

Addressing the Impact of the Foreclosure Crisis

Federal Reserve Mortgage Outreach and Research Efforts



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A Message from the Chair

of the Mortgage Outreach and Research Efforts (MORE) Initiative

Since the start of the financial crisis, the Federal Reserve System has undertaken a series of well publicized and unprecedented actions to help stabilize the mortgage and financial markets and promote economic recovery. What is less well known is that the Federal Reserve has also been working to respond to the foreclosure crisis on “Main Street,” leveraging its research, community affairs and supervision and regulation functions to support innovative foreclosure prevention and neighborhood stabilization strategies at the local level. In the spring of 2009, the Federal Reserve’s Conference of Presidents embarked on a collaborative effort to leverage the substantial knowledge of experts in mortgage markets across the Federal Reserve System. Under the auspices of the Mortgage Outreach and Research Efforts (MORE) initiative, the 12 Federal Reserve Banks and the Board of Governors have worked together proactively to inform and engage policymakers, community organizations, financial institutions and the public.

This publication, *Addressing the Impact of the Foreclosure Crisis*, highlights MORE-sponsored projects designed to communicate best practices and information about innovative programs to improve conditions in neighborhoods affected by high rates of foreclosure. It also reviews initiatives undertaken by the various Reserve Banks and the Board of Governors to respond to the foreclosure crisis. More detailed information about MORE projects, including foreclosure toolkits and other valuable information for borrowers and community organizations, can be found at the Foreclosure Resource Center of www.chicagofed.org and the other Federal Reserve Bank websites.



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

Members of the MORE Committee

Douglas Evanoff	Co-Chair/Chicago	Alicia Williams	Co-Chair/Chicago
Prabal Chakrabarti	Boston	Matthew Lambert	Board of Governors
Larry Cordell	Philadelphia	Andreas Lehnert	Board of Governors
Tammy Edwards	Kansas City	Nellie Liang	Board of Governors
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Joy Hoffmann	San Francisco	Daniel Sullivan	Chicago
Jacqueline King	Minneapolis	Douglas Tillett	Chicago
John Krainer	San Francisco	Scott Turner	San Francisco
		Richard Walker	Boston

A special thank you goes to Scott Turner and Carolina Reid from the San Francisco Fed who pulled together information regarding the Reserve System's efforts into one cohesive report. Thanks also go to Dan Wassmann, John Dixon and Ping Homeric for turning the report into a publication.

Fighting Foreclosures

Federal Reserve Mortgage Outreach and Research Efforts

Since the start of the financial crisis, the Federal Reserve System (FRS) has undertaken a series of unprecedented actions to help stabilize the mortgage and financial markets and promote economic recovery.

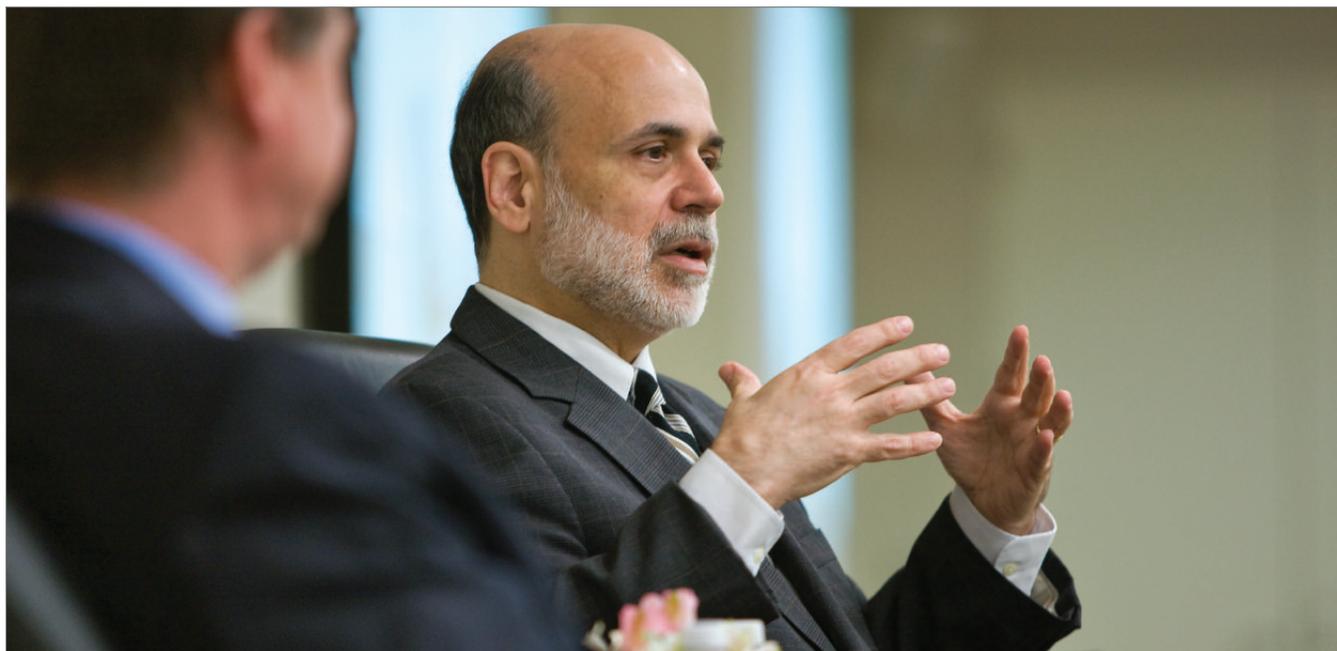
Much work has focused on the foreclosure crisis facing thousands of Americans, with Fed researchers and community affairs professionals across the U.S. supporting innovative prevention initiatives and neighborhood stabilization efforts.

Early in 2009, the presidents of the 12 Reserve Banks, working closely with the Board of Governors in Washington, DC, created the Mortgage Outreach and Research Efforts (MORE) initiative. Its goal is simple: Leverage the Fed's substantial knowledge of and expertise in mortgage markets in ways that are useful to policymakers, community organizations, financial institutions and the public. This report highlights MORE's work and the efforts of Economic Research, Community Affairs and Supervision and Regulation professionals at Reserve Banks and the Board of Governors.



The four regional Reserve Bank presidents leading the MORE effort are (left to right) Federal Reserve Bank of Chicago President Charles Evans, Federal Reserve Bank of St. Louis President James Bullard, Federal Reserve Bank of Kansas City President Thomas Hoenig, and Federal Reserve Bank of Minneapolis President Narayana Kocherlakota.

Improving the Communication of Information about Foreclosure Prevention Resources



Federal Reserve Chairman Ben Bernanke is actively involved in leading the Federal Reserve System's efforts to address the national foreclosure crisis.

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Working with federal agencies to assist unemployed homeowners

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

New York Fed staff also introduced steps to improve the coordination of unemployment and housing resources and to increase unemployed homeowners' awareness of all the resources available to them. As a direct result of the Federal Reserve's efforts, the Department of Labor and HOPE NOW websites now cross-reference each other's foreclosure prevention and work force resources so that unemployed workers have easy access to information on both types of aid. Similarly, job fairs and foreclosure prevention events across the country now have information or representation from both local work force specialists and housing counselors. In addition, the parties developed and deployed call-center scripts to direct callers to each other's resources.

Partnering with NeighborWorks® to support neighborhood stabilization

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

- Developed a case study series on local community stabilization projects, found at: http://www.stablecommunities.org/sites/all/files/documents/Responsible_Stabilization%20Case%20Study%20Report.pdf;
- Hosted webinars on the Neighborhood Stabilization Program (NSP) and stabilization issues that helped local communities learn how to redevelop foreclosed properties for productive use;
- Provided community stabilization place-based training in Florida, California, New Jersey, and Nevada;
- Provided 49 scholarships for staff from nonprofits to attend training workshops in Florida and Louisiana; and
- Overhauled and re-launched the StableCommunities.org (www.stablecommunities.org) website, which provides comprehensive resources to localities seeking to address the problems of concentrated foreclosures.

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

Issuing bank examiner procedures for tenant protection

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

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

Updating the Foreclosure Resource Centers and revising the Foreclosure Mitigation Toolkit

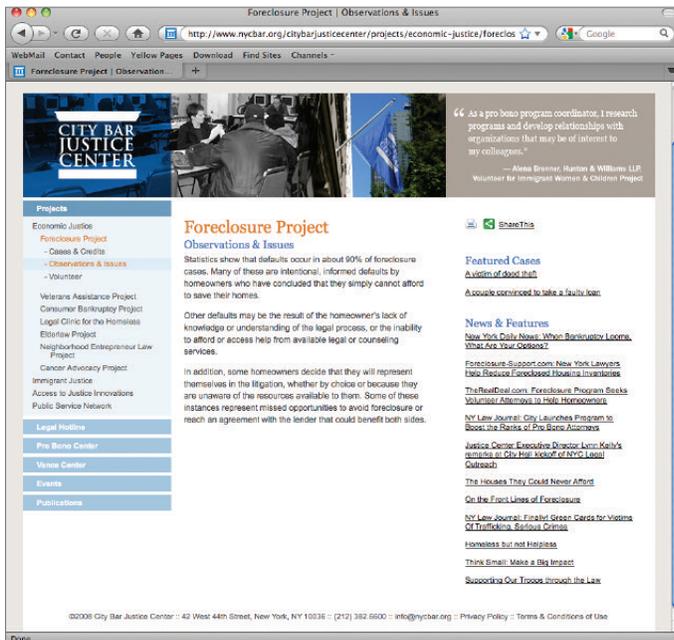
In 2008, each of the Banks within the FRS created a Foreclosure Resource Center on its website, designed to provide local constituents and consumers with easy access to information on foreclosure-related resources. Throughout 2009, the MORE initiative worked to enhance these Resource Centers, increasing and improving the content and improving the navigation of the websites. The Foreclosure Mitigation Toolkit, which provides detailed steps and information for localities seeking to develop foreclosure prevention activities of their own, was enhanced to include tips on how to create flyers and mailings to support borrower outreach events, links

*When a bank walks away from the foreclosure process and leaves the title in the name of the borrower.



The Federal Reserve System's regional Reserve Banks have worked to enhance their Foreclosure Resource Center websites, increasing and improving the content and navigation.

to regional and national resources, and a glossary. A MORE working group also prepared information on how individual Reserve Banks can customize the website. In addition, a new Foreclosure Recovery Resource Guide – which seeks to assist consumers who have gone through the foreclosure process – was developed and distributed to the Federal Reserve Banks as a supplement to the toolkit. In June 2010, each Reserve Bank incorporated and customized this new information in their Foreclosure Resource Centers.



The New York Fed Legal Group partnered with the New York City Bar Justice Center to train lawyers in foreclosure mitigation.

Training attorneys in foreclosure prevention and mitigation

To expand the number of attorneys doing pro bono work in foreclosure mitigation, the New York Fed Legal Group helped launch the Lawyers Foreclosure Intervention Network. This pilot program, in partnership with the New York City Bar Justice Center, trains attorneys in foreclosure mitigation and matches them with clients in need of pro bono services. Other local bar associations and legal services groups across the country are now copying this model to set up similar programs.

Researching What is Happening on Main Street



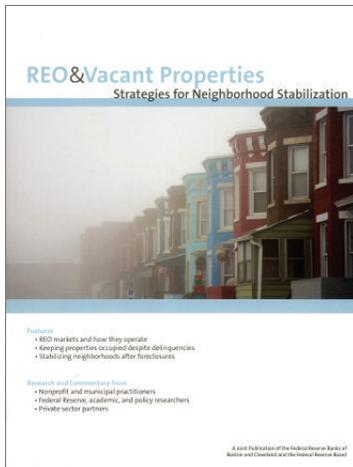
The Federal Reserve has been working with communities for many years to combat foreclosures.

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Undertaking a system-wide study of the federal Neighborhood Stabilization Program (NSP)

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

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



Produced a volume on real-estate-owned (REO) properties and neighborhood stabilization issues

To help communities address the effects of concentrated foreclosures, the Boston and Cleveland Feds produced a special volume of research that examines important questions about lender-owned real estate. Chapters in the book addressed questions, such as what factors can bring about stability in a high-foreclosure neighborhood. How do “shadow inventories,” rental properties, and vacant and abandoned homes influence the choice of strategies? What are the incentives of the various parties to REO transactions? How are nonprofits and municipalities using NSP funding to acquire and redevelop REOs and stabilize neighborhoods? Seventeen researchers, practitioners, and policy experts from around the country were commissioned to write articles that shed light on these issues. The authors were drawn from national nonprofits, large holders or servicers of REOs, Fed researchers in Community Affairs, and academics. The volume also includes an executive

A new volume of research examines lender-owned real estate.

summary of the FRS NSP case studies. The publication was released at a Federal Reserve Board conference on September 1 and 2, 2010 (See page 11). It can be found at <http://www.federalreserve.gov/events/conferences/2010/reovpsns/publication.htm>.

Upgrading the New York Fed’s credit conditions website

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

Understanding the literature: Reviews of key topics in housing and mortgage markets

Recognizing the need for a solid understanding of the literature on foreclosure prevention and neighborhood stabilization, the Federal Reserve commissioned/produced four literature reviews. These reviews are:

1. Mortgage Defaults – A Situation Analysis;
2. Foreclosure Neighborhood Spillover Effects;
3. Foreclosure Prevention Efforts; and
4. The Effectiveness of Financial Literacy and Counseling. The four reviews are accessible at:

http://chicagofed.org/digital_assets/others/in_focus/foreclosure_resource_center/more_financial_literacy.pdf,

http://chicagofed.org/digital_assets/others/in_focus/foreclosure_resource_center/more_frame_externalities.pdf,

http://chicagofed.org/digital_assets/others/in_focus/foreclosure_resource_center/more_loan_modification.pdf,

http://chicagofed.org/digital_assets/others/in_focus/foreclosure_resource_center/more_mortgage_defaults.pdf.

These literature reviews analyze existing literature, document the strengths and weaknesses of previous research efforts and methodologies, and identify gaps in knowledge. These literature reviews are critical to building a foundation of knowledge about housing and mortgage markets, which can then inform future research.



A key task for the MORE initiative has been to acquire and centralize the availability of large datasets.

Launch of RADAR

RADAR is the Risk Assessment, Data Analysis, and Research Group. One of the critical areas for reform to emerge out of the foreclosure crisis has been the recognition that researchers and examiners within the Federal Reserve need access to more detailed data on mortgage and credit markets. A key task for the MORE initiative has been to acquire, centralize and make available large databases for Fed staff, such as consumer credit data from one or more of the credit repositories and mortgage data from the largest vendors of such data, Lender Processing Services Analytics, Inc., and Core-Logic. The launch of RADAR in 2010 has greatly increased the ability of Fed staff to produce timely reports and research papers that can

inform monetary policy, bank supervision and regulation and community development, as well as assist in macroprudential supervision as part of regulatory reform. Whereas in the past each Bank would have had to devote resources to cleaning and handling the data, this is now done in one centralized location, saving time and money and, more importantly, ensuring that the data are of the highest quality. RADAR also has a separate securities evaluation group that has developed the capability to conduct surveillance on all parts of ABS/MBS* markets and evaluate securities in investment portfolios at banks and other systemically important institutions.

* Asset-backed securities/Mortgage-backed securities.

Convening Experts to Develop the Right Policy Responses



The Federal Reserve Board of Governors hosted a conference in September 2010 to share the findings of two reports on foreclosure-related topics. See the next page for more information.

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

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

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

The Chicago Federal Reserve hosted a conference on the effectiveness of financial education and the methods that are needed to evaluate the impact of financial education programs. Presenters provided the results from

evaluations of both mandatory and volunteer financial counseling programs, and discussed the econometric difficulties that the studies posed.

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

In December 2009, the Chicago Fed hosted a conference on policies related to mortgage foreclosures and their impacts in collaboration with The Chicago Community Trust, Neighborhood Housing Services of Chicago, the MacArthur Foundation, and the Woodstock Institute. The conference brought together national experts from the advocacy, academic, financial and government communities, and featured Federal Reserve Governor Elizabeth Duke as the keynote speaker. The first day focused on what is and is not working and identified best practices, models, and solutions to help address rising foreclosures. It featured panel discussions on lessons learned from the crisis; foreclosure prevention and protection of homeowners and tenants; local government options for dealing with the foreclosure crisis; post-foreclosure issues and land use options; and how to prevent a future foreclosure crisis. The second day focused on alternatives to current practices and assessed various policy proposals — including a discussion of the potential benefits, pitfalls, and tradeoffs.

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

On September 1 and 2, 2010, the Federal Reserve Board of Governors hosted a conference to disseminate the findings of two FRS reports: the analysis of the early implementation of the NSP; and the series of papers commissioned to examine the dynamics of REOs and the effects of concentrated foreclosures on neighborhoods. The conference was held in partnership with NeighborWorks® and featured presentations by Fed researchers and other leading private, public, academic, and nonprofit experts. Invited participants included nonprofit recipients of NSP funds, as well as public officials dealing with foreclosures in their states, counties, or municipalities. Fed Governor Elizabeth Duke provided opening remarks and HUD Secretary Shaun Donovan delivered the keynote address. Remarks were also given by Presidents Charles Evans (Chicago), Sandra Pianalto (Cleveland) and Eric Rosengren (Boston).



“As delinquencies and foreclosures continue to increase, we must think creatively and focus our research, outreach, and community development efforts on ways to help these communities recover.”

— Elizabeth Duke

*September 1, 2010, at the Board of Governors conference on
Strategies for Neighborhood Stabilization*

Federal Reserve Governor Elizabeth Duke speaks at the September conference.

To maximize participation and help disseminate the research to a wider audience, the conference was video simulcast to local audiences at some Reserve Banks and made available for viewing on the Internet.

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

The Federal Reserve System and the Federal Deposit Insurance Corporation (FDIC) are co-hosting a two-day conference highlighting policy-oriented research focused on U.S. housing and mortgage markets. The first day of the conference will be dedicated to mortgage foreclosures: the current situation and outlook, measuring the adverse neighborhood spillover effects and evaluations of efforts to mitigate foreclosures, including loan modification and financial education efforts. The second day of the conference will take a broader perspective and evaluate the future of housing finance: an evaluation of the mortgage interest tax deduction, affordable housing issues, the future role of government-sponsored securitization, the future of private-label mortgage securitization, the viability and role of private mortgage insurance, mortgage-related consumer protection and standards, and the role of the Community Reinvestment Act.

Summary of Foreclosure-Related Papers Produced in Economic Research



A variety of foreclosure-related studies and working papers were created by economic research departments and others throughout the Federal Reserve System.

Staff in Economic Research departments across the System produced 24 foreclosure-related studies in 2009, as detailed below. The studies are listed in four categories:

- Studies related to the functioning of housing and mortgage markets;
- Studies related to foreclosure neighborhood effects and interventions;
- Studies related to mortgage loan modifications and foreclosure prevention; and
- Studies related to consumer protection and financial education (with an emphasis on counseling).

Studies related to the functioning of housing and mortgage markets

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

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

Studies related to foreclosure neighborhood effects and interventions

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

Studies related to foreclosure prevention and mortgage loan modifications

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

Studies related to consumer protection and financial education

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

Summary of Foreclosure Work in Community Affairs



Facing the Mortgage Crisis
People. Connections. Resources.

KETC

**Are you worried about your finances? Are you unable to pay your mortgage?
Do you need help? Find help.**

The St. Louis Fed partnered with its local PBS TV station to pilot “Facing the Mortgage Crisis,” which featured a wide variety of foreclosure content. It became a national model introduced in nearly 50 additional PBS TV markets.

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

Foreclosure-related events

Community Affairs sponsored or co-sponsored 287 separate foreclosure-related events in 111 cities across the country. A breakdown of the types of events is included below, but in general these task force meetings, workshops, forums, seminars, and conferences brought together stakeholders involved in the foreclosure crisis

such as servicers, housing counselors, financial institutions, government officials, nonprofit organizations, and at times homeowners in order to understand the depth and reach of the local crisis, plan local responses to the crisis (including borrower outreach events), and educate stakeholders about effective REO disposition and new resources, such as the NSP and the Making Home Affordable Program.

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

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

- In 2003, the Federal Reserve Bank of Chicago helped Neighborhood Housing Services of Chicago (NHS) and the City of Chicago Housing Department launch the Home Ownership Preservation Initiative (HOPI), one of the country's most successful foreclosure mitigation programs. Building on this success, in 2008 the Chicago Federal Reserve partnered with The Chicago Community Trust and NHS to create and launch the Regional HOPI initiative, which seeks to address metro area wide foreclosures and their effects through multi-town reclamation/redevelopment cooperatives in the hardest hit suburbs; ongoing, large-scale counseling events, and a Web-based information clearinghouse (<http://regionalthopi.org>) to document related research and best practices.
- The Richmond Federal Reserve helped establish a foreclosure task force in South Carolina in early 2009 and supported its work through the provision of quantitative updates. The task force is self-sustaining and has established a mortgage foreclosure information network for the state's United Way hot line (dial 211), and convenes leaders to collaborate and discuss solutions.
- The St. Louis Federal Reserve partnered with their local PBS station to pilot "Facing the Mortgage Crisis," an initiative that included on-air, online, and in-person programming to address the foreclosure crisis. The seminal work done by this affiliate is now a national model that the Corporation for Public Broadcasting has introduced in nearly 50 additional markets.

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

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

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



*Federal Reserve Bank of Boston
President Eric Rosengren.*

“I am encouraging Boston Fed staff to work to better understand how foreclosures and REO can exacerbate problems in troubled communities – and to look for data that can better determine which solutions work, under which circumstances.”

— Eric Rosengren

*September 2, 2010, at the Board of Governors conference on
Strategies for Neighborhood Stabilization*

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

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

- Twenty-nine events focused on combating foreclosure scams.

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

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

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

- Forty-one events were devoted to planning specific borrower outreach events or debriefing such events after they were held.



*The Federal Reserve Bank of Boston partnered with HOPE NOW
on this foreclosure-prevention workshop.*

- Finally, 12 different podcasts were released.

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

Empirical research papers

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

- **“The Accumulation of Lender-Owned Homes During the U.S. Mortgage Crisis: Examining Metropolitan REO Inventories.”** (FRB-Atlanta) Dan Immergluck, March 2009. Accessible at http://papers.ssrn.com/sol3/papers.cfm?abstract_id=1533772. Forthcoming, *Housing Policy Debate*.
- **“Intrametropolitan Patterns of Foreclosed Homes.”** (FRB-Atlanta) Dan Immergluck. Community Affairs Discussion Paper No. 01-09, April 2009. Accessible at http://www.frbatlanta.org/filelegacydocs/dp_0109.pdf.
- **“A Look at Upstate New York’s Subprime Mortgages in Foreclosure.”** (FRB-New York) Kausar Hamdani. *Facts and Trends*, Vol. 2, No. 1, April 2009. Accessible at http://www.ny.frb.org/regional/2009_Facts_Trends_Vol_2_1.pdf.
- **“The Myth of the Irresponsible Investor: Analysis of Southern New England’s Small Multifamily Properties.”** (FRB-Boston) Jeffrey Greenberg, Ren Essene, and Kai-yan Lee, *New England Community Developments*, Issue 1, 2009. Accessible at <http://www.bos.frb.org/commdev/necd/index.htm>.
- **“Nonprime Loans: A View from the Local Level.”** (FRB-Chicago) Robin Newberger and Daniel DiFranco. *Profitwise News and Views*, June 2009. Accessible at http://www.chicagofed.org/webpages/publications/profitwise_news_and_views/2009/pnv_june2009.cfm.
- **“FHA Lending in Ohio.”** (FRB-Cleveland) Lisa Nelson. *A Look Behind the Numbers*, December 2009. Accessible at http://www.clevelandfed.org/Community_Development/publications/ALBTN/V2_5/index.cfm.
- **“An Analysis of the Neighborhood Impacts of the Mortgage Assistance Program in Dallas.”** (FRB Dallas) Wenhua Di, James Murdoch, and Jilai Ma. Networks Financial Institute Working Paper No. 2009-WP-05, June 2009. Accessible at <http://ssrn.com/abstract=1432550>. *Journal of Policy Analysis and Management*, Vol. 29, No. 4, pages 682-697, Fall 2010.
- **“Neighborhood Stabilization Program.”** (FRB Dallas) Elizabeth Sobel Blum, September 2009. Accessible at <http://www.dallasfed.org/ca/pubs/ntp.pdf>.



Community Affairs researchers published numerous foreclosure-related working papers and research in 2009 and 2010.

- **“Community Perspectives: Implementing the Neighborhood Stabilization Program.”** (FRB Richmond) Community Affairs Office Staff, *Marketwise*, Fall/Winter 2009. Accessible at http://www.richmondfed.org/publications/community_development/marketwise/2009/fall_winter/pdf/angles_communityperspectives.pdf.
- **“Characteristics of High-Foreclosure Neighborhoods in the Tenth District.”** (FRB-Kansas City) Kelly D. Edmiston. *Economic Review*, March 2009. Accessible at <http://www.kc.frb.org/PUBLICAT/ECONREV/pdf/09q2edmiston.pdf>.
- **“CRA Lending During the Subprime Meltdown.”** Elizabeth Laderman and Carolina Reid. Revisiting the CRA: Perspectives on the Future of the Community Reinvestment Act, a joint publication of the Federal Reserve Banks of Boston and San Francisco, February 2009. Accessible at http://www.frbsf.org/publications/community/cra/cra_lending_during_subprime_meltdown.pdf.
- **“The Untold Costs of Subprime Lending: Examining the Links among Higher-Priced Lending, Foreclosures and Race in California.”** (FRB-SF) Carolina Reid and Elizabeth Laderman. Federal Reserve Bank of San Francisco Working Paper presented at “Challenges and Opportunities for Homeownership in a Changing Financial Environment,” sponsored by the Federal Reserve Bank of San Francisco in cooperation with the Greenlining Institute, May 6, 2009. Revised November 2009. Accessible at <http://www.frbsf.org/community/resources/2009/0506/reid.pdf>.
- **“Bank Accounts and Youth Financial Knowledge: Connecting Experience and Education.”** (FRB-SF) Laura Choi. Federal Reserve Bank of San Francisco Working Paper 2009-07, September 2009. Accessible at <http://www.frbsf.org/publications/community/wpapers/2009/wp2009-07.pdf>.

Data and analysis

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

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

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

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

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



*Federal Reserve Bank of San Francisco
President Janet Yellen*

“We have learned a harsh lesson about the dire consequences a financial crisis has for ordinary Americans in the form of lost jobs, lost homes, lost wealth, and lost businesses, and those of us charged with overseeing the financial system should always keep this human cost in mind.”

*— Janet Yellen
July 15, 2010, before the U.S. Senate*

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

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

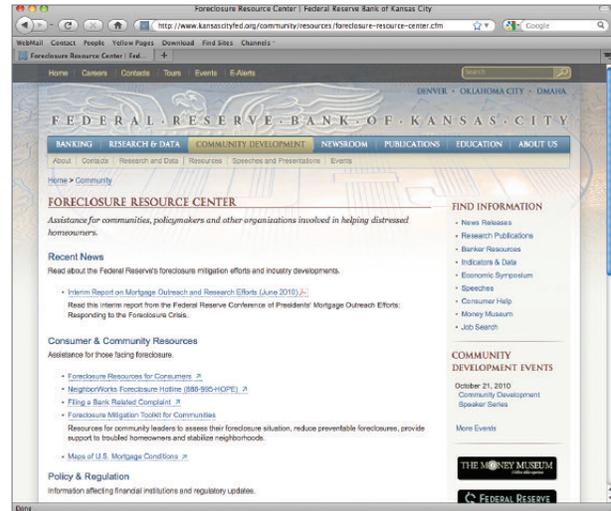
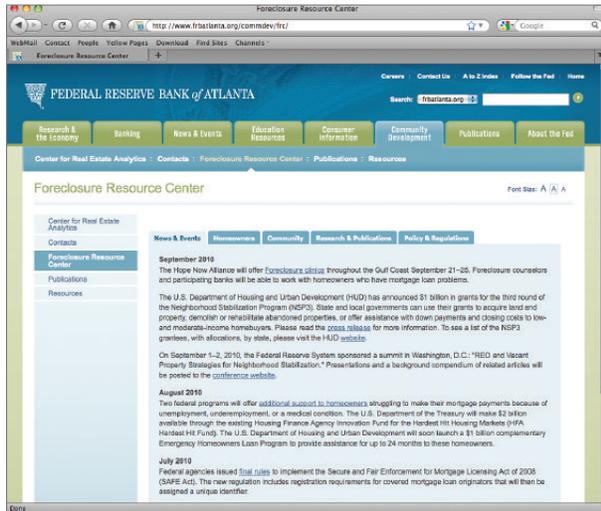
Publications/Public Service Announcement

- Six regular publications were devoted to foreclosure and REO issues, with these publications reaching 37,000 constituents in print and another 11,000 via e-mail; at the same time, 51 articles in regular publications were devoted to foreclosure and REO issues, and these publications reached 44,000 constituents in print.
- The Reserve Banks also produced 16 different brochures on foreclosure and distributed 39,000 of them in 2009.
- Reserve Banks also supported the Board of Governors’ efforts to produce a public service announcement (PSA) video shown in movie theaters across the country.

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

Foreclosure Resource Center websites

- The Reserve Banks' Foreclosure Resource Centers were updated regularly with information for borrowers, research reports, and critical links for constituents and were viewed 237,000 times in 2009.



A sample of some Federal Reserve Banks' foreclosure-related websites.

Technical assistance on foreclosure issues

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



The Board of Governors of the Federal Reserve System in Washington, D.C.

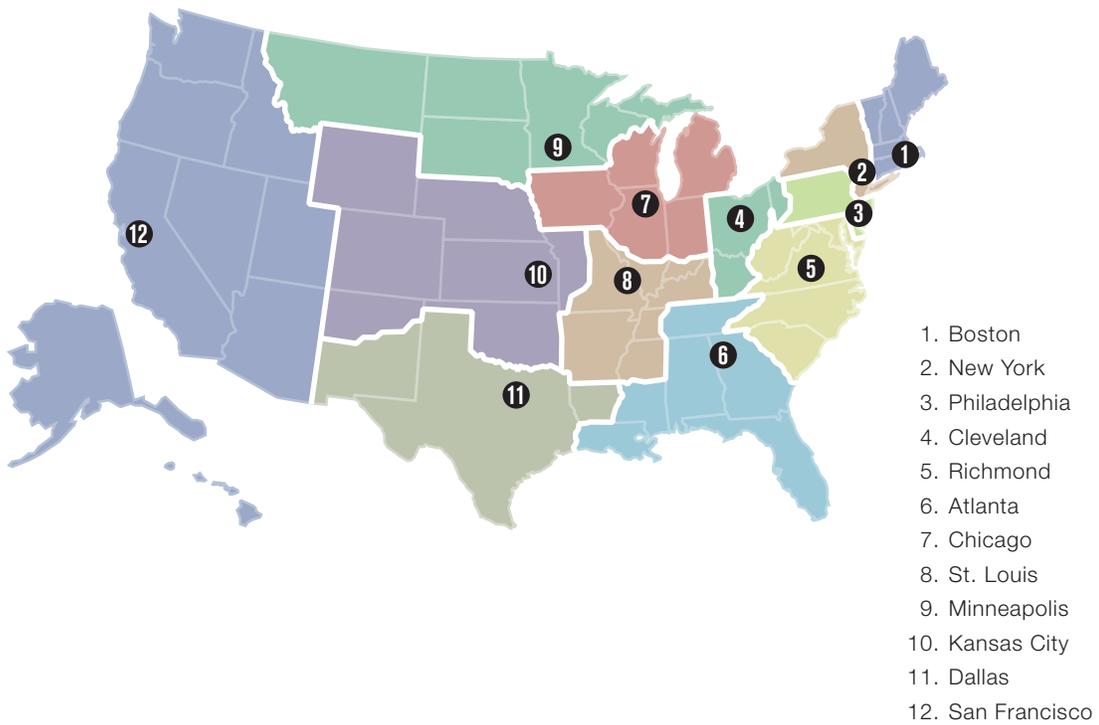
The Board of Governors of the Federal Reserve System

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

- Conducted tests of disclosures to evaluate the effectiveness of the Division's rule writing and regulatory changes with consumers;

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

The 12 Districts of the Federal Reserve System





Federal Reserve System
www.federalreserve.gov

Atlanta
www.frbatlanta.org

Boston
www.bos.frb.org

Chicago
www.chicagofed.org

Cleveland
www.clevelandfed.org

Dallas
www.dallasfed.org

Kansas City
www.kansascityfed.org

Minneapolis
www.minneapolisfed.org

New York
www.newyorkfed.org

Philadelphia
www.philadelphiafed.org

Richmond
www.richmondfed.org

San Francisco
www.frbsf.org

St Louis
www.stlouisfed.org