

# Supporting Foreclosure Prevention in the Twelfth District



*“The wealth building that follows homeownership is great, but if low- and moderate-income households get foreclosed on their loans, these households typically lose all the equity they have accumulated.”*

– Former Federal Reserve Governor Edward Gramlich<sup>1</sup>

**B**ecause some of the nation’s highest delinquency and foreclosure rates are concentrated in the Twelfth District, minimizing the impact of foreclosures on low- and moderate-income families and communities has become an important priority for the Federal Reserve Bank of San Francisco’s Community Development department. As former Governor Gramlich notes in his book, *Subprime Mortgages: America’s Latest Boom and Bust*, expanded access to credit has provided many low-income and minority families with opportunities to become first-time homeowners and build assets. The recent rise in foreclosures threatens to undermine these gains, with significant social and economic costs to both borrowers and communities. Assisting distressed borrowers and preventing unnecessary foreclosures, therefore, is an important component of promoting asset building among low-income households.

In 2007, Community Development launched a comprehensive foreclosure prevention initiative, “Preserving Homeownership: Preserving Communities.” The initiative marshals the research, educational, and convening powers of the Federal Reserve to prevent foreclosures and help mitigate the local impact of foreclosures on neighborhoods.

### **Identifying vulnerabilities**

Conducting region-specific research is a critical component of the initiative. As a first step, researchers in the Community Development department analyzed local data to identify which areas of the Twelfth District have been the most affected by rising delinquencies and foreclosures. Examining data

on county foreclosure filings, changes in house values, and census data on neighborhood socioeconomic characteristics revealed vulnerabilities in the neighborhoods of California’s Central Valley, Riverside/San Bernardino, and the metro areas of Nevada and Arizona. This research allowed the department to strategically target its resources and outreach activities in these areas.

### **Educating stakeholders**

Building on this research, the second part of the initiative focuses on educating stakeholders about local foreclosure trends and disseminating best practices in foreclosure prevention. In the summer of 2007, in partnership with the other three bank regulatory agencies, the department hosted six foreclosure prevention summits in San Francisco, Fresno, Los Angeles, San Diego, Phoenix, and Las Vegas. The summits brought together over 700 participants, including local, state, and federal government officials, bank and nonbank lenders, loan servicers, mortgage brokers, housing counselors, leaders of community organizations, and academics. These meetings helped inform nonprofit organizations and government agencies about the nature, causes, and extent of foreclosures in their areas, and galvanized local efforts to target interventions and resources to the most affected areas. Since then, additional meetings have been held in Modesto, California’s Inland Empire, and Utah.

### **Strengthening local task forces**

The third part of the initiative helps create or strengthen local task forces to address challenges to foreclosure prevention in the Twelfth District’s

<sup>1</sup> Edward M. Gramlich, *Subprime Mortgages: America’s Latest Boom and Bust* (Washington, D.C.: The Urban Institute, 2007) p. 33.

communities. Each task force—comprising a broad coalition of government agencies, nonprofits, financial institutions, and servicers—is designed to respond to local needs and to take various actions to prevent and mitigate foreclosures.

In Arizona, for example, the Arizona Foreclosure Prevention Workgroup Coalition has been instrumental in raising distressed borrowers' awareness of the national HOPE Hotline (888-995-HOPE). Established by NeighborWorks America, in partnership with the Homeownership Preservation Foundation, the hotline offers delinquent borrowers counseling over the phone 24 hours a day, seven days a week. The hotline also refers delinquent borrowers to local U.S. Housing and Urban Development-approved counseling agencies for assistance with loan modifications.

The San Bernardino-Riverside Foreclosure Prevention Task Force and Fresno's No Homeowner Left Behind Coalition also have made public awareness and improving outreach to distressed borrowers part of their agendas. Research shows that as many as one-third of borrowers in distress never contact their

loan servicers to discuss a possible forbearance plan or loan modification. To overcome this challenge, both groups held large-scale consumer mortgage checkup events, where borrowers were invited to meet with servicers and housing counselors to review their mortgages and discuss possibilities for modification. In San Bernardino, the workshop helped over 500 homeowners gain an understanding of their mortgage terms and connect with the appropriate foreclosure prevention resources.

In addition to outreach targeting borrowers, local task forces are trying to improve the institutional capacity of stakeholders who provide loan modification and forbearance assistance. Community Development has sponsored several training workshops for housing counselors, lenders, and servicers. The Loan Servicer Forum in Los Angeles in December 2007, for example, helped identify the major barriers to effective loan resolutions, which resulted in improved communication channels between housing counselors and servicers. The Arizona Coalition has leveraged private, state, and federal funding sources to increase the capacity of local housing counselors to respond to the growing number of calls from distressed borrowers.

## Addressing challenges

Despite these efforts, numerous challenges to mitigating the impact of foreclosures remain. Already, the high volume of defaults in some neighborhoods is outstripping the capacity of community groups to help all distressed borrowers. In addition, within many areas of the Twelfth District, the high cost of housing precludes the adoption of strategies that are being implemented in other regions of the country. For example, the high cost of land and housing makes it more difficult for nonprofits to buy foreclosed properties and return them to the market as affordable housing. Community Development is working to identify programs and policies that are effective in high-cost areas and will share these ideas through meetings and publications. As developments in the





## Community Development

*Community Development conducts research and outreach on a wide range of community and economic development issues affecting low- and moderate-income communities in the Twelfth District.*

*Standing (Left to Right): Melody Winter Nava, Lauren Mercado-Briosos, Ian Galloway, Scott Turner, Carolina Reid, Jan Bontrager, Craig Nolte, Naomi Cytron. Seated (Left to Right): John Olson, Lena Robinson, Vivian Pacheco, David Erickson. Not Pictured: Joy Hoffmann.*

subprime market continue to unfold, the department also is working to identify emerging hotspots in other areas of the Twelfth District.

Still, many questions need to be answered before the effects of current trends in the mortgage market on low-income borrowers and neighborhoods can be fully understood. Who has been most affected by the rise in defaults and delinquencies in the subprime market? What happens to low-income families after they lose their homes? What is the relationship

between savings, consumer debt, and financial decisionmaking? The answers to these questions can help shape policies and strategies to support sustainable homeownership, now and in the future.

By leveraging the Federal Reserve's research and its ability to bring together groups and resources, Community Development hopes to identify and share emerging answers to these questions, and work with its partners to build a foundation for sustainable homeownership among low- and moderate-income families.