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Community Relations Part II Summary

November 16, 2010

Moderator

Robert Klein, Safeguard Properties

Panel

Dave Gatton, US Conference of Mayors

PJ McCarthy, Fannie Mae

Joseph Moschetto, Freddie Mac

Jeannie Fantasia, Bank of America

Jim Rokakis, Cuyahoga County, OH

Richard Monocchio, City of Chicago, IL

Steve Bancroft, Detroit Office of Foreclosure Prevention and Response

Sherri Johnston, American Association of Code Enforcement

Catherine Toppel, City of South Bend, IN

John Carter, City of Dayton, OH

Brandon Kirkham, Compliance Connections

Heidi Coppola, REO Clearinghouse

Michael Halpern, Safeguard Properties

Joy Leonelli, Lender Processing Services

Michael Foreman, CoreLogic

Nickie Bigenho, Mortgage Contracting Services

Introduction and Overview

The second Community Relations session allowed for a continuation and expansion of the topics introduced earlier in the day, focusing primarily on sharing and evaluating working solutions to combat the devastating impacts of blight caused by a growing volume of REO and vacant properties. Topics included charge-offs and walk-aways, new and innovative programs, and the value of public-private partnerships.

After a brief overview of the accomplishments and capabilities of the Mortgage Electronic Registration System (MERS) to provide municipalities with the much needed direct point of contact information for property preservation, Robert Klein announced that a new database, Compliance Connections, is being created to further streamline and enhance the overall communication process between cities and servicers. Brandon Kirkham added that Compliance Connections is an innovative solution for code enforcement officials that will complement existing

platforms and offer the direct notification of violation citations to the primary contact at the servicer.

Charge-Offs and Walk-Aways

There is a misconception among community members that the practice of charging off loans is rampant and that servicers benefit from walking away from properties. To the contrary, servicers confirmed that charge-offs are always the last option. Steve Bancroft indicated that since municipalities are most impacted by a charge-off, notice of this decision would be helpful for cities in their crafting and implementing redevelopment strategies. However, to facilitate the communication of this information, factors including addressing, negotiating, and resolving any outstanding fees, taxes, utility charges and the like will need to be considered.

Speaking on behalf of servicers, Jeannie Fantasia confirmed internal agendas are proactive and that the industry is demonstrating cooperation with municipalities. Fannie Mae has instituted a stay of all charge-offs and walk-aways. Freddie Mac is also positioning itself to be a good corporate steward, as Joe Moschetto confirmed that the GSE is evaluating the financial impacts of a foreclosure, its current threshold values, and policies for its servicers so that they, too, can abandon this practice and partner with organizations to foster neighborhood stabilization.

Successful Neighborhood Stabilization Alternatives for Charge-offs

As charge-offs are typically noted as a pre-foreclosure activity limited to low valued properties, multiple innovative programs have been created to provide servicers with viable alternatives including, but not limited to, land banking, FLOOR, innovative programming and public-private partnerships.

Land Banks

Treasurer Jim Rokakis provided a background of the development of the Cuyahoga County (OH) Land Bank by painting a graphic picture of the conditions and volume of foreclosures within the urban core of Cleveland, which have since expanded into the once stable suburban areas. These grave circumstances led to the 2008 passage of SB 353, which established a quasi-government authority to receive, hold, and sell unwanted properties. The authority's structure and activity was modeled incorporating elements developed by Dan Kildee.

Rokakis indicated that roughly 100 properties are transferred each month to the land bank; approximately 20 from Fannie Mae and 70 from HUD. This activity has accounted for 1,000 properties since June 2009; an anticipated 10,000 will be added over the course of five years. The land bank is contributing to the stalling and elimination of neighborhood blight through active demolition, for which Fannie Mae subsidizes \$3,500. Those properties with market potential and

those that can be returned to productive use for a community are being rehabilitated and sold to owner occupants, thereby adding to ownership rates. Land banking has demonstrated a viable long-term strategy for Cuyahoga county, and is a concept that is expanding to other larger, shrinking cities facing unprecedented numbers of foreclosure, abandonment, and market losses.

Foreclosure Limitation Owner Occupant Recovery (FLOOR)

Bancroft affirmed that solutions lie in changing foreclosure processes and working with troubled borrowers prior to abandonment. Detroit's FLOOR Agreement is an example of addressing vacancies through early intervention. Through a non-adversarial relationship, a deed in lieu allows the homeowner to remain in the property with a designated amount of time to become in alignment for a successful modification and subsequently re-purchase the property.

Neighborhood Stabilization Program Funding, REO Clearinghouse

Heidi Coppola shared an overview and status of the \$7 billion allocated by HUD for NSP I, II, and III (NSP III has not yet been released, but it is anticipated to be in line with NSP I), touching on the amounts for grantees and eligible activities. Sherri Johnston indicated that the city of Mesquite, TX used their NSP I award to purchase and rehabilitate 28 properties, which are now available for purchase by first-time homeowners. Program income generated from NSP I can be reinvested for ongoing efforts.

Two national intermediaries, Neighborhood Community Stabilization Trust (NCST) and REO Clearinghouse (REOCH) have been created to assist communities with utilizing their NSP allocations, implementing redevelopment strategies, and returning viable properties to productive use. While NCST assists communities with the acquisition of properties prior to listing at adjusted rates and within designated target areas, the REOCH provides a link between municipalities or non-profits and servicers for those identified properties that do not meet such criterion. As the uses of NSP have broadened, REOCH has likewise expanded its activities to that of pre-sale transactions, including note sales and assignments and short sales.

Public-Private Partnerships

The amounts allocated for NSP are not sufficient to make a significant impact in resolving the issues facing communities. Partnerships with the private sector and the infusion of for-profit capital from developers and investors have been identified as critical. To separate reputable investors from irresponsible flippers, developers are being vetted by Bancroft for the implementation of the FLOOR Agreement and other initiatives within Detroit. To extend into mid-level markets and address properties with redeemable value, programs that create shared equity between borrowers and investors merit further consideration.

As property conditions within larger, metropolitan areas continue to deteriorate amidst plunging populations, these jurisdictions are recording a swelling volume of properties with demolition being the only suitable option. Trimming the rising and excessive costs associated with razing a property, an amount that varies according to location and market, is a priority for cities and the industry, alike. In true collaboration, Monocchio indicated that understanding each party's perspective is critical. Collaboration that results in a full accounting of portfolio volumes and conditions will lead to savings through aggregation.

Early Intervention, the Key to Retaining Occupancy

With 3.2 million borrowers more than 60 days delinquent with their mortgage payments, Dave Gatton initiated a discussion asking the straightforward and upfront question of how many of these will lead to vacancy. Rokakis estimated this number to be two-thirds of the delinquent properties within Cleveland. Bancroft stated that a majority of the troubled borrowers in Detroit want to remain in their homes; however, contacting these occupants early within the delinquency is imperative. Monocchio agreed that early intervention would also greatly assist many Chicagoans. With this consensus, servicers recognize that although their roles have changed to be that of housing counselors, transparency, early outreach, communication, and collaboration are more important than ever.