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Elected Officials, Advocates and Homeowners Demand That HUD Ends Its Sale of Mortgages to Private Investors

HUD's Note Sale Program Threatens African American Families

New York, NY – New York City elected officials who represent some of the neighborhoods hardest hit by the foreclosure crisis met on the steps of the New York City Hall Thursday morning to speak out against discriminatory housing policies from the Department of Housing and Urban Development (HUD). The discriminatory impact of HUD's Note Sale Program was revealed in a recent class action lawsuit filed on August 15, 2016 against the agency by homeowners represented by MFY Legal Services and Emery, Celli, Brinckerhoff & Abady LLP.

In 2010, HUD began to pool together defaulted FHA mortgages and then auction the pools to the highest bidder. These bidders have largely been private equity firms and hedge funds. And although African American homeowners account for only 28% of federal mortgages, over 60% of those sold at these auctions belong to African American homeowners. Southeast Queens is one of a handful of hotspots for this predatory behavior throughout New York. "This is injustice pure and simple," said **Senator Leroy Comrie** (D-St. Albans). "Even if you disregard the ugly fact that this practice is targeting African American homeowners—whose mortgages make up two-thirds of those sold at auction even though African American homeowners account for only 28% of HUD notes—we are still looking at a policy that lacks any transparency and gives no regard to working families. HUD is supposed to help homeowners, not wealthy investors."

Homeowners with FHA mortgages are not given notice prior to these auctions and are oftentimes not properly informed even after their mortgages are sold. Once a mortgage is auctioned off, it is out of the FHA Mortgage Program and the homeowner loses all of the benefits of the program—benefits which the homeowner has paid and which were designed to help lower income Americans acquire and maintain homeownership. HUD has also failed to look into whether these homeowners have applied for the FHA-HAMP affordable modification. The elected officials are demanding that HUD begin providing these homeowners with information on refinancing their mortgages and allowing

municipalities and nonprofits to participate to a greater extent in the auctions.

Once sold, very few homes are saved with a modification. In HUD's own analysis of the 113,000 mortgages auctioned through the note sale program, only 7% received a modification. Linda Jun, a staff attorney at MFY Legal Services who helps homeowners negotiate loan modifications to save their homes, believes HUD's implementation of its Note Sale program undermines homeowners' due process rights. "An FHA mortgage comes with many benefits that homeowners pay for as part of their monthly premium. By not informing homeowners that their mortgages are to be sold and their benefits terminated, HUD denies these homeowners their due process rights to object and to intervene to stop the sale. It's frustrating for us and disastrous for the homeowner."

Southeast Queens, long a bastion of African-American homeownership in New York City, has been particularly hard hit. Approximately 25% of all of HUD's New York City Notes Sales held between 2012 and 2014 impacted Southeast Queens properties. Among Note Sales in African American neighborhoods, Southeast Queens neighborhoods account for 41%. The coalition of elected officials is calling on HUD to overhaul this largely unknown policy. They hope to bring this issue to the attention of the public ahead of the next scheduled HUD mortgage auction on September 14th.

"The Federal Housing Administration exists to help Americans buy homes and, in case its necessary, to help prevent them from reaching foreclosure," said **Senator Jose Peralta** (D-East Elmhurst). "However, many homeowners are now unable to retain their properties because the sale of home loans by the FHA to unscrupulous private entities often results in the refusal of new loan owners to negotiate in good faith with those who are having financial troubles. Making matters worse, the weight of evidence now suggests that loans held by minority homeowners are being sold off to shoddy financial firms at a far higher rate than those held by their white peers. I commend MFY Legal Services for highlighting this issue in their recently filed class action lawsuit, and I strongly urge the U.S. Department of Housing and Urban Development to postpone its next sale of loan notes, which is slated for September 14th."

"The foreclosure crisis has hit African-American communities more than any other, and I am pleased to stand here today with my colleagues in government, advocates, and residents, to call for fair housing policies" said **Councilman I. Daneek Miller**. "Southeast Queens, with many other communities of color across the City and nation, are still recovering from the housing bubble, and we have only just begun to see changes by the Department of Housing and Urban Development to help these communities recover. But much more needs to be done, and that includes discontinuing the sales of notes to investors and instead allow people the opportunity to refinance and stay in their homes."

"For more than a decade now, homeowners of color have been sold a Bill of Goods," said **Council Member Ruben Wills**. "Participants in the loan and mortgage servicing industries seized on their eagerness to grab at their slice of the American Dream, and engaged in abusive practices that drove Southeast Queens families from their homes, leaving entire communities in ruins. That these predators are being allowed to capitalize on efforts by the government to keep any more homeowners from slipping into the abyss

of foreclosure is a further outrage. HUD has a moral obligation to cease its impending sale of troubled mortgage notes, close the doors to those entities that have unjustly profited from previous acquisitions, and empower local governments that have the resources to reclaim threatened properties by expanding their access to future note sales.”

"We are calling on HUD to suspend its Note Sale Program or to at least restrict sales to the city and nonprofit organizations that will help homeowners," said **Assemblywoman Alicia Hyndman**. "To do anything less is unconscionable. We're talking about families, not investments."

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