BALTIMORE
HOUSING

SHEILA DIXON
Mayor

PAUL T. GRAZIANO
Executive Director, HABC
Commissioner, HCD

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BALTIMORE CITY COUNCIL
PRESIDENT'S OFFICE

MEMORANDUM

To: The Honorable President and Members of the Baltimore City Council
c/o Karen Randle, Executive Secretary

From: Paul T. Graziano, Commissioner

Date: August 5, 2008

Re: City Council Bill 08-0037R Investigative Hearing - Foreclosures - Impact on Baltimore City

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The Department of Housing and Community Development (DHCD) has reviewed City Council Bill 08-0037R, which was introduced for the purpose of investigating the foreclosure crisis in Baltimore City to ascertain the effects on prospective home buyers, current homeowners, and mortgage lenders; to project the consequence to Baltimore City's property tax base; and to evaluate the immediate and long-range affect of mortgage lending reform legislation and other foreclosure-related legislation recently passed in the 2008 Session of the Maryland General Assembly.

The foreclosure crisis that has devastated many regions in the United States has not spared Baltimore City. Foreclosure filings, which had fallen for most of the decade, reached their low point in 2006 with just over 3,000. During 2007 they rose to just over 4,000 and in the first quarter of 2008 to almost 1,500 consistent with a projected 6,000 filings for the year. (Second quarter 2008 data showed a marked decline in filings due to changes in State law, not to improving conditions in the real estate markets. It is anticipated that the third quarter will show a non-representative increase in filings and that reliable trend line data will not be available until fourth quarter results are in.)

Rates of foreclosure filings are likely to remain high as thousands of adjustable rate mortgages (ARMs), many of them sub-prime, reset over the next several years. Based on data from the State of Maryland over 4,500 ARMs will reset between August of 2008 and the end of 2010. An additional 850 will reset in 2011. Households with ARMs, particularly sub-prime ones, are at a much higher risk of foreclosure than households with conventional loans.

As dire as the situation is, it should be noted that Baltimore has not been devastated to the extent experienced by some of the hard hit regions of the Midwest, South and West. As with other cities along the east coast, Baltimore's

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real estate market has held up relatively well and not experienced the large price declines that other areas have seen. This is important as steep price declines fuel the foreclosure cycle, curb capital availability and prolong the process. This is not to imply that the city's real estate market has settled. The lengthening aggregate time on market for single-family homes has been increasing which bodes further price declines. However, it is not believed that such declines will approach the cataclysmic levels seen in other regions.

In response to the increase in foreclosures, DHCD, working in close collaboration with the State and Federal governments, local foundations and non-profit partners such as the St. Ambrose Housing Aid Center and the Baltimore Homeownership Preservation Coalition, is expanding existing initiatives and adding new ones into a six prong program to combat rising foreclosures. The six components of the program are:

1) Marketing and out reach to households threatened with foreclosure so as to make them aware of available assistance;

2) Provision of foreclosure counseling to households undergoing, or at risk of, foreclosure;

3) Mortgage intervention assistance which will provide loans and/or grants of up to $5,000 to households when such assistance, in combination with counseling, would likely result in retention of the home;

4) Mortgage refinancing which will provide low-interest, flexible term refinancing to households that, once refinanced, would be able to retain their homes;

5) Focused code enforcement efforts on foreclosed houses to insure that their condition meets housing code requirements and aggressive action against owners whose buildings are a blighting influence.

6) Neighborhood asset control through which non-profit housing providers, would buy, rehab and sell to homeowners, foreclosed properties to insure that whole communities do not enter a foreclosure fueled disinvestment cycle.

Recent actions by the State and Federal governments will assist in combating the foreclosure crisis. In April, the State passed legislation that changed laws governing the foreclosure process and expanded its oversight and enforcement roles. Among these bills was an emergency bill creating a comprehensive mortgage fraud statute with both criminal penalties and a civil private right of action. The Governor signed this bill into law in early April (*SB 217/HB 360 – Chapter 4*). Another quickly adopted statute expanded the licensing requirements for mortgage lenders and mortgage originators and prohibits certain mortgage loan prepayment penalties (*SB 270/HB 363 – Chapter 3*). Other successful bills related to mortgage reform and credit regulation provided for:

- The prohibition of foreclosure consultants from engaging in, arranging, promoting, promising, and soliciting a "foreclosure rescue transaction" (*SB218/HB 361 – Chapter 6*).

- The lengthening of the foreclosure process to afford homeowners an expanded time and notice requirement before a pending foreclosure sale, as well as permitting homeowners to stop foreclosure by paying what is owed up until one business day before the sale (*SB 216/HB 365 – Chapter 1*).

- The authorization for state-chartered banks and independent mortgage lenders to continue the practice of recapturing loan closing costs, initially paid for by the lender, in the event that the borrower prepays the loan before a certain time (*SB 347, Chapter 34/HB 852– Chapter 35*).

- The removal of the requirement that a licensed debt management services provider be a nonprofit entity, thus allowing a for-profit entity to become licensed and increase the number of providers to consumers. The legislation also amended the provisions for a consumer education program and makes various other changes to the provisions governing debt management businesses (*SB 646/HB 947– Chapter 605*).

This past July, the Federal government passed the *Housing and Economic Recovery Act of 2008,* which is its first significant legislative effort to deal with foreclosures and turmoil in the mortgage markets. As the Act is implemented beginning in the autumn of 2008, it will bring considerable capital and regulatory assets to bear on the crisis.

PTG:pmd

cc: Ms. Angela Gibson
Mr. Demaune Millard