

Special Achievement MassHousing – Home Saver

In the spring of 2007, the phrase “subprime mortgage crisis” was really just beginning to take hold. Most HFAs had been warning for some time that the day was coming when the unscrupulous lending practices of subprime lenders would begin to unravel. But for many elected officials and other state policy makers, the reality was crushing.

MassHousing was fast out of the gate in working to create a rescue mortgage product. This was in response to a direct challenge from the Chairman of MassHousing’s Board of Directors. At a MassHousing Board meeting in April 2007, the Chairman directed MassHousing’s Executive Director, Tom Gleason, to assemble a team to create a new financing product to address the issues that had begun to surface for borrowers who had been caught up with lenders in various exotic loan products.

By the next month’s Board meeting in May, the Director of MassHousing’s Homeownership Division reported back to the Board about the Agency’s tremendous progress. Over those 30 days, meetings were held with housing advocates, lenders, government sponsored enterprises, state officials and investment bankers to gather information, all of which led to a Foreclosure Prevention Forum, which was held at MassHousing on April 30. At that time, MassHousing’s Rescue Mortgage Team then continued discussions and involvement with participants of the Foreclosure Prevention Forum, particularly the Massachusetts Division of Banks in an effort to outline the scope of the problem and the issues that MassHousing would seek to address with its Rescue Mortgage Product.

At that time, the biggest concern was regarding resets and the devastating effect that dramatically increasing interest rates would likely have on working families when their monthly mortgage payments increased – perhaps beyond their means to pay. At the same time, the fear was that as monthly mortgage payments were increasing, property values were rapidly decreasing to a point where homeowners had insufficient equity to refinance their homes. Most difficult was the reality that a vast majority of these homeowners lacked an understanding of the foreclosure process – and had no idea what to do when they got into trouble with their mortgage. MassHousing learned through its meetings with stakeholders that the volume of calls reaching counseling agencies across the state was quickly exceeding staffing capacity.

MassHousing wanted to move quickly to create a product that would be innovative and truly different from any other kind of refinancing options that was available at that time. It was July 2007 when Governor Deval Patrick and MassHousing’s Executive Director Tom Gleason announced that Massachusetts was ready to roll out the most comprehensive, publicly assisted loan program in the nation to help address the ongoing home foreclosure crisis.

The program, which did not rely on taxpayer money, was designed to provide foreclosure prevention counseling and fixed-interest rate refinancing loans to help hundreds of struggling Massachusetts homeowners get out from underneath increasingly unaffordable subprime loans.

In his announcement, Governor Patrick said, “For many Massachusetts homeowners, the subprime crisis has turned the American dream of homeownership into a nightmare. Too many of our residents were put into loans they couldn’t afford. This innovative mortgage loan program from MassHousing will give some of our most vulnerable citizens a fighting chance to keep their homes.”

MassHousing’s rescue mortgage program was branded as the Home Saver program. In its creation of Home Saver, MassHousing had negotiated a partnership with Fannie Mae to create a \$250 million pool to finance loans for income-eligible victims of predatory lending. For its part, Fannie Mae agreed to commit

up to \$190 million, while MassHousing committed up to \$60 million, which would be generated by the sale of taxable bonds.

Home Saver is a counseling and loan program designed to help troubled homeowners take proactive steps before their mortgage becomes unaffordable and before foreclosure becomes a possibility. The program is geared toward homeowners with modest to moderate incomes who were put into loans that were unaffordable and unsustainable, and where abusive practices may have been used by the lenders.

Home Saver loans are available for first and second mortgages on condominiums, single, two, three and four-family homes with a combined loan to current value of the homes up to 105%. Maximum home values follow Fannie Mae mortgage limits ranging from \$417,000 for a single-family/condominium to \$801,950 for a four-family property. Loans have a fixed interest rate with terms up to 30 years, and offer the same interest rate on both the first and second mortgages. The loan also includes MassHousing's MI Plus™ job loss insurance that will pay a borrower's monthly mortgage payments for up to six months if they should lose their job.

The Home Saver loan product has been widely acknowledged by housing finance professionals to be the most generous state-sponsored refinancing program created in response to the foreclosure crisis. In addition to providing up to 105% financing, it allows credit scores to be as low as 560 and allows borrowers to be up to 60 days delinquent on their existing mortgage. The generous underwriting criteria were a direct result of aggressive negotiations with Fannie Mae by MassHousing's Executive Director who chaired the Rescue Mortgage team.

As important as refinancing options, MassHousing realized that a comprehensive borrower outreach strategy must accompany the financial structure of the program. Accordingly, the services of a limited group of counseling organizations were utilized. As the first point of contact for potential borrowers, these counseling agencies were overwhelmed with calls from homeowners seeking advice. MassHousing made direct grants to 20 Massachusetts counseling agencies in the amount of \$600,000 to increase their capacity to handle the influx of troubled homeowners. A contract was signed with NeighborWorks America to provide foreclosure counseling to select counseling agencies and fund incentive fees to counselors with successful counseling outcomes. Additionally, agreements were reached with the national Home Ownership Preservation Foundation that provided one-on-one assistance to troubled homeowners in Massachusetts when they called the Hope Hotline for assistance.

MassHousing was also successful in reaching out to Fannie Mae for additional counselor funding. Fannie Mae granted funds in the amount of \$150,000 to further assist the participating foreclosure counseling agencies in meeting the demands of clients. The combination of financial assistance, additional training for foreclosure counselors, hot-line access and a viable refinancing tool was an innovative and comprehensive attempt to meet the needs of troubled homeowners.

MassHousing has aggressively marketed the Home Saver program. The program obtained the full support of elected officials and was broadly advertised in local publications, cable television and the MassHousing website. The theme of our advertising campaigns in the fall of 2007 and spring of 2008 was "It's your home, keep it." Lenders have been given a refinance tool to use when appropriate and have also advertised the availability of this product locally. Additionally, MassHousing coordinated and funded a direct mailing from Massachusetts Governor Deval Patrick to approximately 50,000-targeted homeowners across the state with adjustable rate mortgages. The letter urged these homeowners to examine the terms of their loan and to contact the Hope Hotline or MassHousing to learn about the Home Saver program.

Struggling homeowners begin the refinancing process by calling the Hope Hotline, which is staffed by the national Home Ownership Preservation Foundation. Callers may be referred for further counseling to local Massachusetts non-profits with experience and foreclosure counseling training that will help with mortgage issues. If the borrower is a good candidate for refinancing, they are referred to a MassHousing-approved lender to apply for a mortgage loan.

As we now know, in the summer of 2008, the mortgage crisis in Massachusetts and across the country is worse than anyone predicted. When Home Saver was designed, MassHousing believed many more people would be in a position to qualify for a refinanced loan. Unfortunately, because of the steep decline in home prices, the erosion of credit scores and the fact that so many people received loans that we far beyond their ability to pay, far fewer people were eligible for refinancing loans than originally anticipated.

As part of its efforts with troubled borrowers, MassHousing has also utilized financing through Fannie Mae's MyCommunity (MCM) Refinance Program. To date, MassHousing has assisted 23 borrowers with loans and 9 are in process. Under the MCM Refinance Program, MassHousing has closed 101 loans with 8 in process. In all, these two refinance programs have totaled close to \$30 million.

While the loan numbers themselves are not high, MassHousing believes strongly that this number alone cannot gauge the success of the Home Saver Program. Perhaps as important as refinanced loans are the thousands of homeowners who have been helped through their counseling sessions with the Home Ownership Preservation Foundation and through the local Massachusetts counseling agencies.

Between July 2007 and July 2008, approximately 30,000 Massachusetts residents called the HOPE Hotline. Approximately 7,500 were referred to local counseling agencies for additional assistance and have completed their counseling experiences with the agencies. Many people obtained help without the need to refinance. Counseling agencies were also given the tools to handle the volume of clients seeking assistance. Counseling grants plus no-cost counselor training sessions provided counseling agencies in Massachusetts with the knowledge and staffing increases to respond quickly and successfully to the needs of their clients.

MassHousing was proud of the outcome of a study completed by the Pew Charitable Trust in April of 2008, which examined MassHousing's program model. The conclusions reached in the study ranked Massachusetts's response in the foreclosure crisis—along with just two other states—as the most comprehensive in the nation.

The recognition is wonderful. But, even more wonderful are the stories of the homeowners like Maria, a 49 year-old single, working mother of a college student, who was able to save her home from foreclosure. Maria earns a modest living and owns a two-family home in Fall River, Massachusetts. She was convinced by a Portuguese-speaking telemarketer from a loan brokerage firm in Rhode Island to refinance her home and take an equity cash-out to help with the costs associated with her daughter's college education. Maria received a negative amortizing loan and was charged close to \$20,000 in closing costs. She was told that her taxes and some minor credit card debt would be paid from the mortgage transaction. But her taxes and credit card debt were not paid, impacting her credit tremendously (from a score of 680+ to a score of 575). Maria's story could have taken a drastic turn, but it didn't thanks to Home Saver. Maria heard about MassHousing's foreclosure prevention program through outreach sessions that the Agency held in conjunction with a non-profit housing coalition. She visited one of MassHousing's participating lenders and was able to qualify for a MassHousing Home Saver loan. Maria now has a safe, MassHousing mortgage. She received a fixed-rate loan in an amount of \$183,000 at an interest rate of 7.125%. At the time of the MassHousing loan closing, the interest rate on Maria's former loan was about to reset. Maria's Home Saver loan is saving her \$623 per month.