Outperforming the Market: **Delinquency and Foreclosure Rates in**

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Troy Gardens, Madison Area Community Land Trust, Madison, Wisconsin.

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The foreclosure crisis and its impact on the U.S. economy seem far from abating as mortgage delinquencies and foreclosure filings continue to climb. According to RealtyTrac, a total of 2.8 million properties had foreclosure filings during 2009, or one out of every 45 residences. That foreclosure rate was 21 percent higher than in 2008 and 120 percent higher than in 2007. Maintaining home ownership has proven to be a tenuous, if not impossible, proposition for many homeowners.

Some researchers, policy makers, and advocates are questioning whether conventional, market-oriented home ownership is the best form of housing for low-income households and communities. While others continue to extol the many benefits of home ownership, they question the way it is structured and suggest that alternative models of resale-restricted, owner-occupied housing may help low-income homeowners keep their homes more successfully.

Research on one of these alternative models, the community land trust (CLT), found delinquencies and foreclosures to be far lower among the owners of CLT homes than the owners of unrestricted, market-rate homes during the market downturn of 2007–2009. This article presents these findings and examines aspects of CLTs that may help to explain the sustainability and success of CLT home ownership.

Community Land Trusts

CLTs are nonprofit organizations that utilize public and private funds to provide affordable home ownership opportunities for low-income households (usually those with gross incomes less than 80 percent of the area median income). Traditionally, CLTs purchase and retain title to the land under detached houses, attached townhouses, or multi-unit condominiums. The land is leased to residents who hold a deed to their individual homes. Some CLTs use other legal mechanisms, including deed covenants, second mortgages, or cooperative housing models, to convey ownership and subsidize properties.

CLTs provide homeowners with pre-purchase and post-purchase stewardship services to protect them from high-cost or predatory mortgage lending. CLTs also intervene to cure delinquencies and prevent foreclosures. In exchange, homeowners accept limitations on the resale price and the equity they may remove from their homes. Through this arrangement, households unable to afford market-rate homes are able to realize most of the financial and social benefits of home ownership, while CLTs are able to maintain affordability of their homes for future buyers.

Reevaluating Low-Income and Minority Home Ownership

Cross-sectional investigations have found that home ownership is the most robust explanatory factor of wealth in low-income and minority households. Home equity made up 56 percent of the wealth in households within the bottom quintile on income in 2000 relative to 32 percent for all households (Herbert and Belsky 2008). Before the housing market crisis, home equity accounted for approximately 62 percent of wealth for African-Americans and 51 percent for Hispanics, but only 44 percent for whites (McCarthy, Van Zandt, and Rohe 2001).

The financial benefits of home ownership may only be realized if low-income households are able to enter and sustain it. Longer durations of tenure greatly increase the likelihood of financial returns. When studies have examined home ownership over time, they find that low-income households take longer to enter owner-occupied housing and are more likely to return to renting; indeed, roughly half of low-income households exit home ownership within five years of purchase (e.g., Reid 2005).

Risk factors associated with losing one's home are more common among low-income and minority homeowners. They are more likely to obtain high-risk loans for purchase and refinance, and they are more vulnerable to trigger events, such as unemployment or health issues, which are associated with higher incidents of delinquencies and foreclosures (Immergluck 2009). Almost half of low-income households are severely cost-burdened by their housing expenses (Joint Center for Housing Studies 2008). Length of tenure, loan terms, affordability, and trigger events may impact sustaining home ownership and affect the likelihood that low-income and minority homeowners will accumulate wealth or debt.

Costs of Foreclosure to Communities

The costs of foreclosure extend well beyond the households that lose their homes, impacting the immediate neighborhood and surrounding municipality. Studies in Columbus (Ohio), Chicago, and New York City have shown that foreclosed properties significantly diminished nearby housing values, and that rates of depreciation were greater for lower-income than higher-income neighborhoods. Depreciation leaves remaining homeowners vulnerable to negative equity, default, and foreclosure. Foreclosures, which are associated with rises in vacant properties and crime, tend to cluster in low-income and minority neighborhoods (Immergluck 2009).

Foreclosures also impose costs on municipalities due to vacant property demolition, administrative fees, and outstanding or declining property taxes. Apgar and Duda (2005) modeled the costs of a foreclosure in Chicago and found that more than a dozen agencies could be involved in over two dozen activities, which were estimated to cost the city up to $34,199 per foreclosure. Moreno (1995) estimated the cost to Minneapolis and St. Paul for the foreclosure of houses with FHA mortgages and found that municipal losses were approximately $27,000 per foreclosure. Higher rates of delinquencies and foreclosure filings during 2009 portend continued losses for households, neighborhoods, and municipalities.

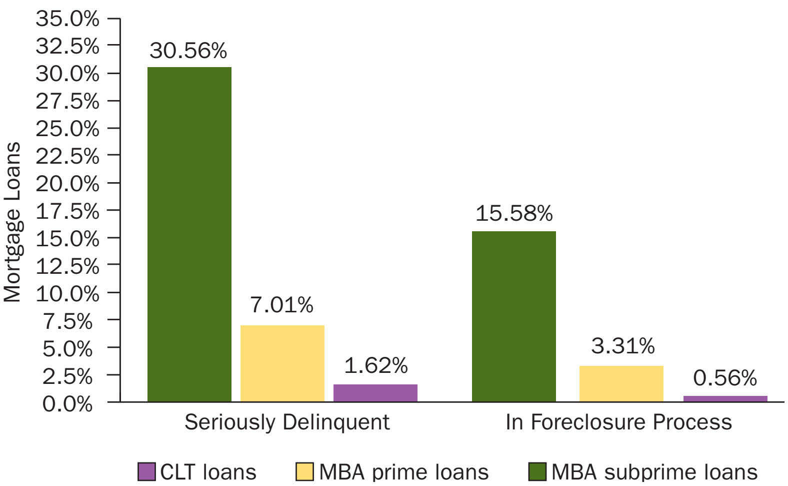
Overview of the CLT Study

In March 2010, the National Community Land Trust Network (the Network) designed and conducted the *2009 CLT Delinquency & Foreclosure Survey* (Thaden 2010). All 229 CLTs in the Network's database were invited to participate in the online survey; 53 CLTs (23 percent) completed it. Eleven respondents did not have CLT homes with outstanding mortgages at the end of 2009, so they were not included in the final analysis. The remaining 42 CLTs in 22 states had 2,279 resale-restricted, owner-occupied homes in their portfolios, 2,173 of which had outstanding residential mortgages as of December 31, 2009. The median number of mortgaged homes for these CLTs was 30.

The primary purpose of the survey was to examine how many residential mortgages held by CLT homeowners (referred to as CLT loans) had been seriously delinquent, entered the foreclosure process, or completed the foreclosure process in 2009. Survey items were designed for comparison with results from the Network's 2008 survey, as well as results from the 2008 and 2009 National Delinquency Surveys conducted by the Mortgage Bankers Association (MBA).

The Network's survey replicated the definitions used by the MBA for loans that were (1) "In the Foreclosure Process," which includes loans in the process of foreclosure regardless of the date the foreclosure procedure was initiated; and (2) "Seriously Delinquent," which includes loans that were at least 90 days delinquent or in the process of foreclosure. The secondary purpose of the Network's survey was to explore the practices and policies of CLTs that may help to explain the primary results.

FIGURE 1
Delinquency and Foreclosure Trends for CLT and MBA Mortgage Loans, 2009



Sources: MBA (2010) and Thaden (2010).

Delinquencies, Foreclosures, and Cures

When comparing the performance of CLT loans to that of conventional mortgages for market-rate homes, it is important to emphasize that CLT loans are held by low-income households. MBA and Residential Mortgage-Backed Security (RMBS) loan samples are not limited to low-income borrowers. Considering that low-income homeowners in the market are more prone to delinquencies and foreclosures, the differential outcomes reported below may have been even greater if loans held by low-income borrowers could have been isolated for comparison in MBA and RMBS samples.

Serious Delinquencies and Foreclosure Filings in 2009

Figure 1 presents the percentages of CLT loans and MBA prime and subprime loans that were seriously delinquent or in the foreclosure process at the end of the fourth quarter of 2009. Only 0.56 percent of CLT mortgages were being foreclosed (12 out of 2,151 loans; CLT median = 0, range = 0–2), whereas the percentage of MBA loans in the foreclosure process was 3.31 percent for prime loans, 15.58 percent for subprime loans, 3.57 percent for FHA loans, and 2.46 percent for VA loans (MBA 2010). When all types of MBA loans were combined, the overall MBA percentage was 4.58 percent. Overall, MBA loans were 8.2 times more likely to be in the process of foreclosure than CLT mortgages.

On December 31, 2009, 1.62 percent of CLT mortgages were seriously delinquent (34 out of 2,099 loans; CLT median = 0, range = 0–6), while the MBA loan percentage was 7.01 percent for prime loans, 30.56 percent for subprime loans, 9.42 percent for FHA loans, and 5.42 percent for VA loans. A prime loan within the MBA sample was 4.3 times more likely to be seriously delinquent at the end of 2009 than a CLT mortgage.

2008 and 2009 Comparisons

The percentage of CLT mortgages in the foreclosure process at the end of 2008 was 0.52 percent (10 out of 1,930 loans), demonstrating a percentage point change of .04 over one year. For all MBA loans, the percentage in the foreclosure process at the end of 2008 was 3.30 percent, showing a percentage point increase of 1.28 by the end of 2009. The respective percentage point increases were 1.43 for prime loans, 1.87 for subprime loans, 1.14 for FHA loans, and 0.80 for VA loans.

The percentage of CLT mortgages that were seriously delinquent at the end of 2008 was 1.98 percent (36 out of 1,815 loans), demonstrating a percentage point decrease of -0.36 (figure 2). The percentage of MBA prime loans that were seriously delinquent at the end of 2008 was 3.74 percent, a percentage point increase of 3.27. The percentage point increases were 7.45 for subprime loans, 2.44 for FHA loans, and 1.30 for VA loans (MBA 2009).

In sum, the percentage of MBA loans that were in the foreclosure process or seriously delinquent increased from the end of 2008 to the end of 2009, while the percentages for CLT loans remained consistently lower.

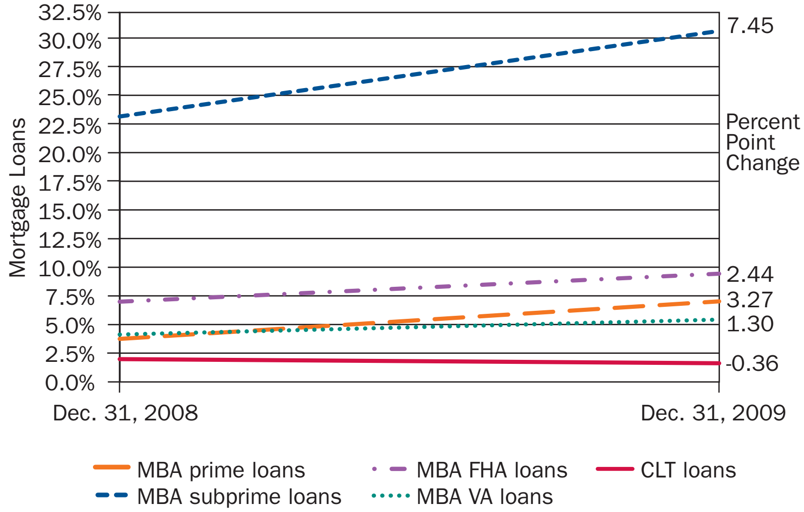
The CLT Network's surveys gathered additional information not collected by the MBA. During 2009, 0.42 percent of CLT loans completed foreclosure (9/2,160) compared to 0.26 percent during 2008 (5/1,928), which illustrates a percentage point change of 0.16. When homeowners are foreclosed upon, CLTs have a vested interest in recovering the property from the lender in order to minimize the loss of the public subsidy and preserve the affordability of the unit. No foreclosed CLT homes were lost from CLT portfolios during 2009.

2009 Cure Rates

The 2009 Network survey also gathered information on the number of serious delinquencies during the year and the total that were resolved. The percentage of CLT loans that had ever been seriously delinquent during 2009 was 2.80 percent (58/2,075). Respondents reported that 29 out of 57 were cured (51 percent).

CLTs have unique contractual rights to implement stewardship activities and intervene with homeowners and lenders in order to make mortgage payments current or preclude foreclosure completion. Respondents were asked to explain how they provided these cures, which included facilitating short-sales, offering financial counseling or referrals to foreclosure prevention programs, providing direct grants or loans to homeowners, arranging sales and purchases of a less expensive unit, and working with homeowners and lenders on permanent loan modifications.

FIGURE 2
Seriously Delinquent CLT and MBA Mortgages, 2008 and 2009



Sources: MBA (2009; 2010) and Thaden (2010).

Fitch Ratings, a global rating agency, reports cure rates for RMBS loans. They define cure as the percentage of delinquent loans returning to a current payment each month. The percentage of RMBS delinquent loans in August 2009 that had been cured was 6.6 percent for prime loans and 5.3 percent for subprime loans. Since CLTs define cures as resolving impractical financial situations for their homeowners, rather than solely as making mortgage payments current, RMBS and CLT rates are not comparable. However, these findings indicate that CLTs more often terminate serious delinquencies through a broader range of activities.

Stewardship Activities of CLTs

Intrinsic to the CLT model is a commitment to stewardship, which aims to promote positive outcomes and sustainable home ownership for residents long after they have purchased a CLT home. While stewardship is a core component of every CLT's programming, its implementation can vary greatly. Therefore, the survey collected data on the prevalence and variety of stewardship activities in an effort to explain the low rates of delinquency and foreclosure among CLT homeowners.

The greater affordability and lower loan-to-value ratio found in CLT homes may explain part of the difference between CLT and MBA loans. However, stewardship is almost certainly a contributing factor. Without the protective shield of the CLT, low-income CLT homeowners would be prey to the same economic pressures and circumstantial factors that threaten home ownership sustainability among their market-rate counterparts. Survey results indicate that CLTs are implementing stewardship policies and practices in the following five areas, which may help to explain why CLT loans have outperformed the market.

Pre-Purchase Education

Homebuyer education enables sound mortgage decisions and prepares individuals for the responsibilities of home ownership. Because owning a CLT home entails unique contractual rights, responsibilities, and resale restrictions, supplemental education is offered frequently. The study found that 85 percent of CLTs required general homebuyer education and 95 percent required CLT-specific education prior to purchase.

Pre- and Post-Purchase Stewardship

Pre-purchase stewardship also included referrals to CLT-trained lawyers and lenders, an activity reported by 83 percent of the respondents. A one-on-one meeting of prospective homebuyers with a financial counselor was required by 71 percent of CLTs. Approximately 50 percent of all CLTs offered such post-purchase stewardship services as ongoing financial literacy training; staff outreach to homeowners; formal communications to remind them of policies; referrals for contractors or repairs; and mandatory meetings with defaulting homeowners.

Prevention of High-Risk Loans

Research finds that subprime and predatory lending have occurred more often during acquisition of refinance and home equity loans than during purchase (Immergluck 2009). Eighty-three percent of CLTs required their homeowners to seek the CLT's permission to refinance or take out home equity loans, thus ensuring that the loan terms will not compromise affordability or home ownership sustainability and that homeowners comprehend the loan's impact on their equity.

Detection of Delinquencies

CLTs also adopted policies and practices to monitor and detect homeowners who may be headed toward serious delinquency. Most CLTs charge a monthly ground lease fee (typically $10–50) to offset their costs. According to 90 percent of respondents, late payment of these fees was used as an indicator that a homeowner may be late paying their mortgage. Further, 69 percent of CLTs reported that they detected delinquencies through informal interactions with homeowners, and 55 percent of CLTs reported that 80–100 percent of seriously delinquent homeowners contacted the CLT on their own volition. Close to 50 percent of CLTs reported that lenders were legally obligated to notify the CLT of delinquencies or foreclosure proceedings.

Intervention with Delinquent Homeowners

CLTs reported an array of interventions with homeowners at risk of foreclosure. Two activities that are instrumental components of federally sanctioned foreclosure prevention programs were also implemented by CLTs: 71 percent contacted lenders as soon as they became aware of delinquencies; and 57 percent provided homeowners with direct financial counseling. Over half of CLTs reported other activities that enable residents to keep their homes, such as providing rescue funds for outstanding mortgage payments. For homeowners unable to keep their homes, 49 percent of CLTs reported activities to prevent completed foreclosures, such as facilitating sales to low-income buyers or directly purchasing the homes.

Discussion and Conclusions

The prevalence of stewardship activities among the nation's CLTs may help to explain why CLT loans are outperforming most market-rate loans in terms of delinquencies and foreclosures. It may also explain the high cure rates among CLT mortgages that become seriously delinquent, as CLTs intervene to arrest the slide toward foreclosure. In this respect, CLT home ownership appears more sustainable than private market options for low-income homeowners, suggesting that CLTs may provide a less speculative and more reliable avenue to wealth accumulation for low-income and minority homeowners.

Low-income households can only enjoy the economic benefits of home ownership if they are able to remain homeowners for a number of years. If they lose their homes to foreclosure—or simply return to renting after discovering that the costs

Sheryl, Andre, and Raymond Manabo outside their home in the Kulshan Community Land Trust, Bellingham, Washington.

and burdens of home ownership are too difficult—low-income households cannot build wealth. The findings of the Network's survey make clear, however, that few CLT homeowners are losing their homes to foreclosure. Moreover, other research on CLT homeowners has found that they far exceed the 50 percent home ownership retention rate reported among conventional market, low-income homeowners. Preliminary results from a study by The Urban Institute, which includes three CLTs, found that over 91 percent of low-income households remained homeowners five years after buying a CLT home. They either continued to occupy their CLT home or resold it to purchase a market-rate home (Temkin, Theodos, and Price, forthcoming).

CLT home ownership not only lessens foreclosures and increases the chances of success among the population most at-risk of losing their homes, but it also indirectly prevents costs of foreclosure for neighbors, municipalities, and lenders. Such exemplary performance implies that greater investment in this model, including its stewardship activities, is both warranted and overdue.

Only one-third of CLTs reported receiving any funding for foreclosure prevention activities during 2009, while many reported increasing stewardship activities to buffer homeowners from the economic downturn and foreclosure crisis. The study also found that only one-third of CLTs received funding to create new CLT units from foreclosed and vacant housing stocks during 2009. Hence, CLTs are not adequately resourced to create home ownership opportunities from the crisis, which could help to preclude negative outcomes associated with unsustainable home ownership in the future.

Jacobus and Abromowitz (2010) call for a re-evaluation of the ways that the federal government encourages home ownership. They recommend targeting existing resources to purchase-subsidy programs like CLTs in order to more efficiently use public dollars and expand and maintain home ownership opportunities. This study provides further support for that policy recommendation.

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