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Pat Quinn, *Governor*

Testimony of Mary R. Kenney, Illinois Housing Development Authority (IHDA) Executive Director

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Thank you, Chairman Garrett, Ranking Member Waters and members of the subcommittee. My name is Mary Kenney and I am the Executive Director of the Illinois Housing Development Authority (IHDA).

I want to start today by giving you a brief background on my agency and the work that we do, and talk a bit about what we are doing specific to the foreclosure crisis. Like most HFAs, IHDA started out as a bonding authority. It was created in 1967 with a very clear and concise mission: to create and preserve affordable housing in communities across Illinois. In its infancy, IHDA had just a dozen employees and very few assets. Today, IHDA has more than 260 employees and more than $2.5 billion dollars in assets.

Since 1967, IHDA has financed more than 200,000 units of affordable rental housing, comprising nearly 1,800 developments in every county in the State. A recent review of the State's rental inventory revealed that IHDA is currently responsible for more than 7 percent of the rental stock in Illinois: that's one in 14 apartments. We do this in partnership with the private sector, acting as a lender, selling tax-exempt bonds and other mortgage backed securities in the capital markets to finance mortgages made to private developers. We also – in effect - function as the State's housing department, administering the federal low-income housing tax credit program, as well as 20 other state and federal housing programs.

In addition to its multifamily business, IHDA operates an affordable homeownership lending program. This program struggled in recent years. As the mortgage market accelerated and exotic loan products became the norm, our program – which offers a fixed rate, 30-year mortgage – could not compete. Despite pressure from Wall Street to change our lending practices in order to boost originations, we held firm to our model convinced that our clientele, which are first time homebuyers, was best served by a standard fixed rate mortgage. As a result, we could not compete with the private market that was providing low payment loans with to borrowers with little or no credit. In 2006, the program was all but shut down. Today, the program is again thriving providing needed liquidity to a market that sorely needs it. Originations have gone from a mere $40M in 2010 to an expected to $250 million this year.

ILLINOIS' LEADERSHIP IN RESPONDING TO THE FORECLOSURE CRISIS

For the last several years, our work – as yours – has taken place against the backdrop of the foreclosure crisis that has shaken the housing industry to its core. The crisis is particularly acute in Illinois.

- The Chicago area has the nation's largest inventory of foreclosed homes. In Illinois, over 103,000 homes received a foreclosure filing in 2011, or one in every 51 homes – ranking Illinois eighth in the nation.[1]
- As of December 2011, there were approximately 97,000 properties bank owned or in some stage of foreclosure in the Chicago metro area.[2]
- Nationally, Core Logic found that the home price index fell by 4.7 percent in 2011. Illinois saw the greatest decline in property values last year, where prices fell by 11.3 percent.[3]

[1] RealtyTrac
[2] Ibid
[3] CoreLogic

With foreclosures and vacant properties at record levels in our state, my agency has focused its full attention on how to help homeowners and communities within our state, launching:

(1) three initiatives to help combat the rising tide of foreclosures; and

(2) two new programs aimed at reducing the number of vacant properties within our neighborhoods, stabilizing both the tax base as well as the community and the families within it.

And we believe that the GSEs can play a necessary and important role in assisting our work in both of these areas and making these programs successful.

Foreclosure Prevention

Hardest Hit Fund (HHF)

Illinois was lucky enough to be one of the 18 states selected to receive Hardest Hit Funds from the US Treasury. In September of last year, IHDA launched the *Illinois Hardest Hit Program* as a financial lifeline for those families burdened by job loss or reduced pay. With $445 million in federal resources, our program provides up to $25,000 in mortgage assistance to homeowners who have experienced an income reduction due to unemployment or substantial underemployment, allowing them to maintain their home while they work to regain employment and financial stability. The Program offers Reinstatement Assistance – a one-time payment of all mortgage arrearage, fees, and penalties – and help to the homeowner in managing their ongoing Monthly Mortgage Payment for up to 18 months.

To date, we helped more than 2,200 Illinois homeowners keep their home and we continue to provide assistance to new households at a rate of about 20 per day. I am very proud to say that Illinois now has the 2nd highest performing Hardest Hit Program in the nation, second only to California, which has nearly three times the number of staff and allocated dollars.

Illinois Foreclosure Prevention Network (IFPN)

What we discovered through our marketing of the HHF Program and the outreach on our other foreclosure prevention efforts is that for families facing foreclosure, there is a huge amount of fear, distrust and denial. And unfortunately, the fear and distrust is not unfounded. Mortgage scams and fraud continue to be a significant issue in the marketplace. Homeowners simply don't know where to turn or who to trust.

To address this issue, earlier this year under the leadership of Governor Quinn, we launched the *Illinois Foreclosure Prevention Network (IFPN).* This Network has two important goals. First, to coordinate in one place the myriad of foreclosure prevention resources available in Illinois. The alphabet soup of HAMP, HARP, HHF, and other resources may make sense to us, but they are very intimidating to someone facing this difficult situation. The second goal is to strongly brand and market the Network as a safe and reliable resource that can provide homeowners free access to one-on-one counseling and legal assistance.

The Network is supported by a website – www.KeepYourHomeIllinois.org and a toll-free number – 1-855-KEEP411 – to help struggling homeowners access the services and programs available. It also hosts foreclosure mitigation events where homeowners receive one-on-one counseling, access to loan servicers who can discuss loan modifications and work-out agreements on the spot, help with Hardest Hit Applications, legal advice and more – all free of charge. The Network includes paid advertising, earned media, social media and other outreach. Since the Network launched, 21,600 Illinois homeowners have been connected to resources, including assistance from qualified, HUD-certified housing counselors.

Mortgage Resolution Fund (MRF)

In addition to its work on HHF and IFPN, the State has partnered with a number of entities from the private sector - including Enterprise, who you heard from earlier - on a very innovative program utilizing HHF funds. We set aside $100 million in Hardest Hit dollars in order to create the *Mortgage Resolution Fund Program (MRF).*

In simple terms, the program aims to keep families in their homes by utilizing HHF Funds to purchase delinquent mortgages at a discount; and then leveraging that discount to permanently modify the mortgages of qualifying households to an affordable level.

The Fund (MRF) recently made its first purchase of a pool of loans and is in the process of boarding those loans and utilizing the lower principal balance, to temporarily modify the loan such that the monthly payment is affordable to the existing homeowner. If the homeowner is successful in meeting their mortgage payments for a period of six to nine months, the modification will be made permanent. The hope is to then sell the new, seasoned loans and revolve the loan fund so that it may purchase more loans.

This program is the first of its kind and is the only program in the nation that utilizes the current, reduced market value of the property for the benefit of the homeowner so that they can stay in their home.

Role for the GSEs

Over 100,000 new foreclosures were filed in Illinois last year. We believe that stopping the flow of new REOs is the best and most cost effective approach to combatting the plague of vacant properties destroying our neighborhoods.

And the GSEs have an important role to play in this regard. To date, all of the loan purchases made have been through the private sector. In order to work more efficiently, and to bring the program to scale, we believe that the GSEs must participate by selling pieces of their portfolio at the current true market rate. By selling these distressed mortgages, they will enable communities to leverage these discounts, write down loan balances and re-underwrite mortgages to keep families in their homes.

Access to the GSEs distressed mortgages could make a significant difference in the housing market while fulfilling the federal government's objectives by:

- Reducing the REO portfolios of the GSEs and FHFA;
- Stabilizing the overall housing market by reducing the number of vacant properties on the market;
- Promoting private investment in local housing markets through the significant partner contributions to the program; and
- Maximizing value to taxpayers by using HHF, a federal resource currently being used to fund mortgage payments to commercial banks, to assist federally-held mortgages.

Work on Vacant Properties

IHDA is also helping communities struggling with the aftermath of foreclosures, working to alleviate the huge inventory of vacant properties. On average, the value of surrounding properties on the same block as a foreclosed property can drop in value between $8,000 to $10,000[4], acting to destabilize entire neighborhoods.

<u>NSP</u>

IHDA received a total of $58 million under the federal Neighborhood Stabilization Program. Through this program, we have worked to return vacant properties to the

[4] Federal Reserve Bank of Cleveland

market and help spur redevelopment, and we have done this in direct partnership with the communities across the state. Illinois has committed resources to re-develop over 450 vacant, foreclosed and abandoned properties to help low-, moderate- and middle-income households access affordable housing. And we are now leveraging these investments through an innovative new state program.

Building Blocks

In addition to NSP, Governor Quinn recently launched his own program known as the *Illinois Building Blocks Pilot Program*. Building Blocks is a multifaceted and comprehensive approach designed to help communities and their residents along every phase of the foreclosure continuum.

One of the lessons we learned through NSP is that the more concentrated the approach, the more effective it can be. Accordingly, we selected six communities for the pilot, using factors such as: (1) community support; (2) existing re-development activity; (3) foreclosure heat; (4) vacancy rates; (5) existing market; and (6) recent job creation.

The program employs a three-pronged approach within the chosen communities. First, it aggressively targets existing resources to struggling homeowners through the *Illinois Foreclosure Prevention Network (IFPN)* in an effort to curb additional foreclosures. Second, the program provides direct financing to developers willing to acquire and rehabilitate vacant homes. Finally, the program provides a robust and aggressive homebuyer financing package – including $10,000 in down payment assistance – for homeowners purchasing a vacant property in these communities.

The goal is to stop the flow of new vacant properties[5] and restore existing vacant properties to productive use by shepherding the process at each stage – acquisition, rehabilitation and purchase.

And, while framed as a pilot, we believe that this program builds a replicable strategy to help stabilize neighborhoods, protect property values, maintain the existing tax base and preserve affordable housing stock.

Role of the GSEs

One important way the GSEs can help states address the vacant properties in their communities is by assembling available properties by zip code and making them available for bulk purchase at a reduced rate through governmental entities that agree to assist in financing their acquisition and rehabilitation by private entities. This would allow states (or local governments) to address large lots of vacant properties in their communities in a way that is consistent with local planning and will have a real impact. While several of the large banks have engaged and offered reduced or even free access to their REO portfolio, we have not received the same feedback from the GSEs.

While we are very excited that Chicago has been chosen as one of the pilot communities for the REO to Rental pilot program, we have the following observations:

- A scattered approach will not be effective. We learned through NSP that a more targeted approach, specifically addressing the needs and concerns of a particular community is most effective. Our understanding is that there are currently 99 properties in Chicago in the program, scattered throughout the region. This is

[5] The GSEs could further this effort by allowing MRF to purchase delinquent loans within the zip codes targeted to facilitate a modification of the purchased loan and allow the existing homeowner to stay in their home.

not enough to provide a critical mass and will likely have no effect on any given neighborhood.

- A local and leveraged approach is optimal. So many resources have been dedicated to this issue that a coordinated and leveraged approach will best serve to protect the public interest and stretch the taxpayer's dollar to maximum effect.
- A multi-tiered approach will be required. It isn't enough to focus on one issue – be it foreclosure prevention, or REO dispensation, or homebuyer support. We need to leverage all three elements.

The Need for More Family Housing

The tens of thousands of vacant properties in Illinois are a constant reminder of the families that have been displaced through this crisis and the significant need for affordable, family rental housing. The number of severely cost-burdened low-income renters has grown dramatically just as affordable housing stock has shrunk over the past decade.[6] And now the foreclosure crisis - in Chicago, especially - has wreaked havoc just not on single family residences but on small multi-unit buildings that play a significant role in providing decent and affordable housing to our families. The need for larger, affordable rental units to house these displaced families is larger than ever.

Role of the GSEs

The Congress can play a significant role in helping HFAs to address this issue. A bill has been presented on several occasions allowing the FHA Risk Share Program to be credit enhanced by GNMA. The Risk Share Program is a partnership between the FHA and local HFAs in which the HFA underwrites the mortgage and FHA and the HFA share the risk of default. The program has been very successful with very few incidents of default, and is presents less risk to the federal government as compared to all other FHA loans.

[6] "The State of the Nation's Housing, Joint Center for Housing Studies at Harvard University, 2011

Currently, GNMA cannot credit enhance these Risk Share loans. Allowing a credit enhancement by GNMA could lower the borrowing costs of the HFA by up to 200 basis points, resulting in more competitive products for the private sector and, ultimately, more affordable rents. In addition, the CBO has found that this proposal would come at no cost to the Treasury and would provide over $20 Million in savings over ten years. We believe that these savings will be even greater.

It is logical to assume that if the loans are not underwritten through the Risk Share Program by the HFAs, they would be underwritten by HUD directly as a 100% risk to FHA and still credit enhanced by GNMA, as is standard practice. By allowing Risk Share loans to be credit enhanced under the same terms they would otherwise be able to achieve, Congress would be reducing the risk and involvement of the federal government in affordable housing by allowing the HFAs, who are best suited to meet the needs of their community with this innovative tool, to take on a portion of that risk.

The change represents a good government, common sense approach in encouraging not just a public-private partnership to development but expanding the ability of the States to address needs within their communities more directly.

CLOSING

In closing, I want to emphasize three things.

First, I want to emphasize how important it is that the federal government forge a partnership at the state and local level in trying to craft solutions to this crisis. Local solutions cannot be crafted from Washington. The best way to stabilize our economy and our communities is to utilize existing public-private partnerships that further the goals of the Administration by providing for private ownership and maintenance with long-term public oversight to ensure that stabilized communities stay that way.

HFAs have long provided that bridge. Over many decades, we have forged successful partnerships with the private sector in helping to provide needed resources to our communities. It is for this reason that the federal government turned to the HFAs to spur the economy and development during the economic downturn. And the HFAs responded. At my agency alone, we created 4,733 units of new housing, leveraging nearly one billion dollars in new construction and creating 4,855 new jobs. HFAs can continue to provide that bridge, albeit in response to a new crisis, providing a local and tailored response to target resources in the way that is the most efficient and has the most impact.

Second, maximizing return (or minimizing losses) on one particular asset may not act to maximize return on the GSE portfolio as a whole. In other words, stabilizing property values within the overall market will add value and stabilize the GSEs' remaining portfolios. To suggest that maximizing the value of one particular asset necessarily maximizes the value of the GSEs' overall portfolio or reduces overall losses seems to miss the larger picture. Moreover, I want to note that much of what we are asking the GSEs to do--namely, sell delinquent notes and REOs at a discount--is something that the market (private sector) is already doing, suggesting that the market value may not be as high as the GSEs believe.

Finally, I know that there are those that argue that the federal government has no role to play in stabilizing the housing market and should withdraw from any further intervention. They believe that it would be better to allow the market to "hit bottom" and correct its course. But I can't help but ask "better for whom?" Better for the market? Better for Wall Street? Maybe. But certainly not better for the families who are losing their homes. Certainly not better for the countless Americans who have lost their savings and equity. Our economy has lost $7 Trillion in savings over the last four years. That's almost half the nation's GDP. It seems that any gains made on Wall Street will be offset by corresponding losses to American families.