

STATEMENT OF PRINCIPLES

On the use of Eminent Domain as a tool for preserving homeownership, resetting mortgages, and aiding local economies

Our Communities Are in Crisis

The housing crisis has devastated neighborhoods and communities across the country. As a result, millions of Americans have lost their homes, their life savings, and their jobs. Communities of color and low-income communities have borne the brunt of the impact. American homes lost more value in the aftermath of the housing crisis than they did during the Great Depression. These declining home values have only compounded the problem by pushing more borrowers underwater, making them more vulnerable to default.

- Nine million families have lost their homes to foreclosure since 2008.
- Two million families are currently delinquent on their loans and in the foreclosure pipeline.
- Fourteen million families are underwater on their mortgages.

Experts estimate that an additional seven to nine million foreclosures will result from the backlog of underwater and delinquent loans. These foreclosures will not just harm those families that lose their homes. They will also put further downward pressure on their neighbors' property values, devastate the local property tax base, create neighborhood blight, increase crime, and cause other negative economic spillover effects.

They will also prolong the Great Recession and the jobs crisis. As these foreclosures cause home values to further deteriorate, the financial burden of paying off unrealistically valued loans will continue to harm families and depress local economies. The Federal Reserve has identified continuing weakness in the housing markets as a significant barrier to vigorous economic recovery.

Resetting Mortgages Is a Win/Win Solution

Experts agree that we need to write down the principal on underwater mortgages to fair market value to stabilize the housing markets and revive the economy. Not only would this be good for homeowners and their communities, but it would also be good for the investors who own these mortgages. When homes go into foreclosure, investors are saddled with many foreclosure-related costs that can add up to as much as 75 percent of the unpaid mortgage

principal, which is more than the haircut they would have to take if they agreed to reset the mortgages on those homes. Furthermore, even if the borrower of a particular loan does not default, the onslaught of foreclosures in the rest of the market still adversely affects the valuation of all mortgages held by investors. For this reason, there is an emerging consensus that it is also in mortgage investors' interest to reset mortgages to fair market value.

Existing plans and programs are not solving the problem

Even though resetting mortgages to fair market value is in the interests of both homeowners and the investors that own those loans, there are two key structural barriers that have prevented this from happening:

- Many mortgages have been packaged into private label securities (PLS), and the structure of these securitizations subdivides ownership between investors in complex ways that block renegotiations that would be good for the homeowners and the PLS investors alike.
- Management rights over mortgage loans are typically given to servicers who have different incentives than investors and do not support renegotiations even if they would be good for both the homeowners and the investors.

Partly for these reasons, all of the foreclosure prevention programs put in place at the federal level have proved insufficient at dealing with the scale of the problem. None of them have offered a viable path to the widespread resetting of underwater mortgages, even though that is crucial to fixing the crisis facing our communities.

Eminent Domain is a tool that can allow local governments to cut the Gordian knot, reset mortgages, and prevent foreclosures, on a much larger scale

We cannot stand by and watch another seven to nine million families lose their homes. Eminent domain can help cut through the structural barriers that make it difficult to accomplish principal reduction on a meaningful scale even when it is in the interest of both homeowners and mortgage investors. The power of eminent domain allows a properly constituted public authority to buy mortgages out of the complicated structures they are now trapped in, and create the conditions for new sustainable mortgages at current home values to be written, while borrowers stay in their homes. The use of eminent domain has too often hurt communities of color and low-income communities in the past, but this is an opportunity for local governments to use it to the tremendous benefit of those same communities, who have been hit hardest by the housing crisis.

A program to use eminent domain to reset mortgages should be guided by these core principles:

1. The program must not leave any homeowner worse off.
2. The primary purpose of the program must be to put homeowners into good, sustainable mortgages with reduced principal and payments that they can afford.
3. Homeowners must be able to choose whether or not to participate in the program.
4. The servicing of loans in the program must adhere to the highest standards, both during any transitional period while they are being refinanced, and in the long run. These standards must include providing sustainable loan modifications if loans become distressed in the future. The program design must ensure sufficient servicer capacity to meet such standards.
5. The program must be designed to benefit the community in which it takes place as well as the individual homeowners participating.
6. Maximizing sustainable homeownership and community benefit must be the priority in all areas of program design.
7. Homeowners and community residents must be part of the planning and decision making process in the design and implementation of the program.
8. The program must not cost taxpayers anything.
9. Taxpayers must be indemnified for any legal or financial liabilities arising from the program.

Signature

Date

Printed Name

Title / Position

Organization