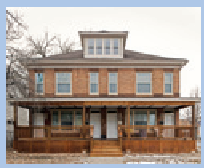
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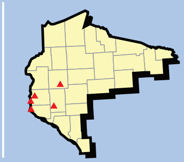
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April 2012

# Community Dividend

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## Twin Cities organization expands role of land banks

By Jacob Wascalus

Four years ago, an early springtime drive through low- and moderate-income neighborhoods in the Minneapolis-St. Paul metropolitan area revealed evidence of a housing market malaise: homes with boarded-up windows, front yards covered with matted leaves from the previous autumn, porches littered with rolled-up neighborhood newspapers. Vacant, foreclosed homes dotted the region in alarming numbers.

On an early springtime drive in 2012, the scene in some of those neighborhoods remains much the same.

For many communities, recovering from the negative repercussions of the housing crisis is a long, arduous task. One problem—the increase in vacant, often bank-owned properties—is particularly challenging, as the destabilizing influence of vacancies can cause a slew of side effects that undermine economic recovery. Local governments and nonprofit organizations are employing a range of tools to address the vacancy problem, including one tool designed to convert vacant property to productive use: land banking.

PHOTOS COURTESY OF PRG, INC.

Twin Cities Community Land Bank (TCCLB) facilitated the transfer of this formerly vacant and bank-owned home in North Minneapolis to PRG, Inc., a local nonprofit organization that focuses on affordable housing.

A land-banking organization founded in 2009, Twin Cities Community Land Bank (TCCLB), is doing its part to deal with vacant properties in the Minneapolis-St. Paul area. Although its name implies an exclusive focus on land banking, TCCLB conducts additional programs—created in response to Twin Cities housing market conditions—that go beyond what land banks have traditionally offered.

According to Becky Rom, who recently served as president of TCCLB, expanding beyond land banking enables the organization to contribute more to the Minneapolis-St. Paul area's broader economic recovery efforts.

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## Protecting Tenants at Foreclosure Act guarantees renters a baseline of legal rights

By Jacob Wascalus

Most of the phone calls housing attorney Matt Eichenlaub fields from his office at HOME Line, a tenant advocacy organization in Minnesota, involve complaints about rental property owners who fail to return security deposits or neglect to make necessary repairs to their buildings. But some of the calls Eichenlaub and his colleagues receive involve renters who are living in properties facing foreclosure. These callers aren't worried about security deposits or leaky roofs; they're concerned about coming home from work one day in the near future and discovering that


PHOTO BY PAULA WOESSNER

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## Mini-banks provide hands-on education in personal finance

By Jacob Wascalus

During her 18-year teaching tenure at New Richmond High School in New Richmond, Wis., Ann Scharfenberg has witnessed the tenuous understanding many of her young students have of personal finance. As an economics teacher who includes a personal finance component in her curriculum, she has seen, all too clearly, a disconnect between her students' rosy expectations of their financial futures and the black-and-white realities of adulthood.

"They weren't getting the basics about income and expenses," she says.

To help dispel some of the misunderstandings, Scharfenberg partnered with WESTconsin Credit Union, a financial service provider serving the western Wisconsin region of the Ninth Federal Reserve District, to start a dialogue with students on the fundamentals of personal finance. When representatives from WESTconsin made in-class presentations on everything from credit reports to personal loans to the different financial services that banking institutions offer, Scharfenberg saw an impressive level of engagement among her students.

"The kids were really excited about the chance to learn," she recalls. "They would go home after a presentation, talk to their parents, and then, a few days later during another presentation, ask many more questions."

Sound financial education, delivered in class or in practice, is critical to helping young people develop the skills and knowledge needed to make sensible decisions about money. To offer practical financial education for New Richmond High School's students, WESTconsin Credit Union opened a scaled-down

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# Mini-banks provide hands-on education in personal finance

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branch—or "mini-bank"—within the school, in the cafeteria near the lunch line. The mini-bank provides a hands-on means for kids to learn the financial basics that will serve them in their adult lives.

"They can stop in and ask questions any time," says Marie Gremore, who serves as the office supervisor at the New Richmond WESTconsin Credit Union and is a frequent presence at the New Richmond High School mini-bank. "We have a passion to help students learn about finance. And any little part that we can do to help them learn is worth it."


PHOTO COURTESY OF NATIVE AMERICAN COMMUNITY DEVELOPMENT CORPORATION

Above: A teller processes a fellow student's deposit at the Napi Elementary School Mini-Bank in Browning, Mont., 1 of 17 mini-banks operated by Native American Community Development Corporation. Below: A student teller welcomes customers to the First Interstate Bank-sponsored mini-bank at Hardin Middle School in Hardin, Mont.

## A long history of student savings

At their core, mini-banks are school-based, student-oriented savings operations that enable students to open savings accounts with legitimate banking institutions. The concept of a school-based savings program is not new; according to the U.S. Department of the Treasury, "In 1915 … the American Bankers Association staff collaborated with New York City School Board members and local thrift institution personnel to set up school banks in schools across the city. By 1917, the program included 180 public school-based institutions and $250,000 of student savings deposits"[1]—more than $4.5 million in 2012 dollars.

Mini-banks in the Ninth District date to at least 1996, when the late Elouise Cobell, who was then serving as the executive director of the Native American Community Development Corporation (NACDC), a nonprofit affiliate of Denver-based Native American Bank, led the effort to open a mini-bank at Browning Middle School in Browning, Mont., on the Blackfeet Indian Reservation. The program enjoyed such success that other schools in Montana began operating mini-bank programs through partnerships with local Native American Bank branches. In 1999, First Interstate Bank, a regional bank headquartered in Billings, Mont., opened its first mini-bank at Hardin Intermediate School in Hardin, Mont.

"We modeled our mini-bank programs after the successful operation of Elouise's mini-bank program on the Blackfeet reservation," says Kelly Bruggeman, executive director of the First Interstate Foundation.

Although the mini-bank program sponsored by WESTconsin Credit Union opened later, in 2008, its goal is the same as that of its Montana predecessors: to provide a means for students to save and learn.

## Enticements and engagement

PHOTO COURTESY OF FIRST INTERSTATE FOUNDATION

While mini-banks in the Ninth District share a common goal, they vary in setting and structure. At New Richmond High School, for instance, WESTconsin Credit Union employees operate a physical branch in the school, while at Browning Middle School, school officials work with a trained "Mini-Bank Coordinator" to operate a classroom-based, student-staffed and -directed savings program in conjunction with Native American Bank. Likewise at Lincoln Elementary in Miles City, Mont., where school sponsors help operate a student-run, classroom-based mini-bank connected with First Interstate Bank.[2]

Services offered by mini-banks in the Ninth District vary, too. For example, at New Richmond High School, as well as at the three other high schools in which WESTconsin Credit Union operates mini-banks, students can open checking accounts in addition to savings accounts.

In order to entice more students to learn positive savings habits, most of the mini-banks in the District offer low-cost products or other attractions. WESTconsin Credit Union, which operates three middle school-based mini-banks in addition to its four high school-based ones, offers all mini-bank customers a $5 match on initial deposits. At the high school-based mini-banks, WESTconsin also offers a $100 certificate of deposit—a product that features a considerably smaller minimum deposit than the current $500 CDs available to nonstudents at the credit union. Students at schools with mini-banks served by Native American Bank receive piggy banks when they open accounts, while at the mini-banks sponsored by First Interstate Bank, student savers earn 4 percent interest on their savings balances, well above the market rates available across the nation.

"We believe that offering the student savers a higher interest rate provides an incentive that helps the students see the power of saving," explains Bruggeman of First Interstate Foundation.

All the mini-banks use student engagement to teach valuable organizational and communication skills. The NACDC, which operates 10 Native American Bank-affiliated mini-banks in Montana schools (plus 7 more in schools in Idaho and Colorado and 1 in development on the Red Lake reservation in Minnesota), recruits a board of directors composed of students to set policies for each mini-bank. These same board members staff the bank during operating hours, working as tellers, new account representatives, and customer information representatives. Students hold similar positions in the mini-bank opera-


PHOTO BY JACOB WASCALUS

Staffers and friends of the New Richmond High School-based mini-bank sponsored by WESTconsin Credit Union. Left to right: student teller Maggie Dalton, teacher Ann Scharfenberg, and WESTconsin representatives Marie Gremore and Candi Thoen. Says Dalton, "Working at the credit union has taught me the importance of being financially educated at a young age and has better prepared me for my future."

## Off-the-shelf mini-bank products

Starting a mini-bank from scratch involves many decisions about program details, including what type of banking services to offer, how to record transactions, where and when to operate the mini-bank, how to develop marketing materials, and how to determine appropriate student participation levels. However, there are some off-the-shelf mini-bank packages available that are designed to ease the start-up process. One example, KidzBANK (**www.kidzbank.com**), is an all-inclusive mini-banking kit that supplies everything from the software students use to make deposits to the marketing materials used to publicize the savings program. KidzBANK requires a partnership with a local financial institution. Another off-the-shelf product, School Savings (**www.schoolsavings.com**), is an online school-banking program that works with students' existing savings accounts at any financial institution.

tions connected with First Interstate Bank, which sponsors 16 mini-bank programs in Montana and South Dakota (and 5 more in Wyoming). And at the 4 WESTconsin Credit Union high school mini-banks, students work in paid teller positions to gain front-line experience in a retail financial services setting.

"Last year, we had ten students apply for our two teller positions," says Russ Blasius, vice president of the New Richmond WESTconsin Credit Union. "They were all very impressive. This year there has been strong interest in the positions as well."

Scharfenberg adds, "It's a nice opportunity for students to get work experience and earn some income."

## Mutual benefits

Mini-bank programs can provide benefits for financial institutions and students alike. In addition to the positive relationships they develop with their host communities, the banks and credit unions behind each mini-bank operation are developing banking relationships with many students who are likely to emerge from school as responsible patrons. These relationships are especially important given that, as of 2009, approximately 9 million U.S. households (7.7 percent) were *unbanked*, meaning they had neither a checking account nor a savings account. Moreover, 15.6 percent of American Indian households, the children of which are the primary constituency served by the NACDC's mini-banks, are unbanked.[3]

"Mini-banks teach kids the fundamentals of saving, and they carry those skills with them into adulthood," says Angie Main, the current executive director of the NACDC. "They give students an awareness of finance and help build trust of banking among students."

Mini-banks may have a regulatory benefit for financial institutions as well. Because the Community Reinvestment Act (CRA) encourages depository institutions to help meet the needs of the communities in which they operate, especially low- and moderate-income communities, banking organizations that operate mini-bank programs directed toward low- to moderate-income communities may receive positive CRA consideration. Financial institutions that are interested in the potential CRA implications of mini-banks should contact their federal banking regulator to discuss the matter.

For students, the benefits of participating in mini-bank programs include:

- **Learning good savings habits.** Understanding the need for savings and exercising fiscal discipline can help students achieve financial independence as they enter adulthood.
- **Discerning the quality of financial services.** Exposure to such concepts as interest rates and certificates of deposit can help students understand the range of banking products available to them. Students may rely on the lessons learned in mini-bank programs while making banking choices as adults.
- **Developing confidence in dealing with financial institutions.** Early exposure to mini-banks can prepare students for interactions with banks and credit unions as they reach adulthood.

Unanticipated benefits can accrue to mini-bank participants as well. Main relays the story of a young man who was attending college in Missoula, Mont., and was in the process of applying for scholarships.

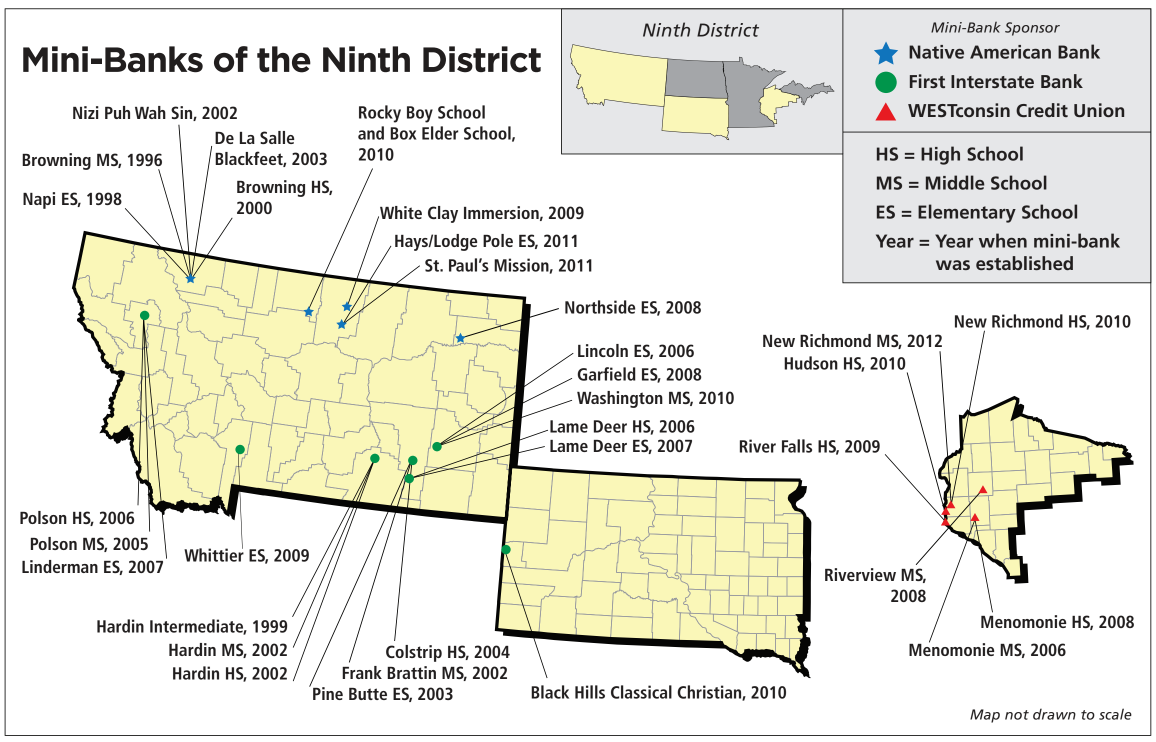
"He wasn't sure what to write about, but then he thought of his experience with the mini-bank program and decided to write about it. And guess what? He was awarded the scholarship."

## A hand-in-hand partnership

Although scholarships lie beyond the expected outcomes of mini-bank programs, these school-based savings opportunities can produce win-win scenarios for all parties involved. Students learn the fundamentals of personal finance and financial institutions earn trust through their community outreach.

According to Russ Blasius of WESTconsin Credit Union, the relationship that was forged years ago between New Richmond High School and the credit union has produced this enhanced level of cooperation. Says Blasius, "We'll be there as long as they want us to be, and we'll assist in financial education as they see fit. Our partnership goes hand-in-hand with the financial literacy goals of the school and what we want to do in the community."

*For more information on the mini-bank systems discussed here, contact Marie Gremore, WESTconsin Credit Union, at 715-246-2068 x7533; Jaime Bechel, NACDC, at 406-338-2992; or Kelly Bruggeman, First Interstate Foundation, at 406-255-5396.* cd




[1] "School-Based Bank Savings Programs: Bringing Financial Education to Students," *Community Developments*, Office of the Comptroller of the Currency, April 2009.

[2] Differences between credit-union-sponsored and bank-sponsored mini-banks may be due in part to the fact that these financial institutions operate under separate regulatory schemes. Credit unions, banks, or other financial institutions that are interested in sponsoring mini-banks should contact their primary regulator for guidance.

[3] *FDIC National Survey of Unbanked and Underbanked Households,* Federal Deposit Insurance Corporation, January 2009. Available at www.economicinclusion.gov.

# Twin Cities organization expands role of land banks

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Says Rom, "The housing market has failed, and TCCLB is here to help address that market failure."

## Traditional land banking

As the term suggests, *land banking* is the act of holding—or "banking"—vacant, foreclosed, or abandoned property until it can be put to productive use. *Land banks* are the government-affiliated or -endorsed organizations that perform land-banking activities. They can be a function of a municipal department or be a separate nonprofit organization.

Land banks have existed in different cities since at least 1971, when the St. Louis Land Reutilization Authority was formed. While some land banks may share similar economic and housing development goals, no two are dealing with exactly the same property composition or market conditions. Their funding sources, too, frequently differ. Some land banks rely on private foundation and government grants, such as Neighborhood Stabilization Program funding,[1] but most rely on property tax-related revenue streams, among other sources.

Historically, the land that these organizations have acquired consists primarily—though not entirely—of property rendered vacant through tax forfeiture, wherein a municipality takes ownership of a piece of land after the previous owner stops paying property taxes. Tax forfeitures commonly occur in economically depressed neighborhoods, when property owners see too little value in their properties to make it worth paying their property taxes. Because the forfeited land typically has little to no value to outside investors, having a government-sponsored or -affiliated organization "bank" the property, maintain it, and position it for future development can benefit the broader area in the long run. This is the traditional function of land banks.

Over the past several years, however, the nationwide mortgage foreclosure crisis has brought large numbers of a different type of vacant home into the mix: bank-owned properties, also called "real estate owned" properties, or REOs. The flood of REOs is forcing a redefinition of the role that traditional land banks play. Instead of functioning solely as depositories of properties that have next-to-no market value, some land banks are also focusing on short-term disposition of REOs that retain much of their market value. In the Twin Cities, where such REOs make up most of the vacant property inventory, TCCLB operates in this expanded role.

## A trio of programs

TCCLB is a nonprofit intermediary that works with private, public, and nonprofit partners to bank or facilitate the disposition of vacant properties in the seven-county Twin Cities metropolitan area. With more than 60,000 foreclosures occurring in this area from 2008 through 2011,[2] finding responsible ways to fill these properties with owners or renters is a direct means to stabilize communities. From its central position among financial institutions, developers, and government funding programs, TCCLB contributes to the stabilization process by working to repopulate vacant properties. To do this, it operates three programs: strategic acquisition, community lending, and traditional land banking.


***Strategic acquisition:*** TCCLB facilitates the purchase of foreclosed, vacant properties by more than 60 affordable housing developers. Working directly with banks as well as with the National Community Stabilization Trust (NCST), a nonprofit organization that negotiates with financial institutions to make their bank-owned properties available for purchase, TCCLB operates as an intermediary between entities that own vacant properties and developers that seek to purchase and rehab vacant properties. The developers rehab and redevelop the properties to make them available to prospective homebuyers and renters, many of whom are low- or moderate-income. Many of the developers' purchases occur through NCST's First Look program, which provides qualified developers with an opportunity to buy bank-owned properties before they hit the open market. By meeting specific construction and hiring requirements, the developers receive not just early access to the listings but also the ability to purchase them at a discount. TCCLB is the local facilitator of this program.

Says Chad Schwitters, executive director of Urban Homeworks, a developer working with TCCLB in its acquisition activities, "The land bank is able to use its connections to help us purchase properties that otherwise would take us a lot longer to acquire."

In addition to providing access to residential properties, TCCLB works with developers to purchase and rehab commercial property, with the aim of stimulating neighborhood revitalization along commercial and transit corridors.

***Community lending:*** TCCLB makes loans available to both the above-mentioned developers and to prospective home-


Rendered uninhabitable by a tornado in May 2011, this North Minneapolis property was acquired, demolished, and "banked" by TCCLB.

buyers. Because of its status as a community development financial institution,[3] TCCLB has access to a portfolio of funding programs not available to most other financial entities. Qualified developers, if they choose, can access this financing to help them purchase and rehab properties that they acquired through TCCLB or other sources. To gain access to TCCLB's financing, the developers must sell single-family homes to people whose incomes are at or below 115 percent of the area median income (AMI) or responsibly rent[4] multifamily homes to people whose incomes are at or below 80 percent of AMI. Prospective low-income homebuyers, too, may qualify for supplemental financial assistance.

***Land banking:*** In its more traditional, namesake role, TCCLB operates both short-term and long-term land-banking functions. In short-term land banking, TCCLB establishes agreements with developers to buy and hold, for up to one year, single- and multifamily homes that become available for purchase. Developers may wish for short-term land-banking services, for instance, if they do not yet have the capacity to begin redevelopment on a property but will in the near future. In its long-term land-banking activities, TCCLB uses two models: one that is essentially the same as its short-term model, except that the developer agrees to take possession of the property after one year; and another where it directly acquires or accepts donated property and there is no arranged disposition strategy. This last option is being used in a zone of North Minneapolis that sustained heavy damage from a tornado in May 2011.

## High acquisition costs, steady housing demand

Two of the three programs described above—strategic acquisition and community lending—illustrate the expanded role TCCLB performs in comparison to a traditional land bank. Two characteristics of the Twin Cities housing market explain this expansion: the overwhelming proportion of vacancies that are due to foreclosure instead of tax forfeiture, and an undiminished demand for housing.

Bank-owned properties—REOs—account for the vast majority of the vacant houses in the seven-county Twin Cities region.[5] For instance, Hennepin County, which encompasses Minneapolis, had 4,953 foreclosures in 2011,[6] but had only 255 properties forfeited through a failure to pay property taxes. The number of tax forfeitures has gradually increased from a low of 34 in 2004[7] but remains small enough that Hennepin County and the City of Minneapolis are managing the property maintenance and disposition on their own. According to Rom, TCCLB is ready to work with the county and city if tax forfeitures become a bigger problem.

By contrast, two prominent land banks elsewhere in the country, Genesee County Land Bank in Michigan and Cuyahoga County Land Bank in Ohio, serve jurisdictions that have large inventories of tax-forfeited properties in addition to REO properties. From 2006 through 2011, Genesee County had approximately 7,000 tax forfeitures, while Cuyahoga County had more than 11,000. Municipalities typically transfer tax-forfeited properties to land banks for free. This practice keeps the Genesee County and Cuyahoga County land banks' overall property-acquisition costs low. Moreover, these land banks are legally structured to receive a large amount of funding from fees associated with property taxes.

In the Minneapolis-St. Paul area, where the supply of free or inexpensive tax-forfeited properties is small and REOs that have retained much of their market value are predominant, the costs for TCCLB to acquire vacant properties are high. To date, while some banks have agreed to sell REO properties to TCCLB for as little as \$1, the average cost per house has hovered closer to \$70,000. And TCCLB receives no property tax-related funding. Instead, it relies on

PHOTOS COURTESY OF TWIN CITIES COMMUNITY LAND BANK


With TCCLB's assistance, this formerly bank-owned multifamily property in North Minneapolis was transferred to Urban Homeworks, a local affordable housing developer.

PHOTOS COURTESY OF URBAN HOMEWORKS

grants, loans, and revenue earned from its property transactions.

In Rom's estimation, "The highest barrier to land banking in the Twin Cities is cost."

Aside from the predominance of REOs, the other market factor that shapes TCCLB's activities is housing demand. The population in the Twin Cities region has remained steady over the past decade, meaning demand for housing is largely unchanged. The undiminished demand is what underlies the relatively high market value of REOs. It also underlies TCCLB's approach to property disposition. While some properties in the Twin Cities region are unfit for habitation and therefore need to be demolished and either banked for future use or sold for new construction, the steady demand for housing means TCCLB has reason to maintain, not shrink, the overall housing supply.

By contrast, in Genesee and Cuyahoga counties, there has been significant population loss. Flint, the city in Genesee County that receives the most land-banking attention, saw an 18 percent population decline between 2000 and 2010; and Cleveland, the primary city in Cuyahoga County, lost 17 percent of its population over the same period. More telling is the loss in each city since 1960: Flint has experienced a departure of 48 percent of its residents, while Cleveland has lost 55 percent. With such major contractions in population size, Genesee and Cuyahoga counties have lower demand for housing than they did in the past, so they aim to shrink the housing "footprint" by offering options such as side-lot transfers, wherein the land bank demolishes a vacant house and then sells the cleared parcel of land to the individual who owns the adjacent property.

## Expansion and enhancements

As of December 31, 2011, TCCLB has facilitated, through its strategic acquisition program, more than 360 single- and multifamily property acquisitions while helping developers save more than $4.5 million. Through its community lending program, for which it is building a $26 million loan and grant fund,[8] TCCLB has financed the purchase and rehab of 143 single- and multifamily properties as well as 3 commercial property developments. And through its land-banking program, TCCLB has held 18 single- and multifamily homes in short-term land-banking status and 6 properties in long-term land-banking status, 2 of which are donated houses in the North Minneapolis "tornado zone."

Looking ahead, TCCLB's leadership sees potential for expansion and, perhaps, some hoped-for enhancements. Long-term land banking—the core, traditional activity performed by land banks—is one area where TCCLB plans to expand its work, despite the fact that the costs associated with it—for demolition, lot maintenance, property taxes, and assessments—are high. To acquire a house, demolish it, and bank the property for five years, TCCLB estimates that it would spend $35,000—a figure that assumes the property is donated. If a house is purchased rather than acquired for free, TCCLB's costs would increase by the purchase price. Still, TCCLB plans to add to its long-term land bank inventory by acquiring heavily damaged homes in the North Minneapolis tornado zone. And to help pay for these acquisitions, it plans to draw on a $3 million fund composed of a mix of grants, loans, government waivers (property tax and assessment waivers), and income from sales, including the acquisition, rehab, and resale of foreclosed and vacant houses outside of the tornado zone.

Rom suggests several enhancements that would enable TCCLB to further its activities, including:

- **Receiving greater discounts from financial institutions on REOs.** Currently, through NCST, developers are offered available REOs at a discounted price. The discount varies by property, market, and financial institution; in the Twin Cities, it averages 15 percent. A greater discount granted by financial institutions would enable the pool of qualified developers to purchase, rehab, and resell or rent even more of the available REOs.

- **Receiving increased cash donations from financial institutions to defray demolition costs.** Demolishing uninhabitable houses is a major expense for TCCLB. Increased donations to cover demolition would leave fewer monetary obstacles to TCCLB's long-term land-banking activities.[9]

- **Receiving more property tax and special assessment waivers.** Additional property tax and assessment waivers from local governments would help reduce the $35,000 figure stated above.

- **Receiving more "patient" capital to purchase properties for long-term land banking.** By having an increased amount of long-term, or patient, funding, TCCLB would be able to acquire more properties to hold in long-term land-banking status.

"Many of our problems require access to capital," Rom explains. "And having access to more money will help TCCLB have a bigger positive influence on the housing market recovery."

Four years from now, will an early springtime drive through the Twin Cities area reveal evidence of a housing market rebound? With such a large inventory of foreclosed homes in the region, the answer isn't clear. Yet after a half decade of TCCLB's acquisition, lending, and land-banking efforts—along with the housing stabilization efforts employed by other organizations and government departments—the likelihood of a rebound becoming a reality is stronger. cd

## More on the NCST

Created in 2008 to help local communities weather the foreclosure crisis, the **National Community Stabilization Trust** (NCST) supports the revitalization of areas that have experienced high numbers of mortgage foreclosures by working with financial institutions to sell bank-owned properties to community buyers. The NCST was initially formed by four national affordable housing organizations—Enterprise Community Partners, Housing Partnership Network, Local Initiatives Support Corporation, and NeighborWorks America. The National Urban League and the National Council of La Raza later joined as fellow sponsors. In 2011, NCST, which is funded through grants and compensated with property transaction fees paid by financial institutions, facilitated the transfer of nearly 2,000 properties. The transactions totaled $149 million in sales and saved local housing providers nearly $19 million.

For more information on NCST's activities, visit **www.stabilizationtrust.com**.

[1] The Neighborhood Stabilization Program was initiated in 2008 by the federal government to channel redevelopment funding to communities hit hard by the foreclosure crisis. Under the conditions of the legislation, establishing and operating land banks is a permitted use of the funding. For more information, visit www.hud.gov/nsp.

[2] This figure is a count of completed sheriff sales (i.e., the step in the foreclosure process wherein the property is auctioned to a new owner). It was obtained from sheriff sale data collected by Housing Link, a nonprofit organization that makes Minnesota-focused housing data readily available. For more information, visit www.housinglink.org.

[3] Community development financial institutions, or CDFIs, are specialized entities that provide lending, investments, and other financial services in economically distressed communities. For more information, visit www.cdfifund.gov.

[4] Developers must participate in landlord/tenant training or demonstrate previous experience in socially responsible multifamily ownership.

[5] It is worth noting that not all foreclosed properties are vacant; some may be occupied by owners or renters until the foreclosure process runs its course. (For more on renters living in foreclosed properties, see the article "Protecting Tenants at Foreclosure Act guarantees renters a baseline of legal rights" in this issue.) But even if, hypothetically, only half the foreclosed properties in Hennepin County were vacant, the number would still dwarf the number of tax forfeitures.

[6] This figure was calculated by Housing Link. See www.housinglink.org/Files/ForeclosuresInMN_2011_Annual.pdf.

[7] Tax-forfeiture figures are from the Hennepin County Taxpayer Services Department, as reported in the *Star Tribune* on February 26, 2012.

[8] The $26 million is made up of a collection of funding sources that have different restrictions. For example, developers may access specific pools of funding to help finance the acquisition of a property, while prospective homebuyers may access financial assistance from a targeted fund that is repayable upon resale of the house. Additionally, some nonprofits may apply for a grant to use for environmental assessment or remediation projects.

[9] In the cases where the Cuyahoga County Land Bank deals with REOs, several banks contribute up to $7,500 per property to help defray the cost of demolition.

# Protecting Tenants at Foreclosure Act guarantees renters a baseline of legal rights

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the locks have been changed and their belongings are sitting in the front yard.

"Most of those tenants I talk to are within a week or two of the sheriff sale," he says, referring to an event in the foreclosure process wherein the house in question is auctioned to a new owner. "They don't know how long they are allowed to stay."

The issue of tenants' rights in foreclosed homes has gained prominence over the past several years as the number of foreclosures of both owner-occupied and renter-occupied properties across the country has reached historic highs.[1] While losing a home is an unnerving prospect for any type of resident, it can be particularly frustrating for renters because, historically, they have had virtually no legal recourse to avoid eventual eviction—even if, since the beginning of their leases, they have demonstrated landlord-friendly habits and made timely rent payments.

Yet thanks to a recently enacted federal law, renters nationwide now have a baseline of legal protection. The Protecting Tenants at Foreclosure Act (PTFA) of 2009 guarantees a minimum amount of time for renters to continue to reside in foreclosed single-family or multifamily homes. The provisions enumerated in the PTFA provide an added layer of security to a segment of the population that makes up approximately one-third of U.S residents.[2] Just over a million of the nation's renters live in the Ninth Federal Reserve District,[3] where nearly 40,000 mortgages were in foreclosure or seriously delinquent as of December 2011.[4]

## Protective provisions

The PTFA's provisions guarantee only base-level protections, meaning the act does not supersede state laws that may provide stronger renter security. And unless it is extended, the act will expire December 31, 2014. The PTFA guarantees the following:

1. Renters who have valid month-to-month leases may remain in their rented homes for 90 days from the date the property changes ownership—specifically, from the date when the title to the property is transferred to a new owner.

2. Renters who have valid leases (including Section 8 leases[5]) that terminate after the date when a foreclosed property's title transfers to a new owner may remain in their rented homes until the end of the lease term. For example, if a renter has a lease that ends September 30, 2012, and a new owner takes possession of the property May 1, 2012, the renter may remain in the home until September 30, 2012. The exception to this provision is when the new owner intends to move into the property. In that case, the renter may live in his or her rented home for 90 days from the date the property changes ownership. In the above example, that would be July 30, 2012.

The PTFA does not protect tenants in the following scenarios: when renters are not current on rental payments at the time their rented property is auctioned at a sheriff sale, when renters have fraudulent leases, and when renters enter into lease agreements after the sheriff sale.

## State-to-state differences

Although the guarantees of the PTFA are uniform nationwide, state foreclosure laws vary and may create confusion regarding how long tenants are allowed to remain in their rented homes. Exactly when the guarantees take effect is largely dependent on the date that the new owners receive title to the property, and that differs from state to state. For example, in Minnesota, the sheriff sale is followed by a six-month "redemption period" during which the original owners may negotiate with their mortgage-holding financial institutions to regain ownership of their homes. Transfer of title to the new owner occurs after this redemption period. In many other states, such as Montana, the title transfers at the sheriff sale and there is no such buy-back time frame.

No matter what state a foreclosed rental property is located in, it appears that a prudent course of action for tenants is to continue making timely rental payments. According to the Tenant Resource Center, a Wisconsin-based organization that offers free housing counseling, tenants should continue to pay rent to the original landlord until they receive written notice of a change in ownership. After that, tenants should make rent payments to the new owner or a receiver that is appointed in court proceedings. By continuing to pay rent, tenants will avoid the possibility of eviction on grounds that they breached their leases, and the PTFA will continue to apply to them. The Tenant Resource Center also suggests keeping written records of all rent payments.

While new owners are responsible for informing tenants of their move-out dates, tenants may wish to know more about their legal rights or the status of their rented homes throughout the foreclosure process. For a list of legal centers in the Ninth Federal Reserve District that are available to answer questions related to tenants' rights in foreclosure, see the table at the bottom of this page. cd

### TENANTS BY THE NUMBERS

Ninth District Counties with the Largest Number of Renter-Occupied Housing Units

| County | Total Housing Units | Renter-Occupied Housing Units |
|---|---|---|
| Hennepin, Minnesota | 475,913 | 169,792 |
| Ramsey, Minnesota | 202,691 | 79,243 |
| Dakota, Minnesota | 152,060 | 35,752 |
| Cass, North Dakota | 63,899 | 29,605 |
| St. Louis, Minnesota | 84,783 | 24,369 |
| Minnehaha, South Dakota | 67,028 | 23,461 |
| Anoka, Minnesota | 121,227 | 21,969 |
| Yellowstone, Montana | 60,672 | 19,143 |
| Missoula, Montana | 45,926 | 18,626 |
| La Crosse, Wisconsin | 46,137 | 16,575 |

Source: U.S. Census Bureau, 2010.

[1] According to *Foreclosure to Homelessness 2009*, a study published by the National Low Income Housing Coalition and six other housing-oriented nonprofit organizations, nearly 40 percent of families facing foreclosure are renters. For more on the study, visit www.nationalhomeless.org/advocacy/ForeclosuretoHomelessness0609.pdf.

[2] According to 2010 U.S. Census Bureau data, more than 99 million people lived in rental units. Of all occupied housing units, 34.9 percent were renter-occupied.

[3] U.S. Census Bureau, 2010.

[4] Author's calculation based on data provided by LPS (Lender Processing Services) Applied Analytics. This figure includes mortgage foreclosures and mortgages that are more than 90 days delinquent.

[5] The Section 8 housing program, which is funded by the U.S. Department of Housing and Urban Development, provides vouchers to low-income families to subsidize the rent they pay in the private rental housing market. For more information, visit http://portal.hud.gov/hudportal/HUD.

### LEGAL CENTERS IN THE NINTH DISTRICT

| Michigan | Minnesota | Montana | North Dakota | South Dakota | Wisconsin |
|---|---|---|---|---|---|
| Legal Services of Northern Michigan<br>906-228-5620<br>or 906-632-3361<br>www.lsnm.org | HOME Line<br>866-866-3546<br>www.homelinemn.org<br>or<br>Legal Aid Society<br>612-334-5970 | Montana Legal Services Association<br>888-666-6899<br>www.mtlsa.org | Legal Services of North Dakota<br>800-634-5263<br>www.legalassist.org | East River Legal Services<br>800-952-3015<br>www.erls.org | Tenant Resource Center<br>877-238-RENT<br>www.tenantresourcecenter.org |

# News and Notes

## Regulators extend deadline for requesting an independent foreclosure review


PHOTO BY PAULA WOESSNER

A foreclosed home in Robbinsdale, Minn.

AN IMPORTANT DEADLINE for borrowers who may be eligible to receive compensation for a recent mortgage foreclosure has been extended to July 31, 2012. The extension, announced by the Board of Governors of the Federal Reserve System (Board) and the Office of the Comptroller of the Currency (OCC), gives eligible borrowers whose loans were in foreclosure in 2009 or 2010 more time to request an independent, third-party review of the foreclosure processes for their loans. If deficiencies are found, the borrowers may receive compensation.

The review process was established in an April 2011 legal settlement that the Board and OCC reached with a number of companies that serviced mortgages that were in foreclosure. *Mortgage servicing* refers to the ongoing administrative work of collecting mortgage payments from borrowers and distributing the payments to investors who own the mortgages. Other servicing responsibilities may include sending payment and tax statements to borrowers, reporting on loan performance to investors, managing escrow accounts, and acting as the investors' agent to resolve problems with the mortgages, such as delinquencies or foreclosures.

The settlement reached by the regulators and the mortgage servicers only includes mortgages for which a foreclosure was initiated, pending, or completed between January 1, 2009, and December 31, 2010. The mortgages must have been serviced by one of the participating mortgage servicers during that time frame. (For a list of the participating servicers, see the table at right.) In addition, the property securing the loan must have been the borrower's primary residence. Borrowers who meet these criteria and believe that they were financially harmed during the mortgage foreclosure process must request an independent review of their respective foreclosure as the first step toward potentially receiving compensation.

After receiving a request from an eligible borrower, the mortgage servicers subject to this action are required to retain an independent consultant to review the foreclosure. The independent review is intended to determine if borrowers suffered financial harm directly resulting from errors, misrepresentations, or other deficiencies that may have occurred during the foreclosure process. Based on this review, the servicers are required to compensate borrowers for financial injury resulting from deficiencies in their foreclosure processes.

Examples of some, but not all, of the situations that may have led to financial injury are:

- The mortgage balance amount at the time of the foreclosure action was more than actually owed;
- The borrowers were doing everything required under a loan modification agreement, but the foreclosure sale still happened;
- The foreclosure action occurred while the borrowers were protected by bankruptcy;
- The borrowers requested assistance/modification, submitted complete documents on time, and were waiting for a decision when the foreclosure sale occurred;
- Fees charged or mortgage payments were inaccurately calculated, processed, or applied; and
- The foreclosure action occurred on a mortgage that was obtained before or during active military duty, or within nine months after the active duty ended and the military service member did not waive his/her rights under the Servicemembers Civil Relief Act.

Eligible borrowers who have already filed a complaint against any of these mortgage servicers regarding their 2009 or 2010 foreclosure may still seek an independent review of their foreclosure. The review is free to borrowers; that is, borrowers pay nothing to request a review, and eligible borrowers pay nothing to receive a review. Borrowers should be wary of anyone who requests a payment for assisting them in connection with the independent foreclosure review or any other foreclosure assistance program.

Information about the review process, including how to request an independent review, was mailed to potentially eligible borrowers in November and December 2011. Additional efforts are currently being made by mortgage servicers to reach out again to as many affected borrowers as possible. After an independent review request has been made, borrowers will be sent an acknowledgement letter from the review administrator within one week. Individuals will be notified in writing of the results of the review. Because the review process will be a thorough and complete examination of many details and documents, it could take several months to complete.

The Board and the OCC will monitor the independent foreclosure review process and the servicers' outreach efforts. To facilitate the review process, Rust Consulting was selected and hired by the servicers to serve as the central administrator of the independent foreclosure review and will notify borrowers, receive requests for a review, and respond to questions about the independent foreclosure review process.

Requests for review by the servicers' independent consultants must be received by **July 31, 2012**. Borrowers are encouraged to carefully consider the details of the review program to determine if they are eligible to participate. If borrowers meet the three criteria but have not received a mailing, they are urged to call 888-952-9105 weekdays from 8:00 a.m. to 10:00 p.m. (EST) and Saturdays from 8:00 a.m. to 5:00 p.m. (EST). Individuals can read more information about the review program at www.IndependentForeclosureReview.com, a web site set up by the servicers.

### MORTGAGE SERVICERS INCLUDED IN THE APRIL 2011 SETTLEMENT WITH THE FED AND OCC

| | | |
|---|---|---|
| America's Servicing Company | Countrywide | National City Mortgage |
| Aurora Loan Services | EMC Mortgage Corporation | PNC Mortgage |
| BAC Home Loans Servicing | EverBank/EverHome Mortgage Company | Sovereign Bank |
| Bank of America | Financial Freedom | SunTrust Mortgage |
| Beneficial | GMAC Mortgage | U.S. Bank |
| Chase | HFC | Wachovia Mortgage |
| Citibank | HSBC | Washington Mutual (WaMu) |
| CitiFinancial | IndyMac Mortgage Services | Wells Fargo Bank, N.A. |
| CitiMortgage | MetLife Bank | Wilshire Credit Corporation |

# News and Notes

## Create Jobs for USA Fund awards grant to Montana CDC

Montana Community Development Corporation (CDC), a community development financial institution in Missoula, Mont., has received a capital grant of more than $60,000 from the Create Jobs for USA Fund, a national campaign to support local businesses in underserved communities. The grant will be applied to Montana CDC's revolving loan fund, which supports small businesses and job creation throughout Montana.

The Create Jobs for USA Fund is a philanthropic collaboration between Starbucks and Opportunity Finance Network (OFN), a CDFI membership organization. CDFIs are specialized entities that provide lending, investments, and other financial services in economically distressed communities. The Starbucks-OFN collaboration is funded through donations collected online (at www.createjobsforUSA.org) and at nearly 7,000 company-operated Starbucks locations nationwide.

## More U.S. households face severe housing cost burdens, study finds

Nearly 1 in 4 working households in the U.S. faces a severe housing cost burden, according to a recent report from the Center for Housing Policy. *Housing Landscape 2012,* which is based on a study of U.S. Census Bureau American Community Survey data collected from 2008 to 2010, categorizes households as "severely housing cost burdened" if they spend more than 50 percent of their income on housing. The report indicates that the share of working households with severe housing cost burdens rose from a national average of 21.8 percent in 2008 to 23.6 percent in 2010—an increase attributed to a combination of falling incomes and rising rents. Among the states that lie wholly or partly in the Ninth Federal Reserve District, the share of households with severe housing cost burdens ranges from a high of 22 percent in Michigan to a low of 11 percent in North Dakota. To read the full report, visit www.nhc.org/media/files/Landscape2012.pdf.

## U.S. Treasury awards $185 million in New Markets Tax Credits to four Ninth District organizations

The U.S. Department of the Treasury (Treasury) has awarded a total of $3.6 billion in New Markets Tax Credits to 70 organizations located in 29 different states and the District of Columbia. Four of the allocations, representing $185 million of the total, will go to organizations that are headquartered in and serve portions of the Ninth Federal Reserve District.

The New Markets Tax Credit (NMTC) Program, which is administered by the Treasury's Community Development Financial Institutions Fund, promotes private-sector capital investment in underserved areas by providing federal tax credits to individual or corporate taxpayers who make qualified investments in low-income communities. To qualify for NMTCs, taxpayers must provide their investments through intermediary vehicles known as Community Development Entities, or CDEs. A CDE is a domestic, nonprofit or for-profit corporation or partnership with a primary mission of serving low- and moderate-income persons or communities. NMTCs are allocated through a competitive application process and then claimed over a seven-year period. The total credit for each allocatee equals 39 percent of the cost of investment.

The four Ninth District allocatees and their award amounts are: Capital City Properties (St. Paul Port Authority), St. Paul, Minn., $20 million; Midwest Minnesota Community Development Corporation, Detroit Lakes, Minn., $60 million; Montana Community Development Corporation, Missoula, Mont., $30 million; and National New Markets Tax Credit Fund, Inc. (Community Reinvestment Fund USA), Minneapolis, $75 million. In addition, 24 of the remaining NMTC allocations, totaling $1.37 billion, went to organizations that are headquartered outside of the Ninth District but serve states that lie wholly or partly within the District.

## Tribal college receives $18.9 million for career training initiative

United Tribes Technical College (UTTC) in Bismarck, N.D., has received an $18.9 million grant to lead a group of tribal colleges in building career development programs that meet local and regional employers' needs for highly skilled workers. The grant was awarded through the inaugural round of the Trade Adjustment Assistance Community College and Career Training Program, an initiative by the U.S. Departments of Labor and Education to support career development partnerships and programs at community and technical colleges. In its initial round, the program awarded a total of nearly $500 million to 32 institutions. UTTC was the only tribal college among the grant recipients.

The grant to UTTC will fund a three-year initiative called Tribal College Consortium for Developing Montana and North Dakota Workforce, or TCC DeMaND, that is designed to build degree programs that align with the workforce needs of local and regional employers, particularly employers in the region's booming oil industry. UTTC, in partnership with three other tribal colleges in North Dakota and Eastern Montana—Aaniih Nakoda College in Harlem, Mont.; Cankdeska Cikana Community College in Fort Totten, N.D.; and Fort Peck Community College in Poplar, Mont.—will create or enhance degree or certification programs in five targeted industries: manufacturing; architecture and construction; health science; law, public safety, corrections, and security; and transportation, distribution, and logistics. Specific new degree programs the colleges plan to create include welding, certified nurse assistant, Leadership in Energy and Environmental Design, and hazardous materials and hazardous waste operations.

# Calendar

### Reinventing Older Communities: Building Resilient Cities

**May 9–11, Philadelphia**

The fifth biennial convening of this conference will explore ways to create new economic activity and spur innovation in older cities, with a particular focus on small cities that were once manufacturing centers. Featuring keynote speaker Shaun Donovan, Secretary of the U.S. Department of Housing and Urban Development. Lead sponsor: the Federal Reserve Bank of Philadelphia.
*www.philadelphiafed.org/forms/2012/reinventing-older-communities*

### Grassroots and Groundwork Conference: Working Together to Reduce Poverty and Build Prosperity

**June 6–8, Prior Lake, Minn.**

Join forces with your colleagues from across the country to explore successful and promising models and concepts in affordable housing, job training, green enterprises, financial literacy, public policy, and more. Sponsored by the Northwest Area Foundation. *www.grassrootsandgroundwork.org*

### 2012 Montana Housing Partnership Conference: Housing Strategies in a Challenging Economy

**June 26–28, Billings, Mont.**

An opportunity to share success stories, learn from best practices, and examine common themes and solutions to housing problems.
*www.housing.mt.gov/2012housingconference.mcpx*

### 2012 Federal Reserve Bank of Cleveland Policy Summit: Housing, Human Capital, and Inequality

**June 28–29, Cleveland**

Join elected officials, researchers, practitioners, bankers, funders, and policymakers from across the Midwest to discuss the latest research on and promising practices in economic policy and development in low- and moderate-income communities.
*www.clevelandfed.org/Community_Development/events/PS2012/index.cfm*