SUN Initiative
Criteria for Identifying Target Markets

The SUN Initiative tackles foreclosures on a case-by-case basis. Yet the success of replicating the program as a whole requires that the environment in which it is launched is conducive to both its ability to help the largest number of homeowners and to the depths of its impact in the surrounding neighborhoods and cities. Our goal was to identify external factors that best support our ability to stem the "ripple effect" at each level.

Family:

What factors would allow the program to reach the largest number of families in foreclosure, and to have the greatest likelihood of a successful outcome as defined by keeping the family in their home with an affordable mortgage?

Neighborhood:

What factors would allow the program to target neighborhoods most at risk of the negative results of a high concentration of foreclosures, and to have the greatest depth of impact as defined by reducing crime, avoiding disinvestment, and stabilizing home prices

City:

What factors would allow the program to effect change in the cities at greatest risk of vacancy-induced tax revenue decline and reversal of city investment in urban revitalization?

Through our practical experience in Massachusetts, and through our research into the impact of foreclosures on neighborhoods nationwide, we have developed the following criteria that can be used to identify and analyze target communities. These are areas in which we anticipate SUN could most successfully be replicated to affect change at the family, neighborhood and city levels.

1. Inner-city communities experiencing high foreclosure rates

The concentration of foreclosures within an urban community is the first key determinant of replicability. The SUN Initiative is designed to address areas in which high levels of foreclosure threaten the stability of an entire neighborhood.

A study commissioned at the height of the subprime crisis found that foreclosure rates are 50 percent higher in inner-city neighborhoods than in other areas of the city. Among owner-occupied properties, rates of foreclosure are twice as high in inner-city neighborhoods as other neighborhoods within the city (The Initiative for a Competitive Inner City 2008).

When there is a high concentration of foreclosed homes in a geographic area, negative consequences spill over into the surrounding homes. The 'spillover' effects of foreclosure are dramatic. Since the beginning of the mortgage foreclosure crisis, inner-city neighborhoods have seen the steepest decline in real estate price. Between 2005 and 2010, precipitated in large part by the foreclosure crisis, home prices in Boston's lowest income urban neighborhoods had fallen between 30 and 39% (Bluestone and Billingham 2011). On a national scale, the same trend is found throughout major urban areas. Decline in home values reduces home equity, which in turn fuels the foreclosure rate within a neighborhood. The Pew Charitable Trust, in an analysis of data provided by the Center for Responsible Lending, estimate that homeowners nationwide could lose $356 billion in home equity by being in close proximity to foreclosed properties (Pew Center on the States 2008). Research demonstrates that families with equity in their homes will be significantly more likely to exercise other options, such as selling their home or refinancing, when faced with difficulty paying their mortgage. As home equity declines, homeowners have fewer options to exercise and are at a much greater risk of default (Gerardi and Willen 2008). Thus, as foreclosure concentrations in a neighborhood drive down prices, others in the immediate community are more likely to also fall into foreclosure. At the city level, municipalities in which a high percentage of homeowners are highly leveraged react more sensitively to financial shocks (Lamont and Stein 1997).

The compounding effect described above is magnified by the resulting vacancy when the property is not rapidly resold. While foreclosed properties in higher income areas typically resell immediately or following a brief period of vacancy, there is a greater likelihood of properties in low-income areas remaining vacant longer (Immergluck and Smith November 2006). This phenomenon, too, has a feedback effect, such that potential buyers have lower confidence in neighborhoods with a concentration of vacant homes. Extended vacancies, especially when widespread, may result in decay and blight, and are a statistically significant predictor of an increase in violent crime within the neighborhood (Immergluck and Smith November 2006).

With housing density an average of 2.5 times higher in inner-city neighborhoods, these compounding effects touch a greater number of properties within inner-cities (The Initiative for a Competitive Inner City 2008). The SUN Initiative model therefore can have its greatest impact when applied at the inner-city level. This environment provides both the concentration to bring the program rapidly to scale and the ability for the program to have a significantly greater impact beyond the effect on the participant families.

2. ***Sharp declines in real estate prices that bring current property values in line with median family incomes such that a working family can afford a 30-year fixed-rate mortgage***

The success of the SUN program is predicated upon the delta between the outstanding mortgage balance and the current value of the home. As we have explored, price declines in metropolitan areas have precipitated spillover effects in the foreclosure crisis. Yet the success of the program is dependent upon the fact that home prices have declined sufficiently that families with moderate or reduced incomes are able to afford to repurchase homes with SUN's 30-year fixed-rate mortgage product. Additionally, the ability for a working family to afford the home at current values supports the collateral value and provides comfort to future investors purchasing these mortgages on the secondary market.

A reliable calculator to identify communities falling into this bracket is the National Association of Homebuilders/Wells Fargo Housing Opportunity Index (HOI.) The HOI considers the percentage of homes sold in area that are affordable to a family earning the local median income (Homebuilders 2012). An analysis of the index data from fourth quarter 2011 suggests that 75.9 of all homes sold in the quarter were affordable to families earning the national median income (National Association of Home Builders 2012). This data demonstrates that the area in which replicated SUN Initiative programs can be effective is widespread.

3. A foreclosure and eviction process that takes into account the needs of borrowers

In Fall 2011, BCC CEO Elyse Cherry taught a seminar at Northeastern University School of Law called, "Enhancing the Flow of Capital to Low-Income Communities: A Lawyer's Role." In context of that class, third-year law students conducted research on the foreclosure and eviction process in eight jurisdictions (NY, CA, FL, NV, AZ, TX, GA, and DE). While some of these states (e.g. NY, CA, FL, NV and AZ) were chosen because of their high concentrations of foreclosure, others were chosen to highlight the differences among the states. As a result of that work, we've developed a far more sophisticated level of understanding – not just about the jurisdictions we studied, but also about the key characteristics to pay attention to in any jurisdiction. What we now have is greater understanding that while we may have a national system of mortgage of finance, our system of foreclosure and eviction is unique in each of the 50 states. Depending upon foreclosure volume, whether the process is judicial or non-judicial, and whether mediation exists, the length of the foreclosure process and the outcomes vary dramatically. The average length of time from initial default to eviction varies from 70 to over 1,000 days.

Despite a decrease in the number of new foreclosure filings over the past year, the existing volume and backlog of foreclosure cases has dramatically extended the length of the foreclosure process. Nationally, the average length of the foreclosure process climbed to 348 days at year end 2011 from 305 days at year end 2010[1]. Prior to the third quarter of 2010, which marked the beginning of the slowdowns associated with the "robo-signing" issues, the average foreclosure took only 281 days[2]. The longest foreclosure processes were in New York, taking an average of 1,019 days to complete, New Jersey (964 days) and Florida (806 days), while states with the shortest foreclosure timeframes included Texas (90 days), Delaware (106 days), and Kentucky

[1] RealtyTrac. *2011 Year-End Foreclosure Report: Foreclosures on the Retreat*. RealtyTrac, January 9, 2012. www.realtytrac.com

[2] RealtyTrac. *Op. Cit.*

(108 days.) In California, the state with the highest number of foreclosures, the process averaged 352 days[3].

States with established mediation processes are likely to be good candidates for a SUN program. Mediation allows potential clients to learn about and have access to services such as the SUN program early enough in the foreclosure process that they are able to make a difference in the outcome. The Center for American Progress found in their 2010 study of state-based foreclosure mediation programs that the chance of a successful resolution for borrowers was higher in states with mediation programs and dramatically higher in states in which mediation was automatically scheduled (Cohen and Jakabovics June 2010). Mediation proceedings may expedite the state's foreclosure process by working more efficiently towards resolution (Cohen and Jakabovics June 2010). However they help clients to explore options in enough time for a program such as SUN to work with the client even in states with relatively rapid foreclosure timelines. An example of such a process is the much-touted Diversion Court in Philadelphia, PA. In this case, as well as a face-to-face meeting with their lender, there is a hotline process in place to connect homeowners with non-profit housing counselors and legal aid (The Reinvestment Fund June 2011). As demonstrated in the next section, these groups have been key partners for the Sun Initiative's program in Boston, and can serve as a screening and referral source. Thus, the mediation process serves to funnel homeowners toward groups who can, in turn, develop a pipeline for a SUN-equivalent program.

4. **Strong networks of community partners, including foreclosure counselors, community organizers, and legal services organizations that will allow us to mirror the "sword, shield and bank" model that has been effective here in Boston**

The SUN Initiative has relied on networks with trusted community partners for several purposes: as a referral source, as a support system for borrowers, and as advocates and activists within the foreclosure process. SUN's efforts benefit from a triple-pronged approach reporters have referred to as the "Sword, Shield, and Bank" model, in which legal services serve as the "shield", community organizers as the "sword", the SUN Initiative as the bank. An Urban Institute Report funded by the Open Society Institute found that legal assistance, nonprofit counselors with established servicer and agency relationships, and outreach networks were all key pieces of a successful program to keep families in their homes (Kingsley, Smith and Price May 2009).

Nationally, foreclosure counselors have served the same functions and improved the success of foreclosure mediation programs. Clients working with foreclosure counselors are significantly more likely to receive a successful mediation outcome. The Urban Institute's 2010 evaluation of the National Foreclosure Mitigation Counseling Program, as summarized in the National Consumer Law Center's Rebuilding America report, found that counseled borrowers were more than fifty percent more likely to obtain a successful, sustainable modification (Walsh February 2012). Additionally, clients who have worked with foreclosure and/or homeownership counselors are significantly more likely to avoid recidivism on their mortgage going forward (Quercia, Cowan and Moreno December 8, 2005).

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[3] Reckard, E. Scott. *Foreclosures expected to rise, pushing home prices lower.* The Los Angeles Times, January 12, 2012.

Community organizers refer their clients to the SUN Initiative. They have also been an active voice in bringing attention to the issue of foreclosure vacancies, attracting community support and increasing the visibility of the SUN Initiative as a foreclosuresolution.

Community partners are also key to the process because the work of counselors, organizers, and legal services can "buy time" in the foreclosure proceedings at critical points to allow for the borrower to negotiate a successful outcome. In the case of the SUN program, this allows time to negotiate an offer to purchase with the loan servicer.

5. Financing partners interested in providing the grant, equity and loan capital needed for launch

Replicating the SUN program requires the ability to raise capital from committed financing partners. In our SUN blueprint, we discussed he ways in which the SUN Initiative identified and attracted financing. It is important to note that there are stakeholders who have financial reasons to be engaged in the initiative.

Funders who have previously supported the redevelopment of urban neighborhoods may be particularly invested stakeholders because of the risk that the foreclosure ripple effect poses to their prior investments. It is projected that inner-city neighborhoods with recent improvements to livability and stability are most at risk of destabilization resulting from the foreclosure crisis (The Initiative for a Competitive Inner City 2008).

SUN's fundraising efforts benefitted from an engaged community of social investors committed to addressing foreclosure to stabilize families and neighborhoods. These investors, many of whom have partnered with Boston Community Capital over the years in our work to build healthy communities where low-income people live and work, joined us with grant, equity and loan capital we needed to support our launch.

Additionally, cities and states have an incentive to invest in programs that preserve their inner-city tax base. Cities are currently facing the potential of several billions of dollars in lost tax revenue as a result of foreclosure-related vacancy (Global Insight November 2007). Neighborhoods with high foreclosure density cost the city to a greater extent than neighborhoods with lower foreclosure for maintenance services, securing buildings, additional policing, and even demolition (Kingsley, Smith and Price May 2009). Again, this results in a spillover effect on the remaining residents of the neighborhoods as services may be cut to bring stretched municipal budgets back into balance (Vidmar August 2008).

For these reasons, existing public, private, and non-profit stakeholders in the targeted communities can be identified as funding partners willing to support an initiative which will stem the impact of foreclosures at the neighborhood and city level.

6. **Banks and loan servicers willing to sell properties at significant discounts off prior mortgage values.**

The ability of SUN to sell homes back to their owners with an affordable fixed-rate mortgage is dependent upon the original mortgagor selling the property below the outstanding mortgage amount. The SUN Initiative has had success working with a range of servicers, from local banks to large national servicers. A list of the banks with whom we have worked pre- and post-foreclosure is included below. We anticipate that our experience in this regard can be translated to other geographic areas, with national servicers who work with us likely willing to replicate their actions elsewhere, and local banks more likely to develop relationships with programs working in their vicinity.

- Short Sale (pre foreclosure):
    - Bank of America;
    - American Home Mortgage Servicing Inc. (AHMSI);
    - Select Portfolio Servicing (SPS);
    - Specialized Loan Servicing (SLS);
    - HSBC and other banks in the HBSC group such as HFC, and Beneficial;
    - Carrington Mortgage (this group will not forgive the difference between the unpaid principal balance and the purchase price, so they reserve the right to pursue a deficiency judgment.)
- REO (post foreclosure):
    - Bank of America;
    - Wells Fargo;
    - HSBC;
    - FNMA;
    - US Bank

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