Statement of

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Hearing on FHA Modernization
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Chairman Dodd, ranking member Shelby and Members of the Committee, my name is Ken Wade, CEO of NeighborWorks® America, and I appreciate the opportunity to talk with you today about the Federal Housing Administration's (FHA) modernization legislation and the benefits of foreclosure prevention counseling as well as pre- and post-purchase home-buyer counseling in helping Americans not only buy a home, but stay in their homes and build their futures.

By way of background, NeighborWorks® America was established by Congress in 1978 as the Neighborhood Reinvestment Corporation and is the original community/public/private partnership model, with locally-driven, highly-leveraged and efficient community development as its hallmark. Over the past 28 years, we have replicated this successful model in over 4,400 communities around the country through 238 affiliated community-based nonprofit organizations – known collectively as the NeighborWorks® network. Our affiliated NeighborWorks® organizations operate in all 50 states, the District of Columbia and Puerto Rico; in America's urban, suburban and rural communities. Our Board of Directors is comprised of the heads of the federal financial regulatory agencies (the Federal Deposit Insurance Corporation, the National Credit Union Administration, the Federal Reserve System, the Office of the Comptroller of the Currency, and the Office of Thrift Supervision) along with the Secretary of HUD; who has designated FHA Commissioner Montgomery as his designee to our Board..

NeighborWorks® America is working to expand opportunities for people to live in affordable homes (rental and homeownership), improve their lives and strengthen their communities.

Local NeighborWorks® organizations provide a wide variety of services that reflect the needs of their communities, and over the past five years, with the support of Congress, NeighborWorks® America and its network affiliates:

- Have directly assisted more than 100,000 families of modest means to become homeowners (of which, 91 percent are low-income and 53 percent are ethnic/racial minorities)
- Own more than 63,500 units of high quality affordable rental housing
- Provided quality homeownership counseling to more than 317,000 families
- Trained nearly 50,000 community development practitioners from over 5,000 organizations and municipalities nationwide; and
- Facilitated the investment of nearly $9 billion in distressed communities across the country.

From our experience, we know that FHA has played a key role in the mortgage market since its inception, but for a number of reasons over time, represents a shrinking percentage of the overall mortgage market. The Administration's proposed FHA Modernization legislation would bring about some much needed changes and would help assure that FHA can reassume its rightful place in the market-place and enable the FHA to help millions of additional low- and moderate-income families fulfill the American dream of homeownership.

We also believe that a modernized FHA could provide a meaningful alternative to some of the problematic mortgage products which have contributed to the nation's current alarming rate of foreclosures. And, for many families already facing foreclosure, refinancing with FHA could be a real option.

Let me just stress that we do not believe the current rate of foreclosure should cause any of us to retract from the desire to close the homeownership gap that currently exists between white Americans and minority Americans, or to end the dream of homeownership for anyone.

It's been demonstrated that high quality housing counseling can make a real difference in the selection of mortgage products by borrowers and in the loan performance of borrowers. In efforts to correct the rising trend of foreclosures, I would encourage that we look at successful models that are currently working – including a terrific example provided by the FHA-insured HECM reverse mortgage program which allows senior citizens to convert the equity in their home into monthly streams of income. To assist the homeowner in making an informed decision of whether this program meets their needs, they are required to receive consumer education and counseling by a HUD-approved HECM counselor.

The importance of quality consumer education and counseling cannot be overstated; particularly when working with low- and moderate-income and/or credit-impaired borrowers, or non-traditional mortgage products.

NeighborWorks® America, as a national public nonprofit organization working to expand affordable housing opportunities and revitalize communities, has a 30-year history of supporting lending to non-conforming borrowers – including lower income families, borrowers with impaired credit and others who would not normally qualify for a conventional mortgage. By providing quality pre-purchase housing counseling and working with borrowers to improve their credit rating, local NeighborWorks® organizations are typically able to prepare mortgage-ready borrowers who qualify for reasonably priced traditional mortgage loans and achieve sustainable homeownership.

NeighborWorks® America has been tracking the loan performance of the many low-income families assisted by NeighborWorks® organizations over the years, particularly with the overall rise in foreclosures in the broader marketplace. These loans continue to perform significantly better than subprime loans, and the overwhelming majority of families coming in for foreclosure assistance did not receive pre-purchase counseling.

From our experience, we know that the best defense against delinquency and foreclosure (or having a borrower obtain an inappropriate mortgage product, or a predatory loan) is objective education and advice before the borrower begins shopping for a home and selecting a mortgage product. And the best homeownership counseling is provided through third-party nonprofit agencies (including local NeighborWorks® organizations and other HUD-approved nonprofit housing counseling agencies) that put the consumers' and the communities' interests first. We also know that homeowners' odds of success are increased even further when they have access to post-purchase counseling and homeowner education.

NeighborWorks America's commitment to quality, objective homeownership education and counseling is evidenced through the founding of the NeighborWorks Center for Homeownership Education and Counseling (NCHEC) to train and certify housing counseling practitioners.

Since its launch in 2004, NCHEC has issued more than 17,000 certificates of completion to housing counseling professionals in pre and post purchase education courses, including more than 4,500 staff from HUD-Approved counseling agencies.

In May of this year, together with our lender and housing partners, including HUD, we announced National Industry Standards for Homeownership Education and Counseling. Working together to develop a set of uniform guidelines that industry professionals are encouraged to incorporate into everyday practice, these standards help ensure consistency in housing counseling services. These efforts play a vital role in advancing the counseling profession, and making this service more broadly available will help borrowers make informed choices.

The rise in mortgage foreclosures has the potential to undermine the significant homeownership gains made by lower-income and minority consumers during the 1990's.

While housing counseling before the purchase of a home is definitely the best defense against foreclosure, unfortunately that advice comes too late for families already in a problematic mortgage product or currently facing foreclosure. Here too counseling is vital to those who are facing foreclosure.

Our experience demonstrates a strong need to strengthen capacity, specialized training and service delivery protocols for HUD-Approved Counseling Agencies. Foreclosure prevention counseling requires an integral understanding of loss mitigation processes coupled with skilled customer service practices to achieve results.
Nonprofit organizations and state and local efforts are working hard to meet the increased demand for counseling services.

It is crucial to target delinquent borrowers earlier. Several recent reports cite that when borrowers contact a counselor earlier in the process, they are more likely to achieve a positive outcome. Proactive, direct contact by counseling agencies to delinquent borrowers is also a strategy that seems to be working.

NeighborWorks® America saw the problem of foreclosures coming over four years ago and, with the strong support of our Board of Directors, created the NeighborWorks® Center for Foreclosure Solutions, to preserve homeownership in the face of rising foreclosure rates.

As part of its efforts to assist homeowners facing foreclosure, NeighborWorks® America, in partnership with the Homeownership Preservation Foundation has established a national toll-free hotline for delinquent borrowers **(888-995-HOPE)** that is available 24/7 around the clock to provide callers with high quality telephone-based assistance (in English and in Spanish). Individuals needing more intense service than can be provided over the phone are referred to local HUD-approved housing counseling agencies.

In closing, let me state that the availability of high quality pre-purchase and post purchase housing counseling continues to be a critically important element – and funding this important service continues to be an industry-wide challenge.

It is our strong belief that an informed consumer/homebuyer, knowledgeable of all of the options available, (included the additional options that would become available through a reinvigorated FHA) is the key to sustaining and strengthening both the family and the community.

I thank you again for the opportunity to speak with you, and stand ready to answer any questions you may have.