Editor's note - Issue 4, 2006

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September 1, 2006

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The main feature in this edition of *Community Dividend* revisits a calamity that struck the Ninth Federal Reserve District nearly a decade ago. In the spring of 1997, a historic flood of the Red River of the North devastated much of Grand Forks, N.D., and East Grand Forks, Minn. In retrospect, disaster response measures were effective overall, but low-income populations might have fared better in the long term if recovery plans designed for their specific circumstances had been in place. Our article describes the official response to the flood, examines gaps in the response that left many low-income people adrift and identifies lessons from the Grand Forks experience that can inform future disaster recovery efforts.

Our two remaining features focus on homeownership—how to achieve it and preserve it, respectively. The first article is an update on the State of Minnesota's Emerging Markets Homeownership Initiative, which aims to create 40,000 new homeowners from Minnesota's minority and immigrant populations by 2012. The second describes challenges that researchers from the Minneapolis Fed, Macalester College and the University of Minnesota encountered while gathering and analyzing Twin Cities foreclosure data. The article includes recommendations for making foreclosure records more useful and available to organizations engaged in foreclosure prevention efforts.

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Disaster recovery for low-income people: Lessons from the Grand Forks flood

In examining actions taken and outcomes realized, the tale of the Grand Forks flood provides lessons about ensuring the long-term well-being of low-income people in the event of a disaster.

September 1, 2006

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When Hurricane Katrina destroyed the coastal areas of Alabama, Louisiana and Mississippi and flooded the city of New Orleans in the summer of 2005, the scenes of devastation revived memories of one of the worst natural disasters that ever occurred in the Ninth Federal Reserve District.

In the winter of 1996–1997, record snows blanketed the Northern Plains. When the spring snowmelt began, the runoff swelled rivers to dangerous levels—especially the Red River of the North, which forms the border between North Dakota and Minnesota. In April 1997, the river swamped its dikes, resulting in a catastrophic flood. Extensive areas of the cities of Grand Forks, N.D., on the west bank and East Grand Forks, Minn., on the east bank were destroyed by the high waters. An immense fire that simultaneously swept through downtown Grand Forks caused further destruction.

Prior to the 1997 flood, the total population of Grand Forks and East Grand Forks was just under 60,000, and both communities were over 90 percent white. These two small, Northern cities appear to have little in common with a sprawling, racially diverse Southern city like New Orleans. However, in both catastrophes—Northern and Southern—vulnerable populations struggled to recover, and many low-income individuals did not return to the communities they had called home.

The Grand Forks metropolitan area appears to have coped better with its crisis overall, particularly in the early phases. This may be true for several reasons. Grand Forks had a smaller population with few neighborhoods of highly concentrated poverty. There was no large-scale pattern of racial or ethnic segregation, and the minority populations in the area benefited from some fortuitous circumstances. (For more on the minority experience in the wake of the Grand Forks flood, see the sidebar below.) Grand Forks had done advance disaster planning that promoted cooperation among a multitude of agencies and enabled the city to respond effectively when a crisis actually hit. And solid support was forthcoming at the federal level, which provided the coordination, funding and technical assistance required to address the disaster.

These factors led to immediate outcomes that were beneficial for most people, including those with low incomes. But the latter could have fared better over the long term if there had been careful planning and resource allocation focused specifically on their circumstances. In examining actions taken and outcomes realized, the tale of the Grand Forks flood provides lessons about ensuring the long-term well-being of low-income people in the event of a disaster.

The evacuation and emergency response

Emergency management before, during and immediately after the flood was largely prompt and effective. As the river began rising, high-level officials from the city of Grand Forks prepared for the inevitable flood by organizing informational meetings and sharing evacuation plans with residents. The dikes protecting Grand Forks and East Grand Forks began to fail on April 18, 1997, and large portions of the two cities were soon engulfed in floodwaters. By April 19, approximately 10,000 residents from Grand Forks had fled from approximately 3,000 homes. By this time, city officials had called for a voluntary evacuation of the entire city and a mandatory evacuation of a ten-block area west of the Red River.

The fact that most people had cars enabled them to make a quick exit; for those who did not, the city used buses to transport flood victims to designated shelters. The nearby Grand Forks Air Force Base was instrumental to the evacuation effort, providing buses, boats and security crews. The American Red Cross set up emergency shelters at sites around the area, including the Air Force base and local universities. As of May 2, 1997, 20 public shelters were operating.

In response to a shortage of food during the early days of the evacuation, the American Red Cross and the Salvation Army provided hundreds of thousands of meals at fixed meal sites, mobile kitchens, and drive-through meal stations. The North Dakota Department of Human Services initiated an emergency food stamp program for eight Red River Valley counties, and agreed to accept food stamp applications from people who had been evacuated to counties elsewhere. To address the need for fresh water, the North Dakota National Guard sent five water purification units and worked with the U.S. Army Reserve to provide a number of reverse osmosis machines.

A coordinated effort

In early April, damage from prior flooding and storms in the area prompted President Clinton to declare all of North Dakota and affected counties in Minnesota a federal disaster area. The emergency declaration laid the groundwork for a strong partnership among federal, state, and local agencies to carry out a disaster response plan when the Grand Forks flood hit.

Officials established a Disaster Recovery Center at the Grand Forks Civic Center that brought together representatives from numerous agencies and provided information about emergency services, housing assistance, disaster unemployment assistance, and loans and grants for disaster-related needs, such as emergency repairs. A combined state-federal effort created Community Relations Teams made up of seasoned Federal Emergency Management Agency (FEMA) workers and newly hired North Dakotans. They went door-to-door in Grand Forks, to ensure that people knew about the center and the programs offered there.

Recovery in the aftermath

People at all income levels in the Grand Forks area were deeply affected by the disaster and benefited from the emergency response measures. As time passed, the community's affluent and moderate-income residents gradually returned to work and rebuilt homes. For low-income residents, flood recovery was more problematic—particularly in the areas of affordable housing, employment and childcare. In addition, low-income elderly residents and single mothers were especially vulnerable to the flood's effects. The following describes some of the efforts made to address these issues—and the gaps that remained despite those efforts.

A low-income rental housing shortage

FEMA set up trailers in the local industrial park to house those left homeless by the flood. The trailers were offered free of charge to people who could not be referred to other temporary housing alternatives. They were also offered to homeowners whose houses were less than 50 percent damaged. These homeowners parked the trailers in their driveways and lived in them while their houses were repaired.

Homeowners had an array of recovery grant and loan programs from which to choose, some targeted at those with low and moderate incomes. For example, FEMA quickly made two types of cash assistance available: grants for emergency repairs to make homes livable, and rental assistance to people whose homes had become uninhabitable or who were facing eviction or foreclosure because of the flood.

Fannie Mae allowed people to skip making mortgage payments for up to three months, lowered payments for eighteen months on a case-by-case basis, and created longer payback plans. Similarly, the North Dakota Housing Finance Agency allowed homeowners to make late payments without charging late fees, and delinquencies did not appear on their credit reports.

Through the United States Small Business Administration (SBA), which is the primary federal source of low-interest disaster-recovery loans, homeowners could borrow up to $200,000 for real estate repairs and up to $40,000 to replace damaged personal property. If homeowners could not afford a low-interest loan on top of their mortgage payment, SBA was sometimes able to assist with refinancing existing mortgages and folding in payments for repairs, so the combined amount turned out to be almost the same as preflood payments. If it turned out that some people's incomes were too low to qualify for a loan and they were not covered by insurance or other assistance, SBA referred them to the Individual and Family Grant Program (IFGP), administered by the North Dakota Division of Emergency Management. As of February 1998, more than $14 million in IFGP funds had been approved related to flood losses; an average grant was $1,338. Additional home repair grants for low-income families were available from the Affordable Housing Program of the Federal Home Loan Bank of Des Moines, via the Bank of North Dakota, and from the North Dakota Department of Human Services.

While displaced low-income renters were eligible for some of the same assistance that was available to homeowners—such as free FEMA trailers and IFGP grants—affordability issues kept many of them from returning to the community.

According to Terry Hanson, executive director of the Grand Forks Housing Authority (GFHA), low-income renters suffered in the aftermath of the flood because many of the more than 750 housing units Grand Forks lost were rentals.

"The low-income rental housing we lost was mostly apartments in the basements of older homes," he recalls. "If a low-income family was in the Section 8 housing program and their basement apartment was destroyed in the flood, the landlord received money to rebuild the house."

Rents for the new apartments were higher than what people were paying before the flood, and they exceeded what low-income renters are allocated in the federal Section 8 housing voucher program. The result?

"The new rental units have gone to middle-income families," says Hanson.

"Low-income housing stock for rental disappeared in the flood," says Dennis DeMers, executive director of Tri-Valley Opportunity Council (TVOC), a community action agency serving East Grand Forks. "New rental housing cost more and people couldn't afford the rents."

DeMers adds that since 1999, few rental apartments have been built in East Grand Forks. People his agency currently serves live in rental units that survived the flood, or moved out to the country to old farmhouses, or live in mobile home parks.

Employment loss and repercussions

According to Hanson, when the flood hit full force, many low-income renters were forced to relocate to the homes of friends and relatives in Fargo, Bismarck, Minneapolis, and other communities.

"Anything they left behind was lost to the floodwaters, along with their low-paying jobs," says Hanson. "In the new places, they found other low-paying jobs and didn't return."

For those who were able to stay in the Grand Forks area, assistance programs provided financial help and opportunities to work. Disaster Unemployment Assistance was made available to people whose livelihoods were affected by the flood. It provided a weekly check for up to 26 weeks following the date of the disaster declaration. This assistance was provided to eligible individuals who were not already receiving regular state unemployment benefits.

Job Service North Dakota (JSND) received $2.5 million in grant money from the federal Disaster Assistance Program to create jobs related to flood recovery for those who were unemployed as a result of the flood. Hundreds of jobs were created for the operation of three Grand Forks daycare centers; city, street, and park clean-up and restoration; and operating a contractor clearing house. JSND reported in mid-May 1997 that it had over 2,100 jobs to fill in Grand Forks, compared with approximately 1,100 people who had registered for jobs.

"However," DeMers notes, "people took the first jobs they could. They may have been paid more money at first, but the jobs were temporary and disappeared after two years. A lot of people got carried away thinking they'd make big money, but should have looked longer-term."

Childcare for low-income families is washed away

In the aftermath of the flood, available jobs outnumbered the people who were available to do them. Due to a lack of childcare, filling those jobs was a challenge.

Keith Berger, director of Grand Forks County Social Services, notes, "Childcare was a real stumbling block in getting back to work. Many of the daycare centers went down, and when they tried to reopen, some of their workers were missing."

Right after the major flooding began, a big daycare center was established at the Air Force Base to handle the large numbers of families with children. Emergency daycare was also established on the west side of town, open to anyone regardless of income.

In East Grand Forks, TVOC had built a new Head Start building that narrowly missed getting flooded. When more than 300 family daycare homes were badly damaged by flood water, TVOC opened a communitywide childcare center in its building. DeMers observes, "It's the only time I can remember in my 35-year career where the business community helped out because they couldn't get employees. They contributed money and supported their staff in bringing their kids over. Without childcare, the labor for employers wasn't there."

TVOC's childcare center operated three shifts and used volunteers from Oklahoma and Arkansas to provide services. The agency became the conduit for more than $3 million in state funds to rebuild the childcare system, which took three years. Childcare providers who agreed to serve a certain number of children over a five-year period were allowed to receive forgivable loans for replacing

materials and rebuilding basements. However, Hanson notes that in Grand Forks, smaller daycare providers never came back because they lost their facilities, and the cost of reopening wasn't worth it. The for-profit centers that exist today are too expensive for many low-income families, and the lower-cost facilities don't have the capacity.

Single mothers and the elderly are hard hit

Two researchers who have studied the effects of floods on vulnerable populations, Elaine Enarson and Maureen Fordham, point out that single mothers in the Grand Forks area "were highly represented in FEMA trailers . . . and were among the very last families to find other accommodation when FEMA closed its trailer parks. Asked where single mothers found housing eighteen months after the flood, a member of the service agency coalition responding to 'unmet needs' on a case-by-case basis, explained that many were 'scattered out in the small rural areas—in FEMA trailers but also scattered in other communities, just following low-income housing wherever they could.'"[1/]

When the flood hit, fragile elderly residents who had been residing in long-term care facilities or getting at-home health care were moved to facilities in unaffected areas of North Dakota. Many elders did not return to Grand Forks, but remained with family members in neighboring towns and cities, or stayed in the facilities to which they had been transported.

Of the elders who had been living in their own homes prior to the flood, DeMers notes, "We lost an awful lot of elderly poor who owned homes located near low-lying areas of the river. They were bought out at levels they should not have agreed to. Many moved away, and many just gave up the spirit and died."

Lessons for the future

In examining the flood relief efforts, a few key points emerge about what worked well, emphasized by the fact that no lives were lost as a result of the breaching of the dikes and the subsequent flooding. The Grand Forks area had a thorough evacuation plan and benefited from strong support at the federal level and effective collaboration at various levels of government. There was skilled, comprehensive assistance from disaster-response agencies, both governmental and voluntary. These levels of support combined to meet immediate needs during the crisis and implement plans that addressed issues after the first critical stage.

However, when people who work with low-income families examine the disaster response, they arrive at the following conclusion: While the Grand Forks metropolitan area performed fairly well in its overall response, low-income populations could have been better served with more targeted planning.

"If a community is to have an emergency preparedness plan to address all the needs after a disaster, it should not ignore the fact that it has a low-income population, and you have to be prepared to address their service needs as well as those of the non-low-income population," asserts Hanson of GFHA. "The renters and low-income service providers were left to fend for themselves."

DeMers of TVOC observes, "People who are poor, disconnected, ill-educated, old or infirm do not have the luxury of information, counsel, time, and access to power. Consequently, many poor folks were able to readily access *immediate* food, clothing and shelter, but did not make the best judgments about long-term decisions relative to things like employment and housing."

In summary, several lessons can be extracted from the events that transpired during and after the Grand Forks flood.

Lesson 1: Key agencies at every level should dedicate staff time and other resources for the use of up-to-date data to track who the low-income populations are and where they are, anticipate their needs in the event of a disaster, ensure the resources are in place to meet those needs, and deploy the resources should disaster strike.

Lesson 2: Use existing public assistance programs to follow up with low-income families who have left the community and provide them with information about available post-disaster programs and services. Such follow-up can enable these families to make informed decisions about whether, when, and how to return.

"Through TANF [the public assistance program, Temporary Assistance to Needy Families], and programs in the Housing Authority, we track 85 percent of low-income families," says Hanson. "We should have used those resources to follow these families and try to bring them back."

Lesson 3: Earmark funds to help vulnerable people make quality decisions in areas that affect major aspects of their lives—not only in the immediate aftermath of a crisis, but over an extended period of time.

Lesson 4: Be aware that the loss of low-cost housing and commercial space will affect the availability of crucial resources and services that low-income families depend on, such as rental housing and childcare.

Lesson 5: When designing postdisaster recovery, ensure that plans for rebuilding and resource allocation take into account the circumstances of low-income families. The involvement of low-income people themselves, or their representatives, in the planning process can increase the likelihood that relevant, quality plans are produced. Enarson and Fordham recommend expanding community-based planning to include "agencies representing the needs and interests of battered women, the homeless, immigrants and refugees, single mothers, low-income families, and migrants as well as the elderly and disabled."[2/]

Lesson 6: Recognize that the crises low-income people face after a disaster are magnifications of the crises they grapple with on a daily basis. Issues that were lurking in the shadows will suddenly and forcefully emerge if efforts have not been made, predisaster, to address them.

1/ Elaine Enarson and Maureen Fordham, "Lines that Divide, Ties that Bind: Race, Class, and Gender in Women's Flood Recovery in the U.S. and U.K.," *Australian Journal of Emergency Management* 15 (4), 2001, p. 43-52.

2/ Ibid.

Minority groups find safety postflood

Before the 1997 flood, nonwhites accounted for less than 10 percent of the 60,000 people in the Grand Forks metropolitan area. Nearly all members of this minority population were American Indians or Latinos. Most of them were safe in the flood's immediate aftermath, thanks to generosity or fortunate timing.

American Indian residents of the Grand Forks area were able to flee to nearby reservations, where they were welcomed and provided respite by tribes such as the Turtle Mountain Chippewa, located in Belcourt, N.D. Much of the Latino population was made up of migrant farm workers who resided in the area during the sugar beet and potato growing season. They had not yet arrived in the Red River Valley in sizable numbers and were largely absent when the flood hit. Many of the migrants skipped the 1997 summer season, enabling them to avoid the upheavals of the first postflood year. However, some migrant families who returned in the summer of 1998 learned they no longer had trailers to live in for the season, because authorities classified the temporary residences as "second homes" and deemed their loss in the flood as ineligible for compensation. *

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* Elaine Enarson and Maureen Fordham, "Lines that Divide, Ties that Bind: Race, Class, and Gender in Women's Flood Recovery in the U.S. and U.K.," *Australian Journal of Emergency Management* 15 (4), 2001, p. 43-52.

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Fed-led research reveals need for better Twin Cities foreclosure data

An analysis led by researchers at the Federal Reserve Bank of Minneapolis reveals that the availability and usefulness of foreclosure data are often inadequate, at least in the Twin Cities region.

September 1, 2006

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Mortgage foreclosure rates rose in the late 1990s and hit new peak levels—at least by modern standards—in the early 2000s before declining.[1/] Rising foreclosure rates coincided with the rapid expansion of subprime lending and widespread allegations of predatory lending, often in the same neighborhoods experiencing high rates of foreclosure. In some pockets of the Ninth Federal Reserve District, foreclosure rates have remained high; for example, an above-average foreclosure rate in Minneapolis earned the city a ranking in a recent Forbes.com article on "foreclosure hotspots."[2/]

Mortgage foreclosures present a problem for borrowers, the financial institutions that hold the foreclosed mortgages and the federal, state and local policymakers and nonprofit organizations that seek to aid homeowners in their time of need. To help borrowers, postpurchase support programs (PPSPs) created through public, private and nonprofit sector partnerships have developed. These partnerships exist in many, but not all, metropolitan regions around the country. The major PPSP in Minnesota, the Minnesota Mortgage Foreclosure Prevention Association (MMFPA) provides services across the state and was recently identified as a model of foreclosure prevention efforts.[3/]

In order to monitor foreclosure trends and deliver effective services, PPSPs need access to accurate, timely and inexpensive foreclosure data. Key points of information include the borrower's name; the lender and type of loan (i.e., home purchase vs. refinance), which can help PPSPs identify predatory lending patterns; and the street address of the mortgaged property. With the growing use and availability of Geographic Information Systems (GIS) software, comprehensive data tied to the addresses of foreclosed properties could allow groups to more easily identify and map existing patterns of foreclosures and, over time, distinguish new or growing foreclosure concentrations. With good data, PPSPs can be well-positioned to direct resources and bring public attention to neighborhoods and borrowers in the greatest need.

However, a recent analysis led by researchers at the Federal Reserve Bank of Minneapolis reveals that the availability and usefulness of foreclosure data are often inadequate, at least in the Twin Cities region. In addition, the information that is most useful for PPSPs—such as the current owner of the mortgage, the original purpose of the loan and the street address of the foreclosed property—is often the most difficult information to acquire. Here, we describe the challenges the research team encountered and offer recommendations for improving the usefulness and accessibility of foreclosure data, in the interest of enhancing current mortgage foreclosure prevention efforts in the Twin Cities.[4/]

Accessing county data

In 2003, researchers from the Minneapolis Fed, Macalester College and the University of Minnesota collaborated to collect foreclosure sale data for the previous calendar year. One of the Fed's principal goals for this data collection project was to aid local foreclosure mitigation efforts by determining the spatial distribution and lender and borrower characteristics of foreclosure sale activity in Hennepin and Ramsey counties, the two core counties of the Twin Cities metropolitan area. More recently, the team analyzed 2005 foreclosure records as part of a follow-up effort to its earlier analysis, in order to draw comparisons with the 2002 data and identify developing trends.

The researchers obtained data for this effort from the sheriff's departments of both counties. The data appeared in documents generated at two key points in the foreclosure process: when an initial foreclosure notice was filed and when a foreclosure sale was recorded. To explain these two points in time, we turn to a brief timeline of the mortgage foreclosure process in Minnesota.

Minnesota's foreclosure timeline

The mortgage foreclosure process is rather uniform from state to state, with slight variations. The procedure takes place at the county level but is guided, at least in Minnesota, by specific state laws. These laws outline the sequence of events and actions that need to take place for a foreclosure to happen. Here is how the process generally works in Minnesota.

A foreclosure action can begin as early as 30 days after a borrower initially misses a mortgage payment. The foreclosure officially starts when an attorney empowered by a lender executes and registers a power of attorney statement and notice of pendency against the borrower. The attorney then files a mortgage foreclosure sale notice, which is published in a local newspaper at least six weeks prior to the date of a sheriff's sale. The county serves this filing as a summons to the borrower four weeks prior to the sale date. At the sheriff's sale, the county sheriff sells the property to the highest bidder. A formal redemption period follows, which by Minnesota law can last six months, during which the foreclosed borrower can redeem the property by paying the amount of the foreclosure sale plus any accumulated interest, taxes, liens or fees owed on the property.[5/] Even before the redemption process, the borrower can cure the default and reinstate the mortgage by paying all back payments, fees and expenses.

Data on individual mortgage foreclosures become publicly available when an attorney registers an initial foreclosure filing, and again when a foreclosed property is sold at a sheriff's sale. The data available at these two points in time are similar. By law, a foreclosure notice must specify:

- The name of the borrower(s), the lender and the assignee of the mortgage (if any) and the original principal amount of the mortgage;
- The date of the mortgage and when and where it was recorded;
- The amount claimed to be due thereon and taxes, if any, paid by the lender at the date of the notice;
- A legal description of the mortgaged premises;
- The time and place of sale; and
- The time allowed by law for redemption by the borrower as well as the borrower's personal representatives or assigns.

The sale document includes all of the points listed above, plus information about the price that the property sold for at the sheriff's sale and the name of the individual or entity that purchased the property. In general, foreclosure sale documents provide more detail about individual mortgages than initial foreclosure filings do. However, foreclosure filings provide a larger pool of data, since there are more borrowers identified at the first point in the process. Before a foreclosure sale, some borrowers work with their lenders to stop the process and, as a result, not every property will be auctioned away.

Research challenges

For their analysis, Fed, Macalester College and University of Minnesota researchers relied on foreclosure sale records, which provided the most readily available and assembled information. (Foreclosure filings, on the other hand, required a lengthy review of all public notices published in local legal newspapers, so the researchers decided not to pursue that avenue of data collection.) In 2002, Hennepin and Ramsey counties collectively filed close to 1,200 foreclosure sales.

Collecting the 2002 data proved problematic from the start. Neither county had the sales records available in electronic format, so the 1,200 records were obtained as hard copies, with a per-document copying cost. The researchers had to carefully process the records before any analysis could begin. For example, the street address of the foreclosed property—the crucial piece of information needed to determine the spatial distribution of foreclosures—does not appear on the sales records, because lenders are not required to list it. The research team needed to match the legal descriptions of all 1,200 foreclosed properties to unique street addresses. After this step, the street addresses were geo coded. All of the other information on the sale document had to be manually entered into the database before it could be analyzed. Overall, this process took several months to complete.

The address of the foreclosed property was the most important piece of information for this research, but not the only one considered. The researchers also sought to identify other patterns in the foreclosures, such as the lenders involved, interest rates, mortgage riders or conditions and the dates of the mortgage originations. Additional, time-consuming data collection at the property-records departments of both counties was required in order to complete or revise the foreclosure sale records.

Two pieces of data proved especially laborious to confirm. First, it was nearly impossible to distinguish refinance from home purchase loans, even after reviewing mortgage documents filed at the counties' property-records offices. Second, it was difficult to determine who the lender of record was at the time a foreclosure sale occurred. For example, a small portion (roughly five percent in 2002) of the sale documents listed the Mortgage Electronic Registration System (MERS) as the lender.

A Virginia-based company, MERS acts as nominee in the county land records for the lender and the loan servicer, thus eliminating the need for these two entities to file assignments when trading loans. This service can make the process of trading mortgages on the secondary market more efficient. Unfortunately, it can also make the process of identifying the lender more difficult. MERS can appear

as the record mortgage holder (i.e., the lender who commences the foreclosure), the purchaser of the foreclosed property, or both. MERS is not the only entity that obscures information about lenders; other financial entities, such as banks, often act as trustees in property transactions.[6/] The researchers were able to resolve questions about most of the 2002 MERS-connected lending transactions, but only after additional review of county property records.[7/]

Recommendations for improvement

In the end, the research team gained access to sufficient data for the purpose of analyzing the spatial distribution of foreclosures in the Twin Cities.[8/] Through the complications they experienced along the way, they also gained insights into how foreclosure data can be made more accessible and useful. Based on those insights, Community Affairs has developed the following recommendations. While we suggest serious consideration of these recommendations and believe their implementation could make local foreclosure prevention efforts more efficient and effective, we recognize that no analysis of the public- and private-sector cost of implementing these proposals has been completed. Furthermore, these proposals may require changes to policy and/or practice at several political or organizational levels, depending how local, county and state laws work together.

We recommend policymakers consider:

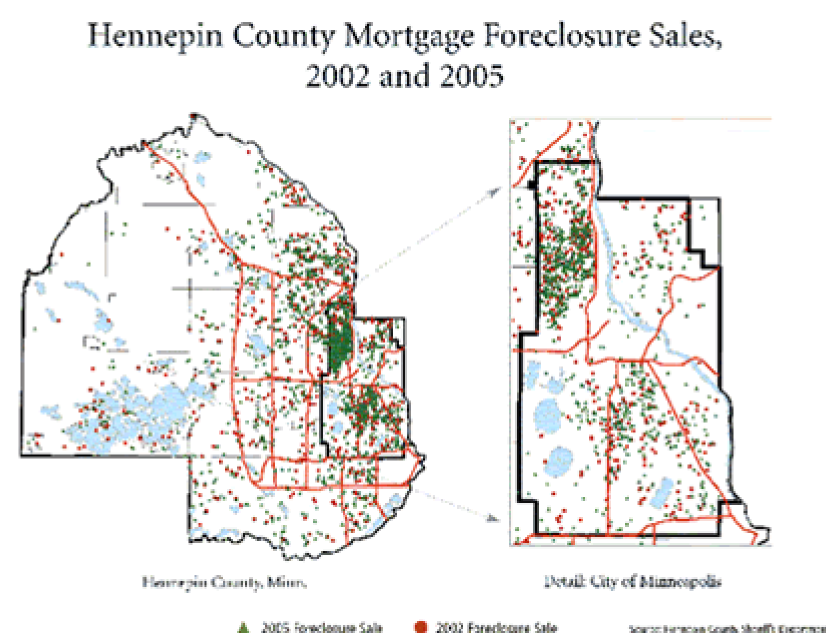
Making more data available in an electronic format. There has been little effort to make foreclosure records readily available to the public. During the early part of their initiative, the researchers spent considerable time entering information from paper foreclosure sale documents into an electronic spreadsheet linked to GIS and statistical software programs. In order to speed up this process, we recommend examining the pros and cons of making foreclosure filing and sale information available in an electronic format on a periodic basis, preferably on an easily accessible Web page.

Updating or adding key information to foreclosure notices and sales documents to make them complete. Addresses are not the only useful pieces of information in the foreclosure filings and sales documents. The growing number of transactions contracted through mortgage intermediaries, such as MERS, increases the need for accurate information about the lenders involved. We recommend considering the revision of foreclosure filing and sale information to provide more comprehensive, up-to-date data to the public, including updated information on the originating lender or the type of loan. Other data, such as information on interest rates and riders, would also be valuable to foreclosure prevention initiatives and analyses. Much of this information already exists at the county property-records departments and could be linked to foreclosure documents using the legal description or tax identification number of the property.

Maintaining a database repository of foreclosure notices and sales that contains historical and current records. At present, only sporadic research and data collection efforts on foreclosure patterns take place in most metropolitan areas. Therefore, subject to appropriate expenditure limits, we recommend the creation of a foreclosure database that would collect and maintain the information, both historic and current, that is included on the public filing and sale documents, augmented by additional information from the mortgage documents found at county property-records departments. Access to the database would be granted at least to public officials and nonprofit groups engaged in foreclosure prevention or mitigation activities. One possible location for this database could be the counties themselves, since they already maintain property-record files and, by law, collect foreclosure information.

Epilogue: Hennepin County makes a change

In 2005, the Hennepin County Sheriff's Department made an important change in how it disseminates information about foreclosure sales. This first step should allow for greater public monitoring of the geographic pattern of foreclosure sales in the county and points to simple steps that other jurisdictions can take to help cultivate local foreclosure prevention efforts.



In 2003, Hennepin County foreclosure sale documents were only available in hard copy to the public. Starting in 2005, the sheriff's department posted information on monthly foreclosure sales on its Web site. In addition, it made select information on foreclosure sales available, upon request, in other electronic formats. While other data issues remain (e.g., MERS), the availability of recent foreclosure sale data in this format permitted a quick analysis of the geographic distribution of foreclosure sales. The analysis, conducted as a follow-up to our earlier efforts, took a day to complete instead of weeks or months. By simply contrasting the foreclosure sales that occurred in 2002 and 2005, as seen in the map above, we can visually determine if existing foreclosure hotspots remain hot, or if new areas have emerged. Clearly, with more annual data, the ebb and flow of foreclosures could be monitored more easily, allowing for more effective targeting and intervention of foreclosure prevention efforts.

1/ These conclusions are based on quarterly data from the Mortgage Bankers Association of America on the percentage of outstanding mortgages for which the legal process of foreclosure has been initiated but not yet completed.

2/ Stephane Fitch, "Foreclosure Hot Spots," Forbes.com, May 30, 2006.

3/ For more information about PPSPs and the MMFPA, see "Foreclosure prevention is Minnesota group's mission" in *Community Dividend* Issue 4, 2005.

4/ While we focus on the benefits of improving the availability of foreclosure data, we acknowledge that greater availability of data could have the downside of enabling foreclosure scam artists to more easily identify potential victims. For more information about state foreclosure statutes, visit http://ros.leg.mn/revisor/pages/statute/statute_toc.php and scroll down to Chapters 570–583, Compensatory and Collection Remedies.

5/ Minnesota law also allows for a 12-month redemption period for some properties with older mortgages and for agricultural properties.

6/ Mark Duda and William C. Apgar, *Mortgage Foreclosures in Atlanta: Patterns and Policy Issues,* NeighborWorks, December 2005, p. 26–27.

7/ MERS-related loan volume is growing quickly. When the researchers compared later records with the foreclosure sales records from 2002, the portion of foreclosure sale documents with MERS listed as the lender was much larger, with over one-third of the foreclosure sales in Hennepin County alone in 2005.

8/ The detailed analysis of foreclosure trends in Hennepin and Ramsey counties by the Minneapolis Fed is forthcoming. Maps for the 2002 and 2005 data completed by GIS students at Macalester College are available for download at: www.macalester.edu/geography/projects/courses/geog365/index.htm. For more information about the Minneapolis Fed’s foreclosure sale analysis, contact Michael Grover at 612-204-5172 or michael.grover@mpls.frb.org.

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Michael leads our efforts to promote the economic resilience and mobility of low- to moderate-income individuals and communities across the Ninth Federal Reserve District. He has conducted research and published articles on affordable housing, community development corporations, homeownership disparities, and foreclosure patterns and mitigation efforts.

Borrowers of color receive pricier mortgages, study finds

September 1, 2006

A recent study by the Center for Responsible Lending (CRL) finds African American and Latino borrowers are more likely to receive high-interest subprime loans than white borrowers, even when controlling for many legitimate underwriting factors.

The findings, detailed in a report titled *Unfair Lending: The Effects of Race and Ethnicity on the Price of Subprime Mortgages,* are based on an analysis of more than 177,000 subprime loans that were originated in 2004. Subprime loans, which are typically offered to borrowers who are deemed high credit risks due to their blemished or insufficient credit histories, often carry interest rates that are higher than the prevailing market rate.

CRL researchers created a dataset of subprime loans by combining information collected under the Home Mortgage Disclosure Act (HMDA) with records from the Loan Performance Subprime Asset-Backed Securities Database. They labeled a subset of loans from the combined dataset as "higher-rate" subprime loans. These loans have an annual percentage rate of interest at least three percentage points higher than the yield on a U.S. Treasury security of comparable maturity. After adjusting the dataset to control for the effects of credit scores, loan-to-value ratios and several other underwriting factors, the researchers examined and compared the loans that white, African American and Latino * borrowers received.

The analysis reveals that African Americans and Latinos are significantly more likely to receive higher-rate subprime loans than similarly situated whites. For Latinos, discrepancies mainly appear with home purchase loans. The increased likelihood of a Latino borrower receiving a higher-rate subprime loan for home purchase ranges from 29 percent to 142 percent, depending on the type of interest rate (i.e., fixed vs. adjustable) and the existence of prepayment penalties. For African Americans, discrepancies appear for home purchase and refinance loans. The increased likelihood of an African American borrower receiving a higher-rate subprime loan ranges from 6 percent to 34 percent, depending on the loan's purpose and features.

To access the full report, visit www.responsiblelending.org.

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*For purposes of the study, "Latino" refers to any borrower identified as "Hispanic or Latino" in the HMDA data.

For results of a related study conducted by the Board of Governors of the Federal Reserve System, visit www.federalreserve.gov/pubs/bulletin/2005/
summer05_hmda.pdf.

Update on Minnesota minority homeownership initiative

A summary of progress made by the State of Minnesota Emerging Markets Homeownership Initiative.

September 1, 2006

A home is a principal asset for economic security, wealth creation and opportunities such as higher education and business formation. For half of American households, home equity represents at least half of net wealth. An abundance of evidence demonstrates that homeownership stabilizes neighborhoods, increases civic involvement and improves educational outcomes.

In Minnesota, most households have a share in the benefits of homeownership. The state is a national leader in the overall homeownership rate. However, Minnesota is a national laggard in minority homeownership, with a rate of 42 percent. In 2003, the gap between white and minority homeownership rates in Minnesota was the eighth-largest in the nation, at 32 percent.

An initiative takes shape

To address this gap, Minnesota Housing, Fannie Mae Minnesota Community Business Center and the Federal Reserve Bank of Minneapolis convened the State of Minnesota Emerging Markets Homeownership Initiative (EMHI) in early 2004. The conveners invited a diverse group of more than 50 stakeholders, including real estate professionals, lenders, builders, housing organizations, government entities, nonprofits, faith-based organizations and community groups, to focus on the gap and discuss possible solutions.

The stakeholders divided into two groups: the Committee, which includes organizations that have a principal role in the home purchase process, such as lenders and realtors; and the Advisory Group, which includes about 40 organizations involved in the homebuying industry, such as insurers and community development corporations. Since their formation, the groups have met regularly to discuss strategies for reducing Minnesota's homeownership gap.

In June 2004, Governor Tim Pawlenty challenged EMHI participants to develop a business plan to increase homeownership in emerging markets. In response, they conducted an extensive review of research literature on homeownership and emerging markets. To encourage participation from the broader community, EMHI sponsored numerous focus groups and listening sessions around the state. The various discussions helped identify six main barriers to homeownership for emerging markets in Minnesota: wealth and downpayment; credit and lending practices; cultural factors, preferences and immigration; information, marketing and outreach; discrimination; and limited access to homebuyer counseling and financial education.

EMHI participants then drafted a business plan based on their literature review, strategy discussions and barrier identification. Their plan is intended to be "actionable, achievable, and impactful," with an emphasis on three objectives:

- Establishing tangible, specific goals and an accountable, inclusive organizational structure.
- Recognizing that one size doesn't fit all. Effective strategies for various emerging markets must be identified and implemented based on approaches that are sensitive to specific cultures and ethnicities.
- Establishing an implementation approach that employs statewide initiatives for building an infrastructure to address specific barriers and, simultaneously, creates local pilot programs to identify and test approaches that are germane to various emerging markets or geographic areas.

The resulting plan, titled *The Emerging Markets Homeownership Initiative: A Business Plan to Increase Homeownership in Minnesota's Emerging Markets,* was formally presented at a June 2005 ceremony in St. Paul.

A plan to erase the gap

EMHI's long-term vision is to erase the gap in Minnesota's homeownership rate. The business plan sets forth an intermediate goal of creating 40,000 new emerging market homeowners by 2012. It also identifies twelve best-practice strategies for achieving EMHI's objectives. The strategies fall under three fundamental goals:

Provide trusted guidance. Establish a transitional, "trusted advisor" emerging market outreach network and institutionalize a homeownership industry network that is friendly and accessible to emerging market consumers.

Expand and tailor outreach. Develop and promote culturally sensitive emerging market consumer education to demystify the homebuying process and disseminate homeownership resource information in a manner that is accessible to emerging markets.

Innovate structural support. Provide additional homebuying options for emerging market homeowners.

Five of the twelve best practices were designated as high-priority "starting points" or strategies to pursue while EMHI builds its organizational structure. These five strategies are:

1. Enhance and increase the diversity of mortgage and real estate industry professionals.
2. Create an industry certification program targeted at mortgage and real estate professionals. Key characteristics of this program include cultural competency and affordable lending resources.
3. Create a culturally sensitive marketing campaign.
4. Create culturally sensitive homebuyer education courses.
5. Develop a postpurchase services network to help create successful homeowners who can continue to make payments on a timely basis.

Building a structure

Following the release of the business plan, EMHI's conveners recognized the need to formalize the initiative's existence. They incorporated it as a stand-alone entity in November 2005. Incorporation required the establishment of a board of directors, which includes representatives from the convening organizations, Advisory Group and Committee.

The new board created a director position, with responsibility for overseeing the initiative's implementation and serving as its key coordinator, contact and spokesperson. After a thorough search, Shawn Huckleby was named the first EMHI director in early 2006. Huckleby, who previously served as a senior specialist with the U.S. Department of Housing and Urban Development, has extensive experience in the statewide and national housing and community development industries.

Once the director was in place, EMHI took steps to build its structure and capacity in other ways. In May 2006, the initiative applied for designation as a 501(c)3 nonprofit organization. The application is currently pending, with a determination expected by late 2006 or early 2007. EMHI's online presence, originally part of Minnesota Housing's Web site, moved to a new, dedicated site at www.emhimn.org in August, 2006. The site currently features meeting schedules, membership directories and the full EMHI business plan. One potential enhancement is a member blog that EMHI stakeholders could use to share information about best practices.

Progress and next steps

Implementation of the business plan is currently under way, led by Huckleby and supported by the board of directors, Advisory Group and Committee. To help guide and shape the implementation process, EMHI established four Community Councils in late 2005—one for each of Minnesota's major emerging market communities: African Americans and African immigrants, Latinos, Asians and Pacific Islanders, and American Indians. The councils include leaders from the business, nonprofit and government sectors and serve as EMHI's liaisons to Minnesota's emerging market groups. (For a list of organizations represented on the four Community Councils, see the sidebar below.) Under Huckleby's direction, the councils are working to identify which business plan strategies are of highest priority for their respective communities.

While the Community Councils continue their discussions, a subcommittee of EMHI participants is developing criteria for use in designating planned or existing homebuying initiatives around Minnesota as EMHI pilots. The pilot program will provide opportunities to test approaches for pursuing specific EMHI strategies. Pilot initiatives will benefit from EMHI's broad base of expertise, and EMHI will benefit from any lessons learned by the pilots' sponsors and clients.

Next steps for EMHI include spreading the word about the initiative and taking stock of its achievements. Director Huckleby is scheduled to deliver a presentation on EMHI at the Northwest Area Foundation's "Grassroots and Groundwork" conference, to be held in St. Paul this September. The conference is expected to draw a national audience of policymakers, community developers and business leaders. Huckleby and EMHI's board, Advisory Group, Committee and Community Councils will gather at the first annual EMHI Summit in early 2007 to assess their progress and revisit the demographic and market trends that underlie Minnesota's homeownership gap. Summit participants will adjust elements of EMHI's business plan, as needed, to ensure the initiative can provide flexible responses to the state's ever-changing mortgage and homebuying environment.

For more information on EMHI, contact Shawn Huckleby at 651-894-2260 or shawn@emhimn.org, or visit www.emhimn.org.

Emerging markets' buying power grows

Increasing Minnesota's emerging market homeownership rate will not only strengthen communities and help families build wealth, it will also provide business opportunities. Minnesota's emerging market population is growing faster than its white population, doubling to 12 percent between 1990 and 2000, and its buying power is growing at an amazing pace. For example, the buying power of Minnesota's black population tripled from 1990 to 2004, an increase unmatched by any other state. Nationally, Minnesota ranks as the fourth fastest-growing consumer market in Asian buying power, and sixth in the growth of Hispanic buying power. This increased buying power presents an opportunity for the homeownership industry and other businesses. Currently, emerging markets make up 40 percent of first-time homebuyers, according to the National Association of Realtors.

Community Councils include a spectrum of partners

Members of the Emerging Markets Homeownership Initiative's four Community Councils represent a diverse group of organizations with interests in the housing and community development fields. Community Council partner organizations are listed below.

Pan African Community Council

African Development Center
ALPHA Community Development Corporation
City of Minneapolis
City of St. Paul
Coldwell Banker Burnet
Don't Borrow Trouble
Edina Realty
Midwest Community Group
Minneapolis Area Association of Realtors
Minneapolis Urban League
Minnesota Housing
Mortgage Professional Services Group, Inc.
Neighborhood Housing Services of Minneapolis
Richard White Lending
Stairstep Initiative
Wells Fargo

Latino Community Council

Amherst Wilder Foundation
Casa De Esperanza
Centennial Mortgage & Funding, Inc.
Chicano Latino Affairs Council
Community Action Partnership of Suburban Hennepin
Federal Reserve Bank of Minneapolis
Hispanic Chamber of Commerce of Minnesota
Midtown Latino Organizing Project
Minnesota Housing
Prime Mortgage
State Library Services and School Technology
University of Minnesota Extension Service

Asian American and Pacific Islander Community Council

Advisor's Mortgage
Asian Media Access
City of Minneapolis Empowerment Zone
Council on Asian Pacific Minnesotans
Edina Realty
Korean Service Center
Minnesota Housing
Payne Lake Community Partners
Southeast Asian Community Council, Inc.
Twin Cities Habitat for Humanity
US Bank Home Mortgage

American Indian Community Council

Bois Forte Reservation Tribal Council
Bremer Bank
City of Minneapolis
Grand Portage Housing Authority
Hennepin County American Indian Families Project
Ho-Chunk Housing & Community Development Agency
Mille Lacs Band of Ojibwe
Minnesota American Indian Chamber of Commerce

Minnesota Chippewa Tribe Finance Corporation
Minnesota Department of Transportation
Minnesota Housing
Minnesota Indian Affairs Council
Red Lake Reservation Housing Authority
St. Paul American Indians in Unity
U.S. Department of Agriculture
White Earth Housing Authority

2006 Bank Enterprise Awards announced

September 1, 2006

Forty-seven banks and thrifts across the country will receive a total of nearly $12 million in Bank Enterprise Awards (BEA) funding for 2006, according to a recent announcement from the U.S. Department of the Treasury (Treasury). Seven of the awards, representing about $1.2 million of the total, will go to banks in the Ninth Federal Reserve District.

The BEA program recognizes banks and thrifts that invest in community development financial institutions (CDFIs). CDFIs are specialized entities that provide lending, investments and other financial services in underserved or economically distressed communities. The Treasury's Community Development Financial Institutions Fund, which certifies and provides support for CDFIs, administers the BEA program.

Ninth District BEA recipients and award amounts are: BankWest, Inc. in Pierre, S.D., $22,500; CorTrust Bank in Mitchell, S.D., $15,000; Dacotah Banks, Inc., in Aberdeen, S.D., $30,000; F&M Bank (Great Western Bank) in Watertown, S.D., $75,000; First Western Bank Wall in Wall, S.D., $17,250; Franklin National Bank in Minneapolis, $500,000; and University National Bank in St. Paul, Minn., $500,000.