



Plan to Preserve Homeownership, Reset Mortgages & Aid Local Economies August 2013

The Crisis Continues: Lost Homes, Lost Wealth, Neighborhoods Devastated, Recovery Slowed

- Americans as a whole lost 40% of their wealth from 2007-2010.¹
- African-American and Latino households have been particularly hard-hit, both because they were targeted for predatory loans and because a particularly high percentage of their wealth is in their homes. From 2005 to 2009, inflation-adjusted median wealth fell by 66% among Hispanic households and 53% among black households nationally.² Nearly 25 percent of loans in low-income neighborhoods and 20 percent of loans in high-minority neighborhoods have been foreclosed upon or are seriously delinquent.
- Communities and cities are harmed by destabilized neighborhoods, lower property values, reduced property tax revenue, and added costs borne by cities to deal with the rise in vacant properties.
- 1.8 million families lost their homes to foreclosure in 2012, and another 5.1 million³ are in foreclosure or delinquent. Currently, there are still some 13.8 million⁴ US homes underwater.

It's Time to Tackle the Underwater Crisis: Preserve Homeownership & Aid Local Economies

- Top economists say that housing remains the single biggest impediment to economic recovery and that what's needed is principal write-down.⁵
- No matter how many top economists and leaders call for a widespread principal reduction program, Wall Street bankers have been unwilling to take this step to help fix what they broke. It is because of Wall Street's recklessness and greed that the U.S. has seen the greatest loss of homes and wealth in decades, taking an enormous toll on families, neighborhoods and the broader economy. And it's not over, with 14 million households still underwater.
- Unsuspecting homeowners who are unlucky enough to have their loans sold to pools of private investors (trusts/private label securities/mortgage-backed securities) are often told that principal reduction is not allowed given the terms of these Wall Street investment deals. This is likely true in some cases and likely not true in others.

¹ <http://www.federalreserve.gov/pubs/bulletin/2012/PDF/scf12.pdf>

² <http://www.pewresearch.org/daily-number/recession-takes-its-toll-on-household-wealth/>

³ <http://www.lpsvcs.com/LPSCorporateInformation/NewsRoom/Pages/default.aspx>

⁴ zillowblog.com/research/2013/02/20/nearly-2-million-american-homeowners-freed-from-negative-equity-in-2012

⁵ Joseph Stiglitz and Mark Zandi, August 12, 2012 http://www.nytimes.com/2012/08/13/opinion/the-one-housing-solution-left-mass-mortgage-refinancing.html?_r=0

A Local Solution with a Big Impact: Local Principal Reduction

- Finally, there's a way for local communities to step in and take action to help homeowners and communities. Cities can acquire certain underwater loans and restructure them so that homeowners can refinance into a new loan in line with the current value of the home and current market interest rates. The city never takes possession of the homes themselves, but rather just the mortgage loans.
- This can be accomplished through a partnership with experts who have the legal and financial expertise to carry out the program and with investors who have the capital to acquire the loans and cover the costs of the program, both operational and legal. The city (or city/county joint-powers authority, if established) would be in charge, making all programmatic decisions.
- By recognizing the current "fair market value" of these loans, as opposed to the inflated value on the books, the loans can be acquired at a price that allows for a new mortgage to be written that no longer has the homeowner underwater.
- How can cities acquire these loans at fair market value? Two ways: First, the City can make an offer to purchase the loans (it's possible that eminent domain is then needed to free the loan from the trusts they are packaged into). Second, if the investors that own the loans are unwilling to sell, the City can use its eminent domain authority to acquire the loans at "fair market value."
- This program can have a tremendous impact for homeowners, communities, cities: If just the five most severely underwater US cities used eminent domain to write down the principal on all underwater homes, homeowners in those cities would save \$6.2 billion a year on their mortgage payments, and as they spent that money it would create 91,000 jobs in those five cities alone.