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“TURMOIL IN THE U.S. CREDIT MARKETS: EXAMINING RECENT
REGULATORY RESPONSES”

COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS

UNITED STATES SENATE

October 23, 2008

Thank you for the invitation to come before you today to discuss what the Department of Housing and Urban Development is doing, and plans to do, at this time to support our nation's homeowners and communities. As all Americans have come to learn in recent months, the housing market is central to our economy, and economic confidence is critical to the availability of credit.

As the nation's lead housing agency, the Department is uniquely qualified to offer valuable insight into many of today's current market conditions. HUD takes its homeownership mission very seriously and remains focused on sustaining responsible homeownership. HUD continues its support of the broader efforts by Congress and the Administration through the Housing and Economic Recovery Act (HERA) and the Emergency Economic Stabilization Act (EESA) to help restore confidence in the housing and financial sectors of our economy.

HUD's Federal Housing Administration (FHA) has been at the forefront of many of the Agency's efforts during these daunting economic times. Just in the last two years, FHA has seen its market share grow from 2 percent to 17 percent and its loan volume is running at three to four times last year's level. FHA guaranteed more than \$181 billion in mortgage loans in FY 2008. In the midst of all this, FHA has been a leader in contacting FHA-insured homeowners in trouble to work out solutions. In 2008, FHA servicers completed more than 100,000 loss mitigation actions. Of these actions, 96,500 are currently retaining homeownership. This represents an 11.5 percent increase in home ownership retention over 2007. Overall, the expected retention rate for these borrowers is 87 percent.

In fact, loss mitigation efforts by HUD have helped about 300,000 families keep their homes over the last three years. Over a year ago, HUD noted an alarming number of American homeowners heading toward foreclosure and took action. Specifically, on August 31, 2007, acting through the FHA, HUD launched *FHASecure*. This initiative offers certain homeowners with adjustable rate mortgages, current or delinquent, the ability to refinance into a FHA-insured mortgage.

I am pleased to report that, since *FHASecure* was launched, FHA has helped nearly 400,000 families, many of whom were facing the loss of their homes, refinance into a safe, more affordable FHA-insured mortgage. We believe a total of about 500,000 families will refinance into more affordable FHA mortgages by the end of the calendar year.

HUD also worked diligently through its approved housing counseling agencies to provide loss mitigation, mortgage delinquency, and default counseling services to assist homeowners facing foreclosure. HOPE NOW has also streamlined the loan review process to speed up loan modifications and refinancings, and established best practices to deal with difficult situations like second liens. At the moment, 27 of the nation's largest mortgage companies are participating, companies that service about 90 percent of all subprime loans. With the help of HOPE NOW,

nearly 2.3 million loans have been reworked since July 2007. An industry-wide problem requires an industry-wide solution.

With the enactment of the Housing and Economic Recovery Act, Congress provided HUD with additional tools to strengthen the housing market. These critical changes have proven beneficial to American families. In addition to FHA Modernization, two new programs were placed under HUD's leadership to help distressed homeowners as well as state and local governments confronting high foreclosure rates and abandoned properties within their jurisdictions.

First, the HOPE for Homeowners (H4H) program was created to help those at risk of default and foreclosure refinance into more affordable and sustainable loans. Working closely with an Oversight Board comprised of the Treasury Department, Federal Reserve Board, Federal Deposit Insurance Corporation, and HUD, H4H is being administered by HUD's Federal Housing Administration. I speak for all four agencies when I tell you that we are proud to have launched this program on October 1, 2008, just 60 days after the bill being signed into law and the first date allowable under the legislation. We expect the first loan guarantees by the first of the year. This program presents an additional financing option to families facing some of the most difficult mortgage debt situations.

Second, HUD launched the Neighborhood Stabilization Program on September 29, 2008. This program provides emergency assistance to state and local governments, in the form of Community Development Block Grant (CDBG) funds, to acquire and redevelop foreclosed properties that might otherwise be abandoned and become blight within their communities. State and certain local communities can also use these funds to purchase abandoned homes and to rehabilitate, resell, or redevelop those homes in order to stabilize neighborhoods and stem the decline in home values.

On October 3, 2008, Congress and the President took another significant step, by enacting the Emergency Economic Stabilization Act. The passage of this economic assistance package was essential. Credit must begin to flow again to businesses and American families. When credit is frozen, American families can't access the capital they need to pay for education, buy homes, or pay for emergencies. Businesses can't get the capital they need to invest in ways that grow our economy, thereby creating jobs and expanding opportunity for all Americans.

The President recognizes that government action is essential to get credit flowing again to businesses and American consumers. Of course, stabilizing the system and restoring confidence to the markets is not going to happen overnight but I remain confident that our thriving economy will return because of the optimistic and entrepreneurial spirit of the American people and our workers.

The central feature of the EESA is the establishment of the Troubled Assets Relief Program (TARP). Through this program, the Secretary of the Treasury is authorized to

purchase, and make and fund commitments to purchase, troubled assets from any financial institution, on such terms and conditions as determined by the Secretary within the parameters of the Act. HUD serves on the Financial Stability Oversight Board (FSOB) for TARP, which is already being used to re-capitalize financial institutions and restore liquidity to credit markets. In fact, the FSOB met on Wednesday of this week to begin framing up the practical means by which oversight will be conducted.

Conclusion

I appreciate having this opportunity to update you on the various efforts being undertaken at HUD to ensure that the bedrock of America's economy, the housing market, remains strong and vibrant.

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