

# Community *Liaison*

Volume No. 2007-01

Summer 2007

## From the Director's Desk

*John M. Reich, Director, Office of Thrift Supervision*

Welcome to all readers of *Community Liaison*, the OTS' Community Affairs newsletter for Summer 2007! After several years in hiatus, we have resumed publication, and we're pleased to introduce a new direction for the newsletter. Starting with this edition, *Community Liaison* will address consumer compliance and community development topics that have a central focus and can serve as timely resources for thrift institutions, our examiner workforce, and consumer advocacy and community-based organizations.

We have chosen to reintroduce *Community Liaison* in part to mark National Homeownership Month, held annually each June. During National Homeownership Month, participants undertake a wide array of activities to promote homeownership and homeownership preservation. In that spirit, the newsletter highlights new and ongoing efforts that support affordable and sustainable homeownership. These efforts are particularly relevant in the context of the recent boom in the subprime mortgage market and the substantial rise in loan delinquencies and foreclosures for homeowners who hold higher-cost mortgages.

In a May 2007 speech on the subprime mortgage market, Federal Reserve Chairman Ben Bernanke



noted that, for subprime mortgages having adjustable interest rates, the rate of serious delinquencies rose dramatically during 2006 to 11 percent, approximately twice the percentage in mid-2005. Freddie Mac's June 2007 *Economic and Housing Outlook* observes that one in thirteen homes with subprime mortgage loans are candidates for foreclosure, and projects that more than one million homes will enter foreclosure in 2007. Sixty percent of these homeowners hold subprime mortgages.

We recognize that nonprime mortgage lending activity has expanded homeownership opportunities for many borrowers, particularly those having low- and moderate-incomes and/or blemished credit profiles. Over the past couple of years, however, the softening of the housing market in many parts of the country, coupled with the rising interest rates on certain types of mortgage products, has resulted in sharp increases in the number of homeowners experiencing financial distress.

On April 17, 2007, the federal bank, thrift and credit union regulatory agencies issued an interagency statement via joint press release (OTS 07-025), which encourages financial institutions to work with homeowners who are unable to make their mort-

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gage payments. Programs that transition low- or moderate-income homeowners from higher-cost to lower-cost loans may receive favorable consideration under the Community Reinvestment Act (CRA), provided the loans are made in a safe and sound manner.

### *What's In This For You?*

The lead article in this edition deals with foreclosure rescue scams. As some homeowners have attempted to stay current on their mortgage payments, they have become vulnerable to fraudulent rescue schemes. Tactics include charging exorbitant fees for basic or nonexistent services, and taking title to the home in exchange for “bailing out” the homeowner from mounting mortgage debt. The newsletter makes reference to foreclosure prevention resources for homeowners, including how to obtain legitimate foreclosure assistance services. (See *Foreclosure Rescue Scams: How to Avoid Getting Caught*, page 3).

The fraudulent activity noted above, unfortunately, is not limited to foreclosure rescue scams. In the Gulf Coast region devastated by Hurricanes Katrina and Rita, home repair contractor and homeowner's insurance scams are a growing problem; in addition, hazard insurance costs have escalated dramatically, which has exacerbated the daunting task of rebuilding affordable housing stock in the affected areas. (See *Rebuilding Housing After Hurricanes Katrina and Rita: Traveling Along the Road Home*, page 12).

The need for constructive responses to the problems in the Gulf Coast remains compelling. To that end, the OTS will sponsor our second national housing forum in December 2007. The forum will emphasize future hazard insurance coverage and restoring affordable housing in disaster-affected communities. We will also address foreclosure prevention and related consumer protection issues. More information on the forum will be available in the next few months on our Web site and through other sources.

This issue of the *Community Liaison* also describes first-time homebuyer programs available through the Federal Home Loan Bank System and the U.S. Department of Housing and Urban Development, among others, which can assist thrift institutions in meeting the needs of the communities they serve. (See *First-Time Homebuyer Programs of the Federal Home Loan Bank System: Expanding Access to Affordable Homeownership* and companion articles, beginning on page 6). An additional benefit is that use of these programs may result in positive CRA consideration.

### Community Liaison

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First-time homebuyer programs typically require that borrowers receive pre-purchase homeownership counseling to help them make informed decisions when choosing among prospective lenders and loan products. Homeownership counseling programs also advise borrowers on effective ways to deal with financial difficulties that can affect their ability to meet

their mortgage payment obligations. Practitioners stress the importance of making homebuyer education available on the front end, significantly reducing the need for loan workouts and other loss mitigation strategies down the road.

The nation's thrifts have consistently played a leadership role in financing

the American dream of homeownership. We are excited about the initiatives the OTS will undertake in the coming months to foster sustainable homeownership. We hope you find the information in the newsletter helpful, and welcome your feedback as we embark on the journey to make the *Community Liaison* a "go-to" reference ■

## Foreclosure Rescue Scams: *How to Avoid Getting Caught*

*Stacy Messett, Senior Project Manager, Compliance and Consumer Protection*

The housing market has a huge impact on the vitality of our economy. Among other important benefits, there is growing evidence that homeownership stabilizes communities and contributes to lower crime rates and better school scores for children.<sup>1</sup>

Beyond the socioeconomic advantages, housing has an enormous impact on individuals and families. A house is the largest asset most Americans own, and homeownership rates in this country continue to rise. The boom in subprime mortgage lending has greatly expanded homeownership opportunities, contributing to a homeownership rate of 69 percent in the United States, the highest percentage in history.

The good news, however, is tempered by recent troubling developments. Mortgage delinquency rates have been rising; in fact, fourth quarter 2006 produced more foreclosure filings than in any of the previous three quarters that year.<sup>2</sup> The increase in the number of properties in foreclosure is driven in part by the slowing of housing sales and the impact of rising mortgage payments, particularly for borrowers with weaker credit profiles who hold certain types of adjustable-rate mortgages (ARMs), such as subprime



hybrid ARMs. In addition to these factors, financial hardship or other circumstances beyond their control, such as job loss or the high expenses associated with a major illness, can cause homeowners to fall behind on mortgage payments, putting them at risk of losing their homes to foreclosure.

Compounding the problem are opportunists who exploit other people's misfortune through disreputable and deceptive means. Some of the fastest-growing frauds — and, for the people who perpetrate them, the most lucrative — are "foreclosure rescue" scams.

Foreclosure rescue scams target homeowners facing foreclosure, particularly if they are equity-rich but cash-poor. Rescue scams cost consumers thousands of dollars and, often, their most valuable asset — their homes. The elderly, and people with low incomes or blemished credit, are particularly vulnerable. With foreclosure rates on the rise, foreclosure rescue scams are also increasing.

Information to counter such scams, including steps homeowners can take to protect themselves, follows.

<sup>1</sup> See the 2006 study issued by the National Association of Realtors "The Case for Homeownership" and the 2004 Federal Reserve Bank of Boston study, "Qualifying the Benefits of Homeownership."

<sup>2</sup> According to RealtyTrac's U.S. Foreclosure Market Report released on January 25, 2007, more than 1.2 million foreclosure filings were reported nationwide during 2006, up 42 percent from 2005. This represented a foreclosure rate of one foreclosure filing for every 92 U.S. households. A RealtyTrac survey released April 2007 showed that foreclosures during March 2007 rose to 149,150, a 47 percent jump from March 2006.

## Common Types of Foreclosure Rescue Scams:

Perpetrators of rescue scams promise much-needed help to homeowners in financial straits. The fraudulent practices generally fall into the following three categories.

- **Phantom help** - The rescuer charges exorbitant fees for telephone calls and paperwork that the homeowner easily could have handled, or promises robust representation and services that never materialize. In either event, the homeowner may have little or no financial resources remaining to save the home.
- **Bailout** - The rescuer bails out the homeowner by helping “dispose of” the house. The homeowner typically surrenders title to the house while believing they can stay on as renters and buy the house back once they resolve their financial matters. The terms are typically so onerous, however, that repurchase becomes impossible, the homeowner permanently loses possession, and the “rescuer” walks off with all, or most, of the homeowner’s equity.
- **Bait and switch** - Rescuers tell the victims they will obtain a new loan that will solve their problems. In reality, the homeowner signs forged documents that give the scammers ownership of the home. In many of these cases, homes are acquired for a very small fraction of their actual value. The homeowner still holds the note and mortgage on the home s/he no longer owns, including repayment obligations.

Many homeowners believed they were signing documents for a new loan to make the mortgage current, or arranging for an intermediary to negotiate more favorable terms with the lender. Victims say they had no intention of selling or giving up their home, although there frequently is no written documentation to substantiate agreed-upon terms and conditions.

## How Do Rescue Scams Work?

Based on a review of cases and reports from consumer attorneys, law enforcement officials, and the news media, the following list comprises tactics frequently used in foreclosure rescue scams. While these programs can work to some extent for some borrowers, homeowners should carefully consider and review foreclosure rescue offers, especially when the potential “rescuer” seeks them out.

- When a lender forecloses on a property, a public notice that helps identify distressed homeowners is published in a newspaper of general circulation or at local government offices. These records are more accessible than in the past because they are increasingly computerized,

## Rescue Scammers: How They Set the Trap

How do companies successfully lure borrowers into rescue arrangements? As described in a National Consumer Law Center Report, here are a few commonly used ploys.

- Employing saturation marketing of purported rescue services, commonly characterized by exaggerations, misrepresentations, and pressure tactics.
- Capitalizing on the homeowner’s desperation to save the home, obtain needed cash, or make a fresh start, generally conducted in a manner in which the homeowner is encouraged to conclude there is very little time to act.
- Exploiting the homeowner’s belief that someone would not lie to his or her face - reinforced by many sympathetic-sounding and often face-to-face sales pitches - or the false assurance that s/he is being helped when, in fact, the homeowner is left in a worse financial position.
- Keeping homeowners “in the dark” about the foreclosure process. This includes failure to provide information about foreclosure deadlines, legal rights, and low-cost alternatives that can save the home.
- Using various fraudulent and deceptive documents, including forgeries. Scammers use many complex documents that disguise the rescuer’s equity-stripping intent. Unscrupulous companies also may use documents that run out of space for signatures on pages containing critical text. The homeowner signs a blank page, and his/her signature is fraudulently transferred to an entirely different document.
- Using affinity-marketing strategies. These approaches appeal to the homeowners’ belief that people who share similar ethnic, racial, religious or age profiles are their advocates, protecting them from those who don’t act in their best interests.
- Preying on homeowners who lack financial awareness, particularly about sophisticated mortgage loan products.

with a growing number of private firms compiling and selling lists of defaulted loans and foreclosures to different parties.



## Foreclosure Service Scams: Know the Warning Signs

The Department of Justice's U.S. Trustee Program outlines a few red flags that homeowners should keep in mind if they are falling behind on their mortgage payments or facing foreclosure.

- Be suspicious of any person or company that calls itself a *foreclosure consultant*, *foreclosure service*, or similar designation.
- Be wary of high-pressure marketing techniques. This includes the use of flyers or door-to-door solicitations.
- Proceed with care if an individual or company attempts to collect fee(s) before providing services to you, or instructs you to make your mortgage payments directly to the individual/company.
- Be suspicious of offers to take title to your home and lease it back to you, with the promise that you can buy it back over time.
- Avoid promises to "save your credit" or find a buyer for your home within a specific number of days.
- Never sign a contract or other documents under pressure. Review all paperwork with a representative of your choosing, preferably a real estate attorney.
- Do not sign documents containing blank lines or spaces. Unscrupulous parties could add information later without your knowledge or consent.
- Obtain all terms, conditions, provisions and special arrangements *in writing*. Make copies of the paperwork for your records.

- An individual or a company, armed with this information, contacts the homeowner, offering to lend money to "stop foreclosure" or "save your house." These businesses often refer to themselves as *foreclosure consultants* or *foreclosure rescue specialists*. Initial contact may occur by telephone, personal visit, or card/flyer left at the home, and often consists of a simple yet powerful message such as "Stop foreclosure with just one phone call," "I'd like to \$buy\$ your house," "You have options," or "Do you need instant debt relief and cash?"

At this point, the lender has not yet foreclosed on the property, although foreclosure is threatened after the homeowner falls behind on mortgage payments.

- Initial discussions emphasize a "fresh start," and often feature "testimonials" from other homeowners the rescuer has supposedly helped.
- Scammers may instruct the homeowner to cease all contact with lawyers or the mortgage lender and let the rescuer handle negotiations. This tactic cuts off access to refinancing options while running out the clock on legitimate ways to prevent the foreclosure.
- The homeowner loses the property when the scam is completed or the house is sold to someone else at foreclosure. If there is a foreclosure sale, there may be little, if any, equity remaining because repeated and excessive fees have stripped it from the property's value.

## If Foreclosure Is Imminent: What You Can Do

The following outline advises homeowners on constructive ways to deal with pending foreclosure:

- Do not panic or avoid the issue. The problem will not go away, and will worsen if ignored.
- Make sure that your home actually is in foreclosure. If you are behind in your mortgage payments, you will receive a delinquency notice from the lender. These letters notify you of your delinquency and give you a chance to resolve the debt. If you receive a *Notice of Trustee's Sale*, or similar document, your home is in foreclosure, and you need to respond accordingly.
- Ask your lender about renegotiating or refinancing your loan or working out a payment plan. Be honest about your financial situation. The sooner you contact your lender, the sooner you may be able to remedy the problem. The federal bank, thrift and credit union regulatory agencies are encouraging financial institutions to work with homeowners who are unable to make mortgage payments. The regulators also have advised financial institutions to consider working with reputable consumer advocacy entities to help financially stressed borrowers avoid predatory foreclosure rescue scams.
- Familiarize yourself with state foreclosure laws. It's important to know how much time you have to resolve the issue, including when you would forfeit legal ownership of your home.

- Contact your attorney, *not* one referred by the individual or company that is involved in the foreclosure prevention/agreement.
- Contact a government-approved housing counselor. The Department of Housing and Urban Development (HUD)'s Web site lists certified counselors by state at <http://www.hud.gov/offices/hsg/sfh/hcc/hccprof14.cfm>. Contact the Better Business Bureau at [www.bbb.org](http://www.bbb.org) before entering into any agreements promising homeowner debt relief. Obtain a report on the company and check with the state attorney general's office and Real Estate Commission for a record of complaints and other adverse actions.
- Do not sign a contract under duress. Request time to review documents. If you do not understand a docu-

ment's contents, ask a trusted family member, attorney, or financial planner to review the documents with you.

- Do not accept verbal representations. Obtain offers in writing, and review all written offers thoroughly.

There are legitimate organizations, including nonprofit consumer groups, which provide services to distressed homeowners. Reputable foreclosure rescue companies will work with borrowers who are unable to meet their mortgage obligations, and assist homeowners in making mutually satisfactory workout arrangements with their lenders. (See also *Helping Customers Keep Their Homes: Ways to Get Out of Trouble*, page 8) ■

## First-Time Homebuyer Programs: *Expanding Access to Affordable Homeownership*

Lynn Bedard, Community Affairs Liaison, Southeast Region

There are a variety of programs and products available to assist the first-time homebuyer, but it is often difficult for the borrower to know what is available and how to access this assistance. Some lenders have specialized loan staff dedicated to meeting the needs of low- and moderate-income families and first-time homebuyers. Those specialists keep track of available pre-purchase counseling and subsidy programs, loan products and services geared toward sustaining housing affordability, and carefully evaluate each applicant's suitability and qualifications for the product or program.

Smaller institutions, in particular, may find it advantageous to access resources that could enable them to provide mortgage products and companion financial services at more affordable terms and pricing, both for first-time homeowners as well as existing mortgage holders. The

Federal Home Loan Banks and the Department of Housing and Urban Development offer such programs. [See *Helping Customers Buy Their Homes: A Resource Guide*, page 7, and *Helping Customers Keep Their Homes: Ways to Get Out of Trouble*, page 8.]

### Federal Home Loan Bank Programs for First-Time Homebuyers

The Federal Home Loan Bank (FHLB) System offers its member institutions, including thrifts, and their customers, a number of affordable housing resources. The *Affordable Housing Program (AHP)* finances housing for low- and moderate-income families through grants or

deeply discounted loans. Non-profits, local governments, community development corporations, individuals and other sponsors seeking AHP funding may submit an application through a member institution. Members may use AHP funds to fund new construction and the purchase and/or rehabilitation of owner-occupied and rental housing for low- and moderate-income households.

AHP funds are available in competitive offerings conducted two times per year; the next application deadline is October 1, 2007. Member institutions submit completed applications electronically to the FHLB via an application on the FHLB Web site. The FHLB will review, analyze, underwrite, and score the applications using a 100-point scoring system. The FHLB has scoring preferences for projects that house low-income persons with special needs, are located in rural or Appalachian areas, or have strong member participation.

Every FHLB has a product(s) targeted for down payment assistance to low- and moderate-income, first-time homebuyers, although product requirements vary among the FHLBs. The descriptions of the FHLB homebuyer programs that follow provide basic information about the products. Each of the programs requires the borrower's income to be equal to, or less than, 80% of the area median family income, and requires the member bank or thrift to be the mortgage lender. Contact information for each of the banks is provided in the FHLB resource directory on page 11. Please note that some of the programs do *not* require that the purchaser be a first-time homebuyer.

### **FHLB Atlanta — First-Time Homebuyer Program**

Member institutions may use these funds for down payment and closing cost assistance. The maximum award per household is \$10,000 and the required match is five to one, which allows the homebuyer to access the \$10,000 subsidy using \$2,000 of his/her own funds. Funds may be used to purchase any type of home, including detached single-family residences, condominiums, and manufactured housing. Members institutions may request up to \$400,000 of assistance during each annual offering cycle.

### **FHLB Boston — Equity Builder Program (EBP)**

The *EBP* offers grants to member institutions that provide down payments, closing costs, homebuyer counseling and rehabilitation assistance to eligible homebuyers. Members also may use *EBP* grants to match eligible homebuyers' savings under an *Individual Development Account (IDA)* program. The members' homebuyers' programs must meet *EBP* eligibility requirements set forth in the *EBP Manual*, available February 1, 2007.

### **FHLB Chicago —**

This bank offers two programs to low- and moderate-income homebuyers:

## **Helping Customers Buy Their Homes: A Resource Guide**

In addition to the FHLB programs discussed, other resources are available to assist first-time homebuyers with their downpayment and closing costs, which can comprise the biggest challenge to homeownership. Thrift institutions can, and frequently do, partner with community-based organizations through which eligible purchasers receive financial and technical assistance. Institutions may receive positive CRA consideration for supporting these activities.

On May 8, 2007, The Department of Housing and Urban Development (HUD) announced that thousands of communities would receive nearly \$1.8 billion to promote HUD's affordable housing and first-time homebuyers programs. The American Downpayment Dream Initiative (ADDI) is administered by state and local participating jurisdictions as part of the HOME Investment Partnership Act Program. HUD allocates ADDI funds to participating jurisdictions to assist low-income families become first-time homebuyers. The ADDI funds subsidize downpayments, closing costs, and rehabilitation expenses associated with a home purchase by first-time homebuyers.

### ***HUD-Sponsored Homeownership Counseling Programs***

Although HUD does not require housing counseling for first-time homebuyers who receive ADDI assistance, the

agency strongly encourages pre-purchase housing education. HUD also sponsors housing counseling agencies throughout the country that can provide advice to low- and moderate-income persons on buying a home, avoiding defaults, preventing foreclosures, and other credit-related topics. See <http://www.hud.gov/offices/hsg/sfh/hcc/hcs.cfm> for a listing of HUD-approved housing counseling agencies. The toll-free number for HUD housing counseling information is 1-800-569-4287.

There are provisions under the Homeownership Counseling Act that require financial institutions to provide notification to homeowners of the availability of HUD-approved housing counseling programs. The provisions apply to homeowners who are delinquent in making their mortgage payments, not first-time homebuyers. [See also *Helping Customers Keep Their Homes: Ways to Get Out of Trouble*, page 8]

### ***Related HUD Homebuyer Assistance***

The HUD Web site contains frequently asked questions from first-time homebuyers covering typical costs, mortgage financing options, and ways to find a lender. Refer to <http://www.hud.gov/buying/comq.cfm>. The site also contains a step-by-step guide to buying a home. See <http://www.hud.gov/buying/index.cfm> for more information.

## Helping Customers Keep Their Homes: Ways to Get Out of Trouble

HUD's mission is to promote — and preserve — homeownership throughout the country. The expansion of mortgage lending in the subprime market has led to recent spikes in mortgage loan delinquencies and the number of homes facing foreclosure, which pose significant challenges to sustaining homeownership efforts. HUD makes a variety of resources available to assist homeowners in financial distress.

Delinquency intervention and foreclosure prevention activities support the mission of helping consumers reach for — and hold on to — the dream of owning their own home. In addition to HUD assistance, a range of resources exists outside the agency. The list that follows is a representative sample.

### *Loss Mitigation*

The Federal Housing Administration (FHA) has a Loss Mitigation program that uses tools such as special forbearance, loan modification, and partial claim. According to FHA statistics, 89 percent of all borrowers who received loss mitigation in 2004 still had active loans in 2006. In 2006, a combination of loss mitigation and housing counseling programs assisted more than 1.6 million households through education and foreclosure prevention. Refer to <http://www.hud.gov/offices/hsg/sfh/nsc/nschome.cfm> for more information on the FHA's Loss Mitigation program.

### *The Homeownership Counseling Act*

As the adage says, knowledge is power, and housing counseling is the most cost-effective way to equip people with the information needed to obtain mortgage loans with terms that fit their needs. Of the more than 2,300 HUD-approved housing counseling agencies operating nationwide, more than 1,800 provide default and foreclosure prevention counseling. The result: 92.5 percent of participating households that received HUD-funded default and/or foreclosure prevention counseling during FY 2006 successfully avoided foreclosure.

Under the Homeownership Counseling Act, creditors — defined as those that service loans secured by a mortgage or lien on a single-family residence — must provide notification of the availability of homeownership counseling to an eligible homeowner who fails to pay any amount by the due date under the terms of the home loan. Home loans include conventional mortgage loans and loans insured by HUD.

The notice must provide a list of HUD-approved non-profit homeownership counseling organizations or the toll-free number HUD has established through which this list may be obtained. (See *Helping Customers Buy Their Homes: A Resource Guide*, page 7.) The creditor must give notice to the delinquent homeowner no later than 45 days after the date on which the borrower becomes delin-

*Downpayment Plus® Program (DPP®)*. Member institutions may access subsidies of up to \$5,000 per household on behalf of eligible homebuyers to whom they are providing first mortgages. Member thrifts may use the subsidies for down payment and closing cost assistance, homebuyer counseling, and/or rehabilitation costs associated with a home purchase. Each member may access up to \$100,000 in DPP funds during 2007.

*Downpayment Plus Advantage® Program (DPP Advantage®)*. This program is designed to assist households participating in homeownership programs offered by non-profit organizations that provide mortgage financing directly to the homebuyer.

The organizations must partner with a FHLB Chicago member institution to access the *DPP Advantage* program. There is a maximum subsidy of \$5,000 per eligible household. Eligible uses of the funds are the same as those for the *DPP*.

### *FHLB Cincinnati — The Welcome Home Program is a set-aside of AHP funds*

The program is designed to help members serve low- and moderate-income homebuyers through down payment and closing cost assistance. The maximum subsidy is \$5,000 per homebuyer based on documented need. Eligible homebuyers must contribute at least \$500 of their own funds, unless they are disabled.

### *FHLB Dallas — HELP program*

The *HELP* program provides matching funds for the down payment and closing costs of eligible first-time homebuyers. FHLB Dallas has set aside \$1,000,000 for its 2007 *HELP* program from its *AHP* funds. The maximum *HELP* award per eligible household is \$6,000; no member institution may receive more than \$50,000 during an annual offering cycle.

### *FHLB Des Moines — Urban First-Time Homebuyer Fund*

Effective September 2007, the FHLB Des Moines will allocate *AHP* funds to provide down payment, closing cost,



## Helping Customers Keep Their Homes: Ways to Get Out of Trouble — *continued*

quent. If, within the 45-day period, the borrower brings the loan current again, no notification is required.

Refer to <http://www.hud.gov/offices/hsg/sfh/hcc/hccpr/of13.cfm> for further information.

### ***Fannie Mae and Freddie Mac Products and Services***

Both Fannie Mae and Freddie Mac require lenders to pursue workout strategies with borrowers experiencing financial hardship and delinquencies. Fannie Mae has developed an eight-pronged responsible lending strategy that encompasses homeownership counseling and the use of alternative mortgage options for consumers with impaired credit profiles.

See <http://www.fanniemae.com/initiatives/lending/index.jhtml?p=Initiatives&s=Expanding+Responsible+Lending> for details.

In addition, Fannie Mae has announced that it will offer a new program called “HomeStay,” which provides options to lenders to help borrowers refinance their high-interest adjustable-rate mortgages into more affordable loans.

Freddie Mac is expanding its *Don't Borrow Trouble* campaign to communities nationwide. The program combines education and counseling services to help homeowners avoid lending practices that strip away their home's equity. Refer to <http://www.dontborrowtrouble.com> for more information.

Freddie Mac also plans to develop more affordable sub-prime products that will provide financing alternatives to consumers. Fannie Mae and Freddie Mac are expected to unveil their new programs in summer 2007.

NeighborWorks® America, a consumer advocacy organization with local chapters across the country, is launching a foreclosure prevention public service campaign in June 2007 developed in partnership with the Ad Council. According to a survey the group conducted, many homeowners do not know that lenders also want to avoid foreclosure.

The campaign is a national effort to encourage financially distressed homeowners to seek assistance from the housing counseling hotline at 1-888-995-HOPE. Hotline callers will receive telephone assistance from certified counselors through the Homeownership Preservation Foundation's network and will be referred to local NeighborWorks® organizations for in-person support.

Fannie Mae also has committed \$5 million over the next two years to NeighborWorks® national foreclosure program. The Homeownership Preservation Foundation will receive \$3.25 million to support telephone counseling and capitalize a resource pool that will reimburse NeighborWorks® organizations and their nonprofit partners for each “save,” or favorable foreclosure prevention outcome for the homeowner. NeighborWorks® America will receive \$1.75 million to support local capacity-building efforts targeted to foreclosure task forces and coalitions and the nationwide Ad Council campaign.

counseling or rehabilitation assistance to eligible first-time homebuyers that are purchasing owner-occupied units in urban locations. First-time homebuyers may receive up to \$5,000.

**Rural Homeownership Fund.** The FHLB allocates funds to provide down payment, closing cost, counseling or rehabilitation assistance to eligible households purchasing owner-occupied units in rural locations. The *Rural Homeownership Fund* is available to eligible first-time and other homebuyers. First-time homebuyers may receive up to the maximum

amount of \$5,000; other homebuyers may receive a maximum amount of \$2,500.

### **FHLB Indianapolis — *The Homeownership Opportunities Program (HOP)***

The program provides up to \$5,000 in down payment and closing cost assistance to eligible first-time homebuyers. *HOP* will match a homeowner's funds on a three-to-one ratio. Each member, however, can offer homebuyers a smaller matching ratio; for example, two-to-one, if it chooses to do so.

At least \$500 of the money *HOP* matches must come from the homebuyer's own savings, but the FHLB will also match funds obtained from other sources, including other grants and gifts.

### **FHLB New York — *First Home Club (FHC)***

The *FHC* offers an incentive for households, with incomes at or below 80% of area median income, to save toward the purchase of a new home. The *FHC* provides down payment and closing cost assistance by granting

three dollars in matching funds - up to a maximum of \$5,000 - for each dollar saved in a dedicated account. The account is earmarked for use by an eligible first-time homebuyer who purchases a home through a member institution. Each prospective purchaser must complete an approved classroom-based homebuyer and financial literacy education course. At closing, the homebuyer will enter into a five-year subordinated mortgage with the member institution in the amount of the funds provided.

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**FHLB Pittsburgh — First Front Door**

Qualified first-time homebuyers may receive up to \$5,000 for down payment assistance and closing costs. The FHLB will match the homebuyer's contribution in a three-to-one ratio, based on the homebuyer's need. Qualified homebuyers may use *First Front Door* grants to purchase owner-occupied homes, including single-family houses, townhomes, duplexes, condominiums and modular units.

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**FHLB San Francisco — Individual Development and Empowerment Account (IDEA)**

Through the program, the FHLB provides matching subsidies to lower-income households saving to buy a home. Participating households must be enrolled in an *Individual Development Account (IDA)* program or participate in a *Family Self-Sufficiency (FSS)* program through their local public housing authority. Participating households must save for a minimum of ten months, successfully complete a homebuyer-counseling program, find a home, and qualify for a mortgage. The Bank provides up to \$15,000 in *IDEA* funds, matching up to three dollars for every dollar saved by the homebuyer. The subsidy must be used to reduce down payment or closing costs in connection with the purchase of the homebuyer's primary residence.

*The Workforce Initiative Subsidy for Homeownership (WISH)* program. The *WISH* program is designed to help people living in high-cost areas to purchase homes near their place of work. Homebuyers must contribute at least 1 percent of the purchase price of the home from their own funds. The FHLB may provide a maximum of \$15,000 per household, matching up to three dollars for every dollar contributed by the qualified homeowner.

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**FHLB Seattle — HomeStart**

*Each of the programs requires the borrower's income to be equal to, or less than, 80% of the area median family income, and requires the member bank or thrift to be the mortgage lender. Contact information for each of the banks is provided in the FHLB resource directory*

*HomeStart* promotes homeownership by helping eligible first-time homebuyers purchase an owner-occupied housing unit, including a condominium or cooperative housing unit, which is used as the household's primary residence. The *HomeStart* program provides three dollars for every one dollar a family contributes, up to \$5,000. The *HomeStart Plus* program provides households receiving public housing assistance with two dollars for every one dollar the household contributes, up to \$10,000.

Members may use *HomeStart* grants for down payments, closing costs or rehabilitation expenses, and may combine the grants with other funds.

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**FHLB Topeka — Targeted Ownership Program (TOP)**

Member institutions may use the program to help disabled first-time homebuyers, or first-time homebuyers with a disabled member of the household, to purchase a home. The maximum subsidy per eligible household available in 2007 is \$4,000. Eligible homebuyers must provide a minimum down payment of \$500.

*Rural First-Time Homebuyer Program (RFHP)*. Member institutions may use *RFHP* funds to assist first-time homebuyers in rural areas. Eligible homebuyers may use the *RFHP* funds for down payments, closing costs and rehabilitation assistance. The homebuyer must provide a minimum down payment of \$500. The maximum *RFHP* subsidy per household in 2007 is \$4,000.

Although the process required of member financial institutions to make use of these products and programs may be time-intensive, the effort can help families acquire — and maintain — an affordable home without having to struggle to make their mortgage payments. Moreover, participation in FHLB programs may enable the member institution to meet its CRA-related goals, which could represent an important incentive to thrifts, both large and small ■

## FHLB Resources That Promote Affordable Homeownership

The following list provides contact information for the first-time homebuyer programs offered by each of the FHLBs. The FHLB Web sites provide detailed descriptions of these programs, and other programs and resources available to member thrift institutions to assist first-time purchasers and other eligible borrowers.

### FHLB Atlanta

*First-Time Homebuyer Program.*

Contact Deborah Miller at 800-536-9650, ext. 8451.

### FHLB Boston

*Equity Builder Program (EBP)*

Contact Paulette Vass at 888-424-3863, or see [www.fhlbboston.com](http://www.fhlbboston.com).

### FHLB Chicago

*Downpayment Plus® Program (DPP®)*  
*Downpayment Plus Advantage® Program (DPP Advantage®)*

Contact the following Program Administrators: in Illinois, the Illinois League of Financial Institutions, 1-800-237-1936, [www.ilfi.org](http://www.ilfi.org); in Wisconsin, Wisconsin Partnership for Housing Development, 608-258-5560, [www.wphd.org](http://www.wphd.org).

### FHLB Cincinnati

*The Welcome Home Program*

Contact Carol Peterson at 513-852-7615, or see [www.fhlbcin.com](http://www.fhlbcin.com).

### FHLB Dallas

*HELP Program.*

Contact an FHLB Dallas Affordable Housing Analyst at 800-362-2944, or see [www.fhlb.com](http://www.fhlb.com).

### FHLB Des Moines

*Urban First-Time Homebuyer Fund*

Contact Vince Lintz at 800-544-3452, ext. 1198, or see [www.fhlbdm.com](http://www.fhlbdm.com).

### FHLB Indianapolis

*The Homeownership Opportunities Program (HOP)*

Contact Ronna Edwards at 317-465-0369 or see [www.fhlbi.com](http://www.fhlbi.com).

### FHLB New York

*First Home Club (FHC)*

Contact FHLB New York Community Investment Operations at 212-441-6850 or see [www.fhlbny.com](http://www.fhlbny.com).

### FHLB Pittsburgh

*First Front Door*

Contact the FHLB Pittsburgh Community Investment Department at 800-288-3400, ext. 826, or see [www.fhlb-pgh.com](http://www.fhlb-pgh.com).

### FHLB San Francisco

*Individual Development and Empowerment Account (IDEA) Program*  
*The Workforce Initiative Subsidy for Homeownership (WISH) Program*

Contact FHLB San Francisco Community Investment at 415-616-2542, or see [www.fhlbsf.com](http://www.fhlbsf.com).

### FHLB Seattle

*HomeStart*

Contact Kimberly Strahm at 206-340-8741, or see [www.fhlbsea.com](http://www.fhlbsea.com).

### FHLB Topeka

*Targeted Ownership Program (TOP)*  
*Rural First-Time Homebuyer Program (RFHP)*

Contact Utika Scales at 866-571-8155 or see [www.fhlbtopeka.com](http://www.fhlbtopeka.com).

# Rebuilding Housing After Hurricanes Katrina and Rita: *Traveling Along the Road Home*

Aaron Satterthwaite, Community Affairs Liaison, Midwest Region  
Contributions by Clifford Eugene & Danny Brasseaux

**H**urricane Katrina made landfall east of New Orleans, Louisiana on August 29, 2005. Approximately one month later, Hurricane Rita battered Louisiana and Texas. The storms' impacts covered 90,000 square miles. The two hurricanes caused approximately \$67 billion in damage to housing in the Gulf Coast region. The Department of Housing and Urban Development (HUD) estimates that the storms were responsible for major or severe damage to 265,000 homes and apartments in Louisiana and Mississippi. Approximately 44 percent of the damaged housing was occupied by families with "very low incomes," or incomes at or below \$25,000 per year.

Roughly 80 percent of New Orleans was flooded. One and a half million people were directly affected, and over 800,000 persons were forced to live outside their homes. Pre-Katrina, New Orleans had 215,000 housing units, 188,251 of which were occupied. More than 70 percent of the occupied units — 134,344 units — sustained reportable damage, and 105,155 of them were severely damaged. Residential damage in New Orleans totaled \$14 billion, and more than 200,000 New Orleanians were displaced.

The region, particularly New Orleans, is still recovering from the tragedy. New Orleans Mayor C. Ray Nagin, in testimony delivered before the House Subcommittee on Housing and Community Opportunity on February 22, 2007, estimated that New Orleans sustained 57 percent of the damage in Louisiana.

The damage to New Orleans from water infiltration was extensive, but just as harmful to the infrastructure was the damage resulting from the weight of the water. Simply stated, portions of the city collapsed, with entire areas pushed even further below sea level, damaging hundreds of miles of underground utilities, including electric, gas, water, drainage, cable and phone lines.

## Housing recovery: how financial institutions can help

How does one measure progress when discussing the Gulf Coast recovery efforts? Governmental entities typically measure progress by the amount of money allocated and

spent, coupled with highlights about what they repaired and replaced, and how many people benefited. As of January 16, 2007, Katrina-related government expenditures for housing and related needs in the states of Louisiana, Mississippi and Alabama were approximately \$6.3 billion. Katrina-related spending for public assistance in these three states, as of January 16, 2007, totaled approximately \$5.4 billion.<sup>1</sup>



Private and nonprofit resources are integral to Gulf Coast housing recovery efforts. The federal banking agencies (FBAs) have issued guidance to financial institutions to encourage them to provide financial and related support to the Gulf Coast region. The revised Community Reinvestment Act (CRA) regula-

<sup>1</sup>"Public assistance" comprises debris removal, which is expected to top 122 million cubic yards, and repairs to roads, bridges, and public buildings. In addition, as of December 8, 2006, the National Flood Insurance Program reportedly paid out approximately \$16.1 billion in closed claims for Katrina-related losses in the states of Alabama, Florida, Mississippi, and Louisiana. Other costs incurred have included restoring energy and water, communications and improving the environment; reopening ports; and providing agricultural support, health care, and social services.



## Out of the Rubble: A Community Collaboration

Affordable housing has special significance in storm-ravaged Louisiana. After Hurricane Katrina, representatives from local Catholic organizations combined their resources and experience to help address the critical need for affordable housing and related support services in southern Louisiana. The mission of the newly formed Providence Community Housing (Providence), an independent 501(c)(3) organization, is to foster healthy, diverse and vibrant communities of choice. Providence develops affordable, mixed-income housing, operates support services, and advocates employment opportunities for individuals, families, senior citizens, and people with special needs.

The five-year goal is to restore, rebuild and/or develop approximately 6,500 units of housing, both single-family homes and apartments. Enterprise Community Partners — formerly the Enterprise Foundation — is providing financial and technical support, part of its \$200 million commitment to develop 10,000 affordable homes in the Gulf Coast region.

Providence has created a partnership with the AFL-CIO Investment Trust Corporation (ITC) to develop the

Treme/Lafitte and Tulane/Gravier communities in New Orleans, which are considered by many to be pivotal to the city's renaissance. In August 2006, the city awarded the partnership 196 properties, envisioned as the first step in a \$35 million comprehensive plan by ITC to rebuild and revitalize communities across the city. In order to encourage diverse growth, Providence and ITC will construct mixed-income development. The planners are inviting residents to participate in the redevelopment efforts.

Other groups partnering with Providence and ITC on the Treme/Lafitte and Tulane/Gravier redevelopment project include the AFL-CIO Building and Construction Trades Department, NeighborWorks America®, Tulane University School of Architecture, MIT School of Architecture and Planning, the University of Nebraska, Christopher Homes and Reconcile New Orleans. The AFL-CIO also plans to establish a manufacturing plant in the area to produce modular housing for Gulf Coast families that meets standards for architectural compatibility and energy efficiency, and resists storm damage.

tions, which were published in August 2005, expanded the definition of “community development” to include activities of financial institutions that revitalize or stabilize designated disaster areas.<sup>2</sup> The OTS recently adopted the revised CRA regulations; consequently, thrift institutions may receive positive CRA consideration for various activities, including housing-related activities, which benefit hurricane-impacted areas in the Gulf Coast.

The FBAs’ guidance also addresses those financial institutions affected by Hurricane Katrina. In fact, the OTS’ Midwest region had 20 institutions directly affected by the hurricanes. Hurricane Katrina caused the more profound impact, closing the main office and/or branches of 14 thrifts for an extended period. The flooding of New Orleans and neighboring Jefferson Parish and the mandatory evacuation that resulted forced the 12 thrifts located in these areas to operate away from their main offices and branches for up to five months. Some thrift branches remain closed because the neighborhoods around them are still sparsely populated.<sup>3</sup>

## Finding the road home: challenges and responses

Since the damage in the Gulf Coast region was so vast, both from a geographic and economic perspective, it may be more encouraging to measure relief on a smaller — and more human — scale. Any seemingly modest recovery effort is a major step toward restoring the region to its pre-Katrina condition. Individuals, neighborhood groups, and partnerships formed between nonprofit and for-profit organizations are spearheading initiatives to construct affordable housing and improve their environment, be it individual, local or regional. [See *Out of the Rubble: A Community Collaboration*, above.]

Getting back into one’s home is no easy task, either. A limited contractor workforce has caused delays in cleaning and repairing the housing stock. There also is a shortage of supplies and materials for contractors. In addition, once the house is repaired and ready for occupancy, the homeowner

<sup>2</sup>Refer also to Interagency Questions and Answers Regarding Community Reinvestment, published March 10, 2006. This guidance is found at the Federal Financial Institutions Examination Council’s Web site at <http://www.ffiec.gov/cra/qnadoc.htm>.

<sup>3</sup>The FFIEC’s Web site also contains guidance for financial institutions in response to Hurricanes Katrina and Rita. Refer to <http://www.ffiec.gov/katrina.htm> for additional information.



## Helping Homeowners on the Road Home: Disaster Relief Resources

In the months following Hurricanes Katrina and Rita, various governmental, nonprofit and private resource providers have targeted financial and related assistance to the Gulf Coast region. However, contractor home repair scams and similar abuses, skyrocketing hazard insurance costs, and mortgage loan delinquencies and foreclosures have complicated recovery efforts, necessitating measures to address these additional problems.

The following summarizes some of the resources available to help affected homeowners both sustain and rebuild their homes.

### ■ HomeHelpExpress

Freddie Mac, together with the Community College Foundation, 23 Gulf Coast nonprofit community groups, and NeighborWorks® America, launched a mobile information and technology center to provide assistance to Louisiana and Mississippi homeowners on a broad array of personal financial issues. Two buses travel to over 160 locations throughout both states. Visitors can speak with housing counselors and access online resources to aid them in the rebuilding process. Topics covered include short-and long-term strategies to stay current with mortgage obligations; ways to obtain homeowner's insurance proceeds and

avoid insurance scams; and ways to avoid home improvement contractor and home title fraud.

See [http://www.freddie.mac.com/corporate/about/how we help/homehelpexpress/](http://www.freddie.mac.com/corporate/about/how_we_help/homehelpexpress/) for more information.

### ■ Community Development Block Grant Funds

On December 30, 2005, President Bush signed legislation authorizing the Department of Housing and Urban Development (HUD) to provide \$11.5 billion in Community Development Block Grant (CDBG) disaster supplemental funding to areas damaged by Hurricanes Katrina, Rita, and Wilma. The affected states are making grants to eligible homeowners to defray the costs of raising homes to meet new elevation requirements, among other uses. In Louisiana, approximately \$7 billion in CDBG funds are capitalizing the state's "Road Home" program.

Homeowners should contact their state housing agencies for information on applying for financial assistance. Here is a listing of websites for the following state housing agencies: Alabama, Florida, Louisiana, Mississippi, and Texas.

typically waits additional time for the city to inspect the home in order to receive a certificate of occupancy. Moreover, those who exploit misfortune for their own gain are perpetrating home repair contractor and insurance scams on homeowners. [See *Helping Homeowners on the Road Home: Disaster Relief Resources*, above.]

Many insurance companies have stopped writing policies in Louisiana, or are charging exorbitantly higher rates than before the storm. The lack of, and high costs associated with, homeowner's insurance, together with the unwillingness of some insurance companies to include wind damage in homeowner's coverage, may have a negative impact on property values and make homeownership difficult, particularly for low - and moderate - income families. Escalating costs, and the affordability and/or unavailability of hazard insurance coverage, raise daunting issues for residents in the Gulf Coast states.

Mississippi has recently reorganized the state's wind insurance pool, which underwrites residential and commercial policies for wind damage along the coast, because so few commercial companies will write new policies. Government subsidies in Mississippi have helped hold post-Katrina wind rates for residential owners to \$1,353 per \$100,000, which nonetheless represents a 92 percent increase over rates before the storm.

A recent ABC News poll showed that nearly two-thirds of people across the Gulf Coast region say efforts expended in the hurricanes' aftermath strengthened their trust in their fellow man to lend a hand. In a fundamental sense, progress cannot be measured merely by dollars spent or cubic tons of debris removed. Renewing their commitment to community kindles the hope of displaced New Orleanians that one day they will travel the road home ■

## Helping Homeowners on the Road Home: Disaster Relief Resources — *continued*

Alabama Housing Finance Authority  
[www.ahfa.com](http://www.ahfa.com)

Florida Housing Finance Corporation  
[www.floridahousing.org](http://www.floridahousing.org)

Louisiana Housing Finance Agency  
[www.lhfa.state.la.us](http://www.lhfa.state.la.us)

Mississippi Home Corporation  
[www.mshomecorp.com](http://www.mshomecorp.com)

Texas Department of Housing and Community Affairs  
[www.tdhca.state.tx.us](http://www.tdhca.state.tx.us)

### ■ Office of Housing/Federal Housing Administration

In 2006, the Federal Housing Administration (FHA) established a moratorium on foreclosure activity so that borrowers holding FHA-insured loans could work out satisfactory mortgage payment arrangements with their lenders. FHA extended the foreclosure moratorium for some Mississippi and Louisiana homeowners whose homes were damaged, but who had not had the time to apply for financial assistance, including state-administered CDBG funding. As of August 2006, more than 4,000 borrowers living in declared disaster areas, including Alabama, Florida, Louisiana, Mississippi, and Texas, had benefited from mortgage assistance or foreclosure relief efforts.

See <http://www.hud.gov/news/katrina05response.cfm> for more specific information on disaster-related HUD resources.

- The Federal Banking Agencies have issued guidance to financial institutions to encourage them to provide financial and related support to the Gulf Coast region. The Federal Financial Institutions Examination Council's (FFIEC) Web site contains guidance for financial institutions in response to Hurricanes Katrina and Rita. Refer to <http://www.ffiec.gov/katrina.htm> for additional information.

These resources are directed to residents of Louisiana:

- The Louisiana Office of Financial Institutions (OFI) has encouraged lenders to consider uninsured losses, extended periods of unemployment, and other extraordinary storm-related expenses when discussing mortgage payment plans with affected borrowers. Consumers may contact OFI at (888) 525-9414.
- Consumers in Louisiana should contact the state's Licensing Board for Contractors (225-765-2301) for complaints or disputes involving home improvement contractors. Refer to the Board's Web site at <http://www.lslbc.state.la.us> for access to a searchable database. Consumers also may contact the Better Business Bureau at <http://www.bbb.org> for complaints filed against contractors.
- Homeowners in Louisiana can obtain general information on home repairs at <http://www.lawhelp.org/LA> and click on the "Housing" section.

**Editors Note:**

*Editor's Note:* This issue marks the reintroduction of the *Community Liaison* newsletter. Our thanks to the many contributing writers throughout OTS who have and will continue to make this a viable and informative publication. Editions of the *Community Liaison* newsletter are available online at [www.ots.treas.gov](http://www.ots.treas.gov)