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before

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Subcommittee on Housing, Transportation and Community Development

on

“Helping Homeowners Avoid Foreclosure”

Good Afternoon Chairman Menendez and Members of the Committee. Thank you for inviting the New Jersey Housing and Mortgage Finance Agency to testify about this very important issue.

The economic crisis now facing New Jersey and the country as a whole is a direct result of the crisis in the housing market. While states and the federal government are turning their attentions on the larger financial crisis – the frozen credit markets; the reluctance of banks to lend; the slowdown of the American economy – we cannot allow the root cause of this crisis to be forgotten. The housing crisis is continuing and it needs to be addressed.

Too many families are being thrown out of their homes instead of being permitted to modify their mortgages and remain in their homes. Entire neighborhoods are being destabilized

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and the positive work that we have done by investing in our cities over the course of many years is being lost overnight to mass foreclosures and property abandonment.

The NJ Housing and Mortgage Finance Agency is the state Housing Finance Agency for the state of New Jersey. Our mission is to finance the construction, rehabilitation and preservation of quality, affordable multifamily and single family housing throughout the state issuing housing bonds and administering the federal Low Income Housing Tax Credit Program to finance homeownership and rental housing. As such we are the single largest source for affordable housing financing in the state of New Jersey akin to our sister Housing Finance Agencies that operate in every other state.

Housing Finance Agencies have been doing some of the best work in the nation in terms of combining America's homeownership dreams with responsible lending practices. According to the National Council of State Housing Agencies, state Housing Finance Agencies have provided affordable mortgages to 2.6 million families to buy their first homes through the Mortgage Revenue Bond program. State Housing Finance Agencies quite clearly play an indispensable role in efficiently disbursing federal housing resources and in ensuring that good quality, affordable housing is available and sustainable.

Most importantly, HFAs have consistently and successfully provided a market for lower income residents to become homeowners without abandoning traditional underwriting practices. HMFA's low critical delinquency rates are a testament to the attention we pay to the homeowner's ability to afford the mortgage payments over the life of the loan. And when an

HMFA borrower does miss a payment, our servicer is in constant contact with that homeowner to work through the problem and get the homeowner back on track. Not a single foreclosure occurs in HMFA's portfolio without our permission and without us first having worked with the borrower to work out that loan. In fact, as soon as a homeowner misses a payment that loan is transferred into a separate portfolio along with other loans that have experienced missed payments and those loans are given special attention by us and our servicers to the point that this special portfolio of loans typically has a lower delinquency rate than our regular portfolio. And our regular portfolio has a much lower delinquency rate than loans reported by the Mortgage Bankers Association. For example in the first quarter of 2009, HMFA's regular loan portfolio carried a delinquency rate of 3.14 percent. The rate reported by the Mortgage Bankers Association for New Jersey in the same period was 7.23 percent.

We firmly believe that our borrowers are successful because of the high quality of our loans which are manually underwritten for credit and income eligibility; the lines of communication between the borrower and our servicers is open; our loans are fully documented, 30 year fixed rate loans and our homebuyers are required to undergo pre-purchase homebuyer counseling. If we can put the interests of our borrowers first without sacrificing our profits or repayments to our bondholders, there is no reason why other lenders cannot also balance these goals of enabling responsible homeownership and attaining profitability in their business.

Despite the fact that we have never been a lender of subprime mortgages, adjustable rate mortgages, no-doc loans or any of the exotic products that have destroyed the American Dream for many homeowners, and despite the fact that the originators and servicers of these mortgages

are not answerable to state regulators, HMFA and the State of New Jersey have created programs to assist troubled borrowers and we have brought financial assistance to the table in order to incentivize lenders and servicers to modify troubled mortgages.

One of the biggest obstacles to helping homeowners transition into a more stable mortgage is helping them catch up with missed payments or pay off the fees and prepayment penalties that have to be settled before a homeowner can refinance into a more suitable mortgage. To address this situation, HMFA launched the Mortgage Assistance Program which provides homeowners with up to \$20,000 worth of “catch up” funding to facilitate the transition to a better, more stable mortgage that the homeowner will be able to afford over the long term. The money is made available as a non-interest bearing loan which is repayable by the homeowner upon the sale of the property. Applicants must work with a HUD certified housing counseling agency that has been trained in foreclosure prevention. Although this program was designed to help families catch up with their mortgage and avoid foreclosure, lenders are still telling homeowners that they have to default on their mortgage before the lender will review their loan. However, even if a homeowner becomes delinquent on his/her mortgage, they have no guarantee of assistance from the lender so homeowners are stuck in a Catch 22 – exhaust all your savings and default on your loan otherwise we won’t work with you but don’t expect that we will work with you if you do become delinquent.

In January of this year Governor Jon Corzine unveiled the New Jersey Judiciary Foreclosure Mediation Program with a \$12.5 million appropriation from the Legislature. The Program was created by the Administrative Office of the Courts in cooperation with several state

agencies, including the HMFA, in response to an unprecedented increase in residential mortgage foreclosures. The goal of the Program is to provide homeowners facing foreclosure who want to enter a mediation process with their lender, access to a housing counselor and, as appropriate, an attorney. Households are eligible for counselor services without regard to income. Homeowners receive notices about the program at three separate times throughout the foreclosure process and are eligible to participate in the program right up until the point of the sheriff sale. To be eligible to participate in the Program: (1) the property must be a one to three family residential property that is in foreclosure; (2) it must be the homeowner's primary residence; and (3) the homeowner must be the borrower. To increase the likelihood of successful mediation, homeowners are required to provide financial information and documents and work with counselors with expertise in foreclosure prevention prior to mediation. Out of the 800 cases that have completed mediation since January 2009, approximately 33% of homeowners have reached a settlement with their lender. Another 1100 homeowners have mediation sessions pending at this time.

The State is continuing our outreach efforts to homeowners and increasing the pool of housing counselors that can participate in this program. However, until the lenders and servicers make home modifications a priority we will continue to experience cases where the mediation process takes months to resolve; where counselors are constantly reaching out to lenders without any response; where lenders request the same information over and over again only to inform a counselor that they did not receive the information that was submitted multiple times; cases where lenders claim to be participating in the Making Home Affordable Program but their loss mitigation staff claim otherwise and so forth. The unnecessary cost of these obstacles means that counselors cannot serve more homeowners and scarce public resources are wasted.

Also in January of this year, the State of New Jersey created the Mortgage Stabilization Program (MSP) and the Housing Assistance and Recovery Program (HARP). To participate in MSP, the homeowner's lender must be willing to write down the value of the mortgage to the current value of the property. Once the lender has written down the mortgage to the current value of the property, the state and the lender will each provide a loan to write down the mortgage even further so as to make the monthly payments affordable to the homeowner. Affordability is defined as 33% of the gross monthly household income payable towards principal, insurance, taxes and interest (PITI). The state's loan will match the lender's loan up to \$25,000 and both loans will be repaid by the homeowner upon sale of the property. Since its launch, zero loans have been modified under the Mortgage Stabilization Program despite the state's outreach efforts to lenders and servicers primarily due to lenders' reluctance to write down principal balances on loans. HARP was created to provide financial support to certain nonprofit and public entities that are negotiating with lenders to purchase the mortgages of distressed homeowners. Under the HARP program, these entities purchase the mortgages of distressed homeowners and lease the properties back to the homeowners for up to three years. During that time, the non-profit or public entity works with the homeowner by providing counseling, job training, credit repair and budget guidance, with the goal of enabling the homeowner to buy back the home when he/she has achieved a firmer financial footing. While HARP has generated only limited success, it is yet another example of the state's willingness to assist homeowners.

While the State is still actively seeking solutions to the foreclosure crisis in New Jersey,

two years into this crisis our experience has been that the voluntary modification process that the financial services industry requested has not worked on a wide enough scale to curb the housing crisis. Governor Corzine has met with lenders directly to solicit their cooperation and still most remain unwilling or unable to act. Despite the traditional wisdom that foreclosures are expensive for lenders and nonperforming loans are a drain on a lender's balance sheet, a financial institution's ability to declare non-performing loans as assets and include them in their calculation of their capital reserves may be a contributing factor in a lender's calculation to keep a non-performing loan on its books rather than take the trouble to modify a mortgage and turn it into a performing loan. Amending the bankruptcy code to allow mortgages on primary residences to be modified in bankruptcy would bypass the current inefficiencies in the voluntary modification system and would give lenders, servicers and investors a real incentive to modify mortgages.

The New Jersey Housing and Mortgage Finance Agency (HMFA or Agency) like its sister HFAs, has been a constant and reliable source of below-market, fixed rate mortgages for lower-income homebuyers. In 2007, after the years of easy credit and lax underwriting were beginning to dry up, HMFA purchased over 2200 first time homebuyer mortgages and was on track to repeat that record in 2008 until the economic downturn tightened up the bond market and essentially locked out the Agency despite its strong credit rating. Specifically, the HMFA went from selling over \$18 million worth of mortgages per week in 2007 and early 2008 down to just \$2 million per week in early 2009. This is not a reflection of the demand in the market but symptomatic of the high interest rates at which the Agency is forced to lend as a result of a deflated bond market. But with the current problems in the housing industry, fueled by the boom

in the subprime mortgage market, it has never been more important for the public to have access to stable, secure, sustainable fixed rate mortgages.

The tremendous impact of the foreclosure crisis has brought home the urgent need for state and federal governments to assist homeowners who are facing foreclosure but also to create sound, long-term policies that will help maintain the stability of our healthy neighborhoods and replenish the vitality of our impacted communities.

In New Jersey, with 48,000 foreclosures filed in 2008 and 60,000 predicted by the end of this year, the state must find a way to make productive use of the resulting vacant housing stock. The Neighborhood Stabilization Program authorized by Congress has been helpful but more resources are needed. A priority for New Jersey in terms of reopening the mortgage market is to urge the federal government to facilitate the ability of HMFA to issue bonds and achieve sufficient liquidity to get back on track with the sale of affordable, fixed rate first time homebuyer mortgages for which a strong market still exists.

In light of the fact that Housing Finance Agencies have always provided good quality, fully documented loans that are in the best interests of the homebuyer, the federal government should provide assistance by bringing down the interest rates which Housing Finance Agencies are being charged in the market. In order to reactivate the housing market, the federal government should provide Housing Finance Agencies with access to low interest federal funds thus empowering HFAs to begin lending again. This activity would in turn stimulate the housing

market. Supporting the first-time home buyer with mortgages through the Housing Finance Agencies will begin the process of stimulating the housing market from the bottom up.

The economic crisis was precipitated by the subprime foreclosure crisis of 2007. By the middle of 2009, most of the mortgages that caused declines in the value of mortgage backed securities and caused losses to banks that held them directly, remain on the shoulders of American homeowners. While we embark on a process of stimulating the economy by creating jobs, investing in infrastructure, renewing investor confidence and deleveraging our financial institutions, we must also be committed to ending the ongoing housing crisis.

Thank you.