



Statement of

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Communities in California**

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People of Color”**

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Chairman Torrico and members of the Assembly Select Committee, I am Faith Schwartz, Executive Director of the HOPE NOW Alliance. I appreciate the opportunity to appear before you today to talk about what the members of the HOPE NOW Alliance are doing to help at-risk homeowners stay in their homes and avoid foreclosure during this challenging time. I will discuss our work with the President's Home Affordable Modification Program (HAMP), servicers efforts on other loan workouts, our in-person outreach efforts across the country, and upgrades to the HOPE NOW website making it more useful for homeowners and housing counselors.

The HOPE NOW Alliance ("HOPE NOW") is a broad based industry and non-profit alliance with membership that includes housing counselors, mortgage servicers, investors, and other mortgage market participants. There are currently 46 members of HOPE NOW, including national HUD intermediaries, major mortgage lenders and servicers, Fannie Mae, Freddie Mac, and mortgage industry trade associations. Through unified, coordinated efforts, HOPE NOW members are reaching and helping as many homeowners as possible to maximize the preservation of homeownership and minimize foreclosures.

Many HOPE NOW servicers are participating in the Obama Administration's Home Affordable Modification Program ("HAMP"), and the Alliance itself has worked consistently with our partners like the GSEs and the Administration in implementing and improving the HAMP program. HOPE NOW and its members are working to implement HAMP as effectively as possible as it is an important tool to prevent foreclosures.

HOPE NOW servicers continue to make dramatic on-going progress in reaching and helping borrowers. In addition to HAMP modifications, HOPE NOW servicers provide other modification and workout solutions for homeowners in difficulty who do not qualify for HAMP. HOPE NOW and its partners are continuing outreach events for borrowers to receive face-to-face assistance from servicers and counselors, and we have a special project to develop a web portal for counselors and servicers to streamline the submission of homeowner HAMP applications.

Current Conditions

Before I detail the efforts of HOPE NOW and its members, I want to provide a brief overview of the current conditions of the economy. The unemployment level, mortgage delinquencies, and the increasing number of homeowners who have negative equity in their homes are important to understand and keep in mind when looking at the efforts and challenges faced in loan modifications.

According to Core Logic, 10.7 million (23%) of all U.S. mortgages have negative equity; in California alone that number is 2.4 million. This means there are millions of homeowners who owe more on their house than the house is worth. This is a serious

issue, and due to certain program requirements, several modification programs are unavailable to these homeowners. Of even more concern is that, according to the Department of Labor, over 7.3 million people have lost their jobs since December 2007.

According to HOPE NOW's data, in October 2009, 2.7 million homeowners are 60 days or more past due on their mortgage. In California, that number is over 474,000 homeowners. It is important to distinguish between foreclosure starts and foreclosure sales as less than 1 in 2 homeowners who start the foreclosure process end up in a foreclosure sale. This indicates that significant efforts are being made to keep people in their homes. For example, in Q3 2009, there were roughly 566,000 foreclosure starts and 197,000 foreclosure sales. In California, there were 88,000 foreclosure starts in Q3 2009 and 44,000 foreclosure sales.

There is some good news. There is a comprehensive effort by servicers, non-profits, the Obama Administration, and state and local governments and organizations to try to contact borrowers and offer solutions. Workout solutions are outpacing foreclosures 4 to 1 thus far in 2009. That means, for every one borrower that goes to foreclosure, there are four at-risk homeowners receiving loan workouts. I will now speak to these outreach efforts in more detail.

Federal Home Affordable Modification Program (HAMP)

HOPE NOW and its members are supporters of and participants in President Obama's HAMP program. The HAMP program is an important part of an overall effort to help at-risk homeowners avoid foreclosure and stay in their homes. The Treasury Department reported on December 10 that servicers have initiated 697,026 HAMP trial modifications, made 31,382 permanent modifications, and have extended more than 1 million trial mod offers. This shows that there has been a significant effort made to utilize HAMP to prevent foreclosures and assist homeowners. This means that 728,408 troubled homeowners are making smaller, more affordable mortgage payments, saving an average of \$550 each month. Under the HAMP program, 148,350 California homeowners are making more affordable monthly mortgage payments. According to the Treasury Department, servicers are initiating more than 20,000 HAMP trial modifications every week.

We fully recognize that the focus now is to turn these trial modifications into permanent modifications. Mortgage servicers participating in the Federal Government's HAMP program are doing everything possible to reach homeowners currently in a trial modification and complete the packages to enable them to get a permanent modification. Treasury indicates that about 375,000 trial modifications will have completed the three month trial period with timely payments by the end of the year. Servicers have received complete documentation in about 30% of active trial modifications. Getting complete

documentation from homeowners who have a trial modification is one of the greatest challenges in making HAMP as effective as possible.

To help increase the number of people that are assisted under the HAMP program and increase the number of trial modifications that become permanent modifications, servicers have made a number of suggestions to Treasury to strengthen the program and enhance its implementation. These suggestions are included later in this statement.

Loan Workouts

It is also important to recognize, that in addition to HAMP, the mortgage industry continues to make significant efforts to help homeowners avoid foreclosure. One of the largest cooperative efforts is through the HOPE NOW Alliance. The latest data collected by HOPE NOW on workout solutions for homeowners shows that in 2009, 2.6 million homeowners received a mortgage workout that prevented a foreclosure. Overall, the industry has helped nearly 5.8 million homeowners avoid foreclosure since HOPE NOW started tracking workout data in mid-2007. In 2009 over 279,000 California homeowners received a mortgage workout solution, including over 174,000 repayment plans and just over 105,000 mortgage modifications.

In addition to HAMP modifications, lenders and servicers are helping homeowners through a variety of plans including proprietary bank/investor specific loan modifications, repayment plans, extended forbearance, as well as deed in lieu, and short sales. The industry is continuing to produce individualized workout solutions tailored to each borrower's unique situation.

Outreach

Mortgage servicers continue to have difficulty in receiving responses from distressed homeowners. Another critical task that HOPE NOW servicers, non-profits and other partners have focused on is contacting and helping borrowers in-person. Since 2008, HOPE NOW has held 55 outreach events in key housing markets, providing opportunities for homeowners to meet in-person with a housing counselor and/or their mortgage servicer. Mortgage servicers, municipal government agencies, Federal Reserve Banks, numerous regulators including the Department of the Treasury, housing counseling agencies, local foreclosure prevention task forces and other partners have come together at various locations across the country to help nearly 50,000 borrowers. HOPE NOW is currently planning approximately 30 outreach events across the country for 2010, and is working closely with Treasury and the HAMP program in all these events.

The HOPE NOW Alliance has worked closely with partners in the state of California to assist distressed homeowners. Our partners include the Federal Reserve

Bank of San Francisco, Los Angeles Neighborhood Housing Services, NeighborWorks America and its local representatives. The California markets where we have held outreach events are: Riverside (where we have held 2 outreach events), Anaheim, Stockton, Sacramento, Los Angeles (2 outreach events), Fresno, Bakersfield, and San Diego. In looking at our 2010 calendar, we are targeting California for more outreach events. The events are driven by a letter campaign from the servicers and some advertising the week of the event. HOPE NOW has helped just over 9,000 homeowners in these markets. The outreach events are meaningful in that homeowners have the opportunity to meet face to face with their lender and get assistance in creating a strategy for mortgage recovery.

All HOPE NOW mortgage servicers participate in a monthly direct mail campaign to make sure delinquent borrowers are aware of their options for assistance. Over 250,000 HOPE NOW outreach letters are mailed to delinquent borrowers every single month. Since November 2007, HOPE NOW servicers have mailed over 5.7 million letters to at-risk homeowners, achieving an 18% response rate, which is approximately 6 times higher than typical servicer-to-borrower mailings.

In addition, HOPE NOW continues to support and promote the Homeownership Preservation Foundation's Homeowner's Hope™ Hotline, 888-995-HOPE. The Hotline provides FREE counseling to homeowners, and is available 24 hours a day, 7 days a week, and 365 days a year. Since October of 2007, the Hotline has received over 3.2 million calls and counseled over 730,000 homeowners. The Hotline averages more than 5,500 calls per day, and in the past few weeks that number has risen to 8,000 calls per day.

Web Tools to Assist Homeowners

To better assist homeowners avoid foreclosure and receive a loan modification, the HOPE NOW Alliance has developed a variety of web tools for homeowners and housing counselors. Since late 2007, HOPE NOW's website, www.hopenow.com, is a useful resource for homeowners and housing counselors, containing information about how to reach mortgage servicers, what documentation is needed, and education about the different types of loan workouts. Additionally, a borrower can complete an online self assessment to determine if they meet the basic criteria to qualify for HAMP and provide detailed financial information that can immediately be sent to servicers to begin the process to obtain a workout solution.

To further assist at-risk homeowners, HOPE NOW has launched a web portal, "HOPE LoanPort", with six housing counselor agencies, six nationwide servicers, and a mortgage insurer who serves as a sponsor. This web portal allows HUD-approved housing counseling agencies to assist troubled homeowners by submitting a homeowner's full application for assistance for a loan modification under the HAMP program. Through

the HOPE LoanPort, counselors can submit all the homeowners' financial data and necessary documentations through secure lines directly to servicers. Housing counselors are able to track the progress of a homeowner's HAMP loan application. This program will help streamline the process of documenting and verifying where a delinquent borrower is in the process of qualifying for a HAMP modification by directly providing servicers with a completed application package. This web portal will also assist in converting HAMP trial modifications to permanent modifications. The expectation of the HOPE LoanPort is better communication between servicers, counselors, and homeowners, including elimination of lost documentation issues. The objective is to scale this to market, gain broad adoption, and work with strategic partners to leverage LoanPort.

In 2010, the HOPE LoanPort will be expanded to include several servicer and counselor participants by leveraging a neutral open architecture for information to be imported and exported to existing case management systems. This neutral portal will also provide market transparency to identifying where any challenges may exist in the system. The development of this portal was based on significant feedback from investors, servicers, and non profit counseling organizations who all have a vested interest in its success. We will continue to report on the progress the LoanPort achieves in enabling servicers and counselors to assist more homeowners with their loan modification applications.

Improvements to HAMP

The Administration's HAMP program is an important addition to the effort to help at-risk homeowners who want to stay in their homes and have an ability to do so with some assistance. However, it does have some significant flaws that can be addressed to convert more homeowners from trial modifications to permanent ones. Here are several important changes that servicers have suggested to the Treasury Department. A number of these suggestions were developed by the HOPE NOW servicer working group. A complete list has been provided to the Treasury Department.

- 1) **Streamline HAMP documentation.** The HAMP program has detailed documentation requirements for both homeowners and servicers. Some of these are necessary to maintain the integrity of the program, but others can be adjusted to enable to servicers to identify and process qualified homeowners more quickly. One significant change that should be made is to immediately adjust documentation requirements to streamline income verification for wage earners. Many homeowners in a trial modification are not completing the tax return requirement. ***Treasury should consider eliminating the requirement for tax returns for wage earners and allow use of most recent W-2 or two most recent pay stubs.*** This change could significantly advance modifications and underwriting timelines. Some servicers estimate an increase of 20-30% in

modification conversions. An alternative could be some form of *“implied approval” process where the homeowner is notified that if they make the trial payment they are authorizing the lender to request their tax return information. Non-wage earner homeowners should continue to provide tax returns to verify income.*

- 2) **Revise the re-default assumptions in the HAMP NPV Model.** The Net Present Value Model (NPV) should be updated to reflect the positive impact of key HAMP features such as trial plan performance and income verification. The current re-default assumptions are based on historical modification programs that do not have the same rigor as HAMP and are resulting in homeowners not qualifying for the program. HAMP modifications are based on full underwriting, and servicer data demonstrates that borrowers who are successful in completing a three month trial plan prior to permanent modification have significantly better re-performance rates. With this change, some servicers estimate that re-default rates will be about 30 to 50% lower than what is implied in the current NPV model.
- 3) **HAMP modification expirations:** A clear policy is needed for borrowers in HAMP trial modifications who (1) are current on their payments but fail to provide documents required by HAMP for a permanent modification; (2) are current but provided documents after the required time frame; or (3) made three payments but outside the required time period. If a homeowner is paying at the modified rate, policies should be established to deal with them rather than move to foreclosure. Servicers and the Obama Administration should discuss options to set a uniform approach prior to December 31, 2009.
- 4) **Establish responsive and scalable exception process.** Treasury should establish a well-staffed help line and on site support for servicers to review and approve underwriting exceptions. Borrowers’ personal and financial circumstances are highly individual and do not fit neatly into program rules that are quite prescriptive. Servicers are understandably reluctant to approve exceptions that are reasonable but outside the strict parameters of the program rules. Rapid response from Treasury would help these homeowners receive assistance.
- 5) **Clear communication and training for homeowners, counselors, servicers and advocates on HAMP process.** The Obama Administration should increase clear and simple communications to consumers, counselors, servicers and investors on HAMP requirements. The Administration should strengthen efforts to clarify who is eligible for HAMP. There continues to be confusion among homeowners and stress on servicers in determining HAMP eligibility.
- 6) **HOPE NOW LoanPort:** The LoanPort initiated by HOPE NOW has the potential to assist counselors and servicers to help more borrowers complete their

applications in a timely manner. Treasury should work with HOPE NOW members to scale use of LoanPort in order to enable housing counselors to assist borrowers in submitting complete applications for HAMP modifications. It will help address a critical concern- *no more lost documents and incomplete applications between counselors and servicers.*

- 7) **HOPE NOW outreach events:** The Obama Administration, HOPE NOW and other partners also can help more homeowners by holding events dedicated to collecting HAMP documentation from homeowner on existing trial modifications in high risk areas, and Treasury can assist servicers and counselors in a program to locate in key high risk markets for one to two months to make substantial impact on assisting homeowners in those areas.

These are a number of steps that can be taken to strengthen the HAMP program; others should be reviewed after the current drive to convert trial modifications is completed. Servicers tell us that no new program requirements should be made until these changes are in place.

Unemployment

Unemployment continues to be the greatest challenge complicating loan modification efforts. An unemployed homeowner can often not pay ANY debts. Even a HAMP loan modification cannot work if the homeowner has lost his or her income. Serious evaluation should be made on a product for unemployed borrowers. While under HAMP unemployed borrowers with extended benefits may be eligible for a modification, many unemployed homeowners will not pass the NPV test. Creating an investor and industry acceptable solution that assists homeowners who have a willingness and desire to stay in their homes while looking for re-employment is a high priority.

Recognize Other Efforts to Assist Homeowners

The HAMP program is an important effort that is assisting hundreds of thousands of homeowners. At the same time, servicers continue to assist hundreds of thousands more homeowners who do not qualify for HAMP through other solutions. These homeowners are avoiding foreclosure. HOPE NOW data shows that in 2009, 2.6 million troubled homeowners have received workouts that have prevented foreclosures. Going forward we would like to work with the Obama Administration on how HOPE NOW can report on non-HAMP modifications and workouts that are effectively assisting homeowners and preventing foreclosures.

Mr. Chairman and members of the Committee, the servicers, counselors and other partners in the HOPE NOW Alliance are dedicated to implementing HAMP and providing outreach and other assistance to troubled homeowners. HOPE NOW servicers

are continuing to focus on expanding servicer capacity, increasing efficiency, and enhancing execution of loan modifications. These efforts will continue into 2010 until the housing market stabilizes and homeowners in need have received needed assistance. Thank you for inviting me to testify before you today on HOPE NOW's ongoing efforts to assist at-risk homeowners in avoiding foreclosure. I am happy to answer any questions you may have.