

Affordable Housing Conference of Montgomery County Finance Leadership Forum

Brookside Gardens Visitors Center, December 5, 2008

(Edits from Clarence Snuggs, Josh Silver, Patty Widerman and Craig Pascal)

Opening, Welcome: Barbara Goldberg Goldman, Co-chair.

Moderator: Kayrine Brown, HOC, Director of Mortgage Finance

HOC as affordable housing finance for Montgomery County has seen difficulties in market for a long time. Home ownership reached historic levels; then problems began.. Bottom is not clear, bad mortgages have been made. Subprime problems have migrated to prime markets and other financial products, fueled by Wall Street enthusiasm. Bold moves needed, Major events started in September with bailout of Fannie Mae, Freddie Mac; then failures of Bear Stearns, Lehman Bros., AIG; then followed by a credit crunch which has caused major problems. Banks are afraid to make loans. Federal Housing Bill (HR3221) started Federal action followed by State and local level activity. The problems can be addressed; all parties need to work together.

Malcolm Hollensteiner, MBA Metro Washington

4.5% interest rates increase buying power 10%. HOPE Now is an affiliation of servicers, lenders. 225,000 foreclosures were prevented which represents an annualized rate of 2.2 million. 2.7 million have been prevented since 2007. Loan modifications and repayment plans will likely rise. Hope for Homeowners (HFH) uses FHA loans to assist borrowers who held mortgages from before January, 2008. Mortgage must be affordable at 31% of gross income, on property which is owner occupied, where the owner has no history of defaults. Principle is reduced to 90% of fair market value. Must share 50% of equity. Confusing program. FHA Secure – no equity share

John Hughes, Counsel for Financial Services Committee, US House of Representatives.

Chaos – HR 3221 designed to help 400,000 - 199 case numbers have been assigned. Designed to adjust LTV; banks resistance to write-down. Upside down mortgagees unlikely to be helped; voluntary programs won't work. FDIC plan will allow refinancing to 38% of gross income; Indy Mac loans are being rewritten in volume. Treasury should provide funding according to Rep. Barney Frank. July Housing bill proposed buying foreclosed properties. Predatory Lending Bill from October may help by requiring a duty of care on lenders to prevent future sub-prime problems.

Clarence Snuggs, Deputy Secretary, Maryland Dep't of Housing and Community Development

Third quarter '08 in Montgomery County saw a 28% decline in foreclosures from 2nd Quarter which was a 32% increase over last year. Maryland foreclosures are up 16% from 2nd Quarter. Shows zip code distribution: Areas of concern are 20902 (Silver Spring), 20906 (Gaithersburg) 20877 and 20886 (Montgomery Village). Progress is evident, but some sub-prime ARM borrowers were in trouble before resets. Problem is broadening into other types, as well (Option Arm, fixed). Many borrowers were non-responsive to problems and to contacts. DHCD mailed 70,000 postcards (Mortgage late, Don't Wait). Hotline 877.462.7555 has received 13,000 calls. State is working with Montgomery County DHCA to increase workshops, counselors. Of 11,000 owners contacted, 4,000 have experienced 'positive outcomes'. Maryland is at forefront; housing counselors are critical - \$1.8 million awarded for help. DHCD has held meetings with servicers to clarify processes locally – 6 servicers have agreed to work with the State and the network of housing counselors to modify mortgages and provide a greater process transparency to troubled homeowners. DHCD is working with members of Maryland Bankers Association to devise an additional refinance mortgage product. DLLR's strategy is one of buying time – early homeowners were sometimes permitted as little as two weeks from foreclosure to auction; that time has been extended to 135 days.

Rick Nelson, Director, Montgomery County Department of Housing and Community Affairs

Magnitude of problem in perspective: since the first quarter of 2007, there were 6851 foreclosures – a lot. 782 were REO's – good news. Bad news: in the 3rd quarter of 2008, there have been 315 foreclosed properties purchased. Credits State DCHD with leading the way among the 50 states. The County is matching state funding for counseling for LEDC in Wheaton, Home Free USA in Gaithersburg. Local partners include the City of Gaithersburg which is co-sponsoring a third location at the Upcounty service center. More counselors are in training. Next step is the condition of vacant properties – code enforcement. 700 properties have been inspected for security, solid waste, cut grass; contractors will perform undone maintenance. Will continue. Neighborhood stabilization – acquisition of vacant properties – expensive – motivated by \$4,000,000 Federal program. \$2,000,000 allocated to Montgomery County, not transmitted yet. HUD refused reimbursement. Congress is not fully engaged or aware. County Exec has asked for increase in HIF which is now \$54 million. Habitat for Humanity will purchase 10 properties. Considering possible revolving fund for for-sale properties. Potential problems: Federal government is frequently changing directions, Banks unwilling to take losses – waiting for bail out money. What help for families not yet delinquent? No tools yet. Banks need to step up more – more mortgage money.

Questions:

- Help with BRAC immigrants? (CS) Call Maryland DHCD
 - Closing cost assistance programs? (CS, RN) Still operating.
 - Builder/loan originators need regulation? (JH) Balance needed, (MH) RESPA reform takes effect 1/09, Builders will not be steering mortgages
 - Require risk analysis since not all lenders use them? (JH) Better oversight needed
 - Will HRH Value Recapture cover losses? (JH) Taxpayers take risk, should gain the benefit (RN) half of MoCo foreclosures not sub-prime
 - License Mortgage Originators? (MH) new regulations will do this
 - Will foreclosures sold to HOC as affordable housing undermine neighborhoods by concentration? (RN)
- Who to call: (RN) State Hotline - boarded up houses not good. Need to keep people out; need also to move properties to ownership.

Ike Leggett, Montgomery County Executive

Foreclosure numbers are rising nationally, are likely to affect the overall economy. Requires comprehensive program. Employment comes first. County will work with State and Federal government for comprehensive solution. Committed to quadruple HIF two years ago; now at \$54 million, rising. The County will assist distressed homeowners.

Moderator: Dennis Melby, Greater Capitol Area Association Realtors

Sales down 20-35%, slide continues. Prices down 6% in Montgomery County; stable in DC. Sales continue. Proposes local stimulus – reduce recordation tax. Nationally: lower interests rate to 4-4.5%

Tom Baum, President, Bozzuto Homes

Bozzuto is diverse: for sale, rental, affordable; produce 150-200 closings/year; still going. Produce little subsidized for sale housing. Luxury market is dead in the water. By-choice buyers are not buying. Relocations are still buying. Affordable market still shows demand. Market condominiums and town

houses are suffering, especially further out. Inner, non-urban, non-luxury units are still moving. 122 unit Prince George's project is selling, 90 sold – project needed to be resold due to delay – 42 cancellations among pre-sales during construction. Fears loss of sales during construction – better to build on spec. In Montgomery County, Summit Crossing in Gaithersburg was initially high end. Design was retooled, partnership formed with Gaithersburg (project built on City owned land) to seek first time home buyers, shared closing cost write-down – it worked. Builders experiencing downward price pressures from national builders – there has been a 20-30% price drop. First time buyers have opportunities, on backs of builders, with FHA, State and County. Create partnerships to make affordable housing.

Craig Pascal, Senior Vice President Community Development and Banking PNC Bank

PNC has no subprime involvement. CRA was not a cause of the problem. Taxes are higher in Montgomery County. African Americans disproportionately affected by subprime problem. Bush administration pushed homeownership. Tax credit market in bad situation – price has fallen from \$1 to .70 or less. Corporations need income to benefit from tax credit. 2009 will be a bad year. Start a project with no pre-sales is not going to happen. Local investment like Housing Initiative Fund needed; Montgomery County exemplary. This recession is not like recent past recessions. Response programs are multiplying. Back to fundamentals good; hope for an effective HUD Secretary.

Josh Silver: National Community Reinvestment Coalition ✓

NCRC represents 600 Community organizations that seek to increase access to capital and responsible credit. NCRC operates National Homeownership Sustainability Fund that engages in foreclosure prevention and counseling. How did we get here? Wall Street financed exotic and loosely underwritten from the mortgage industry. No one was accountable – brokers, loan originators, rating agencies, all failed. The Federal government was slow to react. Simple rule is needed: thou shall not lend beyond the borrower's ability to repay. Opportunity now to strengthen CRA. Listed illustrations of irresponsible loan practices. 8 out of 10 distressed borrowers are not receiving help. Must increase foreclosure prevention programs. Need strong anti-predatory lending law. Visit <http://www.ncrc.org> to learn more about our policy views and programs, and upcoming conferences.

Patty Widerman, Senior VP Group Mortgage Manger BB&T Mortgage.

Stressful industry; interest rates are falling. Responsible lenders lost business to less responsible lenders who did loans for borrowers who should not have received loans at all in some cases. Changing mortgage terms will help. Credit tightening – tightening of jumbo loans in particular has had a large effect in DC. Banks are now lending their own money – no deposits, no loans. FDIC premiums will increase cost to banks in 09. FHA loan volume will increase dramatically. Owner occupied, non-investors who are delinquent are being helped by banks. Assisted owners must share in the pain as a recorded delinquent mortgagee. Foreclosures may increase; hopefully first in, first out (Declining Markets label) DC employment base is strong – good times are coming. Interest rates are falling. Montgomery County is helpful in offering first time buyer assistance. Maryland overall has done good job through the CDA program. Bullish – looking for a strong spring real estate market.

Anirban Basu, Sage Policy

Economic Overview. Economy in free fall. Unemployment may rise to 9% nationally, 11% in some places. 5% in Maryland is a 12 year high. No progress from stimulus yet. Predicts \$400-\$500 billion Obama stimulus. Women are not hurt as badly in this recession as men – 75% of manufacturing jobs are held by men, 88% of construction jobs. Lack of affordable housing is the basic problem. The Country can't afford its own housing. Three issues need to be addressed:

1. Land use – (gestures to woods behind) density is unpopular – there is no affordability without density. Demographics: Social Security tax now 2.9% will rise as population ages. Everything is better in Montgomery County.

2. Finance – conventional wisdom claims that crisis is due to lack of regulation, Be careful – fewer lenders – less lending, less competition. Subprime lending allowed affordable home ownership. Be careful what you wish for.

3. Economic Development – jobs are critical. Middle class Americans used to produce for Middle Class Americans. Now Middle Class Indians and Chinese are producing for Middle Class Americans. What will Middle Class Americans do? They need to make stuff, save money. Buffalo is great because it's close to Toronto, not because it's Buffalo. Detroit is the barometer – Americans need to be producers, not consumers

Questions:

- Could MoCo make a consolidated directory of foreclosed properties? (PW) data all over the country; bankers can work together

- What should we be doing? (Floreen) no answer

What to do about affordability crisis? Why protect 1/3 of county? Where will next 100,000 houses go? (TB) Maryland most lot constrained in country

- Shared Equity Home Ownership? (Scott Riley) MPDU program shares equity (TB) HPAP program in DC shares equity

- How can distressed owners be helped earlier? (PW) needs to be addressed

- Many advocacy groups work at cross purposes to affordable housing (recording stops before answer)