

Ohio Plan for Application of JPMorgan Chase & Co. Settlement Funds

*January 16, 2014
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1. Background

In order to resolve claims brought by the US Department of Justice, JPMorgan Chase and affiliated companies (hereinafter “Chase”) have agreed to provide Four Billion Dollars of consumer relief to remediate harms allegedly resulting from unlawful conduct by Chase. Eligible “consumer relief” categories are defined in Annex 2 of the settlement agreement between Chase and the US Department of Justice. A minimum of Two Billion Dollars must be spent on mortgage modification, which could include credit for forgiving past due payments, writing down first and second lien principal, and writing down interest added to the principal amount of a loan. The Two Billion Dollar Balance can be satisfied by credit or expenditures related to other Consumer Relief categories. An independent Settlement Monitor will determine whether Chase has satisfied this obligation.

2. Summary

A broad coalition of civic organizations and public officials have contributed to this Ohio Plan for applying **\$200 Million Dollars** of the two Billion Dollar Balance of Consumer Relief toward community redevelopment activities that will help stabilize and restore Ohio communities that have been hard hit by the foreclosure crisis. A list of organizations and agencies whose leaders and staff contributed ideas, comments and information for this Plan is attached as Exhibit A.

The Ohio Plan proposes that Chase settlement funds for Consumer Relief would be provided to an Ohio agency (or partnership of agencies) to be administered and distributed for the following four purposes. A detailed explanation of each proposed use of funds is provided in Section 4.

- **\$144M** Cash for **demolition** of dilapidated properties.
- Capitalization of a **\$16M** fund to **prevent foreclosure** and abandonment.
- Capitalization of a **\$35M** fund to **renovate blighted homes**.
- Capitalization of a **\$5M** fund to **re-purpose vacant land** resulting from demolition.

Investment of Chase settlement funds in Ohio is appropriate for two important reasons: one, because the need for these funds in Ohio is greater than in many other parts of the country, and two, due to the capacity and expertise already in place in Ohio the Chase settlement funds can be put to use quicker, and with greater assurance of high impact. We address each of these points immediately below.

3. Existing Capacity and Expertise – The Benefit of Investing in Ohio

Ohio boasts an unprecedented number of competent statewide agencies, counties, municipalities, land banks, housing counseling agencies, housing development and other community revitalization organizations. For each of the four uses proposed above, Ohio can demonstrate the organizational capacity, expertise and track record to insure that Chase settlement funds will be used effectively and within the December 31, 2017 timeframe imposed by the settlement agreement. Further, since this capacity is already in place, Ohio can immediately put settlement funds to use without the need for significant start up and capacity building. Here are some examples of this capacity.

Land Banking Infrastructure. Over the past several years Ohio has developed one of the largest networks of land banks in the US, expressly established for responding to the devastation resulting from the foreclosure crisis. A leading example is the Cuyahoga County Land Reutilization Corporation (CCLRC) which has worked with HUD, Fannie Mae and foreclosing lenders to acquire over 3,500 blighted low-value properties. In the span of a few years 740 vacant properties have been renovated and 2,400 dilapidated structures have been removed by demolition. CCLRC has also collaborated with the Chase Community Revitalization Program for donation of distressed real-estate-owned “REO” property. As one of the first Ohio land banks created to respond to the foreclosure crisis, CCLRC has been at the forefront of establishing best practices in areas of procurement, specification writing, code compliance, demolition standards, quality control and US and Ohio EPA asbestos compliance and remediation. Over the past two years the Ohio-based Thriving Communities Institute mounted a campaign to expand this capacity by helping cities and counties throughout the state set up similar land banks. With CCLRC serving as a successful model, 16 Ohio counties – including all counties with major urban centers – now have land banks. No other state in the country has mounted a similar campaign to build such capacity.

Foreclosure Prevention Infrastructure. Ohio has an equally robust infrastructure when it comes to foreclosure prevention counseling and intervention. Major cities in Ohio were hit earlier and harder than most cities in the US. For example, foreclosures nearly doubled in Cuyahoga County between 1995 and 2000¹. Other parts of the country were not hit by the crisis until in 2007; by then national news media was already referring to neighborhoods in Cleveland as “ground zero” for the foreclosure crisis². The upside of this early experience is that Ohio communities have had more time to build and refine the foreclosure counseling infrastructure.

Renovation of Dilapidated Housing. In addition to the aforementioned new land banks in Ohio undertaking housing renovation, Ohio has a network of over 200 municipalities and community development corporations (CDCs) that have been involved with building and renovating homes for more than two decades. In addition, many Ohio municipalities and counties have programs to partner with private rehabbers to renovate homes. Over the last 5 years, the Ohio

¹ Policy Matters, 2008. “Foreclosure filings in Ohio: 1995 – 2008”.

² New York Times News Service, April 15, 2007. “Ohio: ground zero for foreclosures”.

Development Services Agency (ODSA) through the CDBG and HOME programs has rehabilitated approximately 2100 units and provide emergency home repair to approximately 3700 units.

Repurposing Vacant Land. In 2008, while much of the country was just beginning to grapple with the problem of vacant homes emerging from foreclosure, one Ohio city was already pioneering solutions for the reuse of vacant land resulting from demolition. The “Reimagining Cleveland” program, a collaboration between Cleveland Neighborhood Progress, the City of Cleveland and Kent State University, now has 5 years of experience repurposing vacant lots for side yard expansion, community gardens, pocket parks, urban food production, orchards, vineyards, and improved storm-water runoff. The depth of this expertise is unmatched in any other state in the country and has served as the model for other Ohio cities to undertake similar programs.

Fund Administration. Several State of Ohio agencies have experience successfully administering large funds for purposes substantially similar to those outlined in this Plan. The Office of the Ohio Attorney General has for the past year been implementing the “Moving Ohio Forward” program, a \$75 Million Dollar fund for demolition of blighted properties. The Ohio Housing Finance Agency (OHFA) has just completed preparations for administering \$60 Million Dollars of Hardest Hit Funding for demolition of blighted properties. OHFA also has, for the past 6 years, administered \$13.4 Million Dollars to support foreclosure prevention counseling through NFMC, and \$17 Million Dollars to support housing counseling related to the Hardest Hit Fund program. The Ohio Development Services Agency (ODSA) has, for the past 5 years, allocated \$150 Million Dollars to programs for housing rehabilitation and home repair, and administered \$142 Million Dollars of HUD NSP1 and NSP2 funding to support housing renovation and demolition in Ohio communities. These agencies are well qualified to administer Chase Settlement funds in Ohio, without the need for any significant start-up.

4. Demonstration of Need

MSN Real Estate, citing data monitored by RealtyTrac, reported recently that in the month of November 2013 Ohio had the 6th highest rate of foreclosure in the nation: 1 in every 757 housing units in Ohio received a foreclosure notice in November³. However, what truly distinguishes Ohio from other states is the duration of time Ohio has endured this foreclosure crisis. Ohio began to experience high foreclosure rates due to subprime and predatory lending more than 15 years ago. Foreclosures doubled in Ohio between 1995 (15,975) and 2000 (35,377) and eventually experienced a five-fold increase by 2009 (89,053). Although foreclosures have begun to slow in 2012 (70,469) they were still 4 times the rate they were in 1995⁴.

This long duration means that the consequences of foreclosure – abandonment, blight, plummeting homes values, lost property tax revenue, and the cost of blight elimination – have been accumulating in Ohio longer than in most states. In 2011 Thriving Communities Institute

³ “Ten States Hard Hit By Foreclosures”, <http://realestate.msn.com/10-states-hit-hard-by-foreclosures#5>.

⁴ “Home Insecurity 2013”, Policy Matters, May 9, 2013; “Home Insecurity 2002”, Policy Matters, October 2002.

conducted a survey of cities to determine the demolition need in Ohio. A very conservative estimate, given the survey relied on voluntary participation and is now more than two years old, was that Ohio had 50,000 vacant homes that required demolition. This estimate comes into more clear focus in Cleveland where, due to the nationally recognized NEO CANDO property data system housed at Case Western Reserve University (CWRU) and an annual house by house survey conducted by the City of Cleveland, a very accurate picture of distressed property emerges. In Cleveland there are just under 16,000 vacant homes; 8,300 of them are distressed to the point of requiring demolition. The current demolition cost for the City of Cleveland alone, at \$15,000 per house (including demolition, asbestos remediation and administrative costs), will be \$124 Million Dollars. The conservative estimate for the state of Ohio would be \$750 Million Dollars. This is the current projected cost; with continued high rates of foreclosure this cost will likely increase **but the amount of increase could vary in proportion to the amount invested in counseling to prevent new foreclosure.**

In 2006 the growing weight of accumulating blight began to drag down home sale prices in Ohio. In the hardest hit urban cities, like Cleveland, Dayton, Toledo, and Lorain home sale prices are down 30-40% since 2006. Columbus, Cincinnati and Akron fair only slightly better, with prices down 20%⁵. Regardless of their respective market strength, each Ohio city will have neighborhoods where the volume of blight is greatest; in these communities home sale price drops are even greater.

The viability of renovating a vacant blighted home is heavily impacted by the strength of the nearby housing market. If home values have declined in the neighborhood the renovation costs may exceed current sale prices by tens of thousands of dollars. And, the neighborhood housing market is, in turn, directly impacted by the number of blighted homes in the area. A Catch-22 dilemma is created: blighted homes can't be renovated until the market improves, but the market can't improve until blighted homes are removed. In weaker markets, the sheer math of this dilemma is what precipitates the need for demolition.

5. Components of the Ohio Plan

a. Demolition.

As noted earlier Ohio cities are faced with a glut of vacant and abandoned structures, with vastly insufficient resources to deal with them. Based on estimates from large and small cities and suburbs around the state, Thriving Communities Institute estimates there are over 50,000 blighted structures that will require demolition. The demolition cost for single-family and two-family structures in Ohio (all-in costs including demolition, asbestos remediation and administration) averages \$15,000 per demolition, with mixed-use and commercial structures being even higher. At minimum, Ohio municipalities are looking at a cost of at least \$750,000,000 to remove this market-crippling blight. This represents a serious health and

⁵ Zillow Real Estate Market Reports, <http://www.zillow.com/local-info/>.

safety threat to residents of Ohio cities, yet these cities have nowhere near the resources needed to address this problem. Cleveland, for example, currently has less than \$500,000 available for demolition. Cleveland has essentially halted all demolition, holding its remaining funds in reserve for fires, collapses, and other emergencies. Without significant additional funds, Ohio cities will not be able to remove the thousands of structures that are fire hazards and havens for criminal activity. To address this issue, **the Ohio Plan requests an investment of \$144,000,000 from the Chase settlement to capitalize a fund for demolition.**

The fund would be administered by one or more Ohio government agencies and would provide for the demolition of 9,600 blighted structures at a cost of \$15,000 per demolition. Funds would be dispersed to counties, municipalities and land banks based on guidelines for eligibility to be developed.

b. Foreclosure Prevention.

As with many places around the country foreclosures in Ohio have slowed but, as noted above, they are still four times the level they were before the crisis began. The burden that has been placed on homeowners and their communities throughout the foreclosure crisis has been enormous. Foreclosure prevention counselors report that homeowners are often forced to make inflated mortgage payments (inflated by fees, legal fees, late fees, etc.) which presents homeowners with the dilemma of choosing to let utility and property tax payments slip behind in order to meet the mortgage payment.

Each foreclosure that results in a vacant home has a ripple effect on neighboring home values and home equity, loss of property tax collection for schools, police, fire and social services, and decreased health and safety. The best way to deal with the market-crippling blight from property abandonment is to intervene and prevent the abandonment in the first place. It is far less expensive than demolition of a property and saves communities all of the derivative educational, health and safety burdens referenced above. As noted earlier, Ohio began building its foreclosure prevention infrastructure well before many other parts of the country, and the expertise and track record that has been established is a valuable asset that will prevent further abandonment and market destabilization in Ohio.

However, this asset is at risk of being lost as funding to support foreclosure counseling has been decreasing. It is widely expected that the National Foreclosure Mitigation Counseling (NFMC) program may be sun-setting soon, and what funding remains will, in any event, only provide for 30% to 40% of the cost of counseling interventions. The Ohio Plan will provide a fund to enable foreclosure prevention counseling to continue through the term of the settlement.

The Ohio Plan also calls for funding to support pre-purchase counseling. Ohio communities that have been devastated by lending and foreclosure practices will need reinvestment by homebuyers who are well informed about making sound housing decisions.

The Ohio Plan would provide funds for pre-purchase counseling to increase the probability of successful homeownership.

To address these needs, **the Ohio Plan requests an investment of \$16 Million Dollars from the Chase settlement to capitalize a fund for housing counseling.**

The fund would be administered by the Ohio Housing Finance Agency (OHFA) which will set over-all guidelines and make funds available competitively to Ohio counties based on production and outcome targets. Counseling agencies would request funds from, and report progress to, specific counties. Counties would report progress on outcomes to OHFA.

c. Housing Renovation.

As explained earlier the combination of blighted homes and depressed home sale prices means that demolition (at a subsidy of \$15,000) is, unfortunately, a more cost effective means of strengthening markets than renovation at \$50,000 to \$90,000 subsidy per house. Still, the demolition-renovation ratio will vary city by city depending on market strength, and within each city can vary neighborhood by neighborhood. A study recently published by Harvard University compared demolition and renovation costs in 6 sample neighborhoods in Cleveland and found that, with the exception of one strong market neighborhood, only the most minimal renovation would be cost effective in comparison to demolition⁶. On the other hand, a city like Cincinnati, with a significant number of historic structures and a stronger housing market, will focus more on preservation as a market stabilization strategy. In addition, some Ohio cities have utilized home repair programs to prevent abandonment by assisting senior citizens and other low income homeowners with critical repairs. To accommodate these differences the Ohio Plan will allow local communities to tailor housing renovation programs to their local need. The Ohio Plan assumes an average renovation cost of \$25,000 per home, only slightly higher than the projected cost of demolition, with local communities having the flexibility to raise or lower that average based on local markets and local needs. Demolition may still be required for the majority of houses in the weaker markets, but subsidy for renovation is warranted, particularly in less devastated housing markets and in weaker markets with careful selection of target properties.

To address these needs, **the Ohio Plan requests an investment of \$35 Million Dollars from the Chase settlement to capitalize a fund for renovation of distressed homes.**

The fund would be administered by one or more Ohio government agencies and would provide for the renovation of 1,400 distressed structures at an average subsidy of \$25,000 per

⁶ "The Role of Investors in Acquiring Foreclosed Properties in the One-to-Three Family REO Market: The Case of Cleveland", (Part III), 2013. <http://www.jchs.harvard.edu/research/publications>.

renovation. Funds would be dispersed to counties, municipalities and land banks based on guidelines for eligibility to be developed.

d. Repurposing Vacant Lots.

While demolition provides the most immediate stabilization when a public nuisance is removed, vacant land reutilization programs bring new life to the vacant land that remains. As noted earlier, since 2008 Ohio communities have risen to become nationally recognized leaders in vacant land reuse. The Reimagining Cleveland Program, a collaboration between Cleveland Neighborhood Progress, the City of Cleveland and Kent State University, was the earliest example and provided a model for other communities. Programs like Re-Imagining buoy adjacent property values by transforming vacant lots—symbols of community disinvestment—into community assets such as community gardens, pocket parks, and expanded side yards for neighboring homeowners.

The Trumbull County Land Bank’s Side Lot Program is another example of a successful program that returns abandoned property to productive use. Side yards instantly restore the urban street edge, and because they are adopted by a homeowner, tend to be well maintained over time. They permanently reduce the maintenance burden on municipalities and land banks, help stabilize and increase property values, and thereby increase property tax revenue. Side yard and other vacant lot improvement programs are most cost effective when done directly following demolition.

To expand and continue the success of these programs, **the Ohio Plan requests an investment of \$5 Million Dollars from the Chase settlement to capitalize a fund for the repurposing of vacant land resulting from demolition.**

The fund would be administered by one or more Ohio governmental agencies and would provide for the repurposing of 1,000 vacant lots at a subsidy of up to \$5,000 per lot improvement. Funds would be dispersed to counties, municipalities and land banks based on guidelines for eligibility to be developed.

For further information please contact:

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Exhibit A

List of Organizations and Agencies
Solicited for Ideas and Information for the Development of the Ohio Plan

Thriving Communities Institute
US Attorney, Northern District
Ohio Development Services Agency
Ohio Housing Finance Agency
Ohio CDC Association
Cleveland Housing Network
Port of Greater Cincinnati Development Authority
City of Cleveland
City of Dayton
Neighborhood Housing Services of Cleveland
Office of US Representative Marcy Kaptur
Office of US Senator Sherrod Brown
Office of US Representative Marcia Fudge
Office of US Senator Rob Portman
Coalition on Housing and Homelessness in Ohio (COHHIO)
Cuyahoga County Land Reutilization Corporation
Montgomery County Land Reutilization Corporation
Montgomery County Treasurer
Lucas County Land Bank
Empowering and Strengthening Ohio's People
WSOS Community Action Commission
Cleveland Neighborhood Progress
Mahoning County Land Bank
Summit County Department of Community and Economic Development
Cuyahoga County Department of Development
City of Lorain
City of Shaker Heights
City of South Euclid
Lake County Land Bank
Stark County Treasurer
Ashtabula County Treasurer
Lucas County Economic Development Corporation
Trumbull Neighborhood Partnership
Lorain County Port Authority
Erie County Land Reutilization Corporation
Portage County Treasurer
Central Ohio Community Improvement Corporation