

Banks Make Bad Neighbors

How We Can Fix LA's Foreclosure
Registry Program to Make Banks Pay
for the Millions of Dollars in Harm They
Cause Our Communities

June 4, 2012



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Note on the Realty Trac data used in this report: As of January 24, 2012, the real estate data service Realty Trac (www.realtytrac.com) listed 21,495 residential properties as foreclosed or facing foreclosure in the City of Los Angeles. Just over 40% of these properties had already been foreclosed.

Based on our experience using Realty Trac data, we believe the actual number of foreclosures and potential foreclosures in the City of Los Angeles is higher than these figures indicate.

Bank Neglect Ravages Los Angeles Neighborhoods

When the City Council adopted a Foreclosure Registry Ordinance in July 2010, the LA Times reported that it “will help building inspectors identify the banks that owned abandoned homes and – with the threat of stiffer fines – encourage them to keep them clean and safe.” The ordinance imposed fines of \$1000 per day on banks that fail to clean up blighted properties. Sponsor Eric Garcetti stressed that “the need is urgent” for blight enforcement. “The banks are responsible for taking over the properties,” added co-sponsor Bernard Parks. “They need to be responsible for taking care of the properties.”ⁱ

Nearly two years later, as LA Times columnist Hector Tobar reported on May 29, “foreclosures and resulting blight [still] infest once-safe neighborhoods.” Tobar found bank-owned homes “foreclosed and then trashed by humans and neglect. [...] This is what happens too often when a foreclosed home passes to the ownership of huge distant banks.”

In May, Good Jobs LA, ACCE and SEIU Local 721 sent teams of local community activists into the streets of LA to map the extent of the bank-induced blight epidemic. In three weeks, they assessed 4024 properties which, as of the end of January, were at some stage in the foreclosure process, i.e. Notice of Default, Notice of Trustee Sale or Bank-Owned.

They found neighborhood destroying blight everywhere they looked. At 906 properties, or 22.5% of houses visited, teams found some signs of blight, including debris strewn lawns, unsecured entrances, evidence of drug consumption and distribution or other signs of crime. A total of 271 properties were seriously blighted. Only 17% of the blighted properties are registered with the City of Los Angeles under the Foreclosure Registry Program.

Of the blighted properties, at least 457 are listed by the private data service RealtyTrac as bank-owned. The others are in the process of being foreclosed. All 457 blight properties have been bank-owned for at least 130 days, as of this writing on June 4, 2012. This means that if properties were inspected by the City of LA at the time that the bank took possession, each of these properties might have incurred fines of up to \$100,000, for a total maximum fine of \$45.7 million. All major mortgage lenders were implicated in this. Ten financial institutions own or are in the process of foreclosing on two-thirds of the blighted properties we visited. They are listed in the chart above.

Financial Institution	Seriously Blighted	Somewhat Blighted	Blight Total
Fannie Mae	40	75	115
Bank of America	25	77	102
BNY Mellon	15	48	63
Wells Fargo	14	30	44
US Bank	20	24	44
Deutsche Bank	15	23	38
Freddie Mac	11	25	36
Chase	12	23	35
GMAC	4	15	19
HSBC Bank	7	9	16
Total			604

How We Can Fix LA’s Foreclosure Registry Program to Make Banks Pay for the Harm They Cause Our Communities

In May 2010, the City of Los Angeles passed a Foreclosure Registry Ordinance designed to “protect [Los Angeles] neighborhoods from becoming blighted.”ⁱⁱ The ordinance requires banks to register properties that they have foreclosed or as soon as they begin the foreclosure process by issuing a Notice of Default (NOD). It imposes tough fines of up to \$1000 per day on banks that fail to maintain those properties.

Two years later, bank-induced blight continues to ravage our neighborhoods, yet not even one bank has paid any fines for violating the ordinance. Because of a major loophole which lets banks register for free with a banking industry-created private service known as the Mortgage Electronic Registration System (MERS), only about 21% of foreclosed and foreclosing properties in Los Angeles have even been registered. MERS does not provide the city lists of the properties registered with it, depriving officials of the information needed to police bank-induced blight.

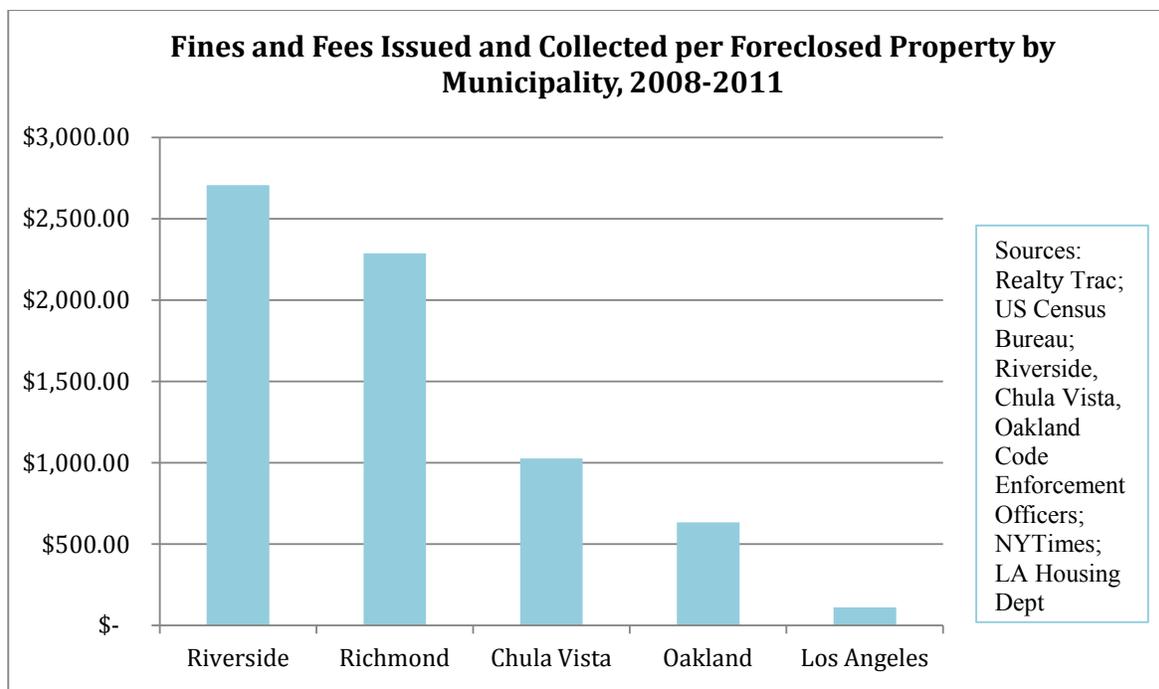
Examples from other cities demonstrate that closing this and other loopholes could produce much better results than we have seen in Los Angeles.

Municipality	Population	Fees/Fines Issued and Collected	Fines Issued and Fees Collected per Foreclosed Unit
Richmond	103,000	Issued \$1.8 million in fines and collected \$550,000 in revenues from 2008 to 2011.	\$ 2,287.17
Chula Vista	224,000	In its first year issued \$1.4 million in fines and collected \$112,000 in registration fees	\$ 1,027.17
Riverside	298,000	Issued \$7 million in fines during FY09-10 and collected \$3 million in fees and fines.	\$ 2,706.88
Oakland	409,000	Collected \$1.6 million in fines and fees	\$ 632.91
Los Angeles	3,800,000	Collected \$2.1 million in fees, to date; \$0 in fines	\$ 111.39

Sources: Realty Trac, May 10, 2012; US Census Bureau; Riverside, Chula Vista, Oakland Code Enforcement Officers; NYTimes; LA Housing Department, January 2012 Registry report.

According to data recently collected from Realty Trac and conversations with a number of local code enforcement officials, a number of other municipalities have issued and collected millions of dollars in fines and fees since instituting local foreclosure registry programs. For instance, Riverside issued \$7 million in fines and collected \$3 million in fees in its first year alone. This amounts to more than \$2,700 in fines for every property currently in foreclosure the city. Similar efforts to collect fees and fines in Los Angeles have only amounted to \$2 million in fees, or only \$111 for every property in foreclosure. The City of Richmond, population 103,000, has

issued \$1.8 million in fines, or nearly \$2,300 for each foreclosed property. LA has never fined a bank. Looking at fines and fees combined, Richmond – with less than 3% of our city’s population – has collected almost as much money from foreclosing banks as LA.



As of May 10, 2012, 18,852 properties in Los Angeles were at some stage in the foreclosure process. Compare this with 2,586 foreclosure properties in the small city of Riverside.

Los Angeles has imposed \$0 in fines and \$2.1 million in fees over the last two years. Riverside, with one-twelfth of our city’s population and one-seventh the number of foreclosure properties, imposed \$7 million in fines in the first year of its ordinance. All other things being equal, if Los Angeles was as effective as Riverside in policing and fining violators, we would expect LA to have issued \$49 million in fines in its first year alone.

Riverside’s appropriately aggressive enforcement provides the money needed to preserve and improve neighborhoods. Riverside created six new jobs to enforce its ordinance and reported that even with that expense - first year revenues exceeded first year expenses by \$500,000. In order for the L.A. ordinance to be as effective as Riverside’s we would need to employ 34 inspectors to enforce the ordinance.

Riverside is just one of a number of cities that have had more success in collecting fees and fines from banks and other trustees of vacant and foreclosed properties.

The lessons learned from other California cities provide models Los Angeles could use to improve enforcement under the existing ordinance, and adopt amendments which would make the ordinance an even more effective tool for fighting blight.

What We Can Do to Expand Enforcement Revenues Under the Existing Foreclosure Registry Program

- ✓ **Dedicate code inspection staff to do vacant property inspections.**
 - Los Angeles currently has almost 19,000 properties in some stage of the foreclosure process and no inspectors dedicated to blight enforcement.
 - Riverside, with about 2600 foreclosure properties had a team of 7 inspectors who issued \$7 million in fines in the first year of their program. If enforcement in Los Angeles was as successful as in Riverside, LA could expect to collect upwards of \$49 million in fines in the first year.
 - Oakland and Long Beach staff salaries are fully covered by annual property registration fees.
- ✓ **Improve communication between code enforcement officers and senior bank officials through an official bank liaison responsible to resolve violations and fines.**
 - The cities of Indio, Oakland and Long Beach have direct contacts to officials in major bank institutions that they can call upon when there are property issues that need to be addressed.
 - These connections with bank officials allow inspectors to report multiple property issues at once, leading to faster resolution of problems and payment of fines due.
- ✓ **Implement a proactive inspection program by focusing on all properties owned by a particular bank trustee at the same time.**
 - An Oakland pilot program inspected all properties owned by Wells Fargo, allowing the inspections department to issue citations collectively to the bank.
- ✓ **Focus inspections on properties that do not submit required monthly inspection reports.**
- ✓ **Work with the LA County Assessor's office to improve the timeliness of reports to LA and other municipalities when banks begin the foreclosure process by issuing an NOD.**
- ✓ **The LADBS should submit and present a monthly status report to City Council on current outcomes of the Foreclosure Registry program.**
 - This monthly report should include total inspections performed, citations issued, and revenues and penalties issued and collected. This report would be a recurring agenda item in the first week of every month of City Council.

Important Changes Needed to LA's Foreclosure Registry Program

- ✓ **Remove the MERS exception in registration, and require all properties served with a Notice of Default to be registered with the LAHD.**
 - Banks which don't use the MERS loophole are required to register with the city when they issue NODs. If all NODs issued in the City of LA last year had been registered (approximately 24,229 in 2011) the City would have raised **\$2.9 million more** in revenues in registration fees alone.

- ✓ **Increase foreclosure registration fees to cover the cost of enforcement and administration budget.**
 - LA's ordinance only budgets for administration staff to cover registration.
 - Cities like Oakland and Riverside have been able to fully fund enforcement departments by creating a registration fee in line with the real costs of maintaining and enforcing vacant and foreclosed homes.
 - Oakland's registration fee is **\$568 per year**, which covers the costs of office administration and inspection. Fees are outlined in a proposed budget submitted to the city council. All expected program costs are covered by the registration fee. If LA used a similar model, it might have **raised \$13.8 million in fees in 2011**.
 - San Jose requires a fee of **\$372 per quarter (\$1488 per vacant property per year)** to cover the full costs of services (including fire, public safety) that may be required to respond to issues on the property while it is vacant. They also require an upfront payment for the first three quarters. A similar model in Los Angeles could have raised **an estimated \$17.8 million** on vacant properties in 2011.ⁱⁱⁱ

- ✓ **Bank owners should submit a plan of action for needed property remedies due immediately upon registration of a vacant property in need of abatement or within 10 days after any inspections which cite violations in need of abatement.**
 - Owners should also submit updates to any plans of action with their monthly status report on their properties **due on the first of every month**. The owner would be responsible to bring the property up to **compliance within 7 days** or risk further citations and penalties.

- ✓ **Allow inspectors to issue fees for services rendered, such as securing properties or doing other necessary clean up or abatement.**
 - The City of Riverside collects fees for services rendered by its code enforcement department to augment its inspection department budget.
 - San Jose and Richmond bill deed holders for the costs of securing properties when the owners fail to do it themselves.

- ✓ **Allow fines to begin to accrue immediately after a violation has been cited, or steepen fines and penalties for failure to comply with abatement notices.**
 - Violations in the City of Indio, as in many cities, are considered misdemeanors. Its police department, which is responsible for code enforcement, considers

non-compliance an arrestable offense, which has been more compelling in their conversations with bank executives than fines.

- ✓ **Create a ‘Save Our City’ Youth Summer Jobs Program to help identify and rectify blighted properties.**
 - So far the City of Los Angeles has collected **\$0 in penalties** from citations issued to banks for failing to remedy blight conditions.
 - Concerned about the level of unchecked blight in our communities, activists from ACCE, Good Jobs LA and the Service Employees International Union fielded a team of a few dozen community-based “blight busters” in April and early May to find and report neighborhood-scarring blight.
 - During the first three weeks of this community-based effort, activists found **at least 457 bank owned properties** with blighted, neighborhood scarring conditions that appear to violate the ordinance.^{iv}
 - Nearly all of these properties have been bank owned for more than 130 days. If they had been inspected at the time of bank possession, each property may have **accrued fines of up to \$100,000 per property** for lack of abatement of blight violations on their properties, or **\$45.7 million in penalties**.
 - This suggests that a fast, aggressive and pro-active enforcement effort could have produced **millions in revenues** with no more than a few weeks’ work.
 - Approximately half of all properties currently in the foreclosure process, or about **8,000, are bank owned**.
 - Hiring teams of youth for a ten week summer jobs program can help the city locate the bank owned blighted properties in our communities and begin initial cleanup of properties in violation, locating the worst violators for continued inspection and monitoring by city staff. This program would pay for itself within one only week of fines accruing on fewer than 150 properties, or 15 days of fines on fewer than 70.^v

ⁱ Girion, Lisa. “LA launches new effort to clean up foreclosed properties.” *Los Angeles Times* 11 July 2010. Article accessed here: <http://articles.latimes.com/2010/jul/11/local/la-me-derelict-homes-20100711>

ⁱⁱ Los Angeles, Ca., Ordinance No.: 181185 (2010). Accessed here: http://lahd.lacity.org/lahdinternet/Portals/0/Rent/Foreclosure%20Registry%20Program%20Ordinance%20-%20CF%2009-0365_ord_181185%20%281%29.pdf

ⁱⁱⁱ This is based on an estimate that half of all properties currently in foreclosure (or about 8,000) are bank owned, and assuming they are vacant.

^{iv} These properties are listed by real estate data service Realty Trac as bank owned as of January 2012.

^v This is based on an estimated program budget of \$1,000,000. One week of fines at \$1,000 per day amounts to \$7,000 per property. Covering a \$1 million program budget would require an average of one week of fines accruing on 143 properties, or an average of 15 days of fines (or \$15,000) accruing on 67.

Sample of Blighted Bank-Owned Homes in Our Neighborhoods: Field surveys conducted by ACCE, SEIU 721, Good Jobs LA and community activists

Banks can be fined \$1000 per day, up to \$100,000 per calendar year, for letting homes they own become blighted. What follows is a glimpse into the troubling state many of these bank-owned homes have fallen into after less than a year under the banks' watch. All but one of the sixteen blighted bank-owned homes below exceeds the \$100,000 maximum penalty allowed under the foreclosure ordinance. These sixteen properties alone could generate **up to \$1.5 million in overdue fines for the City of Los Angeles**. These represent sixteen of over 8000 bank-owned homes in the city.

<u>ADDRESS</u>	<u>ZIP CODE</u>	<u>COUNCIL DISTRICT</u>	<u>WHO FORECLOSED ON IT?</u>	<u>WHEN WAS IT FORECLOSED?</u>	<u>ESTIMATED POTENTIAL FINES¹</u>
824 W 56 th St	90037	9	Deutsche Bank ²	Bank-Owned since 6/6/2011	346 days \$100,000
821 W 56 th St	90037	9	Fannie Mae	Bank-Owned since 5/18/10	730 days \$100,000
2520 Longwood Ave	90016	10	Bank of America	Bank-Owned since 6/29/2011	323 days \$100,000
6401 Bonsallo Ave	90044	8	US Bank	Bank-Owned since 7/5/2011	317 days \$100,000
11211 S New Hampshire Ave	90044	8	Guild Mortgage Co., based in San Diego	Bank-Owned since 7/20/2011	302 days \$100,000
1240 W 82 nd St	90044	8	Skyline Vista Equities, LLC, based in El Segundo	Bank-Owned since 3/2/2012	76 days \$46,000
521 W 108 th St	90044	8	Deutsche Bank	Bank-Owned since 5/19/2011	364 days \$100,000
712-712 1/2 W 75 th St	90044	8	Fannie Mae	Bank-Owned since 10/13/2011	217 days \$100,000
1226 W 83 rd St	90044	8	HMC Opportunity Fund, LLC	Bank-Owned since 10/3/2011	227 days \$100,000
2300 S Marvin Ave	90016	10	Deutsche Bank	Bank-Owned since 6/27/2011	325 days \$100,000
9100 Baring Cross St	90044	8	US Bank	Bank-Owned since 12/15/2011	154 days \$100,000
11847 S Hoover St	90044	8	Deutsche Bank	Bank-Owned since 9/8/2011	252 days \$100,000
819 W 109 th St	90044	8	Wells Fargo	Bank-Owned since 12/12/2011	157 days \$100,000
8805 S Normandie Ave	90044	8	US Bank	Bank-Owned since 11/23/2011	176 days \$100,000
546 W 91 st St	90044	8	Fannie Mae	Bank-Owned since 8/10/2011	281 days \$100,000
1347 W 99 th St	90044	8	HSBC Bank	Bank-Owned since 11/14/2011	185 days \$100,000

¹ This assumes that the property has been blighted for at least 130 days from the recorded date.

² On May 4, 2011, the City Attorney's Office filed a complaint against Deutsche Bank for letting its foreclosed properties fall into serious disrepair. It's been called the city's largest slumlord, but it is not city's largest forecloser. That distinction belongs to Bank of America, which foreclosed on approximately two-thirds more properties in the City of Los Angeles than Deutsche Bank.

CAO Complaint accessed here: http://www.atty.lacity.org/stellent/groups/electedofficials/@atty_contributor/documents/contributor_web_content/lacity_014322.pdf; Foreclosure data as reported by the real estate data service Realty Trac on January 24, 2012.

