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THE OBAMA ADMINISTRATION'S RESPONSE TO THE HOUSING CRISIS

HEARING

BEFORE THE

SUBCOMMITTEE ON
INSURANCE, HOUSING AND
COMMUNITY OPPORTUNITY

OF THE

COMMITTEE ON FINANCIAL SERVICES

U.S. HOUSE OF REPRESENTATIVES

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THE OBAMA ADMINISTRATION'S RESPONSE TO THE HOUSING CRISIS

Thursday, October 6, 2011

U.S. HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON INSURANCE,
HOUSING AND COMMUNITY OPPORTUNITY,
COMMITTEE ON FINANCIAL SERVICES,
Washington, D.C.

The subcommittee met, pursuant to notice, at 9:30 a.m., in room 2128, Rayburn House Office Building, Hon. Judy Biggert [chairwoman of the subcommittee] presiding.

Members present: Representatives Biggert, Hurt, Capito, Garrett, Duffy, Dold; Gutierrez, Waters, Velazquez, Cleaver, Watt, and Sherman.

Also present: Representative Al Green of Texas.

Chairwoman BIGGERT. This hearing of the Subcommittee on Insurance, Housing and Community Opportunity will come to order.

We will begin with opening statements, and it is great to see all of the witnesses back here again. Thank you for coming.

I will recognize myself for 4 minutes.

Today's hearing is a continuation of our subcommittee's work to examine the Administration's refinancing and foreclosure mitigation initiatives and efforts to facilitate the return of the private sector into the housing market, and we will hear from senior Administration officials and several private-sector witnesses.

Earlier this year, the House voted to end a number of the Administration's housing programs because they were unsuccessful, costing taxpayers billions of dollars, and, in the case of HAMP, doing more harm than good.

Nearly one month ago, President Obama offered two new initiatives as part as his jobs speech that he urgently requested to deliver to a joint session of Congress. These new housing programs were: one, a modified version of an existing Fannie Mae and Freddie Mac program to refinance mortgages called the Home Affordable Refinance Program, or HARP; and two, a $15 billion program that is a new iteration of the Neighborhood Stabilization Program, or NSP, which we will examine.

At a glance, both of these initiatives sound more like stimulus spending. However, as we have learned, Federal spending doesn't create jobs. Rather, it increases our deficit. That said, I look forward to hearing more details about them from the Administration officials.

As for housing, it isn't clear to me how any of the Administration's initiatives or proposals have succeeded in facilitating a mar-

ket recovery. In fact, the Administration never achieved its own projections for success of these initiatives. In short, I think that these programs have failed to deliver. Housing always leads us out of recession, but the Administration's housing regulations and policies are expanding the role of government in the mortgage market and forestalling our economic recovery.

First, Federal Government programs, FHA, Fannie and Freddie, monopolize 90 percent of the mortgage market; second, failed taxpayer- funded housing programs like HAMP are preventing the market from hitting the bottom and prolonging our housing, economic, and job recovery; and third, businesses and the mortgage market are threatened by the Administration's new costly regulations like the proposed QRM regulations. QRM will distort competition in the market, limit choice in credit, and increase costs for consumers and businesses. Businesses need regulatory certainty, relief, and common sense, not competition or indecisiveness from Washington.

At today's hearing, we are going to talk about the fact that Americans need jobs, which is what businesses, not government, create; and today we have an opportunity to evaluate the last 3 years of the Administration's response to the housing crisis through the numerous housing programs. It is my hope that we will get a better understanding of the lessons learned before considering new approaches.

I welcome today's witnesses and recognize the ranking member, Mr. Gutierrez, for 5 minutes.

Mr. GUTIERREZ. Thank you, Chairwoman Biggert, and thank you to all the witnesses for joining us this morning.

Once again, we are talking about the continuing housing crisis, and I have seen this movie before. Millions of families are still facing default or foreclosure, vacant homes are dragging down communities, and we are still not sure we have seen the worst of it; and we are taking another necessary look at housing programs implemented in response to the crisis, most of which have failed to live up to our expectations.

While we can talk about these programs all day long, we cannot refute the fact that we have squandered an opportunity. We had a chance to force Wall Street banks to take responsibility for an economic crisis they helped create but were too easy on them from the start.

To make matters worse, banks have done far too little to help families stay in their homes. Treasury, HUD, and FHFA decided at some point that foreclosure prevention could be done with optional programs and incentives, and then the banks came back and told us the incentive programs weren't big enough. Then, mortgage servicers turned their modifications that didn't work and robo-signing foreclosures and just hoped we weren't looking.

I can say that I am encouraged by some of the promising new ideas out there because I still believe there are many actions that can help. For example, Project Rebuild could give neighborhood organizations more access to private capital to stabilize hard-hit communities. The agencies in charge could all be more creative, careful, and thoughtful in the way they manage all the foreclosed

homes they have on their books. Changes to HARP could also allow more people to refinance expensive mortgages.

But as we move forward with the next set of ideas, we must take a good look and see what we can learn from our past mistakes. We certainly can't afford to repeat them.

I look forward to the testimony of the witnesses, and I thank the chairwoman.

Chairwoman BIGGERT. Thank you, Mr. Gutierrez.

Mr. Hurt, our vice chairman, is recognized for 1 minute.

Mr. HURT. Thank you, Madam Chairwoman.

Thank you for holding another important hearing in the subcommittee to conduct oversight of the Obama Administration's response to the housing crisis. I appreciate your leadership on these issues and your commitment to responsible policies that will facilitate the return of private capital to the housing market.

This subcommittee has conducted a number of hearings examining the programs that the Obama Administration created in an attempt to address the housing and economic crises. While these programs were well-intended, our subcommittee has found these initiatives have not yielded the results that the American taxpayers were promised at their inception. Billions of dollars were committed to these programs. Yet, we have heard from GAO, the TARP Inspector General, and other experts that these programs have proven ineffective in assisting homeowners in an unwise use of taxpayer dollars.

While the subcommittee has demonstrated how misguided this approach is, the President is proposing to double down on these flawed initiatives as part of his American Jobs Act. The best way that we can help the homeowner in the 5th District of Virginia, my district, and across the country stave off foreclosures is with a job. Instead of trying to spend our way to an economic recovery, it is critical that we continue to focus on supporting policies that remove barriers to job growth so that our job creators will have the confidence necessary to put people back to work and move our economy forward.

I thank the witnesses who are here today to share with us their perspectives, and I look forward to hearing from you. I yield back my time.

Chairwoman BIGGERT. Thank you.

The gentlelady from West Virginia, Mrs. Capito, is recognized for 1 minute.

Mrs. CAPITO. Thank you, Madam Chairwoman.

I would like to thank you for holding this hearing to examine the Administration's efforts to ease the housing collapse that left so many of our Nation's homeowners devastated. The difficulties currently facing the housing market are certainly central to the health of our overall economy.

As we know, the different programs that were created—HAMP, HARP, NSP, the FHA refinance, and the emergency home loan program—may have provided relief to some, but they have fallen woefully short of their goals and failed to right a housing market which is still struggling.

Earlier this year, after documenting the progress of homeowner assistance, foreclosure prevention, and community development ef-

forts, it became, I think, very apparent that too many taxpayers' dollars are being spent supporting ineffective programs. Not only are these not reaching homeowners, but in some cases, the homeowners who did receive assistance have come out in a worse financial position than before.

This morning we have another—yet another opportunity to shed light on the failed initiatives and gain insight into how to proceed in the recovery of our housing system. Unfortunately, the Administration is interested, I believe, in implementing new programs that seem to mimic the old ones.

I would like to thank the chairwoman for bringing us together and I look forward to the testimony of our witnesses.

Thank you.

Chairwoman BIGGERT. Thank you.

The gentleman from New Jersey, Mr. Garrett, is recognized for 2 minutes.

Mr. GARRETT. I thank the Chair for holding this important hearing.

At the risk of stating the obvious, our Nation's housing market is hurting, and it is hurting badly. House prices are falling, we have delinquencies, default rates are at record levels, and there is a vast oversupply of properties hanging over the market.

It is important to remember that we did not get into this mess overnight, and there is no magic elixir to cure all the ills. But as policymakers, we can decide to prolong the pain and continue to kick the can down the road, dragging the problem out for years to come at a much greater cost to taxpayers, or we can confront the problem and face it head on and begin to do the necessary work of what? Clearing the excess inventory and reestablishing a more sustainable housing finance system.

Ad hoc plan after ad hoc plan by this Administration has done absolutely nothing but delay the eventual correction that our housing market and market participants have to endure. The current new ad hoc plans being floated by this Administration appear to be nothing more than a back-door stimulus plan by forcing the breaking of legal contracts and requiring the GSEs to basically forfeit their legal standing on claims to the banks that sold them faulty loans. This would potentially subject the GSEs to billions and billions of dollars of additional losses, the bills of which will go directly to whom? All of the American taxpayers.

Also, CBO has stated that taxpayers will stand to lose literally billions of dollars through lower coupon payments that the Fed will receive on its $1.25 trillion of agency mortgage-backed securities that it purchased through its first round of quantitative easings. Add that together, then.

As if these concerns were not enough, the most troubling aspect of these proposals is what? It is the negative impact that it will have on private mortgage investment from this point forward. At a time when we are trying to bring more private investment banks back into our Nation's mortgage system, actions now being taken by the Federal Government to reduce the value of investments currently being held by investors will act as an impediment, if you will, to future investment. These actions will raise future rates as investors will have to basically price this into the mix.

Fannie and Freddie are not toys of this Administration to try out their new social policy. Fannie and Freddie are two failed companies that have played a leading role in this financial crisis, and at a time like this, the last thing we need to do is to give investors another reason not to buy U.S. mortgage-backed securities.

Chairwoman BIGGERT. Thank you.

Mr. Dold, the gentleman from Illinois, is recognized for 2 minutes.

Mr. DOLD. Thank you, Madam Chairwoman.

Obviously, we have a very serious housing problem in this country. When serious problems arise, whether they are in the private sector or in the government, our first priority should be to thoroughly investigate the problem and correctly define what the actual problem is. And then we think about possible solutions, and we try to identify the most cost-effective solutions while also trying to identify the potential unintended consequences and risks.

Once we settle on the most cost-effective solution, we need to think about how best to implement and execute that solution. Certainly, that is what we do in the private sector. At all times, we recognize that we are necessarily dealing with imperfect information, with imperfect institutions, and with frequently changing circumstances. And at all times, we recognize that mistakes are possible at any point in the problem-solving process, and we should expect that future changes and improvements will be made. So after the implementation and execution, our next obligation is to continually reevaluate the results, while looking for necessary changes and improvements. We don't do that very well.

So after we ask whether we correctly defined the problem in the first place and whether our assumptions were valid, we also should ask whether we chose the best solution, whether we properly implemented and executed the solution, and whether we created unintended negative consequences. Very simply, for any serious business problem or public policy problem, we must ask what worked and what didn't work and, more importantly, why. And then, we are obligated to make the necessary changes and improvements.

We are not rigidly tied at all costs to previous decisions. We are not trying to prove at all costs that we were perfectly correct all along and that nothing ever needs to change or that more of the same is the only possible answer. Instead, changes and improvements and corrections are unquestionably a necessary and useful part of the entire problem-solving process. That is the problem, and that is why we are here today, to evaluate the historical results of the Obama Administration's efforts to solve this very serious public policy problem, which is the housing crisis in this country, and to identify the possible changes and improvements to those efforts.

The country is depending on us to do this as we look at the excess glut of housing that is out there. So I look forward to having our witnesses help us identify these issues and move forward for the American public.

And I yield back.

Chairwoman BIGGERT. Thank you. Just in the nick of time.

Do you have an opening statement, Ms. Waters? Good morning.

The gentlelady is recognized for 5 minutes.

Ms. WATERS. Thank you very much. Madam Chairwoman, I would like to thank you for holding this hearing this morning.

There were a record 2.9 million foreclosure filings in 2010, up from 2.8 million in 2009, and 2.3 million in 2008. Filings will be 20 percent higher in 2011, crossing the 3 million threshold.

With 3 million families at risk of losing their homes this year, there is a clear need for programs that prevent foreclosures and deal with the blight and disinvestment caused by abandoned and foreclosed properties. The Administration's response to date simply hasn't been bold enough. This is why I am pleased that, as part of the American Jobs Act, the Administration has recommended expanding the highly successful Neighborhood Stabilization Program, which I authored, to include commercial properties. Called Project Rebuild, this targeted assistance to foreclosed and abandoned residences and commercial properties will alleviate blight and create jobs and reinvestment in struggling communities. I am looking forward to learning more about this very promising program.

While I am encouraged by Project Rebuild, I am disappointed in HUD's failure to properly implement the Emergency Homeowners Loan Program. I believe that the program was the right solution to the problems facing unemployed homeowners and shouldn't be discounted simply because the agency we charged to implement it dropped the ball. We have to hold HUD accountable for the mistakes it made in implementing this program, but we can't punish the millions of homeowners who would have benefited from this program by abandoning them to unemployment and foreclosure.

I have also had many issues with HAMP. I will be the first to admit that I am dissatisfied with its performance thus far. However, the problem with the program is not its goal of helping homeowners. The problem is a lack of meaningful participation by servicers and a lack of enforcement and willingness to change by Treasury. Those are the problems we need to fix, and I believe that the Administration is committed to fixing those problems.

However, the silence from my friends on the other side of the aisle on how we can fix HAMP to make it work better for homeowners has been deafening. The Republicans have no answer on how to fix HAMP and have offered no alternatives because they are steadfastly unwilling to challenge the servicers. Instead, my friends on the opposite side of the aisle like to say, "The market must bottom out."

First, we don't even know what the bottom is yet. If we have learned one thing, it is that foreclosures beget more foreclosures and a spiral of declining home prices.

Second, letting the market bottom out is simply a euphemism for letting more people lose their homes, causing children to have to switch schools, and more families to be uprooted from their churches, neighbors, and other community institutions.

So, Madam Chairwoman, I would like to thank you; and I yield back the balance of my time.

Chairwoman BIGGERT. Thank you.

With that, without objection, all members' opening statements will be made a part of the record, and I will now introduce the first panel of witnesses.

First of all, we have Ms. Tammye Trevino, Administrator, Housing and Community Facilities Programs, U.S. Department of Agriculture's Rural Development Agency. Thank you for being here. Second, Ms. Carol Galante, acting Federal Housing Administration Commissioner and Assistant Secretary for Housing, U.S. Department of Housing and Urban Development. And, finally, Mr. Darius Kingsley, Deputy Chief, Homeownership Preservation Office, U.S. Department of the Treasury.

For the record, I would also like to recognize Ms. Yolanda Chavez, Deputy Assistant Secretary of Grant Programs with the Office of Community Planning and Development at HUD. Ms. Chavez is accompanying Ms. Galante to answer any technical questions about NSP or Project Rebuild.

I don't see her. Maybe when we get to the questions, she can move up. That would be fine. Thank you.

Without objection, all of our witnesses' written statements will be made a part of the record, and you will each be recognized for a 5-minute summary of your testimony.

And, with that, we will start with Ms. Trevino. You are recognized for 5 minutes.

STATEMENT OF TAMMYE H. TREVINO, RURAL HOUSING SERVICES ADMINISTRATOR, U.S. DEPARTMENT OF AGRICULTURE

Ms. TREVINO. Thank you, Chairwoman Biggert, Ranking Member Gutierrez, and members of the subcommittee. It is my privilege once again to be with you today.

As we discussed last month, the mission of the Rural Housing Service (RHS) is to create vibrant, thriving rural communities, a strong housing stock, access to safe, decent, and affordable rental housing, and access to high-quality essential community infrastructure. For over 60 years, the Rural Housing Service has provided essential credit access to areas in which low population density has hindered capital formation and infrastructure development. The Rural Housing Service helps foster the economic stability needed to sustain rural America, preserving its vital contribution to our Nation's prosperity, security, and success.

To ensure the effectiveness of efforts to improve capital access in rural areas, RHS over the past 2 years has reevaluated programs from both delivery and beneficiary perspectives and made important enhancements, including: reengineering the Section 502 Single Family Housing Guaranteed program such that fees are expected to offset losses, allowing the program to facilitate rural borrowers' access to credit while mitigating costs to the taxpayer; increasing flexibility in lending programs for better responsiveness to changing economic conditions; and actively emphasizing loan refinance modifications and workout solutions designed to keep homeowners in their homes.

Our programs, as you know, are far-reaching. The Single Family Housing, Multi-Family Housing, and Community Facilities Services areas are closely integrated through the 47 State offices and 500 offices that comprise our field structure.

With a budget authority of $1.3 billion, RHS leveraged a program level of approximately $27.2 billion in loans, loan guarantees, grants, and technical assistance in Fiscal Year 2011. In under-

capitalized rural economies across the Nation, the significance of this level of commitment can hardly be overstated. Since Fiscal Year 2008, the program level for the Section 502 Single Family Housing Guaranteed Program has increased almost fourfold. The program expanded from $6.2 billion in Fiscal Year 2008 to the current program level of $24 billion.

For the single family housing direct program, in the 3 years from 2009 to 2011, more than 52,000 single family housing direct obligations totaling $4.79 billion were made to low- and very low-income rural Americans. For families and individuals who often could not qualify for single family housing loans during that period, the Rural Housing Service multi-family housing programs invested $648.8 million and attracted an additional $1.74 billion in third-party investments for rental housing in rural America. These improvements to multi-family housing stock benefited more than 460,000 Americans living in Rural Development units, with the majority being our elderly and persons with disabilities. Actively managing the cost of the housing and CF programs is more essential than ever, and the RHS is pursuing several strategies toward that end.

In the area of portfolio management, RHS has compiled a superior performance record over the past decade. In the area of efficiencies, through asset redeployment and operational realignment, RHS is pursuing streamlining initiatives in several key areas, including our State network and field office and the centralization of core operations at our central servicing center in St. Louis.

And in the area of partnerships in the instances of shared interests, Rural Development has developed various partnerships with entities, agencies, and private and nonprofit organizations. Of particular note is the collaboration with my partners at this table.

RHS has been working with HUD, Treasury, OMB, and other Federal partners in an effort to better coordinate Federal rental policy and identify administrative changes.

On September 29th, in Mount Pleasant, Michigan, USDA, HUD, and the Michigan State Housing Development Authority signed a three-party MOU to coordinate subsidy layering reviews for rental housing developments funded by more than one source in Michigan. The MOU is designed to streamline and clarify the regulatory process so that transactions can be approved faster and more efficiently and is the first written agreement in the Nation. We are expanding these MOUs to North Carolina, Ohio, Wisconsin, South Carolina, Nevada, Pennsylvania, and Rhode Island.

The protracted economic downturn has had a profound effect on poverty rates, and they are rising faster in rural America than in urban America.

Thank you for the opportunity to address you today. More information can be found in the written testimony that we have submitted. Thank you.

[The prepared statement of Administrator Trevino can be found on page 117 of the appendix.]

Chairwoman BIGGERT. Thank you.

Ms. Galante, you are recognized for 5 minutes.

STATEMENT OF CAROL J. GALANTE, ACTING ASSISTANT SECRETARY FOR HOUSING/FEDERAL HOUSING ADMINISTRATION COMMISSIONER, U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT, ACCOMPANIED BY YOLANDA CHAVEZ, DEPUTY ASSISTANT SECRETARY OF GRANT PROGRAMS, OFFICE OF COMMUNITY PLANNING AND DEVELOPMENT, U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

Ms. GALANTE. Chairwoman Biggert, Ranking Member Gutierrez, and members of the subcommittee, thank you for the opportunity to testify today regarding HUD's response to the housing crisis.

As you know, when this Administration took office, our economy was shedding 750,000 jobs per month, home prices had fallen for 30 straight months, and foreclosures were surging to record levels. Critical to the Administration's response has been the FHA, which even in the midst of this crisis has helped some 2 million first-time home buyers realize the dream of homeownership; and with 60 percent of African Americans and Latinos using FHA insurance to buy a home in 2010, FHA has been a particularly powerful pathway to the middle class for minorities during this difficult time.

In addition, through one million loss mitigation actions and early delinquency interventions, FHA has played an important role in keeping families in their homes. Combined with Treasury's modification programs, including HAMP, we have set a standard for mortgage modification efforts that is improving the way private servicers provide assistance to borrowers. More than 5.1 million families have received restructured mortgages since April 2009, nearly twice the number of families who have lost their homes in that time.

Critical to this progress has been housing counseling resources, which, as you know, were eliminated in 2011. There is strong evidence that housing counseling works. Indeed, distressed homeowners who work with a counselor are nearly twice as likely to receive a mortgage modification than those who do not. With President Obama's proposal to restore HUD's housing counseling grant funding and the changes we are making to get those dollars where they are needed more quickly, we hope Congress will restore these funds for 2012.

As the underlying cause for most foreclosures has shifted from bad loans to unemployment, we are now requiring servicers of FHA-insured mortgages to extend the forbearance period for unemployed borrowers to 12 months.

In addition, we are helping about 12,000 families who otherwise might have lost their homes through the Emergency Homeowners Loan Program. This is significantly less than the number we had hoped to assist, in part due to the difficulties of program set-up and the program statutory limitations.

In the face of these challenges, HUD worked closely with counseling agencies down to the last few hours before the September 30th deadline to make certain as many homeowners as possible qualified for assistance. We have learned many lessons from this process, and we know we could assist more borrowers if we had more time.

Another key challenge is the overhang of foreclosed properties, which drag down home prices and destabilize communities. With about a quarter of a million foreclosed properties owned by HUD, the GSEs, FHA joined with FHFA and Treasury to issue a request for information to generate new ideas for the disposition of this inventory. All three agencies are now evaluating the comments received.

This effort complements the Administration's Neighborhood Stabilization Program, which is on track to address more than 95,000 vacant and abandoned properties that comprise about 20 percent of the REO in targeted areas.

Independent research has shown improvements in sales prices and vacancy rates in communities with targeted neighborhood stabilization investments. These successes have led President Obama to propose Project Rebuild as part of the American Jobs Act. Project Rebuild would create almost 200,000 jobs and further contribute to the stabilization of neighborhoods and communities. This reflects President Obama's belief that rebuilding neighborhoods is essential to rebuilding our economy.

Obviously, there is still more to do. As the President emphasized in his recent speech before Congress, a major challenge is the difficulty homeowners face in refinancing their mortgages. While FHA has helped 1.5 million families refinance into safe, stable mortgage products, HUD is now working with FHFA and Treasury to lower barriers to refinancing, which will make it possible for more families to save an average of $2,000 each in the first year, providing a critical boost to our economy.

We also know that we have a responsibility to restore private capital to the housing market while ensuring Americans have access to quality housing they can afford. That is why the Administration delivered a White Paper to Congress earlier this year that provides a path forward for reforming our Nation's housing finance system, and we look forward to working with you to accomplish this.

We are by no means out of the woods, but with RealtyTrac reporting 11 straight months of year-over-year declines in foreclosure activity and crediting the policies that the Administration has pursued as a major factor for this improvement, I am confident we are making progress, and I look forward to working with you and the subcommittee to continue that progress in the months to come.

Thank you, and I look forward to your questions.

[The prepared statement of Commissioner Galante can be found on page 62 of the appendix.]

Chairwoman BIGGERT. Thank you so much.

Mr. Kingsley, you are recognized for 5 minutes.

STATEMENT OF DARIUS KINGSLEY, DEPUTY CHIEF, HOMEOWNERSHIP PRESERVATION OFFICE, U.S. DEPARTMENT OF THE TREASURY

Mr. KINGSLEY. Chairwoman Biggert, Ranking Member Gutierrez, and members of the subcommittee, thank you for the opportunity to testify today on the Administration's efforts to mitigate the effects of the most serious housing crisis since the Great Depression,

and specifically Treasury's response to the Making Home Affordable program and the Hardest Hit Fund.

It is important to remember that when the Obama Administration took office in January 2009, home prices had fallen for 30 straight months. Home values had fallen by nearly one-third. Fannie Mae and Freddie Mac had been in conservatorship for 4 months, and American families were struggling to stay in their homes.

Treasury and other Federal agencies responded by taking a series of aggressive steps. Our strategy focused on stabilizing housing markets and helping families prevent avoidable foreclosures. Under the authority granted by the Emergency Economic Stabilization Act, we launched the Making Home Affordable Program, of which our first lien modification program, often referred to as HAMP, is a key component. In 2010, we launched the Hardest Hit Fund.

These programs are designed to provide targeted relief to homeowners struggling to make their payments due to a financial hardship but who remain committed to avoiding a foreclosure. Through August 2011, HAMP has enabled more than 800,000 homeowners to secure permanent modifications of their mortgages. These homeowners save a median of more than $525 a month on their mortgage payments.

Today, homeowners who begin a trial plan under the program have a high likelihood of achieving a permanent modification and staying in it. Seventy-six percent of homeowners who started trial modifications in the last 16 months converted to a permanent modification, with an average trial period today of just 3½ months.

HAMP modifications have also performed well over time. Based on June 2011 data, after 6 months, more than 93 percent of homeowners remain in those permanent modifications.

For homeowners who do not qualify for HAMP, our guidelines require servicers to evaluate homeowners for other programs to prevent a foreclosure, such as the servicer's own modification programs. Over 2½ million of these modifications have been offered to homeowners outside of the program at no expense to taxpayers.

But HAMP's impact goes far beyond the individual homeowners it has helped, because it has set new standards and established key benchmarks. These include placing limitations on the dual tracking of homeowners by requiring servicers to evaluate homeowners for HAMP and other mortgage assistance before starting foreclosure, making servicers give homeowners looking for help a single point of contact, and providing a resource for homeowners who are frustrated with their servicer by supporting both the Homeowners HOPE Hotline and the HAMP solution center to fix servicer mistakes and resolve conflicts.

To ensure the maximum impact of these programs, Treasury is committed to making homeowners aware of the resources that are available to them. That is why Treasury continues to host events across the country to connect homeowners with HUD-approved housing counselors and their mortgage servicers. At these events, homeowners are guided through their options to prevent foreclosure and can have their questions answered on site. Treasury continues to host these events across the country, and we will host our 60th event next week in Phoenix.

Recently, we also launched the second phase of our public service advertising campaign to reach struggling homeowners through television, radio, Internet, and billboard PSAs in English and in Spanish. These ads serve as a call to action for those homeowners who feel overwhelmed by the challenges they face and reminds them that free help is available at 888–995–HOPE.

We also recognize that the housing crisis is local. Through the Hardest Hit Fund Program, we are empowering State housing finance agencies to craft new solutions to help homeowners cope with unemployment and negative equity. Programs are now up and running in 18 States and the District of Columbia. Seventy percent of the Hardest Hit Fund dollars are committed to help unemployed borrowers.

We also know that a modification isn't the right solution for everyone. That is why we have continued to improve our short sale program to help those people for whom homeownership is no longer desired or no longer an option. There is still a lot more work to do, and the housing market remains fragile, but, as a result of the Administration's actions, struggling homeowners today have more viable tools available to avoid foreclosure than ever before.

Thank you for the opportunity to testify. I welcome your questions.

[The prepared statement of Deputy Chief Kingsley can be found on page 93 of the appendix.]

Chairwoman BIGGERT. Thank you.

We will now proceed to members' questions, and we will try and stick to the 5 minutes each to ask questions, and with that, I will yield myself 5 minutes.

My first question is for Ms. Galante: $1 billion was appropriated for the Emergency Homeowners Loan Program, and the Administration originally projected that it would help around 50,000 homeowners. Yet my staff indicates that, to date, the program has helped around 11,823 homeowners. Are those numbers correct?

Ms. GALANTE. Thank you for the question.

The 11,820 is an accurate number as far as we know to this date. I think the original estimate was we would hope to help about 30,000 homeowners.

Chairwoman BIGGERT. Not 50,000?

Ms. GALANTE. That is my understanding.

Chairwoman BIGGERT. Should the taxpayers continue to support more programs that don't meet the expectations?

Ms. GALANTE. Congresswoman—

Chairwoman BIGGERT. The program has expired.

Ms. GALANTE. The deadline for obligating the funding was September 30th, and I would say—and I acknowledge that HUD could have done a better job to get the program up and running more quickly. There were many, many challenges to doing that; and we helped as many families as we could during that period of time.

We certainly believe we could help more families if there was some ability to extend the program. We do understand that in a new fiscal year that that makes—there are some challenges in figuring out how one might do that, but we have learned a lot of lessons, and I would just say we have helped a number of families.

Chairwoman BIGGERT. Is there any program that has met the expectations?

Ms. GALANTE. This is a difficult crisis, Congresswoman, and I would say that we have tried a number of issues or tried a number of solutions to these problems, and we are going to continue to work vigorously at doing that.

Chairwoman BIGGERT. Have any of the programs met expectations? Yes or no?

Ms. GALANTE. Certainly, I would say the emergency home loan program did not meet our expectations. Whether all other programs have, I really can't say.

Chairwoman BIGGERT. Okay. It seems like there is an awful lot of administrative funds there that have been obligated for 11,823 people or properties. When you are looking at $72 million, it seems like that is an awful lot of money to do that.

Ms. GALANTE. If I could just say, again, the final numbers for what the administrative costs will be are tied to the final number of families who are served. So there are certain funds set aside, but the final number—the counseling agencies are essentially reimbursed costs based on the number of families assisted.

Chairwoman BIGGERT. All right. How many foreclosures or defaults were prevented by the Neighborhood Stabilization Program?

Ms. CHAVEZ. Congresswoman, the NSP program actually does not prevent foreclosures. It deals with properties that have been foreclosed or abandoned. So it actually helps neighborhoods stabilize after being hit by foreclosures.

Chairwoman BIGGERT. Okay, thank you. The answer is zero then?

Ms. CHAVEZ. The answer is that the program expectations are being met, because expectations are to stabilize neighborhoods, not to prevent foreclosures, to help neighborhoods recover from foreclosures.

Chairwoman BIGGERT. All right. I just wanted a yes-or-no answer. Thank you.

And then, Ms. Galante, the MMI fund has a mandatory capital reserve ratio of 2 percent, but the fund was at 0.53 percent in 2009 and then dropped to 0.50 percent in 2010. At this time, what is the current estimate of the balance in the capital reserve account and what do you expect it to be by the second quarter of Fiscal Year 2012?

Ms. GALANTE. Again, thank you for the question.

The health of the MMI fund is obviously very important to us. The actuarial for the capital reserve—what the capital reserve fund requirement will be is due to Congress, I believe, mid-November, so we are working on that actuarial now.

Currently—

Chairwoman BIGGERT. Do you think that you will need to ask Congress then for an appropriation during the next year?

Ms. GALANTE. Again, currently, that actuarial is under way. I would say the third quarter report that we delivered to Congress last week does show the balance in both the financing account and the capital reserve account at the present time combined being about the same amount as it was last year at this time.

Chairwoman BIGGERT. What has contributed to the capital ratio drop? Is it the poor performance of the portfolio again, which was cited in the 2010 annual report?

Ms. GALANTE. There are a lot of things that go into calculating the capital ratio, one of which is how much new business you have done that is added to essentially the denominator.

Our new book of business is stellar, and the capital reserve ratio is looking at what are the claim needs over the entire portfolio for a 30-year period. So we are essentially needing to contribute to the capital reserve as a result of problem loans earlier in FHA's—

Chairwoman BIGGERT. Thank you. My time has expired.

Ms. GALANTE. Thank you.

Chairwoman BIGGERT. The gentleman from Illinois is recognized for 5 minutes.

Mr. GUTIERREZ. Thank you so much.

I would like to ask Mr. Kingsley, you said that Treasury created HAMP and the Hardest Hit Fund. I would like to ask you, did Treasury ever make principal reductions mandatory for lenders during the HAMP modification when calculations indicated it was the best for the borrowers or the investors?

Mr. KINGSLEY. Congressman, thank you. You are absolutely correct that for many homeowners, getting a principal reduction on their modification is the best way to achieve a more affordable and a more sustainable modification. It is one of the reasons we rolled out the principal reduction alternative program, which is a component to HAMP.

Mr. GUTIERREZ. The question is, did you insist?

Mr. KINGSLEY. Congressman, Treasury is not a regulator.

Mr. GUTIERREZ. So you agree that—you went on to say it would have been a good idea, but you didn't insist when you sat down with them?

Mr. KINGSLEY. Congressman, Treasury does not have the regulatory ability to require servicers—

Mr. GUTIERREZ. I think maybe we should remember that the next time a Treasury Secretary comes before the Congress of the United States to ask us to bail out the industry to the tune of $700 billion, including your boss, Mr. Geithner, who used to be at the New York Federal Reserve, who came before, I think, members who are here to ask us for $700 billion, and now you are saying—

Because I am going to tell you the reason I voted for it was the HAMP money. The HAMP money that you just took credit for in your opening statement that you created, really you didn't create. That was really an Act of Congress, wasn't it, and part of the negotiation that we entered into? So you are telling me that, although you think it is a good idea, because you are not a regulatory agency, you never sat down with anybody and told them you should reduce?

Mr. KINGSLEY. Congressman, we don't have the ability to compel banks to write down mortgages, but I do agree that negative equity is a really big problem facing a lot of homeowners. We think it is a very useful tool to help a lot of homeowners get to a more achievable modification.

Mr. GUTIERREZ. Let me move forward so I can ask better questions next time a Treasury Secretary, especially one who used to

work for Goldman Sachs, comes before the Congress of the United States to ask us for billions of dollars to bail out his buddies that he then goes back to after he is not Treasury Secretary anymore.

Because in July 2010, the SIGTARP report says, "Any incremental moral hazard implicated by making principal reductions for homeowners mandatory pales in comparison to the moral hazard caused by TARP assistance to Wall Street." What do you think of that statement?

Mr. KINGSLEY. Congressman, I am here in my role as Deputy Chief of the Homeownership Preservation Office. I am really here—and I work on programs, modification programs and refinance programs, ways to help homeowners stay out of foreclosure, and I think—

Mr. GUTIERREZ. Let me ask you another question. In your role—maybe I will ask the gentlelady to invite somebody else from Treasury who can answer these questions. We have all been watching and waiting on the settlement—and your boss has been very involved in it—between the big mortgage servicers who are doing the robo-signing and the State attorneys general. Now, a few States are backing out because they thought the banks were going to get off too easy. Let me ask you again, because I could be misinformed, is Treasury involved in these conversations or in any way helping in this litigation?

Mr. KINGSLEY. Congressman, we are. We are providing technical advice to the States and the other parties.

Mr. GUTIERREZ. So what technical advice are you giving them?

Mr. KINGSLEY. We have learned a lot from our programs. We have learned a lot on how to reach homeowners. We have learned a lot about how difficult it is to modify loans, to help those homeowners achieve more sustainable modifications.

Mr. GUTIERREZ. Let me ask you a question. How do you think things are going since there are States that are now saying they are withdrawing because the mortgage lenders are getting off too easy? Because in the beginning, many of us were heartened that there would be tens of billions of dollars available, and there was even an indication that the settlement would be across-the-board.

They did violate the law. It isn't like we are asking them for something. There is a punishment. I am sure even the other side agrees that they—maybe they won't agree they should be punished sometimes, because they should be rewarded. But they did do this terrible act of robo-signing. And so what do you think? Are things going well?

Mr. KINGSLEY. Congressman, you are absolutely right. There were very serious violations of law that were committed. The OCC has found that. The State attorneys general have alleged that.

I think it is a litigation matter, and ultimately it is up to each individual State to decide the degree to which they feel they can bring the most relief to homeowners. That may require—

Mr. GUTIERREZ. Since you are part of it and it is under litigation and since you agreed that it was a good idea, in some cases, that there be principal reductions and modifications, is Treasury giving technical assistance so that we can reach that goal of having reductions in the principals that these mortgages owe?

Mr. KINGSLEY. We are sharing the lessons that we have learned through our principal reduction program and our other thoughts on all of our modification programs, things the States are learning through the Hardest Hit Funds. We are sharing those with the State attorneys general.

Mr. GUTIERREZ. Thank you.

Chairwoman BIGGERT. Thank you.

Mr. Hurt, you are recognized for 5 minutes.

Mr. HURT. Thank you, Madam Chairwoman.

I guess the first question is for Ms. Galante.

Ms. Galante, you indicated in response to the Chair's question that there have been no foreclosures prevented by the Neighborhood Stabilization Program; is that right? Or I guess it was Ms. Chavez. I am sorry.

Ms. GALANTE. Yes. Again, I think I can just echo the comment that, again, the Neighborhood Stabilization Program is not designed to prevent foreclosures.

Mr. HURT. Is it true from what I read that not all the money that has been authorized, appropriated, and obligated and so forth and so on of the $7 billion that has been appropriated over the—since 2009, that not all that money has been used?

Ms. CHAVEZ. $7 billion has been obligated. In terms of NSP1, that was $4 billion. Seventy-eight percent of that has been expended. I think you may remember that State and local governments had an 18-month deadline to obligate. They met that deadline at 99.7 percent. They have now expended 78 percent of that money. NSP2, which is $2 billion, has an expenditure deadline of 50 percent after 2 years. Those grantees are on track to meet that expenditure deadline in February.

Mr. HURT. But you have only spent 28 percent, is that what I—

Ms. CHAVEZ. 2012. No. Again—

Mr. HURT. For NSP2?

Ms. CHAVEZ. For NSP2, we are at 30 percent expenditure as of this week.

Mr. HURT. Okay.

Ms. CHAVEZ. They have to expend 50 percent by February 2012.

I should also make clear that at this point, grantees have completed over 33,000 properties in terms of acquisition, demolition, and home buyer assistance, new construction, and—

Mr. HURT. How much of NSP3 has been spent?

Ms. CHAVEZ. As you know, NSP3 just started. It started this summer. We obligated the money in, I believe, May, 100 percent of that, to State and local governments; and they have obligated 13 percent of that. So they are doing well since the program was just initiated.

Mr. HURT. It looks like to me that since the housing crisis of 2008, we have obligated—we have spent or authorized the spending of $7 billion. Only $4 billion has been spent. Does that sound about right, a little over half?

Ms. CHAVEZ. No, I think it is at this point, about a little over $5 billion.

Mr. HURT. So out of the $7 billion, $5 billion has been spent since 2008 when we had the housing crisis, and with that money we haven't prevented one foreclosure?

Ms. CHAVEZ. Again, I want to stress that the goal of the program is not to prevent foreclosures. It is to help neighborhoods recover after they have been hit with foreclosures.

Mr. HURT. After the people have been kicked out of the house?

Ms. CHAVEZ. That is the goal of the program.

There are programs, as Assistant Secretary Galante and our colleague at Treasury has stated, to prevent foreclosures. This program is to help communities stabilize. The initial results in terms of impact of NSP, where there has been investment in neighborhoods when compared to neighborhoods that do not receive investment, show reduced vacancy.

Mr. HURT. But how does that help? By renovating the home that the homeowner is no longer in, no longer has any interest in, how does that help the homeowner?

Ms. CHAVEZ. Unfortunately, it doesn't help that homeowner.

Mr. HURT. Okay.

Ms. CHAVEZ. But it helps new homeowners. It helps that neighborhood. It helps those neighborhoods prevent further decline in home prices and value. It creates jobs. It helps neighborhoods stabilize so that they don't decline further.

Mr. HURT. Okay. And we—as you know, we are borrowing 40 cents on every dollar we spend in Washington. I am sure you have heard that again and again, and you are well aware of that fact. How is it that spending what we have, by my estimate, $3 billion out of $7 billion that we haven't even spent yet, how on earth can you justify appropriating another—an additional $15 billion for this program, as the President has suggested to the Congress?

Ms. CHAVEZ. I think the way we justify it is NSP is on track to create about 90,000 jobs, it is on track to impact about 100,000 properties, it leverages private resources, and Project Rebuild will help—will basically leverage not only other private resources in the private sector and their capacity, but it will also really leverage the capacity that State and local governments—

Mr. HURT. Ms. Chavez, my time has expired, so let me just ask you this: Those same promises are the same promises that were made when the President sold us the first stimulus bill. Doesn't that sound—the same thing that you are promising now, doesn't it sound familiar to what the President promised us when he said that unemployment would not go above 8 percent?

Ms. CHAVEZ. I can tell you the promises of NSP, it has delivered, and it is on track to deliver the promises that were made in terms of the outcomes of the program.

Mr. HURT. Thank you, Ms. Chavez.

Chairwoman BIGGERT. The gentlelady from California is recognized for 5 minutes.

Ms. WATERS. Thank you very much, Madam Chairwoman.

Let me just say that I am the first to say that I am disappointed that the legislation that we were able to pass when we served on the conference committee for Dodd-Frank to help unemployed homeowners—I am disappointed that we—HUD was not able to get that money out in a timely way, and because of that there are some homeowners who are unemployed who could perhaps have stayed in their homes if we had been able to implement that program properly.

Having said that, I am sorry that my friends on the opposite side of the aisle do not understand the Neighborhood Stabilization Project. It was signed—it is my bill that I created, and it was signed into law by President Bush, not Obama but President Bush. It is one of the best things that has happened in this meltdown that we have had with these foreclosures.

The gentleman on the opposite side of the aisle keeps asking, how many people did it help to stay in their homes, and I think the panel more than one time this morning have said it was designed to stabilize neighborhoods. That is why it is called the Neighborhood Stabilization Project.

We recognize that many of these homes were foreclosed on, and in some communities where you have a lot of houses that have been foreclosed on and the cities were not able to keep up those foreclosed housing that it was a big cost to the cities and their fire departments and their police departments. We have discovered that the weeds had grown up, animals had taken over some, on and on and on, and it was driving down the value of other homes in the neighborhood. And we have been able to stabilize those neighborhoods and keep those property values up of those other homes with this Neighborhood Stabilization Project.

It is a good program. I am glad President Bush signed it into law, and I am pleased that you have been able to move this program in a way where you have not only spent the money well but you have obligated that money, and it is moving well. So I compliment you on that.

Here is what I want to ask all of you about today. You can help me. We have people who are coming forward to talk about spending huge sums of money to buy up large numbers of properties. They want to invest in these nonperforming assets, and they have all kinds of ways of talking about what they will do with them.

What I like about what I am hearing is many of them want to buy up large numbers of properties, they want to renovate them, repair them if they need it, and some they would put back on the market. But others are talking about renting the properties back to the homeowners who are in trouble before the foreclosure takes place. Have you heard any of these proposals? And, if so, what do you think about them? Anybody?

Mr. KINGSLEY. I can go first, Congresswoman.

Right now, as you may be aware, the FHFA has put out its proposal for—the FHFA, the regulator of the GSEs for the REO property on its balance sheets, and it is exploring opportunities to offer these homes for rental. As you know, these homes are sitting vacant. That is a wasting asset for the taxpayer. Meanwhile, there is a lot of—rents are going up, and it really could be a win-win situation for everybody involved.

Ms. WATERS. Excuse me. We know that. But what I am saying is, I have heard at least 5 or 6 proposals where people wanted to buy up—100, 200, 300, businesspeople—and renovate them, put them back on the market. And the way they describe it is they would maintain some for rentals, they would put together programs rent-to-own, or they would put them back on the market. And I don't see anything happening, but you are saying that FHA is doing this already? They are looking at this possibility?

Mr. KINGSLEY. FHFA, the Federal Housing Finance Authority, the regulator of the GSEs—

Ms. WATERS. Yes.

Mr. KINGSLEY. —with respect to the real estate owned by Fannie Mae and Freddie Mac. And, absolutely, right now, they have put out a request for information, for ideas, and they are evaluating those ideas. We are working together with them on that. We are evaluating all options. The opportunities you suggested are certainly some of the options that have been proposed.

Ms. WATERS. If you would get that to my office, I would like to see what you have put out. Because I would like to direct people somewhere who are coming up with these proposals. Could you see that my office gets that information?

Mr. KINGSLEY. We will be happy to follow up with your office.

Ms. WATERS. Thank you very much.

One other thing before my time is up, Bank of America—

Chairwoman BIGGERT. Your time is up.

Ms. WATERS. Oh, I thought I had—oh, it started over again. Thank you very much. I yield back.

Chairwoman BIGGERT. The gentlelady yields back.

The gentleman from New Jersey, Mr. Garrett, is recognized for 5 minutes.

Mr. GARRETT. I thank the Chair.

And I also appreciate—well, the ranking member is not here right now, but his recognition of the fact, albeit a little late, that while it was this Treasury Secretary in his former position over at the New York Fed and then as Treasury Secretary who was part and parcel with leading up to the crisis that we are in right now and then, as the ranking member has now experienced, the fact that he helped author and bring forth the very same programs which failed in their attempts as far as recovery from this, through the TARP program and the like.

It is unfortunate that the ranking member only recognizes now, as Mr. Kingsley points out, that the Treasury is not a regulator, and they did not have the authority to compel the banks to do anything with the $700 billion that the TARP bailout program initiated. The best the Treasury could do is, I guess, encourage, suggest to the banks to do so, but they did not have the authority.

Now, for those who supported the TARP, as apparently the ranking member did, for those who voted in favor of TARP as opposed—as I imagine the ranking member did, that is something I guess that they could have included in that legislation, if they had wanted to, to give the Treasury Secretary or some other entity in the government that authority to compel the banks, but it was absent in there.

So it is a little bit disingenuous to say, after the fact, this is the bill I voted on, and I didn't know what was in it, and now complain to Mr. Kingsley here or the Department or the Treasury Secretary for not doing what the legislation did not give them the authority to do.

To the panel or I guess maybe Ms. Galante, first of all, I know there are a lot of numbers that have been thrown out because there are a number of different programs that are out there, and Ms.

Biggert asked some as far as how many were in this program and that program and what have you, but let me just give you one.

There was a housing wire story on Tuesday. Today is Thursday, so day before yesterday, right? They note that there was an $8 billion FHA short refi program, and in that story it said it was supposed to help over 500,000 to 1.5 million people, but it only helped around, according to that wire story, 301 folks. That is different from what we were talking about before. Can you comment on those numbers? Are they ballpark correct numbers?

Ms. GALANTE. Certainly, Congressman. Those are roughly correct numbers. I do want to put the short refi, the FHA short refi program in context, however. It is one program that does deal with this negative equity problem that we all agree is severe. But, in addition to that, FHA has refinanced FHA borrowers through a streamlined refinance program to deal with some of the FHA borrowers' underwater activities. But I would say that FHA short refi is for people who are in non-FHA who want to refi into a sustainable mortgage with FHA.

Mr. GARRETT. Okay. I appreciate that. At the end of the day, the numbers obviously are nowhere near where they anticipated they were going to, which is obviously a real problem.

You heard my testimony also when I asked, aren't a lot of these programs where you are either encouraging or forcing the breaking of legal contracts going to have an implication with regard to the GSEs for the loans that go through them and the claims that they have outstanding and for the investors on the other side of those deals, where what their return will be in those situations? It will hurt them presently. It will hurt the Fed, because the Fed owns a lot of these securities, upwards to the tune of $1.25 trillion, so it will hurt the Fed's balance sheet, and it will hurt future investors and therefore discourage future investors to get into this marketplace. So there are one, two, three, three different problems that could be caused by these programs. Do you want to comment?

Ms. GALANTE. I will comment again. With respect to short refi, it is a voluntary—it goes back to one of the other questions, it is a voluntary program. The lenders do need to take some principal reduction essentially in order to avail themselves or avail the borrowers of the short refi program, and they wouldn't do that if they didn't feel as if that were ultimately the best solution and the best resolution economically both for the borrower and for the investor lender.

Mr. GARRETT. I have 7 seconds. Really quick, the FHA is supposed to be helping home buyers start out, usually at very bottom of the rung of the economic ladder. Isn't it best to only help out first-time home buyers though as opposed to those who want to buy second or larger homes after the fact? Shouldn't that be the focus of the FHA, first-time home buyers only?

Ms. GALANTE. The focus of the FHA is first-time home buyers and new buyers, but refinancing existing borrowers in today's low interest rates to help them achieve a more sustainable monthly payment is certainly also—

Mr. GARRETT. Exclusively to first-time.

Ms. GALANTE. It is not exclusively.

Mr. GARRETT. Shouldn't it be?

Ms. GALANTE. I don't think so, no.

Chairwoman BIGGERT. The gentleman's time has expired.

The gentlelady from New York is recognized for 5 minutes.

Ms. VELAZQUEZ. Mr. Kingsley, in your opinion, would full utilization of every program have been enough to stabilize the housing market and stop the crisis, and where would we be today if it wasn't for those programs?

Mr. KINGSLEY. Congresswoman, thank you. And I think you have hit upon a great point, which is where we were in 2007, 2008, and 2009 when the housing crisis started and where we are today are vastly different. In 2007, when the subprime loans started to melt down and rates started to reset, servicers were completely unprepared. They didn't have the staff, they didn't have the resources, they didn't know how to engage homeowners. There was really nowhere homeowners could go for help. They would call up their servicer and receive an answering machine. They would send in documents, which would be lost. We recognized those problems.

In 2009, when we rolled out HAMP and other modification programs started, we faced those very challenges. We have worked very hard at them. Where we are today is vastly different. As I mentioned in my oral testimony, 76 percent today of the people who get a trial modification convert to a permanent.

Ms. VELAZQUEZ. Ms. Galante, regarding the Emergency Homeowners Loan Program to unemployed homeowners at risk of foreclosure, what specific steps are you taking to make sure that you maximize the participation in the program during the extension period?

Ms. GALANTE. Congresswoman, we did a number of things in the waning days before the September 30th deadline for applicants to ensure that as many potential borrowers as possible could get into the program. We worked very closely with the housing counseling agencies on the ground. We are now in the process of beginning the process of actually closing on those loans that are being made to borrowers, and we will work vigorously to do that as quickly as possible.

Ms. VELAZQUEZ. Are you satisfied with the outreach and response?

Ms. GALANTE. I would say this. We got tremendous response for the program. The pull-through rate, as we call it, the number of folks who were ultimately eligible, was not nearly as high as we would have liked and we didn't assist as many people as we would have wanted to. But we are helping approximately 12,000 unemployed homeowners, and we think that is positive.

Ms. VELAZQUEZ. Mr. Kingsley, the Hispanic community faces a foreclosure rate that is nearly double the national average, and this is especially troubling in New York, where we have 56 percent of Hispanic and African Americans at risk for foreclosure. Have any of the Administration programs been successful in helping Latinos and other minority groups?

Mr. KINGSLEY. Congresswoman, through our HAMP outreach events, as I mentioned, we have had 59 them, we have one in Phoenix next week, we launched a PSA campaign, and we actually have a lot of Spanish materials, Spanish radio advertisements. We have staff who have appeared on—

Ms. VELAZQUEZ. Give me numbers.

Mr. KINGSLEY. Congresswoman, I can have my staff follow up with you. We have had, like I said, 59 outreach events. We have had more than 60,000 homeowners come to those outreach events. A lot of those have been in cities such as Phoenix or in Texas, where there are large Latino communities.

Ms. VELAZQUEZ. I didn't hear New York.

Mr. KINGSLEY. I believe we had an outreach event in New York, Ms. Velazuez. I can follow up with you.

Ms. VELAZQUEZ. You could have a second one.

Mr. KINGSLEY. I apologize?

Ms. VELAZQUEZ. You could have a second one.

Mr. KINGSLEY. We are going to continue those outreach events all into next year.

Ms. VELAZQUEZ. Thank you.

Chairwoman BIGGERT. Thank you.

I recognize the gentleman from Illinois, Mr. Dold. This will be the last question, because we have pesky votes coming up. So with that, then we will dismiss this panel and be ready to start the next one when we come back.

Mr. DOLD. Thank you all for being here. Thank you, Madam Chairwoman.

Ms. Galante, if I could, just looking at the Emergency Home Loan Program, certainly I have some statistics in front of me, the States, in terms of how they are administering these loans and also how it is done through the Federal Government. And I am just looking at some statistics from Connecticut, Delaware, Idaho, Maryland, Pennsylvania—I don't have Illinois in front of me, which is where I am from.

But the thing troubling to me coming from the private sector is just actually the costs of administering these. I look at Connecticut. They have done about 1,000, a little over 1,000 home loans, basically to the tune of about $45,000 that are being put in there. In terms of how it is administered, they are administering each and every one of those at about $2,600 worth of administrative cost. If I move that down on administrative cost to Pennsylvania, it is about $2,800. But yet when I look at what HUD does, those average costs, administrative costs, are about $7,400, almost $7,500, almost 3 times what they are doing in Pennsylvania.

Can you give me an idea why the American taxpayer shouldn't be extraordinarily frustrated with the cost that HUD is doing this, when other government agencies and the States are doing it for a fraction of the cost?

Ms. GALANTE. Congressman, let me respond in a couple of different ways. First, the State program was set up for agencies. They were allocated funding because they already had substantially similar programs up and running in their States, and so they were allocated this funding so that they could—

Mr. DOLD. But they are doing it for a fraction of the cost. Per loan, they are doing it at almost a third of the cost.

Ms. GALANTE. Yes. So to my point, because they already had programs up and running, this was an additive pot of funding for them. On the HUD side, we were starting from ground zero with

all the other States and counseling agencies and contracting, so there were startup costs for—

Mr. DOLD. So we should see next year this drop precipitously to fall in line then, because it has been going on for a period of time? Am I correct in saying that? Up-front costs have been taken care of, so next year it should fall back in line?

Ms. GALANTE. Unfortunately, the program ended. There is no additional funding, unless there is some kind of extension of the program. If there were an extension, then, yes, the up-front costs have been taken care of.

Mr. DOLD. Excluding the up-front costs though, other administrative costs. And that is part of the complaint that I hear from taxpayers all the time, is that the government is just inefficient in how it does things. And certainly having to deal with the government from a previous life, I would certainly concur.

Let me switch gears, if I may, Ms. Galante, and go over to the FHA refinance program. To what extent—certainly when we look at the amount of activity, does the lack of activity within the FHA refinance program speak to the practicality or the usefulness of the FHA refinance program?

Ms. GALANTE. I guess I would want to make sure I understand your question. Are you talking about the FHA short refi? Because the FHA global refinancing for FHA borrowers, FHA streamline financing has helped 700,000—

Mr. DOLD. I am talking about the program that basically has had about 242 applications and about 44 loan remodifications in a period of about 8 months. That, to me, would be dismal.

Ms. GALANTE. Thank you. So that is the FHA short refi program, which as I mentioned earlier is a program for non-FHA borrowers to have the opportunity to refinance into FHA mortgages. It is a voluntary program on the part of lenders.

Mr. DOLD. We have obligated $8 billion for it. My question is, is this program one we should scrap, according to HUD?

Ms. GALANTE. I would say absolutely not. This is a program we want to build on. My colleague from Treasury can talk about how the $8 billion works. We have not—there have been no losses under this program and there have been no direct expenditures on loan losses for the program at this time.

Mr. DOLD. I have under a minute, so please excuse me on that one. I am going to shift over.

Ms. Chavez, you talked before about the NSP, talking about how it has created or stabilized an additional 90,000 jobs and 100,000 properties, is that correct?

Ms. CHAVEZ. It will. That is the goal when the $7 billion are expended. We are a third of the way there in terms of properties.

Mr. DOLD. I just want to make sure that those who are tuned in and watching this thing, because back in the private sector, we will look at this thing and say, I am going to go 90,000 jobs and 100,000 properties. So you know what I am saying? It is almost one job per one property, almost a one-to-one. It is a little bit less than that. Is that an effective use of our dollars? Are we getting the most out of it?

Ms. CHAVEZ. Yes, we are. We can give you the data on the jobs that are—

Mr. DOLD. You and I might disagree in terms of how we are effectively using that. But I want to make sure you think that is an effective use.

Ms. CHAVEZ. Yes, it is. And early results in terms of impact of vacancy reduction and stabilizing home prices are very positive.

Mr. DOLD. Madam Chairwoman, I know that I am running out of time, but I want to just follow up if I could for Mr. Kingsley, just food for thought on this, why should taxpayers continue to support additional programs that don't meet expectations? That would be just a general thing that I have not only for this panel, but for panels across the government coming again. Taxpayers are looking for the Federal Government to make the biggest bang for the buck, because we desperately need to make sure we are stretching those dollars because we are in a financial crisis right now.

I thank you all for your time.

Chairwoman BIGGERT. This concludes our first panel. 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.

I would like to thank you all for being here, and we will dismiss this panel. When we will come back, as soon as votes have ended, we will start with the second panel, which will probably be around 11:30, 11:25. I hope sooner than that.

[recess]

Chairwoman BIGGERT. The hearing of the Subcommittee on Insurance, Housing and Community Opportunity will come to order and resume. Thank you for your patience for those votes, those pesky votes that seem to come up when we don't expect them.

Thank you to the second panel. I would now like to introduce you: Mr. Neil Barofsky, senior fellow, New York University School of Law, and he was our former SIGTARP Special Inspector General, so it is nice to see you back on the witness stand: Dr. Mark Calabria, director of financial regulation studies at the Cato Institute, thank you for being here; Ms. Laurie Goodman, senior managing director, Amherst Securities Group, LP.; and Mr. Andrew Jakabovics, senior director of policy development and research, Enterprise Community Partners.

Without objection, your written statements will be made a part of the record and you will each be recognized for 5 minutes to present a summary of your testimony. We will start with Mr. Barofsky. You are recognized for 5 minutes.

STATEMENT OF NEIL M. BAROFSKY, SENIOR FELLOW AND ADJUNCT PROFESSOR, NEW YORK UNIVERSITY SCHOOL OF LAW

Mr. BAROFSKY. Thank you. It is always a privilege to be on a panel where I don't have the hardest-to-pronounce name. It is rare, but it is kind of nice.

Madam Chairwoman, members of the subcommittee, it is truly a privilege and an honor to be back testifying before this committee once again on the Administration's foreclosure mitigation efforts.

When I was last here a little bit more than 7 months ago, the state and outlook for HAMP and its related programs was quite bleak, and at that time I pleaded with the Administration to make the wholesale necessary reforms so that Treasury could keep the promise it made to Congress and the American people that TARP funds would be used not only to generously bail out the largest Wall Street financial institutions that caused the crisis, but also struggling homeowners.

Unfortunately, 7 months later, my plea, along with many others and members of this committee, have been flat out ignored. Rather than change, we have the status quo. Rather than seeing a meaningful increase in the number of participants in the HAMP program, it continues to trail off, with just about 13,000 new trial modifications in the last month. And rather than being candid about the problems and committing to reform, we see the type of obfuscation that we saw in this morning's session, with Treasury continuing to declare success against ever-changing and meaningless goals. HAMP has failed, and with it, it has crushed the hopes of millions of homeowners.

Due to the ongoing foreclosure crisis, there is now consideration of potential new programs or expanding old programs, and I thought I would share some very basic lessons we have learned from HAMP's failure.

First, the necessity for comprehensive planning. Too often, the Administration's response has been to rush out a program that promises great results and looks great on paper but ends up being a failure. This "ready, fire, aim" approach has problems that are still ricocheting through the system. For example, in the HAMP program, which was originally announced to help up to 4 million homeowners get the benefit of permanent government-sponsored mortgage modifications, here we are 2½ years later with the program limping along with fewer than 700,000 ongoing modifications, a program that has been plagued by bad planning, rushed implementation, and incompetent management.

But that program actually looks great compared to the FHA short refinance program. That was supposed to help up to 1.5 million homeowners. And here we about a year later after implementation with 301 families helped. Good planning matters, and the poor planning for these programs has had devastating effects and lost opportunities.

Second, it is a basic and good tenet of good government, any program, that you have clear articulable goals, you measure performance against those goals, and then you change the program if it is not working to meet those goals. What Treasury has done is the exact opposite—changing its goals to meet performance no matter how anemic it is and declaring it a success. They have convinced no one. All they have really done is further damage the already impaired credibility of Treasury.

And, third, these programs generally rely on third parties, like the mortgage servicers in the HAMP program, so it is essential to have the right balance of incentives and penalties. Secretary Geithner testified in February of this year that the incentives in HAMP were, in his words, not powerful enough. And by that, I

take it he is referring to the conflicts of interest that are baked into the HAMP model by the way Treasury designed it.

But rather than address that problem, Treasury has ignored it. Even worse, they have given a free pass to the mortgage servicers who have had just an abysmal performance, in their words, with not complying with the program's rules and regulations. Rather than having a meaningful penalty regime, they backtrack and really come up with a bunch of political gimmicks and tricks that give them a free pass for having really committed egregious abuses on homeowners through the implementation of this program.

Part of me still believes that the government should have a role in foreclosure mitigation, if for no other reason than that this was the necessary promise that Treasury made in order to get TARP passed in the first place. But it is becoming harder and harder to support these measures. Whether it is through sheer incompetence, undue deference to the banks or just missed opportunities, the Administration has demonstrated itself to be an incompetent manager of these programs, and it is a real question of whether they can effectively manage any mitigation program. And when they come out as they did this morning and suggest that they have had success in completely unrelated areas, it really raises a question of whether we can trust them to do so.

Madam Chairwoman, members of the committee, again I thank you for this opportunity and I look forward to answering any questions that you may have.

[The prepared statement of Mr. Barofsky can be found on page 42 of the appendix.]

Chairwoman BIGGERT. Thank you very much.

Dr. Calabria, you are recognized for 5 minutes.

STATEMENT OF MARK A. CALABRIA, PH.D., DIRECTOR, FINANCIAL REGULATION STUDIES, CATO INSTITUTE

Mr. CALABRIA. Chairwoman Biggert, distinguished members of the subcommittee, to evaluate the effectiveness of the Administration's response to the housing crisis, I believe one first must look to the conditions of the housing market. Intentions are one thing; outcomes are quite another.

The first market condition to keep in mind is that despite large price declines, housing in many parts of the country still ranks expensive relative to income. Historically, median home prices tend to be 3 times the median incomes. We are close to this relationship at the national level. Many cities, such as San Francisco for instance, still have median home prices almost 8 times median income. Such prices remain out of reach for the typical family.

We should also recognize that new home prices still remain well above construction costs. Over the long run, in a competitive market, prices fall to meet the price of production. Up until about 2003, this was the trend in the housing market. This relationship is likely to reassert itself over the next few years.

It is also worth noting that existing home sales in 2010 were only 5 percent below their 2007 level, while new home sales remain almost 60 percent below their 2007 level. The primary reason for this difference in my opinion is that existing home prices have declined by a much greater degree, more than twice that of new home

prices. I believe this clearly illustrates that housing markets work like every other market. If you want to eliminate excess supply, you have to allow prices to drop.

As prices have continued to slowly decline, sales activity has slowly increased. On a seasonally adjusted basis, existing home sales for the first half of 2011 were 12 percent above home sales for the second half of 2010. I am expecting further minimal price declines at the national level. And while none of us have a crystal ball in terms of sales activity, I believe we have come close to hitting bottom and are slowly working our way towards a recovery in the housing market.

That said, it is important to keep in mind, I believe, we are years away from seeing anything like the activity of 2005 and 2006.

I believe there is some consensus that there is a considerable pent-up demand for housing, perhaps as much as 2 million units. The question is, what it will take to elicit that demand? As we have tried a variety of incentives, such as the home buyer tax credit, with I believe at best mixed results, I believe this pent-up demand will not really show itself until we see further price declines, even if those price declines are small.

So, again, to emphasize one of the points that I am trying to make, we should not be afraid of further price declines. We should actually welcome that as a way of trying to clear the housing market.

I will say as an aside that I look at shelter, housing, as one of life's basic necessities, so not only should we see price declines as helping to clear the market, we should also see price declines as helping to make one of life's basic necessities actually more affordable, cheaper.

To get to this point touches on what I see as the central flaw in most of the Administration's response to the housing crisis, which is rather than accept the fact that perhaps we built too much housing, perhaps we encouraged buyers to get into homes they could not afford, the Administration has consistently viewed the housing market through a Keynesian lens of lack of adequate demand, and it is just one policy after another trying to create artificial demand in the housing market through one stimulus after another, rather than actually allowing the market to clear via prices reflecting fundamentals.

We must also recognize that owners' equity or lack thereof has little to do with their ability to pay their mortgage, but simply impacts their willingness to pay their mortgage. The primary driver of mortgage delinquency is job loss. Putting an artificial floor under housing prices will not turn the labor market around. I cannot overemphasize this point. I think the primary driver of the housing market at this point is the labor market, and turning the labor market around will be the best thing we can do to get the housing market moving again.

It is also important to keep in mind that subsidizing the unemployed to remain in place will not turn around either our mortgage market or our housing market. Current foreclosure policies as well as the elevated rate of homeownership entering the crisis in my opinion have injected significant rigidities into our labor market.

It should also be recognized we do not have a national housing market. We have lots of regional and local housing markets. The housing vacancy rate, for instance, is a useful gauge of excess supply and illustrates this point. At one extreme, Orlando has a owner vacancy rate approaching 6 percent, whereas on the other extreme, cities like Allentown, Pennsylvania, have owner vacancy rates of about 0.5 percent. So, again, vast differences across the country. Even vast differences within the same State. If one looks at Riverside compared to San Jose in California, the differences in market conditions are dramatically different.

One point to keep in mind, because of these dramatic differences, markets react differently to the same Federal policies. Markets where supply is tight and building is difficult react very differently than markets where it is relatively easy to bring forth additional supply. The importance of this distinction is that policies that attempt to increase demand are likely to increase prices in tight markets rather than increase volumes, where in looser markets such as Phoenix, these demand things will actually add additional supply and result in further pricing declines. So, again, we need to make sure that we are not making the most expensive markets more expensive by making those with a glut have additional gluts.

I will end by saying that it is also important to keep in mind that so much of the discussion among policies in our housing market has focused on the middle class and those better off. We should not forget those who don't have homes at all. While the quality of data on homelessness is not what it is in the rest of the housing market, every indicator seems to suggest that we have seen a tremendous increase in homelessness over the last couple of years, particularly among families. And so again, I think because our traditional assistance programs have focused on individuals and focused on central cities, I would suggest to the committee to reevaluate the current structure of our McKinney-Vento Homeless Assistance Act programs in light of current market conditions.

I thank you for your indulgence and welcome your questions and comments.

[The prepared statement of Dr. Calabria can be found on page 50 of the appendix.]

Chairwoman BIGGERT. Thank you.

Ms. Goodman, you are recognized for 5 minutes.

STATEMENT OF LAURIE S. GOODMAN, SENIOR MANAGING DIRECTOR, AMHERST SECURITIES GROUP LP

Ms. GOODMAN. Chairwoman Biggert and members of the subcommittee, thank you for your invitation to testify today. My name is Laurie Goodman and I am a senior managing director at Amherst Securities Group, a leading broker-dealer specializing in the trading of residential mortgage-backed securities. I am in charge of strategy and business development for the firm.

We perform data intensive research as part of our efforts to keep ourselves and our investors informed of critical trends in the residential housing market. That work has shaped our view of the housing crisis and I will share some of our results with you today.

The Obama Administration has pursued a number of measures to try to stabilize the housing market. In February 2009, the Ad-

ministration announced the Home Affordability and Stability Plan. This plan included both HAMP, the Home Affordable Modification Program, a loan modification program designed to help at-risk borrowers; and HARP, the Home Affordable Refinancing Program, a program designed to eliminate frictions to refinancing and allow existing GSE borrowers to take advantage of lower mortgage rates. I would like to focus on the success of these two programs.

The HAMP program was originally estimated to reach 4 million borrowers. As of the end of July, there have about been 1.66 million trial modifications extended. Of these, there are now 675,000 active permanent modifications and another 106,000 in active trial. So even if all these active trial modifications were to become permanent and there were no further defaults, the success rate on this program would have been less than 50 percent. To date, the program overall has achieved less than 20 percent of the original stated goals.

The HAMP program has done a good job reaching eligible borrowers. The problem is the program's success rate is relatively low. The largest reason for the failure of HAMP has been the fact that the borrower has not been re-equified.

Our research has shown that redefault rates are significantly lower when principal reduction and not just payment reduction modifications have been made. To improve modifications for success, we would suggest making the principal reduction alternative under HAMP mandatory, as long as it represents the highest net present value alternative. Exclusions would apply only if that action is expressly prohibited by either the pooling and servicing agreement or the ultimate holder of the risk. In addition, treating the second lien pari-passu to the first is a subversion of the lien priority and a hindrance to successful modification as it impedes the re-equification of the borrower.

In recognition of the fact that a disproportionate number of delinquent borrowers have second liens, we suggest that if the first lien is modified, second liens should be eliminated or at the minimum take a disproportionate writedown. However, modification activity alone is insufficient to bridge the supply-demand gap in the housing market. It is necessary to encourage investor activity. The FHFA-HUD-Treasury request for information acknowledged this and asked for the best way to design the program. In our view, this can best be done by conducting bulk sales of real estate-owned properties and of nonperforming loans owned by the GSEs and FHA. Providing conservative financing would raise the sale price on these assets even further.

The Home Affordable Refinance Program was created to facilitate the refinancing of Freddie- and Fannie-insured mortgages. This program was originally supposed to reach 4 to 5 million borrowers with GSE mortgages. In fact, the number of HARP refinances is actually 838,000 through June 30th. Why the limited reach?

In this case, it was not one factor, but a bunch of different factors. The real issue is that the GSEs are not the only bearer of risk on a defaulted GSE loan. Many of these loans have mortgage insurance. Moreover, the GSEs have the right to put back the loan to the originator if it contained a violation of the representations and

warranties that were made at the time when the GSE initially insured the loan.

The three largest impediments to the success of HARP are, first, the mortgage insurance (MI) issue. If the loan is refinanced by a different servicer, the mortgage insurer will lose the reps and warrants they have with the old servicer. Thus, loans with MI tend to refinance more slowly than loans without, as loans with MI are dependent solely on same servicer refi's.

Second, the rep and warrant issue. Many lenders are reluctant to refinance high LTV, low FICO borrowers as the new lender must bear the rep and warrant risk on the refinance loans.

Third, capacity constraints. With the drop in interest rates, mortgage lenders face capacity constraints, but they are not adding capacity. The result is, they are reaping excess profits and keeping mortgage rates to the borrower consistently higher than they should be.

To make HARP successful, we believe it is important to introduce competition by reducing the frictions to different servicer refinances. Other actions that have been discussed to improve HARP effectiveness include the elimination of loan level pricing adjustments, the elimination of the 125 ceiling, and the elimination of all appraisals on HARP refinancing. We believe these actions will have a limited impact.

Again, thank you for the opportunity to appear before the subcommittee. We look forward to working with you on practical solutions to ease the housing crisis, promote housing market stability, and allow homeowners to take advantage of lower rates to refinance.

[The prepared statement of Ms. Goodman can be found on page 75 of the appendix.]

Mr. HURT. [presiding]. Thank you, Ms. Goodman.

Mr. Jakabovics is recognized for 5 minutes.

STATEMENT OF ANDREW JAKABOVICS, SENIOR DIRECTOR, POLICY DEVELOPMENT AND RESEARCH, ENTERPRISE COMMUNITY PARTNERS

Mr. JAKABOVICS. Thank you. That was excellent pronunciation, by the way. That rarely happens.

Congressman Hurt, thank you so much for having me here today and providing me the opportunity to testify, to discuss mechanisms and policy options to facilitate bringing the private sector back into the housing market in a supportive and sustainable way.

I act as senior director for policy development and research at Enterprise Community Partners, which is a national nonprofit organization that creates opportunities for low- and moderate-income people through affordable housing and diverse thriving communities. For nearly 30 years, Enterprise has provided financing and expertise to organizations around the country to build and preserve affordable housing and to revitalize and strengthen communities. Enterprise has invested more than $11 billion and created more than 280,000 affordable homes in hundreds of American communities by bringing public and private capital together to meet local needs.

In addressing the housing crisis, the solutions we must talk about must address the needs of individual borrowers and their families. But a comprehensive approach to stabilizing the broader housing market must include preventive efforts as well as remedial ones. The old adage, "An ounce of prevention is worth a pound of cure" certainly applies here.

The cost of providing counseling or offering foreclosure mediation, both of which have proven successful in keeping borrowers in their homes compared to individuals navigating the complicated and often frustrating modification process without help, is far, far less than the cost of foreclosure borne by families, communities, municipalities, lenders, and investors.

A theme that will recur through my testimony is that successful interventions in the housing market require deliberate coordination. There are too many moving pieces and too many overlapping interests to act unilaterally. Collaboration is key. So while I am going to focus most of my testimony on the pressing need to continue minimizing the impact of foreclosures, I would be remiss if I did not mention that the best option for avoiding a costly foreclosure is to provide a distressed borrower with an affordable mortgage payment, as we have heard up till now.

With better coordination in mind, however, bulk note purchases by entities or consortia with the capacity and flexibility to restructure notes where possible, including through principal reduction, and the ability to transition properties with minimal disruption or vacancy, either through negotiating a deed for lease with the current owner or quickly repairing and renting to new tenants into affordable rental portfolios may yet hold the most promise for stabilizing the Nation's housing markets.

You have already heard about changes that could improve HARP, so without going into that again, I would point you to my written testimony on that.

But if we consider that refinancing is one end of the mortgage process, REO disposition is at the other end. Stabilizing the housing market means more than being effective in keeping people in their homes. It means dealing with the impact that foreclosures have on communities across the country.

Vacant and blighted properties have terrible effects on neighbors of foreclosed properties and whole communities. Research has found the contagion effect with price declines increasing with each additional foreclosure in an area. The impact of a foreclosed property increases the longer that property sits unsold.

The Neighborhood Stabilization Program was designed specifically to address that contagion. Through targeted interventions to acquire properties in hard-hit communities, NSP has created jobs when houses are restored to good quality and helped put families back into formerly distressed properties. The most successful programs have been those that have brought private capital into their efforts to stabilize neighborhoods, and in places like New York, Cleveland, and Sacramento, those funds have been leveraged more than one-to-one with private capital.

Those programs, however, focused on narrow communities in small areas in order to maximize the potential impact. But to address the need of foreclosed properties across the country, we have

to bring responsible private capital back into the housing market for broader stability.

There are issues with the NSP recipients being able to revolve their funds when they cannot sell homes because lenders are not lending even to creditworthy borrowers, and this has significantly limited the potential scope of NSP's efforts to restore those communities.

We heard a little bit this morning from the first panel about Project Rebuild and the fact that it is intended to create or support 190,000 jobs and addressing 80,000 foreclosed, vacant or abandoned properties nationwide. But the problem is much, much larger than just those 80,000 properties.

As we have heard, based on the RFI put forward by FHFA, HUD and Treasury, we need to find a better way of disposing of properties that the GSEs and FHA acquire in foreclosure. The current REO disposition process for everybody, both the private sector and public agencies, is designed to treat individual properties one at a time, assigning it to a broker for sale and then writing off the losses after closing.

The process rarely takes into account how any individual property might impact other properties, and we have to be far, far more strategic, again both on the individual side as well as on the private side, as to how best approach the process. So by removing REO properties from the forced sale inventory by converting them to rental in bulk, there is an opportunity not only to quickly increase the supply of rental homes, most of which will be affordable, but downward pressure on prices from excess forced sale inventory for owner occupants would also be alleviated, allowing for a faster housing market recovery.

To be successful, an REO rental program must address the initial sales process, buyer qualifications, post-purchase treatment of properties, and ultimately excess strategies for the buyer. I point you to my written testimony for recommendations. But very, very briefly, buyer qualifications are absolutely critical. You have to ensure that the buyers have sufficient capital to acquire and maintain the properties and that asset managers are in place to treat the properties with the respect that those properties and their tenants deserve as well as the communities in which they are found.

I look forward to taking any questions you might have.

[The prepared statement of Mr. Jakabovics can be found on page 83 of the appendix.]

Mr. HURT. Thank you, Mr. Jakabovics. I recognize myself for 5 minutes.

I am glad that you talked a little bit about the Neighborhood Stabilization Program. Maybe my question, I really have one question for everybody, but I would like to start with you since you spoke about it.

Obviously, foreclosure mitigation is something that I think as far as everyone here is concerned, is something that we want to achieve. We want to prevent people from being put out of their homes under these circumstances. I guess the Neighborhood Stabilization Program comes to our attention, particularly because expanding that program is part of the President's jobs plan, as you call it, Project Rebuild.

I think from my standpoint, the fact that the Neighborhood Stabilization Program has not prevented any foreclosures, and I understand that is perhaps not the primary purpose, but at a time when we are borrowing 40 cents on every dollar that we spend and we have to prioritize what money we do have coming into our Treasury in order to maximize the return, I wonder about the efficiency, the efficacy of this program. One of the things that I also note is that the Neighborhood Stabilization Program since 2008 has been given $7 billion. It appears to me from my math that it has only used between $4 billion and $5 billion of that, and that is since the crisis in 2008, and it has not mitigated any foreclosures.

So I guess my question for you is, how do we justify another $15 billion into this program when it is not mitigating foreclosure? And I also wanted you to speak to the fact that it is my understanding that the President's proposal would extend this to commercial properties as well.

Could you talk about that? And then, I would like to maybe go to Mr. Barofsky, Dr. Calabria, and Ms. Goodman.

Mr. JAKABOVICS. Sure. I think it is important to recognize the sort of flow of ways properties end up in foreclosure. And what NSP is really designed to do is address post-foreclosure, minimize the impact on everybody else around them. So one of the things that—the way I think it has been incredibly successful—and we have seen this in a number of places—is that as those properties get rehabilitated, they are no longer blights on the community. They don't drag down neighboring prices.

On the one hand, job loss is certainly a critical component in terms of ultimately delinquency, default and then—delinquency and then default. The probability of a property going ultimately through to foreclosure is very, very closely tied to the value of that property relative to how much the homeowner owes on that mortgage. And so, as homes go into foreclosure, the more foreclosures that are in an area and the more properties are sitting on the market that are vacant and abandoned and blighted, the less value everybody else associates with those properties. The idea is that by bringing those properties back into productive use, getting people into properties—it is not designed at all to address pre-foreclosure issues.

Mr. HURT. And I get that. But I guess if you are dealing with a limited amount of resources, would it be wiser to use those resources to prevent that in the first place and keep somebody in the home? That would be the question. But maybe—

Mr. JAKABOVICS. Optimally, you want to keep everybody in their homes. But if people don't have jobs, and can't make mortgage payments, there is very little that we can do. People are not finding jobs, so at some point foreclosures do happen. And the idea behind NSP specifically is very, very closely targeted to dealing with the impact of those foreclosures that are going to be inevitable.

Mr. HURT. Thank you.

I would like to just give the other panelists the opportunity to answer briefly, if you can.

Mr. BAROFSKY. Sure. One of the things that is striking, as you said, it sounds like it has been about $4 billion to $5 billion out of a projected—

Mr. HURT. $7 billion that has already been allocated.

Mr. BAROFSKY. $7 billion. So, once again, you have these very strong predictions of a wide application of a program that fall short. Now, compared to other programs, that is remarkably good. When you look at HAMP, which had $50 billion allocated, and we spent $2 billion, and that was supposed to help 4 million people. Or the $8 billion allocated to FHA short refinance, and I think it spent $50 million, helping 301 people out of the 1½ million.

So I think it is very important to sort of, before allocating money or obligating money, to look at whether or not that money can actually be spent in an effective manner. It is not just in housing programs. We had the small business lending fund, $30 billion was needed, and they ended up spending $4 billion. So I think it goes back to my original point of having good, comprehensive planning so we are not just putting money into a program that can maybe go elsewhere if it is not actually going to be spent and used.

Mr. HURT. Thank you.

Dr. Calabria?

Mr. CALABRIA. There are a couple of assumptions buried in NSP that I think are worth pointing out. Because this is where I would have a disagreement. One assumption, of course, is that cities and nonprofits are going to be better landlords, with a better ability to get these properties back on the market than private investors.

To me, that is a questionable assumption, certainly one that hasn't been proven. I think if you let prices fall far enough, you will have investors out there. A tremendous amount of the sales now are cash anyhow, so I am not sure that I think it makes a good use of taxpayer funds to put cities, localities directly in competition as buyers with private investors who will themselves get these properties back onto the marketplace. And again, the desire is to get these properties back onto the marketplace.

I also again question the intention that we have to be able to prop up prices. What you want to be able to do is get sales volume. You want to get buyer confidence. To get buyer confidence, we need to get to a point where buyers simply believe that prices will go no lower.

Mr. HURT. Right.

Mr. CALABRIA. Another assumption in this, again, much of NSP is aimed at rehabilitating existing properties. In the Detroits and the Buffalos and the Clevelands of the world, as well as the Phoenixes of the world, the problem is not a lack of supply.

Mr. HURT. Right.

Mr. CALABRIA. The problem is excess supply. So adding to that supply only further does that. If we are going to spend this sort of money, perhaps we should be looking at destroying properties, rather than rehabilitating properties in excess markets.

Mr. HURT. Thank you, Dr. Calabria.

Without objection, I would like to recognize Ms. Goodman just for an additional 60 seconds.

Ms. GOODMAN. Okay. If no further actions are taken, about 10½ million borrowers could be in danger of losing their homes. I think

it is very, very important to keep focus on the few actions that can help the most: first, keeping borrowers in their home by doing principal reductions and by explicitly recognizing the second lien issue; and second, to close the supply-demand gap, you have to do bulk sales to get investors involved in the market. Those are the things that will really, really help; and I think we need to focus on doing fewer programs well.

Mr. HURT. Thank you, Ms. Goodman.

Now, it is my pleasure to recognize the gentleman from Wisconsin, Mr. Duffy, for 5 minutes.

Mr. DUFFY. Thank you, and I appreciate the panel for coming in.

I just want to make sure the record is clear, Mr. Barofsky. I heard in your testimony you said that, with the FHA refinance, the goal was for 1.5 million homeowners to be helped, and I think you actually said there were 301 actual people helped. Did you mean to say 301,000 people helped or 301 actual people helped?

Mr. BAROFSKY. No, no, it is 301. It was about 254 when I stepped down, so I think they have added about 50 in the last 6 or 7 months.

Mr. DUFFY. So those who were helped from this program could actually fit in this room?

Mr. BAROFSKY. It might be a little tight, but, yes, I think so.

Mr. DUFFY. Yes. Okay, I wanted to be clear on that, that I didn't misunderstand your testimony. I think under the backdrop of Solyndra right now, the American people look around and ask, is my government effectively using my tax dollars or are they effectively using the money they are borrowing from China on my behalf and my kids' behalf? And then they will ask, if you are not using my money effectively, are you still accomplishing the goals that you are setting out when you are wasting my money? And I think with Solyndra they would say, no, you wasted our tax dollars, number one, but, number two, you didn't even accomplish the goal you told me you were setting out to accomplish, which was giving seed money for good, green start-ups.

If you look at what is happening, say, with HAMP, if Treasury was a private corporation, would they be fired? Would they continue to exist in the private sector if they have accomplished the goals—if we are reviewing their accomplishments per the goals they set out at the start of the mission?

Mr. BAROFSKY. I think there is no question they have fallen embarrassingly short of the goals. If there is any silver lining to this incredibly dark cloud, it is that at least they haven't spent a lot of money on it. They have obligated a lot of money for it—$50 billion was supposed to be spent, and not to say that $2 billion isn't a lot of money, but in comparison this hasn't been a sinkhole because it has been such a failure. So that is the one silver lining to all this. At least it hasn't cost as much money in not accomplishing their goals as just throwing money at the problem with similar results.

Mr. DUFFY. And similarly, broadly speaking, if we are looking at these programs, I would guess that many of you would agree that many of them are underperforming, to say the least?

Mr. BAROFSKY. Failing.

Mr. DUFFY. Failing, yes, okay, that is a little more aggressive. Are any of the programs working? Can you sit here and say, listen,

we have some hope; there is a little light out there shining that can help?

Tuly, Americans who are in some very difficult times and I think to find some programs that can help them out, are any of these possibly going to get that job done, helping the American homeowner?

Mr. BAROFSKY. Again, I think, rather than just do opinion, you just look at the numbers. So HAMP is supposed to help 4 million, 691,000 ongoing, almost 900,000 fails. The FHA program we talked about, the principal reduction program which was rolled out as part of HAMP, which we heard about in the testimony this morning, that has helped 10,000 people. Second lien modification is such a huge problem, as Ms. Goodman described, 35,000. The HAFA program to help people leave with dignity through short sales, 16,000. Unemployed program, this is supposed to help the millions of unemployed with our tremendous unemployment, 14,000. It is not just for me to say that it's a failure. These numbers are unambiguous. They are failing.

Mr. DUFFY. And are there programs the government can—oh, I am sorry?

Ms. GOODMAN. Yes, I just wanted to mention, the one thing that could potentially help a lot which has been introduced is Treasury, HUD, and FHFA did a joint request for information on bulk sales to investors, sort of a deed for lease; I think that a program facilitating bulk sales to investors with the express purpose of renting out those properties could potentially help a lot. I think that is the most important initiative that has been taken, and should be definitely encouraged.

Mr. DUFFY. It could work?

Ms. GOODMAN. And that could work. You could actually put stipulations on it like investors can't sell those properties for a number of years or can only sell 20 percent of those properties in the first 3 years or whatever to make it even more effective, and I think that program should be pushed.

Mr. JAKABOVICS. If I may, also, I think that a lot of the reasons for failures that have been identified both by Mr. Barofsky and Ms. Goodman are largely private-sector failures. I think part of the problem has been an overreliance on the private sector to act as agents for the government without sufficient oversight and sufficient sticks to ensure compliance.

So to put the blame entirely at the feet of government for coming up with efforts to help homeowners, I think if you would ask those nearly 700,000 people who have been able to stay in their homes as a result of the modification efforts or the communities where the blighted property next door has not only created a job for them but also made the neighborhood a little bit more attractive, I think from that perspective—there is enough—there is certainly enough blame to go around, but I think it would be a mistake to write all of this off as a failure simply because it hasn't met potentially outsized expectations from the get-go.

Mr. HURT. Do you want more time?

Mr. DUFFY. Could I have—

Mr. HURT. Without objection, the gentleman is recognized for an additional 2 minutes.

Mr. DUFFY. Thank you.

I think as we sit back and look, Mr. Calabria, you have indicated that, if I am understanding your testimony, if we just step back and let the market work, maybe the market could more effectively find a floor so then we have sufficient demand to step in and see the market then take off again. Is that your position?

Mr. CALABRIA. That is very much the case. I would characterize a lot of the actions as somehow trying to get back to 2005–2006. That was not a sustainable situation. We need to accept we built too much housing. We need to accept that the way that works going forward is you try to clear the market by prices coming down.

I want to draw out a point that I think was implicit in something you said earlier about tax dollars. So much of the reaction has been that we need to maintain housing wealth, we need to maintain housing values because that is people's wealth. We need to keep in mind that homeowners and taxpayers are the same people. Taking a dollar out of my left pocket and putting it into my right pocket does not make me better off just because you switched it around on my balance sheet. So it is important to keep that in mind.

If we can find ways, like bulk sales, which I do think is one of the things that can be done effectively, something I would add, maybe a little of the difference is I think we do need to resist the temptation of micromanaging those bulk sales. If we put too many restrictions like, you have to have income requirements or so much of it needs to go to nonprofits, you will make the process more cumbersome.

I think all you need to do is look at, for instance, FHA's asset control area program they have been running for over a decade. It has been a disaster, in my opinion. So, again, resist the temptation to micromanage. Get the properties out there in the market.

Mr. DUFFY. Right. And if we have a philosophy of letting the market work, but then, also, if someone is going to say Congress should also try to do something to move the process along, do you have any ideas on where we would go if we are relying on the market but also a little Miracle Gro as well? I don't know—

Mr. CALABRIA. I think there are a number of areas you need to look at. The bulk services is one area. I think we need to parse out some of the discussions on foreclosures. The Administration, the President himself has said this. We can't save everybody. We need to be more honest about that. I think you need to have essentially a two-tiered process—

Mr. HURT. Thank you, Dr. Calabria.

Mr. CALABRIA. Those homeowners who can be saved, move forward, those who can't—

Mr. HURT. Thank you, Dr. Calabria.

It is now my pleasure to recognize the gentleman from California for 5 minutes, Mr. Sherman; and we will certainly give him more time if he needs it.

Mr. SHERMAN. Okay. I don't think what the American people want is to get into this room and have a shouting match, less filling—what is the other side of that—better tasting or whatever? Or "government's at fault, private sector's at fault."

The fact is, Americans are mad because the system isn't working. They know that the private sector either caused it and/or hasn't

solved it. They know government either caused it and/or hasn't solved it or, as some of our witnesses have pointed out, has solved it for tens of thousands of people at a time when we wanted to solve it for hundreds of thousands of people.

I would point out that the fact that the various programs adopted in the last Congress have helped a lot fewer people than anticipated also means they have cost an awful lot less than anticipated. And so those who oppose those programs should regard that as an unintentional compromise, halfway between what Democrats wanted both in terms of number of people helped and cost to the Federal Government and what the other side wanted.

People have been urging compromise on me for a long time. Things being ineffective and too slow is probably not the way they wanted to achieve that compromise.

As to bulk sale, Ms. Goodman, what do we need to do governmentally to facilitate investors buying these homes in bulk and renting them out?

Ms. GOODMAN. We basically have to make the program available on a scale that works. So, basically, my recommendation would be that you get together, say, 200 properties in a given MSA, and you sell it as a bulk sale, and you will get excellent execution. Because basically what you have to do is encourage large investors to build out an infrastructure for renting out these properties, for managing these properties, and they are going to pay more for bulk. If you can accumulate five properties in Indianapolis, that doesn't allow you to build out a structure. If you can accumulate 200 properties, it does. You don't need legislation. You have to basically put the program into place.

Mr. SHERMAN. You need a program. What is the matter with the private sector, Wells Fargo and Bank of America saying, "Hey, let's get together. You have 100 homes in Indianapolis, I have 100 homes in Indianapolis, we will put them up for bid."

Ms. GOODMAN. Because most of the properties—or at least half of the loans in the United States are either Freddie, Fannie, or FHA/VA properties; and so the government actually has to be willing to dispose of these properties in bulk and put a program into place to do so. You don't need legislation. You need action.

Mr. SHERMAN. And this bulk sale idea is the only thing I have seen at least three witnesses, if not four, testify in favor of, and it is consistent with what I see in my district, which is there is a surplus of homes for sale or will be as soon as they grind through their foreclosure process and a dearth of rental housing. And in fact, many of the people who want to rent would prefer a single family home since that is what they bought back when they could afford to buy it.

Ms. GOODMAN. Very well said.

Mr. SHERMAN. The focus here in part is, how do we maintain home values without costing the Federal Government a lot of money?

One of the ways to do that is to, in my area, which is a high-cost area, is to maintain the $729,000, $750,000 conforming loan limit. Ms. Goodman, what do we expect to happen to homes that were selling for $800,000, $900,000, even a million dollars now that the conforming loan limit has dropped to $625,000?

I know the homes that sell for $20 million down in Malibu aren't going to be affected. If you buy one of those, you probably own a bank. But for those homes which, believe it or not, in my area are called middle-class homes but sell for over $700,000, what is this decline in the conforming loan limit going to do to home values and the ability of buyers to purchase?

Ms. GOODMAN. It is important to realize that credit availability is constrained across the spectrum to begin with. Freddie and Fannie's average FICO score is 762 for recent origination. The average LTV is 67. Bank portfolios have similar origination standards.

Mr. SHERMAN. The LTV is 67?

Ms. GOODMAN. On average.

Mr. SHERMAN. That is a one-third downpayment? Wow.

Ms. GOODMAN. Yes, yes. Credit availability is very, very limited as it is, and what that will do is constrain credit availability even more.

Taking a step back, you have this huge supply and demand gap. As you pointed out, you have a lot of homes that haven't been foreclosed on but will be. The borrower just can't afford to be in that home. You have to transition to someone. Your choice is you either transition to another owner occupant who has less good credit because he couldn't make the payments on his prior home or you are going to have to transition to investors.

So it just makes a case that at the margin, the loan limits—the recent decrease in the loan limits makes credit availability tighter for that sector.

Mr. HURT. Without objection, the gentleman is recognized for an additional 2 minutes.

Mr. SHERMAN. I appreciate that.

Is there any evidence that the private sector is ready without any kind of government guarantee to make the loans of $700,000, $725,000 to middle-class or upper-middle-class families trying to buy homes?

Mr. CALABRIA. If I could add to that for a second, and I will start with—I am always loathe to generalize from anecdote, but I will use myself.

I was just qualified for a jumbo loan in Washington, D.C., that would have been below that limit if it had not been changed; and I will say the difference in cost to me is 25 basis points of what I would have gotten otherwise. But I did get the loan, and again, that is just one example.

Mr. SHERMAN. With all due respect, some Republicans would say that Washington, D.C., because it's bleeding the rest of the country dry, is the only hot housing market in the country, and you have qualifications in terms of your ability to manage your finances that the average constituent or Member of Congress does not have.

The next issue is with regard to homes where people just want to refinance. That will enhance their equity. They are not able to refinance because they are underwater. At least, they don't have a huge amount of equity in the property.

It has been proposed that we allow these people to refinance because the Federal Government is already on the hook for the loan. You have a $500,000 loan at 8 percent interest, and the govern-

ment is on the hook, and there is no equity in the property. And you convert that into a $500,000 loan, nobody is allowed to take out any money—$500,000 loan, the government is still on the hook, and it is 3 percent interest or 4 percent interest.

Ms. Goodman, what do we have to do to allow people to refinance? Won't we reduce the government's risk if the interest rate is 4 percent instead of 8 percent, and obviously we enhance a life for the homeowner who is able to refinance?

Ms. GOODMAN. Absolutely. Where Freddie and Fannie already own the risk, there is absolutely no reason other than the series of frictions I delineated why the borrower shouldn't be able to refinance to take advantage of lower rates. Almost everybody is better off. It should be able to happen.

Mr. SHERMAN. And if I can just comment, what you have now is an unjustified profit where the current holder of that loan is earning 8 percent, government guaranteed, at a time when, if you buy it from Mr. Bernanke, he will pay you a quarter of a point—well, 2 percent.

I yield back.

Mr. HURT. Thank you, Mr. Sherman.

I ask unanimous consent to insert the following material into the record: the October 3, 2011, letter from the National Low Income Housing Coalition; the October 6, 2011, statement from the National Association of REALTORS®; and the October 6, 2011, statement from Mercedes Marquez, Assistant Secretary for Community Planning and Development, U.S. Department of Housing and Urban Development.

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.

I would like to thank the witnesses for joining us today; and, without objection, this hearing is adjourned.

[Whereupon, at 12:35 p.m., the hearing was adjourned.]

A P P E N D I X

October 6, 2011

STATEMENT OF NEIL M. BAROFSKY

SENIOR FELLOW AND ADJUNCT PROFESSOR
NEW YORK UNIVERSITY SCHOOL OF LAW

BEFORE THE
HOUSE COMMITTEE ON FINANCIAL SERVICES
SUBCOMMITTEE ON INSURANCE, HOUSING AND COMMUNITY OPPORTUNITY

OCTOBER 6, 2011

Chairman Biggert, Ranking Member Gutierrez, and members of the Committee, I am honored to appear before you to discuss the Department of the Treasury's Home Affordable Modification Program ("HAMP") and lessons that may be learned from its failed design and implementation.

In March 2011, I stepped down as the Special Inspector General for the Troubled Asset Relief Program ("SIGTARP"). Since then, I have been working at NYU School of Law as an Adjunct Professor and a Senior Fellow at its Center on the Administration of Criminal Law as well as its Jacobson Leadership Program in Law and Business. The Center is an apolitical advocacy organization and think-tank dedicated to promoting good government practices in the criminal justice system, particularly focusing on prosecutorial power and discretion, while the Leadership Program is designed for students who aspire to a non-traditional career path that requires intensive training grounded in legal and business curricula. In addition, I am pleased to be teaching a seminar on the government's response to the financial crisis, including the Troubled Asset Relief Program ("TARP").

HAMP emerged from Treasury's initial promise that TARP would be used to bail out homeowners on Main Street as well as the megabanks on Wall Street. As originally sold to Congress, TARP funds would be used to purchase "troubled assets"—the mortgages and mortgage-backed securities whose plummeting value helped trigger the financial crisis. Treasury promised that once it purchased those mortgages, it would then modify them where appropriate, potentially helping millions of struggling homeowners keep their homes. It was this promise, of course, that helped deliver many of the votes from Congress that ultimately authorized TARP.

After Treasury shifted the focus of TARP from the direct purchase of mortgage-related assets to capital injections into the struggling Wall Street behemoths, President Obama announced the mortgage modification program in February 2009 to address the government's still-unfulfilled promise to assist struggling homeowners. As announced, HAMP was intended to help 3 to 4 million homeowners stay in their homes through permanent government-subsidized mortgage modifications. By any meaningful definition, that effort has been a failure.

When I last testified before this committee in March 2011, I warned that HAMP was falling far short of its stated goals and even further short of meeting the urgent needs of American homeowners. Unfortunately, there has been little improvement since then. The foreclosure crisis continues to wreak havoc on millions of American homeowners. While the number of foreclosure filings has "dropped" in the first half of 2011 to a still-devastating 1.2 million properties (compared to 1.6 million properties in the first half of 2010, and a record-setting 2.9 million for all of 2010), this improvement is illusory. RealtyTrac notes that the drop-off in foreclosure filings is not due to improvements in the housing market, but rather to processing and procedural delays arising out of the robo-signing scandal. In yet another example of the foreclosure can being kicked down the road, the firm estimates that these delays will merely push as many as 1 million foreclosure actions from 2011 to 2012 or later, adding to the uncertainty in the market. Indeed, there are already gathering signs that the foreclosure machine is once again being restarted, with first-time default notices being sent to 78,000 homes in August, a 33% increase over the previous month. Meanwhile, RealtyTrac's data reveal that bank repossessions continue even in the aftermath of the scandal: more than 400,000 homes were taken back in the first half of the year. And compounding the ill effects, as the *Wall Street Journal* recently

reported, banks are increasingly seeking deficiency judgments against foreclosed-upon borrowers, potentially driving them into bankruptcy.

In contrast, the number of permanent mortgage modifications under HAMP remains feeble. There were just 675,000 ongoing permanent modifications as of July 2011. As of the last time that the data was made public, less than 46% of HAMP modifications were actually funded by TARP, with the remainder executed by the Government Sponsored Entities ("GSEs"). In contrast, a combined total of just less than 880,000 trial and permanent modifications had been cancelled, with more than 106,000 trial modifications still in limbo. Obviously, HAMP's permanent modification numbers pale in comparison not only to foreclosure filings and failed HAMP modifications, but also to the initial prediction that the program would "help up to 3 to 4 million at-risk homeowners avoid foreclosure" "by reducing monthly payments to sustainable levels."

Rather than 3 to 4 million promised mortgage modifications, HAMP's output looks on pace to meet the Congressional Oversight Panel ("COP")'s December 2010 projection of just 700,000 to 800,000 effective permanent modifications through the lifetime of the program, a small fraction of the original goal. Nor is there any reason to suspect that HAMP will see any significant improvement, with only a net increase of about 23,000 permanent modifications per month over the most recent quarter. This is a far cry from the 20 to 25,000 trial modifications *per week* that Treasury officials once predicted. Worse, these figures mirror a slowdown in modification in the broader market: after surveying financial institutions representing 63% of all first-lien residential mortgages nationwide, the Office of the Comptroller of the Currency ("OCC") recently found that the number of new permanent modifications (HAMP and private) has declined every quarter since June 2010.

HAMP's administrative failures have also been breathtaking. In May 2011, the Government Accountability Office ("GAO") released a survey of housing counselors who work with borrowers seeking HAMP modifications. The results confirmed the widespread anecdotal evidence of the servicers' failures. A staggering 76% reported their views of borrowers' overall experiences with HAMP as "negative" or "very negative." Asked to list borrowers' three most common complaints, 59% of counselors answered "lost documentation"; 54% answered "long trial periods"; 42% answered "wrongful denials"; and 37% answered "difficulty contacting servicer." Counselors also reported excessive servicer delays in reviewing HAMP applications. Other studies and investigations, including the important work of ProPublica and anecdotal evidence from SIGTARP's hotline, confirm the widespread abuse suffered by homeowners at the hands of the mortgage servicers charged with implementing HAMP. Sadly, accountability for these deficiencies has gone largely unaddressed, with Treasury offering only the feeblest gestures at penalizing servicers for their misconduct even though, as ProPublica's recent report indicates, it has been aware of servicer misconduct since 2009.

In short, HAMP continues to suffer from design and implementation deficiencies. To assist Congress as it contemplates new government programs to deal with the foreclosure crisis or considers expanding existing programs, I will focus my testimony today on three "lessons learned."

First is the importance of *comprehensive planning*. Treasury rushed HAMP out the door in a manner best described as "ready, fire, aim," leading to mistakes that are still ricocheting today. Second is the importance of *clearly articulated goals*. HAMP began with the goal of 3 to 4 million permanent modifications, but rather than acknowledge the failures and adapt the program, Treasury has simply made up new goals, followed by an instant declaration that these new goals have been met. Third is the necessity of *meaningful incentives and sanctions for third parties*. HAMP was unable to secure meaningful compliance from mortgage servicers when it mattered most because it has neither effective carrots nor sticks.

1. Comprehensive planning. HAMP launched in March 2009 with inadequate analysis, an insufficient incentive structure, and without fully developed rules—all of which has required frequent tinkering with program guidelines. The modification effort was first announced with no guidance in place, leading to an avalanche of calls and applications to the severely underequipped mortgage servicers. This announcement was followed by a hurried rollout that required change after change after change in the technical apparatus for implementing HAMP, such as the Net Present Value test that servicers must employ to evaluate borrowers. These changes caused mass confusion without the benefit of addressing the program's deeper design flaws. For example, in response to a GAO questionnaire in June 2009, several servicers reported that they would not participate in the Program in part because of the constantly shifting requirements, benefits, and guidelines. SIGTARP's review indicated similar frustration with the constantly changing guidelines and modifications, which made the task of the already overburdened servicers even more difficult.

Treasury has been eager to blame servicers for HAMP's early failings, emphasizing that "when HAMP was launched in early 2009, servicers were totally unequipped to deal with a crisis." While much of the servicers' subsequent behavior was inexcusable, Treasury had to have known that they were "totally unequipped" to handle HAMP at the time of the program's launch. Rather than recognize and address this reality, Treasury rushed out the poorly designed program and pressured the servicers to meet the artificial and politically motivated goal of 500,000 trial modifications by November 1, 2009, even though the servicers simply did not have the capacity to effectively do so. Making matters worse, Treasury then pressured the servicers to accepted undocumented trial modifications in an obvious attempt to artificially increase the trial modification numbers for public relations purposes. In other words, while it is true that servicers were unequipped to handle the volume of modifications at the start of the program, it was Treasury's design and rollout of HAMP that made the program so completely dependent on servicer competence in the first place. The harm from Treasury's flawed design and tactics has been significant. Countless homeowners were placed in trial modifications that could never convert into permanent ones, which caused harm to those homeowners who unnecessarily lost their savings, their credit ratings, and their homes. While the paltry number of incoming trial modifications, along with Treasury's eventual adoption of some recommendations (such as eliminating undocumented trial modifications) has limited the ongoing harm caused by HAMP, any future program must avoid these mistakes by planning for expected demand and contingencies, with the aim of setting clear expectations for all participants.

Finally, from the earliest days of HAMP, SIGTARP warned of the necessity of launching an extensive marketing campaign to educate the public about the program, both to maximize its effectiveness and to help deter those who would seek to profit criminally off of HAMP. Treasury ignored this recommendation until it was far too late. Not surprisingly, there have been countless cases of mortgage modification fraud related to the program as predators took criminal advantage of desperate homeowners who were uneducated about the details of the program. And basic misunderstandings led to abuses by mortgage servicers, such as directing homeowners who were current on their mortgages to default. As part of its comprehensive planning, any new program must include a strong public relations effort, including radio and television advertising.

2. Clearly articulated goals. As noted above, HAMP began with the laudable goal of "help[ing] up to 3 to 4 million at-risk homeowners avoid foreclosure" through sustained permanent HAMP modifications. Though the current 675,000 permanent modifications falls far short of this goal, Treasury has still managed to declare success on multiple occasions—though its justification has changed each time. At various points, HAMP has been "successful" because its goal was only to make 3 to 4 million "offers" for modifications (regardless of whether they were accepted or successful, a goal that SIGTARP correctly labeled as "meaningless"); because it has produced a substantial number of trial modifications (even though trial modifications are by definition temporary, and can result in lasting financial and emotional harm when not converted into permanent modifications); because it has encouraged private modifications (even though private modifications are typically far less advantageous than HAMP modifications and have a much higher rate of redefault); or simply because it helped forestall an even greater outbreak of foreclosures at a time when banks were in dire straits (a kicking-the-can-down-the-road tactic that SIGTARP warned back in March 2010 would "merely spread[] out the foreclosure crisis over the course of several years . . . at the expense of those borrowers who continued to make modified, but still unaffordable, mortgage payments for months more before succumbing to foreclosure anyway").

These various justifications are no substitute for a measured assessment of progress against clearly stated goals, which provide public accountability as well as guidance for reform. Undoubtedly Treasury encountered difficulty in meeting HAMP's goal of 3 to 4 million sustainable mortgage modifications. But upon encountering difficulty, it is an axiom of good government that policymakers must change the program to meet the goals, not change the goals to meet the program. Steady goals and metrics allow for meaningful oversight, promote accountability, and provide guidance for useful change. Any future program must have clearly articulated goals that can function as a benchmark for performance, and not repeat the costly error of putting politics over performance.

3. Meaningful incentives and sanctions for third parties. By design, HAMP relies on the cooperation of loan servicers, who operate as the point of contact for distressed homeowners and administer the loans on behalf of investors. In theory, HAMP's incentive payments are supposed to overcome the expenses associated with executing a permanent modification and encourage active participation in HAMP, while the threat of sanctions is supposed to ensure compliance. In

reality, neither the incentives nor the sanctions have been sufficient to drive servicer participation or keep abuses in check.

Earlier this year, Secretary Geithner acknowledged that incentive payments to servicers have "not been powerful enough" to maximize participation. But puzzlingly, there has been no meaningful change since then. Moreover, the current incentive structure does not always incentivize permanent mortgages: in some cases, as we demonstrated in SIGTARP's October 2010 Quarterly Report, it can be more profitable for a servicer to stretch out a trial modification and then foreclose, rather than to install a permanent modification. Thus, the problem of inadequate incentives dovetails with the two previous lessons learned. It is vital to properly address incentives in the first instance, and be willing to meaningfully change the program if performance is not meeting its goals. In HAMP, Treasury did neither.

A similar analysis *would* apply to HAMP's sanctions—except that the program lacks any meaningful sanctions at all. In November 2009, Treasury announced that "servicers failing to meet performance obligations" would face "consequences which could include monetary penalties and sanctions." But when serious and widespread abuses emerged, Treasury hesitated and then backtracked, confessing to the Congressional Oversight Panel in October 2010 that the voluntary nature of HAMP "makes aggressive enforcement difficult" because it may lead to servicers exiting the program, and then claiming in testimony in January 2011 that the $30 billion in contracts that Treasury itself negotiated lacked the provisions necessary to meaningfully discipline servicers. Finally, on February 14, 2011, SIGTARP sent a letter to Treasury seeking its legal justifications. Treasury did not respond to this request while I was at SIGTARP, but instead announced in June 2011 that it had taken the meaningless step of temporarily withholding incentives from just three servicers—Bank of America, JPMorgan Chase, and Wells Fargo—until they stop violating HAMP rules. (A fourth servicer, Ocwen Loan Servicing, was also found in need of "substantial improvement" but continued to receive incentives.) Of course, the three sanctioned servicers had essentially already agreed to stop violating HAMP rules in a previous unrelated settlement with regulators. In September 2011, just three months after its initial wristslap, Treasury deemed Wells Fargo in compliance and paid it in full; it is obviously only a matter of time before both Bank of America and JPMorgan Chase are also made whole. Worse yet, Treasury has not even been able to effectively administer this so called "sanction." As ProPublica recently reported, Treasury *still* made nearly $3 million in payments to the allegedly suspended servicers during this "time out," citing problems with "system limitations."

This regime, described by one servicer as having an impact that "mean[t] very little," was clearly designed to try and placate the many critics of Treasury's enablement of servicer abuse through HAMP. Through its adoption of this approach, Treasury has effectively given the servicers a free pass for the multitude of abuses they have committed in this program. There can be no question that Treasury's fear of the servicers, as opposed to the servicers' fear of Treasury, has helped define this program as the failure that it has become. Any future program must have real sticks to go with its carrots, and not rely on political theater and gimmicks to get by.

Going Forward

With these lessons in mind, it is of course up to Congress and the relevant policymakers to chart the path forward, even as another year passes with the foreclosure crisis stalling economic recovery. Meanwhile, the rampant mortgage servicer abuse that has so strongly characterized the crisis, both inside and outside of HAMP, continues to go unpunished. There are no easy answers, but I believe that any government solution must contend with underwater mortgages (that is, mortgages where the amount of the outstanding principal owed exceeds the value of the home) and servicer accountability.

Today, CoreLogic estimates that there are 10.9 million underwater mortgages, or 22.5% of all outstanding loans. Recovery will continue to be frustrated until there is a reasonable solution to this problem. Too many would-be employees are unable to move to find employment because they are chained to a house they cannot sell; too many homeowners understandably choose to walk away from their home rather than make payments without any hope of regaining equity (causing additional foreclosures and additional downward pressure on housing prices); and there are too many unaffordable mortgage payments based on too much outstanding principal. There needs to be a recognition that many borrowers will never make the required payments on their underwater mortgages, and that the owners of these mortgages have already lost any meaningful chance of obtaining a full recovery of the outstanding principal. The sooner that this reality is recognized and addressed, the sooner a recovery can take hold. As such, an aggressive principal reduction program is necessary, and can possibly be accomplished through: (a) government subsidies (such as the SIGTARP recommendation that principal reduction be mandatory in HAMP when it is in the best interests of both the borrower and the investor), including potentially tapping the tens of billions of dollars of obligated but unlikely-to-be-used HAMP funds; and (b) compulsion through a meaningful settlement of the allegations of servicer fraud and abuse.

Unfortunately, the failure of the government's response to the foreclosure crisis to date gives little reason to hope that either of these potential solutions will soon come to pass. Treasury should have negotiated principal reduction right from the start, utilizing its TARP investments as leverage over the parent companies of the mortgage servicers. Instead, it incompetently administered an ineffective program that seems to have better served the banks than homeowners. At this point, it may prove difficult to even attract homeowners to yet another government program. Too many have suffered the experiences detailed in the GAO survey, and housing counselors describe a condition they call "HAMP fatigue," where borrowers just don't trust the government to help them anymore.

Similarly, there seems to be little hope for an effective settlement guaranteeing principal reduction, judging from the almost farcical and all-too-public drama underlying the rapidly unraveling Department of Justice/State Attorneys General settlement discussions with the largest servicers. Based on the comments of the defecting State Attorneys General, it appears that a year of valuable investigative time has been lost in an ill-conceived process that put the cart of settlement discussions before the all-important horse of a comprehensive investigation. This too seems to be another opportunity lost.

As a result, while I have consistently advocated that *fixing,* and not abandoning the government-sponsored programs is the right solution, and while I still believe that is the right course *if* the government is finally willing to commit to the necessary steps to forcefully and competently deal with the ongoing crisis, it is becoming increasingly difficult to argue against those who advocate that the government should simply get out of the way and let the market's cruel efficiencies take over. Such a process will inevitably result in near-term losses that are higher for both homeowners and lenders, but absent an effective alternative, it may be the only way to finally end the painful and ultimately fruitless game of kick-the-can that Treasury has been playing. And perhaps, in its aftermath, that will lead to recovery.

Chairman Biggert, Ranking Member Gutierrez, and members of the Committee, I want to thank you again for this opportunity to appear before you. I would be pleased to respond to any questions that you may have.

Testimony of Mark A. Calabria, Ph.D.
Director, Financial Regulation Studies, Cato Institute
Before the
U.S. House of Representatives
Committee on Financial Services
Subcommittee on Insurance, Housing and Community Opportunity
On "The Obama Administration's Response to the Housing Crisis"
October 6, 2011

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Chair Biggert, Ranking Member Gutierrez, and distinguished members of the Subcommittee, I thank you for the invitation to appear at today's important hearing. I am Mark Calabria, Director of Financial Regulation Studies at the Cato Institute, a nonprofit, non-partisan public policy research institute located here in Washington, DC. Before I begin my testimony, I would like to make clear that my comments are solely my own and do not represent any official policy positions of the Cato Institute. In addition, outside of my interest as a citizen, homeowner and taxpayer, I have no direct financial interest in the subject matter before the Committee today, nor do I represent any entities that do.

State of the Housing Market

The U.S. housing market remains weak, with both homes sales and construction activity considerably below trend. Despite sustained low mortgage rates, housing activity has remained sluggish in the first half of 2011. Although activity will likely be above 2010 levels, 2011 is expected to fall below 2009 levels and is unlikely to reach levels seen during the boom for a number of years. In fact I believe it will be at least until 2014 until we see construction levels approach those of the boom.

Housing permits, on an annualized basis, decreased 3.2 percent from June to July (617,000 to 597,000). While permits for both single family units and smaller multifamily units increased slightly, the overall decline in housing permits was driven by an 11.9 percent decline in permits for larger multifamily properties (5+ units). Single family permits increased from 402,000 to 404,000 in July. Permits for 2-4 unit properties climbed to the

highest level of the year (21,000 to 22,000) in July. Permits for 5+ units dropped to 171,000 in July from 194,000 in June.

According to the Census Bureau, July 2011 housing starts were at a seasonally adjusted annual rate of 604,000, down slightly from the June level of 613,000. Overall starts are slightly up, on an annualized level, from 2010's 585,000 units. This increase, however, is completely driven by a jump in multifamily starts, as single-family starts witnessed a significant decline. Total residential starts continue to hover at levels around a third of those witnessed during the bubble years of 2003 to 2004.

As in any market, prices and quantities sold in the housing market are driven by the fundamentals of supply and demand. The housing market faces a significant oversupply of housing, which will continue to weigh on both prices and construction activity. The Federal Reserve Bank of New York estimates that oversupply to be approximately 3 million units. Given that annual single family starts averaged about 1.3 million over the last decade, it should be clear that despite the historically low current level of housing starts, we still face a glut of housing. NAHB estimates that about 2 million of this glut is the result of "pent-up" demand, leaving at least a million units in excess of potential demand[i]. Add to that another 1.6 million mortgages that are at least 90 days late. My rough estimate is about a fourth of those are more than two years late and will most likely never become current.

The nation's oversupply of housing is usefully documented in the Census Bureau's Housing Vacancy Survey. The boom and bust of our housing market has increased the number of vacant housing units from 15.6 million in 2005 to a current level of 18.7 million. The rental vacancy rate for the 2nd quarter of 2011 declined considerably to 9.2 percent, although this remains considerably above the historic average. The decline in rental vacancy rates over the past year has been driven largely by declines in suburban rental markets. Vacancy rates for both rental and homeowner units remain considerably higher for new construction relative to existing units.

The homeowner vacancy rate, after increasing from the 2nd and 3rd quarters of 2010 to the 4th quarter of 2010, declined to 2.5 percent in the 2nd quarter of 2011, a number still in considerable excess of the historic average.

The homeowner vacancy rate, one of the more useful gauges of excess supply, differs dramatically across metro areas. At one extreme, Orlando

has an owner vacancy rate approaching 6 percent, whereas Allentown, PA has a rate of 0.5 percent. Other metro with excessive high owner vacancy rates include: Toledo OH (5.5), Las Vegas (5.1), Raleigh, NC (5.0), Riverside CA and Jacksonville FL. Relatively tight owner markets include: Springfield MA (0.7), San Jose CA (0.9), and Honolulu HI (1.0).

The number of vacant for sale or rent units has increased, on net, by around 1 million units from 2005 to 2011. Of equal concern is that the number of vacant units "held off the market" has increased by about 1.5 million since 2005. In all likelihood, many of these units will re-enter the market once prices stabilize.

The 2nd quarter 2011 national homeownership rate fell to 65.9 percent, the first time it broken the floor of 66 percent since 1997, effectively eliminating all the gain in the homeownership rate over the last 12 years. Declines in the homeownership rate were the most dramatic for the youngest homeowners, while homeownership rates for those 55 and over were stable or saw only minor declines. This should not be surprising given that the largest increase in homeownership rates was among the younger households and that such households have less attachment to the labor market than older households. Interestingly enough, the percentage point decline in homeownership was higher among households with incomes above the median than for households with incomes below the median.

While homeownership rates declined across the all Census Regions, the steepest decline was in the West, followed by the Northeast. The South witnessed the smallest decline in homeownership since the bursting of the housing bubble.

Homeowner vacancy rates differ dramatically by type of structure, although all structure types exhibit rates considerably above historic trend levels. For 2nd quarter 2011, single-family detached homes displayed an owner vacancy rate of 2.2 percent, while owner units in buildings with 10 or more units (generally condos or co-ops) displayed an owner vacancy rate of 8.7 percent. Although single-family detached constitute 95 percent of owner vacancies, condos and co-ops have been impacted disproportionately. Interestingly enough, over the last year homeowner vacancy rates have been stable for single-family structures, but have declined, albeit from a much higher level.

Owner vacancy rates tend to decrease as the price of the home increases. For homes valued under $150,000 the owner vacancy rate is 3.1 percent, whereas homes valued over $200,000 display vacancy rates of about 1.4 percent. The vast majority, almost 75%, of vacant owner-occupied homes are valued at $300,000 or less. Owner vacancy rates are also the highest for the newest homes, with new construction displaying vacancy rates twice the level observed on older homes.

While house prices have fallen considerably since the market's peak in 2006 – over 23% if one excludes distressed sales, and about 31% including all sales – housing in many parts of the country remains expensive, relative to income. At the risk of oversimplification, in the long run, the size of the housing stock is driven primarily by demographics (number of households, family size, etc), while house prices are driven primarily by incomes. Due to both consumer preferences and underwriting standards, house prices have tended to fluctuate at a level where median prices are approximately 3 times median household incomes. Existing home prices, at the national level, are close to this multiple. In several metro areas, however, prices remain quite high relative to income. For instance, in San Francisco, existing home prices are almost 8 times median metro incomes. Despite sizeable decline, prices in coastal California are still out of reach for many families. Prices in Florida cities are generally above 4 times income, indicating they remain just above long-run fundamentals. In some bubble areas, such as Phoenix and Las Vegas, prices are below 3, indicating that prices are close to fundamentals. Part of these geographic differences is driven by the uneven impact of federal policies.

Household incomes place a general ceiling on long-run housing prices. Production costs set a floor on the price of new homes. As Professors Edward Glaeser and Joseph Gyourko have demonstrated[ii], housing prices have closely tracked production costs, including a reasonable return for the builder, over time. In fact the trend has generally been for prices to about equal production costs. In older cities, with declining populations, productions costs are often in excess of replacement costs. After 2002, this relationship broken down, as prices soared in relation to costs, which also included the cost of land[iii]. As prices, in many areas, remain considerably above production costs, there is little reason to believe that new home prices will not decline further.

It is worth noting that existing home sales in 2010 were only 5 percent below their 2007 levels, while new home sales are almost 60 percent below their 2007 level. To a large degree, new and existing homes are substitutes and compete against each other in the market. Perhaps the primary reason that existing sales have recovered faster than new, is that price declines in the existing market have been larger. Again excluding distressed sales, existing home prices have declined 23 percent, whereas new home prices have only declined only about 10 percent. I believe this is clear evidence that the housing market works just like other markets: the way to clear excess supply is to reduce prices.

State of the Mortgage Market

According to the Mortgage Bankers Association's National Delinquency Survey, the delinquency rate for mortgage loans on one-to-four-unit residential properties increased to a seasonally adjusted rate of 8.44 percent of all loans outstanding for the end of the 2nd quarter 2011, 12 basis points up from 1st quarter 2011, but down 141 basis points from one year ago.

The percentage of mortgages on which foreclosure proceedings were initiated during the second quarter was 0.96 percent, 12 basis points down from 2001 Q1 and down 15 basis points from 2010 Q2. The percentage of loans in the foreclosure process at the end of the 2nd quarter was 4.43 percent, down slightly at 9 basis points from 2011 Q1 and 14 basis points lower than 2010 Q2. The serious delinquency rate, the percentage of loans that are 90 days or more past due or in the process of foreclosure, was 7.85 percent, a decrease of 25 basis points from 2011 Q1, and a decrease of 126 basis points from 2010 Q2.

The combined percentage of loans in foreclosure or at least one payment past due was 12.54 percent on a non-seasonally adjusted basis, a 23 basis point increase from 2011 Q1, but was 143 basis points lower than 2010 Q2.

Mortgage Policies

For those who can get a mortgage, rates remain near historic lows. These lows rates, however, are not completely the outcome of the market, but are driven, to a large degree, by federal policy interventions. Foremost among these interventions is the Federal Reserve's current monetary policy. Of equal importance is the transfer of almost all credit risk from market

participants to the federal taxpayer, via FHA and the GSEs. Given massive federal deficits as far as the eye can see, and the already significant cost of rescuing Fannie Mae and Freddie Mac, policymakers should be gravely concerned about the risks posed by the current situation in our mortgage markets. Immediate efforts should be made to reduce the exposure of the taxpayer.

In transitioning from a government-dominated to market-driven mortgage system, we face the choice of either a gradual transition or a sudden "big bang". While I am comfortable with believing that the remainder of the financial services industry could quickly assume the functions of Fannie Mae and Freddie Mac, I recognize this is a minority viewpoint. Practical politics and concern as to the state of the housing market point toward a gradual transition. The question is then, what form should this transition take? One element of this transition should be a gradual, step-wise reduction in the maximum loan limits for the GSEs (and FHA).

If one assumes that higher income households are better able to bear increases in their mortgage costs, and that income and mortgage levels are positively correlated, then reducing the size of the GSEs' footprint via loan limit reductions would allow those households best able to bear this increase to do so. As tax burden and income are also positively correlated, the reduction in potential tax liability from a reduction in loan limits should accrue to the very households benefited most by such a reduction.

Moving beyond issues of "fairness" – in terms of who should be most impacted by a transition away from the GSEs – is the issue of capacity. According to the most recent HMDA data (2009), the size of the current jumbo market (above $729k) is approximately $90 billion. Reducing the loan limit to $500,000 would increase the size of the jumbo market to around $180 billion. Since insured depositories have excess reserves of over $1 trillion, and an aggregate equity to asset ratio of over 11 percent, it would seem that insured depositories would have no trouble absorbing a major increase in the jumbo market.

Given that the Mortgage Banker Association projects total residential mortgage originations in 2011 to be just under $1 trillion, it would appear that insured depositories could support all new mortgages expected to be made in 2011 with just their current excess cash holdings. While such an expansion of lending would require capital of around $40 billion, if one is to

believe the FDIC, then insured depositories already hold sufficient excess capital to meet all new mortgage lending in 2011.

Moving more of the mortgage sector to banks and thrifts would also insure that there is at least *some* capital behind our mortgage market. With Fannie, Freddie and FHA bearing most of the credit risk in our mortgage market, there is almost no capital standing between these entities and the taxpayer.

The bottom line is that reducing the conforming loan limit to no more than $500,000, if not going immediately back to $417,000, would represent a fair, equitable and feasible method for transitioning to a more private-sector driven mortgage system. Going forward, the loan limit should be set to fall by $50,000 each year. As this change could be easily reversed, it also represents a relatively safe choice.

Reducing the competitive advantage of Fannie Mae and Freddie Mac via a mandated increase in their guarantee fees would both help to raise revenues while also helping to "level the playing field" in the mortgage market. Given that the federal taxpayer is covering their losses and backing their debt, along with the suspension of their capital requirements, no private entity can compete with Fannie Mae and Freddie Mac. We will never be able to move to a more private market approach without reducing, if not outright removing, these taxpayer-funded advantages.

An increase in the GSE guarantee fee could also be used to re-coup some of the taxpayer "investment" in Fannie Mae and Freddie Mac. Section 134 of the Emergency Economic Stabilization Act of 2008, better known as the TARP, directed the President to submit a plan to Congress for recoupment for any shortfalls experienced under the TARP. Unfortunately the Housing and Economic Recovery Act of 2008, which provided for federal assistance to the GSEs, lacked a similar requirement. Now is the time to rectify that oversight. Rather than waiting for a Presidential recommendation, Congress should establish a recoupment fee on all mortgages purchased by Fannie Mae and Freddie Mac. Such a fee would be used directly to reduce the deficit and be structured to recoup as much of the losses as possible. I would recommend that the recoupment period be no longer than 15 years and should begin immediately. A reasonable starting point would be 1 percentage point per unpaid principal balance of loans purchased. Such as sum should raise at least $5 billion annually and should be considered as only a floor for the recoupment fee.

In any discussion regarding costs in our mortgage market, we must never forget that homeowners and homebuyers are also taxpayers. Using either current taxes or future taxes (via deficits) to fund subsidies in the housing market reduces household disposable income, which also reduces the demand for housing. None of the subsidies provided to the housing and mortgage markets are free. They come at great costs, which should be included in any evaluation of said subsidies.

Some have suggested that the inability of underwater borrowers to re-finance is acting as both a drag on the economy and the housing market. First, it is vital to remember that a mortgage is one person's liability, but another person's asset. If we, via policy, reduce mortgage rates for vast numbers of borrowers we are also reducing bond payments to vast numbers of investors. Making one group better off at the expense of another is not wealth creation, it is redistribution. Accordingly, the impact of such on aggregate demand should at best be zero. As re-financing impact only existing homeowners, the impact on house prices and sales should also be minimal, if not zero. Over the long run, the sales impact should actually be negative, as higher future rates dissuade owners from moving.

Contribution of Federal Policy

Federal government interventions, both those of the Bush and Obama Administrations, to increase house prices, including Federal Reserve monetary and asset purchases, have almost exclusively relied upon increasing the demand for housing. The problem with these interventions is they have almost the opposite impact between markets where supply remains tight and those markets with a housing glut. In areas where housing supply is inelastic, that is relatively unresponsive (often the result of land use policies), these programs have indeed slowed price declines. Areas where supply is elastic, where building is relatively easy, have instead seen an increase in supply, rather than price. For these areas the increase in housing supply will ultimately depress prices even further.

A comparison of San Diego, CA and Phoenix, AZ illustrates the point. Both are of similar population (2.5 million for Sand Diego, 2.2 million for Phoenix), and both witnessed large price increases during the bubble. Yet the same federal policies have drawn different supply and price responses. In 2010, about 8,200 building permits were issued for the greater Phoenix

area; whereas only about 3,500 were issued for San Diego. Existing home prices (2010) in Phoenix fell over 8%, whereas prices in San Diego actually grew by 0.6%. This trend is compounded by the fact that prices are almost three times higher in San Diego than in Phoenix. The point is that federal efforts to "revive" the housing market are sustaining prices in the most expensive markets, while depressing prices in the cheapest markets, the opposite of what one would prefer. As home prices are correlated positively with incomes, these policies represent a massive regressive transfer of wealth from poorer families to richer.

Among policy interventions, the Federal Reserve's interest rates policies are perhaps having the worst impact. It is well accepted in the urban economics and real estate literature that house prices decline as distances from the urban core increase. It is also well accepted that the relative price of urban versus suburban house prices is influenced by transportation costs. For instance, an increase in the price of gas, will, all else equal, lower the price of suburban homes relative to urban. If loose monetary policy adds to increases in fuel prices, which I believe it has, then such monetary policies would result in a decline in suburban home prices relatives to urban. One can see this dynamic play out in California. In general, prices in central cities and urban cores, have witnessed only minor declines or actual increases over the last year. According to the California Association of Realtors, overall state prices are down just 2% from January 2010 to January 2011. Yet prices in the inland commuting counties – Mariposa (-27%), San Benito (-14%), Butte (-29%), Kings (-16%), Tulare (-16%) – are witnessing the largest declines, in part driven by increases in commuting (gas) costs.

Foreclosure Mitigation and the Labor Market

There is perhaps no more important economic indicator than unemployment. The adverse impacts of long-term unemployment are well known, and need not be repeated here. Although there is considerable, if not complete, agreement among economists as to the adverse consequences of jobless; there is far less agreement as to the causes of the currently high level of unemployment. To simplify, the differing explanations, and resulting policy prescriptions, regarding the current level of unemployment fall into two categories: 1) unemployment as a result of lack of aggregate demand, and 2) unemployment as the result of structural factors, such as skills mismatch or perverse incentives facing the unemployed. As will be discussed below, I believe the current foreclosures mitigation programs have contributed to the

elevated unemployment rate by reducing labor mobility. The current foreclosures mitigation programs have also helped keep housing prices above market-clearing levels, delaying a full correction in the housing market.

First we must recognize something unusual is taking place in our labor market. If the cause of unemployment was solely driven by a lack of demand, then the unemployment rate would be considerably lower. Both GDP and consumption, as measured by personal expenditures, have returned to and now exceed their pre-crisis levels. But employment has not. Quite simply, the "collapse" in demand is behind us and has been so for quite some time. What has occurred is that the historical relationship between GDP and employment (which economists call "Okun's Law) has broken down, questioning the ability of further increases in spending to reduce the unemployment rate. Also indicative of structural changes in the labor market is the breakdown in the "Beveridge curve" – that is the relationship between unemployment and job vacancies. Contrary to popular perception, job postings have been steadily increasing over the last year, but with little impact on the unemployment rate.

Historically many job openings have been filled by workers moving from areas of the country with little job creation to areas with greater job creation. American history has often seen large migrations during times of economic distress. And while these moves have been painful and difficult for the families involved, these same moves have been essential for helping the economy recover. One of the more interesting facets of the recent recession has been a decline in mobility, particular among homeowners, rather than an increase. Between 2008 and 2009, the most recent Census data available, 12.5 percent of households moved, with only 1.6 moving across state lines. Corresponding figures for homeowners is 5.2 percent and 0.8 percent moving across state lines. This is considerably below interstate mobility trends witnessed during the housing boom. For instance from 2004 to 2005, 1.5% of homeowners moved across state lines, almost double the current percentage. Interestingly enough the overall mobility of renters has barely changed from the peak of the housing bubble to today. This trend is a reversal from that witnessed after the previous housing boom of the late 1980s burst. From the peak of the bubble in 1989 to the bottom of the market in 1994, the percentage of homeowners moving across state lines actually increased.

The preceding is not meant to suggest that all of the declines in labor mobility, or increase in unemployment, is due to the foreclosure mitigation programs. Far from it. Given the many factors at work, including the unsustainable rate of homeownership, going into the crisis, it is difficult, if not impossible, to estimate the exact contribution of the varying factors. We should, however, reject policies that encourage homeowners to remain in stagnant or declining labor markets. This is particularly important given the fact that unemployment is the primary driver of mortgage delinquency.

Conclusion

The U.S. housing market is weak and is expected to remain so for some time. Given the importance of housing in our economy, the pressure for policymakers to act has been understandable. Policy should, however, be based upon fostering an unwinding of previous unbalances in our housing markets, not sustaining said unbalances. We cannot go back to 2006, and nor should we desire to. As the size and composition of the housing stock are ultimately determined by demographics, something which policymakers have little influence over in the short run, the housing stock must be allowed to align itself with those underlying fundamentals. Prices should also be allowed to move towards their long run relationship with household incomes. Getting families into homes they could not afford was a major contributor to the housing bubble. We should not seek to repeat that error. We must also recognize that prolonging the correction of the housing market makes the ultimate adjustment worse, not better. Lastly it should be remembered that one effect of boosting prices above their market-clearing levels is the transfer of wealth from potential buyers (renters) to existing owners. As existing owners are, on average, wealthier than renters, this redistribution is clearly regressive.

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[i] Denk, Dietz and Crowe. Pent-up Housing Demand: The Household Formations That Didn't Happen – Yet. National Association of Home Builders. February 2011.

[ii] Edward Glaeser and Gyourko, Joseph, "The Case Against Housing Price Supports," *Economists' Voice* October 2008.

[iii] Also see Robert Shiller, "Unlearned lessons from the housing bubble," *Economists' Voice* July 2009.

WRITTEN TESTIMONY OF
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FEDERAL HOUSING ADMINISTRATION COMMISSIONER

U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

BEFORE THE
UNITED STATES HOUSE OF REPRESENTATIVES
COMMITTEE ON FINANCIAL SERVICES,

SUBCOMMITTEE ON INSURANCE, HOUSING AND COMMUNITY OPPORTUNITY

"The Obama Administration's Response to the Housing Crisis"

OCTOBER 6, 2011

Chairman Biggert, Ranking Member Gutierrez, and Members of the Subcommittee, thank you for the opportunity to testify today regarding HUD's response to the housing finance crisis.

As you know, the housing crisis that triggered the recent recession has cost upwards of 8 million jobs and destabilized countless neighborhoods across the country. Indeed, when this Administration took office, the nation was mired in the greatest housing and economic crisis since the Great Depression. The economy was shedding 750,000 jobs per month, home prices had fallen for 30 straight months, and foreclosures were surging to record levels month after month. In the face of such realities, the Obama Administration had no choice but to respond.

As a result, we are making real progress. More than 5.1 million families have had their mortgages modified since April, 2009–twice the number of foreclosures completed in that time–and I'm proud of the role HUD and FHA have played in helping to achieve these results, assisting in stemming the tide of this crisis and beginning to rebuild our housing market and economy.

But of course, much more remains to be done, which is why I'd like to discuss with you today the four strategies that are guiding our work at FHA:

1) Ensuring access to the housing market,
2) Keeping people in their homes,
3) Stabilizing home prices and communities, and
4) Reducing uncertainty and strengthening our housing market for the future.

Ensuring Access to the Housing Market

In the face of an economic crisis that experts across the political spectrum predicted could turn into the next Great Depression, the Obama Administration stepped in with a plan to aggressively confront the economic crisis as soon as we took office, including taking vital steps to stabilize the housing market. At the center of these efforts have been the FHA and Ginnie Mae, which stepped in to play critical countercyclical roles that have helped stem the crisis, enabling a robust refinancing market to emerge.

Since its inception in 1934, a primary element of FHA's mission has been to act as a countercyclical force by ensuring adequate flows of private mortgage capital amid distressed market conditions. During the present economic downturn, FHA has done just that. As the conventional mortgage market contracted, FHA saw its market share increase from less than 2 percent to as much as 30 percent. Since the start of this Administration, FHA has insured $739 billion in single family mortgages and more than $25 billion in multifamily mortgages.

As a result, because of FHA, nearly 2 million first time homebuyers have been able to realize the dream of homeownership since President Obama took office. And FHA has been a uniquely powerful pathway to the middle class for minorities. According to the latest Home Mortgage

Disclosure Act (HMDA) data, in 2010, 60 percent of African Americans and Latinos who bought a home have used FHA insurance.

Of course, making these results possible has been the most sweeping combination of reforms to credit policy, risk management, lender enforcement, and consumer protection in FHA history. These reforms have strengthened FHA's financial condition and minimized risk to taxpayers, while allowing FHA to continue fulfilling our mission of providing responsible access to homeownership for first-time homebuyers and in underserved markets.

One such reform is the "two-step" credit score policy for FHA borrowers, which we implemented last year. Those with credit scores below 580 are now required to contribute a minimum down payment of 10 percent, or have equity of 10 percent at the time of refinance. Only those with stronger credit scores are eligible for FHA-insured mortgages with the minimum 3.5 percent down payment.

And to balance the need to provide access to our mortgage markets with the need to protect taxpayers from financial risk, we established FHA's first Office of Risk Management. With this new office and additional staffing, FHA is expanding its capacity to assess financial and operational risk, perform more sophisticated data analysis, and respond to market developments.

As a result of these efforts, FHA is in a stronger financial position today – meeting the housing needs of American families at no cost to taxpayers. Put simply, Madam Chair, FHA has done its job.

Keeping People in Their Homes

Keeping people in their homes has been a central component of the Administration's comprehensive strategy to address the problems plaguing the housing market. According to our latest Housing Scorecard, more than 5.1 million modification arrangements were started between April 2009 and the end of August 2011 – including nearly 1.7 million HAMP trial modification starts, more than 1 million FHA loss mitigation and early delinquency interventions, and more than 2.4 million proprietary modifications under HOPE Now. That is more than double the number of foreclosure completions for the same period (2.2 million).

These efforts have driven mortgage modifications in the private market – and fundamentally changed the way they are conducted. Outrageously, before President Obama was inaugurated, the majority of loan modifications servicers were executing actually raised payments. Administration efforts have helped set a standard for affordability in the private market, which has resulted in the average modification lowering monthly payments by $330.

FHA Refinance Programs

FHA refinance programs have enabled over 1.5 million homeowners to take advantage of today's low interest rates, making their mortgages more affordable and helping them weather the current recession. Since the start of this Administration, over 700,000 homeowners have been able to reduce their monthly mortgage payments through FHA's Streamline Refinance program. An additional 113,000 have benefitted from FHA's standard refinance program. And during that

same period, nearly 850,000 families have been able to refinance out of conventional mortgages into more sustainable FHA-insured loans.

FHA Loss Mitigation Programs
HUD has long required servicers to adhere to high standards in the servicing of FHA-insured loans. Central to our efforts to keep families in their homes has been the FHA loss mitigation and early delinquency interventions which our servicers are required to utilize. As you know, FHA requires servicers it approves to actively engage struggling homeowners to prevent avoidable foreclosures – what we call "loss mitigation." We do this to ensure that help is being provided before homeowners get into trouble – not just after the fact, by which time it's much less likely that families will be able to stay in their homes. FHA's loss mitigation program has helped more than half a million homeowners keep their homes in the last year alone – protecting families, but also the taxpayer, by reducing the number of defaults in FHA's portfolio.

Available loss mitigation programs include:

- **Special Forbearance**: a written repayment agreement between a lender and a mortgagor that contains a plan to reinstate a loan that is a minimum of three payments due and unpaid.
- **Mortgage Modification**: a permanent change in one or more of the terms of a mortgagor's loan, which if made, allows the loan to be reinstated, and results in a payment the mortgagor can afford.
- **Partial Claim**: a lender advances funds on behalf of a mortgagor in an amount necessary to reinstate a delinquent loan; the mortgagor, upon acceptance of the advance, executes a promissory note and subordinate mortgage payable to HUD upon sale of the property or payoff of the first mortgage.
- **Pre-Foreclosure Sale**: allows a mortgagor in default to sell his or her home and use the sale proceeds to satisfy the mortgage debt even if the proceeds are less than the amount owed.
- **Deed in Lieu of Foreclosure**: a mortgagor voluntarily deeds collateral property to HUD in exchange for a release from all obligations under the mortgage.
- **FHA Home Affordable Modification Program (FHA-HAMP)**: allows the use of a partial claim up to 30 percent of the unpaid principal balance combined with a loan modification to bring the payment to an affordable level.

Through the end of August 2011, FHA-approved loan servicers performed over 631,000 loss mitigation actions, and through those efforts more than 526,000 homeowners have been able to retain their homes.

Unemployment Forbearance Programs
We've also adapted as the nature of the challenge has changed. Where bad loans were the initial cause of the high foreclosure rates, today, the biggest driver of foreclosures is the ripple effect the overall crisis has had on our economy. On July 7, 2011, the Obama Administration announced adjustments to FHA requirements that will make it easier for unemployed borrowers to qualify for the program and require servicers to extend the forbearance period for qualified FHA borrowers from four months to 12 months. Nearly 12,000 FHA borrowers have benefited

from our unemployment forbearance program during this administration, and this extension will provide greater assistance to even more borrowers while they seek employment. In addition, effective October 1, 2011, the Administration is requiring servicers participating in the Making Home Affordable Program (MHA) to extend the minimum forbearance period to 12 months wherever possible under regulator and investor guidelines. These adjustments will provide much needed assistance for unemployed homeowners trying to stay in their homes while seeking re-employment. These changes are intended to set a standard for the mortgage industry in providing more robust assistance to unemployed homeowners in the economic downturn.

Emergency Homeowners Loan Program

Another unique program which the Department has been tasked with administering is the Emergency Homeowners Loan Program (EHLP). The Dodd-Frank Wall Street Reform and Consumer Protection Act (P.L.111–203) (the Dodd-Frank Act), made available $1 billion for HUD to establish the Emergency Homeowners' Relief Fund, a reauthorized 1975 program, for the purpose of providing emergency mortgage assistance. HUD is administering the authority provided by the Dodd-Frank Act as the Emergency Homeowners' Loan Program (EHLP).

EHLP offers a zero interest, forgivable bridge loan to homeowners who have experienced a substantial loss of income (a reduction of at least 15 percent) due to unemployment or underemployment caused by adverse economic conditions or medical conditions. Approved homeowners are eligible to receive one-time EHLP assistance to pay certain arrearages to bring them current, as well as ongoing monthly assistance to help them make their monthly first lien mortgage payments (including payments of principal, interest, taxes, and insurance). Assistance is limited to a maximum duration of 24 months, or up to a maximum loan amount of $50,000 in mortgage payment assistance, whichever occurs first. The EHLP loan is secured by a junior lien against the approved homeowner's principal residence and is forgivable over a 5-year principal reduction period.

Under EHLP, HUD is assisting borrowers in Puerto Rico and the 32 states otherwise not funded by Treasury's Innovation Fund for the Hardest Hit Housing Markets program (18 states and DC). EHLP consists of two programs – grants to 5 states that already had substantially similar state programs and a HUD direct loan program administered by HUD for the remaining 27 states and Puerto Rico.

Under the statute we had until September 30, 2011 to qualify borrowers for the program. We received approximately 100,000 applications and ultimately nearly 12,000 qualified for funding, with most assistance commitments between $35,000 and $45,000. At that level of assistance, we will allocate roughly $400 million to $500 million of the $1 billion appropriated for the program.

We understand that there is disappointment that the program is not reaching more families. We too are disappointed and recognize that the program set-up took longer than anticipated.

As a part of start-up we needed to promulgate regulations, contract with a national counseling intermediary and its member agencies around the country, contract with a fiscal agent, work out agreements with a number of lenders, identify and train HUD staff to work on the program, train counseling agencies, and design and build several complex data management systems.

The primary reason for the relatively low acceptance rate than expected is the eligibility criteria required by the statute. In addition to being unemployed or underemployed, for example, eligible applicants must:

- Be unemployed or underemployed due to economic or medical hardship;
- Demonstrate a substantial loss of income;
- Show that if they become reemployed they will be able to resume payment;
- Be at least 90-days delinquent; and
- Be facing a foreclosure action (as certified by their lender).

Certainly, no one anticipated how challenging the statutory requirements made it to qualify as many homeowners as we hoped – HUD found that the vast majority (around 75 percent) of ineligible applicants were disqualified due to the statutory requirements.

HUD worked closely with counseling agencies down to the last few days and hours before the application deadline to make certain as many homeowners as possible qualified for assistance. And we adjusted processing requirements to the greatest extent possible to ensure maximum access.

As with any new program, it took time to identify contractors, set up fiscal controls, and ensure the program was being run fairly. With more time, we could make a number of adjustments that would allow more homeowners to benefit from the program.

EHLP is only one part of the Administration's broad response to the foreclosure crisis and we are committed to working with stakeholders to continue to find solutions to help as many homeowners as possible.

Housing Counseling

To ensure families are able to access the resources available to them, since the start of this Administration, HUD-approved housing counselors have served more than 7.5 million families. Distressed homeowners working with a counselor are nearly twice as likely to receive a mortgage modification.

HUD's Housing Counseling Assistance Program certifies and provides much needed funding resources for housing counseling agencies throughout the nation. Housing counselors equip households with the information they need to make smart housing choices. A lack of education regarding mortgage financing programs and options was a serious contributor to the current housing crisis. HUD's Housing Counseling Program is the only federally dedicated source of funding for the full spectrum of housing counseling services. Since 2005, HUD-approved housing counseling agencies have assisted more than 13.4 million households—predominantly lower-income and minority families—with a broad range of counseling services. Now more than ever, these services are desperately needed as we look to facilitate the recovery of our housing markets.

In FY 2011, more than 399,000 households were served through HUD Housing Counseling grant funded activities. Over 134,000 households received foreclosure prevention counseling. More

than 93,000 households were provided with pre-purchase counseling. And almost 11,000 seniors received reverse mortgage counseling.

Housing Counseling Works
Housing counselors are a crucial source of assistance for distressed homeowners. A nationwide Urban Institute study by Mayer, et, al., (2010)[1] of the National Foreclosure Mitigation Counseling Program found that borrowers in foreclosure were 70 percent more likely to get up to date on payments if they received counseling. The same Urban Institute study showed that homeowners who received a mortgage modification to resolve a serious delinquency were 45 percent more likely to sustain that modification if it was obtained with the help of counseling. To help families keep their homes and avoid mortgage scams, on September 2, 2011, HUD awarded more than $10 million to housing counseling agencies and intermediaries to provide counseling regarding mortgage modifications and mortgage scams.

HUD housing counseling grants are a significant source of financing for the thousands of HUD-approved housing counseling agencies that provide vital assistance to communities nationwide. As we seek to recover from the present housing crisis, ensuring that households have the knowledge and information necessary to make good housing choices is a solid investment in preventing such a crisis in the future.

How HUD Is Improving the Counseling Program
Despite this strong evidence, HUD's housing counseling grant funding was eliminated in the FY 2011 budget. We are working to address concerns and enhance both speed and accountability in the program.

Historically, running the grant competition and obligating 100 percent of the housing counseling grant funds has taken approximately 240 days (eight months) from the time appropriations are made, meaning that grant funds are typically not available to housing counseling agencies until the following fiscal year. We know that is not quick enough.

HUD has developed a Department-wide plan to streamline its processes and reduce that timeframe to no more than 180 days, which means taxpayer dollars will be used to provide counseling services to families in the same fiscal year appropriations are made. This includes streamlining clearance processes so that all HUD Notices of Funding Availability (NOFAs) are published to Grants.gov as quickly as possible after appropriations are made. Through these efforts, HUD has reduced the average number of days between appropriations and NOFA publication from 338 days in FY 2010 to 60 days in FY 2011, an 82 percent reduction.

HUD will also use HUDStat, HUD's performance measurement and accountability process, to track its progress in meeting NOFA clearance and funds obligation deadlines. The results will be shared with the Secretary and his Senior Team on a weekly basis.

Improvements specific to the housing counseling program include:

[1] Mayer, Neil, Peter A. Tatian, Kenneth Temkin, and Charles A. Calhoun. 2010. "National Foreclosure Mitigation Counseling Program Evaluation: Preliminary Analysis of Program Effects," The Urban Institute, December.

- Earlier drafting and publication of the housing counseling NOFA (the 2012 Housing Counseling Assistance Program NOFA has already finished Departmental clearance and has been forwarded to OMB for review)
- Streamlined application for high performing agencies
- Shorter timeline for obligation of grants
- The development of a risk model
- Provision of technical assistance to new agencies
- Utilization of remote monitoring
- Intermediary financial oversight

We are making real strides in speeding the award process and improving oversight. And HUD-supported housing counseling services are making a difference in helping families make some of the most important decisions in their lifetimes. As such, I would strongly encourage this Subcommittee to support restoring funding for this program in FY 2012.

Stabilizing Home Prices and Communities

Of course, helping families stay in their homes is one important piece of the housing challenge. The more we can do in this regard, the better off both families and communities are. However, this is not always possible and that has created an overhang of foreclosed properties on the market dragging down property values. There are currently approximately a quarter million REO properties owned by FHA and the GSEs.

Existing REO Disposition Activities
To respond to the challenges presented by the influx of foreclosed properties, HUD has made dramatic changes to the way in which it manages its own real estate owned (REO) properties. Through new contracts aligned to specific functions within the management and marketing of REO properties, FHA has generated efficiencies, spurred competition among contractors, reduced the potential for conflicts of interest for contractors, and most importantly, improved the speed at which properties are sold.

As a result of these process and program improvements, FHA's REO inventory as of September 25, 2011 is 42,000, which is 18 percent below FY 2010 ending inventory balance of 51,000, despite a very significant spike in properties conveyed to the Department. Through August 31, 2011, the average number of days needed to sell HUD REOs decreased by 23 days (10.5 percent) compared to fiscal year 2010.

In addition to seeking to dispose of REO properties as quickly as possible to prevent unnecessary losses, FHA also seeks opportunities to utilize its REO properties for purposes beneficial to communities. Through partnerships with local communities and non-profits, HUD continues to create new and operate traditional REO disposition and sales programs, including:

- **Asset Control Area Program** – which offers properties in revitalization areas to local governments and nonprofits at a 50 percent discount for resale to income eligible families (typically first-time homebuyers);

- **Good Neighbor Next Door Program** – which offers properties in underserved communities at a 50 percent discount to police officers, firefighters, teachers, and emergency medical technicians;
- **Discount Sales Program for States, Cities, HUD Approved Nonprofits** – which offers properties in revitalization areas at up to 30 percent discount;
- **First Look** – which offers properties at discounts up to 10 percent for NSP grantees;
- **Dollar Home Sales Program** – which offers properties in HUD's inventory for 180 days or more to local governments for $1; and
- **Bulk Sales to PHAs for Disaster Relief** – which offers properties at a 50 percent discount to PHAs serving families in Presidentially-declared disaster areas (e.g., Alabama and Missouri).

Recently Announced RFI Process
But we need to do more, which is why FHA joined with FHFA and Treasury to issue a "Request for Information" which will facilitate new ways we can dispose of this inventory – while ensuring we protect taxpayer dollars and stabilize neighborhoods. Responses to the RFI were due on September 15, and to date we've received over 4,000 comments. FHFA, HUD and Treasury have begun to evaluate the ideas and options submitted and we expect to move forward in the coming months to put the best ideas we've received to work in providing real solutions to the challenges presented by the influx of REO properties.

Mortgage Acquisition and Disposition Initiative
Already, we are exploring alternative strategies designed to help stabilize communities while also bringing value to the MMI Insurance Fund. One such strategy we are currently exploring on a pilot basis is our Mortgage Acquisition and Disposition Initiative ("601 – Note Sales Program"). The initiative gives the Department a second acquisition option: acquiring mortgages upstream as opposed to waiting until borrowers have lost their homes to foreclosure and the properties become REOs. Prior to participating in this program, servicers are required to exhaust all of FHA's standard loss mitigation options. Once they have done so, rather than proceeding to foreclosure and eviction, they submit a claim and assign the defaulted mortgage to FHA with the borrower still in the home. This option aligns the interests of the servicer and FHA to review the mortgage and identify strategies for the borrowers to keep their homes. Once they are assigned, FHA sells the mortgages to a new entity through open auctions, held quarterly. Regardless of the loan's performance, the entity who acquires the notes from FHA is prevented from foreclosing on the borrower for an additional six months. This program provides yet another way to combat the housing crisis by keeping borrowers in their homes and decreasing the number of vacant REO properties.

The Neighborhood Stabilization Program
The Neighborhood Stabilization Program (NSP) was established for the purpose of stabilizing communities that have suffered from foreclosures and abandonment. Through the purchase and redevelopment of foreclosed and abandoned homes and residential properties, the program is offering communities the chance to stabilize and revitalize neighborhoods. Already, we've invested $7 billion to address more than 95,000 vacant and abandoned properties that comprise about 20 percent of the REO in targeted areas. And we've begun to see the "ripple effects" these investments have – reducing vacancy rates and lifting property values. According to the analysis

by The Reinvestment Fund (TRF), one of our technical assistance providers, comparing communities with NSP investment to similar communities without NSP investment shows that most NSP clustered investment areas did better than at least one of their comparable markets during the time period studied:

- 67 percent saw better home sale price changes;
- 73 percent saw better vacancy rate improvements; and
- 47 percent saw better home sale and vacancy rate improvements.

Project Rebuild

The success of these efforts led President Obama to propose, as part of the American Jobs Act, Project Rebuild, which would create 200,000 jobs. Project Rebuild would build on the success of neighborhood stabilization with a few important innovations based on lessons learned – by encouraging more private sector participation, allowing the rehabilitation of commercial properties, and forging stronger partnerships with non-profits.

For additional information on the Project Rebuild program, I would refer the Subcommittee to the written testimony submitted by my colleague, Mercedes Marquez, HUD's Assistant Secretary for Community Planning and Development, who has purview over NSP and would also administer Project Rebuild. But Project Rebuild's inclusion in the American Jobs Act reflects President Obama's belief that rebuilding neighborhoods is essential to rebuilding our economy and, at $15 billion, reflects the scale of our commitment.

Reducing Uncertainty and Strengthening Our Housing Finance System

The Importance of a Robust and Responsible Private Mortgage Market

To date, FHA has helped over 1.5 million families refinance into safe, stable mortgage products. However, as the President emphasized in his speech before Congress last month, too many borrowers face hurdles when it comes to refinancing their mortgages.

One such barrier faced by homeowners is the widespread issue of negative equity. FHA is now providing assistance to some borrowers facing this situation through its Short Refinance Option, whereby property values and mortgage obligations are realigned. To date, more than 700 families have sought assistance through this program and more than 300 refinances have been completed. But due to the fact that servicer participation is voluntary and has been less than expected, this program has not been as successful as we had hoped.

FHFA is working with HUD and Treasury to find ways to identify and address the barriers that limit refinance options of all types. Eliminating obstacles for borrowers could help many more homeowners refinance mortgages into safer, more sustainable products, taking advantage of the lowest interest rates in half a century. Refinancing would save these homeowners an average of $2,600 each in the first year alone – providing a critical boost to our economy and increasing labor mobility.

FHA and the GSEs have stepped into the void left when private capital for mortgage finance dried up early in the housing crisis. They have played, and continue to play, this critical countercyclical role. But as we return to normal market function, we are committed to shrinking

government's oversized footprint in the mortgage market. The government-backed share of the current mortgage market is well in excess of 90 percent, which is far higher than we would like in normal times.

Over the past few years, FHA-insured loans account for about a third of the home purchase market – around twice its historical norms and about five times its share leading up to the crisis. FHA's countercyclical activities have been critical in keeping private mortgage capital flowing during the crisis.

But this level of government exposure is neither sustainable nor desirable – and the time has come to begin bringing back private capital without FHA insurance. And there are signs that this process is already underway. The share of the market represented by FHA-insured loans has been trending downward. The expiration of higher FHA loan limits is another small step in the reduction of our market share.

Towards a New System of Housing Finance

Bringing private capital back into the housing finance system does not mean eliminating all government involvement in housing finance. We believe that a government role, targeted correctly, and with the right protections for taxpayers, should remain an important component of any future system. That is why all three of the reform options presented in the Administration's white paper, "Reforming America's Housing Finance Market: A Report to Congress," include a strong, resilient FHA and solid consumer and investor protections.

To that end, reforming and strengthening FHA is the first of four primary areas of reform to achieve broader mortgage access and housing affordability. The other crucial components of reform are a commitment to affordable rental housing, a flexible and transparent funding source for access and affordability initiatives, and strong measures to ensure that capital is available to creditworthy borrowers in all communities, including rural areas, economically distressed regions, and low-income communities.

A Reformed and Strengthened FHA

Within the existing authorities granted to us by Congress, we have already begun the necessary process of making changes to FHA to ensure that it will be able continue its mission, as mentioned above. FHA has already made the most sweeping combination of reforms to credit policy, risk management, lender enforcement, and consumer protection in its history. These reforms have strengthened our financial condition and minimized risk to taxpayers, while allowing us to continue fulfilling our mission of providing responsible access to homeownership for first-time homebuyers and in underserved markets.

We also hope to work with Congress to give FHA additional flexibility to respond to stress in the housing market and to manage its risk more effectively. Accordingly, we are very grateful for the flexibility we were granted by the 111th Congress with regard to our mortgage insurance premiums. Strengthening FHA for the future also means reviewing what types of administrative flexibilities it needs in order to best operate its multiple business lines, as well as recruit and retain the level of talent required. Finally, FHA must also have the technology and talent needed to run a world-class financial institution.

Strengthening and reforming FHA in a way that is healthy for its long term finances and ensures that FHA is able to continue its mission of providing access to mortgages for low- and moderate-income families is a central component of broader systemic reforms. While FHA has already changed its policy to require that borrowers with lower FICO scores make larger down payments, FHA will continue to balance the need to manage prudently the risk to FHA and the borrower with its efforts to ensure access to affordable loans for lower- and middle income Americans, including providing access to homeownership for first-time homebuyers and underserved markets.

And similar to the Administration's broader reform of the U.S. housing finance system, FHA will take any steps for reform carefully to ensure that they do not undermine the broader recovery of the housing market. Similarly, as we consider changes in such areas as down payments and LTV ratios, we will make sure to retain the flexibility to respond to changing market conditions, so that we are able to manage risk, and maintain access, as effectively as possible.

A commitment to affordable rental housing
With half of all renters spending more than a third of their income on housing-and a quarter spending more than half their income- this Administration believes that as part of a balanced housing policy there should be a range of affordable options for the millions of Americans who rent. Reducing government's role in the single family market makes this commitment even more critical.

We will also consider a range of reforms, such as risk-sharing with private lenders to reduce the risk to FHA and the taxpayer, and developing programs dedicated to hard to reach property segments, including the smaller properties that contain one-third of all rental apartments.

Long-term Options
Beyond the key foundations of a new, reformed housing finance system based on the principles discussed above, the extent of any government guarantee in the system has yet to be determined - and our report presents three options. While I would refer the committee to the report itself for a detailed discussion of the advantages and drawbacks of each, I would note that the issue most likely to impact American families is the question of the availability and pricing of long-term, fixed-rate financing under each of the options. For decades, the 30-year, fixed rate mortgage has allowed families to safely build wealth and climb the ladder to the middle-class. So as we consider the options for a future housing finance system, I believe we should consider carefully the implications of these choices on the availability and pricing of those mortgages.
In all of these options, however, a reformed and strengthened FHA remains an important participant in the market. This Administration believes there continues to be an important role for government in ensuring access to mortgage credit and housing affordability - one that incorporates lessons learned from the past. We will continue to ensure that creditworthy low- and moderate-income borrowers have access to affordable mortgages.

Conclusion

Chairman Biggert, between these efforts and the Obama Administration's proposals to reform the housing finance system, it is clear that FHA will continue to play a central role in the continued recovery of the housing market – and to provide access and affordability to low- and middle-income Americans. And as the reforms we have already made demonstrate, FHA has the capacity to perform this role in a way that minimizes risk to the taxpayer.

I look forward to working with this committee—and this Congress—to ensure that FHA has the tools it needs to fulfill that mission.

Thank you again for this opportunity to testify. I would be glad to respond to any questions.

Amherst® Securities Group LP

October 6, 2011

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October 6, 2011 Testimony of Laurie S. Goodman, Amherst Securities Group

to the

Subcommittee on Insurance, Housing and Community Opportunity

of the

U.S. House of Representatives, Committee on Financial Services

Topic: The Obama Administration's Response to the Housing Crisis

Chairman Biggert and Members of the Subcommittee, thank you for your invitation to testify today. My name is Laurie Goodman, and I am a Senior Managing Director at Amherst Securities Group, LP, a leading broker/dealer specializing in the trading of residential mortgage-backed securities. I am in charge of the strategy and business development efforts for the firm. We perform data-intensive research as part of our efforts to keep ourselves and investors globally informed of critical trends in the residential housing markets. That work has shaped our view of the housing crises, and I will share some of our results with you today.

The Obama Administration has pursued a number of measures to try to soften the effects of the collapse in house prices. In February 2009, the Administration announced the Home Affordability and Stability Plan. This plan included both HAMP, the Home Affordable Modification Program, a loan modification program designed to help at-risk borrowers, and HARP, the Home Affordable Refinancing Program, a program designed to eliminate frictions to refinancing and allow existing GSE borrowers to take advantage of lower mortgage rates.

There have been a number of enhancements to HAMP. These enhancements have included programs for unemployed borrowers, the principal reduction alternative for "underwater" borrowers, the introduction of the 2nd lien modification program, and the introduction of the Home Affordable Foreclosure Alternatives Program (HAFA) which has streamlined the process for homeowners seeking a short sale or deed-in-lieu of foreclosure. The HARP program has seen no changes, although in his latest speech on Sept 8, President Obama announced that the HARP program would be retooled in order to make it more effective in allowing more borrowers to take advantage of lower rates.

In February 2010, the administration introduced the Hardest Hit Fund, a program, funded by TARP, designed to target aid to families hit by the economic and housing downturn. Twenty states that had been hit particularly hard were targeted for this program. The Neighborhood Stabilization Program was first established under HERA, the Housing and Economic Recovery Act of 2008. It was designed to stabilize communities through purchase and redevelopment of foreclosed and abandoned residential properties. Grants were provided to states and select local governments. Further funding from this program was authorized under The American Reinvestment Act of 2009 and the Dodd Frank Wall Street Reform Act of 2010. In his Sept 8, 2011 speech President Obama proposed "Project Rebuild," a part of the job creation bill, which, if enacted by Congress would create a $15 billion fund to get people to work rehabilitating homes.

Given my expertise, I will focus on an evaluation of the HAMP and HARP programs and what can be done to improve them.

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HAMP and Other Foreclosure Prevention Initiatives

The HAMP program has originally estimated to reach 4 million borrowers. As of the end of July, the actually tally has been 1.89 million trial offers extended, 1.66 million trial modifications started. Out of these 1.66 million trial modifications, 675 thousand are active permanent modifications, and another 106 thousand are in active trials. So, even if all of these trial modifications were to become permanent and do not default, the performance rate of these modified loans would be less than 50% (781K/1.66 million) and the program overall would come in at less than 20% of the original stated goals. The HAMP program has done a good job reaching eligible borrowers. The Treasury Department estimates (as reported in the HAMP monthly report) that there are now 2.56 million eligible delinquent loans—loans that are 60 days or more delinquent, in foreclosure or bankruptcy, that have a loans size less than $729,750 on a one family property (higher limits on 2-4 family units), are owner occupied, are not FHA or VA loans, and the loan was origination prior to January 1, 2009. However, not all of the borrowers would be eligible—if you exclude loans on vacant properties, loans with borrower debt-to-income ratios below 31%, loans that fail the NPV (Net Present Value) test, properties where the borrower is unemployed, manufactured homes that are not eligible for HAMP, private label securitizations where the pooling and servicing agreement preclude modification, and loans that have already received trial/ permanent modifications—only 1.02 million eligible borrowers remain.

In fact, the problem with HAMP has not been the reach—that has been quite successful. Every HAMP servicer is required to test every borrower for a modification before proceeding with the foreclosure process. If the borrower is eligible for a modification, he must be offered one. To further encourage the program's reach, servicers are afforded a legal safe harbor for modifications done under HAMP. The problem with HAMP has been that the success rate has been lower than hoped. Less than 50% of the borrowers that were offered a HAMP trial modification have become permanent or are still in a trial modification.

The issue is the program design. When the program was first announced, we predicted that the program was apt to fall far short of expectations for 3 reasons:

First, the servicers were being asked to do a small amount of underwriting (including income verification). This is an origination activity, not a servicing or payment processing activity. The servicers were not geared up for this; it took them a long period of time to build the underwriting capability.

Second, the borrowers' total debt burden was ignored: the payments under the HAMP program were based totally on the so-called front end debt-to-income ratio (first mortgage + taxes + insurance as a percentage of pre-tax income). As a result, under HAMP, a borrower's front-end DTI went from 45.2% before the modification to 31% afterward, a drop of 31.4%. However, the median back-end DTI (the borrower's total debt burden, including the first mortgage payment + taxes + insurance + 2nd mortgage debt + credit card debt + auto loans + student loans) went from an unbelievably high 78.4% before the modification to a still unsustainable 61.6% afterwards. To put this into perspective, FHA guidelines suggest that the maximum back-end debt-to-income ratio be no higher than 43%. In our view, the emphasis on front-end DTI rather than the total debt burden was a legacy of having the largest servicers (who are also the largest banks) help design the original program. Remember, these entities own the credit card and auto debt, the second mortgage debt and often do not own the first mortgage, either because it is in a Fannie or Freddie pool or because it is in a private label security. As an interesting indicator of the conflicts at work during the design of the program, note that the only consumer loan being impaired at the government's direction was the 1st lien mortgage debt. A long-term sustainable debt restructuring requires that other debts be restructured as well, to make the total debt burden manageable..

Third, HAMP does not provide long term incentives to the borrower via a path to regaining equity. Early numbers indicated that the median mark-to-market loan-to-value ratio (LTV) under HAMP actually increased from 120 to 125 LTV (as more monies were capitalized than were forborne). And this was LTV of the first lien only—the combined LTV, which includes the second mortgage (and many of these borrowers have second mortgages), would have been even higher. Not surprisingly, borrowers that have very high LTVs, and the LTVs are not addressed by the modification, are very likely to fail on the modification. The solution to this is clear—greater use of principal reductions in modifications, larger write-downs on second mortgages.

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Under HAMP, servicers are required to test the borrower to see if the net present value of the modification is positive using both the standard HAMP waterfall (involving interest rate reductions, term extension and, if necessary, principal forbearance) and a principal reduction alternative, in which some amount of principal forgiveness is the first step. However, even if the principal reduction alternative has a higher net present value, the servicer is not required to offer it. Our research indicates a significantly lower re-default rate when principal reduction, rather than just payment reduction, is used. We would ideally like to see the principal reduction alternative be mandatory if it has a higher net present value.

What about the moral hazard in principal reduction? Wouldn't borrowers deliberately default in order to get the principal reduction? The problem with this argument is that it doesn't recognize the incentives already in place for the borrower. We and others have documented that certain subsets of borrowers were more apt to default after HAMP was introduced than before. Moral hazard abounds, avoidance of such a risk would have been ideal, but we are well beyond the ideal and need to realize that borrowers can simply choose not to pay at all. When they do, the system needs to minimize the external damages and deal with situation on a least cost basis. Strictly awarded and earned principal forgiveness can meaningfully reduce both foreclosures and losses to investors. Moreover, if one chooses to do so, there are ways to partially mitigate the moral hazard issue. Adding a shared appreciation feature to accompany the principal reduction is one alternative. The design and implementation of a principal reduction program should not be done by those with large conflicts on the subject.

An additional obstacle for principal reduction—many servicers feel that it does not make sense to put a principal reduction program into place if it cannot be used for GSE loans. And the GSEs largely refuse to allow principal reduction because, even though it is net present value positive for the loan, it is NPV negative for the GSE. And, by definition, since the GSEs are in conservatorship, the directive is to conserve assets to the extent possible. How can a loan modification be NPV positive for the loan and NPV negative for the GSEs? It goes to the heart of the complex relationships between the GSEs, the mortgage insurers, and the originators. If a borrower, who would otherwise default, is offered a principal reduction, and the borrower does not re-default, the GSE bears the entire cost of the principal reduction. If there is mortgage insurance on the loan (a disproportionate number of defaulted loans have mortgage insurance), and the borrower makes his new modified payments, the mortgage insurer is not on the hook at all. In essence mortgage insurance only covers losses from foreclosures, not forgiveness. If Fannie and Freddie did principal reductions on loans with insurance, they would be absorbing losses that should legitimately belong to the mortgage insurers. Even if the loan does not have mortgage insurance, the GSEs are often able to avoid those losses by forcing the loan to be repurchased by the original owner. It appears that a substantial number of defaulted loans have material breaches of representations and warranties made at the time the loans were bound by GSE issued insurance. If the loan is granted a principal reduction and does not default, Fannie and Freddie have again absorbed losses that correctly belong to the mortgage originators. The correct solution is to work out a settlement between the GSEs, the mortgage insurers and the originators that allows for principal reduction modifications.

Second liens are a large contributor to negative equity. The HAMP 2MP program, the second lien modification program, essentially requires that whatever modification is done to the first mortgage should be done to the second mortgage. If there is a rate reduction on the first lien, there is also a rate reduction on the second lien; if there is a principal write down on the first lien, there is also a principal write-down on the second line. This essentially makes the first and second lien pari passu when the first lien is modified; it ignores the concept of lien priority. This makes no sense, as the junior lien is, by definition, subordinate to the first lien, and logically should be written off entirely before the first lien suffers any loss. If a modification is done outside of HAMP (and there are more non-HAMP modifications than HAMP modifications) the servicer is not compelled to address second liens at all.

The negative equity position of many borrowers would be dramatically improved if the second lien were eliminated or reduced more in line with the seniority of the lien. Indeed modification programs would be markedly more successful if principal reduction were used on the first mortgage and the second lien were eliminated completely.

Bottom line: principal reductions are the most effective type of modification, and the HAMP program should make it mandatory. Second liens are a clear and present danger to the economy and the banking system and need to be addressed.

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How Severe is the Housing Crisis?

Modification activity alone will not be sufficient to "solve" the housing crises, although it is certainly helpful. Our research results indicated that, if no further changes in policy are made 10.4 million additional borrowers are likely to default under our base "reasonable" scenario. (And even under our lower bound numbers, 8.3 million borrowers will default.) Since 55 million homes carry mortgages, that 10.4 million roughly equates to 1 borrower out of every 5. This includes 4.1 million of the 4.5 million borrowers who are already non-performing; those loans have been liquidating very slowly. The remaining (and the majority) of defaults will come from borrowers presently performing on their loans, but who are likely to eventually default. Our default estimates include 2.5 million of the 3.8 million re-performing loans that have been more than 60+ days delinquent in the past, but are now performing. History suggests these borrowers are very prone to another default. The final group includes the 46.7 million borrowers who have never missed 2 payments; many owe more than their home is worth. By studying the default behavior of that borrower base over time, we believe that 3.7 million of these borrowers will eventually default if home prices stay at current levels. So, of the 10.4 million units that we expect to eventually default, 4.1 million are already non-performing, 2.5 million are re-performing and 3.7 million have never missed two payments.

Supply—If we assume that 8.3-10.4 million homes will need to liquidate over the next 6 years, that equals 1.38-1.73 million units/year. We assume new 1-4 family construction continues at its low level of 0.5 million units/year, which gives us 1.88-2.23 million units of total supply.

Demand—The Joint Center for Housing Studies at Harvard University estimates a household formation rate of 1.2 million units/year for the next 10 years. This is much higher than the actual 2007-2010 household formation rate of 0.5 million/year, but in line with average numbers over the 1990-2010 period. We assumed a 50% demand from new households, giving us 0.6 million units of annual demand due to housing formation. We feel that is a generous number, as 70% of this will be from minorities who have historically had lower levels of home ownership. To that we add 0.4 million units needing to be replaced due to obsolescence, and 0.2 million units of second home purchases, for a total of 1.2 million units annual demand.

These demand numbers may prove to be high; they may be hampered by credit availability (which has tightened significantly). We estimate that 19% of borrowers who had a mortgage in 2007 would be unable to obtain a new mortgage due to credit history alone (they were >90 days late on their mortgage at some point, experienced foreclosure, or were otherwise liquidated). Still other potential borrowers would be unable to qualify at today's tighter credit standards. Recent GSE origination has an average FICO score of 762 and an average LTV of 67 (and recent bank portfolio origination is similar). FHA and VA have become the major supplier of purchase money to the housing market. And every single policy measure that has been discussed would tighten credit further. HUD is considering tightening DTI (debt-to-income ratio) requirements. FHFA is considering increasing loan level pricing adjustments. And the proposed Dodd-Frank rules implementing the Qualified Residential Mortgage (QRM) and Qualified Mortgage (QM) provisions are likely to compress credit availability further, particularly when the interplay between these two proposed rules and the lower HOEPA thresholds (which are also included in the legislation) is considered.

So we end up with a housing chasm. The housing gap consists of:

Supply = 1.88 – 2.23 million units

Less: Demand (1.2 million units)

= Gap of 0.68 – 1.03 units/year

This equates to a gap of 4.1 – 6.3 million units over the next 6 years.

Even if the modification program, a supply side measure were hugely successful, it would be insufficient to close this gap. Assume we can save 1.5 – 2.0 million additional units through more successful modification activity, an unrealistic upper bound. This still leaves a gap of 2 – 4 million units. We need to increase the demand for housing, and there are two ways to do it:

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Alternative #1: We can make credit more available to borrowers who have recently defaulted on their mortgage, or who have otherwise compromised credit. And, as we have discussed earlier, government policy is moving in the direction of demanding higher credit standards.

Alternative #2: The government can aide in structuring bulk sales of REOs and non-performing loans to encourage investor participation. We were heartened by the recent Request for Information from FHFA, HUD and Treasury looking for suggestions on how to structure such a program. Comments on the RFI were due back on September 15; we hope this will result in bulk sales.

We strongly believe that investor participation is the key (actually, the only reasonable alternative) to increase the demand for housing. The benefit of this is that it will put a floor on housing prices, and stop the vicious cycle in which deteriorating housing prices cause borrowers to default, which in term causes more deterioration in home prices and more defaults. It would also introduce much needed supply into the rental market, keeping rents lower than more affordable than otherwise would have been the case. Remember, defaulting borrowers are apt to turn into renters, further increasing the demand in this space. And the current program of selling properties one-by-one is too slow, and excludes large scale investors as they are unable to accumulate a large enough block of properties in a given geographic area to build out a rental organization, including rental agents and property managers.

HARP

The Home Affordable Refinance Program was instituted in March of 2009, in order to facilitate the refinancing of Fannie and Freddie insured mortgages in which the new LTV would be >80%. More specifically, the guidelines allow mortgages with an original LTV≤80% and no mortgage insurance (MI) initially, but now has a current LTV>80 but ≤125%, to refinance without MI. If the borrower had an existing LTV of >80% with mortgage insurance, the level of MI coverage on the existing loan would remain in place and would not need to be increased. This program was originally supposed to reach 4-5 million borrowers with GSE mortgages, allowing them to refinance into lower rates. In fact, the number of HARP refinances is actually 838,400 through June 30, 2011.

HARP was a very well intentioned program, logically allowing borrowers with mark-to-market LTVs>80 to take advantage of lower mortgage rates, thereby lowering the default risk to the borrower, to the GSEs, to the MI companies, as well as providing a much needed stimulus to the economy. It is clearly not working as intended. The reason for the small reach of HARP again have to do with the frictions to refinance; most of these frictions stem from the fact that while these HARP-eligible loans are, by definition, all GSE-insured, the GSEs are not the only stakeholders. If the loan had an original LTV>80 and carries mortgage insurance, part of the risk is actually laid off on the mortgage insurers. Moreover, in order to obtain GSE coverage, the originator must make representations and warranties on the loans, covering items like property valuation and the borrower's income/assets/employment etc. If a loan goes into default, the originator can be asked to substantiate the claims made on the loan. If the originator cannot prove the loan was adequately underwritten, the GSE can force the servicer to buy back the loans. These representations and warranties are lost if the loan is refinanced with another originator. Does this sound familiar? It should, it is exactly the same set of frictions that we talked about in our earlier discussion on why the GSEs don't do principal reductions when it would be the most advantageous modification alternative.

When we make a list of the frictions to refinance, the top three obstacles all arise due to complex interrelationships between the GSEs, the mortgage insurers and the originators. This includes:

Rep and Warrant Issues: If the refinancing is done with a different originator/servicer, the servicer must take the rep and warrant risk on the high LTV loan, even one with a reasonably clean payment history. If the refi is done with the same servicer, you would think this is not an issue, as the servicer already has the risk. However, if the new loan goes delinquent in the first 6 months, Freddie and Fannie usually conduct a review of the loan file and find a reason to put the loan back. Many originators believe that they are better off with a 4 year old loan with a clean pay history than refinancing the borrower and taking the chance that the loan becomes delinquent in the first 6 months. This can be easily fixed by attaching the pay history of the original loan to the new loans, and consider the combined pay history. A second issue is that there were a lot of loans where the servicing was sold or transferred in the 2005-2007 period. Freddie and Fannie generally required the new servicer to absorb the rep and warrant risk on the loans, but the servicer

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usually mitigated the risk through a back-to-back rep and warrant policy with the originator. Under these circumstances, the new servicer will be much less eager to do a HARP refi on a mortgage they did not originate, as the servicer loses the back-to-back rep and warrant policy with the originator. The most fundamental problem—if the same servicer is the only one who can refinance the borrower, there is no incentive for that servicer to offer a competitive rate. If Fannie and Freddie were prepared to take the rep and warrant risk on the new loans, this problem would be eliminated, but it is inconsistent with the idea of conservatorship. The solution, while certainly not simple, is to encourage, in a way only the US government can, the transfer of the rep and warrant risk from the old provider to the new loan. The borrower is less likely to default so the old provider is better off than if the borrow did not refinance at all.

Mortgage Insurance: One of the major initiatives of the HARP program was to permit a borrower to refinance without adding or increasing mortgage insurance coverage, under the recognition that the GSE already owns the risk on the loan at its current value. In practice, in order to port the policy to the new loan, the MI company treats the refinance as a modification of the existing policy. In a same servicer refinance, the reps and warrants made by the originator of the original loan to the MI provider remain in effect. In a different servicer refinance, the risk to the MI provider is increased. Some MIs require a new certificate, charge higher rates or costs, or just require considerable increased documentation. Not surprisingly, only a tiny fraction of HARP loans with mortgage insurance are different servicer refinances. When the same servicer is the only refinancing alternative, the servicer has no incentive to be competitive. The result: loans with mortgage insurance generally refinance much more slowly than loans without mortgage insurance, even controlling for LTV. This friction can be partially overcome through a combination of carrot and stick type of discussions with MI providers. After all, their largest customers are the GSEs.

Bank Profits: Banks are capacity constrained, and are keeping primary rates artificially high. The spread between primary rates (the rates the bank charges borrowers) and secondary rates (the rate at which the agency MBS market will buy a par mortgage) is at a very elevated level. As a result, the amount banks make on a refinancing can be quite significant. Let's work through an example. Banks are generally posting rates in the area of 4% plus 1 point. This mortgage could be sold into a Fannie 3.5 pool, currently trading at 102.75. In addition, the mortgage originator obtains a 1% upfront fee, for an upfront profit of 3.75%. And this does not consider the value of the mortgage servicing rights. Assuming a 25 basis point guarantee fee, the originator would also be retaining about 25 bps of servicing (4.0% mortgage-3.5% on the pass-through-25 bps to the GSE= originator retains 25 bps servicing), this is worth about $1.25 (assuming a 5 multiple). Total profit on this representative transaction: 5 points! And, it can get even more profitable for the banks because, for some of the HARP loans, the market pays a specified pool premium because the borrowers have so few refinancing opportunities. Yes, banks have some costs of origination, which are not completely offset by the application fee, but mortgage origination is a very good business right now. Banks generally don't add capacity during refinance waves, as they are never sure how long the low rates will last, preferring instead to reap the benefits of larger margins. Moreover, the 4 largest banks, with a 62% origination share, are actually posting higher rates than smaller institutions, and a disproportionate amount of same servicer refis must go through these entities. To make HARP successful, it is important to introduce competition by reducing the frictions to different servicer refinances.

These are the 3 largest obstacles to refinance, and until these problems are tackled HARP is apt to dramatically underperform expectations. There are a number of simple actions that are being considered, and will help at the margin. This includes:

Loan level pricing adjustments for high LTV/low credit score borrowers: These loan level pricing adjustments are capped at 2%. We believe these adjustments should be eliminated. Fannie and Freddie already have the risk on the loans, it is unnecessary to charge a premium on a refinancing that will actually lower the risk to the GSEs. However, if the GSEs eliminated the LLPAs, it is important that the LLPA savings be passed through to the borrowers. Initially, when the program was first introduced, Freddie Mac had no LLPAs while Fannie had uncapped LLPAs; banks did not differentiate in the rate they charged borrowers, essentially capturing the benefit of the LLPAs that Freddie was not charging.

Eliminating the 125 LTV Ceiling: Currently loans with an LTV>125 are not eligible for an agency refi, as tax laws do not recognize mortgages in excess of 125% of property value as principally secured by real estate. Hence these loans are not eligible for inclusion in a REMIC. However, there is nothing preventing the GSEs from guaranteeing and pooling these loans into a new set of pool prefixes that are not REMIC –eligible. This should be done, but it won't help much.

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Eliminating all appraisals on HARP refis: There is no reason not to rely on Fannie's Automated Valuation Model or Freddie's Home Value Explorer for a loan in which the GSEs already have the risk. An appraisal is an unnecessary hassle. Remember, the GSE already has the risk on the loan. Moreover, the FHA is ahead in its thinking on this point: streamlined refis of FHA insured loans are permitted without an appraisal.

Some of the possible changes to the HARP program do involve tradeoffs. Is it more important to prevent defaults or to provide a stimulus to the economy? We know originators are very capacity constrained. If the HARP cutoff date is extended or re-HARPing is permitted, more borrowers will be eligible for the program. Banks will refinance these borrowers first—most of whom are in 4.75-5.50% mortgages, tend to be less credit-constrained, and easier to refinance. However, this would make it less likely that a borrower in a higher coupon mortgage (paying a 6.5-7.0% coupon), who is credit constrained and has a high LTV, is able to refinance, as that loan will likely be more time consuming to process. And credit constrained borrowers with high LTVs are precisely the borrowers for whom refinancing might prevent default.

We strongly believe that the benefit of lower rates should be passed through to borrowers who already have a GSE loan. Ultimately, the only way HARP can come closer to meeting its goals is to reduce the frictions to encourage different servicer refinances. This requires that the three largest frictions in the refinancing process need to be confronted: reps and warrants, mortgage insurance and bank profitability (or profiteering) in a capacity constrained environment.

It is clear that a better-functioning HARP program is a win for the borrower, the GSEs, the MIs and for the housing market as a whole, as the borrower is less likely to default. It is a win for the economy as it provides much needed stimulus. The loser is the investor who is going to see the value of their premium mortgages decline quite sharply. The Freddie and Fannie portfolios, while smaller than several years ago, are still large investors in MBS. We would hope that the decline in the value of the pass-throughs held in the Freddie and Fannie portfolio, as well as those held at the Treasury and the Fed, is not a deciding factor in the HARP discussion.

Again, thank you for the opportunity to appear before the Subcommittee. We look forward to working with you on practical solutions to ease the housing crisis, promote housing market stability, and allow homeowners to take advantage of lower rates to refinance.

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Testimony of Andrew Jakabovics
Senior Director for Policy Development and Research
Enterprise Community Partners
Before the Subcommittee on Insurance, Housing and Community Opportunity
Committee on Financial Services
United States House of Representatives

"The Obama Administration's Response to the Housing Crisis"
October 6, 2011

Chairwoman Biggert, Ranking Member Gutierrez, and other distinguished members of the subcommittee, thank you for the opportunity to testify before you this morning to discuss mechanisms and policy options to facilitate bringing the private sector back into the housing market in a supportive and sustainable way. I will also touch upon federal efforts to refinance mortgages and ways in which those programs could be expanded without additional taxpayer risk.

I am Andrew Jakabovics, senior director of Policy Development and Research at Enterprise Community Partners (Enterprise), a national nonprofit organization that creates opportunities for low- and moderate-income people through fit, affordable housing and diverse, thriving communities. For nearly 30 years, Enterprise has provided financing and expertise to organizations around the country to build and preserve affordable housing and to revitalize and strengthen communities. Enterprise has invested more than $11 billion to create more than 280,000 affordable homes and strengthen hundreds of American communities.

Enterprise brings public and private capital together to meet local needs. We work in communities that range from small rural towns to large cities, from urban neighborhoods to suburban job centers. We know that housing is more than just a physical building—it is the place where people build their lives, create networks and send their children to school. Secure housing is best provided in communities with a diverse mix of affordable and market-rate housing options; access to jobs and support; and strong commitments to the environment and civic participation. We work on holistic housing solutions so that people can live close to work or public transportation, in healthy and safe housing and in vibrant communities.

Prior to joining Enterprise, I had the privilege to serve as senior advisor to U.S. Department of Housing and Urban Development Assistant Secretary Raphael Bostic, where I worked closely with

senior officials at HUD and other Federal agencies on housing finance reform and mitigating the current housing crisis. I devoted attention to foreclosure prevention through improving opportunities for loan modifications for at-risk borrowers and to lessening foreclosure impacts on neighborhoods and communities, both of which are topics for today's hearing.

In addressing the housing crisis, solutions must address the needs of individual borrowers and their families. Solutions also must take into account that millions of people nationwide are in distress, causing aggregated effects playing out across the nation and over time. A comprehensive approach to stabilizing the broader housing market must include preventive efforts as well as remedial ones. The old adage, "an ounce of prevention is worth a pound of cure," certainly applies here; the cost of providing counseling or offering foreclosure mediation, both of which have proven successful in keeping borrowers in their homes compared to individuals navigating the complicated and often frustrating modification process without help, is far, far less than the cost of foreclosure borne by families, communities, municipalities, lenders, and investors.[1]

Preventive Efforts to Avoid Foreclosure

In a low-interest rate environment, refinancing can be an effective mechanism for homeowners to reduce monthly housing costs, leaving them with more money in their pockets to meet other critical household budget needs or put money aside to build or replenish their rainy day funds or other savings. Moreover, with lower monthly costs, in the event that a wage earner suffers a cutback in hours, the likelihood of a future delinquency stemming from that income cut is reduced as well. Similarly, we know that when unemployed workers are ultimately rehired, they generally suffer a pay cut. When coupled with what we know about the causes of default—it most often requires the dual trigger of negative equity (reflective of willingness to pay) combined with a life event such as job loss, illness, death, or divorce (which impact ability to pay)—by reducing the monthly debt service on a mortgage, there is a greater chance that families will continue to be able to pay even under more challenging circumstances.

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[1] Calhoun, Charles A., Mayer, Neil S., et al. (2010) "Preliminary Analysis of National Foreclosure Mitigation Counseling Program Effects, September 2010 Update." Washington, DC: Urban Institute.
Alon Cohen, "Talking It Up: How the Federal Government Can Implement Automatic Foreclosure Mediation to Help Homeowners, Lenders, Investors, and Taxpayers" (Washington: Center for American Progress, 2011), available at http://www.americanprogress.org/issues/2011/01/talking_it_up.html

The federal Home Affordable Refinance Plan (HARP) was designed to lower the monthly costs of borrowers with mortgages bought by Fannie Mae or Freddie Mac (collectively, the Government Sponsored Enterprises, or GSEs) that remain creditworthy but no longer have sufficient collateral to qualify for a refinancing because of the steep declines in home prices across the country. The program allows borrowers with loan-to-value (LTV) ratios of between 80 and 125 to refinance into a new mortgage based on current interest rates.

But has HARP worked? Over 838,000 borrowers refinanced their mortgages under the program, as of June 30, 2011.[2] As house prices decline, the percentage of borrowers who find themselves unable to refinance increases, even as mortgage rates continue to hover at historically low levels. Expanding eligibility to borrowers above 125 LTV could offset some decrease in the eligibility pool, but some have noted that any mortgages refinanced at those very high LTVs could prove difficult to securitize.

Such loans, however, could remain on GSE balance sheets, and if offered regulatory forbearance by FHFA to require no additional capital to be retained above what was already reserved when the original note was securitized, the interest rate on the refinanced mortgage should be attractive to potential refinancers.

The greatest barrier to HARP's successful implementation, however, is likely the fees and charges associated with refinancing. Some costs such as recordation fees are inevitable, but most of the largest costs to borrower can not be justified. The risks to the counter party are simply incommensurate with the associated inflated fees. Specifically, loan-level price adjustments (LLPAs) and title insurance charged to borrowers who are refinancing can raise the cost of a new mortgage to the point where it simply isn't worth the hassle. In theory, LLPAs are a mechanism to create risk-based pricing, such that the cash flow to the GSEs more closely matches expected costs of loans to borrowers with certain financial characteristics or for properties with certain LTV ranges. While in the normal course of business, this can be viewed as a reasonable approach (with the caveat that excessively narrow criteria can proxy for possible discriminatory behavior), but in the case of HARP refinancing, not only is there no new credit risk to the GSEs, the likelihood of

[2] See http://fhfa.gov/webfiles/22617/NCSpeech91911.pdf

future defaults is actually reduced. Eliminating the LLPAs could significantly expand the number of borrowers participating in HARP.

We should also consider HARP in the broader context when evaluating its efficacy. If we consider it a single item in a much larger array, the picture brightens significantly. If the goal is to reduce monthly mortgage costs for as many borrowers as possible, thus strengthening families' balance sheets, this administration's efforts overall have put money back in the pockets of millions of homeowners. In 2010 alone, over $1 trillion in mortgages were refinanced. That translates into over 4 million homeowners who saved money on their mortgages. If the average homeowner saved $150 per month (the equivalent of dropping interest rates from 6% to 5% on a $250,000 mortgage), those 4 million families would see an additional $7.2 billion in their pockets every year, to spend as they see fit.

Stabilizing Housing Markets Means Putting People Back in Decent Homes

If refinancing is at one end of the mortgage process, REO disposition is at the other end. Stabilizing the housing market means more than being more effective in keeping people in their homes, it means dealing with the impact that foreclosures have on communities across the country. I am proud to currently be associated with Enterprise and previously with the Center for American Progress. Both organizations have demonstrated tremendous leadership on addressing the foreclosure crisis through the Neighborhood Stabilization Program and the REO-to-Rental proposals. I turn to those policies now.

We know the devastating impacts of foreclosure. It is obviously costly to families. But vacant and blighted properties also have terrible effects on neighbors of foreclosed properties and whole communities. A newly published study that looked at Massachusetts foreclosures over a 20-year period found that a nearby foreclosure reduces the value of a home by one percent.[3] Foreclosures also have long lasting impacts on communities because lower valuations make their way into subsequent appraisals, with the effect on local prices observable up to five years after the initial

[3] Campbell, John Y., Stefano Giglio, and Parag Pathak. 2011. "Forced Sales and House Prices." *American Economic Review*, 101(5): 2108–31.

foreclosure.[4] Additional research has found a contagion effect, with price declines increasing with each additional foreclosure in the area. The impact of a foreclosed property increases the longer that property sits unsold.[5]

The Neighborhood Stabilization Program (NSP) was designed specifically to address that contagion. Through targeted interventions to acquire properties in hard-hit communities, NSP has created jobs when houses are restored to good quality and helped put families back into formerly distressed properties.

The most successful programs have been those that have brought private capital into their efforts to stabilize neighborhoods. In places like New York, Cleveland, and Sacramento, NSP funds have been leveraged more than 1:1 with private capital. These programs have focused on small areas within cities in order to maximize potential impact. However, the need to address foreclosed properties extends well beyond these places, so the need to bring responsible private capital back into the housing market will be critical for broader stability.

Capital is needed not only for acquisition, but also later when non-profits put homes up for sale. Nonprofits have been quite good at identifying potential homebuyers and providing would-be buyers with extensive pre-purchase counseling, but even with rigorous screening, it is very difficult to find banks willing to lend even to borrowers who meet FHA underwriting criteria. Without credit flowing back into communities, homes will continue to sit vacant and remain at elevated risk of vandalism, thus driving up the costs to NSP recipients and undermining the intent of the program.

Moreover, when NSP recipients cannot sell the homes, they cannot revolve the funds to acquire additional properties. This significantly limits the potential scope of NSP efforts to restore communities and eliminate blight.

The administration's recent proposal for Project Rebuild builds on the successes of NSP, with additional flexibility to address commercial properties and an explicit ability to use funds for establishing job training programs to ensure that local workers get the skills necessary to

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[4] Lin, Zhenguo, Rosenblatt, Eric and Yao, Vincent W. 2009. "Spillover Effects of Foreclosures on Neighborhood Property Values." *Journal of Real Estate Finance and Economics,* 38(4). Available at SSRN: http://ssrn.com/abstract=1033437

[5] Harding, John P., Rosenblatt, Eric and Yao, Vincent W. 2008. "The Contagion Effect of Foreclosed Properties." *Journal of Urban Economics,* 66(3): 164-178. Available at SSRN: http://ssrn.com/abstract=1160354

rehabilitate and maintain those properties over time. Based on NSP's job creation and retention rates, it is estimated that Project Rebuild, if fully funded, would support 191,000 jobs while addressing 80,000 foreclosed, vacant, or abandoned properties nationwide.

Getting Smarter About REO

In addition to Project Rebuild, the recent request for information (RFI) jointly put forth by the Federal Housing Finance Agency, HUD, and the Department of Treasury for Enterprise/FHA asset disposition demonstrates an interest in finding better ways to dispose of properties those entities acquire in foreclosure. The current REO disposition process is designed to treat each property individually, assigning it to a broker for sale and then writing off the losses after closing. The process rarely takes into account how any individual property might impact other properties already being marketed by the same owner. Bulk sales to responsible, qualified buyers allows for a far more strategic disposition process than the current process allows.

Demand for rentals has increased as demand for ownership has declined. The RFI solicited input on potential mechanisms for converting many REO properties into long-term rental units. By removing REO properties from the for-sale inventory for several years, not only is there an opportunity to quickly increase the supply of rental homes, most of which will be affordable, but downward pressure on prices from excess inventory will also be alleviated. This too will allow for a faster housing market recovery.

To be successful, an REO rental program must address the initial sales process, buyer qualifications, post-purchase treatment of properties, and exit strategies for the buyer.

- Initial Sales Process
    - Properties should be sold in bulk at the metropolitan level or at the submarket level, so long as there is enough volume to keep the management costs reasonable.
    - REO rental won't work in all markets. In addition to having enough properties to create a reasonable portfolio size, local rental and ownership market conditions must show that rents would support higher valuations than current recoveries.
    - A range of financing options could be used, ranging from all cash deals to seller financing and joint ventures between FHA/GSEs and the buyers. One possible joint venture mechanism is for the sellers to provide the properties and the buyer bringing capital for the rehab. At full lease-up, the buyer would then buy out the

seller's stake in the joint venture with the availability of permanent financing, as in other commercial real estate development.

- Buyer Qualifications
  - All potential buyers would need to meet minimum capital requirements that demonstrate financial capacity to both acquire and rehabilitate each portfolio. This would include capacity to handle possible cost overruns during the rehab phase and sufficient reserves to cover possible slow lease-up periods.
  - In addition to financial capacity to acquire the portfolios, buyers would also need to demonstrate a track record of commitment to community and a history of responsible stewardship of assets. This could include a history of independent affordable housing development, past partnerships with nonprofits or other housing intermediaries, or evidence of past or present long-term investment in the market.
  - Local governments and community development partners with knowledge of best practices should be solicited to help develop criteria that would be used to approve potential buyers.
  - Buyers must also provide evidence of property- and tenant-management capacity. This capacity could be provided through a third party rather than directly by the capital partner, but third-party providers would also be obligated to show their experience managing properties at scale.

- Responsible rehabilitation and long-term stewardship of affordable rental units
  - Post-sale, it is critical that respondents take very seriously their responsibility to eliminate blight, rehabilitate properties, and maintain them. This is important for owners and tenants, but it is also important for neighborhoods.
  - Buyers must meet or exceed standards for housing quality for rehabilitation, building from the "adequate rehabilitation" standard that Congress established in the 1998 HUD Asset Control Area (ACA) program. To produce uniformly safe, decent, durable, and high-performing homes, the standards should meet those of the

NSP program, which would allow for consistency across programs with similar goals.

- Scattered-site property management is a difficult business and must be done properly for the sake of the tenants and the neighborhood. Rental properties must be maintained by property management companies with a proven record in scattered-site single-family asset management. If buyers themselves do not have this experience, they must partner with for-profit or nonprofit entities that do. Minimum criteria could include 2+ years experience managing 25 or more single-family scattered-site properties in markets that resemble the markets in which the property manager is proposing to work. Under this requirement, some locations could be excluded due to a lack of experienced property managers, not from lack of need.
- The property preservation field substantially has improved in performance and professionalism over the past several years and now has developed significant scattered site asset management capacity. Moreover, many of these national companies have also gained proficiency in tenant management, as they have needed to properly protect the rights of renters under the Protecting Tenants At Foreclosure Act.
- Properties in this program must remain available for rent for a minimum of five years after purchase. This will keep properties off the for-sale market, allowing it time to recover, and will also allow tenants the peace of mind to know they have stable housing options for the long term.

- Exit strategies for the buyers include strict limits on eligible disposition
  - Understandably, not all properties in a portfolio make good rental candidates. A certain share of the portfolio could be disposed of immediately after acquisition, but there should be limits on what percentage of properties can be used for non-rental purposes.
  - Eligible up-front disposition should allow for a percentage of properties to be demolished or donated for public use, but the rest of the properties should be rehabilitated and offered for rent. An unacceptable outcome would be for buyers to

do upscale rehabs in high-end communities and make those homes available for sale, while doing some rehab in moderate neighborhoods to rent and then letting the rest of the portfolio in already hard-hit areas rot.

- Going in, buyers must know what their options are for selling after the rental restriction is lifted. Some properties will likely remain rental even beyond the required holding period, but others will move back to owner occupancy.
- One idea that is gaining traction is the notion of lease-purchase—renting with an option to buy. Making rent payments for several years should rehabilitate most tenants' credit to the point of qualifying for FHA financing. The rules for this would need to be tightly written, but overall this provides a clear exit strategy for the portfolio buyer. In turn, this reduces uncertainty and raises potential purchase prices.

Better Outcomes through Better Coordination

Community stabilization efforts should be coordinated across Federal programs and with private actors. Programs need to work on the ground, so disposition strategies like REO to rental should complement existing efforts like NSP and future efforts like Project Rebuild. That could be accomplished in a number of ways, from encouraging portfolio buyers to transfer properties to local nonprofits working in NSP-targeted neighborhoods, to coordinated rehab efforts to quickly bring properties back online. Greater program flexibility to allow NSP recipients to more easily adapt to changing market conditions and areas of need would also allow for more efficient use of Federal funds and better performance of the FHA portfolio. Similarly, the competitive funding proposed under Project Rebuild could offer an incentive scoring system that awards points for coordination with bulk purchasers of REO.

In addition to smarter disposition processes for FHA and GSE properties, banks must do more for their own REO portfolios. They too need to be far more strategic about their REO disposition strategies, and if they fail to do their part to minimize the impact of foreclosures on communities, I would potentially recommend incorporating an assessment of REO practices into CRA evaluations.

Last, while much of this testimony has focused on minimizing the impact of foreclosures, I would be remiss if I did not mention that the best option for avoiding a costly foreclosure is to provide a distressed borrower with an affordable mortgage payment. With better coordination in mind, bulk note purchases by entities or consortia with the capacity and flexibility to restructure notes where possible (including through principal reduction) and the ability to transition properties with minimal disruption or vacancy (either through negotiating a deed-for-lease with the current owner or quickly repairing and renting) into affordable rental portfolios may yet hold the most promise for stabilizing the nation's housing markets.

Embargoed until delivery

Written Testimony of Darius Kingsley,
Deputy Chief,
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U.S. Department of the Treasury
Hearing before the House Committee on Financial Services
Subcommittee on Insurance, Housing and Community Opportunity
on
The Administration's Response to the Housing Finance Crisis

October 6, 2011

Chairman Biggert, Ranking Member Gutierrez and Members of the Subcommittee, thank you for the opportunity to testify today on the Administration's efforts to mitigate the effects of the most serious housing crisis since the Great Depression. My testimony discusses the Department of the Treasury's (Treasury) response to the housing crisis through Making Home Affordable and the Hardest Hit Fund.

To begin, I believe it is important to remember where the housing market stood just over two and half years ago. When the Obama Administration took office in January 2009, home prices had fallen for 30 straight months. Home values had fallen by nearly one-third. Fannie Mae and Freddie Mac had been in conservatorship for four months, and American families were struggling to keep and buy their homes.

Treasury, in partnership with other federal agencies, responded by taking a series of aggressive steps with a strategy focused on providing stability to housing markets, and giving families who could afford to stay in their homes, a chance to do so. In particular, under the authority granted to Treasury in the Emergency Economic Stabilization Act, we launched the Making Home Affordable Program to help responsible homeowners avoid foreclosure. Through one such program, the Home Affordable Modification Program (HAMP), Treasury worked to leverage the private sector to bring homeowners and the mortgage servicers together to find reasonable alternatives to foreclosure.

Importance of the Making Home Affordable Program to the Housing Market

In March 2009, Treasury launched Making Home Affordable, which includes the first lien modification program—the Home Affordable Modification Program (HAMP). HAMP's goal is to offer homeowners who are at risk of foreclosure reduced monthly mortgage payments that are affordable and sustainable over the long-term.

HAMP's impact on the housing market goes far beyond the over 800,000 permanent modifications achieved. By setting affordability standards and developing a framework for how mortgage servicers should assist struggling homeowners, HAMP provides critical protections and has catalyzed improvements in modifications across the board. Without HAMP, homeowners would have far fewer ways of coping with the worst housing crisis in generations.

Instead, their fate would be left solely in the hands of the same mortgage servicers whose standards are widely recognized to be in need of reform.

From the outset, the mortgage industry was ill-equipped to respond adequately to the housing crisis. Mortgage servicers had insufficient resources to address the needs of a market that was reeling from increasing foreclosures. Their expertise and infrastructure had been limited to overseeing collections and foreclosing on those who failed to pay.

While that model may have been sufficient for the industry during times of economic growth and house-price appreciation, it became inadequate in 2007, when the industry experienced rapidly rising defaults and declining home prices.

In addition, there was no standard approach among loan servicers or investors about how to respond to responsible homeowners who wanted to continue making payments, but were in need of mortgage assistance. Most solutions offered by servicers before the crisis simply sought to add unpaid interest and fees to the mortgage balance. These options often resulted in higher, not lower, payments for homeowners.

At the same time, it is important to emphasize that HAMP is not intended to modify every mortgage. Nor is HAMP intended to stop all foreclosures. The program is intended to support economic stability and help struggling homeowners grappling with a verifiable financial hardship that has put them at risk of foreclosure. It focuses on families who could sustain their mortgage over the long term if modified. HAMP eligibility is not extended to:

- High cost mortgages in excess of $729,750;
- Mortgages on vacation, second homes or investor-owned properties;
- Mortgages on vacant homes;
- Homeowners who can afford to pay their mortgage without government assistance; and
- Homeowners with mortgages that are unsustainable even with government assistance.

About one million homeowners are currently estimated to be eligible for HAMP who have not yet received a permanent modification. As of August 31, 2011, HAMP has enabled more than 800,000 homeowners to secure permanent modifications of their mortgages. Homeowners receiving permanent modifications save a median of more than $525, or 37 percent, each month on their mortgage payments.

Today, homeowners who begin a trial plan under the program have a high likelihood of achieving a permanent modification and sustaining their modification over time. Seventy-six percent of homeowners who started trial modifications in the last 16 months have converted to a permanent modification, with an average trial period of 3.5 months.

HAMP modifications have performed well over time. Based on data in the June 2011 Making Home Affordable Program Performance Report,[1] at six months, more than 93 percent of homeowners remain in permanent modifications.

For homeowners who do not qualify for HAMP (or who have fallen out of HAMP), our guidelines require servicers to evaluate homeowners for other programs to prevent a foreclosure, such as a servicer's own proprietary modification program. Over 2.5 million proprietary modifications have been offered to homeowners outside of the program at no expense to taxpayers. Many of these modifications are following the same modification steps established by HAMP. Consider that during the fourth quarter of 2008, close to 50 percent of mortgage modifications either kept payments the same or increased them.[2] Today, close to 90 percent of modifications reduce payments. Fifty percent of those modifications reduce payments by 20 percent or more. The standards that HAMP put into place have helped yield more sustainable assistance for struggling homeowners across the industry.

Improved Customer Service and Transparency

From a homeowner's perspective; however, perhaps the most important changes driven by Making Home Affordable have been improvements in homeowner protections and customer service.

For many homeowners, communicating with their mortgage servicer has been tremendously frustrating. Servicers have had trouble keeping track of homeowner communication; different customer service representatives often do not have records of a homeowner's prior contact with their organization. Servicers lose documents or are difficult to contact and, most egregiously, foreclosure actions, including foreclosure sales, have proceeded while homeowners are being evaluated for or are making payments on a trial modification. Treasury has been clear that servicers must improve the homeowner experience under Making Home Affordable and has established needed protections to guard against such actions.

Over the past 18 months we have created significant resources for homeowners seeking assistance through the program. These improvements strengthen program transparency and simplify the modification process for homeowners.

Communication and Transparency: In the event a homeowner is not eligible for a modification, MHA requires servicers to notify them of this decision in writing using commonly understandable language, and to give homeowners 30 days to appeal the decision before a foreclosure sale can take place.

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[1] http://www.treasury.gov/initiatives/financial-stability/results/MHA-Reports/Pages/default.aspx
[2] http://www.occ.gov/publications/publications-by-type/other-publications-reports/mortgage-metrics-q4-2008/mortgage-metrics-q4-2008-pdf.pdf

If a homeowner has been denied due to a negative net present value (NPV) result, servicers must disclose all of the variables that went into the NPV calculation. In May, Treasury launched CheckmyNPV.com, an online tool that replicates Treasury's NPV model. Homeowners can input variables from their Non-Approval Notice and use the result to start a dialogue with a HUD-approved housing counselor or their servicer about the modification process. A homeowner can also work with staff at the Homeowner's HOPE™ Hotline and the HAMP Solution Center to resolve any issues.

Single Point of Contact: As of September 1 for new applicants to the program, and November 1 for homeowners who have already begun the application process, servicers are required to implement a Single Point of Contact system of customer service for their non-GSE loans, so that a homeowner seeking a modification or foreclosure avoidance assistance has one single relationship manager. The relationship manager works with the homeowner throughout the loss mitigation process until all options have been exhausted. In the event that the loan is referred to foreclosure, the relationship manager remains available to answer a homeowner's questions about the foreclosure process and status.

Strengthened Homeowner Resources: Treasury revamped the homeowner support operations at both the Homeowner's HOPE™ Hotline and the HAMP Solution Center. Staff is now trained to serve as homeowner advocates for homeowners seeking assistance. They review complaints, assist homeowners in correcting servicer errors, and escalate cases within servicing operations to resolve conflicts. In addition, all participating servicers are required to have an internal process for escalating homeowner complaints and the 20 largest servicers are required to have a dedicated escalations staff (independent of the initial modification underwriting and decision) to review complaints. These large servicers must acknowledge receipt of a complaint within five business days and must work to close the case within 30 days. If the case is escalated through one of the Treasury call centers, the servicer may not close that case unless the call center staff concurs with the outcome.

Connecting with Homeowners

None of these protections have value, however, if servicers are unable to connect with the homeowner. Homeowners near foreclosure are often overwhelmed by the complexity of the challenges they face. As a result, they may become frozen and unsure of where to turn for help. Unfortunately, many homeowners delay conversations about their mortgage concerns until their options are much more limited.

During the homeowner events we co-host across the country, Treasury connects homeowners with HUD-approved housing counselors and mortgage servicers who can provide both meaningful guidance about their options and sustainable foreclosure prevention solutions on site. Next week, Treasury will host its 60th event in Phoenix. At these events, hosted in cities across the country, we have met and helped more than 59,000 families to date through the most personal of financial crises.

Treasury recently launched the second phase of its public service advertising (PSA) campaign to reach struggling homeowners through television, radio, internet, and billboard PSAs in English and Spanish. The goal of the campaign is to connect those homeowners who feel frozen in place by their mortgage concerns with free federal resources that can help them find the help they need, including the Homeowner's HOPE™ Hotline and the MakingHomeAffordable.gov website. We know that homeowners who act early are often more likely to find the best possible outcome.

We recently met with a homeowner from Atlanta who found the modification process daunting and difficult. She told us, "I got into some financial trouble, and got behind on my mortgage payments. I remember seeing a local advertisement for help with mortgage problems, and decided to call to see what I could do to keep my home." Nearly a year after calling the Homeowner's HOPE™ Hotline, she is still in her home and is able to afford her monthly mortgage payments with the income she has now. "The modification gives me peace of mind. I don't have to worry about staying in my home."

Servicer Compliance and Accountability

Treasury has also instituted a comprehensive compliance program to make sure that homeowners are fairly evaluated for Making Home Affordable and that servicer operations reflect Treasury guidance.

The Making Home Affordable compliance program is designed to ensure that servicers are meeting their obligations. Treasury's compliance activities help make sure that homeowners are being treated appropriately in accordance with guidelines and servicers are subject to various compliance activities.

We hold servicers publicly accountable for their performance. Treasury began publishing the Making Home Affordable Program Servicer Assessments in June 2011 and will continue to do so quarterly. The Servicer Assessments report the compliance results of the 10 largest mortgage servicers participating in the program in three critical areas:

- Identifying and contacting homeowners (e.g. communicating with homeowners on eligibility, and loan file reviews).
- Homeowner evaluation and assistance (e.g. calculating income and evaluating internal controls).
- Program management reporting and governance.

For the second quarter of 2011, two servicers were found to need substantial improvement and we are withholding payment of incentives to these servicers until they improve.[3] Treasury hopes these assessments will set the standard for transparency about mortgage servicer efforts to assist homeowners and prompt servicers to correct identified instances of non-compliance.

[3] Two servicers, Bank of America and JP Morgan Chase Bank, were determined to need substantial improvement in the first and second quarter of 2011 and their servicer incentives are being withheld.

HAMP Is Not the Only Solution for Struggling Homeowners

While HAMP has been effective in reducing mortgage payments for struggling homeowners, it is not necessarily the most appropriate solution for all homeowners. That is why Treasury launched additional programs to create a range of tools to help homeowners.

The Home Affordable Foreclosure Alternatives Program (HAFA) helps homeowners exit their homes and transition to a more affordable living situation through a short sale or deed-in-lieu of foreclosure. Treasury's guidance provides the first model for pre-approved short sales, in which a servicer agrees to accept a pre-determined sale price. This eliminates the long delays after a buyer submits the offer and allows sales to close more quickly. HAFA also streamlines the short sale process by establishing clear timelines and standard form agreements for use by mortgage servicers and homeowners. HAFA provides up to $3,000 of relocation assistance after a homeowner exits the home.

Treasury's Hardest Hit Fund is also assisting homeowners through locally-tailored programs designed by participating Housing Finance Agencies (HFAs) to make the most of their local resources and address the distinct needs of their communities. The Hardest Hit Fund provides $7.6 billion to 18 states and the District of Columbia, areas that have experienced steep home price declines or high unemployment in the economic downturn.

- All 19 HFAs are now offering assistance statewide and accepting homeowner applications for assistance.

- The five largest servicers (Bank of America, JP Morgan Chase, CitiMortgage, GMAC Mortgage and Wells Fargo) are now participating in programs with all 19 HFAs; several states have over 100 participating servicers.

- Fannie Mae and Freddie Mac, the Federal Housing Administration (FHA), the U.S. Department of Veterans Affairs, and the U.S. Department of Agriculture Rural Housing Service have issued guidance strongly encouraging their servicers to participate in unemployment programs under the Hardest Hit Fund.

- All 19 HFAs have created extensive infrastructure to operate these programs, including selecting and training networks of housing counselors to assist with applications, creating homeowner portals to apply for assistance, and hiring underwriters and other staff to review and approve applications.

The Home Affordable Unemployment Program (UP), which was recently adjusted to meet the realities of today's unemployment climate, requires servicers to grant unemployed homeowners of non-GSE mortgages a minimum forbearance period of twelve months, whenever permitted by regulatory or investor guidelines, while they search for employment. Servicers are not reimbursed for any costs associated with UP, and there is no cost to the government or taxpayers from the forbearance plans.

Under the Principal Reduction Alternative (PRA), servicers are required to evaluate the benefit of principal reduction for any mortgage with a loan to value greater than 115 percent. Servicers are encouraged to offer principal reduction whenever the NPV result of a HAMP modification that includes principal reduction is greater than the NPV result without principal reduction. Incentives are based on the dollar value of the principal reduced and are earned by homeowners and investors on a pay-for-success structure.

We continue to publish our detailed monthly report about servicer efforts to assist struggling homeowners, which includes some of the most detailed information in the mortgage industry. Over the last few months we have expanded the monthly public report to also include information about HAFA, UP, and PRA. A copy of the latest report is enclosed.

Looking Ahead for Housing

While there is not one solution for every homeowner at risk of foreclosure, as a result of the Administration's actions, struggling homeowners today have more viable tools available to avoid foreclosure than ever before. These programs have established key benchmarks and homeowner protections that are now viewed as industry best practices. As a direct and indirect result of these programs, millions of families are still in their homes today. However, there is still much work to be done, and the housing market remains fragile. It is important to remember that before MHA, no mortgage modification program was ever attempted at such a large scale. We have learned a tremendous amount and catalyzed important improvements both within the program and more broadly across the industry. Furthermore, these housing programs have established a transparent process and critical protections so that homeowners can know exactly what to expect in the modification process. As a result, homeowners today, have far more options to cope with the worst housing crisis in generations than if we did nothing at all. We will continue to reach and engage struggling homeowners, hold servicers accountable for their performance, and ensure homeowners are appropriately evaluated for the modification and foreclosure avoidance programs for which they are eligible.

Enclosure: August 2011 MHA Performance Report

Making Home Affordable

Program Performance Report Through August 2011

Report Highlights

More Than 816,000 Homeowners Granted Permanent Modifications

- Program to date, homeowners in permanent modifications have realized aggregate savings in monthly mortgage payments of nearly $8.3 billion. Homeowners in active first lien permanent modifications save a median of $525 per month – more than one-third of the median before-modification payment.
- Seventy-six percent of eligible homeowners entering a HAMP trial modification since June 1, 2010 received a permanent modification, with an average trial period of 3.5 months.

Outreach to Struggling Homeowners Continues

- Treasury and HUD recently launched a nationwide Foreclosure Prevention Public Service Advertisement (PSA) campaign to increase awareness of the Making Home Affordable program among eligible homeowners.
- This campaign, combined with free outreach events in local communities across the country, aims to connect struggling homeowners with their mortgage servicers and HUD-approved housing counselors to discuss options to avoid foreclosure.

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Making Home Affordable: Summary Results

Program Performance Report Through August 2011

HAMP Activity: First Lien Modifications

HAMP is designed to lower monthly mortgage payments to help struggling homeowners stay in their homes and prevent avoidable foreclosure.

		Total
HAMP Eligibility (As of July 31, 2011)	Eligible Delinquent Loans[1]	2,564,766
	Eligible Delinquent Borrowers[2]	992,968
Trial Modifications	Trial Plan Offers Extended (Cumulative)[3]	1,902,606
	All Trials Started	1,688,038
	Trials Reported Since July 2011 Report[4]	26,577
	Trial Modifications Canceled (Cumulative)	765,345
	Active Trials	105,860
Permanent Modifications	All Permanent Modifications Started	816,833
	Permanent Modifications Reported Since July 2011 Report	25,434
	Permanent Modifications Canceled (Cumulative)[5]	125,864
	Active Permanent Modifications	690,969

[1] Estimated eligible 60+ day delinquent loans as reported by servicers as of July 31, 2011, include conventional loans:
- in foreclosure and bankruptcy.
- with a current unpaid principal balance less than $729,750 on a one-unit property, $934,200 on a two-unit property, $1,129,250 on a three-unit property and $1,403,400 on a four-unit property.
- on a property that was owner-occupied at origination.
- originated on or before January 1, 2009.

Estimated eligible 60+ day delinquent loans exclude:
- FHA and VA loans.
- loans that are current or less than 60 days delinquent, which may be eligible for HAMP if a borrower is in imminent default.

[2] The estimated eligible 60+ day delinquent borrowers are those in HAMP-eligible loans, minus estimated exclusions of loans on vacant properties, loans with borrower debt-to-income ratio below 31%, loans that fail the NPV test, properties no longer owner-occupied, unemployed borrowers, manufactured housing loans with title/chattel issues that exclude them from HAMP, loans where the investor pooling and servicing agreements preclude modification, and trial and permanent modifications disqualified from HAMP. Exclusions for DTI and NPV results are estimated using market analytics.

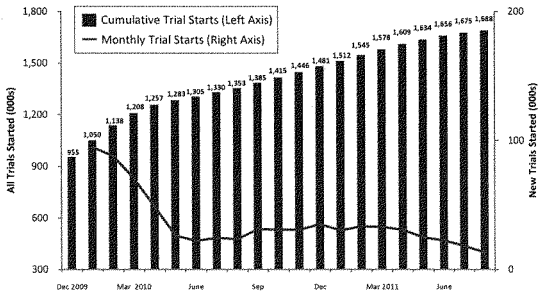
[3] As reported in the weekly servicer survey of large SPA servicers through Sept. 1, 2011.

[4] Servicers may enter new trial modifications into the HAMP system of record at anytime.

[5] A permanent modification is canceled when the borrower has missed three consecutive monthly payments. Includes 1,989 loans paid off.

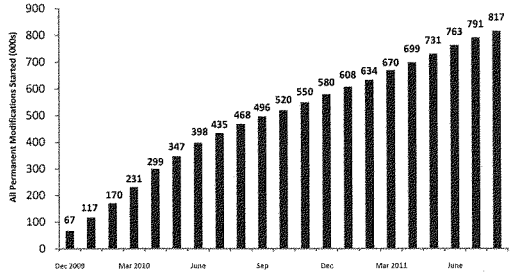
Note: Unless specified, exhibits in this report refer to HAMP first lien modification activity.

HAMP Trials Started



Source: HAMP system of record. Servicers may enter new trial modifications into the HAMP system of record at any time. For example, 26,577 trials have entered the HAMP system of record since the prior report; 13,257 were trials with a first payment recorded in August 2011.

Permanent Modifications Started (Cumulative)



Source: HAMP system of record.

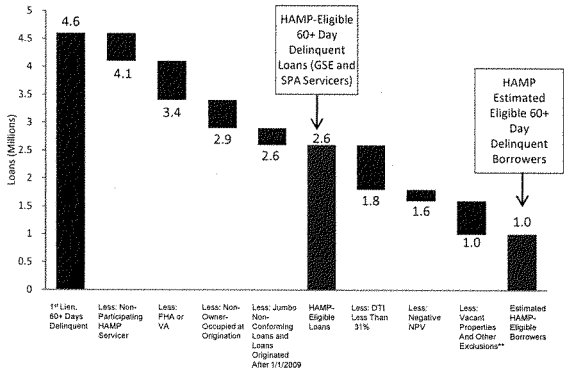
MAKING HOME AFFORDABLE

Making Home Affordable: Summary Results

Program Performance Report Through August 2011

Waterfall of Estimated Eligible Homeowners For the First Lien Modification Program

Not all 60+ day delinquent loans are eligible for HAMP. Other characteristics may preclude homeowner eligibility. Based on the estimates, of the 4.6 million homeowners who are currently 60+ days delinquent, 1.0 million homeowners are eligible for HAMP. As this represents a point-in-time snapshot of the delinquency population and estimated HAMP eligibility, we expect that as homeowners become seriously delinquent between now and the end of 2012, some of those homeowners will be eligible for HAMP.



** Other exclusions include: no longer owner-occupied; unemployed borrowers; investor's pooling and servicing agreement precludes modification; manufactured housing loans with titling/chattel issues that exclude them from HAMP; and trial and permanent modifications disqualified from HAMP.
Note: Chart refers only to loans eligible for the first lien modification program.

Sources: Fannie Mae; monthly survey of participating servicers for July 31, 2011. Total 60+ day delinquency figure derived from 2nd Quarter 2011 MBA National Delinquency Survey. Excluded loans are as reported by large servicers by survey who have signed a servicer participation agreement for HAMP.

Homeowner Benefits and First Lien Modification Characteristics

- Aggregate savings to homeowners who received HAMP first lien permanent modifications are estimated to total **nearly $8.3 billion,** program to date, compared with unmodified mortgage obligations.
- The median monthly savings for borrowers in active permanent first lien modifications is $525.46, or **37% of the median monthly payment** before modification.

- Of trial modifications started, **79% of homeowners were at least 60 days delinquent at trial start**. The rest were up to 59 days delinquent or current and in imminent default.

- The **primary hardship reasons** for homeowners in active permanent modifications are:
  - 61.5% experienced loss of income (curtailment of income or unemployment)
  - 11.2% reported excessive obligation
  - 2.9% reported an illness of the principal borrower

- Active permanent modifications feature the following **modification steps:**
  - 98.9% feature interest rate reductions
  - 59.6% offer term extension
  - 30.9% include principal forbearance

Select Median Characteristics of Active Permanent Modifications

Loan Characteristic	Before Modification	After Modification	Median Decrease
Front-End Debt-to-Income Ratio[1]	45.2%	31.0%	-14.3 pct pts
Back-End Debt-to-Income Ratio[2]	78.3%	61.4%	-14.7 pct pts
Median Monthly Housing Payment[3]	$1,427.50	$831.61	-$525.46

[1] Ratio of housing expenses (principal, interest, taxes, insurance and homeowners association and/or condo fees) to monthly gross income.
[2] Ratio of total monthly debt payments (including mortgage principal and interest, taxes, insurance, homeowners association and/or condo fees, plus payments on installment debts, junior liens, alimony, car lease payments and investment property payments) to monthly gross income. Borrowers who have a back-end debt-to-income ratio of greater than 55% are required to seek housing counseling under program guidelines.
[3] Principal and interest payment.

Making Home Affordable: Summary Results

Program Performance Report Through August 2011

Home Affordable Foreclosure Alternatives (HAFA) Activity

The Home Affordable Foreclosure Alternatives Program (HAFA) offers incentives for homeowners looking to exit their homes through a short sale or deed-in-lieu of foreclosure. HAFA has established important homeowner protections and an industry standard for streamlined transactions. In 22% of HAFA agreements started, the homeowner began a HAMP trial modification but later requested a HAFA agreement or was disqualified from HAMP.

All HAFA Agreements Started[1]	28,953
HAFA Agreements Active	9,958
HAFA Transactions Completed	15,954
Completed Transactions – Short Sale	15,531
Completed Transactions – Deed-in-Lieu	423

[1] Servicer agreement with homeowner for terms of potential short sale, which lasts at least 120 days; or agreement for a deed-in-lieu transaction. A short sale requires a third-party purchaser and cooperation of junior lienholders and mortgage insurers to complete the transaction. All HAFA Agreements Started include HAFA Agreements Active, HAFA Transactions Completed, and HAFA Transactions Canceled.

Principal Reduction Alternative (PRA) Activity

The Principal Reduction Alternative (PRA) requires servicers of non-GSE loans to evaluate the benefit of principal reduction for mortgages with a loan-to-value ratio of 115% or greater when evaluating a homeowner for a HAMP first lien modification. While servicers are required to evaluate homeowners for PRA, they are not required to reduce principal as part of the modification. PRA may be a feature of a HAMP trial or permanent modification.

All PRA Trial Modifications Started	35,001
PRA Trial Modifications Active	22,149
All PRA Permanent Modifications Started	10,781
PRA Permanent Modifications Active	10,544
Median Principal Amount Reduced for Active Permanent Modifications	$67,857
Median Principal Amount Reduced for Active Permanent Modifications (%)[2]	30.5%

[2] PRA amount as a percentage of before-modification UPB, excluding capitalization.

HAFA Activity by Servicer

Servicer	Agreements Started[1]	Agreements Completed
Bank of America, NA[2]	2,929	1,978
J.P. Morgan Chase Bank NA[3]	11,683	6,454
Litton Loan Servicing LP	1,267	634
Select Portfolio Servicing, Inc.	1,593	764
Wells Fargo Bank, NA[4]	7,760	4,225
All Other Servicers	3,721	1,899
Total	**28,953**	**15,954**

[1] Servicer agreement with homeowner for terms of potential short sale, which lasts at least 120 days; or agreement for a deed-in-lieu transaction. A short sale requires a third-party purchaser and cooperation of junior lienholders and mortgage insurers to complete the transaction. All HAFA Agreements Started include HAFA Agreements Active, HAFA Transactions Completed, and HAFA Transactions Canceled.
[2] Bank of America, NA includes Bank of America, NA, BAC Home Loans Servicing LP, Home Loan Services and Wilshire Credit Corporation.
[3] J.P. Morgan Chase Bank, NA includes EMC Mortgage Corporation.
[4] Wells Fargo Bank, NA includes all loans previously reported under Wachovia Mortgage, FSB.

Unemployment Program (UP) Activity

The Treasury Unemployment Program (UP) provides a temporary forbearance to homeowners who are unemployed. Under Treasury guidelines, unemployed homeowners must be considered for a minimum of 12 months' forbearance.

All UP Forbearance Plans Started (Through July 2011)	13,993
UP Forbearance Plans With Some Payment Required	11,364
UP Forbearance Plans With No Payment Required	2,629

Note: Data is as reported by servicers via survey for UP participation through July 31, 2011.

See Appendix A2 for servicer participants in additional Making Home Affordable programs.

Making Home Affordable: Summary Results

Program Performance Report Through August 2011

Second Lien Modification Program (2MP) Activity

The Second Lien Modification Program (2MP) provides assistance to homeowners in a first lien permanent modification who have an eligible second lien with a participating servicer. This assistance can result in a modification of the second lien and even full or partial extinguishment of the second lien. 2MP requires that the first lien modification be permanent and active and that the second lien have an unpaid balance of more than $5,000 and a monthly payment of $100 or greater.

All Second Lien Modifications Started (Cumulative)[1]	40,654
Second Lien Modifications Involving Full Lien Extinguishments	3,642
Second Lien Modifications Disqualified[2]	548
Active Second Lien Modifications	36,464

Of the Active Second Lien Modifications:

Second Lien Partially Extinguished	1,433
Second Lien Loan Modifications[3]	35,031

Second Lien Extinguishment Details

Average Amount of Full Extinguishment	$68,042
Average Amount of Partial Extinguishment	$6,560

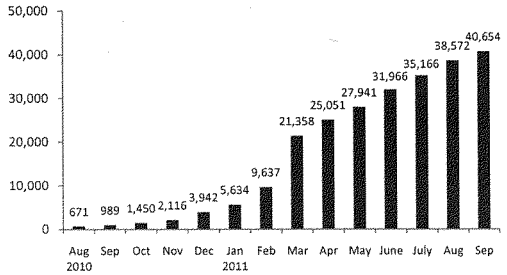
[1] Includes second lien modifications reported into HAMP system of record through the end of cycle for August 2011 data, though the effective date may occur in September. Number of modifications is net of cancellations, which are primarily due to servicer data corrections.
[2] Includes 58 loans paid off.
[3] Second lien modifications follow a series of steps and may include capitalization, interest rate reduction, term extension and principal forbearance or forgiveness.

Treasury FHA-HAMP Modification Activity

The Treasury FHA-HAMP Program provides assistance to eligible homeowners with FHA-insured mortgages.

All Treasury FHA-HAMP Trial Modifications Started	6,148
Treasury FHA-HAMP Permanent Modifications Started	4,254

Second Lien Modifications Started (Cumulative)



Note: Includes second lien modifications reported into HAMP system of record through the end of cycle for August 2011 data, though the effective date may occur in September. Number of modifications is net of cancellations, which are primarily due to servicer data corrections.

Second Lien Modification Activity by Servicer

Servicer	Second Lien Modifications Started	Full Extinguishments	DQ[1]	Active Partial Extinguishment/ Modifications
Bank of America, NA[2]	17,009	1,606	268	15,135
CitiMortgage, Inc	5,368	893	50	4,425
GMAC Mortgage, LLC	2,405	434	3	1,968
J.P. Morgan Chase Bank NA[3]	5,662	0	95	5,567
Wells Fargo Bank, NA[4]	8,196	232	119	7,845
Other SPA Servicers	2,014	477	13	1,524
Total	**40,654**	**3,642**	**548**	**36,464**

Note: Number of modifications started is net of cancellations, which are primarily due to servicer data corrections.
[1] Disqualified loans includes second liens paid off.
[2] Bank of America, NA includes Bank of America, NA, BAC Home Loans Servicing LP, Home Loan Services and Wilshire Credit Corporation.
[3] J.P. Morgan Chase Bank, NA includes EMC Mortgage Corporation.
[4] Wells Fargo Bank, NA includes Wachovia Mortgage, FSB.

Making Home Affordable: Summary Results

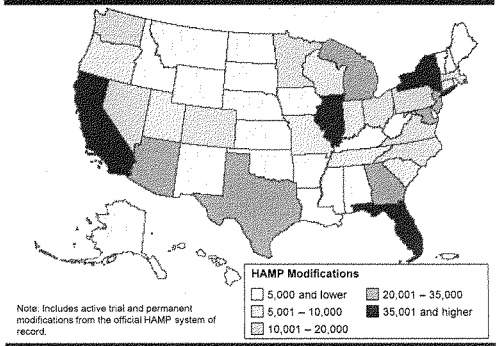
Program Performance Report Through August 2011

HAMP Activity by State

State	Active Trials	Permanent Modifications	State Total[1]	% of U.S. HAMP Activity
AK	64	292	356	0.0%
AL	601	3,930	4,531	0.6%
AR	235	1,533	1,768	0.2%
AZ	3,505	31,163	34,668	4.4%
CA	26,533	168,639	195,172	24.5%
CO	1,257	9,581	10,838	1.4%
CT	1,287	8,654	9,941	1.2%
DC	161	1,167	1,328	0.2%
DE	320	2,139	2,459	0.3%
FL	14,170	81,722	95,892	12.0%
GA	3,862	25,049	28,911	3.6%
HI	397	2,638	3,035	0.4%
IA	238	1,781	2,019	0.3%
ID	395	2,653	3,048	0.4%
IL	5,589	36,899	42,488	5.3%
IN	1,035	6,646	7,681	1.0%
KS	259	1,655	1,914	0.2%
KY	410	2,616	3,026	0.4%
LA	704	3,772	4,476	0.6%
MA	2,368	17,111	19,479	2.4%
MD	3,124	22,169	25,293	3.2%
ME	336	1,891	2,227	0.3%
MI	3,279	22,246	25,525	3.2%
MN	1,402	11,902	13,304	1.7%
MO	1,085	7,118	8,203	1.0%
MS	394	2,587	2,981	0.4%
MT	120	794	914	0.1%
NC	1,727	12,580	14,307	1.8%
ND	15	115	130	0.0%
NE	121	960	1,081	0.1%
NH	447	3,176	3,623	0.5%
NJ	3,441	22,231	25,672	3.2%
NM	354	2,253	2,607	0.3%
NV	2,489	17,470	19,959	2.5%
NY	5,462	32,018	37,480	4.7%
OH	2,485	15,062	17,547	2.2%
OK	270	1,594	1,864	0.2%
OR	1,099	7,557	8,656	1.1%
PA	2,121	14,293	16,414	2.1%
RI	478	3,652	4,130	0.5%
SC	947	6,505	7,452	0.9%
SD	27	265	292	0.0%
TN	1,127	7,101	8,228	1.0%
TX	3,065	18,085	21,150	2.7%
UT	808	6,575	7,383	0.9%
VA	2,107	16,773	18,880	2.4%
VT	102	583	685	0.1%
WA	2,256	13,776	16,032	2.0%
WI	1,017	6,697	7,714	1.0%
WV	134	1,009	1,143	0.1%
WY	49	356	405	0.1%
Other[2]	582	1,936	2,518	0.3%

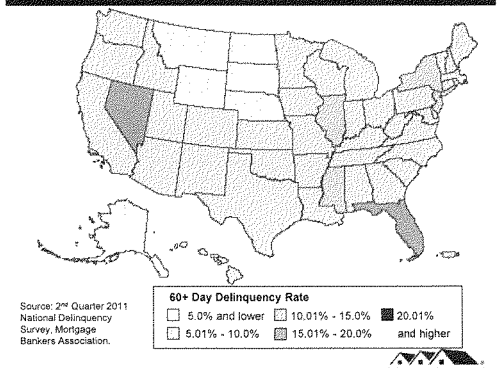
[1] Total reflects active trials and active permanent modifications.
[2] Includes Guam, Puerto Rico and the U.S. Virgin Islands.

Modification Activity by State



Note: Includes active trial and permanent modifications from the official HAMP system of record.

Mortgage Delinquency Rates by State



Source: 2nd Quarter 2011 National Delinquency Survey, Mortgage Bankers Association.

Making Home Affordable: Summary Results

Program Performance Report Through August 2011

15 Metropolitan Areas With Highest HAMP Activity

Metropolitan Statistical Area	Active Trials	Permanent Modifications	Total MSA HAMP Activity	% of U.S. HAMP Activity
Los Angeles-Long Beach-Santa Ana, CA	8,253	50,391	58,644	7.4%
New York-Northern New Jersey-Long Island, NY-NJ-PA	6,974	43,180	50,154	6.3%
Chicago-Joliet-Naperville, IL-IN-WI	5,396	35,742	41,138	5.2%
Riverside-San Bernardino-Ontario, CA	5,028	36,079	41,107	5.2%
Miami-Fort Lauderdale-Pompano Beach, FL	6,229	33,330	39,559	5.0%
Phoenix-Mesa-Glendale, AZ	2,720	25,401	28,121	3.5%
Washington-Arlington-Alexandria, DC-VA-MD-WV	3,000	23,688	26,688	3.3%
Atlanta-Sandy Springs-Marietta, GA	3,066	20,220	23,286	2.9%
Las Vegas-Paradise, NV	2,076	14,327	16,403	2.1%
San Francisco-Oakland-Fremont, CA	2,455	13,645	16,100	2.0%
Detroit-Warren-Livonia, MI	2,009	13,466	15,475	1.9%
Orlando-Kissimmee-Sanford, FL MSA	2,060	12,720	14,780	1.9%
San Diego-Carlsbad-San Marcos, CA	1,836	12,129	13,965	1.8%
Boston-Cambridge-Quincy, MA-NH	1,671	12,288	13,959	1.8%
Sacramento-Arden-Arcade-Roseville, CA	1,823	11,738	13,561	1.7%

Note: Total reflects active trials and active permanent modifications.

A complete list of HAMP activity for all metropolitan areas is available at *http://www.treasury.gov/initiatives/financial-stability/results/MHA-Reports/*

Call Center Volume

	Program to Date	August
Total Number of Calls Taken at 1-888-995-HOPE	2,469,590	67,579
Borrowers Receiving Free Housing Counseling Assistance Through the Homeowner's HOPE™ Hotline	1,174,326	31,572

Source: Homeowner's HOPE™ Hotline.

Selected Homeowner Outreach Measures

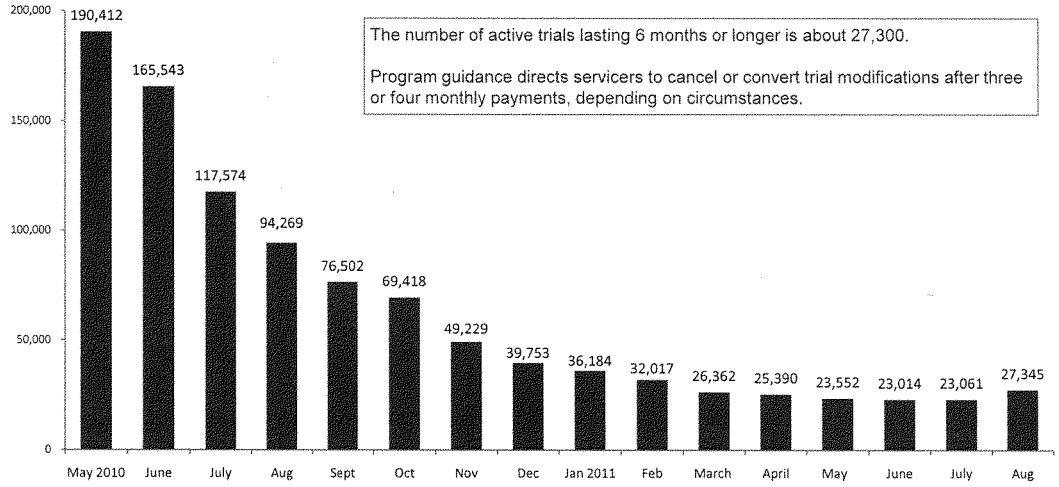
Homeowner Outreach Events Hosted Nationally by Treasury and Partners (cumulative)	58
Homeowners Attending Treasury-Sponsored Events (cumulative)	58,238
Servicer Solicitation of Borrowers (cumulative)[1]	7,771,792
Page views on MakingHomeAffordable.gov (August 2011)	1,951,749
Page views on MakingHomeAffordable.gov (cumulative)	124,865,252

[1] Source: Survey data provided by SPA servicers. Servicers are encouraged by HAMP to solicit information from borrowers 60+ days delinquent, regardless of eligibility for a HAMP modification.

Making Home Affordable: Summary Results

Program Performance Report Through August 2011

Aged Trials[1]



The number of active trials lasting 6 months or longer is about 27,300.

Program guidance directs servicers to cancel or convert trial modifications after three or four monthly payments, depending on circumstances.

Trials Lasting 6 Months or Longer At End of Month

[1] Active trials initiated at least six months ago. See page 9 for number of aged trials by servicer. These figures include trial modifications that have been converted to permanent modifications by the servicer and are pending reporting to the HAMP system of record plus some portion which may be canceled.

Making Home Affordable: Servicer Results

Program Performance Report Through August 2011

HAMP Modification Activity by Servicer

	As of July 31, 2011	Cumulative			As of Aug. 31, 2011			
Servicer	Estimated Eligible 60+ Day Delinquent Borrowers[1]	Trial Plan Offers Extended[2]	All HAMP Trials Started[3]	All HAMP Permanent Modifications Started[3]	Trial Modifications Reported Since July 2011 Report[3]	Active Trial Modifications[3]	Active Trial Modifications Lasting 6 Months or Longer[4]	Active Permanent Modifications[3]
American Home Mortgage Servicing Inc.	39,365	39,025	35,128	27,637	832	2,805	353	23,190
Bank of America, NA[5]	238,376	497,451	409,975	160,660	3,438	28,763	12,049	136,195
CitiMortgage, Inc.	68,815	185,249	131,906	55,057	903	4,910	2,101	47,832
GMAC Mortgage, LLC	27,875	77,361	63,734	46,533	837	2,868	55	39,052
J.P. Morgan Chase Bank, NA[6]	159,928	326,434	272,122	119,091	10,934	24,530	5,798	97,354
Litton Loan Servicing LP	32,867	43,696	37,926	12,162	58	2,578	417	9,519
Ocwen Loan Servicing, LLC	36,601	50,037	47,302	36,563	763	2,974	518	27,988
OneWest Bank	33,730	72,123	55,317	30,465	790	4,161	235	26,778
Select Portfolio Servicing	3,248	68,366	42,266	23,119	134	680	28	18,948
Wells Fargo Bank, NA[7]	126,035	327,369	241,039	110,431	4,170	12,574	1,550	96,046
Other SPA Servicers[8]	93,030	215,495	216,386	110,823	1,961	8,566	1,345	94,907
Other GSE Servicers[9]	133,098	NA	134,937	84,292	1,757	10,451	2,896	73,160
Total	**992,968**	**1,902,606**	**1,688,038**	**816,833**	**26,577**	**105,860**	**27,345**	**690,969**

[1] Estimated eligible 60+ day delinquent borrowers as reported by servicers as of July 31, 2011, include those in conventional loans:
- in foreclosure and bankruptcy.
- with a current unpaid principal balance less than $729,750 on a one-unit property, $934,200 on a two-unit property, $1,129,250 on a three-unit property and $1,403,400 on a four-unit property.
- on a property that was owner-occupied at origination.
- originated on or before January 1, 2009.

Estimated eligible 60+ day delinquent borrowers exclude:
- Those in FHA and VA loans.
- Those in loans that are current or less than 60 days delinquent, which may be eligible for HAMP if a borrower is in imminent default.
- Those borrowers with debt-to-income ratios less than 31% or a negative NPV test.
- Owners of vacant properties or properties otherwise excluded.
- HAMP Trials and Permanent Modifications disqualified from HAMP.
- Unemployed borrowers.

Exclusions for DTI and NPV are estimated using market analytics.

[2] As reported in the weekly servicer survey of large SPA servicers through Sept. 1, 2011.

[3] As reported into the HAMP system of record by servicers. Excludes FHA-HAMP modifications. Subject to adjustment based on servicer reconciliation of historic loan files. Totals reflect impact of servicing transfers. In cases where servicing transfers exceed new trial modifications reported, negative numbers are not presented. Servicers may enter new trial modifications into the HAMP system of record at any time.

[4] These figures include trial modifications that have been converted to permanent modifications by the servicer and are pending reporting to the HAMP system of record plus some portion which may be canceled.

[5] Bank of America, NA includes Bank of America, NA, BAC Home Loans Servicing LP, Home Loan Services and Wilshire Credit Corporation.

[6] J.P. Morgan Chase Bank, NA includes EMC Mortgage Corporation.

[7] Wells Fargo Bank, NA includes all loans previously reported under Wachovia Mortgage, FSB.

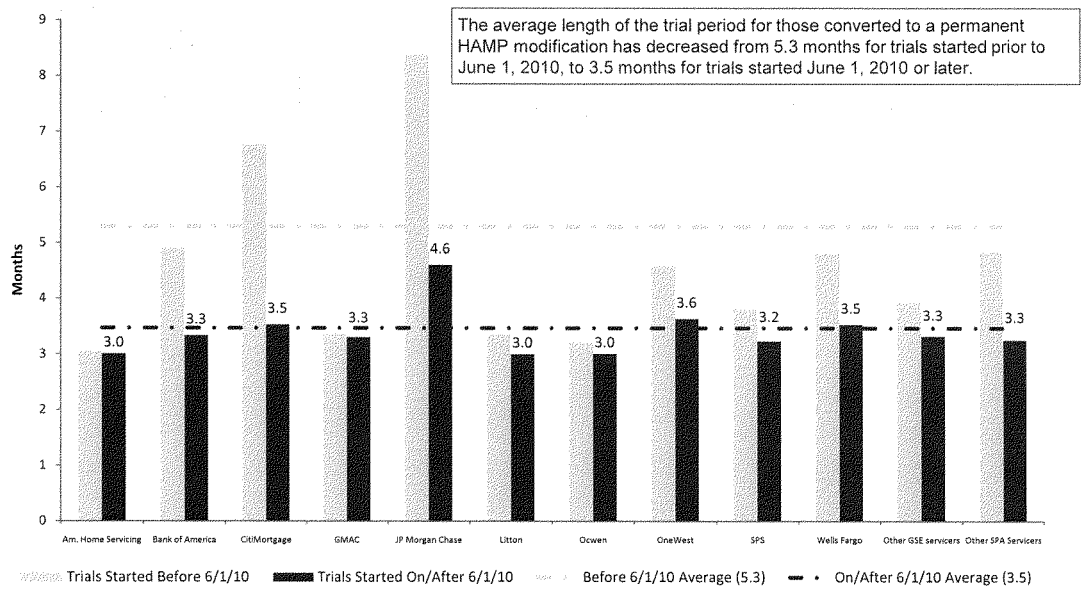
[8] Other SPA servicers are entities excluding the 10 largest servicers, by cap amount, that have signed participation agreements with Treasury and Fannie Mae. A full list of participating servicers is in Appendix A.

[9] Includes servicers of loans owned or guaranteed by Fannie Mae and Freddie Mac. Includes GSE loans transferred from SPA servicers.

Making Home Affordable: Servicer Results

Program Performance Report Through August 2011

Length of Trial Upon Conversion[1]



[1] For all permanent modifications started. Note: Per program guidelines, effective June 1, 2010 all trials must be started using verified income. Prior to June 1, 2010, some servicers initiated trials using stated income information.

Making Home Affordable: Servicer Results

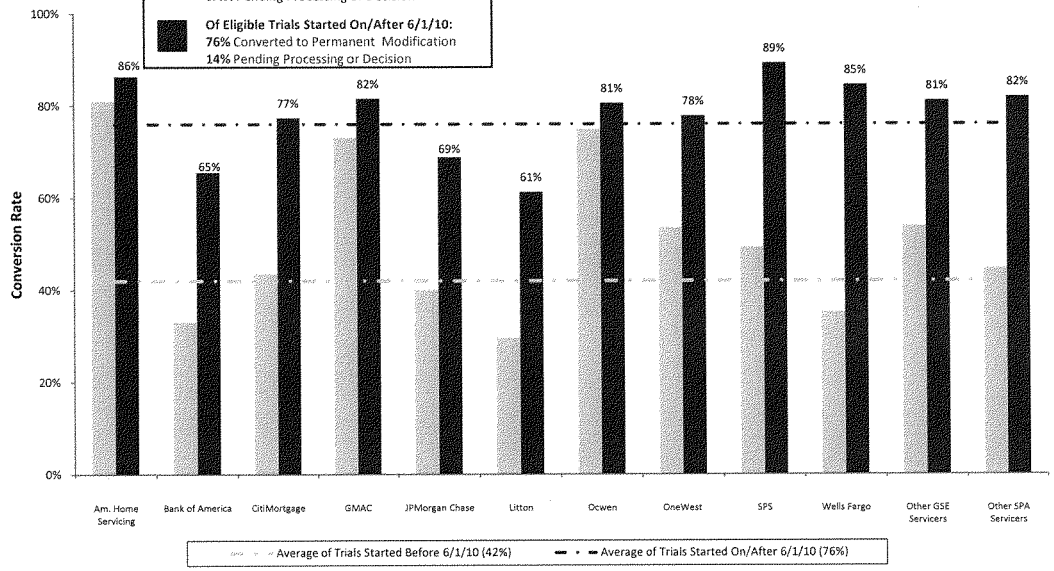
Program Performance Report Through August 2011

Conversion Rate[1]

Of Trials Started Before 6/1/10:
42% Converted to Permanent Modification
0.4% Pending Processing or Decision

Of Eligible Trials Started On/After 6/1/10:
76% Converted to Permanent Modification
14% Pending Processing or Decision

Following the implementation of verified income documentation in June 2010, rates of converting trial modifications into permanent modifications have substantially risen.



[1] Per program guidelines, effective June 1, 2010 all trials must be started using verified income. Prior to June 1, 2010, some servicers initiated trials using stated income information. Chart depicts conversion rates as measured against trials eligible to convert – those three months in trial, or four months if the borrower was at risk of imminent default at trial modification start. Permanent modifications transferred among servicers are credited to the originating servicer. Trial modifications transferred are reflected in the current servicer's population.

Making Home Affordable: Servicer Results

Program Performance Report Through August 2011

Disposition Path
Homeowners in Canceled HAMP Trial Modifications
Survey Data Through July 2011 (10 Largest Servicers)

	Homeowners Whose HAMP Trial Modification Was Canceled Who Are in the Process of:									
Servicer	Action Pending[1]	Action Not Allowed – Bankruptcy in Process	Borrower Current	Alternative Modification	Payment Plan[2]	Loan Payoff	Short Sale/ Deed-in-Lieu	Foreclosure Starts	Foreclosure Completions	Total (As of July 2011)
American Home Mortgage Servicing Inc.	250	75	195	2,595	40	151	298	685	126	4,415
Bank of America, NA[3]	36,319	8,121	29,821	73,289	2,140	3,941	15,770	31,168	14,490	215,059
CitiMortgage Inc.	16,779	3,640	5,536	28,830	987	1,449	1,729	9,428	2,047	70,425
GMAC Mortgage, LLC	1,763	403	1,051	5,688	193	443	1,003	1,735	1,620	13,899
JP Morgan Chase Bank NA[4]	6,851	813	4,362	55,162	498	6,150	7,036	23,879	12,179	116,930
Litton Loan Servicing LP	558	587	1,839	13,535	204	184	1,401	618	984	19,910
Ocwen Loan Servicing, LLC	626	131	452	2,964	459	38	362	2,027	633	7,692
OneWest Bank	471	644	693	10,396	230	41	1,144	3,332	3,674	20,625
Select Portfolio Servicing	1,337	503	1,347	5,471	339	384	1,311	1,812	3,136	15,640
Wells Fargo Bank NA[5]	1,549	784	12,651	56,414	1,202	16,470	3,096	16,134	9,968	118,268
TOTAL (These 10 Largest Servicers)	**66,503 11.0%**	**15,701 2.6%**	**57,947 9.6%**	**254,344 42.2%**	**6,292 1.0%**	**29,251 4.9%**	**33,150 5.5%**	**90,818 15.1%**	**48,857 8.1%**	**602,863 100.0%**

Note: Data is as reported by servicers for actions completed through July 31, 2011. Survey data is not subject to the same data quality checks as data uploaded into the HAMP system of record.
[1] Trial loans that have been canceled, but no further action has yet been taken.
[2] An arrangement with the borrower and servicer that does not involve a formal loan modification.
[3] Bank of America, NA includes Bank of America, NA, BAC Home Loans Servicing LP, Home Loan Services and Wilshire Credit Corporation.
[4] J.P. Morgan Chase Bank, NA includes EMC Mortgage Corporation.
[5] Wells Fargo Bank, NA includes all loans previously reported under Wachovia Mortgage, FSB.
Note: Excludes cancellations pending data corrections and loans otherwise removed from servicing portfolios.

The most common causes of trial cancellations from all servicers are:

- Insufficient documentation
- Trial plan payment default
- Ineligible borrower: first lien housing expense is already below 31% of household income

Making Home Affordable: Servicer Results

Program Performance Report Through August 2011

Disposition Path
Homeowners Not Accepted for HAMP Trial Modifications
Survey Data Through July 2011 (10 Largest Servicers)

Homeowners Not Accepted for a HAMP Trial Modification Who Are in the Process of:

Servicer	Action Pending[1]	Action Not Allowed – Bankruptcy in Process	Borrower Current	Alternative Modification	Payment Plan[2]	Loan Payoff	Short Sale/ Deed-in-Lieu	Foreclosure Starts	Foreclosure Completions	Total (As of July 2011)
American Home Mortgage Servicing Inc.	1,922	1,222	9,588	34,508	952	1,119	1,991	7,579	1,469	60,350
Bank of America, NA[3]	74,975	15,410	124,754	87,834	8,318	7,419	34,810	82,394	32,094	468,008
CitiMortgage Inc.	36,918	9,175	6,407	24,964	4,822	15,956	1,464	7,025	7,184	113,915
GMAC Mortgage, LLC	23,247	5,636	34,248	35,580	2,748	3,926	7,863	16,402	12,912	142,562
JP Morgan Chase Bank NA[4]	88,399	6,234	84,410	132,712	1,987	57,689	26,166	70,452	21,303	489,352
Litton Loan Servicing LP	2,592	3,088	11,146	20,446	852	818	5,046	2,779	4,336	51,103
Ocwen Loan Servicing, LLC	6,032	1,409	29,052	31,126	4,519	127	402	4,279	2,065	79,011
OneWest Bank	5,068	3,017	24,548	17,344	1,755	1,345	4,188	12,359	9,635	79,259
Select Portfolio Servicing	2,696	429	2,888	4,257	403	255	1,067	1,854	1,564	15,413
Wells Fargo Bank NA[5]	19,530	4,619	54,683	42,889	1,995	20,590	14,815	23,060	14,161	196,342
TOTAL (These 10 Largest Servicers)	**261,379 15.4%**	**50,239 3.0%**	**381,724 22.5%**	**431,660 25.5%**	**28,351 1.7%**	**109,244 6.4%**	**97,812 5.8%**	**228,183 13.5%**	**106,723 6.3%**	**1,695,315 100.0%**

The most common causes of trials not accepted from all servicers are:

- Insufficient documentation
- Ineligible borrower: first lien housing expense is already below 31% of household income
- Ineligible mortgage

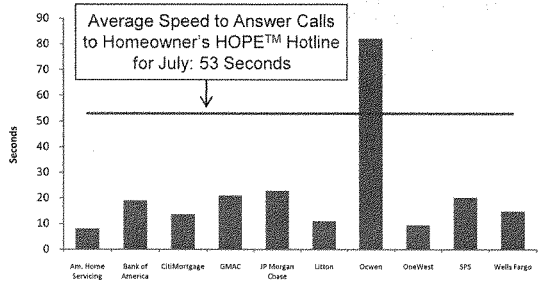
Note: Data is as reported by servicers for actions completed through July 31, 2011. Survey data is not subject to the same data quality checks as data uploaded into the HAMP system of record.
[1] Homeowners who were not approved for a HAMP trial modification, but no further action has yet been taken.
[2] An arrangement with the borrower and servicer that does not involve a formal loan modification.
[3] Bank of America, NA includes Bank of America, NA, BAC Home Loans Servicing LP, Home Loan Services and Wilshire Credit Corporation.
[4] J.P. Morgan Chase Bank, NA includes EMC Mortgage Corporation.
[5] Wells Fargo Bank, NA includes all loans previously reported under Wachovia Mortgage, FSB.
Note: Excludes loans removed from servicing portfolios.

Making Home Affordable: Servicer Results

Program Performance Report Through August 2011

Homeowner Experience (10 Largest Servicers)

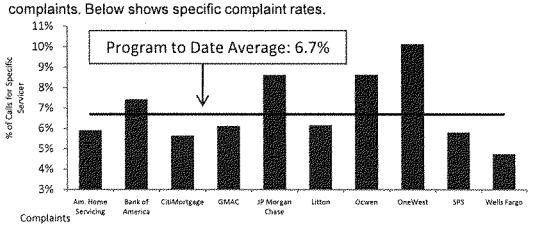
Average Speed to Answer Homeowner Calls (July)



Source: Survey data through July 31, 2011, from servicers on call volume to loss mitigation lines; Homeowner's HOPE™ Hotline.

Servicer Complaint Rate to Homeowner's HOPE™ Hotline (Program to Date, Through August)

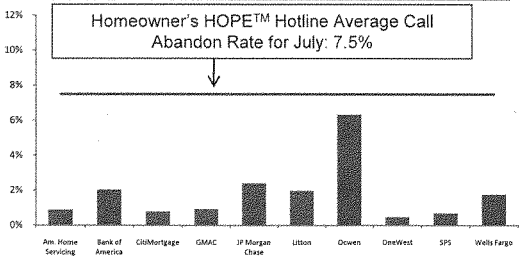
Program to date, there have been 1,216,117 calls to the Homeowner's HOPE™ Hotline regarding a specific SPA servicer, of which 6.7% included complaints. Below shows specific complaint rates.



	Am. Home Servicing	Bank of America	CitiMortgage	GMAC	JP Morgan Chase	Litton	Ocwen	OneWest	SPS	Wells Fargo
Complaints (PTD):	2,330	28,366	6,540	3,225	16,465	1,652	2,324	258	637	10,520

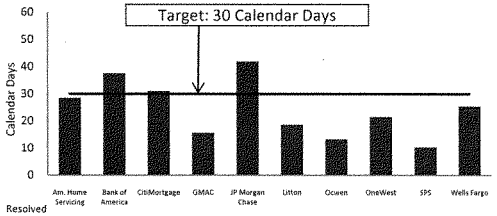
Source: Homeowner's HOPE™ Hotline.
Note: Complaint rate is the share of a specific servicer's call volume that are complaints (e.g., for all calls about OneWest, 10.1% included complaints.)

Call Abandon Rate (July)



Source: Survey data through July 31, 2011, from servicers on call volume to loss mitigation lines; Homeowner's HOPE™ Hotline.

Servicer Time to Resolve Third-Party Escalations (Cases Reported Feb. 1, 2011 – Aug. 31, 2011)



	Am. Home Servicing	Bank of America	CitiMortgage	GMAC	JP Morgan Chase	Litton	Ocwen	OneWest	SPS	Wells Fargo
Resolved Cases Post-2/1/11	530	7,442	838	484	3,180	275	573	692	120	1,897

Source: MHA Support Centers. Escalations resolved on or after Feb. 1, 2011. Investor denial cases, cases involving bankruptcy and those that did not require servicer actions are not included in calculation of servicer time to resolve escalations. Target of 30 calendar days, effective Feb. 1, 2011, includes an estimated 5 days of processing by MHA Support Centers.

Making Home Affordable: Servicer Results

Program Performance Report Through August 2011

Modifications by Investor Type (Large Servicers)

Servicer	GSE	Private	Portfolio	Total Active Modifications
American Home Mortgage Servicing Inc.	1,287	24,707	1	25,995
Bank of America, NA[1]	95,933	59,256	9,769	164,958
CitiMortgage, Inc.	31,224	4,711	16,807	52,742
GMAC Mortgage, LLC	24,598	5,807	11,515	41,920
JP Morgan Chase NA[2]	55,647	44,812	21,425	121,884
Litton Loan Servicing LP	85	12,003	9	12,097
Ocwen Loan Servicing, LLC	7,157	23,697	108	30,962
OneWest Bank	14,372	14,138	2,429	30,939
Select Portfolio Servicing	518	16,548	2,562	19,628
Wells Fargo Bank, NA[3]	50,188	15,670	42,762	108,620
Other HAMP Servicers	137,171	34,110	15,803	187,084
Total	**418,180**	**255,459**	**123,190**	**796,829**

[1] Bank of America, NA includes Bank of America, NA, BAC Home Loans Servicing LP, Home Loan Services and Wilshire Credit Corporation.
[2] J.P. Morgan Chase Bank, NA includes EMC Mortgage Corporation.
[3] Wells Fargo Bank, NA includes all loans previously reported under Wachovia Mortgage, FSB.

Note: Figures reflect active trials and active permanent modifications.

Appendix A1: Non-GSE Participants in HAMP

Servicers participating in the HAMP First Lien Modification Program may also offer additional support for homeowners, including Home Affordable Foreclosure Alternatives (HAFA), a forbearance for unemployed borrowers through the Unemployment Program (UP), and Principal Reduction Alternative (PRA).

Effective October 3, 2010, the ability to make new financial commitments under the Troubled Asset Relief Program (TARP) terminated, and consequently no new Servicer Participation Agreements may be executed. In addition, effective June 25, 2010, no new housing programs may be created under TARP.

Allstate Mortgage Loans & Investments, Inc.
American Eagle Federal Credit Union
American Home Mortgage Servicing, Inc
AMS Servicing, LLC
Aurora Loan Services, LLC
Bank of America, N.A.[1]
Bank United
Bay Federal Credit Union
Bayview Loan Servicing, LLC
Carrington Mortgage Services, LLC
CCO Mortgage
Central Florida Educators Federal Credit Union
CitiMortgage, Inc.
Citizens 1st National Bank
Community Bank & Trust Company
Community Credit Union of Florida
CUC Mortgage Corporation
DuPage Credit Union
Fay Servicing, LLC
Fidelity Homestead Savings Bank
First Bank
First Financial Bank, N.A.
Franklin Credit Management Corporation
Franklin Savings
Fresno County Federal Credit Union
Glass City Federal Credit Union
GMAC Mortgage, LLC
Grafton Suburban Credit Union
Great Lakes Credit Union
Greater Nevada Mortgage Services
Green Tree Servicing LLC
Hartford Savings Bank
Hillsdale County National Bank
HomEq Servicing
HomeStar Bank & Financial Services
Horicon Bank
Horizon Bank, NA
IBM Southeast Employees' Federal Credit Union
IC Federal Credit Union
Idaho Housing and Finance Association
iServe Residential Lending LLC
iServe Servicing Inc.
J.P.Morgan Chase Bank, NA[2]
Lake City Bank
Lake National Bank
Liberty Bank and Trust Co.
Litton Loan Servicing
Los Alamos National Bank
Magna Bank
Marix Servicing, LLC
Midland Mortgage Company
Midwest Community Bank
Mission Federal Credit Union
Mortgage Center, LLC
Nationstar Mortgage LLC
Navy Federal Credit Union
Ocwen Loan Servicing, LLC
OneWest Bank
ORNL Federal Credit Union
Park View Federal Savings Bank
Pathfinder Bank
PennyMac Loan Services, LLC
PNC Bank, National Association
PNC Mortgage[3]
Purdue Employees Federal Credit Union
QLending, Inc.
Quantum Servicing Corporation
Residential Credit Solutions
RG Mortgage Corporation
RoundPoint Mortgage Servicing Corporation
Saxon Mortgage Services, Inc.
Schools Financial Credit Union
SEFCU
Select Portfolio Servicing
Servis One Inc., dba BSI Financial Services, Inc.
ShoreBank
Silver State Schools Credit Union
Specialized Loan Servicing, LLC
Sterling Savings Bank
Suburban Mortgage Company of New Mexico
Technology Credit Union
The Golden 1 Credit Union
U.S. Bank National Association
United Bank
United Bank Mortgage Corporation
Vantium Capital, Inc.
Vist Financial Corp.
Wealthbridge Mortgage Corp.
Wells Fargo Bank, NA[4]
Yadkin Valley Bank

[1] Bank of America, NA includes Bank of America, NA, BAC Home Loans Servicing LP, Home Loan Services and Wilshire Credit Corporation.
[2] J.P. Morgan Chase Bank, NA includes EMC Mortgage Corporation.
[3] Formerly National City Bank.
[4] Wells Fargo Bank, NA includes all loans previously reported under Wachovia Mortgage, FSB.

Appendix A2: Participants in Additional Making Home Affordable Programs

Second Lien Modification Program (2MP)
Bank of America, NA[1]
Bayview Loan Servicing, LLC
CitiMortgage, Inc.
Community Credit Union of Florida
GMAC Mortgage, LLC
Green Tree Servicing LLC
iServe Residential Lending, LLC
iServe Servicing, Inc.
J.P.Morgan Chase Bank, NA[2]
Nationstar Mortgage LLC
OneWest Bank
PennyMac Loan Services, LLC
PNC Bank, National Association
PNC Mortgage [3]
Residential Credit Solutions
Servis One Inc., dba BSI Financial Services, Inc.
Wells Fargo Bank, NA [4]

FHA First Lien Program (Treasury FHA-HAMP)
Amarillo National Bank
American Financial Resources Inc.
Aurora Financial Group, Inc.
Aurora Loan Services, LLC
Banco Popular de Puerto Rico
Bank of America, NA[1]
Capital International Financial, Inc.
CitiMortgage, Inc.
CU Mortgage Services, Inc.
First Federal Bank of Florida
First Mortgage Corporation
Franklin Savings
Gateway Mortgage Group, LLC
GMAC Mortgage, LLC.
Green Tree Servicing LLC
Guaranty Bank
iServe Residential Lending, LLC
iServe Servicing, Inc.
James B. Nutter & Company
J.P.Morgan Chase Bank,NA[2]
M&T Bank
Marix Servicing, LLC
Marsh Associates, Inc.
Midland Mortgage Company
Nationstar Mortgage LLC
Ocwen Loan Servicing, LLC
PennyMac Loan Services, LLC
PNC Mortgage [3]
RBC Bank (USA)
Residential Credit Solutions
Saxon Mortgage Services, Inc.
Schmidt Mortgage Company
Select Portfolio Servicing
Servis One Inc., dba BSI Financial Services, Inc.
Stockman Bank of Montana
Wells Fargo Bank, NA [4]
Weststar Mortgage, Inc.

FHA Second Lien Program (FHA 2LP)
Bank of America, NA[1]
Bayview Loan Servicing, LLC
CitiMortgage, Inc.
Flagstar Capital Markets Corporation
GMAC Mortgage, LLC.
Green Tree Servicing LLC
J.P.Morgan Chase Bank, NA[2]
Nationstar Mortgage LLC
PNC Bank, National Association
PNC Mortgage [3]
Residential Credit Solutions
Saxon Mortgage Services, Inc.
Select Portfolio Servicing
Wells Fargo Bank, NA [4]

Rural Housing Service Modification Program (RD-HAMP)
Banco Popular de Puerto Rico
Bank of America, N.A. [1]
Horicon Bank
J.P.Morgan Chase Bank, NA [2]
Magna Bank
Marix Servicing, LLC
Midland Mortgage Company
Nationstar Mortgage LLC
Wells Fargo Bank, NA [4]

[1] Bank of America, NA includes Bank of America, NA, BAC Home Loans Servicing LP, Home Loan Services and Wilshire Credit Corporation.
[2] J.P. Morgan Chase Bank, NA includes EMC Mortgage Corporation.
[3] Formerly National City Bank.
[4] Wells Fargo Bank, NA includes all loans previously reported under Wachovia Mortgage FSB.

RURAL DEVELOPMENT
Statement of Tammye H. Trevino, Rural Housing Services Administrator
Before the House Financial Services
Subcommittee on Insurance, Housing and Community Opportunity

The Obama Administration's Response to the Housing Crisis
October 6, 2011

Chairwoman Biggert, Ranking Member Gutierrez and Members of Subcommittee, it is my privilege once again to be with you today. As we discussed last month, the mission of Rural Housing Service (RHS) is to create vibrant, thriving rural communities, a strong housing stock, access to safe, decent and affordable rental housing and access to high quality essential community infrastructure. For over 60 years, the Rural Housing Service, part of the Department of Agriculture's (USDA's) Rural Development Mission Area, along with the Rural Utilities Service (RUS) and Rural Business – Cooperative Service (RBS), has been supporting the community development needs of rural America. By providing essential credit access to areas in which low population density has hindered capital formation and infrastructure development, RHS helps foster the economic stability needed to sustain rural America, preserving its vital contribution to our nation's prosperity, security and success.

To ensure the effectiveness of efforts to improve capital access in rural areas, RHS over the past two years has reevaluated programs from both delivery and beneficiary perspectives, and made important enhancements, including:

- Reengineering the Section 502 Single Family Housing Guaranteed program such that fees are expected to offset losses, allowing the program to facilitate rural borrowers' access to credit while mitigating costs to the taxpayer;
- Increasing flexibility in lending programs for better responsiveness to changing economic conditions; and
- Actively emphasizing loan modifications and work-out solutions designed to keep homeowners in their homes.

What we do

Our programs, as you know, are far-reaching. The Single Family Housing, Multi-Family Housing and Community Facilities Service areas are closely integrated through the 47 state offices and 500 area offices that comprise our field office structure. This integration enables better resource management, improved data gathering and, most critically, more responsive interaction with the

communities we serve. With a budget authority of $1.3 billion, RHS leveraged a program level of approximately $27.2 billion in loans, loan guarantees, grants and technical assistance in FY 2011. In undercapitalized rural economies across the nation, the significance of this level of commitment can hardly be overstated.

Since FY 2008, the program level for the Section 502 Single Family Housing Guaranteed program has increased almost four-fold. The strategic realignment of the fee structure, lowered the cost of new guarantees and has helped the program expand to the current program level of $24 billion from $6.2 billion in Fiscal Year (FY) 2008. The number of loans provided families throughout rural America more than doubled from 63,833 in FY 2008 to 129,560 in FY 2011. In the three years from FY 2009 to FY 2011, this program spurred $49.7 billion in new loans, making the dream of home ownership a reality for more than 395,000 Americans with limited credit access. Looking forward, the 2012 budget proposes a $24 billion program level for the Section 502 loan SFH guarantees which is anticipated to fully meet demand. The 2012 fee structure will be a 1.97 percent up-front fee and an annual fee of 0.3 percent.

For the Single Family Home (SFH) Direct Program in FY 2008, 15,199 loans were made totaling $1.17 billion. In FY 2009, the number of loans increased to 16,820 and the total loan amount grew 26.9% to $1.48 billion bolstered in part by the housing provisions within the American Recovery and Reinvestment Act (ARRA). ARRA's influence was also felt in 2010, as the number of loans and the loan amount rose to 22,266 and $2.17 million, respectively, the latter a 46.4% increase versus the previous year. In the three years from FY 2009 to FY 2011, more than 52,000 SFH Direct loans with obligations totaling $4. 79 million were made to very low and low-income rural Americans.

The Section 502 SFH Direct Program is unique to RHS. It is a means-tested mortgage loan program targeting low- and very low-income families and households to assist them in purchasing decent, safe and sanitary housing in eligible rural areas. Low-income is defined as 80% of Area Median Income (AMI) or less. Forty percent of the funds are set aside for Very Low-income (50% of AMI or less) applicants. This program assists applicants who are unable to obtain credit from other sources on terms and conditions they can reasonably be expected to fulfill.

The SFH Direct and Guaranteed homeownership programs reflect the long-term benefits such ownership confers not just on families, but on society as a whole. Homeowners enhance community stability and they attract private capital in the form of businesses seeking established

communities in which to invest. But above all, under normal conditions, home ownership provides one of the few opportunities for meaningful wealth creation which too often proves elusive for low income Americans. Even if housing prices only keep pace with inflation, the leveraging that occurs through a mortgage loan, coupled with the long homeownership terms that are typical in the direct and guaranteed programs, often provides a critical foundation for financial independence that can support families in present and future generations, that can fortify communities, and ultimately return tax dollars to state coffers.

When focus widens beyond financial returns, it becomes clear these are not the only benefits. Harvard's Joint Center for Housing Studies have repeatedly demonstrated that children of low-income homeowners achieve more in school, attaining higher math and reading scores, and have fewer behavioral problems than children in rental housing who move more frequently.

In addition to the credit extended through these loan programs, two RHS Single Family grant programs, 504 Direct (very low-income) and 523 Mutual and Self-Help (low income), provided an additional $195.8 million to rural Americans needing home improvements or seeking to build their own homes from the start of FY 2009 through FY 2011.

For families and individuals who often could not qualify for Single Family Housing (SFH) loans during that period, the RHS Multi-Family Housing (MFH) programs helped secure financing to build housing projects containing more than 9,300 units, through the 515 Direct, Farm Labor Housing, and 538 Guaranteed Rural Rental Housing programs. In addition, more than 28,700 units were renovated, through the Multi Family Preservation and Revitalization Demonstration Program. Preservation of existing rental housing stock has ensured that program beneficiaries have acceptable housing that both meets safety standards and protects the substantial investment the US taxpayer has made in rural communities. The leverage inherent to these programs greatly enhances their effectiveness. In FY 2009 and FY 2010 (the most recent years for which information is available) , the USDA investment of $648.8 million attracted an additional $1.74 billion in third-party investments for rental housing in rural America.

These improvements to multi-family housing stock benefited some of the more than 460,000 Americans living in Rural Development units across the country. More than 270,000 of these people were provided rental assistance allowing them to live in rental apartments of their own.

These MFH programs are recognized by many as a lifeline not only for some of the poorest of America's rural poor, but also for many elderly and persons with disabilities.

The current Community Facilities portfolio consists of about $5.3 billion in outstanding loans and grants that have been made to 11,276 facilities that received either individually, or in combination, a direct loan, guaranteed loan, or grant. At the close of FY 2011, a total of $ 714.9 million has been invested in America's rural communities through this program, providing 17,247,983 rural Americans with access to new and improved services in 1,064 rural community facilities. Of these projects, $ 354.8 million was invested in 147 health care facilities, $96.0 million was for 414 fire, rescue, and public safety facilities, and $ 117.4 million was invested in 217 education facilities. These facilities are located in rural communities across the 50 States, the American territories, and the Commonwealth of Puerto Rico.

Since FY 2009, the CF programs have invested over $3.8 billion in 4,858 essential community facilities.

A Legacy of Economic Revitalization

These cumulative statistics provide an incomplete measure of the success of these programs. Using program resources to encourage healthier, more efficient credit markets, RHS field offices develop innovative and holistic solutions to meet the prosperity challenges unique to rural communities. The needs of these communities are complex and RHS works closely with the other Rural Development Service groups to address the complicated environmental and economic dynamics. The goal to create viable and sustainable communities, means the overall needs of the community, not simply its residential needs must be foremost.

This work entails much more than raising roof beams. The loans and grants provided through the Community Facilities program support a broad range of facilities from hospitals and health clinics, to public safety buildings, school facilities and rural libraries. Municipal infrastructure such as town halls, courthouses, county office buildings, and streets and bridges are also eligible.

Not uncommonly, a CF-sponsored project is a community's largest employer. This is often the case with critical access hospitals, which offer a variety of jobs at all professional skill levels. The value to the community of jobs created and retained can be enormous.

In FY 2011, 2,221 jobs and 4,627 jobs were estimated to have been retained and created respectively through projects financed by the CF programs.[1] While some of these jobs are temporary construction jobs, a large complex project such as a critical access hospital or college multipurpose building may employ teams of various construction specialties for two years or more. During that period, those workers support the local economy through purchases of groceries, gas, and other necessities.

But construction jobs are only part of the story—there are secondary and tertiary effects. States and communities benefit financially from sales taxes on building materials, corporate taxes on builders' profits, income taxes on construction workers, and fees for zoning inspections and the like. This in turn spurs additional economic activity and supports the broadening of credit market access that is a central part of the RHS mission

Similar dividends are paid by home building. Increased home construction is essential to the future US economic rebound, and home improvement jobs are at least as critical to local economies. Within the construction sector, home improvement and maintenance added more jobs than new construction from the start of the year through June. This has implications beyond primary construction wages, since home improvement can potentially bring greater secondary benefits to the local economy because of the typically smaller reliance on national distributors of building materials.

[1] The estimates of job creation rely on an input-output multiplier framework used to assess the effects of an exogenous shock on the different sectors of production. The input-output framework is based on the fixed inter-industry relationships embedded in the national input-output accounts published by the Bureau of Economic Analysis. These accounts record flows of goods and services used in the production processes of industries in the U.S. economy. The multiplier derived from this analysis provides an estimate of the number of jobs demanded in producing $1 million in output. It was generated to provide insight into the employment impact of the American Recovery and Reinvestment Act (ARRA). Determining the means by which this demand is addressed, whether through the additional productivity of existing employees or through new hiring, involves further analysis beyond the scope of this testimony. The application of the multiplier to months immediately preceding and succeeding ARRA's enactment and term was never specifically envisaged when the multiplier was conceived, and is further reason to use the multiplier for estimation purposes only.

The credit access provided by the Single Family Housing and Multi-family Housing programs is estimated to have generated sufficient demand in the US economy to have sustained or created hundreds of thousands of jobs in FY 2011 alone. Many of these jobs are in industries prominent in parts of rural America that lack diversity of employment opportunities and are therefore especially vulnerable. For example, the timber and lumber products industries' recoveries, which continue at a snail's pace, are closely tied to the health of the housing and home repair markets.

Since FY 2009, the Single Family Housing program has invested $4.7 billion, creating or sustaining an estimated 66,548 jobs (see footnote 1 on previous page). The Multi-Family Housing program has invested $824.2 million, creating an estimated 17,773 jobs. [2] The $3.1 billion invested by Community Facilities since FY 2009 is estimated to have directly created 9,996 jobs and saved 22,384 jobs. Of that amount, over $1.66 billion was invested in 464 rural health care facilities and is estimated to have created 4,124 jobs and saved 10,319 jobs. (See footnote 1 on previous page).

Cost-Effective Response to Current Circumstances

Actively managing the cost of the housing and CF programs is more essential than ever, and RHS is pursuing several strategies toward that end:

- **Portfolio Management:** RHS has compiled a superior portfolio performance record over the past decade. Foreclosure rates in the Single Family housing portfolios are typically lower than those of other private and public portfolios with comparable borrower bases. The use of stringent eligibility requirements, risk management technology, and effective tracking procedures and controls has helped manage foreclosures and minimize default-related costs for the borrower, the community and ultimately the U.S. taxpayer. [3]

- **Efficiencies:** Through asset redeployment and operational realignment, RHS is pursuing streamlining initiatives in several key areas:
    - **State Network:** Rural Development has three service components—Rural Housing Service (RHS), Rural Utility Service (RUS), Rural Business and Cooperative Service

[2] These estimates are derived from a National Association of Home Builders analysis in 2008 which estimates that each $100,000 invested in multi-family housing remodeling generates 1.1 jobs and each newly constructed unit creates 1.16 new jobs. (See "The Direct Impact of Home Building and Remodeling on the U.S. Economy," October 7, 2008.)

[3] The overall costs of foreclosure are often more significant than realized. A 2006 study suggests that each home foreclosure on a block reduces the price of nearby homes by 0.9%, and continues to exert downward pressure on community housing prices for as much as two years. Immergluck and Smith; 2006b

(RBS). They share resources and insights via a field office network through which they can leverage knowledge across all programs and coordinate responses in essential ways to promote community stability. This enables greater responsiveness to complicated issues that might otherwise entail protracted top level negotiation between government agencies. Absent the need to involve numerous Agency heads, RHS can expedite service delivery at times when delay means avoidable cost.

- **Centralization:** To contain overhead costs, create a more favorable fixed/variable cost structure and consolidate workflows across the network, RHS strategically centralizes a significant portion of core operations through the Central Servicing Center (CSC) in St. Louis, Missouri. Individual state operations will also become increasingly centralized in the coming fiscal year to promote more uniform and efficient service delivery.
- **Field Offices:** RHS employs a variety of cost saving practices at the field office level, including teleworking and mobile computing. Pending required changes to Rural Development's automated system called the Comprehensive Loan Program, it is redeploying staff and realigning functional responsibilities to meet strategic priorities in the current fiscal year.

- **Partnerships:** In instances of shared interests, Rural Development (RD) has developed partnerships with various entities and agencies, including private and non-profit organizations that increase the effectiveness and reach of our service delivery model.
  - In response to the American Recovery and Reinvestment Act (ARRA), RHS partnered with five housing nonprofits via cooperative agreements to utilize their network of affiliates to package Section 502 direct loan applications in persistent poverty, colonias, and underserved counties. The housing nonprofits act as intermediaries between their affiliates and the Agency, ensure those engaged in packaging activities under the agreements have adequate experience/training, and conduct quality control reviews on loan application packages prepared by their affiliates prior to submitting the packages to the Agency. With the expiration of ARRA, those agreements have been extended with an expanded focus on counties in need of outreach and application volume.

- RHS has been working with HUD, Treasury, OMB and other Federal partners in an effort to better coordinate Federal rental policy and identify administrative changes that could improve overall programmatic efficiency and further enhance the ability of communities to create and preserve affordable housing. Pilot implementations are being pursued in several states to test some of these administrative alignment activities on a small scale before implementing them at the national level. RHS has taken the lead on two of these very important pilot projects: physical inspections and subsidy layering review. On September 29th, in Mt. Pleasant Michigan, USDA, HUD and the Michigan State Housing Development Authority (MHSDA) signed a three party MOU to coordinate subsidy layering reviews for rental housing development's funded by more than one source in Michigan. These reviews help assure that government housing resources are properly and efficiently used. The MOU is designed to streamline and clarify the regulatory process so that transactions can be approved faster and more efficiently. The MOU is the first written agreement in the nation and will pilot test national efforts to better align Federal rental housing policies and programs across the country.
- Through Community Facilities programs, we also have longstanding partnerships with Health and Human Services, the Economic Development Administration, and the Appalachian Regional Commission which have included Memorandums of Understanding that set forth the ways in which the agencies collaborate and leverage resources to improve access to critical health care, education, and public safety facilities. For example, USDA RD and HHS have a strong history of collaborating to help meet the health care needs of rural communities, and today's economic realities make this cooperation vital to providing improved health services, economic growth and jobs to rural communities. In August of 2011, USDA RD executed a Memorandum of Understanding with HHS to leverage resources to increase access to capital for health care facilities and health information technology. Similarly, USDA RD is improving access to emergency communication systems and disseminating critical information to rural communities through collaboration with the Department of Homeland Security/FEMA and the Federal Communications Commission.

What We Must Keep Doing: Protecting Rural Americans Most at Risk in Times of Economic Hardship

The protracted economic downturn has had a profound effect on rural America. Poverty rates are rising faster in rural communities than in urban areas, and jobs remain scarce.[4] RHS mortgage loan portfolios reflect this hardship. Delinquency rates have been inching up for more than a year and staff is investing significant time in the drafting and negotiation of delinquency workout agreements (DWAs) so that families can resume payment and not be forced from their homes. When circumstances threaten a borrower's ability to meet mortgage obligations, RHS immediately advises the borrower of the tools available to help navigate successfully through periods of financial challenge.

RHS makes multiple attempts to contact homeowners who fall behind their mortgage payments. Through multiple calls and written notifications, RHS representatives at the CSC invite delinquent borrowers to learn about their options. Borrowers who are experiencing loss of income might have payments reduced. Others who have lost a job, or whose resources are strained by the financial burden of medical crisis, death in the family, or other condition might have payments temporarily suspended through a moratorium process. If under the new terms, a borrower is then able to meet mortgage obligations for a period of time, a loan can be re-amortized and the more accommodative structure formalized.

In August 2011, RHS' Central Service Center made more than 229,000 outbound calls to alert borrowers of late payments and offer help in cases of financial distress. CSC received more than 28,000 incoming calls from borrowers seeking information and assistance. In FY 2011, RHS has initiated approximately 30% more Delinquency workout negotiations (calculated on a percentage of portfolio basis) than it had through the comparable period in FY 2008. This practice of proactive and very deliberate intervention has kept many homeowners from losing the single most important asset they own and has helped sustain community housing values, which in turn support local tax revenues.

Conclusion

As these procedures suggest, the RHS commitment to preserving the health of one of our nation's most vulnerable communities begins with that community's most vulnerable members. Rural

[4] USDA Economic Research Service, "Rural America at a Glance"; September 2011

America has looked to USDA for more than 60 years to uphold the promise of "a decent home and suitable living environment for every American Family," as put forth in the 1949 Housing Act. We have made every effort to do so in recent years and to help the 50 million citizens of rural America meet the unique challenges they confront each day. We thank Congress for your continuing support of our mission.

○

WRITTEN STATEMENT OF
MERCEDES MARQUEZ,
ASSISTANT SECRETARY FOR COMMUNITY PLANNING AND DEVELOPMENT

U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

BEFORE THE
UNITED STATES HOUSE OF REPRESENTATIVES
COMMITTEE ON FINANCIAL SERVICES,

SUBCOMMITTEE ON INSURANCE, HOUSING AND COMMUNITY OPPORTUNITY

"The Obama Administration's Response to the Housing Crisis"

OCTOBER 6, 2011

Chairwoman Biggert, Ranking Member Gutierrez, and Members of the Subcommittee, I am Mercedes Márquez, Assistant Secretary for Community Planning and Development (CPD) at the U.S. Department of Housing and Urban Development. Thank you for the opportunity to provide written testimony today on Project Rebuild, a key component of the American Jobs Act.

The American Jobs Act offers an aggressive strategy to expand employment opportunities for communities that have been particularly hard hit by the recession and or workers who may take longer to get back on their feet due to greater income losses and smaller savings than higher income workers. The President is proposing to invest $15 billion in Project Rebuild, a national effort to put construction workers on the job rehabilitating and refurbishing thousands of vacant and foreclosed home and businesses. Building on proven approaches to stabilizing communities through the Neighborhood Stabilization Program (NSP), Project Rebuild will bring expertise and capital from the private sector, focus on commercial and residential property improvements, and expand innovative property solutions like land banks.

To be sure, President Obama has offered this proposal at an important moment. Over the last two-and-a-half years, twice as many people have saved their homes than lost them to foreclosure. In all, more than 5.1 million families have received restructured mortgages since April, 2009 through Government administered programs and the private sector HOPE Now Alliance--which is more than double the number of foreclosure completions over that period.

But even as we have sped assistance to homeowners, the substantial overhang of foreclosed properties on the market continues to slow our recovery – dragging down property values and harming neighborhoods.

It is clear that no single sector can reduce vacancies and stabilize property values on its own. Both private and public partnerships and investment are needed to stabilize the nation's housing market and create jobs. Project Rebuild's injection of public capital will enable local governments and private entities (both for-profit and non-profit) to put unemployed people to work removing the blighting effects of foreclosed and abandoned properties. The net effect is a win-win proposition that jump-starts the economy, creates jobs for desperate families, provides affordable housing, and stabilizes neighborhoods for the long term.

There have been three rounds of NSP, known respectively as NSP1, NSP2, and NSP3, as well as the NSP technical assistance effort. NSP1 refers to the initial $3.92 billion program established by the Housing and Economic Recovery Act of 2008 (HERA), which was signed into law on July 30, 2008. NSP2 refers to the $2 billion appropriated in the American Recovery and Reinvestment Act of 2009 (Recovery Act) and the NSP technical assistance effort is a $50 million initiative funded by the Recovery Act appropriation. NSP3 refers to the $1 billion appropriated by the Dodd-Frank Consumer Protection and Wall Street Reform Act of 2010 (Dodd-Frank Act), with $20 million dedicated to furthering the NSPTA effort. NSP1 and NSP3 grants were made by formula allocation to states and units of general local government. NSP2 grants were made competitively to governments, nonprofits, and consortia, any of which could have for-profit partners. For-profit entities were not eligible applicants under NSP2.

NSP stabilizes neighborhoods through housing activities. NSP grantees may acquire and rehabilitate or redevelop foreclosed and abandoned homes and residential properties, demolish blighted property, redevelop vacant property, or operate landbanks for foreclosed homes. Of approximately 66,000 census tracts in the U.S, just under 19,000 had high risk scores in 2009. Of the high risk tracts, as of December 30, 2010, 5,823 had received some NSP investment. This means that only 31% of the high risk tracts have received NSP investment.

Project Rebuild will build on the success of the NSP model to address commercial vacancies, and better employ the capacity of our partners in the private sector. Of the proposed $15 billion appropriation: $10 billion is proposed for a formula allocation to states and local governments and $5 billion is proposed for a competitive program. HUD estimates that in this configuration Project Rebuild will treat at least 150,000 properties across all 50 states.

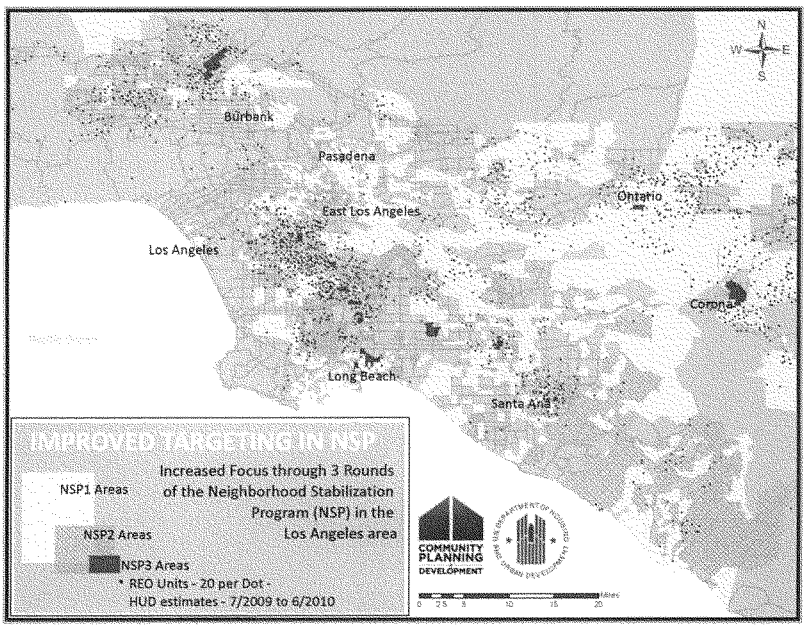
Targeted programs like Project Rebuild not only increase the value of formerly vacant lots or abandoned and foreclosed properties, but also incentivize businesses to invest in their communities. The three operational priorities of Project Rebuild will be job creation, targeting funds to foreclosure and unemployment needs, and leverage of financial resources. Applying these priorities, Project Rebuild will make funding available to eligible entities including not only local governments, States, and nonprofit organizations, and consortia, but also for-profit businesses to provide assistance, including innovative financing mechanisms, to purchase, rehabilitate, and/or redevelop foreclosed, abandoned, demolished, or vacant properties. Funding will also establish and operate land banks or demolish blighted structures.

Building on the Success of NSP

The NSP is already investing $7 billion to help local governments and nonprofit organizations turn tens of thousands of abandoned and foreclosed homes into the affordable housing communities need instead of leaving the homes to blight the community and drag down property values. Furthermore, of the $7 billion invested so far, 60% was targeted to communities of color, which have been hit particularly hard during this crisis.

With each round, we have seen increasing success. Starting with NSP2 in 2009, HUD directed grantees to target funds to high need areas with the goal of measurably reducing vacancies and stabilizing property values. With NSP2, HUD introduced an online, map-based targeting tool, using maps to share key data to grantees via an easy-to-use interface. With NSP3 in 2010, HUD improved the maps and applied the targeting requirement to a formula program. For Project Rebuild, HUD and grantees have the capacity to use this powerful online tool to direct new funds to where they can be most effective. This improved targeting is reflected in Figure 1 below, which demonstrates NSP targeting in the Los Angeles metro area.

FIGURE 1: IMPROVED TARGETING THROUGH THREE ROUNDS OF NSP



In order to determine whether grantee investments were delivering the intended outcomes, HUD funded an impact evaluation report that used the information on the reported types and locations of completed NSP activities to determine whether nationally available independent data showed progress toward the expected outcomes in areas in which NSP investment had already occurred. The early results are promising.

Currently, HUD is reviewing the report before final issuance. But I can tell you a few important findings. The analysis by The Reinvestment Fund (TRF), one of our technical assistance providers, comparing communities with NSP investment to similar communities without NSP investment shows that most NSP clustered investment areas did better than at least one of their comparable markets during the time period studied:

- 67 percent saw better home sale price changes. (source: TRF using First American Core Logic data)
- 73 percent saw better vacancy rate improvements. (source: TRF using US Postal Service data)
- 47 percent saw better home sale and vacancy rate improvements. (source: TRF)

The neighborhood stabilization approach has shown great promise. However, even in these NSP investment clusters, the problems presented by foreclosed and abandoned properties remain a significant challenge, as they remain a challenge for much of the country and for the national economy. Now, with data showing that NSP is beginning to achieve results, we think we have a way to improve the model to successfully tackle and resolve housing and employment problems a neighborhood at a time. Furthermore, even as a housing-only program, NSP generates direct, indirect, and induced jobs. The $7 billion of NSP will support an estimated 88,000 jobs by the time the funding is fully spent. These jobs are created in a variety of fields including housing construction, infrastructure construction, maintenance and repair, management, technical consulting services, real estate, state and local government.

Even with $7 billion, NSP was able to reach only 31 percent of the census tracts in the United States that are hardest hit by the foreclosure and unemployment crisis. With the clear benefits of NSP now emerging, it is logical to consider how to make the program more effective and bring it to more communities. How much more effective could a neighborhood stabilization program be if grantees could step beyond the housing-only model to deal with problem commercial properties by using them for economic development projects, or mixed-use projects? If grantees could apply knowledge of local markets and design programs to not only provide housing opportunities but also to generate jobs so neighborhood families can pay the rent or the mortgage? Project Rebuild would not only stabilize neighborhoods, it could help position hard-hit communities for a competitive future.

Foreclosed and abandoned properties have a debilitating effect on neighborhoods and often lead to blight, neighborhood decay and reduced property values, feeding a vicious cycle. In 2008, the Center for Responsible Lending estimated that homeowners living near foreclosed properties would see their property values decrease $5,000 on average. And while the national freefall in home prices stopped in early 2009, the housing market remains fragile and values are still falling in many places.

Project Rebuild will serve as a buffer against further decline by shoring up the equity of homeowners that live on the block where a program investment is made, or by providing a job-generating new business such as a grocery store or health clinic, or even a factory in a formerly abandoned commercial property. HUD will work with Project Rebuild grantees and with a range of private sector and non-profit partners to craft distinctive, market-oriented responses that help stabilize and improve target neighborhoods with smart investments.

Project Rebuild: Proposal Details

Nearly $10 billion of Project Rebuild funding will be provided to states and local governments by formula as specified in the American Jobs Act. Each of the 50 states and Puerto Rico will receive a minimum award. Insular areas and the District of Columbia will also receive direct awards. Project Rebuild proposes important modifications to the NSP model to extend the benefits of the program beyond affordable housing to greater job creation:

- Project Rebuild broadens eligible uses to allow commercial projects and other direct job creating activities, capped at 30 percent of funds.

- Up to 10 percent of formula grants may be used for establishing and operating a jobs program to maintain eligible neighborhood properties.
- Formula funding will go directly to states and entitlement communities across the country. Competitive funds will be available to states, local governments, for-profit entities, non-profit entities and consortia of these entities.
- Each state will receive a minimum of $20 million of the $10 billion in formula funds.
- Funds will be targeted to areas with home foreclosures, homes in default or delinquency, and other factors determined by HUD, such as unemployment, commercial foreclosures, and other economic conditions.
- HUD will strengthen existing accountability procedures by requiring that grantees have an internal auditor to continually monitor grantee performance to prevent fraud or abuse.

Formula and Competitive Allocations

HUD plans to allocate the $10 billion in Project Rebuild formula funds to grantees within 30 days of program enactment. HUD expects each formula grantee to complete community participation and to apply for its funds within 90 days of enactment, with HUD entering into grant agreements as quickly as possible thereafter with a goal of obligating all formula funds within 150 days of enactment.

The remaining $5 billion of Project Rebuild funding will be competitively allocated to high-capacity eligible entities, including local governments, states, nonprofits (including Indian Tribes and public housing authorities), for-profit businesses, and consortia. In designing the competition, HUD will consider demonstrated applicant capacity to implement programs, applicant knowledge of local market conditions and of appropriate responses, financial resource leverage, and other factors determined by the Secretary. HUD will publish a Notice of Fund Availability, allow grantees at least 45 days to prepare and submit applications, make selections, and obligate all funds within 150 days of enactment.

Both formula and competitive grantees will have three years to spend 100 percent of funding. HUD will establish further benchmarks for expenditures at one year and two years from award. Strict standards of oversight will ensure good stewardship of these funds. In addition to HUD's own on-site and remote grant monitoring, HUD will strengthen existing accountability procedures by requiring that grantees have an internal auditor to continually monitor grantee performance to prevent fraud or abuse. Grantees will be required to provide quarterly progress reports online and HUD will recapture funds from underperforming or mismanaged grantees to reallocate those funds to areas with greatest need.

HUD implemented NSP1 in just over 240 days, creating an unprecedented new formula program on the CDBG framework. NSP1 funds were appropriated July 30, 2008. HUD published the program requirements October 6, 2008. The deadline for grant applications was December 1, 2008. All but a very few grant agreements were executed by the end of March 2009.

HUD implemented NSP2 in about 360 days, again creating a new program on the CDBG framework – this time a competitive one. NSP2 funds were appropriated February 17, 2009. Congress allowed HUD up to 75 days to publish competitive criteria and up to 150 days before the application deadline. HUD published the Notice of Fund Availability May 4, 2009 and applications were due to HUD July 17, 2009. HUD announced awards in January 2010 and obligated all funds on February 11, 2010.

HUD implemented NSP3 in about 250 days. NSP3 funds were appropriated July 21, 2010. HUD published the Notice of program requirements October 19, 2010. The deadline for grant applications was March 1, 2011. All but a very few grant agreements were executed by the end of March 2011.

Not only will part of Project Rebuild be competitive, HUD will continue to perfect the targeting requirements and data support for the program, providing more detailed foreclosure and vacancy data via the same online mapping tool that targeted NSP2 and NSP3 funds. Only the nation's hardest hit neighborhoods will be eligible for Project Rebuild – applicants will have to select neighborhoods hit hardest with foreclosures, long-term distress and unemployment to be eligible to participate.

Project Rebuild will include the same local and vicinity hiring requirements applicable to NSP3. And the tenant protections provisions applicable to the NSP program will also carry through to Project Rebuild.

Project Rebuild, like NSP, will use the well established procedures of the Community Development Block Grant (CDBG) program funds, enabling CPD to quickly issue Project Rebuild program requirements on a framework familiar to thousands of local governments, states, and nonprofits. Unlike NSP funds, which are restricted to housing-related activities, Project Rebuild will permit economic development activities as well. Fortunately, the underlying CDBG program enables grantees to undertake a wide range of job-creating economic development activities including assistance (such as loans, grants, loan loss reserves, loan guarantees, interest write-downs, interim financing, micro-lending, business services, securitization, and matching funds) for commercial and industrial development and redevelopment, water and sewer projects, infrastructure modernization, neighborhood retail, and venture and working capital pools. Moreover, the proposed $15 billion will allow HUD to reach more local jurisdictions directly with a higher minimum allocation that will help grantees scale-up their efforts.

All Project Rebuild funds received by a grantee must be used to benefit individuals at or below 120 percent of area median income (AMI) by making investments that result in jobs, affordable homes, or other quantifiable benefits. Further, Project Rebuild will require that at least 25 percent of the funds be expended for *housing* activities that benefit households at or below 50 percent AMI.

Project Rebuild will allow the income of program beneficiaries to range up to 120 percent of area median income. This will mean that grantees may choose to use funds to create jobs for middle class residents. HUD will require strict underwriting guidelines, and provide capacity training for grantees to ensure public funds do not compete with private funding. In fact, Project

Rebuild is designed to help draw more private funds into the targeted communities to reignite job creation engines in some of the places that need it most.

To ensure that grantees have sufficient resources and continuing capacity to implement Project Rebuild, HUD will permit a portion of each grant to be used for administrative costs. Generally, this portion will be ten percent. However, HUD's experience with very large disaster recovery grants indicates that grantee administration of very large grants can realize economies of scale. Therefore, should any individual Project Rebuild grant exceed approximately $750 million; HUD will likely reduce the administrative cost portion of the grant to five percent.

Of the 0.75 percent of the Project Rebuild appropriation set aside for capacity building, HUD staff and other resources, and technology, a portion will be reserved for CPD's administrative and technology cost in managing Project Rebuild, and a portion will be reserved for a separate, second competition for capacity building technical assistance purposes to support neighborhood stabilization efforts. The Department will conduct this technical assistance competition and obligate all funds within 150 days.

Given Project Rebuild's size and tight deadlines, it is likely that HUD's front-end risk assessment for the funding will reveal a need for additional temporary hires to mitigate the risks of program launch and ongoing management risks through the life of the program. New temporary staff will join the existing temporary NSP staff stationed in field offices around the country to support management of grantees. HUD will need to retain term staff to continue to mitigate program risks throughout program closeout. Like NSP, some Project Rebuild activities will continue after expenditure deadline due to program income, large land bank property holdings, and ongoing major construction projects on grant-acquired properties using funds other than federal grant funds for construction.

NSP Program Status

The total appropriation for NSP has been $7 billion, a relatively small amount in the context of the problems that have arisen in the housing markets over the past four years. The shadow inventory as of July 2011 was 1.6 million properties and we expect NSP will impact nearly 100,000 properties in the nation's hardest-hit markets.

As of August 30, 2011, NSP1 and NSP2 grantees reported completing 32,854 units through acquisition and new construction or rehabilitation, direct homeownership assistance, or demolition –a third of the way there. NSP1 had an 18-month obligation deadline. With the support of HUD staff and our technical assistance efforts, grantees reached a 99.7 percent obligation rate and have currently expended 78.03 percent of their funds. At 29.71 percent expended, NSP2 grantees are well on their way to the 50 percent expenditure rate required by February 2012. Finally, NSP3 grantees have just gotten started, but are at 13 percent obligated.

Communities are also making good progress in meeting the statutory requirement to use 25 percent of each NSP grant to produce housing affordable to households with incomes at or less than 50 percent of area median income (AMI). In NSP1, grantees report committing more than $1.4 billion for such activities, over 34% of the total; more than $926 million has been drawn.

So far in NSP2, grantees have committed $261 million to meet this requirement and of this amount have drawn down about $143 million for these activities.

Because the NSP investment represents almost 20 percent of the REO over the past 18 months in NSP-targeted areas, we believe these efforts will have a " multiplier effect" that could have a profound impact on our local, regional and national housing markets alike. The NSP investment's stabilizing effects on the neighborhood makes the private sector more likely to acquire the units in the neighborhood. The TRF analysis seems to confirm this expectation. HUD will continue to monitor outcomes as NSP progresses.

We have learned a lot from NSP that we can bring to Project Rebuild. NSP grantees continue to make great strides in production. The fact that most communities started their NSP programs in the midst of the mounting fiscal distress facing local governments over the past three years cannot be ignored when evaluating their resources (or lack thereof) to quickly implement a new program, especially one that required expertise that many of them did not have in-house. Through our technical assistance effort, we have learned how to identify local program implementation problems and quickly boost grantee capacity.

Technical Assistance

The technical assistance effort already underway for NSP will provide the structure to deliver tremendous support to Project Rebuild grantees.

HUD used $50 million in NSP2 funding to create NSPTA. This competitive program distributed the funds to regional and national technical assistance providers. With NSP TA, we have focused on capacity building at the local level. For many years, technical assistance at the Department primarily focused on compliance – filling out the right forms and checking off the right boxes. Now, we have moved to provide technical assistance in a more holistic manner to truly meet the needs of grantees and build capacity. The additional $20 million of NSP3 TA will consolidate the gains of the original effort.

Through Project Rebuild technical assistance, we will assist communities by conducting individual needs assessments and following up with customized direct capacity building plans. In addition, HUD OIG audits and reports will be reviewed and considered as HUD deploys the TA resources. As we did with NSP, we plan to help create or increase the capacity of whole communities across the country to address this crisis responsibly by teaching grantees how to make neighborhood investments informed by market conditions.

We will continue to expand the online resource exchange where HUD, communities, and nonprofits share tools for effectively implementing neighborhood stabilization projects. The Project Rebuild TA resources will create economic development and affordable housing expertise at the local level that will last after the program is closed out. Problem solving clinics, Project Rebuild term employees – who will be hired from their communities – weekly technical webinars, and frequent feedback in the form of data snapshots increase the likelihood that the practitioner skills formed in carrying out the Project Rebuild program will translate into new or enhanced community ability to use other resources.

The existing online NSP resource exchange address is www.hud.gov/nspta. This is where grantees can find resources, ask questions, and request technical assistance. The technical assistance providers have developed nine toolkits for different program types (e.g. acquisition-rehab, lease-purchase, land banking) which enable grantees to easily adapt procedures manuals and document templates. The Department also produced training for new grantees and is offering on-site direct technical assistance through the providers.

NSP First Look

The Department has actively sought non-profit and private sector partners in its effort to make NSP successful. The National First Look Program is a first-ever public-private partnership agreement between HUD and the National Community Stabilization Trust (Stabilization Trust). In collaboration with national servicers, Fannie Mae, Freddie Mac and our FHA colleagues, the First Look program gives communities participating in NSP a brief exclusive opportunity to purchase bank-owned properties in NSP target neighborhoods so these homes can either be rehabilitated, rented, resold or demolished.

The program is based on a simple idea: that instead of the "retail" strategy so many communities resort to when it comes to neighborhood stabilization--establishing individual relationships with financial institutions, negotiating the best price one house at a time--we should be creating a wholesale strategy -- and market power. Since the program was announced in early September 2010, NSP grantees have had the opportunity to view over 50,000 properties through the First Look program, and purchased 1,316. These properties were purchased at an average discount of 13.6% below fair market value.

With the country's leading financial institutions participating in First Look, accounting for more than 75 percent of the REO inventory, First Look has cut the traditional 75-to-85 day in half. Moreover, grantees selectively pick the most strategically important properties, whether they are REO, short sale or deed-in-lieu. In addition, the system is extremely cost-effective because instead of using a staff intensive, one-off property acquisition approach, our partners have access to automated, state of the art mapping and property management tools -- so communities can spend more time targeting their efforts and optimizing their limited NSP resources.

Program Compliance and Monitoring

In implementing Project Rebuild, HUD will customize its procedures for preventing and eliminating fraud and abuse of funds to the special risks inherent in Project Rebuild. This will include a front-end risk assessment (FERA), updates to the annual CPD Risk Analysis Notice and the CPD Monitoring Handbook, a funds control plan, and use of an online financial management and performance reporting system that tracks financial status (including draw requests, disbursements, and program income transactions by activity) daily post-award.

To further manage risks, Project Rebuild grantees will be required to have an internal auditor to maintain day-to-day responsibility within the grantee for monitoring implementation of program requirements and grantee policies and procedures. Based on risk analysis results,

HUD staff will monitor grantees both remotely and on-site to ensure program compliance. Technical assistance, training and capacity building are also a critical tool in preventing issues.

HUD intends to continue its strong working relationship with the Office of Inspector General (OIG) through including the OIG in clearance of key program requirements documents and regular meetings to discuss issues. The HUD OIG instituted an aggressive audit program focused on NSP shortly after its enactment in 2008. To date, the OIG has completed 42 NSP audits nationwide and 10 more are currently in progress.

I would like to note two evaluations completed by HUD's OIG that, in speaking to the effectiveness of CPD's implementation of NSP2, provide insight into HUD's capacity to implement Project Rebuild. The first evaluation, issued in September 2009 (Memorandum NO. 2009-AT-0801), addressed the front end risk assessment that CPD prepared for NSP2. A front end risk assessment (FERA) is a management tool required by OMB Circular A-123 and is used to minimize the Department's exposure to fraud, waste and abuse in the administration of its programs and is required for new program such as NSP. In its report, the OIG made no recommendations with regard to the NSP2 FERA and provided a positive review, stating:

> "Our review determined that the factors of general control environment, risk assessment, control activities, information/communication, and monitoring were adequately addressed and the major program objectives of timeliness, clear and measurable objectives, transparency, monitoring, and reporting were adequately emphasized in the assessment. "(p. 3-4)

The second OIG evaluation to note is one that assessed CPD's competitive review and award process for $1.93 billion in NSP2 funding (Audit Report 2010-AT-0001). This competition was administered by CPD's Office of Block Grant Assistance, which traditionally manages formula grants under the CDBG program. Nonetheless, HUD carried out the evaluation and selection process in accordance with all applicable requirements by reviewing 482 applications requesting more than $15 billion in funding. After performing its due diligence, the OIG did not issue any recommendations because there were no reportable deficiencies with the NSP2 evaluation and selection process. The following excerpts from the OIG report clearly make that point:

> "What we found: HUD followed the applicable requirements during the evaluation and selection process and included special conditions in the grant agreements as required." (p. 2)
>
> "HUD properly evaluated and selected the applications for the NSP2 funding. It followed the requirements and procedures in the notice and employed quality control procedures to help ensure that its decisions were correct and supportable. In addition, it properly included special conditions in grant agreements for high risk grantees." (p. 8)
>
> "Our audit did not identify any reportable deficiencies, and, therefore, there are no recommendations." (p. 8)

The results of these two reviews will characterize CPD's efforts to implement and manage Project Rebuild. Overall, CPD continues to work with the OIG on audits of NSP, most of which focus on program implementation and oversight at the state and local grantee levels. In the cases in which these audits have identified program deficiencies, we have used these as opportunities to target technical assistance funding and to improve local capacity.

In December 2010, the Government Accountability Office completed a report on NSP1 (GAO-11-48). The report examined CPD and NSP1 grantee performance in the following areas:
(1) meeting HERA obligation time frames and income-targeting criteria; (2) actions HUD has taken to mitigate program risks and ensure grantee's compliance with key NSP1 requirements; and (3) HUD's efforts to collect program data and to assess the reliability of the data. As part of this effort, GAO analyzed data, interviewed selected grantees and HUD staff in Washington, DC and at 15 sites across the United States. The audit noted that data on program outputs could be improved and we at HUD have made those improvements and continue to train grantees and field staff on using the system. Despite this relatively minor note, GAO concluded that HUD and NSP1 grantees are taking actions to comply with program requirements as reflected by the following comment:

> "NSP 1 provided a mechanism for state and local governments to mitigate the destabilizing effects of mortgage foreclosures, but HUD and grantees faced a number of implementation challenges, including the program's tight time frames and the limited capacity of some grantees to undertake real estate activities. HUD took actions to help grantees meet these challenges though guidance, training, and technical assistance. Additionally, HUD established internal control procedures to mitigate risks and promote compliance with program requirements. Our work suggests that these efforts helped grantees obligate funds in a timely manner, adopt strategies appropriate to their communities, and follow program rules." (p. 41)

Project Rebuild will allow CPD to use up to 0.75 percent of the appropriation for administrative purposes and this resource will support hiring temporary Project Rebuild Specialists, to visit grantees and monitor their programs. As with NSP, HUD expects many of these temporary hires will be displaced real estate professionals who were impacted by the housing crisis so they will be capable of "hitting the ground running," supporting grantees with program compliance and program implementation issues. Project Rebuild administrative funds will make it possible for them to visit grantees and monitor their programs on-site on a regular basis. These visits help CPD establish relationships with our grantees and identify problems before they become serious hindrances to program implementation.

In just over three years since its authorization, NSP is delivering on its intent by assisting states and local governments to stabilize neighborhoods negatively affected by foreclosures. Project Rebuild is a critical part of the President's plan to increase the pace of job creation in America—it is a targeted initiative that will help low-income workers and their communities, who have been hit hardest by the recession. Project Rebuild will help rebuild the nation's economy by leveraging private capital and private market innovation to tackle the deepest pockets of distress in our nation's communities to create jobs, stabilize neighborhoods, and reduce vacancy.

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STATEMENT OF THE

NATIONAL ASSOCIATION OF REALTORS®

SUBMITTED FOR THE RECORD TO THE

UNITED STATES HOUSE
COMMITTEE ON FINANCIAL SERVICES
SUBCOMMITTEE ON INSURANCE, HOUSING AND COMMUNITY OPPORTUNITY

HEARING REGARDING

THE OBAMA ADMINISTRATION'S RESPONSE TO THE HOUSING CRISIS

OCTOBER 6, 2011

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INTRODUCTION

On behalf of the more than 1.1 million members of the National Association of REALTORS® (NAR), thank you for holding this timely hearing, and affording us the opportunity to comment on the Obama Administration's response to the housing crisis.

The U.S. housing sector remains in a precarious state. According to many economists, it appears that the sector has reached bottom, and sales volumes and prices are beginning to stabilize. However, the uncertainty that has plagued the sector's, and overall economy's, recovery will remain in place as long as Congress and the Administration place partisan ideology before the betterment of the Nation. The late President Franklin Delano Roosevelt once said, "It is common sense to take a method and try it. If it fails, admit it frankly and try another. But above all, try something". As we continue to look for solutions to our current economic, debt, and housing sector issues, let us embrace the sentiment offered during a time of similar crisis and begin working together to resolve these complex problems.

ADDRESSING THE NATION'S FORECLOSURE CRISIS

REALTORS® appreciate the Administration's attempts over the last two and half years to keep families in their homes, and its recognition that homeownership matters. The foundation of our economy is housing. Over a million small businesses have developed from it, and many more thrive because of it, including real estate sales services, housing finance, and construction and rehabilitation services.

Though several Federal programs were put into place in an effort to keep families in their homes, nearly all have depended on the efforts of large financial institutions to assist consumers. To date, all of these programs have fallen far short of their ambitious, but achievable goals. REALTORS® are concerned that many of these same financial institutions, who received vital funding from both the Treasury Department and Federal Reserve Board at the onset of the economic crisis, continue to deny similar support for distressed households across the country. A key purpose of the extraordinary support that these institutions received was to ensure that liquidity - for all types of lending – was available throughout the crisis. Yet many creditworthy households, specifically those requiring new or refinanced mortgages, are unable to obtain fair and affordable loans.

REALTORS® know firsthand that another attempt needs to be made to fix the housing sector, particularly the large inventory of real estate owned (REO) properties that exists and continues to grow. REALTORS® believe the any proposal designed to address this issue must:

- Focus on providing mortgage financing to qualified homebuyers and investors to increase the absorption rate of the current REO inventory and prevent increases to existing REO inventory,
- Expand resources dedicated to pre-foreclosure efforts, including loan modifications and short sales (foreclosures are typically more costly than loan modifications and short sales, so this would minimize the need for more taxpayer dollars being used to support the GSEs), and
- Continue the timely and orderly disposition of REO inventory assets, and in limited geographic areas where alternatives are needed, rely on the expertise of local businesses

including contractors, real estate brokerage firms, and professional property management companies.

NAR suggests that, as the government evaluates proposals in response to the recent request for information regarding the renting of government-backed foreclosed properties, the basic principles of any proposal should be to assist in reducing the number of properties in the foreclosure process that will add to the REO glut, maximize the recovery on REO assets currently held by FHA and the GSEs, and preserve housing values in neighborhoods across the country.

FINANCING

In response to the 2008 economic crisis, the Bush and Obama Administrations have taken extraordinary steps to ensure that most of our large financial institutions survive. Most of these large institutions received funding from both the Treasury Department and Federal Reserve at extremely favorable rates considering the inherent risk. Yet, private capital in support of the mortgage market – meaning without government participation via FHA, VA, or the GSEs - virtually disappeared.

The lack of financing is putting downward pressure on home values, increasing the number of homeowners whose mortgages exceed the value of their home, and increasing foreclosures. Since the beginning of the crisis, the GSEs and FHA have provided about 90% of all mortgage lending. During this time, FHA has raised its insurance premiums, the GSEs have raised their upfront fees (including loan-level pricing adjustments), and the lending industry as a whole has tightened underwriting standards to the point that only those with pristine credit histories have access to reasonably priced mortgage credit. Increasing access to financing for qualified borrowers and investors by reassessing the higher fees and excessively tight underwriting standards will increase the availability of mortgage lending for all types of housing, and will go a long way in allowing potential homeowners and investors to absorb excess foreclosed (REO) inventory.

Increasing Consumer Lending

As a consequence of extreme economic events, most notably high unemployment, lower home values, and tighter credit, many families now find that renting is their default option. Moreover, many creditworthy consumers continue to experience difficulties in obtaining fair and affordable mortgage loans. NAR supports strong underwriting standards; however, potential homebuyers have become discouraged during this time of unprecedented housing affordability due to high fees, unduly tight underwriting standards, and the lack of availability of private mortgage capital.

REALTORS® ardently believe that the lending industry should reassess its policies and increase lending. The excessively stringent underwriting standards that are preventing creditworthy buyers from obtaining loans now need to be weighed against the broader recovery of the economy, because they are impeding the confidence of potential mortgage applicants and threatening to reproduce cracks in a very fragile housing recovery.

Liquidity for Investors

REALTORS® firmly believe it is important to have private capital return to the mortgage market and give the government the ability to reduce its market share. Unfortunately, the refusal of financial institutions to return in support of the housing finance sector and provide mortgage financing means all borrowers, including investors, are finding it more and more difficult to obtain affordable mortgage options.

REALTORS® recognize the importance of affordable rental housing. For markets with large numbers of REOs and a high foreclosure pipeline, REALTORS® support giving local investors the opportunity to finance the purchase of distressed REO properties for rentals until the market recovers or to rehabilitate for more immediate resale. In order to facilitate this, the government should implement temporary financing policies to give local investors the opportunity to purchase properties. Here are two examples of existing Agency policies that can be modified to offer incentives to investors:

(1) HUD should open up the FHA Section 203(k) rehabilitation program to investors. This will facilitate the rehab of the existing housing stock and increase the availability of financing for rental housing, and

(2) The GSEs should temporarily suspend investor financing limitations, especially the limit on the number of mortgage loans allowed for any one investor/borrower (currently 4 for Freddie and 10 for Fannie), to enhance affordable rental opportunities.

Amending these policies will give small, private investors the opportunity to absorb some of the excess inventory, resulting in the stabilization of prices for existing REO properties. Also, hard hit communities would benefit from improvements made to the vacant properties, and local economies would improve as small businesses would have the opportunity to participate in the rehabilitation of these properties by providing, as an example, renovation and property management services.

PRE-FORECLOSURE

The current economic and political environments are very budget conscious. Therefore, REO disposition programs that appear to increase taxpayer losses while seeming to enrich large institutions would raise concerns among Congressional members and millions of taxpayers, who remain angry that "Wall Street" received federal support while "Main Street" was left behind. REALTORS® believe the best opportunity to reduce costs to taxpayers and assist in the stabilization of housing values and neighborhoods is to respond more effectively to, and provide more resources for, pre-foreclosure efforts on loans insured by FHA or owned or guaranteed by the GSEs. These efforts not only are net-positive outcomes for homeowners, but taxpayers as well.

Since early 2008, NAR has continually urged the lending industry to take every feasible action to keep families in their homes with a loan modification or, in cases where it is not possible to avoid foreclosure, a short sale.

Commitment to Loan Modification and Short Sales

REALTORS® are acutely aware of the downward pressure that foreclosures have on housing market prices. To relieve this, REALTORS® recommend that the government reassess current policies to make sure that as many loan modifications and short sales are approved as possible. This will reduce adding to the ever increasing glut of REOs.

A recent Office of the Special Inspector General for the Troubled Asset Relief Program (SIGTARP) report noted that less than 5% of TARP funds allocated for housing support programs, such as the Home Affordable Modification Program (HAMP) and Home Affordable Foreclosure Alternatives Program (HAFA), has been used. The success of these programs depends on the resources available and efforts of participating large financial institutions. Repurposing a portion of the existing housing focused funds to increase borrower participation will improve the performance of these programs, and will reduce the pipeline of severely delinquent mortgages that end up in foreclosure. Loan modifications keep families in their homes and reduce the probability of default.

Short sales, for those unable to meet their mortgage obligations, stabilize home values and neighborhoods, by keeping homes occupied. Also, short sales help reduce taxpayer losses by selling the probable foreclosure at a premium over its potential REO sales price. Unfortunately, our members' report that many potential homebuyers still choose to simply walk away from a short sale due to the length of time it takes for the lender to complete the transaction. The dependence on large financial institutions has resulted in a short sale market that is clearly not functioning as it should. Realtors® believe that homeowners and taxpayers deserve better.

IMPROVED DISPOSITION OF REO INVENTORY

Bulk Sales

In August, the Administration requested advice from market participants on the pooling and disposition of GSE and FHA REO inventories. FHFA, Treasury and HUD expect these disposition strategies to involve REO assets totaling at least $50 million in value, and in the case of joint ventures, up to $1 billion. Though bulk sales may quickly alleviate the critical mass of REO inventory held by the agencies, these types of proposals will likely require taxpayers to accept larger losses than is necessary.

As described earlier, REALTORS® strongly believe that every effort should be made to incentivize individual versus bulk sales because individual sales maximize recovery on the assets and minimize the impact on housing values. Exclusively selling in bulk to large national investors at deep discounts will only work to further consolidate a large section of the housing market into the hands of a few market participants

REALTORS® are also concerned that the unintended consequences of bulk sales at the proposed scale could devastate communities across the country. Providing a few large, private investors access to cheap assets for rentals could very likely erode market rent and sales prices. The consolidation of a large number of rentals to an institutional investor could mean that small landlords would be unable to match the rental prices that an institutional purchaser of a discounted pool of agency assets could offer.

Rather than encouraging bulk sales across the board, bulk sales should only be considered in small geographic areas with high rental demand and should contain rigorous stipulations that ensure the revitalization and stability of local communities. It is also important that consideration be given to the pricing of these pooled assets to prevent the negative effect bulk discounts could have on the rest of the market and smaller competitors if the discount is so large that the bulk purchaser can sell these properties quickly at a deep discount.

Structuring Bulk Sale Proposal

Should a pilot program be implemented for the bulk sale of distressed properties, the federal government should first offer local governments, investors, and housing authorities, with vested interests in their communities, the opportunity to purchase the properties. Such limited sales could be made to non-profit and for-profit organizations that must meet specific program requirements and are familiar with the needs of the communities where the homes are located. Ultimately, the success of any program will be determined by its stabilizing effect on a particular locale and whether it maximizes value for taxpayers.

Maximizing recovery on the assets will depend on the determination property valuations and the assurance that the valuations are accurate, appropriate, and reflective of current market conditions. REALTORS® strongly recommend that entities investing in pools of distressed REO inventory be required to have a local presence and work locally with contractors, real estate brokerage firms, and professional property management companies. Knowledge of regional and local markets is crucial in the orderly disposition of REO assets and minimizes taxpayer losses related to REO properties.

Lease-to-Own

REALTORS® believe that sustainable rental housing is an integral component of the housing market. Furthermore, they understand the opportunities affordable rentals provide for potential homebuyers as they save for down payments. Therefore, an option to combine REO disposition with affordable rental is a lease-to-own program. NAR recommends that any lease-to-own solution should be first focused on keeping families in their homes. FHA and GSE policies should minimize foreclosures that will result in the sale of the properties at a very large discount to a purchaser in a bulk sale, regardless of whether the purchaser has a lease-to-own component in place. Where lease-to-own programs are an appropriate solution, they should focus on the rehabilitation of blighted properties, affordable homeownership and, where it makes sense due to excess REO supply and significant rental demand, rental opportunities without an initial purchase requirement.

Structuring Lease-to-Own Programs

As the government considers REO disposition solutions, REALTORS® believe that the following principles supporting affordable rental and homeownership opportunities should be considered. Lease-to-own joint ventures:

- Should not be run or administered by the government,
- Should be administered, whenever possible, by local investors or local non-profits that can manage the specialized needs and challenges of local markets,

- Should be widely marketed by real estate agents to ensure visibility and encourage homeownership,
- Should have clearly defined expectations,
- Should have guidelines and contracts that are specific regarding maintenance, purchaser responsibility, purchase price, and percent of payment allocated towards a down payment,
- Should include Condominiums, and
- Should minimize detrimental effects on neighborhoods by implementing strict guidelines on the rehabilitation and continued maintenance of properties, ensuring that the properties do not become rentals that are in disrepair.

ADVISORY BOARD

Finally, as the President recently noted, a recovery of the housing market cannot be accomplished solely by the public sector. As the government reviews ideas for alleviating the foreclosure crisis, including the pooling of properties for bulk sales and lease-to-own joint ventures, NAR recommends the creation of an advisory board made up of public and private industry participants. A wide range of board members including government staff, asset managers, real estate professionals, professional property managers, and others with extensive real estate industry experience can work to ensure that the efficient disposition of government-owned REO properties minimizes taxpayer losses and negative effects on local real estate markets.

CONCLUSION

The recovery of the broader economy depends on housing. The last two and half years have shown that, with housing prices bumping along the bottom, a robust economic recovery will remain exceedingly difficult. NAR believes that the best way to extinguish the glut of foreclosed properties is through an expansion of financing opportunities to qualified homebuyers and investors, bolstering loan modifications and short sale efforts, and focusing on enhancing the orderly and efficient disposition of REO assets. Where bulk sales or lease-to-own programs are unavoidable, NAR urges you to consider our recommendations. Doing so will reduce taxpayer losses on REO assets, minimize the impact distressed assets have on local real estate markets, and ensure the stabilization of neighborhoods.

I thank you for this opportunity to share our thoughts on the housing crisis, and potential solutions. As always, the National Association of REALTORS® is at the call of Congress, and our industry partners, to help continue the housing and national economic recovery.

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October 03, 2011

The Honorable Judy Biggert
Chairwoman, Subcommittee on Insurance, Housing and Community Opportunity
Committee on Financial Services
U.S. House of Representatives
2113 Rayburn House Office Building
Washington, DC 20515

The Honorable Luis Gutierrez
Ranking Member, Subcommittee on Insurance, Housing and Community Opportunity
Committee on Financial Services
U.S. House of Representatives
2266 Rayburn House Office Building
Washington, DC 20515

Dear Chairwoman Biggert and Ranking Member Gutierrez:

As the Subcommittee considers and evaluates the Administration's response to the housing crisis, you will examine Project Rebuild, the President's proposed $15 billion program that is part of his jobs initiative. Project Rebuild would be a fourth iteration of the Neighborhood Stabilization Program (NSP), which seeks to buy up and rehabilitate foreclosed properties in distressed communities. Like NSP 1, 2, and 3, 25% of the funds must be used to benefit very low income (50% of AMI or less) households, with the rest going to households with incomes as high as 120% of AMI.

The National Low Income Housing Coalition supports Project Rebuild, but we are very concerned that it does not specifically include the lowest income households who have been hit the hardest by the recession. We urge you to recommend that 25% of the $15 billion for Project Rebuild be more deeply targeted to help extremely low income households (30% AMI or less) in addition to the 25% already targeted to very low income households. If a portion of the funds are not more deeply targeted, we will have lost another opportunity to begin to address the acute shortage of housing that is affordable to this population.

All indicators continue to report that the most serious housing problem faced by Americans is the shortage of rental housing that extremely low income

households can afford.[1] Today, there 10 million extremely low income renter households in our country and only 6.5 million housing units they can afford. They remain the only income group for whom there is an absolute shortage of homes[2]

While it is true that extremely low income households technically could be served under the proposed Project Rebuild guidelines, it is our experience that the needs of extremely low income households are not met unless programs are specifically targeted to serve them. Any neighborhood revitalization program should not neglect their needs.

We urge you to ensure that households with the lowest incomes are not left behind as you consider the President's proposal.

Sincerely,

Sheila Crowley
President and CEO

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[1] See Bravve, E., DeCrappeo, M., Pelletiere, D., & Crowley, S. (2011). *Out of reach 2011: Renters await the recovery.* Washington, DC: National Low Income Housing Coalition. Joint Center for Housing Studies of Harvard University. (2011). *America's rental housing: Meeting challenges, building on opportunities.* Cambridge, MA: Author. U. S. Department of Housing and Urban Development. (2011). *Worst case housing needs 2009: A report to Congress.* Washington, DC: Author. U.S. Department of Housing and Urban Development. (2011). *Rental market dynamics 2007-2009.* Washington, DC: Author.

[2] Pelletiere, D. (2010). *A preliminary analysis of the 2009 and 2007 rental affordability gaps from the 2009 and 2007 American housing surveys.* Washington, DC: National Low Income Housing Coalition.

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