

The ongoing foreclosure crisis has led to a dramatic increase in vacant and abandoned properties across the City of Chicago and the region. While some of these properties are secured and maintained by their owners, many are not and can pose significant risks for neighborhood stability. Often, **the most troubled properties are concentrated in African American communities** on the City's South and West sides, frequently clustered on highly distressed blocks.

The foreclosure crisis has made some of the traditional concerns with vacant properties more complicated. In the past, concerns about vacant properties and foreclosure were largely tied to the disposition of properties that had completed the foreclosure process, entered a mortgage servicer's portfolio of lender-owned properties, often called real estate owned (REO) properties, and sat vacant until they could be sold and returned to productive use. While the management of such properties remains an issue, **there are growing concerns about vacant properties where a foreclosure has been filed but has not yet been completed.** Properties that are not occupied or proactively maintained by mortgage servicers are at high risk of falling into disrepair and having a significant negative impact on the community by affecting the values of neighboring properties and attracting criminal activity. This is especially true for troubled properties that have been in this state for extended periods of time, raising concerns that the servicer has chosen to charge-off the mortgage after initiating foreclosure and has effectively "walked away" from the property.

Woodstock Institute recently released a report, "[Left Behind: Troubled Foreclosed Properties and Servicer Accountability in Chicago](#)", that examined the scope and impact of "red flag" properties, which are troubled vacant properties where a foreclosure has been filed, but no outcome has been reached. The report also identified a group of lender-owned, foreclosed properties that most likely are vacant and not in compliance with the City of Chicago's vacant building regulations.

Woodstock Institute convened a group of key stakeholders at the Federal Reserve Bank of Chicago on February 23, 2011, to discuss solutions that would keep properties occupied, hold mortgage loan servicers accountable for their disposition of properties in the foreclosure process, and return vacant properties back to productive use. The group included representatives from municipal governments, housing developers, community groups, housing counselors, financial institutions, advocacy organizations, foundations, and more (for a list of attendees and panelists, please see the appendix).

Below is a summary of the challenges that troubled, foreclosed vacant properties pose to communities and potential policy solutions identified by participants in the briefing.

Challenges

Woodstock Institute research on red flag properties in the City of Chicago outlined the scope of troubled foreclosed properties (for detailed analysis, charts, and more, please reference “[Left Behind: Troubled Foreclosed Properties and Servicer Accountability](#)”):

- **Foreclosures make up a significant portion of properties on the City of Chicago’s vacant buildings index.** There were 18,320 properties on the City’s vacant buildings index as of September 2010. Of these, 12,674, or 69.2 percent, were associated with a foreclosure filed between 2006 and the first half of 2010. Of these 12,674 properties, 10,778 were related to a foreclosure filing which was linked to a subsequent outcome, such as a completed foreclosure auction or a property transfer such as a short sale. There were 1,896 red flag properties on the City’s vacant buildings index where there was a foreclosure filing with no subsequent outcome.
- **These red flag properties are of significant concern to City officials and communities, particularly if they sit vacant for extended periods of time.** Of the red flag properties identified, over 40 percent have been in the foreclosure process for more than a year and a half, which means their loan servicers likely have decided not to complete foreclosure.
- **Red flag foreclosures are disproportionately concentrated in Chicago’s African American communities.** Over 71 percent of red flag homes are located in highly African-American communities, compared to only 6.5 percent in predominantly white communities. African-American communities are 11 times more likely to have a red flag home than are white communities, while they are 3 times more likely to have a foreclosed property and 6 times more likely to have a vacant building.
- **There are 2,558 lender-owned single family homes that are likely vacant but not registered with the City of Chicago.** This represents over 57 percent of the inventory of lender-owned single family homes in the City as of the third quarter of 2010. These homes are likely not secured and maintained to the standards required by the City of Chicago and may be in an advanced state of disrepair.

Briefing participants identified challenges they face on the ground when dealing with large numbers of troubled foreclosed properties:

- The City of Chicago has a strong vacant building ordinance with robust maintenance requirements and penalties for noncompliance. However, servicers comply with the ordinance to varying degrees and the ability to enforce the ordinance is inherently limited by the number of City employees available to conduct inspection and enforcement actions, especially in the face of large numbers of vacant properties.
- Financial institutions often try to donate the most troubled properties with the lowest values to nonprofits which then demolish, rehabilitate, rent, and/or sell the properties. However, nonprofits are limited in their capacity to accept these donated properties because the costs associated with returning the property to productive use are still very high.
- Some homeowners leave their property after they receive a notice of foreclosure, or even before they receive a notice. They may be unaware of their right to remain in the home until the foreclosure is completed and the home goes to auction, which often takes more than a year and a half. Keeping homeowners in their homes as long as possible reduces the chance that the property falls into disrepair, but it is difficult to intervene early enough to educate homeowners on their rights or reach an arrangement where the homeowner can keep their home.
- Strategies based on subsidy, such as the Neighborhood Stabilization Program, are inherently limited in scope and are unlikely to fully address the scale of the foreclosure crisis. Subsidy-free strategies to keep families in their homes are more likely to be scalable.
- Some financial institutions are unwilling to write down principal owed on a mortgage out of moral hazard concerns, even if the property has no or negative value.

Possible Solutions

Briefing participants outlined a number of proposals to reduce the negative impacts of vacant properties on their communities. These proposals largely fell into three categories: keep families in their homes; hold servicers accountable; and, return vacant properties to productive use.

Keep Families in Their Homes

-Increase resources for The Circuit Court of Cook County Mortgage Foreclosure Mediation Program. The Circuit Court of Cook County Mortgage Foreclosure Mediation Program brings distressed borrowers together with their loan servicers and, with the aid of a third-party mediator, housing counseling, and legal aid, tries to reach a mutually-beneficial solution. There is clearly high demand for the program—more than 20,000 homeowners called their hotline between June and November 2010. More resources are needed to reach all the eligible homeowners who need help.

-Create a program to purchase distressed loans and renegotiate their terms or write down principal. In conjunction with a coalition of partners including Illinois Housing Development Authority, Neighborhood Housing Services of Chicago, Enterprise Foundation, and the Southwest Organizing Project, Mercy Portfolio Services is developing a Mortgage Resolution Fund in which they will buy distressed mortgages from servicers and work with homeowners to write down their principal, ultimately lowering monthly payments to an affordable level and allowing homeowners to stay in their homes.

-Allow judges to modify mortgages in bankruptcy. Allowing bankruptcy judges to modify mortgages through the bankruptcy process would be a more powerful tool to bring servicers to the bargaining table than are current voluntary loan modification programs.

-Increase resources for housing and legal counselors to reach distressed borrowers early. Almost any intervention designed to prevent foreclosure and keep families in their homes relies on reaching the borrower as early as possible after they have encountered hardship. Housing counselors are key agents for reaching homeowners early and educating them on their right to remain in their homes and options for avoiding foreclosure. Many counseling agencies are overwhelmed and have a waiting list. More resources are needed so that housing and legal counselors can adequately meet the foreclosure needs of the Chicago area, especially in suburban communities.

Hold Servicers Accountable

-Increase servicer accountability for the outcomes of vacant properties by expanding the definition of property ownership. A proposed Chicago City Council ordinance, sponsored by Ald. Pat Dowell, would redefine “ownership” to include all parties with a financial interest in the property. This would allow the City to hold financial institutions that have filed a foreclosure on the vacant property, but have not yet acquired the title in a judicial foreclosure sale, accountable to register, maintain, and secure the property and abide by the vacant property ordinance. By shifting more of the costs to the servicer, the servicer may have more of an incentive to work with homeowners to find a solution.

-Hold servicers accountable for complying with terms of foreclosure prevention programs. Servicers have been slow to offer sustainable loan modifications on a sufficiently large scale. The U.S. Department of the Treasury must hold servicers accountable for complying with the provisions of the Home Affordable Modification Program and other foreclosure prevention programs. To date, Treasury has not levies any sanctions even though it has the ability to do so.

Return vacant properties to productive use

-Use receivers to maintain properties. The courts can appoint a receiver to ensure that the property is secured and in compliance with all codes. Receivers can place a lien on the property in order to recoup their costs. Receivers are typically used to maintain multifamily properties.

-Accelerate the foreclosure process for vacant homes. The foreclosure process often takes more than a year and a half to complete. This period of time can be useful for a homeowner who is trying to develop a plan to save their home, but if the house is obviously vacant and the borrower can't be found, the home is at risk of falling into

serious disrepair and losing significant value by the time the foreclosure is completed and the loan servicer takes possession of the home. An expedited process for homes determined to be vacant could help maintain some of the home's value and diminish the risks it poses to the surrounding community.

-Implement land banks to return vacant properties to productive use at a large scale. A nonprofit steward that can strategically acquire, fix up, rent, sell, or demolish vacant and foreclosed homes with an eye to promoting the highest and best use of the land would be a stabilizing agent for neighborhoods. The Cuyahoga County Land Bank is a model for performing that role at a large scale that is meaningful throughout a metropolitan region.

-Allow municipal governments and nonprofit developers the first opportunity to acquire vacant, foreclosed homes. If entities that will redevelop properties with strategic goals in mind have a strong presence in hard-hit neighborhoods, they will likely have a better chance at recovering from the foreclosure crisis. HUD and the National Community Stabilization Trust have pioneered a First Look program for Neighborhood Stabilization Program grantees. A similar program is currently being piloted by Mercy Portfolio Services and has plans to be expanded significantly in 2011.

-Create a fund to assist municipalities in maintaining and disposing of no-value properties. Municipalities incur many costs during the disposition process of properties with no value, including inspections, police and fire calls, litigation, board-up, and demolition. Servicers would provide a list of no-value properties to municipalities and would contribute to the fund based on the size of the no-value portfolios.

-Support conscientious neighborhood investors to promote affordable rental housing. Providing capital support to investors who properly maintain their properties is crucial to ensuring an adequate supply of affordable rental housing.

Regional collaboration and leadership

Participants agreed that regional collaboration and leadership to assess, support, and design proposals to promote recovery from the foreclosure crisis in the Chicago region is critical to the success of any project. Existing partnerships, such as the [Regional Home Ownership Preservation Initiative](#), provide a venue for this dialogue and should continue to be strengthened and expanded.

Appendix: Panelists and Participating Organizations at the February 2011 Panel on Troubled Foreclosed Properties, Servicer Accountability, and the Chicago Region

Panelists

Moderator: Geoff Smith, Woodstock Institute
William Goldsmith, Mercy Portfolio Services
Adam Gross, Business and Professional People for the Public Interest
Ed Jacob, Neighborhood Housing Services of Chicago
Richard Monocchio, City of Chicago
Madeline Talbott, Action Now

Representatives from the following organizations attended the event:

Action Now
Bank of America
Bethel New Life
Business and Professional People for the Public Interest
Charter One Bank
Chicago Community Loan Fund
Citibank
City of Chicago
Community Savings Bank
Fannie Mae
Greater Southwest Development Corp
Housing Action Illinois
Illinois Department of Financial and Professional Regulation
Illinois Housing Development Authority
JP Morgan Chase Chicago
Mercy Housing Lakefront
Mercy Portfolio Services
Metropolitan Mayors Caucus
Metropolitan Planning Council
Mitchell Development Consultants Inc
National People's Action
Neighborhood Housing Services of Chicago
Northwest Side Housing Center
Office of Illinois Attorney General Lisa Madigan
Office of the Comptroller of the Currency Chicago
Partners in Community Building, Inc.
Pierce Family Foundation
Polk Bros Foundation
South Suburban Housing Collaborative
The Chicago Community Trust
US Bank
Woodstock Institute