

# **Project: Reclaim**

*A people and community focused pilot program response to foreclosures in North Minneapolis*

The City of Lakes Community Land Trust (CLCLT)

Urban Homeworks (UHW)

Lutheran Social Services (LSS)

## **THE COLLABORATION**

### The City of Lakes Community Land Trust (CLCLT)

The mission of the City of Lakes Community Land Trust is to provide and foster stewardship of perpetually affordable home ownership opportunities for low- and moderate-income individuals and families throughout Minneapolis.

Through the mission, the CLCLT continues to prioritize its efforts on three key areas:

- Assist households that otherwise wouldn't be able to responsibly purchase a home to be able to do so in Minneapolis; and
- Ensure that, if and when they decide to sell the home, that the home remains affordable for another income qualified household at that time; and
- Provide as much support and assistance as possible to ensure that the CLCLT homeowners are successful in homeownership in their community

### Urban Homeworks (UHW)

The mission of Urban Homeworks is to perpetuate the hope of Jesus Christ through

- innovative community development that produces:
- dignified housing for low-income families,
- a strategic network of good neighbors, and
- redemptive development of real estate.

The CORE VALUES behind the mission are:

- Compassion that cultivates dignity
- Relationships that reconcile people to God and to each other
- Biblical justice that liberates individuals and communities

### Lutheran Social Services (LSS)

Lutheran Social Service of Minnesota expresses the love of Christ for all people through acts of service.

## **THE PROBLEM**

The housing focused approach to address community blight hasn't proven to be a successful long-lasting solution to addressing the cycle of investment and disinvestment in many of our neighborhoods. If we as a community are going to make a difference in creating a positive change in our community, we will need to take a different approach to break the cycles that continue to plague our neighborhoods. A people-focused approach that provides community stability and control is necessary to turn the tide in our Minneapolis neighborhoods.

There is an increasing and legitimate concern over the issue of foreclosure in our community. The foreclosure problem often generates vacant, boarded, and/or distressed property across the city, and disproportionately on the North Side of Minneapolis.

Community development solutions today and in the future have to be focused on control - specifically community control. Without greater community control, these cycles of investment and disinvestment will continue to plague our low-income (which often means community of color) neighborhoods. Until now, we as a community development community have primarily looked at remedies to neighborhood recovery through a housing or a financial lens. Project Reclaim suggests using a people and community focus in our efforts in North Minneapolis.

Stability is a key issue as it pertains to the communities that are hit the hardest by the above issues. Stability, as it generally relates to the condition of property and its management could be summarized by the following progression from most instable to stable;

1. Vacant buildings. Vacant buildings are often ill-managed and attract a lot of negative behavior. Boarded buildings tend to be worse than vacant buildings without boards.
2. Vacant land. Vacant land is often less problematic than a vacant building, attracting fewer problems, but generally not making a positive contribution to community life.
3. Poorly Managed Buildings. Poorly managed buildings are often as bad as and sometimes worse than some of the above.
4. Well Managed Buildings. Well managed buildings are FAR more stable and make a positive contribution to community life in both the maintenance of the asset as well as the stability of social "capital" that present by well selected tenants.
5. Owner Occupied Buildings. Owner Occupied Buildings are often, but not always, more stable than Well Managed Buildings.

## **THE INTENT**

The intent of Project: Reclaim is to provide a people and community focused response to the devastation that foreclosures have brought to Minneapolis and progress down the continuum from instability to stability. This will ensure that these buildings would not return to the "rental" or "investor" status, thereby breaking the cycle of owner-occupant to rental conversion in a down-market.

The CLCLT, UHW, and LSS are the primary organizations involved in Project: Reclaim. Urban Homeworks will acquire bank foreclosed homes, rehab them, place them in the CLCLT. Urban Homeworks would be the leaseholder with the CLCLT in the short term and facilitate a contract with a low-income household on track to be mortgage-able over the next 3-4 years. UHW and the CLCLT will market the program and refer potential Project: Reclaim buyers to LSS. LSS will work with the buyers to establish a credit enhancement and financial budgeting plan (establish performance indicators/benchmarks such as re-establishing credit and paying off judgments)

that will be included in the contract for deed agreement with UHW. The contract would be a 2.5% contract where 2% would be placed in an account on behalf of the buyer household that they can later use for closing costs and additional downpayment when they are able to finance in to responsible fixed-term, fixed-rate financing. By capturing the value of the home at time of contract in the CLCLT, Project: Reclaim should be able to capture a portion of any market appreciation as additional affordability investment through the CLCLT. Project: Reclaim anticipates serving 10-15 households over the next 18 months.

## THE PROCESS

### **Property Acquisition and Rehab**

1. Acquisition. UHW will strategically acquire properties in North Minneapolis that have been recently and previously foreclosed. The majority of the homes will be acquired in one of six UHW PODs (People Oriented Developments) on the North side. The purchase prices will be negotiated with banks (initially many of the homes will be purchased from University Bank) at a reduced price (below appraised value).
2. Placement in CLCLT. Immediately after purchasing the property, UHW will place the homes into the CLCLT. Not only does this keep the transfer of property easier, it also provides assurance to the community that the home will be owner occupied (per the CLCLT provisions in its documents with homeowners).
3. Rehab. The homes will be completely rehabbed to address any health and safety issues listed below:

#### *Lot:*

- Adequate space between homes for maintenance
- Side lot lines at least 1 foot from house
- Rear lot lines at least 5 feet from house
- Front of home can not abut sidewalk
- No overgrown trees and vegetation

#### *Foundation/Structural Integrity:*

- No evidence of substantial settlement
- No excessive dampness
- Concrete floor in basement
- Concrete or treated wood perimeter foundation
- No major structural defects
- Home, garage, driveways and sidewalks graded correctly to insure the positive drainage of water away from the site

#### *Exterior:*

- Minimum of 5 years life expectancy of current roof
- Serviceable siding
- Serviceable windows with screens
- Driveways and walkways in serviceable condition

#### *Interior:*

- Separate cooking facilities
- Separate bathing facilities

- No excessive peeling of potentially lead-based paint
- Ventilated attics and crawl spaces
- Reasonably insulated
- Ventilated bathrooms (operable window or exhaust fan)
- Minimum of 6 square feet of countertop in the kitchen
- Operable smoke detectors in each bedroom, plus minimum of one of each level
- Operable carbon monoxide detector
- Bathroom and kitchen floors impervious to water

*Mechanical:*

- Operating central heat capable of heating dwelling
- Minimum of 5 years life expectancy for hot water heater and furnace
- All wells and private sewage system approved by government authority
- Adequately functioning plumbing systems with all fixtures vented to code
- Toilet and fixture drain lines in good working order
- Minimum of 100 amp service
- Grounded circuits for all appliances
- GFCI protected electrical outlet in kitchen, baths, utility, garage and exterior
- No hazardous wiring or fixtures
- Adequate site and structure lighting

4. “Green” and energy efficient focus. The rehab will also be conducted with energy efficiency and “green” rehabbing in mind:
- A. Rehab in general is a “green building” strategy (i.e. it is reducing waste, recycling and reusing an existing structure). UHW is utilizing existing housing resources, instead of a demolition and new build. Less harmful to the environment, less trash produced, etc.
  - B. UHW will make sure all the homes are adequately insulated. This means decreasing the needed resources to heat and cool these homes, less greenhouse gas production, and much less of a carbon imprint from each home.
  - C. Replace all substandard windows. – same effect and results as above, in addition this will eliminate potential lead paint hazards.
  - D. The trash company UHW uses will recycle at least 60% (by weight) of the construction waste produced.
  - E. Energy efficient appliances will be used when and where necessary to replace.
  - F. Wherever possible green products will be given preference to standard products (possibilities include but not limited to, low voc paints, low flow water fixtures, etc.)
  - G. Preference will be given to preserve hardwood floors in contrast to installing carpet – less new materials needed and limits the use of a petroleum based product like carpet and carpet pad. This will also prevent and/or limit potential indoor air quality issues.
  - H. Carpet will not be installed in basements. This is to prevent mold issues and improve indoor air quality.
  - I. Adequate ventilation fans will be installed to help improve indoor air quality and health of building occupants.
  - J. Urban Homeworks and City of Lakes Community Land Trust will make every effort possible in an existing structure to preserve the health of the building occupants.

## **Buyer**

1. Outreach and Minimum Criteria. Potential Project: Reclaim candidates will be identified through the existing database of CLCLT interested buyers, Home Ownership Center Homestretch Counselors, realtor and lender partners. Interested buyers must meet the following criteria:

- A. Plan on purchasing a home in Minneapolis.
- B. Demonstrated stable sources of income that are sufficient to service a 30 year fixed-rate mortgage at 6.5% on the projected balance of the Contract for Deed, plus applicable anticipated insurance, tax and CLCLT Ground Lease fees.
- C. Must have good credit (ability to be much improved within 3-4 years) and reasonable debt levels.
- D. Should have household income of at least \$25,000 (most CLCLT buyers have annual incomes between \$25,000 and \$35,000) and not exceed the following income limits as established by household size:
  - a. 1 person: \$43,050
  - b. 2 person: \$49,200
  - c. 3 person: \$55,350
  - d. 4 person: \$61,500
  - e. 5 person: \$66,400
  - f. 6 person: \$71,350
  - g. 7 person: \$76,250
  - h. 8 person: \$81,200

2. Application Process. Potential Project: Reclaim candidates will fill out a Project: Reclaim application and submit to both the CLCLT and Urban Homeworks. Urban Homeworks will pull a credit report, check for unlawful detainer, and call references. The CLCLT will provide initial income verification. The Project: Reclaim applicant will be encouraged to take the next steps if they are able to satisfy the following:

- A. Have a credit score of less than 680, **OR**
- B. Demonstrate they've been denied a recent mortgage loan, **AND**
- C. Receive an acceptable unlawful detainer check response and positive reference check

3. Project: Reclaim Buyer Education. Potential Project Reclaim candidates must complete the following education steps:

- A. Complete Home Ownership Center Homestretch Course (typically an 8-9 hour course that costs \$35 to \$50). More information can be found at [www.hocmn.org](http://www.hocmn.org).
- B. Complete CLCLT 1 hour orientation (one hour free CLT orientation). More information can be found at [www.clclt.org](http://www.clclt.org).

4. Submit Application Materials. Potential Project: Reclaim candidates will need to submit the following items to the CLCLT:

- A. Homeownership Center Homestretch Certificate
- B. CLCLT Orientation Certificate
- C. Credit Report and Reference Check Approval letter from Urban Homeworks
- D. Copies of updated recent household paystubs and previous year tax returns

5. Financial Counseling and Credit Correction Plan. Once completed clients will be referred to Lutheran Social Services to set up 2 meetings to develop a credit correction plan. Project Reclaim applicants will need to submit copies of all documents previously submitted to Urban

Homeworks and the CLCLT to Lutheran Social Services. The first meeting will require a review of the current financial situation and the second meeting will be used to establish a credit correction plan. The Lutheran Social Services Financial Counselor and the Project: Reclaim applicant will establish a budget and credit enhancement plan that will target bringing the applicants credit score to above 680 within 48 months. The credit correction plan will clearly identify annual benchmarks that will be used as annual performance indicators. Credit Correction Plan will require that the Project: Reclaim buyer will be required to provide updates and status of progress toward Credit Correction Plan to both Urban Homeworks and the CLCLT.

Applicants will pledge to use the payment savings made available through the Project: Reclaim program to correct credit and ensure that there will be adequate income to service a 30-year, fixed-rate mortgage of at least \$130,000.

#### 5. Purchase Process.

- A. Urban Homeworks will create Contract for Deed document which will be tied to performance indicators listed in Credit Correction Plan (addendum to Contract for Deed).
    - a. Sales price is determined by the current (2007) comparative market analysis of each home, and will remain constant for the 1-4 years that the home is in "Contract for Deed" status. This will in effect use (hopefully) market appreciation to enhance the gap between future market value and CLCLT sales price when the closing actually happens.
    - b. UHW will charge 2% on the contract for deed and place those funds into an interest bearing account for two purposes:
      - i. for the homebuyer to access at the time of refinance for the purpose of home improvements/maintenance or for closing costs;
      2. for UHW to cancel the contract for non-performance, repair the home, and market it to another low income homebuyer through the CLCLT.
    - ii. UHW will charge a .5% service fee for the servicing and administration of the contract for deed.
  - c. CLCLT will collect a .5% fee at the time of Contract for Deed closing (covering cost of attorney and CLCLT time into transaction).
  - d. The first two Lutheran Social Services Credit Correction Plan sessions will be paid for through the Contract for Deed closing by the Project: Reclaim buyer.
  - e. If, in the event, the buyer doesn't move toward closing following the Lutheran Social Services session(s), Urban Homeworks will pay for the Lutheran Social Services fees.
  - f. If, in the event, the buyer doesn't move toward closing following the attorney review (see B below), the CLCLT will pay for the attorney fees.
- B. Project: Reclaim buyers will need to meet with an attorney to review the contract for deed, CLCLT Ground Lease and other related contract documents. The CLCLT will pay for up to \$300 of this attorney cost.
- C. Homeowner will need to secure a homeowners insurance policy in compliance with the terms of the Contract for Deed.
- D. Close on the home
- E. Contract, Credit Correction Plan and Ground Lease will be recorded.
- F. Buyer/Owner Move-in.

## **Post-Purchase**

1. Homeowner makes payments per Contract for Deed to Urban Homeworks (or contracted Contract for Deed servicer)
2. Homeowner makes payments per Credit Correction plan
3. Homeowner makes CLCLT Ground Lease payments (\$15/month)
4. Homeowner meets with Lutheran Social Services as prescribed in Credit Correction Plan
5. Once Credit Correction Plan is completed, homeowner will apply for 30-year, fixed-rate mortgage with CLCLT compatible lender. Lutheran Social Services fees will be paid for by Urban Homeworks from the Homeowners Project: Reclaim savings account.
6. Homeowner will refinance the Contract for Deed with a conventional 30-year, fixed-rate mortgage using the Project: Reclaim savings account and available equity (subject to CLCLT refinance policy)
7. 1% of the refinance amount will be paid to the CLCLT as a facilitation fee at time of refinance.

If, in the event, the homeowner is unable to comply with the terms of the Contract for Deed (and Credit Correction Plan addendum) requirements, the Contract will be terminated, rights to the Project: Reclaim savings account will be lost, and the homeowner will need to vacate the premises to be made available for another Project: Reclaim applicant.

## **Summary**

Project: Reclaim will provide a creative and affordable way for low income residents to move from rental to homeownership. This project is an innovative idea addressing the obvious foreclosure problem in our community. It can serve as a pilot project for other lenders trying to respond to the same issue. Urban Homeworks is an experienced practitioner of this kind of development. Through the partnership of the lender in control of the property, City of Lakes Community Land Trust, volunteers and other private supporting organizations we can take these properties out of the investment market and put them into or back into the possession of homeowners.

There is no model available like this in the current market. Improving physical property and opportunity for low to moderate income individuals and families to move from rental to homeownership is not a high priority for most of the private investors taking advantage of the decreased market value of neighborhoods as in north Minneapolis. It is a model that could be replicated on a larger scale with lenders holding large portfolios of foreclosed property.