# Reducing Foreclosures' Negative Effects on Neighborhoods

Prepared for the conference:

***Reinventing Older Communities: How Does Place Matter?***

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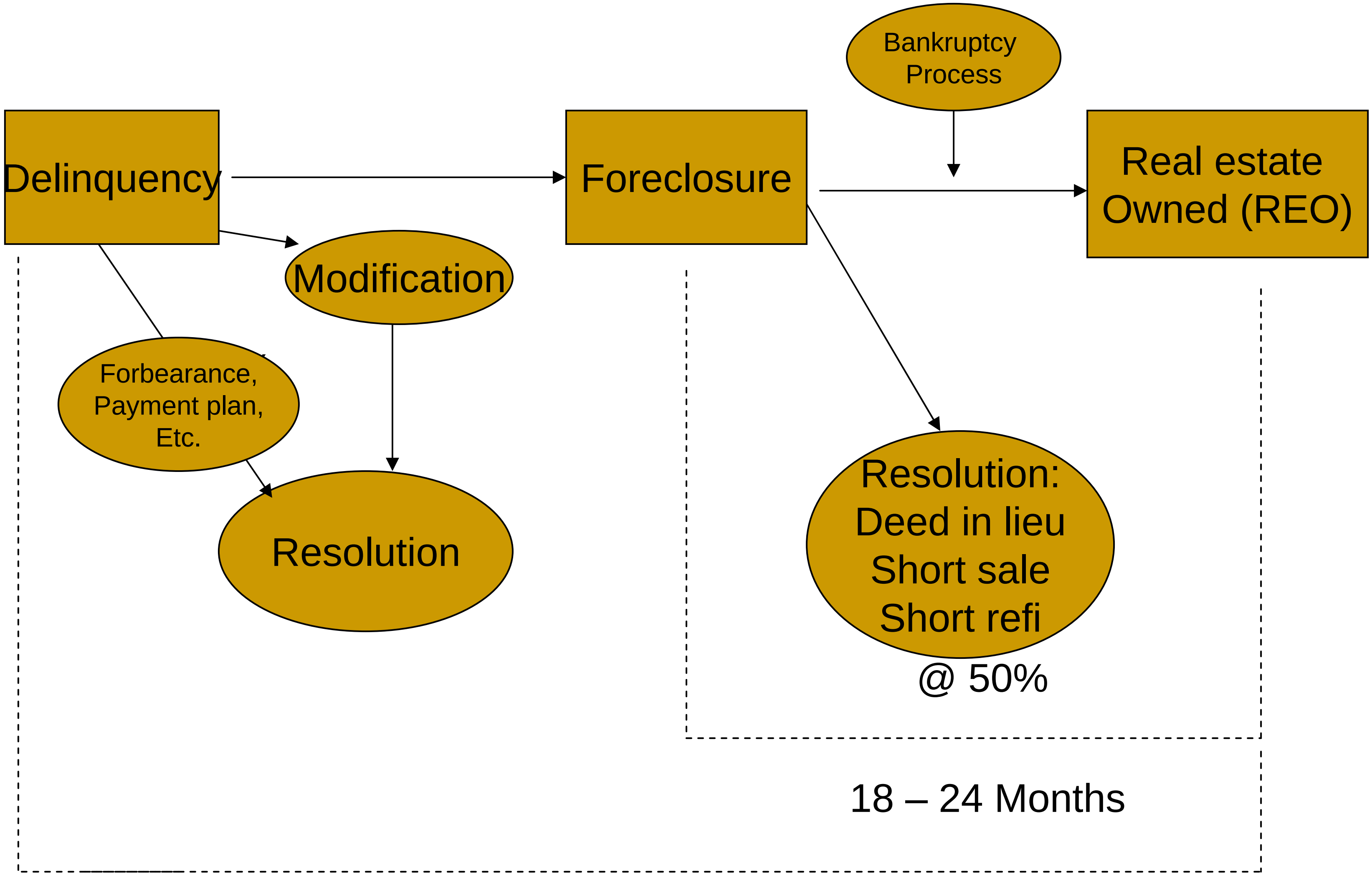
# Delinquency/Foreclosure Process




Up to 3 Years

# The Current Situation

- There are: 54 million mortgage borrowers
  - 7.1 million subprime
- Borrowers in distress
  - 200,000+ foreclosed homes held in Real Estate Owned (REO) inventories of lenders
  - 1.2 million foreclosures in process nationally
  - 1.8 million seriously delinquent loans
    - 1 million subprime
    - 800,000 prime and Alt-A
  - 400,000 foreclosures initiated in Q4-07 (200k in December)
  - 2 million foreclosures expected in next 18 months ($2-3 trillion in loans at risk)

# The Current Situation (2)

- Real estate markets weak
  - Declining prices in 32 states, nominal prices falling 10+% in six states: CA, AZ, IL, MI, FL, OH
- Servicer logjam
  - Need to increase capacity 1000% to meet current need for processing loan modifications
  - Revenue sources are shrinking
  - Fail to reach more than 50% of delinquent borrowers
  - Only 120,000 loan mods performed in second half of 2007
  - Foreclosures outstripping mods 7 to 1
  - In subprime, for each loan mod 13 foreclosures
  - Only 1% include principal reduction
  - Need to motivate for more and better modifications

# Community Goals

- To minimize collateral damage on families and communities by:
  - Keeping as many current owner-occupants in their homes as possible
  - Accelerating the reuse of foreclosed properties before they damage local communities
- To link with and complement efforts being undertaken by others (gov't, non-profit, etc)

# Framework for response

- National facility to perform effective and efficient loan modifications at scale
- National facility to purchase, refinance, and otherwise restructure distressed mortgages to keep families in place (HOLC Model)
- Scaling local efforts to acquire, manage, and accelerate reuse foreclosed (REO) properties

# Loan modifications

- Working with HOPE NOW Alliance, Consumer Credit Counseling Services of Greater Atlanta (CCCSA) would establish a mechanism to link non-profit credit and mortgage counselors directly to automated mortgage servicing mechanisms to construct effective loan modifications
- CCCSA would scale up to reach 500,000 borrowers nationally by Q3-08, expect to reach 1 million client annual volume by 09 w/other centers
- Linked with federal support for scaling up local counseling capacity ($180 million in December)
- Would provide data on all mortgage outcomes processed through the facility to build a case for more aggressive loan modifications by servicers.
- Would also inform possible litigation strategies to force servicers to do a better job modifying loans to protect the interests of investor pools.

# New HomeOwner Loan Corporation (HOLC)

- National facility that would purchase non-performing loans from lenders and investors
- Facility would “steward” loans over short term to manage disposition in responsible, mission-driven manner
- $20-300 billion being contemplated as part of federal stimulus package
- Several groups are working on the design and development of business model for the entity and consensus is forming among variety of stakeholders to support it

# Local strategies to manage REO

- Public/private entities that can acquire, manage, and accelerate re-use of foreclosed properties
- *Important: can still keep original occupants in place*
- Several models under development, Living Cities working to scale up 6-9 efforts
- Require significant amount of expertise and working capital
- $10 billion being contemplated as part of stimulus through CDBG

# Other efforts

- Center for Responsible Lending supporting bankruptcy reform that would give authority to bankruptcy judges to write down balances of mortgages in bankruptcy proceedings (similar to the way that judges discharge other debt in bankruptcy)
- Would motivate servicers to more aggressively modify loans before they enter bankruptcy
- Could help up to 600,000 homeowners who enter bankruptcy to save their homes

# Obstacles and opportunities

- Major obstacle: willingness of lender servicers to "aggressively" modify loans (e.g. reducing principal balance)
  - Servicers have modified <5% of modifiable loans
  - Only 1% of loan mods include principal reduction
  - Opportunity: if we turn up the heat on servicers through demonstration of effective interventions and credible threat of litigation a huge part of the problem can be solved easily.
- Minor obstacle: complex structure of mortgage pools does not permit sales of non-performing loans in bulk to HOLC
  - Opportunity: guidance can be sought from regulators, IRS, and "good" lenders to motivate bulk sales

## Obstacles and opportunities (2)

- Major obstacle: well articulated business models that adequately compensate all participants in cleaning up the subprime mess
  - Starts with partners honoring their obligations
  - Includes good faith participation from public and private parties
  - Cannot rely on non-profit sector to subsidize mortgage lending industry
- Opportunity: develop local entities that can manage aff housing long term