REO and Vacant Properties: Strategies for Neighborhood Stabilization, September 2, 2010
Panel Five

Tammy Edwards:
Thank you, Joseph. And good morning, everyone. First of all, before we get started, I would like to give a shout out to my colleagues in the tenth district who are watching us this morning. From our office in Kansas City as well as our branch in Denver. So hello to my colleagues as well as the community partners that we've invited to watch this morning.

We are in for a treat. We have a wonderful panel in store for you this morning about overcoming local challenges. The tide of foreclosure sweeping the nation is leaving behind thousands of vacant homes and blighted neighborhoods. Homeowners watch in shock as the values of their homes plummet, far below the cost of their mortgages. Unable or unwilling to pay rising monthly payments, many have succumbed to foreclosures or have simply abandoned their homes to the bank.

As a result, the number of vacant homes have spiked in recent years, foreclosed and vacant holes can sit unsold and empty for months or even years as sandy mentioned this morning, falling into disrepair, attracting crime and bringing down the values of adjacent homes, thus spreading the blight throughout entire communities. Consumers not only lose their homes, they lose their wealth and a piece of the American dream. The loss of tax revenues to communities translates into less money for schools, firefighters, police officers, street repairs and social services. Communities are also saddled with new cost of upkeep or demolition or must spend money to hunt down absentee property owners to get them to mow the weeds or secure their increasingly dangerous buildings. Community development plans are often put on hold. Financial institutions that sold or service the loans can find themselves unprepared to manage the large portfolios of vacant homes that they now have. Reselling homes can be difficult because the homes have lost value. In fact, the market values of entire neighborhoods as we've discussed throughout this summit have fallen.

Today we have two great examples of communities that are making headway. Cleveland and Boston are two very different cities with two very different housing markets, but they face the same challenges and each are making strides that provide promising models for other communities. In Cleveland, the Cleveland community leaders are responding in two ways that focus on assets and management. They are directing efforts at the economics of foreclosure, taking steps to shift more financial responsibilities for REO properties to the banks, landlords, and investors that own them.

They are threatening to demolish dangerous buildings, pressing code violations, filing lawsuits and making it harder to walk away from vacant and foreclosed homes.

They are also creating initiatives that encourage responsible management and redevelopment. Rehabbing vacant properties in targeted areas, leveraging existing assets, land banking and engaging organizations and institutions in long-term redevelopment plans for vacant property.

In Boston, the Boston community leaders are leveraging partnerships to address foreclosures and REOs and to assist many occupants to hold on to their homes.

One innovation is aimed at stabilizing neighborhoods hardest hit by foreclosures by, among other things, buying bank-owned homes at discounted present-value -- present market values and reselling them to existing homeowners. Research has also allowed leaders to better understand the challenges facing low income borrowers, more education to help them with budgeting, banking and understanding the real cost of owning a home and maintaining it.

Our panelists today will talk about the lessons they've learned that can be applied to communities across the country. These lessons include realizing the value of strong code enforcement, planning ahead for sustainable reuse of vacant properties and acting swiftly to prevent vacancies in the first place and to assist more people in to remain in their homes. Providing us with great insight today, we have an esteemed panel of experts who include Frank Ford from Neighborhood Progress, Inc., Judge Ray Pianka from the Cleveland Housing Court. We have Elyse Cherry from the Boston Community Capital and Evelyn Freidman from City of Boston.

Help me in welcoming our panel, first of all.

[Applause.]

Tammy Edwards:
Each member of the panel will provide a brief introduction statement and then I will follow that with a question for each. Then we will have plenty of time for your questions.
So we will start with Frank.

Frank Ford:
Thank you. I'm going to do a brief commercial announcement first. To invite all of you to Cleveland October 13 through 15 for the national vacant properties conference being sponsored -- called Reclaiming Vacant Properties, and it's being sponsored by Dan Kilde and Jennifer Leonard with the Community for Solutions. I have your name -- it's better than if I said the old name. I got -- Center for Community Progress. Please take a look at that. You can Google it or talk to Jennifer about it and get information, but I hope you consider coming.

What I am going to do on my part of the session is show you a short video of a distressed REO property to ground this into some reality and look at key decisions that led to getting this property to this point. Who is making those decisions? And what can we do to influence the behavior for those stages. This is not a staged video. It's not like the guy who has a wilderness shows that’s got a crew if something happens. I shouldn't have done this. I went into the house alone. You'll see the Burger King bag on the stairs. Somebody was there, I don't know. It's starting midstream and I'll end it when it's over.

Do we have sound? If we don't have sound ...

Video: It's serviced by home ...

Frank Ford:
Well, there's rain on the umbrella I was holding, crackling sound.

Video:
My name is Frank Ford, executive director of Cleveland renewal project. I'm standing out here in front

of 1232 Addison in the St. Claire Superior neighborhood in the City of Cleveland. It is May 8, approximately 12:30 in the afternoon.

This is a house owned by Wells Fargo. And when I was out here last Saturday it was wide open and vacant.

It's serviced by Home Eq. There's some stickers on the window from Home Eq. When I was out here before, the side door was wide open and there was water rushing in the basement.

Side door is still wide open.

And I think I'm going to go inside.

Anybody here?

[Some chuckling in the audience.]

Video – Frank Ford:
I think you can hear the water running, rushing in the basement.

The basement door, there's probably not enough light to see.

I'm holding the camera over the basement stairs.

And I think that's it. I don't think I want to be here too much longer.

Frank Ford:
Okay, we can stop it.

Now, for the serious part.

This was an Argent loan; Argent for those who don't know is probably one of the most irresponsible subprime lenders.

The loan was bought by Wells Fargo. It was foreclose the on and taken back at sheriff's sale in 2008. Wells then sold it for $2,500 to a company called best buy properties. They put it on the Internet and a week later somebody in England, some guy, I feel sorry for him, he paid $4,150, wells made $2,500, got something back. Best buy got $1,600. This guy in England who I have been trying to get a hold of, by the way, bought this property thinking probably turn of the century house, $4,000. How can I lose! The way he'll loss, it's headed for demolition. It will be a $10,000 demolition, it’s a pretty big house. He’s going to have an empty lot of no value. And considering the decisions – oh, and one more thing. Wells saw this video before they sold the house. The decisions – what were the decisions that were made? Well, first, buying an Argent loan. Where is the due diligence? Certainly, by the time that loan was bought, their track record was known. Their default rate was extremely high. Second, choosing to modify rather than foreclose. Certainly someone thought about that. Well, if this was a $100,000 loan, what if they’d written off $30,000 in principle? It’s extreme, but it’s better than what they ended up with. Third, not keeping up with the property. There are business decisions that go into a home. That's a criminal matter, and in Cleveland, these are criminal codes. Fourth, dumping the property to some irresponsible flipper. Those decisions, now let's look at who made those decisions. Either a depository bank as a trustee for a loan pool, so the mortgage might say in this case U.S. Bank, trustee. Or, are the decisions made by a servicer? It could be Wells Fargo serviced it or it could be U.S. Bank serviced it.

Now, I've got four slides I want to look at. Here are the top 20 plaintiffs for closing on the subprime loans. Notice the predominance of depository institutions regulated by CRA, the four regulatory agencies. Top 20 buyers at sheriff's sales. Again, look at the predominance of depositories regulated. Top 10 servicers ranked by total servicing. With the exception of one, I believe they are all depository institutions. Notice the last column is one I added. Notice the depository banks for servicing is 80 percent in the top grouping. Here's why this is important. Here are the top 20 sellers of REO properties for less than $10,000. Look at the predominance of depository institutions. I will note that Fannie Mae, which you have been hearing about, has changed their practices, their numbers will be less known. Here's why this is important. We'll often find ourselves trying to address a property, and we'll talk to the mortgage holder or the REO holder, and they'll say they're just the trustee and that we have to talk to the servicer, but the servicer says they don't hold the title and that you'll have to talk to the trustee. And it's this back and forth finger pointing, and I finally came to the decision that it doesn't matter. It's the depository institutions that are regulated by CRA that are mostly involved in this.

I had a couple more points I'll try to touch on quickly. Code enforcement. Absolutely, code enforcement needs to be increased.

I know this is President Gianalto said that it is questionable to what extent CRA can be used, but I'd say the regulatory institutes really need to push the envelope on this.

Tammy Edwards:
Thank you.

Judge?

>> JUDGE RAYMOND PIANKA: The Cleveland Housing Court was established 30 years ago as a way to enforce state statues, and then there was the Toledo Housing Court after and the Columbus Environmental Court, but all Municipal Courts have that housing type docket. I have been on the bench for 15 years and the type of cases that I have seen has changed drastically in those 15 years in the past it was an absentee owner or owner occupant in an inner ring, where the trim needed painting. I'm still seeing the gutters with the trim needed painting, but the house is condemned, stripped out. Legal title owner walked from the property. The mortgage company has walked from the property, leaving the citizens of Cleveland to deal with the aftermath.

The housing court, in its role as problem solving therapeutic court, tries to work on a number of issues having to do with real estate in the City of Cleveland and the village of Bratenol. We have very few cases from that village, which is a high end community adjacent to Cleveland.

In 2005, the national vacant property campaign did a study on Cleveland and called Cleveland at the Crossroads, which is available online. It outlined that there are 10 to 25,000 vacant structures in the city. We really don't know how many. And that one abandoned property, of course, takes value away from the other properties. But the lack of effective code enforcement facilitates flipping. And the bottom line to that report is that it's just too easy to own vacant and abandoned property in the City of Cleveland.

Of course, the foreclosures that we started to notice in the late '90s accelerated. What are our challenges currently? You see the ad from eBay, it lists a property. Twenty-two bidders bid this house up to $1,200. The four family brick, the next one, 22 bidders bid it up to about $1,200. You also see ads up on Craig's List, which outlines investors, Ohio bulk liquidation. And that you can buy a three bedroom properties for $7,000. And unless, unless you think that you in your states can't be affected, the ad goes on, More properties in other states available. So we are seeing issues of people from Israel, China, Saskatchewan who have owned and purchased properties on the Internet. The photos of the property are much like the date websites. What you see isn't necessarily what you are going to find when you meet the property in person.

[Laughter.]

Judge Raymond Pianka:
As Frank has outlined in his video. So we have unrecorded interest, titles flip, flip, fliped without benefit of being filed at the county recorder's office. Online purchases. Service issues are difficult for out-of-state buyers and out-of-the-country owners. Then there are business entities that are unregistered to do business in our state and may even be defunct.

So the Court had to change its way of doing business. There are a number of things that we had to undertake. One aspect that involved corporations. The Court's ongoing challenge is compelling corporate defendants to appear in court. In general, the City of Cleveland does not name officers as defendants, although they can. They name the corporations. Several unique issues arise when a corporation or other entity is named as a defendant. The use of corporations as statutory agents for other corporations often complicates service, as does the failure of out of state corporations to register with the State.

Unlike individuals who are subject to arrest if they fail to appear when summoned, corporations and other entities cannot be arrested, nor are the corporate officers subject to arrest.

So the Court has established a corporation docket given our limitations, which requires the corporations to come into court after being served. If they fail to come in, we send out courtesy notices apprising them of potential contempt of court. If they fail to come in, they can be fined $1,000 a day, which is converted to civil judgment -- their properties are liened up. We find that the courtesy notices are helpful, particularly with corporate officers when their spouses receive them, notice of hearings in Cleveland housing court. It's helped quite a bit to bring in corporate defendants.

We have also established a clean hands docket. Clean hands approach is for our eviction section of our court. It prevents a property owner with an outstanding warrant in corporate case from eviction until the owner addressed the criminal warrant issues. Previously we have seen a number of corporations and individuals filing eviction actions, but we had warrants for them on the criminal side of the Court. We stopped. Said unless you come to court with clean hands, address those issues, you cannot move forward on your evictions.

We have developed comprehensive plea agreements and you know, all of those late night infomercials in other media have brought people into the real estate market who probably shouldn't be and sometimes the city will bring them in on code enforcement on one case, which is just the tip of the iceberg on their property ownership.

As a result, in order to mitigate their substantial fines, of which a corporation can be fined $5,000 a day for each day out of compliance, we encourage them to enter into a comprehensive agreement. And if they do that and bring all of their properties in the City of Cleveland -- not only those before the Court, and develop a plan for transitioning those properties or repairing them, those fines can be mitigated.

We also have looked at a few other ways to maintain the cases of the properties boarded before the Court, such as you look at the artistic boarding, which we have a pilot project for all boarded houses that are before the Court. While we can work to free up the mortgage or work so the city could tear down with the consent of the owner the property, or sell it to a beneficial owner.

We've just recently started a victim restitution look in which victims, potential victims have been notified if they believe they have been harmed by the criminal actions of property owners who failed to maintain their property. Those properties that are in housing court. And the Court will issue its decision around the middle of this month on victim restitution for neighbors of properties.

Okay?

Tammy Edwards:
Thank you. Elyse?

Elyse Cherry:
Well, thanks very much. Delighted to see everyone here. Many thanks for the Federal Reserve for creating this conference and also for all of their focus on the issues of foreclosure in REO and vacancy. I'm from Boston Community Capital. We're a community financial institution. We have been around for 25 years. I actually have been around for 25 years, too, although for the first dozen or so as a member of the board of directors. We started as a $3,500 entity. We now have about $600 million under management. We have financed probably 10,000 units of housing, a couple of small venture funds, a tax process. We are the largest third-party owner of solar facilities in the Commonwealth, which we have all over affordable housing developments across the Commonwealth and a variety of other things as well.

Back in 2006 and 2007, we began to see the issues with respect to housing prices in the neighborhoods. It became clear to us that we needed to move from our traditional approach of working through intermediaries and begin to work more directly with the ultimate homeowners. We put together a program that we call the SUN Initiative, stabilizing urban neighborhoods. We came up with the name after we realized we were ourselves falling all over SB1 and two and all of that. We call it the sun initiative. The sweet spot is post foreclosure and pre-eviction. We are set up to buy up any asset at all, whether it's a loan or an actual property and then turn around and sell it right back to the people who are living there. By doing that, we not only stabilize the family. We keep kids in the same schools, keep friendship circles and social circles in place, keep the homes from becoming vacant and a blight in the neighborhood.

We actually work with a group of community outreach partners, like greater Boston legal services and foreclosure counselors and a group called city life. Urban ministers. We are out talking to everybody in sight to find people who are in homes, who have some steady source of income that might allow them to support a mortgage that is consistent were current market values, but in fact who are in foreclosure because the mortgages are twice what current market values are. It's a full underwriting process. When we find somebody who meets the criteria that we have, we go out to the lender or the asset manager, depending on what stage the property is in, and provide market level data. Zip code level data about the value of distressed properties in that zip code. And then we offer to buy on basically a market rate and cash purchase. We can close on a dime.

Once we get them, we mark them up about 25 percent, which is really the differential between a distressed sale and non-distressed sale and sell them back to the homeowner. We put on a shared appreciation second mortgage on. The way it works, if, for example -- we provide a mortgage, I should say that. If for example the new mortgage is equal to half of the original outstanding principal amount of your original mortgage, you would get 50 percent appreciation at the other end.

I have to tell you, in light of where prices are and where they are likely to be over time, I don't really think there's going to be much value in terms of that shared appreciation second. What it does, though, is help us to screen out speculators and other folks who are looking to flip properties quickly. From that perspective it's a very useful tool, but we never agree to sell it and over time it will be interesting to see, but I would not view it as a profit center. In order to develop funds for this, we actually funded initially through our own money, money we raised as a result of fees we were able to acquire through national tax credit transactions. We went out to raise funds from the community. Most of, almost $50 million has come in from private individuals and a few foundations. We are at about 42 now on what we are hoping will be a $50 million pool.

The goal here is to get that money out and then once it's out in loans have been seasoned to package up the revenues from the various loans. Not the servicing, but the income from the loans and turn around and sell that and use the money to recapitalize and do the whole thing all over again. We think with the initial $50 million pool we will be able to do 50 units of housing. We are focused on Boston and Revere. Revere is adjacent to Boston. It has the same characteristics as many of Boston's low income neighborhoods. It's in Suffolk county, which is the same county, and none of those are the reasons we are doing it. We are doing it in Revere because that's where I grew up. I actually came through Revere public schools, and I suspect the home I lived in is currently one in difficulties now.

So we have all of that in. We are now up somewhere north of 85 transactions since the beginning of the year. We are at about $10 million in terms of money out the door.

I think that the money that has come in, it's all debt except -- there's $3.5 million of up front loss reserves, but the rest is five year four and a quarter percent money. We borrowed five year money and we make 30 year loans. We have been up front with our lenders about that. The goal of course is that we hope to pay them back.

Assuming that we succeed and I do assume we will succeed at a recapitalization process, the first time we do that we will actually free up a whole lot more money. The concern of course that people have is whether they are actually going to have to run down the loans as opposed to getting repaid in five years.

I just want to say a couple of other things here about some of what we've discovered and also some of what we think the future might look like. Our mission at Boston Community Capital is to help build healthy communities where low-income people live and work. We never thought of ourselves as totally housing focused. One of the interesting things we've discovered in going through the process, we've gotten a much deeper understanding about the cash flow and expenses and budgets for low income families. When you look at what's going on there, housing costs are probably the biggest piece. The car loan is often the second biggest piece and utility costs are the third biggest piece. The reason the car loan is the second biggest piece is because folks are getting car loans, it's not unsurprising for us to see 23 percent car loans and as high as 56 percent. It's one more way in which the neighborhoods are being raped. When you look at utility costs, there are lot of programs around attempting to do conservation or efficiency or whatever, but they are very complicated for everybody to manage. You have to go all over the place. You are talking about folks having two jobs and raising kids. It's a difficult kind of process.

One of the things we've begun to think about, basically we are buying properties right now, averaging roughly 47 percent of outstanding principal amount in terms of our purchase. You mark them up. We are still at a point where, because we are reducing the interest rate, we are between six and a quarter and six and three eighths, you are whacking half off the monthly mortgage payment, sometimes $1,500. In addition to that, we are working with a group that can finance cars at a lower price that we think we can bring capital to the table. You can whack another four or $500 off of that. We are looking at the various utility programs and figure out whether we can become a conduit essentially so that you can go to a homeowner and say, look, we can do the mortgage, we can do the car, we can do the utility costs. Overall you're starting to look at something between $2,000-2,500 that you removed from the monthly expenses of a low income family. If you can do that on an after tax basis, you're up around $45,000. That's a huge impact. That's something that we are thinking about over time.

The other interesting question, I think, is what happens at the end of this crisis, right? You know, so however it happens, and God knows, I think it's a long process, but the vacancies, the foreclosures, the REO flushes through the system. People come in and start lending again.

What is really to stop the same sort of predatory lending processes from happening? I know there's a lot of work in the government trying to ensure consistent regulation. I know there are a lot of political problems with that. We are wondering whether we shouldn't become the go to mortgage lender for all these various neighborhoods so we can assure over time that people actually have safe, consistent mortgages that are appropriate for the homes that they have and the kind of income that they have. I see my time is up so I'll stop.

Tammy Edwards:
Thank you.

Evelyn?

Evelyn Freidman:
Good morning. Still. I'm Evelyn Freidman. I'm the director of the Department of neighborhood development for the City of Boston. We are the affordable housing and small business development agency in the city. And I want to -- I have a disclosure which is that for many years I worked at the community development corporation and that will color some of what I have to say.

The city has -- we've sort of identified five key challenges related to the foreclosure or how we are trying to address foreclosure problems. We want to help home buyers compete in the market. We are trying to address and dealing with developer capacity, trying to figure out what to do about competition from investors. Targeting certain neighborhoods for major impact. And then trying to prevent the abandonment of REOs.

What we are trying to do for the most part or where we started was to try to help home buyers buy properties. We are using a portion of our NSP money to both help homeowners or home buyers rehab properties and acquire properties.

But it hasn't worked as well as we would like. The reason is, and we'll discuss this a little more further later, is that the home buyers just can't compete using the NSP money for one and they can't compete with investor owners.

Even so, one of the, about 50 -- we have been able to help about 52 home buyers buy REO properties. This is a property on Millet Street in Dorchester, a section of Boston.

It's interesting when people talk about how much the properties are being acquired for, this one was acquired for $290,000. So one of the things I think that is a regional issue is how much properties actually are worth, how you priced them and so on.

The city provided $8,700 for a down payment assistance and $50,000 for rehab assistance.

We would -- these are kinds of properties that we're trying very hard to assist home buyers in buying. But as I said earlier, it's very difficult for the home buyers to compete with investors and part of the problem is the mortgage process, acquiring mortgages for the home buyers. Part of the problem is, as I said, competing. We have developed a Web page where we're trying to assist home buyers in locating these properties. And we have classes that we run and that other nonprofits in the city provide for people who are interested in buying foreclosed properties and the demand is huge, huge. The problem is trying to get home buyers directly into buying the properties.

The second problem that we're facing is developer capacity. I think a number of folks have talked about this problem. We have a very robust nonprofit housing development community in the city. We, but most of them, most of the nonprofits have been focused or larger property. So this is, they have to retool their thinking and also their process when we start looking at the smaller properties. This particular property -- that's our mayor. You have to have a picture of the mayor, of course. This particular property was, one of the methods that we're using to help nonprofits acquire properties is to negotiate the deal with the bank, with the lender and then never -- and then transfer our interest to a nonprofit so that it never comes directly to us. The city is buying property. I'll talk about that in a minute. But once we buy the property, we are, because we are government, we are regulated and we have a very specific process that we have to use, which is quite lengthy in order to dispose of property. So one way that we are trying to avoid doing that is to negotiate a deal with the lender, transfer our interest to the nonprofit, who we preapproved.

One of the reasons that the nonprofits don't want to do this sort of work is because, and I think some other folks talked about this, is that the amount of money that they can actually earn in fee and overhead is minimal and doesn't really cover their costs. One of the things we want to do is to see if we can change that dynamic. However, because of that problem, one of the things that we're doing and I think a number of others have spoken about this, we work with a lot of small developers who we feel confidence in and who have either agreed to sell the property to a homebuyer or we feel comfortable with their capacity to rent the properties.

One of the other options that we are exploring and we have been working on is to use these properties that the city acquires for supportive housing. The other side of this, this is an opportunity for us to use this for supportive housing for homeless families or individuals. In this particular case, this property was acquired by a nonprofit working with a private developer. They are going to use it for youth aging out of foster care which is a burgeoning problem for our city and state. It's difficult because locating properties for housing like this is difficult. In this case because somebody else is rehabbing an abandoned property, it makes it easier for sighting this kind of a program.

One of our problems or challenges is competition from investors. One hundred -- right now, the city has 852 foreclosed properties. We had a few -- we have had about 2,900 properties go through the foreclosure process in the city. But of the 161 properties were bought in the city by only 25 individuals. And when they are resold, they are not being rehabbed. People are flipping these properties. This is one of the things that we're very, very concerned broadband and has been one of the major issues that we have been trying to address by acquiring the properties ourselves. We work very closely with our code enforcement department and we have a receivership program that we started with them. One of the things, though, that we've done is, this is the City of Boston. The yellow is the NSP area. And the darker areas are where we focused, targeted our acquisitions. Now, acquiring property by the city is very controversial. As you can well imagine. We actually, my department is the Department in the city that receives tax foreclosed properties. Really, most of the time what we are trying to do is sell tax foreclosed property, not acquire anything. So it's controversial to do so.

Nonetheless, we've acquired about 54 properties and as I said before, we've helped another 52 individuals -- helped another 52 individuals or families buy properties. In comparison, only about 12 properties have been bought by nonprofits in the city. Which gives you an example of part of the problem, what we need to do in our city, anyway, to try to address this problem. If we can't get -- if it's difficult for home buyers to buy the property and it's difficult for nonprofits to buy the property, what are the alternatives?

Finally, one of the things that we are doing which is highly controversial and our mayor says to me at least once a month: Now, why are we doing this? We are buying occupied properties. We have only bought about ten so far, but the reason that we are doing that is to prevent eviction. About two-thirds of the people in our city who are impacted by the foreclosure problem are tenants because they are being evicted. We have many triple-deckers. So we are trying to prevent those folks from being evicted, but also abandonment of the property and thereby having people occupy the properties and remain in the properties so that they stay part of the community and they prevent abandonment.

I am at the end of my time now. I'm happy to answer any questions.

Tammy Edwards:
Thank you. Frank, you get the first question, and we could clearly see from your video that you, I think in another life, you want to be Geraldo Rivera. As you go through the vacant homes.

Frank Ford:
I'm working on it.

Tammy Edwards:
We can see that definitely some homes definitely need to be demolished because they are beyond repair. What advice would you give communities who are thinking about revamping or starting the use of demolition as a way to stabilize neighborhoods?

Frank Ford:
The very first thing that I think any community should do, and I think it's a really good aspect of NSP 2. It's the idea of targeting for impact, whatever the activity is, rehab, demolition, to consider where the places are that you want to invest your resources. We have 11,500 vacant properties. At least that is the count -- the judge said we don't know, but there is a count. We've gotten better at that. 11,500 vacant properties. The average demolition cost, it's a little below ten. $100 million problem.

Rehab, if you do the rehab properly, it's a $45,000 gap. That's a $40 million problem. We don't have either of those numbers to work with. And I don't know if any communities do have all the money they need. So the very first thing is targeting and looking at the places where, if you are going to do demolition, rehab, whatever it is, where are you going to get some visible return for that?

The sad thing about that, that means there are places, you're saying okay, we're not going to do something over here. Taking the peanut butter and spreading it evenly is unfortunately -- I don't think that's the way to go. It's a very tough decision.

Targeting is the very first thing. It's so, your question is a community that has not done much demolition and they are looking at maybe now they have to? The first is getting over the decision to do it. Cleveland didn't always do that. We did 200 demos a year historically, and now we are doing 1700. Most of the people like myself, I have been in this 20 years, if we weren't die hard preservationists, you lean towards, you don't knock stuff down when it's oak floor, turn of the century. But to not do that, then you subject to think about subjecting Mrs. Smith next door with the house next door boarded over. So getting over the decision, having a rationale for the neighborhood being comfortable with the decision that you know some things have to come down. So maybe I'm drifting too much and maybe I didn't give you as much of an –

Tammy Edwards:
That was great, thank you.

Judge, we have been hearing a lot of these nuisance-based suits. Tell us about how successful they have been, especially with out-of-state financial institutions.

Judge Raymond Pianka:
There's two forms of nuisance abatement action that are brought to the housing court, one brought by the city under criminal code action, possibly penalty could be $5,000 a day for each day out of compliance. It's not unusual for corporations to have fines of 25, $30,000, far in excess of the value of the property.

It's difficult obtaining service at times. Once the companies are served, bringing them in. That's why we had to establish our corporation docket.

There's another side, which is the civil side, nuisance abatement action, receivership type actions, temporary restraining orders and injunctions. You could ask the plaintiff in one of the receivership actions seeking nuisance abatement how successful it was, but the one thing that I find as we bring the parties together in court, there's a dialogue that helps not only in that case but with other cases.

And other pieces of the inventory of the property owners and apprising them of what their obligations are under the law. But in addition, it's hard to believe that sophisticated corporations when they became owners, legal title owners of a property didn't research what the local ordinances were, what you are required to do. Unfortunately after a few cases, they now are researching that. But if we can get a positive outcome within the walls of the courtroom between the plaintiffs and the defendants, the plaintiffs in the criminal action being the city and the defendant property owner or plaintiffs being a nonprofit group, could be the city, and the property owner. That's what our goal is.

Tammy Edwards:
Thank you.

Elyse, tell us more about how you have been able to convince these lenders and servicers to sell you homes at market values. I know a lot of communities are probably very interested in that process.

Elyse Cherry:
Well, if we are dealing with asset managers, because the property is post-foreclosure, it's really the most straightforward approach. You have an asset manager who is incented to sell. That's how they get paid. When we are able to provide zip code level market data, the argument is, look, nobody is going to pay you more than this. That's the price. As I say, there's a pretty significant differential for distressed versus non-distressed properties. This gets to be the most critical issue, whether it's pre- or post-foreclosure is helping lenders and servicers and asset managers understand that conditions in particular neighborhoods and particular sip he codes don't have a lot to do with what is happening in the greater Boston area. For example, if you look at chip case's index, he says Boston hasn't done very much. He's right in the greater sense. If it's Brookline or Newton or Weston, Boston suburbs, they're fine. When you look at some of the neighborhoods in Boston, some of the low income areas, we're seeing drops as much as 72 percent. A lot of that is because, I think this is no surprise to anybody, once mortgages were unshackled from income, there was nothing to stop a run up in prices. Income has been basically stable over a long period, but there was a huge run up in price during the period of credit that was available without underwriting.

So it's all just come back down again. Again it's back being tied to income and there's a process of needing to explain that to the folks who hold the loan or asset. They have a hard time accepting it, but the data speaks for itself. That's what we've done. The challenge is, it's not like you can go in to a neighborhood and say who is the biggest lender? We'll deal with them. There are many lenders in those neighborhoods and the folks we can work with, people who have stable income, even though they can't support their own mortgage, are scattered a lenders. It's a retail process. We attempted to buy some portfolios early on and had difficult time coming to agreement on numbers on that. We thought maybe 20 to 25 cents and they thought 65 cents.

So this is something that I think there can be a lot of assistance through governmental entities, through the press and so forth, really helping lenders writ broad understand truly what's happening to values in the neighborhoods and my current sense is that they are actually dropping again. So one of the interesting questions is not staying on a trend that says appraisals are coming in, they are flat or going up a little bit, but paying attention to the real trend which I think is a little bit downward at this stage.

Tammy Edwards:
Evelyn, tell us, we have been hearing a lot over the last day and a half about the public-private partnerships and how effective they can be. Tell us, what do you think from a city perspective the role of the city is in bringing the private sector together with the public sector to address some of the neighborhood stabilization issues?

Evelyn Freidman:
Well, I think the city and especially local government -- I want to say especially our mayor has been very active in trying to get both the lenders, the nonprofits, and other quasi publics to the tables to address all of these issues. We, for example, work very closely with the ECC on --

Elyse Cherry:
Evelyn is a former board member and former borrower and former landlord.

[Chuckles.]

Evelyn Freidman:
With home buyers, when we discover home buyers or homeowners who are still in their properties, you know, informing Boston Community Capital about them and bringing all the various components to the table to say what are the things that we can begin to do to address these problems? Just internally to the city, we work together quite well with the other departments so that we can make sure that all the various things in a particular neighborhood are addressed. Some of us have talked about targeted neighborhoods. Well, when we target a neighborhood, we are not just talking about we are going to target the neighborhood to address the foreclosure problem, but we want to get trees put on the streets redone, sidewalks redone. The mayor is focused on getting these things addressed in difficult, high foreclosure areas.

Tammy Edwards:
Now let's open it up for questions from the audience. As a reminder, please wait for a microphone. Also, please tell us your name and the organization that you represent.

Lisa Rice: My name is Lisa Rice with the National Fair Housing Alliance. My question relates to the abandonment issue. One of the things we're facing in trying to assist our member organizations in operating their loss mitigation and loss prevention programs is the issue of abandonment. What we are hearing anecdotally quite a lot is the attorney who is either representing the lender or the trustee will send a notice to the borrower, the homeowner, that they are in default and they are about to be foreclosed on and they have to vacate the premises. The borrower typically does not want to be embarrassed by having the sheriff, you know, the sheriff show up at their home to evict them. So the borrower actually vacates the premises, but then the lender or the trustee doesn't proceed with the filing the foreclosure action.

Unfortunately, the borrower has gone and cannot be notified that the foreclosure was not filed. They are not being foreclosed upon, and they don't know that they still technically legally own the property. So the borrower does own the property, but is nowhere to be found. I'm just wondering to what extent you are seeing this, if you are seeing it in your jurisdictions. If so, to what degree you are seeing it and if you've developed any policies or practices to try to address the problem.

Judge Raymond Pianka:
We see it quite frequently in court. It had us develop a program, every foreclosure filed in the City of Cleveland, the Court sends a letter out apprising them that there's help available with several groups. But also that they should not leave that property until the sheriff puts them out or until they give someone else the deed. It could be a deed in lieu of foreclosure. We also give them our phone number. We run a housing clinic at the housing court, and we have ten specialists that are available to discuss with them what they can do.

I usually see cases where people receive their notice that they are in foreclosure. They leave the house. They may have filed bankruptcy. Their bankruptcy attorney says you know, this financial burden is off of your shoulders. This is even for investors. They are quite surprised when they see me because the mortgage company has dropped the foreclosure action. They are still the legal title owner. They are being pulled into court. Criminal defendants. Facing having to pay for the demolition of a property that is now vandalized and worthless. In fact, it has negative value.

We tried to swim upstream a little bit with the bankruptcy attorneys, sending them letters that some of their clients may be confused and that although they are relieved of the financial burdens, they may still be the legal title owners. Unless the mortgage company after the asset is abandoned, out of the estate, picks up the foreclosure action again and takes it, which we are finding many times they do not, leaving that title toxic. So the people are in a gridlock. Within the last year we have had relief through the county land bank, which will take those properties if they can work on a release of that mortgage lien. So that's what our housing court specialists do every single day with people who find themselves owning properties that they thought they lost.

Frank Ford:
I have two things. I certainly agree you hit the nail on the head in terms of what's going on in people's mind, why would they do that? Why would they leave? I think you're right.

On a macro level and micro level, two ways to look at it. Macro level, public figures in Cleveland have been very bold and outspoken about saying: Don't move out. When that get out there in a public way, it becomes a little more acceptable. Okay, I'm not alone. This is a problem that is not just me. Maybe it's okay for me to stay. That's setting a framework for that, setting a climate that it's okay, you should be staying in your home. Don't leave. On a micro level, this is something that is not practical all over the city, but we have taken the target neighborhoods where we are doing NSP work. We are actually going door to door. And we are using data. Yesterday Terry Theologides. I probably butchered his name again. You're back there! CoreLogic, we paid $10,000 to buy data from CoreLogic --

>>: (Off microphone.)

Frank Ford: It was worth it! What we got were the ARM loans that were going to reset. We knew where properties were that were likely to go into foreclosure. We have been going out. It's very labor intensive. You don't do this in a whole city. Back to a targeted approach, using resources for impact, we are going out. That gets the buzz out there among block clubs and neighbors that, you know what? We should be not moving out in the middle of the night. We should fight back and people are going to help us.

Evelyn Freidman:
In Boston, the cities had adult borrow trouble campaign which started in Boston -- everything starts in Boston, of course.

We, first of all -- first we, there was a huge marketing campaign which continues about coming in to talk to either the city or our partners, our nonprofit partners about how to stem the tide of foreclosure. As soon as, the other thing that we do on a daily basis as the city, our department sends out, any time there's a petition sent to a foreclosure petition at the very beginning sent to a homeowner, we send out a postcard saying, here are the places to go. Here are the things to do. Please call us or one of our partners. We now saved over a thousand potentially foreclosed homeowners. So we have a thousand families that have not been foreclosed on, more than a thousand in the city. That's made a huge impact. It's not targeted. It's anyone who gets a foreclosure petition in the city.

Elyse Cherry:
The other thing I would add to this, there's some self help going on. We have a group in Boston called City Life, Vida Urbana. When people get close to being evicted, they demonstrate and get a bunch of folks from the neighborhood and they form human chains and the sheriff shows up and says you know what? Not me an goes back again. We have a great sheriff, too.

But you know.

[Laughter.]

Elyse Cherry:
So they've actually been quite successful. They have been out organizing in the neighborhoods. They are a great partner with us. They sometimes to claim to have us more in a bear hug than we are comfortable with, but in fact often what will happen is the lender is forestalled for awhile and they will send us the homeowner and we will be in a position where we can actually help. I do think that government has an extraordinary role to play here, but I think good old fashioned community organizing, which is not what we do, works as well.

City Life has gone farther, too, they moved in old furniture in vacant homes and called up the lender and said, we are squatting, we occupied your home. It sends everybody through the roof and then the lender shows up and there's a big thing and the Boston Globe calls up and then they say, Boston Community Capital, what is your view on squatting? What do you want from me? I'm a financial institution. I don't have a view on squatting. Why aren't you talking about public safety issues with people dumping furniture in the street.

That gets picked up and neighborhoods start to feel empowered about all of this. I think creating communities around folks who are at risk are foreclosure or something we are starting to do with the folks coming through our mortgage foreclosure program helps as well. Isolation is clearly one of the hallmarks of poverty. It's a really significant problem when it's attached to shame and homelessness as well. I think in all of those ways, people are working on this.

Tammy Edwards:
What other questions do we have?

Frank Alexander:
Frank Alexander with the Center for Community Progress.

Frank, a follow-up questions to you. I was intrigued by the slides that you presented where you showed the percentage of the mortgages and the REO held by the nationally regulated depository institutions, but I'm curious about what you didn't say linking to Judge Pianka. I'm asking you, Frank, because I don't know if it's appropriate to ask the judge.

How many of those depository institutions federally regulated depository institutions have been convicted of criminal violations? Ten or more times?

Frank Ford:
That's just as a coincidence, I don't think the judge knows this, but I have been talking to his staff about getting the data. I hope that's okay.

[Chuckles.]

Frank Ford:
I think it's public record. I was going to start looking at that. I believe that since it is a matter of public record we are trying to figure out the logistics, electronically, can we get this to Case Western Reserve University where all the other data is housed?

Judge Raymond Pianka:
The answer is many of them on that list. Many of them.

Frank Ford:
There is a statistic that -- let me throw this in. I didn't mention it earlier.

In 2009 there were 3,000 properties sold out of REO by predominantly those same institutions.

60 percent of those sales were for 10,000 or less. We're talking an extraordinarily high percentage of the REO sales in Cleveland are these distressed properties. It's not a few here and there. They don't all have running water in the basement for sound effects, but you know, you can find a lot of properties like that.

Tammy Edwards:
Questions?

Maya Brennon: I'm Maya Brennon with Urban Policy. I wanted to underscore one of the final points Evelyn made about the importance of cleaning up and making sure that the streets are in good shape and everything else around the neighborhood is good also because you are not going to have anybody moving into a neighborhood with well-rehabbed homes that looks otherwise like a poor community to be in. Then I had a question about the artistic boarding happening in Cleveland. So what extent is that pilot program going on? Is it in select targeted areas? How do you feel about that?

Judge Raymond Pianka:
With artistic boarding, it's where the boards are painted on the house. One blogger said it's lipstick on a pig and it could be, but we have to deal with the pig.

I think it was about three years ago and Robert Klein is here. He sponsored a demonstration project. He's with safeguard properties to bring into the Detroit shore way neighborhood, bringing in artist if I can boarding to Chicago. This group worked in Minneapolis, Albany, Chicago.

Costs about $1,000 a house. And many of the homes that are in transition aren't going to be torn down right away or someone isn't going to step forward to rehab them. So it maintains a less obtrusive negative status quo in the community.

We started with the 15 properties that were boarded that we had defendants in court. So we ordered them artistically boarded. The properties then every week our bailiffs go out to make sure they are clean, secure, graffiti free. If not, we will haul the defendants back into court to answer for that. But it shows that the Court's eye is on these properties.

As we started to do the properties, we started in Slavic village. It became apparent that the other properties also needed treatment, but they weren't under the Court's authority. So the councilmen in the area worked with the city to go in under the city administration's nuisance abatement authority that boarded the house, to go on and do the artistic boarding.

There's a $10,000 demonstration contract that the city administration has. There may be other entities. I'm going to encourage my defendants, corporate defendants that have big inventories if they have boarded properties to take this extra step as a mitigating factor on the substantial fines that they face, to take that property and, because once it's boarded and it shows artistic boarding, that demonstration project in Detroit, they are demonstration properties and not one of those were broken into. Not one. The city is always having to reboard properties. It shows that there's some interest in the property and someone is keeping an eye on it. It preserves the asset, and that's what the housing court is trying to make sure that assets and communities are preserved and to try to stem the tide of collateral damage on adjoining neighbors.

Tammy Edwards:
Other questions? Let's talk about -- oh, go ahead.

Gina Dunlap:
I'm Gina Dunlap from Kentucky. I'm an NSP administrator.

We are very fortunate to have a lot of say good property management laws and ordinances in place. We've got the nuisance abatement ordinance, abandoned property tax penalties. The legal aid society partnered with the master Commissioner who oversees the foreclosure sales process to mandate mediation for foreclosure action through the Courts. What we don't have is an actual housing court or receivership program.

I'm wondering from an administration perspective what it takes in terms of staff, resources, coordination to make that work. Budgetary resources are scarce. How much money does it take or other departments are donating staff time or if you're actually allocating budgetary resources to that effort.

Judge Raymond Pianka:
Our housing court was established by statute. They also established the Toledo housing court and Columbus environmental court. There are other courts that work on housing dockets. They cluster all their housing cases. These would be in smaller communities on one day.

The cost, our court is 30 years old. We go to City Council. We have 40 staff members of the Cleveland housing court, specialists, magistrates. And so the City Council reviews those costs.

So every court has that type of docket and in fact, Judge Nowack up in Buffalo has taken the cases and volunteered to be the housing judge just on a rotation. Judge Millitch in Youngstown, Ohio, has offered to take those cases. The important component is people to work on problem solving on the staff. Up in Buffalo there's volunteers. But also, within the framework of Cleveland, it's not just the housing court. It's a CDC community that gives us some options on what to do with the property, a direction for the property. Rehab or part of a plan. Not in all neighborhoods, but in many neighborhoods.

Frank Ford:
I have just a quick answer. Costs, we've done 40 cases, filed them -- administrative costs are about $1,500. Filing, title searches. The legal work. It's going to cost you about $10,000 per house, but we're getting that done by Cleveland State's law school. The next is the rehab or demo work and that's the same that it would be in any other case.

Off microphone voice:
How many other states.

Judge Raymond Pianka:
There's the Boston housing court, the first housing court. Memphis has an environmental court. And all courts have those types of dockets, but statutory courts, there aren't that many.

Tammy Edwards:
Two quick questions and two quick answers and then we will, we have to end this session.

Richard and then Mack.

Male Voice:
I'm curious, when you tear down a house, do the materials get recycled?

Frank Ford: That's a great question. I don't have time for everything. My organization for two years has been pioneering local deconstruction effort to recycle materials. We've done 25 houses. We have yet to prove that this is working. I mean, it's working in terms of the green impact. We are not sure that it's cost effective.

But otherwise in the traditional demo, those materials, the city says they belong to the contractor when he pulls them out. He can take them somewhere on his own yard if he wants. They traditionally take them to the dump. More and more, they're trying to recycle some of that stuff.

George McCarthy: George McCarthy from the Ford Foundation, otherwise known as Mack. I think it's useful to distinguish between investors and speculators. The question, this might be down in the weeds for you, judge. If you acquire a property on a quit claim deed, does it -- doesn't it actually still carry like tax liens and fines and other penalties that are assigned to the property so that wouldn't it be useful to get out to the potential speculators out there some knowledge that acquiring a property without a really perfected kind of deed is going to be a lot of problems down the line?

Judge Raymond Pianka:
Yes, it would be helpful because it's not only taxes, violations, could be lead paint violations. There could be toxic spill on the property. You're just putting yourself in the chain of title for all of that. Some individuals protect themselves by setting up corporations. Surprising number of people take it in their own names. I had a couple of Idaho drive in last week who purchased a property on the Internet and through a quit claim deed and just: What were you thinking? Unless we can get on those late night shows and try to counter some of that, it's a worthy thing to try to explain to people, to people how to protect themselves. They do need to protect themselves because I'm sitting there just waiting. If the city files a case and they prove their case, you're going to be fined.

And my job is to uphold the standards. Whether you're an elderly couple who has a property that you live in, or you're a corporation or an individual that lives in some other country, you have certain responsibilities. Now, the dynamics of ownership are different. So I can weigh those things in, but I'm surprised by all the people that make bad choices in purchasing property on the Internet. And some in person.

[Chuckles.]

Tammy Edwards:
Well, thanks to each of you for sharing your best practices and in your respective communities of you've given those of us in the room and those of us joining via webcast all food for thought and some things that we can go back into our communities to implement.