



Department of Justice, Peace and Human Development
Office of Domestic Social Development

HOUSING FORECLOSURES
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ISSUE

There is widespread agreement that the economy will not fully recover as long as the housing market continues to tumble. The Mortgage Bankers Association claims that at the end of last year, nearly nine percent of all home loans in the United States were in foreclosure. A total of 8.1 million U.S. homes, or 16 percent of all households with mortgages, could fall into foreclosure by 2012, according to a report by Credit Suisse.

President Obama has laid out his Homeowner Affordability and Stability Plan to help families in this current economic crisis. The multi-pronged approach would bring together a number of financial regulators, including Fannie Mae and Freddie Mac, to help at-risk homeowners, those facing foreclosure, and those already through foreclosure.

- Up to five million individuals will be allowed to refinance their mortgages through Fannie Mae and Freddie Mac. It would help three million to four million homeowners modify their current loans to a more affordable monthly payment level. The goal is to bring down mortgage interest rates overall by allowing Fannie and Freddie to increase their mortgage portfolio holdings.
- All financial institutions on the receiving end of future capital injections from the second half of the Troubled Assets Relief Program (TARP) bailout fund will be required to implement the same loan modification guidelines. The government would assist in reducing monthly payments, provided the lender was willing to realize a loss as well. To qualify for government modification, a lender would have to reduce the monthly mortgage payment to 38 percent of a borrower's monthly income. The government would then step in and cover the cost of further reducing the loan payment down to 31 percent of monthly income.
- The plan waives the rule that restricts Fannie Mae and Freddie Mac from refinancing mortgages valued at more than 80 percent of the home's worth. With the price of homes continuing to decline, this could be one of the most effective aspects of the plan.

BACKGROUND

Local and national community organizations—many supported by the Catholic Campaign for Human Development—have urged state and federal policy makers to address this lending crisis. In response, Congress passed the *Hope for Homeowners* program in July 2008. The program as currently implemented is considered too restrictive and has had relatively little success since its inception. U.S. Housing and Urban Development staff has said the program has not insured a

single loan, and Federal Housing Authority-approved lenders have only closed on 25 loans. The program was designed to help 400,000 homeowners. Due to the lack of success of the Hope for Homeowners Program, it appears that Obama Administration's Homeowner Affordability and Stability Plan would attempt to alleviate the lending crisis more directly and with incentives for troubled homeowners that have a reasonable probability of successfully fulfilling the new mortgage contract.

USCCB POSITION

The United States Conference of Catholic Bishops has written to Congress insisting that “[e]fforts to revitalize neighborhoods and to expand homeownership among low income families are being threatened by abusive lending practices. These practices, termed predatory lending, trap far too many unsophisticated and vulnerable people, often the elderly, into high cost loans that frequently lead to foreclosure after stripping any equity from the home. The Catechism of the Catholic Church condemns this sort of speculation, this usury, as ‘morally illicit.’” (#2409)

ACTION

Urge Members of Congress to support policies and appropriate adequate funding for programs that prevent homelessness and keep families in their homes. Watch the USCCB/JPHD website and ALERTS during the 111th Congress for specific opportunities to advocate.

For more information

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