

Testimony of

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“Preserving Homeownership: Progress Needed to Prevent Foreclosures”

Before the

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Good afternoon, Chairman Dodd and Ranking Member Shelby. Thank you for inviting me to testify today. My name is Joan Carty. I am the President and CEO of the Housing Development Fund (HDF) in Stamford, CT. HDF is a community development financial institution that has operated in Connecticut for the last twenty years. We provide financing to developers of affordable housing, technical assistance to local governments, homeownership counseling and down payment assistance to first time homebuyers. We have helped almost 5000 people secure safe, decent and affordable housing. Less than 2% of our homebuyers are in delinquency or default. We credit that solid track record to the fact that they were counseled, educated, and that we only allowed our clients into 30 year, fixed rate first mortgages.

HDF partners with the banking community, local housing authorities and municipalities in its core business. We have leveraged over \$145 million in first mortgages with our SmartMove and Homebuyer Assistance loan programs. HDF has worked with the Greenwich, Stamford and Darien housing authorities to help residents educate themselves about homeownership. HDF also worked with the cities of Stamford and Norwalk to put forth innovative and inclusive inclusionary zoning systems in these communities. We have partnered with developers to market their below market rate units as well. Last year, because of the widespread and increasing problems with subprime lending, mortgage delinquencies and rising foreclosures, HDF started an additional counseling program to assist families in our communities who were stressed with these problems. In the course of developing our program we have reached out to many other partners: the Bar Association for pro bono attorneys, the courts to establish working relationships with the mediators, volunteers with financial and social services backgrounds to help us with the ever increasing volume of people who need guidance, and the banks—who in many cases control the outcomes of the situations facing people in foreclosure or mortgage delinquency.

We are a HUD certified counseling agency and down payment assistance lender. We have personally experienced the kind of shadow boxing that occurs when a homeowner in distress calls their lender or servicer for help. Too often, their call is bounced to a call center across the globe, or the call is bounced from department to department within the bank. On many occasions, after multiple periods of time on hold, they finally reach a live person but it is a representative who is merely following a script. Often the lender or servicer representative has no record of prior contact with the borrower. It is a process that often feels futile.

We have found that in too many cases when we send clients' modification requests to banks or servicers such as JP Morgan Chase or Goldman Sachs-owned Litton, that the modification package enters a black box for months on end. These borrowers are in distress; even a 30 day time frame can radically affect their credit profile. Once they slip behind on timely payments of their mortgage or any consumer debt, their credit score goes down, and their monthly interest charges can go up. In many cases cross default provisions mean that default on one obligation will trigger higher monthly charges on other debt, even if the borrower had remained current for that obligation. If we were to look for common themes as to why families are in distress, we often find that death, divorce, illness or injury, in addition to predatory terms on many mortgages, have pushed families to the edge of the cliff. Imagine the multipliers and harm rendered when this limbo extends for months.

I understand that the lenders and servicers need modification requests that are well documented and that contain a budget that has been carefully worked out so that the borrower will succeed in the modification over the long term. That is the kind of service that we as a counseling agency provide to our clients. What our clients in turn need from the lenders and servicers is rapid response. Responses before their lives continue to spiral downward. It is difficult to believe that the sophisticated automated platforms that have been in use by lenders and servicers for loan origination over the past decade cannot be retooled to generate effective loan modifications with greater frequency and within tighter timelines.

I would also suggest that rapid response will help in other ways. With delay comes added expenses, which often get added to the mortgage balance. Extensive delays in the mediation process often result in the lenders or servicers charging the borrower multiple times for late fees, attorneys' fees, and updated appraisals. Denial of borrowers' requests lead to expensive foreclosure processes, which hurt the families involved and the communities in which the homes are located. In many instances, these foreclosures do not ameliorate losses or generate profits for the banks given the current declines in property values throughout the country. Additionally, it is critically important to create a system that rapidly responds to requests from homeowners who are still current on their mortgages but who know they will not be able to sustain their payments going forward.

What we are building at our agency is a system that can carry borrowers from that initial request for assistance through assessment of their situation and development of a modification request that will have viability over the long term.

What we need from the lenders and servicers is their commitment to building a system that will react promptly and predictably to these reasonable requests.

For two decades, HDF has proven it can deliver housing solutions that work for Connecticut — for families, for lenders, for developers, for neighborhoods. We believe that affordable housing is an investment in people — employees, parents, children, neighbors — without whom the state's whole economy would suffer. Strong markets and strong communities need a diverse mix of households. And that calls for a supply of housing and housing opportunities that low- and moderate-income people can afford and remain in despite temporary setbacks.

Appendix

The Housing Development Fund Banking Partner:

Bank of America

Citibank, FSB

Commerce Bank

Fairfield County Bank

Fieldpoint Private Bank and Trust

First County Bank

Hudson City Savings Bank

Hudson United Bank

Milford Savings Bank

Naugatuck Savings Bank

Newtown Savings Bank

Patriot National Bank

People's United Bank

Savings Bank of Danbury

TD Banknorth

Union Savings Bank

U.S. Trust of Connecticut

Wachovia Bank, N.A.

Webster Bank