

**Request for Action  
Board of Commissioners**

**Resolution to Address the Mortgage Crisis**

**1. Issue Summary**

With the resetting of interest rates on sub-prime adjustable mortgages and the subsequent loss of liquidity nationally in the housing market, Rhode Island has experienced a significant increase in foreclosures. In the past year, over 1360 homes have been advertised for foreclosure, with more than 600 located in Providence neighborhoods. Rhode Island experienced the highest rate of foreclosures initiated in New England and is experiencing a rate higher than the national average.

The consequences go beyond the tragedy of families losing their homes. Most foreclosures result in the immediate eviction of tenants. Our homeless shelters, already over capacity, are experiencing an increase of tenants who have been displaced. Neighborhoods are impacted by vacant, boarded properties that are vandalized and that are not maintained. The tightening of national credit policies may result in fewer and higher cost loans for traditionally disadvantaged neighborhoods and families.

Staff has been working with the City of Providence and other partners to coordinate a response. It is critical that homeowners access counseling as early as possible in the process. Rhode Island Housing is opening a counseling center at 44 Washington Street and working with our partners to offer guidance and assistance to homeowners. We are also developing new loan products as alternatives to adjustable rate, high cost and non-traditional products for at-risk homeowners. We will also work with our Community Development Corporations to assist them in stabilizing neighborhoods adversely impacted by concentrations of foreclosures.

Based on experience in other states, particularly Massachusetts and Ohio, and Rhode Island consumer contacts to this point, only a small percentage of people in imminent danger of losing their homes will be feasible candidates for refinancing assistance. Most either have too much debt to be reasonably repaid with their current income and/or their debt far exceeds the value of the property. Consequently, counseling and advocacy assistance is likely to be the most frequent form of assistance. However, new loan products that resemble our first-time buyer programs may help some of this population and may help others

avoid getting to this dire point. Rhode Island Housing may also provide additional resources through its homeless prevention programs.

In contrast to the world-wide tightening of mortgage markets, Rhode Island Housing has experienced a substantial increase in its mortgage purchases. Following several years during which our portfolio contracted by about 40%, over the past 18 months the portfolio has climbed toward historic high levels. This has led to increasing revenues. At this point, Rhode Island Housing sees no major financial impact of expanding services to accommodate the changed market. The current budget anticipated additional staff which can handle in-house counseling. New loan products and loan purchase channels will be priced fairly so that expenses, including additional reserves will be covered by increased revenues.

In the spring of 2008, as planning for the 2009 budget gets underway, a better forecast of the long-term impact will be discussed. However, as with existing programs, Rhode Island Housing must always balance program strength with financial soundness.

**2. Recommendation**

The attached resolution supporting the development of programs and services that are necessary and appropriate to assist Rhode Islanders experiencing financial stress is recommended for approval.

**3. Attachment**

A) Resolution

**Resolution of Board of Commissioners of  
Rhode Island Housing and Finance Corporation**

- Whereas:** The mission of Rhode Island Housing is to ensure that every person who lives or works in Rhode Island can afford a safe, healthy home that meets their needs, and;
- Whereas:** Rhode Island Housing's mission includes assisting Rhode Islanders to retain their homes for as long as they want, and;
- Whereas:** One of the public purposes within the Rhode Island Housing enabling act is to stimulate and assist in the ... retention and maintenance of residential housing ... through the use of public financing, and;
- Whereas:** The mortgage market in Rhode Island and nationally is experiencing a tightening of credit and an increasing number of residential foreclosures, and;
- Whereas:** Rhode Island has the highest rate of foreclosures initiated in New England and a rate considerably higher than the national average, and;
- Whereas:** The City of Providence and many of our community partners have contacted Rhode Island Housing with regard to the severity of the mortgage crisis in Rhode Island, and;
- Whereas:** The rate of foreclosures is particularly high in the neighborhoods in which Rhode Island Housing has partnered with Community Development Corporations to combat deterioration by investing in the development of rental and homeownership opportunities and in the revitalization of the neighborhood, and;
- Whereas:** Most foreclosures result in immediate eviction of all residents and many of the current foreclosures are multiple family buildings resulting in the eviction of many innocent and financially responsible tenants, and;
- Whereas:** Foreclosures and evictions have generated a spike in homelessness, aggravating an already burdened system, and;
- Whereas:** Tightening national credit policies may result in fewer and higher cost loans for traditionally disadvantaged neighborhoods and families, and;
- Whereas:** The increase in foreclosed properties has a blighting impact on streets, neighborhoods, and communities, and has particularly impacted several

neighborhoods in which Rhode Island Housing has invested in revitalization efforts, and;

**Whereas:** Rhode Islanders are increasingly requesting our assistance as they face an imminent financial crisis; and

**Whereas:** Rhode Island Housing's strengthening financial base and anticipated costs and income from new initiatives are expected to remain in balance:

**Whereas:** Rhode Island Housing proposes to:

**Increase Mortgage Counseling Services:** The growing need for mortgage counseling services has overwhelmed existing resources. Early lender intervention is a key to homeownership retention. As a HUD approved mortgage counseling agency, Rhode Island Housing will provide early intervention counseling and assist in creating work-out or disposition plans with homeowners and their servicers, educate both homeowners and homebuyers, provide the new state required counseling for high cost loans, provide support for the Madeline Walker tax lien program, refer homeowners to other service providers, and provide related housing services.

**Stabilize Neighborhoods:** Work in partnership with municipalities and non-profits to stabilize neighborhoods that may be particularly disadvantaged by the surge in foreclosure activity. The Neighborhood Stabilization Program is expected to be a distinct component of the Land Bank program to help Community Development Corporations assist owners in selling their homes when they can no longer afford ownership and to keep properties occupied or have them reoccupied as quickly as possible to avoid detrimental impacts on the neighborhood.

**Increase Mortgage Liquidity:** As the liquidity crisis continues to increase in the mortgage industry, Rhode Island Housing will work with additional lender partners that are having difficulty warehousing or selling conforming loans through their prior correspondent/investor channels. This loan purchase program will be built on the Fannie Mae My Community platform under a special agreement that was negotiated for housing finance agencies.

**Offer Home Saver Loans:** Create loan products that provide financing to Rhode Island homeowners seeking an alternative to an adjustable rate, high rate or non-traditional mortgages. This program will contain many of the features and low/moderate income targeting of the First Homes Program, but at a somewhat higher rate because of the lack of tax-exempt financing. The products will be offered through the existing distribution network.

**Now therefore, it is hereby**

**Resolved:** That the Board of Commissioners hereby finds that programs and services substantially similar to those described above are necessary and appropriate for:

1. the retention and maintenance of residential housing in Rhode Island,
2. the prevention of homelessness,
3. relief for Rhode Islanders experiencing financial stress due to the high cost of housing and housing finance,
4. the prevention and elimination of blight, and
5. for retaining the soundness of Rhode Island Housing's current home-lending portfolio

**Resolved:** That Rhode Island Housing hereby authorizes, encourages and directs staff to develop programs and services similar to those described above,

**Resolved:** That the Executive Director or his designee, and any Deputy Director, each acting singly, be, and hereby is, authorized to take any and all action as may be necessary or desirable to carry out the foregoing Resolution.