

Statement of
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and Related Agencies

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Chairman Murray, Ranking Member Bond and Members of the subcommittee, my name is Ken Wade, and I am CEO of NeighborWorks America. I appreciate the opportunity to talk with you today about the mortgage crisis and some of the actions that NeighborWorks America has taken in addressing the problem.

By way of background, NeighborWorks America was established by Congress in 1978 as the Neighborhood Reinvestment Corporation. As you know, the Corporation receives a federal appropriation from the Transportation, Housing and Urban Development, and Related Agencies Appropriations Subcommittee. For fiscal year 2008, the Corporation's appropriation is \$119.8 million, in addition to a targeted amount of \$180 million for foreclosure prevention counseling grants. The corporation's Board of Directors is made up of the heads of the federal financial regulatory agencies (the Federal Reserve; the Federal Deposit Insurance Corporation; The Comptroller of the Currency; the Office of Thrift Supervision; the National Credit Union Administration) and the Secretary of HUD.

NeighborWorks America's primary mission is to expand affordable housing opportunities (rental and homeownership) and to strengthen distressed urban, suburban and rural communities across America, working through a national network of local community-based organizations, known collectively as the NeighborWorks network.

The NeighborWorks network includes 234 nonprofit organizations, serving more than 4,450 communities across the United States -- in all 50 states, the District of Columbia and the Commonwealth of Puerto Rico. NeighborWorks organizations operate in our nation's largest cities and in some of its smallest rural communities.

NeighborWorks organizations provide a wide variety of services that reflect the needs of their neighborhoods and communities, and in recent years, with the generous support of Congress, NeighborWorks has:

- Provided homeownership counseling to more than 500,000 families;
- Assisted nearly 150,000 families of modest means to become homeowners (of which, 91 percent are low-income and 53 percent are ethnic/racial minorities); and
- Provided nearly 50,000 professional training certificates to community development practitioners from over 5,000 organizations and municipalities nationwide.

NeighborWorks organizations also own and manage more than 65,000 units of affordable rental housing.

In FY 2007 alone, the NeighborWorks network generated more than \$4.25 billion in direct reinvestment in distressed communities across the nation.

Today, my testimony will focus on the precipitous rise in foreclosures and the essential role that FHA and others have to play in providing tools to not only keep families in their homes, but also advance more sustainable, livable communities. The problem of foreclosure is complex, and we don't believe any single solution will eliminate the threat, but the scope and scale of the crisis demands intervention at the federal, state and local level.

The number of loans that entered into the foreclosure process hit an estimated 1.5 million nationwide in 2007, according to an analysis of data from the Mortgage Bankers Association conducted by NeighborWorks America's Applied Research division. While more than three quarters of all existing loans were prime, subprime loans accounted for more than half (54.6%) of all foreclosure starts. Approximately 823,000 subprime loans started the foreclosure process in 2007, compared to 534,000 prime loans, even though there were six times as many prime as subprime loans being serviced.

It's clear that when homes go into foreclosure, the impact reaches far beyond the individual tragedies confronting homeowners who lose their home. Foreclosed homes can threaten the stability of entire communities. As foreclosed properties are abandoned, crime rates increase. The value of surrounding homes declines and other homeowners will have difficulty selling or refinancing their homes, leading to further disinvestment in communities. As a result, property taxes collected will be lower, affecting schools and government services, creating a downward spiral that is detrimental to the entire community.

A report (*The Impact of Single-Family Mortgage Foreclosures on Property Values*, by Dan Immergluck and Geoff Smith) demonstrated that a single foreclosure reduces total surrounding property values within an eighth of a mile radius by .9 percent. Cumulatively, this means that the foreclosures analyzed in this study resulted in average property value losses between \$159,000 to \$371,000 per foreclosure. Multiple foreclosures in an area compound the reduction in property values of surrounding homes even further. Another study, *The Municipal Cost of Foreclosures: A Chicago Case Study*, by William C. Apgar and Mark Duda) reports that one foreclosed property can end up costing a municipality as much as \$34,000. Furthermore, lenders report that each foreclosure can cost them from \$35,000 to \$58,000.

Indeed, the negative impacts of foreclosure are now reverberating throughout the entire U.S. economy – and all projections indicate the problem is going to worsen.

I want to commend the Committee for its leadership in providing \$180 million for the National Foreclosure Mitigation Counseling program which gives borrowers facing foreclosure the opportunity to work with trained counselors and their servicers and, hopefully, work through problems that would otherwise result in the loss of their homes and even further losses to the communities they live in.

NeighborWorks America was named in the FY 2008 Consolidated Appropriations Act to administer the National Foreclosure Mitigation Counseling program. The legislation requires that NeighborWorks America grant at least \$167,800,000 to qualifying organizations that provide mortgage foreclosure mitigation assistance primarily in states and areas with high rates of defaults and foreclosures primarily in the subprime housing market. These funds are targeted to provide foreclosure mitigation counseling to help eliminate the default and foreclosure of mortgages of owner-occupied single-family homes that are at risk of foreclosure. NeighborWorks America received grant requests totaling nearly \$350 million, demonstrating a very high demand for resources to support foreclosure counseling services.

On February 26, 2007, NeighborWorks America announced National Foreclosure Mitigation Counseling program grants totaling \$130,438,408 to 130 organizations (including HUD-approved housing counseling intermediaries, State Housing Finance Agencies, and NeighborWorks organizations.)

Summary of National Foreclosure Mitigation Counseling Program Applications				
	Number of Applicants	Number Awarded Funds	Dollar Amount requested	Dollar Amount Awarded
State Housing Finance Agencies	36	32	\$69,978,778.68	\$38,664,516.00
HUD-Approved Housing Counseling Intermediaries	17	16	\$254,138,123.50	\$80,356,391.00
NeighborWorks Organizations	90	82	\$23,854,667.00	\$11,417,501.00
Totals	143	130	\$347,971,569.18	\$130,438,408.00

Up to \$5 million in National Foreclosure Mitigation Counseling funds is being used to build the capacity of mortgage foreclosure and default mitigation counseling agencies.

We anticipate awarding more than 3,000 certificates for foreclosure prevention counseling training through the National Foreclosure Mitigation Counseling program. More than 475 people have been trained already this calendar year. This training builds on NeighborWorks America's existing training programs, which issued more than 12,000 training certificates to community development professionals in FY 2007.

NeighborWorks® America strives to be at the forefront of issues affecting the community development field. The Corporation identified the problem of rising foreclosures over four years ago and created the NeighborWorks Center for Foreclosure Solutions, which is an unprecedented partnership between leading nonprofit organizations as well as state, local and federal agencies and members of the mortgage lending and servicing sectors that involves a comprehensive, multi-faceted approach to the foreclosure crisis.

NeighborWorks America has been working in partnership with the Homeownership Preservation Foundation to support a national toll-free Homeowner's HOPE™ Hotline for borrowers facing foreclosure (888-995-HOPE). The HOPE NOW Alliance has embraced the HOPE Hotline as a key component of their outreach and counseling efforts. The hotline provides high quality telephone-based assistance (in English and in Spanish) around the clock. Individuals needing more intense service than can be provided over the phone are referred to local NeighborWorks organizations or other HUD-approved housing counseling agencies.

We know that early intervention is critical for helping borrowers at risk of foreclosure. To encourage borrowers to reach out for assistance before it is too late, NeighborWorks America also launched a public awareness campaign through the Ad Council. The national public awareness campaign encourages struggling homeowners to reach out for assistance by calling the Homeowner's HOPE Hotline.

Because NeighborWorks America has been so active in foreclosure prevention over the past four years, the Corporation was invited to participate in the HOPE NOW Alliance, announced by the Secretaries of the Treasury and HUD in October 2007. The mission of the HOPE NOW Alliance is to preserve homeownership and prevent foreclosures through outreach to delinquent borrowers, counseling and loan workouts based on the borrower's ability to repay. The HOPE NOW Alliance is also working to improve communications between lenders and counselors to assist homeowners more efficiently and effectively. There are 27 mortgage services in the HOPE NOW Alliance and they account for over 90% of the subprime mortgage market.

NeighborWorks America is also providing support to our affiliated network of community-based nonprofit organizations and partnering with other national nonprofits, foundations and the public sector to develop strategies and tools to mitigate the impact of vacant and abandoned foreclosed properties on communities, especially in communities with high concentrations of foreclosure.

In May 2008, NeighborWorks will be sponsoring a symposium, *Battling Foreclosure in a Changing Environment* as part of the NeighborWorks Training Institute in Cincinnati, Ohio to help build awareness of the challenges and potential strategies and solutions available to communities impacted by the foreclosure crisis.

From our experience, we know that the best defense against delinquency and foreclosure is objective education and advice before the borrower begins shopping for a home and selecting a mortgage product. The most reliable and trusted home buyer counseling is provided through objective non-profit agencies (including local NeighborWorks® organizations and other HUD-approved nonprofit housing counseling agencies) that put the consumers' and the communities' interest first. We also know that homeowners' odds of success are increased even further when they have access to post-purchase counseling and homeowner education.

To ensure that consumers have access to the highest quality pre- and post-purchase homeownership counseling, NeighborWorks America, together with our partners, has developed National Industry Standards for Homeownership Education and Counseling. The National Industry Standards advance the highest quality of service across core areas ranging from competency of the counselor to performance in the delivery and recordkeeping

NeighborWorks America has been closely tracking the loan performance of the many low-income families assisted by NeighborWorks organizations over the years, particularly with the overall rise in foreclosures in the broader marketplace. These loans continue to perform well. We have not seen any significant up-tick in delinquencies or foreclosures among NeighborWorks-assisted families.

The data indicate that low- and moderate-income families can achieve sustainable homeownership through effective pre-purchase assistance and responsible loan products. Efforts to address the present foreclosure crisis should not limit homeownership opportunities for households of modest means or curtail our efforts to close the homeownership gap that persists for minority Americans.

As conventional mortgage originators have lost ground to mortgage brokers, the threat to sustainable homeownership continues to grow. Of the \$2.5 trillion in mortgages taken out last year, roughly 60 percent was handled by the nation's 120,000 mortgage brokers, up from just 20 percent in 1987. While there are many reputable and responsible mortgage brokers, the growth of this non-federally regulated sector has clearly contributed to the foreclosure crisis.

Many consumers are unaware that they should shop around for the best loan terms when purchasing a home. Instead, these borrowers choose the most expedient or readily available credit, even if the terms are not competitive. For credit-impaired borrowers the challenge is even greater, because they are often willing to accept any rate offered to secure the loan they need. Subprime and predatory lenders use these circumstances to their advantage, often steering borrowers to loans that hold a greater profit for their institution – and greater risk and cost to the borrower.

Unfortunately, many families did not have the benefit of pre-purchase education and counseling—assistance in determining whether homeownership is the right decision and what price house and what mortgage product works best for that family. Many of those families entered into situations that were not sustainable, whether due to budget, house price, mortgage product or other factors.

Studies demonstrate that women, minorities and lower-income borrowers rely on subprime lenders for a disproportionate share of mortgage and refinance loans, and are sometimes steered toward these loans even if their credit rating would qualify them for a prime loan.

At the same time, the outdated, paper-driven underwriting processes of most community-based lenders is time consuming and expensive. To compete against subprime and predatory lenders the nonprofit sector must have the tools and ability to respond quickly to meet borrower needs.

NeighborWorks is working to expand the market share of nonprofit lenders by increasing the capacity of the NeighborWorks network to directly originate first mortgages, and by providing research, training, financial support, technology tools and a secondary market to the NeighborWorks network. Several NeighborWorks organizations have been direct originators of first mortgage loans for some time. However, this is a critical area of growth for the NeighborWorks network in order to assure sustainable homeownership.

One tool that will assist the NeighborWorks network to originate mortgages is a new computer-assisted web-based solution developed by our affiliate capital corporation, Neighborhood Housing Services of America (NHTSA) – known as BestFIT. NHTSA has worked with private sector investors to develop BestFIT, an automated underwriting platform to provide immediate turnaround on loan approvals for low- and moderate-income homebuyers and homebuyers with non-conventional credit. BestFIT provides the NeighborWorks network and the broader community development field with a system that can get to "yes" quickly – a responsible alternative to the profit-motivated broker.

Equally important, it can offer the homebuyer options for an increasingly wide range of loan types. Starting with a line of NHTSA and Fannie Mae loan products designed specifically for low-income homebuyers served by the NeighborWorks network, BestFIT is expanding to include capacity to help consumers analyze options for FHA loans, state housing finance agency loans nationwide, and other loans. BestFIT has also attracted interest from a number of municipalities, trade groups and community development organizations outside the NeighborWorks network that serve minority and low income families, and contracts are currently being developed to provide BestFIT for their use. NHTSA is also exploring using BestFIT to expand access to refinancing products.

The automated features of BestFIT enable NeighborWorks organizations to reduce errors and the cost of hard copy transmission, while providing complete documentation for the loan.

BestFIT automates the process of screening nonperforming mortgage loans, and its "push-button" structure reduces the cost of entry into the mortgage market for NeighborWorks organizations and other community development entities. The result is that potential homebuyers have increased access to prudent, reasonably priced capital, and existing homeowners who find themselves in troublesome mortgage products can work with housing counselors to restructure their loans or find appropriate refinance products.

While the desire to own a home is strong across all socioeconomic groups, the responsibilities of homeownership are not for everyone. Therefore it remains important to have viable rental housing – especially units that allow a safe, stable environment – with rents affordable enough for occupants to accumulate savings.

Let me also add that from our experience, we know that FHA has played a key role in the mortgage market since its inception, but, for a number of reasons, over time has, represented a shrinking share of the overall mortgage market.

The Administration's proposed FHA Modernization legislation, which is being actively worked on by the Congress, would bring about some much needed changes and would help assure that FHA can reassume its leadership role in the market place with low- and moderate-income borrowers. With the changes (some already made by FHA and others proposed) FHA can provide a meaningful alternative to some of the higher risk mortgage products that have contributed to the nation's current alarming rate of foreclosures as well as help millions of additional low-and moderate-income families fulfill the American dream of homeownership.

In closing, I would like to highlight a few continued challenges:

In a recent speech, Secretary Paulson stated: “We have an immediate need to see more loan modifications and refinancing and other flexibility. For many families, this will be the only viable solution. The current process is not working well.”

I couldn't agree more. There still appears to be a lack of servicer responsiveness to the scale and scope of the foreclosure problem. Many foreclosure counselors continue to experience a significant level of inflexibility by lenders and servicers in regard to loan modifications and refinancings. It appears that modifications and workouts are all being considered in a unique, “one-off” manner.

This problem (inflexibility) has been exacerbated by falling home prices where the loan to value ratio exceeds the present appraised value of the property that is the security for the loan in foreclosure.

One approach that should be given serious consideration would be to take the negative equity debt and place it into a subordinate mortgage to a new refinanced mortgage, where no payments nor interest are due on the subordinate debt until the property is sold. This alternative would prevent a windfall to the mortgagor if home prices eventually rise and preserves as much as possible of the investment that the investors have made in the loan that is being refinanced.

I also encourage investors and servicers to develop more standardized approaches and rules to loan modifications and to share those with the counseling community so that we can all aggressively increase the volume of successful loan modifications and workouts.

The HOPE NOW Alliance has also identified the need for a sustainable funding model for quality housing counseling. It is imperative that servicers agree to a fee-for-service model to compensate housing counseling agencies for foreclosure counselors who are meeting standards and working with thousands of borrowers to find successful solutions. Thus far, foreclosure counseling services has been almost exclusively supported by public funds and charitable grants.

There also continues to be an unequal distribution of foreclosure counseling providers across the country, resulting in underserved areas and populations. This continues to be a particular challenge in rural areas and with linguistically isolated populations.

The disparate impact of the foreclosure problem on low-income and minority communities and populations is also troubling. Studies confirm that foreclosures are much more likely to occur in predominantly minority neighborhoods, even when all other variables such as borrower credit and income are held steady. Rising foreclosure rates are currently threatening decades of gains in minority homeownership and community revitalization. Recent studies conducted in Atlanta, Philadelphia and Baltimore confirm that lower income, minority neighborhoods are at greater risk for concentrations of foreclosures.

Federal, state, local governments and nonprofits will have to continue to work together with private industry to address the foreclosure crisis.

I again thank you for the opportunity to testify and stand ready to answer any questions.