

# **Preserving Homeownership in North Minneapolis: Responding to the Impact of Foreclosures**

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**Preserving Homeownership in North Minneapolis:  
Responding to the Impact of Foreclosures**

By

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## **Executive Summary**

Imagine what the public reaction would be if a tsunami destroyed over 2,000 homes in one area, leaving 2,000 families without shelter or assets. North Minneapolis is now experiencing such a tidal wave of foreclosures, and while the houses may still be standing, the devastation families experience through foreclosure is on the scale of that experienced in a massive natural disaster. Northside neighborhoods and residents are concerned about the negative impacts on individuals, families and communities. Individuals and families lose their homes, their credit ratings and potentially face interruptions in work and education. They are often forced to leave communities in which they had developed and invested social capital in the form of relationships and trust. Neighborhoods also lose social capital and remaining residents face the loss of home values, potential increases in crime and loss of jobs. Responding to this situation requires a comprehensive approach in order to address both the individual and community levels. The response must include prevention of foreclosures as well as assistance to families and communities dealing with the aftermath of foreclosure.

Our research shows that many of the fraudulent practices which led to the current crisis are being addressed by legislation and law enforcement. We do believe that additional legislation can help reduce widespread fraud from recurring when the recent inflated market conditions return.

We find no connection between murder and crime rates and the foreclosure crisis. While foreclosure may lead to vacancies and provide opportunities for vandalism, crime has been dropping in North Minneapolis. The high murder rates of previous years occurred when there was no foreclosure crisis.

We find that foreclosure not only forces individual households, both homeowners and tenants, out of their homes but also has the effect of reducing the overall level of home ownership in a neighborhood. This research documents how foreclosures are accelerating the pace of conversion from owner-occupied to investor-owned properties in North Minneapolis. While many foreclosed properties are already owned by investors, the percentage of these properties is increasing rapidly as mortgage companies repossess homes and are unable to quickly resell them to new homeowners.

### Proposals to Reduce Mortgage Fraud

- 1) Pass legislation requiring that the public record include the names of the appraiser, the individual mortgage broker, the institution originating the mortgage and the title company involved in the transaction. This will increase the transparency of transactions.

### Proposals to Reduce & Prevent Foreclosures in North Minneapolis

- 2) Increase public awareness of mortgage foreclosure prevention resources by involving NNA members and other local community organizations in conducting public education including door to door outreach and other grass-roots efforts. Support efforts to provide more resources for outreach by NNA organizations and others.
- 3) Expand resources available for foreclosure prevention counseling on the North Side, including training multi-lingual staff able to serve Hmong, Lao and other immigrant communities.
- 4) Ensure that Northside renters receive information about foreclosure and their rights to remain in their homes to help them avoid dislocation and homelessness. This will also prevent vacant buildings from becoming targets of vandalism and arson and locations of criminal activity.
- 5) Support efforts to coordinate housing services to North Minneapolis families and owners facing foreclosure including e.g. matching potential tenants with responsible landlords.
- 6) Encourage mortgage holders to adopt a voluntary three month moratorium on foreclosures on the North Side to allow more time for working out new mortgage terms with eligible homeowners.

#### Proposal to Preserve and Promote Home Ownership

- 7) NNA should convene a group to develop a comprehensive housing and redevelopment policy for North Minneapolis to address the challenges and opportunities posed by the foreclosure crisis. Discussion should include consideration of ways to promote community ownership and control of parcels and/or buildings, the benefits and disadvantages of increasing density, etc.
- 8) After developing this housing policy, NNA should work with Northside Home Fund Board and other partners to carry it out.

Adopting these policies will require coordination and action from the local to the state levels. We look forward to working with all stakeholders, public officials and office holders to create solutions that assist the thousands in need and preserve our North Minneapolis neighborhoods.

The research in this report was commissioned by the Northside Neighborhood Alliance, a group convened by NorthWay Community Trust to unite North Minneapolis neighborhood associations around common goals and actions.

#### **Northside Neighborhood Alliance Members**

- Cleveland Neighborhood Association <http://www.clevelandneighborhood.org/>
- Harrison Neighborhood Association [www.hnampls.org](http://www.hnampls.org)
- Hawthorne Area Community Council [www.hawthornecommunity.org](http://www.hawthornecommunity.org)
- Jordan Area Community Council [www.jordanmpls.org](http://www.jordanmpls.org)

- Lind-Bohannon Neighborhood Association  
<http://www.neighborhoodlink.com/minneapolis/l-bna/> or via [www.camdenews.org](http://www.camdenews.org)
- McKinley Neighborhood Association (access via [www.camdenews.org](http://www.camdenews.org) )
- Northside Residents Redevelopment Corporation (representing Near North & Willard-Hay neighborhoods) [www.nrrc.org](http://www.nrrc.org)
- Shingle Creek Neighborhood Association [www.scna-mpls.org](http://www.scna-mpls.org)
- Victory Neighborhood Association <http://www.victoryneighborhood.org/>

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An Advisory Committee assisted in the guidance of this work. Members included:

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Jerry Moore	Jordan Area Community Council Executive Director
Brandon Nessen	Minnesota ACORN Organizer
Nelima Sitati	Harrison Neighborhood Association Organizer
Jeff Skrenes	Hawthorne Area Community Council Housing Director
Dorothy Titus	Jordan Area Community Council Housing Committee
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## **INTRODUCTION**

North Minneapolis has historically had a high proportion of home owners<sup>1</sup>, a characteristic that contributes to stability and is considered desirable. North Minneapolis also has had a very high proportion of African Americans who are home owners, compared to a very low rate for the city as a whole<sup>2</sup>. NorthWay Community Trust and the Northside Neighborhood Alliance wish to see homeownership, an important opportunity for wealth accumulation, remain available to most Northside households.

The recent tsunami of foreclosures has raised the concern that many homes previously occupied by their owners will now be owned by absentee landlords and investors. The loss of homeowners in a community damages the social capital, breaking some of the social ties and relationships that make a neighborhood “neighborly” and support its residents. It is also feared that some of the investors will be new to property ownership and may not have the financial resources or will to maintain the property, having counted on rising property values to allow them to make a quick profit through a resale now hard to arrange.

The Northside Neighborhood Alliance, including representatives of most of North Minneapolis’ 13 neighborhoods, asked NorthWay Community Trust to conduct a research study of the impacts of fraudulent purchasing and absentee ownership on North Minneapolis. Graduate student research support was provided through Neighborhood Participation for Community Revitalization (NPCR), a program of the Center for Urban & Regional Affairs (CURA) at University of Minnesota. Allan Malkis, Research & Evaluation Program Manager at NorthWay Community Trust, supervised the project. NNA members and other interested residents formed an Advisory Committee to help guide the work.

The project involved three major phases. First, a series of interviews was conducted with knowledgeable residents, elected officials and other experts in housing and foreclosure issues to outline the scope of the problem facing the neighborhoods<sup>3</sup>. Second, a data analysis was done to determine the extent to which foreclosures are contributing to the decline of home ownership on the Northside<sup>4</sup>. Finally, policy options for dealing with the problem of foreclosures and the decline of home ownership were reviewed.

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<sup>1</sup> In 2000, 65% of North Minneapolis housing units were owner-occupied, compared to 49% for the remainder of the city. Census 2000, SF1.

<sup>2</sup> North Minneapolis had a 49% owner occupancy rate for Black households, compared to 23% for the remainder of the city in 2000. Census 2000, SF2

<sup>3</sup> See Appendix I, II and III for a list of interviewees, questions and detailed responses.

<sup>4</sup> See page 9 for the methodology and Appendix V for a detailed discussion of some data issues

## **RESEARCH**

### **Foreclosures and Fraud in North Minneapolis**

One charge to this project was to find ways for residents and neighborhoods to identify activities that might warn of predatory investing. We conclude that there are no new warning signs. There are many organizations that have produced good materials describing predatory lending techniques and other schemes including varieties of predatory investment. We do not believe we should spend any time or resources on duplicating these efforts.

The initial phase of interviews identified many problems contributing to the wave of foreclosures in North Minneapolis.<sup>5</sup> Most of these were made possible by the combination of rapidly rising home values and drastically lowered underwriting standards for mortgage products. We were unable to identify specific practices by property buyers that contributed directly to large numbers of foreclosures. We conclude that there are already many resources that warn homeowners and prospective buyers about the various predatory lending practices and investment scams observed in North Minneapolis. Recent state legislation has also outlawed some of these practices.

We took from the interviews a sense that the next period of rising home values may well bring a repeat of these problems. Public education seems to be the best strategy for neighborhoods, local governments and community organizations to address this issue. Other policy measures could reduce inflated appraisals and increase the transparency of mortgage transactions to allow better monitoring (see below).

### **Policy Recommendations: Reducing Predatory Lending & Fraud**

- 1. Require that the names of the appraiser, the individual mortgage broker, the institutional originator, and the title company involved in a residential mortgage be part of the public record, filed with the other public documents.***
- 2. At such time as a rising market provides opportunities for a resurgence of predatory lending, use existing educational materials produced by various sources to conduct a public education campaign aimed at home buyers and owners who may be targets of predatory lending practices in the future. Increase the reach and effectiveness of this campaign by working with trusted intermediary organizations such as churches, social service agencies and neighborhood organizations.***

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<sup>5</sup> See Appendix I & II for the list of persons interviewed and a list of interview questions. A description of the predatory and fraudulent practices identified, is in Appendix III

## **Crime and Foreclosure**

There is a perception that foreclosures may be linked to crime in our neighborhoods. One recent TV story appeared to link foreclosures and homicides<sup>6</sup>. Official statistics show that despite the huge increase in foreclosures over the past year, the number of homicides through July in 2007 (26) is close to the 2006 number (25). Part I crimes (violent) were down from about 8,800 through April 2006 to 7,900 (-10%) in 2007. The chart below shows the relationship between foreclosures and homicides in Minneapolis over the past 8 years. The numbers of violent crimes in the past 2 years of massive foreclosures are substantially below the numbers in the mid-1990's. The number of homicides is also much lower than in the "Murderapolis" years (1995-96).

### **Foreclosures, Homicides and Part I Crimes<sup>7</sup> in Minneapolis & Hennepin County, 1994-2007**

Year	Foreclosures <sup>8</sup>		Homicides		Part I Crimes
	Minneapolis	Hennepin Co.	Minneapolis	Hennepin Co.	Minneapolis
2006	1,610	3,042	57	67	29,169
2005	843	1,681	47	58	28,110
2004	N/A	1,223	53	59	25,207
2003	N/A	1,058	46	56	25,171
2002	N/A	834	47	63	26,891
2001	N/A	640	43	53	27,079
2000	N/A	593	50	58	27,750
1999	N/A	573	47	53	31,029
1996	N/A	N/A	83	N/A	41,319
1995	N/A	N/A	97	N/A	41,739
1994	N/A	N/A	62	N/A	41,855

While we find no link between homicides and foreclosures, most studies agree that foreclosures can create conditions that promote crime. Vacant buildings are often tempting sites for vandalism and illicit activity, and foreclosures result in many vacancies. A loss of neighbors can lead to "blind spots" in a community where there are fewer eyes to notice and report suspicious activities.

While there is clearly a link between poverty and foreclosures (because sub-prime loans were targeted to low income, minority communities) and a link between poverty and crime, we see no independent link between crime, homicides and foreclosures. Future detailed studies may reveal other patterns.

<sup>6</sup> KARE11 report "North Minneapolis: Hope for the Future" aired 7/10/2007

<sup>7</sup> Type I Crimes include homicide, rape, robbery, aggravated assault, burglary, larceny, motor vehicle theft and arson. All crime data from MN BCA annual crime reports on their website as of 8/13/07 (1994-2004) and Minneapolis Police Department website as of 8/13/07 (2005-07)

<sup>8</sup> Data from CURA (2005, 2006) and Hennepin County Sheriff's office (1999-2004)

## The Shift from Homestead to Non-Homestead Status

When a property goes through foreclosure, there are four possible outcomes regarding its designation as homestead or non-homestead:

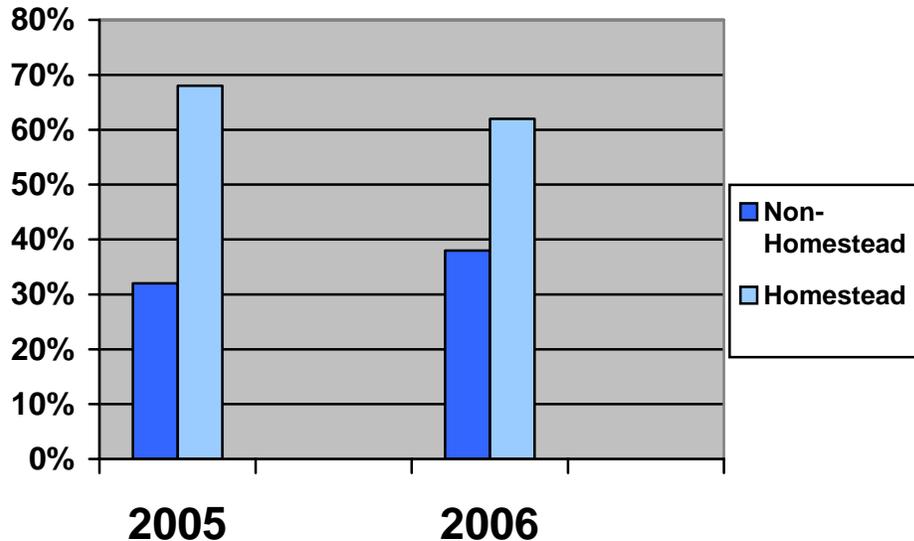
	Previous Status	Foreclosure	Current Status
<b>Loss</b>	Homestead → → → → → → → → → →	→ → → → → → → → → →	Non-homestead
<b>No Change</b>	Homestead → → → → → → → → → →	→ → → → → → → → → →	Homestead
<b>No Change</b>	Non-homestead → → → → → → → → → →	→ → → → → → → → → →	Non-homestead
<b>Gain</b>	Non-homestead → → → → → → → → → →	→ → → → → → → → → →	Homestead

We are most concerned about the losses, properties which convert from homesteaded to non-homestead, because we are concerned about preserving homeownership for the current residents of North Minneapolis. The no change outcomes occur most frequently. Gains are quite rare, with just 20 properties in 2005 (out of 480 foreclosures) and nine properties in the first nine months of 2006 (out of 626 foreclosures)<sup>9</sup> going from non-homestead to homestead.

## The Number of Losses in North Minneapolis

In 2005, 32% of all parcels in North Minneapolis were non-homestead properties (6,415). In 2007, that increased to 38% (7,558). This gives us a 6 percentage point increase in non-homestead properties (about 1,143 units) regardless of foreclosure status.

**Increase in Non-Homestead Status  
All North Minneapolis Properties**

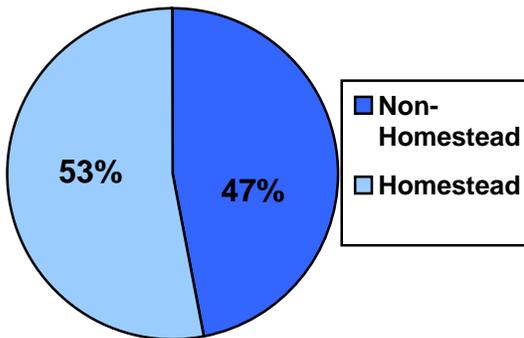


<sup>9</sup> We have contacted the current homeowners of those properties to request interviews to find out what positive factors persuaded them to choose a previously foreclosed home.

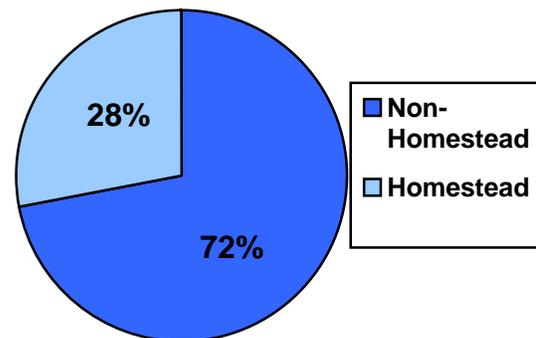
## 2005 Foreclosures

For the 487 North Minneapolis properties that went through foreclosure in 2005, the increase in non-homestead designated properties is significant. Forty seven percent (47%) of those properties (227) were non-homestead at the point of foreclosure. Looking at the designation of those properties in 2007 reveals that 72% of them (347) are now non-homestead.

**2005 Foreclosed Properties  
Homestead Status in 2005**



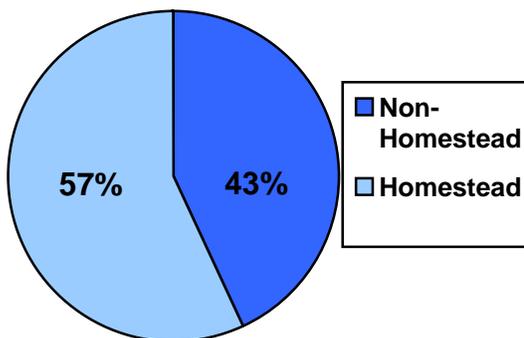
**2005 Foreclosed Properties  
Homestead Status in 2007**



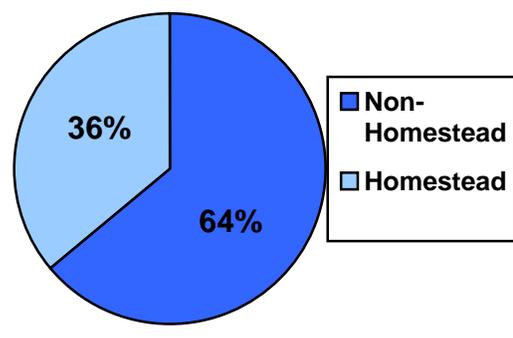
## 2006 Foreclosures

From January through September of 2006<sup>10</sup>, there were 626 foreclosures in North Minneapolis. Of these, 43% (270 properties) were non-homestead at the time of foreclosure. In 2007, 64% (402) of the January-September 2006 foreclosed properties are now non-homestead.

**2006 Foreclosed Properties  
Homestead Status in 2006**



**2006 Foreclosed Properties  
Homestead Status in 2007**



<sup>10</sup> We chose to examine foreclosures from January-September of 2006 because the two sets of parcel data we had access to were dated April and May of 2007, meaning that foreclosures from the last three months of 2006 would still be in their redemption period in our data. We are interested in knowing the final outcome of the foreclosure, after the redemption period, so we could only look at the first nine months of 2006.

## Role of Foreclosures in Overall Trend

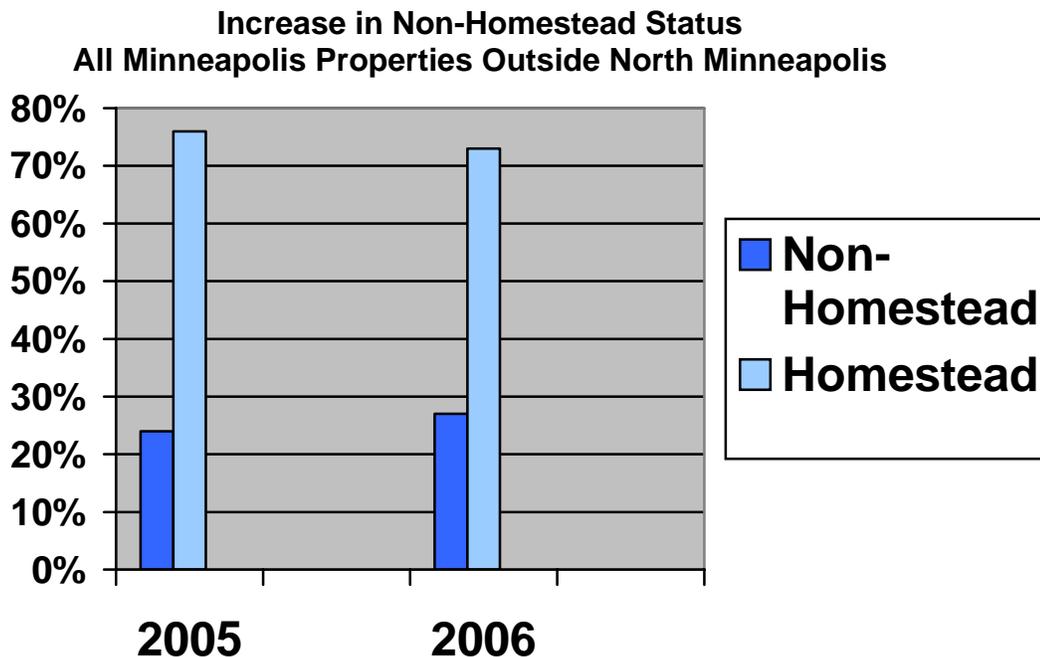
The 2005 foreclosed properties that have converted from homestead to non-homestead status account for 10.5% of the total increase in North Minneapolis non-homestead properties from 2005-2007, while the 2006 foreclosed properties account for 11.5%.

Loss in Homestead Status	Number	Percent of Total Losses
2005 Foreclosed Properties	120	10.5%
2006 Foreclosed Properties	132	11.5%
All 2005-2006 Foreclosed Properties	252	22%
<b>Total North Minneapolis Losses 2005-2007</b>	<b>1,143</b>	<b>100%</b>

This gives a total of 252 conversions from homestead to non-homestead among the foreclosed properties so that 22% of the total change from 2005 to 2007 was due to foreclosures. Given that 1,200 foreclosures are projected to occur in 2007, there could be as many as another 260 properties that are homestead losses as a result of foreclosure in the next year.

## Losses in the Rest of Minneapolis

For comparison we examined trends in homestead status changes for the rest of Minneapolis. We found that outside of North Minneapolis there was a 3% increase from 24% non-homestead properties in 2005 to 27% non-homestead properties in 2007. Thus, the amount of conversion from homestead to non-homestead status in North Minneapolis (6%) is double the increase for the remainder of the city (3%).



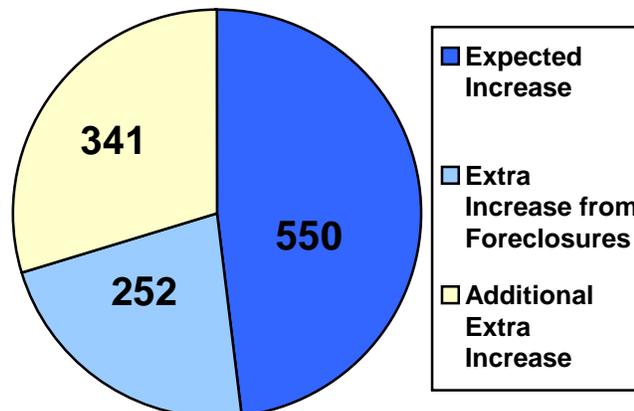
## Change in Homestead Status in North Minneapolis and Other City Areas 2005-2006

		2005		2007	
<b>North Minneapolis</b>	<b>Non-Homestead</b>	6,415	32%	7,558	38%
	<b>Homestead</b>	13,498	68%	12,342	62%
	<b>Total</b>	19,913	100%	19,900	100%
<b>Outside North Minneapolis</b>	<b>Non-Homestead</b>	20,336	24%	22,671	27%
	<b>Homestead</b>	62,685	76%	60,308	73%
	<b>Total</b>	83,021	100%	82,979	100%
<b>All Minneapolis</b>	<b>Non-Homestead</b>	26,751	26%	30,229	29%
	<b>Homestead</b>	76,183	74%	72,650	71%
	<b>Total</b>	102,934	100%	102,879	100%

One way of looking at this is to assume that a 3% increase in non-homestead properties in North Minneapolis could be expected, because that is the trend in the rest of Minneapolis. To have a three percentage point increase in non-homestead property in North Minneapolis from 2005-2007, from 32% to 35%, would have meant an increase of 550 non-homestead properties.

The actual increase in non-homestead properties from 2005 to 2007 was 1,143, so this means we are dealing with an additional increase of 593 properties. The 252 foreclosed properties that converted in 2005 - 6 account for 42% of the extra increase in North Minneapolis.

### North Minneapolis Increase in Non-Homestead Property 2005-2007



	<b>Number of Properties changing to Non-Homestead</b>	<b>Percent of Total Increase</b>	<b>Percent of Extra Increase</b>
Expected increase of 3%	550	48%	NA
2005-2006 Foreclosed Properties- Losses	252	22%	42%
Additional Increase in Non-Homestead Properties	341	30%	58%
<b>Total Increase</b>	<b>1,143</b>	<b>100%</b>	<b>NA</b>

We suspect that much of the remaining portion of the extra increase in North Minneapolis (341 properties) may reflect the discouraging impact of concentrated foreclosures on current homeowners who lose confidence in the community and wish to sell quickly so they may leave the area.

For this reason, we believe that the Northside's significant increase in non-homestead property, two times greater than the rest of the city, can be mostly attributed to the direct and indirect impact of foreclosures. Decisive public policy changes and actions to preserve ownership and stabilize the neighborhoods are necessary to interrupt this negative feedback process.

## **POLICY OPTIONS AND RECOMMENDATIONS: Helping Families and Strengthening Communities**

Foreclosures impact individuals, families and communities, and the Northside Neighborhood Alliance is concerned about all of these impacts. We know that a variety of measures will be needed to address all of these inter-related concerns.

### **Helping Families**

Preserving homeownership and limiting the number of investor-owned properties is a primary goal of the Northside Neighborhood Alliance (NNA). Additionally, NNA seeks to maintain the traditionally high level of African American home ownership on the Northside. The NNA believes that people who lose their homes to foreclosure should have the chance to become homeowners again if this is financially feasible. Only after pursuing all opportunities for current residents, people who have gone through foreclosure or families who currently rent on the Northside, to become homeowners would we consider attracting new homeowners from outside the community.

Preserving home ownership has many components, and foreclosure prevention counseling is one of the most important. The current Mortgage Foreclosure Prevention Program that the Northside Residents' Redevelopment Council and Habitat for Humanity operate in Minneapolis prevented 579 foreclosures from July of 2000 to June of 2003, out of 1,586 households who received intensive counseling services<sup>11</sup>. This program is effective because 60% of the households who participated in the program were still current on their mortgages (i.e. not in foreclosure) both one year and three years after receiving counseling. However, the Mortgage Foreclosure Prevention Program can barely keep up with the demand for their services now, and if foreclosures continue to grow exponentially they will be seriously understaffed.

Action is already under way to increase foreclosure prevention counseling. Although the state was unable to fully fund the Homeownership Education, Counseling and Training Fund (HECAT) program which supports foreclosure prevention efforts, some additional resources for counseling on the Northside are in place. More support is needed on an ongoing basis, and even more will be necessary if foreclosure rates continue to rise as projected. There is a particular need for counselors who speak Hmong and Lao to assist members of those communities in North Minneapolis. Organizations serving those communities report that they have been unable to connect homeowners to counselors fluent in those languages.

Families in foreclosure whose financial situation allows may be able to stay in their homes, either obtaining a loan modification from their current mortgage lender or by repurchasing the property with a new mortgage before the end of the redemption period. These options are only available if the family is able to demonstrate that their delinquency was due to a one-time hardship or qualify for a new loan in an amount

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<sup>11</sup> Quercia, Roberto G. et al. "The Cost-Effectiveness of Community-Based Foreclosure Prevention." Research paper for the Family Housing Fund. December 2005.

equal or greater than the amount of their mortgage that is in foreclosure. Evidence suggests that while some mortgage holders are willing to negotiate, others will not do so. The lenders and investors who hold mortgages of families who are behind on their payments need to make loan modifications and other work-out tools more available to those families that have enough income to afford their home. Progress is being made on this front through the efforts of the Foreclosure Funders Prevention Council but obstacles remain.

Families displaced by foreclosure, whether owners or tenants, need assistance finding temporary and transitional housing. Those homeowners who experience foreclosure need assistance in repairing their credit scores and dealing with other financial burdens. They may need financial literacy training and/or temporary cash to cover daily expenses. Children need assistance remaining in school and avoiding a gap in their educations if the family is forced to move.

In short, there is a need for a comprehensive coordinated effort to address the impacts of foreclosures on owners and tenants alike.

### **Strengthening Communities: Preserving Neighborhood Stability & Character**

Our North Minneapolis communities also face negative impacts from the wave of foreclosures. Home values are dropping quickly, long-time residents are being forced to move away from the neighborhoods and vacant buildings offer venues for criminal activity. Dealing with the concentration of foreclosed properties is crucial to preserving the value and livability of these 13 neighborhoods.

Again there are a series of related efforts that are required. First we must work to prevent foreclosures with educational and outreach campaigns. Second, we must reduce the amount of time that properties stand vacant. Third, we must work to preserve or increase the percentage of owner occupied homes and work to keep families in their neighborhoods to preserve the connection and relationships that create community. There are various options for each of these efforts.

### **Policy Recommendations: Reduce Foreclosures by Helping Families & Strengthening Communities**

- 1. *Publicize the availability of foreclosure prevention counseling widely***
  - a. Neighborhood organizations and other community based institutions should make every effort to utilize block clubs, congregations and other associations to provide homeowners and tenants with crucial information about foreclosure prevention, counseling resources and warning signs of predatory lending.

- b.
- 2. Expand foreclosure prevention counseling services**
  - a. The foreclosure prevention counselors that currently serve North Minneapolis need more funding so they can add staff to meet increasing demand (a projected increase of 1,200 foreclosures in 2008). Counselors should be located in North Minneapolis to increase ease of access to those affected.
  - b. Funds should be provided to hire trained staff fluent in the appropriate languages to address foreclosure issues in the Hmong, Lao and other immigrant communities.
- 3. For families that rent properties in foreclosure, information about renter's rights should be made available and they should be informed of resources that can assist them in finding alternate housing.**
  - a. Renters need to know what resources are available to them, and they need to know that a sheriff's sale does not automatically mean they have to move out. They should receive information about services available through community organizations, public agencies and other sources.
  - b. An overall goal of these efforts should be to stop houses from becoming boarded and vacant. Keeping tenants in the house they are renting for as long as possible while it is going through foreclosure will prevent it from becoming boarded and vacant. The less time a house has been vacant the more likely it is to be in decent shape for repurchase by a homeowner.
- 4. Convene service providers to develop coordinated methods for providing comprehensive housing services to families losing their homes.**

Having over 2,000 families lose their homes is a disaster with a greater impact than the I-35W bridge collapse. These families need services including finding new housing and alternatives to homelessness or leaving the neighborhood. Options could include providing links to responsible local landlords who need good tenants.
- 5. Voluntary moratorium on foreclosures**
  - a. A three-month, voluntary, foreclosure moratorium on foreclosures has been proposed. Each mortgage holder could choose to cease foreclosure proceedings for three months to allow community organizations time to work with homeowners who are either in foreclosure or having trouble paying their mortgage. The goal would be to work out alternate repayment or refinancing plans so that eligible homeowners could remain in their homes if possible and mortgage holders would recover as much value as possible from their properties.
  - b. Encouraging all lenders to participate would increase the reach and effectiveness of the moratorium and exert the pressure of public opinion on individual mortgage holding firms.

## **CONCLUSION – Quick Reactions, Long Term Plans**

***We call for a discussion involving NNA member organizations to develop a comprehensive housing and redevelopment strategy for North Minneapolis.***

In the midst of this extremely difficult and complex situation, there are nonetheless opportunities that can be identified by listening to the vision community members have for the future of North Minneapolis. It is estimated that large numbers of properties are so badly damaged by the elements or vandalism that they should be razed and replaced. While it is tragic to lose many of the classic housing units on the Northside, there is also an opportunity to look at the future of housing in North Minneapolis. One element of this vision we heard through our research would be to require that all rehabilitation and new construction that takes place in North Minneapolis be environmentally-friendly. Green construction is the wave of the future, and North Minneapolis could be on the cutting edge of this new type of development. Significant changes in the Northside's housing stock are going to take place as a result of the foreclosure epidemic. It will be up to Northside residents and policy makers to make sure that these changes are planned and designed with the best interests of the community in mind.

The Northside Neighborhood Alliance can play a proactive role in charting the future of housing and economic development on the Northside by convening a body to take a close look at the opportunities available. The discussion would include the relationship between housing and economic development, the benefits and drawbacks of increasing housing density, the potential for community ownership and control of sites or buildings and other issues. Options such as housing cooperatives, land trusts and community development corporations should be carefully considered. NNA can develop and promote a comprehensive approach to promoting community wealth as part of the redevelopment of housing by encouraging the use of local contractors and labor, training of local residents for the work required to redevelop and rehabilitate housing and other strategies.

After crafting a picture of redevelopment, NNA needs to work with the Northside Home Fund Board, the city and others to implement these ideas.

## Appendix I

### Interviews Conducted

1. Michael Grover, Federal Reserve Bank, Community Affairs department
2. Joel Larson, HousingLink
3. Melissa Manderscheid, Attorney, working with Foreclosure Prevention Funders Council
4. Karen Reid, NeDA (Neighborhood Development Alliance), St. Paul
5. Jeff Matson, Center for Urban and Regional Affairs
6. Anne McCandless, Jordan resident and Advisory Committee member
7. Jeff Skrenes, Hawthorne Housing Director and Advisory Committee member
8. Amanda Rohrer, former Research Assistant for NeDA
9. Juli Leerssen and Aaron Ash, Jordan New Life Church One-Stop Family Support Center
10. Brandon Nessen, ACORN
11. State Representative Willie Dominguez
12. Nelima Sitati, Harrison Housing Organizer and Advisory Committee member, and Lisa Fairibault, Realtor
13. Deb Wagner, Realtor and Jordan resident
14. Darlynn Benjamin, Deputy District Director, Congressman Keith Ellison's office
15. Prentiss Cox, U of MN Law Professor
16. Georgianna Yantos, Hawthorne homeowner and Advisory Committee member
17. Greg Corradini, NeDA Research Assistant
18. State Senator Linda Higgins
19. City Council President Barb Johnson
20. Karen Johnson, Northside Residents Redevelopment Council foreclosure counselor
21. Leah Weaver, Legal Aid Society of Minneapolis
22. Rosi Nieto, Realtor and Jordan resident
23. Representative Joe Mullery
24. Anonymous Residential Appraiser
25. Wendy Walker, Appraiser

## **Appendix II**

### **Interview Questions**

1. What practices have you seen investors or landlords engage in that have been damaging to North Minneapolis neighborhoods?
2. Are you aware of any specific examples of this in your neighborhood? Specific companies, people or properties?
3. What kinds of damage does this do to the neighborhood? How are residents being hurt by this?
4. How extensive do you think these problems are in your neighborhood? In North Minneapolis?
5. Have you and your neighbors done anything about this? What has been done?
6. Who else would you recommend that I speak to about this problem? Who would know more about specific properties?

## Appendix III

### Other Predatory Investing Concerns

The phrase “predatory investing” was used to distinguish these activities from “predatory lending”, in which an individual home buyer is sold an inappropriate mortgage, due to illegal or unethical actions by the mortgage lender or broker. In contrast, predatory investing refers to the ways in which investors buying property have taken advantage of the inflated housing market to make money through practices or schemes which are illegal or unethical and which result in harm to the community. Predatory investing is a concern to the communities for several reasons. First, predatory investing often results in inflated home prices and assessments. This makes it harder for homeowners to sell their properties and increases their tax liabilities. Second, predatory investors are interested in getting money out of their deals, not in managing properties. This often results in properties being run down, abandoned or foreclosed. In some cases, absentee owners are perceived to rent to “bad” tenants and/or may neglect their properties, further depressing property values. Investors concerned only with profiting from a deal may increase the number of properties going into foreclosure, thus depressing the housing market and harming the investments of homeowners committed to the neighborhood. Finally, the increase in the number of absentee landlords and property owners, combined with a proliferation of foreclosed, abandoned or neglected properties can increase the emotional disinvestment of other residents. Both homeowners and tenants may fall into despair, feeling desperate to leave the neighborhood and uninterested in investing the energy needed to maintain or improve social relations within the community.

Because a variety of activities were originally described as “predatory investment” issues, the first step of the project was to ask those involved to define and give examples of such practices that were hurting Northside communities. At this point, Erickson has conducted 25 interviews. The interviewees and the questions asked are provided below. The purpose of the interviews was to identify predatory investing practices and establish an understanding of the role investors play in the growing rate of foreclosures and how that affects communities on the Northside. The interview subjects identified the following practices which are described along with comments about the implications for further research.

- **Equity stripping**
  - The “foreclosure rescue” scam, in which a homeowner facing foreclosure is approached by a scammer who says they can save the person’s home. The scammer convinces the homeowner to deed the home to them and promises to let the homeowner rent their home and sell it back to them, but they eventually raise the rent beyond what the former homeowner can afford and evict them. Note: previous research had defined equity stripping

much more broadly as landlords who do not maintain their property.<sup>12</sup> Based on our interviews, the narrower definition above is the one in common use. In some ways this is a variant of “predatory lending” because the individual home owner is the target.

- This practice is not new and it is well understood because a few years ago the Attorney General’s office took up several cases against the largest perpetrators of this scam. As of 2004, Minnesota has one of the toughest laws in the country against equity stripping, and lawyers who work in this field think it is working well.
- The Volunteer Lawyers Network and Legal Aid co-chair the Equity Stripping Task Force and they assign lawyers to all the equity stripping cases that they are aware of. However, since home prices have declined so significantly, the people who call them now have very little equity in their homes- in fact, most of their calls now are people who are upside down, that is, their mortgage is worth more than their house is.
- **One transaction flip**
  - This is a variation on flipping (buying a house cheaply and then selling quickly at an inflated price to an unsuspecting buyer). The flip takes place in one transaction done with an inflated appraisal, and the potential cooperation of many parties. This scheme generally involves a realtor acting as a dual agent for both the buyer and the seller. The realtor inflates the price the buyer pays and takes the extra profit. They may then share it with other parties involved like the appraiser and the title company and often the buyer as well. Some interviews reported hearing that investors were “getting cash out of a mortgage” and that may refer to such a transaction.
- **The missing escrow**
  - This is a predatory lending problem (not predatory investing) in which a homeowner was told that their mortgage payment included an escrow (property taxes and insurance) when it didn’t. The lender may suddenly increase the payment to cover property taxes, triggering foreclosure proceedings.
- **Straw buyer schemes**
  - As described in the Star Tribune article, brokerage companies take advantage of people who want to invest in real estate by selling them properties at inflated values, properties owned by people involved in the company. The buyer may be promised cash back at the closing and told that someone from the company will manage the properties for them. Instead the properties are neglected and no active management is done. The end buyer is responsible for an inflated mortgage and often is unable to meet the payments. Sometimes this includes the “management company” taking the rents but failing to pay on the mortgage. The result is often a vacant and/or foreclosed property.

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<sup>12</sup> Rohrer, Amanda. “Residential Investment Activities in West Side Saint Paul.” Research paper for Neighborhood Development Alliance. February 2007.

- The Commerce Department and other groups are actively investigating cases where groups of investors engaged in some variation on this scheme possibly also involving inflated appraisals.
- **Inflated appraisals**
  - Houses are appraised at artificially high values that do not reflect the declining value of homes in North Minneapolis. These inflated appraisals are used to get mortgages well above the value of the property and the investor often pockets cash. The property is then priced too high to sell and may end up abandoned and foreclosed. The inflated appraisal price may also hurt other property owners through higher assessments and taxes.
  - This is difficult to track because appraisals are not public documents. Inflated appraisals play a role in several of these other practices such as flipping and straw buyers.
- **Getting cash out of a mortgage at closing**
  - We are told that investors are getting large sums of money out of mortgages. They may take that money and abandon the property, or they may rent out the property and collect the rent but never pay on the mortgage. This may be done in conjunction with inflated appraisals. Refinancing for cash is common and not inherently illegal or fraudulent. While the landlord may subsequently neglect their property, this is always a potential problem and is not tied to mortgage fraud. Existing regulations and laws addressing “problem landlords” can be enforced in such cases.
  - Some instances of investors “getting cash out” may refer to a one transaction flip (see above)..

### **Warning Signs**

One charge to this project was to find ways for residents and neighborhoods to identify activities that might warn of predatory investing. We conclude that there are no new warning signs. There are many organizations that have produced good materials describing predatory lending techniques and other schemes including varieties of predatory investment. **We do not believe we should spend any time or resources on duplicating these efforts.**

**We recommend instead that Northside neighborhood organizations and other community agencies work to educate the homeowners and renters in the community using these existing materials.** Many homeowners don't receive or don't learn the crucial information they need to avoid becoming victims of mortgage related frauds and schemes. Outreach efforts that involve individual neighbors sharing with one another through existing ties such as block clubs, religious congregations or other connections can be extremely valuable in preventing future frauds.

## **Current Predatory Investment Dangers**

**After reviewing the various investment practices described above, we feel that several were symptoms of the inflated housing market and are no longer pressing issues, due to the slump in home prices.** This includes equity stripping and possibly one transaction flipping. The straw buyer scheme appears to be under investigation by others including the FBI and the Minnesota Commerce Department. The missing escrow situation is a predatory lending issue, not an investment issue.

**We conclude that the remaining issue of concern that underlies several of these investment schemes is inflated appraisals.** During a rising market it is easier to produce an inflated appraisal of a property which can be used in “flipping”, straw buyer schemes or to enable the purchaser to receive cash out of the transaction. While there is less opportunity at present for this activity, it remains a problem that could return if and when markets heat up again. A potential solution is a public policy response that would reduce pressure for inflated appraisals. Several policy recommendations are made below.

### **Policy recommendations to increase transparency in public records involving real estate transactions**

- Require that the names of the appraiser, the mortgage originator, and the title company involved in a residential mortgage be part of the public record, filed with the other public documents.
  - This might aid investigators in tracking patterns of possible fraud.
- To reduce the likelihood of inflated appraisals, pass legislation similar to the Ohio law prohibiting lenders and brokers from pressuring appraisers to achieve certain stated values.
  - 90% of appraisers surveyed for the 2007 National Appraisal Survey said that they felt uncomfortable pressure from lenders to adjust property valuations, while in the same survey in 2003, 55% of appraisers felt this pressure.
  - Appraisers are vulnerable to pressure from mortgage brokers and lenders because they face a reduction in business if a certain broker or lender discontinues utilizing their services. According to the 2007 National Appraisal Survey, 68% of those appraisers who refused to modify a property valuation to the lender or broker’s liking lost that office or individual as a client. 45% of appraisers who refused to change their valuation did not get paid for that appraisal.

Finally, some of the housing issues facing North Minneapolis now are connected to investors who own property that they cannot or will not maintain or pay off. The reasons for this behavior may vary from incompetence to bad timing, lack of liquid assets or greed. The results for the community are uniformly bad – properties whose conditions deteriorate and buildings that are abandoned or foreclosed. These properties reduce the value of those around them and the sheer number in North

Minneapolis depresses sales and property values. In addition, it is possible that homes previously owned by individual families may be purchased by investors and become rental properties. Many investor properties that go into foreclosure are occupied by tenants who have been paying their rent and did not know that the building was being foreclosed. Although these tenants have the right to stay until their lease ends, many are being evicted.

## Appendix IV

### Analysis of Investor Foreclosures

We sorted the list of all Northside foreclosures and pulled out the names that occurred multiple times.

Of the 1,990 properties that have been foreclosed from 2005 to May of 2007:

- 361 (about 18%) were owned by investors (defined as people who own at least three foreclosed properties)
  - 85 investors owned three or more foreclosed properties
- The largest number of properties owned by a single investor is 11
- The majority of these investors (43) own exactly three properties-
- Another 260 properties (about 13%) were owned by people who own two foreclosed properties- 130 people own two foreclosed properties
- Overall, we identified just under 1/3 of foreclosed properties as being owned by investors (defined as individuals who own 2 or more foreclosed properties).

## Appendix V

### Note on Methodology: Tracking Changes in Owner Occupancy

For this research, we used the Hennepin County designations of a property as either homestead or non-homestead to identify properties that may be investor owned. We used homestead designations as listed in the Hennepin County parcel data, which we obtained from MetroGIS with the assistance of the University of Minnesota's Center for Urban and Regional Affairs (CURA). We are, however, aware that this designation may not be completely up to date for each property because the parcel data file was drawn from April 2007. In order to check the accuracy of the initial classifications we took a random sample of 20 properties from both the loss (conversion from homestead to non-homestead) and no change categories (homestead to homestead or non-homestead to non-homestead) and checked the accuracy of the 2007 designation against the most recent online parcel data. For the gain category (conversion from non-homestead to homestead), we checked all of the properties because there were so few. In addition to looking at the property tax designation in July 2007, we also looked for additional evidence that would suggest a non-homestead status. This includes the owner's name (individual or corporate) or the existence of a current rental license for a single family building.

### Results of Reviewing the Accuracy of Changes in Homestead Status for 2005 and 2006 Foreclosures

	<b>Homestead Status Classification</b>	<b>Total Properties Checked</b>	<b>Errors</b>	<b>Error Percentage</b>
<b>2005 Foreclosures</b>				
	<b>Loss</b>	20 of 139 (14%)	2	10%
	<b>Gain</b>	24	4	16.7%
	<b>No change</b>	20 of 303 (7%)	2	10%
<b>2006 Foreclosures</b>				
	<b>Loss</b>	20 of 148 (13.5%)	0	0%
	<b>Gain</b>	16	7	43.8%
	<b>No change</b>	20 of 453 (4.4%)	4	20%
<b>Combined Foreclosures</b>				
	<b>Loss</b>	40 of 287 (14%)	2	5%
	<b>Gain</b>	40	11	27.5%
	<b>No change</b>	40 of 756 (5.3%)	6	15%

## **2005 Foreclosed Properties**

Loss of Homestead Status: 2 errors out of the 20 properties sampled. In both cases, our April data file lists the properties as non-homestead, but the most recent online Hennepin County parcel information file lists both the properties as homestead. These 2 properties should have been counted as no change. This is a 10% error rate.

Gain in Homestead Status: Out of the 24 properties that were identified as gains (converted from non-homestead to homestead), there appear to be 2 errors. Both of these properties were listed as non-homestead in the online Hennepin County parcel data file although they are identified as homestead in the April data file. They should have been in the no change category. Additionally, there are two properties which we have reason to believe are not owner-occupied; one property because it is a single family home with an active rental license, and the other because it is boarded. With four total errors we have a 16.7% error rate.

No change in Homestead Status: There were 2 errors out of the 20 properties sampled. Both of those properties were categorized as homestead in 2005 and homestead in 2007 based on the April property data, but upon closer examination they are listed as non-homestead in 2007 in the current Hennepin County online parcel data file. They are actually losses. This is a 10% error rate.

## **2006 Foreclosed Properties**

Loss of Homestead Status: There were no errors in the 20 sampled properties in this category.

Gain in Homestead Status: We found 2 errors out of the 16 properties that registered as gains. These 2 properties are currently listed in Hennepin County's online parcel data as non-homestead for 2007, meaning that they are not gains. They should be counted as no change. We found 4 properties that are listed in the online file as owned by a lender, and one property that is a single family home with an active rental license. Thus, these additional 5 properties are not owner-occupied and thus not truly homestead, even though they are listed as homestead in both parcel data sets.

No change in Homestead Status: There were 4 errors out of the 20 properties sampled. One of these errors was a property described by the April data as non-homestead in 2006 and non-homestead in 2007 when it was recorded as homestead in the Hennepin County 2007 online parcel database. The other 3 were categorized as homestead to homestead by the April property data, when they actually are non-homestead in 2007 according to the current Hennepin County online data. This means that they are actually losses.

**Analysis**

These errors reveal that the classifications based on the April 2007 data are under-counting no change and loss of homestead status properties and over-counting gains. For our research, the most significant implication of these errors is the under-counting of losses of homestead status. Thus, all the conclusions we are drawing about the losses and how much they account for the overall shift from homestead to non-homestead properties are under-stated. The actual losses may well be greater than we are estimating.

The over-counting of gains using the April data occurred primarily for the properties foreclosed in 2006 data. We feel that the reason for this is the short amount of time between 2006 foreclosures and July 2007, when this research was done. This short amount of time means that these records are more likely to be out-of-date because foreclosure sales and corresponding changes in homestead status may not have been recorded yet.

The under-counting of no change properties is not significant for our research because we were not concerned with analyzing that trend.