MINNEAPOLIS AND SAINT PAUL MORTGAGE FORECLOSURE PREVENTION PROGRAM

ANALYSIS OF SELECTED PROGRAM DATA, 2005-2006

Prepared for the
Foreclosure Prevention Funders Council

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Minnesota Home Ownership Center

A Program of the Minnesota Home Ownership Center

In partnership with City of St. Paul Planning & Economic Development, Northside Residents Redevelopment Council and Twin Cities Habitat for Humanity

About Minnesota Home Ownership Center
The Minnesota Home Ownership Center promotes sustainable home ownership for low and moderate income Minnesotans through the development and delivery of quality, standardized education, counseling and related support services.

About Foreclosure Prevention Funders Council
The goal of the Foreclosure Prevention Funders Council is to create a healthy housing market by focusing existing and future investments to address the recent surge in residential mortgage foreclosure and thereby revitalize the neighborhoods affected by foreclosure. The FPFC is addressing foreclosures at three stages: pre-purchase, post-purchase and remediation.

Members Foreclosure Prevention Funders Council
City of Saint Paul
City of Minneapolis
Dakota County Community Development Agency
Emerging Markets Homeownership Initiative
Family Housing Fund
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MORTGAGE FORECLOSURE PREVENTION PROGRAM

Analysis of Selected Program Data for 2005 and 2006

Summary of Findings

1. Close to half of the homeowners counseled by the MFP Program in 2005 and 2006 were African American and over a third were White.

2. A quarter of the homeowners in 2005 and almost a third in 2006 had incomes of $40,000 or higher. Average income was $30,800 in 2005 and $32,600 in 2006.

3. Getting financially over-extended and having problems with money management was the number one reason leading homeowners to mortgage default. Job loss and cut in work pay or income were the second and third reasons.

4. Homeowners seeking counseling in 2005 had accumulated $53,000 in home equity. The home equity figure was $60,300 for the 2006 homeowners.

5. By far most of the homeowners coming to the MFP Program in 2005 and 2006 had used conventional financing to purchase their home—78 percent and 80 percent, respectively. Subprime loans are included in the conventional loan category.

6. Analysis of the interest rates of first mortgage loans confirms that a large proportion of the loans—37 percent in 2005 and 42 percent in 2006—carried interest rates of 8 percent or higher, typical of subprime loans.

7. The age of the current mortgages was substantially lower than the number of years since the home was purchased—3.2 years in 2005 and 2.7 in 2006 compared to nine years of ownership, on average, when homeowners came to the MFP Program. This seems to indicate that the mortgage had been refinanced in the recent past.

8. On average, homeowners had mortgage balances smaller than the assessed value of their homes.

9. The vast majority of homeowners who sought counseling had not received homeowner education and/or counseling—two thirds in 2005 and just under three quarters in 2005.

10. The loss of public subsidies as a result of foreclosed homes was minimal when one looks at home financing extended to homeowners receiving counseling in 2005 and 2006. Only four loans in 2005 and eight in 2006 involved MHFA financing; and just three loans in 2005 and nine in 2006 involved financing from the Cities of Minneapolis and Saint Paul.

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Background

The Minnesota Home Ownership Center (the Center) partners with three agencies to deliver foreclosure prevention services in Minneapolis and Saint Paul. The Center partners with the City of St. Paul Planning and Economic Development to serve St. Paul homeowners; with the Northside Residents Redevelopment Council, to serve homeowners in North and Northeast Minneapolis; and with Twin Cities Habitat for Humanity to serve homeowners in South and Southeast Minneapolis. The Mortgage Foreclosure Prevention Program (MFP Program) provides counseling, advocacy, referrals to additional resources and, in some cases, financial assistance to families facing foreclosure. Together with the homeowner, the MFP Program analyzes the situation, develops a plan for addressing issues, and identifies the options for preventing foreclosure. In 2005 the three agencies counseled 390 homeowners who were at risk of losing their homes to foreclosure. In 2006 they counseled 485 homeowners.

In 1999, the Center took over the administration of the program from the Family Housing Fund. As administrator, the Center manages the loan pool and provides technical assistance and fundraising support to the partner organizations. From the beginning of the MFP Program in July 1991 through 2006, program data was managed by Wilder Research. Beginning in October 2006, the Minnesota Home Ownership Center took over foreclosure data collection and management. The Center is now the repository of foreclosure prevention program data collected by the three MFP Program agencies that operate in Minneapolis and Saint Paul as well as data collected by the balance of the network that delivers foreclosure prevention services in suburban parts of the Twin Cities Metro Area and in Greater Minnesota.

In February 2007 the Measurement Sampling sub-group of the Foreclosure Prevention Funders Council identified the Mortgage Foreclosure Prevention Program (MFP Program) as a rich source of information that could be studied in order to gain a better understanding of the high increase in foreclosures as well as of the households who have gone through foreclosure in the recent past. The Measurement Sampling group chose a two-pronged approach to examine the desired information: 1) a round-table conversation with MFP Program counselors who work with homeowners who are facing foreclosure; and 2) an analysis of selected data collected by the MFP Program.

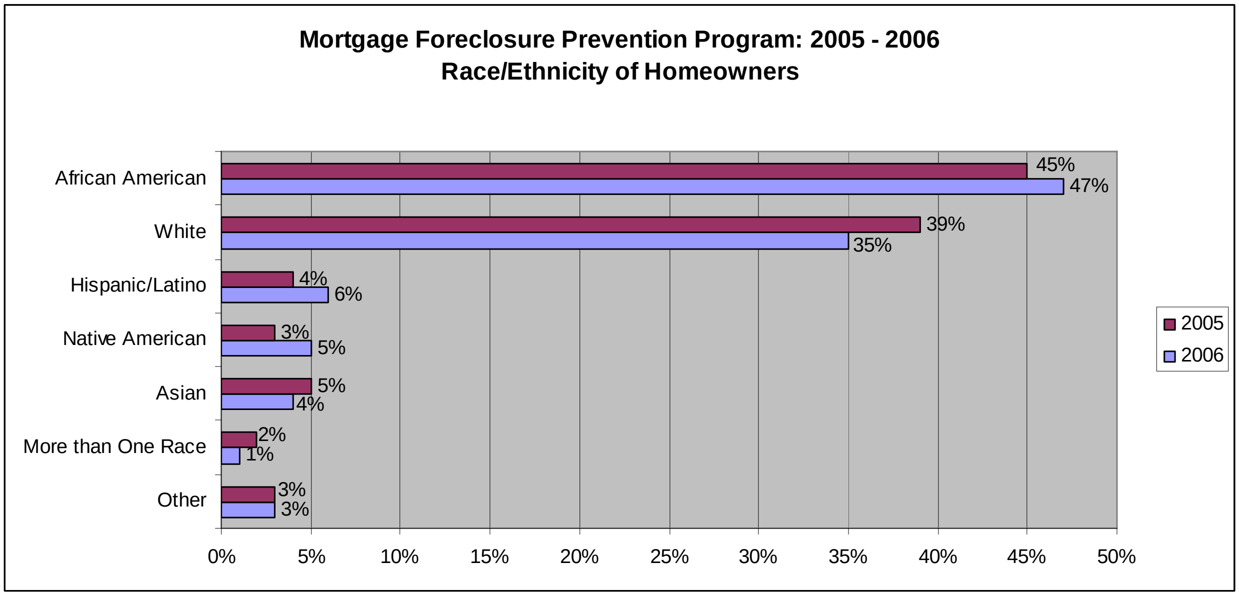
The roundtable was held in March and the results were reported to the Funders Council in early April 2007. Regarding the second approach, the Measurement Sampling group identified the following items from the MFP Program database to be analyzed:

- Homeowner race/ethnicity
- Household income
- Purchase price of the home
- Assessed home value at time of default/foreclosure
- Purchase date of the home
- Origination date of present mortgage
- Mortgage type
- Mortgage interest rate
- Mortgage balance
- Homeowner had pre-purchase counseling?
- Circumstances leading to the default

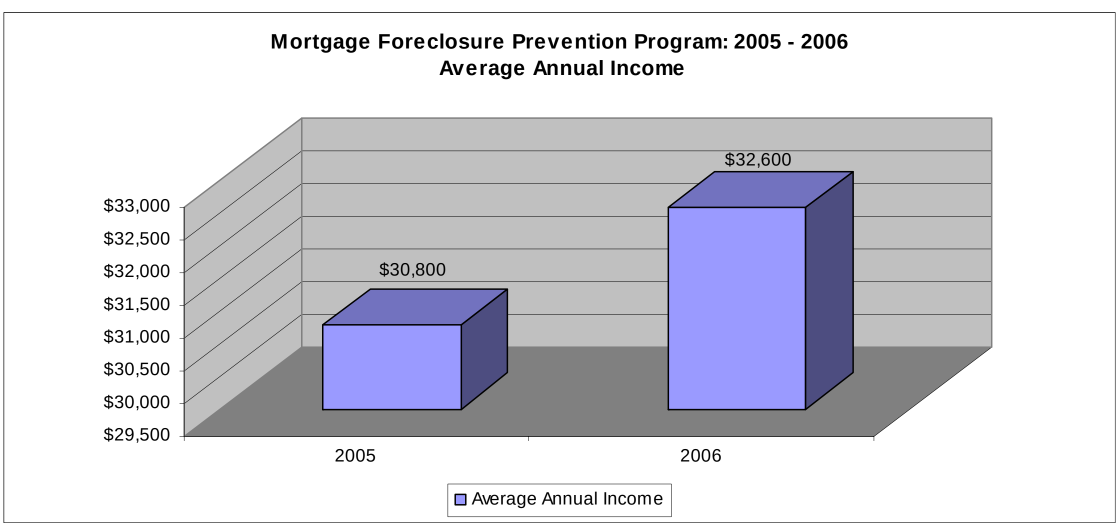
The graphs and tables that follow are based on MFP Program data collected in 2005 and 2006.

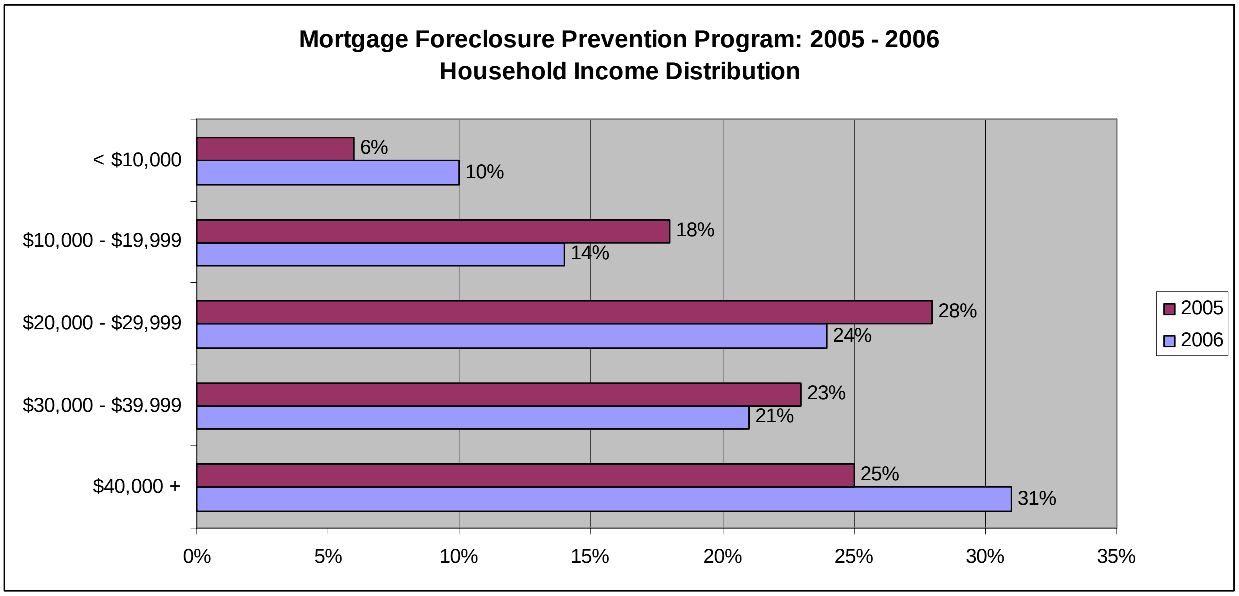
Who Were the Homeowners Assisted by the Mortgage Foreclosure Prevention Program?

Race. Close to half of the homeowners—45 percent in 2005 and 47 percent in 2006—were African American. Over a third of the homeowners in both years were white and the balance was made up of small proportions of Native American, Asian, Hispanic/Latino and persons of more than one race. (Graph numbers are based on responses of 395 adults in 2005 and 516 adults in 2006.)

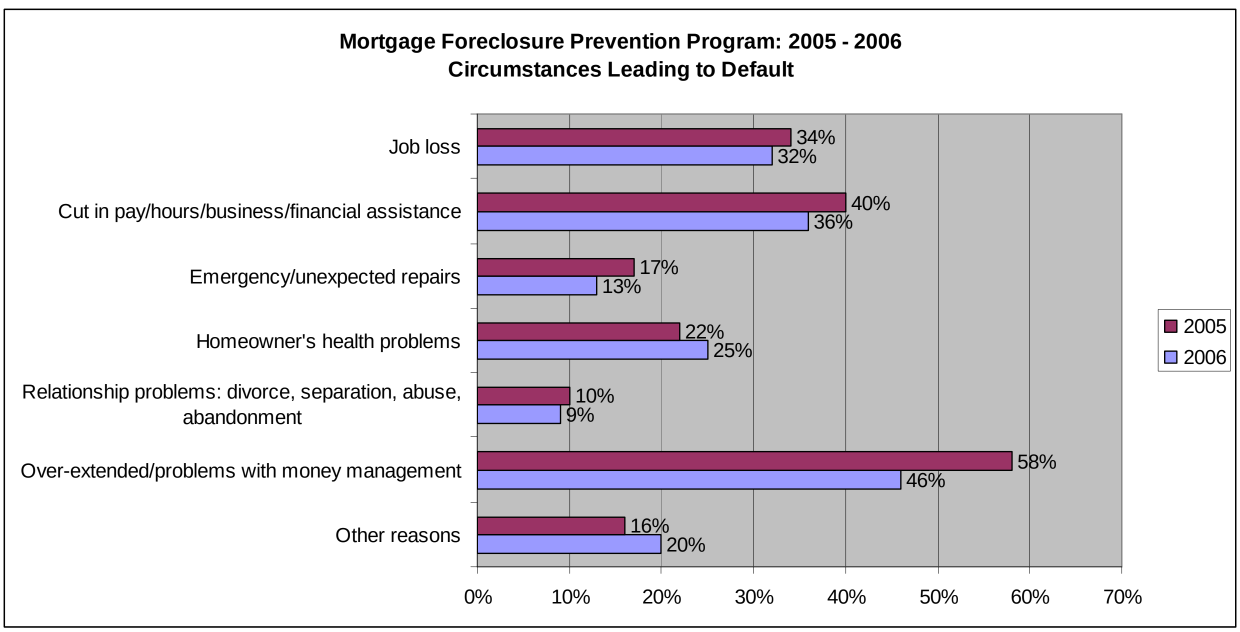


Income. The average income of homeowners served by the MFP Program was $30,800 in 2005 and $32,600 in 2006. The income distribution indicates that one fourth of the homeowners in 2005 and almost a third in 2006 had incomes of $40,000 or more. (Numbers are based on responses of 236 households in 2005 and 251 households in 2006.)



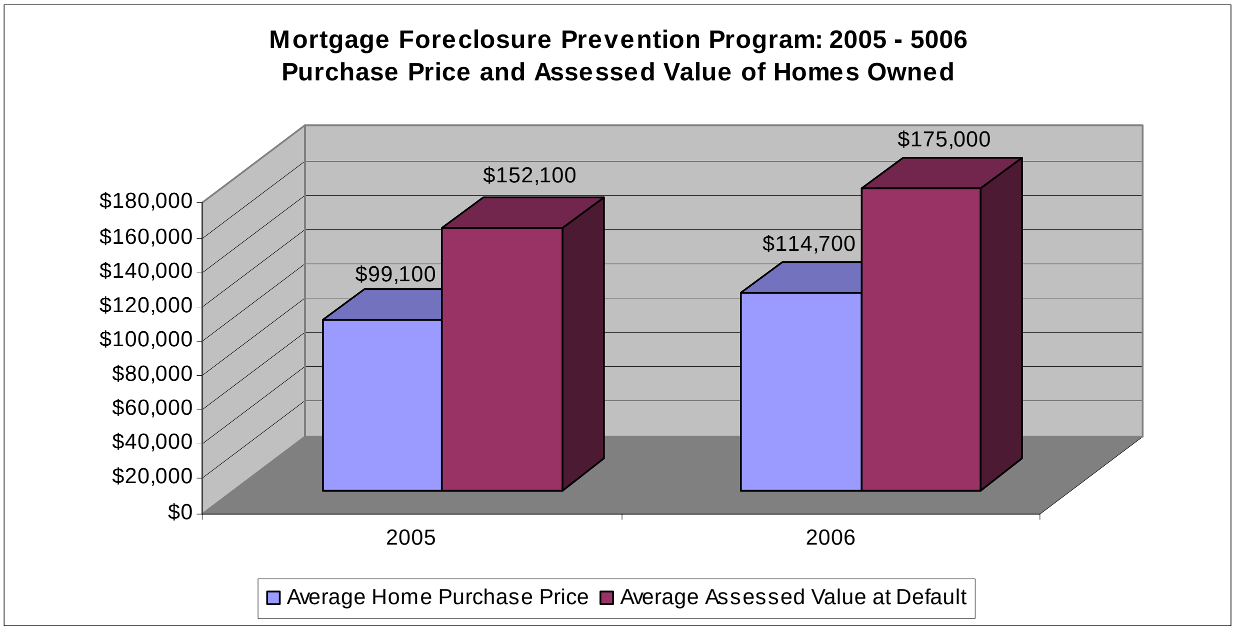


Circumstances Leading to Default. Homeowners receiving counseling to avoid mortgage foreclosure cited a number of reasons that led them to mortgage default. Number one among them was getting financially over-extended and having difficulty with money management—58 percent in 2005 and 46 percent in 2006. The second and third leading reasons, not surprisingly, had to do with job loss and cut in work pay or income. (Some households identified more than one reason leading to the mortgage default: 1,005 reasons reported in 2005; 1,137 reasons reported in 2006.)

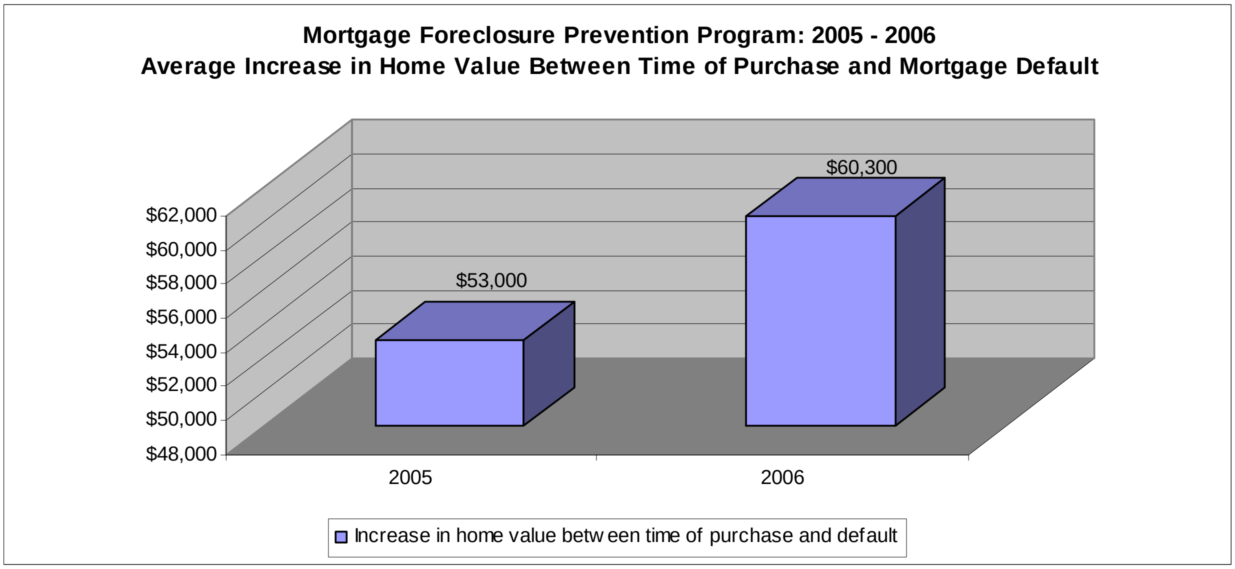


What Were the Characteristics of the Homes Owned by Those Seeking Counseling?

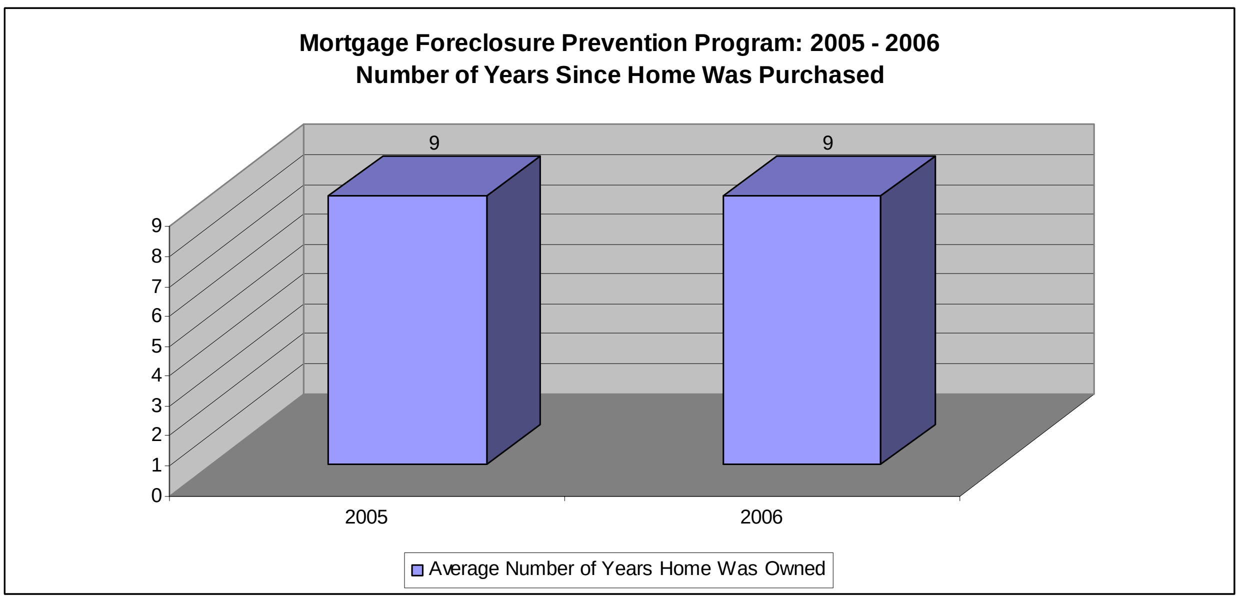
Purchase Price and Assessed Home Value. Homeowners who received foreclosure prevention counseling in 2005 had purchased their homes for an average of $99,100 and those homes had an average assessed value of $152,100 at the time of the counseling—an increase of $53,000. Homeowners who came to the MFP Program in 2006 had purchased their homes for $114,700 on average and those homes had an average assessed value of $175,000 at the time of the counseling—an increase of $60,300.[1] (279 households reported on purchase price in 2005, and 385 in 2006; 209 households reported on assessed market value in 2005, and 256 in 2006.)



[1] The equity position of Twin Cities Habitat for Humanity homeowners (21 homeowners in 2005 and 30 in 2006) influences these figures to some extent. The home financing provided by Twin Cities Habitat consists of no-interest bearing mortgages that allow for faster equity build up.



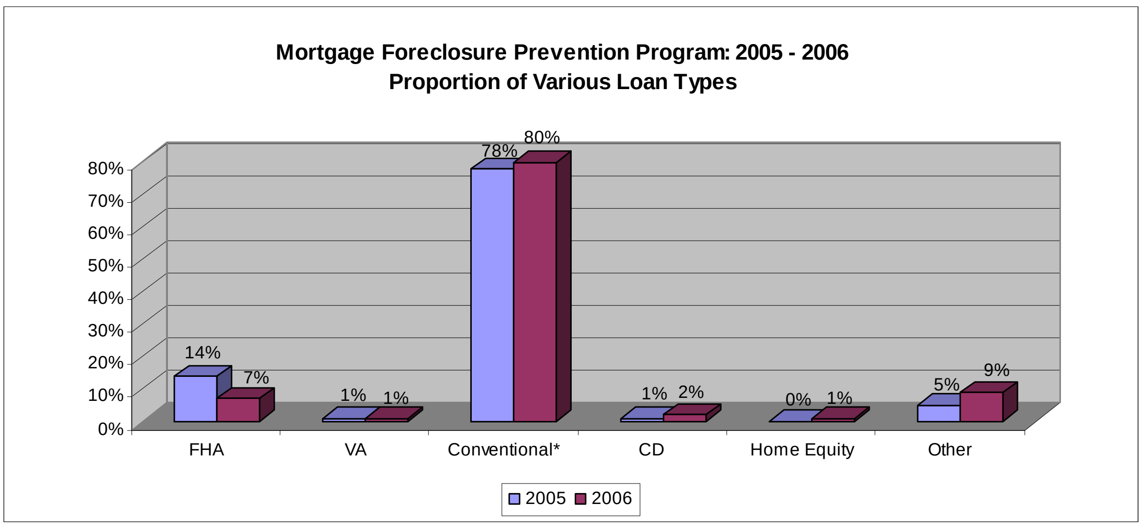
*Length of Time Since the Home Was Purchased***.** On average, homeowners had owned their homes nine years. This was true for both 2005 and 2006 homeowners. (Numbers are based on 288 households reporting in 2005, and 388 households in 2006.)



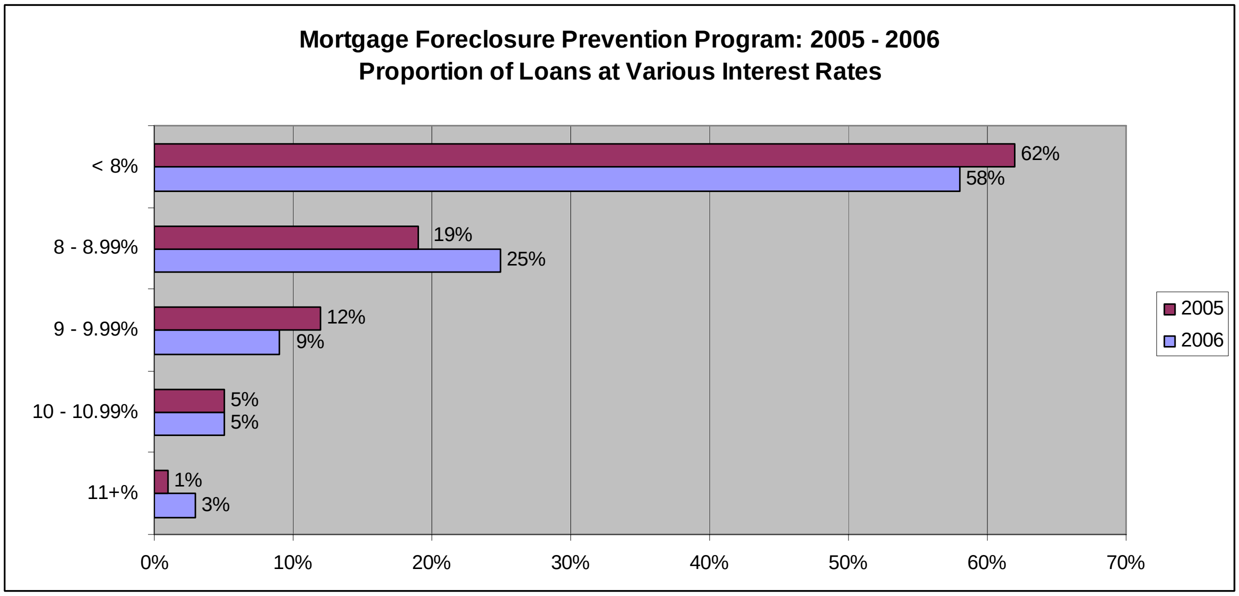
What Were the Characteristics of the Financing Used to Purchase the Homes?

Mortgage Types. By far most of the homeowners who received counseling in 2005 and 2006 had used conventional financing to purchase their home—78 percent in 2005 and 80 percent in 2006. Only 14 percent of the 2005 homeowners and 7 percent of the 2006 homeowners used FHA financing. The high use of conventional loans and low use of FHA financing by homeowners seeking services from the MFP Program in the last two years is a complete reversal from the early years of the program. An MFP Program analysis through 1977 indicated that 53 percent of homeowners had used FHA financing and only 24 percent had used conventional financing in the first six-and-a-half years of the program.[2]

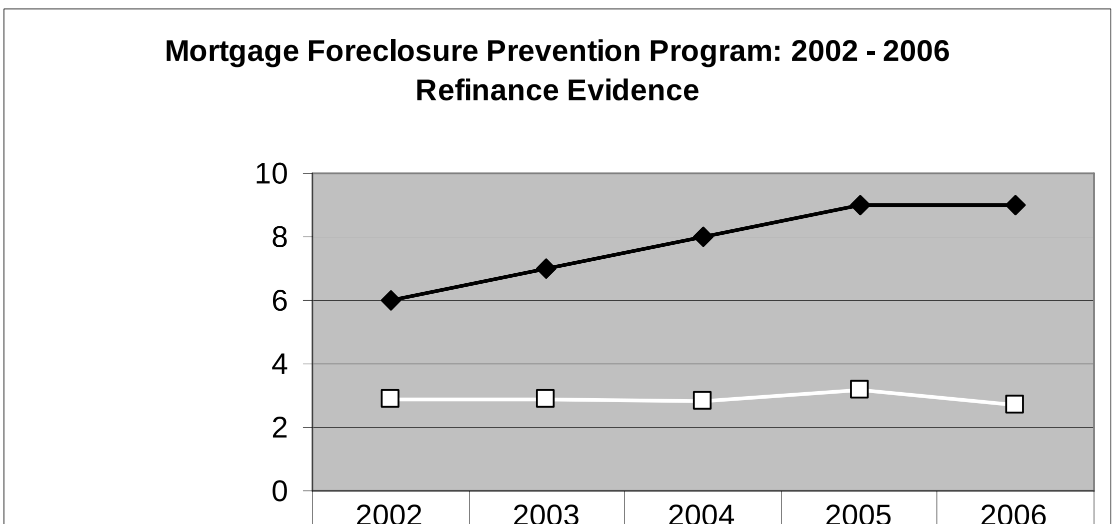
It should be noted that the conventional category includes subprime loans. A look at the interest rates of first mortgage loans confirms that a large proportion of the loans—37 percent in 2005 and 42 percent in 2006— carried interest rates 8 percent or higher, typical of subprime loans. (Numbers on types of mortgages are based on 293 mortgages reported in 2005 and 389 in2006. Proportion of mortgages at various interest rates are based on 245 first mortgages reported in 2005 and 308 first mortgages in 2006.)



[2] Moreno, Ana. 1998. *Mortgage Foreclosure Prevention: Program and Trends*. Family Housing Fund.



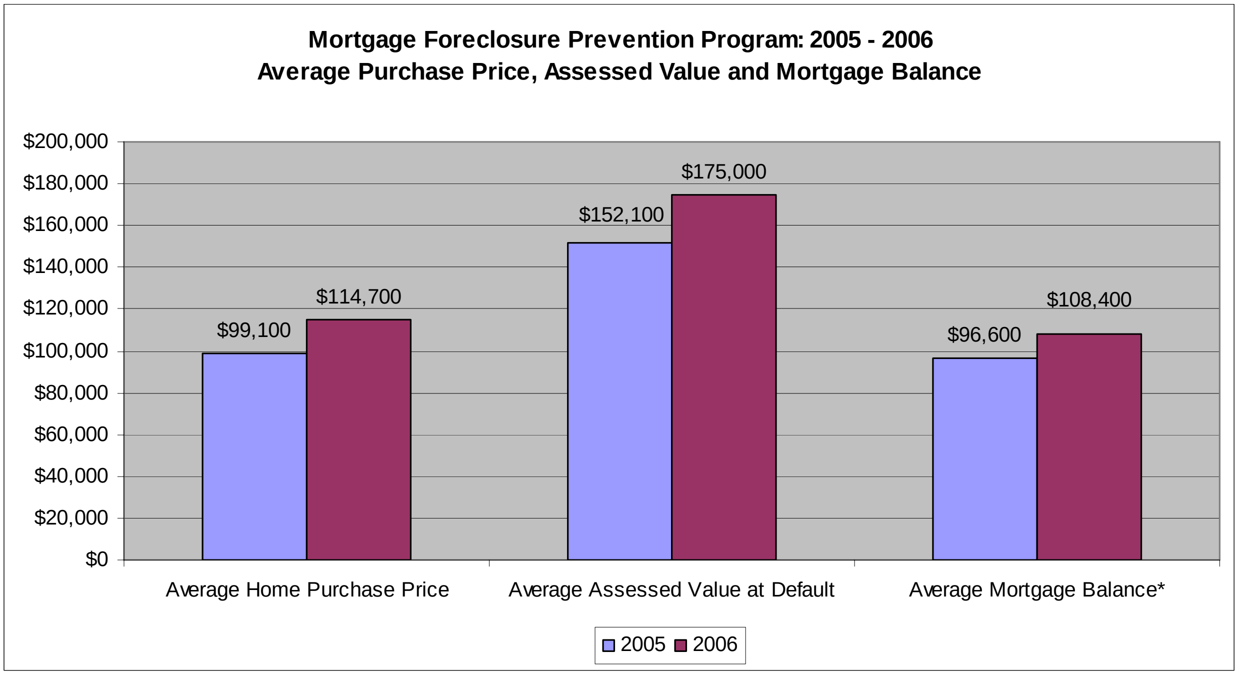
Mortgage Refinancing. As mentioned earlier, homeowners served by the MFP Program in 2005 and 2006 had owned their homes nine years on average. The age of their current mortgage, however, was substantially lower than the number of years since the home was purchased—3.2 years in 2005 and 2.7 in 2006. This seems to indicate that the mortgage had been refinanced in the recent past. (Average years of ownership is based on 288 households reporting in 2005, and 388 households in 2006.)



	2002	2003	2004	2005	2006
Average Years Owned	6	7	8	9	9
Average Age of Mortgage	2.9	2.9	2.8	3.2	2.7

Source: Minnesota Home Ownership Center

Mortgage Balance. In 2005, homeowners had a balance of $96,600, on average, left on their mortgage loan. In 2006, the balance was higher, $108,400. Comparing average mortgage balance to the average assessed value indicates that on average the home value exceeded the homeowners' mortgage debt. (Mortgage balance figures are based on 358 homeowners reporting in 2005 and 492 in 2006.)



*Average Mortgage Balance includes the balance of all loans due—first and subordinate mortgages, contracts for deed, and contracts with loan servicing companies.

Pre-Purchase Education and Counseling. The vast majority of homeowners who came to the Mortgage Foreclosure Prevention Program for counseling had not received pre-purchase education and/or counseling—176 out of 265 reporting in 2005 (two thirds) and 278 out of 375 reporting in 2006 (just under three quarters).

MORTGAGE FORECLOSURE PREVENTION PROGRAM
Homeowners Receiving Pre-Purchase Education and Counseling, 2005 - 2006

Pre-Purchase Education/Counseling	2005		2006	
	Number of Homeowners	**Percent of Total**	**Number of Homeowners**	**Percent of Total**
Yes	89	34%	97	26%
No	176	66%	278	74%
Total Homeowners Responding	265	100%	375	100%

Public Subsidy. Though not on the list of items that the Measurement Sampling group specifically requested, the issue of home financing that includes public subsidies was discussed by the group. Examination of the MFP Program data indicates that the loss of public subsidies as a result of foreclosed homes was minimal in both 2005 and 2006. Out of 390 loans examined in 2005, only 4 involved Minnesota Housing financing (1 percent) and 3 involved financing from the Cities of Minneapolis or Saint Paul (.7 percent). In 2006 the numbers were slightly higher, with eight loans involving Minnesota Housing financing and 9 involving financing from the two Cities (1.4 and 1.6 percent respectively).

MORTGAGE FORECLOSURE PREVENTION PROGRAM
Homeowners with Public Subsidy Financing, 2005 - 2006

	2005		**2006**	
	Number of Loans	**Percent of Total Loans**	**Number of Loans**	**Percent of Total Loans**
Financing from Minnesota Housing	4	1%	8	1.4%
Financing from City of Minneapolis or St. Paul	3	.7%	9	1.6%
Total Homeowner Loans	**390**		**557**	