

Consensus

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Transcript

Neighborhoods & the Foreclosure Crisis: Finding the Way Out

The foreclosure crisis has left some neighborhoods with more empty houses than occupied homes. The first wave of foreclosures, caused by unsound banking practices, was difficult enough. The danger is nowhere near over, as rising unemployment is causing a new wave of foreclosures. How can neighborhoods deal with the crisis?

The forum was held November 11, 2009, at the Plaza branch of the Kansas City Public Library in the Truman Forum auditorium. **Nick Haines**, executive producer of news and public affairs programming at KCPT Public Television, was the moderator. Panelists included:

- **Jerry Mitchell** (Ruskin Heights Homes Association),
- **Elma Warrick** (Homefree USA),
- **Michael Duffy** (Legal Aid), and
- **Paul Wenske** (Federal Reserve Bank).

The event was produced by Consensus, the nonprofit that puts the *public* in public policy.

Nick *Quoting from the Kansas City Star, "The number of foreclosed properties has spread like the real estate version of the pandemic flu." Some streets have only one or two occupied homes left. We're here to engage in a conversation about what we do about it. Have we done anything?*

Michael It depends on which part of metro area you're talking about. The rate has been declining over the last six months in the inner city. The crisis caused by subprime loans has already peaked. But the recession is causing a lot of people to lose their jobs and their homes.

Paul The epidemic of foreclosures is spreading to the suburbs, to the Northland, to Lee's Summit and Johnson County and Wichita. As the subprime foreclosures begin to subside, you will see more defaults on mortgages in higher income areas. You're going to see another wave from 2010 to 2011. It's going to affect your neighbors in the suburbs. When these foreclosures happen in a neighborhood, they affect an entire neighborhood. As property values fall, that's a loss of wealth. People lose money on their homes. What they pay on the mortgage doesn't reflect the value of the home.

- Jerry We have 1875 homes in Ruskin Heights. Of them, 315 are vacant, not including the 125 that include the “walking dead” homes, where the person has walked away and the bank has not yet foreclosed. In last three months, we’ve seen different investors lose 18 to 25 houses at the same time.
- Elma Our push at HomeFree USA is to let people know that they don’t have to lose their homes, that help is available. We see a population that is not accustomed to seeking help, who think that you have to do what you have to do to make it work, but there are organizations that have received their tax dollars to assist them.
Tomorrow, we are having a summit with Bank of America Countrywide, putting on the table every last loan we’ve put forward to them to make sure they keep their word. Lenders tell you it shouldn’t take more than 90 days to get a response, but it often takes longer. That’s unfair to the homeowner.
Once you get into a situation, and a HUD-approved agency is helping, you do have to answer your mail and phone. It doesn’t mean the foreclosure steamroller isn’t still rolling. You have to pay attention. People need to be a part of the process, not just throw up their hands and let go.
We know how to talk to lenders, know what steps to take. Frankly, if you can’t afford the house, you have to be realistic. You’ll sit down with a counselor. We’re not trying to keep people in houses they can’t afford. But we can help them get out of the house in a better manner than just walking away.
- Nick *In some neighborhoods, there are blocks with just one occupied house. How do you even begin to handle that situation?*
- Michael Municipalities are becoming more aggressive with code enforcement, to identify who is responsible for the property. So far, 2400 properties have been registered with the city, which is about a third of the total. Now the city has a local name and address that a code inspector can contact to say cut the grass or board up the window. The city is also moving to put properties into receivership. But it’s just beginning. We need to look at foreclosure process. It’s important to prevent the foreclosures to begin with, to stabilize the values. In KS, you have to go to court, and there is an arena in which the foreclosure process can mandate mediation of owner-occupied properties. Cities like Philadelphia are making progress by having mediation, which gives organizations like Elma’s the chance to come in and help. Missouri does not have a judicial system like that.
- Jerry We’ve created our own neighborhood task force.
- Nick *Have you met the absentee landlords?*
- Jerry We are just now sending out a mailing asking absentee landlords to register a local contact with us.
- Paul You have to fix up the house, mow the grass, otherwise the entire neighborhood becomes destabilized. More than 7,000 homes are vacant and many are being

stripped and vandalized. The only thing to do in some cases is demolish them. Given that, how do you stabilize neighborhoods? How do you attract people back into the neighborhood?

There's often a lack of coordination and communication on how to stabilize neighborhoods. Is it marketing to people in outlying areas? Developing places for people to shop? What will draw people back?

Jerry The neighborhood has organized and gone in to clean. The homes association has become proactive in working with the city's Community Services people to do the cleaning so we can get the image back up. We make sure the trash is cleaned off the property so when the city comes over they can mow. If there's a broken window, we call Dangerous Buildings to take care of it. We have to become proactive rather than say somebody will eventually take care of it.

Nick *Elma, what is government doing, or banking institutions doing that they weren't doing before?*

Elma HomeFree USA works to qualify homeowners under President Obama's Making Home Affordable plan. There is now a mandate by Pres.Obama's team that says lenders had until October 1 to increase the number of modifications they are providing, especially institutions that received benefits from the government.

You see in the newspapers that they must respond, but I'm not sure what that means. People were supposed to be able to get a three-month trial modification. After that, they are supposed to be able to get a permanent fix. Lenders, though, have a backlog of the trial modifications and people are not getting information. The permanent fix is getting pushed further and further out.

There is also the refinance side of the program, the sustainability side. Many people are not aware that's available. People can come to an agency like ours where we can help people get through the refinance process. In many instances, the lenders will try to push people into a modification, when people can actually get refinanced because they've never missed a payment, but their circumstances have changed and they need to get the interest rate lower.

We need lenders working together under this plan to assist homeowners. Not all the lenders participate, and one major one in Kansas City doesn't, and that lender is very difficult to work with. But we do manage to get through to them. But if a homeowner just picks up the phone and calls the lender, the homeowner will get moved around until time has run out. It's better to work through a HUD-approved organization like HomeFree.

(Audience member question about a family member's foreclosure.)

Elma There are people out there taking advantage of homeowners. Too many people feel like they've never asked for help and aren't going to ask for help because help is for "those people." They end up paying thousands of dollars to people who do nothing. It doesn't benefit the bank, but it benefits the man who charges them the money. Nobody should be paying for this help. We have skilled counselors

available to assist, but people are still paying \$500 to people who say they can make things happen. Nobody should respond to those entreaties.

Paul Whatever I say is my view and not necessarily that of the Federal Reserve.
 You brought up homebuilders. We don't necessarily need to build a lot more new homes. We have a surplus of homes built when interest rates dropped in 2004, 2005. It used to be that starter homes were \$60,000, then they were \$230-\$250,000 homes.
 We moved people out of the city and lost the density in the urban core. How do we bring people back to these areas, when at the same time we have empty houses foreclosed upon in the suburbs? When I read that housing starts are up, I think maybe that's good for someone who wants to live in Stilwell, but it's not necessarily good for people who want to build a neighborhood in Independence or Grandview or Ruskin Heights.
 It does appear that we're bottoming out on home values. Housing sales of existing homes are beginning to rise, and people are going around looking for the foreclosed homes. A large number of lenders are posting their bank-owned homes on websites, working with cities to sell these homes. That's a good thing. They are trying to move these houses much more quickly. We're looking for a balance, where banks and lenders replenish their supply. When consumers get more confident, we'll see things get better.

Question: I'm a retired real estate appraiser and an investor in the urban core of KC. I think the real solution is jobs, making sure we have a diversified jobs base so people have money. And I'm tired of hearing the landlords get beat up. Landlords would be willing to come in and buy some of these properties and rent them out, rather than having a vacant lot. The banks have got to give up some of these reserves and put them out into the public – they should be made to do it.

Michael I agree with you on landlords. We need investors coming in. I had lunch last week with the president of a metro area investors association. I asked what it would take to get investors back into the city. She said too many had suffered huge losses and he said they were going to stay out rather than put their money on the line. We need to bring those investors back in. We can't give landlords a free ride, though. If the landlords or owners aren't taking care of the houses, it brings values down.
 When it comes to banks, the inner-city neighborhoods have never had access to conventional lenders. Subprime lenders had a great opportunity because otherwise nobody would make the loans. Those neighborhoods were redlined, and that destroyed a lot of neighborhoods. Now we have to get banks into the inner city when they haven't been there for decades.

Paul My department does that. Community Affairs at the Fed was created to support the implementation of the Community Reinvestment Act, which encourages banks to reinvest in their communities. The Fed and other groups work with the banks and the community to address the needs of underserved populations. We just went through a pretty terrible year. We do have to get to a point where local

banks can reinvest more in the local community once again. We're with you on that. It's a long process but it's a do-able process.

Elma When investors plunder neighborhoods, including Ruskin Heights and Hickman Mills... There might be good people with good intentions who came into these neighborhoods to provide affordable housing, but that is not the whole case. We have a lot of vacant properties that should not be there because of irresponsible investors, people who wanted to make a quick buck because they thought they could. It was, go buy some property and then we can get renters. They intended to gain on the backs of people who could least afford it. There are many who did that in neighborhoods. Good landlords didn't get ripped off; bad investors ripped off neighborhoods.

Jerry We like good investors but our problem has been investors who buy a home for \$15,000 then use government-subsidized rental programs, and now the home is selling for \$95,000 or more, which is more than what the property is worth.
We want investors to come in and take care of their properties. We are not against investors – we've had good ones – but we're in the fourth cycle with a certain breed of investors who are looking for the almighty dollar that comes from the government. It's a good tax write-off. I've worked with a senior citizen, she and her husband had lived in Ruskin 38 years. They had to borrow money against the house. When I helped her contact the mortgage lender, we found she had signed away their homestead rights. We are a homestead state. Her home just sold for \$25,000 and the lender wouldn't work with her.

Question: These are real-live people, moms and dads with kids. We need to do a better job of painting that picture. All these foreclosed houses in your neighborhood, where do they go when they have to leave?

Jerry They're living with grandma, grandpa, an aunt or an uncle. If a child is in a Hickman Mills school district and has to sleep on Grandma's sofa in Raytown, the school district has to pay to bring the student back to Hickman Mills. We paid \$400,000 last year for taxi cabs and other transportation to bring them back. It's hurting schools and businesses. Why would you want to have a business in Hickman Mills when we have all these foreclosed properties? It's a vicious cycle.

Nick *The public perception is that these are deadbeats who don't pay their bills.*

Elma It's absolutely scandalous the number of people who believe that. The majority of people who ended up in bad loans just wanted to own a home. They didn't understand. Let's be fair. People who were first-time homeowners were told, here's how you can afford a home. Nobody said you should do homebuyer education before you own the home. It's what we've been promoting for years for first-time and even second-time buyers. The Neighborhood Stabilization Project requires eight hours of homebuyer education.

Question: Are we worse than some other cities? Is there something happening in the business cycle?

Michael I don't think that Kansas City, despite recent headlines, is nearly the worst in the country. Many are significantly worse. We're about in the middle. We're challenged more than some cities like San Antonio because we have an older housing stock. When an investor comes in, they're dealing with a worn-out house. The home values have been quite a bit lower than the national average. We now have the problem in many areas, not because of crime but because of low values, where many houses have a zero value, even when it's a decent house.

Elma The perception is that the problem is crime in the inner city, when in fact crime follows unemployment citywide. It's not going to be just concentrated in the inner city. Unemployment is pervasive. Urban core dwellers, the people with the least education and skills, will find their unemployment rate at 30 or 40 percent. Deprived of the ability to provide for themselves, they will resort to inappropriateness. But it will happen in other areas, too.

Jerry We suffered more than others when the Bannister Mall closed. We lost jobs. The homeowners started losing their jobs, and it brought the some of the foreclosures. Then we had problems with some of the investors. But my mother lives in Lee's Summit and she's had more stolen from her yard lately than I have in 30-some years in Ruskin. The problem has been not enough jobs. We thought we were going to get the Wizards there, and now it's going to Kansas. We need more jobs and more steady jobs.

Michael Just to be contrary, I'm going to say that it's not jobs. Most of the time when a family gets a good job, they don't buy in an urban neighborhood with one decent house on the block. As a cause, I'm going to point at the schools. I ask real estate agents, and they say if the school district were a little bit better we would have homebuyers.

Question: Should homeownership remain such a big part of the American dream?

Paul Many of us started out renting a home. A lot of people rent a home for awhile, and then buying a home becomes an investment. Houses do appreciate in value and it's one way to hold onto your money. But there was one thing that happened in the last down cycle, and it's that people were encouraged to buy more home than they could afford. They were *sold* the American Dream; they weren't *given* the American Dream. A lot of people were impractical about the way they bought houses. They may have had a lender telling them they could afford this house. It's a question of morality in how we went about selling homes.

In terms of what cities can do... A number of cities are buying up abandoned houses and landbanking these properties. Kansas City officials are thinking less about land banking than about working with nonprofit organizations that can buy and rehab the houses and market the houses to new owners.

How we get people to come back to the city, a lot of it comes down to marketing. How do you do that, address problems with the schools or crime or the lack of jobs or lack of small businesses or shops? If you live in Overland Park you have Lowe's and Home Depot, and you don't have necessarily those choices in the urban core. We need to work a little bit more with reviving the neighborhood and marketing to people who might buy houses, maybe do a little homesteading. There's a lot of changing perceptions of how people look at buying a house or how they look at living in the urban core that needs to happen.

Michael Some people are pushing land banks, but that's not a good solution in this market. We have a land bank and it's done by loan servicers. They should be maintaining the properties and there's no reason for city to do it.

Question: How do we make sure this doesn't happen again?

Paul When we talk about AIG and other alternative lenders, they didn't have to comply with regulations like the Community Reinvestment Act. We deregulated lending so anyone could do it. People advertised that they could lend 125% on their home, which was ridiculous. We had Ameriquest, a company in California, a boiler room where young people were timed on the number of loans they could sell over the phone. It wasn't the community banks doing this. Some mortgage bankers, James Nutter for example, never made a subprime loan. And they lent to people in the urban core and none was foreclosed upon due to subprime loans. A lot of the alternative lenders are now out of business?

Michael CitiFinancial was the leading investment bank that lobbied congress to repeal the Glass-Steagall Act. They got into the market. Glass-Steagall should be reinstated and CitiFinancial should be removed from our neighborhoods.

Jerry Our largest investor, the one that lost 63 properties, was all financed with Columbia Bank in Johnson County. They were letting him borrow too much money again the properties. That was a local bank that got into trouble because of its own practices. We're dealing with 18 foreclosed properties just in our neighborhood alone. It's a mess.

We have three properties from one investor. We've worked with Legal Aid, and one bank said we don't own it and it's not our responsibility. We still have some banks that won't take responsibility for their properties.

Elma I want to ask the public to hold their elected officials responsible. We're not getting the service we need, like the recent monies allocated, you could get money here if you bought a foreclosed home. Eighty percent of that government money went to St. Louis. You have to be involved, you have to hold people accountable.

Nick *Kudos to you in the audience for coming out tonight. You made it a fabulous night for us.*

See below for links to useful information on foreclosure. Thanks to KCPT for providing this information.

Foreclosure

United Way 2-1-1 | <http://www.unitedwaygkc.org/>

If you are behind on your mortgage or facing foreclosure on your home, there is a number you need to know. Just call 2-1-1 in the Kansas City Metro area.

United Way, Kansas City | <http://www.unitedwaygkchelps.org/>

Enter your zip code, income and dependent information and find out what benefits and public assistance you are entitled to. A free service of United Way, Kansas City

Illegal foreclosure | <http://www.illegalforeclosures.com>

Gives information and education about foreclosure. Gives you your rights in regarding foreclosure as well.

Kansas City Foreclosure Help | <http://www.kcforeclosurehelp.org>

A local website that provides local resources and names of federally-funded foreclosure counseling agencies that can provide free counseling information for persons facing foreclosure

Fight foreclosure | <http://www.fightforeclosurefast.com>

A quick and useful page of tips on how to fight foreclosure and what you should and should not do.

Home Free USA | www.homefreeusa.org

Free homebuyer help and foreclosure prevention counselor. HUD approved.