



**Statement for the Record of
Kieran P. Quinn, CMB
Chairman, Mortgage Bankers Association
for the
Subcommittee on Economic Opportunity
Committee on Veterans' Affairs
United States House of Representatives
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Hearing on
"Subprime Mortgage Crisis and America's Veterans"**

Madam Chairwoman, Ranking Member Boozman and Members of the Subcommittee, I am Kieran P. Quinn, Chairman of the Mortgage Bankers Association (MBA).¹ I am pleased to have the opportunity to discuss the effects of the subprime mortgage situation on America's veterans, how we can work together to stabilize the mortgage market, help borrowers in trouble and prevent some of the current problems from occurring again.

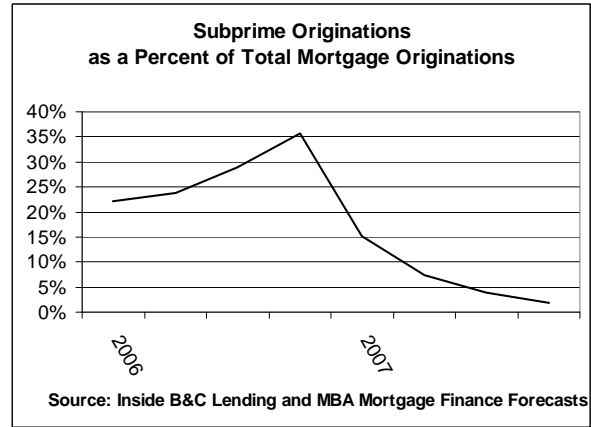
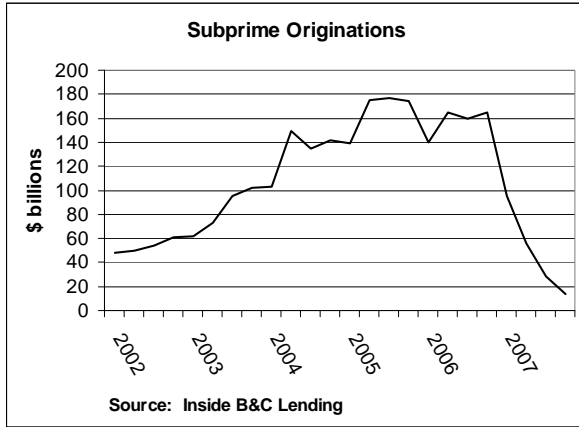
MBA shares your concerns for helping veterans achieve the dream of homeownership in responsible and sustainable ways. While we at MBA do not have access to specific statistics about how the subprime market transition is impacting service members or veterans, we believe it is valuable for you to know what the situation is in the market today and what mortgage companies are doing to address the needs of all consumers.

Current Market Conditions

Fundamentally, the demand for housing is driven by household formation and job creation. The single most important step Congress can take to support the housing market is to encourage long-term economic growth through sound fiscal and tax policy. Members of Congress should also recognize that housing and mortgage delinquencies react to economic conditions and are not a key driver of those conditions. States such as Ohio and Michigan have seen an exodus of jobs and population, stranding a significant amount of housing stock and lowering home prices in the region. States such as California, Florida, Arizona and Nevada experienced speculative home purchases that far outpaced the rate of household growth, causing home prices to retreat to levels of about two years ago. As long as economic growth continues, these Sunbelt states should be able to grow out of their problems. Other sections of the country face more long-term and intractable problems.

It is significant to note that subprime lending has already essentially stopped, due entirely to the reaction of the world capital markets to how these loans are performing. While quarterly originations of subprime loans hit a high of \$177 billion in the third quarter of 2005, and were as high as \$165 billion as recently as the fourth quarter of 2006, one year later they were down to \$14 billion in the fourth quarter of 2007, according to the publication, "Inside B&C Lending." This is a 92 percent decline. As a percent of total mortgage originations, subprime loans were 36 percent of MBA's estimated total origination in the fourth quarter of 2006, and were 2 percent of mortgage originations by the end of 2007.

¹ The Mortgage Bankers Association (MBA) is the national association representing the real estate finance industry, an industry that employs more than 400,000 people in virtually every community in the country. Headquartered in Washington, D.C., the association works to ensure the continued strength of the nation's residential and commercial real estate markets; to expand homeownership and extend access to affordable housing to all Americans. MBA promotes fair and ethical lending practices and fosters professional excellence among real estate finance employees through a wide range of educational programs and a variety of publications. Its membership of over 3,000 companies includes all elements of real estate finance: mortgage companies, mortgage brokers, commercial banks, thrifts, Wall Street conduits, life insurance companies and others in the mortgage lending field. For additional information, visit MBA's Web site: www.mortgagebankers.org.



Historically, the major cause of delinquencies and foreclosures is job-related, as can be seen in the upper Midwest. However, in the last year, delinquency and foreclosure rates have increased due to upward rate adjustments on Adjustable Rate Mortgages (ARMs) combined with falling home prices. With the recent decline in interest rates, more homeowners are receiving favorable mortgage rates, either through lessening the burden on ARM adjustments or more favorable refinance opportunities. However, housing price declines make it harder for borrowers to qualify for certain mortgages, such as a loan taken out with a 10 percent downpayment (90 percent loan-to-value, or LTV), for example, may now be a 100 percent LTV loan due to a 10 percent house price decrease.

Given increased delinquency and foreclosure rates, lenders are taking significant action to help borrowers.

HOPE NOW: Progress in Helping Struggling Homeowners

The HOPE NOW Alliance is a broad-based collaboration between credit and homeownership counselors, lenders, investors, mortgage market participants and trade associations, including MBA. The Secretaries of the U.S. Departments of the Treasury and Housing and Urban Development encouraged MBA to build on the efforts Members of Congress, state and local leaders and federal regulators urged us to undertake. HOPE NOW has established a coordinated, national approach among servicers, investors,² non-profit housing counselors and other 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 at-risk borrowers and in providing positive solutions that avoid foreclosure.

The Alliance is continuing to expand and add members who commit to specific efforts to reach and assist borrowers. As of February 25th, 27 loan servicers, representing over

² After a mortgage is made, the lender will often sell the loan to investors. A loan servicer acts as the intermediary between the borrower and the investor. The servicer's role is to collect payments, handle escrow accounts, forward principal and interest payments to the investor and deal with issues that arise from delinquency and foreclosure. A servicer is typically compensated 25 basis points (0.25%) of the loan balance for performing this service, or \$250 on a \$100,000 loan balance.

90 percent of the subprime market, were in the Alliance. In addition, we have strong participation from respected non-profits, led by NeighborWorks America and the Homeownership Preservation Foundation, with its network of trained telephone counselors. We are also expanding our network of non-profits every day.

One of the Alliance's first steps was to demonstrate a commitment to results by adopting a Statement of Principles to help distressed homeowners stay in their homes. These principles will help ensure all borrowers receive quality service and assistance when they contact their lender/servicer in the Alliance.

The following are the principles embraced by HOPE NOW servicers, which are consistent with calls for the industry to expedite solutions for borrowers:

- 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; and
- HOPE NOW members agree to make available dedicated e-mail and fax connections to support counselor and consumer contacts.

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 continue to increase our efforts to reach out to at-risk borrowers.

The most significant barrier to helping consumers is a persistent reluctance of struggling borrowers to respond to servicers' efforts to offer help. Historically, about half of borrowers who go into foreclosure never contact their servicer for help or reply to outreach efforts. Freddie Mac reported at the end of January that 57 percent of the nation's late-paying borrowers still do not know their lenders may offer alternatives to help avoid foreclosure.³ MBA is working to drastically reduce that percentage 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 contacts made by individual servicers to their own customers. In the 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 phone number for the individual borrower to use to call their

³ http://www.freddie.com/news/archives/corporate/2008/20080131_07ropersurvey.html

own servicer for help. As a result of these letters, more than 16 percent of borrowers contacted their servicer, far more than the normal 2-3 percent.

In December, HOPE NOW began a second wave of direct mail outreach to 250,000 at-risk homeowners, providing individual servicer hotlines as well as the 888-995-HOPE Hotline hosted by the Homeownership Preservation Foundation. A third direct mail effort was launched on January 22nd. HOPE NOW will report the results as data are compiled.

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

The Homeowner's HOPE Hotline 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. Some basic statistics about Hotline activity in recent months includes:

- Since the Homeowner's HOPE Hotline's inception in 2003, it has received over 323,904 calls, over 245,000 calls received in 2007;
- 124,357 homeowners received counseling after calling the Hotline, 83,000 occurred in 2007 and almost 20,000 in January 2008;
- Calls are increasing monthly. In December 2007, there were 93,794 calls to the Hotline that produced 15,462 counseling sessions;
- In January 2008, there were 82,569 calls that produced 19,558 counseling sessions;
- The counseling sessions produced results. 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;
- Counseling sessions are rapidly increasing. Call volume increased nearly 10-fold between first quarter 2007 and fourth quarter 2007;
- Lenders/servicers are urging borrowers to call for counseling. Homeowners primarily hear about the Homeowner's HOPE hotline from their lender;
- More homeowners with ARMs are calling – 49 percent of callers in the fourth quarter of 2007 were ARM borrowers, up from 34 percent in the first quarter.

Publicity for the Homeowner's HOPE Hotline continues to increase. We are proud that the Homeowner's 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 in public statements and have urged homeowners in trouble to seek help.

Members of Congress have also highlighted the hotline. Thirty-eight mayors from across the country recently created public service announcements for their local media markets urging borrowers to use the hotline. NeighborWorks is also working with the Ad Council on the national advertising campaign for the Homeowners' HOPE hotline, which includes television, radio and print materials. Any time the Homeowner's HOPE Hotline is mentioned by public officials or on television, calls to the hotline increase dramatically. MBA welcomes that support and continues to work to expand the counseling network for the hotline.

Members of Congress, in an effort to help their constituents avoid foreclosure, have asked on many occasions what they could do to help. The single most important thing Members and other community leaders can do to help people stay out of foreclosure is to publicize the HOPE NOW efforts, particularly the Homeowner's HOPE Hotline, 888-995-HOPE.

The Homeownership Preservation Foundation, the HOPE NOW Alliance member managing the telephone network, continues 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. The hotline now has 400 trained counselors assisting borrowers, up from 64 at the beginning of 2007.

NeighborWorks America, known formally as the Neighborhood Reinvestment Corporation, is a Congressionally-chartered non-profit organization with a national network of more than 240 community-based organizations in 50 states. NeighborWorks is a leader in the HOPE NOW Alliance, and with its partners, is actively providing in-person counseling services to consumers across the country.

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 grassroots counseling groups. MBA is working to broaden the HOPE NOW effort to ensure it is a model that works broadly for consumers, industry and non-profits to maximize the ability to reach troubled borrowers.

Servicers' ability to reach borrowers, either directly or through an intermediary, is the key to helping them stay in their homes. The solutions will vary with each individual borrower's circumstances. Prudent and responsible loan modifications, repayment plans and other types of workout options are solutions to 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.

Tools for Helping Struggling Borrowers

It makes good economic sense for mortgage servicers to help borrowers who are in trouble. Borrowers who are not able to stay current on their loans are very costly to the servicer. Servicers must forward principal and interest payments to investors as well as remit taxes and insurance payments, even if borrowers are not paying them. In

addition, significant staff resources must be employed to contact borrowers, assess the situation, work on repayment plans and other loss mitigation solutions, and if these efforts do not resolve the situation, initiate and manage the foreclosure process.

Informal forbearance plans are generally the first tool servicers employ to help borrowers. Servicers allow mortgagors to miss a payment, with the explicit understanding the payment(s) will be made up some time soon. If the situation is more involved than a short-term cash crunch due to temporary unemployment or illness, a servicer may turn to a special forbearance plan, which will typically combine a period of postponed or reduced payments followed by repayment of the arrearage over an extended time frame.

Loan modifications are the next level of loss mitigation options. A loan modification is a change in the underlying loan document. It might extend the course of the loan, change the rate, change repayment terms or make other alterations. Similarly, a servicer may attempt to refinance the delinquent borrower into a new loan. Loan modifications are one solution for borrowers who have an ability to repay a loan, and have the desire to keep their home, but may need some help in meeting this goal because the current loan terms are not sustainable for that borrower.

HOPE NOW members have worked aggressively to make all of the available tools as efficient as possible. Lenders and servicers worked diligently with the American Securitization Forum (ASF) to create a framework to more readily modify certain at-risk loans securitized in the secondary market. This effort has received the backing of the U.S. Departments of the Treasury and HUD, many Members of Congress, the federal banking agencies and state and local officials.

The focus of the effort has been to identify categories of current subprime hybrid ARM borrowers who can be streamlined into refinance or modifications. MBA believes the ASF-established framework will add to existing efforts to assist distressed borrowers. 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 ASF has worked with servicers and investors to implement a system which identifies, in advance of loan resets, borrowers who would qualify for refinancing, loan modifications or other workout options. To ensure investors accept and support far-reaching loan modification and other workout solutions, this system cannot violate pooling and servicing agreements with investors. The goal is to minimize the risk of legal action by investors against servicers who help borrowers.

The ASF framework covers securitized subprime adjustable rate mortgage loans, the 2/28's and 3/27's originated between January 1, 2005 and July 31, 2007 with an initial interest rate that resets between January 1, 2008 and July 31, 2010. In other words, the framework is for loans that have just begun to adjust. The ASF framework will help provide solutions for homeowners with these subprime hybrid ARMs who qualify for three different types of help: refinancing, modification and other loss mitigation efforts.

- *Refinancing:* One segment of borrowers is comprised of those who are current, likely to remain current even after reset, or likely to be able to refinance into available mortgage products, including the Federal Housing Administration (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, credit score 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 generally available in the market to refinance eligible borrowers.
- *Loan Modifications:* A second segment of borrowers is comprised of those with good payment records who will not qualify for refinancing for any variety of reasons, such as a drop in home equity or insufficient credit score. These borrowers will be targeted for streamlined loan modifications if the loan is a primary residence (i.e., not an investment or vacation property) and meets additional criteria. Borrowers in this category will be offered a loan modification under which the interest rate will be kept at the existing rate of the loan for five years. 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:

- Whether the borrower is unable to pay under the original loan terms after the upcoming reset and default is reasonably foreseeable, based on the size of the payment increase, and the current income if the borrower did not pass the credit score improvement test;
 - Whether the borrower will be able to pay a modified loan based on payment history prior to the reset date;
 - Whether the borrower is willing to pay a modified loan; and
 - Whether the modification will maximize 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 segment of borrowers is comprised of those for whom the loan is not current and will be unable to refinance into any available product. These borrowers are significantly behind in their payments before the loan resets and their situations need to be individually evaluated. 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. Approaches for these borrowers may include loan modification (including longer-term rate reductions, capitalization of arrearages and term extensions), forbearance, short sale, deeds in lieu of foreclosure or foreclosure. Because these borrowers are already behind in their payments, and may face challenges such as a 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.

Servicers, however, can only help borrowers who come forward for help. Borrowers must respond to servicers' notices and phone calls. At some point, the servicer has to assume the homeowner has no intention of paying off the obligation. It is also important to note the options for helping borrowers who purchased homes as investments are limited. During the housing boom of the last several years, there were many speculators and investors looking to profit from price appreciation. The strength of the American economy relies on the willingness of people to take risks, but risk means you do not always win. During this time, a majority of these properties were purchased to try to capitalize on appreciating home values or to use rents as a source of investment income, or some combination of both. With the downturn in the housing market, a number of these investors are walking away from their properties and defaulting on their loans. In the third quarter of 2007, 18 percent of foreclosure actions started were on non-owner occupied properties. Foreclosure starts for the same period for non-owner occupied properties in Arizona, Florida, Nevada and Ohio were at 22 percent.

HOPE NOW helps all borrowers, not just subprime ARM borrowers eligible for fast track refinance or modifications. The ASF framework for a streamlined, scalable solution for current borrowers facing a reset allows 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 scalable outreach and modification effort in no way precludes on-going workout solutions for the highest risk delinquent borrowers. By having this framework in place, human capital and other resources are able to focus on the cases that require the most attention.

Measuring Results

MBA recognizes results are the key to this national effort to assist at-risk homeowners. The latest results from HOPE NOW servicers on their foreclosure prevention efforts in the second half of 2007 are attached. This latest HOPE NOW data, released on February 6th, shows significantly more homeowners received assistance than previously estimated.

Fourteen HOPE NOW servicers responsible for more than 33.3 millions home loans (about 62 percent of both prime and subprime loans outstanding nationwide), as of

September 2007, provided the data. The latest report shows an estimated 869,000 homeowners were helped in the second half of 2007 through either formal repayment plans (652,000) or loan modifications (217,000).

During the same period, 283,000 foreclosure sales were completed. Based on 1,446,000 average monthly delinquencies of 60 days or more past due during the second half of 2007, 45.3 percent received a formal repayment plan, 14.8 percent received a modification and 19.7 percent resulted in a completed foreclosure sale.

The data for the second half of 2007 reveal 324,000 prime borrowers and 545,000 subprime borrowers were helped:

- 20.7 percent of prime borrowers received a modification;
- 27.5 percent of subprime borrowers received a modification; and
- 34.8 percent of subprime borrowers, during the fourth quarter, received a modification, indicating a rapid increase in the use of modifications as a loss mitigation solution.

In addition, information was collected on foreclosure activity and trends. These statistics are revealing. While there appears to be a large number of foreclosures initiated by servicers, only one-third of foreclosures initiated actually result in a completed sale. Frequently, borrowers do not respond to servicers' attempts to contact them until they receive their first legal action notice. HOPE NOW's borrower outreach initiatives are already increasing the number of borrowers who respond before a foreclosure action is initiated.

The latest state-level data from HOPE NOW servicers show that efforts to help borrowers are rapidly increasing. The trend in formal repayment plans is up in all states but more so in the states that experienced rapid and substantial increases, and now declines, in home prices. That is to be expected because of the more rapid increase in delinquencies in those states. However, it is clear in all states the upward trend in loan modifications completed is much greater than the upward trends in delinquencies and in formal repayment plans, which clearly indicates servicers increasingly are working with borrowers to modify the terms of their loans. The upward trend in loan modifications is much more pronounced in the states with substantial increases in home prices. We believe the upward trend in loan modifications and repayment plans will continue and more homeowners will receive the help they need to stay in their homes.

As you can see, we are tracking and measuring outcomes through HOPE NOW and other efforts. In addition to the data reported here, we are measuring trends in delinquencies and resolution outcomes (i.e. reinstatement, repayment plans, modifications, short sales, deeds in lieu of foreclosure, partial claims and foreclosure). We want to provide consistent and informative data reports based on common definitions and to provide insights into the nature and extent of the current mortgage crisis that will help in the development of workable solutions that avoid foreclosure whenever possible.

As promised at the start of HOPE NOW, as data collection initiatives mature and the data are validated, MBA is providing more detailed information nationally and on a state-by-state basis. As noted, the Alliance is growing weekly. Participating servicers have been engaged in developing standard definitions for key loss mitigation data. The data collection effort is an enormous undertaking, which will take time to fully develop and perfect. We are confident, however, to be able to deliver information at the state level to help measure what servicers are doing to resolve difficult situations and to assist homeowners.

Misinterpretation of Key Report Fuels Public Concern

On January 17, MBA released a study of actions lenders took to assist borrowers in the third quarter of 2007. The paper also discussed something known in the industry as the “Moody’s 1% Number.” In September 2007, Moody’s released a study suggesting the mortgage industry had only assisted one percent of the people who needed help. A later report in December showed an increase of this number to 3.5 percent.⁴ In that same report Moody’s made a much-overlooked but critical statement: “The ratio of loans that were modified or on a workout plan as a percentage of seriously delinquent loans active as of September 30th (60+ days), a meaningful barometer of the extent to which servicers are undertaking loss mitigation activity, was 24 percent.” Servicers had undertaken loss mitigation activity for nearly one in four distressed borrowers and this was before any of the streamlined modifications had begun or the HOPE NOW efforts had really expanded.

Despite this important statement, some continue to focus on the 3.5 percent number when Moody’s itself has made it clear the 24 percent number is the “meaningful” indicator. This is the case because not every subprime ARM borrower needs help; in the third quarter of 2007, according to MBA’s National Delinquency Survey, approximately 70 percent of subprime ARM borrowers were paying on time. The December 2007 Moody’s report itself reveals that more than half of the loans evaluated prepaid or refinanced before resets occurred. This population does not need loss mitigation assistance. Unfortunately this important fact is often overlooked and consistently underreported by the media.

Efforts to Serve and Assist Veterans and Service Members

Qualifying veterans and service members have access to favorable loan terms through the Department of Veterans Affairs (VA) loan program. This program offers veterans and service members 100 percent financing in exchange for a small funding fee (e.g. guaranty fee) which can be financed into the mortgage. The federal government provides this help to veterans and service members not by actually making the loan, but by providing a guarantee that protects the lender against losses in the event of foreclosure. The guarantee is a form of credit enhancement that allows lenders to provide 100 percent financing.

⁴ Various groups have used the 3.5 percent figure as a political rally cry despite the fact that this admittedly flawed indicator represents a tripling of loan modification activity since the September report.

Service members who are in active duty status also have critical protections available to them under the Servicemembers Civil Relief Act (SCRA).⁵ In particular, interest rates for mortgages taken out prior to active duty status are reduced or capped at six percent while the service member is on active duty. The interest rate differential between the note rate and the six percent cap is not deferred, but forgiven.

Moreover, SCRA prohibits foreclosure and eviction actions during the service member's period of active duty plus an additional three months. These are significant protections that recognize the importance of our service members' efforts in defending our country. These benefits are unique to active duty military personnel.

Legislative Efforts to Address Market Conditions

Congress has acted robustly to address challenges in the mortgage market. This hearing, along with over a dozen others in various Committees, has illuminated how the mortgage market works, recent failings in market operations and how Congress can address the issues. Congress has also worked with the Executive Branch and industry in creating and supporting the HOPE NOW initiative, which I discussed earlier.

MBA continues to believe transparency in the mortgage process needs to be improved to help borrowers understand, shop for and choose the loan to best meet their needs. We also believe a uniform national mortgage consumer protection standard for all homebuyers will simplify the process for borrowers and protect them, facilitate better enforcement against predatory practices and assist the smooth flow of global capital into the mortgage market.

Since last February, it has become clear that industry participants and policy makers needed to respond to the credit crunch and market conditions. In December, Congress passed important legislation extending the mortgage insurance deduction and providing tax relief for forgiven mortgage debt. Also last year, HUD launched the *FHASecure* program to help borrowers who have made their payments before a rate reset refinance into a FHA-insured loan.

Fiscal and monetary policy must also respond to the current weakness in the overall economy. Congress recently passed an economic stimulus which will help the market in two ways. First, it will stimulate the economy directly through payments to consumers and indirectly through tax changes. It will also help by temporarily raising the loan limits for investment by Fannie Mae, Freddie Mac and for FHA loans. This will result in a more stable housing system, particularly addressing the situation in high-cost states like California. Further, Congress should make clear what the rules of the game are, so the current market upheaval is not exacerbated by a rapid change in regulation. These include passage of a uniform national mortgage lending standard, regulatory reform of the housing government sponsored enterprises (Fannie Mae and Freddie Mac) and FHA modernization.

⁵ 50 U.S.C. App. 501 et seq.

Efforts that would serve to increase prices or push market participants out of the housing finance system, such as efforts to encourage more consumers to file for bankruptcy, should be avoided. In order for the market to change course, certainty must be realized by consumers, lenders and investors. With the possibility of major investor liability still on the horizon, secondary market participants and mortgage lenders will remain apprehensive of lending to all but borrowers with perfect credit. The longer these fears remain, the longer the national housing market will take to rebound.

Conclusions

MBA is pleased to have this opportunity to discuss the situation in the mortgage market and how we can help stabilize the market, assist those who are in trouble and how we can prevent today's problems from recurring.

In the midst of the concern for the market, it is important to keep in mind the benefits of homeownership. Homeownership makes American communities stronger, by giving families ownership interest in what is happening around them. Crime goes down and educational achievement increases. Owning your own home is still the best way to build, grow and maintain wealth in America today. As Congress wrestles with ways to address the market, we ask that the goal be to increase homeownership – in responsible and sustainable ways – and that Congress refrain from efforts that will make it harder for American families to achieve the dream of homeownership.

Thank you for the opportunity to present our testimony on this important issue.