

# THE FEDERAL RESERVE CONFERENCE OF PRESIDENTS' MORTGAGE OUTREACH AND RESEARCH EFFORTS: RESPONDING TO THE FORECLOSURE CRISIS

AN INTERIM REPORT  
JUNE 2010

## EXECUTIVE SUMMARY

Since the start of the financial crisis, the Federal Reserve System (FRS) has undertaken a series of bold measures to help stabilize the mortgage and financial markets and promote economic recovery. In the face of unprecedented challenges, the Federal Reserve developed a number of creative programs far beyond the confines of its usual focus on interest rates to make sure that everything that reasonably could be done to get the economy turned around is being done. In addition to cutting the federal funds rate essentially to zero, the Fed has developed a variety of alternative ways to stimulate the economy, for example, by buying mortgage backed securities to support the housing sector, and by purchasing large quantities of longer-term Treasury debt to help bring down corporate bond and other rates that are linked to Treasury yields.

What is less well known is that the Federal Reserve has also been working to respond to the foreclosure crisis on “Main Street,” leveraging its research and community affairs functions to support innovative foreclosure prevention and neighborhood stabilization strategies at the local level. In the spring of 2009, under the auspices of the Conference of Presidents, the FRS embarked on a collaborative effort known as Mortgage Outreach and Research Efforts (MORE), aimed at leveraging the substantial knowledge and expertise across the System related to mortgage markets that might prove useful to policymakers, community organizations, financial institutions, and the public. This report highlights the work of the MORE initiative through June of 2010, and describes the research and outreach work accomplished in 2009 by the Economic Research, Community Affairs, and the Supervision and Regulation departments of the Reserve Banks and the Board of Governors.

The MORE initiative has three distinct components. The first entails systemwide initiatives that bring together multiple divisions within the Reserve Banks and the Board to work together to address critical issues, such as foreclosure prevention among the unemployed. The second is focused on leveraging the reputation and strength of the Fed’s Economic Research departments to analyze the foreclosure crisis and its impact on borrowers and communities. The third component was undertaken by the Community Affairs departments, which work directly in communities affected by the foreclosure crisis through outreach, data analysis, technical assistance, and research.

The MORE initiative successfully spurred cross-Bank and interdepartmental collaboration, and led to significant interventions that have helped to address the foreclosure crisis at the local level. For example:

- To respond to the challenge of foreclosures among the unemployed, the Federal Reserve participated in a collaborative effort with other federal agencies to **create a web-based tool** that allows home owners and servicers **to document unemployment insurance benefits** for their

inclusion as part of a household's income for federally-sponsored mortgage modification programs. In addition, the Federal Reserve worked with other federal agencies to streamline resources and create better linkages between unemployment and housing services, thereby ensuring that distressed home owners have direct access to information about the wide range of benefits available to them.

- The Federal Reserve Board **contracted with NeighborWorks® to help support neighborhood stabilization efforts**, thereby reaching more communities with training and disseminating critical information on strategies for redeveloping foreclosed homes and returning them to productive use.
- Reserve Banks across the System **increased the level of resources directed to research on the foreclosure crisis**, including launching a systemwide study of the implementation of the federal Neighborhood Stabilization Program, upgrading the Federal Reserve Bank of New York's Web site to include detailed, customizable data on credit conditions across the United States, and creating new toolkits to help localities respond to the foreclosure crisis. Through its efforts, the Federal Reserve has also helped to fill the gap in information available about foreclosures at the local level and has worked to ensure that all communities have access to tools and data that would allow them to respond to the crisis.
- The Fed has **sponsored or is planning five national conferences on the topics of housing and mortgage market data, financial literacy and education, neighborhood stabilization, and mortgage policy**. Through these conferences, the Federal Reserve has been able to foster a rich and bi-partisan dialogue among researchers and policymakers about the policy reforms that will be necessary to prevent future crises.

In addition to these specific MORE initiatives, Economic Research and Community Affairs both continued to devote significant resources to the foreclosure crisis in 2009. Economic researchers across the System released **24 research papers** that directly analyzed the causes and consequences of the foreclosure crisis, publishing papers on subprime lending, loan modifications, neighborhood stabilization, and securitization. This research produced by the Federal Reserve – grounded in empirical and theoretical economics – has provided policymakers with detailed insights into the workings of the housing and mortgage market during the recent crisis. This research was designed to inform policy interventions such as the Treasury's Home Loan Modification program, and lays the research foundation for policies supporting consumer protection and financial market regulation going forward.

Building on their mission to support community and economic development in low- and moderate-income communities, the Community Affairs offices across the country worked to respond to foreclosures at the local level through both its research and outreach functions. The regional nature of the Federal Reserve allowed Community Affairs to reach deep into areas affected by the foreclosure crisis and sponsor **287 separate foreclosure-related events in 111 cities** across the country. These events helped to create local collaboratives and task forces designed to respond to the foreclosure crisis by leveraging local resources, including banks, housing counselors, faith-based organizations, and city officials. The events also served to educate local stakeholders about foreclosure trends and best practices in foreclosure prevention. Moreover, Community Affairs also co-sponsored 46 borrower outreach events, which brought in **26,000 distressed borrowers** to work toward resolution of their mortgage problems.

Community Affairs also **sought to reach consumers through print and public media**, producing 16 brochures on topics, such as foreclosure prevention and avoiding mortgage fraud, and providing **technical assistance** to more than **500 governmental agencies or nonprofits**. Finally, the Board of Governors ' Division of Consumer and Community Affairs (DCCA) **supported the development of new rules for Regulation Z** by testing the efficacy of disclosure documents through consumer testing. This research will ensure that new disclosures on mortgage products convey critical information about the terms of the loan in a way that consumers – not just lawyers – can understand.

The MORE Initiative builds on a predecessor program of research and outreach undertaken in 2008, and together these initiatives represent the first time that all 12 Reserve Banks and the Board of Governors have worked together in a sustained way around a single topic, demonstrating the Federal Reserve's commitment to ending the foreclosure crisis and promoting neighborhood recovery. More information about the specific foreclosure prevention activities underway, including research and upcoming events, can be found on each of the Reserve Banks' Web sites.

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The MORE initiative has three distinct components. The first entails new cross-functional and/or systemwide efforts that required significant collaboration and coordination across banks and divisions. The current status of each of these projects is described in Section I below. Section II catalogs the considerable empirical research produced by each Reserve Bank’s Economic Research Department in 2009. Finally, Section III covers the range of outreach, analysis, technical assistance, and research undertaken by the Community Affairs departments of each Reserve Bank and the Board of Governors in 2009.

## **I. SUMMARY OF MORE INITIATIVES**

In addition to the work conducted at individual Reserve Banks, the MORE initiative led to a number of projects that were undertaken not only by multiple Banks, but also by multiple departments within banks, resulting in an unprecedented level of collaboration within the System. These projects were diverse in nature, and reflected not only direct interventions on the ground, but also work within the System to develop the infrastructure necessary to support foreclosure prevention work. The MORE projects can be grouped into three broad categories: 1) outreach and policy interventions, designed to improve the information and communication around foreclosure prevention resources; 2) research and

analysis, which builds on the regional nature of the Fed to understand what was happening on the ground; and 3) conferences, which leverage the Fed's political neutrality to bring together a wide range of voices and research and help to inform policy and practice in the housing and mortgage markets. The key projects under each of these three broad categories are summarized below.

## 1. Outreach and Policy Interventions

- ***Working with federal agencies to assist unemployed home owners***

In early 2009, as the unemployment rate soared to new heights, the Federal Reserve recognized the challenge of foreclosure prevention among unemployed households. To address this challenge, Reserve Bank staff served as a liaison between the U.S. Departments of Labor and Treasury and the HOPE NOW Unemployment Taskforce. The collaboration led to the creation of a Web-based tool that allows home owners and servicers to document unemployment insurance benefits for their inclusion as part of income for federally-sponsored mortgage modification programs. Fannie Mae guidance directs servicers to use the tool for HAMP modifications.

Staff also took steps to ensure that unemployment and housing resources are better coordinated, and to increase unemployed home owners' awareness of all the resources available to them. As a direct result of the Federal Reserve's efforts, the Department of Labor Web site and the HOPE NOW Web site now cross-list each other's foreclosure prevention and workforce resources so that unemployed workers have easy access to information on both sets of aid. Similarly, job fairs and foreclosure prevention events across the country now have information or representation from both local workforce specialists and housing counselors. In addition, the parties developed and deployed call-center scripts to direct callers to each other's resources.

- ***Partnering with NeighborWorks® to support neighborhood stabilization***

In September of 2009, the Board of Governors signed a memorandum of understanding with NeighborWorks® for foreclosure-related activities. This expanded outreach to more communities and developed additional informational resources on neighborhood stabilization. NeighborWorks®:

- Develop a case study series on local community stabilization projects, found at: [http://www.stablecommunities.org/sites/all/files/documents/Responsible\\_Stabilization%20Case%20Study%20Report.pdf](http://www.stablecommunities.org/sites/all/files/documents/Responsible_Stabilization%20Case%20Study%20Report.pdf);
- Host webinars on the Neighborhood Stabilization Program (NSP) and stabilization issues that helped local communities learn how to redevelop foreclosed properties into productive use;
- Provide community stabilization place-based trainings in Florida, California, New Jersey, and Nevada;
- Provide 49 scholarships for nonprofits to attend training workshops in Florida and Louisiana; and
- Overhaul and re-launch the StableCommunities.org ([www.stablecommunities.org](http://www.stablecommunities.org)) Web site, which provides comprehensive resources to localities seeking to address the problems of concentrated foreclosures.

In addition, the Board has coordinated the development and distribution of a new quarterly survey to NeighborWorks® organizations and National Foreclosure Mitigation Counseling (NFMC) grantees and sub-grantees. The survey is intended to gather information on loan modification efforts, bank walk-aways, and key emerging issues faced by low- and moderate-income communities (the emerging issues component is based on a tool developed by the Richmond Reserve Bank). The survey was distributed to approximately 850 organizations. The Board received initial results in April and is currently circulating a summary for interested parties.

- ***Issuing bank examiner procedures for tenant protection***

On May 20, 2009, the president signed into a law a bill containing provisions protecting tenants living in foreclosed buildings and ensuring that tenants facing eviction from a foreclosed property have adequate time to find alternative housing. (The Protecting Tenants at Foreclosure Act is Title VII of Public Law 111-22.) These provisions immediately went into effect and are "self-executing," so no federal agency (such as HUD) is responsible for making them work. It is up to advocates to make sure that tenants, landlords, public housing authorities, courts, the legal community, and others involved in the foreclosure process are aware of these new rights for tenants.

To support this law, the Federal Reserve issued information and bank examiner procedures to ensure that banks regulated by the Federal Reserve understand and implement these protections. The guidance provides FRS bank examiners with instructions to evaluate an institution's awareness of the law, its efforts to comply when it must foreclose on a property that has tenants, and its responsiveness in addressing implementation barriers.

- ***Updating the Foreclosure Resource centers and revising the Foreclosure Mitigation Toolkit***

In 2008, each of the Banks within the FRS created a Foreclosure Resource Center on its Web portal, designed to provide local constituents and consumers with easy access to information on foreclosure-related resources. Throughout 2009, the MORE initiative has worked to enhance these Web sites, increasing and improving the content and improving the navigation of the sites. The Foreclosure Mitigation Toolkit, which provides detailed steps and information for localities seeking to develop foreclosure prevention activities of their own, was enhanced to include tips on how to create flyers and mailings to support borrower outreach events, links to regional and national resources, and a glossary. A MORE working group also prepared information on how individual Reserve Banks can customize the site. In addition, a new Foreclosure Recovery Resource Guide – which seeks to assist consumers who have gone through the foreclosure process – was developed and distributed to the Federal Reserve Banks as a supplement to the toolkit. In June of 2010, each Reserve Bank incorporated and customized this new information on their Foreclosure Resource Centers.

- ***Training attorneys in foreclosure prevention and mitigation***

To expand the number of attorneys doing pro bono work in foreclosure mitigation, the New York Fed Legal Group helped launch the Lawyers Foreclosure Intervention Network. This pilot program, in partnership with the New York City Bar Justice Center, trains attorneys in foreclosure mitigation and matches them with clients in need of *pro bono* services. Other local

bar associations and legal services groups across the country are now copying this model to set up similar programs.

## 2. **Research and Analysis**

- ***Undertaking a systemwide study of the federal NSP***

In 2009, researchers from Community Affairs offices across the System launched a study of the planning and early implementation stages of the federal NSP. The NSP, established under the Housing and Economic Recovery Act of 2008, provides funds to alleviate the negative spillover effects from abandoned and foreclosed properties on communities affected by the foreclosure crisis. The program poses significant problems for the researcher. It was implemented quickly during a time of crisis, and program rules were revised several times. In addition, the program is designed to be tailored to local conditions, meaning that grantees could and did choose a wide range of intervention approaches. Because Community Affairs is regionally based and has local connections in multiple regions, its research staff is well-placed to survey local NSP initiatives and analyze the program's implementation challenges and emerging best practices.

The research team conducted a series of interviews with more than 90 recipients of HUD's NSP funds in the fall of 2009, and will release a report based on these interviews and other data in the late fall of 2010. The report will describe the range of experiences of the surveyed communities along a number of dimensions, such as planning, targeting of funds, and implementation of specific program-eligible activities. It will also consider how factors, such as local capacity, type of community, and scope of the foreclosure problem, may be associated with program design and early program outcomes. To the best of our knowledge, this report will provide the first nationwide examination of the early stages of the NSP, and will help to support HUD's efforts to evaluate the impact of the NSP going forward.

- ***Producing a volume on real estate owned (REO) properties and neighborhood stabilization Issues***

To help communities address the effects of concentrated foreclosures, the Boston and Cleveland Feds are producing a special volume of research that examines important questions concerning lender owned real estate. Chapters in the book will address questions such as what factors can bring about stability in a high foreclosure neighborhood. How do "shadow inventories," rental properties, and vacant and abandoned homes influence the choice of strategies? What are the incentives of the various parties to REO transactions? How are nonprofits and municipalities using NSP funding to acquire and redevelop REOs and stabilize neighborhoods? Seventeen researchers, practitioners, and policy experts from around the country have been commissioned to write articles that shed light on these issues. The authors are drawn from national nonprofits, large holders or servicers of REOs, Fed researchers in Community Affairs, and academics. The volume includes an executive summary of the FRS NSP case studies, and is scheduled for release at a Federal Reserve Board conference on September 1, 2010 (see below).

- ***Upgrading the New York Fed's credit conditions Web site***

Recognizing the need for more data on the foreclosure crisis, the Federal Reserve Bank of New York has been working since 2008 to make data on mortgage credit conditions available to the public. The resulting Web site, U.S. Credit Conditions (<http://data.newyorkfed.org/creditconditions>), provides timely, detailed geographic information that can help community groups and local governments understand the mortgage crisis in their area. Having access to these data has been critical in allowing local stakeholders target their prevention foreclosure resources. Although initially focused only on mortgage credit, the Web site now includes maps and data with delinquency rates for credit card, auto, and student loans. Over 100 new data series were added, including credit condition information for prime, jumbo, Fannie Mae and Freddie Mac, FHA and VA, subprime, and Alt-A mortgages. In addition, New York Fed staff has been working with the heads of the largest state housing finance authorities to provide them with the information they need to best allocate the federal stimulus money they are receiving. In June, the Web site will be further expanded by the addition of new household-based information on credit conditions derived from Equifax credit reports.

- ***Understanding the literature: reviews of key topics in housing and mortgage markets***

Recognizing the need for a deep understanding of the literature on foreclosure prevention and neighborhood stabilization, the Federal Reserve commissioned/produced four literature reviews. These reviews are: 1) Mortgage Defaults – A Situation Analysis; 2) Foreclosure Neighborhood Spillover Effects; 3) Foreclosure Prevention Efforts; and 4) The Effectiveness of Financial Literacy and Counseling. The four reviews are accessible at: [http://chicagofed.org/digital\\_assets/others/communities/foreclosure\\_resource\\_center/more\\_financial\\_literacy.pdf](http://chicagofed.org/digital_assets/others/communities/foreclosure_resource_center/more_financial_literacy.pdf), [http://chicagofed.org/digital\\_assets/others/communities/foreclosure\\_resource\\_center/more\\_frame\\_externalities.pdf](http://chicagofed.org/digital_assets/others/communities/foreclosure_resource_center/more_frame_externalities.pdf), [http://chicagofed.org/digital\\_assets/others/communities/foreclosure\\_resource\\_center/more\\_loan\\_modification.pdf](http://chicagofed.org/digital_assets/others/communities/foreclosure_resource_center/more_loan_modification.pdf), [http://chicagofed.org/digital\\_assets/others/communities/foreclosure\\_resource\\_center/more\\_mortgage\\_defaults.pdf](http://chicagofed.org/digital_assets/others/communities/foreclosure_resource_center/more_mortgage_defaults.pdf). These literature reviews analyze existing literature, document the strengths and weaknesses of previous research efforts and methodologies, and identify gaps in knowledge. These literature reviews are critical to building a foundation of knowledge about housing and mortgage markets, which can then inform future research.

- ***Launching the Consumer and Securities Data Warehouse (CSDW)***

One of the critical areas for reform to emerge out of the foreclosure crisis has been the recognition that researchers and examiners within the Federal Reserve need access to more detailed data on mortgage and credit markets. A key task for the MORE initiative has been to acquire and centralize the availability of large datasets, such as Lender Processing Services Analytics, Inc., First American CoreLogic LoanPerformance, and Equifax for Fed staff. The launch of the CSDW has greatly increased the ability of Fed staff to produce timely reports and research papers that can inform monetary policy, bank supervision and regulation, and regulatory reform. Whereas in the past each Bank would have had to devote resources to cleaning and packaging the data, this is now done in one centralized location, saving both time and money. The CSDW is also leading to new innovations in data analysis, including the development of a securities evaluation service that will develop a capability to collect data and conduct

surveillance on all parts of ABS/MBS markets, as well as develop a capability to evaluate securities on investment portfolios at bank and other systemically important institutions.

### 3. Conferences

- ***“Understanding the Housing and Mortgage Markets: What Data Do We Have, What Data Do We Need?” Philadelphia Fed, June 2009***

A lack of data affected our ability both to predict the scope of the mortgage crisis and its spillovers, and to respond to that crisis. In recognition of this situation, the Community Affairs Department and the Payment Cards Center of the Philadelphia Fed jointly sponsored a conference on data needs and how to meet them. Approximately 100 attendees from the FRS and from the academic, government, nonprofit, and for-profit sectors actively participated in the conference. The first day of the conference was open to both Fed and non-Fed participants. It included a session on state and local data needs, and another on federal data efforts related to the housing and mortgage markets. The second day was an in-house event limited to FRS employees. The first session considered what data are already available within the FRS and how such data might be used more effectively, while the second considered what additional data are needed for FRS functions. A long-term goal of the second day’s sessions was improved collaboration in the acquisition and use of databases across the System. The conference led directly to a collaborative effort between the Board of Governors and Freddie Mac to develop and field a survey of mortgage borrowers to be linked to a comprehensive database containing mortgage loan features and performance.

- ***“Financial Literacy, Financial Education and the Federal Reserve: Strategies for Success,” Chicago Fed, September 2009***

The Chicago Federal Reserve hosted a conference on the effectiveness of financial education and the methods that are needed to evaluate the impact of financial education programs. Presenters provided the results from evaluations of both mandatory and volunteer financial counseling programs, and discussed the econometric difficulties that the studies posed.

- ***“Mortgage Foreclosure Policy: Past, Present, and Future,” Chicago Fed, December 2009***

In December 2009, the Chicago Fed hosted a conference on policies related to mortgage foreclosures and their impacts, in collaboration with The Chicago Community Trust, Neighborhood Housing Services of Chicago, the MacArthur Foundation, and the Woodstock Institute. The conference brought together national experts from the advocacy, academic, financial, and government communities, and featured Federal Reserve Governor Elizabeth Duke as the keynote speaker. The goal was to discuss the past, present, and future of related policy and desired outcomes in the short and long term.

- ***“Vacant Property Strategies for Neighborhood Stabilization,” Board of Governors, Washington, DC, September 2010***

On September 1 and 2, 2010, the Federal Reserve Board of Governors will host a conference to disseminate the findings of two FRS reports: the analysis of the early implementation of the NSP, and the series of papers commissioned to understand the dynamics of REOs and the effects

of concentrated foreclosures on neighborhoods. The conference will be held in partnership with NeighborWorks®, and will feature presentations by Fed researchers and other leading national private, public, academic, and nonprofit experts. Invited participants include nonprofit recipients of NSP funds, as well as public officials dealing with foreclosures in their states, counties, or municipalities. The focus on the conference will be on how to implement the findings from the Federal Reserve and Fed-commissioned research. Fed Governor Elizabeth Duke will provide opening remarks and HUD Secretary Shaun Donovan is the invited keynote.

To maximize participation and help disseminate the research to a wider audience, the conference will be video simulcast to local audiences at some Reserve Banks, and time will be allotted on the agenda to allow participating Reserve Banks to convene their own local, in-person panels to discuss the implications for local implementation of the NSP.

- **“Mortgage Foreclosures and the Future of Housing Finance,” FDIC Seidman Center, Arlington, Virginia, October 2010**

This fall, the FRS and the Federal Deposit Insurance Corporation (FDIC) are co-hosting a two-day conference highlighting policy-oriented research focused on the U.S. housing and mortgage markets. The first day of the conference will be dedicated to mortgage foreclosures: including research on the current situation and outlook, neighborhood spillover effects, and evaluations of efforts to mitigate foreclosures, including loan modifications and financial education. The second day of the conference will present research on the future of housing finance. Papers on the second day will address issues such as the mortgage interest tax deduction, affordable housing, government-sponsored and private-label mortgage securitization, the viability and role of private mortgage insurance, mortgage related consumer protection and standards, and the role of the Community Reinvestment Act.

## **II. SUMMARY OF FORECLOSURE-RELATED PAPERS PRODUCED IN ECONOMIC RESEARCH IN 2009**

Staff in Economic Research departments across the System **produced 24 foreclosure-related studies and working papers in 2009**, as detailed below. The papers are listed in four categories: 1) studies related to the functioning of housing and mortgage markets; 2) studies related to foreclosure neighborhood effects and interventions; 3) studies related to mortgage loan modifications and foreclosure prevention; and 4) studies related to consumer protection and financial education (with an emphasis on counseling).

### **1. Studies Related to the Functioning of Housing and Mortgage Markets**

- **“The Homeownership Gap.”** (FRB-New York) Andrew Haughwout, Richard Peach, and Joseph Tracy. *FRB-New York Staff Reports* No. 418, December 2009. Accessible at [http://www.newyorkfed.org/research/staff\\_reports/sr418.html](http://www.newyorkfed.org/research/staff_reports/sr418.html).
- **“Ten Myths about Subprime Mortgages.”** (FRB-Cleveland) Yuliya Demyanyk. *Economic Commentary*, July 2009. Accessible at <http://www.clevelandfed.org/research/commentary/2009/0509.cfm>.

- **"Did Prepayments Sustain the Subprime Market?"** (FRB-St. Louis) Geetesh Bhardwaj and Rajdeep Sengupta. *Working Paper* 208-39B, revised May 2009. Accessible at <http://research.stlouisfed.org/wp/2008/2008-039.pdf>.
- **"Securitization and Mortgage Default: Reputation vs. Adverse Selection."** (FRB-Phil) Ronel Elul. *FRBP Working Paper* 09-21. Accessible at <http://www.philadelphiafed.org/research-and-data/publications/working-papers/2009/wp09-21.pdf>.
- **"The Incentives of Mortgage Servicers: Myths and Realities."** Larry Cordell, Karen Dynan, Andreas Lehnert, Nellie Liang, and Eileen Mauskopf, (2009). *Uniform Commercial Code Law Journal* 41(4) 347-374. Accessible at <http://www.federalreserve.gov/pubs/feds/2008/200846/200846abs.html>.
- **"Designing Loan Modifications to Address the Mortgage Crisis and the Making Home Affordable Program."** Larry Cordell, Karen Dynan, Andreas Lehnert, Nellie Liang, and Eileen Mauskopf (2009). *Uniform Commercial Code Law Journal* 42(1).
- **"Mortgage Loan Securitization and Relative Loan Performance."** (FRB-SF) John Krainer and Elizabeth Laderman. *Working Paper* 09-22, September 2009. Accessible at <http://www.frbsf.org/publications/economics/papers/2009/wp09-22bk.pdf>.
- **"Mortgage Default and Mortgage Valuation."** (FRB-SF) John Krainer, Stephen LeRoy, and Munpyung O. *Working Paper* 09-20, November 2009. Accessible at <http://www.frbsf.org/publications/economics/papers/2009/wp09-20bk.pdf>.
- **"Housing over Time and over the Life Cycle: A Structural Estimation."** (FRB-Phil) Wenli Li, Haiyong Liu, and Rui Yao. *FRBP Working Paper* No. 09-7. Accessible at <http://www.philadelphiafed.org/research-and-data/publications/working-papers/2009/wp09-7.pdf>.
- **"Did Bankruptcy Reform Cause Mortgage Defaults to Rise?"** (FRB-Phil) Wenli Li, Ning Zhu, Michelle White, and Ning Zhu, April 2010. Accessible at <http://www.philadelphiafed.org/research-and-data/publications/working-papers/2010/wp10-16.pdf>.
- **"Where's the Smoking Gun? A Study of Underwriting Standards for US Subprime Mortgages."** (FRB-St Louis) Geetesh Bhardwaj and Rajdeep Sengupta. *Working Paper* 2008-36D, revised March 2010. Accessible at <http://research.stlouisfed.org/wp/2008/2008-036.pdf>.
- **"Residential Housing and Personal Bankruptcy."** (FRB-Phil) Wenli Li. *FRB-Philadelphia Business Review* (Q2 2009). Accessible at [http://www.phil.frb.org/research-and-data/publications/business-review/2009/q2/brq209\\_housing-and-bankruptcy.pdf](http://www.phil.frb.org/research-and-data/publications/business-review/2009/q2/brq209_housing-and-bankruptcy.pdf).
- **"Recourse and Residential Mortgage Default: Theory and Evidence from U.S. States."** (FRB-Richmond) Andra C. Ghent and Marianna Kudlyak. *FRB-Richmond Working Paper*, 09-10, July

2009. Accessible at  
[http://www.richmondfed.org/publications/research/working\\_papers/2009/pdf/wp09-10r.pdf](http://www.richmondfed.org/publications/research/working_papers/2009/pdf/wp09-10r.pdf).

## 2. Studies Related to Foreclosure Neighborhood Effects and Interventions

- **“Understanding Ohio’s Land Bank Legislation.”** (FRB-Cleveland) Thomas J. Fitzpatrick IV. *Policy Discussion Paper No. 25*, 2009. Accessible at  
<http://www.clevelandfed.org/Research/PolicyDis/pdp25.pdf>.
- **“Thy Neighbor's Mortgage: Does Living in a Subprime Neighborhood Impact Your Probability of Default?”** (FRB-Chicago) Sumit Agarwal, Brent W. Ambrose, Souphala Chomsisengphet, and Anthony B. Sanders. Accessible at  
[http://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=1593734](http://papers.ssrn.com/sol3/papers.cfm?abstract_id=1593734).

## 3. Studies Related to Foreclosure Prevention and Mortgage Loan Modifications

- **“Why Don’t Lenders Renegotiate More Home Mortgages? Redefaults, Self-Cures, and Securitization.”** (FRB-Atlanta) Manuel Adelino, Kristopher Gerardi, and Paul S. Willen. *FRB-Atlanta Working Paper 2009-17*, August 2009. Accessible at  
<http://www.frbatlanta.org/filelegacydocs/wp0917.pdf>.
- **“Designing Loan Modifications to Address the Mortgage Crisis and the Making Home Affordable Program.”** (FRB-Phil and Board of Governors) Larry Cordell, Karen Dynan, Andreas Lehnert, Nellie Liang, and Eileen Mauskopf. *Uniform Commercial Code Law Journal*, Volume 42, No. 1, September 2009. Accessible at  
<http://www.federalreserve.gov/pubs/feds/2009/200943/index.html>.
- **“A Proposal to Help Distressed Homeowners: A Government Payment-Sharing Plan.”** Chris Foote, Jeff Fuhrer, Eileen Mauskopf, and Paul Willen. *Federal Reserve Bank of Boston Public Policy Brief*, No. 09-1, 2009. Accessible at  
<http://www.bos.frb.org/economic/ppb/2009/ppb091.pdf>.
- **“Second Chances: Subprime Mortgage Modification and Re-Default.”** (FRB-NY) Andrew Haughwout, Ebiere Okah, and Joseph Tracy. *Staff Report No. 417*, December 2009. Accessible at:  
[http://www.newyorkfed.org/research/staff\\_reports/sr417.pdf](http://www.newyorkfed.org/research/staff_reports/sr417.pdf).
- **“Home Affordable Modification Program.”** (FRB-Phil). See *Banking Legislation & Policy* (Vol. 28, No. 1, 2009) and *Consumer Compliance Outlook* (Q3 2009). Accessible at  
<http://www.philadelphiafed.org/research-and-data/publications/banking-legislation-and-policy/2009/blpq109.pdf> and [http://www.philadelphiafed.org/bank-resources/publications/consumer-compliance-outlook/2009/third-quarter/q3\\_02.cfm](http://www.philadelphiafed.org/bank-resources/publications/consumer-compliance-outlook/2009/third-quarter/q3_02.cfm).

## 4. Studies Related to Consumer Protection and Financial Education

- **“Subprime Mortgage Pricing: The Impact of Race, Ethnicity, and Gender on the Cost of Borrowing,”** (FRB-NY) Andrew Haughwout, Christopher Mayer, and Joseph Tracy. *Federal Reserve Bank of New York Staff Reports*, No. 368, April 2009. Accessible at [http://www.newyorkfed.org/research/staff\\_reports/sr368.pdf](http://www.newyorkfed.org/research/staff_reports/sr368.pdf).
- "Does Mandatory Counselor Involvement in the Mortgage Origination Process Affect Loan Choice and Performance?"** Formerly "Do Financial Counseling Mandates Improve Mortgage Choice and Performance? Evidence from a Legislative Experiment." (FRB-Chicago) Sumit Agarwal, Gene Amromin, Itzhak Ben-David, Souphala Chomsisengphet, and Douglas D. Evanoff. *FRB-Chicago Working Paper*, 2009-7. Available at [http://refic.mcombs.utexas.edu/research/HB4050\\_Amromin.pdf](http://refic.mcombs.utexas.edu/research/HB4050_Amromin.pdf)
- **“Learning to Cope: Voluntary Financial Education Programs and Loan Performance During a Housing Crisis.”** (FRB-Chicago) Sumit Agarwal, Gene Amromin, Itzhak Ben-David, Souphala Chomsisengphet, and Douglas D. Evanoff. *Charles A. Dice Center Working Paper* No 2009-23. Forthcoming *American Economic Review*, Papers and Proceedings, 100:2, May 2010. Accessible at [http://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=1529060](http://papers.ssrn.com/sol3/papers.cfm?abstract_id=1529060).
  - **“The Impact of Deregulation And Financial Innovation On Consumers: The Case Of The Mortgage Market.”** (FRB-Atlanta and Boston) Kristopher S. Gerardi, Harvey S. Rosen, and Paul S. Willen. March 2009. Accessible at <http://www.aei.org/docLib/grw-6-9pw%203-17-09.pdf>. Forthcoming in *Journal of Finance*.

### III. SUMMARY OF FORECLOSURE WORK IN COMMUNITY AFFAIRS IN 2009

Initially created to support the implementation of the Community Reinvestment Act, Community Affairs sees as its mission to promote community and economic development in low- and moderate-income communities across the country. It does this through research, education, and convenings that bring together key local stakeholders around issues such as affordable housing, small business development, access to credit, and neighborhood revitalization. When it became clear that foreclosures were on the rise, Community Affairs departments at each of the Federal Reserve Banks developed local strategies to help support local communities in their efforts to prevent foreclosures and stabilize neighborhoods. Critically, the regional nature of Community Affairs allowed each Bank to tailor its foreclosure prevention activities to local needs, with very different strategies emerging in cities such as Chicago, Detroit, Boston, Atlanta, Denver, Phoenix, and Stockton. The diversity of activities of each Reserve Bank makes it difficult to provide a comprehensive accounting of all the activities that the Community Affairs function conducted in support of foreclosure prevention. Below, we highlight some of these activities; and to provide an indication of the specific impacts of each of these interventions, each Reserve Bank provided a short description of the ways in which their events or analysis was used by their constituents, or the policy change that resulted.

#### 1. Events

**In 2009, Community Affairs sponsored or cosponsored 287 separate foreclosure-related events in 111 cities across the country.** A breakdown of the types of events is included below, but in general these task force meetings, workshops, forums, seminars, and conferences brought together stakeholders involved in the foreclosure crisis such as servicers, housing counselors, financial institutions, governmental officials, nonprofit organizations, and at times home owners in order to understand the depth and reach of the local crisis, plan local responses to the crisis (including borrower outreach events), educate stakeholders about effective REO disposition, and educate them on new resources, such as the NSP and the Making Home Affordable Program.

Across the System, Community Affairs recognized that there was a distinct need to increase the scale and reach of borrower outreach events. In 2009, Community Affairs **co-sponsored 46 borrower outreach events**, which **attracted more than 26,000 distressed borrowers**. Importantly, building on their local knowledge of communities affected by the foreclosure crisis, Community Affairs worked with national groups, such as NeighborWorks® and HOPE NOW to bring borrower outreach fairs to communities that did not have the same community development capacity as cities that had long been struggling with foreclosure issues, such as California’s Central Valley.

The rest of the events – **241 events, with 11,000 attendees in total** – **did not directly involve borrowers**, but instead were aimed at mobilizing local resources or educating key stakeholders. Of the 241 events that did not directly involve borrowers, **80 were of a general nature**, bringing together key stakeholders to examine the impacts of the crisis and help mobilize the local response.

*In 2003, the Federal Reserve Bank of Chicago helped Neighborhood Housing Services of Chicago (NHS) and the City of Chicago Housing Department launch the Home Ownership Preservation Initiative (HOPI), one of the country’s most successful foreclosure mitigation programs. Building on this success, in 2008 the Chicago Federal Reserve partnered with The Chicago Community Trust and NHS to **create and launch the Regional HOPI initiative**, which seeks to address metro area wide foreclosures and their effects through multi-town reclamation/redevelopment cooperatives in the hardest hit suburbs; ongoing, large-scale counseling events, and a Web-based information clearinghouse to document related research and best practices.*

*The Richmond Federal Reserve **helped establish a foreclosure task force in South Carolina** in early 2009 and supported its work through the provision of quantitative updates. The task force is self-sustaining and has established a mortgage foreclosure information network for the state’s United Way hot line (dial 211), and convenes leaders to collaborate and discuss solutions.*

*The St. Louis Federal Reserve partnered with their local PBS station to **pilot “Facing the Mortgage Crisis,” an initiative that included on-air, online, and in-person programming to address the foreclosure crisis**. The seminal work done by this affiliate is now a national model that the Corporation for Public Broadcasting has introduced in nearly 50 additional markets.*

Many of the other non-borrower outreach convenings had a specific focus, as follows:

- **Thirty-four** events focused specifically on issues around **REO disposition and the implementation of the NSP**, bringing in experts to explore the best practices, challenges, and opportunities for the acquisition, rehabilitation, and repositioning of foreclosed homes, including through the application of NSP funds.

*A Federal Reserve Bank of Kansas City forum on the disposition of REO properties in December **resulted in HUD officials reviewing and then easing an NSP policy** that had required Community Development Corporations (CDCs) to first complete environmental reviews before they could contract to buy foreclosed homes. HUD's new policy allows CDCs to contract to buy foreclosed homes, contingent on later completing an environmental review, allowing the CDCs to buy higher-quality homes much more quickly, before the homes are taken off the market by for-profit investors.*

- **Twenty-nine** events covered the administration's **Making Home Affordable Program** and explored the challenges for both servicers and counselors in modifying loans under the program.

*As a result of a Minneapolis Reserve Bank Community Development Forum on Borrower Lender Mediation, leaders from Minnesota's main foreclosure mitigation counseling agency **were able to ensure that the services they offer to borrowers would be preserved and dovetail with any new legislation** that would create a new statewide system of borrower lender mediation.*

- **Twenty-nine events** focused on **combating foreclosure scams**.

*The Philadelphia Federal Reserve organized a meeting focused on prosecution trends for foreclosure scams, mortgage fraud and forged deeds. As a result of the meeting, the U.S. attorney for the Eastern District of Pennsylvania **formed a broad-based Mortgage Fraud Community Advisory Committee**.*

- **Fifteen** events delved into issues of **assisting borrowers post-foreclosure**.

*The Board of Governors organized a meeting on tenants and foreclosure, focusing on the steps that renters can take to mitigate the impact of a landlord's foreclosure on their credit score and housing options. The forum **highlighted real estate owned rental policies designed by Fannie Mae and Freddie Mac**, which were the first large-scale industry efforts to address issues related to tenants.*

- **Forty-one** events were devoted to **planning specific borrower outreach events or debriefing** such events after they were held.
- Finally, **12** different podcasts were released.

*Partnering with the Center for Housing Policy, the Atlanta Reserve Bank **released 12 podcasts** featuring interviews with experts on various facets of the foreclosure crisis. Each podcast received hits ranging from 300 to just over 1,200 (with a total of over 7,500 hits for the series) in the fourth quarter of 2009.*

## 2. Empirical Research Papers

Community Affairs researchers also published working papers and other research in 2009, as detailed below. In total, **13 research papers were authored and published**, and staff made 36 separate presentations on these papers to key intermediaries at various seminars and conferences, and in a variety of academic settings;

- **“The Accumulation of Lender-Owned Homes During the U.S. Mortgage Crisis: Examining Metropolitan REO Inventories.”** (FRB-Atlanta) Dan Immergluck, March 2009. Accessible at [http://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=1533772](http://papers.ssrn.com/sol3/papers.cfm?abstract_id=1533772). Forthcoming, *Housing Policy Debate*.
- **“Intrametropolitan Patterns of Foreclosed Homes.”** (FRB-Atlanta) Dan Immergluck. *Community Affairs Discussion Paper No. 01-09*, April 2009. Accessible at [http://www.frbatlanta.org/filelegacydocs/dp\\_0109.pdf](http://www.frbatlanta.org/filelegacydocs/dp_0109.pdf).
- **“A Look at Upstate New York’s Subprime Mortgages in Foreclosure.”** (FRB-New York) Kausar Hamdani. *Facts and Trends*, Vol. 2, No. 1, April 2009. Accessible at [http://www.ny.frb.org/regional/2009\\_Facts\\_Trends\\_Vol\\_2\\_1.pdf](http://www.ny.frb.org/regional/2009_Facts_Trends_Vol_2_1.pdf).
- **“The Myth of the Irresponsible Investor: Analysis of Southern New England’s Small Multifamily Properties.”** (FRB-Boston) Jeffrey Greenberg, Ren Essene, and Kai-yan Lee, *New England Community Developments*, Issue 1, 2009. Accessible at <http://www.bos.frb.org/commdev/necd/index.htm>.
- **“Nonprime Loans: A View from the Local Level.”** (FRB-Chicago) Robin Newberger and Daniel DiFranco. *Profitwise News and Views*, June 2009. Accessible at [http://www.chicagofed.org/webpages/publications/profitwise\\_news\\_and\\_views/2009/pnv\\_june2009.cfm](http://www.chicagofed.org/webpages/publications/profitwise_news_and_views/2009/pnv_june2009.cfm).
- **“FHA Lending in Ohio.”** (FRB-Cleveland) Lisa Nelson. *A Look Behind the Numbers*, December 2009. Accessible at [http://www.clevelandfed.org/Community\\_Development/publications/ALBTN/V2\\_5/index.cfm](http://www.clevelandfed.org/Community_Development/publications/ALBTN/V2_5/index.cfm).
- **“An Analysis of the Neighborhood Impacts of the Mortgage Assistance Program in Dallas.”** (FRB Dallas) Wenhua Di, James Murdoch, and Jielai Ma. *Networks Financial Institute Working Paper No. 2009-WP-05*, June 2009. Accessible at <http://ssrn.com/abstract=1432550>. Forthcoming, *Journal of Policy Analysis and Management*, Vol. 29, No.4.
- **“Neighborhood Stabilization Program.”** (FRB Dallas) Elizabeth Sobel Blum, September 2009. Accessible at <http://www.dallasfed.org/ca/pubs/nsp.pdf>.
- **“Community Perspectives: Implementing the Neighborhood Stabilization Program.”**(FRB Richmond) Community Affairs Office Staff, *Marketwise*, Fall/Winter 2009. Accessible at [http://www.richmondfed.org/publications/community\\_development/marketwise/2009/fall\\_winter/pdf/angles\\_communityperspectives.pdf](http://www.richmondfed.org/publications/community_development/marketwise/2009/fall_winter/pdf/angles_communityperspectives.pdf).
- **“Characteristics of High-Foreclosure Neighborhoods in the Tenth District.”** (FRB-Kansas City) Kelly D. Edmiston. *Economic Review*, March 2009. Accessible at <http://www.kc.frb.org/PUBLICAT/ECONREV/pdf/09q2edmiston.pdf>.

- **“CRA Lending During the Subprime Meltdown.”** Elizabeth Laderman and Carolina Reid. *Revisiting the CRA: Perspectives on the Future of the Community Reinvestment Act*, a joint publication of the Federal Reserve Banks of Boston and San Francisco, February 2009. Accessible at [http://www.frbsf.org/publications/community/cra/cra\\_lending\\_during\\_subprime\\_meltdown.pdf](http://www.frbsf.org/publications/community/cra/cra_lending_during_subprime_meltdown.pdf).
- **“The Untold Costs of Subprime Lending: Examining the Links among Higher-Priced Lending, Foreclosures and Race in California.”** (FRB-SF) Carolina Reid and Elizabeth Laderman. *Federal Reserve Bank of San Francisco Working Paper* presented at “Challenges and Opportunities for Homeownership in a Changing Financial Environment,” sponsored by the Federal Reserve Bank of San Francisco in cooperation with the Greenlining Institute, May 6, 2009. Revised November 2009. Accessible at <http://www.frbsf.org/community/resources/2009/0506/reid.pdf>.
- **“Bank Accounts and Youth Financial Knowledge: Connecting Experience and Education.”** (FRB-SF) Laura Choi. *Federal Reserve Bank of San Francisco Working Paper* 2009-07, September 2009. Accessible at <http://www.frbsf.org/publications/community/wpapers/2009/wp2009-07.pdf>.

### 3. Data and Analysis

Utilizing its research and analytic resources, Community Affairs staff also produced publications focused on foreclosures and/or REO issues, regularly produced data and analysis on foreclosure and other real estate trends for key stakeholders and constituents, and provided direct technical assistance to key stakeholders.

- **One hundred and eleven separate analytic presentations were created and posted on the Web and staff made 98 separate presentations** utilizing this data and the accompanying maps to local constituents and other key stakeholders.

*The Boston Federal Reserve **created an analytical tool called the “Stabilization Opportunity Score (SOS)”** that helps localities choose the appropriate stabilization tools and areas to combat the distress caused by REOs. The SOS tool is used by key stakeholders in the region for their stabilization work, and has specifically been employed to strengthen their NSP2 applications.*

*The New York Reserve Bank **produced a series of reports analyzing mortgage distress in low- and moderate-income neighborhoods.** Identifying and analyzing patterns in geographical concentration of delinquencies, foreclosures, and REOs enables housing program administrators and local agencies to anticipate and more efficiently provide counseling and related services to distressed home owners. The reports were distributed to over 500 counselors and community leaders in the Second District, accompanied by outreach and technical assistance.*

*A policy discussion paper on Ohio's land bank legislation by the Reserve Bank of Cleveland **led to consultations with Ohio's Environmental Protection Agency, the governor's office, and the state legislature.** Legislative amendments to the land bank act arose directly from the author's recommendations. The Reserve Bank also provided technical assistance to counties and municipalities interested in starting and working with land banks.*

*In 2009, the Federal Reserve Bank of San Francisco **posted quarterly presentations on foreclosure data** for the nine states within its district, including local maps that detail the severity and extent of the foreclosure crisis at the neighborhood level. These presentations receive more than 500 Web hits per month, and originally served as the catalyst for the creation of foreclosure prevention task forces in Oregon, Arizona, Nevada, and Utah.*

*In 2009, the Federal Reserve Bank of Chicago **produced a series of maps** for each state in the Seventh District. The maps identify the zip codes (and communities) in the Seventh District facing foreclosure challenges. The maps illustrate the situation in each of the five states (Illinois, Michigan, Iowa, Indiana, and Wisconsin), and separately depict foreclosures, delinquency, and vacancy rate information from six sources of data.*

#### **4. Publications and Web Sites:**

- **Six regular publications** were devoted to foreclosure and REO issues, with these publications reaching 37,000 constituents in print and another 11,000 via e-mail; at the same time, **51 articles** in regular publications were devoted to foreclosure and REO issues, and these publications reached 44,000 constituents in print.
- **The Banks' Foreclosure Resource Centers were updated regularly** with information for borrowers, research reports, and critical links for constituents, **and were viewed 237,000 times in 2009.**
- The Banks also produced **16 different brochures** on foreclosure and distributed 39,000 of them in 2009.
- Reserve Banks also supported the Board of Governors' efforts to produce a public service announcement (**PSA**) **video** shown in movie theaters across the country.

*The Dallas Federal Reserve **modified the Board's PSA by adding their local partners – the Texas Foreclosure Prevention Task Force – and "Dial 211" to the video**, and the task force then raised funds to run the ad in six Texas cities. The Dallas Reserve Bank also produced take-away cards to place in the movie theater lobbies.*

#### **5. Technical Assistance**

Finally, **Community Affairs staff provided technical assistance** – usually through the provision of data or maps – on foreclosure or neighborhood stabilization issues **to over 500 different governmental agencies or nonprofits in 2009.**

#### **6. The Board of Governors**

The Board's Division of Consumer and Community Affairs (DCCA) has primary staff responsibility for carrying out the Board's consumer protection program. In 2009, DCCA assembled a cross-functional team to address the issues related to foreclosure and neighborhood stabilization. In addition to Community Affairs, the team included representatives of Regulations, Consumer Compliance, Policy, and Consumer Education and Research functions. DCCA engaged in several projects in 2009, including:

- Conducted **tests of disclosures** to evaluate the effectiveness of the Division's rule writing and regulatory changes with consumers;
- Developed **targeted information campaigns and messages** on foreclosure scams and consumer protection activities that alert consumers early to risky products and services related to foreclosure mitigation options;
- Organized **sessions with policymakers** to recommend effective strategies of deploying the initial \$3.9 billion allocation in the NSP based on field research conducted by Reserve Banks' Community Affairs offices;
- Sponsored a **series of rental housing forums** to identify strategies to stimulate Low Income Housing Tax Credit participation and other financing methods for affordable rental housing in response to current weaknesses in the housing market;
- Issued several **supervisory comment letters** related to improving consumer protection, including guidance on the Protecting Tenants at Foreclosure Act passed on May 20, 2009, Truth in Lending disclosures, and the announcement of a compliance review of non-bank subsidiaries' loan modification activities; and
- Provided **training on the Home Affordable Mortgage Program** for the System's Bank Supervision and Regulation staff featuring Treasury's chief home ownership policy advisor.