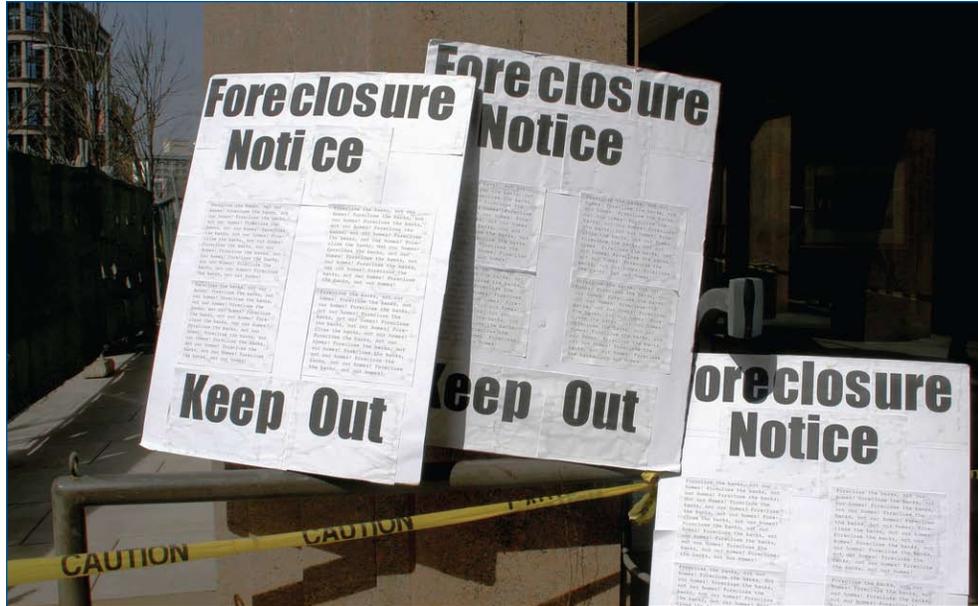


## Goal 1. Strengthen the Nation’s Housing Market To Bolster the Economy and Protect Consumers



### Problem Statement

The nation’s housing market has gone through a major upheaval over the past several years, with rapidly declining property values, lost equity, increased foreclosures, and sharp blows to the financial system.

- Having peaked in August of 2006, house prices fell every month for 30 months, dropping by nearly a third in that time.<sup>1</sup>
- Between late 2006 and mid-2007, the share of loans that were seriously delinquent or beginning the foreclosure process reached their highest levels since the Mortgage Bankers Association National Delinquency Survey was begun in the late 1970s. Since then, these rates continued to rise sharply and, by mid-2008, had more than doubled the previous record highs.<sup>2</sup>
- The 2006 Center for Responsible Lending study, “Unfair Lending: The Effects of Race and Ethnicity on the Price of Subprime Mortgages,” found that borrowers of color were about 30 percent more likely to receive higher cost loans than the similarly risky White borrower, after controlling for income, credit score, loan-to-value ratios, and property locations.<sup>3</sup>
- At the end of the fourth quarter of 2009, more than 11.3 million, or 24 percent, of all residential properties with mortgages were “underwater” (the current value of the asset is below the amount still owed). Five states—Arizona, California, Florida, Michigan, and Nevada—accounted for 55 percent of all “underwater” mortgages.<sup>4</sup>
- Suspicious Activity Reports from financial institutions to the FBI indicate large increases in mortgage fraud reporting, with reports increasing from 35,617 in FY 2006 to 46,717 in FY 2007 and again to 63,713 in FY 2008.<sup>5</sup>

## Housing Market and Homeownership Goal

The state of the housing market plays a big role in shaping our well-being as individuals, the stability of our neighborhoods, and the strength of our national economy. That is why the recent downturn of the housing market—with high rates of foreclosure, increases in vacant properties, and plummeting home values—has been so devastating for families and communities alike. Although the largest factors contributing to this crisis were market driven—including a slowdown in the growth of home prices, increased high-risk subprime and predatory lending, and lax underwriting standards—the American people have turned to Congress and the Administration for leadership and action in righting our nation's housing market. HUD plays a critical role in this federal recovery strategy—jumpstarting the economy, helping American families keep their homes, and stabilizing neighborhoods hard hit by foreclosure.

HUD seeks to build upon this federal leadership and take a comprehensive approach to tackle the housing crisis on every front—from stabilizing the market in the short term to preventing the crisis from ever happening again. The following subgoals provide a roadmap for accomplishing this goal:

**Subgoal 1A:** Stem the foreclosure crisis.

**Subgoal 1B:** Protect and educate consumers when they buy, refinance, or rent a home.

**Subgoal 1C:** Create financially sustainable homeownership opportunities.

**Subgoal 1D:** Establish an accountable and sustainable housing finance system.

*To be sure, a home is the biggest financial investment most families will make. But a home is so much more than a financial investment. It's the foundation upon which we build our lives. It's the place where we raise our children and plan for their future. It's an essential source of a family's stability—the building block with which we forge neighborhoods, put down roots, and build the communities that are the engines of our nation's economic growth.*

—HUD Secretary  
Shaun Donovan  
December 4, 2009

## Measures of Success

- Reduce the number of completed foreclosures.
  - Interim: Assist 3 million homeowners who are at risk of losing their homes due to foreclosure:
    - 200,000 homeowners will be assisted through Federal Housing Administration (FHA) programs.
    - 400,000 homeowners will be assisted through third-party lender loss mitigation initiatives mandated by FHA but not receiving FHA subsidy.
    - 2.4 million homeowners will be assisted through joint HUD-Treasury programs.
    - For all FHA borrowers who become 30 days late, achieve a Consolidated Claim Workout ratio of 75 percent, and, for those receiving a CCW, achieve a 6 month re-default rate of 20 percent or less.
- Restore FHA's excess capital reserve ratio to the congressionally mandated 2-percent level by 2014.
- Reduce the average residential vacancy rate in Neighborhood Stabilization Program (NSP) investment areas.
  - Interim: Reduce the average residential vacancy rate in Neighborhood Stabilization Program Round 2 (NSP2) investment areas.



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### **Subgoal 1A: Stem the foreclosure crisis**

Millions of Americans are projected to lose their homes within the next few years, and many neighborhoods will continue to suffer as communities experience increasing numbers of residential foreclosures and vacant and abandoned properties. Through grants, technical assistance, housing counseling, loan modification programs, and refinancing options, HUD will continue to keep families in their homes—assisting homeowners facing foreclosure and mitigating the negative effects of foreclosures on neighborhoods, including declining property values.

#### **Strategies:**

1. Assist homeowners facing foreclosure, using prevention, loan modification, and loan refinancing programs.
2. Develop new mortgage products to promote acquisition and reuse of foreclosed properties as part of a comprehensive neighborhood stabilization effort.
3. Mitigate the effects of the foreclosure crisis on neighborhoods by assisting communities that have high rates of foreclosure.
4. Assist homeowners facing foreclosure with the transition to financially sustainable housing options.

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### **Subgoal 1B: Protect and educate consumers when they buy, refinance, or rent a home**

Consumer protections help prevent borrowers from falling victim to fraudulent loan products and aggressive marketing techniques. Such products and techniques helped create the current housing crisis. To help future borrowers, HUD will put consumer protections in place by developing safe products, credit terms, and fair and transparent disclosures. Through these efforts, HUD will restore integrity and accountability to the residential mortgage loan market.

#### **Strategies:**

1. Increase counseling and the dissemination of financial literacy and homebuying and renting information to the public.
  2. Strengthen enforcement of consumer protection regulations and statutes, including fair lending laws.
  3. Develop and design safe products and credit terms, offer them to consumers, and provide for fair and transparent disclosures.
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### **Subgoal 1C: Create financially sustainable homeownership opportunities**

Although homeownership historically has been the primary vehicle by which American families have built wealth, the recent crisis has shown that homeownership at any cost is fraught with peril. What Americans need is sustainable homeownership in which the costs are appropriate for a family's financial situation and the risks associated with homeownership are understood and manageable. HUD will take a leadership role in expanding the sustainable homeownership opportunities for Americans across all income, wealth, and racial and ethnic dimensions.

#### **Strategies:**

1. Provide home mortgage insurance products that adhere to safe underwriting standards.
2. Support the construction or rehabilitation of housing units targeted for homeownership by facilitating the flow of capital.
3. Ensure equal accessibility and availability of HUD and other homeownership programs across racial and income bands.

### **Subgoal 1D: Establish an accountable and sustainable housing finance system**

The activities of the federal government are critical to both supporting the housing market in the short term and providing access to homeownership opportunities over the long term, while minimizing the risk to taxpayers. HUD will actively collaborate with the Department of the Treasury and other administration partners to construct a housing finance system that relies on an actuarially sound pricing structure, effective lending oversight, and adequate organizational capacity to ensure consistent access to, and liquidity and stability in, the capital markets.

#### **Strategies:**

1. Define the roles and functions of housing finance institutions to ensure they serve the public good and maintain consistent access to capital for homeownership and rental markets.
2. Ensure HUD is able to anticipate and respond to future economic crises by creating evidence-based analytic tools.
3. Support a steady flow of capital in the home mortgage credit markets by serving as a consistent and countercyclical force.
4. Take a lead in removing bad actors in the marketplace through strengthening accountability in mortgage underwriting, loan servicing, and securitization.
5. Create a fully operational Office of Risk Management by enhancing forecasting capabilities and developing more robust business intelligence and analytical tools.

## Examples of Themes for Goal 1

### New Partners

In response to the foreclosure crisis, HUD's **Neighborhood Stabilization Program (NSP)** helps communities acquire, rehabilitate, and resell foreclosed and abandoned properties more quickly to prevent further decline in hard-hit neighborhoods. In the first round of NSP, funding grants went directly to state and local governments, many of which did not have the capacity to deal with the crisis on their own. Eligible nonprofit organizations had to be funded by state and local government grantees to purchase properties and carry out stabilization programs. **In recognition of the needed capacity and leadership role that nonprofits, for-profits, and other consortia play, HUD changed the eligibility requirements in the second round of funding to enable these new partners to play a lead role in the program.**

### New Geography

The current foreclosure crisis, preceded by decades of unsustainable development practices, has left suburban communities deeply troubled, struggling to address a set of urban-looking problems—including foreclosures, blight, and high unemployment. With so many suburban governments ill-prepared to deal with these new challenges, HUD's second round of funding for the **Neighborhood Stabilization Program has encouraged the creation of regional consortia** to bring together a wide variety of stakeholders, from state agencies and local governments to hospitals, churches, the business community, and community development corporations to collectively minimize the effects of foreclosures across all impacted communities in a metropolitan area.

### New Business Model

Following the significant increase in market share that the Federal Housing Administration (FHA) has experienced during the recent housing crisis, as well as the period of riskier lending that preceded it, HUD is protecting taxpayer resources by **investing in a set of technological and organizational changes aimed at reducing the risk in the FHA portfolio.** HUD is using \$20 million in Transformation Initiative Program funds to develop robust, state-of-the-art systems and data-driven analytic tools that detect high-risk loans and protect the portfolio from borrower default, as well as following industry best practices and creating an Office of Risk Management, to be led by a Chief Risk Officer.





## Signature Initiative— Stabilizing the Federal Housing Administration (FHA)

A strong FHA is critical to the recovery of the housing market and our economy at large. In recent years, FHA has experienced significant swings in its market share as it has stepped in to provide capital for qualified borrowers who would otherwise be shut out of the mortgage market. In FY 2009 alone, FHA insured approximately 2 million mortgages—and accounted for nearly 50 percent of all loans for first-time homebuyers. The severe decline in house prices, the sluggish performance of the economy, and the abusive behavior of some lending partners have resulted in

increased FHA losses and have driven the FHA's excess capital reserves ratio below the congressionally mandated 2-percent level. This initiative seeks to rebuild FHA's financial strength while continuing to support both the nation's housing recovery and access to underserved communities. The initiative to stabilize the Federal Housing Administration will—

- Promote sustainable homeownership by increasing FHA's ability to identify and manage risk, hold lenders to the highest standards of conduct, and recoup losses from lenders who abuse

the privilege of participating in FHA programs.

- Implement new mortgage premiums and underwriting policies that properly price risk, create an Office of Risk Management with state-of-the-art fraud detection and risk management technology, and increase FHA lender enforcement through regulation and legislative changes.
- Restore FHA's excess capital reserve ratio to the congressionally mandated 2-percent level by 2014.