REO and Vacant Properties: Strategies for Neighborhood Stabilization, September 2, 2010
Day One Closing Remarks: Charles Evans

Charles Evans:
Thanks very much, Alicia. Good afternoon. I'm pleased to be here today to share a few comments as we close out the first day of this comment conference on REO and vacant property REO and Vacant Property Strategies for Neighborhood Stabilization the previous panel, the last speaker mentioned that it's a privilege to be the last panelist to speak. So it's a high honor to be the final speaker today.

[Chuckles.]

Charles Evans:
As I listen to one of the earlier panels on fostering a healthy regional market, I noticed a parallel in many of the comments to a Town Hall that I had with our employees in Chicago just yesterday. I gave them an update on the economy and I noticed a number of similar concepts being mentioned and terms: problems, challenges, difficulties. I started making a list of the types of words that were used like the difficulty words versus the happier words of that panel. Unfortunately, the ratio was quite unfortunate with that.

I'm not going to be able to improve upon that myself. I will note there's a lot of enthusiasm obviously in all of these programs and everybody is searching for the most effective solutions. That's a good thing and I'm optimistic on that.

Most of you already have some appreciation for the work that the Federal Reserve system has been doing to address financial and economic instability. What is less well known is that the Fed reserve also has been working hard to respond to the foreclosure crisis on Main Street. We leveraged our research, community affairs and supervision and regulation functions to support innovative foreclosure prevention for the neighborhood stabilization strategies at the local level.

I would like to talk about that important work, especially a fed program called MORE. Before I do that I would like to discuss some of the larger issues that relate to home ownership and foreclosure mitigation.

As a nation, we've come to value home ownership because of the many benefits it brings for both families and communities. Perhaps foremost is its potential for building household wealth. In addition, however, communities with high levels of home ownership tend to have greater involvement in schools and civic organizations, higher graduation rates, lower housing turn over and higher home values. Simply stated -- home ownership, homeowners tend to put down deeper roots and that's good for communities as well as families.

Recognition of these benefits has made encouraging homeownership a national priority. Tax incentives, FHA mortgage insurance and sponsorship of Fannie Mae and Freddie Mac and Fannie Mae contributed to the rise of home ownership rate from 45 percent in 1940 to a peak of 69 percent in 2004. Of course, home ownership is only good for families and communities if it can be sustained. Home purchases that are highly leveraged or unaffordable subject the borrower to too much risk. There's no guarantee, as we've learned recently, that house prices will rise.

Moreover even in a strong economy unforeseen life events and risks in local real estate markets represent liabilities for higher leveraged borrowers.

Thus it was destructive when, in the early part of this decade, dubious underwriting practices not go for public consumption became common. It is difficult to understand how the broad marketing of exotic and often very high-cost mortgage products could promote sustainable home hope ownership. In fact these practices took us in the other direction and home ownership began to decline even while mortgage underwriting standards continued to loosen. Moreover, as a result of these practices, we have seen an unprecedented housing market collapse that contributed to a deep recession marked by many lost jobs, and home ownership has now declined for six straight years. There are signs of economic recovery and some evidence of home price stabilization, but we are certainly not out of the woods. Projections suggest foreclose the housing units could rise to as high as 3 million in 2010. Public policy response to the collapse has become extensive as the severity and extent of the collapse has become clear. One encouraged spenders to modify mortgages, making them more affordable for borrows rather than accept large losses on foreclosed properties. However, for various reasons, the number of modifications is lower than we hoped. Thus federal government efforts such as the Home Affordable Mortgage Program, or HAMP, continued to evolve, and the search for solutions goes on. The Federal Reserve has a long standing interest in these issues, but our work has taken on added significant since the advent of the recent financial crisis.

My involvement in mortgage and foreclosure issues began recently when I became president of the Federal Reserve Bank of Chicago and sponsor of a Federal Reserve initiative called MORE, mortgage outreach and research effort. Prior to that I worked with our community staff as they partnered with community organizations to address foreclosure issues. In Chicago one of most successful partnerships has been with neighborhood housing services of Chicago, NHS. Much of this work started in the late 1990s, culminating in a program called HOPI, the home ownership preservation initiative, in 2003. NHS with our support has Pioneered techniques to combat the effects of foreclosures. HOPI has been instrumental in saving hundreds of families from foreclosure, hosting loan modification and counseling events, completing HAMP modifications for borrowers and creating strategies for reclaiming vacant properties.

As part of the MORE initiative, the Chicago Fed, together with Federal Reserve Bank around the country and the Board of Governors in Washington, is also addressing foreclosure mitigation and neighborhood stabilization effort through outreach, research and meetings with industry experts.

Perhaps most important so far has been our work to bring resources to the hardest hit cities in regions of the country. Home buyer counseling, for example, is a critical need in certain areas. Under the MORE program, we helped many of our community development partners organize day long mega events that served thousands of troubled borrowers. Moreover, we partnered, and brought together housing advocates, lenders, and key government officials to foreclosure effects.

In some cases, alliances were formed on the spot to create programs to keep people in their homes. The MORE program also included a partnership with the U.S. Department of Labor and the Treasury and the HOPE NOW Unemployment Taskforce to assist unemployed home owners at risk of losing their homes to foreclosure. This collaboration led to the creation of an online tool that allows homeowners and servicers to document unemployment insurance benefits as income to qualify for federally sponsored mortgage modification programs.
In 2008, each Reserve Bank within the Federal Reserve System created an online Foreclosure Resource Center. These websites provide local constituents and consumers with easy access to information on foreclosure-related resources. Features include an enhanced foreclosure mitigation tool kit which provides detailed steps and information for localities seeking to develop foreclosure prevention activities of their own, and a new foreclosure recovery resource guide which seeks to assist consumers who have gone through this process.

A number of Federal Reserve research projects have been initiated as part of the MORE program. They include studies focusing on foreclosure prevention, financial education and adverse neighborhood effects resulting from foreclosures. In this latter category, community affairs researchers across the Federal Reserve systems launched a study in 2009 of the planning and early implementation stages of the Federal Neighborhood Stabilization Program. The research team conducted a series of interviews with more than 90 recipients of HUD NSP funds in the fall of 2009, which we talked about greatly today. They will release a report based on these interviews and data in late 2010. This report will provide the first nationwide examination of the impact of the NSP.

In order to leverage the work of MORE and make information available to practitioners in the field we have been active in sponsoring several conferences. In addition to the conference held here today, the Federal Reserve System and FDIC are hosting a two day conference this fall that will highlight policy-oriented research focuses on the housing and mortgage markets. The first day of the conference will be dedicated to mortgage foreclosures including research on the current situation and outlook, neighborhood spillover effects, and evaluations of efforts to mitigate foreclosures.

The second day of the conference will present research on the future of housing finance. Somebody told me earlier that this conference was overbooked and so you might want to think about signing up soon if you're interested in this.

All of the initiatives I have described as part of our MORE program serve to help supplement work being done on foreclosure prevention and neighborhood stabilization, both locally and nationally. My hope is that all of you here today will draw on this and the success of the MORE program to explore new and creative ways to meet these challenges. A the Fed we'll do our part to encourage research, participate in the dialogue and coordinate groups that want to work towards sustainable housing markets.

Thank you very much.