
**Remarks at the Summit
REO and Vacant Properties:
Strategies for Neighborhood Stabilization**

**Charles L. Evans
President and Chief Executive Officer
Federal Reserve Bank of Chicago**

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Good afternoon. I am pleased to be here today to share a few comments as we close out the first day of this excellent conference on REO and Vacant Property Strategies for Neighborhood Stabilization. Most of you already have some appreciation for the work that the Federal Reserve System has been doing to address financial and economic instability. What is less well known is that the Federal Reserve also has been working hard to respond to the foreclosure crisis on “Main Street.” We have leveraged our research, community affairs and supervision and regulation functions to support innovative foreclosure prevention and neighborhood stabilization strategies at the local level.

I’d like to talk about that important work, especially a Fed program called MORE, or the Mortgage Outreach and Research Effort; but before I do that, I’d like to discuss some of the larger issues that relate to homeownership and foreclosure mitigation. As a nation we have come to value homeownership because of the many benefits it brings, for both families and communities. Perhaps foremost is its potential for building household wealth. In addition, however, communities with high levels of homeownership tend to have greater involvement in school and civic organizations, higher graduation rates, lower housing turnover and higher home values. Simply stated, homeowners tend to put down deeper roots, and that is good for communities, as well as for families.

Recognition of these benefits has made encouraging homeownership a national priority. Tax incentives, FHA mortgage insurance and sponsorship of Fannie Mae and Freddie Mac all contributed to a long rise in the U.S. homeownership rate—from 45 percent in 1940 to a peak of 69 percent in 2004. Of course, homeownership is only good for families and communities if it can be sustained. Home purchases that are very highly leveraged or unaffordable subject the borrower to a great deal of risk. There’s no guarantee, as we’ve learned recently, that house prices will rise. Moreover, even in a strong economy, unforeseen life events and risks in local real estate markets represent vulnerabilities for highly leveraged borrowers.

Thus, it was very destructive when, in the early part of this decade, dubious underwriting practices and mortgage products inappropriate for mass consumption became more common. It is difficult to understand how loose underwriting, high degrees of leverage and the broad marketing of exotic and often very high-cost mortgage products could promote sustainable homeownership. In fact, these practices took us in the other direction, and homeownership began to decline even while mortgage underwriting standards continued to loosen. Moreover, partly as a result of these

practices, we've seen an unprecedented housing market collapse that contributed to a very deep recession marked by many lost jobs. And homeownership has now declined for six straight years.

Although there are some signs of general economic recovery and some evidence of home price stabilization, we are certainly not out of the woods. Projections suggest foreclosed housing units in the U.S. could reach as high as 3 million in 2010.

The public policy response to the housing market collapse has become increasingly aggressive as the severity and extent of the collapse have become clearer. One might expect lenders to modify mortgages, making them more affordable for borrowers, rather than accepting large losses on foreclosed properties. However, for various reasons, the number of modifications has been lower than we might have hoped. Thus federal government efforts such as the Home Affordable Mortgage Program, or HAMP, continue to evolve, and the search for solutions goes on. The Federal Reserve has had a longstanding interest in these issues, but our work has taken on added significance since the advent of the housing meltdown and recent financial crisis.

My direct involvement in mortgage and foreclosure issues began fairly recently when I became President of the Federal Reserve Bank of Chicago and sponsor of a Federal Reserve Initiative called MORE, or the Mortgage Outreach and Research Effort. Prior to that, I had worked with our Community Affairs staff as they partnered with community organizations across our District to address foreclosures issues.

In Chicago, one of our most successful partnerships has been with Neighborhood Housing Services of Chicago (NHS). Much of this work started in the late 1990s, culminating in a program called HOPI, the Homeownership Preservation Initiative, in 2003. The NHS, with our support, has pioneered many techniques to combat the ill effects of foreclosures. The HOPI has been instrumental in saving hundreds of families from foreclosure, hosting loan modification and counseling events, completing HAMP modifications for borrowers and creating strategies for reclaiming vacant properties.

As part of the MORE initiative, the Chicago Fed, together with Federal Reserve Banks around the country and the Board of Governors in Washington, is also addressing foreclosure mitigation and neighborhood stabilization efforts—through outreach, research and meetings with industry experts.

Perhaps most important so far has been our work to bring resources to the hardest hit cities and regions of the country. Home buyer counseling, for example, is a critical need in certain areas. Under the MORE program, we've helped many of our community development partners organize day-long "mega events" that have served thousands of troubled borrowers. Moreover, we've partnered with and brought together housing advocates, lenders, academics, and key government officials to discuss foreclosure issues and develop solutions. In some cases, alliances have been formed right on the spot to create and implement programs to keep people in their homes.

The MORE program also has included a partnership with the U.S. Departments of Labor and the Treasury and the HOPE NOW Unemployment Taskforce to assist unemployed home owners at risk of losing their homes to foreclosure. This collaboration led to the creation of an online tool that allows homeowners and servicers to document unemployment insurance benefits as income to qualify for federally sponsored mortgage modification programs. In 2008, each Reserve Bank within the Federal Reserve System created an online Foreclosure Resource Center. These websites provide local constituents and consumers with easy access to information on foreclosure-related resources. Features of our Foreclosure Resource Center include an enhanced Foreclosure Mitigation Toolkit, which provides detailed steps and information for localities seeking to develop foreclosure prevention activities of their own, and a new Foreclosure Recovery Resource Guide, which seeks to assist consumers who have gone through the foreclosure process.

A number of Federal Reserve research projects have been initiated as part of the MORE program. They include several studies focusing on foreclosure prevention, financial education and adverse neighborhood effects resulting from foreclosures.

In this latter category, Community Affairs researchers across the Federal Reserve System launched a study in 2009 of the planning and early implementation stages of the federal Neighborhood Stabilization Program. The research team conducted a series of interviews with more than 90 recipients of HUD's NSP funds in the fall of 2009, they will release a report based on these interviews and other data in late 2010. This report will provide the first nationwide examination of the impact of the NSP.

In order to leverage the work of MORE and to make information available to practitioners in the field, we have been active in sponsoring several conferences. In addition to the conference held here today, the FRS and the FDIC are co-hosting a two-day conference this fall that will highlight 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. The second day of the conference will present research on the future of housing finance.

All of the initiatives I have described as part of our MORE program serve to help supplement work being done on foreclosure prevention and neighborhood stabilization, both locally and nationally. My hope is that all of you here today will draw upon this information and the success of the MORE program to explore new and creative ways to address these important challenges. At the Fed, we will continue to do our part to encourage further research, participate in the dialogue, and coordinate concerned groups that want to work toward sustainable housing markets.

Thank you.