FORECLOSURE AND SUBPRIME MORTGAGE CRISIS: SACRAMENTO RESPONSE

1. EXECUTIVE SUMMARY

Local communities across the nation are feeling the impacts of the foreclosure crisis, and the Sacramento area is among the hardest hit. In 2007, Sacramento experienced the fifth highest rate of foreclosure among the nation's 100 largest jurisdictions, and foreclosures continue to increase.

Developing a local response to the subprime mortgage and foreclosure crisis impacting the Sacramento area has been a fluid and dynamic process. It has required not only anticipating new foreclosure activity and neighborhood impacts, but understanding market responses and implications in the broader economy. In addition, a complex array of State and Federal regulatory, legislative, and legal responses has evolved. Using the parameters for local action within the foreclosure report presented to the City Council and Board of Supervisors this past April, City and County Departments, community partners and the Sacramento Housing and Redevelopment Agency (SHRA) staff have carried out a number of important actions in 2008 and are now positioned to move forward with the implementation of neighborhood stabilization programs in response to significant momentum at the state and federal levels.

This report provides a comprehensive account of local activities undertaken to date to address the foreclosure crisis, including efforts related to data collection, counseling and code enforcement. In addition, it provides a broad overview of state and federal legislation and of Sacramento's related mobilization efforts, resulting in a strategy for use of federal Neighborhood Stabilization Program funding. This strategy is contained within the Action Plan Staff Report and its attachments,

2. GETTING OUR ARMS AROUND THE ISSUE

SHRA's first responsibility has been to determine the extent of the crisis, the hardest-hit areas and populations, and the effects on the community. This data analysis informs actions and strategies outlined in this report.

Foreclosure Activity in 2007

To date, SHRA has twice (December 2007 and April 2008) provided information to the Board of Supervisors and the City Council on the foreclosure crisis. These reports revealed that:

- Years 2005 and 2006 were peak years for the issuance of subprime and other adjustable rate mortgages were and under the most common two-year reset terms, 2007 and 2008 would see a spike in borrower defaults ;
- 2.2 million subprime home loans had already failed or would end in foreclosure; and

- One out of five subprime mortgages originating during the previous two years would end in foreclosure.
- By end of 2007, California constituted 25 percent of national foreclosure activity and Sacramento had the 5th highest rate of foreclosure
- More than 80 percent of the loans that went into default in 2007 were originated between 2005 and 2006;
- Low-income and minority neighborhoods tended to have higher numbers of foreclosure filings and higher percentages of high-cost loans; and
- Total economic losses for City and County could surpass $7.5 billion.

Continuing Data Collection and Current Trends

To keep up-to-date on this continuously evolving crisis, SHRA has taken on the responsibility of continuously tracking new foreclosure activity. SHRA has released quarterly foreclosure reports which have revealed the following trends:

- Foreclosure Activity Continues To Increase – While 2007 was a record year for foreclosure filings, 2008 has so far been much worse. There were about 17,500 Notice of Default (NOD) filings and about 7,500 Real Estate Owned (REO) filings in Sacramento County in all of 2007. In only the *first half* of 2008, there were about 13,500 NOD filings and almost 8,000 REO filings.
- Sacramento Is Among the Hardest Hit Counties in the State – Sacramento's rate of foreclosures continues to be among the worst in the state, with NOD and REO filings in the second quarter of 2008 equal to 2.2 percent of all housing units in the county. The statewide average for the same period was 1.4 percent.
- Estimates of Numbers of Properties Remaining in REO Vary – It is unfortunately difficult to pin down the number of properties that remain in REO status at any point in time. Information from DataQuick Information Systems estimates that the number of unsold REO properties in Sacramento County increased from about 4,400 in August 2007 to over 14,000 in July 2008. However, information received from the Sacramento Association of Realtors(SAR) indicates that they were tracking only about 2,100 REO properties for sale in mid-August 2008. The SAR also recently reported that the inventory of homes for sale in the area has dropped to just under 4 months, down from over 11 months a year earlier.
- The Majority of Foreclosed Loans Were Originated in 2005 and 2006 – Foreclosures in 2008 continue the trend seen in 2007, with almost 80 percent of foreclosure filings on loans that were originated in 2005 and 2006. A potential second large wave of foreclosure exists with the re-casting of Option ARM loans, loans made mainly to people with good credit. When these loans re-set, payments can rise 40 to 80 percent, leading to high rates of default and foreclosure.

- Low-Income Areas Have the Most Foreclosures – While greenfield growth areas such as Elk Grove and North Natomas certainly have their share of foreclosures, the hardest-hit areas are those with the lowest-income residents, including parts of Oak Park, Meadowview, unincorporated South Sacramento, Del Paso Heights, and North Highlands, among others.
- Sales Prices Have Declined Fastest in Low-Income Areas – Over the past year, sales prices have declined throughout Sacramento County, but low-income areas have seen price declines more precipitous than other areas. For example, average REO sales prices in North Natomas declined by 22 percent from September 2007 to July 2008, and by 23 percent in Elk Grove. However, over the same period, REO sales prices declined by 43 percent in much of North Sacramento and Del Paso Heights, 45 percent in North Highlands, and 43 percent in a large section of South Sacramento.
- Investors Are Purchasing Many Properties in Low-Income Areas – Investors are snapping up properties in lower-income areas of the City and County at a brisk pace. From August 2007 through July 2008, low-income areas generally saw 25 to 50 percent of all home sales going to investors rather than owner-occupants, while the countywide average was 16 percent, and the rate in upper-income areas was much lower.

This ongoing data analysis has helped SHRA identify target areas for the Sacramento's neighborhood stabilization strategies.

3. LOCAL RESPONSE EFFORTS: PREVENTING FORECLOSURES AND MITIGATING COMMUNITY IMPACTS

In the April 2008 report to the City Council and Board of Supervisors SHRA, recommended activities which focused on:

- Preventing additional foreclosures through counseling and education;
- Mitigating community impacts of vacant and foreclosed buildings primarily through enforcement of maintenance standards on vacant properties;
- Influencing federal and state legislative and regulatory responses; and
- Positioning Sacramento to take advantage of new federal and state resources.

Two key partnerships worked in 2008 to coordinate efforts and address the impacts of the subprime mortgage and foreclosure crisis in Sacramento.

- The Sacramento City and County Foreclosure Task Force ("Foreclosure Task Force") was formed in January 2008 to coordinate local foreclosure efforts. Meeting bi-weekly, the group is co-chaired by SHRA and the District Attorney and includes representatives of the following: City and County code enforcement and neighborhood services departments, the City Attorney, County Assessor, City Council and County Board offices, representatives from local State legislative offices, and Congressional offices.

- The Sacramento Regional Partnership is a consortium of local government agencies and officials, non profit organizations, including counseling agencies, and private real estate and banking partners. They meet monthly to coordinate counseling and prevention efforts and annually sponsor the homeownership fair in June.

Counseling and Community Education Efforts

In January 2008, a Freddie Mac/Roper poll found that, despite increased media attention, 57 percent of late-paying borrowers did not know that their lenders may offer alternatives to foreclosure. To improve the odds, in 2008 the Sacramento community undertook a variety of efforts to connect at-risk borrowers with HUD-approved counselors and with their lenders, including:

- Individual and group counseling through in-person, telephone, and webinar sessions offered by Sacramento's five HUD-certified counseling agencies: Acorn Housing, ByDesign Financial Solutions, Senior Legal Hotline/Legal Services of Northern California, Sacramento Home Loan Counseling Center, and Sacramento NeighborWorks Homeownership Center.
- Eight larger community workshops sessions with an estimated 700 attendees were held in areas with concentrations of subprime lending and foreclosure activity. Often sponsored by a local, state or federal official, these workshops brought together homeowners, counselors, lenders and loan servicers, providing an opportunity for both general foreclosure education as well as individual counseling.
- SHRA and the District Attorney have partnered to provide anti-scam postcard handouts and monthly direct mailings to homeowners warning of predatory practices and contact information to seek assistance from the counseling agencies. The first mailing to homeowners occurred on June 27th and was sent to approximately 2,000 homeowners that had received a notice of default over the preceding month. To date, each mailing has consisted of approximately 2,000 letters to homeowners.

Outreach for specific events and to advertise counseling resources have occurred through:

- SHRA's website and its "Preserving Communties" newsletter;
- Direct mail from servicers and lenders;
- Notification to established neighborhood groups and Redevelopment Area Commissions (RACs) by City, County and SHRA staff;
- Free media such as radio and television interviews and public service announcements; and
- Special outreach efforts by elected officials.

Additional Resources for Counseling

While counselor resources continued to be stretched, additional resources were provided in late 2007 and in 2008. The recently enacted federal Housing and Economic Recovery Act of 2008 (HERA, see below) provides $180 million to NeighborWorks America for grants to state housing finance agencies, HUD-approved counseling intermediaries and community-based NeighborWorks organizations. With 15 percent of the funds targeted for low-income and minority homeowners and neighborhoods, and $30 million in grants for legal counseling to assist homeowners in foreclosure, it is estimated that more than 350,000 families nationally will be directly assisted. This augments $180 million in counseling funds provided by Congress to NeighborWorks in December 2007 and $5 million provided by the California Home Ownership Preservation Initiative Program in July for California counseling agencies, including two in Sacramento.

Effect of Mortgage Counseling and Loan Modifications

Homeowners struggling to make mortgage payments did not fare well during the past year, despite Herculean efforts to expand mortgage counseling and the number of free workshops to help families keep their homes. Foreclosures continue to be the most common outcome for homeowners in trouble with their subprime and nontraditional ("Option ARM") loans.

Recent reports from federal and state agencies and nonprofit organizations, all with significantly increased data, show the same picture: while loan servicers overall have increased their outreach to borrowers and their numbers of loan modifications, they are not offering principal reductions – the type of assistance that could create an affordable mortgage in a time of significant deterioration in home values.

As a result, most loan modifications included reduced interest rates for a short or medium time period, or negotiated payment plans that would return the borrower's loan to a performing status. Given that many of the loans were unaffordable when they were made, subject to high fees and penalties and often the result of fraudulent practices, these short term fixes may not create a sustainable payment stream.

The California Reinvestment Coalition's third survey of California mortgage counseling agencies, called "The Continuing Chasm Between Words and Deeds III," reports that the most common reasons for homeowner difficulties included: the mortgages were unaffordable when made, there was a change in family income, or non-English speakers were provided with documents not in their language. The mortgage counselors reported that the mortgage industry as a whole has not stepped up its outreach to borrowers before interest rate resets or increased payments.

The California Department of Corporations, in its July 2008 Mortgage Servicer Survey, reported that the total number of loan workouts had doubled over the last six months. Its data showed that 23 percent of borrowers received a reduced interest rate below their initial rate (5,993 loans), but that only one percent (297 loans) obtained a reduced principal balance without other modifications. (This figure would be higher if the data had included loans accompanied by principal reductions and interest rate adjustments or extension of terms.) During the same month (July 2008), the servicers reported 14,666 foreclosures.

The federal Office of Controller of the Currency and the Office of Thrift Supervision published their "Mortgage Metrics Report" for January – June 2008. Their data included 34.7 million loans nationwide from the nation's largest lenders, representing 60 percent of all loans outstanding. Their data shows increases in defaults and foreclosures as well as in loan modifications. The loan modifications generally include changes in interest rates or amortization schedules and maturity.

The OCC/OTC report also documents the disproportionate number of foreclosures among subprime mortgages. Although subprime mortgages represent nine percent of all mortgages held in the United States, they represent 28 percent of all foreclosures. In other words, subprime loans are more than twice as likely to enter the foreclosure process.

The challenge for the coming months is whether the federal government's intervention in the troubled mortgage securities market will result in more loan workouts creating affordable payment plans for homeowners.

Enforcing Community Standards in Vacant Properties

A primary goal of the ongoing strategy for the City/County Foreclosure Task Force has been to enforce maintenance standards in vacant and foreclosed properties through code enforcement. Both the City and County of Sacramento have Vacant Building Ordinances that help combat nuisance and blight issues that can arise in vacant buildings. While not all vacant buildings are REO or foreclosed properties, the impacts and activity of City and County code officials related to vacant properties is an indicator of changing community standards in the wake of a housing crisis.

<u>City of Sacramento Code Enforcement</u>

The City of Sacramento updated their Vacant Building Ordinance (City Code 8.1) in July of 2007, strengthening an existing ordinance by adding stiffer penalties as a means to encourage faster compliance. The City's ordinance allows City Code Enforcement staff to impose penalties starting 30 days after the building has been found to be a nuisance. Penalties start at $1,000 per violation, up to $5,000 per violation, and can be imposed every 30 days until corrected.

Measures of nuisance include landscaping in poor condition; exterior paint and general finishes in poor condition; trash, debris and graffiti; and non-compliance with all building codes and regulations.

Since enacting the updated Ordinance on September 1, 2007, City Code officials have processed 1,157 citations on vacant properties throughout the City, including some cases that were open and rolled over from the previous Ordinance. Highlights of these cases include:

- 40 percent are closed and 60 percent remain open and active;
- 64 percent of the cases were violations substantial enough to require building permit for correction;
- 68 percent of all the cases were in three Council districts: 27 percent each in districts two and five and 14 percent in district eight.

While the Code Department does not track ownership status of the properties cited under the Vacant Building Ordinance, data has shown that some of the areas in the City hit hardest by the foreclosure crisis– Del Paso Heights, Oak Park and Meadowview – fall in these three heavily impacted Council districts.

<u>County of Sacramento Code Enforcement</u>

The County of Sacramento adopted a Vacant Building Ordinance (County Code 16.18.401) in October of 2007, enacting similar provisions to the City's ordinance. Like the City, the County's ordinance allows citation by the County Code Department for blighted vacant properties. The County's measures of blight generally include overgrown or dead vegetation, trash or debris accumulation, graffiti, as well as any violations of building standards in County Code. After a 30 day notice of nuisance, the County ordinance allows imposition of additive fines of $500, $1,000 and $5,000 for every 30 days the nuisance goes uncorrected, up to a maximum of $6,500 after three months.

Over the past five years, the County Code department has seen almost a doubling in the number of complaints, including housing, nuisance, zoning and vehicle complaints. Specific to housing related complaints, since the beginning of 2008:

- The County has opened 315 cases on vacant, open and accessible properties;
- Over half (56 percent) have been in two general areas of the County, North Highlands and the Fruitridge Pocket.

Like the City, the County does not track cases by ownership status; however both of these areas have been identified through data analysis as heavily impacted by the foreclosure crisis

Additional Actions to Maintain Properties

Several other key activities related to mitigating the neighborhood impacts of vacant properties have occurred or are underway.

- On September 10th, the District Attorney and SHRA hosted several lending institutions to discuss opportunities for partnerships between the banks and the City and County. Mutual goals include ensuring properties are adequately maintained and moving properties more quickly to re-occupancy and homeownership. The meeting was comprised of representatives from the following offices: the District Attorney, City Attorney, SHRA, City and County Code Enforcement, County Assessor, State and local elected officials, neighboring cities in Sacramento County, and Wells Fargo Bank, Countrywide/Bank of America, Chase, and HSBC. The discussion focused on roadblocks facing lenders and property managers in maintaining and returning properties to occupancy, local initiatives to revitalize impacted neighborhoods, and legal responsibilities of those who own and manage property.

- One of the ongoing challenges of code enforcement, also recognized in the September 10th lender discussion, has been identifying the owner responsible for maintaining vacant property as it moves through the foreclosure process and before it becomes a nuisance. The Foreclosure Task Force has researched a potential tool for property registration based on ordinances adopted throughout California, including in the cities of Chula Vista, San Jose, San Diego, and Los Angeles. Rather than burdening local city departments with tracking down owners or finding representatives through a variety of means, these ordinances require the lender who has issued a Notice of Default to register the property when it becomes vacant. The unique feature of this approach is that it addresses the period after foreclosure procedures begin but before the property becomes Real Estate Owned (REO). A local property manager, identified both in the registration and in a sign posted on the property, must maintain the property. Fees may also accompany the registration. Localities are also notified when property is transferred. Industry representatives at the meeting indicated the challenges of complying with multiple local ordinances.

- The City and SHRA have been working with the California Conservation Corps to develop a program with the dual purpose of providing constructive activities for youth and a service that can be made available to lenders and their responsible parties to contract for maintenance of foreclosed properties.

- The County of Sacramento District Attorney’s office has updated its guidelines for the “Safe Streets Now” neighborhood program and City staff is exploring the feasibility of a pilot program that would educate residents of impacted neighborhoods inundated with poorly maintained foreclosed properties on how to take actions in small claims court as a method to coax lenders to ensure their properties are adequately maintained. A potential award for plaintiffs in small claims cases is $7,000 per member of the household filing the claim.

4. FEDERAL AND STATE RESOURCES COMING INTO PLAY

In recent months, the state and federal government enacted legislation to assist homeowners in, or at risk of, default as well as assist local governments stabilize and redevelop neighborhoods in distress due to vacant foreclosed properties. In addition, reforms were adopted at both levels of government to improve oversight and regulation of the mortgage industry. Key foreclosure provisions are described more fully below.

The most significant of these efforts is the Housing and Economic Recovery Act of 2008 (HERA), widely considered to be the most significant housing legislation in decades. Key foreclosure features include:

- $300 billion for FHA to insure mortgages at risk of default;
- $11 billion in tax-exempt Mortgage Revenue Bonds in 2008 ($1.14 billion to California) to allow local and state housing finance agencies to refinance subprime loans threatened with foreclosure or provide favorable financing for REO purchases by first-time homebuyers;
- $3.9 billion in CDBG funds to enable local governments to acquire foreclosed properties, rehabilitate them and make them available for sale to other homebuyers;
- $180 million in additional funding to HUD certified housing counseling agencies for at-risk borrowers to receive assistance in avoiding foreclosure; and
- $7,000 tax credit for new homebuyers to purchase foreclosed properties.

<u>FHA's Hope for Homeownership</u>

Starting October 1st, FHA will insure $300 billion in new loans under the Hope for Homeowners program. Estimated to help 400,000 owner occupants trapped in mortgages they currently cannot afford, the program will help families who meet the following eligibility:

- Mortgage origination on or before January 1, 2008;
- Mortgage debt-to-income ration at least 31 percent;
- Demonstration that current loan is unaffordable;
- Have not intentionally missed mortgage payments; and
- Do not own second homes.

New loans will be based on the family's ability to repay the mortgage and will have these terms:

- 30-year, fixed rate mortgage, with three percent down;
- Maximum 90 percent loan-to-value ratio;
- No prepayment penalties;
- $550,440 maximum mortgage amount;
- Extinguishment of any subordinate liens; and
- New home appraisals from FHA-approved appraisers.

The success of Hope For Homeowners Program, however, is dependent on voluntary lender participation. Mortgage holders can get a maximum of 90 percent of the *current* value of the home, but this reduction in principal is presumably less than the losses associated with foreclosure. Lenders must also waive penalties or fees and help pay for origination and closing costs.

Increase in Mortgage Revenue Bond Authority

Sacramento residents may also benefit from the state's $1.14 billion increase in Mortgage Revenue Bonds (MRB) available through HERA for refinanced loans or new REO loans for first time home buyers. Administered through the California Debt Limit Allocation Committee (CDLAC), it is anticipated that 50 percent of the funds will be administered by the California Housing Finance Agency (CalHFA) with the remaining funds distributed based upon percent of population. While details have not yet been provided, we believe that CalHFA will offer loans for both refinancing and new purchases and that Sacramento residents will be eligible.

Sacramento County's share based on population is approximately $17 million. The recent Treasury Notice 2008-79 allows for the use of Mortgage Credit Certificates (MCCs), a more viable local tool due to the administrative costs associated with local revenue bond issuance. MCCs provide a 20 percent federal income tax credit to homeowners based on the mortgage interest paid. MCCs allow lenders to use the anticipated tax savings when they calculate the monthly payment a homeowner can afford, in essence providing the homeowner with a higher level of income to allow them the best possible opportunity to afford a sustainable mortgage. Sacramento, applying to CDLAC in October, is adopting its existing new purchase program for REO properties on a countywide basis.

Sacramento Added to State REO Purchase Program

On July 21, 2008, CalHFA announced the establishment of the Community Stabilization Program and allocated $200 million in tax-exempt bond financing for first-time homebuyer purchase of select vacant REO properties at reduced prices from participating lenders. Originally not included in this pilot program, Sacramento County was added in August following meetings SHRA held with CHFA staff.

Preventing Future Abuses: Regulation Z

To stem abusive lending practices, the Fed proposed new rules, known as Regulation Z, which will take effect October 1, 2009. Federal regulators have stated they expect that subprime problems would resurface once markets calm because there would be nothing to prevent the industry from reverting to prior bad practices if prohibitions were not memorialized in a regulation. The new rules will apply to all banks, financial institutions and mortgage brokers. "Under these rules, lenders can make subprime loans only to borrowers who can be reasonably expected to repay them. In doing so, they must assess the borrower's ability to pay the highest scheduled monthly payment in the first seven years of a loan. Previously, lenders considered only the ability to repay low teaser rates that could later rise sharply, as many did. Lenders must also verify a borrower's income to assets, once a common practice that fell by the wayside during the housing boom. Starting in 2010, lenders must also put payments in escrow accounts for property taxes and homeowner's insurance for all first-lien mortgage loans for at least one year.

The new rules also limit the use of prepayment penalties, large fees imposed on borrowers who pay off their original loans early. These fees made it tough for many distressed borrowers to refinance into better terms, and consumer advocates pushed to eliminate them. The Fed did not go that far. Instead, it barred prepayment penalties on subprime, adjustable-rate loans with rates that reset within the first five years of a loan. On fixed rate loans, prepayment penalties are permitted during the first two years of the loan."[1]

State Legislation

At the same time movement began to coalesce at the federal level, the State of California enacted major legislation to address foreclosure, Senate Bill 1137 (Perata), Residential Mortgage Loans: Foreclosure Procedures, which was signed by Governor Schwarzenegger as an emergency act that took effect on July 8th. This law requires a mortgagee, trustee, beneficiary, or authorized agent to wait 30 days after contact is made with the borrower, or 30 days after satisfying due diligence requirements to contact the borrower, as specified, before filing a notice of default (NOD). The purpose for contacting the borrower is to assess the borrower's financial situation and explore options for the borrower to avoid foreclosure. The law requires the borrower to be notified that they can request a subsequent meeting within 14 days and they are to be provided the toll free number to a HUD certified housing counseling agency.

---

[1] Dina El Boghdady and Neil Irwin "Fed Rules Aim o Stem Abusive Lending" Washington Post, Tuesday, July 15, 2008.

The law further authorizes a governmental entity to impose civil fines and penalties for failure to maintain a foreclosed property of up to $1,000 per day for a violation. A governmental entity that seeks to impose those fines and penalties must provide notice of the claimed violation and an opportunity to correct the violation at least 14 days prior to imposing the fines and penalties, as well as to allow a hearing for contesting those fines and penalties.

The law also governs the termination of tenancies and generally requires 30 days' notice of the termination thereof, except under specified circumstances. Until January 1, 2013, this law will give a tenant or subtenant in possession of a rental housing unit at the time the property is sold in foreclosure, 60 days to remove himself or herself from the property, as specified. Upon posting a notice of sale: residential property subject to foreclosure sale, twenty days or more after the date of this notice, the specified property may be sold at foreclosure. The new property owner can either give a tenant a new lease or rental agreement or provide 60 day eviction notice.

On September 26th, Governor Schwarzenegger vetoed AB 1830 (Lieu) which would have provided that mortgage brokers have a fiduciary duty to borrowers. In addition, the bill would have imposed tougher restrictions on higher priced loans, prohibiting negatively amortized loans and prepayment penalties and on certain practices such as steering borrowers to higher priced products and payment incentives for such loans.

Legal Interventions

Other notable developments occurring recently relating to the foreclosure and subprime mortgage crisis include a "Grand Jury subpoena, which had been issued in recent weeks and months to Countrywide Financial Corp., New Century Financial Corp. and IndyMac Federal Bank seeking a wide range of information."[2] Those familiar with the investigation stated the subpoenas seek e-mail, phone, and bank records of the three Southern California institutions, which all collapsed as a result of bad loans. "Furthermore, in June, federal officials created a multi-agency taskforce to address mortgage crime, consisting of representatives from the Internal Revenue Service, US Postal Inspection Service, HUD, and the Federal Deposit Insurance Corp. Meanwhile the Federal Bureau of Investigation (FBI) is examining 21 cases related to subprime market collapses targeting securities firms, hedge funds, credit rating agencies, mortgage brokers and lenders. The FBI is working closely with the Securities and Exchange Commission and the Justice Department fraud section to determine if parallel criminal cases should occur. IndyMac's failure alone is expected to cost the Federal Deposit Insurance fund $4 to $8 billion. Federal officials are looking at ways to bring cases that are easier to make, where you get people on tape or on e-mail saying one thing and then misleading the public. The investment vehicles

[2] Richard B. Schmitt "Federal grand jury investigates Countrywide, IndyMac, New Century" Los Angeles Times, July 23, 2008.

were so complex, showing that people illegally manipulated transactions intentionally would be very difficult otherwise."[3]

The Sacramento FBI office has reported continuing increases in mortgages fraud cases. In 2005 there were 500 cases of mortgage fraud reported by the banks themselves locally. In 2006 there were 1,000 cases; 2007 saw 1,500; and 2008 is anticipated to see 3,000 such cases. These cases do not include other investigations resulting from other sources outside the banks.

4. MOBILIZING FOR NEIGHBORHOOD STABILIZATION

Perhaps most directly significant to local governments is the $3.9 billion in Community Development Block Grant funds authorized in HERA to state and local governments to purchase abandoned and foreclosed homes and residential properties. The Neighborhood Stabilization Program (NSP) is intended to stabilize neighborhoods that are hardest hit by the foreclosure crisis. In anticipation of federal resources for neighborhood stabilization and prior to knowing either the funding level or program rules, SHRA has undertaken a number of research and collaborative efforts to understand best practices and begin to develop a local REO neighborhood strategy. These efforts are summarized below; the strategy is contained in an attachment to the Staff Report.

- In April of 2008, SHRA began discussions with various lenders holding portfolios of foreclosed homes to explore the potential for bulk sales and other ways to collaborate in reducing the number of REO's. At that time, lenders were solely focused on the individual sale of REO properties in order to maximize the possible return for their banks and its investors and had limited interest in what they perceived as steeply discounted asset sales. As the prospect of increased losses grew, lenders have become more willing to discuss bulk sales in targeted areas that are experiencing significant price declines and slow sales.
- SHRA has also proposed being granted a "first look" at foreclosed homes in our target areas to accelerate the purchase of these REO's and mitigate further neighborhood deterioration. Currently SHRA is defining with these lenders targeted areas and identifying specific foreclosed homes for purchase and intends to develop specific proposals that will lead to transactions with the lenders. The Agency also intends to participate with state and national groups working with these lenders to gain better access to decision makers and further develop disposition programs.
- SHRA hosted ten large California cities and counties on July 25th to further discuss and share best practices. Conversation centered on ways to maximize the local impact of the $10 billion in additional Mortgage Revenue Bond (MRB) cap.

[3] Richard B. Schmitt "Federal grand jury investigates Countrywide, IndyMac, New Century" Los Angeles Times, July 23, 2008.

- The Federal Reserve Bank of San Francisco has asked SHRA to join their Stabilizing Communities Working Group to develop strategies for stabilizing local communities affected by foreclosures.
- At the request of HUD, SHRA hosted Assistant Secretary Susan Peppler of the Office of Community Planning and Development at HUD on Thursday, August 21st. During the Assistant Secretary's visit details of how HUD was formulating the regulations for the new NSP foreclosure package were presented and SHRA was able to share its interests.
- SHRA staff have attended relevant conferences, roundtables, and symposiums, including
    - "Stabilizing Communities: Addressing the Negative Impacts of Foreclosure" conference sponsored by the Federal Reserve of San Francisco in July.
    - Stabilization roundtables sponsored by State Department of Housing and Community Development and by the Non-Profit Housing Association of Northern California, both in September.
    - SHRA presentation on REO stabilization strategies at the California Redevelopment Association Legal Symposium in August.