

Housing Crisis Foreclosure Abatement Action Plan Targeting Alameda and Contra Costa Counties

**A project of the
MoveOn.org East Bay & Contra Costa Councils**

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For many Americans the American dream has become the American nightmare. **Since 2006 we have had more than 5 million foreclosures.** The New York Federal Reserve Bank recently estimated that the foreclosure rate will be escalating, with 3.6 million total within the next two years. Given the source, this is most likely a conservative projection.

The impact on states and cities is devastating. A recent National League of Cities survey found that foreclosures and the declining housing market are among the leading causes of local government budget crises.

While it was Wall Street's toxic lending practices and recklessness that created the housing crisis, California homeowners and taxpayers are paying the price. The impact on states and cities is devastating. A recent National League of Cities survey found that foreclosures and the declining housing market are among the leading causes of fiscal budget crises.

It is imperative that communities address a critical situation in which nearly a third of California homeowners with a mortgage are underwater. **The housing market is where economic crisis began and without immediate action, we are facing a multi-billion dollar impact on our neighborhoods that is undermining the economic recovery we desperately need.**

Foreclosure Abatement Zones. Local governments - cities and counties - should go on record in support of AG Harris' proposed foreclosure moratorium, the legislative initiatives of the Homeowners Bill of Rights AND engage in their own pro-active foreclosure moratoriums, using all of the local powers at their disposal. Phil Ting, the SF Assessor, has documented that 84% of foreclosures in SF County are based on seriously flawed documents. Nevada state laws requiring more stringent documentation of civil filings for foreclosure have cut the foreclosure rate by 75%.

We are calling on all local governments, assessors and Records of Deeds to launch investigations of foreclosure documentation. Counties and cities should use all means to stop foreclosures that are based on questionable filings.

Further, sheriff's offices should be instructed NOT to cooperate with foreclosures without some strict guidelines - and a general moratorium should be put into effect while investigation of foreclosure practices is carried out and/or the proposed state-wide initiatives go into effect. This policy should be reflected in budget appropriations for these departments.

Promote “Win-Win” Principal Reduction. Given the scale of the problem, and the fact of tremendous value having been erased by the current market conditions, in order to give both lenders and home-owners an alternative path to massive foreclosure losses that threaten not just homeowners but the banks' leverage and capital requirements, **we propose an innovative “Win-Win” model moving forward centered on comprehensive principal reduction.**

As a first step in any modification, an appraisal will establish the property's present value. That will establish the new “Interest Bearing Principal Balance”. The difference between this assessment and the loan balance, which includes loan amount plus arrearages at the time of modification is divided equally and 50% is written off as principle forgiveness and the other 50% becomes non-interest bearing “Deferred Principal Balance” due on sale of the property or in 30 years at loan maturity.

As example, take a 500,000.00 dollar loan with 20,000.00 in arrears and appraised value of 300,000.00. In this scenario 110,000.00 of the loan is forgiven. The bank has 110,000.00 Deferred Principle Balance and 300,000.00 Interest Bearing Principle Balance. It is a win-win situation for everybody.

This strategy is a path forward from a moratorium or massive foreclosures.

It can offer shared benefits to both homeowners and lenders. It can prevent foreclosures and help underwater home-owners who are in danger of foreclosure or who might consider walking away from an underwater mortgage as their best option in a crumbling or stagnant market.

Land Banks and Land Trusts. When Loan Modifications do not work and the property is foreclosed we still need to establish a way to keep homeowners in their home as – in the near term - renters.

A State Land Bank and/or Community Land Trusts provide a structure allowing for foreclosure while giving people an opportunity to stay in their homes and avoiding the impact of abandoned houses on the surrounding neighborhood.

Land Banks can acquire, hold and manage foreclosed or abandoned properties. Municipalities should pass ordinances to allow for the creation of a local not for profit Land Bank that can utilize Neighborhood Stabilization Money and other available government allocations in order to prevent any further unwanted foreclosures.

Once a notice of Trustee Sale is given the homeowner should be registered with the Land Bank. Most of the times the opening bid at the public auction is 25-40 % below the property's present market value. If it is close or above the property's fair market value no investor will buy it and the property goes back to the original lender.

The Land Bank enters into a short sale agreement with the homeowner offering 95% of market price and becomes the new owner. The original lender receives 20-30% more money than if the property goes to auction. The Land Bank enters into a lease option agreement with the homeowner where he pays fair market rent and has a 3 to 7 year option to buy back the property. In the case of foreclosures that cannot be prevented an alternative exists in formation of a public Land Bank. A Land Bank can

keep current owners in homes as renters where possible with a rent-to-own option as the economy stabilizes.

We need to stop the coming wave of new foreclosures and keep people in their homes. Take action to provide a real solution to the foreclosure crisis in our communities. We need to preserve and start restoring the middle class.

A comprehensive approach will stabilize the market, with shared benefits and losses. So far the federal government has mostly offered programs that bailed out the Banks and Wall Street in the hope that they will then bailout Main Street. Our proposal will provide direct assistance to Main Street.

A revived and stable Main Street will provide the needed economic activity moving forward to maintain a healthy “real” economy with a dynamic and responsible financial sector.

Additional Resources:

San Francisco County Assessor & Recorder of Deeds Phil Ting's Audit of foreclosure documentation:

http://aequitasaudit.com/images/aequitas_sf_report.pdf

California Homeowner's Bill of Rights legislative initiatives:

http://www.oag.ca.gov/news/press_release?id=2641

Impact of Nevada Foreclosure Law

<http://realtormag.realtor.org/daily-news/2011/11/08/nevada-foreclosure-filings-plunge-after-new-law>

Land Banks and Land Trusts:

1. Department of Housing and Urban Development:

<http://www.huduser.org/portal/publications/landbanks.pdf>

2. Foreclosure-Response.org

http://www.foreclosure-response.org/policy_guide/bring_back.html

3. Center for Community Innovation - Contra Costa County

[http://www.bayareavision.org/initiatives/Task 1d. UCB-CCI report - Community Land Trust.pdf](http://www.bayareavision.org/initiatives/Task%201d.%20UCB-CCI%20report%20-%20Community%20Land%20Trust.pdf)

Alliance of Californians for Community Empowerment: "Wall Street Wrecking Ball" reports on impact of foreclosures on California Communities: <http://www.calorganize.org/wreckingball>

The Economic Rationale for Principal Reduction:

<http://www.theatlantic.com/business/archive/2012/03/take-a-load-off-fannie-a-bold-plan-to-boost-housing/254255/>

New York Federal Reserve Chairman on the Mortgage Crisis:

<http://www.newyorkfed.org/newsevents/speeches/2012/dud120106.html>