Member, Board of Supervisors
District 11

City and County of San Francisco

JOHN AVALOS

MEMORANDUM

TO: Board of Supervisors
FROM: John Avalos
DATE: October 21, 2014
SUBJECT: **File #140709 Resolution - Joint Powers Agreement - Establishing a Homeownership Stabilization Authority**

This memorandum is in response to questions about my proposed resolution to negotiate a joint powers agreement with the City of Richmond to establish a Homeownership Stabilization Authority. The authority would seek to help homeowners with distressed mortgages that are held in private-label securitization (PLS) trusts, which are bought and sold on the derivatives market. Because these loans are no longer held by individual banks, there is currently no possible way for these homeowners to refinance or modify their loans.

The Scope of the problem in San Francisco and potential benefits

The October 6th memo from the Controller's Office stated that their review of mortgage data from CoreLogic found that there were only approximately 80 underwater PLS loans in San Francisco. However our office has received data from Lewtan (a data provider for the asset-securitization industry) that shows significantly more underwater PLS loans. The Controller's data also doesn't reflect the intention of the program to also include mortgages that are delinquent, but not underwater. (See the September 5, 2014 letter we received from Hogar Hispano a non-profit CDFI that acquires and modifies delinquent mortgages about their interest in participating in the program.)

When I met with the Controller's office to review the discrepancies in numbers between the two data providers, they believed it was probably due to differences in their proprietary methods for determining current valuations. They suggested it would be to assume that the actual numbers are somewhere between the two data sets. This table summarizes the data from Lewtan and CoreLogic:

Provider	Total PLS Loans in SF	Underwater PLS Loans	Delinquent PLS Loans	PLS Loans with rate changes within the ext 18 months
Lewtan	9,016	464	437	4,957
CoreLogic	5,688	97	Unknown	Unknown

The Lewtan data also shows that there are nearly 5,000 PLS loans with adjustable rates that will have a rate change within the next 18 months. Establishing this program now will give us a head start on being able to help these homeowners who could soon be a risk of foreclosure. **There are several hundred homeowners who this program can help now, and several thousand who the program may be able to help in the near future.**

Comparison to the City's existing program for assisting at-risk homeowners

The Mayor's Office of Housing reports that since last October, their outreach partner has contacted to 175 delinquent households. MoH's homeowner assistance partners have only been able to negotiate "successful outcomes" with 23 of these homeowners, where a "successful outcome" is defined as "loan modification, forbearance, sale of the home, and otherwise reinstated their mortgage." MoH does not have data on how many of these 23 at-risk homeowners were able to modify their loans, achieve principle reduction, or how many of the loans were held in PLS trusts.

Process for determining Fair Market Value of mortgages to be acquired

I recently heard concerns from the Director of Real Estate about how the JPA would determine the Fair Market Value of mortgages that are to be acquired. When the City of Richmond made initial offers on a number of mortgages in 2013, they were assessed by an independent appraiser, the Mortgage Industry Advisory Corporation (MIAC). I plan to make an amendment to the resolution to clarify that the JPA would retain an independent assessor to determine the fair market value of any loans to be acquired.

The reason the program would still be able to achieve principle reduction while paying Fair Market Value is because loans at risk of foreclosure are worth less because they are risky assets. These PLS loans are bought and sold every day on the secondary market. There is an entire industry built around assessing these mortgages based on their risk of foreclosure. The homeowners are locked in at the original value of the loan. However the banks have sold their loan and made it into a commodity—a commodity that has lost value because it is an underwater loan with predatory lending features. **Therefore the JPA would be able to acquire these loans at their current fair market value, achieve principle reduction for the homeowner, and still realize a profit to pay for the costs of the program.**

Impact on the City's borrowing costs

The Controller's memo states "the City's participation in the JPA will likely have broader negative impacts on the City's participation in financial markets." However this assumption is based on Richmond's experience with a single, negotiated bond sale last year. First of all, here is a summary of Richmond's bond sale:

- In August 2013 Richmond took down a bond offering after two days, over concern that there was a lack of interest.
- The City didn't attempt to refinance this bond again until March of 2014.
- When they did move forward with the bond refinance in March of 2014, they received significantly more bids than they are accustomed to receive and received a better interest rate than they had originally expected
- Also in March 2014, the City of Richmond's already strong credit rating was upgraded.

It also seems like a large assumption to compare Richmond's experience in the bond market with San Francisco's. The Controller's memo goes on to state **"San Francisco is a more prominent and more stable participant in the financial markets than Richmond."** While potential investors may certainly be displeased if the City moves forward with the JPA, it seems like a leap to assume that they would attempt to punish the City by not participating in our bond sales. Fund managers' rely on analytics to find the best return on their investments. It seems reasonable to assume that while some investors' would be willing to pass on our bonds in an attempt to punish San Francisco, other investors could see this as an opportunity to obtain a better deal due to less competition.

Lastly, I'd like to stress the importance of not abandoning a substantial number of low-income, minority San Francisco homeowners because we are afraid that Wall Street will retaliate against us. Recently when we debated the Transbay Community Facilities District, we faced a similar threat from wealthy and sophisticated developers who may sue the City because we are holding them to their original commitment. We know that there is a chance we may lose a costly lawsuit over this, but we took that risk because it's the right thing to do.

We were willing to take a risk to bring community benefits to a part of downtown that is experiencing a dramatic influx of wealth, because San Francisco shouldn't back down in the face of wealthy bullies. Similarly, we should be willing to take a risk to help protect our low-income, communities of color in our southern neighborhoods.