The Tragedy of Foreclosure

Community-Based Nonprofits Respond

The looming downside of recent gains in homeownership is a burgeoning surge in foreclosures that can threaten entire neighborhoods and communities.

Community-based development organizations and researchers together are gaining insights and developing responses.

by **Dona DeZube**

Illustration by **Diane Fenster**

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Tips on Saving Money
Staying Financially Fit
Credit Repair
Limiting Debt
Maintaining Good Credit
Developing a Budget

Danny and Rhoda Williams had bought their home a decade ago. For Lenwood and Denise Shaver, theirs was a small starter house. Marilyn Maxwell had been a homeowner for more than a quarter-century.

Each was living the American dream.

But when sudden job loss, a health crisis, or soaring family expenses intruded, their finances jumped the tracks, and their dreams turned into nightmares. Their homes were threatened – or actually lost in one case. But each family at some point gained assistance and sometimes relief through the financial counseling and foreclosure intervention of a local NeighborWorks® organization.

These are the stories of the Williamses, the Shavers, and the Maxwells. Three families whose individual dramas played out against a backdrop of national foreclosure trends on a stage where race, income and neighborhoods shape the outcomes.

The Williamses

Rhoda Williams had cut back on every household luxury in her quest to shave her family's budget down to the basics. Gone were the cable television, the home phone, and the car.

With her husband Danny off work and injured for a year and she, herself, laid off following 9/11, Chapter 13 bankruptcy seemed the only option. Danny Williams found work as a music minister at a church, but his paycheck stopped after the church ran into its own financial troubles. Meanwhile, her son became seriously ill, and the family had no health insurance.

Unable to sustain the bankruptcy and worried that this failure would mean losing the home they'd bought a decade ago, the Williamses turned to friends and family for advice.

"We contacted the lender and tried to get out of bankruptcy and restore our credit," explained Rhoda Williams, "but because we were in Chapter 13, they wouldn't talk directly to us. We always had to have a middle person – the attorneys."

Meanwhile, a friend of their pastor assured the couple that her company could refinance the house, with the loan providing enough money to catch the Williamses up on mortgage payments. In fact, she promised to send them a check in just two weeks.

"She told us not to pay the next [mortgage] payment because we were going to get a new mortgage," Rhoda Williams recalled

The check never came. Insulted by the way the loan officer had treated them and frustrated by their inability to pay their lender, the Williamses next turned to a local housing counseling program. They were told about an agency program that would provide three months' mortgage payments. Again, it turned out to be all talk and no solution.

Facing foreclosure and tired of hearing stories about programs that were supposed to help and didn't, the Williamses decided to try one more program – Neighborhood Housing Services of Chicago, where they shared their story with counselor Petra Villazana.

Both the Williamses were again working full time, but they still faced foreclosure. When the bankruptcy stay had been lifted, the lender, CitiMortgage, had restarted foreclosure proceedings.

Market Concentration

Like many of the nation's largest mortgage market players, CitiMortgage has the means to operate in the more challenging high-foreclosure districts of metropolitan areas. NeighborWorks®-sponsored studies of mortgage foreclosure patterns in Atlanta and Los Angeles found big lenders such as CitiMortgage parent Citigroup, Countrywide, Bank of America, and Wachovia typically hold one third or more of the market share in census tracts with high foreclosure rates.

As research in Atlanta shows, a single subprime lender, such as Fairbanks/Select Portfolio Servicing, can hold a market share totaling nearly 50 percent of the loans in Atlanta's high-foreclosure neighborhoods in 2005.

A similar concentration is also found in mortgage servicing (the business of collecting mortgage payments and handling workouts and foreclosures when something goes wrong). A 2004 study by Freddie Mac, *Innovative Servicing Technology: Smart Enough to Keep People in Their Houses*, found the 25 largest servicers manage 62 percent of all outstanding single-family mortgages.

A high level of involvement in these neighborhoods provides large lenders and servicers a strong financial incentive to participate in foreclosure-avoidance and loss-mitigation efforts devised by nonprofits such as

NeighborWorks® America.

In addition, lenders benefit financially when foreclosures are cured, because, on average, foreclosures cost $58,759, according to a 2002 analysis, *Servicing Default Management: An Overview of the Process & Underlying Technology*, by Craig Focardi, research director of The Tower Group's consumer lending division.

The majority of workouts succeed. Low- and moderate-income borrowers who enter a repayment plan have a 68 percent reduction in the likelihood of home loss, Freddie Mac research shows.

With the help of NHS of Chicago, the Williamses were able to complete and fax a 30-page loan workout package to CitiMortgage. The package painted a picture of a couple who were ready and able to resume making payments, despite the fact that they were now six months behind. CitiMortgage agreed to modify the loan, and the Williamses retained their home.

Working on a case such as the Williamses' can be expensive. For instance, NHS Inc. of Boise, Idaho, which fields 15 to 20 calls a week from borrowers seeking foreclosure intervention, estimates that each such case requires an average of nine hours of counselor time and costs an average of $906.

The figure, however, doesn't take into account the emotional salvation and altered lives of families saved from foreclosure.

"We faced some hard times in this last 10 years," said Rhoda Williams. "I'm just grateful to God for places like Neighborhood Housing that's willing to go the extra mile to help you and give you hope that there's a way to save your home. I really love them. Without them, we would have lost the house."

The Shavers

The devastation wrought by Hurricanes Katrina, Rita and Wilma on individuals, families, and communities in the Gulf Coast region has resurrected long-neglected discussions on poverty and race in America and the less-publicized nexus of housing, schools, health, environment, transportation, houses of worship, and the civic society in creating vibrant and supportive communities.

Denise and Lenwood Shaver lived out the American dream in a beige-sided, three-bedroom rancher in a safe, quiet working-class Columbus, Ohio, neighborhood. The home's three bedrooms offered plenty of space for a young couple buying their starter home, a place to live for a few years before moving up.

As a financial services tax specialist for BMW corporate headquarters, Denise Shaver spent her days paying taxes for leased vehicles. In the off hours, she taught history at a local community college and worked on her Master's thesis. Lenwood Shaver cared for adults with mental retardation.

The couple's first child was born, followed by a second 11 months later.

"We don't have a strong support system, no parents nearby," Denise Shaver said. "For the first child, I was able to work around our schedules because Lenwood worked second shift. He would watch the baby during the day, and I'd watch the baby during the evening. When I was pregnant again, they weren't as flexible with my schedule. They wouldn't allow me to leave early enough for Lenwood to get to work on time."

With the average annual cost of day care in Ohio running about the same as tuition for Ohio State University, Denise Shaver decided to quit working full time, and, instead, teach extra classes – a schedule that allowed them to avoid day care costs.

As an adjunct professor, Denise Shaver had no control over her class schedule, no paid time off, and no maternity leave. The timing of a third pregnancy led to a fall baby. "The [college] quarter started in September. It would have been irresponsible to teach classes with a baby due in October," she said.

With no second source of income, however, the Shavers were starting to get a little behind on the bills. "Without the additional $1,300 a month in take-home pay," she said, "we were hit hard. I saw what was going to happen, and I started looking in July or August for help."

Foreclosure Patterns

Denise Shaver was wise to begin looking for help as early as possible. With conventional loans, mortgage companies are required by their investors to begin foreclosure within 90 days of the first missed payment and to complete foreclosure and sell the property of a troubled Ohio borrower within seven months.

If that seems quick, imagine living in Atlanta where, once a loan goes 90 days delinquent, a lender can

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Photo by Séan Bennett

complete a foreclosure sale in as little as 37 days.

No one wants to be hurried down the road to foreclosure, but minorities and low-income homeowners are especially likely to be forced down that path. Two NeighborWorks® studies, *Mortgage Foreclosures in Atlanta: Patterns and Policy Issues* and *Mortgage Foreclosure Trends in Los Angeles*, discovered that foreclosures were most likely to occur in high minority neighborhoods, even when confounding variables such as borrower credit and income were held steady.

In Atlanta, researchers found that foreclosure may not be colorblind. Instead, foreclosure rates directly correlate to the proportion of non-white residents in various Atlanta neighborhoods. In the real world, that difference means that in Atlanta one in 12 mortgaged homes located in a foreclosure hotspot is threatened with foreclosure each year. In suburban tracts with high minority concentrations, 4 percent of borrowers face foreclosure each year. By contrast, in tracts that are the least integrated, having less than 60 percent minority, even homeowners with the lowest annual incomes experience a foreclosure rate of only 1.6 percent.

In Los Angeles, nearly half of all completed foreclosures occur in census tracts with at least 80 percent minority populations and low median incomes.

The areas served by Los Angeles Neighborhood Housing Services (LANHS), for instance, are disproportionately affected by foreclosures. In those areas, some 6.1 percent of all homes with a mortgage ended up in foreclosure between 2001 and 2004, while more than 16 percent experienced a delinquency that led the lender to start foreclosure proceedings. In all, these areas saw nearly 11 percent of all foreclosures in the 86 census tracts studied by NeighborWorks® America, despite having slightly less than 2 percent of their total mortgages.

In Denver, which saw a 26 percent increase in the rate of foreclosures between 2003 and 2004, more than half of the city's foreclosures occurred in just one-fifth of its neighborhoods, nearly all of which have a larger percentage of minority residents than the city as a whole.

Counseling as a Resource

"We paid [our mortgage] late in August and then missed the September payment," Denise Shaver continued. "I knew we weren't going to catch up until I started teaching again. I wouldn't start working until January and I wouldn't get paid until January 31st." Luckily, a girlfriend referred Shaver to the Columbus Housing Partnership (CHP), a local NeighborWorks® organization.

The Shavers sat down with CHP housing counselor Carolyn Einloth, looked at the family's spending and income, and discovered a $400 monthly shortfall. "Just making us do a budget to see how close we were living to the edge taught us a lot," Denise Shaver said. "We had to find a way to generate $400 more a month to get a loan. Their [CHP's] policy is not to help people who are in perpetual crisis."

The Shavers, Einloth said, are typical CHP foreclosure prevention clients in that their troubles were rooted in everyday living expenses, rather than overspending on luxury items. "In Ohio, there's a lot of job loss. Industrial plants are closing down," Einloth said. "Just spending too much is rarely the problem."

A former employer agreed to hire Denise Shaver at $250 a week for a few weeks until the baby arrived. Using the pay stub from that job, the Shavers qualified for a grant from the Ohio Housing Trust Fund that allowed them to make up the three months of payments they'd missed.

Denise Shaver went back to her classroom after the New Year and was able to make her payments again in January. "For me, it wasn't about spending money we didn't have," she says today. "It was more money management. Unfortunately, I had no control over how he [my husband] spent money."

By fall, Denise Shaver made a decision to take the children and leave the marriage. Her lender, GMAC Mortgage, agreed to take her name off the $66,000 loan on the rancher, which, Shaver estimates, is now worth $90,000. "I filed for bankruptcy, and filed it alone," she said. "I got my name off the house because I didn't want to live in the house."

By 2006, Denise Shaver was living in a rented house with her three children, working full time and, ironically, now qualifies for subsidized day care – which she didn't when she was married. With the state paying 80 percent of the cost of day care for the three children, Shaver was able to discharge her bankruptcy at the beginning of March, and was officially divorced two weeks later.

Looking back on her experience, Shaver is hopeful, rather than bitter about the loss of her home and her marriage. "I am going to try [to be a homeowner] again in six months, and I'm going to do it right this time," she said. "I want to go to a financial planner and find the proper way to rebuild my credit. I want to get on a budget and live on it and to make sure I live under my means."

The Maxwells

Like just about everyone in her immediate family, Marilyn Maxwell owns her own home, a bungalow in South Chicago where she lives with her daughter. Health problems forced Maxwell to stop working, even though she's only in her 50s. In addition to disability insurance payments and a small pension, Maxwell had help making her mortgage payments from two sons who work part-time and a daughter working full time (whose two children complete the Maxwell family).

Everything was going fine until Maxwell's daughter lost her job. "After her unemployment ran out, she didn't have a job," Maxwell said. "She went back to school, and it made a difference in how I was able to manage. I squeaked by for a while, but when she got another job, it was as a CNA [certified nurse assistant] and it didn't pay as well."

When a loan officer for a major, national, non-prime lender offered Maxwell a fixed-rate refinance deal, it seemed like a good offer for someone who was on a fixed income. When she got to the closing table, however, the story changed.

"They lied to me and told me it was a fixed rate," Maxwell said, "and at the closing, they told me it's going to be fixed rate for one year and then adjustable every six months. I was between a rock and a hard place."

Told she could sign the loan documents or lose her home of 26 years, Maxwell signed, even though an adjustable-rate mortgage is not a good choice for a borrower living on disability, whose income is unlikely to rise enough to cover payment increases.

"You're at the closing, and you don't want to lose your home, and you don't have other options open because you don't have anyone to turn to," Maxwell said.

As if the higher payments alone weren't enough, fate conspired to make Maxwell's fiscal troubles even worse. Her washing machine broke and the furnace went out. Pipes had to be replaced, and the cost of utilities rose. "I wasn't able to meet the [mortgage] payment," she explained.

With the lender now threatening to take her house, Maxwell turned to Neighborhood Housing Services of Chicago. For loan officer Pat Ware, Maxwell's story was a familiar one.

"That's typical of what's happening to people in those areas," said Ware. "They have bad credit, and they're promised something they can't live without – a house. They're not thinking about the long-range term or of the interest rate they're offered. They start off with a low rate, but it's an adjustable rate that escalates over six months. Then they're given a higher interest rate and that's what they can't live with. There's a cap, there are margins, and people don't understand what that means. It's lack of understanding of the financial market that they're involved in."

NHS was able to refinance Maxwell into an affordable 30-year, fixed-rate mortgage, which she used to pay off her existing first and second mortgages and to make much-needed repairs to her home. "We're able to help because we're able to give them [clients] an interest rate that's less than what they're originally paying with those companies, and get them out of foreclosure," says Ware.

Ware also reports seeing a very disturbing new twist on ARM lending that's likely to lead to even more foreclosures in the areas served by NHS. "The thing I'm seeing now is interest-only loans," Ware says. "That's not really a good loan for an individual with a low income. They're not putting anything into principle."

In Columbus, Carolyn Einloth, the housing counselor at CHP, has seen a similar problem there. "What's getting people in trouble is exotic mortgage products," she says.

Sustaining the Gain

In examining foreclosure hotspots, the NeighborWorks® studies provide a recipe for foreclosure: Take a low median-income neighborhood, mix in a high proportion of non-owner occupied homes, offer non-prime loans to the largely minority residents, and you'll end up with eight times the number of foreclosures filed annually, compared to what you'd see in a predominately white, owner-occupied, high-income area, where 95 percent of borrowers receive prime loans.

Until lenders stop following that recipe, a steady stream of low-income homeowners will continue to need assistance staving off foreclosure. Providing foreclosure-avoidance assistance is a natural expansion of homeownership education and training already being provided by community organizations like the NeighborWorks® network.

While creating homeownership opportunities must remain a central strategy of community-based development, increasingly, sustaining that homeownership must be a complementary focus. Without the link, the gains made in homeownership rates across the nation are at risk from a rising tide of foreclosures that have the potential to undo in a few years the gains in homeownership that have taken decades to achieve.

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How One City Responds

Baltimore, Maryland, is typical of many urban communities across the country where fraudulent and predatory lending practices have contributed to increasing foreclosure rates.

Courtesy St. Ambrose Housing Aid Center

To meet these issues head-on, a partnership in Baltimore has come together to establish the HomeOwnership Preservation Coalition (HPC). Members include local area community development corporations, banks, foundations (Goldseker, Abell, and the Baltimore Neighborhood Collaborative), Baltimore City government, the Federal Reserve Bank, Enterprise Community Partners, Greater Baltimore Board of Realtors, Citibank, NeighborWorks® America's Mid-Atlantic District, and two local NeighborWorks® affiliates – Neighborhood Housing Services of Baltimore and St. Ambrose Housing Aid Center, which developed the accompanying sign.

"In Baltimore," says Carol Gilbert, a program officer with the Goldseker Foundation, "more families are losing their affordable homes to foreclosure each year than public and private funders can replace through new affordable housing production. A number of local foundations are active in the coalition because it doesn't make sense to invest only in creating homeownership when so many people are struggling to maintain homeownership. Foundations investing in this initiative are helping on two tracks: strengthening mixed-income neighborhoods and also preserving and building family wealth."

With support from the NeighborWorks® Center for Foreclosure Solutions, St. Ambrose will connect homeowners who find themselves in serious delinquency and/or jeopardy of foreclosure to local and national foreclosure prevention services, such as a national hotline, (888) 995-HOPE, run by the Homeownership Preservation Foundation. St Ambrose also partners with HUD to reclaim foreclosure properties to provide affordable housing and strengthen neighborhoods.

NHS of Baltimore, in partnership with its local lending partners and Neighborhood Housing Services of America, the NeighborWorks® system's secondary market, has developed loan products that will provide homeowners with responsible and affordable refinancing options, in addition to pre- and postpurchase counseling and rehab services.

NeighborWorks® America's Center for Homeownership Education and Counseling (NCHEC) will be contributing to local efforts by offering place-based training in Baltimore for the Maryland Association of Housing Counselors, which is working with area counseling groups to establish certification standards for housing counselors.

The Baltimore HomeOwnership Preservation Coalition is working closely with the NeighborWorks® Center for Foreclosure Solutions and Mid-Atlantic District to develop and implement an effective outreach campaign to alert the general public, and at-risk homeowners in particular, about all the services available to help save their most valuable asset – their home.

In Syracuse, New York

Kelly Besaw's Research Helped Launch a Foreclosure-Prevention Program

Kelly Besaw found a disturbing pattern as she researched city records in 2003 for Syracuse United Neighbors (SUN), a grassroots organizing group.

In the southside and near westside neighborhoods where SUN worked, 140 home foreclosures were pending in just 10 census tracts. In a follow-up survey of residents, Besaw discovered that subprime mortgage loans were a factor in between 65 and 70 percent of the cases in those neighborhoods (and about 50 percent citywide).


Courtesy Home HeadQuarters

Many of the loans met the legal standard for predatory lending, while others were what Besaw calls "extremely subprime," or more than two points above conventional mortgage rates.

To stem a tide of foreclosures, SUN enlisted the city of Syracuse and Home HeadQuarters, a Syracuse NeighborWorks® organization, to join in creating a foreclosure prevention program in 2004. The comprehensive effort, operated by Home HeadQuarters and using city funds, attacks the problem with many tools: financial counseling, negotiations with lenders, foreclosure prevention loans, homebuyer education, and grassroots marketing.

"Some people who have lost their houses should not have, but they didn't know how to go about getting help," says Besaw, who became the program coordinator in 2005 as a full-time Home HeadQuarters employee. Much of the help she offers is by advocating on the homeowner's behalf for new loan terms.

"I have had good results with lenders," she says, "but I'm tough. You have to keep going back to them. It takes a lot of patience." She also helps homeowners create a working budget and repair other credit issues.

Loans are available only to homeowners whose financial situation has stabilized. Each loan must be approved by a foreclosure advisory committee, a volunteer group of lenders, lawyers, city employees, residents, and representatives of other nonprofits.

"It's an interesting mix of folks and you get many perspectives," says Besaw. "One member has actually gone through foreclosure himself."

The loan will be forgiven if the homeowner attends Home HeadQuarters's quarterly counseling sessions on budget and credit for one year. "We do this to make sure they're keeping the mortgage current and rebuilding their credit," Besaw says.

Though the program has helped hundreds of homeowners, subprime and predatory loans remain a key factor in half of the city's foreclosures, according to recent surveys by Syracuse University students.

Besaw, a lifelong Syracuse resident, says the newest wrinkles are interest-only loans and stated-income loans (which require no documentation of income). "I'm very worried about the effect of those," she says.