

Statement of
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Committee on Financial Services

Hearing on
Progress in Administration and Other Efforts to Coordinate and Enhance
Mortgage Foreclosure Prevention

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Chairman Frank, Ranking Member Bachus and Members of the Committee, my name is Ken Wade, CEO of NeighborWorks America, and I appreciate the opportunity to come before you again to talk about the efforts we and our partners are making to help stem the tide of foreclosures.

Background on NeighborWorks America:

By way of background, NeighborWorks America was established by Congress in 1978 as the Neighborhood Reinvestment Corporation. The Corporation receives federal appropriated funding out of the Transportation-HUD and Related Agencies Appropriations Subcommittee. For fiscal year 2008, the Corporation requested \$119.8 million and both chambers of Congress have approved this amount. The corporation's Board of Directors is made up of the heads of the federal financial regulatory agencies (the Federal Reserve; the Federal Deposit Insurance Corporation; The Comptroller of the Currency; the Office of Thrift Supervision; the National Credit Union Administration) and the Secretary of HUD.

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

The NeighborWorks Network:

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

Accomplishments:

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

- Provided homeownership counseling to more than 500,000 families; and
- Assisted nearly 150,000 families of modest means to become homeowners.

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

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

Today, however, I'm here to speak about our response to the precipitous rise in foreclosures.

NeighborWorks America's Experience in Serving Non-Conventional Borrowers:

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

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

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

NeighborWorks Loan Performance:

NeighborWorks America has been closely tracking the loan performance of the many low-income families assisted by NeighborWorks organizations over the years.

These loans continue to perform significantly better than subprime loans. We have not seen any significant up-tick in defaults or foreclosures among NeighborWorks-assisted families.

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

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

Another example of the quality of NeighborWorks homeownership education and counseling is provided by a NeighborWorks affiliate, Neighborhood Finance Corporation in Des Moines, Iowa. This organization compared all of the names from the list of more than 8,000 foreclosure filings from Polk County (where Des Moines is located) to their entire data base of over 2,000 people counseled and individual files of people they saw in class and individual counseling since September 2002. Through cross checking all of these names, this organization identified only one person who filed for foreclosure in 2006 that had come to them for pre-closing home buyer education in 2005. **Therefore, only one person in Neighborhood Finance Corporation's data base and files of 2,000+ pre-closing counsees they have served since 2002 has had to file for foreclosure.** This does not preclude the possibility that others avoided foreclosure by arranging short sales or deeds-in-lieu of foreclosure.

NeighborWorks America's Service Beyond the NeighborWorks Network:

NeighborWorks America's commitment to quality, objective homeownership education and counseling extends far beyond the NeighborWorks network.

Through our NeighborWorks Center for Homeownership Education and Counseling (NCHEC) and the NeighborWorks Training Institute, NeighborWorks America is the nation's largest trainer of housing counseling professionals.

NeighborWorks America convened leaders from counseling intermediaries, lending institutions, community development organizations, realtors association, mortgage insurance companies and the secondary mortgage market to develop National Industry Standards for Homeownership Education and Counseling...

The Industry Standards will strengthen the professional credentials of more than 10,000 homeownership professionals currently working in the industry and help ensure that millions of potential and existing homeowners receive quality and comprehensive housing information and services, enabling them to make informed, responsible choices on the path to homeownership. The best defense against foreclosure is a well educated consumer who understands the responsibilities and consequences of homeownership, the budget implications and the financing options available.

Quality homeownership counseling delivered in accordance with the Industry Standards and which is well funded through a fee for service model and public-private partnerships is the best tool available to fight foreclosure in the longer term.

NeighborWorks Center for Foreclosure Solutions:

NeighborWorks America saw the problem of foreclosures coming over four years ago and, with the strong support of our Board of Directors and our former chairman, the late Gov. Edward Gramlich (a member of the Board of Governors of the Federal Reserve), NeighborWorks America created the NeighborWorks Center for Foreclosure Solutions, to preserve homeownership in the face of the rising foreclosure rates. The NeighborWorks Center for Foreclosure Solutions is an unprecedented partnership between faith-based and community organizations, nonprofit organizations, and financial, mortgage, and insurance sectors to preserve homeownership and combat the negative impact of foreclosures on communities across the nation. Local NeighborWorks organizations witnessed the start of what has now grown to be our current foreclosure crisis, as they were increasingly asked for help, not by clients that had been counseled up-front by NeighborWorks organizations, but by others in the community who were facing increased delinquency and foreclosure.

The impact of foreclosures reaches far beyond the individual homeowners who lose their home. Foreclosed homes can threaten entire communities. The value of surrounding homes goes down and other homeowners will have difficulty selling or refinancing their homes, leading to further disinvestment in communities. As a result, property taxes collected will be lower, affecting schools and government services, creating a downward spiral that is detrimental to the entire community. A study by the Woodstock Institute found that a single foreclosure on a given block can directly lower the cumulative property values of surrounding homes by \$139,000 (approximately \$2,000 per property). Other studies show that one foreclosed property can end up costing a municipality as much as \$30,000. And lenders report that each foreclosure can cost them from \$30,000 to \$50,000.

NeighborWorks America, in partnership with the Homeownership Preservation Foundation is supporting a national toll-free HOPE Hotline for delinquent borrowers (**888-995-HOPE**) that is available 24/7 to provide callers with high quality telephone-based assistance (in English and in Spanish). Individuals needing more intense service than can be provided over the phone are referred to local HUD-approved housing counseling agencies.

NeighborWorks America has also launched a public service advertising campaign through the Ad Council, to decrease foreclosures by directing struggling borrowers to call the 888-995-HOPE Hotline.

In addition to the HOPE Hotline, many of our local NeighborWorks organizations are also counseling delinquent homeowners every day. These organizations have stretched their budgets, redeployed staff, worked hundreds of extra hours – all to address the very real threat that pending foreclosure is causing for families and communities across the country.

These organizations are helping families one at a time, to modify budgets, refinance an unattractive mortgage product, and work with servicers on loan modifications or workouts. And when those solutions are not possible, they are working to help the borrower sell their home or surrender if to the lender, if necessary, and relocate before they face an actual foreclosure.

Some of our NeighborWorks organizations are also originating or brokering responsible refinance mortgage products to ensure homeowners have every opportunity to succeed at sustainable homeownership.

And, NeighborWorks America is actively training hundreds of counselors on foreclosure intervention at our National Training Institutes and other place-based trainings around the nation. We are working closely with state housing finance agencies and other partners to provide access to these trainings so counselors can have the tools they need to provide quality foreclosure intervention counseling to homeowners.

The HOPE NOW Alliance:

Because NeighborWorks America has been active in foreclosure prevention over the last three years through our Center for Foreclosure Solutions (building alliances, supporting the HOPE Hotline, launching the Ad Council public awareness campaign, training hundreds of counselors specifically on foreclosure, and supporting many local coalitions and communities in the development of their strategies to provide alternatives to foreclosure) we were invited to participate in the HOPE NOW Alliance, recently announced by the Secretaries of the U.S. Department of Treasury and the U.S. Department of Housing and Urban Development.

While the HOPE NOW Alliance is still very much a “work-in-progress” we are excited by its potential and pleased that Secretaries Jackson and Paulson are using the influence of their positions to encourage a coordinated approach that brings mortgage servicers and mortgage investors together in an effort to identify struggling borrowers, connect them to a mortgage counselor and find a sustainable mortgage solution. NeighborWorks America received \$1,970,440 in HUD grants for Housing Counseling Services, Home Ownership Programs and Community organizations to provide education and assistance so more Americans can own homes, find affordable housing, and avoid predatory lending.

One of the key efforts of NeighborWorks foreclosure activities is to improve outreach to borrowers. Many members of the HOPE NOW Alliance and other servicers have contributed actively to support our Ad Council Campaign, additional outreach efforts and the critical work of the NeighborWorks Center for Foreclosure Solutions. This private sector support has been essential in the outreach efforts and success of the Center for Foreclosure Solutions to date. While we are appreciative of that support, we continue to stress that servicers and investors have a critical role in the funding of direct counseling.

We are also pleased that mortgage market participants who are part of the HOPE NOW Alliance have committed to adopting some of the best practices that can make a real difference in helping nonprofit counselors assist families in avoiding foreclosure, such as dedicated teams of loss mitigation professionals to work directly with counselors.

And we're pleased that nearly all major mortgage servicers have committed to provide a dedicated loss mitigation "communication bridge" for 888-995-HOPE counselors' use. This information has the potential to improve contact rates; communication between servicer, counselor and homeowner; and understanding of each party's role.

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

We couldn't agree more. Thus far, many counselors continue to experience a significant level of inflexibility by lenders and servicers in regard to loan modifications and refinancings. It appears that modifications and workouts are all being considered in a unique, "one-off" manner. We strongly encourage the investors and servicers to develop more standardized approaches and rules to loan modifications and to share those with the counseling community so that we can all aggressively increase the volume of successful loan modifications and workouts.

We also strongly encourage the investors to aggressively address the Adjustable Rate Mortgage (ARM) resets and to not wait until families become delinquent, before finding solutions for families who have clear budget and income constraints that will prevent them from successfully making their mortgage payments.

The HOPE NOW Alliance has also identified the need for us to all work together to develop a sustainable funding model for quality phone and face-to-face counseling -- and proposed that servicers pay a fee for any of their clients referred to a service like the HOPE Hotline. Our understanding from the Housing Policy Council is that the servicers are close to finalizing agreements to pay for the counseling of their customers who use the HOPE Hotline. We hope that similar agreements can be made with servicers to compensate housing counseling agencies for quality face-to-face counseling of their borrowers. NeighborWorks is committed to working closely with the HOPE NOW Alliance, the Housing Policy Council and other HUD-approved housing counseling intermediaries over the next sixty days to finalize this sustainable business model.

It is imperative to develop this fee for service model with the servicers for on-the-ground foreclosure counselors who are meeting standards and working with thousands of borrowers to find successful solutions. Thus far that service is almost exclusively supported by public funds and charitable grants. And additional resources will be needed to continue this important service.

Closing

In conclusion, while the foreclosure problem has not abated, we are hopeful about the potential for the HOPE NOW Alliance.

We know that the best way to create foreclosure-resistant homeowners is through quality pre-purchase housing counseling.

And, there is a larger need than ever for a reasonably-priced mortgage refinance product, to assist families currently trapped in high-cost mortgages.

I trust this testimony gives you a sense of NeighborWorks America's response to families facing foreclosure, and some of the challenges we are facing in that effort. Before closing, I want to thank you and your colleagues in the Congress for your strong bi-partisan support of NeighborWorks America; especially the federal funding that has played a key role in our work.

I have attached to my testimony a programmatic update that provides further information in regard to NeighborWorks America's response to the current foreclosure problem.

I stand ready to answer any questions you may have.

PROGRAMMATIC UPDATE

NeighborWorks® Center for Foreclosure Solutions NeighborWorks® America

Background

Neighborhood Housing Services of Chicago (NHS of Chicago), a NeighborWorks America local affiliate, is piloting new models of homeownership preservation in partnership with the City of Chicago and leading mortgage lending and servicing institutions. NeighborWorks America has been a leading partner and supporter of the NHS of Chicago and its Home Ownership Preservation Initiative (HOPI) program. HOPI is crucial to addressing the rising numbers of conventional and subprime loans in default and foreclosure in Chicago. These loans were originated by private lenders without involvement or homebuyer education from the NHS of Chicago, and are concentrated in low-income and minority neighborhoods. Through HOPI, NHS of Chicago seeks to preserve home ownership where possible and keep families in their homes via delinquency counseling, loss mitigation and loan workouts. When foreclosure is unavoidable, the partners seek to preserve the properties as neighborhood assets. Innovations from HOPI in the last year include a “311 Hotline” to connect troubled borrowers to phone counseling, a foreclosure intervention center at the NHS office for out-of-town servicers to work out problem loans on a rotating basis, and an advisory committee with industry-led workgroups investigating further innovations. NeighborWorks America views HOPI as a “laboratory” to test the efficiency and effectiveness of foreclosure strategies in order to take them to scale.

NeighborWorks Center for Foreclosure Solutions

NeighborWorks America seeks to advance the dialogue regarding the evolution of mortgage origination, servicing, default counseling and supportive services. Through the NeighborWorks Training Institute and other forums NeighborWorks America has a platform to educate city officials, community-based organizations and lending professionals on the lessons learned from the HOPI partnership model, including best practices in counseling, servicing and REO disposition. NeighborWorks America also facilitates and disseminates research developed by HOPI on issues related to foreclosures trends, and loan loss mitigation efforts.

Complementing the goals of NeighborWorks National Homeownership Programs, NeighborWorks America’s support of its Center for Foreclosure Solutions (CFS) builds on over a decade of leadership in the industry on sustainable homeownership.

Delinquency and Foreclosure Rates for Prime, Subprime, FHA and NeighborWorks® Borrowers: 1st Quarter, 2007

	<u>30 Days Past Due</u>	<u>60 Days Past Due</u>	<u>90 Days Past Due</u>	<u>Foreclosures Started</u>
Prime	1.57%	0.39%	0.35%	0.26%
Subprime	6.62%	2.60%	3.23%	2.38%
FHA	5.86%	1.87%	3.07%	0.93%
NeighborWorks®	3.49%	0.64%	1.36%	0.24%

Source: Mortgage Bankers Association and NeighborWorks® America

- **Partnership with Homeownership Preservation Foundation** – Cooperatively promote the HOPE hotline (1-888-995-HOPE) a 7-day/24 hour on-demand foreclosure hotline (English and Spanish), staffed by six HUD-approved housing counseling agencies. Borrowers are referred to local organizations for further assistance when necessary.
 - Call volume continues to grow – **Quarter 3 volume increased 89% over Quarter 2**
 - Nearly **57,000 calls** received in **Quarter 3 2007**
 - Cumulatively (off the hotline) **101,000 calls have been received and 46,500 people have been counseled during 2007**
 - **33%** of callers in Quarter 3 heard about the hotline from their lender
 - Callers **are calling sooner and are better prepared** to receive counseling (our message is getting out)
 - In Quarter 3, **24% called BEFORE they were 1 full payment behind** up from 21% in Quarter 2 and 14% in Quarter 1
 - More callers with **ARMs -- 44% of all callers had ARMs** (40% in Q2 and 34% Q1)
- **Public Awareness Campaign** – Multi-media public education campaign developed with the Ad Council and mcgarrybowen (New York-based advertising firm), designed to spur borrowers in financial distress to take action and call the HOPE hotline. The Campaign’s theme of “*Nothing is worse than doing nothing*” includes 3 TV spots (2 in Spanish), 11 radio spots (6 in Spanish), print ads (newspaper, magazine, billboards, bus shelters), website (www.foreclosurehelpandhope.com), and collateral pieces (door hangers, brochures, and posters). 190+ local groups/taskforces/municipalities have co-branded these ads.
 - **3,576** TV (broadcast and national cable) spots have aired since the launch date with **3,448** of those times being on broadcast TV. (There is no tracking system for local cable).
 - **8,119** radio spots have aired since the launch on June 25, 2007
 - Foreclosure Prevention TV PSAs have aired on such programs as ***The Tonight Show with Jay Leno, The Today Show, Everybody Loves Raymond, CSI: Miami, Dr. Phil, and Oprah.***
 - In just July alone, the campaign reached approximately **2,288,000** households via local English broadcast television. Although we do not yet have results for August, September or October we expect that this number has more than quadrupled due to the campaign’s increasing momentum.
- **Research** – Examination of loan performance after delinquency intervention, borrower behavior, innovations in loan servicing/loss mitigation and developing an economic foreclosure forecasting model.
- **Support to local/regional Foreclosure task forces/coalitions** – Technical assistance and small capacity-building grants to local groups responding to the foreclosure crisis. Since 2005 over \$2.5 million granted to nonprofits.
 - NeighborWorks Center for Foreclosure Solutions is involved in State, local and regional efforts in the following locations: **Ohio, Maryland, Illinois, Georgia, Missouri, Massachusetts, and Wisconsin.** We are actively working with groups in **California, Texas, South Carolina, New York, New Jersey, Alabama, Florida, Connecticut, Pennsylvania, Michigan, Tennessee, Arizona, and Washington State, Kansas.** We are also in conversation with groups in Nevada, Arizona, Oklahoma, Iowa, and Kentucky. We have NW groups co-branding the ads in additional states like Oregon, Maine, Mississippi and Louisiana. We are running the ad campaign in all fifty states

- **Training** – The NeighborWorks Center for Homeownership Education and Counseling has developed 5 courses: Combating Predatory Lending, Innovative Solutions to Combating Mortgage Defaults, Beginning to Intermediate Foreclosure Prevention and Advanced Foreclosure Prevention; and a 5-day Foreclosure Counseling Certification Course to debut in December in Portland, Oregon.
 - In 2006 we offered **23** foreclosure and delinquency trainings for housing counselors
 - In 2007 we offered **49** foreclosure and delinquency trainings for housing counselors
 - Cumulatively in **2006 and 2007, 2,429** housing counselors have completed foreclosure and delinquency courses
 - In 2008 we plan on offering **109** foreclosure and delinquency courses through our National NeighborWorks Training Institutes and placed-based sessions, with over **4,300** people completing the courses

- **Industry Convener** –Examination of the foreclosure crisis from the industry perspective, together with 23 partners: *American General Financial Services, a member of AIG, Inc., Bank of America, Barrett Burke, LLP, Citigroup, Countrywide Home Loans, EMC Mortgage, Fannie Mae, Freddie Mac, GE Money, GMAC ResCap, Housing Policy Council, HSBC– North America, IndyMac, JPMorgan Chase, LaSalle Bank, Mortgage Bankers Association, National City Mortgage Co., Ocwen Loan Servicing, LLC, Option One Mortgage, State Farm Insurance, SunTrust Banks, Inc., Washington Mutual and Wells Fargo Home Mortgage.*

- **Outreach to Re-setting Borrowers** - Through analysis of mortgage origination documents, developing targeted outreach to those most vulnerable to rate re-set.

- **Responsible Mortgage Products** - Despite the spike in mortgage delinquencies, homeownership is still a viable asset accumulation strategy for some distressed borrowers if correctly financed. In cooperation with the mortgage lending industry NeighborWorks is working to develop a suite of mortgage products, including an innovative refinance product and an emergency loan program.

- **Non-Profit Mortgage Origination Platform** – Development of an automated loan origination, underwriting and decisioning platform in cooperation with Neighborhood Housing Services of America. The E-commerce platform is available to all nonprofit organizations who are interested in building loan origination capacity.

- **National Non-Profit Foreclosure Coalition** - NeighborWorks America is currently forming a national non-profit foreclosure coalition which will assist in coordinating and leveraging the efforts of all national non-profits invested in working on the foreclosure crisis.

- **Legal Resources for Borrowers in Distress** – Many borrowers in financial distress would benefit from accessing reputable legal assistance. NeighborWorks America is working to streamline legal assistance for borrowers in need of legal advice.

- **REO Disposition** – The impact of the foreclosure crisis cuts across the lender, the family and the community. NeighborWorks America is developing a model by which REO property can be strategically returned to market, and targeted to a pipeline of mortgage-ready consumers.

- **Outreach to Attorneys General** - In our efforts to address the foreclosure problem through a multi-pronged, multi-state approach, NeighborWorks America has reached out to the National Association of Attorneys General (“NAAG”) to discuss development of a coordinated plan to support the NeighborWorks America/Hope hotline efforts. NAAG includes the Attorneys General of the 50 states and the chief legal officers of the District of Columbia and the Commonwealth of Puerto Rico.

Chris Toth, Acting Executive Director, recently expressed interest in supporting NeighborWorks America's efforts to solicit the assistance of the various State Attorneys General, nonprofit legal aid groups and bar associations to provide legal services to hotline callers who may be the victims of predatory loans at the point of loan origination and/or foreclosure "rescue" scams. NeighborWorks hopes to meet soon with Mr. Toth to propose a framework, modeled after a program developed by the Massachusetts Attorney General's office, that could be replicated in other jurisdictions experiencing high foreclosure rates and the aforementioned related problems.