The Home Ownership Preservation Initiative in Chicago (HOPI)

Reducing Foreclosures through Strategic Partnerships

Bruce Gottschall, Executive Director
Neighborhood Housing Services of Chicago
Who is NHS?

- The mission of NHS is to help neighborhoods stay strong – by helping people buy, fix or stay in their homes. We are a not for profit community organization that has been working in Chicago neighborhoods for 30 years.

We have 8 local offices that serve 9 targeted neighborhoods:

- Auburn Gresham/Englewood West Englewood – 60620 & 60636
- Back of the Yards/Garfield Boulevard – 60609 & 60621
- Chicago Lawn/Gage Park - 60629, 60632 & 60652
- North Lawndale – 60623 & 60612
- Roseland – 60628
- South Chicago – 60617
- West Humboldt – 60624 & 60651
- Central Office – Provides City-Wide programs

*We Serve 1-4 unit homeowner occupants*
Foreclosures Threatened Chicago’s Neighborhoods

Analysis by National Training and Information Center (NTIC)
November 2004
Fast Foreclosures in NHS Targeted Areas

Half of Loans Start Foreclosures within 3 years of Origination

Dramatic increase Since 1993

52% of all loans starting foreclosure in 2001 were originated after 1998

72% of loans which were priced 300 basis points over 30 year Treasury and starting foreclosure in 2001, were originated after 1998
NHS Case Study of Foreclosure Impact:

Case Study of Foreclosure Impact:
The 8300 Block of S. Morgan St.
Auburn/Gresham, Chicago, Illinois

Foreclosures

83rd Street

Foreclosed in 1993; sold for unpaid taxes in 1995; property demolished

8310

Multiple foreclosures (1988 and 2001); building violations

8315

Foreclosed in 2000

Multiple foreclosures (1993 and 2000)

8323

8327

Foreclosed 2001

Problem Building

8356


8372

8377

8378

8357-59

Foreclosed in 2002

84th Street

Source: Public Records Search by Edwin R. Mendel Legal Aid Clinic, University of Chicago Law School
Chicago’s Home Ownership Preservation Initiative (HOPI) Model

Partnership Between:
  NHS
  City of Chicago, Department of Housing
  Federal Reserve Bank of Chicago
  Major Lenders/Servicers
Chicago’s HOPII Approach

- Quality homeowner education to prevent current and future delinquencies.
- Direct Interventions to assist homeowners at risk of foreclosure.
- Reclaim foreclosed homes for owner-occupants.
- Study mortgage and servicing impacts on neighborhoods to develop best practices as a “laboratory” for training and replication.
Chicago’s Home Ownership Preservation Initiative (HOPI)
Survey Findings of NHS Counseled Families

Demographics of HOPI Clients
- 73% Women
- 81% African American
- 15% Hispanic

Length of time lived in Home
  - Mean 10 years
  - Median 7 years

Income
- Mean $27,000 (38% of AMI)
- 1/3 below $18,000 (25% of AMI)

Average delinquency was 5.4 months when contacted by NHS

Source: NHS Chicago – Survey, 2005 (800 clients)
Profile of Respondents

- 69% First-time Buyers
- 55% First-time Refinancers
- 52% First-time Defaulters
- Median Purchase Time: 5 years ago
- Median Mortgage Balance: $87,500
- 62% have filed for Bankruptcy at some point
- Average Delinquency: 4.6 Months (up to 3 years)

Source: NHS Chicago-Defaulted Borrowers Survey, 2005 (289 respondents)
72% of Defaulted Loans are Refinances

<table>
<thead>
<tr>
<th>Use of Loan Proceeds</th>
<th>Percentage</th>
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</thead>
<tbody>
<tr>
<td>Home Improvement/Repair</td>
<td>44%</td>
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<tr>
<td>Bill Consolidation</td>
<td>24%</td>
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<tr>
<td>Taxes</td>
<td>6%</td>
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<tr>
<td>Investments</td>
<td>5%</td>
</tr>
<tr>
<td>Medical Costs</td>
<td>5%</td>
</tr>
<tr>
<td>Appliances</td>
<td>5%</td>
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<tr>
<td>Education</td>
<td>4%</td>
</tr>
<tr>
<td>Other</td>
<td>7%</td>
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</tbody>
</table>

Source: NHS of Chicago-Defaulted Borrowers Survey, 2005 (183/289 respondents)
Why, if Behind, Did not Contact Lender?

Why did you not contact your lender/servicer?

Source: NHS Chicago-311 Survey, 2005 (56/289 respondents)
NHS of Chicago Resources:

- Intensive Foreclosure Counseling
- Foreclosure Intervention Program
  - Below-market rate loans to reinstate a mortgage
- Homeownership Preservation Initiative Refinance
  And Refinance/Rehab Loans
Public-Private Partnerships Maximize Impacts

Credit Counselors
- Phone counseling
- Manage hotlines
- Budgeting
- Debt management plans

Nonprofit Housing Counselors
- In-person counseling
- Borrower education
- Housing issues
- Facilitate workouts
- Administer grants/loan

Lenders / Servicers
- Forbearance
- Loan modification
- Counseling referrals
- Support for collaborations

State Housing Agency
- Referral networks
- Payment assistance
- Emergency loans
- Training for counselors
- Financial support for nonprofits

City / State Government
- Hotlines
- Public awareness
- Facilitating collaboration
Foreclosures started in Chicago showed a slight increase in 2005.

Source: National Training and Information Center, Chicago, IL
The decrease in foreclosures started on sub-prime and high-cost loans (6% and 27%, respectively) in 2005 was completely off-set by a 43% increase on prime rate loans.

Source: National Training and Information Center, Chicago, IL
Foreclosures started on newly originated prime rate loans that were identified as ARMs and/or balloon payment loans increased by 152% in 2005.

Source: National Training and Information Center, Chicago, IL
Loss Mitigation Tools

• Repayment Plan
• Loan Modification
• Forbearance
• Redemption of reinstatement
• Short-payoff
• Refinance
Issues and Barriers

• **Consolidation of servicing**
  - Efficiency – cost counting “only”
  - Strong computer systems
  - Remoteness
  - One size fits all

  But Servicer can be ally because they see the problems caused by bad lending

• **Investor distant from transactions**
  - Risk spread therefore hard to find someone who cares
    - Residual risk often held by issuer-aggregator
  - Securitization protects investor from risk and loss
  - Many levels to investor creates conservative interpretations
    - Servicer and master servicer roles
  - There are real losses on foreclosures but who loses and where is the economic leverage on this?
  - Reputation risk
Issues and Barriers

Value that NFP, counselor and community brings to the process

- Gain greater contact with borrowers
- Third party Trusted advisor role really can create solutions
- Push proactive loss mitigation efforts
- Access to other resources
  - Public Funds
  - Other private sources
Issues and Barriers

What’s changing and what’s needed

ARM reset – payment shock issue
- Big enough to create new look at the problem?

Teams in sub-prime servicers working to develop new responsive proactive servicing and loss mitigation efforts
- We need better contact inside servicer to decide

Re-look at some of security inflexibility to create better loss mitigation efforts

Lending and foreclosure fraud are increasing
- what value can we add
Emerging Trends

- **Mortgage Rescue Fraud**
  - Distressed property consultants and
  - Distressed property purchasers

  - “Flip and Default”
  - “No Doc”
  - “Fee for Service”
  - “Buy Lease Back”