

Maryland Department of Housing and Community Development

Homeownership Preservation in Maryland

A presentation to the

Western Maryland

2008 Small Town Symposium and Rural Roundtable

April 23, 2008

Martin O'Malley
Governor

Anthony G. Brown
Lt. Governor

Raymond A. Skinner
Secretary

Clarence J. Snuggs
Deputy Secretary

Foreclosure Crisis: Underlying Causes

- Mainly involves subprime loans and loans originated by mortgage brokers
- Roughly 70% of loans in Maryland are originated by mortgage brokers and are subject to state regulation
- Subprime loans increased from 1.6% of all mortgage loans in Maryland in 2000 to 12.2% of all loans by the beginning of 2007
- Subprime lending was coupled with lax underwriting standards such as “no documentation” or “stated income” loans
- Subprime loans were underwritten at low teaser rates set to increase in 2 – 3 years and thereafter

Extent of Problem in Maryland

- Number of foreclosure events increased dramatically last year
 - In the 4th quarter of 2007 there were 9,722 foreclosure events in Maryland – compared to 715 in the 4th quarter of 2006
 - From the 3rd to the 4th quarter of 2007 foreclosures increased 38.9%
- Prince George's County has the most serious problem – 2,732 events, which is 28.1% of State's total. Other jurisdictions follow:
 - Montgomery County – 13.5%
 - Baltimore City – 13%
 - Baltimore County – 10.6%
- Foreclosures have increased in all counties
- Everyone loses in foreclosure: the homeowner, the lender (\$50,000- \$60,000), and the neighborhood, where property values can decrease and vacant, boarded-up houses are seen

Extent of Problem in Maryland

(continued)

- The U.S. Joint Economic Committee estimates that between the 1st quarter of 2007 and the 4th quarter of 2009, in Maryland:
 - An estimated 25,057 subprime mortgages will go into foreclosure
 - \$2.73 billion is estimated in cumulative loss of property value
 - \$19.2 million is estimated in property tax loss
- The worst of the problem is yet to come. Subprime ARM interest rate resets are expected to peak during 2008, which will likely lead to more defaults and foreclosures

Subprime Loans and Race

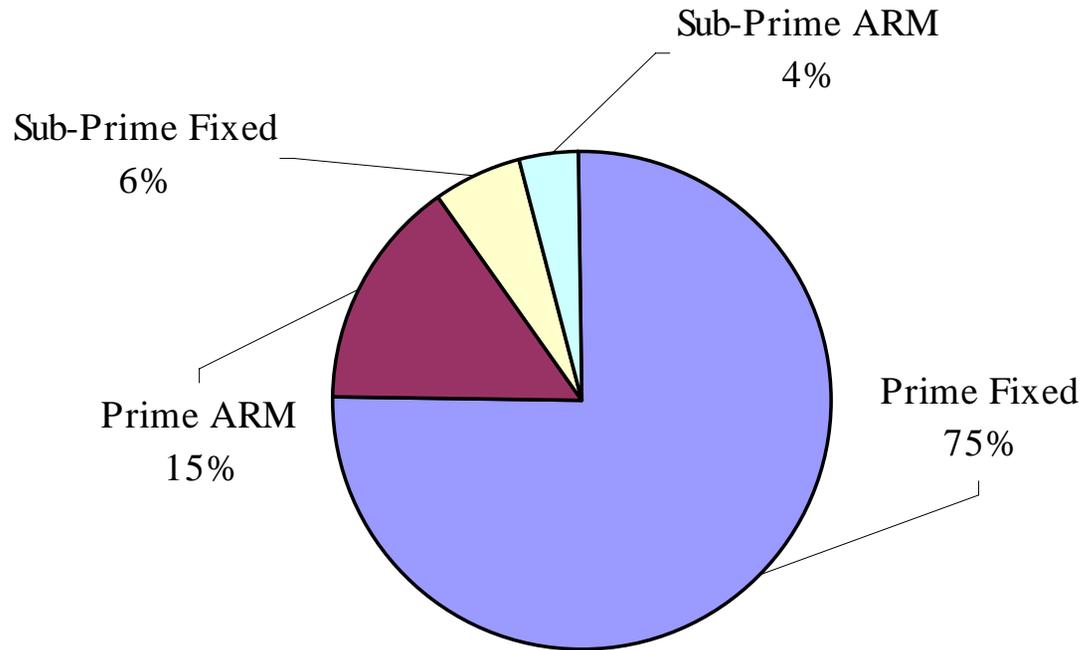
- Data shows that minority homeowners are more likely to have subprime loans:
 - 54% of African Americans have subprime loans
 - 47% of Hispanics have subprime loans
 - 18% of Whites have subprime loans

Data Source: Presentation by the Department of Labor, Licensing and Regulation, January 3, 2008

Mortgage Loans in Maryland

(Data Source: McDash)

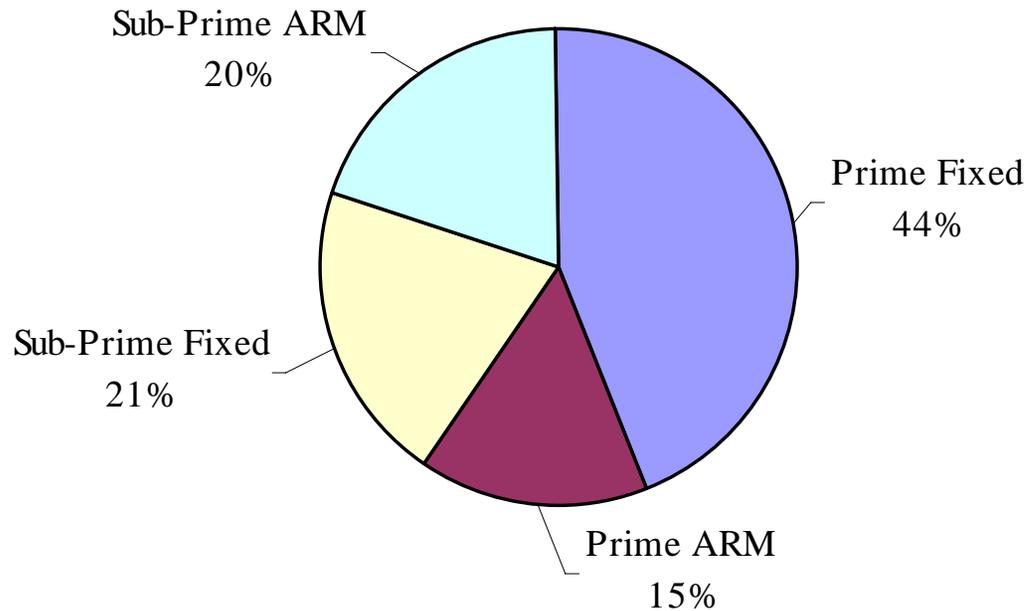
Mortgage Loan Inventory in Maryland, December 2007



Mortgage Delinquencies in Maryland

(Data Source: McDash)

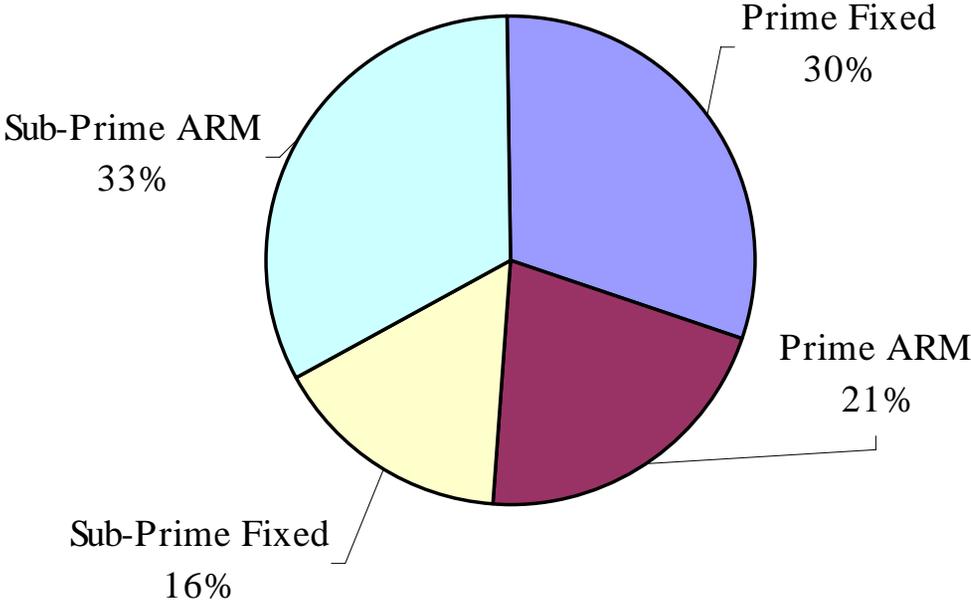
Mortgage Loan Delinquencies in Maryland, December 2007



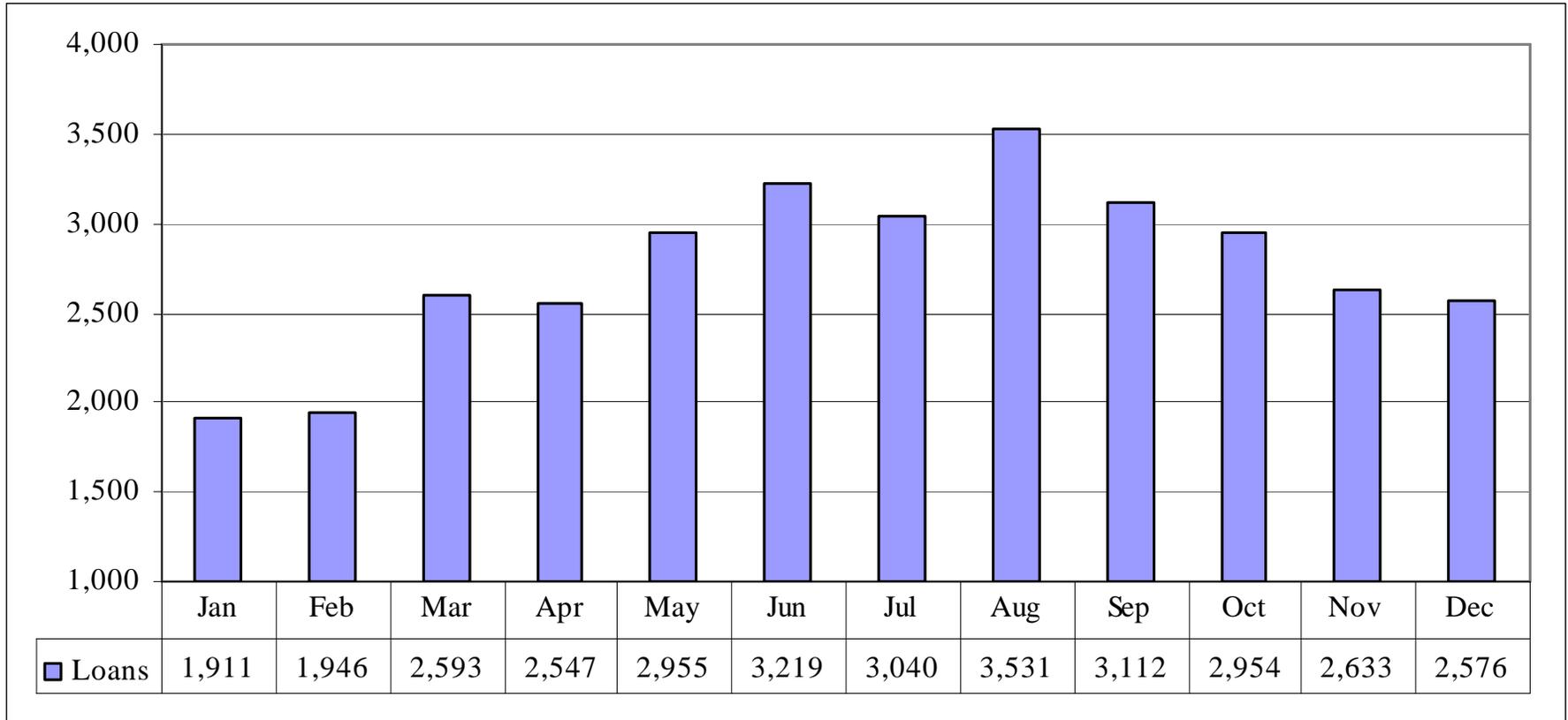
Mortgage Foreclosures in Maryland

(Data Source: McDash)

Mortgage Loan Foreclosures in Maryland, December 2007



Mortgage Resets in 2008



Home Owners Preserving Equity (HOPE)

In June 2007, Governor O'Malley announced the HOPE Initiative, an initiative that features a multi-pronged approach through DHCD to encourage homeownership preservation. HOPE includes:

- Increased financing for DHCD's mortgage refinance programs
- Funding for DHCD mortgage insurance to provide credit incentives to private financial institutions to either refinance or modify a mortgage loan
- Funding for housing counseling agencies throughout Maryland to support financial literacy, foreclosure prevention counseling, and general outreach about foreclosure issues to Maryland homeowners

Governor's Homeownership Preservation Task Force

- June 13, 2007: Governor O'Malley creates the Homeownership Preservation Task Force
- The Charge: Convene a broad array of stakeholders to identify critical issues and make recommendations on the foreclosure crisis
- The Co-Chairs: DHCD Secretary Raymond A. Skinner and DLLR Secretary Thomas E. Perez

Governor's Homeownership Preservation Task Force

Goals and Work Groups

The Task Force formed three work groups:

- **Financial Resources:**
 - Identify and assess available financial resources (public and private) to assist Maryland homeowners with inappropriate mortgages and recommend additional programs or financial products
- **Education and Outreach**
 - Review ongoing outreach, counseling, and educational programs and activities that focus on foreclosure prevention and recommend changes or enhancements as needed
- **Legal and Regulatory Reform**
 - Examine current laws and regulations governing the mortgage industry and foreclosure process and recommend legislative and regulatory reforms

Legislative Reforms

Governor O'Malley recently signed three pieces of emergency legislation to address the foreclosure crisis:

SB 216 / HB 365 - Real Property - Recordation of Instruments Securing Mortgage Loans and Foreclosure of Mortgages and Deeds of Trust on Residential Property

The legislation significantly lengthens the foreclosure process from 15 days to approximately 150 days making it fairer for homeowners and providing them with more time and notice before a foreclosure sale. It requires a lender to wait 90 days after default before filing the foreclosure action and to send a uniform Notice of Intent to Foreclose to the homeowner 45 days prior to filing an action. It also requires personal service to notify a homeowner of impending foreclosure action and requires that a sale may not occur for 45 days after service. A lender must produce proof of ownership when filing a foreclosure action. The bill codifies the right to cure, which will allow a homeowner to stop foreclosure by paying what is owed up until one business day before the sale.

Legislative Reforms

Governor O'Malley recently signed three pieces of emergency legislation to address the foreclosure crisis:

SB 217 / HB 360 - Real Property - Maryland Mortgage Fraud Protection Act

A comprehensive criminal mortgage fraud statute that makes mortgage fraud a crime for anyone involved in the mortgage transaction. The bill provides for significant fines and imprisonment for violators, and it also gives the court authority to order restitution and forfeiture and enhanced penalties for cases involving vulnerable adults. The bill also authorizes the Attorney General, a State's Attorney, and the Department of Labor, Licensing and Regulation's (DLLR's) Commissioner of Financial Regulation to take action to enforce the statute. The bill allows victims of mortgage fraud to bring private action against violators.

Legislative Reforms

Governor O'Malley recently signed three pieces of emergency legislation to address the foreclosure crisis:

SB 218 / HB 361 - Protection of Homeowners in Foreclosure - Prohibition on Foreclosure Rescue Transactions - Enforcement

An emergency bill that bans foreclosure rescue transactions that scam homeowners out of their homes and the equity they've built. The bill as passed also provides additional consumer protections for people who are trying to sell their homes because they are in default.

Governor O'Malley's Servicer Initiative

- Create a uniform, transparent set of guidelines for loss mitigation
- Agree to accept HOPE Housing Counseling agencies as partners in solving this problem
- Identify a representative from each servicer who are assigned to Maryland to help solve each case
- Agree to a quick and efficient process to make a decision and bring relief
- Create a process to evaluate those cases that do not fit in a set standard of guidelines

Lifeline Refinance Mortgage Program

The Lifeline Refinance mortgage program allows the Community Development Administration (CDA) to offer refinancing options to Marylanders who may be facing financial difficulties after purchasing a home with an “exotic” mortgage, defined as any type of adjustable rate mortgage (ARM), balloon payment loan, negative amortization loan or other unsuitable loan type.

Bridge to Hope Program

This statewide program provides Maryland homeowners with short-term relief to maintain homeownership by preventing residential mortgage foreclosures resulting from borrowers experiencing financial difficulty caused by either a sub-prime or exotic mortgage, such as a negative amortization loan or an adjustable rate mortgage (ARM) loan that has, or is preparing to, reset.

Homesaver Refinance Mortgage Program

The Homesaver Refinance Mortgage Program allows CDA to offer another refinance option to Marylanders who have sub-prime or exotic mortgages and are experiencing difficulties as a result of mortgage default, low credit scores and/or a mortgage greater than the current value of their home. An “exotic” mortgage is defined as any type of adjustable rate mortgage (ARM), balloon payment loan, or negative amortization loan.

HOPE Counseling Agencies

- DHCD provided \$1.3 million dollars to 17 community based housing counseling agencies and Civil Justice a legal Advocacy organization
- Funds were provided through the Maryland Affordable Housing Trust
- DHCD is assisting in training and support and expects to continue to support these organizations
- These organizations serve all 24 local jurisdictions in Maryland

HOPE Counseling Agencies

- Actively looking for additional organizations
- Organizations were chosen based on their capacity and experience
- DHCD will be working to establish statewide standards for housing counseling and foreclosure prevention
- Recently received an award of approximately \$900,000 through NeighborWorks America from the Department of Housing and Urban Development (HUD)

Working with the Federal Government

- *President and the U.S. Congress have responded with the following actions:*
 - *FHASecure*, a program of the U.S. Department of Housing and Urban Development (HUD) announced in August 2007, provides refinancing opportunities to stronger borrowers who are facing interest rate resets in the coming months
 - Options for subprime borrowers who have income and relatively clean payment histories, but who can not afford an interest rate reset - including rate freezes, fast tracking borrowers into loan modification with existing lenders, or refinancing under *FHASecure* or similar product
 - Federal legislation that will allow for increases in single family housing bond authority (volume cap) for Mortgage Revenue Bonds (MRBs) and allow these bond funds to be used for refinancings
 - FHA reform to allow more borrowers to become eligible for FHA loan products (i.e., increased loan amounts)

For Further Information

www.mdhope.org

Product information on:

Lifeline Refinance Program
Homesaver Refinance Program
Bridge to Hope Program

DHCD HOPE HOTLINE: 1-877-462-7555

DLLR: 1-888-784-0136