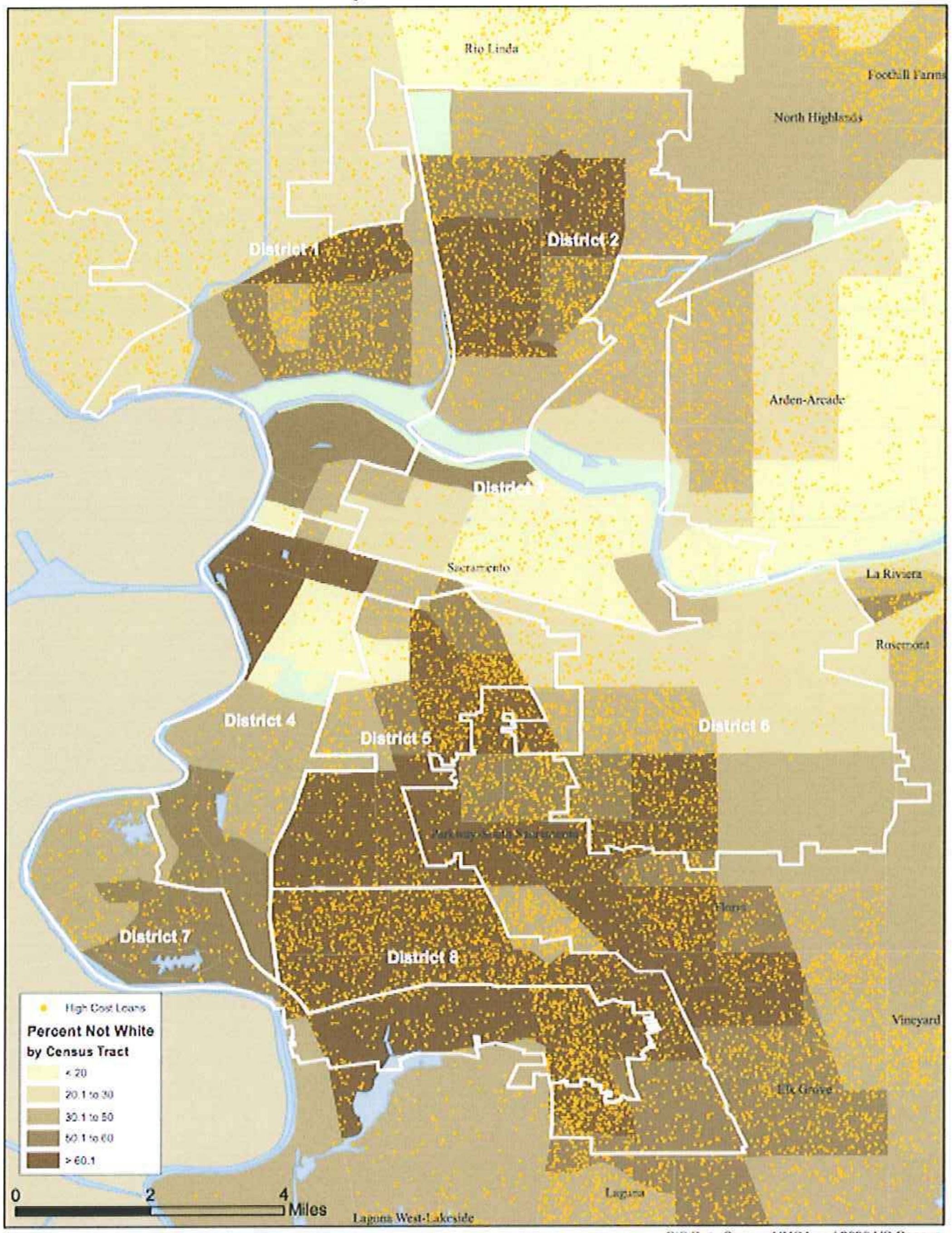
Figure 10: High-Cost Loans in the City of Sacramento Originated in 2006 as Distributed Across Racial Concentrations by Census Tracts



Prepared by the California Reinvestment Coalition for the Sacramento Housing and Redevelopment Agency

GIS Data Source: HMDA and 2000 US Census

Figure 11: High-Cost Loans in the Unincorporated County of Sacramento Originated in 2006 as Distributed Across Median Income Levels by Census Tracts

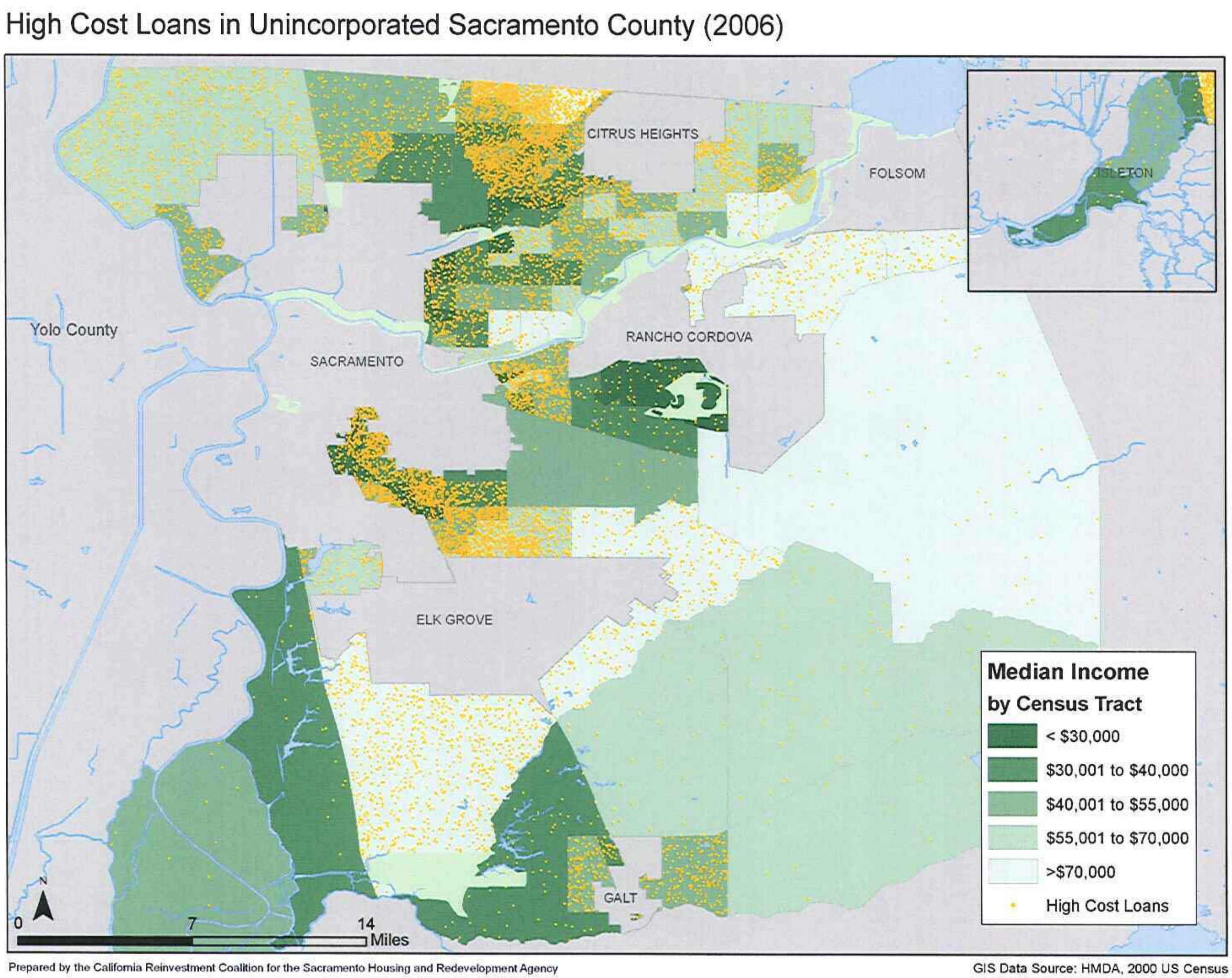
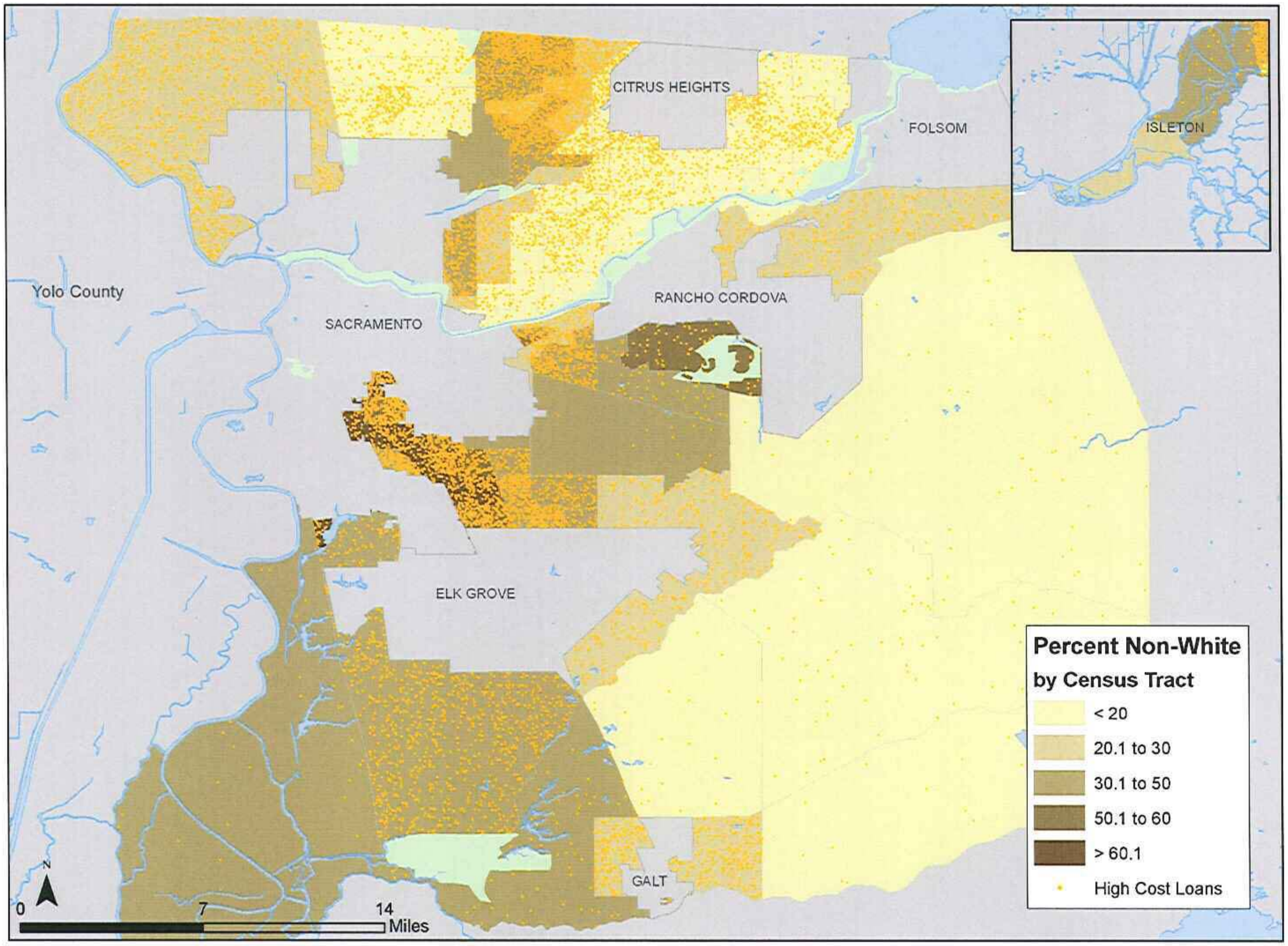


Figure 12: High-Cost Loans in the Unincorporated County of Sacramento Originated in 2006 as Distributed Across Racial Concentrations by Census Tracts

High Cost Loans in Unincorporated Sacramento County (2006)



Prepared by the California Reinvestment Coalition for the Sacramento Housing and Redevelopment Agency

GIS Data Source: HMDA, 2000 US Census

2.5 Property value trends

Consistent with State trends, Sacramento County experienced a housing market downturn in 2007. According to Multiple Listing Service (MLS) statistics from the Sacramento Association of REALTORS®, the median price for single-family home resales in January 2008 was $255,000, down 28 percent from the median price 12 months prior, down 35 percent from the median price peak at $392,750 in August 2005, and equal to the median price in November 2003. The zip codes with the most significant declines in median home price values over the one-year period were 95626 (Elverta), 95815 (Sacto Arden, Arcade Creek), 95817 (East Sacramento) and 95822 (South Land Park, Greenhaven).[10] However, of these zip codes, 95822 was the only one experiencing relatively high default rates in 2007.

Another indicator of Sacramento's declining housing market is the drop in the number of closed escrows. In January 2008, only 805 escrows from single-family home resales were closed, which is down 17 percent from the number of closings 12 months prior and 61 percent from the number of closings at the boom of 2,052 in August 2005. This data reflect resale activity only.

According to DataQuick Information Systems and Foreclosure.com (in the Sacramento Bee), there was a near-tie between the number of foreclosures and home sales in January 2008 in the Sacramento region. While 1,815 homes were sold in Amador, El Dorado, Nevada, Placer, Sacramento, Yolo and Yuba Counties[11], 1,782 households in the same counties lost their homes through foreclosure. The foreclosure volume in January 2008 translated to an average of 85 families losing their homes through foreclosure for every business day in the region, which is nearly double the number of foreclosures from six months earlier.

2.6 Underlying causes of foreclosure

The high level of high-cost and risky lending in Sacramento during a historically strong housing market from 2002 to 2006, in which prices rose to unsustainable levels, appears to be a large contributor to the foreclosure crisis in Sacramento. The subprime loans originated in 2005 and 2006 were frequently combined with adjustable rates, artificially low "teaser" rates, no or even negative repayment of principal, no documentation of ability to repay, piggyback loans[12] and overly aggressive real estate appraisals. Based on the real estate market boom, borrowers anticipated high rates of return on their investments and the ability to refinance their mortgages within a few years. However, as the housing market began to cool in 2006 and then decline in 2007, many borrowers found that their adjustable-rate mortgages (ARMs) were resetting to higher rates with unaffordable payments, they owed more than their homes were worth, and they could not refinance their loans. This combination of factors certainly caused some people to lose their homes through foreclosure and may have helped to create a vicious cycle for foreclosures. The surge of foreclosures in Sacramento in 2007 forced home prices down, and in turn, the declining market forced some people out of their homes.

Sacramento's problems are expected to continue. The foreclosure surge mirrors the rise of high-cost, risky loans originated a few years ago. Although local and national media reports about the

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[10] Each zip code listed accounts for a decline in median home price of more than 39 percent over a one-year period from January 2007-January 2008.

[11] Figures for Sutter County were not available.

[12] Piggyback loans combine a primary mortgage with a second lien home equity loan, allowing borrowers to finance more than 80 percent of the home's value without private mortgage insurance.

crisis have focused on borrowers with ARMs that will reset to higher rates after an introductory period, creating so-called "payment shocks" and likely more foreclosures, the bulk of the resets are predicted to occur in 2008 and 2009. See Figure 13, below, depicting when rate resets will occur in ten of the County's most active zip codes, and Figure 14, depicting that while 36 percent of loans already saw interest rates reset, an additional 36 percent of loans in select counties will see interest rates reset in the next 2 years.[13]

Figure 13: Number of Interest Rate Resets Coming and When, by Zip Code

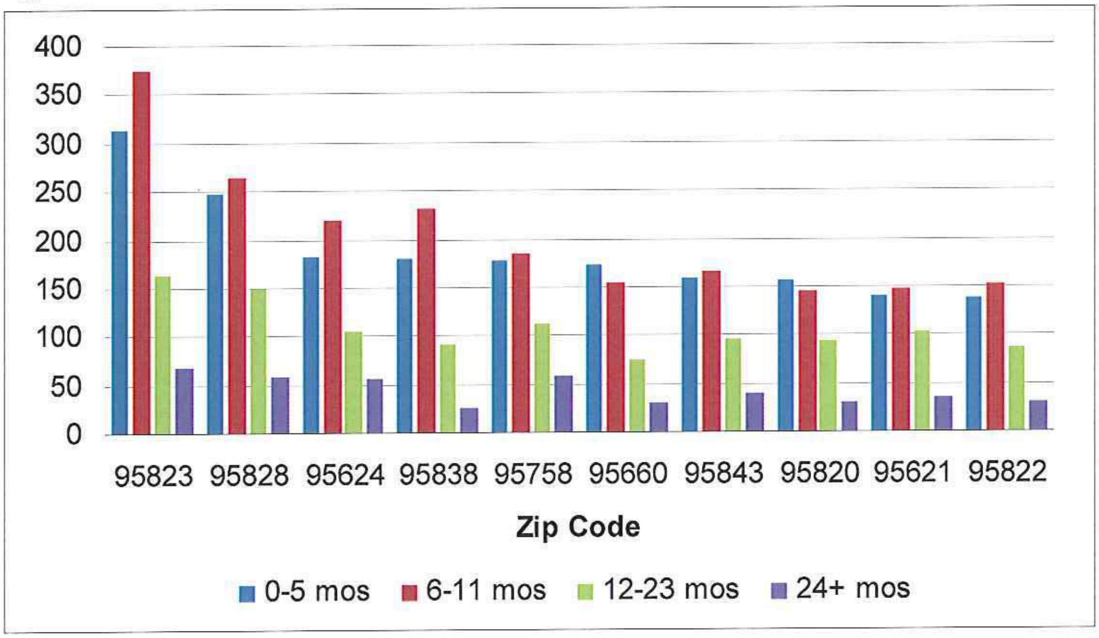
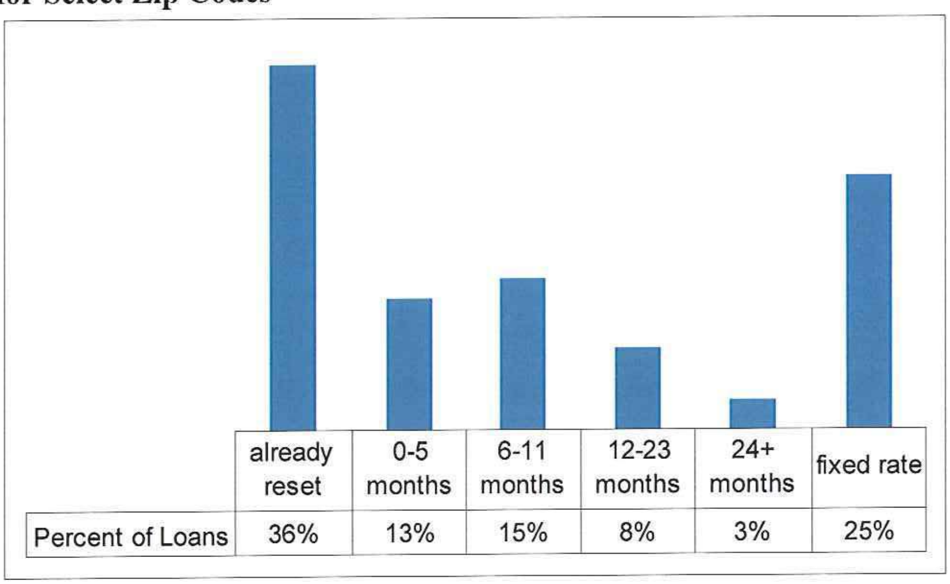


Figure 14: Percent of Loans Facing Rate Resets in Sacramento County, for Select Zip Codes



[13] Based on loan performance data provided by the Federal Reserve Board. This data reflects a subset of subprime loans in Sacramento County that were securitized. Zip codes with too few loans were not included in this analysis.

3.0 Estimated Impacts

The direct and indirect costs related to foreclosure can be high for families and communities. Figure 15 below[14] estimates the economic impacts and potential ongoing social costs of the 7,472 foreclosures that occurred in Sacramento County in 2007. With the average cost per borrower of a foreclosure due to lost equity and expenses equaling $7,200[15], it is estimated that homeowners in Sacramento County collectively lost nearly $54 million, in addition to their homes, credit ratings and dignity. Their neighbors, due to a 28 percent decline in median home prices over the course of the year, lost an estimated $7.4 billion in housing wealth[16]. Meanwhile, local government allegedly lost $40 million in administrative costs related to the foreclosure process.[17] Due to lost revenues in the private and public sectors, the social impacts of a lingering foreclosure crisis could be devastating to Sacramento economically and socially, resulting in less community services and infrastructure and more crime, blight and disease.[18] **The Center for Responsible Lending estimates that Sacramento County will lose $1,769,137,711 from the decrease in the County's housing values and tax base as a result of subprime foreclosures in 2005 and 2006.[19]**

One study suggests that foreclosures will reduce U.S. economic activity by $166 billion in 2008 due to declines in the real estate and construction industries, as well as consumer spending. These trends have multiplier effects, such as less job creation, additional declines in property values, and lower local government tax revenues. Due to declining property values, California is projected to lose $2.96 billion in property taxes and $39 million in transfer tax revenues in 2008. An additional $994 million is expected to be lost in sales tax revenues due to weakening consumer spending. In Sacramento, the projected economic loss from weakened consumer spending and slowed employment growth in 2008 is $1.7 billion of nominal gross metropolitan product (GMP).[20]

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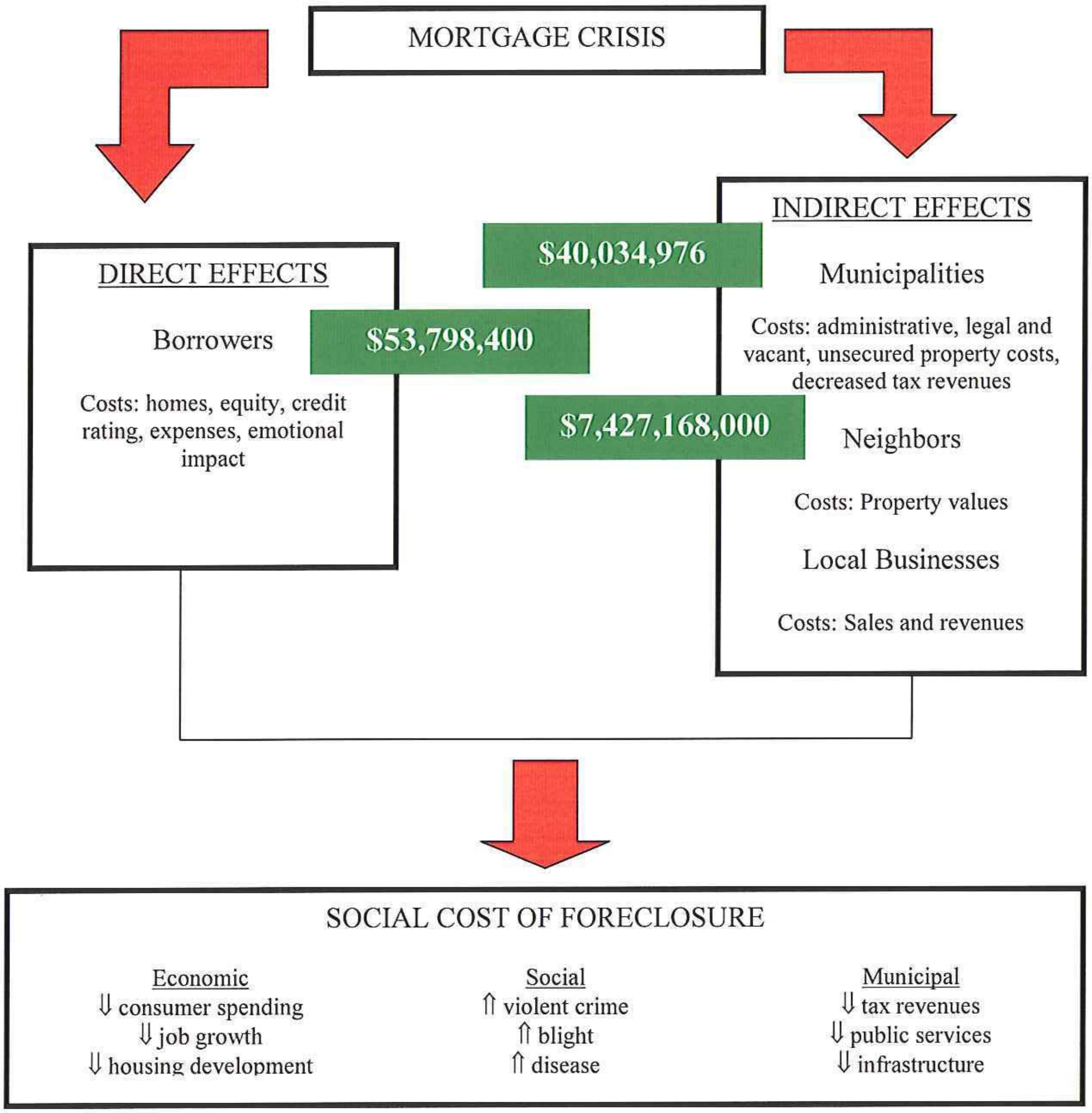
[14] This figure was adapted from Apgar, William & Duda, Mark, *Collateral Damage: The Municipal Impact of Today's Mortgage Foreclosure Boom*, 2005.
[15] Moreno, Anne, *The Cost-Effectiveness of Mortgage Foreclosure Prevention*, Minneapolis Family Housing Fund, 1995.
[16] This estimate assumes there are 10 houses within one block of the foreclosed home.
[17] This estimate assumes there are vacant and unsecured property costs (for a total municipal cost of $5,358). Apgar, William & Duda, Mark, *Collateral Damage: The Municipal Impact of Today's Mortgage Foreclosure Boom*, 2005.
[18] According to an article on msnbc.com there have been increases in West Nile virus cases in areas where foreclosures are high (November 11, 2007).
[19] Center for Responsible Lending, "Subprime Spillover: Foreclosures Cost Neighbors $202 Billion; 40.6 Million Homes Lose $5,000 on Average," CRL Issue Paper January 2008.
[20] Global Insight, *The Mortgage Crisis: Economic and Fiscal Implications for Metro Areas*, November 26, 2007.

Figure 15: Social and Economic Impacts of 2007 Foreclosures in Sacramento County



4.0 Recommended Policy Responses

Local governments are playing an increasingly vital role in responding to the record levels of foreclosures occurring in many communities. As foreclosures directly and indirectly harm families and communities, it is important for the city, county and SHRA to help stem the negative impacts from the rising tide of foreclosures across Sacramento County by supporting distressed borrowers before and during the foreclosure process and minimizing the spin-off effects of foreclosed properties.

Recommended policy strategies include those that support homeowners and neighborhoods, and can be divided into three categories: 1) helping borrowers in default; 2) reducing the harm from foreclosed properties and 3) preventing risky loans from being made in the future.

4.1 Helping borrowers in default

This set of policies is intended to help borrowers who have missed mortgage payments avoid foreclosure by connecting borrowers with available resources, facilitating loan workouts with servicers and offering alternative loan products to borrowers. Specifically, they include:

- *Increasing public awareness to seek help when in default.* In general, borrowers do not know where to turn when they are unable to make their mortgage payments, and they could benefit from a range of social and financial services. Research shows that nearly half of the borrowers in foreclosure have not been in contact with their servicers,[21] but nonprofit counseling agencies have been successful in helping homeowners contact their servicers. Helping homeowners to take action, seek counseling and make contact with their servicers is critical to any foreclosure prevention effort. Some cities have used their mayors to garner media attention that encourages distressed borrowers to seek help. Activities could include statements issued by city officials, press releases, web site links, informational brochures, public service announcements, community events, loan document review clinics, town hall meetings, paid advertisements, direct mailings to delinquent borrowers and grassroots outreach strategies. SHRA, in conjunction with the Sacramento Regional Partners in Homeownership, has already employed a number of these outreach strategies. In Contra Costa County, the District Attorney's office has been very successful in driving borrowers in distress to local housing counseling agencies for assistance by sending a letter to all homeowners who receive a Notice of Default and pointing out the resources that are available. The City and County of San Francisco recently announced a similar effort.

- *Investing in local counseling agencies.* Community-based nonprofit housing counseling agencies play a critical role in preserving homeownership for families and communities, yet often lack the capacity and funding to meet local demand. The availability of face-to-face counseling services for difficult cases and underserved communities is crucial. Currently, there are four HUD-approved housing counseling agencies that provide foreclosure intervention counseling in the greater Sacramento area via in-person and phone sessions. In 2007, the agencies were stretched to capacity[22] and collectively served less than 2,000 delinquent borrowers, which is less than ten percent of households that received NODs. In

[21] Apgar, William, Duda, Mark et al., *Preserving Homeownership: Community Development Implications of the New Mortgage Market*, 2004.
[22] SHRA, *Foreclosures and the Subprime Mortgage Crisis: A Sacramento Perspective*, December 2007.

2008, special funding opportunities through the California Home Ownership Preservation Initiative and the National Foreclosure Mitigation Program to expand foreclosure intervention counseling services are expected to increase the financial resources, and thus capacity, of the local counseling agencies. To supplement local counseling services, the HOPE hotline is a national, 24 hour/7 days a week service that provides phone counseling through HUD-approved housing counseling agencies.

- *Investing in legal services.* The NeighborWorks® Center estimates that between five and 15 percent of all default counseling cases involve legal issues that might be defined as predatory, such as fraud or deception[23]. Actual figures are likely higher. However, rarely do these cases involve litigation, as the availability of nonprofit legal services is extremely limited in most communities. In Sacramento, Legal Services of Northern California (LSNC) and Sacramento Senior Legal Services provide legal representation to a small number of homeowners in foreclosure and could benefit from additional resources and capacity, especially since funding for real estate fraud investigations and prosecutions in Sacramento County has decreased while complaints have risen over the past year.[24] Additionally, local County Counsel and City Attorney's offices could bring cases to enforce existing fair housing, anti-predatory and consumer protection legislation. These efforts may be underway in the county.

- *Creating regulations and supporting legislation that prevent foreclosure rescue scams.* The rising foreclosure rates have spawned foreclosure intervention businesses that defraud borrowers through foreclosure rescue scams. Homeowners are especially vulnerable given that Notices of Default are public documents easily accessible by bad actors. These scams normally involve "foreclosure consultants" who charge homeowners fees to avoid foreclosure for work they could do on their own or offer homeowners lease- or buy-back deals with high payments. Working with such consultants often leads to worse problems for the homeowner. Sacramento Detective Mark Freeman has seen a number of such cases recently through the real estate fraud unit.[25] Nine states have enacted legislation aimed at preventing foreclosure scams. These laws typically include provisions such as notice and cancellation rights of contracts with foreclosure consultants; disclosures of terms and conditions; caps or prohibitions on compensation until all services are performed; rescission or prevention of property transfers to foreclosure consultants; and establishment of criminal and civil penalties.[26] The state legislature is currently considering a few bills that deal with the issue.

- *Mandating early borrower notification of available assistance from servicers.* The mortgage servicing industry has a long history of collecting payments from delinquent borrowers but lacks standard procedures for communicating with borrowers about available help. The longer a borrower waits to take action after missing a mortgage payment, the more difficult it is to cure a default. The State of California is already working on having borrowers receive information about their options earlier in the foreclosure process, and regulators have sought voluntary agreements with servicers to notify borrowers with high-risk ARMs about rate

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[23] Gorey, Rochelle Nawrocki, *Preserving Homeownership: Analyzing Elements of Leading Foreclosure Prevention Programs*, May 2007.
[24] Jewett, Christina, "Sacramento Realty Fraud Unit's Funds Decline; Complaints Rise" in the Sacramento Bee, March 4, 2008.
[25] Ibid.
[26] Collins, Michael, *State Policy Responses to Foreclosure*, 2008.

resets so they can prepare for the corresponding payment changes. The State Legislature is considering a few bills which would require additional notice to homeowners facing interest rate resets. The city and/or county could work with servicers to identify and conduct outreach to borrowers facing interest rate resets, with data from the servicers but information presented on letterhead and in envelopes that appear to come from government agencies or trusted local nonprofits.

- *Encouraging lenders to modify defaulted loans.* Most servicers offer loan modifications on a case-by-case basis fairly far into the foreclosure process, when it is too late for some borrowers to take advantage of such offers. Yet, for borrowers with ARMs with significant payment increases, loan modification might be the only reasonable option for them to avoid foreclosure. California Governor Arnold Schwarzenegger has pushed for servicers to adopt a more wholesale approach of modifying ARMs that meet certain criteria. A few local governments have called on lenders and servicers to be more accountable at the local level by offering long term loan modifications. Additionally, loan servicers can be provided with financial incentives to modify loans through creative refinancing proposals offered by local government and/or particular financial institutions. One California bank is attempting to develop such a product.

- *Convening community and industry leaders to develop and refine local strategies.* Local foreclosure intervention task forces comprised of representatives from the financial industry, nonprofit agencies and local government have helped to assemble the resources necessary to implement appropriate strategies. In Sacramento, the Regional Partners in Homeownership have been playing such a role. The city and county can also consider using the Community Reinvestment Act to encourage depository institutions to aggressively offer good loan products to local residents by commenting to federal banking regulators and/or linking municipal deposits to positive bank performance.[27]

- *Supporting specific bills that protect borrowers and/or encourage loan modifications by servicers.* In California, several bills have been introduced in the Senate and Assembly to address the foreclosure crisis. SB 1137 would improve notices for owners facing mortgage rate resets, require lenders to meet with homeowners facing foreclosure and improve notices to tenants in distressed properties. AB 69 would require monthly reporting by residential mortgage lenders on the types of loans they originate and service, including the number being modified or in foreclosure.[28]

- *Supporting mortgage refinance funds for borrowers in default.* Refinancing programs can help borrowers pay off problematic loans with new, affordable mortgages with reasonable terms. To be an effective strategy, refinance programs need to be structured so they can meet local homeowners' needs. While some states have announced refinance programs, not many homeowners have benefited from the programs due to credit issues, declining property values and tightening underwriting guidelines from lenders.

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[27] Dan Immergluck, "From the Subprime to the Exotic: Excessive Mortgage Market Risk and Foreclosures," Journal of American Planning Association, 2007, p. 14.

[28] SHRA, *Preserving Communities: Focus on Foreclosures*, January 2008.