Outperforming the Market: Making Sense of the Low Rates of Delinquencies and Foreclosures in Community Land Trusts

Emily Thaden

Lincoln Institute of Land Policy
Working Paper

Lincoln Institute Product Code: WP10ET1

Abstract

This study examines the rates of delinquencies and foreclosure filings in mortgages that were held by households who owned homes in Community Land Trusts (CLTs) during 2009. A survey was administered to U.S. CLTs, yielding a sample of 42 CLTs that represented 2,173 owner-occupied, resale-restricted mortgages. The survey was designed for comparisons with the Mortgage Brokers Association National Delinquency Survey. Results indicated that CLT loans outperformed MBA loans on all comparable delinquency and foreclosure measures. To better understand the outcomes of 2009 CLT loans, the survey gathered information on the prevalence of stewardship activities conducted by CLT staff. The majority implemented pre-purchase education, post-purchase support, high-risk loan prevention, and delinquency detection and intervention. While findings support the efficacy of homeownership in CLTs to preclude delinquencies and foreclosures, results also found that a minority of CLTs received external funding to expand or support their work.

- MBA prime loans were 4.3 times more likely to be seriously delinquent on December 31st, 2009 than CLT mortgages (defined as 90 days or more delinquent on in the process of foreclosure).
- MBA prime loans were 5.9 times more likely to be in the process of foreclosure on December 31st, 2009 than CLT mortgages.
- Rates of serious delinquencies and foreclosure filings were consistent across 2008 and 2009 in CLT loans while MBA rates increased.
- CLTs cured or helped to cure 51 percent of mortgages that were ever seriously delinquent during 2009.
- The high prevalence of comprehensive stewardship practices—spanning education, prevention, and intervention activities— may help to explain the low rates of delinquencies and foreclosures and high cure rates in CLTs.
- Only 1 out of 3 CLTs received external funding for foreclosure prevention activities during 2009.
- Only 1 out of 3 CLTs received any funding to acquire foreclosed or vacant properties during 2009.

About the Author

Emily Thaden is a doctoral candidate in the Community Research & Action program at Vanderbilt University. Her work focuses on affordable housing, shared equity homeownership, community development and change, and action research. She is the Shared Equity Development Specialist at The Housing Fund in Nashville, TN. She partnered with the National Community Land Trust Network to design and analyze the 2009 Community Land Trust Delinquency & Foreclosure survey. This contribution was independent and volunteered; therefore, no conflict of interest is impacting the data or findings.

To contact the author e-mail:
Emily Thaden
The Housing Fund
305 11th Avenue South
Nashville, TN 37203
(615) 515-2205
ethaden@thehousingfund.org

Acknowledgements

I would like to thank the National Community Land Trust Network, in particular Greg Rosenberg, for providing the opportunity to collaborate on the 2009 National Community Land Trust Network Delinquency & Foreclosure Survey and publish the data in this report. Thank you to the Lincoln Institute of Land Policy for their ongoing support of the National Community Land Trust Network. Lastly, many thanks to the survey responders, who took time away from their work to provide the information that made this report possible.

Table of Contents

Figures:

Tables:

Outperforming the Market: Making Sense of the Low Rates of Delinquencies and Foreclosures in Community Land Trusts

Introduction

The emerging picture of mortgage defaults, foreclosure filings, depreciation, and unemployment rates during 2009 clearly show that the crisis is by no means over. In fact, more households were negatively affected by the foreclosure crisis and economic downturn during 2009 than in recent years. Approximately 14 million households were estimated to have negative home equity as of March 2009 (Joint Center for Housing Studies, JCHS, 2009). A total of 2.8 million U.S. properties had foreclosure filings during 2009, which was 21 percent higher than 2008 and 120 percent higher than 2007. One in 45 housing units had at least one foreclosure filing during 2009 (RealtyTrac 2010).

High-cost loans for home purchasing or refinancing are far more likely to result in mortgage delinquencies and foreclosures. Forty-three percent of purchase or refinance loans originated in 2006 were subprime (Immergluck 2009), and at least one in five subprime loans becomes delinquent (Spader and Quercia 2008). Research has amply supported that low-income and minority homeowners are more likely to hold these loans, and low-income and minority neighborhoods have been hit the hardest by foreclosures, declining housing values, and related outcomes like abandoned housing, dilapidation, and increased crime. Exacerbating the challenge to maintain homeownership, minority unemployment rates rose to 15 percent for blacks and 11.3 percent for Hispanics relative to 8.0 percent for whites by April 2009. Meanwhile, for those who have maintained employment, the real median income has not increased in nearly a decade but affordability of homes continues to be an issue (JCHS 2009). Of low-income households with at least one full-time worker in 2006, 40 percent spent over 50 percent of their income on housing (defined as "severely cost-burdened"), and 47 percent of all low-income households were severely cost-burdened in 2006 (JCHS 2008).

During these strenuous circumstances, Community Land Trusts (CLTs) across the nation have continued to provide affordable homeownership and stewardship to low-to-moderate income households. Community land trusts are nonprofit organizations that offer low-to-moderate income households (usually those with gross annual incomes less than 80 percent of the area median income) the opportunity to buy homes at prices substantially below market rates, utilizing a combination of public and private subsidies. 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 also provide pre-purchase education and support that prepare households for homeownership, and after purchase, CLTs provide ongoing stewardship services to protect them from high-cost mortgage lending and 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.

However, the housing market and the economy are clearly larger systemic forces that may negatively impact these organizations and their homeowners. Therefore, in March of 2009, the National Community Land Trust Network (NCLTN) in partnership with Emily Thaden, a researcher from Vanderbilt University, administered an online survey to CLTs to examine how their homeowners have fared in terms of mortgage delinquencies and foreclosures and what these organizations are doing to deal with these issues.

In order to place the relevance of this study within context, this report will first highlight research on market-rate low-income and minority homeownership and the broader impacts of foreclosures. Next how the survey was designed and what organizations comprised the sample will be described. Then the primary results of the survey, which will examine how CLTs are performing in terms of delinquencies and foreclosures relative to the market, will be presented. Findings on CLT stewardship activities that help to explain these outcomes are also reviewed. The report will conclude with information on CLTs' resources, including how preventing the costs of foreclosures for others may come at a cost for CLTs in terms of their capacity to maintain and advance their positive impact on low-income homeowners.

Background

In order to understand the importance of studying delinquency and foreclosure in homeowners of CLT homes, this section will briefly review literature that addresses how prevalent the challenges of sustaining homeownership are for low-income and minority households. If homeownership is not able to be sustained then the likelihood that these households will accumulate wealth is greatly diminished. Next, literature that highlights the costs of foreclosures will be reviewed to consider the direct and indirect costs of foreclosure for different stakeholders.

Reframing Low-Income & Minority Homeownership

Researchers have begun to question the benefits of conventional market homeownership for low-income and minority households in light of emerging research on the foreclosure crisis (for a review see Thaden, unpublished). These households are more likely to hold high-risk loans, which is the primary predictor of foreclosure. In 2001, 10 percent of home loans made to low-income households living in low-income communities were subprime, and for black households in these communities, the proportion was 18 percent. Out of those who obtained refinance loans, the rates were respectively 27 percent and 42 percent (Apgar and Calder 2005). Further, low-income and minority households are more likely to experience "trigger events" like unemployment or health issues, which are associated with higher incidents of delinquencies and foreclosures (e.g. Robertson, Egelhof, and Hoke 2008). Lastly, roughly half of low-income households in 2006 were "severely cost-burdened" by their housing (JCHS 2008).

Nevertheless, cross-sectional studies show that homeownership greatly accounts for wealth amongst 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 (Hebert and Belsky 2008). Further, home equity accounts for approximately 61.8 percent of wealth in African Americans, 50.8 percent in Hispanics, but only 44 percent for white households (McCarthy, Van Zandt, and Rohe 2001). However, these studies omit households who have reverted back to renting or differences amongst homeowners and renters that drive wealth accumulation.

Studies examining homeownership *over time* find that low-income homeowners take longer to enter homeownership and are more likely to revert to renting (especially minority owners) (Boehm and Schlottmann 2004; Haurin and Rosenthal 2004; Reid 2005). Research supports that longer holding periods increase the likelihood of financial returns; however, studies have found that roughly half of low-income households exit homeownership within five years (Haurin and Rosenthal 2004, 2005; Reid 2005). Furthermore, these households are more likely to borrow against their equity (U.S. Census Bureau 1995) and are less likely to advantageously refinance (Van Order and Zorn 2002). Short durations of tenure, high-risk loans, unaffordability, and trigger events may decrease the magnitude or the likelihood that low-income and minority homeowners will accumulate wealth and increase the chances of accumulating debt.

Some critics of the CLT model have argued that limiting the amount of financial returns at resale may hurt wealth accumulation for low-income homeowners of CLT homes. However, proponents have expressed that these homeowners are perhaps more likely to build wealth as the CLT model lessens the risks associated with home owning and increases the likelihood that homeownership will be maintained, a prerequisite for equity accumulation.

Recent research has reported better outcomes in CLT homeowner samples than findings reported on their counterparts in the conventional market for both durations of tenure and wealth accumulation. 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 they resold their CLT home to purchase a market-rate home (Temkin, Theodos, and Price forthcoming). Another study of the largest U.S. CLT reported more reliable financial returns for CLT homeowners than research in private market low-income homeowners. The study found that 96 percent of CLT homeowners gained equity from principal reduction and 82 percent from their share of the home's appreciation (Davis and Stokes 2009). As foreclosure obstructs the chance for wealth-building and results in exiting homeownership, the findings from the study reported herein will build upon these investigations by examining whether the rates of delinquencies and foreclosures in CLT homeowners are less than those reported in the market.

Costs of Foreclosure

If CLTs prevent low-to-moderate income households from being foreclosed upon, they are also preventing a costly chain of outcomes for households, lenders, neighborhoods and municipalities. Very little research has focused on calculating the financial cost of foreclosures to households. However, it is well supported that households' credit is significantly impaired after experiencing foreclosure, which limits their ability to qualify for loans for cars or education as well as limits their access to alternative housing options (since credit checks are often a part of rental applications). Furthermore, completed foreclosures cost lenders. One study examined the cost of foreclosures in Massachusetts and found that foreclosures cost the loan holder an average of $58,792 and took approximately eighteen months to resolve (Cutts and Green 2004).

The impact of a foreclosure extends beyond the property line into the neighborhood. Studies in Columbus OH, Chicago, and New York City have shown that foreclosed properties significantly diminished nearby housing values (Been 2008; Immergluck and Smith 2006a; Lin, Rosenblatt, and Yao 2009; Mikelbank 2008). For instance, Immergluck and Smith (2006a) examined the impact of foreclosure in single-family loans on nearby property values in Chicago from 1997–1998. After controlling for a variety of other neighborhood and property characteristics, they found that each additional foreclosure within an eighth of a mile reduced nearby property values by 1–1.5 percent, cumulatively representing an average loss in nearby property values of $159,000 for each foreclosure. Furthermore, the percentage impact was significantly higher in low-income neighborhoods (1.44–1.8 percent).

Just as foreclosures tend to cluster in low-income and minority neighborhoods, the consequential rises in vacant properties and crime do as well (Immergluck and Smith 2006b). Shlay and Whitman (2004) found that having an abandoned house within 150 feet decreased property values by approximately $7,000 in Philadelphia. Another study measured the relative impact of an abandoned unit versus a foreclosed unit on nearby housing values in Columbus, OH (Mikelbank 2008), where a foreclosure within 250 feet decreased the housing price by 2 percent and an abandoned house within 250 feet decreased it by 3.5 percent. However, the effect of the foreclosed home spanned a larger distance, where housing values were still down 1 percent at 1000 feet while the abandoned unit no longer had an effect at 750 feet.

Immergluck and Smith (2006b) found that as foreclosure rates increase so do the rates of violent crime, where an increase in one standard deviation of the foreclosure rate (2.8/100 owner-occupied properties in a year) accounted for a 6.7 percent increase in violent crimes within neighborhoods. Since foreclosed properties in low-income and minority communities are more likely to end up as abandoned housing, it is relevant that one study showed that block-level crime rates were doubled with the presence of one or more abandoned buildings within a low-income neighborhood in Austin, TX (Spelman 1993).

Foreclosures not only lead to financial losses for households and their neighbors, but they also cost municipalities. The importance of stable homeownership to municipal health is great as most municipalities rely on property taxes (and steady appreciation) to fund their annual budgets. They are further protected from additional spending on social services that is less needed in high-quality, stable neighborhoods. Conversely, the costs of unsustainable homeownership that tend to cluster in low-income and minority neighborhoods, leads to expenditures for municipalities on increased police presence and fire service needs, demolition of vacant properties, legal fees and inspections, and administrative fees to complete the foreclosure process. Municipalities also accumulate losses related to outstanding property taxes, unpaid utility fees, and a declining property tax revenue stream if nearby property values decline (Apgar and Duda 2005). Apgar and Duda (2005) modeled the costs of a foreclosure to the City of Chicago under different scenarios and found that more than a dozen agencies could be involved in over two dozen activities, which were estimated to cost the government up to $34,199 per foreclosure. Moreno

(1995) estimated the cost to the cities of Minneapolis and Saint Paul for the foreclosure of houses financed with FHA mortgages and found that municipal losses were approximately $27,000. If foreclosure rates are lower for CLT homeowners than homeowners in the conventional market, then CLTs may directly prevent costs for households and indirectly prevent these losses for lenders, neighborhoods, and municipalities.

Survey Recruitment, Sample, & Design

This section provides background information on the 2009 NCLTN survey, including recruitment of participating organizations, the characteristics of the final sample of organizations and mortgages, and the design of the survey.

Administration, Recruitment, & Participation

The 2009 NCLTN Delinquency and Foreclosure Surveywas administered to U.S. CLTs during March 2010. This web-based survey took approximately 45–60 minutes to complete. In return for completing the survey, organizations were gifted with a "Homes and Hands" DVD and entered into a raffle for a free registration to the 2010 annual NCLTN conference in Albuquerque, NM on November 10–12th, 2010.

A total of 229 organizations that comprise the NCLTN directory of U.S. CLTs with working e-mails were asked to participate in the survey (97 of which were Network members). Of those, 53 organizations representing 25 states filled out the survey (47 were Network members). Therefore, the response rate for the survey was 23.1 percent (53/229). However, 11 of these organizations did not have "residential-mortgaged, resale-restricted homeownership units" during 2009, defined as "1–4 unit homes eligible for residential mortgages that have a resale-restriction" (now referred to as "RRR"). Because the survey only sought information on these types of units with residential mortgages during 2009, these organizations were removed from the sample for analyses. Therefore, the final sample for analyses included 42 organizations.[1]

<u>Final Sample of Organizations</u>

Of the 42 organizations included in analyses, 36 were Network members. Thirty-nine of these organizations used ground leases to restrict the resale of their RRR units, 2 used deed-restricted covenants, and 1 did not report the mechanism used. However, about one third of the sample used more than one mechanism to restrict the resale of different units, such as condominium covenants or deed restrictions in addition to ground leases. These organizations had been established or incorporated between 1958 and 2008, where the median year for the sample was 1999. When respondents were asked what year they first sold a RRR unit, the range was from

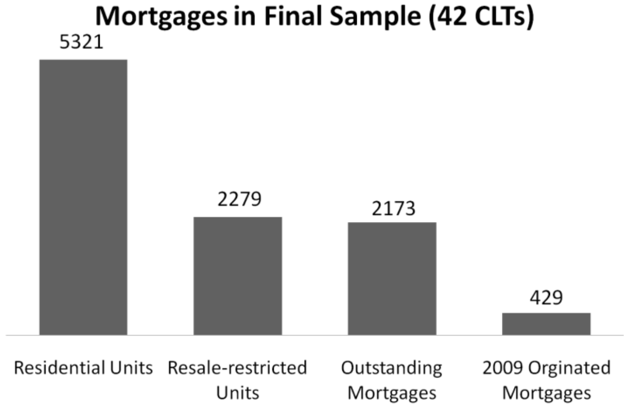
[1] It is important to note that the appropriate population for the survey was only CLTs that have residential, mortgage-eligible resale-restricted homeownership units during 2009, meaning that organizations that aim to develop these types of units or those that only have cooperative units were included within the directory but should not technically be included in creating the population for the survey's sample. How many of the 229 CLTs within the directory should have been excluded is unknown; therefore, a more precise response rate cannot be derived.

1988 to 2009 (the median was 2003); however, 8 organizations did not accurately respond to this question due to an issue in survey administration so information on year of first sale is less reliable.

At least 22 states were represented by respondents (one organization did not report an address so its state was unknown). States most represented in the sample, which included 3–5 respondents, were MN, WA, FL, and MA. They accounted for 38.1 percent of the total sample. All the states represented in the sample were AZ*, DE, FL*, ID*, IL*, KS, MA, MI*, MN, MO, MT, NH, NM, NY, OH, OR, PA, RI, TN, VT, WA, and WI. The states marked by asterisks were in the top ten states with the highest foreclosure rates in the third quarter of 2009 (RealtyTrac.com, 2009). However, NV, CA, UT, GA, and CO—the remaining top ten—were not represented within the sample (Notably, a couple CLTs in CA responded to the survey but had yet to develop RRR units). Hence, the sample generally represented the national picture of states that had both high and low foreclosure rates.

Final Sample of Residential Mortgages

Figure 1. Total Number of Units & Mortgages in Final Sample (42 CLTs)



The number of housing units in these 42 organizations' portfolios totaled 5,321 (Figure 1). This number comprised rental units, lease-purchase units, homeownership units with and without resale restrictions, and cooperative units. The large difference between the median and mean of housing units presented in Table 1 is accounted for by the fact that 41 percent of the 5,321 units are located in one organization's portfolio, the Champlain Housing Trust. The total number of residential-resale restricted (RRR) units held by the organizations was 2,279. Once again, the difference between the median and the mean is due to 21 percent of these units being within the Champlain Housing Trust's portfolio. On December 31, 2009 the total number of outstanding mortgages that the organizations reported on their 2,279 RRR units was 2,173. Because the primary purpose of the survey was to examine mortgage delinquencies and foreclosures in 2009, the 2,173 RRR mortgages was used as the sample of mortgages for further analyses (hereinafter referred to as "CLT loans"). During 2009, the number of first mortgages that were originated was 429. Hence, 19.74 percent of all outstanding RRR mortgages were originated in 2009. Table 1 presents additional descriptive information on the portfolios and mortgages maintained within the sample.

Table 1. Description of Units & Mortgages within the Sample of 42 Organizations						
	Total	Minimum	Maximum	Median	Mean	Standard Deviation
Total Housing Units[1]	5321	2	2177	35.5	126.7	355.2
RRR Units[2]	2279	2	477	30	54.2	81.3
Total RRR mortgages[3]	2173	2	477	30	51.7	81.1
2009 RRR mortgages[4]	429	0	90	4.5	10.2	15.5

[1] Total Housing Units = rental units, lease-purchase units, homeownership units with and without resale-restrictions, cooperative units that are both vacant and occupied within organization's portfolios on December 31st, 2009.
[2] RRR Units = vacant and occupied Residential, Resale-Restricted (RRR) Units within organization's portfolios on December 31, 2009.
[3] Total RRR mortgages = RRR units that had outstanding residential mortgages on December 31, 2009.
[4] 2009 RRR mortgages = RRR units that had residential mortgages originate during 2009

The Design & Analysis

The primary purpose of the study was to measure the rates of delinquencies and foreclosures in CLTs during 2009. The NCLTN survey was designed so that several items could be compared to the Mortgage Bankers Association (MBA) National Delinquency Survey. According to the MBA, "The National Delinquency Survey is one of the most recognized sources for residential mortgage delinquency and foreclosure rates. [It is] based on a sample of more than 44 million mortgage loans serviced by mortgage companies, commercial banks, thrifts, credit unions and others." This survey is estimated to account for approximately 80–85 percent of the 50 million loans outstanding in the market (MBA 2008).

Table 2 presents definitions of the measures that were used by the MBA and replicated by the NCLTN survey. However, the NCLTN survey collected additional information on CLT mortgages that the MBA does not. The definitions for these additional measures are also presented in Table 2. Furthermore, while the MBA data presents quarterly statistics, the NCLTN survey collected comparable quarterly information as well as additional information on different time frames (i.e. over the entire 2009 year, over the entire time CLT programs have been established). For the remainder of this report, the terms presented below will refer only to these definitions.

Table 2. Available Data and Definitions by Survey Source and Timeframe				
Term	**Definition**	**Available Survey Data**		
		Date CLT Establishe d- thru 2009	**2009 Year[1]**	**Q4 2009[2]**
Total Mortgages	All first mortgage loans secured by 1–4 unit residences that are serviced by participating companies (for MBA) or held by CLT homeowners (for NCLTN).			NCLTN MBA
Delinquent Mortgages	The number of loans that are 90 days or more delinquent but not in the foreclosure process.		NCLTN	NCLTN
Mortgages in the Foreclosure Process[1]	The number of loans in the process of foreclosure regardless of the date the foreclosure procedure was initiated. This excludes loans where foreclosures have been completed. The MBA terms this measure their "Foreclosure Inventory."		NCLTN	NCLTN MBA
Seriously Delinquent Mortgages	The number of loans that were 90 days or more delinquent or loans that were in the process of foreclosure (i.e. the sum of two rows above).		NCLTN	NCLTN MBA
Foreclosed Mortgages	The number of loans that resulted in completed foreclosures.	NCLTN	NCLTN	
Cured Mortgages	The number of "seriously delinquent" loans that the organization cured or helped to cure to prevent completed foreclosures.		NCLTN	

[1] Measured as the number of loans that ever fit this description between January 1, 2009 and December 31st, 2009.
[2] Measured as the number of loans that fit this description on the last day of 4th Quarter (December 31st, 2009).

The 2009 NCLTN survey was also designed so that the information collected on delinquencies and foreclosures was consistent with the 2008 NCLTN survey (which also replicated MBA definitions). Therefore, this report includes comparative analyses across the NCLTN surveys as well as the MBA surveys from 2008 to 2009.

The secondary purpose of the survey was to explore the policies and practices utilized by CLTs that may potentially explain their delinquency and foreclosure rates. This data gathering focused on capturing the prevalence and diversity of policies and practices enacted by CLTs using close-ended and open-ended items.

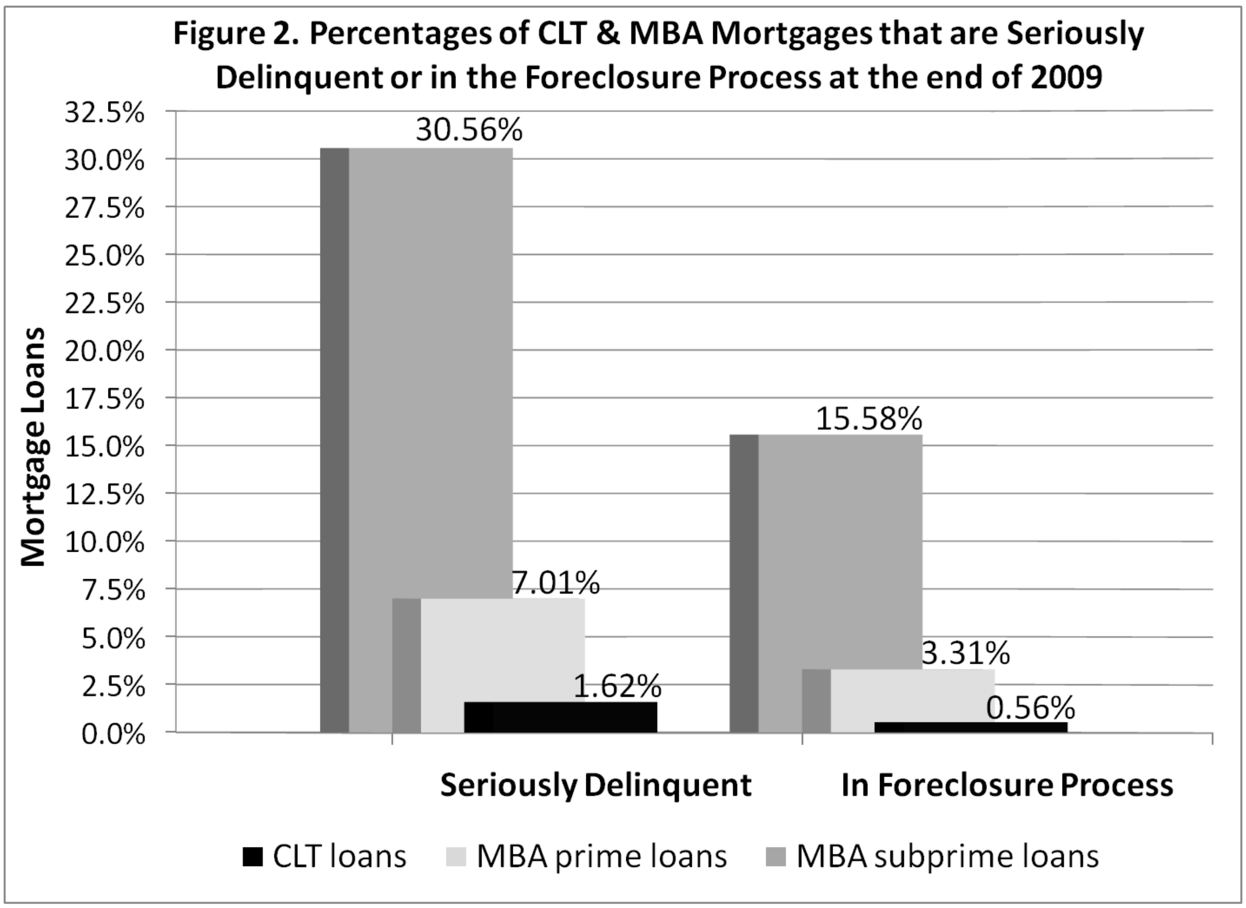
Simple descriptive statistics of delinquency and foreclosure data as well as stewardship data were conducted. More advanced comparative statistics were not possible due to the limited information the MBA provides to the public on their survey. Further, because the unit of analysis is CLT loans for the primary question, but the unit of analysis for stewardship activities is CLTs, conducting multivariate modeling to predict foreclosure or delinquency outcomes from CLT stewardship activities would require a larger sample due to issues with nesting.

Delinquency, Foreclosure, & Cure Results: Comparing CLT Performance to the Market

The purpose of this section is to present the primary results on delinquency and foreclosure measures for the 2009 NCLTN survey. This section will first present results that have comparative statistics on market-rate loans from the MBA. Because the NCLTN survey captures more delinquency and foreclosure measures than the MBA, the second section will present additional information from the NCLTN survey and compare these statistics to the findings from the 2008 NCLTN survey to examine performance across years. The third section will then collate the information from the 2008 and 2009 MBA surveys with the 2008 and 2009 NCLTN surveys to explore trends overtime in market-rate loans versus CLT loans. Finally, the last section will present findings on delinquency cure rates from the 2009 NCLTN survey.

End of 2009 MBA and NCLTN Survey Comparisons

This section will first review comparisons of the MBA survey and NCLTN survey for mortgages that were in the process of foreclosure followed by a comparison of mortgages that were seriously delinquent as of December 31, 2009. Figure 2 depicts these results.



<u>Mortgages in the Foreclosure Process</u>

Thirty-nine CLTs reported the number of RRR units with mortgages in the process of foreclosure on December 31, 2009, which totaled 12. The total number of RRR units that these 39 organizations had in their portfolios was 2,257, and the total number of outstanding mortgages reported by these organizations was 2,151. Therefore, the 4th quarter percentage of outstanding mortgages that were in foreclosure proceedings was 0.56 percent (12/2,151). The range for the number of mortgages that had entered into foreclosure proceedings on December 31st, 2009 reported by organizations was 0-2, where the median was 0 and the mean was 0.31 (SD = 0.57).

The percentage of MBA loans in the foreclosure process as of December 31st, 2009 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. The percentage of MBA loans in the foreclosure process, regardless of loan type, was 4.58 percent (MBA 2010).

It is not possible to break CLT loan information down by loan type based on the data collected from the survey. If the traditional prime loan percentage from MBA (3.31 percent) is used for comparison, then the percentage of CLT mortgages that were in the foreclosure process was 2.75 percentage points lower (since the 4th quarter percentage was 0.56 percent). If the overall MBA loan percentage is used, then the difference increased to 4.02 percentage points. In other words, a prime loan within the MBA sample was 5.9 times more likely to be in the process of foreclosure on December 31st, 2009 than a CLT loan. For any loan in the MBA sample, it was 8.2 times more likely to be in the process of foreclosure than a CLT loan.

Seriously Delinquent Mortgages

Thirty-seven CLTs reported the number of RRR units with mortgages that were seriously delinquent as of December 31st, 2009, which totaled 34 mortgages. The total number of RRR units that these 37 organizations had in their portfolios was 2,203, and the total number of outstanding mortgages reported by these organizations was 2,099. Therefore, the 4th quarter percentage of mortgages that were seriously delinquent was 1.62 percent (34/2,099). The range for the number of mortgages that were seriously delinquent on December 31st, 2009 reported by organizations was 0–6, where the median was 0 and the mean was 0.86 (SD = 1.44). The percentage of MBA loans that were seriously delinquent as of December 31st, 2009 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 (MBA 2010).

If the prime loan percentage from MBA (7.01 percent) is used for comparison, then the percentage of CLT mortgages that were seriously delinquent was 5.39 percentage points lower (since the 4th quarter percentage was 1.62 percent). In other words, a prime loan within the MBA sample was 4.3 times more likely to be seriously delinquent on December 31st, 2009 than a CLT loan.

2008 & 2009 NCLTN Survey Comparisons

The 2009 NCLTN survey replicated questions from the 2008 NCLTN survey so that annual comparisons could be made. Because the 2008 and 2009 respondents were not the same, differences across years could be partially attributed to sample variations. Table 3 presents statistics across surveys for delinquency and foreclosure variables using different timeframes. The percentage point change column presents whether percentages increased or decreased in 2009 from 2008. The table has additional information from the 2009 survey, which includes additional variables and descriptive statistics on the organizations that provided information for each variable.

Table 3. 2008 & 2009 NCLTN Survey Comparisons of Delinquencies and Foreclosures

Description of Mortgages	**2008** *50 organizations 1,936 mortgages*			**2009** *42 organizations 2,173 mortgages*			***2008–2009***	**2009** Additional Statistics on Organizations in Sample						
	Number of Mortgages	**Total Mortgages**	**%**	**Number of Mortgages**	**Total Mortgages**	**%**	***% Point Change***	**Number of Orgs[1]**	**Total Units**	**Min**	**Max**	**Median**	**Mean**	**St Dev**
Completed Foreclosures since Establishment	13	1928*	*.67**	28	2167	*1.29*	***+ .62****	41 (10)	2273	0	9	0	.68	1.77
Annual Completed Foreclosures	5	1928	*.26*	9	2160	*.42*	***+ .16***	40 (8)	2266	0	2	0	.23	.48
Annual Delinquencies	45	1844	*2.44*	40	2023	*1.98*	***- .46***	38 (13)	2129	0	11	0	1.05	2.16
Annual In Process of Foreclosure	--	--	--	18	2075	*.87*	**--**	40 (11)	2181	0	5	0	.45	.96
Annual Serious Delinquencies	--	--	--	58	2075	*2.80*	**--**	40 (20)	2181	0	16	.5	1.45	2.85
4Q Delinquencies	26	1821	*1.40*	22	2099	*1.05*	***- .35***	37 (11)	2203	0	4	0	.59	1.09
4Q In Process of Foreclosure	10	1930	*.52*	12	2151	*.56*	***+ .04***	39 (10)	2257	0	2	0	.31	.57
4Q Serious Delinquencies	36	1815	*1.98*	34	2099	*1.62*	***- .36***	37 (15)	2203	0	6	0	.86	1.43

[1] The top number is the number of organizations who responded to this question. The number in parentheses is the number of organizations that reported one or more mortgages that contributed to the "Number of Mortgages" column in 2009.

* "Total mortgages" counted for "completed foreclosures since establishment" could not be found for 2008; therefore, the number is a conservative estimate that could result in a lower 2008 percentage and higher percentage point change from 2008 to 2009.

To summarize, these findings support that the percentage of completed foreclosures in CLT borrowers increased slightly from establishment as well as from 2008. However, measures of delinquencies (including annual and 4th quarter percentages of "delinquencies" and 4th quarter percentages of "serious delinquencies") decreased slightly in 2009 from 2008. For all measures, these percentage point differences are likely to be statistically insignificant (inadequate information exists to statistically check this claim). What these statistics do support is that organizations in the samples from 2008 and 2009 have maintained consistent performance across the two years. This is particularly significant in light of the fact that this has not been the case for market-rate measures of delinquencies and foreclosures established by the MBA's survey (as presented in the next section).

Furthermore, the data supports that CLTs across the country are performing relatively consistently during 2009. As shown in Table 3, the maximum number of incidents reported by organizations on any variable was not particularly high, meaning that one or two organizations were not solely responsible for the number of mortgages reported on any foreclosure or delinquency variable in 2009. This is further illustrated by the number of organizations that reported one or more mortgages for each variable (see the number in parentheses under the "Number of Orgs" column in Table 3). This shows that anywhere from 8–20 organizations contributed to the number of mortgages for any of the delinquency and foreclosure variables.

When the organizations that did report higher numbers of mortgages on foreclosure and delinquency variables were examined case-by-case, the higher numbers were explained by two factors. First, these organizations reported some of the highest numbers of RRR mortgages (meaning they simply had larger portfolios so higher numbers of delinquencies or foreclosures would be expected). Second, these organizations were located in areas with higher delinquency and foreclosure rates as well areas with higher affordability problems. Hence, if the context and size of these organizations are considered, CLTs across the country are showing consistent performance.

End of 2008 & 2009 MBA & NCLTN Survey Comparisons

This section presents in tables and figures MBA and NCLTN serious delinquency and foreclosure rates for the end of the 4th quarter of 2008 and 2009 (MBA 2009, 2010). This information illustrates how CLT mortgages have performed relative to market-rate loans over time. Table 4 presents data on mortgages in the foreclosure process. Note that "MBA total loans" is a composite percentage of all other MBA loan types.

Table 4. End of 4th Quarter Percentages of Mortgages in the Foreclosure Process

Loan Type	December 31, 2008	December 31, 2009	*% Point Change*
MBA prime loans	1.88%	3.31%	***1.43***
MBA subprime loans	13.71%	15.58%	***1.87***
MBA FHA loans	2.43%	3.57%	***1.14***
MBA VA loans	1.66%	2.46%	***0.80***
MBA total loans	*3.30%*	*4.58%*	***1.28***
CLT loans	0.52%	0.56%	***0.04***

Figure 3 illustrates the percentage point changes for the percentage of loans in the foreclosure process across loan types. This information shows that the percentage of MBA loans in the foreclosure process—across all loan types— has increased from the end of 2008 to the end of 2009. However, the percentage of CLT loans in the foreclosure process at the end of 2008 and 2009 did not change. CLT percentages were lower than the MBA percentages and did not increase.

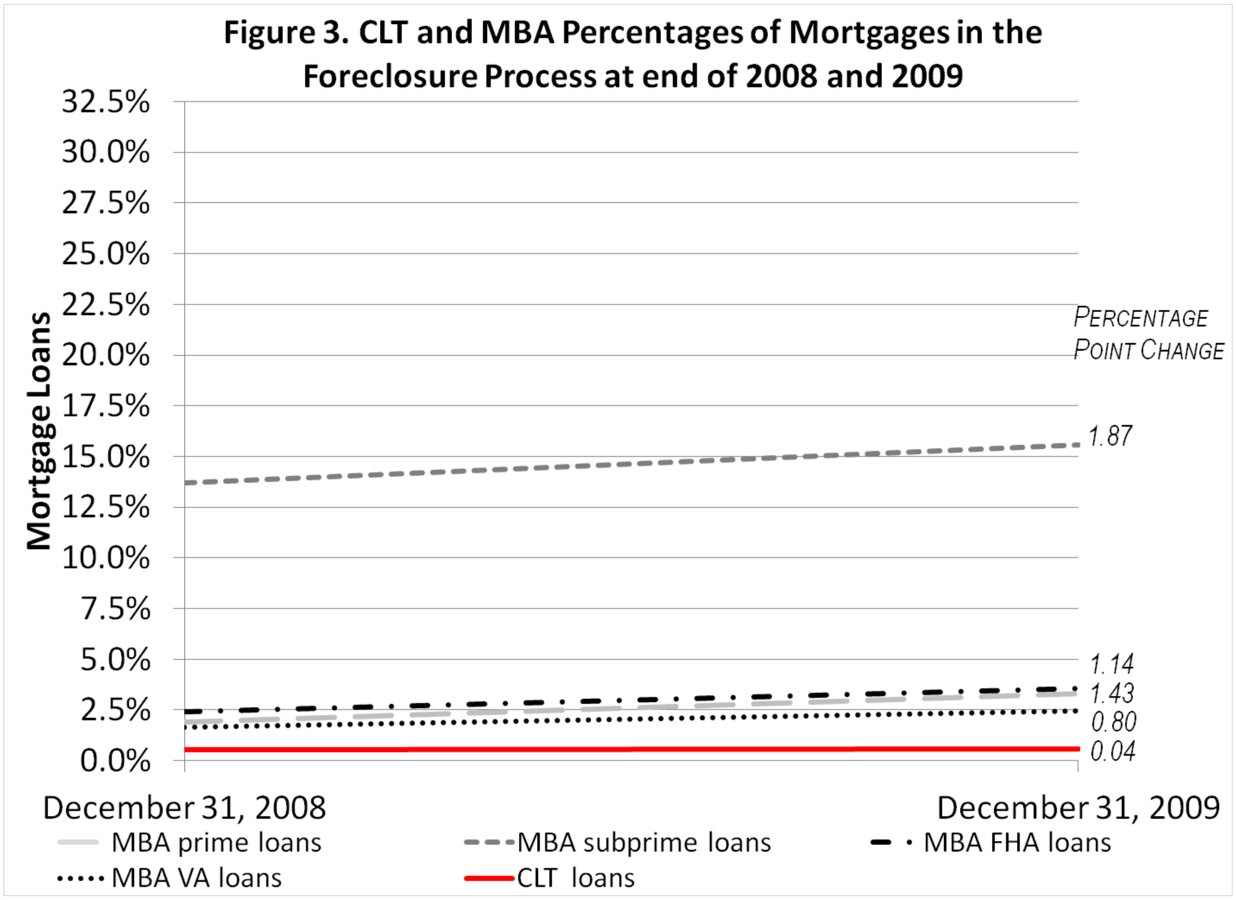
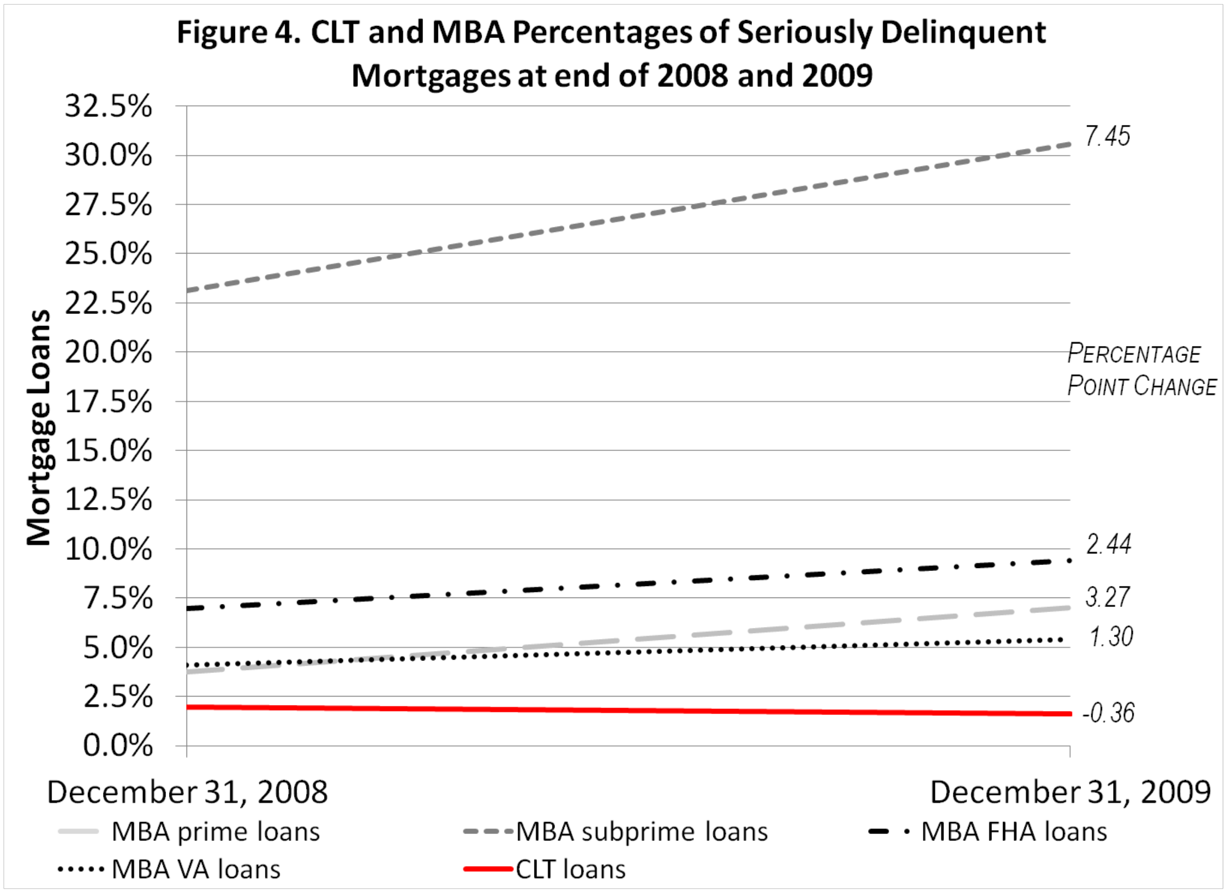


Table 5 presents data on mortgages that were seriously delinquent. The MBA does not provide the total percentage of seriously delinquent loans for free to the public (as shown above for mortgages in the foreclosure process).

Table 5. End of 4th Quarter Percentages of Seriously Delinquent Mortgages			
Loan Type	**December 31, 2008**	**December 31, 2009**	***% Point Change***
MBA prime loans	3.74%	7.01%	***3.27***
MBA subprime loans	23.11%	30.56%	***7.45***
MBA FHA loans	6.98%	9.42%	***2.44***
MBA VA loans	4.12%	5.42%	***1.30***
NCLTN loans	1.98%	1.62%	***-0.36***

Figure 4 illustrates the percentage point changes for the percentage of seriously delinquent loans across loan types. This information shows that the percentage of MBA loans that were seriously delinquent—across all loan types—has greatly increased from the end of 2008 to the end of 2009. However, the percentage of seriously delinquencies for CLT loans at the end of 2008 and 2009 marginally decreased. The CLT percentages were much lower than the MBA percentages for both years and did not increase during 2009.



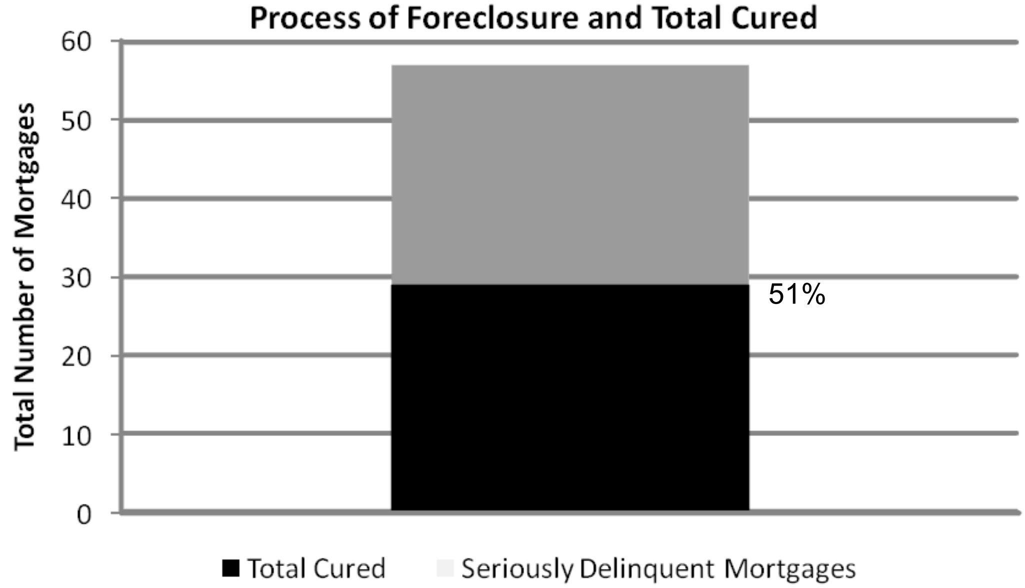
To conclude, for a second year in a row CLT loans are significantly outperforming market-rate loans: MBA loans showed steep increases from the 4th quarter of 2008 to 2009, while CLT loans showed no change or modest declines in 2009 from 2008.

2009 NCLTN Delinquencies & Foreclosure Cures

Of the 42 organizations, 40 reported the total number of mortgages that were ever seriously delinquent during 2009 (presented in Table 3). The total number of mortgages that were seriously delinquent during 2009 was 58 out of 2,075 mortgages, representing a median of .5 and a mean of 1.45 (SD = 2.85). The number of seriously delinquent mortgages within organizations ranged from 0–16. Twenty organizations reported that at least one mortgage had been seriously delinquent at some point in time during 2009.

Nineteen out of these 20 organizations provided a response to the following question: "For mortgages that were 90 days or more delinquent of in the foreclosure process during 2009, how many were able to cure or help to cure?" These respondents accounted for 57 out of the 58 seriously delinquent mortgages. As presented in Figure 5, they reported that they were able to cure or help to cure 29 mortgages that were 90 days or more delinquent or in the foreclosure process. This represents a cure rate of 51 percent (29/57). Respondents indicated that they cured serious delinquencies by facilitating short-sales, offering financial counseling and referrals to other financial services, providing direct loans to the homeowner, arranging a sale and purchase of a less expensive unit, and working with the homeowner and lender to arrange loan modifications.

Figure 5. 2009 CLT Mortgages that Were Deliquent or In Process of Foreclosure and Total Cured



Assuming that this cure rate remains steady, then it is likely that about 50 percent of the loans that were seriously delinquent on the last day of 4th quarter of 2009 will be cured. This is an unprecedented cure rate relative to the performance in the private market. 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 (Calculated Risk 2009). This was down from the averaged cure rates from 2000 through 2006 of 45 percent for prime loans and 19.4 percent for subprime loans. Furthermore, they report that around 25 percent of these "cures" are loan modifications, which have a high propensity to re-default. 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 support that CLTs more often terminate serious delinquencies through a broader range of activities.

Making Sense of CLT Performance: Stewardship Results

The previous section presented data illustrating that CLTs have outperformed the market for two consecutive years and that their performance was more impressive relative to market-rate loan outcomes in 2009 than 2008. The purpose of this section is to present data from the 2009 NCLTN survey that sheds light on the question, “How did CLTs do it?”

While this section will focus on the stewardship policies and practices of CLTs, part of the reason that CLTs are realizing more positive outcomes than the market is inherent to the CLT housing model. CLTs serve low-to-moderate income households who are at higher risk for experiencing delinquency or foreclosure than higher-income households. However, the model is designed to make homeownership affordable, which lessens these risks. CLTs serve households making anywhere between 40–120 percent of the Area Median Income, but they typically ensure that households spend no more than 30–40 percent of their income on monthly tenure expenses (e.g. mortgage payment, home insurance, lease fee, utilities).

While affordability is certainly a prerequisite for the provision of sustainable low-income homeownership, it is not adequate to totally preclude negative outcomes. Lower-income households are more likely to face an array of life events and hardships that make homeownership challenging. For instance, they are less likely to have access to education and stable, well-paying jobs, while they are more likely to be targeted for predatory lending. Therefore, holistic stewardship of CLT homes and homeowners is instrumental to promote positive outcomes. The contribution of CLT stewardship to minimize delinquencies and foreclosures is further supported by the finding of their high cure rate. Survey results indicate that CLTs are implementing stewardship policies and practices in five domains that are likely to contribute to their low rates of delinquency and foreclosure: (1) Pre-purchase education, (2) Ongoing stewardship to promote sustainable homeownership, (3) Prevention of high-risk loan acquisition, (4) Detection of homeowners who have defaulted, and (5) Intervention with homeowners to prevent foreclosure. Below information on each of these domains is presented.

Educating Home buyers

Research has supported that pre-purchase home buyer education is an effective strategy to increase the number of low-to-moderate income households that enter and maintain homeownership. It promotes sound purchase and mortgage decisions and prepares the homeowner to anticipate and respond to the challenges of home owning. Because owning a RRR home is different than private-market ownership, CLTs often provide CLT-specific education related to the legal agreements that the owner and organization enter into at purchase. Table 6 presents the number and percentages of CLTs that provide or require general home buyer education as well as CLT-specific education prior to purchase.

Table 6. Is Pre-Purchase Education Offered?				
Response Options	General Home buyer		CLT Specific	
	Number	%	Number	%
No, we do not offer it or partner with another organization to provide it.	5	12.82%	1	2.44%
No, it is optional.	1	2.56%	1	2.44%
Yes, but other organization(s) provide it.	21	53.85%	6	14.63%
Yes, and we provide it directly.	12	30.77%	33	80.49%
TOTAL	*39*	*100.00%*	*41*	*100.00%*

Out of the 39 organizations who responded to questions on general home buyer education, 84.62 percent require it for purchase, and 95.12 percent require CLT-specific education prior to purchase. Many of these CLTs partner with other organizations to provide general home ownership education, but most of them directly provide education on their RRR home ownership program. Since homebuying and homeowning are both complicated, this level of education is typically quite intensive, requiring both financial resources and trained staff.

Ongoing Stewardship for Sustaining Home ownership

A key component of the CLT model is the provision of stewardship to homeowners for the promotion of sustainable and successful home ownership. These day-to-day stewardship activities build and maintain relationships with CLT homeowners and foster financial and human capital gains for these households. Hence, CLTs spend a large amount of their time and resources on stewardship activities that develop strong, successful homeowners, which may buffer negative outcomes like foreclosure. This section presents data that supports that CLTs are not only focusing their efforts on "putting out fires" through interventions with homeowners who are delinquent or on the verge of foreclosure (as presented in the following sections), but they are also enacting practices and policies that holistically address home ownership in order to prevent the need for this type of intervention.

Pre-Purchase Stewardship

Aside from pre-purchase education (presented above), respondents were asked what additional pre-purchase stewardship activities they do to promote successful home ownership for RRR homeowners. Out of the 42 organizations, 41 endorsed at least one of the activities listed in Table 7. For the entire sample, the minimum number of activities endorsed by any one organization was 0 and the maximum was 7 (out of the 7 options), where the median was 5 and the mean was 4.59 (SD=1.47).

Percent Endorsed	Table 7. Pre-Purchase Stewardship Activities to Promote Successful Ownership
90.48%	Required homeowner to meet affordability standards
83.33%	Provided referrals to lawyers and lenders who are educated on resale-restrictions
73.81%	Required home buyers to work with organization-approved lenders
71.43%	Required one-on-one meeting with home buyer counselor or financial counselor
66.67%	Provided financial literacy education, directly or through referrals
66.67%	Required meeting with an attorney

7.14%	Required homeowner to have savings for emergency home repairs or stressful life events

During open-ended responses, organizations noted some additional activities they conduct to promote successful home ownership, which included educating the community through outreach, requiring home repair workshops, ensuring affordable purchase (where the buyer's debt-to-income ratio cannot exceed 33–41 percent), and requiring a personal contribution by the buyer in the form of a modest down payment to promote buy-in.

This data supports that intense pre-purchase stewardship activities are the norm rather than the exception in CLTs. CLTs are comprehensively supporting homeowners through the purchase process by providing personalized home buyer counseling and education and facilitating access to services from educated lenders and lawyers.

Post-Purchase Stewardship

Respondents were asked what post-purchase stewardship activities they conduct to promote successful home ownership, and 40 out the 42 organizations endorsed at least one option presented in Table 8. The minimum number of activities endorsed by any one organization was 0 and the maximum was 10 (out of the 11 options), where the median was 4 and the mean was 4.11 (SD= 2.74)

Percent Endorsed	Table 8. Post-Purchase Stewardship Activities to Promote Successful Ownership
52.38%	Provides post-purchase financial literacy education, directly or through referrals
52.38%	Had a staffed position for homeowner outreach and support
47.62%	Formalized communication (e.g. letters, e-mails) with homeowners that reminds them of policies
47.62%	Provided referrals to contractors, repair persons, or other services
47.62%	Once notified of delinquency, required meeting with homeowner
38.10%	Provides ongoing education classes or events (e.g. home maintenance, repairs)
35.71%	Had system in place to identify delinquencies prior to 90 days
30.95%	Had system in place to identify delinquencies of 90 days or more
21.43%	Formalized check-in with homeowner once a year or more via phone or in-person
21.43%	Maintained a reserve fund for emergencies
16.67%	Provides ongoing homeowner savings programs (e.g. IDAs, savings accounts for home repairs or mortgage reserves)

This information indicates that stewardship activities are not limited to pre-purchase activities for almost every CLT. And almost half of all CLTs are providing post-purchase education, communicating regularly with homeowners, promoting home maintenance through referrals, meeting with homeowners who are delinquent, and staffing outreach.

Preventing High-Risk Loan Acquisition

Part of ensuring affordability and sustainability of home ownership is helping buyers secure sound mortgage financing. Research supports that low-income homeowners are more likely to exit home ownership before they realize equity accumulation (Haurin and Rosenthal 2004, 2005; Reid 2005) and more likely to disadvantageously refinance or take out home equity loans than their higher-income counter parts (U.S. Census Bureau 1995, Van Order and Zorn 2002). CLTs ensure that low-to-moderate income households enter home ownership with affordable and sound home purchase loans as well as implement policies and practices to preclude homeowners from taking out unsound home equity lines of credit or refinance loans. The following sections present information on the prevalence and use of non-traditional loans in CLTs as well as prevention activities used by CLTs to handle non-permitted debt obtained by homeowners.

Home Purchase Loans

CLTs have a vested interest in ensuring that homeowners are able to build wealth during their tenure, obtain mortgages with affordable monthly payments, and properly maintain their homes. Therefore, CLTs often have policies and procedures in place that ensure CLT purchasers are utilizing mortgage loans with traditional terms, such as fixed-rate, prime loans. Research supports that high-risk loans, including subprime loans, Adjustable Rate Mortgages (ARMs), 80/20 loans, and balloon payment mortgages are all less likely to result in sustainable home ownership and equity accumulation than fixed-rate, prime loans (Immergluck 2009).

This year the survey gathered additional background information on the types of residential mortgages that were used by CLT homeowners for purchase. The purpose of gathering this information was to explore the prevalence of using non-traditional loan products that tend to be higher-risk (it is important to acknowledge that nontraditional loan products may still be used responsibly). Nineteen percent of the sample (8 organizations) reported ever allowing homeowners to purchase CLT homes with 5-, 3-, or 1- year ARMs or 80/20 loans (where the 20 percent could either be fixed-rate or adjustable). Not surprisingly, 5 out of these 8 organizations are located in northeastern urban cities where home values tend to be high; therefore, using these loan products may be necessary to help homeowners qualify for a mortgage loan and make monthly payments affordable. Some CLTs may allow the use of ARMs because they responsibly accommodate the household's circumstances, such as households who temporarily have a lower income either due to one earner staying at home with young children or attending school to complete a degree.

Five out of the 42 organizations have allowed 5-, 3-, or 1-year Adjustable Rate Mortgages in the history of their organization. Two of these organizations stopped allowing their use during 2009, while three continued to allow ARMs and one started to allow their use. Hence, 9.52 percent of the sample (4 organizations) allowed the use of ARMs during 2009. Notably, two of these organizations reported that they only allow ARMs when they are originated by their state finance agency or credit union. Meanwhile, 3 out of 42 organizations reported allowing homeowners to use 80/20 loans for CLT home purchase since organizational inception, and 4.76 percent (2 organizations) continued to allow the use of 80/20 loans during 2009. One of these organizations reported that they used to provide 100 percent financing to their buyers, but now buyers must borrow 80 percent of their mortgage loans from a lender.

Hence, CLTs report allowing non-traditional home purchase loans less during 2009 than they had allowed in the past. Whether this finding is driven by changes in the lending landscape, such as the declining prevalence of these types of mortgage products (or the lenders who sell them), or whether CLTs are deliberately changing the types of permitted mortgages they allow, is unclear.

However, CLTs that allow their use ensure that these loans are sound for the holder. These organizations did not have higher rates of delinquency and foreclosure than the overall sample, which supports that ARMs and 80/20 loans allowed by a minority of CLTs do not appear to compromise sustainability or affordability of home ownership for the owner.

Refinance Loans & Home Equity Loans

CLTs not only support sound loan acquisition by CLT homeowners for purchase but also throughout the household's tenure. Because research supports that subprime and predatory lending have occurred more often during acquisition of refinance or home equity loans than home purchase loans (Apgar and Calder 2005), the 2009 survey sought additional information on the policies, practices, and outcomes of CLTs regarding refinancing and home equity loans.

Aside from a couple exceptions, all CLTs reported that less than 10 percent of their outstanding mortgages at the end of 2009 had ever been refinanced or had home equity lines of credit regardless of whether their permission was given or required. Of all 42 organizations, 83 percent required that homeowners get permission from the CLT to refinance. In 2009, a total of 19 mortgages were refinanced in 9 organizations, where only one happened without permission in an organization that required it, and three happened in organizations that did not require permission (meaning that 21 percent of the 19 refinances were done without oversight of the CLT). Of 41 organizations that provided information, 83 percent required that homeowners get permission from the CLT to take out home equity loans. During 2009, three home equity loans were originated (based on 39 organizations who responded to this question). While all of them occurred in organizations that required permission, one home equity loan was originated without permission.

Whether CLTs have policies that require homeowners to seek permission for refinancing or home equity loans, homeowners who do not consult with the organization before changing their mortgages are at the greatest risk of entering into unsound loans that could result in delinquency or foreclosure. Because data on this topic has never been collected on CLTs, the survey asked organizations to give their "best guess" estimates on the percentage of outstanding mortgages that had ever refinanced or taken out home equity lines of credit *without* the CLT's permission (regardless of the CLT's policies). Table 9 shows that the majority of organizations have not had homeowners change their mortgage loans without permission. However, about 1 in 5 CLTs reported that 1–5 percent of their outstanding mortgages had been changed by the homeowner without the CLT's approval or consultation.

Table 9. Estimated Percentages of 2009 Outstanding Mortgages that Ever Refinanced or Took Out Home Equity Loans Without CLT Permission				
Percent of Mortgages	**Refinance Loans**		**Home Equity Loans**	
	# of Orgs	**% of Orgs**	**# of Orgs**	**% of Orgs**
0%	**28**	77.78	**29**	78.38
1–5%	**7**	19.44	**7**	18.92
5–10%	**0**	0.00	**0**	0.00
10–20%	**1**	2.78	**1**	2.70
20–50%	**0**	0.00	**0**	0.00
50–80%	**0**	0.00	**0**	0.00
80–100%	**0**	0.00	**0**	0.00
Subtotal	***36***	***100%***	***37***	***100%***
Missing	4	--	4	**--**
Don't Know	2	--	1	**--**
Total	***42***	**--**	***42***	**--**

* All percentages in the "% of Orgs" columns are based on the subtotal of the number of organizations, meaning that organizations that did not answer these questions or that were unable to offer an estimate were excluded from this calculation.

Research supports that low-income homeowners are less likely to refinance their mortgages when it would be financially advantageous (Van Order and Zorn 2002). Based on conversations with CLT staff, it is likely that homeowners permitted to refinance were actively stewarded by the CLT to either promote refinancing that improved their financial situation or to promote home equity loans that advanced family goals (e.g. taking out a loan for educational attainment). For those homeowners that took out loans without permission, it is likely that the CLT did not require permission. However, homeowners who do not work with the CLT to change their mortgages are likely to have higher incidents of high-risk loan acquisition, and consequently, default and foreclosure.

Preventing Non-Permitted Debt

The survey also asked organizations about their policies and practices to prevent non-permitted debt (defined as home equity or refinance loans that were obtained without the organization's permission). Three organizations solely reported that they did not require permission or have formal policies, but multiple organizations that did not require permission nor have formal policies also endorsed that they engage in preventative activities (see Table 10). Therefore, 39 out of the 42 organizations endorsed at least 1 of the 7 policies or practices presented below (excluding the first two options). The minimum number reported by any one organization was 1 and the maximum was 6, where the median was 3 and the mean was 3.23 (SD = 1.49).

Percent Endorsed	Table 10. Policies & Practices to Prevent Non-permitted Debt
7.14%	*Not applicable. We do not require permission.*
7.14%	*We did not have formal policies.*
83.33%	Homeowner must seek written consent from the organization.
69.05%	Encourage homeowners to meet with financial counselor during financial hardships or if they are interested in refinancing or home equity loans.
54.76%	Remind homeowners of policies through post-purchase communication (e.g. letters, phone calls).
45.24%	Review policies on non-permitted debt during pre-purchase education.
33.33%	Ensure that any additional debt on the property would be subordinate to the resale formula.
11.90%	Has a policy on a specific refinancing home equity line of credit that is allowed.
2.38%	Only our organization is documented in the public record (prevents homeowner from being contacted by lenders).

What this information shows is that, aside from requiring organizational permission (which is the most common policy to prevent non-permitted debt), the majority of organizations also encourage homeowners to seek financial counseling on loan decisions as well as communicate their policies regarding refinancing and home equity loans after purchase. During open-ended responses to this question, two organizations reported that subordination requests were their greatest tool for identifying homeowners who were trying to refinance, which was an early warning signal indicating preventative actions should be taken with the homeowner. They also noted that they conduct affordability analyses for their homeowners in order to assess the feasibility of the loans for households.

Since most organizations reported that they did not have delinquencies and foreclosures, it appears that other stewardship practices reported within this section often preclude non-permitted debt from being realized. During open-ended responses that asked organizations how they intervene with non-permitted debt, some organizations reported activities, such as calling the homeowner and setting up action plans to get them in compliance with the lease, prohibiting the homeowners from refinancing without obtaining signed permission on legal documents, and being contacted by lenders during instances when homeowners tried to refinance without permission. Lastly, one CLT reported that they allow the debt to stand for their homeowners so long as they are in good standing and not at-risk of foreclosing.

While additional information on refinancing and home equity loans is needed, the data from the 2009 survey supports that refinancing and home equity loans are not happening often without permission and that organizations are implementing policies and practices to prevent unsound refinancing or home equity loans from being obtained. When they are obtained without organization permission, some organizations are reaching out to these homeowners to minimize the risk of foreclosure.

Detecting Delinquent Homeowners

The survey sought information about the practices or policies organizations had in place to identify homeowners at-risk of falling behind on mortgage payments or entering into the foreclosure process. All 42 organizations responded to the question that asked, “What practices did your organization have in place to detect homeowners who had fallen behind on their mortgages?" While many organizations did not report having mortgages that were delinquent for 90 days or more, it is possible that many of these organizations implemented these activities in order to prevent serious delinquencies. Table 11 presents the list of close-ended options that organizations could endorse for this question. The median number of activities or policies endorsed by organizations was 4, and the mean was 3.8 (SD = 1.6). The range of the number of activities selected by organizations was from 2 to 8 out of the 10 listed (excluding the first option).

Percent Endorsed	Table 11. Detection Practices or Policies
4.76%	*Did not detect them.*
90.48%	Unpaid monthly lease fee or homeowners' association fee was used as an indication.
69.05%	Informal interaction with homeowners.
47.62%	Lenders were legally required to notify the organization of foreclosure proceedings.
45.24%	Lenders were legally required to notify the organization of delinquencies.
33.33%	Homeowners required to contact us.
33.33%	Had and used our authorization to contact mortgage servicer.
30.95%	Lenders informed us when the homeowner is 30 or 60 days delinquent.
26.19%	Lenders informed us when the homeowner is 90 days delinquent.
2.38%	Accessing personal homeowner reserve funds was used as an indication.
2.38%	Title company gave us listing of defaults on a monthly or quarterly basis.

What this information shows is that the most prevalent way CLTs identify homeowners who are at risk of becoming seriously delinquent is by tracking those who do not pay lease fees. These fees are usually a relatively small amount, ranging from $10–50. Therefore, organizations reported that this is typically a good indication that homeowners have hit financial troubles.

Next, organizations relied on their informal interactions with their homeowners to find out if they had become delinquent or were on the verge of delinquency. Organizations were asked "What percentage of the homeowners that held delinquent mortgages or were in the process of foreclosure contacted your organization on their own volition?" Two organizations did not respond to this question. Responses from the 20 organizations that had delinquencies during 2009 are presented below.

Table 12. Percentage of Seriously Delinquent Homeowners Who Contacted Organization

Percentage	Number of Organizations	% of Organizations
80–100%	11	55.00%
50–80%	1	5.00%
10–50%	0	0.00%
1–10%	3	15.00%
0%	*5*	*25.00%*

As Table 12 shows, 55 percent reported that 80–100 percent of their homeowners contacted the organization on their own volition while 25 percent reported that 0 percent of their homeowners in delinquency contacted them on their own volition. This range of responses implies that some

CLTs appear to be more effective at establishing trust, rapport, and ongoing relationships with their homeowners. One of the key barriers identified by organizations for detecting homeowners who had fallen behind was that homeowners did not voluntarily or readily contact the organization when they were experiencing financial hardship; therefore, the majority of CLTs are spending time and resources on outreach in order to accomplish early detection of homeowners in trouble.

As presented in Table 11, almost 50 percent of CLTs also reported that communication with lenders provided another avenue to detect in-trouble homeowners. Many CLTs legally require lenders to notify the organization of delinquencies or foreclosure proceedings, which gives CLTs the ability to potentially intervene. However, the primary barrier identified by organizations to detect homeowners who were falling behind on mortgage payments was that that lenders oftentimes did not provide information on delinquencies or foreclosure filings in a timely fashion (or at all). Therefore, CLTS are spending time and resources to proactively track this information from banks as well as directly from homeowners.

Intervening to Avoid Foreclosures

Survey respondents were asked what policies or practices they had in place to prevent homeowners from experiencing foreclosure or losing their homes. Thirty-five out of the 42 organizations responded to this question (some of the organizations that did not respond reported no delinquencies or foreclosures). Table 13 presents the list of close-ended options organizations could endorse. Out of the 11 given policies and practices (excluding the first option), the median number endorsed by responding organizations was 4, and the mean was 4.25 (SD =1.96). The range of practices or policies used across organizations was from 2 to 10.

Percent Endorsed	Table 13. Intervention Practices or Policies
11.43%	*Did not intervene.*
71.43%	Contacted the homeowner's lender.
65.71%	Referred homeowner to financial counseling.
57.14%	Directly provided financial counseling to homeowner.
51.43%	Referred homeowner to foreclosure prevention program.
42.86%	Helped the homeowner sell their home to a qualified buyer.
34.29%	Provided emergency funding/rescue funds.
20.00%	Purchased home from owner before foreclosed upon.
14.29%	Found donations for the homeowner to catch-up on mortgage payments.
14.29%	Allowed the homeowner to sublet the home.
11.43%	Paid mortgage and defaulted amount while home was put on market.
5.71%	Converted property to lease-purchase with existing occupants.

The majority of CLTs have policies and practices that intervene with homeowners and their lenders to prevent foreclosure. Notably, 57 percent were providing direct financial counseling to homeowners, and 72 percent were contacting the homeowners' lenders. These two activities are instrumental components of federally-funded foreclosure prevention programs. Twenty out of 35 organizations (57 percent) were implementing practices or had policies that facilitate homeowners being able to keep their homes (i.e. allow subletting, donations or rescue funds for late mortgage payments, or lease-purchase conversion). For homeowners who were unable to stay in their homes due to their financial situations, 17 out of 35 organizations (49 percent) had implemented or had policies in place to prevent foreclosure, which can devastate household's credit and ability to find alternative housing (i.e. paid mortgage while on market, assisted sale, or made purchase).

While no additional activities were reported by organizations, some characterized the extent of assistance they provided to homeowners on the brink of foreclosure, such as facilitating meetings with bankruptcy lawyers to address their financial situation holistically or coordinating meetings with financial counselors, where the organizations helped the homeowner gather and draft their documents to prepare for these meetings.

To summarize, the vast majority of CLTs during 2009 engaged in intensive stewardship activities that included education, prevention, detection, and intervention to avoid foreclosure for CLT homeowners. As reported in the previous sections, organizations implementing these policies and practices with seriously delinquent homeowners cured 51 percent of cases during 2009. Hence—relative to the cure rates reported nationally— these activities appear to be effective at preventing foreclosures for CLT homeowners.

CLTs Are Inadequately Resourced to Prevent the Costs of Foreclosure

This section will review the impact of the foreclosure crisis and market downturn on CLT resources. Findings from the survey on the prevalence of funding in CLTs to conduct foreclosure prevention activities and to expand their impact are highlighted. Based on data from open-ended items on the survey, challenges that respondents identified for their organizations and homeowners in the current recession and housing market are also described.

Resources for Stewardship

As the previous section illustrates, extensive stewardship of CLT homeowners appears to contribute to the low rates of delinquency and foreclosure in RRR homes. These stewardship activities span from pre-purchase to post-purchase and include education, prevention, detection, and intervention strategies with homeowners who may be at-risk for delinquency or foreclosure. While foreclosure prevention has always been a part of CLT post-purchase stewardship practices, due to the adverse conditions of the current economy and housing market, respondents indicated that their organizations have had to dramatically increase their stewardship activities in order to sustain their successful home ownership outcomes. However, all of these stewardship activities require resources. When no additional funding is secured for higher levels of post-purchase stewardship, pre-existing organizational resources are depleted. Furthermore, some of these effective interventions require major resources to implement, such as providing rescue funds, paying mortgages until resales, or purchasing the homes.

Organizations were asked whether they received funding in 2009 specifically for any foreclosure prevention activities. Only one third of organizations reported that had received any funding during the year. Further, 12 of the 20 organizations that had cured or helped to cure seriously delinquencies during 2009 did not receive funding for these activities. Nevertheless, they were responsible for 62 percent of the cures (18/29). Additionally, 24 percent of the 42 organizations indicated that they had added policies or practices during 2009. Hence, these organizations are implementing practices that are effective at preventing foreclosures, but they are not receiving adequate compensation for increasing their stewardship activities. CLTs performance outcomes are impressive, especially in light of being under-resourced. However, as the capacity of CLTs is being stretched, their organizational sustainability may be compromised. Increased access to funding for stewardship would help to sustain stable performance.

Current Challenges to Preserve Homes

While CLT performance has not yet diminished as a result of the economic downturn and foreclosure crisis according the survey's findings, CLTs have been majorly affected. Aside from the need to expend more resources on delinquency and foreclosure prevention stewardship, organizations identified other challenges they are facing due to the economic crisis and the condition of the housing market. First, stricter underwriting standards resulting from the crisis in the private-market has made it more difficult for CLTs to find mortgage-qualified buyers for their units. Second, because home prices have significantly fallen, some CLTs are now in competition with lower-cost market-rate homes. Third, numerous sources of funding that CLTs have relied upon are declining or no longer available, including private donations, foundation funds, and city and state grants. Fourth, CLT homeowners are also facing difficulties that make it more challenging for staff to meet homeowner's needs through stewardship. This includes struggling to make mortgage payments due to the high rates of unemployment as well as poorer returns at resale due to depreciation in the market.

Nevertheless, the data supports that CLTs are maintaining and sustaining their RRR housing stocks. No RRR units lost their resale restriction nor was any land lost through foreclosure by surveyed CLTs during 2009. Prior to 2009, out of the 42 organizations, only one unit had lost its resale restriction and resulted in the loss of the land from the organization's portfolio since organizational inception. This was attributed to the bank being unwilling to negotiate with the organization. Also prior to 2009, only one additional RRR units lost the resale-restriction due to foreclosure. This was attributed to lack of notice from the bank. Although very few foreclosures have ever been completed in CLTs, when they do, organizations appear to be effectively intervening to preserve the resale-restrictions and land for future homeowners.

In order to facilitate the preservation of RRR units, it is optimal that CLTs do not have to pledge the land in financing agreements with lenders. Only 20 of the 429 (4.7 percent) mortgages that were originated during 2009 allowed the land to be pledged, which was due to using deed-restrictions rather than ground leases, lenders requiring it, or homeowners being able to obtain better mortgage terms.

Hence, findings from the survey support that CLTs are buffering homeowners as well as their organizations from the negative impacts of the foreclosure crisis since few foreclosure have occurred and hardly any units or resale-restrictions have been lost. With a track record illustrating that CLT mortgages are at lower risk of delinquency and foreclosure than comparable market-rate mortgages, it appears unwarranted that some lenders require CLTs to pledge the land. The data supports that lending to CLT homeowners is a less risky investment than comparable market-rate homeowners. However, some lender restrictions on CLT loans do not reflect the lower risk profile of CLT home buyers.

Resources to Expand Scope

Considering that CLTs are significantly outperforming the market and preventing foreclosure through the CLT model and stewardship, it would seem reasonable that public resources would be invested to expand their reach. There has been a chance to turn crisis into opportunity during the foreclosure crisis, whereby innovative and safer home ownership opportunities –like Community Land Trusts and other shared equity housing models—could intervene in the devastation that has hit neighborhoods across the country in order to mitigate current damage and also help to prevent another crisis in the future. Because of the high supply of foreclosed, abandoned, and vacant homes, these types of homes are negatively impacting neighborhoods, but they are oftentimes less expensive to acquire than in years past. If CLTs had the capacity and the funding to acquire these properties, they could be advancing the stabilization of these neighborhoods and the housing market more broadly.

However, when respondents were asked, “Did your organization receive or get a commitment of funding during 2009 to make vacant or foreclosed homes properties into residential, resale-restricted home ownership units?”, only one third of organizations (14/42) received funding to create new units in 2009 from the foreclosed and vacant housing stock. In 2009, the federal government launched the Neighborhood Stabilization Program (NSP) to support the acquisition and rehabilitation of foreclosed and vacant properties to produce affordable rental or home ownership units for income-eligible households. Both the first and second round of NSP included “shared equity” home ownership as an eligible activity. However, only thirteen organizations reported that they received NSP 1 funding, and four reported that they received or will receive NSP 2 funding (all were also NSP 1 recipients). It should be noted that some CLTs did not apply for NSP grants or their service areas were not eligible for funding. Two other organizations received funding from their local Federal Home Loan Bank (one of which also received NSP 1 funding). Hence, the survey results support that CLTs do not appear to be receiving adequate funding to presently expand the scope of their work.

Conclusion

This study found that CLT loans outperformed market-rate loans in terms of mortgage delinquencies and foreclosure filings during 2009. The prevalence of stewardship activities among CLTs may be a crucial contributing factor to these outcomes. They may also help to 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 and burdens of home ownership are too much to bear—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 (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. As high foreclosure rates continue to be posted, there is a chance to create opportunity from the crisis by absorbing foreclosed properties and turning them into CLT home ownership units. Nevertheless, the study supports that CLTs are not sufficiently resourced to expand their scope using this approach, which ultimately could help to preclude negative outcomes associated with unsustainable home ownership in the future.

Jacobus and Ambromowitz (2010) call for a reevaluation in 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.

Bibliography

Apgar, W. C., and Duda, M. 2005. *Collateral damage: The municipal impact of today's mortgage foreclosure boom.* Minneapolis, MN: Homeownership Preservation Foundation.

Been, V. 2008. *External effects of concentrated mortgage foreclosures: Evidence from New York City.* Testimony before Committee on Oversight and Government Reform Subcommittee on Domestic Policy (May 21).

CalculatedRisk. 2009. Fitch: "Dramatic" decrease in cure rates for delinquent mortgage loans (press release). *Calculated Risk*. http://www.calculatedriskblog.com/2009/08/fitch-dramatic-decrease-in-cure-rates.html (August 24).

Cutts, A.C., and Green, R.K. 2004. *Innovative servicing technology: Smart enough to keep people in their houses?* (Working Paper No. 04-03). Washington, D.C.: Freddie Mac.

Haurin, D.R., and Rosenthal, S.S. 2004. *The impact of house price appreciation on portfolio composition and savings.* Washington, DC: U.S. Department of Housing and Urban Development, Office of Policy Development and Research (December).

———. 2005. The *growth of earnings of low-income households and the sensitivity of their homeownership choices to economic and socio-demographic shocks.* Washington, DC: U.S. Department of Housing and Urban Development, Office of Policy Development and Research (April).

Immergluck, D. 2009a. *Foreclosed: High-risk lending, deregulation, and the undermining of America's mortgage market.* Ithaca, NY: Cornell University Press.

Immergluck, D., and Smith, G. 2006a. The external costs of foreclosure: The impact of single-family mortgage foreclosures on property values. *Housing Policy Debate, 17*(1): 57-79.

———. 2006b. The impact of single-family mortgage foreclosures on neighborhood crime. *Housing Studies, 21*(6): 851-866.

Jacobus, R., and Ambromowitz, D. M. 2010. *A path to homeownership: Building a more sustainable strategy for expanding homeownership.* Washington, DC: Center for American Progress (February).

Joint Center for Housing Studies. 2009. *State of the Nation's Housing 2009.* Cambridge, MA: Harvard University, Joint Center for Housing Studies.

Lin, S., Rosenblatt, E., and Yao, V. 2009. Spillover effects on foreclosures on neighborhood property values. *Journal of Real Estate Finance and Economics, 38*(4): 387-407.

Mikelbank, B. 2008. *Spatial analysis of the impact of vacant, abandoned, and foreclosed properties* (Unpublished manuscript). Cleveland, OH: Cleveland State University, Housing Research Center (June).

Moreno, A. 1995) The cost-effectiveness of mortgage foreclosure prevention (Tech. report). Minneapolis, MN: Family Housing Fund.

Mortgage Bankers Association. 2008. *National Delinquency Survey facts.* Washington, DC: Author. Retrieved from: http://www.mbaa.org/files/Research/NDSFactSheet.pdf (May).

———. 2009. *Delinquencies continue to climb in latest MBA National Delinquency Survey* (press release). Washington, DC: Author (March 5).

———. 2010. *Delinquencies, foreclosure starts fall in latest MBA National Delinquency Survey* (press release). Washington, DC: Author. (February 19).

Realtytrac.com. 2010. *Realtyrac year-end report shows record 2.8 million U.S. properties with foreclosure filings in 2009.* Irvine, CA: Realtytrac (January 14).

———. 2009. *Foreclosure Activity Hits Record High in Third Quarter.* Irvine, CA: Realtytrac (October 15).

Reid, C. K. 2005. *Achieving the American dream? A longitudinal analysis of the homeownership experiences of low-income households* (CSD Working Paper 05-20). St. Louis, MO: Washington University, Center for Social Development.

Shlay, A.B., and Whitman, G. 2004. *Research for democracy: Linking community organizing and research to leverage blight* policy (Working Paper). Philadelphia, PA: Temple University.

Spader, J., and Quercia, R. 2008. *Mobility and exit from homeownership: Implications for CRA lending* (Working paper). Chapel Hill, NC: University of North Carolina, Center for Community Capital (January).

Spelman, W. 1993. Abandoned buildings: Magnets for crime? *Journal of Criminal Justice, 21:* 481-495.

Temkin, K., Theodos, B., and Price, D. Forthcoming. *Balancing affordability and opportunity: An evaluation of affordable homeownership programs with long-term affordability controls*. Washington, DC: The Urban Institute.

Thaden, E. 2010. Reframing low-income and minority homeownership in light of the foreclosure crisis (preparing for submission).

Van Order, R., and Zorn, P. 2002. Performance of low-income and minority mortgages. In N.P. Retsinas & E.S. Belsky (Eds.) *Low-income homeownership: Examining the unexamined goal* (pp. 322-347). Washington, DC: The Brookings Institution.

U.S. Census Bureau. 1995. *Home equity lines of credit—A look at people who obtain them* (Statistical Brief SB/95-15). Washington, D.C.: U.S. Government Printing Office.