

# PRINCIPAL REDUCTION AS FORECLOSURE PREVENTION

## EXISTING PROGRAMS

Two programs are using innovative, self-supporting approaches to help homeowners avoid foreclosure through a form of principal reduction: The State of Oregon's Loan Refinancing Assistance Pilot Project (LRAPP), and Boston Community Capital's SUN Initiative.

The programs have proven successful and sustainable, and appear replicable. Since 2009, the SUN Initiative has helped more than **500** families stay in their homes through this approach, reducing their average mortgage payments by **38%**. Since 2012, the LRAPP program has helped more than **140** homeowners remain in their homes, saving them an average of approximately **\$533** each month on their mortgage with a principal reduction of more than **\$100,000**.



## PROGRAM PARTICIPANTS

Through outreach and referrals, both programs seek participants that meet some or all of the following characteristics:

- At risk of foreclosure
- Underwater on their mortgage
- Demonstrate the ability to afford a new loan
- Have overcome a hardship
- Have an excessive interest rate

Once identified, all participants are rigorously underwritten, as the program models rely on a portfolio of performing loans.

## PROGRAM PROCESS

Variations between the LRAPP and SUN Initiative processes are largely indistinguishable to program participants. The defining characteristic of the programs is that they utilize existing market mechanisms to buy an underperforming loan and re-sell it to the homeowner at a price they can afford.



The programs are voluntary in that the original mortgage holder must approve a short sale offer (however, the SUN program also purchases homes **after** foreclosure). Given the complexity of the program processes, both programs require staff and contractors with experience negotiating short-sale offers and/or have relationships with lenders. Additionally, Oregon's LRAPP program benefits from the presence of a formal agreement with FHA, and an evolving project with Fannie Mae and Freddie Mac.

A significant difference between the SUN and LRAPP programs is the use of a revolving fund. The LRAPP program develops a loan portfolio until a threshold has been reached, allowing for the loans to be packaged and re-sold to an investor. That sale returns program funds, and allows for new homes to be purchased. To date, The LRAPP program has sold two portfolios of loans, both to a Seattle institution.

## BENEFITS OF THE MODEL(S)

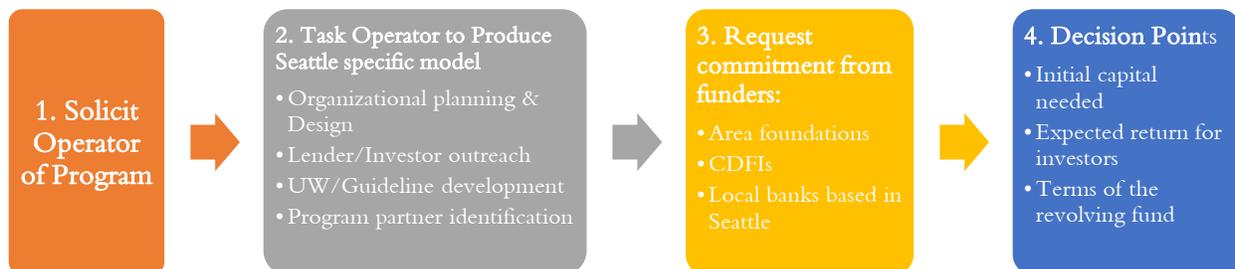
- Lending institutions are able to sell a delinquent property before or after foreclosure, based on the market value – with losses mitigated by the potential for greater loss, if there was no sale.
- Homeowners avoid foreclosure, and having recovered from hardship, are able to afford the new mortgage and regain lost equity.
- The owner of the new loan gains a property in its portfolio that has been rigorously underwritten to assure affordability and consistent future payment.
- Blighted neighborhoods and the economy at large are boosted by the creation of conditions for increased consumer spending.

## SEATTLE AREA NEED

According to Zillow, 15% of the (365,701) home mortgages in King County are currently underwater. Of those, 8% are delinquent (29,000+).

## PRINCIPAL REDUCTION PROGRAMMING IN SEATTLE/WASHINGTON

A new fund could potentially prevent 50 foreclosures a year for every \$10 million invested. At scale, a revolving fund of \$50 million could serve 250 families a year, with a goal of 1250 families assisted in the first five years. The ability to revolve the funds through loan sales and recapture the initial investment should be attractive to socially conscious investors looking for a double-bottom line without having to provide grants or subsidy. To develop and implement a program, the following steps may be taken:



Seattle appears to be an ideal candidate to implement a sustainable principal reduction program due to:

- **Need** – Initial data indicates a clear need in the Seattle area, with thousands of underwater and delinquent mortgages (*further research is needed to better understand the characteristics of this population and to identify those that are delinquent due to an economic hardship*).
- **Access to Investors** – Seattle has access to multiple forms of potential investment capital (foundations, CDFIs, local banks headquartered in Seattle) that could fund the initial program and/or purchase the loan pool for a revolving fund.
- **Borrower Representation** – The Attorney General has funded a substantial amount of legal aid and homeowner counseling; a principal reduction program could supply those advocates with a meaningful tool for homeowners.
- **Developed Model** – The State of Oregon and Boston Community Capital have developed and implemented models, leaving the program(s) transferrable for the next entity to implement.
- **Lender Participation** – Major lenders have agreed to participate in the Oregon LRAPP program (Fannie Mae, Freddie Mac, FHA).

## PROGRAM COMPARISONS

	LRAPP	SUN Initiative
<b>Program Origin</b>	2012	2009
<b>Homeowners Assisted</b>	140+	500+
<b>Participant Benefit</b>	Average of \$533 in monthly mortgage payment reduction, \$100,000+ principal reduction	Average mortgage payment reduction of 38%
<b>Start-Up funds</b>	Initial costs paid for out of Oregon's HHF administrative budget – subsequent costs were paid for out of individual loan sales. Start-up funds recouped.	\$3.7 million for planning, one-time start-up costs, and initial home purchases/mortgages
<b>Real Estate Brokers</b>	Market driven	SUN acts as Broker
<b>Loan Mark-Up</b>	12%	25%
<b>Participant Mortgage Payment</b>	Monthly	Bi-Weekly
<b>Terms of Re-Sale</b>	No restrictions	SUN is due 50% of any realized profit above the value of the new loan
<b>Capital Reserve Account</b>	No	Yes
<b>Revolving Fund</b>	Yes	No
<b>Loan-Loss Reserves</b>	Loans are not held	25% mark-up on distressed market value
<b>Property Appraisals</b>	Broker Price Opinion	Full appraisal before underwriting
<b>Loan Servicing</b>	3 <sup>rd</sup> party	3 <sup>rd</sup> party
<b>Program Administration/Oversight</b>	Oregon Department of Housing and Community Services	Boston Community Capital
<b>Capital/Financing</b>	Oregon Affordable Housing Assistance Corporation (State of Oregon)	SUN Initiative Financing LLC
<b>Property Acquisition</b>	Further Development	NSP Residential, LLC
<b>Loan Origination</b>	Further Development	Aura Mortgage Advisors, LLC