

Beyond the Mortgage Meltdown
Saving for Sustainable Homeownership

Statement of
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Introduction:

Thank you very much. It is a pleasure to join with my colleagues and friends on the panel to discussing this timely issue. I want to commend the efforts of the Congressional Savings and Ownership Caucus and the New America Foundation in putting this event together to bring this very timely topic to the fore.

My name is Ken Wade and I am the CEO of NeighborWorks America.

Background on NeighborWorks America:

By way of background, NeighborWorks America was established by Congress in 1978 as the Neighborhood Reinvestment Corporation. The corporation's Board of Directors is made up of the heads of the federal financial regulatory agencies (the Federal Reserve; the Federal Deposit Insurance Corporation; The Comptroller of the Currency; the Office of Thrift Supervision; the National Credit Union Administration) and the Secretary of HUD. The moderator of today's panel, Ellen Seidman, served on our Board (in fact, served for a while as Chair of our Board, in her former capacity as Director of the Office of Thrift Supervision.

The primary mission of NeighborWorks America is to expand affordable housing opportunities (rental and homeownership) and to strengthen distressed urban, suburban and rural communities across America, through a national network of local community-based organizations composed of community residents, private sector and local government entities – known collectively as the NeighborWorks® network.

The NeighborWorks Network:

The NeighborWorks® network includes about 240 nonprofit organizations, serving more than 4,450 communities across the United States -- in 50 states, the District of Columbia and the Commonwealth of Puerto Rico. NeighborWorks organizations operate in our nation's largest cities and in some of its smallest rural communities.

Accomplishments:

NeighborWorks organizations provide a wide variety of services that reflect the needs of their neighborhoods and communities, and over the years, with the generous support of Congress through a direct federal appropriation, NeighborWorks has:

- Provided homeownership counseling to more than 500,000 families; and
- Assisted nearly 150,000 families of modest means to become homeowners, of which:
 - 92 percent are first-time homeowners;
 - 91 percent are low-income,
 - 53 percent are ethnic or racial minorities, and
 - 41 percent are female-headed households.

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

In FY 2007 alone, the NeighborWorks network will generate about \$4 billion in direct reinvestment in distressed communities across the nation.

Question Asked For Today’s Discussion:

The announcement for today’s session asks: Can potential homeowners and those who work with them use more direct saving, education and other strategies to return to sustainable homeownership while retaining, and in fact enhancing, broadened ownership opportunities?

I believe, from NeighborWorks America’s experience that the answer to that important question is a resounding, Yes.

NeighborWorks America’s Experience in Serving Non-Conforming Borrowers:

NeighborWorks® America has a 30-year history of supporting lending to non-conforming borrowers – including lower income families, borrowers with impaired credit and others who would not normally qualify for a conventional mortgage.

By providing quality pre-purchase homeownership counseling , financial fitness training and working with borrowers to improve their credit rating; improve their budgeting; and commit to a savings plan (including Individual Development Accounts and other vehicles), local NeighborWorks® organizations are able to present mortgage-ready borrowers who qualify for reasonably priced traditional mortgage loans and achieve sustainable homeownership.

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. And the best home buyer counseling is provided through objective, well-trained 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.

NeighborWorks Loan Performance:

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

In fact, a comparison of the loan performance of borrowers counseled by NeighborWorks organizations (in the first quarter of 2007) indicates that their loans are:

- 10 times less likely to go into foreclosure than subprime borrowers;
- Nearly 4 times less likely to go into foreclosure than FHA borrowers; and
- Slightly less likely to go into foreclosure than Prime borrowers.

NeighborWorks America's Service Beyond the NeighborWorks Network:

NeighborWorks America's commitment to quality, objective homeownership education and counseling extends beyond our network. Through our NeighborWorks Center for Homeownership Education and Counseling (NCHCEC) and the NeighborWorks Training Institute, NeighborWorks America is the largest trainer of housing counseling professionals.

NeighborWorks America convened a group of leaders from lending institutions, community development organizations, real estate, mortgage insurance companies and the secondary mortgage market to develop National Industry Standards for Homeownership Education and Counseling that, if broadly adopted, will help prevent in the future the wave of foreclosures that the housing market is experiencing today.

The Industry Standards are the product of an intense two-year development process, and is the first time that representatives from all corners of the housing industry have reached agreement on a set of benchmarks for the delivery of quality education and counseling to consumers across the nation. Industry standardization will strengthen the professional credentials of more than 10,000 homeownership professionals currently working in the industry and help ensure that millions of potential and existing homeowners receive quality and comprehensive housing information and services, enabling them to make informed, responsible choices on the path to homeownership.

A detailed description of the National Industry Standards for Homeownership Education and Counseling guidelines and Code of Ethics is available at www.homeownershipstandards.com

NeighborWorks Approaches to Sustain Homeownership, Beyond the Purchase of the Home

Our affiliated NeighborWorks organizations have utilized a range of approaches to support homeowners beyond their purchase of the home.

Since the early '90s we have employed an approach called "Full-Cycle Lending," which includes pre and postpurchase counseling, property inspections, appropriate mortgage loan products, and early intervention delinquency counseling when necessary. People who have rented for a long time may not know about escrows, property taxes, utility bills and general household maintenance expenses. These costs need to be part of the overall household budget.

NeighborWorks organizations frequently provide a second mortgage to clients to help with downpayment or closing costs, or to finance needed improvements. These are often provided at below-market interest rates, and are carefully structured so that the combined payment on the first and second mortgage is affordable to the family.

We stress to the family that we are interested in them being able to sustain their homeownership – so they are essentially treated as "clients for life". If they have a question or a problem, they know that the local NeighborWorks organization is there for them. The NeighborWorks organizations provide services such as home maintenance trainings, tool libraries, do-it-yourself improvement/repair clinics, etc. And many NeighborWorks organizations have Rehabilitation Specialists on staff, who can assist with everything from pre-purchase inspections, rehabilitation specifications, help with finding a contractor, monitoring the work of a contractor, etc.

One thing we have learned is that it is important to deal with late mortgage payments immediately. NeighborWorks staff often contact clients within days of a payment being late. Not in a dunning manner, but trying to understand if the family is facing some type of financial problem. Where there are such problems, the NeighborWorks organizations frequently exercise patience and forbearance or develop payment plans for the client. And the majority of delinquencies are brought current in time. From time to time, where there is a significant financial problem (particular in instances brought on by issues such as health problems or job loss) NeighborWorks organizations have worked to restructure the loan, to come up with a more manageable monthly payment. And, in some instances, NeighborWorks organizations will forgive all or a portion of the second mortgage that they hold.

Until recently, this was enough, given the NeighborWorks loan performance and that fact that we've had so few NeighborWorks clients facing default.

NeighborWorks Center for Foreclosure Solutions:

But about four years ago, we saw the start of what has now grown to be our current foreclosure crisis. Not among clients that had been counseled up-front by NeighborWorks organizations. But by others in the community who were facing delinquency and foreclosure. First it was only in a few communities, like Chicago and San Bernadino, California.

Great strides had been made to make homeownership more accessible to historically underserved populations; however, the growing foreclosure rate threatened to undo many of the gains that had been made. Because of our success in preparing new homebuyers for long-term homeownership and our close working relationship with lenders, we recognized that we were well positioned to address the problem of rising foreclosures.

So, about four years ago, we created the NeighborWorks Center for Foreclosure Solutions. The Center is working to:

- Build capacity among foreclosure counselors around the nation
- Conduct public outreach campaigns to reach struggling homeowners, and
- Research local and national trends to develop strategic solutions.

In cities and states with high rates of foreclosure, the Center works with local leaders to create sustainable foreclosure intervention programs and local coalitions.

The HOPE Hotline – 888-995-HOPE:

One outgrowth of the Center has been that NeighborWorks America, in partnership with the Homeownership Preservation Foundation has established a national toll-free hotline for delinquent borrowers (888-995-HOPE) that is available 24/7 to provide callers with high quality telephone-based assistance (in English and in Spanish).

Once the call to the Hotline is made, service begins immediately. Callers are connected with a trained counselor at the outset and depending on the problems, homeowners can get budgeting help, assistance developing a written financial plan, assistance contacting their lender to discuss payment options and loan restructuring. Individuals needing more intense service than can be provided over the phone are referred to local NeighborWorks organizations and other HUD-approved housing counseling agencies. Counselors are also trained to look for and respond to callers who have experienced fraud in the mortgage process with appropriate referrals to local agencies and resources.

Surveys of delinquent borrowers show that about 50 percent of delinquent borrowers had no contact with their lender or servicer prior to foreclosure. The key to helping as many people as possible through the 888-995-HOPE hotline is to get people who are experiencing problems in paying their mortgage to call as soon as possible.

Ad Council Campaign

Therefore, NeighborWorks® America in conjunction with the Homeownership Preservation Foundation has launched a public service advertising campaign supported by the Ad Council, to decrease foreclosures by directing struggling borrowers to call the HOPE hotline. The campaign, envisioned as a three year effort, has just begun -- specifically targeting areas with high rates of foreclosure. The value of donated media for a typical Ad Council campaign is around \$28 million, so we anticipate that this effort will go a long way toward increasing public awareness of the 888-995-HOPE hotline.

Closing:

I hope I have given you an overview of what NeighborWorks has been doing to expand homeownership in a sustainable way throughout the country.

There are certainly challenges throughout the process, not the least of which is working with the individuals to convince them of the need for information and counseling so they know what to look for and how to compare not only homes, but loan products. Too many times over the past few years, there have been people promising a homebuyer a quick “yes” on a loan product that might not be the best alternative for that family. It may take more than 20 minutes to get a “yes” from a NeighborWorks organization – in fact it may take months of counseling, budgeting and saving. But our record shows that the result of that effort pays off in the long term – in the form of affordable and sustainable homeownership.

Thank you for listening. I would be glad to answer any questions.