

Helping the Unemployed Avoid Foreclosure: A 50 State Solution

Most new mortgage foreclosures are caused by unemployment.¹ Bridge loans for those who are temporarily unable to make their mortgage payments through no fault of their own are a proven way to help unemployed homeowners avoid foreclosure while they look for new employment. Recently announced changes to HAMP would provide unemployed borrowers 3-6 months of forbearance.² Given that the current average length of unemployment is nearly 8 months³, HAMP will not stem the tide of unemployment induced foreclosures.

Pennsylvania's Homeowner Emergency Mortgage Assistance Program (HEMAP) is an effective program for helping temporarily unemployed homeowners stay in their homes. HEMAP provides bridge loans to borrowers to help them make their mortgage payments and keep their homes during periods of unemployment or underemployment. HEMAP typically provides 24 months of assistance. In times of high unemployment, assistance is available for up to 36 months. During 2005-2007, the average length of HEMAP support was 18-20 months.⁴

HEMAP is at the core of several new recently proposed federal foreclosure prevention programs. In December, 2009, the US House of Representatives passed the Wall Street Reform and Consumer Protection Act of 2009, which included a provision that would provide \$3 billion for short-term loans to unemployed homeowners.⁵ A similar measure is pending in the Senate.⁶ In February, President Obama announced a new five state program to help unemployed homeowners.⁷ In March, an additional five states were added to the list.⁸ We must support and strengthen these initial efforts to create a 50 state solution for unemployed and underemployed borrowers.

The number of unemployed Americans and the average length of unemployment are at or near record highs. 15 million Americans were unemployed as of February, 2010.⁹ At the same time, a record number of mortgages, 15.02%, were either delinquent or in foreclosure.¹⁰ The mortgage delinquency rate is now following the same pattern as the unemployment rate.¹¹ NeighborWorks indicated that 54% of those seeking housing counseling services from its network of HUD-certified housing counseling agencies in 2009 were unemployed or underemployed. In April, the Bureau of Labor Statistics announced that the average length of unemployment is 31.2 weeks – nearly 8 months.¹²

HAMP does not help the average unemployed homeowner. The signature federal foreclosure prevention effort, Home Affordable Modification Program (HAMP) is not designed to assist the unemployed.¹³ If you do not have income, you are unlikely to qualify for a mortgage modification under HAMP. The 3-6 month forbearance program will help, but given that the current average length of unemployment is nearly eight months, HAMP is not a solution for most unemployed homeowners.

HEMAP works. HEMAP was created in the 1980s to respond to high unemployment in Pennsylvania. Like many Americans today, those workers had reasonable mortgages and solid work histories, but unexpectedly lost their jobs. As of October 31, 2009, HEMAP had approved 43,247 applications and disbursed \$450,475,778 in HEMAP loans (and closing costs). Approximately 80% of those who receive HEMAP loans are ultimately able to keep their homes.

The HEMAP program is cost effective. The average HEMAP loan is just under \$11,000.¹⁴ The average cost of a foreclosure is more than \$50,000.¹⁵ A single foreclosure has been estimated to cost as much as \$34,000 to the local government and \$220,000 to neighbors in property value and home equity losses.¹⁶ The primary mechanism for returning

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foreclosed homes to occupancy is the Neighborhood Stabilization Program (NSP), which is focused on rehabilitating and reselling foreclosed homes. NSP costs are vastly higher – in some areas averaging more than \$100,000 per unit.¹⁷ Foreclosure prevention is a better alternative.

The HEMAP program is sustainable. The HEMAP program has received a total of \$233,450,000 in state appropriations, an average of approximately \$8.6 million per year.¹⁸ The actual amount of annual appropriations has varied significantly, but the nature of the HEMAP program allows it to sustain itself during low funding years by using repayments from prior HEMAP loans. As of October 31, 2009, HEMAP borrowers had repaid \$249,694,934 (nearly half of the total disbursements). 20,194 of the loans had been repaid in full. HEMAP administrative costs are in line with administrative costs in federally funding housing counseling programs such as National Foreclosure Mitigation Counseling Program.

A national HEMAP program will complement HAMP. Having an alternate program that helps unemployed workers will take some of the administrative stress off of the HAMP program. Having an alternative program designed for unemployed workers should reduce the number of HAMP applicants from those who clearly do not qualify, reducing the strain on the HAMP system and improving its success rate.

We must act now. Over the last year the number of unemployed has increased by 5.5 million, which increased the number of seriously delinquent loans by 2 million.¹⁹ 2.5 million borrowers who need assistance will be ineligible for HAMP due to a debt to income ratio is less than 31%.²⁰ HEMAP is a targeted program with demonstrated success keeping unemployed workers in their homes during periods of temporary unemployment. Taking immediate steps to fund and implement a 50 state HEMAP solution is the best way to prevent unemployment-related foreclosures and stabilize our communities.

¹ Jeff Gatica et al., *Containing a Firestorm: Adaptive Policies Needed to Address Changing Foreclosure Landscape*, CR Forum (Federal Reserve Bank of Cleveland, February 19, 2010), http://www.clevelandfed.org/Community_Development/publications/CR_Forum/201002/index.cfm.

² Department of Housing and Urban Development, "Making Home Affordable - HUD Secretary Donovan Announces New FHA-Making Home Affordable Loan Modification Guidelines," April 12, 2010, http://makinghomeaffordable.gov/pr_03292010.html.

³ Bureau of Labor Statistics, *Table A-12. Unemployed persons by duration of unemployment* (Bureau of Labor Statistics, April 2, 2010), <http://www.bls.gov/news.release/empsit.t12.htm>.

⁴ Internal HEMAP Program Data, unpublished.

⁵ *Wall Street Reform and Consumer Protection Act of 2009*, 2010, http://frwebgate.access.gpo.gov/cgi-bin/getdoc.cgi?dbname=111_cong_bills&docid=f:h4173rfs.txt.pdf.

⁶ Senator Casey, *Homeowners' Relief and Neighborhood Stabilization Act of 2010*, 2010, http://frwebgate.access.gpo.gov/cgi-bin/getdoc.cgi?dbname=111_cong_bills&docid=f:s2969is.txt.pdf.

⁷ Sarah Apsel, "Helping the Hardest Hit Housing Markets | The White House," government, *whitehouse.gov*, February 19, 2010, <http://www.whitehouse.gov/blog/2010/02/19/helping-hardest-hit-housing-markets>.

⁸ "Administration Announces Second Round of Assistance for Hardest-Hit Housing Markets: Second HFA Hardest Hit Fund to Help Address Urgent Problems Facing Families in States with Concentrated Areas of Economic Distress" (Department of Housing and Urban Development, April 12, 2010), http://makinghomeaffordable.gov/pr_03292010.html.

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⁹ Department of Labor, "The Employment Situation – March 2010, April 2, 2010," <http://www.bls.gov/news.release/empstat.nr0.htm>.

¹⁰ Julie Haviv, "US mortgages foreclosing, delinquent at 15 pct Q4-MBA," *Reuters*, February 18, 2010, <http://www.reuters.com/article/idUSN1917328120100219>.

¹¹ Ibid.

¹² Bureau of Labor Statistics, *Table A-12. Unemployed persons by duration of unemployment*, <http://www.bls.gov/news.release/empstat.t12.htm>.

¹³ *OCTOBER OVERSIGHT REPORT: An Assessment of Foreclosure Mitigation Efforts After Six Months* (Congressional Oversight Panel, October 9, 2009), <http://cop.senate.gov/documents/cop-100909-report.pdf>.

¹⁴ Internal HEMAP Program Data, unpublished.

¹⁵ *LENDERS' COST OF FORECLOSURE*, Policy Paper, Congressional Education Series Briefing (Mortgage Bankers Association, May 28, 2008), <http://www.nga.org/Files/pdf/0805FORECLOSUREMORTGAGE.PDF>.

¹⁶ William C. Apgar, Mark Duda, and Rochelle Nawrocki Gorey, *The Municipal Cost of Foreclosures: A Chicago Case Study*, Housing Finance Policy Research Paper (Homeownership Preservation Foundation, February 27, 2005).

¹⁷ Ellen Sahli, "An Update on the Chicago Neighborhood Stabilization Program," March 11, 2010, <http://www.cityofchicago.org/content/dam/city/depts/dcd/banners/newsiteimages/nsppublichearing.pdf>.

¹⁸ Internal HEMAP Program Data, unpublished.

¹⁹ John A. Courson, "Letter to Timothy F. Geithner from Mortgage Bankers Association," February 18, 2010, http://www.mortgagebankers.org/files/News/InternalResource/71954_GeithnerLetter.pdf.

²⁰ *Making Home Affordable Program: Servicer Performance Report Through January 2010*, Servicer Performance Report (United States Department of Treasury), <http://www.financialstability.gov/docs/press/January%20Report%20FINAL%2002%2016%2010.pdf>.