Foreclosure problem is getting worse, not better

- Foreclosure activity is **increasing** nationwide
  - Foreclosure filings up **32%** nationwide since last year
- Common explanation: Homeowners steered or tricked into a a bad mortgage
  - Above market interest rate
  - Exploding payment
- Idea: Unscrupulous originator captures underwriting fees, tricks homeowner into a bad mortgage, then eventually takes over the house
- We think this is a problem. However we believe this is not the primary explanation

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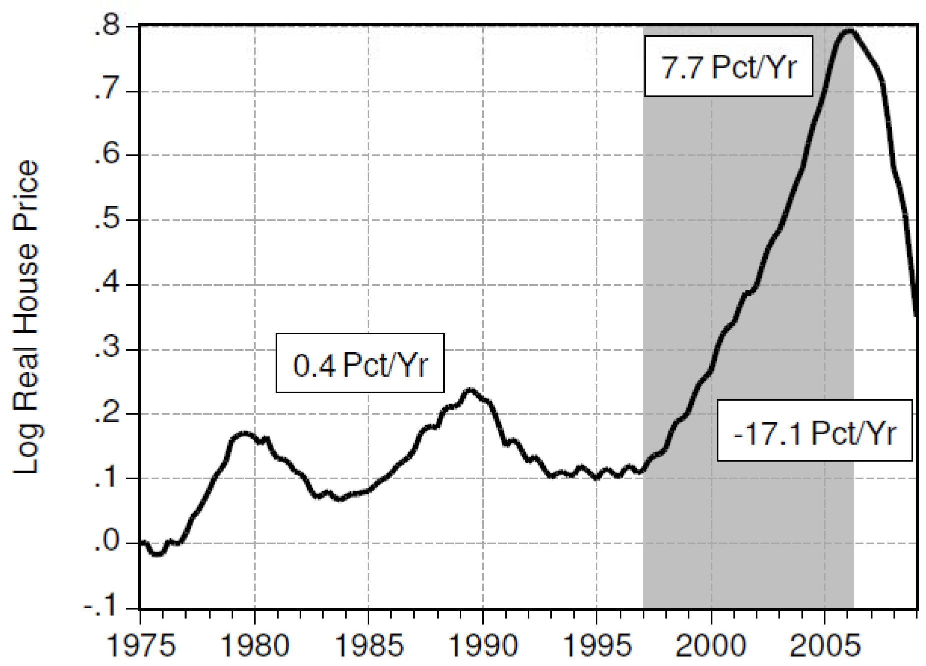
Why is there a foreclosure problem?

- Historically, foreclosures caused by two “triggers”
- Trigger #1: House worth less than the mortgage
  - Implies homeowner can not sell the house: (he/she has to write the bank a check at closing)
- Trigger #2: Significant disruption to income
  - Divorce
  - Health shock
  - Unemployment
- According to the “double trigger” theory, we are about to face the perfect storm of foreclosures

Trigger #1: Rapid Fall in House Prices

Path of Real USA house price index, 1975:q1 - 2009:q1

Source: OFHEO, Macromarkets, BEA



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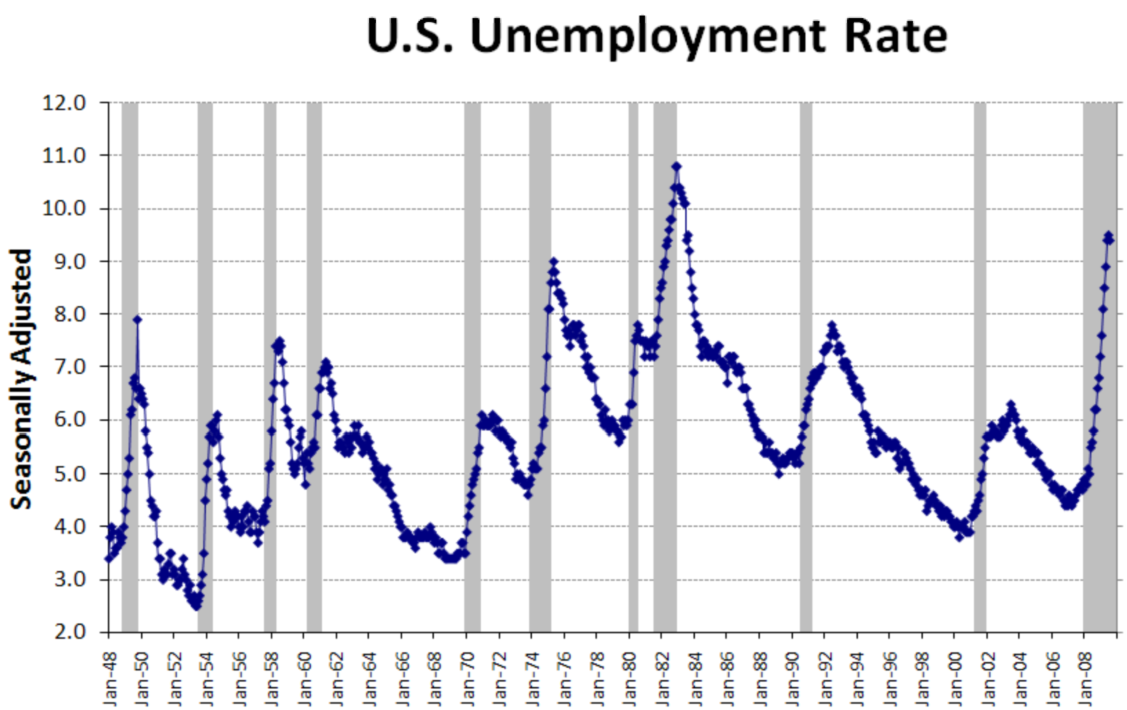
Trigger #2: Rapid Increase in Unemployment



What about Unemployment Insurance?

- Unemployment benefits help minimize the disruption to income from unemployment
- However, unemployment benefits are not large enough
- UI benefits capped at $1,400 per month
- If a household makes a $1,000 mortgage payment (the payment for a good mortgage on a median priced home*) this leaves $100 per week for everything else: Food, clothing, gas, heat, medical bills etc.

This is the payment on a conventional 30-year fixed rate mortgage with an interest rate of 6% on a house valued at $180,000 with a $144,000 mortgage (80% LTV). The payment includes property tax escrow , assuming a 1% property tax rate).

How does WI-FUR help?

- WI-FUR stops foreclosures by eliminating one trigger
- Idea: Households receive a "housing voucher"
  - This is a check from the government that can only be used to pay a mortgage
- The housing voucher acts like a supplement to unemployment benefits
- Thus, the disruption to income is eliminated

How would it work?

- Size of the voucher would be designed such that, at the median, people spend 30% of their unemployment insurance on a mortgage payment

- Example:
  - Unemployment benefits: $1,400 per month
  - Additional housing voucher: $595 per month

  - Required mortgage payment: $1,000 per month
  - Less housing voucher -$595
  - Household payment to mortgage: $405 per month (=$1,000 less $595)

  - Money left over for everything else: $995 per month (=$1,400 less $405)

- Notice -- after the voucher -- households spend 29% of their UI on the mortgage: $405 = 0.29 * $1,400

Additional details

- $595 may not be the right payment to all households
- Housing costs vary by region
- Idea: use HUD “Fair Market Rent” (FMR), which varies by county, to adjust the size of the housing voucher based on local housing costs
- $595 is equal to 70% of National FMR.
  Simplest idea: Voucher = 70% of FMR in every county

Is WI-FUR Good Policy?

- WI-FUR will prevent at least 500,000 foreclosures per year in 2010 and 2011
- WI-FUR is not a pure “giveaway”
  - WI-FUR calls for people to spend out of their income to make their mortgage payments
- WI-FUR allows the unemployed to stay in their home:
  - Households spend a reasonable amount of their income to keep their mortgage current
- WI-FUR is temporary
  - WI-FUR can end with a defined sunset date, or once the unemployment rate falls to a more normal level
- WI-FUR may not cost any additional money: Money for HAMP can be redirected to WI-FUR

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