

## The Home Ownership Preservation Initiative - A Critical Foreclosure Intervention Initiative Seeks Expanded Role for Mainstream Mortgage Servicers and Adoption of New Tools

by Michael V. Berry



The Home Ownership Preservation Initiative (HOPI) is a partnership of Neighborhood Housing Services of Chicago (NHS), the City of Chicago Department of Housing, the Federal Reserve Bank of Chicago, and major financial institutions including JP Morgan Chase, Citigroup, HSBC, and GMAC Residential Capital, LLC (ResCap). It is a multi-faceted foreclosure intervention program that has served as a national model for cities facing high rates of foreclosure, and has been the subject of several prior *Profitwise News and Views* articles.

### Foreclosure Crisis

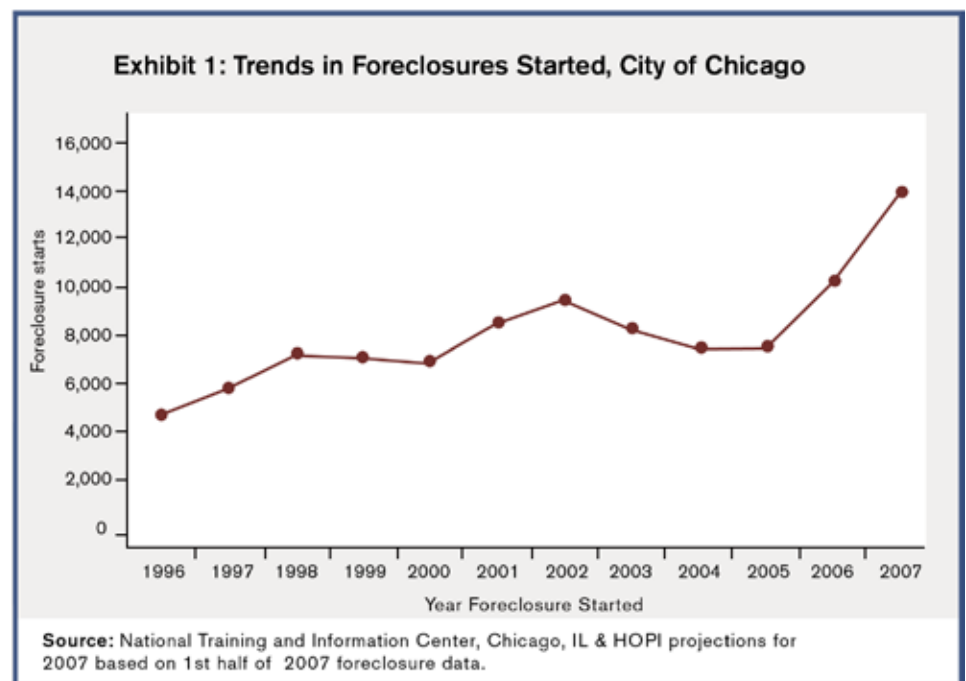
In the current climate, the mission of HOPI takes on a much higher level of urgency. The graph in Exhibit 1 depicts the sharp increase in foreclosure starts<sup>1</sup> city-wide in the past two years in particular. Foreclosure starts in Chicago rose approximately 40 percent from 2006 to 2007; and lower-income, underinvested communities, which describes all NHS target areas of Chicago, are impacted most severely, as they have higher concentrations of high-cost mortgages, homes tend to remain vacant longer, and lower-income households have a more difficult time recovering from the effects of a foreclosure.

The purpose of this article is to document some of the impacts of the current foreclosure crisis in highly impacted and vulnerable communities, and to articulate some of the remedial steps suggested by HOPI stakeholders, and other actors seeking to address the crisis through various means.

HOPI continues to serve Chicago residents in some of the city's most (historically) blighted communities:

South Chicago, Humboldt Park, Auburn Gresham, North Lawndale, Englewood, West Englewood, and Chicago Lawn. According to data compiled by NHS, all but one of these neighborhoods experienced more than a 90 percent increase in high-cost, subprime loans from 2004 to 2005 among all mortgagable properties within the community. From 2005 to 2006, these same neighborhoods experienced

anywhere from a 4 percent to 21 percent drop in high-cost loans on mortgagable properties, but that decrease is attributable to sharp increases in foreclosures; a further negative impact was sharp increases in vacancy rates in those communities.<sup>2</sup> Information for 2007 has not been fully compiled, but data through the first half of the year indicate a strong increase in foreclosures, higher vacancy rates, and



declining property values, all well beyond the city of Chicago averages.

HOPi has from an early stage engaged large financial institutions, including the institutional investment community, and city government to bring funding and resources to bear, and has produced tangible results.<sup>3</sup> Through four full years of HOPi's operation, and much experience with earlier foreclosure intervention initiatives, NHS has, as a result of learning derived from data collection and assimilation, focus groups, and dialogue with frontline counselors, added important dimensions to the program that continually improve its potential for neighborhood impact. The current crisis was fueled by institutional demand for asset-backed securities. The massive mortgage servicing infrastructure that has developed to support this demand, and the complex arrangements that exist between borrowers, servicers, and asset-backed securities investors underscores the need to engage servicing institutions in both dialogue and remedial action. NHS is making progress on this front, and has opened dialogue with the American Securitization Forum (ASF), which represents a cross-section of mortgage-backed securities issuers, servicers, and securities ratings agencies.

## The Key Role of Servicing Organizations in Foreclosure Intervention

Mortgage servicers represent one important frontline actor in the mortgage industry and in the current crisis, as they deal directly with borrowers. An important aspect of an effective program to prevent and remediate foreclosures is an understanding of the borrower's perspective, behavior, and, obviously, financial situation. To the extent that servicing personnel can be trained to ask appropriate questions and refer borrowers to counseling resources early in default (or ideally before it occurs, if a rate reset is imminent, for instance), they

may have a significant impact on preventing many foreclosures. A key learning from interaction with and surveys of HOPi counselors is that borrowers do not view their loan servicer as a source of assistance when facing default. Borrowers are simply unaware that servicers have loss mitigation units until the borrower indicates the willingness but not the ability to stay current on their loan.

A major HOPi recommendation to mortgage servicing organizations is to make borrowers aware, in non-threatening ways, of loss mitigation services before loans are seriously delinquent and options very limited, and to encourage borrowers to take an active, remedial role for their own benefit. Paradigm shifts take time, but there is reason to believe that servicers are moving in this direction. ASF in December issued a position paper entitled "Streamlined Foreclosure and Loss Avoidance Framework for

strong need for more active, aggressive, and hands-on resources. Evidence of this need derives from NHS focus groups of individuals facing foreclosure, which aside from financial distress, also reveal the tragic, human side of foreclosure. Often a serious life event – death or disability of a loved one (or the principal borrower him/herself), loss of employment, and/or inability to find new employment – is the principal reason for default. Depression, inertia, and a sense of fatalism often overwhelm home owners under these circumstances, and preserving their home may not be a priority as they work through critical life issues.

NHS has developed a more nuanced framework for classifying troubled borrowers, with six levels. The top level is borrowers who are likely in a healthy enough financial situation to refinance or otherwise find the means to stay in their home. The next three levels represent gradually less solvent and troubled households, with the fourth level

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**Among the most vulnerable populations, however, such as the communities NHS serves, there is a strong need for more active, aggressive, and hands-on resources. Evidence of this need derives from NHS focus groups of individuals facing foreclosure, which aside from financial distress, also reveal the tragic, human side of foreclosure.**

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Securitized Subprime Adjustable Rate Mortgage Loans."<sup>4</sup> For servicing of distressed borrowers, the paper essentially divides these households into three categories: those that have the ability to refinance, those that need some kind of loan modification to remain in their home (and/or refinance), and those that have an unsustainable situation that require loss mitigation measures.

The ASF paper creates a useful framework to provide remedial and loss-mitigation focused servicing across all borrowers. Among the most vulnerable populations, however, such as the communities NHS serves, there is a

representing the last that has only limited opportunity of keeping their home(s). The fifth level is borrowers that will inevitably be foreclosed, absent assistance to engineer a sale or other disposition before foreclosure occurs. The final level is investors, who may have abandoned the property. The principal consideration in this instance is the disposition of the property, and that it is returned to, ideally, owner-occupied status as soon as is practicable.

## Neighborhood Housing Services of America (NHS) and Just Price Solutions®

On December 26, 2007, President Bush signed legislation authorizing a \$180 million appropriation for the National Foreclosure Mitigation Counseling Program. These funds are to be administered by NeighborWorks® America through a competitive grant process. Properly trained and qualified housing counselors can help troubled borrowers to assess their financial condition, assets, and credit worthiness, and work with current lenders to restructure or refinance subprime or adjustable-rate mortgages the borrower can no longer afford, or that is already in default. As the

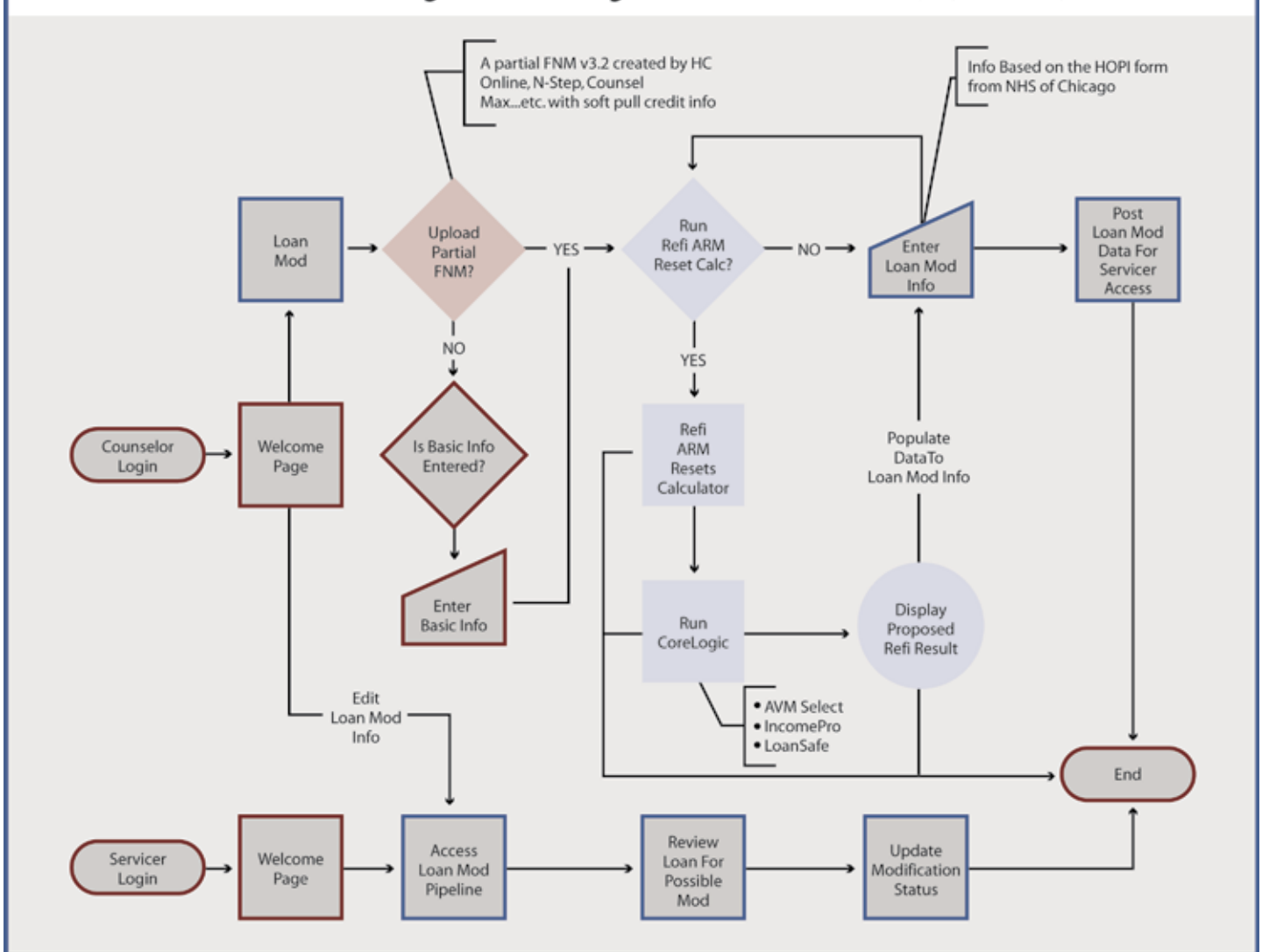
financial community and the host of interested organizations concerned with preserving neighborhoods and home ownership look to broad-based solutions, a key obstacle related to servicing severely limits the capacity to refinance troubled borrowers.

Currently, each loss mitigation action, from successful refinancing to sale or transfer in lieu of foreclosure, must be handled on a separate basis, and any negotiations with an existing lender, actually their servicer, also must take place individually. There is no industry-wide or broadly compatible platform for exchanging data between counselors (attempting to aid distressed and/or defaulted borrowers) and mortgage servicers, who can make a

decision to restructure, forbear payments, or otherwise modify existing mortgages. Organizations affiliated with NHS are working to overcome this key obstacle.

Neighborhood Housing Services of America, the secondary market entity affiliated with NeighborWorks® America, has developed an e-commerce platform called Just Price Solutions® (JPS). JPS provides access to purchase money mortgages for households with limited (or no) credit history, using alternative credit data such as rent and utility payments. The platform is being redesigned in order to provide an efficient means for financial/credit counselors to upload vital data to mainstream mortgage servicers without the need for servicers to reveal legally

**Exhibit 2: JPS BestFit Financing Tools: Loss Mitigation Workflow v1.0.0** (last updated on 1/16/08)



restricted data on individual borrowers to counseling agencies. Both ends of this relationship require registration and are password protected. Counselors can provide a complete financial picture of a borrower facing default, up to and including a (current) market value for property secured by the mortgage agreement, and eliminating the need for faxing forms, documents, etc. Exhibit 2 depicts the loss mitigation workflow.

In suggesting new and untested strategies to stem foreclosures, it is important to recognize the complex relationship between borrower, servicer, and ultimately the mortgage holder, who is usually several steps removed from the organization that originates the loan, and may not be a single entity. However, addressing the current crisis has proved costly and difficult in many aspects, and a common information platform for independent, qualified counselors and mortgage servicers may prove to be an extremely important asset.

## Conclusion

The Chicago Fed's Consumer and Community Affairs (CCA) division is working on many fronts to address the current foreclosure crisis, which has impacted Seventh District cities and urban areas – Detroit was recently determined to have the nation's highest foreclosure rate – significantly. HOPI offers a valuable organizational model for other areas of the country, and its methods are being adapted in other cities. *Profitwise News and Views* will continue to document progress of this important initiative, and CCA will continue to work to help advance its important mission.

## Notes

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1 Not all “foreclosure starts” lead ultimately to foreclosure. In some cases, a borrower may work out a refinancing, turn over the property deed (known as “deed-in-lieu of foreclosure”) to the servicer in order to avoid the negative impacts of foreclosure on credit history, or reach another outcome other than foreclosure.

2 For additional Chicago area housing and foreclosure data, visit: [www.chicagofed.org/community\\_development/files/pnv2008\\_nghbrhd\\_bkgrnd\\_data.pdf](http://www.chicagofed.org/community_development/files/pnv2008_nghbrhd_bkgrnd_data.pdf)

3 Available at: [www.chicagofed.org/community\\_development/files/pnv\\_redec07\\_web\\_all.pdf](http://www.chicagofed.org/community_development/files/pnv_redec07_web_all.pdf)

4 Available at: [www.americansecuritization.com/uploadedFiles/FinalASFStatementonStreamlinedServicingProcedures.pdf](http://www.americansecuritization.com/uploadedFiles/FinalASFStatementonStreamlinedServicingProcedures.pdf)

## Biography

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