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Regional Resilience in the Face of Foreclosures: Evidence from Six Metropolitan Areas

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May 27, 2009

UNIVERSITY OF CALIFORNIA

Regional Resilience in the Face of Foreclosures: Evidence from Six Metropolitan Areas

By

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A Report Prepared for the MacArthur Foundation's Building Resilient Regions Project
Working Paper 2009-05

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Table of Contents

Page

Introduction 2

The Concept of Regional Resilience 3

Resilience in Weak Market Regions: Cleveland and St. Louis 6

Resilience in Traditionally Strong Market Regions: The Inland Empire and the East Bay 21

Resilience in Mixed-Market Regions: Chicago and Atlanta 37

Conclusion: The Vertical and Horizontal Dimensions of Regional Resilience 46

"Every ten seconds, another American family loses their home." (Pico National Network 2008).

Because surging foreclosures have been a major cause of a larger economic recession, much of the national conversation around foreclosures has been about their macroeconomic effects and impacts on the broader financial and real estate economies. But foreclosures also have local effects, leaving behind devastated households, disrupted communities, distressed municipalities, and damaged regions. In the absence of federal and state policies, local actors have stepped in to try to deal with the challenge of spreading foreclosures. Little systematic research has been conducted on metropolitan responses to the foreclosure threat. Our research is based on dozens of interviews conducted in 2008 in six metropolitan areas.

In this paper we examine the response to foreclosures in six metropolitan areas: St. Louis, Cleveland, East Bay (CA), Riverside, Chicago and Atlanta. The first two are classic weak market metro areas, the second two are traditionally strong market metros, and the last two might be called "mixed-market" metros. One of the basic lessons of our research is that the differences between traditionally strong and weak market metropolitan areas must be taken into account when designing policy responses at the local, state, and federal level.

Preventing foreclosures is easier in weak market regions than in traditionally strong market regions. In weak markets, borrowers often need relatively small amounts of money to come current on their mortgages and the problem of negative equity is not so severe because the housing bubble was less inflated than in traditionally strong market regions. In traditionally strong markets, where home values have often dropped far from overheated levels, prevention is more difficult because borrowers face much larger debt loads and often owe much more on their mortgage than the house is worth. [1] Moreover, borrowers in traditionally strong markets – especially those experiencing rapid appreciation during the 2002-2006 high-risk lending boom – were significantly more likely to receive junior mortgages than those in other markets. Junior loans can severely complicate the loan modification process by involving two different lenders who may have competing or conflicting interests. In California in 2006, for example, more than 37 percent of homebuyers received a junior, or "piggyback," mortgage when they purchased their homes, compared to a national rate of 24 percent (Fishbein, 2006).

The situation is just the reverse for neighborhood recovery, which is generally going to be easier in strong market regions than weak market regions. In traditionally strong market regions, market demand is more likely to soak up foreclosed properties and bring them back on the market, though recovery may be slow in some markets. In weak markets, foreclosed homes are more likely to lie vacant and abandoned indefinitely, spreading blight to neighboring properties. Weak markets also exist *within* metro areas. For example, both the Cleveland and St. Louis metropolitan areas are characterized by strong demand for housing on the urban fringe linked to weak demand in the urban core leading to large numbers of vacant and abandoned units. Both Cleveland and St. Louis rank in the top ten of metropolitan areas in the ratio of building permits for new units of housing relative to growth of new

households (Bier & Post 2005: 185). With new housing construction, mostly on the suburban fringe, exceeding the growth of new households within the region, housing abandonment in the urban core areas is inevitable, making neighborhood recovery after foreclosures more challenging. Similarly, exurban areas with long commute times may find it more difficult to absorb foreclosed properties in the housing market (Immergluck 2009).

After controlling for the strength of housing markets, metropolitan resilience – or the ability to organize a response in the face of the foreclosure crisis – varied significantly. Within each of the three pairs of metropolitan areas we studied, the challenges posed by rising foreclosures are similar but the responses are different. The capacity of metropolitan areas to devise and implement sophisticated foreclosure prevention and recovery strategies varies across metropolitan areas. State and federal policy makers need to think about how to address the large capacity gaps across regions.

The foreclosure challenge also varies within, as well as across, metropolitan areas. Central cities in weak market regions have faced the problem of foreclosures and abandonment for decades. The current foreclosure crisis is not confined to central cities, however, often hitting outlying suburbs hard, especially in some of the metros that grew rapidly during the early 2000s. One of the central questions of our research is whether outlying suburban areas have the civic infrastructure (housing nonprofits, social service agencies, municipal housing planners, etc.) to deal with the foreclosure challenge. We found that the capacity to respond to foreclosures varies significantly within metropolitan areas and that this has implications for local, state, and federal policies.

Our broad conclusion is that effective metropolitan responses to foreclosures require local relations of trust and collaboration across public, private, and nonprofit actors supported by strong state, federal, and private sector policies. Local actors cannot adequately address the crisis on their own. They need the right kind of policies by higher level actors to support metropolitan resilience. Likewise, federal policy will not be effective if local actors do not have the capacity to organize their response.

Our findings have implications for designing federal and state policies. The Obama Administration has committed $275 billion to foreclosure prevention, along with another $2 billion (in addition to the $3.92 billion Neighborhood Stabilization Program) for neighborhood recovery efforts after foreclosures. Properly aligned with local actors, these policies can still make a difference by keeping people in their homes and minimizing damage to the surrounding neighborhood if they are forced to leave. [2]

The Concept of Regional Resilience

Resilience is the ability of a system (region, government, nonprofit, company, or individual) to bounce back from an external stressor or challenge and recover healthy functioning. [3] The concept of resilience has been developed in many different fields, including engineering, psychology, and ecology. The engineering concept of resilience is the ability of a system to return to equilibrium after a disturbance, for example, when a thermostat returns a room to 70 degrees after a cold wave. We draw mostly from the ecological concept of resilience which is based on the idea of multiple equilibria. In the

face of a stress or challenge, a system can change its structure and function, creating a new system. In the face of the foreclosure challenge, for example, resilient regions do not just return to the *status quo ante* but reinvent themselves with new relationships that are more likely to support healthy functioning housing markets.

At present, resilience is more than a metaphor but less than a theory. In order to be a full-fledged theory, resilience would need hypotheses which could be tested. We do not test hypotheses here, although the literature has developed a number of hypotheses about resilience. [4] We use the concept of resilience to focus our case studies on the processes by which regions adapt to the foreclosure challenge, identifying some of the barriers and supports of resilient processes. Evidence of resilience is the ability of regions and the organizations within them to respond to a challenge by:

1) redeploying assets or expanding organizational repertoires;

2) collaborating within and across public, private, and nonprofit sectors;

3) mobilizing or capturing resources from external sources.

It is important to understand that resilience is not the same as success. A region could be very resilient yet have a large number of foreclosures – for the simple reason that the region faces a very high rate of subprime and predatory lending. Likewise, it may not be recovering quickly despite new collaborations and resources. We assume that regions that are more resilient will be more "successful" over the long run, but here we do not evaluate the outcomes of resilience. We do not estimate how much resilient processes have reduced foreclosures or prevented foreclosure spillovers.

Resilience is an inherently normative concept. It is always a question of resilience toward what or for whom? Subprime lenders, for example, were quite resilient in inventing new mortgage products to take advantage of vulnerable homeowners. Here, the type of resilience we focus on is action aimed at maintaining stable neighborhoods with a balance of supply and demand and minimal involuntary displacement. In the paper we do not evaluate the relationship between resilient processes and neighborhood stability. Also, we examine the resilience of places, not the resilience of households. [5]

Resilience encourages researchers to think of regions as composed of complex interlinked processes with powerful feedback effects that must be fully understood for effective policy interventions. Following the logic of ecological theory, resilience cannot be simply engineered into a region by linear, top down interventions based on simple cause and effect. We think of regions as complex systems involving interactions among public, private, and nonprofit actors. The difference between ecological resilience and regional resilience is that regions are not natural; they are man-made. A forest cannot change the laws of nature, but a region can lobby state and federal governments to change the laws that govern regional housing markets. The powerful impact of state and federal laws on metropolitan resilience is a major theme of our research.

The ability of a region to be resilient is shaped by its "opportunity space," the economic, legal, and institutional conditions that expand or constrict the opportunities for actors to be resilient. The best

example is the state laws that structure the foreclosure process. States with non-judicial foreclosure processes reduce the time from notice to the borrower to sheriff's sale, restricting the time that households and foreclosure counselors have to prevent foreclosure by raising funds or modifying the mortgage. [6]

Figure 1. The Regional Resilience Model

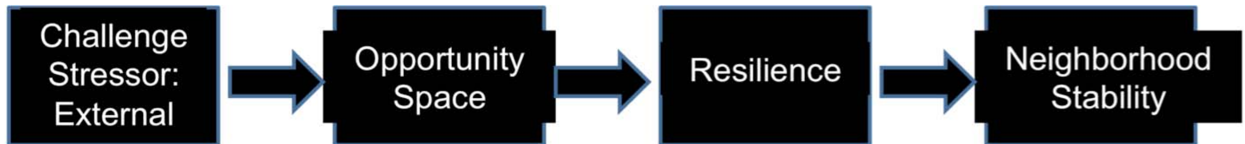


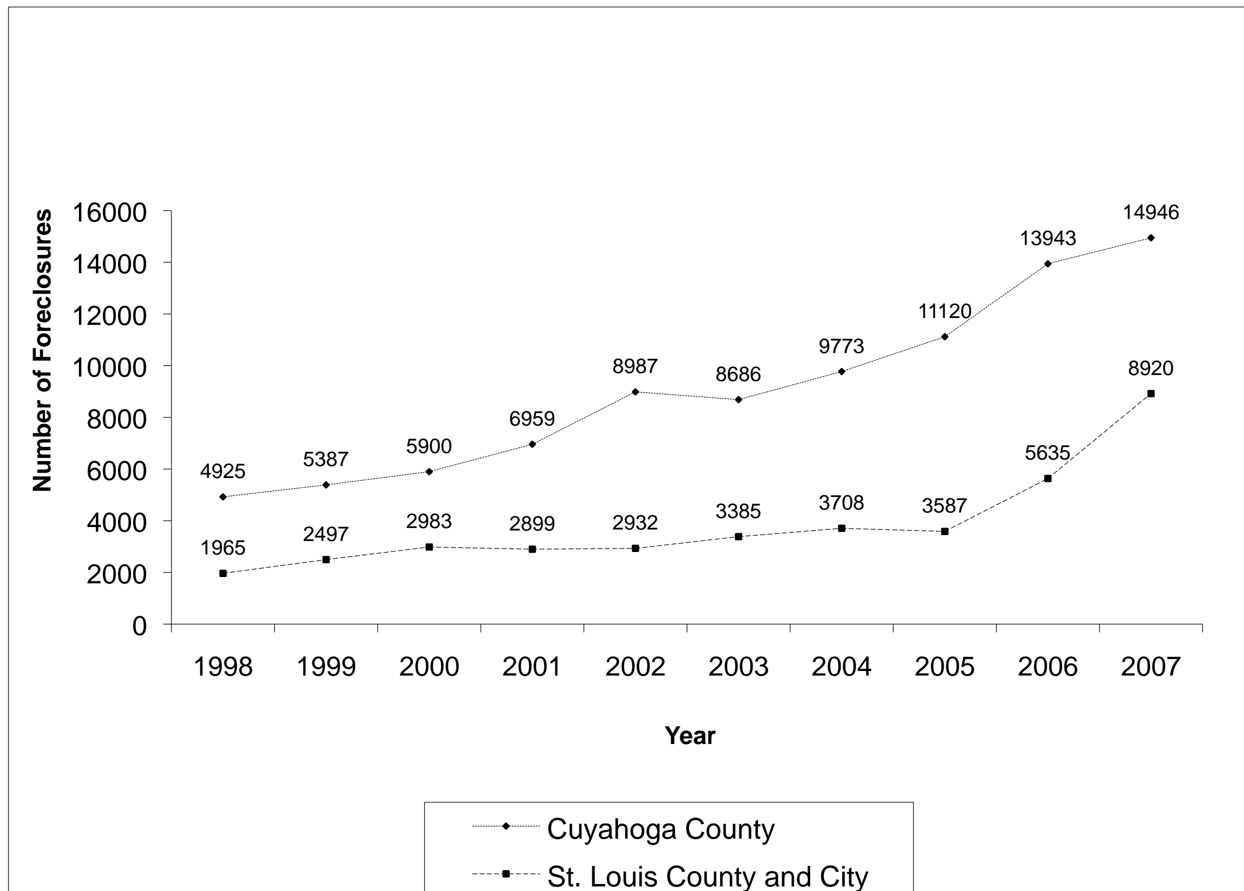
Figure 1 outlines the model of resilience we follow. First we examine the extent of the challenge facing each region. We have attempted to control for the strength of regional housing markets by comparing levels of resilience in three pairs of regions facing similar challenges (St. Louis/Cleveland, East Bay/Riverside, and Chicago/Atlanta). After documenting the challenge, we next analyze the opportunity space in each region. Finally, we examine the processes of resilience in each region, or the choices that organizations and leaders have made to prevent foreclosures or reduce their negative spillovers. Comparing the regions with common challenges and controlling for the different opportunity spaces, we try to explain why some regions are more resilient than others.

Resilience in Weak Market Regions: Cleveland and St. Louis

The Challenge

As Figure 2 shows, Cleveland and St. Louis each have faced a daunting number of foreclosures. Cleveland clearly has a more difficult challenge. Normalized for population, Cleveland has even higher rate than St. Louis since its population is somewhat smaller than the combined populations of St. Louis City and St. Louis County. [7] According to RealtyTrac, for 2008 the Cleveland metro area ranked 24th in the nation and St. Louis ranked 45th (http://www.realtytrac.com/).

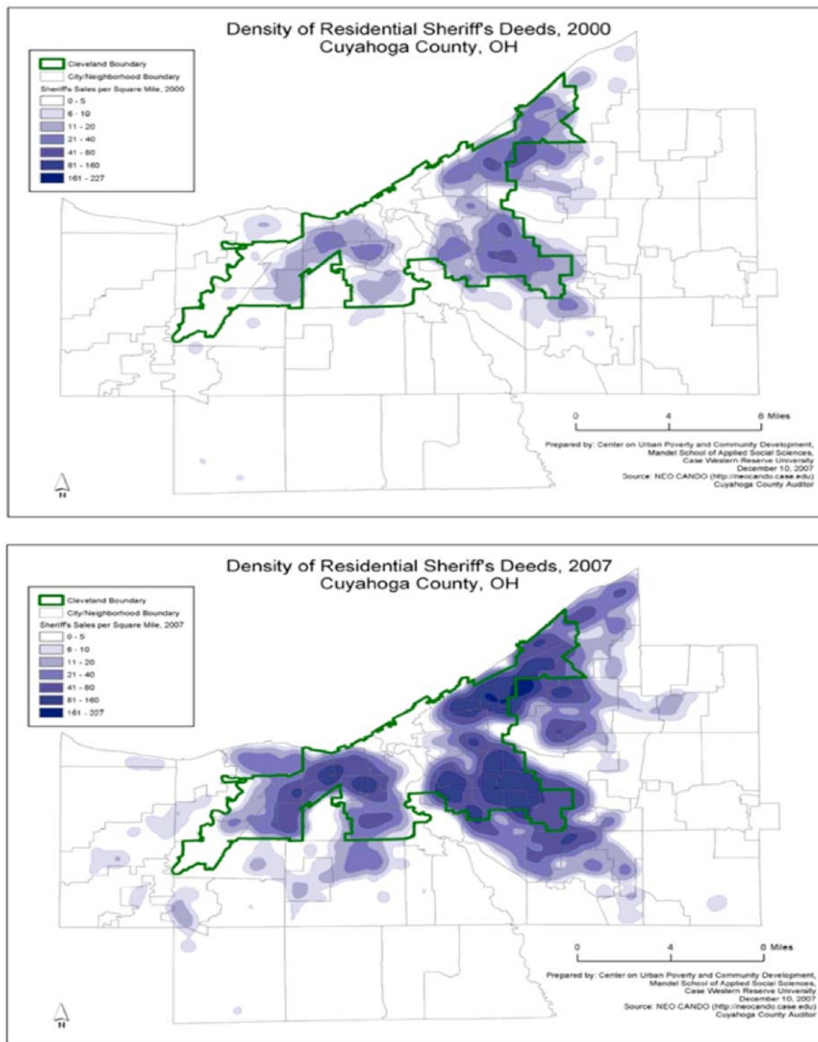
Figure 2. Number of Foreclosures: Cuyahoga County and St. Louis County and City, 1998-2007



Source: For St. Louis data was provided by Will Winter, Public Policy Research Center, University of Missouri – St. Louis; for Cleveland the data was provided by NEO CANDO at the Center on Urban Poverty and Community Development, Case Western Reserve University.

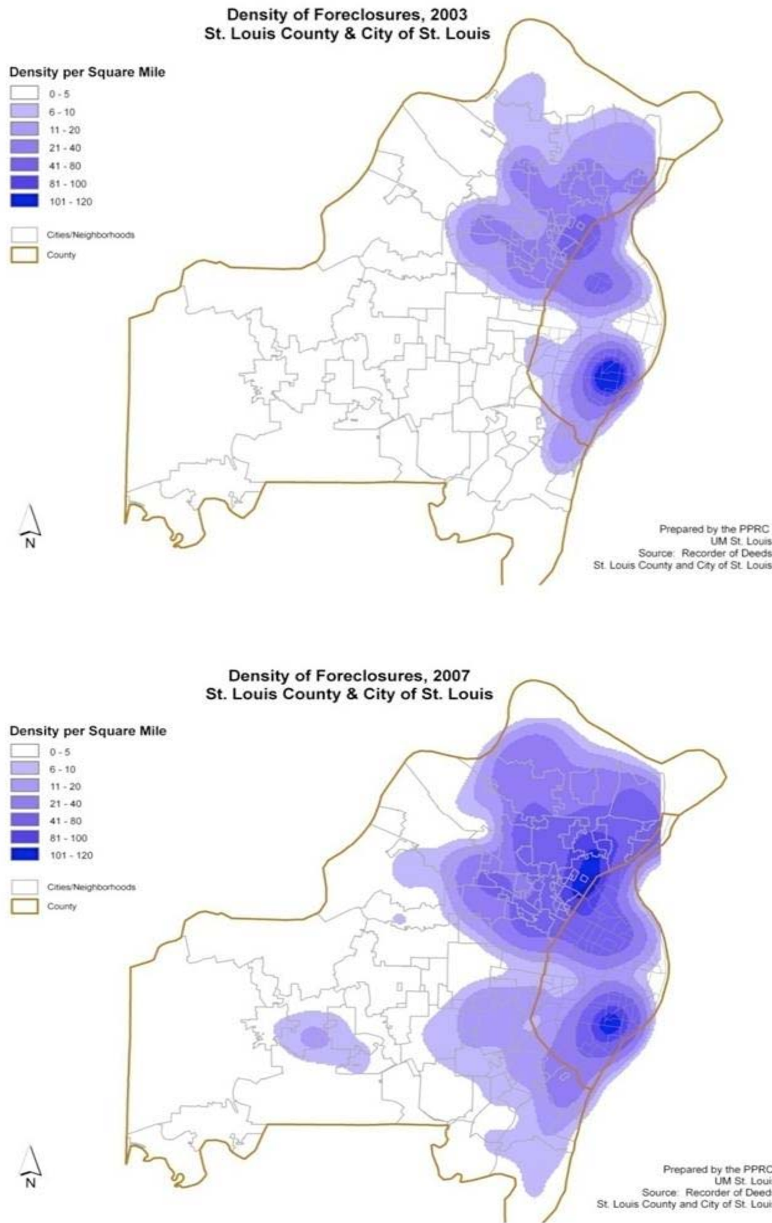
In both metropolitan areas foreclosures have spread from the inner cities out to the suburbs. In Cleveland the hardest-hit areas are still in the city but suburbs like East Cleveland, Garfield Heights, Parma, and Lakewood are experiencing large numbers of foreclosures (Figure 3). Outside of Cuyahoga County, Lorain and Lake counties have also been hard hit (Appendix Figure 1). The greater St. Louis region (especially Jefferson, St. Clair, and Madison counties) is also experiencing high foreclosure rates (Appendix Figure 2). In St. Louis, proper foreclosures have spread out from epicenters in the south and north sides of the city to the suburbs, especially the smaller, largely African-American suburbs of North St. Louis County (Figure 4). The important thing to note about the foreclosure heat maps is that there are large swaths of these core counties that are not directly affected by foreclosures. The outer-ring, well-to-do suburbs are largely immune to the negative property value effects of foreclosures. This makes broad coalition building for housing policies and initiatives to address foreclosures more difficult.

Figure 3. Foreclosure Heat Maps: Cuyahoga County, OH, 2000 and 2007



Source: NEO CANDO (http//neocando.case.edu/), Cuyahoga County Auditor; Prepared by the Center on Urban Poverty and Community Development, Mandel School of Applied Social Sciences, Case Western Reserve.

Figure 4. Foreclosure Heat Maps: St. Louis City and County, MO, 2003 and 2007



Source: Recorder of Deeds, St. Louis County and City of St. Louis; Prepared by the Public Policy Research Center, University of Missouri – St. Louis.

The Opportunity Space: State Laws

The foreclosure process is controlled by state laws. Some states have a judicial process in which foreclosures take place in the public sector administered by state courts. Other states have a non-judicial process which takes place in the private sector according to the terms of the mortgage but with various public notifications required. Ohio is a judicial state and has one of the slowest foreclosure processes in the nation, with a timeline that takes 192 days from foreclosure referral to sale (Cutts and

Merrill 2008: App. Table A1).[8] The slow process provides more time for foreclosure prevention but it restricts the ability to lessen the impact of foreclosures. When the property is not valuable enough holders of the mortgage may even walk away. Houses end up with "toxic titles" that make it impossible to market the property except by judicial sale at taxpayers' expense. Left in this legal limbo, properties become vacant and abandoned. They are often subject to vandalism and stripped of everything valuable. The Ohio foreclosure process thus restricts the opportunity space for neighborhood recovery in the face of foreclosures.

In contrast to Ohio, Missouri foreclosure law restricts the opportunity space for foreclosure prevention. Missouri has one of the fastest foreclosure processes in the nation, tying with four other states in the nation for 5th fastest, with a minimum timeline of 38 days from first referral to foreclosure sale (Cutts and Merrill 2008). The foreclosure process can begin when homeowners are just 10 days late with their payments. Lenders do not need to file a lawsuit to foreclose; they are required to simply send a certified letter and publish notices of the sale in a newspaper published in the county where the home is located. In practice, the process averages about 60 days. By the time a homeowner seeks help, he or she may have little time to try to raise funds or modify the mortgage. By contrast, Illinois, where part of the St. Louis metropolitan area is located, has a judicial process that is one of the longest in the nation at 265 days from referral to foreclosure sale (Cutts and Merrill 2008). Probably because of this slower process, the foreclosure rate on the Illinois side of the metropolitan area is lower than on the Missouri side.

In other ways the state of Ohio has acted to enhance local resilience in the face of foreclosures. The PEW (2008) study of the states ranks Ohio high because it has regulations on high-cost lending, a foreclosure intervention law, consumer law requiring mortgage brokers to represent the interests of borrowers, a statewide consumer education hotline and education campaign, and a statewide foreclosure task force. All of these laws help local actors to prevent foreclosures and in some cases help them to alleviate spillovers from foreclosures. By contrast, the PEW study ranks Missouri low, with only a 2007 Foreclosure Rescue Fraud bill to its credit. A study by the Minneapolis Federal Reserve gives Ohio 13 points (out of a possible 16) on mortgage broker regulation, while Missouri gets only 4 points (Pahl 2007).

Opportunity Space: Institutions and Collaborations

Strong public, private, and nonprofit institutions with a history of collaboration around housing increase the opportunity space, or the capacity, for foreclosure prevention and especially for putting foreclosed properties back on the market. Prevention requires collaboration between governments, that can supply the resources, and nonprofits, that can supply the experience in counseling and the grassroots networks to reach out to troubled homeowners. It goes without saying that strong city governments with professional staff will have an advantage in planning and executing a neighborhood recovery strategy. We found that cities without CDBG entitlement status usually lacked the staff to devise either a prevention or recovery strategy. Also, effective neighborhood recovery requires targeting resources and fragmented suburban governments or ward-based central city politics can make that difficult – resulting in the "peanut butter" approach that spreads the money around with little

effect on markets. In short, regions confront the foreclosure crisis with a pre-existing array of institutions and institutional collaborations that can enhance or hinder their resilience.

The public sectors in both Cleveland and St. Louis are quite fragmented. St. Louis is usually ranks right behind Pittsburgh in the number of general-purpose governments per 100,000 residents and Cleveland has hundreds of municipal governments. St. Louis is further burdened by the fact that the city is its own separate county. As one person interviewed put it: "Everything in St. Louis has to be done twice: once in the city and once in the county." Both central cities have among the highest rates of abandoned properties in the nation (Mallach, 2006). They have a great deal of experience dealing with vacant and abandoned properties but they are also both fiscally stressed. The suburbs do not have a long history of dealing with neighborhood recovery issues. The First Suburbs Consortium, consisting of 17 mature suburbs in Cuyahoga County with a history of working together on urban issues, gives Cuyahoga County an advantage in dealing with foreclosures.

County governments often fill the vacuum in municipal housing planning expertise in suburban settings. Cuyahoga County is a key actor with a relatively strong fiscal base, but it is extremely fragmented. Lacking a unitary executive it is led by three County Commissioners elected at –large. In addition, there are eight separately elected offices in the County, creating eight separate fiefdoms not under the authority of the Commissioners. According to a Cleveland State University report, there are eleven separate agencies involved in some aspect of the foreclosure process (Weinstein, Hexter & Schnoke, 2008). The capacity of Cuyahoga County has been significantly enhanced by its collaborations with Case Western Reserve and Cleveland State. In short, Cuyahoga County has resources but it is highly fragmented making a coordinated response to foreclosures more difficult.

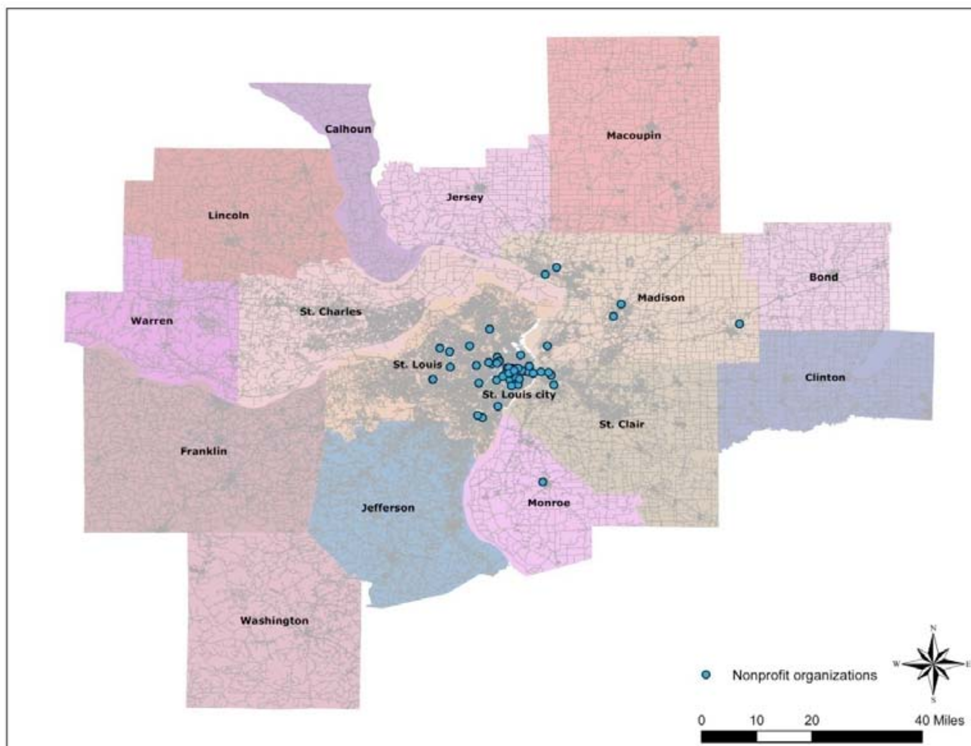
By contrast, St. Louis County has a unitary executive elected at-large and a seven-member County Council elected from rather large districts. The Planning Department has considerable expertise and is working with the University of Missouri – St. Louis to plan the Neighborhood Stabilization Program. The Community Development Department runs the block grant which it distributes to 55 municipalities. Political pressures to spread the funds are great but about one-third of the county is unincorporated and the County has more control in those areas.

The nonprofit housing sector in Cleveland is one of the most well-developed and sophisticated in the nation. The foundations, in particular Gund and Cleveland, have invested a great deal of funding in developing community-based housing nonprofits with the ability to produce housing and engage in neighborhood planning (Lowe 2006). A significant proportion of this funding has gone into staff and organizational development. There are about 50 CDCs in the area, with most of them receiving federal CDBG funds through the City and County. Neighborhood Progress, Inc. is a regional intermediary that funnels foundation funding to the CDCs. NPI has concentrated funding on 14 CDCs that are the most organizationally and technically sophisticated. In the past NPI rewarded CDCs which demonstrated an ability to do bricks and mortar development. It shifted recently to a market recovery strategy, funding six CDCs that have a strategy to make their neighborhoods "regionally competitive neighborhoods of choice." This has been controversial because it potentially deprives more needy neighborhoods of funds but it demonstrates an ability to devise and implement a neighborhood stabilization strategy.

The housing nonprofit sector in St. Louis is less well developed. According to a 2003 study of the civic infrastructure for community development, St. Louis lacks a "robust network of CDCs"; unlike Cleveland, where both Enterprise and LISC operate, no major national community development organizations have a significant presence in St. Louis (Bogart 2003). Partly as a result, St. Louis raised about one-third of the capital that Cleveland raised for community development and affordable housing (Bogart 2003). St. Louis does have low-income and historic tax credit programs at the state level that provide significant subsidies for housing but these programs have not created a strong network of CDCs. Housing and community development in St. Louis tends to be dominated by the public sector. The Enterprise Foundation does provide substantial funding for the Regional Housing Community Development Association (RHCDA) which provides financial assistance on affordable housing projects, primarily in the city. The largest community foundation, Danforth, has mostly pulled out of community development and now primarily specializes in biotech and other regional economic development initiatives.

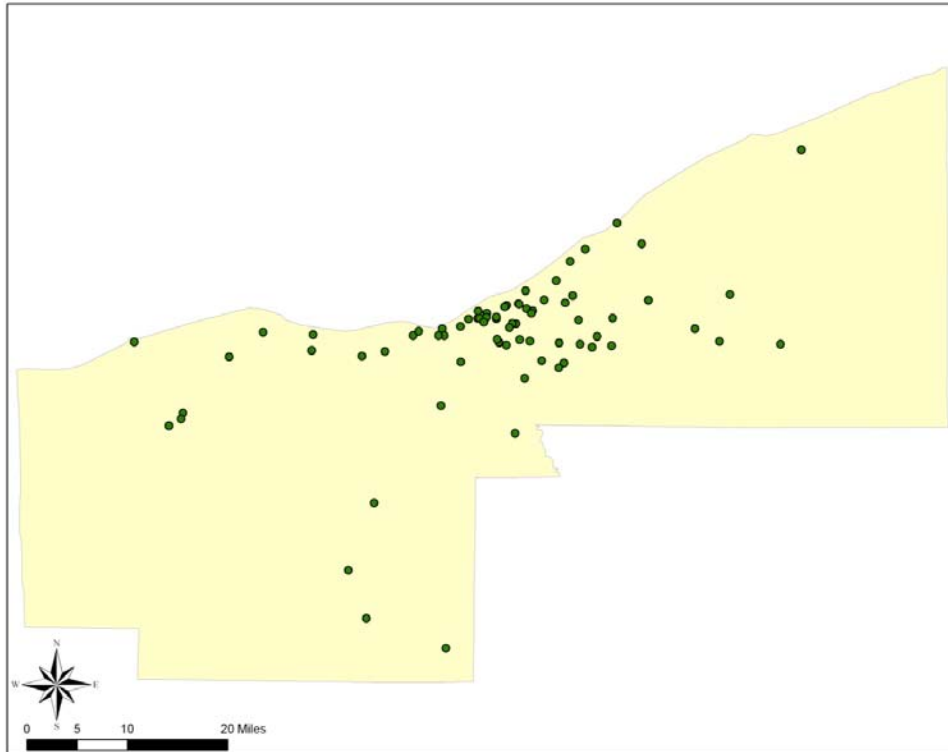
To sum up, the strong CDCs and intermediary organizations, like NPI, and the history of collaboration increase the opportunity space for responding to foreclosures in Cleveland. St. Louis has weaker CDCs, and less history of close collaboration between housing nonprofits and governments. This restricts the opportunity space. Finally, as Figures 5 and demonstrate, in both metropolitan areas housing nonprofits are spatially concentrated in the city and are much less present in the suburbs. Thus, the opportunity space for responding to foreclosures in the suburbs is more restricted.

Figure 5. Housing Nonprofits in the St. Louis, MO-IL, Metropolitan Area, 2004



Source: Data from National Center for Charitable Statistics, mapped by the authors.

Figure 6. Housing Nonprofits in Cuyahoga County, OH, 2004.



Source: Data from National Center for Charitable Statistics, mapped by the authors.

Foreclosure Prevention in Cleveland

Being closest to the problem, the housing nonprofits were the first to become aware of the foreclosure issue. Kermit Lind calls Cleveland CDCs the "canary in the mine" (Lind 2008: 240). The East Side Organizing Project (ESOP) found out about the issue as early as 1999 when they had a meeting of parents to deal with school issues in the Union Miles neighborhood and learned that many families had left – forced out by foreclosures.9 From the late 1990s until 2005, according to a number of interviews, the housing nonprofits sounded the alarm on rising foreclosures, but the issue failed to capture the attention of policy elites in the Cleveland metropolitan area.

In 2005 things changed when the issue of foreclosed and vacant properties began to hit inner-ring suburbs hard. As Figure 2 shows, foreclosures increased by over 300 percent between 1998 and 2007. In 2007 Cuyahoga County ranked #1 in Ohio in the rate of foreclosure filings per 1,000 population (Schiller and Hirsh 2008). As we noted earlier, Ohio has one of the slowest foreclosure processes in the nation. The mortgage holder must sue the borrower and the process has a number of stages before it reaches a sheriff's sale. Besides the requirements of the legal process, in Cuyahoga County there were a number of other problems, including lack of coordination among the eleven different County agencies involved in the process and inadequate technology. (One agency was still typing forms in triplicate while other agencies had computerized their recordkeeping). After receiving threatening notices, many homeowners simply left, thinking they had given up all rights to the property. But as the owner of

record, they are still responsible and if nobody cuts the grass, they can be charged for that by local governments. Frequently, thieves strip the property of copper piping and other valuables. Sometimes the holders of the mortgage do not think it is worthwhile to proceed with the foreclosure. Abandonment of property liens means that the title is toxic and the property cannot be bought or sold except by a judicial sale at public expense.

As Figure 3 shows, the foreclosure challenge was greatest in the black areas of the east side of the City of Cleveland. Slavic Village, an area undergoing racial transition on the East Side, has been the epicenter of the crisis, reportedly ranking as the #1 zip code in the country at one point in time.[10] In 2007 there were 804 foreclosures in an area with a population of about 30,000. But as the map shows, the inner-ring suburbs were hit hard as well. Fifteen suburban mayors who were members of the First Suburbs Consortium sent a letter to County Commissioner Tim Hagan dated May 5, 2005 that called for the county commissioners to do something about the "effects of the lengthy process (for foreclosure proceedings)." They were especially concerned about the growing number of vacant and abandoned properties.

On August 25, 2005 the Cuyahoga County Board of Commissioners launched a three-year pilot foreclosure initiative that included eleven County agencies, nine housing nonprofits, as well as numerous municipalities, lenders, and other groups. The initiative had two main goals: 1) Make the foreclosure process "faster and fairer;" and 2) Create an Early Intervention program to prevent foreclosures and keep people in their homes.

To fund initiatives to make foreclosure proceedings "faster and fairer" the County increased filing fees for foreclosures and earmarked Delinquent Tax Administration and Collection (DTAC) funds (surplus funds based on fines and interest for delinquent payment of taxes) for this purpose. The actions included having the judges give higher priority to foreclosure cases and automating procedures in the Clerk of Courts and Sheriff's Office. Under the leadership of Cuyahoga County Treasurer Jim Rokakis, Cuyahoga County succeeded in passing HB 294 through the Ohio Legislature, simplifying the process of foreclosure on tax delinquent properties that are vacant or abandoned. Under this law, vacant and abandoned properties can go through an expedited process administered by the Board of Revision, instead of the courts, which is authorized to order the Sheriff to deed the property directly to a municipality or to a qualified housing nonprofit. The program to make the foreclosure process in Cleveland "faster and fairer" enjoyed substantial success, according to an evaluation by Cleveland State University (Weinstein, Hexter & Schnoke 2008). Despite continuous increases in foreclosure filings, the backlog of cases was reduced and the time it takes to go through the process shortened.

The second part of the County initiative was designed to prevent foreclosures and enable residents to remain in their homes if they wish. The program is administered by three full-time staff members at the County. The Foreclosure Prevention Program includes: 1) a United Way Services First Call for Help "211" number; 2) grants to nonprofit foreclosure prevention counseling agencies; 3) Rescue Funds; 4) a "Don't Borrow Trouble" video; and 4) a financial literacy program administered by the Northeast Ohio Coalition for Financial Success. The foreclosure prevention counseling is run by nine community-based nonprofit agencies through grants from the County. The County also created a rescue fund first on a

pilot basis using $75,000 in federal Temporary Assistance for Needy Families (TANF) funds and then in August 2007 with a one-time infusion of $1.5 million in DTAC funds. Most of the clients for the counseling program (56.5 percent) were from the City of Cleveland, but 37.3 percent were from the First Suburbs (and 6.2 percent the rest of the County). Between March 2006 and February 2007 the counseling agencies met face-to-face with 4,311 clients and were able to prevent 1,497 foreclosures for a 35 percent success rate (Weinstein, Hexter & Schnoke 2008).

The most important barrier to foreclosure prevention has been the private sector holders of the mortgages. They were not willing to modify loans to keep people in their homes, especially for loans that had been pooled and were covered by a public servicing agreement (PSA). PSAs legally prohibited or limited loan modifications. Also, loan servicers had become basically check processors and lacked the skilled employees with a background in real estate to modify loans.

A Cleveland grassroots group, Empowering & Strengthening Ohio's People (ESOP), used the confrontational tactics of Saul Alinsky to overcome some of the barriers presented by the lenders. They called their campaign "rank 'em and spank 'em". First, they would call a meeting of homeowners facing foreclosure and decide which lender is the worst. Then they would mount a campaign to force the lender to sign a memorandum committing the lender to systematic loan modifications. The campaign included throwing 2½-inch plastic sharks on the lawns of executive officers of the lender and calling them up repeatedly in the middle of the night. The campaign against Countrywide took almost two years but finally, in December 2007, Countrywide signed a memorandum that committed it to certain policies for loan workouts, such as fixed rates and reduced principal in the cases when a home had been over-appraised.

By the fall of 2008 ESOP had twelve signed agreements that covered about 20 lenders and servicers, counting subsidiaries. These memorandums are private; no one but ESOP or the lender can see them. ESOP is one of the nonprofits participating in the foreclosure counseling program set up by Cuyahoga County. When counselors from one of the other agencies get a client who has a loan with one of the lenders that has signed a memo with ESOP, they refer that person to ESOP. According to the Cleveland State evaluation, ESOP's loan workout rate was 76.5 percent while none of the other agencies had a workout rate above 18 percent (Weinstein, Hexter & Schnoke 2008). In short, when forced, lenders can be more collaborative, which makes the region more resilient. Unfortunately, these resilient practices are not required by law, but must be forced lender-by-lender in time-consuming organizing campaigns.

Cuyahoga County's foreclosure prevention initiative demonstrates high levels of resilience. Assets were redeployed from existing programs to address the crisis, creative forms of financing were tapped (DTAC), government agencies changed their routines and collaborated across bureaucratic lines of authority, and the public and nonprofit sectors coordinated their actions. The initiative demonstrated horizontal collaboration among nonprofits and local governments as well as vertical coordination by the County. The financing of the Early Intervention initiative illustrates the broad collaboration that has emerged in Cleveland to deal with the foreclosure crisis. Between February 2006 and March 2008 private foundations and banks committed $497,500 and the County committed $2,472,500 to the

initiative. The prevention of 1,497 foreclosures is impressive (though we do not know if all of these modified loans were sustainable). In any case, when taking into account that 28,889 foreclosures were filed in the County in 2006-2007, clearly, the program still only helps a small percentage of homeowners in distress.

Foreclosure Prevention in St. Louis

The local response in St. Louis to foreclosure prevention has been less resilient. The housing nonprofits have expanded their repertoires, shifting employees out of homeownership and other programs into HUD-certified counseling programs aimed to prevent foreclosures. The weakness is that the resources have been lacking to scale up counseling to the needed level and area governments have contributed little to prevention.

The beginning of enhanced prevention efforts can be traced back to a conference on foreclosures at the Federal Reserve in the Fall of 2005. Having a Federal Reserve Bank in your region with an active Community Affairs Department clearly aids resilience. Bill Patten of GMAC had recognized a problem and he and Chris Krehmeyer, head of a local housing nonprofit, Beyond Housing, approached the Federal Reserve about doing a conference. About 100 people attended this conference and a Task Force grew out of this. The first thing the Task Force did was to request a study by Will Winter at the University of Missouri – St. Louis (UMSL) Public Policy Research Center. Winter presented his analysis to the Task Force January 2006, showing that foreclosures were concentrated in certain neighborhoods on the South Side and in north St. Louis City and bordering suburbs. An area bank made a contribution of $2,000 and the Task Force decided to focus on three areas: Dutchtown/Gravois Park, Glasgow Village, and Pagedale. Beyond Housing had extensive experience working in Pagedale. They did some leafleting and passed out brochures at places like the Salvation Army and United Way informing people about the HOPE hotline (Homeownership Preservation Foundation). The Ad Counsel placed free ads that were developed by the Task Force.

One of the most innovative programs in St. Louis was developed by the public television station KETC, called “Facing the Mortgage Crisis”. KETC has convened an advisory committee of people in the community working on foreclosures and created a series of programs and public service spots to educate people about foreclosures and especially about the need to go for counseling before it is too late During the programs KETC had housing counselors at phone banks and they have set up a website and used other technologies, like Facebook, to educate the public. KETC is also partnering with the *St. Louis Beacon,* an online newspaper, to do investigative reporting on foreclosures in St. Louis. KETC is one of the most widely watched public television stations in the nation and this series is a pilot that will be adapted by public television stations around the nation.

The KETC-*Beacon*-community collaboration is a good example of resilience. But these collaborations do not bring much in the way of resources to foreclosure prevention. The one local government in the region that has stepped up to the plate is the City of St. Louis, which created the St. Louis Alliance for Homeownership Preservation, a network of five nonprofits: ACORN, Better Family Life, Beyond Housing, Catholic Charities, and the Urban League. The City of St. Louis provided $500,000

in funding – $250,000 from the City of St. Louis Affordable Housing Fund and $250,000 from the City of St. Louis. The counseling agencies can give up to $1,500 to deserving homeowners to stave off foreclosure. They only work with those who can meet payments over the long-term. As of September 2008 they had counseled 458 clients, with 205 positive outcomes (keeping people in their homes). The Alliance gave financial assistance to 84 clients at an average cost of $919.26.[11] However small, there seems little doubt that the cost for preventing about 200 foreclosures was worthwhile because many foreclosures in St. Louis lead to vacant and abandoned structures that reduce nearby property values and place additional service burdens on municipal governments (Rogers & Winter 2008; Apgar and Duda 2005; National Vacant Properties Campaign 2005).

Efforts in St. Louis to persuade other governments and private foundations to contribute funds to foreclosure prevention have ended in failure.[12] Chris Krehmeyer made a presentation at Gateway for Giving, a collaboration of local foundations, asking for $2-3 million for a rescue fund but was turned down. The Municipal League of St. Louis County proposed contributing $5,000 from each municipality into a rescue fund but nothing came of it. The County gave $50,000 to Beyond Housing and some funds to Catholic Charities from their federal homeless assistance grant. But, other than staff time and resources, St. Louis County has not committed any funding to preventing foreclosures.

Why has St. Louis County, a county with solid tax base that is being hit hard by foreclosures, done so little to prevent them? Part of the answer probably has to do with the geographical distribution of the problem. Large swaths of the wealthy and politically powerful parts of the region in the central corridor are not directly affected by foreclosures. The negative effect of foreclosures on property values extend out only about 1/8th of a mile or so (Rogers & Winter 2008). Of course, this is true in Cleveland, as well, but foreclosures are more severe and widespread in Cleveland. But the main reason appears to be that a higher proportion of citizens in St. Louis regard foreclosures as the fault of the borrower and do not believe that taxpayer funds should be devoted to helping them. Lacking survey evidence, this is only a hypothesis at this point but newspaper coverage provides evidence of how high foreclosures are on the regional agenda. Figure 15 on page 46 shows that many fewer articles on foreclosure were published in the *St. Louis Post-Dispatch* between *2000 and 2008 than in* the *Cleveland Plain Dealer.* Not only was the overall count lower but more of the articles in St. Louis were feeds from the wire services, with no local content, and compared to *Cleveland Plain Dealer* the *Post-Dispatch* had fewer front-page articles and editorials on the topic. According to a journalist working for the *Post-Dispatch*, editors at the paper thought that foreclosures were largely a private problem not a public issue. Coverage by the newspapers both reflected public opinion and helped to shape it.

Neighborhood Recovery in Cleveland

Foreclosures have many negative spillover effects, especially in a weak market city where foreclosures can lead to vacancy and abandonment. These negative externalities can be minimized if the foreclosed properties are fixed up, if necessary, and immediately put back on the market, or demolished if there is no market for them. Given the overwhelming nature of the problem and the limited resources, one neighborhood recovery strategy is to carefully target "transitional" neighborhoods where interventions can prevent foreclosed properties from tipping the neighborhood

into decline (The Reinvestment Fund 2008). Strategic targeting of resources requires not only data and analytical capabilities, but also political will to overcome the "law of political dispersion", the tendency to spread the benefits around to benefit a minimum winning coalition. Effective intervention also requires coordinating housing policy with other policy domains, such as education, economic development, and transportation. Cleveland has taken steps to target resources and to coordinate with other policies in order to stabilize transitional neighborhoods.

One dramatic step the City of Cleveland took was to file a lawsuit against a series of subprime lenders to recover the extra costs that foreclosures have imposed on local government. In 2007, the city's demolition budget was tripled and they were able to demolish about 800 structures. Note, however, that this is in a city where 11,642 vacant parcels were identified in 2000 (CANDO as cited in Mallach 2006: 309). The lawsuit is still pending.

The City's Housing Court has also acted to reduce the damage from foreclosures. Housing Court Judge Raymond Pianka , a former executive director of the Detroit Shoreway Development Corporation, has initiated a number of case management and sentencing guidelines to protect homeowners. Judge Pianka has also been tough on banks holding properties after foreclosure (REOs) and companies that buy foreclosed properties in bulk. After being cited for code violations they often failed to show up in court. Borrowing from a court in Buffalo, he used a little-known 1953 law to fine lenders *in absentia,* including those located abroad. By fining lenders and servicers over $1 million and converting these to civil judgments, Pianka has been able to put liens on lenders' bank accounts. This has caused them to take more care with their REO properties. Judge Pianka's treatment of lenders who refuse to take responsibility for foreclosed properties has garnered national attention (Orey 2008).[13]

At about the same time that Cuyahoga County was developing its Early Intervention program to prevent foreclosures, NPI was leading a movement to address vacant and abandoned properties. In 2004 the National Vacant Properties Campaign (NVPC) emerged as the preeminent national think tank helping metropolitan areas to develop strategies for dealing with vacant and abandoned properties. In early 2004 NPI became the first client to commission NVPC to do a local assessment of what could be done with vacant properties. Their report, called *Cleveland at the Crossroads: Turning Abandonment Into Opportunity,* was issued in June 2005 (Mallach, Levy & Schilling 2005). In the Fall of 2005 about 250 people attended a statewide conference in Columbus on vacant properties. This resulted in the formation of Rebuild Ohio, a statewide coalition that coordinates the exchange of best practices and lobbies for state policies to deal with vacant properties that are plaguing communities across Ohio.

Leadership is crucial to resilient local responses to the foreclosure crisis. In Northeast Ohio, a prominent politician, Cuyahoga County Treasurer Jim Rokakis, has led the effort to address the negative effects of foreclosures. In 2006 Rokakis led the fight in the Ohio Legislature to pass HR 294, discussed above, which provides for a speeded up process when a tax-delinquent property is vacant and no one responds to the foreclosure summons and complaint. The properties can then be conveyed to a CDC or transferred into a city land bank after foreclosure. This avoids the situation where properties sit empty and have a blighting effect on the neighborhood. CDCs or municipalities can sell them immediately, fix them up and sell them, or demolish them.

One of the most innovative ideas to deal with vacant properties is a proposal, championed by Rokakis, to create a land reutilization authority, or land bank, that would keep foreclosed properties out of the hands of speculators and make them available to private investors and CDCs as part of neighborhood revitalization strategies. This proposal was modeled on a successful program in Genesee County, Michigan (Flint). The funding would come from penalties and interest paid on back taxes and assessments, which Rokakis estimates will generate about $7 million annually. The land utilization authority could also gain revenue from the re-sale of acquired property. By amassing parcels of contiguous land the land bank authority could help communities implement revitalization strategies. And by pooling properties in a larger land bank, the authority will spread the risk – something that individual CDCs could not do. By putting authority in the hands of a nonprofit entity, or authority, the land bank would minimize direct political interference and offer a greater chance that the crisis of foreclosures could become an opportunity to develop targeted strategies for neighborhood revitalization. Led by NPI, the CDCs will be expected to play a central role in getting properties back on the market. The law to allow the formation of a county land bank was passed and signed by Governor Strickland in February 2009 at a ceremony in Cleveland.

Besides dynamic leaders, information also helps to put the issue on the public's agenda and develop workable strategies. In February of 2008 Rebuild Ohio published a report entitled *$60 Million and Counting: The Cost of Vacant and Abandoned Properties to Eight Ohio Cities*, which quantified the spillover costs of 25,000 vacant and abandoned properties, including $15 million in additional city service costs and $49 million in cumulative lost property tax revenues. Garnering a great deal of media attention the report served as a kind of wake up call for city governments in Ohio to take action on foreclosures.

A key element of any effort to deal with the effects of foreclosures is a property information system that can inform decision makers to target resources, anticipate areas of high foreclosure, and evaluate interventions. Northeast Ohio has one of the most sophisticated property information systems in the nation in the form of the Northeast Ohio Community and Neighborhood Data for Organizing (NEO CANDO). Established in 1992, NEO CANDO gathers neighborhood data for 17 counties in Northeast Ohio and makes it available on its website. Run by the Center on Urban Poverty and Community Development at Case Western Reserve University, NEO CANDO has amassed parcel-based data for Cuyahoga County that enables researchers to create a kind of early warning system for foreclosures and evaluate the viability of rehabbing and marketing foreclosed properties. It has a wide support from area foundations, NPI, and others. NEO CANDO supports NPI's Land Assembly Project that targets funds to six CDCs to create "neighborhoods of choice" in Cleveland. Cuyahoga County's application to the federal government for Neighborhood Stabilization Program funds supports this strategy.

Neighborhood Recovery in St. Louis

Like Cleveland, St. Louis has a long history of vacant and abandoned properties. According to a 2000 study, St. Louis had over 13,000 abandoned housing units (Mallach 2005: 309). St. Louis City has developed innovative legal strategies for addressing problem properties, but its ward-based political system means that CDBG monies are spread around 28 wards and implementing a coherent targeting strategy is difficult. Given the relatively small population of the central city, only 12.6 percent of the Metropolitan Statistical Area population (American Community Survey, 2005-2007), it is not surprising that the problem of vacant and abandoned properties has crept over the border into suburban St. Louis County which has much less experience dealing with it. Moreover, with 91 municipalities, the County also has strong tendencies to spread funds around (55 municipalities receive funding from the County's CDBG allocation). These characteristics of the St. Louis region undermine resilience.

In 2002 the City of St. Louis began the Neighborhood Life Initiative to combat vacant and abandoned properties (U. S. Conference of Mayors 2008). The administration of Mayor Francis Slay created a Problem Property Court focusing exclusively on derelict properties. Between 2002 and 2007 over 8,900 properties were brought into code compliance through Court action and almost a million dollars in fines were paid. A Problem Property Unit in the City's Law Department has successfully attached liens on 990 vacant properties representing $2.7 million in unpaid city services. Owners who fail to pay are subject to foreclosure sales. When the city cannot locate the owner or the liens are not paid on time, the property reverts to the city's Land Reutilization Authority.

Besides the ongoing efforts of the City of St. Louis, a Neighborhood Stabilization Committee was formed as part of the St. Louis Foreclosure Intervention Task Force. This committee meets about once a month and has worked in particular on the issue of how to research ownership of foreclosed properties. The committee sponsored a workshop in December 2008 that put together a foreclosure mitigation toolkit and had presentations by various actors in the St. Louis area concerned with neighborhood recovery. The Committee has served as a network for sharing information about how to deal with foreclosed properties but it has not raised resources or directly shaped public policy.

In July of 2008 the National Vacant Properties Campaign (NVPC) visited St. Louis at the invitation of a group of researchers at Saint Louis University and the University of Missouri-St. Louis. On the basis of a site visit NVPC suggested a series of actions to develop a region wide strategy for dealing with vacant and abandoned properties. The core idea was to form a "data alliance" of the universities that would be the vehicle for a vacant properties campaign in the St. Louis region. The universities have begun to develop expertise on real estate but they have not developed a comprehensive campaign for vacant properties. One of the problems that came up was the split between the City and the County. In short, universities in the St. Louis region have expertise but there is not a comprehensive data initiative like NEO-CANDO in Cleveland. St. Louis foundations have not funded any metro area data initiatives to track foreclosures and guide policy interventions.

Finally, the City of St. Louis and St. Louis County have completed their applications for the Neighborhood Stabilization Program funds. It is difficult to determine at this point if these funds will be

disbursed as part of a comprehensive strategy. The City of St. Louis is planning to target expenditures on the worst-hit neighborhoods. The City has quasi-governmental organizations, such as the Land Reutilization Authority, that will purchase the properties. The application calls for consulting with aldermen, and community-based organizations will participate in rehabilitation. The City of St. Louis NSP initiative will be led by the public sector and the fear is the process will be heavily politicized. With little experience in purchasing and rehabilitating properties and lacking any sort of land bank authority, St. Louis County is relying upon other agencies to carry out its NSP plan. The County has a small contract with the Public Policy Research Center (PPRC) to classify block groups in order to identify transitional neighborhoods that could be prevented from tipping downward by a targeted acquisitions and re-marketing strategy. It remains to be seen whether the County can to spread the money around to all of the NSP-eligible neighborhoods.

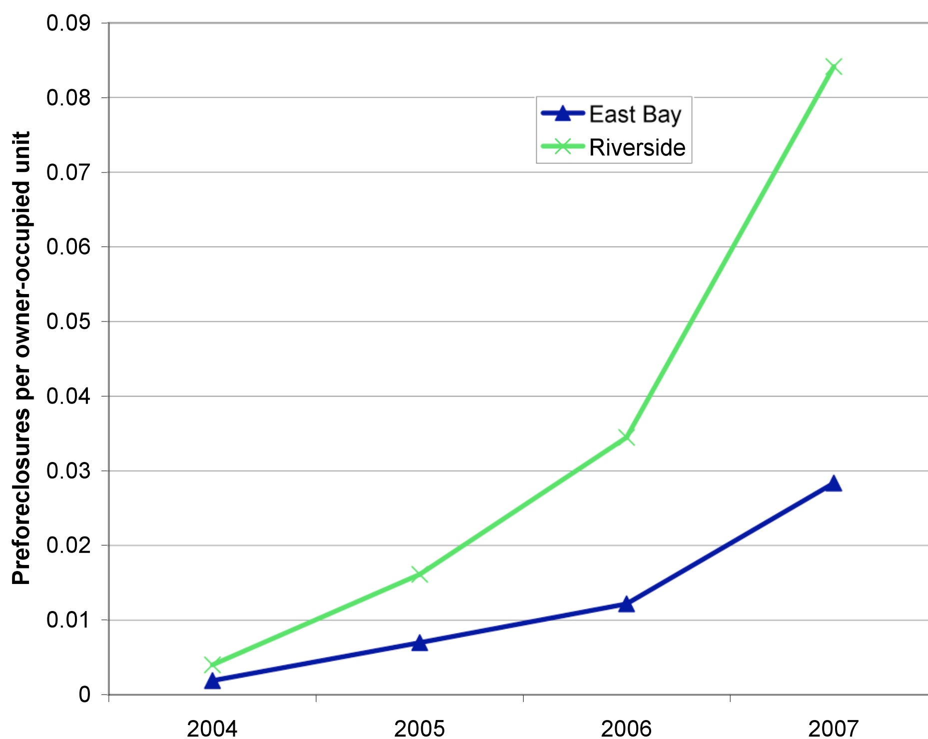
In short, neighborhood recovery efforts in St. Louis are less resilient than in Cleveland. The City of St. Louis commits considerable funding to deal with vacant and abandoned properties. Over a five-year period it spent $15.5 million demolishing vacant buildings, or almost $100 per household (Mallach 2006: 9). In the face of the foreclosure crisis, however, it does not appear that funding for neighborhood stabilization has increased. It is worthwhile noting that Missouri has significant low-income and historic tax credits that have played a major role in saving housing in the declining urban areas. But these credits have been used primarily by private developers and have not catalyzed collaborations to devise strategies for investing in transitional neighborhoods, such as Cuyahoga's NPI regional neighborhoods of choice initiative.

Resilience in Traditionally Strong Market Regions: The Inland Empire and the East Bay

The Challenge

California regions saw an uptick in foreclosure activity in 2004, but the major acceleration was not until 2006 (Figure 7). What is most striking in comparison to other regions under study is the starting point: Using pre-foreclosure notices as the most consistent measure across regions, in 2004 only a couple thousand households received notices of default in the East Bay (consisting of Alameda and Contra Costa counties) and the Inland Empire (Riverside and San Bernardino counties in 2004). At the same time, in Chicago there were about 25,000 actual foreclosure filings (as described below). By 2008, looking at actual foreclosure filings, the Inland Empire (with 112,000 or eight percent of all housing units) ranked third in the country, while the East Bay (with 39,000) ranked 14th. In both metros the number of filings doubled from 2007 to 2008 (Realty Trac 2009). Given the historically low levels of foreclosure in these regions, there has been little need historically to build capacity in housing counseling (unlike Chicago).

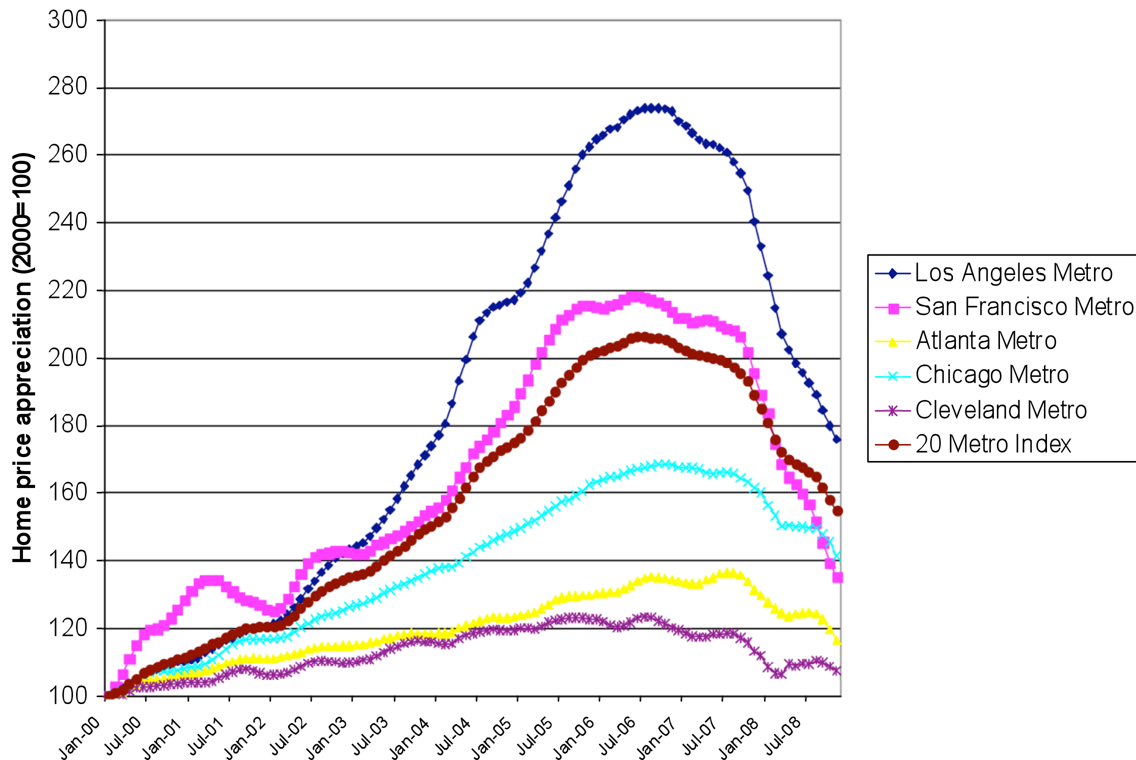
Figure 7. Pre-foreclosure notices per owner-occupied unit, Riverside-San Bernardino and the East Bay



Source: http://www.foreclosures.com/

In California's major metropolitan areas, home price appreciation from the late 1990s on exceeded that of most other metro areas and was comparable only to a few other regions on the East Coast (Figure 8). Likewise, housing prices have dropped more dramatically since the market's peak in summer 2007. However, unlike much of the country, the more affluent regions in California, such as San Francisco, are continuing to see price appreciation in spot markets such as Palo Alto. The boom-bust character of California's real estate market makes it particularly vulnerable to foreclosure: simply put, households must borrow more money to purchase homes, and then may find in a downturn that they owe more than the home is worth.

Figure 8. Home values, 1998-2008, Case-Shiller Index



The geography of foreclosure in the Inland Empire and the East Bay has significant similarities and differences. In both regions, the crisis has hit hardest in some of the older central cities (e.g., Richmond and San Bernardino) as well as the outer-ring suburbs (Appendix Figures 3 and 4). But the Inland Empire has a much more even distribution of the crisis across its counties, cities, and suburbs. In contrast, foreclosures are very concentrated in Alameda and Contra Costa counties and barely touched the rest of the nine-county San Francisco Bay Area.

The foreclosure crisis in California has unfolded in typically dramatic fashion. In many ways, California's exceptionalism makes it difficult to draw lessons from the crisis that are applicable to other regions of the country. For example, as illustrated above, the real estate cycle (which typically follows the business cycle) is more of a boom-bust phenomenon in California than in the rest of the country. In addition, because California gains 500,000 new residents per year on average, there is steady market

demand for housing. Together with the cyclical housing "gold rush," this demand supports a vibrant construction sector. The collapse of the construction sector and exodus of residents during the current crisis has hurt other sectors as well, through the loss of local purchasing (e.g., of home furnishings). As one business leader told us, "The collateral damage is wider than we thought."

The damage extends to the public sector, since local government is dependent on revenues from a hot housing market. Limits on property tax increases via Proposition 13 create a distinctive fiscal structure in California municipalities. Since reassessments only occur when properties change hands, a disproportionate share of property tax revenue comes from new homebuyers, and cities depend on a hot local market. Further, they expect revenue from development impact fees to support much of their infrastructure costs and even general operating budgets.

Dealing with the foreclosure crisis in a strong market – even one in a temporary downturn – creates complications that most federal legislation to date has failed to address. Most importantly, in many of the areas hardest-hit by the crisis, homeowners have negative equity: market value is as little as 50 percent of what is owed on the mortgage. While nationally 18 percent of homes have negative equity, 27 percent of Californian homes are in the red, and this percentage is much higher in certain areas (33 percent in the Inland Empire). Another issue is the type of mortgages: foreclosures have spiked up recently in the Inland Empire because of the prevalence of Alt-A loans.

Foreclosure prevention is difficult in California. The prevalence of negative equity means that homeowners cannot qualify for refinancing: very few California homeowners have been able to take advantage of refinancing programs (e.g., FHA Secure) (California Reinvestment Coalition 2008). Major lenders report that they do not vary their foreclosure prevention strategies geographically, differentiating between strong and weak markets. However, one clear difference is their unwillingness to write down principal in the California market. As one housing nonprofit commented, "The crisis here has not gone beyond their pain threshold." In September 2008, just 0.28% of all workouts in California (79 properties) involved principal write-downs.[14]

On the other hand, however, getting properties back on the market is not as difficult in tight California markets as in weak markets like Cleveland -- though government assistance is not nearly as effective. Because of high property values, there is a widespread consensus that the $3.92 billion NSP allocation will not make much of a difference in California. For instance, the suburb of Martinez has 400 homes in foreclosure but received an allocation of only $118,000, not enough to buy even one property. Banks are reluctant to discount the properties by up to 15% below the appraised value, as required by NSP, particularly in the coastal markets, perhaps because they anticipate a market resurgence. A recent East Bay study illustrates this point, finding that most properties do not sell at auction because lenders have set the minimum bid at 5% ***above*** the mortgage value, well above the property's current market value (Martin & Smith 2009).

The problem in many parts of California is less one of abandoned properties and more that households suffer from involuntary displacement and inability to find affordable replacement housing. Even though housing prices have declined steeply, there is still a housing affordability crisis in California. For instance, median housing prices have dropped 27 percent in Contra Costa County over the past year – but were still well over $300,000 by the end of the year. Even in Richmond, one of the poorest cities

in the state, with one of the highest crime rates in the country, foreclosed homes are still too expensive to reclaim for low- or moderate-income homebuyers. Of 4,000 foreclosed properties in Richmond and vicinity up for auction last year, just 135 were priced under $200,000. At such prices, the creative solutions that organizations are trying elsewhere in the country, such as community land trusts, are not as feasible. Yet, foreclosures sales have driven up the number of transactions, which are up two-thirds from a year ago. Investors and middle-income first-time homebuyers account for much of the new volume.

The Opportunity Space: State Laws

The foreclosure issue is high on the State of California's agenda. The state understands the imperative for action. As foreclosures increase, and more stock floods the market, prices will decline further, and more borrowers will be under water. As a state official argued, "We don't want to overshoot the bottom of the market. We're looking for a U-shaped recovery, a soft landing, not a V-shaped one." For that U shape, California needs a sharp increase in loan modifications to decrease the supply of housing on the market.

California state government exerted early and (at least initially) effective leadership in the crisis. By late 2007, the State Department of Corporations had negotiated interest rate adjustments for borrowers facing resets, and shortly thereafter it became one of the few states to release monthly data on the types of workouts offered. The California state legislature in 2008 granted local authority to fine owners of foreclosed properties (including banks) for not maintaining their property. In addition, this bill provided for a 60-day notice of eviction for renters in foreclosed buildings about to be auctioned; 22 percent of all foreclosed residences in California are renter-occupied. The state was also proactive in neighborhood recovery, enacting its own Community Stabilization Program months before Congress acted.

California is a non-judicial foreclosure state – in other words, a "power of sale" clause in the deed of trust allows the sale of the property in order to satisfy the defaulted loan.[15] According to a 2008 study the expected optimal time from notice to foreclosure sale is 116 days, slightly less than the 120 day un-weighted average for all states (Cutts & Merrill 2008: 29). There are relatively stringent notice requirements. First, the county records a notice of default, sometimes after one or more payments are missed, but often after a loan is in substantial default (e.g., six months or more past due). After a minimum of 60 days of this "redemption period," a notice of sale is recorded in the county, at least 14 days before any foreclosure sale (the "publication period"). The borrower receives a 20-day notice before the foreclosure sale and may prevent the sale by paying all arrearages up to five days before the sale. A state law passed last year increased the required period from first notification to final sale by 30 days, to a total of 141. Thus, the process is much slower than in Missouri, though nowhere near as slow as in Ohio. Still, the brevity of this window means that counseling agencies must push loan modifications forward relatively quickly to avoid losing the home.

The Opportunity Space: Institutions and Collaborations

Given the fiscal stress that the foreclosure crisis places cities under, it is particularly striking that cities have not organized a response or even put more pressure on the state and federal governments to act. As one business leader said, "The attitude of cities in the Bay Area has been 'That's Antioch's problem. That's Oakland's problem.'" Because foreclosures are so geographically concentrated, the problem is easy for many cities to ignore (Appendix Figures 3 & 4). Still, the usual venues for municipal issues have not engaged actively in the foreclosure issue. For the most part, the regional Councils of Governments have been quiet, and even the statewide League of Cities is not active. Only Los Angeles has a lobbyist in Sacramento pressing on this issue. As one advocate said, "In general there's just a sense that this is too big a problem to take on."

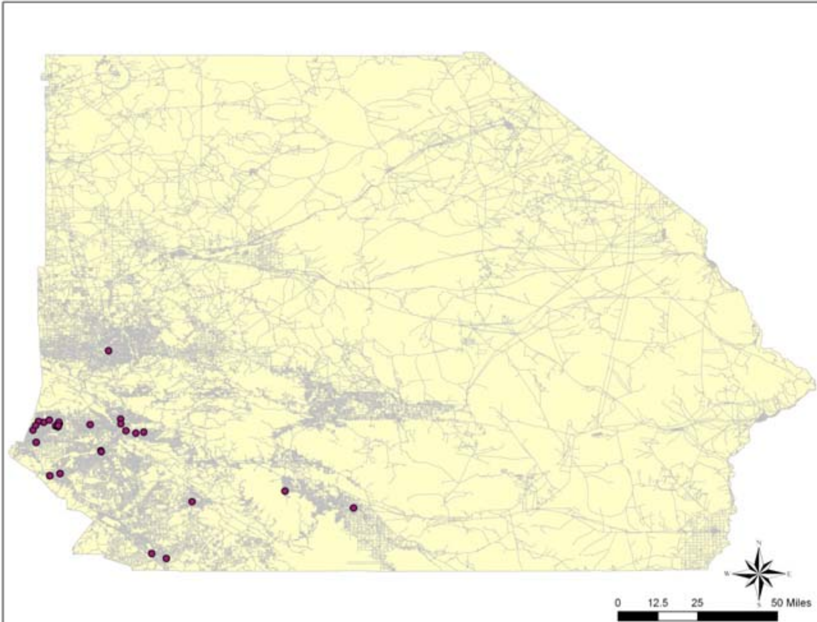
Despite the depth of California's nonprofit housing infrastructure, this sector has also found it difficult to organize around the crisis. Though many different local, regional, and statewide organizations offer expertise in low-income home ownership, rental housing production and preservation, homelessness, and community reinvestment, few have cross-cutting knowledge and skills. Nonprofit counselors with the tools for foreclosure prevention are ill-prepared to help tenants of foreclosed apartment buildings, and advocates for reinvestment have done little work in the suburbs. The mature California multi-family rental housing industry finds acquisition, rehabilitation, and resale of single-family homes a very risky proposition, and organizations with decades of experience managing multiple buildings express reservations about managing scattered-site properties in the suburbs. Moreover, some regions, such as the Central Valley and the outer suburbs of major metropolitan areas, lack nonprofit housing capacity altogether (Figures 9 and 10 show the nonprofit landscape in the Inland Empire and the East Bay). Meanwhile, many of these organizations find themselves trying to cope with various spillovers of the crisis, from homelessness to overcrowding, and are unable to perform their core missions. As one nonprofit housing counselor said, "The crisis has reset the community development clock by 30 years."

At the local level, the private sector has been nearly invisible in the crisis – not so surprising given the prevalence of securitization and loan repackaging. Though the California Mortgage Bankers Association has local branches, and some are pushing for new standards and regulation, many are in disarray, with reports that many of their directors have "evaporated." Lenders are present at most of the different convening's held to address different aspects of the crisis, but they bring a strong anti-borrower rhetoric: according to one advocate, "Their [lenders] major complaint is how to get in touch with the borrowers."

In the absence of effective federal action (such as requiring lenders to adopt the FDIC approach), local actors have seen little interest on the part of lenders in creating large-scale solutions. As one counselor commented, "They don't *want* to go to scale. They'd rather deal with this on a case-by-case basis, keeping it quiet." As a result, Sheila Bair, Chairperson of the Federal Deposit Insurance Corporation (FDIC), has become the unofficial hero of agencies working on the crisis on a daily basis. As the same counselor commented, "The FDIC is the only one who can get lenders on the phone. So they are the clear broker in the process." In general, the perception on the ground is that without the federal government at the table, the only way to change lender behavior is through intermediaries or legal

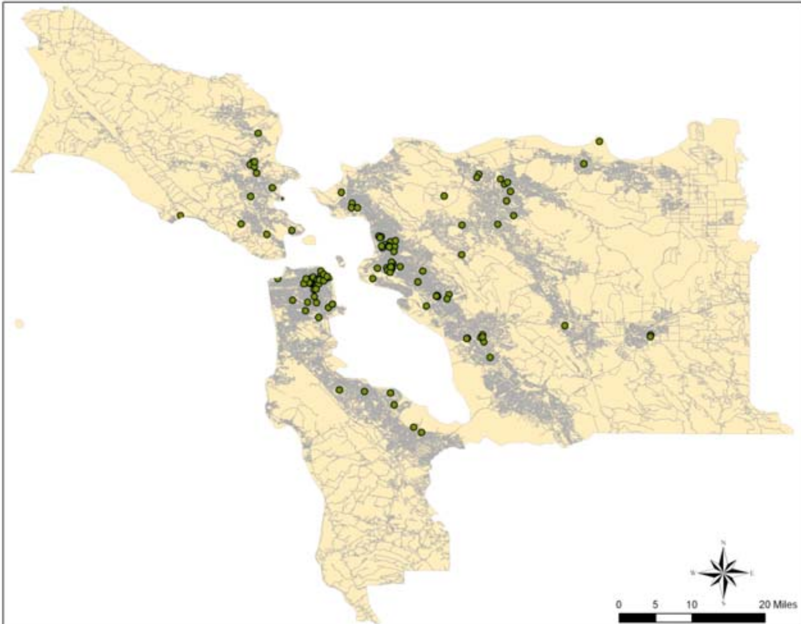
action. For instance issuers of private mortgage insurance (PMI) are now requiring that servicers have to make an effort at loan modification before they will provide insurance.

Figure 9. Housing Nonprofits in the Inland Empire



Source: Data from the National Center for Charitable Statistics, mapped by the authors.

Figure 10. Housing nonprofits in the San Francisco Bay Area



Source: Data from the National Center for Charitable Statistics, mapped by the authors

Although it is one of the hardest-hit states in the country, California has not created many innovative responses to the crisis. Indeed, when the San Francisco Federal Reserve put together a meeting in Los Angeles to educate its region about best practices in foreclosure prevention and recovery, it had few California best practices to point to. Even within Region IX, the models come from Arizona and San Diego, not the crisis regions of Oakland and Riverside. The state budget crisis and the magnitude and unevenness of foreclosures across California regions clearly hinder large-scale responses.

Foreclosure Prevention in Riverside-San Bernardino (the Inland Empire)

The engagement of public sector actors has varied widely across metros and the state. Among cities, the most active are entitlement jurisdictions that have long received CDBG funding directly (rather than through the county). In the Inland Empire, the response from Riverside dwarfs that of other cities and suburbs. Riverside is using its housing set-aside from TIF revenues to fund workshops and counseling and has pioneered a ward-by-ward approach to workshops, in order to focus on neighborhoods and engage council members (albeit risking the "spreading the peanut butter" problem). Led by a Riverside nonprofit, the Fair Housing Council, several cities are devising creative ways to send information about resources to residents who have received foreclosure notices (e.g., through utility bills).

Other cities have simply not organized much of a response to the crisis. Most of these are newer CDBG cities or outlying suburbs. A couple are very low-capacity older cities, like San Bernardino. Though some contract with nonprofits to hold foreclosure prevention workshops, others seem unaware of the NeighborWorks and HUD workshops scheduled regularly around the region. Workshop organizers report that they are much more likely to get the local congressperson or county supervisors involved than neighboring city governments.

A steady stream of resources for foreclosure prevention counseling has kept nonprofits busy since the beginning of the crisis. Along with NeighborWorks and HUD counseling funds, most counseling agencies also receive funding from the state, the nonprofit California Reinvestment Coalition, and local cities. Because of their experience dealing primarily with financial literacy, and to a limited extent with foreclosures as well, nonprofit housing agencies have led the way for the private and public sectors in organizing a response. In California regions without a significant nonprofit housing infrastructure in place (such as the Inland Empire) new capacity is emerging. For instance, a Latino CBO is doing outreach to its communities, and faith-based organizations are developing their own capacity to do outreach and referral. As in Atlanta, the Inland Empire has a dominant credit counseling agency, Springboard, which has expanded rapidly into foreclosure prevention (with 16,000 clients since the crisis began) (Sosa 2009).

California housing nonprofits have been quite resilient in the face of foreclosures. The CDCs, fair housing groups, credit counseling agencies, and NeighborWorks affiliates have shifted many of their resources away from post-purchase counseling – and for some, even financial literacy and first-time homebuyer counseling – in order to have enough capacity to hold workshops on foreclosure prevention. Neighborhood Housing Services organizations were not well prepared for the onslaught of foreclosures; as one organization with five staffers told us, they historically had only one employee focusing on

foreclosures. All are currently expanding their capacity, but the process is cumbersome, often involving grant-writing to several different agencies. Turnover is high, HUD-certified counselors are in short supply, and there is a constant threat that counselors will jump to rival organizations.

Most of these organizations are concentrated in the central cities (Riverside, San Bernardino, and Ontario) but hold workshops throughout their region – in the case of Riverside, as much as 150 miles away from the county seat (made easier by the presence of small satellite offices throughout the county). Likewise, their clientele comes from throughout the region. Thus, the nonprofits have had to expand their repertoire both substantively and geographically – but have reached their limits (without a much more substantial infusion of resources).

Workshops tend to be very well attended, with as many as a thousand attending the larger workshops in the Riverside-San Bernardino area. While East Bay organizations complained of weak turnout from the private sector, all of the Inland Empire stakeholders reported consistent and widespread participation by lenders at foreclosure prevention workshops, whether sponsored by nonprofits via NeighborWorks or HUD. Both lenders and borrowers perceive workshops as safe forums to initiate discussions. Compared to the East Bay, Inland Empire stakeholders report far higher success rates (completed loan modifications).

Collaborations in Riverside were slow to start but have gained steam. In the Riverside-San Bernardino region, the Inland Empire Economic Partnership held a convening in late May 2008, mostly to address impacts on infrastructure and the construction industry, with a constituency of the building industry, lenders, banks, and politicians at all levels. This meeting gradually set a new collaboration in motion, the Riverside Red Team (described below under neighborhood recovery).

The nonprofit sector is also partnering actively with the private sector. Many lenders have become major funders of nonprofit counseling agencies, using them to help conduct outreach to owners. In the Inland Empire, Bank of America is organizing a collaborative of nonprofits and local governments modeled on an effort in San Diego. Its purpose is to increase awareness of counseling services via outreach and marketing in order to ward off predatory counseling.

Partly because of a push by the HOPE NOW Alliance of servicers, investors, and HUD-approved counselors the servicers have also begun to contact borrowers well before the foreclosure process. One new practice is to send out unsolicited modifications to borrowers (prequalification's) – on letterhead from local nonprofit counseling organizations. Typically servicers will receive a one or two percent response on such offers, but with the nonprofit letterhead, the contact rate may reach twenty percent.

Foreclosure Prevention in the East Bay

Again, in the East Bay, the response from CDBG-entitlement cities Oakland, Richmond, and Antioch has been far more vigorous than that of other cities and suburbs. For instance, in Oakland, veteran housing staffers have pushed resources into education and the city attorney has worked to ensure that there is adherence to just-cause eviction regulations for renters in foreclosed properties. Yet, cities have been less proactive about public education (e.g., working with utility companies to send out information in bills) than in the Inland Empire.

Likewise, county governments have been relatively quiet – despite having jurisdiction or funding authority over the unincorporated areas and/or the non-CDBG cities. However, at least in Contra Costa County, the district attorney has begun sending out information to all of the homeowners receiving notices of default. In both counties, county assessors have taken aggressive action to make sure homeowners can get their homes reassessed.

Critics argue that local governments have not done enough. The Contra Costa Interfaith Supporting Community Organization (CCISCO) has pushed cities to enact their own moratoria, as in Philadelphia. CCISCO has also tried to persuade the county to at least slow down the foreclosure process by not allowing its sheriffs to deliver foreclosure notices unless the servicer has made a good faith effort to do a loan modification. More recently, it has engaged in a campaign to persuade Richmond to divest in banks which hold a large share of local homeowner loans in default. With such a strong track record in progressive legislation, it is surprising that Bay Area cities in particular have not taken action to push lenders. As one nonprofit suggested, San Francisco could lead the way by disinvesting in Wells Fargo. But again, though San Francisco leads the Bay Area in many areas of legislation, it is on the sideline in the foreclosure crisis, partly because the crisis is concentrated elsewhere in the region.

As in Riverside, nonprofit housing counselors are generally concentrated in the central cities (Oakland and Richmond), but hold workshops throughout their region. Unlike the Inland Empire, however, attendance is dropping off in some areas where homeowners have become discouraged. In particular, nonprofits working in the poorest areas of Oakland have had difficulty obtaining loan modifications. Lenders often do not show up at workshops and town hall events, unlike in Riverside.

The San Francisco Federal Reserve Bank convened many of the major players in the Bay Area, just as the Fed has done in regions across the country such as St. Louis. The initial convening was well attended. The Bay Area Taskforce included major lenders like Wells Fargo and Citibank, statewide organizations like the California Reinvestment Coalition, regional affiliates of the United Way and Center for Responsible Lending, community-based organizations like the Unity Council, and many others. But the effort never really took off. Commented one observer, “I think it’s partly because each of these organizations is so invested in their (sic) own way of doing things, and effective in their own right. So they didn’t see the value of collaborating.”

Many of the regional business councils have also failed to engage their membership in a response. San Francisco business groups at least initially seemed to perceive foreclosure as a suburban problem. Even before the Inland Empire Economic Partnership took action, the East Bay Economic Development Association (EBEDA) began listening to concerns from its members and constituents, in particular, concerns from residential developers and cities about unfinished infrastructure in new developments (because of unpaid impact fees from foreclosed houses), loss of financial services sector jobs (12,000 in the East Bay alone), and impending fiscal stress. Driven by these members, EBEDA organized a conference in February 2008, jointly sponsored with two other regional business councils, to educate constituents about the crisis and best practices in the response. They also began connecting locals with state and federal governments, for instance, organizing hearings for Senator Barbara Boxer. A few

committees formed out of the symposium, but nothing came of them. As one organizer explained, “We are not at the apex. We are just seeing that people are talking.”

While the private sector has taken an active role in working with nonprofits in Riverside, in the East Bay, alliances are more commonly between the public sector and nonprofits. The Contra Costa Housing Equity Preservation Alliance (HEPA) came about because of the sense of various organizations in Richmond that they were duplicating efforts or unable to address the foreclosure problem effectively. As it describes itself, HEPA is a “unique, regional collaborative offering families facing foreclosure and related eviction issues a single point of contact and coordinated case management.” Members include Contra Costa County, most of its CDBG cities (Richmond, Antioch, and Walnut Creek), and a mix of nonprofits providing either foreclosure or legal counseling: Community Housing Development Corporation of North Richmond, Pacific Community Services, Inc., Housing Rights, Inc., Bay Area Legal Aid, and Housing and Economic Rights Advocates.

Through the nonprofits, the collaborative offers foreclosure prevention workshops, asset-preservation counseling and legal services. An initial set of meetings in early 2008 resulted in an informational brochure and a broad list of resources for homeowners which was delivered to homes in nine Richmond neighborhoods. A second brochure was distributed more widely and focused more on services available through HEPA, channeling homeowners to the organization doing intake and referral (and warning about scams from non-HUD approved agencies). Meeting every two months, the group is gradually establishing a clear division of labor, for instance figuring out exactly when clients need legal services.

The collaboration has not been without controversy. The collaborative has shut out the nonprofit that produced the first brochure due to conflicts, and one CDBG city with a not insignificant foreclosure problem declined to join the collaborative because of a past negative interaction with another nonprofit. Even just putting up a website with resources took about a year of planning, negotiation, and coordination: for instance, the City of Richmond offered to host the site but then found itself forced by its webpage rules to use the Richmond logo instead of something more representative of HEPA.

Like the KETC-Beacon-community collaboration in St. Louis, HEPA is a good example of resilience, but it brings few additional resources to address the problem. Few outside of the HEPA members themselves are aware of the collaborative, which suggests that they face an uphill battle to do outreach. Those who have heard of HEPA are critical, perhaps because they are not included. To one community-based organization, spending time building regional collaboratives will diminish results on the ground, because “If you join a coalition like HEPA, it becomes your focus, not the neighborhood.” To veteran community organizers, “HEPA is just wasting their time, collaborating to get more leverage in funding.” They suggest instead that real results come from putting pressure on lenders, as ESOP did in St. Louis.

The analogue to ESOP in the Bay Area is CCISCO, a congregation-based community network (representing 25 congregations) that is part of the PICO national network. Their anti-foreclosure efforts include five community institutions (four churches and one neighborhood association) representing about 10,000 families, mostly in Richmond and Antioch.

CCISCO uses Alinsky-style confrontational techniques of community organizing. The CCISCO *modus operandi* is to conduct listening campaigns via town meetings and one-on-one sessions in hundreds of parishioner homes in order to identify issues and leaders. In Antioch, where they work with a congregation with 6,000 members, they had planned a listening campaign around immigration, but that quickly morphed into foreclosure and helping families access counseling services via two CBO partners (one of which was also in HEPA).

At the same time as providing assistance to individual households, CCISCO has conducted a series of high-profile events that have drawn national attention to the need for more accountability from banks. After their initial information-gathering sessions with households, they selected six lenders to target: Wells Fargo, Washington Mutual, IndyMac, Countrywide, Bank of America, and Wachovia. They began by picketing the banks that still had local branches, with 50-75 people outside attracting press attention. According to CCISCO, this tactic got three banks to the table with them, with one agreeing to convert all qualifying loans to a lower, fixed interest rate.

Meanwhile, CCISCO leader Adam Kruggel began working on negotiating national agreements on loan modifications with these lenders. In the fall of 2008, CCISCO gained national exposure (including coverage by the *Wall Street Journal*) through a lively Antioch town hall attended by 800 and a subsequent march to Washington. Through the PICO network it has also gained direct access to Representative Barney Frank, Chair of the House Financial Services Committee. In this way CCISCO works continually at multiple levels, ensuring that local concerns are heard at the federal level via ongoing pressure and protests.

To CCISCO, this confrontational model is the only one that garners consistent attention from lenders and legislators throughout all levels of government. Lenders confirm that they listen to CCISCO – but not necessarily because of the protests. (As one local pointed out, "There's nobody at those banks!"). Instead, they value the access faith-based organizations have to their customers. People trust their church: "Where you receive the message is important." Likewise, cities are generally enthusiastic about CCISCO and supportive of their activities – for instance Antioch sent letters to lenders asking them to negotiate with CCISCO. Though skeptical of the protests, those who have followed CCISCO's efforts marvel at their ability to get people to the table through manipulation of the press.

Despite CCISCO's national presence, some locals argue that their ability to bring lenders to the table has not resulted in more loan modifications – in contrast to ESOP in Cleveland. One rival nonprofit suspects that they are getting short-term loan forbearances through the workshops, not real loan modifications. Unlike the NeighborWorks organizations, they neglect financial literacy, the need for long-term credit counseling and financial planning. And in fact, because of their simplistic model ("Lenders are bad and consumers are innocent victims"), they avoid any discussion of individual responsibility. In essence, this nonprofit says, they are paternalistic. A lender confirms that CCISCO workshops and activities do not result in more loan modifications than interventions by other nonprofits, such as NeighborWorks: "We approach the transaction the exact same way in each case."

Neighborhood Recovery in the Inland Empire

Property recovery is new to the repertoire of most organizations in the California housing system, since high growth rates have kept abandonment rare except in the highest poverty neighborhoods. But at least in the Inland Empire, there is a precedent. During the 1991 business cycle trough, HUD reclaimed a number of foreclosed properties and sold them largely to absentee landlords (because of the lack of local capital). These "Beverly Hills investors" rented out the formerly owner-occupied homes and did little maintenance. This experience has made Inland Empire cities much more vigilant about property maintenance – and much more proactive about recovery.

As of late 2008, when cities were developing their NSP plans, there was still little lender interest in bulk property dispositions. With investors keeping the markets hot (sales volumes increased steadily through 2008), there will be little interest in packaging deals for nonprofits or cities. One Inland Empire city described a barrage of inquiries by for-profit developers, who (unlike their East Bay counterparts) can buy properties cheaply at auction or short sale, with a quick rehab and sale. Although lenders seem resistant to participating in NSP because of the 5 to 15 percent discount requirement, a few are developing their own programs. In particular, based on a pilot in Chicago and Boston, Bank of America will provide a listing of its foreclosed properties to cities up to ten days before it hits the market, with a bulk discount of 10% to purchasers.

State action has forced the lenders to take responsibility for REO properties. As one lender told us, "When we take possession, we do maintenance to make sure the property doesn't go downhill." But pressed, he admitted that this was in response to the city and county programs, enabled by state legislation, that levy fines for lack of maintenance.

As one of the first cities to submit its NSP application, Riverside provides an ideal example of municipal capacity. It had four elements of the application already in place before the NSP was announced. First, it had a "Targets of Opportunity" program already in place to purchase single properties without council approval. Second, because it already had a HOME program, with a requirement that 15 percent of funds go to Community Housing Development Organizations (the so-called CHODOs), it could easily issue an RFP for a nonprofit to run the REO program. Third, the City began tracking foreclosures in 2007. Its rationale was actually defensive – people were saying that Riverside was the epicenter of the crisis, but Riverside, whose Mayor Loveridge is widely considered very effective, wanted to show that the crisis had hit the surrounding area hardest, not the city proper. Just two percent of Riverside homes have already gone through the full foreclosure process, compared to some neighboring cities with ten percent or more. And finally, its redevelopment agency had already appropriated $5 million dollars of their funds toward recovery.

The passage of NSP has placed HUD center-stage in the foreclosure response. HUD regions in California have convened cities on an ongoing basis to discuss their NSP plans – meetings that include representation from lenders and the state. These meetings have led to networking and information-sharing, as well as on-going discussions about doing bulk purchases from lenders. In the Inland Empire, perhaps in part because of the Riverside Red Team, many cities are likely to participate in such bulk

purchases, and they are planning to contract with several of the local NeighborWorks affiliates for first-time homebuyer ("home-ready") education.

The Red Team was formed by Riverside Mayor Ron Loveridge and County Supervisor Tavaglione after the May 2008 meeting of the Inland Empire Economic Partnership. Though it met first in July to keep the conversation going, the collaboration did not get underway until November 2008, after many of the cities had prepared their NSP applications and had time to re-engage. Apart from the Riverside governments, the most active members of the Team are the building industry, the real estate trade association, Bank of America, a local credit union, and a few of the cities near Riverside. More recently, the Western Riverside Council of Governments has become an active member.

Driving the Red Team's agenda is a joint recognition that as a region they are too dependent on new single-family home construction to support the economy. Members may disagree on who is to blame for the foreclosure crisis, but all agree on that premise. They also seem to agree on a *modus operandi* of cross-sectoral collaboration driven by private-nonprofit partnerships led by "people who know how to implement," as one member suggested.

According to the Team, the plan for the Riverside region should be built on three "pillars of recovery." The first is that any foreclosure mitigation policy should be based on the principle of keeping people in their homes. The second is to focus on education and counseling for homeowners, since it is far more cost-effective to spend $1 million on education than to buy five houses at $200,000 each. This effort might include a large-scale marketing program to get the message out to consumers to beware of predatory offers of loan modification assistance and to use free counseling instead.

Third, a new regional public-private partnership should pool resources (as much as $600 million) from many different sources, both public and private, in order for local jurisdictions to purchase and resell homes en masse. The principle is similar to toll roads, which use both public and private money at different rates of return. With $150 million of public money and $150 million of private contributions, the partnership should be able to leverage $300 million in outside investment. With $600 million to buy some homes, the partnership could actually start to make a difference in the market. One idea might be to create a new bond program, with a pitch, "invest in your region." The partners are currently investigating financial and legal aspects of the proposal. Interestingly, a similar model, with the goal of preventing speculation, is emerging in San Diego.

In practice, initial activities have focused on the smaller tasks of developing databases, identifying best practices, and coordinating activity among jurisdictions. Whatever ultimately materializes from the effort, the Team's collaboration has already pushed local government to be more proactive. For instance, a collaboration of Inland Empire cities has recently organized an acquisition/rehab program under the auspices of the National Community Stabilization Trust, the effort led by Enterprise, the Housing Partnership Network, LISC, NeighborWorks, and the National Urban League. To the private sector members of the Team, there is no choice. If they don't act now, the comeback could take ten years. But locals are confident that the region will come back, given its fortunate location: "We are not worried in the Inland Empire. We are going to recover – it's about the topography, the mountains that make Bakersfield another region, the ocean to the west. There will be demand in the valley."

Neighborhood Recovery in the East Bay

Once again, the East Bay cities that are CDBG-entitlement communities seem best equipped to put programs in place. For instance, Oakland has a particularly effective first-time homebuyer program already in place, which will help it turn over reclaimed properties. Antioch has both homeowner and rental rehab programs in place already. But in general, East Bay cities are much less pro-active than their Inland Empire counterparts: for instance, while many Inland Empire cities are aggressively fining banks which do not maintain properties, most East Bay cities have been slow to act, only responding after being pushed by organizations like CCISCO.

Any neighborhood recovery strategy in the area needs to insure not just that the properties get back on the market but that they remain affordable. Community land trusts are one strategy. Two efforts to develop community land trusts have developed in the East Bay, both pushed in part by ACORN. In East Oakland, the Urban Strategies Council has led the proposal, assisted by a community economic development consultant and ACORN. This proposal, which will receive substantial seed funding from federal economic stimulus funds, would acquire 200 properties concentrated in just one or two neighborhoods and create a scattered-site land trust for low-income homeowners; the subsidy required would probably be about $100,000 per unit. In Richmond, ACORN is leading the charge with support from the Urban Habitat-led Richmond Equitable Development Initiative – but again given the deep subsidies required, there are questions about whether this is the optimal approach for keeping properties affordable (Martin & Smith 2009).

Since this is a hot market for foreclosure resales, some nonprofits are concerned about potentially illegal actions on the part of servicers, e.g., stripping the rights of the buyers by prohibiting contingencies or inspections, or requiring a 30-day close. Bay Area Legal Aid and the East Bay Community Law Center are actively working to protect low-income homeowners from these violations, but on an *ad-hoc*, reactive basis.

In contrast to the Riverside Red Team effort, discussions in the East Bay are much smaller scale, with just a few cities likely to cooperate with each other. This is not for lack of good ideas. For instance, some stakeholders have discussed using existing vehicles with financial capacity, such as the Bay Area Homebuyers Association to create an effective regional organization. Such an organization might be able to negotiate with lenders for lower prices, target NSP money more effectively to needy areas, acquire a line of credit to do land banking, create a ready buyer pool, develop consistent regulations across the region, hire a property management company to manage scattered-site acquisitions, and so forth. But perhaps because of the lack of regional conversations about the crisis, most players have not yet seen the imperative for this kind of action. Instead, many hope that the National Community Stabilization Trust effort will play that role in the region.

Finally, many non-housing nonprofits are becoming engaged in the crisis as they cope with household recovery issues. Agencies dealing with issues from food stamps to homelessness are over capacity as they deal with households going through foreclosure – many turning to public assistance for the first time. As of yet, little collaboration has emerged to address household recovery. The San Francisco Asset Support Coalition, with the support of the San Francisco Fed, convened a variety of

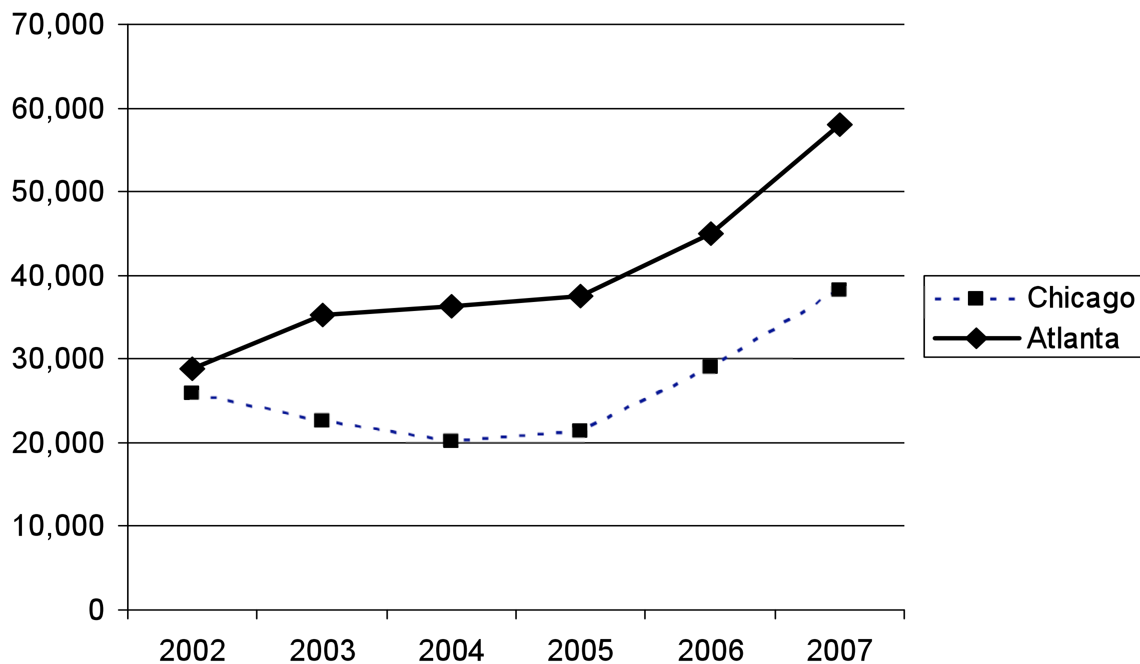
service providers in October to discuss the various needs that are surfacing. However, it was not clear how to move forward with programmatic action, other than lobbying for more resources and legislation to protect renters, provide food stamps, and so forth.

Resilience in Mixed-Market Regions: Chicago and Atlanta

The Challenge

The Chicago region saw a sizeable increase in foreclosure activity after 2004. Figure 11 shows that the six-county region, which is a commonly used definition of the Chicago metropolitan area and accounts for a large portion of the population in the larger MSA, saw foreclosure filings increase from 21,302 in 2005 to 38,215 in 2007, an increase of more than 79 percent (Woodstock Institute, 2008). Most of this increase was from 2006 to 2007. Prior to 2005, foreclosure filings had actually been declining somewhat, from a level of more than 25,000 in 2002 to just over 20,000 in 2004 and 2005. This trend was not necessarily evident in some other regions. Trends in foreclosures from 2005 to 2007 in the Chicago region were similar to what many places experienced over this period.

Figure 11. Foreclosure Filings/Notices in the 13-County Atlanta Area vs. the 6-County Chicago Area, 2002-2007

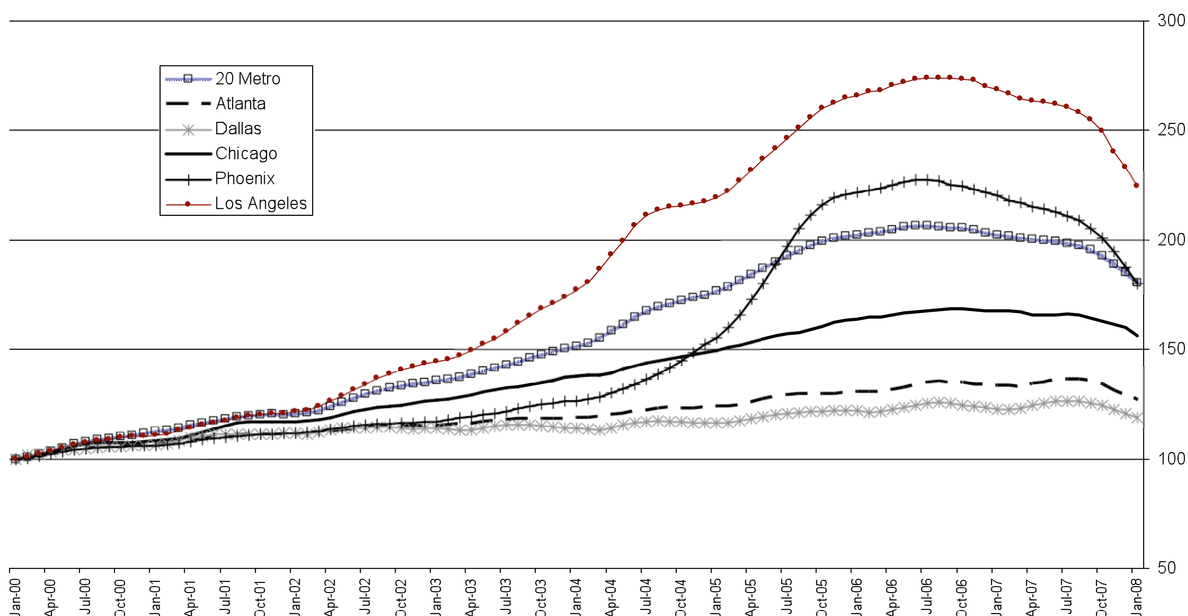


Source: Woodstock Institute (2008), Immergluck and Lee (2008).

The Chicago region experienced significant home appreciation from 2000 through late 2005 (Figure 16). In early 2006 values generally began to plateau and then began a decline in the last quarter of 2006. The cumulative home appreciation rate in the Chicago region reached almost 67 percent over 2000 prices by September of 2006. However, as Figure 12 shows, this appreciation was nowhere near

the very high levels of appreciation reached in some other large markets, such as the Los Angeles region, which hit a high of more than 173 percent over 2000 prices in June of 2006. Values in the Chicago area did not fall very quickly until the summer of 2007, coincident with the freezing of credit markets and the climax of the credit crisis. This contrasts with the trajectories in some of the more overheated markets, where prices began to fall quite steeply in late 2006 and early 2007. The magnitude of the decline in prices in the Chicago region – in large part because the region had seen more moderate increases in prior years – has also not been nearly as large as the formerly hotter markets.

Figure 12. Case-Shiller Home Price Indices for Select Metropolitan Areas



Overall, the Chicago region has faced a substantial degree of foreclosure-related challenge in recent years, though likely not at the level of weaker-market regions such as the Cleveland area. Unlike previous years, new pockets of high foreclosures have also appeared in the outer ring suburbs (Appendix Figure 5). The rates of increase, while significant, have not been as steep as those in many formerly hot-market regions such as many parts of California, Florida, and the Southwest, in part because housing values did not fall so steeply and foreclosures did not begin at such low levels.

The Atlanta region has seen a large increase in foreclosure activity since 2005. The 13-county region, which accounts for a large portion of the population in the larger MSA, saw foreclosure notices increase from just over 37,000 in 2005 to over 58,000 in 2007 (Immergluck and Lee, 2008). The region had also experienced a significant increase in foreclosures from 2000 to 2003, with notices flattening out in 2004 and 2005. The foreclosure level in 2007 was almost four times the foreclosure level in 2000. The trend from 2005 to 2007 in the Atlanta region was quite similar to that of the Chicago region.

In Atlanta property values did not experience the sort of rapid appreciation in recent years that occurred in many large metropolitan areas in other parts of the country, and did not see a drop in prices until late 2007, well after foreclosures had begun increasing. Much of the foreclosure increases in

Atlanta preceded any fall in property values, and recent declines (since the last quarter of 2007) have been quite moderate. This contrasts with the trajectories in some of the more overheated markets, where prices began to fall quite steeply in late 2006 and early 2007.

Overall, the Atlanta region has faced a substantial degree of foreclosure-related challenge in recent years. More recently – since mid-2007 or so – there has been a significant shift of foreclosure activity toward suburban areas (Immergluck and Lee, 2008), with suburban foreclosures growing at roughly twice the growth rate in the city (Appendix Figure 6). This may partly relate to the changing nature of the foreclosures, as more prime loans go into foreclosure and the pipeline of subprime loans gets smaller.

Moreover, the foreclosure problem in many central city neighborhoods is fundamentally more concentrated and different in nature than in many other parts of the region. This is because a substantial portion of the foreclosures in the central city – particularly in lower-income neighborhoods – involve investor properties, new construction, and sales fraud, which typically result in "upside-down" mortgages, where the outstanding balance of the mortgage is much larger than the value of the house.

The Opportunity Space: State Laws

Illinois is a judicial foreclosure state. The entire foreclosure process, from initial filing by the loan servicer to the completed foreclosure sale or court-supervised auction can take on the order of a year or more. The expected optimal timeline from referral or initial notice to foreclosure sale is 265 days in Illinois, compared to 120 days (un-weighted average) for all states (Cutts & Merrill 2008). This relatively lengthy period provides more time for borrowers to become current on the loan, negotiate some sort of loan modification or repayment plan with the lender, or obtain legal counsel in the event that the loan involved potentially predatory or abusive features.

Another important aspect of the legal and regulatory context in metropolitan Chicago is that the state has adopted a number of anti-predatory lending laws and regulations in the last decade. These include anti-predatory lending regulations in 2001 and a statute in 2002. However, preemption of state anti-predatory lending laws by federal regulatory agencies limited the effectiveness of these laws (Immergluck 2004). Moreover, these laws were largely not designed for the sorts of high-risk products that became so prevalent in 2003 and beyond.

Georgia is a non-judicial foreclosure state, where foreclosures are initiated and administered by the lender and/or its agent, and not subject to court supervision. The entire foreclosure process, from initial notice given by the loan servicer to the completed foreclosure sale at the county courthouse steps takes an expected optimal time of 47 days, similar to Missouri's timeframe (Cutts & Merrill 2008). This brief period provides few opportunities for borrowers to become current on the loan or to find an alternative to foreclosure once notice has been given.

In terms of lending regulation, there are few borrower protections in Georgia. In 2002, Georgia passed one of the toughest anti-predatory lending laws in the country. However, financial industry lobbyists and credit rating agencies, and a change in gubernatorial administrations, led to overturning

and weakening the law. Moreover, federal banking regulators preempted the law for national banks, federal thrifts, and some affiliated lenders. In early 2008, the state legislature did pass modest laws that require foreclosure notices to identify more clearly identify the parties with the ability to negotiate loans.

The Opportunity Space: institutions and Collaborations

The Chicago region, and especially the City of Chicago, has a relatively extensive infrastructure of organizations focused on foreclosure prevention and neighborhood recovery. Chicago is nationally recognized for its Home Ownership Preservation Initiative (HOPI). HOPI is the principal foreclosure prevention and REO reclamation program in the city of Chicago and involves a partnership of NHS of Chicago, the City Department of Housing, 22 financial institutions, and the Federal Reserve Bank of Chicago. The Chicago response has certainly benefited from the leadership of the City of Chicago, as well as other civic actors such as local foundations and experienced nonprofit housing groups. The City's size and capacity in the housing arena has made it a natural leader in the region in this arena. It has considerable influence in the state legislature and in regional thinking and policy making more generally. Chicago has long been known to have one of the strongest networks of CDCs and community organizations in the country. Finally, Chicago has also benefited from the presence of strong policy advocacy and applied research groups in this arena. Several respondents mentioned the value of having the Woodstock Institute and its research and policy expertise in the region.

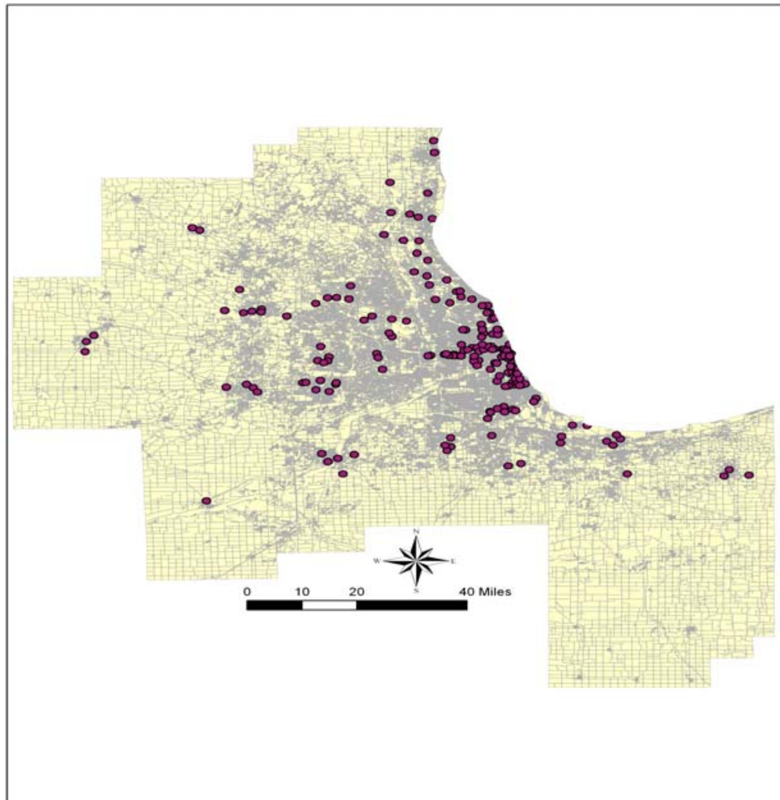
At the same time, there is fairly strong disparity in civic capacity around the foreclosure issue between the city on the one hand and moderate-income and impacted suburbs on the other (Figure 13). There has been some increased focus on regional collaboration and cooperation on the foreclosure issue in recent years. This has been facilitated in part by the strong role of the City of Chicago in metropolitan and state-wide affairs. The City took a lead role in forming the Metropolitan Mayors' Caucus, which has exercised some leadership on intra-regional collaboration in this arena. However, much of this action has focused on mitigating and containing the impacts of foreclosed properties through approaches such as vacant property registries. Until recently at least, there had been less regional cooperation on more ambitious activities such as reclaiming and redeveloping vacant properties.

The Atlanta region – at least prior to the announcement of the federal NSP program – had seen only limited response to increasing foreclosures and problems of community or household recovery. The region's principal response had been on the foreclosure prevention end, with significant efforts by Consumer Credit Counseling Services of Atlanta, some community development and housing counseling groups, and Atlanta Legal Aid's Homeowner Defense Project.

Compared to places like Chicago and Cleveland, prior to the advent of the NSP program, much less activity had occurred with regard to the mitigation of neighborhood impacts or property recovery. There were some discussions of a response in the city of Atlanta, led by the local Enterprise affiliate, and some action had been taken to improve the ability of the Atlanta-Fulton County Land Bank Authority to acquire vacant properties. On the neighborhood stabilization and recovery side, it is not clear that

substantial intraregional cooperation has occurred in the Atlanta region even after the advent of the NSP program. (The structure of the first round of NSP did not encourage regional cooperation.) On the foreclosure prevention side, efforts are somewhat more regionally integrated.

Figure 13. Housing Nonprofits in the Chicago Metropolitan Area



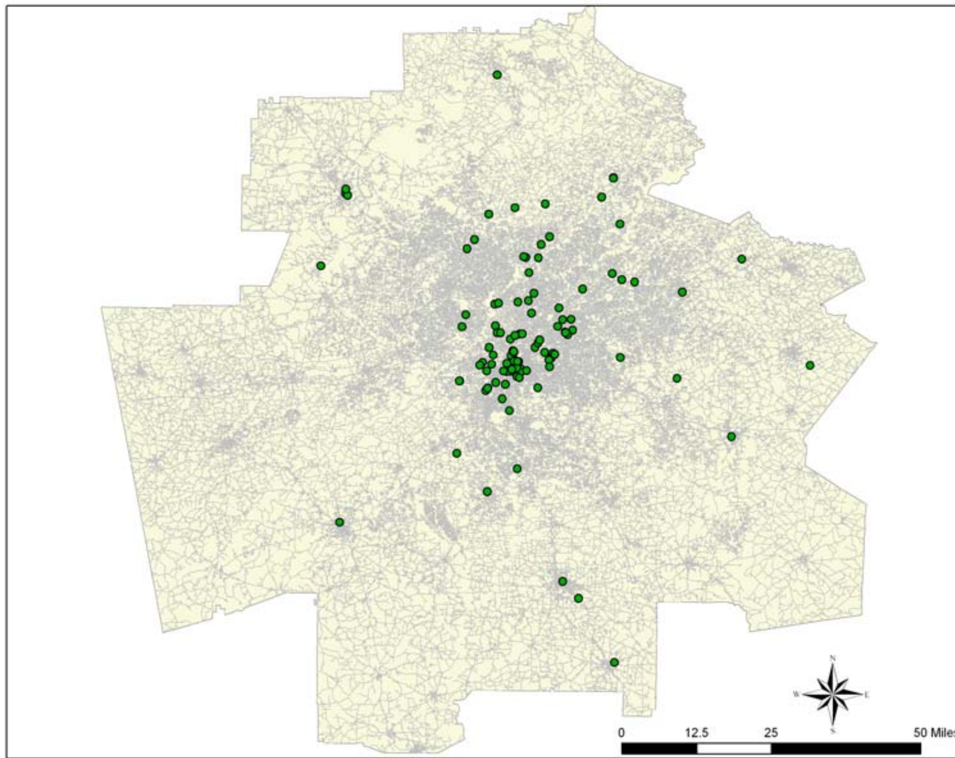
Source: Data from the National Center for Charitable Statistics, mapped by the authors.

As is the case in our other metropolitan areas, housing nonprofits are more prevalent in the city than in suburban areas (Figure 14) and the response has been stronger in the central city than in suburban areas. One respondent working in a suburban county lamented that the county had little concern for housing-related issues or planning and had been traditionally focused on economic growth and development. However, the disparity in capacity may not be as great as in a region like Chicago where capacity in the city is much greater. Suburban capacity in Atlanta is relatively low, but capacity in the central city is, overall, also not strong.

Overall, the Atlanta region's response to the foreclosure crisis, up until the point of this study at least, had not been very robust, although there are some encouraging signs. Although, as a whole, the policy-advocacy community is not nearly as robust as a place like Chicago or Cleveland, a leading nonprofit housing organization – the Atlanta Neighborhood Development Partnership – has, over the last year or two, focused increasingly on responding to the foreclosure crisis.

There remains little local philanthropic support in the region for advocacy around community development or housing issues. Moreover, the region continues to be dominated by a business-friendly political regime, with one respondent citing the region's "chamber-of-commerce" tilt as a strong impediment to local or state policy change. Finally, the City of Atlanta is a relatively modest political force in the state legislature. In part, this may stem from the city's relatively small share of the metropolitan area's population (8.6 percent according to the American Community Survey, 2005-2007) and tax base.

Figure 14. Housing Nonprofits in the Atlanta Metropolitan Area



Source: Data from the National Center for Charitable Statistics, mapped by the authors.

Foreclosure Prevention in Chicago

The Chicago region, and especially the city of Chicago, has an extensive network of organizations involved in preventing foreclosures. Including Neighborhood Housing Services (NHS) of Chicago, a variety of other nonprofit housing counseling organizations and CDCs (some of which are neighborhood-based and some of which operate on a city-wide or larger basis) and legal services providers. Many of these organizations are funded by the City of Chicago or by county or state government (sometimes with federal funds), as well as foundation and other sources.

HOPI, which formally began in 2003, is a national model in the response to rising foreclosures, reporting the prevention of over 1,700 foreclosures from 2003 to May 2008. HOPI appeared to be making a dent in foreclosures from 2003 through 2005 as filings in the city went down significantly.

Filings in the City of Chicago declined by more than 27 percent from 2002 to 2004, and were up only slightly in 2005 (Woodstock Institute, 2008). This compares to suburban filings dropping by 19 percent over the same period. However, in 2006 foreclosures increased significantly again and worsened in 2007.

The City of Chicago increased the intensity of its efforts in foreclosure prevention since the Fall of 2007. It sponsored ten foreclosure prevention fairs – called Borrower Outreach Days – from October of 2007 through April of 2008. These were held in park field houses throughout the city and other venues. Major mortgage servicers were invited as well as the eight housing counseling agencies funded by the city for foreclosure prevention. The city estimates that approximately 2,000 borrowers attended these forums. In one foreclosure prevention fair, the City partnered with the Metropolitan Mayors Caucus, and organization of more than 270 municipalities in the Chicago region, in hosting the event. The city also has reduced the time between when legal foreclosure notices are publicly listed and the time when the city mails these borrowers postcards advertising the city's counseling services.

Another organization involved in foreclosure prevention in the Chicago region, again with more focus on the city itself, is the Legal Assistance Foundation of Metropolitan Chicago (LAF), a legal aid organization that services Cook County, Illinois. LAF began its Homeownership Preservation Project in 1995, making it one of the more established foreclosure-prevention legal aid programs in the country. The organization has had a long-term partnership with Neighborhood Housing Services of Chicago in which it works with NHS clients at risk of foreclosure, negotiates short payoffs, and then refinances homeowners into new, fairly priced loans.

One clear issue in the Chicago region is the low level of service available to suburban communities hit by rising foreclosures. While some suburban communities have local fair housing organizations that are concerned with foreclosures, they are not always very active in large-scale counseling or prevention (see Figure 18). Some nonprofits, such as the Spanish Coalition for Housing and a smaller suburban Neighborhood Housing Services office in Kane County do provide counseling in the suburbs, but the overall level of activity appears to be much less than in the city.

In part to address the city-suburban disparity in capacity, the Illinois Housing Development Authority and Housing Action Illinois, a statewide housing advocacy group, and NeighborWorks helped establish the Illinois Statewide Foreclosure Network, which supports foreclosure counseling activities of suburban organizations in Lake, DuPage, Will, McHenry and Kankakee counties.

Another regional effort underway in the foreclosure prevention arena is a "Regional HOPI" effort that is being spearheaded by the Federal Reserve Bank of Chicago in cooperation with the Chicago Community Trust, a community foundation, and Neighborhood Housing Services of Chicago. Other partners will be the Federal Deposit Insurance Corporation and other bank regulators, the Chicago Metropolitan Agency for Planning, and others.

There have been a variety of efforts in the region to provide financial products to assist homeowners at risk of foreclosure. NHS of Chicago and LAF began one of the first programs in the country early in the decade to help refinance homeowners who had received predatory loans into fairer

and more affordable loans. NHS continues to use its loan programs to assist borrowers at risk of losing their homes. Shorebank, a community development bank on the city's south side, began a rescue loan product for borrowers who are less than 90 days delinquent.

Foreclosure Prevention in Atlanta

Foreclosure prevention activities in the Atlanta region include those of both community-based operations, including HUD-certified housing counselors and NeighborWorks affiliates, as well as a large consumer credit counseling organization, Consumer Credit Counseling Services (CCCS). CCCS is one of the largest credit counseling operations in the country, with 18 locations throughout metropolitan Atlanta, and more offices in Florida, Mississippi, and Tennessee. Through its telephone and internet counseling the organization serves clients in all 50 states. Over the last 10 years the agency has grown from having only two housing counselors to having about 80 counselors now. Also, the nature of the counseling has changed. In the past, most of the housing counseling had been face-to-face, while now most of it is via telephone. CCCS is also a principal partner of the HOPE NOW Alliance, providing a substantial part of the telephone counseling along with other, similar groups around the country.

CCCS's historic dominance of credit counseling activities in the Atlanta region may explain the lower profile of some of the more traditional, community-based HUD-certified counselors in the area that tend to do primarily face-to-face counseling. There are a significant number of those, and they tend to receive much of their funding from local and county governments, as well as some per-client funding from the HOPE NOW program.

The community-based counselors vary in their levels of activity and their scope. The Impact Group in suburban Gwinnett County, for example, has increased its foreclosure counseling resources and response, shifting away from homeownership counseling toward foreclosure prevention in recent years. Gwinnett, with its diverse and growing population, has seen foreclosures rise rapidly, especially after 2007. The Impact Group has particularly close relationships with two loan servicers, one of which has had a person working part-time out of Impact's offices. Impact has held targeted counseling sessions with this servicer and has helped the servicer attract borrowers in for counseling.

Few of the community-based counselors get many referrals from the HOPE NOW hotline; those borrowers tend to go to CCCS or similar organizations around the country. However, HOPE NOW does provide some funding for counseled clients, regardless of the referral source, which has been helpful to these groups. Some respondents report that turf issues between counseling groups have become somewhat less problematic since the escalation of the most recent foreclosure crisis in the latter part of 2007.

Atlanta Legal Aid's Home Defense Project (HDP) has also been a significant player in the Atlanta region foreclosure response. While the organization has dealt with foreclosures and other mortgage-related issues for many years, in 2007 it began to see dramatic increases in the numbers of foreclosures in which the homeowner received loans that they could never have afforded. HDP works to save clients' homes by negotiating cancellations of mortgage loans, restructuring loans into ones with substantially

smaller balances, interest rates and payments, or negotiating short payoffs of loans via the use of reverse mortgages for senior homeowners. One key approach that HDP has utilized is enlisting the aid of a particularly active state legislator who has repeatedly made phone calls to the bank that serves as trustee for the mortgage, enabling HDP to access "executive" resolution departments to speed and improve response by the lender. More recently, additional state legislators have expressed interest in providing similar services to their constituents.

Neighborhood Recovery in Chicago

Through HOPI, more than 480 vacant buildings were reclaimed and rehabilitated from 2003 through May of 2008. However, the scope of the vacant, foreclosed property problem has grown a great deal over the last two years and there are an estimated 9,000 vacant buildings in the city. Moreover there have been few efforts similar to HOPI in lower-income suburban communities, although the vacant property problem has generally been worse in the city than in most suburban areas, even those hit by high foreclosure rates.

In early 2008, the City of Chicago began considering a new effort to deal with vacant properties. The city initially conceived of creating a new entity, but later concluded that this would delay things too long. It is now partnering with Mercy Housing, a large nonprofit housing developer, to implement its NSP programming. This activity will be shaped around two principles:

1) eventually activities would be citywide, but initially it will be geographically targeted;
2) to provide a defensive position in neighborhoods where
    a. the city has made strategic investments and, but for foreclosures, the neighborhood would be doing relatively well; and
    b. there are substantial levels of community organization around the issue of foreclosed and vacant property.

The disposition and use of properties after acquisition or control would follow one of three options:

1) demolition – a decision would be made as to the whether the building should remain; there may be many properties with quite low value as ongoing housing;
2) rental or lease-purchase (this will be most common for 2+ unit buildings); or
3) for-sale (most common for 1-2 unit buildings).

Two metropolitan organizations in the region have focused their attention on helping suburban governments mitigate and contain any spillover problems from vacant, foreclosed properties. The Chicago Metropolitan Agency for Planning (CMAP) and the Metropolitan Mayors' Caucus (MMC) have held some events on the foreclosure issue over the last year. In the summer of 2007, MMC and the City of Chicago held a joint conference on foreclosures. The event focused on why foreclosures matter and on considering a variety of program and policy responses, including counseling and prevention. Then in December 2007, the CMAP housing committee began focusing more on the issue. Finally, in May of

2008, CMAP and MMC, together with the Federal Reserve Bank of Chicago and the University of Illinois at Chicago, convened a regional forum on mitigating the impact of foreclosures on local communities. The forum looked at the growing problems of REO property in suburban communities and what can be done to reduce any negative spillovers from such properties. There was much discussion about expanding property maintenance codes to require lenders to maintain and secure properties.

Some suburban municipalities in the region are reluctant to revise their property maintenance codes to penalize lenders for not maintaining properties or to require higher levels of security on these properties for fear that they do not have the legal ability to do so. This is despite the fact that the City of Chicago has an ordinance on the books that does this. The lack of explicit authority in state law has created some of this reluctance. However, it seems clear that even without such explicit authority localities do have the ability to revise and enforce such laws. Some municipalities, in addition to the City of Chicago, are maintaining vacant property registries.

As in most places, less attention has been paid to the recovery of households directly impacted by foreclosure. The one example of response in this area was an effort by nonprofit advocacy groups, in cooperation with the City of Chicago, to push for state legislation to provide tenants in foreclosed rental buildings with 120 days' notice before being evicted from foreclosed properties. This legislation made it through the legislature in 2008.

Neighborhood Recovery in Atlanta

Prior to the announcement of the federal NSP program, the Atlanta region did not have a very aggressive response to the problem of vacant, foreclosed properties. Much of the vacancy problem is concentrated in the city of Atlanta, especially on the south and west sides of the city, although increasingly there are problems in suburban communities, especially in DeKalb County, Clayton County, and parts of other counties. In the city, the vacancy problems are frequently complicated by problems of sales fraud, property flipping and speculation, so that the outstanding loans on many of the foreclosed homes in these areas are much larger than any reasonable, current market value of the property. In some respects, the problem predated the recent foreclosure crisis, because a good deal of sales fraud was occurring in 2004 through 2006, resulting in vacancies and foreclosures even then. The problem has only been compounded by the overall foreclosure crisis.

Prior to the NSP program, some organizations in the city were discussing strategies for reclaiming vacant, foreclosed homes. One initiative involved a number of nonprofit development groups in conjunction with local government and some financial institutions. These "implementing stakeholders" met to flesh out a plan to reclaim foreclosed homes in targeted neighborhoods. This plan later was heavily relied upon in developing the City of Atlanta's NSP application and plan. There have also been significant efforts to reform and revitalize the Atlanta-Fulton County Land Bank Authority so that it can acquire and hold foreclosed properties.

Since the advent of NSP, local CDBG entitlement communities, which include the City of Atlanta and the larger core metropolitan counties, have met to discuss their plans, but each entity's plan is quite

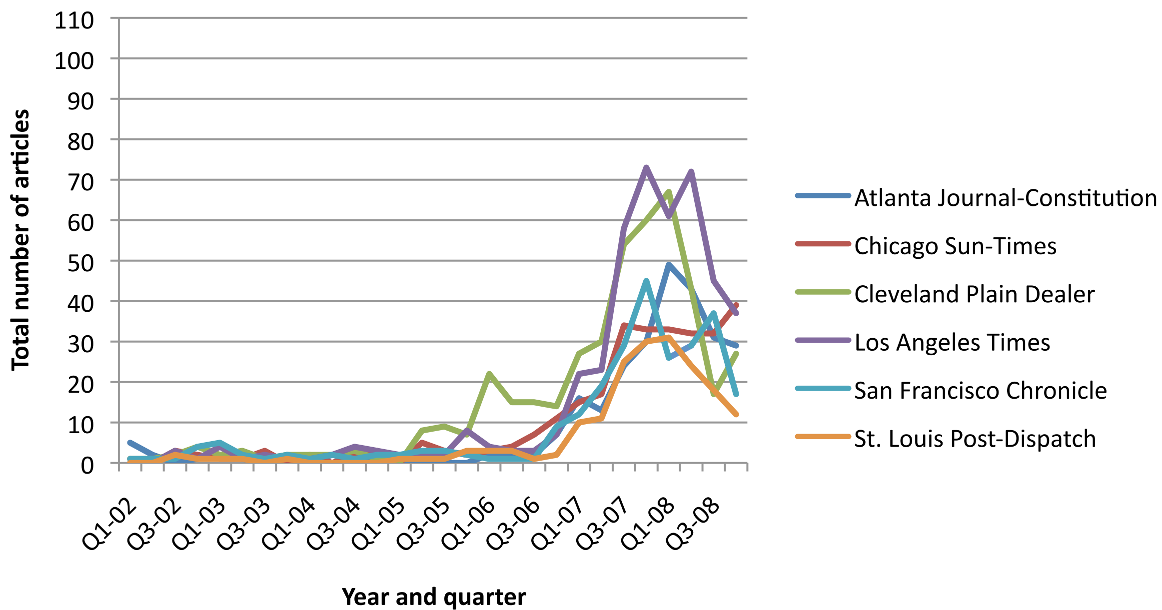
distinct and separate. The strategies in these plans vary a great deal in goals, tactics, and program design. Some regional conversations about the plans have been facilitated by the Atlanta Neighborhood Development Partnership and the Atlanta Regional Commission and ANDP in particular has developed some localized expertise and is working with the City of Atlanta on the implementation of its plan.

Conclusion: The Vertical and Horizontal Dimensions of Regional Resilience

Our research shows that resilience in the face of foreclosures varies significantly across metropolitan areas. Using our paired comparisons of metropolitan areas with similar housing markets and foreclosure challenges, we found that Cleveland was more resilient than St. Louis, the Inland Empire in Southern California did better than the Bay Area, and Chicago was more active than Atlanta. The more resilient metros were better able to alter organizational routines, garner additional resources, and collaborate within and between the public, private, and nonprofit sectors. In this conclusion, we analyze the factors that enhance resilience and discuss the policy implications of our findings.

One clear factor in local resilience is the degree to which the issue captures the attention of the general public and policy elites. Attention to the foreclosure issue at the local level varied significantly across time and space. As Figure 15 shows, the issue did not really capture the attention of metropolitan daily newspapers until the beginning of 2007. Poor and minority neighborhoods were hard hit by foreclosures well before 2007. When the foreclosure crisis spread to the middle class in 2007, both in its direct effects on property values and through its damage to the economy, coverage soared.

Figure 15: Newspaper Articles on Foreclosure in study regions, 2002 – 2008 (by quarter)



Source: Based on a LexisNexis count of every article that included the word "foreclosure[s]"; data compiled by Joseph Winters, Jeremy Main, and Kate Sanders.

Coverage of the foreclosure issue varied across metropolitan areas. Using our paired comparisons of metropolitan areas facing similar challenges, foreclosures received much more coverage in the *Cleveland Plain Dealer* than in the *St. Louis Post-Dispatch* and more in the *Los Angeles Times* than in the *San Francisco Chronicle.* These differences in media attention track our conclusions that Cleveland and the Inland Empire were more resilient than St. Louis and the Bay Area. Coverage in Chicago and Atlanta, on the other hand, was similar; indeed there was slightly more coverage by the *Atlanta Journal-Constitution* than by the *Chicago Sun Times*. (But it is worthwhile noting that Chicago has a second daily paper, the *Chicago Tribune*, that we were not able to survey.)

Why did newspapers in some metropolitan areas give the foreclosure issue more coverage? The city that stands out is Cleveland, which gave the issue early and sustained coverage, including more local investigative articles, more front-page articles, and more editorials. We believe that the coverage reflects the efforts of the well-organized housing nonprofits and the importance of political leaders. The nonprofits funded studies, such as *Cleveland at the Crossroads*, which examined the vacant property issue as early as 2005. Jim Rokakis, Cuyahoga County Treasurer, became an early and vigorous advocate for the issue. Councilman, Tony Brancatelli, a former head of a housing nonprofit in Slavic Village, worked tirelessly to expose the harm being done to this neighborhood, eventually getting national coverage (Kotlowitz 2009). Elected officials in other metropolitan areas also played key roles in placing the issue before the public, including Riverside Mayor Ron Loveridge, and Chicago Mayor Richard Daley.

Another factor that influenced public attention was the availability of data. Cleveland (NEO CANDO and Policy Matters) and Chicago (Woodstock Institute and the City's Housing Department) led the way in using data to cast attention on the issue. Colored GIS maps showing the spread of foreclosures to suburban areas, and indeed across entire states, helped get the issue on the public agenda. Reliable and accessible data is also crucial, of course, for planning policy interventions and monitoring success.

With their grassroots connections, the housing nonprofits were commonly the first to respond to foreclosures. Housing nonprofits tend to be small and therefore lack the division of labor and specialization that characterizes larger organizations. This made it easier for them to change organizational routines and shift resources from homeownership programs to foreclosure counseling. On the other hand, housing nonprofits lack the resources to respond adequately to an overwhelming challenge like foreclosures. Metropolitan areas with a history of collaboration between housing nonprofits and the public sector were able to generate more resources to address foreclosures than metropolitan areas that had not established relations of trust over time. The public/nonprofit collaboration and mobilization of resources directed at foreclosure counseling in Cleveland and Chicago helped prevent thousands of foreclosures. Give the negative spillovers of foreclosures, the cost-benefit ratio of these programs was clearly positive, but we should note that the best counseling programs were only able to help a small percentage of those facing foreclosure.

The least resilient actors in the foreclosure crisis were clearly the mortgage lenders themselves and their loan servicers. The private market is often characterized as nimble and flexible, but once mortgages were sold on the secondary market and pooled in servicing agreements, the servicers

became remarkably rigid and inflexible. We heard many horror stories of borrowers and counselors who could not even get loan servicers on the phone, and if they did they were told that servicing agreements forbid loan modifications. Loan servicers did little to prevent foreclosures, even when it was in the best interest of lender to avoid the costs of foreclosure and keep a borrower who could afford monthly payments in the home. Loan servicers had essentially become highly efficient check processors and the specialization of labor meant they had little expertise in loan modifications and almost no knowledge of local real estate markets. Moreover, they lacked incentives to modify loans and were paralyzed by threats of lawsuits by investors in the mortgage pools, so-called "tranche warfare."

Our research shows that local capacity to respond to foreclosures varied not only across metropolitan areas but also within metro areas. The foreclosure crisis has hit many suburban areas hard but they often lack the network of housing nonprofits and the experience with housing policy in local government. CDBG entitlement communities generally have greater capacity to respond to the foreclosure issue than non-entitlement communities, but the foreclosure issue has hit many non-entitlement communities hard. With the exception of Chicago's "Regional HOPI" and the Inland Empire's Red Team, we found little evidence of a metropolitan response to foreclosures. Overall, particularly in the neighborhood recovery arena, the level of regional cooperation among local governments was superficial or dealt with only broad problem identification and research tasks. Actual collaboration around redevelopment activities, NSP programming and the like, was limited.

Although horizontal collaboration across and among public, private, and nonprofit actors within metropolitan areas is important, the major finding of our research is that these efforts will not adequate to the problem unless they are supported by "vertical" policies coming down from the state and federal levels. The highest priority for state and federal governments is to enact regulations that would prevent the kind of predatory lending practices that created the crisis in the first place.[16] We do not focus on these regulatory policies here. Instead we focus on state and federal policies that could aid local resilience in the face of the present foreclosure crisis.[17]

Earlier, we discussed how state laws affect the opportunity space of local resilience by determining the length of the foreclosure process. States should lengthen short foreclosure processes to give borrowers and housing counselors more time to modify loans and keep households with adequate incomes to meet monthly payments in their homes.[18] States can take many other actions to support local resilience, including providing funding for housing counseling, making state housing funds such as housing revenue bonds, tax credits, and other subsides available for sustainable loan modifications. States also can help by authorizing land banks that enable communities to assemble parcels of land as part of comprehensive neighborhood recovery strategies.

Only the federal government, however, has the resources to ramp up local efforts at foreclosure prevention and neighborhood recovery to the scale that is needed. As we discussed earlier, the greatest barriers to foreclosure prevention are the rigid and inflexible practices of mortgage servicers. The Obama Administration's $75 billion Making Home Affordable program is clearly a step in the right direction. It provides incentives to servicers to modify loans and helps borrowers by reducing monthly payments to 31 percent of gross income. At this point, 14 mortgage servicers, representing 75 percent

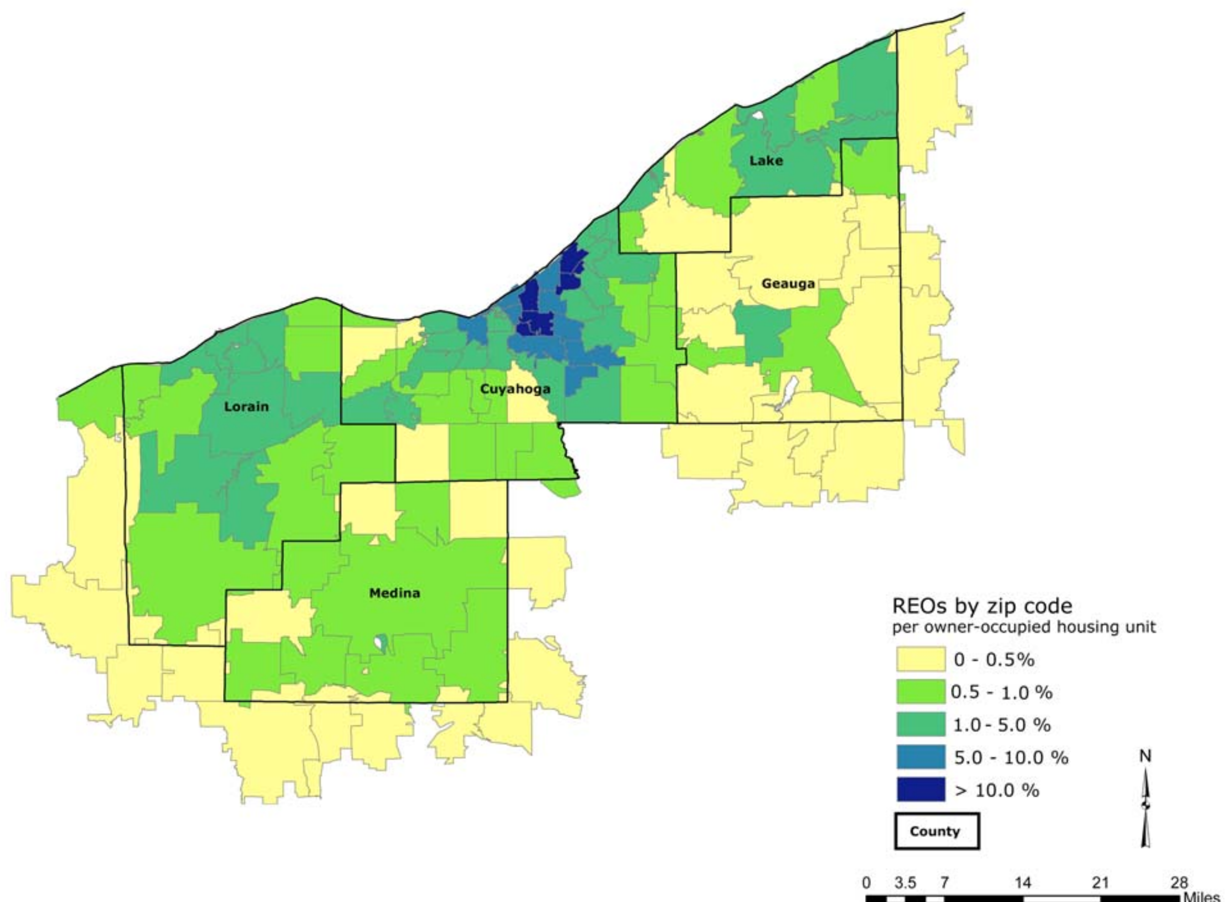
of the market, have signed up for the program (Bernard 2009). However, an important component of the he Administration's plan to motivate servicers originally included legislation that would have enabled bankruptcy judges to include mortgages in bankruptcy proceedings, thus reducing what lenders would be paid. At this point, it is unclear whether the Making Home Affordable program will be sufficient without the stick of the so-called "cram down" legislation, which was easily defeated in Congress with little lobbying b the Obama Administration. We do know that the program is less likely to work in places like California where borrowers find themselves "under water" – owing more on their loan than their house is worth. The Administration has a program to help them, Hope for Homeowners, which will give borrowers a sustainable FHA loan if the mortgage investors are willing to take a write-down on their investment. The program has suffered from some significant design flaws, some of which are being addressed. However, many households facing foreclosure do not even know these new federal programs exist and the cooperation of local housing nonprofits and counseling agencies will be essential to make them work to capacity.

With regard to neighborhood recovery after foreclosures, the NSP has motivated local governments to devise strategies for dealing with the rising inventory of vacant and abandoned properties. The amount of funding is small relative to the problem – especially for hot market areas where housing prices remain high. Our research suggests that the capacity to target funds around a coherent strategy varies significantly both across and within metropolitan areas. NSP grants only went directly to existing CDBG entitlement jurisdictions, forcing non-entitlement cities to apply via a more circuitous route, and did little to encourage collaboration across metro areas and across policy silos. NSP2 is a competitive grant and criteria are included to encourage regional collaboration. Competitive grants are useful but they have the downside that they may end up rewarding regions that already have the greatest capacity to respond to the foreclosure.

Our research highlights the problem of uneven regional capacity. The federal and state governments need to address this problem. To its credit, NSP2 includes $50 million for capacity building and technical assistance. The problem of uneven capacity goes beyond technical competence, such as the ability to purchase, rehabilitate, and market foreclosed properties. Capacity includes the broader elements of regional and cross-sectoral (public-private-nonprofit) collaboration. National foundations (LISC, Enterprise, Living Cities, National Vacant Property Campaign, MacArthur) tend to favor the most resilient (albeit weak market) regions. Our research shows that by building relationships that support a healthy housing market, regional resilience does matter but it is unevenly distributed and powerfully shaped by state and federal policies.

Appendix A. Zip code maps of foreclosures in the six regions.*

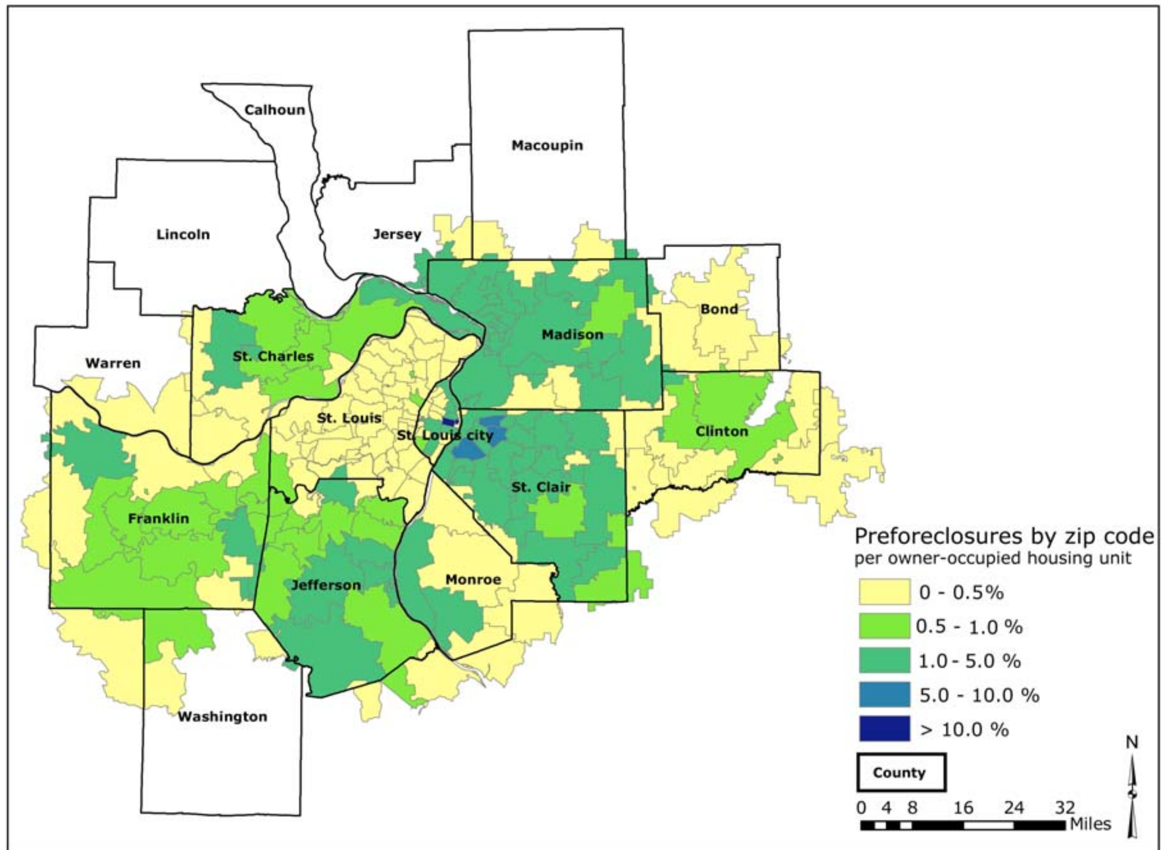
Figure 1. REOs by zip code in the Cleveland metropolitan region, 2007.



Source: http://www.foreclosures.com/

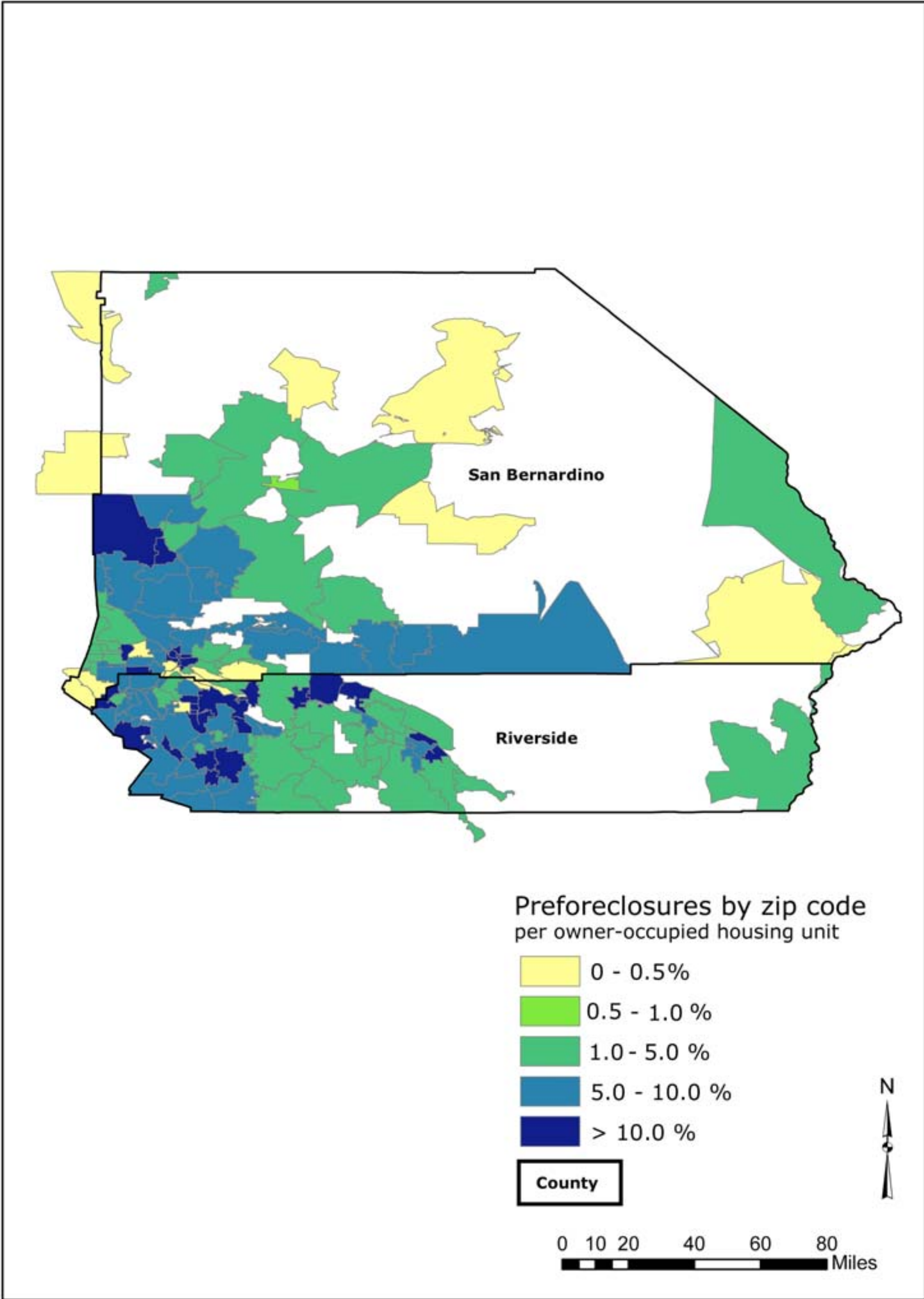
* Because foreclosure regulations and practices differ between states, the most consistent measure to compare across regions is the pre-foreclosure notice. However, this data was only available for Chicago, St. Louis, the Inland Empire, and the East Bay, so we use REO data for Atlanta and Cleveland. Likewise, we standardize by owner-occupied unit to create a consistent metric across regions. However, since a large share of foreclosed units are not owner-occupied, particularly in Atlanta, Cleveland, and Chicago, this measure will tend to overstate the extent of foreclosure in these areas (relative to that in high home-ownership areas like Riverside-San Bernardino).

Figure 2. Pre-foreclosures by zip code in the St. Louis metropolitan region, 2007.



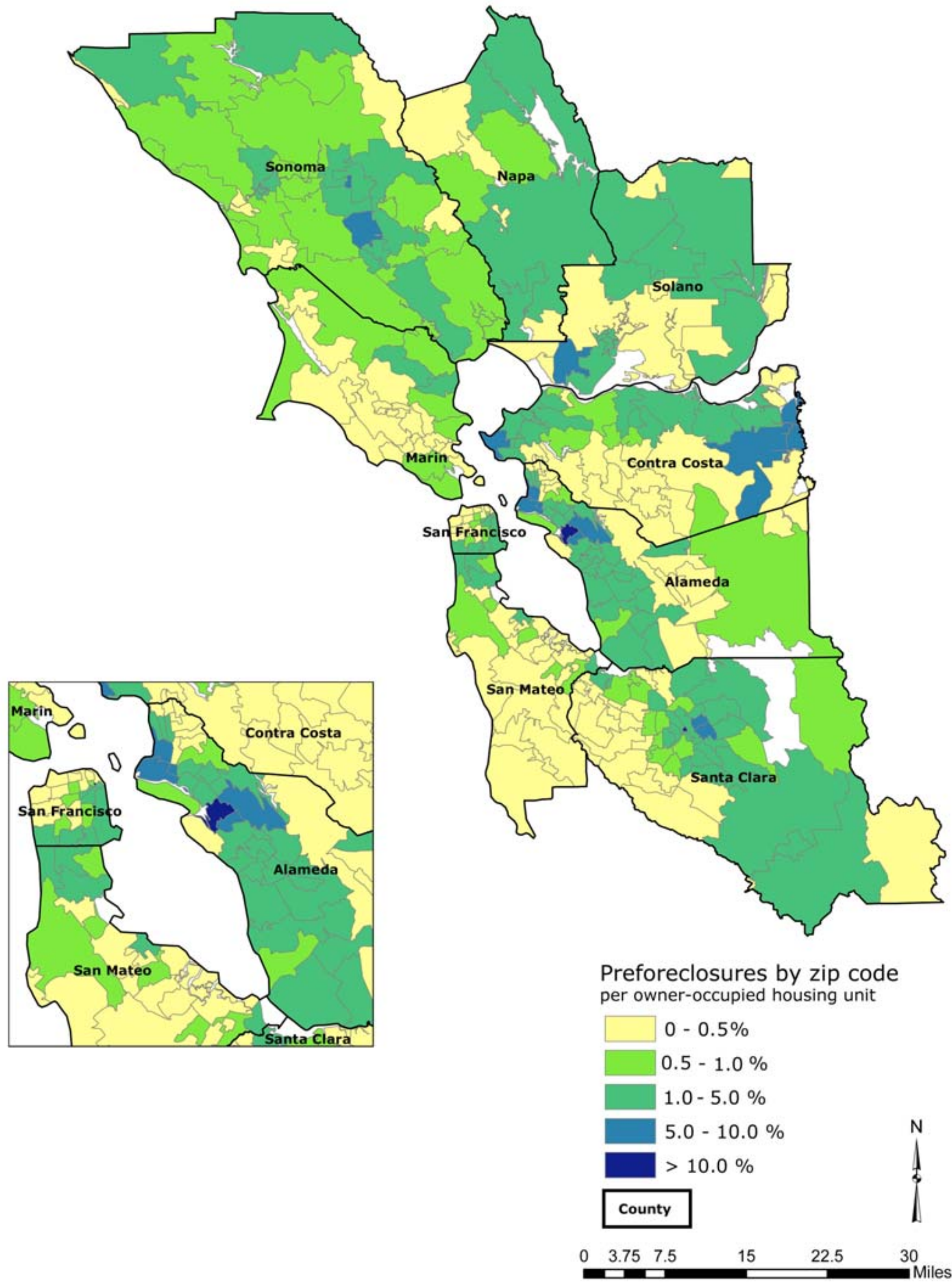
Source: http://www.foreclosures.com/

Figure 3. Pre-foreclosures by zip code in the Inland Empire, 2007.



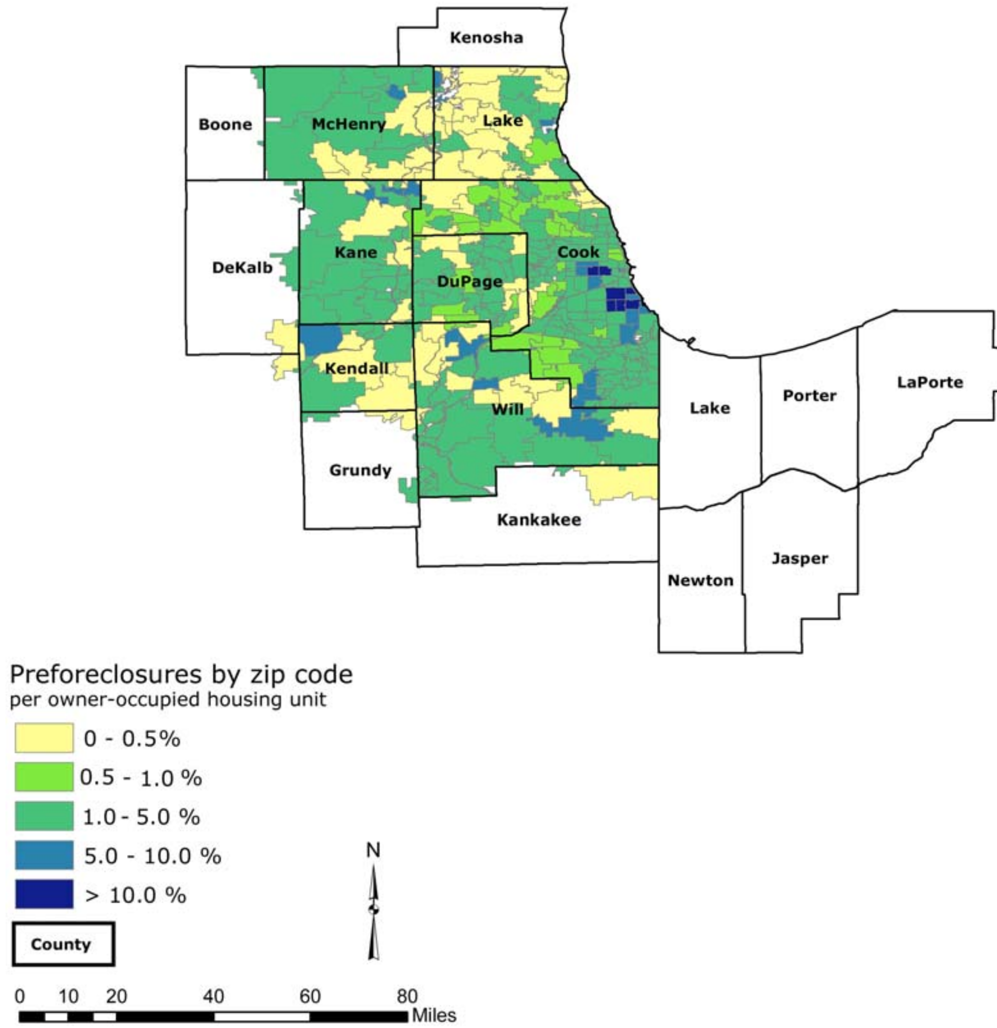
Source: http://www.foreclosures.com/

Figure 4. Pre-foreclosure notices by zip code, San Francisco Bay Area, 2007.



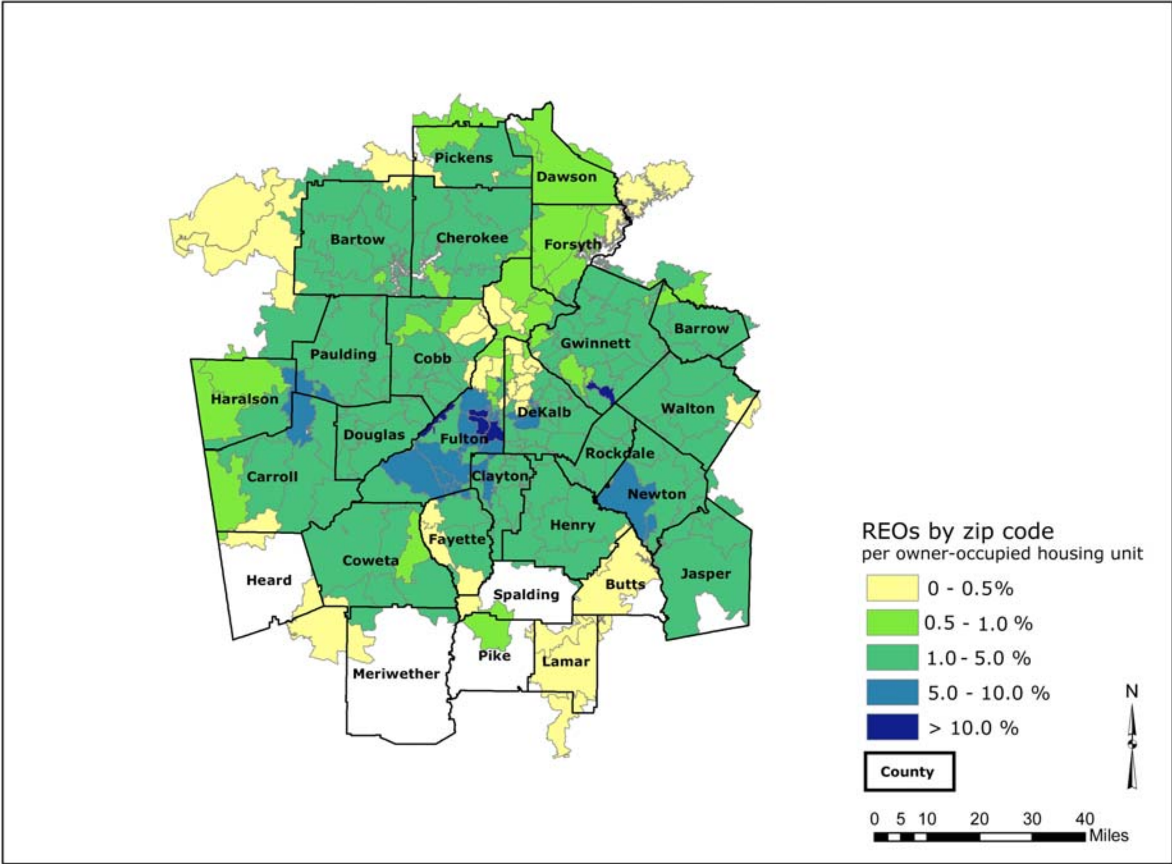
Source: http://www.foreclosures.com/

Figure 5. Pre-foreclosures by zip code in the Chicago metropolitan region, 2007.



Source: http://www.foreclosures.com/

Figure 6. REOs by zip code in the Atlanta metropolitan region, 2007.



Source: http://www.foreclosures.com/

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Endnotes

[1] As unemployment surges in weak market regions, like Detroit, foreclosures will be harder to prevent. If households experience significant drops in income they cannot sustain a mortgage, no matter how well it is modified.

[2] Clearly, the best approach would have been to regulate the predatory and subprime lending that caused many foreclosures in the first place. The idea that localities can "prevent" foreclosures is something of a misnomer because local actors lack the legal power to address the major cause of many foreclosures -- subprime and predatory loans. When local governments did try to regulate predatory lending, they were preempted by state laws (Immergluck 2004. By prevention we mean the ability of local actors to prevent foreclosures *afte*r a borrower is in default on a mortgage, usually through counseling and loan modifications.

[3] The idea of resilience is spreading in the social science. Between 1997 and 2007 the number of references to the word "resilience" in the *Social Science Citation Index* increased by more than 400 percent (Swanstrom 2008).

[4] For example, Sean Safford (2009) has developed a provocative theory about regional economic resilience that is rooted in certain formations of social capital. Organizations that are more diverse or companies that have more diversified supply chains, are predicted to be more resilient (Sheffi 2007). For a discussion of urban resilience that does not develop testable hypotheses, see Vale and Campanella 2005.

[5] We know of no studies that have followed households displaced by a foreclosure to examine their resilience in returning to healthy social relations, family dynamics, etc. More research on household recovery is needed. For a discussion of "household recovery" in the face of foreclosures, see Immergluck 2008, pp. 17-19.

[6] Foreclosure processes that are too long can also be problematic. Long drawn out foreclosure processes discourage families from seeking loan reinstatement, because they have an incentive to stay in the home rent free during the long legal process. Cutts and Merrill (2008) argue that there is a "sweet spot" in the length of the foreclosure process around the state average of 120 days.

[7] According to the American Community Survey, 2005-2007, the population of Cuyahoga County was 1,310,905 and for St. Louis City and St. Louis County 1,350,757. F

[8] In Cleveland, it may take as long as three of four years after a foreclosure action is filed before the property is put back on the market (Lind 2008).

[9] ESOP has expanded statewide and is now known as Empowering and Strengthening Ohio's People.

[10] For a vivid account of the foreclosure crisis in Slavic Village, see Kotlowitz 2009.

[11] St. Louis Alliance of Homeownership Preservation, Year to Date Report, September 10, 2008, prepared by Maurice Washington.

[12] One minor exception is that the City of Florissant, a CDBG entitlement city, committed $30,000 of CDBG money for a rescue fund.

[13] In December 2008, however, a District Court of Appeals in Ohio ruled that trials *in absentia* were not permitted in misdemeanor cases, effectively ending this effort to hold property owners responsible for maintaining their properties (Kotlowitz 2009: 42).

[14] This data comes from the California Department of Corporations Mortgage Servicers Survey, which only mandates response from companies under its jurisdiction and thus may exclude some servicers. One exception is

the $8.4 billion Countrywide settlement with 15 states, which is forcing Bank of America to write down principal for California properties.

[15] However, if the deed of trust does not contain "power of sale" language, the lender may seek judicial foreclosure. After public notice, the property is then sold.

[16] For a comprehensive analysis of the roots of the foreclosure crisis and recommendations for a new regulatory framework, see Immergluck 2009.

[17] We also say little about household resilience, how to help families that have lost their homes to get back on their feet. More research is needed on what happens to families who lose their homes.

[18] As we discussed in endnote 6, foreclosures processes that are too long can also be a problem and some recommend they should be reduced to a length near the national average of 120 days (Cutts & Merrill 2008).

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