

# Foreclosure in Rhode Island

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Rhode Island is a nonjudicial foreclosure state. That results in a fast-moving foreclosure process and few official statistics. It also means that pinpointing leading causes and hotspots is tough.

According to Home Ownership Connection Director Vivien King of the Housing Network of Rhode Island—the Rhode Island association of nonprofit community development corporations (CDCs)—most calls for help are from individuals who are weeks, days, or even hours away from foreclosure.

“When clients come into our members’ offices at such a late hour, it is difficult to find practical solutions because now we’re not talking just about the mortgage but also legal fees.”

Nevertheless, the network is doing what it can through Don’t Borrow Trouble Rhode Island—a campaign against predatory lending that Boston Mayor Thomas M. Menino and the Massachusetts Community and Banking Council pioneered and that Freddie Mac expanded nationally. It provides education and free counseling services to help consumers avoid scams and resolve financial difficulties. According to King, foreclosure is at the forefront of financial difficulties. Between October 1, 2005, and September 30, 2006, the Housing Network dedicated 726 counseling hours to foreclosure alone.

## Challenges

Some people in foreclosure are victims of circumstance—say, a job loss or illness. Others are victims of predatory lending. For many, their adjustable-rate mortgages are no longer affordable or they chose homes they couldn’t afford. Most of the network’s clients are people who refinanced and have little home equity left.

King says that although foreclosure prevention products are available, one size doesn’t fit all. The network staff has to do triage. Consumers and referring agencies

call (800) 436-3180 and leave contact information. A certified housing counselor returns the call within 24 hours to obtain an overview of the problem and subsequently meets with the client. If loss mitigation is appropriate, counselors help the client and lender to structure a remedy.

When appropriate, the counselor refers clients to a program partner: Rhode Island Housing & Mortgage Finance Corporation, United States Department of Housing and Urban Development, Rhode Island Legal Services, National Consumer Law Center, or Consumer Credit Counseling Services. The Housing Network keeps client information in Fannie Mae’s Home Counselor Online System, a free database, and transfers information to the appropriate agency.<sup>1</sup>

The Housing Network follows up at monthly antipredatory/foreclosure workgroup meetings involving housing counselors, credit counselors, legal services, and housing advocates. Workgroup members present their most complex cases, and the team makes recommendations.

One interesting remedy, typically a last resort, is a lease-back option agreement with a community development corporation. If the client is affiliated with a CDC in the Housing Network’s trade association, the CDC may consider purchasing the house and leasing it to the borrower until he or she is able to repurchase it.

Unfortunately, if their credit is too far gone, clients may end up in bankruptcy. But by completing preliminary filings for bankruptcy early enough, they effectively halt the foreclosure process—and gain time to sell the house and deal with debts. For some people in bankruptcy, a lease-buyback program is a good way to resolve the foreclosure problem, after which they can withdraw the bankruptcy filing.

## Solutions

It is important that people not wait until the last minute to call the helpline. “The earlier they call, the better it is for them and for us in terms of looking at good solutions,” King says.

And to the industry she recommends being proactive. Banks should create an array of lending products addressing different needs—clients with fluctuating incomes, clients on disability with fixed incomes, single-parent families with no disposable income for emergencies. According to King, a successful campaign on foreclosure prevention requires many partners—community agencies, CDCs, and state and local government.

Some initiatives have begun in Rhode Island. Building on the work of the foreclosure-prevention and predatory-lending workgroup, a new workgroup is exploring alternative loan-rescue products ranging from small grants to full-rescue finance products. The group, whose members come from the housing and mortgage banking industries, is also investigating national best practices for more future ideas.<sup>2</sup>

What’s next for King? “We need to branch out to deal with more foreclosure issues, with predatory lending being a part, but not the sole focus. ... Our goal for 2007 is to increase our capacity to deal with the foreclosure trouble that we know is coming.”

## Endnotes

<sup>1</sup> Home Ownership Connection tracks foreclosure phone calls and, with Fannie Mae’s help, has mapped its own Rhode Island hotspots, many of which coincide with Fannie Mae’s predatory lending hotspots.

<sup>2</sup> Fannie Mae, Rhode Island Housing and Mortgage Finance Corporation, Rhode Island Housing Resource Commission, Rhode Island Department of Business Regulation, Consumer Credit Counseling Services of Southern New England, Mortgage Guaranty Insurance Corporation, Rhode Island Legal Services, Sovereign Bank, Citizens Bank, Randolph Savings, and Bank of America.