

LISC

*Helping neighbors  
build communities*

CARRIE ZASLOW, PROGRAM OFFICER

LOCAL INITIATIVES SUPPORT CORPORATION

# *Keeping a Roof Overhead*

2009 Northeast Family  
Strengthening Conference -  
Empowering Families



# LISC

*Helping neighbors  
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- The Foreclosure Crisis
  - How did we get here?
- Current Mitigation
  - Housing and Economic Recovery Act
  - Neighborhood Stabilization Program -1 & 2
  - National Community Stabilization Trust
- Counseling-A Success Story

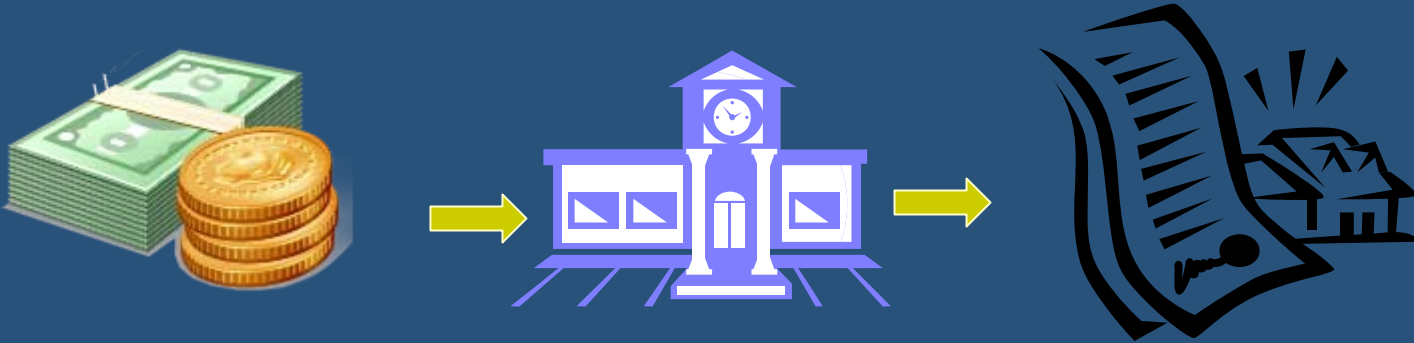
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How did we get here?

First Let's take a step back and look at how traditionally mortgage loans were made.



## Old Model

Banks were limited in lending based on the deposits they received from their customers

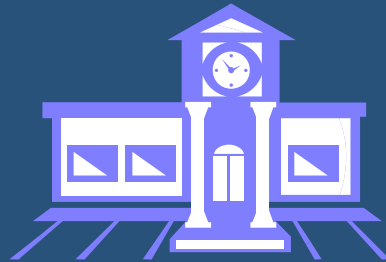


Banks or the lender owned the loans they made so they made sure that the loan could get be repaid.

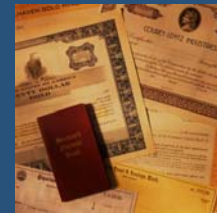
Banks used the four Cs:

- Credit
- Collateral
- Capital
- Capacity

# Over the past 30 years there have been changes to this model.



New Model



The secondary market agreed to buy loans so banks could make more loans and the bond holders would be repaid by the homeowner.

Lenders were selling the loans they made to investors in the form of bonds.

Therefore the lenders were getting their money back when they sold the loan and were no longer concerned with how it was repaid.



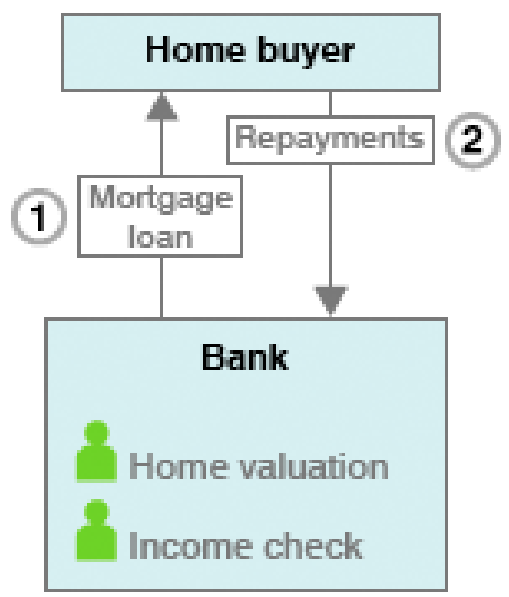
# Sometimes, Lenders used only 1 or 2 of the Cs

- Credit
- Collateral



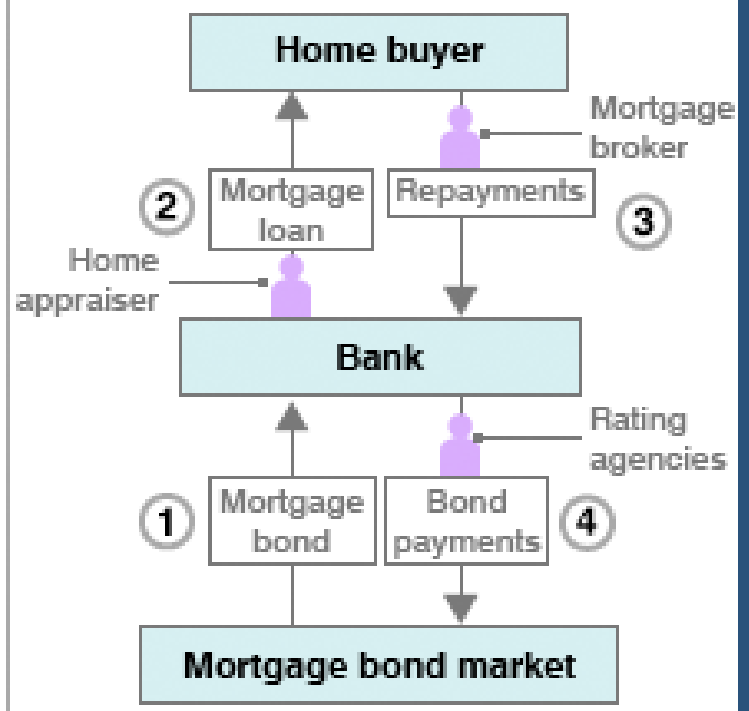


### Traditional model



- ① Bank grants mortgage
- ② Homebuyer pays bank

### Sub-prime model



- ① Bank sells mortgage bond
- ② Bank grants mortgage
- ③ Homebuyer pays bank
- ④ Bank pays bondholders

Key:

→ Flow of money

Safeguards

Bank checks

Independent checks



# New types of loans

- Adjustable rate mortgages
- Jumbo Loans
- No Document
- Stated income
- Interest only loans
- Option ARMS

Investors  
purchased  
mortgage loans of  
all types

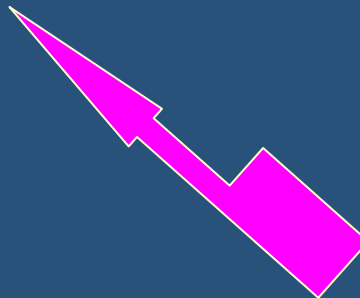


The Loans were  
pooled with  
loans of varying  
levels of risk



The Bond gets a  
Triple A rating and  
even conservative  
investors want to  
invest

Bond  
ratings  
were  
based on  
historical  
statistics  
about  
mortgage  
repayment

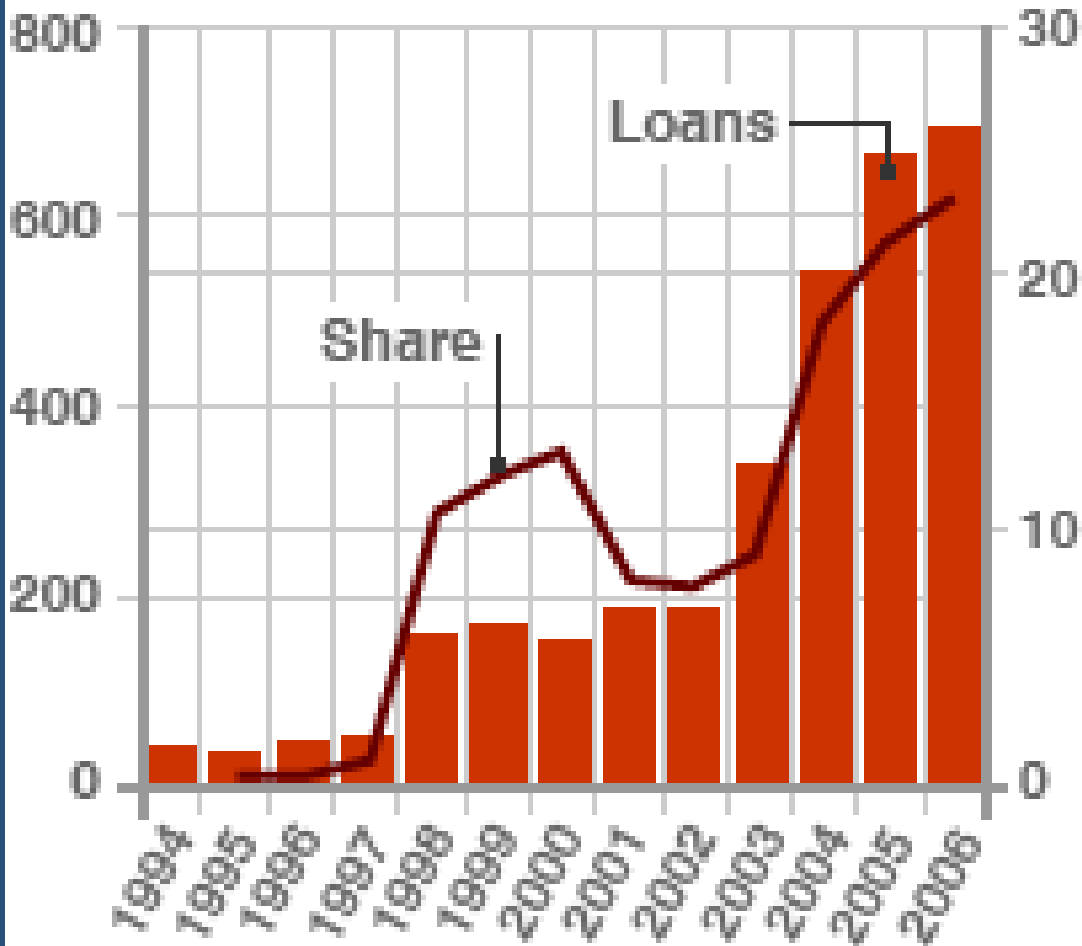




# GROWTH OF SUB-PRIME LENDING

Annual volume of sub-prime \$bn

% share of mortgage market



SOURCE: Center for Responsible Lending /Inside Mortgage Finance



# The Consequences

- In 2009 there will be an estimated 2.4 million foreclosures
- 69.5 million nearby homes will \$7,200 in value with an overall decline in property values of \$502 billion.
- During the period 2009-2012, it is projected that foreclosures will cost 92 million U.S. families some \$1.9 trillion in lower home values--an average of \$20,300 in lost wealth per household.

Source Center for Responsible lending

# More consequences



- The building industry, comprising 15% of the economy, is expected to halve its output, causing a loss of over one million jobs.
- About two-thirds of 211 Municipal officials reported an increase in foreclosures in their cities in the past year. A third of them reported a drop in revenues and an increase in abandoned and vacant properties and urban blight.

# What are we doing about it



- Housing and Economic Recovery Act
- Neighborhood Stabilization Program 1 & 2
- Homeowner Affordability and Stability Plan
- National Community Stabilization Trust

# Housing and Economic Recovery Act



- Nearly \$4 billion in neighborhood stabilization grants
- Refinance up to \$300 billion in troubled mortgages through the Federal Housing Administration (FHA), affecting up to about 400,000 homeowners. The bill also revises FHA single family mortgage insurance.
- Stronger regulation of Fannie Mae and Freddie Mac
- Numerous improvements to the Low Income Housing Tax Credit, to attract investment, provide more credits, fill project financing gaps, work better with other federal policies, reach targeted communities and tenants, preserve existing housing, and simplify administration. The bill also includes other tax incentives.
- A new Housing Trust Fund starting in 2010 to subsidize the production and preservation of affordable housing, primarily to serve poor renters. Mandatory contributions from Fannie Mae and Freddie Mac could reach \$450 million by 2012.

# Homeowner Affordability and Stability Plan



- This massive foreclosure avoidance program is estimated to help up to 9 million homeowners avoid foreclosure.
- The three-part plan would:
  - help 3 million to 4 million borrowers that are "underwater" refinance through the GSEs,
  - help 4 to 5 million additional borrowers through the creation of a \$75 billion Homeowners Stability Initiative
  - add an additional \$100 billion of funding to Fannie and Freddie.

# Neighborhood Stabilization Program



- Provides **\$3.92 billion** in emergency Community Development Block Grants for the acquisition and rehabilitation of foreclosed and abandoned homes
  - All funds must be used for families and individuals with incomes up to 120% of the area median.
  - At least 25% of funds must be used for those with income up to 50% of the area median.
  - Homes must remain affordable for the longest period practicable.
- Funds are generally used **in accordance with CDBG rules** except as otherwise provided in the bill or as the HUD Secretary specifies and notifies Congress.

# Neighborhood Stabilization Program II



- \$2 billion appropriated
- States, localities and nonprofits can apply through competitive process
- Up to \$200 million for capacity building for local communities receiving NSP funds
- Special program income rules repealed, even for earlier \$3.9 billion. CDBG rules apply.
- Some other new rules also apply
- Application due in June and July

# National Community Stabilization Trust



- Local Initiatives Support Corporation Enterprise Community Partners, the Housing Partnership Network, NeighborWorks America, Urban league and La Raza have worked together to sponsor the National Community Stabilization Trust.
- The goal of the Trust is to effectively link the financial institutions with local housing providers, thereby supporting the development of strong local programs that can stem the decline of communities with high concentrations of vacant, foreclosed properties.
- The Trust will coordinate the transfer of real estate owned (REO) properties from financial institutions nationwide (lenders, loan servicers, investors and GSEs) to local housing organizations, in collaboration with state and local governments.

# A case for Counseling



- Pre-Purchase Counseling consists group or one-on-one training in the following areas:
  - Assessing Readiness to Buy a Home
  - Budgeting and Credit
  - Financing a Home
  - Selecting a Home
  - Maintaining a Home and Finances
- In RI, The Homeownership Connection has reported that they have seen less than 1% foreclosure rate among those who completed Homebuyer Education.
- The City of Providence has found that recipients of down payment Assistance had a less than 1% foreclosure rate.