

# Foreclosure Prevention

**November 8, 2007**

**Moderator:** *Welcome to the Federal Reserve Bank of Atlanta's Financial Update Focus podcast. We're speaking today with Juan Sanchez, assistant vice president in the Atlanta Fed's Community Affairs Department, about the recent spate of homeowner foreclosures. Thanks for joining us, Juan.*

**Juan Sanchez:** Thank you.

**Moderator:** *Juan, your community affairs team at the Atlanta Fed has just completed a video on foreclosure prevention. Tell me about the HOPE foreclosure prevention campaign in conjunction with the video.*

**Juan Sanchez:** Well, the HOPE foreclosure prevention campaign is a collective effort of a number of individuals. NeighborWorks America is involved, Consumer Credit Counseling Services is involved as well, as is the Georgia Department of Community Affairs and, of course, the Fed. We were working independently on addressing the issue of foreclosure and decided to join forces and create this partnership, which perfectly makes sense.

**Moderator:** *What do you feel is the most important part of your message for people who are facing foreclosure or having problems making their payments?*

**Sanchez:** Well, the video covers three main topics, and I'm not going to cover those here in this engagement. But there's one topic specifically that I think is quite important. If a consumer starts getting into trouble where they cannot make payment, whether it is because of loan repricing or not, they need to contact the lender as soon as possible. That's a mistake that many consumers make. The lender is not wanting to foreclose on anybody's property. They're wanting to work with you to make sure the payments are made. Contacting the lender as early as you can in the process is key because it buys you time and hopefully saves you from foreclosure.

**Moderator:** *Some of the subprime mortgages that homeowners are wrestling with today came about through very aggressive sales pitches to potential buyers by lenders who obviously didn't have the buyer's best interest in mind. Should there be a crackdown on these kinds of tactics and a reevaluation of policies, which allow some of these creative mortgage programs in the marketplace?*

**Sanchez:** I tell you, mortgage products are really very difficult to understand. I think the most important issue that needs to be discussed here is making sure that consumers are well informed in what they're getting themselves into: what kind of terms they can expect, whether they can afford the terms at the time of the closing and in the long term. Consumers need to recognize that a mortgage loan is a contractual obligation between them and a lender, and they're in this for the long haul. Not something that a year later is going to go away. So, understanding terms and conditions is key. I think that there are a number of education programs consumers may want to take pre- and postpurchase; counseling for home buyers—specifically for new home buyers and first-time home buyers—that will help them understand the types of products that are available. I also want to stress that some of the products that have triggered terms that may have some adjustments over time are perfectly suitable for some borrowers but not for all borrowers, and that's where some consumers get into trouble, because they do not understand that their loans may be adjusting at some time in the near term.

**Moderator:** *What kind of responsibility do potential home buyers need to take to protect themselves from making an ill-advised mortgage loan decision?*

**Sanchez:** I just talked a little bit about the pre- and postpurchase counseling, and there are many programs out there for prepurchase counseling. There, they teach you about loan terms, about what to look for, about what "repricing" means. They also allow you to understand how much you can actually afford. And one of the big mistakes people make is, they first find a house that they like, and then look for a suitable product where they can afford that house. And a lot of the time that's only a temporary affordability factor. I think what's important is for people to first understand what they can borrow for the long term and are comfortable with that, to then look for a house that's suitable to that payment. The other thing people need to recognize is, since this is a long-term engagement, a long-term obligation, that they need to be conscious that things can happen. Your AC may go down, your roof might collapse at some point, and you have to have enough savings in order to sustain that and not have your house structurally damaged. So that postpurchase counseling session is also key to the success, the long-term success, of someone being a homeowner.

**Moderator:** *Is the Fed doing anything to help educate consumers about the kinds of mortgages that are available and how to compare them?*

**Sanchez:** Absolutely. I mean this video for one is one that provides education for consumers in terms of what to do if they get into problems, but also what to look for before they get into a mortgage loan product. This is just one of many examples. Across the country there are certain things that other districts are doing as well. There's plenty of consumer information that's out there, both from the Fed, other agencies, as well as some reputable organizations that will provide consumers enough information that they can make better decisions over time.

**Moderator:** *Juan, what kind of other assistance should a potential homeowner seek just to protect themselves as they go into the process?*

**Sanchez:** Well, recognizing the complexities of the mortgage loan products and the fact that many consumers may not fully understand all of the terms and conditions. It's key for consumers to look for third-party assistance. There are a number of organizations out there that can provide

this assistance, but I also would think that at the closing table while they're signing documents for there to be a third party that's working on their behalf that fully understands what they're signing.

**Moderator:** *Since you've mentioned the video that the Atlanta Fed has just finished producing, if a homeowner, a homeowner's association, or community group wanted to have access to that video, how could they get that?*

**Sanchez:** Well the video is available online, or they can call us and get a copy, but the easiest way is online. And that is at [www.frbatlanta.org](http://www.frbatlanta.org), and then you open up the "community development" tab and look for the featured article.

**Moderator:** *Very good. The video focuses on Georgia primarily, but are there lessons for people in other states?*

**Sanchez:** Absolutely. This is happening elsewhere as well. This is not just a Georgia problem that's going on. Foreclosure is really something that we are all addressing in all districts, and the message is clear in terms of what consumers should do and should be looking for, how educated they should be. It's a general message for consumers. The video specializes only a little bit in the Georgia law, but the general information for consumers is relevant anywhere.

**Moderator:** *Thank you for joining us today, Juan. We've just spoken with Juan Sanchez, assistant vice president of the Community Affairs Department at the Atlanta Fed. This concludes our Financial Update Focus podcast on homeowner foreclosures. For more information, please see Financial Update Focus on the Atlanta Fed Web site at [frbatlanta.org](http://frbatlanta.org). Thanks for listening, and please return for more podcasts. If you have a question, send us an e-mail to [podcast@frbatlanta.org](mailto:podcast@frbatlanta.org).*