The Wall Street Wrecking Ball:

What Foreclosures Are Costing Minnesotans and What We Can Do About It

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An Introduction

Minnesotans are still reeling from the effects of the Great Recession, which brought record rates of unemployment and foreclosure and blew holes in state budgets nationwide. While it was Wall Street's toxic lending practices and recklessness that created the economic crisis, it is Minnesota homeowners and taxpayers who are still paying the price.

The big banks that caused this crisis have not done enough to fix it. Instead, they exacerbated it with "unsafe and unsound" mortgage servicing and foreclosure practices that have led to countless unfair and unnecessary foreclosures.[1]

The consequences to homeowners, taxpayers, and the economy have been severe. 141,239 Minnesotans have lost their homes since 2008, and **foreclosure levels are still three times higher** than they were before the housing crash.[2] Minnesotans couldn't afford this crisis when it began, and we can't afford to let it continue any longer.

Across the country, dozens of states and municipalities have already banned unfair mortgage servicing and foreclosure practices and created programs that bring banks to the table with troubled homeowners to discuss alternatives to foreclosure. It's time for Minnesota to do the same.

Foreclosure in Minnesota by the Numbers

141,239
Foreclosures from 2008 - 2012

$20.7 billion
Lost home value from 2008 - 2012

$1.5 billion
Cost to local governments in 2008 - 2012

94,000
Children affected by foreclosure

100,000
Underwater homeowners

Foreclosures devastate homeowners and their families, and the costs hit all of us

Foreclosed Homes Lose Value

When a home falls into foreclosure, it loses about 22% of its value.[3] For the average Minnesota home that means a loss of $48,180.[4] That adds up to nearly $6.8 billion in lost home value for the 141,239 foreclosures from 2008 - 2012.[5] But the value lost in foreclosed properties is just the tip of the iceberg.

Neighboring Homes Lose Value

Foreclosures reduce the value of neighboring properties as well. Minnesota homes lose on average $1,971 in value just by being within an eighth of a mile of a foreclosed property. As a result, neighboring homeowners in Minnesota have lost an estimated $13.9 billion in home value since the beginning of 2008.[6] This is in addition to the $6.8 billion lost in the foreclosed properties, for **a total of $20.7 billion of lost home value** in Minnesota (see Appendix A for estimates by county). With lower home values, families have less home equity to use to maintain their property, fund retirement, pay tuition, grow their small businesses, or pay medical bills.

We All Lose Wealth, Especially People of Color

African-Americans and Latinos have been hit especially hard by the housing crisis. The racial disparities in subprime mortgage lending have been well documented. Minority borrowers were much more likely than white borrowers to receive high-cost subprime loans.[7] The bursting of the housing bubble and subsequent recession has fueled a record-high wealth gap between whites, African-Americans, and Latinos nationwide. Minority households experienced greater losses because home equity constituted a relatively large portion of their wealth compared to other types of assets. Median wealth fell by 66% among Hispanic households, 53% among black households, and just 16% among white households. **The median wealth of white households is now 20 times that of black households and 18 times that of Hispanic households**. These ratios are about twice as high as the ratios that existed before the onset of the housing crisis and recession.[8] While this data is not available at the state level, it is hard to imagine the wealth gap could be any better in Minnesota, a state with some of the worst racial employment and educational achievement disparities in the country.

As foreclosures continue, the costs to taxpayers add up

Minnesota's recession-induced budget deficits have resulted in enormous delayed payments to public schools and drastic cuts in state aid to local governments. To maintain essential services, school districts and municipalities have increasingly been forced to rely on property taxes from residents whose homes have lost much of their value. Squeezed from all sides, cash-strapped local governments and homeowners are also bearing the direct costs of foreclosures in their communities.

A typical vacant foreclosure costs municipalities $19,227. That includes legal fees and expenses associated with managing the foreclosure process, increased policing and fire suppression, inspections, maintenance, and lost or delayed taxes and utility payments.[9] Not included in this figure are the costs of providing increasing safety net support to foreclosed families, such as transitional assistance and homeless shelters.

Many foreclosed homes sit vacant for months and years, driving down the value of other houses in the neighborhood and becoming magnets for crime. It is estimated that violent crime increases 2.33% for every 1% increase in foreclosures, making neighborhoods more dangerous and requiring greater police presence.[10]

Bank-owned vacant properties have **cost local governments in Minnesota an estimated $1.5 billion** since the crisis began (see Appendix B for estimates by county).[11]

Foreclosures put our children's education and health at risk.

The full cost of foreclosures cannot be measured in dollars alone. Children of foreclosure tend to do less well in school. Their peer relationships and social networks are disrupted and fractured, and their physical and emotional health suffers.

When foreclosures force families to move, their children often change schools. Studies show that children who switch schools underperform their peers in reading and math, with each move setting a child back by about one month.[12] Children who change schools frequently are also more likely to have behavioral problems, be held back, and drop out of school.[13]

The financial and psychological stress of foreclosure takes a toll on the whole family. Parents under stress sometimes engage in harsher and less supportive parenting, which can lead to negative behavior by the children, making it harder for them to thrive socially and in school.[14]

Foreclosures have a negative impact on physical as well as mental health. Families in foreclosure are less likely to have money available for health care and more likely to postpone necessary health care. A recent study found a direct correlation between foreclosure rates and health problems, including increases in emergency room visits, hospitalizations for hypertension, diabetes, anxiety, and suicide.[15]

Foreclosures are often concentrated in certain areas, and children living in them suffer the consequences of living in neighborhoods with more vacant houses, higher crime rates, lower social cohesion, and a lower tax base.[16]

The foreclosure crisis has impacted an estimated 94,000 children, or 7% of children in Minnesota.[17]

Foreclosures undermine our economic recovery and cost Minnesota jobs.

An alarming impact of the housing crisis is the immense drag that negative equity has on economic recovery. Negative equity, often referred to as an "underwater mortgage" or "being upside down on your mortgage," means that borrowers owe more than their homes are worth. Underwater homeowners struggling to pay inflated boom-era mortgages on modest post-recession incomes have little money left over for other spending. **Over 100,000, or nearly 1 in 5 Minnesota homeowners is underwater** on his or her mortgage.[18]

A 2011 study found that If banks reduced the principals and interest rates on underwater mortgages to market value, it would save underwater Minnesota homeowners an average of **$365/month** on their mortgage payment, pumping more than **$402 million** into the local economy every year, which would help create **5,941 new jobs** every year and help replenish the state and local tax base.[19]

A Statewide Solution to a Statewide Problem: The Homeowners' Bill of Rights

Big banks triggered the Great Recession with their recklessness and predatory lending practices, then exacerbated it with reckless mortgage servicing and foreclosure practices. Minnesota homeowners, taxpayers, and schoolchildren continue to pay the price. It is time for Minnesota to enact policies to prevent further unfair and unnecessary foreclosures.

1. **Require banks to assign a single point of contact** so struggling homeowners have access to a person who knows about their loan and is responsible for documents.
2. **Ban dual tracking** so banks would have to give homeowners a "yes" or "no" answer on a loan modification request before proceeding with foreclosure.
3. **Ensure homeowners can take their banks to court** to enforce the ban on dual tracking and stop or annul a wrongful foreclosure.
4. **Create a mediation program** to bring banks and homeowners together for a face-to-face conversation about alternatives to foreclosure.

Across the country, dozens of states and municipalities have already passed measures to ban improper mortgage servicing and foreclosure practices and created programs that bring banks to the table with troubled homeowners to discuss alternatives to foreclosure. It's time for Minnesota to do the same.

Who's to Blame for this Mess?

Wall Street's reckless and predatory lending practices have devastated Minnesotans and their communities. Bankers pushed homeowners into high-cost loans they couldn't afford and kept inflating the housing bubble so they could get their bonus checks. When Wall Street's bets went sour, the bankers were bailed out by taxpayers and got to keep their bonuses but Minnesotans lost hundreds of millions in savings in their homes.

Wall Street's recklessness is well-documented and continues to have devastating consequences as they use flawed—and, in some cases, fraudulent—procedures to flood the housing market with foreclosures that have thrown tens of thousands of Minnesota families out of their homes.

Last year, the five largest mortgage companies in the U.S. agreed to a $26 billion settlement with 49 state attorneys general and federal officials for their role in these practices.[20] That is not nearly enough to compensate communities for all the harm that has been done, as this report documents.

*Appendix A: The Cost of Foreclosures to Minnesota Homeowners (2008-2012)**

County	Foreclosures	Loss to Foreclosed Home Values	Loss to Surrounding Home Values	Total Loss to Home Values
Anoka	15,697	$802,556,216	$1,641,592,260	$2,444,148,476
Becker	129	$4,393,224	$8,986,140	$13,379,364
Beltrami	374	$11,469,832	$23,461,020	$34,930,852
Benton	277	$11,054,516	$22,611,510	$33,666,026
Blue Earth	178	$6,422,240	$13,136,400	$19,558,640
Brown	69	$1,870,176	$3,825,360	$5,695,536
Carlton	326	$11,546,920	$23,618,700	$35,165,620
Carver	2,066	$135,219,700	$276,585,750	$411,805,450
Cass	168	$6,793,248	$13,895,280	$20,688,528
Chisago	1,095	$57,695,550	$118,013,625	$175,709,175
Clay	515	$15,635,400	$31,981,500	$47,616,900
Crow Wing	619	$24,621,344	$50,361,840	$74,983,184
Dakota	12,551	$697,208,050	$1,426,107,375	$2,123,315,425
Douglas	224	$8,569,792	$17,529,120	$26,098,912
Fillmore	97	$2,889,436	$5,910,210	$8,799,646
Freeborn	101	$2,586,408	$5,290,380	$7,876,788
Goodhue	1,036	$44,877,448	$91,794,780	$136,672,228
Hennepin	50,507	$2,882,333,476	$5,895,682,110	$8,778,015,586
Isanti	430	$20,291,700	$41,505,750	$61,797,450
Itasca	335	$10,568,580	$21,617,550	$32,186,130
Kandiyohi	618	$19,768,584	$40,435,740	$60,204,324
Le Sueur	170	$6,522,560	$13,341,600	$19,864,160
Martin	261	$5,506,578	$11,263,455	$16,770,033
McLeod	221	$8,489,052	$17,363,970	$25,853,022
Meeker	201	$7,557,198	$15,457,905	$23,015,103
Mille Lacs	716	$27,455,736	$56,159,460	$83,615,196
Morrison	200	$7,088,400	$14,499,000	$21,587,400
Mower	198	$4,599,936	$9,408,960	$14,008,896
Nicollet	118	$4,410,604	$9,021,690	$13,432,294
Nobles	32	$630,784	$1,290,240	$1,921,024
Olmsted	1,379	$52,848,796	$108,099,810	$160,948,606
Otter Tail	635	$21,024,850	$43,005,375	$64,030,225

Appendix A: The Cost of Foreclosures to Minnesota Homeowners (2008-2012) continued*

Pine	241	$8,923,266	$18,252,135	$27,175,401
Polk	43	$1,002,760	$2,051,100	$3,053,860
Ramsey	19,002	$956,066,628	$1,955,590,830	$2,911,657,458
Rice	1,997	$97,972,820	$200,398,950	$298,371,770
Saint Louis	3,095	$99,888,030	$204,316,425	$304,204,455
Scott	4,648	$292,247,648	$597,779,280	$890,026,928
Sherburne	3,670	$193,614,520	$396,029,700	$589,644,220
Stearns	1,469	$58,754,124	$120,178,890	$178,933,014
Steele	184	$6,335,120	$12,958,200	$19,293,320
Todd	119	$3,644,256	$7,454,160	$11,098,416
Wabasha	118	$4,260,036	$8,713,710	$12,973,746
Washington	7,035	$427,629,510	$874,696,725	$1,302,326,235
Winona	103	$3,609,738	$7,383,555	$10,993,293
Wright	5,504	$279,834,368	$572,388,480	$852,222,848

*Median home value data was not available from the American Community Survey for the following counties which are not listed in the table: Aitkin, Big Stone, Chippewa, Clearwater, Cook, Cottonwood, Dodge, Faribault, Grant, Houston, Hubbard, Jackson, Kanabec, Kittson, Koochiching, Lac qui Parle, Lake, Lake of the Woods, Lincoln, Lyon, Mahnomen, Marshall, Murray, Norman, Pennington, Pipestone, Pope, Red Lake, Redwood, Renville, Rock, Roseau, Sibley, Stevens, Swift, Traverse, Wadena, Waseca, Watonwan, Wilkin, and Yellow Medicine.

Appendix B: Cost of Foreclosures to Local Governments (2008-2012)

County	Foreclosures	Cost of Foreclosures
Aitkin	95	$1,384,344
Anoka	15,697	$156,027,105
Becker	129	$1,961,154
Beltrami	374	$5,364,333
Benton	277	$4,441,437
Big Stone	12	$153,816
Blue Earth	178	$2,461,056
Brown	69	$1,134,393
Carlton	326	$2,480,283
Carver	2,066	$10,209,537
Cass	168	$2,518,737
Chippewa	142	$2,326,467

Appendix B: Cost of Foreclosures to Local Governments (2008-2012) continued

County	Foreclosures	Cost of Foreclosures
Chisago	1,095	$14,458,704
Clay	515	$6,248,775
Clearwater	38	$596,037
Cook	32	$422,994
Cottonwood	33	$596,037
Crow Wing	619	$8,863,647
Dakota	12,551	$160,410,861
Dodge	91	$1,365,117
Douglas	224	$2,672,553
Faribault	189	$2,845,596
Fillmore	97	$1,249,755
Freeborn	101	$1,249,755
Goodhue	1,036	$19,284,681
Grant	28	$442,221
Hennepin	50,507	$522,916,719
Houston	39	$576,810
Hubbard	274	$4,864,431
Isanti	430	$5,768,100
Itasca	335	$3,249,363
Jackson	21	$326,859
Kanabec	147	$2,268,786
Kandiyohi	618	$9,055,917
Kittson	5	$96,135
Koochiching	117	$1,788,111
Lac qui Parle	18	$211,497
Lake	156	$1,922,700
Lake of the Woods	17	$269,178
Le Sueur	170	$2,730,234
Lincoln	32	$596,037
Lyon	163	$672,945
Mahnomen	9	$115,362
Marshall	14	$230,724
Martin	261	$3,806,946
McLeod	221	$3,172,455
Meeker	201	$2,268,786
Mille Lacs	716	$9,824,997
Morrison	200	$2,461,056

Appendix B: Cost of Foreclosures to Local Governments (2008-2012) continued

County	Foreclosures	Cost of Foreclosures
Mower	198	$2,960,958
Murray	11	$96,135
Nicollet	118	$1,653,522
Nobles	32	$461,448
Norman	20	$153,816
Olmsted	1,379	$11,170,887
Otter Tail	635	$9,190,506
Pennington	14	$249,951
Pine	241	$3,460,860
Pipestone	10	$76,908
Polk	43	$576,810
Pope	142	$1,788,111
Ramsey	19,002	$189,443,631
Red Lake	6	$96,135
Redwood	32	$634,491
Renville	51	$730,626
Rice	1,997	$32,474,403
Rock	26	$307,632
Roseau	51	$826,761
Saint Louis	3,095	$45,606,444
Scott	4,648	$29,763,396
Sherburne	3,670	$60,142,056
Sibley	140	$2,057,289
Stearns	1,469	$7,979,205
Steele	184	$2,576,418
Stevens	13	$134,589
Swift	31	$384,540
Todd	119	$1,518,933
Traverse	3	$38,454
Wabasha	118	$1,999,608
Wadena	100	$1,153,620
Waseca	69	$1,192,074
Washington	7,035	$34,051,017
Watonwan	24	$288,405
Wilkin	25	$442,221
Winona	103	$1,288,209
Wright	5,504	$67,621,359
Yellow Medicine	28	$480,675
STATE	**141,239**	**$1,505,435,646**

Endnotes

1 In 2011, federal regulators found "unsafe and unsound" practices related to mortgage servicing and foreclo sure processing at 14 of the largest mortgage servicers, including Wells Fargo and U.S. Bank, the two largest servicers in Minnesota. Some of the practices they found became commonly known as "robo-signing."

2 Based on data from HousingLink and RealtyTrac.

3 Pennington-Cross, Anthony. The Value of Foreclosed Property. *Journal of Real Estate Research*, Volume 28, No. 2, April-June 2006.

4 Based on a median home value of $219,000 from the U.S. Census Bureau's American Community Survey 2005-2007 3-year estimates.

5 Methodology from "The Subprime Lending Crisis: The Economic Impact on Wealth, Property Values, and Tax Revenues, and How We Got Here," Report and Recommendations by the Majority Staff of the Joint Economic Committee. Senator Charles E. Schumer, Chairman. Representative Carolyn B. Maloney, Vice Chair. October 2007.

6 Immergluck, Dan and Geoff Smith. The External Costs of Foreclosure: The Impact of Single-Family Mortgage Foreclosures on Property Values. *Housing Policy Debate* Volume 17, Issue 1, 2006. It conservatively estimates that a foreclosed property will cause the value of neighboring homes within an eighth of a mile (about 50 homes) to drop 0.9%. Higher estimates put the decline at 1.4% in low-to moderate-income communities and others double the impact radius to a quarter of a mile.

7 "Lost Ground, 2011: Disparities in Mortgage Lending and Foreclosures," Center for Responsible Lending November 2011 and "Income is No Shield Part III. Assessing the Double Burden: Examining Racial and GenderDisparities in Mortgage Lending," National Council of Negro Women and National Community Reinvestment Coalition, June 2009 and "Unequal Opportunity Lenders? Analyzing Racial Disparities in Big Banks' Higher-Priced Lending," Center for American Progress, September 2009.

8 Pew Research Center. *Twenty-to-One: Wealth Gaps Rise to Record Highs Between Whites, Blacks and Hispanics*. July 26, 2011.

9 Apgar, William C. and Mark Duda. Collateral Damage: The Municipal Impact of Today's Mortgage Foreclosure Boom. Prepared for the Homeownership Preservation Foundation. May 11, 2005.

10 "After foreclosures, crime moves in," *The Boston Globe*, November 18, 2007.

11 Based on bank-owned property (REO) data from RealtyTrac. In Minnesota, 55% of the homes that went into foreclosure from 2008 through 2012 were repossessed by the bank. These 78,298 bank-owned foreclosures are the type that sit vacant and become public nuisances.

12 Isaacs, Julia B. The Ongoing Impact of Foreclosures on Children. Brookings, April 2012.

13 "The Impact of the Mortgage Crisis on Children." First Focus, May 2008.

14 Isaacs.

15 "Tying Health Problems to Rise in Home Foreclosures," *Wall Street Journal*, August 31, 2011.

16 Isaacs.

17 Isaacs.

18 CoreLogic Negative Equity Report, Q3 2012.

19 "The Win/Win Solution: How Fixing the Housing Crisis Will Create One Million Jobs," The New Bottom Line, August 2011.