

On The Street Where The Politicians Live

Now that the 2012 election is history, it is time for state- and local-level elected officials to work with servicers on long-simmering housing problems.

by Robert Klein

By the time this article is published, states and local governments will have elected 13 governors, hundreds of state representatives, and countless mayors, city managers, members of council, aldermen and other local officials. No matter who wins, one thing every elected official will acknowledge is the importance of a housing market recovery on his or her respective levels of government.

The mortgage servicing industry has an important role as well: to work with state and local government leaders to build consensus around legislation and regulation that will support a housing recovery. From a mortgage field services perspective, a critical focus must be to reduce the number of vacant and abandoned properties in our communities.

There are four ways to accomplish this goal: keep troubled borrowers in their homes, accelerate the foreclosure process for vacant and abandoned properties, repair and rehabilitate properties that are viable, or demolish uninhabitable properties that are too damaged to repair or rebuild.

There has been good news on the housing front. In August, the S&P/Case-Shiller Index showed that U.S. home prices have begun to stabilize after six years of decline. The Mortgage Bankers Association reported that delinquency rates were lower in the second quarter of this year, compared to the same period in 2011. The U.S. Department of Labor reported that unemployment had

dropped to 7.8% in September, its lowest level in nearly four years.

The cautionary news is that improvements are occurring slowly. Even though the unemployment rate has fallen, many workers remain underemployed, and nearly one-quarter of mortgages remain underwater. An October Wall Street Journal article estimated that ap-



proximately 14 million homes across the country are vacant, and that no market interest exists for nearly four million properties that are deteriorating, attracting criminal activity and dragging down surrounding property values.

We need to build on the positive momentum and work at the state and local levels to protect the value and integrity of our existing housing stock, as well as support the revitalization of urban neighborhoods that have been hit the hardest by the housing downturn.

State of the states

Two areas in which state legislatures can have a positive impact on protecting and preserving properties are enacting statewide vacant property registries and accelerating vacant properties for foreclosure.

Today, more than 800 municipalities across the country have enacted individual vacant property registration (VPR) ordinances to help assure that vacant and foreclosed properties are maintained to community standards. The requirements for each municipality vary significantly. As more cities create ordinances, the more challenging it becomes for mortgage servicers to comply, and the more burdensome it is for municipalities to monitor non-compliance and take enforcement action.

Recognizing these challenges, several states have enacted statewide registries or guidelines that help to create uniform standards to assist municipalities and servicers alike, and to facilitate more effective communication between them to better protect vacant and foreclosed properties. For example, Maryland created a statewide ordinance and Georgia established statewide guidelines for local governments to follow. Connecticut, Illinois and New Jersey created a set of statewide regulations that parties responsible for vacant properties must comply with.

By creating uniform standards, states recognize the need to facilitate critical partnerships between local governments and mortgage servicers, and pursue the goal they share to protect and maintain vacant properties. The more uniform the standards, the more effectively mortgage servicers can comply. As an industry, we should encourage every state legislature to move in this direction.

Another critical initiative at the state level is the acceleration of vacant and abandoned properties to foreclosure. Because each state establishes its own foreclosure statutes, the time frame for foreclosure proceedings can vary from a few months in non-judicial states, where

foreclosures do not require the intervention of the courts, to as long as two years in judicial states in which foreclosures are processed through the court systems.

In foreclosure proceedings, states currently do not distinguish between occupied properties and those that have been abandoned by their owners. That distinction is important. If a property is occupied, a longer foreclosure timeline serves to protect the rights of the homeowner to due process. If the property is abandoned, a lengthy foreclosure process simply leaves a property vacant for a longer time period and more vulnerable to damage.

The strongest argument against accelerated foreclosure has been on the basis of homeowner protection. Ironically, when a property is abandoned, there is no homeowner to protect. But a drawn out foreclosure process for a vacant property actually does harm homeowners - those whose homes surround vacant and abandoned properties.

Even if a vacant property receives regular inspections and maintenance, the longer it sits vacant, the more it will deteriorate. Vacant homes attract vandals and squatters, become neighborhood nuisances, and negatively impact home values and the quality of life of the neighborhood.

Colorado, New Jersey, Florida, Ohio and Maryland are among the states that either have considered or are considering legislation that accelerates vacant and abandoned properties for foreclosure. This is one of the most important pieces of legislation for state legislatures, especially those in judicial states, to consider in order to protect the value and quality of vacant homes. The sooner a vacant property can be sold to a responsible buyer, the better it is for everyone, as it protects both property values and tax values and prevents all the problems that come when a vacant property falls into decline.

Local government initiatives

Ultimately, vacant and abandoned properties place the greatest strain on local communities. As the numbers of vacant properties and their associated challenges have increased, so have the numbers of local vacant property ordinances and other efforts to address them.

Mortgage servicers have relied increasingly on their field service partners

to engage local government officials in dialogue to address common issues. In regard to vacant property ordinances - where there is often no state legislation to guide municipalities - field service companies have offered a "boots on the ground" perspective to help ensure that any local ordinances will meet their desired results and reduce unintended consequences.

Ultimately, municipal leaders must begin to recognize that vacant property ordinances by themselves will not lead to a housing recovery. At best, they are a short-term solution to help cities cope with the fallout of the housing crisis.

To revitalize their communities, city officials must take the lead to develop a holistic plan that includes working with their state legislatures to accelerate the foreclosure process for vacant and abandoned properties. Also, a revitalization plan should encompass the demolition of uninhabitable properties, assistance for troubled borrowers to prevent future foreclosures and private sector partnerships to rehabilitate salvageable homes.

The first step must be the demolition of blighted properties. These are not properties that anyone will invest in. They are nuisances and eyesores that have been stripped of any value, and they become sites for illegal drug activity and other criminal behavior, including violent acts against children and adults. They make neighborhoods undesirable places to live in and discourage business growth. The financial impact on communities in lost tax revenues and the burden on city budgets for police, fire and other services is almost impossible to quantify.

Tearing these properties down is the only way to begin to stabilize the value of surrounding properties, attract prospective home buyers and begin to revitalize neighborhoods. Cities that were hit hard by the housing crisis have invested in the demolition of nuisance and uninhabitable properties as their budgets have allowed, but the need far exceeds their resources. Until these properties can be torn down - which could take years - they will perpetuate more blight.

Earlier this year, Rep. Steven LaTourette (R-Ohio), along with a bipartisan delegation from Ohio and Michigan, introduced legislation that would provide up to \$4 billion in demolition funding for the most devastated communities

across the country through the issuance of government bonds. The legislation, called the Restore Our Neighborhoods Act, has been held up in committee since March. It is a creative solution that deserves serious consideration.

Another creative approach to assist communities to holistically manage low-value assets is the creation and utilization of land banks. By donating low-value assets to land banks, mortgage companies remove low-value properties from their books, along with the associated costs of maintenance, taxes, liens and other expenses.

Once land banks obtain title to these properties, they can apply a more comprehensive strategy around the disposition and repurposing of entire neighborhoods of low-value assets to maximize community benefits. Uninhabitable properties can be demolished, and viable properties can be rehabilitated and sold as quality, affordable housing.

Private sector partnerships also encourage responsible entrepreneurs to purchase and rehabilitate vacant properties to provide safe and affordable housing, especially to lower-income people and first-time home buyers, either through rentals or rent-to-purchase opportunities.

Partnerships and alliances with non-profit groups and private investors also help municipalities to protect fragile housing stock. Among those partners should be credit counseling and foreclosure prevention agencies that can work with troubled homeowners to help them keep their homes. Community development corporations and housing agencies also are important partners that connect lower-income homeowners with agencies that offer assistance with home repairs so that their properties maintain value.

As an industry, it is incumbent upon us to work with our state and local elected leaders to identify and support effective and creative solutions that not only will protect neighborhoods and home values, but will also begin to grow them again. **SM**



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