The Annie E. Casey Foundation

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ACTION BRIEF

Foreclosure: How Can Philanthropy Help?

The Problem

When a family loses its home to foreclosure, it loses more than a physical structure. Family members lose their accumulated equity and their credit worthiness and often face a long uphill climb to re-establish themselves financially. Foreclosure can affect a person's employment stability, the ability of their children to remain in their current schools, and a family's ability to maintain longtime ties to important neighborhood support networks.

Foreclosure also challenges the strength and resiliency of entire communities, since neighborhoods with an increase in empty or abandoned properties will also likely see a concomitant decrease in property values, and overall social capital.

For example:

- For every foreclosure within one-eighth of a mile, a home's value declines 1 percent. Across all American households, this means a loss of $356 billion over 40 million households.
- In 2004, foreclosures were estimated to cost the homeowner (borrower) $59,000 on average.
- Foreclosures can reduce credit scores (perhaps as much as 35 percent initially) and remain part of an individual's credit report for seven years.

While news stories have focused on owners who are losing their homes, renters whose landlords go into foreclosure are being displaced. The National Low Income Housing Coalition finds that:

- 40 percent of families facing eviction are renters.
- 20 percent of foreclosures involve multiple-family rental properties.[1]
- In many places, there is a shortage of affordable rental housing, and the loss of investment properties to foreclosure only exacerbates that shortage.

Getting foreclosed investment properties into community land trusts can help address this problem, although other specific practices and policies need to be considered as well. For example, giving tenants more time in their homes before eviction procedures begin; ensuring that Section 8 lease terms are enforced and not bypassed by lenders/owners; providing tenants with legal representation in eviction actions; and ensuring that renters receive notice of foreclosure *before* it happens so that community-based organizations, land trusts, and other entities can pursue purchasing the property and keep tenants in place.

The Casey Foundation's Response

Given the Casey Foundation's focus on vulnerable families in low-income communities, we have concentrated our analysis of the problem and development of solutions on those populations. Our desire is to pursue strategies that have a local focus and offer potential for replication and policy influence. We are particularly interested in programs and policies that help families who rent. They are especially vulnerable and are receiving the least support and attention during the crisis.

In four communities where the Foundation has significant relationships and ongoing investments—Atlanta, Baltimore, Louisville, and Providence—we are supporting organizations working to mitigate the effects of foreclosure on vulnerable families. Because of the scope and scale of the foreclosure crisis, we have looked for ways to complement existing programs and resources. Through grants and social investments, we are supporting community-based organizations that are working to keep families in their homes or, where that is not possible, to minimize the disruptions due to foreclosure.

In addition to its place-based work, Casey is joining with others around efforts to 1) better understand future foreclosures by developing projections of how many are homeowners and renters, who the homeowners are by demographic characteristics, and where they live; 2) plan and pilot a national effort to address the needs of families in foreclosure; and 3) expand affordable mortgage lending to low-income people.

Options for Philanthropy

The scope of the foreclosure problem is sobering and presents challenges for foundations as they seek to identify appropriate national investment strategies and roles. The magnitude of the problem far exceeds the capacity of foundations collectively. Yet, the progress of our own work and that of our colleague foundations indicate that funders can make a difference in a variety of important ways.

- Support research at national and local levels that helps leaders increase their understanding of the current situation and helps them to respond. For example:

  — The Reinvestment Fund analyzed mortgage originations, foreclosures, and delinquencies in Maryland. The report is being used to inform the state's programs and response to preserve homeownership.[2]

  — The Neighborhood Funders Group issue brief on foreclosure examines the genesis of the subprime crisis, suggests state and federal policy solutions, and offers philanthropic interventions.[3]

  — The Urban Institute released a report, with Casey support, to provide data about the impact of the housing and foreclosure situation on renters in Washington, D.C.[4]

- Help bring key leaders and stakeholders from different fields and perspectives together to develop a collective understanding of and comprehensive solutions to the problem, and reduce duplicative efforts and close gaps. Philanthropy can help underwrite or organize convenings, and provide support for local fact-finding and data analysis. For example:

  — The Baltimore Homeownership Preservation Coalition works to develop and implement key programs and policies to reduce the incidence of foreclosure and high cost lending.[5]

  — The Detroit Office of Foreclosure Intervention and Response is coordinating a rapid response to Detroit's growing foreclosure crisis.[6]

- Provide support to direct services that can make a difference for especially vulnerable families. For example:

  — *Support and expand local counseling capacity.* The President's Making Home Affordable Program offers credit-worthy homeowners the chance to remain in their homes. Connecting them to mortgage servicers and financial institutions so that they can access the program before they enter the foreclosure process requires expanding the availability and capacity of housing counseling resources. Ensuring a sufficient corps of trusted counselors who provide good information on eligibility to refinance a mortgage or eligibility for a loan modification—and avoid scams—is just as important as connecting first-time homebuyers with counseling and good information.

— *Increase local capacity to access and use Neighborhood Stabilization Program funds.* Properties that have been foreclosed and are owned by banks (REO properties) are liabilities to the financial institutions, neighborhoods, and city and county governments. The longer a property sits empty after foreclosure, the greater its negative effect on neighboring property values, neighborhood safety, and community stability and desirability. Nearly $6 billion in federal monies have been designated for neighborhood stabilization. Few existing community-based organizations have the capacity to acquire, rehab, and sell or rent REO properties at the scale that is needed to stop the decline in property values.

— *Expand legal assistance for homeowners.* In all states, regardless of whether the foreclosure process is (or can be) conducted through the court system, having legal assistance gives homeowners more time and options to find solutions that will keep them in their homes. Legal assistance is also valuable when prospective homeowners are choosing their mortgages since borrowers are considerably less likely to enter into predatory mortgages when they have legal representation while negotiating their loan. Support for organizations that are either directly providing free or low-cost legal services or are enlisting and training networks of lawyers to do so increases these important legal resources.

— *Build local capacity to access and use data to advocate for change.* Being able to map and track foreclosures in real time provides community-based organizations and public agencies with important information that they can use to identify concentrations and/or patterns to target their outreach, education, and programs. Loan-level data with borrower characteristics can provide researchers, like those in the National Neighborhood Indicator Project, with rich information for analyzing foreclosures and communities.

Philanthropy can also:

- Connect communities to good information on available federal programs and resources for foreclosure prevention, community stabilization, and homelessness prevention.

- Use social investments to support credit unions that serve low-income families in local markets; provide funds that prevent homelessness (e.g., pool for rent and utility deposits); and make other mission- and program-related investments that address the financial crisis and help families stay in their homes.

1 National Low Income Housing Coalition. (2008). *Renters in Foreclosure: Defining the Problem, Identifying Solutions.* Accessed 4/14/09 from www.nlihc.org/doc/renters-in-foreclosure.pdf.

2 www.trfund.com/resource/downloads/policypubs/MarylandForeclosure.pdf

3 www.nfg.org/publications/Mortgage_Foreclosure_Brief_2008.pdf

4 www.neighborhoodinfodc.org

5 http://preservehomeownership.org/index.htm

6 www.michiganfoundations.org/s_cmf/bin.asp?CID=7710&DID=17493&DOC=FILE.PDF