



**Sacramento  
Housing &  
Redevelopment  
Agency**

**FORECLOSURES AND THE SUBPRIME MORTGAGE CRISIS:  
A SACRAMENTO PERSPECTIVE**

**December 12, 2007**

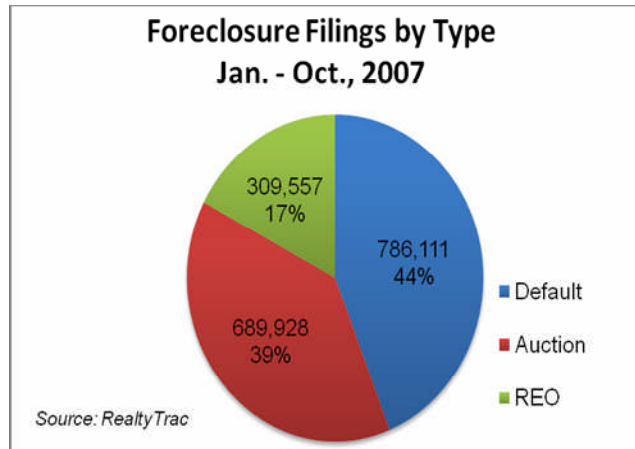
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*The following persons authored this report: Cindy Cavanaugh, Beverly Fretz-Brown and Emily Halcon.*

## I: WHAT IS HAPPENING: FORECLOSURE STATISTICS AND TRENDS

### National

As of October, 2007, national foreclosure filing rates were up 94 percent from the previous year, with a national average of one foreclosure filing per 555 homes. While filings of notices of default decreased slightly in October, bank repossessions increased almost 35 percent, suggesting that homeowners who enter the foreclosure process are unable to work out modifications to their loans and are losing their homes.<sup>1</sup>



*In October 2007, California ranked second in the nation for foreclosure activity, with one foreclosure filing for every 258 households.*

### State

As recent media reports have shown, California leads the nation in foreclosures, both from the standpoint of raw numbers (including Riverside/San Bernardino County, with over 31,000 filings in the third quarter of 2007), and from the standpoint of foreclosure activity on a per capita basis. In a RealtyTrac November 14, 2007 report, five of the top ten Metropolitan Statistical Areas (MSA) in terms of foreclosure activity were in California.<sup>2</sup>

California ranked second (behind Nevada) for foreclosure activity in October 2007 with one foreclosure filing for every 258 households. While the October activity of over 50,000 filings represented a slight decrease from the previous month, foreclosure activity is up 213 percent in California since October of 2006.<sup>3</sup>

The Center for Responsible Lending ("Center") estimates that 8.4 million California homes will experience property devaluation for a total loss of \$67.6 million as a result of foreclosures throughout the state, and that nearly 180,000 Californians will lose their home as a result of foreclosure on a 2005/2006 subprime loan.<sup>4</sup>

<sup>1</sup> "US Foreclosure Activity Increases 2 Percent in October." RealtyTrac. 4 December 2007. <http://www.realtytrac.com/ContentManagement/pressrelease.aspx?ChannelID=9&ItemID=3664&acct=64847>

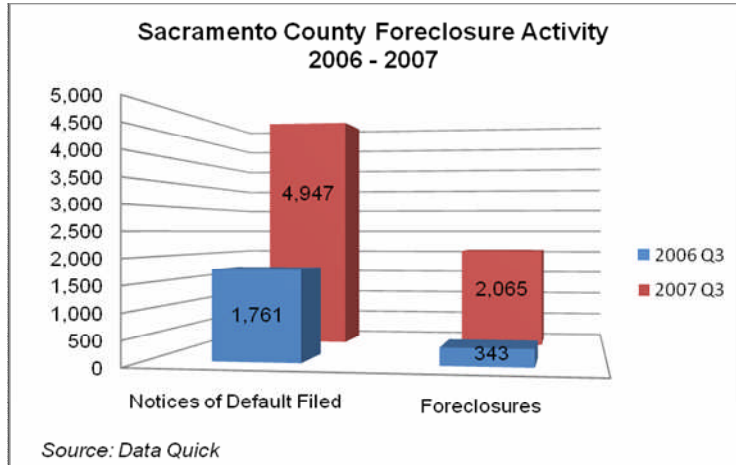
<sup>2</sup> Ibid.

<sup>3</sup> Ibid.

<sup>4</sup> "Subprime Spillover." The Center for Responsible Lending. 4 December 2007. <http://www.responsiblelending.org/issues/mortgage/research/subprime-spillover.html>

## Local

According to RealtyTrac, the Sacramento metropolitan area ranked sixth in the nation for the highest foreclosure activity in the third quarter of 2007, an increase of 408 percent in a one year period.<sup>5</sup> Dataquick found that almost 5,000 notices of default were filed in the County of Sacramento during the third quarter of 2007, an increase of almost 181 percent since that same time period in 2006. In regards to actual foreclosures, the County saw just over 2,000 homes foreclosed during the third quarter of 2007, as compared to 343 in the third quarter of 2006, an increase of over 500 percent.<sup>6</sup>



Foreclosure activity, in Sacramento as in other places, is not a geographically neutral phenomenon. In a presentation at the State Capital, Paul Leonard of the Center noted that nationally half of all default notices are located in 293 zip codes, representing a minute fraction of all US zip codes (approximately 43,000) and only 18 percent of the approximately 1,600 zip codes showing foreclosure activity.<sup>7</sup> In Sacramento, the 95823 zip code, which covers South Sacramento between 47<sup>th</sup> Avenue and the Sacramento/Elk Grove border and between the Railroad and Stockton

*South Sacramento zip code 93823 experienced 634 foreclosures filings from March – June, 2007. This equates to one out of every 37 single family homes or condos.*

Boulevard, has consistently ranked amongst the most affected zip codes nationally for foreclosure activity. As of a November 16, 2007 report, zip code 95823 was the most affected zip code in California and the sixth most affected zip code in the country.<sup>8</sup> The Sacramento Bee has recently made available an online geographic tool to search local impacts by address and zip code.<sup>9</sup>

<sup>5</sup> Realty Trac measures individual actions on properties, so that multiple actions or filings on the same property will be counted individually, whereas Dataquick measures properties.

<sup>6</sup> "Record California Foreclosure Activity". *DQ News*. 4 Dec. 2007.

<http://www.dqnews.com/RRFor1007.shtm>

<sup>7</sup> Leonard, Paul. "California's Subprime Mortgage Lending Crisis: Causes, Effects and Solutions". California State Capital, Sacramento, CA. 19 November 2007.

<sup>8</sup> Christie, Les. "Foreclosures Shift to Sun Belt from Rust Belt." *CNN Money.com*. 4 Dec. 2007.

[http://money.cnn.com/2007/06/18/real\\_estate/foreclosures\\_hardest\\_hit\\_zips](http://money.cnn.com/2007/06/18/real_estate/foreclosures_hardest_hit_zips)

<sup>9</sup> <http://projects.scoopytube.com/foreclosures/map.html>

## II: IMPACTS OF FORECLOSURE ON INDIVIDUALS AND COMMUNITIES

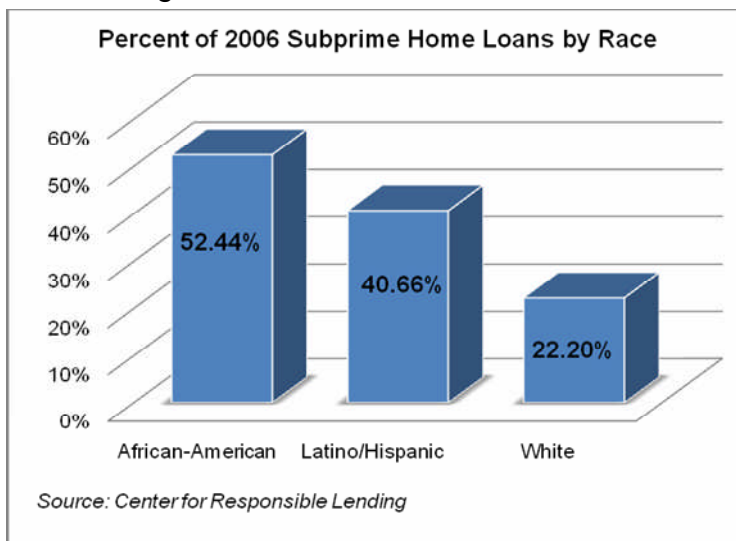
### Individual

The cost to the individual losing their home is high. Individuals and families typically have worked hard and made sacrifices to achieve the American dream, hoping to attain greater economic security and other benefits such as safer neighborhoods and better schools. In addition to losing their home, homeowners lose the wealth they have invested, including down payment and principal payments, and their credit is damaged. Research shows it can take a decade or more to buy another home after ownership is given up.<sup>10</sup> Even if households are able to avoid foreclosure, associated costs to the household are high and may include late fees, collection fees and legal fees assessed by the lender or servicer. If the home is sold to avoid foreclosure, equity may be lost and thousands of dollars in prepayment penalties incurred.

*It can take more than ten years for families to buy another home after foreclosure.*

### Communities of Color

Because subprime lending is disproportionate to communities of color, subprime foreclosures disproportionately impact African-American and Hispanic homeowners. A recent study by ACORN Fair Housing found that, even when controlling for income, African-Americans were 2.7 times more likely and Latinos



2.3 times more likely to receive a high-cost subprime loan than their White neighbors.<sup>11</sup> According to the Center, subprime foreclosures will affect ten percent of recent African-American borrowers and eight percent of recent Hispanic borrowers, compared to four percent of recent White borrowers.<sup>12</sup>

<sup>10</sup> "Losing Ground: Foreclosures in the Subprime Market and Their Cost to Homeowners". Center for Responsible Lending, December 2006.

<sup>11</sup> "Foreclosure Exposure: A Study of Racial and Income Disparities in Home Mortgage Lending in 172 American Cities". ACORN Fair Housing. September 2007.

<sup>12</sup> "Losing Ground: Foreclosures in the Subprime Market and Their Cost to Homeowners". Center for Responsible Lending, December 2006.

## Neighborhoods

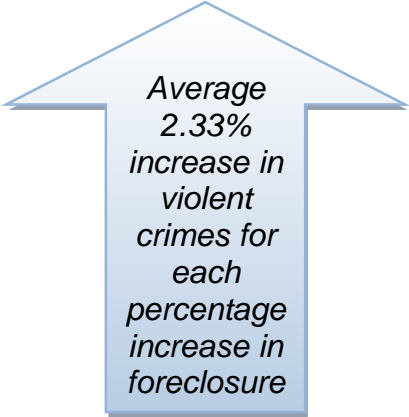
Neighborhoods are also affected adversely when vacant foreclosed homes become attractive nuisances. Research has shown that foreclosures devalue neighboring homes, on average, 0.9 percent, and that this effect is cumulative. As more homes in a neighborhood succumb to

### Anticipated National Property Devaluation

*\$223 billion total*

*\$5,000 per household*

foreclosure, neighboring properties experience additive drops in property value by 0.9 percent per foreclosed home. The average devaluation in lower income neighborhoods is significantly greater at 1.44 percent. The Center applied the average loss (0.9 percent) to anticipated foreclosures in large metropolitan areas throughout the United States and conservatively estimates that this decline in property value nationally will equal \$223 billion. With 76 percent of the nation's population living in large metropolitan areas, 44.5 million homes that are not in foreclosure will experience the negative economic impacts of foreclosure in their neighborhoods, with an average property value decrease of \$5,000.<sup>13</sup>



*Average  
2.33%  
increase in  
violent  
crimes for  
each  
percentage  
increase in  
foreclosure*

Not only are property values jeopardized by foreclosures in a neighborhood, some studies have indicated that crime increases in neighborhoods struggling with numerous foreclosures. For each percentage point increase in foreclosure rates, neighborhood violent crime rises 2.33 percent. In one Elk Grove neighborhood, crime rose 45 percent during the past year as foreclosure rates rose and houses sit vacant.<sup>14</sup> City code enforcement complaints

escalate as vacant and boarded homes become attractive to crime and vandalism. These local government costs rise at the same time as tax revenues decrease.

## Economy

In a recent report to the United States Conference of Mayors and the Council for the New American City, Global Insight discussed the "profound economic effects" of the foreclosure crisis forecasted for 2008.<sup>15</sup> This report, included as

<sup>13</sup> "Subprime Spillover." The Center for Responsible Lending. 4 December 2007.

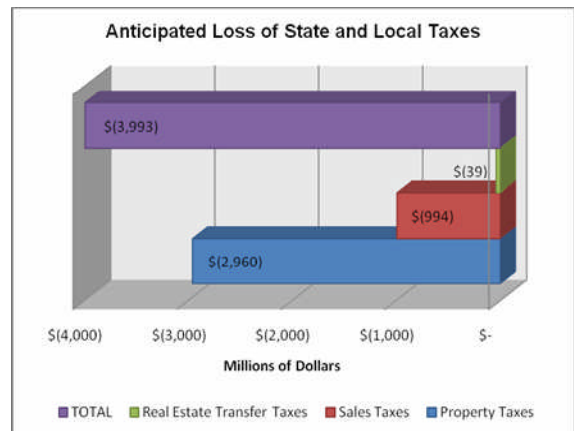
<http://www.responsiblelending.org/issues/mortgage/research/subprime-spillover.html>

<sup>14</sup> Elphinstone, J.W. "Empty Houses Home to Crime as Loans Fail". Yahoo! Finance. November 13, 2007. [http://biz.yahoo.com/ap/071113/vacant\\_homes\\_crime.html](http://biz.yahoo.com/ap/071113/vacant_homes_crime.html)

<sup>15</sup> "The Mortgage Crisis: Economic and Fiscal Implications for Metro Areas". Global Insight. November 26, 2007.

**Attachment 1**, concludes that 2008 will bring more foreclosures, slower growth of the nation's Gross Domestic Product (GDP), stresses for state and local government revenue, and curtailed consumer spending. Highlights of 2008 forecasting include:

- Foreclosures will increase by at least 1.4 million homes, valued at \$316 billion;
- GDP will be \$166 billion lower due to weaker residential investment and lowered spending- across construction industries and because consumer spending is curtailed to decreased home equity wealth. Both spending impacts have multiplier impacts; 524,000 fewer jobs will be created in 2008.
- GDP will grow by just 1.9 percent, one percent less than without the mortgage crisis.
  - Sacramento will grow 1.7 percent, 1.1 percent less than it would have, reflecting a loss of \$1.7 billion.
  - California is the most affected state with four of the top ten metro areas with the highest rate of loss and three of the top ten with the largest Gross Metropolitan Product loss.
- Homeowners will see property values decline by \$1.2 trillion: while 55 percent is attributable to oversupply and weak demand, the balance, or 45 percent, is attributed to foreclosures.
- State and local revenues will be impacted in three ways.
  - Local property tax decreases due to declining real estate values, with California suffering the greatest potential tax loss, declining as much as \$2.96 billion
  - Consumer spending on taxable goods decreases with California expected to lose \$994 million in sales tax revenue.
  - Home sales contract reducing realty transfer fees to states, with California losing \$39 million in transfer tax revenues.



**Industry**

*Average cost to the mortgage industry of a foreclosure is \$50,000 - \$80,000*

In addition to the impacts on the property owner and local community, the mortgage industry itself is suffering from the foreclosure epidemic. While some may challenge that the industry created the

problem, a comprehensive solution should consider industry impacts. The Center estimates that the average cost to the mortgage industry to follow through

on a foreclosure is \$50,000 to \$80,000 per property. In 2003, this equated to over \$25 billion in losses to the lending community, which may help explain why since July, 2007 alone, more than 90 subprime lenders have gone out of business.<sup>16</sup>

### **III. WHY IT IS HAPPENING -FORECLOSURE RISK IN THE SUBPRIME MARKET**

Many factors have led to the foreclosure crisis, including:

#### **Dramatic change in the mortgage industry**

- Predominance of independent, non-regulated mortgage originators (making two-thirds of loans in the subprime market), paid high fees by secondary market investors to originate loans with high rates and fees. Regulated banks holding mortgages in their local portfolios are no longer typical of the market.
- Hybrid adjustable rate mortgages (ARMs) becoming the majority of subprime loans. They carry very low initial rates at which borrowers could qualify, but the rates jump quickly to much higher interest charges, creating the payment shock that presages defaults, particularly when the loans contain obstacles to refinancing and/or the market declines.
- Loose and unregulated lending practices, such as not requiring documentation of income.
  - The growth of securitization – “slicing and dicing” mortgage loans and selling the parts off in “tranches” or different classes of securities – complicates servicing and loan modifications by third-party servicers. This is the new “tranche warfare.” **Attachment 2** “Mortgage Work-Outs and the Influence of Securitization” explains the impact of securitization in greater detail.

#### **Unprecedented drop in real estate values from the overheated housing markets of 2002 through 2006**

- Homeowners’ ability to refinance their way out of foreclosure is complicated by the lost value of their collateral – the home’s value at time of loan origination. By October 2007, median prices of new and existing homes had fallen 22.6 percent from their August 2005 peak of \$387,000. [DataQuick, as quoted by the Sac BEE, Nov. 16, 2007.]

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<sup>16</sup> “A Snapshot of the Subprime Market.” The Center for Responsible Lending. 6 December 2007. <http://www.responsiblelending.org/issues/mortgage/quick-references/a-snapshot-of-the-subprime.html>

## **Predatory practices invading subprime mortgage lending**

- The following predatory practices raise borrowing costs or increase default risks without providing any substantial countervailing benefit to the borrower. (Predatory practices are more fully described in **Attachment 3**.)
  - Equity stripping - exorbitant fees financed into the loan
  - Steering – aggressive marketing, particularly in minority neighborhoods, that push subprime loans, most with other fraudulent practices
  - Prepayment penalties – high penalties locking borrowers into expensive loans
  - Balloon payments that force refinancing (more fees and charges)
  - Flipping – serial refinancing, generating more fees and points
  - Fraud and deceptive practices – bait and switch, adding provisions at loan closing, not considering or falsifying the borrower’s ability to repay

*From 2003 to 2006, the amount of subprime debt increased 292%*

Subprime lending itself, a contributing factor to the foreclosure crisis, has exploded in recent years in the home loan industry in both purchasing and refinancing housing. According to the Center, subprime lending’s share of mortgage originations grew from ten percent in 1998 to 23 percent in 2006. From 2003 to 2006 the amount of subprime debt increased nationally by 292 percent. Most of these loans were hybrid ARMs, as discussed above, with the average increase in monthly payments “exploding” by 30 to 50 percent.<sup>17</sup>

In Sacramento, 27 percent of loans made in 2005 and 2006 were subprime.<sup>18</sup> As a result, the Center forecasts that 21 percent of subprime loans originated in 2006 in the Sacramento MSA will end in foreclosure, ranking Sacramento 28<sup>th</sup> of 378 MSAs in the country for anticipated foreclosures.<sup>19</sup>

*It is estimated that 21% of subprime debt originated in 2006 in Sacramento will end in foreclosure.*

The “perfect storm” creating the subprime mortgage crisis in Sacramento therefore followed from:

<sup>17</sup> “Losing Ground: Foreclosures in the Subprime Market and Their Cost to Homeowners”. Center for Responsible Lending, December 2006.

<sup>18</sup> “Subprime Spillover.” The Center for Responsible Lending. 13 November, 2007.

<sup>19</sup> “Losing Ground: Foreclosures in the Subprime Market and Their Cost to Homeowners”. Center for Responsible Lending, December 2006.

- A serious decline in home values following an overheated market of historic proportions
- The predominance of hybrid adjustable rate mortgages with very low teaser rates and high adjustments, made by unregulated mortgage brokers and lenders
- The invasion of predatory and fraudulent lending practices, in addition to such loose standards as undocumented income
- Obstacles to loan workouts created in part by the securitization of mortgage loans

#### **IV. WHAT CAN BE DONE- POTENTIAL FEDERAL, STATE AND LOCAL SOLUTIONS**

Efforts to address the impacts of foreclosure are multifaceted and, recently, quickly unfolding and evolving. While industry reform is most appropriate at the state and federal level, local governments can certainly press for appropriate reform. Local solutions revolve around providing assistance to homebuyers in distress to prevent foreclosure, engaging lenders to improve borrower outreach and workouts, and mitigating the impact of vacant homes in neighborhoods once properties are foreclosed upon.

Local efforts currently underway in Sacramento are noted in Section V. Increased coordination and communication, as well as further research into best practices, will enhance these efforts. Suggestions for next steps are also included.

#### **Efforts to Change the Mortgage Industry**

##### ***Federal Level***

- On November 15, 2007, the House passed HR 3915, the “Mortgage Reform and Anti-Predatory Lending Act of 2007”.<sup>20</sup> If passed by the Senate and signed into law, this bill would:
  - Ban incentives for brokers and lenders “steering” clients towards predatory loan products;
  - Require brokers and originators to be licensed and registered; and
  - Establish minimum repayment standards.

HR 3915 was supported in the House by local Representatives Doris Matsui and Dan Lungren, and opposed by Representative John Doolittle.

##### ***State Level***

In November, Speaker Fabian Nunez, Assembly member Dave Jones, and other Assembly Democrats called for a special session to address the state’s subprime mortgage foreclosures.<sup>21</sup> Proposed reforms include:

<sup>20</sup> <http://www.govtrack.us/congress/bill.xpd?tab=summary&bill=h110-3915>

- Banning prepayment penalties with certain types of loans;
- Ending broker kickbacks and incentives for subprime loans;
- Require counseling for borrowers of certain high cost risky loans;
- Toughening income verification regulations and requiring lenders to consider the applicant's ability to repay over the life of the loan; and
- Ban negative amortization loans where the principal grows despite monthly payments.

### **Local Level**

- In August 2007, The U.S. Conference of Mayors urged the Federal Reserve Board to use its authority under the Home Ownership and Equity Protection Act to protect homeowners from abusive practices, including the following:
  - Limiting application of prepayment penalties;
  - Requiring escrows for all loans;
  - Prohibiting stated income or "low doc" on subprime and/or ARM loans;
  - Requiring underwriting at the maximum possible rate above fully indexed rates and not allowing loans above 50 percent debt to income ratios.
- Although many lenders are large national institutions, most have local offices and personnel who are vested in the community. Some jurisdictions have recognized this accountability and are pushing local lenders to participate in the local solution.
  - San Francisco's local elected officials convened a meeting with the local recorder/assessor and lenders to discuss the foreclosure situation in San Francisco. Lenders were asked to participate in counseling outreach efforts and to fund those events.
  - The City of Oakland conducted a similar effort, with local officials meeting with lenders, looking toward local accountability for loan servicers.
  - San Francisco passed a local six month moratorium on foreclosures, though not binding, has helped underline the local concern for foreclosures.

*In San Francisco and Oakland, local elected officials have convened lenders to push for local accountability.*

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<sup>21</sup> <http://adc.asm.ca.gov/issues/MortgageCrisis/>.

## **Efforts to Assist Borrowers**

### ***National Level***

- On December 6 2007, President Bush announced an agreement to temporarily freeze for a period of years the lower introductory rates on adjustable rate mortgages.<sup>22</sup> The plan developed by the “HOPE NOW Alliance” would:
  - Target up to 1.2 million homeowners with subprime adjustable rate mortgages who are not currently delinquent; and
  - Provide systemic relief on one of three ways: refinancing into a new private mortgage, moving homeowners into an *FHASecure* loan, or freezing their current interest rate for five years.

HOPE NOW is one aspect of a three-pronged proposal, which also includes increased efforts to contact at-risk homeowners and encouraging all borrowers to refinance mortgages to lower payments using *FHA Secure*.

Reaction to the proposal has been varied. In both a recent Bee editorial<sup>23</sup> and in a recent interview with Nick Resinas at the Housing Studies at Harvard<sup>24</sup> the plan was called a ‘good first step’. Both recognize the limited pool of borrowers that can be helped—those with good credit scores or not currently behind on payments. Eligibility will also hinge on having at least three percent equity, a limiting factor with significance for California.

- The President also announced that the Administration would work with Congress on other fronts and urged Congress to:
  - Make temporary changes to the Mortgage Revenue Bond program to allow refinancing of subprime loans;
  - Enact the pending FHA reform legislation (H.R. 1852 has passed the House and a similar bill has cleared the Senate Banking Committee);
  - Pass legislation to reform the Government Sponsored Enterprises like Freddie Mac and Fannie Mae;
  - Reform tax code so borrowers will not be liable for taxes on any forgiven portion of the mortgage; and
  - Pass funding to support mortgage counseling.
- The Center is supporting a modification to bankruptcy law that specifically disallows bankruptcy judges from modifying loan terms on a mortgage on a

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<sup>22</sup> “Fact sheet: Helping American Families Keep Their Homes”.

<http://www.whitehouse.gov/news/releases/2007/12/print/20071206-7.html>

<sup>23</sup> “Editorial: Bush plan on foreclosures ‘a good first step’”. Sacramento Bee. December 10, 2007.

<http://www.sacbee.com/110/story/554752.html>

<sup>24</sup> “Silver bullet or bullet dodged?” December 7, 2007.

[http://marketplace.publicradio.org/display/web/2007/12/07/silver\\_bullet\\_or\\_bullet\\_dodged](http://marketplace.publicradio.org/display/web/2007/12/07/silver_bullet_or_bullet_dodged)

primary residence. Current bankruptcy law allows modifications on all secured debt except that affixed to the primary residence. Changing this clause in bankruptcy law would allow homeowners facing foreclosure to keep their homes in many instances and would save lenders costs and time associated with foreclosure proceedings.<sup>25</sup>

- Current tax recognizes debt wiped out through foreclosure as taxable income, meaning that homeowners who lose their home through foreclosure must then pay taxes on that loss. In September 2007, the IRS made slight modifications to this rule, allowing offsets in certain situations if the tax liability exceeds the tax payer's assets<sup>26</sup>. However, additional changes to tax law are needed to eliminate the tax burden associated with foreclosure.

### **State Level**

- On November 20, 2007, Governor Schwarzenegger signed an agreement with major loan servicers agreeing to "fast track" procedures to allow troubled homeowners re-set adjustable mortgages at their initial interest rate. The Governor is also supporting public outreach campaigns to aid homeowners facing foreclosure.<sup>27</sup>
- The Democratic legislative package also includes a number of proposals to assist borrowers in the current crisis, including legislation to:
  - Standardize the workout process;
  - Reform the foreclosure process, such as requiring lenders to notify local counseling agencies when they file a notice of default and notify local authorities if the foreclosed property is vacant
  - Mandate reporting and data collection;
  - Reform the law related to foreclosure consultants to prevent scams or unreasonable fees;
  - Require subprime lenders to have a dedicated ombudsmen
  - Identify \$10 million for credit counselors in the state.
- Efforts to assist troubled homeowners with work-outs and new loan terms must be tracked and analyzed for their usefulness. Paramount to understanding and implementing the best approach is accountability and data collection on loan modification programs. The California Department of Corporations has

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<sup>25</sup> "Judicial modification would make a big difference to 600,000 homeowners". Center for Responsible Lending. 7 December 2007.

<http://www.responsiblelending.org/issues/mortgage/bankruptcy/>

<sup>26</sup> Internal Revenue Service (17 September 2007). "[Special Web Section Unveiled for Homeowners who Loose Homes; Foreclosure Tax Relief Available to Many](#)". Press Release\_IR-2007-159.

<sup>27</sup> Office of the Governor (20 November 2007) "[Governor Schwarzenegger Works with Lenders to Help Homeowners Avoid Foreclosure](#)". Press Release GAAS: 922:07.

implemented a tracking requirement for lenders working on mortgage modifications.<sup>28</sup>

### **Local Level**

- Individual assistance for troubled borrowers is best effectuated at the local level, with the participation of local government, legal assistance, loan counselors, lenders and other housing resources.
- NeighborWorks recently studied five best practice counseling programs in the nation using a variety of approaches.<sup>29</sup> The report notes the following common factors of success:
  - Government and industry partnerships;
  - Targeted outreach to borrowers in default;
  - Staff and systems capacity development;
  - Services to borrowers that extend beyond mortgage counseling.

The report also notes lessons:

- Design flexibly to allow evolution;
  - Create tracking systems and measure and evaluate outcomes;
  - Recognize that 5 to 15 percent may involve legal issues that might be defined as predatory;
  - Find the optimal mix to deliver services: Face-to-face counseling, phone-based counseling, call-center-based counseling;
  - Combine grass roots and mass media marketing and outreach;
  - Recognize that cost and sustainability is a major limitation.
- Best practices within the state include:
    - In San Diego, Housing Opportunities Collaborative, organized by HUD, organizes neighborhood clinics for one-stop counseling, including lenders and legal services, and provides training for housing counselors<sup>30</sup>. City attorneys and the local office of the attorney general provide assistance in handling predatory lending complaints.
    - In Oakland, the Housing and Economic Rights Advocates (HERA), a nonprofit legal services and advocacy organization, has taken the lead in organizing workshops on foreclosure prevention with the

*In San Diego, the City Attorney and Attorney General assist in handling predatory lending complaints.*

<sup>28</sup> State of California Department of Corporations (5 September 2007). "[Arranging Workouts for Borrowers, Preparing for Special Servicing Reports to the Commissioner, and Establishing a Working Group in Connection with Nontraditional and other Mortgage Loan Products](#)". Press Release 61-FS

<sup>29</sup> "Preserving Homeownership: Analyzing the Elements of Leading Foreclosure Prevention Programs", Neighborworks Center for Foreclosure Solutions, May 30, 2007.

<sup>30</sup> <http://www.housingcollaborative.org/>

participation of lenders (who sent flyers to borrowers), the city attorney's office, and other stakeholders<sup>31</sup>.

- In Fresno, the Community Housing Council is the central contact for foreclosure prevention activities as part of its "No Homeowner Left Behind" program<sup>32</sup>. Outreach includes a helpful website, a local hotline for foreclosure assistance, foreclosure workshops, and training of default counselors. Referral network includes legal services for fraud and predatory lending complaints, a crisis network for emergencies and CPAs available for tax advice.

## **Efforts to Save Neighborhoods**

### ***Local Level***

- The larger effects of foreclosure on neighborhoods, including decreased property values, blighted properties and crime, are specific to a local jurisdiction and, therefore, require local reaction. Many jurisdictions throughout the state are tackling the neighborhood effects of foreclosures with a variety of resources, approaches and partnerships.
  - In San Diego, the City/County Reinvestment Task Force is working with local code enforcement teams to target inspection of bank-owned properties. As part of this effort, San Diego is working with the county assessor to ensure that banks are current on property tax bills for vacant foreclosed properties.
  - Also in San Diego, the City/County Reinvestment Task Force has created a land bank to acquire foreclosed properties. The land bank funds can be used for properties owned by a bank valued under \$375,000 which have been vacant for over nine months. The task force purchases and rehabilitates these homes for re-sale.
  - In Oakland, the city attorney has organized a predatory lending group, which among other efforts is investigating tenant evictions when the landlord is foreclosed upon.

*San Diego targets code enforcement activities on bank owned properties and works with their assessor to ensure banks are current on tax bills.*

## **V. LOCAL EFFORTS AND NEXT STEPS**

### **Current Efforts**

Current local efforts include prevention of foreclosure through a variety of counseling efforts and maintenance of vacant properties through code enforcement. The following is underway:

- **Counseling Homeowners**: There are four HUD-certified homeownership counseling agencies that currently provide individual counseling in

<sup>31</sup> <http://www.heraca.org/>

<sup>32</sup> <http://www.chcfresno.org/>

Sacramento and a fifth agency (Sacramento Mutual Housing Association) in the process of hiring a counselor. All of agencies serve the greater Sacramento area although the Senior Hotline is a statewide resource. Among the four organizations, there are currently ten HUD-certified counselors, all of whom are seeking additional training opportunities specific to default and foreclosure counseling. Services are typically provided over the phone or in-person. All of the agencies have stepped up their efforts to assist borrowers at risk of losing their homes, but all are stretched to capacity. In addition to counseling services, Legal Services of Northern California (LSNC) and Sacramento Senior Legal Services provide legal representation to a limited number of homeowners facing foreclosure.

- Home Loan Counseling Center of Sacramento [www.hlcc.net](http://www.hlcc.net)
  - NeighborWorks Homeownership Center [www.nwsac.org](http://www.nwsac.org)
  - By Design Financial Solutions (formerly Consumer Credit Counseling) [www.bydesignsolutions.org](http://www.bydesignsolutions.org)
  - Sacramento Mutual Housing Association <http://www.mutualhousing.com>
  - California Senior Hotline (under LSNC) <http://www.seniorlegalhotline.org/>
- Publicizing resources that help: Many agencies have added default counseling information to their web sites, including SHRA's "Mortgage Default and Foreclosure Resource" (See **Attachment 4**). In addition, "Home Foreclosure Help" has been established on InfoLine (Community Services Planning Council) and on the BeehiveSacramento.org website, both providing referral services for homeowners facing default. Another resource, the HOPE hotline, is a 24hr/7 day a week toll-free number and website ([www.995HOPE.org](http://www.995HOPE.org)) that provides advice and support to homeowners at no cost. Public service announcements are being planned to educate homeowners of counseling services which are available to them.
  - Coordination: Regional Partners in Homeownership coordinates outreach and information to respond to the crisis, and is looking into organizing counselor foreclosure training and a community foreclosure workshop in the near term. This local group includes lenders, realtors, SHRA, HUD, the Home Loan Counseling Center, Neighborworks Homeownership Center, By Design Financial Solutions, Sacramento Mutual Housing Association (SMHA), Legal Services of Northern California, Sacramento Senior Legal Services, and other parties. Perhaps best known for the annual "Homeownership Fair", Regional Partners meets at least monthly.
  - Targeting efforts for vulnerable communities: SMHA, who is not a traditional home counselor but is a NeighborWorks chartered member, is

initiating education and counseling efforts. Since many of the communities that SMHA works in are predominately non-English speaking, SMHA is focusing on meeting the needs of limited English speakers. Such efforts will include translation of default and foreclosure materials, providing translation services for non-English speakers calling the HOPE hotline and education of staff at (non housing) social service providers to assist clients who may be facing foreclosure. LSNC is also targeting efforts towards more vulnerable communities, including seniors, and specifically focusing on protecting homeowners from “rescue scams.”

- Addressing vacant buildings: Both the City and County of Sacramento have adopted ordinances aimed to prevent vacant properties from becoming blighted. With increased foreclosure activity, many neighborhoods throughout Sacramento are seeing a rise in incidents of vacant, often bank-owned, properties. The ordinances set minimum standards for exterior maintenance of vacant properties and allow for the imposition of fines on owners who neglect to maintain their properties. While these ordinances are not specifically targeted towards foreclosed properties, they provide the City and County leverage should foreclosed homes become a blighting factor in the community.
- Advocacy for higher lending standards: SHRA is working with other jurisdictions and the California Reinvestment Coalition to discuss state anti-predatory lending laws. Recent research shows that as state laws eliminate predatory practices, lenders respond with new loans that carry somewhat lower prices.<sup>33</sup> In addition, the local HUD office is working with the lending community to encourage acceptance and use of the new FHA Secure mortgage product, aimed to help at-risk borrowers convert their adjustable mortgage into a FHA insured mortgage. Local government could join HUD’s efforts to encourage local lender participation.
- Using data to understand the problem: SHRA is working with California Reinvestment Coalition to collect and digest neighborhood level data on defaults and foreclosures.

### **Next Steps**

While these local efforts begin to address some of the impacts of foreclosure, Sacramento would benefit from a comprehensive and purposeful strategy that coordinates, intensifies and publicizes the response efforts. The impacts of the foreclosure crisis are most acutely felt at the local level, and the local “bully pulpit” could effectively raise awareness and spur action – on the part of lenders,

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<sup>33</sup> Wei Li and Keith S. Ernst, “Do State Predatory Lending Laws Work? A Panel Analysis of Market Reforms,” Housing Policy Debate, Vol. 18, No. 2 (2007). The authors are, respectively, a senior researcher and policy counsel at the Center for Responsible Lending.

servicers, and other levels of government. Elements of an effective local strategy include:

- **High level coordination and strategic planning** among all of the stakeholders, including
  - Counseling agencies;
  - City and County neighborhood services, code enforcement and legal staff;
  - SHRA redevelopment, housing and policy staff;
  - HUD;
  - Legally community, including LSNC; and
  - Lenders and servicers.
- **Increased publicity and outreach** efforts to reach homeowners in trouble, including a highly publicized educational meeting hosted by local government for borrowers on the foreclosure process and remedies, avoiding foreclosures scams, and local resources;
- Local government **partnership with counseling agencies** to monitor staff capacities and seek solutions to address training needs or staffing needs when capacities are stretched too thin;
- Encouragement to **major lenders to engage locally**, creating expectations that lenders will
  - Make all efforts to avoid foreclosure (noting again that foreclosures cost the lenders more than loan modifications or refinancings);
  - Maintain, secure, and find buyers for foreclosed homes;
  - Participate with HUD-approved counseling agencies, including providing lender financial support for default counseling;
- **Advocacy for higher lending standards.** Local government may not have any regulatory control over the practices of mortgage brokers and lenders, but its voice can help influence those at the state and federal level who have the authority to effect change. State and federal legislation reforming bankruptcy and tax law to assist loan workouts is pending, as are important reforms prohibiting some predatory lending practices; and
- Programmatic response aimed at **moving foreclosed homes more quickly from bank-owned to owner-occupied.** This is perhaps the most challenging and most local area of work. Elements might include
  - Neighborhood identification;
  - Incentives to buyers, such as increased downpayment assistance or a “rehabilitation light” program where repairs are needed; and
  - Incentives to developers, with an approach similar to the “Boarded and Vacant” program where developers are provided an incentive to repair and sell homes to first-time homebuyers.