Principal Reduction Guiding Principles

Too many homeowners in Seattle still have underwater mortgages, with many of them the result of predatory lending. Communities of color are disproportionately affected, as neighborhoods like Delridge still have rates of underwater mortgages over 15 percent, compared to 6 percent in neighborhoods like Ravenna.[i] When underwater homeowners face foreclosure, the homeowner and the surrounding community suffer.

As a result, families are not getting the relief they need and instead, often walk away from their homes with a lack of trust and broken dignity, bad credit and loss of family wealth.

Banks continue to be the bad actors. Most banks are not voluntarily pursuing principal reduction for underwater homeowners, and must be given an incentive to do so. Boston, Mass., the state of Oregon, and other communities have successfully taken steps to help homeowners in those areas stay in their homes with new mortgages based on current market value.

The City of Seattle should pursue a principal reduction program that:
1) Makes families whole;
2) Creates responsible banking; and
3) Restores wealth and stability to communities of color and low-income communities.

A successful program will embrace components that give banks the incentive to be good actors in the community and will keep homeowners in their homes with new mortgages.

The following guiding principles will ensure that the two above goals are met:

1. The program ***must achieve principal reduction*** for the greatest number of homeowners possible, with an emphasis on undoing the damage of predatory lending in communities of color.
2. The program ***must keep eligible families in their homes*** without putting an additional burden on homeowners, who may have been misled in the past.
3. ***Banks must do the right thing, and do it quickly***. Banks should be given an incentive to move the homeowner toward principal reduction, either voluntarily by the bank holding the mortgage or by allowing a sale to another entity willing to reset the mortgage to the current market value. Incentives should include, but are not limited to:
    a. ***Required mediation*** with the explicit goal of resetting the mortgage, with fines to banks who do not comply in good faith toward that goal
    b. ***Heavy fees imposed on foreclosures*** to address the cost of foreclosures to the greater community and on sales to investment firms, which are more likely to lead to vacancy and blight
    c. ***Creation of a blight prevention system***, including heavy fines for blight on foreclosed properties
    d. ***A strengthened Responsible Banking Ordinance***, including public reporting
    e. ***Creation of a fund to help homeowners*** with underwater mortgages who lose their homes to foreclosure

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[i] Zillow (2014). The U.S. housing crisis: Where are home loans underwater? http://www.zillow.com/visuals/negative-equity/#11/47.5524/-122.2940