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USA

Detroit Foreclosed

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Mary Jones-Sanders bought her home on Detroit's east side back in 1975. That's where the African-American woman raised her children, grandchildren and great-grandchildren.

More than 35 years later, in her late seventies and living on a fixed income, she had trouble paying her property taxes, but managed to do so before the deadline. However, her home was foreclosed and sold in the county auction that fall because she failed to pay a $600 fee she didn't realize she had.

A California investor snatched it up for $2300. It was only when her granddaughter saw a notice that she found out she no longer owned her home. Not knowing what to do, the two came to a Detroit Eviction Defense meeting. We organized a delegation to go to the local management company and demand that the investor sell the home back for what he'd paid. Initially he refused, demanding six times his investment.

But when the media picked up the story, he agreed to do so if she could come up with the money within the week. Mrs. Jones-Sanders was able to borrow from a non-profit, United Community Housing Coalition, and DED held a fundraiser. With her family's help she proudly paid the loan back within six months.

Unfortunately, she is not the only Detroiter who lost her home for less than $1,000! Since the economic crisis hit Detroit in 2002, half a decade before the rest of the country, more than 200,000 residential properties have gone into foreclosure. The initial cause was the prevalence of adjustable rate mortgages. In Michigan 52% of all subprime loans were sold to African Americans, even higher-income African Americans.

As the interest rate went up and the value of the home plummeted, Black families were twice as likely to be "underwater" as white homeowners and less able to weather the crisis. Banks and mortgage companies such as Detroit-based Quicken Loans foreclosed on approximately 65,000 Detroit area homeowners.

As African Americans lost both their investment and their home, their assets were wiped out. Across the country, Black homeownership dropped more than 10%.

Between 2008 and 2010 Detroit's rate of vacancy doubled and abandoned homes, along with boarded up schools and businesses, deteriorated. As a Detroit Future City report remarks, "This large number of abandoned structures has become one of the defining features of the city."

Detroit used to be a city of working-class homeowners. Although African Americans, who now make up 80% of the population, didn't become homeowners in large numbers until the 1960s, owning a home was an aspiration.

Starting in the 1950s, the auto industry left for the suburbs and beyond, and thousands of white workers, able to obtain federally-financed mortgages, followed. The city bled from this flight to the more affluent, job-rich and de facto segregated suburbs.

Contours of City's Crisis

The city shrank but still had more than a million residents. So the results of the 2010 census shocked city officials, who learned that 25% of the city's residents had left over the decade â€" including a large portion of African-American families.

Some walked away from their "underwater" homes while others moved to the suburbs because of the turmoil in Detroit's public schools, then under state receivership.

One-third of the remaining households were living on $15,000 or less; 24% had little access to health care. Twenty-five percent were 55 or older; and in a city with limited public transportation, one quarter of the residents did not own a car.

Even today the majority of working Detroiters commute to jobs beyond the city limits. Of every 100 Detroit jobs, only 30 are held by residents.

The foreclosure crisis continued, this time through tax foreclosure. Twice as many homes have been lost from tax foreclosure as from mortgage foreclosure. While Detroit's property taxes account for only 2.5% of the city's budget, they are proportionally among the highest in the country.

Assessed taxes are based on homes' market value. As the value plunged, the handful of city tax assessors couldn't possibly carry out the mandated annual reassessment. So the tax assessment office continued to bill at the old rates.

Between 2009 and 2015 an estimated 75-85% of the assessments were too high. Yet if they were not paid within the year, an 18% fee was tacked on. And during the Emergency Manager's reign, unpaid water bills â€" again among the highest in the nation â€" were added.

After three years of non-payment on the full amount, residential property goes into foreclosure. It is turned over the Wayne County's treasurer's office to be sold at a state-mandated yearly auction. These unpaid taxes range from $160 to more than $100,000.

The auction occurs online in two phases â€" with the second pretty much of a giveaway, but where homeowners are excluded from the bidding. The idea behind the auction is to restore properties and strengthen the city's tax base. It has done neither.

While the state does provide indigent homeowners with a poverty exemption, in Detroit the exemption has not been widely publicized. Of approximately 35,000 homeowners who could qualify, less than 6000 did so in 2017. Most importantly, even when granted the exemption is only for the current year.

Of course some homeowners are able to enter into a payment plan or receive the poverty exemption while others manage to stave off eviction at the last minute. But over the last five years, an estimated 17,000 occupied homes were auctioned off. That's approximately 40,000 people displaced.

Foreclosures peaked in 2015 with the auction of 28,000 properties. By 2019 fewer than 3000 parcels were auctioned, including 521 occupied homes. In a supposedly "recovered" economy, that still means at least 1000 people may face eviction. How does that benefit Detroit or stabilize neighborhoods?

After thousands have lost their homes, Detroit's mayor and two Wayne County executives have come up with a plan that could keep people in their homes. But it would have to pass the state legislature and of course would not restore the homes of all those who have already suffered displacement.

Keeping Detroiters Poor

After undergoing massive foreclosures and evictions, in July 2013 Detroit was forced by Michigan Governor Rick Snyder into bankruptcy. Appointed by the governor, Emergency Manager Kevyn Orr cut budgets and “restructured” the city’s $20 billion debt. Over half of the cuts were benefits that retired city workers had earned. Their pensions were shaved by five percent, while a small monthly stipend replaced their health care coverage. Current city workers also took cuts in wages and benefits.

Detroit emerged from forced bankruptcy in 2015 only to downplay the statistics that reveal an impoverished population, a severely polluted city and aging infrastructure. More than one-third of the adults and half the children are poor, a majority living in areas defined as “concentrated poverty.”

High rates of asthma and lead pollution â€” from paint rather than water pipes as in Flint or Newark, NJ â€” attack children’s health. More than 70 hazardous waste sites are awaiting remediation. Foreclosures continue to dispossess the poorest Detroiters and destabilize neighborhoods.

In a city of 672,000 there are 238,400 jobs. Fewer than 50,000 are held by people who live and work in Detroit. For the 112,000 residents who work outside the city, 36% earn less than $15,000 a year. The lowest paid 10% commute the furthest.

Of the 158,000 who come into the city for work, 59% earn more than $40,000. Detroit’s official unemployment rate is typically twice that of the national average; today it stands at eight percent, but that vastly underestimates the reality.

There isn’t enough affordable housing for a city with a high poverty rate and a high proportion of seniors living on fixed incomes. Affordability is based on the idea that no one should pay more than 30% of the median income of the area for their housing. But what’s the “area”?

While the 2017 median income for a family in Metro Detroit was $58,411, in the city it was $32,924. Given that the Black and brown residents represent 88% of the city’s population, the difference might stand as a rough approximation of what racism costs.

This figure, however, does not reveal family assets, whether we are talking about education, savings or home ownership. For many, owning a home is a family’s greatest asset. But the catchup that African Americans were able to accomplish in the brief post-civil rights period unraveled in the economic crisis.

Auction a Tool of Renewal?

Ninety percent of all those purchasing homes at the auction are speculative investors buying in bulk. Since the majority of the city’s housing stock (73%) is the single-family home â€” mostly built between 1930 and 1950 â€” from a developer’s point of view rehabbing a home isn’t economically viable.

As a result, investors park the property for a more opportune moment or rent the house without making improvements. They favor “rent-to-own” contracts that saddle the prospective homeowner with the responsibility not for only the rent, but for its property taxes and repairs.

When even one payment is missed, the landlord has the right to break the contact and quickly evict the tenant â€” and start over again with another family. Such contracts do not have to be registered.

Detroit housing is in such turmoil that there have been cases where the landlord (or someone posing as the landlord), collects the rent, pockets the money and doesn’t pay the taxes. Eventually the home goes into foreclosure and auction. Meanwhile the family continues to pay rent â€” until they are informed they are being evicted.

A 2018 Detroit Free Press survey of two dozen homes found that over a seven-year period although three fourths were occupied when auctioned, 78% became vacant. A 2015 survey carried out by Loveland Technologies, a mapping service, discovered that almost one out six homes purchased in the 2014 auction were already vacant, with 180 candidates for demolition. That is, the city program helps to perpetuate vacancy and blight.

As Joshua Akers, assistance professor of Geography and Urban and Regional Studies at the University of Michigan-Dearborn remarked, “The Wayne County Tax ForeÂ¬closure Auction is one of the greatest destabilizing forces in Detroit.”

Those homes that go unsold in the auction are then turned over to the Detroit Land Bank Authority, now the city’s largest landholder. It owns 95,000 properties, including vacant and occupied homes, shuttered businesses and vacant lots. It has had the double task of selling properties that could be restored as well as organizing the demolition of those that can’t.

Set up in 2011, the Detroit Land Bank has established a number of programs through which it sells homes to investors, nonprofits and individuals. Given that these homes have a low market value and need major repairs, people who want to purchase a home can’t secure a mortgage. Just three of the 635 homes the land bank sold between November 2018 and February 2019 were able to obtain such a loan.

As Detroit Free Press reporter John Gallagher noted, “The mortgage market doesn’t exist or barely exists in more than half of the city.” The reasons why this is so range from a depressed market to insufficient income or a poor credit rating.

With so many properties, the land bank has tried to set up partnerships with non-profits, banks and Dan Gilbert’s Quicken Loans. The authority has sold homes to investors with the provision that they will rehab the home and if there is an occupant, allow them to rent or buy. Investors promise to abide by the rules, but then proceed to do what they want.

Why Millions for Demolition?

A second task that the land bank has been saddled with, but that will expire at the end of this year, is administering the city’s demolitions.

Mayor Mike Duggan’s administration had successfully petitioned the Obama administration to divert $250 million from its Hardest Hit Funds to tearing down blighted structures rather than aid impoverished homeowners facing foreclosure. Since 2014 19,000 structures have been torn down.

Not only did the blight removal program take money that should have been used to help homeowners, but the land bank lacked the oversight necessary, given the issues of asbestos and lead, to make sure the work was carried out and stored safely. Additionally, with the electoral defeat of a community development resolution in favor of a weaker one, it’s hardly surprising that a Detroit Free Press study found only 26% of the contracts were awarded to minority-owned companies.

In at least one case, a home that was not blighted was torn down, yet land bank attorneys continue to fight the family’s legal case with the city’s tax dollars.

For years mayors have focused on demolition rather than thinking about how to keep people in their homes. Given the small percentage that residential property taxes contribute to the city’s budget, and after spending $250 million of the Hardest Hit Fund demolishing structures, why should Mayor Duggan be proposing a 2020 budget with $50 million earmarked for demolitions? He is also contemplating a referendum for a $250 million bond so that he can completely wipe out all blighted properties â€” an additional 20,000 â€” by 2025. But until October 2019, when asked if he would campaign before the state legislature to make poverty exemptions retroactive, he replied that’s not fair to those who have paid their taxes.

Assuming the city is able to demolish a total of 40,000 structures, it still won’t have addressed the underlying problem. The 2014 Motor City Mapping survey found 40,000 blighted structures and almost that many more with a high risk of becoming blighted.

Without financial aid in the form of poverty exemptions, stopping the auctions of residential property and grants to maintain and repair homes, the mayor’s promise hasn’t a chance of becoming a reality.

The “Action before Auction” Program

Wayne County, which includes Detroit and the near suburbs, established its land bank in 2006 but turned over most of its Detroit properties when the city created its own five years later. Wayne County administers around 1000 properties but its larger responsibility is the annual auction for both city and county.

Three years ago the county launched an “Action before Auction” program to sell properties to cities and a small set of selected investors before the auction. They said this would cut down on speculation.

For its first year of operation, it handpicked nine developers and pulled 141 properties, 64 of which were occupied, out of the 2017 auction. This meant that there was less time for occupants to redeem their homes. And of course these properties, chosen by investors, were the choicest homes.

Developers bought the lot for a total of $1.5 million. They were to offer the previous owner or renter the right to continue renting and the opportunity to buy the rehabbed home.

The developer was to invest at least $25,000 but allowed to sell for $5,000 above cost. The first 44 homes the investors sold brought them $4.5 million.

In the second year the county instituted an application process for developers. But they allowed even those who were delinquent on the taxes of property purchased the previous year. Two hundred and forty properties were pulled from the auction.

Several occupants were told they were “ineligible” for the program. They questioned the land bank’s decision and three have successfully fought to keep their homes.

Given all the criticism and publicity, the Wayne County Land Bank was forced to discontinue Action Before Auction. Yet for some the struggle is not over.

Back in 2013 a Canadian real estate investor bought 10 homes in Detroit. Mecelle Burrell, an African-American mother in her thirties, rented one. Two years later she signed a rent-to-own contract for $31,500 and has receipts for her monthly payments. Burrell’s copy of the contract is unsigned. It does state she is responsible for the taxes or that they will be paid by the seller and charged to her. However she never received any bill.

Meanwhile the Canadian developer claims he never received any money and assumed the manager died. Efforts to locate that person have failed.

The home went into tax foreclosure for $2,513; Realty Transition purchased it as part of a bundle of 63 properties under the 2018 Action Before Auction program. No one approached Burrell to ascertain her eligibility; Realty Transition posted an eviction notice on her front door in May 2019.

Burrell is currently suing both the land bank and Realty Transition in an attempt to force them to comply with the terms of their own program and give her a chance to keep her home. They are claiming she is not a party to the program and therefore has no standing.

Although Action before Auction is discontinued, the fate of the 381 properties may remain unsettled for some time to come. The program did not stop speculators or keep people in their homes.

What Could be Done?

Detroit spends money on developers â€” not just on those who buy houses. Dan Gilbert, a developer who also owns Quicken Loans, received $618 million in tax incentives to renovate four of more than 100 downtown buildings he owns. The city provided parcels of land and $398 million to the Illitch organization for the construction of the Little Caesars Arena, where the Red Wings play. They gave a $240 million tax subsidy to Ford to restore the train station and use as a center for developing autonomous vehicles.

Yet there is no dedicated money to keep people in their homes. Simply getting the state legislature to provide retroactive property tax exemptions to poor homeowners, and ending the mandated auction on residential properties, would begin to stabilize neighborhoods.

Given the history of Detroit, it would seem important to provide no-interest loans to homeowners so they could fix up their homes. But what about the thousands who have been displaced. Where is the program to help them?

Why not rehabilitate some of the beautiful homes and apartment houses throughout the city and turn them over to

African-American families under a reparations program. This, rather than throwing money at developers, would genuinely “transform Detroit.”

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