



# Staying Dry During a Wave of Foreclosures

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The news of a foreclosure crisis has captured the public spotlight in recent months. Yet while Florida is among the states with the highest rates of foreclosure, it does not appear that foreclosures among assisted buyers—those receiving purchase assistance and other forms of affordable housing subsidy—mimic the national trend. This article provides evidence in support of this premise while exploring the policies and tools that help “Assisted Buyers” stay on dry land during the current wave of foreclosures.



- Florida homeowners hold over 10 percent of all subprime mortgages—a popularly referenced cause of the current foreclosure crisis.
- Nearly 4,500 homeowners in Palm Beach and Broward Counties are at least 90 days behind on their house payments.

However, those participating in homebuyer programs funded by SHIP, HOME and other funding appear largely unaffected. During the Coalition’s April workshop on Foreclosure Prevention, many participants reported that the buyers they work with are not in default or facing foreclosure. Consider the case of Lee County—home to Cape Coral and its infamous foreclosure rate. The number of foreclosures is certainly large—4,294 households faced foreclosure filings in the first two months of the year, and three quarters of these homeowners have mortgage balances over \$151,000. Yet most appear to be investor-owned properties; homesteaded properties represent only 31 percent of the foreclosure filings. Only eight percent of the properties had sales prices below \$150,000. The Lee County Planning

## THE STATUS OF ASSISTED BUYERS

Florida is currently ranked second in the number of its foreclosures, *with a rate that has more than doubled since 2006*. One out of every 273 households is facing foreclosure, as compared with the U.S. rate of one in every 555 households. At the beginning of 2008, Florida’s papers reported startling headlines:

- The City of Cape Coral posted the highest foreclosure rate of any metropolitan statistical area in the nation.



Over 65 housing professionals participated in the Coalition's Foreclosure Prevention workshop in early April.

Department recently updated its foreclosure research on those assisted with SHIP funds since the beginning of the program in the early 1990s. Of all the households assisted from the four most recent close out SHIP distributions, only one quarter of one percent of households have lost their homes to foreclosure.

## HOUSING COUNSELING AND EDUCATION

Consider the policies and education that help assisted buyers stay clear of foreclosure. Most importantly, almost every assisted homebuyer in Florida must attend a pre-purchase class to be eligible for purchase subsidy. Beyond this classroom education, many buyers also receive one-on-one housing counseling to repair their credit, reduce their debt and prepare them for mortgage and home shopping.

Housing counseling and education equip buyers early on with the knowledge and conscientious attitude they need to shop wisely, ask questions and consider their options. Counselors emphasize the importance of personal accountability and responsible budget management. Buyers receive support as they save up for purchase and to reduce their debt. They prepare for mortgage prequalification and learn about the several types of professionals involved throughout the stages of the purchase process.

Research by Freddie Mac has concluded that one-on-one counseling lowers 90-day delinquency rates by 34 percent,



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while classes lower the rate by 26 percent. A study by Fannie Mae noted that lenders also benefit from the more efficient transaction that results when borrowers can realistically measure their ‘ability to pay’ and can select appropriate loan products.

Fortunately, many affordable housing programs can pay to provide potential buyers with this value education. The SHIP program, for example, includes ‘housing counseling’ as an eligible expense. Funding for this expense may come from SHIP program dollars, instead of the five to ten percent of the SHIP distribution dedicated to administrative expenses. SHIP administrators may hire housing counselors with their program—rather than administrative—funds.

## ADDITIONAL HELPFUL POLICIES

Other policies also help assisted buyers avoid foreclosure. First, purchase assistance programs across the state contain a myriad of “**affordability tests**” to help identify those applicants most likely to achieve success with homeownership. In many communities, the affordability test is related to the maximum purchase assistance award available. A buyer must demonstrate an ability to purchase based on the

combined funding from a first mortgage and the combination of one or more sources of subsidy. Conversely, other communities may require an assisted buyer to earn above a certain “minimum income”—a threshold amount established with consideration of current home prices and mortgage terms.



## HOUSING COUNSELING CERTIFICATION PROGRAM



**H**ousing counseling is an important defense against foreclosure. The Coalition teaches a 5 day class to become a certified Housing Counselor, and plans to offer this course again in the fall. The training, developed by Neighborworks America, and underwritten in part by Bank of America, is titled “Housing Counseling Certification: Principles, Practices and Techniques.” There is an \$875 registration fee to attend. It offers guidance on how to address barriers to homeownership through an interactive curriculum, complete with games, case studies, and engaging group projects.

Participants with a diversity of skills and backgrounds have completed our training. It has benefited Realtors, SHIP staff, Lenders, Legal Aid staff, and many others. For some participants, providing one-on-one housing counseling to buyers is a significant part of their jobs. Many other participants have less contact with buyers, but still do provide them with assistance. The training has provided them with a comprehensive overview of many key topics faced by lower income buyers in Florida.

Once a counselor completes this course, passes the final on-line exam, and attends a separate class on Foreclosure Prevention, he or she will be awarded a full certification in Housing Counseling from Neighborworks America and the Florida Housing Coalition. Sign up for the waiting list for the course by sending an email request to Pam Davis at [pamiam@flhousing.org](mailto:pamiam@flhousing.org).

Furthermore, many communities with purchase programs have established “**lenders guidelines**” to further help assisted buyers avoid foreclosure. These guidelines broadly define the acceptable parameters and terms on a first mortgage provided to an assisted buyer. Guidelines may dictate the maximum interest rate and maximum amounts that can be charged for specific fees, including the origination fee, application fee and more. Some lenders guidelines also set maximum lender ratios (the housing ratio and debt-to-income ratio). Most guidelines restrict lenders to only offering fixed rate mortgages.

These guidelines may contain requirements that essentially block subprime lenders from providing first mortgages to assisted buyer. The guidelines also help eliminate those with predatory lending terms and practices. If the lenders guidelines “set the bar high”, only those buyers who can qualify for prime loans may be eligible for assistance.

Sample lenders guidelines are available from the Florida Housing Coalition, but it is important to consider on a local level the lenders guidelines right for your own community. If you decide to adopt these standards, meet with the lenders you most commonly work with. Get the group of lenders to reach some consensus about exactly what guidelines are acceptable for your community. The guidelines could also be reviewed by your affordable housing advisory committee, and be presented to your local government commission.

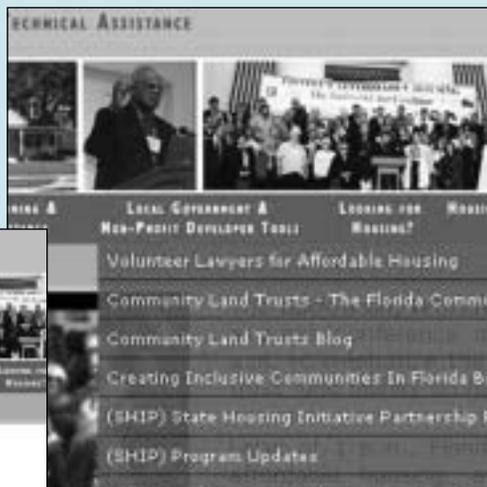
Finally, assisted buyers may benefit from strong **subordination policies** associated with purchase assistance programs. A subordination policy outlines the circumstances in which a local government will subordinate its second or third position lien on a property (a lien for the amount of subsidy provided) to permit a change or re-financing of the first mortgage. Such a policy helps prevent an assisted homebuyer from re-financing the

# FLORIDA HOUSING COALITION RESOURCES TO HELP

Several audio and video recordings from the Coalition’s April 2008 Foreclosure Prevention workshop are available on the Coalition’s website, [www.flhousing.org](http://www.flhousing.org). They are located in the pull-down menu for “Local Government & Nonprofit Developer Tools” under “(SHIP) Program Updates”. The recordings highlight key workshop topics, including a review of the policies and assistance provided to Assisted

Buyers to help them avoid foreclosure even before purchase, a summary of key elements of a SHIP Foreclosure Prevention strategy to help those currently facing foreclosure, and a review some factors that have caused the current foreclosure crisis.

The Coalition plans to offer this free one-day Foreclosure Prevention workshop again in the second half of 2008. Sign up for the waiting list for the event by sending an email request to Pam Davis at [pamiam@flhousing.org](mailto:pamiam@flhousing.org).



first mortgage on a recently purchased home to replace it with a subprime mortgage or with financing containing predatory terms. It also prevents a recent buyer from refinancing in a fashion to “cash out” on the equity in a house. During the early years of homeownership, the majority of the equity in the assisted homebuyer’s house is often the down payment subsidy provided at purchase. This subsidy was provided to offer housing assistance, and it should not be cashed out by the buyer.

Each SHIP jurisdiction has the responsibility of forming a written subordination policy. Such a policy provides protection for buyers. Consider, however, that there are some instances when subordinating the subsidy lien is advantageous. Design a flexible set of guidelines that will allow for subordination in instances that will lower the homeowner’s interest rate, lower the home owner’s monthly housing cost, or increase the affordability of the housing.

## CONCLUSION

It is important to recognize that some measure of foreclosure has been consistently present over the history of lending. Long-time common reasons for foreclosure include the loss of income that accompanies the loss of a job, or the death or illness of a family member. These unpredictable circumstances have consistently plagued a small minority of borrowers. But the recent news about foreclosures is alarming because of the marked increase in the rate of foreclosures—currently twice as high as the average rate reported during the past 30 years.

The success of purchase assistance programs for low income buyers is grounded in their ability to control factors beyond these unpredictable circumstances of job loss, illness and death. They require buyers who receive assistance to arm themselves with knowledge, money management skills and responsibility. They also establish policies to identify buyers with the most potential and require them to obtain financing with the best terms. These key policy factors help explain the growing evidence that assisted homebuyers are remaining clear of the foreclosure crisis currently facing the country and Florida.

