

TESTIMONY OF
FAITH SCHWARTZ
ON BEHALF OF
THE HOPE NOW ALLIANCE

U.S. House of Representatives Committee on the Judiciary
Subcommittee on Commercial and Administrative Law

HEARING ON
Growing Mortgage Foreclosure Crisis: Identifying Solutions and Dispelling
Myths

Tuesday, January 29, 2008

Chairman Sanchez and Ranking Member Cannon, thank you for the opportunity to testify today on efforts to assist at-risk homeowners and prevent foreclosures. My name is Faith Schwartz and I am pleased to be here on behalf of the HOPE NOW Alliance to talk about the latest steps in this unprecedented joint industry and non-profit national initiative to reach out to at risk borrowers and find solutions to prevent foreclosures. I serve as Executive Director of HOPE NOW, and I am coordinating the efforts of all our industry and non-profit partners.

The HOPE NOW Alliance is broad-based collaboration between credit and homeownership counselors, lenders, investors, mortgage market participants, and trade associations. It was formed with the encouragement of the Department of the Treasury and HUD and builds on the efforts that Members of Congress, State Officials, and Federal Regulators have encouraged us to undertake. HOPE NOW is establishing a coordinated, national approach among servicers, investors, non-profit housing counselors, and industry participants to enhance our ability to reach out to borrowers who may have or expect to have difficulty making their mortgage payments and to offer them workable options to avoid foreclosure. The HOPE NOW Alliance is achieving real results in reaching more at-risk borrowers and in providing positive solutions that avoid foreclosure.

The members of the HOPE NOW Alliance recognize the urgency of this issue, and we are working to reach new milestones on a weekly basis. I will update you on these efforts which are intended to meet the goals we share with you and all Members of Congress – to help homeowners in difficulty and prevent foreclosures.

First, the Alliance is continuing to add members. As of January 29, we have 25 loan servicers in the Alliance who represent over 90 percent of the Subprime market and comprise a vast majority of the prime market. In addition, we have strong participation from respected non-

profits, led by NeighborWorks America and the Home Ownership Preservation Foundation, with its network of trained telephone counselors, and we are adding an expanding network of non-profits.

As one of the first steps to demonstrate industry commitment to results for HOPE NOW, on November 13, 2007 the loan servicers who are HOPE NOW Alliance members agreed to a Statement of Principles on reaching out and helping distressed homeowners remain in their homes. These principles were established to ensure that all borrowers can expect quality service and assistance when they contact their lender/servicer in the Alliance.

These principles are consistent with the calls by Members of Congress to the industry to expedite solutions for borrowers. The principles for HOPE NOW servicers are:

- HOPE NOW members agree to attempt to contact at-risk borrowers 120 days, at a minimum, prior to the initial ARM reset on all 2/28 and 3/27 ARM loan products.
- HOPE NOW members agree to inform borrowers of the potential increase in payment and terms of the loan, in an effort to determine if the borrower may face financial difficulty in keeping their mortgage current.
- HOPE NOW members agree to establish a single port of entry for all participating counselors to use by January 2008.
- HOPE NOW members agree to make available dedicated e-mail and fax connections to support counselor and consumer contacts by January 2008.

By establishing these principles, HOPE NOW members are improving the infrastructure needed to help more borrowers on a much larger scale. In addition to improving lender/servicer systems for working with counselors and borrowers, we must redouble efforts to reach out to at-risk borrowers.

You have heard it before, but it can't be emphasized too much: borrowers in trouble are reluctant to ask for help. It has been found that 50 percent of borrowers who go into foreclosure never contacted their servicer for help. We are working to drastically reduce that number and help as many troubled homeowners as possible avoid foreclosure.

In November, HOPE NOW servicer participants began a monthly direct mail outreach campaign to at-risk borrowers. This direct mail effort on the HOPE NOW letterhead is in addition to the thousands of letters and telephone contact efforts by individual servicers to their own customers.

In HOPE NOW's first direct mail effort in November, HOPE NOW members sent more than 215,000 letters to borrowers who are behind on their mortgage payments and who have not had contact with their servicer. The November letter provided a dedicated number to their servicer to call for help. As a result of these letters, more than 16% of borrowers responded by contacting their servicer, far more than the normal response rate of 2-3%. Borrowers who respond to the letters are getting help:

- 21% of those who received a letter in November improved or maintained their delinquency status by making at least one payment.
- 43% of those who responded to a letter by contacting their servicer engaged in active mitigation activity by the end of December and nearly half of these involved modifications.
- None of these borrowers had recently contacted their servicer prior to the HOPE NOW mailing.

In December, HOPE NOW repeated the direct mail campaign and this second letter, sent to 250,000 at-risk homeowners, contained not only the hotline of their servicer but also the 888-

995-HOPE Hotline, provided by the Homeownership Preservation Foundation. A third direct mail letter campaign began on January 22, and is sending several hundred thousand letters to at-risk borrowers who have not been in contact with their lender/servicer. We will report on the results of December and January letters as soon as that data is compiled.

The Homeowner's HOPE Hotline is a key component of the outreach and assistance effort for at-risk homeowners. The hotline directly connects the homeowners with a trained counselor at a HUD-certified non-profit counseling agency. This counseling service is completely free and is offered in English and Spanish. Those counselors have direct access to the lender/servicers through improved single points of entry that all HOPE NOW Alliance members have agreed to create.

We are asking Members of Congress and all concerned public officials to help publicize the HOPE NOW letter campaign and urge your constituents who receive a HOPE NOW letter to respond to it. More letters are being sent to at-risk homeowners right now and we will continue to gather data on the response rate of the mail campaign. The Homeowner's HOPE Hotline, 888-995-HOPE, is having a dramatic and positive impact for at-risk homeowners. The HOPE NOW Alliance will continue to expand the Hotline's capacity and promote it to reach more at-risk borrowers.

- Since the Homeowner's HOPE Hotline's inception in 2003, it has received over 373,674 calls which led to counseling for 146,197 homeowners.
- Calls are increasing monthly. In December, there were 93,794 calls to the Hotline that produced 15,462 counseling sessions.
- Through October 26, 2007, more than half of all homeowners counseled have been connected with their lender for assistance, and one quarter of all homeowners

counseled in the fourth quarter of 2007 were referred to their lender for a recommended workout.

- In 2007, the Homeowner's HOPE Hotline received over 245,000 calls.
- Those calls have led to more than 83,000 homeowners being counseled in 2007.
- That compares to 25,364 calls and 10,321 counseling sessions in all of 2006.
- Counseling sessions are rapidly increasing. Call volume has increased nearly 10-fold between first quarter 2007 and fourth quarter 2007.
- Lender/servicers are urging borrowers to call for counseling. Homeowners primarily hear about the Homeowner's HOPE hotline from their lender – up to 27% in fourth quarter.
- More homeowners with ARMS are calling – 48% of callers in fourth quarter of 2007, up from 34% in first quarter.

Publicity for the Homeowner's HOPE Hotline, 888-995-HOPE, continues to increase.

We are proud that the HOPE hotline provides a resource for free, non-profit counseling to any homeowner, anywhere in the country. President Bush, Treasury Secretary Paulson, and HUD Secretary Jackson have mentioned the Homeowner's HOPE Hotline several times and they have urged homeowners in trouble to seek help. Members of Congress, including Financial Services Committee Chairman Frank and Senate Banking Committee Chairman Dodd have also highlighted the HOPE hotline. We are pleased that a number of Members of Congress have provided a link to the HOPE hotline on their websites.

Anytime the HOPE hotline phone number is mentioned by public officials or given out on television or radio, calls to the Hotline to increase dramatically. We welcome that support and are continuing to work to expand the counseling network for the hotline.

The Homeownership Preservation Foundation, the HOPE NOW Alliance member managing the telephone network, is continuing to add trained, experienced counselors to the program to handle the increasing call volume from concerned homeowners. Tremendous progress has been made in just the last few months. This number is available to homeowners 24 hours a day, 7 days a week. The Hotline now has six agencies with 385 counselors, up from 64 at the beginning of 2007. We expect to have 400 counselors available by February 1. The agencies providing counseling are: Auriton Solutions; CCCS Atlanta; CCCS San Francisco; Novadebt; Springboard and Money Management International. The Homeownership Preservation Foundation is continuing to work to add more agencies and counselors in the near future.

NeighborWorks America, a congressionally-chartered non-profit with a national network of more than 240 community-based organizations in 50 states, is a leader in the HOPE NOW Alliance, and is actively providing in-person counseling services to consumers today, as are many other counseling groups. NeighborWorks has also been the leader in working with the Ad Council on the national advertising campaign for the Homeowners' HOPE hotline. Television, radio and print advertisements for the HOPE hotline are part of the AD Council campaign.

In addition, HOPE NOW is working to add more non-profit agencies to the effort. In December, NeighborWorks and other HOPE NOW Alliance members met with HUD and other HUD counseling intermediaries to review ways to include additional grass roots counseling groups. We are working to broaden the HOPE NOW effort to ensure it is a model that works broadly for industry and non-profits to maximize the ability to reach troubled borrowers.

Reaching borrowers to work with them on a workable solution is the key to helping them stay in their homes. The solutions will vary with the circumstances of the borrower. Prudent

and responsible loan modifications, repayment plans and other types of workout options are solutions that can both help borrowers keep their homes and minimize losses to investors. The HOPE NOW Alliance is committed to pursuing all viable solutions to help people stay in their homes. The HUD Intermediaries are also part of the alliance in that they are dealing on the ground with homeowners on housing counseling. We continue to work toward a model that longer term is inclusive to all qualified third party credit counselors, ensuring strong efficient communication portals to loan servicers.

Results

HOPE NOW members understand that a crucial aspect of our efforts is to measure their effectiveness and success with homeowners at-risk. To that end, we are actively gathering data to measure results in assisting homeowners, and we are reporting it to Congress and the public as it becomes available.

Just recently, initial results were released about data on the efforts of lender/servicers to assist borrowers with loan modifications and other options to help them stay in their homes and avoid foreclosures. Loan modifications and repayment plans are two successful methods to allow homeowners in difficulty to get back on track with their mortgage and keep their homes.

On January 17, the Mortgage Bankers Association, a key member and leader of the HOPE NOW Alliance, released a study by Dr. Jay Brinkman, MBA's Vice President of Research and Economics. Dr. Brinkman's study covers actions lenders took to assist borrowers in the third quarter of 2007. MBA's study found that the industry initiated more than 235,000 loan modifications and repayment plans for borrowers with all types of loans in the third quarter of 2007. An estimated 54,000 loans were modified to assist borrowers and another 183,000

borrowers received repayment plans. For subprime ARM borrowers, MBA found that 12,750 received loan modifications and 90,500 received repayment plans in the third quarter of 2007. For borrowers with subprime fixed rate loans, the study found that 15,000 borrowers received loan modifications and 30,000 repayment plans. In total, MBA found that more than 148,000 subprime borrowers were helped in the third quarter alone.

In addition to the MBA study, the HOPE NOW Alliance has collected initial data from nine of the largest servicers who are part of the Alliance on their efforts to assist subprime borrowers. These servicers are handling 4.1 million loans, or approximately 58% of the outstanding subprime loans as of September, 2007. This data covers the second half of 2007 and like the MBA data, shows a dramatic increase in the number of subprime borrowers who are being assisted. Based on HOPE NOW's initial data from nine major servicers, we estimate that the industry helped 370,000 homeowners with subprime loans the second half of 2007. This includes 250,000 formal repayment plans and 120,000 modifications. Thirty nine percent of delinquent subprime borrowers were assisted with loan modifications and repayment plans in the second half of 2007.

In addition, the data shows that servicers are rapidly increasing their efforts to assist their subprime borrowers in trouble: mortgage servicers were modifying subprime loans during the fourth quarter at triple the rate of the third quarter.

HOPE NOW will update and expand on this data as we receive more data from the twenty five servicers that are now part of the Alliance and are collecting their data for HOPE NOW.

Accelerating Loan Modifications

As you know, loan modifications are the form of assistance to borrowers that have received much attention in the media. Loan modifications are a solution for borrowers who have an ability to repay a loan, and the desire to do so and keep their home, but may need some help in meeting this goal. Loan modifications are not the only solution – refinancing, forbearance, and repayment plans provide borrowers options that may be more appropriate than loan modifications.

HOPE NOW members recognize that an enhanced process for identifying borrowers who may benefit from a loan modification and establishing a process for advancing those is an essential part of expanding the efforts that are already underway.

The American Securitization Forum (ASF) is the organization that created a framework to allow servicers to more efficiently modify loans that are securitized in the secondary market. This effort has had the strong encouragement of the Department of the Treasury, HUD, Congress, the federal banking agencies and state officials.

The focus of the effort has been to identify categories of subprime hybrid ARM borrowers who can benefit from workout solutions that can help as many homeowners as possible remain in their homes. The key is to find solutions which help borrowers but do not violate the agreements with investors who now own the securities containing these loans.

The American Securitization Forum (ASF) has worked with servicers and ASF's investor members to develop a triage system to identify in advance of a reset solution for borrowers who would qualify for refinancing, loan modifications, and other workout options. Servicers are working to implement this framework. Servicers need a system to offer options to borrowers in a manner that does not violate the pooling and servicing agreements with investors.

Servicers need to be confident that investors will accept and support more far-reaching loan modification and other workout solutions, and will not engage in a series of law suits which can only slow down the effort to assist targeted borrowers.

The framework that the American Securitization Forum has established covers securitized subprime adjustable rate mortgage loans, the so-called 2/28's and 3/27's that were originated between January 1, 2005 and July 31 2007, with an initial interest rate reset between January 1, 2008 and July 31, 2010. In other words, the framework will cover loans that have just begun to adjust. We believe that the ASF-established framework will help increase positive outcomes on loan modifications and repayment plans that will add to the strong initial results we have reported on today.

The ASF framework will help provide solutions for homeowners with these subprime hybrid ARMs who fall into three categories.

Refinancing:

The first category or segment of borrowers are those who are current, likely to remain current even after reset, or likely to be able to refinance into available mortgage products, including FHA, FHA Secure or industry products. Generally, the servicer will determine whether loans may be eligible for refinancing into various available products based on readily available data such as LTV, loan amount, FICO, and payment history. The servicer will facilitate a refinance in a manner that avoids the imposition of prepayment penalties whenever feasible. HOPE NOW will continue to work with the alliance to ensure all servicers have access to products and programs available largely in the market to refinance eligible borrowers.

Loan Modifications:

This second category or segment of borrowers includes those with good payment records but who will not qualify for refinancing; these borrowers will be targeted for streamlined loan modifications. These are borrowers who are unlikely to be able to refinance into any available product. These borrowers will be eligible for a fast track loan modification if the loan is secured as a primary residence and meets additional criteria regarding their upcoming reset and their ability to pay at the reset amount, using evaluating factors such as a comparison of their original and current FICO score and a Loan to Value test. Borrowers in this category will be offered a loan modification for 5 years under which the interest rate will be kept at the existing rate of the loan.

This fast track option does not in any way preclude a servicer from conducting a more individual in-depth review, analysis, and unique modification for a borrower to determine if a longer term modification would be appropriate.

The fast track framework allows the servicer to make these decisions:

- The borrower is able to pay under the loan modification based on his current payment history prior to the reset date.
- The borrower is willing to pay under the loan modification by agreeing to it after being contacted.
- The borrower is unable to pay (and default is reasonably foreseeable) after the upcoming reset under the original loan terms, based on the size of the payment increase that would otherwise apply, and based on current income if the borrower did not pass the FICO improvement test.
- The modification maximizes the net present value of recoveries to the securitization trust and is in the best interests of investors in the aggregate, because refinancing opportunities are not available and the borrower is able and willing to pay under the modified terms.

Loss Mitigation:

This third category includes loans where the borrower is not current and is not able to refinance into any available product. These are borrowers who are significantly behind in their payments and their situations need to be evaluated individually. It is especially important for us to reach this group of borrowers through efforts such as the HOPE NOW direct mail campaign and through the national advertising campaign for the Homeowner's HOPE hotline. For loans in this category, the servicer will determine the appropriate workout and loss mitigation approach on a loan-by-loan basis. Referrals from counselors if the borrowers contact the Homeowners' HOPE hotline will also be important. The approaches for these borrowers may include loan modification (including rate reduction and/or principal forgiveness), forbearance, short sale, short payoff, or foreclosure. Because these borrowers are already behind in their payments, and may face challenges such as loss of income or other issues, they require a more intensive analysis, including current debt and income analysis, to determine the appropriate loss mitigation approach. It is equally important to note that HOPE NOW is working toward helping all borrowers at risk, not just those subprime ARM borrowers eligible for fast track refinance or modifications. For homeowners in this status, servicers will need further communication and understanding of the borrowers' situation. We have had great assistance from housing counselors already with borrowers in this category and we continue to make contact with at risk borrowers our highest priority.

It is important to note that the framework established by ASF for a streamlined, scaleable solution for current borrowers facing a reset will also allow for servicers to give more detailed attention to at risk, hard to reach, delinquent borrowers. Servicers will be able to work closely with credit counselors and or homeowners to ensure all options are explored to avoid

foreclosures. The scaleable outreach, streamlined modification effort in no way precludes on going workout solutions for the highest risk, delinquent borrowers

We are committed to an aggressive system of contacting borrowers and finding solutions for them. As I stated, HOPE NOW is tracking and measuring outcomes. In addition to the data we have reported on today, we will measure trends in delinquencies and resolution outcomes, e.g. reinstatement, workout (repayment plans, modifications, short sales, deed in lieu, partial claims) and foreclosure. We want to provide consistent and informative data reports based on common definitions and to provide information that provides insights into the nature and extent of the current mortgage crisis and helps in the development of workable solutions that avoids foreclosure whenever possible.

Importantly, the measures we are developing will be available for both the national and state aggregate levels.

As our data collection initiatives mature and the data is validated, we will provide you state-level information. As I noted, our alliance is growing weekly. Our participating servicers have been engaged in developing standard definitions for key loss mitigation data. We are still in a fairly early stage of collecting and validating data. This is an enormous undertaking which will take time to develop fully. We are confident, however, that we will be able to deliver systematic information at the national and state level that will help measure what servicers are doing to resolve difficult situations and to assist homeowners.

Conclusion

The HOPE NOW Alliance and those working with it are committed to enhanced and on-going efforts to contact at-risk homeowners and to offer workable solutions. Our top priority is to keep people in their homes and to avoid foreclosures whenever possible. As I reported

today, our initial results indicate that 370,000 homeowners were assisted in the second half of 2007. We are working to help many more at-risk homeowners.

We need the active involvement of all Members of Congress to alert constituents that help is available when they contact either their lender/servicers or a non-profit counselor through the Homeowner's HOPE Hotline.

The HOPE NOW Alliance is a serious and committed effort that will continue as long as necessary until problems in the housing and mortgage markets abate. My testimony today includes initial, but real and significant results on the number of homeowners who have been helped. We will provide updates on our progress to Congress and other concerned policymakers in the coming weeks which we believe will continue to demonstrate the efforts being made to assist homeowners in distress and to prevent foreclosures whenever possible.

Thank you for inviting the HOPE NOW Alliance to testify today.