

2015 Update: Discrimination by Banks in the Maintenance of Homes in Communities of Color Remains a Barrier to Recovery

Since the beginning of the housing crisis in 2008, approximately 5.8 million homes across the country have been lost to foreclosure. A significant number of these homes completed the foreclosure process and were repossessed by the bank, becoming bank or lender owned (these properties are also referred to as Real Estate Owned properties or REOs). Once they become REOs, they are owned by the banks and maintained by a bank's contracted vendors. These REOs often remain vacant for many months or years before being sold and can create blight and other negative outcomes for neighborhoods when not managed and maintained responsibly.

Despite nationwide efforts by banks and the federal government to reduce the number of foreclosure starts through counseling, short sales and principal reductions, bank repossession rates still remain high and, as a result, vacant REO properties still plague neighborhoods across the country. In fact, a recent report from RealtyTrac indicates that, while foreclosure starts in July 2015 were at their lowest level since 2005, bank repossessions remain at 37 percent above the pre-crisis rate. These statistics highlight that foreclosures and the resulting REO properties linger in neighborhoods over many years, even though the rate of new foreclosures nationwide is comparable to the rate in 2007. Further, not all neighborhoods are seeing a decline in foreclosure rates; states such as Florida, New Jersey, Maryland, Nevada and Illinois top the list of states with high foreclosure numbers.¹ The REO properties that result from these foreclosures remain disproportionately located in neighborhoods of color that were targeted by predatory lending practices during the past decade.

Recognizing the civil rights implications of this issue as well as the importance of restoring these REO properties to owner occupancy for community stabilization and recovery, the National Fair Housing Alliance has led a nationwide examination of REO maintenance and marketing practices of major banks and lenders since 2009. This brief serves as an update to three previously published reports on discrimination in the maintenance and marketing of REO properties, the last of which was published in August 2014.² NFHA and 19 of its partner organizations³ have now investigated more than 6,700 REO properties in 37 metropolitan areas. The evaluations took into account over 30 different aspects of the maintenance and marketing of each property, including curb appeal, structure, signage, indications of water damage, and condition of paint, siding, and gutters/downspouts. Many of the investigations were conducted in working and middle class neighborhoods where homeownership rates were high prior to the advent of the foreclosure crisis in 2007.

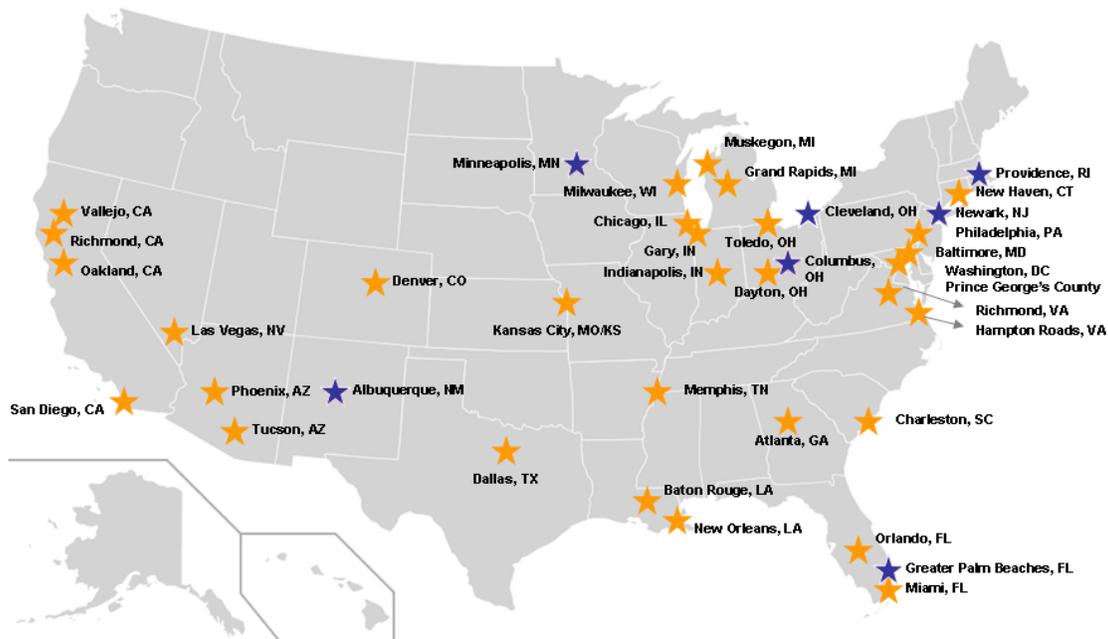
The investigation revealed a continuation of troubling disparities in maintenance and marketing practices along racial lines. REO homes in White neighborhoods were cared for in a far superior manner than those in African American and Latino neighborhoods. While

2 NFHA's REO reports from 2011, 2012 and 2014 are available online at: <http://www.nationalfairhousing.org/FairHousingResourceCenter/ReportsandResearch/tabid/3917/Default.aspx>

3 NFHA's partners include the Miami Valley Fair Housing Center in Dayton, Ohio; Housing Opportunities Project for Excellence (HOPE) working in Miami-Dade and Broward Counties, Florida; Metro Fair Housing Services in Atlanta, Georgia; North Texas Fair Housing Center in Dallas, Texas, serving the greater Dallas/Fort Worth area; HOPE Fair Housing Center in West Chicago, Illinois; Open Communities in Winnetka, Illinois; South Suburban Housing Center in Homewood, Illinois; Greater New Orleans Fair Housing Action Center in New Orleans, Louisiana; Denver Metro Fair Housing Center in Denver, Colorado; Fair Housing Center of West Michigan in Grand Rapids, Michigan; Housing Opportunities Made Equal (HOME) of Virginia in Richmond, Virginia; Connecticut Fair Housing Center in Hartford, Connecticut; Fair Housing Center of Central Indiana in Indianapolis, Indiana; Metropolitan Milwaukee Fair Housing Council in Milwaukee, Wisconsin; The Fair Housing Continuum in Melbourne, Florida; Toledo Fair Housing Center in Toledo, Ohio; the Fair Housing Center of Marin in San Rafael, California; the Housing Research and Advocacy Center in Cleveland, OH; and the Fair Housing Center of the Greater Palm Beaches.

1 Source: <http://www.realtytrac.com/news/foreclosure-trends/midyear-2015-foreclosure-market-report/>

Metropolitan Areas Where REO Investigations Were Conducted



Each star represents one Metropolitan Statistical Area. Often an MSA included several cities and jurisdictions; for example, in the Chicago MSA data included REO properties from non-White communities in: Aurora, Chicago, Country Club Hills, Dolton, Elgin, Evanston, Harvey, Hazel Crest, Matteson, North Chicago, Skokie, and Waukegan.

REO properties in predominantly White neighborhoods were more likely to have neatly manicured lawns, securely locked doors, and attractive, professional “For Sale” signs out front, REOs in communities of color were more likely to have overgrown yards, trash, unsecured doors, and broken or boarded windows. REO properties in communities of color were not maintained to the standards of nearby homes and generally appeared abandoned, blighted, and unappealing to potential homebuyers, even though they were located in stable neighborhoods in which neighboring homes were well maintained. On the other hand, REOs in White communities were maintained to the standards of other houses in the neighborhood and would have been attractive to real estate agents and potential homebuyers.

Nationwide, NFHA and its partners have investigated the REO maintenance practices of a number of lenders and preservation management companies

and have seen troubling results across the board. Recent investigations in seven new metropolitan areas uncovered stark differences in the maintenance and marketing of REO properties, including the following:

- In Newark, NJ, REOs in communities of color were 6.9 times more likely to have significant amounts of trash and debris littered throughout the property than REOs in White communities.
- In Albuquerque, NM, REOs in communities of color were 6.4 times more likely to have overgrown or dead shrubbery on the property than REOs in White communities.
- In Minneapolis, MN, REOs in communities of color were 4.0 times more likely to have damaged, broken, or boarded windows than REOs in White communities
- In Cleveland, OH, REOs in communities of color were 3.8 times more likely to have unsecured holes

in the structure of the home than REOs in White communities.

NFHA and its partners have filed eight housing discrimination complaints to date, the first of which was filed against Wells Fargo Bank in April 2012. Wells Fargo and its REO division met with NFHA and HUD over the course of a year which resulted in a HUD conciliation agreement in June 2013. The agreement provided \$27 million to NFHA and its 13 fair housing partners to administer programs in targeted neighborhoods to increase homeownership opportunities and stabilize communities in 19 cities and provided \$11.5 million to HUD for relief in an additional 25 cities. Currently, NFHA and its partners have complaints pending at HUD against Bank of America, U.S. Bank, Deutsche Bank, Fannie Mae, and three major field service vendors that work for Fannie Mae: Safeguard Properties, Asset Management Services, and Cyprex.

As NFHA has outlined in its previous reports, vacant, poorly maintained REO properties result in a number of detrimental outcomes for the neighborhoods and jurisdictions in which they are located:

- Poorly maintained REO properties strip neighboring families of wealth, as research shows that being on the same block as a foreclosed property or a blighted property can result in significant decreases in home value and equity. This problem is particularly acute in neighborhoods of color due to the concentration of predatory lending and high risk loans in such communities: from 2005 to 2009, White households lost 16 percent of their net worth while African American households lost 53 percent and Latino households lost 66 percent.⁴
- Local municipalities are forced to shoulder heavy costs for each vacant, under-maintained property within their jurisdiction, and these costs can increase



Tall weeds in the neglected backyard of an REO in a predominantly Non-White neighborhood in Roselle, New Jersey

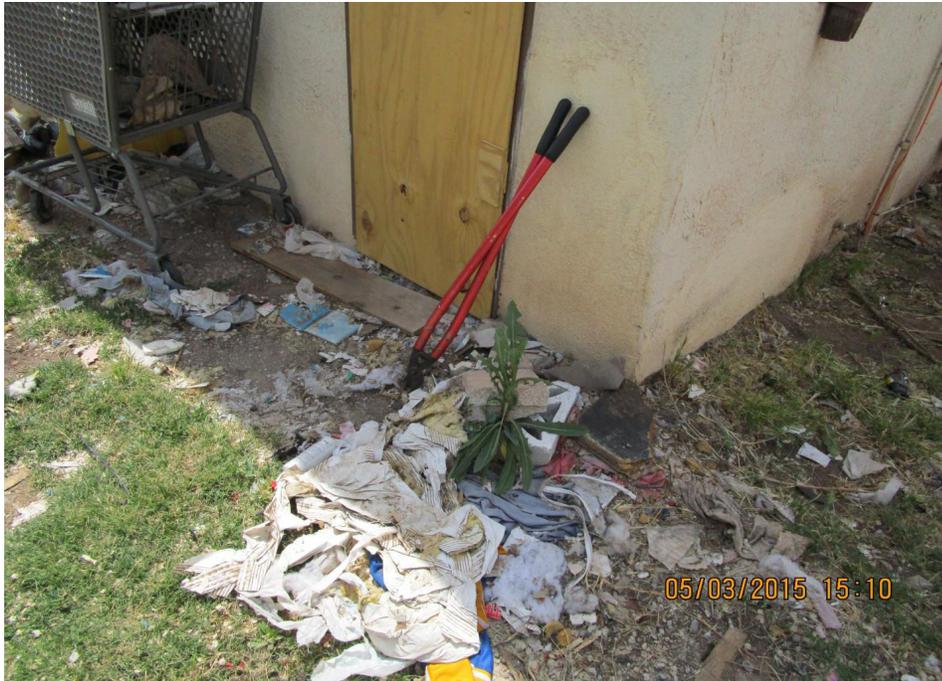
exponentially when the particular local jurisdiction has a high rate of foreclosures. When banks neglect their assets, many of the related expenses become the burden of the local government.⁵

- Vacant REO properties that are under-maintained also have significant, negative outcomes for neighborhoods in the arena of health and safety. The stress related to living near a foreclosed, vacant property has been documented to increase high blood pressure rates for neighboring homeowners⁶. Properties that are vacant and boarded up increase a sense of social isolation and anxiety for the residents living in those neighborhoods. Further, high foreclosure rates are associated with increased criminal activity and arson, and accidental injuries from fires, as well as injuries related to unsecure and unstable structures, are more likely to occur in neighborhoods with vacant and neglected REOs.

5 Apgar, William, and Mark Duda, "The Municipal Cost of Foreclosures: A Chicago Case Study," in Homeownership Preservation Foundation Housing Finance Policy Research Paper, February 27, 2005, <http://www.nw.org/network/neighborworksProgs/foreclosuresolutionsOLD/documents/2005Apgar-DudaStudy-FullVersion.pdf>.

6 ElBoghady, Dina, "Foreclosures may raise neighbors' blood pressure, study finds," Washington Post, May 12, 2014, http://www.washingtonpost.com/business/economy/study-foreclosures-may-raise-neighbors-blood-pressure/2014/05/12/5f519952-da03-11e3-bda1-9b46b2066796_story.html.

4 Pew Research Center, "Wealth Gaps Rise to Record Highs Between Whites, Blacks and Hispanics," July 26, 2011, http://www.pewsocialtrends.org/files/2011/07/SDT-Wealth-Report_7-26-11_FINAL.pdf.



Trash and boarded windows and doors have left this REO property in Albuquerque, New Mexico an eyesore in a predominantly Non-White neighborhood.

- NFHA's pilot review of a sample of properties in Prince George's County, Maryland, shows that poorly maintained properties were much more likely to be purchased by an investor than an owner occupant. As a result, because poorly maintained properties are more heavily concentrated in Latino and African-American communities, these neighborhoods of color that formerly had high owner-occupancy rates are at risk of becoming investor communities.⁷

The federal Fair Housing Act requires banks, trustees, investors, servicers, and any other responsible party to maintain and market properties that are for sale or rent without regard to the race or national origin of the residents of a neighborhood. It is illegal to treat a neighborhood differently because of the race or national origin of the residents. Moreover, these laws obligate banks, trustees, investors, and servicers to monitor the actions of vendors engaged in performing

housing-related transactions to ensure that those third party entities are complying with fair housing laws and regulations.

Communities of color continue to be left behind in our nation's housing recovery because of the poor maintenance and marketing of REO properties. Banks, lenders, trustees, investors, federal regulators, fair housing and community development groups, local governments, and law enforcement must work together to ensure that these discriminatory practices are eliminated in order to reverse and stabilize the negative outcomes they are creating, particularly in communities of color. Banks must completely restructure their maintenance and marketing models to ensure equal treatment of REO properties in all neighborhoods so that communities of color have a fair opportunity to recover and prosper.

⁷ National Fair Housing Alliance, "The Banks are Back -- Our Neighborhoods are Not," April 12, 2014, available online at <http://www.nationalfairhousing.org/LinkClick.aspx?fileticket=sNHLaQE4WSw%3d&tabid=3917&mid=9405>