STATEMENT OF

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HEARING ON

NEW IDEAS FOR RESTRUCTURING AND REFINANCING MORTGAGE LOANS

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INTRODUCTION

Thank you Chairman Menendez, Ranking Member DeMint and distinguished Members of the Subcommittee for the opportunity to participate in this hearing today. My name is Marcia Griffin and I am President and Founder of HomeFree-USA. HomeFree-USA is a HUD-approved 501(c)(3) not-for-profit homeownership development, foreclosure intervention and financial empowerment organization. As a HUD intermediary, HomeFree-USA funds 66 non-profit organizations, 21 of which focus their attention on the foreclosure crisis. These organizations spend every day working to marry the needs of mortgage loan servicers and homeowners who are in need of a mortgage loan modification.

Since 2008, we have worked with more than 30,000 homeowners. Many of the families we've worked with can afford to pay a mortgage, just not the mortgage that they currently have. While many assume that those in crisis bought homes they could not afford, or were in no financial position to be homeowners, in many cases, the opposite is true. We have worked with thousands of people who had good credit and a stable financial life before they ran into mortgage trouble. Many of these people are employed, they want to do the right thing, they want to pay their mortgage, they want to stabilize their neighborhoods, and they want to keep their families together. What they need is an opportunity. After working in this space for several years, it has become more and more evident that innovative ways need to be brought to the table and tested in order to restore the housing and mortgage industry in this country.

At HomeFree-USA, we share your sense of urgency to find a lasting solution to our daunting foreclosure crisis – a crisis that lies at the very heart of our nation's economic problems and threatens millions of families with the loss of their American Dream – their home.

With the bursting of the housing bubble, home prices declined dramatically in virtually every market throughout the United States. As a result, many American families are now living in homes that are worth less than their mortgages. According to published statistics, this "underwater mortgage" or "negative equity" problem affects some 11 million homeowners, or about 24% of all mortgages in the United States.

Upwards of two million underwater homeowners are expected to go into foreclosure. Many will be the result of "strategic defaults" – borrowers driven to give up homeownership in favor of renting rather than to continue to make monthly payments with no real prospect of regaining positive equity in their home. From our work in foreclosure prevention, we find that homeowners in a negative equity position are far more likely to default on their mortgages than those with positive equity.

PRINCIPAL REDUCTION MODIFICATIONS

The most effective way to prevent foreclosures due to the negative equity problem is to modify delinquent mortgages by both reducing the interest rate and forgiving a portion of the outstanding principal. The principal should be reduced at least by the amount the home is underwater, based on a reliable property valuation. In so doing, the homeowner is provided a reduced monthly payment that is affordable and restored hope of regaining positive equity in the home – for many families, this is the primary, if not the only, means by which to build net worth and financial stability. To build in an incentive for the homeowner to stay current on the modified payment obligation, the principal can be forgiven in increments over time so long as the homeowner does not re-default.

Along with modifications, I would like to stress the importance of financial counseling. One way that lenders can get consumers to be more proactive about their financial troubles is to enlist the help of HUD-approved counseling agencies, which can serve as intermediaries between consumers and the mortgage industry. Consumers do not blame non-profit counseling agencies for their financial troubles, as they do the big banks. Therefore, they are more likely to approach counseling agencies for help. Also, HUD-approved counseling intermediaries spend the majority of their time communicating with people in their communities and developing relationships with them – relationships that mortgage servicers do not have.

Of course, all modifications -- with or without principal reductions -- must be designed to return to the loan investor greater cash flow, on a net present value basis, than foreclosure proceeds. This is what is referred to as a "NPV-positive" modification. The lender or servicer designing the modification must take into account a number of factors such as homeowner income, home valuation, degree of delinquency, borrower acceptance of the modification, prepayment and re-default probabilities, resolution timelines and other relevant data. With home prices so severely depressed in many areas, however, we believe that principal reduction modifications of underwater mortgages can be fashioned to be NPV-positive in the overwhelming majority of cases.

THE SHARED APPRECIATION FEATURE

We are familiar with and support the idea of adding a shared appreciation feature to principal reduction modifications. In a Shared Appreciation Modification, the homeowner agrees to pay to the loan owner a portion of any post-modification gain in the value of the home upon a sale or refinance. In determining the percentage sharing, the right balance must be struck between, on the one hand, maximizing borrower acceptance of the modification – thereby avoiding foreclosure – and, on the other hand, providing the loan owner with the prospect of a meaningful payback in the future against

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the loss sustained due to the principal write down. We believe most underwater homeowners would be willing to make this trade off. The shared appreciation feature thus ameliorates, to some extent, concerns that loan modifications create the so-called “moral hazard” by rewarding imprudent over-borrowing by consumers.

The shared appreciation feature also provides a fair opportunity and an incentive for people to stay in their homes rather than walk away from an underwater mortgage. It creates a level of fairness within the mortgage industry. Right now everyone is pointing fingers at everyone else. There is no trust among homeowners, lenders and investors. But in order to get through the mortgage crisis, we have to pull everyone together to work profitably. The shared appreciation feature will benefit all involved.

In addition, the shared appreciation feature holds everyone accountable. Lenders and investors must offer sustainable solutions. Families can stay in their homes and keep their families together, but they have got to pay their mortgage on time. So this creates a level of responsibility on the part of everyone.

In sum, we believe the principal reduction modification that is NPV-positive and contains a shared appreciation feature is an effective and balanced approach to preventing foreclosures of underwater mortgages to the benefit of mortgage loan investors, homeowners, and, ultimately, the housing market and our national economy. We recommend that this idea not only be tried out across the country, but that HUD-approved intermediaries like HomeFree-USA, be utilized as a resource to bring homeowners and servicers together. We can create mutual benefit for the mortgage industry, the homeowners and the local communities.

I thank you again for inviting me to testify today. I will answer any of your questions and I ask that my full written statement be entered into the record.