

"Federation Corner" column
The Montgomery Sentinel - December 25, 2008

All I want for Christmas

by Jim Humphrey
Chair, MCCF Planning and Land Use Committee

When I was a youngster in the 1950s a popular Christmas tune was recorded by a lisping kid singing "all I want for Christmas is my two front teeth." Of course, we all knew the kid would be okay in the long run, and would simply have to wait for his adult teeth to grow in and replace his lost baby teeth. But this year, hundreds of thousands of folks across the county have a different wish--to keep the foreclosure Grinch from taking their homes. And there is nothing simple about replacing a home lost to foreclosure, especially in this time of widespread financial uncertainty.

For most of this decade, sale prices for new and existing homes skyrocketed in Montgomery County as elsewhere across the country. And our county and state government rode this gravy train in the past few years by increasing the assessed value of most properties in the county by the maximum allowable 10% per year and raising property taxes to the charter limit, which is the annual inflation rate, or beyond. But this past year the housing market bubble was burst by a complex confluence of circumstances referred to by some as a "perfect storm."

The foreclosure rate in the region rose sharply this year as many first-time homebuyers who had received low down payment, adjustable rate mortgages a few years ago realized they could not afford their ballooning monthly payments. The Washington area saw a six-fold increase in foreclosures by mid-year, and an increase in the supply of available housing units began to drive down prices.

The area's foreclosure rate continued to rise in the second half of 2008 as financially strapped homebuyers decided that walking away, not selling their homes, was their only option since they now owed more on their mortgages than their homes were worth. The investment banks that bundled together these risky mortgages, and the investors who purchased shares in them, now find themselves stuck with foreclosed properties which are rapidly losing value. Even banks which have renegotiated mortgages, either by reducing the interest rate or the amount of principal owed, are experiencing a 25% foreclosure rate on these refinanced homes. As a result, mortgage funding has dried up and prospective buyers who are looking to take advantage of falling home prices are having difficulty finding a lender.

This should be a good time to purchase a home. House prices in the region declined an average of 14% in 2008, although Montgomery County saw a lesser 8% decline. Mortgage rates are at an historic low at 5 1/4% for a fixed-rate 30 year loan. And the Federal Reserve received Congressional approval to distribute a \$700 billion rescue funding package to banks left holding tainted mortgage assets. Joe Rogers, a spokesman with Wells Fargo Home Mortgages, says that Fannie Mae and Freddie Mac have money to lend and there is funding available for FHA and VA loans. Yet times are hard for those looking to sell a house as banks are still leery of lending and sales remain slow while buyers wait to see if the million new foreclosures forecast nationally for 2009 will drive down prices even further.

How does this "perfect storm" in the housing market impact those owners who intend to remain in their homes? On the plus side, the drop in home values may result in a decrease in state property assessments, but the county would likely raise the property tax rate in order to generate revenue increases that match the rate of inflation. Possible negative effects of escalating foreclosure rates were addressed in the fall issue of *Geography and Public Safety*, a quarterly bulletin published by the Federal Department of Justice's Office of Community Oriented Policing Services. They're talking about more than just an increase in homelessness and the unkempt yards of vacant homes. The bulletin details problems in areas with

significant foreclosure rates that range from burglars looting vacant homes or squatters living in the houses to an accompanying rise in drug-related activity, personal assaults and other property-related crimes.

Montgomery County government does have some tools to use in preventing negative impact from the foreclosure crisis. The Department of Housing and Community Affairs has already set up a hotline to try to help those at risk of going into foreclosure. In November, DHCA Director Rick Nelson announced receipt of Federal funds for a Neighborhood Stabilization Program (NSP), initially to acquire and rehabilitate up to seven blighted homes and rent them at an affordable rate. The county will also apply through the State of Maryland for additional NSP funds the state has been awarded, which could be put toward a home ownership initiative. And, Habitat for Humanity has announced it is raising funds to rehabilitate ten homes in the county as affordable housing for families in need.

DHCA has mapped county "hot spots" with increased levels of foreclosures as target areas for their new NSP blighted structures initiative. This information could also be shared with police to highlight areas that may need increased surveillance. And volunteer neighborhood initiatives may be necessary in the coming year to help maintain yards of vacant properties in severely impacted neighborhoods, to supplement efforts of a county government facing budgetary cutbacks.

Once the new administration takes control in Washington, some Federal aid may be offered to homeowners at risk of foreclosure. Prospective buyers might have to wait for an economic turnaround and banks to begin lending again in order to purchase their dream house. The County Executive, County Council, and Planning Board need to step up to the plate in the coming year, too, and devise a plan to prevent areas with affordably priced rental housing from being redeveloped into luxury housing enclaves, while creating incentives for maintenance that encourage rent stabilization.

As much as we might wish it so, getting folks in need into affordably priced housing, and keeping them there, isn't a job for Santa. It will take a coordinated effort to solve the problem, which is hard to do even in the best of times and near impossible when money is short and everyone is focused on their own concerns.

The views expressed in this column do not necessarily reflect formal positions adopted by the Federation. To submit an 800-1000 word column for consideration, send as an email attachment to waynemgoldstein@hotmail.com