

# Foreclosure in Milwaukee: Progress and Challenges

Prepared by staff of the Department of City Development  
and Department of Neighborhood Services  
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*April 18, 2008: City officials and community representatives, who had formed a Foreclosure Workgroup in 2007, packed a Zeidler Municipal Building conference room to discuss a coordinated response to the sub-prime lending crisis. The group's agenda had three straightforward items:*

- 1) What is happening from your perspective?*
- 2) What have you done to respond to growing rates of foreclosure?*
- 3) What needs to be done?*

*April 23, 2008: The Milwaukee Journal-Sentinel reported that organizers of a local foreclosure prevention workshop were "stunned by a standing room only turnout." Rather than assisting 200 home owners, as expected, the event put more than 500 home owners in touch with housing counselors or the lenders who were servicing their mortgages. "Hunched over laptops, the lenders' representatives were separated by a mere 2 feet from the homeowners who were determined to discuss their rising adjustable rate mortgages and their struggles to hold onto their houses," according to the newspaper's account.*

In the two and a half years that have passed since those April 2008 meetings, the depth of the crisis has grown. Just as important, the number of community partners involved in addressing the foreclosure issue, and the variety of solutions being employed, have expanded dramatically. As we move forward, it is appropriate to once again ask ourselves:

- 1) What is happening?
- 2) How has Milwaukee responded?
- 3) What else needs to be done?

## What is happening?

Between 2008, and 2010, almost 16,000 Milwaukee property owners were notified they had defaulted on their mortgage payments, and that their lenders had started legal action to foreclosure upon their homes. As of January 1, 2011, more than 6,200 property owners were in some stage of foreclosure. These rates of foreclosure are double historical averages for Milwaukee.

Milwaukee is currently in its "second wave" of home foreclosure. The first wave was rooted in sub-prime lending activity that peaked in 2005 in Milwaukee County. Targeted particularly to Milwaukee's poorest homeowners who live in central city neighborhoods, sub-prime loan volume grew from \$7.7 million in 1993 to more than \$1 billion in 2005. Within Milwaukee's Community Development Block Grant area, 57% of all mortgage loans issued in 2005 were high-cost or sub-prime. More than half of these loans refinanced existing mortgages, and many were made by unregulated lenders such as stand-alone mortgage companies. Housing industry advocates note that many borrowers who received high-cost and sub-prime loans could have qualified for traditional lending products. But many responded to

intense marketing that emphasized the low initial interest rates of sub-prime products, and downplayed the reality of adjustments to higher interest rates and payments in a few years.

The “second wave” of mortgage foreclosure has been triggered by the nationwide recession, which began in late 2007. Job losses have put mortgage payments out of reach for many Milwaukee homeowners. The same appears to be true for property tax payments. In 2007, the City of Milwaukee foreclosed upon 78 improved properties. In 2010, that number exceeded 400.

As of January 2011, lenders own approximately 1,600 foreclosed properties in Milwaukee, and the City of Milwaukee’s inventory of tax-foreclosed one- and two-family homes numbers just over 600. Though foreclosed homes can be found in every aldermanic district, residents of the 6<sup>th</sup>, 7<sup>th</sup> and 15<sup>th</sup> districts are most likely to live on a block in which one or more properties has been foreclosed upon. These three adjoining near north side districts account for close to 40 percent of the foreclosed properties in Milwaukee.

Foreclosure represents a significant financial loss and a personal tragedy for the families who experience it. And the cost is not confined to individual households. High rates of foreclosure have far-reaching impacts for Milwaukee neighborhoods, local government, property values and the real estate market. Among them:

- Neighborhoods are losing owner-occupants. While between 60 and 70 percent of home foreclosures in Milwaukee involved owner-occupied properties, less than 35 percent of foreclosed properties are sold to owner-occupants.
- Neighborhoods with high numbers of vacant foreclosures are threatened by poor maintenance and criminal activity at unsecured vacant properties. Many of these neighborhoods also have chronic vacant buildings that are decreasing the quality of life in these neighborhoods. Studies in other communities have shown that blocks with open and abandoned buildings have crime rates twice as high as rates on matched blocks without open buildings.
- Milwaukee’s residential property values and tax base have declined as a result of foreclosures. Sales prices for lender-owned properties average only 50 percent of assessed value. In the past two years, the tax base has lost almost \$2 billion in value, with the result that \$16.7 million of tax revenue must be made up from non-residential sources. As a result of falling values, thousands of home owners have lost equity in their homes, their single most valuable asset.
- City government resources are being stretched to address growing numbers of foreclosed and vacant properties. The Department of Neighborhood Services (DNS) must devote increasing staff time to inspect, board, maintain and demolish properties that are not being adequately cared for by their owners. The Milwaukee Police Department must respond to additional calls for service at vacant properties being used for criminal activity. The Department of City Development (DCD) must manage and market a significantly expanded inventory of tax-foreclosed homes.
- Years of public and private investments that make central city neighborhoods more desirable places to live are seriously undermined as property values decline and vacant properties fall into neglect.

- The Milwaukee Public Schools reports increased enrollment in its program for homeless students.
- Increasing numbers of renters are facing evictions as properties they rent are foreclosed upon.

The far-reaching impacts of foreclosure require a wide range of responses from both government and an extensive group of community partners.

## How has Milwaukee responded?

Participants at the April 2008 meeting cited above understood the importance of a comprehensive set of policies and programs to position Milwaukee to cope with the foreclosure situation. The blueprint for Milwaukee’s approach was drawn up by the Milwaukee Foreclosure Partnership Initiative (MFPI), appointed by Mayor Tom Barrett in September 2008. The same month, the Common Council established a Special Joint Committee on Redevelopment of Abandoned and Foreclosed Homes. That committee was created to oversee the expenditure of federal foreclosure mitigation funds provided through the Housing and Economic Recovery Act of 2008.

Mayor Barrett charged MFPI to build on the work that was already underway in the community to develop a coordinated strategy to assist homeowners at risk of losing their homes to foreclosure, stabilize neighborhoods affected by growing numbers of vacant foreclosed homes, and prevent similar issues from developing in the future. MFPI’s membership of more than 100 volunteers was selected to represent the expertise and experience required to find realistic and implementable strategies to address foreclosure issues. Under the leadership of a 22-member steering committee, three work groups devised recommendations regarding foreclosure prevention, intervention in the foreclosure process, and stabilization of affected neighborhoods. MFPI work groups delivered their final recommendations to the steering committee in December 2008. By the time MFPI’s blueprint was released publicly in February 2009, implementation of many recommendations was already underway.

The chart below summarizes progress on MFPI’s recommendations. Initiatives that are closely aligned with MFPI recommendations also are discussed.

Goal	Recommendation	Progress as of 10/2010
Prevent additional foreclosure	Form a home ownership consortium “to preserve and promote sustainable neighborhoods by encouraging and maintaining homeownership through effective education and counseling.”	The Milwaukee Homeownership Consortium was launched in June 2009. The Consortium has captured significant financial resources from Freddie Mac to launch <b>Take Root Milwaukee</b> , a mass media campaign to market trustworthy homeownership resources to the public, elevate community awareness of homeownership education, products and services, and increase the community’s access to effective homeownership education. The Consortium’s 26 members, representing lenders, nonprofit housing counseling and neighborhood agencies, government, academia, the legal profession and real estate professionals have pledged to uphold industry standards in the delivery of housing counseling services, real estate sales, and mortgage lending. The Urban Economic Development Association provides staff support to the Consortium. The Take Root Milwaukee website

		( <a href="http://takerootmilwaukee.org">takerootmilwaukee.org</a> ) provides a robust calendar of housing counseling and foreclosure prevention activities sponsored by Consortium members, along with member products and services. In its first six months of operation, the website was visited 39,000 times.
Prevent additional foreclosure	Advocate for legislative protection for consumers.	MFPI members supported the passage of legislation at the state and local levels to preserve vacant properties and protect the rights of tenants during foreclosure and to protect homeowners from mortgage rescue scams.
Intervene in foreclosure cases “in the pipeline,” to resolve mortgage problems before a foreclosure judgment.	Operate a centralized hotline to help delinquent borrowers connect with lenders before they lose their homes.	<p>A bi-lingual (English/Spanish) foreclosure outreach contact number was established in October 2008 by Money Smart Week Wisconsin. The hotline is now managed by Take Root Milwaukee; callers are connected to a local nonprofit housing counselor can provide free and confidential assistance. The number is 414-921-4149. 1,200 calls were received by the hotline in the last six months.</p> <p>Beyond the hotline, multiple outreach efforts have been undertaken to reach borrowers in need of help. Several web sites have been established to display resources: <a href="http://www.milwaukeehousinghelp.org">www.milwaukeehousinghelp.org</a> and <a href="http://www.takerootmilwaukee.org">www.takerootmilwaukee.org</a>. A foreclosure outreach week in May 2010 engaged neighborhood organizations and residents to go door-to-door in the City’s Targeted Investment Neighborhoods and Healthy Neighborhoods to provide foreclosure information to residents. Member agencies of United Neighborhood Centers of Milwaukee also are providing foreclosure information to their participants. A half-day foreclosure summit, sponsored by the City of Milwaukee and Urban Economic Development Association in October 2010, brought foreclosure information to a wide range of community agencies.</p> <p>The Milwaukee Homeownership Consortium has sponsored two large-scale foreclosure intervention events, in which individuals facing foreclosure are able to connect one-on-one with lenders, loan servicers and housing counselors. These events have drawn hundreds of participants. The most recent was held in October 2010.</p>
Intervene	Increase foreclosure counseling capacity.	The Consortium also has successfully sought funds to expand the number of foreclosure counselors within Milwaukee homeownership counseling agencies, which has resulted in a 30% increase in the number of counselors. Most recently, in a partnership between the City and Greater Milwaukee Foundation, a neighborhood based foreclosure intervention counselor will provide targeted intervention counseling services in the City’s Healthy Neighborhoods and Targeted Investment Neighborhoods (TINs).
Intervene	Launch a court-based foreclosure mediation	The Milwaukee Foreclosure Mediation Program was launched in June 2009. By order of the Chief Judge of Milwaukee County Circuit Court,

	<p>program to provide a forum for delinquent borrowers and lenders or loan servicers to communicate regarding the potential of loan modification or workout.</p>	<p>lenders and loan servicers who seek a foreclosure judgment in Milwaukee are required to provide information about the mediation program when they notify the homeowner of the filing. Both the borrower and lender must agree to participate in mediation, which is conducted by a licensed attorney and experienced mediator. Homeowners are required to meet with a licensed homeownership counselor prior to the mediation session. As of December 2010, the program has resulted in 283 successful mediations, and more than 300 additional homeowners were participating in the mediation process. Marquette University's Law School operates the program, which is funded by MU, the City of Milwaukee, and the State of Wisconsin.</p>
Intervene	<p>Offer a rescue refinance loan product, to provide a refinancing option to borrowers who cannot afford their existing high-interest and adjustable rate mortgages.</p>	<p>Funds were allocated in the State budget in 2009 for a rescue refinance program, but were later reallocated for other uses.</p> <p>HUD recently announced \$51 million in funding that will be coming to the State of Wisconsin to provide loans to homeowners who are having difficulty making their mortgage payments due to a loss of income or medical emergency.</p>
Stabilize neighborhoods threatened by foreclosed and vacant properties	<p>Aggressively monitor and preserve vacant properties</p>	<p>The Milwaukee Common Council has adopted two ordinances to require the registration of vacant and foreclosed properties with the City of Milwaukee, to facilitate communication regarding maintenance issues. In connection with these ordinances, DNS has launched several new programs to monitor vacant properties. In April 2009, DNS implemented the Abandoned Property in Foreclosure program, which dedicated 3 inspectors to visit every foreclosed property in the hardest-hit neighborhoods of the city. Properties outside the target area were visited randomly by the local district inspector. The addition of funding for six new DNS interns in late summer 2010 provided manpower to monitor properties in the foreclosure process. Going into 2011, properties in crime reduction zones will be inspected monthly and those outside of these zones will be inspected every 90 days.</p> <p>The Vacant Building Registration program was initiated in January 2010; this program requires registration of all properties that are vacant for more than 30 days. Both the exterior and interior of vacant properties are inspected at the time of registration and at six-month intervals. Exterior inspections are performed every 30 days to ensure that buildings are secure and basic maintenance is performed. Milwaukee Police officers are contacted when these inspections reveal that vacant buildings are illegally occupied or if there is evidence that the buildings are being used for criminal activities.</p> <p>DNS has reached out to civic associations, block watch groups and other community partners for assistance in identifying and monitoring vacant properties. Washington Park Partners, Sherman Park Community Association and Safe and Sound have been particularly active partners</p>

		<p>in this effort.</p> <p>The Common Council allocated funds for a joint inspection initiative of vacant properties in crime reduction zones by DNS and Police with support from DPW. Through this initiative more than 4,000 buildings were inspected and 44% of these buildings were found to be vacant. Over 200 buildings were boarded in this process and over 500 were referred to Forestry for the grass to be cut. Additionally over 500 properties had issues with trash and inoperative vehicles. Over 1000 orders were issued. Nearly 60% of all buildings inspected required police intervention.</p> <p>Forfeiture requirements have been added to the Vacant Building Registration program. The forfeiture provision takes effect April 1, 2011.</p>
Stabilize neighborhoods	Leverage and utilize resources available for the responsible acquisition and disposition of foreclosed homes for maximum impact.	<p>The Housing and Economic Recovery Act of 2008 and American Recovery and Reinvestment Act have provided approximately \$37 million to the City of Milwaukee in three rounds of federal Neighborhood Stabilization Program (NSP) funding. Federal rules allow the use of NSP resources to finance the purchase and renovation of foreclosed homes; acquire and renovate foreclosed homes; demolish blighted structures; redevelop vacant or demolished properties, and establish a land bank for foreclosed homes. Milwaukee’s NSP strategy allocates funds to all these approaches.</p> <p>Milwaukee’s NSP-1 allocation of \$9.2 million was spent between April of 2009 and September 15, 2010. It impacted 372 units of foreclosed housing, and leveraged private investment of \$24 million in foreclosed housing stock.</p> <p>Expenditure of a \$25 million NSP-2 grant began in September 2010. It’s anticipated that these funds will impact approximately 1,000 vacant and foreclosed housing units, including many tax-foreclosed properties in the City’s inventory.</p> <p>\$2.8 million in NSP-3 funds are expected to be available in early 2011.</p> <p>All homebuyers who use NSP resources are required to complete at least 8 hours of homeownership training with a certified housing counselor.</p>
Stabilize neighborhoods	Use a request for proposal process to identify developers who might be able to assist in foreclosure stabilization strategies.	<p>A Request for Proposals was issued in 2009 to identify developers who could undertake large scale acquisition and rehabilitation of scattered site foreclosed properties. A very limited number of respondents had the capacity and track record to address scattered site development. Ongoing, one-on-one outreach efforts are proving more successful. Two developers applied in 2011 for allocations of Low-Income Housing Tax</p>

		Credits to finance projects involving renovation of groups of City-owned, tax-foreclosed properties.
Stabilize neighborhoods	Establish a land bank entity.	The non-profit Milwaukee Neighborhood Reclamation Corp. was established in 2009, to acquire, renovate, redevelop, and bank foreclosed properties in strategic locations. 42 properties were acquired with NSP 1 resources and have been developed, sold or demolished to support neighborhood stabilization activities.
Stabilize neighborhoods	Create a program to support neighborhood investors.	<p>NSP funds have been used to create the NSP Rental Rehabilitation Program. It provides forgivable second mortgage loans of up to \$17,500 to responsible landlords for the rehabilitation of foreclosed properties in the NSP target area. Renovated units must be affordable to tenants who earn 60% or less of area median income (\$42,660 for a family of 4). NSP-1 funded the renovation of 87 units of rental housing. NSP-2 is anticipated to fund 150 units of rental housing.</p> <p>NSP funds also support the NSP Buy in Your Neighborhood Program. It assists homeowners to buy a foreclosed property within three blocks of where they live for rental purposes. Both financial and technical assistance is provided. If the property is in need of rehabilitation, homeowners may also use the NSP Rental Rehabilitation Program. There was no demand for the program in the NSP 1 funding cycle, but the program will continue to be marketed under NSP 2.</p>
Stabilize neighborhoods	Link buyers to foreclosed homes, in order to speed the process of returning foreclosed properties to responsible private ownership.	<p>A variety of efforts are underway to directly connect prospective buyers with foreclosed property available for sale. DCD created a robust searchable website (<a href="http://www.mkedcd.org/foreclosures">www.mkedcd.org/foreclosures</a>) that displays information on every foreclosed property in Milwaukee and provides links to Multiple Listing Service descriptions of property. DCD also maintains a website of City-owned tax-foreclosed property at <a href="http://city.milwaukee.gov/Cityownedhousesforsale.htm">http://city.milwaukee.gov/Cityownedhousesforsale.htm</a>. In addition to property information, the site includes information about the scope and cost of repairs recommended to make each property code-compliant, and the availability of NSP sale and renovation grant resources where available.</p> <p>Numerous presentations regarding the opportunity to purchase and renovate foreclosed properties have been given to potential homeowners, investors, realtors, community organizations, church groups, City employee groups, and many others. Three large-scale home ownership events, the most recent held during a December snowstorm, have drawn hundreds of individuals, and have been the single most important generator of applications for NSP programs. The December event spotlighted a pilot project that will sell a limited number of City-owned tax-foreclosed homes for \$1, and provide NSP resources for renovation to qualified buyers. The \$1 House strategy will</p>

		<p>be repeated if successful. Special sessions have prepared real estate brokers to assist their clients to purchase foreclosed property.</p> <p>Housing Resources, Inc., in cooperation with the Healthy Neighborhoods program, has presented home tours highlighting foreclosed properties for sale in the 8 designated Healthy Neighborhoods. The tours also provide information about available NSP resources to support property purchase and renovation.</p> <p>US Bank has created an American Dream mortgage product that finances both the purchase and rehabilitation of owner-occupied foreclosed properties. This is the primary mortgage product used to date by buyers receiving NSP assistance in Milwaukee. American Dream provides a fixed rate of interest for the life of the loan.</p> <p>PyraMax Bank has created a \$1 million NSP-2 mortgage product to finance the purchase and renovation of one- and two-family foreclosed properties in the north side NSP-2 target area. The loans are made with a fixed rate of interest; borrowers must meet all qualifications of the NSP-2 program.</p> <p>Over the course of the last several months, City officials have engaged both local and national mortgage lenders and servicers in dialogue regarding their participation in strategies to reduce the impact of high rates of foreclosure. This discussion has resulted in improved maintenance of bank-owned properties and properties in the foreclosure pipeline. The lenders and servicers also have supported broadened outreach to individuals facing foreclosure, and have been asked to consider change in their practices for disposition of foreclosed properties. Common Ground, a coalition of local churches, community-based organizations and advocacy groups, has been instrumental in bringing lenders to the table for these discussions. Also active in promoting community awareness about the impact of foreclosure, Common Ground is currently crafting a comprehensive strategy to address foreclosures in the Sherman Park neighborhood.</p>
Stabilize neighborhoods		<p>The Assessor’s Office has created a new Property Inspection Program within the Community Development Block Grant area, to update assessment data in neighborhoods with high rates of foreclosure. This program will capture detailed information about the physical characteristics and condition of foreclosed properties, to ensure that sales that are foreclosure-related do not inaccurately impact the value of other nearby properties. Information about the interior condition of properties gathered by DNS is being provided to supplement exterior inspection information recorded by the two assessors who have been hired for this new program.</p>



In addition to these strategies, City staff have taken a number of measures specific to the management and marketing of City-owned tax-foreclosed properties, also known as *in rem* properties. DCD's commissioner has organized a four-person *in rem* property team, whose sole responsibility is to handle the large *in rem* inventory. The team is charged to meet three goals:

- Maintain the highest standards of property management, preservation, and maintenance.
- Reduce the *in rem* inventory, through vigorous and creative marketing efforts, demolition of property not feasible for re-sale, and expansion of the buyer pool for *in rem* properties.
- Collaborate with the Neighborhood Stabilization Program, to ensure that NSP foreclosure mitigation resources are applied to *in rem* properties.

## **Continuing Challenges**

Significant knowledge, experience and progress have been gained in Milwaukee's efforts to combat *the* foreclosure crisis in the community. However, Milwaukee faces continuing challenges:

- Milwaukee's open foreclosure filings or its current "pipeline" of potential foreclosed and vacant properties was up almost 5% at the end of 2010. Job losses and unemployment are key contributing factors and major lenders predict that foreclosures will increase substantially again in 2011.
- The number of foreclosed and vacant properties is significantly more than the resources that are currently available to address them. During 2010, City Departments estimate that they expended \$1.2 million to respond to the problem of foreclosed lender-owned properties in City neighborhoods. While the City has aggressively pursued federal resources to address foreclosed properties and has received \$37 million in federal Neighborhood Stabilization Program funds, the resources are inadequate to address the size of the problem.
- As bank foreclosures have increased, so have the number of properties acquired through the tax foreclosure process. City government is now the largest single owner of foreclosed properties in Milwaukee. While the City is working to hold banks and individual property owners accountable for the responsible maintenance of their property inventories, the City must set the standard for responsible stewardship of its own properties.
- The depressed residential real estate market, and competition provided by bank-owned foreclosures, have resulted in diminished sales of City-owned tax foreclosed properties. These market dynamics mean that the City will likely own the current large inventory of properties for substantially longer periods than in past years. City government will bear increased responsibilities and costs as a result.
- Low value foreclosed properties and decreased access to financing have resulted in increased speculation by investors in the real estate market. Problem properties are not only those that are owned by banks or properties in the foreclosure process, but those that have been purchased by investors who are not adequately managing or maintaining them.

- The responsible ownership and disposition of foreclosed and vacant properties is being impeded by the lack of access to capital. The foreclosure crisis and current economic conditions have resulted in restricted access to financing, making it difficult to obtain the capital necessary to purchase and renovate foreclosed properties.

## **What Else Must Be Done? Recommendations for Action**

The current foreclosure crisis and its potential impacts are incomparable to past history and impact families, neighborhoods and the City. While the economic and market conditions that underlie the foreclosure crisis to a large extent are beyond City government's control, the City can continue to work to help minimize both the short term and long term impacts of foreclosures. This includes:

- Vigorously working to ensure the responsible maintenance and stewardship of foreclosed and vacant properties and to the greatest extent possible, preserving the City's housing stock. This includes holding owners responsible for the maintenance and management of their properties, as well as encouraging the sale of properties to homeowners and responsible investors.
- Where properties have deteriorated to the point that preservation is not economically feasible, developing strategies to reuse vacant lots in a manner that is constructive to City neighborhoods, both on a short term and long term basis.
- Continuously working to reduce Milwaukee's "foreclosure pipeline" by providing homeowners facing foreclosure with access to resources necessary to make an informed decision about the options available to them, and where possible, saving their home from foreclosure.
- Seeking additional resources to combat the foreclosure problem.

Based on the City's experience to date in responding to the foreclosure crisis, several additional steps can be taken to help minimize both the short and long term impacts of foreclosures on the City. These include initiatives currently in process and those recommended for consideration.

## **Property Maintenance, Management Preservation and Marketing**

### Create a Special Enforcement/Problem Property Program within the Dept. of Neighborhood Services

A reorganization of DNS will create a Special Enforcement/Program Property Program to attack problem properties in collaboration with Community Prosecutors and other City agencies. The department will conduct a block-by-block assessment of City properties to identify areas of high concentrations of environmental and building issues. Targeted strategies will be implemented for the deployment of resources. The program will be staffed by 13 special enforcement inspectors who are currently assigned to various divisions across DNS.

DNS also will establish 34 neighborhood enforcement districts, combine and reclassify inspectors in the residential code enforcement and nuisance control divisions, and re-define baseline code enforcement efforts. This approach will eliminate instances of multiple inspectors visiting a property, and institute greater uniformity in inspection and enforcement practices. When property issues cannot be resolved

by baseline enforcement actions, the district inspector would work with the Special Enforcement/Problem Property Program to bring additional resources to bear.

### Strengthen the Abandoned Property in Foreclosure Ordinance

The City's Abandoned Property in Foreclosure ordinance (MCO 200-22.5) requires that lenders register properties in the foreclosure process when they become vacant. The purpose of the registration is to have contact information to resolve issues associated with the property, as well as to insure properties are being appropriately maintained. DNS devotes significant time to monitoring properties in the foreclosure process to insure they are registered at the time they become abandoned. The following modifications to the ordinance are recommended:

- Change the time the registration is due to at the time of the filing of the intent to foreclose rather than at point of abandonment and require notification from the lender at time of abandonment. This will minimize the time devoted to monitoring compliance with the ordinance as well as help insure that responsible parties are on record to address building concerns.
- Require a registration fee of \$250, the same as the vacant building registration fee. This will help offset a portion of the City resources that are currently being dedicated to monitoring and insuring compliance with the ordinance.
- Require that all abandoned properties be posted with the name and contact information of the party responsible for the maintenance of the property. Postings should include language prohibiting trespassing on the property.
- On occasion, lenders file a foreclosure action, but do not complete the action in court. In such cases, if the property owner has abandoned the property in anticipation of foreclosure, lenders should be required to notify the Dept. of Neighborhood Services. Notification will allow the City to aggressively monitor the property so as to prevent the property from becoming a blighting influence on the surrounding neighborhood.
- Often properties become abandoned as a result of the foreclosure action and the owner cannot be located. To ensure there is a responsible party for the property in such cases, seek a change in state law so that the definition of "owner" includes an entity that, through filing a foreclosure action, causes a property to become abandoned. This will help address challenges with identifying the owner of an abandoned property or, for those owners who are identified, an unwillingness to correct problems with the property since in short order they will no longer have interest in the property. This will also expand the responsibility for foreclosing institutions to be held accountable for conditions of a property.

### Modify the Vacant Building Registration Ordinance

The protocol for Vacant Building Registration (VBR) ordinance (MCO 200-51.7) requires an interior inspection done at 6-month intervals. The purpose of this inspection to make sure there are no interior hazards that hamper the response of public safety units or present fire hazards to the surrounding properties. The following ordinance changes are recommended to strengthen the interior inspection provision and increase the effectiveness of the vacant property registration requirement:

- A fee for failure to provide access at an agreed upon time for VBR inspection should be charged. Currently the residential rental program sets that fee at \$50 per unit. This seems to have a positive effect in gaining access to building to perform inspections.
- Owners should be required to post the property with contact information and no-trespassing language.
- Develop an on-line system to allow electronic registration of vacant properties, to encourage and simplify compliance.

### Expand the Ordinance Requirements for the Treatment of Vacant Properties

Many of the buildings that are boarded are secured only on the first floor of a building. If upper windows are broken out, the interior of the building deteriorates at a rapid pace. It is recommended to change board-up requirements for vacant properties (MCO 275-32-7) so that upper floor windows can be required to be boarded.

### Prioritize Housing Cases in Municipal Court

Explore administrative remedies to prioritize the scheduling of housing cases at Municipal Court, to ensure prompt rulings regarding violations related to the condition of abandoned, vacant and foreclosed properties and the actions of property owners.

### Create a Higher Level of Forfeitures for Non-Abated Violations on Properties that Create a Blighting Influence in the Surrounding Neighborhood

There are some properties in neighborhoods that create blighting influences for the entire neighborhood. These are often long term problems that haven't been resolved through normal enforcement mechanisms. Some communities have created a higher level of penalties (civil forfeitures) that can be imposed for failure to correct violations on a property that has been deemed a blighting influence on the surrounding properties of the neighborhood. Unsecured vacant buildings that invite criminal activity into a neighborhood are an example of buildings that could be subject to civil forfeitures under this concept. Milwaukee should consider adopting such an approach to attack chronically blighting properties.

### Expand the Sales Force for *In Rem* Properties

For many years, *in rem* properties have been sold primarily through the DCD web site. New partnerships that involve neighbors, real estate brokers, home buyer counseling agencies, and others to help market tax-foreclosed properties could result in stronger sales. Strategies like the payment of

finder's fees, targeted marketing, and a broker and home buyer counselor education program should be explored and implemented.

#### Make the *In Rem* Product More Competitive in the Marketplace

Tax-foreclosed homes often compare unfavorably in terms of age and condition to other housing listed for sale. The three pillars of marketing – product, pricing, and promotion – should all be applied to make in rem houses more attractive. Staff is currently experimenting with selling selected properties as a package with NSP rehabilitation grants and bank financing. While the average sale price for in rem properties is currently under \$20,000, research should be done to determine if further price reductions would increase sales. Finally, the City should take advantage of marketing opportunities made possible by Take Root Milwaukee to promote the sale of tax-foreclosed houses.

## Dealing with Vacant Lots Resulting from the Demolition of Foreclosed Properties

#### Explore Alternative Uses for Vacant Lots

As increased numbers of foreclosed properties remain vacant for extended periods of time, demolition is more likely to become the most feasible disposition alternative. For City-owned lots, the costs incurred for simple maintenance and ongoing litter pick-up are significant, and rise dramatically when illegal dumping of construction debris, tires and other large objects occurs. Vacant, untended lots are unsightly and can create negative perceptions of neighborhoods.

Typically, City lots have been disposed of by selling them to adjacent owners, selling them for construction of in-fill housing, leasing them for community gardens, or assembling them into sites for larger development projects, such as new central city subdivisions. These strategies may still be appropriate, but at a time when the foreclosure crisis has severely dampened the residential real estate market, and increased demolition of City-owned property is creating new vacant lots at a faster pace, additional neighborhood enhancing uses are warranted on both an interim and long term basis.

- Develop Long-Term Land Re-Use Plans for Blocks with High Rates of Demolition

Because of the concentration of foreclosed properties in central city neighborhoods, it is likely that a number of blocks will experience multiple demolitions, creating vacant parcels of significant size. A targeted planning effort should be implemented to identify the most appropriate long-term re-use strategies for vacant land on such blocks. This planning effort would identify which areas are appropriate for uses such as subdivision development, creation of neighborhood stormwater detention facilities, community vegetable gardens, rain gardens, tree farms, and outdoor recreation spaces, and recommend resource development strategies to implement the plans.

- Develop New Strategies for Short-Term Use of Vacant Lots

Vacant lots present the opportunity to bring new resources into neighborhoods. The combination of simple, inexpensive designs with no acquisition costs/fees and low overhead

expense creates opportunities to implement creative solutions that turn empty, non-descript sites into thriving hubs of neighborhood activity.

The proposed approach is simple: temporarily develop vacant lots into useful and productive spaces for neighborhoods and residents. This approach can be inclusive of a variety of uses. The intent is to tailor each lot use into one that has the greatest benefit for the surrounding neighborhood and residents, and transforms the vacant lot into a viable alternative that enhances not only the neighborhood but the City.

There are myriad possibilities for short-term vacant lot re-use; among them are dog obstacle courses, batting cages, seasonal markets, pop-up businesses, composting stations, art exhibits, performance spaces, neighborhood picnic spots, and composting stations.

#### Consider Accepting Donation of Strategic Bank-Owned Properties for Demolition

The City should consider accepting donation of select lender-owned foreclosed properties with the stipulation that the lender provide funds to cover the cost of demolition and basic landscaping after demolition is completed. While this strategy may increase the inventory of city-owned lots, it is preferable to the alternative of these low-value properties being sold for cash to investors who have neither the commitment nor resources to repair them and the City bearing the costs of compliance and enforcement, and eventually acquiring them through the tax foreclosure process.

## Assisting Individuals in the Foreclosure Process

#### Work to Increase the Number of Homeowners Participating in Foreclosure Mediation

The Milwaukee Foreclosure Mediation Program has successfully assisted homeowners facing foreclosure to negotiate repayment plans with their lender, allowing them to keep their home or pursue an alternative exit strategy that will lessen the impacts of foreclosure (e.g., short sales, deeds in lieu of foreclosure, etc. ). The program is voluntary.

In cooperation with the Marquette University Law School as administrator for the Milwaukee Foreclosure Mediation Program, the City should work to increase the number of homeowners participating in mediation, considering the level of additional resources and capacity that would be necessary for counseling and mediation to accommodate increased demand.

In addition, the City should work with lenders and servicers to refer cases in the pre-foreclosure process to mediation before a foreclosure notice is filed. Mediation earlier in the process will provide a broader range of resolution alternatives to at-risk homeowners and foster a greater likelihood for success.

#### Influence the Use of Foreclosure Rescue Funds

In late 2010, HUD announced that Wisconsin will receive \$51.4 million under the Emergency Homeowner Loan Program. The program will provide assistance (bridge loans) to assist homeowners who are having difficulty making their mortgage payments due unemployment, underemployment or a medical emergency. The details of the program are still being worked out.

The City should work diligently with the designated program administrator for the initiative, as well as encourage lender/servicer participation in the program to insure that Milwaukee homeowners are able to access this resource.

### Federal Legislative/Policy Agenda

The ability to address the number of foreclosures in the City is a function of a number of factors which are beyond the City's control. These include policies and procedures utilized by banks, servicers and investors in regard to responding to homeowners with delinquent mortgages, renegotiating mortgages, and disposing of foreclosed properties. For example, the City and its partners have been involved in outreach efforts to thousands of homeowners to connect them with non-profit foreclosure counseling agencies and the Milwaukee Foreclosure Mediation Program, but once the connection is made, an individual's success in achieving a favorable outcome is beyond the City's control. There is seemingly a great deal of reluctance to modify a mortgage that may result in some modest level of principal write-down for the homeowner, yet at the same time it is generally acceptable to take a loss of several times this amount when the property is foreclosed on and sold after being acquired by a lender or investor. The national programs and policies that are in place to address the thousands of homeowners in foreclosure locally are simply not enough.

In the City's work with both local and national lenders, it is clear that some of these activities can be influenced by the banking industry and others may require the intervention of the Federal government. The City should work with lenders, servicers and others to craft a Federal policy agenda and recommendations that will result in a more effective, timely and significant response to the foreclosure crisis. These should include consideration of:

- Significant expansion of efforts by lenders, servicers and government to achieve successful long-term loan modifications. This could include requiring lenders to institute a policy for mandatory conciliation conferences with delinquent borrowers for an owner occupied properties . Other strategies could include implementation of a mandatory automated system for the HAMP program to ensure consistent application of HAMP guidelines and consideration of all the modification options that are available to homeowners, and expansion of alternatives for homeowners currently facing foreclosure as a result of joblessness (including temporary loans with limited terms to carry them through their unemployment period).
- Establishing "Best Practices" for the responsible disposition of foreclosed properties by lenders. These should include priorities for sales to owner-occupant purchasers, prohibition of bulk sale transactions and transfers of properties via quit-claim deeds, and preferences for Neighborhood Stabilization Program transactions.
- Closer regulation and scrutiny of the loan modification and property disposition practices of banks and loan servicers. The evaluation of a bank's performance in meeting the credit needs of their community should include consideration of to the lender's record in providing successful permanent loan modifications for borrowers who are in default.

# Leverage Additional Resources to Cope with the Impact of Foreclosure

## Create a Foreclosure Filing Fee

The City expends significant taxpayer resources to address foreclosed properties. The City should pursue a State law change to authorize the City to charge a fee at the time a foreclosure action is filed. The fee would be used by the City of Milwaukee to cover the estimated cost of City services required to ensure the property is code compliant and not a blighting influence on the property while in the foreclosure process. The fee should be based on average costs for services provided by DNS, the Department of Public Works, and the Milwaukee Police Department.

## Enhance Coordination Among City Departments to Address the Foreclosure Issue

Over the past 24 months, City Departments have been working individually and together to address issues relating to the impacts of foreclosure on City neighborhoods. This work should continue, and the coordination of work of City Departments could be enhanced to better leverage the resources that are currently available to the City to address the foreclosure crisis. Strategies to enhance coordination include:

- Create a position to manage the coordination of foreclosure efforts among City Departments. The “Foreclosure Policy Coordinator” position would be responsible for providing research and policy support to City department efforts to mitigate the impact of high levels of foreclosed and vacant residential properties on Milwaukee neighborhoods. The position also would collect and analyze data to track the effects of City spending and program approaches with respect to management and marketing of foreclosed and vacant property. The position is in the process of being created.
- Create a cross-departmental foreclosure work team staffed by individuals empowered to make decisions regarding the implementation of strategies. Representatives of DCD, DPW, DNS, the Milwaukee Police Dept., Milwaukee Fire Dept., Community Development Grants Administration, Office of the Assessor, Office of the City Treasurer, Mayor’s Office and the City Budget office should participate.
- Use 2010 US Census data and locally-collected data on both bank-owned and City-owned foreclosed properties and properties in the foreclosure pipeline to create a methodology that can be used to assign resources and identify the best approach for dealing with foreclosed properties on a neighborhood-by-neighborhood basis. This rubric would guide prioritization of demolition work, selection of marketing approaches for City-owned properties, investment of public resources for redevelopment of both improved and vacant foreclosed properties, and other critical activities.
- Elevate the priority of the foreclosure issue in administration of Departmental programs. Again, there has been a great deal of cooperation among City Departments on the issue of foreclosures. However, these efforts can be expanded. Some possible approaches:



- Consider prioritizing the allocation of other funding allocations (e.g., CDBG and HOME funds) for efforts/organizations that can help the City in its foreclosure efforts. For example, groups that receive funding for neighborhood organizing should have clear work plans and goals that include foreclosure outreach efforts. Funding for housing production efforts should be targeted to strategies that reduce the inventory of foreclosed properties.
- As the number of properties subject to tax-foreclosure increases, work with the City Treasurer’s Office to adopt a more aggressive approach to early intervention efforts for tax delinquent homeowners. This could include systematic outreach to homeowners with delinquent taxes regarding resources that are available and “intervention events” specifically geared to tax delinquent homeowners.

#### Encourage Lenders to Provide Private Financing for the Acquisition and Development of Foreclosed Properties

In its NSP 1 Program the City worked closely with a small number of local lenders to provide financing for the acquisition and rehabilitation of foreclosed properties, particularly for homeownership. However, nearly all foreclosed properties required some level of rehabilitation, and currently available lending products for the purchase and rehabilitation of foreclosed properties are limited.

The City should continue to encourage lenders to increase access to financing products appropriate for the acquisition and redevelopment of foreclosed properties. In its competitive application for NSP 2 funding, the City requested, and received \$1.5 million to leverage private financing for the redevelopment of foreclosed properties. The funding was to be used to encourage private lenders to participate in a pooled loan fund by mitigating risk through the provision of guaranties for loans originated through the fund. The goal would be to obtain financing commitments from local lenders in the range of \$4 to \$5 million. The financing will be used with other NSP resources (development subsidy dollars) as part of a comprehensive “financial package” for participating NSP developers. DCD has issued a Request for Proposals for a loan fund manager, and the department is currently working with local lenders to obtain commitments for participation in the fund.

The City is also continuing to work with lenders to increase their array of lending products for the purchase of foreclosed properties by homeowners and responsible landlords.

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