

A Hurricane Without Water

**Fannie Mae, Freddie Mac, and the
Foreclosure Crisis in Metro Detroit**



The Crisis: Foreclosure



The Answer: Fight for Change



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Fannie Mae, Freddie Mac, and the Foreclosure Crisis in Metro Detroit

Fannie Mae and Freddie Mac, the failed mortgage investors taken over by the federal government in 2008, own or guarantee more than half of all residential mortgages in the United States. They are now managed by the Federal Housing Finance Agency (FHFA), which has the power to halt foreclosures— as they have done for victims of Hurricane Sandy— and reduce mortgage principal to keep struggling families in their homes.

But instead of stopping foreclosures in our stricken communities, FHFA stands aside while the banks that service Fannie-Freddie mortgages deny or curtail mortgage modifications, scam homeowners, and profit from foreclosure. After the Sheriff's auction, Fannie and Freddie push to evict families who are struggling to stay in their homes. They then sell the properties to investors at bargain prices.

It doesn't have to be that way if we defend our neighbors and communities, and if we pressure FHFA to help hard-pressed families stay in their homes.

Fannie Mae Foreclosed Homes



Fast Facts

16,000 plus Foreclosures

Fannie Mae and Freddie Mac are responsible for more than 16,000 foreclosures in Wayne County and thousands more in Oakland and Macomb since the federal takeover in 2008.

No Break for Homeowners

Fannie and Freddie refuse to help hard-pressed homeowners by reducing mortgage principal to reflect plummeting home values.

Thousands Evicted

When foreclosed families stay on after the Sheriff's auction looking for ways to save their home, Fannie and Freddie typically go to court and seek an eviction order.

2,400 Detroit Homes

At any one time, Fannie & Freddie have taken possession of more Detroit homes— 2,400 in April, 2013— than any other property owner besides the city and state.

Sweet Deal for Investors

Fannie and Freddie won't reduce principal to market value for homeowners, but they sell foreclosed properties *below* market to investors who "flip" homes or turn them into rentals.

Detroit's Storm Surge of Foreclosures

After Hurricane Sandy devastated the East Coast, both the Federal Housing Finance Agency and the Department of Housing and Urban Development (**HUD**) declared a moratorium on foreclosures and evictions in the nine states where Sandy struck. "It's all too clear that families need more time to get back on their feet without having a foreclosure or eviction hanging over their heads," said HUD Secretary Shaun Donovan.

Metro Detroit has also been devastated— by an “unnatural disaster” of mass unemployment, predatory lending, and mortgage banking fraud. *We also need a moratorium on foreclosures!*

<u>1) Mass Unemployment:</u>	Official Rate	Real Rate
Detroit	18%	30%
Metro Detroit	10%	15%

Counting workers who can only find part-time jobs and those who have given up looking, Detroit's real unemployment is at Depression levels. According to the Bureau of Labor Statistics, in May, 2013, the number of people with jobs in Metro Detroit actually *fell* over the last year, recording the largest decline of any major metro division in the country.

2) Underwater Homes: **Metro Detroit is 50% higher than nation**

Almost half of Metro Detroit homeowners (43%) owe more on their mortgage than the house is worth— higher by half than the national rate of 28% (Zillow Real Estate, Feb. 2013).

3) Foreclosure Rate : **Metro Detroit triples the national average**

HUD's "Spotlight" on Metro Detroit in January, 2013, reports 131,400 foreclosures since April of 2009, or 7% of all units compared to a national rate of 2.4%.

4) Empty Homes: **45,000 foreclosed homes in Detroit are vacant**

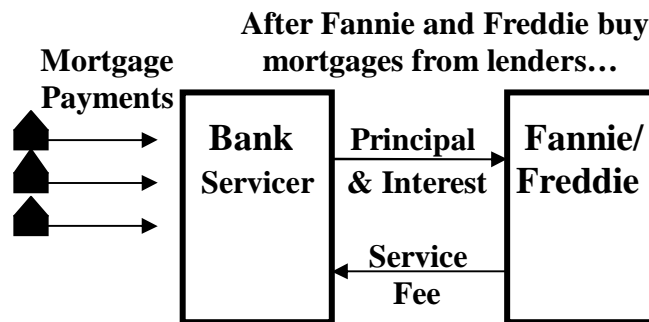
Of 70,000 foreclosed homes in Detroit, 65% are still vacant according to HUD. Empty houses lead to blight and a downward spiral in home values and tax base.





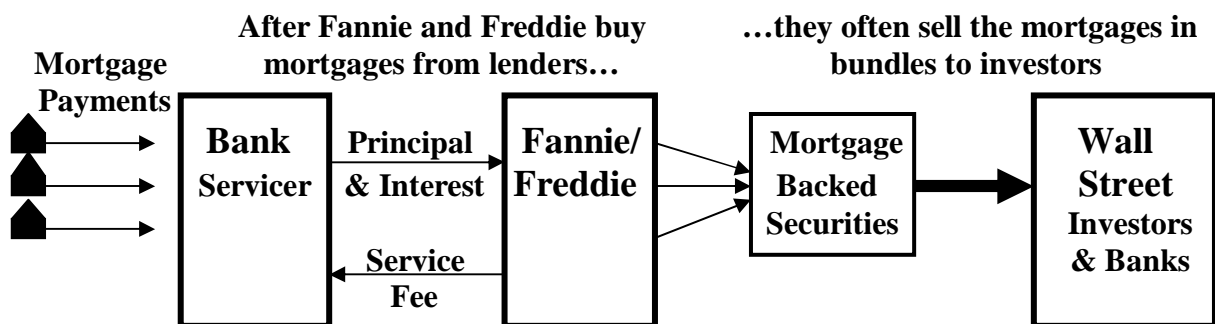
Who are Fannie Mae and Freddie Mac?

“Fannie Mae” and “Freddie Mac” are nicknames for the two giant corporations that buy mortgages from banks and other lenders. By selling the mortgage to Fannie or Freddie, lenders can immediately recover the full value of the loan instead of waiting 30 years to get the money back. The bank can then make a new loan and profit from a new round of fees. Homeowners rarely know their mortgage has been sold because the bank continues to “service” the loan, collecting the principal and interest from homeowners and sending the payments along to Fannie or Freddie.



How Do Fannie and Freddie Profit from Buying Mortgages?

When the housing economy is healthy, Fannie and Freddie profit from the monthly payments they receive from millions of home mortgages. They also profit by bundling thousands of these mortgages together and selling them as “Mortgage Backed Securities” to Wall Street investors, banks, and others who want to tap into this stream of revenue from homeowners.

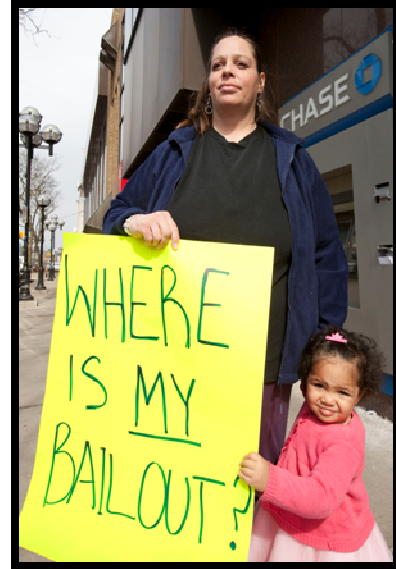


Sub-Prime Mortgages:

Predatory lenders like Countrywide trapped borrowers into “sub-prime” loans by misrepresenting terms that included rising interest, hidden fees, and huge balloon payments. Fannie and Freddie joined Wall Street banks in buying these bound-to-fail mortgages and selling them to investors. After 2007, Detroit led the nation in the default-rate of sub-prime loans.

Why Did the Federal Government Take Over Fannie and Freddie?

To sell their Mortgage Backed Securities (MBS), Fannie and Freddie promised to reimburse investors for the full value of any mortgage in the MBS “bundle” that went into default. In the speculative fever of the housing boom before 2008, Fannie and Freddie assumed this would never be a problem, so neither set aside adequate reserves to cover these guarantees. They even started buying “sub-prime” mortgages from predatory lenders and bundled these toxic loans into the Mortgage Backed Securities they sold to investors. When millions of homeowners went into default in 2008, Fannie and Freddie could not cover their guarantees to panicked investors and the federal government took over both companies. They are now managed by the Federal Housing Finance Agency.

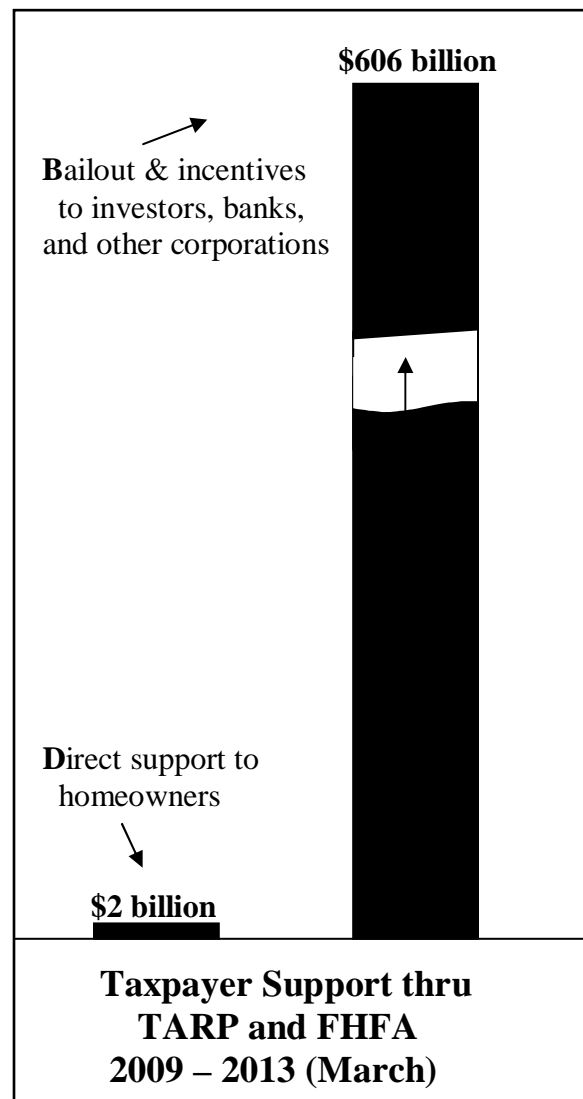


So Taxpayers Cover the Losses of Banks & Fannie-Freddie?

Yes. When a homeowner is forced into default by the crashing economy, the banks servicing mortgages for Fannie and Freddie don't lose a dime— they've already been paid the full value of the loan when they sold it to Fannie or Freddie. These “too big to fail” banks were also bailed out for their losses on non-Fannie/Freddie mortgages with billions in taxpayer dollars under the “Troubled Asset Relief Program” (**TARP**). Today, servicing banks are still collecting billions in TARP “incentives” to modify mortgages under the “Home Affordable Modification Program” (**HAMP**). Investors in Fannie and Freddie's Mortgage Backed Securities don't lose money either, since the Federal Housing Finance Agency (**FHFA**) has spent more than \$187 billion to cover defaulting loans “guaranteed” by Fannie-Freddie.

What do Homeowners Get?

Leftovers and trickle-down. Of the \$606 billion spent on the government's TARP and FHFA bailouts, barely \$2 billion went directly to homeowners to help them save their homes— less than 1% of the total.





Aren't Servicing Banks Supposed to Modify Mortgages?

Servicing banks that participate in the government's Home Affordable Modification Program collect incentive payments from federal agencies—including Fannie and Freddie—to modify qualifying mortgages by lowering interest and extending the term of the loan. But even with these public subsidies, the few big banks servicing 75% of all mortgages short-staff their call-centers and don't provide the training needed to modify millions of loans. The worst among them, according to researchers at Ohio State University, are four times less likely to modify loans than smaller banks with adequate staffing and training.

So HAMP Isn't Working?

The Home Affordable Modification Program was supposed to help 3-4 million struggling homeowners, but many who applied for help were declared ineligible, and of the 2 million who entered "trial" modifications to reduce their monthly mortgage payment, nearly 800,000 were subsequently denied permanent relief and forced from their homes. As of March, 2013, only 1.2 million families had gotten permanent modifications that supposedly lowered payments—and more than 300,000 of these have now redefaulted, often because the servicing bank "recalculated" escrow costs and *raised* payments. After all the hoopla, only 860,000 homeowners in the U.S. still have permanent HAMP modifications.

Can't Fannie & Freddie Regulate the Banks Servicing their Mortgages?

There are all kinds of guidelines and rules regulating banks that service mortgages, but in practice, Fannie and Freddie generally look the other way at the start of the foreclosure process. Servicing banks stall homeowners with endless rounds of document requests, lost paperwork, and changing personnel. Many thousands of homeowners who should have gotten loan modifications are foreclosed anyway by banks that ignore guidelines and generate fraudulent documents, including the "robo-signing" of court papers.

Is Foreclosure More Profitable for the Servicing Bank?

It often adds up that way. Many homeowners are lured into phony "trial" modifications and pay reduced amounts for many months, then suddenly are told they don't qualify for a permanent modification and the house will be sold at sheriff's auction. The lower payments during the "trial" modification are then reclassified as "short payments," subject to late fees and penalties that are added to the homeowner's total debt. The servicing bank that stalls homeowners and cancels the trial modification collects the resulting late fees and penalties from Fannie or Freddie.

Is it Legal for Servicing Banks to Scam Homeowners?

No, but homeowners may not know their rights or have the resources to protect themselves, and government regulators often lack the staff or motivation to effectively monitor the servicing banks. Even when the banks are caught, they only have to pay modest fines or an occasional negotiated settlement. Big banks generally treat these fines as an acceptable "cost of doing business"—while continuing the same shady practices.

Do Fannie & Freddie Favor Foreclosure?

They say “no,” but their actions tell another tale. When a homeowner struggling with unemployment or medical bills is less than 12 months delinquent on a loan, Fannie and Freddie usually stand aside while the servicing bank runs up late fees and penalties. Some homeowners get permanent modifications, but three out of four applicants don’t. Once a defaulting homeowner is more than 12 months delinquent, Fannie and Freddie begin to push aggressively for their expulsion. Fannie Mae will actually fine servicing banks for unauthorized delays in foreclosure— even when negotiations for a loan modification are still in progress.

Wouldn’t Lowering Mortgage Principal Help More Homeowners?

Thousands of Detroit-area families would benefit if Fannie and Freddie lowered the principal on “underwater” loans— mortgages where the balance owed is higher than the plummeting value of the home. Homeowners drowning in mortgage debt are more likely to become demoralized and stop payment altogether. Principal reduction that provides some stake in the property makes it more likely that homeowners will pay off the remaining balance of the loan, saving taxpayers money. The non-partisan Congressional Budget Office’s most recent report estimates that taxpayers would come out ahead, especially if HAMP’s eligibility requirements were widened to include more homeowners.

Why Don’t Fannie and Freddie Allow Principal Reduction?

They claim it would encourage every “underwater” homeowner— including those who can afford to pay— to default and seek a reduction in their loan balance. For millions of



Bank of America and Wells Fargo, two of the largest mortgage servicers, paid a small settlement (for them) totaling \$15 billion in 2012, pledging they would no longer abuse and defraud homeowners seeking modifications. A year later, they are back in court, charged with “flagrant” and “repeated” violations of that pledge.

underwater homeowners blind-sided by deceptive banking practices and the crashing economy, this kind of direct support for families wouldn’t seem like such a bad thing— especially compared to the massive bailout that went to the banks who *caused* the crash. Fannie Mae’s own staff favored principal reduction in 2010 and were about to launch a pilot program with Citibank when FHFA’s top management suddenly cancelled the initiative. Congressmen Elijah Cummings and John Tierney investigated and were told by Fannie Mae staff

that— contrary to management’s claim that Fannie couldn’t “operationally support the project”— the real reason was that top officials were “philosophically opposed” to principal reduction.

Are Fannie and Freddie Undermining Neighborhoods?

They say “no” again, but foreclosure inevitably pulls down the property values of neighboring homes. Worse still, if the empty house is stripped and blighted, it will drive away neighbors and home buyers. Stabilizing a neighborhood means keeping people in their homes with principal reduction and a moratorium on foreclosures. If the house has already gone through sheriff’s sale, Fannie and Freddie, rather than evicting the owner occupants, could sell the home back to them at something close to market value. Instead, they insist homeowners can only redeem the property for the outstanding balance of the

over-valued mortgage— including all the fees and penalties the servicing bank has heaped on top of that inflated amount.

What About Selling Homes to Investors?

Fannie and Freddie claim they are minimizing the destabilizing impact of foreclosure by selling empty homes to investors, often in bulk sales well *below* market values. Some buyers are speculators who immediately flip the home for sale at a higher price, others are equity firms or real estate companies that turn the homes into rental properties. At best, a community of homeowners becomes a neighborhood of tenants and absentee landlords. At worst, the homes go vacant again as tenants come and go, providing another opportunity for thieves to strip the home or drug traffickers to move in.



What We Can Do

Profiteering and fraud drives the foreclosure crisis as before, but banks aren't the only players in this travesty: the federal government, following its takeover of Fannie Mae and Freddie Mac, is now a leading agent of foreclosure and eviction.

It doesn't have to be this way. The Obama Administration has the power to change current policies that force "free market" catastrophe on homeowners, while rewarding banks with massive bailouts and get-out-of-jail-free cards.



The Administration has not used that power, however, to stop foreclosures and keep people in their homes. Instead, federal programs have promoted half-way measures that subsidize banks and leave millions of families at risk of losing their homes.

***We need a broad-based movement to push for a change in policy.
Our collective voice and action can hold Democrats and Republicans to
a higher standard— people before banks:***

1) Reduce Mortgage Principal on Underwater Homes

The speculative and fraudulent practices of the mortgage banking industry caused the collapse in home values. Fannie Mae and Freddie Mac should reset mortgages at market values to help families struggling with unemployment, loss of income, rising medical bills and other hardships.

2) Stop Foreclosures and Evictions from Owner-Occupied Homes

Fannie and Freddie have declared moratoriums for communities devastated by Hurricane Sandy. They can do the same for communities that have suffered the "unnatural" disaster of predatory lending, mortgage banking fraud, and mass unemployment.

3) Sell Homes Taken by Fannie and Freddie to Owner Occupants at Market

Instead of letting homes go vacant and selling them to investors and speculators for a fraction of their worth, Fannie and Freddie should sell repossessed homes at market value to owner-occupants, either directly or through non-profit intermediaries.

4) Take Action to Stop Foreclosure and Eviction

Homeowners and community activists in Metro Detroit are building a movement to resist foreclosure and keep people in their homes using legal strategies, public pressure, and peaceful direct action to stop evictions. Each fight raises the visibility of the issue and builds the movement, inspiring homeowners and communities with the power of collective action.

Join US!

Resources

Detroit Eviction Defense

We are a coalition of homeowners, union members, faith-based activists, community advocates, and allied groups united in the struggle against foreclosure and eviction. We believe that affordable housing is a human right, the foundation of a viable community. We support alternative legal strategies and non-profit finance to resist foreclosure, and we help defend families against eviction with direct and peaceful protest against banks and government agencies. Bring your issues and support to our open meetings, Thursdays at 6pm. For meeting location and more information on our coalition, go to www.detroitevictiondefense.com. Contact us at detroitevictiondefense@gmail.com or call UAW Local 600 at 313-429-5009. Follow us on twitter @EvictDefense.

United Community Housing Coalition

UCHC is a non-profit organization that helps working families facing mortgage or tax foreclosure, rental eviction, or land-contract forfeiture. Its lawyers and paralegals will represent families in court and before government agencies, and its Revolving Loan Project can often help low-income families retain or regain their homes with a small no-interest loan. Call 963-3310 or go directly to their offices at 220 Bagley, Suite 224, in downtown Detroit, 9:00am - Noon on Mondays, Wednesdays and Fridays. For more information, go to uchcdetroit.org.

Michigan Legal Services

MLS is a non-profit organization that works with United Community Housing Coalition. They are located at 220 Bagley in downtown Detroit, Suite 900. For more information, go to milegalservices.org or call 313-964-4130.

Legal Aid and Defender Association

LADA is Metro Detroit's oldest provider of free legal services to low-income residents. It is headquartered at 613 Abbott St. in Detroit, with offices in Oakland and Macomb County. For more information go to ladadetroit.org or call 313-967-555 (Detroit), 586-465-1344 (Macomb), or 248-253-1548 (Oakland).

UDM Law School, Mortgage Foreclosure Defense Clinic

University of Detroit Mercy Law students represent victims of predatory lending in federal and state courts, handling cases involving mortgage fraud, foreclosure rescue scams, and loan servicing errors. Call the intake number at 313-596-9846. They are located at 585 E. Larned in downtown Detroit.