SOUTHEAST MICHIGAN HOUSING FUTURES, BRIEF 3

Rebuilding and Sustaining Homeownership for African Americans

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Homeownership provides numerous benefits over renting, including predictable housing costs, secure tenure, and the potential to save money and build wealth. Nationally, over 70 percent of white non-Latino households in the US own their homes, but African Americans' homeownership level now stands at 41 percent, nearly 10 percentage points below the level attained just before the housing crisis and lower even than before the passage of the Fair Housing Act in 1968. Michigan was especially hard hit by the housing crisis because its manufacturing employment had already declined nearly 45 percent since 2000; African American homeownership slipped further in Michigan than in any other state over the past 18 years.

In this brief, we recommend strategies to address two pressing and interrelated issues for making homeownership sustainable for the long term: tax foreclosures and land contracts. Both of these issues are challenges regardless of race; but, as we illustrate here, they disproportionately affect African Americans. The following are our maintain takeaways:

- Homeownership rates for African Americans have declined in Michigan, dropping from 51 percent in 2000 to 40 percent in 2016. These declines have affected Detroit or Wayne County *and* metropolitan counties across the state. Middle-age African Americans (45 to 64) experienced the most dramatic declines, with homeownership rates for that group falling over 18 percentage points, from 60 percent in 2000 to 41 percent in 2016.
- Communities in Michigan, most notably Detroit, have experienced a rise in tax foreclosures since the financial crisis. Between 2003 and 2017, Detroit experienced 155,171 tax

foreclosures brought to auction, with tax foreclosures peaking in 2015 when 28,158 foreclosures went to auction. Since that peak, tax foreclosures have fallen dramatically in the city. However, tax foreclosures remain an issue in Detroit and other majority– and plurality– African American jurisdictions in the state. We recommend the following policy actions:

- » Communicate more effectively with homeowners.
- » Make it easier for homeowners to receive exemptions and enroll in payment plans.
- » Permanently reduce penalty interest rates for overdue taxes and allow for payment plans.
- » Support local governments' data capacity.
- » Increase intergovernmental revenue transfers to segregated, low-income jurisdictions.
- » Do everything possible to support residents' incomes and stabilize their living costs.

- Land installment contracts ("land contracts"), also known as contract for deed, are arrangements in which a seller finances the sale of a residence directly to a buyer, often through monthly installment payments. These arrangements are more precarious for buyers than traditional mortgages as, in many cases, the contracts are not legally registered and if a buyer misses a payment the seller can cancel the contract and repossess the property. Although the arrangements are not new, following the financial crisis they have been on the rise in African American communities in Michigan and across the country. In 2015, more land contracts than traditional mortgages were filed in Detroit. We provide the following policy recommendations to reduce loses from land contracts:

  - » Ensure contracts are registered.
  - » Introduce legal standards for agreements.
  - » Increase eviction protections.
  - » Clear all liens and debts on the property before sale.
  - » Require third-party appraisals and independent inspections.
  - » Identify and take appropriate action against bad actors.

This brief, along with companion briefs on the rental market and senior housing, is part of a broader project examining housing challenges facing Southeast Michigan. These topics come from analyses Treskon and colleagues (2017) present in *Southeast Michigan Housing Futures*. That report analyzes regional population and household projections to identify developing patterns of household formation and tenure, which, in turn, indicated the three shared challenges for the region these briefs address. Building on this work, Urban conducted workshops and interviews with stakeholders in the region to discuss the topic areas, efforts already under way to respond to these issues and roadblocks to success. In this series of briefs, we generally define this region as the seven counties of Livingston, Macomb, Monroe, Oakland, St. Clair, Washtenaw, and Wayne. However, the American Housing Survey, which we reference below, uses the Detroit-Warren-Dearborn Metropolitan Statistical Area (which we will refer to as the Detroit MSA) definition, which excludes Monroe and Washtenaw and includes Lapeer.

The recent mortgage crisis is a serious concern for African Americans, warranting an in-depth exploration in this brief of why African Americans were so hard hit by the crisis and policy responses to sustain those who become or remain homeowners. Our focus on ownership sustainability complements the actions to facilitate access to homeownership recommended in *The Detroit Housing Market: Challenges and Innovations for a Path Forward* (Poethig et al. 2017).

BOX 1

The Urban Institute's Collaboration with JPMorgan Chase

The Urban Institute is collaborating with JPMorgan Chase over five years to inform and assess JPMorgan Chase's philanthropic investments in key initiatives. One of these is a $150 million commitment to support and accelerate Detroit's economic recovery. The goals of the collaboration include using data and evidence to inform JPMorgan Chase's philanthropic investments, assessing whether its programs are achieving desired outcomes, and informing the larger fields of policy, philanthropy, and practice. Building on a body of work in Detroit and Southeast Michigan, the goal of this project is to examine the common challenges of an aging population, declining African American homeownership, and increasing renter housing demand from a regional perspective, all to further the dialogue and inform future collaboration among stakeholders throughout Southeast Michigan.

For most Americans, owning a home is the most secure way to save money and gain wealth (Goodman and Mayer 2018). Renters often pay so much of their income for housing that they have too little left over to make ends meet, not to mention to set aside for savings. When people have a fixed mortgage payment, however, their housing costs are more predictable, and if their incomes rise their homes may become more affordable over time, allowing them to save. The value of their homes may also rise (on average and over the long term at a rate higher than inflation) thus generating wealth. This accumulated home equity can be used as collateral to help finance educations, vehicles, and medical care. And in most US metropolitan areas, homeowners gain entry more easily than renters to communities where they are most likely to enjoy upward economic mobility.

The housing crisis has battered African Americans. Between 2007 and 2009, 8 percent of African American borrowers lost their homes, compared with 4.5 percent of white borrowers. In total, 240,020 African American households experienced foreclosure.[1] The housing crisis and Great Recession erased the gains in African American homeownership that had been made since the passage of the 1968 Fair Housing Act. From 2001 to 2016, the African American homeownership rate in the US fell 5 percentage points, from 46 to 41 percent, compared with just 1 percent for white households (from 72 to 71 percent). The crisis has hit middle-age and young African Americans especially hard: nationally homeownership dropped 9 percentage points for those ages 45 to 64, compared with just 3 percentage points for white non-Hispanic households.[2] Regionally, the fallout from the financial crisis varied across states. African Americans in the Midwest experienced the largest percentage point decrease in homeownership rates, dropping 7.4 percentage points (from 43.4 percent in 2005 to 36.0 percent in 2016) (JCHS 2017, appendix tables).

The foreclosure crisis has contributed to a substantial loss of wealth among African Americans since the mid-2000s, contributing to a sharp increase in the racial wealth gap. The median white household in 2016 held $171,000 in wealth compared with just $17,409 for the median African American household.[3] Median African American wealth peaked in 2007 at $24,318 in constant 2016 dollars. Since African Americans remain racially segregated in the US, this loss in individual homeownership and wealth has seriously undermined the strength, stability, buying power, and fiscal capacity of cities and neighborhoods throughout the US while making few lasting impacts on majority-white communities.

African American Homeownership in Michigan

In Michigan, African Americans made up 14 percent of the state's population in 2016. African Americans live mainly in the state's urban counties: the 10 most-populous counties in Michigan were home to 93 percent of the state's African American households in 2016, compared with 63 percent of the state's total households. Although Wayne County (home of Detroit) remains the largest center of African American households in Michigan, between 2000 and 2015 it dropped from having 62 percent of the state's African American households to 51 percent. Counties in the metro Detroit area bordering Wayne County, particularly Macomb County and Oakland County, experienced some of the largest increases in African American residents as households moved from Detroit to the suburbs (table 1).

TABLE 1

African American Householders and Homeownership Rates in Michigan, 2000 and 2016

Counties with more than 10,000 African American households in 2016

	2000		2016		
County	**Households**	**Home ownership**	**Households**	**Home ownership**	**Percentage point change in home ownership**
Wayne	303,717	53%	264,759	42%	-11
Oakland	46,129	53%	71,326	41%	-12
Macomb	7,522	40%	37,488	32%	-8
Genesee	31,837	52%	33,278	46%	-6
Kent	17,578	41%	21,435	39%	-2
Washtenaw	14,278	39%	16,886	38%	-1
Saginaw	13,428	54%	13,820	51%	-3
Ingham	11,094	38%	12,811	35%	-3
Michigan total	**491,341**	**51%**	**521,368**	**40%**	**-11**

Source: 2000 decennial census and 2016 one-year American Community Survey estimates.

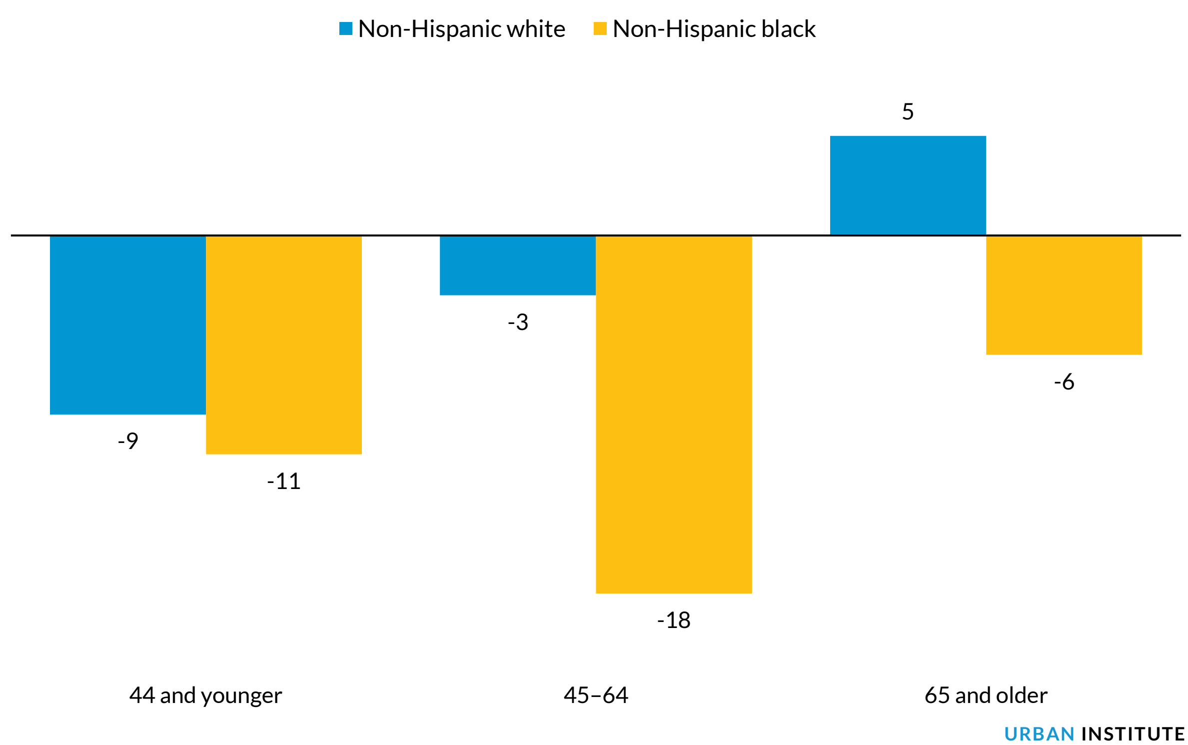
Homeownership rates for African Americans have declined in Michigan, dropping from 51 percent in 2000 to 40 percent in 2016. As illustrated in table 1, all counties with more than 10,000 African American households saw African American homeownership rates fall. Though the number of African American–owner households increased in suburban Oakland and Macomb Counties from 2000 to 2016, the homeownership rate in these counties dropped, as the number of African American renter households increased at an even faster rate. During this period, the homeownership rate for non-

Hispanic whites dropped from 79 to 76 percent, meaning that the homeownership gap between African Americans and whites in Michigan increased from 28 percentage points to 36 percentage points.

Since 2000, the homeownership declines for middle-age–African American households in Michigan have been particularly severe (figure 1). African Americans ages 45 to 64 saw their homeownership rates fall over 18 percentage points, from 60 percent in 2000 to 41 percent in 2016. Middle-age white households, in comparison, experienced a 3-percentage point decline over the period, falling from 86 to 83 percent. The rate of homeownership for African American householders younger than 44 fell from 31 percent in 2000 to just 20 percent in 2016, compared with a decline from 65 percent to 56 percent for younger white households. Though over half of African American senior households owned their home in 2016, they also experienced a decline in homeownership, losing 6 percentage points over the period, from 64 to 58 percent. Homeownership rates for senior white householders, however, increased over the period from 76 to 81 percent.

FIGURE 1

Percentage Point Change in African American and White Homeownership Rates by Age in Michigan, 2000–16



Sources: Urban Institute tabulations of 2000 decennial census and one-year 2016 American Community Survey estimates retrieved through Integrated Public Use Microdata Series, University of Minnesota.

Policies and Protections to Sustain Ownership

The historic decline in African American homeownership in Michigan, as with the rest of the US, is an outcome of broad-based challenges in economic and social well-being that undermine African American wealth. Investments in early childhood education, K–12 education, workforce development, economic development, neighborhood investment, health care, violence prevention, decarceration, financial health, antidiscrimination, and consumer protection all are important elements in laying the groundwork for sustained economic mobility.

Without steady and affordable shelter, however, many initiatives working toward sustained economic mobility will fail to reach their potential. Secure housing provides access to needed services and facilities and protection from harms and hazards. Housing policies need to be reshaped in recognition of growing economic insecurity and rapid changes in household structure. Young people need greater protection in financial management before they move out of their parents' homes. When they do, they will probably rent, and, as renters, they need policies and protections that allow them to become homeowners when they are ready.

Owners, similarly, need policies and protections that support them in homeownership as long as they wish to remain so and allow them to shift back to renting if and when it makes sense. Our focus in this brief is on this last set of policies and protections. Research from the 1970s through the 1990s shows that within three years of becoming homeowners, nearly half of low-income minority households had shifted back into renting, compared with only 30 percent of low-income white households (Herbert and Belsky 2008; Reid 2004, figure 15). Most loss in homeownership is a consequence of mortgage foreclosure; recent changes in mortgage lending practices, along with a national recovery in employment and property values, have reduced the incidence of mortgage default. Urban Institute research also shows that foreclosure prevention counseling can prevent mortgage default (Mayer et al. 2011).

Beyond mortgage default and foreclosure, two other issues challenge African American homeowners in Michigan, according to stakeholders and practitioners we interviewed in conducting this research. First, especially in Detroit and other Wayne County municipalities, tax foreclosures are among the highest in the nation. Second, throughout the state, people who have bought homes using land contracts (known in some other states as "contract for deed") appear to be at particular risk of losing their homes. In the remainder of this brief, we focus on the scope of these issues as well as policies and protections that local and state stakeholders can carry out to reduce the loss of homeownership from tax foreclosures and predatory land contracts.

Reducing Tax Foreclosures

Property taxes often constitute the top revenue source for local government. (In Wayne County property taxes account for 60 percent of the revenue for the county's General Fund.[4]) As a result, local governments need mechanisms strong enough to ensure that property owners pay their taxes. Tax foreclosures, governed by state laws and constitutions, are the ultimate penalty for nonpayment. These laws allow a local government to place a lien on property if its owner falls behind on property taxes or other municipal charges and then to auction the lien or the property if the taxes remain unpaid. Property owners will often have a chance to pay off the debt, interest, and penalties accrued within a set period before the property is sold, but if they fail to meet the deadline, the property enters foreclosure (Rao 2012).

BOX 2

Michigan's Foreclosure and Forfeiture Process

In Michigan, tax delinquency laws are set at the state level. If an owner falls behind on tax payments, the responsibility will usually fall on the county treasurer to collect back taxes owed. The process entails a three-year forfeiture and foreclosure process. In the first year, a 4 percent interest fee is added to the amount of taxes due with a 1 percent per month interest rate, up to 12 percent in the first year. In the second year, the interest rates jump to 1.5 percent retroactively, or 18 percent per year. In the third and final year, if the owner is unable to pay the original tax amount plus the interest and penalty fees, the owner loses the right to their property and it is offered at auction.[a]

Similarly, the foreclosure notification timeline and forfeiture processes are set at the state level. In the first year of delinquency, the county treasurer is obligated to send two notices via mail to the taxpayer or owner. Early in the second year, the county treasurer sends another notice to the owner and one to the occupant, if different. By March of that year, if the debt is not paid, the delinquent property forfeits to the county treasurer, starting the formal forfeiture process. Then the foreclosing government unit (in most cases the county) conducts a personal visit to the property and then schedules a hearing date for the petition for foreclosure with the county clerk, the date of which is sent via mail to the owner. In January and February of the third-year, judicial foreclosure hearings are held, with judgment on the foreclosed property rendered by the end of March.[b] If the foreclosure judgment is rendered, the title of the property is transferred to the foreclosing government unit. At that point the local municipality (i.e., city, township or village) has the right of first refusal for the property. If they decline to purchase the property, the property is sold at auction. If the property does not sell at auction, it is transferred to the local land bank authority or retained by the foreclosing government unit.

[a] "The General Property Tax Act (Excerpt) Act 206 of 1893: Section 211.78a," Legislative Council, State of Michigan, 2017, http://www.legislature.mi.gov/(S(ztwraqxh5rvtaqr0kuyuy1dx))/mileg.aspx?page=getObject&objectName=mcl-211-78a.
[b] "Real Property Tax Foreclosure Timeline," State of Michigan, revised August 21, 2013, https://www.michigan.gov/documents/taxes/ForfeitureForeclosureTimelinesChart_317028_7.pdf.

Michigan law allows poverty exemptions, hardship extensions, and payment plans for residents unable to pay their taxes. However, these options are often not well known and rely on routine and timely action on the part of the homeowners to apply for exemptions. To be eligible for a poverty exemption, a person must own and occupy the property and file a claim each year with the local municipality. The claim requires the applicant to submit state and federal tax income returns for all people residing in the residence, show proof of ownership, and meet federal poverty income standards or local standards adopted by the municipality if those are less strict. The local municipality may also set asset levels to qualify for the poverty exemption and exclude a homeowner from the exemption if their total assets (excluding the principal residence) exceed the set level. For example, a city could set the asset cap at $15,000 and exclude homeowners with $15,000 in assets even if they meet the federal poverty guidelines for income.[5] There is no requirement for local municipalities to notify potentially qualifying homeowners of the exemption.

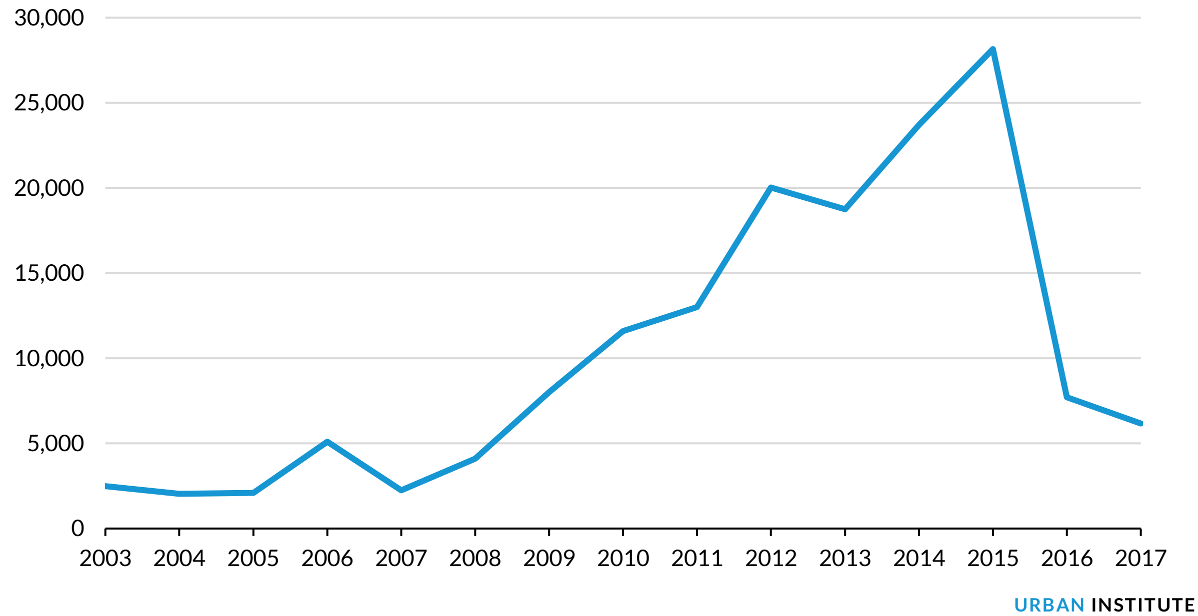
Under the Michigan General Property Tax Act, the local government can keep all the proceeds from a tax foreclosure property beyond what is owed in back taxes, interest, fees, and penalties.[6] This practice is allowed in only a handful of states. Local advocates have argued that this provision creates perverse incentives for counties facing financial troubles to neglect or encourage tax foreclosures to increase revenue. A Detroit Journalism Cooperative report found that Wayne County has received $421 million in payment from interest rates on back taxes and through sales of foreclosed properties since the financial crisis. Wayne County projects it will collect $286 million from back taxes, auctioned properties, and fees from 2015 to 2019.[7] The Michigan Supreme Court is currently considering the legality of the practice. The case focuses on a property owner who, by a mistake, owed $8.41 on a rental property located in Oakland County. The bill increased to $285 with penalties and interest. Oakland County then foreclosed on the property and sold it for $24,500, keeping the balance.[8]

SCOPE OF THE CRISIS

Detroit has one of the highest tax foreclosure rates in the nation. In 2015, the city's property tax foreclosure rate was 3,949 properties per 100,000 people, compared with 52 per 100,000 for New York City, 4 per 100,000 in Los Angeles County, and 197 per 100,000 in St. Louis County, Missouri (Atuahene and Hodge 2018). Between 2003 and 2017, Detroit, a city of 384,840 properties, experienced 155,171 tax foreclosures brought to auction (figure 2). Most of these occurred after the financial crisis of 2008, with tax foreclosures peaking in 2015 when 28,158 foreclosures went to auction. Although most properties that go into foreclosure in Detroit are not occupied, a significant share are. In 2015, it is estimated that 8,069 of the homes foreclosed (29 percent) were occupied.[9] Since the 2015 peak, however, tax foreclosure rates in Detroit have fallen dramatically. In 2016, 7,700 properties went to auction (a 73 percent drop from the 2015 total). In 2017, that figure declined again to 6,162. Although the decline represents impressive progress, tax foreclosures remain a critical issue for Detroit. In 2017, 2,980 occupied homes went to auction.

FIGURE 2

Tax Foreclosures Brought to Auction in Detroit, 2003–17



Sources: Urban Institute analysis of Data Driven Detroit data on tax foreclosure 2003–14, 2016; Loveland tax foreclosure survey data 2015 and 2017, http://www.taxforeclosuresurvey.com/.

Although the issue is particularly pressing in Detroit, tax foreclosures are not limited to the city. Table 2 provides information on residential tax foreclosures for municipalities in Wayne County with 50 or more tax foreclosures in 2014. Detroit accounted for 94 percent of occupied tax foreclosures in Wayne County in 2014. However, the smaller municipalities of Highland Park, Inkster, River Rouge, and Ecorse each experienced more than 50 occupied tax foreclosures in 2014.

Limited information is publicly available on who owns and lives in tax-foreclosed properties. However, a recent survey of foreclosed properties in Wayne County provides some insights on residents. At the request of the Wayne County treasurer, Loveland Technology, a software and parcel data-mapping company, conducted a survey of 8,745 foreclosed houses in Detroit, Highland Park, and Hamtramck in 2017. In the process, they contacted 1,789 occupants of foreclosed houses to conduct a survey and deliver information about options to stay in their home. Among the respondents, 52 percent were aware that their property was in foreclosure, 38 percent of respondents were unaware that their property was in foreclosure, and 11 percent declined to participate in the survey. Among those who participated in the survey, 44 percent were renters, 38 percent owned their home, and 19 percent had an informal relationship with the property, including squatters, house-sitters, and relatives of the owner. Among renters, only 43 percent were aware that their residence was in foreclosure. The surveyors also asked about awareness of assistance and payment plan options. Among respondents, only 30 percent were on a payment plan with Wayne County, and only 43 percent of respondents were aware of the interest-reduced payment plan option.[10]

TABLE 2

Residential Tax Foreclosures in Wayne County by Municipality and Property Status, 2014

Municipality	Total foreclosures	Occupied		Structure Not Occupied		Vacant Land	
		N	%	N	%	N	%
Detroit	22,321	7,864	35%	7,581	34%	6,876	31%
Highland Park	508	164	32%	260	51%	84	17%
Inkster	394	106	27%	165	42%	123	31%
River Rouge	232	54	23%	132	57%	46	20%
Ecorse	156	54	35%	63	40%	39	25%
Van Buren Township	143	3	2%	3	2%	137	96%
Lincoln Park	97	28	29%	43	44%	26	27%
Westland	77	15	19%	42	55%	20	26%
Romulus	57	6	11%	19	33%	32	56%
Dearborn	56	14	25%	19	34%	23	41%
Dearborn Heights	56	15	27%	25	45%	16	29%
Harper Woods	50	19	38%	30	60%	1	2%
Wayne County total	24,439	8,403	34%	8,454	35%	7,582	31%

Source: Urban Institute analysis of Data Driven Detroit data on tax foreclosure, 2014.

Although the race of the occupant of a foreclosed property is not included the county's records, tax foreclosures in the Detroit region have been most concentrated in African American communities. In the top five jurisdictions listed in table 2 in 2014 (Detroit, Highland Park, Inkster, River Rouge, and Ecorse), African Americans were the largest racial group.[11] Outside Wayne County, Pontiac, a majority–African American community of about 60,000 residents in Oakland County, saw tax foreclosures rise between 2015 and 2016, from 312 to 357.[12] Despite accounting for only 5 percent of Oakland County's population, Pontiac accounted for 57 percent of tax foreclosures in the county in 2016. In 2016, a class action lawsuit was filed against the Wayne County treasurer, Wayne County, and the City of Detroit charging that tax foreclosures in the county have disproportionally impacted African American communities, in violation of the federal Fair Housing Act. The complaint alleges that "tax foreclosure rate in predominantly African American neighborhoods in Wayne County is 10 to 15 times higher than the rate of foreclosures in predominantly non–African American areas."[13] (Urban Institute could not independently validate these findings.)

Michigan's recent high rate of tax foreclosure is partly an outcome of a serious gap between appraised and assessed property values in the state. Detroit has made significant progress on this issue in recent years, but other jurisdictions may face the same challenges. Poethig and colleagues (2017) detail the great turbulence in the Detroit housing market since the early 2000s. Values in the early 2000s were inflated by speculative expectations and questionable appraisal practices. After the housing crash, however, the abundance of supply, the loss of income among residents, and the evaporation of mortgages generated a dramatic decline in resale and appraised values. Local governments did not respond quickly to home value reductions by lowering tax assessments, even though state law in Michigan limits assessments to 50 percent of real market value. These still-high assessments further depressed housing demand and contributed to tax delinquency. In 2014, however, Detroit began to reassess properties; in early 2017, the city completed the project, which reduced property tax payments for about 55 percent of residential property owners. The average drop in property taxes of $263 substantially exceeded the $80 average increase for the remaining 45 percent of residential property owners.[14] The reassessment, along with property values and improved city systems for tax collection, are among the forces that have helped boost Detroit's tax collection rates from 69 percent in 2012–14 to 80 percent in 2016.[15]

Factors beyond reassessment have also reduced tax foreclosures in Detroit and beyond. In 2014, the Michigan Legislature passed temporary legislation to allow counties to cut interest payments for unpaid taxes from 18 to 6 percent[16] and to set up payment plans with owners to spread unpaid taxes, often over five years, and waive interest and penalty fees as long as the owner makes a down payment of 10 percent of the delinquent taxes owed on the property.[17] Both laws were extended in 2017 through June 30, 2019.[18] The Wayne County treasurer announced that 36,000 residents in Wayne County, primarily in Detroit, were in repayment plans by September 2017.[19] Additionally, the housing market has begun to recover, resulting in assessment increases for over 200,000 properties in Detroit in 2018 and reductions in only about 55,000. The Oakland County Treasurer's Office has set up a payment plan option to prevent foreclosures and recoup tax revenue. Since the program's launch, the treasurer's office has set up 6,571 payment plans and collected $61 million in delinquent property taxes.[20]

Following the 2015 foreclosure peak, the City of Detroit has supported some occupants of foreclosed houses stay in their homes through buyback programs. The Detroit Land Bank Authority implemented a program in 2015 to allow occupants of foreclosed homes (or family members of the last homeowner) a path toward purchasing the home. To qualify, the enrollee must make a $1,000 down payment, contribute toward future property taxes, maintain the property, and enroll in homeownership courses. As of 2017, the Land Bank estimates there are nearly 600 enrollees in the program.[21] In 2017, a pilot project was launched to specifically target renters who occupied tax foreclosed properties. Renters make up a substantial portion of those occupied foreclosed properties (44 percent of occupied foreclosed homes Loveland surveyed). The program, a partnership between the City of Detroit and local nonprofit organization United Community Housing Coalition, has purchased 80 foreclosed homes and is selling the properties to former renters in small installment amounts.[22]

Notwithstanding these adjustments to assessed values and penalty interest rate reductions in Detroit, challenges remain that could expose homeowners to unwarranted risk of tax foreclosure. We therefore have a series of recommendations to guard against future erosion of homeownership by aggressive tax foreclosure. Many of these recommendations would help not only African Americans but also other homeowners.

POLICY RECOMMENDATIONS

Communicate more effectively with homeowners. Counties and municipalities should communicate with property owners more effectively about property tax exemptions and payment program options. A recent Detroit initiative provides an instructive example. In May 2017, Quicken Loans Community Investment Fund partnered with United Community Housing Coalition to go door-to-door to 3,300 Detroit residents facing imminent tax foreclosure; the partners informed residents about exemptions and payment plans, helping 2,100 households avoid tax foreclosure and remain in their homes.[23] Building on this success, the Housing Coalition and Quicken Loans Community Investment Fund launched "Neighbor to Neighbor," an initiative with the aim to fund local community groups to go door-to-door to all 60,000 residential properties in Detroit currently behind on their taxes and provides the residents with foreclosure prevention resources.[24] A partnership between the Michigan State Housing Development Authority, county and local governments, nonprofits like the Center for Community Progress, and philanthropy could develop standard procedures, institutional designs, and funding models for these in-person campaigns in communities across Michigan.

Make it easier for homeowners to receive exemptions and enroll in payment plans. As communication and education efforts proceed about exemptions and payment plans, the Michigan Department of Treasury should work with the Michigan State Housing Development Authority, county and local governments, and philanthropy to clarify, simplify, and combine application procedures for exemptions, payment plans, and receipt of the Homestead Property Tax Credit. The recent partnership between Detroit-based Civilla and the Michigan Department of Health and Human Services to simplify the state's applications for health care, cash, food, child care, and emergency relief support by 80 percent could provide useful lessons learned for such an effort.[25] Caseworkers and clients alike now spend much less time in the application process. If this one-stop application process could either expand or be replicated to ensure housing support for low-income homeowners (and even renters), it would further reduce government costs and allow all Michigan residents, especially African Americans, to get the supports to which they are entitled. Partners working to simplify applications could also discuss additional steps that could balance government interests in ensuring adequate and fair tax collection with its long-term interest in the health and stability of residents and neighborhoods, including allowing multiyear exemptions and automatic opt-ins to exemptions for longtime homeowners with low property values or properties in distressed tracts.

Permanently reduce penalty interest rates for overdue taxes and allow for payment plans. The state legislature's authorization allowing counties to cut interest payments for unpaid taxes and allowing counties to set up payment plans helped reduce the number of tax foreclosures.[26] However, the interest rate reduction and payment plan options are set to expire in 2019. To ensure that tax foreclosure rates do not return to the 2015 peak, the law should be permanently extended for owner-occupied units, at least for homes under a specified value or located in distressed neighborhoods (zip codes or census tracts).

Support local governments' data capacity. Wayne County and the City of Detroit have made tremendous progress in using data to understand the different dimensions of the region's ongoing housing and tax foreclosure crisis and, through partnerships with organizations such as Loveland Technology and Data Driven Detroit, make the data publicly available. Data collection efforts such as Loveland Technology's foreclosure survey can provide policymakers with evidence on the situation of residents in tax foreclosure beyond what a treasurer's office collects, which is crucial to developing effective interventions. However, the inventory, curation, and analysis of foreclosure and other relevant housing market and real property data are often too difficult and expensive for local governments to fund and do themselves. Southeastern Michigan policymakers and practitioners, as far as our research shows, do not have access to regular and consistent housing data about the neighborhoods in their respective cities and towns. Leadership from philanthropy, together with state and county governments, could forge critical partnerships to help fund the development and maintenance of a metropolitan housing and community development data hub.

Increase intergovernmental revenue transfers to segregated, low-income jurisdictions. According to a study by the Lincoln Institute of Land Policy and the Minnesota Center for Fiscal Excellence, in 2015, Detroit ranked second highest among over 100 large cities in its effective property taxes on a median-priced home (3.81 percent) and highest in its effective property tax rate on a $1-million commercial property (4.13 percent) (Twait and Langley 2016). These high rates are not a consequence of especially high reliance on property taxes versus sales taxes or fees, according to the report, nor of very high government spending. Instead they are a simple outcome of the low property values and incomes of residents and businesses in predominantly African American communities. These jurisdictions are a product of racial residential segregation via public and private discrimination and acts of violence (Rothstein 2017; Sugrue 1996). Given the implication of all levels of government in this segregation and the extraordinary economic benefits whites have enjoyed from segregation up to now, it would be equitable to increase intergovernmental transfers using revenues collected at the state and federal level to restore opportunity and encourage investment in majority– and plurality–African American communities.[27]

Do everything possible to support residents' incomes and stabilize their living costs. Many property owners fall behind on their taxes not because they do not want to pay or because they do not learn about available exemptions, but because they simply do not have enough income. Broad-based efforts are necessary to ensure that residents have stable income from wages, government benefits, and other sources to pay their bills, and more predictable and often lower costs for necessities like energy, water, health insurance, and auto insurance.

Reducing Losses from Land Contracts

Land installment contracts ("land contracts"), also known as contract for deed, are arrangements in which a seller finances the sale of a residence directly to a buyer. In the contract, a home buyer pays the purchase price in installments directly to a seller on a house over time, rather than acquiring a traditional mortgage. In Michigan, a purchaser typically obtains *equitable* title of the unit once the contract is signed and the seller retains the *legal* title. The main difference between the two is that a person with legal title has the right to transfer ownership of the property to another party. Under equitable title the property can be insured, recorded, encumbered, and can be subject to tax liens and foreclosure.[28] At the end of the installment period, the seller promises to transfer legal title to the property after the full purchase price has been paid.

These arrangements are often not legally protected or even registered with a government agency. In many cases, if the buyer misses a payment at any time over the length of the contract, the seller can cancel the arrangement through a process known as forfeiture; keep all payments, sweat equity, and improvements made by the homeowner; and evict the buyer (Mancini and Saunders 2017). This process differs from traditional mortgages, under which the foreclosure process follows a set timeline with legal regulations. In Michigan, for example, the timeline from missed payment to eviction is at least 10 months and is regulated to provide the homeowner with loss-mitigation options. Land contracts do not offer attendant rights to the buyer, and often shift the obligation for maintenance, taxes, utilities, insurance, and substantial repairs to the property to buyers. Additionally, there are no requirements that liens or debts on the property be paid before the sale. This means the buyer may unknowingly assume any previous debts accrued on the property, such as unpaid property taxes or water bills.

Land contracts for home purchases are not new. From the 1930s to 1960s, federal homeownership programs excluded most African Americans from the traditional mortgage market by preventing access to federally backed home loans and mortgages (Rothstein 2017; Satter 2009). Real estate agents used land contracts as an alternative to mortgages, which often put households at risk. As remains the case today, the terms of the arrangements were usually stacked in the seller's favor. Buyers would make fixed payments to the seller over decades and be responsible for upkeep of and improvements on the property. Until the successful completion of the contract term, often over 20 years, buyers would not benefit from appreciation or otherwise accrue equity in the property. Even a minor infraction could provide justification for eviction. Sellers would then opt into another arrangement with a new buyer (Battle et al. 2016). One source estimates that 85 percent of homes purchased in Chicago by African American residents in the 1950s were purchased on land contracts (Satter 2009). In Chicago, one advocate has estimated the loss in equity and payments to have amounted to $500 million in current dollars from the city's African American residents between 1940 and 1970.[29] After the passage of the 1968 Fair Housing Act, which outlawed discrimination in housing finance, and the 1977 Community Reinvestment Act, which encouraged banks to invest in underserved communities, the use of land contracts in African American communities declined.

But after the 2008 financial crisis, land contracts had a resurgence in communities devastated by mortgage foreclosures because of predatory lending activity (Immergluck 2018). The crisis resulted in a bulk of foreclosed properties across the country,[30] those who went through foreclosure retain a disparaging mark on their credit report for at least seven years, further limiting the ability for the borrower to access mortgage credit (Li, Goodman, and Bonsu 2016). Credit tightening overall leads to significantly fewer home mortgages.[31] These conditions were ripe for the resurgence of land contracts, whether through investors' mass purchases of foreclosed Fannie Mae properties or more targeted purchases of homes by smaller investors.[32] Many of the investors sold the homes "as is" through land contracts, though many of the homes lacked basic facilities or needed serious structural repairs.[33] The

Detroit News cites a case of one property foreclosed for $11,200 in unpaid taxes in 2014; bought at auction from the county for $833 by Detroit Property Exchange, one of Detroit's biggest bulk land buyers; and then sold on a land contract for $15,900.[34] There is also emerging evidence of racial differences in who are sold properties on land contract. Looking at recent land contract sales in the Atlanta area, Immergluck (2018) found that land contract sellers primarily focus on African American neighborhoods.

Researchers have pointed to historically high lending standards and the decline in low-value mortgages as reasons that low-income homebuyers are turning to land contracts. In low–property value cities like Detroit and Flint, it is becoming increasingly difficult to obtain a mortgage for less than $50,000, despite a growth in the number of properties valued under $50,000.[35] Without access to traditional financing, land contracts can seem like the only option toward achieving homeownership.

Data on land contracts are limited. In Michigan, as in most states, there are no legal requirements that land contracts be publicly filed. It therefore remains difficult to track their prevalence, let alone gather information on the sellers, buyers, terms of contract, and location of properties. The American Housing Survey (AHS) last collected national data on land contracts in 2009 and provides estimates on their frequency in the Detroit metropolitan area. That year, the AHS estimated that 22,500 land contracts were active in the Detroit region. Of that total, 40 percent (9,000) were held by African Americans (who made up only 15 percent of the region's homeowning households). The AHS estimates that in 2009, 12 percent of the region's African American homeowners financed their property through land contracts rather than traditional mortgages, compared with just 5 percent for households of all races in the region. Nationally, the Detroit region's rate was comparable with 12 percent of African American households nationally financing their property through land contract, while 11 percent of all households that obtained financing did so with a land contract. Although the AHS provides an important benchmark, it does not provide information to how land contract rates have changed following the financial crisis. (The American Community Survey counts households that hold land contracts as homeowners.)

Although more recent national data are not available, local sources point to a resurgence in land contracts in the Detroit region. In 2015, the *Detroit News* found more land contracts than traditional mortgages filed with the Wayne County Register of Deeds in Detroit (2,177 to 2,023, respectively).[36] Because the state does not require land contracts to be filed with any government unit, the number of land contracts likely exceeds the registered number. A 2017 analysis of 200 homes in Detroit sold on land contract in 2016 found that one in five of those homes (39 homes) went into tax foreclosure in 2017 because of tax debts that were at least three years old (implying that the accounts went into arrears before the land changed hands). The analysis also found 15 properties that were not yet in foreclosure but had inherited tax delinquencies. Nearly a third (59) of the homes sold on land contract in the analysis were purchased out of tax foreclosure and sold on land contract. Of these property, they were purchased on average for $10,000 and resold on contract for $45,000.[37]

Land contracts are not limited to Detroit. The *Detroit News* also lists around 750 land contracts registered in each Macomb and Oakland counties in 2015.[38] However, the land contracts are greatly outnumbered by traditional mortgages in each county. Flint, however, has a similarly low-cost housing stock as Detroit and has also emerged as a hotbed of land contracts.[39]

DODD-FRANK ACT AND SAFE ACT AND LAND CONTRACTS

The Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 created the Consumer Financial Protection Bureau (CFPB) and has, among other effects, expanded regulation related to loan originators, bank officers, mortgage brokers, and commercial lenders.[40] In January 2014, the CFPB implemented the Loan Originator Rule, expanding regulations concerning loan originators' qualifications, compensation, and licensing. The ruling has been interpreted to cover seller-financing in residential real estate transactions, namely land contracts (CFPB 2015). Per the rule, a seller who finances under a land contract must be a licensed mortgage originator unless they sell fewer than three properties a year (with notable restrictions) or one property a year (with less significant restrictions).[41] Unless those exemptions are met, the seller must be a licensed mortgage loan originator and must vet the purchaser's ability to repay the loan. Sellers are also restricted in their ability to include balloon payments in the first five years. If a seller does not comply with these requirements, the buyer may be entitled to rescind the transaction and receive a refund and monetary damages.[42]

If enforced, the Act could significantly limit the ability for firms or individuals to market on mass land contracts with harsh terms for the buyer. Michigan's Department of Insurance and Financial Services has interpreted that land contracts are included in residential mortgage loans and are covered in the Michigan Mortgage Loan Originator Licensing Act, which provides for the licensing and regulation of individuals originating mortgage loans in Michigan.[43] However, stakeholders noted that the expanded requirements are not being enforced for land contract sellers and some confusion remains about whether the state or the federal government has enforcement responsibility. CFPB has acted against major land contract companies since the Rule was implemented. In 2016, CFPB filed a lawsuit in federal court in Michigan against two of the nation's larger sellers of homes on land contract, National Asset Advisors and Harbour Portfolio Advisors. The lawsuit is seeking to require the companies to comply with a subpoena seeking information about Harbour's sale of homes through land contracts; after challenge from the companies, a federal judge ordered the companies comply with the subpoena.[44] As of the time of this brief, there has yet to be any further action against the companies.

Although the sweeping changes could place significant limitations on predatory land contract arrangements, the regulations do not cover a property's habitability, terms of the contracts related to property taxes or utilities, and registration of the contract at the county.

METHODS FOR REDUCING THE RISKS OF LAND CONTRACTS

Legislation outside Michigan

Until federal agencies (including the Federal Housing Administration and Federal Housing Finance Agency) encourage lenders to make more small-dollar mortgages, land contracts will remain one of the only options for low-income households to buy homes. In this context, other states have already strengthened protections for purchasers who buy houses using land contracts.

- Indiana, Ohio, and Montana are among the states that provide for the conversion of land contracts into mortgages when the purchaser has developed substantial equity in the property or after a set length of time has passed (Freyfogle 1987). For example, Ohio provides that if a purchaser has paid in accordance to the contract for five or more years or has paid at least 20 percent of the purchase price, the seller may recover the property only through a traditional foreclosure process. Sellers are entitled to the proceeds of the sale up to and including the unpaid balance due on the land contract.[45]
- Other legislative solutions promote transparency by encouraging contracts to be filed with state or local governments. In Texas, legislation was passed in 2015 that required land contracts to transfer title to the homebuyer and encourages that the contracts be legally recorded, which establishes ownership of the residence.[46]

Other reforms would provide contract buyers with some of the legal protections afforded to renters. Freyfogle (1987), who contends that land contracts and traditional leasing agreements are not functionally different from one another, recommends that contract sellers be required to establish and maintain a property's habitability just as landlords are.

Alternative Solutions

Some nonprofits have used land contracts as a path to homeownership for buyers who have trouble accessing credit. The Genesee County Land Bank sells tax foreclosed homes to their occupants through land contracts, but they have fixed interest rates of 7 percent. Buyers are required to attend homebuyer education courses offered by approved housing counselors.[47] United Community Housing Coalition, a Detroit-based nonprofit organization, assists buyers in predatory land contract arrangements by buying out the contract and offering for the homeowner to repay the loan through a zero percent interest land contract.[48] The Minnesota Urban and Rural Homesteading Program has used land contracts to support at-risk homebuyers, defined by the program as those homeless, receiving public assistance, or otherwise lacking the ability to meet mortgage underwriting standards for traditional financing, to purchase rehabilitated homes.[49]

Alternate homeownership models featuring lease-purchase options with stricter regulations have also been proposed as potential solutions to address declining homeownership. Under a lease-purchase mortgage arrangement, households rent a home for a specified period, build credit and increase their savings, and finally take on a mortgage and ownership of the property when they are more financially secure. Such an arrangement allows a household to lock in lower interest rates and house prices during the initial rental period before formally buying. Galante, Reid, and Sanchez-Moyano (2017) purposed that the Federal Housing Administration pilot a lease-purchase mortgage product in which nonprofits could offer their buyers assumable, fixed rate, high loan-to-value mortgages. They argue that the federal guarantee on the loan would reduce capital costs for organizations interested in expanding lease-purchase programs and that FHA management would provide important regulatory oversight and consumer protection.

POLICY RECOMMENDATIONS

Ensure contracts are registered. Registration of land contracts with the appropriate county agency helps protect buyers when sellers file for bankruptcy, fail to pay property taxes, or sell the property to another buyer. As with traditional home sales, land contracts should be registered with the local county register of deeds to ensure the protection of recordation.

Introduce legal standards for agreements. Michigan has no standard land contract form, creating a vast array of contract styles that are often difficult for buyers to understand. The state should introduce a standardized land contract agreement to increase transparency and protect both buyer and seller. The Michigan Foreclosure Task Force developed guidelines for a well-crafted agreement, including specifying payment terms, a provision covering who pays property taxes, provisions covering who pays property insurance, and other important details often not included in today's contracts.[50]

Increase eviction protections. As noted, several other states now regulate the transfer of title to buyers who have made regular payments on the property for a specified period or has invested a certain amount in the property. Buyers who meet these criteria are protected by traditional foreclosure provisions from eviction if their payments become delinquent.

Clear all liens and debts on the property before sale. Michigan's legislature should require that debt and liens on properties be cleared before their sale on land contracts. This will prevent contract buyers from unknowingly inheriting property tax debt or overdue water or heating bills on a property, which may lead to foreclosure if the buyer cannot afford to pay the debt.

Require third-party appraisals and independent inspections. As with traditional mortgages, buyers and sellers should have complete information to make informed decisions before transactions take place. Even if the property is sold "as-is," the buyer should be aware of the full cost of repair and maintenance, in addition to contract payments, to ensure they are able to afford the property.

Identify and take appropriate action against bad actors. Local and national media reports have highlighted several companies that have purchased foreclosed properties in Michigan and have sold them through land contracts at inflation prices with predatory terms. Wisconsin, for example, has acted to ban specific companies that have a history of problematic activity.[51]

Conclusion

Many factors precipitated the staggering decline in African American homeownership in Michigan, and likewise, recovery of African American homeownership will require a diverse portfolio of actions at the local, state, and federal levels. The City of Detroit has laid the foundation for the recovery in some of its recent programs, especially those that stabilize the city's public sector, and in its partnership with nonprofits and for-profit businesses and philanthropy. For Detroit to sustain those gains in homeownership, the city would benefit from legislative reforms and programmatic innovation to reduce the likelihood of another wave of property-tax foreclosure and to protect low-income buyers from predatory land contracts. Moreover, other counties, smaller cities, and townships may still lag behind

Detroit in making improvements to their tax foreclosure process and in extending support to contract buyers.

Land contracts and tax foreclosures may not look closely related, but they are. Tax foreclosures often end in auctions of properties. Cash buyers prevail in these auctions and often quickly turn around and offer properties to new buyers using land contracts. When buyers default, these operators can quickly recycle the properties. This cycle damages neighborhood property values and undermines both a jurisdiction's tax base and property owners' willingness to continue paying taxes whose rates must continue to rise to provide basic public services.

Michigan and its communities need to take many actions to stabilize property values, improve neighborhood conditions, raise residents' incomes, ensure the availability of affordable rental housing, and provide an onramp to ownership for renters. But concerted action to reduce the risks imposed by tax foreclosures and land contracts may be among the most important near-term actions that stakeholders at the state and local level can take to ensure that fragile gains in local communities do not evaporate in the next economic downturn.

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