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U.S. Department of Housing and Urban Development

Hearing before the Committee on Banking, Housing, and Urban Affairs

United States Senate

"Homeowner Affordability and Stability Plan"

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Mr. Chairman, Senator Shelby, and distinguished Members of the Committee, thank you for the opportunity to appear before you today.

Homeowners and communities throughout the country have been devastated by the economic crisis. Many responsible families, making their monthly payments, have experienced falling home values that disqualify them from opportunities to refinance with today's low interest rates. Millions of American workers have been laid off, or forced to accept less work, and are grasping at every resource possible to make their mortgage payments.

In the absence of action, over 6 million families could face foreclosure in the next few years, with millions more struggling to stay above water. In the absence of action, we would have seen an intensifying spiral of more lenders foreclosing, pushing nearby home prices even lower, and putting more families underwater. In fact, when a family loses their home to foreclosure, nearby homes drop in value as much as 9 percent, causing harm to every homeowner – even those who make every payment – when foreclosures in their community increase.

On February 18th, President Obama announced the Homeowner Affordability and Stability Plan, a plan to make help available to as many as 7 to 9 million homeowners who are fighting hard to make their payments and stay in their homes. The Plan will not provide money to speculators. It will target support to the working homeowners who have made every possible effort to stay current on their mortgage payments. The Homeowner Affordability and Stability Plan is part of the President's comprehensive strategy to get the economy moving in the right direction. Just as the American Recovery and Reinvestment Act works to save or create several million new jobs and the Financial Stability Plan works to get credit flowing, the Homeowner Affordability and Stability Plan will support a recovery in the housing market and ensure that these workers can continue paying off their mortgages.

The plan not only helps responsible homeowners at risk of losing their homes, but prevents neighborhoods and communities from decay, as defaults and foreclosures fuel falling home values, local business collapses, and further job loss.

- First, encourage homeownership by helping keep mortgage rates low.
- Second, support for refinancing to up to 4 to 5 million responsible homeowners to make their mortgages more affordable.
- Third, launch a $75 billion homeowner stability initiative to reach up 3 to 4 million at-risk homeowners.

To help keep mortgage rates low and promote stability and liquidity in the marketplace, the Treasury Department will continue to purchase Fannie Mae and Freddie Mac mortgage-backed securities. In addition, the Treasury Department will increase its funding commitment to Fannie Mae and Freddie Mac to ensure the strength and security of the mortgage market and to help maintain mortgage affordability. This backing will bolster confidence in the mortgage market, allowing Fannie Mae and Freddie Mac to continue to provide mortgage affordability for responsible homeowners.

As noted, mortgage rates are currently at historically low levels. But under current rules, only families with conforming loans owned or guaranteed by Fannie Mae or Freddie Mac who owe less than 80 percent of the value of their homes are eligible for refinancing to these low interest rates. Unfortunately, given the recent decline in home prices, millions of responsible homeowners who made down payments and timely mortgage payments are unable to access these lower rates. The President's plan will help as many as 4 to 5 million of these homeowners refinance to lower interest rates through Fannie Mae and Freddie Mac, by opening eligibility to borrowers who owe, on their mortgage, 80 to 105 percent of the current value of their home.

Finally, the President has announced an initiative to reach millions of responsible homeowners who are struggling to afford their mortgage payments. In the current economy, millions of hard-working families have seen their mortgage payments rise to 40 or even 50 percent of their monthly income – particularly if they received subprime and exotic loans with exploding terms and hidden fees. The Homeowner Stability Initiative operates through a partnership of lenders, servicers, borrowers, and the government to help responsible borrowers stay in their homes, providing families with security and neighborhoods with stability. Based on estimates of the effects of foreclosures on the value of nearby homes, the Homeowner Stability Initiative could protect the owner of an average-valued home in the U.S. from as much as a $6,000 decline in home values.

Homeowners with high mortgage debt compared to income may be eligible for a loan modification as long as their home mortgage does not exceed GSE conforming loan limits. Further, the increase in GSE conforming loan limits (up to $729,750 in some high-cost areas) as enacted in the ARRA will allow more borrowers to qualify.

Significantly, this program will not require homeowners to be delinquent in their payments to qualify for eligibility. Loan modifications are more likely to succeed if they are made before a homeowner becomes delinquent; thus, the plan will include households at risk of imminent default despite having not yet missed a mortgage payment.

Borrowers with large non-housing debts can qualify, but only if they agree to enter HUD-certified counseling. Specifically, homeowners with total "back end" debt (which includes not only housing debt, but other debt including car loans and credit card debt) equal to 55% or more of their income will be required to agree to enter a counseling program as a condition for a modification.

The Homeowner Stability Initiative should reach up to 3 to 4 million at-risk borrowers in all segments of the mortgage market, reducing foreclosures, and helping to avoid further downward pressures on overall home prices. The program has several key components:

- First, the government will partner with lenders to reduce the homeowner’s monthly payment to an affordable level. The lender is solely responsible for interest rate reductions and other changes necessary to lower the borrower’s monthly mortgage payment to 38 percent of his or her income. From that point, the government will match, dollar-for-dollar, any additional reductions the lender makes to lower that ratio to 31 percent. These adjustments could mean a monthly mortgage payment lowered by more than $400 for a borrower with a $220,000 mortgage. The lower interest rate arrived at must be kept in place for five years, at which point it can be gradually increased to the conforming loan rate at the time of the modification. Lenders will also have an option of decreasing monthly payments by reducing the principal owed on the mortgage, with the government sharing those costs

- Second, servicers will receive $1,000 for each eligible modification meeting initiative guidelines. They will also receive fees to reward them for continued success – awarded monthly as long as the borrower stays current on the loan – of up to $1,000 each year for three years.

- Third, to encourage borrowers to stay current, the initiative will provide a monthly principal balance reduction payment. As long as a borrower stays current on his or her loan, he or she can get up to $1,000 each year for five years.

Fourth, because loan modifications are more likely to be successful if they are made before a borrower misses a payment, to keep lenders focused on reaching borrowers who are trying to stay current on their mortgages, an incentive payment of $500 will be paid to servicers, and an incentive payment of $1,500 will be paid to mortgage holders, if they modify at-risk loans before the borrower misses a payment.

- Finally, to encourage lenders to modify more mortgages and enable more families to keep their homes, the Administration – together with the FDIC – has developed an innovative home price decline reserve payment. The fund – which may be as large as $10 billion – will provide holders of mortgages modified under the program with an additional payment in the event that home price declines – and therefore the risk of losses in cases of default is higher than expected.

As mentioned earlier, the Homeowner Affordability and Stability Plan is not a self-contained initiative but is intended to work in conjunction with other efforts such as the American Recovery and Reinvestment Act and the Financial Stability Plan to provide a comprehensive and multifaceted response to the current economic troubles.

As part of the American Recovery and Reinvestment Act signed by the President, the Department of Housing and Urban Development will award $2 billion in competitive Neighborhood Stabilization Program grants for innovative programs that mitigate the impact of foreclosures by supporting innovative strategies to address the problem of vacant, foreclosed properties. Additionally, the Act includes an additional $1.5 billion to provide assistance to renters facing displacement, reducing homelessness and avoiding entry into shelters. HUD allocated that $1.5 billion of homelessness prevention funding to recipients yesterday, as part of our successful allocation of three quarters of Recovery Act funds for HUD programs only a week after President Obama signed the Act into law.

In addition to the already mentioned efforts, the President's overall economic recovery plan will seek careful changes to personal bankruptcy provisions. The Administration will work with Congress to ensure that legislation works well in conjunction with our voluntary modification approach.

Finally, the Hope for Homeowners program offers one avenue for struggling borrowers to refinance their mortgages. In order to ensure that more homeowners participate, we support changes to the program that will reduce fees paid by borrowers, increase flexibility for lenders to modify troubled loans, permit borrowers with higher debt loads to qualify, and allow payments to servicers of the existing loans.

Thank you, and I look forward to your questions.