Testimony of Thomas Streitz, Director Housing Policy and Development

Subcommittee on Housing and Community Opportunity Hearing
United States Congress Committee on Financial Services

The Impact of the Foreclosure Crisis on Public and Affordable Housing in the Twin Cities

Panel 1:

Submitted by The Honorable R.T. Rybak, Mayor, Minneapolis, Minnesota
The Impact of Foreclosures on the City of Minneapolis

Submitted and Presented by Thomas Streitz, Director Housing Policy and Development, Minneapolis Department of Community Planning and Economic Development (CPED)
Concerns about Implementation of the Neighborhood Stabilization Program

Saturday, January 23, 2010

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Minneapolis
City of Lakes

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Honorable Chairwoman Waters and Members of the Subcommittee, I would like to express my appreciation on behalf of the City of Minneapolis and our partners for the opportunity to share our viewpoint and recommendations on the successful implementation of the Neighborhood Stabilization Program in Minneapolis Foreclosure Recovery efforts to provide the necessary government intervention in impacted areas to tip the market back towards healthy. I would like to thank the Subcommittee on Housing and Community Opportunity for bringing NSP implementation issues forward. I would also like to thank the United States Department of Housing and Urban Development, not only for awarding funds to Minneapolis, but for the changes they made in developing the Neighborhood Stabilization Program in response to our program suggestions to improve the feasibility of carrying out the program in our local housing markets.

I am currently Housing Policy & Development Director for the City of Minneapolis. Prior to this position I served as Deputy Executive Director of the Minneapolis Public Housing Authority (MPHA), managing and providing strategic leadership to the largest provider of affordable housing in Minnesota. Prior to my service at MPHA, I was a government relations attorney for the Legal Aid Society of Minneapolis, advocating and lobbying on behalf of low-income clients and nonprofit organizations. I was the co-counsel and lead implementation attorney in the Hollman v. Cisneros civil rights lawsuit and resulting Consent Decree. That decree ultimately established Heritage Park, the model development in north Minneapolis. I also served for six years as legislative counsel for the U.S. Senate. I live in Minneapolis and was a Humphrey Policy Fellow at the University of Minnesota, earned a Master's degree in law from Georgetown University, a J.D. from Seattle University and a B.S. from the University of Nebraska.

Overview and impact of foreclosures in Minneapolis

The City of Minneapolis focus on prevention, reinvestment and market reposition in 2009 and beyond will lead to market recovery in our communities. The Minneapolis foreclosure recovery plan is a strategic and timely government intervention for prevention, reinvestment and repositioning the market place only to the extent necessary to "tip" the market toward restoring a healthy housing market.

The NSP resources are critical to addressing the foreclosure crisis in our neighborhoods: however, the current allocation is only a first step when looking at the challenges faced by our communities most highly impacted by foreclosures. The stability of these Minneapolis neighborhoods are significantly and uniquely impacted by the high percentage of decline in property values, the level of fraudulent mortgage activity, and the disproportionate effect of foreclosures on people of color.

One notable manifestation of the high level of fraudulent activity in Minneapolis was the investment company known as T.J. Waconia which purchased and flipped more than 150 homes. The City, with the assistance of the County, was successful in prosecuting the principals who are now in federal prison. The homes that were a part of this scam have now been recovered and are being rehabilitated for sale to homeowners.

Residential mortgage foreclosures continued to rise in Minneapolis until 2009 when decreases occurred. The decreases are partially due to lender's voluntary moratorium on foreclosures and the increase foreclosure prevention loan modifications or short sales and similar activities. In 2005, Minneapolis had 863 mortgage foreclosure sales. In 2006, 1,610 homes in Minneapolis went to foreclosure sale, over half of them in North Minneapolis. In 2007, 2,895 homes went through foreclosure sale; 54.7% were in the three Northside wards of the City. In 2008, there were 3,077 foreclosures. Foreclosures decreased in 2009, with 1,896 through the end of October. Many of these foreclosures are on investment properties. Minneapolis neighborhoods hardest hit by foreclosures are in South Central, Northeast and North Minneapolis. (See Attachment: City of Minneapolis Foreclosures by Ward, 1st, 2nd and 3rd Quarter 2009).

My testimony will now address the following specific issues or questions raised by the Committee:

The Neighborhood Stabilization Program (NSP) in Minneapolis and how it is tailored to address the foreclosure crisis in the City

NSP is the core component of the Minneapolis foreclosure recovery plan, a strategic and timely government intervention for prevention, reinvestment and repositioning the market place only to the extent necessary to "tip" the market toward restoring a healthy housing market. Minneapolis strategies to recover a healthy housing market include:

- Prevention—Continue foreclosure prevention outreach and counseling;
- Reinvestment—Pursue aggressive property acquisition and promote property development; and
- Repositioning—Engage in community building and marketing efforts.

The Minneapolis foreclosure recovery plan identifies over 20 neighborhoods that are hardest hit by foreclosure for strategic investment of NSP resources to dramatically impact blocks in these neighborhoods to protect public and private investment and to ultimately restore a healthy housing market. In order to achieve this impact, Minneapolis is collaborating with the development community with significant involvement from general contractors, property management companies, material suppliers, and marketing and real estate professionals.

Minneapolis received $14 million in NSP resources. Minneapolis has dedicated an additional $3 million of non-federal funding to the Minneapolis Advantage Program to assist households with down payment and closing cost assistance in the purchase of foreclosed properties for owner-occupancy. Minneapolis, through a consortium agreement with Hennepin County and City of Brooklyn Park, was awarded $19.5 million in NSP2 resources, to be allocated to eligible activities.

Minneapolis' NSP1 reinvestment activities include demolition of over 200 bighted properties, acquisition and land banking of 120 properties, and rehabilitation of 236 units to return them quickly to provide homes in neighborhoods hardest hit with foreclosures. Financing mechanisms and down payment and closing cost assistance through the Minneapolis Advantage Program will provide home ownership opportunities for 300 households who purchase foreclosed homes. With additional funding, the City of Minneapolis and our community partners will be poised to put over 700 vacant and foreclosed units back to use over the next 1-4 years. (See attached chart: Minneapolis Foreclosure Recovery Plan)

NSP Eligible Activities:
A. Establish **financing** mechanisms for purchase and redevelopment of foreclosed upon homes and residential properties

B. **Purchase and rehabilitate** homes and residential properties that have been abandoned or foreclosed upon, in order to sell, rent, or redevelop
C. Establish **land banks** for homes that have been foreclosed upon
D. **Demolish** blighted structures
E. **Redevelop** demolished or vacant properties

A description of the Minneapolis NSP eligible activities, the number of properties impacted and the amount of NSP funds proposed for each activity is summarized below.

Activity A. Financing/Down Payment and Closing Cost Assistance: Minneapolis Community Planning and Economic Development (CPED) will make down payment and closing cost assistance available to meet the affordability gap in homeownership opportunities for homebuyers, which may include buyers at the HUD required 50% of area median income. In addition, the City of Minneapolis have secured an additional $2.5 million in non-federal funds to leverage the NSP funds.

Activity B. Purchase/Rehab: CPED will use NSP funds to provide development value gap financing to non-profit developers to cover the difference between the cost of purchase and rehab of a foreclosed and/or abandoned property and the sale price. The property will be sold to an income-qualified owner-occupant or rented to an income-qualified tenant. This strategy will return residents to neighborhoods hardest hit by foreclosure.

Minneapolis is working with nine non-profit developers, they are: Habitat for Humanity, Project for Pride in Living, City of Lakes Community Land Trust, Neighborhood Housing Services of Minneapolis, Urban Homeworks, Alliance Housing, Powderhorn Residents Group, Greater Metropolitan Housing Corporation, and NH Housing.

Of the NSP1 purchase/rehab units, 130 will be targeted to households at 50% area median income ($40,450 for a family of four), to meet NSP requirements. Approximately 35% of the units will be rental and 65% will be ownership.

Activity C. Land Banking: CPED will strategically acquire foreclosed or abandoned properties that cannot be rehabbed due to cost or condition, demolish them and hold them as vacant parcels (land bank) until the market is ready to absorb new development. This approach will assist with the over-abundance of properties in the market.

Activity D. Demolition: The Department of Regulatory Services will address properties on the City's Chapter 249—Vacant and Boarded Building list that require demolition. This activity is necessary to drive the market back towards a healthy housing market.

Activity E. Redevelopment: CPED will support the redevelopment of demolished or vacant properties. The current strategy looks to redevelop 19 housing units.

Administration: NSP will be locally administered by City staff and monitored for compliance with federal and state requirements. Administrative costs incurred under the program are covered under an allowable administrative fee of ten percent.

The Minneapolis foreclosure recovery plan is a strategic and timely government intervention for prevention, reinvestment and repositioning the market to the extent necessary to "tip" the market toward restoring a healthy housing market.

Minneapolis has used data, mapping and other strategies to locate and target areas of greatest need

The data presented for NSP demonstrate that the high number of vacancies and foreclosures across the target areas, in combination with under-maintained housing, and concentrated subprime and fraudulent lending are creating significant neighborhood instability. The data points to a real need to bring homeowners back into these neighborhoods in rehabilitated housing that provides for sustainable long-term homeownership. For this reason, the City will emphasize aggressive acquisition and rehabilitation in combination with homeownership incentives to quickly return stable long term residents to the target area neighborhoods.

The other key component of the Minneapolis recovery effort is to gain control of vacant properties and then manage the disposition and redevelopment of these properties at a scale large enough to build confidence and stimulate reinvestment. The need for this activity is demonstrated by the large inventory of bank-owned and investor-owned property, mostly seen in the urban core and suburban census tracts. Properties will be acquired, demolished if necessary, and land banked for future development. With the help of the Twin Cities Community Land Bank, Minneapolis will have an effective way to manage the disposition of properties over time to ensure long-term neighborhood stability.

The City of Minneapolis has strategically targeted resources to areas of greatest need, primarily based on average foreclosures and vacancies by census tracts. (See Attachment Minneapolis First Look, NSP Eligible Area Map)

Minneapolis is putting NSP1 dollars to work - to date, 43 percent of first round of NSP funds has been both obligated by Minneapolis.

Activity	Obligated (Dollars)	Obligated (Units)
Activity A—Financing	$0.00 Million	0
Activity B—Purchase & Rehabilitate	$1.97 Million	54
Activity C—Land Banking	$0.82 Million	39
Activity D—Demolition	$1.62 Million	103
Activity E—Redevelopment	$0.65 Million	19
Administration	$1.02 Million	0
Total	**$6.08 Million**	**215**

Minneapolis will meet the requirement that not less than 25 percent of NSP funds will be used towards housing families at or below 50 percent of area median income

In Minneapolis, the majority of the foreclosures are concentrated in existing low income CDBG target areas where the average median income of the residents is 71% of AMI. Activities performed in these areas will provide both a direct and indirect benefit to residents whose incomes are at or below 120% of AMI and in most areas the average income of the residents is below 80% AMI. All programs will be targeted to households at or below 120% of AMI.

Minneapolis will use 25% of the total funds they receive to provide housing to households at 50% AMI. The City will partner with non-profit community development organizations to meet the requirement for providing homes to households whose incomes do not exceed 50% of AMI. Examples of models that will be utilized to provide long-term affordable housing to families at or below 50% of AMI include:

- Reduce home construction costs: Utilize in-kind services and donations to reduce the construction costs of the homes
- Specialized mortgage products: Utilize specialized mortgage products held by non-profit organizations
- Land trust: Sell a home to a family at an affordable price, with a non-profit holding the land and offering a 99 year ground lease.
- Buyer assistance: Provide affordability assistance to buyers using NSP2 funds to bring the mortgage amount to a level affordable to the family. The loan term will be based on the HOME required periods of affordability.

Minneapolis has located and been able to purchase real estate-owned (REO) properties and ensured the participation of banks, and other owners of REOs

Minneapolis uses two novel concepts in its efforts to purchase REO properties—*The First Look Program* and the *Twin Cities Community Land Bank.* The *First Look* launched in 2008 and piloted in the Twin Cities is a testament to the coordinated approach to combating the foreclosure crisis that exists in the Twin Cities. The *Twin Cities Community Land Bank* is a public-private venture with a focus on community re-building objectives. As a non-governmental entity, it is designed to be quicker to respond and more flexible than a government entity, thereby being position to compete with undesirable investors whose bottom line is profit to self and not necessarily the community.

Minneapolis was one of the first cities in the nation to partner with National Community Stabilization Trust to pilot a new, innovative national program to address the housing foreclosure crisis - the First Look Program. A key component of our foreclosure recovery plan, the First Look Program will help restore neighborhoods hit hard by foreclosures by allowing the City the opportunity to acquire foreclosed properties before they hit the open market.

The First Look Program is coordinating the transfer of real estate-owned properties from financial institutions nationwide to local housing organizations, in collaboration with state and local governments. Lenders — Wells Fargo, CitiGroup, Chase and others—will make the properties available pre-market at adjusted pricing. A key component of recovery efforts is to gain control of properties and then manage the disposition and redevelopment of those properties at a scale large enough to build confidence and stimulate investment. The -First Look program will provide this key component to recovery. It expected that First Look lenders will assist in providing the opportunity to access nearly eighty percent of the foreclosed homes in Minneapolis pre-market.

Minneapolis was chosen for the *First Look* pilot program because of our innovative work to fight foreclosures, which includes collaboration between government, nonprofits, developers, real estate brokers and community groups and the dedication of financial lenders who are helping restore healthy neighborhoods. The First Look Program was developed by the National Community Stabilization Trust, a consortium of nonprofit housing and community development organizations (Enterprise Community Partners, the Housing Partnership Network, the Local Initiatives Support Corporation, NeighborWorks America, and others). The goal is to revive a normal, functional, single family real estate market through strategic investment tied to efforts which engage the private sector on a long-term, sustainable basis.

As of today, the Minneapolis First Look Program has taken a “first look” at hundreds of properties and has closed on over 100 properties in Minneapolis. Some of these homes will be distributed to the 9 non-profit community developers awarded Minneapolis Neighborhood Stabilization Program resources to rehab units, of which over fifty percent will be targeted to households at 50% of area median income ($40,500 for a family of four).

First Look and the Neighborhood Stabilization Program provide for immediate reinvestment in our neighborhoods most highly impacted by foreclosures and will bring families back into homes in Minneapolis. A core component of our aggressive and innovative fight against foreclosures has been to regain control of and revitalize foreclosed properties to get them back into the hands of strong, stable home-owners.

As a part of NSP, the Twin Cities Community Land Bank intends to purchase for its public partners in the City of Minneapolis and the Twin Cities Metro Area, 2000 residential properties and parcels in targeted communities with the goal of rehabbing the properties and creating sustainable homeownership or rental opportunities for individuals and families. The Land Bank will also act as a lender to developers undertaking rehabilitation and new construction. Finally, Twin Cities Community Land Bank will provide additional community services to address barriers to community revitalization, such as developing creative homeownership financial products and coordinated neighborhood marketing.

The NCST *First Look* program provides an efficient and cost effective mechanism for transferring vacant and foreclosed properties directly from banks and servicers to approved buyers at an adjusted and highly favorable price before properties go on the market. The *Aged/Targeted Bulk Purchase* program provides an opportunity to purchase clustered properties, thus magnifying the opportunity to significantly improve a neighborhood.

Primary Challenges Faced by Minneapolis in Implementing NSP and changes to NSP both the Department of Housing and Urban Development and federal lawmakers should consider

The primary challenges the City of Minneapolis is working to overcome are competition with investors, limited funding resources for reinvestment and foreclosure prevention, and other NSP requirements that may impact the ability to act quickly or effectively due to the regulations. The City of Minneapolis surveyed our community partners, including our non-profit NSP1 developers. Changes to improve the timely and effective implementation of NSP were identified, including: strategies to compete with investors; additional funding for neighborhood reinvestment - to prevent foreclosures and rehabilitate foreclosed homes, and other regulatory issues with NSP. Outside of NSP, a priority for homeowner purchase of vacant and foreclosed homes in impacted neighborhoods would assist in long-term market recovery.

Investor competition: Minneapolis is pursuing an aggressive property acquisition when the housing market is low and properties are inexpensive. Minneapolis has developed multiple strategies to compete with investors in order to prevent the turn-over of single family homes to rental. The First Look program is a primary tool to strategically acquire foreclosed properties to rehabilitate or sell directly to homeowners. This tool will be enhanced by the innovative Twin Cities Community Land Bank. This success may be at risk due to the increase market demand and the rise in short sales, Deeds in Lieu, Contract for Deed and other similar activities.

Investor competition is a main challenge in bringing foreclosed properties on the market to homeowners. A homeowner with a FHA approved mortgage with a 30 day approval time does not compete with cash-in-hand private investors. Sellers have accepted lower cash offers the higher offers of our non-profit NSP developers that are subject to NSP requirements. NSP developers have also lost properties where the sellers offer price did not meet the 1% discount; and the seller would not reduce the price and sold to an investor. Properties prime for rehabilitation and homeownership are being lost to private investors.

Minneapolis currently has a12-month short sales inventory and one-month foreclosure inventory without adequate tools to compete for short sales with private investors. Short sales are not eligible in NSP. NSP will be more successful in assisting housing markets to recover from the impacts of foreclosure if short sale properties are eligible. The lack of uniformity in lender practices regarding short sales, with up to 6 -14 month processing timelines, have forced potential homebuyers and their realtors to shy away from even considering the purchase of short sale homes. With the majority of these homes being purchased by investors, the strides made to promote homeownership in these neighborhoods impacted by foreclosures with programs such as NSP and First Look may be seriously undermined.

The foreclosure process is long, and in many cases in the hardest hit areas it results in buildings sitting vacant and subject to crime and vandalism further contributing to the decline of the surrounding housing and the neighborhood overall. Allowing purchase of properties through a short sale may also allow for stabilizing structures while they are still occupied with responsible tenants therefore mitigating the effects of the foreclosure. The purchase of properties in this phase of foreclosure prevents the household of having the foreclosure on their credit rating and allows them to have the opportunity of purchasing another home in the not too distant future and assists them with finding immediate alternative housing.

Changes to NSP to address investor competition:

- Develop strategies for homebuyers with a now 30 day purchase process to compete with immediate cash offers
- Address NSP and CDBG regulations that slow the purchase process for developers using NSP funds
- Expand eligible properties to include short sales by changing the definition of foreclosure

Limited funding for neighborhood stabilization: The City of Minneapolis, the Twin Cities Community Land Bank and our partners have leveraged over $30 million in resources to match NSP funds, yet we have had to pass on many properties because of the need to target limited resources and the prohibitive cost to redevelop some of the properties. Each property requires layering of multiple acquisition, construction, and affordability gap financing sources which slows the process and can impact our ability to acquire strategically located properties.

Additional funding is also necessary to prevent foreclosures; to assist with loan modifications, employment services to connect at risk homeowners with opportunities to increase their income, or funds to make emergency repairs to keep people in their homes. NSP is not designed as a foreclosure prevention program. If a non-homesteaded property is foreclosed and the tenants are evicted, they too are victims. Funds to allow for these families to be housed as opposed to being victims of the foreclosure are needed.

Changes to address limited funding for neighborhood stabilization:

- We support efforts to bring forward an NSP3 program and to complete foreclosure recovery efforts in impacted areas
- Provide funds for foreclosure prevention activities
    - Mortgage foreclosure counseling to assist with successful HAMP and HAFA applications
    - Emergency crisis repair funds to prevent foreclosure
    - Employment services to increase household income
    - Foreclosure related assistance to stabilize renters and prevent homelessness

Other issues and changes in NSP regulations that are of concern: Compliance with NSP and CDBG regulations slows the process in a market that requires immediate response and may also have other unintended consequences. Flexibility in the timing of requirements for appraisals, discounts, environmental review, and tenant occupancy are necessary for NSP developers to compete with private investors.

Purchase offers require contingencies for appraisal and environmental review: These contingencies make it challenging for subrecipients offer to be competitive. The environmental (SHPO) is a pre-requisite to rehab projects, regardless of if the findings do not have an impact on the re-use. This results in investors usually having the upper hand and could have an impact on the 18 month obligation.

Tenant occupancy: Documenting that property was not occupied by a tenant at the time of foreclosure or afterwards, before the offer is made slows the process and may result in loss of the property. The foreclosing entity may not sign a contingency that verifies the 90 day vacancy requirement. Subrecipients must assume the risk of paying relocation funds if they can't verify. This results in investors usually having the upper hand and could have an impact on the 18 month obligation.

Sustainable housing for households at 50% AMI: The practical effect of this requirement in Minneapolis is to reconcentrate households of color and households with low-incomes in neighborhoods with the highest concentration of poverty. The requirement (25% of all funds) should spread across all activities, at a minimum to provide greater opportunities for sustainable homeownership for these individuals, families, and our neighborhoods. To effectively serve households whose income is at or below 50% AMI, the requirement should be for a percentage of units produced for all of the activities versus total funds received.

The exclusion of development being done under Activity E, which in our area are vacant abandoned buildings which are a blighting influence on the community and the City as a whole, further complicates our ability to address the neighborhoods, properties and households hardest hit and house lower income households. The Redevelopment activity E does not credit the count of 50% AMI households when the property is only vacant and not foreclosed. A family with income at 50% AMI is not counted towards the 25% if the property is not foreclosed. This makes the 25% threshold harder to meet.

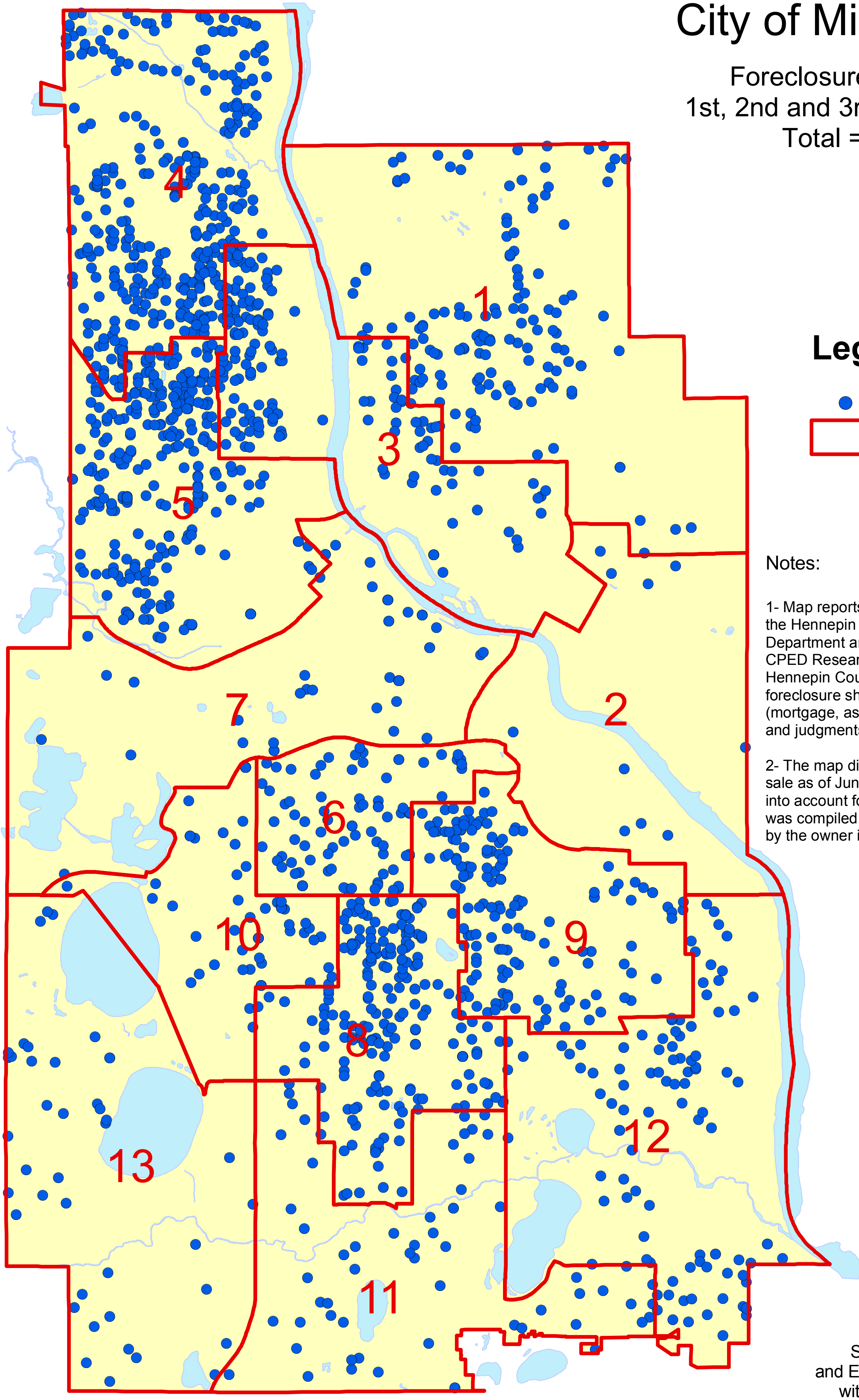
Conclusion

Thank you for the opportunity to share some of my experiences with implementation of the Neighborhood Stabilization Program in Minneapolis. Foreclosure Recovery is well underway yet it will require the continued combined efforts of all partners in all sectors to reach our destination. I hope that the collaborative and innovative programs developed in the City of Minneapolis will hasten that recovery and serve as a model for other communities.

<u>Minneapolis Key Partnerships:</u>
National Community Stabilization Trust
Family Housing Fund
Local Initiatives Support Corporation
Minnesota Housing Finance Agency
Hennepin County
Brooklyn Park
Minneapolis Consortium of Community Developers
Minnesota Homeownership Center
Minnesota Foreclosure Partners Council
Neighborhood Housing Services
Pohlad Family Foundation
Northway Community Trust
Tree Trust
Fannie Mae
Wells Fargo
General Mills Foundation
Franklin National Bank
Home Depot Foundation
Minneapolis Association of Realtors
Neighborhood Associations, Community Councils and Partnerships

City of Minneapolis

Foreclosures by Ward
1st, 2nd and 3rd quarter 2009
Total = 1,680



Legend

Foreclosures
Ward

Notes:

1- Map reports foreclosure sales reported by the Hennepin County Sheriff to Taxpayer Services Department and later sent to City of Minneapolis CPED Research Division.
Hennepin County's methodology is to count all foreclosure sheriff's sales categories (mortgage, assessments, associations, executions, and judgments).

2- The map displays foreclosures at the Sheriff's sale as of June 15, 2009 and does not take into account foreclosures recorded after the data was compiled, nor any properties later redeemed by the owner in the 6 month redemption period.

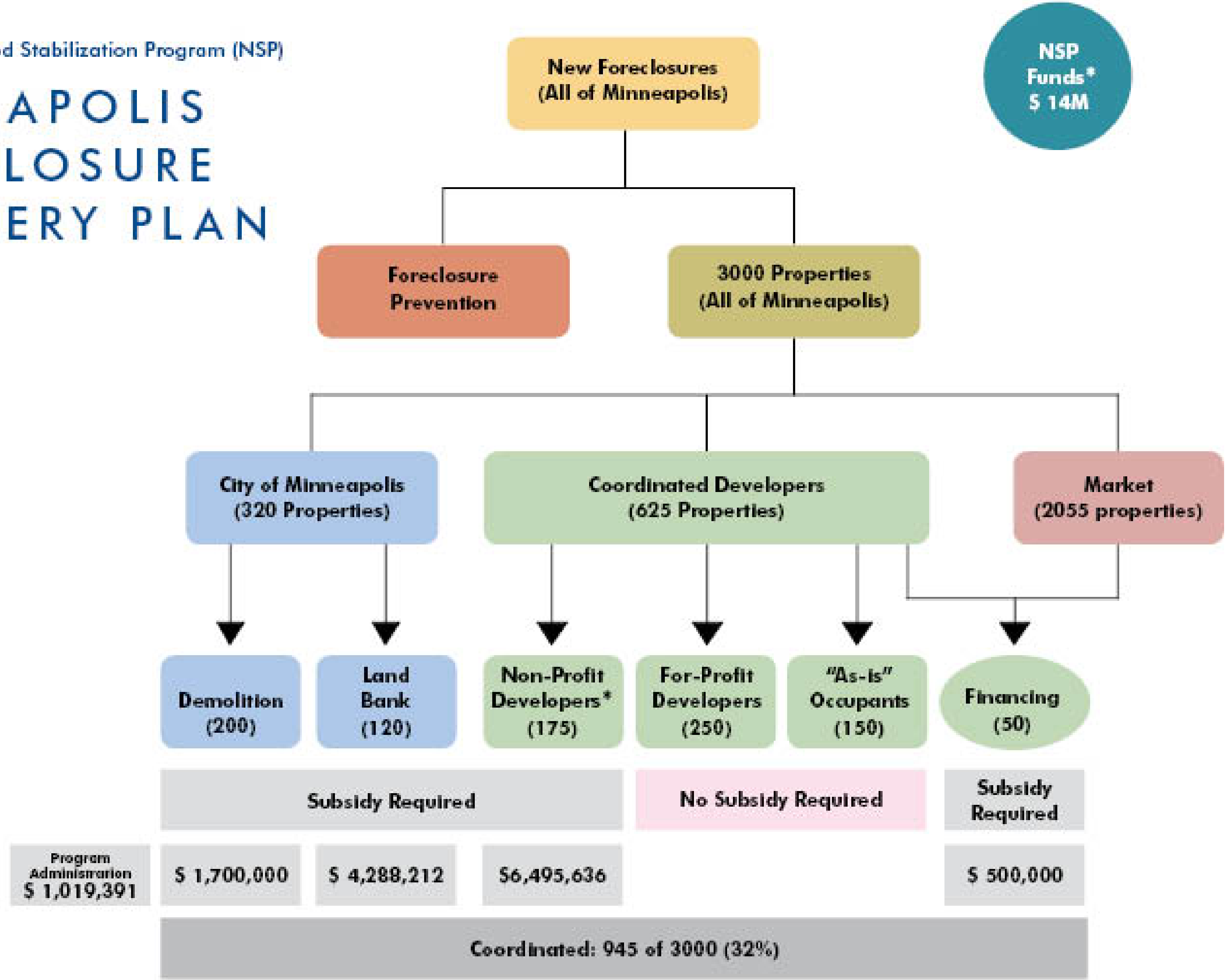
Minneapolis
City of Lakes
Community Planning & Economic Development

North

Source: Community Planning and Economic Development Research with data from Hennepin County.
November 30, 2009

HERA Neighborhood Stabilization Program (NSP)

MINNEAPOLIS FORECLOSURE RECOVERY PLAN



* *HERA's Neighborhood Stabilization Program requires that 25% of the funds received must be targeted to households at or below 50% of area median income (AMI), or $40,450 in Minneapolis. 175 properties will yield 236 units.*

Notes: *There may be duplications in the numbers of coordinated properties. The number of properties may project the ability to recycle funds.*

Updated quarterly as of March 2009

Minneapolis First Look
NSP Eligible Area Map

Based on Average of Foreclosure and Vacancy Points by Census Tract