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"Examining the Making Home Affordable Program"

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Chairwoman Waters, Ranking Member Capito, and members of the committee, thank you for the opportunity to appear before you today.

Many homeowners and communities throughout the country have been severely hurt by the current economic crisis. This includes many responsible families that are making their monthly payments but have experienced falling home values that disqualify them from opportunities to refinance with today's low interest rates. Millions of American workers have been laid off, or forced to accept lower paying jobs, and are significantly challenged to produce the income to make their mortgage payments.

If we refuse to act, over 6 million families could face foreclosure in the next few years, with millions more struggle to stay above water. We have seen the detrimental effects that diminishing home values have had on our neighborhoods, communities and the national economy. Millions of families are left unable to refinance into lower more affordable loans, pushing more lenders to foreclosure on thousands of properties, and in the end perpetuating this vicious cycle. Now is the time to act.

With the President's comprehensive strategy to rebuild the housing market and revive the economy, many of these homeowners will have a fighting chance to stave off foreclosure and keep the American dream of homeownership within reach. The Making Home Affordable program is targeted to reach as many as 7 to 9 million homeowners who are at risk of foreclosure and struggling to stay in their homes. While this program supports a recovery in the housing market, it will not provide money to speculators. The Program is, and will be, utilized for the benefit of owners that have made good-faith efforts to make their mortgage payments on time and can continue paying off their mortgages. The program not only helps responsible homeowners at risk of losing their homes, but helps to stabilize neighborhoods by slowing the rate of foreclosures that fuel falling home values.

The Making Home Affordable program has two key components: the comprehensive Home Affordable Refinance Program and the $75 billion dollar Home Affordable Modification Program, further details of which were just announced by the Department of Treasury on March 4, 2009.

The Home Affordable Refinance program is expected to help approximately four to five million borrowers who have an existing mortgage held by Fannie Mae or Freddie Mac. This initiative is specifically designed for borrowers with a solid payment history on their mortgage, but due to a decline in home prices or where mortgage insurance (MI) is not available, have been unable to refinance to obtain a lower payment, due to home price declines that have pushed their current loan-to-value ratios above 80%. Under the Home Affordable Refinance program, many of them will now be eligible to refinance into a better loan, either by reducing their interest rate or by refinancing out of a loan with high risk features such as interest only or balloon payments.

As noted, mortgage rates are currently at historically low levels. But under current rules, only families with conforming loans owned or guaranteed by Fannie Mae or Freddie Mac who owe less than 80 percent of the value of their homes are eligible to refinance to these low interest rates. This initiative expands the maximum loan-to-value (LTV) ratio for refinance mortgage loans owner or guaranteed by Fannie Mae or Freddie Mac from 80% to 105% without adding any new mortgage insurance requirements.

Unfortunately, given the recent decline in home prices, millions of responsible homeowners who made down payments and timely mortgage payments are unable to access these lower rates. To help, Fannie Mae is eliminating the existing streamlined refinance options and introducing two new refinance options available only for existing Fannie Mae loans. Fannie Mae is providing two new options that include new flexibilities for refinances of existing Fannie Mae-owned or -securitized loans that will allow borrowers the opportunity to take advantage of lower interest rates.

To help keep mortgage rates at lower levels and promote stability and liquidity in the marketplace, the Treasury Department will continue to purchase Fannie Mae and Freddie Mac mortgage-backed securities. In addition, the Treasury Department will increase its funding commitment to Fannie Mae and Freddie Mac to ensure the strength and security of the mortgage market and to help maintain mortgage affordability. This backing will bolster confidence in the mortgage market, allowing Fannie Mae and Freddie Mac to continue to facilitate the extension of affordable mortgage credit to responsible homeowners.

For certain borrowers that cannot afford their mortgage payment, the Home Affordable Modification Program provides an opportunity to modify existing loans to an affordable and stable monthly payment. In the current economy, millions of hardworking families have seen their mortgage payments rise 40 to 50 percent of their monthly income or are experiencing a reduction in income that that makes it very difficult to stay current on their mortgages. FHA, together with the Department of Veterans Affairs, the Department of Agriculture, the Federal Housing Finance Agency, and the Department of the Treasury, are working with the banking and credit union regulators to implement standard industry practices that allow for sustainable mortgage modifications. This initiative will be ongoing in each of the distinct housing programs administered by these agencies. For our part, FHA will coordinate these efforts with an expanded and improved Hope for Homeowners program.

These homeowners may be eligible for a loan modification as long as their home mortgage does not exceed the national GSE conforming loan limit, which is $729,750 for a one unit house, the loan was originated prior to January 1, 2009, they occupy the property as a primary residence and their mortgage debt is greater than 31% of their gross monthly income.

Significantly, this program will not require homeowners to be delinquent in their payments to qualify for eligibility. Loan modifications are more likely to succeed if they are made before a homeowner becomes delinquent; thus, the program will include households at risk of imminent default despite having not yet missed a mortgage payment.

Borrowers with large non-housing debts can qualify, but only if they agree to enter HUD-certified counseling. Specifically, homeowners with total "back end" debt (which includes not only housing debt, but other debt including car loans and credit card debt) equal to 55% or more of their income will be required to agree to enter a counseling program as a condition for a modification.

The Home Affordable Modification Program is expected to help up to three to four million at-risk borrowers in all segments of the mortgage market avoid foreclosure by modifying into and affordable loan payment. The program has several key components:

- First, the government will partner with lenders to reduce the homeowner’s monthly payment to an affordable level. The lender is solely responsible for interest rate reductions and other changes necessary to lower the borrower’s monthly mortgage payment to 38 percent of his or her income. From that point, the government will match, dollar-for-dollar, additional reductions the lender makes to lower that ratio to 31 percent. These adjustments could mean a monthly mortgage payment lowered by more than $400 for a borrower with a $220,000 mortgage. The lower interest rate arrived at must be kept in place for five years, at which point it can be gradually increased to the conforming loan rate in place at the time of the modification. Lenders will also have an option of decreasing monthly payments by reducing the principal owed on the mortgage. The lower interest rate arrived at must be kept in place will be fixed for five years, at which point it can be gradually increased. At no time however, can it exceed to the conforming loan rate at the time of the modification, thus assuring the borrower of long term stability.

- Second, servicers will receive $1,000 for each eligible modification meeting initiative guidelines. They will also receive fees to reward them for continued success – earned monthly as long as the borrower stays current on the loan – of up to $1,000 each year for three years.

- Third, to encourage borrowers to stay current, the initiative will provide a monthly principal balance reduction payment. As long as a borrower stays current on his or her loan, he or she can get up to $1,000 each year for five years.

- Fourth, because loan modifications are more likely to be successful if they are made before a borrower misses a payment and to keep lenders focused on reaching borrowers who are trying to stay current on their mortgages, an incentive payment of $500 will be paid to servicers, and an incentive payment of $1,500 will be paid to mortgage holders, if they modify at-risk loans before the borrower misses a payment.

- Fifth, Treasury is working with industry to develop an approach to modifying and extinguishing second liens that will compliment the program as announced and help create more sustainable modifications under the program and refinancing via Hope for Homeowners.

- Finally, to encourage lenders to modify more mortgages and enable more families to keep their homes, the Administration – together with the FDIC – has developed an innovative home price decline reserve payment. Resources allocated for this purpose – which may total as much as $10 billion – will provide holders of mortgages modified under the program with an additional payment to offset potential home price declines – and therefore mitigate the risk of losses in cases of if defaults is are higher than expected.

The program offers a number of incentives to encourage both families and servicers to avoid the costly foreclosure process and minimize the damage that foreclosure imposes on financial institutions, borrowers and communities. This program aims to protect taxpayers through sound modifications. No payments will be made unless the borrower completes a three month trial period, and most payments are designed around the principle of "pay for success."

Fannie Mae and Freddie Mac will be responsible – subject to Treasury's oversight and the Federal Housing Finance Agency's conservatorship – for administering the program and monitoring compliance by servicers. Every servicer participating in the program will be required to report standardized loan-level data on modifications, borrower and property characteristics, and outcomes. Treasury will meet quarterly with the FDIC, the Federal Reserve, the Department of Housing and Urban Development and the Federal Housing Finance Agency to ensure that the program is on track to meet its goals.

In a joint effort, FHA, the Veterans' Administration, the United States Department of Agriculture, the Federal Housing Finance Agency and the Department of Treasury will work with banking and credit union regulators to implement standard industry practices that allow for sustainable mortgage modifications. This program will work in tandem with an expanded and improved Hope for Homeowners program.

Despite these significant efforts, not every foreclosure can be avoided. For borrowers whose income was grossly overstated when they purchased their home or who are facing long term unemployment, moving to less expensive housing is the appropriate alternative. The Department of Treasury will soon announce a plan to assist borrowers make this difficult transition with dignity and in a manner that preserves the value of the real estate so that damaged and abandoned properties do not further devalue neighborhoods. The plan will include borrower and servicer incentives for short sales and deeds in lieu of foreclosure as well as options for more effectively transferring some of these properties to nonprofit housing agencies with the ability to rehabilitate and return them to productive use.

As part of the American Recovery and Reinvestment Act, the Department of Housing and Urban Development will award $2 billion in competitive Neighborhood Stabilization Program grants for innovative programs that mitigate the impact of foreclosures by supporting new strategies to address the problem of vacant, foreclosed properties. Additionally, the Act includes an additional $1.5 billion to provide assistance to renters facing displacement, reducing homelessness and avoiding entry into shelters. HUD announced the allocations of that $1.5 billion of homelessness prevention funding to recipients on February 25th, as part of our successful allocation of three quarters of Recovery Act funds for HUD programs only a week after President Obama signed the Act into law.

In addition to the already mentioned efforts, the President's overall economic recovery plan will seek careful changes to personal bankruptcy provisions. The Administration will continue to work with Congress to ensure that legislation works well in conjunction with our voluntary modification approach.

With the proposed "Helping Families Save their Homes Act of 2009", the Hope for Homeowners and the enhanced partial claim programs offer alternatives for struggling borrowers to refinance their mortgages. In order to ensure that more homeowners participate, we support changes to the products that will reduce fees paid by borrowers, increase flexibility for lenders to modify troubled loans, permit borrowers with higher debt loads to qualify, and allow payments to servicers of the existing loans

The Department of Housing and Urban Development and its partners look forward to helping millions of homeowners stay in their homes and keep the American dream of homeownership accessible and affordable. Through refinancing and loan modification, we can make a difference.

Thank you, and I look forward to answering any questions you may have at this time.