

Ohio Foreclosure Reform

House Bill 390 (formerly HB463)

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Background – Historical Context

The banking industry has mounted two national legislative campaigns in recent years:

- Encourage states to enact **Vacant Property Registration** laws
- Encourage states to enact **Fast Track Foreclosure** laws

Vacant Property Registration

The public campaign:

- “We support vacant property registration”
- “But we need an efficient state-wide framework”

The wolf in sheep’s clothing:

- A state-wide framework that “pre-empts” local city initiatives
- And limits the fines and penalties banks can be charged

Fast Track Foreclosure

The public campaign:

- “We’re joining the fight against blight.”
- “Faster disposition of vacant property ensures a beneficial outcome for cities and neighborhoods.”

The wolf in sheep’s clothing:

- Distressed properties off-loaded to investors for as little as \$1.
- Banks avoid liability for these properties.
- Other bank-friendly provisions that have nothing to do with protecting communities.

Pre-Emption of Local Initiatives

- The proposed bill included language that could have been used to strike down (pre-empt) municipal vacant property ordinances
- The amended bill explicitly states it will not preempt local vacant property ordinances

New Sheriff Website

- Positive Step: Will require bidders to register and provide more information than currently required, including credit card information.
- But a late amendment weakened the credit card requirement to “if applicable”.

New Sheriff Website – Missed Opportunity

- Although the new website is robust, there is no provision for tagging properties with code violations or condemnation data from municipalities.
- Cities should be able to put buyers on notice that the property they're bidding on is condemned or slated for demolition.

Property Taxes Will Not Be Paid In Full at Auction

- The bill removes the requirement that property taxes be paid in full at the time of Sheriff Deed transfer.
- Instead paid only “to the extent of the sale proceeds” and “on the date of sale”.
- County Treasurers will lose significant leverage over buyers, some of whom will become tax delinquent immediately.

Removing the 2/3 Minimum Bid

Allows 2nd Auction for as little as \$1.00

- Will likely involve the most distressed properties – those that don't sell at first auction for 2/3 appraisal.
- Concerns:
 - Will attract irresponsible “bottom-feeders”
 - Skip the first sale, wait for second.
 - Will leave foreclosed homeowner with a higher deficiency judgment.
 - Will reduce the proceeds County's can collect for taxes and assessments.

What Happens When Distressed Properties Are Sold At Bargain-Baseament Prices?

- 1,539 properties were sold at state tax forfeiture auction in Cleveland 2010 – 2014
- Most were purchased by investors for \$100-300-500
- Beneficial outcome or failure?
- 1,065 (69%) have met 1 of the following outcomes:
 - Condemned house
 - Vacant house rated “D” or “F” in the 2015 TCI survey
 - Demolished (now a vacant lot)
 - Certified tax delinquency of at least \$1,000
- 999 (94%) of the “failed” properties are in African American neighborhoods on the East Side of Cleveland

Missed Opportunity:

No Linkage with Ohio Land Banks

- There are now 40 county land banks in Ohio.
- When there are no bids at a first auction, distressed properties should be offered as a donation to a land bank, rather than sold to an investor for as little as \$1.
- A 2013 Harvard University study found that foreclosed properties acquired by land banks were nearly four times more likely to have a beneficial outcome than those acquired by private investors.