Testimony of
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Fannie Mae - Northern Ohio Community Business Center
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Thank you, Chairman Oxley, Ranking Member Frank, Host Members, Congressman LaTourette, Congresswoman Tubbs Jones, Congressman Kucinich, and members of the Financial Services Committee.

My name is Vanessa Randolph and I am the Director of Fannie Mae's Northern Ohio Community Business Center. In this role I work across our company's business lines to develop market strategies that enable us to make investments that positively impact on the affordable housing market throughout Ohio, with an emphasis on 29 counties across Northern Ohio. In general, Community Business Centers are local, field-based centers around the country responsible for working with local lenders; non-profit and for-profit developers; real estate professionals; housing advocates; public officials; public housing authorities; and community development corporations, among others. We like to say that the Community Business Centers bring the community to Fannie Mae, and we bring Fannie Mae to the community.

I have over 16 years of mortgage lending experience. I am a native Ohioan and currently reside in Cuyahoga County.

I want to thank you for inviting me to testify on the state of affordable housing with regard to foreclosures. I commend the members of this Committee for your leadership on this issue. Your concern and attention have been and will continue to be critical to the success of public and private sector efforts to combat the rising number of foreclosures in Ohio.

I am pleased to be here today to discuss foreclosures and foreclosure prevention and to share with you the steps that Fannie Mae is taking to help keep people in their homes and expand affordable homeownership opportunities in our communities.

Foreclosures in Ohio

Ohio has the highest rate of mortgage defaults in the nation, a distinction we could very easily live without. According to a recent report from Policy Matters Ohio, Ohio's foreclosure rates have doubled since 1998 and increased more than 31 percent since 2001. Ohio was first in the nation in home foreclosures in both 2004 and 2005. In 2003 one in every 117 Ohio households was put up for sheriff's sale. The Mortgage Bankers Association of America reports that in 2005 the number of prime Ohio loans in foreclosure was 1.48 percent – which was more than three times the national rate of 0.42

percent. (See **Attachment A).** An analysis of the Fannie Mae rate of foreclosure in Ohio confirms the trend shown by the MBA's Ohio foreclosure rate as compared to the national average.

<u>What Fannie Mae is Doing</u>

Fannie Mae's American Dream Commitment is our commitment to meet America's toughest housing problems by investing in affordable housing through four (4) primary goals, as follows:

1. Getting people into homes;
2. Keeping people in those homes;
3. Increasing the supply of housing where it is needed it is needed most; and
4. Transforming communities through strategic placement of resources.

The second of our American Dream Commitment goals - keeping people in their homes - is the umbrella goal under which our foreclosure prevention efforts fall. In short, Fannie Mae's mission is to make homeownership not only attainable, but also sustainable. Because Fannie Mae does not do business directly with consumers, we recognize the importance of partnering with our lenders (servicers), housing advocates, and other trusted advisors to create and implement initiatives and outreach efforts to help keep people in their homes in Ohio. These efforts include participation and financial support of local and statewide Foreclosure Prevention Summits; Anti-Predatory Lending Pilots; Faith-Based Consumer Awareness initiatives; and training third parties to utilize our web-based counseling tool Home Counselor Online™, so that they can help prepare families across the country for homeownership.

Fannie Mae's local foreclosure prevention efforts include our partnership with non-profits in four Ohio cities (Cincinnati, Cleveland, Dayton, and Toledo) to offer anti-predatory lending and pre-foreclosure assistance. We are also supporting the efforts underway to offer a statewide foreclosure prevention summit in Toledo in the fall of 2006. It is Fannie Mae's desire to avoid purchasing loans from lenders who demonstrate the use of predatory or abusive lending methods. In April 2000, Fannie Mae developed a set of anti-predatory lending standards that lenders must comply with in connection with the sale of loans to Fannie Mae. For example, these standards include not purchasing or securitizing mortgages with excessive points and fees, including loans subject to the Home Ownership and Equity Protection Act of 1994 (HOEPA), and mortgages where the lender did not adequately assess the borrowers' ability to repay the loans.

One key characteristic of some foreclosures is that they are the result of mortgage fraud. In many cases, the "fraudster" manipulates an unsophisticated borrower, who then becomes a victim of mortgage fraud and potentially loses a home to foreclosure or struggles to meet a payment on an over-appraised home. Fannie Mae is committed to working with our partners to help detect and combat mortgage fraud—hopefully before it occurs, but also after the fact by detecting fraud patterns and working with government officials to pursue perpetrators of fraud.

In the best cases, potential fraud is detected before it occurs. Fannie Mae has improved our automated underwriting system, Desktop Underwriter®, to provide DU Red Flags Messaging, which displays messages to our lenders when suspicious characteristics that could indicate possible mortgage fraud appear on loans they are reviewing. These characteristics could include excessive property valuation on refinances, rapid home appreciation, or inconsistent borrower information. We have also partnered with several large national vendors to offer anti-fraud services such as Borrower ID, Verification of Employment, Verification of Income, Predatory Lending review and state law compliance to our lender partners. In addition, Fannie Mae offers web based training, Housing Finance Institute classes and consultative services to educate lenders and other industry partners on best practices to combat mortgage fraud.

Home Saver Solutions

In addition to our outreach efforts, Fannie Mae has developed a Home Saver Solutions initiative consisting of several creative approaches that help financially troubled borrowers stay in their homes where possible or avoid the stigma of foreclosure. These approaches – collectively referred to as "workouts" – consist of forbearances, repayment plans, modifications, assumptions, pre-foreclosure sales, and deeds-in-lieu of foreclosure. ***Fannie Mae feels so strongly about helping Americans sustain homeownership that we expect servicers to pursue alternatives to foreclosure and we provide for servicers to earn additional compensation from us for pursuing alternatives to foreclosure.*** However, when the borrower does not met the mortgage obligation and the workout attempts fail, foreclosure is unavoidable. If foreclosure becomes necessary, it will be done in a cost-efficient manner and within the guidelines of state law.

One of the keys to ensuring success is early intervention with the borrower. This is why Fannie Mae encourages borrowers experiencing financial difficulties to contact their lender (servicer) at the first sign of financial trouble. The positive impact of the Home Saver Solutions initiative to date is reflected in the following:

- Since 1997, an increasing number of Fannie Mae borrowers have been able to work out their delinquencies instead of losing their homes to foreclosure;
- Repayment plans and modifications have increased, enabling most borrowers to remain in their homes; and
- As of year-to-date 2006, Fannie Mae has entered into workouts aimed at saving borrowers' homes for approximately one third of Ohio loans that have become seriously delinquent

The alternatives to foreclosure that Fannie Mae promotes fall into two major categories – short-term and long-term:

Responses to <u>short-term, less severe financial problems include:</u>

1. **Forbearance Agreements**: These are formal written agreements between the borrower and the mortgage servicer. Under the terms of the agreement monthly payments are reduced or suspended for a specific period of time. During that time, the borrower pays either a lower monthly payment or no payment at all. At the end of the agreed-upon period the borrower resumes making regular monthly payments, as well as pays additional funds to make up for the past-due amount or another workout alternative, i.e., a loan modification may be warranted as a means of establishing a repayment plan.

   Benefit: During the period of forbearance the borrower has the opportunity to resolve the financial hardship AND remain in the home

2. **Repayment plan:** This involves a temporary increase in monthly payments until the loan is brought current. The servicer calculates the additional payment required and how long it will be needed.

   Benefit: The borrower has the opportunity to "make up" missed payments over a period of time, rather than all at once, AND remain in the home.

Responses to <u>longer-term, more severe</u> financial problems include:

1. **Modification:** A modification allows for one or more of the terms of the mortgage to be changed to bring the loan current. For example, the modification might involve extending the term (up to a maximum of 480 months) OR temporarily reducing the interest rate. Delinquent interest, escrow, fees, and other costs may be added to the principal balance that is owed, subject to state law.

   Benefit: The borrower is offered a fresh start and the borrower's breach of the loan terms is cured.

2. **Assumption**: If the borrower doesn't want or isn't able to keep the house, an assumption may be in order. The home is transferred to a new buyer who agrees to take responsibility for (assumes) the existing mortgage. The new buyer must meet credit guidelines.

   Benefit: The borrower avoids the stigma and the tax liability of a foreclosure.

3. **Pre-foreclosure sale:** A pre-foreclosure sale should be considered even if the sale of the property at current fair market value would result in proceeds less than the total debt outstanding. The property is listed for sale at its "as is" appraised value. Fannie Mae and the servicer agree to accept the proceeds of the sale, and any extra agreed amounts, in satisfaction of the mortgage loan. Borrowers may be asked to make a cash contribution or sign an interest-free promissory note for all or part of the difference between the proceeds from the sale of the property and the amount owed on the mortgage.

Benefit: The borrower avoids the stigma and the tax liability of a foreclosure.

4. **Deed-in-lieu of foreclosure –** This is generally viewed as an option only after all other alternatives have been explored. The borrower voluntarily gives the deed to the property to the servicer. This option is only available if there are no junior liens (or the holders of the junior liens agree to release them) and the property is vacant at the time the deed is executed. Borrowers may be asked to make a cash contribution or sign an interest-free promissory note for all or part of the difference between the value of the property and the amount owed on the mortgage.

   Benefit: The borrower satisfies the debt and avoids the stigma of foreclosure. The borrower can reduce the tax impact where some of the debt is forgiven by surrendering the property as quickly as possible after the decision is made so that the taxable loss is minimized.

With the support of elected officials at the federal, state and local levels, we believe that we can elevate the interest in foreclosure prevention. Foreclosures filings are on the rise throughout the state. In response to this rising rate, we need to create a real sense of urgency for creating the most efficient process for managing foreclosures.

There is also a need to increase borrower awareness of the resources that are available to help keep people in their homes. It is not enough to help hundreds of families when thousands are not even aware of the opportunities for assistance. Leadership at the federal, state, and local levels can focus interest and increase support to the various help lines that exist (County's 211 line, NeighborWorks 800 number, HAI-HELP; etc.), as well as to the loss mitigation and foreclosure prevention programs that are taking place around the state.

There also needs to be more support and funding for our non-profit partners who provide prepurchase and post-purchase counseling. These agencies could be the foundation for a statewide effort to help people sustain homeownership. This type of collaborative effort could be significant in that it would help to avoid foreclosures and the resulting risk of homelessness.

I want to again thank Chairman Oxley, Ranking Member Frank, and Ohio host members, LaTourette, Tubbs Jones, and Kucinich, and the Members of the Committee for their leadership and their commitment to addressing the foreclosure problems on behalf of all Ohioans. You have been champions of developing affordable housing and we ask that you accompany us on the journey to provide sustainable housing solutions so that everyone can have a safe and decent place to call home. We look forward to working with the Committee to continue making progress.

Thank you. I would be happy to answer any questions.

Attachment A

Problem Statement
Ohio has the grim distinction of having the highest rate of mortgage defaults in the nation. The Mortgage Bankers Association reported the following statistics at the end of the fourth quarter of 2005:

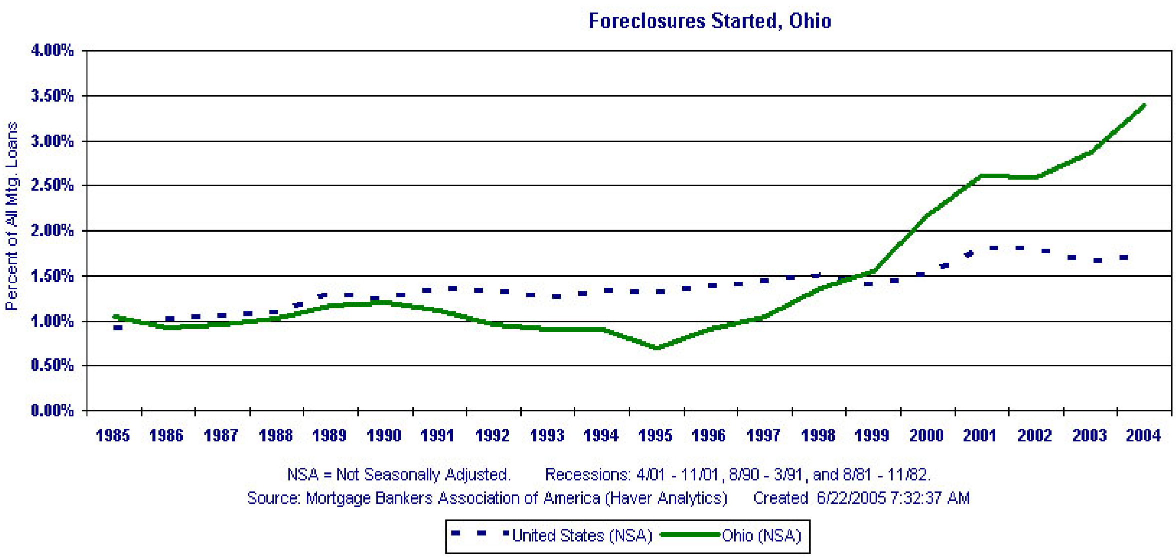
Table 1. Comparison of Mortgage Default Rates

Type of Loan	Percent of Loans in Foreclosure in Ohio	Percent of Loans in Foreclosure in United States	Ratio of Ohio Rate Compared to National Rate	Ohio Ranking vs. Other States
All Mortgages	3.22	.99	3.25	#1
Prime Mortgages	1.48	.42	3.52	#1
Subprime Mortgages	9.99	3.33	3.0	#1
FHA Mortgages	5.17	2.34	2.21	#1
VA Mortgages	3.57	1.13	3.16	#1

Source: National Delinquency Surveys, Fourth Quarter 2005. Mortgage Bankers Association.

Foreclosure rates in Ohio have more than doubled since 1999. At the end of 2005, more than 3.22 percent of all loans were in foreclosure. This is more than three times the national rate of .99 percent, and over four times Ohio's rate of 0.7 percent in 1995. The largest jump was in 2000 and 2001, and foreclosures rose again in 2003 and 2004 after a steady period in 2002.

Table 2. Foreclosures Started in 1985-2004, Ohio Compared to U.S. Rates



Source: FDIC RECON (www2.fdic.gov/recon), from Mortgage Bankers Association's National Delinquency Survey