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Before the

U.S. House of Representatives

House Committee on Financial Services

Hearing on Legislative Proposals on Reforming Mortgage Practices

Thank you Committee Chairman Barney Frank, as well as the Members of the House Finance Committee, including Congresswoman Maxine Waters and Brad Sherman from California, Congresswoman Judy Biggert from Illinois, and the others, for calling today's hearing.

This hearing, focused on reviewing legislative proposals for reforming mortgage practices, in the light of the sub-prime crisis in America, is a critically important day for our country.

Let me start by saying that this is personal to me.

You see, my family lost our home in South Central Los Angeles, because he did not understand the documents he was signing, and because unfortunately, he asked the wrong question.

Growing up, I remember the pride I had, every week on Friday nights, watching my father make a payroll for his cement contracting business, from the front door of our home. That was powerful, for a son to see.

But after a while, the workers I knew so well would leave our home, and then a mortgage broker, someone I didn't know at all, would soon show up at the front door; finally convincing my otherwise brilliant father that he could somehow "have more," while simultaneously, somehow, "paying less," for now.

The result: my dad was left almost completely defenseless in making the most significant financial and wealth building decision of his adult life, and our family's life too.

A decision that in the end negatively impacted my dad, his marriage to my beautiful mother, who loved each other, but it was a marriage which ended, over money.

The number one cause for marriage today, is money. Ultimately, decisions made on that day in South Central L.A. had a negative ripple effect, years later, on my brother, my sister, my mother and me.

You see, my dad ultimately asked this person, this mortgage broker, the wrong question, asking “what’s the payment,” when in reality he should have been asking, “what’s the interest rate?”

No one should ever ask what the payment is when there is an interest rate attached.

We lost our home not because my father wasn’t brilliant, because he was, and is, at 83 years young today, but because my dad asked the wrong question, and then signed documents he didn’t understand.

My mother’s story, oddly enough, ended in a completely different way.

You see, my mom, who worked a regular 40-hour job, *was* financially literate.

My mother worked more than 35 years at McDonald Douglas Aircraft, now Boeing Aircraft, in Long Beach, California, and realized early on that “it was not necessarily about making more money, but making better decisions with the money you make.”

My mother bought and sold 5 homes over time, and today she is retired and financially independent, living in Houston, Texas. In contrast, my dad is today financially *dependent*, living in a new 4-unit apartment building, built for him, by my wife and I; on the very street I grew up on in South Los Angeles.

Not all children, or even most children, are financially able to build and pay for a home for their father. Nor should they have too.

Parents should be in a position, if and when they can, to accumulate and later if they like, to pass down assets to their children, not the other way around. Some 20 years later, this is the negative legacy impact of the sub-prime mortgage crisis Americans, and not just low-wealth Americans, are experiencing today.

This is why I am so passionate about financial literacy, and economic empowerment today. It is personal to me.

As the founder, chairman and chief executive officer of Operation HOPE, inclusive of the only national delivery platform in urban, inner-city communities in the country for financial literacy education for youth, Banking on Our Future;

as well as the only national network of inner-city banking and empowerment centers located in urban, inner-city low-wealth communities, from California to Anacostia in Washington, D.C. to our latest HOPE Center in Harlem, New York, opened October 3rd, 2007;

and the nation's emergency economic disaster response program, a partnership with DHS/FEMA and DHS/Citizen Corps, respectfully asking you to take increased and immediate action around the growing sub-prime mortgage crisis in America.

With more than 250,000 low-wealth youth educated in financial literacy, the creation of more than 1,000 low wealth home owners and small business owners, and 85,000 individuals touched directly by our work in the aftermath of Hurricane Katrina, and thousands more served every year through our various on-the-ground and call-center offices, we have a fairly good sense of how individuals and communities are managing, or not managing, changes in our larger economy.

Within the context of this crisis, I can say without reservation that the answer here would be, not very well.

Just one example of this is our recently established Mortgage HOPE Crisis Hotline, a partnership between HOPE and City Council President Eric Garcetti of the City of Los Angeles, designed to help individuals in Southern California impacted by the sub-prime crisis.

When we launched phase I of the call center a couple of months ago we received 3,000 calls within the first 24 hours, and 4,000 calls within the first 2 days. To place this into context, we received an average of 3,000 calls monthly during our nationwide outreach initiative for Katrina victims. The 3,000 and 4,000 calls referenced here are for the Los Angeles area alone, and at the time, also mostly restricted to the Spanish speaking community of Los Angeles (initial media pick up was Spanish speaking media only).

We will soon roll-out phase II of our call center partnership with the City, and HOPE will partner with the State of California Banking and Finance Committee, around a similar State of California hearing on sub-prime and financial literacy, scheduled for November 1st, 2007, in South Los Angeles.

This said, respectfully, none of this, nor any other localized effort, will prove nearly enough to address this national problem.

Accordingly, I am proposing today, as I have likewise done this week in a letter to all federal financial regulatory agencies, that the federal government establish, possibly through the Federal Home Loan Bank System or other suitable agency, a $10 billion loan guarantee fund, structured in many ways like an SBA loan guarantee is.

Ideally, such a fund would be structured as follows:

1. Carry a standing fixed interest rate of 3%, allowing private lenders to add 2%-3% maximum, as a reasonable fee for administration, overhead and margin.

2. Allow anyone who had paid their loan on time and within terms of their agreement, prior to their rate reset, to be refinanced under this new program; the theory being that these individuals were already properly underwritten at the original term and rate, as there loans were performing within agreement at that time and during that period.

3. All new loans would be made at a 5-6% fixed rate, over a 30 year, and in some unique hardship cases, possibly a 40-year term.

Note A: This approach has the added benefit of adding a temporary economic stimulus into an otherwise stalling mortgage market and associated overall economy, as billion of dollars of effectively “new” money, and responsible mortgage loans, would be made over the next 18 months

Note B: This approach could serve as a unique and new opportunity for the credit union industry, as credit unions (1) were not substantially involved in the original problem, (2) several increasingly have the size and economic strength to make an impact if they decided to act, and (3) because of their unique tax structure, can afford to make these loans at an even lower price-point, making this win/win for all involved; new profitable business for credit unions, and a reasonable, rational and affordable exit plan for sub-prime borrowers in need.

Note C: On a separate future note, and as I have said recently on National Public Radio, will say today, and will respectfully repeat, as often as I can in town halls across America, <u>there is nothing wrong, and everything right, with responsible sub-prime lending</u>.

Going forward here, in fact, *responsible* sub-prime lending has done more to lift the poor out of poverty and into homeownership, asset accumulation, and in becoming a stakeholder in America, than anything else over the last 50 years.

<u>We want responsible sub-prime lending to the poor and working class in America to continue, post crisis.</u>

We do not want the source of funds to dry up, because of the reckless and unethical business practices of a few companies, and a number of predators.

The problem here is *irresponsible sub-prime lending*, predatory lending, and over-arching all of this, massive levels of financial illiteracy, even amongst America's middle class.

Individuals who simply asked the wrong question; "what's the payment" versus "what's the interest rate."

In this regard, going forward, in addition to my support of Congresswoman Biggert's recent bill's on the sub-prime crisis (HR 1752, but particularly HR 3017 and HR 3019), I would also respectfully encourage you to look at the possibility of creating a new, responsible sub-prime mortgage lending model and standard.

A model and standard that considers practical financial literacy consultation, a fixed rate, and a new 40-year term (thus addressing the principle issue driving low teaser adjustable rate loans today, the overall affordability of regular mortgage payments), as key components to the approach.

Thank you once again for holding this hearing, as well as your consideration of my proposal for a HOPE-Free Enterprise Mortgage Loan Guarantee Fund.

With HOPE