



Housing Assistance Council

Building Rural Communities

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Affordable Rural Housing Issues and Recommendations: PROTECTION AGAINST FORECLOSURE

The foreclosure crisis – and the subprime and predatory lending on which it is based – affect rural places as well as cities and suburbs. Many rural areas are subject to additional complicating factors such as a shortage of housing counseling resources and a high proportion of renters occupying single-family homes that may be subject to foreclosure. Rural residents would benefit from the same foreclosure protections as urban and suburban Americans. In addition, the Housing Assistance Council encourages the Obama Administration and the 111th Congress to protect homeowners against foreclosure when possible, and against predatory lenders in the future, with the following actions.

- ⊖ **Support proposals to eliminate prepayment penalties**, convert adjustable rate mortgages to fixed rate mortgages, allow deferral of payments, expand post-purchase counseling programs, regulate mortgage originators, and the like. Changes that would be particularly important for rural areas include the following.
 - **Provide authority for Section 502 direct loans to be used to refinance** private sector mortgages, including those obtained with USDA Section 502 guarantees, when rural homeowners are in danger of defaulting and cannot afford to refinance through the guarantee program (direct mortgages have lower interest rates and therefore require lower payments). Add Section 502 direct funds for these purposes to the amounts appropriated for all other program purposes.
 - **Help owners of manufactured homes obtain standard mortgages** to replace the high-cost personal property loans that are often used to purchase these structures.
 - **Make special efforts to advertise the availability of Federal Housing Administration (FHA) assistance** in rural areas, which have historically been underserved by FHA programs.
 - **Protect tenants** whose landlords' mortgages are foreclosed by requiring new owners to honor their leases or give them at least 90 days' notice to vacate.
- ⊖ **Maintain the viability of rural self-help "sweat equity" homeownership programs.**
 - **Appropriate \$95 million for the U.S. Department of Agriculture's Section 523 program** in FY 2009, enough to renew expiring contracts to rural organizations that administer self-help programs and to make up for shortfalls in fiscal year 2007 and 2008 funding.
 - **Provide \$2 billion for the Section 502 direct mortgage program**, which provides mortgages for most rural self-help participants (\$1 billion in economic recovery funding and \$1 billion in FY 2009 appropriations).
 - **Provide \$26 million for the Department of Housing and Urban Development's Self-Help Homeownership Opportunity Program**, which helps self-help developers purchase and prepare lots for construction.
- ⊖ **Expand the Community Reinvestment Act (CRA)** through legislation such as the CRA Modernization Act of 2007, H.R. 1289. Ironically, some have targeted CRA as a cause of the foreclosure crisis, although its role has been exactly the opposite. The vast majority of high-cost loans, the most likely to lead to foreclosure, were made by lenders not covered by CRA.