Foreclosures on homes in Washington State (part two): As the crisis has deepened, what’s being done to meet the challenge?

When My View first took on this topic in the April 2008 issue, chief among the causes was sub-prime loans. At that time, Washington ranked 49th nationally in the number of foreclosures. Now we’re closer to the middle of the pack. My goal for this issue is to update readers on the foreclosure picture in Washington State. I’ve reconnected with four of the counselors engaged in HUD-certified foreclosure counseling whose perspectives I shared in April 2008. Five additional hard-working counselors from across the state also weigh in, along with several federal and state officials who are working to help Washington families.

In Washington State, home mortgage delinquencies and foreclosures continue to grow. Although we don’t rival states like California, Florida, Nevada, and Arizona in terms of the severity of current foreclosures, several of our communities are being pounded by a pernicious set of circumstances. These include high unemployment rates, more resets of sub-prime mortgages, decreasing real estate values—and the resulting glut of foreclosed properties on the market. The residents of Tacoma and Vancouver, Washington are among the hardest-hit.

The recession is deepening the instability of our statewide housing markets, even as some signs of stability are appearing in Seattle. Mighty efforts are being made to help individual homeowners; nonprofits and government agencies are working on systemic, long-term solutions. This concerted endeavor is receiving support from the highest levels of our state government and continues all the way through to the one-on-one counseling made available at no charge to homeowners in trouble.

Much work remains to be done, as the financial hardship for so many families continues. Foreclosure prevention efforts are critical: We all need to keep getting the word out to borrowers that getting help early makes a huge difference in their potential for working out a solution with their lender.
Foreclosures on homes in Washington State

**My View**

**FROM KIM HERMAN, EXECUTIVE DIRECTOR**

**JULY 2009**

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**Vancouver / Clark County**

**High unemployment triggers foreclosures—the state’s highest**

Stitched tightly into Portland, Oregon’s greater metropolitan area, Vancouver, Washington, is experiencing the fallout from this region’s high unemployment numbers. “We have the highest foreclosure rate in Washington State,” says Teri Duffy, Executive Director of Community Housing Resource Center (CHRC). “We also have the highest unemployment rate.” Teri quotes recent unemployment figures for the Portland metro area at 12.3%. May numbers from the Washington Employment Security Department put Clark County’s (Vancouver is the county seat) unemployment at 13.2%.

Over the last nine months, CHRC’s one foreclosure counselor has worked with 450 households. “Karin is very very busy,” Teri says. “She does an average of 50 one-on-one counseling sessions per month. And the majority of those cases are still open.”

For most, the experience of foreclosure is slow torture. It takes weeks, and many calls, to get answers. Virtually no one saw this crisis coming—and that includes the loan servicing companies, who are still trying to get up to speed on the flood of calls from borrowers and counselors. Everyone is overworked. Plus, the way home loans were packaged and sold to investors over recent years means more layers of red tape, as the servicers are challenged at times to figure out which financial entity actually “owns” a particular loan to get their sign-off on new mortgage terms.

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Teri estimates that, of the 450 cases cited above, 300 are still “open”—with no resolution yet reached. “We have switched how we do business,” she says. “Now, people need to come to a workshop first.” This is done to make the entire process more efficient. CHRC holds these workshops on Thursday evenings. “We had 34 people here last week. At that time Karen goes into detail on what the foreclosure process is about, the general nature of what’s happening in the industry, and what people’s options are.”

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**A flood of homes for sale—and a three-week wait for counseling**

At the workshops, each household gets a 14-page packet of information. They learn what’s required and what documents they’ll need to gather. When they get that information together, they are welcome to call back to schedule one-on-one counseling services—but right now there’s a three-week wait for appointments. “Some will decide to go through the foreclosure prevention process on their own with the information provided. Others realize, particularly if they’re unemployed, there’s not a lot of options.”

For Vancouver, sub-primes were “last year’s issue,” Teri says. “And they haven’t been as much of a problem here as they were in high-cost housing areas.” Rather, it’s the “two-edged sword” of unemployment, compounded by a hard-hit real estate market that’s seeing a flood of homes for sale. Delinquent borrowers frequently don’t have the option of selling their homes before foreclosure closes in.

CHRC’s mission is to provide financial and housing counseling and education services to its community. Teri’s counseling “bias,” she says, is face-to-face counseling. “to actually work through the negotiations with the lender, putting the loan package together, analyzing the homeowners’ financial picture. We have people who will come from...
Foreclosures on homes in Washington State

as far as the coast, throughout Southwest Washington.”

Teri makes one last point: her gratitude for the support that CHRC and other counseling agencies have received. “The Commission, DFI, the Governor’s office and others really stepped up in terms of political leadership, acknowledging the need and the hard work it takes, securing and administering grants to fund it.... The income from state and federal grants helped keep the doors of this agency open.”

Foreclosure numbers and prevention programs: A brief overview

The number for Washington State homeowners to call to connect with a HUD-approved counselor is 1-877-894-HOME (1-877-894-4663).

A recent Foreclosure Filing Activity Report by RealtyTrak ranks Washington State at 26th among U.S. States. During the month of April 2009, there were 3,359 foreclosure filings in our state, or 1 out of every 817 homes. This represents a change of +33.9% from April 2008.

Other surveys give a somewhat different picture. According to the Mortgage Bankers Association’s (MBA) May 28th National Delinquency Survey, Washington State ranked 45th in delinquencies and 40th in foreclosures started at the end of Q1 2009. The delinquency rate for mortgage loans on residential properties in our state was 5.2%. This number excludes loans in the process of foreclosure. The percentage of loans in the foreclosure process in Washington State at that time was 1.81%, vs. a national average of 3.85%.

Also based on the MBA Survey: Nationally, prime fixed-rate loans now represent the largest share of new foreclosures.

Making Home Affordable is the Obama Administration’s foreclosure prevention program, passed by Congress earlier this year. The program offers incentives to financial institutions, loan servicers, and qualifying borrowers to reduce borrowers’ debt-to-income (DTI) ratios and enable borrowers to save their homes and to continue to make mortgage payments successfully. Making Home Affordable also matches some of the funding reductions lenders make on borrowers’ mortgage payments. The goal of the program is a 31% DTI ratio for homeowners.

24 nonprofit agencies are providing state- and federal-funded foreclosure prevention counseling across Washington State. Federal funding has come from two sources: the HUD Housing Counseling grant and the National Foreclosure Mitigation Counseling Program grant administered through NeighborWorks. Our Washington State Homeownership Information Program Grant funding ended on June 30, 2009. We’re now fortunate to have access to a special-purpose grant, the Neighborhood Initiative, which was secured by Senator Murray. This grant ($500,000) will help cover foreclosure counseling in Washington State for a two-year period, beginning July 1, 2009.

The Commission administers these state dollars and a portion of the federal dollars for HUD-certified foreclosure counseling. Our sub-grantees assisted 2,681 households in the last 12 months. Out of this number, 2,644 avoided foreclosure, as only 37 foreclosed (through May 31st). That’s a success rate of over 98.6%.
Tacoma / Pierce County

One foreclosure counselor sets up shop in a foreclosure-inundated area

Out-of-state statisticians often lump Tacoma with the greater Seattle metropolitan area in determining unemployment numbers. The Bureau of Labor Statistics put that number at 8.8% in May. But when it comes to foreclosures, delinquent home loans, and REO (real estate-owned) properties, Tacoma/Pierce County has been struggling with a deeper foreclosure crisis, per capita, than the two counties to the north, King and Snohomish, that comprise the Seattle metro area.

Says Shawna Hardeman, Homeownership Program Coordinator for Tacoma-based PC2, “Homes are generally more affordable here than in King and Snohomish Counties, and we were targeted for a lot of predatory loans. Many minority populations have been hit hard.” PC2 is a parent-driven nonprofit that serves as a resource for people with developmental disabilities, but its foreclosure counseling services are available to anyone in need.

Tacoma/Pierce County’s is not just an inner-city predatory loan story, however. Many foreclosed properties are casualties of the runaway development that took place during the housing boom. Much of the area to the east and south of Tacoma, which is generally less populous, has seen high numbers of foreclosures—and is also at risk for significant additional foreclosures. Many were higher-priced homes in the $400,000-$500,000 range, financed with risky instruments like ARMs. “It will be a challenge to get those homes occupied again,” Shawna says.

NSP: Addressing the impact of abandoned and foreclosed homes

In Tacoma and Pierce County, these empty homes are a growing problem. The federal Neighborhood Stabilization Program (NSP) is an important part of the turnaround strategy. NSP’s stated aim is to address the impact of abandoned and foreclosed homes in communities. These homes are purchased and then rehabilitated for a wide range of community goals, including low-income and special-needs housing, and transit-oriented development.

As Shawna points out, of the more than $28 million already allocated to Washington State for the first NSP grant (NSP1), Tacoma and Pierce County received close to one-third of the total. Now the state is in the midst of a second NSP grant application (NSP2) to apply for a further $50 million in NSP funds. One stunning statistic from the grant draft is the absorption rate: an estimate of how slowly the housing markets in hard-hit, targeted areas are likely to absorb (sell) foreclosed residential homes and condos. For about 30 of Pierce County’s census tracts, it’s estimated that it will take more than 450 months for all the foreclosed homes to be absorbed.

Surprisingly, Shawna’s phone is not ringing off the wall. Not yet at least. She’s been working for PC2 for about a year as a financial and homebuyer education counselor. Earlier this year, she was able to take advantage of the free HUD-certified foreclosure counselor-training program administered through NeighborWorks. She started taking on foreclosure cases in April; she opened about five new cases each in April and May, and about double that in June.

“Shawna is getting the word out that her agency is offering free foreclosure counseling: “No one else is specifically doing counseling for homeowners with developmental disabilities in Pierce County.” She cautions, “For homeowners at risk, the sooner they can call or come in the better. It’s just taking so long right now-30 to 45 days-just for the servicer to look at an application.”
Foreclosures on homes in Washington State

Colville / Ferry, Pend Oreille, and Stevens Counties

Rural communities hit hard by layoffs

Rural Resources Community Action (RRCA) works with residents of the three counties in the northeast corner of the state: Ferry, Stevens, and Pend Oreille. Jan Owens, based in the town of Colville, is RRCA’s housing counselor and homeownership coordinator. She’s worked in this role for close to nine years. “Our community has been hit pretty hard. A lot of our local businesses are just hanging on,” she says.

The three counties that RRCA serves are mostly rural communities, with economies that depend heavily on a few large lumber and manufacturing employers like Boise-Cascade and Colmac Coil Manufacturing. These and many other local firms are implementing sizeable layoffs. Jan says her numbers of foreclosure counseling clients are on the rise as a direct result of the local economy: “Lack of jobs, hours being cut, people being laid off.”

She cites the frustrations she’s been experiencing with one counseling case as emblematic of the maze-like foreclosure process. This family has been denied a loan modification three times. Both she and the homeowner believe that the negotiator has been calculating the borrower’s income incorrectly—he’s a truck driver with a per diem that’s tricky to decipher. “The servicer won’t allow my client to talk to them. They won’t speak with me either. They’ve lost their documents several times. The lenders and the servicers are just bombarded. Their caseloads are so high. And they are overwhelmed with loan modifications.”

Right now, Jan is default counseling about five households holding sub-prime loans. She cites a telling statistic: None of the homeowners in foreclosure whom she’s counseled had previously gone through a homebuyer education program. “Most of my clients are three to six payments behind. The foreclosure process has already been accelerated. Homebuyer education is absolutely vital as a foreclosure prevention measure. It keeps people out of predatory lending, and helps ensure that people don’t get in over their heads.” Even if people can’t avoid losing their homes, she explains, if they’ve been in a homebuyer class, they know the key to a clean exit is to sell quickly. “You need to avoid foreclosure if at all possible. Even a short sale is avoiding foreclosure.”

Foreclosures are impacting many other aspects of Jan’s work in housing assistance. One change is an increasing number of pre-purchase counseling clients walking through her agency’s doors. “Right now is a pretty good time to buy. Home prices are coming down. I have a few clients who are making offers on foreclosures,” she points out. And unfortunately, she and RRCA are also seeing a growing squeeze on affordable rentals. “These are few and far between: the rental vacancy rate in Stevens County is just about zero.”
A solid recovery from the current housing crisis will require our nation’s banks to step up to meet the challenge, one home at a time. Many of those I interviewed for this issue have praised Bank of America (BOA) for its proactive efforts in modifying loans and helping homeowners. I asked Tiarsha Taylor, Vice President of Homeownership Preservation and Advocacy at BOA, to describe her bank’s work in this critical area.

Tiarsha’s job description—and I’m simplifying here—is working within communities and internally at BOA to help people retain their homes. Tiarsha is based in California but travels frequently across the U.S., with a focus on the West, to organize events and provide trainings that will further BOA’s home retention efforts. This includes organizing and attending borrower outreach events similar to the three workshops that will be held in Tacoma, Everett, and Seattle later this month. But it also includes building partnerships with housing counseling agencies, speaking on community panels, and liaising with the bank’s internal operations team to help with individual cases.

Three years ago, most banks probably couldn’t have imagined the important role that homeownership preservation and advocacy would be playing today. Tiarsha started in her role with BOA about two years ago. “They saw there was a greater need to have dedicated resources in this particular area. Most of our peers within the industry have associates doing this role as well,” she says.

A few weeks ago Tiarsha was in Seattle, providing training for about two-dozen HUD-certified housing counselors from across the state. “We realize the value of working in our local communities with housing counseling agencies. The partnerships that we develop with them can help us reach homeowners who we might not reach otherwise. We were able to talk through the loan modifications they’re submitting, answer questions, and provide local resources and information.”

BOA’s first preference, says Tiarsha, is to have its customers “call us directly if they find they’re in financial distress or face hardship. But understandably many homeowners seek other resources.” She emphasizes that if borrowers choose to turn to a counselor, “we absolutely recommend homeowners speak with HUD-approved counselors. Their services are free, they’re certified through the government on very complex technical requirements on home loan modifications—and homeowners are not going to get a better result by paying for that through a for-profit entity.”
**Bank of America**

Significant ramp-ups in staffing—and the qualitative aspects of face-to-face counseling

BOA was one of the first banks to openly support the Obama Administration’s Making Home Affordable (MHA) program. BOA had already provided leadership in developing a national home retention program of its own, Tiarzha explains. “We had identified a number of loans within our portfolio that would qualify for a streamlined solution. MHA basically fit into what we were already doing, but expanded it a bit more.

“Through our National Home Retention Program (NHRP), we had identified about 400,000 qualifying homeowners, representing $8.4 billion in payment reduction. MHA of course builds upon that.” BOA has now upped its goal, with plans to modify approximately 630,000 loans over a three-year period. Thus far, they’ve successfully modified more than 410,000 home loans nationwide: 230,000 in 2008 and approximately 180,000 through May of 2009. “Between MHA and NHRP, we think we’re doing more than any other lender in the industry to try to make homes more affordable, and keep home retention a possibility for our customers.”

A key part of getting these modifications performed is reaching out to customers—and having the staffing to meet the volume of calls for help. BOA’s home retention division has grown to more than double from one year ago—close to 7,500 associates. They are responding to about 80,000 calls a day.

BOA has also been expanding the number of associates who are available to attend borrower outreach events.

Will they be attending the workshops in Everett, Tacoma, and Seattle? “We’ll try our best,” Tiarzha says. Face-to-face interactions with their customers in outreach events, she explains, are worth the extra effort: “They help us meet with customers who we might not otherwise meet over the phone. And there’s that qualitative aspect of having that discussion face to face. We’re able to get additional information that might help in finding a solution that’s right for them. And it gives us the opportunity to educate the homeowner on the entire process. I hear over and over again just how invaluable it has been for homeowners to participate.”
My View from Kim Herman, Executive Director

July 2009

Foreclosures on homes in Washington State

King and Snohomish Counties—and statewide

Special needs populations pose unique challenges

As homeownership counselors, Marc Cote and Marnie Claywell serve a unique need. They have special expertise in working with people with disabilities, and get a lot of referrals for that population, working directly with clients in King and Snohomish Counties. They have held the titles of Homeownership Director and Homeownership Housing Counselor, respectively, for the statewide-focused Washington Homeownership Center (WHC) since March. Before that, they held similar roles with Parkview Services, a King County-based agency that supports people with developmental disabilities. Since March, Parkview Services has held the contract to run WHC.

Marc and Marnie field calls for help on foreclosures from all over the state. When they can, they refer homeowners to their local agencies. “We ask people to call us back if they haven’t connected to someone in about 48 hours. If they call us back we’ll find them a counselor,” Marnie says.

Counseling people with disabilities can be time-consuming—and pose unique complications, Marc explains. For those with developmental disabilities, “we’ll meet six or eight times with the client, each time for 45 minutes at least. We’ve had some successes, getting some good workouts for them—but it takes a lot of time.” Now they’re transitioning to working with people with a wider range of disabilities, and a new set of problems has emerged: the need for translation services.

"Interpretation wasn’t a big part of our program, but now that’s being required more and more."

He gives the example of a current case: Both clients are deaf and blind. “Communication is difficult, and we can’t afford the interpretation services we need. We haven’t been able to meet with them for two weeks.” Marc has asked the servicing bank to fund the interpreting service. “I have the family’s financials and they look okay financially. They’re working—and making $60,000 a year. This should be an easy workout.”

Like Shawna, Marc and Marnie aren’t overwhelmed by their foreclosure counseling caseloads. They’re getting about 20 calls a month. They continue to be contacted by people with shoddy loans: “It’s not as bad as it was, but they’re still out there—especially high interest rates, even if it’s a fixed and not an adjustable rate,” says Marnie.

Through their role making referrals to other counseling agencies, Marc and Marnie have seen how tough the funding environment has been for many. Although as a state, we’ve been fortunate in being the beneficiary of both state and federal funding sources for foreclosure counseling [see sidebar], the fact remains that counseling agencies aren’t reimbursed for the counseling performed until a case is resolved. For many nonprofits on a tight budget, that long wait translates into the inability to hire and keep a counselor on the payroll. “We’re grateful for the funding that exists,” Marc says. “And there’s more than there was two years ago. But it’s a challenge to keep doing this. A lot of agencies have called WHC to say: ‘Don’t refer people to us. We don’t have the funding.’”

Both counselors have seen good outcomes result from President Obama’s Making Home Affordable program [see sidebar], but for people who have lost their jobs, the foreclosure outcome remains grim. “Homeowners have to find a job—the loan servicer is not going to perform a loan modification without income,” Marnie says. “I’ve had quite a few clients recently who had a blip in income, and now they’re back working. That’s a good scenario. It gives the servicer something to work with.”
Four foreclosure counselors shared their perspectives in the April 2008 issue on the housing crisis. I’ve asked them to bring us up to date on what’s happening in their communities:

The Tri-Cities

Federal stimulus dollars mean more jobs—and fewer foreclosures

Good news is coming out of south-central Washington. I caught up with Liza Beam, Home Ownership Director with Consumer Credit Counseling Service of the Tri-Cities (CCCS). “Our economy is still pretty strong here. Money is coming out to Hanford and creating jobs,” she says. Our Washington senators were instrumental in securing close to $2 billion in federal stimulus funding for the Hanford nuclear reservation cleanup. One estimate translates that money into 3,000 jobs.

For the past 15 months, Liza has been working on about 10 foreclosure cases per month. “It’s a little busier than it was before the housing problems started a couple of years ago. But definitely not to the point of being overwhelming,” she explains. She’s seeing the primary cause of delinquencies as “about half and half—primarily, it’s either bad loans or layoffs. There are still a pretty significant number of sub-primes, mostly with our Hispanic clients who’ve had to deal with a language barrier. Some people have lost jobs and haven’t gotten work yet. There’s a little overlap between the two.”

Liza brings up one activity where she’s seen several clients fleeced: out-of-state for-profit companies that charge homeowners to “clean up their credit,” or “prevent foreclosure.” Many of these “loan modification” firms are based in California, and it’s illegal for them to do business in Washington State without a license. “One of my clients paid $1,300 and got nothing in return—except angering the mortgage company, who told me, ‘I’ve already been contacted,’” she notes. “Some of them might be helping others, but they’re charging a lot of money, while we make it available for free.”

Bremerton—and statewide

Making Home Affordable is working

In the past year, Marvelle Lahmeyer moved to a different Bremerton-based nonprofit, but she performs the same role. As Lead Housing Counselor at American Financial Solutions, she counsels individuals all along the housing spectrum, from pre-purchase to foreclosure.

The real change from 15 months ago, as she sees it, is that the huge ship of foreclosures is finally beginning to turn.

“Before, we were seeing a lot of foreclosures and people were just walking away,” Marvelle says. “Now we’re seeing lenders working in conjunction with us. Obama’s plan is working. We’ve been getting some phenomenal deals for people. If you have a job—the lenders don’t want to foreclose on these properties. We can get homeowners from an 8% loan down to 2% for five years. That gives them time to take a breath—and then the rate starts going back up slowly—but not to more than 4.5% or 5%. They’re locking in at 5% for 30 years, with monthly payments dropping from $2,000 to $1,300.”

The calls for foreclosure help “come in waves. Some days we might get 30 calls. Other days, a half a dozen.” Marvelle and her fellow counselors are seeing a lot of people with loss-of-income and recession-oriented challenges, “but not a whole lot of them have good, 30-year 6% loans. We’re still seeing more of the ARMs, the higher interest rates, the 80/20 loans.” American Financial offers free housing, credit, and bankruptcy counseling statewide, and has two HUD-certified housing counselors on staff and one in training, along with 20 credit counselors.

“Homeowners ask me all the time: ‘Is this going to work for us?’” Marvelle recounts. “And I tell them, ‘we’re not miracle workers, but if we work the program like it’s intended to work, yes, you will be successful.’ We educate them. We make them work the program with us. We don’t just do it for them. They are making their calls to the servicer weekly. And they’re letting us know what their status update is.”
Foreclosures on homes in Washington State

Spokane

The economic downturn is real

Ray Rieckers comes well prepared with his area’s foreclosure numbers. He poses the question, “How can we tell what’s really going on unless we have the data?” Here are the Spokane County numbers he secured from the County Auditor’s office:

- Number of foreclosures in all of 2007: 304
- January 1 through June 18, 2008: 732 notices of foreclosure, 237 foreclosures
- January 1 through June 18, 2009: 1,266 notices of foreclosure, 342 foreclosures

Note that the last two time periods given are less than six months—vs. all of 2007.

The figures below are what Ray has seen from his vantage point as Director, Housing Opportunities Division at Spokane Neighborhood Action Programs (SNAP). The six-month numbers below are not just phone calls; counselors are opening files and working with clients:

- 10/1/07 – 3/31/08: 216 new foreclosure cases, or approx. 36/month
- 4/1/08 – 9/30/08: 298 new foreclosure cases, or approx. 50/month
- 10/1/08 – 3/31/09: 511 new foreclosure cases, or approx. 85/month

“The economic downturn is certainly real,” Ray points out. “People in our community are losing their jobs, and unemployment benefits are often not sufficient to help them maintain their mortgage. We’re working with them to help them buy time, get loans rewritten to fit their new income. They’re out beating the pavement to seek a new job.”

Ray has seen a definite shift from sub-prime mortgages to the recession as the major driver of current foreclosures in Spokane. “The first wave was the result of the industry’s aggression. At this point, it’s much broader in terms of who’s coming to see us,” Ray says. “Folks who have been making payments, have lost income, and are trying to figure out how to maintain their house payment. But we’re still seeing people with toxic mortgages that were non-conforming to begin with.”

Ray and his four-counselor staff are working hard, but they’re keeping up. One reason is because they were able to add a new counselor in February. “We saw this coming,” he explains. “We can’t bill until we see clients, and we can’t see clients until we have the counselors. We saw that as a problem.”

Ray and SNAP applied for and secured a grant from the Inland Northwest Community Foundation. “They gave us $20,000 to hire a counselor—which has made a huge difference. It’s our intent to advertise and bring in one more soon with American Reinvestment and Recovery Act funding through Health and Human Services.

“I’m very appreciative of our public officials for providing resources for counseling. As well as the federal and state agencies for being so quick in getting these resources out where they can do some good,” Ray concludes.

Seattle

Coaching homeowners through the foreclosure process

Linda Taylor, Housing Director at Urban League of Metropolitan Seattle (ULMS), has seen the calls for foreclosure counseling coming into her agency climb significantly in the past year. “We see a steady flow of people in trouble,” she says. ULMS has begun offering group foreclosure counseling sessions to keep up with demand—and to help ensure that the five HUD-certified counselors on staff are able to avoid burnout. These sessions are generally offered three times a month. This month, however, ULMS is helping to sponsor foreclosure workshops over a three-county area instead. More on that in a minute. The turnout for ULMS group counseling sessions generally runs between five and 35 households. “We give homeowners enough information so that they can do this process themselves—there’s nothing about it that you can’t do yourself.”

Linda continues to be an impassioned advocate for financial literacy. Her counseling strategy derives from her philosophy that people need to become financially literate; a counselor should function more like a coach than an executor. “Our goal is to teach you how to do your budget, to teach you how to
move forward, how not to be afraid to talk to the servicer, what to expect, what your rights are, and the right questions to ask,” Linda says. “We want to make sure you know enough to do it yourself, to give you enough to arm yourself with—and not go back there again.”

ULMS is a major organizer of the three countywide Foreclosure Prevention Workshops I mentioned above, which will be held in Snohomish, King, and Pierce Counties in late July. The point of these workshops, which are also sponsored by DFI, FRBSF, and other government agencies and nonprofits, is to bring homeowners who need help together with counselors, lenders, and loan servicers. Borrowers facing foreclosure will have the opportunity to get answers—and if their lending institution sends a representative, perhaps even be able to resolve their loan issues on the spot. Please follow the links below for more information; you can register by calling ULMS at 1-800-368-1455:

- Thursday, July 23
  Everett (Cascade High School)
- Friday, July 24
  Seattle (Cleveland High School)
- Saturday, July 25
  Tacoma (Evergreen College Tacoma Campus)

Linda is enlisting housing counselors from various agencies in each of the three counties and urging lenders to show up. “We’re getting the word out every way we can,” she says.

The Federal Reserve Bank of San Francisco’s Community Affairs

Helping economically distressed communities

Craig Nolte is a very busy man. As Community Affairs Advisor with the Seattle branch of the Federal Reserve Bank of San Francisco (FRBSF), he works across a five-state territory with a mandate to seek out systemic problems in our regional economy, determine whether there’s a useful role the Federal Reserve can play—and then make sure that role is executed. He and FRBSF have been heavily involved in what Craig calls “borrower outreach events”—including the three foreclosure workshops in Everett, Seattle, and Tacoma mentioned above.

People generally think of the Fed as a maker of macro monetary policy. Craig is charged with looking at the big economic picture across this region, but he also focuses on communities that are particularly distressed. Take a look at his travel schedule for Washington, Oregon, Idaho, Alaska, Hawaii—not to mention Guam—and you’ll get an idea of how committed he is to this work. He sees his role as a convener—building up working teams, sponsoring events, and gathering people together to educate, train, solve problems, and remove stumbling blocks.

Two years ago: Spreading the word about the Northwest’s “hidden problem”

About two years ago, Craig saw the writing on the wall for foreclosures. He began bringing groups together to present information—and offer cautionary warnings. “That was in the early stages,” he explains. “We knew things were getting pretty bad in other parts of the country, but the housing crisis hadn’t happened here yet. My struggle was convincing people that the Northwest economy typically lags the rest of the country, and that it could still hit us. One out of three mortgages was a high interest-rate loan or a subprime, and we had all the characteristics to suffer more—it’s just that our economy was then still so strong. People were still able to sell homes and come out pretty close to even. It was basically a hidden problem.”

As the housing market grew worse, Craig reports, people began to see more relevance in his economic presentations. He proposed a number of ways to help stem foreclosures, including making information available on the
Internet, and awareness campaigns to help homeowners in trouble know what options they had.

Craig knew that in other regions of the U.S., borrower outreach events had been successful. So he talked them up in his presentations—and a few organizations gave them a try on a smaller scale. “They found that they were so popular, they needed something bigger,” Craig says. That’s when he began to stage large, many-lender events through the sponsorship of FRBSF. “I teamed up with the City of Tacoma to hold one on March 14 to provide counseling and access to servicers; about 200 people showed up.” More than 600 people attended a similar event, held in Portland in early May that reached out to residents of Vancouver and Clark County as well: “We had 375 households go through the counseling process.” In mid-May, 150 people attended the outreach event he convened in Napa, Idaho.

Craig works to bring in as many of the national loan servicers as he can to these events. “These are names you’ve never heard of. Part of the challenge is that no one knew this was going to happen. None of these servicers had planned to staff up a loss mitigation department; many of them are still bulk ing up—and our events are competing with harder-hit areas like Las Vegas, Phoenix, and Detroit. Even if a servicer has a significant volume of loans in a community, the events are dependent on which borrowers show up. We encourage lenders to send letters to all their clients to encourage them to come.”

The degree of resolution for borrowers also depends on whom the lender sends. “Our first preference is loss mitigation staff. They can make some pretty good decisions.”

Here in Washington State, Craig explains, “Some markets are just starting to feel the pain.” He’s planning to hold workshops across the state later this year to help educate and give ideas about options to borrowers. One important objective is to educate the public about first-time homebuyer programs, working proactively with communities to help build a healthier housing market.

The growing challenge of REO properties

Another aspect of Craig’s current work is tackling the growing challenge of REO properties. He is working alongside others to plan instructional meetings and trainings with the REO staff at banks. The last time our country saw an REO property burden of similar proportions was back in the early 1980s: “If you’re in the REO department of a bank, you’ve probably never seen conditions like this before. And the sooner we can get past this, the sooner we can find the bottom.”

A few weeks ago, Craig held a Community Reinvestment Act roundtable for lenders on the topic of the Neighborhood Stabilization Act (NSP). He brought in people from HUD, CTED, and the City of Tacoma to talk about the program and how it works—and encourage lenders to notify them of properties that may be available.
Foreclosures on homes in Washington State

One of the challenges posed by the NSP, Craig explains, is that “many cities don’t have experience in buying and rehabbing and reselling homes—so there are other training opportunities that we can provide.”

Craig’s systemic problems mandate has frequently brought him to Native American territories, where tribal members typically haven’t had ready access to mortgages. He’s held workshops to educate tribes on the types of foreclosure and eviction ordinances that they could adopt that would provide more comfort for financial institutions to make loans on tribal land—and also information on government-guaranteed programs that work well on Native American reservations.

I ask Craig one last question: When will the foreclosure crisis start turning around in Washington State? “I’m not allowed to speculate,” he says. That edict comes all the way from the top—from Fed Chairman Ben Bernanke. But, he points out, if you look at FRBSF’s chart on delinquencies nearby, “It’s easy to draw the conclusion that we’re not at the bottom yet.”

Washington State Attorney General’s Office

Consumer protection efforts on many fronts

In terms of the predatory loan abuses that have taken place in the marketplace, “the housing crisis has cleaned up a lot of things,” says David Huey. “The funds for these loans are drying up. Unfortunately, the funds for good lending have been drying up, too.” David is Assistant Attorney General for Consumer Protection with the Washington State Attorney General’s Office. One of his major areas of specialization is financial services; predatory lending cases have a way of winding up on his desk. Since he joined our state AG’s office eight years ago, he’s been involved in several major national settlements with lenders.

David’s office is still seeing the repercussions of the abusive loans made in previous years; for example, option ARMs with a three-year introductory rate made in 2006. “A lot of loans were back-end loaded, ticking time bombs that have yet to explode. We’re part of a national task force to encourage loan servicers to make loan modifications for people. That’s been a very difficult program. We’ve met with most of the large national servicing companies. Some have better records than others. But we’re hearing a lot of complaints.”

The Attorney General’s Office works on many fronts, David explains. “We talk to the companies on the global level, but will also try to assist consumers where the problem is a breakdown of communication. We can’t represent individual consumers. But sometimes if they’re not getting phone calls returned, a call or email from the AG’s office might prompt servicers to return that call. We’re also participating in several national task forces with the federal government and federal agencies to address this problem.”

Crafting a Countrywide settlement

David has been involved in the settlement that state Attorneys General have reached with Countrywide; he’s on the executive committee that is administering that nationwide. Countrywide, a leading national sub-prime lender, was acquired by Bank of America (BOA) in July 2008. “At the time BOA acquired Countrywide, you had the issue of what consequences Countrywide might..."
Foreclosures on homes in Washington State

suffer as a result of its previous conduct, practices we would allege were violations of the law,” David says.

“To its credit, BOA came to us to ask us to craft a settlement, which would then be offered to the rest of the states.” BOA tapped the same group of five states, including Washington, that had teamed up on two previous major predatory lending settlements against Household and Beneficial Finance, and Ameriquest.

There are two facets to the BOA/Countrywide settlement. One concerns injunctive relief, a program that’s already up and running. “This is a substantial program of loan modifications based on the affordability measure that now characterizes most of the modification programs—including Making Home Affordable. It targets getting payments down in the range of 31 or 32% of PITI: principle, interest, taxes, and insurance,” David explains. “It does that primarily by reducing the interest rate.” Cases are addressed somewhat differently depending on the type of loan. Through the end of 1Q 2009, 1,220 Washington borrowers had received loan modifications through the program; the expected principle and interest savings for these homeowners totaled more than $20 million.

Part two is a pair of cash funds created through the BOA/Countrywide settlement. One is a relocation assistance fund, $70 million nationwide was pledged to a cash-for-keys-type program. For those Countrywide borrowers who will lose their home to foreclosure, this provides a cash payment to help them transition to a new home. As of March 31, the program had disbursed $246,472 to Washington borrowers. The second cash fund of $160 million, of which $1.8 million is allocated to Washington State, is more of a cash-payment-for-damages fund. Former borrowers who have lost their homes will receive a share of this—provided they sign a release. Some of that funding will go to broader purposes such as providing credit counseling.

David stresses that there is no one bad actor when it comes to the complaints his office is receiving. “The whole industry is dealing with the crisis, and straining under that load. Part of that is the way the business model was established, with the loan servicer separate from the note holder or the person who owns the mortgage. That phenomenon expanded with sub-prime lending.”

David and the state AG’s office are involved in the new pro bono program, the Home Foreclosure Legal Aid Project, offered by the Washington State Bar Association. This program, launched last month, will provide free legal assistance to low-income Washington State residents in danger of losing their homes. David has been helping train volunteer lawyers in foreclosure prevention and loan modifications; the AG’s Office has contributed funds towards these specialized trainings. “We’re happy to see this pro bono effort,” David says. “From our perspective, there’s a great need for a program like this.”
She has spoken to dozens of groups across the state. “You name it and we’re there—schools, teachers’ and workers’ associations, a credit union, federal, city and state employees, seniors’ groups....” A key message when Lyn gives a presentation is: “Families have got to get over this idea that it’s not proper to talk about money.”

In terms of financial literacy concerning homeownership, “there’s still a strong lack of reality,” Lyn says. “That’s why homebuyer education classes are so important. Homebuyer classes are filling up—and that’s good news.” For those homeowners already in trouble, Lyn is seeing more awareness. “The housing crisis has such a high profile. People generally do know to start early in asking for help. More people are actually making the calls to their lender vs. being afraid to make that call.”

Recent publicity, along with last year’s slate of state legislation to help prevent foreclosure scams, “took a huge number of bad actors out of the system,” she says, “but our shop is as busy as ever with enforcement, investigation, and regulation.”

Lyn is excited about the part she’s playing with DFI in bringing more attention to financial literacy—and bringing people together. “It’s a growing effort. I’m just trying to keep up with it. The more people I meet, the more partnerships I strike up, the bigger the network. It’s just a matter of making the connections.”
Two last words: Education—and Affordability

As all those who have graciously offered their time and perspectives for this issue will tell you, one of the very best defenses against foreclosure is homebuyer education. The difference is startling: People who go through the process of homebuyer education are much less likely to cross that agonizing threshold of losing their homes to foreclosure. Though we can’t predict future economic downturns—or personal tragedies—a fully informed homebuyer knows what his or her options are, and where to get help.

One statistic that was recently published in NeighborWorks’ June 2009 Report to Congress on the National Foreclosure Mitigation Counseling Program (NFMC) should give all of us pause. Washington State was first among U.S. states in the number of NFMC Program participants who reported paying more than 75% of their income to PITI. Put more simply: 41% of the 3,000-plus Washington State households receiving counseling through March 2009 were paying more than three-quarters of household income towards mortgage payments.

Obviously, the statistic above is a rough snapshot, but it’s deeply troubling. There are many contributing factors to excessively high debt-to-income ratios, including housing prices, and the disparities in growth between housing prices and wages. As a state, we have been working assiduously, particularly in the last few decades, to increase affordable housing opportunities for people. For many families, we still have a long way to go.