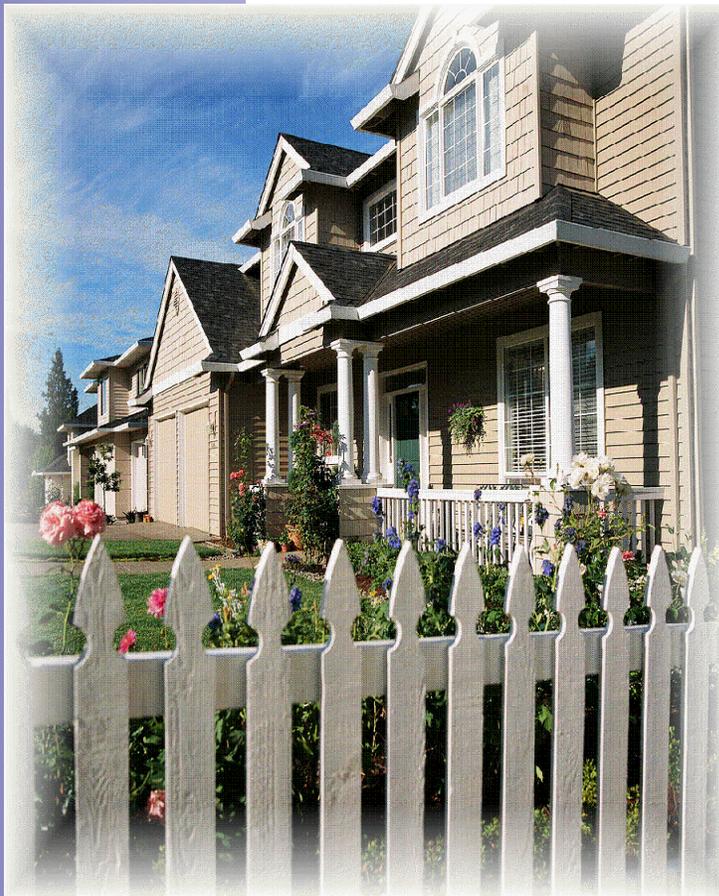


**LIEUTENANT GOVERNOR'S
FORECLOSURE TASK FORCE**

INTERIM REPORT

DECEMBER 20, 2007



John C. Carney, Jr., Lieutenant

TASK FORCE CREATION AND CHARGE

On October 15, 2007, Lieutenant Governor John C. Carney, Jr. created the Lieutenant Governor's Foreclosure Task Force to respond to the increasing numbers of mortgage foreclosures in Delaware. The 16-member Task Force brings together key players from the public, private and nonprofit sectors to address foreclosure prevention and intervention, and to study the causes of the well-documented recent increase in foreclosures in Delaware. The Task Force is also charged with the development of short- and long-term state-wide solutions to prevent foreclosures. The primary focus is stabilizing communities through education and financial assistance.

This interim report outlines short-term recommendations the Task Force determined are needed over the next six months (January 1, 2008 – June 30, 2008). During this period, the Task Force will continue to meet and will make recommendations for longer-term solutions beyond June 30, 2008.

FINDINGS

Foreclosure Baseline:

Historically, there are 2,000 or more foreclosures in a given year. Many of these foreclosures are caused by occurrences outside the homeowner's control, such as illness, job layoffs from downsizing or relocations, or divorce or separation. Foreclosures are a natural occurrence in the housing industry and there exists a need to create and maintain programs that offer relief to homeowners, who, through no fault of their own, risk losing their homes.

However, the current rapid increase of foreclosures in Delaware and around the country is largely related to sub-prime lending practices and products. The trend in Delaware is clear. In most years, there are about 2,000 foreclosures in Delaware. Last year, there were 2,800 foreclosures. This year, through the second quarter, 2,510 loans were in foreclosure.

In sections below, we can see that a prime indicator of loans most at risk of foreclosure are those that are seriously delinquent. Further, a disproportionate number of seriously delinquent loans in Delaware are sub-prime mortgages.

While other entities like the Federal Reserve are currently examining ways to regulate and change the mortgage industry to better protect borrowers, the Task Force determined that this information is the best way to identify homeowners who may be facing delinquency or foreclosure in the next few years.

Sub-Prime Mortgages:

Delaware, like other states, is experiencing escalating foreclosure activity as a result of sub-prime mortgages originated over the last three years. The level of foreclosure activity is forecast to peak in 2008 and last for another two years. This increase in foreclosure appears to be a temporary trend and is the result of a 'perfect storm' of conditions.

During the housing boom, home prices escalated rapidly and credit was readily available. Many adjustable sub-prime loans were underwritten at low introductory rates. Now, interest rates are resetting and the housing market has stagnated. These homeowners cannot afford their mortgage and they cannot get relief through refinancing or selling the home – that leaves no outcome other than falling behind on their mortgage and facing foreclosure.

Before a mortgage enters the foreclosure process, it is deemed "seriously delinquent." The term "seriously delinquent" represents loans 90-days delinquent and those already in the foreclosure process. In Delaware, **8,458** of all mortgages in the state were seriously delinquent at the end of the second quarter of 2007, as compared to **5,393** in 2006. This is a year-over-year increase of **57%**.

Delaware Mortgage Data:

According to the Delaware State Housing Authority's Delinquency Analysis presented on November 20, 2007, at the end of the second quarter of 2007:

- There were **164,590** outstanding conventional mortgages in Delaware. **11% (18,876)** of these loans were considered sub-prime mortgages.
- There were **3,452** seriously delinquent conventional mortgages in Delaware. **51% (1,776)** of these loans were sub-prime mortgages.
- Of the delinquent sub-prime mortgages, **67% (1,042)** were Adjustable Rate Mortgages (ARM).

The conclusion drawn from this data is that adjustable rate sub-prime mortgages constitute a disproportionate number of the delinquencies in the state.

Geographic Concentrations in Delaware:

There are two indicators that can be used to predict the areas that will see the highest increases in foreclosure. First, because we know that sub-prime loans make up half of the homes that enter foreclosure, we expect zip codes with four hundred (400) or more sub-prime loans to have the highest foreclosure rates. Secondly, because we know that those homeowners who are considered seriously delinquent are likely to enter foreclosure, we also expect to see high foreclosure rates in zip codes where over 9% of the sub-prime loans are considered seriously delinquent. Using these two indicators, the Task Force Data Subcommittee identified 34 zip codes in Delaware where it is reasonable to expect high levels of foreclosure in the coming months (see Appendix C for detail).

These zip codes represent areas in all three counties and the city of Wilmington. More precisely, they are the Browntown/Hedgeville, Center City and Northeast neighborhoods in Wilmington; Claymont, the Route 9 corridor, New Castle, Newark and much of the Middletown area in New Castle County; Dover in Kent County; and Georgetown, Milford and Laurel in Sussex County.

SHORT-TERM RECOMMENDATIONS (NEXT 6 MONTHS)

GOAL: To help Delawareans avoid foreclosure over the next six months through housing counseling, the Delaware Emergency Mortgage Assistance Program (DEMAP) and education and outreach.

Targeting:

1. **Target areas** – Target outreach efforts to homeowners in zip codes with 400-plus sub-prime mortgages or with seriously delinquent rates exceeding 9%.

Tools/Resources:

2. **Delaware Emergency Mortgage Assistance Program (DEMAP)** -- Fund the DEMAP through June 30, 2008. The program, which was initially funded with about \$800,000, has used all of that funding over the last nine months. The Task Force has determined that the program needs \$720,000 for the final six months of Fiscal Year 2008.
3. **Housing Counseling** -- Fund seven (7) new counselors for housing counseling agencies to increase mortgage default and foreclosure counseling efforts. Through the experience and observations of several of its members and the testimony of three housing counselors in Delaware, the Task Force learned that 1) there are no housing counselors in the state specifically funded to deal with foreclosure; 2) the number of homeowners facing foreclosure and seeking counseling is overwhelming the counselors currently available; and 3) housing counselors in Delaware and around the country are overwhelmed by the caseloads they are handling. The Task Force has determined that at a cost of approximately \$62,000 annually per counselor, there is a need for \$232,000 to fund seven (7) for the final six months of Fiscal Year 2008. Funding for this initiative should be identified for the next two years.
4. **Education and Outreach** – Fund and implement a marketing program to ensure homeowners who fall behind on their mortgage payments know what resources are available to them as early as possible.
5. **Federal Relief Programs** – Implement the federal foreclosure relief program proposals to the fullest extent possible, including FHA Secure, and others as they are approved by Congress.

Monitoring:

6. **Monitoring** -- Monitor monthly foreclosure filings to benchmark performance and revise Task Force activities as appropriate.

Appendix A: Task Force Membership

John C. Carney, Jr.
Lieutenant Governor

Harriet Smith Windsor
Secretary of State

Robert Glen
Bank Commissioner

Saundra Johnson
Delaware State Housing Authority

Jennifer Davis
Office of Management and Budget

Camilla Conlon
Delaware Association of Realtors®

Joe Myer
NCALL Research, Inc.

Anne Farley
New Castle County

Helene Keeley
State House of Representatives

Gary Simpson
State Senate

Keith W. Schuck
Delaware Bankers Association

Dawn Poczynek-Holdridge
Fannie Mae

Ken Smith
Delaware Housing Coalition

Roland Ridgeway
Federation of Housing Counselors

Rashmi Rangan
Delaware Community Reinvestment Action Council

Timothy Crawl-Bey
Department of Real Estate and Housing, City of
Wilmington

Appendix B: Housing Counseling Agencies

Agency	Address	Telephone
First State Community Action Agency, Inc.	308 North Railroad Avenue, Georgetown, DE 19947 655 South Bay Road, Suite 4J, Dover, DE 19901 Rosehill, 19 Lambson Lane, Suite 8, New Castle, DE 19720	302-856-7761 302-674-1355 302-498-0454
Hockessin Community Center	4266 Millcreek Road, Hockessin, DE 19707	302-239-2363
Housing Opportunities of Northern Delaware, Inc.	100 West 10 th Street, Suite 1004, Wilmington, DE 19801	302-429-0794
Interfaith Community Housing Delaware, Inc.	2 South Augustine Street, Newport, DE 19804 20 Patrick Henry Lane, Milford, DE 19963	302-995-7428 302-424-4650
NCALL Research, Inc.	363 Saulsbury Road, Dover, DE 19904 501 Ogletown Road, Room 325, Newark, DE 19711 110 S. Bedford Street, Georgetown, DE 19947	302-678-9400 302-283-7505 302-855-1370
Neighborhood House, Inc.	1218 B Street, Wilmington, DE 19801 219 West Green Street, Middletown, DE 19709	302-652-3928 302-378-7217
West End Neighborhood House, Inc.	710 N. Lincoln Street, Wilmington, DE 19805	302-658-4171
YWCA Delaware Homeownership Education	153 E. Chestnut Hill Road, Suite 102, Newark, DE 19713	302-224-4060

Appendix C: Targeted Zip Codes

Targeted Zip Codes – 400 or More Sub-Prime Loans:

ZIP	County	Number of Loans	DEL 30+ Days	DEL 60+ Days	DEL 90+ Days	In Foreclosure Process	REO	Seriously Delinquent %
19720	New Castle	1,728	5.41%	1.80%	4.23%	4.99%	0.26%	9.48%
19702	New Castle	1,083	4.43%	2.21%	2.58%	4.88%	0.68%	8.14%
19805	New Castle	956	5.99%	1.45%	3.26%	6.75%	0.51%	10.52%
19701	New Castle	840	5.44%	2.70%	2.76%	5.35%	0.28%	8.39%
19802	New Castle	825	6.68%	1.62%	4.97%	7.33%	1.19%	13.49%
19709	New Castle	634	6.22%	3.17%	2.72%	7.53%	0.00%	10.25%
19904	Kent	623	5.26%	2.60%	3.04%	5.44%	0.14%	8.62%
19713	New Castle	601	5.10%	1.85%	3.23%	5.54%	0.27%	9.04%
19901	Kent	438	4.70%	1.48%	2.96%	5.62%	0.52%	9.10%
19977	Kent / New Castle	437	5.40%	2.67%	2.59%	8.07%	1.01%	11.67%
19808	New Castle	435	4.47%	1.53%	2.07%	3.68%	1.20%	6.95%

Targeted Zip Codes – 9% or More of Sub-Prime Loans Seriously Delinquent:

ZIP	County	Number of Loans	DEL 30+ Days	DEL 60+ Days	DEL 90+ Days	In Foreclosure Process	REO	Seriously Delinquent %
19967	Sussex	9	0.00%	0.00%	11.00%	18.58%	0.00%	29.58%
19955	Kent	16	0.00%	0.00%	24.31%	0.00%	0.00%	24.31%
19970	Sussex	80	6.44%	2.75%	5.83%	12.06%	0.00%	17.89%
19966	Sussex	256	4.24%	1.46%	3.79%	9.01%	4.59%	17.39%
19968	Sussex	131	6.12%	0.87%	2.28%	11.12%	2.27%	15.67%
19951	Sussex	30	0.00%	4.44%	9.61%	5.66%	0.00%	15.27%
19953	Kent	85	0.00%	2.65%	4.06%	9.58%	0.00%	13.64%
19802	New Castle	825	6.68%	1.62%	4.97%	7.33%	1.19%	13.49%
19801	New Castle	393	3.41%	2.66%	1.56%	9.45%	1.91%	12.92%
19730	New Castle	15	0.00%	0.00%	2.10%	8.30%	2.46%	12.86%
19979	Kent	18	6.99%	0.00%	12.62%	0.00%	0.00%	12.62%
19703	New Castle	241	2.51%	0.19%	3.83%	7.67%	0.93%	12.43%
19963	Kent / Sussex	261	2.51%	1.41%	5.30%	4.96%	1.83%	12.09%
19958	Sussex	175	2.11%	1.83%	7.86%	4.15%	0.00%	12.01%
19943	Kent	195	3.86%	4.21%	5.03%	5.61%	1.19%	11.83%
19977	Kent / New Castle	437	5.40%	2.67%	2.59%	8.07%	1.01%	11.67%
19934	Kent	233	4.76%	1.17%	4.99%	6.50%	0.00%	11.49%
19810	New Castle	229	5.37%	3.58%	4.26%	6.32%	0.64%	11.22%
19938	Kent / New Castle	161	4.24%	0.82%	3.66%	6.41%	0.70%	10.77%
19954	Kent	22	7.32%	0.00%	6.29%	4.25%	0.00%	10.54%
19805	New Castle	956	5.99%	1.45%	3.26%	6.75%	0.51%	10.52%
19709	New Castle	634	6.22%	3.17%	2.72%	7.53%	0.00%	10.25%
19960	Sussex	119	5.20%	2.44%	4.06%	4.71%	1.21%	9.98%
19973	Sussex	374	2.45%	1.59%	2.69%	6.85%	0.29%	9.83%
19809	New Castle	222	2.79%	1.70%	3.65%	5.40%	0.77%	9.82%
19720	New Castle	1,728	5.41%	1.80%	4.23%	4.99%	0.26%	9.48%
19734	New Castle	216	4.65%	3.40%	3.45%	4.28%	1.63%	9.36%
19947	Sussex	240	1.67%	0.57%	3.32%	5.13%	0.87%	9.32%
19901	Kent	438	4.70%	1.48%	2.96%	5.62%	0.52%	9.10%
19713	New Castle	601	5.10%	1.85%	3.23%	5.54%	0.27%	9.04%

