

REGIONAL HOME OWNERSHIP PRESERVATION INITIATIVE *action plan*

Addressing the Foreclosure Crisis
in the Chicago Metro Area

An initiative co-sponsored by:

The Chicago Community Trust
The Federal Reserve Bank of Chicago
Neighborhood Housing Services of Chicago

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A first draft of this document was developed by Joyce Hollingsworth, Christine Kolb (Hollingsworth and Associates) and Stacie Young (Institute for Housing Studies at DePaul University) based on existing research and minutes from the Regional HOPI meetings. Regional HOPI co-sponsors, co-chairs and task force members contributed to the current version, which is not a final report, but a dynamic and evolving “road map”.

A MESSAGE FROM THE CO-SPONSORS

Chicago, March 31, 2009



FEDERAL RESERVE BANK
OF CHICAGO

Foreclosures are severely affecting the Chicago region's families and communities and jeopardizing neighborhood stability and potential. A variety of individual responses have arisen from neighborhood-based initiatives to larger nationwide programs, with the potential to positively impact our communities. Just a few weeks ago, President Obama acknowledged that we should act "boldly and swiftly to arrest this downward spiral" and set in motion two large-scale federal programs: a \$75 billion initiative to modify and refinance loans, and an additional \$2 billion program to deal with vacant properties. But individual responses and federal dollars alone will not fix our crisis: in order to make the most of these dollars and programs in the Chicago region, and thus prevent future foreclosures and mitigate the impact of the many that have already occurred, we will need close collaboration and coordination among stakeholders, strategically focused interventions, and scaling of overall efforts.

The Regional Home Ownership Preservation Initiative (Regional HOPI) is the Chicago metropolitan area's integrated approach, dedicated to building capacity, galvanizing support, and expanding resources to exert a collective, measurable impact on the foreclosure crisis.

Regional HOPI has attracted a broad base of support and participation from organizations across the region and across the public, private, and nonprofit sectors. The collaboration was channeled into four task forces examining foreclosed/vacant properties, financial products, counseling and legal services, and research – to assess the problem on a regional scale and contribute to creating actionable solutions.

From August to October 2008, the task forces of Regional HOPI convened to develop strategies and action plans. This process produced innovative ideas, encouraged greater regional collaboration, and created a solid platform from which to combat foreclosures.

This document summarizes the progress of Regional HOPI and presents a Regional Action Plan to address foreclosures. Regional HOPI has transitioned from the planning stage to action.

We appreciate deeply the contributions of participants in the Regional HOPI effort. Moving forward, new ideas will flow from the joint work of groups and individuals taking the initiative forward. While every idea or recommendation generated from working groups may not have the full consensus of all sponsoring organizations, we have agreed in principle that there is much work to be done, and the goals and objectives set forth by participants in Regional HOPI remain worthwhile. The measure of success for this plan is not necessarily the accomplishment of each action exactly as described here, but the continued development and implementation of cooperative, regionally focused measures to stabilize the housing market and craft solutions to the foreclosure crisis.

Much has happened in the economic, financial, and political arenas, both locally and nationwide, since the Regional HOPI task forces first met in the summer of 2008. We hope this Action Plan will be a dynamic road map that will help us all address challenges and seize the opportunities in all those fronts, but, especially, we look forward to continuing this productive collaboration among stakeholders working to solve the foreclosures crisis in our region.

Sincerely,

*Federal Reserve Bank of Chicago
The Chicago Community Trust
Neighborhood Housing Services of Chicago (NHS)*

PARTNERSHIPS

Planning Sponsors

Michael Berry, Federal Reserve Bank of Chicago
 Bruce Gottschall, Neighborhood Housing Services
 Ngoan Le, The Chicago Community Trust
 Harry Pestine, Federal Reserve Bank of Chicago

Roberto Requejo, The Chicago Community Trust
 Michael van Zalingen, Neighborhood Housing Services
 Christen Wiggins, Neighborhood Housing Services
 Alicia Williams, Federal Reserve Bank of Chicago

Task Force Co-chairs

None of this would have been possible without the dedication and leadership of the following co-chairs:

Home Ownership Counseling and Legal Aid Task Force

Dru Bergman, Executive Director, DuPage Homeownership Center
 Dan Lindsey, Supervisory Attorney, Legal Assistance
 Foundation of Metropolitan Chicago

Refinancing and Financial Products Task Force

Jane Bilger, Assistant Executive Director, Illinois Housing
 Development Authority
 Tommy FitzGibbon, President, MB Financial Community
 Development Corporation

Foreclosed and Vacant Property Task Force

Rob Grossinger, Senior VP Community Development, Bank of America
 Jack Markowski, President, Community Investment Corporation

Research Task Force

Geoff Smith, Vice President, Woodstock Institute
 Stacie Young, Interagency Council Director, Institute for Housing Studies,
 DePaul University

Task Force Members

The broad span and scope of this initiative facilitated communication and partnerships among the following organizations and individuals:

Anna Ashcraft

Cook County Department of Planning

Hilde Betts

Harris N.A.

Jasmine Brewer

Interfaith Housing Center of the Northern Suburbs

Ivan Baker

Village of Tinley Park Economic Development

Bonnie Boards

Chase

Paula Brkich

Bethel New Life

Deborah Bennett

Polk Bros. Foundation

Leah Bradford

The Chicago Community Trust

Donnie Brown

Genesis Housing Development

Michael Berry

Federal Reserve Bank of Chicago

Glenn Brewer

Federal Deposit Insurance Corporation

Genaro Bucio

Brighton Park Neighborhood Council



PARTNERSHIPS *continued...*

Michael Burnside

Allstate Bank

Bob Campbell

Rockford Area Affordable Housing Coalition

Paul Carlisle

Chase

Liz Caton

Northwest Side Housing Center

Kelly Clarke

Consultant

Rebel Cole

DePaul University, Department of Real Estate

Jenny Dandridge

Federal Deposit Insurance Corporation

Lee Deuben

Chicago Metropolitan Agency for Planning

Beth Dever

Metropolitan Mayors Caucus

Samuel DiGrino

Prairie State Legal Services Inc.

David Doig

Park Bank Initiatives

Wendy DuBoe

United Way of Metropolitan Chicago

Sarah Duda

Woodstock Institute

Lindsay Durr

Northern Trust Company

Maritza Estrada

Community and Economic Development Association

Nancy Firfer

Chicago Metropolis 2020

Frankie Freaney

Nobel Neighbors

Colette Fried

Federal Reserve Bank of Chicago

Floyd Gardner

Neighborhood Housing Services Redevelopment Corporation

Andrew Geer

Heartland Housing Inc.

Paul Ginger

Office of the Comptroller of the Currency

Bob Graves

The Chicago Bar Foundation

Peppy Golden

Southwest Development Association/
Community and Economic Development Association

Zoë Goss

Goss Advisory Services LLC

Bruce Gottschall

Neighborhood Housing Services of Chicago

Katie Gottschall-Donohue

Housing Action Illinois

Paula Grant

ShoreBank

Tammie Grossman

Village of Oak Park

Alfred Guyton

Institute for Consumer Credit Education

Heather Hain

Rogers Park Community Development Corporation

Tenille Hawthorne

Latin United Community Housing Association

Susan Haze

Community and Economic Development Association Northwest

Vanessa Hill

Illinois Housing Development Authority

Joyce Hollingsworth

Hollingsworth & Associates

PARTNERSHIPS *continued...*

Calvin Holmes

Chicago Community Loan Fund

Kevin Jackson

Chicago Rehab Network

Lillie Jernigan

Metropolitan Planning Council

Kathy Johnson

Wilbur Wright College

Rachel Johnston

Chicago Rehab Network

Maurice Jones

Cook County Planning & Development

Jason Joy

Comptroller of the Currency

Eric King

Community and Economic Development Association

Saul Klibanow

Klibanow Strategic Consulting Services LLC

Christine Kolb

The Chicago Community Trust

Leticia Lara

Joseph Corp

Carol Larry

Genesis Housing Development Corporation

Ngoan Le

The Chicago Community Trust

Dave Leeney

First American Bank

Sharon Legenza

Housing Action Illinois

Rafael Leon

Chicago Metropolitan Housing Development Corporation

Susannah Levine

Business and Professional People for the Public Interest

Judy Levy

Urban Land Institute Chicago

William Little

Chicago Housing Authority

Rhonda MacFarland

Chicago Community Loan Fund

Angela Maclin

Cook County Department of Planning

Carl Malone

Harris N.A.

Joseph Martin

Diversity Inc. / South Suburban Mayors and Managers Assoc.

Dina Merrell

The Chicago Bar Foundation

Auburn Milton

Community and Economic Development Association

Marisol Miramontes

Community and Economic Development Association

Dean Morris

Nobel Neighbors

Janice Morrissy

Village of Riverdale

Saurabh Narain

National Community Investment Fund

Ofelia Navarro

Spanish Coalition for Housing

Rochelle Nawrocki

PolicyLab Consulting Group LLC

Patricia Nelson

Chicago Volunteer Legal Services Foundation

Arthur Neville

Community Savings Bank

PARTNERSHIPS *continued...*

Jennifer Novak

Illinois Housing Development Association

Ben Noven

State Treasurer's Office

Bob Palmer

Housing Action Illinois

Sandra Pearson

Community and Economic Development Association

Harry Pestine

Federal Reserve Bank of Chicago

DuWarn Porter

Illinois Housing Development Authority

Roberto Requejo

The Chicago Community Trust

Alex Reuda

Village of Cicero

Jorge Reuda

Village of Cicero

Alma Rojas

Community and Economic Development Association

Celena Santiago

Spanish Coalition for Housing

David Rose

National Training and Information Center

Joseph Schmidt

National Community Investment Fund

Robin Snyderman

Metropolitan Planning Council

Lee Sutton

Neighborhood Housing Services of Chicago

Lisa Tapper

Affordable Housing Corporation of Lake County

Garth Taylor

Metro Chicago Information Center

Phillip Thomas

The Chicago Community Trust

Michael van Zalingen

Neighborhood Housing Services of Chicago

Mary Vasys

Vasys Consulting Ltd

Rosie Verdin

National City Mortgage

Simone Weil

The Chicago Community Trust

James Wheaton

Neighborhood Housing Services of Chicago

Christen Wiggins

Neighborhood Housing Services of Chicago

James Willemsen

Federal Deposit Insurance Corporation

Alicia Williams

Federal Reserve Bank of Chicago

Ray Willis

U.S. Department of Housing and Urban Development

Margaret Wooten

The Chicago Urban League

the
FORECLOSURE CRISIS
in the chicago metro area

THE FORECLOSURE CRISIS IN THE CHICAGO METRO AREA

Approximately one out of five (19 percent) subprime mortgages originated in the last two years in the U.S. will end in foreclosure.¹ During the recent housing boom and (resulting) highly competitive mortgage market, poorly underwritten mortgages undermined long-established lending principles and created an unstable investment environment. In some cases, exotic mortgage products intended for a very narrow and sophisticated segment of the market were offered to under-informed consumers, producing failed transactions that ended in foreclosure. Analyses have uncovered numerous instances of fraud in mortgage transactions that have added to the crisis. Examples range from misstatements of income and assets in the underwriting process, to investment properties mortgaged as owner-occupied, where speculators falsely claimed multiple mortgaged houses as their principal residence. Around 90 percent of the risky, subprime mortgages that were originated beginning in 2004 have been resetting to unaffordable (“exploding”) interest rates and will continue to do so, pricing more individuals and families out of their housing budget and, potentially, out of their homes. Approximately 7.2 million American families hold a subprime mortgage.²

The foreclosure crisis is only one expression of a global financial crisis that has decimated the ranks of lenders, investment banks, and insurers, from well established institutions to newer companies that grew from the appetite for mortgage-backed investment products. This crisis spread from the financial arena and the credit markets into the broader U.S. economy, which is now entering its second year of decline.

Chicago, along with most metropolitan areas nationwide, has experienced a tremendous negative impact resulting from improvident lending and speculative investment in its housing market. In the Chicago metro area, 1 in 363 households (about 58,000) were in foreclosure proceedings in January 2009, compared to 1 in 466

Chicago Six-county Region Foreclosure Filings

	2006	2007	2008	2007 to 08	2006 to 08
Chicago	10,268	13,872	20,592	48.4%	100.5%
North Cook	575	962	1,845	91.8%	220.9%
Northwest Cook	1,472	1,971	3,700	87.7%	151.4%
West Cook	1,793	2,545	4,344	70.7%	142.3%
Southwest Cook	1,240	1,615	2,465	52.6%	98.8%
South Cook	4,174	4,773	6,013	26.0%	44.1%
Cook County	19,522	25,738	38,959	51.4%	99.6%
DuPage County	1,886	2,640	4,470	69.3%	137.0%
Kane County	1,614	2,302	3,451	49.9%	113.8%
Lake County	2,219	2,781	4,124	48.3%	85.8%
McHenry County	1,014	1,366	2,091	53.1%	106.2%
Will County	2,742	3,388	4,832	42.6%	76.2%
Six-county Region	28,997	38,215	57,927	51.6%	99.8%

Source: Woodstock Institute, Chicago City and Regional Foreclosure Activity

nationally.³ Foreclosure filings in the six-county metro area almost doubled between 2006 and 2008.⁴

The foreclosure crisis has been geographically broad, spreading across Chicago neighborhoods, older suburbs and cities, and booming exurbs in the outskirts of

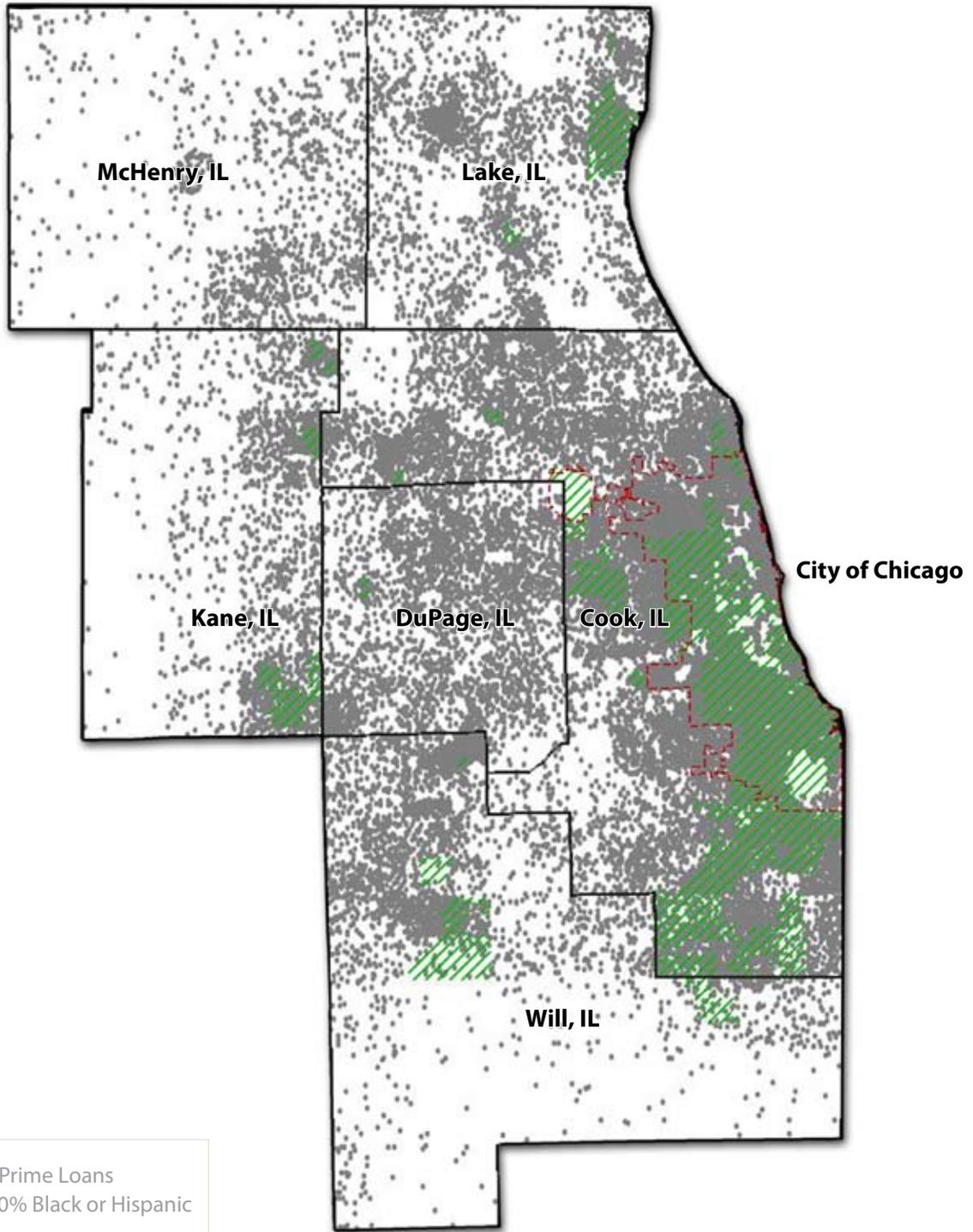
1 Ellen Schloemer et al., “Losing Ground: Foreclosures in the Subprime Market and Their Cost to Homeowners,” Center for Responsible Lending, December 2006.

2 Center for Responsible Lending.

3 Realty Trac.

4 Smith and Duda, “The Chicago Region’s Foreclosure Problem Continued to Grow in 2008,” January 2009.

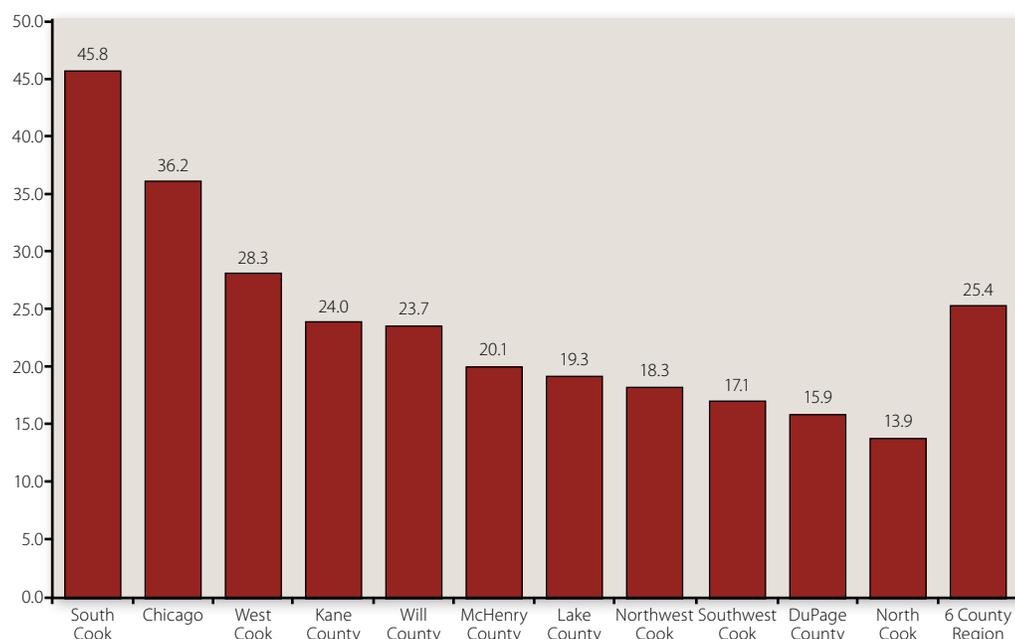
Map of Subprime Loans in Chicago Metro 2006*



*Source: First American Core Logic, November 2008.

The foreclosure crisis has been geographically broad, spreading across Chicago neighborhoods, older suburbs and cities, and booming exurbs in the outskirts of the six-county region. Yet, there are stark contrasts between the specific populations and communities most affected by the crisis and regional averages.

Chicago Six-county Area Properties with Foreclosure Filings Per 1,000 Mortgage Eligible Properties, 2008*



the six-county region. Yet, there are stark contrasts between the specific populations and communities most affected by the crisis and regional averages. For example, 57.5 percent of the subprime market share⁵ is in minority communities (communities where Blacks and Latinos comprise at least 50 percent of total population), and across the six-county region, foreclosure filings are disproportionately located in minority neighborhoods.⁶ Not surprisingly, many of the communities most affected by the crisis include low-wealth, low-income communities.

Although some Chicago neighborhoods continue to have high concentrations of foreclosures, a regional analysis reveals that suburban communities have experienced the largest proportional growth in foreclosure filings. The most recent numbers (2008) show that foreclosure filings are almost as numerous in the suburbs of Cook County (18,367) as within the city limits (20,592). Although the south suburbs of Cook County and the city of Chicago still have the largest number of foreclosure filings per 1,000 properties (46 and 36) respectively, the North and Northwest suburbs of Cook County saw the largest percentage increases in foreclosures⁷

Geographically concentrated foreclosures represent a long-standing challenge in underinvested, low- and moderate-income communities. These communities also have the highest concentrations of nonprime financial products, as they have fewer traditional financial institutions, and mortgage originators typically do not represent banks, thrifts, or credit unions. Often, foreclosed properties remain vacant for months, and even longer, driving down local property values, facilitating neighborhood crime, and producing more unstable local economies.

The effects of the crisis are especially tragic in some city communities, neighborhoods, and older suburbs that only recently started to recover from decades of reduced investment, and are now reversing their short-lived upward trends. The deeper impact on already economically frail communities provides evidence of lending disparities documented over several decades that persist to the present day. A 2006 analysis by The Chicago Reporter found that the Chicago metro area ranked second in high-cost loans to African Americans (trailing only the Washington, DC, metro area) and fifth in high-cost loans to Latinos. The area also ranked first in the nation in high-cost loans to white home owners.⁸

5 Percentage based on data from failed subprime lenders.

6 Campen, Jim et al., "Paying More for the American Dream: The Subprime Shakeout and Its Impact on Lower-Income and Minority Communities," March 2007.

7 Smith and Duda, January 2009.

8 Kimbriell Kelly and Alden K. Loury, "The High Price of Home Ownership" Chicago Reporter, November 2007. Available at www.chicagoreporter.com/index.php/c/Web_Extras/d/The_High_Price_of_Home_Ownership.

*Source: Woodstock Institute, Foreclosure Report of Chicago.

Lenders and services lose an estimated \$50,000 per foreclosure, and municipalities up to \$34,000.

Foreclosures among multi-family properties are also on the rise. Of the 13,872 foreclosures filed in 2007 in the City of Chicago, 35 percent were two, to six-unit buildings. Neighborhoods on the West and South sides of Chicago had the highest concentration of foreclosures among multi-unit buildings. In many cases, these buildings' residents were paying rent steadily and on time, but lost their homes because their landlord defaulted on a mortgage. A recent report estimates that between 9,600 and 28,900 mortgages on multi-family buildings may default during the crisis.⁹ In a separate report, the Lawyers' Committee for Better Housing analyzed eviction activity of lenders with the most foreclosure cases on rental buildings, and extrapolated that 2,500 families experienced eviction in 2008. Depending on household size, as many as 5,000 to 10,000 individuals were displaced as a result.

The economic cost of foreclosure goes beyond the individual borrower: each party associated with a foreclosure loses current and future revenue and incurs significant costs. Municipalities and counties experience decreased property tax revenue; lenders lose principal and interest payments; servicers lose fee income; and neighborhoods and communities realize decreased property values and shoulder the costs of any resulting crime and maintenance of vacant property. Nationwide, an average of \$5,000 in housing value is lost for each home near a foreclosure.¹⁰ A 10-year-old study in Chicago neighborhoods showed that in 1997 and 1998, one foreclosure filing in Chicago lowered property values an average of 0.9 percent for each property on its block.¹¹ A more recent analysis showed that impact could be as high as an 8.7 percent decrease in the value of adjacent property, and Cook County alone is forecasted to lose an estimated \$13 billion in housing value

due to foreclosures.¹² Apart from these losses, direct costs associated with foreclosed and vacant properties, from legal fees to security to maintenance costs, are significant. Lenders and servicers lose an estimated \$50,000 per foreclosure, and municipalities up to \$34,000.¹³

9 Woodstock Rental Report, 2008.

10 Ibid.

11 Dan Immergluck and Geoff Smith, "There Goes the Neighborhood: The Effect of Single-Family Mortgage Foreclosures on Property Values," Woodstock Institute, June 2005.

12 Kai-yan Lee, "Foreclosure's Price-Depressing Spillover Effects on Local Properties: A Literature Review," Federal Reserve Bank of Boston, September 2008; Center for Responsible Lending, "Subprime Spillover: Foreclosures Cost Neighbors \$202 Billion; 40.6 Million Homes Lose \$5,000 on Average," CRL Issue Paper, January 2008.

13 Doug Dylla, "Preserving the Dream: Understanding and Addressing the Subprime Mortgage Crisis," Neighborhood Funders Group, Issue Brief, April 2008; William Apgar, Mark Duda and Rochelle Gorey, "The Municipal Cost of Foreclosures: A Chicago Case Study," Homeownership Preservation Fund, February 2005.

the
**REGIONAL
HOME OWNERSHIP
PRESERVATION
INITIATIVE**

THE REGIONAL HOME OWNERSHIP PRESERVATION INITIATIVE

The Federal Reserve initiated an informal and preliminary meeting of representatives from Chicago area organizations interested in addressing the foreclosure crisis (including The Chicago Community Trust, the city of Chicago, the National Community Investment Fund, Neighborhood Housing Services of Chicago - NHS, and ShoreBank) in early 2008. Members of this nucleus of organizations have been in close communication over the ensuing months to coordinate efforts toward a regional response, culminating in the series of task force meetings in the third and fourth quarters of 2008. As individual public, private, and nonprofit responses to the crisis proliferated, covering a variety of geographies, issues, and strategies, members of the planning group felt that there was a growing need to create a forum for groups engaged in addressing the foreclosure crisis to bring a more coordinated regional response, leveraging resources in ways that individual organizations generally cannot. The work of the planning group developed into the Regional Home Ownership Preservation Initiative (Regional HOPI). Regional HOPI is co-sponsored by The Chicago Community Trust, the Federal Reserve Bank of Chicago, and NHS.

Regional HOPI derives its name from and is based on NHS's Home Ownership Preservation Initiative (HOPI). HOPI is a partnership between NHS, the city of Chicago, the Federal Reserve Bank of Chicago, The Chicago Community Trust, and key lending, investment, and servicing institutions, that seeks to prevent foreclosures through direct contact and services to borrowers, dialogue with industry, and piloting new foreclosure mitigation strategies.¹⁴ HOPI preserves sustainable home ownership for Chicago residents, reclaims foreclosed housing stock as neighborhood assets, and has been held up as a model for cities and groups fighting foreclosures since 2003.

HOPI leveraged relationships between national servicers and lenders to bring attention to and reduce the impact of foreclosures on neighborhoods and communities. Participants learned about the foreclosure process and the value of housing counseling, and were able to discuss how loan servicing can help or hinder the foreclosure process. Participants also learned about best practices in important areas, such as moving property from abandonment to owner occupancy, working with counselors, and local legislative action.

As a widely recognized and effective intervention program, HOPI provides a strong foundation for a more regionally focused initiative. Building on this foundation, Regional HOPI was designed in three phases: planning/information gathering, action plan creation, and implementation. This document is the culmination of phase two and sets the course for implementation.

¹⁴ **HOPI Partners:** Bank of America, Caliban Foundation, The Chicago Community Trust, Citigroup, City of Chicago, Credit Counseling Resource Center, EMC Mortgage Corporation, Fannie Mae Corporation, Federal Deposit Insurance Corporation, Federal Reserve Bank of Chicago, Fifth Third Bank, First American Homeownership Foundation, The Fogelson Family Foundation, Fremont Investment and Loan, GMAC ResCap, Goldman, Sachs and Company, Harris N.A., the Homeownership Preservation Foundation, HSBC-North America, The John D. and Catherine T. MacArthur Foundation, JPMorgan Chase, Litton Loan Servicing, LP, Marquette Financial Companies, MB Financial Bank, National City, National Training and Information Center, Neighborhood Housing Services of Chicago, New Century Mortgage Corporation, The Northern Trust Company, Ocwen Federal Bank, Option One, Pierce & Associates, PC, Polk Bros. Foundation, TCF Bank, U.S. Bank, WaMu, Wells Fargo.

The Process

Building on lessons learned by HOPI, regional sponsors assembled four task forces around the following key topics: counseling, financial products, foreclosed property, and research.

Each task force was co-chaired by two experts and addressed key aspects of the crisis. Using pragmatic selection criteria, the task forces identified priorities that directly and indirectly built on existing efforts, and were actionable and feasible to accomplish, replicable across the metro area or scalable to the entire region, and conducive to collaboration between sectors and stakeholders.

During a three-month period, each task force convened three times. The first two sessions comprised independent task force meetings to develop goals and prioritize potential actions, and the third session included all of the task groups in a plenary meeting to debrief and collectively outline an action plan based on the recommendations developed at the task group meetings.

Real estate expert Zoë Gross stated that, "During these challenging times in the marketplace, the efforts of the Federal Reserve Bank of Chicago, Neighborhood Housing Services, and The Chicago Community Trust, in sponsoring the Regional HOPI task forces are critical. As a participant in three of the task forces it became evident through our group efforts that the level of community and industry leadership will prove to be paramount in finding lasting solutions." All areas of the industry, from home counseling services to foreclosure and REO management, will need to work together to create new and innovative products to bring resolution to those facing foreclosure and to aid those who are seeking home ownership.

Sponsors

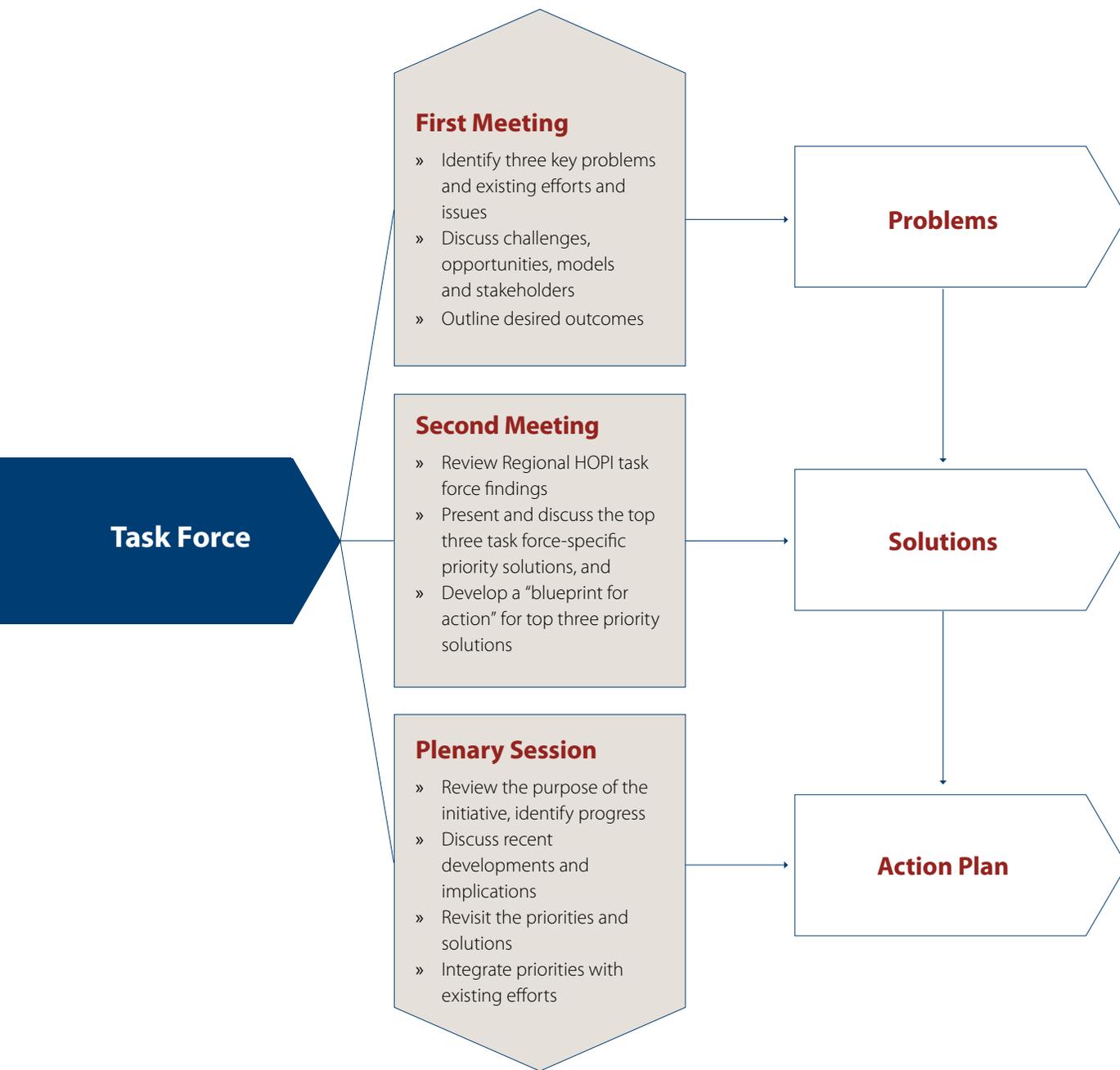
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**Home Ownership
Counseling & Legal
Aid Task Force**

**Refinancing &
Financial Product
Task Force**

**Foreclosed & Vacant
Property Task Force**

Research Task Force



Overlapping Themes

Unsurprisingly, some common themes were identified across task forces. For example, the need for:

- » Common workout standards, language, and processes
- » Better enforcement of existing regulations
- » Widespread and equal access to information and resources
- » Region-wide corporate leadership and networks
- » An accessible clearinghouse of data, tools, and best practices
- » Operational funds for capacity building and support of direct services

The Results

In addition to sharing ideas and general input, each task force contributed a set of specific, practical priorities to advance the collective progress against foreclosures. The overarching Regional HOPI criteria helped to ensure each task force crafted actionable and scalable solutions to leverage existing efforts and increase collaboration. In the words of Mayor Zenovia Evans (Riverdale), co-chair of the Housing Task Force of the Metropolitan Mayors Caucus “The Regional HOPI discussions focused a broad-based group of stakeholders on cultivating a more efficient strategy for tackling suburban foreclosure trends and working ‘across borders.’ This laid the groundwork for needed capacity building and a historic collaboration of municipal leaders ready to make the most of the new Neighborhood Stabilization Program resources coming from Washington DC.”

The Regional HOPI discussions focused a broad-based group of stakeholders on cultivating a more efficient strategy for tackling suburban foreclosure trends and working ‘across borders.’ This laid the groundwork for needed capacity building and a historic collaboration of municipal leaders ready to make the most of the new Neighborhood Stabilization Program resources coming from Washington DC.

-Zenovia Evans, Co-chair of the Housing Task Force of the Metropolitan Mayor’s Caucus.

**HOME OWNERSHIP
COUNSELING
AND LEGAL AID**
task force

HOME OWNERSHIP COUNSELING AND LEGAL AID TASK FORCE

A number of nonprofit organizations in the Chicago metropolitan area offer home buyer education and prepurchase counseling. Fewer offer post purchase counseling, on predatory lending, mortgage delinquency, and default resolution counseling, or legal assistance. Currently, there are approximately 35 to 45 foreclosure counselors available to serve the Chicagoland area. Of these, only a few provide services in the suburban areas and in particular in those with the most need. While this figure reflects modest growth over the past two years, the region has inadequate counseling capacity compared to the rapidly growing demand for mortgage delinquency and default resolution counseling services – an estimated 378 percent caseload increase since 2006.¹⁶ Three years ago the number of foreclosure cases was just over 16,000; in 2007 the number exceeded 42,000. And by the end of 2008, more than 58,000 filings had occurred within the year.

An effective regional initiative will require a robust network of well-trained legal and housing counselors, with access to resources on many levels, use of similar terminology and methods, and most importantly, improved communication with, and cooperation from servicers. Counselors cannot prevent or mitigate foreclosures without the cooperation of those who currently hold and/or service loans. This need for cooperation extends to helping borrowers refinance, develop realistic workout plans or, if even a modified payment structure is not sustainable, transfer the property responsibly, and ultimately find decent, safe and affordable housing.

The demand for legal counseling has also risen with that of foreclosure counseling, with low-income home owners in the Chicago area increasingly needing legal representation. While existing counseling efforts have made a great impact, these cases are extremely complex and time-consuming and more resources are needed. The need is particularly acute in the southern and western suburbs of Chicago, where the numbers of foreclosures are rising, and legal aid and court-based resources are scarce.

PRIORITY I: Enhance Outreach

Conduct early, effective, and efficient regional outreach to households experiencing or at risk of experiencing foreclosure

Action Steps

Extend outreach to include loan servicers, banks, judges, and other partners in contact with borrowers

Establish working groups to develop best practice models

Engage Illinois statewide foreclosure network, including non-profit, foundation, faith-based, legal, public and private support

Develop coordinated marketing strategy and stakeholder outreach

Assess the effectiveness of current outreach models, messages, and strategies

¹⁶ Neighborhood Housing Services of Chicago.

PRIORITY II: Increase Access

Provide timely, widespread and affordable access to expert housing counselors and legal assistance to all people in need

Action Steps

Analyze counseling and legal aid supply and demand to identify capacity gaps, scale opportunities

Project the cost of new services and engage in efforts to raise funds and leverage resources

Research regional best practices in counseling and legal services

Show cost-benefit analysis of counseling for different players and the costs of inaction

Incorporate counseling as value-added component of real estate transaction process to produce a constant funding mechanism

PRIORITY III: Improve Networks

Create a network to unify and build counselor capacity, refine information transmission and referral processes, and facilitate effective communication and solidarity between stakeholders

Action Steps

Conduct counselor focus groups to determine useful training resources to implement

Assess potential for collaboration with regionwide organizations to create an integrated network of agencies

Start holding networking events and create communication forums, including conference calls, list serves, and Web-based resources to discuss workout tools, common forms and language, and best practice services

Explore funding for long-term sustainability of counseling networks and training

Collect data to prove the effectiveness of coordinated housing and legal services

Task Force Summary

Creating and scaling counseling and legal services to a region as diverse and heavily affected by foreclosures as Chicagoland presents a multitude of challenges. Just like many other nonprofit organizations providing direct services, counseling organizations face insufficient funding, training, and have limited capacity to deal with the scope and volume of the current crisis. Poor communication between counselors and servicers and few creative workout options further reduce the chances for effective intervention.

There are also demand-side difficulties. The combination of inadequate pre-purchase home buyer education, inadequate or even fraudulent products, and unqualified borrowers is powerful and dangerous. This relationship is magnified in the time-lag demonstrated by home owners in crisis between getting into trouble and seeking help. This aspect makes counseling efforts even more challenging, as borrowers seek help too late in the default process, when few choices are available. Finally, some populations within the region who are experiencing high levels of foreclosures remain disconnected from counselors and outreach efforts. This disconnection can be due to the physical distance to the closest counseling agency, limited availability of services for non-English speakers, or other reasons.

The Home Ownership Counseling and Legal Services Task Force outlined strategies related to education, access, and outreach to meet the challenges associated with the depth and breadth of foreclosures. But they also recognized that issues beyond the scope of their work, such as limited cooperation from lenders, investors, and servicers in the development of workout plans and scarce refinancing options for troubled borrowers, have a critical impact on their ability to serve clients effectively. Increased oversight in mortgage transactions, development of standards and regulation, enhanced incentives for collaboration, and cooperation among stakeholders can offset the structural inefficiencies counseling and legal services face. Additionally, widespread financial education, affordable, well-conceived post-foreclosure options, and early and effective regional outreach will help improve the outcomes for troubled borrowers.

In the words of Dan Lindsey, supervisory attorney of the Legal Assistance Foundation of Metropolitan Chicago and co-chair of the Task Force, “The deeper the foreclosure crisis grows, the stronger our safety net needs to be—and our safety net is only as strong as its individual strands (housing and legal counselors) and the connections between those strands.”

Task Force Priorities

The Task Force examined a wide range of issues and narrowed them down to three priorities that will form the basis for progress:

- » **Enhance Outreach** – conduct early, effective, and efficient regional outreach to households experiencing or at risk of experiencing foreclosure.
- » **Increase Access** – provide timely, widespread, and affordable access to expert housing counselors and legal assistance to all people in need.
- » **Improve Networks** – create a network to unify and build counselor capacity, refine information transmission and referral processes, and facilitate effective communication and solidarity between stakeholders.

Priority I: Enhance Outreach

Assistance for people facing foreclosure can only succeed if the associated marketing and outreach campaigns motivate them to seek help before their loans are seriously delinquent. Improved outreach will help counselors to reach more consumers earlier and allow for more mortgage modification options before it is too late for the borrower. Early intervention can prevent unnecessary foreclosures, and thereby stabilize communities by reducing resident turnover and vacant property.

Proactive marketing and early warning systems that coordinate resources to people battling foreclosure can range from basic steps – knocking on doors in a particular area – to a multi-media public relations or advertising campaign. Consistent, early, and effective regional outreach should target a broad audience, but moreover, populations and communities most likely affected by foreclosures. New outreach campaigns should draw on the strengths of current ones and document best practices for others to emulate. Efforts to improve outreach should involve and emanate from housing organizations and networks (e.g., U.S. Department of Housing and Urban Development [HUD]-certified, Illinois Housing Development Authority [IHDA]-sponsored, and NeighborWorks® groups).

In the long run, effective and well-planned outreach has the potential to educate consumers, reduce foreclosures, and empower communities.

Action Steps

- » Extend outreach to include loan servicers, banks, judges, and other partners in contact with borrowers.
- » Establish working groups to develop best practice models.
- » Engage Illinois statewide foreclosure network, including nonprofit, foundation, faith-based, legal, public, and private support.
- » Develop coordinated marketing strategy and stakeholder outreach.
- » Assess the effectiveness of current outreach models, messages, and strategies.

Priority II: Increase Access

Outreach is of little use if counseling and legal resources are insufficient to meet the increased demand for services. Evidence from counselors and legal aid providers workloads clearly shows that current access to these resources is inadequate, especially in areas with high rates of foreclosure, such as the western and southern suburbs. Geographically dispersed foreclosures and wide variation in the extent and availability of services require a regional approach that centralizes and standardizes counseling and legal aid when efficiencies are needed, while strengthening local capacity and offering individualized solutions when necessary.

A more nuanced regional distribution of resources, situated proportionately where defaults occur more frequently or where concentrations of certain mortgage types raise the risk of widespread defaults, will encourage adequate provision of resources to communities experiencing foreclosure and much needed support to counselors overwhelmed by growing caseloads.

Spreading the resources provided by the American Housing and Foreclosure Prevention Act of 2008 to counseling and legal services is critical. This legislation has appropriated \$150 million for the Neighborhood Reinvestment Corporation for the purpose of foreclosure mitigation activities, including preforeclosure counseling, and \$30 million to assist with legal services.

These newly available resources should be used as a catalyst to promote wider regional integration. Expanding and scaling existing resources, like Chicago's 311 phone service, and building the capacity of current networks with partnerships, as in the Housing Action Illinois and NeighborWorks® program, will help publicize and connect available resources throughout the region.

Action Steps

- » Analyze counseling and legal aid supply and demand to identify geographic and capacity gaps and efficiencies.
- » Project the cost of new services and engage in efforts to raise funds and leverage resources.
- » Research regional best practices in counseling and legal services.
- » Show cost-benefit analysis of counseling for different players and the costs of inaction.
- » Incorporate counseling as a value-added component of the real estate transaction process to produce a constant funding mechanism.

Priority III: Improve Networks

Counseling and legal services are stretched thin by the strong demand for resources to help people understand and cope with the foreclosure process. Caseloads are too high and conditions too stressful for those working on the ground, and in need of basic resources (such as reliable support) and efficient processes to assess cases, intervene and/or refer to a more appropriate agency. The creation of a strong, organized web of regional agencies would support counselors by facilitating regional cooperation, information exchange, and resource allocation, ultimately contributing to increasing institutional capacity to serve those experiencing default and facing foreclosure.

Housing counselors and legal resources represent a liaison between the institutional and the individual side of foreclosures. A unified network – building counselor capacity, improving information and referral systems, and facilitating effective exchanges and communication between stakeholders – would establish the foundation for more effective work. A network may also foster unified advocacy on legislation and regulation and a platform from which to communicate feedback and ideas about immediate needs or problems to other key stakeholders.

This encompassing entity, comprised of smaller organizations each familiar with their specific area, will enable broad representation and metro-wide efficiencies, as information gaps and service overlaps could be assessed regionally.

Housing counseling and legal assistance agencies have a responsibility to engage in training, information gathering, and networking. Housing Action Illinois is one organization that is already working to create a counselor network, provides training, can serve as

an information clearinghouse, and could assume a larger role in this area with more resources.

Research based on similar networks is needed to find appropriate models for this network. Validation and justification for funding networks of counselors would bolster this priority.

Action Steps

- » Assess potential for collaboration with regionwide organizations to create an integrated network of agencies.
- » Conduct counselor focus groups to determine useful training resources to implement.
- » Start holding networking events and create communication forums, including: conference calls, list serves, and Web-based resources to discuss workout tools, common forms and language, and best practice services.
- » Explore funding for long-term sustainability of networks' counseling and training
- » Collect data to prove the effectiveness of coordinated housing and legal services.

Research Priorities

- » Produce a comprehensive regional assessment for counseling and legal aid needs, capacity, current resources, and service gaps.
- » Compile best practices for outreach, counseling, and legal aid.
- » Perform cost-benefit analysis of counseling for different players.
- » Perform a feasibility study for the creation of a regional network.

Stakeholders

- » Financial counselors
- » Legal aid providers
- » Network-umbrella organizations (Housing Action Illinois, NHS)
- » Funders (especially public sector, like HUD and Illinois Housing Development Authority - IHDA)

Existing Efforts

An Illinois state/ IHDA initiative announced in October 2007 links counseling organizations statewide to technical assistance and training resources, employing many lessons of HOPI. The nonprofit Housing Action Illinois trains organizations to work with lenders to restructure debt, counsel, and train borrowers facing default. The initiative is linked

with HOPE NOW, and a NeighborWorks® America program with an 800-line offering additional resources.

The IHDA initiative has budgeted \$370,000 for the statewide foreclosure network, matched by NeighborWorks® America funding, which the state estimates as enough to significantly counsel about 1,000 households and prevent about 250 foreclosures. Greater capacity is needed. A federal grant program announced on December 26, 2007, by the Bush Administration provided \$180 million for counseling programs nationally. The funds were awarded by NeighborWorks® America, and so far \$2.4 million of that amount has been allocated across Illinois – \$1.5 million through IHDA – and distributed to counseling agencies. More recently, the Housing and Economic Recovery Act of 2008 set aside \$150 million in national funding for preforeclosure housing counseling, again to be awarded through NeighborWorks®.¹⁷

The Circuit Court of Cook County has some existing legal programs that provide brief, court-based advice and limited assistance through pro bono attorneys to represent litigants in their mortgage foreclosure cases. There are also a handful of legal aid and pro bono organizations in the Chicago area that represent clients in mortgage foreclosure litigation, including matters involving predatory mortgage loans and deed theft committed by so-called "foreclosure rescue" businesses.

Outlined below are some additional initiatives, currently in operation. More information on these programs, **including a detailed list of agencies providing foreclosure counseling and legal aid**, can be found in the document, *The Foreclosure Crisis in the Chicago Area: Facts, Trends and Responses*, cited earlier in this report (Note 22).

311 Advertising Campaign

City of Chicago/NHS

Any Chicago resident who is having trouble paying their mortgage can be immediately connected to a financial counselor simply by calling 311, the City of Chicago's non-emergency number. 2007 has seen dramatically increased borrower call volume – with more than 6,000 borrowers who called in 2007 alone. This model then served as the platform for the HOPE hotline (888-995-4673), which is a nationwide resource center for credit and counseling services.

17 U.S. Senate Committee on Banking, Summary of "Housing and Economic Recovery Act of 2008," October 1, 2008. Available at http://banking.senate.gov/public/_files/HousingandEconomicRecoveryActSummary.pdf.

Borrower/Home Owner Outreach Days and Workshops

City of Chicago, Illinois Housing Development Authority (IHDA), NHS, others

The city of Chicago, IHDA, NHS, and lenders provide one-stop service for most affected areas, including loan workout sessions with counseling agencies and lenders; access to free legal assistance; and financial literacy.

Early Warning Program

City of Chicago

The city of Chicago sends out foreclosure prevention information to home owners within days of the foreclosure process being initiated in the Circuit Court, giving home owners more time to work out solutions and, hopefully, keep their homes.

HOPE NOW Hotline

HOPE NOW Alliance

An alliance of industry and other service providers, HOPE NOW has partnered on some Borrower Outreach days, and the HOPE hotline (888-995-4673) is integrated into city and statewide outreach systems to link borrowers to counselors. The National Ad Council has instituted a campaign in concert with HOPE NOW. The Chicago market has seen less ad placement due to the existing 311 campaign.

Community Coalitions Fighting Foreclosure

Illinois Treasurer's Office

Target education efforts to trusted partners in the community with access to borrowers who might be in trouble. Partners include churches, local officials, realtors, or anyone who might be approached by struggling home owners.

**REFINANCING
AND FINANCIAL
PRODUCTS**
task force

REFINANCING AND FINANCIAL PRODUCTS TASK FORCE

PRIORITY I: Standardize Systems

Standardize efforts to keep people in their homes using counseling and loss mitigation and offering a tool kit to help counselors determine the best refinancing option for their clients

Action Steps

Extract some broad standards based on current loan modification experience

Evaluate the results of current workouts

Explore incentives to standardization via legislative action

Develop a common communications network among stakeholders

Improve servicer capacity and competency to work with other players

Many agree that subprime mortgage lending practices have led to the current crisis. These practices led otherwise unqualified candidates to take on risky adjustable rate mortgages (ARMs) that allowed 100 percent financing and limited or no borrower documentation. The results of these lending practices will be borne out over the next few years, as forecasts are predicting that, nationally, 1 of 33 home owners will face foreclosure from loans originating in 2005-06, 3 million loans will default in 2008-09, and 2 million will complete the foreclosure process.¹⁸ The estimated share for the Chicago area may be close to 100,000 loans.

There is reason to believe that some servicers are receptive to innovations and aggressive action plans to alleviate foreclosures, even though covenants of securities agreements may prevent near-term adoption of some measures. During the past months many financial institutions have been through mergers and governmental takeovers/assistance, litigation settlements, and portfolio reassessments. Several major financial institutions, including Bank of America/Countrywide, JP Morgan Chase/WaMu, Citigroup, and IndyMac, have set up massive moratoria and loan modification programs to assist their borrowers, showing that standardized processes at the macro-level can be a viable solution. More recently, Citi agreed to support legislation allowing bankruptcy judges to adjust principal payments or interest rates for troubled borrowers. Still, many subprime lenders and servicers have not agreed yet to develop similar programs. In general, loan modifications are scarce and early studies show that, when they happen, they are usually “payment plans” where both due principal and interest are still due in full, thus jeopardizing the long-term sustainability of the arrangement.¹⁹ Position papers by the American Securitization Forum (ASF), a trade organization

18 Mark Zandi, Written Testimony before House Subcommittee on Commercial and Administrative Law. Hearing on “The Growing Mortgage Foreclosure Crisis: Identifying Solutions and Dispelling Myths,” January 29, 2008.

19 Housing Action Illinois “Who’s Servicing Whom?” Available at www.housingactionil.org/downloads/ServicerReportNarrativeDec2008.pdf, December 2008.

PRIORITY II: Improve Products

Create financial products available throughout the region to ensure the proliferation of realistic, affordable and sustainable refinancing and purchase options

Action Steps

Regional expansion of the NHS lending pool and other existing products

Investigate possibility of shared equity products and develop private tax-exempt bonds for refinancing and/or new purchases

Eliminate cumbersome barriers that prevent access to specialized products

Perform a series of cost/benefit analyses for investors, servicers and lenders, comparing allowing properties to foreclose vs. restructuring

Research market to find out more about potential users of financial products and develop new products or better match people with existing ones

PRIORITY III: Recruit Leaders

Recruit multiple champions from the private, public, and nonprofit sectors, driving change and setting the tone to foster cooperation across the region

Action Steps

Define and write charter for Leadership Alliance

Approach and recruit key leaders, guaranteeing sector, geographic, and ethnic diversity

Set Regional HOPI benchmarks and monitor progress

Establish an agenda to champion public, private, and nonprofit initiatives surrounding foreclosure

Establish channels of communication with existing national and regional networks to understand current efforts and advocacy initiatives

representing a cross section of servicers, mortgage-backed securities issuers, and ratings agencies, outline guidelines for expedited measures to address distressed borrowers.²⁰

Working with the banking industry also requires clearly communicated expectations of buyer assistance programs. It is important to correctly align incentives and expectations when designing macro-level financial measures. The Obama administration and Congress are already working on allocating part of the Troubled Asset Relief Program (TARP) funds and other stimulus packages to address the foreclosure crisis. More recently, the “Making Home Affordable” \$75 billion initiative was set in motion by President Obama to assist home owners in refinancing and modifying their loans. The guidelines were being developed as we wrote this Action Plan.

Task Force Summary

The foreclosure crisis cannot be addressed without examination of the financial products and options related to mortgage lending. Assessment of available financial products reveals insufficient capital and secondary markets underwriting standards that are incompatible with current borrower conditions. In particular, the suburban areas of our region lack access to suitable products for troubled home owners, and counselors find that their work cannot be successful without such products.

Refinance options to avoid foreclosure are limited, and are not evenly available across our region. Some primary steps toward a solution for financial products should include expanding existing flexible financial products, creating incentives for new loan pools for refinancing, addressing structural barriers that are preventing action on loan modifications, creating cash reserves to help families in distress, and exploring and publicizing the benefits of loan restructuring.

The Task Force agreed that the foreclosure crisis affects many more stakeholders than just borrowers and financial institutions; and, therefore, that the attention and support of employers, labor leaders, mayors, civic figures, and other key leaders must be brought into the Regional HOPI recommendations. Task Force members recommended the creation of a leadership alliance to catalyze such support.

Task Force Priorities

There are three particular priorities that will form the basis for progress:

- » **Standardize Systems** – develop standardized methods to keep people in their homes using common counseling and loss mitigation techniques, and develop a tool kit to help counselors determine the best refinancing option for their clients.
- » **Improve Products** – create (or modify existing) financial products and ensure they are available throughout the region to foster realistic, affordable, and sustainable refinancing and purchase options.
- » **Recruit Leaders** – recruit multiple champions from the private, public, and nonprofit sectors to drive change and set the tone to foster a high-level cooperation across the region.

Priority I: Standardize Systems

The overarching goal of this priority is to create a system matching the right financial product with the appropriate borrower and establishing collaborative loan workouts that keep people in their homes in the long term. In order to achieve this, regulatory agencies could establish clear qualification criteria, including risk assessment, and provide incentives for lenders to refinance troubled borrowers. A broad education campaign to thoroughly articulate loan modification standards and promote public participation and receptiveness would help successfully implement this priority.

Standardizing foreclosure classifications is another tool that would help prioritize resources and focus the region’s refinancing efforts. Instituting the HOPI borrower classifications – which identify and rank six levels of borrowers, A to F, based on default risk and refinancing prospects – is a strategy that could expedite foreclosure resolution. “Best Fit,” an online tool which allows NHS and participating servicers to track clients and scan and upload documents into a universal database to which only the servicer and counselor have access, is another effort worth expanding to streamline the loan modification process.

In the short-term, initiating a mandatory evaluation of workout solutions, coupled with recommended standards for borrower qualification, could assist in timely resolution of foreclosures. In the medium-term, lender/investor incentives to restructure or write down troubled mortgages

20 American Securitization Forum, “Streamlined Foreclosure and Loss Avoidance Framework for Securitized Subprime Adjustable Rate Mortgage Loans,” December 2007. Available at www.americansecuritization.com/uploadedFiles/FinalASFStatementonStreamlinedServicingProcedures.pdf.

should be created, such as tax benefits, equity sharing, etc. In the long-term, clear standards and classifications would yield sound, paying loans and contribute to better management of troubled loan portfolios.

One of the most pressing needs to achieve this priority involves information—the lack of transparency in loan ownership is a fundamental issue. And data from servicers and lenders on effective standards that are currently in use should be collected, in order to distill best practices.

Action Steps

- » Extract some broad standards based on current loan modification experience.
- » Evaluate the results of current workouts.
- » Explore incentives to standardization via legislative action.
- » Develop a common communications network among stakeholders.
- » Improve servicer capacity and competency to work with other players.

Priority II: Improve Products

More accessible and flexible products, tailored for diverse consumer and market needs are needed. Most importantly, the repayments associated with the products should be affordable and sustainable in the long-term.

A recent paper by the National Community Investment Fund²¹ summarized nationwide financing models to prevent foreclosure, including Chicagoland-based efforts. A more local assessment of financial products should reveal responsible products that currently exist in our metro area, and what their limitations are. Such an assessment should lead to creating responsive refinancing products with shared risk and equity mechanisms.

Identifying and estimating the potential pool of users will help to match borrowers to respective products and drive the development of appropriate products. The creation of a matrix to facilitate this matching would be beneficial.

It is also important to track the results of loan modifications over time to measure success and evaluate usage of different products and practices. Examining similar refinancing products in other regions will help us gauge gaps in services or investment opportunities.

Action Steps

- » Regional expansion of the NHS lending pool and other existing products.
- » Investigate possibility of shared equity products and develop private, tax-exempt bonds for refinancing and/or new purchases.
- » Eliminate cumbersome barriers that prevent access to specialized products.
- » Perform a series of cost/benefit analyses for investors, servicers, and lenders comparing outcomes when properties foreclose versus restructuring loans.
- » Research the market to find out more about potential users of financial products and develop new products or better match people with existing products.

Priority III: Recruit Leadership

A collaborative and inclusive Leadership Alliance with multiple champions from the financial industry and participants from other sectors should be in place to advance the Regional HOPI values and vision, advocate for relevant legislation and policies, and promote consumer protection and empowerment. The Alliance could also play a “watchdog” role as the crisis and responses in our region evolve.

The Regional HOPI Leadership Alliance should comprise high-profile principals of established organizations, with industry expertise and reputations for collaborative work. The Alliance’s members should develop a vision or charter; build a framework for action steps; establish, validate, and champion outcome objectives; maintain the focus and engagement on the initiative; and publicly recognize positive outcomes and individual contributions to inspire participation.

This Alliance will be instrumental in setting regional priorities, and reaching out to diverse organizations working to address foreclosure issues, as well as advocating for better foreclosure-related legislation and policies. It will contribute to long-term goals related to embodying institutional ownership, inspiring motivation and fundraising campaigns, and maintaining relationships among servicers, originators, investors, regulators, and counselors in residential lending.

21 See http://www.ncif.org/images/uploads/2008_NCIF_Working_Paper_National_Foreclosure_Prevention_Financing_Models_101008.pdf.

Action Steps

- » Define and write charter for Leadership Alliance.
- » Approach and recruit key leaders, guaranteeing sector, geographic, and ethnic diversity.
- » Set Regional HOPI benchmarks and monitor progress.
- » Establish an agenda to champion public, private, and nonprofit initiatives related to foreclosure.
- » Establish channels of communication with existing national and regional networks (such as the Illinois Housing Roundtable) to understand current advocacy initiatives and efforts.

Research Priorities

- » Assemble an inventory of existing products in the region.
- » Produce a matrix to match borrower foreclosure scenarios to financial products.
- » Evaluate the effectiveness and short-/long-term performance of different loan modifications.
- » Assess the role and effectiveness of different servicer incentives for loan modification.

Stakeholders

- » Civic Leaders (for the Alliance)
- » Lenders
- » Servicers
- » Financing counselors
- » Investors
- » Consumer associations representing borrowers' interests
- » Regulators

Existing Efforts

Outlined below are some additional initiatives, currently in operation. More information on these programs can be found in the document "The Foreclosure Crisis in the Chicago Area: Facts, Trends and Responses" (see Note 22). The National Community Investment Fund produced a summary of National Foreclosure Prevention models, which can be found at www.ncif.org.

Secure Loan

Federal Housing Administration (FHA)

Allows borrowers to refinance from non-FHA adjustable rate mortgages (ARMs), current or delinquent and regardless of reset status, into an FHA mortgage. Lenders cannot automatically disqualify borrowers due to delinquency. Lender may offer a second mortgage to make up the difference between the value of the property and what is owed.

Home Owner Assistance Initiative

Illinois Housing Development Authority (IHDA)

IHDA has \$310 million to refinance troubled mortgages into 30-year fixed rate mortgages. Some of the offered products include affordable fixed rate mortgages, fee caps, and flexible loan size.

Rescue Loan

ShoreBank

Allows borrowers to refinance to a fixed rate, 15- or 30-year competitive loan. This product targets borrowers who can afford their loan prior to rate adjustment. ShoreBank keeps loans in their portfolio to maintain direct relationships with borrowers.

Home Ownership Retention Program for Countrywide Customers

Bank of America

Modifies troubled mortgages with up to \$8.4 billion in interest rate and principal reductions for nearly 400,000 Countrywide Financial Corporation customers nationwide. This program is designed to achieve affordable and sustainable mortgage payments for borrowers who financed their homes with subprime loans or pay option adjustable rate mortgages serviced by Countrywide.

Neighborhood Lending Services (NLS)

Neighborhood Housing Services of Chicago

NLS, an Illinois Residential Mortgage licensee, lends to low-/moderate-income borrowers and home buyers, as well as to borrowers in low/moderate income neighborhoods of the Chicago metropolitan area. NLS responds to the needs of several different customer constituencies, individual borrowers, targeted neighborhoods, and Chicago's lending community.

Citi Homeowner Assistance Program

Citigroup

Under the Citi Homeowner Assistance program, Citigroup will contact 500,000 mortgage holders, primarily in areas facing extreme economic distress, to proactively reach home owners prior to delinquency. Additionally, Citigroup has extended a moratorium on foreclosures and is partnering with investors who own the loans serviced by Citibank to work out troubled mortgages.

Finally Home

Illinois State Treasurer's Office

This \$5.7 million fund provides a five-year, 10 percent guarantee of a borrower's loan amount to participating lenders. Without this 10 percent guarantee, participating lenders would not qualify the borrower for the loan. The product allows property purchase or refinance, utilization by one to four unit properties, and no fees.

Affordability Gap Loan Program

Northwest Side Housing Center

This is a new foreclosure prevention initiative piloted in seven zip codes with \$400,000 from four lenders. The goal of the program is to stabilize home ownership by helping home owners finance out of a "bad" loan and into affordable, long-term loans. The program can reduce the borrower's loan amount by \$10,000 to \$50,000. Lender partners include Liberty Bank for Savings, Chapman and Cutler LLP, Harris N.A., Northern Trust Bank, Charter One Bank, and Bank of America.

**FORECLOSED AND
VACANT PROPERTY**
task force

FORECLOSED AND VACANT PROPERTY TASK FORCE

The metropolitan region (excluding Lake county) saw a 97.8 percent increase between the first half of 2007 and the first half of 2008 in Real Estate Owned (REO) auctions; i.e., foreclosed vacant homes that end up in the hands of the lender. Woodstock Institute reported that between 2005 and 2007, a total of 22,500 homes throughout the region entered the REO portfolio. In the first half of 2008, an additional 10,321 properties went into REO. Massive amounts of properties are returning to the hands of lenders, buildings are vacant, and there are no foreseeable buyers.

Foreclosed properties contain direct and indirect costs to public and private entities and have the potential to destabilize neighborhoods, by bringing down property values on surrounding homes and straining municipal resources. Direct costs are realized through demolition, code enforcement and court fees, for example, while indirect costs are calculated from the loss of property value and tax base. Direct costs can affect 15 separate government units, from courts to public safety to local government, with costs ranging from \$27 to \$34,199, based on the foreclosure scenario (whether or not the property is sold, was ever vacant, or if the property was secured). Indirect costs are larger, and The Center for Responsible Lending estimates that Cook County alone may lose \$13 billion in housing value to this crisis.

Foreclosed and vacant buildings also foster local disinvestment, and have the potential to devastate nearby blocks and neighborhoods. Across the six-county region, foreclosure filings are disproportionately located in minority neighborhoods, and high-cost loans are concentrated in South Suburban Cook County. Special attention should be paid to the low- and moderate-income (LMI) communities, where the current crisis is most visible and communities are being hit hardest.

PRIORITY I: Create Information Clearinghouse

Create a clearinghouse of information to determine the extent of the problem and the variance among communities

Action Steps

Create and maintain a user-friendly regionwide database of vacant foreclosed properties

Provide a forum and vehicles for researchers to discuss strategies, share tools, and coordinate input into the database

Compile, analyze, and make accessible foreclosure research, current and pipeline legislation, policy, and best practices

Perform a regional analysis to determine "hot-spots" and prioritize resources

Publicize resource to the region

PRIORITY II: DEVELOP BEST PRACTICES

Identify and disseminate best practices for the acquisition, rental management, rehabilitation, demolition and/or sale of foreclosed properties

Action Steps

Create guides on best practices around: (bulk) acquisition, property management, code enforcement, maintenance, etc.

Disseminate guides regionwide among key stakeholders

Educate municipalities on foreclosure process, vacant properties management, and available resources

PRIORITY III: IDENTIFY ENTITIES FOR IMPLEMENTATION

Identify existing or create new organizational capacity to implement strategies related to foreclosed vacant properties

Action Steps

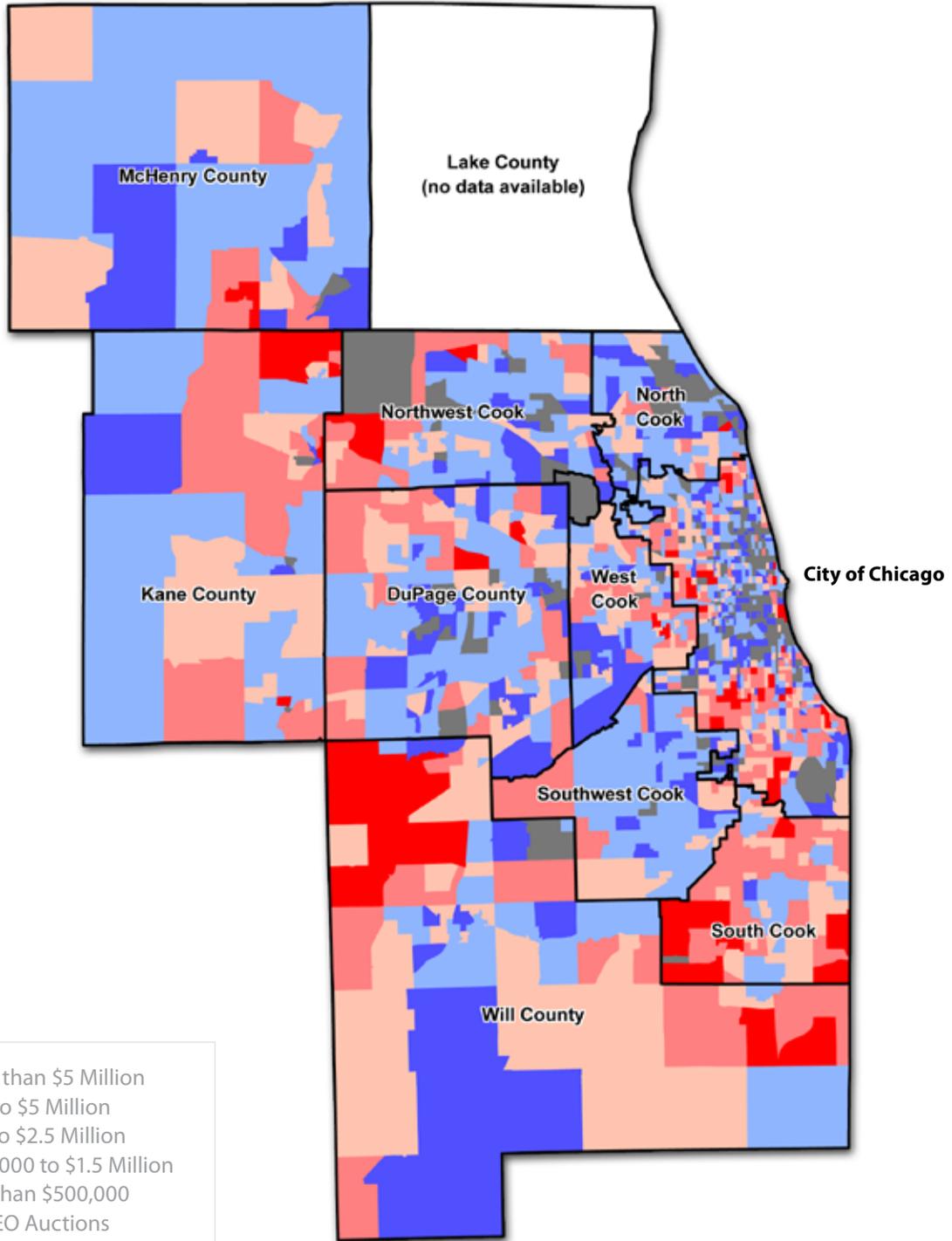
Support the interjurisdictional collaborations already in place around this priority

Continue to establish priorities and coordinate NSP initiatives

Identify applicable best practices across the nation

Explore legislative initiatives

Aggregate Auction Value of REO Properties, Six County Area, 2007



One of the most promising sources of funding to address foreclosures is the Neighborhood Stabilization Plan, which allocated over \$100 million to our region in 2008, and has made available another \$2 billion nationwide in 2009 through a competitive process in competitive grants through the American Recovery and Reinvestment Act (ARRA) of 2009.

Task Force Summary

A comprehensive strategy to deal with foreclosed vacant properties must include the means to acquire properly, monitor, manage, and maintain property during the market downturn. Municipalities must weigh options such as enforcing regulatory powers through steps like registering vacant buildings and billing their owners, or establishing land banks to take control of vacant properties. Other communities and non-profits need to develop strategies for making properties available for sale, rent-to-own, rental housing, longer-term holding, or demolition, particularly as part of the Neighborhood Stabilization Program. Strategies to deal with vacant properties should consider the impact on surrounding properties and neighborhoods, mixed-income approaches, and should also be aligned with existing local housing plans.

Creating a regional action plan for this aspect of the crisis is challenging: there are limited models for turning around foreclosed rental properties, and scattered site property management models are also scarce. These challenges are not insurmountable, and the Task Force reached a consensus on recommended activities. A detailed and concrete market analysis of the existing stock of foreclosed properties and a regionwide assessment of stakeholders' capacity would inform the scope of the problem and its possible solutions. Other necessary steps include coordinating the current federal, regional, municipal, and neighborhood-level initiatives, understanding the impact of present and pending legislation, and examining financial resources available for dealing with foreclosed properties. The work of this Task Force was further spurred by the rapidly approaching deadlines associated with the Neighborhood Stabilization Program released in the fall of 2008.

Co-chairs and task force members launched a working group to make the most of this program in the Chicago region and set up different initiatives to advance the early recommendations of the Regional HOPI listed below. The need to leverage and share the scarce resources available to deal with this problem drove the work of these initiatives. In the words of Rob Grossinger, senior vice president at Bank of America and co-chair of the Task Force, "With an escalating increase in vacant

properties resulting from foreclosures which are devastating our neighborhoods, it is all the more important for those in the private, public, not-for-profit and for-profit sectors to coordinate their resources, skills, and efforts to address this problem. By combining resources and capacity, regional communities can accomplish what a single community or organization cannot."

Task Force Priorities

There are three particular priorities that will form the basis for progress:

- » **Priority I: Create Information Clearinghouse** – Create a clearinghouse of information to determine the extent of the problem and the variance among communities (from the regionwide to the most local/neighborhood level), including best practice information from lenders, policy organizations and nonprofits.
- » **Priority II: Develop Best Practices** – Identify and disseminate best practices for the acquisition, rental management, rehabilitation, demolition and/or sale of foreclosed properties
- » **Priority III: Identify Entities for Implementation** – Identify existing or create new organizational capacity to implement strategies related to foreclosed vacant properties.

Priority I: Create Information Clearinghouse

The pressing need to manage vacant foreclosed properties requires the collection and dissemination of timely and accurate information. Many municipalities lack the capacity and resources to keep an updated local registry of foreclosed properties, and to continually monitor the status of properties. Furthermore, there are no public data sources available to identify where foreclosed properties exist at a parcel level. The Foreclosed Properties Task Force saw information sharing as an opportunity to foster inter-regional collaboration.

Regional entities have the ability to collect, evaluate, and maintain foreclosure information at the aggregate level. Regional entities are also best suited to disseminate best practices, and to use data to determine resource prioritization, and address policy/legislative needs. Furthermore, coordination between municipalities that participate in inter-jurisdictional agreements can share scarce resources to undertake comprehensive strategies beyond the boundaries of individual neighborhoods or municipalities. They can also generate economies of scale by applying together for funding, as well as by purchasing housing in bulk from major investors.

A centralized, integrated database and a clearinghouse Web site to organize information about foreclosures should include and help disseminate:

- » Micro-level : aggregate data on foreclosures including foreclosure filings, REO's and vacancy status Macro-level data: including a market analysis, and incidence and concentration of foreclosures
- » Research on regional models for effective small property management, information on financial resources, and best practices from a variety of municipalities

These tools require a regional assessment of foreclosed properties and local market analyses to inform appropriate foreclosure strategies. Identifying initial resources and project ownership would also help lay the foundation for this effort. The database should allow users to examine changes in the number and concentration of foreclosures over time, by location and any attempted or realized interventions that have taken place.

Action Steps

- » Create and maintain a user-friendly regionwide database of foreclosure information and data.
- » Provide a forum and vehicle for researchers to discuss strategies, share tools, and coordinate input
- » Compile, analyze, and make accessible foreclosure research, current and pipeline legislation (including foreclosure notification to municipalities), policy, and best practices.
- » Perform a regional analysis to determine "hot-spots" and prioritize resources.
- » Publicize resources to the region.

Priority II: Develop Best Practices

Maintaining vacant properties once the owner has moved out is critical to preventing neighborhood decline. As with the Neighborhood Stabilization Program, the processes for the acquisition, management, and sale of foreclosed properties must be cohesive, commonly understood and practiced, and include the means to monitor the status of properties through foreclosure reclamation and beyond.

The scale of the current market downturn provides unprecedented opportunity for low-cost acquisitions. Programs such as NSP can provide a lasting framework and serve as a model for other entities wishing

to acquire, rehab and re-sell foreclosed properties, thereby returning distressed properties back into productive housing.

An evaluation of organizational capacity at the municipal, local, and regional level is necessary to understand the potential for acquisition, management, and sale at each jurisdictional level. Education and outreach are needed to train municipalities, developers, and community-based organizations on acquisition and management strategies. Additionally, research would help determine the best strategies to reuse foreclosed properties, and could also assess the feasibility of a land trust or land banking to manage properties that do not sell.

Implementing this priority would require leveraging and coordinating resources, as well as developing an investment strategy for foreclosed properties. Designing incentives for municipalities would also encourage their participation.

Action Steps

- » Create Best Practices guides including:
 - Acquisition of Properties, including bulk acquisition
 - Property Management Standards
 - Code Enforcement and Vacant Property Maintenance
 - Determining Value of Rehabilitated Properties
 - Determining Appropriate End Use of Property (For-Sale, Rental, Land Bank, Employer-Assisted Housing, etc.)
 - Preserving Affordability of Properties
- » Disseminate guides regionwide among key stakeholders
- » Educate municipalities and other stakeholders on strategies for addressing vacant properties and available resources.

Priority III: Identify Entities for Implementation

The Housing and Economic Recovery Act of 2008 allocated \$3.92 billion in Neighborhood Stabilization Program (NSP) funds to states and localities to address vacant foreclosed properties. Illinois has been allocated \$173 million. Jurisdictions submitted their plans to the U.S. Department of Housing and Urban Development spelling out how they will spend these funds in December 2008. Once disbursed, the funds must be spent within 18 months.

The city of Chicago has been planning the optimal resource allocation for the city and its base of community-based housing partners with funding

assistance from the MacArthur Foundation, and in partnership with the local arm of national developer Mercy Housing. Likewise, outside of the city, the Chicago Metropolitan Agency for Planning, Metropolitan Mayors Caucus, Metropolitan Planning Council and Chicago Metropolis 2020 have been coordinating initiatives with NSP recipients by establishing mechanisms to share information and best practices with each other. The sheer number and varying experiences of the jurisdictions charged with implementing NSP (each of the counties and municipalities including Joliet, Cicero, Elgin, and Aurora in the Chicago region, Illinois Housing Development Authority, Illinois Department of Human Services and Department of Commerce and Economic Opportunity at the state level) makes coordinating these funds even more complicated.

Furthermore, many municipalities that are in most need of intervention lack the staffing and resources to prepare for the use of these funds. Therefore, initiatives to cultivate interjurisdictional coordination between municipalities are underway with the support of the Metropolitan Mayors Caucus and Metropolitan Planning Council.

Better coordination among banks, mortgage servicers, and local officials will lead to more appropriate and consistent resale tactics, as well as potential inter-jurisdictional entities (new or existing) to manage a portfolio of vacant properties over time. Inter-jurisdictional approaches will allow economies of scale and better leverage for advocacy efforts and resources.

Additional funding opportunities should be sought from national philanthropic groups that are interested in scalable models to abate the effects of foreclosures. The limitations presented by the timeline attached to provisions from the housing bill are a challenge, yet also provide the impetus for immediate traction on this priority.

This priority requires local needs assessments, articulating common goals, and targeting acquisition and disposition efforts in order to get the regional and inter-jurisdictional efforts off the ground.

Action Steps

- » Support the interjurisdictional collaboration (spearheaded by Chicago Metropolitan Agency for Planning [CMAP], Metropolitan Planning Council [MPC], Metropolitan Mayors Caucus [MMC], and Chicago Metropolis 2020 [CM2020]) already in place around this priority.
- » Continue to establish priorities and coordinate Neighborhood Stabilization Program initiatives.

- » Identify applicable best practices examples of inter-jurisdictional collaboration across the nation.
- » Explore legislative initiatives.

Research Priorities

- » Produce databases and maps of foreclosed properties for spatial analysis.
- » Track the status of vacant properties over time.
- » Track current and pipeline legislation.
- » Research best practices and models on property registries, acquisition processes, property management, entities, and local enforcement, etc.

Stakeholders

- » Municipalities, counties, and other jurisdictions receiving NSP funds
- » Region-wide organizations (MPC, CMAP, MMC, CM2020)
- » Inter-jurisdictional entities
- » Banks with REO portfolios
- » Servicers
- » Researchers/database managers
- » Local Councils of Governments (COGs) Developers and property managers
- » IHDA
- » HUD
- » Illinois Dept. of Human Services (IDHS)

Existing Efforts

Outlined below are several initiatives currently in operation.

Interjurisdictional Collaborations

South and West Cook municipalities

Recognizing that the housing challenges facing communities and the foreclosure trends devastating many families and neighborhoods do not adhere to municipal boundaries, two groups of Cook County municipalities plan to pilot a strategy for approaching housing work through interjurisdictional coordination. These communities are located in South and West Cook County. Assisted by CMAP, MMC, MPC, and CM2020, participating mayors want to create a sustainable approach to coordination, forming an entity with the capacity to leverage private and public sector resources to increase the quality, quantity, and sustainability of affordable and workforce housing options in their subregion. They have an immediate need to pilot this approach related to the optimal

utilization of NSP funds; therefore, their interjurisdictional efforts will begin with a coordinated approach to the utilization of NSP funds.

Information Sharing

CMAP, CM2020, MMC, and MPC

Recognizing that many unanswered questions remained regarding how to effectively put the NSP funds to best use, CMAP, MMC, MPC and CM2020 hosted three half-day group discussions with experts in the housing industry – both in the private and public sector – to help sort some of these questions out. The intent of these meetings was to gather as much practical information as possible from leading experts in the field, and to capture and disseminate this knowledge to NSP grantees (as well as future subrecipients). The three meetings focused on:

- » **Property Acquisition Strategies**, including how to determine which properties are foreclosed and vacant, how to determine who holds valid title, and how to work with servicers;
- » **Strategies for the Use of NSP Funds**, including how to establish and administer land banks, how to ensure long-term success in rental buildings, and what the best way is to build economies of scale;
- » **Rebuilding Neighborhoods Weakened by Foreclosure**, focusing on how municipalities and developers could work together to get stabilize neighborhoods and get homes back into productive use.

Since those meetings were initiated, the four regional agency partners created a list-serv on Google which allows stakeholders such as NSP recipients, potential NSP sub-recipients, developers and others to share their questions and answers around the funding program. In addition, the partners have been convening NSP recipients every few months to sit down and talk through their processes (reviewing the HUD plans, creating the RFP for sub-recipients, etc.). Forums like this continue the collaborative and information-sharing spirit of Regional HOPI.

Legislative Initiatives

BPI and Municipalities

Lead by Business and Professional People for the Public Interest, an advisory committee of municipal leaders was formed and legislation developed. The pending legislation (Illinois Vacant and Abandoned Properties Act) will provide municipalities the tools acquire information and maintain vacant properties adequately.

Public–Private Initiatives

City of Chicago

This project is in the development stages for property acquisition, holding, and disposition. The City is developing a time-limited initiative to put vacant foreclosed properties back to productive use as quickly as possible by facilitating the transfer of vacant properties owned by financial institutions to approved partners. The initiative will be responsible for acquisition and holding, asset management, and property disposition.

Vacant Building Enforcement

Various municipalities

Different municipalities deploy a variety of tools to prevent vacant buildings from blighting neighborhoods. Some examples include vacant property ordinances and registries which exist in an increasing number of metropolitan Chicago communities, Chicago’s Slum Nuisance Ordinance, and Chicago’s Troubled Buildings Initiative.

Mandated Insurance on Vacant Homes

City of Chicago

Requires banks or title holders to pay for insurance on vacant homes. Bellwood has also successfully deployed this policy.

Discounted Disposition through NHS & HOPI Partners

Neighborhood Housing Services Redevelopment Corporation (NHSRC)

NHSRC acquires vacant foreclosed properties, rehabs them, and sells them to owner-occupants. Acquisitions occur in partnership with the Real Estate Owned (REO) division of financial institutions, through the city of Chicago’s Troubled Buildings Initiative, and as a court-appointed receiver for the city of Chicago.

RESEARCH
task force

RESEARCH TASK FORCE

Research will help facilitate the other three task forces' priorities and goals. The Research Task Force incorporated general needs in their analysis, as well as the research requests from each task force. The collective research priorities include:

- » Constructing an accessible Web site warehouse for data and reports
- » Crafting a strategy for dissemination of data and publicization of resources
- » Continuing to update the working paper "The Foreclosure Crisis in the Chicago Area: Facts, Trends and Responses"²³

HOME OWNERSHIP COUNSELING AND LEGAL AID RESEARCH PRIORITIES

Action Steps

Produce a comprehensive regional assessment for needs, capacity, and current resources

Compile best practices for effective foreclosure counseling and alleviation tactics

Develop cost-benefit analysis of counseling for different players and the costs of inaction

Develop a feasibility study for the creation of a regional network

²³ Stacie Young, "The Foreclosure Crisis in the Chicago Area: Facts, Trends and Responses." Available at www.chicagofed.org/cedric/files/young_foreclosure_crisis.pdf.

REFINANCING AND FINANCIAL PRODUCTS RESEARCH PRIORITIES

Action Steps

Assemble an inventory of existing products in the region

Produce a matrix to match borrower foreclosure scenario to financial products

Evaluate the effectiveness and short-/long-term performance of different loan modifications

Assess the role and effectiveness of different servicer incentives for loan modification

FORECLOSED AND VACANT PROPERTY RESEARCH PRIORITIES

Action Steps

Produce databases and maps of foreclosed properties for spatial analysis

Track current and pipeline legislation

Track the status of vacant properties over time

Research best practices and models on property registries, acquisition processes, property management, entities, and local enforcement

2008 The Chicago Community Trust, Federal Reserve Bank of Chicago, Neighborhood Housing Services

