THE IMPACT OF FORECLOSURES ON THE MINNEAPOLIS PUBLIC SCHOOLS

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SUMMARY OF FINDINGS

The foreclosure crisis has greatly harmed individual families, entire communities, and even our schools, particularly in Minneapolis which has been especially hard hit. Foreclosures disrupt students' lives as their families are forced to move. In many cases, students must start at a new school or even in a new school district, resulting in fewer students enrolled in the district. Since the majority of state aid to local schools is based on enrollment numbers, the decreased enrollment from foreclosures has led to less state funding for a school system that is already experiencing economic problems.

Decreased enrollment from foreclosures has led to less state funding for schools

- There have been more than 13,000 foreclosures in Minneapolis since 2006, with an estimated loss of 4,000 students in the Minneapolis Public Schools (MPS), resulting in almost $150 million less in state funding to the Minneapolis Public Schools.

- Wells Fargo and US Bank, the largest banks in the Twin Cities, have also played a large part in the foreclosure crisis.

- In the last 12 months, Wells Fargo has been responsible for foreclosing on more than 300 homes in Minneapolis.[1] Based on this figure and the estimated impact on families moving out of the district, Wells Fargo's foreclosures have cost the Minneapolis Public Schools $28 million in state funding since 2006.

- US Bank has been responsible for foreclosing on more than 200 homes in Minneapolis in the last 12 months.[2] Based on this figure, and the estimated impact on families moving out of the district, US Bank's foreclosures have cost MPS $19 million in state funding since 2006.

THE FORECLOSURE CRISIS

In the last five years, foreclosures in the United States have reached a level of epidemic proportions and Minnesota has not been immune from this crisis. The number of foreclosures in Hennepin County skyrocketed from 1,681 in 2005 to a peak of more than 7,000 in 2008. Although the number of foreclosures has started to come down, Hennepin County still experienced almost four times more foreclosures in 2010 than in 2005.

Foreclosures in Hennepin County[3]

Year	2005	2006	2007	2008	2009	2010	2011 (through June 30)
Foreclosures	1,681	3,042	5,561	7,348	5,665	6,161	2,635

Since 2005 there have been a total of more than 32,000 foreclosures in Hennepin County. More than 13,000 of these foreclosures have occurred in Minneapolis.

Foreclosures in Minneapolis[4]

Year	2005	2006	2007	2008	2009	2010	2011 (through September)
Foreclosures	870	1,607	2,895	3,077	2,233	2,308	1,225

THE COST OF FORECLOSURES ON MINNEAPOLIS SCHOOLS

The foreclosure crisis has had numerous effects, impacting individual homeowners and the entire U.S. economy, devastating families and whole neighborhoods, reducing cities' tax base while increasing cities' costs.

Foreclosures particularly harm children who may fall behind in school when their families are uprooted and they must change schools or school districts. Recent research from the Center for Urban and Regional Affairs (CURA) at the University of Minnesota found that Minneapolis foreclosures disproportionately affected households with school-aged children. Whereas roughly 17 percent of all households in Minneapolis have a child enrolled in the Minneapolis Public Schools (MPS), 39 percent of foreclosures in Minneapolis affected a household with a child in MPS. [5]

The CURA research also found the majority of households with school-aged children moved outside the MPS district after the foreclosure. Fifty-eight percent of the households left MPS, requiring their children to enroll in a new school district. [6]

> ***There have been*** more than ***13,000 foreclosures in Minneapolis since 2006. We estimate these foreclosures have resulted in almost 4,000 students moving out of the MPS district during this time.***

This exodus of school-age children has also had a devastating impact on Minneapolis public schools. Two-thirds of funding for MPS comes from state aid, the majority of which is based on the number of students enrolled in the district.[7] As foreclosures have forced families to relocate and children have moved out of the district, the amount of state aid MPS receives has decreased.

> ***The more than 13,000 foreclosures in Minneapolis since 2006 have resulted in a total of almost $150 million less in state funding to the MPS during this time.***

Wells Fargo and US Bank Foreclosures have fueled the crisis in Minneapolis Public Schools

Wells Fargo and US Bank hold almost two-thirds of all bank deposits in the Twin Cities, and their share is growing; up from 60 percent just a year ago. [8]

Wells Fargo is the largest bank with 37 percent of all Twin Cities bank deposits—$33.8 billion. US Bank has $25.9 billion in deposits in the Twin Cities which is 28 percent of the total. [9]

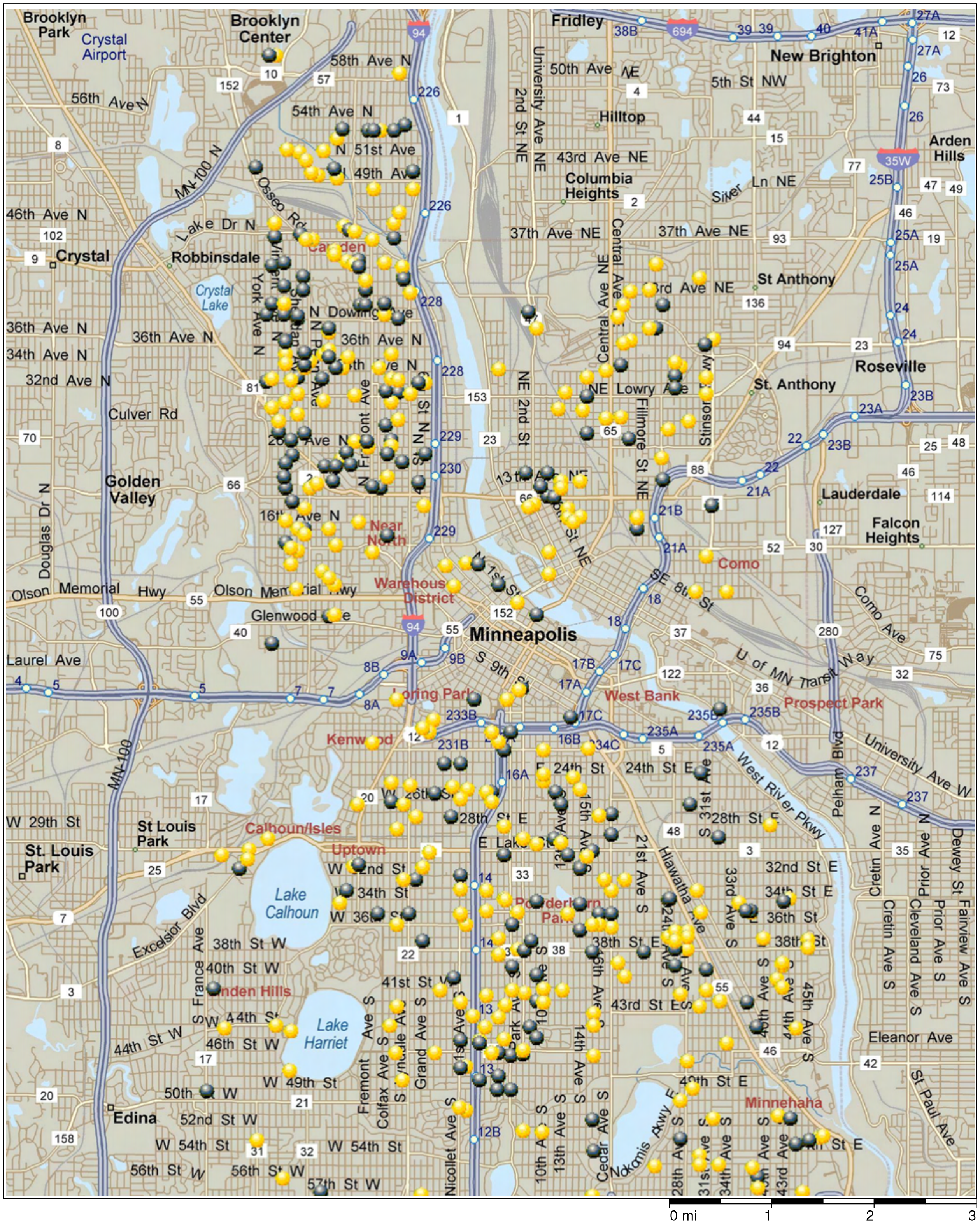
Both banks have also had a significant number of foreclosures in Minneapolis.

- In the last 12 months, Wells Fargo has foreclosed on more than 300 homes in Minneapolis.[10] Based on this figure, Wells Fargo's foreclosures have cost the Minneapolis Public Schools $28 million in state funding since 2006.

- During the same time period, US Bank has foreclosed on more than 200 homes in Minneapolis since September 2010. [11] Based on this figure, US Bank's foreclosures have cost MPS $19 million in state funding since 2006.

US Bank
Wells Fargo

Minneapolis Foreclosures by Wells Fargo and US Bank



WELLS FARGO, US BANK AND SUBPRIME LENDING

The subprime mortgage meltdown has resulted in a record number of foreclosures and plunged the United States into the worst financial crisis since the Great Depression. Wells Fargo and US Bank, which together hold almost two-thirds of all bank deposits in the Twin Cities[12], were both involved in the subprime market and played a central role in creating the current crisis.

Wells Fargo

Wells Fargo itself was one of the largest subprime mortgage lenders in the country, making high cost subprime loans through its Wells Fargo Financial and Wells Fargo Home Mortgage divisions. The bank has been sued on several occasions for alleged discriminatory lending practices.

Just this past summer, the Federal Reserve Board assessed an $85 million civil penalty against Wells Fargo, the largest fine the Federal Reserve has ever imposed in a consumer case.[13] The Federal Reserve charged that between 2004–2008 Wells Fargo Financial steered customers into more expensive subprime loans even though they qualified for better rates. As part of its settlement with the Federal Reserve, Wells Fargo will have to repay up to $200 million to customers that it overcharged.

Wells Fargo drained wealth from families and neighborhoods and added to the stockpile of boarded-up homes

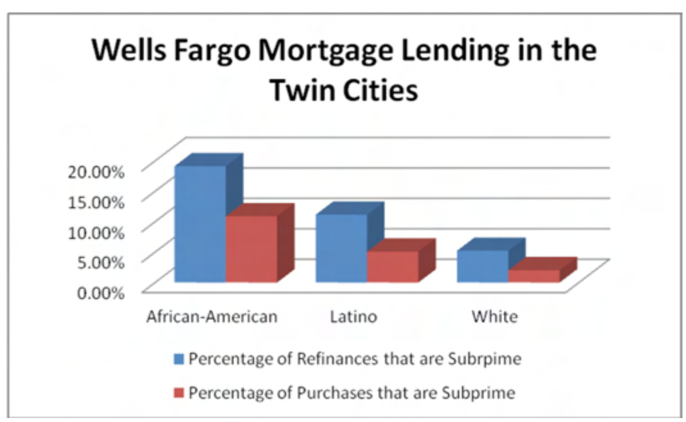
Previously, the Illinois attorney general sued Wells Fargo for steering African American and Latino homeowners to higher cost subprime mortgages while giving white borrowers who had similar incomes lower cost loans. The suit charged that "Wells Fargo drained wealth from families and neighborhoods and added to the stockpile of boarded-up homes . . .[14]"

There is evidence that Wells Fargo has engaged in the same pattern of discriminatory practices in the Twin Cities. Wells Fargo has served upper income and predominantly white neighborhoods through its bank, providing prime loans with good terms and low rates. In contrast, Wells Fargo has served low-to-moderate income and minority neighborhoods disproportionately through its finance company, Wells Fargo Financial, which makes higher rate subprime loans.

In the Twin Cities area from 2004–2008:

- Subprime loans accounted for one out of every five refinance loans made by Wells Fargo to African American homeowners and one out of nine made to Latinos, in contrast to just one out of every 20 refinance loans made to white homeowners. In comparative terms, this means that African American homeowners who refinanced through Wells Fargo were almost four times more likely than whites to get a subprime loan and Latinos were more than two times more likely.[15]

- One out of every nine purchase loans made by Wells Fargo to African American homebuyers was a high-cost subprime loan as was one out of every 20 made to Latinos. In contrast, just one out every 50 purchase loans that Wells Fargo made to whites was subprime. In comparative terms, African Americans who bought a house through Wells Fargo were more than five times more likely than whites to receive a high-cost subprime loan and Latinos were two and a half times more likely[16].



US Bank

US Bank was a major investor in New Century Financial—a poster child for bad practices in the mortgage industry. By 2007, when New Century filed for bankruptcy, it was the second-largest subprime mortgage lender in the country. [17] In 1998 and 1999 when it was difficult for subprime lenders to raise capital, US Bank came to New Century's rescue and invested $40 million in the company. US Bank reaped a profit of nearly $18 million from this investment within just a few years. [18]

The investments in New Century were just a part of US Bank's involvement with subprime lenders. Throughout the last decade, US Bank served as a trustee for billions of dollars in securitized pools of home mortgages made by New Century and others. The list of lenders whose loans US Bank served as a trustee for reads like a who's who of the subprime industry: Aames, Ameriquest, BNC, Citifinancial, Conseco, Countrywide, Downey, Equicredit, First Franklin, First Plus, Fremont, Greenpoint, Household and New Century. [19]

As the trustee, US Bank was responsible for distributing the cash flow from the mortgage pools to all the different investors, after US Bank took its cut first. Trustees take a percentage each month of the overall pool balance.

60 percent of homeowners with seriously delinquent loans are still not involved in any loss mitigation activity

THE RUSH TO FORECLOSE

Tens of thousands of Minnesotans have already lost their homes in the last few years, and it appears that tens of thousands more will in the next few years to come. The reality is that many of these foreclosures can and should be avoided.

A report from state regulators stated:

> "[T]oo many homeowners experience foreclosure when finding an alternative solution would be in the interest of both the homeowner and the mortgage holder. Preventing these unnecessary foreclosures would help not only the struggling homeowners and mortgage investors, but also the neighborhoods and local governments that bear the indirect costs of foreclosures.[20]"

The regulators found that mortgage servicers were only reaching a minority of delinquent homeowners with their foreclosure prevention efforts.

> "Nearly three years into the foreclosure crisis, we find that more than 60 percent of homeowners with seriously delinquent loans are still not involved in any loss mitigation activity.[21]"

There have been almost 120,000 foreclosures in Minnesota since 2006—more than 60,000 since 2009 when the federal Home Affordable Modification Program began. In contrast, there have been less than 12,000 permanent loan modifications in Minnesota under HAMP.

As the foreclosure crisis has exploded, mortgage servicers have failed to adequately meet the number of delinquent homeowners. In a recent GAO survey of nonprofit housing counselors, for example, 76 percent of the counselors reported that overall their clients had a "negative" or "very negative" experience with the mortgage servicers. The most commonly cited problems were of homeowners receiving inconsistent or confusing information, speaking to a different representative each time they called, of servicers losing their paperwork, and of the decision-making process taking too long.

Even worse, in a rush to foreclose on delinquent homeowners, many mortgage servicers were accused of engaging in negligent and fraudulent practices, where servicer employees admitted to preparing massive numbers of foreclosure documents without appropriate verification and, in some cases, even without the appropriate signatures. Servicers have been foreclosing on homeowners without proof the lender is the actual holder of the note or the borrower is even in default. Attorneys general from all 50 states and the District of Columbia have been investigating this practice of robo-signing.

THE NEED FOR MEDIATION

Servicers have been foreclosing on homeowners without proof the borrower is even in default

There is growing recognition of the effectiveness of foreclosure mediation programs in preventing unnecessary foreclosures. The number of states and municipalities that have such programs continues to grow, and there are now jurisdictions in 24 states that have foreclosure mediation.

Foreclosure mediation benefits all of the involved parties:

- Servicers avoid a long and costly foreclosure process since more than 70 percent of mediated cases reach a settlement[24].
- More than half of homeowners in mediated cases get to keep their homes, while those for whom that is not a sustainable option also benefit by negotiating a "graceful exit" in how and when they move.
- For government, mediation can reduce the number of vacant homes and stabilizes property values and tax revenue.

In 2008, the Minnesota Legislature passed the Homeowner-Lender Mediation Act which would have required lenders to offer homeowners the opportunity to participate in nonbinding mediation before the lender could foreclose, however Gov. Time Pawlenty vetoed the bill.[25]

Under the act, lenders would have been required to serve a mediation notice to the homeowner and filed proof of it with the attorney general's office. Homeowners would have 20 days after this to file a request for mediation. If the homeowner does not request it, then the lender could proceed with the foreclosure.

Although a state level mediation program would be optimal in that it could benefit from an economy of scale and would serve the largest number of homeowners, cities and counties can implement their own mediation programs.

Wells Fargo's foreclosures have cost the Minneapolis Public Schools $28 million in state funding since 2006

RECOMMENDATIONS

1) Congress should approve the nomination of Rich Cordray to direct the Consumer Financial Protection Bureau. Cordray has an impressive track record of working to protect the people of Ohio as the state attorney general.

2) The coalition of state attorneys general should follow the lead of Minnesota Attorney General Lori Swanson and attorneys general from several other states in rejecting any settlement with the five largest mortgage servicers if it grants immunity to the servicers from any future investigations.

3) The state of Minnesota should require mortgage servicers to:

   a. Conduct a loss mitigation analysis as early as possible prior to foreclosure;
   b. Provide homeowners with a loss mitigation application along with the notice of intent to foreclose; and
   c. Submit an affidavit disclosing the specific reasons why the homeowner did not qualify for a loan modification.

4) The state of Minnesota, counties and cities should adopt a foreclosure mediation program to prevent unnecessary foreclosures.

5) Local governments, school boards and public agencies should require any banks where they do business meet responsible lender criteria that includes using best practices for foreclosure prevention.

6) Local governments, school boards and public agencies should require any banks where they do business publicly disclose information regarding their foreclosures, including:
   a. The number of homeowners eligible for loan modifications;
   b. The number that received or were denied permanent modifications;
   c. The principal and/or rate reduction in each modification; and
   d. A breakdown for each of the above categories by the race, ethnicity and census tract of the homeowners.

7) Mortgage servicers should:
   a. Stop foreclosure proceedings while they are evaluating a borrower's eligibility for a loan modification or other foreclosure prevention options;
   b. Respond within 72 hours to requests or inquiries about loan modifications;
   c. Ensure the loan modification process takes less than 30 days;
   d. Modify troubled loans so they are for no more than the value of the home;
   e. Allow tenants of foreclosed properties to continue to rent the property until it is sold; and
   f. Take steps to ensure its loans are not being used for property flipping or foreclosure rescue scams.

ABOUT NEIGHBORHOODS ORGANIZNG FOR CHANGE (NOC)

Neighborhoods Organizing for Change (NOC) is a member-led Minneapolis-based nonprofit that builds power in low- and moderate-income neighborhoods through community organizing. NOC members have led campaigns to prevent foreclosures, increase civic engagement, and improve public schools. More information can be found at www.mnnoc.org.

ENDNOTES

1 As either the lender or the trustee

2 As either the lender or the trustee

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4 Data from the Hennepin County Sheriff's Office and Minneapolis Community and Economic Planning Department

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