

# **“The Effects of the Foreclosure Crisis on Neighborhoods in California’s Central Valley: Challenges and Solutions”**

**Presented by**

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Hello and good afternoon! Welcome to the fine City of Stockton. My name is Carol Ornelas and I am the CEO of Visionary Home Builders of California. We are a non-profit affordable housing developer and a HUD Approved Housing Counseling Agency here in Stockton . We also serve various communities throughout the Central Valley. We are here today to discuss with you the housing disaster that has hit our community. I can best describe this disaster by comparing it to Hurricane Katrina, which hit New Orleans. The only difference is that Katrina was an act of nature, while our housing crisis was man- made. In neighborhood after neighborhood throughout Stockton you will find foreclosure signs, for sales signs and vacant and neglected properties. Many of the homeowners who are not facing foreclosure can only wonder what their neighborhoods will look like in the future or if they should let go of their homes since the value of their homes has dropped substantially.

Cities throughout the state of California continue to show some of the highest foreclosure activity in the nation. Statistics show that in California 1 out of 204 homes are in foreclosure. Stockton, as described by "60 Minutes", is the epicenter or ground zero for the foreclosure disaster. We have been #1 in foreclosures for the last year. Statistics for our city and many cities in the Central Valley show that 1 out of 26 homes are in foreclosure today. Let me assure you that everyone knows someone in this predicament. Last December Congressmen McNerney and Cardoza held a foreclosure event. Though December is

usually a month of celebration, outside this event center, homeowners formed a line that wrapped around the building. When I walked into that event and took a look at the sea of people, I remember looking at my colleague from the City of Stockton and saying “There is a chill in this room, take a look at this fine example of predatory lending.” 99% of the people that day were Latinos, African Americans, Asians and our senior citizens. By the end of the day I knew this problem was huge because all of the families I worked with that day did not qualify for the initial loan and now their payments were going up and their income remained the same and housing prices had dropped substantially.

Today, we still do not see the light at the end of this tunnel. We know that we are in the middle of another reset and in November we will be hit with another surge of resets. Let’s now throw into this equation the “option arms” that will begin to reset between now and 2010. Keep in mind, these homeowners who are facing default will still need to go through the process and we will not see them on the auction block for six months. This problem is not going away soon.

### ***How did we get here?***

The median income for the City of Stockton for a family of 4 is \$61,300. We are primarily an agricultural based community with few high paying jobs. We had a huge influx of Bay Area residents that could not afford to live where they worked. The Central Valley became a bedroom community for these folks. Housing was affordable and clearly they were able to get more home for less money in the Valley. Builders stopped building for our residents and built housing for Bay Area workers with Bay Area salaries. The demand was great and the building industry was flourishing. Today, we know that the Bay Area families did not qualify for these homes, just like the residents of

Stockton. They were lured in by the high appreciation rates that had been occurring for the prior four years. They were also lured in by financially unsound loans which had low initial teaser rates which only lasted for two or three years, or worse yet, option arm loans. They are now victims of the sub-prime lending that hit our community and the burst of the housing bubble. Homebuyers in our Latino community often had unique characteristics that made them easy targets. For example, Latino families are more likely to have cash income or multiple sources of income. A lot of lenders and brokers didn't want to take the time to qualify Latino families properly. Stated income loans were prevalent. In many cases, if these families would have sat down with a housing counselor, they would have gotten a prime product, rather than a sub-prime loan.

### ***The Effect on our Neighborhoods and Community***

There is huge domino effect to this problem for us all. Local governments are faced with lack of revenue from property taxes, construction and sales taxes. We still need to provide services to our citizens. Our Bond rating has fallen and the City is doing what they can to survive in tough times. We hope we won't have to file bankruptcy like Vallejo was forced to do. The blight and vandalism in neighborhoods is evident throughout our communities with little or no signs of recovery. This will only lead to additional decreases in property values. The City of Stockton has passed an ordinance requiring banks and lenders to maintain their properties or they will be subject to Code Enforcement violations. We hope this will help some neighborhoods recover from the eerie feeling you get when you drive through the neighborhoods and see vacant home after vacant home.

We must not forget that many of our investors who have bought homes and rented them to families, have lost their investments and many of these renters have been caught off guard. Even though the rent may be paid, the mortgage may not have been paid. The sheriff knocks on their door and informs them that they must leave. These families are then left to deal with not receiving the rent back or the deposit. Remember this crisis affects everyone! Take a minute and count how many jobs or services are affected by one foreclosure.

We must remember the stress that has affected our families in our community. Domestic violence is up, there is a greater need for mental services and medical attention for our families and children.

***Current efforts to address this issue:***

Current efforts today - including those by industry and the government – are not working. My counselors face an uphill battle every time they work with a family struggling to keep their home. You have read stories about our troops being sent to battle without proper equipment to fight the war. Our counselors have been sent into their own battle without much help either. We were told that banks and mortgage companies would work with us, yet somewhere along the way investors, servicers and loan mitigation departments fail to come through. National foreclosure solutions are not one-size fits all. Northern California and the Central Valley have unique challenges. We need Congress to closely monitor the situation and be committed to continuous action over the next year. For example, “The Hope for Homeowners Act”. This is a foreclosure rescue product that will be run through FHA. In order to qualify the borrower's loan must have originated prior to March 1, 2008. The program is slated to begin

October 1st. Banks are telling us it is going to take months after that date to get everything ready. This program is VOLUNTARY. So banks/ servicers may not choose to use the program. Here is how it works: The bank agrees to write down the principle balance of the loan to 90% of the current appraised value. They are allowed to go lower if it makes the loan more affordable for the borrower. The borrower is then refinanced into a fixed rate FHA loan program. The borrower has to share a set amount of appreciation with FHA. (which is understandable) HERE IS THE CATCH: The homes in our area have lost so much value that families are already so far underwater, banks may not be willing to use the program. Here is an example:

- House was purchased in 2006, valued at \$400,000 and the loan amount is \$375,000. In 2008, the home is now valued at \$225,000 and the family still owes \$375,000 because it was an interest only loan. 90% of \$225,000 is \$202,500. That means the bank would have to write off \$172,500 to get the LTV back down to 90%. Because of the incomes in the central valley, they may have to go even lower. Keep in mind that this doesn't even tackle the problem of families that have Option ARMs.

We may need to take a further look into this bill and amend the bill to really help those communities that were hit the hardest.

As with any disaster, we must begin the healing process. We believe that the Stimulus Bill will be good for our community. We must make sure that Stockton does receive adequate funds that will be allocated to

communities hit the hardest. After being #1 in foreclosure we should be on top of the list to receive allocation from “The Neighborhood Stabilization Fund” This is \$4 billion of CDBG funding that will go to nonprofits to rehab foreclosed properties. Why are these funds so important to our community? Because being a non-profit affordable housing provider our mission has always been to provide safe and decent housing. The vandalism that has occurred in these foreclosed homes should not be passed on to the new homeowner. By purchasing these properties and renovating them, we will pass the keys on to a homeowner to enjoy their new home, instead of having a homeowner who is worrying about unaffordable repairs needed for the home.

In conclusion, there is much work to be done in order for our community to bounce back from this disaster. I know our community is resourceful. But we must learn from this lesson and look to the future to avoid the pitfalls that may be lurking. Continuing “Homeownership Education” is crucial! Every homeowner should be required to attend the workshops and meet with a housing counselor to explore the options available to them. Every homeowner must be educated to understand exactly how much mortgage they can afford in order to keep their home for the long term, not just buy a home they can only afford to live in for two years, and then lose that home in a traumatic foreclosure. We must rely on the government for greater accountability in the mortgage servicing industry. Many of the efforts so far - especially at the federal level - rely heavily on the voluntary participation of investors, lenders, and servicers. Mortgage servicers are the lifeline between the borrower and their rescue options. Yet, our experience shows that many servicers aren't willing to accept even basic modification requests. Others are slow to respond, leaving our clients to rack up high fees while they wait. On the other hand, where

we have a servicer that is willing to work with us, it makes all the difference. This is how we are able to save families from foreclosure.

We must take another look at the underwriting criteria if we are going to move these homes from foreclosure to homeownership.

The governor recently announced a pool of funds to be used in the hardest hit areas. To date not one loan has closed. Why? I believe we went from extremely loose underwriting guidelines to very tightly regulated guidelines. There needs to be a middle ground. We did many FHA loan in the past so let's look at what worked and what didn't work and find the middle ground. People are not perfect and sometimes there are bumps along the way but that does not mean that they can't be responsible for a mortgage loan. I just want to share with you one highlight, if there can be one in the midst of a disaster. The City of Stockton has always had a down payment assistance loan program and has made hundreds of loans to low income buyers. All users of the down payment assistance program must participate in a Homebuyers Education class provided by a HUD approved housing counseling agency. Throughout this housing crisis we can proudly say that out of those hundreds of loans, there has only been one foreclosure. We can attribute that success rate to the requirement of housing counseling and the use of prime loans. And we must applaud these families because they were all low income families. Maybe the market should take a look at this fine example.

The task of cleaning up our neighborhoods will not be easy and will take time but we must learn from our lesson and move on.....

We can bring back the "Dream of Homeownership"

Thank you for your time.