

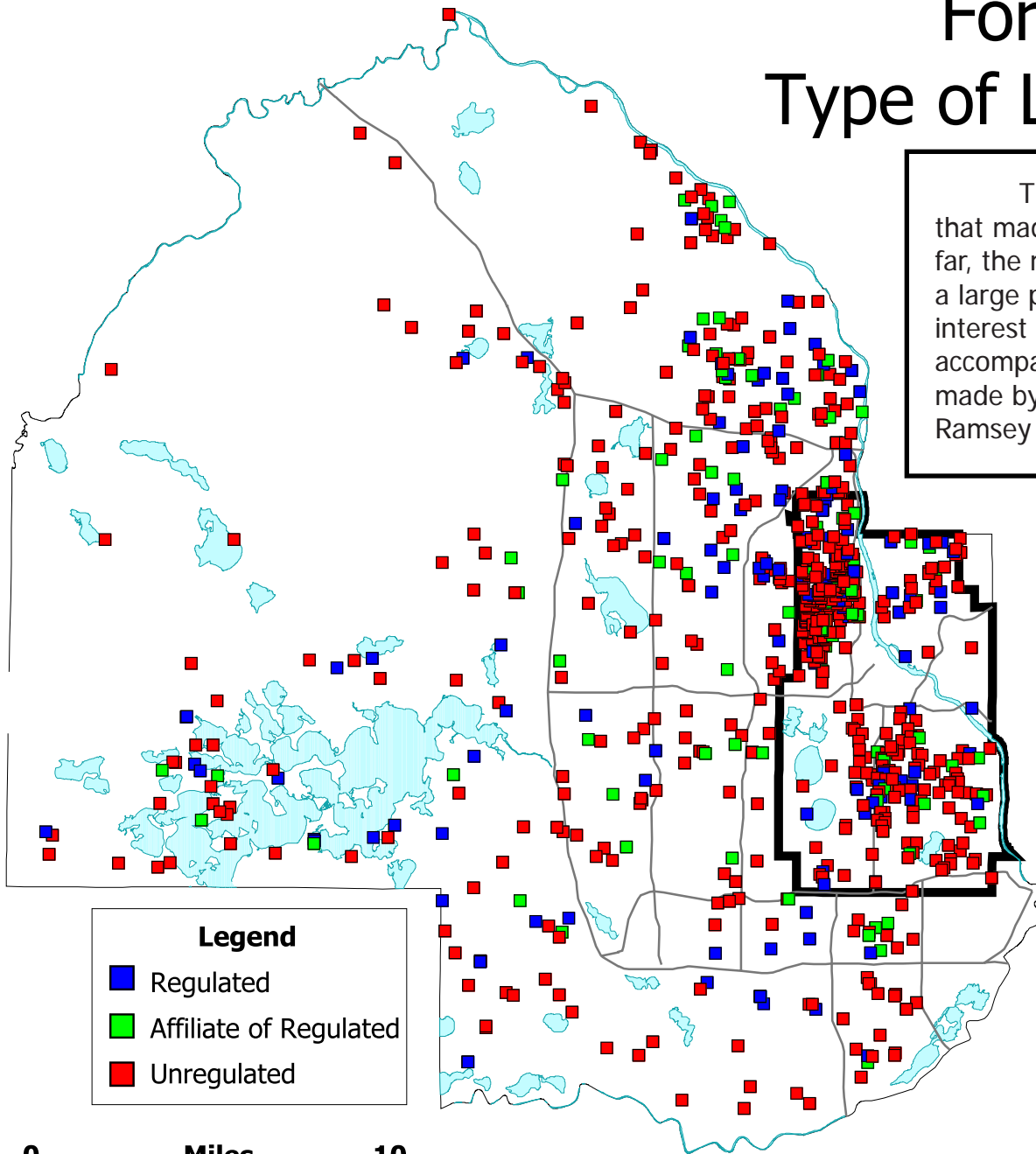
SECTION FIVE:

# FORECLOSURE AND LENDING CHARACTERISTICS

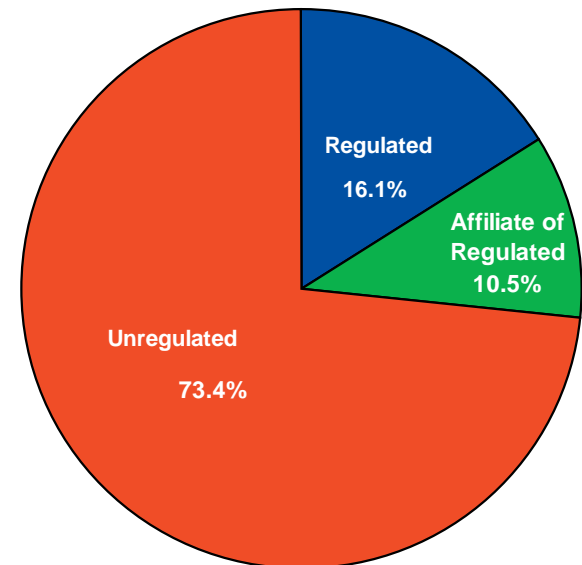


# Foreclosures by Type of Lending Institution

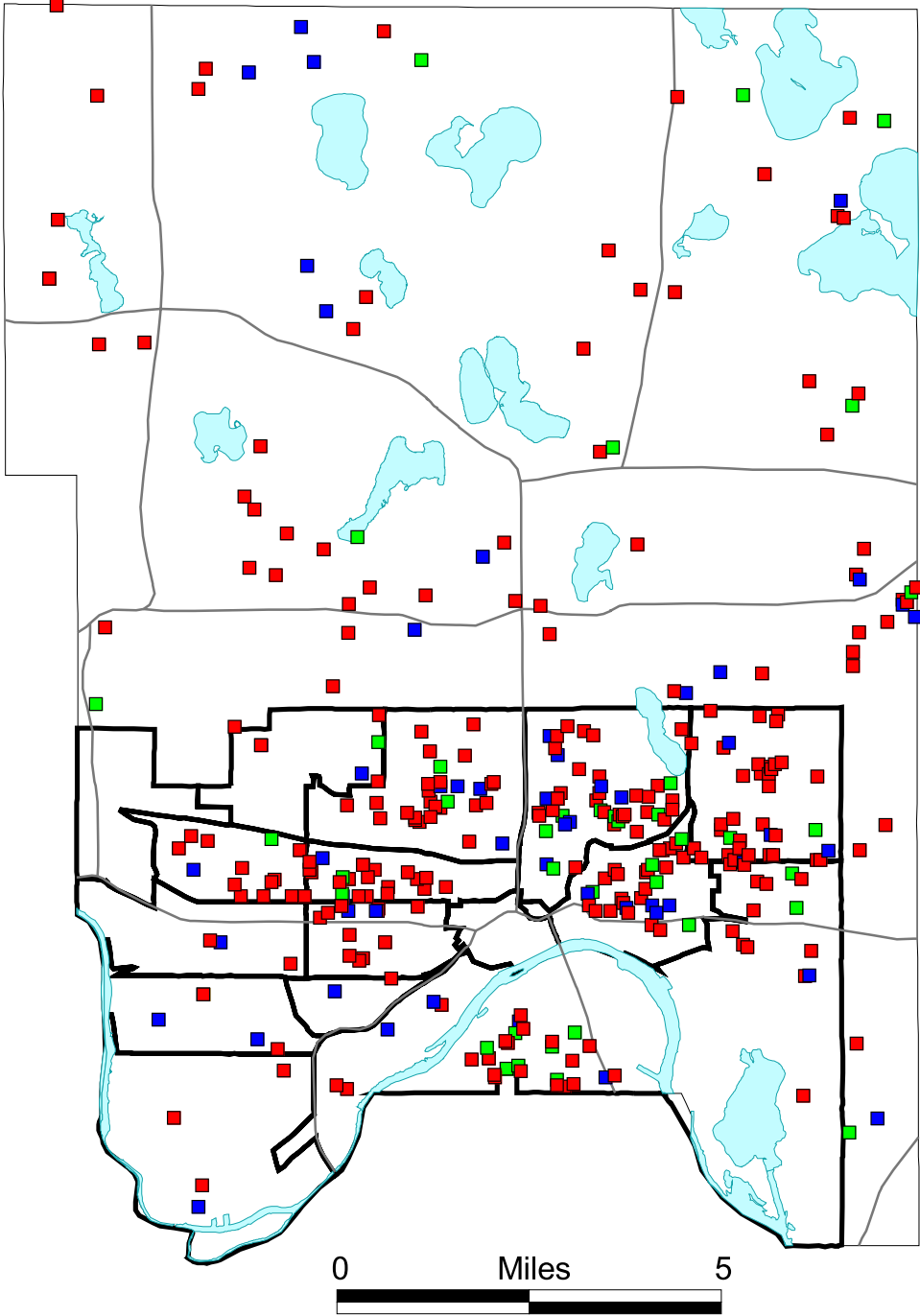
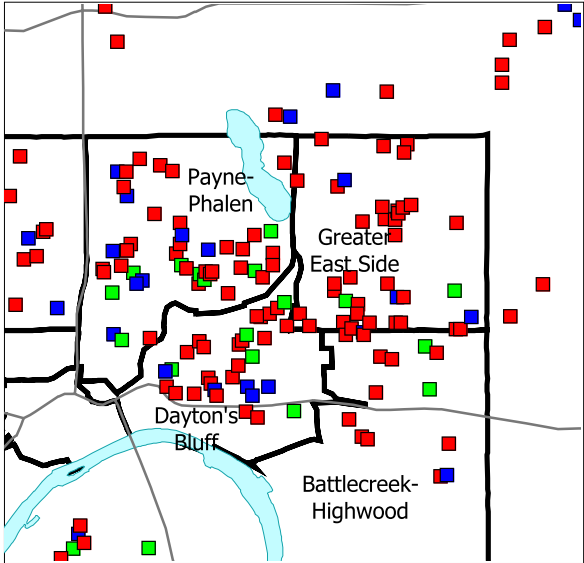
This map shows the type of lending institutions that made each loan. Unregulated institutions are, by far, the most prevalent type. This probably indicates a large percentage of subprime loans (loans with high interest rates for borrowers with high credit risks). The accompanying pie chart shows the percentage of loans made by each type of institution for both Hennepin and Ramsey County.



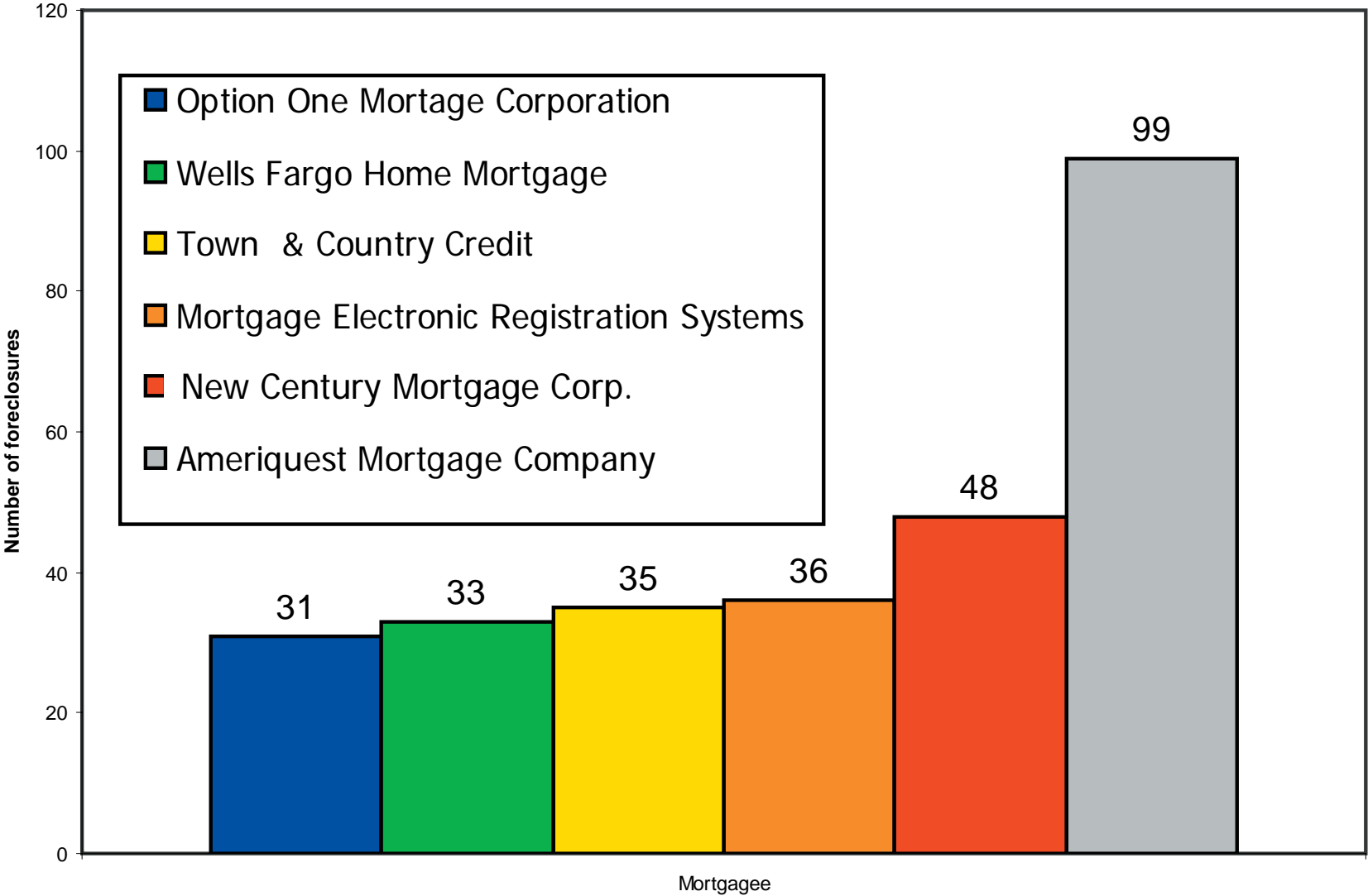
Proportions of Regulated, Affiliate and Unregulated Institutions  
Hennepin and Ramsey Counties



# Types of Lending Institutions



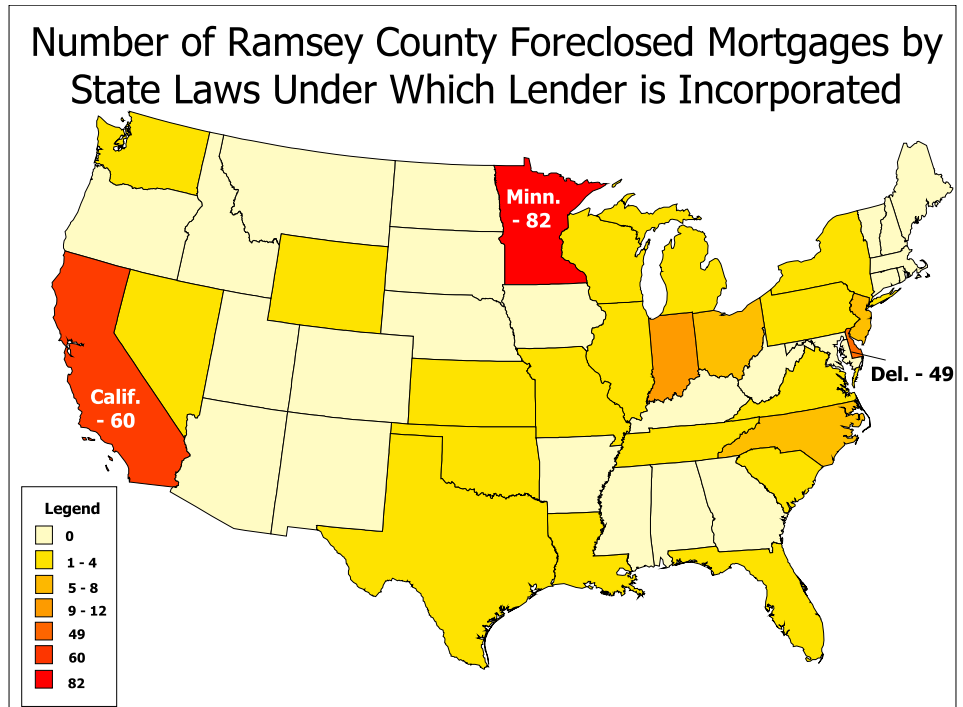
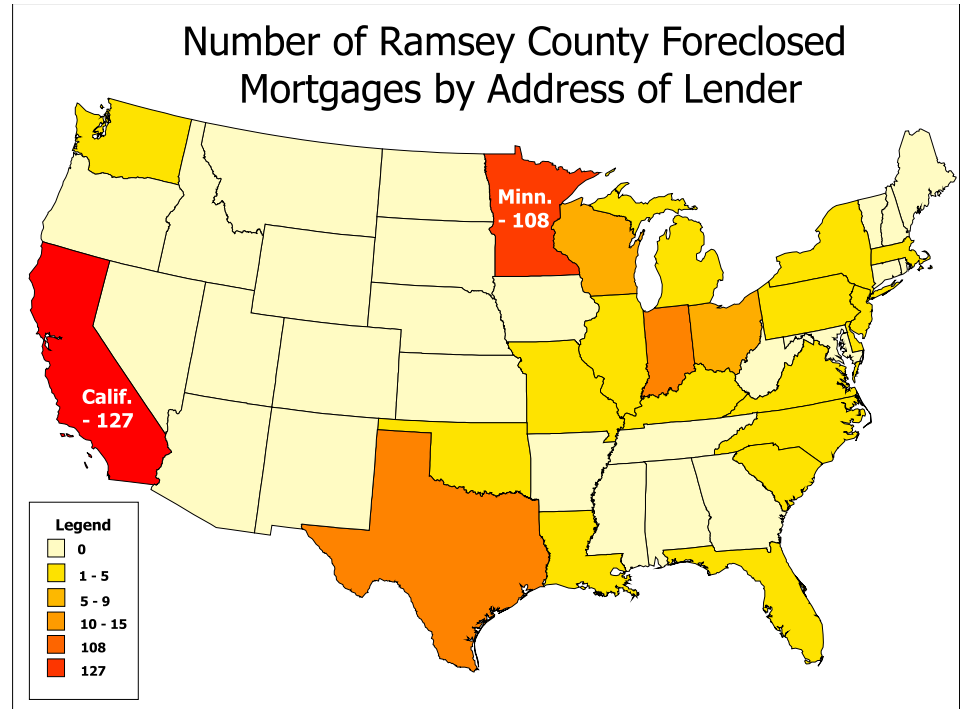
### Number of Foreclosures for the Top Six Mortgagees Hennepin and Ramsey Counties



## STATE OF INCORPORATION

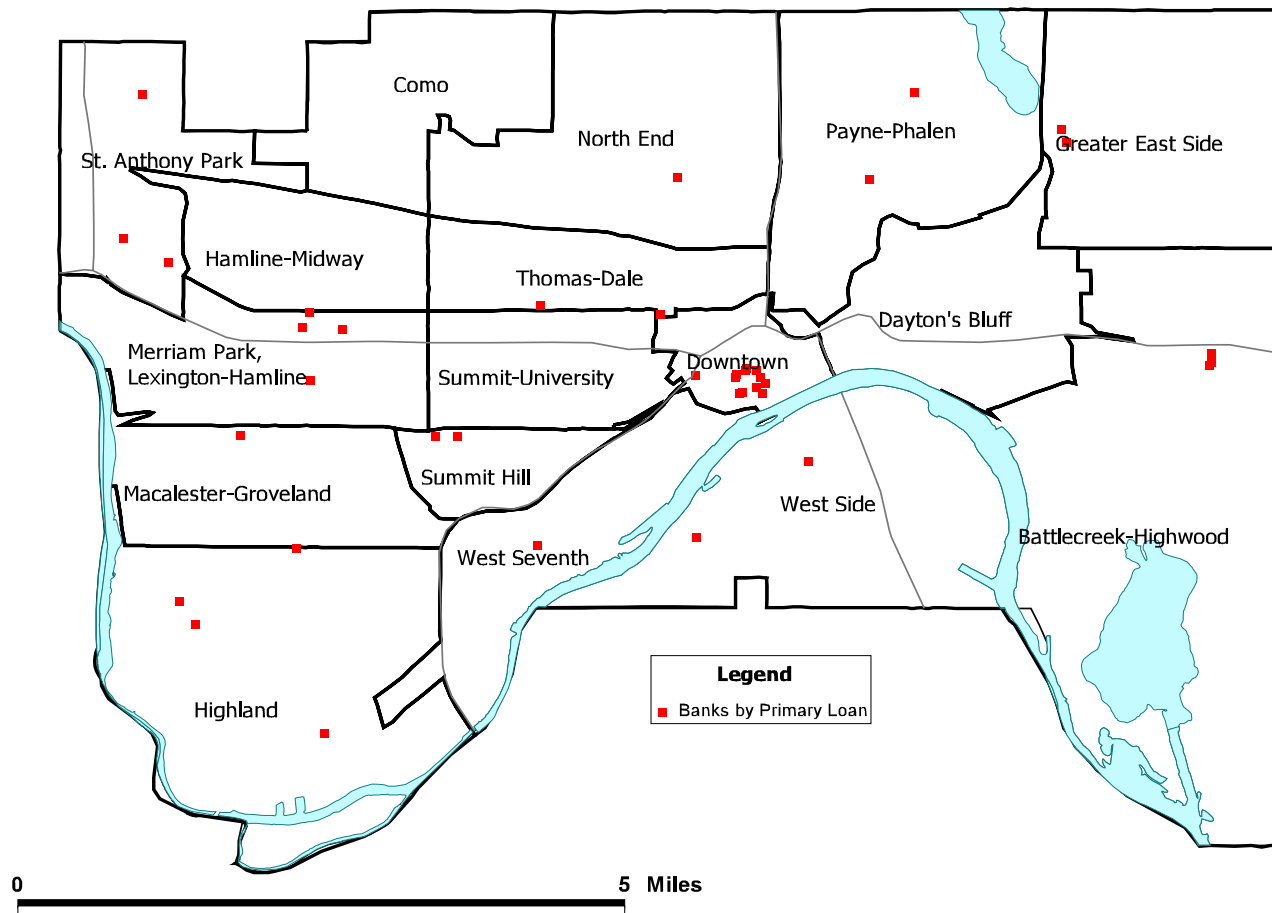
Another important characteristic of lending institutions to look at is the state in which they are incorporated under as well as their address. As the second map shows, most of the lenders incorporated under Minnesota, California, and Delaware laws. Both California and Delaware have less stringent laws for the licensing and regulation of brokers, so it is no surprise that so many lenders incorporate within these states. When compared with the actual address of the lender in the first map, we see that the number of companies incorporated in Minnesota is lower than the number that are established here -- illustrating the trend to incorporate in more advantageous states.

Overall, we see from these maps of lender origin and incorporation that much of the lending involved in these foreclosures was from companies outside of Minnesota. This can be problematic, as these lenders have no connection to the cities, neighborhoods, or individual houses they are mortgaging to. As well, out of state companies are harder to regulate which can limit Minnesota's ability to police predatory lenders.

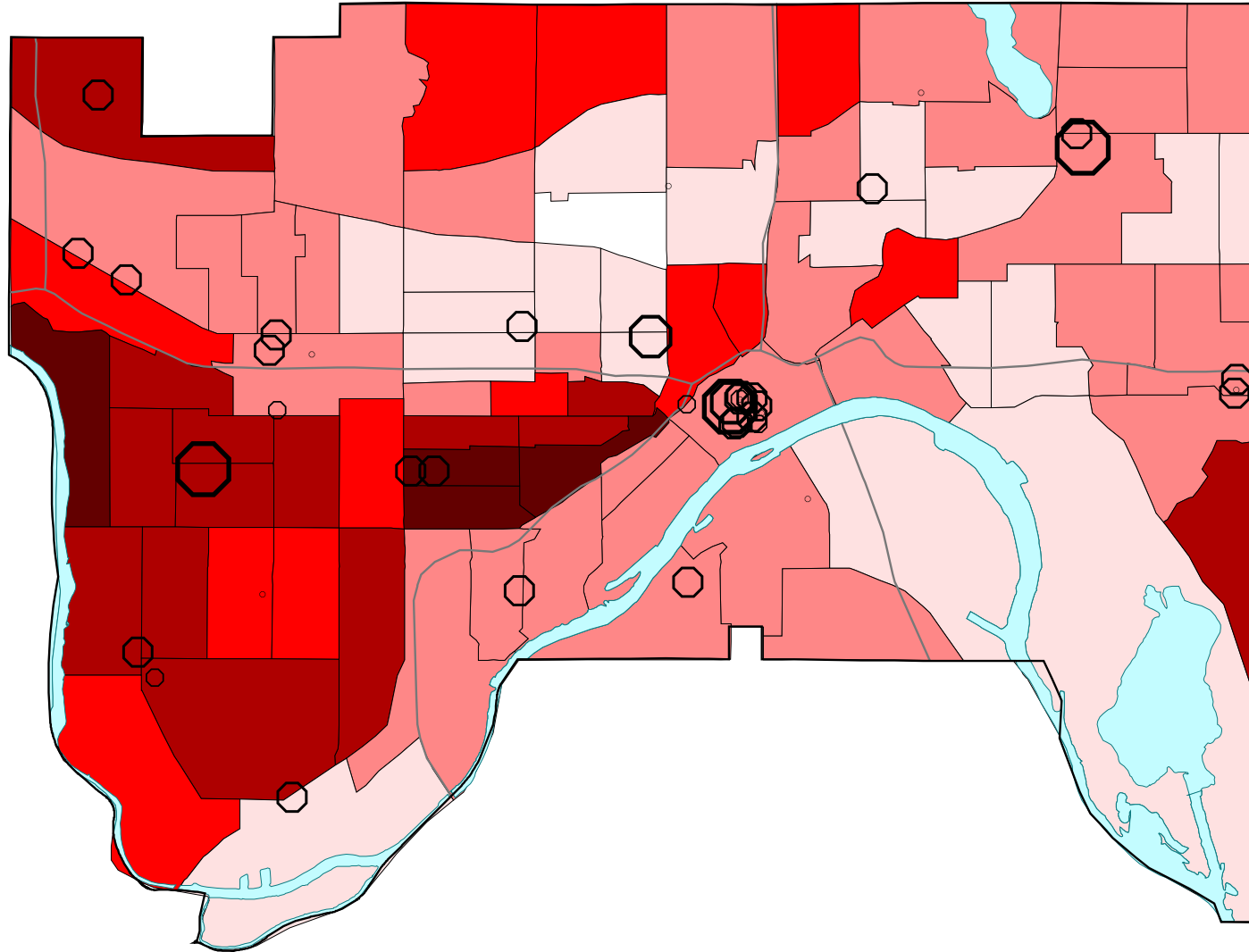
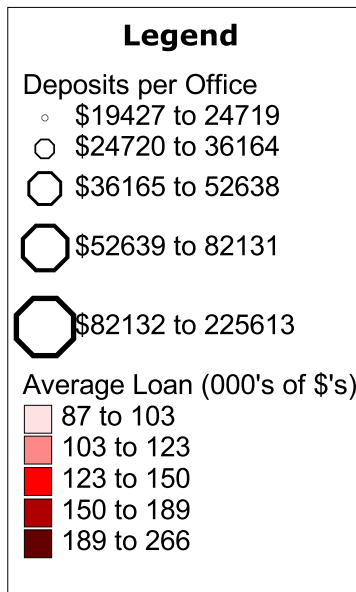


No banks were located in the Hamline-Midway, Summit-University, Como, or Dayton's Bluffs neighborhoods. In Hamline-Midway and Summit-University banks were located on the perimeters of these neighborhoods since boundaries were based on major commercial thoroughfares. The Como neighborhood is mostly residential, and so it is not surprising that no banks were located within these boundaries or on perimeters. However, Dayton's Bluff does contain an important business cluster and also coincides with an important concentration of foreclosures, which is especially apparent in foreclosure density maps made with the simple density method (see Chapter 1). There is also a hot spot in this neighborhood of foreclosure densities made with the kernel method.

## Bank Locations

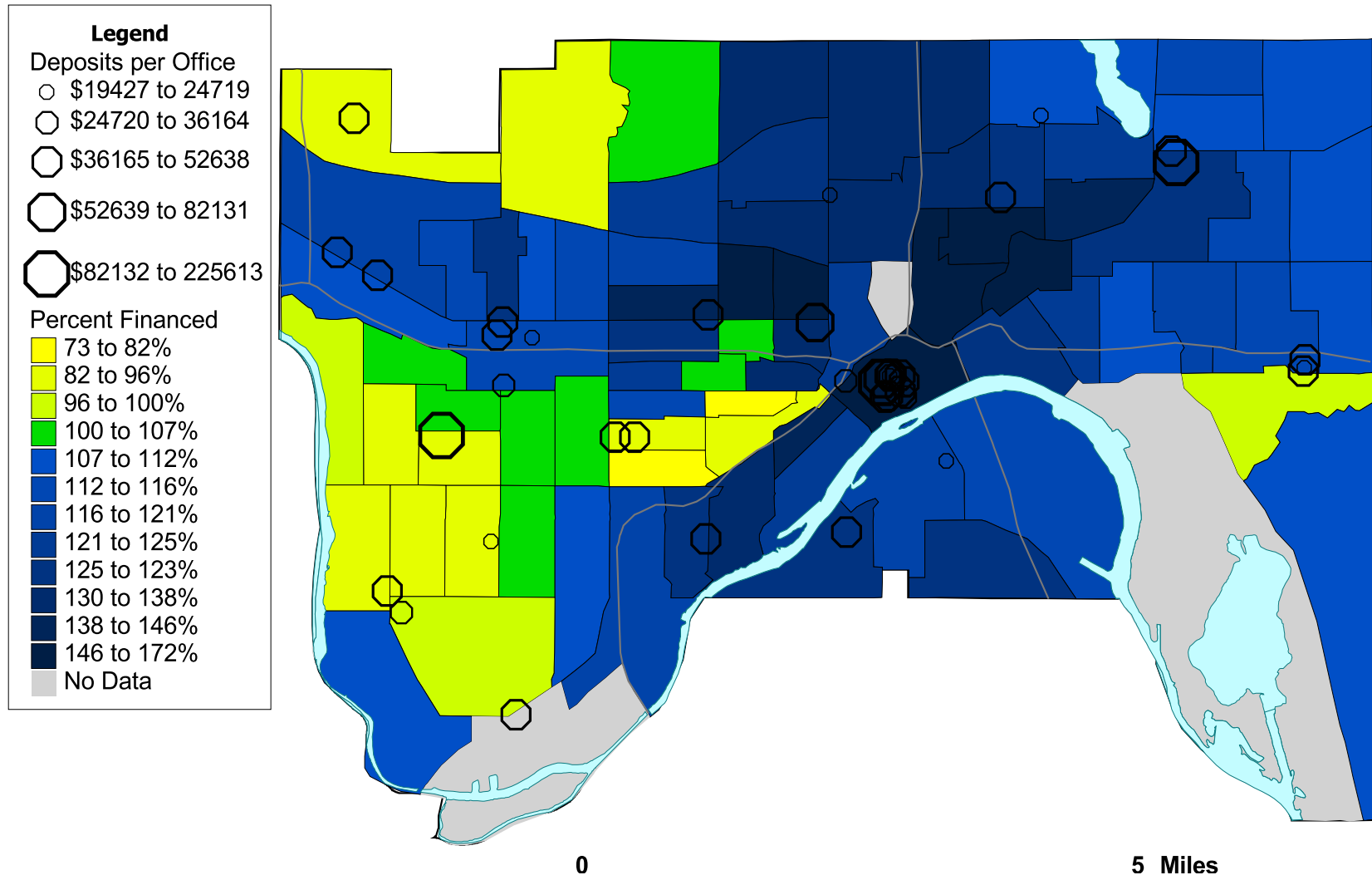


# Average Loan



There is no visual correlation between deposits per bank office and average loan by census tract, this suggests that access to loans does not depend on proximity to Bank deposits. However, loans in this case include all loans and not simply bank loans. There may be significant financing outside of the regulated banking system. Also, this pattern reflects housing values. Home owners with higher home values appear to borrow more money to finance their more expensive homes, which one would expect.

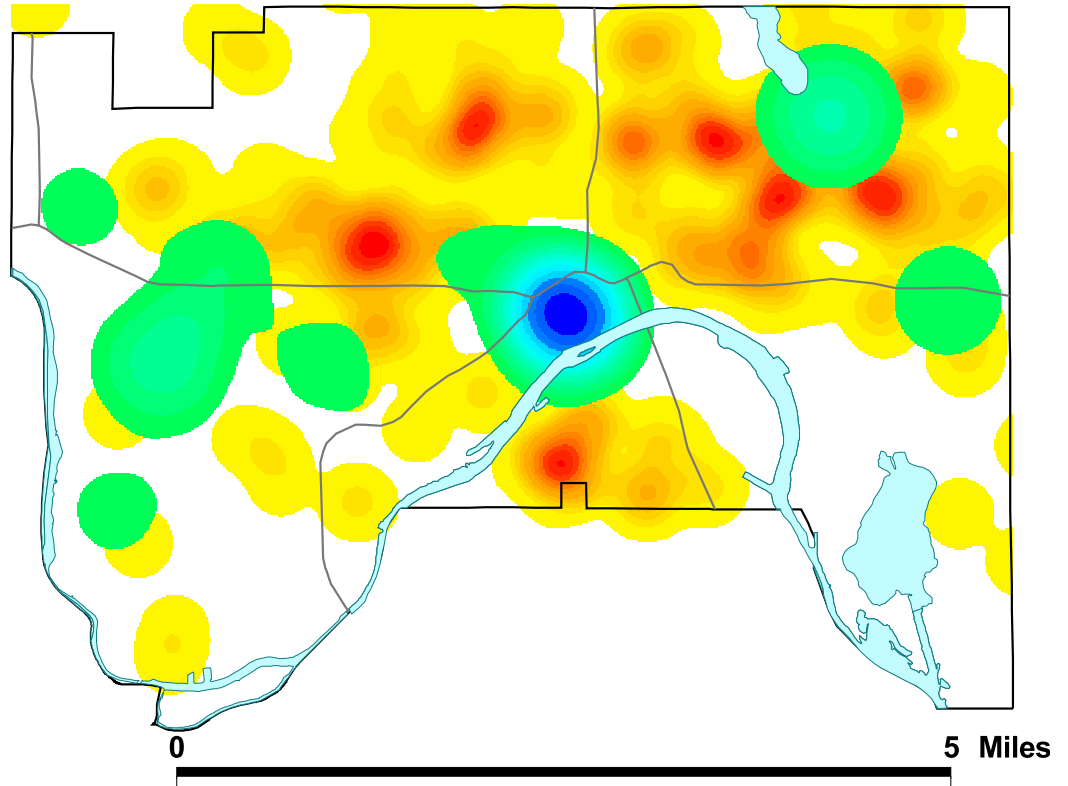
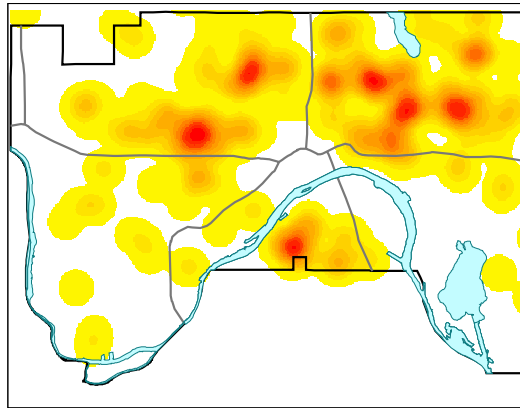
# Percent of Median Value Home Financed by Mortgages by Census Tract with Deposits per Office



This map provides a counter to the previous map, although loans are larger in areas with higher home median values, tracts with low median values coincide with average loans which exceed the value of the median value home. These excessive loan point to the possibility of predatory lending within these tracts.

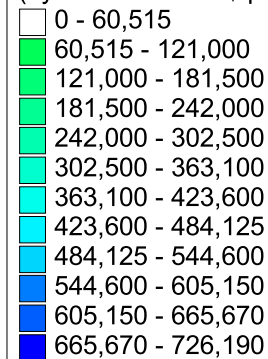


# Bank Deposit and Foreclosure Densities

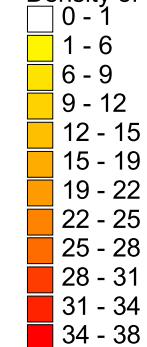


Strong deposit densities are associated with the availability of loanable funds that are least likely to be predatory loans, namely regulated bank funds. Strong deposit densities are found where clusters of “mainstream” offices exist, as these institutions typically have much larger deposits per office than smaller institutions. As evidenced by the map, these clusters of mainstream banks are located farther from “high-risk” areas where concentrations of low median value housing are apparent. It is in these low median value housing and low deposit density areas that foreclosures seem to occur. However, it is not clear whether the presence of low median value housing or the absence of these banks is a stronger cause of these high foreclosure densities.

Density from Deposits per Office  
(by Thousands of \$ per sq. mi)



Density of Foreclosures (per sq. mi)



All hot spots lie more than a mile from primarily mortgage or public credit unions. It is however, still unclear whether these foreclosures are more related to their location within low median home value zones or the lack of mortgage banks and public credit unions, since the absence of these institutions may be caused by the low home values themselves.

## FORECLOSURE PREVENTION PROGRAMS

With so many foreclosures occurring in just two counties in 2002 alone, it is clear that strategies to educate homeowners and prevent foreclosures are needed. According to a report produced by the Family Housing Fund, services for homebuyers are necessary because, "By definition, economic constraints often steer homebuyers with low incomes to neighborhoods with lower-price and aging housing stock that also may be depreciating in value and needing major repair. Low incomes, often coupled with a lack of personal savings, make these homeowners especially vulnerable to financial crises, such as unexpected house repairs, job loss, health problems, and separation or divorce."<sup>1</sup> The report also concludes that foreclosure prevention activities are highly cost effective. The cost of foreclosure losses outweighs the cost of foreclosure prevention counseling and financial assistance to homeowners facing foreclosure.

The Twin Cities do have some important programs that try to prevent foreclosures and predatory lending through counseling and education called the *Mortgage Foreclosure Prevention Program* and *Don't Borrow Trouble*.

### ***Home Ownership Center's Mortgage Foreclosure Prevention Program***

- Launched 1991
- Funded by the Minnesota Housing Finance Agency, which contracts through different agencies to deliver foreclosure prevention assistance programs.
- In its first six years of operation (1991-1997), the MFP Program provided intensive counseling to almost 1,700 homeowners and demonstrated success by helping over half of them reinstate their mortgages.<sup>2</sup>
- It costs the MFP Program, on average, \$2,800 to help a homeowner reinstate a mortgage. This compares to average foreclosure losses to mortgage insurers in the range of \$10,000 to \$28,000, depending on the type of mortgage insurance and location of the home.

### **Strategies/Services:**

- In-depth counseling to address financial and personal issues that may affect a homeowner's ability to make the mortgage payments.
- Intervention and advocacy with mortgage servicers or lenders.
- Financial assistance in some cases.
- Referrals to other community services.
- Assistance in accessing funds from other programs that can contribute to the homeowner's financial stability.

### ***Don't Borrow Trouble***

- Launched in Minnesota 2003
- Goal is to “promote stability and success among families and individuals targeted by predatory lenders through a public education initiative.”
- The campaign has been shaped with the input of over 60 local partners, including nonprofit housing and homeownership organizations, governmental agencies, trade associations, and financial institutions.

### **Strategies/Services**

- Television and print advertising campaign
- Distribution of educational materials
- Helpline for people to call before signing a mortgage, refinancing, consolidating debt, or for foreclosure prevention counseling.

<sup>1</sup> Family Housing Fund, 1998, Mortgage Foreclosure Prevention: Program and Trends, Minneapolis, MN, p. 10

<sup>2</sup> Ibid., 1.

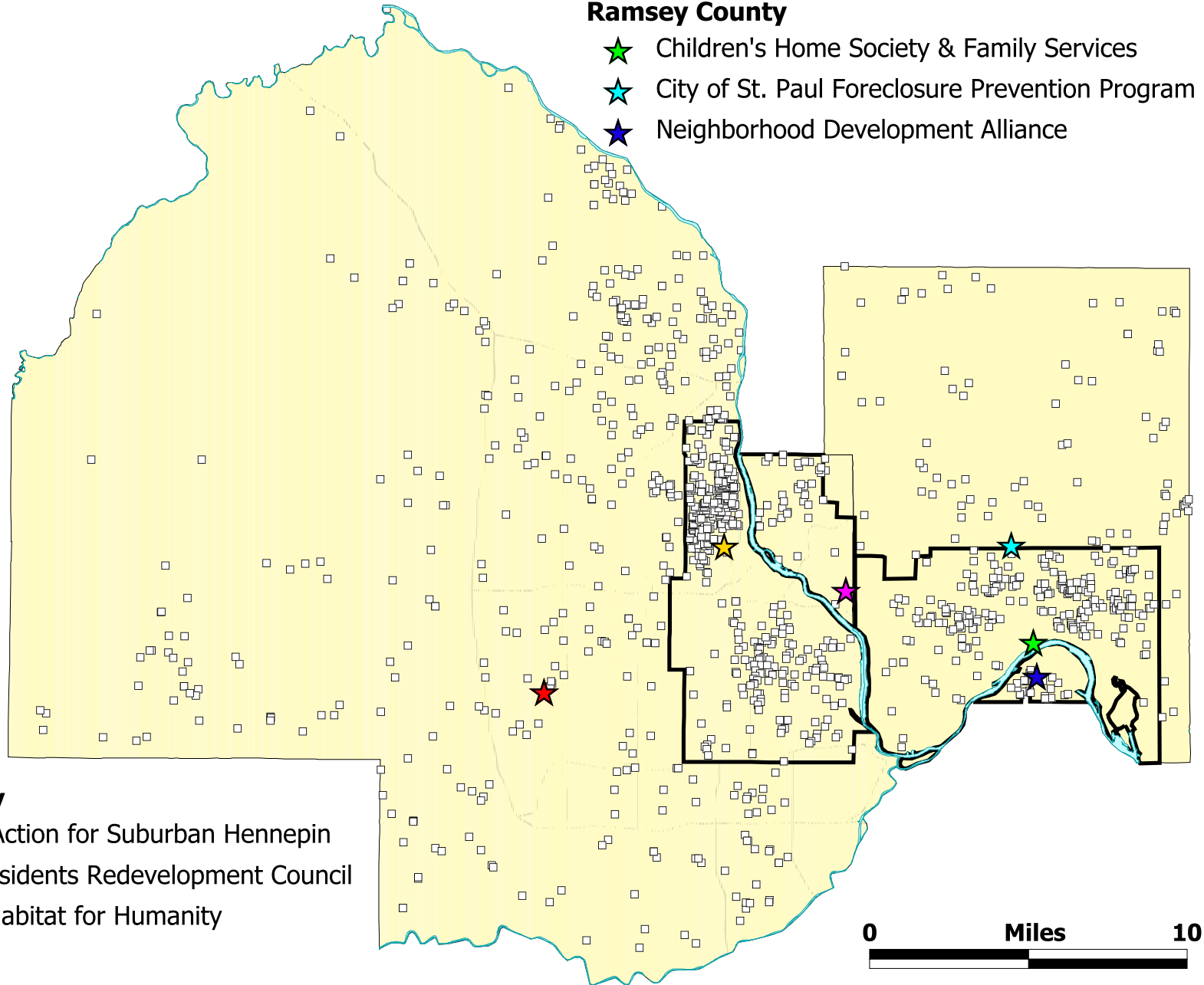
# Foreclosure Prevention Programs

## Ramsey County

- ★ Children's Home Society & Family Services
- ★ City of St. Paul Foreclosure Prevention Program
- ★ Neighborhood Development Alliance

## Hennepin County

- ★ Community Action for Suburban Hennepin
- ★ Northside Residents Redevelopment Council
- ★ Twin Cities Habitat for Humanity



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