LWVSP Housing Report

January 2009

In January 2008, members of the LWVSP began to observe the city's District Councils. A number of the councils were dealing with vacant and foreclosed buildings. To get more information, at the Member MeetUp in March, our speaker was Julie Gugin, Executive Director of the Minnesota Home Ownership Center. She provided information on the extent of the problem. Her organization's purpose is to advise and assist homeowners who are experiencing the trauma of foreclosures. The broader effect on the city has to do with increased costs in the form of an increasing number of homeless families in need of shelter and services, an increased need for police protection against vandalism and theft in vacant buildings and increased demands for fire protection.

At the LWVSP annual meeting in May we adopted an item to update our positions relating to an adequate supply of affordable housing and city income to perform needed services. A committee was formed consisting of the following members: Margie Anderson, Roger Anderson, Holly Haushalter, Amy Mino, Helene Shear Noyola, Ruth Armstrong, Kris Madson, Judy Howe, Diane Power, and Carol Carey with Bobbi Megard and Marion Watson acting as Co-chairs.

We quickly discovered that we are in a national financial crisis stemming from mortgage problems and foreclosures. Most problems must be addressed at the national level, particularly questions relating to the practices of banks. We tried to search out the root of the problems and to look at what actions are available on the state, county, and local level. What follows is what our research has discovered thus far.

To that end, we held a second MeetUp on November 12, 2008 which featured three speakers, Jeff Crump, University of Minnesota Associate Professor: Marcia Moermond, St. Paul City Council Senior Policy Analyst and Legislative Hearing Officer; and Michelle Vojacek, City of St. Paul Coordinator for the Foreclosure Prevention Program.

Historical Background

Ever since the 1930s we have had a public policy objective of encouraging home ownership. The idea has been that ownership ensures pride and stability in a neighborhood and encourages community. At the beginning the practice was for the purchaser to put down 20% of the price of the property as a guarantee that the buyer could reliably pay. That was the motivation for the banks to lend. The secondary market where the bank sells the mortgage to a third party is also not new. As early as 1938 this was practiced where annuity and pension funds and other investors bought the mortgages. Banks looked on this favorably for it meant they had replenished their cash supply.

The next question became, "How can the policy objective be extended to those previously excluded, those in low paying jobs with little savings?" Variable rate mortgages were introduced. The initial interest rate was low as an inducement to buy with the understanding that the rates would increase. Purchasers were led to believe (or had faith) that their earning power would increase as would the value of the property and, if the payment couldn't be made, the value would be such that the home could be sold at no loss. This opened the door to fraud by corrupt real estate agents, mortgage brokers and lenders. In recent years, mortgages have been bought and resold almost as commodities and ownership is difficult to trace and impossible to regulate. This has led to the current crisis.

Mortgages come in three flavors. 1. Prime Loans: conventional loans with substantial down payments, fixed interest rates, the ability to retire the debt early, etc. 2. Subprime Mortgages that are not conventional loans characterized by low down payments and higher and/or variable interest rates. 3. Predatory Lending: a subset of Subprime lending specifically characterized by an intention to take advantage of buyers by giving incomplete information to buyers, escalating interest rates (often without pre-knowledge by the buyer), pre-payment penalties, etc. Predatory lending is fraud. Banks that are mortgage holders are subject to some regulation. Secondary market holders for the most part are not.

The article, "Subprime Lending and Foreclosure in Hennepin and Ramsey County," which appeared in the CURA Reporter and was authored by Jeff Crump, states the most frequent causes of foreclosures are loss of employment or financial crisis due to illness. Further, racial bias has played a role in loans and foreclosures. Up to 50% of those who have expensive subprime loans could have qualified for a prime loan with its lower costs. The state of Minnesota has been aware of the growing problem and has attempted corrective steps since early in 2007. In that year a predatory lending bill was passed. Unfortunately, because of limited state powers, it did not apply to any federally chartered banks.

What The State Is Doing

State legislators have acknowledged the housing crisis and one step taken has been forming a bi-partisan, bicameral Housing Caucus led by Senator Mee Moua and Representative Karen Clark. The group has outlined extensive challenges including:

300,000 low-income households in Minnesota are spending more than a third of their income on housing.

There will be a shortfall of at least 33,000 affordable housing units for new, unmet needs of low-income households by 2010 in Minnesota.

There was one mortgage foreclosure for every 54 Minnesota households in 2005 – 2007. If projections for 2008 hold true, one in every 31 Minnesota households will have experienced a foreclosure between January 2005 and December 2008. In 2007, the vacancy rate among homeowner properties in Minnesota was 2.8%, compared to the national average of 2.7%. Vacant properties not only reduce neighborhood housing values, they are a burden to local governments who are responsible for securing the properties, code enforcement, police and fire runs, etc.

It is reported that falling home values have left nearly 52,000 mortgages in Minnesota in a negative-equity position, meaning that the homeowner's debt is greater than the estimated value of the property. This means that about 12 percent of the state's mortgaged properties are "underwater." Another 71,616 mortgages in Minnesota were within 5 percent of negative equity. Homeowners with negative equity in a troubled economy might decide to walk away from their mortgages.

Each night, approximately 9,300 individuals experience homelessness in Minnesota.

Seniors are facing limited choices in finding appropriate housing.

Unhealthy housing is a public health concern for children adults, and elders.

These are only some of the issues confronting rural, suburban, and urban communities. As the State looks for solutions to housing needs, legislators are now creating a "housing package" to introduce in the 2009 session.

Part of the package will include allocation of the federal dollars coming to the State. Minnesota is slated to receive $58 million from The Housing and Economic Recovery Act of 2008 (also called Neighborhood Stabilization Program). The Minnesota Housing Finance Agency has named seven projects that will split $3.6 million in federal funds to address foreclosures in the state. St. Paul will receive $1.4 million for "foreclosure remediation" to provide financial assistance with closing costs and down payments for people looking to buy vacant homes or homes in foreclosure and grants of up to $30,000 to buyers of vacant or foreclosed properties so they could address issues related to lead, asbestos, radon and mold at the time of purchase. Grants also would be available to existing homeowners in danger of foreclosure as an incentive for them to stay in their houses and refinance.

The effect of foreclosures on local government budgets was explored at a meeting with the Ramsey County Assessor's office in October. Concerns about falling tax revenues were allayed somewhat after we learned that the property owner or bank pays the taxes. Thus, even if a house is in foreclosure, taxes continue to be paid. Finding the owner is not as big a problem as we thought because the owner is registered as the "owner of record" and tax bills are sent to that address. A forfeiture occurs when property taxes are not paid in which case the county takes the property. In the first 9 months of 2008, only 36 forfeitures have occurred even though 3,500 foreclosures are projected for the year.

Foreclosures do not necessarily translate into a loss of revenue. The Joint Property Tax Committee (City, County, and School District) submits their levies to the County. The County takes that number and divides it by the number of parcels, adjusting for variances in value, to determine the property tax figures. Stephen Baker, Ramsey County Assessor, pointed out that there are four natural cycles of neighborhoods: growth, stability, decline and revitalization.

There are 180,000 parcels (properties) in Ramsey County. Taxes are assessed across the 180,000 parcels each year. Countywide the trend has been a 5% - 6% decline in property values between 2000 - 2008. From 1990 - 2000 values appreciated at a 2% - 4% rate. In the current market, houses are returning to 1990 values. What we are experiencing now is a correction in the market. Real estate values are generally stable or increasing.

Some of the current crisis in values have been caused by poor public policy – deregulation and, in one instance, the recent passage of the problem properties ordinance making demolitions more likely. Even something like a broken window unrepaired for a year can put a house in demolition mode. Strict criteria for demolitions are essential to save the character and fabric of a neighborhood. Older homes are not necessarily the ones needing demolition. Houses built in the 1980s and early 1990s have serious building flaws including mold and are often the least salvageable.

We were surprised to learn that a vacant lot can actually increase the value of housing in a neighborhood because bigger lots can be created and adjacent houses show increased value.

What The City Is Doing

The City of St. Paul has created the Invest Saint Paul Initiative to build on the strengths of St. Paul's neighborhoods. The program is financed through $25 million in bonds to bring city services and members of the community together to address specific challenges facing neighborhoods. Invest St. Paul is addressing jobs with living wage, cost of ownership, identifying our housing market, developing a marketing plan, weeding out problem properties, and providing money for land banking properties. In addition to the Invest Saint Paul Initiative, the city has a Mortgage Foreclosure Prevention Program, Home Loan Fund Programs, and a vacant building program.

Under the Neighborhood Stabilization Program, St. Paul will receive $4.3 million directly as well as other monies that may come as a result of the Housing Caucus effort to address housing needs in the State.

According to one St. Paul neighborhood housing executive director, St. Paul may receive between $8 – 10 million which is equal to our yearly Community Development Block Grant appropriation and will not do much in the long run. His recommendation is that the city sell $100 million in bonds to buy up the vacancies to reach the goals of Invest Saint Paul and to rehab structurally viable houses as well as to construct new housing on vacant lots.

The impact of the housing crisis on the City of St. Paul is staggering. It is estimated that by the end of this year, the city will have 2,400 houses in foreclosure. The number of vacant buildings that are registered with the city as vacant was 1,995 at the end of July, but housing professionals estimate that there may be as many as 4,000. It costs $1,000 to register a vacant building.

Demolitions are rising as the new problem properties ordinance takes effect. Since the beginning of 2007 more than 100 houses have been razed. There are as many as 353 homes in the city that can't be sold until they are brought up to safety codes. These homes often require tens of thousands of dollars and the skills of licensed contractors. Thus, the city's effort to force repairs restricts the sale of many vacant homes. Careful attention must be paid to the aggressive demolition policies in the city.

Preservation of the fabric of our neighborhoods is essential as the city copes with housing issues.   Historic Saint Paul, a non-profit organization with a mission to preserve, protect and enhance the historic character of St. Paul neighborhoods, promotes developing authentic, place-based revitalization strategies, cultivating new and existing markets, looking for incremental changes that model and direct additional investment, targeting resources to maximize the value of assets, and leveraging additional resources and impact.

City housing values continue to slide as more houses go into foreclosure. Housing equity in some neighborhoods has declined as much as $50,000 on a $164,000 home with the result that the mortgage is now higher than the value of the home. Lending practices, lax underwriting rules and subprime loans have created a housing crisis, which falls to the local and state governments to sort out.

Recommendations

Based on the findings covered above and our own previous positions, we believe that the LWVSP should be able to adopt the following recommendations:

1. The City of St. Paul should do what it can to prevent foreclosures, vacancies and demolitions.

2. The razing of buildings should be a last resort. The City should adopt strict criteria assessing the quality of the building, strength of the neighborhood fabric, potential reuse, and nuisance level of the property.

3. Working with Ramsey County, the City should devise a method to learn the fates of those who have lost their homes to measure the impact of the housing crisis.

4. The City, County and State should coordinate their information gathering and provision of services related to foreclosures, vacancies, and demolitions.

5. Information should be compiled statewide and be made available in a central agency of state government.

LWVSP is grateful to the following individuals who were interviewed for this report:

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Ed Goetz, CURA, University of Minnesota
Julie Gugin, Minnesota Home Ownership Center
Kris Madson, Minnesota Housing Resources, Inc.
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