

HELP FOR RESPONSIBLE HOMEOWNERS | JUNE 2009

Low-Interest Emergency Mortgage Bridge Loans

By Ryan McConaghy and Anne Kim

As the economy worsens and unemployment rates continue to rise, a growing number of long-time homeowners are finding themselves in need of emergency short-term mortgage help in the event of a job loss or other crisis. These homeowners may not need or want a permanent modification of their home loans, or they may not qualify for government initiatives aimed principally at subprime borrowers or homeowners with exotic mortgage products. Low-interest emergency mortgage bridge loans can fill this gap in options for responsible homeowners in need of help and stem the rising tide of foreclosures that has depressed housing values across the country.

THE PROBLEM

Homeowners faced with foreclosures due to job loss have few options for help

Until recently, the tidal wave of foreclosures was driven principally by borrowers caught in the subprime housing market or in exotic mortgage products they could no longer afford. But accelerating job losses are driving a new wave of foreclosures for long-time borrowers. Current options for government help, however, have yet to catch up with this new reality.

Job-related foreclosures are on the rise.

One of the most devastating impacts of the depression has been the dramatic increase of income loss and unemployment. In April of 2009 alone, 539,000 jobs were lost, bringing the total number of jobs lost since the beginning of the recession to 5.7 million.¹

As a consequence, more Americans are finding it difficult to keep up with their mortgages² and job-related foreclosures are having a growing impact on the housing market.³ During the first quarter of 2009, mortgage delinquency

rates were over 8%, the highest for any first quarter since 1972, and the foreclosure rate shot up to a record 3.85%.⁴ In April of this year, foreclosure activity continued at a record level, increasing by 32% over the previous year.⁵

An increasing number of foreclosures involve fixed-rate mortgages, which experts see as evidence of a growing trend toward job-related foreclosures.⁶ Over the period from November of 2008 to February of 2009, the increase in the number of prime mortgages in distress was more than double the increase in the combined number of distressed subprime and Alt-A mortgages, and foreclosure numbers have shot up most in states that are facing high unemployment.⁷ As the economy continues to struggle, responsible homeowners who fall behind on their previously affordable mortgages due to job loss are likely to be a more prominent factor in the foreclosure crisis. Moody's Economy.com predicts that this year 60% of mortgage defaults will be the result of unemployment, as opposed to just 29% last year.⁸

Homeowners faced with a job loss may not qualify for existing mortgage assistance programs.

Current federal programs are primarily geared toward steering struggling homeowners out of unaffordable mortgages and into more traditional, manageable ones. Thus, virtually all of these programs require a borrower to have a steady source of income (i.e. be employed) to meet the terms of a new loan. However, this also means that borrowers faced with a loss of income due to job loss are often ineligible for help, even if it's just for the short-term.

Program	Summary	Eligibility Requirements and Barriers
Hope for Homeowners ⁹	Lenders are voluntarily encouraged to write down loans and refinance homeowners into fixed-rate FHA loans.	<ul style="list-style-type: none"> • Borrowers must demonstrate steady and adequate income to meet new mortgage payments.¹⁰
Partial Claim Option (HUD) ¹¹ and HomeSaver Advance (Fannie Mae) ¹²	Homeowners can receive advance loans if they are delinquent.	<ul style="list-style-type: none"> • Borrowers must demonstrate that they have overcome the circumstances leading to delinquency (i.e., they are re-employed). • Borrowers must show that they have the resources going forward to become current on their loans.¹³

Making Home Affordable¹⁴	Qualifying borrowers can re-finance existing mortgage payments. Government subsidizes lender efforts to create modified payments below 31% of income.	<ul style="list-style-type: none"> • Borrower income (or lack thereof) is a major factor in determining eligibility for loan modification.¹⁵ • Borrower must have sufficient income to pay new mortgage payments under a refinancing.
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THE SOLUTION

Provide emergency mortgage bridge loans

The creation of an emergency, low-interest bridge loan program would provide a financial lifeline to responsible homeowners who are in danger of foreclosure as a result of recent job loss, catastrophic medical expense, or other unforeseeable conditions and who are otherwise ineligible or ill-suited for existing federal mortgage modification programs. This initiative would fill a gap in current foreclosure prevention efforts.

Under this proposal, the federal government would establish a new lending initiative within the FHA to provide low-interest bridge loans that would help responsible homeowners facing a job loss or other catastrophic event to cover delinquency and mortgage expenses.

The proposal is simple to apply for and administer.

In the event of job loss or catastrophic illness, homeowners would be able to apply to the FHA for an emergency bridge loan to cover delinquent balances and ongoing payments for an amount equal to six months of mortgage payments (capped at a maximum of \$15,000). These loans would be provided at a low, subsidized interest rate (e.g., not exceeding 3%). The FHA would hold a subordinated, second mortgage on the home, much like a home equity line of credit.

This proposal is targeted toward responsible borrowers.

In order to qualify for assistance, prospective applicants must have had a solid credit history before falling into delinquency, be at least 60 days delinquent, have reasonable repayment prospects, and hold no more than two mortgages on their home. Loan amounts made under this program would also be provided directly from FHA to lenders or servicers in order to maintain mortgage payments. Borrowers would not be responsible for administering funds or executing payments (thereby preventing the possibility of homeowners using loan payments for anything other than their intended purpose).

The proposal is modeled after successful state initiatives.¹⁶

Several states, including Pennsylvania, Delaware, and North Carolina have recognized the need for short-term mortgage assistance and established loan programs to provide temporary help to homeowners facing income loss. While not identical, these programs generally use temporary, targeted, and repayable loan assistance to prevent foreclosure. Since its inception, Pennsylvania's Homeowner's Emergency Mortgage Assistance Program has distributed \$416 million in loans and saved 40,000 families from foreclosure.¹⁷

The proposal requires no additional federal spending.

Funding for this program would be provided by the Troubled Asset Relief Program (TARP). As loans are repaid with interest, the program can help to capitalize itself through a revolving fund. In addition to providing loan financing, funds could be issued through FHA to bolster state emergency loan programs.

The proposal would help stabilize the housing market.

By providing temporary assistance to help unemployed workers keep up with their mortgage payments, this program will prevent middle class family finances from further collapsing as individuals fight to rejoin the job market. The new emergency loan program can also play a role in stabilizing the economy by preventing foreclosures.

Foreclosure isn't just a blow for the family faced with losing its home, it's an economic shock to the entire neighborhood. It has been estimated that a potential 2.2 million foreclosures associated with subprime mortgages will take place through the end of 2009, and that those foreclosures will bring down the value of 40.6 million neighboring homes by an average of \$8,667.¹⁸ Staving off foreclosures will not only help individual families keep stay in their homes, it will help their neighbors maintain the wealth they've established in their own.

The meltdown in the housing markets was a primary catalyst of the current economic crisis, and preventing foreclosure is a key step toward stabilizing the market and putting the economy back on the right track. It has been estimated that each foreclosure results in a \$50,000 cost to lenders,¹⁹ meaning that left unchecked the new round of job-loss related foreclosures could deal another blow to the financial sector and hinder efforts to get the economy back on track. Providing assistance to help responsible borrowers who find themselves between jobs to avert foreclosures will help to mitigate the worst impacts of the housing crisis and speed economic recovery.

THE ROLLOUT

Ideas for launching and publicizing an emergency bridge mortgage loan program

- Hold a press conference/speech with a local family facing foreclosure due to income loss.
- Hold a press conference/speech with local job and housing counseling entities.

CRITIQUES & RESPONSES

Emergency Mortgage Bridge Loans

It's too expensive.

Stopping the meltdown of the mortgage market is absolutely necessary if we're going to weather the current crisis and get our economy back on track. Providing assistance to responsible middle class families struggling to keep their homes even after the bread winners have lost their jobs will require upfront government spending that is a worthwhile investment in our national recovery. Since the program would use funds already provided by Congress through the TARP program, the program does not call for additional federal spending. Also, loans under the program will be made on a low, fixed interest basis so as Americans get back to work and loans are repaid, the program will have a minimal budgetary impact over the long term.

The federal government, Fannie Mae, and Freddie Mac all have programs to help people facing foreclosure. Isn't this program duplicative and unnecessary? Doesn't this proposal just ask taxpayers to fund yet ANOTHER bailout?

There are a number of programs aimed at helping homeowners who are facing long-term affordability issues and trapped by exotic mortgages, subprime loans, or collapsing home values. These are worthwhile efforts and may be right for a number of Americans, but they don't speak directly to the homeowner who has a responsible record and just needs a little help until he or she gets back on his feet. These programs may not be effective for someone who currently has no job, and therefore lacks the ability to immediately resume even reduced payments. In addition, many of those programs are also only available to borrowers who have their loans through a specific institution. This program fixes that coverage gap. It is not meant to replace or duplicate other programs, but instead to provide another, broadly accessible option that is better suited to the growing

number of Americans in danger of losing their homes because they lost their jobs.

President Obama just signed the Helping Families Save Their Homes Act into law with new foreclosure prevention plans. Don't these go far enough?

The Helping Families Save Their Homes Act contained a number of provisions intended to improve the Hope for Homeowners program and other anti-foreclosure efforts. These changes included allowing incentive payments to lenders and servicers for successful modifications as proposed in the Making Home Affordable Initiative, as well as changes to income tests, appreciation sharing requirements, and reduction of participant fees. While these changes are intended to expand loan modification efforts, they do not directly address the needs of responsible homeowners suddenly faced with foreclosure due to job loss.

If applicants for this program are unemployed, how will taking on and eventually having to pay back another loan help them?

Unlike other federal mortgage programs, this program is not intended to provide permanent or long-term support. By providing up to six months of payments, the emergency loans issued under this program will simply provide breathing room for out of work Americans to find work and resume their payment schedule. Once borrowers have reentered the work force, they can begin to repay the loan, and the low interest rate and limit on the total debt to income ratio governing the repayment structure will ensure that repayment can take place gradually and without creating an undue economic burden.

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■ ENDNOTES

1 Bureau of Labor Statistics, "Employment Situation Summary," April 2009, available at <http://www.bls.gov/news.release/empstat.nr0.htm>.

2 Kathleen M. Howley, "Mortgage Delinquencies, Foreclosures, 30-Year Rates Increase," Bloomberg, May 28, 2009, available at http://www.bloomberg.com/apps/news?pid=20601103&sid=aWD5qV_yNFIM&refer=news.

3 RealtyTrac Executive Vice President for Marketing has identified foreclosure rate increases in Idaho, Illinois, and Oregon as evidence that unemployment is creating upward pressure on foreclosure rates. Dan Levy, "Foreclosure Filings in U.S. Jumped 30% in February," Bloomberg.com, March 12, 2009, available at <http://www.bloomberg.com/apps/news?pid=20601103&sid=a.r81zAhO1so&refer=us>.

4 Mortgage Bankers Association, "Delinquencies and Foreclosures Continue to Climb in Latest MBA National Delinquency Survey," news release, May 28, 2009, available at <http://www.mortgagebankers.org/NewsandMedia/PressCenter/69031.htm>.

5 RealtyTrac, "Foreclosure Activity Remains at Record Levels in April," news release, May 13, 2009, available at <http://www.realtytrac.com/ContentManagement/PressRelease.aspx?channelid=9&ItemID=6379>.

6 According to Jay Brinkman, the Chief Economist of the Mortgage Bankers Association, exotic mortgages are still major factors in the foreclosure crisis, but "We will continue to see, however, a shift away from delinquencies tied to the structure and underwriting quality of loans to mortgage delinquencies to job and income losses...The delinquency rates continue to climb across the board for prime fixed-rate and subprime fixed-rate loans, loans whose performance is driven by the loss of jobs or income rather than changes in payments. Mortgage Bankers Association, "Delinquencies Continue to Climb in Latest MBA National Delinquency Survey," news release, March 5, 2009, available at <http://www.mortgagebankers.org/NewsandMedia/PressCenter/68008.htm>.

7 Peter S. Goodman and Jack Healy, "Job Losses Push Safer Mortgages to Foreclosure," New York Times, May 24, 2009, available at <http://www.nytimes.com/2009/05/25/business/economy/25foreclose.html?em>.

8 Ibid.

9 The Hope for Homeowners program was created to facilitate voluntary efforts to help homeowners refinance out of unaffordable mortgages into FHA-insured, 30-40 year fixed rate mortgages. Through the program, lenders take a loss on the write down of a mortgage to 96.5% of the current appraised value of the home in question. To be eligible, mortgages must have been in effect before January 1, 2008, borrowers cannot have intentionally defaulted or engaged in fraud, borrowers must be owner-occupants, and borrowers must meet income and employment documentation requirements. New mortgages are originated with equity sharing as a condition. Under changes made through the Helping Families Save Their Homes Act, originators and servicers may receive incentive payments for successfully pursuing loan modifications through the program. Detailed information on the Hope for Homeowners program is available at http://portal.hud.gov/portal/page?_pageid=73,7601299&_dad=portal&_schema=PORTAL.

10 U.S. Department of Housing and Urban Development, "Hope For Homeowners Frequently Asked Questions for Consumers," available at http://portal.hud.gov/pls/portal/docs/PAGE/FHA_HOME/CONSUMERS/H_FOR_H_CONSUMER_FAQS/H4H_CONSUMER_FAQS.PDF.

11 Under the HUD Partial Claim Option, mortgagees advance borrowers up to 12 months in delinquent mortgage costs in order to make a borrower current on payments. Borrowers then execute a promissory (partial claim) note to repay HUD through a subordinate mortgage. No interest is assessed, and the partial claim repayment is due after the mortgage is paid off or the property is no longer owed by the borrower. Detailed information on the HUD Partial Claim Option is available at http://portal.hud.gov/portal/pls/portal/docs/PAGE/FHA_HOME/LENDERS/LENDER_DOCUMENTS/pcfact.pdf and http://portal.hud.gov/portal/page?_pageid=73,1826693&_dad=portal&_schema=PORTAL.

12 Fannie Mae's HomeSaver Advance program advances borrowers an unsecured personal loan to pay delinquent mortgage costs on loans it owns or secures. Loans are available up to \$15,000 or 15% of unpaid principal balance and offered on a 15-year, fixed 5% interest basis with no repayments or accrual for six months. To qualify, borrowers must be delinquent for at least two months and be unable to repay debts on a nine-month or less repayment plan. Detailed information on the HomeSaver Advance program is available at <https://www.efanniemae.com/sf/servicing/homesaveradvance.jsp>.

13 Eligibility guides for the HUD Partial Claim Option state that "Mortgagor must have overcome the cause of default." U.S. Department of Housing and Urban Development, "Partial Claim Option", available at http://portal.hud.gov/portal/pls/portal/docs/PAGE/FHA_HOME/LENDERS/LENDER_DOCUMENTS/pcfact.pdf. The Fannie Mae HomeSaver Advance program is "designed for qualified borrowers who have fallen behind on their mortgage, but are able to resume timely payments once their loan is brought current by the advance." FannieMae, "HomeSaver Advance", available at <https://www.efanniemae.com/sf/servicing/homesaveradvance.jsp>. FannieMae guidance on the program states that eligible borrowers must have resolved the reason for delinquency, demonstrate ability to make future payments, and have surplus monthly income of at least \$200. FannieMae, "Announcement 08-14," June 16, 2008, available at <https://www.efanniemae.com/sf/guides/ssg/annltrs/pdf/2008/0814.pdf>.

14 The Making Home Affordable initiative includes a refinancing option that is designed to help homeowners with mortgages owned or secured by FannieMae and FreddieMac who have experienced significant declines in home value. It also includes a loan modification option for qualifying borrowers with unaffordable mortgages. Under this option, the federal government works in with lenders and borrowers through the use of incentive payments to bring monthly mortgage payments below 31% DTI. Detailed information on the Making Home Affordable program is available at <http://www.financialstability.gov/roadtostability/homeowner.html>.

15 Edmund L. Andrews, "Mortgage Plan Targets Up to Four Million Homeowners," New York Times, March 4, 2009, available at <http://www.nytimes.com/2009/03/05/business/economy/05loan.html?hp>.

16 The Pennsylvania Homeowner's Emergency Mortgage Assistance Program, North Carolina Home Protection Program and Loan Fund, and Delaware Emergency Mortgage Assistance Program have been constituted at the state level to provide temporary mortgage assistance loans to individuals facing economic hardship beyond their control. The programs are generally characterized by the provision of temporary, capped, repayable loans to demonstrably responsible individuals in danger of foreclosure. Information on each program is available respectively at <http://www.phfa.org/consumers/homeowners/hemap.aspx>, <http://www.nchfa.com/Homebuyers/HOhomeprotectionpilot.aspx>, and http://www.destatehousing.com/services/hb_demap.shtml. Summaries and comparisons of the specific programs, as well as general discussion of the benefits of emergency assistance can be found at the Center for Housing Policy's online guide at http://www.housingpolicy.org/toolbox/strategy/policies/foreclosure_prevention.html?tierid=205.

17 Testimony of Brian A Hudson Sr., Executive Director and CEO of the Pennsylvania Housing Finance Agency, U.S. Senate Banking, Housing, and Urban Affairs Committee hearing, "Restoring the American Dream: Solutions to Predatory Lending and the Foreclosure Crisis," April 7, 2008, available at http://banking.senate.gov/public/_files/OpgStmtHudsonBankingTestimonyFinal04072008DoubleSpaced.pdf.

18 Center for Responsible Lending, "Updated Projections on Subprime Foreclosures in the United States and Their Impact on Home Values and Communities," September 23, 2008, available at <http://www.responsiblelending.org/issues/mortgage/research/updated-projections-of-subprime-foreclosures-in-the-united-states-and-their-impact-on-home-values-and-communities.html>.

19 Peter S. Goodman and Jack Healy, "Job Losses Push Safer Mortgages to Foreclosure," New York Times, May 24, 2009, available at <http://www.nytimes.com/2009/05/25/business/economy/25foreclose.html?em>.