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The Home Ownership Preservation Initiative:

A Critical Foreclosure Intervention Initiative Seeks Expanded Role for Mainstream Mortgage Servicers and Adoption of New Tools

In this Issue

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The Home Ownership Preservation Initiative - *A Critical Foreclosure Intervention Initiative Seeks Expanded Role for Mainstream Mortgage Servicers and Adoption of New Tools*

by Michael V. Berry

The Home Ownership Preservation Initiative (HOPI) is a partnership of Neighborhood Housing Services of Chicago (NHS), the City of Chicago Department of Housing, the Federal Reserve Bank of Chicago, and major financial institutions including JP Morgan Chase, Citigroup, HSBC, and GMAC Residential Capital, LLC (ResCap). It is a multi-faceted foreclosure intervention program that has served as a national model for cities facing high rates of foreclosure, and has been the subject of several prior *Profitwise News and Views* articles.

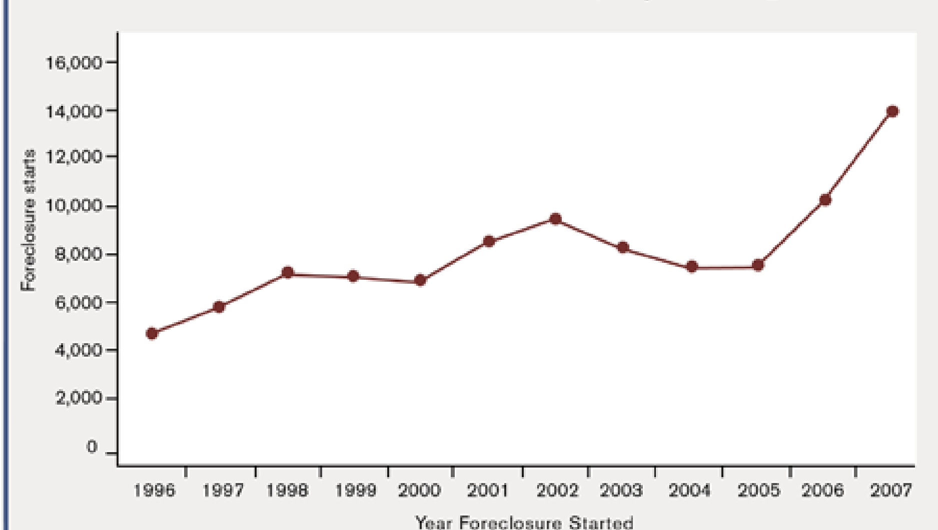
Foreclosure Crisis

In the current climate, the mission of HOPI takes on a much higher level of urgency. The graph in Exhibit 1 depicts the sharp increase in foreclosure starts[1] city-wide in the past two years in particular. Foreclosure starts in Chicago rose approximately 40 percent from 2006 to 2007; and lower-income, underinvested communities, which describes all NHS target areas of Chicago, are impacted most severely, as they have higher concentrations of high-cost mortgages, homes tend to remain vacant longer, and lower-income households have a more difficult time recovering from the effects of a foreclosure.

The purpose of this article is to document some of the impacts of the current foreclosure crisis in highly impacted and vulnerable communities, and to articulate some of the remedial steps suggested by HOPI stakeholders, and other actors seeking to address the crisis through various means.

HOPI continues to serve Chicago residents in some of the city's most (historically) blighted communities: South Chicago, Humboldt Park, Auburn Gresham, North Lawndale, Englewood, West Englewood, and Chicago Lawn. According to data compiled by NHS, all but one of these neighborhoods experienced more than a 90 percent increase in high-cost, subprime loans from 2004 to 2005 among all mortgagable properties within the community. From 2005 to 2006, these same neighborhoods experienced anywhere from a 4 percent to 21 percent drop in high-cost loans on mortgagable properties, but that decrease is attributable to sharp increases in foreclosures; a further negative impact was sharp increases in vacancy rates in those communities.[2] Information for 2007 has not been fully compiled, but data through the first half of the year indicate a strong increase in foreclosures, higher vacancy rates, and

Exhibit 1: Trends in Foreclosures Started, City of Chicago



Source: National Training and Information Center, Chicago, IL & HOPI projections for 2007 based on 1st half of 2007 foreclosure data.

declining property values, all well beyond the city of Chicago averages.

HOPI has from an early stage engaged large financial institutions, including the institutional investment community, and city government to bring funding and resources to bear, and has produced tangible results.[3] Through four full years of HOPI's operation, and much experience with earlier foreclosure intervention initiatives, NHS has, as a result of learning derived from data collection and assimilation, focus groups, and dialogue with frontline counselors, added important dimensions to the program that continually improve its potential for neighborhood impact. The current crisis was fueled by institutional demand for asset-backed securities. The massive mortgage servicing infrastructure that has developed to support this demand, and the complex arrangements that exist between borrowers, servicers, and asset-backed securities investors underscores the need to engage servicing institutions in both dialogue and remedial action. NHS is making progress on this front, and has opened dialogue with the American Securitization Forum (ASF), which represents a cross-section of mortgage-backed securities issuers, servicers, and securities ratings agencies.

The Key Role of Servicing Organizations in Foreclosure Intervention

Mortgage servicers represent one important frontline actor in the mortgage industry and in the current crisis, as they deal directly with borrowers. An important aspect of an effective program to prevent and remediate foreclosures is an understanding of the borrower's perspective, behavior, and, obviously, financial situation. To the extent that servicing personnel can be trained to ask appropriate questions and refer borrowers to counseling resources early in default (or ideally before it occurs, if a rate reset is imminent, for instance), they may have a significant impact on preventing many foreclosures. A key learning from interaction with and surveys of HOPI counselors is that borrowers do not view their loan servicer as a source of assistance when facing default. Borrowers are simply unaware that servicers have loss mitigation units until the borrower indicates the willingness but not the ability to stay current on their loan.

A major HOPI recommendation to mortgage servicing organizations is to make borrowers aware, in non-threatening ways, of loss mitigation services before loans are seriously delinquent and options very limited, and to encourage borrowers to take an active, remedial role for their own benefit. Paradigm shifts take time, but there is reason to believe that servicers are moving in this direction. ASF in December issued a position paper entitled "Streamlined Foreclosure and Loss Avoidance Framework for Securitized Subprime Adjustable Rate Mortgage Loans."[4] For servicing of distressed borrowers, the paper essentially divides these households into three categories: those that have the ability to refinance, those that need some kind of loan modification to remain in their home (and/or refinance), and those that have an unsustainable situation that require loss mitigation measures.

The ASF paper creates a useful framework to provide remedial and loss-mitigation focused servicing across all borrowers. Among the most vulnerable populations, however, such as the communities NHS serves, there is a strong need for more active, aggressive, and hands-on resources. Evidence of this need derives from NHS focus groups of individuals facing foreclosure, which aside from financial distress, also reveal the tragic, human side of foreclosure. Often a serious life event – death or disability of a loved one (or the principal borrower him/herself), loss of employment, and/or inability to find new employment – is the principal reason for default. Depression, inertia, and a sense of fatalism often overwhelm home owners under these circumstances, and preserving their home may not be a priority as they work through critical life issues.

NHS has developed a more nuanced framework for classifying troubled borrowers, with six levels. The top level is borrowers who are likely in a healthy enough financial situation to refinance or otherwise find the means to stay in their home. The next three levels represent gradually less solvent and troubled households, with the fourth level representing the last that has only limited opportunity of keeping their home(s). The fifth level is borrowers that will inevitably be foreclosed, absent assistance to engineer a sale or other disposition before foreclosure occurs. The final level is investors, who may have abandoned the property. The principal consideration in this instance is the disposition of the property, and that it is returned to, ideally, owner-occupied status as soon as is practicable.

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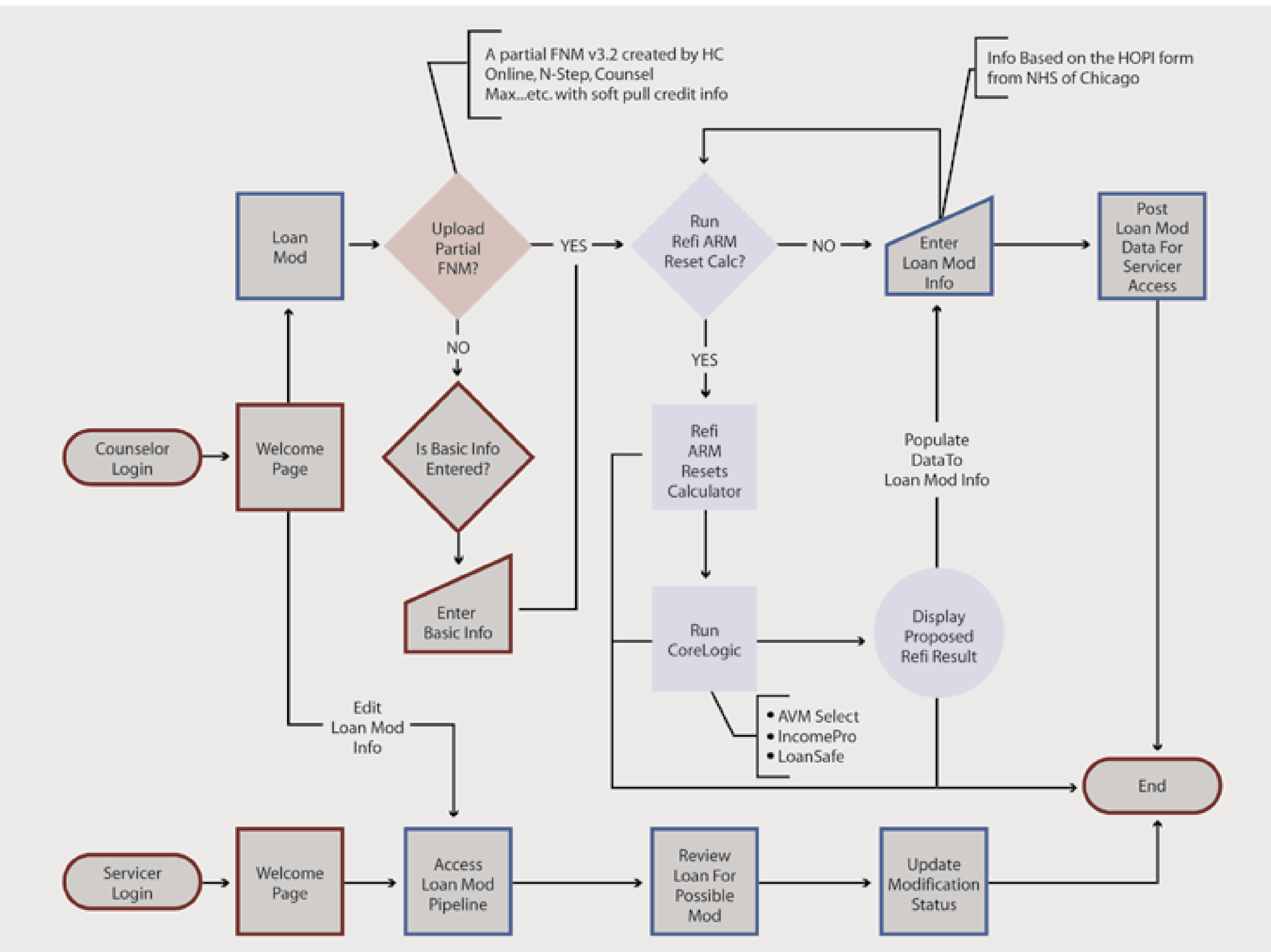
Neighborhood Housing Services of America (NHSA) and Just Price Solutions®

On December 26, 2007, President Bush signed legislation authorizing a $180 million appropriation for the National Foreclosure Mitigation Counseling Program. These funds are to be administered by NeighborWorks® America through a competitive grant process. Properly trained and qualified housing counselors can help troubled borrowers to assess their financial condition, assets, and credit worthiness, and work with current lenders to restructure or refinance subprime or adjustable-rate mortgages the borrower can no longer afford, or that is already in default. As the financial community and the host of interested organizations concerned with preserving neighborhoods and home ownership look to broad-based solutions, a key obstacle related to servicing severely limits the capacity to refinance troubled borrowers.

Currently, each loss mitigation action, from successful refinancing to sale or transfer in lieu of foreclosure, must be handled on a separate basis, and any negotiations with an existing lender, actually their servicer, also must take place individually. There is no industry-wide or broadly compatible platform for exchanging data between counselors (attempting to aid distressed and/or defaulted borrowers) and mortgage servicers, who can make a decision to restructure, forbear payments, or otherwise modify existing mortgages. Organizations affiliated with NHS are working to overcome this key obstacle.

Neighborhood Housing Services of America, the secondary market entity affiliated with NeighborWorks® America, has developed an e-commerce platform called Just Price Solutions® (JPS). JPS provides access to purchase money mortgages for households with limited (or no) credit history, using alternative credit data such as rent and utility payments. The platform is being redesigned in order to provide an efficient means for financial/credit counselors to upload vital data to mainstream mortgage servicers without the need for servicers to reveal legally

Exhibit 2: JPS BestFit Financing Tools: *Loss Migitation Workflow v1.0.0* (last updated on 1/16/08)



restricted data on individual borrowers to counseling agencies. Both ends of this relationship require registration and are password protected. Counselors can provide a complete financial picture of a borrower facing default, up to and including a (current) market value for property secured by the mortgage agreement, and eliminating the need for faxing forms, documents, etc. Exhibit 2 depicts the loss mitigation workflow.

In suggesting new and untested strategies to stem foreclosures, it is important to recognize the complex relationship between borrower, servicer, and ultimately the mortgage holder, who is usually several steps removed from the organization that originates the loan, and may not be a single entity. However, addressing the current crisis has proved costly and difficult in many aspects, and a common information platform for independent, qualified counselors and mortgage servicers may prove to be an extremely important asset.

Conclusion

The Chicago Fed's Consumer and Community Affairs (CCA) division is working on many fronts to address the current foreclosure crisis, which has impacted Seventh District cities and urban areas – Detroit was recently determined to have the nation's highest foreclosure rate – significantly. HOPI offers a valuable organizational model for other areas of the country, and its methods are being adapted in other cities. *Profitwise News and Views* will continue to document progress of this important initiative, and CCA will continue to work to help advance its important mission.

Notes

1 Not all "foreclosure starts" lead ultimately to foreclosure. In some cases, a borrower may work out a refinancing, turn over the property deed (known as "deed-in-lieu of foreclosure") to the servicer in order to avoid the negative impacts of foreclosure on credit history, or reach another outcome other than foreclosure.

2 For additional Chicago area housing and foreclosure data, visit: www.chicagofed.org/community_development/files/pnv2008_nghbrhd_bkgrnd_data.pdf

3 Available at: www.chicagofed.org/community_development/files/pnv_redec07_web_all.pdf

4 Available at: www.americansecuritization.com/uploadedFiles/FinalASFStatementonStreamlinedServicingProcedures.pdf

Biography

Michael V. Berry is a senior research analyst and manager of the Emerging Consumer and Compliance Issues unit of the Federal Reserve Bank of Chicago's Consumer and Community Affairs division. Mr. Berry is also the managing editor of, and a frequent contributor to, the Federal Reserve Bank of Chicago's *Profitwise News and Views* publication. Mr. Berry holds a B.A. in political science from Susquehanna University and an M.B.A. from DePaul University.

Conferences Focus on Unprecedented Foreclosures and other Challenges Presented by the Subprime, Nontraditional Mortgage Market

by Steven W. Kuehl

For more than a decade the Consumer and Community Affairs (CCA) division of the Federal Reserve Bank of Chicago has worked with community development and governmental organizations to understand and address geographically concentrated foreclosures in lower-income communities. Foreclosure is a continual problem in low-income communities; foreclosures have a more pronounced effect in low- and moderate-income (LMI) communities because foreclosed homes tend to stay vacant longer, and lower-income families have less savings to fall back on, and accordingly a much more difficult time recovering from the financial impact of foreclosure than middle- and upper-income households (Schloemer et al., 2006). The current crisis has reached into much higher levels of income and wealth, and is the focus of much attention from lawmakers, regulators, consumer advocates, economists, and others. It has also had an even more pronounced impact in communities that already suffered high rates of foreclosure. These communities have few traditional financial institutions, such as banks and thrifts, and must largely rely on fringe and/or less regulated financial service providers, such as payday lenders and mortgage brokers, for credit.

During 2007, the Emerging Consumer and Compliance Issues unit of the Chicago Fed's CCA division held two major conferences that focused on the challenges presented by the subprime/nontraditional mortgage market for both lenders and consumers. The purpose of this article is to summarize the major areas of discussion during these two meetings, some of which may offer insights as the Federal Reserve System and many concerned groups and individuals work to address and contain the current crisis.

In January, CCA convened "An Informed Discussion of Nontraditional Mortgage Products and Other Risks." The conference was intended as a drill down on nontraditional mortgage products, the financial markets that fueled rapid growth of these products, and their impact on housing markets, both within the state of Illinois and nationally. A December conference held in Waukesha, Wisconsin, was titled "An Informed Discussion of Nontraditional Mortgage Products and Escalating Foreclosures." This conference looked at the issue in Wisconsin, and created a regional task force to reach recommendations and an action plan in 2008.

An Informed Discussion of Nontraditional Mortgage Products and Other Risks

Representatives from the Federal Reserve Bank of Chicago provided an overview of the risks posed by nontraditional mortgage products. "Nontraditional," "alternative," or "exotic" mortgage products are residential loans that include interest-only and payment option adjustable-rate mortgages (ARMs) that allow borrowers to defer repayment of principal and sometimes interest – essentially to exchange lower payments during an initial period for higher payments later. Nontraditional mortgages offer potential benefits for home buyers in strong, stable housing markets, and to sophisticated (higher-income) borrowers with irregular earnings, such as consultants, sales executives, and others. They were not originally developed for mass marketing purposes; these loans were originally intended for only a narrow band of mortgage consumers. Amid industry concerns, federal regulatory agencies have issued guidelines to help curtail unprecedented default and foreclosure rates that have resulted from mass marketing of nontraditional mortgages. These guidelines stress the need for clear disclosure of loan terms to the consumer, and commitment on the part of financial institutions to sound underwriting standards and risk management policies for alternative mortgage products.

Morning Panel Discussion

The morning panel discussion was entitled "Nontraditional Mortgages: A Conversation with Diverse Perspectives." Examiner John Taylor of the Federal Reserve Bank of Chicago moderated the panel. John Bellini, senior vice president of Paramount Bank, discussed his bank's policy of offering nontraditional mortgage products, but only to qualified and properly vetted applicants who need flexibility. Allen J. Fishbein, director of Housing and Credit Policy of the Consumer Federation of America, expressed concern that such products may have a very detrimental impact on consumers who don't fully understand the related financial implications and potential hazards. Michael Mangin, executive vice president of Marquette Bank, also expressed concern that the mortgage industry in general was extending mortgage credit to unprepared and under-qualified households. Robin Conner, vice president and assistant general counsel of the Securities Industry and Financial Markets Association, discussed the important role that the secondary market plays in liquidity and risk management for financial institutions (mortgage originators), emphasizing the importance of smoothly functioning markets, even if some fallout – defaults and foreclosures – is inevitable. Mr. Fishbein remarked that the fallout impacts LMI communities and households disproportionately, and that smoothly functioning capital markets should not be the only consideration.

Keynote Address

The keynote address, entitled "Predatory Lending – What's Working in Illinois, A Litigation and Legislative Update," was provided by Thomas James, senior assistant attorney general for the State of Illinois, Consumer Fraud Bureau. Mr. James began by stating that the attorney general's office has significantly evolved its approach to detecting and litigating fraud in the lending sector over the past ten years. As recently as the late 1990s, no attorneys in the office had litigated a mortgage fraud case.

Mr. James explained that his involvement with mortgage fraud cases began when a couple walked into his office with a thick folder of mortgage papers and stated that they thought "something was wrong" with their mortgage. He went through the papers and determined that the couple, who had gotten a $125,000 loan, had been charged a $22,000 loan origination fee. The couple did not know they were charged such a large fee. He asked the couple about the amount of their loan. They said it was a $100,000 loan plus $2,000 for closing costs. According to the loan documents the loan amount was actually $125,000 and the couple had been charged a $22,000 loan origination fee. The lender was First Alliance Mortgage Company (FAMCO). Mr. James determined there had been 35 to 40 complaints lodged against the company, and found that each borrower had been charged a 15 to 25 percent origination fee. Mr. James interviewed the borrowers, who told him in each case that the loan officer drew their attention on the Truth in Lending (TIL) statement and to the disclosed amount financed, which by statute does not have to include fees, as if it were the actual loan amount, which does not appear on the TIL statement. Mr. James, along with several other states and the Federal Trade Commission, subsequently filed a lawsuit against FAMCO alleging violations of federal and state consumer laws. The case was ultimately settled for $60 million.

"The FAMCO case taught us two major lessons," stated James. "First, the current loan disclosure [process] doesn't work. In fact, it proved useful for confusing consumers." He also noted that disclosures are especially inadequate in relation to nontraditional mortgage products, whose payments, depending on actual terms, can potentially double in two years or less, depending on the borrower's payment behavior. Low initial rates make these products more enticing to borrowers, and without adequate information about potential payment increases, which are not legally required, the combination makes for an easier sale if there is intent is to mislead a borrower. He further stated that, initially, FAMCO targeted low- and moderate-income areas, but later began using the same techniques on all applicants.

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Afternoon Panel Discussion

The afternoon panel discussion was entitled "Initiatives to Address Predatory Lending: A Conversation with Diverse Perspectives." The panel was moderated by Harry Pestine, community affairs program director of the Federal Reserve Bank of Chicago. Jim Wheaton, deputy director for Program Services and Strategy at Neighborhood Housing Services of Chicago, discussed the NHS foreclosure intervention program and the impact of recent legislation, House Bill 4050, which targeted a few Chicago zip codes as areas where borrowers with low credit scores were required to receive home buyer counseling. The law was passed, but was fairly rapidly repealed. Community leaders had voiced strong concern that the law was paternalistic, unfair, and limited credit opportunities, as well as home sales in the target areas. David Rose, research director for the National Training Information Center, noted the importance of identifying areas with particularly high concentrations of foreclosures, and the need to focus resources on these communities, some of which have historically high foreclosure rates, even in times of rising home values. Carl J. Malone, assistant vice president at Harris Bank, discussed affordable loan products for individuals with lower FICO scores as alternatives to exotic and/or subprime loans. Marva Williams, senior vice president at the Woodstock Institute, described the general state of payday lending and nontraditional mortgage loans in Illinois against the backdrop of the Community Reinvestment Act, and its purpose.

An Informed Discussion of Nontraditional Mortgage Products and Escalating Foreclosures

On December 11 and 12, 2007, the Federal Reserve Bank of Chicago, Consumer and Community Affairs division, in co-sponsorship with the University of Wisconsin Extension, and the Wisconsin Housing and Economic Development Authority (WHEDA), hosted "An Informed Discussion of Nontraditional Mortgage Products and Escalating Foreclosures." The conference was held in Waukesha, Wisconsin. Like the Chicago conference, the Waukesha event offered valuable insights from industry experts regarding the risks posed by nontraditional mortgage products. The Waukesha conference also reconvened a coalition formed in February 2007 comprising three task forces to build an effective community response to the rising rate of Wisconsin foreclosures.

Day One

Topics on Tuesday, December 11, 2007, included nationally recognized practitioners and researchers in the mortgage finance field. Many of the speakers represented Wisconsin-based organizations that have helped to identify best practices, partnerships and information sharing arrangements for the benefit of financial institutions, community development professionals, government agencies, and researchers seeking to address the crisis.

Steven W. Kuehl, consumer regulations director for the Federal Reserve Bank of Chicago, opened the meeting and provided an update on related consumer and banking regulations. Kuehl discussed the federal regulatory response(s) to protect consumers and promote safe and sound underwriting practices. He provided background and context on the subprime mortgage market, recent trends, and remedies for subprime borrowers. He also discussed moves by the federal banking regulatory and supervisory agencies, particularly in relation to the ways banks can obtain CRA credit for preventing foreclosures, in some cases refinancing troubled borrowers.

Allen Fishbein, director of Housing and Credit Policy for the Consumer Federation of America, provided the consumer perspective on nontraditional mortgage products and escalating foreclosures. Fishbein characterized foreclosures as a severe epidemic likely to spread beyond subprime borrowers. He faulted reckless lending, flawed products, and lack of accountability as major contributors to the crisis. Fishbein stated that misplaced incentives to make bad loans remain in the industry, and pose major obstacles for mortgage market self-correction. He believes that more consumer disclosures alone are insufficient to solve the problem.

The conference featured a video presentation entitled "A Personal Portrait of Foreclosures in Wisconsin." The video depicted the true story of one Milwaukee woman's experience dealing with the foreclosure on her family residence. The video enabled the audience to get behind the statistical data on foreclosures and to see, on a more personal level, what a foreclosure means to a Wisconsin family. The project was directed by Suzanne Dennik, Consumer and Housing Education coordinator, University of Wisconsin Extension, Milwaukee and Racine Counties. The film was produced by Jim Leser, digital media producer, and Donna Anderson, graphic designer, UW-Extension, Cooperative Extension Distance Education/Digital Media Unit.

Morning Panel Discussion

The morning panel discussion was entitled "Foreclosures at Home – The Wisconsin Story." The panel was moderated by Suzanne Dennik. Highlights of the panel included a presentation by Brad Geary, assistant special agent in Charge for U.S. Department of Housing and Urban Development (HUD), on fraudulent mortgage schemes perpetrated throughout the Midwest; Chief Staff Attorney Catey Doyle, Legal Aid Society of Milwaukee, presented findings on foreclosure filings in Milwaukee, uncovering common themes, which included exotic mortgages made by, generally, few lenders, and [on] unscrupulous terms. Dr. Russell Kashian, an associate professor at UW-Whitewater, presented research on economic and demographic commonalities on foreclosure cases throughout Wisconsin. Martin Collins, commissioner of the Department of Neighborhood Services for the City of Milwaukee, discussed the human resource and other related expenses to municipalities that the current crisis continues to generate.

Keynote Address

The keynote address was delivered by Antonio Riley, the executive director of the Wisconsin Housing and Economic Development Authority, excerpted here.

"On behalf of Governor Doyle, it is a great pleasure to address you all today.

At WHEDA we are very proud of our lending record – for the last four years in a row we've surpassed a half billion dollars in lending, providing loans to around 5,000 first-time home owners annually. In fact, since 2003, under the Doyle administration, WHEDA has written over 22,000 loans, totaling $2.3 billion. That is a 28 percent increase in the number of loans from the prior five-year period, and a 92 percent increase in the dollar volume. And the low foreclosure rate on those loans is something of which we are also very proud.

WHEDA has also been working hard over the last year to increase home ownership among African Americans. Over a year ago, we noticed that our lending to African Americans was declining. Our lender partners were noticing the same thing. However, as we were losing these customers, brokers focusing on subprime lending were cropping up in neighborhoods where we wanted to be. So, we launched the Partnership Neighborhood Initiative, which featured a below-market interest rate and down payment assistance for eligible home buyers in select neighborhoods. To date, 190 families purchased homes using WHEDA loans in those neighborhoods, and that loan product continues to be popular.

Many of you know that last month, WHEDA unveiled its own foreclosure prevention initiative, a partnership with NeighborWorks® America, NeighborWorks® Green Bay, Housing Resources, Inc., and a number of lender and realtor partners. The partnership strongly encourages the use of the (888) 995-HOPE hotline, as well as provides a variety of resources to people. As we worked on this project, we learned the real life stories of people in subprime ARMs, or other loans with payments they weren't able to keep up with.

We met Tiffany, a single mother of five, living in Milwaukee. A few years ago, Tiffany refinanced her home. The broker promised to help her pay off some current and past due bills, including some mortgage payments that she had missed. But that broker went out of business, leaving her bills unpaid and putting her deeper in debt. Over those two years, Tiffany fell behind in her mortgage payments and became overwhelmed. Each month, the payments kept increasing. She feared she and her children would lose their home.

Tiffany called the HOPE hotline. Seventeen months delinquent on her mortgage, and just days from a sheriff's sale, Tiffany needed the one-on-one help of a counselor at Housing Resources, Inc. After working on a budget, Tiffany and her counselor contacted another lender. They refinanced her loan, and today, Tiffany is still in her home.

In Green Bay we met Emily. Emily had an ARM that started increasing every six months. Serving on the board of directors for NeighborWorks® Green Bay, she knew to call NeighborWorks®, and they helped her refinance into a fixed-rate mortgage.

These women were intelligent, well-intentioned home owners trying to raise their children in a place of their own. But they received bad advice, worked with the wrong people, and found themselves in a difficult spot. They are proof that the HOPE hotline, coupled with trusted lenders and good refinance products, works.

We know that we didn't cause this problem, nor did any of you here today. But because all of us represent respected organizations and institutions, we are looked upon to be part of the solution. There is no one solution; there is no easy answer. And that's why we're all here – to see what the other can bring to the table and work together.

We at WHEDA are proud of our approach. A partnership between our closest friends, including NeighborWorks® America, local counseling agencies, our top lenders, and our realtor partners, we realize we can stave off hundreds, if not thousands, of foreclosures with good counseling and prudent refinance products.

We've heard a lot in the news lately about proposals coming out of the Bush administration, including:

- The HOPE NOW alliance, which supports the (888) 995-HOPE number
- Regulatory actions intended to make the mortgage industry more transparent
- A 2008 budget request to Congress for $120 million for NeighborWorks®, and another $50 million for HUD's mortgage counseling program
- Giving states and cities the authority to issue tax-exempt mortgage bonds to refinance existing loans
- And a freezing of the rates for individuals who are in a subprime ARM

We couldn't be more supportive of the administration's request for more funding for NeighborWorks® and HUD's credit counseling programs. And while we recognize the good intentions behind taking regulatory actions, we caution that these steps should be reasonable and thoughtful. We do not want to take action that will lead to problems in other parts of the housing market. Nor do we want to take steps that will reduce resources available to people with good credit who would otherwise be able to purchase a home.

The proposal that would give WHEDA the ability to refinance existing loans is dicey. We have seen other housing authorities in other parts of the country offer refinance products, only to have little to no volume. They are finding that not only are they competing with banks who offer similar products, but the home owners who are looking to refinance simply don't meet the underwriting guidelines for the loans.

Finally, the proposed freeze represents an approach that would not only help a number of families, it would help save the neighborhoods whose strength is being threatened by multiple sales and foreclosures. In Wisconsin, about 6 percent of all home loans were subprime ARMs, which would be eligible for the proposed freeze. As of the end of September, 14 percent of those were in foreclosure. There are lots of numbers that we can throw around – rates increasing, percentages of some populations, or counties being affected by this worse than others.

Any way you look at it, the numbers are startling. While we are fortunate here in Wisconsin that we are not seeing employers shutting their doors, or massive layoffs like other Midwestern states have had, the numbers of people going into foreclosure continue to rise. More and more subprime ARMs will reset in the coming months, and we must all act to help save people's homes and our neighborhoods.

Your being here today is an important step. We all need to work together to keep Wisconsin's economy healthy and housing market strong. This is a call to action – now is the time to do whatever we can to help Wisconsin's families and communities."

Afternoon Panel Discussion

The afternoon panel discussion was entitled "Initiatives to Address Foreclosures, Subprime, and Predatory Lending In Wisconsin: What Can We Learn from Other Models as We Move Forward?" The panel was moderated by Diane Schobert, business development officer at WHEDA. Bruce Gottschall, executive director of Neighborhood Housing Services of Chicago, Inc., discussed the Chicago NHS foreclosure intervention program, a partnership with Chicago city government, major financial institutions, and the Chicago Fed. In its three-year pilot phase, the Home Ownership Preservation Initiative (HOPI) counseled over 4,000 home owners, averted over 1,600 foreclosures, and reclaimed 330 foreclosed buildings. Gottschall discussed some of the necessary measures to adapt a HOPI-type program to Wisconsin. Dana Dillard, senior vice president for EMC Mortgage Corporation (a wholly owned subsidiary of Bear Stearns), discussed the impact on consumers of selling and securitizing mortgage loans; while the capital markets create liquidity and reduce the cost of financing, they also create one-off relationships that sometimes complicate loss mitigation or restructuring. Dillard discussed her group's work to expedite help to troubled borrowers. Joel Ramos, compliance officer at ShoreBank, discussed ShoreBank's rescue loan program, and ways the bank is working to refinance 10,000 Chicago borrowers that have subprime mortgages with unfavorable or unaffordable terms. Geoffrey Cooper, director of Emerging Markets for Mortgage Guaranty Insurance Corporation (MGIC), discussed MGIC's role and experience with Wisconsin foreclosures. Thomas James, senior assistant attorney general for the State of Illinois Consumer Fraud Bureau, provided a litigation perspective on predatory lending issues and insights into regulatory efforts at drafting legislation to address financial abuses.

Day Two

Steve Kuehl provided a presentation entitled "Implications of the Federal Right of Rescission for Lenders and Borrowers." Mr. Kuehl discussed the federal right of rescission, a potentially useful tool to borrowers with rescindable loans facing foreclosure. In the case where all of the requirements pertaining to the right of rescission are not followed, by law the transaction remains rescindable up to three years. While this power may not have broad applicability, many consumer advocates have pointed to shoddy and in some cases fraudulent underwriting and documentation by some lenders. In cases where proper procedures were not observed, this may provide an avenue of relief.

Catey Doyle, chief staff attorney for the Legal Aid Society of Milwaukee made a presentation entitled "The Foreclosure Process in Wisconsin – A to Z." She described the legal procedure for terminating a mortgagor's (borrower's) interest in a property, and the foreclosure options available to creditors in Wisconsin. Wisconsin is a "lien state" as opposed to a "title state," meaning that the mortgagee (lender) holds a lien on the mortgaged property. The owner retains title to the property until the property is transferred. Ms. Doyle explained that Wisconsin is also a judicial foreclosure state, meaning all foreclosures in Wisconsin must go through formal court proceedings, which usually protracts the process compared to nonjudicial states. She discussed alternatives to foreclosure; advice for borrowers during the foreclosure process; potential procedural and substantive affirmative defenses to foreclosure; what to look for when issue spotting for predatory loans; and legal claims and defenses to predatory lending.

Anthony Pennington-Cross, associate professor, Department of Finance, at Marquette University presented "Regulatory Responses to the Subprime Financial Crisis and their Implications." His study measured the effect of state anti-predatory lending laws on subprime credit availability. Some of his findings are counterintuitive. For example, it has long been asserted that broadening anti-predatory lending laws would impede access to credit. However, he found that broader coverage is associated with much lower probabilities of subprime loans being rejected, meaning expanded coverage tends to increase access to subprime credit, as do increased enforcement mechanisms. Stronger restrictions have the opposite effect, by limiting the types of subprime loan products that a lender can offer. The 2007 crisis in subprime is evidence that the subprime mortgage market is immature and in a state of flux. Pennington-Cross stated that the near future of the subprime market is uncertain, but he expects greater future controls, with some coming through legislation, and others through more stringent industry underwriting standards.

Morning Panel Discussion

The purpose of the panel was to promote a dialogue between organizations that offer services and/or products of high value to persons facing foreclosure. The panel was moderated by Ms. Dennik and included: Attorney Gai Lorenzen, managing attorney for Legal Action of Racine; Tom Rice, multifamily management consultant for NeighborWorks® America; and Diane Waller, Housing Program specialist for HUD. Each discussed measures to address rising foreclosures, including HUD's FHA Secure Mortgage Product, NeighborWorks®' National Foreclosure Campaign, and pro bono legal services offered throughout the state by Lorenzen. Ms. Dennik shared her foreclosure prevention programming efforts through UW-Extension that include collaborations with outside organizations, including the Chicago Fed, to implement foreclosure outreach and education. Examples include foreclosure resource flyers sent with municipal tax bills, consumer foreclosure education classes and community in-person help nights. "The collaboration between the Federal Reserve Bank of Chicago and the University of Wisconsin Extension College for this and ensuing conferences highlighting Wisconsin foreclosure solutions, has been imperative in bringing current information, resources, and collaboration from across Wisconsin," stated Dennik. Dennik also noted that WHEDA's involvement had generated renewed urgency toward a statewide response.

Afternoon Meeting of Foreclosure Task Forces

The afternoon session of the conference was titled "Building an Effective Community Response to Foreclosures in Wisconsin." Participants had the opportunity to join and help shape the agenda for several task forces. Diane Schobert moderated the Options and Outreach task force, whose goal is to provide appropriate, timely, quality information to Wisconsin consumers about options when facing delinquency and potential foreclosure. Suzanne Dennik moderated the Stabilization and Maintenance task force, whose goal is to implement a comprehensive post-purchase counseling program for Wisconsin home owners. The program will address home owners' overall finances, as well as home maintenance, to foster stable, long-term home ownership. Betty Kalscheur, HOME Home buyer and Rehabilitation program manager at the Wisconsin Department of Commerce, moderated the Financial Options and Strategies task force to explore what additional short- and long-term financial options and strategies may be needed in Wisconsin to complement existing solutions to prevent foreclosure.

Conclusion

These two events helped to shed light on the ongoing (national) foreclosure crisis, in part as it relates to areas of the Seventh Federal Reserve District. The Chicago Fed's Consumer and Community Affairs division is committed to addressing this crisis, and is working on many fronts to mitigate its impact across our Midwest region. *Profitwise News and Views* will continue to document these efforts, as well as related national and regional trends.

References

Losing Ground: Foreclosures in the Subprime Market and Their Cost to Homeowners; Schloemer, E., Wei, L., Ernst, K., and Keest, K.; Center for Responsible Lending, 2006.

Biography

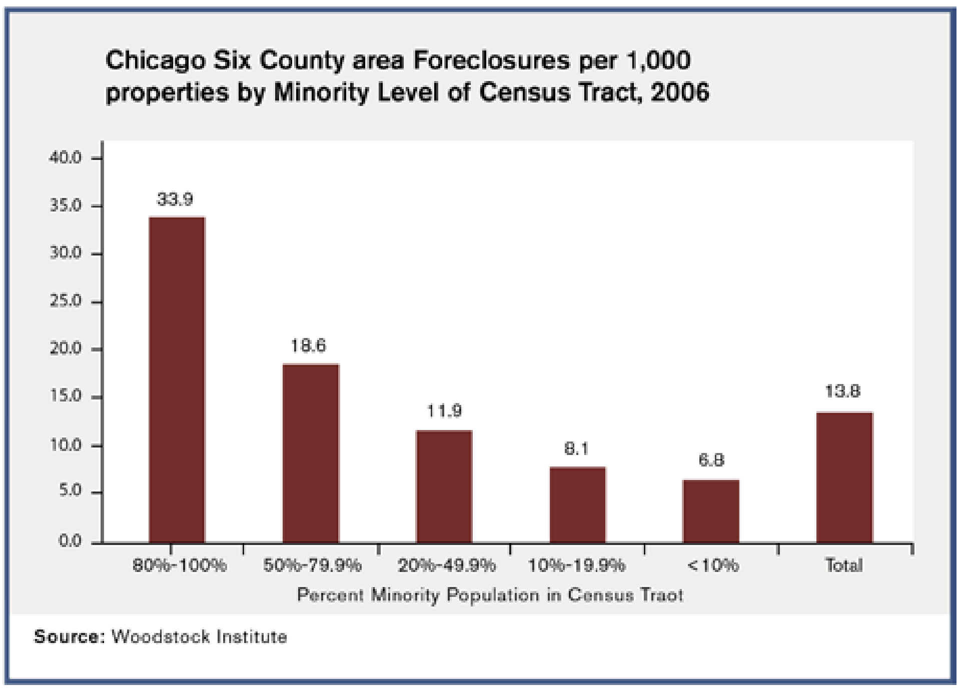
Steven W. Kuehl is the consumer regulations director for the Consumer and Community Affairs division of the Federal Reserve Bank of Chicago. Mr. Kuehl conducts seminars and workshops, and prepares articles and other written materials dealing with consumer compliance banking regulations. Since joining the Reserve Bank, Mr. Kuehl has served as a commissioned senior examiner on consumer compliance and CRA examinations, as well as manager for Consumer Complaints, HMDA Processing, and the Advisory Service program. Mr. Kuehl holds a B.S. in finance and economics from Carroll College and a Juris Doctor from Chicago-Kent College of Law.

ShoreBank's Rescue Loan Program

by Brian Berg

Thirty-five years ago, ShoreBank tackled redlining on Chicago's South Side. A few years later, the bank led the fight to pass the ground-breaking Community Reinvestment Act of 1977. Today, as thousands of South Side home owners are dealing with the repercussions of a subprime adjustable-rate mortgage, ShoreBank has taken up a new challenge: providing refinancing to home owners caught up in the mortgage lending meltdown.

The facts are sobering. In 2006 (see graph), the most recent full year for which data are available, the rate of foreclosure in Chicago area census tracts correlated positively with higher ratios of minority residents – the rate was roughly five times higher in tracts that had 80 percent to 100 percent minorities (33.9 percent) versus those with less than 10 percent minorities (6.8 percent). Many of the subprime loans aggressively marketed to minority populations offer low and/or interest only initial payments that can reset sharply higher after two to three years. These teaser rates lured home owners into the market, only to bring many to the brink of financial disaster when their rates reset and their monthly payments ballooned.



The consequences of this scenario, which is playing out in cities across the country, can be dire. As mortgages become unaffordable, individual home owners begin losing their homes and property values plummet. Since many of these affected borrowers are concentrated in a handful of communities, the impact of these cascading foreclosures is amplified. The net result can ignite a cycle of community deterioration.

ShoreBank decided that it had to take action. And so, its Rescue Loan program was born.

"The adjustable-rate mortgage crash is an opportunity for ShoreBank to be part of the solution," notes Joseph E. Hasten, president and CEO of ShoreBank. "We leverage our expertise and resources to help qualified home owners keep their home and stabilize the community."

The bank's Rescue Loan program offers only fixed-rate loans at competitive market rates to qualified at-risk home owners or new home buyers with credit scores of 520 or better, and not more than 90 days delinquent in order to ensure sustainable home ownership. Qualified home owners in the program are refinancing their current mortgage from another lender and obtaining a new fixed, 15-, or 30-year, competitive market rate loan from ShoreBank that lowers monthly payments.

Each loan application is carefully analyzed by a ShoreBank lending specialist to determine which loan product is best suited to the specific customer. This includes a thorough assessment and verification of the applicant's credit history, which reveals whether a customer can actually afford the mortgage, including other costs associated with owning a home, such as taxes, utilities, home owner's association fees, and maintenance.

Michelle Collins, senior vice president of mortgage lending at ShoreBank, says, "Without following in the footsteps of many subprime lenders, we are trying to remedy the situation by refinancing the loans that borrowers should have come to us for at the 'get-go'.

Besides refinancing, another component of the Rescue Loan program is a series of free seminars and workshops at locations across the city that are designed to help borrowers identify the mortgage best suited to their budget and gain a better understanding of the home buying process.

To help fund the special rescue mortgages for home owners, ShoreBank recently launched a high interest online savings account (www.sbk.com). The funds deposited into this online account help the bank to continue to rescue home owners, while providing investors with a competitive rate of return. As the bank sees it, this online account is a "win-win-win." It helps the bank combat foreclosures in the wake of the subprime mortgage crisis. It helps stabilize entire communities. And it gives investors a chance to make a social difference while earning a competitive rate.

"This program reflects our history of working to serve disinvested communities," says ShoreBank's Hasten. "We saw a need and we are attempting to fill it."

Hasten urges home owners with adjustable subprime rate mortgages to take action before their loan balloons out of control and they find themselves at risk of foreclosure. "This is a crisis that disproportionately affects people who are least able to weather it. We firmly believe that our Rescue Loan program is the right thing to do."

To learn more about the ShoreBank Rescue Loan program or any of the free seminars on mortgage lending and home buying, call a ShoreBank mortgage lending specialist at (773) 420-HOME (4663).

Notes

This article was prepared by Brian Berg, vice president of Marketing, ShoreBank.

CMAP Prepares GO TO 2040 Campaign: Regional Plan Seeks a Better Future for Metropolitan Chicago

by Randall S. Blankenhorn

The Chicago Metropolitan Agency for Planning (CMAP) was formed in 2005 to approach planning in northeastern Illinois comprehensively and collaboratively. The new agency and its partners are removing barriers to cooperation across geographic boundaries, and across subject areas like land use, transportation, natural resources, and economic development. By understanding how these issues – and our communities' futures – are inter-related, CMAP wants to change the way planning is conducted in northeastern Illinois.

CMAP is required by state and federal law to produce the region's official long-range plan for land use and transportation. But the agency's planning process goes far beyond those requirements. By also addressing other quality-of-life issues like jobs, housing, water supply, education, and human services, CMAP and its partners intend to create a relevant plan that guides investments and development to 2040 and beyond.

GO TO 2040

This article is the first in an ongoing series on CMAP's regional comprehensive planning process, which is now underway. Called GO TO 2040 (www.goto2040.org), the plan will incudes a long-term, coordinated campaign to enhance the future of metropolitan Chicago. This region includes Cook, DuPage, Kane, Kendall, Lake, McHenry, and Will counties, with a current population of over 8.5 million people. The plan will extend through 2040, and reflect the shared values of the region's residents. GO TO 2040 will identify policies, strategies, and investments to increase the economic potential of the region. The plan will cover transportation systems, land use and development patterns, the natural environment, economic development, housing, and social systems and services.

CMAP has developed a six-step process to develop the GO TO 2040 plan; implementation will begin in 2010.

Step 1: Develop a regional vision

The regional vision describes desired outcomes for the region by 2040, and builds from results of prior planning processes in narrative form. The vision will touch on environment, the economy, social systems, and governance structures, and will guide the recommendations of the plan. The public will help develop the vision through surveys and meetings in early 2008.

Step 2: Understand existing conditions

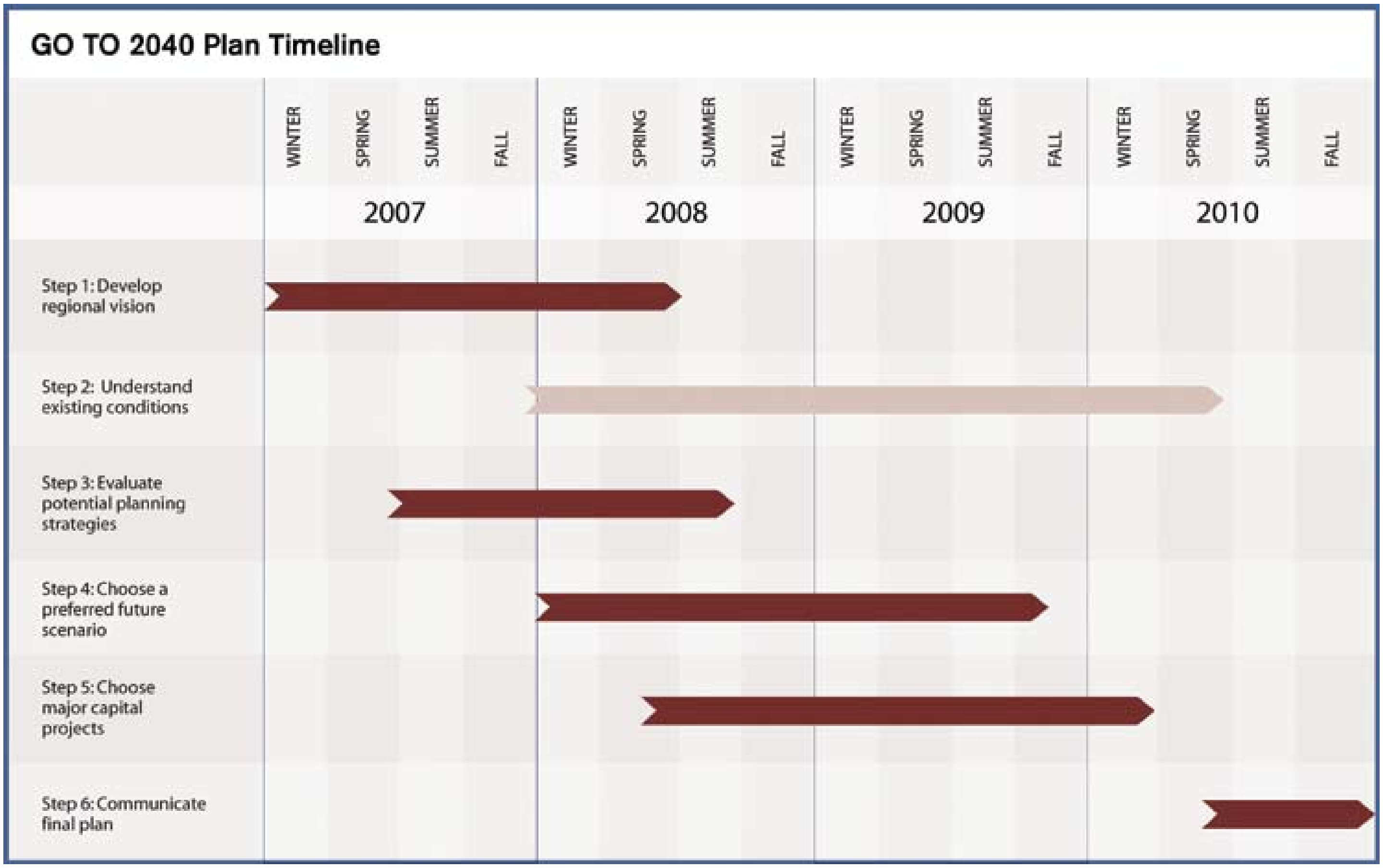
CMAP will produce a series of regional snapshot reports on complex planning topics that need to be addressed in the plan, such as overall sustainability, jobs/housing balance, and infill redevelopment. These reports will gauge the current status of the region on these issues and will recommend how they might be addressed in the GO TO 2040 plan. Quarterly snapshot reports began in Fall 2007 and are free to download on CMAP's Web site.

Step 3: Evaluate potential planning strategies

In addition to describing our desired future and understanding our current conditions, CMAP will evaluate alternate planning strategies to reach our regional vision. The evaluation process will help us to understand which strategies are most effective at meeting regional goals. A series of interactive papers on the results of strategy research will be posted on CMAP's Web site starting in early 2008.

Step 4: Choose a preferred future scenario

CMAP will also develop distinct, alternative future scenarios for the region's development, each combining a number of planning strategies. They will be evaluated using quantitative indicators to determine how well they achieve the regional vision. During Summer 2009, in conjunction with the Burnham Plan centennial celebration (www.burnhamplan100.org), CMAP will seek residents' input on their preferred scenario for the region's future. From this, as well as quantitative analysis of the effects of each scenario on traffic,



public health, the environment, the economy, and many other features, CMAP will identify one preferred scenario that best reflects the region's desired future.

Step 5: Choose major capital projects

Once a preferred scenario has been identified, major capital projects will be recommended for inclusion in the plan, based on how well they implement the regional vision. These will include large transportation projects such as rail extensions or highway expansions. They may also include other non-transportation projects, including water service extensions, or construction of major public facilities. The selection process will take place in Fall 2009.

Step 6: Communicate the plan

The final step is to communicate the plan's recommendations to our planning partners and the public. The document will be prepared and released in 2010, with adoption no later than September 2010. The final GO TO 2040 plan will include recommendations for policies, strategies, and investments in the areas of land use and transportation, as well as other areas such as economic development, environment, housing, and human services. CMAP plays an advisory role in most of these areas, meaning that many of the plan's recommendations will be directed to local governments, state agencies, or other groups. The plan will prioritize recommended actions, however, providing clear guidance to these groups.

Get Involved

Every stage of the planning process will provide opportunities for public involvement. CMAP will organize public meetings, interactive Web media, surveys, contests, and many other means of public input. Visit the GO TO 2040 Web site at www.goto2040.org and learn how you can provide input at every stage.

Biography

Randall S. Blankenhorn is executive director of CMAP, the Chicago Metropolitan Agency for Planning, which is responsible for comprehensive planning across the seven-county region. Mr. Blankenhorn and his staff are developing metropolitan Chicago's first truly comprehensive regional plan, to be published in 2010. He has over 20 years of experience in the planning, development, and implementation of transportation infrastructure projects.

Around the District

ILLINOIS

Illinois announces Fallen Heroes Scholarship Fund

Illinois State Treasurer Alexi Giannoulias and Illinois Department of Veterans' Affairs Director Tammy Duckworth have established the Fallen Heroes Scholarship Fund for children of fallen Illinois service members. Children who have lost a parent in Operation Enduring Freedom in Afghanistan, Operation Iraqi Freedom, or future conflicts are eligible for a $2,500 scholarship, which will be deposited into a Bright Start College Savings account.

The accounts are managed by the Treasurer's Office. Beneficiaries between the ages 18 and 30 can use the money for college tuition, fees and room and board at accredited colleges, universities, and vocational schools in the U.S. and at some abroad. "The loss of a parent can have a devastating effect on children, making it more likely that they will drop out of school or struggle to pay for college," Giannoulias said.

The Fallen Heroes scholarships are funded by contributions from Bright Start program manager OppenheimerFunds, and no tax dollars are being used. For each eligible child, the state will deposit $2,500 into a tax-free Bright Start College Savings account, and invest the funds in an age-based portfolio, which grows more conservative as the child approaches college age. The scholarship accounts must be initiated by the beneficiary or a surviving family member; however, the state retains control of fund distributions. The scholarship can supplement death benefits or federal education.

The Treasurer's Office also partners with lenders statewide to offer low-interest loans up to $250,000 to National Guard and Reservists who are away from their businesses for at least 90 days and anticipate economic hardship as a result.

To learn more about the Fallen Heroes Scholarship program, visit its Web page at www.treasurer.il.gov/programs/scholarships/fallen-heroes.aspx, e-mail the Treasurer's Office at fallenheroes@treaturer.state.il.us, or call (217) 558-4983. More information on Bright Start is available at www.brightstartsavings.com.

Source: www.treasurer.il.gov/news/press-releases/2008/PR27Jan08.htm.

INDIANA

More than 22,000 new jobs coming to Indiana

According to a press release from the Indiana Economic Development Corporation, more than 150 U.S. and international companies committed to create more than 22,600 new jobs in Indiana this year, breaking the state's previous job commitment record set just a year ago.

Many of the 158 companies that committed in 2007 to create 22,627 new jobs in Indiana have already begun hiring across the state, and all expect to meet their commitments to hire Hoosiers by 2012. In addition, the average hourly wages for the new job commitments increased in 2007 to $20.56 – well above the state's current hourly wage of $18. Meanwhile, the average state incentive provided to companies per job decreased by more than 20 percent. For more information, go to www.in.gov/iedc/newsroom.htm.

IOWA

New wind turbine production facility to be built in Newton, Iowa

TPI Composites, one of the world's leading wind turbine blade suppliers, announced its plan to build a new 316,000 square foot facility in Newton, Iowa, which will create approximately 500 new jobs. This is an important development for a town of approximately 16,000 people, which had just seen the closing by the end of December 2007 of a Maytag plant that employed 1,800 people. The Maytag plant had been in Newton since 1893.

TPI is a major supplier to GE Energy, which is determined to meet the growing global demand for wind turbines. Iowa Governor Culver said, “With this announcement, we will build upon Iowa’s leadership in wind energy, remain a critical player in the race to produce clean, renewable electricity, and help ensure the future success of this vibrant Iowa community.” The new plant will expand the capacity of TPI to produce blades for GE’s 1.5 megawatt wind turbines—among the most widely used turbines in the world.

In November 2007, the Federal Reserve Bank of Chicago co-hosted a one-day conference in Glencoe, Illinois, discussing the topics of renewable energy in America, and focused particularly on wind energy and its growth in the especially windy states of the Midwest where a host of leadership organizations exist, which shared their expertise on the growth of this renewable form of energy production. In Iowa, where wind turbines already dot the landscape and are on the increase, Governor Culver has challenged his state to reach the goal of producing 2,015 megawatts of electricity from wind by the year 2015.

For more information, contact Kristin Schwarz, Ken Darling, or Howard Masto, GE Energy Masto Public Relations, at (518) 385-7343, or (518) 786-6488.

Source: Office of the Governor press release at www.iowalifechanging.com/document/lifesrchdoc.asp.

MICHIGAN

Governor Granholm Announces Plan to Combat Mortgage Foreclosure Epidemic in Michigan

According to Michigan State Housing Development Authority (MSHDA), Governor Jennifer M. Granholm announced that a new toll-free hotline has been established to help home owners who are facing mortgage foreclosure receive counseling services and advice on how to avoid foreclosure. The toll-free number is (866) 946-7432.

Operated by MSHDA, the hotline will direct home owners to a housing counselor in their county or to technical experts in the MSHDA home ownership division. “In this tough economy, we need to assist hard-working Michigan families who are falling victim to mortgage foreclosures,” Granholm said. “These initiatives will protect families from losing their homes and help stabilize Michigan’s housing market.”

For more information, visit MSHDA’s Web site at www.michigan.gov/mshda.

WISCONSIN

Milwaukee “greenlights” Industrial Corridor redevelopment

The City of Milwaukee is undertaking an aggressive approach to reclaim a stretch of industrial properties that runs through the heart of the city’s northwest side. Like many other older Midwest cities, Milwaukee will need to use every tool in its economic development arsenal to remediate and rejuvenate the industrial areas that have been abandoned.

Milwaukee, however, is targeting Tax Increment Financing in its 30th Street Industrial Corridor to “Green Technology.” This is part of a broader strategy to capitalize on Milwaukee’s fresh water location on Lake Michigan to become a hub of environmental innovation and technological development.

For more on Milwaukee’s 30th Street Industrial Corridor, visit the City of Milwaukee’s Web site at www.mkedcd.org/30thStreet/index.html.

Calendar of Events

Reinventing Older Communities: How Does Place Matter?

Philadelphia, PA
March 26-28, 2008

The Federal Reserve Bank of Philadelphia will host the third biennial Reinventing Older Communities conference. Experienced leading developers, mayors, researchers, and other practitioners around the country will share their successes, innovations, and challenges in reinventing their communities.

For conference updates, visit www.philadelphia.org/cca/conferences, or contact Jeri Cohen-Bauman at (215) 574-6458, or via e-mail at Jeri.Cohen-Bauman/PHIL/FRS.

2008 National Interagency Community Reinvestment Conference

San Francisco, CA
March 30–April 2, 2008

This three-day event, jointly sponsored by the Federal Deposit Insurance Corporation, Federal Reserve Bank of San Francisco, Office of the Comptroller of the Currency, and Office of Thrift Supervision, will feature CRA examination training, creative strategies for community development, innovations in community development investing, and the National Community Development Lending School.

Please visit the Federal Reserve Bank of San Francisco's Web site at www.frbsf.org/community/conference08.html for more information, registration, and accommodations.

Call for Papers – Innovative Financial Services for the Underserved: Opportunities and Outcomes

Washington, DC
April 16-17, 2009

The Community Affairs officers of the Federal Reserve System are jointly sponsoring their sixth biennial research conference to encourage objective research into financial services issues affecting low-and moderate-income individuals, families, and communities. The theme of the 2009 conference centers on innovation in financial services.

For more information, e-mail Alan D. Barkema at KC.CAResearchConf@kc.frb.org, or call Kelly D. Edmiston at (816) 881-2004.

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