

# United States Senate

WASHINGTON, DC 20510

October 30, 2015

The Honorable Julián Castro  
Secretary  
U.S. Department of Housing and Urban  
Development  
451 7<sup>th</sup> Street, SW  
Washington, DC 20410

The Honorable Janet Yellen  
Chair  
Federal Reserve Board of Governors  
20<sup>th</sup> Street and Constitution Ave, NW  
Washington, DC 20551

The Honorable Thomas Curry  
Comptroller  
Office of the Comptroller of the Currency  
400 7<sup>th</sup> Street, SW  
Washington, DC 20219

The Honorable Martin Gruenberg  
Chair  
Federal Deposit Insurance Corporation  
550 17<sup>th</sup> Street, NW  
Washington, DC 20429

The Honorable Richard Cordray  
Director  
Consumer Financial Protection Bureau  
1700 G Street, NW  
Washington, DC 20552

The Honorable Melvin Watt  
Director  
Federal Housing Finance Agency  
400 7<sup>th</sup> Street, SW  
Washington, DC 20024

The Honorable Debbie Matz  
Chair of the Board  
National Credit Union Administration  
1775 Duke Street  
Alexandria, VA 22314

Dear Secretary Castro, Chair Yellen, Comptroller Curry, Chairman Gruenberg, Director Cordray, Director Watt, and Chair Matz:

We write today regarding serious concerns about the long-lasting impacts of the foreclosure crisis facing our communities. As communities across the country have struggled to recover from precipitous declines in home values, widespread job losses, and high household debt, many towns and cities nationwide are witnessing an increase in abandoned or “zombie” foreclosures. A zombie foreclosure is characterized by homes where banks have initiated the foreclosure process, and homeowners have made the painstakingly difficult decision to leave their home, and yet the bank then chooses to walk away from the foreclosure because the value of the property is not worth the cost of maintaining the home and completing the foreclosure process. Often with no notice to the homeowner and based on a profit-driven determination, the bank decides to turn its back on the homeowner, on the property, and on the community at large.

Our state of New Jersey has more zombie—also called “walkaway” foreclosures—than anywhere else in the country. In fact, New Jersey saw an increase in these foreclosures by 29

percent in just this last year.<sup>1</sup> And while the number of abandoned foreclosures has decreased nationally, this problem has persisted and even worsened in economically distressed areas, adding to the urgency in addressing this situation. Furthermore, a 2010 Government Accountability Report on the topic found that abandoned foreclosures most frequently involve loans to borrowers with lower quality credit and lower value properties in areas hit hardest by the crisis.<sup>2</sup>

This problem cannot simply be designated as a relic of the crisis—it is real, and it is affecting homeowners, neighborhoods, and communities throughout the country. When a bank or mortgage servicer takes stock of their options and determines that the cost of maintenance and the duration of the foreclosure process for a particular home outweighs any potential return on the property, the servicer should be required to take steps to notify the homeowner, contact local authorities, and make arrangements for alternative disposition of the property. Borrowers in this situation are typically unaware that they are still responsible for taxes and fees, and while they may presume that the bank or mortgage servicer is on the hook, the borrowers could be subject to wage garnishment, major hits to their credit, and seizure of any tax refunds. The fact is that this country is in the midst of an affordable housing crisis, and it's simply unacceptable that banks are sitting on abandoned properties to the detriment of struggling homeowners and communities, just to preserve their bottom line.

One of the enduring lessons of the Great Recession and the resulting foreclosure crisis is that economic problems are not confined within the four walls of a home. The wider community impact of this crisis is undeniable. First and foremost, a foreclosure—often precipitated by a lost job, illness, or a change in family circumstances—so clearly damages a household. For many around the country, homeownership is the fundamental, and sometimes only, path to creating and building wealth. A foreclosure temporarily and at times permanently cuts off this path, affecting future generations of American families and their ability to seek out education and employment opportunities. And beyond the household itself, an initiated foreclosure that is later abandoned by a bank can in short order lead to devastating impacts for the neighborhood at large. Abandoned homes are breeding grounds for blight, crime, trash and debris accumulation, all of which undeniably weigh down the values of neighboring homes. Furthermore, towns and municipalities are left to shoulder the burden of maintenance and crime prevention, all the while losing out on critical revenue from property taxes.

As regulators of the entities responsible for performing mortgage servicing on these loans, we urge you to take appropriate actions to address this issue. Homeowners, neighborhoods, and communities across the country look to your agencies to ensure that banks and servicers act equitably throughout the foreclosure process. With that in mind, please provide detailed answers to the following questions:

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<sup>1</sup> RealtyTrac (Oct. 8, 2015) <http://www.realtytrac.com/news/foreclosure-trends/realtytrac-q3-2015-u-s-zombie-foreclosure-and-vacant-property-report/>.

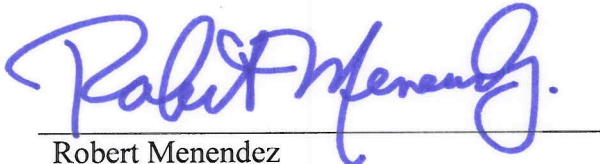
<sup>2</sup> U.S. GOV'T ACCOUNTABILITY OFFICE, GAO-11-93, MORTGAGE FORECLOSURES: ADDITIONAL MORTGAGE SERVICER ACTIONS COULD HELP REDUCE THE FREQUENCY AND IMPACT OF ABANDONED FORECLOSURES (2010) <http://www.gao.gov/assets/320/312243.pdf>.



1. In 2012, the Board of Governors of the Federal Reserve System issued supervisory guidance regarding a lender's decision to discontinue foreclosure proceedings.<sup>3</sup> This guidance requires entities to take several key actions when they decide to end foreclosure proceedings, including providing notification to borrowers, notification to local authorities, and obtaining up-to-date property values on the property. In addition to the guidance from the Federal Reserve, what regulatory, supervisory, or enforcement provisions are in place to address this issue?
2. Do existing regulations and guidance on this issue require servicers to inform borrowers that they remain responsible for property taxes?
3. Is additional statutory authority needed to require mortgage servicers to make proper notifications to homeowners and localities and to require servicers to obtain updated property valuations?
4. In addition to requiring banks and mortgage services to notify borrowers and localities of their intent to discontinue the foreclosure process, what other steps can be taken to address the current backlog of abandoned foreclosures and prevent future abandoned foreclosures?
5. Where appropriate, are your agencies coordinating regulatory, supervisory, and enforcement efforts on this issue?

Thank you in advance for your attention to this request.

Sincerely,



Robert Menendez  
United States Senator



Cory A. Booker  
United States Senator

<sup>3</sup> Board of Governors of the Federal Reserve System, Guidance on a Lender's Decision to Discontinue Foreclosure Proceedings, SR 12-11, CA 12-10 (July 11, 2012) <http://www.federalreserve.gov/bankinforeg/srletters/sr1211.pdf>.