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"Helping Homeowners Avoid Foreclosure"

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Good afternoon, Chairman Menendez and Members of the Subcommittee. Thank you for the opportunity to testify at today's field hearing in New Jersey on the progress the Obama Administration is making to stabilize the U.S. housing market through the Making Home Affordable (MHA) program and other Administration efforts to provide relief to homeowners and neighborhoods suffering from the affects of the foreclosure crisis.

I would like to recognize Attorney General Milgram, Ms. Marge Della Vecchia from the New Jersey Housing and Mortgage Finance Agency, and all of the panelists here to share their insights on how the housing and economic crisis is impacting families and communities right here on the ground in New Jersey.

Mr. Chairman, I am honored to join you in Hackensack today—to see for myself how the foreclosure crisis is hitting home in Bergen County— and to hear about how our Administration's efforts to jumpstart our economy and rebuild communities are being felt across the state. While just two weeks ago Realty Trac reported that nationally, foreclosures fell by one-half of one percent from the previous month, here in New Jersey foreclosure filings actually jumped nearly 29 percent in just one month – from July to August of 2009. Currently, New Jersey has the 11th highest foreclosure rate in the nation.

So clearly, while the national numbers on the foreclosure crisis are beginning to trend in the right direction, they do not tell the whole story – and that is why it is privilege for me to come before you today, share with you the progress the Administration is making, and hear directly from you and the other panelists on how we at HUD can continue making every effort to help homeowners here in New Jersey avoid foreclosure – and build the strong, sustainable communities that America needs to thrive and prosper in the 21st century.

<u>Making Home Affordable: Progress to Date</u>

We are all aware that the nation is facing an unprecedented foreclosure crisis – with millions of Americans projected to lose their homes within the next few years. The Obama Administration, from its first day in office, has made reversing this decline a top priority, with a particular focus on preventing foreclosures and mitigating the impact that foreclosed and abandoned properties have on neighborhoods, communities and the broader economy. Working with the White House, Treasury Department and other key Administration agencies, HUD has played a central role in these efforts.

Alongside the Federal Reserve, the Administration has increased support for Government-Sponsored Enterprises (GSE's), Fannie Mae and Freddie Mac, through an expansion of Treasury's Preferred Stock Purchase Agreements with the GSE's. To this effect, we have committed up to an additional $200 billion of capital to the GSE's. These actions have dramatically reduced the spread between mortgage rates and Treasuries and have been instrumental in bringing about historically low mortgage rates.

At the center of the Administration's response to the housing crisis is the Making Home Affordable Program, a comprehensive program to stabilize the housing markets by providing affordable refinance and modification opportunities for at-risk borrowers. The initiative includes the following two key components:

(1) **The Home Affordable Refinance Program (HARP):** HARP expands access to refinancing for families whose homes have lost value and whose mortgage payments can be reduced at today's low interest rates. It helps to address the problems faced by homeowners who made what seemed like conservative financial decisions three, four or five years ago, but who have found themselves unable to benefit from the low interest rates available today because the value of their homes have declined below that of their existing mortgages.

(2) **The Home Affordable Modification Program (HAMP)**: HAMP is providing up to $75 billion dollars, including $50 billion of funds from the Troubled Assets Relief Program (TARP), to encourage loan modifications that will provide sustainable, affordable mortgage payments for borrowers. Importantly, HAMP offers incentives to investors, lenders, servicers, and homeowners to encourage mortgage modifications.

MHA has achieved clear success in a relatively short time period and there are indications that the housing market is stabilizing with home price declines slowing. Since the launch of the program in March, 56 servicers—representing more than 85% of the market—have signed contracts with the Administration. In the monthly progress report released on September 9th and detailing program activity through August, these servicers have collectively extended more than 571,000 loan modification offers and approximately 360,000 have entered the 90-day trial period which is required before the modification can become permanent, providing long-term assistance to homeowners. At the current pace, the program is well on its way to meet the goal of modifying mortgage loans for more than a half million deserving homeowners by November 1. This program is not only the largest single program of its kind, but unlike many previous loan modification efforts, the MHA program generates true affordability by ensuring that participating homeowners pay just 31 percent of their monthly income towards mortgage expenses.

In addition, since February there have been more than 2.7 million home loans refinanced, both as part of the HARP and more broadly as a result of historically low interest rates. By extending the HARP program to individuals with up to 125% loan-to-value (LTV) ratio, we expect to assist a large number of underwater borrowers who were previously unable to take advantage of the refinancing program, particularly in areas of the country that have seen larger than average drops in home prices. We expect the program to continue to ramp up in the coming months.

Improving Servicer Accountability and Responsiveness

Despite the significant progress under MHA, we recognize that more needs to be done to improve the responsiveness and accountability of servicers participating in the program so that additional homeowners facing, or at risk of, foreclosure are contacted and assisted in a timely manner. As the Chairman is well aware, many borrowers who are interested in modifying or refinancing their mortgages under MHA have experienced difficulties in contacting the servicers of their loans or obtaining information from the servicers. Others, having made contact with servicers, have found it difficult to shepherd their applications through the process, with instances of lost application materials, changing personnel and delays in response time.

Indeed, HUD has played a lead role in pressing the servicers to do more. I, along with Treasury Secretary Geithner, sent a strong letter to the CEOs of all participating servicers on July 9, calling upon them to devote more resources to the program, and requiring each servicing entity to designate a senior official to serve as a liaison with the Administration and work directly with HUD and Treasury on implementation of all aspects of MHA. On July 28, Assistant Secretary for Housing/ FHA Commissioner Dave Stevens, along with other senior HUD and Treasury officials, met with top executives from servicers participating in the MHA program to discuss ways to improve the effectiveness and efficiency of the program. The meeting addressed challenges to modifications, strategies for improvement, and collective goals that the servicers and Administration are committed to reaching. Servicers in attendance committed to significantly increase the rate at which they are performing loan modifications. As mentioned earlier in my testimony, this goal is to reach half a million modifications begun by November 1.

At the meeting, Administration officials also detailed plans to take three important steps to improve the program's performance: (i) public reporting of results under the program based on servicer-specific performance, (ii) working with servicers to set more exacting operational metrics to measure the performance of the program, and (iii) development of a "second look" process to minimize the likelihood that applications are overlooked or that applicants are inadvertently denied a modification. No family should ever lose their home because the servicer of their mortgage took too long to tell them whether they qualified for assistance or made a mistake during their review of a homeowner's application that denied them assistance.

Servicers participating in HAMP are now being held to higher performance measurements. Servicer-specific performance details were first published on August 4 and will be made publicly available on a monthly basis. In addition, Freddie Mac has been assigned the role of giving a "second look" at the servicers' performance, as a further way of measuring success, by reviewing a sample of declined applications to make sure that eligible homeowners are not being denied. The servicer-specific data shows a wide range in terms of the performance of the various companies that are participating in the program, and the expectation is that, with the performance records now public, the servicers will increase their efforts and raise the number of borrowers they are assisting.

Evolving Nature of MHA

To respond to the changing nature and magnitude of the foreclosure crisis, we have continued to make changes and additions to the MHA program that build on the core HAMP and HARP programs over the past five months. These include:

- **Second Liens Program**. In August, the Administration released the supplemental directive providing specific implementation guidelines for the second lien program, which will help to provide a more comprehensive affordability solution for borrowers by addressing their total mortgage debt. Second mortgages can create significant challenges to helping borrowers avoid foreclosure because they can increase borrowers' monthly mortgage payments beyond affordable levels and make it difficult for borrowers to refinance or receive modifications. Up to 50% of at-risk mortgages have second liens, and many properties in foreclosure have more than one lien. Under the Second Lien Program, when a Home Affordable Modification is initiated on a first lien, servicers participating in the Second Lien Program will automatically reduce payments on the associated second lien according to a pre-set protocol. Alternatively, servicers will have the option to extinguish the second lien in return for a lump sum payment under a pre-set formula determined by Treasury, allowing servicers to utilize principal extinguishment for those borrowers where extinguishment is more appropriate. We expect those servicers that hold a substantial majority of second liens to sign contracts to participate in this program.

- **Foreclosure Alternatives Program.** Because we know that the MHA program will not reach every at-risk homeowner or prevent all foreclosures, on May 14th the Administration announced the Foreclosure Alternatives program that will provide incentives for, and encourage, servicers and borrowers to pursue short sales and deeds-in-lieu (DIL) of foreclosure in cases where the borrower is generally eligible for a MHA modification but does not qualify or is unable to complete the process. These options eliminate the need for potentially lengthy and expensive foreclosure proceedings, preserve the physical condition and value of the property by reducing the time a property is vacant, and allows the homeowners to transition with dignity to more affordable housing. The new details simplify the process of pursuing short sales and deeds-in-lieu, which will facilitate the ability of more servicers and borrowers to utilize the program. The program provides a standard process flow, standard documentation, and short performance timeframes. The final details of the program are being finalized, and will be announced as soon as completed.

- **Home Price Decline Protection Incentives**. As part of our ongoing effort to expand relief to struggling homeowners, the Administration released details of its Home Price Decline Program (HPDP) on July 28th. A component of the HAMP, HPDP provides additional incentive payments to lenders and investors for modifications on properties located in areas where home prices have recently declined. The purpose of the program is to encourage additional lender participation and HAMP modifications in areas with recent price declines by helping to offset any incremental collateral loss on modifications that do not succeed. HPDP will help ensure that borrowers in areas with recent home price declines have the opportunity to stay in their homes, thereby minimizing foreclosures, which further depress home values in affected communities.

Collectively, these efforts should signal to every American that the Obama Administration is absolutely committed to the success of the Making Home Affordable program and helping as many families as possible avoid foreclosure.

HUD's Central Role in Preventing Foreclosures and Stabilizing Neighborhoods

In addition to efforts to improve the execution of MHA, HUD is utilizing long-existing mechanisms as well as additional authority provided in recently enacted legislation to aid distressed homeowners and to address community blight resulting from foreclosed and abandoned properties.

Established FHA Loss Mitigation Efforts. Homeowners of FHA-insured loans have long been eligible for a variety of loss mitigation programs to help protect them from foreclosure. In 2008, more than 500,000 families were assisted through a variety of methods, including forbearance, partial claim, loan modification, pre-foreclosure sale, and deed-in-lieu of foreclosure. Servicers of FHA-insured loans are required to notify delinquent homeowners about the option(s) that are available to help them make their monthly payments and to implement loss mitigation efforts before they take the final step of initiating foreclosure proceedings. FHA expects that even more than 500,000 families will be protected from foreclosure in 2009 through these benefits provided by FHA insurance.

FHA-Home Affordable. When initially introduced to the public, the MHA program excluded FHA-insured mortgages and stated that FHA would develop its own stand alone program. On July 30, HUD announced final rules implementing the FHA's program—the FHA Home-Affordable Modification Program (FHA-HAMP)—which is an important complement to MHA and provides homeowners in default (or at-risk of imminent default) with greater opportunity to reduce their mortgage payments to sustainable level. All servicers were expected to begin offering FHA-HAMP by August 15. This new loss mitigation program was authorized under the "Helping Families Save Their Homes Act of 2009," signed into law on May 20, and allows FHA to give qualified FHA-insured borrowers the opportunity to obtain assistance under terms roughly comparable to borrowers in other segments of the market, without increasing costs to the taxpayer. This program will allow HUD to permanently reduce a family's monthly mortgage payment to an affordable level by offering a partial claim of up to 30% of the unpaid principal balance. This defers the repayment of the mortgage principal reduction through an interest-free subordinate mortgage that is not due until the first mortgage is paid off. FHA will pay an incentive to loan servicers for each FHA loan modified under this program. The implementation of this program will further the Obama Administration's efforts to stabilize the housing market by helping homeowners to stay current on their mortgages and stay in their homes, therefore preventing the destructive impact of foreclosures on families and communities.

Counseling. HUD is utilizing its vast network of counselors and other nonprofits to provide critical assistance to the record number of homeowners at-risk of foreclosure. It is estimated that more than half of all foreclosures occur without servicers and borrowers ever engaging in a discussion about potential options to prevent foreclosure. That is why we have directed HUD-approved counselors to educate homeowners about their various options, promote the MHA program in local communities, and assist distressed homeowners with navigating the system so they can reach servicers and obtain assistance to avoid foreclosure.

HUD-approved counselors are located across the nation and provide distressed homeowners with a wealth of information. The counselors provide assistance over the phone and in person to individuals seeking help with understanding the MHA program, explain options available to FHA-insured homeowners, and often work with borrowers eligible for the Administration's refinance or modification program to compile an intake package for servicers. These services are provided free of charge by nonprofit housing counseling agencies working in partnership with the federal government and funded in part by HUD and NeighborWorks® America. In addition, HUD, working with Treasury and the Homeownership Preservation Foundation, HUD encourages distressed borrowers to contact the Homeowner's HOPE Hotline at 866-995-HOPE to receive counseling and advice on avoiding foreclosures. The 24 hours a day, seven days a week hotline utilizes many HUD-approved counselors who can also help the homeowner reach and resolve issues with servicers.

Earlier this summer in Miami, the Administration launched a nationwide campaign to promote the Making Home Affordable Program in communities most in need. The campaign involves a series of outreach events to engage local housing counseling agencies, community organizations, elected officials and other trusted advisors in the target markets to build public awareness of Making Home Affordable, educate at-risk borrowers about available options, prepare borrowers to work more efficiently with their servicers and drive them to take action. HUD leverages local housing partners who are on the ground and on the front lines with at-risk borrowers to help broaden our outreach efforts and keep more people in their homes.

Lastly, we are exploring a variety of mechanisms to further encourage and enable servicers to leverage their relationships with nonprofits and other entities to help expedite the processing and approval of modification applications. HUD and Treasury are working to establish guidelines for servicers entering relationships with trusted advisors who would guide borrowers through the application process, help them prepare complete application packages, and troubleshoot if the borrower appears to have been improperly deemed ineligible for the program.

Hope for Homeowners (H4H) Program. HUD continues to work to implement new and improved program features for the H4H program authorized by the "Helping Families Save Their Homes Act of 2009." H4H was initially authorized under the Housing and Economic Recovery Act (HERA) of 2008 to provide a mechanism to help distressed homeowners refinance into FHA insured loans. The temporary program, established within FHA, is premised on the view that preserving equity for troubled homeowners is likely to be an effective tool for helping families to keep their homes and avoid foreclosure. However, due to several obstacles to participation, including steep borrower fees and costs, complex program requirements, and lack of operational flexibility in program design, the original H4H program authorized under HERA has only served a handful of distressed homeowners. The new legislative improvements combined with the integration of H4H into the Administration's MHA program should now make the program a more attractive and less burdensome option for many more homeowners. Particularly, underwater borrowers seeking to refinance their loans and regain equity in their homes but who are not eligible to participate in GSE refinancing programs may be able to find a solution through H4H. When a borrower approaches participating servicers for assistance, the servicer will be required to offer the option for a H4H refinancing in tandem with a MHA Trial Modification option.

Neighborhood Stabilization Program (NSP). HUD recognizes that concentrated foreclosures can wreak havoc on once-stable communities and is working to insure that the nearly $6 billion appropriated by Congress for NSP plays the intended role of helping to stabilize housing markets and combat blight through the purchase and redevelopment of foreclosed and abandoned homes and residential properties. NSP was initially authorized under the Housing and Economic Recovery Act (HERA) of 2008 for the purpose of stabilizing communities that have suffered from high levels of foreclosure and abandonment. A second round of funding for NSP was authorized by the American Recovery and Reinvestment Act of 2009. HUD worked to quickly allocate the funds under NSP1 to 309 grantees in 55 states and territories and 254 selected local governments. Under NSP2, HUD allocated $1.93 billion on a competitive basis to states, local governments and non-profit organizations. These proposals are currently being evaluated. NSP is starting to generate real results and is emerging as a vital resource in facilitating the transformation of foreclosed homes into affordable housing and other useful properties. HUD continues to monitor program activities, identify strategies that produce real results, and work to make program modifications that will help ensure that this funding is deployed quickly, wisely, and effectively.

Additional Challenges

The Administration continues to examine new approaches to expand the reach of the foreclosure avoidance efforts and stabilize housing markets in communities around the nation:

- HUD is working with representatives from Treasury and other Administration agencies to conduct a high level review of the Making Home Affordable Program. Evidence suggestsmarkets are beginning to stabilize. For instance, home price declines have slowed, the sale of existing and new homes have increased for five consecutive months, and homebuyer confidence is on the rise. The Administration is exploring a series of programmatic options to insure that these initial signs of stabilization are maintained and strengthened.

- Although much of the spotlight has been on the single family home mortgage foreclosures, there is increasing evidence that there are also material and growing challenges in the multifamily mortgage sector, which could have negative consequences for tenants including specific concerns stemming from under investment in over-leveraged buildings as well as growing delinquencies. HUD has led the Administration's assessment of these developments and evaluation of possible measures that could be taken in response. The Commercial Data Book from the Mortgage Bankers Association shows that first quarter 2009 delinquency rates among multifamily mortgages in commercial mortgage backed securities (CMBS) and held by banks and thrifts has jumped to the highest levels experienced since 1996: 1.85% for CMBS and 2.23% for bank and thrifts. This is up dramatically from first quarter 2008 when the delinquency rates were 0.48% for CMBS and 1.01% for banks and thrifts. HUD has also created an internal task force to develop a better understanding of the multifamily crisis, reached out to Treasury and the Federal Housing Finance Agency (FHFA) to explore new approaches to confront this situation, and is now completing a top to bottom review of HUD's own multifamily initiatives to identify new programmatic alternatives.

Conclusion

Once again, I would like to thank you for the opportunity to participate in today's hearing and for your continued leadership and commitment to addressing the foreclosure crisis both here in New Jersey – and across the country. HUD shares your concerns about the speed of progress of the Administration's efforts to address the foreclosure crisis. We are working hard to resolve issues related to the implementation of core programs and to develop new elements that improve and refine MHA. As noted earlier, recent data on modifications suggest that our efforts to hold servicers accountable are generating significant results.

As always, the Administration stands ready to explore with Congress additional ideas to aid at-risk borrowers and those that may not currently qualify for the MHA program. We are completely committed to the success of this program and to the families that rely on it.

I am happy to answer any questions you may have.