



# PRINCIPAL REDUCTION AND FORECLOSURE PREVENTION

Preliminary Report, Findings and  
Recommendations from the IDT

# IDT Scope of Work

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Resolution 31495 directed IDT to explore principal reduction and other foreclosure prevention programs to assist low - income homeowners at risk of losing their homes due to foreclosure.

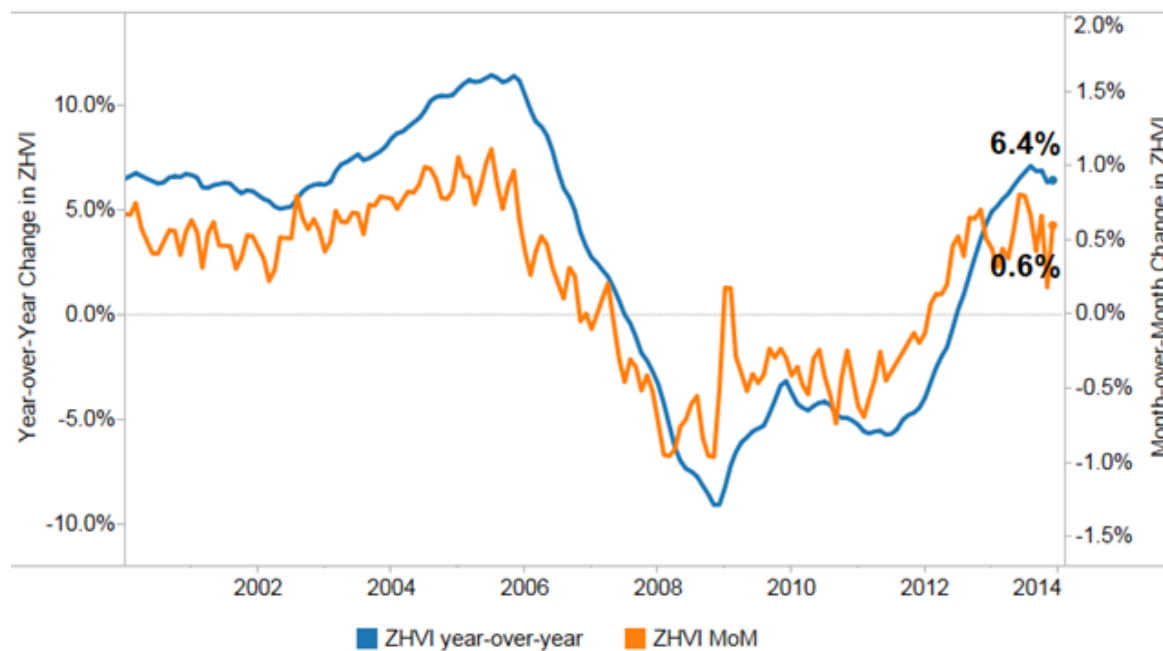
Included examination of the financial and legal implications of the programs proposed in the Hockett Report.

IDT to provide recommendation on programs and approaches to pursue that could reduce the risk of foreclosure for low-income homeowners.

# Seattle by the Numbers

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**Figure 2: Change in U.S. Zillow Home Value Index**  
December 2013



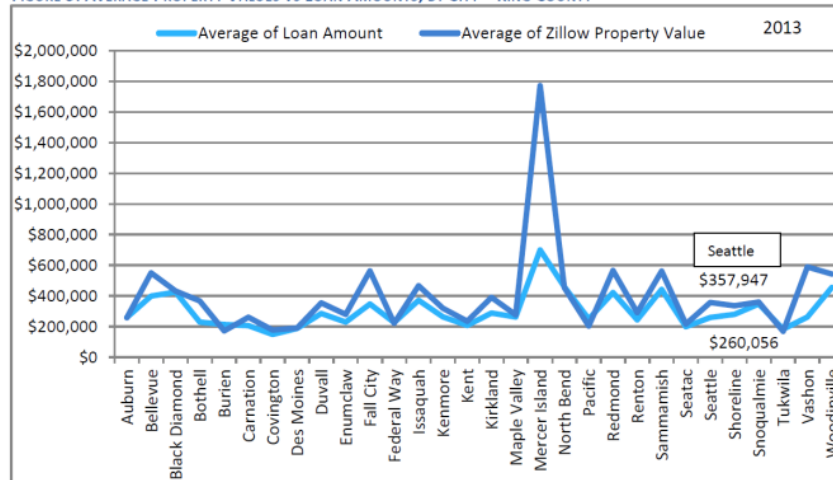
Seattle home sales prices have increased 6.4% in the past year, since December 2012 [Zillow].

Homes in the “bottom price tier” have seen a 13.5% increase in appreciation [Zillow].

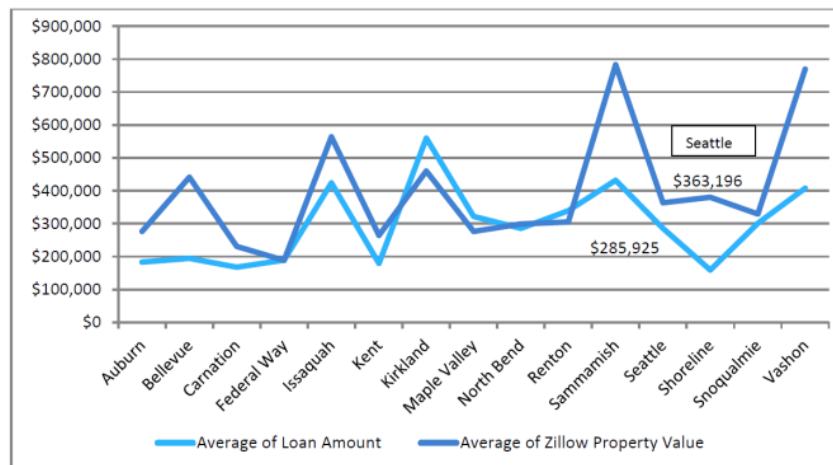
# Seattle by the Numbers

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FIGURE 5: AVERAGE PROPERTY VALUES VS LOAN AMOUNTS, BY CITY – KING COUNTY



The average loan amount of Seattle households that accessed the WA St. Homeownership Hotline in 2013 was \$260,056. The average property values of addresses provided was \$357,947.



In 2014, the average loan amount was \$285,925 against average property values of \$363,196.



# Seattle by the Numbers

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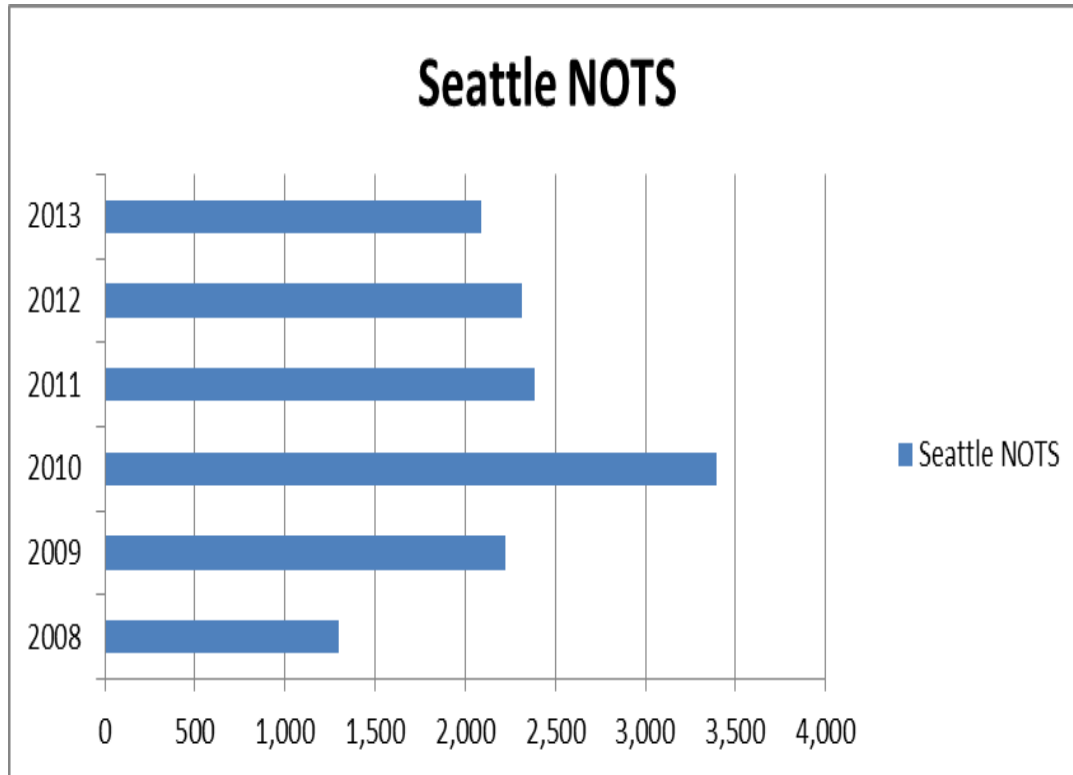


Fueled by an extremely strong housing market, Seattle is experiencing strong and sustained recovery.

Of the 25 largest metro areas in the country, Seattle Metro is in the top five for percentage of properties with positive equity at 92.7% [CoreLogic]

# Seattle Foreclosure Activity

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2,144 Notice of Trustee Sales (NOTS) were issued in Seattle in 2013, down 37% from 2010 [Pacific Northwest Title].

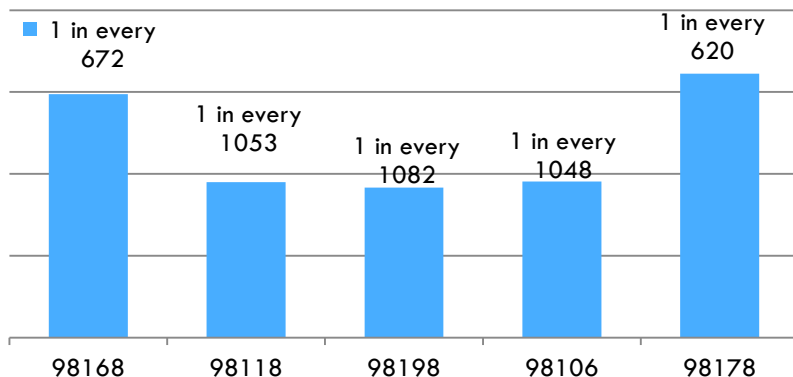
43% of 2013 NOTS issued were on mortgages **higher** than the current HUD maximum sales price, \$288,000.

# Seattle Foreclosure Activity

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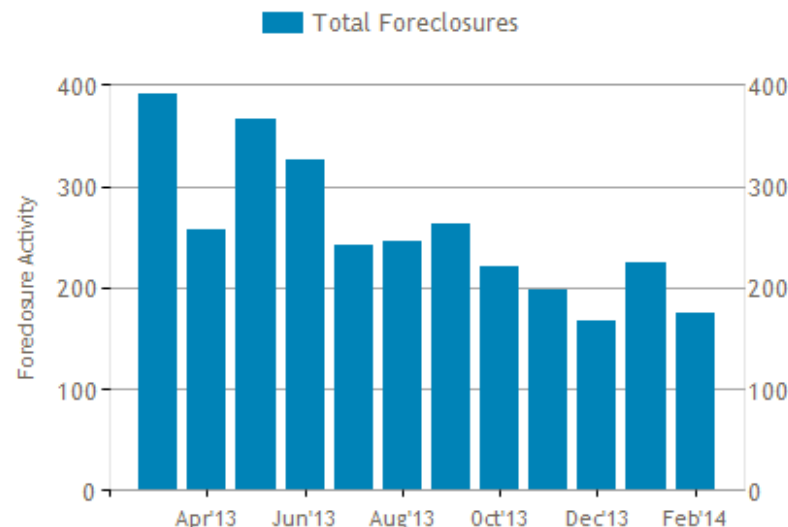
## Foreclosure Rates February 2014

Top 5 Zip Codes per RealtyTrac



By comparison, 9 of Florida's MSA's lead the country's foreclosure rates as of February, with one in every 296 housing units with a foreclosure filing during the month.

RealtyTrac's definition of "in foreclosure" includes Notice of Default, Auction, and REOs



2,002 (or 1.5%) of Seattle homes are currently in some stage of foreclosure.

[RealtyTrac, March 2014]

# Seattle Foreclosure Activity

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4.4% of Seattle households were delinquent on a mortgage, as of Dec. 2013 [Zillow]

The serious delinquency rate (behind 90 days or more) is at its lowest level since November 2008. [CoreLogic].

One in every five homes in the foreclosure process nationwide is a home that has been abandoned by the homeowner.

*RealtyTrac March 2014*



# Federal Loan Assistance Programs

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*Streamlined Modification Initiative (FHFA)*

*Home Affordable*

- *Refinance Program (HARP)*
- *Modification Program (HAMP)*
- *Unemployment Program (UP)*
- *Foreclosure Alternatives (HAFA)*

# Ocwen Joint State-Federal Settlement

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The \$2 billion Ocwen Financial Corporation Settlement is providing WA residents:

\$49 million in principal reduction on troubled loans

Over \$3.6 million in additional cash payments to homeowners who lost homes in foreclosure.

# Existing Programs to Help Homeowners

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## National Mortgage Settlement in WA

Washington State homeowners received more than \$1.2 billion in benefits, including \$43 million in funds for:

- Mortgage Relief
- Free Legal Representation
- Community Outreach
- Housing Counseling Assistance



*Yao Fou Hinh Chao nearly lost his Seattle home to a mortgage scam, but received foreclosure prevention assistance from Northwest Justice Project. He was able to stay in his home.*

# Other Existing Programs

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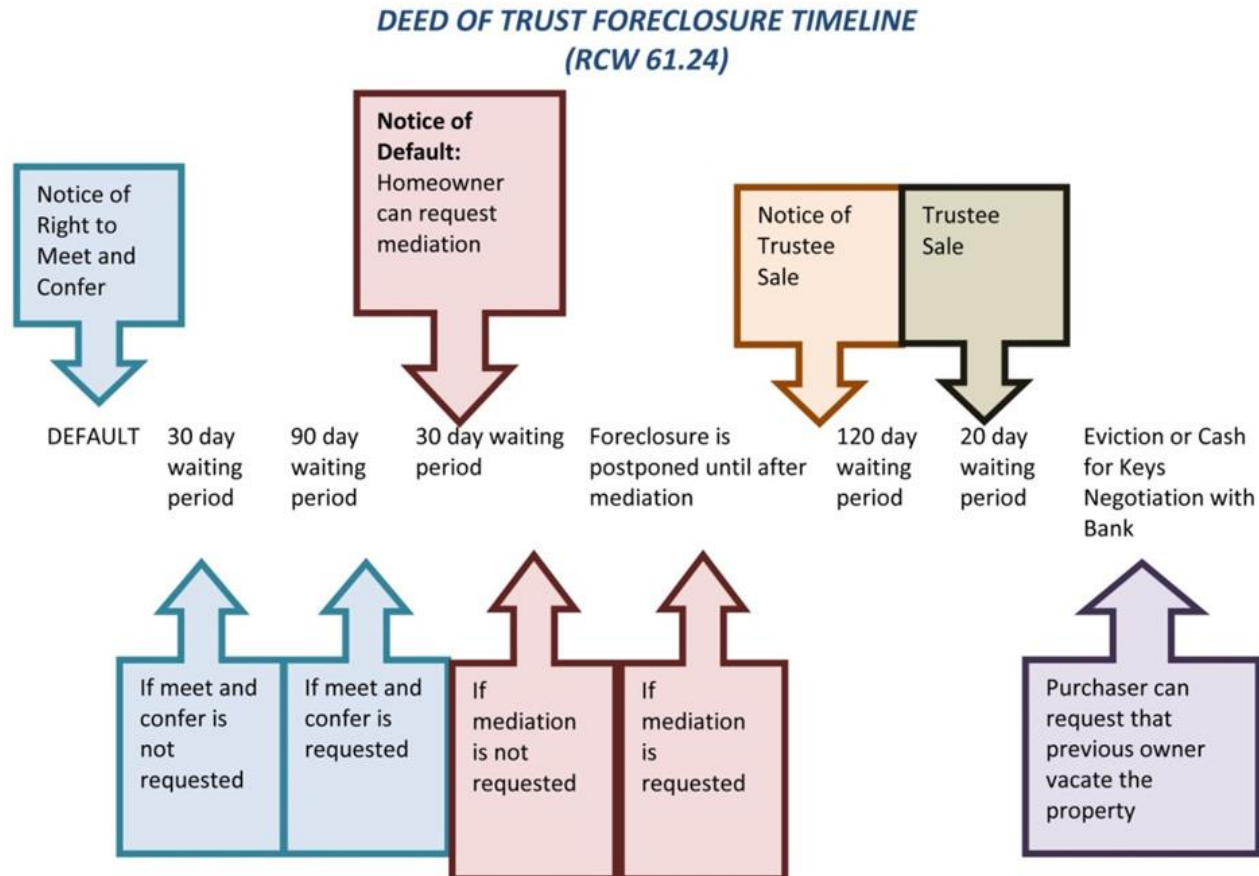
## State Foreclosure Fairness Act (FFA)

Passed in 2011, lenders are now required to notify borrowers, prior to initiating the foreclosure, of the availability of foreclosure counseling and their right to mediation.

Homeowners receive free housing counseling and can access free legal assistance.

# Foreclosure Timeline

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# Hockett Report Proposals

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**Lease Swap:** For loans in delinquency (or likely to be) but which have not yet been foreclosed on.

Premised on a strategy of lease agreements made between two underwater homeowners who would exchange homes in an attempt to circumvent a Chapter 13 bankruptcy exclusion that prohibits principal reduction on loans that exceed home values on principal residences.

*There is no precedent for this strategy.*



# Hockett Report Proposals

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**Eminent Domain:** This strategy suggests a City “take” underwater loans at fair market value, refinance the mortgages, and reduce the principal for homeowners (who must still be able to demonstrate ability to carry a mortgage).

*This strategy has widespread legal and financial implications - far beyond the refinancing a loan.*

*The Federal Housing Finance Agency issued a statement directing Fannie Mae and Freddie Mac to limit or cease its business where such proposals are approved, citing “a clear threat to the safe and sound operations of Fannie Mae, Freddie Mac and the Federal Home Loan Banks.”*

ISSUE	FINDINGS
EXISTING PROGRAMS	<ul style="list-style-type: none"> <li>➤ FFA and existing loan modification programs meeting the needs of homeowners at risk of foreclosure.</li> </ul>
OUTREACH & EDUCATION	<ul style="list-style-type: none"> <li>➤ Homeowners at risk or in foreclosure may not know who to contact to get appropriate help.</li> <li>➤ Free help is available from certified housing counselors and lawyers.</li> <li>➤ The State has implemented efforts to educate homeowners, but more needs to be done.</li> </ul>
PRE AND POST FORECLOSURE ASSISTANCE	<ul style="list-style-type: none"> <li>➤ People with insufficient income to pay a mortgage will not qualify for loan modification program and may need assistance post foreclosure.</li> <li>➤ Lifelong AIDS and Solid Ground provide post foreclosure assistance, including: rental assistance, supportive services, &amp; medical care for households <i>with chronic, special health needs</i>.</li> <li>➤ Additional assistance for households without health needs but with other significant barriers may need assistance both pre and post foreclosure.</li> </ul>
IMPROVING SERVICE CONNECTIONS	<ul style="list-style-type: none"> <li>➤ Homeowners at risk or in foreclosure may have additional service needs, including: financial assistance services, mental health services, home repair, utility bill assistance, etc.</li> <li>➤ Housing counselors and lawyers may not know who to refer homeowners to for such assistance.</li> <li>➤ Service providers &amp; advocacy groups may have clients who are in need of housing counseling/legal services and don't know where to refer clients.</li> </ul>
HOUSING COUNSELING FUNDING	<ul style="list-style-type: none"> <li>➤ Housing counseling agencies are providing housing counseling services with National Mortgage Settlement funds.</li> <li>➤ Complex, lengthy mediations are a challenge for counseling agencies which may limit number of cases that can be handled.</li> </ul>
MORTGAGE REFINANCING PROGRAM LIMITS	<ul style="list-style-type: none"> <li>➤ Mortgage Refinance Program operating in City has mortgage maximum of \$100,000 that could limit use</li> </ul>

# Recommendation

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## Outreach and Education



Assist in additional public outreach and education efforts to inform homeowners how to access appropriate counseling and legal services. Coordinate efforts with State Department of Financial Institutions, Attorney General's office, and community partners.

# Recommendation

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## Pre and Post Foreclosure Assistance



Explore providing flexible funding to assist households who need temporary mortgage or rental assistance or other services – pre or post foreclosure -- and are not served by current programs.

# Recommendation

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## Improving Service Connections



Facilitate meeting(s) with service agencies, advocates, and housing counselors and lawyers to establish better understanding of available services for clients and improve connections and referrals between providers. This could help facilitate referrals to several City programs: low-income Home Repair Program; and low-income Utility Discount Programs.

# Recommendation

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## Housing Counseling Funding



Facilitate conversations, as appropriate to discuss modifications to compensation for counseling, mediation, translation services, etc. Consider additional City support, if additional resources are warranted.



# Recommendation

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## Mortgage Refinancing Program Limits



Examine feasibility of modifying refinance program limits for mortgages greater than \$100,000. This could expand the number of Seattle households served.

# Recommendation

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## Hockett Proposed Programs

**Eminent Domain Program** – The significant legal and financial implications of this untested strategy outweigh its potential benefits. IDT does not recommend pursuing this as possible City program.

**Lease Swap Strategy** – This program is untested and may not be approved by a bankruptcy court. IDT does not recommend pursuing this as possible City program

# Next Steps

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**Gather additional information** regarding proposed recommendations, including costs, outcomes, and potential partners.

**Provide final recommendations** including costs, outcomes, potential partners, and timeline for implementation by June 15, 2014.

## Foreclosure IDT Workgroup

City Budget Office

City Council Staff

Office of Housing

City Attorney's Office

Finance and Administrative Services

# THANK YOU