NATIONAL COMMUNITY REINVESTMENT COALITION NCRC

The Foreclosure Crisis and Its Impact on Communities of Color: Research and Solutions

Prepared for the Annie E. Casey Foundation

by
James H. Carr
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September 2011

The Annie E. Casey Foundation is a private charitable organization dedicated to helping build better futures for disadvantaged children in the United States. It was established in 1948 by Jim Casey, one of the founders of UPS, and his siblings, who named the Foundation in honor of their mother. The primary mission of the Foundation is to foster public policies, human-service reforms, and community supports that more effectively meet the needs of today's vulnerable children and families. In pursuit of this goal, the Foundation makes grants that help states, cities, and neighborhoods fashion more innovative, cost-effective responses to these needs. For more information, visit the Foundation's website at **www.aecf.org**.

This research was funded by the Annie E. Casey Foundation. The authors thank them for their support but acknowledge that the findings and conclusions presented in this report are those of the authors alone and do not necessarily reflect the opinions of the Foundation.

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Background

Since 2010, the Annie E. Casey Foundation has sponsored a national dialogue on the disparate impact of foreclosures on communities of color. The goal of the foundation's efforts is to increase the effectiveness of foreclosure mitigation initiatives through improved coordination and collaboration among national, regional, and local nonprofit organizations, foundations, public sector agencies, and private sector firms with expertise in practice, technical assistance, research, and advocacy. The foundation is working to build consensus and coordinate action around a shared communications strategy, common research priorities, and policy and practice solutions to the foreclosure crisis.

A diverse group of high capacity leaders has been involved in conversations that, to date, include 145 individuals representing 90 organizations. The foundation is supporting two related efforts: 1) a series of discussions and working groups to define and coordinate communications, advocacy, research, and solutions; and 2) a funders' network to align financial support with strategies that address the disparate foreclosure impacts and support the solutions identified by discussion participants. The level of sustained engagement by the large and growing cohort of national, state, and local leaders, nonprofit experts, and philanthropic interests in the foundation's work is strong testament to their level of interest and commitment to develop and advance shared solutions to the crisis, particularly as related to communities of color.

Representatives of 24 of the more than 90 organizations served on two subcommittees that addressed the foundation's related efforts (Research and Solutions) and drove the substantive discussions represented in this report. James H. Carr, with the National Community Reinvestment Coalition, served as the chair for both committees. This report was jointly co-authored by Carr; Katrin B. Anacker, Assistant Professor at George Mason University in Arlington, Virginia; and Michelle Mulcahy, formerly with the National Community Reinvestment Coalition.

Executive Summary

This paper addresses questions about the foreclosure crisis and its impact on communities of color. The Annie E. Casey Foundation Foreclosure Research and Solutions Working Groups held initial discussions centered around the following three broad goals:

- Mitigate the impact of the foreclosure crisis on communities of color;
- Address racial disparities in the credit market; and
- Rebuild communities of color so that they serve as true gateways to opportunities.

The group next identified over 100 research questions that fit the three broad goals, had not been discussed in the existing literature, and might be fruitful for future research. They then identified potential solutions and ranked the research foci according to their perceived importance. The eight questions that were ranked the highest were:

- Who is/is not receiving loan modifications (in terms of race/ethnicity and language spoken)?
- How should bankruptcy reform/judicial modification be structured to make it an effective loss mitigation tool, particularly for communities of color?
- Do homeowners of color who have experienced foreclosure tend to move to housing in more segregated, higher poverty neighborhoods? What is the incidence of homelessness/doubling up among families in foreclosure?

- To what extent is housing loss leading to school disruption for children of affected homeowners or tenants, including specific impacts on children of color?
- How can the GSEs, FHA, and FHLBs be reformed to ensure an efficient, fair, and inclusionary housing finance system in the future?
- What additional programs and/or policies should be established now to ensure that borrowers of color have equitable access to safe and affordable credit in the future?
- What impact does a disparity in access to credit have on communities?
- Do communities of color lack equal access to credit?

Each section of this paper identifies the research that has been conducted addressing each question, and proposes possible solutions. Currently, there is no national clearinghouse of information on foreclosures that is systematic, searchable, and comprehensive. Such a system would greatly add to the ability to address and resolve the continuing and damaging impacts of the foreclosure crisis that is now in its fifth year. A comprehensive clearinghouse of data and research would also enable more effective responses to damage that is occurring in families and communities and caused by the foreclosure crisis, particularly among people of color.

Table of Contents

Introduction

Over the past few years, the United States has faced several economic crises that have and will continue to have vast effects on the opportunities, well being, and wealth-building potential of current and future generations.

In the arena of housing, for example, between January 1, 2007, and May 30, 2011, more than 10.5 million properties went into foreclosure (RealtyTrac 2008, 2009, 2010, 2011a, 2011b, 2011c, 2011d),[1] and up to 12 million more foreclosures were projected from the fourth quarter of 2008 to 2014 (Center for Responsible Lending, n.d. based on Goldman Sachs Global ECS Research). As of December 12, 2010, 1,762,694 borrowers were seriously delinquent (i.e., over 60 days delinquent, or over 30 days delinquent in case of bankruptcy) (Office of the Comptroller of the Currency and Office of Thrift Supervision, 2011).[2] The total equity lost by families with recently foreclosed properties is estimated at $5.6 trillion (The New York Times, 2011). In addition, an estimated $502 billion in property value has been lost due to nearby foreclosures (Center for Responsible Lending, n.d. based on CRL, Credit Suisse, Moody's Economic.com, MBA). The effects of the economic crisis have been enormous, both nationally and globally, and the confidence Americans once had in homeownership as a path to wealth has been shaken. Current and future generations will be impacted for decades to come.

The resulting negative spillover on other aspects of savings, as a result of the consequent severe economic downturn, has also been dramatic. Assets in retirement accounts, for example, totaled about $8.7 trillion in the third quarter of 2007 (Butrica and Issa, 2011), but had fallen to $5.9 trillion by the end of the first quarter of 2009. Within 18 months, $2.7 trillion, or 31 percent, had been wiped out. Other sources report a loss of household net wealth of $17 trillion between 2007 and 2009, due to the financial crisis (Heflin, 2010).

While the foreclosure crisis has had vast consequences throughout the United States, it has had a disproportionate impact on persons of color. It is estimated that among recent borrowers, nearly eight percent of both Blacks/African Americans and Hispanics/Latinos have been foreclosed upon, compared to 4.5 percent of non-Hispanic Whites, controlling for differences in incomes among the groups (Bocian et al., 2010). These proportions are especially striking considering that the foreclosure rates of Black/African American and Hispanic/Latino homeowners are disproportionately high compared to their share of mortgage originations, as illustrated by Bocian et al. (2010) in Table 1 below. At 44.8 and 46.8 percent, the homeownership rates for Blacks/African Americans and Hispanics/Latinos are at their lowest levels in over a decade (U.S. Bureau of the Census, n.d.). Eakes expects that the homeownership rate for Black/African American and Hispanic/Latino families will drop even further, to a range of 40 to 42 percent in the future (USA Realty Group, 2010). A return to this level of homeownership would wipe out over 15 years of gains in homeownership rates for people of color.

Table 1: Estimated 2007-2009 Foreclosures of Recent First-Lien Owner-Occupied Mortgage Originations (2005-2008), by Borrower Race and Ethnicity

Borrower Group	Share of Originations	Completed Foreclosure Rate	Share of Completed Foreclosures	Disparity Ratio
Non-Hispanic White	65.9%	4.5%	56.1%	1.00
Black/African American	7.8%	7.9%	11.6%	1.76
Hispanic/Latino	11.2%	7.7%	16.2%	1.71
Asian	3.9%	4.6%	3.3%	1.02
American Indian	0.4%	5.9%	0.4%	1.31
Hawaiian/Pacific Islander	0.4%	6.3%	0.5%	1.40
Other	10.5%	6.0%	11.8%	1.33
Total	**100.0%**	**5.3%**	**100.0%**	**1.18**

Source: Bocian et al. (2010). Bocian et al. calculated a disparity ratio based on the non-Hispanic White share of originations (65.9%) and their share of completed foreclosures (56.1%) (disparity ratio: 1.00). In comparison to non-Hispanic Whites, Blacks/African Americans have a disproportionate share of completed foreclosures to originations of 1.76, along with Hispanics/Latinos (1.71).

[1] According to RealtyTrac, 1,285,873 properties nationwide received foreclosure filings in 2007; 2,330,483 in 2008; 2,824,674 in 2009; 2,871,891 in 2010; and 1,115,338 through May 2011 (RealtyTrac 2008, 2009, 2010, 2011a, 2011b, 2011c, 2011d).

[2] As of December 31, 2010, the mortgages in the OCC/OTS portfolio comprise 63 percent of all mortgages outstanding in the United States—32.9 million loans totaling $5.7 trillion in principal balances. Thus, we estimate that the number of delinquent borrowers is probably close to 2.5 million.

In spite of the enormous damage to the housing market, the financial system, and housing equity, little effective federal intervention has been forthcoming to stem the foreclosure crisis. Foreclosures have continued to increase steadily since 2007; the extent to which they have tapered off this year is due largely to legal problems inhibiting servicers from foreclosing rather than an actual bottoming out of the crisis. Failure to fix the problem will continue to trigger additional foreclosures, and the economy will continue to struggle.

This paper was developed through the Annie E. Casey Foundation's Foreclosure Research and Solutions Working Group. Members of the Research and Solutions Working Group first developed an initial discussion document that listed three broad goals with multiple subsections of issues that warranted greater attention and examination, particularly as related to communities of color.

Goal 1: Mitigate the impact of the foreclosure crisis on communities of color

- Foreclosure prevention and loan modification
- Rental housing
- Neighborhood stabilization
- Housing investors

Goal 2: Address racial disparities in the credit market

- Credit repair and asset building
- Ensure an affirmative credit system for people of color in the future

Goal 3: Rebuild communities of color so that they serve as true gateways to opportunities

- Generational impact

Next, working group participants were asked by the authors of this report to identify research questions that (a) fit under the three broad goals and the subsections of research foci, (b) had not been discussed in the existing literature, and (c) might be fruitful for future investigations. In total, more than 100 research questions were identified by the group. These research questions were grouped under the goals and subgoals (see the Appendices for a detailed elaboration).

Third, the group was also asked to identify potential solutions that fit under the goals and subsections of the research foci. In total, dozens of potential solutions were identified and also grouped under the goals and subgoals (these are not shown here). Fourth, the working group was asked to rank the subsections of research foci according to their perceived importance via a Survey Monkey survey. As Survey Monkey only allows ten questions per survey page, the subsections of goals 1 and 2 were split and grouped into the following subgoals:

- Subgoal 1A: Mitigate the impact of the foreclosure crisis on communities of color (with a focus on foreclosure prevention and loan modification).
- Subgoal 1B: Mitigate the impact of the foreclosure crisis on communities of color (with a focus on rental housing, neighborhood stabilization, and housing investors).
- Subgoal 2A: Address racial disparities in the credit and homeownership markets (with a focus on credit repair and asset building).
- Subgoal 2B: Address racial disparities in the credit and homeownership markets (with a focus on ensuring an affirmative credit system for people of color in the future).
- Subgoal 3: Rebuild communities of color so that they serve as true gateways to opportunities.

Subgoals 1A and 2A were ranked highest and will thus be discussed in this study.

Finally, group members ranked specific research questions under subgoals 1A and 2A, according to their perceived importance via a second Survey Monkey survey.

Appendix B provides the detailed rankings with the following tables:

- Table B1 presents the ranking of research importance, ranked by the overall rating average;
- Table B2 presents the ranking of research importance, ranked by the rating average for Subgoal 1A;
- Table B3 presents the ranking of research importance, ranked by the rating average for Subgoal 2A;
- Table B4 presents the ranking of research importance, ranked by the rating average for questions pertaining to the effectiveness of government and private foreclosure prevention initiatives and equality of access to these programs within Subgoal 1A;
- Table B5 presents the ranking of research importance, ranked by the rating average for questions on the secondary impact of foreclosure on individual families and neighborhoods within Subgoal 1A; and
- Table B6 presents the ranking of research importance, ranked by the rating average for questions with regard to the role of public policy in access to credit within Subgoal 2A.

This paper focuses on the eight questions within Subgoals 1A and 2A that had the highest perceived importance, as ranked by the group. Within the discussion of the subgoals, we will first address the existing research, additional research needs, and the potential solutions for each issue.

Who is/is not receiving loan modifications (in terms of race/ethnicity and language spoken)? (Rating average in terms of importance: 6.22 out of 8)

Research

Since the explosion of foreclosure rates nationwide in 2007, loan modifications have become the primary strategy to keep homeowners who are behind on their mortgages in their homes. The goal of a loan modification is to restructure loans in order to halt default and make future payments more affordable. Examples of modifications include:

- Tacking overdue payments onto the end of the loan term and extending the repayment period;
- Wrapping overdue payments into the principal amount owed and increasing borrowers' monthly payments;
- Extending the term of the loan;
- Suspending payments for several months, or forbearance;
- Extending the period in which the initial interest rate is fixed, thus postponing payment shock when an ARM resets;
- Forgiving overdue loan payments;
- Lowering the interest rate;
- Reducing the principal; and
- Offering an exit from the loan and ownership without penalty.

The following sections differentiate between public loan modifications and private loan modifications.

Making Home Affordable Program

The Making Home Affordable Program (MHA) was created by the Financial Stability Act of 2009. The program is intended to encourage loan servicers and investors to modify eligible first-lien mortgages so that the monthly payments of homeowners who are currently in default or at imminent risk of default will be reduced to affordable and sustainable levels. The Making Home Affordable Program ($29.9 billion allocated) is intended to "help bring relief to responsible homeowners struggling to make their mortgage payments, while preventing neighborhoods and communities from suffering the negative spillover effects of foreclosure, such as lower housing prices, increased crime, and higher taxes" (U.S. Department of the Treasury, 2009, n.p.).

The MHA program was announced in February 2009 and implemented in March 2009. It was designed to assist three to four million borrowers with sustained permanent modifications by 2012. The Treasury obligated $45.6 billion to the Troubled Asset Relief Program (TARP) (Office of the Special Inspector General for the Troubled Asset Relief Program, 2011).

The Home Affordable Modification Program (HAMP), a component of the MHA, currently includes the following subprograms:

- Home Price Decline Protection (HPDP; $1.3 billion allocated to pay investor incentives), which is intended to encourage additional investor participation and HAMP modifications in areas with recent price declines by providing TARP-funded incentives to offset potential losses in home values (FN 110);
- Principal Reduction Alternative (PRA; $2.0 billion allocated to pay investor incentives), which was created to encourage the use of principal reductions in modifications for eligible borrowers whose homes are worth significantly less than the remaining outstanding balances of their first-lien mortgage loans. It provides TARP-funded incentives to servicers to offset a portion of the principal reduction provided by the investor (FN 111);
- Home Affordable Unemployment Program (UP[3]), which is intended to offer assistance to unemployed homeowners through temporary forbearance of a portion of their payments (FN 112); and
- Home Affordable Foreclosure Alternatives (HAFA; $4.1 billion allocated to pay incentives with foreclosure alternatives), which is designed to provide incentives to servicers and borrowers to pursue short sales and deeds-in-lieu of foreclosure for HAMP-eligible borrowers in cases in which the borrower is unable or unwilling to enter into a modification (FN 113).

There are also the following other programs, which are funded by the Troubled Asset Relief Program (TARP):

- 2MP ($0.9 billion allocated by the Treasury), which is designed to modify second-lien mortgages when a corresponding first lien is modified under HAMP. The requirement to modify second liens, however, applies only to servicers that executed a Servicer Participation Agreement (SPA) to participate in 2MP prior to October 3, 2010 (FN 114). As of March 31, 2011, 17 servicers are participating in 2MP. These servicers represent approximately 55 to 60 percent of the second-lien servicing market (FN 115).
- Agency-Insured Programs, which are initiatives for home loans insured by the Federal Housing Administration (FHA) or guaranteed by Rural Housing Service (RHS) and the Department of Veterans Affairs (VA), offer assistance to eligible borrowers whose mortgages are backed by these government agencies to reduce payments on their first-lien mortgages to more affordable levels (FN 116). The Treasury is providing TARP incentives to encourage modifications under the FHA and RHS modification programs.
- FHA Short Refinance ($8.1 billion allocated by the Treasury), which is intended to encourage the FHA to refinance existing underwater mortgage loans that are not insured by the FHA at present. The FHA Short Refinance initiative is partially supported by TARP. TARP funds will provide incentives to existing second-lien holders of participating servicers who agree to partial or full extinguishing of second liens under the Treasury/FHA Second-Lien Program (FHA2LP) to facilitate the refinancing of new FHA-insured loans. Additionally, Treasury, through TARP, will provide up to $8 billion in loss coverage on newly originated FHA first-lien loans (FN 117).
- Housing Finance Agency (HFA) Hardest Hit Fund (HHF; $7.6 billion allocated by the Treasury), which was established in February 2010 and designed to support state-run foreclosure prevention programs in states hit hardest by the decrease in home prices and with high unemployment rates. HHF is funded by TARP. Each state housing agency gathered public input to implement programs designed to meet the distinct challenges that struggling homeowners in their state are facing. States were chosen either because they are struggling with unemployment rates at or above the national average, or because of steep home price declines greater than 20 percent since the housing market downturn. Eighteen states and the District of Columbia have received approval for aid through the program (FN 118).

In sum, the geographic targets of these programs are areas with recent price declines (in the case of HPDP), while the individual targets are borrowers who are underwater (in the case of PRA), unemployed (in the case of UP), and who pursue short sales and deeds-in-lieu in case a modification was not undertaken (in the case of HAFA).

[3] The Treasury does not allocate TARP funds to UP (Office of the Special Inspector General for the Troubled Asset Relief Program, 2011).

The following eligibility requirements must be met to participate in the HAMP program (see Table B8 in the Appendix for details):

Loan and secondary market-related requirements:

- The mortgage loan must be a first-lien mortgage loan originated on or before January 1, 2009;
- The current unpaid principal balance (UPB) of the mortgage loan prior to capitalization must be no greater than $729,750 for a one-unit property; $934,200 for a two-unit property; $1,129,250 for a three-unit property; or $1,403,400 for a four-unit property;
- The subject loan delinquency or default is reasonably foreseeable;
- The subject loan cannot have been previously modified under the program;
- The subject loan cannot have been completely paid off (i.e., there must be a debt obligation[4]);
- The subject loan cannot be reinstated unless the borrower experiences a subsequent financial hardship;
- The investor of the subject mortgage loan needs to provide contractual authority to modify the loan and the private mortgage insurance company and guarantor need to approve the modification;
- The standardized Net Present Value (NPV) is positive (i.e., the NPV result for no modification is greater than the NPV for the modification scenario); and
- In case of bankruptcy, loan terms must be approved by the bankruptcy court.

Borrower-related requirements:

- The borrower's current monthly housing expenses (including the monthly principal and interest payment on the first-lien mortgage loan, plus property taxes, hazard insurance, and homeowners' dues) are higher than 31 percent of his or her gross monthly income;
- The principal forbearance required to achieve a payment of no more than 31 percent of the borrower's monthly income needs to result in a forbearance amount that cannot exceed the program guidelines;[5]
- The borrower has not withdrawn their modification request for consideration for either a trial period plan or HAMP modification, or did not accept an offer for either one;[6]
- The borrower did not make the first trial period payment in a timely manner, which is considered non-acceptance;
- The borrower did not make all the trial period payments by the end of the trial period plan;
- The borrower must provide the financial and/or hardship verification documentation required to complete the evaluation; and
- The borrower cannot have filed for bankruptcy.

Property-related requirements:

- The property must be owner-occupied, cannot be vacant or condemned, and must have four or fewer dwelling units.

Performance of HAMP

As Barofsky (2011) points out, HAMP began with much promise. It was intended to promote TARP's specific goal of preserving homeownership. However, the program has been beset by problems from the start, and it continues to fall woefully short of its original expectations. As outlined by Barofsky, HAMP's failure has many causes, "starting with a rushed launch based on inadequate analysis, an insufficient incentive structure, and [a lack of] fully developed rules, which has required frequent changes to program guidelines" (Barofsky, 2011, p. 3).

As of April 30, 2011, 135,940 active trials and 608,615 active permanent modifications have been completed, for a total of 744,555 modifications (U.S. Department of the Treasury, 2011b). Slightly more than 18,000 permanent modifications per month were undertaken in the fourth quarter of 2010, "down 35 percent from the quarter before that, and a far cry from the 20,000 to 25,000 trial modifications *per week* Treasury officials once predicted" (Barofsky, 2011, p. 5; emphasis in original). The weaknesses of the HAMP program have been documented extensively by academics, research centers, and such consumer organizations as the National

[4] See MHA Reason Code 11 in U.S. Department of the Treasury (2011c).
[5] See MHA Reason Code 12 in U.S. Department of the Treasury (2011c).
[6] See MHA Reason Code 8 in U.S. Department of the Treasury (2011c).

Community Reinvestment Coalition (NCRC), the National Consumer Law Center, the Center for Economic and Policy Research, and the Center for American Progress, among others, as well as servicers themselves.

Barofsky pointed out that "the Secretary [of the Treasury] also recently acknowledged what [the Special Inspector General for the Troubled Asset Relief Program] and the other oversight entities have been stating for some time, that loan servicers—which by design bear the central responsibility for implementing HAMP—'are still doing a terribly inadequate job.' Further, the Secretary admitted that the program suffers from a design flaw that goes to its very heart, with the recognition that the incentives of servicers that were intended to serve as the engine of HAMP simply 'have not been powerful enough'" (Barofsky, 2011, p. 3). Nevertheless, the U.S. Department of the Treasury (2011b) recently released detailed quarterly servicer assessments of the performance of the ten largest program participants. For the first quarter of 2011, four servicers have been determined to need substantial improvement. Additionally, the Treasury is withholding financial incentives from three servicers.

Due to many challenges, it is unlikely that the program will reach the original intended goal of helping three to four million homeowners. In fact, the Treasury Department's own estimates indicate that HAMP will create permanent mortgage modifications for 1.5 to two million homeowners. However, the Congressional Oversight Panel (2010) estimates that only 276,000 foreclosures, or less than four percent of the total 60-plus a day delinquencies, will be prevented by HAMP. Similarly, of the 1,559,023 trials started by March 31, 2011, only 586,916 active permanent modifications were reached, a proportion of 37.65 percent (Making Home Affordable, 2011). Carr and Lucas-Smith (2011) concluded that the HAMP program is insufficient to arrest the foreclosure crisis. (Congressional Oversight Panel, 2010).

Sciré (2011a) draws on earlier work conducted by the U.S. Government Accountability Office and discusses inconsistencies in the way servicers treat borrowers under HAMP, which could lead to inequitable treatment of similarly situated borrowers. These inconsistencies range from the method of borrower solicitations for the HAMP program, evaluations of those borrowers who were not yet 60 days delinquent on their mortgage payment, and servicers' handling of borrower complaints. They occurred in part because the Treasury did not issue guidelines for soliciting borrowers for HAMP until a year after the program was announced.

The Office of the Comptroller of the Currency and the Office of Thrift Supervision (2010) provided information on HAMP modifications by investor and risk category for those that were implemented in the fourth quarter of 2010. Tables 2 and 3 below show that about 50 percent of HAMP modifications and more than 50 percent of HAMP trial period plans implemented in the fourth quarter of 2010 went to mortgages serviced by Fannie Mae and Freddie Mac. While about half of all HAMP modifications and HAMP trial period plans were for prime loans, subprime loans accounted for less than a quarter of the modification and trial period plan actions.

Borrowers eligible for the HAMP program need to have a current monthly housing expense, which includes the monthly principal and interest payment on their first-lien mortgage loan, plus property taxes, hazard insurance, and homeowners' dues, of more than 31 percent. Because subprime loans are often characterized by relatively high monthly principal and interest payments, one would expect the HAMP pool to include a high proportion of subprime loans. However, this is not the case, despite the fact that the literature has shown that Blacks/African Americans and Hispanics/Latinos disproportionately receive subprime loans (Bocian et al., 2006). Thus, it would be interesting to investigate why the majority of HAMP modifications and trial period plans were administered to prime loans. It would be useful to conduct a regression analysis to find out the factors that influence modifications and trial period plans. It would also be interesting to find out what prevented the undertaking HAMP modifications and trial period plans for subprime loans. Perhaps a survey of housing counselors or even rejected borrowers would be helpful in understanding the reasons for the rejections.

Table 2: HAMP Modifications Implemented in the Fourth Quarter 2010 by Investor and Risk Category

	Fannie Mae	Freddie Mac	Government Guaranteed	Portfolio	Private	Total
Prime	10,198 35.24%	7,235 25.00%	13 0.04%	5,905 20.41%	5,586 19.30%	**28,937** **100%**
Alt-A	3,103 27.75%	2,184 19.53%	15 0.00%	3,098 27.71%	2,782 24.88%	**11,182** **100%**
Subprime	1,804 15.25%	1,154 9.75%	21 0.17%	4,025 34.02%	4,827 40.80%	**11,831** **100%**
Other	1,299 29.34%	555 12.53%	21 0.47%	743 16.78%	1,810 40.88%	**4,428** **100%**
Total	**16,404**	**11,128**	**70**	**13,771**	**15,005**	**56,378**

Source: Office of the Comptroller of the Currency and Office of Thrift Supervision (2011); calculations of proportions made by authors.

Table 3: HAMP Trial Period Plans Implemented in the Fourth Quarter 2010 by Investor and Risk Category

	Fannie Mae	Freddie Mac	Government Guaranteed	Portfolio	Private	Total
Prime	9,255 33.08%	7,590 27.13%	1 0.00%	4,606 16.46%	6,528 23.33%	**27,980** **100%**
Alt-A	2,847 27.48%	2,365 22.82%	1 0.00%	2,240 21.62%	2,909 28.07%	**10,362** **100%**
Subprime	1,687 18.30%	1,153 12.51%	2 0.02%	2,653 28.78%	3,724 40.39%	**9,219** **100%**
Other	2,086 40.89%	849 16.64%	0 0.00%	708 13.88%	1,459 28.60%	**5,102** **100%**
Total	**15,875**	**11,957**	**4**	**10,207**	**14,620**	**52,663**

Source: Office of the Comptroller of the Currency and Office of Thrift Supervision (2011); calculations of proportions made by authors.

Sciré discusses analyses conducted by the GAO of HAMP data for borrowers in trial and permanent modifications indicating that 56 percent of borrowers in active modifications and 53 percent in trial modifications cited curtailed income (i.e., reduced pay) as the primary reason for needing to lower their mortgage payments, while only 5 percent of borrowers in both groups cited unemployment as their primary reason for financial hardship. Additionally, borrowers in active and trial modifications had high levels of debt prior to modification, with monthly mortgage payments of 45 and 46 percent of gross monthly income, respectively, and total debt levels of 72 and 76 percent of gross monthly income, respectively (Sciré, 2011a). Nevertheless, debt levels remained high even after modifications. Early data also indicate that borrowers who re-defaulted from permanent modifications went further into delinquency. Interestingly, most borrowers who were denied or canceled from trial modifications have avoided foreclosure to date, although the GAO acknowledges that there are data limits that prevent them from fully understanding such outcomes.

HAMP Performance by Race and Ethnicity

The U.S. Department of the Treasury provides information on HAMP activity by race and ethnicity. 31.6 percent of trial starts after December 1, 2009, went to non-Hispanic Whites, 11.5 percent went to Blacks/African Americans, 16.4 went to Hispanics/Latinos, and 3.0 percent went to Asians. Acknowledging the possibility that we may be comparing apples to oranges while taking a similar approach to Bocian et al. (2010), we calculate a disparity ratio based on the non-Hispanic White share of originations (65.9 percent) and their share of trial starts (31.6 percent) (disparity ratio: 1.00). We calculate the following disparity ratios: Blacks/African Americans: 3.08;

Hispanics/Latinos: 3.05; and Asians: 1.60. With regard to active permanent modifications after December 1, 2009, 32.9 percent went to non-Hispanic Whites, 12.1 percent went to Blacks/African Americans, 17.7 percent went to Hispanics/Latinos, and 3.1 percent went to Asians.[7]

Similar to the steps taken above, we again calculate disparity ratios, possibly comparing apples to oranges, based on the non-Hispanic White share of originations (65.9 percent) and their share of active permanent modifications (32.9 percent) (disparity ratio: 1.00). We calculate the following disparity ratios: Blacks/African Americans: 3.12; Hispanics/Latinos: 3.18; and Asians: 1.59. These findings are consistent with Collins and Reid (2010), who find that "minorities are slightly more likely to receive a loan modification, and are also more likely to see greater reductions in their interest rates. […] These findings stand in stark contrast to the literature on mortgage originations, which has revealed persistent differences in loan outcomes by race and ethnicity in terms of loan pricing and terms" (p. 4).

These racial and ethnic breakdowns are important and informative, yet it is difficult to put these proportions into a broader perspective. The most ideal data set would provide information over the lifecycle of a mortgage, ranging from origination to either modification or foreclosure. Unfortunately, such a data set does not exist or is not publicly available. Some analyses are based on merged data sets that provide information on originations and foreclosures, but not many have analyzed data sets on modifications. The share of originations by race and ethnicity is unfortunately not included in information provided by the Treasury. However, the share of originations by race and ethnicity for the time frame 2007 to 2009 can be found in Bocian et al. (2010). We consider these proportions (from 2007 to 2009) as an acceptable proxy for the time after December 1, 2009, given the lack of comparable data.

These findings contrast with a HAMP mortgage modification survey conducted by NCRC in 2010. This survey was administered to a national (although not representative) sample of foreclosure mitigation counselors. It found that loan servicers foreclose on delinquent Black/African American borrowers more quickly than they do on delinquent non-Hispanic White or Hispanic/Latino borrowers. The study also found that non-Hispanic White HAMP-eligible borrowers are almost 50 percent more likely to receive a modification than Black/African American respondents. While 36.4 percent of HAMP-eligible non-Hispanic Whites received a modification, only 24.3 percent and 32.3 of Black/African American and Hispanic/Latino respondents, respectively, received one. Improved data to reconcile these diverse findings would be helpful to effectively understand the real impact of the HAMP program across borrower groups.

One of the requirements of the Dodd-Frank Act is that the Treasury Department make public the Making Home Affordable data file, which consists of two sets of loan-level mortgage modification data: a net present value data set and a loan modification data set. Variables of interest are the borrower's monthly gross income, date of birth, race and ethnicity, and sex, among many others.[8] Based on these data sets, a regression analysis that identifies which borrowers, from a demographic and socioeconomic perspective, receive what type of modification, controlling for everything else through several variables in the database, would provide a clear analysis on the experiences of homeowners of color with the HAMP program.

The GAO conducted an Internet-based survey of housing counselors through the National Foreclosure Mitigation Counseling Program (NFMC), administered by NeighborWorks America, in October and November of 2010. These counselors work for a network of about 130 nonprofit housing agencies that received funding through NFMC. Three hundred and ninety-six completed counselor surveys were used for the analysis, which outlined information on (1) borrowers' overall experiences with HAMP, (2) HAMP trial modification denials, (3) HAMP trial modifications, (4) the HAMP Solution Center, (5) ways that Treasury could improve HAMP, and (6) proprietary (non-HAMP) modifications. According to the GAO, the most frequently cited reasons for contacting counselors were the following:

- Lost documentation (59 percent)—the servicer claims to have lost HAMP application documentation;
- Long trial periods (54 percent)—the borrower has been in a HAMP trial modification for more than three months;
- Wrongful denials (42 percent)—the borrower feels that he or she was wrongly denied a HAMP modification;
- Difficulty contacting servicer (37 percent)—the borrower is having difficulty contacting the servicer;
- Questions about HAMP (32 percent)—the borrower has questions about the program or the application (Sciré, 2011b, p. 4).

[7] http://www.treasury.gov/initiatives/financialstability/results/Documents/MHA%20Data%20File%20Summary_new.pdf (01/31/11)
[8] http://www.treasury.gov/initiatives/financial-stability/results/Pages/mha_publicfile.aspx

Private Modifications

While some information about borrower and loan characteristics in connection with the HAMP program is available through the Making Home Affordable data file on the Treasury's website, much less information is available on private modifications. The Office of the Comptroller of the Currency and the Office of Thrift Supervision (2011) cover mortgage-related activities of national banks and thrifts, including home retention actions such as modifications, trial-period plans, and payment plans. According to these data, nearly 90 percent of modifications implemented during the fourth quarter of 2010 lowered monthly principal and interest payments.

On average, modifications during the fourth quarter reduced borrowers' monthly principal and interest payments by $414; while HAMP modifications reduced payments by $587, non-HAMP modifications reduced payments by $351 (Office of the Comptroller of the Currency and the Office of Thrift Supervision, 2011). Nevertheless, as Collins and Reid (2010) point out, "One of the most common forms of loan modification occurs when a servicer adds payment arrears to the total loan balance, and then calculates a new monthly payment that will amortize the increased balance over the life of the loan. This type of modification generally increases both the monthly payment amount as well as the overall amount of debt" (p. 4). Table 4 below provides information on the number and proportions of new home retention actions.

Table 4 illustrates that while the total number of new home retention actions has generally decreased from December 31, 2009 to December 31, 2010, the absolute number and proportion of private modifications (listed as Other Modifications in the table below) first increased and then decreased. However, since October 2010, foreclosure filings have declined largely due to a decrease in financial institution action, rather than because of a housing recovery. This is partly the result of delays and temporary moratoriums in response to the robo-signing scandal, but it is also due to the fact that lenders and servicers are waiting longer to allow for loan modifications, short sales, and other alternatives, instead of automatically pushing loans into foreclosure that are more than 90 days delinquent.

Table 4: Number and Proportions of New Home Retention Actions in the Fourth Quarter of 2009 and in the Entire Year 2010

	12/31/09	03/31/10	06/30/10	09/30/10	12/31/10	1Q % Change	1Y % Change
Other Modifications	102,820 17.12%	129,572 20.84%	159,073 28.06%	175,063 37.22%	152,318 32.17%	-13.0%	48.1%
HAMP Modifications	21,878 3.64%	100,301 16.14%	108,257 19.10%	58,790 12.50%	56,378 11.91%	-4.1%	157.6%
Other Trial-Period Plans	95,250 15.86%	87,143 14.02%	88,919 15.67%	70,264 14.94%	79,668 16.83%	13.4%	-16.4%
HAMP Trial-Period Plans	258,905 43.11%	184,171 29.63%	65,484 11.55%	43,739 9.30%	52,663 11.12%	20.2%	-79.7%
Payment Plans	121,722 20.27%	120,439 19.37%	145,157 25.61%	122,465 26.04%	132,388 27.96%	9.8%	8.1%
Total	**600,575 100%**	**621,626 100%**	**566,890 100%**	**470,321 100%**	**473,415 100%**	**1.0%**	**-21.3%**

Source: Office of the Comptroller of the Currency and Office of Thrift Supervision (2011); calculations of proportions made by authors.

An example of a standardized private modification is the "mod in a box" modification of IndyMac loans. When the FDIC took over the failed IndyMac Bank in 2007, it inherited a large portfolio of troubled loans, according to Stanley (2011, p. A11):

> The FDIC simply analyzed the entire loan portfolio to see if a modification could save money compared to leaving the loan unmodified and risking foreclosure. If a modification appeared economically rational, the FDIC approached the borrower and directly offered the modification. If the borrower accepted, the modification was done. While this program wasn't perfect, it ran comparatively smoothly and avoided the massive paperwork problems experienced in HAMP.

The streamlined "mod in a box" program reduced the monthly payments of many, although not all, borrowers. As Engel and McCoy (2011) pointed out,

> Not every borrower was eligible for the IndyMac program. In cases where foreclosure would reap a larger return than a loan modification, IndyMac could go forward with foreclosure. The initial estimates were that the IndyMac program would reach almost two-thirds of the bank's delinquent borrowers. Ultimately, the number of borrowers eligible for the IndyMac program was smaller than expected, but there were still many thousands of borrowers who had their IndyMac loans modified (p. 120).

Solutions

Private sector financial institutions are starting—albeit on a modest trial basis—to develop programs to better address the realities of the foreclosure crisis. Bank of America, for example, introduced a new Earned Principal Forgiveness program for borrowers with some subprime and option ARM mortgages, in which homeowners who qualify for the HAMP program, are underwater by at least 20 percent, and are at least 60 days delinquent can qualify for a gradual principal write-down. The bank will set aside up to 30 percent of the borrower's loan, interest-free, and forgive that amount over the span of five years if the borrower remains current with payments. This program, which was announced in March 2010 and launched in May of that year, was estimated to help an initial 45,000 borrowers. However, confirmation of the status of that program had not been received as of this writing. This program would have begun to address the growing problem of negative equity, and it would have encouraged homeowners to continue paying their mortgages rather than strategically default.

As Quercia and Ding (2009) have stated, "Borrowers' inability to meet mortgage payments is the core of the foreclosure problem, and a modification of the terms of mortgages has been regarded as a means to reduce the payment burden" (p. 172). A payment reduction, especially when accompanied by a principal reduction, makes loans not only more affordable for borrowers, it also reduces the likelihood of re-default. Reducing the payment burden can be accomplished through loan modifications (discussed above) and bankruptcy reform (discussed below). More specifically, Linero (2011) has pointed out that the most successful loan modification seems to be a step loan modification, which starts with a low interest rate that gradually increases over time.

The most obvious solutions to the problem have either already been tried or are probably not feasible under current conditions. Working group members suggested a "24-hour foreclosure prevention hotline," but that already exists. The HOPE Hotline (1-888-995-HOPE) is a phone line that is accessible 24 hours a day, seven days a week. Working group members also suggested a "refinancing or emergency loan program," and HAMP might be considered such a program, though it has not been a very effective one. Members also suggested "assistance in negotiating with banks for loan modifications," which HOPE NOW provides. While "alternatives to foreclosure, including short sales and deeds-in-lieu," suggested by members, are constructive ideas, they are potentially difficult to implement given the current economic crisis and the weak housing market. Finally, one of the working group members suggested "mandatory principal reduction as a requirement of HAMP, with already built-in safeguards against moral hazard, including income verification, hardship affidavits, and the requirement for three years of annual payments before the principal reduction is fully implemented."

Recently, the National Association of Consumer Bankruptcy Attorneys (2011) proposed a principal paydown plan for under-secured mortgages where at least one borrower must be a debtor in a pending Chapter 13 bankruptcy case. This proposal discusses a restructuring of certain underwater mortgages "to enable homeowners to eliminate negative equity and acquire modest equity, and then re-amortize the mortgage into a market rate loan" (p. 1) by reducing the interest rate to zero percent so that all payments made by the homeowner are applied to pay down the principal. In return for this benefit, the homeowner agrees to a general settlement of claims against the servicer, trustee, and investor.

Qualifying criteria for real properties and mortgages are: (a) the real property must be a principal residence; (b) the home value on the date of value determination may not exceed 95 percent of the total value of all encumbrances on the property; (c) the first mortgage principal (the lower of the original principal amount or the unpaid principal of an already modified first mortgage) may not be higher than 125 percent of the Federal Housing Finance Agency (FHFA) Conforming Loan limits for the applicable area; (d) first mortgages, junior mortgages, and any bridge or other loans secured by the property would be subject to the plan, if not otherwise avoided;

and (e) a fully secured loan is exempt from treatment under this plan. Borrower qualifications are: (a) at least one borrower must be a debtor in a pending Chapter 13 case; (b) current monthly housing costs (i.e., all mortgages, real property taxes, insurance, homeowners association dues, etc.) are no less than 31 percent of the borrower's gross income (or the borrower's household income is not more than 80 percent of the applicable HUD median income and the housing costs are not less than 25 percent of the borrower's gross income); (c) mortgage payments used in the calculation of current monthly housing costs are calculated based upon the highest monthly payment amount anticipated or likely to be due under the mortgage within five years. In June 2011, the National Association of Consumer Bankruptcy Attorneys presented this proposal to policymakers.

Based on the GAO survey of housing counselors discussed above, Sciré (2011b) summarizes several suggestions from housing counselors on how the Treasury could improve HAMP. The Treasury could (1) enforce sanctions for noncompliance of servicers; (2) require servicers to make more timely decisions; (3) ensure that servicers work with borrowers who are not yet 60 days delinquent; (4) require more training of servicers; (5) release the NPV model; (6) strengthen the escalation process; (7) require clear explanation of income calculation; and (8) target the back-end debt-to-income-ratio (DTI), among other suggestions (p. 10). Given the fact that HAMP sunsets in 2012, that less than $1.5 billion of the more than $47 billion set aside for HAMP has been drawn down so far, and that foreclosures continue at an alarming pace, fixing it should be considered a national policy priority.

Carr and Lucas-Smith (2011) have summarized recommendations from several foreclosure prevention experts and consumer advocates, including the National Consumer Law Center, the Center for Responsible Lending, the Center for American Progress, NCRC, and others. They group the experts' suggestions into three categories: (a) low-cost and not politically controversial; (b) high-impact, low-cost, but politically challenging to enact; and (c) very high-impact but also relatively high-cost and/or politically difficult to enact. We update and expand on these points below.

Low-cost and not politically controversial

- Make the design of HAMP's NPV model available to the public. The NPV model is the tool designed by the Treasury that servicers use to determine whether borrowers qualify for loan modifications. Its formula is not publicly available, a fact that servicers use as an excuse for denying modifications to borrowers who believe they are qualified.
- Require servicers to provide information to borrowers regarding key inputs into the NPV model, such as estimated current fair market home values, credit scores, and other data.
- Require servicers to provide more detailed NPV outputs when borrowers are denied loan modifications due to NPV outcomes. This recommendation is widely supported by consumer advocates. Servicers should also be required to accept updated or corrected information from borrowers and recalculate NPVs using new information.
- Allow borrowers who are denied modifications to undertake an independent appeals process (e.g. through a counseling organization unaffiliated with the servicer whose decision is being appealed, to determine whether the modification process has been conducted in a competent and accurate manner).
- Develop an effective enforcement mechanism to hold servicers accountable. This could be achieved by transferring servicing rights from servicers that are proven to violate HAMP rules to servicers that have demonstrated compliance and effectiveness.
- In instances where investors of loan guarantors reject participation in the HAMP program, provide borrowers with the name of the investor or guarantor and a description of efforts taken to secure HAMP program participation.
- Allow borrowers who have received HAMP modifications to be considered for subsequent modifications (i.e., further payment concessions that maintain affordability to the borrower) in instances where their financial circumstances change, in order to reduce re-defaults.

High-impact, low-cost, but politically challenging to enact

- Mandate that servicers implement HAMP modifications for qualified borrowers in all instances where loan restructuring would be more profitable for investors than foreclosure.
- Expand the role of HUD-certified housing counselors, allowing them to qualify borrowers for the HAMP program and propose trial modifications to servicers. Providing certified counselors with direct access to the NPV model and a web-based document transmittal platform would allow them to determine borrowers' eligibility for HAMP and qualification for a modification. Certified counselors

could also be empowered to collect all relevant borrower inputs for NVP calculations, run the model, and, where appropriate, enroll borrowers in trial modifications. Servicers would be given thirty days to assess and reject a counselor's trial modification. Absent objections within the allotted timeframe, trial modifications would proceed for three months and then convert to permanent repayment arrangements, as long as all payments were current at the end of the trial. In cases where the servicer rejected a counselor's trial modification, the servicer would be required to offer an alternative trial modification to the borrower within a thirty-day period. Interestingly, Section 2245 of H.R. 1473 foresees that the level of housing counseling assistance for housing programs of the U.S. Department of Housing and Urban Development "shall be $0" (U.S. Government, 2011, p. 409).

- Require servicers to analyze the outcome of various loss mitigation strategies prior to foreclosure, and share the results with borrowers and investors. Reasonable loss mitigation strategies to consider should include loan modification, deeds-in-lieu of foreclosure, and short sales. Foreclosures should only move forward when other loss mitigation options are less favorable to investors than foreclosure.
- Require pre-foreclosure mediation and conciliation between servicers and borrowers. Require servicers to meet face-to-face with borrowers to discuss loan modification options prior to proceeding to foreclosure. Borrowers should be guaranteed access to legal representation and/or representation by a HUD-certified homeownership counselor.

Very high-impact, but also relatively high-cost and/or politically difficult to enact

- Provide redemption to foreclosed homeowners whose requests for short sales or deeds-in-lieu were rejected if their former homes were sold for less than their offered amount within twelve months. Redemption could be structured as a penalty equal to a percentage of the difference between the rejected short sale or deed-in-lieu price and the ultimate sale price.
- Foreclosure must be eliminated as a trigger for eviction. This includes developing more extensive options for families who are unable to avoid foreclosure, such as enhanced rental option programs that allow struggling families to remain in their homes for at least a year as tenants rather than homeowners. It also requires policymakers to develop programs to assist renters whose landlords are foreclosed upon. These tenants, who have paid rent on time each month, should not face eviction. Programs should be developed that require investors to honor the terms of tenants' leases and maintain rental properties in habitable conditions. The Protecting Tenants at Foreclosure Act (PTFA), Public Law 111-22, which went into effect on May 20, 2009, offers some protections. It requires anyone acquiring residential property through foreclosure to honor existing leases or provide tenants with a minimum of a 90-day notice to vacate prior to initiating an eviction action. PTFA is set to expire at the end of 2014 and advocates are working to make its provisions permanent (National Housing Law Project, n.d.; National Low Income Housing Coalition, n.d.).

An example of an effort to obtain sustainable homeownership after foreclosure is the Boston Community Capital's (BCC) Stabilize Urban Neighborhoods (SUN) initiative. It keeps occupants in their homes by either acquiring real estate owned (REO) properties at a significant discount and renting the homes to low-income residents, or reselling them to the original owners or tenants at prices consistent with the neighborhood's median incomes. To implement this initiative, BBC, a Boston-based Community Development Financial Institution (CDFI), created two affiliates: NSP Residential, to buy distressed and foreclosed properties, and Aura Mortgage Advisors, a licensed nonprofit mortgage broker. By showing banks that property values in the neighborhoods in which they work have decreased by 35 to 75 percent, BCC has convinced them to sell Real-Estate Owned (REO) properties at steep discounts, representing true fair market value.

To ensure that the SUN program helps homeowners in need and to maintain fairness, BCC screens applicants for evidence of hardship, predatory loans, and income eligibility. Through this process, BCC rules out defaulted owners who have had neither an adverse life event (i.e., loss of income, illness, emergency expenses, death in the family) nor a predatory loan. Aura Mortgage Advisors underwrites new 30-year fixed rate mortgages reflective of the reduced market price with monthly payments of less than 38 percent of the household's income.

To avoid a windfall gain to the homeowner, BCC also asks the homeowner to sign a non-amortizing second mortgage with a zero percent interest rate for the amount by which the original mortgage was reduced. The second mortgage includes a shared appreciation clause with an appreciation split tied to the amount of the mortgage writedown; for example, if the original mortgage was $300,000 and was written down to $150,000, the appreciation split would be 50/50. This second mortgage prevents a windfall to the homeowner and will help sustain the program in the long term. The SUN program also includes several mechanisms to enhance the homeowner's economic stability, including financial counseling, peer support, automatic mortgage withdrawals every two weeks tied to the owner's paycheck schedules, and financial reserves. The extra payment that results from the two-week payment schedule goes towards maintenance or principal reduction.

To mitigate losses, BCC works with community groups, including Greater Boston Legal Services, Harvard University Legal Aid, and City Life/Vida Urbana to counsel borrowers and determine whether homeowners can support the discounted mortgages. Maintaining strong relationships with community partners provides a source of potential borrowers for BCC's community development lending. BCC also maintains active relationships with borrowers in order to intervene early if problems arise. For example, if an owner loses his or her job, BCC can add time at the end of the loan to make payments more affordable, or accept a deed-in-lieu of foreclosure.

The initial funding for this initiative came from a decision by BCC's board of directors to approve $3.7 million in internal funding. Since the program began in early 2008, BCC has completed activities on 60 homes, with an additional 40 in progress. The organization has raised $32 million to expand the program and has a goal of raising $50 million. A $50 to $75 million investment would support the refinancing of 300 to 500 loans over 18 to 24 months. Once a sufficient scale is achieved, BCC plans to recapitalize the program through secondary market sales of its loans.

How should bankruptcy reform/judicial modification be structured to make it an effective loss mitigation tool, particularly for communities of color? (Rating average in terms of importance: 5.44 out of 8)

Research

Banks and consumer groups have urged policymakers to develop programs that help struggling borrowers. The programs include initiatives that would expand the number of home loans insured under the FHA, create a national fund for affordable housing, expand the ability of Fannie Mae and Freddie Mac to buy renegotiated subprime mortgages, and give bankruptcy judges more power to order easier terms for borrowers, also called principal modification.

The last point is particularly salient. Under current bankruptcy law, judges are allowed to reduce the principal that borrowers owe on second homes, credit cards, and boats, but not on primary residences. This disparity in treatment is unfair, inequitable, and serves no public policy goal. Furthermore, expanded bankruptcy protection could address as much as 30 percent of loans heading to foreclosure, at no cost to the American taxpayer. The threat of judicially decreed modifications would also serve as a motivator for banks to find alternatives to foreclosure.

While the Economic Stabilization Act of 2008 allocated $800 billion to buy toxic assets from banks through TARP, and temporarily increased the federal deposit insurance from $100,000 to $250,000 per depositor, it did not allow principal modifications. Several months later, principal modifications were nevertheless allowed in the Helping Families Save their Homes Act of 2009 (S. 896), which helps homeowners achieve successful loan modifications with their lenders. In some areas, a revision of the bankruptcy code could disproportionately alleviate the impact of the recession on communities of color. In Cook County, Illinois, for example, Smith and Duda (2011) found that personal bankruptcy filing is concentrated in Black/African American communities. While the bankruptcy rate between 2006 and 2010 among residents (over 18) in predominantly Black/African American neighborhoods was 5.2 percent, it was 1.8 percent in predominately non-Hispanic White communities.

In sum, given the fierce opposition of the lending industry, bankruptcy reform and judicial modification seem to be impossible in the near and even distant future. Discussions on bankruptcy reform and judicial modification have not focused on communities of color in particular. It would be interesting to analyze what types of borrowers receive principal modifications and whether borrowers of color have higher or lower odds of receiving them. Unfortunately, principal modification data is local and proprietary and not available in most cases.

Solutions

Working group members suggested "bankruptcy reform/judicial modification" and "mandatory loss mitigation" as solutions, both of which are potentially viable, but it is still doubtful that the federal government will entertain these solutions, given the history discussed above. The idea to "fund legal aid money authorized under Dodd-Frank" to help homeowners facing foreclosure could be implemented in connection with HOPE NOW or as an alternative to HOPE NOW, and the suggestion to "enact Civil Gideon—[the] right to counsel for foreclosure cases" could be funded under the Dodd-Frank Act to help struggling homeowners. Given the current political climate, its seems unlikely that any additional funds for legal aid will be forthcoming, which is doubly unfortunate since traditional sources of legal aid support have already been decreasing.

Do homeowners of color who have experienced foreclosure tend to move to housing in more segregated, higher-poverty neighborhoods? What is the incidence of homelessness/doubling up among families in foreclosure? (Rating average in terms of importance: 4.56 out of 6)

Research

Homeowners who are foreclosed upon not only lose their homes, they are also most likely on a path of unstable housing in the future. Their credit ratings decrease, making it difficult for them to purchase or rent another home. Even if they can find a landlord willing to rent to them, many have used up their financial reserves during the foreclosure process, making down payments or deposits difficult. However, while there are some media stories about those who were foreclosed upon being forced to move in with family or friends, live in their cars, or stay in homeless shelters, there is no public database or municipal record that documents families' next steps following foreclosure.

Nevertheless, there are a few studies on aspects related to the foreclosure crisis based on data sets that provide information on the householder's location. For example, Molloy and Shan (2011) utilized the Federal Reserve Bank New York (FRBNY) Consumer Credit Panel data set, which contains data collected at the borrower level. In addition to data on all residential real estate debt, the panel includes information on the householder's location at the Census block level; the year of birth; credit experience (e.g., foreclosure, bankruptcy, and collection); the FICO score; and the presence of other loans, such as credit cards, auto loans, and student loans. Molloy and Shan conclude that, in general, evidence suggests that "post-foreclosure individuals move to rental units in denser urban areas, but the new neighborhoods do not seem to be of much lower quality" (p. 3). They do not find any "difference between the post-foreclosure and comparison groups [who did not experience foreclosure] in neighborhood measures of education attainment, racial and ethnic composition, house value, or rent" (p. 3). Martin's (2011) preliminary work is based on a foreclosure data set to which she added voluntary move notices submitted to the United States Postal Service (USPS), thus tracking the new address of foreclosed residents. Preliminary results indicate that foreclosed residents tend to remain in their respective neighborhoods.

Downing et al. (2009) surveyed service providers about the post-eviction living situations of their clients, as well as the living situations of those who were without homes due to foreclosure (since multiple answers were possible, the answers do not add up to 100 percent). Eighty-six percent stayed with family or friends, 61 percent stayed in emergency shelters, 26 percent stayed in hotels or motels, 25 percent lived in permanent or transitional housing, 21 percent lived on the streets, 18 percent lived outside but not on the streets, 17 percent lived in a home they rented or owned, and 11 percent lived in a home they did not rent or own.

Bowdler et al. (2010) interviewed 25 Latino families in five regions throughout the United States in July of 2009. The researchers find that most participants turned to family or friends for a temporary place to stay and other support before securing a new permanent residence. None of the interviewed families spent time in a shelter or on the street. Nevertheless, participants expressed concerns about overcrowded conditions and increased family tension due to doubling or tripling up with others.

Solutions

For many households impacted by foreclosure, being evicted from their homes leads to a challenging scramble to find decent, safe, and affordable rental accommodations. The United States has witnessed an affordable rental housing crisis for years (Lang et al., 2008). At the same time, the homes foreclosed homeowners leave behind often become vacant and/or abandoned. With a total shadow and

visible inventory of 5.7 million units as of April 2011 (CoreLogic, 2011), there is a huge oversupply of houses that, along with a large number of distressed sales, threatens to further undermine the housing market.

An ideal strategy that can address both problems is a rent-to-own (also called lease purchase or lease-to-own) initiative (Albetski et al., 2010). Several working group members indeed suggested this, as well as "own-to-rent-to-own programs" and "transition resident-owned cooperatives." Lease-purchase programs focus on developing potential homeowners by leasing a property to them until certain pre-determined criteria are met, at which point the now prepared potential homeowner is supported through the process of obtaining a mortgage. Cramer and Crystal (n.d.) outline the following elements of successful lease-purchase programs:

- Pre-determining the level of risk that the sponsoring organization is willing to take on in underwriting potential lease-purchasers;
- Tailoring the time period of the leasing phase to correspond to the level of risk;
- Designing an exit strategy for those cases in which the lessee does not perform;
- Developing a well-structured lease-to-own contract agreement;
- Providing a specialized pre-purchase counseling program tailored to a lease-purchaser;
- Gaining a clear understanding of the role of property management, including eviction;
- Structuring the financing and final sale price as part of the normal development process in the feasibility stage;
- Securing the special kind of financing needed for lease-purchase;
- Determining the monthly lease payment according to the ultimate sale price and operating costs;
- Consulting with a real estate attorney who is familiar with local tenant-landlord laws to review the lease-purchase contract; and
- Taking a professional training course in lease-purchase, such as the one available at NeighborWorks.

Examples of lease-purchase programs are the Cleveland Housing Network Lease-Purchase Program; Colorado's Resources and Housing Development Corporation's Learn, Earn, Own Program; Montgomery County, Maryland's Neighborhood Stabilization Program Rental Initiative; Chelsea (Boston) Neighborhood Developers' Neighborhood Stabilization Initiative; and Self-Help, among many other local programs. (Albetski et al., 2010).

The Consumer Rental Purchase Agreement Act, a rent-to-own legislation, was introduced in the 111th Congress (H.R. 1644/S. 738), but it has not been reintroduced in the new 112th Congress. Another solution could be a shared equity mortgage, where an investor helps a new homeowner by contributing some or all of the down payment needed to qualify for a mortgage. In return for his or her investment, the investor receives his or her original stake and a previously agreed-upon share of the gain once the house is sold (Caplin et al., 2007). Of course, the drawback to shared equity mortgages in the current economic environment is that they assume appreciating home prices. Since house prices have decreased and are expected to continue to slide in most areas of the country for the foreseeable future, interest in shared equity mortgages will probably remain low for the next few years.

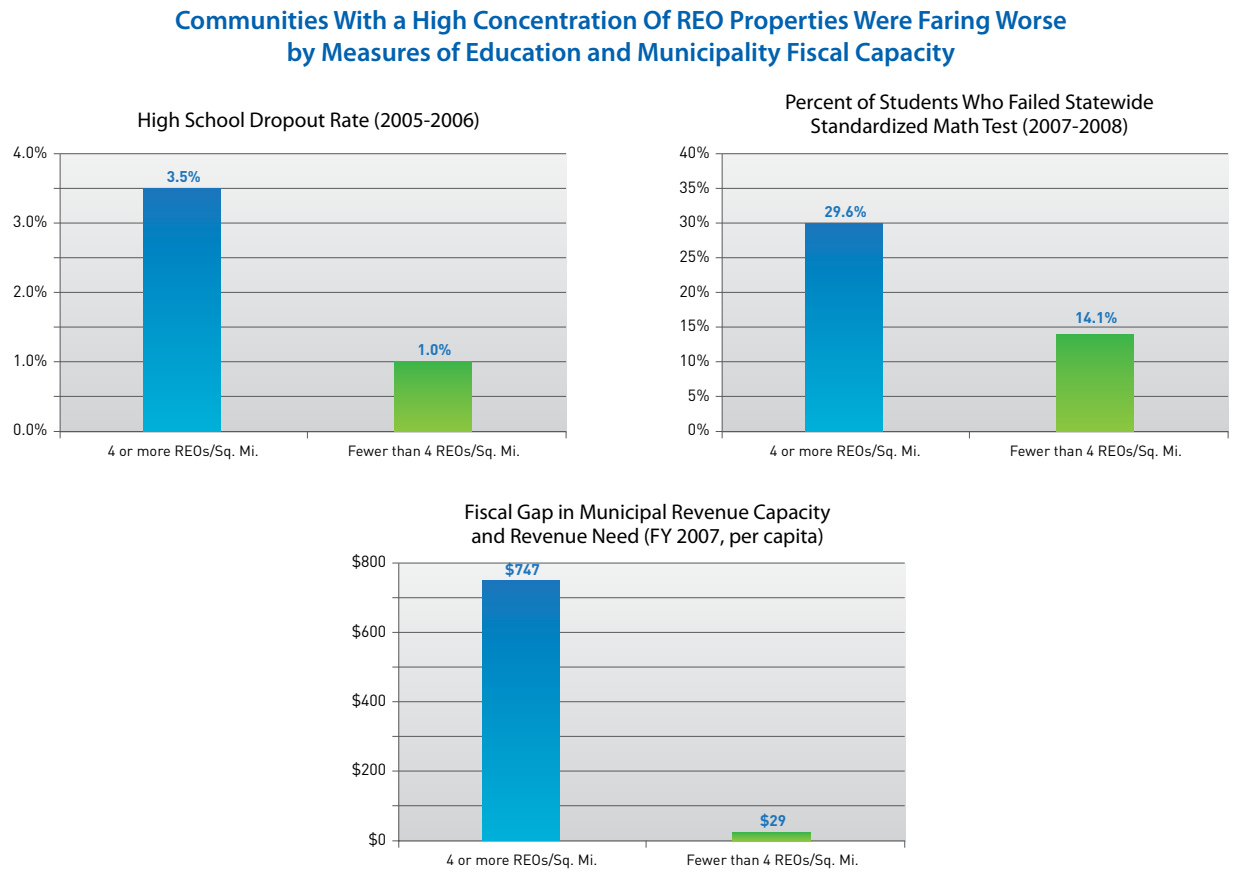
To what extent is housing loss leading to school disruption for children of affected homeowners or tenants, including specific impacts on children of color? (Rating average in terms of importance: 4.00 out of 6)

Research

While involuntary moves are almost never easy for adults, they are typically very difficult for children, who need consistent routines and stable family structures. Cohen and Wardrip (2011) point out that not all moves result in a change in school, as in some cases families stay within the same neighborhood. In a meta-study of the effect of residential mobility on children's health outcomes over their life course, Jelleyman and Spencer (2008) conclude that "high frequency residential change is potentially a useful marker for the clinical risk of behavioral and emotional problems" (p. 584). Issues identified were higher levels of behavioral and emotional problems, increased teenage pregnancy rates, accelerated initiation of illicit drug use, adolescent depression, and reduced continuity of healthcare.

Other studies identify a negative impact on academic achievement (Birman et al., 1994; Kerbow et al., 2003; Tucker et al., 1998). Whereas many consequences of the foreclosure crisis are already visible, the impact of the foreclosure crisis on graduation rates will only materialize over the next two decades and beyond. Some evidence of a correlation between a high foreclosure rate and education standards already exists, as illustrated in Figure 1 below.

Figure 1: Education Statistics in Areas with High Concentrations of REO Properties



Source: Rosengren (2010).

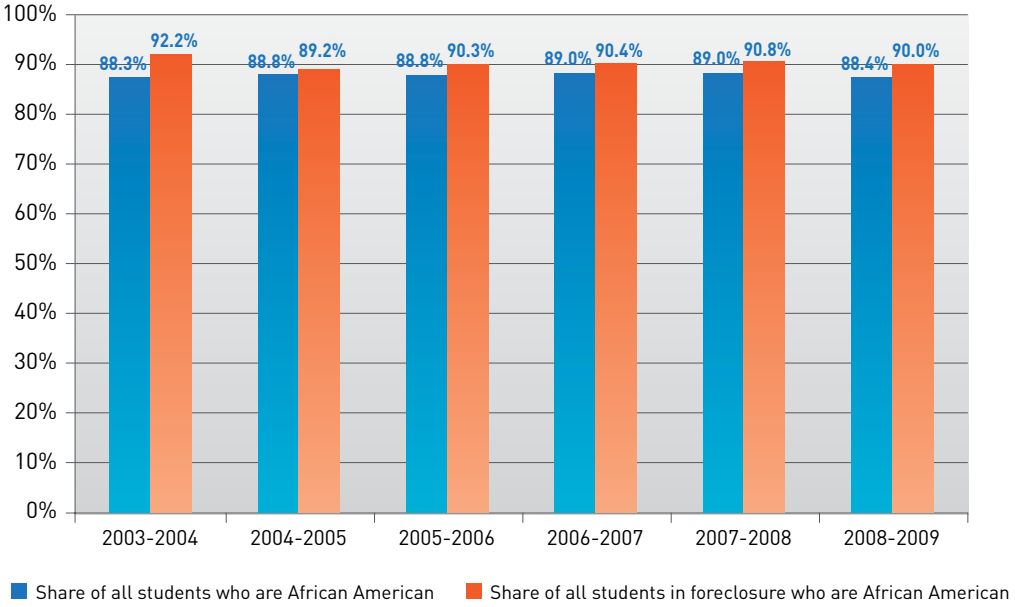
Children of color have been disproportionately affected by the foreclosure crisis, as discussed by Been et al. (2011) and as illustrated below in the case of Baltimore City. Table 5 and Figure 2 below show that the disproportionate share of Blacks/African Americans in the Baltimore school district affected by foreclosure has held relatively steady since the 2003-2004 school year.

Table 5: Racial and Ethnic Distribution of Students Affected by Foreclosure in the Baltimore City Public School System, School Year 2003-2004 to School Year 2008-2009

Race/Ethnicity	School Year 2003-2004	School Year 2004-2005	School Year 2005-2006	School Year 2006-2007	School Year 2007-2008	School Year 2008-2009
Black/African American	92.2%	89.2%	90.3%	90.4%	90.8%	90.0%
Hispanic/Latino	2.0%	0.9%	1.2%	1.6%	1.8%	2.8%
Non-Hispanic White	5.5%	9.4%	8.2%	7.6%	7.0%	6.8%

Source: Kachura (2011).

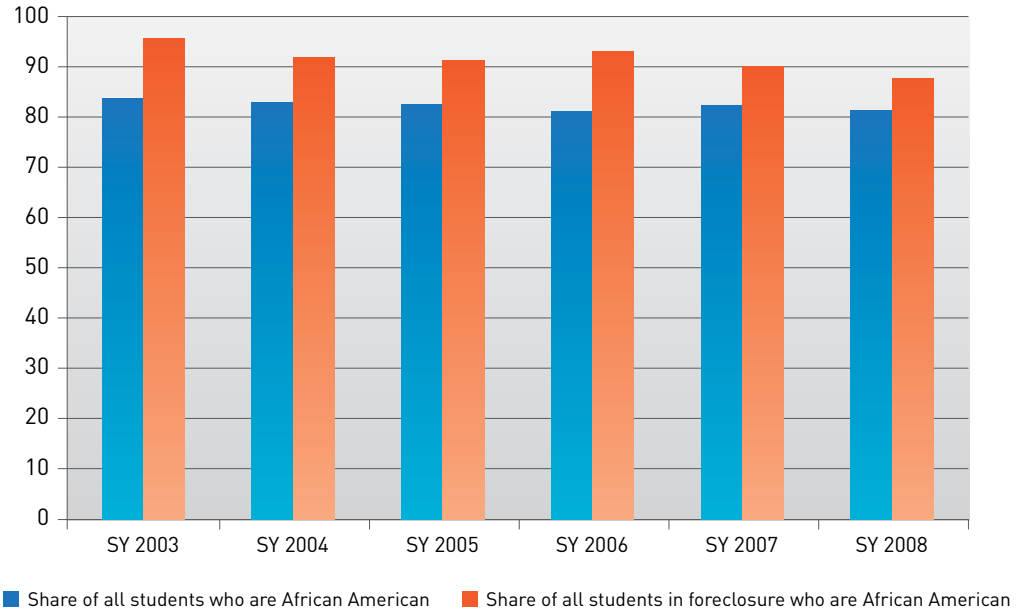
Figure 2: Share of Black/African American Students in Baltimore Affected by Foreclosure 2003-2004 to 2008-2009



Source: Kachura (2011).

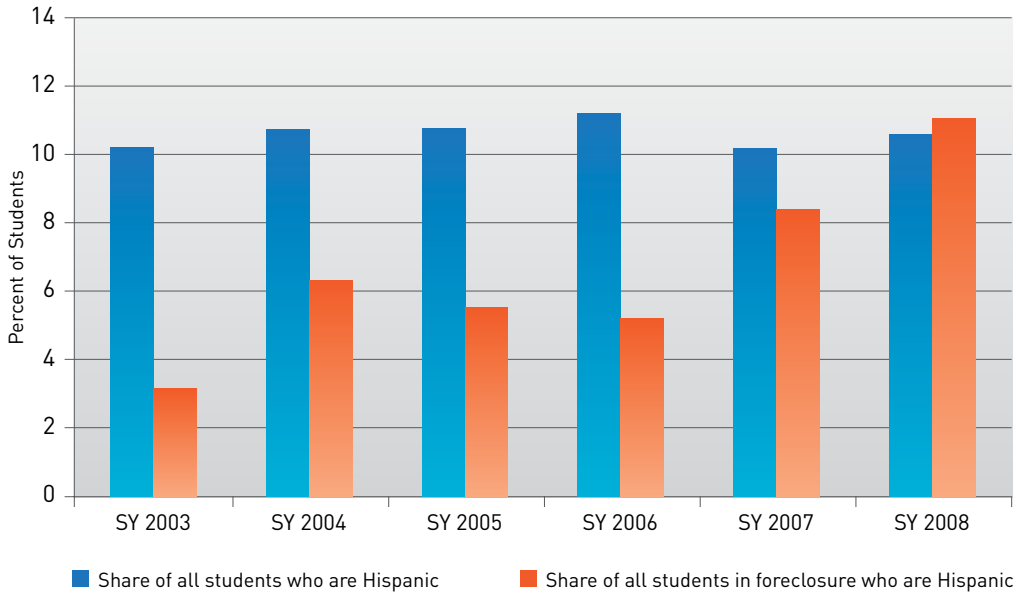
In addition to Baltimore, analyses of students affected by foreclosures have been conducted in Washington, DC by Comey and Grosz (2010). They find that Black/African American and Hispanic/Latino students have been disproportionately affected by foreclosures, as illustrated in Figures 3 and 4 below.

Figure 3: Share of Black/African American Students in Washington, DC, Affected by Foreclosure, School Year 2003-2008



Source: Comey and Grosz (2010).

Figure 4: Share of Hispanic/Latino Students in Washington, DC, Affected by Foreclosure, School Year 2003-2008



Source: Comey and Grosz (2010).

Cohen and Wardrip (2011) point out that low-income families move more frequently than other households, based on American Housing Survey (AHS) data. Been et al. (2011) compare the school mobility rates of students living in properties entering foreclosure to those of other students in New York City, while controlling for race, ethnicity, poverty, gender, and grade, which may be associated with mobility, by utilizing regression analyses. They find that

> students who switch schools after a foreclosure ended up on average in schools in which a lower percentage of students test proficient on math and reading tests. […] Interestingly, however, we see very similar differences between origin and destination schools for the children who move but did not live in buildings entering foreclosure. In other words, students who move end up in lower performing schools, regardless of whether their move is related to a foreclosure (p. 412/414).

Based on interviews with 25 Latino families throughout the nation, Bowdler et al. (2010) conclude that school changes, an increased distance to the school, and the stress of instability related to the family's housing situation had an impact on childrens' behavior and their academic performance in school. Families reported a loss of interest in classes, dropping grades, falling behind in coursework, not paying attention to the teacher, not wanting to attend school regularly, tardiness, and an impact on participation in extracurricular activities. Also, four out of the 25 interviewed families mentioned that the quality of the new school was worse, two families said it was the same, and one family identified it as better.

While the research question focuses on the extent to which housing loss leads to school disruption for children of affected homeowners or tenants, including specific impacts on children of color, not much research has focused on those children who are in families that do not go into foreclosure. We assume that they are also affected by their friends from school and their neighbors who have moved away. It might be of interest to study three groups of children in future research efforts: (1) children from families who do not go through foreclosure ("stayers"), (2) children from families who do go through foreclosure but who stay in the same neighborhood ("movers within neighborhood"), and (3) children from families who do go through foreclosure and do not stay in the neighborhood ("movers leaving the neighborhood").

Solutions

The McKinney-Vento Homeless Assistance Act provides funding to states to serve homeless populations. Under this law, children without a fixed, permanent address are guaranteed the right to attend a school of their choice (Lovell and Isaacs, 2008). The school district is required to provide transportation free of charge and waive documents typically required for admission, and must also employ a McKinney-Vento liaison. These liaisons have reported large increases in the number of children served since the start of the foreclosure and economic crisis. Therefore, more funding is needed. However, most homeowners are not aware of these programs, nor of the existence of a liaison at their children's school. As a result, many families affected by foreclosure are changing schools when they may not have to do so.

As Bowdler et al. (2010) point out, the school infrastructure should be strengthened to connect families to emergency benefits and increase their participation in programs for which they are eligible. Special funding should target hard-hit schools, which need to make families more aware of their rights under the McKinney-Vento Homeless Assistance Act.

How can the GSEs, FHA, and FHLBs be reformed to ensure an efficient, fair, and inclusionary housing finance system in the future? (Rating average in terms of importance: 4.89 out of 6)

Research

In response to the foreclosure crisis, several efforts are currently underway that intend to address the weaknesses in mortgage lending that led to the foreclosure crisis, and ensure a safe and reliable mortgage lending system going forward. Unfortunately, most proposals to restructure the mortgage finance system being discussed attempt to cure the mortgage market's weaknesses by fixing problems that were not central to the crisis. Moreover, a central theme to most plans being discussed on Capitol Hill is to return the housing finance system back to the private market. However, the U.S. housing finance system has been dominated by government institutions for the better part of the past 60 years. Moreover, most proposals that envision a significantly greater private sector role fail to ensure access to that system for low- and moderate-income or borrowers of color.

Proposals to restructure the government sponsored enterprises (GSEs) Fannie Mae and Freddie Mac reflect this reality. The GSEs have been in conservatorship since September 7, 2008, and their stocks have been delisted from the NYSE since June 16, 2010. As Engel and McCoy (2011) point out,

> Under the rules of the GSEs' conservatorship, shareholders did not profit from their recklessness at the expense of taxpayers. […] The purpose of outright ownership was to allow U.S. taxpayers to reap any profits from the bailouts, but the structure also put Uncle Sam in the uncomfortable position of partially nationalizing two large financial concerns (p. 101).

Administration Proposal to Restructure Home Mortgage Finance System

The Treasury and the U.S. Department of Housing and Urban Development (HUD) (2011) have outlined three options for the future structure of the GSEs and the FHA, which they released in February of 2011. The purported goal of the options is to address and eliminate fundamental flaws in the former GSE structure. As outlined in their document, the three options are as follows:

- Option 1 proposes a privatized system of housing finance, with the government insurance role limited to FHA, USDA, and Department of Veterans' Affairs' assistance for narrowly targeted groups of borrowers. "This option would dramatically reduce the government's role in insuring or guaranteeing mortgages, limiting it to FHA and other programs targeted to credit-worthy lower- and moderate-income borrowers. While the government would continue to provide access for this targeted segment of borrowers, it would leave the vast majority of the mortgage market to the private sector" (p. 27).

- Option 2 proposes a privatized system of housing finance, with assistance from FHA, USDA, and Department of Veterans' Affairs for narrowly targeted groups of borrowers and a guarantee mechanism to scale up during times of crisis. "As in the option above, FHA and other narrowly targeted programs would provide access to mortgage credit for low- and moderate-income borrowers, but the government's overall role in the housing finance system would be dramatically reduced. In this option, however, the government would also develop a backstop mechanism to ensure access to credit during a housing crisis" (p. 28).

- Option 3 proposes a privatized system of housing finance, with FHA, USDA, and Department of Veterans' Affairs providing assistance to low- and moderate-income borrowers and catastrophic reinsurance behind significant private capital. "Under this option, a group of private mortgage guarantor companies would guarantee securities backed by mortgages for which the government would provide reinsurance to the holders of those securities, which would be paid out only if shareholders of the private mortgage guarantors have been entirely wiped out" (p. 29).

The fundamental weaknesses highlighted in the Administration's reform proposal are that the GSEs were poorly managed, inadequately regulated, and inappropriately incentivized due to their profit-making structure. The first two criticisms, although valid, are not structural features of the GSEs. Almost all of the major mortgage market institutions leading up to the recent collapse of the system were poorly managed and inadequately regulated. Unfortunately, the Administration's recommendation to create new private guarantor institutions does not cure the perceived fundamental weakness of being profit-making. In fact, to the extent that the new guarantor institutions can be controlled by the nation's largest financial firms, additional structural problems may be created by further consolidating mortgage lending and increasing systemic risk concerns.

As Immergluck (2011) notes,

> A key, underlying assumption of all three of the administration's policy options is that, as secondary markets are dominated—and controlled—by private capital, they will become more accountable and averse to risky lending. There is certainly an argument for developing systems where lenders, investors, and servicers have interests that are aligned with sound and fair lending. But it is not at all clear that minimizing government involvement in secondary markets or marginalizing it to an indirect role will be a successful approach for achieving these ends, especially in the long run. Over the last 60 to 70 years, the only period during which a large portion of the mortgage market was essentially 'privately' funded was the subprime dominated period of the mid-2000s. From the 1930s through the late 1960s, deposits at commercial banks and savings and loan associations used for funding mortgages were fundamentally enabled by federal deposit insurance, and the secondary mortgage market was fundamentally a public institution (p. A21).

In addition, the Treasury and HUD proposal concedes that mortgage lending costs would increase with any of the three options that they have suggested. Regarding the fair lending implications of the Administration's proposals, a loosely affiliated set of many of the nation's best known and respected civil rights and policy think tanks have drafted an analysis of the Administration's proposals. They conclude that the recommendations exhibit (1) the lack of an affirmative commitment to ensuring equitable and sustainable access to credit for borrowers; (2) a restriction of affordable housing and credit through the FHA; (3) increased costs for mortgages; and (4) the virtual certainty that big banks will become even bigger (Fair Housing and Civil Rights Joint Response, 2011).

Proposed Qualified Residential Mortgage Definitions

In an effort to limit the unfair and deceptive lending practices that took place leading up to the collapse of the mortgage market, Dodd-Frank requires that mortgage lenders retain capital in the amount of 5 percent of loans they sell into the secondary market as a disincentive to irresponsible lending. This is popularly referred to as "skin in the game." An exception to this risk retention requirement is allowed for loans deemed to be particularly safe based on time-tested guidelines related to documentation of financial information used to qualify the borrower, debt-to-income ratios, product features, points and fees, and whether a loan has mortgage insurance or any other credit enhancement. Certain loan characteristics are flatly prohibited from being included within the definition of a Qualifying Residential Mortgage (QRM), including negative amortization loans, balloon payments, and other inherently high-risk loan features.

The FDIC released draft QRM rules on March 29, 2011, and first requested comments by the end of May. As of this writing, this deadline was extended to August 1, 2011. As Zandi and deRitis (2011b) state: "Getting the QRM definition right is vital. Too narrow a definition could meaningfully raise the cost of mortgage credit and reduce its availability for many potential borrowers. Too wide a definition could blunt the risk-retention rules' ability to raise investor confidence in securitization. The current QRM definition proposed by regulators is too narrow" (p. 2).

One of the more controversial proposed rules requires a minimum down payment of 20 percent for qualified residential mortgages. According to Carr (2011), "the draft rules establish narrow and rigid standards that threaten to slam the door to homeownership for millions of otherwise qualified borrowers while simultaneously failing meaningfully to reduce the risks of default" (p. All). Interestingly, down payment size was not even included in the Dodd-Frank legislation as one of the risk characteristics to be considered. Other provisions considered to be unnecessary by some groups include low and rigid debt-to-income ratios and credit history restrictions. Adams (n.d.) is concerned that "through the proposed rule the regulatory agencies are using policies, practices, or procedures in evaluating or in determining creditworthiness in a manner that may violate fair housing laws on the basis of race, color, sex, or national origin" (p. 1). More specifically, she points out that "through this proposed rule, the regulatory agencies are determining the type of loan or other financial assistance to be provided and are fixing the amount, interest rate, duration or other terms for a loan or other financial assistance in a manner that adversely impacts minority families and neighborhoods" (p. 2).

The Mortgage Bankers Association (2011) stated that "the proposed down payment, loan-to-value (LTV) and debt-to-income (DTI) requirements are unnecessary and not worth the societal cost of excluding far too many borrowers from the most affordable loans. […] Excluding risky products and requiring sound underwriting, full documentation, and verification are the right steps to return private investment to the housing market and ensure sustainable and affordable housing credit for as many families as possible" (p. 2). In its securitization outlook, J.P. Morgan Securities, Inc (2009) stated that "for securitization to be economically attractive again, fees would need to increase to borrowers, and mortgage rates would need to be roughly 300 basis points (bp) higher than they are today, all things equal" (p. 3).

According to J.P. Morgan, the current average interest rates of approximately 5 percent will most likely increase to approximately 8 percent, making homeownership unaffordable for many borrowers. Zandi and de Ritis (2011b), however, think that for homebuyers who cannot make large down payments, do not have substantial income to support their monthly payments, or do not have pristine credit scores, the interest rate on a 30-year fixed-rate mortgage will rise between 75 and 100 basis points. In short, mortgages, and thus homeownership, will become more unaffordable in the future. Table 6 below illustrates how the change in mortgage rates on home sales, house prices, and the homeownership rate might affect affordability.

Table 6: Impact of Change in Mortgage Rates on the Housing Market

	Change in Mortgage Rates: 50 Basis Points	Change in Mortgage Rates: 100 Basis Points	Change in Mortgage Rates: 150 Basis Points
Change in Home Sales (in thousands)	-185	-423	-688
Change in Median Existing House Price (in percentage points)	-3.7	-8.5	-13.8
Change in the Homeownership Rate (in percentage points)	-0.4	-1.0	-1.7

Source: Zandi and deRitis (2011b)

Based on the 2009 American Housing Survey (AHS), Table 7 below shows the down payment categories for respondents to the survey.

Table 7: Down Payment Categories for 2009 American Housing Survey (AHS) Respondents

Down Payment (Proportion of Purchase Price)	Proportion of Respondents
None	11.6%
Less than 3 Percent	7.0%
3 to 5 Percent	10.1%
6 to 10 Percent	13.8%
11 to 15 Percent	5.5%
16 to 20 Percent	11.4%
21 to 40 percent	11.1%
41 to 99 percent	6.2%
Bought outright	8.9%
Not reported	14.3%

Source: U.S. Department of Housing and Urban Development (2011).

Table 7 shows that 59.4 percent of the respondents to the 2009 AHS had a down payment of 20 percent or less and 42.5 percent had a down payment of 10 percent or less. We conclude that implementing a down payment requirement of 20 percent for conventional mortgages would likely have enormous consequences for low- and moderate-income homebuyers, and especially first-time homebuyers. Similarly, the Mortgage Bankers Association (2011) stated that "only 30 percent of loans purchased by Fannie Mae and Freddie Mac would have met the proposed requirements. In effect, the QRM tightens an already-limited lending environment" (p. 3).

The Center for Responsible Lending (2011) argues that a low down payment loan does not translate into a subprime loan, particularly when underwriting standards beyond down payment are included to decrease risk. Table 8 below compares typical loan terms and underwriting standards for low down payment loans and subprime loans.

Table 8: Comparison of Typical Loan Terms and Underwriting Standards between Low Down Payment Loans and Subprime Loans

Low Down Payment Loan	Subprime Loan
Fixed rate loan or 7/1 adjustable rate loan (initial payment stays the same for the first seven years)	2/28 ARM loan (payment adjusted after two years and then every six months)
Documented borrower income and assets	"Stated" (undocumented) income and assets
Assessment of borrower ability to repay the loan	No evaluation of borrower ability to repay
Total debt allowed up to 41 percent of annual income	Total debt allowed as high as 80 percent or more of annual income
Monthly payments include taxes and insurance	Incomplete appraisals, often with inflated property values
No second-lien mortgage	"Piggyback" second mortgage on top of first lien

Source: Center for Responsible Lending (2011).

Genworth Financial (2011) simulated an increase in down payments from 5 to 20 percent for existing loans originated between 2002 and 2008. It concluded that mandatory down payments would significantly decrease the mortgage market volume, while the performance would improve only minimally, as illustrated in Table 9 below.

Table 9: Improvement in the Proportion of Non-Performing Loans and Proportion of Market Lost for Loans Originated from 2002 to 2008

Origination Year	Improvement in the Proportion of Non-Performing Loans (90+ Days Delinquent and Defaults)	Proportion of Market Excluded
2002	0.6%	19.2%
2003	0.3%	16.7%
2004	0.7%	23.0%
2005	0.8%	22.9%
2006	1.2%	25.2%
2007	1.6%	28.2%
2008	0.6%	20.7%

Source: Genworth Financial (2011).

According to the Center for Responsible Lending (2011), limiting low down payment loans will close the door to homeownership for middle-class families. In 2009, the median sales price of a single-family home in the United States was $172,000. They simulated a 20 percent, 10 percent, and 5 percent down payment requirement and the approximate number of years required to build the down payment, as illustrated in Table 10 below.

Similarly, the Center for Responsible Lending calculated the number of years required to gather enough funds for a 20 percent, 10 percent, and a 5 percent down payment in different communities in the United States. In San Francisco, it would take a family an estimated 18 years to reach a 20 percent down payment, followed by Philadelphia and Los Angeles (15 years), Seattle (13 years), Birmingham (12 years), Chicago and Houston (9 years), and Phoenix (7 years).

Table 10: Simulated Effects of Down Payment Requirements

	20 Percent Down Payment	10 Percent Down Payment	5 Percent Down Payment
Sales Price	$172,100	$172,100	$172,100
Cash Required at Closing (Down Payment and 5 Percent Closing Costs)	$43,025	$25,815	$17,210
Monthly Savings Amount	$250	$250	$250
Approximate Number of Years Required to Build Down Payment	14	9	6

Source: Center for Responsible Lending (2011).

The American Land Title Association (2011) calculated the impact of raising down payment requirements on default rates and borrower eligibility, referencing analyses conducted by Vertical Capital Solutions of New York that were based on loan performance data maintained by CoreLogic, Inc. on over 30 million mortgages originated between 2002 and 2008, as illustrated in Table 11 below. The association compares the impact of a QRM with a 5 percent down payment requirement with a QRM with a 10 or 20 percent down payment requirement. While increasing the down payment has only a minor effect on default rates, it has a major effect on borrowers' access to loans. NCRC is currently examining the impact of down payment on default risk and preliminary results, which confirm those of Genworth, the Center for Responsible Lending, the American Land Title Association, and others.

Table 11: Impact of Raising Down Payment Requirements on Default Rates and Borrower Eligibility

Origination Year	2002	2003	2004	2005	2006	2007	2008
Reduction in default rate by increasing QRM down payment from 5% to 10%	0.2%	0.1%	0.3%	0.3%	0.2%	0.5%	0.2%
Proportion of borrowers not eligible for QRM at 10% down	7.6%	6.6%	9.0%	8.4%	10.9%	14.7%	8.4%
Reduction in default rate by increasing QRM down payment from 5% to 20%	0.6%	0.3%	0.7%	0.8%	0.8%	1.6%	0.6%
Proportion of borrowers not eligible for QRM at 20% down	19.2%	16.7%	23.0%	22.9%	25.2%	28.2%	20.7%

Source: American Land Title Association (2011).

Finally, Zandi and deRitis (2011a) acknowledge that requiring securitizers to hold some risk seems to be a logical step, as many lenders held insufficient collateral in their securities before the crisis. Zandi and deRitis (2011b) state that the risk retention rules being proposed are unlikely to meaningfully improve securitization's incentive problem (i.e., they are unlikely to change securitizers' behavior). Often, banks invest in equity tranches, the pieces that are most exposed to default, although they offer a relatively high return. "Despite having lots of skin in the game, the securitizers still made huge errors. Simply requiring them to hold 5 percent of the credit risk may not hurt mortgage rates or credit availability, but it will also do little to improve the quality of securitization" (p. 2).

Solutions

It would be difficult to overstate the significance of GSE reform and the definition of the QRM on the future of homeownership in America, and particularly within communities of color. Homeownership has been, for more than half a century, the single most important asset of the typical American family. The vast bulk of the wealth disparity between non-Hispanic Whites and people of color is attributable to the substantially higher homeownership rate for the majority population, along with location. Prior to the foreclosure crisis, non-Hispanic Whites had a homeownership rate that was a fully 50 percent greater than that of people of color. The foreclosure crisis has widened that gap, and plans to remake the home mortgage market that largely precludes people of color from the private system will likely perpetuate today's vast wealth disparities or even increase them.

Fortunately, there have been a variety of alternatives to the central proposals to restructure mortgage lending that are intended to keep borrowing costs low, improve access for lower-income and borrowers of color, and limit profit-making incentives. The Center for Responsible Lending's chairman Martin Eakes suggests, for example, replacing Fannie Mae and Freddie Mac with a single entity that has broad ownership by banks and credit unions of different sizes and a one-lender, one-vote governance structure, as provided with Federal Home Loan Banks (FHLB). The entity would not be permitted to originate loans; instead, it would purchase loans from private lenders and guarantee and securitize such loans for a fee. The advantage of the FHLB structure is that it would prevent market concentration and avoid domination by large banks by guaranteeing small lenders the same access to the capital markets as large lenders (Eakes, 2011).

Another advantage, as Eakes points out, is that the FHLB structure prevents over-the-top management compensation, as the entity will be controlled by the members who use it, without incentives to artificially increase stock prices to increase compensation. He adds that the single entity maximizes opportunities for favorable pricing for borrowers by allowing for very large securities issuances to avoid the cost of illiquidity premium, and it also maintains the opportunity for to-be-announced securities issuances that will permit borrowers to lock in rates early and facilitate home loan purchase contracts. This avoids a race to the bottom, where huge bank lenders dictate terms by playing multiple secondary market entities against each other. This also facilitates the availability of financing for sustainable loans to all qualified home buyers and owners, without discrimination (Eakes, 2011).

Immergluck (2011) suggest a

> model based on the advantages of government authority, centralization, standardization, and transparency. A government-owned corporation—call it the Public Mortgage Corporation, or PMC—with a public purpose would purchase mortgages and issue securities. This corporation would have no private shareholders and would return any excess earnings to the U.S. Treasury, much the way the Federal Reserve does. The corporation would be prohibited from lobbying and be governed by a presidentially appointed governing body including members from the financial services and housing industries as well as individuals with backgrounds in consumer protection, community development, and other areas (p. A22).

The Mortgage Finance Working Group convened by the Center for American Progress suggests a solution similar to the Administration's Option 3 (i.e., a privatized system of housing finance with FHA, USDA, and Department of Veterans' Affairs providing assistance to low- and moderate-income borrowers, and catastrophic reinsurance behind significant private capital). The group offers a more comprehensive vision of the housing finance system of the future, one that goes beyond simply GSE reform. They suggest setting up Chartered Mortgage Issuers, or CMIs, who would enjoy some limited governmental backing for their mortgage-backed securities (MBS) and take on concomitant obligations to serve public purposes. More specifically,

- The federal government would stand behind the MBSs. The federal government would ensure the timely payment of principal and interest on MBSs issued by the CMIs, making MBS investors whole, if the CMI's assets and a new Taxpayer Protection Insurance Fund were ever insufficient to cover MBS losses.
- CMIs would absorb all ordinary losses on MBSs. The government guarantee would only apply if a CMI's capital were inadequate to meet its obligations to make timely payments. To reduce the likelihood of this happening, capital and reserve requirements would be established and monitored by appropriate regulatory authorities.
- Regulators would have authority to place a CMI in conservatorship or receivership to facilitate an orderly reorganization or winding down of its assets to minimize costs to taxpayers. This authority would be modeled on the Federal Deposit Insurance Corporation's resolution authority for depository institutions. Any MBS losses would be first paid out of the failed CMI's assets at the expense of shareholders and creditors, with additional costs to be paid from a proposed Taxpayer Protection Insurance Fund.
- Taxpayers would be further protected by an insurance fund, the Taxpayer Protection Insurance Fund, financed by a small fee levied on each guaranteed MBS transaction. Should a CMI become insolvent and unable to meet its obligations to make timely payments of interest and principal to MBS holders, this insurance fund would be tapped, providing a buffer against taxpayer exposure. The size of the fee would be determined by regulators, and designed to provide taxpayers yet greater assurance that they are shielded from losses (Mortgage Finance Working Group, 2009).

Beyond restructuring the GSEs and rethinking mortgage securitization more broadly, members of the working group suggested "expansion of funding for shared equity housing programs, including community land trusts that incorporate long-term stewardship protections to ensure long-term success of homeownership." Shared equity mortgages, for example, have an investor who contributes to the down payment. In turn, the investor receives his or her original stake and an agreed-upon share of the gain once the house is sold. This equity investment would expand access to homeownership; however, shared equity mortgages assume that the house will be sold at a higher price, which might be an unrealistic assumption for many communities over the next few years and, possibly, decades.

"Rent-to-own [programs]," "own-to-rent-to-own programs," and "transition resident-owned co-operatives," as suggested by the members of the working group, would allow low- and moderate-income populations and those with damaged credit to gradually build homeownership. There are numerous successful programs nationwide, including the Cleveland Housing Network Lease-Purchase Program; Colorado's Resources and Housing Development Corporation's Learn, Earn, Own Program; Montgomery County, Maryland's Neighborhood Stabilization Program Rental Initiative; and Chelsea's (Boston) Neighborhood Developers' Neighborhood Stabilization Initiative. These local programs could serve as templates for a national program. (Albetski et al., 2010)

Other suggestions of the working group included "requiring banks involved in discriminatory and predatory lending (either directly or through their intermediaries) to create a fund for foreclosure mitigation purposes (they have still not been penalized for their unethical behavior)."

In May of 2011, the U.S. Department of Justice reached a settlement (still subject to court approval as of this writing) with Citizens Republic Bancorp, Inc. and Citizens Bank regarding alleged lending discrimination in Detroit. The settlement awarded $3.6 million to ensure that there are equal lending services to the Black/African American community by opening a loan production office in a Black/African American neighborhood in Detroit, Michigan (U.S. Department of Justice, 2011).

The working group pointed out that the concept of "CRA expansion to include non-bank lending institutions" in order to expand access to finance in low- and moderate-income neighborhoods has been under discussion for a long time. The suggestion of "linked deposits as a strategy for linking federal, state, and/or local dollars (deposits, financial service business) to bank performance, including loan modification (and lending, etc.)" is also an interesting one that should be investigated further.

With regard to communities of color, the following suggestions were made by working group members. The first was the establishment of "community partnerships between trust centers in communities of color and governmental/non-governmental foreclosure prevention coalitions to increase awareness about foreclosure prevention resources and protect consumers against predatory schemes." This type of work is being pursued through foreclosure prevention coalitions such as the Homeownership Preservation Initiative in Chicago. These coalitions should be replicated in communities across the country.

Second, members suggested expanding "culturally competent homeownership, foreclosure prevention, and financial counseling by trusted community-based organizations." Examples of such organizations are the Hispanic Committee of Virginia (Linero, 2011), the Latino Economic Development Corporation (Ochoa, 2011), and many others. These suggestions echo insights provided by many of the panel members at the event "The Foreclosure Crisis: Data, Resources, and Tools for Government, Funders, and Nonprofits," which was held at the Urban Institute with the Capital Area Foreclosure Network in Washington, DC in March 2011. Many borrowers have difficulties differentiating between illegitimate or fraudulent service providers versus nonprofits who act in the interest of the borrower. While fraudulent providers charge for their services, most nonprofits do not. Thus, many borrowers assume that the services of the nonprofits do not have any value. They do not realize that the nonprofits are often subsidized with taxpayers' monies. The newly established Consumer Financial Protection Bureau (CFPB) might have some involvement in this aspect. Other members suggested an "organized civil rights efforts to focus an investigation on state attorneys general in communities of color."

A few experts have discussed the down payment requirement. Vissa and Bautista (2011) suggest implementing tax refundable credits that would replace the 20 percent down payment requirement. Their proposal is to allocate a maximum of 25 percent of the value of the mortgage deductions, or approximately $30 billion annually, to encourage responsible homeownership among the 70 percent of Americans who are at 120 percent of median income or below. They state that a disproportionate percentage are people of color and estimate that within a generation, more than half of this group will be of color. They suggest that any family at 120 percent of the median income or below that purchases a home at the median price or below in their region would be eligible for a refundable tax credit of up to $5,000 per year for seven years. As the median price of a home in the U.S. is approximately $170,000, seven years

of refundable credits would amount to the equivalent of a 20 percent down payment. Thus, the originator of the loan, assuming the financial institution retains an interest in the loan, would be able to secure the equivalent of a tax lien on the $5,000 annual tax credit to meet the down-payment requirement. This would allow families who start with as little as five percent down to provide the lender with the equivalent of a 25 percent down payment by the seventh year.

What additional programs and/or policies should be established now to ensure that borrowers of color have equitable access to safe and affordable credit in the future? (Rating average in terms of importance: 3.89 out of 6)

Research

Genworth Financial (2011) analyzed nearly five million loans based on a CoreLogic data set and compared the performance of insured loans to comparable piggyback loans, controlling for the origination years (2003-2007), the FICO score, the combined loan-to-value ratio (CLTV), the U.S. Census region, the loan purpose, and documentation levels. The researchers concluded that insured loans have a lower risk of default than comparable piggyback loans. They also concluded that qualified insured loans, in comparison to insured loans and piggyback loans, have had even lower delinquency and default rates. Insurance to qualified loans could be provided by the GSEs.

Solutions

On the policy level, advocates for equitable access to safe and affordable credit should ensure that the future structure of the GSEs and the QRM rules allow for access to a broad range of current and potential homeowners. Simultaneously, funding for housing counseling that was recently cut to zero by Congress should be restored and expanded in order to provide education on wealth-building strategies.

Additionally, successful programs and products should be replicated and scaled up. An example of a sustainable loan program to low-income borrowers and/or borrowers of color is the Community Advantage Home Loan Secondary Market Program (CAP). This program was launched in 1998 by Self-Help, a large community development financial institution in Durham, North Carolina. It was funded by the Ford Foundation and Fannie Mae from 1998 to 2009 to foster responsible lending to low-wealth borrowers, most of them of color. Self-Help purchases loans originated by prime lending institutions that have one or more flexible underwriting requirements; for example, a low down payment or none at all, a higher debt-to-income ratio, a waiver of private mortgage insurance, and/or a limited credit history. In 2010, Self-Help invested $293 million in 5,472 families, individuals, and organizations, enabling 1,253 families to become homeowners (Self-Help, 2010). Quercia et al. (2010) analyze the performance of a sample of recently originated CAP loans (n = 16,283) and conclude that low-income groups have the lowest default rates and almost the lowest prepayment hazard.

What impact does this disparity in access to credit have on communities? (Rating average in terms of importance: 1.89 out of 2)

Research

Federal policies have enabled and are continuing to reinforce disproportionate economic damage of communities of color in two ways. First, poorly regulated and irresponsible subprime lending has been concentrated in communities of color and has resulted in disproportionately higher foreclosure rates there. Second, historic discrimination against people of color, combined with recovery program spending that ignores that historic disadvantage, is fueling exceptional levels of unemployment among minority workers. More than half of all home loans made to Blacks/African Americans in recent years were high-cost; as a result, subsequent foreclosures have already triggered a full three-percentage-point drop in their homeownership rate since it peaked in 2004 (Kochhar et al., 2009). The disproportionate levels of foreclosure are likely adding to the racial wealth gap because the share of total wealth held by a household's primary residence is almost double for people of color than for non-Hispanic Whites (Wolff, 2001). In fact, the racial wealth gap had already quadrupled in the twenty years preceding the current economic and foreclosure crisis (Powell, 2010).

Solutions

Over the past several decades, several acts have addressed the disparity in access to credit, including the Truth in Lending Act (TILA) of 1968; the Real Estate Procedures Act (RESPA) of 1975; the Home Mortgage Disclosure Act (HMDA) of 1975; the Community Reinvestment Act (CRA) of 1977; the Financial Institutions, Reform, Recovery, and Enforcement Act (FIRREA) of 1989; the Home Ownership and Equity Protection Act (HOEPA) of 1994; and, most recently, the Dodd-Frank Wall Street Reform and Consumer Protection Act ("Dodd-Frank Act") of 2010. Nevertheless, there still seem to be racial and ethnic disparities in access for numerous reasons.

In part, the disparities may be due to racial and ethnic differences in FICO credit scores, which are important indicators that determine access to both credit and credit pricing. Strategies to increase one's FICO score could be to (1) check and correct the errors in one's credit report; (2) pay one's bills on time; (3) reduce the amount one owes; (4) see a credit counselor; (5) avoid use of certain types of credit, such as that provided by finance companies; and (6) build a credit history. However, some individuals do not have a credit score. Thus, the Fair Isaac Corporation (which designed the FICO score) and the community development and financial services industries are looking at the possibility of establishing or augmenting credit histories for underserved borrowers by collecting and scoring data related to alternative, non-credit-based payment obligations.

Jacob and Schneider (2006) describe several alternative scoring models, including Fair Isaac's FICO Expansion Score, which uses historical data on utility payments, insurance payments, and more detailed information from the loan application to calculate a credit score and recommend approval or rejection of a loan application (see also Turner et al., 2009). They also elaborate on tools used by the First American Corporation, which takes into account both positive and negative payment histories for rent, insurance, utility bills, and childcare expenses, as well as traditional credit data, to generate a credit report and score; Lexis-Nexis' RiskView, which uses employment and address histories, and property and asset ownership data; Link2Credit, which uses data based on checking account histories; and PRBC, which is a relatively new credit bureau that started with tracking self-reported rental payments and has expanded to include more general bill payment tracking and verification by a third party.

Bowdler et al. (2010) suggest enacting a credit scoring amnesty. Findings in their study show that unemployment has been a primary driver of defaults, with unsustainable loan products as the secondary cause. Damaged credit scores not only reduce an individual's ability to secure credit and obtain better deals, but also impact the economic recovery. Thus, "a credit scoring amnesty would isolate the negative consequences of the recession on individual households and minimize their impact on credit scores" (p. 29).

In addition to alternative credit models, members of the working group had the following solutions regarding credit repair: "credit counseling," "payday loan alternatives," and "fair housing and fair lending enforcement to rid current systems of illegal disparities and outcomes." With regard to ensuring an affirmative credit system for minorities in the future, members made the following suggestions: "appropriate constellation of institutions and regulatory enforcement, including within the CFP;" "address issues that make it harder for residents in communities of color to get access to credit, such as loan-level pricing;" "eliminate the two-tiered finance system in favor of a system that operates fairly for everyone, including under-served markets;" "address loan to value issues and the sense that communities are declining markets:" and "disaggregate the Asian Pacific Islander race category."

In addition to financial strategies, one could also participate in lease-to-own housing programs to build wealth and credit in the long run, as discussed earlier.

Do communities of color lack equal access to credit? (Rating average in terms of importance: 1.11 out of 2)

Before the 1980s, mortgage applicants either qualified for mortgages or did not, based on then-current mortgage underwriting practices and standards. Mortgages could either be conventional or FHA or VA mortgages. In 1980, the Depository Institutions Deregulation and Monetary Control Act gave banks the flexibility to set rates and fees for mortgages, and in 1982, the Alternative Mortgage Transaction Parity Act allowed banks to make variable rate mortgages and mortgages with balloon payments (Ludwig et al., 2009). Thus, lenders introduced risk-based pricing in the mid-1980s, where, in exchange for higher risk of predicted default, borrowers would pay higher interest and fees. These loans, which proliferated between 2002 and 2007, are also known as non-prime or subprime mortgages. They were most likely the principal contributing factor to the national foreclosure crisis.

Until the mid-1990s, most research found no difference in interest rates among different racial and ethnic groups (King, 1981; Nothaft and Perry, 2002; see also Schafer and Ladd, 1981 for mixed results). This changed in the late 1990s, when several studies analyzed differences in interest rates among these groups (Calem et al., 2004; Crawford and Rosenblatt, 1999; Mayer and Pence, 2007; Nothaft and Perry, 2002; Scheessele, 2002; Wyly et al., 2008). Whereas the literature on high-cost loans and race/ethnicity is older and vast, the literature explaining foreclosure rates with high-cost loans and race/ethnicity is rather recent. We will elaborate on these works below.

Lauria and Baxter (1999) look at residential mortgage foreclosure and racial transition in New Orleans, based on 1980 and 1990 U.S. Census population and housing data, as well as data on housing foreclosures in New Orleans collected from civil district court records (1985 to 1990). Results from a combined conditional change model and an estimated generalized least squares (EGLS) procedure show that a one percent increase in foreclosures in a block group is associated with a 1.3 percent larger Black/African American population in 1990 (see also Baxter and Lauria, 2000).

Newman and Wyly (2004) use *lis pendens* ("pending suit") court filings in Essex County, New Jersey, and King's maximum-likelihood ecological inference techniques to look at (a) the proportion of loans between 1993 and 1998 that were made by subprime lenders, and (b) the proportion of all reported loans that lapsed into pre-foreclosure during 1999. They find evidence of segmentation in mortgage capital investment, showing that certain Newark and inner-ring suburban neighborhoods, most of which have a high proportion of residents of color, have high rates of both subprime lending and pre-foreclosures.

Immergluck and Smith (2005) analyze foreclosure start data from 1995 and 2002 for the five-county metropolitan Chicago area based on local and HMDA data. Results show that foreclosures of government-guaranteed mortgages increased 105 percent and foreclosures of conventional mortgages increased 350 percent. They also show that neighborhoods with populations of color of less than ten percent in 2000 saw an increase in foreclosures of 215 percent, while neighborhoods with 90 percent or greater minority populations experienced an increase of 544 percent. Based on a multivariate analysis, the authors analyze conventional foreclosures in 2002 and find that subprime loans, among other variables, explained these high levels of foreclosure.

Bocian et al. (2006) analyze 2004 HMDA data and information from a large national proprietary subprime loan data set, focusing on subprime loan pricing. They find that Blacks/African Americans were 6 to 34 percent and Hispanics/Latinos 29 to 142 percent more likely to receive higher rate home purchase and refinance loans than similarly situated non-Hispanic White borrowers, particularly for loans with prepayment penalties, depending on the type of interest rate (i.e., fixed or adjustable[9]) and the purpose (i.e., refinance or purchase) of the loan.

Gerardi et al. (2007) use deed records from the Warren Group from January 1987 through August 2007 for the entire state of Massachusetts, finding that homeownership that began with a subprime purchase mortgage ended up in foreclosure almost 20 percent of the time, or more than six times as often as those that began with prime purchase mortgages. They also find that a 10 percentage point increase in the number of households of color in a neighborhood increased the probability of default by about nine percent.

Ding et al. (2009) use a national data set of home purchase loans originated by a group of lenders under the Self-Help Ventures Fund's Community Advantage Program (CAP). Here, participating lenders are able to sell mortgages not conforming to underwriting guidelines to Self-Help, which then securitizes and sells them to Fannie Mae or other investors. All loans have fixed interest rates, and almost all have a 30-year amortization rate. However, a large proportion of the loans have high LTV ratios and borrowers have relatively low credit scores and household incomes. About 39 percent of the borrowers are of color. Based on a multinomial logic model, Ding et al. regress CAP loan default on the predicted value of neighborhood house price change as well as other controls of individual borrower credit risk. They conclude that the higher the level of subprime purchase and refinance lending and the more negative the house price change in a neighborhood, the higher the probability of serious delinquency and default for CAP loans.

[9] The standard residential mortgage instrument used since the early 1930s was the fixed rate mortgage (FRM). During some high interest periods in the 1960s and 1970s, the fixed rate mortgage was not considered the primary mortgage instrument in the U.S. financial system. Variable rate (VRM) and then adjustable rate mortgages (ARMs) were created in the late 1970s. In the case of VRMs and ARMs, the borrower bears the risk associated with future interest rate changes (Jaffe, 1998a).

Anacker and Carr (2011) study the determinants of foreclosure among high-income Black/African-American and Hispanic/Latino borrowers in the Washington, DC metropolitan area. They use a merged data set consisting of Home Mortgage Disclosure Act (HMDA), U.S. Census, and Lender Processing Services (LPS) data and analyze the likelihood of foreclosure in the Washington area with a logistic regression model. They find that high-income Black/African American borrowers are 36 percent and Hispanic/Latino borrowers 79 percent more likely to go into foreclosure, controlling for key financial variables. Moreover, they found that exotic mortgage products, such as adjustable rate mortgages (ARMs), high-cost mortgages, balloon mortgages, and interest-only mortgages, have a higher likelihood of foreclosure than standard 30-year fixed-rate mortgages.

In sum, these studies provide evidence that borrowers of color have a disproportionately high proportion of high-cost loans, which in turn have disproportionately high odds of foreclosure. While the racial and ethnic breakdown in most studies is helpful, not much is known about Native Americans and Asian Pacific Islander borrowers, among others. These groups could be studied further, in particular in a disaggregated fashion.

Conclusion: The Need for a Better Information Infrastructure and More Research

This paper addresses eight priority questions, chosen from the more than 100 total issues related to the current foreclosure crisis, as identified by the Research and Solutions Working Group. A review of that longer list of issues immediately reveals that many of the questions not addressed are nevertheless critical in dealing with the ongoing crisis and its long-term negative consequences. While we present some new research herein and highlight work presently underway, significantly more research is needed.

At the moment there is no national clearinghouse for information on foreclosures that is (a) systematic, (b) searchable, and (c) comprehensive. Given the enormous implications of the foreclosure crisis on current and future generations, and given the advanced state of technology, a national information clearinghouse that is systematic, searchable, and comprehensive is in the public interest and will strengthen the financial and social well-being of the nation should be established. Such a clearinghouse would be a helpful resource for policy analysts, academics, homeowners, and other interested organizations and individuals. Housingwire.com[10] could be considered a potential proxy for a national clearinghouse due to its simple search function, but it is unsystematic and possibly selective, as few academic studies are discussed on it. HousingPolicy.org provides a forum that has ten discussion groups, one of which is about foreclosure prevention, but discussing a specific topic depends on a member initiating a thread.

There is also a wealth of quantitative data about the foreclosure crisis available on the Internet. Some of these sources are accessible and available in map form, such as RealtyTrac.com and Zillow.com. They allow visual analyses, but the underlying data sources are not available in spreadsheet format. There are some sources that provide data in a format conducive to quantitative analysis, including RealtyTrac and Lender Processing Services (LPS),[11] but these proprietary databases make quantitative analyses expensive to conduct. The ideal data set would have up-to-date individual foreclosure figures and information about individual borrowers, including their mortgages and neighborhoods. Unfortunately, such a data set does not exist in the public sphere, as this information is proprietary, owned by lenders or their servicers. Other sources are accessible and available in map as well as data form, such as foreclosure risk scores, provided by the Local Initiatives Support Corporation (LISC), but they do not contain borrower-specific information.[12]

Since 2007, more than 10.5 million foreclosure notices have been filed. While this reality has taken a damaging toll on the homeownership market generally, a disproportionate damage has occurred in financially vulnerable communities of color. As of this writing, no enhanced or new national programs are in place or planned to stem the continuing foreclosure damage. No national programs are in place or envisioned to address the lasting damage to families and communities. No national efforts are contemplated to rebuild the housing market in ways that will ensure a robust homeownership market for people of color. In short, the work of the Research and Solutions Working Group is in many ways just beginning. We likely will wrestle with the questions and problems discussed in this report for years, if not decades, to come.

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[10] HousingWire.com is a leading independent source for news, commentary, and analysis covering mortgage banking and financial markets. It is staffed by journalists and housed in Plano, Texas.

[11] Lender Processing Services (LPS) Applied Analysis data set provides proprietary mortgage performance data at the borrower level. This national data set is compiled from mortgage servicing firms that collect mortgage payments for U.S. lenders and investors. As of December of 2007, a total of sixteen firms, including nine of the top ten servicers, provided monthly updated data on more than 100 million loans to LPS, including over 30 million loans that are currently active. LPS covers only about 60 percent of the mortgage market (Carolina and Reid, 2009). LPS data provides geographic detail only down to zip code level. A loan stays in the LPS data set until it is repaid, foreclosed, or completes a real estate owned process. The LPS data set over-represents prime and near-prime (i.e., Alt-A) loans and under-represents subprime loans, although it does not provide information on prime versus near-prime (Immergluck, 2008). While the LPS data set contains a wealth of information, including borrowers' FICO scores, it does not contain the borrower's race and ethnicity. Thus, the LPS data set needs to be matched with the publicly available Home Mortgage Disclosure Act (HMDA) data set, which contains about 80 percent of originated mortgages that are reported to HMDA. This data set provides information about mortgages at the beginning of their lifecycle but not beyond their origination and is made publicly available without charge by the Federal Financial Institutions Examination Council (FFIEC).

[12] http://www.foreclosure-response.org/maps_and_data/lisc_data.html

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Appendix A

Research Questions Identified by Working Group Members and Grouped by Authors

The Annie E. Casey Foundation Foreclosure Research and Solutions Working Group's first discussion yielded many questions about the status of the recovery, what is currently being done, and what needs to be done to ensure a full and equitable recovery. The consensus of the meeting seemed to be that more information is required prior to recommending an optimum set of remedial solutions. Listed below are a list of topics and research questions to be addressed relating to the current foreclosure crisis, its disproportionate impact on communities of color, and the effectiveness of foreclosure prevention and related measures, also with a focus on borrowers of color.

Goal 1: Mitigate the impact of the foreclosure crisis on communities of color

Communities of color have been disproportionately affected by the foreclosure crisis: they are more likely to live in neighborhoods suffering from concentrated foreclosures, and renters affected by foreclosures are also more likely to be persons of color. Addressing these disparities will require:

- Paying attention to racial and ethnic inequalities in foreclosure prevention and loan modification processes, as well as access to credit;
- Ensuring that neighborhood stabilization efforts incorporate fair housing principles (for example, by ensuring adequate resources for the enforcement of fair housing laws with respect to rental properties) and considering the equity implications of redevelopment decisions (both by the public sector and by private investors);
- Establishing policies that reduce the vulnerabilities of renters living in delinquent and/or foreclosed properties;
- Obtaining a commitment to expand HMDA and other publicly available data resources that will allow a wide range of stakeholders to do research on race/ethnicity and mortgage market outcomes (i.e., having information about whether contracts are negotiated in a language other than English if the client identifies as limited English proficient; having sub-population data for the Asian American and Pacific Islander community to better identify their needs);
- Including loan modifications as transactions covered by HMDA;
- Exploring shared equity approaches to homeownership such as community land trusts, which have been shown to substantially reduce rates of foreclosure in all types of neighborhoods as compared to conventional homeownership;
- Preventing or reducing the school disruption that often accompanies residential instability, and further exacerbates disparities in educational opportunities and outcomes for communities of color;
- Ensuring that there are resources available to support housing counseling for current and potential renters, including those living in foreclosed properties who may need to learn about their rights, as well as homeowners who will need to transition to rental housing. Stable housing, rental or otherwise, is going to be critical for any kind of economic recovery;
- Ensuring that counselors have adequate training in providing transitional support, are well-versed in rental housing options for people in transition, and can point people in the direction of federally subsidized housing programs, as well as traditional housing options.

In order to achieve these goals, the following research needs have been identified:

Foreclosure prevention and loan modification

Questions pertaining to the effectiveness of government and private foreclosure initiatives and equality of access to these programs;

- Who is/is not receiving loan modifications (in terms of race/ethnicity and language spoken)?
  - Where are foreclosure prevention resources being targeted?
  - If no loan modifications are received, why not?
  - Are there impediments, and if so, what are they?
  - Are servicers slower to process foreclosures in neighborhoods with a high proportion of people of color?
- Is HAMP working overall? What specific interventions or reforms could make HAMP more effective?
  - Is HAMP working for communities of color? Are there disparities within the HAMP program along income, age, race, and/or gender lines in terms of access to the program or its outcomes?
  - What works in terms of modification terms and the like?

- Do HAMP's eligibility requirements automatically disqualify low-income homeowners?
  - Even if changes are not made to HAMP, are there ways to make the current program more effective for communities of color?
  - Does the Net Present Value calculation have a disparate impact on low-income homeowners and/or homeowners of color?
- Are private foreclosure alternatives (including modifications, short sales, and deeds-in-lieu) working?
  - Are private foreclosure alternatives (including modifications, short sales, and deeds–in-lieu) working for communities of color? Are there disparities within the private foreclosure alternative market along income, race or ethnic lines in terms of access to alternatives or their terms?
- How should bankruptcy reform/judicial modification be structured to make it an effective loss mitigation tool, particularly for communities of color?
  - What eligibility criteria should be used (limiting it to subprime loans, non-jumbo loans, means testing, etc.)?
- Is there a significant difference between men's and women's experiences and outcomes within each category?
- What fair housing counseling is currently taking place? Are families facing foreclosure receiving any counseling about the location of alternate housing, or are they encouraged to move to high poverty neighborhoods?
- What effect does dual-tracking have on low-income communities and communities of color? Are borrowers of color being more negatively impacted by dual-tracking practices? Are low-income borrowers being more negatively impacted by dual-tracking practices?
- What are best practices to address foreclosure at each step – i.e., before foreclosure is filed, after foreclosure is filed but before disposition, after disposition but before eviction, and after eviction?
  - Is there a difference between the number of households that receive a Notice of Intent (in the case of Maryland) versus the number of households that are foreclosed upon? What happened to those households that received Notices of Intent but are not in foreclosure? Did they obtain a loan modification? Did they conduct a short sale? Are they going to be in foreclosure but are not yet because of the stickiness in the system?
  - What are the outcomes of states that have mandatory loan modification programs versus those that do not? What are the lessons that can be learned? What best practices can be gleaned?
  - What are the effects of mediation programs?
- What are the secondary impacts of foreclosure on individual families and neighborhoods?
- Do homeowners of color who have experienced foreclosure tend to move to housing in more segregated, higher poverty neighborhoods? What is the incidence of homelessness/doubling up among families in foreclosure?
- To what extent is housing loss leading to school disruption for children of affected homeowners or tenants, including specific impacts on children of color?
- What are the latest and best estimates of the costs to various stakeholders (homeowners, city/county, neighbors, tenants, small businesses, etc.) of foreclosures? Is there a good and recent quantification of the various costs which can be shared?
- What is the extent to which homeowners and renters who lose their homes due to foreclosure become homeless as a result, including specific impacts on racial/ethnic minorities?
- What is the impact of foreclosure and credit crises on small businesses? Is there a disparate impact?
- Are some borrowers and communities more likely to finance their businesses by taking out a home equity loan, so that a foreclosure on that loan and/or a cut line of credit leads to foreclosure, firing of employees, and failure of the business?

Questions on the impact of economic and market conditions on the foreclosure process:

- Are servicers slower to process foreclosures in neighborhoods with a high proportion of vacancies?
- How does the chance of foreclosure (or being underwater) increase depending upon other market and economic forces (unemployment, nation-wide rates of house price increases, local house prices), the extent of down payment required, and the inflation rate (a lower inflation rate means that real mortgages decline more slowly, putting people at greater risk of going underwater in later years)?

Questions regarding the impact of loan originations and processing on foreclosures:

- What impact will the "robo-signer" discovery and unclear titles have on foreclosures in general? Is there a disparate impact on communities of color?

  - Does judicial review provide extra protections compared to non-judicial review?
  - Will likely solutions have a disparate impact (i.e., a property has to be valuable enough to work through the title mess so poorer communities might end up with more unresolved title issues)?
- How do disparities in the loan origination phase now impact communities of color that are trying to avoid foreclosure? I.e., were homeowners of color more likely to take out second liens? If not, is wealth loss for homeowners of color greater than for non-minorities, since they likely put more of their own money into their homes? Does the higher proportion of subprime loans in communities of color mean that it will be harder for these homeowners to prevent foreclosure due to the high level of securitization in the subprime market?

Rental Housing

Questions related to describing the impact of foreclosures on renters:

- How many renters have been affected by the foreclosure crisis? What are the socio-economic and demographic characteristics of the families/neighborhoods that are experiencing a foreclosure crisis among rental properties?
- What impact does the level of tenant and landlord protections have on communities overall, particularly communities of color?
- Displaced renters have had to make difficult tradeoffs in coping with their need to relocate. What are the characteristics of the neighborhoods to which they moved (versus those from which they moved), with respect to schools, child care providers, extended family members, public safety employment opportunities, proximity to transportation, and other public services and amenities,? What are the implications for children? What does this suggest about the design of programs and policies to address the needs of these residents and their communities?

Questions related to the protections in place for renters facing foreclosures:

- What protections are in place for tenants in a property that undergoes foreclosure? How are these protections being enforced? In communities of color?
- Do foreclosure prevention initiatives leave out landlords? Especially landlords of one to four unit properties?
- As communities shift and become less dominated by homeowners, do renters have fair and equal access to housing?

Neighborhood Stabilization

Questions regarding the level of neighborhood stabilization funding and where these funds are being targeted:

- What is the volume and range of neighborhood stabilization investment available at the local, state, and federal levels?
- Where are NSP and other community stabilization dollars being targeted? Are there disparities in where local jurisdictions are investing these dollars?

Questions related to the impact and effectiveness of neighborhood stabilization programs, including the equity of these programs:

- Are NSP funds contributing to increased concentrations of assisted rental units in high poverty neighborhoods? Are NSP rental units located predominantly in communities of color?
- What neighborhood stabilization strategies hold the most promise for stabilizing communities of color (without further disrupting the social networks, small businesses, etc. that comprise these communities)?
- How can we better link housing policy and housing investment to infrastructure investment, job creation and business development? Are HUD's Section 3 requirements for jobs and business opportunities, and NSP 3's local hiring requirements, being fulfilled to create economic opportunities for residents of affected neighborhoods? How should we strategically target comprehensive investment to make the largest impact on the communities that need the most help?
- Are Fannie Mae's First Look Initiative and other such programs working as intended?
- What is the intersection between transit-oriented development and foreclosure?
- What role can shared equity housing, including community land trusts, play in preventing future displacement due to gentrification in neighborhoods that have benefited from neighborhood stabilization investment?
- Are REO properties in communities of color maintained as well as those located in predominantly white communities? Are REO properties located in communities of color being effectively marketed and sold to individual homeowners?

- What are other fair housing implications of neighborhood stabilization investments (for example, could some lead to gentrification and displacement? Conversely, are there other neighborhoods 'left out' of the NSP program)?
  - Are NSP funds being expended in conformance with affirmatively furthering Fair Housing requirements?

Housing Investors

Questions related to the practices and patterns of investors:

- To what extent are investors purchasing distressed properties, at times in bulk, and flipping them for a profit with little to no renovation, or holding them, often with limited or no maintenance?
- Is there a geographic pattern indicating where investors are active? Is there a pattern regarding the locations in which they flip properties versus where they hold blighted properties?
- Are there any clear patterns regarding where investors are purchasing properties?

Questions related to the impact of investors' practices:

- What is the community impact of predatory investors?
- Are communities of color more susceptible to these predatory investors?
- Are investors who are purchasing and holding properties delaying recovery?

Questions related to solutions for harmful investor practices:

- What policies can help to shape investor behavior?
- What policies encourage or facilitate investors (i.e., tax policy, split rate taxes, FDIC shared loss agreements, etc.)?
- How can policymakers encourage responsible investors and nonprofits?
- How can policymakers encourage banks to sell properties to owner-occupants before they fall into the hands of investors (or at least incentivize realtors to sell to owner-occupants)?

Goal 2: Address racial disparities in the credit market

Research has documented significant racial disparities in credit markets, including differences in credit scores and a dual mortgage market that consigns minorities to subprime or alternative forms of credit issuers. The current foreclosure crisis has the potential to exacerbate these disparities, particularly in terms of long-term credit scores.

Credit Repair and Asset Building

Questions related to the importance of credit scores and debt on opportunity and asset building:

- How do credit scores affect access to opportunity? What are the consequences of differences in credit scores?
- What is the likely impact on consumers of decreasing credit scores?
- What is the role of debt in the asset accumulation process?

Questions related to the impact of the foreclosure crisis on credit scores:

- How has the recent foreclosure crisis affected trends in U.S. consumer credit scores? (I.e., new exciting work by Kenneth Brevoort just presented at the FRB/FDIC conference.)
  - What factors are contributing to the decrease in credit scores?
  - Are communities of color experiencing a disproportionately large fall in credit scores?

Questions related to credit repair:

- What are best practices in credit repair?
  - What programs can help families that have gone through foreclosure and/or unemployment start rebuilding their assets (i.e., lease-to-purchase)?

Questions related to disparities in credit scores:

- What factors lead to disparities in credit scores, and/or why is it that people of color are less likely to have an official credit score than white consumers?

- Are there credit scoring alternatives that would be more appropriate for assessing risk in the current environment?
- Are there alternative underwriting standards that do not rely on credit scores that could be used in the current environment?
- What best practices exist in helping communities of color build credit scores?
- Do major credit scoring mechanisms use variables or formulas that cause disparities and, if so, can these mechanisms be changed to reduce the incidence of discrimination?

Questions on the role of public policy in credit scoring:

- What will be the CFPB's role in credit scoring issues?
- What more can be done to expand the reach of Fannie Mae, Freddie Mac, and FHA mortgage financing to communities of color? In particular, expanding opportunities for purchasers of shared equity housing, such as community land trust homes.

Questions on the connection between homeownership and opportunity and homeownership asset building:

- Is homeownership an important wealth building strategy?
- How has housing wealth changed during the Great Recession? To what extent are different subgroups protected by past accumulation of wealth and therefore better able to ride out the recession and housing downturn?
- Has the housing crisis hindered job mobility for underwater homeowners?

Questions on homeownership in general, the homeownership rate, and overall disparities:

- In what circumstances is homeownership the right choice for low- and moderate-income families? What household and economy-wide circumstances does the answer depend upon?
- How has homeownership changed during the Great Recession and over time for communities of color? What implications do the changes have for future asset building?
- How can long-term disparities (i.e., the homeownership gap) be addressed?
- How can housing counseling be made more accessible and more effective for more Americans? What other products, such as home warranties, can be made more widely available to make owning and maintaining a home easier?

Ensuring an Affirmative Credit System for Minorities in the Future

Questions with regard to access to credit for communities of color:

- Do communities of color lack equal access to credit?
- What impact does this disparity in access have on communities?

Questions with regard to the role of public policy in access to credit:

- What policies exist to expand access to credit for communities of color?
- What additional programs and/or policies should be established now to ensure that borrowers of color have equitable access to safe and affordable credit in the future?
- In light of financial reform, how will the mortgage market be monitored in the future? How can the regulatory infrastructure be shaped to ensure that consumers are protected from deceptive and predatory practices?
- How can the GSEs, FHA, and FHLBs be reformed to ensure an efficient, fair and inclusionary housing finance system in the future?
  - Do the GSEs' declining market and other fees have a disparate impact on communities of color?
- What are alternative criteria (not necessarily products) for products being deemed creditworthy, in addition to "plain vanilla" products available to everyone?

Questions with regard to the role of the private sector in access to credit:

- What types of alternative financing mechanisms, including market-based transaction fees, can be leveraged to implement a comprehensive agenda? What is the scale of funding needed to sufficiently address homeownership needs?
- What are good alternatives to payday loans? What is the impact and success of payday loan alternatives? What constellation of financing, policy, and programs are required to develop viable payday loan alternatives in cities? How are these alternatives marketed? What is their success rate? What is their use, repayment, and frequency with which a consumer returns to use the alternative?

Goal 3: Rebuild communities of color so that they serve as true gateways to opportunities

Foreclosures affect more than just housing and credit markets. How have foreclosures led to other negative spillover effects, and how do we ensure that the foreclosure crisis does not trigger a long-term spiral of disinvestment in these neighborhoods?

Generational impact

Questions on the broader impact of the foreclosure crisis:

- Will these social impacts have generational consequences?
- Are there characteristics of communities of color that will make these consequences last longer?
- Is there a re-segregation effect as a result of the foreclosure crisis?

Social infrastructure needs

Questions about the negative spillover effects of the foreclosure crisis:

- What are the negative spillover effects of foreclosures on families and communities? Schools, child care, small businesses, crime, social dislocation and isolation, health, local government (e.g., through decreases in public revenue and attendant impacts on social programs)?
  - Are communities of color experiencing these social impacts at a disproportionate rate?

Questions on the role of programs and public policy with regard to social infrastructure needs:

- What programs and policies should be established to support struggling families now, and to create a more sustainable safety net in the future? Among other options, this should include (a) increased funding for housing counseling programs (as well as possibly making it mandatory in certain instances), and (b) increased funding for stewardship activities that can backstop homeowners and keep them out of foreclosure in the first place.
- Do communities of color currently have equal access to these programs or services?
- What approaches to homeownership, such as community land trusts, reduce the likelihood that we will repeat the same boom-bust cycle that created the foreclosure crisis in the first place?

Appendix B

Table B1: Ranking of Research Importance, Ranked by Overall Rating Average
(14 responses)

	(least important)				(most important)	
Research Goal(Number of Respondents)	**1**	**2**	**3**	**4**	**5**	**Rating Average**
Subgoal 1A: Mitigate the impact of the foreclosure crisis on communities of color (with a focus on foreclosure prevention and loan modification)	7.1% (1)	14.3% (2)	7.1% (1)	35.7% (5)	35.7% (5)	3.79
Subgoal 2A: Address racial disparities in the credit and homeownership markets	7.7% (1)	23.1% (3)	23.1% (3)	30.8% (4)	15.4% (2)	3.23
Subgoal 1B: Mitigate the impact of the foreclosure crisis on communities of color (with a focus on rental housing, neighborhood stabilization and housing investors)	14.3% (2)	14.3% (2)	35.7% (5)	21.4% (3)	14.3% (2)	3.07
Subgoal 2B: Address racial disparities in the credit and homeownership markets	18.2% (2)	18.2% (2)	36.4% (4)	0.0% (0)	27.3% (3)	3.00
Subgoal 3: Rebuild communities of color so that they serve as true gateways to opportunities	28.6% (4)	35.7% (5)	7.1% (1)	14.3% (2)	14.3% (2)	2.50

Table B2: Ranking of Research Importance, Ranked by Rating Average for Subgoal 1A
(14 responses) [Qs = questions; FC = foreclosure]

	(least important)			(most important)	
Subgoal 1A (Number of Respondents)	**1**	**2**	**3**	**4**	**Rating Average**
Qs on the effectiveness of government and private FC prevention initiatives and equality of access to these programs	7.1% (1)	0.0% (0)	28.6% (4)	64.3% (9)	3.50
Qs on the secondary impact of FC on individual families and neighborhoods	21.4% (3)	28.6% (4)	35.7% (5)	14.3% (2)	2.43
Qs on the impact of loan origination and processing on the FCs	46.2% (6)	15.4% (2)	23.1% (3)	15.4% (2)	2.08
Qs on the impact of economic and market conditions on the FC process	21.4% (3)	57.1% (8)	14.3% (2)	7.1% (1)	2.07

Table B3: Ranking of Research Importance, Ranked by Rating Average for Subgoal 2A

(14 responses) [Qs = questions; FC = foreclosure]

	(least important)							(most important)	
Subgoal 2A (Number of Respondents)	**1**	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**Rating Average**
Qs on the role of public policy in access to credit	0.0% (0)	7.1% (1)	7.1% (1)	14.3% (2)	7.1% (1)	14.3% (2)	21.4% (3)	28.6% (4)	5.93
Qs on the access to credit in communities of color	0.0% (0)	0.0% (0)	7.7% (1)	15.4% (2)	23.1% (3)	23.1% (3)	0.0% (0)	30.8% (4)	5.85
Qs on the role of the private sector in access to credit	38.5% (5)	0.0% (0)	0.0% (0)	7.7% (1)	0.0% (0)	15.4% (2)	30.8% (4)	7.7% (1)	4.38
Qs on the disparities in credit scores	7.1% (1)	7.1% (1)	21.4% (3)	21.4% (3)	14.3% (2)	14.3% (2)	7.1% (1)	7.1% (1)	4.36
Qs on the importance of credit scores and debt on opportunity and asset building	21.4% (3)	28.6% (4)	0.0% (0)	0.0% (0)	14.3% (2)	7.1% (1)	21.4% (3)	7.1% (1)	4.00
Qs on the impact of the FC crisis on credit scores	14.3% (2)	21.4% (3)	21.4% (3)	0.0% (0)	7.1% (1)	14.3% (2)	21.4% (3)	0.0% (0)	3.93
Qs on the role of public policy in credit scoring	14.3% (2)	0.0% (0)	21.4% (3)	21.4% (3)	28.6% (4)	14.3% (2)	0.0% (0)	0.0% (0)	3.93
Qs on credit repair	7.1% (1)	35.7% (5)	21.4% (3)	21.4% (3)	7.1% (1)	0.0% (0)	0.0% (0)	7.1% (1)	3.21

Table B4: Ranking of Research Importance, Ranked by Rating Average for Questions Pertaining to the Effectiveness of Government and Private Foreclosure Prevention Initiatives and Equality of Access to These Programs within Subgoal 1A
(9 responses) [Qs = questions; FC = foreclosure]

	(least important)							(most important)	
Question (Number of Respondents)	1	2	3	4	5	6	7	8	Rating Average
Who is/is not receiving loan modifications (in terms of race/ethnicity and language spoken)?	0.0% (0)	0.0% (0)	11.1% (1)	22.2% (2)	0.0% (0)	0.0% (0)	33.3% (3)	33.3% (3)	6.22
How should bankruptcy reform/judicial modification be structured to make it an effective loss mitigation tool, particularly for communities of color?	11.1% (1)	0.0% (0)	22.2% (2)	11.1% (1)	0.0% (0)	0.0% (0)	22.2% (2)	33.3% (3)	5.44
What are best practices to address FC at each step, i.e., before FC is filed, after FC is filed but before disposition, after disposition but before eviction, and after eviction?	11.1% (1)	11.1% (1)	0.0% (0)	22.2% (2)	0.0% (0)	33.3% (3)	0.0% (0)	22.2% (2)	5.00
Is HAMP working overall? What specific interventions or reforms could make HAMP more effective?	11.1% (1)	11.1% (1)	11.1% (1)	11.1% (1)	22.2% (2)	0.0% (0)	22.2% (2)	11.1% (1)	4.67
Are private FC alternatives (including modifications, short sales and deeds-in-lieu) working?	0.0% (0)	33.3% (3)	0.0% (0)	33.3% (3)	33.3% (3)	0.0% (0)	0.0% (0)	0.0% (0)	4.33
What effect does dual-tracking have on low-income communities and communities of color? Are borrowers of color being more negatively impacted by dual-tracking practices? Are low-income borrowers being more negatively impacted by dual-tracking practices?	11.1% (1)	22.2% (2)	0.0% (0)	11.1% (1)	22.2% (2)	22.2% (2)	11.1% (1)	0.0% (0)	4.22
What fair housing counseling is currently taking place? Are families facing FC receiving any counseling about the location of alternate housing, or are they encouraged to move to high poverty neighborhoods?	11.1% (1)	11.1% (1)	22.2% (2)	22.2% (2)	11.1% (1)	11.1% (1)	11.1% (1)	0.0% (0)	3.89
Is there a significant difference between men's and women's experiences and outcomes within each category of color?	44.4% (4)	11.1% (1)	33.3% (3)	0.0% (0)	11.1% (1)	0.0% (0)	0.0% (0)	0.0% (0)	2.22

Table B5: Ranking of Research Importance, Ranked by Rating Average for Questions on the Secondary Impact of Foreclosure on Individual Families and Neighborhoods within Subgoal 1A

(9 responses) [Qs = questions; FC = foreclosure]

	(least important)					(most important)	
Question (Number of Respondents)	**1**	**2**	**3**	**4**	**5**	**6**	**Rating Average**
Do homeowners of color who have experienced FC tend to move to housing in more segregated, higher poverty neighborhoods? What is the incidence of homelessness/doubling up among families in FC?	11.1% (1)	11.1% (1)	0.0% (0)	11.1% (1)	22.2% (2)	44.4% (4)	4.56
To what extent is housing loss leading to school disruption for children of affected homeowners or tenants, including specific impacts on children of color?	22.2% (2)	0.0% (0)	11.1% (1)	11.1% (1)	33.3% (3)	22.2% (2)	4.00
What are the latest and best estimates of the costs to various stakeholders (homeowners, city/county, neighbors, tenants, small businesses, etc.) of FC? Is there a good and recent quantification of the various costs which can be shared?	0.0% (0)	22.2% (2)	11.1% (1)	44.4% (4)	11.1% (1)	11.1% (1)	3.78
What is the extent to which homeowners and renters who lose their homes due to FC become homeless as a result, including specific impacts on racial/ethnic minorities?	11.1% (1)	22.2% (2)	33.3% (3)	11.1% (1)	11.1% (1)	11.1% (1)	3.22
What is the impact of FC and credit crises on small businesses? Is there a disparate impact?	11.1% (1)	22.2% (2)	44.4% (4)	0.0% (0)	11.1% (1)	11.1% (1)	3.11
Are some borrowers and communities more likely to finance their businesses by taking out a home equity loan, so that a FC on that loan and/or a cut line of credit leads to FC, firing of employees, and failure of the business?	44.4% (4)	22.2% (2)	0.0% (0)	22.2% (2)	11.1% (1)	0.0% (0)	2.33

Table B6: Ranking of Research Importance, Ranked by Rating Average for Questions with Regard to the Role of Public Policy in Access to Credit within Subgoal 2A

(9 responses) [Qs = questions; FC = foreclosure]

	(least important)					(most important)	
Question (Number of Respondents)	**1**	**2**	**3**	**4**	**5**	**6**	**Rating Average**
How can the GSEs, FHA and FHLBs be reformed to ensure an efficient, fair and inclusionary housing finance system in the future?	0.0% (0)	0.0% (0)	11.1% (1)	22.2% (2)	33.3% (3)	33.3% (3)	4.89
What additional programs and/or policies should be established now to ensure that borrowers of color have equitable access to safe and affordable credit in the future?	11.1% (1)	11.1% (1)	22.2% (2)	11.1% (1)	22.2% (2)	22.2% (2)	3.89
In light of financial reform, how will the mortgage market be monitored in the future? How can the regulatory infrastructure be shaped to ensure that consumers are protected from deceptive and predatory practices?	11.1% (1)	11.1% (1)	33.3% (3)	33.3% (3)	0.0% (0)	11.1% (1)	3.33
What policies exist to expand access in communities of color?	11.1% (1)	33.3% (3)	22.2% (2)	11.1% (1)	0.0% (0)	22.2% (2)	3.22
Do the GSEs' declining market and other fees have a disparate impact on communities of color?	11.1% (1)	44.4% (4)	11.1% (1)	0.0% (0)	33.3% (3)	0.0% (0)	3.00

Table B7 Ranking of Research Importance, Ranked by Rating Average: Goal 2A: Qs with regard to access to credit in communities of color

(9 responses) [Qs = questions; FC = foreclosure]

	(least important)	(most important)	
Question (Number of Respondents)	**1**	**2**	**Rating Average**
What impact does this disparity in access have on communities?	11.1% (1)	88.9% (8)	1.89
Do communities of color lack equal access to credit?	88.9% (8)	11.1% (1)	1.11

Table B8: Making Home Affordable (MHA) Adverse Action Reason Codes and Definitions

MHA Adverse Action	Description	Outcome
Ineligible Mortgage	Loan is not eligible for modification under the MHA program because it does not meet one or more of the following basic program eligibility criteria: Mortgage loan must be a first-lien mortgage loan originated on or before January 1, 2009 Current unpaid principal balance (UPB) of the mortgage loan prior to capitalization must be no greater than $729,750 for a one-unit property; $934,200 for a two-unit property; $1,129,250 for a three-unit property; or $1,403,400 for a four-unit property.	Trial is canceled; loan can be reconsidered for a future HAMP modification.
Ineligible Borrower – Current DTI less than 31%	Borrower is not eligible for modification under the MHA program because their current monthly housing expense, which includes the monthly principal and interest payment on their first-lien mortgage loan plus property taxes, hazard insurance and homeowners' dues (if any) is less than or equal to 31% of their gross monthly income (i.e., monthly income before taxes and other deductions).	Trial is canceled; loan can be reconsidered for a future HAMP modification.
Property Not Owner Occupied	Loan is not eligible for modification under the MHA program because the property secured by the mortgage loan is not occupied by the borrower as their primary residence.	Trial is disqualified; loan cannot be reconsidered for a future HAMP modification. Servicer may assist borrower in pursuing other foreclosure alternative modification programs.
Other Ineligible Property (i.e., Property Condemned, Property > 4 units)	Loan is not eligible for modification under the MHA program because the property secured by the mortgage loan is vacant, condemned or has more than four dwelling units.	Trial is disqualified; loan cannot be reconsidered for a future HAMP modification. Servicer may assist borrower in pursuing other foreclosure alternative modification programs.
Investor Guarantor Not Participating	Loan cannot be modified under the MHA program because the investor of the subject mortgage loan has not provided contractual authority to modify the loan; the private mortgage insurance company insuring the subject mortgage loan has not approved the modification; or the guarantor of the subject mortgage loan has not approved the modification.	Not applicable for trial fallout; applies to non-acceptances.
B/K Court Declined	Loan is not eligible for modification under the MHA program because the borrower has filed for bankruptcy protection and the proposed modified loan terms were not approved by the bankruptcy court.	Not applicable for trial fallout; applies to non-acceptances.
Negative NPV	Loan is not eligible for modification under the MHA program because the result of the standardized Net Present Value (NPV) is "negative." The standardized NPV test compares the NPV result for a modification to the NPV result for no modification. If the NPV result for no modification is greater than NPV for the modification scenario, the modification result is deemed "negative."	Trial is cancelled; loan can be reconsidered for a HAMP modification.

MHA Adverse Action	Description	Outcome
Offer Not Accepted by Borrower / Request Withdrawn	Borrower withdrew their modification request for consideration for either a trial period plan or HAMP modification or did not accept either a trial period plan or a HAMP modification offer. Failure of borrower to make the first trial period payment in a timely manner is considered non-acceptance of the trial period plan.	Not applicable for trial fallout; applies to non-acceptances.
Default Not Imminent	Loan is not eligible for modification under the MHA program because the subject loan is not delinquent or default is not reasonably foreseeable.	Not applicable for trial fallout; applies to non-acceptances.
Previous Official HAMP Modification	Loan is not eligible for modification under the MHA program because the subject loan has been previously modified under the program.	Not applicable for trial fallout; applies to non-acceptances.
Loan Paid Off or Reinstated	Loan is not eligible for modification under the MHA program because the subject loan was completely paid off and there is no longer a debt obligation, or the subject loan was reinstated. If the loan was reinstated, the borrower may request reconsideration under the MHA program if they experience a subsequent financial hardship.	Trial is disqualified; loan cannot be reconsidered for a future HAMP modification. Servicer may assist borrower in pursuing other foreclosure alternative modification programs.
Excessive Forbearance	Loan is not eligible for modification under the MHA program because the result of the NPV test is "negative" and the principal forbearance required to achieve a payment of no more than 31% of the borrower's monthly income resulted in a forbearance amount that exceeds program guidelines.	Trial is canceled; loan can be reconsidered for a future HAMP modification.
Request Incomplete	Borrower requested a modification under the MHA program but did not provide the financial and/or hardship verification documentation required to complete the evaluation of their request in a timely manner. As part of the MHA program procedures, servicers provide the borrower with a notice listing all the documents needed to complete the evaluation and a date by which the information must be received before the borrower can become eligible for the MHA program. If the borrower fails to provide all required verification documentation by the date provided, the borrower is not eligible for a modification.	Trial is canceled; loan can be reconsidered for a future HAMP modification.
Trial Plan Default	Borrower accepted a trial period plan under the MHA program but failed to make all the trial period payments by the end of the trial period plan and is in default.	Trial is disqualified; loan cannot be reconsidered for a future HAMP modification. Servicer may assist borrower in pursuing other foreclosure alternative modification programs.
Unemployment Forbearance Plan	Borrower accepted a trial period plan under the MHA program but prior to receiving a permanent modification has become unemployed and qualified for an Unemployment Program forbearance period.	Trial is canceled; loan can be reconsidered for a future HAMP modification.
Federally Declared Disaster	Borrower accepted a trial period plan under the MHA program, but prior to receiving a permanent modification has been impacted by a Federally Declared Disaster that has qualified them for a forbearance period.	Trial is canceled; loan can be reconsidered for a future HAMP modification.

Source: http://www.treasury.gov/initiatives/financial-stability/results/Documents/MHA%20Data%20File%20User%20Guide%20FINAL.pdf (p. 11ff).

No national efforts are contemplated to rebuild the housing market in ways that will ensure a robust homeownership market for people of color. In short, the work of the Research and Solutions Working Group is in many ways just beginning. We likely will wrestle with the questions and problems discussed in this report for years, if not decades, to come.

Appendix C: List of Working Group Members

Emily Accamando, *The Opportunity Agenda*
Abony Holmes Alexander, *San Francisco Foundation*
Katrin B. Anacker, *George Mason University*
Debbie Bocian, *Center for Responsible Lending*
Maya Brennan, *Center for Housing Policy*
Delia Carmen, *Annie E. Casey Foundation*
James H. Carr, *National Community Reinvestment Coalition*
Karen Cunningham, *National Law Center on Homelessness and Poverty*
Tracy Evans, *Fannie Mae*
Julia Gordon, *Center for Responsible Lending*
Wendy Jackson, *Kresge Foundation*
Roger Lewis, *National Community Land Trust Network*
Heather McCulloch, *Asset Building Strategies*
Signe-Mary McKernan, *The Urban Institute*
Jillien Meier, *Annie E. Casey Foundation*
Michelle Mulcahy, *formerly with the National Community Reinvestment Coalition*
Danilo Pelletiere, *National Low Income Housing Coalition*
Carolina Reid, *Federal Reserve Bank of San Francisco*
Roberto Requejo, *The Chicago Community Trust*
Philip Tegeler, *Poverty & Race Research Action Council*
Ascala Tsegaye Sisk, *NeighborWorks America*
Burton Sonenstein, *Annie E. Casey Foundation*
Preeti Vissa, *The Greenlining Institute*
Beadsie Woo, *Annie E. Casey Foundation*

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The Foreclosure Crisis and Its Impact on Communities of Color: Research and Solutions

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