

Statement of
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(Now *doing business as* NeighborWorks® America)

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House Financial Services Committee
Hearing on Possible Responses to Rising Mortgage Foreclosures
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Chairman Frank, Ranking Member Bachus 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 efforts we and our partners are making to help stem the tide of foreclosures that the people, and communities, we serve are facing.

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 236 chartered local nonprofits. NeighborWorks® organizations operate in all 50 states, the District of Columbia and Puerto Rico; in America's urban, suburban and rural communities.

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

NeighborWorks® organizations provide a wide variety of services that reflect the needs of their neighborhoods and communities, and over the past five years, with the generous support of Congress, NeighborWorks® has:

- Assisted nearly 100,000 families of modest means to become homeowners (of which, 91 percent are low-income and 53 percent are ethnic/racial minorities)
- Own and manage more than 63,500 units of affordable rental housing

- Provided homeownership education and counseling to more than 317,000 families
- Trained and certified 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.

Today, however, my testimony will focus on our response to the precipitous rise in foreclosures. The problem of foreclosure is complex, and we don't believe any single "silver bullet" will eliminate the threat, but change is desperately needed. Given the limited time available to me, I want to focus my testimony on NeighborWorks® America's contribution to people already facing foreclosure.

First, let me point out that 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, financial fitness training and working with borrowers to improve their credit rating, local NeighborWorks® organizations are typically able to present mortgage-ready borrowers who qualify for reasonably priced traditional mortgage loans and achieve sustainable homeownership.

Our commitment to quality homeownership education and counseling extends to the industry at large. In May, national standards for homeownership educators and counselors will be announced by a consortium of nonprofit and industry partners including NeighborWorks America. These standards will create a level of consistency in the industry, add to the professionalism of housing counselors and homeownership educators and allow organizations and homeownership professionals to demonstrate that all families counseled will receive a consistent level of quality service.

From our experience, we know that the best defense against delinquency and foreclosure is objective education and advice before the borrower begins shopping for a home and selecting a mortgage product. And the best home buyer counseling is provided through objective, well-trained non-profit agencies (including local NeighborWorks® organizations and other HUD-approved nonprofit housing counseling agencies) that put the consumers' and the communities' interest first. We also know that homeowners' odds of success are increased even further when they have access to reasonably priced sustainable mortgage products and post-purchase counseling and homeowner education.

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.

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

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.

NeighborWorks® America's foreclosure initiative was informed by "on the ground" experience and research into the causes and effects of foreclosure on individuals, families and entire communities, and is modeled on the successful trailblazing efforts of one of our local NeighborWorks® affiliates, Neighborhood Housing Services of Chicago.

Neighborhood Housing Services of Chicago noticed that while they were making strides in putting people back into the neighborhoods, other homeowners were being foreclosed on at an increasing rate. They launched the Homeownership Preservation Initiative (HOPI) to preserve sustainable homeownership for Chicago residents and to reclaim already foreclosed homes as neighborhood assets. In the first three year's of the program (from 2003 to 2006):

- More than 4,000 Chicago households were counseled;
- More than 1,300 families were able to avoid foreclosure;
- Over 330 buildings that were vacant or neglected are now homeownership opportunities; and
- An estimated \$267 million in collective savings in property values, city enforcement, and property values for the City of Chicago, residents and lender partners.

It's clear that when homes go into foreclosure, it reaches far beyond the individual tragedies confronting homeowners who lose their home. Foreclosed homes quickly become a problem that can threaten entire communities. The value of surrounding homes goes down and other homeowners will have difficulty selling or refinancing their homes, leading to further disinvestment in communities. As a result, property taxes collected will be lower, affecting schools and government services, creating a downward spiral that is detrimental to the entire community.

In fact, a study in Chicago (by the Woodstock Institute) found that a single foreclosure on a given block can directly lower property values of surrounding homes by \$139,000. Other studies show that one foreclosed property can end up costing a municipality as much as \$30,000.

And, studies confirm that foreclosures are much more likely to occur in high minority neighborhoods, even when all other variables such as borrower credit and income are held steady. Rising foreclosure rates threaten decades of gains in minority

homeownership and community revitalization. Recent studies conducted in Atlanta, Philadelphia and Baltimore confirm that lower income, minority neighborhoods are at greater risk for concentrations of foreclosures. Rising foreclosures are also a problem in both suburban and rural parts of our nation.

For example, NeighborWorks[®] organizations in Montana, upstate New York, Vermont and south-eastern Ohio in the Appalachians are witnessing a troubling number of delinquent borrowers in the predominately rural communities they serve.

Indeed, foreclosures threaten to undo much of the gains community development has made. Bruce Gottschall, Executive Director of NHS of Chicago, has said, “These foreclosures could wipe out in a few years what it has taken us decades to achieve.”

The NeighborWorks[®] Center for Foreclosure Solutions is an unprecedented partnership between the nonprofit, financial, mortgage, and insurance sectors to preserve homeownership and combat the negative impact of foreclosures on communities across the nation. 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 2006, more than 25,000 families were served through the toll-free 888-995-HOPE hotline. Over 10,000 engaged in individual, one-on-one post-purchase housing counseling, and 42 percent of the people who called in for help entered into a foreclosure avoidance workout plan.

Surveys of delinquent borrowers served by the 888-995-HOPE hotline and Neighborhood Housing Services of Chicago show that about 50 percent of delinquent borrowers had no contact with their lender or servicer prior to foreclosure.

Therefore, NeighborWorks[®] America in conjunction with the Homeownership Preservation Foundation is launching a public service advertising campaign supported by the Ad Council, to decrease foreclosures by directing struggling borrowers to call the 888-995-HOPE hotline. The campaign is scheduled to launch nationally in June 2007 with a special focus on areas with high rates of foreclosure. The value of donated media for a typical Ad Council campaign is around \$28 million, so we anticipate that this effort will go a long way toward increasing public awareness of the 888-999-HOPE hotline.

The NeighborWorks® Center for Foreclosure Solutions is also working to:

- **Build capacity among foreclosure counselors:**
Helping families avoid the threat of foreclosure requires skilled housing counselors across the country that support them before, during, and after the home-buying process. NeighborWorks® America has designed a professional curriculum for housing counselors – to not only help families achieve the dream of home ownership, but to be resistant to delinquency and foreclosure.
- **Research local and national trends to develop strategic solutions**
NeighborWorks® America has researched the issue of foreclosure to obtain a clearer understanding of the causes of foreclosure, identify successful foreclosure prevention and intervention strategies, determine the significant negative effects that foreclosures have on communities, and inform cities, nonprofit organizations, and private institutions engaged in addressing a local foreclosure crisis.

NeighborWorks® America is also working to establish a “forecasting” model that would allow us to better use our resources to get ahead of the “hot” areas that may experience significant growth in foreclosures.

- **Create sustainable foreclosure intervention programs in cities and states with high rates of foreclosure**
NeighborWorks® America is also helping to bring together local partnerships of government and industry leaders and nonprofit counselors in foreclosure “hot spots” around the nation.

The key to helping as many people as possible through the **888-995-HOPE** hotline is to get people who are experiencing problems in paying their mortgage to call as soon as possible.

Once the call is made, service begins immediately. They are connected with a trained counselor at the outset and depending on the problems, homeowners can get budgeting help, assistance developing a written financial plan, assistance contacting their lender to discuss payment options and loan restructuring, and a referral for face-to-face counseling through local HUD-approved housing counseling agencies. Counselors are also trained to look for and respond to callers who have experienced fraud in the mortgage process with appropriate referrals to local agencies and resources.

The approach has been proven successful in helping homeowners to understand their options and identify appropriate action steps to address their financial challenges.

Additionally, nearly all major mortgage servicers improved or provided for the first time a dedicated loss mitigation “communication bridge” for 888-995-HOPE counselors’ use. This information greatly improved contact rates; communication between servicer, counselor and homeowner; and understanding of each party’s role.

Based on information compiled by the Homeownership Preservation Foundation as of the fourth quarter of 2006, and the feedback from the callers themselves:

- 18 percent of callers did not know what type of loan they had;
- 40 percent had a fixed rate product;
- 35 percent had an adjustable rate or interest only loan;
- 3 out of 4 households had annual income under \$50,000
- 62 percent had already missed two payments before they called.

While calls came from all over the nation:

- 28 percent came from Georgia; and
- 17 percent came from Ohio,

Of course, that's reflective not only of the extent of the problem in those areas, but also the extent of publicity and news coverage the "HOPE hotline" has received in those areas.

To give you a sense of the impact that homeownership counseling is having at the human level, I've provided three brief summaries of actual people assisted.

Saving a Home: Lorraine's Story

Lorraine had lived in her home in Georgia and paid the mortgage for 18 years. When she suddenly lost her management position, she was forced to take two part-time jobs just to pay her bills. By the time she found a full-time job that paid enough, her mortgage payments were three months overdue.

Homeownership counselors provided the necessary budget counseling and support she needed to get back on track with her lender. With their assistance, Lorraine was able to set up new payment arrangements with her lender. Today, Lorraine is making timely mortgage payments once again and successfully rebuilding her finances and her credit. Most importantly, Lorraine will keep her home.

Back on Track: Veronica's Story

Veronica has lived in her home in Ohio for the past thirteen years. A child development worker, she has enjoyed raising her eight year-old-son in their own home. However, their stability was threatened in the spring of 2006, when Veronica became one of the hundreds of thousands of Americans facing foreclosure.

In March of 2006 Veronica was faced with some major car repair bills. Needing her car to get to work, she felt she had no option but to pay the burdensome bills. The large bills drained her family's finances, and she fell four months behind on her mortgage.

Veronica found NeighborWorks[®] and the 888-995-HOPE hotline in the phone book. She called the hotline, where a HUD-approved nonprofit counselor determined that she was a good candidate for a gap loan to help her pay back the four outstanding months and get back on track with her mortgage. The hotline put her back in touch with a local

NeighborWorks[®] organization, where a counselor was able to expedite a 4% interest rate catch-up loan out of their Back-on-Track pool, to be paid back over 24 months. In order to receive the loan Veronica has also enrolled in the NeighborWorks[®] organization's ten-hour financial fitness course.

By picking up the phone Veronica provided herself with options. Her phone call and subsequent hard work has literally saved her home. As Veronica says, "This is a great program. I was able to save the home I have lived in for thirteen years. I would recommend [calling] to anyone needing help with their mortgage. I just wish I had called them sooner."

Trapped in a High Interest Mortgage: Armand's Experience

With their own home and a very good income, Armand and his wife and their three children were living the American Dream. In an effort to pay-off old debts and pay for needed repairs on their home, this African-American couple refinanced their mortgage, but because of their old debt and other credit problems the only mortgage they could find was an adjustable-rate mortgage which reset to a rate of 10.99 percent.

Armand thought he could refinance at a lower rate once his old debt was paid off, but his poor credit status prevented that. After struggling for many months, and facing the prospect of foreclosure, Armand met with a NeighborWorks[®] housing counselor who helped him create a revised budget, eliminate his old debts and eventually raise his credit score from the mid-500s to over 600 (in the range required by most traditional lenders.

The NeighborWorks[®] counselor referred Armand to one of its lending partners to apply for a new mortgage, and the couple was able to refinance their home at a fixed interest rate of 6.375 percent – not only saving their home from foreclosure, but also providing much-needed disposable income to cover expenses for their family.

A Senior Citizen Falls Prey: Lillian's Story

When Lillian's husband died, she used most of the money she received from his life insurance policy to pay off the home they had lived in together. Although she now owned the home outright, Lillian (now a senior citizen) took out a home equity loan a few years ago to cover major repairs to the house.

Lillian soon realized that the contractor she hired to do the work had scammed her and as a result, she spent much more on the repairs than she had originally estimated. To make matters worse, Lillian had to have surgery which prevented her from working. Although she received Social Security, it was not enough to cover both her living expenses and her home equity loan.

This situation led Lillian to take on additional debt, and though she tried to keep up with her payments by making automatic payments, her account was soon overdrawn, leading to even larger debt problems.

At that point, Lillian turned to her local NeighborWorks[®] organization. They were able to provide her with financial fitness education and with delinquency counseling. Lillian was able to bring her loan current and is working to pay off the rest of her debts. NeighborWorks[®] is also helping her to find a new job that will accommodate her health challenges. Lillian is on track to become, and remain, debt-free.

Closing

[Please note that recommendations below are not necessarily the Administration's positions, and that NeighborWorks America is speaking as a public non-profit organization, as noted earlier – especially as NeighborWorks America advocates for a national housing counseling fund.]

As federal, state and local legislators, regulators and others wrestle to identify proposed actions to respond to the surge in foreclosures, I want to stress that denying credit to the type of people NeighborWorks has served for decades (lower-income, families, minorities, people with blemishes on their credit reports) is not the answer.

In my view, the real challenge continues to be how to create informed consumers and foreclosure-resistant borrowers.

In closing, let me state that from our experience, the best way to create foreclosure-resistant homeowners is through quality pre-purchase housing counseling. We challenge the real estate and mortgage industry to figure out how to make housing counseling universally available for every first time home buyer in America. Is there a homebuyer in America who should be denied a basic level of home-buyer education? Given the scale of the industry, the addition of an extremely small amount to every mortgage originated could create a national housing counseling fund to compensate counseling agencies for this essential service. An alternate approach would be to ensure that a meaningful level of housing counseling be provided to any borrower considering a nontraditional mortgage – such as an interest-only mortgage, a negative amortization mortgage or an option-ARM such as a 2/28 or 3/27 mortgage. It is clear that borrowers who have opted for these non-traditional mortgage products are encountering foreclosure at significantly higher rates.

NeighborWorks[®] America also calls for the development of a public awareness campaign to raise consumer awareness of the importance and value of pre-purchase homeowner education and counseling and create consumer demand for this vital service.

Public service advertising campaigns have made a measurable difference in our society. For example, as a result of the Ad Council's car seat-belt campaign, between the campaign launch in 1985 and 2003, seat belt usage increased from 14% to 79%, saving an estimated 85,000 lives, and \$3.2 billion in costs to society.

We believe similar dramatic results could be achieved in the area of homeownership education and consumer financial literacy with such a campaign.

And finally, as credit for subprime borrowers has begun to tighten up in response to current challenges in the subprime market, there is a larger need than ever for a reasonably-priced mortgage refinance product. Such a product is needed to assist families currently trapped in high-cost mortgages, as well as to assist additional families as more than 1.5 trillion dollars in adjustable-rate mortgages prepare to reset within the next two years.

I have attached for the record, information prepared by the Homeownership Preservation Foundation providing further information regarding the activities of the 888-995-HOPE hotline.

I trust this testimony gives you a sense of some of the challenges we are facing and our response to families facing foreclosure. I stand ready to answer any questions you may have.