TESTIMONY OF

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On behalf of the

HOUSING POLICY COUNCIL of THE FINANCIAL SERVICES ROUNDTABLE

Before the

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Good Morning Congressman LaTourette, Congresswoman Tubbs-Jones, and members of the House Financial Services Committee. I am Deborah Oakley, Senior Vice President of Homeownership Preservation for National City Corporation. I appreciate the opportunity to testify before the Committee today on behalf of the Housing Policy Council (HPC) of The Financial Services Roundtable.

In today's testimony, we want to give the Committee a more complete perspective on the important issue of reducing foreclosures. There are two popular misperceptions that I would like to address: the first is that lenders benefit from foreclosures and secondly that lenders do not have, and have no wish to offer, workout options that would help people stay in their homes. In both cases, the opposite is true. National City along with HPC members has teamed up with Neighborworks® America, the Homeownership Preservation Foundation, Freddie Mac and Fannie Mae in a national partnership to help people stay in their homes.

The Financial Services Roundtable formed HPC in April 2003 to be the premier forum to address the most critical mortgage finance and housing public policy issues. Housing finance is truly a national industry and HPC member companies seek to serve customers across the nation. As of August 2006, twenty-two Roundtable member companies comprise the HPC, and we estimate that our members originate sixty-four percent of mortgages for American consumers.

According to the U.S. Census Bureau, the homeownership rate in the United States is at an historic high of 68.7%. This number is even higher in the Midwest region at 72.5%. Homeownership rates among minorities have also increased to 47.2% for African Americans and 50% for Hispanics. The high level of homeownership is excellent news because homeownership has a positive impact on families and communities. However, along with the good news story of the increase in homeownership, there remain some cases in which borrowers with mortgages experience financial problems and foreclosures do occur. The foreclosure rate nationally is less than 1% of outstanding loans, but in Ohio this number is 3.27%. No one is happy about these foreclosures- everyone loses in a foreclosure- the borrower, neighborhood, municipality, and the lender.

Legitimate lenders want to keep people in their homes; we want successful homeowners who can pay their mortgage and succeed financially. We want customers for life- who can benefit from the services and products we offer. We also understand that as responsible community lenders, foreclosures lead to devaluation of other properties in the neighborhood, adversely affecting other customers to whom we have extended credit. Foreclosure is somewhat like depreciating your own asset – leading to more failures in the communities we lend in and thus more losses. Financial institutions understand this.

Investors such as Freddie Mac, Fannie Mae, and the other secondary market purchasers of mortgages and government agencies such as HUD support lenders' efforts to encourage loan workouts and even provide incentives to servicers to engage in successful loss mitigation with borrowers. "Tier Ratings" are used by some of these groups to gauge the success of servicers to reach targeting goals.

Foreclosures are a burden for everyone. The increase in foreclosures is startling: within the last five years, nearly three million American families have entered foreclosure; the foreclosure rate on total mortgage loans in the United States has increased by more than 50% since 2000. A 2005 Freddie Mac study estimated that the average cost of a single foreclosure for the lender averages over fifty-eight thousand dollars. In other words, responsible lenders lose money on foreclosures. For homeowners and businesses that pay property taxes, the increase in local government expenditures for dealing with vacancy, vandalism and the inherent risk of increased criminal activity generated in neighborhoods in which many foreclosures have occurred is an additional burden.

Why do foreclosures happen? In a random sample of active non-prime mortgages in Ohio from a large national lender in January 2005, Mark Duda, in a presentation titled “Foreclosures in Ohio: What is Happening and What can be Done about It”, found the following factors as the most frequent causes of default:

- 19% Job loss/Unemployment
- 17% No contact with loan servicer: unknown cause
- 14% Health crisis/Disability/Worker’s comp
- 13% Money management/Overspending
- 13% Divorce/Separation
- 10% Borrower deceased/Other death in family
- 6% Rental property
- 3% Property Taxes, Insurance, Utility costs
- 4% Other

These reasons comport with the findings of the HPC lenders, although the percentages attributable to each reason varies from lender to lender. Duda’s study also showed several borrowers faced unexpected expenses. While 50% had no unexpected costs, 16% had to make repairs to major systems; 9% had increases in utility payments; 7% had increases in property taxes; 6% repairs to roof or foundation; 5% had repairs to appliances; 4% had increases in homeowner’s insurance; 3% had other unexpected expenses.

Data indicates that job loss is as important a factor in foreclosures as any single event. According to the U.S. Department of Labor Bureau of Labor Statistics, in June 2006, the U.S.

unemployment rate was 4.6%*. At the same time, Ohio's unemployment rate was 5.1%, down somewhat from June 2005 when it was 6%*. For the City of Cleveland, the unemployment rate was 6.9% in June 2006 and 8.3% in June 2005+. It is important to note that because of the economic effects of unemployment, foreclosures are likely to still be on the rise in an area after unemployment declines. Unemployed borrowers face serious problems in maintaining payments on any debt they have, and that is true of mortgage debt. The higher the unemployment rate the greater the chance that there will be more defaults and more foreclosures.

Another factor that impacts foreclosures is "under-employment", where homeowners who had sufficient income from one well-paying job have had to substitute lesser paying jobs when laid off. This is of concern in Ohio where many automotive industry employees have been laid off and can only find alternative jobs that are lower paying.

Another factor in Ohio that may be contributing to high foreclosure rates is the lack of significant appreciation in home values. According to the Mortgage Guaranty Insurance Corporation's (MGIC) Market Trend Analysis, July 2006, Cleveland homeowners experienced only a 3% home appreciation this last year, compared to 12.53% nationally. As a state, Ohio likewise was limited to a 3.26% appreciation rate. In other markets where homes show significant or continued appreciation, homeowners in trouble are able to sell their properties before foreclosure occurs. They can take their equity and enjoy a fresh start. In Ohio, many homeowners find that they have little equity in their homes, sometimes through failure for properties to appreciate but in some cases they have tapped out their value by borrowing against their home for expenses the homeowner found to be important, such as education, home improvements, and in some cases, meeting daily expenses during lay-offs or cutbacks in hours worked. Compounding this problem is rising interest rates, which appear to be affecting the

* Seasonally adjusted.
+ Not seasonally adjusted.

housing market, even formerly high appreciation markets, by lengthening marketing time and lowering home price appreciation.

Responsible lenders constantly work to keep their borrowers in their homes. Even before the consumer purchases a home, lenders have pre-purchase counseling programs available to educate potential homeowners on the terms of a loan, expenses associated with homeownership, and basic budgeting skills. These programs are typically provided in conjunction with accredited non-profit counseling agencies with expertise in these matters, although some lenders conduct these workshops themselves as part of their community outreach efforts.

Legitimate lenders have a variety of “workout tools” available to their borrowers who are facing financial difficulty. These tools have been developed over the years to combat different kinds of financial distress. With some homeowners, it may be a temporary set back that requires a short-term forbearance until they resume full employment or their hardship is resolved.

For others, a repayment plan (where they pay a regular monthly payment plus a portion of the arrearage) can resolve their delinquency. Stipulated repayment plans can even be used for borrowers who are already in foreclosure. Others require more sophisticated assistance, such as modifying their mortgage (by capitalizing past due payments, extending the term, and/or reducing their interest rate) or in the case of FHA mortgages, approving a partial claim that would pay their arrearages through an interest free second mortgage, payable upon the sale of the property. These options are available throughout the industry and are advertised through calls, letters, and lender web sites. Borrowers must have a hardship to qualify, and they must provide financial information so that a lender can determine which workout has the best opportunity for success. But these are available for consideration, if borrowers respond to the calls and letters that lenders send each month to their customers. Our member companies and all responsible lenders have been focused on this issue for years, but we are constantly trying to improve and expand outreach to consumers who appear to be in distress.

The party with the biggest personal stake in this is the homeowner, at risk for losing his home, his equity, and his security. Homeownership is widely recognized to be one of the most important tools for Americans to build wealth. Losing one's home to foreclosure can have a devastating impact on all aspects of family life.

The major key obstacle that responsible lenders have in helping their borrowers stay in their homes: an estimated 50% of homeowners who enter foreclosure never contacted or spoke with their lender. Similarly, in a Freddie Mac survey it was found that the majority of homeowners (both those in delinquency and in good standing) are not aware of services that mortgage lenders can offer to a person having trouble with their mortgage (Roper Study, 2005). Despite calls, letters, publicizing information on lender, HUD, and counseling agency web sites, and even sending overnight mail containing workout brochures to homeowners in trouble, many fail to respond. When a borrower falls behind on her payments, it seems the last person she wants to talk to is her lender. From a human nature standpoint, that is understandable. However, in reality, the earlier a borrower in trouble contacts their lender, the more options are available to them. It is important to underscore this point: even homeowners already in foreclosure can be helped.

The question becomes how to reach people who will not talk with their lender to inform them there are workout options available to help keep them in their homes? Part of the answer lies in creating partnerships with trusted third parties, such as nonprofit counseling agencies, local officials, and advocacy groups, to create a holistic outreach.

Responsible lenders have individually and collectively been focused on this issue for sometime. Since 2003, an innovative partnership called HOPI - between the City of Chicago, the Federal Reserve Bank of Chicago, Neighborhood Housing Services of Chicago (a NeighborWorks affiliate), the Homeownership Preservation Foundation, and several lenders - teamed up to tackle the city's rising foreclosures. Through the City's 311 hotline, a telephone number serviced all hours of the day and night, homeowners at risk of foreclosure received free counseling by certified housing counselors.

Postcards publicizing the 311 number were mailed to homeowners in at-risk neighborhoods. The Mayor's office, with the support of the media, publicized these efforts. It has been a major success. In three years (2003-2006), over 4,000 Chicago homeowners have received counseling and over 1,300 families avoided foreclosure. It is estimated that in three years, the HOPI program resulted in $267,000,000 in collective savings for the City of Chicago, its homeowners, and HOPI lender partners. These partnerships allow the counseling agencies to work with homeowners to develop a financial plan, and then the counseling agencies work with the lenders to create a viable workout for the homeowner. Leveraging other community resources, homeowners receive holistic assistance that can address not just their financial situation, but other events and circumstances that are impacting their ability to keep their home.

Building on successful pilot programs in Chicago, Detroit and Dallas, fourteen HPC companies and other legitimate lenders have partnered with some respected national non-profits and the GSEs in a national foreclosure prevention campaign. All partners have the same goal of helping homeowners avoid foreclosure whenever possible. Through the counselors and the Ad Council campaign, lenders are reaching out to their borrowers and encouraging them to get help either through 888-995-HOPE, a NeighborWorks organization, or by contacting their lender directly. The goals of this partnership are:

- Linking homeowners in danger of foreclosures to the Homeownership Preservation Foundation's accredited counselors to get the financial advice they need to avoid foreclosure
- Establishing foreclosure intervention programs in cities and localities with high rates of foreclosure.
- Conducting a national public education campaign with the Ad Council to improve contact rates for those in financial distress.
- Improving counseling capacity and providing certified training programs to foreclosure counselors across the nation.

- Conducting industry research to better diagnose issues in the new mortgage market and advising on potential solutions.

As of August 2006, the partners of this national program are: Homeownership Preservation Foundation; NeighborWorks® America; Housing Policy Council; American General Financial Services, Inc./ AIG; Bank of America; Citigroup; Countrywide Home Loans; Fannie Mae; Freddie Mac; Homecomings Financial; HSBC- North America; JPMorgan Chase; ABN AMRO Mortgage Group, Inc., an indirect subsidiary of LaSalle Bank Corporation; National City Mortgage Co.; New Century Financial Corporation; Ocwen Loan Servicing, LLC; Option One Mortgage; Residential Capital Corporation; State Farm Insurance; Washington Mutual; Wells Fargo Home Mortgage. The Homeownership Preservation Foundation was founded in 2004 with a $20MM grant from GMAC-RFC for the purpose of reducing foreclosures across the nation. HPF established the Credit Counseling Resource Center, a free 24/7 hotline number staffed by 50 trained housing counselors, to assist owners at-risk throughout the country. The NeighborWorks® Center for Foreclosure Solutions is an initiative of NeighborWorks America, a nonprofit organization, founded by Congress, providing financial support, technical assistance and training for communities across the nation, including the NeighborWorks network—a nationwide network of more than 245 community development organizations working in more than 4,400 urban, suburban and rural communities across America. These organizations engage in revitalization strategies that strengthen communities and transform lives. In the last five years alone, NeighborWorks organizations have generated more than $10 billion in reinvestment and helped more than 780,000 families of modest means purchase or improve their homes or secure safe, decent rental or mutual housing.

The phone counseling is provided by the Homeownership Preservation Foundation's Credit Counseling Resource Center. Every counselor is an independent specialist in foreclosure prevention, certified by the Department of Housing and Urban Development. There is no switchboard; the phone is answered by housing counselors who are available twenty-four hours a day, seven days a week.

The national program rolled out in Ohio in April 2006. We are working on rolling out to other areas in foreclosure crisis including Georgia, Texas, Missouri, and Michigan in 2006 and early 2007. The National Ad Council campaign promoting the hotline is expected to roll out in late 2006 or early 2007.

From January to June 2006, over 2,200 homeowners have been counseled through this national initiative. Seven hundred twenty-six of those counseled are from Ohio. Of all those counseled nationally, 29% were 120 days or more late on their loan payments; 21% were 61-120 days late; 21% were 30-60 days late; 22% were under 30 days later; 7% were unsure. Of those counseled, 45% had not talked to their lender in the last thirty days. The initial outcomes of the counseling sessions are: 28% need more budget improvement; 18% have more counseling advised or scheduled; 15% have a lender workout suggested, pending or reinstated; 13% are referred to a NeighborWorks® organization for more counseling; 12% are referred to another agency (i.e. LifeMatters, Salvation Army, etc.); 12% are seriously considering selling their house; 2% are put on a credit counseling consolidation plan.

Our member companies and every legitimate lender take this issue very seriously. We want to help consumers be successful homeowners and to avoid foreclosures. We believe our homeownership preservation effort is a model to help homeowners in distress. In closing, our message is that lenders want to work with all interested parties – non-profits, public officials, the media – to get the message to homeowners in distress that help is available. The most important first step is to make the call to ask for help. Thank you for this opportunity. I would be pleased to answer any questions the Committee may have.