USA

Detroit's Tax Foreclosure Crisis

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Wayne County and Detroit are creating a human catastrophe by tossing thousands of homeowners into the streets for inability to pay unlawfully assessed taxes,” stated Michael J. Steinberg, Legal Director of the ACLU of Michigan, at a mid-July press conference after filing a lawsuit in Third Circuit Court in Wayne County. “This short-sighted practice not only violates federal law, it destabilizes families, destroys neighborhoods and undermines the economic recovery of the region.”

This year the Wayne County Treasurer’s office sent out 38,000 foreclosure notices to homeowners who were three years behind in their property taxes. Half of these were for tax bills of $3,000. Another 5,500 homeowners owe less than $2,000 and 650 less than $500. Some have been able to scrape up the funds and pay at least 2013 taxes.

Homeowners with three years of back taxes face foreclosure, so this year those who have not paid their 2013 taxes or signed up for a payment plan will have their homes auctioned off in September and October. But just as in the case of those who are in payment plans for their water bill, the vast majority are unable to pay and the city will foreclose on their property the following year.

But approximately 15,000 owner-occupied homes are still facing auction via the internet this fall. The lawsuit charges that these foreclosure notices are illegal and racially discriminatory. Filing a class-action lawsuit against the Wayne County Treasurer, the ACLU and NAACP Legal Defense and Educational Fund demands a moratorium against tax foreclosures for homeowners.

While city officials practically gave away land for Michael Ilitch’s new “Hockeytown” Red Wings Stadium complex and developer Dan Gilbert’s midtown Brush Park development, Detroit has failed to reassess residential property taxes for decades. Yet Michigan law requires a yearly reassessment, with taxes calculated at half the market value; Detroit’s tax rate is one of the state’s highest.

The failure to reassess “on top of the disproportionate percentage of subprime mortgages foisted upon African Americans in Metro Detroit” resulted in a 36% foreclosure rate for Detroit homeowners once the economic crisis hit (2006-2014). Black homeowners are especially victimized by the distorted tax rates, as the real (not paper) values of their homes took the worst tumble during the financial meltdown.

Although officials now acknowledge the failure to reassess, homeowners are still taxed at values many times their real value. A Detroit News (12/19/13) study by Christine MacDonald revealed a 65% overassessment. Yet the 12-step appeal of an assessment is difficult and time consuming with the burden of proof on the homeowner.

If homeowners fail to pay, they are slapped with 18% interest. Until last year overdue water bills, running an average of $70 a month, were tacked on to property taxes. Business owners, however, are more able to thread through the paperwork and appeal their assessments.

As Christine MacDonald pointed out, Mike Ilitch’s companies were able to obtain a 40% reduction, saving $1.8 million for 2010-13 alone. Ambassador Bridge owner Matty Moroun reduced his property taxes by 57%, saving $970,000 during that same period.

Michigan provides a poverty tax exemption but the process for Detroiters, according to the ACLU/NAACP lawsuit, is
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â€œConvoluted and difficult, and in some cases impossible, that it has violated the due process rights of qualifying individuals.â€

Prior to 2016 applicants were required to appear in person at the city office downtown and request that the exemption be mailed to them. Since the new county treasurer Eric Sabree took office one can phone to have the application mailed. It is still not available on line and is only valid for the current year.

Although 43% of Detroit residents live below the poverty line, the exemption is not well advertised or available on line. But those who are able to obtain the multipage form, collect the required supporting materials and mail the application back in time might still find they were denied for â€œarbitrary and capriciousâ€ reasons.

Grounds for Lawsuit

Given the history of housing discrimination in Metro Detroit over the last 100 years,* it is hardly surprising that the illegal over-assessments of property values has a greater impact on African-American homeowners.

Yet the Fair Housing Act bars not only intentional housing discrimination, â€œbut also unjustified neutral practices that have an adverse disparate impact.â€ The ACLU/NAACP brief compares majority Black and non-Black census blocks within the county and finds tax foreclosure rates 10 to 15 times higher in the African-American areas.

The lawsuit represents several homeowners who were denied the poverty tax exemption and are currently facing foreclosure and eviction, as well as four homeowner associations. It asks that all current and future African-American homeowners of owner-occupied homes within Wayne County facing the tax foreclosure sale be considered as a class, that the countyâ€™s actions be recognized as a violation of the Fair Housing Act and that the court order a halt to foreclosures until a lawful reassessment is put into place.

Additionally the lawsuit demands that the poverty exemption process needs to be simplified, with all Detroit homeowners in the affected class eligible to apply for retroactive poverty exemptions (for years 2013-2016).

Cases that the lawsuit cites include:

â€œWalter Hicks, a 57-year-old African American, was denied a poverty exemption because a person with the same name owned another property. Although Hicks offered proof that the second property did not belong to him, the treasurerâ€™s office refused to reconsider its ruling. While the city claims the fair-market value of his home is $40,156, the ACLU-sponsored appraisal put it at $9,000. He is in a payment plan that requires his 2013 taxes, fees and interest is be paid by the middle of December. His yearly disability income is $15,300 so he canâ€™t meet the monthly $339 payment; consequently he faces foreclosure.

â€œSpirlin Moore, a 77-year-old African American, has a number of health problems and requires a caregiver. While the treasurerâ€™s office maintains the market value of his house is $22,932, a 2013 appraisal found it was worth $2,000. His 2013 tax bill was $2,023. When an outstanding water bill of $700 was added to his 2011-13 taxes he was billed a total of $5,705. He is in a $144 payment plan that he cannot afford.

â€œDeAunna Black, a 32-year-old African American who has three young children. She works in cleaning
services and purchased her home in 2013 for $3,500. At that time it was appraised at $5,000. However the treasurer’s office’s assessment is $36,902. She owes $1,136.50 in taxes. Unable to pay, she faces foreclosure.

Wayne County Treasurer Sabree has worked hard to get homeowners facing eviction on payment plans. Yet the reality is that homeowners can’t maintain their agreement to pay the monthly amount.

Officials proudly announce incentives such as lowering the interest to six percent when payment is on time so they are disappointed by the percentage of failures and chalk it up to the homeowner’s irresponsibility. Obviously they never considered what it must be like not to have enough money for the essentials, constantly juggling to stay afloat!

Eviction Defense

Detroit Eviction Defense (detroitevictiondefense.org) is still defending people who lost their homes in last year’s auction, when 8,000 homes were sold. One case we were able to resolve is that of Mary Sanders, an 80-year-old African American living on a fixed income. She might have been eligible for a poverty tax exemption but no one told her about it. Eventually she got enough money together to pay her 2013 taxes but didn’t realize she had a balance due of $600 in fees. Her home was sold to a California investor for $2,300.

Detroit Eviction Defense went with her to the management office where she offered to pay the investor what he’d put up for the house which is all that can be done after an auction. However he demanded $15,000 cash! We went to the media with her story, and the next day he agreed to sell her back her home at a price she could manage.

Ms. Sanders was able to get a no-interest loan through the United Community Housing Coalition; DED hosted a fundraising event to help her with the payments. Just imagine the stress that the city and county, and investor, caused Mary Sanders and her extended family!

Between 2005-15 one in three Detroit residents 139,699 homes went through foreclosure. In the beginning the majority were mortgage foreclosures, but by 2015 the majority were for back taxes. As Joel Kurth and Christine MacDonald summarized in Volume of abandoned homes absolutely terrifying, those lost to foreclosure are often never re-occupied. 76 percent of the 84,000 properties on the city’s blight list are foreclosures (5/15/15 Detroit News)

Foreclosures are not only destructive for the family involved, but destabilize neighborhoods and suck up millions of dollars in demolition costs. Local reporting has uncovered costs much higher than original estimates and the FBI is investigating. It costs an average of $13,600 to tear down a residential property, spending far more tax money than the illegal taxes owed. However the Wayne County Treasurer and Detroit Mayor claim there is nothing they can do.

In fact, after the ACLU/NAACP lawsuit was filed, Detroit Corporation Counsel Melvin Butch Hollowell called it and claiming it would violate compliance with Detroit’s post-bankruptcy plan. For city officials, the renaissance isn’t for everyone.