

Neighborhood Housing Services of Chicago and the Home Ownership Preservation Initiative – A Successful Partnership Looks to Expand its Scope and Impact

This article was prepared by:

Michael van Zalingen, Director of Home Ownership Services, NHS of Chicago

Nosheen Hemani, Home Ownership Preservation Initiative Program Coordinator, NHS of Chicago

Michael Berry, Manager, Consumer and Community Affairs Department, Federal Reserve Bank of Chicago

The Federal Reserve Bank of Chicago's Consumer and Community Affairs department has, since the mid-1990s, worked with various Seventh District organizations and agencies to address foreclosures and their harmful impact in communities. Most notably, the Reserve Bank has supported and partnered with Neighborhood Housing Services (NHS) of Chicago to mitigate the destabilizing effect that foreclosures have on vulnerable communities – those with older housing stock, lower income, largely minority (and/or recent immigrant) populations, and little commercial or retail investment. The Homeownership Preservation Initiative (HOPI) was conceived and established by NHS, and is the organization's principal vehicle to address foreclosures in vulnerable Chicago communities. The partnership's results have generated national attention, and strong interest in adapting its methods to other parts of the country, which is ongoing. HOPI's success is due in large part to committed partners that include the City of Chicago, which has made critical investments in call centers for homeowners, among other steps, and financial institutions such as JP Morgan Chase, Citigroup, HSBC, and GMAC/RESCAP, which have

committed staff and resources, and worked with NHS creatively to open lines of communication and assistance between investors and servicers on one side, and counselors and homeowners in default on the other.

HOPI is a multi-faceted program providing preventative measures such as homebuyer counseling, remedial services including loan workouts and supplementary financing, as well as property disposition when foreclosure

combination of revised repayment plans, emergency loans, or loan reinstatement after other borrower assets were applied. Well over 300 buildings, one- to four-unit residential properties were reclaimed and resold.

The impact of vacant properties on communities can be significant. A Fannie Mae Foundation study indicated that the financial impact of one foreclosure on a city block is an approximately 1 percent immediate

“NHS of Chicago is recognized for its Home Ownership Preservation Initiative, a unique public-private partnership with the City of Chicago, the Federal Reserve Bank of Chicago, and financial institutions, HOPI serves as a national laboratory for innovative programs, partnerships, and lending products that are replicated across America to assist homeowners at risk of foreclosure.”

or other type of property transfer (e.g., deed-in-lieu of foreclosure) is the only plausible outcome. From 2003 to 2006, the pilot phase of the program, more than 4,300 individuals received counseling. Over 1,300 foreclosures were averted, primarily through a

decline in home values in the vicinity (approximately one-eighth mile). The effect is more pronounced in underinvested communities, and is intensified with successive nearby vacancies. A critical aspect of HOPI is that it includes a mechanism for

acquiring, rehabilitating, and reselling foreclosed homes, thereby reducing vacancies and bringing these buildings back to owner-occupied status.

Over a 31-year existence, NHS of Chicago has proven itself a capable steward of public funds, and also a mortgage lender to, by industry standards, some of the highest risk borrowers, with a very low lending loss rate of approximately 3 percent. In September 2007, the Community Development Financial Institutions (CDFI) Fund, a division of the United States Treasury Department, awarded NHS \$950,000 to fund a “soft second mortgage” pool for loans the organization makes under the auspices of HOPI. Treasury Secretary Henry Paulson announced the award in person at a press conference at NHS headquarters. A Chicago Sun Times article noted: “NHS of Chicago is recognized for its Homeownership Preservation Initiative, a unique public-private partnership with the City of Chicago, the Federal Reserve Bank of Chicago, and financial institutions, HOPI serves as a national laboratory for innovative programs, partnerships, and lending products that are replicated across America to assist homeowners at risk of foreclosure.”

October HOPI Partnership Meeting Summary

Most recently, the Chicago Fed hosted a meeting of the HOPI partnership on October 30, 2007. NHS updated the partnership on HOPI's results, and initiated dialogue on innovative new ways to prevent foreclosures with help from loan servicers and the investment community, which is in the midst of a crisis stemming from the large quantity of high-risk loans securitized since widespread marketing of nontraditional mortgages began in 2003. At the meeting, the HOPI partners discussed

ways of addressing the challenges posed by the rapidly increasing rate of mortgage delinquency and foreclosure across Chicago.

The goal of the meeting was to provide a forum where participants could build on past progress while collaborating to develop new solutions – despite the significant impact of HOPI on Chicago foreclosures, the rate of foreclosure has rapidly increased and threatens many communities citywide. Data reflecting the overwhelming increase in foreclosures locally and nationally underscored the gravity of the problem and the need for greater outreach, the importance of counseling, and of reaching creative, innovative solutions.

The first presentation reviewed the state of the servicing environment, including the rise in delinquencies and the many contributing factors from the regulatory and investment perspectives. There was consensus on the progress being made in the servicing environment although there was not consensus on what is required to slow the rapid pace of foreclosures.

Regulators at the meeting suggested the most effective way to reduce foreclosures – in part echoing a recent call from FDIC Chairman Sheila Bair to lenders to maintain introductory rates on ARMs to head off future defaults that will result from ARM resets – is to allow blanket loan modifications. Investors noted the challenge of obtaining good borrower data showing the economic effects of loan modifications on borrowers, which in turn would allow better assessment of the impact of the foreclosures on the value of investments.

The first panel further discussed improvements in loss mitigation; servicer representatives described the approaches taken within their respective institutions. The improvements included multifaceted outreach efforts with better coordination of roles and terms

between servicers and counselors, infrastructure enhancements to facilitate improved information sharing and dissemination, and the importance of partnering with nonprofit housing counseling agencies. All on the panel agreed that counseling agencies play a crucial role in providing linkage and obtaining accurate borrower financials.

The second panel discussed the obstacles to improvement in loss mitigation from the perspectives of the servicer, the investor, and the counselor. The servicer view emphasized the difficulty in contacting borrowers, the need to streamline the loan modification process, and investor limitations. The investor view stressed the need for better foreclosure mitigation data to evaluate its impact (on security value), and other factors to consider, given the complicated nature of the structure of securities. The counselor view highlighted dramatic increases in demand for services and the lack of sufficient funding/resources. The panels also touched on the need for improved communication and coordination between servicers and counselors, and the importance of developing alternatives to foreclosure that ideally do not displace homeowners in default.

The third panel focused on designing new products for distressed borrowers. The panelists agreed on the need for developing a standardized method of evaluating borrower capacity to repay, looking beyond credit scores. A discussion on new product design focused on principal reduction and ideas of shared equity, localized or region-specific securities, and creating new financing vehicles.

Nelson Merced of NeighborWorks America presented the results of the (follow-up) national survey of nonprofit housing counselors. The survey results indicated overall progress in servicing although indicators of inconsistency supported the general themes of the

meeting, and the continued need to streamline communication, collaboration, and terminology between servicers and counselors.

Three work groups were also convened at the meeting. One focused on improving the servicer/counselor relationship, and agreed on the need for a standardized form for obtaining borrower authorization and financials to improve coordination and accelerate default resolution. The second group focused on the need to create new products to help those that cannot benefit from current loss mitigation initiatives. The group agreed that some form of principal reduction will be required to help these borrowers at any level of significant scale going forth. The final group discussed strategies to deal with growing REO (real estate owned – foreclosed buildings primarily) inventories. Although several ideas were explored and there was not clear consensus, there was agreement on the need for innovations as there is no longer any interest among speculative investors for REO properties, and nonprofits undertake a fairly labor-intensive and costly process to place first-time buyers in reclaimed homes.

New Steps and Renewed Emphases to Increase Impact

NHS and the HOPI partnership look to improve and expand the reach of the program, a goal with renewed urgency in the current environment. These broad areas include steps to reach borrowers with high probability of default at the earliest possible stage. Among borrowers with adjustable rate loans and questionable (based on initial underwriting) post-reset capacity to repay, communication from servicers or counselors should begin before the reset to head off default. Within areas that have high concentrations of ARMs and historically vulnerable populations, third-party counselors should be engaged to conduct early outreach. A

second recurring meeting theme and forward-looking goal is to develop further flexibility in loan workouts, including adjustable- to fixed-rate conversions, partial principal deferments or write-downs, extended amortization periods, and more open communication between workout specialists and financial institution (lender) decision makers. A third general goal of HOPI is to encourage servicers to coalesce the roles, terminology, and objectives of collections and loss mitigation personnel, and make greater use of third-party counselors, whose role is focused on producing the most efficient outcome for borrowers in default.

Conclusion

HOPI continues to positively impact Chicago communities in stemming foreclosures and serve as a national model for regions facing high foreclosure rates. In the coming months, *Profitwise News and Views* will cover further progress of the partnership, as well as efforts to introduce methods developed over the course of the program to other areas of the Seventh District, and around the country.

NOTES

- 1 Immergluck, D., Smith, G., "The External Costs of Foreclosure: The Impact of Single-Family Mortgage Foreclosures on Property Values," Housing Policy Debate, Volume 17 Issue 1, 2006, Fannie Mae Foundation, at: www.fanniemaefoundation.org/programs/hpd/pdf/hpd_1701_immergluck.pdf.
- 2 Chicago Sun Times, September 21, 2007; "Feds bask in Chicago's halo effect; Politico visits a dubious distinction."
- 3 More information on HOPI and other NHS programs is available at: www.nhschicago.org.
- 4 For a discussion of mortgage securitization, see: Chicago Fed Letter, November 2007, "The Role of Securitization in Mortgage Lending."
- 5 Chiu, S., "Nontraditional Mortgages: Appealing but Misunderstood," Profitwise News and Views, December 2006, at: www.chicagofed.org/community_development/files/12_2006_pnv_nontraditional_mortgages.pdf.