CENTER FOR RESPONSIBLE LENDING

California Foreclosures: New Data Support Policy Reforms to Encourage Effective Loan Modifications and Prevent Avoidable Foreclosures

Policy Brief **June 2012**

Although the national foreclosure crisis is now in its fifth year, it is far from over—particularly for California. The Center for Responsible Lending estimates that there are still nearly 700,000 California homeowners who are at least 30 days delinquent or in the foreclosure process. While not all of these impending foreclosures can or should be prevented, new CRL analysis sheds light on the impact of loan modifications on preventing avoidable foreclosures and how many and which Californians are at risk.

California's legislature stands on the brink of extending key servicing protections of the recently-enacted National Mortgage Settlement to all California mortgage loan servicers. Members of the Joint Legislative Conference Committee on California's Foreclosure Crisis will soon vote on a key piece of Attorney General Kamala Harris' Homeowner Bill of Rights. This legislation will restrict dual tracking, prohibit filing of false documents, and require servicers to provide borrowers with a designated point of contact. Most importantly, the legislation will include a robust enforcement mechanism that will provide servicers with a strong incentive to comply with the law's new requirements and provide borrowers with a remedy if they do not.

The findings of this policy brief underscore the need for the legislation, which aims to create a fairer, more transparent foreclosure process that will keep more Californians in their homes and paying their mortgages.

KEY FINDINGS

- **Loan Modifications Work**: Eighty (80) percent of California borrowers receiving a permanent loan modification in 2010 remain current on their loans and have avoided foreclosure; only 2 percent of these borrowers subsequently lost their homes to foreclosure.

- **Large Numbers of Borrowers Still At Risk**: Nearly 700,000 homeowners, or 11 percent of all loans in California, are at risk of foreclosure. Southern California regions continue to lead the state in both foreclosure rates and foreclosure volume.

- **People of Color Most Likely to Be at Risk**: The delinquency rate for both Latinos and African-Americans exceeds 10 percent, and rates for Asians and whites are high as well, at 7 percent.

Loan Modifications Work to Keep Borrowers in Homes

Unlike earlier in the foreclosure crisis, loan modifications are increasingly proving to be an effective mechanism for keeping borrowers at risk of foreclosure in their homes over the long haul. CRL analysis of loan modification data for California shows that among borrowers who received a permanent loan modification in 2010, more than 80 percent have managed to stay current on their mortgage and avoid foreclosure, despite continued troubles in the economy and high unemployment. Only 2 percent of these borrowers subsequently lost their home to foreclosure. [1]

According to the U.S.Treasury Department report on the performance of the Home Affordable Modification Program (HAMP), just over 200,000 California homeowners have benefitted from receiving a permanent HAMP modification.[2] HAMP, while falling short of stated goals for the number of homeowners who would be helped by the program, nevertheless ensures that borrowers who receive modifications are given an affordable and sustainable payment. As a result, modifications have emerged as a successful way of keeping borrowers in their home, reducing the impact on their families as well as on the surrounding neighborhood.

Increasingly, lenders and servicers are also seeing the benefits of providing loan modifications with principal reduction, which research has shown is the most effective type of modification, particularly in California where large numbers of borrowers are significantly underwater. While the GSEs prohibit principal reduction modifications, in April 2012 nearly 70 percent of non-GSE modifications for borrowers with a loan-to-value ratio greater than 115% included a principal forgiveness feature. [3] Moreover, the National Mortgage Settlement includes substantial new principal reduction requirements for the five largest servicers, which is expected to expand principal reduction modifications for other servicers as well.

Still, the pace of modifications has been slowing, and the number still falls far short of need. Issues in mortgage servicing—such as dual tracking and robo-signing—have limited the potential number of modifications. Yet the broad benefits of modifications are clear. When homeowners receive sustainable loan modifications, their lender or servicer continues to receive mortgage payments, families remain in their homes and neighbors avoid the impact of foreclosures on their own home values: an average decline of $51,174 in California according to CRL estimates.[4]

One of Nine Borrowers Still at Risk of Foreclosure

As of February 2012, CRL estimates that nearly 700,000 (691,413), or 11 percent of all homeowners have a mortgage that was 30-90 days delinquent or in some phase of the foreclosure process.

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1 CRL analysis of loan-level data on subprime home mortgages that are managed by Corporate Trust Services (CTS) of Wells Fargo Bank, N.A., also known as the Columbia Collateral File. These investor report files are available at Hwww.ctslink.comH. Loan performance is measured on a sample of 10,000 first lien, owner occupied loans originated between 2000 and 2006 in California and tracked through June of 2011.

2 http://www.treasury.gov/initiatives/financial-stability/results/MHA-Reports/Documents/April%202012%20MHA%20Report%20WITH%20SERVICER%20ASSESSMENTS_FINAL.pdf

3 Ibid.

4 http://www.responsiblelending.org/mortgage-lending/research-analysis/soaring-spillover-3-09.pdf

Table 1

	Percent of Loans	Number of Loans[5]
30 Days Delinquent	2.3	146,843
60 Days Delinquent	1.1	68,689
90 Days Delinquent	4.2	264,059
In Foreclosure Process	3.4	211,822
TOTAL	11.0	691,413

At-risk borrowers continue to be concentrated in California's Central Valley and Inland Empire. As shown in Table 2 below, Riverside and San Bernardino counties have both very high delinquency rates and large numbers of homeowners in distress. Some of the more rural counties, such as Yuba and Lake, have high delinquency rates, but due to their smaller size, fewer absolute numbers affected. *See appendix for a complete list of California counties, excluding counties with insufficient data.*

Table 2

Counties with the Highest Delinquency Rates		Counties with the Highest Number of Delinquencies	
Riverside	15.4	Los Angeles	181,417
San Bernardino	15.0	Riverside	89,135
Yuba	14.4	San Bernardino	74,568
Imperial	14.4	San Diego	51,727
San Joaquin	14.3	Orange	47,352
Lake	14.0	Sacramento	31,099
San Benito	13.5	Contra Costa	23,861
Solano	13.4	San Joaquin	19,589
Stanislaus	13.2	Alameda	19,479
Merced	13.1	Ventura	17,884

[5] The Mortgage Bankers Association (MBA) National Delinquency Survey reports data on 5.5 million loans in California, an estimated 88 percent of the overall mortgage market. In deriving our estimates of the number of delinquencies, we scale the delinquency percents for our sample to reflect a total of 6.3 million loans in California. State and county delinquency statistics are estimated using loan-level data from Lender Processing Services Analytics, Inc. and BlackBox, and include loans active in February 2012. Our estimates for February 2012 are slightly higher than (but largely comparable to) the percentages for 1st Qtr 2012 MBA estimates (The MBA data for 1st Quarter of 2012 are: 30-Day: 2.15, 60-Day: .98, 90-Day: 3.24 and in Foreclosure: 3.29).

Families of Color and Middle-Class Homeowners Most Likely to be At Risk

As we reported in our 2011 research *Lost Ground*,[6] Latinos and African Americans have been hardest hit by the foreclosure crisis. Minority borrowers, who were targeted by subprime lenders and who were the most likely to get loans with the riskiest product features, have much higher rates of completed foreclosures, as those were the first loans to fail.

However, the effects of the recession and the continued weakness in the housing sector has led to a second wave of delinquencies and foreclosures caused not only by poorly underwritten loans, but also by high rates of unemployment sparked by the financial crisis. While African-American and Latino borrowers continue to experience the highest delinquency rates (which includes loans in the foreclosure process), a large share of Asians and non-Hispanic white borrowers are also in distress and at risk of losing their homes. Analysis of a subset of loans originated in California between 2004 and 2008 shows that more than 10 percent of Latino and African-American families and approximately 7 percent of Latino and non-Hispanic white borrowers are at least 30 days delinquent or in the foreclosure process.[7]

Table 3

Delinquency Rate by Borrower Race/Ethnicity	
Non-Hispanic White	7.3
African American	11.1
Latino	10.7
Asian	7.0

Our analysis also shows that the highest delinquency rates are among California's middle- and higher-income families, those who earned around $64,000 for middle-income families and around $120,000 for high-income families. (See Table 4 below.) To afford the high cost of buying a home in California, median incomes among homeowners tend to be high, especially in the coastal counties. This suggests that the crisis is really affecting California's working families. Additionally, all two-earner households—including those with higher incomes—are vulnerable in the event that one earner loses their job.

[6] http://www.responsiblelending.org/mortgage-lending/research-analysis/lost-ground-2011.html

[7] Note that these data draw from a more limited sample of loans than the data reported for overall delinquency statistics for California and its counties. In addition, these statistics do not reflect the share of borrowers who have already lost their home to foreclosure.

Table 4

Delinquency Rate by Borrower Income	
Low-Income (Median $26,000)	4.3
Moderate-Income (Median $42,000)	6.0
Middle-Income (Median $64,000)	7.4
Higher-Income (Median $120,000)	9.2

The concentration of delinquencies and foreclosures in communities of color and among moderate-income households has long-lasting implications for the well-being of California's families. Homeownership has historically been the gateway to wealth-building and the middle-class, both of which are critical to the long-term economic success of the state. Where possible, policies that will help maintain homeownership will do more than just reduce foreclosures; they will also enable families to stay on the path to a better, more stable financial future for themselves and future generations.

POLICY RECOMMENDATIONS

Large numbers of California homeowners are at risk of foreclosure, including many who could continue to make mortgage payments with a modified loan. However, significant problems in how lenders and servicers conduct foreclosures and consider loan modifications warrant significant solutions in order to create a fair, transparent and effective foreclosure process.

Enact a Strong Homeowner Bill of Rights in California

Pending legislation sponsored by Attorney General Kamala Harris will extend key servicing protections of the National Mortgage Settlement to all California servicers. This legislation will:

- Require servicers to provide homeowners fair and complete consideration for loan modifications before beginning the foreclosure process. This is critical to preventing avoidable foreclosures and stabilizing the housing market.
- Require servicers to provide borrowers with a consistent, accountable point of contact.
- Provide servicers with strong incentives to comply with the law, and provide borrowers with remedies if servicers fail to comply.

Speedy enactment of this legislation should be a top priority for California legislators.

Enable Refinancing for Underwater Homeowners

An important proposal pending in Congress would make it easier for underwater borrowers to take advantage of historically low interest rates and refinance their mortgages.[8] It is estimated that more than

[8] S. 3085, introduced by Sen. Robert Menendez (D-NJ) and Sen. Barbara Boxer (D-CA) would expand and simplify the Home Affordable Refinance Program (HARP).

1 million California borrowers could possibly be eligible to reduce their annual mortgage payments by as much as $4,000 annually.[9] This would free up additional resources in family budgets that could be used to pay down debts, spend on other consumer needs or build savings.

- Allow more homeowners who are current on their Fannie Mae or Freddie Mac mortgage to qualify for a refinance under the Home Affordable Refinance Program.
- Provide more certainty on lender liability with respect to representations and warranties they make to Fannie Mae or Freddie Mac.
- Encourage the holders of second liens to allow refinancing.

[9] Alan Boyce, R. Glenn Hubbard, Christopher Mayer and James Witkin at The Paul Milstein School of Real Estate at Columbia Business School, "Now is the Time to Consider Widespread Refinancing," at Hhttp://www4.gsb.columbia.edu/realestate/research/housingcrisisH.

Appendix: Estimated Delinquency Rates by County, February 2012

	Estimated Total Loans Outstanding	30 Days Delinquent	60 Days Delinquent	90 Days Delinquent	In Foreclosure Process	Total Percentage of Homeowners in Distress	Total Homeowners in Distress
Alameda	223,428	1.7	0.8	3.4	2.8	8.7	19,479
Amador	5,249	2.6	1.2	3.6	3.9	11.3	595
Butte	19,049	2.2	1.0	2.9	2.6	8.7	1,664
Calaveras	7,196	2.6	1.2	3.8	4.4	12.1	869
Colusa	2,709	2.8	1.1	4.3	3.7	11.8	321
Contra Costa	224,952	2.0	1.0	4.2	3.4	10.6	23,861
El Dorado	36,405	2.1	0.9	3.6	3.2	9.9	3,591
Fresno	122,085	3.1	1.3	4.1	3.2	11.8	14,394
Glenn	2,963	3.5	1.4	3.9	3.2	12.0	356
Humboldt	8,720	2.5	1.1	2.2	1.6	7.4	642
Imperial	22,267	4.1	1.7	4.7	3.9	14.4	3,207
Kern	119,207	3.3	1.3	4.5	3.6	12.8	15,243
Kings	14,139	3.5	1.5	4.2	2.9	12.1	1,711
Lake	10,583	3.0	1.2	4.8	5.0	14.0	1,482
Lassen	2,117	2.6	1.3	3.4	4.3	11.6	246
Los Angeles	1,592,017	2.5	1.2	4.3	3.5	11.4	181,417
Madera	22,521	3.0	1.3	4.4	3.9	12.6	2,841
Marin	33,696	1.2	0.5	2.1	1.9	5.7	1,918
Mariposa	1,693	1.8	1.1	2.9	3.3	9.1	154
Mendocino	7,704	2.5	1.0	2.8	3.0	9.3	716
Merced	32,003	2.7	1.2	4.9	4.4	13.1	4,205
Mono	1,524	1.4	0.7	2.9	3.7	8.6	132
Monterey	62,736	2.0	0.9	5.0	3.5	11.4	7,138
Napa	25,060	2.2	1.1	3.7	3.4	10.4	2,602
Nevada	15,832	2.1	0.9	3.0	2.9	8.8	1,392
Orange	506,374	1.8	0.9	3.5	3.1	9.4	47,352
Placer	70,694	1.9	0.9	3.9	2.9	9.7	6,822
Riverside	577,068	3.2	1.5	6.1	4.6	15.4	89,135
Sacramento	265,506	2.3	1.1	4.6	3.6	11.7	31,099
San Benito	14,562	2.8	1.2	5.8	3.6	13.5	1,965
San Bernardino	496,384	3.4	1.6	5.6	4.4	15.0	74,568
San Diego	528,641	2.0	1.0	3.9	2.9	9.8	51,727
San Francisco	42,501	1.0	0.4	1.6	1.4	4.4	1,866
San Joaquin	136,986	2.9	1.4	5.5	4.5	14.3	19,589
San Luis Obispo	34,543	1.7	0.7	2.8	2.6	7.8	2,681
San Mateo	90,590	1.3	0.6	2.5	2.1	6.5	5,851
Santa Barbara	59,265	1.9	1.0	3.6	3.0	9.5	5,643
Santa Clara	221,565	1.4	0.6	3.0	2.3	7.4	16,320
Santa Cruz	42,501	1.8	0.8	3.5	2.7	8.8	3,760
Shasta	21,674	2.6	1.1	3.7	3.0	10.4	2,245
Siskiyou	3,048	2.2	1.3	3.0	2.5	8.9	272
Solano	109,555	2.6	1.2	5.4	4.2	13.4	14,729
Sonoma	77,552	1.8	0.8	3.5	2.9	8.9	6,940
Stanislaus	88,050	2.8	1.3	5.0	4.1	13.2	11,600
Sutter	12,022	2.5	1.2	3.8	3.5	11.1	1,336
Tehama	7,450	3.4	1.4	4.3	3.1	12.1	905
Tulare	56,894	3.2	1.6	4.2	3.1	12.1	6,883
Tuolumne	6,434	2.0	0.8	3.3	3.0	9.2	595
Ventura	175,000	2.1	1.0	4.0	3.1	10.2	17,884
Yolo	22,605	1.8	0.8	3.6	2.6	8.7	1,978
Yuba	12,530	3.0	1.4	5.9	4.2	14.4	1,810