Troubled government-insured mortgage loans not yet in foreclosure were sold in increasing numbers and at significant discounts to private equity and hedge funds that, in turn, may be too quick to push homes into foreclosure or may be unhelpful in negotiating loan modifications. Some of these hedge funds, such as Lone Star Funds, are funded by public pension money and use it to buy Federal Housing Administration (FHA) mortgage loans at Department of Housing and Urban Development auctions. Following the sale, homeowners are no longer entitled to any of the FHA loss mitigation options available during the time the FHA insurance was in effect, even though homeowners pay for the insurance. From 2010–2016, the FHA had auctioned off 108,000 loans valued at $18.4 billion. The average percentage of the estimated outstanding principal balance remaining due on the loans received through these sales in 2014–2015 was only 52% to 66%. HUD, however, has not conducted any sales since 2017 when HUD’s Inspector General reported that HUD had failed to finalize regulations or issue formal guidance and procedures governing the DASP program.

The secondary mortgage market giants, Fannie Mae and Freddie Mac, followed the FHA’s example and have auctioned off residential non-performing loans since 2014. In California, community groups have seen an explosion of Wall Street, institutional, and cash-investor bulk purchases of post-foreclosure, real-estate-owned properties, particularly in low-income neighborhoods of color that had experienced high rates of foreclosures. These bulk cash purchases are financed by banks, including Bank of America and JPMorgan Chase. The bank loans are secured by the purchased homes and the loans are, in turn, securitized. This lowers the cost of funds for the purchasers to buy in bulk. The new property owners then rent out these properties. The effect in California has been the “transformation of the last vestiges of neighborhood ownership and wealth out of community residents and into the pockets of Wall Street firms, banks, hedge funds and other investor groups.” This trend has resulted in higher rents for renters and created obstacles for prospective first-time homebuyers who find it difficult to compete with all-cash investor offers. There are reports that these landlords charge higher than area median rents and do not adequately maintain some properties.

Footnotes


165 [165] “Roughly two-thirds of the billions of dollars in FHA insurance claims paid out under the Distressed Asset Stabilization Program went to Bank of America, Wells Fargo, and JPMorgan Chase. Notably, these were three of the five servicers targeted by the 49 state attorney generals’ investigations during 2010–12. The involvement of these particular servicers goes a long way to explaining the extensive delays, averaging two and one-half years of delinquency, for the loans sold through DASP. It also explains the concentration of loans from judicial foreclosure states. These were the servicers most under scrutiny from courts and government agencies, a scrutiny that turned out to be well-founded.” Geoff Walsh, National Consumer Law Center, Opportunity Denied: How HUD’s Note Sale Program Deprives Homeowners of the Basic Benefits of Their Government-Insured Loans [3] 36 (2016), available at www.nclc.org.


169 [169] *Id.* at 2.

170 [170] *Id.* at 5. Nationally, investor purchasers have spent $25 billion buying more than 150,000 homes since 2015. Wall Street has issued more than $8 billion in securities backed by the stream of rental income from almost 60,000 homes owned by these companies, including Blackstone, Colony, and American Homes for Rent since 2013. *Id.*

171 [171] *Id.* at 1.

172 [172] *Id.* at 6.

**Source:** National Consumer Law Center, Mortgage Lending [3rd ed.], updated at www.nclc.org/library

**Source URL:** https://library.nclc.org/ml/01020503-0

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