

# Tackling Foreclosure



With foreclosure rates rising nationwide, public officials, financial institutions, and community organizations are launching prevention programs and educating housing counselors and attorneys on the issue.

For example, Boston's campaign to reduce foreclosures involves encouraging lenders to create more tailored refinance products. The program teaches homeowners how to improve their credit and how to avoid predatory lending. Nearby in Brockton, the Brockton Housing Partnership is urging people to consider buying or refinancing their homes using a trailblazing program called MyCommunity Mortgage.

### The National Consumer Law Center

The National Consumer Law Center, which advocates for low-income consumers, is traveling the country to educate practitioners on predatory lending, homeowner rights, effective advocacy, and foreclosure prevention. In 2006, with a grant from the U.S. Department of Housing and Urban Development (HUD), it collaborated with NeighborWorks America on workshops for housing counselors in Dallas, Boston, Greensboro

(North Carolina), Manchester (New Hampshire), and Kansas City (Missouri).

Mortgage-servicing problems are also increasing, so NCLC is offering a special workshop for attorneys on homeowner rights under the 1974 Real Estate Settlement Procedures Act, causes of actions, and common legal claims for servicing violations.

Locally, the Massachusetts Bankers Association (MBA) has collaborated with NCLC on a foreclosure prevention program that enables bank members to help homeowners suffering economic hardship by referring them to one of seven nonprofit housing agencies. However, according to Kevin Kiley, MBA's executive vice president, the program has not been utilized as much as hoped "because the majority of foreclosures stem from nonbank entities."

### Boston

Boston's current foreclosure rate is low compared with other locales, and the city is working to keep it low. Back in 1992, deeds sold through foreclosure peaked at 1,679, accounting for 43.8 percent of all home sales.<sup>1</sup> In 2005, there were only 60

Year	Deeds Sold through Foreclosure	Percentage of Real Estate Transactions*
1990	341	8.3%
1991	1,008	29.2%
1992	1,679	43.8%
1993	1,430	29.0%
1994	1,126	17.6%
1995	646	10.4%
1996	532	7.7%
1997	285	4.7%
1998	217	2.8%
1999	190	2.2%
2000	75	1.0%
2001	32	0.5%
2002	42	0.5%
2003	43	0.6%
2004	25	0.2%
2005	60	0.6%

\*Sales of 1-, 2-, 3-family homes and condominiums.  
Data Sources: The Warren Group (1990 to 2003) and Suffolk Registry of Deeds (2004 and 2005).

foreclosures. (See the exhibit “Boston Foreclosure Sales.”) But that was an increase of 140 percent over 2004, so the city intends to stay vigilant.

In May 2006, Boston unveiled a campaign for predatory lending awareness, foreclosure prevention through credit education, and foreclosure intervention and counseling services. In October, six lenders (Bank of America, Boston Private Bank & Trust, Citizens Bank, Eastern Bank, Mt. Washington Bank, and Sovereign Bank) set aside \$100 million to help Boston homeowners get a secure loan or refinance with one of several products. The lenders agreed to adhere to lending practices established by the city to minimize foreclosure risk. The Boston Homeownership Preservation Fund for foreclosure counseling and outreach also was established.

The city’s Home Center is expanding the Ensuring Stability through Action in our Community (ESAC) and Homeowner Options for Massachusetts Elders (HOME) programs as well.<sup>2</sup> It is creating new counseling capacity at Nuestra Comunidad Development Corporation, Urban Edge, and Mattapan Family Service Center.

As of last December, the Home Center was reaching out to 6,000 Boston property owners who had recently borrowed money from traditionally high-interest-rate lenders to offer home mortgage evaluation and to direct people to appropriate counseling or refinancing services. The center also is expanding its Credit Smart financial management classes, in which participants learn to manage money, establish and maintain credit, avoid credit traps, and become successful homeowners.

## A Promising Partnership

The Brockton Housing Partnership is proactively urging borrowers who use non-traditional mortgages or subprime loans—or are contemplating using one—to consider a different product.<sup>3</sup> It recommends MyCommunity Mortgage, a conventional fixed-rate product developed by Fannie Mae and offered through Brockton-area lenders in partnership with MassHousing.

The product is a preemptive measure and is not designed to rescue those close to foreclosure.

“MyCommunity Mortgage is a safer alternative,” says Peter Milewski, who oversees the Mortgage Insurance Fund and Home Ownership Business Development at MassHousing. “More important than converting people into a safer mortgage is to reach out to those contemplating a home purchase to consider this product over a subprime or nontraditional mortgage.”

MyCommunity involves low fixed interest rates, flexible Fannie Mae underwriting guidelines, minimal down payments, and no prepayment penalties. Fannie Mae finances the loan and MassHousing services it. Eligibility depends on credit history, but those eligible may have household incomes of up to 135 percent of the community’s HUD median income. Also available is state-sponsored, low-cost mortgage insurance that carries with it MassHousing’s free mortgage payment protection plan, a cheaper alternative to simultaneous second-lien loans (often called *piggybacks*).<sup>4</sup>

According to Milewski, the most important first step is to build a collaboration among banks, community leaders (including municipal and religious leaders), and nonprofits. Lenders must be approved by Fannie Mae or apply to MassHousing. Being involved gives banks more ways to help people find the right product.

Worcester and Lawrence also hope to tap the MyCommunity Mortgage program. Towns learned a lot from the 1990s housing market collapse, and today public officials, financial institutions, and community organizations are collaborating better to find solutions.

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## Endnotes

<sup>1</sup> A lender must file a petition in court to initiate the foreclosure process. Other Federal Reserve research looks at foreclosure *initiation* numbers, whereas here we focus on foreclosure *deeds*, or final sales. The sales numbers are naturally lower because some initiations are resolved before the property is auctioned.

<sup>2</sup> The Home Center phone number is (617) 635-HOME (4663).

<sup>3</sup> The partnership includes the Bank of Canton, Bridgewater Credit Union, Citizens Bank, Crescent Credit Union, Eastern Bank, Harbor One Credit Union, North Easton Savings Bank, Rockland Trust, Security Federal Savings Bank, Sovereign Bank, The Community Bank, Webster Bank, and United Credit Union. Interest-only loans, payment-option adjustable-rate mortgages, and piggyback loans (originated simultaneously with the first-lien loan to cover the down payment) are a concern to the partnership. Adjustable-rate products typically carry low initial interest rates that adjust to higher rates after a set time period.

<sup>4</sup> The payment protection plan will pay 100 percent of principal and income for up to six months in the event of job loss.

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