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A Homeowner's Last Gasp: Looking at the Redemption Process in Hennepin County, Minnesota

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A Homeowner's Last Gasp: Looking at the Redemption Process in Hennepin County, Minnesota

Senior Honors Thesis

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Abstract

While the causes of foreclosure are generally well understood, the outcomes of foreclosure have been poorly documented. Although rare, home redemptions – when foreclosed homeowners retain their home after it has been sold in a foreclosure auction – are a possible outcome. This paper explores the occurrence of foreclosure redemptions in Hennepin County, Minnesota in the year 2005, and examines how and why some homeowners were able to keep their house after being foreclosed upon. Using GIS data from the Hennepin County Sheriff's Office and County Assessor, this paper analyzes the likelihood and spatial patterns of redemption.

Acknowledgements

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TABLE OF CONTENTS

Introduction

The Current Foreclosure Crisis

Foreclosures in the Twin Cities

Why Is There A Redemption Period?

Methodology

Results and Discussion

Conclusions and Recommendations

Appendix

Bibliography

INTRODUCTION

Over the past five years, the many foreclosures that have occurred in the Twin Cities of Minneapolis and St. Paul have devastated families and the neighborhoods in which they live. During this period, government and non-governmental institutions alike have tried nearly anything to keep troubled homeowners in their houses: grass-roots efforts to make homeowners aware of the dangers of foreclosure; counseling for troubled homeowners; legislation that attempts to end predatory lending; and prosecution of those lenders who made shady loans. One potential method of saving homes that has been rarely utilized is the home redemption.

While foreclosure is often portrayed in the news as a single event, it is actually a process that plays out over several months. Foreclosure is the legal process through which lenders try to recover the loan amounts that are owed to them (McDaniel 2008). In Minnesota, a homeowner receives the notice of foreclosure 30 days after their first missed payment. After the sixth missed payment – roughly 24 weeks after the first missed payment – a homeowner is notified that the home will be sold by the sheriff's department in four weeks. The sale is a public auction, where anyone may bid and buy the home. The sheriff's sale represents the last opportunity for the homeowner to bring their mortgage payments current, including the interest owed for missed payments. After the auction, the mortgage is void, and the home has a new owner. However, the

foreclosed homeowner has one last chance to keep his or her home: the redemption period. During the redemption period, which lasts six months, the homeowner retains the right to stay in the home and can pay off all existing debts on the home. Along with the possibility to keep their home, the six months also provides homeowners with a transition period in which they can figure out where they are going to live once the redemption period is over and they are forced out of their home. If the homeowner is unable to do pay all debts by the end of the six-month period, he or she must vacate the property (Minnesota Home Ownership Center 2008). A home is considered redeemed if the foreclosed homeowner pays off all debts on their home during the redemption period and then retains ownership of the home.

Although the redemption period seems like an additional opportunity to keep their home for foreclosed homeowners, very few homeowners are actually able to redeem. Because redemption only helps a tiny percentage of at-risk homeowners, it has not been thoroughly studied. This paper examines redemption in Hennepin County, Minnesota in order to find out the extent and patterns of redeemed homes. By looking at redemption from a geographical perspective, the research aims to understand how redemption affects neighborhoods and communities, as opposed to just individual homeowners. Creating stable neighborhoods in which homes are owned and occupied by residents with a long-term interest in the area is important to the viability of any urban area. Redemption can be one tool of many to helps stabilize neighborhoods that have been devastated by foreclosures. When this research began, little was

known about the percentage of homes that were redeemed, or what types of homeowners were most likely to redeem their houses. This research aims to answer some fundamental questions: How many people redeem their homes? What resources do they use? Are there any significant spatial or demographic patterns within the set of redeemed homes?

While the number of redeemed homes is small, this research attempts to analyze the redemption period's usefulness and to propose possible changes to the redemption period to help more distressed homeowners. While the study's results were complicated by data problems, the results do show that the redemption period can be a useful resource for a small group of foreclosed homeowners.

THE CURRENT FORECLOSURE CRISIS

To study redemption, it is first necessary to understand the causes of the current foreclosure crisis. During this time there has been a tremendous rise in the number of home foreclosures nationwide. No geographic area or demographic group has been spared. There are two types of causes that can lead to a foreclosure. Foreclosures that occur due to the *options theory* result from a drop in value of the property below the loan debt of the homeowner. The *trigger event theory* occurs when the homeowner experiences financial difficulties due to an event such as a job loss or divorce. These two theories often interact with each other in individual cases (Grover et. al. 2007). In addition to understanding what caused the current crisis, a general knowledge of the foreclosure process will allow the reader to better comprehend how the redemption period fits within the larger issue.

Causes of the Current Crisis

The current foreclosure crisis that has engulfed the American housing market stems from an evolution in mortgage lending that no one – not financial institutions, not the government, and certainly not homeowners – fully anticipated. Whereas once lending money to American homebuyers was "one of the least risky and most profitable businesses that a bank could engage in", in only a few years the deregulated and money-hungry lending industry had turned the housing market on its head (Zandi 2008). Between 1979 and 2006, the rate of

“seriously delinquent” loans – those that were 90 days or more past due in the process of foreclosure – had averaged 1.7%. By mid-2008 this rate had reached 4.5%, an increase of 164% (Mayer et. al 2008). By the end of 2009, as many as 2 million homes may face foreclosure, undermining economic and homeownership gains made in the past decade (McDaniel 2008). There is no single reason or organization to blame for such a large catastrophe. Instead, it was a complete failure of the lending system in America. In the wake of the calamity, governments at all levels as well as community and non-governmental organizations are trying to ease the crisis by passing new legislation and taking legal action against dishonest lenders.

The expansion of “sub-prime” and “near-prime” loans, collectively called “non-prime” loans, is seen as a major reason for the current problems. Although the terms lack a strict definition, it is generally understood that these types of loans are riskier and are usually given to borrowers who do not have good credit histories (Mayer et. al 2008). Since people who receive non-prime loans have a history of poor credit, they are less likely to be able to make the payments on their mortgage. In the past, non-prime loans were extended only to homeowners who could not afford prime loans. In these cases, a non-prime loan could be used to extend credit to a homeowner who had previously been unable to get a mortgage.

It is important to make a distinction between non-prime loans and predatory lending techniques that have frequently accompanied the use of non-prime loans in the past few years. Non-prime loans are not new, and are not necessarily bad when used with proper precautions. However, the frequency and

haphazard manner in which non-prime loans have been used recently has led to an abnormally high number of foreclosures. Non-prime loans should be used for a select group of people, and only in certain circumstances when it is the only way to extend credit to a potential homeowner (Zandi 2008). While non-prime loans are inherently riskier, in the past there were still income checks to make sure that a homeowner could repay the loan. When used responsibly, non-prime loans are an opportunity for more people to become homeowners.

Unfortunately, recently non-prime loans have been coupled with predatory lending practices. In addition to the inherently risky nature of making non-prime loans, many were also made without full documentation of the income of the recipient. In 2005, 44% of sub-prime loans were made without full documentation of income, up from 26% in 2000 (Stein 2008). By not fully documenting the income of those families that were receiving the loan, lenders fooled families into believing that they could afford these dangerous loans on their current income, when in many cases this was never possible. Even worse, many loans were made with false documentation, in which a borrowers' assets and income were exaggerated in order to qualify them for a loan that they otherwise would have been unable to receive (Bjorhus 2007). These types of predatory lending schemes, which were practiced by many of the unregulated banking firms that made non-prime loans to low-income families, are the largest culprit for the high number of foreclosures that we are experiencing now. Many of the loans were made unlawfully by using deliberately misleading practices that

gave homeowners a false sense of hope that they would be able to pay back their loans, which they could not afford.

A further tool used by lenders to induce homeowners to sign risky mortgages is an adjustable rate mortgage (ARM), which has a fixed rate for the first few years before the interest rate and payments begin to rise. These loans often start out with a low "teaser" rate, which makes homeowners believe that they can afford the mortgage. However, once the real interest rate kicks in after two or three years, payments jump substantially, sometimes as much as double, and the homeowner often cannot afford to make their payments (Mayer et. al 2008). ARMs were endorsed by Federal Reserve Chairman Alan Greenspan during the early part of the 2000s, who believed that since most people stayed in their home for less than a decade, they should not have to deal with added interest expenses that come with 30-year fixed-rate loans. He believed most Americans would save money because they would sell their home before the highest rates came into effect. However, even in safe financial times, ARMs have a 50% higher delinquency rate than fixed-rate loans (Zandi 2008).

It also should be noted that these techniques, which often end in foreclosure, disproportionately affected racial minorities and low-income families. These groups, which have been historically discriminated against in the housing market, were targeted for risky non-prime and ARM loans far more often than the average American (Gramlich 2007). Additionally, while lenders are to blame for many foreclosures, homeowners are also responsible for their fair share.

Many homeowners knowingly took out risky loans, believing that they would be able to refinance at some point in the future before their payments got too high.

Despite the creation of a delicate situation with the introduction of so many risky loans into the mortgage market, a new method of financing home buying developed by Wall Street investors actually made it more difficult to recognize the danger of individual mortgages. While mortgages had previously been simple transactions between lenders and borrowers, the creation of mortgage securities added an extra layer of risk and ambiguity to the transaction. Instead of paying their monthly bill to the lender, a homeowner's payment would go into a pool of mortgages that would then be apportioned to investors who had bought the security from the original lender. By combining many risky mortgages into one security, the dangers was obscured and "the incentive for responsibility was undermined" (Zandi 2008).

In addition to the lowered motivation to protect homeowners by making safer loans, lenders were actually rewarded if they made riskier loans which provided a higher investment return on their securities (Stein 2008). Securitization allowed for riskier loans to be made and also extended the amount of capital available to lending services to make more loans. Now lenders could make loans, sell them to investors and use the profits to originate further loans (Zandi 2008). The end result was a high quantity of bad loans being made to homeowners who could not afford them, with little regard for the future or well-being of the homeowners.

The number of foreclosures might have been limited had it not been for an increased push for citizens to realize the "American Dream" of homeownership. Although the largest gains in homeownership were made after World War II, a new boom occurred between 1994 and 2005, when nearly 12 million Americans became homeowners for the first time (Gramlich 2007). Homeownership was encouraged both by the government and American culture, where owning your own home is a sign of financial success and stability. During this time period, housing prices appreciated rapidly. Families that had never owned a home before could justify buying one as a "can't-miss" investment. In addition to buying first homes, baby boomers and upper-class members saw an opportunity to purchase a second home before housing prices got too high (Zandi 2008). With what appeared to be a significant amount of incentive to buy, and to buy now, homebuyers did not hesitate to sign mortgages that appeared a little dangerous.

Proper government regulation of the mortgage industry might have limited the severity of the current crisis. However, in the rush to make homeownership a reality for all Americans and to stimulate the economy, government regulation of lending was relaxed. Government officials, particularly the Federal Reserve under then Chairman Greenspan, provided little oversight of loans, claiming that they did not want to stop "the free flow of credit" that was making so much money for lenders and investors (Stein 2008). The decline in governmental supervision of the lending market and elimination of certain constraints on lenders allowed the sub-prime market to flourish (Gramlich 2007). There was a new belief that the free market would properly regulate itself, and that government

should move aside to avoid slowing down the process. Investors believed that a new era had been reached, one in which "the ordinary rules of economics and finance no longer applied" (Zandi 2008). In addition to a lack of government regulation, credit rating agencies that were supposed to grade securities based on their risk were handing out AAA scores (considered very safe) on securities that were in fact very risky. These high scores occurred in large part because the credit rating agencies were being paid by the issuers of the securities, creating a significant conflict of interest (Stein 2008). This conflict of interest of these credit rating agencies increased the danger of the investments rather than providing another check against wild investment.

Although it may seem that this system was designed to create foreclosures, this is not true. Lenders do not want foreclosures, nor do they want to own homes. Few parties gain from the actual foreclosure itself. The average cost of a foreclosure to the homeowner, lender, government and neighborhood is $78,000 (McDaniel 2008). Lenders want to collect the mortgage fees, for which they charge interest (Gessell 2007). Since foreclosed property owners do not pay fees, they do not generate profit for the lenders (McDaniel 2008). Many sub-prime brokers made their profits on upfront fees and costs that were due upon the signing of the mortgage. Once these were signed and the original lenders had collected their upfront fees, they no longer wanted the responsibility of owning the mortgage and collecting payments, so they sold the collection rights to another company and were no longer involved in the process.

Distribution of Foreclosures

There are several known demographic factors associated with homeowners and neighborhoods that are correlated with higher rates of foreclosure. The most accurate variable in predicting foreclosures is, not surprisingly, risky credit scores. In one study of the Twin Cities market, looking at the credit scores of a census tract could predict 77% of the tracts in the top quintile in terms of foreclosed homes. Other factors that helped predict where foreclosures occur are: percent nonwhite, percent poor, percent low income, high prime denial rate and high subprime refinance. All these factors predicted between 62% and 68% of tracts in the top quintile (Grover et. al. 2007). Although these factors were based on foreclosure data from the year 2002, and included some census data from 1990, it is safe to assume that they still hold largely correct for the current analysis, which uses foreclosure data from 2005 and census data from 2000. This is confirmed by a study conducted by Crump (2007) of the University of Minnesota, which concluded that the spatial distribution of foreclosures in 2005 remained similar to the distribution in 2002.

FORECLOSURES IN THE TWIN CITIES

The high foreclosure rates in the Twin Cities of Minneapolis and St. Paul have ravaged communities and cost local governments millions of dollars in fees and property taxes. Minneapolis, located in Hennepin County, has suffered the worst of the foreclosure effects. In 2007 and 2008, the city had a total 5,972 foreclosed properties (City of Minneapolis 2008). The largest concentrations occurred in the lower-income and heavily minority North Side, as well as pockets in central and south Minneapolis (Star Tribune 2008). The high number of foreclosed homes and the economic and social disruption that accompanies foreclosures have drawn considerable political attention, including a congressional hearing of the Committee of Financial Services held in Minneapolis in the summer of 2007. The hearing, attended by local representatives Keith Ellison of Minneapolis and Betty McCollum of St. Paul and members from both city's governments, served as a stage for local government officials and homeowners to express their frustration and anger.

The massive number of foreclosures in the Twin Cities has had a "devastating impact" on neighborhoods and communities by driving down property values and attracting "crime and other illegal activities", according to Representative Ellison (United States Congress 2007). Foreclosed homes quickly become vacant, lowering property values. In addition, vacant properties are targets for criminals who strip the home of its piping to sell for scrap. The resulting loss of property value averages about $10,000 for houses adjacent or across from a vacant home (Hoppin 2007).

Along with vandalism and burglary, high foreclosure rates also are strongly correlated to high murder rates and other dangerous criminal activity. North Minneapolis had 28% of Hennepin County's foreclosures and 58% of the City of Minneapolis' foreclosures in 2005, and in 2007 had more murders than the rest of the city combined, despite the fact that the area represents only a small fraction of Minneapolis (United States Congress 2007). The community has also seen an increase in arson in the past few years (Crump 2007). There is also the additional theft and burglary of vacant homes, which attracts drug dealers and users (Louwagie and Howatt 2007).

Along with the social effects of foreclosures in the Twin Cities, there is also a considerable economic strain placed on local governments and taxpayers. For example, the state has spent thousands of dollars in prosecuting fraudulent lenders that inflated clients' assets in order to qualify them for risky loans (Bjorhus 2007). These lenders have not been banks; instead they have been part of the unregulated industry (United States Congress 2007). These lenders "have systematically stripped the wealth of vulnerable communities, leaving in their wake a trail of financial distress that will likely take years to recover from" (Crump 2007).

The process of removing wealth from homes begins with a rise in housing price which increased the homeowner's potential equity in their house. Homeowners borrowed or refinanced their mortgages, often several times, against this new equity, taking out risky loans with the belief that their home's value would continue to rise. Each new mortgage or refinancing generated profits for

lenders in the form of origination fees, while also transferring equity from the homeowner to the lender. When the price of the home dropped, the homeowner realized that he or she had little equity left in the house. Unable to sell their homes to repay their loans, many homeowners were forced into foreclosure (Crump 2007). With so much refinancing and often more than one mortgage on a home, a homeowner's debt often exceeded the value of the home. In the 2007 study by the Minneapolis Federal Reserve on foreclosures in Hennepin and Ramsey Counties, this was the case in 80% of foreclosed homes (Grover et. al 2007).

Foreclosed homes tend to be highly concentrated in neighborhoods, which magnifies the associated problems (United States Congress 2007). On some blocks, nearly half of the homes have been recently foreclosed (Louwagie and Howatt 2007). Foreclosures have led to disinvestment in many local neighborhoods, according to St. Paul Mayor Chris Coleman. Since foreclosures tend to be geographically concentrated in certain neighborhoods, even homeowners who are not experiencing problems with their mortgage payments are affected; home values in the whole neighborhood decrease due to foreclosed homes, many of which become vacant (United States Congress 2007). Those people willing to make investments in areas with high foreclosure rates often do not have the best interests of the community in mind. Large numbers of vacant lots frequently lead to "flipping" schemes by developers, which in turn leads to gentrification that can drive out the neighborhood's original residents (United States Congress 2007).

Foreclosures in the Twin Cities have been found to be concentrated in several neighborhoods. Rates within the core cities of Minneapolis and St. Paul were significantly higher than in the suburbs (Grover et. al. 2007). In Minneapolis, the areas to the northwest and southeast of downtown experienced the highest number of foreclosures in the city. As Councilwoman Barb Johnson of the Minneapolis City Council stated in her Congressional testimony, people in these areas of the city, which are some of the poorest neighborhoods in Hennepin County, "do not have big stock portfolios or cushy retirement systems; they only have their homes" (United States Congress 2007). A foreclosure can lead to financial ruin for the homeowner.

In addition to geographic conditions which increase the likelihood of foreclosure, there are also economic and demographic factors which are strong indicators of high foreclosure rates in the Twin Cities. Most foreclosures that occur in the Twin Cities happen within three years of the loan origination, and around half involve loans with high interest rates. Many of these high interest rate loans were originated by non-regulated lenders (Grover et. al. 2007). In 2005, one quarter of all loans (22,690 out of 90,476) that originated in Hennepin and Ramsey County were considered non-prime loans. However, previous research indicates that as many as half of non-prime loan recipients could have qualified for prime loans with better interest rates and lower rates of delinquency. Instead borrowers were steered toward non-prime loans because they are more profitable for the lender (Crump 2007).

Racial and ethnic minorities were much more likely to receive these non-prime loans. While only 20.1% of loans originated to White borrowers were non-prime, the percentage was considerably higher for every other sizable ethnic or racial group in the area: 59.7 % for African Americans; 48% for Hispanics; 43.6% for American Indians; and 35.9% for Asians (Crump 2007). Clearly, lenders targeted minority groups for the riskiest mortgages. Often borrowers spoke little or no English, and did not understand the risk they were undertaking when they signed a mortgage (Bjorhus 2007). Groups that had been previously discriminated against, especially African Americans, could now receive home financing, but they paid the price with risky loans that had the potential to destroy families and neighborhoods (Crump 2007).

While neighborhoods with high minority populations tend to have a greater risk of high foreclosure rates, there are other factors that also indicate a neighborhood's likelihood of foreclosures. Education level is a particularly strong indicator: the more borrowers with high school and college diplomas, the lower the foreclosure rates. Income is also a strong indicator, with higher-income households less likely to go into foreclosure. The rate of unemployment of a neighborhood and the percent of young heads of household (below age 45) were indicators of high rates of foreclosure (Grover et. al. 2007).

Government Response

There has been action at all levels of government in an attempt to limit the number and effects of foreclosures in Hennepin County. Along with government

actions, there has also been a significant effort by non-governmental organizations. The "Don't Borrow Trouble" advertising campaign is a national effort to advise potential homeowners about the dangers of risky mortgages. The Minnesota chapter was launched in 2003 and is funded by local governments, non-profit organizations and members of the lending and real estate industry (Don't Borrow Trouble 2007). Along with advertisements warning about the dangers of risky mortgages, the organization also provides educational materials to teach new homeowners what to look for and what to avoid; it also has a help line for homeowners if they need advice.

Minneapolis has received several loans totaling over $20 million to purchase and restore homes. Using eminent domain, the city has bought homes in the hardest hit neighborhoods and resold them to stable homeowners (United States Congress 2007). In addition to using eminent domain, Minneapolis non-profit Greater Metropolitan Housing Corporation has struck a deal with four major lenders that allows the group to buy back foreclosed houses for discounted prices. Once the homes are purchased, they will be offered to the city government, other non-profits in the area and private developers with a track record of responsible development. The project, which is the first of its kind in the country and is serving as a pilot for other cities, is occurring in Minneapolis because the city is ahead of the national curve in recognizing the problems associated with vacant homes, and is leading the way nationally in rehabilitating its hardest-hit areas (Brandt 2008a).

The Minnesota State Legislature has worked to pass legislation that looks to eliminate future predatory lending and ensure that there is not another foreclosure explosion. The first bill, known as Predatory Mortgage Lending Practices Prohibited, which was signed into law by the governor and went into effect on August 1, 2007, was a large-scale effort to eradicate predatory practices. Among the main provisions of the bill are: requiring the lender to verify the borrower's ability to repay the loan; prohibition of refinancing unless there is a "reasonable and tangible" benefit to the borrower; prohibition of loans with a negative amortization; placing a 5% cap on fees involved with the origination of the loan; requiring that mortgage officials act in the "best interest" of the borrower (Minnesota State Legislature 2007a).

The second bill – known as Predatory Mortgage Lending Practices Prohibited,Criminal Penalties Prescribed and Remedies Provided – also went into effect on August 1, 2007 and builds upon the original legislation. This bill provides that: no lender shall make misleading or false statements; no lender shall sell a borrower a non-prime loan without informing the lender that he or she qualifies for a better loan; no lender shall charge prepayment penalties. It also establishes a borrower's legal rights of action and defines and prohibits mortgage fraud (Minnesota State Legislature 2007b).

The federal government has also done its part by passing legislation that aids homeowners and local governments. This was done primarily through the passage of the Housing and Economic Recovery Act of 2008. The law provides assistance to distressed lenders through the Federal Housing Authority (FHA) by

offering them 30-year fixed-rate loans with affordable interest rates. In return the homeowner will share future increases in home equity with the FHA (U.S. Senate 2008). The bill also allocates nearly $4 billion in grants to state and local governments to rehabilitate vacant and foreclosed properties (Govtrack 2008). Lenders must now disclose the maximum monthly payments possible under the loan. Finally, the law also provides $150 million for foreclosure prevention counseling and $30 million is allocated to legal services and distressed borrowers (United States Senate 2008).

Recently, the city of Minneapolis has decided to use $5.6 million of its federally allocated money to purchase and rehabilitate or demolish over 600 homes in the city. This money will be split roughly evenly, with about $1.5 million each for demolition, redevelopment and the purchasing of vacant lots. In addition, another $500,000 will be used to help low-income residents buy properties that are currently foreclosed. While the city is coping with the current surge of foreclosures, it also has the benefit of knowing that the number of foreclosures is actually on the decline, unlike the rest of Hennepin County (Brandt 2008b). The last five months of 2008 all had fewer foreclosures in the city compared to the same month in the previous year (City of Minneapolis 2008). Much of this is likely due to the fact that in many of the hardest-hit areas, there are simply no more homes to foreclose on.

WHY IS THERE A REDEMPTION PERIOD?

The redemption period gives foreclosed homeowners one last chance to pay off their debts and interest and keep their home. In Minnesota, the period lasts six months, after which homeowners must vacate the property if they cannot pay their debts. The concept of a redemption is nothing new; it first appeared in English law in the 1500s and has been in effect in the United States since the early 1800s. A redemption period helps to protect against the loss of subjective value, value that is not captured by the market when the property is resold, by allowing homeowners one final chance to keep their property and "effectively extending the terms of the mortgage" (Baker et. al 2008). By protecting the subjective value of the homeowner, redemptions attempt to keep the property in the hands of the person to whom it is most valuable; it recognizes that some properties have a greater value to some individuals than to others.

While the concept of redemptions originated with the intent of protecting farmers from losing their land during periods of economic trouble, it has been extended to all properties. However, as agriculture has become a smaller part of the economy, states have shortened or eliminated their redemption policies. Minnesota is currently one of only seventeen states with a redemption period, and it has shortened its own redemption period from twelve months during the Great Depression to six months now (Baker et. al 2008). The six-month redemption period currently serves as the last possible opportunity for property owners to pay

off their debt to creditors before they are forced to vacate the property (Minnesota Home Ownership Center 2008).

There has been very little previous research on the geographical patterns and impact of redemptions in urban areas, as most research has focused on the causes and effects of foreclosure rather than on the relatively small number of homeowners who have redeemed their property. Therefore, I was unable to find research on redemption in a similar context as Hennepin County. This meant that I had no prior knowledge about the likelihood of redemption or how demographic factors affect the chance of a redemption.

Encouraging redemption plays into a larger action being made by cities across the country to aid depressed areas that have been the hardest hit by foreclosures. While there will undoubtedly be higher than average turnover in these areas, it is important to keep as much cohesion in neighborhoods devastated by foreclosures as possible. Maintaining a familiar environment "contributes to the psychological well-being of residents" and gives them pride in the sense of place that is created in the neighborhood (Ahlbrandt and Brophy 1975). Educating homeowners on the different ways to keep their homes – one of which is redemption – will help to keep communities intact. Just as redemption kept farmland in the hands of farmers to whom it was most valuable, it can do the same thing in urban areas by keeping foreclosed homeowners in their homes.

Neighborhoods that are clearly in decline are most in need of protection. If they are not turned around quickly, "it may be impossible to save them in the future" (Ahlbrandt and Brophy 1975). Once a neighborhood passes a tipping

point, it ceases to become livable and alternatives such as large scale clearings become more economically viable. In order to retain their current population and encourage in-migration, the quality of life in these devastated neighborhoods must be improved (Ahlbrandt and Brophy 1975). The best way to improve livability in a neighborhood is with homeowners who are invested in the neighborhood and concerned about its future. A homeowner that has redeemed his or her house has just made a significant financial investment in the neighborhood and will desire that the neighborhood stay healthy in order to preserve the investment. Therefore, redemptions that occur in the hardest-hit neighborhoods are most important, because such redemptions will help prevent neighborhood decay.

METHODOLOGY

In order to study redemptions, it is first necessary to understand where foreclosures are taking place. The year 2005 was chosen for study because it was the most recent dataset available in which the six month redemption period could be examined. If data for the year 2006 had been chosen, the redemption period for some of the homes would not have been complete when this study began in May of 2007. Only homes that had been auctioned off at the end of the foreclosure period by the county sheriff were considered in this study, since these homes were the ones that had entered the redemption period and therefore were eligible to be redeemed by their owners. Homes that had entered the foreclosure process but did not proceed as far as the sheriff's sale were not considered in this research.

The foreclosure data for 2005 were obtained from the Hennepin County Sheriff's Office. These data did not contain the addresses of the foreclosed homes; the addresses had to be matched to the legal descriptions of the homes. The addresses were then geocoded and made into a GIS shapefile by one of Professor Smith's classes, allowing the data to be mapped. The data contained the address, owner, date of the sheriff's sale and mortgage lender for each foreclosed property. The data are public and therefore were free. The Sheriff's Office reported a total of 1,680 foreclosure home sales during the year 2005. Figure 1 shows the location of foreclosure home sales in Hennepin County in 2005. As the map shows, foreclosures were most heavily concentrated in Northern Minneapolis (the communities of Near North and Camden), Central

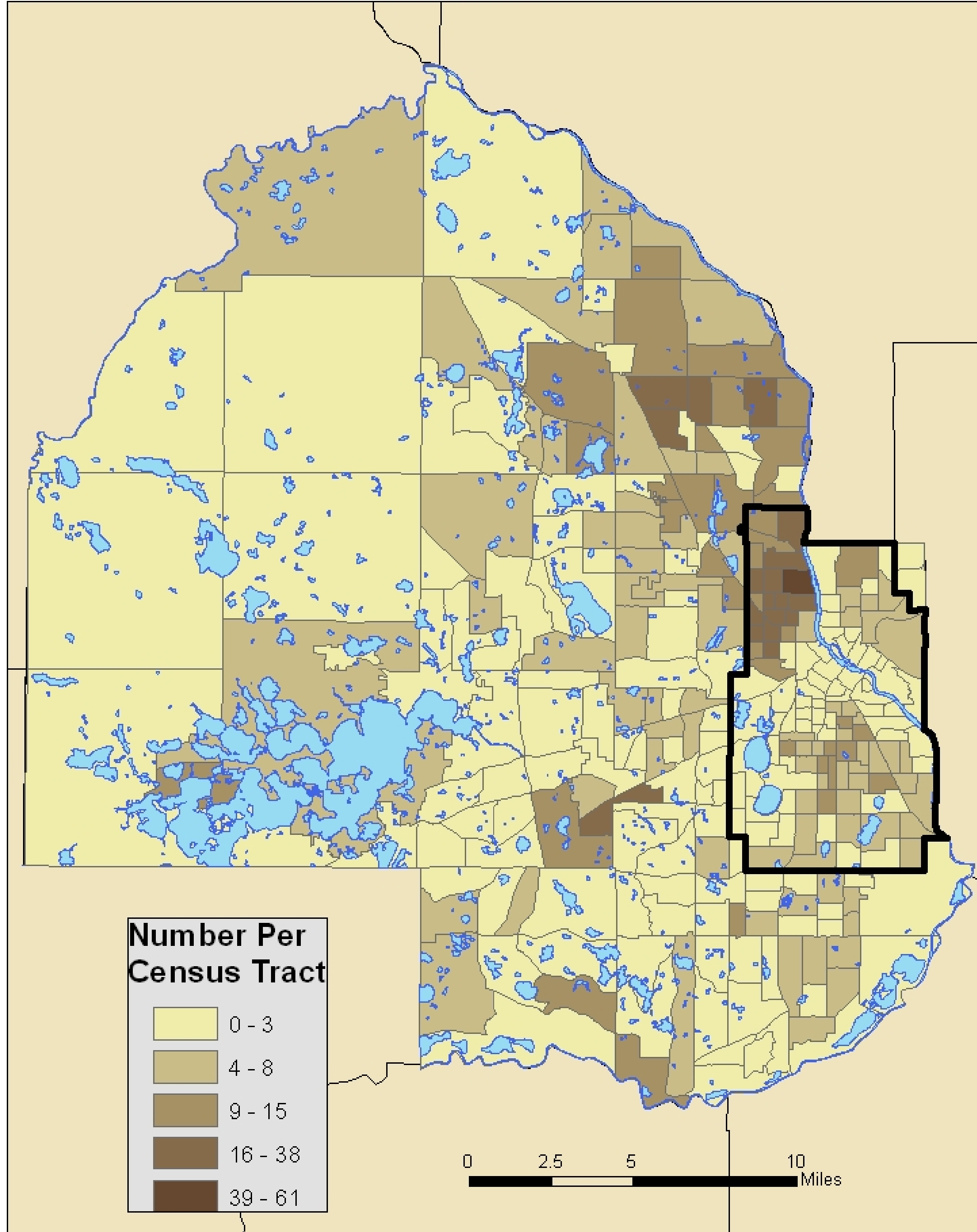

Figure 1. Note: The black outline represents the boundaries of Minneapolis.

Minneapolis (the communities of Phillips and Powderhorn) and the northern suburbs of Brooklyn Park, Brooklyn Center, Crystal and Robbinsdale. This corroborates with earlier research on foreclosures that indicates that areas with high levels of low-income and minority residents are more susceptible to foreclosure (Grover et. al. 2007). There were also high concentrations of foreclosures in wealthier cities such as Mound and St. Louis Park. The 1,680 foreclosures were spread fairly evenly across the four quarters of the year, with no quarter accounting for less than 23% of the total and no quarter accounting for more than 28% of the total.

In order to determine whether a home had been redeemed, the name of the original owner of the foreclosed home was compared to the owner of the property at least six months after the sheriff's sale. A foreclosed home that had the same owner after the redemption period was complete would be considered redeemed. In order to make this comparison between homeowners of the foreclosed property and homeowners after the redemption period, I obtained parcel data for all of Hennepin County from the County Assessor's Office, via the Metropolitan Council, which is a regional government agency in the seven-county Twin Cities Metropolitan Region. These data show the address and owner of all properties within the county, as well as other basic information for each property. These data are provided by the Metropolitan Council to academic institutions in the area.

The next step of the process was to use ARC GIS to match the names of the owners from the two data sets. When initially attempting to compare the names of the owners across the two datasets, I realized that minor differences in

the way a name was listed – for instance the use of a middle initial in one of the data sets and not the other – was causing problems. If the names were not spelled the exact same way in both data sets, ARC GIS would not recognize that the home was still owned by the same person. In order to fix this data entry problem, I had to manually inspect each owner name in the list of foreclosed properties to ensure that the spelling and structure of the names were the same as the spelling and structure of the names in the parcel dataset. It is important to note that correcting the names did not compromise the accuracy of the data or the results of the research; the corrections were necessary in order to ensure accuracy when comparing the owners' names from the list of foreclosed homes with the county parcel data. Without correcting the formatting of the owner names, ARC GIS would have missed several homes that had been redeemed.

Once the names were corrected, it was possible to identify the properties which still had the same owner six months after their sheriff's sale, theoretically signifying that a home had been redeemed. Since the county parcel data comes out every quarter, foreclosed homes were also divided into four groups based on the time of the year sheriff's sale occurred. Foreclosed properties were then compared to parcel data from three quarters in the future, meaning that at least a full six months (the time of the redemption period) had passed since the sheriff's sale had occurred for every home. Since parcel data is released quarterly, it was not possible to compare every home's owner at the exact end of the six month redemption period. For instance, homes foreclosed in the first quarter of 2005 (January-March) were compared to parcel data from the fourth quarter 2005

(released in October 2005). The results for this analysis revealed that 993 properties, or nearly 60% of the total foreclosed properties, had been redeemed. This immediately raised some concern over the findings, as this number seemed too high compared to both what was expected and what people who worked with foreclosed homeowners had been saying.

Upon contacting the Hennepin County Assessor, the problem was determined to be the manner in which the county changes its home ownership records. The ownership of a foreclosed home does not change in the county assessor records until the home is bought a by a third party, someone other than the original owner or the mortgage lender, after the sheriff's sale. Therefore, there can be a delay of several months before a change in ownership is seen in the assessor's records if the home is purchased by the original lender at the sheriff's sale, as is often the case. In an attempt to overcome this problem, owners' names were again compared using parcel data from several different periods – this time nine, twelve, fifteen and eighteen months after the sheriff's sale. With each passing three-month period, the number of homes that were considered "redeemed" under the original methodology declined, confirming that the main problem with this analysis was the assessor's methods when recording a change in property ownership.

The final count of "redeemed" homes eighteen months after the sheriff's sale was 296, or almost 18% of the original number of foreclosed homes. Figure 2 shows the location of homes that still had the same owner eighteen months after the sheriff's sale. The pattern generally mirrors the distribution of foreclosed

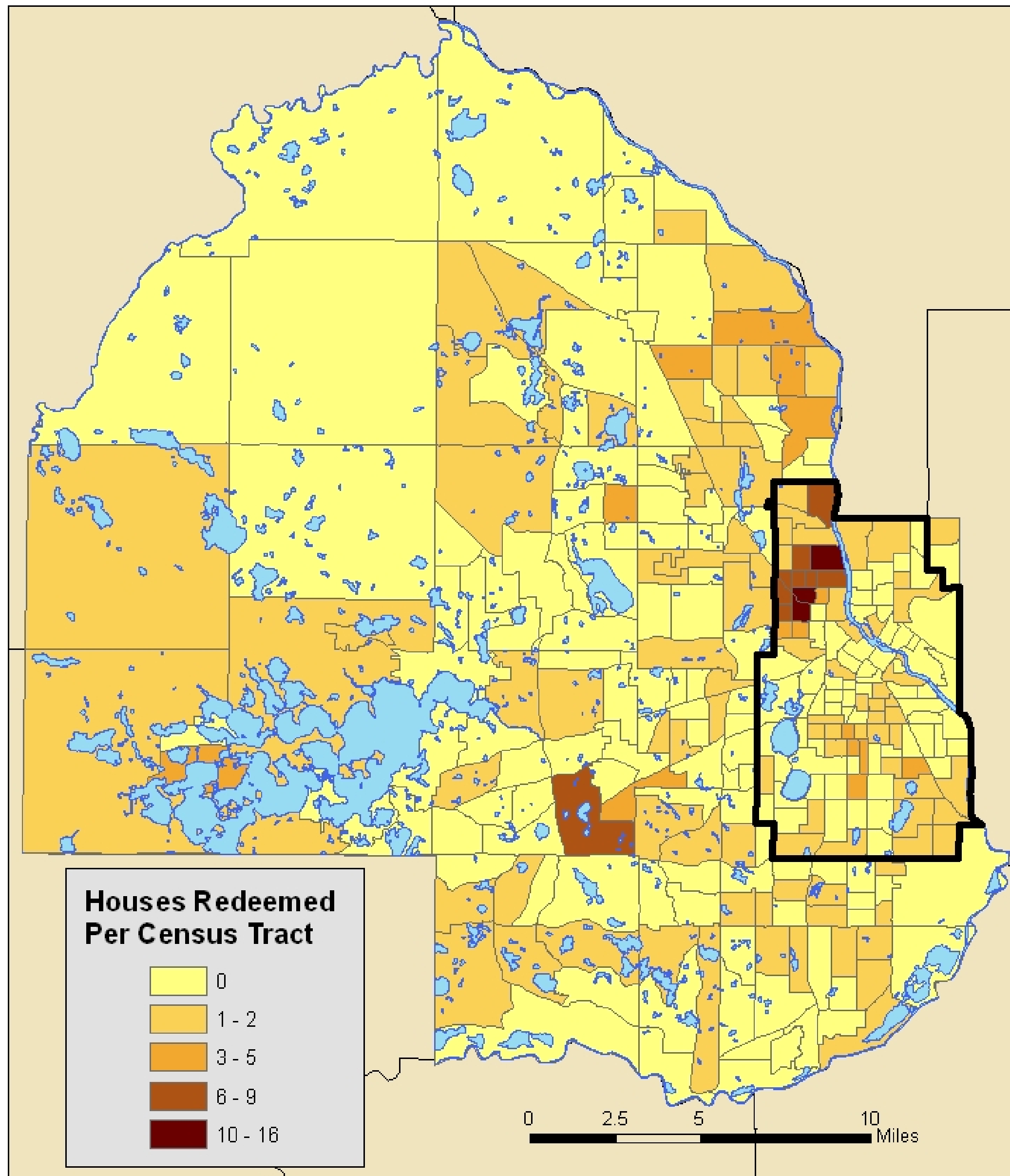

Figure 2. Note: The black outline represents the boundaries of Minneapolis.

homes that can be seen in Figure 1, with concentration most apparent in North Minneapolis. This concentration may be because North Minneapolis' high foreclosure rate and poverty discouraged third parties from investing in a foreclosed home in that section of the county, meaning that the owner's name on the county records held by the assessor would remain the same. Despite the significant decrease in homes that were considered redeemed, the number still appeared too large.

In an attempt to compare my initial findings with the observations of people and groups that work directly with foreclosed homeowners, I interviewed members of three local organizations that were involved with helping foreclosed homeowners in the hope of shedding some light as to whether the data that I had collected on redemptions were indicative of what was occurring on the ground. The three interviewees were Jeff Skrenes (Hawthorne Area Community Council), Brandon Nessen (Twin Cities ACORN) and Karen Johnson (Northside Residents Redevelopment Council). While the data that I collected indicated that redemptions were fairly common, all of the individuals that I spoke with claimed that they had not seen any cases of redemption with homeowners that they had worked with. They all indicated that once a sheriff's sale had occurred, there was little or no chance of a homeowner keeping his or her home. After these discussions, it became apparent that the number of redemptions that occurred was likely close to 0%, despite the fact that the research now showed a redemption rate of 18%.

Since the previous analysis demonstrated that the number of possible redemptions becomes smaller the further in time from the sheriff's sale, and because of the discussions I had with the three homeowner advocacy groups indicated that the total number of redemptions was likely to be very small, I conducted another analysis one year after my previous analysis. By extending the time passed, I hoped that homes that had been bought at the sheriff's sale by banks and lenders would have been resold, leaving only the true redemptions. The parcel data I used were from July of 2008. July 2008 is at least thirty months past the sheriff's sale for all of the foreclosures in 2005, and as much as forty months for the homes that were foreclosed in the early part of the year. This difference in time resulted in a significant reduction in the number of homes that could be considered redeemed, from 296 (18%) to only 52 (3%) homes.

At this point, I began to try to contact the 52 homeowners that I believed may have redeemed their home. I sent 47 of the homeowners a letter explaining my research and asking if they would be interested in being interviewed to discuss their situation (Appendix 1). The letter that I sent included a paid return-addressed envelope as well as my phone and email contact information. The goal of this letter was to introduce homeowners who had potentially redeemed their property to my research and ask if they would be willing to further discuss their situation with me. The letter aimed to confirm whether or not my method of determining redemptions was correct, by having the residents confirm or deny that they had redeemed their property. I asked each homeowner to indicate whether or not he or she was interested in participating in the study, and if so to

return the envelope to me with a phone number or email address. I also included the phone number and email address of the college's Institutional Review Board and my advisor's phone number and email address in case a homeowner had any questions that he or she wanted answered before agreeing to participate in the study. I sent the letters to the addresses as they were listed in the county parcel data. The letters were sent out on Thursday, October 30, 2008.

I received only three responses. All three homeowners had indeed redeemed their home. Although they all initially agreed to take part in the study, I was able to conduct interviews with only two of the homeowners. The third homeowner was non-responsive to my attempts to contact her, and I was unable to set up any type of interview. I allowed the homeowner to pick the venue for the interview in an attempt to make them as comfortable as possible. Of the two interviews that I conducted, one was done over the phone and one was done in person in a restaurant. Both homeowners answered all questions asked of them and were fully cooperative. For a list of interview questions please see Appendix 3.

I also received back fourteen letters that could not be delivered. These letters either stated that the home was vacant or that the postal service could not find the correct address. This issue will be discussed later on in the paper.

Methodological Limitations

There is no perfect way in which to determine home redemptions. Since no research of this type had been attempted before, I created my own set of

methods to discover the number of redemptions that had occurred. Although the methods that were used were sound and have led us to important data on redemptions, there are some methodological issues that should be acknowledged. The largest problem with the methodology relates to the ambiguity of the data collected from the Hennepin County Assessors. Since the assessor's office only records a change in ownership in its records when a new owner has purchased a foreclosed property, it is difficult to tell when a redemption has occurred. This ambiguity means that we must simply wait and compare the previous owners with the current owners over a longer period of time in order to find who *might* have redeemed their home. We are never able to say with complete certainty that a person has redeemed his or her home from looking at these data; the only way of confirming a redemption is through contacting homeowners that the data show may have redeemed their home. This is problematic because so few homeowners are willing to participate in such a study.

A large proportion, 14 out of 47 or about 30%, of the letters that I sent out in cases of possible redemption were returned to me by the post office because they were unable to be delivered; most of the addresses to which these letters had been sent were either vacant or could not be located by the post office. This raises questions about the accuracy of county assessor information if many of the listed addresses could not be found. There were thirty letters that I sent out from which I received no type of closure; these were letters that I sent out and did not receive back in the mail or receive any type of communication from the homeowner. Since they were not returned to me by the postal service, I assume

they were correctly delivered to the address where I sent them but that the homeowner did not wish to participate in the study.

There are many potential reasons why homeowners were unwilling to participate in the study. A foreclosure can be an embarrassing and sensitive issue for a homeowner, and many may have been unwilling to discuss personal financial matters with a researcher. There is also the possibility that some residents who had redeemed their home had moved, and were no longer living in the same residence, despite what the parcel data indicated. Conversely, the parcel data may be inaccurate, and the home is still owned by the lender. In such a case, the home would be occupied by another person, or could still be vacant. Finally, it is possible that the homeowner was too busy, forgot about the letter or had no desire to participate in this study. The difficulty in contacting individual homeowners to confirm each redemption means that this research is able to show patterns of redemption, but cannot be completely accurate.

In addition to the difficulty in determining when homeowners have redeemed their property, the methodology also has the potential to miss some redemptions in the total count. It is possible that an individual was able to redeem their home after six months, but then wanted to sell or was forced to sell the home several months later. However, this type of event would go unnoticed and would appear to be just another foreclosed home that had finally been sold to a third party; this group of possible redemptions cannot be uncovered using this methodology. While this is a drawback of the methodology, it should be emphasized that it is likely that only a small or non-existent percentage of

homeowners would redeem their home and then sell it quickly. To redeem a home, the owner must pay a large sum of money, which would be a considerable investment. It would be unlikely that someone would make such a large investment and then turn around and quickly sell the home. The only redemptions that will be captured using this methodology are cases where the property owner redeems his or her home and then keeps the home for an extended period of time, in this case until at least July of 2008. The basic problem when trying to count redemptions is that there is no set point in time when we can state with certainty that a home has either been redeemed or not been redeemed.

The need to wait for several years before a more reliable redemption count can be made leads to a severe disadvantage in counting the number of redemptions for lower-and middle-income property owners, because property owners with lower incomes are more likely to move from their original home in an attempt to upgrade their housing stock. Although it is impossible to determine how many redemptions were missed, the methodological limitations must be acknowledged in order to qualify the results.

RESULTS AND DISCUSSION

By the best estimates of this research, there were 52 homeowners out of a possible 1,680 foreclosed homes in 2005 who redeemed their homes. This means that just over three percent of foreclosed homes were redeemed. This is significantly lower than the initial investigation into home redemption, which put redemption rates at around 60%. Although, the three percent redemption rate represents an estimate that is unlikely to be too low, it may be too high; this reflects the methodological problems mentioned earlier that make it impossible to confirm a redemption without talking to each individual homeowner. While a few redemptions may have been missed using these methods, it is likely that the number of homes that were counted as redeemed but were in fact not redeemed is greater than those redemptions that were missed. This can be inferred from the number of letters that were sent out to homes that appeared to have been redeemed, but were returned to me by the postal service. Several of these fourteen letters came back explicitly stating that the home was vacant, while others stated only that the letter could not be delivered. Either way, this suggests that the redemption count of 52 is more likely to be too high than too low. Of the letters that were sent out, only three homeowners confirmed their redemption, while there were no responses stating that a redemption had not occurred.
Figure 3 shows the distribution of individual redemptions within Hennepin County, and Figure 4 shows the distribution by census tract. While the redemption sites are fairly well distributed throughout the county, there are some noticeable spatial patterns. Twenty five of the redemptions (48.1% of the county

total) are located within Minneapolis. While this is a large percentage of total redemptions, the redemption rate for foreclosed homes in the city is only 2.9%, slightly below the county-wide average of 3.1%. In North Minneapolis, where foreclosures have been more numerous, there were only eleven home redemptions out of 490 foreclosures, a redemption rate of only 2.2%. This is disheartening since North Minneapolis has been the focus of foreclosure aid programs in the Twin Cities. The same rate occurred in the northern suburbs (Brooklyn Park, Brooklyn Center, Robbinsdale, Crystal, New Hope), which experienced a total of 317 foreclosures and only seven redemptions. The northern suburbs represent the type of post-World War II suburbs that are becoming increasingly vulnerable to decline and blight as they age (Lee 2005). Sitting adjacent to North Minneapolis, they possess many of the same problems as the central city while lacking many of the situational advantages, such as transportation connectivity and proximity to jobs that North Minneapolis possesses.

At the other end of the spectrum are parts of Hennepin County that had a higher than average redemption rate. The southern inner-ring suburbs – St. Louis Park, Edina, Richfield and Bloomington – have considerably higher redemption rates. These cities also had fewer foreclosures than Minneapolis and the northern suburbs. The redemption rate in these four cities is 3.6%, better than the county-wide average. Even more pronounced is the redemption rate in the affluent suburbs in the western part of the county around Lake Minnetonka. These towns – Minnetonka, Shorewood, Deephaven, Woodland, Wayzata, Orono, Mound, Minnetrista, Tonka Bay and Hopkins – represent only 6.4% of total foreclosures,

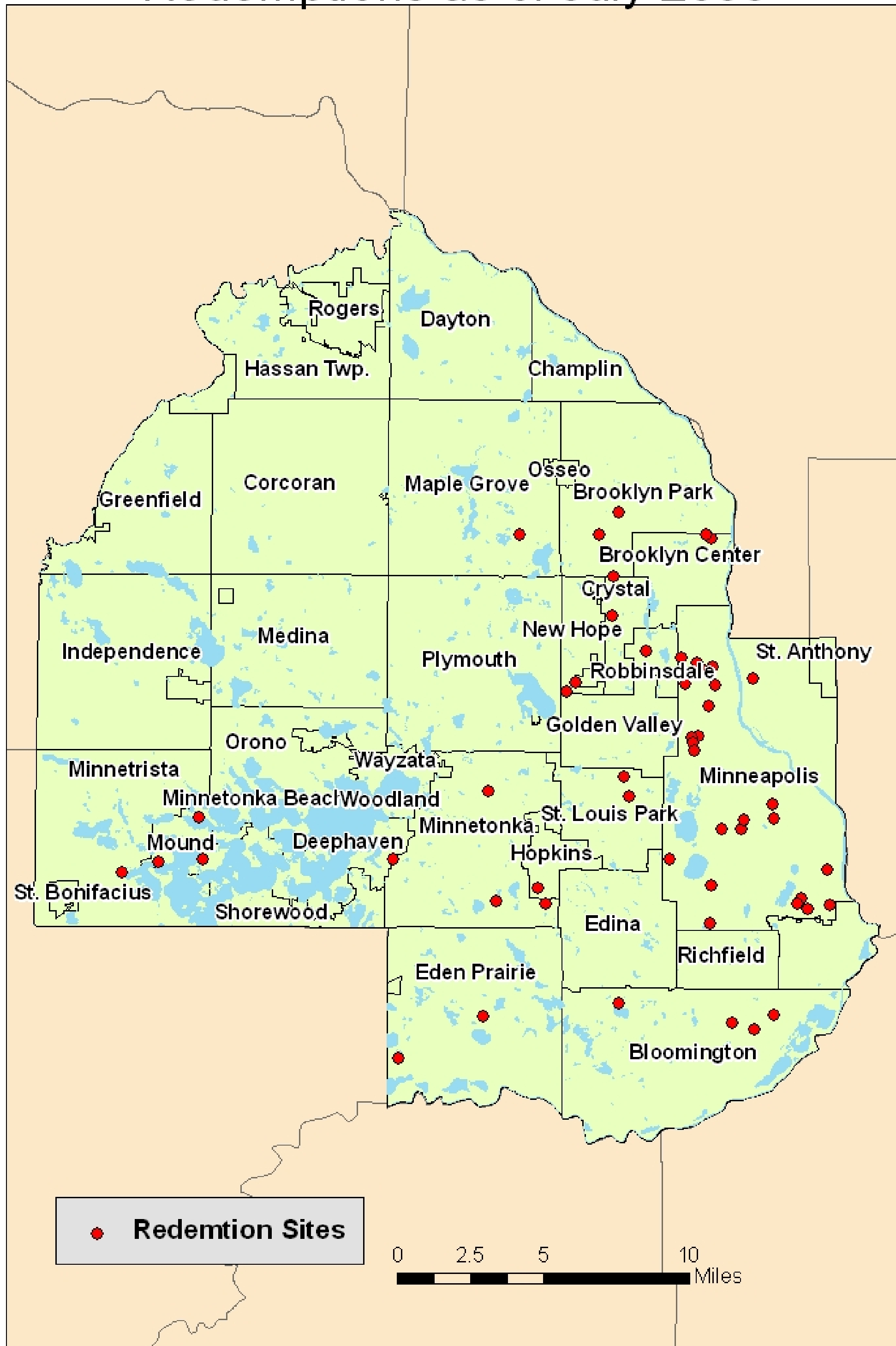

Figure 3: Location of Home Redemptions with Hennepin County.

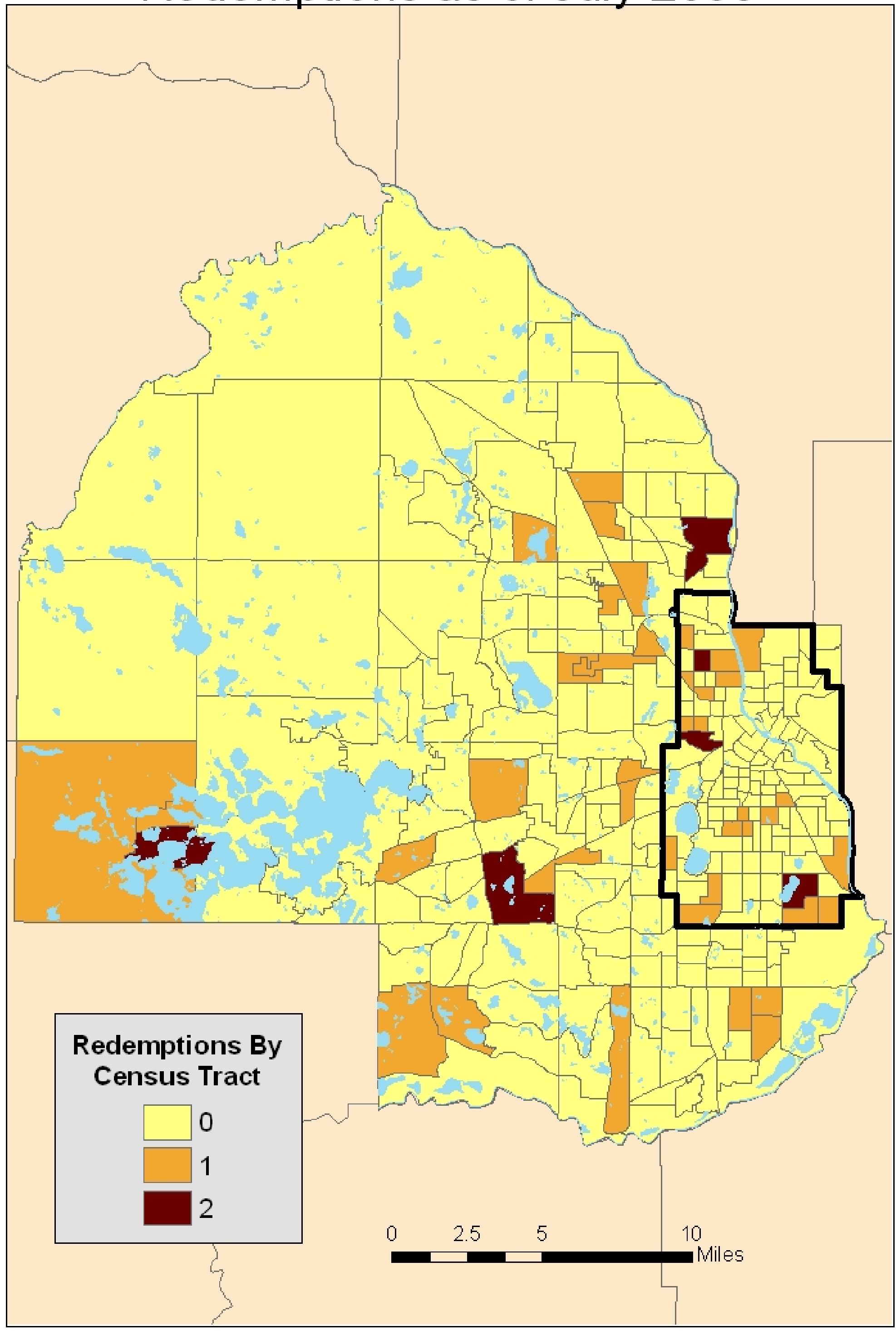

Figure 4: Location of Home Redemptions with Hennepin County. The black outline is the city boundaries of Minneapolis.

but account for 17.3% of all redemptions. The redemption rate of 8.4% is more than two and a half times the county average. While these numbers are not necessarily surprising since these towns are amongst the wealthiest in the county, it still bears emphasizing that an area with so few foreclosures accounted for so many redemptions.

The clear pattern is that redemptions are more likely to occur in areas that are disproportionately high income and white. Figures 5 and 6 show redemptions compared to median income by census tract and percentage white by census tract, respectively. Although there is some clustering of redemptions in low-income and minority-majority census tracts, it should be recalled that these census tracts had far higher counts of foreclosures. When the number of initial foreclosures is factored in, the data show that census tracts where there is a high percentage of whites and where there is a high median income are more likely to contain a redemption. This is supported by a correlation test that was conducted using only the census tracts that contained at least one redeemed home. The test shows that the percentage white and the median income of a census tract are significantly correlated to the likelihood of a redemption. Additionally, higher median home value, a higher percentage of residents with at least a bachelor's degree, a higher percentage of English speakers and older homeowners are also significantly correlated with redemptions.

While those data only show correlation between the above-mentioned factors and home redemption, the strength of these correlations suggests that low-income and minority homeowners are much less likely to complete a redemption.

Redemptions Analysis

	Foreclosures	Percentage of Total Foreclosure	Redemptions	Percentage of Total Redemptions	Percent of Foreclosure Redeemed
Hennepin County	1680	100.0%	52	100.0%	3.1%
Minneapolis	861	51.3%	25	48.1%	2.9%
North Minneapolis	490	29.2%	11	21.2%	2.2%
Northern Suburbs	317	18.9%	7	13.5%	2.2%
Southern Suburbs	168	10.0%	6	11.5%	3.6%
Affluent Suburbs	107	6.4%	9	17.3%	8.4%

Correlation Analysis Results

	Correlation
Percentage White **	0.45
Percentage Hispanic	-0.18
Income **	0.54
Homeowners Age Below 45 *	-0.19
Percent English Speaker **	0.36
Median Home Value **	0.57
Percentage with at least a Bachelor's Degree	0.59

*Significant at 0.1 **Significant at 0.01 n=46

Correlated with redemption rates of census tracts. All data at the census tract level. Only census tracts that contained a redemption were compared.

While those data only show correlation between the above-mentioned factors and home redemption, the strength of these correlations suggests that low-income and minority homeowners are much less likely to complete a redemption. The data overwhelmingly support this hypothesis, and it makes logical sense, particularly when looking at redemption and wealth. Wealthy homeowners are more likely to have the large sums of money saved up that are needed to complete a redemption. When looking at redemption and race, it is important to note the correlations between race and income level in Hennepin County: the pattern of low-income census tracts and census tracts with high percentages of minority populations are similar. This pattern indicates that minorities in Hennepin County also have a high likelihood of having a low income.

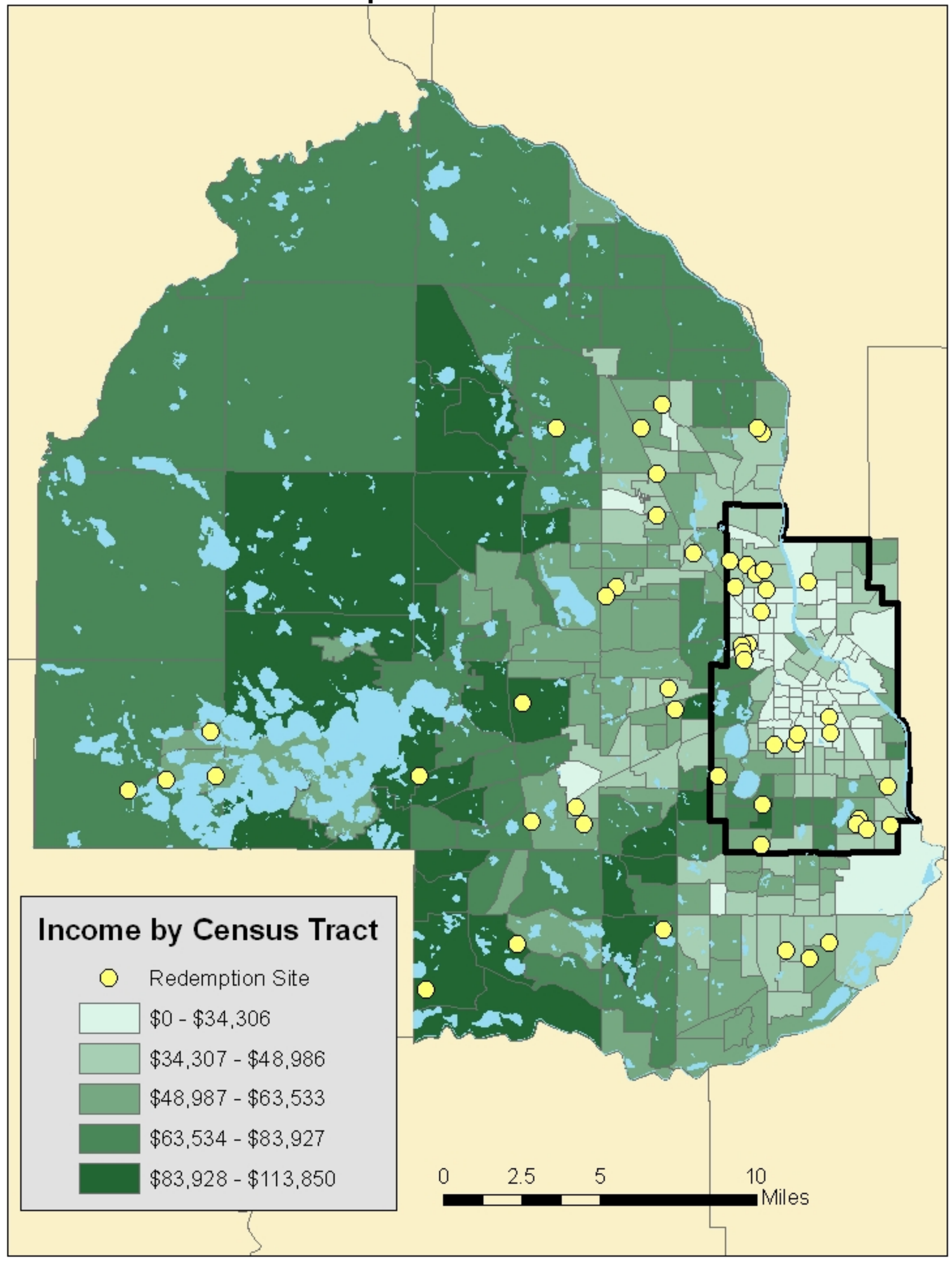

Figure 5: Location of Home Redemptions with Hennepin County compared to median income by census tract. The black outline is the city boundaries of Minneapolis.

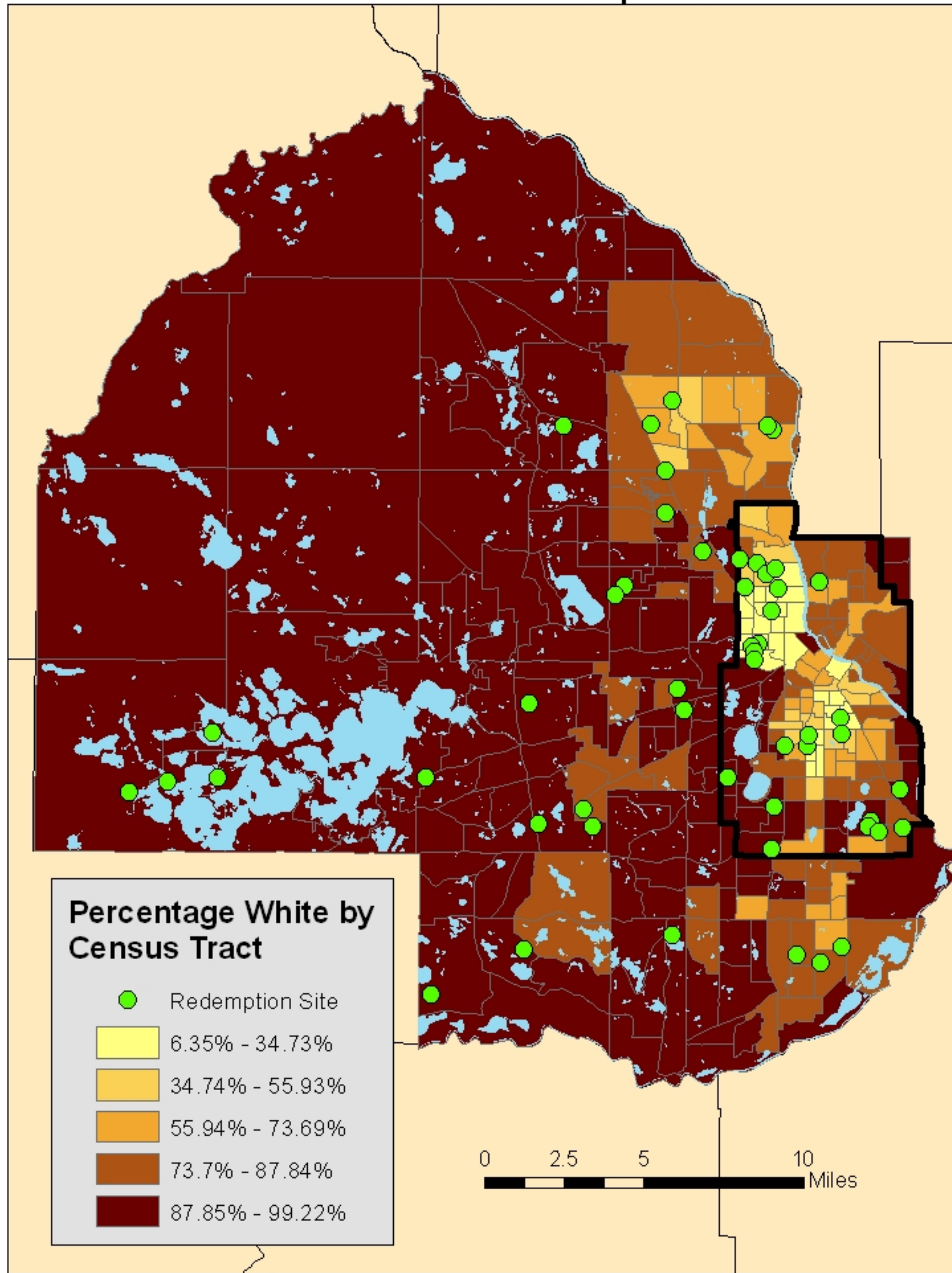

Figure 6: Location of Home Redemptions with Hennepin County compared to percentage white by census tract. The black outline is the city boundaries of Minneapolis.

Statistical Analysis

The GIS data that were acquired from the Hennepin County Sheriff's Office and the Metropolitan Council also came with other types of basic information on the homes. Some of this information was examined statistically to determine if there were any patterns evident amongst the redeemed homes compared to county-wide data on foreclosed homes and the general housing stock. The first variable examined was the average estimated market value (from July 2008 parcel data) of the property (both the value of the land and buildings on the property). Not surprisingly, homes that were redeemed had a lower median value ($206,950) than the county average ($230,700). However, redeemed homes had a significantly higher median value than the all foreclosed homes in Hennepin County ($133,750). This pattern was the same when calculating the mean home value, with redeemed homes ($228,030) falling between the county average ($348,362) and the average for foreclosed homes ($125,615). This pattern further confirms that redemptions are more likely to occur for wealthier homeowners.

The next variable analyzed was the last sale value of the home before it went into foreclosure. This reflects the market value of the home when it was purchased by the homeowner who experienced foreclosure, as opposed to the market value of the home now. Both the mean ($158,362) and the median ($120,000) of the last sale value were higher for redeemed homes than for all of the foreclosed homes in the county ($103,530 and $81,900 respectively). Interestingly, the median last sale value was higher for redeemed homes than it

was for all homes in the county ($112,900), although the county-wide mean ($190,309) was still higher than the mean value for redeemed homes.

The age of the home was also examined to determine if there was any pattern between home age and redemption. Home age in Hennepin County is closely connected to physical location, since older homes were generally built closer to downtown Minneapolis, while newer homes are generally located in newer outer-ring suburbs. The median construction year for the entire county is 1960, while the median age of home redemptions is only slightly older, being built in 1955. However the average age of foreclosed homes was significantly higher, with a median year built of 1920. This indicates that redeemed homes are more likely to be located further away from Minneapolis than the average foreclosed home.

Interviews with Homeowners

I attempted to contact 47 of the homeowners who I believed had redeemed their homes in order to confirm my estimates. Of the three responses that I received, all three homeowners confirmed that they had indeed redeemed their house. One of these homeowners was located in the northern suburbs, one in the wealthy western suburbs, and one in the southwestern part of Minneapolis, which is a generally affluent part of the city. I was able to speak in depth with two of these homeowners. These interviews gave me some insight as to what happens at a personal level during a home redemption.

Perhaps the most important aspect that arose during each of my discussions with homeowners was the unusual circumstances that resulted in the initial foreclosure. In two of the three redemptions, the homeowner was forced into foreclosure after a divorce. One homeowner had lost his home in the divorce settlement, but still had his name legally attached to the deed. The homeowner received a call in June of 2005 from the lender explaining that his ex-wife had not paid the mortgage bill in five months and that he owed $6,000, even though his name was not on the mortgage. The home was sold at a sheriff's sale in late July to a mortgage company in Eden Prairie for the same price ($105,000) at which it was originally purchased. In order to redeem the home, the homeowner had to pay off the price of the home as well as another mortgage taken out by his ex-wife, resulting in a total cost of $142,000. The homeowner took out a new mortgage, in effect re-purchasing the house. He also hired a lawyer in an attempt to avoid paying the extra $37,000 that resulted from his wife's second mortgage, but lost the trial. Another homeowner who confirmed redeeming her home but whom I could not contact for a full interview also stated that she had redeemed her home by herself after a divorce. While it is impossible to state with certainty that this trend extends beyond these few cases, the prevalence of divorce justifies further analysis of the legal and financial connections between divorce and home foreclosure.

The final confirmed redemption occurred when the homeowner was forced to refinance her home. The homeowner's loan payments had increased significantly because she had originally agreed to an adjustable rate mortgage. As

payments got too high, she decided to refinance. What occurred next is not completely clear. The homeowner had placed a significant amount of trust in her lender, and taken a "hands off" approach in the process. Although the homeowner mentioned switching lenders, she claims that she never took out a second mortgage and only refinanced her first mortgage. However, during the refinancing, some documents were not filled out properly. The homeowner then had to cancel the mortgage contract during the three-day right of recession period. During this three-day period, the home went into foreclosure. However, the home was immediately redeemed, and the homeowner stated that the sheriff's sale was a formality. She was adamant that the home was never in danger of being lost, although it is difficult to know if this is true. No legal aid was hired by the homeowner. Unfortunately, the new mortgage agreement that the homeowner signed was also an adjustable rate mortgage, and the homeowner once again seems to be getting into trouble because of the current economic crisis.

CONCLUSION AND RECOMMENDATION

The current parcel data from Hennepin County leave something to be desired: the data are very ambiguous as to who owns a home after a sheriff's sale, and often the true owner of the home is not revealed for months or even years after the sale. The current system, which does not record a change in ownership of the home until it is bought by someone other than the original owner or the lender, leads to confusion when trying to determine the redemption count. If the county were to change its system so that the purchaser of the home at a sheriff's sale was recorded as the owner, even if the purchaser was a mortgage lender, it would allow faster and more reliable counts on the number of redemptions, as well as keeping a more correct count of who owns a property for other purposes. Redemption counts under such a system would be more accurate and lead to more concrete conclusions about who was able to redeem a home and what patterns emerge.

Additionally, the foreclosure process could be changed in order to give the sheriff's sale more closure. University of Minnesota professor Prentiss Cox has recommended changing the redemption period to a "reinstatement period" before the sheriff's sale, which would allow homeowners more time and options to save their home (Butcha 2007). The hope is that by creating a foreclosure process with a definitive end at the sheriff's sale, private investors will be more likely to purchase a home at a sheriff's sale, leading to fewer vacancies and greater neighborhood stability.

While the exact number of redemptions may remain unknown, I am able to make several conclusions based upon the data and results. Most importantly, I can state with high certainty that redemption does not help most foreclosed homeowners keep their houses. In addition to helping only a few homeowners, redemption is more likely to help white and wealthy homeowners rather than low-income and minority homeowners, the groups that are most exposed to foreclosure. Therefore, redemption is providing the least amount of help to the demographic groups that need it most. Since redemption aids a relatively low number of foreclosed homeowners, it also has a negligible effect on neighborhood stabilization. Local governments therefore need to look at other possible methods to halt the effects of foreclosure on neighborhoods. One method which has been applied in several jurisdictions across the country, most notably Chicago, is giving residents a further grace period before they are evicted by the sheriff's department. This allows residents to continue to occupy their homes, and decreases the number of vacant homes and the problems associated with vacant homes.

The primary reason that redemption helps so few people is because it occurs so late in the foreclosure process. Most homeowners who are serious about saving their home – regardless of race, wealth or any other demographic factor – will do so earlier in the foreclosure process. At this time homeowners can negotiate with lenders for a better rate. They also have the added benefit of advice and support from homeowner advocacy and neighborhood groups. However, these groups are generally uninterested in redemption, so homeowners

are forced to go it alone. These groups believe that a homeowner who has not gotten out of trouble by the sheriff's sale cannot be helped and that the redemption period is too late to save a home. Instead of working with homeowners during the redemption period, these groups focus their time and energy elsewhere. The nature of redemptions also makes them more difficult, since they require a large sum of money at once. A foreclosed homeowner trying to redeem his or her house is unlikely to have the credit history necessary to afford a new mortgage, nor are they likely to have enough money saved up to buy the house without such a mortgage.

Along with the difficulty of securing a redemption, it appears that homeowners also have difficulty staying in their home after it has been redeemed. A redemption does not automatically lead to a happy ending for the homeowner. Without proper guidance, homeowners who redeemed their homes are likely to make many of the same mistakes that they made on their first foreclosure. One of the homeowners whom I interviewed seems to be on a path towards another foreclosure, which would nullify the extra work and expenses that went toward the redemption. Unless redeemed homeowners learn from their mistakes, there is little reason to believe that they will avoid a second foreclosure. In order to avoid this, homeownership and neighborhood groups should reach out to recently redeemed homeowners to provide them with counseling. It would be a shame for a homeowner to go through the legal hassle and stress of a redemption and then to lose their house anyway. Homeownership and neighborhood groups should put as much effort into keeping redeemed homeowners in their homes as they do in

aiding foreclosed homeowners. Since there are so few redeemed homeowners, it would require only a little additional work, but could result in helping some homeowners stay in their homes.

Although redemptions are rare, they should not be completely ignored since they can help a small group of homeowners. Instead of leaving homeowners to fend for themselves after the sheriff's sale, advocacy groups could target older and wealthy homeowners for redemption, because these groups are more likely to have the necessary money saved up. If those groups who are most likely to use the redemption period are made aware of it, redemptions may be able to save a few homes. While redemption will never be useful to the majority of foreclosed homeowners, it can still help a select few.

The connection between redemption and divorce is something that also proved to be particularly interesting. Although my sample size is too small to draw any concrete conclusions, the fact that two out of the three confirmed redemptions that I encountered involved a divorce is worth noting. The problem appears to be a legal ambiguity over homeownership and the mortgage after divorce. This topic should be studied further in order to determine the connection between divorce and redemption, as well as to decide if any changes need to be made in the divorce process in order to avoid preventable foreclosures.

While this research has focused on the likelihood of redemption, it should also be noted that redemption is multi-faceted. Although its original goal may be to provide homeowners with a final chance to keep their homes, redemption also provides homeowners with a valuable period of time to get their bearings and

shift from being a homeowner to a renter. During this time, they can save up money and figure out where they are going to live, instead of being kicked out onto the street after the sale of their home.

Although redemptions help only a small number of homeowners, the redemption period is still valuable: it provides a last-ditch effort for some homeowners to keep their home. In order for the redemption period to be most effective, more people need to be made aware that it exists. This can be done mostly through non-governmental groups making those homeowners who might be able to complete a redemption aware that there is a chance to keep their home even after the sheriff's sale. Doing this may save a small number of additional homes each year. Redemption is not intended to save a large number of foreclosure homes, but what it can do is provide a chance for a few homeowners to keep their houses while giving other homeowners some breathing space before they become renters.

APPENDIX

Appendix 1- Letter Sent to Homeowners

Dear (resident's name),

My name is Michael Samuelson and I am a senior at Macalester College in St. Paul, Minnesota. I am conducting research under Professor Laura Smith of the Geography Department on foreclosure, specifically redemption within the foreclosure process, in Hennepin County. In the scope of this research, redemption refers to a homeowner who had his or her home sold at the sheriff's sale but then was able to keep the residence by paying off the home's debts. The goal of my research is to be able to determine why some homeowners are able to redeem their homes, and then to make some policy recommendations to local officials. You have been chosen to be interviewed because of county records which indicate that you may have redeemed your house.

The interview will first attempt to verify information that has been collected from public data. The rest of the interview will focus on how you were able to keep your home even after it was foreclosed upon; I would like you to tell your story.

Please be assured that your responses will be held strictly confidential. All information collected in this interview will be used strictly for the research project. You will not be identified in any report, publication or presentation that results from this research.

Please know that your participation in this study is entirely your choice. You may end or withdraw your participation at any time if you feel uncomfortable, and you may skip any questions that you do not wish to answer.

If you have any questions or concerns at anytime please feel free to contact myself (301-801-1980/msamuelson@macalester.edu) or Professor Smith (651-696-6505/smithl@macalester.edu) at the contacts listed below. Additionally, if you would like to discuss the research with someone not involved with the interview, you are encouraged to contact the Macalester College Institutional Review Board at 1600 Grand Ave, Saint Paul MN 55105 or phone at 651-696 6153.

If you are interested in learning more about participating in an interview, please return this form in the envelope provided or send me an email. Additionally, if you are interested in being interviewed, please provide a phone number or email address where I can contact you. Thank you for your time.

All the Best,
Michael Samuelson

Name: ____________________________

I wish to learn more about the interview process _____

Phone number and/or email address
____

Appendix 2-Consent Form for Interview

CONSENT FORM

Examining Home Redemption in Hennepin County

Please review the following material that explains the purpose of this research project. This should help you decide whether or not you want to participate in the study. Signing the form will indicate that you have been informed about the study and that you want to participate.

You are being asked to take part in a research project being conducted by Michael Samuelson, a student at Macalester College, for his Senior Honors Project. The project is under the direction of Macalester College Professor Laura Smith of the Geography Department. If you have any questions regarding this project that you would like to ask of someone other than the interviewer, Professor Smith can be reached at (651) 696-6505 or smithl@macalester.edu.

PURPOSE, SCOPE AND INTENT OF THE PROJECT

The project focuses on the current foreclosures that are occurring in Hennepin County. Specifically, the project is looking at homeowners who were able to redeem their home after it was foreclosed upon and sold by the county sheriff. In the scope of this research, redemption refers to a homeowner who had his or her home sold at the sheriff's sale but then was able to keep the residence by paying off the home's debts. You have been chosen to be interviewed because of county records which indicate that you may have redeemed your house. The goal of this research is to be able to determine why some homeowners are able to redeem their homes, and then to make some policy recommendations to local officials.

The interview will first attempt to verify information that has been collected from public data. This will include information on when you bought your home, when it was foreclosed upon and where you received you mortgage. The rest of the interview will focus on how you were able to keep your home even after it was foreclosed upon; I would like you to tell your story.

CONFIDENTIALITY

Please be assured that your responses will be held strictly confidential. All information collected in this interview will be used strictly for the research project. You will not be identified in any report, publication or presentation that results from this research. Your responses will only be viewed by Michael Samuelson (interviewer) and Professor Smith.

VOLUNTARY PARTICIPATION

Please know that your participation in this study is entirely your choice. Feel free to skip any question that you are uncomfortable with. You may end or withdraw your participation at any time if you feel uncomfortable.

QUESTIONS?

Feel free to ask any questions you have at any time before, during or after the interview. If you have any questions or concerns at anytime, and would like to discuss them with someone not involved with the interview, you are encouraged to contact the Macalester College Institutional Review Board at 1600 Grand Ave, Saint Paul MN 55105 or phone at 651-696 6153.

Statement of Consent

I have read this paper about the study or it was read to me. I have asked any questions that I have and have received answers to these questions. I consent to participate in the study.

Signature of Participant ______________________________ Date _____________

I agree to participate ___________Yes _____________No

Signature of Researcher ______________________________ Date _____________

Appendix 3-Interview Question Form

1. What is your current address and how long have you lived there?
2. Was this addressed foreclosed on in 2005 and sold by the county sheriff on [date that I have listed from the sheriff's department]?
3. To whom was it sold?
4. How did you go about reacquiring the house?
5. Was the person who bought the house from the sheriff helpful when you tried to reacquire the home?
6. Were you aided by any third party?
7. Did you take out any further loans? From who?
8. What is the current financial status of this home?
9. What is your household income?
10. What percent of your income do you use to pay for you mortgage?
11. How would you classify your race?

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