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# PREVENTING

## Foreclosure Displacements

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Although foreclosures are taking a toll on New England's low-income communities, most countermeasures focus on preventing foreclosure and disposing of properties after foreclosure, not on keeping properties occupied through the process. In Massachusetts, however, a coalition of community advocates, legal aid organizations, lenders, and low-income residents is having success keeping foreclosed homeowners and tenants in their homes and preventing the neighborhood deterioration that vacancies often spur.<sup>1</sup>

Foreclosures in Massachusetts as a whole declined nearly 35 percent from August 2008 to August 2009. But the crisis

continues in specific neighborhoods, and as of September 2009, there were 19,108 petitions to foreclose, a 31.6 percent increase from 2008.<sup>2</sup> The foreclosures are concentrated in communities where residents earn less than 80 percent of the state median income.<sup>3</sup> And with continued market weakness and rising unemployment, their problems will not dissipate soon.

Meanwhile, there are evictions, which not only destabilize families and neighborhoods but place increased burdens on social safety nets.<sup>4</sup> But governments accustomed to providing those safety nets are experiencing reduced tax receipts, loss of prior neigh-

borhood investment, and higher costs for arson and crime. Understandably, combating vacancy is critical.

### Organizing Efforts

In early 2008, affordable housing professionals were concerned that the Commonwealth's vulnerable communities risked losing 30 years' worth of revitalization improvements. They also perceived that a lack of knowledge, resources, and policy responses was making matters worse. So Citizens' Housing and Planning Association (CHAPA), a statewide housing advocacy group, organized a Foreclosed Prop-

erties Task Force to help local entities with neighborhood-stabilization strategies and the sound disposition of at-risk properties.<sup>5</sup>

Several members focused on finding out who was tracking tenants moving from home to family couch to homeless shelter—or out of state—and what efforts were already afoot to keep tenants from eviction. Out of that research emerged a group of housing, organizing, and financing professionals determined to protect the rights of occupants to remain in homes and to maximize home affordability and community stability long-term. The group, Coalition for Occupied Homes in Foreclosure (CO-HiF), includes community-based advocacy organizations (for example, City Life/Vida Urbana, Boston Tenant Coalition), legal aid groups (Harvard Legal Aid Bureau, Greater Boston Legal Services), policy advocates (Massachusetts Law Reform Institute, the Center for Social Policy at the University of Massachusetts, Boston), developers (Archdiocese of Boston's Planning Office of Urban Affairs), and lenders such as Boston Community Capital (BCC). By keeping the focus on people, not properties, COHiF has catalyzed resources to create a win-win-win for families, lenders, and communities.

In summer 2008, BCC conducted professionally moderated focus groups with randomly selected homeowners undergoing foreclosure and began to formulate a possible approach. Just as the nonprofit was refining the concept, a focus group participant, having tried everything to save her home, sought help. Here was an opportunity to test a theory about buying loans or properties from lenders and working things out with the resident.

The case presented challenges, including the need to work with a second mortgage holder. Months of negotiating—and demonstrating to the lenders why they would be better off working with BCC than keeping nonperforming loans on their books—led to getting both mortgages paid off at significantly reduced levels. That single case produced valuable insight into the importance of determining the true market value of distressed properties and how to approach lenders. As BCC has become more experienced, new cases have been resolved faster and have demonstrated the benefits of having a reasonable and responsible lending partner to help smooth the process of taking

a client from foreclosure to repurchasing the home with appropriate financing.

The decline in real estate prices in low-income areas has made it possible for BCC to purchase foreclosed properties from first- and second-mortgage lenders at prices at present value or below, a steep discount (often 40 percent to 50 percent) from the outstanding principal. It is then possible to resell those same homes (with mortgage financing) to their existing occupants—owners and tenants—at prices they can afford.

## **Keeping properties occupied is the most effective method to stabilize values and maintain security in communities.**

### **Keeping People in Homes**

Early on, BCC helped a family struggling with both a predatory loan and the death of a spouse. Wells Fargo Home Mortgage had foreclosed, but through the efforts of City Life/Vida Urbana and Greater Boston Legal Services, the family fought eviction for months. Finally the clock ran out, and Boston Community Capital was contacted. Late on the Wednesday before Thanksgiving, BCC told a Wells Fargo lender the fam-

ily's story and asked him to consider BCC's offer to purchase the property. Three senior executives later, a call came indicating that Wells was willing to stop the eviction and work with the nonprofit.

The next step was establishing the home's market value and carefully underwriting the family's ability to support a 30-year fixed-rate mortgage. A right-sized mortgage at a fixed rate worked for both the family and Wells Fargo, which received a market price for an asset that had been on the books as a nonperforming, nonpaying loan for more than six months.

Keeping properties occupied is the most effective method to stabilize values and maintain security in communities. In one study, cost-benefit analysis showed that California banks could collect more than \$1 billion annually if tenants were allowed to remain in and pay rent in foreclosed properties.<sup>6</sup>

In Massachusetts, according to estimates by Massachusetts Law Reform Institute attorney Judith Liben and independent research consultant Tim Davis, permitting rent-paying tenants and former owner-occupants who comply with basic tenancy obligations (timely rent payment, only normal wear and tear, no bothersome behavior or noise) to remain in their homes until sale would result in \$86 million to \$102 million annually for banks. It would also save taxpayers the costs associated with increased police and fire protection and overcrowded homeless shelters.



What started with one family has grown to include displacement prevention for more than 40 additional families and financing to purchase over 20 foreclosed units in Greater Boston—a great complement to the state’s neighborhood-stabilization efforts, which focus on vacant homes.

In addition to the price declines that have enabled BCC to purchase foreclosed properties, several other factors have been critical:

- relationships with community partners who are both a source of potential borrowers for BCC’s community development lending and screeners of potential borrowers;
- new mortgage loan instruments that explicitly meet the stated needs of low-income people;
- fully underwritten, 30-year mortgages with a fixed payment—including principal, interest, taxes, and insurance—equal to no more than 38 percent of household income;
- selling primarily to existing occupants whose knowledge of actual operating costs reduces the likelihood of unduly optimistic estimates; and
- building a portfolio-level reserve against future loan losses and market decline.

## Eyes on Success

It is important to recognize that reducing borrower debt may cause anger among neighbors who are managing to make full mortgage payments. It even could encourage owners not in foreclosure to default, a phenomenon called “moral hazard.” To address potential moral hazard, BCC includes a zero percent, zero amortizing, shared-appreciation second mortgage, which limits the eventual appreciation to a fraction of

what the borrower might otherwise earn. Also, applicants are screened not only for income eligibility, but also to rule out defaulted owners who have had neither an adverse life event (loss of income, illness, emergency expenses, death in the family) nor a predatory loan.

Finally, low-income borrowers are more likely to succeed in paying a mortgage on time and over time if they have the following: fixed-rate, properly underwritten mortgages that ensure a manageable, predictable monthly payment; automatic deposit of paychecks and automatic withdrawal of mortgage payments (timed to be coincident with payday, generally biweekly); assistance with budgeting; up-front reserves to help manage the lack of a financial cushion and to cover unexpected events; and education about the real costs of mortgage finance and of owning and maintaining a home.

With foreclosures continuing to take a toll on low-income communities, ripple effects are being felt by more than the individual homeowners. Clearly, the decline of neighborhoods must be interrupted as early as possible. Through collaboration and innovative, sound financing, Massachusetts is developing a unique tool that can turn the tide.

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## Endnotes

- <sup>1</sup> Boston Community Capital, a nationwide community development financial institution, is currently focusing its foreclosure work on Massachusetts, but the model is replicable elsewhere.
- <sup>2</sup> See <http://www.thewarengroup.com/portal/Solutions/PressReleases/tabid/190/newsid751/2337/Default.aspx>.
- <sup>3</sup> See [http://www.chapa.org/?q=foreclosure\\_view\\_details/22](http://www.chapa.org/?q=foreclosure_view_details/22).

<sup>4</sup> Dan Immergluck and Geoff Smith, “The External Costs of Foreclosure: The Impact of Single-Family Mortgage Foreclosures on Property Values,” *Housing Policy Debate* 17, no. 1 (Washington, DC: Fannie Mae Foundation, 2006): 57-79.

<sup>5</sup> In Massachusetts, the foreclosure process often takes more than 300 days. Depending on the servicer, eviction can occur after foreclosure, before foreclosure, or before *petition to foreclose* (“cash for keys”). Most servicers like to get people out of units because they fear the greater liability of becoming, in essence, landlords.

<sup>6</sup> Ari Levy and Dan Levy, “California Foreclosures Jeopardize Renters as Banks Seize Homes,” *Bloomberg.com*, April 6, 2009.

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## Numbers of Employed Black Males by Age\*

(1,000s, not seasonally adjusted)

Age group	Sep/ Nov 2007	Feb/ Apr 2009	Absolute change	Percent change
16 – 19	238	189	-49	-21%
20 – 24	821	698	-123	-15%
25 – 34	1,866	1,590	-276	-15%
35 – 44	1,922	1,667	-255	-13%
45 – 54	1,731	1,608	-123	-7%
55 – 64	736	814	78	+10%
65+	220	211	-9	-4%

Source: CPS monthly surveys, selected months 2007-2009, from BLS web site. Tabulations by authors.

Corrected table from Andrew Sum et al, “The Recession’s Effect on African American Males,” *Communities & Banking*, Winter 2010.