

U.S. House of Representatives
Committee on Financial Services
Subcommittee on Housing and Community Opportunity
Chairwoman, Congresswoman Maxine Waters
“Foreclosure Problems and Solutions”
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Prepared Remarks from Realtor® Kimberley Guelker
2008 President Lorain County Realtors

Good morning, my name is Kimberley Guelker, I am a Realtor with Howard Hanna Realty Services and I am also the volunteer President of Lorain County Association of Realtors, located in Amherst, Ohio. With me today is our Association’s Executive Vice President Tom Kowal. I would like to thank you for convening these discussions on providing effective solutions to the growing problem of foreclosures.

The Lorain County Association of Realtors is a trade association under the Realtor family of the NAR (National Association of Realtors) and OAR (Ohio Association of Realtors). Our Association represents 500 Realtors and 40 brokerage offices in Lorain County. In 2007, our members sold over 2700 residential units with an average market value of \$143,000. The total transaction value exceeds \$375 million dollars.

During the nationwide real estate market boom years, Lorain County experienced a very favorable housing market for buyers. Prices escalated about 3%. Housing choices were

good. And local mortgage rates continue to be at record lows. As a result homeownership rates are at record levels.

Unfortunately, the economy in Lorain County is stagnant. Lorain County has experienced numerous heavy industry plant closing, company relocations and an aging population. Unemployment rate of 6.2% in April 2008 was significantly higher than the national (4.4%) and state of Ohio (5.4%) rates. As a result foreclosures are at an all time high according to the Lorain County Clerk of Courts. I would like to share with the group an article that was recently published in "The Morning Journal". In Lorain County, one in 51 homes is in foreclosure (compared to one in 201 homes nationally). "We're four times as bad as the national average" according to our Clerk of Courts.

Foreclosures filed through May were up 8% as compared to the same time period last year. One community (Sheffield Lake has one in 28 homes in foreclosure). The major cities of Lorain and Elyria are about one in forty homes.

In addition, the current inventory of homes on the market for sale is over 3300 homes (14 month supply). Many of these homes are on the market because the owner's cannot afford the mortgage payment, the homeowner's insurance or the real estate taxes.

Studies on Lorain County foreclosures have shown that the Lorain County foreclosure problem is not a result of predatory lending practices.

While Lorain County real estate market provides many opportunities for affordable housing, great amenities and reasonable cost-of-living, we are beginning to see negative

appreciation (value depreciation) in housing values. The estimated impact on housing values is \$1700 if your property is next to or near a foreclosed or abandoned home. The cumulative impact would be \$56 million on our existing inventory of homes for sale.

These numbers are not specific to Lorain, but are nationwide. Consider this information. According to research conducted by the Woodstock Institute, a single foreclosed home lowers the price of surrounding homes by about 1 percent. The same research also found that each additional foreclosed home within an eighth of mile lowered the values by an additional percent.¹ Recently, the Center for Responsible Lending (CRL) released startling research on the spillover effect on our nation's communities and neighborhoods. Specifically, CRL estimates:

- More than 40 million neighboring homes will suffer a decline in property values because of foreclosures in their neighborhood;
- The total decline in property values and reduced tax base because of nearby foreclosures will be \$202 billion;
- Homeowners living near a foreclosed home will see their property value reduced by about \$5,000².

Recently, the U.S. Conference of Mayors commissioned a report looking at the economic and fiscal impact of foreclosures. The findings were largely consistent with the CRL and

¹ There Goes the Neighborhood: The Effect of Single-Family Mortgage Foreclosures on Property Values, Woodstock Institute (June 2005).

² Subprime Spillover: Foreclosures Cost Neighbors \$404 Billion; 40.6 Million Homes Lose \$5,000 on Average, Center for Responsible Lending (January 2008).

concluded that 2008 will bring more foreclosures, curtailed consumer spending and significant financial stresses for state and local government budgets.³

State and local governments will immediately feel the impact of the reduced property tax revenue, which goes to fund important county/city services we depend on every day (police protection and fire rescue services, schools, social services, public transportation etc.).

Furthermore, what many people do not realize is that foreclosures actually require local governments to spend money “for inspections, court actions, extra law enforcement, visits from city utilities and sometimes demolition.”⁴

Someone once said that foreclosures are like mold — once it starts, it’s difficult to get rid of it. Families struggling to make mortgage payments and who live in a neighborhood where homes have already been lost to foreclosure will find it difficult to refinance or sell due to declines in area home values. Far too often the financially stressed family will end up losing their home and feeding the vicious proliferation of foreclosures.

According to many of our local lenders, they are seeing foreclosures increasing because of raising health care costs and the uninsured paying for medical care, job losses, and social situations. I also would like to add that going forward, the high cost of gas and food items will add to the foreclosure rates as homeowners make a choice between these items or paying their monthly mortgage.

³ The Mortgage Crisis: Economic and Fiscal Implications for Metro Areas, Global Insight for the United States Conference of Mayors and the Council for the New American City (November 2007).

⁴ T.W. Farnam, As Foreclosures Rise, Mayors Brace for Fallout, Wall Street Journal (January 28, 2008).

Many of our local lenders are trying to intervene with their mortgagees by participating in “Consumer Outreach” program sponsored by the Lorain County “Save Our Homes Taskforce and other community organizations.

Many of these foreclosed properties were purchased by investors who now find very high vacancy rates because of the malaise in the Lorain County economy. They are also reporting extensive property damage which is forcing investors into the foreclosure alternative rather than additional investment in these properties.

Our Association believes that educating the consumer and our Realtor members plays a very important role in foreclosure intervention. In 2005, our Association, with the support of several Lorain County foundations and lenders provided a two-day foreclosure intervention program for attorneys, government officials and Realtors. The program which covers the legal, ethical and intervention process with “short sale sellers” as an alternative to foreclosure was again offered in 2007 under the leadership of the Lorain County Save Our Homes Taskforce and supported by a grant for the National Association of Realtors® (NAR). These two programs had over 300 participants.

Unfortunately, our members have found that the short sales process is often complicated and confusing to homeowners, real estate professionals, and lenders. To that end, we support the following goals to ease the facilitation of short sales, when there is no option for the family to stay in the home:

- A commitment by all lenders and their servicers to make it easy for sellers and agents to *immediately* locate online the correct department and the individual who will be responsible for processing the short sale applications.

- A single industry-wide short sale application and list of supporting documents that all lenders and servicers would agree to accept.
- A commitment by all lenders and their servicers to keep the listing agent and seller regularly informed of the status of the short sale application throughout the process and respond to reasonable requests for information.
- A commitment by all lenders and their servicers to deliver a clear answer, in writing, yes or no, within a reasonable time frame. For example, 30 days from receipt of the complete application is a reasonable goal.

Also in response to the need to educate real estate professionals, an extensive thirty-hour foreclosure intervention program licensed by our Association has trained over 500 Realtors and attorneys throughout Ohio in intervention techniques.

On the national level, NAR also believes that we have an obligation to help educate homebuyers about today's mortgage products. Starting in 2005, NAR worked with the Center for Responsible Lending (CRL) to produce a series of brochures that describe the pros and cons of conventional loans and nontraditional mortgages, give consumers tips on how to avoid predatory loans.

In May of 2007, NAR partnered with CRL and NeighborWorks, on a brochure that focuses on helping financially stressed homeowners understand their options and offers tips on how to avoid foreclosure. Shortly after the brochure was released, NAR's President sent an e-mail to over 1.3 million REALTORS® informing them of the

foreclosure prevention brochure and encouraging REALTORS® to put the brochure into the hands of every consumer they help to become a homeowner.

NAR is also in the process of finalizing a best practices book for REALTORS® about the short sales process called, “Short Sale Blueprint: A Guide to the Short Sale Process”.

While we hope that more families can find tools to help them stay in their homes, a short sale is certainly a better option than a foreclosure.

Realtors are encouraged by recent legislation at the national level that supported modernization of the FHA mortgage insurance program, and GSE reform, as well as financial support of community based outreach programs for helping consumers. In addition, we support legislation to expand FHA as a tool to assist homeowners to avoid foreclosure and a tax credit for homebuyers to reduce the inventory of foreclosed homes. Realtors are also supportive of legislation that would create a one-time homebuyer tax credit that would help turn “just looking” into actual homebuyers. We hope Congress will act on these important provisions and send a bill to the President as soon as possible. Realtors also applaud recent Ohio legislation on predatory lending practices, mortgage rehabilitation programs and mortgage term reporting that are already helping homeowners. We are also excited about the passage of H.B. 138 that will simplify the foreclosure process.

We strongly recommend several additional efforts:

1. Local city, township and county government agencies be more concerned with the foreclosure rate in our communities because of the effect on government costs, tax revenue losses, and reduced valuation of properties.

2. Federal and state funding for community outreach and education programs needs to be funneled down to local government agencies.
3. County governments need to expend public funds for consumer awareness programs.
4. Financial literacy programs for young adults needs to be funded and become a criterion of class work in our educational system so that we can develop a strong sense of homeownership in the next generation of homebuyers.

Again, I would like to thank the Subcommittee for this opportunity to discuss the local housing conditions and real estate market in Lorain County. Your attention to this unfortunate situation is commendable. Our Association leadership and members look forward to working with you to provide solutions.