

# Chapter 11: Conclusion

Property research has an intimidating reputation among organizers. Part of the awe of property research comes from a long history of incomplete information. One of the authors, during her first three months of organizing, was only able to complete 50% of her title searches. She had been carefully copying the last entry in the tract book for each property and many of these entries were "release deeds." She couldn't understand why so many of her title searches pointed to owners that neighbors told her were dead or had moved. It seemed that no one in the office knew, or had told her, what those little letters in the column marked "instruments" meant, or that there was something called chain of title. This is not an unusual experience. We hope this manual will help to prevent some of these early (and continuing) experiences of confusion and frustration.

Learning the techniques of title, tax and court searches, is only the beginning of property research. Local control of research and linking research to the desired action is what leads to successful research for action. This combination describes the type of research that has been used by community groups with varying degrees of success for many years. That degree of success is dependent on the groups' skill in maintaining the link between research and organizing strategies.

Community control of, and participation in, research must be an active goal and not just the acknowledgement of a right. Participation by community residents not only ensures that the research will address their needs but also provides the opportunity to develop an awareness of the limited public access to information and demystification of the research process. The Contract Buyers' League case study is an example in which the organizing strategy was dependent on this close tie between community experience and research. People were reluctant to speak up about their individual problem until researchers began uncovering cases throughout the neighborhood and residents began to see how many of them were tricked and how the speculators

were able to pull it off. As more and more people came forward to tell their story the researchers found new names to explore which encouraged more people to come forward. Researchers were dependent on the experiences of local residents for guidance and direction in the research and individual residents were dependent on the research to put their experience in the broader perspective.

Another link between research and organizing strategies focuses on the special needs of organizing. The four problems confronted in the vacant lot research project illustrate this best. For organizers, careful consideration of how the research may affect the choice of issues, the time and resources spent on the issue, the timing of the strategy, and the approach taken will guide the research towards the desired organizing outcome.

The intent of this manual is to focus attention on maintaining these links. Whether Research for Action is proclaimed as a new methodology, a different way of looking at research, or a new name for a common practice, the manual has served its purpose if it accomplishes several things. The first is to provide a clear explanation of property research techniques. Clarification of the initial research task will allow for more attention to the broader application of the research.

Facilitating this broader application of the research is the second goal of the manual. We feel that this will occur as community groups increase their skill in linking property research to community experience, urban real estate motivations, and the organizing context thus— providing neighborhood residents with a method for gaining control of their working and living environments.

# How To Organize

## Appendix I: Your Information

Throughout this manual we have frequently commented that keeping track of property searches saves research time and makes organizing more efficient. The question, of course, is what type of organization is needed. As with other aspects of property research, data organization depends upon the focus of organizing; for example, whether the organization deals with housing issues intermittently, or whether it wants to deal comprehensively with housing matters on a continuing basis. In the first case, a system that stores information by address, in a file box or cabinet, may be sufficient. For the latter, however, more sophisticated systems may be appropriate. Below we elaborate upon three approaches to information storage and access.

### *Intermittant Users*

How should you organize occasional searches? Should you use addresses, tax or title numbers, court docket numbers, or owner names? In general, addresses are probably the best; however, even the intermittent user should obtain title and tax maps so that property identifiers can be easily keyed. Unless the organization is solely involved in court watching, in which docket number organization may be useful, separate cross reference files should be maintained for court cases and names. Access to the Real Estate Data Index allows organizations to identify names of owners.

### *Knitting Needles*

Used by libraries and researchers, the knitting needle system includes formatted cards which have punched holes along the perimeters which represent different categories, for example: street names, tax delinquency, or by data or type of deed transaction. Thus each card represents a property which is punched according to its specific characteristics. The researcher sticks a needle through the appropriate hole, depending upon what information is needed and pulls the needle upward, thus those properties with the specified characteristics are pulled out. Each card can contain information on title taxes, court, and condition. This system is low cost and relatively simple to operate, and is available from McBee Systems in the Chicago Area. (Be careful, the system can be

destroyed by careless treatment.)

### *Computer Systems*

Computers, particularly mini-computers, appear to offer a sound approach to property information storage. Over the years, there has been talk of developing computer information systems at universities that neighborhoods could access. Moreover, the city of Chicago and Cook County has also discussed the consolidation of property data and its computerization. Computers allow quick access, comprehensive information, and the ability to perform creative forms of research. Local organizations must decide whether this investment in time, staff, and resources is worth it; sometimes a trip downtown is cheaper than information that you don't use. Groups may want to consider a joint proposal or effort to gain a city-wide information system on property for neighborhood planning. Below are several resources to follow up on if the computer option still seems attractive.

- Northwestern University Affirmative Neighborhood Information Study
- Art Lyons used a computer system in the study for the report "The Empty Lot: Obstacle or Opportunity?"
- Information or periodicals on small business computer systems

As we have noted, there are variants to each of these approaches. The Real Estate Data Index, for example, contains computer printouts and basic sorting by name, address and area. The Assessor and Department of Inspectional Services also make printouts of tax and building code violation information available as well.

Organizations should seriously consider what the needs, resources, and potential collaborators are before choosing an information storage system. Remember, overkill is just as bad as storing searches on scraps of paper; you want a system that works for you.

# Affordability

## Appendix II: Mechanisms

This appendix is reprinted with permission from the *Housing Finance Manual—1982*, edited by Donald C. Kelly, Talman Federal Savings and Loan Association. The following should familiarize you with the financing and ownership concepts that are being used today.

### **Balloon Mortgage**

The rate is fixed and the payment established to fully amortize over a normal term of 25 or 30 years. However, after a pre-determined period (i.e. 5 years), the mortgage matures and the borrower must pay off the full, outstanding balance. This last payment is thus known as the balloon payment. It generally implies the necessity of refinancing.

### **Builder Write-Down**

The real estate sections of the major newspapers are filled with ads for new housing with financing at interest rates well below the market, even as low as 0 per cent. The reason for this is that builders simply have to unload their inventories and are willing to go to great lengths in order to bring the monthly payment cost within the range of the buying public. The "written down" interest rate may apply to the full term of the loan or it may only apply to the first few years and then revert to the market rate.

### **The Flexible Loan Insurance Program (FLIP) (Also known as "Pledged Account GPM")**

FLIP is a type of Graduated Payment Mortgage. In this case the borrower's monthly payment in the early years of the loan is lower than would be the case under a conventional loan. This is accomplished by virtue of a portion of the downpayment being placed in a special interest bearing savings account which is "pledged" exclusively as a source of monthly supplements to the borrower's monthly payments.

The amount of withdrawal from the pledged account decreases as the monthly payments made by the borrower gradually increase. When the pledged account is depleted the borrower's monthly payment levels off.

The net benefit to the borrower is to enable him/her to take out a larger loan than would be possible under

a conventional formula. This is possible because the supplements from the pledged account are not counted as part of the borrower's "housing expense," thereby reducing the "housing expense to income" ratio that governs the borrower's capacity to pay in the eyes of the lender.

FLIPs are permitted by the FHLBB as well as by the State of Illinois.

### **The Graduated Payment Mortgage (GPM) and the Graduated Payment Adjustable Mortgage Loan**

This type of mortgage is designed to meet the needs of borrowers who cannot now afford the level of payment required by a conventional mortgage, but whose income is expected to rise considerably over the next 5-10 years. Young families often fall into this category.

Interest rate may be fixed or it may be adjustable. (The latter is called the Graduated Payment Adjustable Mortgage Loan [GPAM].) The term of the loan is fixed but the payments gradually increase during the early years of the loan. Payments start off below the level of conventional payments for the same loan amount. Payments rise at a pre-determined rate then level off at a pre-determined time (5-10 years), and remain at that level for the life of the mortgage or in the case of the GPAM adjusted only by virtue of the fluctuation in the index. This final level would be slightly higher than the level of a comparable conventional loan.

In December 1978 federally chartered savings and loans were given authority to offer GPM's. Because the GPM deters payment of part of the interest during the early years of the loan, it in effect adds the deferred interest to the outstanding principal. Some states consider this interest-on-interest and prohibit it. Illinois, however, does permit the GPM. furthermore,

the FHA GPM programs, entitled Section 245, is allowable in all states by virtue of provisions of the National Housing Act.

### **Leased-Land Plans**

One way to dramatically reduce the cost of housing is to separate its cost from that of the land upon which it rests. The homeowner rents the land and owns the house.

This concept has been the dominant form of homeownership in England for centuries. It has been commonly used in the United States for commercial and industrial property. It is now beginning to be used in modified form to make residential property less expensive.

The Link Construction Company of Joliet first introduced the idea in this area in 1980. The Arlingdale Development Group of Hoffman Estates followed with a land-lease plan in its Twin Lakes subdivision in Hoffman Estates.

Under the Arlingdale Plan the purchaser rented the land at 2 per cent of market value during the first year. The percent increases each year so that by the sixth year there is no longer any savings to be had.

### **Preferred Interest Rate Program (Assumable Mortgage)**

The idea of the "Preferred Interest Rate Program" is for a lender to allow the assumption of one of its low-rate existing mortgages by a buyer with the addition of 1-4 points above the old interest rate, and in the form of an adjustable mortgage loan. If the borrower needs additional money to complete the deal, that amount will be made at current rates. The two loans are then blended resulting in a weighted average interest rate for the combined loans that will be several points below the market.

Everyone benefits. The lender has increased the yield and shortened the term on its portfolio. The buyer has a preferred interest loan. The seller has an easier time selling.

In April 1980 Talman Home Federal Savings and Loan program pioneered this new alternative to high mortgage rates. Most lenders have since offered similar programs. The nation's largest mortgage holder, the Federal National Mortgage Association (FNMA), is offering a similar program entitled "Discount Rate Resale Finance," thus allowing qualified buyers of any of the two million homes FNMA hold the mortgage on to obtain a below market rate mortgage loan.

### **Low Down Payment Conventional Mortgage**

This is identical to any of the standard mortgage formulas except that a borrower can obtain a larger loan amount for the same building (lower down payment).

Loans with down payments as low as 5 per cent are possible by virtue of Private Mortgage Insurance (PMI).

Private mortgage insurers will insure that part of the loan in excess of 80 per cent. A premium is charged the borrower. The lender is the beneficiary of the insurance in case of default. The premium is charged until the ratio of loan to property value is down to 80 per cent.

PMI is to be distinguished from "Mortgage Life Insurance" and "Disability Income Insurance" in that PMI only protects the lender's investment, not the borrower's.

Many lenders make these type loans when loan funds are plentiful. In times of tight money supply these low down payment loans are often unavailable.

### **The Reverse Annuity Mortgage (RAM)**

This type of loan is designed to supplement the income of fixed-income homeowners (usually senior citizens) by allowing the homeowner to tap into the equity he/she has in the building. *Payments are made directly to the borrower by the lender.* The homeowner retains ownership of his home.

The loan becomes due either at a specified date (i.e. 25 years), upon sale of the property, death of the homeowner(s), or attaining a specified loan-to-value ratio. At such time the loan could be paid off or renegotiated.

RAMS have been approved by the FHLBB but some confusion exists regarding their permissibility under Illinois law.

To be eligible for the RAM the homeowner must own his home free and clear with no outstanding mortgage or lien upon the property.

### **Seller Financing**

In period of high interest rates realtors will tell you that the first order of business when taking a listing is to get the seller to agree to take back a mortgage at an interest rate sufficient to attract and qualify a purchaser. When market rates were 16 per cent seller financing hovered around 12 per cent. The 4 per cent difference enables a great many potential buyers to afford the monthly payment and thereby enhances the

probability of sale. The seller's mortgage will often have a balloon provision in which the total mortgage must be paid off at the end of a stated period such as five years. This allows the buyer five years to arrange permanent financing. The risk however is that interest rates will still be prohibitive for the buyer when the balloon payment is due. This could result in foreclosure by the seller.

### ***Shared Appreciation Mortgage (SAM)***

The Shared Appreciation Mortgage is designed to assist an applicant whose income is not sufficient to qualify for a conventional mortgage. The higher the market interest rate the higher the monthly payment, and the fewer people qualify.

A SAM is a financing plan in which the lender reduces the interest rate in return for a share in the borrower's profit when he or she sells the house. Generally interest rates are reduced by  $\frac{1}{2}$  in return for a  $\frac{1}{3}$  share in the increased appreciation. These loans are being experimented with in Florida and California. The Federal Home Loan Bank Board is now considering authorizing all federal savings and loan associations to make SAM loans.

### ***Shared Ownership Financing***

This financing scheme is in effect a partnership with a third party institutional investor.

The investor assumes a share of all costs proportionate to the partnership formula. The costs include mortgage payments, closing costs, insurance and major repairs.

The borrower occupies the house and may be required to pay a modest rent to the investor. Usually a provision is included in the agreement that the investor must be bought out within five years.

### ***Sweat Equity***

"Sweat Equity" is when the cost of constructing or rehabbing a house is reduced by virtue of the buyer's own labor. Sweat equity has long been a hallmark of pioneer rehab and has recently been extended to new construction and refinancing.

Lenders, sophisticated in financing rehab loans, will generally credit the dollar value of the sweat equity towards the borrower's share of the project. Assume a lender requires a 10 per cent downpayment on purchase/rehab deals. The borrower applies for a loan to purchase and renovate a house in which the purchase price is \$20,000 and the estimated rehab cost by a contractor is \$30,000. Ten percent of this \$50,000 is \$5,000. The \$5,000 would be the cash,

equity investment normally expected of the borrower. However, if he can convince the lender that he is capable of doing \$2,000 worth of the rehab labor himself, his required cash downpayment could be reduced from \$5,000 to \$3,000. This is "sweat equity."

### ***Wraparound Mortgages***

The wraparound mortgage is a cousin of the preferred interest assumed mortgage. Basically it is a trade off of an existing, low interest mortgage for a new, larger mortgage reduced several points below the market rate.

For example, let's assume you want to either buy or refinance a home that is worth \$80,000. There is still a \$50,000 existing mortgage at a bargain 8 per cent that you do not want to lose. You want to borrow a total of \$70,000. The Wraparound Mortgage is where the lender effectively makes a second mortgage to you for \$20,000 (\$70,000-\$50,000), by issuing you a full \$70,000 loan and assuming responsibility for making the monthly payments on your old \$50,000, 8 per cent loan. The interest rate the lender charges you is somewhere in between the old 8 per cent and the current 17 per cent. You end up making monthly payments on only the new \$70,000 loan.

# Key Property

## Appendix III: Research Questions

What do you want to know	What information you have	Where to start	Manual Page
1. Who is the owner of this property?	Address Legal description Permanent index Court docket number	Talk to neighbors Recorder of Deeds Treasurer's Office Civic Center, room 601	27 48 87
2. What is the legal description?	Address	Bureau of Maps and Plats Treasurer's Office Public Library	19 23 24
3. What is permanent Index Number?	Address	Treasurer's Office	23
4. Is the building in court?	Address  Owner's Name Lender	Room 903, Dept. of Inspectional Services, City Hall Defender's Index Defender's Index	87  87 87
5. Is building tax delinquent?	Permanent Index Number	Treasurer's Office Real Estate Data Index County Clerk's Office	48 24 56
6. What are building's violations?	Court docket number	Civic Center, Room 601	88
7. Does owner have other buildings?	Name Permanent Index Number	Defender's Index Real Estate Data Index	87 24
8. Are there liens on property?	Owner's name Legal Description Docket Number	Lien Index Recorder of Deeds Civic Center, Room 601	38 27 88
9. Is there a mortgage on property?	Legal Description	Recorder of Deeds	27

10. What was sale price of property?	Legal Description Document number Permanent Index Number	Recorder of Deeds Microfilm Room Assessor's Vault (Commercial) and industrial property only)	27 36 63
	Assessment Appeal Case Number	Board of Appeals	64
11. Who is the beneficiary of secret land trust?	Address	Department of Inspectional Services, Public Information Office, Room 903	89
	Court docket number	Civic Center, Room 601	87
12. What is assessed value of property?	Permanent Index Number	Assessor's Vault	61
13. Has tax appeal been filed on property?	Permanent Index Number Appeal Case Number	Board of Appeals Assessor's Vault	64 64
14. What buildings in my area were listed at Annual Tax Sale or Scavenger Sale?	Permanent Index Number	County Clerk's office	56 59
15. How many buildings have been bought and sold in my neighborhood?	Addresses Geographic boundaries	Realty and Building Real Estate Data Index	39 24
16. How many buildings or demolition permits have been issued in my area?	Addresses Community area boundaries	Realty and Building Municipal Reference Library DIS Public Information Office, Room 903	39 39 89