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## **Main Street America's Foreclosure Crisis: Call for a Game-Changing Solution**

### **The Fundamental Challenge:**

Despite the best of intentions, the federal government's efforts to stem the tide of foreclosures have fallen far short of expectations and more importantly, far short of the dire need to address this crisis. While sub-prime lending was initially driving the crisis, it is now fueled by declining home values and loss of employment. And millions of homeowners, neighborhoods, communities and the economy as a whole are paying the price.

To date, *Main Street* America has reaped minimal benefit from the government's foreclosure prevention efforts. We believe this is due to that fact that while the nature of the crisis has changed, the strategies to address it have not. The government's strategy to address the *initial* crisis focused on attempting to persuade financial institutions (banks and mortgage companies) responsible for the sub-prime lending to work with homeowners to modify loans to keep them in their homes. As the disappointing number of modifications completed through the HAMP program demonstrates, this has been far from successful, primarily because it has been voluntary on the part of the banks and mortgage companies. The strategy of targeting them, however, *initially* made sense.

Subsequent to the flood of sub-prime mortgage foreclosures, however, the crisis has been increasingly driven by declining home values and unemployment – now the lion's share of foreclosures. The majority of homeowners now at risk of losing their homes have prime mortgages but are either choosing to walk away because of being severely "under water" - owing more on their mortgage loan than the home is currently worth - or can no longer afford the home because they are either unemployed or underemployed. Under this new reality, the *primary* mortgage holders who have funded or guaranteed the lion's share of the loans now in default are Fannie Mae, Freddie Mac and HUD. These entities are either Government Sponsored Enterprises (GSE's) or a government controlled agency. The banks and mortgage companies we continue to push to modify the loans currently at risk have little incentive to do so since:

- 1) Any money they might lose in foreclosures of the loans funded by Fannie, Freddie and HUD is guaranteed by these entities.
- 2) Any cash incentives they might receive per modification by participating in the HAMP program are more than offset by the cost of adding staff to handle these modifications.

In other words, the banks and mortgage companies have no real incentive to modify loans. They essentially have no "skin in the game". Again, the disappointingly small number of loan modifications resulting from HAMP makes this self-evident.

### **A Game Changing Solution:**

In the meantime, we on "Main Street" America continue to be battered by the myriad impacts of foreclosures. Those of us involved in foreclosure prevention efforts are doing our best, but are

constrained to tinkering around the edges of something that can only be addressed with a major policy change in Washington. We are clamoring for a *game-changing* solution – a new strategy that is a match for the changing nature, scale and scope of this crisis. We believe that strategy is to have the lawmakers we’ve elected demand that Fannie, Freddie and HUD take responsibility for the loans they’ve funded and/or guaranteed by also taking responsibility for the modifications of these loans.

To make this doable operationally and at the same time take advantage of the wisdom, talent and insight of local communities, we believe it makes sense to have Fannie, Freddie and HUD empower and adequately fund the HUD-certified housing agencies serving communities throughout the country to modify these loans. HUD-certified foreclosure prevention counselors are already in place in these agencies although at bare bones staffing levels. With adequate funding and a plan, the existing network could be expanded and with minimal additional training could be ramped up to do the job in relatively short order. At present, however, they are severely underfunded. And while their services are extremely valuable, under the federal government’s current foreclosure prevention strategy, the ultimate disposition of the mortgages they are attempting to save is left to banks and mortgage companies that have little incentive to help.

By requiring Fannie, Freddie and HUD to take responsibility for modifying the loans they funded or guaranteed and to do so through an already established network of HUD-certified foreclosure prevention specialists will not only change the game, but put the disposition of these loans in the hands of housing professionals who are unbiased, highly trained and have a long-term vested interest in stemming the tide of foreclosures that are destabilizing their own families, blighting their own neighborhoods and communities and stalling their own local economies.

### **Our Caveat: The Devil is in the Details!**

The Game-Changing Strategy proposed above will only be effective if we address the following:

- 1) The underwriting principles for Freddie/Fannie/HUD loan modifications must be improved. We should look very carefully at whether or not these principles should be the same as those the banks are currently loath to apply or something else.
- 2) Given the fact that housing foreclosure counselors are currently handling only a small percentage of foreclosures, the ramp up to handle much larger numbers will be as massive as it was at the beginning of the crisis. We will need a plan to have a much larger, trained and experienced network of counselors in place and paid for *before* cases are referred from Freddie/Fannie/HUD. Both the funding and the planning for NFMC was inadequate and the results reflect this fact.
- 3) Freddie/Fannie/HUD must have a true incentive to “take back” these defaults – something other than a cash payment per modification. We need to explore an incentive tied to the accounting reserves they need to stay afloat as one possibility.

### **First Things First:**

We believe the first step in moving toward a *Game-Changing* Solution to Main Street America’s Foreclosure Crisis is the recognition that one is needed as well as a conceptual picture of what it might look like. Please consider this document that first step. While this crisis is in our own backyard and we are more than willing to do our part to solve it, we can’t do it without the federal government’s willingness to look at doing things differently. We hope that willingness exists.

