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Stewardship Works

Community land trusts succeed in curing delinquencies and preventing foreclosures, and the numbers show it.

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Residents of Champlain Housing Trust, Burlington, Vt.

☐During every community land trust homebuyer education class, I☐ve looked each person in the eye and told them, ☐When your financial circumstances change☐good or bad☐you call me.☐ I didn☐t know the weight of my words until recently,☐ says Devika Goetschius, executive director of the Housing Land Trust of Sonoma County (HLTSC) in Petaluma, Calif. Amid the worst foreclosure crisis since the Great Depression, she☐s discovered that HLTSC☐s homebuyers took her words to heart. They have been quick to alert HLTSC to financial difficulties that could threaten the security of their mortgages, allowing HLTSC to be quick to act to prevent foreclosures.

Mary Gibson☐s story is typical. (All homeowners☐ names have been changed.) In January 2008, she bought a home from HLTSC for herself and her two children. Shortly thereafter, her ex-husband lost his job and could no longer pay child support. Without this income, Gibson realized that keeping up with the mortgage would be difficult, if not impossible. She immediately called Goetschius.

As with all community land trusts (CLTs), HLTSC retains ownership of the land underlying Gibson☐s home and holds an option to repurchase the home at a below-market price determined by a specific formula if Gibson ever sells. HLTSC is also a party to Gibson☐s mortgage, with a durable right to cure any default that might occur, arresting the

slide toward foreclosure. In short, HLTSC remains in the picture, with an abiding interest in safeguarding Gibson□s success as a newly minted homeowner.

When informed of Gibson□s circumstances, Goetschius was prepared to do what was necessary to keep her in her home. Goetschius asked Gibson to come down to HLTSC□s office, reviewed her family budget, and explained the available options. □Mary would never have known that the state financing agency recently changed a policy that cut through red tape so she could refinance her first mortgage,□ Goetschius recalls. □We walked her through all the paperwork, helped her write letters to her lenders, and completed a rate-and-term refinance before she defaulted. She□s still in a 30-year, fixed-rate mortgage and her payments are now affordable to her again.□

Like most community land trusts over the past few years, HLTSC has posted mortgage delinquency and foreclosure rates far below national averages. CLTs give lower-income people like Gibson an opportunity to become homeowners, using public funds, private donations, and municipal programs like inclusionary zoning to lower the purchase prices of homes. But CLTs do not stop there. Helping lower-income families attain homeownership is just the beginning; sustaining homeownership is the next step in order to realize the full social and economic benefits. For CLTs, post-purchase stewardship, which supports and protects homeowners against negative outcomes like foreclosure, is as important as their pre-purchase services that boost families into homeownership. As Connie Chavez, president of the National CLT Network (NCLTN) is fond of saying, □We are the developer that doesn□t go away.□

Until recently, CLTs had many stories to tell about successful interventions to prevent foreclosure, but little quantitative data to establish that stewardship works. That changed when the NCLTN, in partnership with Emily Thaden, an independent researcher at Vanderbilt University, surveyed 42 CLTs across the country to gather data on delinquencies and foreclosures. Delinquency and foreclosure rates among the sample of 2,173 mortgages held by CLT homeowners were compared to delinquency and foreclosure rates reported by the Mortgage Bankers Association (MBA) National Delinquency Survey. Findings showed that prime-rate MBA mortgage loans were 5.9 times more likely to be in the process of foreclosure than CLT mortgages at the end of 2009. MBA loans were also 4.3 times more likely to be □seriously delinquent,□ defined as mortgages that are 90 days or more in arrears or mortgages in the process of foreclosure.

CLT delinquency and foreclosure rates are remarkably low compared to mortgages in general, but when two considerations are added, CLT performance becomes even more impressive. First, CLT mortgages are held by low-income households, which are more at risk for default and foreclosure than higher-income households. MBA surveys are based on outstanding mortgages regardless of income, so the difference between MBA and CLT rates would have been even greater if low-income MBA loan holders could have been isolated for comparison.

Second, the foreclosure crisis worsened in 2009, during which a foreclosure was filed on one in every 45 mortgaged homes. As delinquencies and foreclosures among MBA mortgages climbed, CLT mortgages continued to outperform the market. The rate of MBA prime mortgages in the process of foreclosure from the end of 2008 to 2009 increased by 1.43 percentage points, while the increase in the foreclosure rate among CLT mortgages was only .04 percentage points. The delinquency rate increased by 3.27 percentage points for MBA prime mortgages, but decreased by .36 percentage points for CLT mortgages. Emily Higgins, director of homeownership at the Champlain Housing Trust (CHT) in Burlington, Vermont, explains, □Our positive outcomes aren□t just because CLT homes are more affordable. Our homeowners have been hit by the economy just like everyone else. They succeed, in part, because we stand behind them.□

So how are CLTs delivering these results against the odds? The NCLTN survey found that the majority of CLTs are implementing stewardship activities that include pre-purchase education, prevention of high-risk loans, ongoing support for homeowners after purchase, and early detection of, and intervention in, delinquencies and foreclosure filings. The effectiveness of these activities is apparent from the number of seriously delinquent loans that CLTs manage to cure. During 2009, 29 out of 57 seriously delinquent CLT homeowners avoided foreclosure due to CLT assistance, a cure rate of 51 percent. To put this finding in perspective, Fitch Ratings reported that only 6.6 percent of all prime residential mortgage-backed security loans in delinquency were cured in the third quarter of 2009. Fitch also notes that most of these □cures□ were due to temporary loan modifications, which have a high redefault rate.

One CLT strategy for curing delinquencies and preventing foreclosures is to help homeowners move into more manageable housing situations if their circumstances change. For instance, an elderly woman who had purchased a home from the CHT many years ago asked for help selling it so she could move into rental housing, mainly because her declining health had made the responsibilities of owning a home too much to handle. Had she been in market housing, she might have slipped into default due to her rising medical bills, and her home might have fallen into disrepair due to her limited ability to maintain it. Instead, CHT repurchased her home and facilitated her move into an affordable rental apartment, which happened to be owned and managed by CHT. As Higgins comments, ☐There is this perception that success is only climbing up the housing ladder, and most of the time, for low-income families, we see that as success. But we also see success as moving safely down the housing ladder when that produces better outcomes.☐

CLTs have also proved to be highly effective in foreclosure prevention by keeping low-income homeowners in their homes. The NCLTN survey found that 71 percent of CLTs contact mortgage lenders as soon as they became aware of delinquencies, 57 percent provide homeowners with direct financial counseling, and 35 percent offer emergency rescue funds to address delinquent payments.

Gary Jones, a father of two, bought his home from CHT seven years ago. Since 2008, when he lost his $17/hour job and his wife filed for divorce, Jones has been working with CHT staff to keep his home. Higgins explains, ☐Owners like Gary hope their situations will get better and sometimes postpone dealing with them, but we intervened to say ☐It☐s time to get proactive before your situation gets any worse.☐☐ Seven counseling sessions later, CHT helped him get a moratorium on his first mortgage, put his rehab loan into forbearance, enrolled him in a repayment plan for delinquent taxes, and assisted him in finding temporary employment and completing a retraining program in his field. His CHT counselor, Janet Harvey Coutrayer, says, ☐We☐ll continue to work on his financial situation for several years, I☐m certain. If he cannot secure enough temporary work, we may have to facilitate the sale of his home. But it☐s looking like he☐ll bring in enough to hold him over until he finds full-time employment.☐

Another aspect of stewardship that promotes sustainability is the prevention of high-risk loans among CLT homeowners in the first place. Proposed mortgages are routinely screened by CLTs; high-risk loans are prohibited for buying a CLT home. Moreover, as a condition of their approval, many CLTs insist on three concessions from buyers and lenders:

1. The CLT wants to be notified by the lender if a homeowner becomes seriously delinquent.
2. The CLT wants the right to cure default on the homeowner☐s behalf.
3. If a foreclosure occurs, the CLT wants the first right to buy the home out of foreclosure.

There is another post-purchase protection: 83 percent of CLTs require homeowners to seek their permission before refinancing or taking out a home equity loan. HLTSC☐s Goetschius explains, ☐Homeowners will come in considering a refinance. I walk them through how to evaluate whether prepayment options are perhaps a better way to go than refinancing. I help them see how loan terms can either help or hurt their family☐s long-term goals.☐ Goetschius not only spends time preventing unsound loans, she also initiates contact with her homebuyers whenever refinancing would be advantageous.

The NCLTN study found that 85 percent of CLTs required general homebuyer education, 95 percent required a CLT-specific orientation, and 67 percent required homebuyers to meet with a lawyer before purchase. Approximately 50 percent of CLTs offer post-purchase services to build homeowner competency and security, including financial literacy training, referrals to contractors for improvements and repairs, and mandatory counseling for delinquent homeowners. These stewardship activities, covering the gamut from prevention to intervention, address the challenges and risks that may arise over the course of a lower-income household☐s acquisition and operation of a home. As Goetschius says, ☐You seldom see this type of ongoing education and stewardship in the market or in other publicly-subsidized homeownership programs, but it☐s common in CLTs.☐

Why are CLTs devoting so many resources to the sustainability of homeownership? A CLT has a vested interest in not losing homes to foreclosure, as they are located on a CLT☐s land and/or encumbered by an affordability covenant

that gives the CLT a preemptive option to repurchase these homes at below-market prices. A CLT□s portfolio of resale-restricted, owner-occupied housing is meant to stay permanently affordable for one low-income homebuyer after another. The NCLTN survey revealed, in fact, that no homes had been lost from a CLT□s portfolio during 2009. And, as Goetschius points out, □Many CLT homebuyers are first-generation homeowners. Their families don□t have the wealth that could help them through a hard time. We□re their safety net. And if they maintain homeownership, that means it can be better for the next generation.□

Her comments touch on one of the most devastating consequences of the foreclosure crisis: unsustainable homeownership that strips wealth away from low-income and minority communities. They are the ones most likely to experience foreclosure. Even in the absence of foreclosure, roughly half of all low-income, market-rate homeowners revert to renting within five years of purchase. While homeownership can be a path to prosperity for low-income families, this is only possible if they hang onto their homes.

Findings from the NCLTN study suggest that CLTs have been unusually effective in stopping wealth stripping and advancing wealth building among lower-income populations by preventing delinquencies and foreclosures. Preliminary results from a study being completed by the Urban Institute also suggest that CLTs are quite effective in helping low-income people to remain homeowners. Among the three CLTs that provided data on this point, over 91 percent of their low-income, first-time homeowners were still owners five years after purchasing a CLT home.

A CLT□s success in preventing foreclosures and sustaining homeownership has a social and economic impact that extends well beyond a homeowner□s property line. The costs of foreclosure ripple through neighborhoods and municipalities. Foreclosures significantly diminish nearby property values, making proximate properties vulnerable to depreciation and foreclosure. Costs to municipalities mount from the city□s demolition of vacant buildings, unpaid utilities and property taxes, increasing crime around vacant buildings, and declining assessments in neighborhoods where foreclosures are clustered.

In light of these realities, the creation of permanently affordable homes safeguarded by a CLT looks more like a more prudent public investment than a policy of putting people into market-priced homes they cannot retain and picking up the pieces when they fail. Unfortunately, only a third of the CLTs surveyed by NCLTN received public funds in 2009 to create more homes from foreclosed and vacant properties, and only a third reported receiving outside funding for stewardship. Meanwhile most CLTs have reported increases in staffing and spending on stewardship in the past year to better protect their homeowners during the economic downturn.

Until lately, stewardship of resale-restricted, owner-occupied housing was predominantly seen as a way to preserve affordability in a booming housing market. But the foreclosure crisis has called attention to the crucial role of stewardship in preserving homeownership itself when markets go bust. CLTs have spent 30 years demonstrating that their homes remain affordable, resale after resale. The findings from NCLTN□s foreclosure study provide evidence that CLTs are just as effective in helping families to remain in their homes, year after year. As Goetschius notes, □Now I am able to go to my funders and show them that stewardship works□in hot and cold markets.□

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RELATED RESOURCES

- National Community Land Trust Network
- 2009 NCLTN Delinquency & Foreclosure Study
- Outperforming the Market

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