



# Memorandum

**TO: HONORABLE MAYOR &  
CITY COUNCIL**

**FROM:** Leslye Corsiglia

**SUBJECT: FORECLOSURE UPDATE**

**DATE:** May 21, 2012

Approved

Date

5/23/12

During the May 9, 2012 Community and Economic Development Committee Budget Study Session, staff was asked to provide an update on the current and future state of foreclosures in San José and on the City's response to the situation. This memorandum responds to that request.

## **BACKGROUND**

The City continues to experience a high volume of foreclosures. Between 2007 and 2011, San José residents received nearly 55,000 total foreclosure filings, resulting in 11,800 bank repossessions. In 2011, banks sent 8,487 foreclosure filings to San José households, with 5,627 Notices of Default, 1,610 Notices of Trustee Sale, and 1,250 bank repossessions. While this is half the rate experienced during the foreclosure peak in 2009, it is still four times the number of filings in 2006. Households who fall into foreclosure continue to be concentrated in specific communities in San José, particularly in East San José and along the 101 freeway where there is a higher population of lower-income as well as Vietnamese and Hispanic households.

The good news is that the homeownership market and the state of foreclosures appear to be stabilizing. Home prices have rebounded and the economy has shown modest improvement. Additionally, because subprime 3- and 5-year adjustable rate mortgages (ARMs) initiated through 2007 have largely made their way through the system, resetting ARMs will constitute a diminishing proportion of foreclosures going forward. ARMs were once the primary cause of foreclosures.

However, while home values are rising, they remain significantly below the highs achieved in 2007. Thus, many households have little, zero, or negative equity in their homes, preventing them from qualifying for a loan modification due to loan-to-value refinance requirements and from entering into a more sustainable mortgage payment. Economists have offered differing opinions on the direction of the homeownership market. Some believe the market has bottomed while others believe that housing prices will remain stagnant longer-term due to the "shadow inventory" of foreclosed homes, to the shifting demand to homes located in urban rather than suburban areas, and to the shifting demand to renting versus owning.

As a result, it is difficult to predict how much longer and to what degree the issue of foreclosures will continue in San José. Some high-level conclusions can be made: while the housing market may or may not recover in the short-term, it is unlikely to fall much more; the Silicon Valley economy is on a firmer path to recovery than two years ago; and local and federal policy interventions continue in the hopes of helping families and households and shoring up the housing market. These factors suggest that the rate of foreclosure should incrementally decrease. To provide a perspective, if the number of foreclosure filings going forward decreases by 1,000 annually from the 8,500 filings in 2011, it would take approximately 6.5 years to return to the pre-recession rate of 2,000 annual filings.

## **POLICY RESPONSE**

Since 2008, the City of San José has actively monitored and responded to households in the foreclosure process. Below is a brief description of current anti-foreclosure strategies in San José.

### *Purchase of Foreclosed Homes*

The City is using federal Neighborhood Stabilization Program (NSP) funds to purchase, rehabilitate, and resell foreclosed homes. The Purchase Assistance Loan program is administered in partnership with by the Housing Trust of Santa Clara County to help qualifying household purchase a home, with a target of 80 loans by February 11, 2013. To date, the Housing Trust has closed 40 loans. In FY 2012-2013, it is anticipated that the remaining 40 loans will be made.

In addition to NSP, the City administers the San José Dream Home program, which will initially assist 32 homes. As the homes are sold to qualified households, the program income will fund the purchase and rehabilitation of 32 additional homes during Phase 2 of the program, for a total of 64 properties. The partner developers have purchased 33 properties and sold 21 properties to income eligible families through the end of February 2012. In FY 2012-2013, the City anticipates completing the remaining homes.

### *ForeclosureHelp*

Since 2009, the City has run the ForeclosureHelp center with volunteer staffing from the mortgage and lending community. The center provides customer education, intake, loan modification packing, and an interface between the customer and the lender. In FY 2012-13, the ForeclosureHelp initiative will transfer to a consortium of nonprofits led by the Housing Trust of Santa Clara County (in partnership with Neighborhood Housing Services Silicon Valley, Project Sentinel, Law Foundation of Silicon Valley, SurePath Financial Solutions, Asian Inc., and the Santa Clara County Association of Realtors). The consortium will assist homeowners and tenants at risk of being displaced from their homes with foreclosure prevention, intervention and family re-stabilization. Counseling, guidance, and appropriate referrals will be provided to families considering short sale, loan modification or legal assistance.

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A satellite ForeclosureHelp office, located in Most Holy Trinity Church in the King Ocala Neighborhood Area, will open in the late summer of 2012. This strategic location will bring additional resources to residents in what remains one of San Jose's foreclosure hot spots, making it more convenient for impacted households to access foreclosure prevention assistance. The satellite office will operate only on Saturdays.

*Other Activities*

In addition, the City continues to monitor the foreclosure situation in San José by tracking the number of homes in the foreclosure process and where they are located geographically, monitor and advocate for legislation that seeks to mitigate the impacts of foreclosures, and coordinate with banks who own foreclosed homes in San José to ensure the homes are maintained.

**COORDINATION**

The MBA was coordinated with the Department of Planning, Building, and Code Enforcement.

/s/

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Director of Housing

For questions please contact Leslye Corsiglia, Director of Housing, at 408-535-3851.