

Financial Crisis Inquiry Commission - Field Hearing in Sacramento, California, held September 23<sup>rd</sup>, 2010

“The Impact of the Financial Crisis on Families and Communities in the Sacramento Region”

Presentation from: Pam Canada, CEO  
NeighborWorks® Sacramento Region

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I would like to begin by thanking Chairman Angelides, Vice-Chairman Thomas, and the entire Financial Crisis Inquiry Commission for their leadership and commitment in this investigation of the causes and the impact of the financial crisis of 2007-2010.

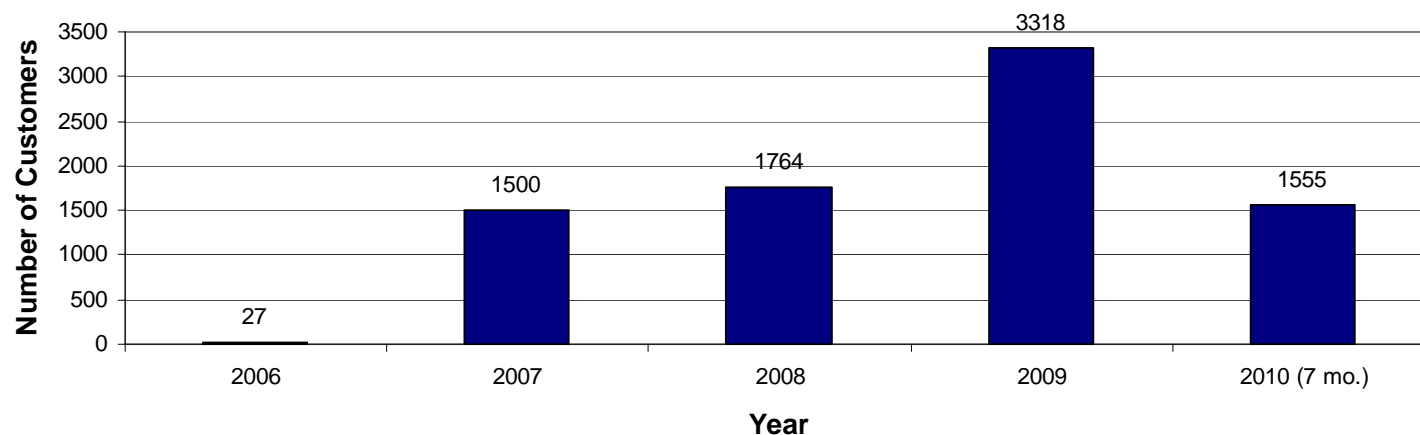
Welcome to Sacramento for this important Hearing to address the impact of the financial crisis on families and neighborhoods in the Sacramento Region, which includes the Central Valley area and represents many of the hardest hit communities in California and in the nation.

NeighborWorks® HomeOwnership Center Sacramento Region is a premier member of the NeighborWorks network of not-for-profit organizations that are chartered by NeighborWorks® America. We carry out a mission of work to provide stable, sustainable home ownership thru a comprehensive process that includes an emphasis on pre-purchase homebuyer education, responsible lending and post-purchase counseling for homeowners.

NeighborWorks Sacramento has been providing service and support to potential and existing homeowners since 1987. Until 2007 foreclosure mitigation counseling and assistance was not a regular service we provided, in fact we historically would see less than a dozen existing homeowners per year that would come to us for help to stop a foreclosure action or help them address a pending issue of mortgage default. Even then, those were generally caused by a catastrophic financial setback on the part of the homeowner, such as an unpredictable health cost or other large, unexpected financial burden that depleted their funds and created a significant hardship. Typically those could be addressed thru our credit counseling, possibly refinancing the mortgage or even assisting in selling the home and transitioning to rental housing or another living arrangement – foreclosure by the lender was almost never the solution, as values remained stable or on the rise so selling was an expedient solution for all parties.

In 2006 we started to feel a small up-tick in the number of people coming in for foreclosure prevention information and counseling help. Almost not a measurable number, however it was significant in comparison to the previous years and was an indicator that needed our attention – a tripling in numbers, from 8 customers annually, to 27 in 2006 – still a micro-measure but gave us the first blush of what was to come and we began to build a more aggressive response to the issue.

**Number of Customers Seeking Foreclosure Prevention Services**



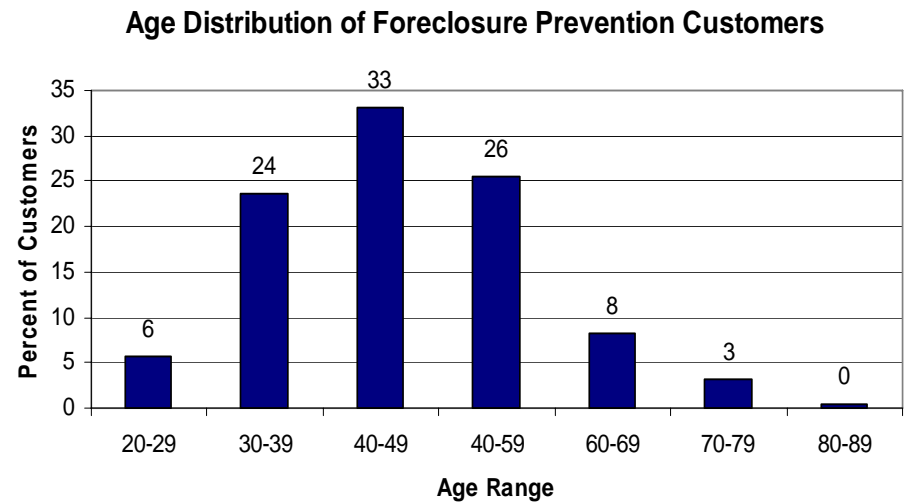
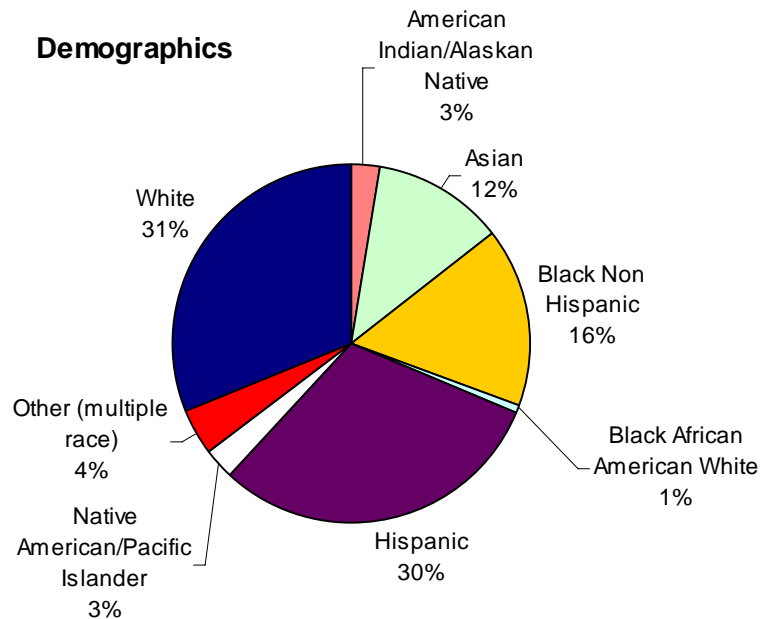
Beginning in 1<sup>st</sup> quarter of 2007 the “foreclosure crisis” had begun to show its full force, with hundreds of existing homeowners seeking help and advice that would give them an understanding of the situation they were in and what they could do to preserve their homeownership. NeighborWorks Sacramento joined with various other private non-profits, public sector agencies and officials to begin offering information workshops around the Region. These workshops and foreclosure prevention events drew thousands of people every where we went. To further begin to build our response to this growing number of client requests for specialized help, we reorganized our internal work flows to focus maximum existing capacity on this demand for our services, hired and trained two additional Housing Counselors, and streamlined our internal processes to build in the time, resources and efficiencies that this effort was demanding.

People came to our office with boxes and armloads of papers and personal financial files and records, begging for an appointment immediately so NeighborWorks could help them save their family home. It was a daily tragedy in progress and taking place right in our own community and our neighborhoods and playing out in our office lobby every day. It was, and is to this day, an overwhelming experience that cannot be adequately expressed in the words on this paper. These people coming for help were from all walks of life, across all socio-economic and demographic levels, with their own stories of confusion and fear. Typical stories we would hear every day included;

- The single mom with three little boys that had lost her job and was desperate to stay in the home where her boys knew the neighborhood and the way to their school – how can I stay in this home, in this safe neighborhood?
- The elderly couple that had refinanced a couple of years ago, using a cash-out refinance to pay the extraordinary costs of care for their daughter who had a health related emergency and now their loan payment was adjusting and

would increase by almost double. They had fixed income, no more savings and limited retirement – what should they do now?

- The man who had gotten an inheritance when his father passed away, used that as a large down-payment on a modest home with a reasonable loan product, but his small business was suffering with the down economy and he hadn't made a loan payment for 4 months so he could keep his business alive. The bank was foreclosing and he would lose his home and his greatest concern was the dishonor on his father for losing the inheritance money his father had worked so hard to build for him.



The majority of the people that came in with mortgage payment problems had not previously had credit problems, they paid their debts on time and were willing, but no longer capable, of making their house payment. Often they had recently received a late notice or even a “notice of default” letter from their lender and, for the first time in their lives, they could not respond with payment and in most cases they did not know what the next step could be. At every new client appointment our Housing Counselors were routinely asked for basic information about the foreclosure process – some people actually expected that the Sheriff would come that night and throw their family out on the street – they did not know because this was an entirely new and frightening situation.

We needed to dramatically increase our internal capacity to provide the best timely, quality service to meet the demand for foreclosure mitigation counseling. In response, we created and began immediately delivering a weekly “foreclosure information seminar”. This was held every Thursday at our HomeOwnership Center in Sacramento and became a pre-requisite for obtaining an appointment with one of our 6 Counselors. In the 90-minute seminar we presented an “A to Z” on the legal process of mortgage default, illustrating and discussing with great detail, a timeline that presented each step from the first late payment to the potential Trustees sale of the home or reversal of ownership back to the lender. This weekly seminar, delivered by our staff in Spanish, Russian, and English, had an average attendance of 30 people – for 50 weeks per year over more than 2 years. People kept coming, there was no relief, defaults in the region escalated each month, and homes were reverting back to lenders in record numbers. In March, 2010, there were 1,035 homes that went back to lenders and another 277 were sold to a third party. It is estimated that there are now 6000 vacant foreclosed homes in Sacramento County alone, with nearly 1 in every 8 homes in California now in foreclosure. The Central Valley, including Stockton, Lodi, Modesto, Merced, and Manteca, has over 16% of its housing stock in foreclosure and consistently ranks in the “top 10” of the hardest hit areas around the nation.

People were coming in to our weekly workshop from as far away as Reno, Redding, and San Francisco – driving 3 hours to attend an information workshop and have someone to talk to that could help them preserve their homeownership or identify a possible solution with them.

In addition to the scores of homeowners with mortgage payment issues, we began having a significant number of people who believed they had been victims of mortgage fraud or misrepresentation, and some were weighing the decision of filing bankruptcy or walking away from their home or other similar decisions that had far-reaching and varied consequences. Many of these fraud issues appeared to have merit or needed further understanding but they needed deeper legal understanding and were beyond the expertise of our Housing Counselors to adequately explain or address further with the homeowner. It was important that the homeowners could make fully-informed decisions about their financial future, take control of those elements where they still could have some control, and not just follow through with an emotional reaction to their current circumstances.

NeighborWorks Sacramento forged a unique and innovative arrangement with the University of the Pacific – McGeorge School of Law that allowed us to bring in the legal expertise and build a strong and productive business partnership between NeighborWorks and McGeorge on behalf of our community. Essentially, we created a relationship and a defined process that allowed NeighborWorks to refer a counseled client directly to our contact at McGeorge, where they would set up an hour long appointment with the client and provide them with legal assistance. They were not able to offer them any form of actual representation in court, however they provided valuable knowledge about the potential consequences of taking one form of action versus another. To our knowledge there is no other similar model anywhere in the nation that has been as productive on this issue. There have been 668 people that have received up to 1400 hours of legal assistance at absolutely no cost to them. The feedback we have received from the people that have gone thru this added step has been gratifying, as the attorneys with the Law School have provided critical expertise and pro-bono advice to the homeowners.

In 2010 we continue to provide foreclosure mitigation counseling to people from Chico thru the Central Valley and from Placerville to Winters. We have hundreds of open cases now, with loan modification requests still active and pending with servicers for times that extend to over a year. Entire loan modification packages are lost by the receiving company, multiple submissions over an extended period of frustrating time still result in cancellations and re-starts because of seemingly minor and irrelevant items that could have been addressed swiftly if they had been identified early. Communication from the servicer to the homeowner is often non-existent, with a bit better result when a NeighborWorks counselor is intervening with the customer, at best it is untimely and aggravating to everyone with the rare exception when the stars align and a positive outcome is in hand. It is common for a loan modification request to linger for 9 months to 1 year – while the homeowner is unsure what might happen the next day and waits thru an agonizing time of uncertainty. Many of these people have been hanging on to their homes by depleting their savings and extending their credit cards to the limit, or borrowing from family members.

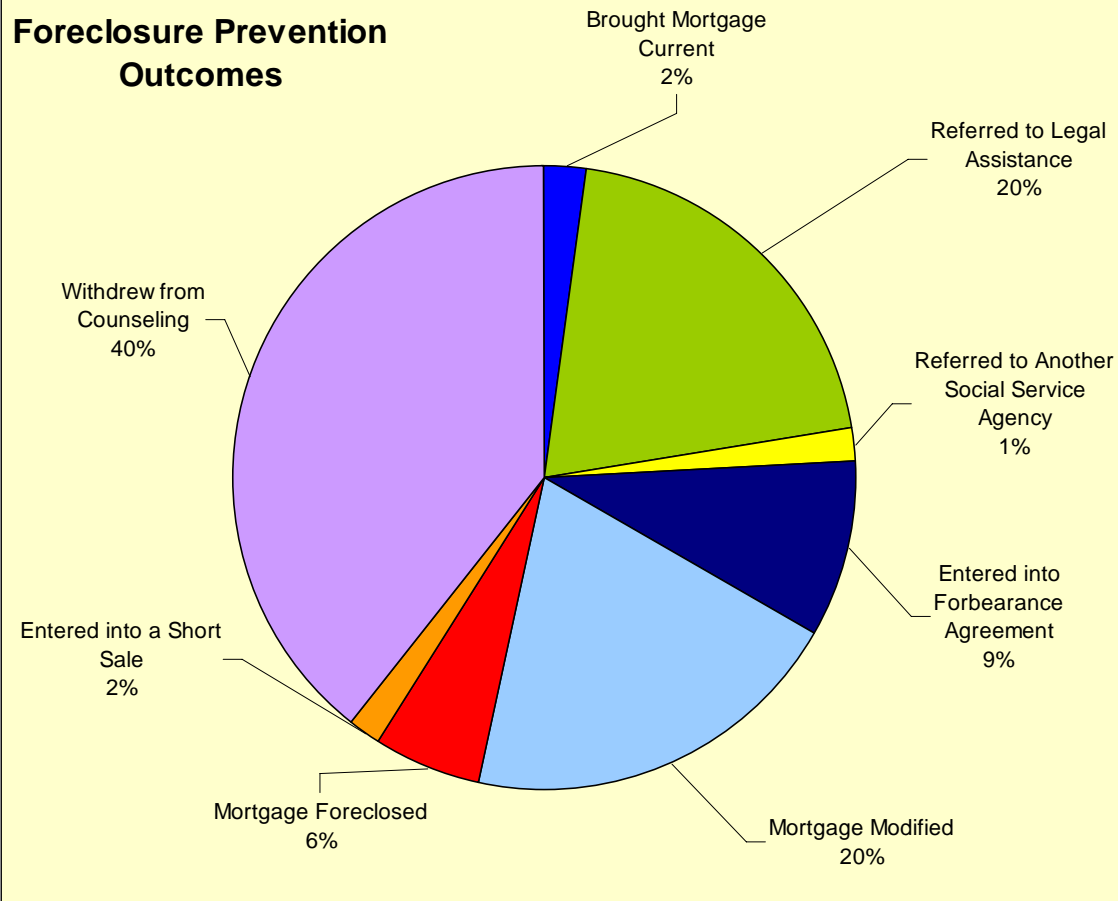
“Trial modifications” were created and it was apparently intended that these would expedite the solution – provide a 90-day trial mod to the defaulting homeowner, giving them a payment they can now afford and requiring that they meet that modified obligation for 3 to 6 payments. After demonstrating they can be successful in this trial, the final modification was to be completed and all would be right with the world – homeownership is preserved, positively impacting the homeowner and the neighborhood, and the lender/servicer/investor go forward with a reliable return on their investment. The problem has been that the trial modification has been used by the lenders as a way to buy time and delay the foreclosure – many of the trial periods are extended over several 3-month time periods, prolonging the decision process and building on the stress and frustration for the

homeowners. If the borrower meets their payment obligations thru the trial mod period, they are supposed to be tested and proven, and offered the final loan modification with the same terms that they demonstrated their ability to pay over the trial period. In fact that is not what is happening in many cases – the trials are extended, with no explanation, and we have had cases where the trial terms were met by the borrower but the permanent loan modification was ultimately denied, again, with no explanation.

Our region has experienced a drop in home values, representing a tremendous loss of equity for existing homeowners, especially those that bought or refinanced at the height of the market in 2005-2006. In 2009 we began experiencing a significant number of people talking about, and completing, “strategic default” or “walk-aways” from their homes, using the loss of equity issue as their rationale. More and more people are talking with us about this now, as they wait for 9 to 12 months for a loan modification decision from their lender, deplete retirement accounts and destroy their financial footings in order to keep a home that is “underwater”. There are hundreds of active short sales in our region, as people try to get out from under the burden of debt. A Walk-away is a more expeditious route for desperate homeowners that are offered no other reasonable alternative by their lenders. As another alternative, NeighborWorks Sacramento has spoken with lenders/servicers to attempt to put together a lease-purchase program specifically targeted to keep the existing homeowner in their home – but the lenders will not sell to us with this intent, we have been told that this would benefit the homeowner with, in effect, a principal reduction and they will not renegotiate with the existing homeowner. Yet, the homeowner losses the home and watches as it deteriorates and then goes up for sale to a new buyer for less than the price they had been willing and able to negotiate on a principal reduction or lease-purchase buyout themselves. It is no wonder that the homeowners are angry and cannot find the logic in their financial situation or the outcome.



## Foreclosure Prevention Outcomes



NeighborWorks Sacramento has a long history of community development work and are actively engaged and working in the neighborhood. The negative impacts of foreclosure on communities is apparent, block after block, as we walk and drive throughout our neighborhoods. Not only are people losing homes, communities are suffering economically, physically, and socially;

Communities suffer from increased crime – having multiple abandoned homes is proven to have a direct effect on the rise in crime in communities. Thieves are breaking into houses and stripping them of systems, wiring, and anything with value. Destruction of property and vandalism is making the homes more difficult to sell and it can actually take more money to renovate the homes than the potential sales price would cover in this market. Vacant properties are also a magnet for other forms of illicit activities, requiring added resources from the police and code enforcement services.

Cities and Counties are negatively impacted - not only from the added services required but also from the lower property values caused by foreclosed homes that have led to a smaller tax base. When this happens, local government must respond to the fiscal shortfall and, unfortunately, social programs and public services are often the first to be cut. The programs cut or eliminated are the very services that can help residents who are suffering from the foreclosure experience.

Area youth are displaced - a hard hit victim of foreclosure is the children. Foreclosure produces a negative environment for raising youth. Parents' stress seeps down to their children and manifests in many difficult ways. Moving the family can create instability for a child, they lose friends, teachers, sports teams, etc.. This can be extremely stressful to a child, leading to falling grades and low self-esteem that can be difficult to restore for a healthy optimistic future.

Communities are blighted by neglect – properties and whole neighborhoods begin to deteriorate. Deferred maintenance, and a general lack of care can change the entire atmosphere in the community. Neighborhoods are struggling to hold on as the housing crisis threatens to unwind their strides forward to a healthy thriving community.

At NeighborWorks Sacramento we believe that, if more of these new homebuyers had received quality, multi-lingual, non-biased homebuyer education such as that provided by NeighborWorks certified housing counselors, they would have been equipped to make informed choices about their lender, their financing options, and their affordability. The effect of quality housing counseling has been documented in several studies. A study by Freddie Mac found that borrowers who had received individual pre-purchase counseling were 34% less likely to become delinquent than those who had none. Through our pre-purchase education, prospective homebuyers learn the process and potential risk factors of home buying. Quality, responsible education provides the homebuyer with the ability to make informed choices. Informed prospective homebuyers will know if they are ready to buy, what they can afford to buy and how to shop for a responsible lender and a suitable loan product. Pre-purchase education is the ultimate foreclosure avoidance action for homebuyers. The challenge remains for all of us to create informed consumers and foreclosure resistant borrowers. This is accomplished through quality pre-purchase homeownership education. Funding for this counseling is minimal yet its impact is extraordinary and should be central to all housing programs.

Thank you for the opportunity to address this field hearing of the Financial Crisis Inquiry Commission.

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