

Preserving Homeownership – Preserving Communities Forum Phoenix, June 28, 2007

Co-sponsored by the Federal Reserve Bank of San Francisco (FRBSF), the Office of the Comptroller of the Currency (OCC), the Federal Deposit Insurance Corporation (FDIC), and the Office of Thrift Supervision (OTS)

Meeting Notes

Welcome

Jan Bontrager (FRBSF) and Susan Howard (OCC) opened the forum saying that the goals of the meeting are to provide information on the nature and extent of the foreclosure problem, to identify some promising solutions for distressed borrowers, and to facilitate a discussion on what further steps are needed to help prevent foreclosures.

Understanding Foreclosure Trends and the Impact on the Local Community

Carolina Reid (FRBSF) gave a national overview on the concerns over the rising rate of foreclosures, particularly in the subprime market. Historically foreclosures have not been as big an issue in the West due to rapidly increasing house prices and a strong economy (distressed borrowers could refinance or sell), but Arizona is now witnessing an upward trend in foreclosure filings. Of the top ten states with the highest foreclosure rates, Arizona is 7th (Source: Realty Trac) and MBA data similarly shows a rapid upward trend in AZ foreclosures. Maps presented included the subprime borrower concentration in geographic areas of Phoenix and a map of foreclosure filings showing similar concentrations. A map of Tucson's foreclosure filings showed a concentration in the southern neighborhoods. While AZ has had historically low rates of foreclosures, the high proportion of nontraditional mortgages, along with concentration of subprime borrowers in certain neighborhoods may signal larger problems ahead. Reaching those borrowers now may help to mitigate the costs of foreclosure, not only for the homeowners but also for lenders and municipalities.

Paul Leonard (Center for Responsible Lending) described the changing mortgage market as no longer “my mother’s mortgage market”, and talked about the structure and risks associated with the subprime mortgage market. Subprime foreclosures are partially driven by moderating housing prices and the ARM resets that will be accelerating over the next 18 months. Looking backward, one in eight subprime loans made in 2000 had foreclosed by May, 2005. Paul also discussed the data on racial disparities in subprime lending, including figures that showed 52% of the loans made to African Americans were subprime. That same figure was 40% for the Latino population and 19% for Whites. CRL projects that Arizona, California and Nevada will have the highest foreclosure rates in the western states for subprime loans originated in 2006 (21% to 24%), and that the impact of subprime lending will be a net loss of 1 million homeowners. Of special concern are underserved borrowers who may lack education and counseling, are less able to manage payment shocks, and are more likely to have trigger events (job loss, etc.).

Paul concluded with policy recommendations to help existing borrowers at risk and to avert future foreclosures.

Panel: Lender/Servicer Perspective

Robin Stout Migala (Freddie Mac) moderated and presented along with Amanda Stark (JPMorgan Chase), Jay Fruchtman (Countrywide), and Joe Ohayon (Wells Fargo). Robin began the discussion with information from a Roper Public Affairs research study that set out to learn why more late-paying borrowers risk losing their homes rather than reaching out to their mortgage servicer (borrowers never contact their lender in over half of all foreclosure cases). Sixty-one percent of delinquent borrowers said they were not aware of services that mortgage lenders could offer to a person having trouble with their mortgage payments. And, nearly all homeowners said that they would be more likely to contact their lender if they knew alternative repayment options could be offered. This message emphasized the importance of outreach to delinquent homeowners, encouraging them to contact their lender to discuss available options to avoid foreclosure.

The lenders talked about their efforts to reach distressed borrowers and the workout options they use to prevent foreclosures. Their strategies include toll free help lines, foreclosure prevention training, and partnerships with local and national foreclosure prevention initiatives. They also spoke about the changes they have seen in the last two years in terms of the number of defaults and the reasons behind the default as well as information on their workout options. Best practices that they shared included: educate consumers early in delinquency, advocate housing counseling agencies, warn about foreclosure scams, conduct homeowner seminars to educate on workout options, and establish relationships with counselors as well as national and state hotlines. Q&A included information on an REO Gifting and Discounted Sale Program available to nonprofits whose mission is to provide affordable housing to LMI borrowers.

Lunch Presentation: James Carrieres, HUD Office of Inspector General, highlighted a mortgage fraud case and provided an overview of various fraud and foreclosure rescue schemes.

Panel: Community Response (regional, local and national)

Moderator: Amanda Stark (JPMorgan Chase)

Zach Urban (Colorado Homeownership Preservation Initiative) talked about how the Colorado foreclosure prevention initiative came together, its structure, its partnerships, the number of calls to the hotline, and the results they are seeing. Colorado was one of the first western states to experience a significant rise in foreclosures and this statewide initiative has a success story to share. Patricia Garcia Duarte (NHS Phoenix) talked about what they are seeing and doing locally, which includes requesting funding to explore a statewide system approach to establish outcome pools to offset the costs of default counseling. They also participate in the national 1-888-996-HOPE Hotline. Dean Caldwell-Tautges (HPF) explained how the national 24/7 Hope Hotline is structured

(including the five nonprofit counseling partners) and the numbers and responses they are seeing as a result of their efforts. In closing, Celine Thomasson (NeighborWorks) showcased the recently launched Ad Council PSA spots on foreclosure and the Hope Hotline.

Reports from Small Groups & Summary Discussion

Moderated small groups brainstormed the critical issues in Arizona and then identified next steps and stakeholders. The compiled comments indicated:

Critical Issues:

1. Need for greater outreach to delinquent borrowers
2. Lack of public awareness of the problem
3. Funding for counseling, pre- and post-closing
4. The need for a rescue fund and dollars to fund it
5. Need for more data on the extent of the problem – how big is the tidal wave?
6. Brokers who commit fraud – minimal to no consequences
7. Not enough education for borrowers & lenders not requiring it
8. Inconsistencies in housing counseling sector
9. Servicing procedures create delays in working with borrowers
10. Limited awareness of counseling resources
11. Gatekeepers to the lending institution workout staff
12. Awareness of distinction between collections & loss mitigation departments
13. Political will – not a volume of noise yet to create solutions
14. Need for bilingual skills at mortgage servicing and counseling point of entry
15. Fraud and scams in the marketplace
16. Education on the difference between subprime and predatory
17. Borrowers lack of understanding of the mortgage product
18. Docs not in Spanish
19. Putting people in products designed to make them fail
20. Wages not keeping up with home prices – borrowers stretching their finances in order to afford a home
21. Future consequences – impact of foreclosures on sales and housing values yet to come, haven't hit bottom

Needs & Next Steps

1. Create a foreclosure prevention taskforce/coalition
2. Increase funding for counseling (pre- and post-purchase)
3. Training and certification for counselors
4. Better outreach/marketing to effect early intervention strategies
5. Partner with lenders on counselor training and consumer workshops
6. Identify resources – partnerships
7. Build case that foreclosures affect everyone, not just the borrower
8. Need to create links to national servicers
9. Targeted solutions for specific communities & demographics
10. Encourage local media to do outreach -- hotline #

11. Create state taskforce like Colorado
12. Lender incentives to borrower for homebuyer education/counseling
13. Regulate mortgage brokers/license originators
14. Include referral to counselors in Notice of default
15. Local forum to share information & bring together key stakeholders, include media and local government officials
16. Research/discussion/forum for learning about models in other places and best practices
17. Leverage both public and private funding to increase outreach
18. Expand financial literacy
19. Need resources and outreach in Spanish, especially at mortgage servicing and counseling entry points
20. Foreclosure data needed
21. Develop effective regulations
22. Improve counseling services & implement best practices
23. Develop political will for action
24. Create more easily understood disclosures for borrowers
25. Outreach to borrowers beyond Ad Council campaign
26. Create unified louder voice w/consistent message
27. Utilize 211 referral network
28. On foreclosed affordable homes – acquire, rehab and resale to preserve affordability
29. Tighten underwriting guidelines (Fannie/Freddie)
30. Public education on “scams” – do this through entities people know and trust
31. Education on the difference between subprime and predatory
32. Mandatory homeowner education as part of the “action plan” when notified of potential foreclosure
33. Lenders forming partnerships with nonprofits & HUD
34. Provide brochure at closing regarding mortgage delinquency and counseling availability
35. Explore creative options; i.e. a nonprofit purchasing the house and placing it in a land trust. Homeowner takes out a lower mortgage and the equity is shared. (retains affordability)
36. Support national standards for housing counselors
37. Establish a coalition of certified counselors for lenders to refer to
38. Hotline is a good idea – anonymity

Additional Panel comments

1. Government needs to step up and do more to fund housing counseling
2. Engage the private sector as a partner
3. Financial education is critical
4. Housing counselors can improve their services
5. Public awareness (media)
6. Expand definition of neighborhood revitalization to incorporate foreclosure prevention strategies
7. Need \$ for outreach & education

8. Monitor outcomes and share data with stakeholders
9. Become active and volunteer for AZ taskforce

Stakeholders

- AZ Department of Housing
- Arizona Bankers Association
- Nonprofit housing counseling agencies
- Financial institutions
- Government, state and local
- Homeowners
- Lenders/servicers
- Nonprofit social service organizations
- County tax assessor
- AZ Homeownership Counseling Collaborative
- Realtors, title companies
- Appraisers
- Insurance companies
- Developers/Home Builders
- Mortgage insurance companies
- HUD/VA/USDA
- Fannie Mae/Freddie Mac
- Key Legislators, City Council, County, State
- Homeowner associations
- Chambers of Commerce
- Law clinics (ASU)
- Attorney General
- Major employers
- Southwest Fair Housing Council

Teresa Brice (LISC Phoenix) facilitated the Summary Discussion which included comments from the panel members as well as the Report-Out from the small groups. It was identified that there was energy behind creating some form of coalition or task force. From that starting point, the coalition would set priorities for action.

A Response Form was distributed with the comments indicating strong support for creating a coalition.
