

## MORTGAGE RESOLUTION FUND

### A SCALED INVESTMENT IN FORECLOSURE RELIEF

#### BACKGROUND

When the housing market collapsed in the late 2000s, the foreclosure crisis that followed threatened to destabilize whole communities as the number of vacant and blighted properties rose. By 2012, almost 3.7 million of the loans originated in the nation's 100 largest metro areas during the height of the easy credit era were seriously delinquent, in the process of foreclosure, or had been foreclosed. Three quarters of those loans were in suburbs.

Yet, as the crisis unfolded, local governments and nonprofit organizations faced three key challenges that hindered more effective responses: Though an important federal resource for dealing with foreclosure-affected communities, Neighborhood Stabilization Program (NSP) funds were not sufficient to meet growing needs; HUD-supported foreclosure counseling agencies frequently encountered barriers in their efforts to negotiate principal reductions with overwhelmed large mortgage servicers; and private capital lacked sufficient incentives to work in distressed markets where expenses are higher and foreclosure processes are often lengthy.

Enterprise Community Partners, the Housing Partnership Network, Mercy Portfolio Services, and the National Community Stabilization Trust are four of the nation's leading organizations working on low-income housing needs, and each has their area of expertise: Enterprise Community Partners as a leading provider of capital and expertise for affordable housing; The Housing Partnership Network as a business collaborative of 100 of the nation's most successful housing and community development nonprofits, leveraging the expertise and capacity of member organizations to achieve larger impact; Mercy Portfolio Services, a subsidiary of Mercy Housing, as a provider of portfolio and professional services that support community-minded developers; and The National Community Stabilization Trust as a national nonprofit coordinating the transfer of foreclosed and abandoned property from financial institutions nationwide to local housing organizations.

These organizations recognized the need to develop new foreclosure response tools, but knew that no one organization could overcome the barriers to meet the growing need.

#### THE INNOVATION

In 2011, these four organizations brought their complementary skill sets together to create the Mortgage Resolution Fund (MRF). MRF's goal is to help homeowners stay in their homes and to stabilize and revitalize communities hard-hit by the foreclosure crisis. MRF works toward these goals by intervening earlier in the foreclosure process, purchasing nonperforming loans from servicers and banks at a discount, modifying mortgages (primarily through principal reductions) based on current market values and the borrower's ability to pay, and providing education and debt management support to borrowers.

The continuum of services MRF provides makes use of each partner organization's area of expertise:

- Enterprise Community Partners takes responsibility for fund management and compliance reporting, as well as auditing and treasury functions (i.e., managing the movement of funds);
- The Housing Partnership Network manages all mortgage resolution specialist activities and provides homeowners with education, budgeting and debt management, and decision-making support;
- Mercy Portfolio Services, MRF's managing member, oversees all service contracts with private sector partners (e.g., for mortgage due diligence and valuation as well as transferring and servicing loans), evaluates distressed notes, and makes investment recommendations; and
- The National Community Stabilization Trust educates its servicer network of banks, government-sponsored entities (e.g., Fannie Mae), the Federal Housing Administration (FHA), and government agencies about MRF and enlists their assistance in locating and acquiring nonperforming loans within their portfolios.

# CONFRONTING SUBURBAN POVERTY IN AMERICA

Beyond the in-house capacity each organization brings to the partnership, MRF leverages outside expertise as needed, for instance, by working through HPN to contract with local, high capacity counseling agencies to assist families unable to modify their mortgages transition to other housing without incurring a foreclosure on their credit record.

MRF's model depends on enterprise-level funding, meaning that funders invest at scale and structure their loans in a way that allows MRF to innovatively and flexibly use the dollars to achieve agreed-upon targets for neighborhood stabilization and foreclosure prevention.

## ACCOMPLISHMENTS

In its initial round of funding, the government acted as the upfront investor. MRF was able to negotiate with the Illinois Housing Development Authority (IHDA) and the U.S. Treasury Department to secure a no interest, long-term loan using federal Hardest Hit Fund dollars. In addition, following the FHA's decisions to increase the number of loans it sold each quarter, and to create sub-pools of mortgages in hard-hit areas, MRF was able to work closely with the FHA and IHDA to define such a sub-pool in the Chicago region. The funding from IHDA, combined with these FHA developments, allowed MRF to purchase 270 nonperforming mortgages, mostly concentrated in four suburban clusters in the Chicago region that have been disproportionately affected by the foreclosure crisis.

Building on its Illinois model, MRF has since worked with Ohio Housing Finance Agency (OHFA) to combine Hardest Hit Funds and private lending from PNC to purchase 762 distressed mortgages from the sub-pool FHA created to cover the Northeast Ohio regions of Cleveland, Canton, Akron, and Youngstown. MRF is also partnering with BridgeBilt—a private developer in Ohio committed to high community standards of performance—to ensure that any properties MRF may eventually take ownership of will be quickly rehabbed to high standards and occupied by a new family.

## CHALLENGES

The challenges and barriers to implementation that MRF encountered stemmed in part from its novelty, but also from the fragmentation and inflexibility of traditional funding sources, and from the very market-oriented aspects that makes this effort innovative and promising:

- Because of the newness of the program, it took more than nine months for MRF to negotiate the program structure and agreement with IHDA and the Treasury Department. The lengthy negotiation process meant that the mortgages MRF had targeted as likely to succeed under their approach to modification continued to age, in some case phasing out of eligibility;
- MRF faced another setback when in February 2012 the federal government and 49 state attorneys general reached a \$25 billion settlement agreement with five of the nation's largest loan servicers over the scandal involving robo-signing of mortgage arrears and foreclosure documents. The market for the nonperforming loans MRF planned to acquire essentially dried up as major sellers of nonperforming loans waited for the outcome of the settlement and for new rules to emerge.

## IMPLICATIONS FOR POLICY

The foreclosure crisis underscored the increasing need for new financing models that allow organizations and regions across the country to act strategically and flexibly. Funding these types of solutions will require policy makers, practitioners, and funders to:

- Commit to enterprise-level funding, by investing in high-performing and scaled organizations and collaborative structures, and allowing them flexibility in how they use funds to achieve agreed-upon outcomes; and
- Continue to develop and support strategic approaches that leverage public and private funds, by ensuring that alongside these investments adequate planning time and contingency plans are put in place to respond to changing market conditions, and by investing in data and evaluation to accurately measure outcomes and identify what works.