



TACIR

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on Intergovernmental Relations



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MEMORANDUM

TO: Commission Members

FROM:  Annisse Roehrich-Patrick
Executive Director

DATE: 3 September 2014

SUBJECT: Dealing with Blight—Impediments Posed by Foreclosure and Tax Delinquency

Prepared at the request of the Commission in response to concerns expressed by Senator Kyle, the attached report includes information about how foreclosures and tax delinquency are affecting local governments' ability to remedy blight and reviews strategies that are being used in Tennessee and other states to assist in the redevelopment of blighted areas where foreclosure and tax delinquency are issues. Tennessee's constitution forbids local governments to forgive delinquent property taxes, either directly or indirectly, as for example by reimbursing the purchasers of tax-delinquent properties for the payment of back taxes, which makes removing tax liens difficult, particularly with "tax-dead" vacant properties, those having more taxes owed on them than their market value.

The foreclosure process itself is not lengthy in Tennessee compared with other states, averaging less than seven months in Q3 2013, far below the national average of one and one half years, largely because home loans here are secured primarily with deeds of trust rather than with mortgages. Foreclosures on deeds of trust, unlike mortgages, are not handled through judicial proceedings, which necessarily take longer. Attempting to shorten the process in Tennessee further would be at cross-purposes both with federal efforts focused on keeping people in their homes and with legal settlement requirements placed on banks and servicers.

Existing strategies used in Tennessee are generally effective at remedying blight in foreclosure situations and include monetary assistance to homeowners facing foreclosure, counseling for homeowners, rehabilitating and reselling vacant foreclosed properties, and requiring owners to maintain vacant foreclosed properties. Strategies implemented in other states include mediation programs to reduce the number of foreclosures and requiring bonds to ensure that loan servicers maintain properties in foreclosure. These strategies might be helpful in jurisdictions where other options are insufficient.