PROGRESS IN ADMINISTRATIVE AND OTHER EFFORTS TO COORDINATE AND ENHANCE MORTGAGE FORECLOSURE PREVENTION

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PROGRESS IN ADMINISTRATIVE AND OTHER EFFORTS TO COORDINATE AND ENHANCE MORTGAGE FORECLOSURE PREVENTION

Friday, November 2, 2007

U.S. HOUSE OF REPRESENTATIVES,
COMMITTEE ON FINANCIAL SERVICES,
Washington, D.C.

The committee met, pursuant to notice, at 10:06 a.m., in room 2128, Rayburn House Office Building, Hon. Barney Frank [chairman of the committee] presiding.

Members present: Representatives Frank, Sherman, Hinojosa, Green, and Moore of Wisconsin.

The CHAIRMAN. The hearing will come to order. Are two members a quorum for a hearing? I don't know. I will ask the Parliamentarian.

Mr. GREEN. Is that a quorum or a quarrel?

The CHAIRMAN. Two members constitute a sufficient quorum.

This hearing is called as part of a cooperative effort between the Legislative and Executive Branches on dealing with the subprime crisis. As we have made clear, the subprime crisis has required us to take a two-fold approach. On Tuesday this committee will be marking up legislation that will, we hope, if enacted diminish the likelihood of a crisis such as this recurring. But we are constrained when we are dealing with existing mortgages and existing contracts from legislating in most cases. We don't want to advocate existing contracts by law. We are prepared to encourage negotiations. So it is a two-track process.

I would like to say that I very much appreciate the cooperation we have had from the Administration, particularly the bank regulators, but also Commissioner Montgomery going forward, because this committee has already responded in substantial part to the Administration's request in the FHA. So we have a collaborative effort going on, some differences, but essentially a collaborative effort on the FHA. And the bank collaborators, the FDIC, the OCC, the OTS, the Credit Union Administration, and the Fed have been cooperative in working with us and drafting legislation. Again, we won't have 100 percent agreement, but we are within, I think, a generally agreed upon framework.

So that is one part of it. The other part is the ongoing effort we have had to try to persuade people to do modifications of existing contracts, although there has also been some legislative cooperation. The President has supported, and the House has passed, legislation to make sure that there is no tax liability for mortgagors who are given some kind of flexibility.

And one other one that I would mention that I think has been a very good example, and a necessary example of cooperation here, members of this committee wrote to the Securities and Exchange Commission earlier this year and asked them to intervene with the Financial Accounting Standards Board to encourage them to make it clear to the servicers that if the servicers of mortgages in the secondary market could demonstrate that it was in the interest of the holders of the paper to do a workout, namely, that it would be better for them from the economic standpoint not to foreclose but in fact to do some reworking so there would be a steady income stream, that they could do that. We got the permission of the Financial Accounting Standards Board, which was responsive.

Now the reason I cite all these things is this: A lot of pieces have been put in place, and the bank regulators have also made it clear, to their credit, that forbearance will be allowed, that—we have done a great deal to encourage the holders of the mortgages to show flexibility. We have provided some tax help. We have a number of very useful organizations, neighborhood organizations, and citizens groups who are trying to work with the borrowers.

What seemed to some of us a few weeks ago while the pieces were out there, they weren't meshing, that we had put a number of individual policies in place but we needed to overcome the inertia of everybody in their separate sphere. A lot of efforts like that have been going on. One was this HOPE NOW that the Administration has proposed, and we thought it would be very useful to get a report on that. We have two panels: First, some representatives of the Administration; and second, some neighborhood and citizens groups and also some of the businesses.

One of the things we do want to make clear is that we are not talking about legislation that compels anybody to do anything. I also want to repeat this: We are not talking about any kind of bailout in the sense of public money. No public money is going to go either to mortgagors or mortgagees. No public money is going to go to pay off people in terms of the loan. Public money is useful for helping to make sure the advocates are available, that we can reach out.

Secondly, I want to again deal with those who claim that there is a moral hazard involved here, namely, that we are going to be so effective in alleviating problems that a number of people will say, "Boy, that was fun, let's do it again." As anybody involved in this knows, that is not remotely true. We are mitigating pain, we hope. We are diminishing terrible consequences. Nothing we are doing, if we are 100 percent successful, is going to make anybody on either side of this transaction, I believe, want to go through it again. We are talking about losses to the lenders that they deserve to have because they made, in some cases, bad decisions. We are talking about pain on the borrowers that we cannot avoid, but we can diminish.

There is one last point that I would make, and that is the justification for all this energy on the part of high officials of this Administration from HUD and Treasury, and from Members of Congress. One of the arguments is, well, why should we help these people make bad decisions? Leave aside compassion, and the fact that some people were misled. Leave aside all of those reasons. There is a very good reason, I think, in economic terms; the externalities of this crisis are severe. That is, the negative economic effects on people who by nobody's definition did anything remotely unwise or incorrect are severe.

In particular, we have a large number of people in this country who are making what, $30,000 to $50,000 or $60,000 a year. They took out mortgages. They are working hard to pay their mortgages. And they are among the victims of a widespread foreclosure pattern. Because if you own a home, and you are paying your mortgage, but the house across the street is foreclosed upon, and other houses in the neighborhood are foreclosed upon, then you get a deterioration of the neighborhood. You get vacant housing, which becomes a source of difficulty, and you get a deterioration of property values. So there is an excellent public policy reason for us trying both to alleviate this crisis now and make it less likely in the future.

Are there any further opening statements from my colleagues? The gentleman from Texas.

Mr. GREEN. Thank you, Mr. Chairman. And I sincerely thank you for holding this hearing today. I am also appreciative that we have such outstanding witnesses here today—Mr. Steel and Mr. Montgomery. I am very grateful that you are here.

I would like to also, if I may, simply thank the staff because the briefing material on this has been absolutely excellent. I really look forward to hearing the testimony, but I can tell you that what I have read so far has been very impressive, and it is going to, I trust, allay a lot of concerns.

We need not go into the statistical information about the impact of the subprime concerns on the broader market. But I do want to let folks know that we know that there is a lot of consternation and a lot of people are very concerned about what is going to happen to them. I think that a project or a program like the HOPE NOW program is going to give people just that, hopefully.

Hope: It will cause people to understand that the government does care, and that it does want to be involved in a way that is permissible and acceptable so as to help people to extricate themselves from a most difficult circumstance that many people find themselves in. And for those who are of the opinion that this does not impact them, I think that what the Chair said bears reiterating. There are a lot of prime communities with subprime home loans within them. And because we have this circumstance, every neighborhood ought to be concerned, every school district ought to be concerned. The counties ought to be concerned because they collect taxes and all of this can have an impact. But I think that we are making the right move to give the public some assurance that the government does want to be involved in the solution. We want to help people to come to a solution.

And finally I would say this, as we move toward finding a solution, I think that we do want to make it very clear to people that we are not interested in changing the dynamics of the marketplace in some sort of irreparable way. We understand that there are dynamics in the market, and we want to let the market do what the market does. But by the same token, we want to try to save as many people who are in foreclosure as we can because some of the circumstances were created in an adverse way that were not—they didn't have all of the information and intelligence such that they would have made different decisions. There was a market that was booming. Everybody thought that housing prices were going to go up forever, I suppose. And when that turned around, it caught a lot of people without the ability to extricate themselves.

So I am honored that this hearing is taking place, and I do look forward to hearing from the witnesses. I thank you again, Mr. Chairman, and I yield back the balance of my time.

The CHAIRMAN. Are there any further opening statements? The gentleman from Texas.

Mr. HINOJOSA. Chairman Frank, I want to thank you for holding a hearing on such an important topic. Hopefully this and subsequent hearings will shed light on what needs to be done to help curb what is predicted to be a tidal wave of foreclosures. The drop in the Dow has put the fear into investors throughout the country. I received some information from an association that I want to discuss with you. The National Association of Hispanic Real Estate Professionals predicted that foreclosures in the Hispanic community alone are expected to reach nearly $25 billion in 2007, and almost twice that—$52 billion—in 2008.

I ask unanimous consent, Mr. Chairman, to insert into today's record a letter from the National Association—

The CHAIRMAN. Without objection, it is so ordered.

Mr. HINOJOSA. Minority homeowners, particularly Hispanics, receive a disproportionate number of unscrupulous loans, and in the past have been preyed upon by several entities that I won't mention here today. Those companies paid hefty fines as a result of their misdeeds. I believe that those entities have paid their dues. I imagine the regulators will impose similar fines once they determine the entities that have once again preyed most upon the Hispanic community and other minorities.

At this point in time, I believe that it is crucial that we set aside our differences and focus on the task at hand. As Chairman Frank and others have noted, it is time to examine the recent progress by the Administration and others in coordinating the lenders, mortgage servicers, nonprofit organizations, community-based organizations, and others to assist at-risk homeowners; encourage modifications of troubled loans; and prevent as many mortgage foreclosures as possible. Working together, I believe that we can accomplish these goals.

Having said that, Mr. Chairman, I yield back the remainder of my time.

The CHAIRMAN. The gentlewoman from Wisconsin is now recognized for an opening statement.

Ms. MOORE OF WISCONSIN. Thank you, Mr. Chairman. I can tell you that before coming to Congress, before being an elected official at all, I worked for the Wisconsin Housing and Economic Development Authority back in the 1980's, and one of the first things that I looked at was securitization of loans, really wanting decent people who are not necessarily "A" borrowers to have an opportunity to move into their homes. And for sure, some of this has occurred because borrowers were not impeccable. But clearly many of the problems are not just based on life's circumstances or life's changes—deaths, divorces, a loss of income—but some of them have been because of some of the products that we all have created.

I hope that today is more than just a love fest of our talking about our HOPE NOW project and really trying to create an environment where lenders will, in fact, redo these mortgages, will in fact come to the table and realize that it is more cost effective, in many instances more than they have stepped up to this point, to work with consumers to try to keep them in their homes because it is not just that borrower who is losing their home. It has a rippling effect on tax revenues for our cities, for declining property values for other residents who live in the community, and just really open season for criminals who see a checkerboard of foreclosures and boarded-up homes.

So I thank you for coming, and Mr. Chairman, I yield back.

The CHAIRMAN. I just unplugged the microphone with my foot, so I will disappear for a minute to plug it back in. But we will begin. Let me express my appreciation to our two Administration officials, and we will begin with Mr. Steel.

STATEMENT OF THE HONORABLE ROBERT K. STEEL, UNDER SECRETARY FOR DOMESTIC FINANCE, U.S. DEPARTMENT OF THE TREASURY

Mr. STEEL. Chairman Frank, members of the committee, good morning. I very much appreciate the opportunity to appear before you today to present the Treasury Department's perspective on efforts to coordinate and enhance foreclosure prevention. As you know, we are experiencing a period of adjustment in the credit and mortgage markets. Fortunately, this market stress is occurring against a backdrop of healthy U.S. fundamentals and a strong global economy. Yet as Secretary Paulson has said, the housing decline is the most significant current risk to our economy. And additionally, as others have said, a significant number of homeowners will experience strain and could face foreclosure.

The issues of foreclosure are complex and nuanced. In truth, thousands of homes end up in foreclosure every year, even when housing markets are strong. Between 2001 and 2005, more than 650,000 homeowners began the foreclosure process every year. This baseline foreclosure rate can result from events such as job loss, credit problems, or changes in family circumstances. These foreclosures, although unfortunate, are largely unavoidable.

Over the course of the next 18 months, we expect the foreclosure rate to remain elevated and above its historic level. A rising foreclosure rate during a housing downturn is not surprising but largely because of lax underwriting in recent years, especially in the subprime market, a higher number of homeowners will face delinquency during the next year-and-a-half. In total, over 2 million subprime mortgages are expected to reset in the next 18 months, but not all will end up in foreclosure.

Some homeowners will be able to afford their new payments without trouble and many others will qualify for a refinanced fixed-rate mortgage on their own. Others, however, have been stretched too far beyond their means and unfortunately foreclosure is inevitable. Our challenge is to identify the group of homeowners who, with a bit of assistance, can stay in their homes.

On August 31st, President Bush announced an aggressive comprehensive plan to help as many homeowners as possible stay in their primary residences. The Department of Housing and Urban Development and the Treasury Department have been working closely with leading servicers, mortgage counselors, lenders, and investors to understand the causes of foreclosures and the very best ways to help people keep their homes. We are continuing to learn, but have reached two early conclusions.

First, it is clear to all that the earlier we identify struggling borrowers, the more likely it is that servicers and lenders will be able to refinance or modify their mortgages into something more sustainable for the long term. If we wait until borrowers miss several payments, their credit profiles will be tarnished, and they will have far fewer refinancing options.

Second, once identified, the method and technique of contacting borrowers is quite important. When contacted by lenders, many borrowers mistakenly believe that the lender's goal is to repossess their homes in foreclosure. In almost all cases, lenders would rather find a way to help homeowners stay in their homes than foreclose. Yet we understand that up to 50 percent of those who lose their homes to foreclosure never contacted their mortgage servicer or mortgage counselors for help.

From our review, it became clear that while many product market participants are working hard on their own trying to help homeowners, they are not having as much success as they or we would like. In addition, mortgage securitization has brought many benefits but has also led to complexity in finding solutions. Treasury and HUD encourage servicers, lenders, investors, and counselors to work together.

On October 10th, they announced the formation of an alliance called HOPE NOW. To date, the HOPE NOW Alliance consists of: 4 counseling organizations; 17 mortgage servicers and lenders, comprising almost 60 percent of the U.S. market for mortgage servicing; 3 investor groups, including the American Securitization Forum, which represents 370 members; and 10 trade associations. Since their launch, they have been developing and implementing an aggressive plan. Earlier this week, the Alliance announced a national direct mail campaign to contact at-risk borrowers. Servicers have been mailing letters to their at-risk customers, but have had limited success because borrowers in trouble do not want to hear from their lenders.

In contrast, independent counselors have reported a significantly higher success rate. This new letter campaign, which will come from the HOPE NOW Alliance rather than from the servicers, is expected to increase their effectiveness at reaching at-risk borrowers. The Alliance will send over 200,000 letters by the end of this month alone.

Let me take a moment to emphasize the importance of these letters and ask for your help. When you are at home in your districts over the weekend or for the holidays, please tell your constituents about this mail campaign. Tell them it is okay to contact HOPE

NOW for assistance. The organization is ready to lend a hand, but we need your help in making their message known.

The Alliance is also working hard to develop strong working relationships between servicers and counselors. Some servicers already have dedicated teams and contacts for counselors to call. Others don't. And as a result, counselors can spend hours trying to find the right person to contact. Servicers and counselors who joined the Alliance have agreed to adopt a standard process model that will strengthen and speed work flow, productivity, and communication between them.

The Alliance is working to expand the capacity of an existing national counseling network to reach borrowers. Most borrowers feel more comfortable speaking with independent, not-for-profit counselors than with their lenders. While there are already many conscientious HUD-certified mortgage counselors, their efforts could be enhanced through a uniform message and adopted best practices.

The servicers have also agreed to work toward cross-industry technology solutions to better serve homeowners. Some major servicers use sophisticated software to analyze borrower situations and determine if workouts or modifications are appropriate. The Alliance is taking this software and making it Web-enabled so that other servicers and counselors can access it. This will speed the loan modification process where appropriate.

Today the industry does not have a thorough, standardized set of metrics to evaluate servicers' loss mitigation performance or evaluate counselors' effectiveness. The Alliance is developing standard performance measures to identify categories of borrowers who can be helped, determine successful treatments and measure the rate of successful outcomes.

The efforts of this private sector alliance alone will not prevent all foreclosures but is a critical first step. By better identifying those borrowers in need, we hope to see more loan modifications and refinancing.

Just as lenders, servicers, and counselors have come to develop metrics and standards that will measure the most effective way to make counseling accessible to troubled borrowers, we have also encouraged them to come together in a similar way to develop an efficient methodology for offering suitable mortgage solutions, such as loan modifications, where appropriate.

We are optimistic about the effectiveness of our current initiatives. Yet given the size, nature, and implications of these current challenges for homeowners, we need to continue to work to find additional solutions without compromising our shared ambitions to not bail out lenders, speculators or those who have committed fraud. Mortgage providers must offer clear, transparent, and understandable information on the mortgage products they sell, and the homebuyers have a responsibility to use that information and understand their mortgages. Buying a home today is a complex process but that in no way excuses homeowners from their obligation for due diligence.

Finally, the Administration has requested that Congress do their part by focusing on three initiatives: First, Congress should pass Federal Housing Administration modernization to make affordable FHA loans more widely available; second, the President has asked

Congress to temporarily eliminate taxes on mortgage debt forgiven on a primary residence; and third, the Congress should enact comprehensive government-sponsored enterprise reform, or the GSEs.

The tax relief proposal has cleared the House of Representatives and awaits action in the Senate. In large part due to this committee's hard work, FHA and GSE reforms have passed the House of Representatives and await action. Congress should enact these bills as quickly as possible.

Mr. Chairman, in conclusion, let me thank you for holding this hearing. Under the President's leadership, the Administration is working diligently to help mitigate the impact of rising foreclosures on homeowners and the economy. We pledge to keep you apprised of our efforts. Thank you, and I look forward to your questions.

[The prepared statement of Under Secretary Steel can be found on page 111 of the appendix.]

The CHAIRMAN. Commissioner Montgomery.

STATEMENT OF THE HONORABLE BRIAN D. MONTGOMERY, ASSISTANT SECRETARY FOR HOUSING–FEDERAL HOUSING COMMISSIONER, U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

Mr. MONTGOMERY. I want to thank you, Chairman Frank, and distinguished members of the committee, for the opportunity to talk about the HOPE NOW Alliance.

Homeownership, and more importantly homeownership retention, have long been a priority for the Federal Housing Administration. We believe borrowers with FHA-insured mortgages have unparalleled access to loss mitigation alternatives to help them weather personal financial crises. In fact, in Fiscal Year 2007, we provided this support to 91,000 borrowers; 86,500 of them cured their defaults and stayed in their homes. While not every one of these borrowers will be successful in the long term, historically 89 percent of all borrowers who benefit from our loss mitigation program still have active loans 2 years after the assistance.

This success is responsible in part for a reduction in both the number and percentage of FHA foreclosures, with the foreclosure rate dropping from a high of 1.74 percent of insured loans in Fiscal Year 2004, to 1.45 percent in Fiscal Year 2007.

Throughout this year, HUD staff and senior officials nationwide have sponsored and participated in more than 125 separate homeownership retention events, including town hall meetings, fairs, and joint task forces. They have reached the combined actual audience of more than 25,000 people. While these events allow us to reach borrowers in critical need of supportive services, the number of homeowners being affected by current housing trends continues to rise.

As we know, it has been reported that more than 2 million subprime ARMs are expected to reset to higher interest rates by the end of 2008. And many of those borrowers unable to afford the higher payments will be forced into foreclosure unless the industry takes immediate and aggressive action to provide alternatives.

In September, FHA announced one such alternative. FHASecure is one of our refinance options designed specifically for conventional and subprime borrowers who default on their mortgages solely because they can no longer afford the payments on their ARM loan after the interest rate resets to a higher rate. Though still a very new program, 575 FHA-approved lenders are already using FHASecure to rescue borrowers from the potential loss of their homes. And since early September, more than 70,000 conventional borrowers have applied for FHASecure refinance loans.

Additionally, we are proactively reaching out to approximately 1.2 million at-risk homebuyers whose subprime loans are scheduled to reset between now and this time next year, and by the way, whom we can reach under our current loan limits. Through a comprehensive direct mail database, we are able to contact these borrowers, the majority of whom are 3/27 or 2/28 ARMs, and provide them alternatives to their current loans.

Current trends suggest that there may be over 1 million foreclosure starts this year alone. If the industry works together, it is possible to reinstate or refinance many of these loans, but only if borrowers respond to offers of assistance.

Industry sources reported that more than 40 percent of delinquent borrowers fail to respond to any contact from their lender until it is too late, and that is why Treasury and HUD, at the direction of the White House, have encouraged companies and organizations that historically do not share this information, business practices, or resources to join in together to create a unified, coordinated plan to reach and support these borrowers.

All of the Alliance partners are contributing staff resources and millions of dollars towards a number of specific goals, including outreach, staffing, and funding. And as Under Secretary Steel just mentioned, the most critical of these goals are communication and access.

Adopting a standardized service or counselor communication model to ensure that borrowers who contact the network get consistent, accurate, and timely access to workout strategies will be extremely important. And there will be equal stress placed on the industry's adoption of systematic protocols for identifying sustainable mortgage products for eligible borrowers.

All of these actions are under way; some can be implemented quickly while others will take longer. The toll free line is up and operating with 122 experienced counselors nationwide; another 50 are currently being trained; and more are being recruited. And just this week, Secretaries Jackson and Paulson endorsed the first major deliverable of HOPE NOW, a nationwide mailing of HOPE NOW letters to at-risk borrowers.

The Alliance's technology group is completing development of a Web-based loan workout tool that will provide a common decision platform for both servicers and counselors that will significantly streamline default resolution. We have been told this tool should be available for general use in early 2008.

Senior staff from both Treasury and HUD are participating on Alliance working groups and working behind the scenes to broaden participation to include all major lenders and a greater number of qualified housing counseling organizations.

This is a multi-year project and we remain committed to ensuring that the HOPE NOW Alliance lives up to the promise of delivering significant and measurable results for families struggling to hold on to their piece of the American dream.

Thank you for your time this morning. I look forward to answering your questions.

[The prepared statement of Commissioner Montgomery can be found on page 87 of the appendix.]

The CHAIRMAN. Thank you, Commissioner. And we do want to be very cooperative on all this. Let me ask, are the pieces getting put in place? Where are we in terms of actual restructuring? What is the timetable? Has that begun to happen? Mr. Steel, when does the actual—because we are told the resets are happening and they are coming soon. Do we have any kind of results yet? Or when can we expect some?

Mr. STEEL. Well, I think, sir, that the original results are to make contact, and that is happening right now. We are also having individual meetings with large lenders and servicers; we have had two in the last 2 weeks. They are describing to us their increased efforts for modification and for refinancing, so it is happening in the field, and we are providing encouragement to that.

I think that what we want to do, though, is to develop metrics so that we can really report back and understand. And we are not there yet on that ability to provide specific feedback, but we are pursuing that, and in the interim we are just doing our best to—

The CHAIRMAN. As you develop the metrics, I hope someone is asking for raw data to come in so that when we get the metrics, you won't have lost that.

Mr. STEEL. Absolutely.

The CHAIRMAN. Let me ask one question. FDIC Chair Sheila Bair has proposed a more general approach. There has been some question about whether doing it case-by-case is enough. Where are we on that, in your judgment, now? What do you think of what Chairman Bair has said?

Mr. STEEL. Well, I think that Chairman Bair has provided a very good perspective on this issue, and we have met with her several times to understand the way in which she is thinking about it. I believe that she is exactly right, that this model is by nature distributed with lots of different players. And given the size and the scale of the challenges that we are facing, a more systematic and standardized approach is needed. We have brought that same systematic and standardized approach to the idea of contacting borrowers, and the Secretary has indicated just this week in his public comments that we need to have a more systematic and standardized approach to the idea of modifications and refinancings. Now the exact formula for that we are still working on, but the idea of a more systematic and standardized—

The CHAIRMAN. Obviously speed is important, too. And I do think it should be noted that when the Chair of the FDIC says that, it is coming not from an advocate for neighborhoods but from a regulator; indeed not just a regulator, you, but the woman in charge of protecting the integrity of the Deposit Insurance Fund. So I would think if she takes that position, nobody ought to say this is in any way jeopardizing safety, soundness, etc. This is very impressive coming from the chief protector of the Deposit Insurance Fund. So we will be encouraging people to in fact rather than go one at a time to do some across-the-board kinds of approaches.

Mr. STEEL. Well, I think the idea of systematic and standardized are the words we are using to tell people that while decisions are made in essence in some ways on a case-by-case basis that having broad guidelines—

The CHAIRMAN. Within the framework. Yes. It really—time is obviously an issue.

Mr. Montgomery, one other thing, I was pleased and gratified that the Under Secretary mentioned that in two of the three areas the committee has worked—FDIC and FHA—and we collaborated with our friends at Ways and Means, in fact all three of those pieces of legislation that you have talked about have passed the House. The FHA one is well along, but that is my question, Commissioner Montgomery. I am disturbed by one thing. You asked for some FHA legislation. We responded. We responded in this committee last year. Under Republican leadership, it was blocked in the Senate. We are doing it again. I understand there are some policy differences, but it is again within the framework of agreement. It has passed the House, it is passed the committee in the Senate. Given that I was disappointed to read that the FHA is now in effect acting in that area, not waiting for the legislation, and there are some areas where there is difference, that is not helpful in my judgment in our working together. You know if there was nothing going on, I would understand your needing to move. But the raising of fees and raising them in ways that differ in some ways certainly from the bill that the House passed, is it not possible for the FHA to hold off on that until next year when we hope the Senate may do something when the bill is out of committee? Particularly since the bill may very well differ in some respects from what you are doing. You would then be required, I would assume, in compliance with the law, absent a signing statement, to comply with that.

So why—having asked us for legislation, and having us well along in the legislative process, pass the House, pass one committee—pass the committee in the Senate, why are you acting without waiting?

Mr. MONTGOMERY. I would assume you are referring to the MIP increase on the multifamily.

The CHAIRMAN. Yes. Was it multifamily? I thought it was—

Mr. MONTGOMERY. If it is the MIP increase—

The CHAIRMAN. No. I am talking about the most recent proposal we saw for an increase with regard to people with weaker credit.

Mr. MONTGOMERY. There is a risk-based pricing proposal.

The CHAIRMAN. Yes. Yes. That is the one I am talking about. Because risk-based pricing is what is in our bill. It is the risk-based pricing proposal.

Mr. MONTGOMERY. Ours is only within current statutory limits.

The CHAIRMAN. I understand, but they differ some with what—

Mr. MONTGOMERY. There is not a lot of difference. But as you know, sir, yours actually goes to 3 percent. Ours can only go to 2.25 percent on the up-front premium. And as you are aware, since we are an insurance company, because of a certain type of gift downpayment assistance we have been using for many years, we have been moving closer toward a positive credit subsidy, in fact, perilously close to a positive credit subsidy. Risk-based pricing helps answer that question.

The CHAIRMAN. I understand that. We are passing legislation dealing with risk-based pricing at your request, and you are now moving without us. There is one fundamental difference—and I want to stress this again—it really troubles me that we continue to have it. Our notion of risk-based pricing says that if you are someone who is high risk and weaker credit, but you work hard and make your payments, you should not be the one to bear the brunt of people like you who could make payments. And your proposal says no, we are going to treat all those people in that category the same, and the people in the lower income—because that is by and large where the weaker credit is—that they are going to have to make higher payments for the insurance than I would, even if they make their payments.

And I understand why a private insurance company might have to do that. I do not understand why the Federal Government does that. I do not understand why we say to some hard-working woman who has made every payment she was supposed to make, you know what, there are other people who didn't make their payments, so you have to make up for that and I don't. So why do we not say, as we have said in the bill, if you make your payments, we will not charge you more?

Mr. MONTGOMERY. So then the alternative to that is that we raise premiums on everybody.

The CHAIRMAN. No. Yes. A little bit. Commissioner, absolutely right. So here is the choice. We raise them higher on a relatively small number of lower income people, but we raise them more on everybody, so you and I share in that as opposed to putting it on the woman making $45,000. Isn't that an easy question for us to answer by any model standpoint?

Mr. MONTGOMERY. Sir, I will say there is this much difference between them. Currently we cannot help the higher risk, lower income borrower under our current pricing structure. By doing the risk-based structure and moving from 1.5 percent to 2.25 percent, which on our average mortgage of $130,000 a year, sir, is less than the cost of a Domino's pizza every month, then higher risk, lower income borrowers—

The CHAIRMAN. Okay. As you know we are not talking about whether or not—that is not a fair answer. Because we are not talking about whether or not you should reach those people, but who should bear the cost.

Mr. MONTGOMERY. We can't reach them today, sir, is my point. Subprime loan.

The CHAIRMAN. Yes. But we are very close to passing the bill. Then let me ask you, you are doing it now. What do you think we should do in the bill in this regard? And let me say, by the way, when you are talking about a low-income family, please don't scoff at the cost of a Domino's pizza a month. It may not be a big deal to me and you.

Mr. MONTGOMERY. That is all we help are lower-income families, sir. We want to help higher risk, lower income families.

The CHAIRMAN. Mr. Montgomery, why would you say that? You know I agree with that. The question is not—I guess there is a fundamental philosophical divide between us that troubles me.

Mr. MONTGOMERY. I don't think there is.

The CHAIRMAN. We agree that we should help people with weaker credit. The question is, should the people with weaker credit have to subsidize each other? Or should all of us subsidize the people with weaker credit?

Mr. MONTGOMERY. Right now the only choice is subprime—

The CHAIRMAN. What about in the bill? Mr. Montgomery, you are not answering the question. Don't pull this again. You do this, and it troubles me. I am asking you a question. I understand the current law.

What do you think about passing a bill which says that to the extent that there has to be some bearing of a higher risk for people with weaker credit that we share it for all of us who might get FHA rather than making only the people with weaker credit subsidize each other? What is your position on that?

Mr. MONTGOMERY. Absolutely, sir. As we have done all along through this process, we have been very deliberative—

The CHAIRMAN. What is your answer to the question?

Mr. MONTGOMERY. Sir, I think we are doing that today. If I am a low-income, high-risk family who cannot use FHA today, if someone says by paying $8 or $9 more a month, I would say, where do I sign up?

The CHAIRMAN. Mr. Montgomery, please answer my question.

Mr. MONTGOMERY. That is all I am trying to do, sir.

The CHAIRMAN. No, no, no. You know better. Here is the question: Assuming we are going to help people who are of weaker credit and assuming that means that somebody has to pay for a higher default rate, should that cost be borne only by all the people in that subcategory of weaker credit? Or should that cost be borne by all of those getting—

Mr. MONTGOMERY. It is borne by everyone, sir.

The CHAIRMAN. No, Mr. Montgomery. Please answer the question.

Mr. MONTGOMERY. Everybody pays premiums, sir. That is the beauty of this program. It is not a handout. Everybody pays premiums.

The CHAIRMAN. Yes. And Mr. Montgomery—

Mr. MONTGOMERY. It will attract some lower risk borrowers. And all of these people are low income, sir. The average income of our borrower is $55,000 a year.

The CHAIRMAN. Mr. Montgomery, you know I know that. You will stop filibustering. This is appalling. We agreed on all of that. We agreed that we are going to reach people. We are going to stay here until you answer the question "yes" or "no." This is appalling to me that you would try to evade the question. We agree to all of that. We agree there has to be somebody bearing the cost because more people will default when you get lower down the credit thing. You say, let those people with weak credit subsidize each other because it is only a Domino's pizza a month to them. I say, no, let's not even do that. Let's share that subsidy among everybody. Which do you prefer?

Mr. MONTGOMERY. Well, as current practice—

The CHAIRMAN. I am not asking you current practice. Which do you prefer?

Mr. MONTGOMERY. Since I run an insurance company, sir, I have to be mindful of not coming to Congress and asking for money, which as you know we get—

The CHAIRMAN. Mr. Montgomery—

Mr. MONTGOMERY. I also want to help higher risk lower income families.

The CHAIRMAN. You know you are not answering the question. I agree that you need more money from the premiums. You accept that, right? We are talking about, how do we allocate the higher premiums? Do we allocate it only to the people in the weaker credit? Or do we allocate it to all people who pay the premiums? So please don't filibuster with extra money from the Congress. That is not an issue.

Given that we have to pay for this with higher premiums, should they come entirely from the people in that same category of weaker credit or should they be spread throughout the universe of people getting insurance?

Mr. MONTGOMERY. Sir, I would say the flip side of that is some of the lower income—

The CHAIRMAN. Are you answering the question?

Mr. MONTGOMERY. —borrowers will pay lower.

The CHAIRMAN. Will you answer the question?

Mr. MONTGOMERY. Some of your constituents will pay lower under this. And I think that is a good thing.

The CHAIRMAN. Mr. Montgomery, would you answer the question?

Mr. MONTGOMERY. Some people—

The CHAIRMAN. Mr. Montgomery, will you answer the question? The question is, given that we have to have some increase in premium income to accommodate the fact that we will have a high or low loss rate for people with lower credit, should that be applied only to the people in that same category, which would be a lower income category, or should it go through all the borrowers?

Mr. MONTGOMERY. It should be spread out among all borrowers.

The CHAIRMAN. And that is what is in our bill. Fine. So you are not opposing that provision in the bill?

Mr. MONTGOMERY. Sir, that risk is spread out today.

The CHAIRMAN. No. But it is not spread out. No. You know that there is a difference.

Mr. MONTGOMERY. Sir, your premium goes to 3 percent. Ours only goes to 2.25 percent.

The CHAIRMAN. Oh, I am sorry—wait a minute. Excuse me.

Mr. MONTGOMERY. Under your bill 3 percent—

The CHAIRMAN. Do you want us to change that to go back to 2.25?

Mr. MONTGOMERY. No, sir.

The CHAIRMAN. Excuse me, Mr. Montgomery.

Mr. MONTGOMERY. You can help our borrowers. We do support—

The CHAIRMAN. You are changing the subject again on this issue.

Mr. MONTGOMERY. No, sir. I am supporting that part of your bill.

The CHAIRMAN. Oh, you are? That is the first time.

Mr. MONTGOMERY. That is what we had in the bill last year. You know I support this legislation. There is a little difference.

The CHAIRMAN. No, but you differed to that particular provision. So I accept your support of it now. But let me ask you—

Mr. MONTGOMERY. The different approach is to helping the higher risk borrowers.

The CHAIRMAN. Mr. Montgomery, I want to follow up on this. You said you are only at 2.25 percent, was it?

Mr. MONTGOMERY. 2.25 percent.

The CHAIRMAN. And we are going as high as 3 percent.

Mr. MONTGOMERY. That is correct.

The CHAIRMAN. It sounds like you think we are going too high. Do you want us to go back to 2.25 percent?

Mr. MONTGOMERY. No, sir. I think that 3 percent goes to help higher risk lower income borrowers. It is more than I can do currently—

The CHAIRMAN. When you say we are going to 3, we are doing that at your request. It did sound like you were contrasting us at 3 percent.

Mr. MONTGOMERY. No, sir. I wish that we could go to 3 percent.

The CHAIRMAN. You do want us to?

Mr. MONTGOMERY. Yes, sir. Absolutely.

The CHAIRMAN. Well, when you said that we were 3 and you were 2.25, it sounded like you were kind of putting that responsibility on us.

Mr. MONTGOMERY. No, sir. I can't go to 3 percent today.

The CHAIRMAN. I know you can't. Mr. Montgomery, please refrain from telling me today is Friday every third sentence because you don't want to answer another question. I know it is Friday. I know you can't go to 3 percent. It did sound to me like you were suggesting that we wanted to go higher than you wanted. So the 3 percent is at your request?

Mr. MONTGOMERY. Yes, sir. We worked together on this bill for—

The CHAIRMAN. Well, sometimes yes and sometimes no. But let me just—again, you do agree with the provision in the bill that says the higher subsidy for the weaker credit people should be shared throughout the universe rather than limiting it only to the other people with weaker credit?

Mr. MONTGOMERY. So it is spread among all borrowers, correct.

The CHAIRMAN. Thank you.

Mr. Hinojosa.

Mr. HINOJOSA. Thank you, Mr. Chairman. In listening to the first presenter, Mr. Steel, you spoke about some solutions in your prepared statement: the first, second, and third parts that are recommended by your organization. But you also said that your attempt to reach out to the borrowers through the letter or mail campaign that you put out was not successful, and, in fact, it was probably the independent counselors who had experienced better success and the loan servicers.

What is the difference between the message that the independent counselors and the loan servicers are communicating to the borrower?

Mr. STEEL. Thank you, sir. I think that the key issue is that when homeowners are challenged, that there is a trepidation on a contact from the actual lender servicer, and whether they are uncomfortable, that it is a foreign feeling relationship, whereas having community-based organizations and professional counselors reach out, that it is a more friendly face. And the message might actually be the same, but the person who is delivering it is really the success.

And we see that the success rates jump significantly. When that message of wanting to contact and begin a discussion comes from the counselor, then you get a much higher response rate than if it comes from a servicer or lender. And so I think it is the idea of someone who is the agent who is not part of the servicer per se, but instead is an independent agent and often part of community-based organizations.

Mr. HINOJOSA. Okay. Well, let's take that—and I accept that it would be friendlier and certainly better received.

But if I were a borrower, and I was making $500 a month payments under the ARM's rate, and then it suddenly jumped up to twice that, $1,000, I don't know that just reaching me and having this communication is going to be able to allow me to keep my home because I have a salary, my wife has a salary, and together we have to come up with the $1,000, and that is not possible. What other solutions are there?

Mr. STEEL. Well, I think that we have to look at this contact as the first step and then, when appropriate, begin discussions often with a counselor helping the homeowner contact and discuss these options with the servicer and to see, where appropriate, whether refinancing or the modification are tools and whether new products can be organized. But I think having the counselor in the middle to represent and to be the agent of the borrower is a crucial part of it.

And so that is really a first step, to begin the engagement. When a homeowner goes into foreclosure with never contacting the lender or the servicer, there is just no chance of success. So this is the first step to begin the discussion and understand the actual situation.

Mr. HINOJOSA. I agree. But there has to be some solution for the borrower, and I am using myself as the example. Have you all discussed the possibility that a second family share the home and share the payment? I have seen that in many minority families where they buy a home, which is a little bit more expensive than one family can buy, and two families then wind up sharing that home, even though they are crowded.

Mr. STEEL. Sure.

Mr. HINOJOSA. Has that been discussed and what the consequences would be?

Mr. STEEL. I think that on the second panel you will have the real professionals who work at the face of this issue, and they can answer that with more specificity than me. But the counselors are trained to walk through all the alternatives with the actual homeowner. And so I think they are the right people.

Mr. HINOJOSA. Time is running out for me. I want to ask the question on financial literacy education, how far have you gone? Because I have not received any information as to what the success has been by these counselors and loan servicers you are using, even after the mess that they are in. It should have happened before the loan was made. But now that they are, how is the financial literacy component being utilized?

Mr. STEEL. Well, I think that there is really the immediate issue of HOPE NOW dealing with the challenges that have been described of what is happening right now with regard to mortgage resets and things of that nature. There is a second and quite important financial literacy effort that Treasury and the Administration have been working with. And that has been going on all along, and we are talking about ways to raise that focus on financial literacy in the broad sense, of which homeownership is a part. And so we are committed to that, and I think you will be pleased with the progress that we are making there.

Mr. HINOJOSA. My time has expired, Mr. Chairman, and I yield back.

The CHAIRMAN. I thank the gentleman. The gentleman from Texas is recognized.

Mr. GREEN. Thank you, Mr. Chairman. Again, I thank the witnesses.

I am still impressed with the concept of HOPE NOW, and I want to do all that I can to make what is ideal real. It is a great ideal circumstance that you want to create, but I would like to see it become a reality. And for it to be a reality, I have to ask a couple of questions and make a few recommendations. So if you would, let's remonstrate for a moment, as opposed to demonstrate.

First of all, what are we doing to go beyond the Internet and go beyond what I would call the traditional methodology of communicating the message? Because many people who were victims of predatory loans, some people who were in subprimes who should have been in primes, they don't use the Internet. They really are not—the Internet is not a friendly vehicle for them. So beyond the Internet and beyond what I would call the traditional means, what are we doing to get to them and let them know that we have this product? And Mr. Montgomery, if you would like to start, I would be grateful.

Mr. MONTGOMERY. Absolutely. As we have referenced this quickly, direct mail with all the data and all that we are able to literally surgically look at a community and a neighborhood and see where a lot of maybe concentration of these types of loans. And that will be one of the—enable the HOPE NOW Alliance to use that tool. Because you are absolutely right, a lot of families do not have access to the Internet.

There is also a toll free number that has been up and running for some time now where families can also call and talk to a counselor, maybe even through a loan transfer be connected to a servicer, to their particular servicer.

I would also say to FHA's part, this is a challenge we have every day, which is why we have been using those tools for some time, both the call center and certainly we are now going to start doing a more direct mail approach as well.

Mr. GREEN. Let me recommend this, and that is all good. But somehow we have to get to the small newspapers, the community newspapers. And I am not sure that you have an advertising budget. I don't know. So perhaps I should ask. Do you have—I suspect

I know, but I will ask. Do you have any money budgeted for advertising in newspapers?

Mr. MONTGOMERY. Sir, I can't give you an exact amount. But yes, marketing and outreach, consumer awareness is certainly a part of this effort. And we also obviously do that through the partners. We have broad tentacles into the communities they represent as well.

Mr. GREEN. Well, let me suggest this based upon my experience, which may not be the experience of every Member. But when I talk to my small newspapers, they continually say to me that they don't have the opportunity to help with programs like this because for whatever reasons they are not contacted for the ad buys. And they can really perform a great service because they reach an audience that—while I respect the larger news outlets—the other outlets just don't reach.

So I think it is important to give some consideration to the smaller newspapers, to get them involved. Also, some of the smaller radio stations that cater to a certain audience, they really penetrate that market. And they are going to get to the people who really need to hear this message.

It is unfortunate that so many of the people are minorities who find themselves in this position, who have language concerns. With reference to what Mr. Hinojosa said about financial literacy, we have some people who need to hear this in Spanish, and Spanish radio is a good way to do it.

In my district we have the ballot printed in English, Spanish, and Vietnamese. I would assume that we ought to at least go to the Vietnamese radio stations as well, the Asian radio stations because we can identify the market that has been hit.

So I would strongly recommend that we use some of these other sources.

Another point, with reference to the statement, Mr. Steel—and I understand totally what you mean. But you indicated that there is no chance of success when a homeowner goes into foreclosure. I understand the present circumstance, but I think that is where we have to find some more flexibility. Because a lot of the people who are in foreclosure if given this opportunity, I believe they too can do a re-fi, a modify and/or re-fi, and they can succeed.

So I am going to beg that you encourage the people that we are working with in this project to be a little bit more flexible and give those people who are in foreclosure, some of them the opportunity to look into this product and benefit from it as well. It is a good product, but it can only be good if people take advantage of it and if it is used effectively.

Finally, with reference to the rule on bailouts or not, "rule out bailouts" is what I made a note of here. We have to rule those out, and I think most of my constituents would agree with you. But they also—some people are saying that we should literally freeze foreclosures now.

I want a professional opinion. Mr. Steel, give us your sincere opinion, your well-thought-out opinion of the impact of freezing foreclosures. I would like to hear your answer on freezing foreclosures, and then I will yield back. .

Mr. STEEL. Thank you, sir. I think that the housing market in the United States in many ways is viewed around the world as an icon or something that has worked well. And when you look at the growth in homeownership in our country over the last few decades, it has worked quite successfully.

I think the reality is, as Representative Moore suggested in her comments, that there is some level of foreclosure that seems to be consistent in the normal marketplace. A function of change of circumstances were her words and things like that. And I think that the issue from my point of view, sir, is that we need to make sure we understand that activity.

But then in addition, what foreclosure is a function of these other circumstances that are not natural and do what we can first to help those people in the second category. I think the idea of a freeze doesn't seem to be the right way. We should have a target approach trying to help the people where with some flexibility—and I used this expression at a previous hearing—where we can put a thumb on the scale on behalf of some people who with some help can stay in their homes. That should be the focus of what we do.

Mr. GREEN. Thank you, Mr. Chairman. I yield back.

The CHAIRMAN. The gentlewoman from Wisconsin.

Ms. MOORE OF WISCONSIN. Thank you, Mr. Chairman. I would like to start with Mr. Steel and sort of follow up on other questions that other members have already asked.

Starting with what Mr. Frank said, you know, you have been urging institutions, I think, to work with borrowers to mitigate losses and really issued clarifications, regulations, and guidelines that have reassured institutions that their safety and soundness will not be affected if they forbear. But I suspect that our second panel is going to tell us that even though that is the case, many of these institutions have been reluctant to not just go on and foreclose. So I am wondering what you all are doing in terms of using the bully pulpit or the chutzpa, if I could borrow that term, to get these institutions more on board with, you know, and the suggestion of perhaps of Mr. Green that they sort of stop these foreclosures when they are—you know because what makes me nervous is your discussion of how you have to develop these metrics, how you have to sort of evaluate how the counseling works. And I am looking at data that indicates that these foreclosures are fast upon us at the last quarter of this year and first quarter of next year by the time you put all these pieces together.

So what exactly are you doing to incline these institutions to forbear?

Mr. STEEL. Thank you. I think that the first thing I would point you to is that the bank regulators issued a notice encouraging this flexibility, which I think was quite effective, the four key bank regulators, and I think in the month of July, that basically gave voice to this idea of increased flexibility. Point one.

Point two, at Treasury, as early as earlier this week, Secretary Paulson specifically suggested this idea of flexibility, understanding and that servicers and lenders should work to this end. And we have had multiple meetings of the HOPE NOW Alliance basically trying to also give voice to this issue.

I, like you, am aware of the timeliness of our action, and I can pledge that everyone at Treasury and others in the Administration are working flat out on this issue, recognizing the importance of the timing issue—200,000 letters are going out in November, that is not the end, that is the beginning, letters will go out and we are focused on this to bring bear as fast as we can.

Also, in response to Chairman Frank's comments, we have to have the ability to measure our success and see how we are doing, but it is challenging to bring disparate people together, who, until we brought them together, were competitors and now we are saying you have to take off your own jersey, and instead, wear the HOPE NOW uniform and work together. And that is what we are doing and encouraging with HOPE NOW.

Ms. MOORE OF WISCONSIN. Let me follow up with some questions that Mr. Green and Mr. Hinojosa have asked about advertising. It has been my experience that—number one, we have these mortgage rescue exams out there, and so your letter doesn't look any different from anybody else's letter when they get it in the mail. And one of the characteristics of someone who is going into foreclosure is the completely do the ostrich and not open their mail. So that is just a dumb idea to just mail to people.

Why aren't you using television advertising, use the prestige of the Treasury Department to say this is the number, the toll free number to call, this is the legitimate number, these are the legitimate institutions in your community to call, because this would fit right into my mortgage rescue scam, because all I can do is send out a letter. I have seen letters that look like they are from the IRS or the Federal Government, and this is a waste of advertising, as far as I am concerned. Why don't you go on TV? I see TV for other things the government wants to promote, when they want to promote Medicare Part D or ending Social Security or anything else, so why can't we use TV?

Mr. STEEL. Brian?

Mr. MONTGOMERY. Yes. Congresswoman, that is not the way we should look at it. I would say NeighborWorks America, who has been out in front of the this issue for some time, has been doing exactly that. They have been running some foreclosure prevention ads, they are part of the Alliance. And Mr. Wade, who is on the second panel, can discuss that. They are in English, they are in Spanish, they also have radio spots.

Ms. MOORE OF WISCONSIN. Do they have a HUD logo or a Treasury insignia on them?

Mr. MONTGOMERY. They have the NeighborWorks logo on them now, but the thought back to Under Secretary's previous point, if it is a name of a nonprofit that is probably well-known in the community, a homeowner in dire straits is more than likely to open that letter.

Ms. MOORE OF WISCONSIN. No, they are not going to open the letter.

Mr. MONTGOMERY. If it has the name of the bank on it, or maybe even the U.S. Government's name.

Ms. MOORE OF WISCONSIN. They will not open the letter, let me reassure you.

Mr. MONTGOMERY. I agree with you on the point about the advertising, absolutely.

Ms. MOORE OF WISCONSIN. Don't do it on the cheap—this is a crisis, we have to use TV. I know how much it costs, because I had to get elected, so use TV.

Mr. STEEL. If I could, since it was originally directed to me.

Ms. MOORE OF WISCONSIN. If the chairman would yield? My time is up.

The CHAIRMAN. Yes. I am in no position to hold anybody to 5 minutes this morning.

Ms. MOORE OF WISCONSIN. Sir, you can respond.

Mr. STEEL. I think your points are all good ones, and I pledge to follow up, but you should also know that there's a bit of hand-to-hand combat, and the people from these organizations are going out door-to-door also, because that is the most effective. When someone from your neighborhood knocks on your door and says, you know me from our neighborhood. I am part of a group that you know from a community-based organization, then that can be the most effective. And so we have the radio, TV, and other spots, but we will keep what you have said in mind.

Ms. MOORE OF WISCONSIN. Thank you.

Mr. STEEL. Thank you.

Ms. MOORE OF WISCONSIN. I yield back.

The CHAIRMAN. Let me just reiterate, I understand the need for metrics, and I am not suggesting you said there would be, but that can't interfere with the ongoing work, the resets are coming, we really need results and will be talking to Mr. Longbrake, but I would hope by now we would have some of these actually happening. And the metrics are important, but we need to move and we need to generate data, keep the data, and then we can figure out how to work it.

Thank you, and—

Mr. HINOJOSA. Mr. Chairman, since you are being so generous with time, I would like to let the record show that I have also listened carefully to Ms. Moore's questions about the lack of using television to advertise the services that are available through the government. But I would also like to let the record show that I have not seen PSAs or public service announcements being used by the government to get the message out.

Members of Congress use it very effectively when we want to let our constituents know of an event that is coming up or whatever the message is. And I don't understand why, if we are losing billions of dollars because of this mess that we are in, why you aren't using PSAs with individuals who are well-known in the regions of the State where we have these greatest numbers of foreclosures. Can you tell me why that is not being done?

Mr. STEEL. Well, in fact it is. At foreclosure prevention TV, PSAs have run on the Tonight Show, the Today Show, CSI Miami, Dr. Phil, and Oprah already. In July, the campaign reached 2.28 million households. So while I am sure we can go a better job, there is effort in this behalf. And I can give you more data on exactly what networks, what communities and things like that. So there is work in process and that doesn't mean we can't do better, that in defensiveness, it is an invitation to perspective from you.

Mr. HINOJOSA. I have been informed by staff that the law requires, under the FACT Act, to do this. Evidently, you are doing some, but you are not making much of an impact, so you need some marketing people to see if you all can improve that and the frequency. And possibly I heard you say you had it in different languages, and certainly, that is important. But again, there needs to be some improvement on getting the information out and giving them some alternatives. Thank you, Mr. Chairman.

The CHAIRMAN. The gentleman from Texas, for one last comment.

Mr. GREEN. Yes, I will be very brief. I appreciate all of those that you announced, but a lot of people who are having this problem are not watching those programs. They may be looking at Good Times or they may be looking at The Jeffersons. And they relate to what is happening to those families to some extent. So I would just encourage to you broaden the reach to some of the nontraditional—

The CHAIRMAN. I appreciate the gentleman's request. Let's not forget all of those households that are tuned into C–SPAN this morning, both of them. I thank the Under Secretary and the Commissioner.

Next panel.

We will get started, if the witnesses will all take their seats. And we will begin with an occasional and very welcome participant in our proceedings who often speaks for himself and for his fellow attorneys general, the Attorney General of Iowa, Mr. Miller. Mr. Miller, please begin.

STATEMENT OF THE HONORABLE TOM MILLER, ATTORNEY GENERAL, STATE OF IOWA

Mr. MILLER. Thank you, Mr. Chairman. This is a daunting problem, as we can tell from the comments and the questions just a few minutes ago, but there is a precedent for success and that is the farm crisis in Iowa in the 1980's, which was a horrible experience for us. But through required mediation of all those farm foreclosures, we saved a number of farms and saved the fabric of rural Iowa in a lot of ways. The principle is a simple one, difficult to implement, it is what I call enlightened self interest.

There is a point at which in some of the loans, not all of them, but many of them, that the borrower can pay a certain amount less than what the contract requires, but a certain amount is affordable. That amount will realize for the investor more than foreclosure, so it is in both parties' interest to modify the loan to get there. The problem is, how do you get there?

We have been talking about working on this problem since at least July. The attorneys general and the banking regulators, the Conference of State Bank Supervisors. We had a meeting in July of 37 States, and some of the people in the industry. In September, we had a meeting with the 10 largest servicers in the subprime market, five servicers 1 day, and five the next day in Chicago. We have another meeting with the next 10 next week, and the first set of meetings were very good meetings. We had direct conversations, no defensive attitudes, no obstacles placed; it was a terrific meeting. And what we found was there are some obstacles, but we knew that to begin with.

The chief obstacles that we found are these: One is the issue of contact, that was discussed considerably this morning, how to get in contact with the borrowers, and State officials can help there, community groups, not-for-profits can help there, HOPE NOW can help there, but it is a daunting task and a major obstacle.

Another obstacle is what we call the disconnect within the servicing company. At the top level, they believe that enlightened self-interest, this equilibrium should be reached and those should be modified, but for those that are actually doing the modifications, it is counterintuitive. It is counterintuitive for someone whose experience is in collecting money, collecting as much money as they can, to give a break like this. It is counterintuitive for a collecting mentality to become a modification agent.

Another problem is the staffing level. The servicing companies have to staff up, these are individual transactions for the most part, although there are some alternatives that I can discuss later, if you want. They have to be adequately staffed.

The other set of obstacles would be the agreements with the investors. And to our surprise and a pleasant surprise, the top 10 servicers told us that recently, as of early September, they had worked through most of those pooling arrangements obstacles and that they think they have the authority to make these modifications, as they should, because it is in the interest of the investor to get more money through modification and less money through foreclosure.

We in Iowa have tried something, and so far it is working, it is called the Iowa Hotline. I went on before the press in early September and announced the Iowa Hotline. We hired the Iowa Mediation Service, which coincidentally was the organization that did the mediation for us in the farm crisis, to be the facilitator, to answer the calls from the hot line. If you are in danger of foreclosure, you call this hot line. We work with them and support them and at least for a while, we fund them. The reaction was enormous.

Keep in mind that there are 30,000 subprime loans in Iowa, they say about 8 percent are in foreclosure, that is 2,400. In less than 2 months, as of yesterday, there had been 2,700 calls. Not all of them are in subprime, some of them are prime, but we, sort of, at least for now, have dealt with the contact problem in Iowa.

When we got done in September with this good discussion, we said, well, I quoted Ronald Reagan, "trust but verify." We wanted to develop a way they would give us the numbers that indicated that this is working and we are pretty close to coming up with a system of reporting to us that won't be onerous, but that will be effective in terms of demonstrating that this is being done, because we are very serious about this. I mean, we have done very little press on this project, as AGs and banking regulators, we put an enormous amount of time in. Our whole goal is to save the avalanche of foreclosures, much like we did in Iowa with farm foreclosures in the 1980's.

Let me tell you what we are doing is complimentary with what HOPE NOW is doing and what everybody is doing, the basic reason for that is there is more work for all of us. HOPE NOW can't do it all, we can't do it all, the community groups can't do it all. In fact, together we maybe can't do it all, but we at least have a chance because of the contact problem, because of the working through the modifications. The Iowa Mediation Service wants to get in contact with people, get the information and then work with the servicers to achieve this modification, to achieve that equilibrium that I talked about.

We have developed this great relationship with the banking regulators. We are working very closely with them and we are working with the servicing industry. We are getting feedback privately from them that they are glad we are doing this, it is helpful, it is helpful with the investors and with everybody.

So what I am saying is that this is something that can be done, we have seen it done before. It takes an enormous amount of work; it takes everybody working together. One little word of caution, one or two of the servicers started to say to us well, maybe we don't want to be part of your project because we have HOPE NOW. That is a big mistake, these are complimentary operations, we should work together, we should share information. We have already shared a lot with the Feds as we have gone along. At our July meeting the FDIC was there, and we gave them information from our September meetings. We are in this together, we are in it for the long term. We know the obstacles and we want to work with everybody and want to avert this foreclosure avalanche.

[The prepared statement of Mr. Miller can be found on page 70 of the appendix.]

The CHAIRMAN. Thank you. Next is the chief executive officer of NeighborWorks America, Mr. Wade.

STATEMENT OF KENNETH D. WADE, CHIEF EXECUTIVE OFFICER, NEIGHBORWORKS AMERICA

Mr. WADE. Thank you, Mr. Chairman, and distinguished members of the committee. We are pleased to be able to be here and share with you some of the things that we are doing to help address this critical crisis out here on the foreclosure issue.

NeighborWorks America has been working on the foreclosure issue for well over 4 years now. We saw the problem coming principally because we have this network of community based organizations that were telling us that they were beginning to see people show up at their doorstep in various stages of foreclosure.

These, by and large, were consumers who did not have the benefit of pre-purchase counseling by anyone, let alone members of our own organization. And in many cases, were in loans that were originated by nondepository or nonconventional lenders. And so as we began to look at the problem, we decided we needed to do something in a more concerted way to respond to that challenge.

We have submitted testimony in written form that outlines all of the things.

The CHAIRMAN. Without objection, it will be made a part of the record.

Mr. WADE. Thank you. So rather than go through that in detail, I want to concentrate on three of the main things we are concentrating on in order to make a contribution to this problem.

Now I would want to say that clearly we feel that the best solution is getting consumers good pre-purchase counseling on the front end. By and large, more than anything else, we have seen that make a critical difference between consumers who can do well with homeownership and create a sustainable opportunity for themselves and their families, versus those consumers who don't have the benefit of that.

We have helped over 150,000 families achieve the dream of homeownership over the past 12 years. When we look at the loan performance of the consumers that we have helped, and by and large, these consumers are nonconforming customers, low- and moderate-income people in all the neighborhoods that we care about, those consumers perform 10 times better than subprime loans on average, 4 times better than FHA loans, and on par with prime loans. So I think we can serve this customer base and we can serve them well if we do a lot on the front end.

But that notwithstanding, obviously we have this crisis ahead of us, or that we are in the middle of, and we felt we had to respond to it. So we have stepped up to train counselors in foreclosure prevention and delinquency prevention.

In 2006 and 2007, we have trained more than 2,429 housing counselors from all over the country, some at our national training venues, but in many cases, we have taken our foreclosure prevention training on the road and gone to local communities all over this country working with State housing finance agencies, lenders, and the like in order to deliver counseling to community-based organization who are out there on the front line working with consumers everyday. And we expect that in 2008, we will probably be able to train an additional 4,300 counselors from community-based organizations.

In addition to that, we are supporting local coalitions and efforts, we are working with folks in Ohio, Maryland, Illinois, Georgia, Missouri, Massachusetts, Wisconsin, California, Texas, South Carolina, New York, New Jersey, Alabama, Florida, Connecticut, Pennsylvania, Michigan, Tennessee, Arizona, Washington State, and Kansas. And we are looking for more opportunities to support local efforts. I think, as Mr. Miller said, there is a lot of activity going on at the local level, of people responding to address this crisis and we are doing all we can to support those local efforts.

Then in addition, we are very pleased to be able to have a national public awareness campaign that we are doing in collaboration with the Ad Council. That effort is being supported by a number of lenders and services that we have been working with over the past 4 years. And we are pleased to be able to say that we launched this public awareness campaign precisely because of the challenge of being able to reach borrowers who go to foreclosure.

As you know, you have heard the data, over half of consumers who go to foreclosure every year have no contact with their lender, they don't respond to the letters, the phone calls, and all of that outreach. We thought a more targeted outreach effort to reach those consumers would be one way that we can make a contribution. So we have worked very closely with lenders and servicers to identify when the ads were developed at risk borrowers, we field-tested the ads, and they were developed by a professional ad firm in order to reach the consumers who are in trouble.

In addition, we partnered with the Homeownership Preservation Foundation, which established a toll free hotline. We felt that was a great call to action in order to support a public awareness campaign, because obviously you need to call them to do something.

And so the 800 number, the 1–888–995-HOPE number that the Housing Preservation Foundation developed is what we are supporting.

We launched our public education campaign in June. We have had since that time 3,576 broadcasts on broadcast TV, 8,119 radio spots, and again these ads were both in English and Spanish. In July alone, we feel that these ads have reached almost 3 million households, and we are very optimistic that the numbers that we are going to get for August and September and October will even exceed these.

We know that clearly is not sufficient, given the scale and scope of the problem, and so we are working with a broad range of community-based and other national organizations. We had a meeting the other day with Fannie Mae and Operation Push with Reverend Jackson. He has agreed to customize some of the ads and distribute them to the thousand churches that he has in his thousand church campaign.

We have local elected officials who have been able to customize the ads so we would offer that opportunity to reach consumers in their markets. And we are working with well over 193 community groups in total all over the country doing the grassroots outreach to reach consumers through churches, door knocking and all other kinds of means, including the media outlets that I think the consumers who are most affected with this problem utilize.

We are very encouraged by the HOPE NOW Alliance, we have been participating in that effort. We think the Treasury Secretary and the HUD Secretary adding their voice and their good office to bring us together and operate in a more coordinated way is going to go a long way toward helping us make more impact and to have more success in addressing this very challenging problem.

So let me stop there and I thank you for the opportunity for allowing us to just share a little bit about what we are doing.

[The prepared statement of Mr. Wade can be found on page 116 of the appendix.]

The CHAIRMAN. Thank you. Let me interrupt at this point. Something has come up, and I have to leave a little bit early. I had previously asked the gentlewoman from Wisconsin, whom I knew was going to be available this morning, to take over for me. She will be doing this at some point.

I do want to make one announcement at this point. We work closely with the Conference of State Bank Supervisors on a number of issues, and also work with attorneys general, and they inform me that they are also trying to develop measurements, metrics and that they have found some of the people in the industry not responsive to their effort to get together. I would like to urge people in the industry who might on a slow Friday be paying some attention to this to work with them.

We have found the Conference of State Bank Supervisors to be very important. And I should note that if the legislation that we are going to be acting on, on Tuesday goes through as we intend, there will continue to be—in fact, there will be an increased role, we hope, for State bank supervisors. One of the things we are trying to do is to encourage the States to step in, all of them, and regulate mortgage originators who, in many cases, have not been regulated. So we see a vigorous role for the States and we think it would be very helpful.

Mr. Marks, I have to tell you, I read over your testimony, and I will not accept the testimony in which you make remarks about other institutions. The reason I say this, we will be glad to take that in writing, after they have a chance to respond. As you know, we had some conversations with Countrywide, we welcome what you have accomplished, you and Countrywide, it is a very important model for people and we want that there. Criticisms of other institutions are currently legitimate, but I would ask you to hold those off until we can get responses and put them in the record at the same time. So we are going to focus on the very significant positive accomplishments you have.

We get contradictory views from other institutions, so I would like to hold those off at this point, focus on that. Clearly, there is an openness here, but before we put it in the record, ask the institutions that you criticize to give their response, you can respond, we want to promote that dialogue. So please let us have your testimony on the work that you and Countrywide and other policy recommendations that you have, please go forward.

STATEMENT OF BRUCE MARKS, CHIEF EXECUTIVE OFFICER, NEIGHBORHOOD ASSISTANCE CORPORATION OF AMERICA

Mr. MARKS. Thank you for allowing us to be here and for having this hearing. I am not going to talk about the process or the outreach, but I do want to respond to one thing that you said, Congressman, to start out is that I think what the issue is is that you need to hold all the entities out there accountable. And so you hear a lot of things about we are modifying this or doing that and we can name names, and I respect what you are saying so we wouldn't go through naming names.

But clearly, we hope you will follow through and make sure you will ask these institutions that we have identified to say how many loans are they modifying and what the interest rate is.

The CHAIRMAN. Let me give you an example, when you last testified, you did have some very critical things to say about Countrywide. Countrywide responded and said well, some of them weren't accurate. I assume you have now been working with Countrywide and maybe that helped. I don't want to do that again where we do it seriatim.

As far as following up, yes, that is why I asked Mr. Steel and stress we are beyond the point where we want to hear about what people plan to do. We want to hear some numbers and we will continue to ask for those in a specific way, so why don't we proceed now.

Mr. MARKS. Let us talk about real solutions. Let us not just talk about process. Let us not talk about outreach, let us talk about real solutions that are going on. And so let us talk about the most effective real solution that is out there and that is the NACA Countrywide agreement.

And as good as it sounds, it is extraordinary in what it does, because it is a solution that is based on the borrower, not on the lender. It is based on what the borrower can afford and that is what has to happen. All the focus needs to be on you have to look at the borrower, what they can afford and to adjust their payments accordingly.

We have heard a lot of discussions in the past about the answer to it is the refinancing of loans, but the fact of the matter is is that prices are not there, the loan-to-values are not there, and prices are plummeting. So that is going to knock out a lot of people to refinance.

Debt-to-income ratios, that is going to knock out a lot of people in terms of what they are able to in terms of refinancing. And lastly, the payment history will eliminate a lot of people. So the answer to this huge crisis is not that we are going to be able to refinance a lot of people out of their subprime or predatory loans, we should try to do our best, but that is not going to be the answer or the solution.

The fact of the matter is the other piece we keep talking about outreach and getting a hold of the homeowners, if there is it no real solution out there, we are not doing a favor to those homeowners. We are not really providing a solution if the lenders are not willing to do the right thing to restructure the loans to make them affordable over the long term.

Let me talk about specifically the NACA-Countrywide agreement. Homeowners would go through the NACA process, where we look at the individual characteristics of the borrowers and we provide a framework and standardization to provide an unprecedented Home Save solution for tens of thousands of homeowners.

Step one, they complete a mortgage questionnaire on our Web site at www.naca.com. Step two, they attend a workshop to learn about the process and the options. Step three, most importantly, they meet with a mortgage consultant who works with the homeowner to see them through the process. Step four, the homeowner is referred to a NACA underwriter, who then takes over their application. Step five, it is completed, and it is submitted to the lender. It is through a state-of-the-art Web-based software program that is a purely paperless process.

Now let's talk about the options for the homeowners. This is based on the terms of the loan and what the homeowner can afford. And there is a cascade of options that are as follows.

Option one, the payment plan, and that is appropriate for people who have an affordable loan, affordable terms, and they have a short-term crisis. So you put a payment plan together where someone becomes current over 12 months.

Option two, modification. Modification is where there are affordable terms, affordable interest rate, a more serious crisis, and the loan can't be resolved in 12 months. The arrears are put onto the loan, and it is reamortized over the existing term.

Option three, refinance. People can refinance through the NACA program, and it is the best deal out there, bar none. It is 100 percent financing. There is one mortgage product. There are no fees, no prepayment penalties, and no points. And it is always at 1 percent below the best rate. So today's rate, 30-year fixed, is 5.375 percent. We have committed a billion dollars, $1 billion, to refinance people out of their subprime or their predatory loan.

Option four, and this is the incredible aspect of the NACA-Countrywide agreement, is the restructuring of loans. This is the most powerful tool for homeowners to save their homes.

We evaluate what the homeowner can afford. First, you look at the net income. Then, from the net income, you deduct the required liability payments, the homeowners' housing expenses, and $200 for unforeseen expenses. The result is a payment that the borrowers can afford, so you fix that payment. And then you have two variables: You have the interest rate; and you have the outstanding mortgage amount. You reduce those back into that affordable payment.

And what has happened is that, on the first day, the first day of the NACA-Countrywide agreement, over 25 homeowners, just on the first day, their loans were restructured to an interest rate between 5 and 6 percent. They were saving $300, $1,000, $2,700 a month for that. And we didn't have the problem with the investors.

I want to finalize or talk about the investors. We keep hearing that the investors are saying no, that they can't do it. The fact of the matter is that Countrywide will look at the pooling-of-servicing agreement, and we will say, "What is the most favorable interpretation of the pooling-of-servicing agreement for the borrower," and then we interpret that. And if the investor says no, they give us the specific information to allow us to have a discussion with the investor. And, clearly, we would want to make it clear to them that it is better to restructure than to foreclose.

And the fact of the matter is—one final thing—

Ms. MOORE OF WISCONSIN. [presiding] Mr. Marks, I am sure that the question period will be an opportunity for you to—

Mr. MARKS. And we have not had one time where an investor has said no.

[The prepared statement of Mr. Marks can be found on page 62 of the appendix.]

Ms. MOORE OF WISCONSIN. Okay. Thank you. I am unable to yell like Mr. Frank. So thank you very much for your testimony.

Mr. Longbrake?

STATEMENT OF BILL LONGBRAKE, ANTHONY T. CLUFF SENIOR POLICY ADVISOR, THE FINANCIAL SERVICES ROUNDTABLE

Mr. LONGBRAKE. Thank you, Mr. Chairman. My name is Bill Longbrake, and I am pleased to be here on behalf of HOPE NOW Alliance to talk about this significant joint industry and nonprofit national initiative that has been organized to reach out to at-risk borrowers to help prevent foreclosures.

I would like to thank all the members of the committee for your support for the national 1–888–995–HOPE hotline counseling program of the Homeownership Preservation Foundation. And since we are on C–SPAN, I am advertising this number, so I will repeat it one more time: 1–888–995–HOPE. This is part of our expanded HOPE NOW Alliance. The hotline is available to any homeowner today, and it will be promoted more in the future by efforts that the Alliance is putting together.

HOPE NOW brings leading servicers, counselors, investors, and other mortgage market participants together to create a unified, coordinated plan to reach and help as many at-risk homeowners as possible. HOPE NOW builds on the active individual efforts that are being made by servicers to contact and assist their borrowers, as well as the ongoing work by nonprofits such as Mr. Wade's NeighborWorks of America and the Homeownership Preservation Foundation, which runs the HOPE hotline.

HOPE NOW will maximize and expand on all outreach efforts that are currently by made by servicers and will work to reduce obstacles and to create solutions to help homeowners in trouble. We will do this through enhanced efforts to contact at-risk borrowers, increased access to nonprofit counseling, and better coordination between servicers and nonprofits to increase positive outcomes for borrowers and avoid foreclosures.

Our members are working on six initiatives, and we are doing this collaboratively. This is not something that is limited just to the organizations that are listed; we are open to all comers. And we take to heart Chairman Frank's remarks about working with CSBS, with attorneys general, and with other organizations.

Our first initiative is outreach. You have heard quite a bit. There is a poster over here that is the letter that will go out on November the 19th. I have an updated number; we expect now to send that to 250,000 homeowners. And we expect to repeat that letter at regular intervals after that.

Why the letter is important—it is not going to be the be-all and end-all. There is no one solution that works for everything; there need to be multiple solutions. But what we know is that when a servicer sends out a letter, the response rate is only around 3 to 5 percent. When it comes out under a not-for-profit organization's logo, that percentage goes up to a 25 percent success rate, so a very significant improvement.

As Mr. Wade mentioned, we are continuing public service announcements through the Ad Council and radio spots, and that will continue.

The second effort is to build capacity for counseling. We are working to increase the capacity of the national 1–888–995–HOPE hotline and in-person counselors to receive, triage, counsel, refer and connect borrowers to servicers.

Now, we haven't advertised that number as aggressively as we would have liked to, because we were concerned that we might get a flood of calls before we had trained counselors in place. As Mr. Wade said, there are 122 currently. By the end of the year, we expect that number to have been increased to 250. And we certainly would welcome participation in advertisement of that number.

The third effort involves improving coordination and cooperation between servicers and counselors. We are developing ways to make it easier and more efficient for counselors to reach the right people and servicing in loss mitigation departments and to facilitate decisions to assist borrowers and to improve the information counselors have to give servicers, so that they can make more informed decisions about what options would work best for each at-risk borrower.

The fourth effort includes better measures to report on progress. The Alliance is establishing methods for reporting on the number of borrowers reached and the outcomes of this outreach, how many people we are helping, and how they are being helped. We will measure outcomes, for example, refinancings, reinstatements, and other types of resolutions, so that we get a good sense of the types of things that seem to be working best.

Fifth, we are working on improving technology. We will use existing technology tools and software to develop new means to improve the interaction between counselors and servicers to assist borrowers. So all of this is intended to shorten the timeframes for turnaround.

Finally, the sixth effort has to do with funding. We are working to develop a sustainable funding model that will provide support for telephone and in-person counseling efforts. It will require funding contributions from servicers, investors, and funding for counseling from the Federal Government to cover those borrowers whose loans were not originated or serviced by a member of the Alliance. And that includes, now, some bankrupt companies.

All of these efforts are intended to assist borrowers who have the willingness and wherewithal to remain in their homes but need a little help to do it.

Modifications, which have been mentioned frequently, will not always be the best solution. As Mr. Marks pointed out, there will be cases where a work-out is not feasible. Possibly a short sale or a deed in lieu might be the best solution, but even those alternatives may not be optimal.

Mr. Chairman, we believe this national cooperative effort will produce positive results and will help more at-risk homeowners.

In closing, I want to reiterate the most important message of this effort. It is critical for homeowners in trouble to reach out for help. We are going to do all we can to encourage that and make that easy to do. Studies have found that 50 percent of borrowers who go into foreclosure never contact their lender. We hope to reduce that substantially.

The HOPE NOW effort is intended to contact as many at-risk borrowers as possible, but we need help from leaders like Members of Congress to do that. Anything you can do to get the word out that borrowers should contact their servicer or resources like the HOPE hotline would be valuable and welcome.

[The prepared statement of Mr. Longbrake can be found on page 52 of the appendix.]

Ms. MOORE OF WISCONSIN. Thank you so much.

Mr. Samuels?

STATEMENT OF SANDOR SAMUELS, EXECUTIVE MANAGING DIRECTOR, COUNTRYWIDE FINANCIAL CORPORATION

Mr. SAMUELS. Thank you, Madam Chairwoman.

I am executive managing director of Countrywide Financial Corporation. We have been a consistent and long-standing leader in developing innovative approaches to foreclosure prevention.

Experience tells us that successful efforts to avoid foreclosure are the result of partnerships. One of the most essential partnerships is between the borrower and the servicer. We encourage our borrowers to call us the very first time they anticipate problems. We can work with the borrower and offer real solutions.

We recently announced the major expansion of our foreclosure-prevention efforts, a $16 billion home preservation program to assist as many as 82,000 Countrywide customers who are facing or have had a payment reset, with affordable refinance and loan modification options. This is an extension of our robust home preservation program and investment in borrower outreach.

Let me quickly summarize some of our more notable efforts.

Countrywide has expanded our capacity to contact and be contacted by borrowers. During 2007, we increased the number of employees in our home retention division from 2,000 to 2,700. Total operational spending in the home retention function is expected to grow by more than 45 percent between 2006 and 2008.

In September alone, our home retention division made almost 9 million call attempts to reach delinquent borrowers, had nearly a million phone conversations with borrowers about their payment difficulties, and mailed over 700,000 personal letters and cards to borrowers. We include helpful information in borrowers' monthly statements and repeatedly attempt to reach our borrowers both by phone and by mail.

We provide notices 180 days, 90 days, and 45 days prior to the payment reset, reminding borrowers that they have an upcoming rate and payment adjustment. The notice provides an estimate of the new payment based on current interest rates and encourages borrowers to call us or a counseling agency if they anticipate financial difficulties.

Also to reach our borrowers, Countrywide has sponsored homeownership preservation seminars in 30 communities across the country, and we plan to expand those efforts in 2008. There is, in fact, one coming up this weekend in Los Angeles.

Partnerships with nonprofit organizations are critically important to expanding our ability to deliver home retention solutions to our borrowers. We recently entered into a ground-breaking partnership with the Neighborhood Assistance Corporation of America, headed by my friend here, Bruce Marks. By working together, homeowners will have a waterfall of options, as Bruce described, ranging from payment plans to modifications to restructurings. We are excited to work with NACA and their unique counseling model that, as Bruce said, focuses on what is affordable for the borrower.

We are a founding sponsor of the Homeownership Preservation Foundation's HOPE initiative, a national foreclosure prevention counseling program that assists borrowers in all markets. I am proud to serve on the board of that organization. And we also work with Mr. Wade's organization, NeighborWorks America.

We are also partnering with more than 40 other community organizations across the country. We are co-branding joint communication letters and advertisements to our borrowers with many of these groups. Finally, we have joined with others in the industry to increase our capacity to help borrowers avoid foreclosure through the HOPE NOW program that you just heard about.

Countrywide's initiatives are producing results that help borrowers avoid foreclosure and preserve their homes. So far in 2007, Countrywide has refinanced more than 31,000 subprime borrowers into prime, fixed-rate loans. In addition, we have helped nearly 40,000 borrowers stay in their homes through loan modifications, repayment plans, and other home retention solutions. We are currently working with more than 63,000 customers in various stages of the work-out process.

Even better evidence of the progress that we have made comes from our home retention division, a phone call I got last night. They told me that in October, over 11,000 home retention transactions occurred, almost double the previous monthly high. These are transactions that keep people in their homes.

In September 2007, loan modifications accounted for more than 60 percent of our completed work-outs, compared to 28 percent of all work-outs in 2006. In short, unlike what you may have read in the press, loan modifications have become a primary tool for keeping borrowers in their homes.

Countrywide readily acknowledges that these are dynamic times and that additional initiatives may be needed as events unfold.

I want to take this opportunity to thank Chairman Frank for his leadership in clearing barriers to helping our borrowers stay in their homes.

I have offered a lot of statistics in my comments, but we understand that this is a human problem, as we saw at our press conference last week when we announced the NACA-Countrywide initiative. It is the stories of the borrowers that we heard from at that press conference and many like them that keep us focused on our commitment to preserving homeownership.

Thank you very much.

[The prepared statement of Mr. Samuels can be found on page 91 of the appendix.]

Ms. MOORE OF WISCONSIN. Thank you.

Boy, have I been waiting for this moment for a long time.

I would like to yield to my colleague and friend and very active member of this committee, Mr. Green of Texas.

Mr. GREEN. Thank you, Madam Chairwoman. And I must say the chair looks good on you, or maybe you look good in the chair.

Friends, Mr. Marks has presented what I consider to be the most effective means of helping that I have heard so far. Now, if there is something better than what he has said available—and I don't mean to single him out—I just want to tell the truth. You know, there is something about the truth; they say it can get you free. Maybe we can free a lot of people here with this.

Is there anything better than what Mr. Marks has said, in terms of restructuring to affordable homes, affordable loans? Is anything better than that concept?

Okay.

Now, Mr. Samuels, you said that at Countrywide, you have $16 billion committed to helping people. Is that correct?

Mr. SAMUELS. Well, it is a $16 billion initiative, yes.

Mr. GREEN. Okay, now, would this $16 billion initiative complement what Mr. Marks has talked about? Because he said he had $1 billion, and you said $16 billion.

Mr. SAMUELS. They are two different things.

Mr. GREEN. Yes. Right. So you are $1 billion into helping the way Mr. Marks would like to have it done and $15 billion someplace else?

Mr. SAMUELS. No, those are two different things. I think Mr. Marks's $1 billion relates to refinance programs that he is involved with with other lenders.

Our $16 billion is focused on people who are either facing resets or have already faced the resets and how we are going to help them if they are facing financial distress.

Mr. GREEN. How much are you committing to the kind of restructuring that Mr. Marks—

Mr. SAMUELS. The fact is that, you know, we haven't put a dollar figure on it, because it is simply going to be the borrowers that Mr. Marks and NACA refer to us. We don't—

Mr. GREEN. I have a better question. Here is a better question. Mr. Marks refers to you, correct?

Mr. SAMUELS. Yes, sir.

Mr. GREEN. If he refers people that have been vetted, properly vetted through his channels, and they need restructuring to an affordable loan—

Mr. SAMUELS. Yes. Yes.

Mr. GREEN. Do I need to define "restructuring to affordable loan?"

Mr. SAMUELS. No, sir.

Mr. GREEN. Okay. If they need restructuring to affordable loans, will you restructure each of these persons vetted through his process into an affordable loan?

Mr. SAMUELS. Yes, that is the agreement that we have.

Mr. GREEN. Sir, I want to compliment you, but before I do it, I have to ask you one more question.

Mr. SAMUELS. Please.

Mr. GREEN. Because sometimes what I hear isn't always what people say.

Are you saying that 100 percent of the people vetted through his process who need restructuring into an affordable loan will receive that restructuring? And sometimes when people finish, I don't know whether they said "yes" or "no," so could you kindly say "yes" or "no?"

Mr. SAMUELS. That is going to be difficult because I do need to explain. It is "yes," with an explanation.

I just want to make sure that you understand that, as a servicer, we have investor requirements, so that any reasonable restructuring that Mr. Marks brings us—and so far, we have seen only reasonable restructurings—we are going to do those.

If somebody has brought to us—and we don't expect this to happen—where they have a $200,000 loan and it is 8 percent, and Mr. Marks or his group comes to us and says, "We need to restructure this loan by cutting the loan amount in half and reducing the interest rate to zero," that is not a loan that we are going to be able to restructure.

Mr. GREEN. Let's assume that Mr. Marks maintains his sanity, and assuming that he does and that he continues to be the same Mr. Marks, who appears to be quite cantankerous if you want me to be honest with you—really.

Mr. SAMUELS. We have not found that to be the case.

Mr. GREEN. I happen to like cantankerous people, because they provide a certain vision of reality that some folks just don't provide.

So, now, assuming that he maintains his current disposition, you are telling me you will be refinancing—or you will be restructuring to an affordable rate all of these loans?

Mr. SAMUELS. Yes.

Mr. GREEN. Sir, I compliment you on what and your business folks will be doing. I compliment you. But I also want to assure you that I plan to hold your feet to the fire.

Mr. SAMUELS. I understand.

Mr. GREEN. Now that you have declared. Because, I assure you, if this does not come to fruition as articulated, I would be among the avant garde to call to your attention that you have not honored your comments that you have made today, your commitment that you have made today.

Mr. SAMUELS. I would look forward, sir, to coming to you and having you shake our hands because we have had such a successful initiative, such a successful partnership with NACA and Mr. Marks.

Mr. GREEN. Thank you.

Now, Mr. Miller—

Mr. MARKS. And if I can add, sir, just one thing?

Mr. GREEN. All right, but I am going to have to let you add with the caveat that I may intercede. Go right ahead, sir.

Mr. MARKS. Yes, Countrywide needs to be complimented, because they stepped out front when no one else would step out front.

But there are three things that I think you need to add to what they are doing: They don't look at the loan-to-value, so these loans could be under water. They don't look at the debt-to-income ratio. And they don't look at the payment history.

So you are able to get to very low fixed rates without having to deal with those limitations that prevent the refinancing of loans out there. So they should absolutely be complimented, and we should focus on getting other people, other lenders to get to the Countrywide standard.

Mr. GREEN. All right.

Now, Mr. Miller, is what we have just heard the kind of enlightened self-interest that you were calling to our attention earlier?

Mr. MILLER. Exactly. Exactly. It is certainly one way to get there.

Mr. GREEN. Now, hold on, Mr. Miller. I have to ask you a question. You said "one way." Earlier I said, is there a better way? Is there a better way than having the opportunity to restructure into an affordable loan? Because those are some important words that Mr. Marks used and Countrywide has adopted. So is there a better way, a sensible, better way to do this?

Mr. MILLER. Not that I know of. Not that I know of, that is out there.

Mr. GREEN. All right. So we are clear that this seems to be the best paradigm that we are aware of that is sensible.

Now, Mr. Wade, you have been involved at the grassroots level helping a lot of people. My question to you is, have you had access to the NACA-Countrywide paradigm? Have you had access to that paradigm?

Mr. WADE. No. This program was just announced the other day. So, other than what I have seen in the press, I don't have any other information on it.

Mr. GREEN. All right.

Then, Mr. Samuels, is this paradigm exclusive? We have a contract here, but is it exclusive such that it cannot be embraced by others who would want to help with this enlightenment process?

Mr. SAMUELS. We know that our competitors are really of like mind with us, in wanting to keep people in homes. And I am very confident that many of them would embrace—

Mr. GREEN. Well, I don't see Mr. Wade as a competitor. I want to talk about people like Mr. Wade.

Mr. Wade, is it fair to call your organization an NGO?

Mr. WADE. Yes.

Mr. GREEN. Okay. You are with an NGO. Are you for-profit or not-for-profit?

Mr. WADE. We are a not-for-profit, created by Congress, actually.

Mr. GREEN. Okay. So what I am trying to find out is—and not to the detriment of what Mr. Marks is doing, because he has worked out something that I think is great, if he is the person who actually worked it out.

But what I want to find out is, is this something that an NGO can work with you on, as well? If not, I understand. But I want to find out how far can we go with this, because we may be on to something.

Mr. SAMUELS. We could certainly work with them. The question is—well, let me just compliment NACA and say that one of the reasons we entered into this agreement is because we were very impressed with their capabilities. And a lot of what they do is similar to what we do: How we evaluate the borrower; how we see what they can afford; how we look at investor requirements; and things like that. It is a process.

The thing that we don't do that they do is the counseling component, which is very critical to this process. We liked what they do. The question is whether the other groups—

Mr. GREEN. Can replicate it.

Mr. SAMUELS. Yes.

Mr. GREEN. And there is also a certain level of trust involved in this. You work with people, and you get to know them.

Mr. SAMUELS. That is correct.

Mr. GREEN. Now, Mr. Marks, are you amenable to sharing your knowledge and your technique with NGOs and working with NGOs to bring others into the fold?

Mr. MARKS. Absolutely. Absolutely. The goal is the NACA process; it is not NACA. And that is exactly right, we want to create this as a standard for other lenders and other not-for-profits. And we are a not-for-profit, as well.

The need is tremendous out there. The devastation is huge and is getting worse. Absolutely, sir, we want to work with all the organizations out there to get everybody to that level, to that standard. Absolutely.

Mr. GREEN. Well, the chairwoman has been more than generous with the time, so I will yield to her now. And if there is a second round of questioning, I will be here for it.

Madam Chairwoman, I yield back.

Ms. MOORE OF WISCONSIN. Thank you, Mr. Green.

I can see that the committee has been joined by the distinguished gentleman from California, Mr. Brad Sherman. And the Chair would now yield to him.

Mr. SHERMAN. I thank the gentlewoman, the real Gwen Moore.

I would like to address this to all the panelists. When a lender forecloses, is that usually a profitable transaction, good for business?

Mr. MILLER. The short answer is no.

Mr. SAMUELS. It is a very unprofitable transaction, yes.

Mr. SHERMAN. Well, let's get everybody to chime in on this one. Go down the line.

Mr. WADE. Absolutely, it is not.

Mr. SHERMAN. Mr. Marks?

Mr. MARKS. No, it is not. But it is much more profitable and reasonable if they can restructure loans and get a reasonable return after the no return that would happen on a foreclosure.

Mr. SHERMAN. So, generally, the foreclosure is one of the worst options?

Mr. MARKS. Absolutely the worst option.

Mr. SHERMAN. The worst option.

Mr. MARKS. And a short sale and a deed in lieu of is not a workout. It is just working someone out of their home; it is not a solution.

Mr. SHERMAN. In effect, a deed in lieu is a foreclosure by another means. And you just said it is not profitable. I guess a deed in lieu saves a little transaction cost, so it is infinitely better than a very bad solution—no, not infinitely—infinitesimally better than a very bad solution.

Mr. MARKS. I see it as the same thing.

Mr. SHERMAN. Okay.

Next witness?

Mr. LONGBRAKE. And I would say foreclosures are never the best solution. Sometimes they are a solution, because there will be a circumstance that a homeowner simply does not have the financial means or wherewithal to be able to be a homeowner. They might be better off as a renter.

Mr. SHERMAN. Mr. Samuels?

Mr. SAMUELS. Yes, I agree. I want to make clear that the numbers that I gave about our work-out process, our transactions, do not include deeds in lieu and short sales that we have done.

The numbers that I have given are what we call home retention solutions. These are solutions that allow people to remain in their homes. That is what we are focused on.

Mr. SHERMAN. Moody's, I believe, issued a survey that most servicers had modified only 1 percent of their service loans that experienced a reset during the early months of 2007.

Mr. Samuels, does it make sense to say that a certain percentage of all loans that are resetting should be adjusted, when, many times, the loan is working just fine? The person can afford it. I mean, there are some ARMs out there. There are some people who are not losing their jobs. There are some people out there able to afford their mortgage payments. Not everybody is calling my office and saying they are about to lose their home.

Mr. SAMUELS. That is true, Congressman Sherman. The 1 percent figure is very misleading. By using as the base all hybrid ARMs facing a reset in January, it assumes that most borrowers are going to go delinquent shortly after the payment reset. And this is far from accurate. For example, we tracked all of our 2/28 hybrid ARMs that were still outstanding and due for reset in January of 2007. In September, a full 9 months after the initial payment reset, 43 percent of those borrowers had paid off their loans, fully 82 percent—

Mr. SHERMAN. So you are saying 43 percent have either sold their homes or refinanced and paid you off. Okay.

Mr. SAMUELS. Correct. And 82 percent had either paid off or were current. Of the remaining loans that didn't pay off, 70 percent were current. Only 11 percent of those loans were three or more payments behind. So if we use these loans as the base, and then look at our modification data, the loan modification percentage would be closer to 20 percent. So you can do a lot of things with numbers.

Mr. SHERMAN. I thank you, sir. The Moody's report says basically 1 percent are being renegotiated or recast. And if I understood you correctly, about 11 percent of the loans are delinquent?

Mr. SAMUELS. Sir, 11 percent of the loans that were in our study, the 2/28s that reset in January that were still on the books, about 11 percent of those were 90 days or more delinquent.

Mr. SHERMAN. So basically, then, of the pool that are significantly delinquent represent about 11 percent of the pool. The renegotiates represent about 1 percent of the pool, and if I do the math right, it is very roughly 1 out of 10 loans that are significantly—

Mr. SAMUELS. It is actually 20 percent.

Mr. SHERMAN. I am missing the math here somewhere.

Mr. SAMUELS. I am a lawyer, Congressman. I don't do math. But it is 20 percent. The modifications were 20 percent.

Mr. SHERMAN. There must be a number missing from this. But in any case, it is a significant portion of those that are seriously in arrears.

I will ask the other panelists whether—Mr. Marks, do you see the other major servicers recasting 10 or 20 percent of the loans where there is a reset of the ARM and a serious delinquency, or do you see them doing a much smaller portion of that?

Mr. MARKS. It is a very good question because we have to redefine our terms. When you hear the word "modification," I think you have to ask the question: Are they reducing the interest rate and/or the outstanding mortgage amount to what the homeowner can afford? Because when you hear "modification," many times across the board, what that is, it is increasing the mortgage payment by taking the arrearage, adding it onto the outstanding mortgage amount and recasting the loan. So—

Mr. SHERMAN. They are counting it as a modification if the monthly payment goes up?

Mr. MARKS. Yes. A lot of times that is how they are counting it. So we need to be very clear on the question: Are you reducing the interest rate, are you reducing the outstanding mortgage amount, are you reducing the payment to what the homeowner can afford? Because a lot of times, across the board—I am talking about the industry, not any one particular lender or servicer—that is how they are defining that. So it is very important.

Mr. SHERMAN. I understand what you are saying. What if you had a circumstance where they lower the payment but not the interest rate? That leads to negative amortization. It occurs to me that we may have boom economic times. We may have a new President, a new economic policy. And we may see a circumstance where a lot of people are talking about the decline. All of a sudden they are selling their homes for half-million-dollar profits 6 or 7 years from now. And one wonders whether that bonanza should be shared with the lender or not, and there are good lenders and bad lenders.

Where do you come out on a recast that does not cut the interest rate but does cut the payment?

Mr. MARKS. One other question that has to be asked is if the interest rate is reduced, is it going to be permanent or just for a short term? The answer to the second part is that we encourage a soft second. If the lender is going to do the right thing and reduce the outstanding mortgage amount or take a hit on that, then you can put on a soft second so they share the equity if the prices go up and someone sells that house for a profit. So we are in support of that.

The other question that you asked was, are the other players doing it? And while the chairman asked us not to name names—even though we will put it up on our Web site at NACA.com—the other players out there, the bottom 10, the fact of the matter is very few—the biggest servicers out there are not adhering to the Countrywide standard on the restructuring, and we see it as a responsibility of Congress and the regulators to force those other lenders to do that, because they are playing you. They are playing you because they are saying they are modified, they are saying they are doing it in large numbers, but they are playing you out there, because they are not telling you the truth and you have to ask, with all due respect, the specific questions of each one of them. And just like when the oil company executives came to the Senate and they swore they were going to tell the truth, you should get them up here to give you specific answers. Thank you.

Mr. SHERMAN. Thank you for your shy and retiring approach. I think it is Mr. Miller who seems to be indicating a tremendous desire—

Mr. MILLER. Let me just jump in here for a second. It has been the experience of the attorneys general and the banking regulators that the whole modification restructuring process has gotten off to a slow start. There are a lot of reasons for that. I discussed some of those obstacles earlier. Now is really the crucial time. We sense in our discussions with them, we sense the results from our hotline project that I described earlier, that the companies now are starting to make at least a little progress, some companies, certainly on modification. This is the crucial time.

And that is why it is so important—the data that the attorneys general and the bank regulators are in the process of getting from the major servicers in the subprime market. We want to make sure that we know that this process is taking place on a significant scale, not just on a few examples. So we are in this for the long haul, the HEs and the banking regulators. We are working with the company, we have good relationships, we have good dialogue, we have the Iowa experiment to sort of show if it is working or not, and we will stay on this and try to make sure it works and try to make sure that everybody knows whether it is working or not.

Mr. SHERMAN. It is a little more difficult than it looks to sit up here and figure out what questions to ask, and this hearing isn't as much fun as the hearing that Mr. Marks has suggested, in that we only have one lender and he is the guy that you are saying some nice things about, and you envision something more akin to the fun Representative Waxman had with the tobacco executives. In order to have that work most effectively, we are going to need to frame the right question.

Representative Waxman could ask the question: Does tobacco cause cancer? This is a murky area. And it seems to me there are two or three different ways to phrase the question: How many of your borrowers are in trouble? And the question: What percentage of those are you really trying to help?

So I would ask each of you to try—and I know Sandy has—I mean, this involves numbers, Sandy, but you have lots of help—to come up with a question first: What should be the denominator? That is to say, how should we define the number of folks with ARMs that are resetting or other difficult to deal with loans and then, more importantly, the numerator. Because some of you might say, have you cut the interest rate by at least 50 basis points? Some of you might think it is okay if they just cut the interest rate 25 basis points. Have you cut the principal by at least 10 percent? Or have you cut the principal to only a de minimis amount?

I would see these questions go in writing to the lenders before they come here, because these are such complex questions that if we had the executives here, they could say, gee, I don't know, I will get back to you. And that deprives us of all the fun. So I would hope you would work with us, and I think there might be different approaches. One of you might take a definition of working with a borrower that says, cut the interest rate by at least this, and no soft seconds, and no participation; others of you might have a lower definition.

But what the country wants to know is, of the folks who are in trouble, how many are getting significant help from the financial services industry and how many are being told to pay or move?

So I look forward to that—I see one witness with his hand up.

Mr. LONGBRAKE. Congressman, may I make a comment? I am representing the HOPE NOW Alliance that brings together servicers, not-for-profits, and other entities, and we are there to accelerate doing the right thing, to bring the best ideas to the table, and get the industry to follow through. So we would welcome Mr. Marks' questions being directed at the HOPE NOW Alliance as well.

Mr. MARKS. If I can add just one more thing, there is too much discussion on outreach and process. There is just too much. We know the solutions. We don't have to create more solutions. We have the solutions.

But you are exactly right, Congressman. Exactly right. Ask the very specific questions, very specific. It is really straightforward, it is very straightforward: What interest rate did you reduce the borrower's interest rate to? Is it fixed? And how many have you done? Because if you look at the denominator—because with a Countrywide NACA agreement, we are not limiting it to subprime or whatever, it is everybody out there who has an unaffordable mortgage. Because if we get into a debate around what is considered subprime or predatory or whatever, we will be here for—

Mr. SHERMAN. When you say "unaffordable," somebody could have gotten a 5 percent, fixed 30 year loan, but they lost their job, or they are in the hospital, and it is now unaffordable for them. It is hard to blame the lender for that.

Mr. MARKS. And those are separated. But when the mortgage pushes someone into a point where they cannot afford that payment, those are the people who would go through the NACA process. What we stayed away from was a long discussion on how we define different types of loans because different people, well-intentioned people, have a different determination or valuation of that.

But what you are saying is exactly correct. Get those executives here, please. Get them to stand up, under oath, and ask them those specific questions. How many have you done? And please don't let them get away with process. Don't let them get away with best of intentions. Hold them accountable.

Mr. SHERMAN. I do want to agree with you that sending out a letter to every borrower saying, "We love you, please call us," doesn't do any good unless that is the first step in a good process.

Mr. MARKS. The people don't trust the lenders.

Mr. SHERMAN. I saw Mr. Wade with his hand up. I realize I am taking more than my time, and the chairwoman will cut me off pretty soon.

Mr. WADE. I just want to add, the whole focus of the call center hotline is precisely to create solutions at the borrower's ability to pay. Historically, that is how we have created homeownership for over 20 years, at the borrower's ability to pay. You use a variety of tools. You have to use a variety of tools to get there. And in some cases, local jurisdictions have developed rescue funds to help people who have been temporarily out of work. People use those as a way to bridge that gap.

So there are a variety of things that you can do to help address that, and I think, clearly, loan restructurings are a key part of that. I would agree with Mr. Miller that the industry has been not as quick to come to that as they could have.

One other thing about the short sales and deed in lieu, again if we are doing this in a way that serves the consumer, there are consumers who make the decision that they no longer want to live in that house, so we help them facilitate a graceful way out of that. As you know, there are many consumers who are in situations where there has been job loss, their jobs have been exported somewhere else. They want to move somewhere. Other than giving them a graceful way to avoid a foreclosure, oftentimes a deed in lieu or short sale is the best way to do that for a consumer.

So while it is not a panacea, it is one tool that consumers opt for when they make the decision that they no longer want to be a homeowner in that house, in that community.

Mr. SHERMAN. Yes, I would comment that when the borrower is in trouble, that may have something to do with the loan or it may have something to do with other things in their life. There are people who had terrible loans, who were ripped off, who were steered into the wrong thing, but they just got a couple of promotions, and they can afford to make the payments. And there are people who got great loans, but they lost their jobs, and now they are troubled. It will be difficult for us to define what are the troubles that we regard as the financial services industry is responsible for and which are the ones we should hold the rest of the economy in trouble for when we don't have health coverage for people, when so many jobs are being exported, etc.

One last question, and perhaps only a couple of witnesses will comment on this, is how effective has this committee and this Congress been already in jawboning the industry into doing the right thing? You have been on the other end of that jawbone so you are probably the best person to respond.

Mr. SAMUELS. That is correct. As I mentioned in my remarks and the written testimony, I wanted to thank and commend Chairman Frank and this committee for doing a lot to remove many barriers. They have been very helpful on the investor issue, on the accounting issues with FAS 140 and there has been a lot of discussion about how to be better in terms of solving this problem. I think that a lot of what you have seen recently is a direct result of those efforts, and I think there was a meeting last week in Boston where there was a lot of good discussion, again a lot of good ideas. And it is not just this committee it is other governmental agencies. General Miller convened groups of attorneys general, very constructive, very good discussions. And we are not just talking process at these meetings, we are talking solutions, we are talking about ways to make sure that if we can, we will keep people in their homes.

Ms. MOORE OF WISCONSIN. I think this is really a good sign it is time to move on. Any time we start thanking the chairman—

Mr. SHERMAN. May I add one thing?

Ms. MOORE OF WISCONSIN. Thanking the chairman and complimenting the chairman, that is a good sign that we need to move on.

Mr. SHERMAN. Some of us want our provisions included in the bill and should not fail to take this opportunity to praise the chairman again and again.

Ms. MOORE OF WISCONSIN. As I said, we are praising the chairman. I think that is a good demarcation line, because he would not tolerate it at this point. All right.

I would yield myself time right now and I would like to start with the attorney general from Iowa. I was in Waterloo last weekend and I saw board-ups of these gorgeous homes and I felt very, very sad about that. You said you had some success in reaching consumers by reaching out to them.

I want to ask you, number one, did you do it via television, and then using the bully pulpit of the attorney general's office? You talked about a tremendous success rate in getting people to respond to your 800 number. Is it because you used television and you used the insignia of that office rather than, say, these mortgage rescue folks that people may have encountered?

Mr. MILLER. Well, we used the insignia or credibility of the office, plus, as you would describe in your terms, the free media. What happened, I think, is that over time—and I think I am right—the Iowa Attorney General's Office has developed a good record and a lot of credibility in the consumer area generally, that we are seen as the fighter and protector of consumers.

When we came forward with this hotline, after having done a fair amount of work generally on this issue in Iowa and with other States, and having a good reputation, and the problem being severe when we came forward and did basically a media announcement, a lot of TV coverage, newspaper coverage, that this hotline was available, what the purpose was, and we had this enormous response.

Ms. MOORE OF WISCONSIN. Thank you, sir.

Mr. Wade, you have indicated that you have done a lot of outreach, a lot of media, and you are a congressional creature. So I am asking you now, do you feel that you have enough resources to meet the challenge of reaching out to people? Do you need more money from Congress, or are you in a position to galvanize these resources from other partners in the Hope Now Initiative?

Mr. WADE. We are looking for resources from all quarters in order to, obviously, support this work.

Ms. MOORE OF WISCONSIN. So what amount of money do you think you need in order to meet the challenge? Can you come up with a number that you would need in order to meet the appropriate outreach goals?

Mr. WADE. Well, we have supported what is currently before Congress, and that is anywhere from an appropriation of—and I guess it is in conference—but anywhere from maybe $50- to $200 million more dollars to go towards community-based organizations that are there working with consumers every day. We think that would be a great contribution there.

But we also think the lending community needs to be a player as well. And as you heard, they are looking for a way to develop a method where they can compensate community-based groups on a per-customer basis for those consumers that are being assisted. So we think those two sources will go a long way toward solving the challenge of—the resources needed—

Ms. MOORE OF WISCONSIN. $50 to $200 million.

Mr. Longbrake, do you think with the Financial Roundtable, that this would a really good starting point for jump-starting what has been a slow start in doing this, just go and get the roundtable together and say, you know, you can start out by anteing up? Or have you done that?

Mr. LONGBRAKE. Madam Chairwoman, that is exactly what we are doing. We actually had our members ante up many, many months ago for the public service advertising campaign that is both radio and television. We are asking all the members who are listed in the 17 members are being—signing contracts to reimburse for counseling.

Ms. MOORE OF WISCONSIN. Are they reluctant to do it? Because we hear, like from Mr. Marks, for example, that there are some recalcitrants in the community.

Mr. LONGBRAKE. We are talking to them and strong-arming them.

Ms. MOORE OF WISCONSIN. All right. My time is waning, so I really want to—Mr. Samuels, I will have to tell you that I am so disappointed that you aren't a numbers person, that you are a lawyer, because I am not necessarily a numbers person either, and I went to bed with this beautiful colored copy of your chart.

Mr. SAMUELS. Yes, ma'am.

Ms. MOORE OF WISCONSIN. And I was reminded of the testimony that we had earlier from the Treasury Department that when you consider stuff like divorce and death and loss of income, that usually accounts for 1.7 percent of baseline foreclosures that occur every year.

So, you know, I have to wonder when you say that you have put an extra $16 billion into dealing with this catastrophe, but in looking at your testimony, I can only account for, like, $16.2 billion worth of loans that you say were in trouble. I have to wonder, really—and I think Mr. Sherman sort of pointed to it, about the numerator and denominator, what exactly was your exposure with loans? You claimed that only 1.3 percent were due to payment adjustments.

Mr. SAMUELS. Correct.

Ms. MOORE OF WISCONSIN. What does income curtailment mean?

Mr. SAMUELS. It is loss of job, your income is reduced.

Ms. MOORE OF WISCONSIN. So 59 to 60 percent of the loans that Countrywide was servicing were due to job loss versus these horrible products?

Mr. SAMUELS. That is right. I mean, the foreclosures—this is a chart of reasons for foreclosures. Okay? So the universe is for loans that are foreclosed upon.

Ms. MOORE OF WISCONSIN. Wait a minute. Back up. Help me understand this now, because I am not—because like I said, I went to bed—this chart was so confusing to me. Are you looking at the chart I am looking at?

Mr. SAMUELS. I am not sure which chart you are referring to, ma'am.

Ms. MOORE OF WISCONSIN. This was mind-boggling to me. We have heard that foreclosures are just a fact of life, that some people are just deadbeats, whatever reason, that people lose jobs all the time, they are divorced all the time, that you underwrite knowing that 1.7 percent are going to fall into this category. And you are telling me that Countrywide had 59 percent—well, including income curtailment was 59 percent. Illness was another 13 percent. Divorce was 7.3 percent. Somebody help me with the math. What are we up to so far? And so—

Mr. SAMUELS. Right. That is right.

Ms. MOORE OF WISCONSIN. So most of these things were not due to Countrywide offering products like these resets. Because according to this chart—

Mr. SAMUELS. And most people up to now have not been foreclosed upon because of resets. We haven't seen a lot of resets. I think we are going to see more in the future. We are going to see more in 2008—we are seeing some in 2007. We will see some in 2008 and 2009.

Ms. MOORE OF WISCONSIN. So Countrywide did not offer predatory loans or seriously subprime loans. And you put $16 billion in and you have helped—$16.2 billion, and you have serviced—

Mr. SAMUELS. No, no, no. The two numbers don't foot.

Ms. MOORE OF WISCONSIN. I know, because I went to bed thinking this doesn't make sense.

Mr. SAMUELS. They are not related. Because of the $16 billion, they fall—as the written testimony explains, they fall into three different brackets. One is to help refinance people who can refinance, who are facing resets. And a lot of these loans, the hybrid ARM loans, the 2/28 loans, what happens with many of these people is that they get into these loans, they make their payments, and then we refinance them into prime loans.

One of the things I describe is that we did 31,000 of those up to now, this year, where we took subprime borrowers who were in subprime loans, these 2/28s or 3/27s, and we refinanced them into a prime fixed-rate loan.

Ms. MOORE OF WISCONSIN. These were only 1.3 percent of your portfolio, right?

Mr. SAMUELS. 1.3 percent of the portfolio?

Ms. MOORE OF WISCONSIN. These subprime hybrid loans. I mean, because what you said was—the illness was 13 percent.

Mr. SAMUELS. No. This is the number of foreclosures. These are the reasons for loans foreclosed upon. What I am talking about are loans that are still out there, current. They are still making their payments. Those are not—

Ms. MOORE OF WISCONSIN. Okay. All right, all right. Okay. So, Mr. Marks, you work very closely with Countrywide and, you know, from your perspective, they are just the greatest or most honest brokers in this. And I am not asking you to disclose any proprietary information, but as you work with restructuring these loans, is it your experience as well that most of them are due to the—really, incompetence of the borrower as opposed to terrible products that Countrywide put forward? And I apologize that you are the only lender here, but, you know, according to you, Mr. Marks, these are—you know, from what I can gather—and I did read your testimony until I just couldn't stay awake looking at this chart any longer. Is that your experience, that Countrywide just was an unlucky lender, and they didn't have these terrible products for the most part?

Mr. MARKS. No. In the industry, the industry, you have many of the players out there, whether it is Citigroup, Wells Fargo—

Ms. MOORE OF WISCONSIN. No, you are not supposed to name names. The chairman told me that.

Mr. MARKS. If you are saying that these products are out there in the industry but you tell me, Congresswoman, that if you have a lender out there who is willing to restructure loans at 5 and 6 percent, whatever it takes for that homeowner to stay—

Ms. MOORE OF WISCONSIN. Mr. Marks, here is what I am asking. Stop. I am not Mr. Frank. Let me ask you this, because I am not going to yield myself much more time. What I want to know is in your work with Countrywide—the only lender that is here and I feel that this is fair game because they are in a position to talk back—has it been your experience that they joined a group of lenders, joined people in the industry that had yeoman numbers of products that were horrific, bad, these 2/28s for consumers that has created these problems—and, you know, to their credit, they are putting money into solving the problem, they are working with NACA to do it—that, in fact, there is some culpability on their part, even though they are addressing it, for putting these products out in the first place? Is that your observation?

Mr. MARKS. There is culpability on all the lenders.

Ms. MOORE OF WISCONSIN. Including Countrywide.

Mr. MARKS. Every one of them. Every one of them are out there. This was the industry. People in the industry 3 years ago, 4 years ago, knew that it was only a matter of time when these loans would go into default. This is not news.

Yes, it came up in February, but this was known. These loans were structured to fail across the board, and that, yes, Countrywide is doing the right thing. We think the job of Congress is to get the other lenders to step up—

Ms. MOORE OF WISCONSIN. Okay. Well, good. Because I was misled by this chart. And you have just confirmed for me, Mr. Samuels, that I was one of the people misled by this chart thinking, my God, 60, 70, 80, or 90 of these people who are in trouble are in trouble because they had bad circumstances in their lives versus terrible products.

Mr. SAMUELS. May I? First of all, this chart involves reasons for foreclosures. So we are talking about the universe of people who have been foreclosed upon, not a large number, okay? This is just percentages of people who had suffered foreclosures.

I want to address a couple of points if I may. First of all, the people who have lost their jobs or got sick or, you know, one of the borrowers passed away—

Ms. MOORE OF WISCONSIN. 1.7 percent of baseline of people that this happens to every year? According to the Treasury. I am just going by—

Mr. SAMUELS. Our experience is that it is obviously a lot higher number of people who face foreclosure, who suffer foreclosure because of those reasons. It is not because of their incompetence, it is because of life events.

What happened is now you have a life event and you have no way out because your property value has gone done. It is tough—you know, the loan-to-value ratio that you have is too high or credit has tightened. So there is an inability now to fix a problem—or there is less of an ability to fix a problem than there may have been 4 or 5 years ago. But 5 years ago, if somebody took out a 2/28 loan and made those payments, then 3 years ago we would have refinanced them into a fixed-rate prime loan. And that happened all the time. There are thousands and thousands of borrowers for whom that was a success story.

Ms. MOORE OF WISCONSIN. Okay. So I am going to yield now to Mr. Green, because I have gone on now too long and I just—so I heard what you said. You don't necessarily see a 2/28 loan as a predatory loan. You are just saying that stuff happens, and so now kind of the stuff hit the fan.

Mr. SAMUELS. What I would say is if somebody was put into a 2/28 loan and told, this is your interest rate for the next 30 years, yes, that is a predatory loan. But the 2/28 loan by itself is not a predatory loan.

Now, I will say also that one of the things that we have discussed with NACA and with other groups and that we are doing ourselves is that if somebody finds that they cannot afford that reset, they need to come to us; we will work with them so that they can keep their home. That is what the $16 billion is for. We will be working—

Ms. MOORE OF WISCONSIN. Thank you, Mr. Samuels. I will yield to my colleague, Mr. Green.

Mr. GREEN. Thank you. And might I just remind the chairwoman that the Chair can never exceed the time limit.

Quickly, let me do this. For edification purposes, so people will understand that Countrywide may not be unlike other lenders, did Countrywide engage in a no doc loan process? Did you have some no doc loans?

Mr. SAMUELS. Yes, we did.

Mr. GREEN. Did you have some interest only loans?

Mr. SAMUELS. Yes.

Mr. GREEN. 3/27s?

Mr. SAMUELS. Yes.

Mr. GREEN. 2/28s?

Mr. SAMUELS. Yes.

Mr. GREEN. Prepaid with penalties coinciding with teaser rates?

Mr. SAMUELS. When you say coinciding with teaser rates—

Mr. GREEN. A teaser rate for 2 years, prepaid with penalty for 2 years?

Mr. SAMUELS. Yes. Prepayment penalty for the time of the introductory payment, yes. Not extending beyond that.

Mr. GREEN. Right. No escrow accounts?

Mr. SAMUELS. We have escrow accounts.

Mr. GREEN. But did you have some loans with no escrow accounts?

Mr. SAMUELS. We have some loans with no escrow accounts. There are some States that don't allow it.

Mr. GREEN. These are all of the things that have created a great amount of consternation for us here in Congress.

Look, there are some more. I just wanted to give you a short list. But here is where I am with you. You know, sometimes we see the error of our ways. There are times when we approach this thing called "enlightened self-interest." And I am just assuming that you have now had the benefit of seeing that there is a better way to do business as it relates to this market at this time. And I again salute you for it because you have made a giant step in what I believe to be the right direction.

I think that there is some argument that can be made that a 3/28 or a 2/27 is inherently invidious. There is an argument that can be made for it, especially when you get into the subprime area, I think there is an argument. But that argument aside, because I think these debates are things that are at a more lofty level, and what I want to do today is find out how we can replicate what you are doing, because I see this based upon what you said.

Now, everybody has said to me that there is, you know, no better way to do this than to have affordable loans—to restructure to affordable loans. And I think this is a great paradigm. So let me come back to it.

Other than will, is it the general consensus of this group that the way can be found to do what Countrywide is doing? Is it a matter of will or is it a matter of way? Countrywide seems to have found the way and seems to have the will to implement this.

Is that pretty much the case in the industry as you see it, or do we have some other—we don't want to get into names—but some other financial institutions that may have some other circumstances? For example, maybe they have tranches that are different from Countrywide's tranches. I haven't done any kind of comparative analysis, so maybe I don't know. Maybe they have investor contracts that differ greatly from the ones that Countrywide will have.

So maybe this is something that our member from the Financial Services Roundtable can address, because you have a survey of information that you can share. Do the other members of the industry have problems that Countrywide doesn't have? Are they in a position different from Countrywide, such as they cannot do what Countrywide is doing?

Mr. LONGBRAKE. Congressman, let me just respond to that, if I may. There should be no reason why any member in the industry should have different responses than Countrywide has had. That is what the Hope Now Alliance has had. It is to bring members of the industry together to come up with these kinds of shared solutions.

Mr. GREEN. Yes, sir. If I may coin a phrase, the "hope now" is great. But I hear Countrywide and NACA talking about "help now." And help now is really what a lot of folk are looking for. And by the way, I am extracting from the pool of folks who need help, those who will just want to refinance where they can get a better rate they really can afford to pay.

My assumption is that the paradigm we are talking about is one that will vet out persons who are just trying to take advantage of what appears to be an opportunity, when they can afford to pay what they committed to pay. No one should be allowed to simply avoid a deal that they made. If you made a deal, you ought to honor your commitment. You really should.

But now if you are in a position that you can't afford to do it, and we have a large pool of people who are in that position, then maybe they can get some consideration. I assume that these are the people that Mr. Marks is finding a way to vet and get to Countrywide.

So with that said, the "help now" model is one that—the one I am talking about, Mr.—is it Mr. Longbrake?

Mr. LONGBRAKE. Yes, sir.

Mr. GREEN. Mr. Longbrake, what about the Help Now model that I assume that the Hope Now will metamorphose into?

Mr. LONGBRAKE. The Help Now model is—first of all, you have to get—remember, Mr. Marks, step one was contact with the borrowers. You have to get them in, and then you go ahead and begin to assess, and ultimately you get to a solution that works for their situation. So we are working on the first step right now. This is to get contact, get them to the servicer, develop a solution.

What Mr. Marks has developed is a very sophisticated solution that is a case-by-case that goes right to the specifics of each individual borrower and their capacity to pay. It is an affordable solution. And that is a worthy end point to get to as quickly as possible.

Mr. GREEN. Thank you. And by the way, I want to thank you for being here on behalf of the Financial Services Roundtable. I understand that there is a desire to be helpful, and what I am trying to do is find out if we can replicate what Countrywide has given us today. We don't have the other lenders here to ask them personally or directly. So we speak through you, and I appreciate what you have said.

Coming back to Countrywide now, the 3/28s and 2/27s, do you plan to continue with that product to the same extent that you have had it in the marketplace, or is this one of those questions that you are not in a position to answer?

Mr. SAMUELS. No. I am in a position to answer. Underwriting guidelines have tightened significantly, as you are probably aware. And so these products are generally not available anymore.

Mr. GREEN. Good. I will tell you—

Mr. SAMUELS. Sir, I really would love to have the opportunity to meet with you and to discuss this issue at greater length.

Mr. GREEN. I appreciate it. And I promise you, we can have that opportunity. I am amenable to the discussion. Mr. Marks?

Mr. MARKS. Sir, if I can ask—all your questions are right on. The one thing that is in the agreement that has had a tremendous impact, even more than we had recognized when we initiated the agreement, and that is the transparency issue. And the transparency is that you hear from a lot of servicers out there, "I would love to do it but the investor says no," because it is all in tranches and all that.

So let me read to you what we are doing: If a NACA home safe solution is denied by Countrywide or investor insureds or other third party, Countrywide shall provide the following in writing:

The specific investor agreement reference identification, investor trustee contact information, investor reason for denial, the relevant sections on the investor pooling servicing agreement, and the opportunity to appeal the investor's decision based on the borrower's risk of default without adhering to the NACA home safe solution. If the denial is not based on the requirements of the applicable investor, the justification for such denial.

Because Countrywide is doing the right thing out there and they shouldn't be held responsible when an investor says no. But that gives the transparency out there that says, who are these people pulling the levers behind the curtain saying no? And our experience to date is that they really don't exist, that these investors are very willing to restructure the loans, and that they are used as this excuse by a lot of other servicers out there not to restructure the loans. And that transparency has had a huge impact.

Ms. MOORE OF WISCONSIN. That is a great place to end the hearing.

Just a moment. The Chair notes that some members may have additional questions for this panel which they may wish to submit in writing. Without objection, the hearing record will remain open for 30 days for members to submit written questions to these witnesses and to place their responses in the record.

And with that, this hearing is adjourned.

[Whereupon, at 12:49 p.m., the hearing was adjourned.]

A P P E N D I X

November 2, 2007

TESTIMONY OF

WILLIAM A. LONGBRAKE

ON BEHALF OF

THE HOPE NOW ALLIANCE

HOUSE COMMITTEE ON FINANCIAL SERVICES

HEARING ON

Progress in Efforts to Coordinate and Enhance Mortgage Foreclosure Prevention

November 2, 2007

Mr. Chairman and Ranking Member Bachus, thank you for the opportunity to testify today on efforts to prevent foreclosures. My name is William Longbrake and I am pleased to be here on behalf of the HOPE NOW Alliance to talk about this significant joint industry and non-profit national initiative to reach out to at risk borrowers to prevent foreclosures. I serve as a Senior Policy Advisor to The Financial Services Roundtable and its Housing Policy Council and in that role I am devoting a large part of my time to the HOPE NOW Alliance, working with all our industry and non-profit partners.

Before I begin, I would like to acknowledge that the Chairman and Ranking Member Bachus, as well as other members of the Committee, have been very supportive of the existing national 1-888-995- HOPE hotline counseling program, which is a key part of the HOPE NOW foreclosure prevention effort. Chairman Frank, Congressman Bachus and other members of the Committee have helped to inform borrowers about the 1-888-995-HOPE number which they can call anytime 24 hours a day, seven days a week to get free counseling on their mortgage situation from HUD-certified non-profit counselors. The HOPE number is an important part of this expanded HOPE NOW Alliance and will continue to be as we move forward.

In August and September, the Department of the Treasury and HUD convened industry and non-profits and encouraged them to coordinate their efforts in enhanced ways that would help reach more homeowners and avoid unnecessary foreclosures. This led to the announcement of the formation of the HOPE NOW Alliance on October 10th.

The HOPE NOW Alliance is a collaboration between credit and homeownership counselors, lenders, investors, mortgage market participants and trade associations. It was formed with the encouragement of the Department of the Treasury and HUD and builds on the efforts that you and other Members of Congress have encouraged us to undertake. HOPE NOW is creating a coordinated, national approach among servicers to increase and improve ways to reach and communicate with borrowers who may have or expect to have difficulty making their mortgage payments. HOPE NOW is also working to ensure that consumer hotlines are adequately staffed by trained professionals, to create improved technology for addressing various issues, and to involve and better coordinate with non-profit housing counselors—all with the intent to preserve homeownership wherever possible. The interest and encouragement of the Federal government enhances the urgency and national impact of these efforts. By establishing on the national level coordination on many processes and standards, we hope to enhance and expand the work already being done by lenders, servicers, non-profits and others to increase the effectiveness of all participants in preventing foreclosures.

Action has begun on the HOPE NOW effort in earnest, and there is a high level of commitment on the part of all participants. Counselors and servicers are already working very hard to reach homeowners and prevent foreclosures. The Homeownership Preservation Foundation is continuing its national telephone counseling service, 1-888-995-HOPE, which employs HUD-certified non-profit counseling organizations from around the country to take calls from homeowners who are concerned about their ability to pay their mortgage. NeighborWorks America, a national network of more than 240 community-based organizations in 50 states, which is part of the HOPE NOW Alliance, is actively providing in-person counseling services to consumers today, as are many other counseling groups.

However, the members of HOPE NOW recognize that all of these efforts need not just to continue but must be enhanced in a number of ways. We believe that by working together to build on and expand existing efforts, we will be more effective than by working independently. The HOPE NOW Alliance is made up of private sector participants - lenders and loan servicers, other mortgage industry companies, trade associations, and not-for-profit counseling agencies and investors. Private sector participants that have chosen to join have agreed to work aggressively to help keep as many Americans in their homes as possible.

HOPE NOW is encouraging others to join and adopt the processes and approaches we are developing to reach borrowers and develop resolutions that reduce the possibility of foreclosure. A list of counseling organizations, lenders/servicers, mortgage market participants, investors, and trade associations that are currently participating in the Alliance is attached to my testimony.

HOPE NOW is actively working to address key issues through several working groups which are meeting regularly and reporting their progress on these goals:

- **Capacity for Counseling and the HOPE Hotline:** We are working to expand the capability of the national HOPE hotline and in-person counselors to receive, triage, counsel, refer and connect borrowers to servicers. The goal is to build capacity for phone counseling (888-995-HOPE) and utilize counseling organizations for in-person counseling.
- **Outreach:** This working group is seeking to increase efforts to reach the hard-to-reach at-risk borrowers. Servicers have been actively sending letters to at-risk borrowers but often have had limited success reaching them (3-5% success rate). Trials with not-for-profit counselors sending similar letters have resulted in up to a 25% success rate because delinquent borrowers are less reluctant to contact an independent counselor than their lender. By sending a common, uniform letter to at-risk borrowers across the country, and with a national outreach effort and significant media attention, the Alliance believes it can greatly increase the success rate in reaching at-risk

borrowers and getting them to respond than is occurring through the on-going and strong efforts by individual servicers to reach their customers.

- The first set of HOPE NOW outreach letters will be mailed November 19 to 30. HOPE NOW servicer participants will send over 200,000 letters to a critical group of at-risk borrowers who have not been in contact with their servicer. While servicers will mail the letters, the letters themselves will be on the HOPE NOW Alliance letterhead. The letters will only be sent to borrowers who live in their primary residence, not to those with investment properties.
- The November direct mail outreach letter is only the first step. HOPE NOW will continue regular outreach to more at-risk borrowers in the coming months through letters and other efforts to contact homeowners who may need assistance.

- **Operational Efficiencies: Process Efficiencies for Servicers/Counselors:** This effort is dedicated to coordinating and maximizing effectiveness of communication between counselors and servicers. The goal is to centralize intake processes of what counselors provide servicers and examine the best counselor/servicer interface and 'port of entry' for counselors. In other words, we are developing ways to make it easier and more efficient for counselors to reach the right people in servicing and loss mitigation departments and to improve the relevancy of information that counselors provide to servicers to enable them to make informed decisions about what resolution options could work best for at-risk borrowers.
- **Measures of Reporting:** The HOPE NOW Alliance will establish data metrics for reporting on how many borrowers are reached and the outcomes of this outreach. Our working group will also develop measures of trends in delinquencies and resolution outcomes, e.g. reinstatement, workout (repayment plans, modifications, short sales, deed in lieu, partial claims) and foreclosure. The intent is to develop consistent and informative data reports based on common

definitions and to develop information that provides insights into the nature and extent of the current mortgage crisis and helps in the development of workable solutions that avoids foreclosure whenever possible.

- **Technology:** We are working to extend the use of existing industry programs that utilize the Early Resolution software and build in innovations that enhance foreclosure prevention efforts. The Alliance will actively encourage the implementation of technology solutions to enhance the efficiency of interactions between counselors and servicers.
- **Funding:** The success of the HOPE NOW Alliance's initiatives depends critically on the adequacy of funding for counseling services. Our participants are developing a sustainable funding model for phone and in-person counseling, which will involve participation by servicers, investors and government. Long-term success will require funding from all these sources to provide support for counseling for all borrowers who need it, including those borrowers who may have a loan that was originated and/or serviced by a lender that is no longer in business, or that is not part of the Alliance.

HOPE NOW will also coordinate announcements about its progress and outreach initiatives with policymakers.

Reaching borrowers to work with them on a workable solution is the key to helping them stay in their homes. The solutions will vary with the circumstances of the borrower. Prudent and responsible loan modifications, among other types of loss mitigation solutions, are an important servicing tool that can both help borrowers keep their homes and minimize losses to investors. Members of the Alliance, particularly financial industry organizations, will continue their ongoing commitment to facilitate additional dialogue among securitization market participants and to develop additional industry guidance that is designed to maximize the effectiveness, to both borrowers and investors, of evolving loss mitigation strategies.

Much work is being done and remains to be done. HOPE NOW members are devoting significant resources to this effort. By working together through this Alliance, in a centralized and coordinated effort, with the encouragement and support of the Treasury Department, HUD, and Congress, we believe we will develop very effective ways to help keep more people in their homes.

The Housing Policy Council and the Mortgage Bankers Association are helping to coordinate the Alliance for industry participants, but all members of the Alliance are actively involved through the working groups. Faith Schwartz, an experienced mortgage industry professional, is serving as project manager of the HOPE NOW Alliance and is coordinating our working groups.

Mr. Chairman, we appreciated your statement of support for the HOPE NOW effort when it was announced by the Department of the Treasury. We also appreciate the Dear Colleague letters you and Congressman Bachus sent to Members of the House earlier this year to inform them of the 1-888-995 HOPE hotline number. Active involvement of Members of Congress to alert your constituents that help is available when they contact either their lender/servicers or a non-profit counselor through the HOPE hotline will continue to be essential in helping as many homeowners as possible in the coming months.

I can't emphasize this point strongly enough. We have to convince borrowers who are in trouble to call for help. Fifty percent of borrowers who go into foreclosure never call for help. They should call their mortgage servicer or a national non-profit like the 1-888-9995 HOPE number or other resources listed on the HUD website.

The HOPE NOW Alliance is a serious and committed effort that will continue as long as necessary until problems in the housing and mortgage markets abate. We will provide updates on our progress to you in the coming weeks.

Thank you for inviting us to testify today.

HOPENOW

Support & Guidance For Homeowners

HOPE NOW Membership

Counselors
- Consumer Credit Counseling Service of Atlanta
- Homeownership Preservation Foundation
- Housing Partnership Network
- NeighborWorks America

Servicers/Lenders/Mortgage Market Participants
- Assurant, Inc.
- Bank of America
- Citigroup, Inc.
- Countrywide Financial Corporation
- EMC Mortgage, Inc.
- First Horizon Home Loans
- First Tennessee Home Loans
- GMAC ResCap
- HSBC Finance
- JPMorgan Chase & Co.
- National City
- Option One Mortgage
- PMI Mortgage Insurance Co.
- State Farm Insurance Companies
- SunTrust Mortgage, Inc.
- Washington Mutual, Inc.
- Wells Fargo & Company

Investors
- American Securitization Forum
- Fannie Mae
- Freddie Mac

Trade Associations
- American Bankers Association
- America's Community Bankers
- American Financial Services Association
- American Securitization Forum
- Consumer Bankers Association
- Consumer Mortgage Coalition
- The Financial Services Roundtable
- The Housing Policy Council
- Mortgage Bankers Association
- Securities Industry and Financial Markets Association

HOPENOW

Support & Guidance For Homeowners

HOPE NOW is an alliance between counselors, servicers, investors, and other mortgage market participants. This alliance will maximize outreach efforts to homeowners in distress to help them stay in their homes and will create a unified, coordinated plan to reach and help as many homeowners as possible. The members of this alliance recognize that by working together, they will be more effective than by working independently.

Alliance Action Plan

- ✓ The alliance will conduct a new, national direct mail campaign to contact at-risk borrowers, encouraging them to either call their lender or a credit counselor.
- ✓ This alliance has agreed to adopt a standard process model that will strengthen and speed work flow, productivity, and communications between servicers and counselors.
- ✓ The alliance will work to expand the capacity of an existing national network to receive, assess, counsel, refer, and connect borrowers to servicers.
- ✓ The American Securitization Forum, which represents servicers, investors, and other secondary market participants, has announced that counseling fees can be reimbursed from securitization transactions in appropriate circumstances.
- ✓ The alliance will develop common communications guidelines that will be used to respond to at-risk borrowers in order to offer them the best possible solutions, customized for each borrower.
- ✓ The servicers have agreed to work toward cross-industry technology solutions to more effectively connect servicers and counselors together in order to better serve the homeowner.
- ✓ The alliance will develop a common set of metrics to measure the initiative's progress.

BEST FORECLOSURE PREVENTION SOLUTION

NACA & COUNTRYWIDE AGREEMENT – TESTIMONY

I AM BRUCE MARKS CEO OF THE NEIGHBORHOOD ASSISTANCE CORPORATION OF AMERICA ("NACA"). I AM VERY PLEASED TO BE HERE TO DISCUSS THIS HISTORIC AGREEMENT BETWEEN NACA AND COUNTRYWIDE. THIS IS NOT ANOTHER STATEMENT ABOUT PRINCIPLES, PROMISES AND PROCESS. THIS IS ABOUT RESULTS IN SAVING HARD WORKING PEOPLE'S HOMES.

THIS AGREEMENT IS THE MOST EFFECTIVE FORECLOSURE PREVENTION SOLUTION BASED ON WHAT THE HOMEOWNERS CAN AFFORD. THIS IS THE FIRST BORROWER BASED SOLUTION. WE ARE TALKING ABOUT REAL FORECLOSURE PREVENTION THAT IS SETTING THE STANDARD IN THE FORECLOSURE PREVENTION INDUSTRY FOR SERVICERS, INVESTORS AND NON-PROFITS.

LETS BE CLEAR. THE PREVIOUS SOLUTIONS FOCUING ON REFINANCES IS NOT THE ANSWER. HOME VALUES ARE NOT THERE AND ARE PLUMETTING. DEBT-TO-INCOME RATIOS FAR EXCEED LENDER STANDARDS AND LATE PAYMENTS KNOCK THE REST OUT. VERY FEW

LOANS HAVE BEEN REFINANCED THROUGH THESE PROGRAMS. AND EVEN LESS WILL BE IN THE FUTURE

THE NACA PROCESS CONSIDERS THE INDIVIDUAL CHARACTERISTICS FOR EACH BORROWER BUT PROVIDES A FRAMEWORK AND STANDARDIZATION TO PROVIDE UNPRECEDENTED HOME SAVE SOLUTIONS FOR TENS OF THOUSANDS OF HOMEOWNERS.

a. STEP ONE:

SUBMIT A MORTGAGE QUESTIONNAIRE ON OUR WEBSITE AT WWW.NACA.COM

b. STEP TWO:

ATTEND A WORKSHOP TO LEARN ABOUT THE PROCESS AND OPTIONS.

c. STEP THREE:

MOST IMPORTANTLY, MEET WITH A MORTGAGE CONSULTANT WHO WORKS WITH THE HOMEOWNER TO SEE THEM THROUGH THE PROCESS.

d. STEP FOUR:

THE HOMEOWNER IS REFERRED TO A NACA UNDERWRITER WHO THEN TAKES OVER THE APPLICATION.

e. <u>STEP FIVE:</u>

THE COMPLETED FILE IS SUBMITTED TO THE LENDER. THIS IS THROUGH NACA'S PAPERLESS STATE OF THE ART SOFTWARE SYSTEM.

NOW LET'S TALK ABOUT THE HOME SAVE OPTIONS FOR THE HOMEOWNERS. THIS IS BASED ON THE TERMS AND WHAT THE HOMEOWNER CAN AFFORD, WITH A CASCADE OF OPTIONS AS FOLLOWS:

<u>NUMBER 1:</u>

PAYMENT PLAN

APPROPRIATE FOR HOMEOWNERS WHO HAVE AN AFFORDABLE MORTGAGE BUT HAVE EXPERIENCED A SHORT TERM FINANCIAL SETBACK AND CAN BECOME CURRENT WITHIN 12 MONTHS

<u>NUMBER 2:</u>

MODIFICATION

WORKS FOR HOMEOWNERS WHO HAVE AN AFFORDABLE PAYMENT BUT HAVE EXPERIENCED A LONG-TERM FINANCIAL SET BACK AND

CANNOT BECOME CURRENT IN 12 MONTHS. FOR THESE HOMEOWNERS THE LOAN IS MODIFIED TO INCLUDE THE PAST DUE AMOUNTS.

NUMBER 3:

REFINANCE

THIS IS FOR HOMEOWNERS WITH A HIGH RATE AND UNAFFORDABLE MORTGAGE WHO CAN MEET THE ELIGIBILITY CRITERIA (I.E. LTV, PAYMENTS, ETC.). NACA PROVIDES ONE MORTGAGE PRODUCT, THE BEST IN AMERICA, THAT WE COUNSEL EVERYONE INTO. IT IS ALWAYS A FIXED RATE WITH NO FEES, PRE-PENALTIES OR POINTS. AND TODAY'S 30 YEAR FIXED RATE IS 5.375%. WE HAVE COMMITTED ONE BILLION DOLLARS

NUMBER 4

RESTRUCTURE

THIS IS THE MOST POWERFUL TOOL FOR HOMEOWNERS TO SAVE THEIR HOME. WE EVALUATE WHAT THE HOMEOWER CAN AFFORD: LOOKING AT THE NET INCOME, DEDUCTING ONLY THE REQUIRED DEBTS, HOUSING EXPENSES AND $200 FOR UNFORESEEN EXPENSES. THIS RESULTS IN A PAYMENT THAT THE BORROWER CAN AFFORD.

THIS PAYMENT IS THE FIXED FIGURE OR THE MORTGAGE PAYMENT (I.E. PITI). THE TWO VARIABLES ARE THE INTEREST RATE AND OUTSTANDING MORTGAGE AMOUNT. COUNTRYWIDE WILL REDUCE EITHER OR BOTH TO ACHIEVE THE MORTGAGE PAYMENT OVER THE LONG-TERM

NOW LETS DISCUSS THE INVESTORS.

THE AGREEMENT REQUIRES COUNTRYWIDE TO TAKE THE MOST FAVORABLE REASONABE INTERPRETATION OF THE POOLING AND SERVICING AGREEMENT. IF THEN THE INVESTOR REFUSES TO RESTRUCTURE, COUTRYWIDE WILL PROVIDE NACA WITH THE IDENTITY OF THE INVESTOR, ALONG WITH OTHER DETAILS...THE REASONS FOR THE DENIAL AND THE OPPORTUNITY TO APPEAL. AND BELIEVE ME CONGRESSMEN AND WOMEN, YOU WILL BE HEARING FROM THE HOMEOWNERS, NACA AND MANY OTHERS IF INVESTORS ARE FORCING HARD WORKING HOMEOWNERS INTO FORECLOSURE.

THE REALITY IS EXTREMELY POSITIVE. ON THE FIRST DAY, COUNTRYWIDE RESTRUCTURED OVER 25 HOMEOWNERS. ALL HAD THEIR INTEREST RATES REDUCED TO 5% AND 6%. THERE MONTHLY

PAYMENTS REDUCED BY $300, $1,000 TO $1,700 A MONTH. AS ZENA COLINS, ONE OF THE FIRST TO BE RESTRUCTURED SAYS "I CAN NOW BREATH AGAIN".

NOT ONE WAS REJECTED BY AN INVESTOR.

<u>NOW WHAT ABOUT THE OTHERS WHO REFUSE TO RESTRUCTURE LOANS:</u> LET'S NAME THE BOTTOM TEN. THEY INCLUDE SOME OF THE TOP SERVICERS:

1) J.P. MORGAN CHASE
2) WELLS FARGO
3) CITI GROUP
4) WASHINGTON MUTUAL
5) BARKLEYS (HOMEQ)
6) GMAC (HOMECOMINGS)
7) LITTON
8) H&R BLOOK - OPTION ONE
9) FREEMONT
10) WILSHIRE

WHEN THEY TELL YOU, THEY ARE RESTRUCTURING OR MODIFYING LARGE NUMBERS OF LOANS TO WHAT THE HOMEOWNERS CAN AFFORD, THEY ARE NOT.

THEY ARE PLAYING YOU. YOU NEED TO TREAT THEM LIKE THE OIL COMPANY EXECUTIVES WHO WERE FORCED TO TESTIFY UNDER OATH.

THEY NEED TO BE HELD ACCOUNTABLE FOR THE FORECLOSURES ON HARD WORKING PEOPLE AND THE DEVASTATION OF COMMUNITIES NATIONWIDE. WE EXPECT TO SEE THE RAISED HANDS UNDER OATH OF THE FOLLOWING:

1) JAMIE DIMON - JP MORGAN CHASE
2) KERRY KILLINGER - WASHINGTON MUTUAL
3) RICHARD KOVACEVICH- WELLS FARGO
4) CHUCK PRINCE – CITI
5) TOM SCOTT - BARKLEYS
6) ERIC FELDSTEIN - GMAC
7) LARY LITTON – LITTON
8) MARK ERNST- H&R BLOCK
9) KYLE WALKER - FREMONT
10) JAY MEMMOTT - WILSHIRE

THIS IS PERSONAL. THEY NEED TO BE HELD PERSONALLY RESPONSIBLE.

TO GET THEM TO MEET THIS STANDARD, WILL SAVE HUNDREDS OF THOUSANDS OF HOMEOWNERS FROM THE DEVASTATION OF FORECLOSURE AND THE HUGE BROADER IMPACT.

TESTIMONY OF

TOM MILLER

ATTORNEY GENERAL

STATE OF IOWA

On

PROGRESS IN PREVENTING MORTGAGE FORECLOSURES

Before the

COMMITTEE ON FINANCIAL SERVICES

UNITED STATES HOUSE OF REPRESENTATIVES

November 2, 2007, 10:00 a.m.

Room 2128, Rayburn House Office Building

Good morning, Chairman Frank, ranking member Bachus and members of the Committee. I am Tom Miller, Attorney General of the State of Iowa. I appreciate the opportunity to address you today on the steps that my office and a working group of state attorneys general and banking regulators have been taking since earlier this summer to prevent home foreclosures and reduce the impact of these foreclosures on our homeowners and our communities.

Mortgage lending is an inherently local transaction. While mortgage lending may involve the largest financial institutions on Wall Street, it begins and ends with a home on Main Street. Accordingly, the States have been at the forefront of the fight against predatory lending. The states have led the way with investigations and settlements, including one with Household for $484 million and another with Ameriquest for $325 million. When neighborhoods and cities are damaged by predatory lending practices, it is ultimately city, county, and state governments that bear the most direct costs from foreclosures, not to mention the devastating impact it has on individual families.

Much of this damage can be avoided with common sense loan modifications and other loss mitigation efforts. In many instances, all parties are better off if an unaffordable mortgage loan is modified or permanently restructured to an affordable payment, so long as the net present value of the loan as modified is greater than the net recovery that can be expected after a foreclosure. Whether there was fraud in the origination of the loan, the product was unsuitable for the borrower, or the borrower has experienced an adverse life event, modifying a loan is often the better business decision.

We hope that our existing and ongoing efforts can be coordinated with and complement federal efforts, including the HOPE NOW initiative recently announced by the Treasury Department. We are at the beginning of this foreclosure crisis, not in the middle, and certainly not at the end. Unfortunately, this problem will play out over an extended period of time.

The problem facing this country is big enough that all hands are needed, whether state, federal, public or private. I am here today to tell you that foreclosure relief is an effort that will require participation from every stakeholder in this process, from homeowner to lender to servicer to secondary market investor to regulator.

The Origin and Extent of the Problem

Over the past decade, the mortgage industry has gone through a revolution in the way that home loans are funded and serviced. Home loans have become commodities, to be pooled and sold off in pieces through the process of securitization. Securitization has brought billions of dollars of new capital into the mortgage market, but it has changed the traditional relationship between borrower and lender. Most homeowners are no longer repaying mortgages to George Bailey at the Bedford Falls Savings and Loan; instead, a typical homeowner may borrow money from one financial institution, often through an independent mortgage broker, but make their payments to an intermediary financial institution, known as a servicer, which distributes that payment to secondary market investors who could be anywhere on the globe.

The changes wrought by securitization have created new hazards for consumers, investors, and lenders. Securitization separated the origination of a loan from its consequences by dramatically changing the distribution of risk and incentives for mortgage market participants. This has unfortunately led to weak underwriting and in some instances fraud, and to borrowers being placed in loans they could not afford.

For consumers, what this has done is created incentives for lenders to make loans without appropriate regard to a borrower's ability to repay the loan – and then, when the borrower runs into difficulty, it has made it more difficult for the borrower to seek appropriate relief.

In testimony before the Federal Reserve on proposals to revise the Homeownership and Equity Protection Act (HOEPA), I have described the behavior of some mortgage brokers and lenders, particularly in the subprime market, as irresponsible, reckless and even illegal. These practices need to be addressed, and I have urged the Federal Reserve to issue regulations updating HOEPA.

Our immediate problem, however, is that we are seeing the impact of this behavior now, as adjustable rate mortgages reset. Congress's General Accounting Office reported earlier this month what we in the states already know: foreclosures have risen sharply over the last two years, with subprime and adjustable-rate mortgages accounting for the majority of the increase. Iowa has the unhappy distinction of having the nation's fourth highest subprime foreclosure rate, at over 8.6%.

The GAO also found, as we have seen, that foreclosures are happening across all market segments and loan types. It is not just the first-time, low-income homeowners at risk; it is also the well-established homeowner who succumbed to relentless marketing and refinanced to take advantage of a low "teaser" rate to consolidate debt or pay other expenses. In fact, it is critical to realize that the majority of subprime foreclosures do not involve "purchase money" loans. A myth is emerging that this crisis is due to borrowers who purchased more house than they could afford. However, the Mortgage Bankers Association has found that a mere 12% to 15% of subprime loans in 2006 went to first-time homebuyers. The truth is that the majority of foreclosures involve refinancings by existing homeowners.

Most ominously, the GAO reported that the number and percentage of home loans in default or foreclosure is likely to grow through the end of this year and 2008, because of the rate adjustments, or "resets," scheduled for many adjustable rate mortgages. Most of the foreclosures to date have not been due to resetting ARMs; thus, an already bad situation is likely to become much worse.

This corresponds to the findings of Assistant Attorney General Patrick Madigan, who prepared a report on the subprime foreclosure crisis for my office earlier this fall.

Although foreclosure rates are now at a historical high, these are – in his words – the tip of the proverbial iceberg.

What my office sees is that today's foreclosures are happening, at least in part, for different reasons than foreclosures in the past. Traditionally, foreclosures occurred because of a weak economy or a major life event, such as job loss, divorce, or illness. While life events are still a factor in many foreclosures, they are a relative constant, and while unemployment and economic weakness might be rising, these factors are still at historically low levels. What's changed from previous experiences with rising foreclosure rates are the types of mortgage products being used, the lower standards for loan underwriting, and unprecedented levels of origination fraud.

Recent practices in mortgage lending seem to have been founded on the belief that appreciation in the housing markets would last forever. But no one has ever repealed the business cycle, and now we are all feeling the impact of the popping of this asset bubble.

The Foreclosure Working Group and HOPE NOW

My office has been aware of current and imminent problems with mortgage defaults and foreclosures for quite some time. In July of this year, I convened a meeting of fellow attorneys general along with select state bank regulators, industry representatives, and the Conference of State Bank Supervisors (CSBS) to explore ways to minimize the impact of rising foreclosure rates. From that initial meeting of approximately 37 states we formed the Foreclosure Prevention Working Group, consisting of 11 state offices of attorneys general, bank regulators and CSBS. As Chairman of this group, I led a two-day meeting in September with the ten largest servicers of subprime mortgages to begin to identify and implement collective, consistent and scaleable solutions to prevent foreclosures with a simple guiding principle: any solutions must be in the interest of both the borrower and the investor. Next week we are meeting with the next 10 largest subprime servicers, in pursuit of the same objectives. Collectively, these top 20 companies service more than 90 percent of the nation's subprime loans.

It is important to understand that the Foreclosure Prevention Working Group is not advocating across-the-board modifications, but only modifications that make sense for both the borrower and the investor. We believe, however, that thousands upon thousands of situations meet this standard -- and, unfortunately, these loans are rarely being modified. We recognize that not every loan is a candidate for foreclosure prevention. Some homeowners will never be able to repay their mortgages, for a variety of reasons, and in those instances loan modifications will merely delay the inevitable. Acknowledging this fact from the beginning will increase our chances for success on a broader scale.

We were pleased to see the Treasury Department's HOPE NOW announcement, which sets goals similar to those of our Foreclosure Prevention Working Group. As I previously mentioned, our working group has been committed from the start to making our efforts complementary to what is occurring at the federal level. We invited the FDIC to speak at our first meeting in July. Before and after our September meetings, CSBS briefed all of the federal banking agencies and OFHEO. We believe that state and federal coordination is essential to success. However, as state officials we are more directly experiencing the impact of foreclosures and witnessing the success or failure of attempts to avoid foreclosures; therefore, the state role in any effort to work with servicers and other financial institutions is critical.

The state Foreclosure Prevention Working Group has also reached out to representatives of the industry. The American Securitization Forum, which represents the various interests that facilitate the secondary market, including investors, was invited to our July meeting and has consulted with our working group on multiple occasions. The Mortgage Bankers Association also attended our July meeting to provide its perspective on foreclosure issues. We must not only work together, but drill down into the details to find the obstacles to foreclosure prevention.

Our effort, like HOPE NOW, is based on our belief that all stakeholders will benefit if we can find ways to help borrowers make their payments and stay in their homes. While every borrower's case is different, we see patterns that identify underlying issues, and we are working with lenders and servicers to address these issues. Preventing or minimizing the impact of foreclosure will require work from all sides, with a combination of everything from modifying the terms of the loans, providing additional credit counseling and financial education to homeowners, facilitating short sales, or providing transition assistance for borrowers to rental properties.

Both servicers and investors have committed to Treasury's HOPE NOW program, and we have found similar willingness to cooperate from the servicers and investors we have met with. While we have commitments from the leadership of these organizations, we hope that the HOPE NOW initiative does not have the unintended consequence of slowing our progress. We can't afford to slow down our progress. While at the senior executive level, servicers may be committed to improving their processes to facilitate loan modifications, it will take time for any changes to be implemented. While servicers and investors now seem to agree that it is in their best financial interests to turn these mortgages into loans that will be repaid over the long term, servicers' staffing and employee incentive systems may not yet reflect this understanding.

The incentives for the companies involved are powerful. Subprime servicers are reporting that on average, subprime loans lose 50 cents on the dollar with every foreclosure. This translates into an average dollar loss of around $50,000 on every foreclosure. Of course, as the number of foreclosures increases these losses will only grow larger, creating a downward spiral.

Challenges in Foreclosure Prevention

Given the incredibly high losses suffered by lenders and investors with every foreclosure, it is clear that modifications should be the order of the day. And yet, our analysis, as well as the analysis of Moody's, is that loan modifications are not happening with the frequency necessary to address the scale of this problem.. Modifications are increasing, but are still not at the level needed to prevent unnecessary foreclosures.

While modifications certainly are not free, lenders and investors must compare the severe loss they take on a foreclosure with a much more modest loss from a modification. As long as the value of the payments on a modified loan is greater than the net recovery from a foreclosure sale, it is the better business decision to make a modification. While this common-sense economic principle is easy to understand, we have found that it is quite difficult to implement loan modifications because of the complicated and fractured nature of today's mortgage market.

Based on our examination of servicing practices, one fundamental challenge is that the servicing system was built to manage routine collections of debts, not to engage in systemic rewriting of loans to make them affordable. In the last decade of strong housing prices, loan modifications have been at the bottom of the servicer "waterfall" of options, as most borrowers could escape distress by refinancing their home or selling it on the market for a gain. Servicers are now struggling to make the old model work in this new environment, and we intend to keep working with them until a homeowner anywhere in the country can get the loan resolution they need and can afford in a streamlined, efficient manner. We are not there yet.

This challenge is evident in the disconnect between executive management at servicers and the experiences of homeowners seeking to save their homes from foreclosure. It has been widely acknowledged that up to 50% of borrowers who are foreclosed upon never talked to their servicers. However, significant problems exist for the 50% of borrowers who DO contact their servicer. While servicers have said to us, and to the Treasury Department, that they are willing to talk to the borrower to work something out, this is not happening consistently on the front lines. All too often, the people answering the telephone at servicing companies may be short-term employees who are not trained or empowered to serve "problem" customers.

If, for example, a homeowner could afford the initial payment on a 2/28 adustable rate mortgage, but will not be able to afford the loan after the payment jumps by 30%, he or she may have to become significantly delinquent on the loan before being referred to a loss mitigation person who has the authority to modify the loan. Until then, the homeowner will get increasing numbers of phone calls asking for immediate payment.

Anecdotal reports from HUD-approved counseling agencies underscore that servicers have a long way to go in effectively handling loss mitigation for those borrowers who do contact their servicer. The servicers we have met with have said they are working aggressively to staff up and facilitate a shift for some borrowers from collections to loss mitigation and loan modifications. We look forward to seeing those improvements.

We do believe that many of the top servicers are making significant changes in their operating systems to make loan modifications easier. Some servicers tell us they are able to proactively predict a borrower's likelihood of default, and can offer those borrowers a proposed loan modification before payment shock forces the borrower to become significantly delinquent. We would like to see more servicers proactively analyzing the likelihood of default, rather than waiting for a homeowner to enter delinquency.

In addition, we have some concerns that servicers still have incentives to offer temporary solutions to permanent problems. Homeowners who experience the payment shock of a 2/28 loan are not suffering due to a life event, they are suffering due to a product they cannot afford at their income level. A two-year "modification" is a temporary action that may simply perpetuate the foreclosure crisis. A couple of servicers have told us that when they modify a loan, they do so for the life of the loan. We encourage servicers to take this approach, as we believe it not only addresses the root of the problem, but it also enables servicers to represent investor interests by efficiently processing the massive numbers of loan expected to reset in the next year. Reliance on an outdated system of allowing loans to edge to foreclosure before engaging in serious efforts to modify a loan is only likely to exacerbate economic losses.

We believe that often-cited challenges to preventing foreclosures – pooling and servicing agreements, REMIC rules, and FAS 140 interpretations – are no longer significant barriers to loan modifications. The servicers we have met with have told us they feel they have the discretion and authority needed to make loan modifications where those modifications benefit the investor and the homeowner. Upwards of 95% of pooling and servicing agreements do not pose significant constraints, according to the servicers we have met with.

In the old days – the George Bailey days of home lending – a borrower who got in trouble could go to his or her loan officer to discuss modifying the terms of the mortgage and the lender was highly motivated because it would take the loss if the loan failed. Securitization has dramatically changed this reality. Once a home loan is made, it may be sliced and diced into any number of investment instruments, according to the amount of the loan, the borrower's credit rating, the repayment schedule, the interest rate structure or other factors, and any number of investors may buy different pieces of this loan, packaged into specialized instruments. Because these instruments pay varying returns based on their risk profile, different investors may have different opinions on what modifications are acceptable to the underlying loan. The end result is that investors have threatened lawsuits against servicers who have sought to change the terms of the securities they sold.

One troubling example of this involves the challenges in preventing a foreclosure for a borrower with first and second mortgages. Often called "80/20" loans, these loans were originated in a manner that allowed a borrower to finance 100% of the value of the property and avoid paying mortgage insurance. Regardless of the wisdom of this loan structure, the division of the transaction into two loans has a significant impact on servicing. The 80% loan-to-value first lien mortgage is sold into one security, and the 20% loan-to-value second mortgage is sold into another. Not only are there two securities that are owned by different investors, but these instruments are often serviced by two different servicers.

For the borrower struggling to make payments, this often leads to disaster, as the homeowner receives two sets of phone calls demanding payment, each one telling him to pay immediately. If the servicer for the first mortgage is willing to engage in a loan modification, its fiduciary duty to its investors may make it difficult to modify the first loan to take a loss if the second lien-holder has not also taken some loss – after all, the second lien-holder is supposed to be in a less secure, riskier position. Thus, the two servicers must negotiate together to achieve a resolution, and each one has different interests. In the meantime, the homeowner has to choose which loan to pay first and in what amount, where the wrong answer will drive them to foreclosure.

Identifying Solutions

Our Foreclosure Working Group is working with servicers and industry representatives to develop solutions to these challenges. Without an ongoing and focused dialogue, we will miss the opportunity to prevent unnecessary foreclosures.

Solutions will need to be measureable and quantifiable. We all know that good intentions are essential, but not sufficient, to succeed. As such, our Foreclosure Prevention Working Group has focused first on understanding the dynamics and incentives in the servicing system and real-time reporting of results of the fruits of this system. We are developing a "call report" on servicing activity that we believe will enable us to track the progress of servicers and will provide reliable information to policymakers.

Beyond that, we are trying to identify the things that the top servicers are doing right and having conversations with other servicers to determine whether they can adopt those practices as well. We now have a meaningful discussion with servicers, and believe this discussion will lead to better outcomes for homeowners.

Servicers may need additional incentives to work with borrowers and facilitate modifications. It is in investors' interest to pay servicers or housing counselors an additional fee for modifications that result in performing loans. This additional fee should make it easier for servicers to hire more staff, retain them, train them and give them incentives to work with borrowers. Servicers may find it most effective to create dedicated teams to handle modifications, and to make early contact with borrowers who seem to be having trouble making their payments. Since 50% of borrowers in foreclosure make no effort to contact their servicers, servicers should also look at the possibility – as some have -- of contracting with trusted third parties, such as attorneys, community advocates or faith-based organizations, to broker these contacts. NeighborWorks has provided a commendable service in this area. We are encouraged by industry efforts to work with counselors, and believe that these efforts have only scratched the surface of the potential in these partnerships. We will most likely need more resources dedicated to these efforts as demand grows in the coming months.

My own office has set up a foreclosure hotline. Borrowers in trouble can call a toll-free number to reach the Iowa Mediation Service, which will take information from borrowers and then explore whether a loan modification might work for both the borrower and the lender. The response to the hotline has been overwhelming. Recognizing that Iowa is a relatively small state, since the hotline was launched in early September, it has received around 2,700 phone calls.

Conclusion

Chairman Frank and Representative Bachus, I salute you for calling attention to this crucial issue with today's hearing. While my office continues its efforts to remedy the abusive behavior that contributed to this crisis, our priority for now must be helping the homeowners who are trying to meet their obligations to stay in their homes. While each individual loan default may make no more than a ripple in the global market, every foreclosure is a tsunami for our communities. The impacts of foreclosures are felt far beyond the immediate homeowner and lender. Empirical research has shown that each foreclosure within a city block lowers the value of neighboring properties by around 1%. And, of course, as the number of vacant properties increase, it will create a downward pressure on the real estate market in general. Thus, we all have a stake in this.

We intend to continue our work with you, the industry and with our counterparts nationwide to minimize the impact of this surging disaster in communities across the nation. Thank you for your time and attention, and I would be happy to answer any questions you may have.

STATEMENT OF BRIAN D. MONTGOMERY

Assistant Secretary for Housing – Federal Housing Commissioner
U.S. Department of Housing and Urban Development

Hearing before the Committee on Financial Services

United States House of Representatives

"HOPE NOW"

November 2, 2007

I want to thank you Chairman Frank, Ranking Member Bachus, and distinguished members of the Committee for the opportunity to speak today about the HOPE NOW Alliance.

On October 10, HUD Secretary Alphonso Jackson and Treasury Secretary Hank Paulson announced an unprecedented alliance of the nation's largest mortgage servicers, housing counselors and real estate investors all committed to one common goal – to help as many homeowners as possible avoid foreclosure and retain homeownership.

Homeownership and, more importantly, homeownership retention have long been a priority for FHA. We believe borrowers with FHA-insured mortgages have unparalleled access to loss mitigation alternatives that help them weather personal financial crises and reinstate delinquent loans. In Fiscal Year 2007, FHA provided loss mitigation support to 91,000 borrowers, 86,500 of whom were able to keep their homes.

While not every one of these borrowers will be successful in the long term, historically 89 percent of all borrowers who benefit from loss mitigation still have active loans two years after the assistance. This success is responsible in part for a reduction in both the number and percentage of FHA foreclosures from a high of 1.74 percent in FY 2004 to 1.45 percent in FY 2007.

Throughout this year, HUD staff and senior officials nationwide have sponsored or participated in more than 125 separate homeownership retention events including fairs, targeted mailings, and joint task forces that reached a combined audience of 25,000. For example, on November 15, Secretary Jackson and HUD's Philadelphia Homeownership Center is hosting a Homeownership Clinic in Detroit with the assistance of the Detroit HOPE Coalition (a coalition of most of the same lenders that are part of the HOPE NOW Alliance), Fannie Mae, Freddie Mac, and nonprofits such as the Mission of Peace. At this clinic, we will have workshops for:

1) Delinquent borrowers trying to save their homes;
2) Borrowers of high cost loans seeking refinancing; and
3) First-time homebuyers hoping to avoid the mistakes of some of their predecessors.

In his remarks at the press conference announcing the HOPE NOW Alliance, Secretary Jackson commented on the dramatic rise in single family foreclosure starts fueled in great part by the proliferation of subprime loan products including hybrid ARMs that often include low teaser rates, interest-only features, stated (rather than documented) income underwriting, and negative amortization. More than two million subprime ARMs are expected to reset to higher interest rates by the end of 2008 and many of those borrowers, unable to afford the higher payments, will be forced into foreclosure unless the industry takes immediate and aggressive action to provide alternatives.

In September, FHA announced one such alternative. FHA*Secure* is one of our refinance options designed specifically for conventional and subprime borrowers who default on their mortgages solely because they can no longer afford the payments on their ARM loan after the interest resets to a higher rate. Though still a very new program, 540 FHA-approved lenders are already using FHA*Secure* to rescue delinquent borrowers from the potential loss of their homes. Since September, more than 70,000 conventional borrowers have applied for FHA*Secure* refinance loans.

Current trends suggest that this year there will be over one million foreclosure starts of all mortgages. If the industry works together, it is possible to reinstate or refinance many of these loans, but only if borrowers respond to offers of assistance. Industry sources report that more than 40 percent of delinquent borrowers fail to respond to any contact from their lender until it is too late. HUD and Treasury, at the direction of the White House, have encouraged companies and organizations that historically do not share information, business practices or resources to join together to create a unified, coordinated plan to reach and support these delinquent homeowners.

The HOPE NOW Alliance currently includes 16 of the largest conventional and subprime mortgage servicers (collectively representing more than 60 percent of all single family mortgage loans), five HUD-approved nationwide housing and credit counseling agencies, Freddie Mac and Fannie Mae, and many industry trade organizations including the Mortgage Bankers Association, the Financial Services Roundtable, and the American Securitization Forum. These Alliance partners are contributing staff resources and millions of dollars toward a number of specific goals that include among other objectives:

- Developing and funding a nationwide advertising campaign to encourage delinquent borrowers to seek help through the 888-995-HOPE network of HUD approved housing counselors.
- Hiring and training hundreds of new housing and credit counselors affiliated with the HOPE NOW network in order to meet the increased demand for services.
- Adopting a standardized servicer-counselor communication model to ensure that borrowers who contact the network get consistent, accurate and timely access to workout strategies regardless of who their lender or investor is.
- Finding a sustainable funding source to pay for both telephone and face-to-face default counseling.
- Encouraging the industry (both lenders and servicers) to adopt systematic protocols for identifying sustainable mortgage products for eligible borrowers.
- Agreeing on a standard set of metrics and reports to quantify both the extent of the default and foreclosure problem and the results achieved through the Alliance.

All of these actions are underway. Some can be implemented quickly, others will take several months. The 888-995-HOPE line is up and operating with 122 experienced counselors nationwide; another 50 are currently being trained and more are being recruited. Just this week, Secretaries Jackson and Paulson, endorsed the first major deliverable of HOPE NOW, a nationwide mailing of HOPE NOW letters to at-risk borrowers. The Alliance's technology group is completing development of a web-based loan work out tool that will provide a common decision platform for both servicers and counselors that will significantly streamline default resolution. This tool will be available for general use early in 2008.

Senior staff from both HUD and Treasury are participating in Alliance working groups and working behind the scenes to broaden participation to include all major lenders and a greater number of qualified housing counseling organizations. This is a multi-year project and we remain committed to ensuring that the HOPE NOW Alliance lives up to the promise of delivering significant and measurable results for families struggling to hold on to their piece of the American dream.

Thank you for your time this morning. I look forward to your questions.

TESTIMONY OF

SANDOR SAMUELS OF

COUNTRYWIDE FINANCIAL CORPORATION

Before the

HOUSE FINANCIAL SERVICES COMMITTEE

UNITED STATES HOUSE OF REPRESENTATIVES

November 2, 2007

Chairman Frank, Ranking Member Bachus, and Members of the House Financial Services Committee, my name is Sandy Samuels, Executive Managing Director of Countrywide Financial Corporation ("Countrywide"). Countrywide appreciates having this opportunity to update the committee on our efforts to prevent foreclosures and preserve homeownership for borrowers facing financial difficulties in today's housing and mortgage markets. Our company has been a consistent and longstanding leader in developing innovative approaches to what used to be called "loss mitigation." That history is reflected in a series of syndicated newspaper articles from the summer of 2000 that are attached as part of this testimony. Those early efforts have evolved into an entire "Home Retention" division dedicated to finding affordable, long-term solutions for families facing foreclosure. This perspective serves as a testament to the experience and commitment that Countrywide brings to bear in addressing the current issues facing borrowers and servicers.

Experience tells us that successful efforts to avoid foreclosure are the result of partnerships. One of the most essential partnerships is between the borrower and the servicer. You have heard the statistic from a Freddie Mac study that estimated that as many as 50% of borrowers that lose a home to foreclosure never responded to lender efforts to contact them. That statistic suggests that one of our most important objectives in addressing current market conditions is to reduce this "No Contact" percentage. Industry and government are working together – through home preservation summits around the country, individual lender/non profit partnerships, and through industry initiatives like the HOPE NOW alliance – to get the message out to "call your lender" or "call a non-profit counseling agency." We need to continue to work together to build the capacity in non-profit counseling agency ranks and to improve the interaction – the "handoff" – between the non-profit counselors and the servicers.

If we are successful, borrowers that call either their lender or a counseling agency will find that servicers today have more tools than ever before to assist borrowers experiencing hardships. We encourage our borrowers to call us the very first time they anticipate problems with sending in the mortgage payment and to provide us a good sense of their ongoing financial capabilities. With this type of information, we can work with the borrower and offer real solutions that are good for families in need, our communities, and the investors who supply the critically important liquidity to our mortgage market.

Countrywide's Comprehensive Home Preservation Efforts

Working to Reach Borrowers

Countrywide recognizes that it takes more than encouragement to forge a partnership with borrowers, particularly when times are tough for them. We recently announced a dramatic expansion of our foreclosure prevention efforts – a $16 billion home preservation program to assist as many as 82,000 Countrywide customers with affordable refinance and loan modification options. Countrywide will deploy dedicated teams to contact customers who are approaching or have had a rate reset to determine the customers' financial circumstances and inform them about refinance and other home preservation options. In essence, the program targets three categories of borrowers:

- For those currently in a subprime loan with a strong payment history, Countrywide will work to refinance them into prime or FHA loans. We have a strong record of successfully transitioning borrowers from subprime products to prime loans and estimate refinancing approximately $10 billion in mortgage loans through this part of the program.
- Countrywide also will identify and contact prime and subprime borrowers who are current in their payments but unable to qualify for a refinance (due to credit issues and/or declining property valuations), and may have difficulty affording an upcoming reset. With this new program, Countrywide will contact these borrowers at least 90 days before the reset to determine their financial circumstances and develop a long-term, affordable home retention plan. We anticipate modifying another $4 billion in loans through the end of 2008 through this part of the program.
- The third and final part of the home preservation program seeks to help subprime borrowers who are delinquent and experiencing financial difficulties as a result of a recent reset. It is anticipated that these borrowers would obtain modifications on loans totaling $2.2 billion by year-end.

It is important to note that this initiative does not operate in isolation. In fact, it is part of our ongoing efforts to identify and improve existing programs that assist our customers. The recent announcement represents a further extension of our robust home preservation program and investments in borrower outreach. These home retention outreach efforts create channels for the necessary dialogue between borrowers and servicers to occur and include:

- **Capacity:** Countrywide has expanded its capacity to contact and be contacted by borrowers. During 2007, we increased the number of employees in our Home Retention Division from 2,000 to 2,700 dedicated professionals focused on all aspects of homeownership preservation. As part of this effort, we deploy a team of specialists that not only operate within Countrywide, but also travel to our local financial centers around the country to meet personally with borrowers who need help. Looking forward, total operational spending in the home retention function is expected to grow by more than 45% between 2006 and 2008. This growth will provide additional capacity to meet anticipated challenges in 2008.
- **Communication:** We include helpful information in borrowers' monthly statements and repeatedly attempt to reach our borrowers by phone and by mail. In addition to the statutorily required 45-day ARM payment change notice, Countrywide provides notices 180-days and 90-days prior to the reset reminding borrowers of an upcoming rate and payment adjustment. The notice provides an estimate of the rate and payment changes, based on current interest rates, and encourages them to call Countrywide or a non-profit counseling

agency if they anticipate difficulty affording the payment increase. In addition, in September alone, our Home Retention Division:

- made almost 9 million call attempts to reach delinquent borrowers;
- had nearly one million phone conversations with borrowers about their payment difficulties; and
- mailed over 700,000 personal letters and cards to borrowers offering them the choice to contact Countrywide or a HUD-approved or nonprofit housing organization.

For those borrowers who are not responsive to our outreach by mail and phone, we try additional methods such as providing them with a DVD that they can view in the privacy of their own homes that explains possible repayment options. Countrywide also sends brochures (available in English and Spanish) entitled "Keeping the dream of homeownership: Solutions for the times when hardship makes it difficult to meet a monthly home loan payment" (attached). Those brochures include a toll-free number for borrowers (1-800-661-9917) to initiate contact with our HOPE specialists, as well as the toll free Homeownership Preservation Foundation number.

- **Outreach**: Countrywide also reaches borrowers by hosting homeownership preservation seminars in local communities. These seminars are designed to bring together lenders and housing counselors to inform our borrowers and the general public on the options available to avoid foreclosure. Countrywide has also hosted numerous "train-the-trainer" sessions around the country to help improve the ability of non-profit agencies to connect and communicate with loan servicers. We have held these borrower seminars and training sessions in cities across the country (a complete listing is attached), and we plan to expand these efforts in 2008.

- **Education**: Countrywide also can help borrowers preserve their homes and avoid foreclosure by helping them to become better informed. That is one reason why Countrywide launched its Home Ownership Mortgage Education (H.O.M.E.) web site at www.HomeByCountrywide.com . On this site, current and potential borrowers can obtain important information to enhance their financial literacy and capacity to make solid choices for themselves and their families.

Partnering with Others to Help Borrowers

Partnerships with nonprofit organizations are critically important to our efforts to assist borrowers facing foreclosure. Despite our best efforts to reach borrowers, Countrywide understands that third parties can be a key to making progress and avoiding foreclosures. Again, we have a foundation of working with such organizations and recently have built upon that platform by entering into a groundbreaking partnership with the Neighborhood Assistance Corporation of America ("NACA"). The NACA/Countrywide partnership leverages Countrywide's market leading home retention programs and NACA's unique model for counseling borrowers.

Just as we seek to have a comprehensive array of approaches and solutions for the variety of situations our borrowers present, NACA employs a comprehensive and methodical Home Save approach to counseling and budgeting that has produced immediate results for borrowers and their families. Homeowners will have a "waterfall" of options ranging from payment plans to modifications to restructurings. We also believe that this partnership can serve as a model for us and others as we seek to serve additional borrowers. A summary of the NACA agreement describing this unique fee-for-service arrangement, the counseling and budgeting program, and Home Save Solution options will be provided to the Committee under separate cover.

While our work with a nonprofit organization like NACA is new in terms of its broad scope, it also is consistent with other elements of Countrywide's home preservation "investment" strategy, such as:

- Countrywide is a founding sponsor of the Homeownership Preservation Foundation's ("HPF") HOPE initiative, a national foreclosure prevention counseling program that assists borrowers in all markets, every day with its 1-888-895-HOPE hotline. Borrowers are often bombarded with foreclosure rescue scams and other solicitations directing them to untrained counselors or untrustworthy organizations. The HOPE hotline provides borrowers with qualified and highly trained counselors whose sole mission is to help borrowers avoid foreclosure.
- We provide free access to counseling, including third party counseling from community organizations like Neighborhood Housing Service, ACORN Housing, and Consumer Credit Counseling Service. Countrywide is a sponsor and active member of the NeighborWorks Foreclosure Solutions Center. Across the country, Countrywide works with more than 40 different counseling organizations.

- Our efforts have included co-branding joint communication letters and advertisements encouraging the borrowers to contact either Countrywide directly or to work with a third party counselor who can assist them through the process. We augment this written outreach with local counselors who make 'face-to-face' contact with the borrowers, inviting them to work with us. To support the efforts of the many local counseling agencies around the country, we have established a dedicated contact system (via phone and email) that allows the counseling agencies working with our borrowers to quickly and directly contact Countrywide's Home Retention Division specialists and identify what we can do to assist our borrowers.

We also have joined with others in the industry to help borrowers avoid foreclosure. For example, Countrywide has joined HOPE NOW, an alliance of mortgage servicers, non-profit counseling agencies, investors and other mortgage market participants formed with the encouragement of the Department of Treasury and the Department of Housing and Urban Development. The first deliverable of that alliance is a major mailing initiative targeting hard-to-contact borrowers and encouraging them to call their lender or a non-profit counseling agency to seek assistance. Research shows that borrowers have a much higher response rate to a mailing from an "impartial" organization (like the HOPE NOW Alliance) than to one from their creditors. As efforts progress, HOPE NOW also will be a vehicle that will help to establish best practices and improve the processes by which borrowers, counselors, servicers, and investors complete the steps necessary to advance their shared interest in foreclosure avoidance. With a shared understanding of counselor, servicer and investor needs, standardized practices, and a rules-based approach, the industry will bring additional scale and efficiency to our homeownership preservation efforts.

Countrywide's Home Retention Track Record

Countrywide's investments and foreclosure prevention initiatives are producing results that help borrowers avoid foreclosure and preserve their homes. In addition to a refinance into new loan, there are four broad categories of home retention solutions:

- Repayment Plan: An agreement between the borrower and lender outlining how to handle missed payments. Generally, these agreements require higher payments than the regular amount for a short period of time until the loan is brought current.
- Special Forbearance: A specified period of time (usually 3 to 6 months) that allows borrowers to make either lower payments or no payments at all. It is usually the case that later payments will be higher than the original monthly home loan payment until the loan is brought current.
- Loan Modification: Changes to one or more of the key terms of a home that will bring a defaulted loan current. Modifications might include: reducing the interest rate of the loan and/or changing the loan product (for example from an adjustable rate to a fixed rate), reducing the principal balance, or extending the maturity.

In addition, there are foreclosure avoidance transactions that, unfortunately, result in the loss of a home:

- Short Sale: If the borrower is willing to sell the home in order to avoid foreclosure, it is possible that the sale can be approved even if the home is worth less than what is owed on it.

- Deed-in-Lieu of Foreclosure: This takes place when a borrower voluntarily gives the deed to the property to the lender.

Through the first nine months of 2007, Countrywide has refinanced more than 31,000 subprime borrowers into prime fixed rate loans. In addition, Countrywide has helped nearly 40,000 borrowers stay in their homes through loan modifications, repayment plans and other home retention solutions. This includes the completion of over 20,000 loan modifications. It is important to note that market conditions are driving more home retention solutions into the loan modification category. In September, 2007, loan modifications accounted for more than 60% of our completed workouts, compared to 28% of all workouts in 2006. With our recent initiatives to reach borrowers even earlier, and our partnerships with groups such as NACA, we expect the pace of workouts and the proportion of loan modifications to continue to grow. In short, borrowers are being helped with concrete, long-term solutions.

Countrywide believes that it is taking the right steps to reach the right borrowers at the right time. Countrywide has found ways to direct its resources effectively and efficiently toward those who are reasonably likely to have significant problems without help and will continue to look for more as circumstances warrant. As noted above, we have expanded our internal capabilities through hiring more Home Retention Division team specialists and are devoting more financial resources to our home retention efforts. To extend its reach and capacity to help at-risk borrowers, Countrywide supports longstanding partnerships with nonprofit, community-based organizations and is creating new ones.

By being proactive through its $16 billion home preservation program in proactively contacting designated categories of borrowers and being poised to respond efficiently to borrowers, whether they reach us through NACA, our direct outreach, or another partner or borrower representative, Countrywide is using targeted and transparent methods that enable it to appropriately scale its efforts to help borrowers and fulfill its servicing obligations. These methods allow us to develop more streamlined and effective ways to conduct the necessary individual case analyses and complete transactions. By the same token, Countrywide readily acknowledges that these are dynamic times and that additional initiatives may be needed on our part as events unfold.

Countrywide is taking comprehensive and concrete steps to help borrowers preserve their homes and to avoid foreclosure. We have increased our capacity internally and through relationships with others in the industry and in the nonprofit sector. Countrywide is taking steps on its own like the $16 billion home preservation program and in concert with others like our partnership with NACA and through HOPE NOW to make sure that help gets to those borrowers who can be helped. Countrywide has a history of working hard in this arena of foreclosure prevention and remains committed to finding effective ways to serve our borrowers and to meet our obligations as a lender and servicer.

CFC Sponsored Homeownership Retention Seminars

Memphis, TN
Columbus, OH
Nelsonville, OH
Cincinnati, OH
Toledo, OH
Cleveland, OH
Dallas, TX
DeSoto, TX
Plano, TX
New York, NY
Dover, DE
Seaford, DE
Atlanta, GA
Fresno, CA
Las Vegas, NV
Minneapolis, MN
St. Paul, MN
Los Angeles, CA
Oakland, CA
Cleveland, OH
Philadelphia, PA
Charlotte, NC
New Orleans, LA
Ventura, CA
Anaheim, CA
Phoenix, AZ
Vineland, NJ
East Orange, NJ

Countrywide's Default and Home Retention Statistics

September 30, 2007

Delinquency and Foreclosure Data

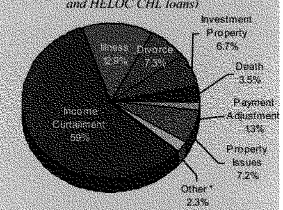
	Sep. 30, 2006	Sep. 30, 2007
Delinquencies as a percent of:		
Unpaid principal balance	4.04%	5.85%
Number of loans serviced	4.50%	5.87%
Foreclosures pending as a percentage of:		
Unpaid principal balance	0.51%	1.27%
Number of loans serviced	0.52%	0.92%

Credit Losses absorbed by Countrywide as of June 30, 2007 *(not including losses incurred by investors)*	$594 million
Operational Spending in Loss Mitigation Areas: *(2007 est.)*	$152 million

Reasons for Foreclosures

As of September 30, 2007

(Includes Conventional, Government, Subprime and HELOC CHL loans)



* *Other includes: incarceration, fraud, utility costs and military*

Workout Efforts

(home retention efforts year-to-date: 39,283 loans totaling $4.9 billion)

Ending September 30, 2007

	September Info Count	September Info %	Year-to-Date Count	Year-to-Date %
Loan Modifications	3,227	60.5%	20,490	45.23%
Long-term Repayment Plans	526	10.1%	9,102	20.09%
Special Forbearance	497	9.3%	3,430	7.57%
Partial Claims	142	2.7%	1,421	3.14%
Other Workout Efforts	631	4.5%	4,840	10.68%
Total Home Retention Efforts	**5,023**	**87.2%**	**39,283**	**86.7%**
Short Sales	605	11.3%	5,254	11.60%
Deeds-in-Lieu	81	1.5%	764	1.69%
Total Workouts	**5,709**	**100%**	**45,301**	**100%**

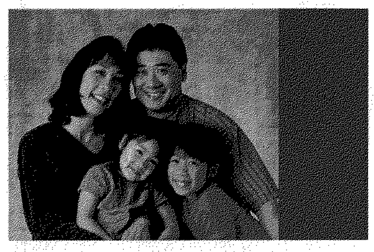
September Results

In the month of September alone, the home retention division has:

- had nearly one million direct collections and workout conversations with borrowers
- made 8.9 million attempts to reach delinquent borrowers
- mailed 724,000 personal letters and cards that offer borrowers the choice to contact Countrywide, a HUD-approved housing agency or non-profit housing organization
- approximately 63,000 borrowers in some stage of a workout program
- successfully closed 5,709 workout programs
- employed 2,700 home retention specialists

Quick Facts

- By the time 2/28 loans reset, 70% of borrowers have paid off the loan *(sold the property or refinanced)*
- Stated income loans account for only 1.6% of foreclosures
- More than 60% of the loans that enter foreclosure will not have suffered a completed foreclosure 12 months later.
- By the time that the foreclosure has occurred, 40% of the homeowners have left the property
- Countrywide works with more than 40 HUD-approved counseling agencies across the country
- During the entire the history of Countrywide's loan production activities, less than 1 percent of our total loan production resulted in completed foreclosures.
- Nearly half of the borrowers with loans that completed the foreclosure process in June 2007 paid less than 12 payments on their loans. Almost half of those made three payments or less.



IF YOU'RE HAVING DIFFICULTIES, HERE'S WHAT YOU CAN DO...

1. If you think you will have difficulty making your home loan payment, call us without delay at:

   <phone number>

2. Have your loan account information handy for easy reference as you speak with a workout specialist.

3. Talk openly with a workout specialist about your personal and financial circumstances. The specialist is eager to help. They are friendly and are committed to maintaining your confidentiality.

Our workout specialists have helped numerous borrowers a year remain in their homes, even though they may be 90 to 120 days behind on their home loan payments!

IF YOU ARE AT RISK OF LOSING YOUR HOME TO FORECLOSURE, BE CAREFUL TO AVOID SCAMS!

Many predators will seek to identify homeowners who are looking for a quick fix for financial distress and offer solutions that sound too good to be true. Take these steps to avoid being a victim.

DON'T:

- Sign any document you haven't read or any document that has blank spaces to be filled in after you sign.
- Let the promise of extra cash or lower monthly payments get in the way of your good judgment about whether the cost you will pay for the loan is really worth it.
- Deed your property to anyone without first consulting an attorney, a knowledgeable family member, or someone else you trust.
- Let anyone pressure you into signing any document of which you are uncomfortable or do not fully understand.
- Sell your home without talking to your lender. There may be solutions available that will allow you to keep your home.

DO:

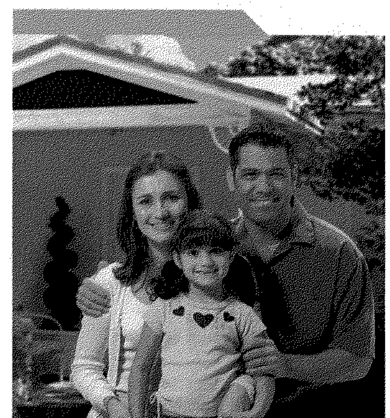
- Stay in contact with your lender or a HUD approved housing counseling agency. We want to work with you to find solutions.

Countrywide
HOME LOANS

Countrywide Financial Corporation is America's #1 home loan lender* and a member of the prestigious Standard & Poor's 500 and Fortune 500.

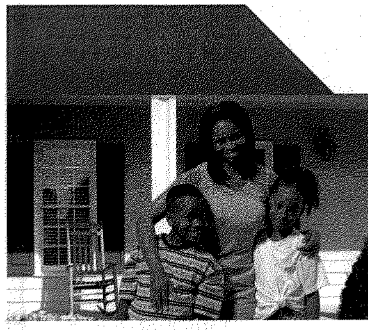
Nothing in this brochure should be construed as legal advice. You should not rely on the information in our brochure as legal advice. If you need additional information or assistance in interpreting the application of state or federal law to a specific transaction or circumstance, or definitive confirmation as to the current content and status of the law, you should consult an attorney.

Keeping the dream of homeownership



Solutions for the times when hardship makes it difficult to meet a monthly home loan payment

Countrywide
HOME LOANS



At Countrywide®, we take great pride in helping to put people in homes of their own. It's not only our business; it's our passion. And we also work hard at keeping hard working families in their homes should they experience difficulty making their payments.

Sometimes things occur beyond anyone's control that makes it difficult, if not impossible, for homeowners to meet their obligations. Let's face it, bad things happen, even to good people. Perhaps they're laid off at work. Maybe they experience a major illness. Perhaps there's a divorce, or maybe they are called upon to shoulder an unexpected burden resulting from a family tragedy.

The reasons people suffer financial setbacks are as varied as the people themselves. But whatever the cause, Countrywide is there to help them go on with their lives without losing the roofs over their heads. We believe it's never too late to help someone in distress. In some cases, we can give our borrowers an entirely fresh start. In other instances, we can arrange for interest-free financial aid.

UNDERSTANDING A FEW POSSIBLE LOAN WORKOUT OPTIONS

REPAYMENT PLAN

You may be eligible to enter into a formal repayment plan to reinstate the loan, either by suspending or reducing the payments until you recover from the financial setback, and then repaying the delinquency amount over a period of time.

LOAN MODIFICATION

This is a permanent change in one or more of the loan terms, with the delinquency capitalized, or added, to the principal balance. Methods include changing the loan's interest rate, extending the time available to repay, or re-amortizing the loan balance. This alternative is limited to certain loan types.

DEED IN LIEU OF FORECLOSURE

If it becomes evident that you will be unable to dig out from under financial woes and your property is free from other liens or encumbrances, you may be eligible to deed your property directly to the Noteholder and avoid the foreclosure sale. Though this option results in losing the house, it is usually preferable to foreclosure because it costs less and is less damaging to your ability to obtain credit in the future.

SALE OF YOUR PROPERTY

If you are willing to sell your home in order to avoid foreclosure, it is possible that the sale of your property can be approved even if your home is worth less than what is owed on it. Also known as a short payoff, this workout option is sometimes available when property values have declined since you took out the mortgage.

A LOAN WORKOUT PROGRAM CAN BE A GREAT SOLUTION!

BENEFITS COULD INCLUDE:

- Remaining in your home
- Settling the debt for less than the full amount owed on the home loan
- Avoiding a foreclosure on your credit history
- Avoiding a potential deficiency judgment and associated legal costs

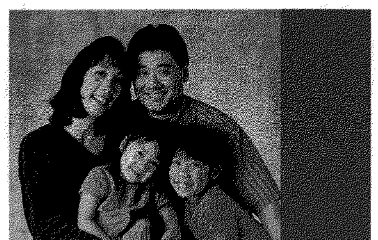
SPECIAL WORKOUT PROGRAMS

- **Active Duty Military Personnel** may qualify for loan workout options such as a reduced home loan interest rate or a suspension of monthly payments while on active duty. These programs are granted by the Service Members Civil Relief Act
- **Recasts** are for homeowners who can make a lump sum payment. The money is applied to the principal balance of the loan, lowering the balance and reducing the monthly mortgage payment.
- **Advances or Partial Claims.** If a borrower is less than 12 months behind on a government-insured loan, the loan may be reinstated with funds advanced by Countrywide, and a claim is filed with the insurer. In return, the borrower promises to pay back the advance—but without interest.

If you've had a hardship and are worried about making your monthly loan payments, contact Countrywide's Homeownership Preservation Team today, at:

<phone number>

Our helpful, friendly teams of specialists are eager to help. We keep everything confidential and we want to find the best solution for your circumstances.



SI TIENE DIFICULTADES, ESTO ES LO QUE PUEDE HACER...

1. Si considera que tendrá dificultades para pagar su préstamo hipotecario, llámenos sin demoras a nuestro número gratuito.

   <phone number>

2. Tenga a mano la información de la cuenta de su préstamo por cualquier referencia mientras habla con un especialista en reestructuraciones.

3. Hable con franqueza con el especialista en reestructuraciones sobre sus circunstancias personales y financieras; está listo por ayudarlo. Son amigables y han asumido el compromiso de resguardar su confidencialidad.

Nuestros especialistas en reestructuraciones han ayudado a conservar el hogar a numerosas personas cada año, incluso cuando han tenido retrasos de 90 a 120 días en los pagos de sus préstamos hipotecarios.

SI USTED ESTÁ EN RIESGO DE PERDER SU CASA POR UNA EJECUCIÓN HIPOTECARIA, ¡TENGA CUIDADO CON LOS FRAUDES!

Existen depredadores que identifican a propietarios buscando una solución rápida a problemas financieros y ofrecen soluciones que aparentan ser mejores de lo que son. Tome estos pasos para evitar ser una victima.

NO:

- Firme ningún documento que no haya leído o que contiene espacios en blanco para llenar después de firmar.
- Permita que la promesa de dinero en efectivo adicional o pagos mensuales mas bajos se interpongan en su buen juicio sobre si el costo que pagará por el préstamo realmente vale la pena.
- Ceda su propiedad a nadie sin primero consultar a un abogado, un familiar informado, u otra persona de confianza.
- Permita ser presionado a firmar ningún documento con el cual se siente incomodo o el cual no entiende completamente.
- Venda su casa sin hablar con su prestamista. Puedan haber soluciones disponibles que le permitirán conservar su hogar.

SI:

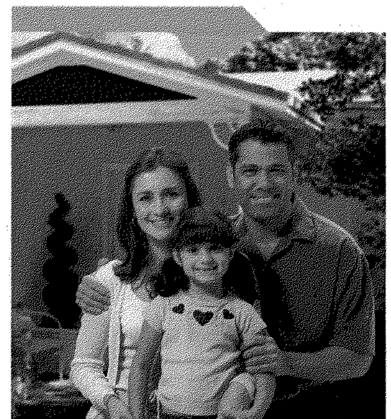
- Mantenga contacto con su prestamista o agencia de consejería sobre viviendas aprobadas por HUD. Queremos colaborar con usted para crear soluciones.

Countrywide®
HOME LOANS

Countrywide Financial Corporation es líder a nivel nacional en financiamiento de vivienda* y uno de los miembros de los prestigiosos Standard & Poor's 500 y de Fortune 500.

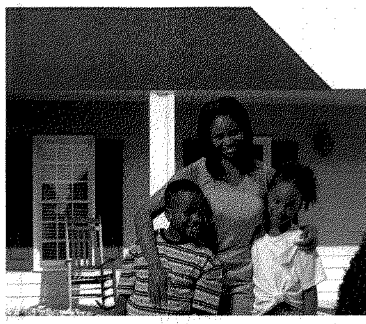
Nada en este folleto debe ser interpretado como asesoría legal. Usted no debe depender de la información en este folleto como asesoría legal. Si necesita información o asistencia adicional al interpretar la aplicación de la ley estatal o federal a una transacción o circunstancia específica o si necesita una confirmación definitiva respecto al contenido actual y estado de la ley, usted debería consultar a un abogado.

Para mantener el sueño de ser propietario



Soluciones para los tiempos en que las penurias dificultan cumplir con los pagos mensuales de su hipoteca

Countrywide®
HOME LOANS



En Countrywide® nos enorgullece de ayudar a que la gente se instale en su propia casa. No solo es nuestro negocio; es nuestra pasión. Y también nos esforzamos para que las familias conserven sus hogares si tienen dificultades para cumplir con sus pagos.

A veces ocurren cosas que exceden nuestro control, y que hacen cumplir con nuestras obligaciones de propietrados difícil, cuando no imposible. No lo neguemos, las desgracias ocurren, incluso a las buenas personas. Quizás quedan sin su trabajo o tal vez sufren una enfermedad grave. Puede que haya un divorcio o que deban asumir una carga inesperada por una tragedia familiar.

Las razones por las cuales las personas sufren inconvenientes financieros son tan variadas como ellas mismas. Pero sea cual fuere la causa, Countrywide está allí para ayudarlas a seguir con sus vidas sin perder su casa. Creemos que nunca es demasiado tarde para ayudar a quien lo necesita. En ciertos casos, es posible hacer que nuestros deudores comiencen totalmente de nuevo; en otros, podemos arreglar una ayuda financiera sin intereses.

COMPRENSIÓN DE ALGUNAS OPCIONES POSIBLES PARA LA REESTRUCTURACIÓN DE PRÉSTAMOS HIPOTECARIOS

PLAN DE PAGO

Usted puede ser elegible para un plan formal de pago que restablezca el préstamo, ya sea mediante la suspensión o la reducción de los pagos, hasta que se recupere de su situación particular financiera, y luego se retoma el pago del importe en mora durante un plazo.

MODIFICACIÓN DEL PRÉSTAMO

Se produce una modificación permanente en una o más de las cláusulas del préstamo, donde la mora se capitaliza, o añade, al saldo restante. Los métodos incluyen la modificación de la tasa de interés del préstamo, prolongando el tiempo disponible para cubrir los pagos, o la re-amortización del saldo del préstamo. Esta alternativa está limitada a ciertos tipos de préstamos.

RENUNCIA DE ESCRITURA EN LUGAR DEL EMBARGO O EJECUCIÓN DE BIENES HIPOTEACADOS

Si se hace evidente que usted no podrá salir de sus problemas financieros, y su propiedad está libre de otros gravámenes u obligaciones, puede ser elegible para escriturar su propiedad directamente al acreedor y evitar la venta por ejecución de hipoteca. Si bien el resultado de esta opción es la pérdida de la casa, generalmente es preferible a la ejecución, porque cuesta menos y es menos dañino para su futura capacidad de obtener crédito.

VENTA DE SU PROPIEDAD

Si desea vender su casa para evitar la ejecución hipotecaria, es posible que la venta pueda ser aprobada incluso si su propiedad vale menos de lo que debe por ella. Conocida también como "liquidación corta" o previa a la ejecución, esta opción de reestructuración a veces está disponible cuando los valores de las propiedades han caído desde la fecha en que obtuvo la hipoteca.

UN PROGRAMA DE REESTRUCTURACIÓN DE PRÉSTAMOS PUEDE SER UNA GRAN SOLUCIÓN

LOS BENEFICIOS PUEDEN INCLUIR:

- Permanecer en su casa
- Cancelar la deuda por menos de la candidad original del préstamo hipotecario
- Evitar una ejecución hipotecaria en su historial de crédito
- Evitar un decreto de una corte en que lo obligue a asumir la diferencia entre la venta y el saldo restante del préstamo, y los costos legales asociados

PROGRAMAS ESPECIALES DE REESTRUCTURACIÓN

- **El personal militar en servicio activo** puede calificar para las opciones de reestructuración de préstamos tales como una reducción en la tasa de interés del préstamo, o la suspensión de los pagos mensuales mientras se encuentre en servicio activo. Estos programas están subsidiados por la Ley de Ayuda Civil a los Miembros de las Fuerzas Armadas
- Las **reformulaciones** son para los propietarios que pueden hacer un pago ballon . El dinero se aplica al saldo restante del préstamo, lo que disminuye el saldo y reduce el pago mensual de la hipoteca.
- **Anticipos o reclamos parciales.** Si un deudor está atrasado menos de 12 meses en un préstamo con seguro del gobierno, el préstamo puede ser restablecido con fondos adelantados por Countrywide, y luego se presenta un reclamo al asegurador. Como contraprestación, el deudor se compromete a devolver el anticipo, pero sin interés.

Si ha tenido alguna dificultad, y le preocupa su capacidad para hacer sus pagos mensuales, comuníquese hoy mismo con el Countrywide's Homeownership Preservation Team:

<phone number>

Nuestros cordiales equipos de especialistas desean y pueden ayudarlo. Mantenemos toda la gestión con carácter confidencial, y deseamos encontrar la mejor solución para sus circunstancias.

Chicago Tribune

Sunday, July 30, 20

Illustration by Sylvie Bourbonniere

Saving grace

By Lew Sichelman
Special to the Tribune

Mortgage lenders are often willing to work things out for homeowners who fall on difficult times

Marcella White is nervous. She's going to see her lender. Not to buy a house. To save it.

An accounting specialist for a major Chicago-based insurance company, White is eight months behind on the mortgage payments for her Richton Park home. But she's getting a second chance, thanks to the efforts of Countrywide Home Loans, and she's thankful.

"I wish I had done this from the beginning," White says after her visit with Cindy Moore, a Countrywide Home Loans loss mitigation specialist dispatched from the regional office in Dallas to meet with about three dozen Chicago area residents who are in the same predicament.

"Bad things happen to good people," explains Moore's boss, Paula Edwards, who also traveled here from Texas several weeks ago to meet with delinquent borrowers, some of whom are only days away from losing their houses at a foreclosure sale on the courthouse steps.

Usually it's a divorce, a lost job or a major illness that causes people to miss their house payments. But there are all kinds of scenarios.

"We hear it all," says Edwards. "Everything from catastrophe to stupidity to bad judgment. We see people who would rather drive $800-a-month cars for status than make their house payments.

"We have people who keep coming back every three or four months. We get them current and they do the same thing again."

See Grace, Page 50

Grace

CONTINUED FROM PAGE 1

But the cases "that really stick out" in Edwards' mind "are the tragedies."

Like the legally blind woman whose husband killed himself. Or the woman who had to wait a year for the government to pay her late husband's death benefit.

"They pull at your heart," says the veteran financial workout specialist. "They cry and you cry."

Marcella White's case is typical. The 31-year-old single mother was planning to marry the man with whom she was living. But he broke off the engagement and moved out of the house she bought almost two years ago, leaving her with all the expenses the two had been splitting down the middle.

She believes she could have managed without him.

"I could have done it," she says as she anxiously clicks her pen. But then she laid out some money for a family reunion. And when she didn't get it back, she found herself in a hole too deep for her to dig out by herself.

But Moore is able to rework White's mortgage. And when she's finished explaining the details, she tells the fidgety women in her soft Texan drawl: "As far as we're concerned, you are totally current. You are starting fresh again."

White isn't alone. Last year, Countrywide, the nation's largest independent mortgage company and also one of the largest loan servicers, was able to give 4,000 troubled homeowners a chance to start over with a clean slate. And other lenders do the same.

For example, "homeowner assistance" specialists at PNC Mortgage, the Vernon Hills-based lender, helped more than 2,000 families keep their houses in 1999.

Actually, most companies that administer mortgages on behalf of the investors who actually own the loans work feverishly to help people. It may be humanitarian, and it helps people who are in a pinch, but it also is also good business.

For one thing, they lose money when they have to take back a house. Even after a servicer sells a foreclosure to someone else and collects on all the guarantees and insurance in place to protect against defaults, the loss averages about $2,500 per house, according to industry figures.

Then there are the fees investors pay to have their loans managed. If there are no payments, there are no fees. And lenders earn more income on servicing loans than they do in originating them.

Worse, investors don't like to use servicers who can't get the job

"We want to show investors we can take care of their loans," says Countrywide's Edwards.

But, perhaps most important is the bad rap lenders receive when they have no choice but to foreclose.

"It's like everything else," says Edwards, who spent 15 years in the retail sector before joining the huge lender based in Calabassas, Calif. "Even though it's probably (the owner's) fault, foreclosure leaves a bitter taste, and when they talk to their friends, they say, 'Don't go to Countrywide, they'll foreclose on you.' "

Of the 300 seriously delinquent Chicago-area homeowners who were targeted as potential candidates for relief, only 38 responded to Countrywide's offer. And that's better than average.

"Ten percent is good," according to Edwards.

Some people are "afraid to make contact because they think it brings them one step closer to the end," she explains.

Others are "in denial. They think they'll be able to get the money together, so they keep putting it off and putting it off."

Sometimes they're embarrassed, and some are even angry. But no matter what the reason, repeated letters and phone calls are ignored, and one missed payment turns into two, and then two turn into three. Then, your loan is turned over to a foreclosure attorney and the legal process that eventually takes you house away is begun. There is no other choice.

That's exactly what happened to Marcella White: "They sent me letters and called, but I didn't listen. I keep thinking, 'It's the same old thing.' But then things started to accumulate and accumulate. And on top of that, I wasn't budgeting like I should. I'm not going to blame anybody but myself."

Michael Keller of Elgin wishes he had made contact with his lender sooner, too. Reeling from a divorce and other personal problems, Keller was 11 months behind when Countrywide finally reached him.

"I wish I had come forward earlier," says Keller. "If I had, I probably wouldn't have had to go through any of this."

Actually, lenders say it's never too early to contact them—even if you sense trouble may be on the horizon.

"If you know you're going to have heart surgery, we can suspend your payments until you recover," says Edwards. "But we can't do anything if we don't know. I've helped doctors, lawyers and judges. But we can't help anyone if they don't call."

It's never too late, either. The home of one of the families the

Countrywide team was able to help on its most recent Chicago visit was scheduled to be auctioned in less than 48 hours. And 85 percent of the people the team members assist around the country are already in the foreclosure process.

Lenders don't charge to help their customers get back on their feet. But if a borrower doesn't respond soon enough, his loan is turned over to a foreclosure attorney. And once that happens, the lender can't accept any money from you—even if you want to pay what you owe in full.

Lynn and Paul Aldape found that out the hard way. Staggered by one financial setback after another, the couple maxed out their American Express card, Paul lost his night differential at work, they had to lay out a $500 deductible after an auto accident, their 8-year-old daughter had eye surgery and Paul had knee surgery a month later. They quickly found themselves five months behind on their Chicago two-flat.

"Once you get behind, it hard to play catch-up," says Paul ruefully. Still, the couple managed to scrape together $3,000, which they sent off to Countrywide. But the foreclosure process had already been started, so the check was returned uncashed.

They were trying to figure out what to do next when Edwards' team called to see if the couple would be interested in a face-to-face meeting to help them save their home.

Lynn, who remembers shrieking, "Oh my God. Now what are we going to do?" when their check was sent back, jumped at the chance.

"I didn't hesitate," she says. "We're thankful they called, and we're glad to have the opportunity."

So what can lenders do for delinquent borrowers?

Plenty, but only if you have some money coming in and you sincerely want to keep your home. Deadbeats need not apply.

That said, here are some of the options that are available if you are in financial trouble. To determine which alternative is most appropriate, not only for the borrower but also the investor, lenders determine the true reason for your default and whether it is temporary or permanent:

■ Forbearance: Under this procedure, the lender will enter into a formal repayment plan with the borrower to reinstate the loan, either by suspending or reducing the payments for up to 24 months until he can recover from his setback.

In most cases, you will be asked to begin making your regular monthly payments plus an additional amount each month until you make up what you owe. But in some cases, borrowers are permitted to make reduced monthly payments until they can get back on their feet. Or they can make full monthly payments but delay repaying the arrearage, or make gradually increasing payments.

■ Modification: This is a permanent change in one or more of the borrower's loan terms to get the payment down to an affordable amount. It is intended to help people who have suffered a financial hardship and no longer have sufficient income to sustain the original loan and make up what they owe.

The lender can lower the interest rate to make the payments more affordable, extend the time available to repay or re-amortize the balance. To make it easier to make up the missing payments, the delinquent principal, interest and escrow amount can be recapitalized into the loan amount.

■ An advance: If you are less than 12 months behind on a government-insured loan, the lender can reinstate your loan by advancing funds to the investor on your behalf. In return, you must sign a note promising to pay back the allowance—without interest.

Normally, this tool is not available if the lender has already started the foreclosure process. But the lender can cancel foreclosure if your financial situation has improved enough to restart your loan. It also can be used in conjunction with a special forbearance plan.

■ Deed in lieu of foreclosure: If it is evident you are unable to dig out from under the weight of your financial woes, the lender can allow you to voluntarily deed the property back to the investor (or government) in exchange for a release from all your obligations under the mortgage.

Though this disposition option results in losing your house, it is usually preferable to foreclosure because it mitigates the cost, stigma and emotional trauma that goes along with foreclosure.

In some cases, the Federal Housing Administration will even pay the borrower a $500 to $1,000 stipend to execute a deed in lieu of foreclosure.

■ Short sale: Also known as a short payoff, this workout option is sometimes available when property values have declined since the borrower took out the mortgage. It allows you to sell for less than the full amount you owe.

■ VA refunding: The Department of Veterans Affairs has the authority to buy loans in default from investors and take over the servicing. But it is an option on the government's part, and not every borrower qualifies. However, the VA's rules are said to be more lenient than the FHA's or those of private investors.

U.S. TREASURY DEPARTMENT OFFICE OF PUBLIC AFFAIRS

EMBARGOED UNTIL 10 a.m. (EDT), November 2, 2007
CONTACT Jennifer Zuccarelli, (202) 622-8657

UNDER SECRETARY FOR DOMESTIC FINANCE ROBERT K. STEEL TESTIMONY BEFORE THE HOUSE COMMITTEE ON FINANCIAL SERVICES

WASHINGTON- Chairman Frank, Ranking Member Bachus, Members of the Committee, good morning. I very much appreciate the opportunity to appear before you today to present the Treasury Department's perspective on efforts to coordinate and enhance foreclosure prevention.

Let me begin by broadly examining the characteristics of foreclosures, in both good times and bad, to provide a better perspective on how to approach this issue, and then provide an update on the various actions we have taken to address the current situation.

As you know, we are experiencing a period of adjustment in the credit and mortgage markets. Fortunately, this market stress is occurring against a backdrop of healthy U.S. fundamentals and a strong global economy. Yet, the Administration recognizes the importance of housing to our economy, and as Secretary Paulson has said, the housing decline is the most significant current risk to our economy. In addition to the housing decline having a penalty on economic growth, a significant number of homeowners will experience strain due to resetting mortgage rates and home price depreciation.

The issues of foreclosure are complex and nuanced. In truth, thousands of homes end up in foreclosure every year, even when housing markets are strong. Between 2001 and 2005, for example, the U.S. rate of foreclosure starts averaged approximately 1.7 percent, meaning more than 650,000 homeowners began the foreclosure process each year. This baseline rate of foreclosure can result from events such as job loss, credit problems, a change in family circumstances, or other sources of economic instability. These foreclosures, although unfortunate, are largely unavoidable.

Over the course of the next 18 months, we expect the foreclosure rate to remain elevated above its historic level. A rising foreclosure rate during a housing downturn is not surprising, but largely because of lax underwriting in recent years, especially in the subprime market, a higher than usual number of homeowners will face delinquency during the next year and a half.

In total, over 2 million subprime mortgages are expected to reset in the next 18 months, but not all will end in foreclosure. Some homeowners will be able to afford their new payments without trouble and many others will qualify for refinanced, fixed-rate mortgages on their own. Others, however, have stretched too far beyond their means, and unfortunately, foreclosure is inevitable; in fact, many loans enter into foreclosure before ever reaching the reset date. A third group of homeowners facing resets fall somewhere in the middle. The challenge is for lenders to identify the homeowners in this middle group, who with a bit of assistance can stay in their homes.

On August 31st, President Bush announced an aggressive, comprehensive plan to help as many homeowners as possible stay in their primary residences. The President charged Secretary Jackson and Secretary Paulson to lead this effort and the focus of our hearing today is to discuss one part of this plan.

Whenever facing a challenging public policy issue, the first step is full understanding. We are appreciative of the interest Chairman Frank and this Committee have taken in understanding these current challenges. Hearings, such as this one, have contributed to our process of learning. The Department of Housing and Urban Development (HUD) and the Treasury Department have also been working closely with leading servicers, mortgage counselors, lenders, and investors to understand the causes of foreclosures and the best ways to help people keep their homes. We are continuing to learn but have reached two early conclusions:

- First, it is clear to everyone that the earlier we identify struggling borrowers, the more likely it is that servicers and lenders will be able to refinance or modify mortgages into something more sustainable for the long term. If we wait until borrowers miss several payments, their credit profiles will be tarnished and they will have far fewer refinancing options.

- Second, once identified the method and technique of contacting borrowers are quite important. When contacted by lenders, many borrowers mistakenly believe that the lenders' goal is to repossess their homes through foreclosure. Foreclosure is tough on families and bad for communities, but also very costly for lenders. In almost all cases lenders would rather find a way to help homeowners stay in their homes than foreclose. Yet according to most of the servicers and counselors with whom we have spoken, 50 percent of those who lose their homes to foreclosure never contacted their mortgage servicers or mortgage counselors for help. Frequently, borrowers are fearful of foreclosure and not aware that their lenders would prefer to work out a solution – such as a lowered interest rate or a payment plan.

From our review, it became clear to us that while many market participants are working hard on their own trying to reach and help homeowners, they are not having as much success as they or we would like. In addition, the mortgage market today has developed into a system based on securitization. Securization has brought many benefits but also leads to greater complexity in finding solutions for homeowners. The breadth of disaggregation in the mortgage market presents a practical problem that does not lend itself to easy solutions.

Hope Now Alliance

Many of the servicers, lenders, investors and counselors with whom we have met realized that if they coordinated their efforts behind a unified strategy, they would be more effective in reaching and helping homeowners. The Treasury Department and HUD facilitated discussions and encouraged them to work together. On October 10th, they announced the formation of a non-partisan initiative called the Hope Now Alliance. To date, the Hope Now Alliance consists of four counseling organizations, seventeen mortgage servicers and lenders (comprising 60 percent of the U.S. market for mortgage servicing), three investor groups (including the American Securitization Forum, which represents over 370 members), and ten trade associations. We applaud these industry leaders for coming together.

Since their launch a few weeks ago, the Alliance has been meeting regularly and working hard to develop and implement an aggressive plan to help homeowners. Let me describe the details of their strategy and why we believe such elements are critically important.

Communication
Earlier this week, the Alliance announced a new, national direct mail campaign to contact at-risk borrowers, encouraging them to call for help. Servicers have been mailing letters to their at-risk customers but have had limited success. The role of counselors is crucial to helping challenged

homeowners, and no where is that more apparent than in communication. We have heard anecdotally that servicers achieve only a modest success rate with their letters, because borrowers in trouble do not want to hear from their lenders. In contrast, independent counselors have reported a significantly higher 25 to 30 percent success rate when sending similar letters to borrowers. The Alliance expects this new letter campaign, which will come from the Hope Now Alliance itself, rather than from servicers, to increase their effectiveness in reaching at-risk borrowers. This is going to be an on-going campaign that servicers will tailor and adjust as they learn from the response. The more attention we can bring to this unified campaign, the more likely it is that borrowers will pay attention to this important information and call for help. The Alliance will begin mailing these letters on November 19th, and will send over 200,000 letters by the end of this month.

Let me take a minute to emphasize the importance of these letters and to ask for your help. When you are home in your districts over the weekend or for the holidays, please tell your constituents about this mail campaign. Tell them it is OK to contact Hope Now for assistance. This organization is ready to lend a hand, but we need your help in making their message known.

Process
The Alliance is also working hard to develop strong working relationships between servicers and counselors. Some servicers already have dedicated teams and contacts for counselors to call. Other servicers do not have dedicated resources to work with counselors, and, as a result, counselors can spend hours trying to find the right person to contact. We have learned that some counselors are more effective than others at efficiently working with borrowers to collect the required information and pass that on to servicers. Servicers and counselors who joined the Alliance have agreed to adopt a standard process model that will strengthen and speed work flow, productivity, and communications between them. Improving the way servicers and counselors work together will make them all more effective at helping homeowners once they have been contacted.

Counseling
The Alliance is working to expand the capacity of an existing national counseling network to receive, assess, counsel, refer and connect borrowers to servicers. Most borrowers feel more comfortable speaking with independent, not-for-profit counselors than with their lenders. While there are already many conscientious HUD-certified mortgage counselors, their efforts could be enhanced through a uniform message. Similarly, servicers want to be able to point their borrowers to quality counselors who have adopted best practices, and this national network will serve that function. They are working to ramp up capacity now, but it will take some time before it is fully operational.

Investors
The American Securitization Forum (ASF), which represents securitization issuers, investors, and other secondary market participants, has joined the Alliance and announced that counseling fees can be reimbursed from securitization transactions in appropriate circumstances. This is extremely important. Historically, counseling was funded by the government and independent foundations. Now the securitization issuers and investor community have recognized the important role counseling plays in avoiding foreclosure and is willing to fund quality counseling. Having ASF as an active member of this Alliance is important because it can help manage the complexity resulting from the securitization model by making sure investors are doing their part.

Metrics
Today, the industry does not have a thorough, standardized set of metrics with which to evaluate servicers' loss-mitigation performance or to evaluate counselors' effectiveness. The Alliance is developing standard measures which policymakers, homeowners and investors need in order to monitor performance. These performance measurements could include data, such as the number of loans in default, outcomes for these loans, and success rates for modifications and refinances. Developing these

metrics will allow us to identify categories of borrowers who can be helped, determine successful treatments, and measure the rate of successful outcomes.

Technology
The servicers have agreed to work toward cross-industry technology solutions to more effectively connect servicers and counselors together in order to better serve the homeowner. Some major servicers use sophisticated software to analyze borrower situations and determine if work-outs or modifications are appropriate. The Alliance is taking this software and making it web-enabled so other servicers and counselors can access it. This should speed the loan modification process: if a counselor can access this software tool, enter the data from the borrower, and pass that along to the servicer in an automated system, then the servicer will have more confidence in the data and the recommended solution and can approve modifications in a more expeditious manner. This element will likely take the most time, but the Alliance is working closely with a major information technology services firm to develop and launch the tool.

Looking forward
The efforts of this private sector alliance alone will not prevent all foreclosures. But it is a good start and a critical first step. As we work with them, we will all learn and improve the means of reaching and helping homeowners to prevent foreclosures.

By better identifying those borrowers in need, we hope to see more loan modifications and refinancing. For many families, this will be the only viable solution. Given today's situation, the current process requires a more committed approach.

Just as the lenders, servicers and counselors have come together to develop metrics and standards that will measure the most effective ways to make counseling accessible to troubled borrowers, we have also encouraged them to come together in a similar way to develop an efficient methodology for offering suitable mortgage solutions such as loan modifications, refinancings, or other flexibility as appropriate.

We are optimistic about the effectiveness of our current initiatives. Yet given the size, nature and implications of current challenges for homeowners, we should continue to work to find additional solutions without compromising our shared ambition to not bail out lenders or speculators or those who committed fraud.

Other complementary efforts have already been initiated. For example, we applaud the guidance that the federal regulators have given to banks which hold mortgages on their balance sheets to be more flexible in seeking economic solutions in modifying existing mortgages for distressed homeowners. The same is true with respect to the guidance that regulators issued to servicers where the record of loan modification has proven to be more difficult and disappointing for many of the reasons identified above in addition to the challenges associated with securitization.

We should focus on results and not on prescribing a single approach. Preserving homeownership is the goal, and we must recognize that many different avenues can get us there.

Borrowers, too, have responsibility. Mortgage providers must offer clear, transparent and understandable information on the mortgage products they sell. And homebuyers have a responsibility to use that information and understand their mortgages. Buying a home today is a complex process, but that in no way excuses homebuyers from their obligation for due diligence.

Policy Initiatives

The Administration has requested that Congress also do their part by focusing on three initiatives. First, Congress should pass Federal Housing Administration (FHA) modernization to make affordable FHA loans more widely available. Second, to facilitate mortgage workouts, the President has asked Congress to temporarily eliminate taxes on mortgage debt forgiven on a primary residence. And third, Congress should enact comprehensive government sponsored enterprise (GSE) reform.

FHA modernization is moving through Congress, and we are hopeful that it will reach the President's desk soon. The tax relief proposal has cleared the House of Representatives and is awaiting further action in the Senate. In large part due to this Committee's hard work, GSE reform has cleared the House of Representatives, and now awaits action in the Senate. Congress should enact these bills as quickly as possible.

Conclusion

Mr. Chairman, in conclusion, let me thank you for holding this hearing. Under the President's leadership, the Administration is working diligently to help mitigate the impact of rising foreclosures on homeowners and the economy. We appreciate having the opportunity to present the Treasury Department's perspectives on these important issues and pledge to keep you apprised of the progress with Hope Now and our other initiatives and programs. Thank you and I look forward to your questions.

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Statement of

Kenneth D. Wade
Chief Executive Officer
Neighborhood Reinvestment Corporation
(now *doing business as* NeighborWorks® America)

Before the

U.S. House of Representatives
Committee on Financial Services

Hearing on
Progress in Administration and Other Efforts to Coordinate and Enhance Mortgage Foreclosure Prevention

Friday, November 2, 2007, 10:00 A.M.
2128 Rayburn House Office Building

Chairman Frank, Ranking Member Bachus and Members of the Committee, my name is Ken Wade, CEO of NeighborWorks America, and I appreciate the opportunity to come before you again to talk about the efforts we and our partners are making to help stem the tide of foreclosures.

Background on NeighborWorks America:
By way of background, NeighborWorks America was established by Congress in 1978 as the Neighborhood Reinvestment Corporation. The Corporation receives federal appropriated funding out of the Transportation-HUD and Related Agencies Appropriations Subcommittee. For fiscal year 2008, the Corporation requested $119.8 million and both chambers of Congress have approved this amount. The corporation's Board of Directors is made up of the heads of the federal financial regulatory agencies (the Federal Reserve; the Federal Deposit Insurance Corporation; The Comptroller of the Currency; the Office of Thrift Supervision; the National Credit Union Administration) and the Secretary of HUD.

The primary mission of NeighborWorks America is to expand affordable housing opportunities (rental and homeownership) and to strengthen distressed urban, suburban and rural communities across America, working through a national network of local community-based organizations, known collectively as the NeighborWorks network.

The NeighborWorks Network:
The NeighborWorks network includes about 240 nonprofit organizations, serving more than 4,450 communities across the United States -- in 50 states, the District of Columbia and the Commonwealth of Puerto Rico. NeighborWorks organizations operate in our nation's largest cities and in some of its smallest rural communities.

Accomplishments:
Local NeighborWorks organizations provide a wide variety of services that reflect the needs of their neighborhoods and communities, and over the years, with the generous support of Congress through a direct federal appropriation, NeighborWorks has:

- Provided homeownership counseling to more than 500,000 families; and
- Assisted nearly 150,000 families of modest means to become homeowners.

NeighborWorks organizations also own and manage more than 65,000 units of affordable rental housing.

In FY 2007 alone, the NeighborWorks network generated about $4 billion in direct reinvestment in distressed communities across the nation.

Today, however, I'm here to speak about our response to the precipitous rise in foreclosures.

NeighborWorks America's Experience in Serving Non-Conventional Borrowers:
NeighborWorks America has a 30-year history of facilitating lending to non-conventional borrowers – including lower income families, borrowers with impaired credit and others who would not normally qualify for a conventional mortgage.

By providing quality pre-purchase homeownership counseling, financial fitness training and working with borrowers to improve their credit rating; improve their budgeting; and commit to a savings plan (including Individual Development Accounts and other vehicles), local NeighborWorks organizations are able to prepare foreclosure-resistant borrowers who qualify for reasonably priced traditional mortgage loans and achieve <u>sustainable</u> homeownership.

From our experience, we know that the best defense against mortgage delinquency and foreclosure is objective education and counseling before the borrower begins shopping for a home and selecting a mortgage product – or refinancing their home. And the best home buyer counseling is provided through objective, well-trained non-profit agencies (including local NeighborWorks organizations and other HUD-approved housing counseling agencies) that put the consumers' and the communities' interest first. We also know that homeowners' odds of success are increased even further when they have access to post-purchase counseling and homeowner education.

NeighborWorks Loan Performance:
NeighborWorks America has been closely tracking the loan performance of the many low-income families assisted by NeighborWorks organizations over the years.

These loans continue to perform significantly better than subprime loans. We have not seen any significant up-tick in defaults or foreclosures among NeighborWorks-assisted families.

In fact, a comparison of the loan performance of a sample of borrowers counseled by NeighborWorks organizations (in the first quarter of 2007) indicates that their loans are:

- 10 times less likely to go into foreclosure than subprime borrowers;
- Nearly 4 times less likely to go into foreclosure than FHA borrowers; and
- Slightly less likely to go into foreclosure than Prime borrowers.

Another example of the quality of NeighborWorks homeownership education and counseling is provided by a NeighborWorks affiliate, Neighborhood Finance Corporation in Des Moines, Iowa. This organization compared all of the names from the list of more than 8,000 foreclosure filings from Polk County (where Des Moines is located) to their entire data base of over 2,000 people counseled and individual files of people they saw in class and individual counseling since September 2002. Through cross checking all of these names, this organization identified only one person who filed for foreclosure in 2006 that had come to them for pre-closing home buyer education in 2005. **Therefore, only one person in Neighborhood Finance Corporation's data base and files of 2,000+ pre-closing counselees they have served since 2002 has had to file for foreclosure.** This does not preclude the possibility that others avoided foreclosure by arranging short sales or deeds-in-lieu of foreclosure.

NeighborWorks America's Service Beyond the NeighborWorks Network:
NeighborWorks America's commitment to quality, objective homeownership education and counseling extends far beyond the NeighborWorks network.

Through our NeighborWorks Center for Homeownership Education and Counseling (NCHEC) and the NeighborWorks Training Institute, NeighborWorks America is the nation's largest trainer of housing counseling professionals.

NeighborWorks America convened leaders from counseling intermediaries, lending institutions, community development organizations, realtors association, mortgage insurance companies and the secondary mortgage market to develop National Industry Standards for Homeownership Education and Counseling...

The Industry Standards will strengthen the professional credentials of more than 10,000 homeownership professionals currently working in the industry and help ensure that millions of potential and existing homeowners receive quality and comprehensive housing information and services, enabling them to make informed, responsible choices on the path to homeownership. The best defense against foreclosure is a well educated consumer who understands the responsibilities and consequences of homeownership, the budget implications and the financing options available.

Quality homeownership counseling delivered in accordance with the Industry Standards and which is well funded through a fee for service model and public-private partnerships is the best tool available to fight foreclosure in the longer term.

NeighborWorks Center for Foreclosure Solutions:

NeighborWorks® America saw the problem of foreclosures coming over four years ago and, with the strong support of our Board of Directors and our former chairman, the late Gov. Edward Gramlich (a member of the Board of Governors of the Federal Reserve), NeighborWorks America created the NeighborWorks Center for Foreclosure Solutions, to preserve homeownership in the face of the rising foreclosure rates. The NeighborWorks Center for Foreclosure Solutions is an unprecedented partnership between faith-based and community organizations, nonprofit organizations, and financial, mortgage, and insurance sectors to preserve homeownership and combat the negative impact of foreclosures on communities across the nation. Local NeighborWorks organizations witnessed the start of what has now grown to be our current foreclosure crisis, as they were increasingly asked for help, not by clients that had been counseled up-front by NeighborWorks organizations, but by others in the community who were facing increased delinquency and foreclosure.

The impact of foreclosures reaches far beyond the individual homeowners who lose their home. Foreclosed homes can threaten entire communities. The value of surrounding homes goes down and other homeowners will have difficulty selling or refinancing their homes, leading to further disinvestment in communities. As a result, property taxes collected will be lower, affecting schools and government services, creating a downward spiral that is detrimental to the entire community. A study by the Woodstock Institute found that a single foreclosure on a given block can directly lower the cumulative property values of surrounding homes by $139,000 (approximately $2,000 per property). Other studies show that one foreclosed property can end up costing a municipality as much as $30,000. And lenders report that each foreclosure can cost them from $30,000 to $50,000.

NeighborWorks® America, in partnership with the Homeownership Preservation Foundation is supporting a national toll-free HOPE Hotline for delinquent borrowers **(888-995-HOPE)** that is available 24/7 to provide callers with high quality telephone-based assistance (in English and in Spanish). Individuals needing more intense service than can be provided over the phone are referred to local HUD-approved housing counseling agencies.

NeighborWorks America has also launched a public service advertising campaign through the Ad Council, to decrease foreclosures by directing struggling borrowers to call the 888-995-HOPE Hotline.

In addition to the HOPE Hotline, many of our local NeighborWorks organizations are also counseling delinquent homeowners every day. These organizations have stretched their budgets, redeployed staff, worked hundreds of extra hours – all to address the very real threat that pending foreclosure is causing for families and communities across the country.

These organizations are helping families one at a time, to modify budgets, refinance an unattractive mortgage product, and work with servicers on loan modifications or workouts. And when those solutions are not possible, they are working to help the borrower sell their home or surrender if to the lender, if necessary, and relocate before they face an actual foreclosure.

Some of our NeighborWorks organizations are also originating or brokering responsible refinance mortgage products to ensure homeowners have every opportunity to succeed at sustainable homeownership.

And, NeighborWorks America is actively training hundreds of counselors on foreclosure intervention at our National Training Institutes and other place-based trainings around the nation. We are working closely with state housing finance agencies and other partners to provide access to these trainings so counselors can have the tools they need to provide quality foreclosure intervention counseling to homeowners.

The HOPE NOW Alliance:
Because NeighborWorks America has been active in foreclosure prevention over the last three years through our Center for Foreclosure Solutions (building alliances, supporting the HOPE Hotline, launching the Ad Council public awareness campaign, training hundreds of counselors specifically on foreclosure, and supporting many local coalitions and communities in the development of their strategies to provide alternatives to foreclosure) we were invited to participate in the HOPE NOW Alliance, recently announced by the Secretaries of the U.S. Department of Treasury and the U.S. Department of Housing and Urban Development.

While the HOPE NOW Alliance is still very much a "work-in-progress" we are excited by its potential and pleased that Secretaries Jackson and Paulson are using the influence of their positions to encourage a coordinated approach that brings mortgage servicers and mortgage investors together in an effort to identify struggling borrowers, connect them to a mortgage counselor and find a sustainable mortgage solution. NeighborWorks America received $1,970,440 in HUD grants for Housing Counseling Services, Home Ownership Programs and Community organizations to provide education and assistance so more Americans can own homes, find affordable housing, and avoid predatory lending.

One of the key efforts of NeighborWorks foreclosure activities is to improve outreach to borrowers. Many members of the HOPE NOW Alliance and other servicers have contributed actively to support our Ad Council Campaign, additional outreach efforts and the critical work of the NeighborWorks Center for Foreclosure Solutions. This private sector support has been essential in the outreach efforts and success of the Center for Foreclosure Solutions to date. While we are appreciative of that support, we continue to stress that servicers and investors have a critical role in the funding of direct counseling.

We are also pleased that mortgage market participants who are part of the HOPE NOW Alliance have committed to adopting some of the best practices that can make a real difference in helping nonprofit counselors assist families in avoiding foreclosure, such as dedicated teams of loss mitigation professionals to work directly with counselors.

And we're pleased that nearly all major mortgage servicers have committed to provide a dedicated loss mitigation "communication bridge" for 888-995-HOPE counselors' use. This information has the potential to improve contact rates; communication between servicer, counselor and homeowner; and understanding of each party's role.

However, in a recent speech, Secretary Paulson stated: "We have an immediate need to see more loan modifications and refinancing and other flexibility. For many families, this will be the only viable solution. The current process is not working well."

We couldn't agree more. Thus far, many counselors continue to experience a significant level of inflexibility by lenders and servicers in regard to loan modifications and refinancings. It appears that modifications and workouts are all being considered in a unique, "one-off" manner. We strongly encourage the investors and servicers to develop more standardized approaches and rules to loan modifications and to share those with the counseling community so that we can all aggressively increase the volume of successful loan modifications and workouts.

We also strongly encourage the investors to aggressively address the Adjustable Rate Mortgage (ARM) resets and to not wait until families become delinquent, before finding solutions for families who have clear budget and income constraints that will prevent them from successfully making their mortgage payments.

The HOPE NOW Alliance has also identified the need for us to all work together to develop a sustainable funding model for quality phone and face-to-face counseling -- and proposed that servicers pay a fee for any of their clients referred to a service like the HOPE Hotline. Our understanding from the Housing Policy Council is that the servicers are close to finalizing agreements to pay for the counseling of their customers who use the HOPE Hotline. We hope that similar agreements can be made with servicers to compensate housing counseling agencies for quality face-to-face counseling of their borrowers. NeighborWorks is committed to working closely with the HOPE NOW Alliance, the Housing Policy Council and other HUD-approved housing counseling intermediaries over the next sixty days to finalize this sustainable business model.

It is imperative to develop this fee for service model with the servicers for on-the-ground foreclosure counselors who are meeting standards and working with thousands of borrowers to find successful solutions. Thus far that service is almost exclusively supported by public funds and charitable grants. And additional resources will be needed to continue this important service.

Closing
In conclusion, while the foreclosure problem has not abated, we are hopeful about the potential for the HOPE NOW Alliance.

We know that the best way to create foreclosure-resistant homeowners is through quality pre-purchase housing counseling.

And, there is a larger need than ever for a reasonably-priced mortgage refinance product, to assist families currently trapped in high-cost mortgages.

I trust this testimony gives you a sense of NeighborWorks America's response to families facing foreclosure, and some of the challenges we are facing in that effort. Before closing, I want to thank you and your colleagues in the Congress for your strong bi-partisan support of NeighborWorks America; especially the federal funding that has played a key role in our work.

I have attached to my testimony a programmatic update that provides further information in regard to NeighborWorks America's response to the current foreclosure problem.

I stand ready to answer any questions you may have.

PROGRAMMATIC UPDATE

NeighborWorks® Center for Foreclosure Solutions
NeighborWorks® America

Background
Neighborhood Housing Services of Chicago (NHS of Chicago), a NeighborWorks® America local affiliate, is piloting new models of homeownership preservation in partnership with the City of Chicago and leading mortgage lending and servicing institutions. NeighborWorks® America has been a leading partner and supporter of the NHS of Chicago and its Home Ownership Preservation Initiative (HOPI) program. HOPI is crucial to addressing the rising numbers of conventional and subprime loans in default and foreclosure in Chicago. These loans were originated by private lenders without involvement or homebuyer education from the NHS of Chicago, and are concentrated in low-income and minority neighborhoods. Through HOPI, NHS of Chicago seeks to preserve home ownership where possible and keep families in their homes via delinquency counseling, loss mitigation and loan workouts. When foreclosure is unavoidable, the partners seek to preserve the properties as neighborhood assets. Innovations from HOPI in the last year include a "311 Hotline" to connect troubled borrowers to phone counseling, a foreclosure intervention center at the NHS office for out-of-town servicers to work out problem loans on a rotating basis, and an advisory committee with industry-led workgroups investigating further innovations. NeighborWorks® America views HOPI as a "laboratory" to test the efficiency and effectiveness of foreclosure strategies in order to take them to scale.

NeighborWorks® Center for Foreclosure Solutions
NeighborWorks® America seeks to advance the dialogue regarding the evolution of mortgage origination, servicing, default counseling and supportive services. Through the NeighborWorks® Training Institute and other forums NeighborWorks® America has a platform to educate city officials, community-based organizations and lending professionals on the lessons learned from the HOPI partnership model, including best practices in counseling, servicing and REO disposition. NeighborWorks® America also facilitates and disseminates research developed by HOPI on issues related to foreclosures trends, and loan loss mitigation efforts.

Complementing the goals of NeighborWorks® National Homeownership Programs, NeighborWorks® America's support of its Center for Foreclosure Solutions (CFS) builds on over a decade of leadership in the industry on sustainable homeownership.

Delinquency and Foreclosure Rates for Prime, Subprime, FHA and NeighborWorks® Borrowers: 1st Quarter, 2007

	30 Days Past Due	60 Days Past Due	90 Days Past Due	Foreclosures Started
Prime	1.57%	0.39%	0.35%	0.26%
Subprime	6.62%	2.60%	3.23%	2.38%
FHA	5.86%	1.87%	3.07%	0.93%
NeighborWorks®	3.49%	0.64%	1.36%	0.24%

Source: Mortgage Bankers Association and NeighborWorks® America

- **Partnership with Homeownership Preservation Foundation** – Cooperatively promote the HOPE hotline (1-888-995-HOPE) a 7-day/24 hour on-demand foreclosure hotline (English and Spanish), staffed by six HUD-approved housing counseling agencies. Borrowers are referred to local organizations for further assistance when necessary.
    - Call volume continues to grow – **Quarter 3 volume increased 89% over Quarter 2**
        - Nearly **57,000 calls** received in **Quarter 3 2007**
        - Cumulatively (off the hotline) **101,000 calls have been received and 46,500 people have been counseled during 2007**
        - **33%** of callers in Quarter 3 heard about the hotline from their lender
        - Callers **are calling sooner and are better prepared** to receive counseling (our message is getting out)
            - In Quarter 3, **24% called BEFORE they were 1 full payment behind** up from 21% in Quarter 2 and 14% in Quarter 1
        - More callers with **ARMs -- 44% of all callers had ARMs** (40% in Q2 and 34% Q1)

- **Public Awareness Campaign** – Multi-media public education campaign developed with the Ad Council and mcgarrybowen (New York-based advertising firm), designed to spur borrowers in financial distress to take action and call the HOPE hotline. The Campaign's theme of *"Nothing is worse than doing nothing"* includes 3 TV spots (2 in Spanish), 11 radio spots (6 in Spanish), print ads (newspaper, magazine, billboards, bus shelters), website (www.foreclosurehelpandhope.com), and collateral pieces (door hangers, brochures, and posters). 190+ local groups/taskforces/municipalities have co-branded these ads.

    - **3,576** TV (broadcast and national cable) spots have aired since the launch date with **3,448** of those times being on broadcast TV. (There is no tracking system for local cable).
    - **8,119** radio spots have aired since the launch on June 25, 2007
    - Foreclosure Prevention TV PSAs have aired on such programs as ***The Tonight Show with Jay Leno, The Today Show, Everybody Loves Raymond, CSI: Miami, Dr. Phil, and Oprah.***
    - In just July alone, the campaign reached approximately **2,288,000** households via local English broadcast television. Although we do not yet have results for August, September or October we expect that this number has more than quadrupled due to the campaign's increasing momentum.

- **Research** – Examination of loan performance after delinquency intervention, borrower behavior, innovations in loan servicing/loss mitigation and developing an economic foreclosure forecasting model.

- **Support to local/regional Foreclosure task forces/coalitions** – Technical assistance and small capacity-building grants to local groups responding to the foreclosure crisis. Since 2005 over $2.5 million granted to nonprofits.

    - NeighborWorks Center for Foreclosure Solutions is involved in State, local and regional efforts in the following locations: **Ohio, Maryland, Illinois, Georgia, Missouri, Massachusetts, and Wisconsin**. We are actively working with groups in **California, Texas, South Carolina, New York, New Jersey, Alabama, Florida, Connecticut, Pennsylvania, Michigan, Tennessee, Arizona, and Washington State, Kansas**. We are also in conversation with groups in Nevada, Arizona, Oklahoma, Iowa, and Kentucky. We have NW groups co-branding the ads in additional states like Oregon, Maine, Mississippi and Louisiana. We are running the ad campaign in all fifty states

- **Training** – The NeighborWorks® Center for Homeownership Education and Counseling has developed 5 courses: Combating Predatory Lending, Innovative Solutions to Combating Mortgage Defaults, Beginning to Intermediate Foreclosure Prevention and Advanced Foreclosure Prevention; and a 5-day Foreclosure Counseling Certification Course to debut in December in Portland, Oregon.
    - In 2006 we offered **23** foreclosure and delinquency trainings for housing counselors
    - In 2007 we offered **49** foreclosure and delinquency trainings for housing counselors
    - Cumulatively in **2006 and 2007, 2,429** housing counselors have completed foreclosure and delinquency courses
    - In 2008 we plan on offering **109** foreclosure and delinquency courses through our National NeighborWorks Training Institutes and placed-based sessions, with over **4,300** people completing the courses

- **Industry Convener** –Examination of the foreclosure crisis from the industry perspective, together with 23 partners: *American General Financial Services, a member of AIG, Inc., Bank of America, Barrett Burke, LLP, Citigroup, Countrywide Home Loans, EMC Mortgage, Fannie Mae, Freddie Mac, GE Money, GMAC ResCap, Housing Policy Council, HSBC– North America, IndyMac, JPMorgan Chase, LaSalle Bank, Mortgage Bankers Association, National City Mortgage Co., Ocwen Loan Servicing, LLC, Option One Mortgage, State Farm Insurance, SunTrust Banks, Inc., Washington Mutual and Wells Fargo Home Mortgage.*

- **Outreach to Re-setting Borrowers** - Through analysis of mortgage origination documents, developing targeted outreach to those most vulnerable to rate re-set.

- **Responsible Mortgage Products** - Despite the spike in mortgage delinquencies, homeownership is still a viable asset accumulation strategy for some distressed borrowers if correctly financed. In cooperation with the mortgage lending industry NeighborWorks® is working to develop a suite of mortgage products, including an innovative refinance product and an emergency loan program.

- **Non-Profit Mortgage Origination Platform** – Development of an automated loan origination, underwriting and decisioning platform in cooperation with Neighborhood Housing Services of America. The E-commerce platform is available to all nonprofit organizations who are interested in building loan origination capacity.

- **National Non-Profit Foreclosure Coalition** - NeighborWorks® America is currently forming a national non-profit foreclosure coalition which will assist in coordinating and leveraging the efforts of all national non-profits invested in working on the foreclosure crisis.

- **Legal Resources for Borrowers in Distress** – Many borrowers in financial distress would benefit from accessing reputable legal assistance. NeighborWorks® America is working to streamline legal assistance for borrowers in need of legal advice.

- **REO Disposition** – The impact of the foreclosure crisis cuts across the lender, the family and the community. NeighborWorks® America is developing a model by which REO property can be strategically returned to market, and targeted to a pipeline of mortgage-ready consumers.

- **Outreach to AttorneysGeneral** - In our efforts to address the foreclosure problem through a multi-pronged, multi-state approach, NeighborWorks® America has reached out to the National Association of Attorneys General ("NAAG") to discuss development of a coordinated plan to support the NeighborWorks® America/Hope hotline efforts. NAAG includes the Attorneys General of the 50 states and the chief legal officers of the District of Columbia and the Commonwealth of Puerto Rico.

Chris Toth, Acting Executive Director, recently expressed interest in supporting NeighborWorks® America's efforts to solicit the assistance of the various State Attorneys General, nonprofit legal aid groups and bar associations to provide legal services to hotline callers who may be the victims of predatory loans at the point of loan origination and/or foreclosure "rescue" scams. NeighborWorks® hopes to meet soon with Mr.Toth to propose a framework, modeled after a program developed by the Massachusetts Attorney General's office, that could be replicated in other jurisdictions experiencing high foreclosure rates and the aforementioned related problems.

NAHREP
NATIONAL ASSOCIATION OF HISPANIC
REAL ESTATE PROFESSIONALS

October 24, 2007

The Honorable Rubén Hinojosa
2463 Rayburn House Office Building
Washington, D.C. 20515

Dear Congressman Hinojosa,

A frequent topic in the news, predatory lending is a common root cause of foreclosure because countless families trusted lenders who steered them toward loans with unfavorable terms. Minority homeowners, particularly Hispanics, receive a disproportionate number of unscrupulous loans. Foreclosures in the Hispanic community are expected to reach nearly $25 billion in 2007 and $52 billion in 2008.

To combat this growing trend, the National Association of Hispanic Real Estate Professionals (NAHREP), the largest real estate association representing professionals that serve the Hispanic community, recently took action to ensure all borrowers are served to the highest industry standards when buying a home.

We would like to share our recently announced *En Confianza: The NAHREP Code of Trust,* a set of ethical principles by which all NAHREP members are required to conduct business. Its goal is tri-fold: (1) regain and maintain the public's confidence; (2) protect all consumers; and (3) sustain and increase the rate of Hispanic homeownership.

Treasury Secretary Henry Paulson recently remarked that the current turbulence in the mortgage market was the result of "bad lending practices." Therefore, the Code of Trust is based on measures that foster ethical and responsible lending, protections for consumer choice, full disclosure and accountability. It demands these requirements from four groups of professionals - mortgage originators; licensees and realtors; builders; and providers of title, escrow, home inspection, and closing services. The principles include:

- Stronger licensing and industry education requirements to guarantee accountability in the industry
- Quality controls such as prime loan filters and net-benefit tests to ensure that all qualifying consumers are offered a prime loan
- Increased levels of disclosure so that borrowers can make informed decisions
- Development of a bi-lingual guide to educate consumers on all product choices
- Protections against inherent conflicts of interest for the consumer
- Full compliance with and understanding of all state and federal laws, including marketing and privacy laws

1150 17th St. NW, Suite 504, Washington, DC 20036
(800) 964-5373 ♦ www.nahrep.org

By requiring our members to adhere to our Code of Trust, NAHREP will position ourselves as an industry leader known for fair pricing, responsible underwriting, disclosures and fair servicing of loans. In sum, our effort to tackle predatory lending that specifically targets Hispanics requires we strive to provide consumers with the best, most accurate information possible in the clearest, simplest terms to help them make informed decisions about the home buying process.

We believe that with the Code of Trust, NAHREP has taken an affirmative stance for fair practices within the home buying and lending industries to benefit all Americans.
As we work to ensure the Code of Trust is adhered to, we request that you consider NAHREP an expert source on the current status of the housing market industry. We would be more than happy to provide any additional information or support to assist you in your efforts to stabilize and better the dream of homeownership for all Americans.

En Confianza: The NAHREP Code of Trust is available in English and Spanish at www.nahrep.org.

Thank you for your consideration.

Sincerely,

Tim Sandos

Tim Sandos
President, National Association of Hispanic Real Estate Professionals

1150 17th St. NW, Suite 504, Washington, DC 20036
(800) 964-5373 ♦ www.nahrep.org

NAHREP

FOR IMMEDIATE RELEASE
September 17, 2007

CONTACT: Mary Mancera
(760) 505-2911
Laura Dossa
(202) 777-3542

Hispanic Real Estate Professionals Take Action to Curb Predatory Lending Practices Against Latinos, Approve Code of Trust

ORLANDO, FL - The National Association of Hispanic Real Estate Professionals (NAHREP) today announced its new Code of Trust - a set of ethical principles by which all members are required to conduct business. *En Confianza: The NAHREP Code of Trust* is part of NAHREP's broader strategy to ensure that all borrowers, including Latinos, are served to the highest industry standards.

"A perfect storm of shrinking values and the current credit crunch threatens to undermine the steady homeownership gains our community has made in the past 20 years," said NAHREP President & CEO Tim Sandos. "For those borrowers who have fallen prey to unethical practitioners, the American Dream has become a nightmare. Our newly-adopted Code of Trust ensures that our members set an example for the industry as a whole."

The *En Confianza* Code of Trust was unveiled at NAHREP's 2007 Hispanic Marketing Convention & Expo in Orlando. Its goal is tri-fold: (1) regain and maintain the public's confidence; (2) protect all consumers; and (3) sustain and increase the rate of Hispanic homeownership.

"Our industry's image is tainted by the actions of a few bad actors. *En Confianza* solidifies NAHREP's position as an industry leader, and its members as trustworthy and reliable professionals," said NAHREP Chair Felix DeHerrera.

The Code of Trust also responds to the demands of NAHREP's members. The organization's own research shows that:

- 93 percent say Hispanic borrowers are disproportionately vulnerable due to lack of knowledge of the home buying process
- 89 percent favor stronger licensing and more education/training
- 74 percent support stricter standards and disclosures

En Confianza sets requirements for four groups of professionals - mortgage originators; licensees and realtors; builders; and providers of title, escrow, home inspection, and closing services. The Code is based on measures that foster ethical and responsible lending, protections for consumer choice, full disclosure and accountability: The principles include:

- Stronger licensing and industry education requirements

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