POLICY SUMMARY

"Restoring Principles to the Housing Market: A Three-Part Strategy for Sub-prime Mortgage Reform"

Securing the American Dream of Home Ownership

Hope Street Group | January 2008

Background

- Homeownership is a steppingstone to the middle class and a key to the American Dream.
- In 2007 the homeownership rate dropped by more than it has in 25 years, and in 2006 the U.S. experienced its highest foreclosure rate since the Great Depression.
- 2.2 million households are expected to face foreclosure in the coming years.
- Foreclosures affect all homeowners since it results in lowering other property values in the area, increasing the risk of violent crime, and is associated with decreases in educational performance. Further, as property values decrease, cities and states are likely to increase property tax rates to make up for budget shortfalls.
- The mortgage crisis has limited liquidity in the financial market and threatens to pull the entire economy into recession.
- Homeowners should have to make good on their loans, not taxpayers or investors.

Who would qualify?

- We SHOULD NOT provide aid to Americans who simply over-extended themselves to buy homes or haphazardly used equity to support lifestyles they could not afford.
- We SHOULD provide aid to those who:
  - Have proven themselves financially responsible, regardless of credit score;
  - Have a maximum household income of 150% of the area median income; and
  - Are at risk of losing their primary residence.
- In addition, we SHOULD provide aid to those who were victims of mortgage fraud.

ASSIST

- **We can ASSIST those Americans who have already lost their homes** by 1) ensuring access to capital, 2) supporting state and local affordable housing and financial counseling programs, 3) expanding the New Markets Tax Credit, and 4) creating a Neighborhood Improvement Emergency Fund.

  - *Access to Capital:* We should urge banks to ignore fraud-induced foreclosures, much like they ignored defaulting loans as a result of Hurricane Katrina. The federal government can help by subsidizing the interest rate on those loans, much like we do for higher education.

  - *Existing state and local programs:* We should provide $1 billion in block grants for state and local programs that support financial literacy and reduce the number of borrowers that default.

  - *Neighborhood Improvement Emergency Fund:* We should provide $1 billion in block grants to neighborhoods especially hard-hit by foreclosure, so they can better cope with short-term safety issues and clean-up abandoned properties.

  - *New Markets Tax Credit (NMTC):* We should encourage business investments in communities hard-hit by foreclosure, just like we currently do in low-income areas.

PROTECT

- **We can PROTECT homeowners who are at risk of losing their homes to foreclosure** by allowing borrowers to extend the life of their loans and by enacting the Family Foreclosure Rescue Corporation.

  - *Extend the Finance Period of At-Risk Loans.* Rather than freeze teaser rates for 5 years, lenders should extend the life of the loan by 5 or 10 years.

    - Extending the life of the loan would 1) reduce a homeowner's monthly payment, 2) would increase – rather than decrease – total interest payments to lenders, 3) would ensure homeowners do the responsible thing and pay off their loans, and 4) would avoid passing on costs to taxpayers.

  - *Support the Family Foreclosure Rescue Corporation (FFRC),* which would provide fixed-rate mortgages to those who cannot refinance because their home values have plummeted.

    - We could do this without a cost to taxpayers by issuing revenue bonds backed by the interest collected on these mortgages.

PREVENT

- **We can PREVENT predatory lending practices** by outlawing pre-payment penalties and loan acceleration on anyone's primary residence, modifying home equity lending, and increasing federal oversight of mortgage brokers.
  - *Outlaw pre-payment penalties on anyone's primary residence* because it prevents homeowners from having access to their home's equity.
    - Homeownership is an essential part of the American Dream, and homeowners should not be penalized for making early payments that reduce their indebtedness.
    - Many states already outlaw pre-payment penalties on primary residences, and we believe it should be federal policy.
  - *Outlaw loan acceleration on anyone's primary residence* so lenders cannot recall your loan if home prices drop or you make a late payment on some other bill.
  - *Modify equity lending* so borrowers are less at-risk when they capture equity by:
    - Only allowing homeowners to capture home equity once every 12 months;
    - Setting a national "cash out" limit of 80% of a home's appraised equity, since prices can fall between 10% and 20% in areas hard-hit by foreclosures; and
    - Preventing equity borrowers from refinancing into riskier home loan products, such as negative amortization loans. Instead, borrowers should have to refinance with a more traditional fixed-rate pr adjustable-rate mortgage so they are less likely to lose their homes if there is a swing in housing prices or interest rates.
  - *Increase Federal Oversight of Mortgage Brokers* by creating a national licensing system (paid for by broker licensing fees) and making mortgage brokers have fiduciary responsibilities to their clients, not lenders.