

Statewide Foreclosure Task Force in Michigan July 2007

Background

Following meetings in Lansing and Detroit in May 2007 convened by NeighborWorks and Michigan's CRA Coalition, several organizations including the Community Economic Development Association of Michigan (CEDAM), Detroit HOPE, Southwest Housing Solutions, and the Michigan Community Action Agency Association (MCAAA) began talking about the potential to organize a statewide Foreclosure Task Force to address the state's foreclosure crisis in a coordinated fashion. The three key areas of need identified by attendees at the Detroit meeting were: 1) augmenting and coordinating **education and prevention** efforts statewide; 2) creating a pool of **rescue funds** to assist families currently at risk of foreclosure; and 3) addressing the state's **weak laws** around predatory lending and mortgage broker regulation and advocating for stronger policy. It was suggested that a formal proposal outlining specific goals, involving many partners and proposing real solutions could create the necessary framework to leverage resources from state and national sources and organize stakeholders to most effectively address these three key areas of need.

Since the May meetings, members of the organizations above have reached out to homebuyer counselors, directors of other statewide foreclosure coalitions, Michigan legislators considering foreclosure legislation, consumer protection advocates, legal services providers and others to get their feedback on the scope of the three key issues and how they see a statewide coalition coming together in Michigan. Their feedback, outlined in the following pages, will be discussed at a meeting on 7/18 as follows.

The goals for the July 18th meeting are to:

1. More fully flesh out the issue areas outlined in the following pages and/or refocus priorities;
2. Brainstorm about the potential activities and structure of a statewide coalition;
3. Identify who else needs to be at the table; and
4. Determine next steps, assignments and next meeting date/agenda.

Meeting details:

Wednesday, July 18th, 2PM - 4PM
Oakland Livingston Human Service Agency, Conference Room D
Livingston County Office Complex East
2300 East Grand River Ave.
Howell, MI 48843

Draft summary of key areas of need in Michigan

1. Education and prevention efforts

**The following recommendations were compiled with the assistance of Tracy Kaufman from Home Repair Service in Grand Rapids, Latice Booker, John Petrilla, and Greg Sterns from Lighthouse Community Development in Pontiac, and Susan Mosqueda from Oakland Livingston Human Service Agency in Pontiac.*

Homebuyer counseling efforts, both HUD-certified and non-, are operating throughout Michigan locally and regionally. We know anecdotally that inter-agency collaborations for referrals and homebuyer rescue are on the rise and are resulting in workouts for some families. However, several barriers are keeping these efforts from being as effective as they could be. A statewide response might include the following elements:

Target Audience for Plan

1. People who already know they are in danger of foreclosure and need immediate assistance to determine their options and next steps. This is crisis intervention.
2. People who are in danger of foreclosure because of the type of mortgage they have or other life situation but do not realize how close this danger is for them. This group is not in trouble yet and doesn't realize how quickly they could be in foreclosure. This is where true prevention could occur.
3. Counselors – There are many housing counselors within the state of Michigan however many do not have a lot of expertise in foreclosure counseling as their focus has been pre-purchase counseling.

Aspects of Education/Intervention

1. Outreach is primary. If people don't know they are in trouble and don't know where to go for help, the fact that counseling services are available is pointless. Recommendations for increasing outreach are below.
2. Counseling/Education available through multiple arenas. Recommendations for ways to provide education are described below.
3. Trained knowledgeable counseling network is crucial to the statewide education plan for provision of counseling services.

Outreach

A statewide outreach and education effort is central to any education process. Reaching people early and helping them assess their situation is essential for true prevention. The counseling services are available but people need to be educated about where to go to get the help they need and outreach is the key to accomplishing this.

Recommendations for Primary Components of Outreach Plan

1. Establish a Statewide Hotline that links existing networks.
2. Begin a statewide media campaign to educate people about the warning signs of being in danger of foreclosure, what to do to begin to resolve the situation on their own and who to call (statewide)

Education and prevention efforts, *continued*

help-line) when they want additional assistance or to meet with someone individually. This campaign should involve the major networks in Michigan as well as radio and newspaper outreach.

3. Develop an internet outreach campaign. How does the statewide hotline/website become the first thing that pops up when someone does a Google search for foreclosure help in Michigan?
4. Develop partnerships with loan servicers, banks that service their own loans, title companies, etc. to provide valuable information about foreclosure prevention counseling and education services to their customers who may be in danger of foreclosure.

Counseling/Education

While it is believed that individual counseling is the preferred method of helping individuals in danger of foreclosure avoid it and solve other financial problems they may have, it is understood that if we are going to provide the education so many need in an efficient manner we need to provide this education using multiple vehicles. In addition to the hotline, one item statewide effort should focus on creating a web-based foreclosure education tool for the state.

Some features of the website:

- Links to counselors for face-to-face assistance
- Webinars
- Assessment tools for self-help
- Guidance on next steps, etc. featuring some of the same techniques counselors utilize
- A Financial literacy curriculum (this would be an on-line tool that could be required of anyone receiving rescue funds)

Education for Counselors

Another key component of any statewide foreclosure education plan should be more quality training for housing counselors already in the state.

Some recommended steps are:

- Training from mortgage servicers and loss mitigation offices.
- Establishing good contacts at mortgage servicers that are shared by the counseling network. This would assist counselors by helping them be more efficient as opposed to spending large amounts of time on the phone trying to reach the right person at the mortgage servicer.
- Creation of a statewide clearinghouse on training opportunities. Too often counselors do not hear of foreclosure counseling training opportunities in time to register.

Most important, resources are needed to support the hiring of additional counselors to focus on foreclosure. Too often foreclosure is only one small piece of the counseling most counselors are expected to do in their full-time jobs. If the demand for individual counseling increases as a result of statewide outreach activities, more funds will be needed to hire the counselors to do the work across the state.

2. Availability of Rescue Funds

**The following summary was compiled with the assistance Nina Rodriguez of Southwest Housing Solutions in Detroit.*

Foreclosures have risen to record levels in many communities in Michigan. Though predatory lending is one of the leading causes of foreclosures, major life crisis such as loss of employment, divorce, and out of pocket medical expenses have had a disastrous effect on the rise of foreclosure in Michigan. Many nonprofits, due to limitations of capacity and scale, are unable to address the problem of foreclosures throughout a region or state. Sustainable foreclosure intervention programs (with rescue funds) are limited or nonexistent.

The Ohio Approach: All loans are filed as recordable mortgages. By securing the loan, monitoring is made easier if homeowners go into default on their mortgage in the future. If homeowners attempt to refinance in the future with a home equity loan, agency can intervene. Additional resources are made available if loans are repaid. \$1 Million (\$3,000 per household) is available for households up to 65% AMI; \$3.1 Million for 75- 115% AMI (\$3,000 or up to 3 months mortgage payments not to exceed \$5,000). Applications to date are 148, with approximately \$300,000 allocated for rescue clients translating into 116 rescues (the first rescue occurring in December 2006). Challenges identified by Ohio include the ability to reach homebuyers in less dense rural areas; the ability to assist applicants who were quite past due in mortgage payments; and the processing of loans being contingent on clients preparing and submitting needed documents after initial application is made (delaying the origination of loans for some borrowers).

Potential Michigan Approach: The Homeownership Protection and Enhancement Act (May 2007) would provide a centralized location for information on, and referral to, public services available to assist a homeowner who is in default on their home loan, and would provide a homeowner with referrals to counseling agencies approved by HUD that may be able to assist that homeowner, if that homeowner is in default on their home loan. Includes a provision to attempt to contact each homeowner who is more that 60 days late on any mortgage payment with the goal of determining if the homeowner needs assistance in avoiding foreclosure on their home; what kind of assistance is needed by such homeowner to avoid foreclosure on their home; and providing referrals to any appropriate programs or entities that may be able to provide such assistance.

Questions:

- How many families would be eligible for assistance, i.e. would this address the central problem?
- Who has the data on causes of foreclosure in Michigan, i.e. subprime loans, family income loss?
- What is the source of funds?
- Who would manage these funds?

3. Weak Consumer Protection Laws

The following is based on a position paper provided by Fred Miller and the Campaign to Protect Michigan Consumers.

Michigan faces an epidemic of mortgage foreclosures, threatening families, home values, communities and the businesses that rely on them. Many of the mortgages going into default are high-rate, high-fee loans, sold with various deceptive practices, including:

- Bait-and-switch tactics, with loan terms hidden in voluminous documents at closing that differ dramatically from those promised;
- Kickbacks by lenders to brokers for selling loans with higher than necessary interest rates that are rarely disclosed to consumers in any meaningful fashion;
- Inflated appraisals, locking consumers into loans whose interest rates will rise dramatically, under the false promise that an inexpensive refinance later will keep payments low.
- Misrepresented and confusing "teaser" rates that jump soon after the mortgage is signed.

Many of these mortgage loans have no tangible benefit for the borrower. Aggressive marketing encourages homeowners to refinance mortgages with little benefit but big fees to brokers and lenders. Five federal banking agencies, in a draft statement on subprime mortgage lending, identified as "fundamental consumer protection principals" that lenders: 1) approve loans based on the ability to repay, and 2) provide information enabling customers "to understand material terms, costs, and risks at a time that will help the consumer select products and choose among payment options."

The Consumer Mortgage Protection Act passed in 2002 preempted any local government attempt to remedy predatory lending practices but added little to regulation of lending, and gave consumers no power to act to protect themselves. Other states (NC, MA and others) have successfully enacted new laws to address the epidemic of predatory lending that work well without discouraging legitimate lending.

Potential Michigan Approach. Legislation has been drafted by a number of Michigan legislators to address mortgage broker regulation and predatory lending. One of these bills, the Michigan Home Loan Protection Act is based on models provided by the Center for Responsible Lending, but is still in very draft form. A Michigan Foreclosure Task Force could organize constituent groups across the state to flood our representatives in Lansing with the message that stronger laws in this area are in everyone's interest. Consumer advocates have been active in ensuring that new Michigan laws protect Michigan consumers by:

- Requiring that mortgage brokers and lenders provide homeowners with mortgage products that are suitable for their situation, including certifying that there is a reasonable probability of payment;
- Requiring that any change in terms be provided to the homeowner at least 3 business days prior to the closing of the loan; and
- Requiring that mortgage brokers disclose all of their compensation from all sources, including a description of yield spread premium and how it will affect the homeowner's mortgage loan in plain English.

Questions:

- Who are natural allies in this effort?
- How do we ensure that these laws have teeth and are enforced?