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Facing the Foreclosure Crisis in Greater Cleveland: What Happened and How Communities are Responding

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FACING THE FORECLOSURE CRISIS IN GREATER CLEVELAND:

What happened and how communities are responding





This report was produced by the Federal Reserve Bank of Cleveland.

The views expressed herein are those of the individual authors; they do not necessarily reflect those of the Federal Reserve Bank of Cleveland or the Federal Reserve System.

Letter from Claudia Coulton and Kathy Hexter



Kathryn Wertheim Hexter, left, from Cleveland State University and Claudia J. Coulton, PhD, from Case Western Reserve University

The foreclosure crisis is among the most significant challenges facing American cities today. It has been difficult as a nation to assess the damage to housing stock, neighborhoods, and communities, let alone decide upon strategies to repair and move forward. As new foreclosures continue to mount, their impact spreads from central cities to places that initially seemed immune. Indeed, we use the term “foreclosure crisis” broadly in this report, including the subprime lending meltdown, foreclosures themselves, and spillover effects such as vacant and abandoned properties as elements of this crisis. In the midst of any crisis, it can be difficult to step back, take stock, and begin to mitigate the damage. But leaders in Northeast Ohio have done just that, acting quickly to develop and launch initiatives, both innovative and collaborative, in Cleveland and Cuyahoga County to address the crisis. Cuyahoga County may be the epicenter of the foreclosure crisis, but it is also nationally recognized as a place aggressively working on many fronts to make its way forward.

Using data that track properties from loan origination through foreclosure, REO, and disposition, this report documents the unfolding of the foreclosure crisis in Northeast Ohio and the enormous toll to date. The report also documents some of the multi-faceted local responses. Sidebars contain stories of community leaders, organizations, and agencies that have come together to begin repairing the damage and prevent properties from further demise.

Cleveland is an opportune subject for study for three reasons. One, the crisis emerged here early and with starkly visible impact. Indeed, media attention from around the world has focused on Cleveland—in particular the Slavic Village neighborhood that has been devastated by predatory lending, foreclosures, and vandalism. Two, Cleveland’s strong community development organizations were well organized and ready to respond promptly to the crisis. Having weathered the loss of jobs and exodus of people to the suburbs, Cleveland had already begun tackling the challenges of vacant housing and a shrinking city. It was one of the first sites in the nation to work with the National Vacant Properties Campaign, creating a blueprint for

strategically addressing neighborhood revitalization. And three, local researchers, building on their longstanding involvement in housing and neighborhood studies, were well positioned to do timely research on the dynamics of the problem and to document the array of responses. Their research, in fact, forms the basis of this report.

The problems of weak-market cities—those that fell behind in economic and population growth, suffered a resulting over-supply of housing, and are now among the hardest hit by this crisis—may seem intractable. Yet our chronicling of what happened in the Cleveland area suggests that the latest blow to these vulnerable communities was not inevitable. We show, for example, that a huge expansion of subprime credit took place in communities that previously had very little access to credit. These subprime loans foreclosed at a much higher rate and triggered an avalanche of vacant properties, many of which have been abandoned by lenders or sold to speculators at extremely distressed prices.

Despite the severity of the problem here, Clevelanders have exhibited a strength and willful perseverance, exemplified by the city’s multi-faceted, coordinated, and extensive response to the crisis. Journalist Alex Kotlowitz visited several hard-hit cities across the country before deciding to write about the devastation in the Slavic Village neighborhood of Cleveland. (His article “All Boarded Up” was published in the *New York Times Magazine* on March 8, 2009.) Kotlowitz returned to Cleveland in June 2009 to participate in a forum on the foreclosure crisis. At this event he explained why he chose Cleveland to profile: It was “the one place in the country where I saw people pushing back.”

**“You’ve seen things, you’ve heard things,
and you’ve felt things that most of us haven’t,”**

journalist Alex Kotlowitz pointed out.

**“It is incumbent on you to share [that] with the
rest of the country. In your hands is not the future
of one house or one block or even one city.**

**You need to be the guides. I urge you to give voice
to what you’ve seen.”**

This report is Cleveland’s story. The outcomes are uncertain and the path ahead is still very difficult. We feel there is decided value in sharing our story now, while the crisis is still playing out. The value lies in what Cleveland’s example can contribute to other communities’ efforts to deal with foreclosures and their aftermath. We also hope that our story can further policy discussion about what will be needed in the future to avert another such crisis.

We are grateful to have partnered with the Federal Reserve Bank of Cleveland to produce this report. If crisis indeed breeds opportunity, now is an ideal time to build knowledge about collaborative strategies, policies, and programs that contribute to sustainability for metropolitan areas.

June 2010



Much has been written about the foreclosure crisis in Northeast Ohio. With a four-fold increase in foreclosures from 1995 to 2007 and entire neighborhoods decimated by vacant and abandoned homes, Cuyahoga County—one of the epicenters of the nation’s foreclosure crisis—has served as a striking example of the devastation wrought by the mortgage lending meltdown. Existing research largely focuses on distinct components of the problem during a specific time period. Absent from much of the research published on foreclosures in this region are the local responses—some traditional, others highly innovative—to the crisis. This deficit has left unanswered the following key questions: What are community groups and local governments doing to address the crisis and its spillover effects, among them a glut of vacant and abandoned homes? And what is being done to prevent a future occurrence of similar magnitude?¹

This report attempts to articulate two things. One, it spells out what happened here, relating the symptoms and progressive stages of the crisis as it played out across the region—from bad loans to defaults and foreclosures, and then beyond foreclosure—based on research by the Center on Urban Poverty and Community Development at Case Western Reserve University. And two, it points to representative examples of programs developed and implemented locally to address particular aspects of the crisis, drawing from multiple reports by the Levin College of Urban Affairs at Cleveland State University and local organizations.²

Like the rest of the nation, Northeast Ohio is still very much in the midst of the crisis. It may well be years before this region emerges from its massive tangle. However, in sharing the story now of what happened here, along with specific strategies employed to address the crisis at different stages, we may provide cities experiencing similar problems with ideas for tackling them in their regions.

Housing Market Cycles and Typical Responses

To establish some context for what happened here in Northeast Ohio, it is worth considering that the region's housing market never fully recovered from the previous recession. The region overall has endured decades of sprawl, declining population in its central

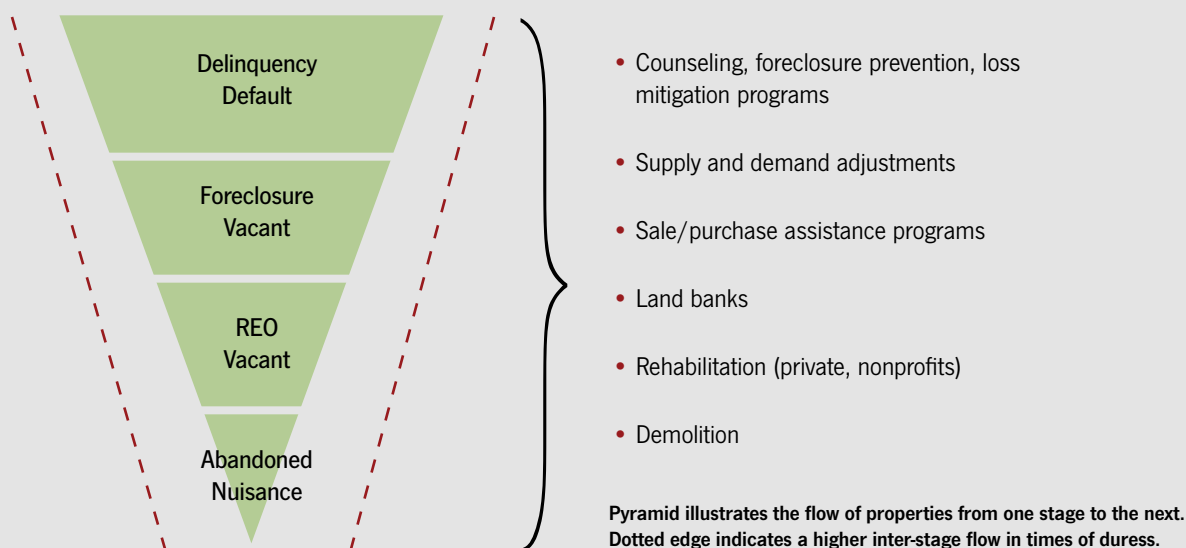
cities, racially segregated neighborhoods, and persistent poverty in some areas. The cycle of credit expansion–boom–bust nevertheless did take place under these conditions as subprime credit became available in lower-income communities, while home prices remained fairly stable. So while the region participated fully in the lending boom, it was mainly a bystander to the housing boom.

Typically, housing markets experience a low level of mortgage delinquencies, foreclosures, vacancies, and abandoned properties. Most markets also have mechanisms that transfer those properties to another owner or to an alternative use, so that fewer abandoned and nuisance properties are left outstanding. For example, lenders modify loans, builders reduce housing starts, and money-losing lenders are acquired or shut down. The inverted-pyramid graphic below illustrates this process. In addition, community groups help facilitate counseling, demolition, and other efforts. Cleveland is no exception; the city is known for its strong and longstanding network of community development organizations. Since the recent disruption to the housing market occurred at such a massive scale, however, those standard mechanisms have not been able to keep up with the inflow of impaired loans and vacant properties.

When the flow of properties from one stage into the next increases at a faster rate than the cycle can accommodate, exit mechanisms weaken and spillover effects feed back into the top of the pyramid, causing it to become bottom-heavy. This exacerbates the cycle of disruption and prevents the market from recovery. The volume of delinquent loans, foreclosures, and vacant, abandoned, and real-estate-owned (REO) properties in Northeast Ohio markets quickly overwhelmed the region's existing resources, creating a crisis situation for many communities.

As the crisis hit Northeast Ohio, community organizations increased their efforts and came up with new ways to respond. In addition, government officials initiated public intervention on a number of levels to help contain the effects. Collaborative programs involving city government, local CDCs, funders, and residents have been revitalizing areas of Cleveland once replete with vacant and abandoned properties.

Such programs underscore the tremendous value of partnerships in helping to revitalize local communities. These and other strategies for addressing the effects of the foreclosure crisis continue to be developed and implemented at the local, regional, and state levels (see sidebars throughout report).



Adapted in part from the Cleveland Federal Reserve Bank's 2008 Annual Report essay, "Breaking the Housing Crisis Cycle," published May 2009.

Rationale: Why the Focus on Northeast Ohio?

The story of how the foreclosure crisis unfolded in Northeast Ohio is unique. The crisis hit an already weakened region hard. For years leading up to the current crisis, Northeast Ohio, similar to many weak markets, had seen declining population in its central cities, increasing sprawl, and rising vacancy rates in some neighborhoods. Unlike in the nation's stronger markets—Florida and California, for example, which saw credit expanding to the middle-income suburbs—Northeast Ohio, home to Cuyahoga County and the City of Cleveland, experienced the subprime credit expansion largely in low- and moderate-income communities that had had little access to credit in the past (Mian and Sufi 2008). The region also did not see housing prices increase dramatically, in contrast to many of the nation's stronger markets. That means, among other things, that borrowers did not have the ability to refinance out of loans whose payments they could not keep up with.

Also unique is the fact that the crisis became apparent earlier in the Cleveland region than in stronger markets. Foreclosures here doubled between 1995 and 2001 and then doubled again by 2007 (see *figure 1*). As early as the late 1990s leaders in the area were voicing concerns over subprime lending, which they thought to be responsible for the increase in foreclosure filings, especially in communities where housing values were low.

In the aftermath of a sustained surge of foreclosures, many of the region's communities have continued to grapple with scores of vacant and abandoned properties, dwindling tax bases, and decreased property values. Foreclosure filings, of course, are only one symptom of the mortgage crisis. Concentrations of foreclosed

homes have led to a greater level of devastation for certain areas in the county, and in some Cleveland neighborhoods in particular. Consider that as of August 2009, Cleveland had more homes slated for demolition than twice the city's entire allotment of Neighborhood Stabilization Program funds could cover.

On the plus side, Cleveland is also highly regarded for its strong network of community-based organizations. These entities, along with local government, have long been engaged in data-driven approaches to local problems and issues, with critical access to data provided by a unique integrated property information system, NEO CANDO (see *Making Data Accessible*). In fact, Cleveland was one of the first sites in the nation reaching out to and tapping the expertise of the National Vacant Properties Campaign to address the problem of vacant properties (see *Vacant and Abandoned Properties Action Council*) (Mallach, Levy, and Schilling 2005). City officials and leaders from across the country have been in touch with local CDCs and researchers to learn what approaches Cleveland has developed in addressing different facets of the problem, and which show promise.

Examining how the crisis played out in Northeast Ohio is important because the national story does not reflect what happened here. As noted above, differences exist in how the crisis affected weak versus strong markets. These differences have significant implications for policymakers, because approaches developed for one region may not be suitable for others.

This report is organized to reflect distinct stages of the foreclosure crisis and beyond: stage one, from a loan origination to a foreclosure filing; stage two, from a foreclosure filing to a foreclosure sale and REO; and stage three, out of REO and beyond.

Making Data Accessible

Good data are hard to come by. Good thing for researchers and practitioners in Northeast Ohio, then, that NEO CANDO exists. Simply put, NEO CANDO—it stands for Northeast Ohio Community and Neighborhood Data for Organizing—is a web-based neighborhood data information system that makes comprehensive local data available to anyone (<http://neocando.case.edu>). Hosted by the Center on Urban Poverty and Community Development at Case Western Reserve University, NEO CANDO secures and assimilates public data from many different governmental departments. The data are then easily accessible in a single location. Features include social and economic data (crime counts, poverty rates, birth rates, etc.), property data (property transfers, foreclosure filings, sheriff's sales, mortgages, etc.), and a mapping function. Most data are available for a range of geographic areas, including census tract and block-level boundaries, as well as defined local areas like neighborhoods, political wards, and city-planning districts.

The data are updated regularly, which allows for the identification and examination of trends in current and developing issues. Users can make charts and maps. There's even a web-based tutorial to instruct new users. And it's not just easy to access; NEO CANDO

data provide the basis for meaningful academic and policy research, as well as community groups' targeted efforts to stem foreclosures and stabilize neighborhoods.

NEO CANDO data has been a critical component of many on-the-ground efforts to combat the foreclosure crisis. For example, community practitioners use data from the system to create lists of homes that are likely to be foreclosed on, and then direct foreclosure-prevention outreach to these at-risk homeowners. Practitioners have also used information from NEO CANDO to estimate which foreclosure filings are on rental properties and then forewarn those properties' current renters. In similar fashion, Cuyahoga County officials took advantage of NEO CANDO data and technical assistance when planning local foreclosure counseling events, strategically locating these events in venues accessible to the largest number of distressed borrowers.

"Our work is about democratizing data for neighborhood change,"
says Michael Schramm, NEO CANDO's chief programmer.

"We aim to make the data straightforward, understandable, and easily available to the public."

Along the way we highlight a number of approaches developed by local CDCs, nonprofit organizations, funders, and government to help communities deal with properties at each stage. These programs represent a range of solutions developed in response to Northeast Ohio's foreclosure crisis; given the wide array of activities in the Cleveland region, we could not cover all in this report.

Stage I: The Road to Foreclosure

With Northeast Ohio's economic conditions still weakened in the early 2000s, several factors helped fuel the region's smoldering foreclosure problem. As figure 1 below illustrates, the number of foreclosure filings in Cuyahoga County more than quadrupled between 1995 and 2007 (Schiller and Hirsh 2008).

And this four-fold increase in filings hit some communities harder than others. The map below shows foreclosure filings as a percent of all residential properties in a given census tract. The data reveal that one-fifth of all census tracts in Cuyahoga County have seen as many as 21 to 50 percent of their properties touched by foreclosure.³

Early on, community leaders and local researchers suspected subprime lending of being a factor in the area's soaring foreclosure rates (Lind 2008). There was no reprieve from either any time soon. The continuing downward slide of housing prices and interest rate resets on subprime loans⁴ every couple of years meant that foreclosures would continue their precipitous climb (Schloemer et al. 2006).

Figure 1. Foreclosure Filings in Cuyahoga County, 1995-2009

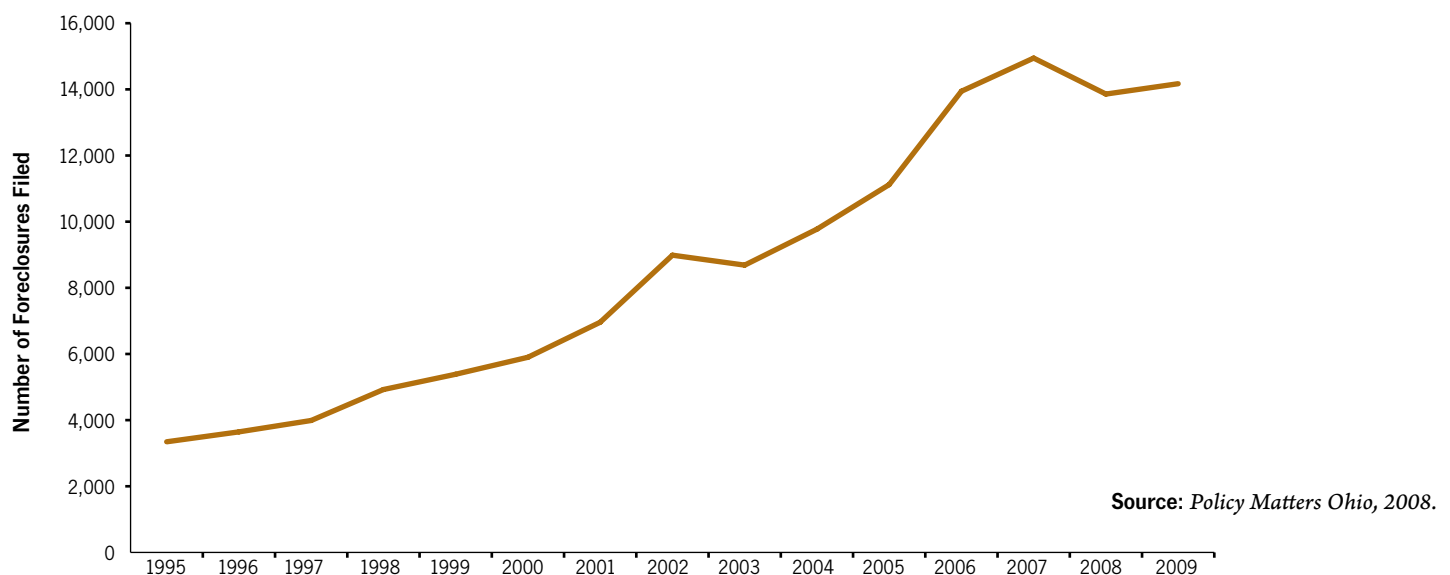
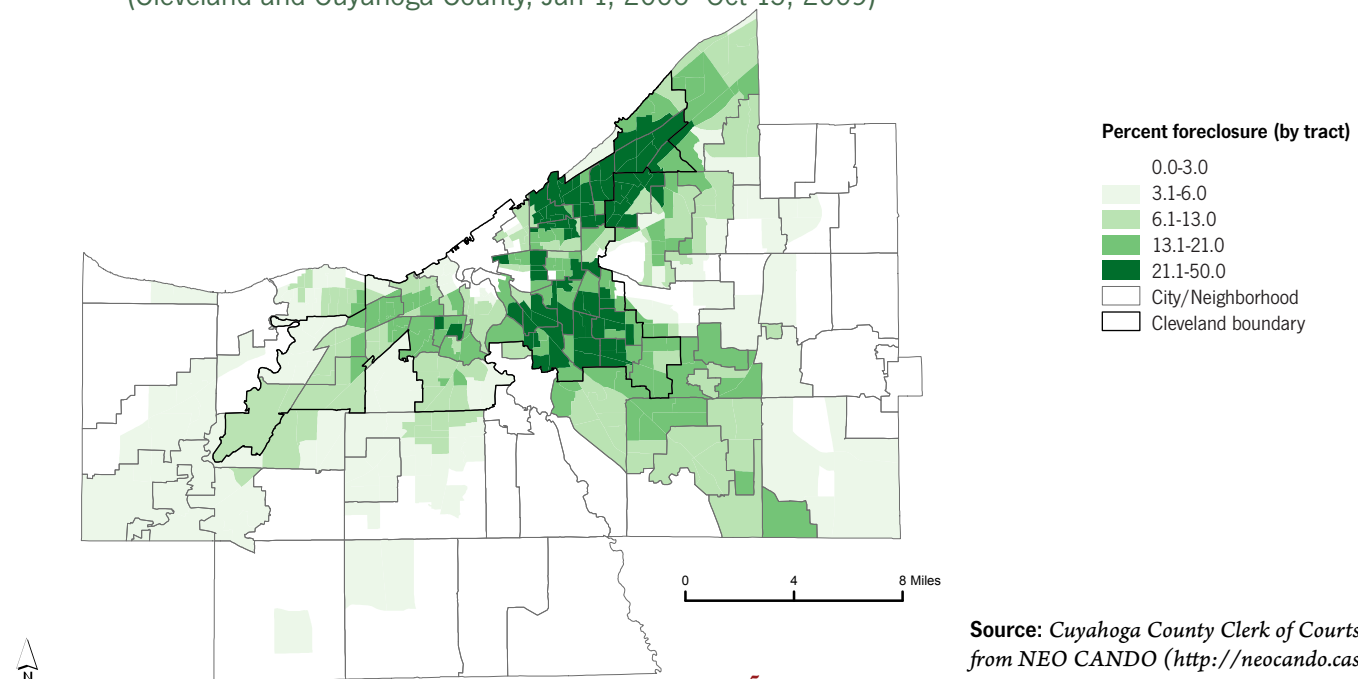


Figure 2. Percent of Unduplicated Residential Mortgage Foreclosure Filings (Cleveland and Cuyahoga County, Jan 1, 2006–Oct 15, 2009)



Vacant and Abandoned Properties Action Council

In 2004, Cleveland became one of the first sites to engage the services of the National Vacant Properties Campaign, a national partnership among Smart Growth America, Local Initiatives Support Corporation, the Metropolitan Institute at Virginia Tech, and the Genesee Institute that helps local areas plan and strategize efforts to reclaim and remediate their vacant property. After assessing Cleveland's situation, the National Vacant Properties Campaign published a report describing the problem of vacant and abandoned properties here and made several recommendations for solutions. (The report is titled "Cleveland at the Crossroads: Turning Abandonment into Opportunity.") Prompted by the campaign's assessment and recommendations, community development corporations, local city, suburban, and county governments, funders, and local universities came together to create VAPAC, the Vacant and Abandoned Properties Action Council, to marshal existing local resources to address the problem of vacant properties in Northeast Ohio.



"VAPAC was created to explore solutions to vacant property issues, share information on new challenges and successes, and help coordinate activities to make efficient use of scarce resources,"

says Frank Ford, the group's chair.

VAPAC facilitates communication within and across different levels of government, and helps agencies avoid duplicating services. The diversity of the group also ensures foreclosure- and property-related activities are applicable and appropriate both on the ground, working with families facing foreclosure, and on a policy level. In addition to the regular VAPAC meetings, topical working groups have explored specific issues in greater depth.

Besides ensuring efficiency among parties working in the field and sharing knowledge on related policy issues, VAPAC has created a code of conduct for owners of REO property, developed guidelines for municipal CRA agreements, and sponsored a Cuyahoga County-wide code enforcement summit on foreclosure and vacant property.

A Telltale Starting Point

Studying mortgage loans that went into foreclosure from 2005 to early 2009 in Cleveland and Cuyahoga County, the CWRU researchers arrived at some compelling conclusions. For one, subprime loans are by far the most common starting point on the pathway to foreclosure in Cuyahoga County. The researchers also found differences among borrowers of different races, both in the rates of receiving subprime loans and in the rates of foreclosure. Overall, they concluded, the road from loan origination is far more likely to lead to foreclosure for minority borrowers than for others (Coulton et al. 2008).⁵

Using matching techniques to link HMDA mortgage records with locally recorded mortgage documents and foreclosure filings, they examined mortgage loans made in Cuyahoga County in 2005, 2006, and 2007 that foreclosed between 2005 and early 2009, considering numerous factors that could have influenced whether a loan defaulted or not.⁶ As noted above, their results showed that the strongest predictor—by far—of a loan foreclosing is its status as a subprime loan. In fact, holding other factors constant, home purchase loans that were subprime *had an 816 percent higher chance of going into foreclosure than other loans* (Coulton et al. 2008).

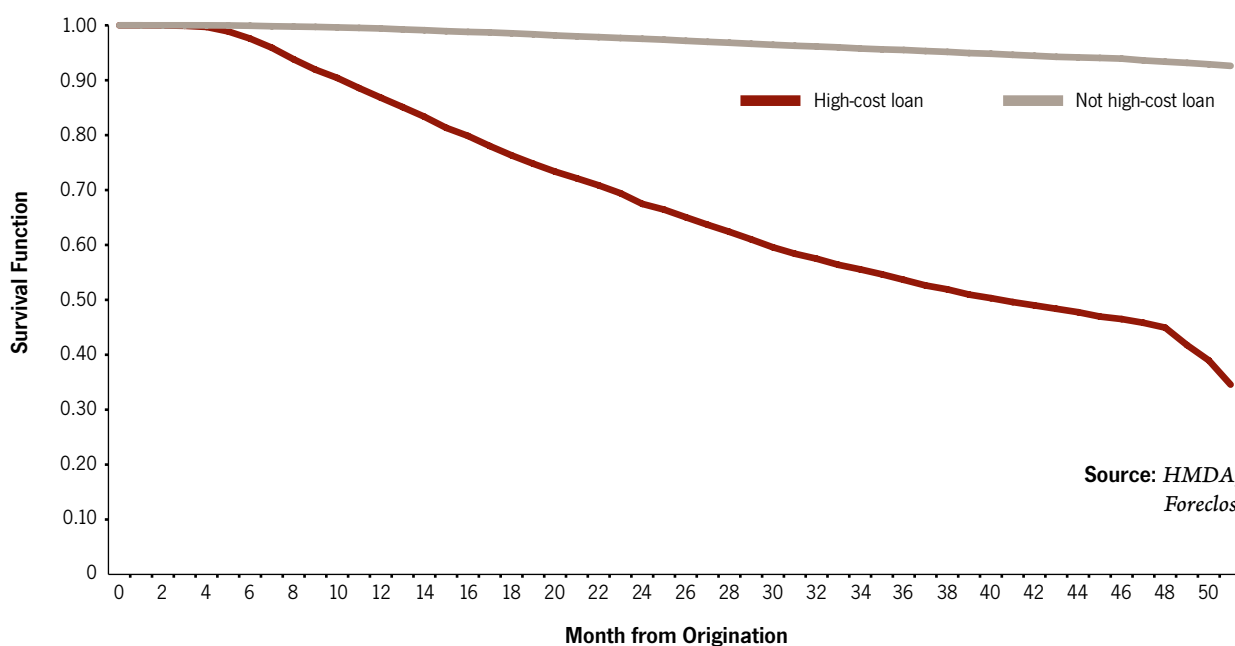
Nationally, subprime lending enjoyed stunning growth from the late 1990s into the next decade, quadrupling its share of the market in just over 10 years. In 1994, subprime loans constituted less than 5 percent of mortgage originations across the nation; by 2005 that proportion had jumped to 20 percent (Gramlich 2007). In Cuyahoga County, it was even higher, with 22.9 percent of the county's 2005 mortgage loans originated by subprime lenders (Pleasants and Brown 2007). And in some

Cleveland neighborhoods, subprime loans accounted for a staggering 63 percent of mortgage originations (Nelson 2008).

So why, if these loans were so risky, were so many of them being made? Along with greater risk for borrowers, subprime loans carried higher costs, both in interest rates and fees, than prime loans. But they also had characteristics that appealed to borrowers. For instance, the loans required little or no down payment and featured low introductory interest rates, which help borrowers afford initial payments. These borrowers may have held an expectation that either their incomes would rise to cover the higher interest rates upon reset or that they would be able to refinance before the higher monthly payments kicked in.

Brokers also found subprime loans hugely attractive. For one, they earned higher fees for originating subprime loans. Two, subprime loans were an instrument by which mortgage brokers could expand their business by making credit available to a previously untapped market of riskier borrowers. But a third factor was also at work: the expansion of securitization. In securitization, lenders bundled subprime loans with other less-risky loans into asset-backed mortgage securities; these bundled loans were then rated and sold on Wall Street to investors looking to acquire real estate holdings without the risk of purchasing only subprime mortgages outright (Ergungor 2008). Investors also found these attractive. Intense demand for mortgage-backed securitized loans meant that not only mortgage brokers, but appraisers, rating agencies, and securities traders as well could be less rigid in adhering to their own industry standards, since each was essentially extracting a transaction fee and then passing along the risk to the next interested party. This passing-the-buck game ended with the catastrophic implosion of the subprime lending market in late 2007 (Cutts and Merrill 2008).

Figure 3. Estimated Proportion of Home Purchase Loans Still Intact*



Source: HMDA, Loan Origination and Foreclosure Matched Data File.

* Loans originated are home-purchase loans from 2005 through 2007 that had not foreclosed by early 2009.

Higher and Faster to Default

It stands to reason that subprime loans will default at higher rates than traditional loans, and more quickly, too. Indeed, subprime loans accounted for 81 percent of all foreclosures from 2005 to 2007 in Cuyahoga County. Data show that subprime loans go into default a short time after origination, with significant numbers occurring early in the second year and as the third year begins (see *figure 3*) (Coulton et al. 2008).

One reasonable approach to avoiding default and foreclosure is to start with mortgage loans that are more suited to a borrower's ability to repay. Third Federal Savings and Loan in Cleveland developed low-cost lending products available even to low-income buyers in tandem with a homebuyer education program (see *Responsible Neighborhood Lending*). The program, called Home Today, requires attendance at classes before an individual even signs a purchase agreement. Classes are aimed at helping prospective homeowners understand the significant responsibilities, costs, and risks associated with owning a home. The program also spells out the myriad mortgage products available, helping prospective buyers make sense of their options.

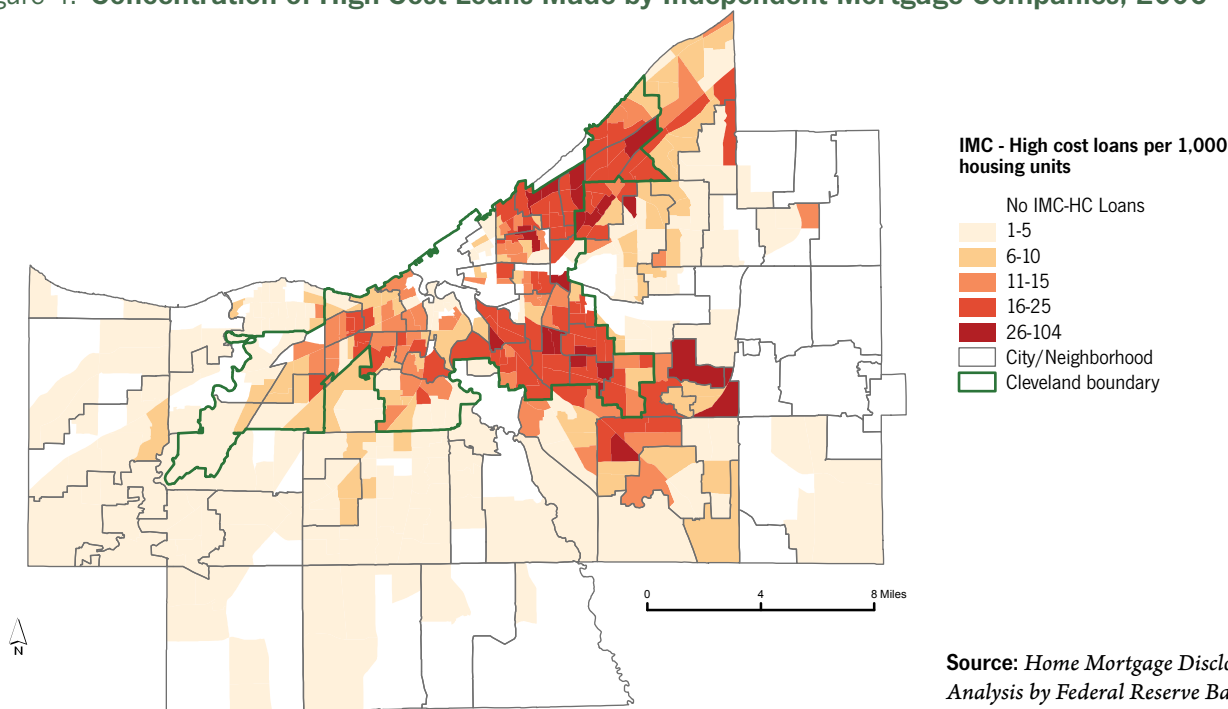
Two other findings stood out in CWRU's study of mortgage loans in Cleveland and Cuyahoga County. First, the lenders who made these subprime loans are predominantly independent mortgage companies, or IMCs. A study by the Federal Reserve Bank of Cleveland has similar findings. Lending institutions regulated by the Community Reinvestment Act (CRA) originated very few of the subprime loans, regardless of borrower income. Figure 4 shows the concentration of subprime mortgage

loans made by IMCs per 1,000 units of housing in Cuyahoga County. The map shows the highest concentration of loans on the east side of the city of Cleveland, and extending out to eastern suburbs (Nelson 2009).

The data tell a disheartening story: While 223 individual lenders made and foreclosed on at least one subprime loan that went to foreclosure during the study period, the researchers found that only a few originators account for the majority of foreclosures (see *figure 5*). These top 20 lenders originated 14,412 subprime loans; 66 percent of all subprime loans originated in Cuyahoga County. In addition, 75 percent of all subprime loans that ended in foreclosure were originated by one of these 20 lenders. To cite one example, Long Beach Mortgage, whose loan portfolio was made up almost entirely of subprime lending (99.34 percent), originated the seventh-highest number of subprime loans in Cuyahoga County from 2005 to 2007. Of those loans, 65 percent went into foreclosure. Long Beach Mortgage—now defunct, like many of its peers in the industry—operated out of Anaheim, California (Coulton et al. 2008).

Second, the researchers found marked disparities among races both in the originations of subprime loans and in related foreclosures. African Americans, compared with whites of similar income, held subprime loans two to four times more often than their white counterparts, leading to high rates of foreclosure among this population (see *figure 6*). In fact, the highest income bracket showed the largest disparity, with African Americans holding 4.2 times as many subprime loans as whites.

Figure 4. **Concentration of High-Cost Loans Made by Independent Mortgage Companies, 2006**



Source: Home Mortgage Disclosure Act (HMDA), Analysis by Federal Reserve Bank of Cleveland.

Responsible Neighborhood Lending

In 2001, Third Federal Savings and Loan launched its Home Today program, aimed at supporting low-income homeownership. The comprehensive program features homebuyer education, ongoing support, and an overall focus on sound lending practices. Informed decision-making is the crux of the program. Through the Home Today program, homebuyers are offered a 30-year, fixed-rate mortgage at lower-than-average interest rates and a discount on closing costs. But before any of that happens, participants in the program take part in homebuyer education classes and receive budgeting counseling. Before looking at homes or having a conversation with a lender, the prospective homebuyers are taught what to expect in buying, financing, and maintaining a home.

According to its website, Third Federal developed the Home Today program “from a consumer’s perspective to help you make informed choices so you won’t feel confused or pressured.”



**“We operate by a specific set of values—
concern for others, trust, and respect—
and by our mission, which is to create value for
our customers and our communities,”**
says Third Federal’s Monica Martines.

**“To do that, we make loans to people who can
become successful homeowners.”**

The first step for potential homebuyers is finding a community sponsor to serve as a character reference. Next, the prospective buyer receives training on subjects like budgeting, establishing and maintaining credit, and shopping for a home mortgage loan. These educational workshops are done in partnership with (and held at) local community development corporations throughout Cleveland. Once an individual completes all required sessions, he or she is automatically approved for a home mortgage loan based on income. And Third Federal services its own mortgage loans. In fact, the bank has never

sold the servicing of a single mortgage in its six decades of doing business. Support provided through the Home Today program—both pre- and post-purchase—helps ensure success for low-income homeowners. “Every homebuyer has a financial counselor going through the program,” says Martines. “That counselor keeps in touch with the buyer and his or her family in case they encounter any problems or have any questions or issues.”

Since the program’s inception in 2001, more than 100 partners have steered some 13,000 potential homebuyers to Home Today seminars. More than 4,000 have become homeowners.

Figure 5. Top 20 Originators of Subprime Loans Originated, 2005-07

Originator	On HUD Subprime List	% Subprime Loans	% Subprime Loans with Foreclosure
Argent	Yes	87.34	45.74
New Century Mortgage	Yes	95.41	55.37
Wells Fargo	Certain subsidiaries	36.16	25.02
Countrywide	Certain subsidiaries	25.92	22.25
National City	Certain subsidiaries	29.00	26.09
Aegis	Yes	87.15	47.38
Long Beach Mortgage	Yes	99.34	65.22
Option One Mortgage	Yes	94.04	43.12
BNC	Yes	94.06	46.55
People's Choice Financial	Yes	93.52	45.21
Novastar Mortgage	Yes	97.96	41.88
Accredited Home Lenders	Yes	96.21	34.11
Intervale Mortgage	No	87.23	31.95
Chase	Certain subsidiaries	96.53	16.45
Southstar Funding	Yes	84.67	36.77
Indymac Bank	No	55.04	32.27
Equifirst	Yes	93.24	27.13
Citi	Certain subsidiaries	36.04	5.08
Ameriquest Mortgage	Yes	71.17	20.58
Aames Funding	Yes	92.88	40.67

Source: HMDA, Loan Origination and Foreclosure Matched Data File.

A Contagious Effect

As we've seen happen in cities across the country, foreclosures beget other foreclosures, in part through their negative effect on surrounding property values (Mikelbank 2008). In Cleveland, this has led to a geographic pattern of foreclosure—particularly on the city's east side—in which minority neighborhoods have been more affected by subprime lending that led to foreclosure. Figure 7 (page 13) shows subprime foreclosures overlaid on a map indicating the percent of African American borrowers by census tract. The tracts with high proportions of African American borrowers are also where large numbers of these subprime loans have foreclosed. This suggests that these neighborhoods will face even greater challenges in recovering from the crisis (Coulton et al. 2008).

Racial discrimination in housing and credit has been outlawed for decades. However, the disproportionate impact on minority groups of subprime lending has prompted calls for legal action and a search for better tools to assure more equitable treatment in the

future. Absent first-hand testimony and access to sensitive lender information, a case for racial discrimination in lending relies on data alone. Here in the Cleveland area, the Housing Research and Advocacy Center has been documenting racial disparities in lending since 2004. Unfortunately, insufficient specificity in the data hamper efforts to take data-driven action. Loan origination specifics, such as information about a borrower's credit score, balloon payments, pre-payment penalties, and terms of adjustment, could help assess the quality of these loans and track performance going forward. Improving the delivery time for HMDA data can also help.

Linking Arms to Fight Foreclosure

In 2005, then, the region found itself facing very serious problems. The steep increase in foreclosure filings meant people were losing their homes in droves. The huge volumes overwhelmed the court system, to the point that it was taking three to five years for a foreclosure case to move through the courts. The foreclosures also

spawned a surge of related problems, including vacant properties that were lowering neighboring property values, attracting vandals, and reducing the tax dollars that city officials desperately needed to address these very problems. At the prompting of several suburban mayors and a coalition of inner-ring suburbs, county officials joined forces with leaders of several municipalities to take up the fight against foreclosures, undertaking two distinct efforts.

The first was a response to the county's critical need to expedite the foreclosure process. County officials devised an overhaul to the judicial foreclosure process, including procedural changes that sped up the process and ultimately cleared a longstanding backlog of foreclosure cases (Weinstein, Hexter, and Schnoke 2006, 2008).

A more efficient foreclosure process has several obvious benefits. A working paper published in 2008 by Freddie Mac reports that costs associated with foreclosure rise significantly with the length of the foreclosure timeline. Ideally, the foreclosure procedure would be just long enough to avoid the outcomes that incur higher costs—vacating or abandoning the home, allowing the property to fall into disrepair—yet allow a homeowner enough time to bring the loan current, if possible (Cutts and Merrill 2008).

The second, more strategic effort undertaken by this collaborative of county and municipal officials was broader and more far-reaching than streamlining the foreclosure process. This second effort facilitated partnerships among area agencies and nonprofits to initiate activities, programs, and, where warranted, legal action specifically aimed at preventing further foreclosures. One such partnership was the Cuyahoga County Foreclosure Prevention Initiative, involving 11 county agencies, nine housing

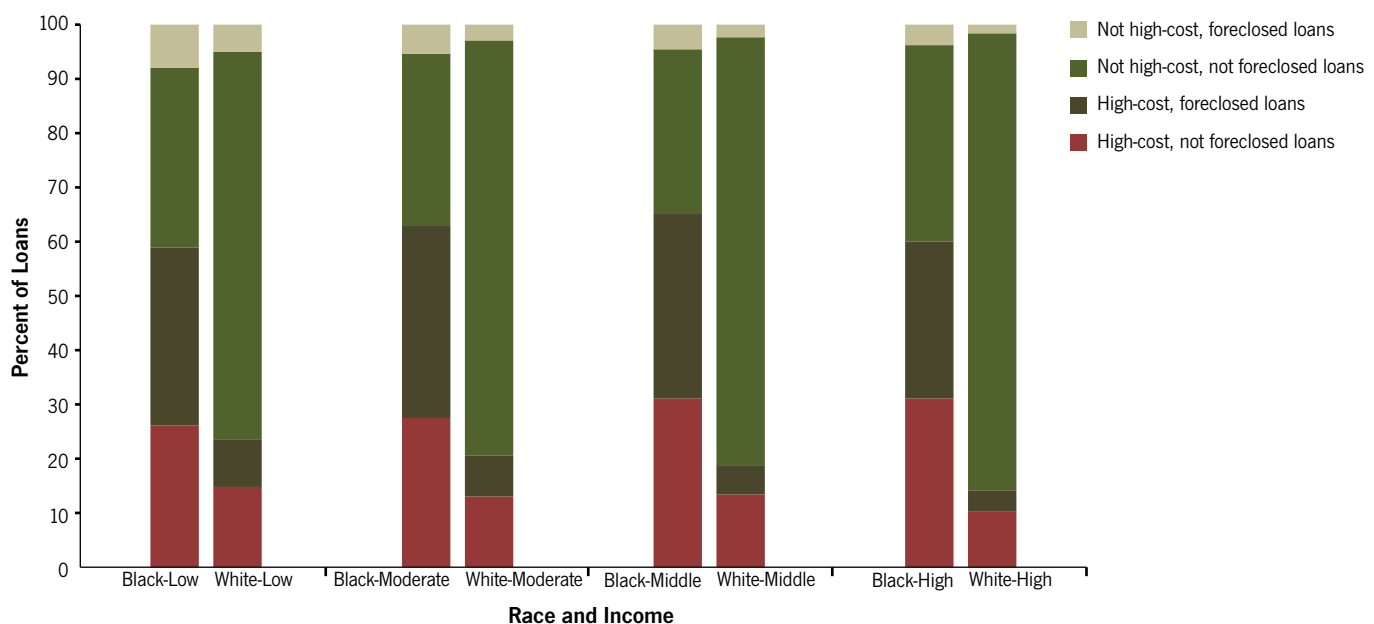
nonprofits, and numerous municipalities, area lenders, and other community advocacy groups.

Coordinating and implementing the various components of the initiative required significant cooperation, skill, and resources. Government agencies collaborated across bureaucratic lines of authority. Public and nonprofit groups conferred to make sure their collective efforts were synchronized and minimally overlapping, and each of the participating groups demonstrated horizontal and vertical collaboration with each other and with the county.

One critical component of the initiative has been United Way's 2-1-1 First Call for Help, a hotline that directs people to social services providers for a variety of needs. Callers facing foreclosure are connected to participating Northeast Ohio housing counseling agencies that serve as a vital link between individual homeowners and their lenders (see *Foreclosure Counseling: Different Agencies, Different Approaches*). To distressed area homeowners, 2-1-1 and these housing organizations are the welcome, comforting voice, face, and provider of foreclosure-prevention assistance. As of February 2009, participating agencies had recorded a 53 percent success rate at averting foreclosure (Hexter and Schnoke 2009).

As a drive down some streets in Cleveland reveals, however, foreclosure prevention efforts are not nearly enough. Many, many delinquent mortgage loans are unable to be saved, either through financial counseling of the homeowner, a modification of the loan's terms, or other means. Considering that foreclosure filings in Cuyahoga County have numbered between 13,000 and 15,000 per year for the past four years, the program can help only a small percentage of homeowners in distress.

Figure 6. Type of Loan and Foreclosure by Race and Income*



* Loans originated are home-purchase loans from 2005 through 2007; foreclosures observed are through early 2009.

Source: HMDA, Loan Origination and Foreclosure Matched Data File.

Foreclosure Counseling: Different Agencies, Different Approaches



To handle the enormous demand for foreclosure counseling, Cuyahoga County contracted with four local agencies to provide services. All four provide face-to-face, individualized counseling, a method that's been shown to be more effective than alternative methods of advising an individual through the foreclosure process. Yet beneath the umbrella of that general method—in-person, one on one counseling—agencies often employ distinct and innovative approaches to achieve similar outcomes.

Two of the agencies contracted to counsel Cuyahoga County homeowners are Empowering and Strengthening Ohio's People, or ESOP, and Neighborhood Housing Services of Greater Cleveland (it goes by "NHS" for short). Each provides foreclosure prevention counseling services, but the two have different underlying philosophies. A community organizing agency, ESOP specializes in negotiating with recalcitrant lenders and servicers to develop contracts that facilitate workouts on behalf of homeowners. Unlike ESOP, Neighborhood Housing Services is first and foremost an agency that assists people in becoming successful homeowners. And similar to the Cleveland Housing Network and Community Housing Solutions—the remaining two counseling agencies in the County program—NHS's foreclosure prevention counseling grew out of the organization's original mission.

ESOP employs an unapologetically aggressive style in helping distressed homeowners. Lenders and servicers with a record of multiple client complaints become focal points for action. ESOP community organizers work with residents to investigate a targeted mortgage company's lending practices, looking for evidence of discriminatory and predatory lending. Together with residents, ESOP invites the company's CEO to negotiate a "fair-lending agreement" that, among other things, designates a single contact person within that company whom ESOP counselors can call on behalf of homeowners when they're having trouble with their mortgages.

Some lenders and loan servicers meet willingly with ESOP and residents. If a targeted company does not, ESOP pursues "direct action" tactics designed to draw media attention and generate negative publicity surrounding the company's business practices. Afterward, the company usually complies. ESOP shares its list of partnering companies—those with which ESOP has negotiated the contracts—with area counseling agencies and United Way's 2-1-1 Call for Help, so that homeowners with mortgages serviced by those companies can be steered directly to ESOP for help.

Neighborhood Housing Services, in addition to providing counseling services to Cuyahoga County residents, is also part of the nationwide NeighborWorks network and uses this model of foreclosure prevention. As such, the agency can draw on state "rescue" funds (in addition to county "rescue" funds) if needed to help homeowners prevent foreclosure.

At Neighborhood Housing Services, homeowners are assigned a counselor who collects and processes the details of their case, including any circumstances that might trigger foreclosure, such as job loss, underemployment, and medical issues. The counselor then assesses the homeowner's situation and explores possible solutions. Foreclosure solutions are not one-size-fits-all, of course, and NHS counselors focus on finding a solution—from refinancing the mortgage loan to negotiating workouts with a servicer to becoming a renter—that will foster sustainable, long-term homeownership for the distressed borrower. For Neighborhood Housing Services, the issue isn't just homeownership; it's appropriate homeownership.

"What's best for the homeowner is not always staying in the house,"

explains Lou Tisler, executive director of NHS.

"That doesn't mean that the homeowner shouldn't own a house, just not that house."

If a Neighborhood Housing Services counselor assigned to a distressed homeowner finds that the client does not have the wherewithal to be a long-term homeowner, the agency will advise the homeowner on rental housing options and, often, will help the individual find a new place to live.

To ESOP counselors, resident empowerment is as vital an outcome as foreclosure resolution. "Our goal is really to build leadership with the people," states lead organizer Jenelle Dame. "They come to us for foreclosure help, and we provide that service to them. But we also try to encourage leadership within them. Resident empowerment is an important force for change."

The result in Cleveland and Northeast Ohio has been scores and scores of unoccupied and abandoned homes. What does that mean for individuals, for communities, and for an entire region when these properties—many of them aging and poorly maintained, and for which there is scant demand owing to the city’s declining population—lose their occupants and become vacant?

The next section of this report details the slow, debilitating movement of foreclosed houses through the legal process and into vacancy.

Stage II: Caught in Foreclosure Limbo

Formally, the foreclosure process results in houses being sold at foreclosure sale (referred to as ‘sheriff’s sale’ in Ohio). In a typical market, there is a reasonable demand for properties that emerge from the foreclosure process via a public auction. At foreclosure sale, it is expected that properties will be sold to buyers who will quickly bring them back to occupancy and productive use. But as the CWRU report “Foreclosure and Beyond” shows, the prognosis for properties in Northeast Ohio coming out of the foreclosure process in recent years is grim.

Prior to this crisis, greater numbers of foreclosed properties were being purchased by private buyers (individual people and investors) at foreclosure sale. In 2000, for example, private buyers made up 35 percent of the market for properties at foreclosure sale. Now, almost all properties coming out of foreclosure sale enter REO (real-estate-owned) status (see *figure 8*). Where there used to be a sizeable demand for foreclosed properties, there are

virtually no private buyers at foreclosure sales any longer; private buyers made up only 8 percent of the market for foreclosure sales in 2008.⁷ Area banks, too, are largely absent from the local REO picture, which is now almost completely dominated by national lenders and government sponsored entities (Coulton, Mikelbank, and Schramm 2008). What that means is, with less demand for foreclosure sale properties, these vacant homes are more likely to sit idle and untended. Empty houses are susceptible to looters, who readily strip structures of anything with resale value, including aluminum siding, copper piping, plumbing fixtures, and wooden doors. When finally sold out of REO, they have lost much of their market value.

Figure 9 illustrates the proportion of Cuyahoga County properties remaining in REO over time. Homes are remaining in REO for longer periods. Among properties that entered REO in 2008, nearly four out of 10 remained unsold after 12 months. For homes that entered REO from 2000 to 2002, that still-unsold-after-a-year figure was closer to one in 10. So a bad situation is getting worse (Coulton, Mikelbank, and Schramm 2008).

Properties in REO can be problematic because they are susceptible to vandalism and property devaluation. It can also be difficult for neighbors and others to figure out who owns the property, and who should be called or fined when the property is in violation of housing codes. In Ohio, property owners are supposed to record their deeds to identify themselves as owner of record for the property. When a property has reverted to a bank in a foreclosure sale, for instance, but the bank has not recorded the deed as a matter of public record, the result is administrative confusion.

Figure 7. Subprime Foreclosures by Concentration of Loans to African American Borrowers, 2005-07

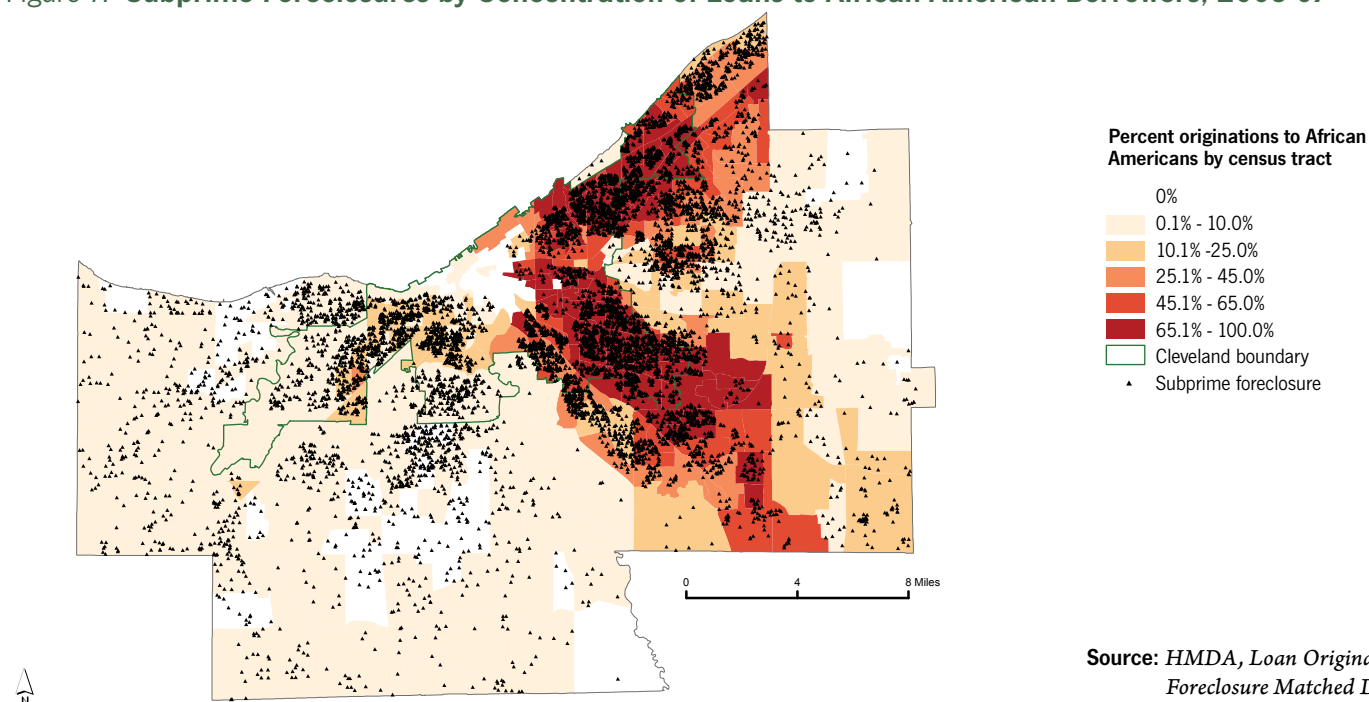
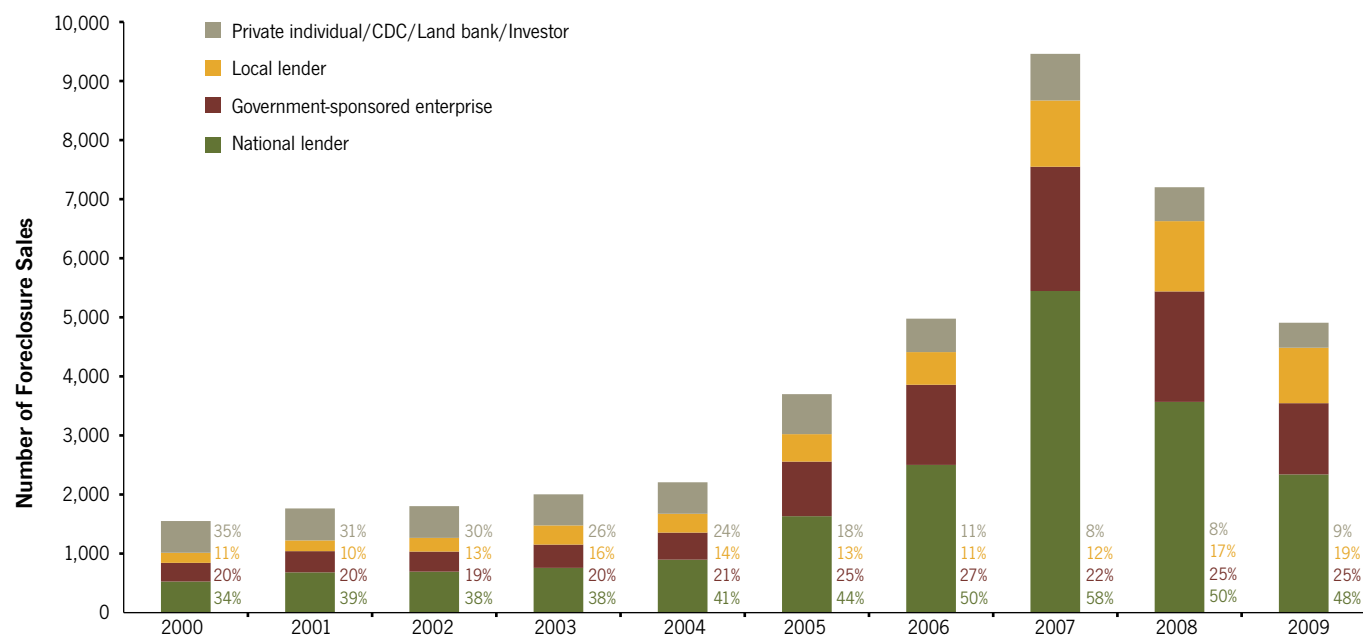
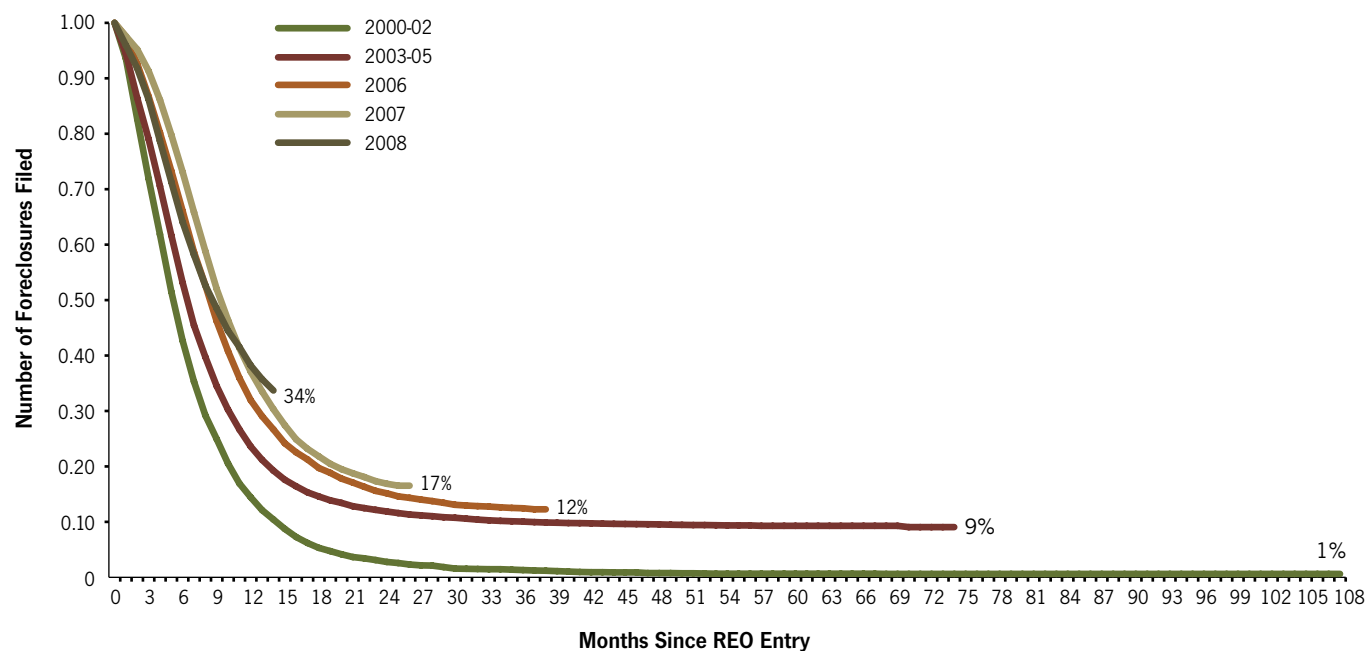


Figure 8. Ownership After Foreclosure Sale, 2000-09



Source: Tabulation by Center on Urban Poverty and Community Development of Cuyahoga County Auditor Data.

Figure 9. Estimated Proportion of Properties Remaining in REO (Survival Function)



Source: Tabulation by Center on Urban Poverty and Community Development of Cuyahoga County Auditor Data.

Court dockets will indicate ownership by the financial institution; however, without the deed's being recorded, the owner of public record will be the foreclosed-upon homeowner. This discrepancy becomes an issue when properties are cited for code violations and other public nuisances. Notices are misdirected and repairs delayed, which results in these empty structures continuing to decay. In 2008, Ohio House Bill 138⁸ was passed that allows sheriff's departments to record foreclosure deeds on behalf of a new owner—a helpful change administratively.

As if having enormous numbers of properties languishing in REO were not enough, properties that get stuck in the foreclosure process itself can be even more problematic. Consider the following scenarios and the potential confusion that surrounds each.

- In one, a lender or servicer initiates foreclosure proceedings against a homeowner but never follows through to completion. The homeowner, meanwhile, has often left the property, believing he has lost rights to the property as a result of the foreclosure filing.

- In another, a lender or servicer files a foreclosure proceeding and goes along with the case through judgment, but never takes that final step of filing an order of sale to prompt the court to sell the property. Again, the homeowner has often already vacated the home.
- In a third scenario, a lender files an order of sale, and then, absent a buyer at foreclosure sale, does not purchase the property itself.

Incredibly, in all three of these scenarios, called “bank walk-aways,” the homeowner retains responsibility for the taxes and maintenance of the property, owing to an Ohio law that stipulates the foreclosed homeowner remains the rightful owner until a home is sold at foreclosure sale and a foreclosure deed granted. This can lead to a number of foreclosed and abandoned properties that are unknown to authorities, and can also lead to troubles for the homeowner.

The Role of a Housing Court

Judge Raymond Pianka and his court play a visible and critical role in establishing and enforcing accountability among owners of REO properties as well as those allowing their properties to sit vacant and untended (see *A Holistic Housing Court*). Though the court relies on city housing inspectors and prosecutors to bring problems to court, once a case arrives in housing court, Pianka uses code enforcement as a tool to prevent further home and neighborhood deterioration. Lenders and corporations are charged heavy fines for failing to maintain the properties they

own, though these fines are lessened if owners comply with the court’s orders. In many instances, these companies are out-of-state entities that have purchased multiple properties out of foreclosure, sight unseen. Some simply ignore the summons. Pianka’s response? He levies fines of up to \$1,000 a day against companies that fail to show up to court.

Pianka and his staff have also partnered with local organizations to help address foreclosure at each of three stages: preventing foreclosure, managing properties in foreclosure, and finding responsible owners when foreclosure can’t be avoided. These collaborations have resulted in, among other positive outcomes, more homeowners seeking assistance before their loans go into foreclosure and the fixing up of properties to address code violations.

The courts aren’t the only ones taking action against the parties responsible for the devastation in Northeast Ohio. In Slavic Village, some residents undertook an investigation on their own into speculators who purchased and sold properties in their community (see *Investigating Mortgage Fraud in Slavic Village*). A direct result of their efforts is that the Cuyahoga County prosecutor, acting on the information gathered by these residents, is pursuing brokers and other entities suspected of contributing through fraudulent activity to the neighborhood’s devastation. Further, the county established a multi-agency task force that involves the U.S. attorney, the FBI, HUD’s inspector general, the Ohio Attorney General, and the county prosecutor to investigate mortgage fraud in Northeast Ohio.

A Holistic Housing Court

possible foreclosure avoid that outcome, Housing Court specialists connect them with housing counselors that advocate for mortgage workouts. To maintain the value of properties in the process of foreclosure, the court uses NEO CANDO data to send letters to Cleveland homeowners in foreclosure informing them of their rights and responsibilities while in foreclosure, and encouraging them to remain in their homes. A letter returned to the court is a sign of a vacant property, which puts that foreclosure case on the fast track to protect the property’s value. To keep neighbors informed, the court posts information about properties in foreclosure on placards on the property. This action gives neighbors someone to contact if they spot problems with the properties.

The court has also established a firm tone of accountability in Cleveland. It hears cases of nuisance abatement, which allows a court-appointed party to take control of a property if it is a public nuisance. The appointed party, usually a community development corporation, can rehabilitate the property or demolish it at the negligent owner’s expense. Also, a ‘clean hands’ docket prevents a party from using the civil side of a court (for eviction) if there is a pending criminal case (housing code violation) against that party.

The court also holds banks and investors responsible for the upkeep of their foreclosed and vacant properties. Corporate defenders who don’t take the court seriously do so at their peril; those who don’t show up to their court dates prompt the court to try their cases in absentia, ruling and assigning fines without a defendant present.

That tough-stance practice has certainly made corporate defendants take notice—and prompted many more to show up for their court dates. More to the point, these negligent corporate property owners are now taking code violations seriously, following up on the citations and making ill-tended houses in Cleveland’s neighborhoods more viable candidates for return to productive use.

Unfortunately, there is no shortage of mortgage fraud cases in Northeast Ohio. In August 2009, Cuyahoga County indicted 41 people in a mortgage fraud scheme that involved \$44 million and more than 450 homes. Nearly 80 percent of the houses caught in the scheme were also in foreclosure (Turner 2009).

In other Cleveland neighborhoods, residents and local groups have devised novel approaches to the problem of houses sitting vacant and vulnerable during the foreclosure process. On one street, residents have taken up brushes to brighten empty homes, adding painted curtains, flower pots, even silhouettes of people inside the home. This aesthetic lift is aimed at deterring vandals, squatters, and drug dealers from entering vacant properties, but it has also given remaining property owners a sense of control and efficacy in their neighborhood.

Shaker Heights, an inner-ring suburb of some 12,000 households, had more than 500 vacant homes at the end of 2008, a fact that is not at all apparent driving through the community. The city doesn't allow owners to board up their vacant properties, for example; if a homeowner does so, the city removes the plywood, replaces broken windows and doors with intact ones, and charges

the owners not only for materials and labor, but a 20 percent surcharge as well. Teeming flower baskets hang from many of the city's street lamps. The baskets are an apparent extravagance in these tough economic times, according to the city's economic development director, Kamla Lewis, "but a necessary expense in our effort to maintain appearances—and property values."

Like the Cleveland residents who keep watch over the vacant homes in their neighborhoods, Shaker Heights officials hope that their efforts are not merely keeping a finger in the dike.

Stage III: The Future of Foreclosed and REO Properties

Despite government and neighborhood attempts to prevent deterioration of empty homes while they slog through foreclosure or idle in REO, the desired outcome—sale of these properties to owners who will restore the properties to useful purpose—comes at an increasingly steep price. In their third report, "Beyond REO," CWRU researchers found that in Cuyahoga County, in the City of Cleveland, and in Cleveland's suburbs, properties sold out of REO are selling for far less than their estimated market value before foreclosure filing and sale (see figure 10).

Investigating Mortgage Fraud in Slavic Village



For each step forward, it's been two painful steps back for Slavic Village, the once-vibrant Cleveland neighborhood that has been decimated by the foreclosure crisis. In one measure of the community's forward progress, Slavic Village Development (a community development corporation) built and rehabilitated more than 1,500 housing units in this neighborhood of modest homes on narrow, tree-lined streets. Today, nearly the same number of Slavic Village homes are in need of demolition. In this community, fraud and foreclosure are entwined ills, leaving scores of homes abandoned, boarded up, and stripped of virtually all value.

"We'd drive by a boarded-up house, a teeny little cottage, that sold for \$80,000 and we knew that this was wrong. We knew that there was fraud going on."

says Marie Kittredge, executive director of Slavic Village Development, or SVD.

In mid-2008, a task force comprised of residents, SVD staff and interns, and under the leadership of city councilman Tony Brancatelli, released a report on flipping and fraudulent activity in the community between 2003 and 2007. The report defines "flipping" as buying inexpensive property (often a foreclosure), making little to no improvements, and selling it at a price higher than the house's fair market value as assessed by the county. The task force examined thousands of "Certificates of Disclosure," a document required in the City of Cleveland that records the appraiser and mortgage broker on a given property transaction. Their research revealed some distinct and troubling patterns between brokers and appraisers.

Using additional data from NEO CANDO, the task force then identified a long list of property transactions where homes were financed with a 90 percent loan-to-value ratio, with a second mortgage often making up the difference between the home price and the first loan. These homes were then resold—without any construction permits having been filed or any other noticeable improvements made to the property—at a 200 percent to 600 percent price increase.

The group submitted the results of their investigation to law-enforcement authorities. Their diligent work eventually led to the indictment of three individuals accused of making \$5.8 million in fraudulent loans. As of April 16, 2010, two of the defendants had pleaded guilty to mortgage fraud-related offenses.

Back in 2000, for example, properties sold out of REO were purchased for approximately 75 percent of their previous estimated market value. This was true of all three geographies—county, city, and suburbs. Not great, houses losing 25 percent of their value during the foreclosure process, but not that surprising. By 2007, however, properties leaving REO in the City of Cleveland were selling for a shocking *13 percent of their estimated market value* (Coulton, Mikelbank, and Schramm 2008).

In Cuyahoga County and suburban Cleveland, properties selling out of REO in 2007 fared only slightly better, fetching sale prices of 22 percent and 37 percent of their estimated market value, respectively. For a weak market like Northeast Ohio that saw little run-up in housing values in the early 2000s, this precipitous drop in home values is a debilitating blow to neighborhoods, communities, and the entire region (Coulton, Schramm, and Hirsh 2008).

Evidence of the deterioration in neighborhoods is the fact that REO properties up through 2008 were being sold at extremely distressed prices—defined as \$10,000 or less—mainly to corporations and individuals looking for bargains.⁹ Many of these buyers were from outside Ohio. Between 2005 and 2008, REO properties purchased at these very low prices made up an increasing percentage of all REO properties sold. As shown in figure 11, 4.3 percent of REO properties in Cuyahoga County in 2005 were sold at extremely distressed prices. This proportion skyrocketed to 43 percent in 2008, a 10-fold increase (Coulton, Schramm, and Hirsh 2008).

As is the case with subprime lending, this trend of selling houses at extremely low prices has affected the region disproportionately. Some neighborhoods are much harder hit than others and, as with subprime lending, much of this activity has been concentrated on Cleveland's east side. In 2005, between 7 and 8 percent

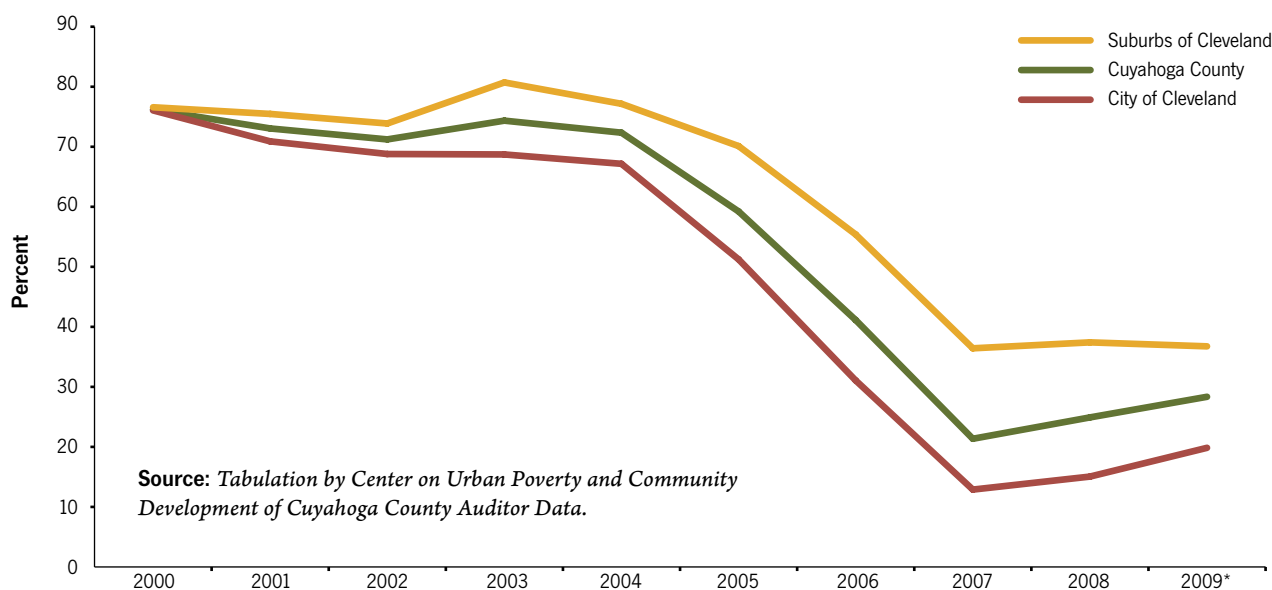
of east-side properties coming out of REO were sold for less than \$10,000. Three years later, *nearly 80 percent* of the more than 2,770 properties on the east side sold out of REO were purchased at these extremely distressed prices (Coulton, Schramm, and Hirsh 2008). It is hoped that the implementation of Neighborhood Stabilization Program plans will lead to some of these low-value REO properties being acquired by local governments and nonprofits, to be rehabilitated or demolished and returned to productive use as residences or green space.

Houses for Mere Thousands, Purchased Sight Unseen

The trend of buying and selling homes for such low prices raises a number of questions. Who is selling these properties at such low prices, and who is buying them? What proportion of the transactions are leading to productive uses of these properties? To better understand the market forces at work in these transactions, community development professionals and local researchers teamed up to investigate the questions above. Locating concrete data on the condition of properties after REO and on buyers and sellers of these properties is difficult. Nevertheless, their research findings shed some light on what's been happening in Cleveland, and point to some potential reasons why it has been so difficult to stop or even slow the process.

One key finding, for example, is that a small number of sellers are making most of these sales. The data records of thousands of houses sold in Cuyahoga County in 2007 and 2008 for \$10,000 or less reveal that, although numerous financial institutions are involved in these sales, the top 10 sellers of REO properties for \$10,000 or less account for 72 percent of these transactions (see figure 12) (Coulton, Schramm, and Hirsh 2008).

Figure 10. **Value Remaining after Foreclosure Sale as Percentage of Previous Estimated Market Value (in 2009 dollars), 2000-09**



*Observed for only 15 months at most

Another finding is that houses sold at \$10,000 or less are making up substantial percentages of all REO properties sold by some individual banks or mortgage companies. However, this finding is less interpretable, because of the difficulty of identifying the responsible entity via public records data. It is important to note that while public record indicates the party that holds title to a property, it is often the case that a bank or lender has hired a servicer to handle transactions related to the property. Such opacity makes any transactions related to these properties very difficult (Coulton, Schramm, and Hirsh 2008).

On the purchasing side, data reveal that there were many buyers of these properties—more than 1,200—with only a handful buying groups of more than 100 properties in the City of Cleveland. Here, too, the data are not always indicative of what's happening. Buyers may purchase properties under many different auspices, for instance, and may own many more properties than public records show. By and large, however, buyers are out-of-state corporations or investors. These investors typically have relationships with sellers of REO properties. Some sellers package properties regionally and sell to their customers in bulk; almost all properties are sold sight unseen. These transactions, which are collectively defining and reshaping some neighborhoods in the region, are often being conducted by individuals who have never been to Northeast Ohio (Coulton, Schramm, and Hirsh 2008).

In fact, the data reveal other interesting patterns, some unsurprising, others disquieting, about these transactions. The majority of these properties become tax delinquent. Many are resold quickly in very poor condition with only a small price increase. Some of these bulk purchasers are adopting business models that involve land contracts, direct financing to homebuyers, and other tools

that are outside the mainstream real estate market practices (Coulton, Schramm, and Hirsh 2008).

Since this phenomenon is so new, the success of this private-market model of moving REO property back to occupancy and productive use cannot yet be evaluated. In addition to this market process, nonprofits, governments, and community development corporations have begun developing a more promising model of bringing properties back to productive use. Some of these efforts, including the county land bank, are discussed in the following section.

From Downward Spiral to Productive Reuse

It's a tremendous challenge for any region to face, let alone one struggling with double-digit unemployment and anticipating another wave of foreclosures. What's the best way for local leaders to help move these vast quantities of houses back into productive use?

A critical component is financing. The federal Neighborhood Stabilization Program (NSP) is a crucial aspect of this equation, allotting funds to localities so they may be used to meet that locality's specific needs. NSP funds in Cleveland and Cuyahoga County help support the demolition and remediation of these vacant and abandoned properties. A consortium of public agencies has been awarded NSP II dollars that will direct additional remediation efforts to selected hard-hit neighborhoods with strong market potential.

Another critical component of any such restorative effort is connecting REO properties to organizations and people who can bring them back to occupancy or productive use. On a national level, there are two organizations that acquire REO properties and connect them to local organizations: The nonprofit National

Figure 11. **Percentage of All REO Properties Sold at \$10,000 or Less of All Properties Leaving REO (in 2009 dollars), 2005-09**

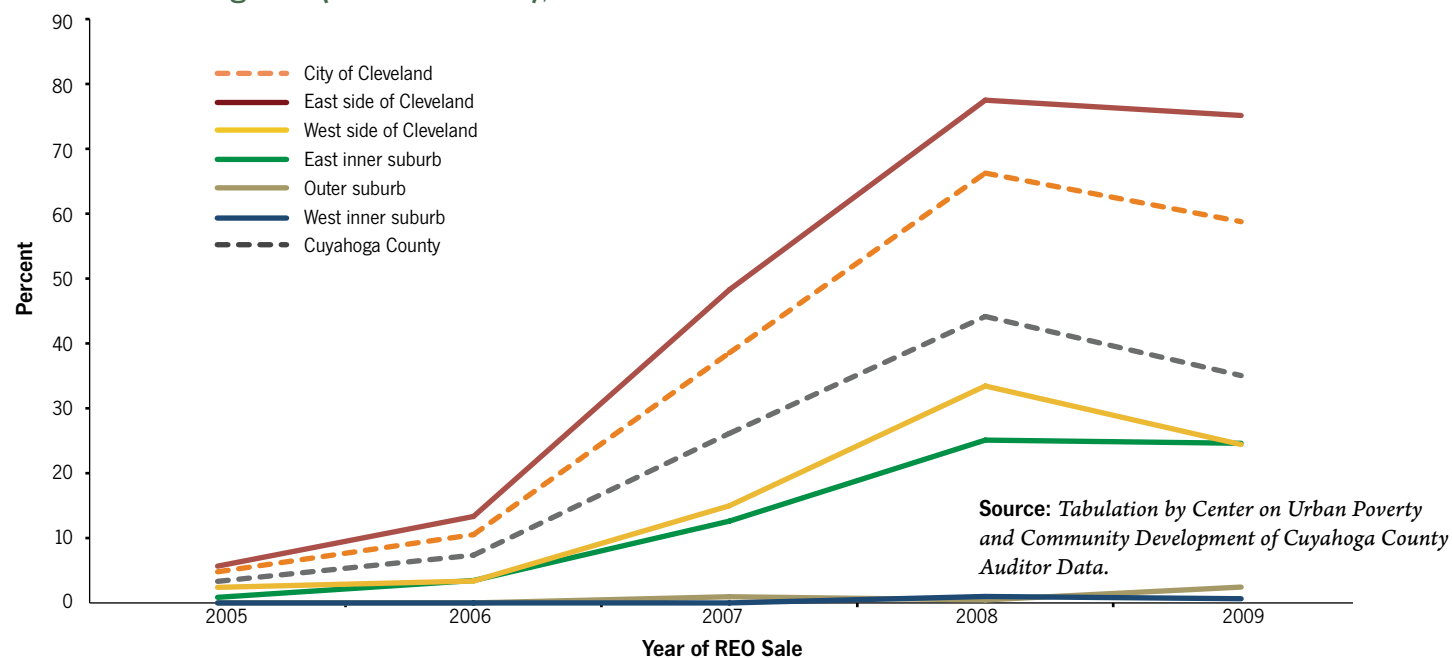


Figure 12. Top Sellers of REO Properties, Cuyahoga County, 2007-08

Seller	REO Properties sold by seller, all prices	Number of REO properties sold \$10,000 or less	Percent of total REO properties sold	Percent of REO properties sold for \$10,000 or less by seller
Deutsche Bank National Trust	1,638	837	20%	51%
Wells Fargo	1,273	601	14%	47%
U.S. Bank National Association	1,054	445	11%	42%
Fannie Mae	1,292	361	9%	28%
Bank of New York	638	219	5%	34%
LaSalle Bank National Association	365	184	4%	50%
HSBC Bank	330	133	3%	40%
JP Morgan Chase Bank	254	103	2%	41%
Wachovia Bank	176	85	2%	48%
Homecoming Financial Network	122	50	1%	41%
Total (top sellers)	7,142	3,018	72%	67%
Total REO properties sold, all sellers	10,728	4,210		

Source: Cuyahoga County Auditor transfer data from NEO CANDO, Center on Urban Poverty and Community Development, Mandel School of Applied Social Sciences, Case Western Reserve University. <http://neocando.case.edu>.

Community Stabilization Trust (NCST) was formed in 2008 by six national nonprofits with expertise in community development and housing. The REO Clearinghouse, a for-profit agency formed by Safeguard Properties, was established in early 2009. Both agencies' purpose is to help stem the decline of communities with high concentrations of vacant and abandoned property, and both work to connect national-level servicers with local community development organizations, offering foreclosed properties to these organizations at discounted rates. Cleveland was one of the first cities to work with NCST and the REO Clearinghouse. Current work is small in scale and strategically focused on very specific areas, and will help inform and direct broader efforts going forward.

On a local level, once an organization establishes a connection with holders of REO properties—a sometimes difficult step—it can employ one of several measures to return properties to viable use. One new approach is the recently established county land bank, whose primary function is to help return vacant and abandoned properties in Cuyahoga County to productive use. The county land bank, which is structured as a county land reutilization corporation, is modeled after a highly successful program in Genesee County, Michigan (see *Cuyahoga County Land Bank*).

In Ohio, vacant land that is tax delinquent is sold without appraisal to the highest bidder for the amount of taxes, penalties, interest, assessments, and charges against the land, plus court costs. Going forward, the process will be much more efficient. The land bank can acquire tax-foreclosed lands for a nominal price, along with select lands forfeited to the state. It can also accept property in lieu

of foreclosure from the owner of tax-delinquent land. The land bank manages its lands and can sell and oversee development of the lands in its purview provided the goal is reuse.

The land bank can help further both community and regional revitalization efforts. By strategically amassing parcels of land, the county's land bank can help communities implement plans for communal green spaces. Pooling properties in the new land bank will also mitigate the risks associated with land ownership, which previously were borne by small, local CDCs. These same CDCs are expected to play a central role in getting land bank properties back on the market.

In December 2009, the Cuyahoga County land bank announced a landmark deal with secondary mortgage market giant Fannie Mae. The secondary mortgage market giant owns hundreds of foreclosed and abandoned properties in the Cleveland area, many of which bear houses in likely need of demolition. In the deal, the land bank will be able to purchase properties from Fannie Mae for \$1 each. In addition, Fannie Mae agreed to pay up to \$3,500 of demolition costs on each property. Going forward, the land bank will have the option to purchase any of Fannie Mae's foreclosed properties valued at less than \$25,000; those properties the land bank elects not to purchase (it has 30 days to evaluate them for acquisition) will be offered for sale to the wider market. The deal marks a significant step forward for the land bank. Prior to the announcement of this arrangement, the land bank had acquired some 20 properties, with several dozen more under evaluation. Its first transfer from Fannie Mae consists of 25 additional properties for the land bank.

Cuyahoga County Land Bank



One of the biggest challenges facing Cuyahoga County in addressing the growing problem posed by abandoned and vacant properties is how to keep foreclosed properties out of the hands of speculators and make them available to private investors and CDCs as part of neighborhood revitalization strategies. The solution, championed by Cuyahoga County Treasurer Jim Rokakis, was state legislation (Ohio SB 353), which passed on December 10, 2008, and authorizes a countywide “land bank” that would function as a mechanism to accelerate the reutilization of these distressed properties.

The goals for the land bank are to

- Facilitate the reclamation, rehabilitation, and reutilization of vacant, abandoned, tax foreclosed, or other real property
- Efficiently hold and manage that real property pending its reclamation, rehabilitation, and reutilization
- Assist governmental entities and other nonprofit or for-profit entities in the assembly of that real property and the clearing of title in a coordinated manner
- Promote economic and housing development of the county or region

The legislation authorized the creation of a Community Improvement Corporation (CIC) known as the Cuyahoga County Land Reutilization Corporation (LRC). This program allows officials in the state’s most populous county to set up a nonprofit land reutilization program to accept or buy foreclosed or abandoned properties. The land bank is able to demolish properties beyond repair, while others can be held in a trust.

The LRC’s jurisdiction initially is limited to Cuyahoga County; however, the legislation authorizes any county adjoining Cuyahoga County to designate the LRC as its county land reutilization corporation by entering into an agreement with the LRC. The legislation allows selected non-productive land to be sold without appraisal for the amount of taxes, penalties, interest, assessments, and charges against the land plus court costs. The LRC has the authority to sell land, without competitive bidding, but for its fair market value, to any person it chooses so long as it obtains covenants from the buyer to assure the land’s effective reutilization.

The primary sources of funding for the LRC’s operations are penalties and interest paid on current taxes and assessments that are not paid when due. Rokakis estimates that capturing the penalties and interest on delinquent taxes could provide an annual amount to fund the activities of the county land bank of approximately \$7 million. The treasurer also anticipates secondary sources of funding such as re-sale of acquired properties to qualified buyers, fees for managing mothballed properties, plus a few other local government revenues. In addition, the LRC is authorized to borrow money, issue bonds, accept gifts, and apply in its own name for grants.

Finally, efforts are underway at the neighborhood level to help prevent homes from deteriorating, whether they are occupied or temporarily vacant. Two programs that focus on home rehabilitation to keep neighborhoods in shape are Opportunity Homes and Home Repair Resource Center (see *Opportunity Homes* and *Maintaining Home and Neighborhood Value*). Northeast Ohio has many programs that, like these two, complement efforts at the city and county level aimed at combating the foreclosure crisis. The region’s multifaceted, coordinated, and extensive response is indeed a reflection of the willful perseverance of residents, community-based organizations, and city and county officials alike.

Conclusions and Policy Considerations

This report weaves together data on the foreclosure crisis in the Cleveland area with stories of how the community is responding.

In so doing, it provides a contextualized account of the facts, rather than a causal analysis, and aims to inform and contribute to recovery efforts taking place in communities across the nation. While it may be tempting to try to pinpoint who or what is to blame, the data are not up to revealing motives, nor to sorting out the influences of market forces, regulatory failures, and institutional and individual decisions. Nevertheless, the numbers and stories together paint a picture of what unfolded here, what the consequences have been, and what the community has been called upon to address.

To summarize what the data reveal, Cleveland and Cuyahoga County entered this decade with a modestly appreciating housing market, a manageable number of foreclosures, and a community development system set up to help return vacant properties to productive use. Then subprime mortgages arrived on the scene and, in some sections of the city and suburbs, rapidly supplanted

conventional loans as the primary product for home purchases and refinances. By 2005, more than 10,000 foreclosures were filed on residential properties in a single year. The sheer numbers of foreclosures quickly overwhelmed the system. Neighborhoods with large minority populations were particularly hard hit by foreclosures and the negative spillover effects.

The data also document a growing number of properties that entered prolonged periods of vacancy, stuck either in the foreclosure process or in REO portfolios of mortgage companies and servicers. Untended properties deteriorated and were vandalized, reducing the likelihood that these houses could be sold and reoccupied. The value of housing stock plummeted, leading speculators to buy properties in some neighborhoods in bulk and for pennies on the dollar.

The data reveal all of this. Going forward, evidence-based research will continue to reveal which places and groups are most negatively affected, what progress is being made in addressing the crisis, and what challenges remain.

The sidebar stories, on the other hand, illustrate some of the ways that local government, nonprofit organizations, and community groups mobilized to address the problems spawned by this crisis. Each of these stories demonstrates that coordinated and data-driven action is needed on many interrelated fronts, and exemplifies the value of cooperation among several levels of government, nonprofit organizations, community leaders, and local citizens. And the stories are still being written.

Beyond such responses, what more is needed for communities like Cleveland to weather this crisis and prevent similar situations

in the future? We have certainly learned a great deal from our experiences. From where we stand, then, as a weak-market city planning to rebuild from this crisis, we acknowledge the need to address three key areas. The first involves regulatory reform of both consumer protections and the credit system as a whole. The second has to do with preserving and expanding affordable housing options. The third involves policies that enable cities like Cleveland to reconstitute a smaller, sustainable housing market within the context of a strong regional economy.

1. Implement appropriate incentive schemes and monitoring mechanisms to strengthen consumer protections.

Foreclosures are tremendously costly to the neighborhoods in which they concentrate, and their impact is long lasting. Spillover costs, which mushroom as houses remain vacant, are borne by neighbors, local government, and philanthropic organizations. Whether due to lack of incentives or insufficient capacity, loan modifications by lenders and servicers, many of which have no local connection, have done little to slow the pace of foreclosures and keep families in their homes. Consequently, costs for maintaining properties have skyrocketed while at the same time many servicers are refusing to spend dollars on property upkeep. A proposed way to mitigate this problem requires servicers to escrow nuisance-abatement funds at the time a foreclosure is filed (Mallach 2009). Enforcing the escrow requirement could boost servicers' incentives to modify distressed loans when possible. When a loan can't be saved, these escrowed funds would be available for upkeep of the property post-foreclosure, freeing the city's resources to support, for example, foreclosure prevention efforts.

Opportunity Homes

An innovative partnership among a funding intermediary, community development corporations, neighborhood organizers, and a local university is helping to preserve home and neighborhood values in Cuyahoga County. The intermediary is Neighborhood Progress Inc. (NPI), a well-known and highly respected community development group that took the lead in assembling this partnership. The partnership's unique initiative is called Opportunity Homes.

A pilot initiative operating in six of Cleveland's neighborhoods, Opportunity Homes has three components: rehabbing homes, demolishing homes, and preventing foreclosures through data-driven strategic organizing. With \$21 million of funding, Opportunity Homes plans on rehabilitating 121 homes and demolishing another 100 of the most deteriorated vacant homes in the six neighborhoods—Slavic Village, Tremont, Buckeye–Shaker, Fairfax, Glenville, and Detroit–Shoreway. (These six neighborhoods are also NPI's six Strategic Investment Areas, areas competitively chosen for investment on the basis of strengths such as location, number of community institutions, and effectiveness of local CDCs and on potential for revitalization.)

The rehabilitated homes will feature energy efficiency, tax abatements, and affordable pricing. On the other side of the coin, the demolition of badly deteriorated homes will rid the neighborhoods of blighted property and create room for other types of investment. Opportunities for using the space post-demolition include constructing new homes, establishing communal green spaces, and expanding yards.

The third component of the initiative, foreclosure prevention, is called "Early Warning." Through Early Warning, the partnership identifies mortgages at risk of foreclosure, contacts the homeowners, and engages them in foreclosure counseling. Such targeting of foreclosure-prevention efforts helps the partnership reach out to vulnerable homeowners in a time- and cost-efficient manner, with the goal of modifying an unaffordable loan before a homeowner defaults.

"The volume of houses in need of repair is so great that we simply can't handle it all,"
explains Frank Ford, senior vice president for research and development at NPI.

"Opportunity Homes builds off existing assets in neighborhoods, like new schools, libraries, and green space. No one can afford to fix everything; you have to work strategically."

Maintaining Home and Neighborhood Value

The Home Repair Resource Center (HRRC) in Cleveland Heights, an inner-ring suburb on Cleveland's hard-hit east side, is a small, community-based organization with a big mission. Founded in 1971 by members of a local congregation, the agency enables community members to maintain their homes, helping keep the neighborhood competitive and marketable.

The organization's comprehensive programming is aimed at preventing both foreclosure and home deterioration. A HUD-approved foreclosure education and counseling agency, the Home Repair Resource Center also offers financial literacy classes. And the center has at least one unique offering: education and resources centered on home repairs. One program helps low- and moderate-income homeowners get quality home-repair loans. A how-to home-repair program for all residents teaches participants specific home-repair skills. Finally, a tool-loan program allows income-eligible residents to use expensive tools to complete repair and maintenance work to their properties. In 2008, HRRC enabled 245 households to complete nearly \$700,500 in home repairs.



And the organization is now rolling up its sleeves and doing repair work itself. In response to the current need for quality home rehabilitation, the center created its Home in the Heights program. Through a partnership with the City of Cleveland Heights, HRRC can purchase foreclosed homes at low prices and rehabilitate the property in order to sell it.

“There’s a lot of rehab going on out there,” acknowledges HRRC executive director Kathryn Lad.

“We’re not going to flip a house; we want to raise the value of all the houses on the street.

We’re not interested in doing just the minimal.”

Profits from the sale of these rehabbed houses will fund future home purchases and rehabilitation. HRRC recently obtained its first property and has begun rehabilitation work. Best of all, there’s a buyer already lined up.

People often ask Lad why organizations similar to HRRC do not exist in their own communities. “This organization was started by grassroots people,” she tells them. “If you want something like this in your community, then do something about it. We were founded by a small group of people that wanted to make a difference in our community.”

“People,” she emphasized, “made it happen.”

If not accompanied by effective enforcement, however, such an option might simply result in more homes falling through the cracks.

In Cleveland's low-income neighborhoods, increased access to credit was mainly provided in the form of subprime loans. The companies originating a large proportion of these loans relied heavily on independent mortgage brokers who had monetary incentives to originate loans that carried not only higher interest rates, but higher costs and higher borrower risk as well.¹⁰ Moreover, brokers throughout Ohio could operate unscreened for criminal records. In too many instances loans were made based on inflated appraisals and inadequate documentation. In fact, until 2007 appraisers in Ohio were not required to be licensed. And although local leaders recognized the dangers early on, they were unsuccessful in passing laws to control predatory lending back in 2004.¹¹

Today, despite increased enforcement and some long-awaited anti-predatory lending rules now in place, consumers still need better protections. In particular, these protections should focus on low-income, less sophisticated consumers, operating in an imperfectly competitive market where mortgage products are complicated and risky. Relying on disclosure mandates and financial education programs has proven not to be enough. However, defining and implementing these protections are challenging tasks, and as it should be, are currently at the heart of heated debates in policy circles. The experience in Cleveland suggests appropriate incentive schemes and monitoring as tools for consumer protection.

Incentives: It is known that innovation outpaces regulation. With securitization, the mortgage-related financial market operated under an originate-and-distribute model, in which incentives were misaligned among brokers, originators, and mortgage holders. Reforms regarding expansion of assignee liability provisions and setting broker fees independently from the type of mortgage originated can help align incentives between all parties and are likely to improve outcomes. Reforms applied equally to loan originators, mortgage brokers, and lender employees (i.e., "loan officers" and "mortgage bankers") may be most effective. According to legal experts at the Federal Reserve Bank of Cleveland, the imposition of assignee liability to ensure that markets internalize the cost of unlawful loan originations will in turn encourage the secondary mortgage market to more carefully police loan originators, by cutting off funding to those who make mortgage loans via legally suspect methods (Greenlee and Fitzpatrick 2009). In other words, it will cut off funding to unscrupulous brokers by increasing the funders' responsibility.

An alternative approach is to impose a "duty of care" along with assignee liability. Basically, a duty of care is a legal requirement that a person act toward others with the attention and caution a reasonable person in the circumstances would exhibit. Thus, if loan originators owed a duty of care to borrowers, then borrowers might be able to recover monetary losses for having been put into

bad loans, even if no outright fraud was committed. This can be an advantage both to borrowers and to communities, as fraud is extremely difficult and costly to prove in court even in the more obvious cases—and especially with signed disclosures that may or may not have been read. Originators would be far more careful in making loans if they felt a greater liability for the loans' positive outcomes.

Monitoring: Data is an important resource for monitoring fair lending and screening better performing lending products. Low-cost mechanisms for monitoring and screening have appeared in some markets (web-based ratings for online sellers, for instance), helping consumers make better decisions and sort the bad products out of the market. While HMDA has allowed monitoring of the provision of credit, additional data elements on the terms and performance of the loan are needed to assess the quality of loan products through time. In the absence of such additional data, the identification of harmful products and protecting consumers from them will rely primarily on anecdotal evidence, which is neither an efficient nor especially promising approach to either task.

Cleveland's example shows that inadequate regulation and perverse incentives are conducive to criminal activity, too. Today a Cleveland-area task force is engaged in the prosecution of scores of individuals who took advantage of the situation. In the future, these types of criminal enterprises can be prevented by having the tools in place to prevent the perpetration of and victimization by such activities.

2. Preserve and expand the supply of affordable housing options, including sustainable homeownership and rental opportunities.

Many of Cleveland's housing units that cycle through an extended period of REO, vacancy, and resale at distressed prices will end up being demolished. This is especially likely in neighborhoods with lots of foreclosures. What this means is that the low- and moderate-income renters and homeowners who occupied these units will need a place to live. While demolition presents an opportunity to reduce concentrated poverty and adjust housing supply to the area's shrinking number of households, it can't be the only step to enable low- and moderate-income families to relocate to decent housing in mixed-income areas. Without attention to both the ability of households to pay for housing and the adequacy and location of affordable housing stock, concentrated poverty neighborhoods may simply be recreated elsewhere.

The foreclosure crisis represents an opportunity for the federal government to recommit itself to affordable housing programs. This includes expansion of the Housing Choice Voucher program, increased funding for both the Housing Trust Fund and the Low-Income Housing Tax Credit, and additional programs to help homebuyers who, upon the purchase of their first home, were affected by predatory lending.

A regional approach could employ data to calibrate the right mix between demand and supply-side solutions. Now is a favorable time for local groups to encourage green building methods and mixed-income developments. In places like Cleveland, distressed properties that have been purchased out of REO and recycled back into low-cost rentals with only cosmetic changes pose health hazards that likely worsened during the structures' prolonged vacancy. Increased resources for health inspections, enforcement, and remediation are necessary to protect new occupants.

3. Support strategic neighborhood investments within a strong, thriving regional economy.

In the wake of the mortgage crisis, hard-hit areas in Cleveland and the inner-ring suburbs face hundreds of vacant and abandoned homes and the effects are spilling over in the form of falling property values, diminished local tax revenues, and growing costs of nuisance abatement. The clean-up will take many years, and currently available NSP funds are simply not enough to mitigate more than a small proportion of these properties. Multiyear funding for neighborhood stabilization is required, but it must be deployed strategically given the realities within the region. Cleveland will likely never regain its past stature as a dynamic industrial city with close to a million residents. Looking toward a future in which Cleveland is a thriving, stable smaller city that anchors an economically viable region, planners have embarked on a new approach to economic development. The City Planning Commission, working with Kent State University's Cleveland Urban Design Collaborative, has prepared a plan called "Re-Imagining a More Sustainable Cleveland." It outlines a series of revitalization projects that make use of the city's glut of vacant and blighted land and help preserve home values in neighborhoods within a shrinking city (see *Planning and Preserving for the Future*).

Of course, success in all three of these key areas will depend on many factors, among them the ready availability of good data and researchers to make sense of them. In this report, we detailed specific challenges facing Northeast Ohio; in order to do so, we relied on data that had been collected for years leading up to the crisis. Data is a critical tool in the fight against foreclosures and their aftermath, as illustrated in each of the sidebar stories. Continued, consistent data collection and ongoing research—both costly undertakings—are critical for any community dealing with a problem of this magnitude. Unfortunately, for-profit companies are the primary providers in many regions of foreclosure-related data. Some government agencies also make foreclosure-related data available, and for free; however, their collection ability is limited and reporting methods varied. An integrated, real-time data system will require cooperation among a number of government agencies willing to modify how they collect, integrate, and distribute combined information so that it can be used for the common good. In addition to the availability of data, communities must have capacity to analyze the data and identify meaningful research questions.

An Uncertain Future

At this point it is unclear when the crisis will abate and markets resume their normal functioning. What is clear, however, is that efforts to address the crisis—here or in any community across the nation—must be multifaceted and coordinated among various entities. Similarly, policies aimed at dealing with disruptions in the housing market should be conceived as part of an integrated set of policies that can help weaker markets, with their unique circumstances, recover and thrive.

Supported by the recount of the crisis in our region, we have pointed to three general policy issues that need to be addressed: regulatory reform, housing policy reform, and economic development policies in line with a new identity of a smaller region with a higher quality of life. Let us not forget, however, that in the broader scheme of issues, our region has much work to do regarding education quality and persistent racial disparities in well-being.

Cleveland has been characterized as "resilient," with collaborative efforts among many players taking place horizontally across communities as well as vertically with the county (Swanstrom, Chapple, and Immergluck 2009). Yet, despite these efforts, resources are sparse. In the midst of the crisis, an opportunity for greater community cohesion with a focus on recovery stands clear. It challenges all parties involved—from government officials to funders to community organizations—to rethink and adapt their roles toward ensuring the Northeast Ohio region emerges from this crisis stronger than before.

Planning and Preserving for the Future



As population decline and foreclosure leave neighborhoods filled with vacant lots, city and neighborhood planners contemplate ways to use vacant land productively while fostering sustainability and future growth. In 2007, the Cleveland Planning Commission released *Connecting Cleveland 2020*, a citywide plan emphasizing the importance of neighborhoods, people, and environmental sustainability over traditional development and growth.

“We are looking at the very complex issue of vacant land, its aesthetic and economic impacts. If we are successful at using these opportunities, we could see Cleveland evolve literally to a green city on a blue lake,” says Chief City Planner Fred Collier, also the project manager of *Connecting Cleveland 2020*.

Neighborhood Progress Inc., a community development funding intermediary, called together Kent State University’s Cleveland Urban Design Collaborative and the City of Cleveland Planning Commission to explore strategies for reuse of Cleveland’s vacant land, forming the Cleveland Land Lab. In November 2008, the Cleveland Land Lab authored “*Re-Imagining a More Sustainable Cleveland: Citywide Strategies for Managing Vacancy*,” outlining specific green and productive ways to reuse vacant land.

“It’s become increasingly clear that the market can’t support dense, mixed-use development in every neighborhood,”

says Terry Schwarz, senior planner with the Cleveland Urban Design Collaborative.

“So we began to ask questions about economically productive, non-traditional uses for surplus vacant land.”

The report explores expanding parks, stormwater management, biodiversity, remediation of contaminated sites, and infill development as strategies for coping with vacant land and population loss, evaluating the potential of each strategy and mapping out which strategies fit where.

The City of Cleveland adopted the report as a long-term, strategic planning goal and is currently raising funds to implement over 100 pilot projects based on recommendations from the report. The pilot projects will be evaluated, aiming to increase the scale of the most successful ones.

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Endnotes

1. A report written by Kermit Lind of Cleveland State University provides details of the early thoughts and actions of those working in or closely with Cleveland's community development community. For more information see "The Perfect Storm: An Eyewitness Report from Ground Zero in Cleveland's Neighborhoods" (available online at www.vacantproperties.org/resources/documents/ThePerfectStorm.pdf).
2. Three papers published by the Center on Urban Poverty and Community Development form the basis of this report: "Pathways to Foreclosure: A Longitudinal Study of Mortgage Loans, Cleveland and Cuyahoga County, 2005–2008"; "Foreclosure and Beyond: A Report on Ownership and Housing Values Following Sheriff's Sales, Cleveland and Cuyahoga County, 2000–2007"; and "Beyond REO: Property Transfers of Extremely Distressed Prices in Cuyahoga County, 2005–2008." These research papers document successive stages of foreclosure, from loan origination through foreclosure and sheriff's sale, to REO (real-estate-owned) status and its aftermath. The examples of local responses that we include in this report are gleaned from two papers published by the Levin College of Urban Affairs at Cleveland State University: "Responding to Foreclosures in Cuyahoga County: An Assessment of Progress, Responding to Foreclosures in Cuyahoga County: A Pilot Initiative," and "Responding to Foreclosures in Cuyahoga County: Program Year Three Evaluation Report."
3. Properties proceed through the foreclosure process to varying degrees. For example, some will proceed all the way through, from filing to foreclosure sale to reuse and renewed occupancy. Some properties will go through foreclosure sale only to end up with a new, non-resident owner who may neglect it. And some properties may be abandoned earlier in the process, as will be discussed in this report.
4. Subprime loan: If the annual percentage rate (APR) of the loan is more than 3 percent (or 5 percent in the case of junior-liens) above the yield of a Treasury security of comparable maturity at the time the loan was made, the loan is classified as high cost. This is a proxy for subprime lending. In the study, we refer to these as subprime loans. It should be noted that such high-cost loans can be made by any lender, not just those classified as subprime lenders by HUD (the Department of Housing and Urban Development). Additionally, there is no other information in HMDA (Home Mortgage Data Act) to indicate whether the loan has other features, such as variable interest or prepayment penalties, that could affect foreclosure.
5. This report includes original data and analyses from three studies by CWRU's Center on Urban Poverty and Community Development (see endnote 2). This report also updates the data and analyses of these three reports to include information from 2008 and 2009. "Pathways to Foreclosure" was updated to include loans originated in 2007, and observed loans through early 2009. "Foreclosure and Beyond" and "Beyond REO" were both updated to include information from 2008 and 2009.
6. By linking HMDA and local records, researchers were able to examine the influence of subprime lending on foreclosures while also taking into account other characteristics of lenders, loans, borrowers, and neighborhoods. Furthermore, local records can be tapped to describe the pathway that high-cost subprime loans traverse from origination to foreclosure.
7. Lenders have always had an advantageous position at auction, in that they can acquire a property at foreclosure sale for what is called a 'credit bid,' or the remaining lien on the property, without expending additional funds.
8. Ohio House Bill 138 in the 127th General Assembly. More information is available at www.legislature.state.oh.us/BillText127/127_HB_138_EN_N.pdf.
9. Properties with a sales price of \$0 in local records are treated as missing data in this study. Sales price in the Cuyahoga County auditor's property transfer records use a property transaction's conveyance fee to calculate the sales price of a property. If a conveyance fee was not required, a sales price may be listed as \$0, regardless of the actual sale price of a property. Property transfers at a price of \$0 have therefore been eliminated from the study, as their actual sales price cannot be determined. The Ohio Revised Code (§319.54) exempts governmental organizations and nonprofit organizations (among other parties and situations) from paying a conveyance fee on a property transfer. Therefore, the sales prices are most often missing for transfers from HUD (80.43 percent, or 941 properties) and Freddie Mac (61.43 percent, or 215 properties). Also, quite a few transfers from the Veteran's Administration are missing sales prices (60.74 percent, or 99 properties). However, Fannie Mae has few missing values (1.08 percent, or 16 properties).
10. For example, rate sheets would often provide increased margin for loan originators if loans included prepayment penalties (thus increasing both the cost of ARMs and the risk that they would not be able to be refinanced if housing prices remained flat).
11. This case involved three local ordinances adopted by the City of Cleveland in 2002, pursuant to the home rule amendment, that prohibited various "predatory" practices by consumer lending institutions doing business in the city. Shortly after they were adopted, the Cleveland ordinances were challenged in a court action initiated by the American Financial Services Association (AFSA). AFSA asserted that the Cleveland ordinances were in conflict with legislation enacted earlier in 2002 by the Ohio General Assembly, Sub. H.B. 386, which established regulatory guidelines applicable to all residential mortgage lenders doing business in Ohio. One provision in the bill, codified as O. R.C. §1.63, stated the legislature's intent to "preempt" the entire field of mortgage lending regulation for the state and included language barring local governments anywhere in Ohio from enacting local mortgage lending regulations. From McGlinchey Stafford Client Alert: Ohio Supreme Court Decides the Cleveland Predatory Lending Ordinance Case.

Community Programs Appendix

Making Data Accessible

For more information about the Center on Urban Poverty and Community Development's NEO CANDO data system, visit <http://neocando.case.edu>, or contact Michael Schramm by phone at 216.368.0206 or by email at schramm@case.edu.

Vacant and Abandoned Properties Action Council

For more information about the Vacant and Abandoned Properties Action Council, contact Frank Ford, Neighborhood Progress, Inc., by phone at 216.830.2770.

For more information on how the National Vacant Properties Campaign can help your city, visit **www.vacantproperties.org**.

Responsible Neighborhood Lending

For more information about the Home Today program, contact Third Federal Savings and Loan at 216.441.7345, or visit their website at www.hometoday.org.

Foreclosure Counseling: Different Agencies, Different Approaches ESOP

For more information about ESOP, call 877.731.3767, or visit www.esop-cleveland.org.

Neighborhood Housing Services of Greater Cleveland

NHSGC currently serves residents in Erie, Huron, Lorain, and Medina counties, as well as residents of Cleveland and Cuyahoga County. For more information about Neighborhood Housing Services of Greater Cleveland, visit www.nhscleveland.org.

A Holistic Housing Court

For a more comprehensive list and descriptions the Cleveland Housing Court's programs, visit www.clevelandhousingcourt.org.

Investigating Mortgage Fraud in Slavic Village

For more information about Slavic Village Development Corporation, please call 216.429.1182 or visit www.slavicvillage.org.

Cuyahoga County Land Bank

For more information about the Cuyahoga County Land Bank, visit www.cuyahogalandbank.org.

Maintaining Home and Neighborhood Value

For more information about the Home Repair Resource Center, visit www.hrrc-ch.org, or call 216.381.6100.

Opportunity Homes

For more information about the Opportunity Homes initiative, visit Neighborhood Progress, Inc.'s website at www.neighborhoodprogress.org or call 216.830.2770.

Planning and Preserving for the Future

For more information about the Cleveland Planning Commission, visit <http://planning.city.cleveland.oh.us>.

You can find Connecting Cleveland 2020 at <http://planning.city.cleveland.oh.us/cwp/contents.html>.

You can find the report "Re-Imagining a More Sustainable Cleveland" online at www.cudc.kent.edu/shrink/.

For more information about the Cleveland Land Lab, contact Terry Schwarz by phone at 216.357.3426 or by email at tschwarz@kent.edu.

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