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A new model for homeownership

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Doodling comes easy for Chad Schwitters. Transforming life in north Minneapolis is a much bigger challenge.

Schwitters is the head of Urban Homeworks, a nonprofit group that's helping rebuild community in north Minneapolis, an area that has been overwhelmed by the foreclosure crisis, then ravaged by a tornado this summer.

So when asked to explain a home-buyer program that seeks to increase homeownership in the neighborhood using a much-maligned financing technique, Schwitters grabs his Jack-and-Jill notebook and starts sketching.

He draws a diagram of overlapping shapes that represent all the stakeholders in a complicated home-buyer program called "Project: Reclaim," which helps families with bad credit become homeowners.

The program uses modified contracts for deed, an alternative financing method in which the old owner of the house finances the purchase. In this case, the houses are owned by Urban Homeworks and their long-term affordability is maintained by a partner in the venture, the City of Lakes Community Land Trust.

Before the process starts, families are evaluated to make sure they are in a position to eventually get a traditional bank loan and that they're willing to engage in an education process aimed at helping them avoid foreclosure, which has hit so many of their North Side neighbors.

A third of the houses in some parts of the neighborhood are either vacant, in foreclosure or for sale.

Buyers make an initial \$2,000 down payment, and their loans come with a 3 percent interest rate, much of which goes in a reserve account to help with refinancing. After the contract period -- usually two to three years -- is up, the contract principal amount is reduced by about \$30,000 to help that borrower qualify for a new mortgage, and the land is kept in a trust administered by CLCLT to help preserve affordability by putting limits on the eventual sale price of

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the house.

Chip Halbach, executive director of the Minnesota Housing Partnership, hailed the program -- and both organizations -- for creating an innovative financing method during a time of unprecedented challenges for the housing market.

"You're getting people to have a personal investment in these really hard-hit communities," he said.

It's a twist on a traditional contract for deed that started a couple years ago when Schwitters and the CLCLT's executive director, Jeff Washburne, were brainstorming how to reverse some of the damage that was being done to the community by the foreclosure crisis.

In establishing a financing method, they didn't have to look very far. Contracts for deeds are already becoming common in the neighborhood. They're often offered by investors to buyers who couldn't otherwise get financing.

But they often go awry. Such contracts are often executed without any legal support and there's little in the way of regulations or restrictions.

Often, the deals end badly if the buyer misses a payment, giving the owner the opportunity to evict them and keep their down payment. In addition, contracts often include high interest rates, leading some to describe them simply as glorified rental agreements that give most of the power to the person who holds the contract.

Schwitters and Washburne sought to create a friendlier contract with an interest rate and terms that help promote homeownership rather than hinder it.

So far they've sold 13 of the first 15 houses, and they're on the verge of signing contracts for the last two. They're now trying to raise money for phase II of the program, which will get 20 houses in the hands of owner-occupants.

The partnership has received \$1.3 million in affordability and rehab funding from a variety of public and private funders, including Lutheran Social Service and Build Wealth Minnesota. Though the program is nearly two years old, it's still evolving. "We'll build the bike as we go," said Schwitters.

Halbach said that during a recent discussion with other housing leaders from across the country about what do with the 80,000-

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some houses owned by the government, he offered a similar model as an option.

"What they're doing is very important for this community," he said. "The community land trust model is a good way to put a lot of properties back in the hands of families and the community."

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