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Do Hedge Funds Make Good Neighbors?

How Fannie Mae, Freddie Mac & HUD are Selling Off Our Neighborhoods to Wall Street

THE CENTER FOR POPULAR DEMOCRACY

ACCE INSTITUTE

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The **Center for Popular Democracy** works to create equity, opportunity, and a dynamic democracy in partnership with high-impact base-building organizations, organizing alliances, and progressive unions. CPD strengthens our collective capacity to envision and win an innovative pro-worker, pro-immigrant, racial and economic justice agenda.

ABOUT THE **ACCE INSTITUTE**

The **ACCE Institute** was founded in 2010 and is dedicated to improving conditions in low -and- moderate income communities in California by providing public education and training in effective, community-based movement-building. The ACCE Institute is training both community organizers and community leaders in outreach and leadership development techniques to advance community-building work. The Institute works to increase the civic engagement of low –and – moderate income communities by helping local organizations develop non-partisan civic engagement efforts that encourage active public citizenship and voting in low- and moderate-income communities. Additionally, ACCE Institute is providing trainings on important policy issues impacting low and moderate income communities across the state, and producing and disseminating materials that give everyday people the information they needed to inform their efforts to advocate for their communities.

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Introduction

Nearly eight years after the start of the global financial crisis, hedge funds and private equity firms have found yet another way to make big profits: distressed housing assets. Often, the very same corporate actors that precipitated the housing crash in the first place are buying and selling off delinquent mortgages and vacant houses that are a product of the crash. Together, these Wall Street entities have raised over $20 billion to buy the notes for as many as 200,000 homes in the United States.[1] The newly consolidated single-family rental market is a lucrative business. A 2014 study estimated that the four largest holders of these assets have seen as much as a 23 percent rate of return on the properties they purchased in the last three years.[2]

Meanwhile, low-income communities of color across the country have suffered. Millions of Americans lost all the equity in their homes or experienced the hardship of foreclosure during the housing crisis and have not recovered from losing their greatest source of wealth. During the financial crisis, the median net worth for African Americans fell 53 percent; for Latinos, it was a 66 percent decrease. In contrast, median net worth for whites fell only 16 percent. While white families have experienced a rebound in wealth since the crisis, African-American and Latino families have not.[3]

Between 2006 and 2015, rates of homeownership have fallen while the number of single-family homes that are currently occupied by renters instead of homeowners has skyrocketed, up 31 percent to nearly 15 million renters in 2013.[4] In the aftermath of the financial crisis, Wall Street's investment in single-family homes has burgeoned, often crowding out prospective homeowners. For instance, in April 2015, one-quarter of all home sales were to cash-carrying investors;[5] in July 2013, cash-on-hand investors bought roughly 55 percent of the homes sold in Las Vegas, Nevada;[6] and, in Richmond, California, between 2009 and 2012, about half of all home sales went to investors.[7]

Major government and government-backed entities are fueling Wall Street's increased control or ownership of single-family homes. Both the Department of Housing and Urban Development (HUD) and the Federal Housing Finance Agency (FHFA), which oversees Fannie Mae and Freddie Mac, are auctioning off, often at a discount, tens of thousands of Non-Performing Loans that they want to get off their books. The vast majority of these loans have gone to hedge funds and private equity firms, and in many cases the properties then end up in their hands. **Although Fannie Mae and Freddie Mac have been unwilling to offer principal reduction to struggling homeowners, they often offer steep discounts when they sell these mortgages to Wall Street speculators.**

An initial examination of four of the largest purchasers of HUD and FHFA loans has unearthed an array of disturbing business practices, ranging from those that clearly run counter to the goals of homeownership preservation and neighborhood stability to those that break laws, deceive homeowners, and harm taxpayers more generally.

The troubling record of these four large buyers raises serious questions about the HUD and FHFA Non-Performing Loan sale programs–and argues for a very different approach. These institutions have an opportunity to sell their portfolios of distressed mortgages to purchasers that put the interests of occupants and neighborhoods first, instead of selling them to speculators.

Community Development Financial Institutions (CDFIs) have developed programs to buy very delinquent mortgages and offer a "restart" for struggling homeowners, by reducing principal down to current market value and otherwise modifying the loan. When these non-profits are not able to return homeowners back to good standing or they acquire vacant properties, CDFIs have a housing disposition plan based on the affordable housing needs of the communities.

In this paper, we review the track record, to date, of the HUD and FHFA single-family loan sale programs. We, then, explore the troubling record of four of the top buyers of these loans, who are benefitting from the way these loan sales are currently conducted.

We recommend that both HUD and FHFA take immediate action to prevent the on-going sale of distressed housing assets to companies that have misled and cheated taxpayers and companies whose practices are harmful to homeowners, tenants and communities. Specifically, HUD and FHFA should:

1) Establish much higher standards and criteria for the kind of companies that are eligible to purchase delinquent mortgages.
2) Prioritize companies that have a clearly defined program to offer permanent modifications with principal reduction and to create affordable housing with vacant properties.

Additionally, FHFA should themselves immediately begin to offer principal reduction in their own modification process.

The Government Fire Sale of Delinquent Mortgages to Wall Street Speculators and its Impact on Homeowners

Of the "resolved" loans for which HUD has reported to date, fewer than 10 percent of homeowners have been able to keep their homes. HUD has released information on loan outcomes for over 79,000 loans touting that 16,706 loans avoided foreclosure. However, a closer examination shows that this figure includes over 9,000 homes lost to original occupants through Deeds in Lieu, Short Sales or Third-Party Sales. The current occupants have been able to keep their homes in only 7,019 cases.[8]

HUD has been selling some 20 percent of these mortgages through special "Neighborhood Stabilization Outcome" pools, or NSO's. These pools are smaller and more geographically concentrated. Purchasers are required to resolve at least half of the loans acquired in ways that HUD has defined as helping to stabilize the community. However, allowable outcomes include results such as "short sale" and "held for rental." While a short sale is better for a homeowner than a foreclosure, occupants still lose their home and there is no particular benefit to the community. Holding properties for rental, with no affordability guidelines, does little to address community needs.

At the same time, the results from NSO pools are in fact better than the results from the general, national pools. One HUD program report indicated that NSO pools had 23.5 percent of resolved loans re-performing—over double that of the national pools. Non-profits won 12 percent of the mortgages sold through NSO auctions (compared to less than 2 percent overall). The superior NSO program results demonstrate the benefit to homeowners and communities from having stronger criteria that purchasers must meet and having more of those purchasers be non-profits committed to modifications with principal reduction.

However, the NSO program does not go far enough. Non-profit bidders have faced barriers to competition with major financial players, since the sale is still awarded to the highest bidders with no weighting of the quality of the programs/bidders. Thus, the same Wall Street bidders tend to win on multiple auctions and the same players win in the NSO pools as in the national auctions. Furthermore, the NSO pools are very small by design in order to allow smaller entities to place bids, but because of the limited number of NSO pools in total, very few loans in total have designated outcomes oriented towards community investment criteria.

Now, major bidders from HUD's program are also showing up in the Fannie Mae/ Freddie Mac purchaser lists. Since introducing similar programs in the past year, Fannie Mae and Freddie Mac have moved much more quickly than HUD. In May, Fannie Mae announced the sale of 3,200 loans with $786 million in unpaid principal balance (UPB),[9] all of which were awarded to One William Street Capital,[10] a hedge funded started by former Lehman Brothers mortgage securities executives.[11] Freddie Mac sold off over 7,000 delinquent mortgages worth over $1 billion through three sales, beginning in the summer of 2014.[12] The first sale was an undisclosed number of loans with $659 million in UPB, which went to investment firm Oak Hill Advisers. The second sale, for nearly 2,000 loans with $392 million UPB went to Pretium Mortgage Credit Partners and Bayview Acquisition, which is affiliated with the Blackstone Group. The third and largest sale so far, for nearly 5,400 loans, went to an affiliate of private equity firm Angelo Gordon. In contrast, HUD's first year of single family loan sales covered only 410 home loans, with $98 million worth of UPB.

Figure 1. Common bidders across multiple programs

HUD

National Pools

Purchaser	Count
Lone Star Funds	17066
Bayview Asset Management	15205
Angelo Gordon/GCAT Depositor 2014-4, LLC	7478
Selene Residential Partners	6384
RBS Financial Products	5485
Kondaur Capital Corporation	3504
Neuberger Berman—PRMF	3179
OHA Newbury Ventures, LLC/MCM	2917
Varde Management, L.P./V Mortgagea, LLC	2909
Credit Suisse/DLJ Mortgage Capital	2747
Altisource Residential Corporation	1954
25 Capital Partners	1895
PIMCO/LVS	1528
SW Sponsor, LLC (One William Street Capital)	1477
Others	3495
Total	**77223**

NSO Pools

Purchaser	Count
Bayview Asset Management	6863
Oaktree Capital Management/DC Residential	4772
The Corona Group	3678
25 Capital Partners	2340
Pretium Mortgage Credit Partners Loan Acquisitions, LP	1115
MRF (Non-Profit)	970
Kondaur Capital Corporation	601
Community Loan Fund of New Jersey, Inc. (Non-profit)	261
Altisource Residential Corporation	135
AMIP Management, LLC	49
Total	**20784**

Fannie Mae

Purchaser	Count
SW Sponsor, LLC (One William Street Capital)	710
Neuberger Berman's PRMF Acquisition LLC	2358
Total	**3068**

Freddie Mac

Purchaser	Count
Oak Hill advisors LP	undis-closed
GCAT Management services 2015-13 LLC (Angelo Gordon)	5398
Pretium Mortgage Credit Partners I Loan Acquisition LP	1220
Lone Star Funds	1052
Bayview Acquisition LLC	755
Total	**8425**

In response to pressure by community groups and advocates, HUD announced reforms to their mortgage-sale program in April of this year. They intend to auction more mortgages through the NSO pools described above and create more pools that are relatively small and geographically concentrated. Additionally, HUD will have some non-profit-only auctions. No sales have taken place since this announcement, so the impact of these changes is not yet known.

Fannie Mae and Freddie Mac have done little to increase the likelihood that non-profits will be able to win their loan sale auctions. They have announced that they will create some smaller pools, which could facilitate non-profit purchase. However, most of the smaller pools sold by HUD to date have still gone to Wall Street speculators, so there is no reason for confidence that this program element will address the problem.

Wall Street speculators use government programs to consolidate their hold on the profitable single-family market.

Since 2012, HUD, Fannie Mae and Freddie Mac have sold off some 130,000 troubled mortgages. Less than two percent of all loan sales have gone to non-profits (Fig. 1). The vast majority have been sold to private equity firms and hedge funds.

Figure 2. Top ten purchasers of loans sold through HUD, Fannie Mae or Freddie Mac pools

Purchaser	Loans	% Total
Lone Star Funds	22,558	19%
Bayview Asset Management	22,823	19%
Angelo, Gordon	12,876	11%
Selene Residential Partners	6,813	6%
RBS Financial Products	6,573	6%
Neuberger Berman—PRMF	5,537	5%
Oaktree Capital Management/DC Residential	4,772	4%
Kondaur Capital Corporation	4,105	3%
25 Capital Partners	4,235	4%
The Corona Group	3,678	3%
Others	23,859	20%
Total	**117,829**	

It is, of course, no surprise that Wall Street speculators prioritize the needs of the community and tenants below returns to investors. While public officials have sought to reassure taxpayers that these purchasers have financial incentives to try to keep families in their homes, the actual program outcomes suggest otherwise. Fewer than 10 percent of families have kept their homes under HUD's program, as of February 2015.[13] The same companies have bid repeatedly on pools of non-performing loans, with at least 10 winning multiple auctions. It stands to reason that such outcomes—with high rates of foreclosure, short sale, or deed transfers—are proving financially beneficial to investors.

Business Practices of the Wall Street Entities Buying up HUD and FHFA Mortgages

An initial examination of the history and business practices of just four of the largest purchasers of government-held troubled mortgages to date—Lone Star Funds, Blackstone Group, Angelo, Gordon and Royal Bank of Scotland—reveals behavior that ranges from being harmful for communities to being unethical and illegal. The first three of these entities have purchased loans not only from HUD, but now, more recently, from Fannie Mae and Freddie Mac. Between them, the four companies have bought nearly 65,000 loans from government entities.

Lone Star Funds appears to have a pattern of intentionally pursuing foreclosure of homeowners, failing to offer sustainable loan modifications, and aggressively driving up evictions

***Lone Star Funds** is a private equity firm that manages $45 billion in assets. To date, it is the single largest buyer of non-performing loans from HUD and Freddie Mac, having purchased the notes for over 22,500 homes across the country. Its CEO, John Grayken, has a net worth of $5.2 billion.*[14]

▶ John Greyken, Founder and Chairman, Lone Star Funds

The approach to modifications taken by Caliber Home Loans, a subsidiary of Lone Star Funds, does not appear to prioritize sustainable relief to struggling homeowners.[15] Nor does it seem that Caliber passes on enough of the benefits of buying these loans at a discount to homeowners or communities. In multiple cases, Caliber has offered principal forbearance instead of principal reduction, despite the fact that Caliber bought the loans for less than the unpaid principal balance. Principal forbearance creates a balloon payment that has to be paid if the home is sold, the loan refinanced, or when the loan matures, which can make it difficult for homeowners to refinance or sell if they need to.

Additionally, Caliber often offers temporary loan modification terms with "five-year interest-only;" these terms meant that homeowners are not paying down principal at all and will owe as much after five years of payments as they did when they began the process. These terms diverge from the Home Affordable Modification Program (HAMP) or industry-standard permanent modifications. Caliber's modification scheme is considerably less beneficial to those homeowners who must resume making full payments of principal and interest and whose original interest rate is higher than the temporarily modified rate. This becomes particularly challenging in year six and beyond for homeowners whose terms contain an adjustable interest rate. Without principal reduction, a modification with only a temporary interest rate and interest-only payments does nothing to mitigate payment shock at the end of the rate reduction period. As a result, modifications from Caliber are less likely to preserve homeownership than loan modifications from many of the other large servicers in the country who follow better standards.[16]

Individual cases also point to a business approach that is not in the best interests of homeowners. A Pennsylvania couple stated that this subsidiary of Lone Star Funds took intentional actions to force default by rejecting payments and miscalculating payments that had been made. The couple admitted default, but the judge ruled in favor of the homeowners, saying that their unsuccessful attempts to continue to pay was a reasonable defense.[17]

A man in Detroit was on the brink of eviction and tried to buy back his home from Caliber, but, according to the man, Caliber had not returned calls from the man or his lawyer since they originally announced their intent to evict. The homeowner had acquired a non-profit loan to finance his home repurchase, which could not go forward until Caliber confirmed its intent to sell him back the home.[18]

Numerous Consumer Affairs complaints about Caliber and Vericrest Financial (the company's previous name) suggest that these are not isolated incidents but rather a clear part of Lone Star's business model. These complaints include allegations that Lone Star affiliates tried to foreclose without notice or after only one late payment. They frequently allege that Caliber and/or Vericrest took homeowners' payments but never updated their status or applied them to their accounts.[19]

RBS has a record of criminal activity and appears to have engaged in willful deception of public entities and in predatory practices targeting small businesses.

Ross McEwan
CEO, RBS

The Royal Bank of Scotland Group *has at times been the largest bank in the world and currently has total assets of $1.6 trillion.[20] RBS Financial Products, Inc., an affiliate of the Royal Bank of Scotland (RBS), has purchased over 5,000 distressed single family mortgages from HUD. In 2014, RBS booked a $5.4 billion loss, but said it paid $64.5 million in bonuses that year.[21] RBS continues to be 81 percent owned by the UK government, after it was taken over during the financial crisis in 2008. In 2015, Ross McEwan returned his $1.5 million "role-based" shares incentive, but still netted $4.1 million in take home pay.[22]*

In early May of this year, a Federal judge ruled that RBS broke the law by misleading housing agencies Fannie Mae and Freddie Mac when it sold them mortgage bonds that involved loans that were improperly underwritten. The judge even asserted that "the magnitude of falsity, conservatively measured, is enormous." Damages could total up to $500 million.[23]

Also in May, the bank pleaded guilty to criminal charges for colluding with other banks to rig the foreign exchange currency rates to enrich themselves at the expense of their clients and—as the foreign exchange currency rates affect global commerce—the global economy. These practices went on for over a decade.[24] Fines in the case are expected to come to $1 billion.[25]

In 2013, a report by an adviser to England's business secretary alleged that in some cases, RBS forced business customers to default on loans so that the bank could charge higher fees or seize their properties and sell them.[26] They also willfully misled small business owners in the UK about loan terms for taxpayer-backed loans.[27] The claims are currently being investigated by the UK's Financial Conduct Authority. RBS subsequently admitted that two executives made misleading statements about the business division when presenting evidence to a parliamentary committee regarding the predatory practices.[28]

These are not isolated incidents. RBS has a history of breaking the law in ways that injure homeowners, communities, and the broader public. In 2012, the Royal Bank of Scotland entered a settlement agreement in a case brought by the State of Nevada Attorney General for the bank's role in peddling subprime and adjustable-rate mortgages to homeowners across Nevada between 2004 and 2006. In the settlement, RBS agreed to pay $42.5 million to go towards payments for affected homeowners, as well as mortgage-fraud enforcement, foreclosure prevention, and attorney fees and costs.[29] RBS is now prohibited from securitizing any further mortgages within the State of Nevada unless it engages in a reasonable review of the loans and determines that lenders disclose variable-rate terms to the borrowers.[30] In another lawsuit for securitizing unfair subprime and adjustable-rate mortgages (during 2006 and 2007), RBS settled with the State Attorney General of Massachusetts, for $52 million, with funds going towards principal reduction and other relief for hundreds of subprime borrowers, to the State of Massachusetts, and to local entities including municipalities that were the most affected by foreclosures stemming from the RBS-securitized loans.[31]

Blackstone Group has a business model that puts risk on the backs of tenants. They fail to maintain their single-family rental portfolio, have unresponsive customer service and engage in abusive, mismanaged eviction practices.

Stephen Schwarzman
CEO, Blackstone Group

***The Blackstone Group** is one of the world's largest private equity firms, with $266 billion in assets under management.[32] The firm specializes in leveraged buyouts, but since the financial crisis, it has also spent nearly $7.5 million to purchase the 40,000 single family homes it manages as rentals across the United States.[33] In 2013, Blackstone collected $4.7 billion in performance fees—70 percent of which came from its real estate segment. Blackstone's net income in 2013 came to $2.9 billion. The following year, CEO Stephen Schwartzman was paid over $690 million—the largest ever annual payment for a CEO of a public company.[34]*

Blackstone Groups holds a significant share in Bayview Acquisitions LLC,[35] which has bought nearly 24,000 non-performing loans through HUD's Distressed Asset Sales Program (DASP), making it the second largest buyer in the program.[36] Blackstone Group also owns Invitation Homes, a single-family property management subsidiary established in 2012, which already has a bad record on tenants' rights.[37]

In Chicago, Invitation Homes has required tenants to rent property "as is." Although such terms are sometimes allowed in commercial leases, they are not standard in residential leases. The property management company has also used leases that aim to indemnify Invitation Homes from any damages, including those caused by its own negligence. These terms are likely in violation of local housing laws and Illinois' Landlord and Tenant Act.[38] Such "as is" rentals and indemnification clauses shift the risk and expense of ownership to tenants.

In addition to imposing such unscrupulous terms, Blackstone Group fails to maintain their rental portfolio. Tenants who have moved into Invitation Homes properties across the country have described that the company failed to carry out the renovations they had promised upon lease signing. Renters have faced significant problems, including plumbing issues, broken water heaters and air conditioners, and infestations of rodents and insects.[39] A 2014 study of 1,400 Invitation Homes' renters in Los Angeles and Riverside, California, found widespread maintenance issues. Nearly half of all residents interviewed (46%) reported that they had problems with plumbing, 39 percent had issues with roaches or insects, and 22 percent had had problems with rodents or termites. Over one-fifth reported issues with heating or air conditioning, 20 percent reported problems with mold, 18 percent reported having roof leaks, and 19 percent reported experiencing other problems with the conditions of their homes.[40]

Individual legal actions also provide a glimpse of serious problems with Blackstone Group's practices as a landlord. In one instance, a couple in Los Angeles are suing Invitation Homes for uninhabitable living conditions after they tried to rent a home from the company but found the residence to be uninhabitable (including the presence of mold, water leaks, and roaches) and Invitation Homes refused to make repairs. Invitation Homes also changed the locks on the place after the couple moved out so that they were unable to retrieve their personal belongings for a period. However, Invitation Homes continues to demand rent because their lease requires the tenants to pay rent while they do not occupy the property.[41]

Invitation Homes also engaged in a wrongful foreclosure of a man in Orange County, Florida. The company tried to evict the occupant even though a judge had cancelled the foreclosure order and, therefore, Invitation Homes never rightfully owned the property. Also, letters sent by Invitation Homes to the homeowner included false information (e.g., that an eviction had been filed against him).[42]

Angelo, Gordon Inc. is one of the largest investors in non-performing single-family loans, yet has little interest in protecting American homeowners. It has repeatedly taken a position opposing settlements that provide consumer relief for America's homeowners and has engaged in ethically questionable business practices and political contributions.

In the first quarter of 2015, GCAT Management Services LLC 2013-15, an entity affiliated with hedge fund ***Angelo, Gordon Inc.****,*[43] *purchased over 5,000 non-performing loans worth $1.08 billion from Freddie Mac.*[44] *Related entities have purchased over 7,400 from HUD.*[45] *Founded in 1988, Angelo, Gordon currently manages $27 billion in assets.*[46]

▸ John M. Angelo, CEO, Angelo Gordon

In 2008, the US Senate Committee on Homeland Security and Government Affairs investigated Angelo, Gordon & Co for tax evasion. The company was one of three asset managers brought before the Permanent Subcommittee on Investigations shortly before the acceleration of the 2008 U.S. financial crisis. The hearings focused on the use of "total return swap contracts," which allowed Angelo, Gordon & Co. to receive income as though they owned a security while avoiding that level of taxation. The use of these swap contracts was part of the controversial "Cayman Islands Trade" that allowed offshore financial institutions to dodge U.S. taxes.[47] During the course of the Congressional hearing, Angelo, Gordon managing director Gary Wolf admitted that, while Angelo, Gordon & Co. was legally domiciled in the Cayman Islands, they did not employ a single person in that country.[48]

In addition to their interest in distressed mortgages, Angelo, Gordon & Co. is one of the many U.S. asset managers who have snapped up Puerto Rico's distressed municipal bonds, in the hopes of extracting huge sums if Puerto Rico's public power authority fails to be able to pay their creditor.[49] Angelo, Gordon & Co. is taking active steps to use their clout in Congress to help position itself for extractive debt plays in Puerto Rico. The company lobbied against the Puerto Rico Chapter 9 Uniformity Act of 2015, which appears to have been a bipartisan attempt by Puerto Rican legislators to alter their bankruptcy code to prevent debt vulturism around the island's heavily indebted public utility authorities.[50] [51] [52]

Jonathan Lieberman, managing director of Angelo, Gordon, has been sharply critical of public attempts to protect homeowners from foreclosure proceedings abuses through tailored regulation. In 2012, a settlement agreement was reached between the big five banks and their mortgage servicing subsidiaries, the U.S. Departments of Justice and Health, Education and Welfare, and 49 of the 50 states' attorneys generals, regarding alleged mortgage servicing and foreclosure processing abuses on the part of banks and their servicers. On this occasion, Lieberman made a statement on behalf of the Association of Mortgage Investors in which he stated that for Angelo, Gordon and other members of the Association, their "primary mission [was] to invest in mortgages on behalf of American investors." He went on to assert that

> *Capitalism and credit standards require people and institutions to honor contractual obligations, act responsibly and to unfortunately also to fail in order to cleanse the system of the lowest common denominator. At its root, credit is a privilege, not a right and not*

> *democratically allocated. You earn credit which allows you to borrow tomorrow's money to pay for something you get today.*[53]

This account disregards the explicitly predatory lending practices of the finance industry, using rhetoric to try to place the entire burden of failed mortgages on homeowners. Through statements like these, Angelo, Gordon has demonstrated that not only is its business model ideologically opposed to protections enacted to serve low-income American homeowners, but that it sees a contradiction between its fiduciary interests and the public's interest in preventing foreclosures or offering greater protection to homeowners.

Despite the company's opposition to consumer relief, it has itself been the beneficiary of substantial public subsidies, particularly in the aftermath of the financial crisis. It was one of the largest recipients of the Term Asset-Backed Securities Loan Facility (TALF) program, a tax-payer subsidized handout to Wall Street. This bailout program was designed to prevent deflation and to enhance liquidity in the consumer and business lending markets. The program allowed the Treasury department to issue up to $200 billion in low-cost loans, which could be used to purchase asset-backed securities, including mortgage-backed securities.[54] According to a 2011 Government Accountability Office report, which suggested several ways to strengthen transparency with the program, Angelo, Gordon & Co. was the fifth largest TALF borrower, borrowing $3.7 billion, or 5.2% of total loans given issued at the time of GAO's analysis.[55] Angelo, Gordon & Co.'s access to TALF made it easy for them to earn tax-subsidized returns by borrowing cheaply from the government and investing in speculative mortgage-backed securities. Angelo, Gordon & Co. also participated in the Treasury department's Legacy Securities Public-Private Investment Program, which provided additional subsidies for the purchase of residential and commercial mortgage-backed securities issued prior to 2009.[56] The program was critiqued as offering a significant subsidy to eligible investors, who were able to minimize their risk while maintaining their possibility of sizeable gains.[57]

Additionally, Angelo, Gordon has engaged in questionable, if not illegal, activity. Several public pension funds hold large investments in funds managed by Angelo, Gordon. The State of New Jersey terminated a $150 million investment with the firm in 2011, yet continued to pay a total of over $500,000 in management fees through 2014.[58] During the same period, Mary Pat Christie, the wife of Governor Chris Christie, joined Angelo, Gordon as a managing director in 2012, and earned a salary of $475,000 a year. The arrangement was widely criticized and prompted the New Jersey State AFL-CIO to file an ethics complaint. Despite calls for her resignation, Mary Pat Christie did not leave her position at Angelo, Gordon until spring of 2015.

Angelo, Gordon's relentless pursuit of funds may have led to other improper behavior. In 2013, the North Carolina Retirement System (NCRS) banned Angelo, Gordon from utilizing placement agents after an internal review identified instances in which gifts were exchanged or political contributions were made to decisions makers for the NCRS while they were considering an investment with Angelo, Gordon.[59]

Community-driven alternatives: Non-profits purchase distressed mortgages and rebuild communities

In stark contrast to Wall Street speculators, several non-profits have developed community-oriented programs to compete in this non-performing loan market. These potential purchasers have clearly defined objectives to preserve homeownership and create affordable housing. Elements of their programs include:

- Partnering with HUD-certified housing counseling agencies to outreach to homeowners and work with homeowners in an attempt to avoid foreclosure;
- Attempting modifications with principal reduction; and
- Turning vacant houses into affordable housing to address community needs.

Several non-profits, including the two featured below, have significant capital pledged and stand ready to purchase thousands of additional mortgages.

National Community Capital

National Community Capital LLC (NCC) was formed in 2012 with the goals of reducing foreclosures and stabilizing neighborhoods across the country. NCC has current operations in Florida, New Jersey and North Carolina and has capacity to expand to other target states. NCC is a non-profit organization and a subsidiary of the New Jersey Community Capital ("NJCC"), a 501(c) (3) Community Development Financial Institution ("CDFI").

NCC invests in local communities by purchasing non-performing loans (NPL) pools and following one of three strategies. NCC modifies and stabilizes delinquent homeowners through principal reduction; provides borrowers with options other than foreclosure if borrowers are unable to qualify for a loan modification, and assists them in achieving other stable housing opportunities; and purchases REO's, where possible, from these pools, to rehab and either sell to local owner-occupants, or hold and rent for a period of time before selling to local owner-occupants.

The NCC Loan Modification Program permanently modifies a loan by reducing and forgiving the unpaid principal balance of underwater borrowers to a post-assistance loan amount whose net present value does not exceed the lesser of:

- A loan amount equal to 100% (in some states up to 115%) of the current market value of the property; or
- A loan amount with a net present value (using the borrower's current contract interest rate) which results in a monthly total housing payment that does not exceed 35% of the borrower's adjusted gross monthly income.

The Broxton Family

For the Broxton family, in Florida, NCC's program has made a significant difference. Prior to entering into loan modification, the Broxtons were severely underwater on their mortgage, with a loan nearly two-and-a-half times larger than the value of their house. After the modification program, their debt has gone from nearly $285,000 to a little over $72,000. They now pay just under $600 a month to meet their family's housing needs. This program has allowed this family of five, living off of just over $20,000 a year, to not only stay in their home but also invest in their future.

NCC partners with a private capital entity to purchase the eligible loan pool. Hardest Hit Funds (HHF) are used only to permanently modify mortgages for eligible homeowners.

The NCC Program requires borrowers to meet with a local HUD-approved Not-For-Profit ("NFP") counseling agency who is trained by NCC in its Loan Modification Program and to complete both the Loan and HHF applications.

NCC's program currently covers 2,946 loans with a total unpaid principal balance of $665,442,480. 2,200 of these loans were recently acquired, and work towards resolutions has just begun.

- 108 borrowers have had their loans permanently modified with HHF assistance
- 176 borrowers are in the trial modification program
- 528 borrowers are in the NCC loan modification program

Hogar Hispano Inc.

HHI has responded to the nation's housing crisis by leveraging the public-sector resources set aside for the recovery effort to generate more private-sector funding and resources. This organization puts these resources to work to strengthen Latino communities in two ways:

1) *HHI acquires and renovates distressed REO properties for resale or lease to income-qualified families and individuals in the community, and*

2) *HHI also purchases distressed low-value mortgages and works with the families to modify their loans so that they can afford to remain in their home as homeowners.*

Hogar Hispano Inc. (HHI) is a not-for-profit 50l(c) (3) corporation founded by the National Council of La Raza in 2004. Headquartered in Washington, DC since 2004, the organization opened a satellite office in Phoenix AZ in 2011 and currently serves 31 U.S. states, with a keen focus on Arizona, Texas, California, Nevada, Michigan, Maryland, Florida, Ohio, Georgia and Illinois. These communities, among the hardest hit by the economic crisis, have high concentrations of underserved Latinos.

HHI worked with one of the nation's largest banks to conduct a pilot program to demonstrate that some non-profits have the capacity to raise funds and the ability to manage distressed portfolios, if they are provided the opportunity to acquire these loan pools. Through Second Opportunity of America (SOA), an LLC formed by HHI, the organization was able to acquire distressed loans and manage the portfolio, successfully acquiring 467 loans in 31 states. All of the loans were delinquent or severely delinquent and would have been foreclosed on or sold to a hedge fund or other similar vulture buyer, if they remained unresolved.

The program design involved partnering with groups like National Council of La Raza's Housing Counseling Network to insure that each homeowner was closely evaluated in order to determine their ability to remain in their homes as homeowners. HUD-certified housing counselors were assigned to each homeowner and provided HHI with relevant homeowner information and to advise HHI on the amount the homeowner was able to pay. With these assessments, HHI was able to provide principal forgiveness and/or waivers of the various fees that were preventing homeowners from reinstating their loans. HHI's success also hinged on their ability to identify a servicer to partner with the network of housing counselors and implement HHI's program parameters specifically designed to preserve homeownership.

The pilot achieved strong, community-oriented results. HHI were able to:

- successfully reinstate 47 loans,
- modify 116 loans, with sustainable mortgages terms, to keep the homeowners in their homes
- complete 16 short sales, and
- forgive more than $4,000,000 of principal

Although HHI had to liquidate 219 of the loans, its success rate—35 percent of homeowners retain their homes—is remarkable for a portfolio selected for its poor performance and low value. Over all, the pilot proved that if loans are sold to good actors, families can stay in their homes as homeowners.

Conclusion

The abysmal records of some of the biggest winners in the HUD program and the newer Fannie Mae and Freddie Mac sales indicate that the criteria for participation in these programs need to be changed immediately.

HUD and FHFA should take immediate action to:

1) Establish much higher standards and criteria for the kind of companies that are eligible to purchase delinquent mortgages.

2) Prioritize companies that have a clearly defined program to offer permanent modifications with principal reduction and to create affordable housing with vacant properties.

Additionally, FHFA should immediately begin to offer principal reduction in their own modification process.

Two distinct paths forward are available: the abuses of the biggest purchasers to date of the HUD and FHFA non-performing loans; or, the approach of community development financial institutions with both the ability and the commitment to create affordable housing to better local communities. The status quo benefits the very actors that hastened the financial crisis and actively created the conditions that sucked over half the wealth from millions of American families. These companies profit from new predatory practices and speculative business models that once again take advantage of ordinary people.

In the other scenario, Fannie Mae, Freddie Mac and HUD choose to learn from the mistakes of the past and work with financial institutions that have clear missions and incentives built around, first, stabilizing neighborhoods and, then, helping them to thrive.

The choice is clear. By selling severely delinquent mortgages to non-profits that have the program, plan and capacity to attempt permanent modifications with principal reduction and to create affordable housing with vacant properties acquired, major public institutions can demonstrate a strong commitment to community development and to rebuilding our communities from the bottom up.

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