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FORECLOSURES: TWICE AS MANY AS WE THOUGHT IN OUTSTATE MINNESOTA?

The wave of foreclosures swamping greater Minnesota may be twice as large as previously reported by national studies, housing officials heard at a recent “Greater Minnesota Foreclosure Crisis Summit” in St. Cloud.

More than 60 community leaders from outstate Minnesota gathered in Saint Cloud to hear the results of a new study documenting that foreclosures in Minnesota are occurring at twice the rate previously being reported to Congress and other policymakers. The summit was convened by Greater Minnesota Housing Fund, a statewide non-profit affordable housing organization.

“This newest study reveals what was an invisible epidemic of foreclosures in Greater Minnesota,” said Warren Hanson, president of Greater Minnesota Housing Fund. “We now see that the foreclosure crisis extends to every corner of the state and hurts both families and neighboring property owners,” said Hanson.

The new study quantified for the first time the number of actual sheriffs’ sales of foreclosed properties county by county in Minnesota¹ in 2006. It found a stunning 11,207 foreclosures statewide — nearly double the 5,995 reported in a national study² conducted by RealtyTrac, a leading provider of real estate industry data, over the same period.

The study, which covered the 80 counties outside the Minneapolis-St. Paul metropolitan area (“Greater Minnesota”), was commissioned by Greater Minnesota Housing Fund and prepared by HousingLink, a Minneapolis-based research organization that provides information to housing organizations and policymakers. To assure the integrity of the study, researchers contacted officials in each of the 80 counties of greater Minnesota to collect actual sheriff’s sale data—the first time that such a study has been completed. It

¹ Data is for 80 counties in Minnesota; seven of 87 counties did not provide data for the study. The full study is available at <http://gmhf.com/foreclosure.pdf>.

² “More Than 1.2 Million Foreclosure Filings Reported in 2006.”, available at <http://www.realtytrac.com/ContentManagement/pressrelease.aspx?ChannelID=9&ItemID=1855&acct=64847>)

complemented a similar 2007 study on foreclosure trends in the seven-county Minneapolis-St. Paul area completed by Housing Link for the Foreclosure Prevention Funders' Council, a collaboration of Twin Cities area affordable housing funders.

Previously, data on Minnesota's foreclosure rates depended on nationally-publicized foreclosure reports which cite RealtyTrac data, a national provider of real estate data. The two new Minnesota based studies highlight that the foreclosure crisis in Minnesota may be much worse than many officials realized.

Greater Minnesota foreclosures were up dramatically from 2,707 in 2005 to 4,168 in 2006. Based on first quarter 2007 foreclosure figures, Greater Minnesota Housing Fund and Housing Link project that total foreclosures will reach 8,721 in Greater Minnesota in 2007. The 2007 projected rate of foreclosures varies widely across the state, with rates ranging from 1 in every 1000 households in foreclosure in some rural counties to more than 2 of every 100 households in the hardest hit counties. Foreclosure rates tend to be highest in the counties that adjoin the Twin Cities metropolitan area. For example, approximately 3 of every 100 households in Chisago and Isanti counties are projected to be in foreclosure in 2007.

Foreclosures often result from what are called subprime loans and predatory sales practices. "Not all subprime loans are predatory," University of Minnesota housing-studies professor Jeff Crump told the group in St. Cloud, "but nearly all predatory loans are subprime."

Predatory practices include lending without regard to borrowers' ability to pay, failing to verify borrowers' income, "churning" or repeat refinancing, charging excessive fees, and high-pressure sales and marketing. "Predatory loans," says Crump, "are sold, not bought."

In fact, Crump said, "half of subprime borrowers actually would have qualified for a prime loan. There are a lot of people who paid more for their mortgage than they should have paid."

Meanwhile, subprime loans are "clearly associated with increased foreclosure," said Crump.

According to Home Mortgage Disclosure Act (HMDA) data, subprime loans represent about 25 percent of all loan originations in small communities around Minnesota and surpass 40 percent in several counties — 47 percent in Faribault County in 2005, for example, according to Crump.

"The national wave of subprime mortgage foreclosures has resulted in hardship for thousands of families throughout the state," said Hanson.

Foreclosures can devastate family finances. Following foreclosure, many families are displaced from their neighborhoods and communities, and their credit ratings are

irrevocably damaged.

Moreover, foreclosures can result in abandoned properties that may reduce the value of nearby homes and adversely impact entire neighborhoods.

Local governments are feeling the pinch from rising foreclosures. Some city officials report having to mow the lawns of foreclosed homes where lenders have abandoned their responsibility to maintain the properties.

A recent report by the U.S. Congressional Joint Economic Committee³ estimates that the combined costs of foreclosures for all stakeholders— borrowers, lenders, city and local governments, and neighboring homeowners—can be as high as \$80,000 per home.

What should be done about the growing foreclosure crisis? “It’s an issue that defies simple solutions,” said Mike Haley, deputy commissioner of the Minnesota Housing Finance Agency. Haley outlined ways in which the state may be able to help including enhancing the current foreclosure prevention and homebuyer counseling resources available to all state residents. While Minnesota has a strong network of nonprofit foreclosure prevention counselors, the system is being strained by a record volume of assistance requests from struggling homeowners.

A conference participant suggested that late payment notices from lenders should include the contact number for a local foreclosure counseling agency. “Homeowners prefer to talk to someone from Minnesota who can help them understand their options before they contact the national call center of a bank,” said one foreclosure counselor in attendance.

Julie Gugin, executive director of the nonprofit Minnesota Home Ownership Center, noted that homeowners facing the prospect of foreclosure can contact the Center at 866-462-6466 or online at <http://www.hocmn.org/map.cfm?pageID=7> for referrals to foreclosure prevention services in their community. However, to provide those services effectively, more financial counselors are needed, particularly in areas where numbers of foreclosures are increasing.

Another conference participant noted that lack of information is a significant barrier to addressing the foreclosure problem, noting that “we need better data and more frequent data on foreclosures so we can track and respond to the problem.”

It’s an issue that won’t go away. “Our research suggests that with flat or depreciating home values expected to continue, the foreclosure surge is nowhere near the end,” said Melissa Manderschied, a land-use attorney with Kennedy and Graven in Minneapolis.

³ “Sheltering Neighborhoods from the Subprime Storm”, Joint Economic Committee of the U.S. Senate, March 2007, <http://jec.senate.gov/Documents/Reports/subprime11apr2007revised.pdf>

To address the ballooning foreclosure crisis in greater Minnesota, Greater Minnesota Housing Fund is partnering with key stakeholders and affordable housing funders to develop strategies and responses to assist families and communities confronting foreclosure. GMHF and its partners will monitor state-wide foreclosure trends and data, work to expand the foreclosure prevention counseling programs and resources available to families, and provide assistance to cities and towns facing a growing number of vacant and/or blighted properties due to foreclosure.

Founded in 1996 by The McKnight Foundation and the Blandin Foundation, Greater Minnesota Housing Fund is a private, nonprofit organization that supports the creation of affordable housing throughout the 80 counties outside of the Twin Cities metropolitan area. By combining its resources with funds from other private and public organizations, GMHF offers financial and technical assistance to make affordable housing initiatives possible, and develops affordable housing strategies that strengthen local communities, promote economic vitality, and increase the health, stability and self-sufficiency of low-income and working families in greater Minnesota. Since its inception, GMHF has provided over \$89.3 million to help create over 6,748 affordable homes worth over \$774 million statewide.