

Arizona Foreclosure Prevention Innovation Fund

*Funded through the U.S. Treasury
Emergency Economic Stabilization Act of 2008 (EESA)*

The Foreclosure Problem

Arizona's home foreclosure rate is currently second in the nation. In 2009 the greater Phoenix area experienced approximately 52,000 foreclosures and a total of 74,000 in Arizona. March 2010 recorded 5,556 foreclosures in the Phoenix area, the highest monthly rate ever in Arizona. Through the first quarter of 2010 the greater Phoenix area is on track for another year with 52,000 foreclosures. While many early foreclosures were a result of over-speculation of single-family homes by investors and resets on adjustable rate mortgages, many Arizona households now face foreclosures due to:

- Job loss or reduced incomes as a result of an ailing economy; and
- Households who choose foreclosure rather than remain in homes where the amount owed far outweighs the current value of the home.

Why do we care?

Foreclosures are a drag on the overall Arizona economy, destabilizing families and neighborhoods. As long as foreclosures continue at today's rates, families will continue to be displaced from their homes, neighborhoods will not stabilize and Arizona's real estate business cannot recover to increase employment.

U.S. Treasury EESA Grant

Arizona, California, Nevada, Florida and Michigan, the "hardest hit states", are slated to receive financial aid totaling \$1.5 billion from the U.S. Treasury (Treasury) to be available as early as this summer to provide innovative measures to reduce foreclosures. Arizona expects to receive \$125.1 million.

Relative to the foreclosure problem in Arizona \$125.1 million is a small amount of funds that have the potential to assist approximately 4,000 households.

Current federal efforts to reduce foreclosures through loan modification are not producing the desired results. A loan modification can take up to eight months and the majority of homeowners who receive modifications go into foreclosure within one year. The goal to achieve a house payment that does not exceed 31% of gross monthly income is currently accomplished by offering temporary interest rate reductions and term extensions through loan modifications.

Interest rate reductions temporarily reduce the interest rate to as low as 2% and the terms are similar to an adjustable rate mortgage, increasing over a five-year period to the market rate. Term extensions re-amortize the payment on an extended term, from 30 years to 40 years, but do not extend the maturity date resulting in a balloon payment at

the end of the original term. Both of these modification tools create volatility for the homeowner and neither address Arizona's significant loan to value issue. The recent Bank of America Countrywide settlement and additions to the federal government's Home Affordable Modification Program (HAMP) now include principal reduction elements. Adding a principal reduction element to loan modifications that reduces the principal balance down to approximately 110% of the value of the home gives the homeowner hope that with modest appreciation over the next few years their principal balance will once again not exceed the value of their home.

There is no one answer for this broad and complicated problem.

Guiding Principles

In designing a program the Arizona Department of Housing (ADOH) has developed the following guiding principles to ensure that it assists homeowners who have demonstrated "**personal responsibility**" in their home purchase choices heretofore. It is the state's intent to assist those who, through no fault of their own, are facing the potential loss of their home due to the current and unprecedented economic conditions.

- **Foreclosures must be imminent.** Resources would only be utilized for households who have exhausted all options in remaining current on their mortgage payments. For instance, households who continue to pay other debt such as credit card debt, while neglecting to pay their primary mortgage may not be eligible for assistance.
- **Modest primary residences.** Resources would only be utilized for primary residences. Homeowners owning multiple residences (e.g., vacation homes, etc.) would not be eligible for assistance with *any* residence.
- **Modest and reduced incomes.** Resources would only be utilized to assist households with incomes at or below 120 percent of the area median income. Additionally, households would have to demonstrate that their incomes had been reduced since the home was last financed.
- **Personal responsibility.** Resources would not be used to assist households who face foreclosure due to "self-inflicted" wounds (e.g., refinancing to take out equity, mortgages based on undocumented income, risky loan programs, etc.)
- **Statewide availability.** Resources would be made available statewide. However, geographic set-asides would be devised to assure distribution commensurate with the foreclosure rates.
- **Hardships.** Applicant must demonstrate an approvable hardship. Those include; reduced income due to underemployment, medical condition, divorce or death.

All program options researched and considered

Types of assistance	Recommended?	Reasoning
Permanent mortgage modifications	Yes	Rate and principal reduction and/or term extension can once again make home affordable and incent homeowner to stay in home for the long-term, stabilizing neighborhoods.
Second mortgage settlement	Yes/Conditional	Only if it is part of the purchase mortgage and required for modification of primary mortgage.
Temporary mortgage assistance	Yes/Limited	Avoids immediate foreclosure; provides time for a better long-term solution; short-term assistance may be all that is needed
Short sale assistance	No	Market is already experiencing a significant increase in the use of this tool.
Homeowner Advocacy through HUD Counselors	Yes	Homeowners seeking a loan modification currently have to negotiate through the lenders maze of multiple individuals working on case, lost documents etc.
Support to strategic foreclosures	No	A strategic foreclosure would be defined as a homeowner who is capable of paying their mortgage but chooses not to.
Investor support	No	Investing comes with risk
Re-employment assistance program	No	Job training provides no immediate improvement to housing situation

Recommended Programs

- Permanent Modifications.** Applicants must demonstrate personal responsibility. Their inability to pay mortgage is a result of an approved hardship. Must be 60 days delinquent. Modification would consider principal reduction, rate decrease, and/or term extension to achieve a monthly payment that does not exceed 31 percent of the homeowner's monthly income. For a principal reduction, the principal balance must exceed 120 percent of present market value of the home. The homeowner could qualify for a maximum contribution of \$50,000 that is matched by the lender and forgiven over a period of time. A rate reduction to the current market rate and, if needed, a term extension.
- Second Mortgage Settlements.** Assistance to remove seconds when necessary to modify terms of primary loan, only if part of purchase mortgage.

- **Temporary Modifications/Mortgage Payment Relief.** Assistance to pre-pay a portion of mortgage loan payments for a pre-determined amount of time (e.g., up to 24 months) to give underemployed homeowners relief for a reasonable period of time while they are actively seeking to become more meaningfully employed.

Recommended Terms

- For Permanent Modifications including principal reductions, **lenders must participate financially** at an amount equal to or greater than the state's financial assistance.
- **Loans** to homeowners that are forgiven over time (earned forgiveness), to incentivize people to remain in their homes and to assure no windfalls to homeowners as appreciation values return.

For program updates, go to www.azhousing.gov

