES

- [City of Detroit Vacant Property Toolbox](#)
- [Effective Mediation Program Strategies \(U.S. Department of Justice\)](#)
- [IAAI/USFA Abandoned Building Project: Managing Vacant and Abandoned Properties in Your Community](#)
- [Stabilization Planning](#)
- [www.foreclosure-response.org](http://www.foreclosure-response.org)

## ABOUT THIS PUBLICATION

The National League of Cities is dedicated to helping city leaders build better communities.. NLC is a resource and advocate for more than 2,000 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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