Paving the Way to a

Healthy Housing Market

2011

Table of Contents

U.S. Senator Jeff Merkley's Plan to Keep Families in Their Homes

America is experiencing a foreclosure tsunami. Over 300,000 foreclosures have been filed against American families each month for the last 20 months. In the past year alone, nearly 28,000 Oregon families have been served with foreclosure filings. Each of these filings has damaged a family, set back a community, and chipped away at an already weak national economy.

When a family loses its home, the consequences ripple throughout the surrounding community, bringing down the market value of the neighborhood and siphoning off a family's income and savings. When a neighborhood has just a few foreclosures, all the families who live nearby are at risk of losing thousands of dollars in the value of their homes. The economic consequences can be severe. Make no mistake about it – the foreclosure crisis is an economic crisis.

> ***"The financial crisis and Great Recession have their roots in the housing bust. When it comes, a lasting recovery will be evident in a housing rebound."***
>
> ***- The New York Times***

More than two years have passed since the height of the financial collapse and millions of families are still in danger of losing their homes. Through the Home Affordable Modification Program (HAMP), the Obama Administration has attempted to assist families facing foreclosure by modifying mortgages. Unfortunately, these efforts have fallen short. The goal of HAMP was to prevent three to four million foreclosures, but to date fewer than 600,000 homeowners have been approved for permanent loan modifications.

Swift action is required immediately to stem the tide of foreclosures, keep families in their homes, and restore meaningful growth to the economy. Homeowners are uncertain about the value of their largest asset, banks are not sure how much their mortgage portfolios are worth, and investors are unwilling to buy pools of mortgages.

The housing crisis was the primary cause of the current economic recession and we will not have a strong economy until we can re-establish a healthy housing market.

Senator Jeff Merkley's six-point program is directed at bolstering the housing market, strengthening the economy, and providing more options to keep families in their homes:

Improve the Loan Modification Program

- Single Point of Contact for Loan Modifications
- Stop "Dual Track"

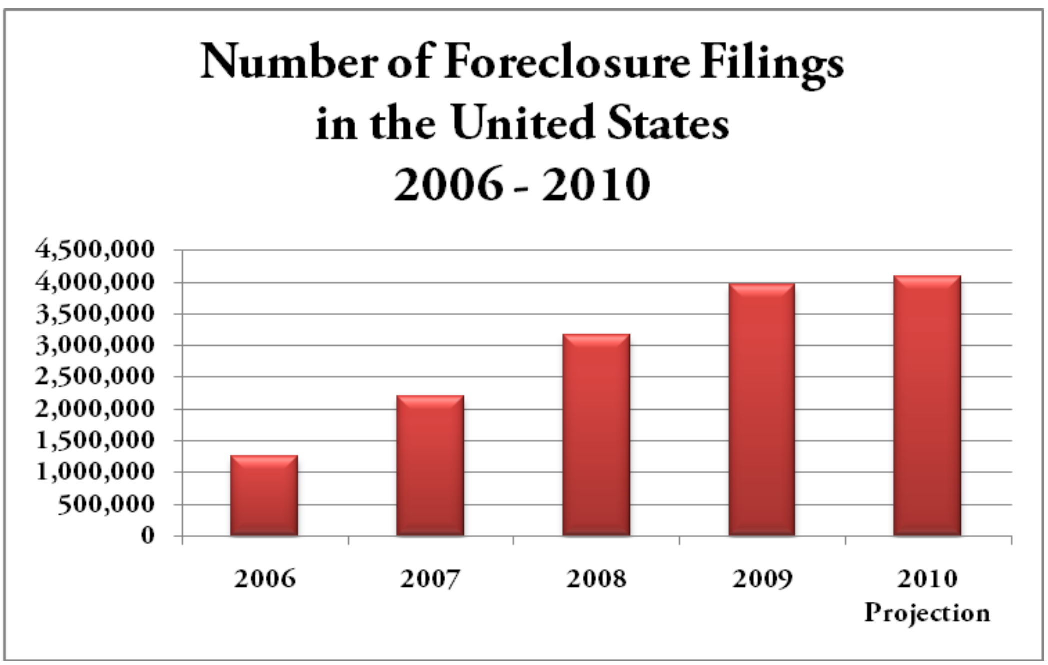
Put Families First and Foreclosures Last

- A National Short Refinance
- Third-Party Review Prior to Foreclosure
- Lifeline Bankruptcy Option

Paving the Way to a Healthy Housing Market

- Permanent First-Times Homebuyer Tax Credit

According to Zillow Real Estate Market Reports, homes in the U.S. are expected to lose more than $1.7 trillion in value in 2010, a 63 percent increase over 2009. Since 2006, the housing market will have lost $9 trillion in value.



Improve the Loan Modification Program

There are several different opportunities to streamline the loan modification process and make it more transparent. Both of these solutions - - providing a single point of contact for homeowners and ending the "dual track," - - should be included in Loan Servicer Standards established by federal regulatory agencies. The Treasury Department, the Federal Reserve, the Federal Deposit Insurance Corporation, the Federal Housing Finance Agency, and the new Consumer Financial Protection Bureau could establish the following common sense policies for all loan servicing companies:

Provide Homeowners with a Single Point of Access when they Pursue a Loan Modification

Homeowners have been extremely frustrated by their confusing communications with loan servicing companies. Typically, borrowers talk to a different person each time they call. Often, documents they submitted have been lost, and they must start the process all over again.

Providing homeowners with a single point of contact will improve accountability and ensure that there is greater clarity and continuity during the loan modification process. Loan servicers should be required to provide every homeowner who initiates a modification request with a name, phone number, and email address for their modification coordinator, as well as the name of that person's supervisor.

Stop the "Dual Track" that Continues Foreclosures While Loan Modifications are Evaluated

Currently, even when banks are willing to consider modifying a mortgage so that a homeowner can stay in their home, many put distressed homeowners on a dual track: negotiating a mortgage modification, but at the same time moving ahead with foreclosure. This has caused enormous confusion, as families struggling to negotiate a loan modification receive foreclosure notices from their bank.

> ***"This (dual track) has created a huge strain in our family, and caused an enormous amount of stress. Our children have been affected by this as well."***
>
> ***- Central Oregon Family***

Often, different departments or firms representing the bank are not in communication with each other and often give homeowners conflicting information.

Families who may be eligible for a loan modification should be given a prompt answer within 45 days as to whether they qualify for a loan modification. Any foreclosure process should be put on hold until it is determined that the borrower is not eligible or does not qualify for a loan modification.

Putting Families First and Foreclosures Last

Many families facing foreclosure are left with few options to work out a loan modification with their lender and remain in their home. The goal should always be to exhaust every avenue available to keep families in their homes before beginning the foreclosure process.

Assist Families Facing Foreclosure through a National Short Refinance Program

The Home Affordable Modification Program (HAMP) is limited by several constraints. It is a voluntary program for lenders and the loan servicers who evaluate borrowers have conflicting incentives, and may actually receive larger fees for proceeding toward foreclosure. HAMP was designed to deal with the subprime loan crisis, but it does not have an effective principal reduction program for the nearly one-quarter of all American homeowners who are "underwater," that is, their mortgage debt is larger than the value of their home.

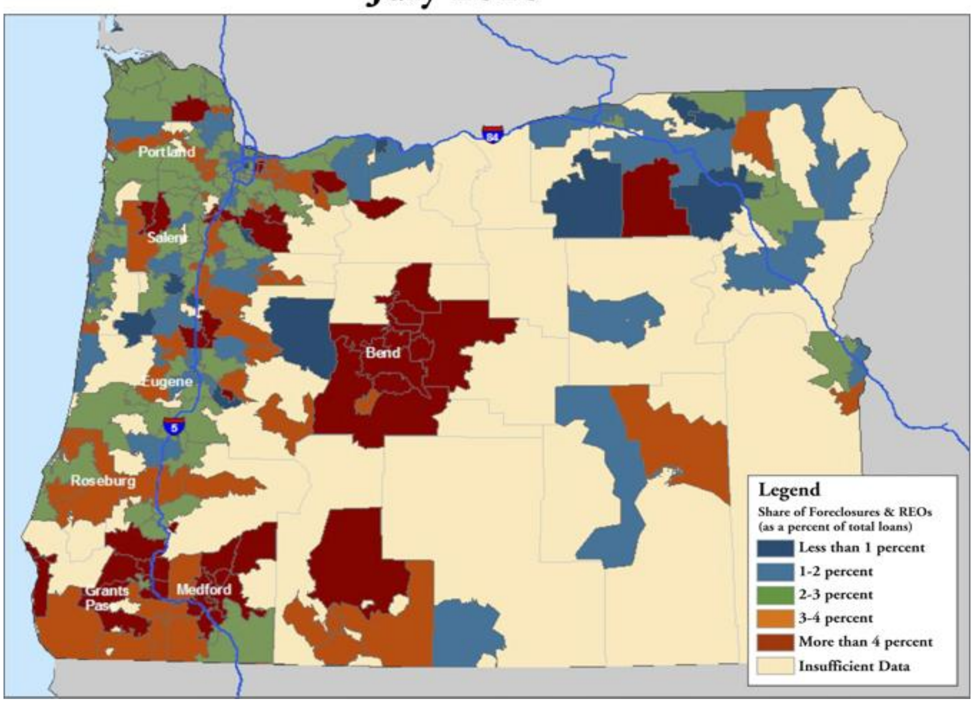
Senator Merkley proposes a "short refinance" program that would enable homeowners who are facing foreclosure to refinance their mortgages based on current interest rates and home values. Borrowers who are currently in default on their loan but still have a steady income would be eligible for the program. To avoid creating strategic defaults, homeowners would have to meet financial distress standards to qualify.

Banks or investors that own loans headed for foreclosure would send information on these mortgages to the State Housing Finance Agency. The Housing Finance Agency would identify eligible borrowers whose mortgage debt exceeds the current value of their home, but who still have a reliable income, and who had good credit records prior to getting into trouble making their very high mortgage payments.

The proposal would allow that family to stay in its home while a full appraisal, new underwriting, and current lender payoff negotiations are concluded. The refinanced loan would be a 30-year fixed rate mortgage, guaranteed by the Federal Housing Administration (FHA). The state Housing Finance Agency would negotiate with lenders or investors on behalf of individual homeowners, in order to provide a consistent professional relationship for the lender or investor.

Short refinancing would benefit all parties involved. The lender or investor would get a larger payoff than they would through foreclosure. They would avoid the expenses of foreclosure, the risk of damage to the home, lost interest income, and the subsequent cost to market the property. The community would avoid having another vacant and abandoned property, which drags down all surrounding home values and invites crime. The family would be able to stay in their current home, without breaking their connections with neighbors, schools, businesses, and places of worship.

Areas in Oregon Affected by Foreclosures
July 2010



Establish a Third-Party Review Prior to Foreclosure and Fully Enforce Existing Law

Many homeowners receive foreclosure notices without knowing if they were appropriately considered for a loan modification or other alternatives to foreclosure. Before a family loses its home, it should have the opportunity for an independent reviewer to ensure that all opportunities to keep them in their home have been fully pursued. Many states already require that homeowners have this opportunity, and in these states, many families have been able to avoid foreclosure through a loan modification or another alternative.

In 2010, Connecticut homeowners who were facing foreclosure participated in a mediation program to help them come to an agreement with their lenders. Sixty-three percent of homeowners who participated in the program were able to keep their homes and avoid foreclosure.

Furthermore, we must ensure that homeowners' legal rights are protected when a foreclosure cannot be avoided. Recent revelations about "robo-signing" of affidavits submitted to the court system and lack of a clear chain of title for homes subject to foreclosure raise serious concerns about violations of state laws governing the foreclosure process. In order for the rights of homeowners to be fully protected, the full force of existing laws must be brought to bear on the foreclosure process.

Implement the Lifeline Bankruptcy Option

Current law allows federal bankruptcy judges to modify the terms of debt repayment for virtually all loans, including loans on luxury items like sports cars, yachts, and vacation homes, but it doesn't allow families to restructure their mortgages.

By enacting a new Lifeline Bankruptcy Option, Congress would enlarge the authority of federal bankruptcy judges to cover home mortgages when they adjust the debt of individuals going through Chapter 13 bankruptcy. This proposal could be limited to borrowers who meet certain eligibility standards, such as those established for the HAMP program. By providing bankruptcy judges with the power to modify the terms of a home loan, we can offer one last lifeline for families about to lose their homes, and give loan servicers a powerful incentive to negotiate modifications in good faith.

Paving the Way to a Healthy Housing Market

Bolster the Market with a Permanent Tax Credit for First-time Homebuyers

Many families are unable to take advantage of the current mortgage interest deduction for homeowners because they purchase a modestly priced home and the value of the mortgage interest deduction is less than the standard deduction available on their income taxes. For example, a working family buying a $200,000 home with a ten percent down payment and a loan with a 5 percent interest rate would be eligible for a mortgage interest deduction of about $9,000. Since this is less than the standard deduction of $11,400 for a couple, the homebuyer gains little assistance from the mortgage interest deduction.

To help provide support for families buying a modestly priced home, Senator Merkley is proposing a $5,000 tax credit in the year of purchase for first-time homebuyers. The homebuyer would need to match the tax credit with a minimum $5,000 investment in the form of the down payment and/or closing costs. In future years, the homeowner could take advantage of the mortgage interest tax deduction if their tax situation made them eligible for this benefit.

> ***"An epidemic of mortgage defaults and foreclosures is threatening the economic recovery. The problem is serious and getting worse.....Slowing the downward spiral of house prices will protect the solvency of the banks and the net worth of households. The failure to do that could mean a deeper and longer recession that imposes much higher costs to the government."***
>
> ***- Martin Feldstein, Chairman of the Council of Economic Advisers under President Ronald Reagan***

This policy would help to achieve two objectives: In the short term, it would help to absorb the inventory of distressed homes on the real estate market, and in the long term, it would create a stronger pathway for working families to become homeowners and establish a strong financial foundation for their families.

Senator Jeff Merkley

merkley.senate.gov