National Foreclosure Prevention and
Neighborhood Stabilization
Task Force

February 14, 2012

Regulations Division
Office of the General Counsel
Department of Housing and Urban Development
451 7th Street, SW
Room 10276
Washington, DC 20410-0500

Docket No. FR-5563-P-01
RIN 2501-AC94
Office of the Assistant Secretary for Community Planning and Development, HUD
HOME Investment Partnerships Program: Improving Performance and Accountability; and Updating Property Standards

To Whom It May Concern:

The National Foreclosure Prevention and Neighborhood Stabilization Task Force appreciates the opportunity to submit comments on the new proposed HOME Rule. We commend the Department of Housing and Urban Development (HUD) for seeking input on how to improve the HOME Investment Partnerships Program.

Convened in November 2007, the National Foreclosure Prevention and Neighborhood Stabilization Task Force is a cross-industry group of local and national organizations working to address the impacts of the foreclosure crisis on communities. Our mission is to bring together advocates, practitioners, and other experts from across the country around foreclosure prevention and neighborhood stabilization efforts, to exchange critical information and to help craft policy, legislative, and programmatic initiatives that primarily support low and moderate-income individuals and families.

We were pleased to see that HUD recognized the impact of the national foreclosure crisis and included new HOME provisions on HOME-assisted homebuyer programs. Therefore given our focus and experience on foreclosure and neighborhood stabilization issues, we offer the following feedback:

1. **Eliminate or substantially change the requirement that rehabilitated or newly constructed HOME homeownership units that are not sold within 6 months must be converted to rental.** The new HOME rule proposes “If the housing is not acquired by an eligible homebuyer within 6 months of the date of project completion, the housing must be rented to an eligible tenant in accordance with § 92.252.” We recognize that this language is included in the FY2012 appropriations bill, but it is only binding for one year, and we urge HUD not to adopt it permanently. This requirement, though good-intentioned, could have negative impacts on participating jurisdictions (PJs), tenants, and neighborhoods. Requiring that all unsold homes be converted to rental is tantamount to requiring that PJs become scattered-site single-family managers. Though we support this concept and are working with the FHFA and FHA to develop a national REO to rental pilot, we also know that scattered-site management is extremely difficult and should only be done if an entity is fully prepared to do so. PJs developing homeownership units may not be prepared for such a responsibility, and failure could mean unsafe conditions for tenants (due to delayed maintenance) and destabilization of neighborhoods (due to failure to maintain the exterior of the property). In addition, this new requirement could make it more difficult for developers to secure financing, a task that is already very hard in this tight credit environment.

However, we are sensitive to HUD's desire to not have homes sit vacant for years at a time. Therefore, we recommend:

- *Increase the length of time to one year before any trigger goes into effect*. Regional housing markets vary greatly, and in some colder parts of the country, the selling season lasts only half the year. In addition, in this tight credit environment, it is harder to qualify eligible homebuyers, and it may require several months to secure mortgage financing. Lastly, as of December 2011, nationally, there was a 7 month supply of existing homes and a 6 month supply of new homes.[1] Therefore it is unfair to ask HOME PJs to sell in only 6 months.
- *Recognize that some PJs and Community Development Housing Organizations (CHDOs) lack scattered-site rental management capacity.* As presented, this requirement is an unfunded mandate for PJs and CHDOs to engage in scattered-site single-family rental management. HUD should recognize that not all PJs and CHDOs will possess this capacity and may require assistance.
- *Permit the PJs the flexibility to market properties again after they have converted to rental.* Instead of locking into rental for up to 20 years a unit initially intended for homeownership, we recommend that the PJ be permitted to reassess the appropriate tenure type at the end of each lease term. If it is once again appropriate to market the property for sale, the PJ should be permitted to do so, as long as they do not violate any lease provisions. We request that HUD provide guidance to PJs on how to structure a lease to adequately inform a tenant about the possibility for the property to be sold again and to provide a tenant with the option to buy if appropriate. In addition, HUD should provide guidance to PJs on how they can assist, financially and with services, a tenant to move from the home if necessary.

2. **Maintain the requirement that all HOME-assisted homebuyers must receive counseling.** In the wake of the foreclosure crisis, it is critically important that potential buyers are well-informed and prepared for the responsibility of homeownership. Pre-purchase counseling can help reduce the likelihood of default and foreclosure by helping individuals determine if they are ready for homeownership, and by connecting them with safer and more affordable mortgage products. According to the Center for Housing Policy, most research studies have found that pre-purchase counseling leads to positive results, reducing delinquency anywhere from 19 to 50 percent.[2] Ultimately, this will lead to fewer foreclosures and more stable neighborhoods, as families choose the housing that is right for them and their situation.

3. **Maintain the requirement that participating jurisdictions must establish written policies for underwriting standards, antipredatory lending measures, and refinancing standards.** Low-income and minority homeowners and neighborhoods, the very populations HOME funds are intended to benefit, have fared worst in this foreclosure crisis. According to the Center for Responsible Lending, nearly 25 percent of loans in low-income neighborhoods and 20 percent of loans in high-minority neighborhoods have been foreclosed upon or are seriously delinquent.[3] Many of these foreclosures were the result of predatory lending. Among borrowers with a FICO score over 660, African Americans and Latinos received a high interest rate mortgage loan more than three times as often as white borrowers between 2004 and 2008.[4] Therefore, we applaud HUD's requirement that participating jurisdictions using HOME funds for homebuyer assistance establish written policies for: underwriting standards for homeownership assistance; antipredatory

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[1] U.S. Department of Housing and Urban Development and U.S. Department of the Treasury. "The Obama Administration's Efforts to Stabilize the Housing Market and Help American Homeowners, December 2011." Available at: http://portal.hud.gov/hudportal/documents/huddoc?id=DecNat2011_SC_FINAL.pdf

[2] Center for Housing Policy. "The Role of Housing Counseling in Reducing Mortgage Delinquency and Foreclosure." Available at: http://www.nhc.org/media/files/Role_of_Housing_Counseling_in_Preventing_Foreclosure.pdf

[3] Center for Responsible Lending. "Lost Ground 2011: Disparities in Mortgage Lending and Foreclosure." Available at: http://www.responsiblelending.org/mortgage-lending/research-analysis/Lost-Ground-2011.pdf

[4] Ibid.

lending measures; and measures that ensure terms of loans that refinance debt to which HOME loans are subordinated are reasonable. However, we also suggest that HUD guidance not be so strict that PJs feel they must institute policies that effectively lock out homebuyers who do not have perfect credit and/or are not awash with cash to meet a burdensome downpayment requirement. In *Balancing Risk and Access,*[5] the Center for Community Capital at UNC and the Center for Responsible Lending sought to evaluate the tradeoffs between benefits and costs of additional underwriting restrictions on top of the current working definition of Qualified Mortgages; and the impact on access of stricter Qualified Residential Mortgages underwriting restrictions on low-income borrowers and borrowers of color. Their findings show that onerous downpayment requirements would exclude a high percentage of potential borrowers fully capable of meeting their mortgage obligation.

4. **Retain the new lease-purchase provisions.** The foreclosure crisis and the mortgage credit crunch that followed have demonstrated the need to explore other housing tenure options beyond simply rental and homeownership. Therefore, we support the new flexibility to use HOME tenant-based rental assistance funds for lease-purchase.

Thank you for your consideration on this matter, and please do not hesitate to contact us with questions.
Sincerely,

The undersigned organizations and localities of the National Foreclosure Prevention and Neighborhood Stabilization Task Force:

California Association of Housing Authorities
California Association of Local Housing Finance Agencies
California Housing Consortium
Center for Community Progress
Center for NYC Neighborhoods
Chicago Urban League
Citizens' Housing and Planning Association
Council of State Community Development Agencies
Crescent City CLT
Enterprise Community Partners
Greater Rochester Housing Partnership
Habitat for Humanity International
Homeport aka Columbus Housing Partnership
Housing Assistance Council
Local Initiatives Support Corporation
Mercy Housing
National Community Stabilization Trust
National Council for State Housing Agencies
National Housing Conference
National Housing Institute
National Housing Trust
National League of Cities

[5] Report available at: http://www.responsiblelending.org/mortgage-lending/research-analysis/balancing-risk-and-access.html

National Low Income Housing Coalition
Rebuilding Together
Restored Homes HDFC
Restoring Urban Neighborhoods LLC
Self-Help/Center for Responsible Lending
St. Ambrose Housing Aid Center