

NATIONAL
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NCRC

Policy Recommendations

Recommendation to Establish the Homeowner Emergency Loan Program (HELP Now)

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Banking, Housing and Urban Affairs
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“Strengthening Our Economy: Foreclosure Prevention and
Neighborhood Preservation”

by The National Community Reinvestment Coalition
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**National
Community
Reinvestment
Coalition**

727 15th Street, N.W.
Suite 900
Washington, D.C. 20005
www.ncrc.org

Voice: 202-628-8866
Fax: 202-628-9800

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About NCRC

The National Community Reinvestment Coalition (NCRC) is an association of more than 600 community-based organizations that promote access to basic banking services including credit and savings, to create and sustain affordable housing, job development and vibrant communities for America's working families. Our members include community reinvestment organizations, community development corporations, local and state government agencies, faith-based institutions, community organizing and civil rights groups, minority and women-owned business associations, local and social service providers from across the nation

Current Efforts Inadequate to Stem Foreclosure Crisis

The most recent available data reinforces the reality that the home mortgage crisis continues to grow. And despite the best efforts of the home mortgage finance industry, voluntary measures to stem the crisis are failing to respond adequately to the scale of the problems. According to Moody's Investors Service, only 3.5 percent of loans scheduled for interest rate resets in the first nine months of 2007 were modified. Yet even if the numbers were higher, the remedies being offered are not working. Current industry workouts and payment plans do not move families into long-term affordable mortgages. Rather, they shift the problems into the future. And, the unsuccessful results of this shifting are clear: according to the Mortgage Bankers Association, fully 40 percent of subprime adjustable rate mortgages (ARMs) that went into foreclosure in the third quarter of 2007 were loans that had previously experienced a modification or repayment plan.

The FHASecure program, introduced in August of 2007, provides additional flexibilities in FHA underwriting guidelines that open the door to refinancing for borrowers who have good credit histories but cannot afford higher mortgage payments due to a loan reset. This program does provide a long-term affordable mortgage solution for borrowers who qualify. But FHASecure lacks the capacity to address the full panoply of problem loans outstanding. According to a January 28, 2008 Reuters article, the American Securitization Forum estimates that FHASecure will assist roughly 44,000 subprime borrowers in its current form. As a result, while an important part of the solution, it is inadequate as the total remedy. Finally, neither FHASecure nor voluntary industry efforts address homeowners who have been foreclosed upon due to unfair and deceptive practices. Likewise, neither program addresses the mounting REO properties that are concentrated and growing in communities across the nation. A broader solution is required to stabilize families in their homes and return confidence to the housing markets and the economy.

Broader Solution Needed: Homeowners Emergency Loan Program (HELP Now)

When faced with a major foreclosure crisis resulting from the economic turmoil of the Great Depression, the federal government responded with a new housing finance agency, The Home Owners Loan Corporation (HOLC). A similar entity, the Resolution Trust Corporation (RTC), was established in the 1980s to aid in the clean-up of the failing savings and loan industry. Although these institutions fulfill their missions, waiting to approve, fund, staff and create programs for a new agency could take more than a year to accomplish. The immediacy of the foreclosure crisis does not allow that luxury of time.

Create a Program, Not an Agency

The National Community Reinvestment Coalition is developing a comprehensive proposal to respond to the foreclosure crisis. NCRC proposes to build on the HOLC model, but rely on existing institutions such as the US Department of the Treasury, FHA, Fannie Mae, Freddie Mac, or the Federal Home Loan Banks to purchase outstanding loans, provide financing or insure loans. By avoiding the added time that would be required to create and staff a new agency, this model could potentially become operational immediately. The proposal recommends the creation of a two-year recoverable loan program, the Homeowners Emergency Loan Program (HELP Now).

Under the program, the federal government would offer to purchase, at a discount, loans held in securitized pools. Discounting the purchase of loan pools would strike a balance between assisting homeowners and ensuring that lenders, servicers, and securitizers are not rewarded for financing and servicing predatory loans. Once held in portfolio by the federal government, the loans could be modified in a meaningful way to create long-term affordability, or refinanced.

Use the Private Markets to Refinance Loans

Borrowers requiring refinancing would be allowed to refinance their loans through private lenders based on standardized underwriting criteria that would include consideration of a borrower's ability to repay the loan. Loans would be underwritten by lenders to be eligible for securitization by the Government Sponsored Enterprises. In addition to being affordable, fixed rate, self amortizing mortgage products, refinanced loans would have their initial principal balance adjusted to reflect current appraised home values.

Government is Paid Back

The discounted value of the home would be reflected in a lien (in the form of a soft second). This lien would be recaptured by the government when the asset is sold (assuming adequate equity growth and the property is held for at least five years) or if the property is refinanced. There would be no repayment obligation by homeowners in excess of that which could be captured by appreciation. Losses would be borne by the federal government, but would be minimal relative to failing to end the foreclosure crisis.

NonProfits Act as Trusted Advisors

Studies have shown consumers to be wary of contacting their loan servicers to request loan modifications or other advice. Given the substantial level of predatory lending in the market, and growing concerns over fraud, their fears are neither surprising nor irrational. Nonprofit intermediaries that have expertise as home loan counselors, mortgage advisors, and lenders, would be funded to contact and assist borrowers to secure loan modifications or refinance. Nonprofit intermediaries could also act as mortgage advisors to ensure that borrowers receive the best possible loans given the borrower's financial circumstances.

Assist Borrowers Who Have Lost Their Homes

The final piece of the proposal would empower HUD with expanded authority and resources to develop a plan, working with nonprofit community development organizations, to address foreclosed and vacant and abandoned properties. Consumers who have lost their homes due to foreclosure would be provided a right of first refusal to repurchase their homes based on the new HELP Now program guidelines. Properties that are not suitable for repurchase or where former homeowners are no longer interested in or eligible to buy back the properties would be transferred to the HELP Now initiative's REO program. The focus of HUD's HELP Now REO property efforts would be to ensure that properties are returned to productive *and affordable* use as quickly as possible. HUD might rely on or borrow from major successful initiatives such as the City of Chicago's *Troubled Building Initiative*,¹ or institutions such as Smart Growth America,² with expertise in the field.

A Win-Win for Families, the Housing Finance Industry and the Markets

The NCRC proposal addresses the single most challenging hurdle that all previous initiatives have faced, which is the inability to restructure or refinance loans held in securitized pools. By purchasing those loans, servicers can offer meaningful modifications that create long-term homeownership affordability. Lenders can offer refinancing options that meet the borrower's ability to repay loans based on the current and realistic value of properties. And families who have lost their homes to foreclosure can recover that loss. By including soft seconds in subsidized loan agreements, the government is paid back a substantial share of its upfront investment.

This broad-based plan not only addresses the most significant challenges facing the housing industry related to the foreclosure crisis, but also ensures that the private markets play the lead role in stabilizing families in their homes. HELP Now would provide a needed stimulus to the housing market that should contribute significantly to the ailing economy. Finally, HELP Now is not a bailout. It is a public private partnership that shares the burden for ending the foreclosure crisis.

¹ Since 2003, the Troubled Buildings Initiative, part of the city of Chicago's department of Housing, compels landlords to maintain safe and drug-free environments for City residents. Primary areas of concern include neighborhood gang and drug activity, disconnection of utilities that place residents at risk, and lack of maintenance or repairs that creates dangerous conditions for residents. The city partners with non-profit organizations to reclaim foreclosed, vacant and abandoned properties to strengthen city blocks and neighborhoods. In the first three years of the program, over 2,500 units were rehabilitated or repaired. (*City of Chicago website. 2008*)

² The National Vacant Properties campaign is a joint partnership between Smart Growth America, LISC and the Metropolitan Institute at Virginia Tech. The goal of this campaign is to help communities prevent abandonment, reclaim vacant properties, and once again become vital places to live. The campaign builds a national network of leaders and experts; provides tools to communities; raises awareness through communications; and provides technical assistance and training. The National Vacant Properties Campaign has worked with nonprofits, elected officials and residents in 14 states. (*National Vacant Properties Campaign Website. 2008*)