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Foreclosure to Homelessness

NCH Fact Sheet #
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NCH conducted a national e-mail survey of local and state homeless coalitions in late 2007 and early 2008. The primary question was, "Is your community seeing an increase in homelessness due to the foreclosure crisis?" These are some of the more salient findings, culled from the full April 2008 report, *Foreclosure to Homelessness: the Forgotten Victims of the Subprime Crisis*.

- Nearly 61% of respondents had seen an increase in homelessness since the foreclosure crisis began in 2007, with only 5% indicating that they had *not* seen an increase. Nearly a third did not know.

- 72% of respondents provided multiple responses to the question, "How do you know there has been an increase?" More than half [56.6%] indicated the source of their information was local media. Nearly as many had received their information via reports from local emergency shelters [55.4%] and/or clients [54.2%], while 38.6% indicated that their information came from the national media. Just one in four cited a government report.

- The vast majority of respondents [88%] offered multiple responses to the question, "Where are people staying after their property has been foreclosed on?" The overwhelming majority [76.2% stated that people were staying with family and friends. More than half [54.5%] stated that people were going to emergency shelters. Even more alarming, 41.6% said that these individuals and families who had lost their homes were already living on the streets.

  Over one third [37.6%] stated that people were able to rent, which likely refers to former homeowners, who would be more likely to have the resources needed to move to a rental after losing their homes to foreclosure. About a third [29.7%] stated that people were going to transitional shelters, while about a quarter [22.8%] said that they did not know what was happening to people.

- Just under half of the survey respondents [48.2%] noted that there were state and/or local advocacy efforts in progress to prevent foreclosures and evictions. One fourth [24.6%] said there *were no* such efforts. Almost a third said they didn't know.

- More heartening, 57.5% of respondents said that they were addressing the issue of homelessness in their work on evictions and foreclosures; 17.9% were not, and nearly one quarter [24.5%] did not know.

- NCH received responses from 29 states. Over three-fourths [76%] of the responses came from five states: California, Florida, Kentucky, Minnesota, and Texas. With the exception of Kentucky, these reflect the states hardest hit by the subprime meltdown.

- The largest sector respondent to the NCH survey were direct service providers [40.5%]; 76.6% of those were multi-service agencies. The remaining agencies offered a wide range of direct services. The second largest sector reporting was government agencies, which accounted for 20.7% of respondents: 42% of the governmental responses came from community action agencies; 21% from community development departments; followed by 12.5% each from housing authorities and foreclosure prevention specialists. Much smaller percentages reflected respondents from a range of governmental agencies, including law enforcement and redevelopment agencies. Local, state or national coalition respondents accounted for roughly 12.9% of all responses, with local homeless coalitions accounting for 60% of this sector's total.

- While urban and rural respondents saw increases in homelessness over the last year, far more responses came from urban areas [63%] than rural areas [46%].

NCH RECOMMENDATIONS[1]

I. *Prevent Homelessness*

NCH urges policymakers at city, state and national levels to embrace homeless prevention as the cornerstone of every policy response. Rather than create a new homeless prevention program, at least $300 million in new appropriations should be immediately allocated to the Emergency Food and Shelter Program (EFSP). EFSP would provide an effective rent and mortgage relief mechanism, which is an eligible use of EFSP. These additional funds would be targeted to rent relief and other expenses related to housing. Funds would be used to supplement but not supplant existing public funding for homeless prevention. It is imperative that the distribution formula for this new allocation not be based solely on unemployment figures, but also include foreclosure data and other measures of poverty in the locality receiving these funds.

II. *Recreate the National Home Owners Loan Corporation*

Provide federal relief for homeowners who have lost their homes or at immediate risk of losing them. The federal government should help homeowners who have already lost their homes or who are at immediate risk of foreclosure. It should create an agency comparable to the Depression-era Home Owners Loan Corporation (HOLC), buy the mortgages, and remake the loans at reasonable rates backed by federal insurance.

III. *Promote and enforce accountability for investors and banks and do not provide federal relief to investors or banks unless they agree to new ground rules*

Washington should not bail out investors or banks, including Bear Stearns and its suitor, JP Morgan, without new ground rules. The federally brokered deal between Bear Stearns and JP Morgan came without consideration for the consumers who had the most to lose. Recent trends suggest that there will be similar failures in the foreseeable future, some among institutions considered too big to fail. The federal government must require that the industry be held

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[1] The NCH supports the following recommendations, drawn from Dr. Peter Drier, E.P. Clapp Distinguished Professor of Politics and Director of the Urban and Environmental Policy Program at Occidental College, Los Angeles.

accountable before providing hundreds of billions of dollars from the Federal Reserve, Fannie Mae, Freddie Mac, and the Federal Home Loan Banks to prop up Wall Street institutions. Properties salvaged through the application of federal funds would be held to a guaranteed long-term period of affordability of 30 years with fixed interest of no more than 6%.

IV. *Consolidate the agencies charged with overseeing banks and financial institutions into one federal super-agency*

Federal oversight has not kept pace with the dramatic transformation of the financial services industry. Four federal agencies – the Federal Reserve, the Office of the Comptroller of the Currency, the Office of Thrift Supervision, and the Federal Deposit Insurance Corporation – each has jurisdiction over mortgage lending. States have jurisdiction over the growing number of nonblank mortgage lenders (which accounted for about 40% of new subprime loans) without any consistent regulatory standards. States are responsible for regulating the insurance industry (including homeowner insurance), and do so with widely varying levels of effectiveness. It is absurd to have so many competing and overlapping agencies involved in regulating financial services institutions, particularly because they are often at cross purposes with one another.

"We need to go in the direction of more regulatory consolidation," Sheila C. Bair, Chairwoman of the FDIC, recently told the New York Times. "It would make more sense to have some type of umbrella agency, if for no other reason than facilitating information."[2]

V. *Assign the federal government the role of Watchdog*

Senator Chris Dodd (D-CT), Chair of the Senate Banking Committee, and Representative Barney Frank (D-MA) have proposed legislation to establish the federal government's role as the financial services industry's watchdog. In this role, Congress would require lenders to verify applicants' income and document borrowers' ability to pay. Private mortgage companies and brokers should fall under the umbrella of federal lending regulations, including conforming with requirements for registration and licensure. Wall Street and other mortgage investors should be held liable for the illegal practices of mortgage brokers and lenders originating loans. Lenders should be prohibited from steering borrowers toward more expensive loans and from influencing home appraisals.

RECOMMENDED FEDERAL STRATEGIES[3]

1. All federally insured mortgages resulting in foreclosure should protect the existing tenant's duration. Unless a side agreement is struck between the new owner and existing tenant, the tenant's lease survives the foreclosure process. It is recommended that states adopt similar protections for renters to prevent automatic eviction when a foreclosed property is transferred to a new owner.

2. Require (by state law) that residential mortgage foreclosures have foreclosure deeds appropriately entered into courthouse records within thirty days of the date of the foreclosure sale. This would help remedy the growing difficulty in identifying the buyers and renters of properties lost to foreclosure and provide contact information relative to

[2] Andrews, Edmund and LaBaton, Stephen. *Split Is Forming Over Regulation of Wall Street*. New York Times: March 23, 2008. www.nytimes.com/2008/03/23/business/23regulate.html?pagewanted=print
[3] Many of the recommended federal strategies are based on work by Dr. Frank Alexander, Emory Law School Professor and eminent resource on Landlord-Tenant Law, as provided in a March e-mail to NCH Board member Anita Beatty.

creating short-term lease arrangements. Owners or managers would be required to provide potential tenants with information about property status, thus ensuring that renters would not unknowingly enter into rental agreements on properties under foreclosure.

3. Create incentives (local, state and/or federal) for lenders who convey the foreclosed properties they acquire to nonprofit affordable housing entities (e.g., Community Development Corporations, Habitat for Humanity or land banks) at deeply discounted prices. Somewhat different approaches will be needed for owner-occupied housing and rental investment housing subject to foreclosure.

4. Federal law should ensure that rental housing receiving housing assistance payments (e.g., vouchers or certificates), which are subsequently assisted through foreclosure with federal funds, be maintained without disruption to tenants. Payment status would remain undisturbed for the life of the contract, and would not be terminated as a result of mortgage foreclosure. Housing Assistance Programs [HAP] contracts on any and all rental investment housing shall be deemed unaffected by foreclosure and extended to a term of one year following the date of any foreclosure. The foreclosure sale purchaser would serve as landlord throughout the remaining life of the contract. If, at the end of the contract, the purchaser chooses not to operate under a HAP contract, s/he would assist renters losing their homes with finding alternative, suitable housing.

5. The Federal Reserve should not allow the Bank of America to continue to grow unless there is a firm written commitment to serve its present and future customers by implementing the following for the benefit of endangered homeowners and tenants of rental investment properties living on incomes at or below 30% of the Area Median Income.[4]

a. Initiate an immediate foreclosure moratorium on all mortgage loans in the Bank of America and Countrywide portfolios, including those currently being serviced or that have been purchased back through a sheriff's sale.

b. Modify loans for borrowers in danger of losing their homes or who are in the redemption process after a sheriff's sale to a fixed rate of no more than 6% for 30 years.

c. Immediately provide nonprofits in local communities the opportunity to serve in a receivership role and/or to lease property for $1 / year. This mechanism would be used to assist prior homeowners and rental investment property in foreclosure with developing refinancing plans that include interest rates at or below 6% for 30 years and/or allow residents to remain in their homes while continuing to pay rent or make payments toward Contracts for Deed on the property.

d. Pay nonprofits a management fee and require Bank of America to provide underwriter and loan officer staff time to renegotiate the loans.

e. Allow communities and nonprofits to purchase property at a reasonable below market price, lease property for $1/year or donate property to nonprofits in order to maintain the affordability of housing in their communities. This would assist

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[4] Some of the recommendations in #5 are partially attributable to the California Reinvestment Coalition, consistent with their March 5, 2008 letter to the Federal Reserve.

present homeowners and residents to remain in their homes and allow utilization of vacant homes as affordable housing opportunities for people living on low incomes. This strategy could include the use of land trusts.

f. Bank of America filed its application to acquire Countrywide on February 19, 2008. The notice on the Federal Reserve website was not posted until February 29, 2008. Even though a 30-day period for comments is being offered based on the day the filing was posted, the NCH contends that the comment period should be extended. Because of the sub-prime crisis, the merger is unique. Without access to the Home Mortgage and Disclosure Act (HMDA) data for 2007, assessing the potential impact of the merger is impossible. As of March 1, 2008, lenders were required to supply HMDA data to anyone requesting it. The comment period should be extended 30 days past the date the banks were required to provide their HDMA data to the public.