

Facing down foreclosure

Faith communities fight to save homes

On a chilly day this winter, families and faith leaders gathered in front of the U.S. Treasury building to share the tale of two holidays: one celebrated by banking executives on track to receive record bonuses for 2009 and another experienced by families fearing that 2010 would bring a foreclosure notice or worse, an eviction.



Every 13 seconds, a new foreclosure is filed against another family, translating into 6,600 new foreclosures every day.

While much media has focused on those who craved “too much home” in the boom years, there are many silent stories of homeowners who were wrongly sold a costly subprime loan. A growing body of data demonstrates that the hardest-hit homebuyers were actually moderate income families. For loans made in 2006, the average subprime loan for owner-occupied, first lien, single family homes was \$205,000 – hardly the price of a McMansion.

Now, foreclosures are draining communities of households and property value. Both compassion and common sense call for a method to stabilize faltering homeownership.

Help from Treasury

In the summer of 2009, the Treasury department launched the Home Affordable Program (HAMP). HAMP is intended to produce a win-win outcome: more affordable monthly payments for homeowners and an opportunity for lenders to avoid costly foreclosure proceedings and the prospect of reselling a home at far less than it once was worth.

But, loan modification efforts have been slowed by two barriers: loan servicers reluctant to offer modifications and to make these modifications permanent and the misplaced fear that loans modified to achieve deep affordability (by writing down the loan principal) will trigger lawsuits from the Wall Street investors who bought those loans.

Meanwhile, job loss or wage reduction is hitting these same homeowners hard. While rising unemployment is throwing fuel on the foreclosure disaster, it didn’t start the fire. No previous recession, even those with higher unemployment rates, resulted in foreclosure levels even close to what we’re seeing now. In past recessions, homeowners could either sell their home or borrow against it. Today’s homeowners, faced with declining home values, have no such choice.

In spite of these challenges, there are things you and your community can do to make an impact. (see “Smart steps” page 2)

7.5 million	Mortgages delinquent or in foreclosure
1.1 million	Trial loan modifications through HAMP
170,000	Permanent loan modifications through HAMP

Sources: CNBC Real Estate Reporter, March 15, 2010; U.S. Department of Treasury, Making Home Affordable Program Servicer Performance Report through Feb. 2010

Smart steps to save homes

Although foreclosures amount to a national crisis, the problem plays out at a local level where community groups and states have an opportunity to convert troubled mortgages into sustainable loans and save struggling communities.

What can be done?

- Coordinate networks of qualified housing and foreclosure prevention counselors. Organizations like NeighborWorks can provide certification and training.
- Enact state legislation to ensure loan servicers take reasonable steps to avoid foreclosure. This could mean lowering interest rates or reducing principal to reach an affordable, sustainable long-term loan.
- Make bridge loans available to homeowners who are temporarily unemployed. Pennsylvania has strong program that could be replicated nationally.
- Utilize the HAMP program's incentives to require principal reduction (not just reduction of interest payments) – a step that would make a large number of mortgages sustainable.
- Where foreclosure cannot be prevented, invest in neighborhood stabilization. Community development corporations and other entities can purchase and rehab homes and sell these back to community members with an affordable mortgage or lease-purchase arrangement.
- Prohibit predatory mortgage lending in the future by requiring sensible underwriting of home loans, banning broker kick-backs and prepayment penalties that serve as an exit tax for families in bad loans.

Who are loan servicers?

Loan servicers are, unfortunately, a key bottleneck in foreclosure prevention. Who are servicers? A servicer is a company that collects mortgage payments from a homeowner and sends them to the bank who loaned them money. Many servicing companies are owned by major banks.

Colorado Lutherans aid families facing a costly choice

What would you do if you had to choose between paying interest on a payday loan and paying your medical bill? Many families are facing tough choices during these financial times. Abusive lending can make these choices even worse.

Payday loans can turn a short-term need for cash into a long term debt trap. With an average APR of 318%, the average Colorado payday borrower paid \$573 to take out a \$334 loan.

Lutheran Advocacy Ministry - Colorado is part of a broad-based effort to cap interest rates in the state at 36% APR. As ministry Director, **Brad Wood**, explained: “Luther talked about usury – about not charging exorbitant interest.” As for modern-day usury, Wood says it is essential to address payday lending in order to ensure that families can buy food and pay their medical bills. “Anything that deters from that is something we have to fight.”

Thank you!

The effort to preserve family assets and fight predatory lending is something CRL shares with many others. We thank **PICO National Network**, **Faith in Public Life** and **Sojourners** who worked jointly on the action at Treasury pictured in this newsletter. That same day, PICO leaders met with staff of the White House Economic Council to share the testimony and concerns of families hurt by predatory lending and the slow pace of loan modification.

The Center for Responsible Lending is a nonprofit, nonpartisan research and policy organization dedicated to protecting home ownership and family wealth by working to eliminate abusive financial practices. CRL is affiliated with Self-Help, one of the nation's largest community development financial institutions.

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