



Zip Code Inequality:

Discrimination by Banks in the Maintenance
of Homes in Neighborhoods of Color

August 27, 2014

NFHA
National Fair Housing Alliance

ABOUT

THE NATIONAL FAIR HOUSING ALLIANCE

Founded in 1988 and headquartered in Washington, DC, the National Fair Housing Alliance is a consortium of more than 220 private, non-profit fair housing organizations, state and local civil rights agencies, and individuals from throughout the United States. Through comprehensive education, advocacy and enforcement programs, NFHA protects and promotes equal access to apartments, houses, mortgage loans and insurance policies for all residents of the nation.

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EXECUTIVE SUMMARY

In the past few years, banks and the federal government have attempted through counseling, short sales, deeds-in-lieu and principal reduction to cut down on the number of foreclosures that complete the process and become bank-owned (also known as Real Estate Owned or REO properties). Despite these efforts, vacant REO properties still exist in record numbers in neighborhoods across the country, particularly in neighborhoods that had been targeted with predatory loans and in neighborhoods of color. Although foreclosure rates have fallen nationwide, recent estimates are that foreclosures still affect 1 in 96 households in the U.S. and that another three million troubled loans will likely reach the foreclosure pipeline by 2017.¹ Properties that complete the foreclosure process are then owned by the banks and maintained by a bank's contracted vendors. 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.

As these properties are critically important for community stabilization, the National Fair Housing Alliance (NFHA) has led a nationwide examination of REO maintenance and marketing practices of major lenders and Fannie Mae over the last 5 years. Since its last report on REO maintenance and marketing practices in April 2012, NFHA and 16 of its partners have investigated more than 2,400 REO properties. The evaluations took into account over 30 different aspects of the maintenance and marketing of each

¹ WashingtonsBlog, "Home Foreclosure Rates are Comparable to the Great Depression," May 17, 2013, <http://www.washingtonsblog.com/2013/05/have-more-people-lost-their-homes-than-during-the-great-depression.html>.

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 stable neighborhoods where the rate of homeownership was high.

The investigation revealed a continuation of extremely 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 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.

The REO investigation findings in 29 metropolitan areas were aggregated, and significant differences in treatment were found, including:

- REOs in communities of color were 2.2 times more likely to have significant amounts of trash and debris on the premises than REO properties in White communities.

- REOs in communities of color were 2.3 times more likely to have unsecured, broken, or damaged doors than REOs in White communities.
- REOs in communities of color were 2.0 times more likely to have damaged, broken, or boarded windows than REO homes in White communities.
- Holes in the structure of the REO were 2.1 times more likely in communities of color than in White communities.
- REO properties in communities of color were 1.3 times more likely to have no professional “for sale” sign than REO homes in White communities.

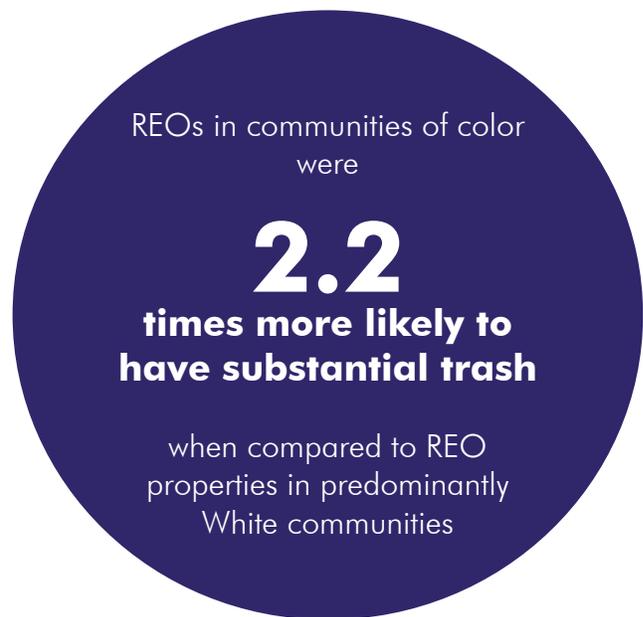
In many communities, these disparities were even more acute. For example:

- In Memphis, TN, REOs in communities of color were 8.8 times more likely to have significant amounts of trash and debris littered throughout the property than REOs in White communities.
- In Hampton Roads, VA, REOs in communities of color were 6 times more likely to have unsecured, damaged, or boarded doors than REOs in White communities.
- In Miami, FL, REOs in communities of color were 3.7 times more likely to have overgrown grass or dead leaves on the property than REOs in White communities.
- In Kansas City, MO/KS, REOs in communities of color were 3.6 times more likely to have damaged, broken, or boarded windows than REOs in White communities.

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 are being left behind in our nation’s housing recovery because of discriminatory treatment. Banks, lenders, trustees, investors, federal regulators, fair housing and community development groups, local governments, and law enforcement must work together to ensure that these sorts of discriminatory practices are eliminated in order to reverse and stabilize the negative outcomes they are creating, particularly in communities of color. Banks must 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.



SECTION 1: INTRODUCTION

Despite recent headlines reporting that the housing market is recovering and that foreclosure rates are the lowest since the foreclosure crisis began, neighborhoods across the country are still reeling from the effects of the crisis. As of 2013, 4.4 million foreclosures have been completed and the crisis continues to strip communities of wealth.² In December 2013, 9.3 million properties were reported to be deeply underwater, meaning that the owners owed 25 percent more on their mortgage than their homes were worth.³ These properties are at high risk of becoming foreclosures in the coming months and suggest that the damage will continue for quite some time.

The large volume of foreclosures has not only stripped families of their homes and wealth but has left a large inventory of empty homes repossessed by the banks. These REO properties have surfaced in unprecedented numbers in communities throughout America since the advent of the foreclosure crisis in 2007. In fact, in 2013 REOs represented 9.3 percent of all residential sales, up from 8.7 percent in 2011, and these numbers are more heavily concentrated in communities of color.⁴ These properties present a huge obstacle for recovery as the municipalities in which these REOs are located suffer negative effects such as a depleted tax base, neighborhood blight, health and safety concerns, and decreased

market values that result in wealth loss for homeowners who live near foreclosed homes.

Within this context, the increasing number of REO properties and how well they are maintained and marketed presents itself as a critical civil rights and fair housing issue. NFHA began to look into the issue of REO maintenance and marketing in 2009. The initial investigation uncovered a pattern of differing treatment of REO properties in White neighborhoods and REO properties in communities of color. This differential treatment because of race and national origin was a clear violation of the federal Fair Housing Act. In April 2011, NFHA published the initial findings of its REO maintenance investigations in the report, "Here Comes the Bank, There Goes the Neighborhood," which included data from 624 REO investigations in four cities. The report was designed to put banks, as well as Fannie Mae and Freddie Mac, on notice about the discriminatory practices identified with respect to the treatment of REO properties.

In April 2012, NFHA published another report outlining findings from an in-depth investigation of more than 1,000 additional bank-owned properties. This report, entitled "The Banks are Back, Our Neighborhoods Are Not," included findings from nine metropolitan areas. NFHA completed the investigations in conjunction with four other fair housing centers. Subsequently, NFHA and its partners filed a number of housing discrimination complaints with the U.S. Department of Housing and Urban Development. The first complaint 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

2 Corelogic, "Corelogic National Foreclosure Report -December 2013," <http://www.corelogic.com/research/foreclosure-report/national-foreclosure-report-december-2013.pdf>.

3 Christie, Les, "Foreclosures hit six-year low in 2013," http://money.cnn.com/2014/01/16/real_estate/foreclosure-crisis.

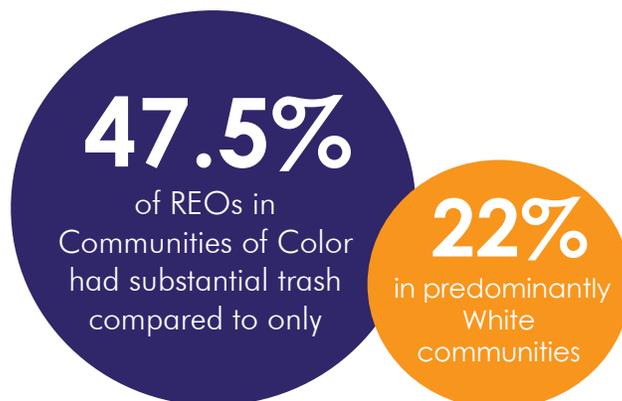
4 Realty Trac, "RealtyTrac (2014) Short Sales and Foreclosure Sales Combined Accounted for 16 Percent of US Residential Sales in 2013," <http://www.realtytrac.com/content/foreclosure-market-report/december-and-year-end-2013-us-residential-and-foreclosure-sales-report-7967>.

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. Wells Fargo also paid \$3 million in damages and attorneys fees and provided funds for a national conference to increase awareness about REO issues. Wells Fargo also 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, and Fannie Mae's field service vendors: Safeguard, Cyprex, and Asset Management Specialists. Only Wells Fargo stepped up to act affirmatively to identify issues and resolve concerns. When Freddie Mac became aware of NFHA's concerns about REO maintenance, its REO division sought recommendations and training from NFHA. Freddie Mac modified its REO maintenance and marketing business model, and NFHA and its partners rarely find a Freddie Mac REO that is not in pristine condition.

When other banks and Fannie Mae failed to take corrective actions after the issuance of the April 2012 report and the filing of complaints, NFHA continued to investigate REO maintenance and marketing practices and expanded the partnership even further. Data included in this report was gathered between April 2012 and December 2013 by NFHA and its 17 partners at 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 Aurora, 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; and the Fair Housing Center of Marin in San Rafael, California.

This report documents the findings of these investigations and outlines clear recommendations for policy makers, community stakeholders, banks, investors, and servicers to eliminate the disparities in the treatment of REO homes. Everyone deserves a chance to build wealth and stability



Metropolitan Areas Where REO In



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.

through homeownership and to do so in neighborhoods free of under-maintained properties and the associated increased health and safety concerns and property value instability. An industry-wide change in REO management and disposition practices is essential to ensure a fair and equal recovery of all neighborhoods across the country, regardless of their racial or ethnic composition.

SECTION 2: BACKGROUND

Due to the unprecedented rate of foreclosure over the last decade, recent research has highlighted and documented in depth the harmful effects of foreclosures on the surrounding neighbors. Properties located on the same block of a foreclosure automatically suffer from dips in their own property value, and vacant properties that are under-maintained or remain vacant and on the market for an extended amount of time only amplify these losses.⁵ These spillover effects on neighbors and neighborhoods are an increasingly important civil rights issue as foreclosures continue to be disproportionately concentrated in African-American, Latino, and immigrant communities. The wealth and health of neighborhoods are suffering.

Poorly Maintained REO Properties Strip Wealth from Communities of Color

Communities across the country will continue to feel the effects of the foreclosure crisis in the coming years, but none more acutely than those in which the residents are primarily African-American and Latino. Research and numerous legal actions have established that subprime loans, loans that were much more likely to experience default and foreclosure, were deliberately marketed and originated

5 Han, Hye-Sung, "The Impact of Abandoned Properties on Nearby Property Values," Housing Policy Debate, Routledge, 2013.

to homeowners of color. The Center for Responsible Lending (CRL) reported that for mortgages originated between 2004 and 2008, African-American and Latino borrowers were nearly twice as likely as White borrowers to have one or more "high risk" features or conditions in their loans. Such features included higher interest rates, option Adjustable Rate Mortgages (ARMs), or a prepayment penalty.⁶ Even after controlling for factors such as credit score and income, African American and Latino home buyers were 80 percent and 70 percent more likely respectively to receive a subprime loan than White home buyers.⁷

As a result of these predatory and discriminatory actions by large banks, the effects of the foreclosure crisis are more heavily concentrated in neighborhoods where the majority of the residents are African-American or Latino. Estimates from 2012 are that the average American household lost \$1,700 in just one year as a result of



6 Center for Responsible Lending, "Lost Ground, 2011: Disparities in Mortgage Lending and Foreclosures," November 17, 2011, <http://www.responsiblelending.org/mortgage-lending/research-analysis/lost-ground-2011.html>.

7 Alliance For A Just Society, "Wasted Wealth: How the Wall Street Crash Continues to Stall Economic Recovery and Deepen Racial Inequality in America," May 2013, http://allianceforajustsociety.org/wp-content/uploads/2013/05/Wasted.Wealth_NATIONAL.pdf.

foreclosures alone. For neighborhoods that had majority non-White households, the wealth loss increased to an average \$2,200.⁸ Household wealth loss in general showed even starker trends for communities of color post-foreclosure crisis; 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.⁹

Because African American and Latino homeowners disproportionately faced adverse actions on their loans, the neighborhoods and communities they lived in disproportionately felt the impact. CRL's most recent estimates are that families affected by nearby foreclosures have lost or will lose a total of 8.8 percent of their home values. For residents in African American or Latino communities, that number nearly doubles to a staggering 16 percent of their home value. The same study finds that over one-half of the spillover loss from nearby foreclosures has or will occur in non-White communities because of the disproportionate concentration of foreclosures and resulting REOs in these communities. The total loss amounts to about \$1.1 trillion in home equity stripped from communities of color alone.¹⁰

Poor maintenance coupled with the resulting extended time an REO spends vacant and on the market also has a real effect on the surrounding neighborhood beyond just the effect of a regular foreclosure. A recent study based in Baltimore, MD, documents that the longer an unoccupied property remained

8 Ibid.

9 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.

10 Center for Responsible Lending, "2013: Update: The Spillover Effects of Foreclosures," August 19, 2013, <http://www.responsiblelending.org/mortgage-lending/research-analysis/2013-crl-research-update-foreclosure-spillover-effects-final-aug-19-docx.pdf>.

unmaintained, the more amplified its impact became on neighboring property values, even when localized foreclosure and market activity were accounted for.¹¹ Neighbors of bank-owned properties have been powerless to stop the depreciation of their own property values, even if they invest in and care for their own properties. Another recent study of Maryland's housing market analysis showed that Prince George's County lost the most home equity out of any Maryland county after the foreclosure crisis in 2007, and by 2009 had lost a total of \$13 billion.¹² This is especially troubling as Prince George's County, included in this report's investigation, was 85.1 percent non-White as of the 2010 Census.

Poorly Maintained REO Properties Are Costly to Local Municipalities

Wealth loss to neighboring families is not the only costly outcome that results from poorly maintained foreclosed properties. Local municipalities are also forced to shoulder heavy costs for each vacant, under-maintained property within their jurisdiction, and these costs can increase 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. Such costs can add up quickly; according to the Government Accountability Office (GAO) report 12-34, the city of Detroit, MI, estimated spending \$1.4 million to board and secure 6,000 properties in 2010 alone.¹³ Similarly,

11 Han, Hye-Sun, "The Impact of Abandoned Properties on Nearby Property Values," Housing Policy Debate, Routledge, 2013.

12 Maryland's 2010-2015 Consolidated Plan - Housing Market Analysis, <http://www.dhcd.state.md.us/Website/About/PublicInfo/Publications/Documents/2010-2015housingmarket.pdf>.

13 U.S. Government Accountability Office, "Vacant Properties: Growing Number Increases Communities' Costs

a Woodstock Institute study from 2005 documents that the amount spent by local governments on a vacant and unmaintained property averaged \$5,358 per property per year.¹⁴

Additionally, demolition costs become necessary when much of the foreclosed housing stock is uninhabitable or too costly to renovate for another owner occupant. The City of Baltimore, which has a large stock of foreclosed row houses, estimated it would cost between \$13,000 and \$40,000 to demolish each row house.¹⁵ On top of these documented costs of demolition and maintenance come other administrative expenses related to REO properties, such as managing vacant property registries and the increased dispatching of police or fire services in response to 911 calls, code enforcement, and other public safety issues.

While expenses pile up due to the increased demand on city resources, tax revenues also suffer as a result of depreciating property values. The National League of Cities reported that cities continue to feel the downturn in real estate values and have documented that property tax revenue declined for the third year in a row with a decrease of 2.1 percent in 2012. Cuyahoga County, which includes Cleveland, OH, within its borders, has documented a loss of over \$46 million in tax revenue due to REO properties.¹⁶ This lost revenue limits

and Challenges," November 4, 2011, <http://www.gao.gov/assets/590/586089.pdf>.

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

15 U.S. Government Accountability Office, "Vacant Properties: Growing Number Increases Communities' Costs and Challenges," November 4, 2011, <http://www.gao.gov/assets/590/586089.pdf>.

16 Ford, Frank and April Hirsh, "The Role of Investors

the city's ability to provide vital services to its residents, including good quality schools, police and fire protection, water service, and garbage pick-up.

In May of 2011, the City of Los Angeles filed a lawsuit against Deutsche Bank alleging that the bank failed to maintain hundreds of its foreclosed homes in low-income neighborhoods and did not comply with local municipal code enforcement rules. The City of L.A. argued that Deutsche Bank's code enforcement violations of \$2,500 per violation per day translated to hundreds of millions of dollars in unpaid fines to the city. In July of 2012, the City of L.A. filed a similar lawsuit against U.S. Bancorp alleging the same claim. Both Deutsche Bank and U.S. Bancorp argued that they were not, in fact, responsible for the neglect, but instead that their loan servicers were the actual contractual parties responsible for maintenance of the foreclosure properties. The Deutsche Bank lawsuit was settled in June of 2013, and Deutsche Bank collectively arranged for its loan servicers to pay the \$10 million dollar civil penalty.¹⁷

Poorly Maintained REO Properties Create Health and Safety Concerns for Communities

Vacant REO properties that are under-maintained also have significant, negative outcomes for neighborhoods in the arena of health and safety. Recent research published by the American Heart Association suggests that living near a foreclosure not only affects neighboring property values but

in the One-to-Three Family REO Market: The Case of Cleveland," December 16, 2013, http://www.jchs.harvard.edu/sites/jchs.harvard.edu/files/w13-12_cleveland_0.pdf.

17 Pettersson, Edvard, "Deutsche Bank Settles Los Angeles Suit over "Slumlord" Claims." Business Week, June 19, 2013. <http://www.businessweek.com/news/2013-06-18/deutsche-bank-settles-los-angeles-slumlord-suit-allegations>.

also undermines the health of the neighbors themselves, as proximity to a foreclosure increases a person's chance of developing high blood pressure. The study also specifically found that homes that are quickly purchased do not appear to lead to a rise in blood pressure, but homes that become REOs and remain vacant do contribute to an increase.¹⁸ This study was conducted using data from a middle income, predominantly White neighborhood, and one can only assume that the effects would be compounded in communities of color, where a higher concentration of REOs in poorer states of maintenance are located.

Properties that are vacant and boarded up increase a sense of social isolation and anxiety for the residents living in those neighborhoods. The physical deterioration of a neighborhood associated with a high number of bank-owned, neglected vacant properties also leads to a stigmatization of the neighborhood that further isolates residents and allows for a more rapid decline of the community.

High foreclosure rates are also associated with increased criminal activity and arson. Dan Immergluck's 2005 study shows that with every 1 percentage point increase in a census tract's foreclosure rate, violent crimes increase by 2.33 percent, with all other things being equal. He also suggests a correlation between foreclosures and increased property crime.¹⁹ The "broken windows theory," which essentially states that one broken

18 ElBoghdady, 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.

19 Immergluck, Dan, "The Impact of Single-Family Mortgage Foreclosures on Neighborhood Crime," Vol.21 No.6 in Housing Studies, 851-866, <http://www.prism.gatech.edu/~di17/HousingStudies.pdf>.

window or other sign of abandonment will encourage further disinvestment and signs of abandonment, has long been an explanation for increases in criminal behavior in areas with many vacancies.²⁰ These outcomes are extremely harmful to the stability and sense of community in a neighborhood. When residents feel unsafe walking on a street with poorly maintained REO vacancies, it limits their pedestrian amenity and general well being. Some of the REOs visited in this investigation have become the homes where people party on the weekends or engage in illicit activities or where squatters take over.

One REO in a Latino neighborhood, owned by Bank of America and investigated by the Denver Metro Fair Housing Center, has been the site of many parties; neighbors told fair housing investigators that the police visited several times a week. One after-prom party at the property had over 100 teenagers, and the police had to block off the entire street to clear out the party. Fair housing investigators have documented beer and liquor bottles left at REOs.



Figure 1: Broken beer bottles at an REO in Denver, CO.

Vacant properties also present health risks for the communities in which they are located.

20 U.S. Department of Housing and Urban Development, "Vacant and Abandoned Properties: Turning Liabilities into Assets," April 10, 2014, http://www.huduser.org/portal/periodicals/em/EM_Newsletter_winter_2014.pdf.

Accidental injuries from fires, as well as injuries related to unsecure and unstable structures, may occur. REOs that appear to be abandoned attract illegal dumping, rodent and insect infestations, and deterioration of lead paint which are all extremely hazardous to neighboring families and make the home hard to market to owner-occupant buyers.

Many factors influence health and safety in homes, including structural and safety aspects of the home; quality of indoor air; water quality; exposure to chemicals; resident behavior; and the house's immediate surroundings. A home's structural and safety features can increase risk for injuries, elevate blood lead levels, and exacerbate other conditions. Poor indoor air quality contributes to asthma, cancers, cardiovascular disease, and other illnesses. Poor water quality can lead to gastrointestinal illness and a range of other conditions, including neurological effects and cancer. Standing water in uncovered and unmaintained pools can be a breeding ground for mosquitoes carrying diseases. All of these issues are influenced both by the physical environment of the home and by the behavior of the people living in the home.²¹



Figure 2: Dead rat found at an REO in Richmond, CA.

21 U.S. Department of Health and Human Services, "The Surgeon General's Call to Action To Promote Healthy Homes," 2009.



Figure 3: Standing water and mold at an REO property in Memphis, TN.

Poorly Marketed REO Properties Result in High Numbers of Investor Purchases

In recent years, investors ranging from mom-and-pop small businesses to large Wall Street investment firms have been buying foreclosures in targeted communities. While responsible investors undoubtedly have the potential to assist in the housing recovery by renovating homes and providing new rental or buyer opportunities, their presence is all too often damaging in neighborhoods that were once vibrant and stable, with high homeownership rates. Another culprit in this situation is a bank or GSE that sells these REO homes in bulk sales or fails to even bid on its own homes at auction. Because investors are purchasing large portions of the housing market and banks are paving the way for them to do so, communities with historically high homeownership rates are now transitioning into high rental communities. Often, communities of color are hit the hardest as homeownership constitutes a larger portion of an African American or Latino's family wealth portfolio when compared to a White household.²²

Investors of all sizes and with all sorts of practices and patterns have taken advantage

22 Institute on Assets and Social Policy, "The Roots of the Widening Racial Wealth Gap: Explaining the Black-White Economic Divide," February 2013, <http://iasp.brandeis.edu/pdfs/Author/shapiro-thomas-m/racialwealthgapbrief.pdf>.

of the large number of foreclosures available on today's housing market. However, for the first time institutional investors and large real estate brokerage firms are now entering the market in a substantial way. Wall Street created the rental-backed security which is the investment tool to fund these bulk REO purchases. These investors, whose purchases have been targeted in large metropolitan areas, have spent more than \$17 billion in recent years on foreclosed properties. These large investors generally buy properties en masse and hold them as long-term rental properties. Many also rent the properties with the hopes that the property values will recover and they will then be able to sell them for a large profit in several years. Such investors have bought up large portions of the REO inventory in Miami, Phoenix, Las Vegas, metropolitan Atlanta and California. To accumulate a large inventory of REOs in a specific market, the large firms hire individuals to purchase the homes at auction for cash. The Wall Street Journal reported that investors study thousands of to-be auctioned properties and conduct price comparisons to determine the highest price they should pay to still make a profit.²³ Often times these investors end up purchasing the home for far less than their maximum allotted bid, and many homes sell far below the market value or mortgage balance because at foreclosure proceedings banks are not bidding on the properties for which they have issued loans.

Some investors are also following their traditional behavior by "flipping" homes—buying properties, doing minor rehabilitation and selling them quickly for a profit. Small and individual investors were recorded as purchasing 66 percent of all REO properties in Miami-Dade County. And in Oakland,

23 Whelan, Robbie, "Firms Flock to Foreclosure Auctions," The Wall Street Journal, September 12, 2012, <http://online.wsj.com/news/articles/SB10000872396390443696604577644700448760254>.

investors were responsible for buying 42 percent of the REO market from 2007 to 2011. Research suggests that whether investors buy foreclosures and flip them or hold on to them for undisclosed amounts of time, they often soon realize that they will not turn a profit. These properties are then abandoned and quickly become vacant, blighted eyesores for the community.²⁴

In all of the above scenarios, high numbers of investor purchases in a neighborhood can lead to higher rates of property abandonment and deterioration of the properties by allowing them to either sit vacant, failing to renovate the home or by renting the home without bringing it up to code. Coordinated buying and selling of properties by large investment companies can also cause increased market volatility.²⁵ In Atlanta, census tracts with high investor activity also tend to be heavily African-American, and these same tracts have a high number of purchases from medium and large sized investment companies.²⁶

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.²⁷

24 Edelman, Sarah, "Cash for Homes: Policy Implications of an Investor-Led Housing Recovery Center for American Progress," September 5, 2013, <http://americanprogress.org/issues/housing/report/2013/09/05/73471/cash-for-homes-policy-implications-of-an-investor-led-housing-recovery/>.

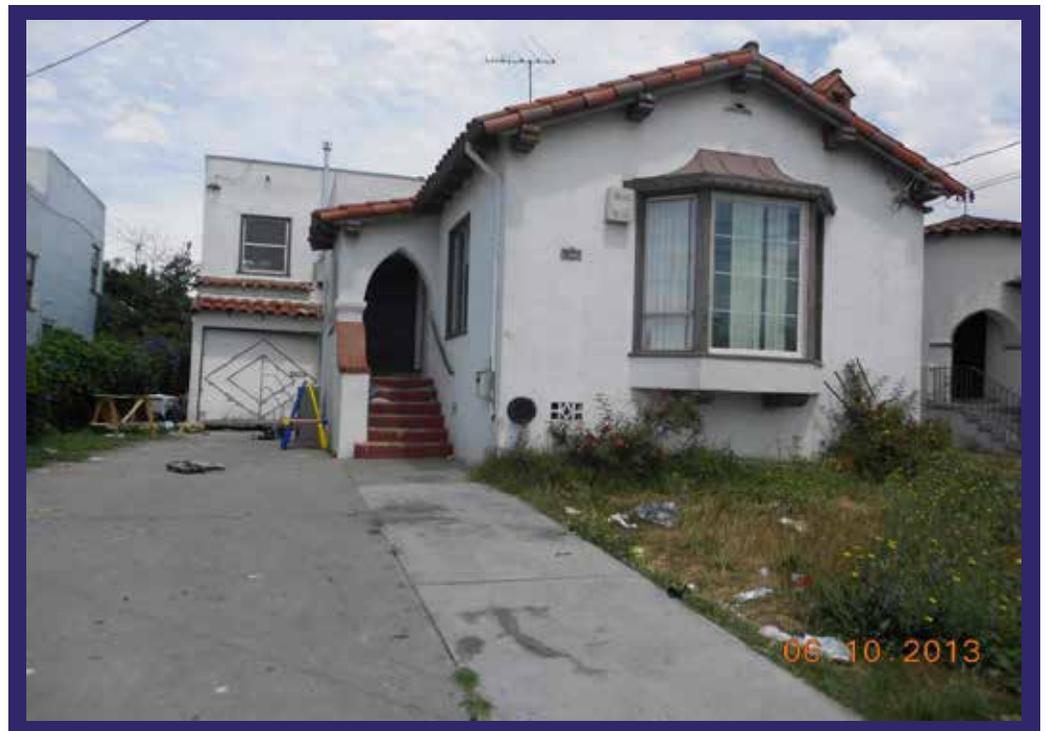
25 Ibid.

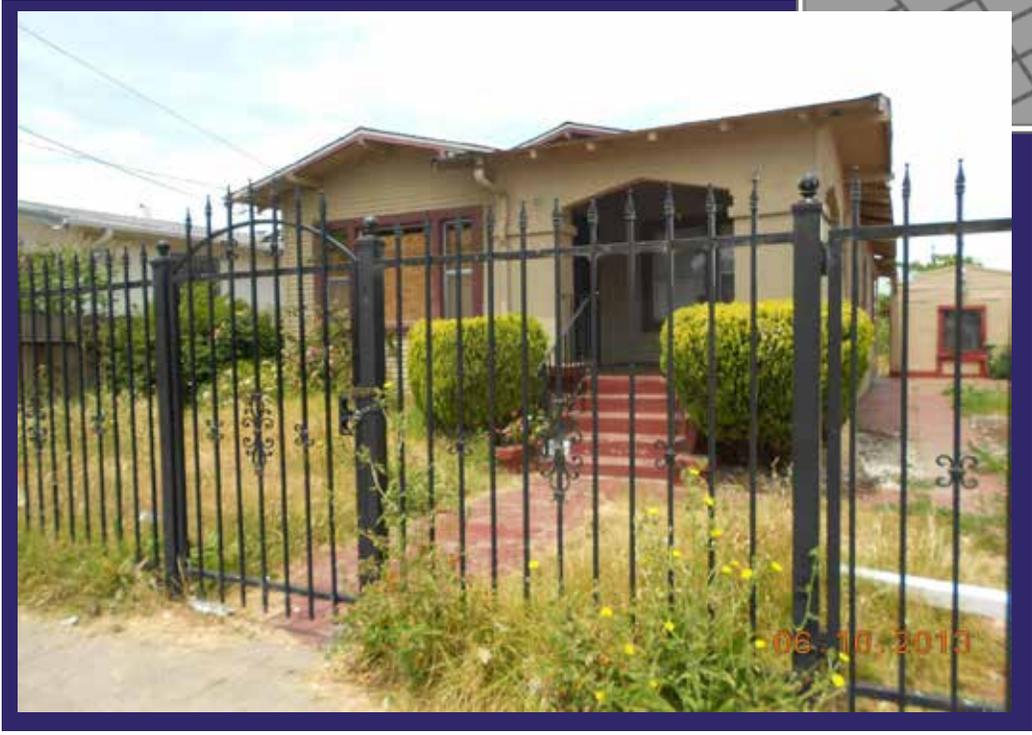
26 Immergluck, Dan, "The Role of Investors in the Single Family Market in Distressed Neighborhoods: The Case of Atlanta," February 2013, http://www.jchs.harvard.edu/sites/jchs.harvard.edu/files/w13-2_immergluck.pdf.

27 National Fair Housing Alliance, "The Banks Are Back –

WHAT IF THIS WERE YOUR NEIGHBORHOOD?

Many of the REO properties that NFHA and its members evaluated were within close proximity to each other. As detailed in Section 2, the presence of just one foreclosure in a neighborhood will have lasting effects on the neighboring homeowners and their property values, the neighborhood as a whole, and the local municipality in which it falls. When multiple foreclosures exist in a neighborhood these effects are intensified. In the example below there were four poorly maintained REO properties in a predominantly Latino neighborhood in Oakland, CA; all evaluated within one day of each other, these four bank-owned homes spread the negative effects of a poorly maintained REO to the entire community and beyond.





REO Maintenance Overview

Once foreclosure proceedings are completed and the property becomes real estate owned by a bank, the Federal Housing Administration (FHA), Fannie Mae or Freddie Mac, each corporation utilizes its own system for maintaining and selling an REO. Some lenders only act as trustees for the properties; they delegate maintenance and marketing responsibilities to the loan servicers listed in their Pooling and Service Agreements. Some contract with a real estate broker who is tasked with the maintenance, marketing, and sale of the home. The broker may be required to secure the REO, assess the value of the property, subcontract with a preservation maintenance provider, and develop a marketing strategy for selling the REO.

The real estate broker or a preservation vendor may also be responsible for requesting interior and exterior repairs. More often than not, these brokers/vendors do not have offices in the communities where the REOs are located which can be problematic when it comes to determining the proper pricing, marketing, and maintenance of the REO.

Our Neighborhoods Are Not," April 12, 2012, <http://www.nationalfairhousing.org/Portals/33/Banks%20are%20Back%20Final%2012.3.2012.pdf>.

Some lenders also contract with nationwide asset managers or field service vendors who make the decisions about repairs and become the final arbitrator regarding all repairs.

Though the specific models of maintenance and marketing may vary, routine yard maintenance, securing of the property, trash removal, and cleaning are generally contracted to a property maintenance and preservation company or asset management company. This contractor may be a national company that subcontracts at the regional, state, or local level, or may be a local small business that works directly within the lender's network of vendors. The specific requirements for these vendors differ by lender, but typically these vendors are expected to visit the property weekly and conduct maintenance to ensure that the REO property complies with local building and public safety and health standards.

REO properties that are not properly maintained by these vendors are subject to a host of harmful effects. A home with unsecured doors, broken windows, overgrown grass, or trash around the property signals to vandals and looters that the property is abandoned and makes the home and neighborhood a target for illegal activity. In addition, homes

Job loss, hardship, or predatory loan becomes too burdensome for homeowner

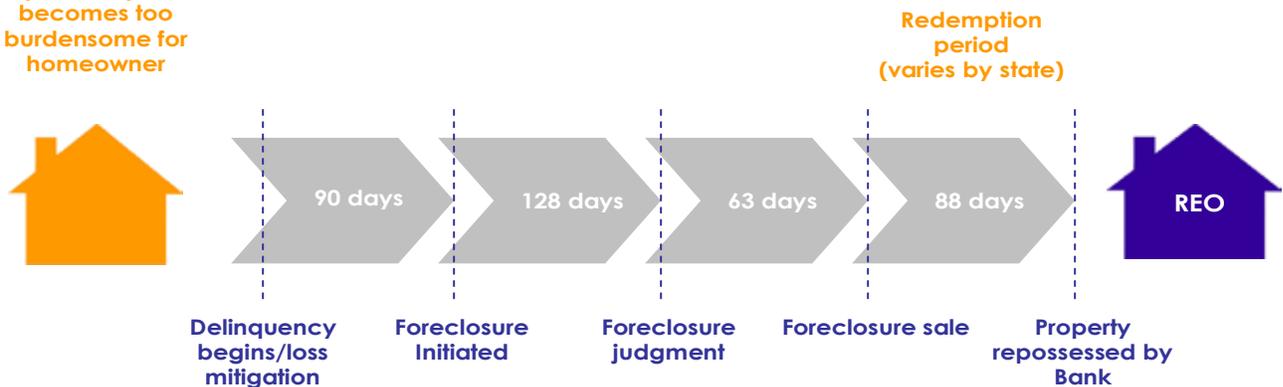


Figure 4: Foreclosure to REO timeline adapted from a graphic from the Government Accountability Office.

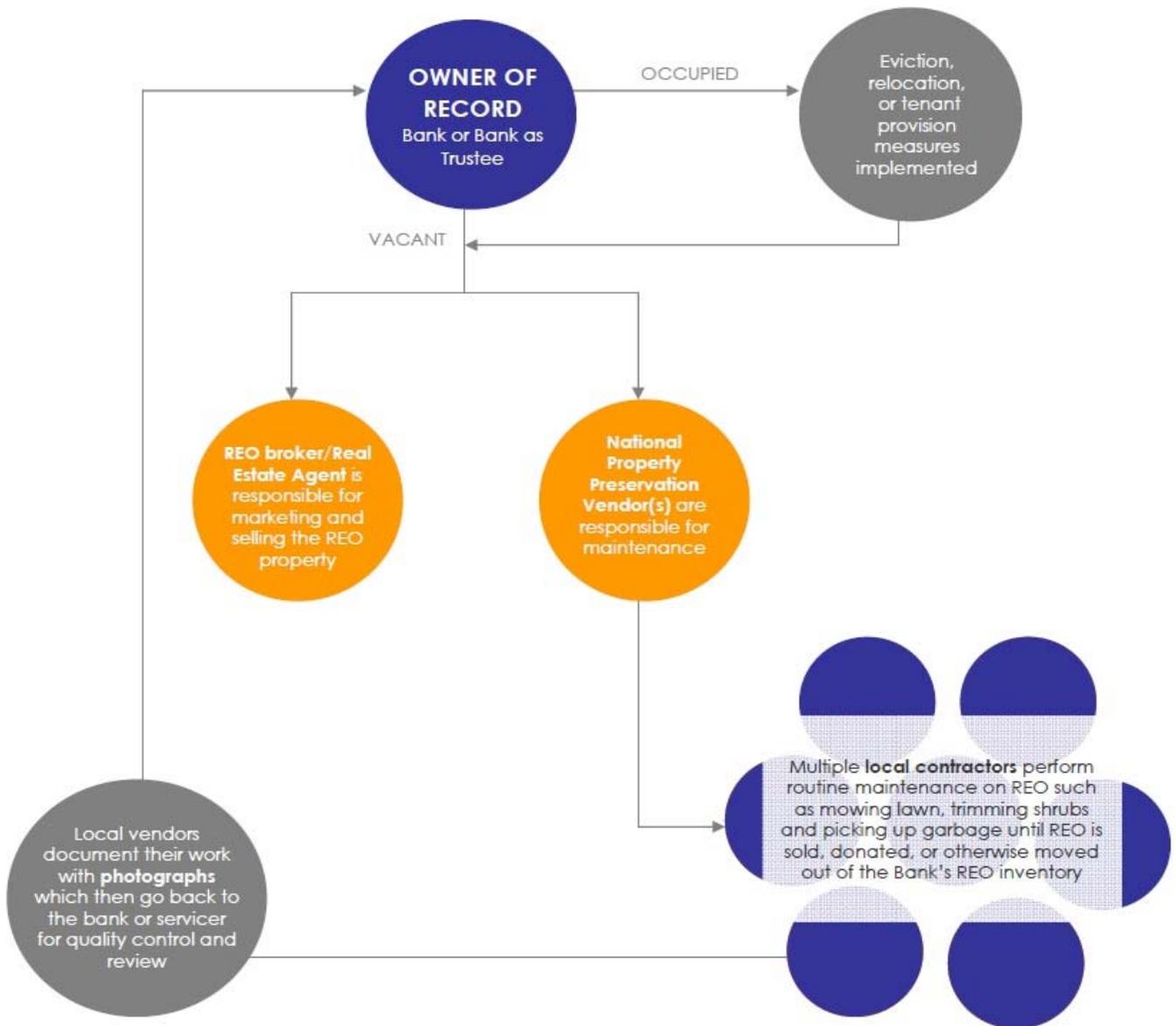


Figure 5 - Common Lender structuring of vendors for REO Maintenance.

that appear abandoned and look unsightly due to poor maintenance will often deter real estate agents from showing the REO to homebuyers; consequently, the poor condition of the home reduces the pool of potential owner-occupant buyers and negatively affects the price of the home.

Poor REO Pricing and Marketing Practices by Banks Harm Neighborhoods

A bank's failure to adequately maintain an REO property may be due to a false perception of the house's actual value or the bank's erroneous assumptions about a potential return on its investment. These impressions could be based upon an inaccurate appraisal of the property's market value and/or faulty perceptions about the neighborhood in which the property is located. These impressions could also be the result of discriminatory factors or bank policies that on paper are neutral but which have a discriminatory impact when applied to properties in communities of color.

An REO property is typically priced using a Broker Price Opinion (BPO) to determine the value of the home before it is listed for sale. Depending upon state law requirements, either an appraiser or a real estate agent conducts the BPO. An Internal BPO examines the inside of the home, which is viewed and photographed, and a Drive-by BPO includes photographs of the exterior and estimates about the interior features.

A Drive-by BPO might be appropriate for homes in relatively newer subdivisions. However, a Drive-by BPO lessens the likelihood that the estimated value will be accurate, especially in cases where renovations or improvements have been made to a home located in an older neighborhood. An internal BPO or full appraisal gives a bank the best estimate of a property's actual condition and value. The Federal Housing Administration requires a full appraisal on all of its REO homes.

Banks may also determine the type or extent of maintenance actions for a property based on the bank's perceived return on investment. In other words, some banks weigh the cost

of any maintenance or repair against the projected income the bank will receive from the sale of the property. Moreover, some banks may even set a lower maintenance standard for properties the bank presumes will be sold to an investor. The presumption of whether or not a property will be sold to an investor can be based on the trend of previous REO sales in the neighborhood. Turning a formerly owner-occupant neighborhood into an investor-owned neighborhood can be the result of poor maintenance and marketing. The remaining homeowners suffer serious loss of value to their homes and problems that arise with absentee landlords.

Many banks evaluate the performance of their brokers based on a set list of success measures, one of which is the average time an REO spends on the market. Most banks reduce the price of an REO every 20 to 30 days, so if the home starts out with a low appraisal, the value of the home just continues to drop. Since a broker is evaluated by "days on the market," these practices incentivize brokers to encourage an investor purchase over an owner occupant because investors make cash offers which expedite the sales and shorten the time on market. This misalignment of broker incentives results in lowering the home's value, discouraging owner-occupant sales and lowering property values in the neighborhood.

Lastly, while all foreclosures go through the auction process, more and more lenders are not even bidding on the foreclosure and allowing properties to sell at auction at a price far below the mortgage balance. This tactic by banks removes the property from the REO sales channel and results in investor purchases at prices below what the market will sustain. This practice hurts the former owner who may be responsible for paying the difference between the auction price and mortgage balance, and it has a

direct impact on real estate agents' ability to make a living by listing and selling REOs. In the past, investors have been wary of these sorts of purchases because access to the properties is restricted before auction and professional inspections are impossible at that stage. However, some investors have found ways to view the inside of the property prior to the sale and have bypassed this obstacle.²⁸ Because they acquire these foreclosed properties at such an early stage, often without inspections, and at such a low price, some of these investors are more likely to abandon properties that need renovation.



Figure 5: An REO in Waukegan, IL with auction signage.

REO Maintenance and the Application of the Fair Housing Act

President Lyndon B. Johnson signed the federal Fair Housing Act into law on April 11, 1968, one week after the assassination of Dr. Martin Luther King, Jr. In 1988, President Ronald Reagan signed the Fair Housing Amendments Act, which provided the Department of Housing and Urban Development (HUD) and the Department of Justice with a much-needed federal

28 Immergluck, Dan, "The Role of investors in the Single-Family Market in Distressed Neighborhoods: The Case of Atlanta," February 2013, http://www.jchs.harvard.edu/sites/jchs.harvard.edu/files/w13-2_immergluck.pdf.

enforcement mechanism.

The Fair Housing Act has two goals: to eliminate housing discrimination and to promote residential integration. HUD's regulations interpreting the Fair Housing Act state:

It shall be unlawful because of race, color, religion, national origin, sex, familial status, or disability to restrict or attempt to restrict the choices of a person by word or conduct in seeking, negotiating for, buying or renting a dwelling so as to perpetuate segregated housing patterns, or to discourage or obstruct choices in a community, neighborhood or development.

The differential maintenance of REO properties based on the racial composition of neighborhoods is a violation of the Fair Housing Act.

- HUD's regulations clearly state that "failing or delaying maintenance or repairs of sale or rental dwellings because of race" is a prohibited action under the Fair Housing Act.
- Steering by real estate agents based on neighborhood racial composition is illegal, and other behavior in the housing sales or rental market that operates to discourage potential buyers from purchasing or renting homes in minority neighborhoods, such as failing to adequately maintain properties in minority neighborhoods, can also violate the Act.²⁹
- Under the Fair Housing Act, it is unlawful to "make unavailable or deny" housing to any person because of

29 *Gladstone Realtors v. Village of Bellwood*, 441 U.S. 91, 94 (1979); see also *Zuch v. Hussey*, 394 F. Supp. 1028, 1047 (E.D. Mich. 1975) aff'd and remanded by 547 F.2d 1168 (6th Cir. 1977).

race.³⁰ Damage to REOs resulting from poor maintenance may make homes “unavailable” by creating obstacles to the sale of those properties, whether by rendering homes uninhabitable, implicitly sending a message that the home is not on the market, or making it more difficult for buyers to secure financing.

- In addition, actions that perpetuate housing segregation violate the Fair Housing Act.³¹ Discrimination in the maintenance of REO properties perpetuates segregation by discouraging diverse buyers from purchasing property in affected neighborhoods of color. Additionally, poorly maintained REOs lower neighboring home values, making it more difficult for people of color and other homeowners living the neighborhoods to sell their homes and move to other areas.

The Fair Housing Act establishes broad liability for violations. The term “person” in the Act is defined to include “one or more individuals, corporations, partnerships, associations, labor organizations, legal representatives, mutual companies, joint-stock companies, trusts, unincorporated organizations, trustees, trustees in cases under Title 11, receivers, and fiduciaries.”³² Under this broad definition and the fact that the courts have held that agency principles apply to actions under the Act, parties that may be held liable for discriminatory REO maintenance and marketing practices include banks, GSEs, trustees, and those parties that contract for the servicing and marketing of the REOs. Furthermore, because standing under the Act is held to be as broad as Article III of the Constitution will allow, potential aggrieved parties for the identified discriminatory REO practices may include the residents living in communities of color, cities that have been

30 42 U.S.C. § 3604.

31 *Huntington Branch, N.A.A.C.P. v. Town of Huntington*, 844 F.2d 926, 937-38 (2d Cir. 1988).

32 42 U.S.C. § 3602(d).

hard hit by these discriminatory practices, and the fair housing offices that are conducting these investigations.³³

The Fair Housing Act specifically names trusts and trustees in its definition of a “person” covered under the Act. Many lenders hold the title to an REO property as a securitization trustee and argue that the servicer listed in their Pooling and Servicing Agreement, or contract dictating the management of their securitized loan, is solely responsible for any discriminatory behavior or conduct that violates the Act. While the servicer does in fact service the loan, collect payments on the loan, and oversee maintenance of the property, it does so for the benefit of the lender and is effectively acting as the lender’s agent. A lender cannot change the legal obligations it has under the Fair Housing Act; it is responsible for items such as real estate taxes, zoning and code compliance, nuisance avoidance and abatement, and compliance with all other federal and state laws imposing duties on landowners. This would include the responsibility of non-discriminatory maintenance and marketing of REO properties across all communities, regardless of race or national origin.

Finally, all federal agencies and their grantees associated in any way with housing and community development have a special obligation to further the purposes of the federal Fair Housing Act. The law also covers policies and practices that have a disparate impact on protected classes.

This obligation is defined in Section 808(d) of the Fair Housing Act:

All executive departments and agencies shall administer their programs and activities

33 See, e.g., *Havens Realty Corp. v. Coleman*, 455 U.S. 363, 372 (1982) (citing *Gladstone Realtors v. Village of Bellwood*, 441 U.S. 91, 103 n.9 (1979)).

relating to housing and urban development (including any Federal agency having regulatory or supervisory authority over financial institutions) *in a manner affirmatively to further the purposes of this subchapter* and shall cooperate with the Secretary [of Housing and Urban Development] to further such purposes.³⁴ (*emphasis added*)

Executive Orders and other provisions of the Fair Housing Act related to affirmatively furthering fair housing provide additional guidance on this obligation.³⁵ In this context, the need to address and ameliorate the poor maintenance and marketing of REO properties in communities of color is of paramount importance to the resurgence of communities already devastated by the foreclosure crisis. Poorly maintained REO properties often result in costly expenditures by cities to mitigate public safety hazards and other related concerns in these neighborhoods. By neglecting to properly maintain and market REO properties, particularly in communities of color where REOs are heavily concentrated, banks, trustees, investors, and servicers extend the amount of time a property remains vacant and becomes a source of blight in cities across the nation.

SECTION 3: METHODOLOGY

NFHA and its members investigated REO maintenance practices in 29 metropolitan areas, selecting zip codes in which the

34 42 U.S.C. § 3608(d).

35 Section 805 of the Fair Housing Act lays the groundwork for this mandate by detailing discrimination in residential real estate-related transactions; Section 808 of the Act spells out the responsibility of the Secretary of Housing and Urban Development (HUD) to administer the Act, and the Act's application to other federal agencies; and Executive Order 11063, signed on November 20, 1962, and Executive Order 12892, signed on January 17, 1994, together state the responsibilities of all federal agencies to administer their programs in a manner that affirmatively furthers fair housing and clarify what is meant by programs and activities relating to housing and urban development.

majority of the residents were White, Non-Hispanic, Latino, African-American, or where the majority was a combination of non-White, Latino and African-American. These neighborhoods were also selected because their recent foreclosure rates were high in comparison to other neighborhoods in the same metropolitan area.

Once the target zip codes were identified, data providing the addresses of REO properties, as well as the banks or GSEs listed as the owners of the homes, was collected in each of the areas. These lists were compiled using a bank or GSE's own website, county property records, records kept by the clerk of courts, RealtyTrac, vacant property registries, auction websites, and other database sources. As property records are often not updated for months after a transaction is completed, records were also reviewed several months after the investigation to ensure sale had not occurred and simply not been recorded at the time of investigation.

REO properties that were either owned by several major lenders or were owned or overseen by FHA and the GSEs were the subject of the investigation. Because this data was collected for enforcement purposes, it is not limited to a research methodology of random sampling of the REO properties in each neighborhood. Within each zip code, all REO properties owned by the lenders selected were investigated and evaluated. However, if investigators arrived at a property and found it to be clearly occupied, the property was not evaluated. Similarly, if a property was actively undergoing some type of repair or renovation at the time of the visit, the property was also not evaluated.

Between April 2012 and December 2013, NFHA staff, along with staff from partner organizations, visited more than 2,400 single-family and townhome properties. Staff

evaluated each property using a checklist that included over 30 factors, such as curb appeal, structure, signage and occupancy, paint and siding, gutters, water damage, and utilities.³⁶ Evaluators answered “yes” or “no” to indicate whether each of these factors was or was not present on the property, and took pictures of the property and surrounding homes. For example, next to “trash” on the score sheet, the evaluator would mark “yes” if there was a visible amount of trash on the REO property, which would then translate into a deduction from the overall score. A lack of certain criteria, like a missing “For Sale” sign, also would constitute a deduction. In some cases an REO might have several instances of the same deficit, such as multiple boarded windows or multiple hanging gutters, but

³⁶ This checklist has been in use by NFHA and its partners since 2010 and matches up almost exactly with the checklists used by the GSEs and several banks who have shared their practices with NFHA. It has also been adopted by at least one bank since NFHA published its methodology.

evaluators would only mark “yes” once. Table 1 shows an overview of the scoring categories.

To ensure consistency, investigators were given a thorough training with examples and field training. They also utilized a glossary of terminology developed by NFHA and its partners at the beginning of this investigation with pictures and descriptions to illustrate various examples that would constitute a “yes” answer for each of the scoring components. The glossary also took into account and illustrated variations in severity for some of the scoring criteria. For example, if a property had a small amount of dead grass, it would receive a smaller deduction than if 50 percent or more of the lawn was filled with dead grass. Similarly, the severity of invasive plants and mold or discoloration was also taken into account when evaluating an REO property.

Curb Appeal	Structure	Signage & Occupancy	Paint & Siding	Gutters	Water Damage	Utilities
Trash	Unsecured or Broken Door	Trespassing or warning signs	Graffiti	Missing or Out of Place	Water Damage	Exposed or tampered with
Mail Accumulated	Damaged Steps or Handrails	Marketed as distressed	Peeling or Chipped Paint	Broken or Hanging	Small amount of mold	
Overgrown Grass/leaves	Broken or Boarded Windows	For Sale sign missing	Damaged Siding	Obstructed	Pervasive mold	
Overgrown/dead shrubbery			Missing Shutters			
Dead Grass	Damaged Roof	Broken or discarded signage				
Invasive Plants						
Broken Mailbox	Damaged Fence					
	Holes					
	Wood rot					

Table 1: NFHA’s REO maintenance and marketing checklist.

Investigators took photographs of the front of the property, both sides of the property, and the back view of the property when access was available. These photographs were taken regardless of whether there were deficiencies documented, in order to show the state of the REO maintenance at the time of visit. Investigators also took photographs of the houses across the street and on both sides of the subject REO. Documenting the neighboring properties allowed investigators to illustrate the REO in the context of the block and neighborhood where it is located. It also provides evidence of a poorly maintained REO's negative effect on often well-maintained neighboring homes. Several banks have adopted this practice of photographing neighboring homes so that their REO management teams have a better understanding of the REO neighborhood to inform their decision-making about pricing, maintenance and repairs.

The data and pictures were uploaded into a central database which was used to assign a score to the REO property. Each property was assigned a neighborhood designation based on racial/ethnic makeup of the Census Block Group in which the address was located. REO properties could fall into one of four neighborhood designations: (1) African-American, (2) Latino, (3) White, or (4) predominantly non-White³⁷. Both the overall scores of each property, as well as the scores for each individual category and subcategory, were then averaged and compared.

Investigators evaluated the state of the REO property at the time of the visit. Accordingly, this investigation could not and did not take into account the condition of the property at the time of transfer to the bank. The owner, who in this case is the bank or GSE,

³⁷ A neighborhood's race designation was calculated using 2010 Census data.

is responsible for securing the property, preserving and selling the asset, and maintaining the lawn and exterior to meet local standards from the time the home becomes vacant following the foreclosure. Therefore, the maintenance condition of the home at any point when the property is vacant and bank-owned should be consistent between neighborhoods regardless of the race or ethnicity of the residents.

SECTION 4: FINDINGS

Since the beginning of these REO investigations, NFHA and its partners have investigated 3,726 REO properties owned and/or by managed by 16 different lenders, FHA or GSEs. This report covers the investigations completed from April 2012 to December of 2013, totaling 2,426 REO properties in African American, Latino, majority non-White, and White communities. Covering a total of 11 banks, including FHA and Fannie Mae, across 29 metropolitan areas in 22 states, NFHA and its partners uncovered significant maintenance and marketing disparities. The companies covered in this dataset include Fannie Mae, (whose REO properties are managed by Safeguard, Asset Management Specialists, and Cyprex), Bank of America, US Bank, Deutsche Bank, and several others that cannot be named until investigations are concluded and decisions about any enforcement actions are made. This section details the overall investigation findings.

Total number of REO properties: 2,426

- 895 African American
- 326 Latino
- 271 Majority non-White
- 934 White

Overall Findings

REO properties in communities of color were much more likely to have a higher number of maintenance and marketing deficiencies.

	Communities of Color	White
Less than 5 deficiencies	21.7%	43.2%
5 or more deficiencies	78.3%	56.8%
10 or more deficiencies	32.0%	12.4%
15 or more deficiencies	6.4%	1.1%

Table 2: Nationwide statistics for overall maintenance or marketing deficiency numbers

Overall, REO properties in White communities were found to be well maintained with minimal deficiency issues far more often than those REOs in communities of color. It was 2.0 times more likely that REOs in White neighborhoods had less than five deficiencies compared to REOs in communities of color. It was much more common for REO properties in communities of color to have multiple deficiency issues, with five or more deficiencies occurring 1.4 times more often, ten or more deficiencies 2.6 times more often, and 15 or more deficiencies 5.8 times more often than REO properties in White communities.

In this report we documented significant disparities based on the racial/ethnic composition of the neighborhood where the REOs were located, such as:

- 28 out of 29 metropolitan areas (or 96.6 percent) documented a significant accumulation of trash at REOs in communities of color versus REOs in White communities;

- 27 out of 29 metropolitan areas (or 93.1 percent) documented a significant number of unsecured or broken doors at REOs in communities of color versus REOs in White communities; and,

- 26 out of 29 metropolitan areas (or 89.6 percent) documented significantly more unsecured, damaged, or broken windows at REOs in communities of color versus REOs in White communities.



43.2% of REO properties in predominantly White communities were well-maintained while only **21.7%** of REO properties in communities of color were well-maintained.

REO properties in communities of color were more likely to have significant curb appeal, marketing, and structural issues than REOs in White communities.

Curb appeal plays a critical role in the sale of any home, but particularly an REO. Curb appeal affects the list price, days on the market, whether real estate agents actively show the listing, the value at which it is sold, and ultimately who decides to purchase the home. When an REO's grass and shrubbery is manicured and maintained and its yard is free of trash and debris, potential homebuyers are much more likely to be interested in purchasing the home. Conversely, when an REO's yard is overgrown and littered with trash, it is much more likely that the property will sit vacant for weeks, months, or even years, and that an investor will ultimately purchase the home instead of an owner-occupant. Neglecting curb appeal on the part of the banks also harms the neighborhood as a whole, bringing down property values and morale as well

as introducing health and safety hazards to the community. NFHA and its members found that curb appeal issues, such as the presence of trash, dead grass or overgrown grass and shrubbery, and the accumulation of dead leaves, were documented with a much higher frequency in communities of color compared to communities where the majority of residents were White.

Analysis of the 2,426 REO properties across the country also showed significant disparities involving structural items at REO properties in communities of color. Structural issues, such as unsecured, broken, and/or boarded doors; damaged and unsafe steps or handrails; broken and/or boarded windows; damaged roofs; damaged fences; unsecured holes; and serious wood rot, were all found with a much higher frequency in REOs in communities of color. Even though the majority of REOs in communities of color were located in middle income and working class neighborhoods, we documented additional structural issues much more

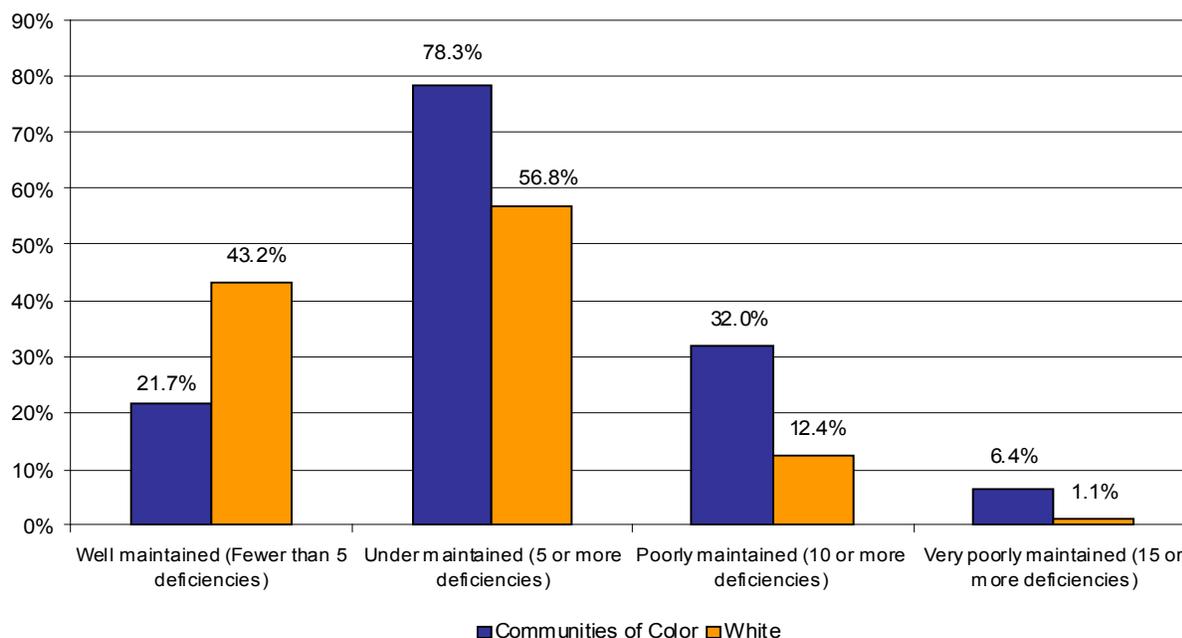


Figure 6 - This graph shows the percentage of REOs in communities of color that had different levels of maintenance or marketing deficiencies compared to those same levels on REOs located communities that were predominantly White.

often, including graffiti on the exterior of the home; peeling or chipped paint on outside walls, porch ceilings, and support beams; damaged siding; broken or hanging gutters; and exposed or damaged utilities such as broken or missing A/C and electrical units, hanging wires and broken electrical fixtures.

Across the board, these structural issues that are vital to the health and longevity of an REO property, as well as the health of the neighborhood in general, were found with much more frequency in communities of color.

Poorly maintained REOs with unsecured openings into the property invite trespassers and vandals as well as rodents, insects, cats, dogs and wildlife. Other structural issues create a deteriorating asset that decreases the sales price of the home meaning the bank will receive less money, the former occupant may be required to pay the difference between the mortgage balance at foreclosure and the REO sale's price and neighboring homes' will experience depreciated property values. Because REOs in communities of color much more frequently lacked a professional "for sale" sign on the property, the combination of these deficiencies resulted in REO properties appearing abandoned, blighted, unappealing, and unavailable to interested homebuyers. Instead, these discriminatory maintenance and marketing issues found in communities of color pave the way for investor purchases and continue to cause great harm to neighborhoods, impeding their recovery from the damage already inflicted by predatory lending practices that led to the foreclosure crisis.



47.5% of REO properties in communities of color had substantial trash on the premises while only

22.0% of REO properties in predominantly White communities had the same problem



30% of REO properties in communities of color had unsecured or broken doors while only

12.7% of REO properties in predominantly White communities had the same problem

	Communities of Color	White
Trash	47.5%	22.0%
Mail accumulated	19.2%	18.0%
Overgrown grass or leaves	32.8%	26.9%
Overgrown or dead shrubbery	38.9%	33.3%
Dead grass 10-50%	22.5%	18.1%
Dead grass 50% or more	13.5%	5.8%
Invasive plants 10-50%	21.6%	18.8%
Invasive plants 50% or more	6.6%	3.6%
Broken mailbox	7.4%	6.0%
Unsecured or broken door	30.0%	12.7%
Damaged steps or handrails	16.6%	10.6%
Broken or boarded windows	47.1%	23.5%
Damaged roof	16.2%	9.0%
Damaged fence	35.9%	25.4%
Holes	23.9%	11.4%
Wood rot	28.0%	19.5%
Trespassing or warning signs	36.3%	36.4%
Marketed as distressed	4.7%	3.3%
For sale sign missing	55.1%	43.9%
Broken or discarded signage	3.4%	2.9%
Unauthorized occupancy	2.3%	0.0%
Graffiti	7.4%	1.7%
Peeling or chipped paint	55.6%	40.7%
Damage siding	38.1%	27.1%
Missing or damaged shutters	2.3%	1.8%
Missing or out of place gutters	19.0%	16.5%
Broken or hanging gutters	17.4%	11.9%
Obstructed gutters	17.8%	18.4%
Water damage	5.8%	3.2%
Small amount of mold	21.8%	19.9%
Pervasive mold	5.8%	3.6%
Exposed utilities	22.5%	8.4%

Table 3: National statistics for REO maintenance and marketing in 29 cities across the United States.

SNAPSHOT: MEMPHIS, TN

Predominantly White Neighborhood

In May of 2013 NFHA investigated REO properties in the Memphis, Tennessee area. Upon scoring the property below, located in a predominantly White community in Memphis, investigators documented that the property had only minimal structural issues and excellent curb appeal. The REO was also properly marketed with a professional "For Sale" sign clearly visible in the front yard of the home. This property was sold less than a month after NFHA's inspection to owner occupants.



Predominantly Non-White Neighborhood

In May of 2013 NFHA also investigated the property below located in a predominantly Non-White community. Although it was marketed with a "For Sale" sign in the front yard, it had excessive overgrowth of grass, shrubbery, and invasive plants, boarded doors and windows, and multiple structural issues like holes in the structure among others. This home was sold a month and a half after NFHA's visit to an investor.



SNAPSHOT: BALTIMORE, MD

Predominantly White Neighborhood

In September of 2013 NFHA investigated the property below located in a predominantly White community in Ellicott City, MD. While it was missing a "For Sale" sign, the home had a spotless yard that was well manicured and maintained and had no structural issues.



Predominantly African American Neighborhood

In November of 2013 NFHA investigated the property below located in a predominantly African American community in Baltimore, MD. Investigators documented no "For Sale" sign, discarded "auction" signs, trash strewn all over the property, overgrown grass and shrubbery, as well as mold and other issues.



SNAPSHOT: MILWAUKEE, WI

Predominantly White Neighborhood

This REO in a predominantly White community in Milwaukee, WI was evaluated in September of 2012. It had a professional "For Sale sign" present, well manicured lawns, and no structural issues. It ultimately sold to owner-occupants.



Predominately African American Neighborhood

This property was evaluated in August of 2012 and is located in a predominately African American neighborhood in Milwaukee, WI. The REO had a substantial amount of trash on the premises as well as overgrown shrubbery, unsecured doors into the home, no "For Sale" sign marketing the home as available to homeowners, and many structural issues such as boarded windows, peeling and chipped paint, damaged siding, and damaged gutters. This home was purchased by investors.



SNAPSHOT: NEW ORLEANS, LA

Predominantly African American Neighborhood

Investigators visited this REO in New Orleans, LA in November of 2013. Located in a predominately African American neighborhood, this REO had trash, overgrown shrubbery, invasive plants, boarded windows, holes, exposed utilities, and more.



Below are the neighboring homes of the REO property, all in pristine condition. The REO was listed for sale at \$81,000 and ultimately sold for \$70,000, while recent neighborhood sales prices were averaging \$220,000.



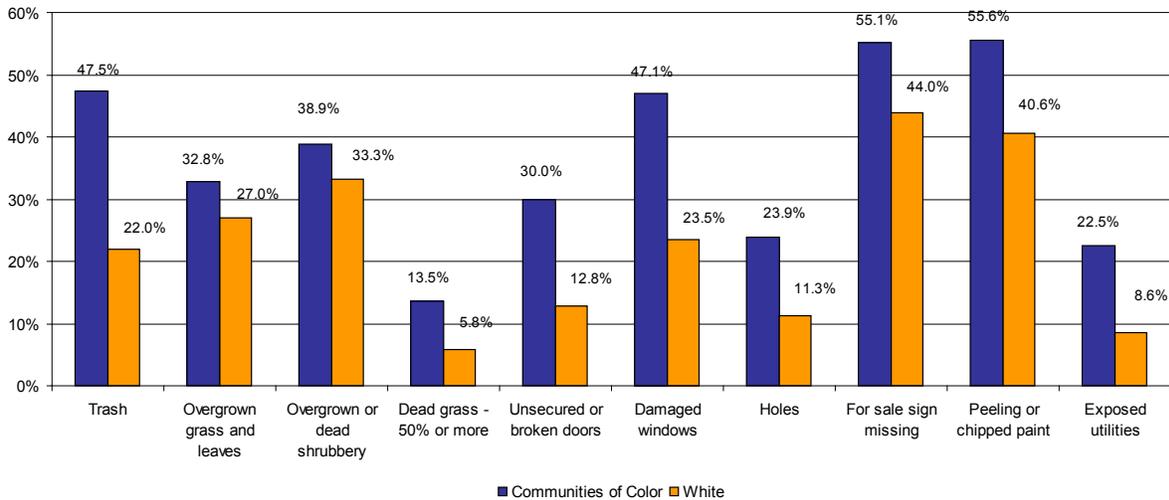


Figure 7 - This graph shows the percentage of deficiencies at REO properties in communities of color and in predominantly White communities.

REO Disposition Outcomes

As noted previously in the report, poor maintenance of an REO property makes it significantly more likely to end up in the hands of an investor, rather than an owner-occupant. Investor purchased REOs often result in a number of negative outcomes in the surrounding area, including a rapid decrease in property values and a higher risk of abandonment.

In order to get a better picture of how poor maintenance by banks lured investors to neighborhoods that formerly had high rates of homeownership, NFHA reviewed property records to determine if properties that were poorly maintained were more likely to sell to investors over owner-occupants. For NFHA's 2012 REO report property records of 90 REOs in both Prince George's and Montgomery Counties in Maryland were reviewed. The review revealed that properties in communities of color and properties that were maintained poorly were significantly more likely to have been sold to investors over owner-occupants than REOs located in White communities. We found that 59 percent of REO properties that were poorly maintained were sold to investors,

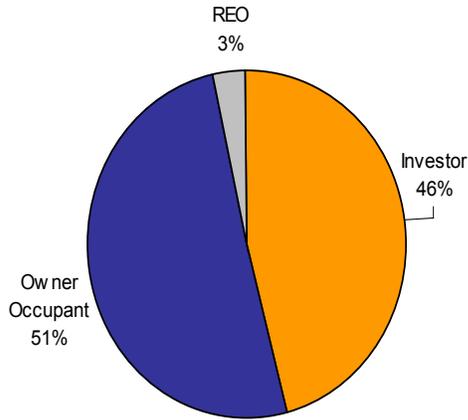
compared to only 36 percent of those that were well maintained. Forty-six percent of the well-maintained properties were purchased by owner-occupants, while only 12 percent that were poorly maintained went to owner-occupants. Similarly, when analyzed through the lens of the neighbor's race, 52 percent of REO properties in communities of color were purchased by investors, while only 33 percent of the properties in predominantly White communities had the same outcome.³⁸

As a follow up to the 2012 report NFHA reviewed the sale outcomes (where records were available) for 79 properties in the Memphis, Tennessee, area one year after the initial investigation and found similar troubling patterns. Seventy percent of REO properties that were poorly maintained (or had 10 or more maintenance and marketing deficiencies) were sold to investors, while only 46 percent of well-maintained homes went to investors. Only 20 percent of poorly-maintained homes were sold to owner occupants, while 51 percent of well-maintained houses went to owner occupants.

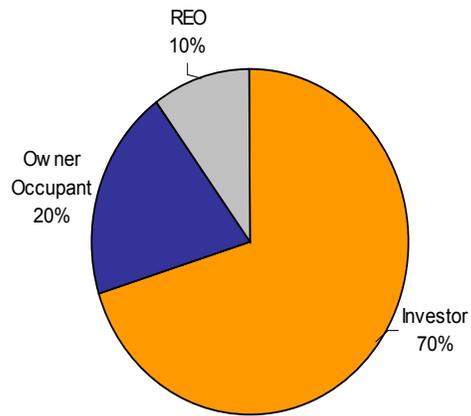
³⁸ National Fair Housing Alliance, "The Banks Are Back – Our Neighborhoods Are Not," April 12, 2014, <http://www.nationalfairhousing.org/Portals/33/Banks%20are%20Back%20Final%2012.3.2012.pdf>.

Memphis, TN REO Outcomes

Disposition Outcomes for Well - Maintained REOs
(Fewer than 10 deficiencies)

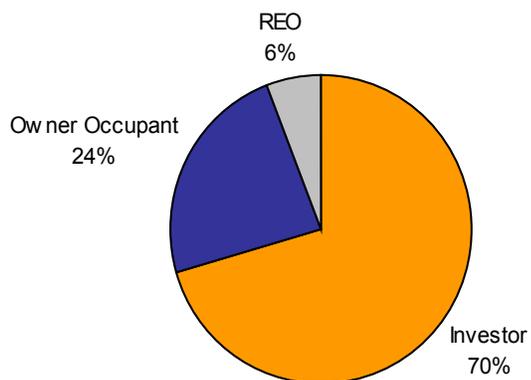


Disposition Outcomes for Poorly-Maintained REOs
(10 or more deficiencies)

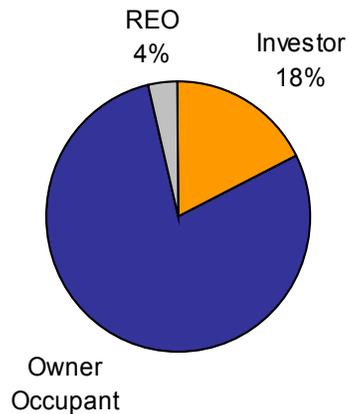


When observing the same Memphis dataset through the lens of the race of the neighborhood, the outcomes are even more troubling. Of the REOs in communities of color, 70 percent went to investors while only 18 percent in predominantly White communities were sold to investors. Only 24 percent of the REOs in communities of color went to owner-occupants, while 78 percent of REOs in predominantly White communities were purchased directly by owner-occupants.

Disposition Outcomes for REOs in Communities of Color



Disposition Outcomes for REOs in Predominantly White Communities



FROM REO TO INVESTOR

The six properties below were at one time bank-owned foreclosures but have since been purchased by investors. All six properties were in investors' hands at the time of the investigator's visit.



Charleston, SC 07/17/2012 10:25



Atlanta, GA 07/25/2012 10:47 AM



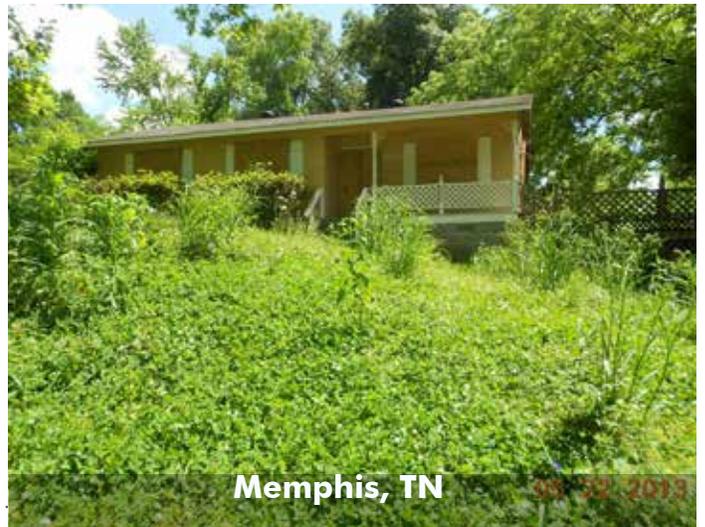
New Orleans, LA 10/04/2013 10:39



Memphis, TN 02/05/2014



Richmond, VA



Memphis, TN 08/30/2013

SECTION 5: RECOMMENDATIONS

Since these findings continue to show a troubling pattern and practice of poor maintenance and marketing of REOs located in communities of color, it is more important than ever that banks, Fannie Mae, FHA, investors, federal regulators, local governments, community groups and fair housing agencies continue to work to address this problem and ensure a fair recovery for all neighborhoods affected by foreclosures. Of course, banks and other owners of REOs must have a comprehensive understanding of the Civil Rights Act of 1866 and the Fair Housing Act. Banks must also understand the dual purpose of the Fair Housing Act: eliminating discrimination and promoting residential integration in order to fulfill the intent and purpose of the law.³⁹ The fair housing lens should be cast upon all policies and practices related to REOs to ensure that properties in neighborhoods of color are maintained and marketed in the same quality fashion as those in White neighborhoods.

Coordination among the leading lenders and servicers in the industry may be required because of the significant extent to which institutions engage in interrelated business dealings, such that one bank may operate as the owner of REOs in one context and the servicer of REOs in another. As a result of the varying roles that banks play in the REO industry, lenders, trustees, and preservation management companies often work for each other and with each other in different communities and in different capacities.

39 See *Trafficante v. Metro. Life Ins. Co.*, 409 U.S. 205, 211 (1972) (quoting Senator Mondale that “the reach of the proposed law was to replace the ghettos with ‘truly integrated and balancing living patterns’” (citing 1 14 CONG. REC. 2706)); see also *Huntington Branch, NAACP v. Town of Huntington*, 844 F.2d 926, 933 (2d Cir. 1988) (stating that Title VIII should be broadly interpreted in order to fulfill the “congressional mandate” of promoting integration).

There are a number of actions that can be taken by all parties involved in the management and disposition of foreclosures to mitigate discriminatory practices and harmful outcomes for African American and Latino communities.

Duty to Neighborhoods and Fiduciary Duty to Trusts Holding Mortgage in Default

Banks and other owners of foreclosures must not allow the homes to sell at auction for prices significantly below the market value of homes in the neighborhood where it is located. They must bid competitively on their property and, when the bid is not sufficient, allow the home to transition to the REO channel. This gives owner-occupants and local non-profits the opportunity to purchase the property, and it places professional real estate agents in charge of listing and selling the home.

Bulk sales should be eliminated except in very special circumstances where a non-profit or city agency needs the homes/property for specific developments. Bulk sales to investors remove the opportunity for owner-occupants to compete and result in formerly homeownership neighborhoods becoming investor communities.

Careful Selection and Management of REO Vendors

The process of REO disposition has many key players and many stages in which housing discrimination can occur. It is the responsibility of banks and other owners to make sure that all parties involved in the foreclosure and REO process are trained in the Fair Housing Act and that strict adherence to the law is enforced. All vendors selected to work on the disposition of REOs should receive high-quality fair housing training, should not be the subject of pending

complaints of discrimination, and should have successfully resolved any past complaints of discrimination.

Each entity that owns an REO is liable for the actions of its contractors and their subcontractors. Banks and other owners have an obligation to implement sound quality-control practices to guarantee that REOs are maintained and marketed without regard to the racial or ethnic composition of the neighborhoods in which REOs are located.

Since foreclosure volumes began increasing drastically in 2006, large preservation management companies have entered the real estate industry in a completely new way. These companies have always had the duty to ensure that they are well-versed in their responsibilities and liability under the Fair Housing Act. These large regional and nationwide companies, who often contract with subcontractors at a local level, should implement robust fair housing training for all their employees, including the CEOs and subcontractors responsible for weekly maintenance.

Implement Marketing and Disposition Practices that Better Serve Communities

Brokers are an essential part of the disposition of REO properties. An REO listing broker's local expertise is vital to the proper treatment of REOs, and banks and other owners must enact policies to ensure that the broker assigned to an REO property:

- (a) Has an office that is located in close proximity to the home;
- (b) Has the capacity to closely manage and oversee the treatment of the REO;

(c) Has a working relationship with local government and non-profits serving the neighborhoods where the REOs are located;

(d) Has a reputation for and successful experience in working in diverse neighborhoods; and

(e) Does not have discrimination actions pending or any past complaints that were not satisfactorily resolved.

These types of selection criteria will ensure that REO brokers are familiar with the community and are committed to its recovery. Banks and other owners should also maintain and routinely train a network of diverse multi-lingual agents who can work to provide equal access for non-English speaking buyers and promote residential integration.

Banks and other owners should implement better incentives for their brokers to sell to owner- occupants rather than investors and should severely restrict bulk sales in their disposition practices. The vision for rebuilding communities affected by the foreclosure crisis rests at the local level, with agencies and institutions whose mission it is to create healthy and vibrant neighborhoods of opportunity. Investors who pursue bulk purchases of REOs may not share or be guided by that vision. By making sure that some of these foreclosed homes are put in the hands of non-profit community development organizations, community land trusts, and other community-based and community-minded institutions, banks and other owners can facilitate the realization of that vision. Of course, fair housing principles and requirements should be followed at every step.

One way to address this issue is to give prospective owner-occupants and non-profit community organizations greater

opportunities to purchase foreclosed homes. Some policies offer only a 15-day period for such buyers before opening sales up to investors. NFHA recommends that these homes be available exclusively to owner-occupants and non-profit organizations for at least 30 days before they are available to the entire market. Wells Fargo has taken the lead in implementing sales practices that promote homeownership by implementing an additional period where owner-occupants and non-profits have priority every time the price of the REO is reduced. All banks and other owners should implement this practice. Additionally, banks must not give preference to cash offers over owner-occupant offers that require financing.

Communities that have been hard hit by foreclosures are struggling to devise ways to help neighborhoods recover from the damage they have suffered. Many have developed revitalization plans, using federal funds under the Neighborhood Stabilization, Community Development Block Grant, HOME and other programs, as well as other sources. The disposition of REO properties, both at the point of sale to investors and the point at which investors resell these homes, should be coordinated with these local plans to leverage a positive impact.

Implement Better Quality Control Measures

Banks and other owners must implement better quality control measures across the board. There must be swift and severe penalties for vendors who fail to do their work in a professional manner. Special attention must be directed to neighborhoods that have been determined to be most vulnerable to poor work by vendors. This should include neighborhoods that are predominantly African-American, Latino or Asian American,

as well as neighborhoods that are low or moderate income.

A system of quality control does not function properly if the information collected by the quality control teams is not properly utilized. A recent report from the OIG for the GSEs that reviewed the work of property preservation companies working in the pre-foreclosure space, many of whom also work in the post-foreclosure REO market, showed that vendors had manipulated photos to alter timestamps, that the same pictures were used month after month to show the condition of the property, and that even when quality control was in place, the validation of inspection reports had not been conducted properly.⁴⁰ This sort of poor accountability is entirely unacceptable. Vendors who fail to adhere to good quality maintenance standards and who are suspected of such manipulation should be suspended or terminated by banks and other owners for their poor work. Freddie Mac has a system in place to monitor and terminate vendors as appropriate.

Make REO Ownership Information Transparent, Accurate, and Accessible

Every bank or REO owner should maintain a public database containing all of its REO listings, including the name and contact information of the preservation management company, broker, and any other vendors responsible for the maintenance or sale of the property. Neighbors and local advocates must have access to clear ownership records that are updated in an accurate and timely manner. Banks and other owners should ensure vendors are posting accurate signage with valid contact information and should also provide detailed information about the

40 Federal Housing Finance Agency Office of Inspector General, "FHFA Oversight of Enterprise Controls Over Pre-Foreclosure Property Inspections," March 25, 2014, <http://fhfaig.gov/Content/Files/AUD-2014-012.pdf>.

REOs for which they provide services on their websites.

Local governments should continue to implement Vacant Property Registries (VPR) that require banks, other owners, and servicers to register their vacant properties and provide up-to-date contact information for parties responsible for any maintenance or other issues that may arise on their properties. These VPRs must be monitored and violations addressed on a routine basis to mitigate the harmful effects of poorly maintained vacancies on neighborhoods. Cities like Oakland and Riverside in California have had success in enforcing VPRs and have collected millions of dollars in violation fines from the banks. Others, however, like the City of Los Angeles, are still struggling to obtain cooperation from banks. They have blighted bank-owned foreclosures littered throughout the city, with thousands of dollars in violation fines uncollected.⁴¹ NFHA has observed that some management companies brag that they are able to negotiate down the fines that banks and management companies owe because of their violations of local ordinances. This behavior is unacceptable and local governments must remain vigilant in holding banks accountable for their neglect.

Better Oversight from Federal Regulators and Congress

Many of the institutions that have been engaging in discriminatory practices in the REO market are federally regulated. Federal regulators, including the Consumer Financial Protection Bureau, Federal Housing Finance Agency, and the Federal Reserve, must

41 Baldonado, Kim, and Kelly Goff, "Residents Demand Banks Pay to Clean Up Blighted Properties," NBC4 Los Angeles, May 8, 2014, <http://www.nbclosangeles.com/news/local/Residents-Demand-City-Enforce-Anti-Blight-Ordinance-258560001.html>.

continue to be vigilant and conduct industry reviews to ensure proper conduct and to ensure that banks and the GSEs are not implementing practices that have a disparate impact on homeowners from protected classes or neighborhoods of color.

Audits, such as the one reported in March 2014 by the Federal Finance Housing Agency's Office of Inspector General that uncovered numerous examples of poor quality work and ineffective quality control measures, should be conducted in the post-foreclosure, or REO space. In addition to the issues specifically addressed in this report, a larger investigation should examine whether and to what extent vendor contracts are made available to minority and women-owned enterprises. Congress must hold hearings to investigate discrimination in the REO arena so that neighborhoods of color and the businesses that support these neighborhoods are not left behind in the housing and economic recovery. While Congress has held extensive hearings on the housing crisis, this particular issue and its implications on the national debt and our nation's economic health have not been sufficiently addressed.

Create a Path Back to Homeownership

Over 4 million families have lost their homes to foreclosure in the last five years. Evidence from a variety of federal enforcement actions tells us that in many cases, families were steered into loans more risky and more expensive than their financial qualifications should have dictated.⁴² In other cases, people have been caught between record-high levels

42 One example is the recent settlement between the UD Department of Justice and Countrywide Financial, in which the government found that some 10,000 African American and Latino borrowers who qualified for prime loans were steered into subprime loans. For more details, see the DOJ press release, available at <http://www.justice.gov/opa/pr/2011/December/11-ag-1694.html>.

of sustained unemployment and falling home prices that have made it impossible for them to sell or refinance their homes. Offering these families a path back to homeownership is an important component of rebuilding stable, vibrant communities.

When an REO is acquired at a price below the previous mortgage balance, the new owner can set a new sales price that is based on the property's market value, eliminating the burden of excess debt that was fueled by unsustainable mortgage products. Many REO properties are expected to be put back into use as rentals. Some of these may remain rental properties for the foreseeable future, while others are likely to be resold within a few years. The first group may help address the country's growing need for rental units with more than 2 bedrooms. The second group may offer a path to homeownership for families who have been through foreclosure

and others who have difficulty qualifying for a mortgage in the current mortgage market.

Non-profit, community-based development organizations and community development financial institutions are exploring the use of lease-purchase programs for these REO properties. Under such programs, a portion of each month's rent is set aside to build a down payment, and the rental period gives the tenant (who may be the previous owner) time to repair his/her credit, with the goal of ultimately purchasing the home. With the proper protections built in for the tenant/potential purchaser, this may be a promising path to rebuilding financial security for families knocked low by foreclosure. NFHA recommends that banks and other investors who hold REO portfolios work with appropriate non-profit and/or local government agencies to make some REO properties available through such lease-purchase programs.

SECTION 6: COMMUNITY RELIEF INITIATIVES

NFHA and its partners have filed numerous HUD administrative complaints against lenders and preservation management companies that have failed to maintain their REO inventory in communities of color. It is our hope that these corporations correct their actions through the recommendations listed above and also provide much needed relief to the communities that have fallen victim to their poor and discriminatory practices.

Wells Fargo, the first bank against which NFHA and its partners filed a complaint, led the way to improving its REO practices by entering into a HUD conciliation agreement in June 2013. This agreement provides funds for community relief and improvements to current policies and practices that will have a positive impact on recovery in communities of color.

As part of the conciliation agreement, Wells Fargo agreed to implement best practices for maintenance and marketing

of its REO properties and the quality of its property management will be monitored by a third party. Wells Fargo extended its First-Look Homebuyer program to prioritize homeowner- over investor-purchasers of its REO properties, facilitated easy access to information about its REO properties, and improved its web site and toll free numbers to provide more information to prospective purchasers and those who want to report a problem with a Wells' REO property or agent.

The agreement also provided \$27 million in relief to communities of color in 19 cities to be administered by NFHA and its partnering fair housing organizations. The fair housing groups will provide grants to local groups to provide much needed relief to communities of color that have suffered from high foreclosure rates. In many programs, the funds will also be matched by local banks, retail chains such as Home Depot, and other local organizations to maximize the benefit to neighborhoods.



The following section outlines some of the ways this funding will assist communities:

- 1) Providing Down Payment and Closing Cost Assistance
- 2) Rehabilitating Vacant or Rental Housing Stock
- 3) Beautifying Neighborhoods and Quality of Life Improvements
- 4) Empowering Communities with Good Data on Foreclosures
- 5) Creating Accessible Housing and Neighborhoods
- 6) Increasing Affordable Housing Opportunities

These initiatives are described in more detail in the sections below.

Providing down payment and closing cost assistance

In many of the 19 cities, down payment and closing cost assistance were identified as key ways to promote homeownership and encourage stability in communities of color that were hit hard with vacant and abandoned properties after the foreclosure crisis. Many of these programs are supplemented with first-time homebuyer education programs and other housing counseling services. In Baltimore, for example, NFHA has donated \$100,000 to St. Ambrose Housing Aid Center for a program that provides homebuyers with small grants to meet their closing cost needs. One homeowner, Helen King, was able to purchase her first home in the Hamilton Neighborhood in Baltimore through the assistance of St. Ambrose and its closing cost assistance program.



Figure 8 - Helen King's new home in Baltimore, MD, purchased with the help of St. Ambrose's closing cost assistance program.

In Oakland, CA, NFHA is partnering with the ROOT project. ROOT is providing down payment assistance as well as gap funding to help homeowners refinance their homes into lower interest rate loans. In Miami, FL the HOPE Fair Housing Center partnered with the Housing Foundation of America to provide down payment assistance to formerly homeless program participants.

Similarly, the Toledo (OH) Fair Housing Center will provide \$360,000 in emergency mortgage assistance grants to homeowners, and the South Suburban Housing Center in Homewood, IL, is providing grants of \$2,000 – \$15,000 to homeowners who can use the funds to either remedy their mortgage delinquency or to invest as owner-occupants in previously distressed or abandoned properties.

“I am so grateful and blessed to have been chosen for this program. After being rejected from other programs and not knowing what to do or where to turn, the Toledo Fair Housing Center introduced me to the [MLK Inclusive Communities] Plan. It was their guidance and knowledge that not only allowed me to remain in my home but also have my home paid off.”

CHERYL RILEY, HOMEOWNER WHO ACCESSED FUNDS FROM CONCILIATION WITH WELLS FARGO TO STAY IN HER HOME.

Rehabilitating vacant or rental housing stock

Funds for community relief have also been invested in communities to rehabilitate housing stock that has been vacant or used for rental properties and deteriorated over time. For example, HOPE Fair Housing Center in West Chicago, IL, recently awarded a grant from its community relief funds to Oak Park Regional Housing Center (OPRHC). This grant allows the center to provide up to \$4,000 per unit to landlords to focus on small improvements of 2-4 unit buildings where one or more of the units are vacant. This will allow for small improvements such as painting and installing new appliances.

In Milwaukee, WI, the Metropolitan Milwaukee Fair Housing Council provided a grant of \$175,000 to a partnership comprised of the ACTS Community Development Corporation, Housing

Resources Inc., Washington Park Partners, and Harambee Great Neighborhood Initiatives. Each organization will contribute services to the project, including assistance to 50 families in purchasing vacant, foreclosed homes for owner occupancy; pre-purchase and post-purchase homebuyer education; and grants for repairs to homes that were previously foreclosures.

In Baltimore, MD, St. Ambrose has also undertaken the rehabilitation of several REOs for homeowners, one of which can be seen in the photographs on the following pages. This property underwent a great deal of renovation, including the installation of a new kitchen and bathroom. Such changes have allowed this REO property to be transferred directly to a homeowner rather than be flipped or abandoned by one of the many investors working in Baltimore’s communities of color.



BEFORE

Kitchen of REO in Baltimore before renovation using funds from Wells Fargo conciliation agreement.



AFTER

Kitchen of REO in Baltimore after renovation using funds from Wells Fargo conciliation agreement.

Beautifying neighborhoods and quality of life improvements

Part of the vision for community relief is centered on creating neighborhoods that are desirable to live in and where residents can feel a pride in their home and community. Projects that create this sense of community and neighborhood stabilization can vary and leave room for a lot of creativity and tailoring at the local level. In Dayton, OH, for example, the Miami Valley Fair Housing Center will be administering a program targeted to neighborhood associations, social or fraternal organizations, or other unincorporated groups that may not have a formal structure or tax exempt status, and will provide grants of up to \$5,000 to assist with neighborhood projects. For example, this could include public arts projects such as murals promoting diversity, civil rights, or fair housing. It could also be other neighborhood beautification

projects, modifying a vacant lot into an urban garden, or repairing recreational trails used by the resident of a neighborhood.

Similarly in Indianapolis, IN, a portion of the funds will go to neighborhood stabilization and increasing the quality of life in neighborhoods of color. Already, the Fair Housing Center of Central Indiana has given a grant to Marian University to create a Farmer’s Market which will be the only one in the area, an Urban Teaching Garden, and a Summer Biking Camp targeting at-risk youth. It has also given a grant to Keep Indianapolis Beautiful to modify a current vacant lot into a pocket park in the Historic Meridian Park neighborhood. The Harrison Center for the Arts has received a grant to create a public arts project that will focus on the value of community in a low-income neighborhood of color. The art will be interactive and have audio, and all programs will be accessible to persons with disabilities.



BEFORE

Bathroom of REO in Baltimore before renovation using funds from Wells Fargo conciliation agreement



AFTER

Bathroom of REO in Baltimore before renovation using funds from Wells Fargo conciliation agreement.

Empowering communities with good data on vacancies and foreclosures

In many cities and counties across the country, the lack of transparent and accurate data on vacancies and foreclosures is a glaring issue for neighbors, government officials, and emergency responders. In the Western suburbs of Chicago, outreach meetings with local stakeholders revealed that community groups felt a need for good quality data on vacancies and foreclosures. Community relief funds may be spent on supporting neighborhood groups to form databases on vacant and abandoned properties in their service areas to force better maintenance and marketing of those properties, as well as for title acquisition for rehab of those properties by local non-profits or small investors.

Creating accessible neighborhoods

Fair housing groups work tirelessly to ensure that persons with disabilities have access to housing of all kinds. Many of the fair housing centers are using community relief funds to create accessible housing as well as to uplift communities that were hit by the foreclosure crisis. For example, the Dayton program will include an accessibility modification component, in partnership with Rebuilding Together Dayton, People Working Cooperatively, and Habitat for Humanity, to assist disabled homeowners or elderly homeowners who wish to age in place and who are at or under 100 percent of area median income to allow them to more fully use and enjoy their residence. Such modifications may include the installation of aluminum modular ramps for people who use wheelchairs, bathroom modifications, and the installation of grab bars.



Cheryl Riley with Michael Marsh, CEO of the Toledo Fair Housing Center, and other staff in front of her home in an African-American Neighborhood in Toledo

The Fair Housing Continuum has joined a special project called “Heroes Commons” in the Parramore District of Orlando, Florida. This program, joined through HANDS of Central Florida and spearheaded by the Orlando Regional Realtor Association, will build an urban village of at least six single family homes for veterans and active duty military with disabilities as close to mortgage-free as possible. Because the home owners will be disabled and the homes will be in a distressed neighborhood, the Continuum will match up to \$30,000 each. The City of Orlando will donate the vacant lots and the local Architects Association will provide the plans and drawings free of charge. The local Builders Association will provide the labor at cost plus 10 percent. Home Depot has agreed to match the Continuum with money and supplies.

In Indianapolis, the Fair Housing Center of Central Indiana (FHCCI) provided the funds for the renovation of the home of a young man who is a quadriplegic and his elderly grandparents. After being scammed by a local

contractor who poured the addition’s cement slab and then disappeared with the family’s money, the family came in contact with the FHCCI. Once FHCCI was able to verify that the family’s income was less than 80 percent of the area median household income, their construction manager and disability expert met with the family and came up with the best plan to make the home accessible for him. The contractor working on the home was so struck by the family’s struggle that he poured a concrete wheelchair ramp free of charge to remove the step barrier into the home.

Increasing Affordable Housing Opportunities

Some of the local groups are also using their community relief funds to promote affordable housing in their local areas. In Baton Rouge, LA, for example, the Greater New Orleans Fair Housing Action Center is providing funds to the Louisiana Affordable Housing Land Trust to provide grants or low interest loans to housing developers, in return for a commitment from the developer to ensure perpetual affordability of the subject properties. Developers will use deed and title restrictions and other tools to ensure that properties are owner-occupied or rented exclusively by low- and moderate-income residents.

SECTION 7: CONCLUSIONS

As our nation continues to recover from a devastating housing crisis, families of color are in danger of being left behind because of discriminatory practices in the housing and banking industries. The poor maintenance and

marketing of REO properties in communities of color by large banks is a key factor that will inhibit the stabilization of these neighborhoods.

As this report outlines, NFHA and its partners have continued to find that properties in communities of color are not maintained in an equal manner to those in predominantly White communities. REO properties in communities of color continue to be more likely to have trash, overgrown grass and shrubbery, and to have boarded and broken windows. They are not being marketed with professional “For Sale” signs and instead are marketed as distressed or dangerous with more “No Trespassing” and “Foreclosure” or “Auction” signage. Properties in communities of color are neglected and deteriorating, which drives down the sale price of the properties if they are in fact ever sold, and ushers in investor purchasers rather than homeowners, thus further destabilizing the neighborhood.

This behavior must be stopped and reversed through drastic changes in the practices of the banking industry, many of which are outlined

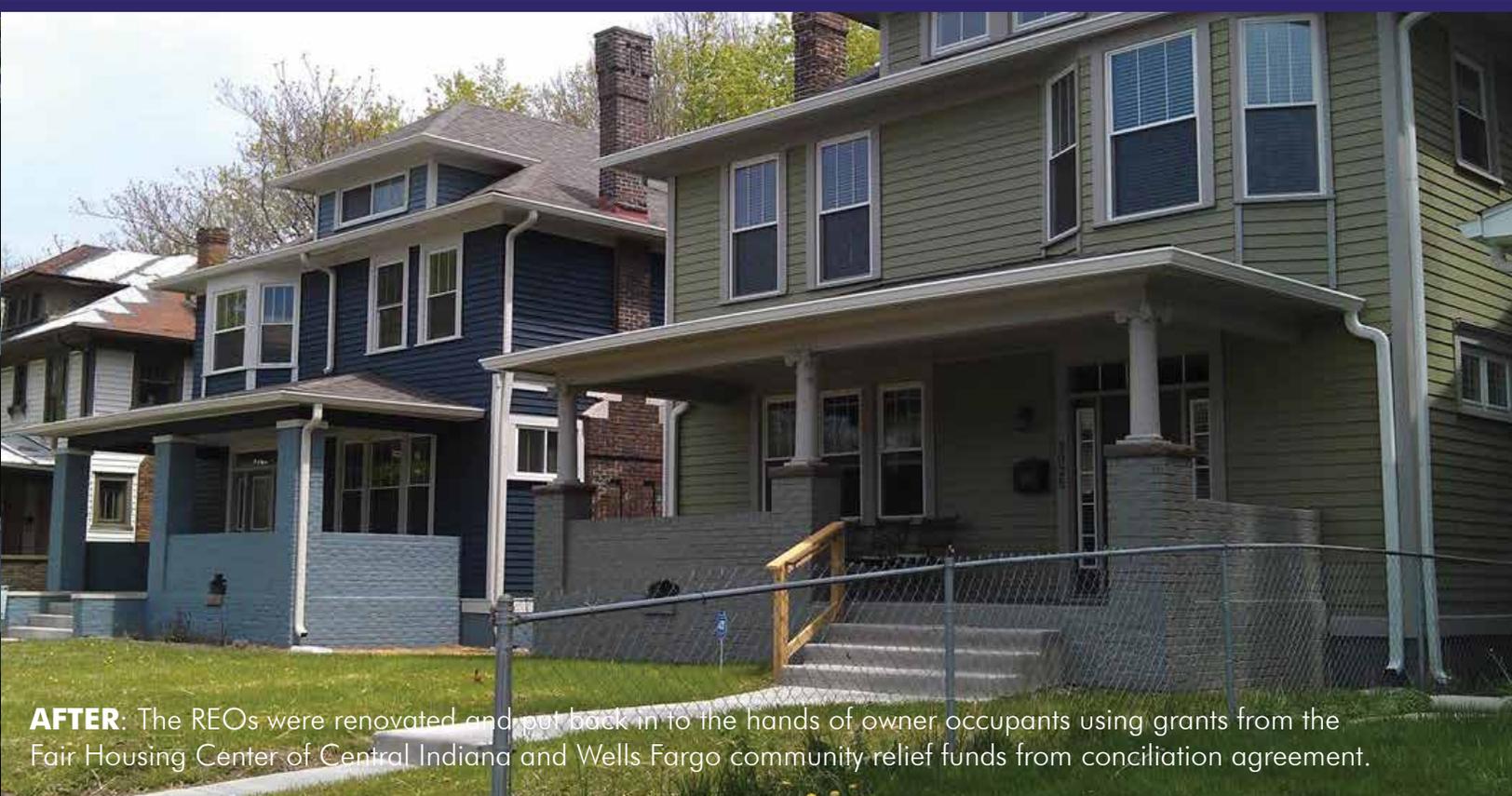


BEFORE: Two side by side REO properties with broken windows, poor curb appeal and fire damage in an African-American neighborhood in Indianapolis

in this report. Banks and their vendors must have a deep understanding of the Fair Housing Act and their liability under the law during the management of REO properties. A local, diverse vendor pool should be utilized for the maintenance and marketing of REO properties. Vendors must also be managed with clear expectations and better quality control, and neighborhoods of color must be reviewed with more detail to flag discriminatory behavior. Federal regulators, local governments, and local community groups must remain ever-vigilant to hold banks and the GSEs accountable for their actions with regards to REO management.

Banks must take steps now to reform their REO disposition practices, work with fair housing and community groups, and comply with the Fair Housing Act. If these changes are made, our communities across the country have a better chance at recovering in a way that leads to vibrant, stable, and integrated communities. If banks and other owners fail to respond immediately and affirmatively address these discrimination issues, they face

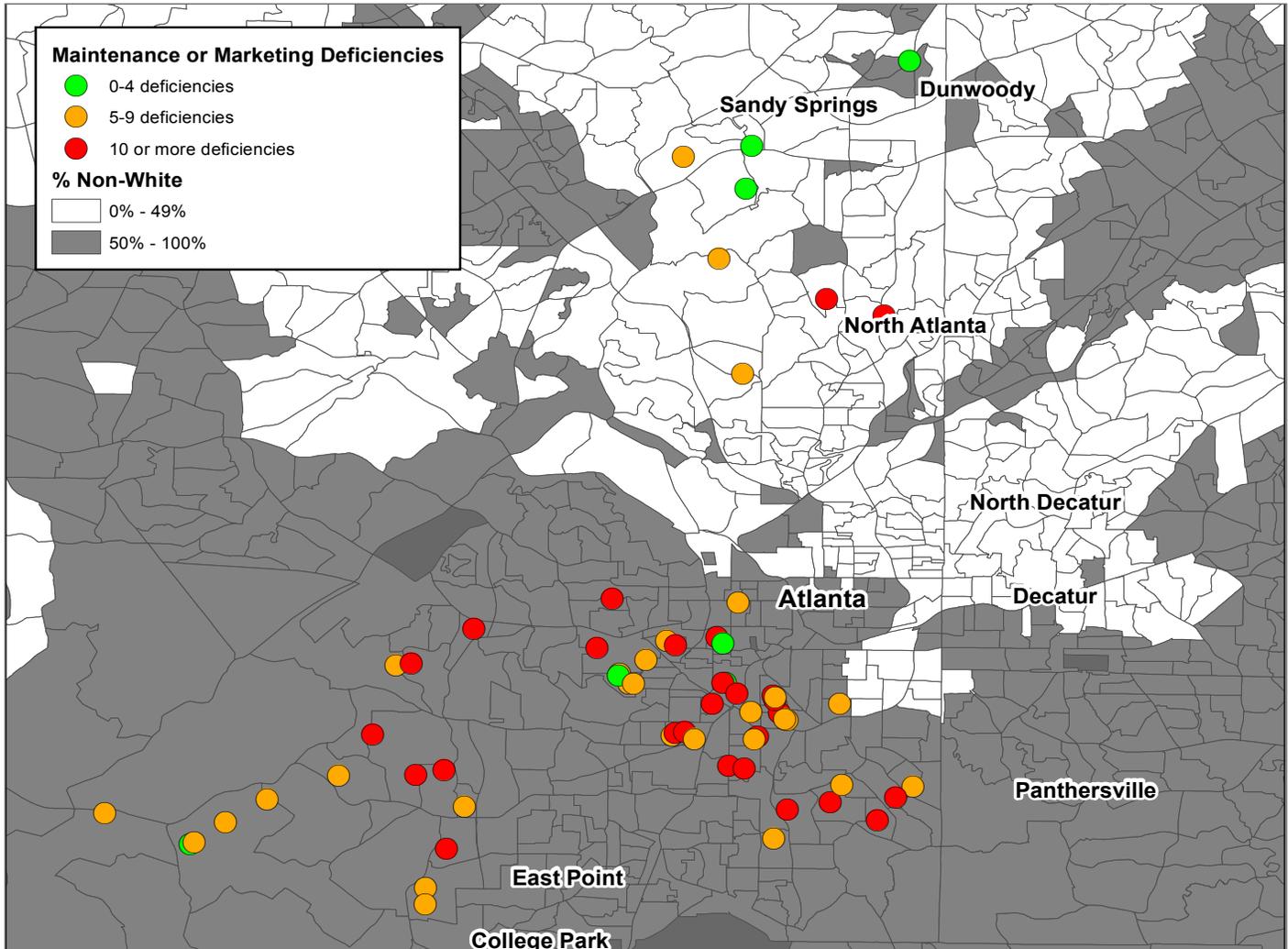
the consequences of protracted administrative and legal proceedings which will demand remuneration for neighborhoods harmed by their practices.



AFTER: The REOs were renovated and put back in to the hands of owner occupants using grants from the Fair Housing Center of Central Indiana and Wells Fargo community relief funds from conciliation agreement.

APPENDIX: LOCAL FINDINGS

Atlanta, GA



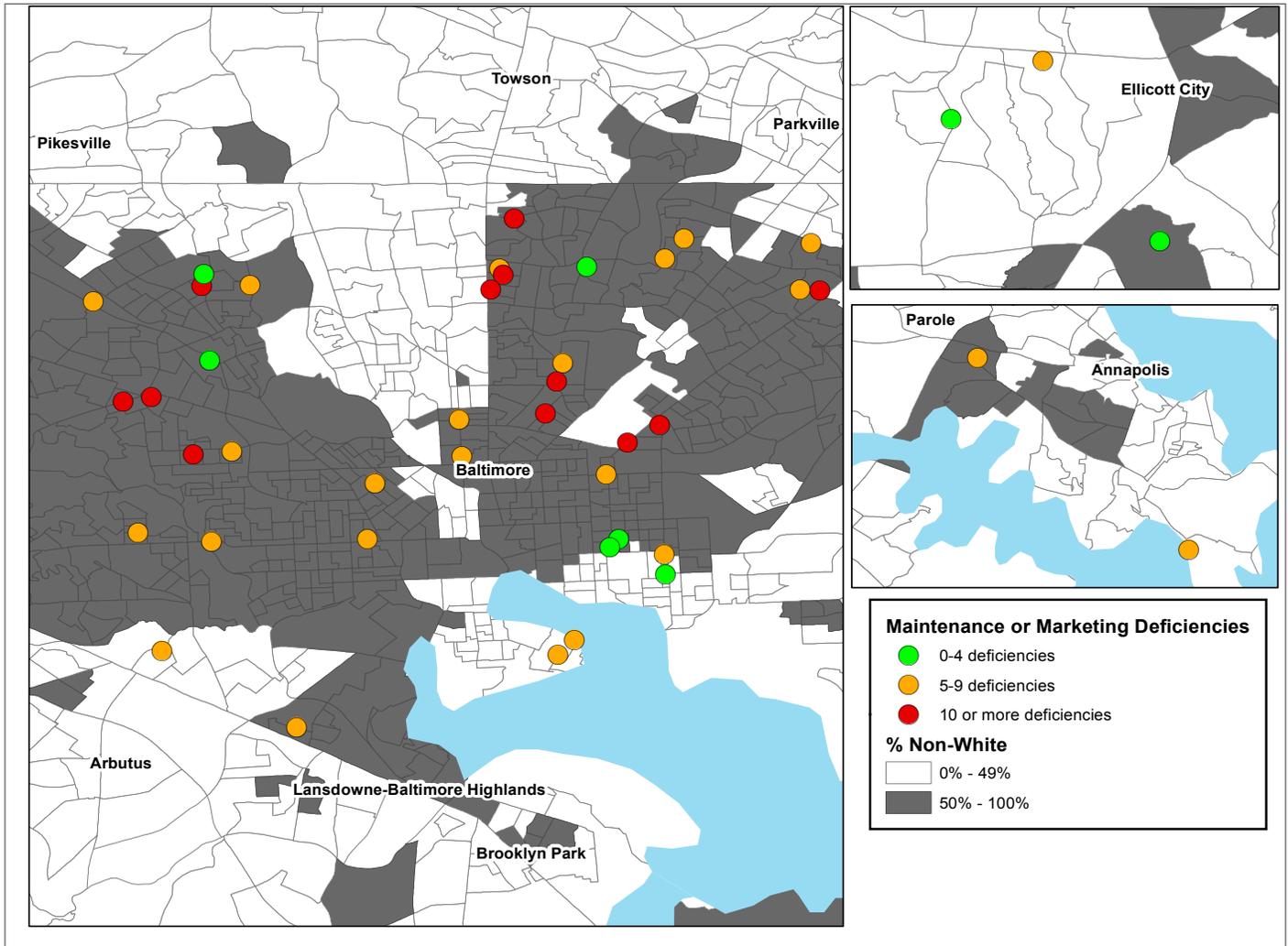
In the Atlanta, GA area a total of 65 REOs were investigated from April 1, 2012 to December 31, 2013

Some of the most egregious disparities included:

- REOs in communities of color were 2.3 times more likely to have trash or debris on the premises than REOs in White communities
- REOs in communities of color were 1.7 times more likely to have at least 10-50% of the REO covered in invasive plants compared to REOs in White communities
- REOs in communities of color were 1.5 times more likely to have no “for sale” sign present marketing the home compared to REOs in White communities

Richmond, VA

Baltimore, MD

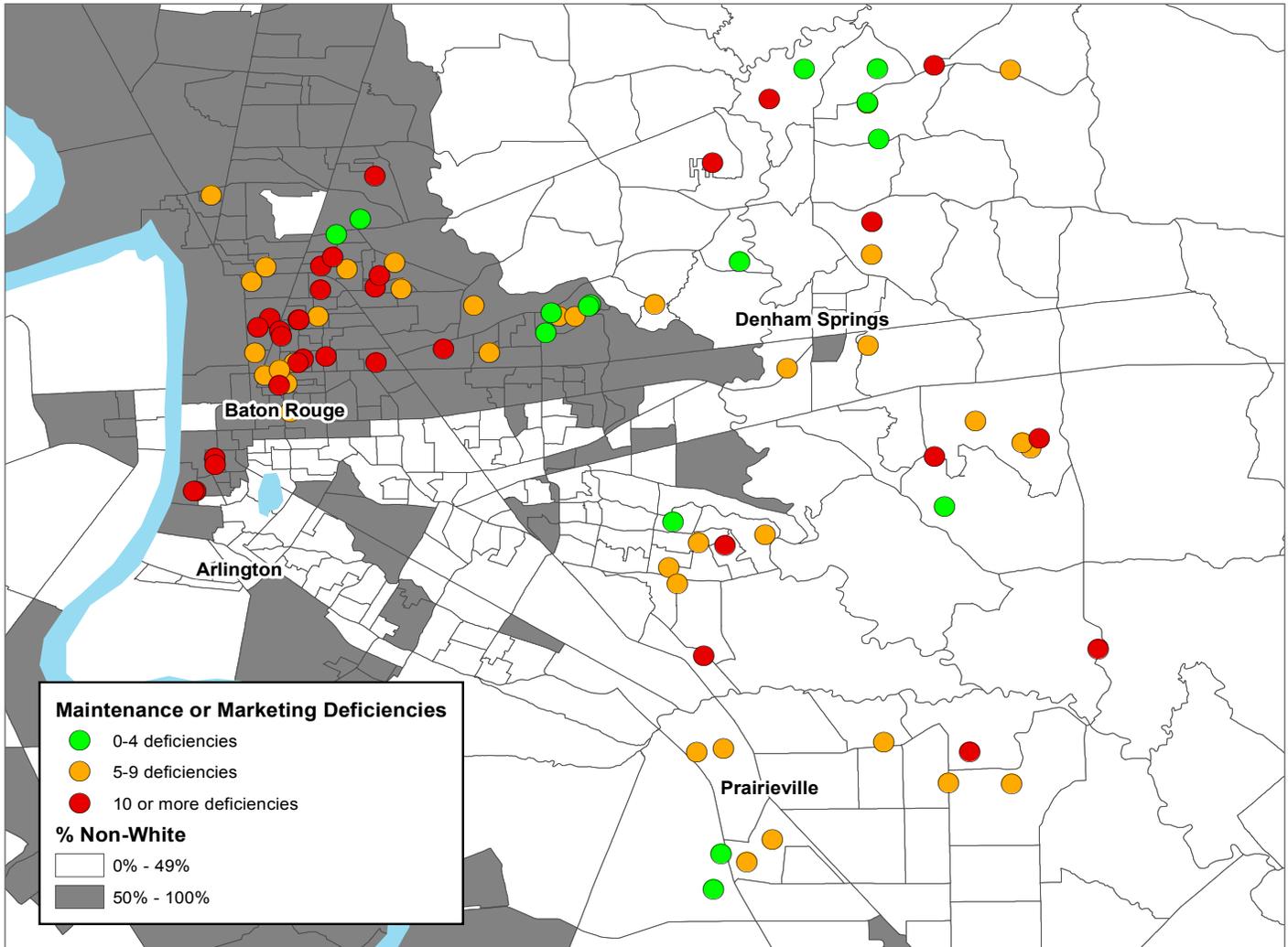


In the Baltimore, MD area a total of 44 REOs were investigated from April 1, 2012 to December 31, 2013

Some of the most egregious disparities included:

- REOs in communities of color were 3.2 times more likely to have trash or debris on the premises than REOs in White communities
- REOs in communities of color were 2.1 times more likely to have overgrown or dead shrubbery on the premises verses REOs in White communities
- REOs in communities of color were 1.4 times more likely to have an unsecured, broken, or boarded window compared to REOs in White communities

Baton Rouge, LA



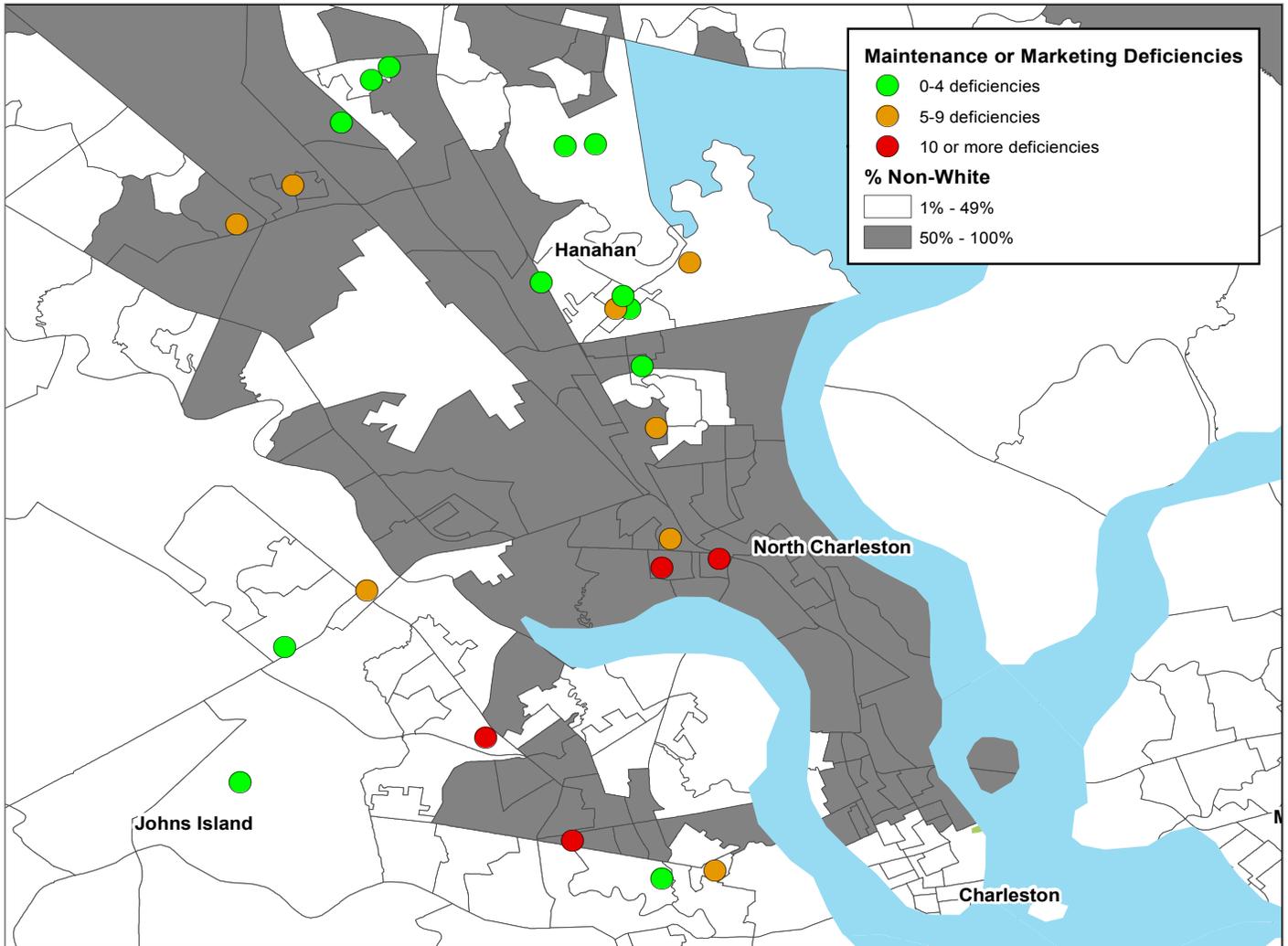
In the Baton Rouge, LA area a total of 84 REOs were investigated from April 1, 2012 to December 31, 2013

Some of the most egregious disparities included:

- REOs in communities of color were 2.5 times more likely to have an unsecured, broken, or boarded window compared to REOs in White communities
- REOs in communities of color were 2.4 times more likely to have holes in the structure of the home versus REO homes in White communities
- REOs in communities of color were 1.9 times more likely to have trash or debris on the premises than REOs in White communities

Richmond, VA

Charleston, SC

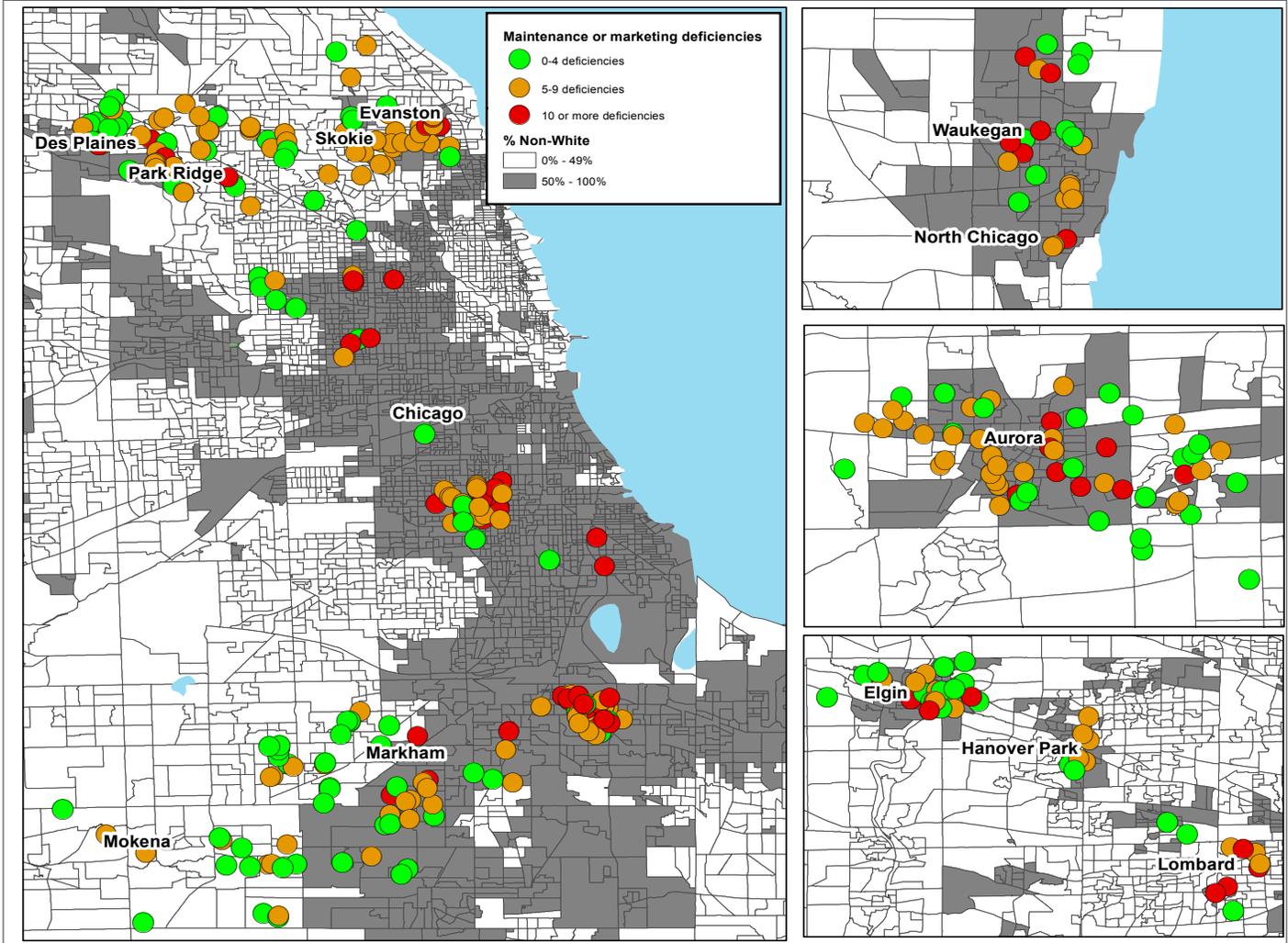


In the Charleston, SC area a total of 24 REOs were investigated from April 1, 2012 to December 31, 2013

Some of the most egregious disparities included:

- REOs in communities of color were 2.4 times more likely to have an unsecured, broken, or boarded door versus REOs in White communities
- REOs in communities of color were 2.4 times more likely to have wood rot present on the structure of the home than REOs in White communities
- REOs in communities of color were 2.0 times more likely to have overgrown grass and/or accumulated leaves on the premises compared to REOs in White communities

Chicago, IL

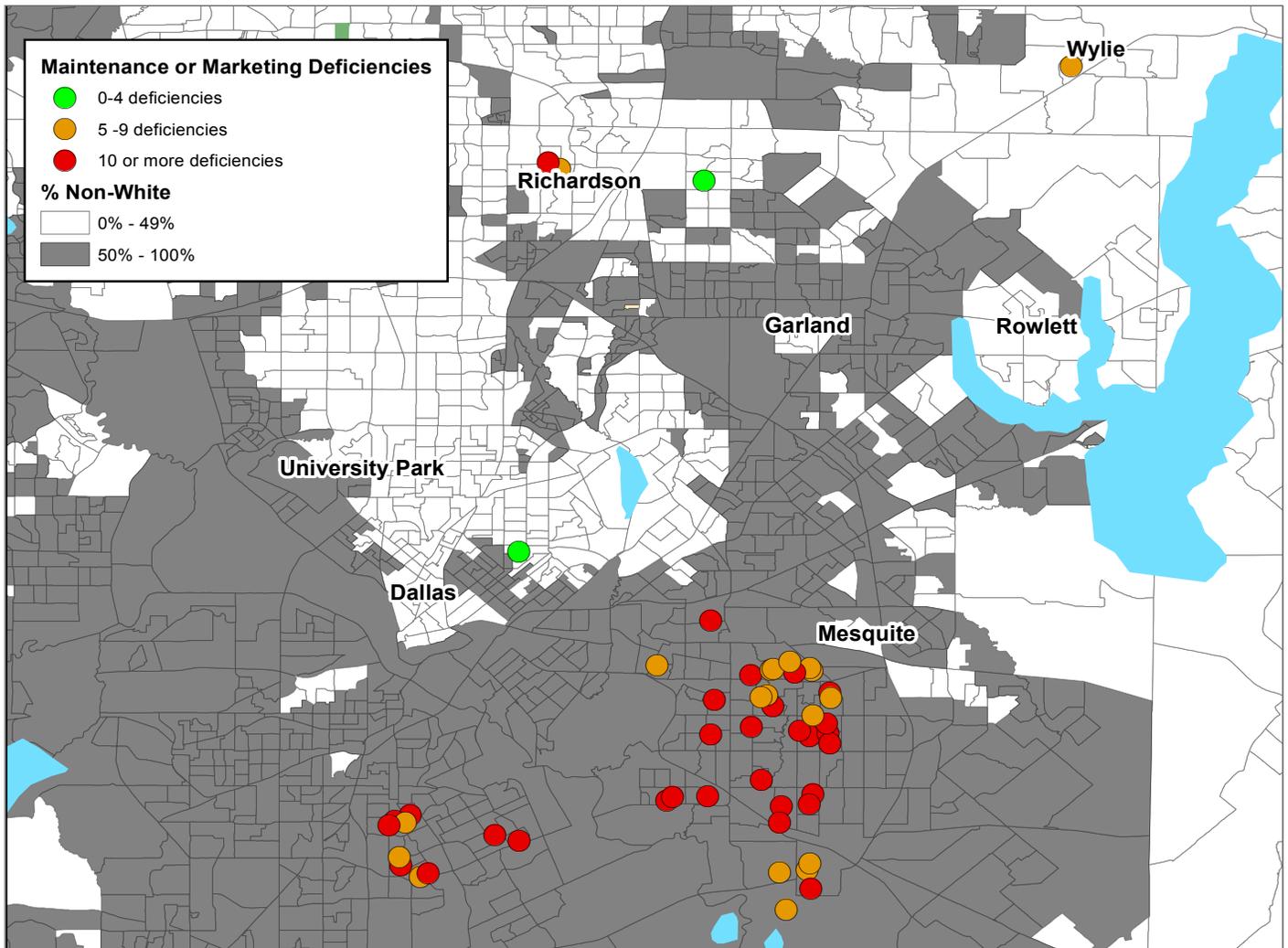


In the Chicago, IL area a total of 350 REOs were investigated from April 1, 2012 to December 31, 2013 between 3 fair housing centers

Some of the most egregious disparities included:

- REOs in communities of color were 3.9 times more likely to have an unsecured, broken, or boarded door versus REOs in White communities
- REOs in communities of color were 3.2 times more likely to have holes in the structure of the home than REOs in White communities
- REOs in communities of color were 2.8 times more likely to have an unsecured, broken, or boarded window compared to REOs in White communities

Dallas, TX

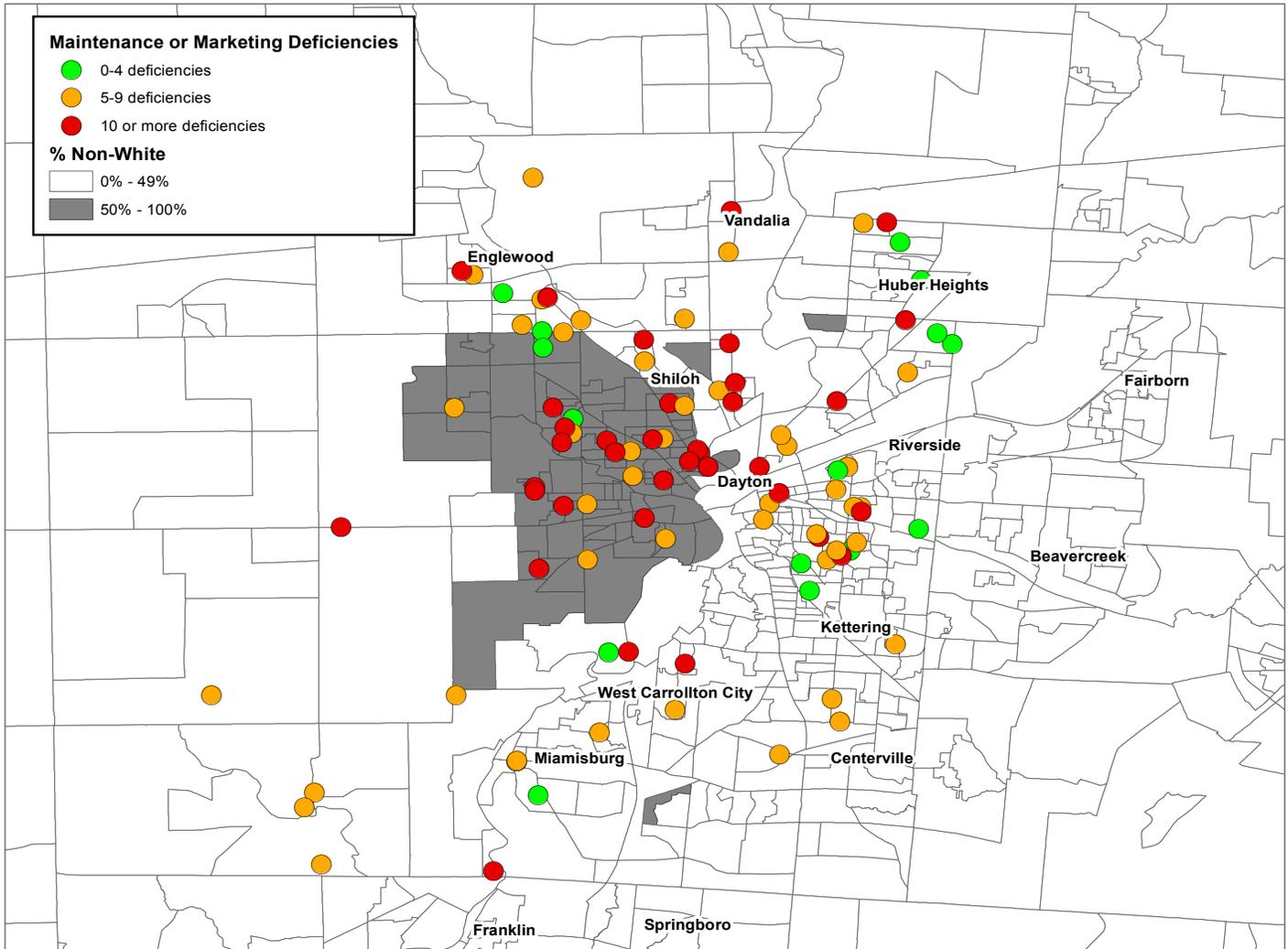


In the Dallas, TX area a total of 51 REOs were investigated from April 1, 2012 to December 31, 2013

Some of the most egregious disparities included:

- REOs in communities of color were 2.0 times more likely to have holes in the structure of the home than REOs in White communities
- REOs in communities of color were 1.9 times more likely to have no “for sale” sign marketing the home versus REOs in White communities
- REOs in communities of color were 1.4 times more likely to have trash or debris on the premises compared to REOs in White communities

Dayton, OH



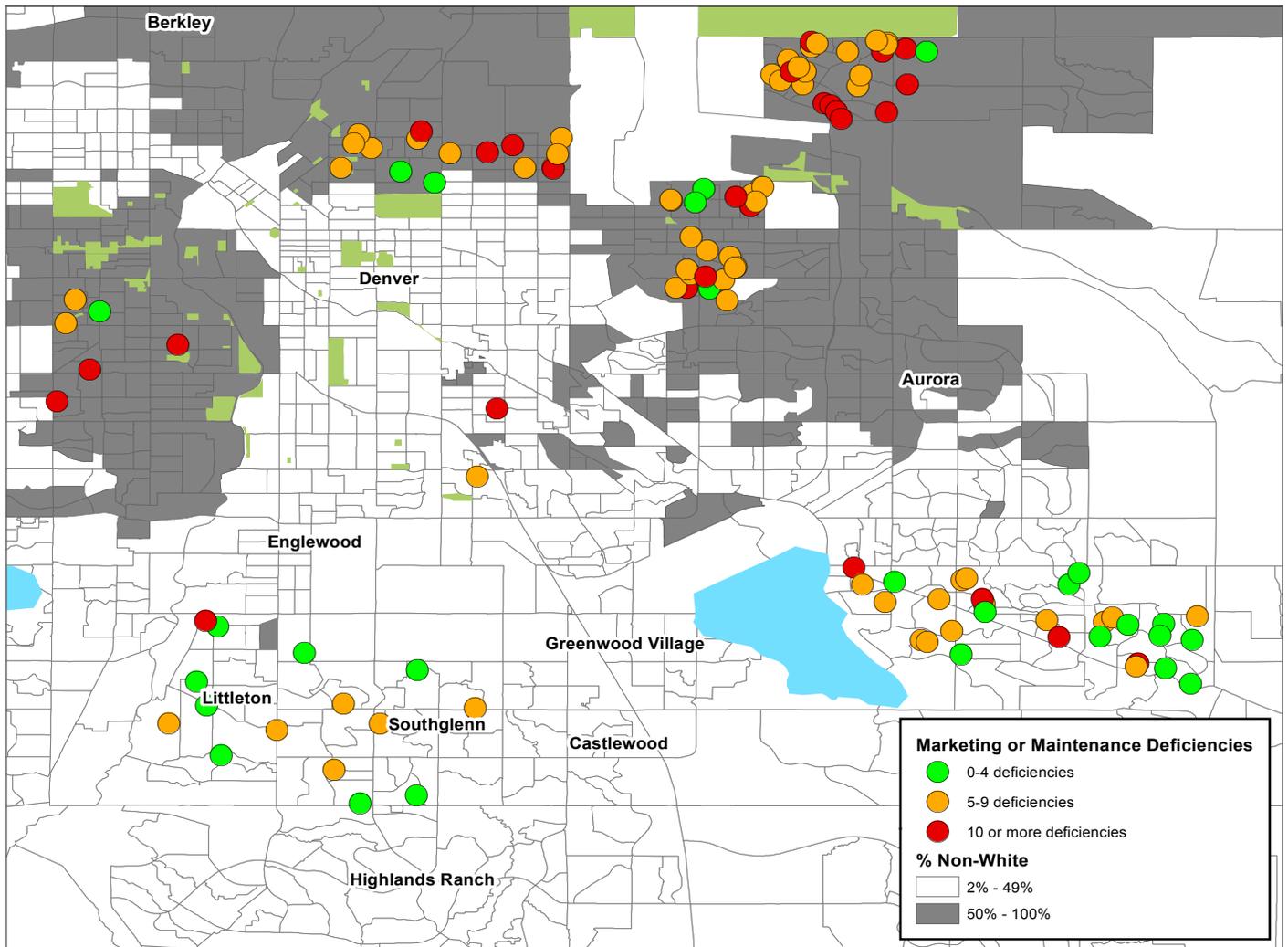
In the Dayton, OH area a total of 97 REOs were investigated from April 1, 2012 to December 31, 2013

Some of the most egregious disparities included:

- REOs in communities of color were 2.9 times more likely to have exposed or tampered with utilities than REO homes in White communities
- REOs in communities of color were 2.1 times more likely to have damaged steps or handrails compared to REO homes in White communities
- REOs in communities of color were 2.3 times more likely to have unsecured, broken, or boarded doors compared to REOs in White communities

Richmond, VA

Denver, CO

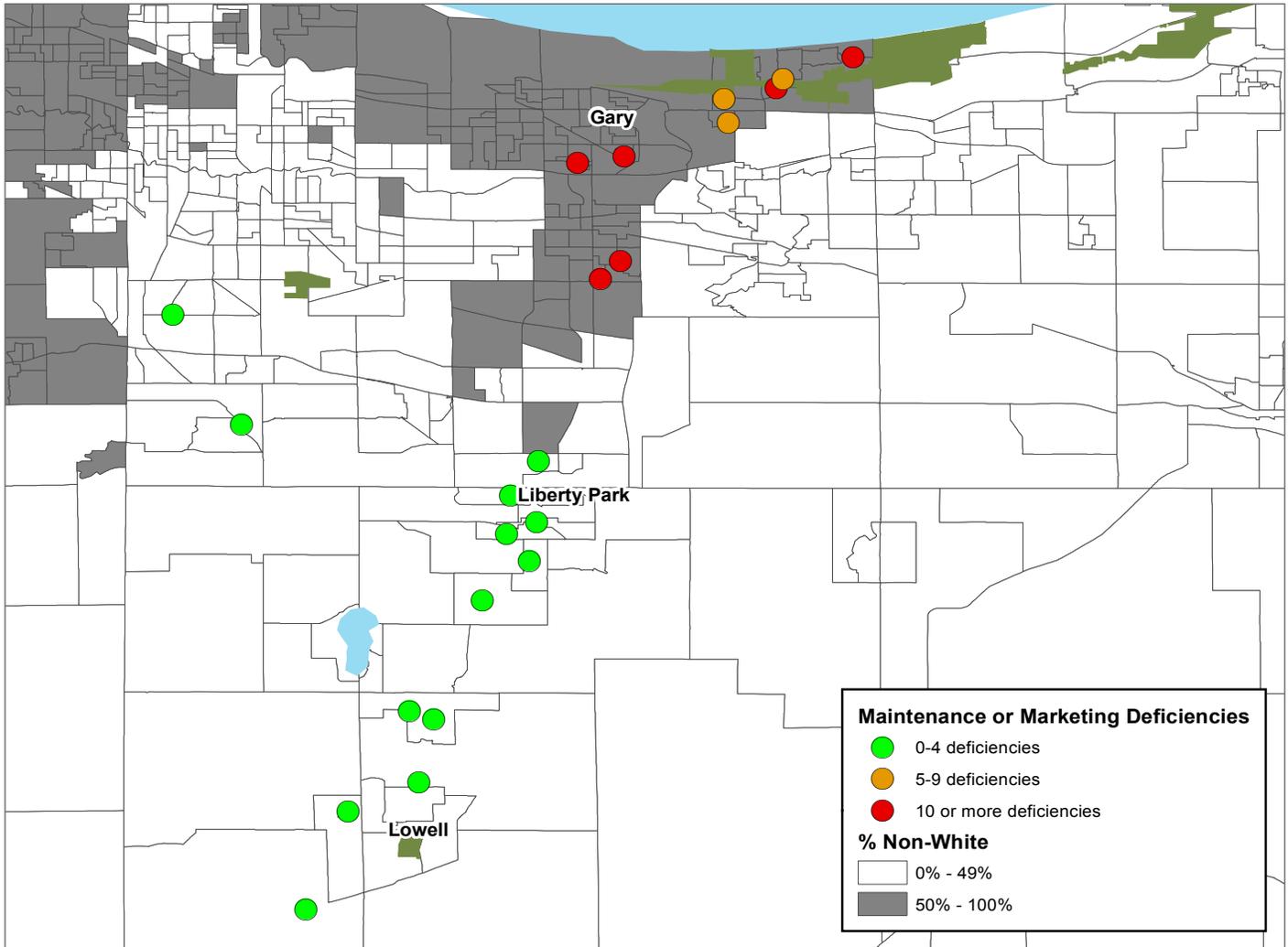


In the Denver, CO area a total of 117 REOs were investigated from April 1, 2012 to December 31, 2013

Some of the most egregious disparities included:

- REOs in communities of color were 3.5 times more likely to have broken or boarded windows than REO homes in White communities
- REOs in communities of color were 3.0 times more likely to have holes in the structure of the home versus REOs in White communities
- REOs in communities of color were 2.3 times more likely to have an unsecured, broken, or boarded door compared to REOs in White communities

Gary, IN



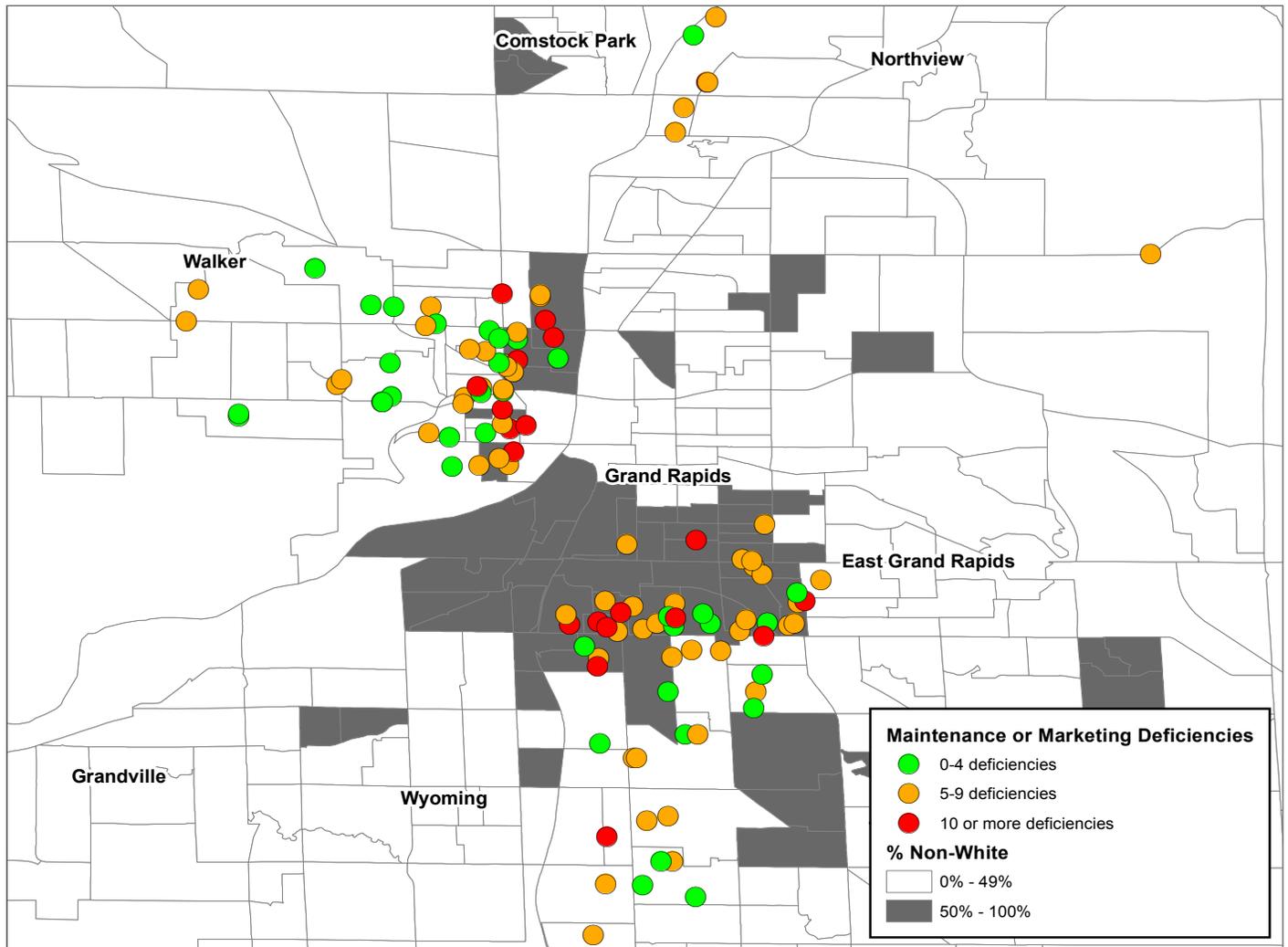
In the Gary, IN area a total of 22 REOs were investigated from April 1, 2012 to December 31, 2013

Some of the most egregious disparities included:

- REOs in communities of color were 5.8 times more likely to have trash or debris on the premises versus REOs in White communities
- REOs in communities of color were 3.6 times more likely to have overgrown grass and/or accumulated leaves compared to REOs in White communities
- REOs in communities of color were 2.3 times more likely to have overgrown or dead shrubbery than REOs in White communities

Richmond, VA

Grand Rapids, MI

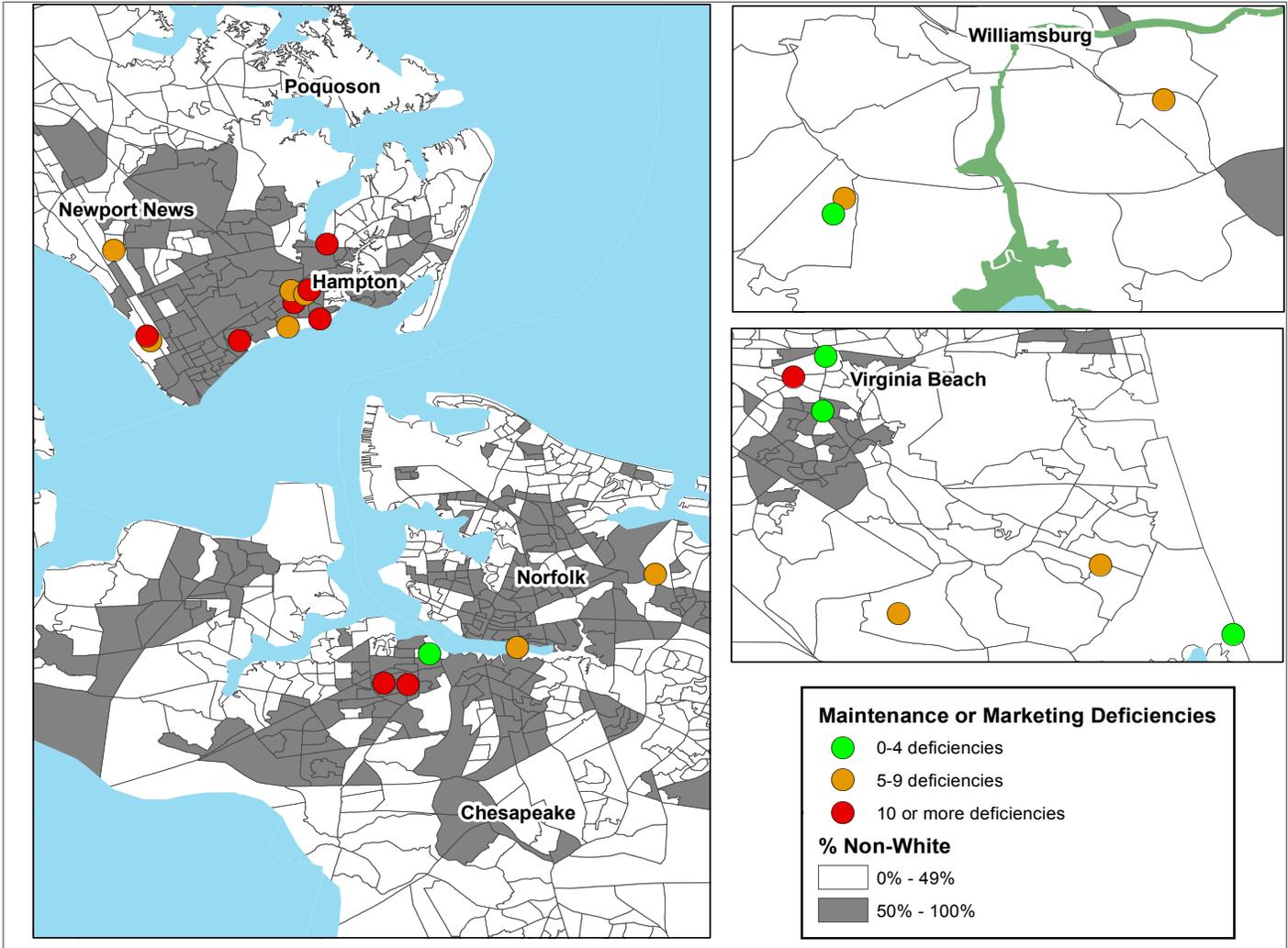


In the Grand Rapids, MI area a total of 116 REOs were investigated from April 1, 2012 to December 31, 2013

Some of the most egregious disparities included:

- REOs in communities of color were 6.4 times more likely to have trespassing or warning signs displayed on the property versus REO homes in White communities
- REOs in communities of color were 2.3 times more likely to have trash or debris on the premises compared to REO homes in White communities
- REOs in communities of color were 1.7 times more likely to have a damaged fence than REOs in White communities

Hampton Roads, VA

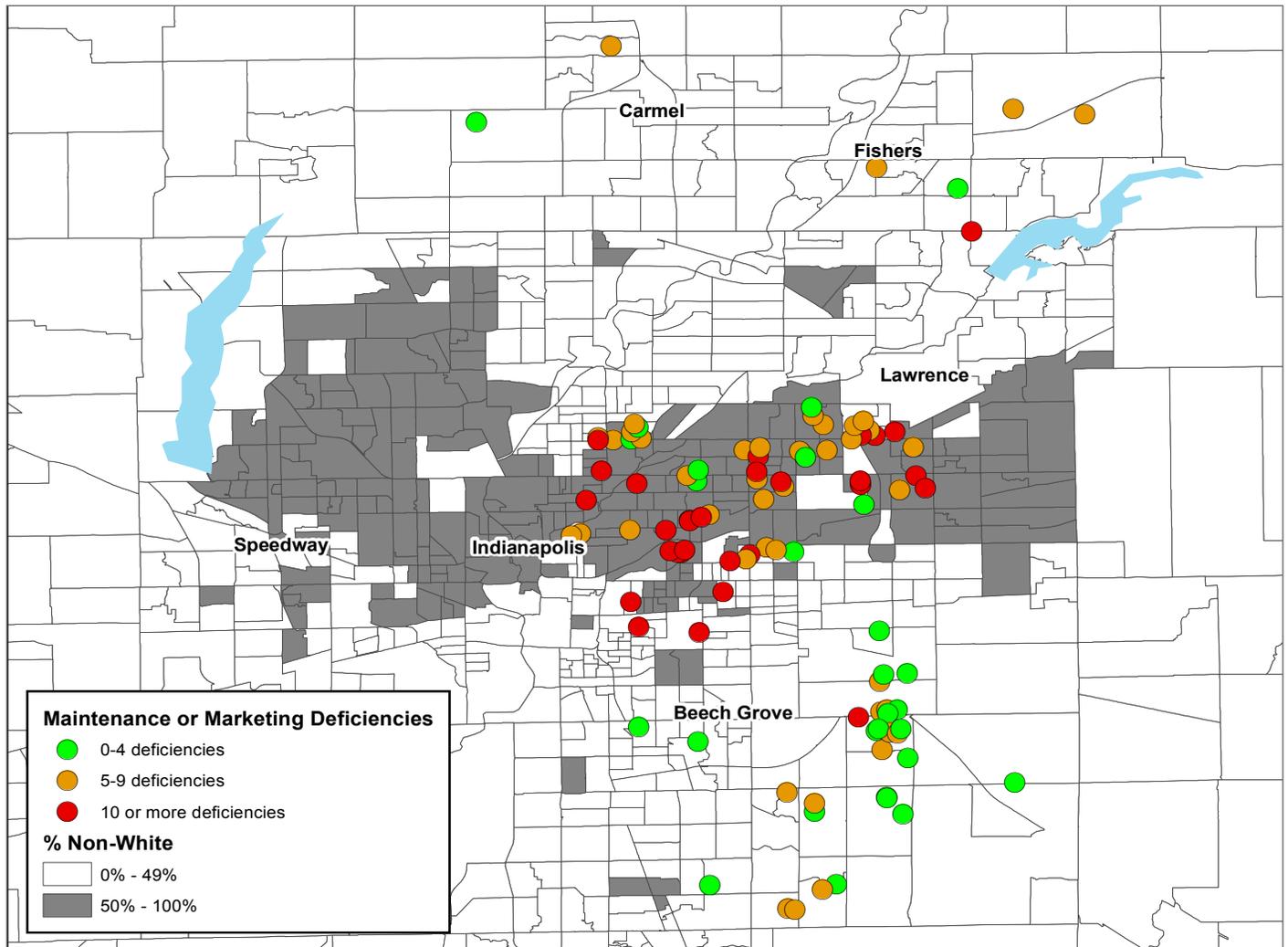


In the Hampton Roads, VA area a total of 25 REOs were investigated from April 1, 2012 to December 31, 2013

Some of the most egregious disparities included:

- REOs in communities of color were 3.5 times more likely to have trash or debris on the premises versus REOs in White communities
- REOs in communities of color were 2.5 times more likely to have overgrown grass and/or accumulated leaves compared to REOs in White communities
- REOs in communities of color were 2.3 times more likely to have no “for sale” sign marketing the home than REOs in White communities

Indianapolis, IN

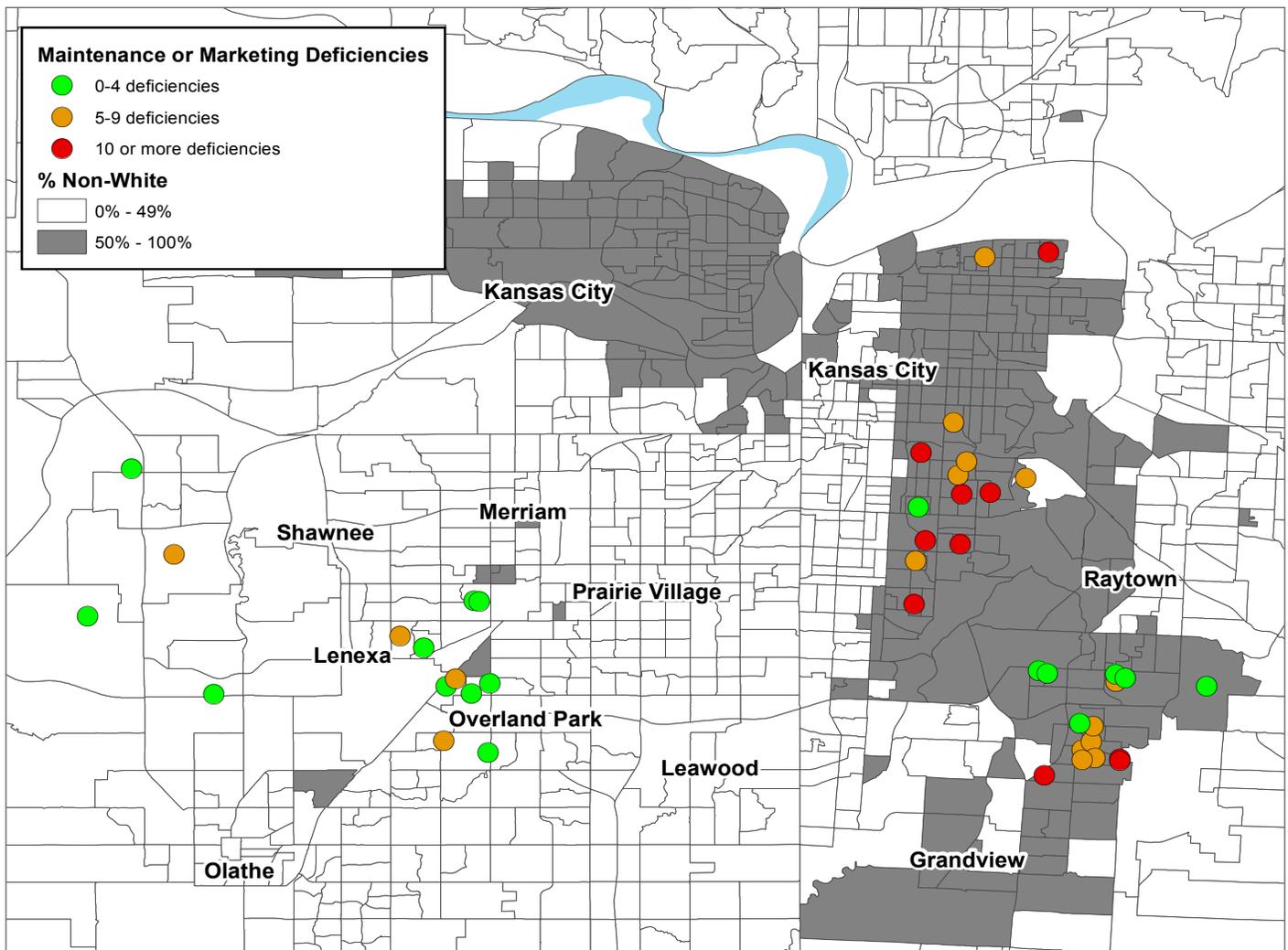


In the Indianapolis, IN area a total of 103 REOs were investigated from April 1, 2012 to December 31, 2013

Some of the most egregious disparities included:

- REOs in communities of color were 3.4 times more likely to have missing or out of place gutters compared to REOs in White communities
- REOs in communities of color were 2.3 times more likely to have an unsecured, broken, or boarded door than REOs in White communities
- REOs in communities of color were 2.1 times more likely to have an unsecured, broken, or boarded window verses REOs in White communities

Kansas City, MO/KS

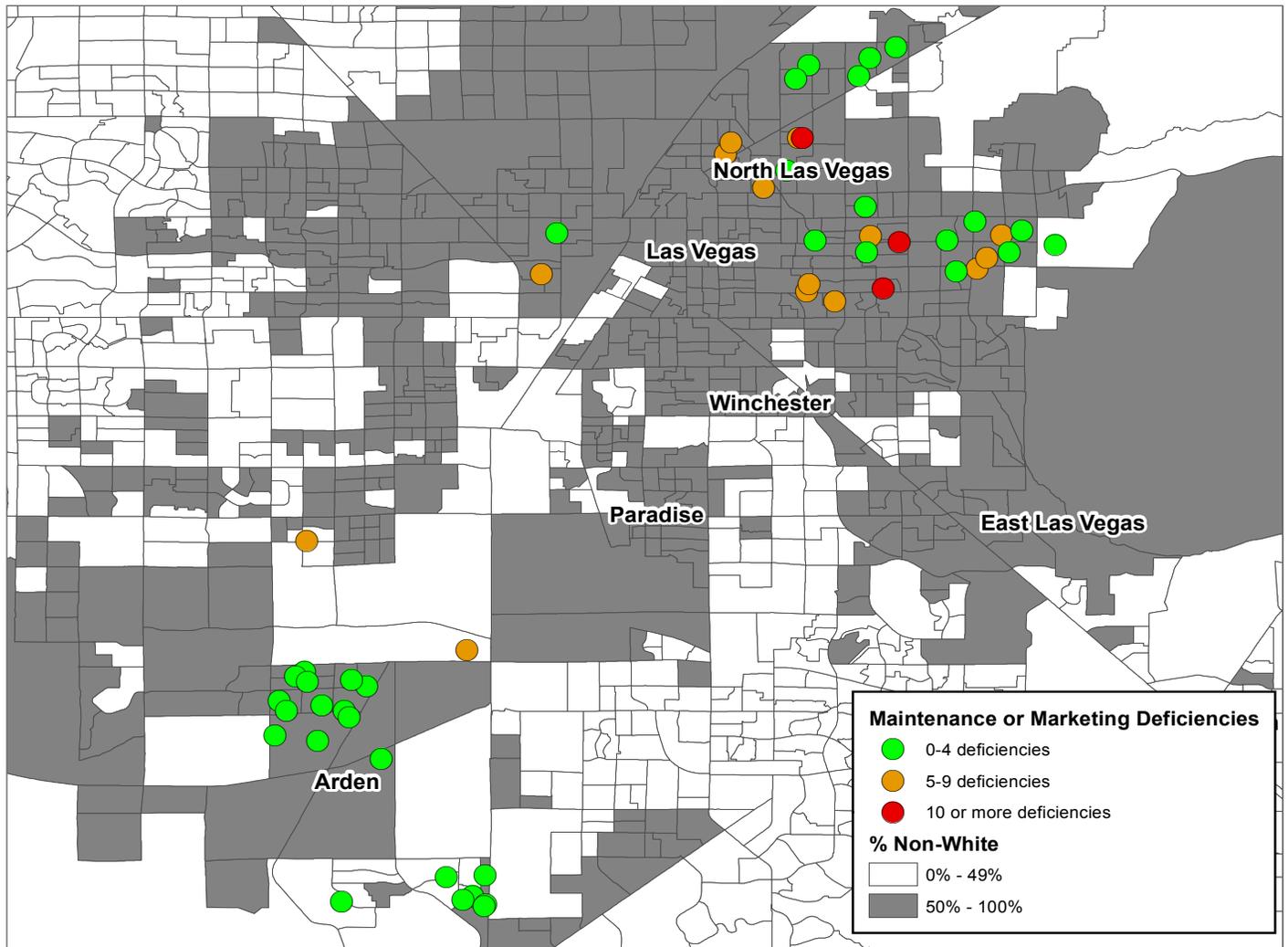


In the Kansas City, MO/KS area a total of 43 REOs were investigated from April 1, 2012 to December 31, 2013

Some of the most egregious disparities included:

- REOs in communities of color were 3.6 times more likely to have an unsecured, broken, or boarded window than REOs in White communities
- REOs in communities of color were 2.8 times more likely to have trash or debris on the property's premises versus REOs in White communities
- REOs in communities of color were 1.6 times more likely to have trespassing or warning signs displayed compared to REOs in White communities

Las Vegas, NV

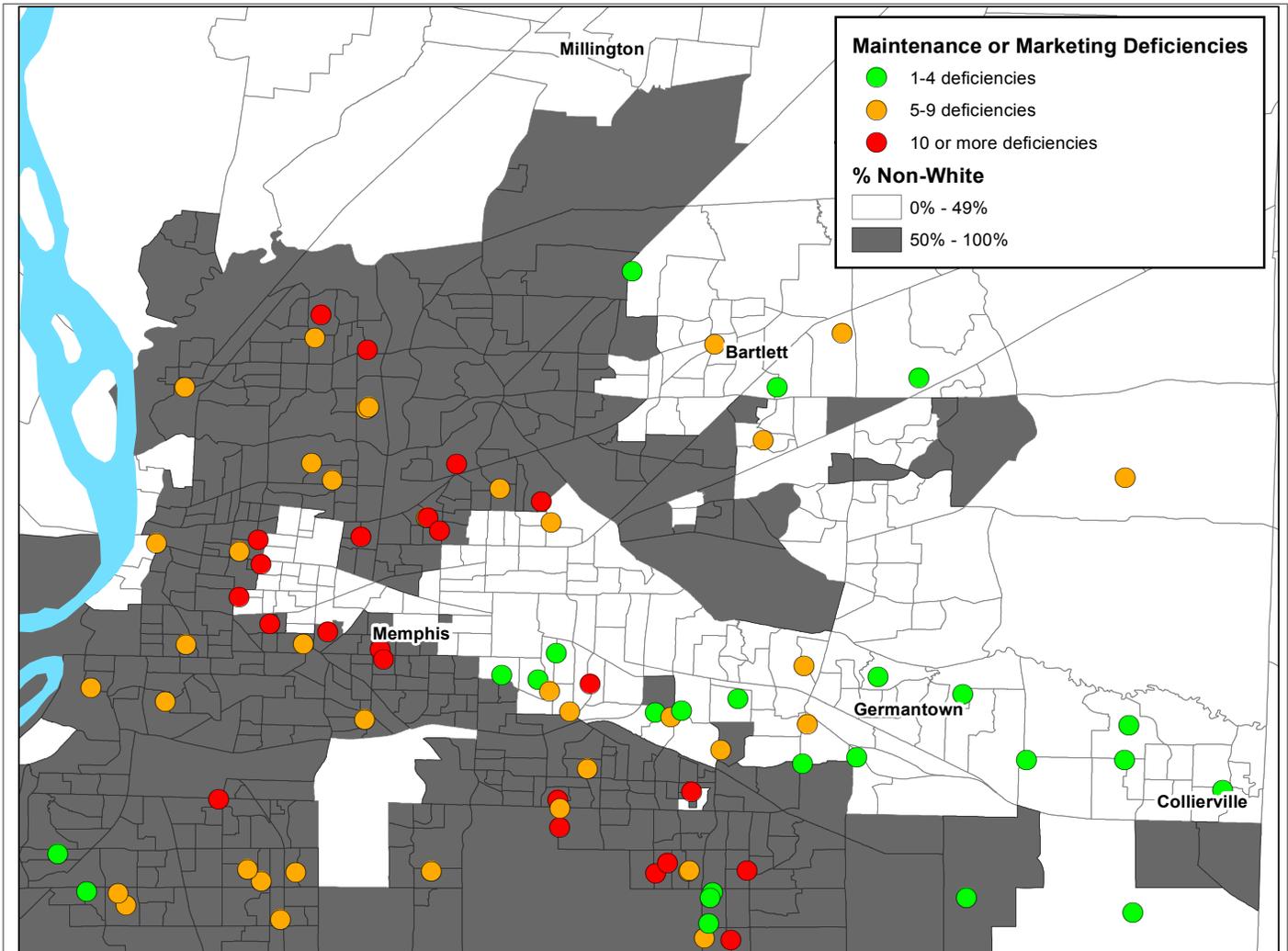


In the Las Vegas, NV area a total of 53 REOs were investigated from April 1, 2012 to December 31, 2013

Some of the most egregious disparities included:

- REOs in communities of color were 3.0 times more likely to have no “for sale” sign marketing the home compared to REOs in White communities
- REOs in communities of color were 2.3 times more likely to have overgrown or dead shrubbery verses REOs in White communities
- REOs in communities of color were 1.5 times more likely to have peeling or chipped paint than REOs in White communities

Memphis, TN

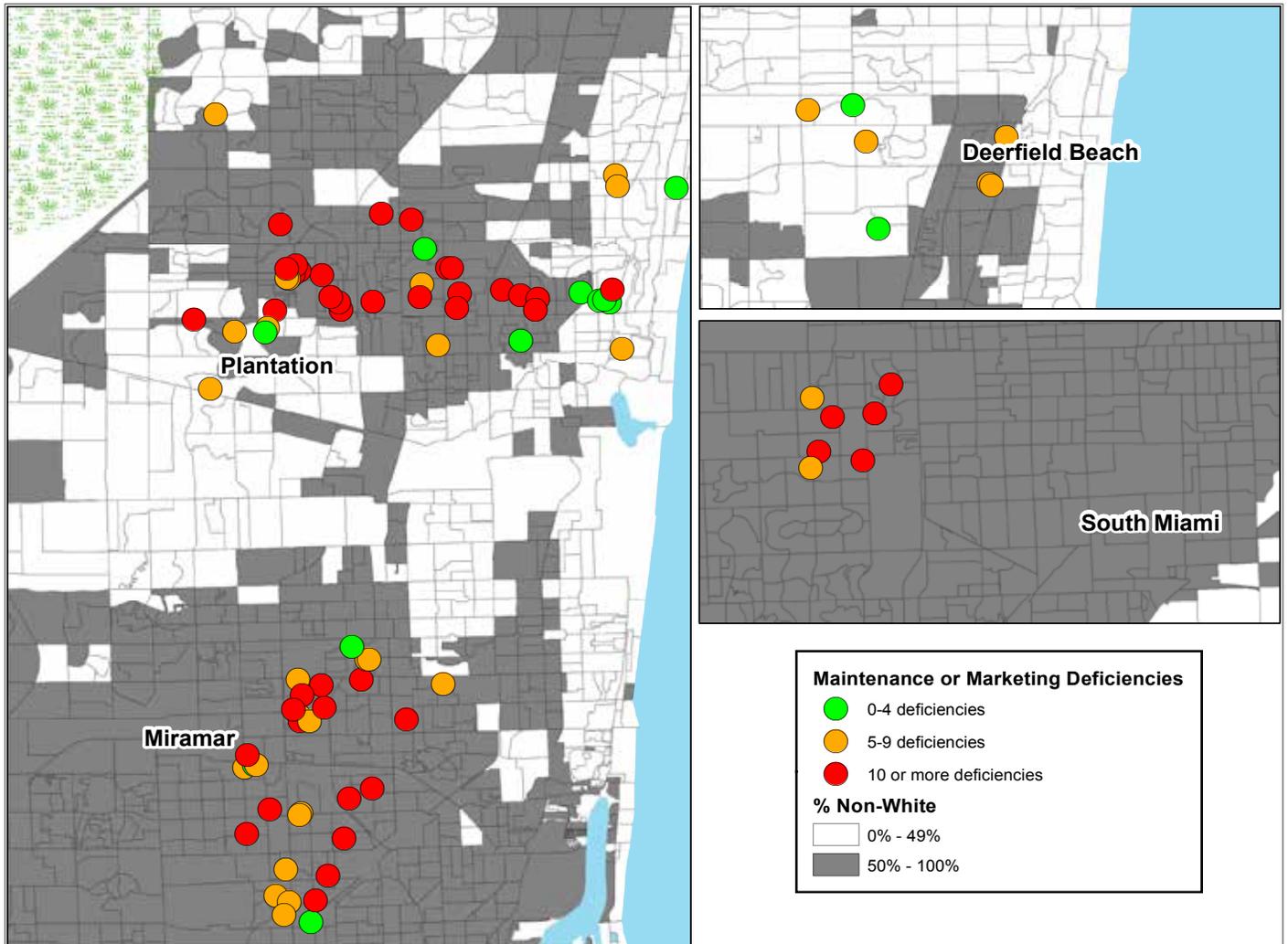


In the Memphis, TN area a total of 86 REOs were investigated from April 1, 2012 to December 31, 2013

Some of the most egregious disparities included:

- REOs in communities of color were 8.8 times more likely to have trash or debris on the REO's premises compared to REOs in White communities
- REOs in communities of color were 5.0 times more likely to have exposed, damaged, or tampered-with utilities than REOs in White communities
- REOs in communities of color were 4.1 times more likely to have an unsecured, broken, or boarded window verses REOs in White communities

Miami, FL

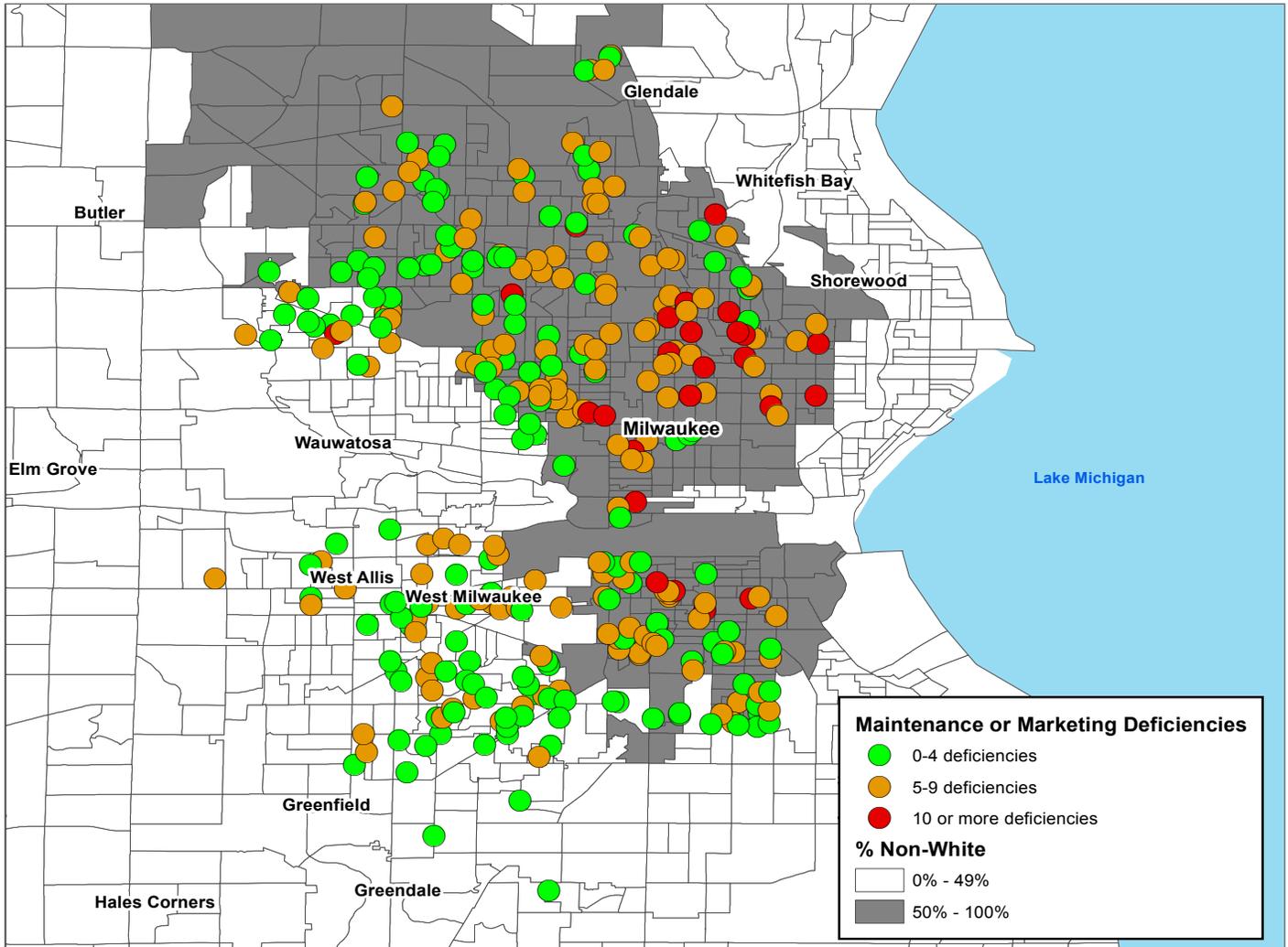


In the Miami, FL area a total of 89 REOs were investigated from April 1, 2012 to December 31, 2013

Some of the most egregious disparities included:

- REOs in communities of color were 8.7 times more likely to have an unsecured, broken, or boarded window versus REOs in White communities
- REOs in communities of color were 3.0 times more likely to have an unsecured, broken, or boarded door versus REOs in White communities
- REOs in communities of color were 3.7 times more likely to have overgrown grass and/or accumulated leaves compared to REOs in White communities

Milwaukee, WI

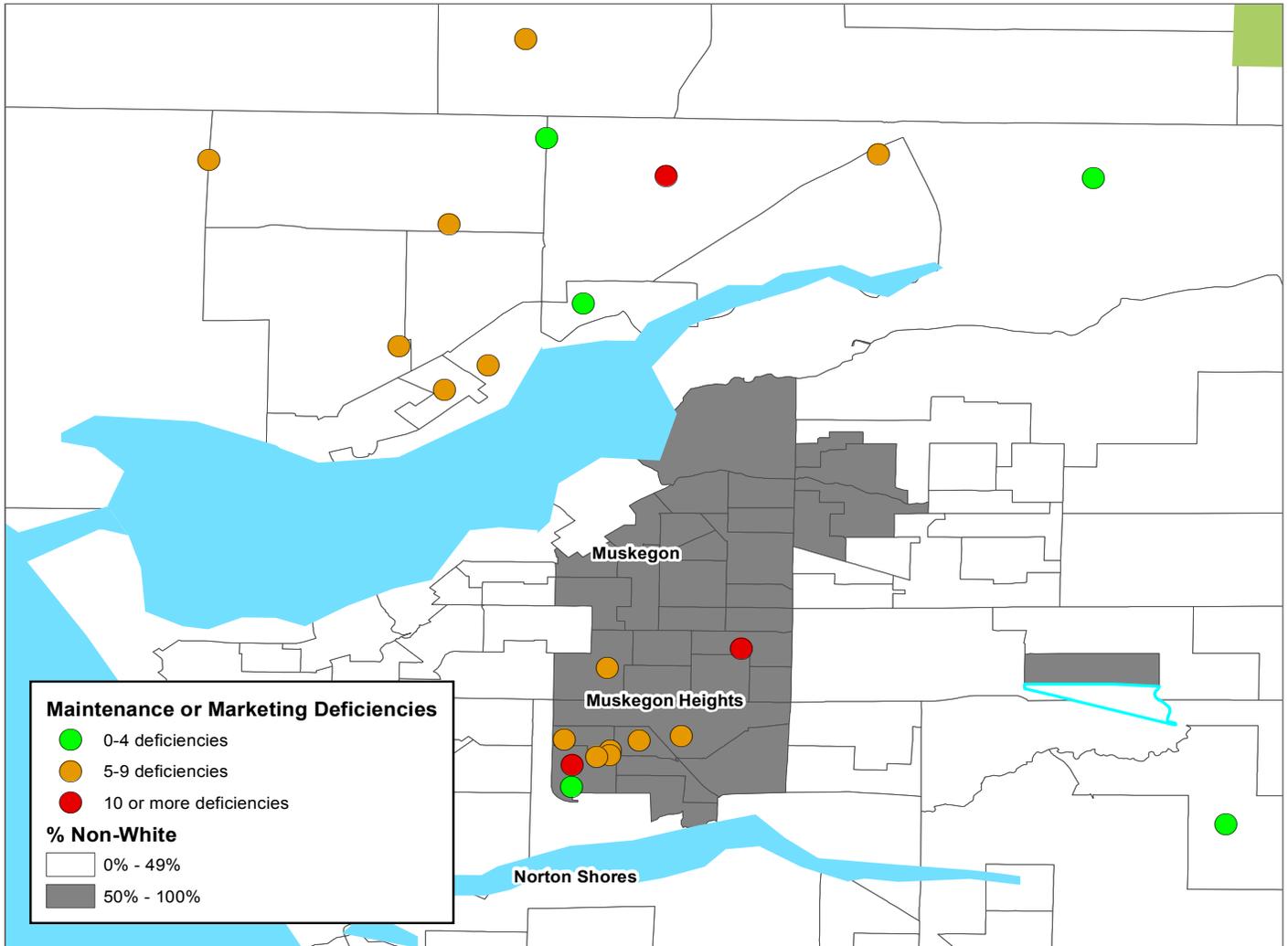


In the Milwaukee, WI area a total of 335 REOs were investigated from April 1, 2012 to December 31, 2013

Some of the most egregious disparities included:

- REOs in communities of color were 4.4 times more likely to have trash or debris compared to REOs in White communities
- REOs in communities of color were 2.3 times more likely to have an unsecured, broken, or boarded door verses REOs in White communities
- REOs in communities of color were 1.7 times more likely to have no “for sale” sign marketing the home verses REOs in White communities

Muskegon, MI

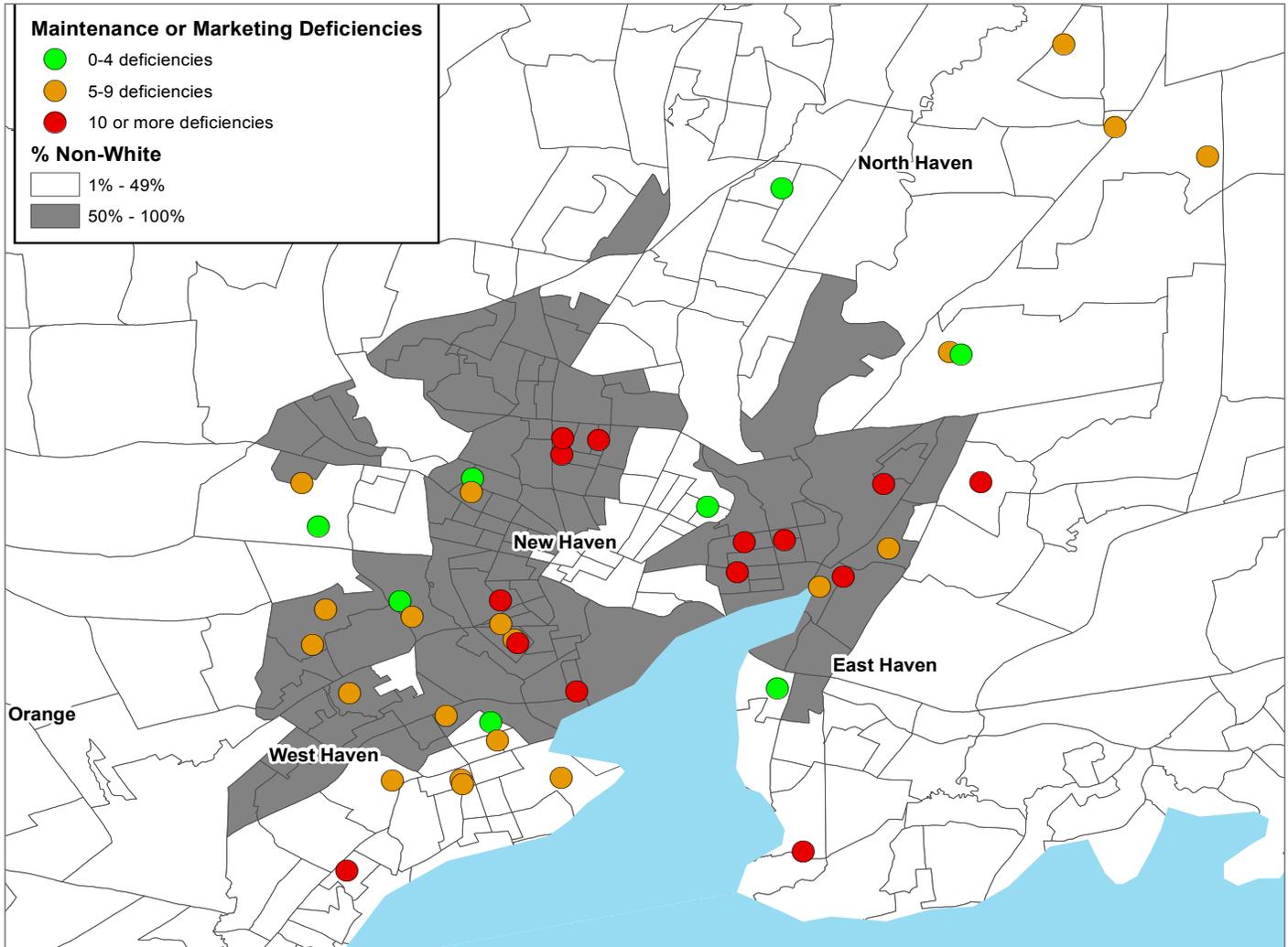


In the Muskegon, MI area a total of 22 REOs were investigated from April 1, 2012 to December 31, 2013

Some of the most egregious disparities included:

- REOs in communities of color were 3.6 times more likely to have damaged steps or handrails versus REOs in White communities
- REOs in communities of color were 3.6 times more likely to have an unsecured, broken, or boarded window versus REOs in White communities
- REOs in communities of color were 3.2 times more likely to have trash or debris compared to REOs in White communities

New Haven, CT

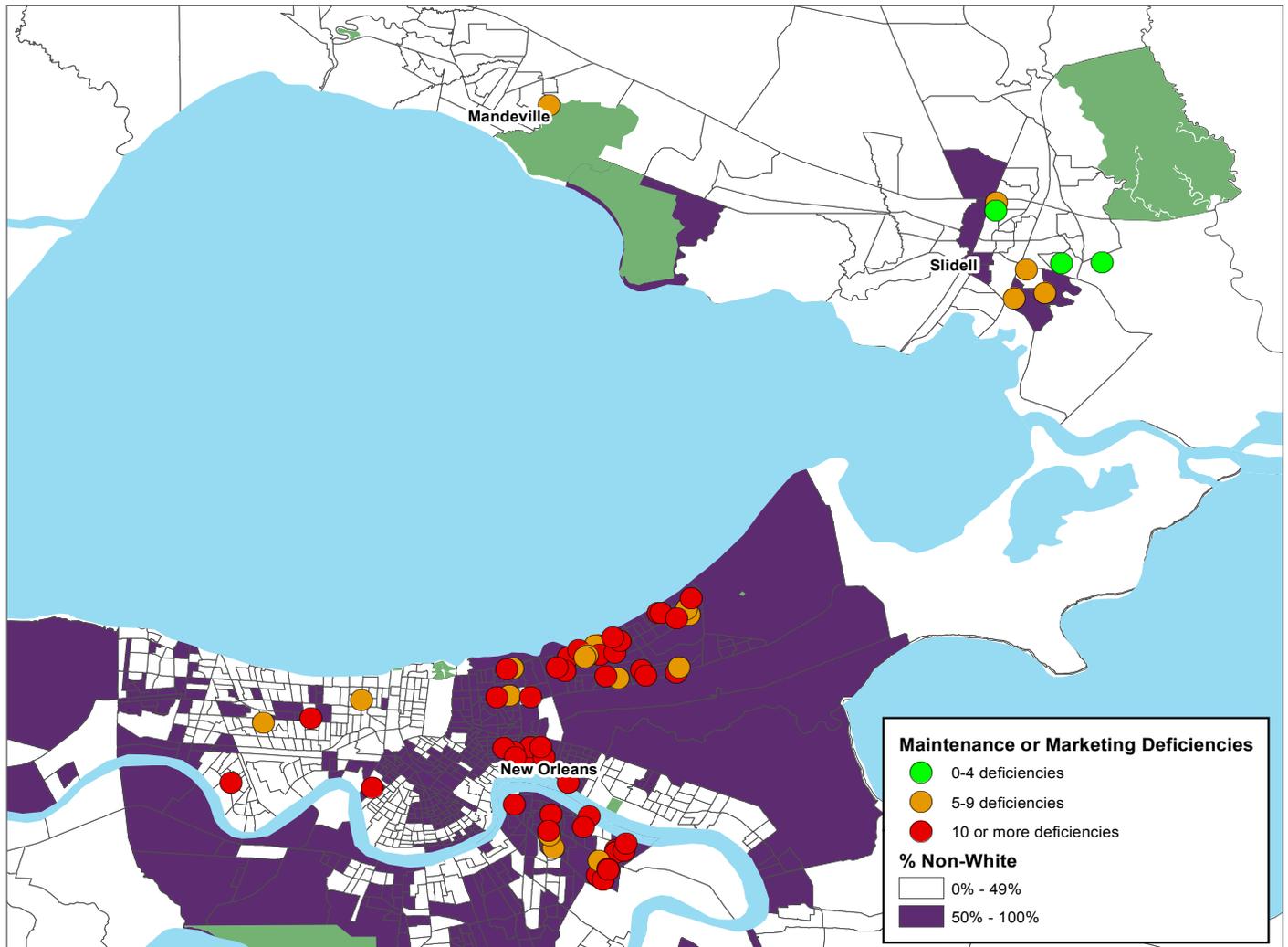


In the New Haven, CT area a total of 42 REOs were investigated from April 1, 2012 to December 31, 2013

Some of the most egregious disparities included:

- REOs in communities of color were 5.0 times more likely to have a trespassing or warning sign on the premises compared to REOs in White communities
- REOs in communities of color were 2.5 times more likely to have mold or mildew covering the REO's structure verses REOs in White communities
- REOs in communities of color were 2.5 times more likely to have an unsecured, broken, or boarded window verses REOs in White communities

New Orleans, LA

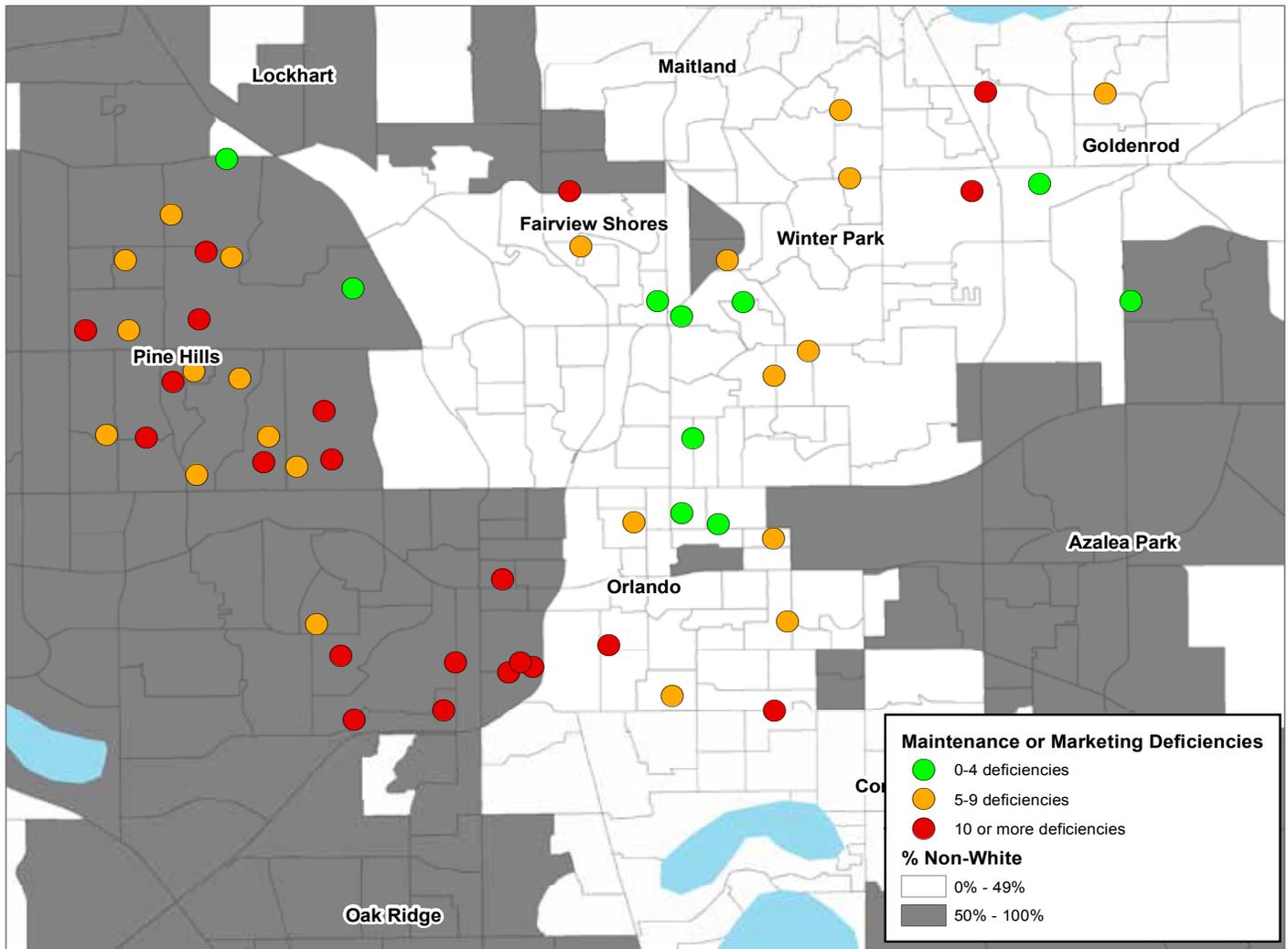


In the New Orleans, LA area a total of 69 REOs were investigated from April 1, 2012 to December 31, 2013

Some of the most egregious disparities included:

- REOs in communities of color were 2.3 times more likely to have overgrown or dead shrubbery versus REOs in White communities
- REOs in communities of color were 1.8 times more likely to have trash or debris compared to REOs in White communities
- REOs in communities of color were 1.6 times more likely to have no "for sale" sign marketing the home versus REOs in White communities

Orlando, FL

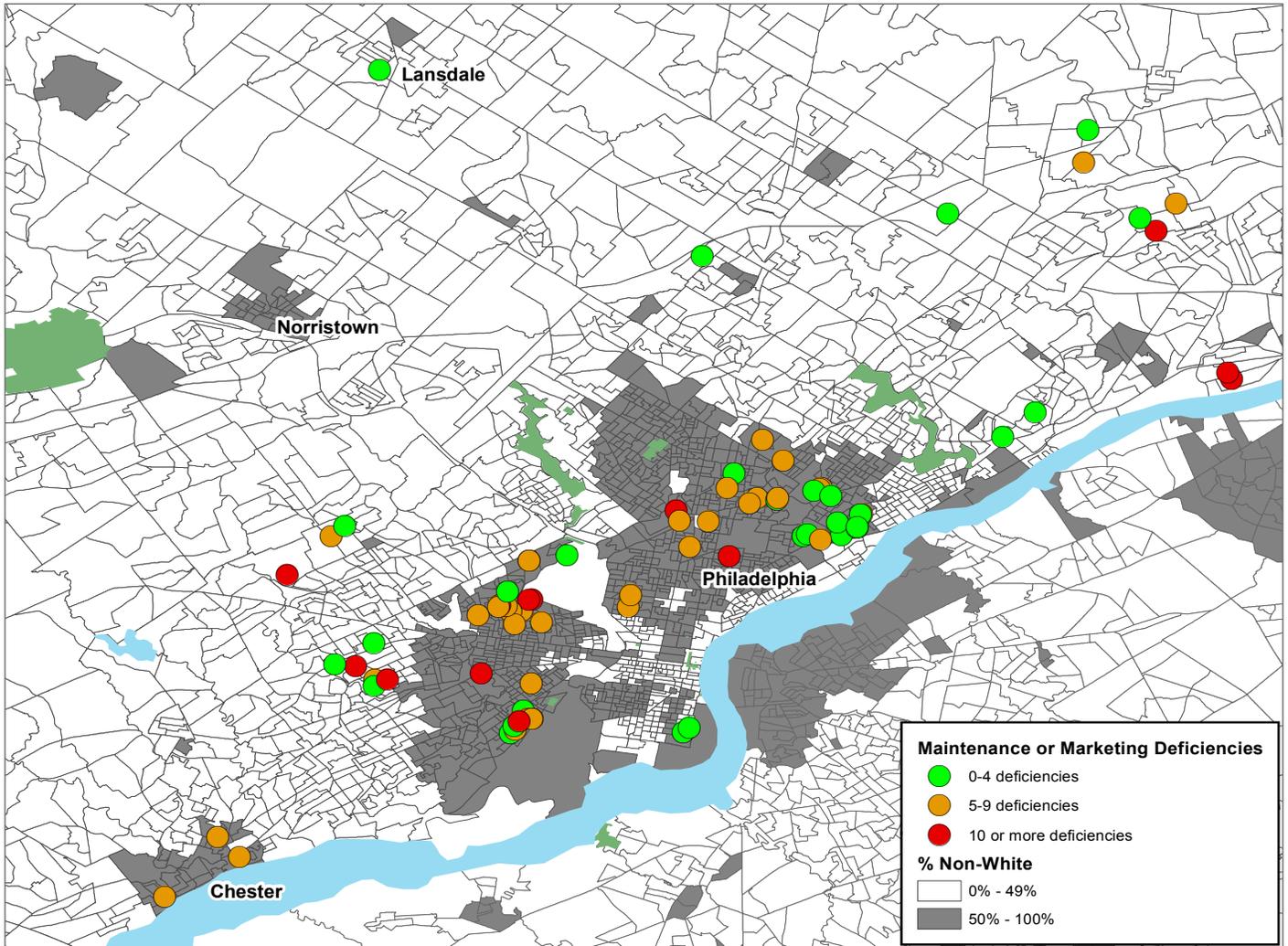


In the Orlando, FL area a total of 53 REOs were investigated from April 1, 2012 to December 31, 2013

Some of the most egregious disparities included:

- REOs in communities of color were 4.9 times more likely to have trash or debris on the premises compared to REOs in White communities
- REOs in communities of color were 4.3 times more likely to have exposed, damaged, or tampered-with utilities versus REOs in White communities
- REOs in communities of color were 2.8 times more likely to have an unsecured, broken, or boarded door versus REOs in White communities

Philadelphia, PA

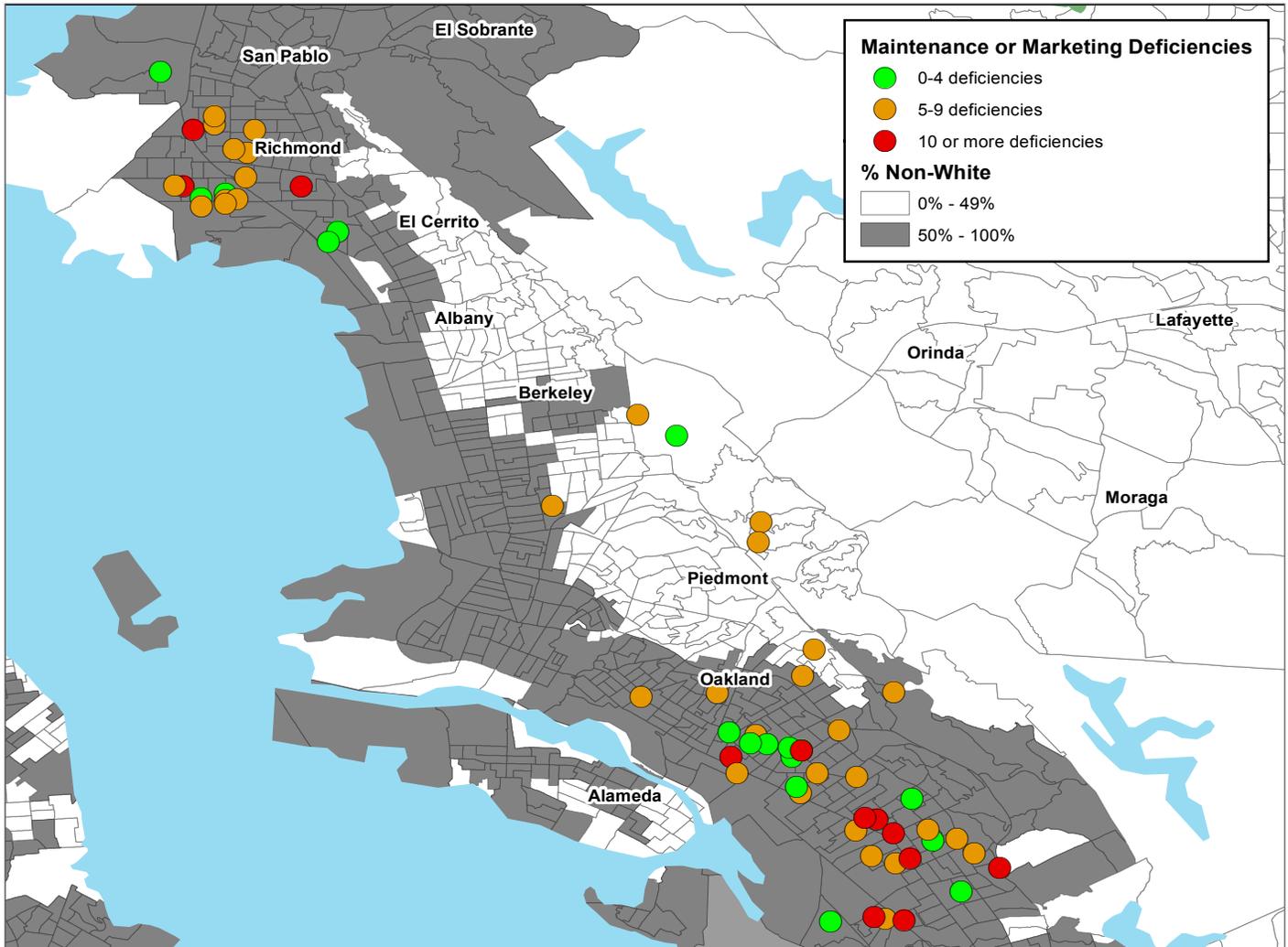


In the Philadelphia, PA area a total of 81 REOs were investigated from April 1, 2012 to December 31, 2013

Some of the most egregious disparities included:

- REOs in communities of color were 6.6 times more likely to have an unsecured, broken, or boarded door versus REOs in White communities
- REOs in communities of color were 4.6 times more likely to have an unsecured, broken, or boarded window versus REOs in White communities
- REOs in communities of color were 2.5 times more likely to have trash or debris on the premises compared to REOs in White communities

Richmond and Oakland, CA

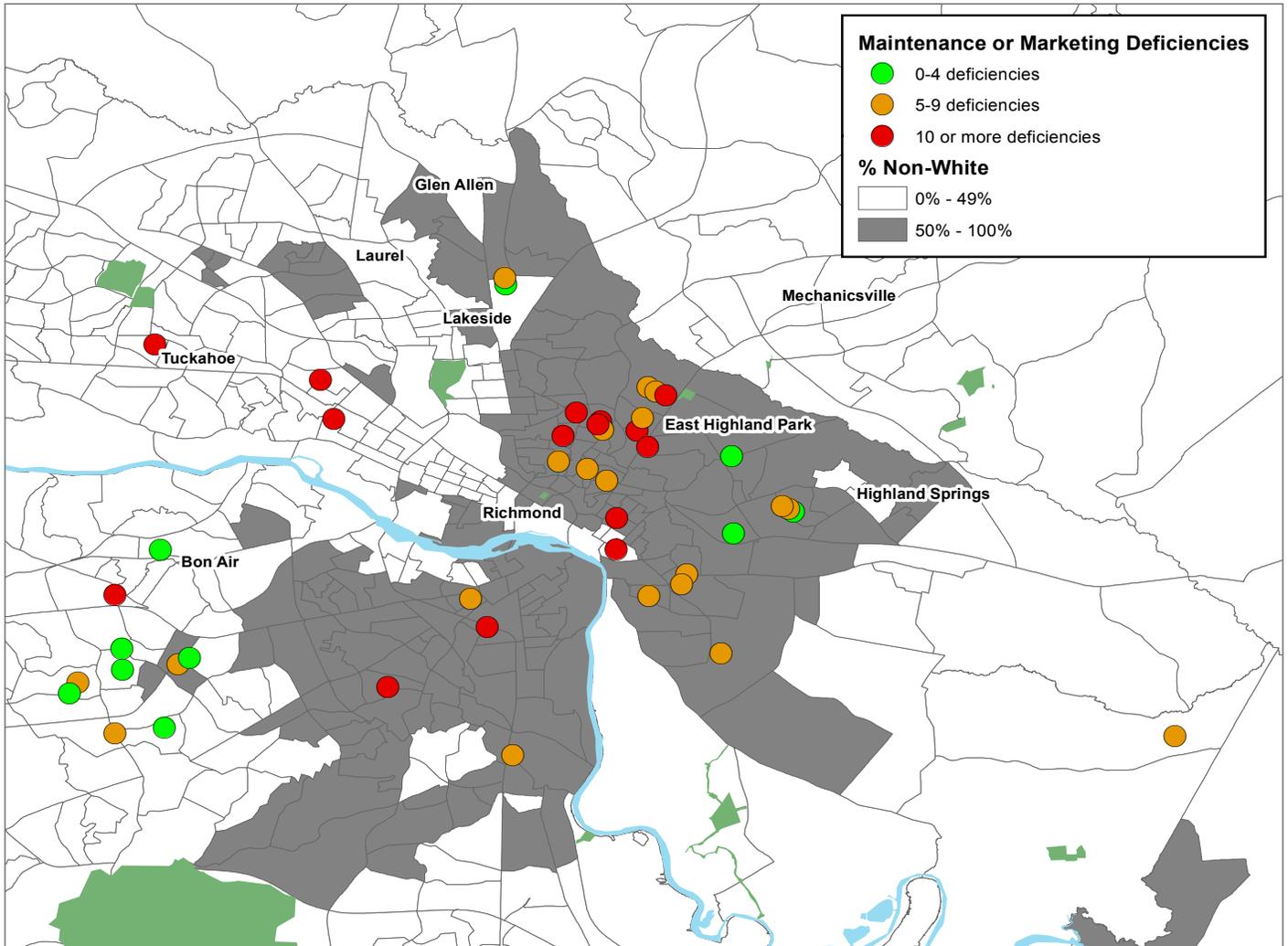


In the Richmond and Oakland, CA areas a total of 62 REOs were investigated from April 1, 2012 to December 31, 2013

Some of the most egregious disparities included:

- REOs in communities of color were 3.0 times more likely to have trash or debris on the premises versus REOs in White communities
- REOs in communities of color were 2.7 times more likely to have a trespassing or warning sign on the home compared to REOs in White communities
- REOs in communities of color were 2.6 times more likely to have an unsecured, broken, or boarded window versus REOs in White communities

Richmond, VA

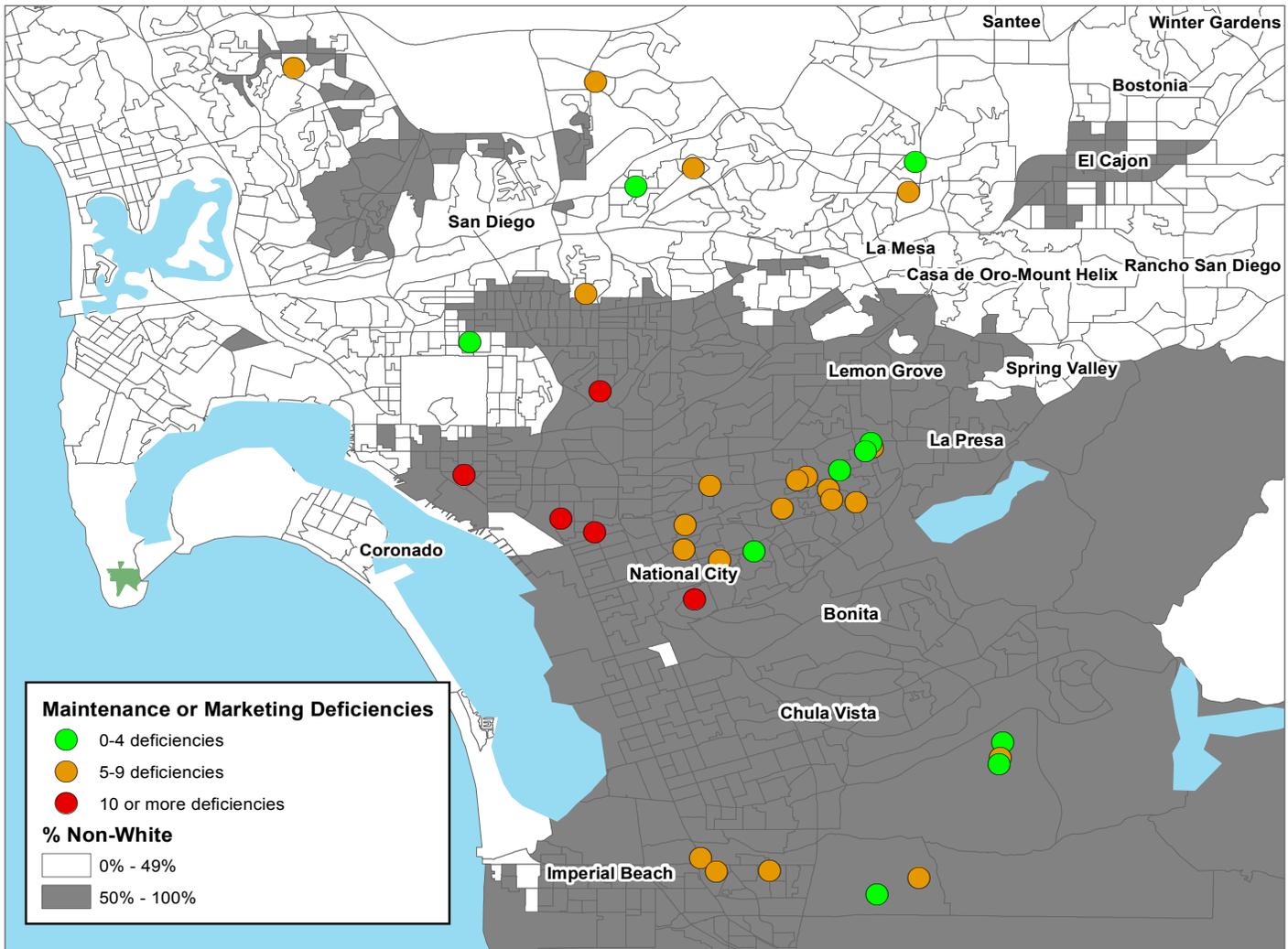


In the Richmond, VA area a total of 45 REOs were investigated from April 1, 2012 to December 31, 2013

Some of the most egregious disparities included:

- REOs in communities of color were 5.5 times more likely to have an unsecured, broken, or boarded door versus REOs in White communities
- REOs in communities of color were 2.1 times more likely to have damaged steps or handrails compared to REOs in White communities
- REOs in communities of color were 1.8 times more likely to have trash or debris on the premises versus REOs in White communities

San Diego, CA

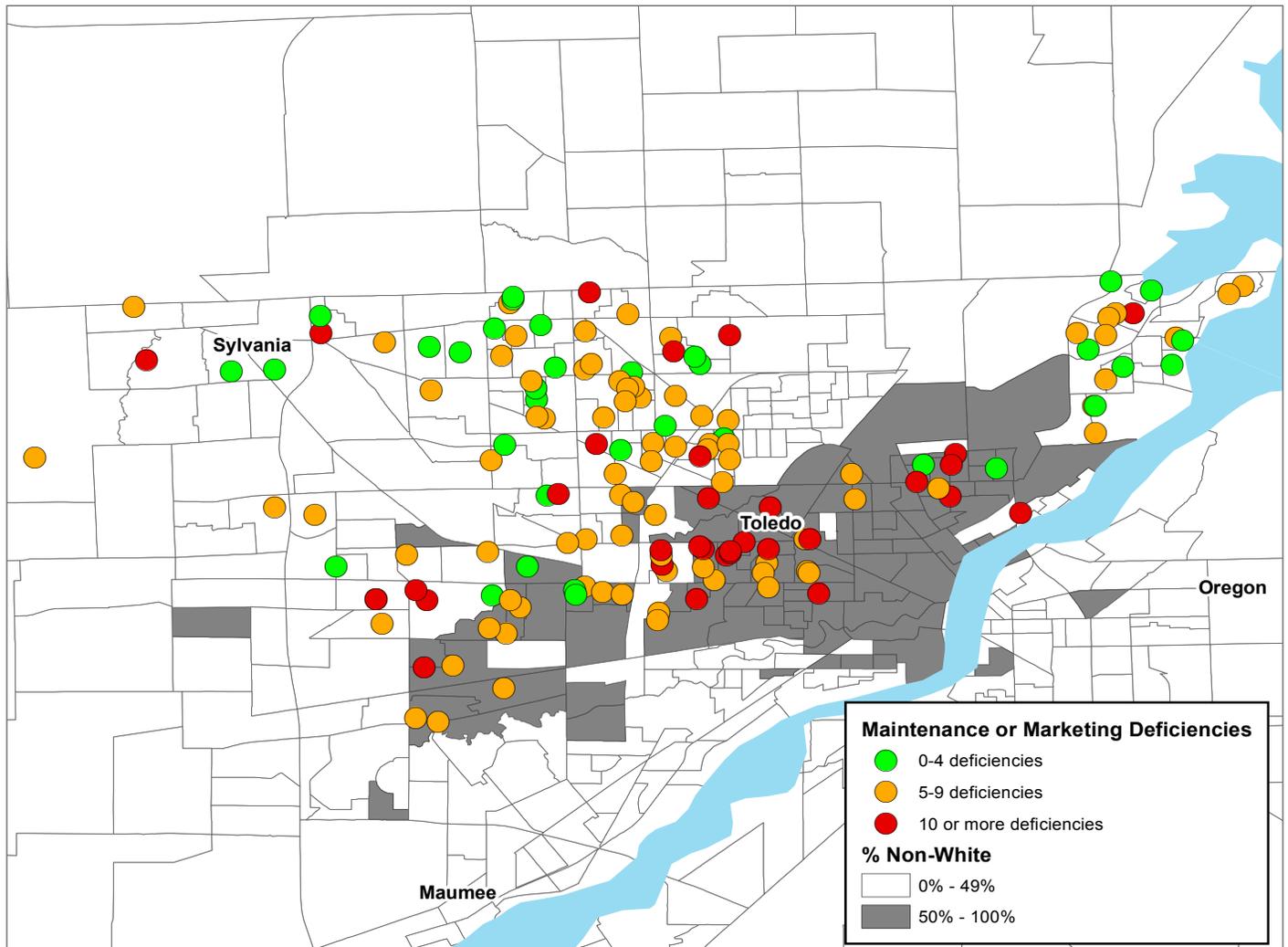


In the San Diego, CA areas a total of 36 REOs were investigated from April 1, 2012 to December 31, 2013

Some of the most egregious disparities included:

- REOs in communities of color were 4.0 times more likely to have trash or debris on the premises versus REOs in White communities
- REOs in communities of color were 2.9 times more likely to have overgrown or dead shrubbery versus REOs in White communities
- REOs in communities of color were 2.4 times more likely to have a trespassing or warning sign on the home compared to REOs in White communities

Toledo, OH

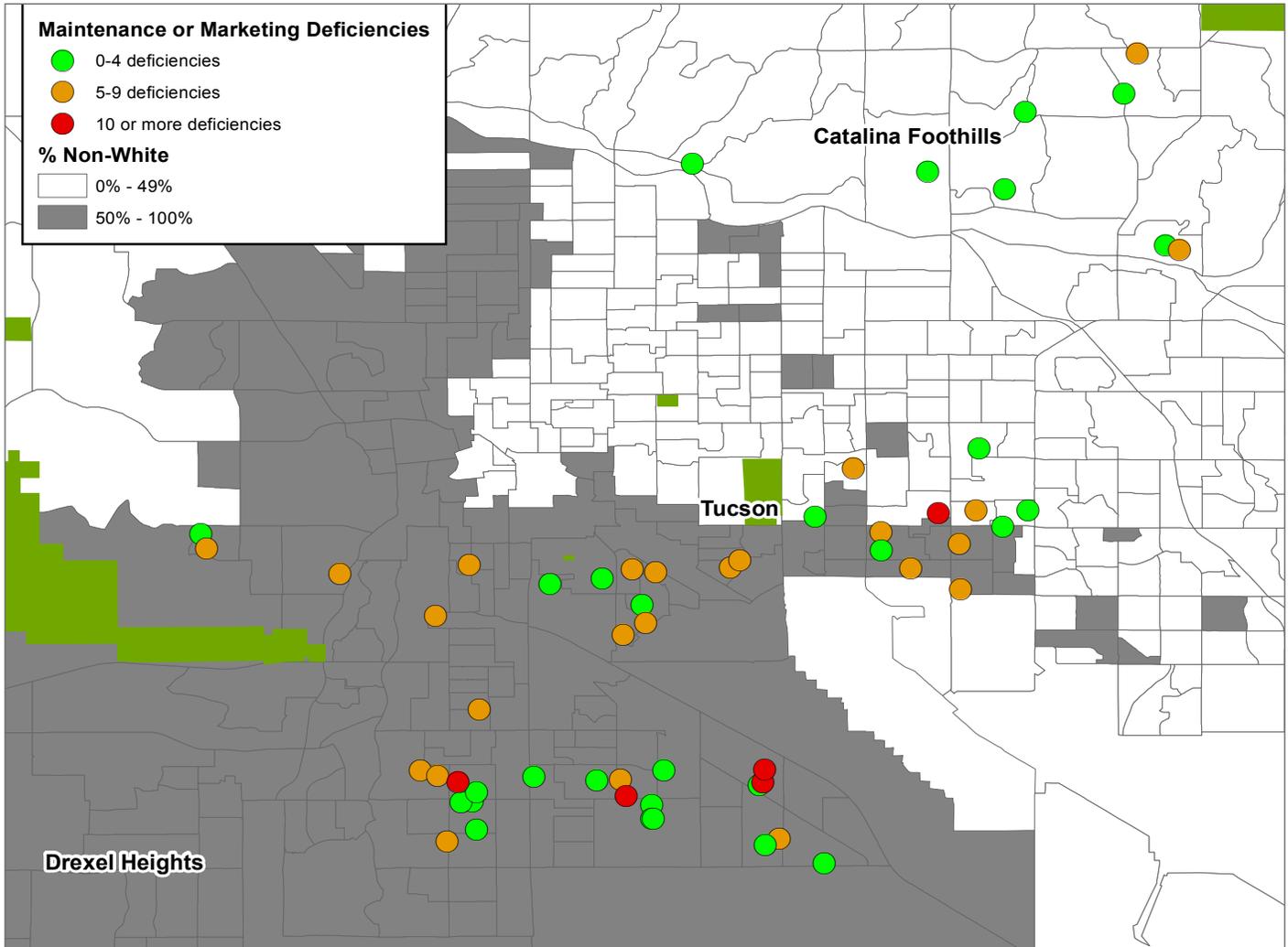


In the Toledo, OH area a total of 148 REOs were investigated from April 1, 2012 to December 31, 2013

Some of the most egregious disparities included:

- REOs in communities of color were 2.6 times more likely to have an unsecured, broken, or boarded door versus REOs in White communities
- REOs in communities of color were 2.3 times more likely to have broken or hanging gutters compared to REOs in White communities
- REOs in communities of color were 1.9 times more likely to have trash or debris on the premises versus REOs in White communities

Tucson, AZ

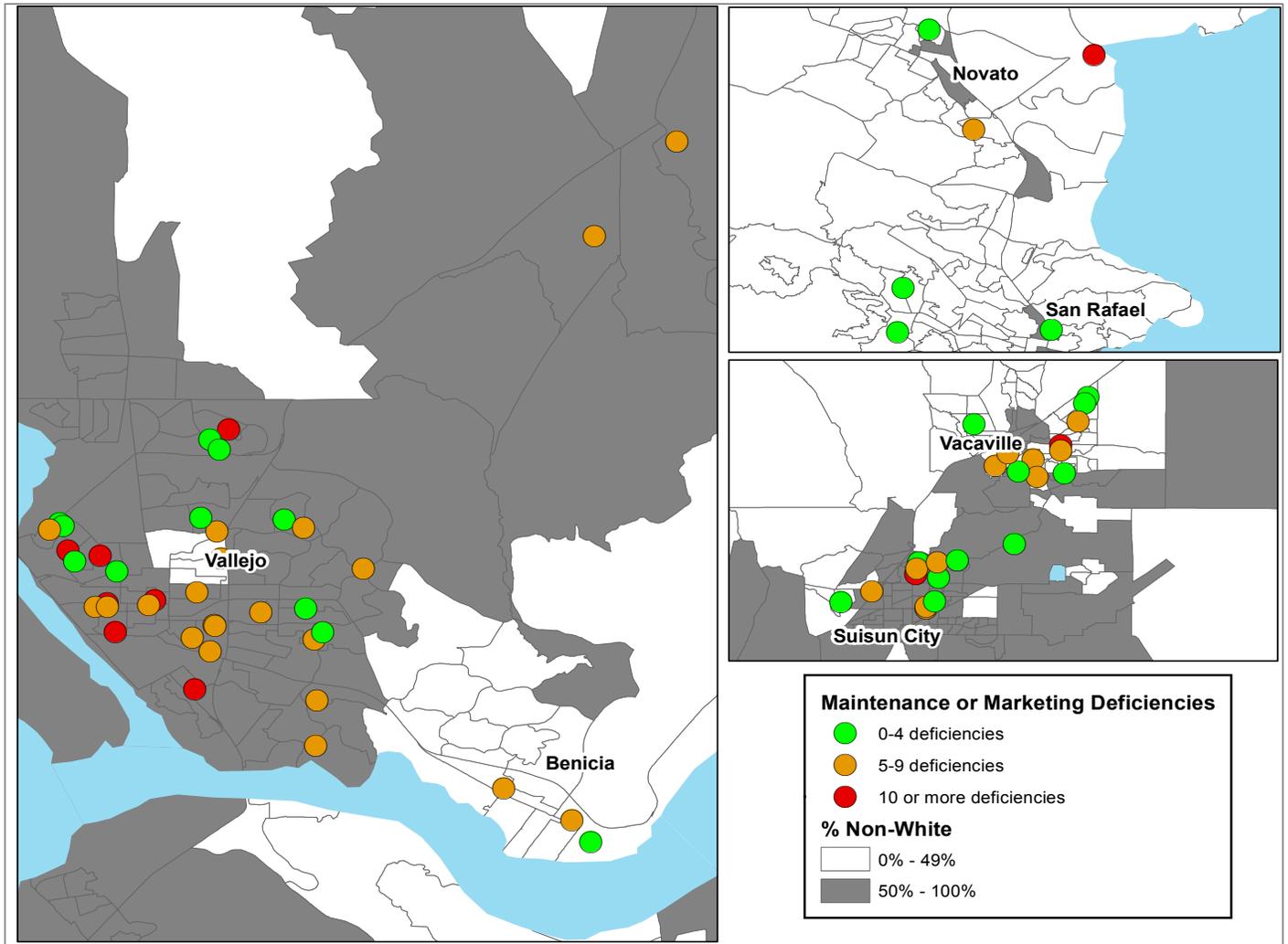


In the Tucson, AZ areas a total of 58 REOs were investigated from April 1, 2012 to December 31, 2013

Some of the most egregious disparities included:

- REOs in communities of color were 4.0 times more likely to have no “for sale” sign marketing the home compared to REOs in White communities
- REOs in communities of color were 3.1 times more likely to have holes in the structure of the home verses REOs in White communities
- REOs in communities of color were 1.5 times more likely to have trash or debris on the premises verses REOs in White communities

Vallejo, CA

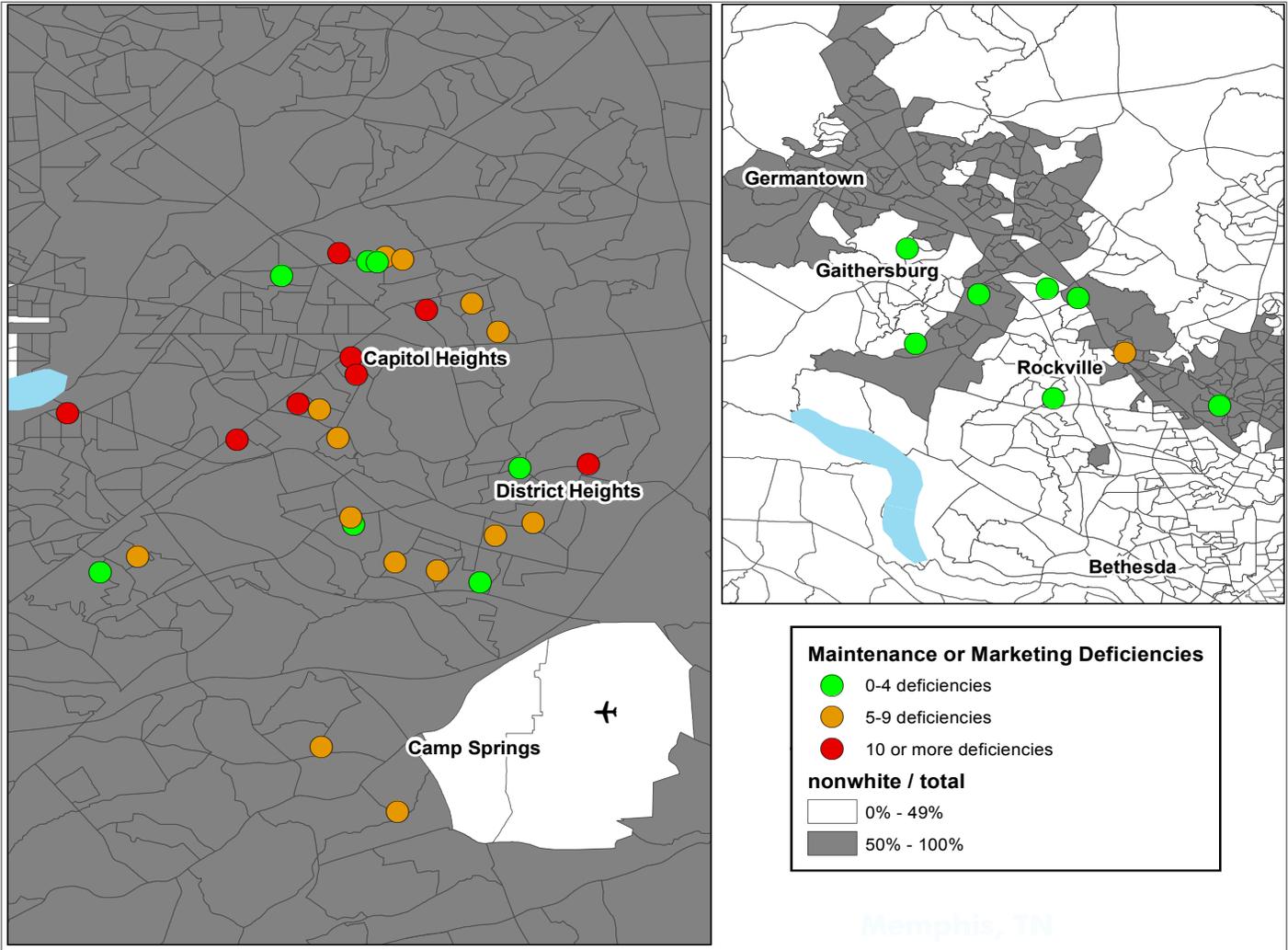


In the Vallejo, CA area a total of 69 REOs were investigated from April 1, 2012 to December 31, 2013

Some of the most egregious disparities included:

- REOs in communities of color were 2.5 times more likely to have an unsecured, broken, or boarded window versus REOs in White communities
- REOs in communities of color were 2.3 times more likely to have a trespassing or warning sign on the home compared to REOs in White communities
- REOs in communities of color were 2.0 times more likely to have trash or debris on the premises versus REOs in White communities

Washington, DC and Prince George's County, MD



In the Washington, DC and Prince George's County, MD areas a total of 37 REOs were investigated from April 1, 2012 to December 31, 2013

Some of the most egregious disparities included:

- Unsecured, broken, or boarded windows were documented at 34.4% of the REOs in communities of color compared to 0.0% in White communities
- Unsecured, broken, or boarded doors were documented at 31.3% of the REOs in communities of color verses 0.0% in White communities
- Trash or debris was documented on 28.1% of the REOs in communities of color compared to 0.0% in White communities

NFHA

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