

Foreclosure Response

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Stabilizing Communities Affected by Foreclosures: Lessons Learned from Vacant and Abandoned Properties Initiatives

A Foreclosure Response Working Paper

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While the two situations are far from identical, communities with large numbers of foreclosed properties face many of the same challenges as communities with large numbers of abandoned properties. Properties that are not occupied or well-maintained, whether due to foreclosure or other economic factors, can reduce nearby property values, foster criminal activities, and create a downward spiral of community decline. In cases of foreclosure, neighborhood change may occur more rapidly than the decline associated with a weakening economy and shrinking population, which generally happens over a longer time period. In some communities, brand new housing developments built in the outer reaches of the metropolitan area lie vacant, or largely vacant, due to foreclosures -- posing a peculiar challenge for neighborhood revitalization since the neighborhood may never have become fully established in the first place.

When properties have been vacant for an extended period of time, it can be difficult for municipalities to identify and locate the responsible parties in order to enforce building codes, collect property taxes, and serve notice of legal actions. In cases of foreclosure, enforcing the responsibilities of property ownership can also be difficult as the property shifts hands from the homeowner, who has little incentive to maintain a home he or she is about to lose, to the lender or loan servicer, who may have little or no local presence and a growing backlog of real estate owned (REO) properties to manage. Although the differences between areas struggling with foreclosures and those with longer histories of vacancy are important to remember, the challenges are similar enough that it makes sense to closely examine what lessons have been learned from existing work addressing vacant and abandoned properties.

Foreclosure Response is a collaborative project of:



Common Goals for Policymakers and Communities

The core policy objectives of efforts to address the growing problem of foreclosed properties are quite similar to those of campaigns to address vacant and abandoned properties. In each case, there is a need to:

- Use information effectively to target neighborhoods in need of more intensive intervention
- Minimize spillover effects of vacant properties and
- Facilitate the reuse of properties while advancing the community's priorities.

Many communities have longstanding policies that seek to meet these goals with respect to vacant and abandoned properties. As described below, many of these policies could be adapted to address the growing inventory of foreclosed properties.

Use Information Effectively

Timely and reliable information about individual foreclosed homes and the cumulative impact of foreclosures on neighborhoods allows communities to tailor actions to different neighborhood conditions and target resources to areas in need of intensive intervention. Understanding relative foreclosure needs within a community is particularly important for policymakers who need to allocate scarce resources for the maximum community benefit. For example, a community with few foreclosed homes but a large number of high-risk mortgages may wish to focus on homeowner education, default loan counseling, and low-interest refinance loans, while a community that has already experienced a high rate of foreclosures may instead opt to target resources toward stabilizing and reusing foreclosed properties. Unfortunately, courts lack the mandate and resources to put the data on foreclosure filings into a format that can be easily and quickly analyzed by local communities. Several companies sell address or ZIP code level foreclosure data.¹ However, commercial foreclosure data may be prohibitively expensive for some governments, particularly those coping with declining property tax revenue and the high municipal cost of foreclosures.

As a substitute or supplement for data on foreclosures, communities can look at abandonment indicators, such as unpaid property tax bills, code violations, and municipal liens. By creating a shared database with information from tax collection

¹ Commercial foreclosure data are described in a Mortgage Bankers Association brief available at <http://www.mortgagebankers.org/files/Research/July2008SourcesofForeclosureData.pdf>

departments, housing and code enforcement officials, and other government entities, communities can map out problem properties and the neighborhoods with the greatest need of revitalization. A property information database can be created and maintained by a state or local planning or land use department, a public land bank authority, or by a university or non-profit organization using data, and sometimes funding, provided by the local government.

Communities interested in developing a local data system for responding to the foreclosure crisis and addressing other community challenges may find it useful to consider the collective experience of the local partners in the Urban Institute's National Neighborhood Indicators Partnership (NNIP). NNIP is a collaboration of the Urban Institute and local partners in 31 cities dedicated to creating and using local or regional neighborhood indicator systems for community improvement. The NNIP partners, mostly nonprofit organizations and university institutes, provide the groundwork for the development of neighborhood information system by negotiating for data access and organizing the foreclosure and related data into formats usable for governments and community groups alike. NNIP partners may also acquire and assess information from various sources to help communities craft strategies tailored for different neighborhood circumstances. For example, in connection with the preparation of the [Columbus and Franklin County Foreclosure Working Group's Prevention and Recovery Plan](#), Community Research Partners, an NNIP partner in Columbus, Ohio, pulled together data to provide guidance to local leaders on the impacts that funding for neighborhood stabilization could have on a selection of different neighborhoods. These data came from a number of different sources, focusing on foreclosure filings, sheriff's sales, property taxes, vacant properties, and subprime and adjustable rate mortgages.

In lieu of or in addition to local databases for tracking foreclosures, several cities have databases known as Neighborhood Early Warning Systems (NEWS) that are used to track the early indicators of disinvestment and help communities predict and take action to prevent abandonment. These data can also be useful in predicting and responding to foreclosures. Often a NEWS is established and maintained by a research organization or university using data provided by local government for use by local nonprofit organizations and government officials. Unfortunately, some NEWS have struggled to secure ongoing financial support or to obtain regular data updates from the local government, resulting in data that may be too old to be useful for taking early action to prevent neighborhood decline.

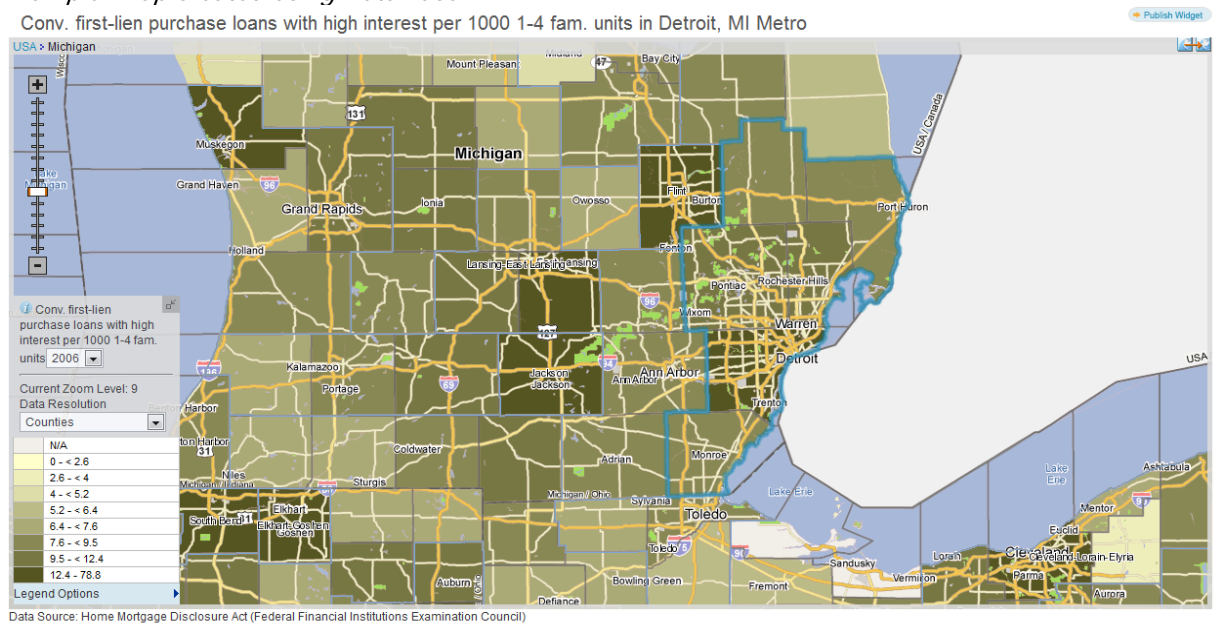
If communities do not have access to commercial or locally-produced data, there are some imperfect, but low-cost alternatives. The federal government publishes two data sets that may be helpful to organizations and local governments planning neighborhood responses to the foreclosure crisis. For organizations with a strong capacity for data analysis, the [U.S. Postal Service data on address vacancies](#) shows the number of vacant

homes by census tract for each quarter. Communities can analyze local vacancies and infer whether foreclosures in different areas are being largely re-occupied or if they are contributing to a growing stock of vacant housing.

Another important resource for assessing local foreclosure problems is the [Home Mortgage Disclosure Act \(HMDA\) database](#), which allows one to identify the extent to which high-interest loans are concentrated in different census tracts. These riskier loans are more likely to go into foreclosure than mortgage loans with an interest rate closer to prime. These data may be useful to organizations with a moderate capacity for data analysis and interpretation.

Communities looking for a more accessible source of data may wish to use DataPlace, a free web site for mapping and charting social, economic, and housing data. DataPlace sums up the loans reported in the HMDA database to show the number and rate of high-interest mortgages by census tract. An [example from the Detroit metropolitan area](#) is shown below.

Example: Map created using DataPlace



In addition, Local Initiatives Support Corporation (LISC) has developed summary indicators that show the relative vulnerability to foreclosures and long-term vacancies by (1) Community Development Block Grant (CDBG) entitlement jurisdiction and (2) ZIP code. The data are available for download in Excel format at www.housingpolicy.org/foreclosure-response.html. In early 2009, this website will be expanded into a data portal that will allow communities to easily generate custom maps and charts at the ZIP code level based on the data sources noted above.

Learning from Vacant and Abandoned Properties

Philadelphia, Pennsylvania's Building Uniformity in Land Development (BUILD) database provides one-stop access to data from multiple city departments on parcels' tax delinquency, code violations, vacancy, and sales information. BUILD was developed to facilitate the redevelopment of vacant properties by allowing city staff to track parcels without having to navigate through multiple different agencies' systems. Users can search by address for specific parcels, or they can search an entire area (such as a ZIP code or council district). Funding for BUILD came from tax-exempt bonds. BUILD is publicly accessible at <http://www.phila.gov/build/>.

The Providence Land Information System in Rhode Island, which went online in 2002, has been at the heart of the city's response to decline associated with abandoned properties. The Providence Land Information System facilitates property rehabilitation and demolition by letting users search for and sort listings of properties by key characteristics, such as type of ownership, suspected abandonment, tax liens, housing code violations, fires, and foreclosures. Users can also search for individual properties, or dig down to the individual property level from a larger list of properties. The system has been helpful for neighborhood planning and revitalization, city agency operations, decision-making by community development corporations (CDCs), and the identification and reform of undesirable aspects of the city's distressed property processes. Database access is currently limited to partner organizations, city agencies, and CDCs.

For more information on the Providence Land Information System and other neighborhood information systems, see the paper "[Data and Decisions: Parcel-Level Information Changing the Way Business Gets Done](#)" by G. Thomas Kingsley and Kathryn L.S. Pettit. Some information is also available on the [Providence Land Information System web site](#).

Minimize Spillover Effects

When a family faces foreclosure, it can be devastating not just for the impacted family but also for their neighbors and the surrounding area; the spillover effects can be particularly harmful if the home becomes vacant or if the neighborhood has a high rate of foreclosures. Vacant, foreclosed homes can foster criminal activities, provide a breeding ground for vermin, and in turn decrease local property values. Property tax revenues may decline at the same time that the municipality faces increasing costs for police and fire activities. Policymakers and community leaders, therefore, may benefit

from focusing some attention on how to minimize the substantial costs foreclosure often impose on municipalities, neighborhoods, and property owners.

A case study of Chicago in *Collateral Damage: The Municipal Impact of Today's Mortgage Foreclosure Boom* estimated the cost to municipal governments of five different foreclosure scenarios. In the best-case scenario, municipalities lose less than \$500 per foreclosure, but in each of the other four scenarios, the costs of a single foreclosure exceed \$5,000. In the worst case – a foreclosed property that is abandoned and damaged by fire – the total costs to municipal government are over \$34,000 from a single foreclosed property. In addition to having high municipal costs, the blight caused by properties left vacant by foreclosure negatively affects neighborhoods and nearby property owners.

Communities can help to reduce the spillover effects of foreclosures by requiring or providing incentives for servicers to secure and maintain foreclosed properties, boosting code enforcement efforts, coordinating with police and fire departments for increased monitoring of foreclosures, and implementing programs that appoint a responsible third-party (known as a receiver) to expedite the rehabilitation of deteriorated properties.

Requiring Servicers to Maintain Vacant Properties During the Foreclosure Process

To preserve neighborhoods in the wake of widespread foreclosures, the city of Chula Vista, California, has increased mortgage lenders' responsibilities to secure and maintain properties that have been abandoned due to a pending foreclosure. Under Chula Vista's Abandoned Residential Property Program, mortgage lenders must inspect homes that are in default to determine whether or not they are occupied. If a property is found to be vacant, the mortgage lender is required to:

- exercise the abandonment clause in the mortgage contract
- register the property with the city
- obtain a local company to inspect the property on a weekly basis and correct any code violations that are found
- post the local company's name and a 24-hour contact number on the property.

By giving mortgage lenders clear responsibilities during the foreclosure process and by providing a local entity for neighbors to contact, Chula Vista is working toward stopping foreclosure-related blight before it can destabilize the surrounding area.

More information on the Abandoned Residential Property Program can be found on [the city of Chula Vista's web site](#).

In communities with receivership programs for vacant properties, a governmental or non-profit entity can petition the court to appoint a responsible party, known as a receiver or entity in possession, to rehabilitate a property on behalf of the owner. For example, if a lender or servicer is not addressing code violations in a foreclosed property, a community organization could petition the court to appoint a receiver to ensure that the property is adequately maintained. The receiver obtains a lien on the property for any rehabilitation expenses and other costs incurred. The lien can also be used to borrow money for rehabilitation expenses. The owner can regain possession of the property by paying the receiver for costs associated with any repair work, or the receiver can foreclose on the lien. Through the combined efforts of public agencies and non-profit community organizations, receivership can help restore REO properties that have deteriorated to an uninhabitable condition and return them to productive use.

Using Receivership to Bring Properties Up to Code

In 2004, New Jersey authorized "orders of possession" (another term for vacant property receivership) in the Abandoned Property Rehabilitation Act. If neither the property owner nor other lien holders submit a realistic plan to quickly rehabilitate the property, the court can appoint an entity in possession to expedite rehabilitation. Repairs can be funded through loans or state grants, and the value of any loan becomes a lien on the property. If the owner does not regain possession of the property, the court can order the sale of the property at fair market value with the proceeds going toward the various liens on the property and providing a development fee to the entity in possession; any remaining proceeds go to the owner. The purchaser of a rehabilitated property can obtain it with a clear, marketable title.

The Building Code for Baltimore, Maryland allows the use of receivership if the owner of a vacant property has not complied with rehabilitation orders. The court can appoint a receiver to either rehabilitate the property or sell it to an entity that has the demonstrated ability to complete the necessary repairs in a timely manner. If a receiver is appointed to sell a property, the proceeds go toward the costs of sale and then toward any liens. A receiver that rehabilitates the property has the right to manage and rent out the property for up to two years after rehabilitation; the rent can be used to cover operating expenses and repay the costs of rehabilitation.

Facilitate the Reuse of Properties While Advancing the Community's Priorities

When acquiring and disposing of foreclosed or abandoned properties, communities have an opportunity to make strategic decisions and assemble properties for redevelopment as affordable homes or to meet other community development needs,

such as mixed-use developments with a combination of retail, office space, and housing. In communities with numerous vacant properties, strategic property disposition decisions may overwhelm existing departmental resources. To coordinate and manage revitalization efforts more effectively, some communities have created a dedicated public authority, known as a land bank, to streamline property reuse activities, assemble developable parcels, and manage the redevelopment process to serve the community's goals. Other communities have initiated intensive vacant property reuse campaigns that coordinate the work of existing city agencies. When developing a reuse campaign or land bank, communities may benefit from including affordable housing in the reuse plans, particularly in areas impacted by foreclosures since uprooted families may still be searching for a stable affordable place to call home.

Create a land bank to coordinate acquisition, rehabilitation and demolition of properties as needed

A land bank is a governmental or quasi-governmental entity dedicated to converting vacant and abandoned properties to productive use. Land bank authorities facilitate the acquisition of properties, hold and manage properties as needed, and dispose of properties in coordination with city planners based on local priorities for land use.

State legislation may be necessary to create a land bank or enable local governments to do so. Land banks will also need to be given the acquisition and disposition powers needed to effectively and strategically revitalize neighborhoods impacted by foreclosures and vacant properties. In a traditional vacant property campaign, land banks acquire properties by foreclosing on delinquent property taxes. Some communities have found that tax foreclosures are getting to court faster than mortgage foreclosures, suggesting that land banks may want to actively pursue tax foreclosures on properties with mortgage delinquencies in order to get distressed properties up to code more quickly and have more say over their rehabilitation and reuse. In other cases, it may make sense to purchase foreclosed properties – either individually or in bulk -- from servicers. Where appropriate to assemble larger parcels for redevelopment, land banks also can purchase adjacent properties from land owners or even in some cases through eminent domain. The Neighborhood Stabilization Program, a special Community Development Block Grant (CDBG) allocation authorized by Congress, provides an opportunity to purchase REO property for disposition by the land bank.

Land banks can serve as the property manager and landlord when needed. A substantial share of homes affected by foreclosure are actually occupied by renters. Land banks may opt to acquire multifamily or single-family rental properties and continue to rent them to their current occupants, making essential repairs in the meantime. Communities also may wish to consider whether a local land bank could acquire properties that are at risk of foreclosure, and then rent them back to the

owners, helping to preserve family stability even as the family's tenure changes from ownership to rental.

Disposition policies and powers vary depending on community priorities. Some land banks hold and manage small properties to assemble into a developable parcel. Others dispose of properties as soon as possible after acquisition, even if the parcels are too small to hold more than a single home. Disposition policies also can prioritize the redevelopment of properties as affordable housing or to meet other local needs. By buying foreclosed homes at a discount on their original market value, and then layering on additional public subsidy to reduce the price even further, communities can create affordable homes that are marketable to families interested in purchasing or renting them. When this subsidy is substantial, communities may wish to consider shared equity homeownership models that keep the homes affordable over time while still providing families with meaningful asset-building opportunities. Long-term or permanent rental affordability covenants achieve this same objective on the rental side.

Land Banks – Effective Property Disposition for Vacant and Abandoned Properties

An inter-local agreement in 2002 between Genesee County and the city of Flint, Michigan created the Genesee County Land Bank, which was recognized with a 2007 Innovations in American Government Award. The land bank reports that it has acquired thousands of properties in its five years of operations, primarily using Michigan's expedited tax foreclosure process. Properties can also be given to the land bank by non-profits or government agencies or can be purchased to help assemble a developable parcel.

In disposing of properties, the land bank has a great deal of flexibility in holding, demolishing, or transferring properties as needed to meet strategic goals. One of Genesee County's goals is the redevelopment of abandoned properties into affordable homes. To meet this goal, the land bank can sell properties to non-profit developers for less than fair market value but not less than the costs to the land bank.

In 2004, the state of Michigan facilitated the creation of more land banks by passing the Land Bank Fast Track Act. The act allows local governments to create independent land banks and authorizes land banks to acquire and dispose of properties. After the passage of the Act, at least seven additional Michigan counties established land banks.

Launch an intensive vacant property reuse campaign

Rather than create a new governmental or quasi-governmental entity, some communities have chosen to launch vacant property reuse campaigns using existing local agencies and community support. Intensive property reuse campaigns can boost local efforts to revitalize disinvested properties and communities. In high-foreclosure areas, for example, a property reuse campaign might focus on working with servicers to acquire their REO properties at a substantial discount. However, these initiatives may face challenges if the existing landscape of property acquisition and disposition procedures is not conducive to fast action or to disposition to meet specific community goals, such as affordable housing.

Targeted Abandoned Property Reuse Campaign

In 2002, Baltimore, Maryland launched a targeted abandoned property reuse campaign called Project 5000. The goal of Project 5000 was to acquire 5,000 abandoned properties throughout the city and restore them to productive use. The city developed partnerships with local law firms, title companies, and other businesses to reduce the costs of the campaign. In four years, the city acquired over 6,000 properties and disposed of 1,000 properties.

Although Project 5000 met its property acquisition goals, disposition of the properties has been challenging. According to a report by Baltimore Housing (the combined Housing Authority and Department of Housing and Community Development for Baltimore City), the city's current system for property disposition requires participation by not only Baltimore Housing but also the Comptroller's Real Estate office, the Space Utilization Committee, the Department of Finance, the Law Department, the City Council, and the Board of Estimates. To reduce duplication of effort in property dispositions and to facilitate the transfer of properties for reuse as affordable homes, efforts are now underway to create a city land bank authority.

Permit and/or facilitate reuse for affordable housing

Rules that require governments to sell properties to the highest bidder may need to be altered to acknowledge that sales at below-market values may serve a legitimate public purpose. In many communities, disposition rules require sales to generate the maximum revenue, without regard for other priorities. By allowing below-market prices when transferring properties for affordable housing, governments can facilitate the conversion of foreclosed properties that they acquire into affordable housing for working families and others. Communities that opt to permit below-market sales can institute rules that create a reasonable balance between local revenue needs and the

benefits of transferring properties for non-profit purposes. For example, the Genesee County Land Bank in Michigan can transfer properties to non-profit developers for lower than fair market value but not for less than the costs to the land bank.

Key Lessons for Neighborhood Stabilization

Communities faced with widespread foreclosures can draw from the existing vacant property reuse programs and start working to prevent and repair the damage that foreclosures cause. By using information systems that are already in place, state and local leaders can develop a better understanding of local market conditions, specific parcels' development potential, and the relative needs of different communities. This knowledge can then inform decisions and help communities adopt and implement high-impact strategies for neighborhood stabilization. Vacant property campaigns also provide models for preventing the negative effects of foreclosures from spilling over to create neighborhood decline. State and local governments can adopt effective programs to secure properties, keep them up to code, and expedite their rehabilitation. Communities can also respond to the neighborhood impacts of foreclosures by creating land banks or other intensive vacant property campaigns. Efforts such as these can help smooth the process of converting foreclosed properties to productive use while also meeting local land use priorities. Putting these lessons to work for post-foreclosure neighborhood stabilization can help communities respond quickly but not rashly to a pressing neighborhood challenge.

Suggested Resources

Additional vacant property reuse strategies can be found in the following suggested resources:

- The Foreclosure Response project (www.HousingPolicy.org/foreclosure-response.html)
- www.HousingPolicy.org, an online guide to state and local housing policy from the Center for Housing Policy
- The National Vacant Properties Campaign web site (www.vacantproperties.org)
- Alexander, Frank. 2005. *Land Bank Authorities: A Guide for the Creation and Operation of Local Land Banks*. New York, NY: Local Initiatives Support Corporation. Available at: <http://www.lisc.org/content/publications/detail/793/>
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- Mallach, Alan. 2006. *Bringing Buildings Back: From Abandoned Properties to Community Assets*. Montclair, NJ: National Housing Institute.