

The Impact on New York of Ending Federal Aid to Stem the Foreclosure Crisis
A Report From Congresswoman Carolyn Maloney (NY-14)
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House Republicans are targeting for elimination four federal programs to address the foreclosure crisis that could provide more than \$520 million for struggling New York homeowners over the next two years. Republicans are seeking to kill:

- The Home Affordable Modification Program (HAMP), which has already helped 32,785 homeowners in the New York metropolitan area and could deliver more than \$400 million in additional aid to New York over the next two years;
- The Emergency Homeowner Loan Program (EHLA), which is scheduled to allocate \$111 million to New York State to help as many as 142,040 unemployed homeowners statewide stay in their homes;
- The FHA Refinance Program, which could help 121,891 homeowners in the New York City metro area who owe more on their mortgages than their houses are worth; and
- The Neighborhood Stabilization Program (NSP), which is scheduled to provide \$9.7 million to help the City of New York turn abandoned properties into 200 units of affordable housing.

Republicans are voting down these vital programs while offering no solutions of their own to the foreclosure crisis that is devastating neighborhoods and lives both in New York and around the country.

Rep. Maloney offered amendments that would have allowed HAMP and the FHA Refinance Program to each help 500,000 additional homeowners before the programs end, but both amendments were voted down by Republicans.

The Republican attacks on struggling homeowners come at a time when New York's recovery from the foreclosure crisis remains fragile. New York State Comptroller Thomas DiNapoli [reported last week](#) that foreclosure filings fell by 25% in New York City last year, to 17,191, [but mortgage delinquency rates rose in the fourth quarter of 2010 in Queens, Brooklyn, and the Bronx](#) – an indication that foreclosures may rise this year.

In addition, the recovery of New York's real estate market is facing significant headwinds. According to a [report released by NYU's Furman Center](#), home prices in New York City decreased by 8.5% and home sales plunged by 15.2% in the fourth quarter of 2010. Declines in the real estate market have been particularly severe in Queens: sales have declined 39.7% and prices are down 19.5% since the fourth quarter of 2009 – with home prices plummeting 42.2% from their peak in 2006.

As noted above, HAMP alone helped 32,785 New York City-area homeowners stay in their homes since its inception in late 2008 – and could easily help a similar number over the next two years, if the program is allowed to continue. Given the lingering softness in New York's real estate market and the rise in mortgage delinquencies in the fourth quarter of 2010, ending HAMP

—a program that has been particularly successful in our area- and other federal foreclosure-avoidance programs could lead to a surge in foreclosures in New York, further depressing property values in our hardest-hit neighborhoods. Indeed, a 2009 report from Center for Responsible Lending estimated that [foreclosed homes lead to a \\$7,200 reduction in property values for neighboring homes](#).

It is vital that Senate Democrats and President Obama ensure that these Republican attacks on programs to help struggling New Yorkers never become law.

The following are details on the four federal foreclosure-avoidance programs.

Home Affordable Modification Program

Next week, the House will vote on H.R. 839, the [HAMP Termination Act of 2011](#), which prohibits new mortgage loan modifications under the Home Affordable Modification Program. HAMP is one element of the Making Home Affordable Program -- created by the *Emergency Economic Stabilization Act of 2008*, which also created the Troubled Asset Relief Program (TARP). On March 9, 2011, House Financial Services Republicans voted in committee to terminate the program and send the bill to the House floor.

HAMP gives banks incentives to modify mortgages and make payments more affordable by lowering interest rates, extending terms, and, in some cases, reducing principal so that struggling homeowners do not lose their homes. The Treasury Department reports that at the end of January 2011, 539,493 homeowners nationwide received permanent HAMP mortgage modifications.

HAMP has been particularly successful in New York. The City of New York reports that [32,785 mortgages in the New York City metropolitan area have been permanently modified through HAMP](#) – the second-highest number in the nation, behind only California’s 35,514 modifications. There are also 9,000 trial mortgage modifications underway in the New York area.

Ending HAMP would result in a significant loss of aid for New York. The Congressional Budget Office estimates that each HAMP modification translates to an average [\\$13,000 federal outlay](#). Accordingly, in total, the 32,785 loan modifications in our area represent at least \$426 million in federal aid for New York-area homeowners. (Given that housing prices and mortgage amounts are higher in New York City, \$426 million in aid is likely a conservative estimate.)

According to an analysis prepared by the Democratic staff of the House Financial Services Committee, HAMP enrollments nationwide are likely to double to 1.1 million by the end of 2012 -- indeed, the Treasury Department reports that an additional [25,000 to 30,000 HAMP loan modifications are being made every month](#). If the participation rate for New York-area homeowners holds steady, [ending HAMP could hit New York with a more than \\$400 million loss in federal aid over the next two years](#).

HAMP is making a real difference in people’s lives. [Borrowers participating in HAMP have seen their monthly payments reduced by an average of 37 percent – more than \\$500 every](#)

[month](#). Nationwide, homeowners have reduced their mortgage burdens by more than \$5 billion through the program.

Republicans argue that HAMP should be discontinued because it has yet to meet the Obama Administration's target of 3 to 4 million loan modifications by the end of 2012. Rep. Maloney and her fellow Democrats argued that terminating the program will *ensure* that HAMP never reaches its target – and since any unused funds at the expiration of HAMP would be returned to taxpayers, there's nothing to lose by letting the program continue.

Maloney offered an amendment in the House Financial Services Committee to allow HAMP to modify an additional 500,000 mortgages before the program ends. Committee Republicans voted down Maloney's amendment.

Emergency Homeowner Loan Program

On March 11, 2011, House Republicans passed –in a largely party-line vote- [H.R. 836](#), which terminates the Emergency Homeowner Loan Program (EHLPP), an initiative authorized and funded under the *Dodd-Frank Wall Street Reform and Consumer Protection Act*. The U.S. Department of Housing and Urban Development (HUD) is scheduled to roll out the program on April 1st.

EHLPP will provide \$1 billion in grants to states to provide loans to homeowners who are delinquent on their mortgages as a result of unemployment or medical conditions.

Shortly after April 1st, HUD is scheduled to release approximately \$111 million in EHLPP funds to New York State to help struggling homeowners. According to the Census Bureau's American Community Survey, as of October 2010, there were 142,040 households with a mortgage in New York State in which the head of the household or spouse was unemployed -- representing 6.22% of all mortgage-holding households in the state.

The Republican bill would kill EHLPP and prevent \$111 million in federal aid from reaching unemployed or ailing New York homeowners.

EHLPP provides 0%-interest bridge loans of up to \$50,000 for up to 24 months when borrowers can't make payments on their mortgages because of short term unemployment or illness. The amount of the loan is designed to reduce monthly payments to an affordable 31% of a borrower's income. When borrowers are able resume payments on their mortgages, they must begin repayment of the bridge loan. HUD gives borrowers incentives to make timely loan payments by reducing EHLPP loan amounts by 20% each year that borrowers are current on their loans.

EHLPP is similar to a program administered by the State of Pennsylvania called the Homeowners Emergency Mortgage Assistance Program. Of the 45,316 Pennsylvania homeowners who have received aid through this program, 85% have been able to keep their homes.

FHA Refinance Program

On March 10, 2011, House Republicans passed –again, in a vote mostly along party lines- [H.R. 830, the FHA Refinance Program Termination Act](#), a bill to end a program to help homeowners who owe more on their mortgages than their houses are worth due to decreases in property values.

According to reports compiled by CoreLogic, in the third quarter of 2010, there were [121,891 homes in the New York City metropolitan area that were “underwater.”](#) and another 33,042 homes were in danger of falling into negative equity. Nationally, almost 11 million mortgages are underwater, or 22.5% of all outstanding mortgages.

The Federal Housing Administration (FHA) Refinance Program was created under the TARP program to allow qualifying homeowners who are underwater to refinance their mortgages as FHA-insured loans. (Homeowners with negative equity in their homes are usually ineligible to refinance their loans at more affordable interest rates.) This program is particularly helpful for borrowers who have exotic mortgage loan products whose interest rates have skyrocketed or whose interest-only payments have not allowed them to grow any equity in their homes.

To participate in the program, lenders must agree to write-off 10% of an underwater borrower’s principal balance. The program has strict standards after the principal write-off – borrowers’ debt-to-income ratios and credit scores must meet FHA standards, and, as with all FHA-insured loans, the property must be the homeowner’s primary residence. The borrower must also be current on the mortgage.

The program was announced in March 2010, but funds did not become available until September 2010. Although this program has gotten off to a slow start, it is starting to gain traction. In recent weeks, Citibank, Wells Fargo, and Ally Bank all indicated their intent to participate in the program.

As with the bill to eliminate the HAMP program, Maloney offered an amendment to terminate the FHA Refinance Program after 500,000 loans had been modified. Maloney’s amendment was voted down in the Financial Services Committee.

According to the [S&P/Case-Shiller Home Price index](#), in December, property values in the New York metropolitan region declined to their lowest levels since 2004, with single-family home prices declining 22% from their peak in 2006. With declining property values in our region and nationwide, this is an inopportune time to eliminate aid for underwater homeowners.

Neighborhood Stabilization Program

On March 16, 2011, House Republicans approved –yet again in a largely party-line vote- H.R. 861, the [NSP Termination Act](#). The Neighborhood Stabilization Program (NSP) provides federal funding to states and cities to repurchase and rehabilitate abandoned or foreclosed properties. Such properties are often a blight on communities in which they are located, [leading to decreased property values](#).

NSP funding has been disbursed by HUD in three rounds, known as NSP1, NSP2, and NSP3. The Republican bill would eliminate any unobligated NSP funding. HUD has fully obligated all funds under NSP1 and 2, but has yet to obligate –that is, enter into contracts with states or cities to disburse- funding under NSP3.

The New York City Department of Housing Preservation and Development is slated to receive an NSP3 grant of \$9,787,803 to rehabilitate three multi-family projects in the Bronx. One project will convert a stalled housing development into an affordable rental. The other two projects will use NSP3 funding to purchase distressed multi-family properties in foreclosure, which will be rehabilitated by the new purchaser. Altogether, these projects will create approximately 200 new or newly rehabilitated affordable apartments in the neighborhood.

This funding would be lost if H.R. 861 becomes law.

Conclusion

These four vital programs, created to assist homeowners and neighborhoods at various stages in the foreclosure cycle – from when homeowners are first threatened with foreclosure to when foreclosed homes become vacant – represent significant funding streams for the State and City of New York. House Republicans have voted to terminate all four programs while putting forward no plans of their own to help homeowners who are struggling because of the difficult economic times our nation is facing. With hundreds of millions of dollars in federal funding at stake, and with homeowners just barely holding on, now is not the time to terminate these important lifelines.