



Five myths about the foreclosure crisis: David Rothstein

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By **Plain Dealer** guest columnist

The November elections yielded a new slate of policymakers across Ohio. Given that 2009 marked Ohio's 15th straight year of record home foreclosure filings, it is critical that future policymakers spend more time on this issue. Given Cleveland's dubious place at the epicenter of the foreclosure crisis, it is essential that our new county executive and County Council enter office ready to address this issue. Here is a primer that can help new officeholders understand some common myths, and be prepared to take on this calamity.

Myth 1: Foreclosures are decreasing with new federal and state programs. Make no mistake, the foreclosure crisis in Ohio is just that -- a crisis. Last year, Ohio saw more than 89,000 new foreclosure filings, roughly one for every 56 housing units. The Mortgage Bankers Association indicates that 16 percent of all mortgages are delinquent or in foreclosure, indicating a slowdown is unlikely. Cuyahoga County leads Ohio in both total foreclosures (14,000) and foreclosures per population (11 for every 1,000 people) for the fifth straight year. Even homes not in foreclosure are taking serious losses in property value. Nearly one in every three Ohio mortgage holders is "under water" or has a home with negative equity.

The Ohio "Save The Dream" effort along with nonprofit housing counselors have made a dent in helping homeowners, but federal programs are structurally inept and current state laws are inadequate to deal with the complications of the foreclosure process. Ohio ranks at the bottom of states (48th) for successful mortgage modifications under the federal HAMP program in large part because banks are not required to participate despite taking billions of dollars in bailout funds.

Myth 2: Foreclosures are an inner-city, urban problem. The majority of new foreclosure filings are in suburban and rural counties. In the last three years, nonurban counties have seen a 25 percent

increase in new filings compared with a 5 percent increase by urban counties. Inside Cuyahoga County, the first suburbs and outer-ring suburbs are witnessing double-digit percentage increases in filings. Most counseling agencies indicate that only one in three clients live in the city of Cleveland.

Myth 3: Foreclosures only happen to people with adjustable-rate or risky subprime loans. In

the late 1990s, the majority of foreclosures were linked to subprime loans with adjustable interest rates or "no money down" loans. Many of these foreclosures were second lines of credit, stripping equity from homeowners. Today, housing counselors report most of their new clients have fixed-rate, prime loans. ESOP, the largest counseling agency in Ohio, reports that only 2 percent of its clients have predatory loans. Job loss, declining and stagnant wages and rapidly shrinking property values create an entirely new demographic of clients.

Myth 4: Foreclosures can be easily averted by working with a lender or servicer. Modifying a mortgage is a complicated and involved process. It is not remotely similar to calling a utility company and requesting the waiver of a late fee, a common misconception. Instead, the process involves myriad paperwork, phone calls, program selection and, above all, incredible persistence from the borrower. The process is flawed; servicers often have incentives not to complete workouts, and the modification often does not lower the principal loan balance. To be clear, there is nothing easy about this process.

Myth 5: All housing counselors and groups can help. Sadly, just as subprime lenders and mortgage brokers took advantage of working families, so do for-profit companies that charge for mortgage modification assistance. Many of these scams involve upfront fees followed by monthly fees where borrowers are told not to communicate with their lenders. Using a quick Google search turns up dozens of these companies. This situation rarely, if ever, works out for the borrower. Working with a certified HUD counselor recommended by the Cuyahoga County Foreclosure Prevention Program or through Save The Dream is definitely a much better bet for struggling homeowners.

Policymakers have the ability to help homeowners. The Ohio House of Representatives passed several foreclosure-related bills in 2010, but not one has passed in the Senate. There are few regulations for mortgage servicers, and not one law that prevents mortgage foreclosure scams. Additionally, securing funds for foreclosure prevention counseling is paramount to helping families save their homes. There are dozens of ways that local, state and federal policymakers can intervene, but the choices become

more limited the worse the foreclosure crisis gets. Policy Matters Ohio stands ready to work with our elected officials and policymakers to develop comprehensive and effective strategies to combat the foreclosure crisis that has gripped this state for more than 15 years and shows no signs of abating anytime soon.

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