

THE LEHIGH VALLEY'S FORECLOSURE CRISIS

A SURVEY OF HOMEOWNERS SEEKING CACLV INTERVENTION

Background

The mortgage foreclosure crisis is not over.

The Center for Responsible Lending estimates that 1 in 7 families with a mortgage in the U.S. is either delinquent or facing foreclosure, while Freddie Mac estimates that nationwide there are some 2 millions foreclosures in the pipeline. The Center for Responsible Lending estimates that over 172,000 more foreclosures will occur in Pennsylvania by the end of 2012, draining home equity statewide by as much as an additional \$24.5 billion on top of what has already been lost.

Freddie Mac estimates that up to half of homeowners who received subprime mortgages could have qualified for a loan with better terms, while the Center for Responsible Lending puts that number closer to 6 in 10. According to the Center for Community Capital, nationwide, the cumulative default rate for sub-prime borrowers with similar risk profiles was over 3 times higher than for borrowers with lower-rate loans. Not surprisingly, in the Lehigh Valley, foreclosure filings are disproportionately sub-prime and most were originated by sub-prime lenders.

Housing counselors at Community Action Financial Services (CAFS), a program of Community Action Committee of the Lehigh Valley (CACLV), are seeing the impact of predatory lending and the foreclosure crisis firsthand. From January 1, 2009 through December 31, 2009, CACLV provided foreclosure mitigation counseling to 443 persons, an increase of 228% over 2008. According to Realty Trac, as of March 29, 2010, a total of 548 Lehigh and Northampton County properties were listed as pre-foreclosures, 675 properties were listed for sheriff sales, and 764 properties were bank-owned.

CACLV has been engaged in counseling potential homebuyers with its Home Ownership Counseling Program as well as warning anyone who would listen about the dangers of predatory lending since well before the mortgage foreclosure crisis. In early 2008, CACLV received a grant from HUD/NeighborWorks/PHFA which has partially funded three mortgage and financial specialist positions to help people facing eminent foreclosure to keep their homes through counseling, state programs, and arrangements with their lenders. In May 2009, CACLV was successful in convincing the court systems in Lehigh and Northampton counties to join Philadelphia and Allegheny counties in establishing a mortgage foreclosure "diversion" program designed to minimize foreclosures by creating a process for the lender and borrower to negotiate alternatives to foreclosure. Under the program, lenders are expected to work with distressed borrowers and CACLV staff to attempt to negotiate ways to save the homeowner from the loss of the home.

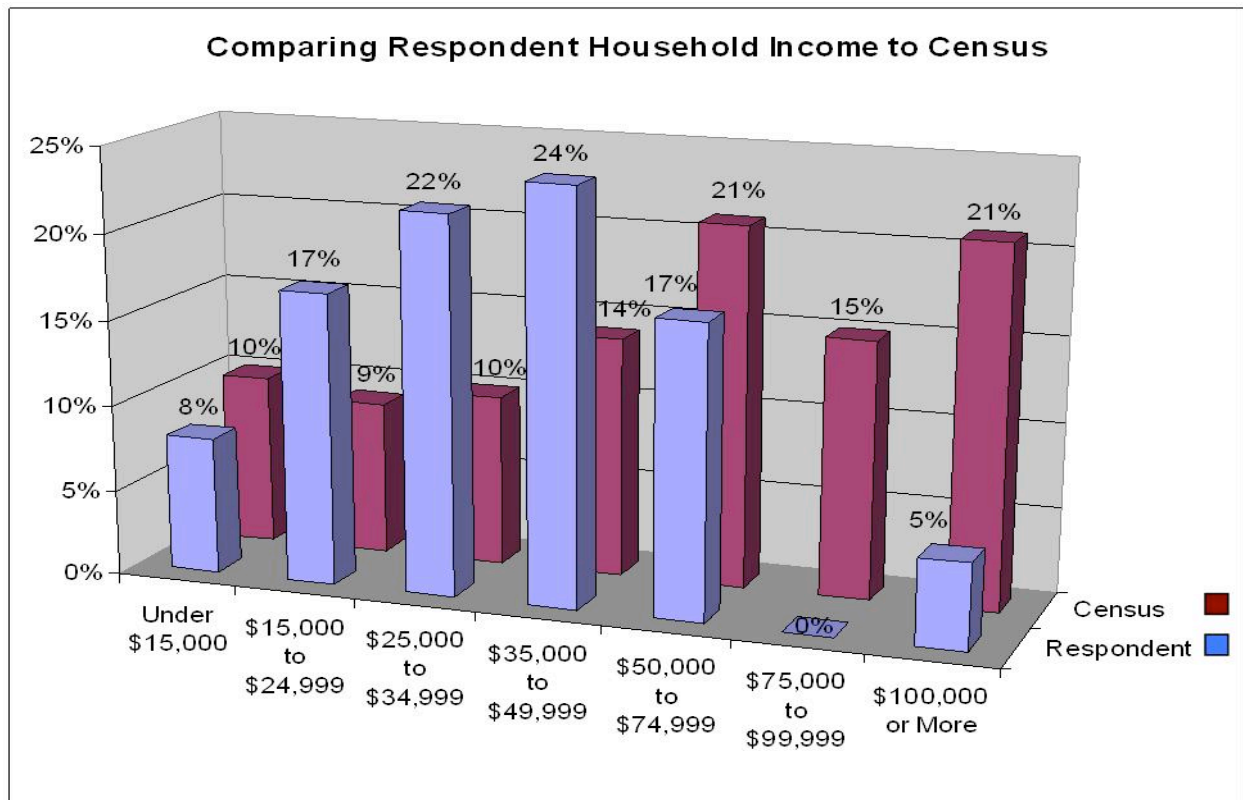
While predatory lending may have sparked the foreclosure crisis, it also spawned the recession. That recession has caused unemployment to spike, fueling more foreclosures. Unemployment in the Lehigh Valley has jumped to its highest level in more than a decade, holding steady at 9.8%

in March 2010, according to the Pennsylvania Department of Labor and Industry. This is .8% higher than the state average of 9% and gives our region the dubious distinction of being among the highest unemployment rates in the Commonwealth (Erie is first with 10%, while the Lehigh Valley is tied with Johnstown and Scranton at 9.8%). For Latinos and African Americans, the picture is more troubling. According to the U.S. Bureau of Labor, unemployment rates for Latinos and African Americans in the first part of 2010 sit at 12.4 and 15.8%, respectively. Some of the highest rates of unemployment can be found amongst the service industry (11.4%), transportation and material moving (15%), and construction industry (24.6%). There are some signs of hope, though. CareerLink Lehigh Valley recently reported the highest number of new job postings to its website in 2-1/2 years, and housing sales in the Lehigh Valley rose 65% between February and March 2010.

CACLV remains committed to helping low- and moderate-income people in the Lehigh Valley weather the continuing crisis by ensuring that as few families lose their homes as possible. One important step toward achieving this end is to study the foreclosure crisis and use the information gleaned to plan as we move forward. Toward that end, we recently conducted a 35-question loss mitigation phone survey with 60 people who had sought our foreclosure mitigation services, the results of which are found below.

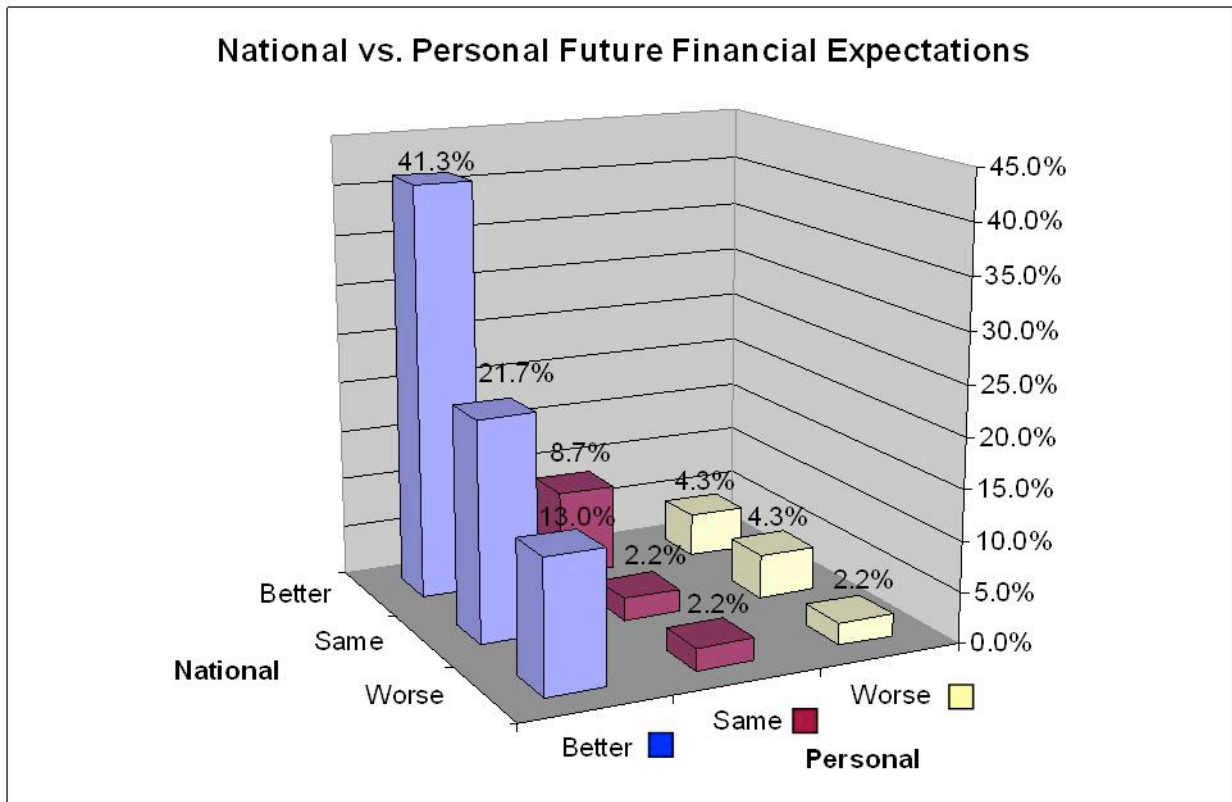
Results from the Loss Mitigation Survey

Respondent demographics and attitudes. When comparing survey respondents to the general population of the Allentown-Bethlehem-Easton Metropolitan Statistical Area (American Community Survey, 2008), respondents were slightly younger, more likely to be married (60% compared to 53% of the general population) and less likely to be living on their own (38% to



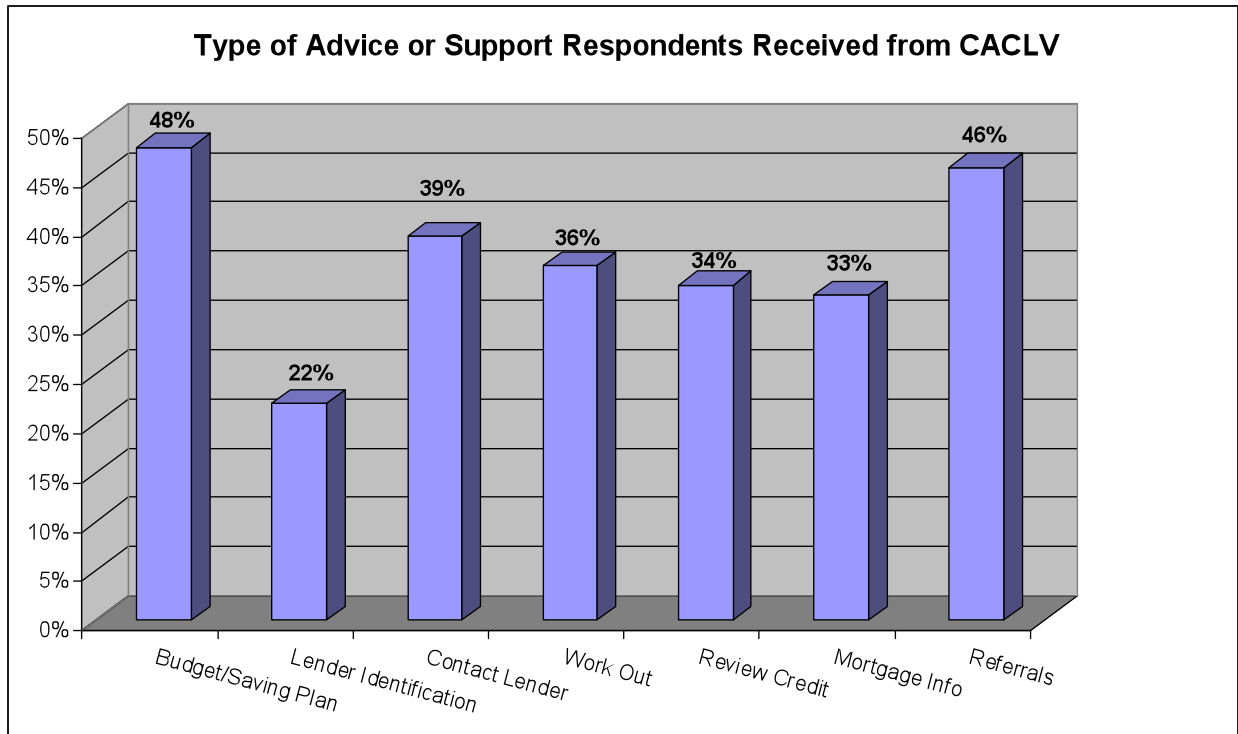
47%), less likely to be college educated (40% to 51%), and much less likely to be white (70% to 90%), non-Hispanic (71% to 89%), and have incomes above the area median (16% vs. 50%). It was a bit of a surprise to see that respondents were more likely to be married as marriage often acts as a buffer against monetary problems because of the availability of two wages. However, as mentioned above, less education is linked with lower wages, which could make even two incomes insufficient to keep up with a ballooning mortgage payment.

What may be most interesting about these respondents is not who they are but what they think about themselves and their financial situations. It is clear that respondents are optimistic about their future financial outlooks. Seventy-six percent of participants thought that their personal financial situations would improve in the next year and 54% thought that the national economic situation would improve over the next year. A closer look shows that 41% of participants were confident that both their personal and national finances would get better. Perhaps this optimism is what led them to seek help from CACLV in the first place. They may have felt that if they received some relief now, they could manage on their own later when they expected their personal financial prospects to improve.



Respondent situations before intervention. Respondents were in trouble before they contacted CACLV for help. Eighty-five percent of respondents reported being three or more months behind on mortgage payments, and 88% reported receiving a letter from their mortgage lender before they decided to contact CACLV. More than 8 in 10 respondents said that foreclosure was at least somewhat likely when they contacted CACLV.

CACLV intervention. Respondents reported receiving the following services from CACLV: 48% received help with developing a household budget or saving plan; 22% received help with learning who their mortgage lender was; 34% received help with reviewing their credit status; 33% received help with learning what kind of mortgage they had; 39% received help with contacting their mortgage lender; 36% received help with making a financial agreement with their lender; and 46% were referred to other services for help. Eighty-four percent of respondents said that they would recommend CACLV’s services to others. More than 85% of respondents said that CACLV staff was hard-working, polite and respectful, knowledgeable and understanding of the respondents’ situations.

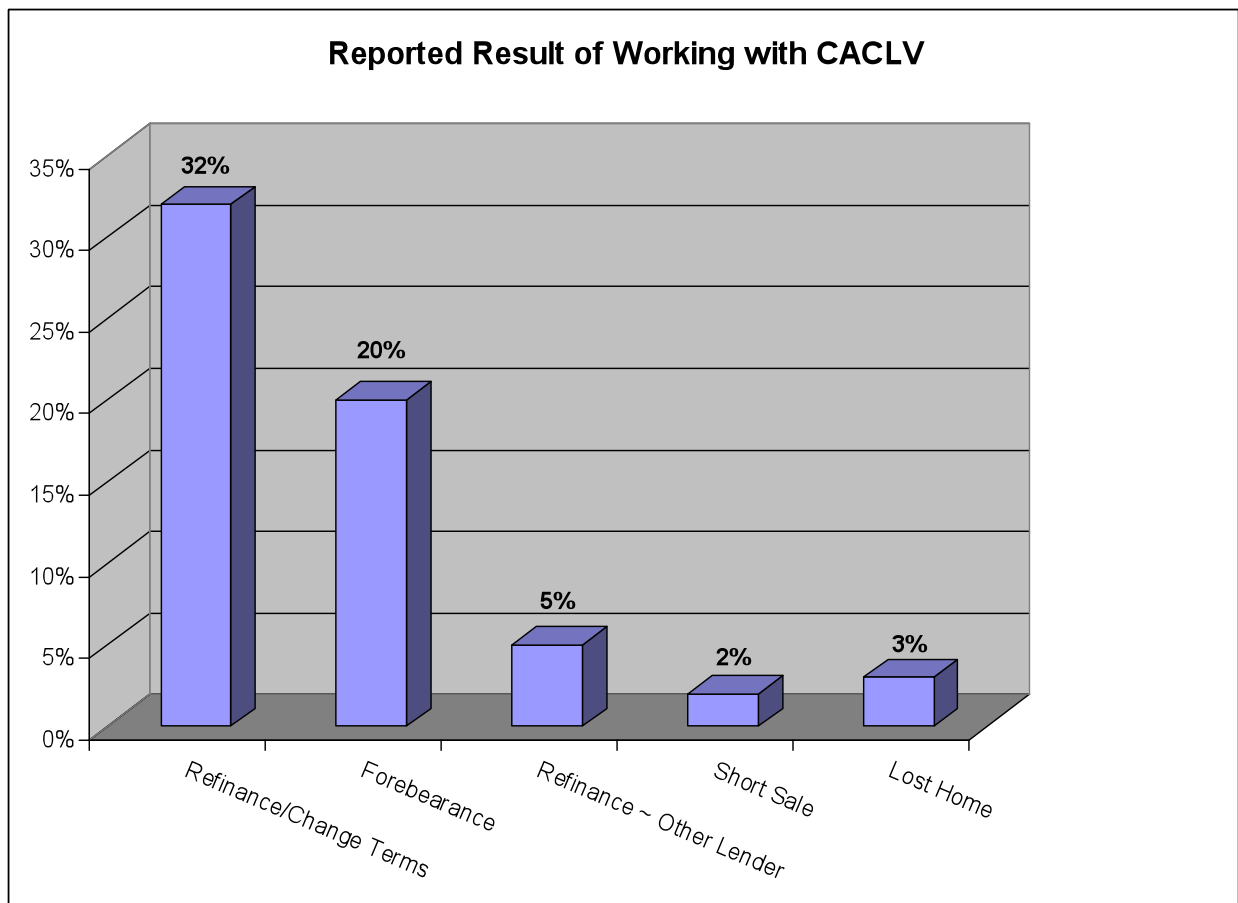


Respondent situations following intervention. As a result of CACLV’s mortgage foreclosure interventions, 57% of respondents were able to either obtain a “work out” (an agreement with their current lender to grant more affordable terms on the current loan or a refinance to a different loan), forbearance (an agreement between the lender and the borrower to delay a foreclosure), or a refinance from a different lender to stay in their home. Only 2% of respondents sold their home in a short sale. Perhaps most importantly, only 3% lost their homes. By contrast, RealtyTrac reported that over 3 million homeowners nationwide had defaulted on their loans in 2009, and just under a third of them lost their homes. If these numbers are accurate, then, remarkably, homeowners in default who benefited from CACLV’s services were 90% less likely to lose their homes than those who did not. In addition, an examination of the 455 homeowners who received CACLV’s foreclosure diversion services in 2009 showed that only 2 of them had also graduated from CACLV’s Homeownership Counseling Program (HOCP). This evidence may be a testament to the effectiveness of CACLV’s counseling program and staff.

Race and income were factors in the results the respondents achieved. White respondents were about 3 times more likely to receive a work-out or forbearance (70% to 24%), and respondents with household incomes above \$50,000 were almost twice as likely to receive a work out or forbearance than respondents with lower household incomes (81% to 47%).

Unfortunately, many respondents are still in trouble even after receiving help from CACLV, although there are some significant bright spots. According to the survey, 86% of respondents still own the home that they lived in when they contacted CACLV, and 33% are up-to-date on their payments and are at least somewhat confident that they will be able to remain current.

However, 61% of respondents reported having difficulty making their mortgage payments, and 50% have fallen behind on their payments again, which – while an improvement from the 85% who were behind before contacting CACLV – is still a sign that homeowners are struggling with the new terms that they were offered. A major portion of that struggle has roots in catastrophic events that have occurred to the respondents since receiving CACLV’s services: 14% have lost their jobs, 15% have experienced an injury or sickness that has prevented them from working, and 29% reported severe financial hardships resulting from rising healthcare costs. Seventy-five percent of respondents who reported a financial hardship also reported that they were behind on their payments.



Further trouble may come in the form of financial predators. Investors have a financial stake in convincing these struggling homeowners to sell their homes at a rock-bottom price (whether or not it helps homeowners get out from under the financial weight) and give the purchaser a chance to make a significant profit. Forty-six percent of respondents were, indeed, contacted by companies about their mortgages after receiving CACLV's services. They were contacted, on average, 6 different times by local banks, mortgage brokers, private investors, real estate agents, or other institutions. Respondents who had been contacted by these institutions reported that 40% of the offers they received were for the institution to purchase the home and rent it back to the respondent. Convincing the homeowner to give up his or her biggest asset unnecessarily, even while allowing him or her to stay in the home, is not always in the best interest of the homeowner.

Conclusion

What these results indicate is that education and access to unbiased information and counseling are crucial to mitigating the foreclosure crisis. What is also clear is that homeowners need to understand their mortgages better. According to a Freddie Mac/Roper poll conducted in 2005 of over 2,000 homeowners, 6 in 10 respondents indicated that they wished they had a better understanding of the terms and details of their mortgage. That's where CAFS and its Homeownership Counseling Service Program (HOCP) can help. This program works to expand homeownership opportunities (particularly for minorities and persons with lower- to moderate-incomes), educate prospective first-time homebuyers to enable them to make an informed decision regarding home ownership, assist those who proceed through the process of purchasing a home and provide the resources to promote successful home ownership, and inform the related industries about the needs of the community.

For homeowners who are in over their heads, CAFS and our Foreclosure Mitigation Counseling program serves as the "finger in the dike" that is holding back a flood of devastating and unnecessary foreclosures. It bears repeating that out of the 455 surveyed households that have gone through our foreclosure mitigation program, only 2 had also gone through our Home Ownership Counseling Program. This illustrates the great potential of CAFS programming and the importance of education for homeowners and potential homeowners. But there is room for improvement. Of the 179 people we attempted to contact for this survey, 33 refused to speak to us, suggesting that they were displeased with our services and demonstrating that we still have much to learn. And learn we will. CACLV, and all its programs, is dedicated to doing whatever is necessary to provide the best services possible to the people of the Lehigh Valley.

Community Action Financial Services (CAFS), a program of CACLV, is a HUD and Pennsylvania Housing Finance Agency-certified counseling agency that aims to increase self-sufficiency, financial literacy, and asset-building among low-income people by providing education, counseling, and assistance on home ownership, predatory lending, mortgage foreclosure, individual development accounts, tenant and landlord rights and responsibilities, earned income tax credit and child care tax credit, and free tax preparation (VITA program). For more information on CAFS and its programs, call 610-691-5620.

CACLV would like to thank all the survey respondents and the volunteers who conducted the surveys, many of whom are members of First Presbyterian Church of Bethlehem. Special thanks go to Bernie Toseland, Nancy Longenbach, and Staci Bell, who worked tirelessly on this project.