NYC FORECLOSURE PREVENTION GAP LOAN PROGRAM

IMPACT REPORT

NOVEMBER 2014

NEW ECONOMY PROJECT

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ACKNOWLEDGEMENTS

New Economy Project thanks its many allies who helped make the NYC Foreclosure Prevention Gap Loan Program a success, including dozens of foreclosure prevention legal services advocates and counselors from throughout the city. We especially thank our lending partners at FJC and the Lower East Side People's Federal Credit Union, and express our profound appreciation to the anonymous donor who provided the inspiration and lending capital that made the Program possible.

NYC Foreclosure Prevention Gap Loan Program: Impact Report

This report was produced by New Economy Project.
Authors: Alexis Iwanisziw and Sarah Ludwig
Research and Data Analysis: Nico Gurian, Ashley Shan and Arielle Sullivan
Mapping: Ashley Shan
Production: Ben Hagen

NEW ECONOMY PROJECT

Introduction

At the height of the financial meltdown, in July 2008, New Economy Project launched the NYC Foreclosure Prevention Gap Loan Program, geared to low income NYC homeowners harmed by predatory lending and loan servicing practices. The Program, which we operated until December 2013, provided small, low-interest loans that enabled 386 New Yorkers to stop foreclosure and stay in their homes. The Gap Loan Program provided a total of $1.58 million in loans, which preserved more than $20 million in home equity.

The Program was designed to complement other foreclosure prevention efforts, by filling "gaps" in financing needed to obtain affordable loan modifications and other long-term solutions to keep people in their homes. Gap Loans provided homeowners and their advocates with a critical negotiating tool, which they used to secure substantial principal write-downs, short pay-offs, and sustainable loan modifications from banks and mortgage servicers. New York City and State have both replicated our loan fund, making public funds available for foreclosure prevention.

New Economy Project established the Gap Loan Program after years of working to end discriminatory and abusive lending practices that have devastated low income neighborhoods and communities of color. Indeed, lenders filed more than 68,000 home foreclosure actions in NYC, from 2008 to 2013 -- the vast majority of which were in low income neighborhoods and communities of color.[1]

This summary report describes the Program's impact and describes opportunities and challenges in lending to homeowners in severe financial distress. The report includes borrower case examples and a NYC map showing where Foreclosure Prevention Gap Loans were made.

1 New Economy Project analyzed foreclosure actions filed on 1-4 family homes in New York City, from 2008 to 2013, using lis pendens data from Profiles Publications and First American CoreLogic.

Findings

HELPING BORROWERS AVOID FORECLOSURE AND REDUCE MORTGAGE DEBT

New Economy Project's Foreclosure Prevention Gap Loan Program enabled hundreds of lower-income New Yorkers to keep their homes and significantly reduce their mortgage debt. In total, the Gap Loan Program:

- Helped 116 households, and a total of 386 NYC residents, avoid foreclosure.
- Preserved at least $20.83 million in home equity, the primary source of wealth for many low income families. Every $1 from the Gap Loan Program preserved more than $13 in borrowers' home equity.[2]
- Reduced borrowers' mortgage debt by approximately $4.83 million. Every $1 from the Gap Loan Program reduced borrowers' housing-related debt by $3.05.
- Reduced borrowers' total monthly housing payments by 27.1%, or $566, on average.

The Program enabled borrowers to realize significant reductions in the percentage of their income they spent on housing.

- After receiving a Gap Loan, borrowers' housing payments decreased from 43.9% of their monthly incomes to 29.0%, on average – a reduction that brought their housing costs within conventional guidelines of affordability.

How Gap Loans Were Used to Avert Foreclosure

Purpose of Gap Loan	# of Borrowers	% of Borrowers
Reinstate/Pay off primary loans*	51	44.0%
Secure affordable loan modification	34	29.3%
Pay off second mortgage loans	26	22.4%
Pay water/tax lien that put home at foreclosure risk	8	6.9%
Obtain reverse mortgage or prevent reverse mortgage foreclosure	7	6.0%
Secure affordable refinance loans	3	2.6%

Note: Some borrowers used Gap Loans for more than one purpose.
* Includes 9 first-lien mortgage payoffs.

2 Home equity calculations are based on borrowers' home values as of July 2014, and mortgage debt outstanding as of their Gap Loan closing date. These are conservative estimates and do not account for future equity homeowners will build through mortgage payments and appreciating home values, for example.

Race and Ethnicity of All Gap Loan Borrowers

Race/Ethnicity	# of Borrowers	% of Borrowers
Black	48	41.4%
Unreported	29	25.0%
Latino	21	18.1%
White	12	10.3%
Multiple Races	3	2.6%
Other	2	1.7%
Asian	1	0.9%

Loan Modifications

New Economy Project's Gap Loan Program helped 34 New Yorkers obtain loan modifications from mortgage servicers. About a third of these borrowers received loan modifications through the federal Home Affordable Modification Program (HAMP). The remainder received "in-house" modifications from their mortgage servicers – either because the servicer did not participate in HAMP or because the borrower did not qualify for HAMP.

Almost everyone whom we helped to obtain a loan modification had received a predatory loan or experienced abusive mortgage servicing. Gap Loan borrowers who received loan modifications reduced their mortgage interest rates by about one-third and saved $818 on their monthly payments, on average.

Second Mortgage Payoffs

The Program was especially effective at addressing high-interest second mortgages. Lenders commonly tacked second mortgages, or "piggy-back" mortgages, onto predatory home purchase loans, often without borrowers' knowledge. The average interest rate of second mortgages paid off through the Gap Loan Program was 9.61%.

The Program leveraged funds to extinguish abusive second mortgages, through short pay-offs of these loans. For every Program dollar paid to settle a second mortgage, the Program eliminated $5.48 in mortgage debt. The Program enabled 26 borrowers to settle more than $2.28 million in second mortgage debt, using just $416,000 in lending capital. These loan pay-offs translated to an average monthly savings of $671 per household.

PREVALENCE OF PREDATORY MORTGAGES AND ABUSIVE SERVICING

The Gap Loan Program prioritized lending to New York City homeowners whom lenders targeted for predatory mortgage loans or who experienced abusive loan servicing. Of 116 total borrowers, 86 (74.1%) had received predatory mortgages and/or experienced mortgage servicing abuses. Many borrowers suffered additional hardships, such as illness or job loss.

Predatory Lending and Other Hardships

Hardship	# of Borrowers	% of Borrowers
Predatory Lending	71	61.2%
Abusive Servicing	55	47.4%
Lost Job	43	37.1%
Illness or disability of borrower or family member	34	29.3%
Work hours cut	8	6.9%
Death of family members	12	10.3%
Other Hardships	22	19.0%

Note: Some borrowers experienced multiple hardships.

Gap Loan Borrowers of Color & Predatory Mortgages

Analysis of Gap Loan borrowers' race and ethnicity shows that the great majority were black or Latino, most of whom had experienced predatory mortgage lending and/or servicing practices. For borrowers who disclosed their race:

- Approximately 84% of borrowers whose loans were predatory were black or Latino (56 borrowers total).
- Seven out of ten black or Latino borrowers (70.8%) experienced abusive mortgage servicing practices, and almost half (45.8%) received a predatory loan.
- Seven out of every ten black Gap Loan borrowers (72.0%) received predatory mortgage loans, compared to an average of 61.2% for borrowers of all races.

PROGRAM STRUCTURE

New Economy Project and our lending partners operated the program through two discrete lending pools, which allowed us to keep the program flexible to meet emerging needs:

1. Lower East Side People's Federal Credit Union (LESPFCU) – Using our fund as partial security, LESPFCU made fully-underwritten, low-interest loans up to $25,000 to homeowners who could afford low monthly payments.

2. FJC – New Economy Project also made direct, deferred repayment mortgage loans up to $25,000 through a donor-advised fund maintained by FJC. We made these loans to very low-income homeowners at risk of foreclosure, who were unable to afford even small monthly payments. These loans become payable only upon the homeowner's death, sale of the home, or refinancing of the mortgage, or if the homeowner ceases using the home as a primary residence.

New Economy Project worked closely with foreclosure prevention counselors and legal services advocates, who provided referrals to the NYC Foreclosure Prevention Gap Loan Program. These advocates provided comprehensive advice and assistance to struggling homeowners, helping them assess options for preventing foreclosure, negotiating with mortgage servicers, and litigating cases when necessary. The Gap Loan Program served as a vital tool to help advocates and homeowners identify and achieve long-term sustainable homeownership plans.

GAP LOAN PROGRAM REPAYMENTS AND DEFAULTS

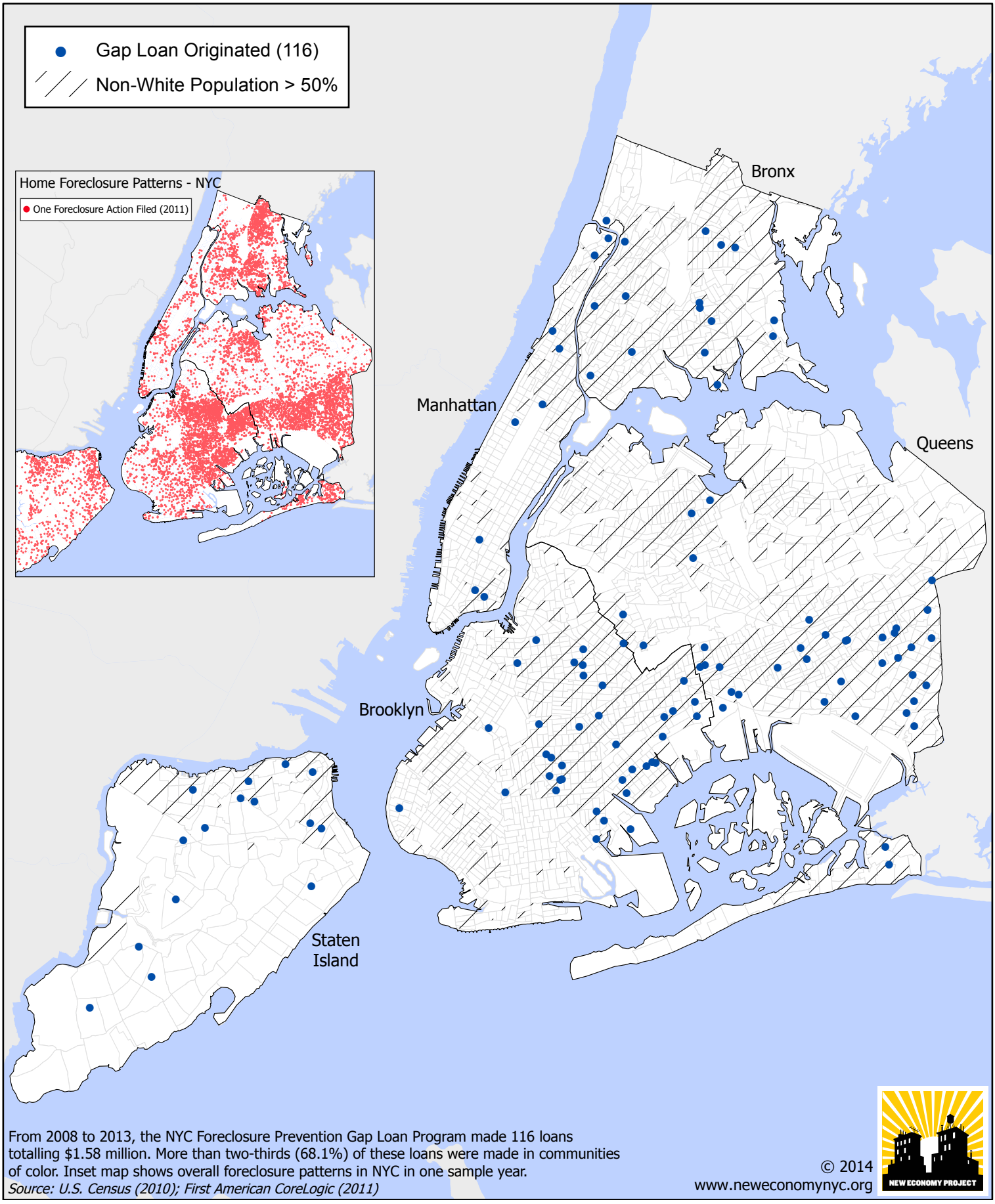
Out of 116 loans totaling $1.58 million, 91 loans remained outstanding as of July 1, 2014, with a principal balance of $1.11 million. Five borrowers have paid off their loans in full. Twenty borrowers have defaulted on their loans. In many cases, defaults resulted from illness, bankruptcy, or a borrower's death.

The economic downturn compounded many borrowers' already severe financial distress. As the recession unfolded, New Economy Project increasingly directed homeowners to the Program's deferred foreclosure prevention mortgages. We also began to offer borrowers the option of converting their amortizing foreclosure prevention loans to deferred mortgages, repayable upon resale of the home, refinancing of their primary mortgage, or the borrower's death, or if the homeowner ceases using the home as a primary residence. To date, we have successfully converted four loans in this manner.

PROGRAM REPLICATION

The Program's success at leveraging funds to prevent foreclosures has attracted national attention. In New York, both the City and State have replicated our Program. New York City launched the Mortgage Assistance Program (MAP) in January 2011, with support from New Economy Project. In 2014, New York State's Attorney General announced funding to expand MAP across New York State, beginning in September 2014. New Economy Project continues to serve as a consultant on MAP, and serves on the Credit and Policy committee for the Statewide MAP expansion.

NYC Foreclosure Prevention Gap Loan Fund
Loans Made, 2008-2013



From 2008 to 2013, the NYC Foreclosure Prevention Gap Loan Program made 116 loans totalling $1.58 million. More than two-thirds (68.1%) of these loans were made in communities of color. Inset map shows overall foreclosure patterns in NYC in one sample year.

Source: U.S. Census (2010); First American CoreLogic (2011)

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Borrower Case Examples

Case 1: Mr. Lancelot F.

Mr. F is a single father of four who lives in Canarsie. He purchased his house in 2005 so that he could provide a stable home for his children. Mr. F relied on a mortgage broker to help him find an affordable mortgage, emphasizing that he could afford only a low monthly payment and a small down payment. The mortgage broker assured Mr. F that he would not have to make a down payment and that the mortgage payment would easily fit into his budget. The broker also advised Mr. F that he should not hire an independent lawyer to represent him at the closing.

At the closing, Mr. F was shocked to find that he needed to take out two mortgages, on top of writing a $25,000 check for a down payment. Mr. F tried to stop the closing, but his lawyer (provided by the lender) told him to write the check and sign all the documents or he would have only less favorable loan options in the future. Despite receiving an unwanted and abusive piggyback loan with an interest rate of 9.25%, Mr. F made his loan payments for three years.

In 2008, Mr. F was injured at work—breaking a leg and injuring his back. He was unable to work for six months, and though he received workers' compensation payments, those payments were just a quarter of his usual income and not enough to support a family of five and a predatory loan. After six months, Mr. F returned to his job and worked as much overtime as he could to try to repair his finances. He also reached out to Common Law, a community legal education and services organization, to help him defend against the foreclosure of his home.

Mr. F received an affordable HAMP modification of his first mortgage, but his second mortgage was sold to a debt collection agency that offered to "settle" the debt in exchange for seven years of monthly payments of $1,600. Mr. F could not afford those payments, so Common Law applied to the NYC Foreclosure Prevention Gap Loan Program on Mr. F's behalf. Using a $15,000 loan from the Gap Loan Program and a $10,000 grant from the New York Times Subprime Neediest Cases Fund, Common Law negotiated a settlement with the debt buyer—the debt buyer accepted a $25,000 payment to extinguish Mr. F's $132,000 second lien. Mr. F, who is still in his home, closed on his Gap Loan on April 26, 2010.

Case 2: Francisco and Judy R.

Mr. and Mrs. R, immigrants from Mexico, purchased their Staten Island home in 2006, using their family's life savings to make a $50,000 down payment. A broker steered them to a subprime lender that made them an abusive 2/28 Adjustable Rate Mortgage. Despite the Rs' strong credit history and stable income, the loan carried a 12.6% initial interest rate that could increase to as high as 18% over the life of the loan. Payments were Interest-Only for the first five years. Foreclosure prevention advocates who reviewed the loan documentation deemed it one of the worst subprime loans they had seen. The broker apparently targeted Mr. and Mrs. R because of their immigration status.

For more than two years, Mr. and Mrs. R made their payments by pooling the family's income from multiple jobs. They paid more than $100,000 in interest, without reducing their loan principal amount by a single penny. Mr. R, who works in construction, also made major improvements to the home. When the loan interest rate reset, they were no longer able to sustain the payments and sought help from Asociacion Tepeyac, an immigrant-serving organization with roots in the Mexican community.

Working with Asociacion Tepeyac and Queens Legal Aid, Mr. and Mrs. R received a Foreclosure Prevention Gap Loan in 2008. This assistance allowed them to refinance their predatory loan with an affordable loan at a local community development credit union. Mr. and Mrs. R and their son, who contributes to the loan payments, continue to reside in their home.

Case 3: Mrs. Terezia M.

Mrs. Mand her husband bought their home in the Bronx in 1975. Mrs. M, who fled Hungary during the revolution, had lost her home in Hungary and lived in an Austrian refugee camp before settling in the United States. Mrs. M and her husband raised their family in their home in the Bronx. Mr. M handled the couple's financial affairs and refinanced their mortgage in 2004 to take advantage of low interest rates. He used the proceeds to make necessary home repairs. Mr. and Mrs. M were able to make their payments easily until 2006 when Mr. M passed away. Shortly thereafter, Mrs. M lost her job of forty-three years when the company she worked for went out of business. Mrs. M quickly contacted her lender to try to work out a way for her to keep her home; however, she was intimidated by calls threatening to sell her house, and coerced into making unauthorized payments before she was considered for a loan modification.

Mrs. M sought help from the Legal Aid Society's Bronx office. Her attorney helped her secure an affordable loan modification that reduced her principal loan balance by $40,000 and permanently lowered her interest rate to 3%. In order to secure the loan modification, Mrs. M had to make a $15,000 up-front payment to repay her mortgage arrears. The NYC Foreclosure Prevention Gap Loan Program made her a $15,000 deferred mortgage on March 23, 2010.

After making payments for the remainder of 2010, Mrs. M decided to sell her house and purchase a smaller, easier to maintain property. The Gap Loan had prevented her from going into foreclosure, where she would have lost most of the equity that she realized in the sale. On January 11, 2011, Mrs. M repaid her Gap Loan in full, including accrued interest.