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"The State of the Nation's Housing Market"

Hearing before the U.S. Senate Committee on Banking, Housing, and Urban Affairs
Tuesday, October 20, 2009

Good morning, Chairman Dodd, Ranking Member Shelby and Members of the Committee. Thank you for the opportunity to testify at today's hearing on the state of the U.S. housing market and the progress the Obama Administration is making to stabilize it, as well as other Administration efforts to provide relief to homeowners and neighborhoods suffering from the affects of the foreclosure crisis.

Today, I would like to summarize the conditions of the housing market and discuss how our efforts—particularly Making Home Affordable (MHA)—are impacting the market, as well as outline the essential role the Federal Housing Administration (FHA) plays in ensuring the viability of our housing market and some of the steps we are taking to shore up its fiscal health for the long-term.

Housing Market Conditions

Certainly we meet at an important moment, as indicators continue to show signs that the housing market is stabilizing. In September, according to RealtyTrac, foreclosure activity fell for the second straight month, by 4 percent. Nationally, home price indexes have been on the rise for the past several months, as reflected in 18 of the 20 metropolitan markets covered by the Case-Shiller index. Inventories of unsold homes remain at high levels, but have been receding. In selected markets, realtors now report that many homes are selling for more than their asking price and new home sales are at their highest level since September 2008.

However, with the rental market showing increasing signs of distress, it is clear these numbers do not tell the whole story. Delinquency rates on multi-family property mortgages have moved up sharply since mid-2008, while property values continue to fall. Nationwide, in the second quarter of 2009 vacancy rates for rental properties rose to nearly 10 percent. This softness was sparked in part by an influx of new supply arising from the conversion of condominiums into rental properties and home foreclosures adding to the available housing stock, and it continues today as multi-family housing and other commercial real estate are among America's weakest market sectors.

This is a source of considerable concern at HUD, as growing vacancies and increasing delinquencies threaten not only the families and neighborhoods who live in these properties but also the lending institutions, particularly smaller regional and community banks, that have financed them and on whom these communities depend.

Further, this softness doesn't necessarily mean that housing is more affordable at the low end of the economic spectrum where recent hits to income have been the biggest. Indeed, the number of people facing high rental cost burdens remain extremely high in light of weaker incomes and higher rents due to increasing demand for the most affordable housing. In fact, the number of families earning between and $20,000 and $50,000 who now pay more than a third of their income for housing has increased by 20 percent in just the last three years. So, it's clear that the need for rental assistance for the most vulnerable families continues.

The connection of these indicators to what we're seeing in our overall economy is clear. The annual rate of real growth in the economy during the second quarter of this year was a decline of 0.7 percent – a significant improvement from the first quarter, when real GDP decreased 6.4 percent. Decreasing investment in residential construction reduced overall GDP growth by 0.67 percentage points compared to a reduction of 1.33 percentage points in the first quarter of 2009. What that means is that as the housing sector has begun to stabilize, our economy has as well – but we still want to see more progress from both.

That is why the Recovery Act is so important. Slowing the rise of unemployment—a leading cause of foreclosures—and creating jobs is critical to helping stabilize the single-family market, helping families meet their mortgage payments, and stimulating home sales. But it's also important to families at the lower end of the economic spectrum where the unemployment rate remains extremely high -- according to the Current Population Survey, more than double what it is for upper income families, at least partially offsetting any gains these families might have realized by the softer market.

Making Home Affordable: Progress to Date

Mr. Chairman, from its first day in office, the Obama Administration has made stabilizing our housing markets a top priority, with a particular focus on preventing foreclosures and mitigating the impact that foreclosed and abandoned properties have on neighborhoods, communities and the broader economy. Working with the White House, Treasury Department and other key Administration agencies, HUD has played a central role in these efforts.

One result of the comprehensive approach the Administration has taken is that interest rates have hovered around or below 5 percent for six months – allowing first-time homebuyers to enter the market and helping some 3 million homeowners refinance, putting as much as $10 billion of purchasing power in the hands of American households annually. For a family in a median-price house of $200,000, an interest rate saving of one percent on a 30-year mortgage rate saves that family $1,200 a year. That's money that goes to homeowners all over the country.

At the center of the Administration's response to the housing crisis is the Making Home Affordable Program, a comprehensive program to stabilize the housing markets by providing affordable refinance and modification opportunities for at-risk borrowers. The initiative includes the following two key components:

(1) **The Home Affordable Modification Program (HAMP**): HAMP is providing up to $75 billion dollars, including $50 billion of funds from the Troubled Assets Relief Program (TARP), to encourage loan modifications that will provide sustainable, affordable mortgage payments for borrowers. Importantly, HAMP offers incentives to investors, lenders, servicers, and homeowners to encourage mortgage modifications.

(2) **The Home Affordable Refinance Program (HARP):** HARP expands access to refinancing for families whose homes have lost value and whose mortgage payments can be reduced at today's low interest rates. It helps to address the problems faced by homeowners who made what seemed like conservative financial decisions three, four or five years ago, but who have found themselves unable to benefit from the low interest rates available today because the value of their homes have declined below that of their existing mortgages.

MHA has achieved clear success in a relatively short time period and there are indications that the housing market is stabilizing. Since the launch of the program in March, [64] servicers—representing more than 85% of the market—have signed contracts with the Administration. On October 8th, the Administration announced that servicers had exceeded the goal of beginning 500,000 trial modifications by November 1st, nearly a month ahead of schedule. Moreover, the monthly pace of trial modification are now exceeding the monthly pace of complete foreclosures which indicates that we've reached a turning point in our modification efforts.

This program is not only the largest single program of its kind, but unlike many previous loan modification efforts, the MHA program generates true affordability by ensuring that participating homeowners pay just 31 percent of their monthly income towards mortgage expenses.

In addition, since February there have been more than 3 million home loans refinanced, both as part of the HARP and more broadly as a result of historically low interest rates. By extending the HARP program to individuals with up to 125% loan-to-value (LTV) ratio, we assist underwater borrowers who were previously unable to take advantage of the refinancing program, particularly in areas of the country that have seen larger than average drops in home prices.

In addition to these MHA programs, earlier this year the Administration supported low mortgage rates more generally by increasing support for the Government-Sponsored Enterprises (GSEs), Fannie Mae and Freddie Mac, through an expansion of Treasury's Preferred Stock Purchase Agreements with the GSEs. To this effect, under HERA authority, we have committed up to an additional $200 billion in support to the GSEs, and Treasury has purchased over $200 billion in Agency securities on the open market.

Improving Servicer Accountability, Transparency and Responsiveness

Despite the significant progress under MHA, we recognize that more needs to be done to improve the responsiveness and accountability of servicers participating in the program so that additional homeowners facing, or at risk of, foreclosure are contacted and assisted in a timely manner. As the Chairman is well aware, many borrowers who are interested in modifying or refinancing their mortgages under MHA have experienced difficulties in contacting the servicers of their loans or obtaining information from the servicers. Others, having made contact with servicers, have found it difficult to shepherd their applications through the process, with instances of lost application materials, changing personnel and delays in response times.

Indeed, HUD has played a lead role in pressing the servicers to do more. We have put pressure on servicers to ramp up their efforts. For instance, Treasury Secretary Geithner and I sent a strong letter to the CEOs of all participating servicers on July 9, calling upon them to devote more resources to the program, and requiring each servicing entity to designate a senior official to serve as a liaison with the Administration and work directly with HUD and Treasury on implementation of all aspects of MHA.

At a meeting on July 28, servicers committed to significantly increase the rate at which they were performing loan modification and agreed to the set a goal of beginning 500,000 trial modifications by November.

On October 8th, Administration officials and servicer CEOs met to assess the progress under MHA and discuss improving servicer efficiency and responsiveness to borrowers during the modification process. The discussion also included working with servicers to set more exacting operational metrics to measure the performance of servicers, including evaluating the time between applying for a modification and receiving a final decision and average time to pick up incoming borrower calls. The HAMP guidelines require all borrowers to be screened for HAMP eligibility prior to any foreclosure sale. If a consumer is deemed eligible for HAMP, the servicers have agreed to explore mechanisms for reducing foreclosure fees that accrue during the foreclosure process.

We have made significant progress in reaching implementation objectives outlined during our July 28 meeting, including:

- Administration began publicly reporting servicer-specific performance under the program on August 4. While this data shows a wide range in servicer performance, we are already seeing evidence that the “peer pressure” being created by a publicly available scorecard has motivated servicers to ramp up their efforts.

- Administration will require servicers to report on more exacting operational metrics to measure the performance of the program.

- On July 28, the Administration asked Freddie Mac, in its role as compliance agent, to develop a "second look" process pursuant to which Freddie Mac will audit a sample of MHA modification applications that have been declined. This "second look" process began on August 3, and is designed to minimize the likelihood that borrower applications are overlooked or that applicants are inadvertently denied a modification. In addition, the program is examining servicer non-performing loan (NPL) portfolios to identify eligible borrowers that should have been solicited for a modification, but were not.

MHA Program Improvements

As always, we are committed to improving MHA performance – by ensuring homeowners have the information they need and that servicers have the tools and resources they need to process applications and make these modifications permanent.

On October 8, the Administration announced the issuance of a new Supplemental Directive on streamlining MHA application documents which provides another resource to make process easier and more straightforward for borrowers. The Directive: (i) creates a standard HAMP Request for Modification and Affidavit form that incorporates borrower income and expense information, the existing Hardship Affidavit and portions of the existing Trial Period Plan, (ii) updates and simplifies income documentation and verification requirements, (iii) allows for the conversion of the current trial period plan to a notice that does not require a borrower signature, and (iv) standardizes borrower response timeframes applicable to completed HAMP requests. Pursuant to the supplemental directive, within 10 days of receipt of financial information verbally or in a completed Request for Modification Affidavit, the servicer must acknowledge the borrower’s request for HAMP participation in writing. And within 30 calendar days following the servicer’s receipt of all required documentation, the servicer must complete its evaluation of borrower eligibility and notify the borrower of its determination in writing.

The Administration is developing an application portal through the MakingHomeAffordable.gov website. Over the coming weeks, borrowers will be able to find all the necessary resources to complete a HAMP application, and eventually they will be able to apply on line through the website, and check the status of their applications. Borrowers will soon be able to obtain all application forms from the website so that they can be sure they are providing the servicer with the required documentation. Soon thereafter, borrowers will be able fill out application documents on line, and submit applications to their servicers via email. Eventually borrowers will be able to obtain ongoing information about application status until the modification is approved or denied. The standardized nature of the portal will help to provide a clearer, more consistent format for processing borrowers and help to successfully move more loans from trial to official modification status.

The Administration understands the concern that many consumers and counselors are not given adequate reasons for rejection from the program. As a result, we have established denial codes that will require servicers to report the reason for modification denials in writing, both to Treasury and to borrowers. Servicers will be required to send borrowers denial letters containing the reason that the modification was not approved in plain language. Moreover, in the denial letters, borrowers will be provided with a phone number to contact their servicer in order to obtain additional details about the inputs used in making the modification decision. This will give borrowers an opportunity to call and verify that that servicers evaluated their application based on accurate and correct information.

Reaching Troubled Borrowers

We have launched a consumer focused website, www.MakingHomeAffordable.gov, with self-assessment tools for borrowers to evaluate potential eligibility in the MHA program. This website is in both English and Spanish and has had well over 34 million page views.

We have worked with an interagency team to establish a call center for borrowers to reach HUD approved housing counselors, so that they are able to receive direct information and assistance in applying for the HAMP program.

Working closely with Fannie Mae, we have launched an effort to hold foreclosure prevention workshops and borrower outreach events in cities facing high foreclosure rates across the country. These foreclosure prevention events include counselor training forums where representatives from Treasury, Fannie Mae, HUD and other agencies provide information and training to local housing counselors and non-profit groups, leveraging local resources to expand the reach of the HAMP program. We had visited 10 hard hit markets by October 1, and will continue our outreach efforts throughout the fall and the year to come.

HAMP has made significant progress in reaching borrowers at risk of foreclosure. However, much more remains to be done and we will continue to work with other agencies, regulators and the private sector to reach as many families as possible.

FHA: Essential to the Viability of our Housing Markets

At the same time MHA has helped 500,000 families keep their homes, FHA has protected many more homeowners from foreclosure through its loss mitigation programs. Indeed, last year, more than 500,000 families were assisted through forbearance, partial claim, loan modification, pre-foreclosure sale, and deed-in-lieu of foreclosure among others. That's in part because servicers of FHA-insured loans are required to notify delinquent homeowners about the options available to help them make their monthly payments and take such steps before initiating foreclosure proceedings. As a result, we expect as many as a half million families will be assisted in 2009 through benefits provided by FHA insurance, bringing the total number of homeowners assisted by FHA to over a million.

In addition, FHA is playing a critical role in the housing market and our economy right now – insuring a third of the home-purchase mortgage market and 80 percent of its purchase loans are for first-time homebuyers. But as this Committee knows, an independent actuarial review is expected to predict that FHA's capital reserve ratio will fall below two percent.

Based on current projections and absent any catastrophic home price decline, FHA will not need to ask Congress and the American taxpayer for extraordinary assistance – there is no need for any "bailout." Combined, FHA's Reserve Receipt Account and Mutual Mortgage Insurance Fund hold more than $30 billion in cash reserves.

However, in light of the severe decline in house prices, overall performance of the economy, and future housing price projections, FHA expects higher net losses than previously estimated on outstanding loan guarantees which, combined with stresses accounted for in prior reviews, will drive the ratio below two percent.

I should note, however, that the independent actuary expects this drop in the capital reserve ratio to be temporary – and to return above two percent within the next two to three years, even if FHA were to make no policy changes at all. That's because FHA stuck to the basics during the housing boom: 30-year, fixed rate traditional loan products with standard underwriting requirements. It only insures owner-occupied residences and has never insured exotic subprime, Alt-A, or "no-doc" mortgages. It's precisely this responsible approach that has allowed FHA to limit losses during this economic crisis and fulfill its mission of providing safe opportunities for homeownership to those who can afford a home.

Still, we are committed to ensuring the agency takes every step possible to remain financially healthy for the long-term -- improving portfolio analysis and management, tightening risk controls, and overhauling targeting and monitoring practices. Indeed, FHA has made more significant credit policy changes in the past few months than FHA has in decades, bringing on new leadership with broader and deeper knowledge and skills and is in the process of hiring a Chief Risk Officer.

And with Congress's help, we are working to modernize FHA's information technology systems, so that it can develop a set of commonly-used fraud detection tools and a fully-automated underwriting system that helps us focus our attention on the loan files that are most likely to contain serious deficiencies.

Announcements – HFA Assistance and Hope for Homeowners Guidance

While there can be no doubt that the housing market is on the mend, work still remains to build on this initial promise.

I am announcing that that the Administration is providing critically needed assistance to state and local housing finance agencies (HFA's) and their efforts to aid distressed homeowners, stimulate first-time home-buying, and provide affordable rental homes. Since HFAs are key players in making homeownership possible for hardworking families who otherwise would not be able to buy or remain in their homes, this initiative is a logical part of the Administration's overall support for the housing market, which has included the First-Time Homebuyer Tax Credit, and our support for low interest rates and liquidity through the FHA and the GSEs. The two initiatives are designed to address challenges facing HFAs, including lack of Financing for New HFA Housing Bond Issuance and lack of Liquidity to Support State HFA Variable Rate Debt Obligations.

HFAs are located in all 50 states and have been reliable sources of flexible, affordable mortgage money for lower-income first-time home buyers. HFAs have made approximately 3 million families first-time homeowners, and add another 100,000 families each year. HFAs also play a key role in HUD's efforts to promote expanded access to affordable rental housing through the HOME Investment Partnerships Program, Section 8, and the Low Income Housing Tax Credit. HFAs and their partners have produced nearly 2 million affordable rental homes, financing an additional million affordable rental homes with Housing Bonds. At a time when we need it most, HFAs add another 150,000 homes to our country's affordable rental housing inventory each year.

In light of their strong track record and considerable capacity, last year under the Housing and Economic Recovery Act (HERA), Congress allowed HFA to refinance loans and provided HFAs with $11 billion in new Housing Bond authority, to be available through 2010 to finance affordable single-family and multifamily mortgages. Unfortunately, HFAs have not been able to translate these additional resources into expanded housing opportunities in this time of expanded housing need. The health and viability of many HFAs have been jeopardized by the economic crisis. State and local HFAs have experienced a number of challenges, including: a lack of liquidity support, credit and cash flow concerns, and an inability to issue new bonds to fund single- and multi-family loans even though the bond cap was increased.

Given the critical role HFAs play, the Administration, together with the Federal Housing Finance Agency (FHFA), Fannie Mae, and Freddie Mac, has developed a set of programs to maintain the viability of HFA lending programs infrastructure. The new HFA initiative includes both a New

Issue Bond Program (NIBP) and a Temporary Credit and Liquidity Facility (TCLF) Program for existing bonds. These programs will generally be available to all HFAs who meet eligibility criteria. To minimize cost to the taxpayer, the HFA initiative includes a range of risk sharing features and a pricing structure that encourages HFAs to find alternative private market solutions as soon as possible.

I am also announcing that we have finalized the Hope for Homeowners (H4H) program guidance which provides instructions to lenders about the program. In keeping with changes made by Congress in the "Helping Families Save Their Homes Act of 2009," this is a critical first step toward revamping an important component of the Administration's plan to stabilize the housing markets – providing an additional option to underwater distressed borrowers seeking to save their homes and preserve equity through principal write-down and refinance. As the program goes online, we will closely monitor its progress and continue working with Congress to ensure its success going forward.

In addition, I am also aware of the strong support in Congress for doing more to support the housing market, including extending the First Time Home Buyer Tax Credit beyond 2009. At the same time, I am mindful that these proposals can be very expensive, especially at a time of significant budget deficits. I can assure you the Administration will work with Congress to fashion appropriate and effective home buyer incentives, mindful of both their benefits to stimulating new demand and their costs to the American taxpayer.

Preventing Another Crisis

Let me conclude by saying that helping to prevent foreclosures through Making Home Affordable is one way to address the housing crisis, but there are other ways we can help the market recover as well. That's one reason President Obama is working to reform our nation's health care system. With health care costs the leading cause of personal bankruptcies—with some estimates finding that almost half of all foreclosures are caused in part by financial issues stemming from medical costs—reform is an important part of stabilizing the housing market.

And of course, we look forward to working closely with this committee to modernize our financial system. Critically important to us at HUD is the creation of a Consumer Financial Protection Agency that will protect American families who buy financial products and services every day – from mortgages to credit cards. The need is clear to set clear rules of the road for consumers and banks, including requiring brokers to look out for the interests of hardworking Americans if they give advice about mortgages.

This is a top priority for the Administration – and I know it is for you as well, Mr. Chairman. You have spoken powerfully about the central role consumers play in our economic growth and the need to build a strong foundation of protections for consumers. We agree – and look forward to working with you closely to do that through the creation of a strong Consumer Financial Protection Agency.

<u>Conclusion</u>

And so, thank you, Mr. Chairman, for the opportunity to participate in today's hearing and for your continued leadership – not only on these issues, but all your work to create sustainable communities. Whether it is our Choice Neighborhoods proposal to link neighborhood revitalization more closely with early childhood education—an issue on which you have long been the leading voice in Congress—or your Livable Communities Act to help towns and regions across the country better integrate their transportation, housing, land use, and economic development efforts, we are committed to working with you to build a strong, durable foundation for sustainable, inclusive growth.

Collectively, I hope the initiatives I have described today signal to you and to every family across the country that we believe, as you do, that a vibrant housing sector is essential to creating a geography of opportunity in America – where our children's choices and futures are never limited by their zip code. As always, the Administration stands ready to explore with Congress additional ways we can work together to make this shared vision of prosperity and opportunity a reality for every American.

With that, I am happy to answer any questions you may have.