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OAKLAND

2013 NOV -1 AM 10:19

## AGENDA REPORT

TO: DEANNA J. SANTANA  
CITY ADMINISTRATOR

FROM: Michele Byrd

SUBJECT: Supplemental Report on  
City of Richmond's  
Principal Reduction Strategy

DATE: October 30, 2013

City Administrator  
Approval

*Deanna Santana*

Date

10-31-13

COUNCIL DISTRICT: City-wide

This report provides information for the Council to consider while making any policy decisions regarding the City of Oakland's efforts to address the foreclosure crisis.

### ANALYSIS

#### *Impact of Foreclosure Crisis and Oakland's Efforts*

Many communities around the nation have been devastated by the foreclosure crisis. It is estimated that 4.4 million Americans have lost their homes since September 2008<sup>1</sup>, with 7.1 million families currently owing more on their mortgages than their homes are worth.<sup>2</sup>

In Oakland, over 12,000 households lost their homes to foreclosure from 2007 to September 2013 and one in seven households have been under the threat of losing their home to foreclosure. The foreclosure crisis has resulted in devastation to individual families, severe impact to neighborhood stability and the City of Oakland, exacerbated the problems of blight and criminal activities, and created barriers to economic development. The foreclosure crisis is estimated to cost \$875 million in fiscal impacts to residents, the City, and lenders.<sup>3</sup> While foreclosures have significantly declined in Oakland, there are currently about 1,500 Oakland households in the foreclosure process and 190 new Notice of Defaults were filed last quarter.

<sup>1</sup> Core Logic, National Foreclosure Report, April 2013. <http://www.corelogic.com/research/foreclosure-report/national-foreclosure-report-april-2013.pdf>

<sup>2</sup> Core Logic Q2 2013 Equity Report. <http://www.corelogic.com/about-us/researchtrends/equity-report.aspx>

<sup>3</sup> <http://www.urbanstrategies.org/foreclosure/>

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Last fall the City of Oakland launched strategies to prevent and mitigate foreclosures, including door to door outreach connecting distressed families with City funded housing counseling and legal services, as well as a City escalation effort that worked with escalation officers at major lenders. The City and its partners also launched a new revolving loan fund program (the ROOT Loan Fund program) to purchase and then re-sell properties at market value for eligible families in foreclosure as a strategy to keep families in their homes. The new efforts served about 700 households to date, including keeping 92 households in their homes and providing alternative housing solutions for 64 other households, with 88 cases pending. The participation of major lenders has been critical to these efforts.

In addition, the City has worked effectively with major lenders on its proactive blight abatement and property registration programs, achieving a 94% timely abatement rate in FY12-13.

Staff is currently working on the following major related efforts:

1. In order to achieve principal reduction for more households, the possible sale of non-performing mortgage notes to help Oakland families in mortgage default maintain their home, combined with other financial assistance that may be available through the State's Keep Your Home California program or new funds for Oakland residents.<sup>4</sup>
2. As part of the new Community Buying program, to organize group purchase of bank-owned properties in order to 1) assist occupants to remain as new homeowners or tenants with long-term lease protections and 2) transform vacant properties into new homeownership or affordable rental housing.

Leaders in the financial services industry have expressed interest in assisting the City with the above efforts including the San Francisco Federal Reserve, Hope Now (a national alliance of banks and housing groups), and Enterprise Community Partners.

***City of Richmond's CARES—the Local Principal Reduction Program Utilizing Eminent Domain***

On April 2, 2013, the City of Richmond's City Council adopted a motion approving an advisory services agreement with Mortgage Resolution Partner to advise the City of Richmond on acquiring mortgage loans through the use of eminent domain in order to restructure or refinance the loans and preserve homeownership, restore homeowner equity, and stabilize the housing market and economy.

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<sup>4</sup> Staff has been in communication with the National Fair Housing Alliance, which administers the recent Settlement Agreement with Wells Fargo regarding property maintenance, to create a fund for distressed Oakland homeowners to access 0% interest loans in order to preserve their homes from foreclosure.

On September 10, 2013, the Richmond City Council passed a motion approving the following items:

1. Establish a Joint Powers Authority with other interested municipalities as a next step forward in the development of the Richmond CARES—the Local Principal Reduction Program;
2. Confirm that no loans will be acquired by the City of Richmond through eminent domain before coming back to the full Council for a vote; and
3. Continue working with MRP to resolve any remaining legal issues, direct staff to issue monthly reports, and return to the Council in 30 days with an update.

To our knowledge, at this point in time, the City of Richmond has not developed nor is implementing a program utilizing eminent domain. However, there has been media coverage that appears to misrepresent the current status and appears to have resulted in negative impacts on the City of Richmond's financial relations with lenders and investors.

#### ***Potential Impacts to Study and Consider***

The Administration would like to provide information on areas of potential impact should the Council engage in any policy considerations to address the foreclosure crisis.

Staff recommends that any study include analyzing the following twelve (12) areas of potential impact or benefit:

1. Projected numbers of Oakland homeowners vulnerable to foreclosure, including:
  - a. Those who are delinquent on their mortgage payments.
  - b. Those who have unpaid principal balances on their mortgages that exceed property market value by over 20 percent.
  - c. Those who are both delinquent on their mortgages and who have unpaid principal balances on their mortgages over 20 percent higher than their current home value.
  - d. Those who have second mortgages and the amounts.
2. How many Oakland distressed homeowners received principal reduction as part of bank loan modifications.
3. The costs of conducting any studies or analysis to assess the impacts of engaging in an eminent domain strategy.

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4. The legal implications and viability of using a municipality's eminent domain powers to acquire mortgages where the homeowner is delinquent on their mortgage payments and their unpaid principal balance on that mortgage is higher than the current value of that home.
5. The legal implications and viability of using a municipality's eminent domain powers to acquire mortgages where the homeowner is current on their mortgage payments, but their unpaid principal balance on that mortgage is higher than the current value of that home.
6. A risk analysis of engaging in eminent domain action, including the costs of and financial risks involved in eminent domain litigation.
7. The program viability of purchasing non-performing mortgage notes versus performing notes, including funding availability and participation of experienced loan servicers.
8. How many Oakland homeowners in financial distress could benefit from assistance with their second mortgages, since lenders may have more flexibility regarding principal reduction or erasure of these second liens.
9. The fiscal impact to the City of Oakland from pursuing eminent domain as a strategy, including on the City's credh rating, borrowing ability for City liquidity needs, and potential impacts on projects where the City and/or local businesses or organizations are seeking investment support from major lenders.

Staff recommends that information should be collected from City departments or divisions, including Economic & Workforce Development, Housing & Community Development, Office of Neighborhood Investment, Planning & Building, and Treasury. In addition, staff recommends consultation with business and community development groups including the Oakland Metropolitan Chamber of Commerce, African American Chamber of Commerce, Chinatown Chamber of Commerce, Hispanic Chamber of Commerce, Oakland Business Development Corporation, East Bay Housing Organization, and Inner City Advisors.

Further research is needed to determine whether an eminent domain strategy would result in banks raising mortgage interest rates and reduce mortgage availability, which would in turn limit the growth of property values and related taxes. Further research should also include an analysis of the impact on the secondary mortgage market.

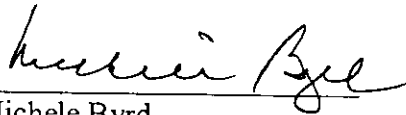
10. Participation by banks and servicers on the City of Oakland's current and new programs to prevent foreclosures, preserve housing for homeowners or tenants residing in properties in the foreclosure process, and transform abandoned properties into new homeownership or affordable rental housing opportunities for Oakland families.

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11. The potential impact of the City's relationships with financial institutions and investors.
12. Any areas of further concern that may arise during the analysis of the above issues.

For questions about this report, please contact Margaretta Lin, Strategic Initiatives Manager, at 510-238-6314.

Respectfully submitted,



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