

**Everyone Pays: Community Costs of Foreclosure and Predatory Lending
October 5, 2006**

**Proposing the Solution
Belair-Edison, Neighborhoods, Inc.**

Main Points

1. The foreclosure epidemic is our biggest obstacle to neighborhood revitalization.
2. With quality pre-purchase counseling low- and moderate-income homebuyers can qualify for traditional mortgage loans and achieve sustainable homeownership.
3. Neighborhood revitalization strategies must include attention to post-purchase mortgage-related issues and plans for dealing with foreclosed properties.

Description of the Neighborhood – Typical Baltimore

Belair-Edison is a classic Baltimore row house community in the Northeast section of the City. It has 6,400 brick homes, 18,000 people, a 300-acre park and is ten minutes from downtown and major highways. Since the 1920s it has been a “move up” community for working families from east Baltimore. Belair-Edison’s homeownership rate has remained around 75% despite significant social and demographic transition over the last 30 years.

Belair-Edison Neighborhoods, Inc. (BENI) is a community-based nonprofit organization dedicated to making Belair-Edison a competitive neighborhood of choice. As part of the Healthy Neighborhoods initiative we work on:

- Raising property values through resident investment - block projects to low-interest home improvement loans
- Building social fabric and improving the neighborhood’s image - fun events, good publicity, and fostering relationships with real estate agents
- Marketing Belair-Edison’s amenities and improving public spaces – parks, the Main Street corridor, and gateways

We’ve had considerable success with this strategy. Sales prices have increased almost 100% since 2000 and our median price is an affordable \$112,000. Young professional buyers are moving into Belair-Edison, and long-time residents have more pride and confidence in the neighborhood.

The Problem

On the other hand, Belair-Edison’s history of foreclosures is one of the most severe in the city.

1993 - 64	1996 - 151	1999 - 300	2002 – 286
1994 - 85	1997 - 238	2000 - 221	2003 - 265
1995 - 139	1998 - 221	2001 - 299	2004 - 245
			2005 - 157

The spike in foreclosures in Belair-Edison corresponds with the disappearance of traditional FHA underwriting. Unfortunately, the current lending environment makes the sloppy FHA lending of the late 90s look quaint and amateurish.

The magnitude of this problem can't be tackled by one neighborhood or organization. The comprehensive strategy proposed by HPC coupled with grassroots work in Belair-Edison's should begin to reverse the trend.

Neighborhood Prevention Efforts

Our goal is to be the point of contact for residents and prospective buyers with home finance-related questions. We have to know our market and act to influence it.

What Works?

Quality Homebuyer Education: Our homeownership counseling program sees over 500 people a year in one-on-one sessions and holds monthly workshops. We do not issue counseling certificates just for showing up, but only when the prospective buyer meets the criteria of traditional lending programs (like CDA).

It hasn't been our experience that the only way some families will ever get a house is with an exotic or high-risk product. Most prospective buyers with credit issues can remedy their situation and get a fixed low-interest loan within six months to a year. We'll work with them for as long as it takes.

Encouraging marginal buyers to use high-risk loans denies them the benefit of joining the mainstream economy and puts them at greater risk for failure. It is analogous to using a check cashing store instead of a bank.

Outreach to Current Residents: The foreclosure numbers tell us that at any given time there are at least 200 households who are struggling with their mortgage. We study sales data to target residents with high-risk loans. Approximately one-third of the mortgages loans being made in Belair-Edison include high interest rates, ARMs, 80/20s, or balloons.

How we get people in the door:

- 3 times a year the *Neighborhood News* is mailed to all 6,400 households
- Together with HELP we have sent letters and brochures to every household
- Targeted mailings to households with high-risk loans and some door-to-door outreach
- Banner that says "We Don't Sell Houses; We Can Help You Keep Yours"
- Discussion of available services at festivals, block meetings, and community meetings
- An educational DVD will be widely distributed

Safe Loans for Home Improvements and Refinancing: Many people find themselves in untenable situations because of loans they've taken for needed home improvements. Residents in Baltimore's 10 Healthy Neighborhoods have access to low-interest home

improvements loans and refi-rehab loans. We have to market these loans as the safe alternative to high-risk loans.

Disposition of Foreclosed Houses: When Belair-Edison's market was weak, foreclosed properties almost always fell into the hands of investors, who more often than not, flipped them or turned them into rentals. As the market has gotten stronger, it has become more feasible for our partner, St. Ambrose Housing Aid Center, to buy and rehabilitate Belair-Edison houses. Most of Belair-Edison is a HUD Asset Control Area and St. Ambrose expects to rehabilitate about 30 houses over the next year. St. Ambrose houses lead the market and generally sell within a week of completion. Marketing and counseling efforts ensure that solid buyers become the owners of these houses.

Conclusion:

- Residents will come to us for help because they trust us.
- Repeated outreach in various forms will get people in the door.
- We'll know we've succeeded when high-risk loans lose market share.
- We need to develop a system to track clients for several years after intervention has occurred.