

**Foreclosure Crisis in Our Communities**  
**By Spanish Coalition for Housing**

**Mission**

The Spanish Coalition for Housing (SCH) is the lead agency helping Latino and other LMI families with their housing needs in the greater Chicago-land area. Spanish Coalition for Housing is a non-profit organization created in 1966. The mission of Spanish Coalition for Housing is to provide comprehensive counseling, education and housing resources necessary for families to develop competence and responsibility in meeting their financial and housing needs; provide the necessary information and assistance to renters and homeowners, enable them to avoid rent delinquencies, mortgage defaults and foreclosures; aggressively market available resources to all Spanish speaking persons and others who require advocacy to which ensures that they have equitable opportunity to access resources. SCH is an agency that provides the quality service that LMI families need to become financially literate and effectively live within their means.

**Need: Addressing Increase in Foreclosures**

Homeownership is still the best way for LMI families to build wealth and maintain a financial safety net into the future. The security of homeownership is being threatened by the rising foreclosure rate across the Chicago area. According to Chicago Crain's Business Magazine, The Cook County area is on a pace to record at least 30,000 and as many as 36,000 foreclosure filings in 2007. However, according to Realtytrac.com, there have already been 26,219 foreclosure filings in Chicago alone. This means that many families are no longer able to keep up with their monthly mortgage payments, so the banks step in and takes their homes (see **Foreclosure Figures... in table below**).

**Latinos nationwide have been disproportionately affected by the sub-prime lending foreclosure crisis:**

- The minority home ownership gap remains wide. Although the housing boom allowed many minorities to buy their first homes, the homeownership rate for non-Hispanic White Americans is over 75 percent, while the African American and Hispanic homeownership rates are still below 50 percent.[U.S. Census Bureau]
- The Center for Responsible Lending projects that, out of the sub-prime loans made in 2005, there will be in 98,025 foreclosures for African Americans and 110,674 for Latinos.

- In 2006, 414,837 FHA loans were originated. Of those, 41,413 went to Latinos, or 10%. [Federal Financial Institutions Examination Council]
- Five years ago, 2001, 919,503 FHA loans were originated. Of those, 153,752 went to Latinos, or 16%. [Federal Financial Institutions Examination Council]

### Foreclosure Figures for Period: January – November 2007

City / Zipcodes	Community Area	Foreclosure Filings	Bank owned Foreclosures	Up For Auction
Chicago	Citywide	26,219	7,029	
60608	Bridgeport, Pilsen, Mckinley Park, Near West Side, North & South Lawndale	1,000	208	107
60617	Avalon Pk., Calumet Heights, East Side, South Chicago, South Deering	1,232	548	255
60622	Humboldt Park, Logan Square, Near North Side, West Town	1,024	224	109
60623	North Lawndale, South Lawndale	1,492	417	154
60625	Albany Park, Lincoln Square, North Park	1,230	246	92
60629	Chicago Lawn, Clearing, Gage Park, Garfield Ridge, West Elsdon, West Lawn	1,714	398	225
60639	Austin, Belmont Cragin, Hermosa, Humboldt Pk., Logan Square	1,082	198	102
60647	Hermosa, Humboldt Pk., Logan Square, West Town	1,058	209	94
60651	Austin, Humboldt Park	1,592	395	178

The foreclosure crises is hitting our communities like a mental health patient receiving electric shock therapy; the patient feels disoriented, at a loss of what to do next and paralyzed with fear of being hit with another shock. Many people are facing this same condition today; they are receiving the shock of an adjustable interest rate that has increased there payments by two or three times what they used to pay. Homeowners are at a loss of what to do next because their budgets cannot be stretched anymore. They are so afraid of the next shock, due to the fact that they are also behind in their car payments or home utility bills, etc. This fear has paralyzed many people into a stupor, like a deer trapped by the light beams of an oncoming car.

The veracity of these statistics unfortunately ring true for SCH. The demand for foreclosure prevention counseling is growing rapidly, our counselors went from seeing

two (2) clients per week last year to 20 per week.. During the month of October, 2007, Our counselors' caseload increased by 90 new clients in foreclosure. There could have been many more, however due to our limited number of counselors, that is all we could handle. Our calender is booked through the end of the year. Once we increase our counseling staff, SCH will have the capacity to assist as many as 100% more families in this housing crises.

Some horror stories that turned into successes,...

### **Case of Mr. Angel Rosario**

This client came in for assistance with refinancing, but actually he was in need of default counseling. The client has an 80/20 type loan. 80% with Nova Star Mortgage and 20% with Litton Loan Servicing Inc. With Nova Star he was 6 months in default with about \$13,000 in arrears and with Litton Loan he was at least 4 months behind and \$7,000 in arrears. Mr. Rosario fell behind due to tenants not paying rent and the expense of the evictions. New tenants have moved in and Mr. Rosario will be able to get back on track with his payments if he and his mortgage companies can come to a manageable arrangement. The good news is that Litton Loan Servicing, Inc. has proposed a very generous loan modification to resolve the default with the 20% loan.

**Current Principle Balance: \$49,803.63      New principle balance: \$37,352.63**

**Interest rate: 10.74%**

**New interest rate 7%**

**Total current payment: \$466.36**

**New Payment: \$249.54**

Client needs only to pay a down-payment of \$124.77 to finalize agreement. This is a good example of what it takes to help people stay in their homes and prevent foreclosures. More mortgage companies need to follow the example of this mortgage company in lowering the client debt and modifying the terms of the loan to make the mortgage affordable and manageable for the clients.

### **Case of Joann V.**

This client came to our office on September because she was a few months behind on her mortgage payment. In February there was an escrow shortage which, raised her monthly mortgage payment from \$881 to \$1,434. With this drastic increase in the payment she was struggling to keep up with the mortgage and household expenses. SCH staff called Chase Homeownership Preservation office and submitted the clients' financial information so that she can be considered for a loan modification. She originally was offered a payment plan of \$2,003.24 a month until she became current with her loan. SCH staff informed Chase that this plan would not work because the client could not afford it. SCH continued to request that they look into a loan modification instead. After reviewing the clients documents Chase was able to get Joann's loan modified. Joann was very grateful that she found this agency because she did not know where to turn to for help. She has come into the office several times to thank us for helping her get her current with her loan and able to sustain homeownership.

### Angel and Sally Garcia

These clients came to see us because they felt that they had been taken advantage of. Upon the Counselor reviewing their loan documents she agreed with them. There are a couple of things extremely wrong that have transpired. The clients got a call from the assistant to Representative of OSI Financial who is the mortgage company which the clients had refinanced with. The clients took \$31,000 of their equity in order to hand over a check to OSI Financial the day of closing in order to pay off a company that was suppose to do work on their property. The closing took place on March 21, 2007 and as of April 26, 2007, no work has been done to the property. The fate of that check is not known. The clients were put into a CORE 50/30 BALLOON. From looking at the Truth in Lending Statement they will be making payments for thirty years in the amount of \$1,645.03 (this amount does not include taxes and insurance which the client will have to pay outside of the mortgage payment) at the end of the thirty years they will have to pay a balloon payment of \$213,985.82 which means that they are not even paying \$2,000 of principal each month. The clients did not understand the loan terms that they were getting into because they were not explained by OSI Financial. We immediately filled out two complaints to be packaged and sent to the Attorney General's office, one for the investigation of what happened to their \$31,000 and the other to investigate the practices of OSI in not informing the clients of product they put them in. We have been asked by the AG to try to refinance them out of this bad loan but is that not rewarding OSI Financial who put them into this situation? Why should the clients even have to take out a loan for the \$31,000 that they did not even see nor have benefited from?

### **Recommendations**

The needs of the Latino and low-to-moderate income (LMI) communities are numerous, and no legislation would be considered complete with including our priorities. In that spirit, we offer the following recommendations for protecting Latino and other LMI borrowers:

- **Require originators to document a borrower's ability to repay their loan.** Too many of our families received loans they could have never afforded.
- **Hold third-party originators accountable.** We see too many mortgage brokers taking advantage of the underserved borrowers in our community. Loose accountability standards have resulted in many families finding themselves in a mortgage that was not in their best interest.
- **Mortgage Brokers should be required to forgive a percentage (20-25%) of an abusive loan.** Mortgage Co's need to be held accountable and pay their share of the debt in effort to prevent foreclosure. Modify their terms (interest rates, principle and monthly payments) to make it affordable for families to stay in their homes.
- **Ensure justice for victims of abusive lending.** For many of our borrowers, there is no recourse available. We need strong protections, but we also need tools for holding those that violate the letter or spirit of the law accountable and to help families save their homes.

### Target Population

Our target population is the low-to-moderate income homeowners who are in, or at risk of, foreclosure due to adjustable-rate mortgages and other exotic loan products that have set people up for failure. In addition many other hardship situations such as loss of job, illness and the rising cost-of-living have also put homeowners at risk. Many of these situations could have been avoided with proper and comprehensive pre-purchase counseling and/or immediate post purchase counseling from an ‘uninterested’ or neutral non-profit certified housing counseling agency. This intervention is necessary to assist these homeowners understand their options and guide them through the process of the workout package that best fits their needs to get back on track and current with their mortgage.

### **Quality Foreclosure Prevention Work**

Post-purchase counseling is the key to the success and sustainability of homeownership for low to moderate income homebuyers. Information is provided on refinancing, how to avoid predatory lending, homeowners’ insurance, property taxes and exemptions, budget-preparation, home equity and/or property rehabilitation loans, upkeep and maintenance, ongoing condo training and technical assistance, and a wide range of other information and services. Also included is a rapid response for families at risk of foreclosure, a thorough assessment is done during a one-on-one session to identify the cause of the default and all underlying factors so as to determine the best course of action to remedy or minimize the negative financial impact on the client.

The SCH One-on-one Foreclosure Prevention services include:

- Intake
- Budget preparation and/or assessment
- Discussion of options
- Preparing a crises budget
- Discussing and preparing plan of action.
- Contact lender or servicer to discuss a corrective plan of action.
- Assist with documentation required by lender/servicer
- Follow up to insure that plan is being followed and acted on.
- Referral to Financial Literacy workshop

### **Objectives for Post Purchase - Foreclosure Prevention**

- 1) To provide delinquency or foreclosure counseling to homeowners. In order to maintain the high quality and standards of our service, we are in need of increasing our staff capacity. We hope to assist many more families when we increase our foreclosure prevention staff, thus increasing our capacity to service more people in this housing crisis.

- 2) We want to increase the number of clients attending money management workshops..

**How objectives will be accomplished**

Qualified housing counselors address and prevent foreclosures through our expertise and relationships with the Loss Mitigation Departments of the various institutions servicing the loans. The expertise of SCH counselors assists borrowers to determine which option is in their best interests and how to exercise that option. The counselors often negotiate complex workout agreements between borrowers and lenders/servicers until there is a realistic and satisfactory alternative to foreclosure.

**Workouts: Helping People Keep Their Homes**

It is always advisable to, if you can, keep your mortgage current. But if you are unable to make your mortgage payments, you might qualify for a loan workout option.

**If your problem is temporary you may qualify for;**

- **Reinstatement** – Your lender is always willing to discuss accepting the total amount owed in a lump sum by a specific date. Forbearance may accompany this option.
- **Forbearance** – Your lender may allow you to reduce or suspend payments for a short period of time and then agree to another option to bring your loan current. A forbearance option is often combined with a reinstatement when you have enough money to bring the account current at a specific time. The money might come from a hiring bonus, investment, insurance settlement, or tax refund.
- **Repayment plan** - You may be able to get an agreement to resume making your regular monthly payments, plus a portion of the past due payments each month until you are caught up.

**If your problem is long-term or will permanently affect your ability to bring your account current, your options are;**

- **Mortgage modification** – If you can make payments on your loan, but don't have enough money to bring your account current or you can't afford your current payment, your lender may be able to change the terms of your original loan to make payments more affordable. Your loan could be permanently changed in one or more of the following ways:
  - Adding the missed payments to the existing loan balance.
  - Changing the interest rate, including making an adjustable rate into a fixed rate.
  - Extending the number of years you have to repay.

- **Partial Claim** – If your mortgage is insured, your lender might help you get a one-time interest loan from your mortgage guarantor to bring your account current. You may be allowed to wait several years before repaying this loan. You may qualify for a partial claim if:
  - Your loan is between 4 and 12 months delinquent
  - You are able to begin making full mortgage payments again

When your lender files a partial claim, you must sign a promissory note, and a lien will be placed on your property until promissory note is paid in full. The promissory note is interest-free and is due when you pay off the first mortgage or you sell the property.

#### **Workouts when home cannot be saved;**

- **Sale** - If you can no longer afford your home, your lender will usually give you a specific amount of time to find a purchaser and pay off the total amount owed. You will be expected to use the services of a real estate professional who can aggressively market the property.
- **Pre-foreclosure sale or short sale** – If you can't sell the property for the full amount of the loan, your lender may accept less than the amount owed.
- **Assumption** – A qualified buyer may be allowed to take over your mortgage, even if your original loan documents state that it is non-assumable.
- **Deed-in-lieu of foreclosure** – As a last resort, you “give back” your property and the debt is forgiven. This will not save your house, but it is less damaging to your credit rating. This option might sound like the easiest way out , but it has limitations;
  - You usually have to try to sell the home for it's fair market value for at least 90 days before the lender will consider this option
  - This option may not be available if you have other liens, such as other creditor judgments, second mortgages, and IRS or state tax liens.

The foreclosure crisis begs for aggressive outreach and education along with comprehensive post-purchase counseling that can help families understand what happened and what they can do to transition them out of the situation, if they can not prevent foreclosure, at least to minimize the damage to their financial health, their credit rating and provide assistance to “hard to house” families with transitioning them into rental housing.

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