

# FORECLOSURES IN THE TWIN CITIES

ANALYSIS OF SPATIAL TRENDS

PRODUCED BY THE URBAN GIS CLASS

MACALESTER COLLEGE, ST. PAUL, MINNESOTA • SPRING 2004



# Foreclosures in the Twin Cities

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May 2004*

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This report is the result of a partnership between the Urban GIS Seminar and the Community Affairs Department of the Federal Reserve Bank of Minneapolis.

## Special thanks to:

Michael Grover and Devon Pohlman, Community Affairs, Federal Reserve Bank of Minneapolis

Autumn Lubin, *Don't Borrow Trouble*

Carol Gersmehl, Macalester College

Ramsey County Government Center

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# EXECUTIVE SUMMARY

Homeownership not only offers economic and social benefits to an individual or family, but also contributes to strengthening the community. As members of a community, the Geography Department of Macalester College St. Paul, in association with the Federal Reserve Bank of Minneapolis, has engaged in a semester long project analyzing foreclosure rates for Minnesota's Twin Cities.

Through extensive use of cartographic tools and statistical analysis the main purpose of the project is to visually present to you the distribution of the cities' foreclosures. A diverse set of thematic maps is used to correlate foreclosure locations with financial, ethnic, demographic, educational, and housing characteristics. Land use, locations of lending institutions and distinctiveness of the foreclosed loans are also portrayed throughout the project.

With these diverse maps obtained through extraction and aggregation of information from the Census Bureau, Home Mortgage Disclosure Act (HMDA), county government offices, and the Metropolitan Council, we allow you, the reader, to form your own conclusions. Did certain areas of Twin Cities experience a greater number of foreclosures than others? What are the socioeconomic characteristics of the foreclosed areas? Do these foreclosures have characteristics of subprime and/or predatory lending?

We hope that this project informs the public of the necessary precautions that need to be taken to ensure fair lending practices and eliminate any forms of discrimination by tolerating predatory lending.

# INTRODUCTION

## HOMEOWNERSHIP

To an individual, homeownership corresponds with social status, stability and investment. Since the early 1990s the United States annually sees increases in homeownership rates as the population seeks to invest their funds in an asset that would personally endow them with a form of security and economically add to their wealth accumulation. Making up more than 20 percent of the country's GDP (Gross Domestic Product), the homeownership sector evidently is one of the main contributors to the country's overall economic performance. The stimulation of this sector not only provides employment to the manufacturing segment but its trickle-down effect contributes significantly to stimulating the service industry.

The affordability and availability of housing, however, remains a barrier to a noteworthy part of the U.S. population. The main groups in question are newly settled immigrants, minority groups, elderly and financially deprived. Constrained by language, knowledge, or financial backing these individuals, as a result, become principal targets for predatory and subprime lenders.

## PREDATORY LENDING

Defined as an abusive lending practice, predatory lending has been one of the main problems associated with financing home mortgages (Freddie Mac). Predatory lending is based on making loans to individuals who are unable to repay these loans fully by analyzing the assets the individual holds rather than examining their income inflows. This form of lending also engages in trapping borrowers to sign contracts that do not clearly define the borrower's obligations in repaying the loan. The unclear terms inscribed, in a number of cases, add to the profits made by the lender. Once the borrower starts facing difficulties in repaying the loans the individual can be induced by the lender to refinance his/her loan. Loan refinancing ("loan flipping"), in turn, is a service provided and charged by the lender.

In the United States predatory lending is considered an illegal practice unlike subprime lending. While predatory lending is a form of subprime lending, not all subprime loans are predatory loans.

## **SUBPRIME LENDING**

Unlike predatory lending, subprime lending is considered a legal activity in the United States. It is difficult to distinguish between these two forms of lending; differences, however, do exist. Subprime lending is particularly geared at individuals that are not eligible for conventional loans, hold a poor credit history or have low annual income.<sup>1</sup> In this case a poor credit history is associated with bankruptcies or failure to pay bills on a set date. In order to ensure against the greater risk the lenders hold, by providing these loans, they charge a higher than standard interest rate.

The discrimination in these lending practices are difficult to perceive causing a significant proportion of households to engage in inappropriate borrowing schemes. In a number of cases these schemes can lead to foreclosures.

## **FORECLOSURES**

A borrower that defaults on his/her payment of a mortgage loan will usually have their property foreclosed. In the case of Minnesota the property can be foreclosed by either an advertisement or a court action. The following are the steps undertaken when a home is being foreclosed.

1. The lender's first obligation is to provide a 30 days notice of a default existence.
2. Once the default has been reported by the lender a certificate of sale is produced by the sheriff. The certificate clearly states the amount for the sale and the proportion of the loan that was not paid.
3. Right of first Refusal. Once the lender obtains the property that is being foreclosed on, it will try to resell the property. At this point the primary borrower (the owner whose property is being foreclosed on) can repurchase the property and is given preference to any other buyer. This law applies for the first five years after the foreclosure.
4. Deficiency. The market value of the property that is foreclosed is determined by the judge. This value, however, may be lower than the remaining unpaid balance of the old loan leaving the lender in a deficit if he/she were to resell the property. In this case the lender has the right to recover the deficiency by filing another lawsuit against the borrower where the borrower still holds the obligation of repaying the difference in values to the lender.

<sup>1</sup> For further information of predatory and subprime lending see: Responsible Lending: A Resource for Predatory Lending Opponents Available on-line: <http://www.responsiblelending.org/abuses/evolution.cfm>. Anoka County: Office of Civil Rights Available on line: <http://www.metrokc.gov/dias/ocre/fhfaqle.htm#subprime> <sup>2</sup> For further information on the steps undertaken when a home is being foreclosed in Minnesota see Stopping Bank Foreclosures.com. Available on line: <http://1st-at-stopping-bank-foreclosure.com/foreclosure-help/state-foreclosure-process/minnesota.htm>

5. Redemption. In the case of Minnesota the borrower has one year after the foreclosure to redeem the property by making all of the due payments.

6. Preliminary notice. At this point a preliminary notice is issued that states the name of the borrower and the original lender, the mortgage date, the amount of the loan due and description of the property. Any lenders that took over would be named in this notice as will the time and place of the foreclosure sale and the time allowed for the original borrower to redeem the property.

7. Sale Procedure. Once the lender provides an itemized statement with the amount due the sheriff can read the statement at the day of the sale. In Minnesota the foreclosure sale may be conducted by public auction where the highest bidder can obtain the property.

# DATA AND METHODOLOGY

The desire to analyze socioeconomic, housing, loan, and lending characteristics in the context of foreclosures required several data sources. Foreclosure data was gathered from the archives of following offices: Hennepin County Sheriff, Ramsey County Sheriff, Ramsey County Property Records and Revenue, Hennepin County Assessor's Office, and Ramsey County Assessor's Office. The foreclosure number, street address, city, state, zip code, and county were recorded for each foreclosure. This also included data regarding the lender, age of mortgage, original loan amount, and amount due at foreclosure, in addition to the interest rates in Ramsey County. Socioeconomic and housing data came from the 2000 Census, including population age, income, and race, as well as housing size, age, tenure, and vacancy. General lending characteristics were obtained from the 2002 HMDA data provided by the Federal Financial Institutions Examination Council's (FFIEC) Loan Application Register (LAR) & Transmittal Sheet (TS) Raw Data. Each TS contained a 1990 census tract number and loan amount that were used. General financial institution information came from the Federal Deposit Insurance Corporation (FDIC) institution directory, which provided bank data on deposits, addresses, and number of offices, and the National Credit Union Association (NCUA) for credit union addresses. It should also be noted that the Metropolitan Council provided base map and parcel data that allowed the actual creation of maps and analysis.

Each data set has its own value and limits stemming from the nature of data, the manner in which it was gathered, the scope of what was recorded, and manner in which it was processed. The data used for this report was original data, processed raw data, or finished data. The 2000 Census and the Metropolitan Council base maps and parcel data were finished data that have the caveats of their authors, but in general remain impeccable data sets. The 2002 HMDA, FDIC, and NCUA data were raw data that was provided by their respective governmental agencies and processed using georeferencing and aggregation techniques. The central issue with the HMDA data is that not all TS's had tracts, likewise not all tracts had TS's, and as such there are tracts for which no data can be analyzed using HMDA data. The caveats of the FDIC and NCUA data are that they do not include non-member lending institutions or local alternative monetary practices that affect cash flow. Foreclosure data was original data gathered from multiple sources, integrated, geocoded, and in some instances aggregated. This was most challenging data set because of the sheer volume of resources that went into its creation, approximately 50 hours of peak performance work. The foreclosures are represented by points on parcels and while their location was manually verified, ensuring accuracy, there may be issues regarding the nature of the foreclosure, specifically whether the foreclosure was residential or commercial. This ambiguity results from differences in parcel detail between the counties, and also from the nature of multipurpose and rental housing.



The process gathering the foreclosure data varied between the counties, but generally consisted of looking through archives containing mortgage notes. (see: Example Mortgage Note) Once the data was all gathered it had to be georeferenced, but small variations between the Counties' addresses for parcel and the sheriff's address for the foreclosure required that every foreclosure be manually geocoded. The street names and building numbers used for the parcels were not always the same as those used for the foreclosures. Typically this arose when the houses were between two streets, both streets would be used and so not match, as well as small, but sometimes large, differences in building numbers. Some foreclosures only had parcel id numbers and not addresses, which required that they be looked up on the Hennepin County Tax Assessor's website. In all cases when the street address did not match the physical shape and location was verified manually. It should be noted that these foreclosures are houses that went into foreclosure, but did not necessarily complete the foreclosure process.

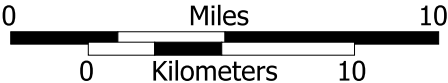
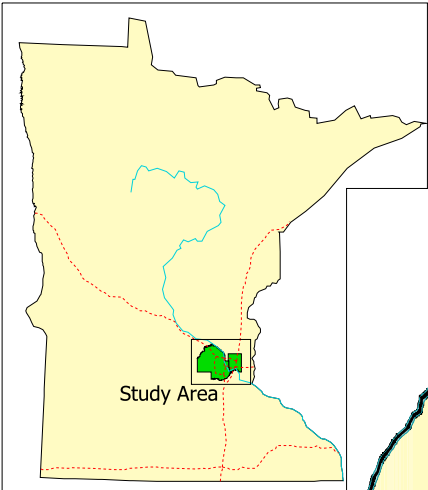
HMDA data presented more of a technological difficulty in aggregation. The numbers of TS's exceeded the size of the dBASE IV (DBF) file format compatible with ArcView. This pointed towards the necessity of using Oracle to manage the data as a database. The process then moved from strictly geographical to more database focused. All the TS's for Hennepin and Ramsey County were first exported in Comma Separated Values (CSV) format and imported Oracle after the order of the values was deciphered. Then the proper Structured Query Language (SQL) statements were designed and executed to aggregate the data by 1990 census tract. This aggregated the data was then exported to a CSV file, converted to DBF format, and georeferenced with ArcView.

SECTION ONE:

# SPATIAL TRENDS

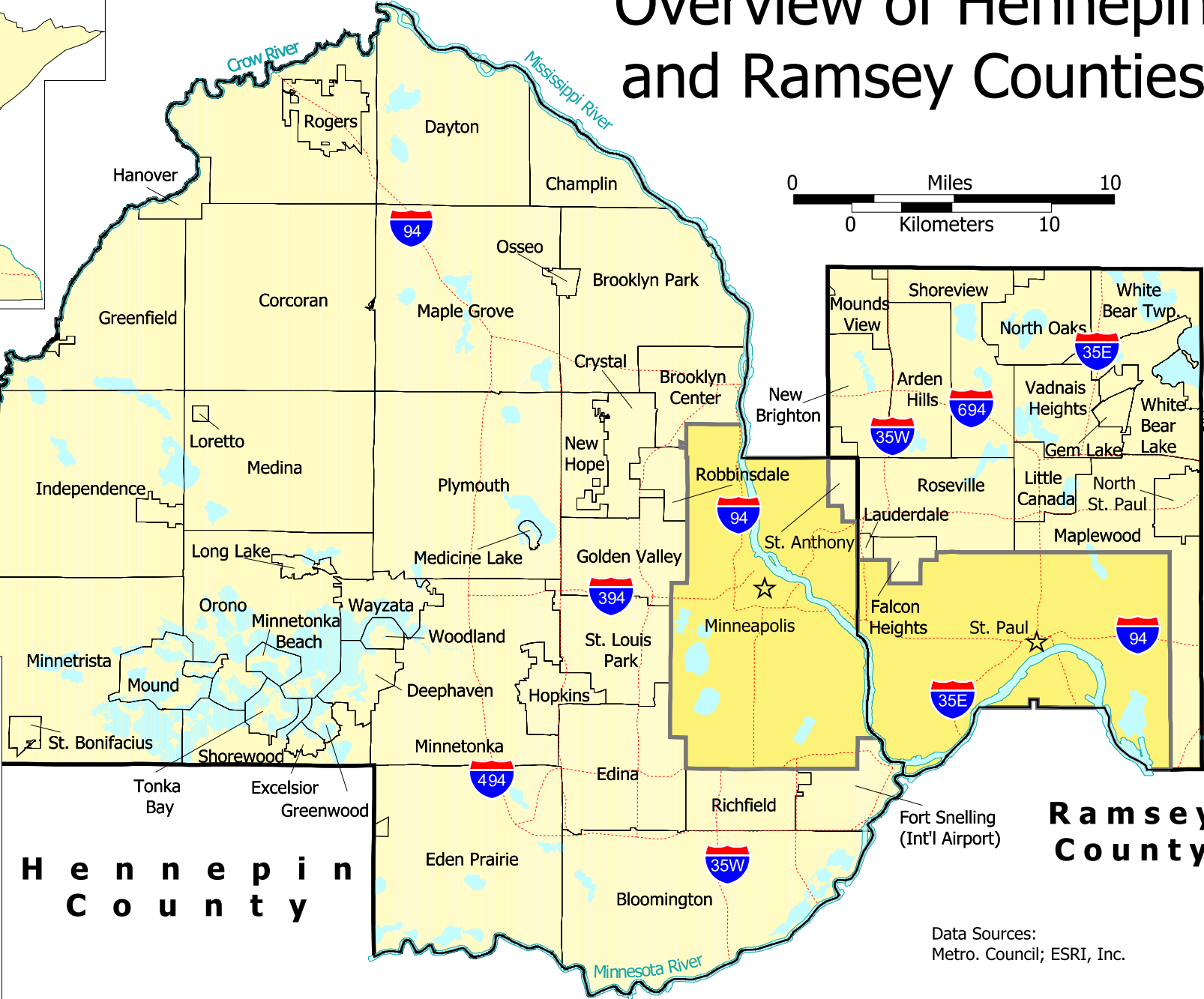


# Overview of Hennepin and Ramsey Counties



**Legend**

- County Boundary
- Minneapolis and Saint Paul
- Town Boundary
- City Center
- Lakes and Rivers
- Highways

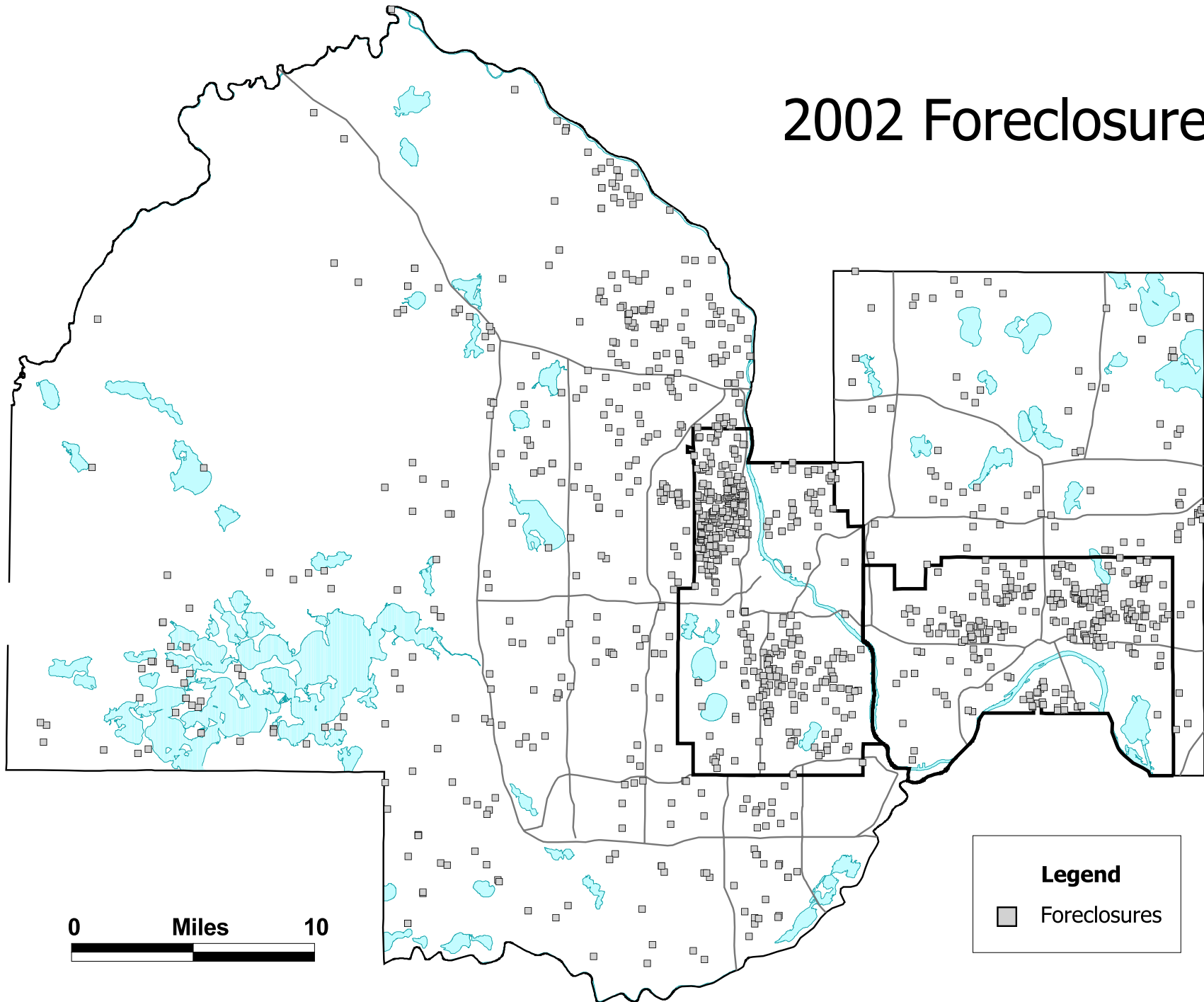


**H e n n e p i n  
C o u n t y**

**R a m s e y  
C o u n t y**

Data Sources:  
Metro. Council; ESRI, Inc.

# 2002 Foreclosures



0 Miles 10

**Legend**  
■ Foreclosures

# Examples of Foreclosures

2531 Queen Avenue N, Minneapolis  
Borrowed: \$37,900 in August 2001  
Owed: \$4,360 in 2002



1710 Bridgewater Road, Golden Valley  
Borrowed: \$560,000 in March 2000  
Owed: \$637,523 in 2002



2189 St. Croix, Roseville  
Borrowed: \$349,900 in April 2001  
Owed: \$370,970 in 2002



191 Sidney Street W., St. Paul  
Borrowed: \$69,836 in November 1994  
Owed: \$73,029 in 2002

