TESTIMONY OF MTUMISHI ST. JULIEN, CO-CHAIR OF THE HOUSING SUBCOMMITTE OF THE BRING NEW ORLEANS BACK COMMISSION

BEFORE THE U.S. HOUSE OF REPRESENTATIVES' SUBCOMMITTEE ON HOUSING AND COMMUNITY OPPORTUNITY, COMMITTEE ON FINANCIAL SERVICES

FIELD HEARING AT THE PORT OF NEW ORLEANS
JANUARY 13, 2006

Chairman Ney, Ranking Member, Madam Waters and members of the Committee. We thank you for coming to support our efforts to recover and rebuild from the devastation caused by the failure of our levees and water protection systems. Approximately 215,000 households suffered water damage in Orleans Parish.[1] 75,000 of these residences received less than 2 feet of water, but 140,000 of them suffered 2 feet or more of water for a period of several days to several weeks. The vast majority of these residences stand in limbo today awaiting the determination whether there is available financing, insurance, and adequate environmental safety to justify rebuilding. While these households wait they remain evacuees in temporary housing in cities throughout the country. Many want to come back; some can't come back; all have been condemned to limited choices at this time because the key issues of levee protection, environmental safety, dependable utility service, flood elevation levels, insurance, loan financing and loss mitigation are not resolved.

The Housing Subcommittee of the *Bring Back New Orleans Commission* recently hosted a Mortgage Bankers Summit here in New Orleans to discuss the challenges that the financial services industry will face in trying to provide affordable financial services to the New Orleans market. In attendance were representatives of the large and medium sized mortgage banks, major loan servicers, HUD/FHA, Fannie Mae, Freddie Mac and FEMA. The Summit revealed that the financial services industry is in as much state of doubt and insecurity about investing in the rebuilding process as the thousands of evacuee households. *Attached please find a copy of the formal minutes of the Mortgage Bankers Summit.* It will give you and your staffs a clearer idea of benchmark issues that we must resolve in order to have effective financial services in New Orleans.

While we graciously thank Congress for its efforts to date to provide indispensable resources for our rebuilding process, let me use this opportunity to summarize some of our key policy, loan product and credit enhancement needs.

First, ***we need immediate housing for essential workers***. At this time we have essential public employees on cruise ships, their families remain in temporary

[1] GCR & Associates, Report for the Bring New Orleans Back Commission, www.gcr1.com

housing in other cities. We have businesses that cannot get their valued employees back because of lack of temporary housing. We need help to more effectively match these essential workers with those residences with relatively minor damage, with the more than 1000 residences owned by governmental agencies, and the many units of public housing with relatively minor damage. How can the Federal government help?

a. Allow FEMA to renovate a residence with relatively minor damage conditioned on receiving a lease from the owner, rather than limiting its temporary housing strategy to FEMA trailers which total costs is estimated at about $120,000 per trailer;
b. Create a new set aside or waiver of current priorities in public housing assistance, FEMA housing assistance and HOME/CDBG assistance to prioritize those persons who are returning to New Orleans with jobs;
c. Authorize FEMA to work with governmental agencies to renovate publicly owned residences, even when these residences are technically owned by a 501 c instrumentality of government.

<u>Secondly</u>, ***we need help and support for the 'Pioneer' owner***, without whom the rest of our population will not come back. Just as we owe the development of this Nation to the pioneer, we in New Orleans will rebuild as the 'pioneer' is able to show the way. There are several things that the pioneer will need. How can the Federal government help?

a. The pioneer needs more clear and accurate information. Therefore require EPA, FEMA and the Corps of Engineers to provide clear and accurate information based on available data and a time certain for the promulgation of final policies and regulations. EPA environmental quality reports are not understandable and needs interpretation <u>now</u>. FEMA anticipated flood elevation levels need to be made available <u>now,</u> even if not finalized, so the pioneer can determine his/her chances of rebuilding. The Corps of Engineers must clarify what it is doing to enhance levee protection and specify anticipated dates of completion.

b. The pioneer also needs affordable and streamlined financing products based on pre-Katrina appraised values plus renovation costs. The FHA 203 k renovation loan product needs to be streamlined to reduce the number of draws and inspections, especially when there are too few inspectors and appraisers to handle the massive demand. There is also a need for a 203k-type loan product for the investor so the investor can renovate needed rental units.

c. The pioneer also needs more creative credit enhancements and subsidy to cover the gaps between eligible lending and construction costs. Congress was most wise in increasing the home improvement limitation from $20,000 to $150,000, nevertheless this essentially second mortgage product has no available FHA insurance to make it more marketable in the secondary market.

While FHA provides such insurance for multifamily owners through its 241 program, it provides no such insurance for single family second mortgages.

d. The pioneer desperately needs some solid assurance that their continued investment in renovating their homes will not be lost if, in spite of their heroic efforts, their neighborhood does not come back. We therefore fully support the passage of HR 4100, authored by Congressman Baker, at 100% of pre-Katrina equity values. Such a commitment from this country will give the pioneer the comfort level needed to inspire rapid and tenacious redevelopment of New Orleans.

<u>Thirdly</u>, ***we need more flexibility in housing tax credits in the Gulf Opportunity Zones*** to stimulate the renovation of more rental units.

a. Just as Congress recognized the need for more diversity of incomes in the Gulf Opportunity Act of 2005 when it raised the set-aside occupancy requirement to either 20% of the units by individuals at 60% (from the 50% limit) of the area median income and 40% of the units by individuals at 70% (from the 60% limit) of the area median income, so too should Congress adjust the Low-Income Housing Tax Credit occupancy requirements to the same set aside occupancy requirement.

b. The magnitude of the devastation caused by Hurricane Katrina in the Gulf Opportunity Zones demands that all existing buildings should benefit from a waiver of the ten year rule that excludes acquisition costs from eligible basis [IRC Section 42(d)(2)(B)], if the State allocates a portion of the Gulf Opportunity bond amount to such building in order to facilitate the capital investment required to rehab damaged buildings in the Gulf Opportunity Zones.

c. The catastrophic affects of Katrina and Rita demands relief from the recapture, interest and penalties on the accelerated portion of low income housing credits for investors in low income housing projects in the Gulf Opportunity Zones that were destroyed. Perhaps the relief can be provided for some premium investment in another low income project in the Gulf Opportunity Zone.

The Federal involvement in housing is an important historical legacy in this country. When the economy has been weak Congress has taken the lead to stimulate the housing market as an important remedy. It was Congress who thought out of the box in 1934 to create FHA to credit enhance home mortgage financing. It was Congress who solved the home mortgage industry's liquidity challenges by creating Fannie Mae, Freddie Mac and Ginnie Mae. We ask Congress to continue that legacy of creativity and commitment to housing by passing HR 4100, the only instrument offered to date, that will help to make our people whole for a disaster that was as much a man-made disaster as a natural disaster.

Many of our low income people followed the script. They were told to buy a home, pay that mortgage timely, build equity so you will have something to pass on to your children. Do like the 19th Century immigrants and build wealth through homeownership. Be an example of the 'American Dream'. Well through no fault of their own they lost. We call again on Congressional creativity and determination to *restore the 'American Dream'* to thousands of people in the effected area so the whole world will know that this concept of the 'American Dream' is truly a committed value and not just propaganda.

Bring New Orleans Back Commission
Housing Subcommittee

In cooperation with
Financial Services Roundtable, Louisiana Recovery Authority
Louisiana Housing Finance Agency and
The Finance Authority of New Orleans

MINUTES OF
MORTGAGE BANKING SUMMIT
December 5^{th} & 6^{th}, 2005

JW Marriott Hotel
614 Canal Street
New Orleans, Louisiana 70130

MONDAY – DECEMBER 5

Mrs. Kathy LaBorde and Mr. Mtumishi St Julien, co-chairs of the Commission's Housing Committee summarized the purpose and goal of the Mortgage Banking Summit. They called for a more coherent, coordinated, collaborative and focused effort to meet the housing challenges related to New Orleans and Gulf Coast recovery, since the mass and scale of the disaster is beyond the normal mortgage banking products and capacities.

Where the Rubber meets the Road

After a moment of silence for those hundreds of people who died in or from the disaster, a group of local originators gave comment regarding the anticipated challenges they will face in the use of the present mortgage loan products.

The first issue discussed was *affordability* of renovation and home improvement. They noted that New Orleans' population has a very large number of low-income families. The originators cited the dramatic increase in post-Katrina construction costs as well as the increased costs of periodic inspections and administering draws compared to other loan products. They noted the clear industry dilemma between the need to provide increased incentives for originators to work rehab lending more aggressively and the customers' need for more affordable borrowing in the post-Katrina environment.

They opined that while the FHA 203k renovation product was more flexible than the Fannie Mae Homestyle, because of Homestyle's limits the % of rehab costs that can be financed, they thought that 203k could be improved by reducing the number of inspections and draws, since New Orleans will experience inspection capacity issues. A representative from Fannie Mae stated that it is testing a new more flexible product in connection with Neighborhood Housing Services. The originators did not refer to any Freddie Mac renovation product which begs the question whether it has one or whether it needs to market it better among local originators.

The second issue discussed was the issue of the *uncertainty* of the customers in what needs to be done. The uncertainty at this time is caused by a lack of clear and coherent messages about the safety of the environment, the timetable for rebuilding the levees and flood protection walls, and the anticipated increase of the minimum FEMA flood elevation levels. The originators stated that customers are getting insurance settlement checks but don't know whether to use the funds to rehab, demolish, rebuild or just pay-off their loans. The continued uncertainty may cause more people to abandon the idea of rebuilding in New Orleans.

The third issue discussed is the significant pre-Katrina *credit* challenges of the New Orleans population. The originators raised the question whether the flood and FEMA proceeds, or any government loss mitigation program, would be sufficient to offset the credit issues that would limit rehab borrowing. A representative of Freddie Mac stated that they would look at the possibility of using pre-Katrina credit scoring.

The fourth issue raised was the historical fact that New Orleans has always been dominated by renters and the expected credit challenges of the population begs for more *investor* loan products to provide needed financing for renovation and construction of more rental units. A representative of a HUD Section 8 landlord's association reinforced the need for more affordable investor products to get the Section 8 units back in operation for low-income renters. While there was some concern about the limitation on the number of units an individual investor can finance, it was made clear by the attendees that the limitation was a reasonable defense against fraud.

The fifth issue discussed is available *capacity* of the lending industry to handle demand. The issue was posed whether the industry had the capacity to effectively use new types of renovation products that would be developed for the post-Katrina environment. Would there be a sufficient number of rehab/construction counselors to help draw plans & specs, trained originators to make the loans, or inspectors to approve draws. The representative from Neighborhood Housing Services (NHS) stated that it is in the process of increasing its capacity to do pre-rehab counseling and inspections but needed more funding to meet the needs of the local banking industry. Representatives from the smaller institutions noted the value of NHS in provided the needed service but representatives from the larger lending institutions stated that they have developed internal capacity to handle these needs. The question is whether the larger institutions can really handle the anticipated demand alone.

The sixth issue discussed is *appraisal and loan-to-value* issues. The question was posed as "What will the industry do for the pioneer, because the rest of the population will not return if the pioneer can't get financing". The pioneer who has good credit and insurance proceeds may not be able to get sufficient financing to renovate/rebuild because the appraiser has no suitable comparables to justify the needed loan. While it was made clear that true appraisals was necessary to avoid a repeat of the 1970 & 80's S&L collapse, could a creation of risk pools, paid for by the industry and the government, be a solution? Could there be any other sources of gap financing to help the pioneer? There was consensus that this issue should be explored more. Several originators recommended the raising of LTV's to 130% -140% to handle the increased cost of rehab construction compared to anticipated appraised values.

The seventh issue was the concern regarding future availability and cost of casualty *insurance*. The Insurance Commissioner for the State of Louisiana, Mr. Robert Wooley, sent a memo apologizing for not being able to attend because of a previous engagement in Chicago but explained in writing the situation of casualty insurance in Louisiana. He reported only one carrier offering homeowners' coverage for new home purchases. He noted that the major carriers are not writing coverage at this time. Could the insurance industry put a halt to lending in the disaster areas?

One idea presented by meeting participants to ensure affordability of insurance for the new homeowner was the financing of the first year's insurance payment in the loan. Another idea was the sale of premium bonds to cover insurance costs. The third was a subsidy to pay part of insurance premiums. The Insurance Commissioner requested that he be kept on the invite list for future meetings.

Restoring the American Dream

The next panel focused on the servicing challenges facing the industry. The participants heard the Katrina evacuation challenges of the local servicer, Standard Mortgage. The challenges included locating staff, emergency data retrieval, contacting customers by marginally functional phone or mail services. Countrywide reported that while 80% of the customers in the affected area were current, only 25% of the 8000 loans were current in New Orleans. US Bank reported that about 40% of its loans in the effected area were delinquent. Countrywide and US Bank stated that their greatest concern is the small number of customers that have called the servicers to date. Representatives from Fannie Mae, Freddie Mac and FHA echoed the same concern.

The servicing representatives from U.S. Bank, Countrywide, Freddie Mac, Fannie Mae and FHA stated that each company had instructed their servicers to extend the forbearance period at least a year. They expressed frustration at the continued press stories about loan deferments expiring on December 1. Each emphasized that the most important message is the servicers will continue to work with each customer to help them "restore the American Dream", if the customer would just call. If there is no call then the servicer can only conclude that the customer may have abandoned the property thus resulting in foreclosure.

The representative of Fannie Mae recommended that the industry host 1-800 phone number to hear from borrowers. This phone service will triage the questions and concerns of the borrowers and then direct them to contact their servicers. The representative from Freddie Mac announced its E-Bus that will travel around the effected areas to counsel, educate and give access to web-based information. The representative of NHS stated that it has increased its capacity to provide counseling to borrowers. It was suggested that the Bring New Orleans Back Commission host a press event to let effected borrowers know that the forbearance period has been extended for those who contact their servicers.

It was also noted that many borrowers are paying-off their loans with insurance proceeds because of the uncertainty of the timeline for redevelopment in New Orleans and the Gulf Coast. They are concerned about minimal city services, the lack of and quality of schools, continued employment, and the safety of the environment.

Bigger than Anything Experienced Before

Our group then joined the Financial Service Roundtable to hear luncheon speakers. Congressman William Jefferson described Congressional action to date and the importance of unifying the state and city strategic plans. He talked about the provisions in the Congressional legislation to expand the bonding capacity of the effected states and the appropriations for levee protection to a true Category 3 level and the funding of planning for a Category 5 level. He summarized the status of bills to increase CDBG grants to states and cities in the effected area and HR 4100 which proposes to establish a federal development corporation to manage redevelopment in Louisiana.

Mr. Mtumishi St. Julien, Executive Director of The Finance Authority of New Orleans and co-chair of the Housing sub-committee of the Mayor's Bring New Orleans Back Commission, called on the entire Mortgage Banking Industry to work aggressively and collaboratively to help bring back the devastated areas because the devestation is too big for industry vendors to act separately. He recalled the creativeness of Congress in thinking out of the box to provide homeownership opportunities by creating FHA in 1934 and the solving of the home mortgage industry's liquidity challenges by creating Fannie Mae, Freddie Mac and Ginnie Mae. He called again for Congressional creativity and determination to restore the American Dream for thousands of people in the effected area so the whole world will know that this concept of the American Dream is truly a committed value and not just propaganda.

DECEMBER 6TH

Building Consensus on Major Issues

The Mortgage Banking Summit continued the next day after networking with the participants of the Financial Services Roundtable. The discussions were both energetic and poignant. While there developed no silver bullets to resolve the many challenges, the participants did list what they thought were the key issues that needed further discussion, evaluation and action.

1. Can the rehab products offered be reevaluated regarding the limitation on the percentage of rehab costs that can be financed?
2. While appraisers may be reluctant and/or forbidden from deviating from the norm, what type of additional credit enhancements, MIP insurance and/or guarantee risk pools can be established to handle the needs of the pioneer borrowers?
3. Can the mortgage banking industry work with the insurance industry to facilitate a moratorium on credit scoring to set premiums and to lobby to reduce costly class action litigation?
4. Can the first year insurance premiums be financed with the mortgage loans and/or can we identify sources of subsidy for insurance premiums?
5. Can the industry focus on affordable investor loan products to facilitate renovation of rental units?
6. Can FHA amend its 203k product:
    - to expand the maximum completion time to 12 months;

- to inspections and disbursement draws based on % of completion rather than monthly;
- to include investor properties.

7. Can the 15% restriction on rehab be removed from the FHA Reverse Mortgage product?
8. Can Fannie Mae amend its Homestyle product to remove the limitation on the amount of rehab costs that can be financed?
9. Can the industry push EPA to be more specific and clear in communicating the environmental conditions of effected neighborhoods in order to avoid the possibility of Phase I and/or II Environmental analyses as a precondition to lending?
10. What strategies can be developed to increase the available number of rehab inspectors and rehab counselors?
11. How can we get the industry to invest in more customer counseling centers and/or organizations to help borrowers avoid the pitfalls of predatory lending practices and unscrupulous contractors?
12. What kind of products and/or processes could be implemented to free local originators from recourse on originated loans?
13. What strategies can the industry use to encourage more loss mitigation programs by Congress to not only reduce the loss of homeowners and residential investors caused by Katrina/Rita but to help increase affordable mortgage lending products and services within acceptable safety and soundness requirements?

PROPOSED FOLLOW-UP

- Conference call with FHA to discuss suitable improvements in 203k and reverse mortgage products;
- Meeting with the Louisiana Insurance Commissioner to determine status, availability and costs of casualty insurance in Louisiana;
- Creative thinking on the creation of pioneer loans that will cover gaps in appraisal to rehab costs;
- Establishing more customer counseling and technical assistance centers;
- Press event to announce extended forbearances for those who contact their servicers;
- Helping Congress provide loss mitigation programs.

Special thanks to JP Morgan Chase, Freddie Mac and Fannie Mae for their financial contributions to make this Summit a reality.