

STATEMENT OF JOSEPH C. BATES  
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U.S. Department of Housing and Urban Development  
Field Hearing before the Committee on Financial Services  
United States House of Representatives  
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Good afternoon Chairman Frank and distinguished Members of the Committee. Thank you for the opportunity to testify today on the efforts made by the Department of Housing and Urban Development (HUD) in the areas of foreclosure prevention and intervention. The Administration and Congress have taken several measures to address the housing crisis, which I will outline in my testimony.

**FHASecure**

In response to the housing crisis, the Federal Housing Administration (FHA) expanded its programs to help more Americans facing foreclosure refinance into safer, more affordable mortgages. In August 2007, President Bush announced a new product called *FHASecure* for homeowners who fell behind on their mortgage payments after their initial interest rate reset. Since the inception of *FHASecure*, more than 330,000 families have refinanced with FHA and by the end of the year we anticipate helping approximately 500,000 families.

On July 14, 2008, HUD expanded *FHASecure* to provide additional assistance to borrowers with adjustable rate mortgages. *FHASecure* is now assisting families who have missed up to three monthly mortgage payments over the previous 12 months or have experienced temporary economic hardship, such as loss of overtime or medical needs. Like the HOPE for Homeowners program, which we are in the process of implementing, *FHASecure* encourages lenders to voluntarily write down outstanding subprime mortgage principal.

Homeowners can find out if they are eligible for assistance right now by obtaining information through any of the following options:

- Contact a local, HUD-approved housing counseling agency at HUD.gov;
- Contact the HOPE NOW Alliance at 1-888-995-HOPE; or
- Call FHA at 1-800-CALL-FHA.

**Increased Loan Limits**

In March of this year, as part of the bipartisan economic growth package, the President signed into law a temporary increase in FHA's loan limits through the end of this year, enabling even more families to purchase or refinance their homes with an affordable mortgage. These temporary loan limits, which go as high as \$729,750, are especially advantageous for high-cost areas such as California where FHA's traditional loan limit of \$362,790 prevented FHA from being utilized.

Thanks to the strong support of Chairman Frank and many members of the California congressional delegation, the recently enacted Housing and Economic Recovery Act makes permanent a new higher loan limit for high-cost areas of the country. Here in California, that means FHA will now be able to insure mortgages of up to \$625,000.

### **HOPE for Homeowners Program**

In addition to higher FHA loan limits, the Housing and Economic Recovery Act, which President Bush signed into law on July 30, further expands FHA's ability to provide targeted mortgage assistance to homeowners. The new HOPE for Homeowners program will continue FHA's existing and successful efforts to provide aid to struggling families trapped in mortgages they cannot afford. Under the program, certain borrowers facing difficulty with their mortgage will be eligible to refinance into FHA-insured mortgages provided their lenders agree to write down a significant portion of their outstanding principal.

The HOPE for Homeowners program gives FHA an additional \$300 billion in mortgage insurance authority. Under the program, principal balance and interest rates for eligible borrowers are reduced through refinancing into new, affordable FHA-insured loans based on current property values.

HOPE for Homeowners maintains FHA's long-standing requirement that new loans be based on a family's long-term ability to repay the mortgage. FHA only allows owner-occupants to be eligible for FHA-insured mortgages and borrowers must also meet the following eligibility criteria:

- Their mortgage must have originated on or before January 1, 2008;
- Their mortgage debt-to-income must be at least 31 percent;
- They cannot afford their current loan;
- They did not intentionally miss mortgage payments; and
- They do not own second homes.

While the program is still in its planning stage and key details continue to be ironed out, I'm pleased to report, Mr. Chairman, that the Board of Directors and staff to the four member agencies have been working around the clock on getting this program up and running, and we are on track to have it implemented by October 1. I believe the Department will be in a position to discuss many of the key components to the program at the oversight hearing you have scheduled for September 17.

### **Emergency Assistance for the Redevelopment of Abandoned and Foreclosed Homes**

The Housing and Economic Recovery Act also authorized \$3.92 billion in block grant funds to be spent on the redevelopment of abandoned and foreclosed homes and residential properties. The funds will be allocated to states and local governments using the following need-based criteria:

- 1) The percentage of foreclosed homes;

- 2) The percentage of homes financed by a subprime mortgage; and
- 3) The percentage of loans in default or delinquent.

All funds appropriated must help individuals and families whose income does not exceed 120 percent of area median income, with 25 percent of funds appropriated to benefit individuals or families whose incomes do not exceed 50 percent of the area median income.

HUD will announce each state's allocation, including specific community allocations, in late September. While it is premature to speculate how much the State of California and the communities in the Central Valley will receive, I think it is fair to assume that, given the high rate of foreclosure and subprime mortgages, California stands to get a significant share of these funds.

### **Housing Counseling**

Housing counseling is an essential part of any solution to the housing problem. Effective counseling can help existing homeowners stay in their homes, and help new homeowners stay out of trouble in the first place.

President Bush requested \$65 million for housing counseling in his Fiscal Year (FY) 2009 budget request. The Administration has increased funding for HUD's 2,300 approved housing counseling agencies by 150 percent since 2001, and \$50 million was approved for counselors in FY 2008. Another \$180 million went to the non-profit NeighborWorks this year to help prevent foreclosures.

The recently signed housing bill authorizes an additional \$100 million for NeighborWorks for foreclosure mitigation activities. The law also requires eligible recipients of the funds to identify and coordinate with non-profit organizations operating national or statewide toll-free foreclosure prevention hotlines.

### **California's Central Valley**

The HUD Sacramento and Fresno Field Offices are working with communities throughout California's Central Valley to address the rise in home foreclosures. We have built our response to the foreclosure emergency on two key principles: education and fostering collaboration between stakeholders.

In October 2003, the HUD Sacramento, Fresno and San Francisco Field Offices, with support from CPD/San Francisco and Single-Family/Santa Ana, helped establish the Northern California Housing Counseling Network. The network's mission is to promote professional development, education, collaboration, and advocacy among homeownership and housing counseling agencies to enhance their ability to empower individuals to become successful homeowners and renters.

Since the establishment of the Network, the Central Valley has experienced an increase in HUD-approved housing counseling agencies that have expanded counseling services in mostly rural areas and have competed successfully for HUD resources to fund the counseling services. In addition, 13 housing counseling agencies within the Central Valley successfully competed for

counseling funds made available by the congressional National Foreclosure Mitigation Counseling Fund.

Building on our positive experience working with the Network, the HUD Sacramento and Fresno offices joined local county-wide efforts to educate communities about how to prevent foreclosure of their homes; avoid fraudulent offers to help save their homes and, when foreclosure is unavoidable, to ease homeowners into alternate housing.

There are three local efforts with which the HUD field offices have been working are: the No Homeownership Left Behind initiative in the Fresno area; the Partners Promoting Homeownership in San Joaquin County; and the Sacramento Regional Partners in Homeownership. Each partnership focuses on developing communication tools to educate homeowners as well as renters about the various options of how to forestall or effectively address foreclosure activity. These communication tools range from posting information on their websites; distributing periodic newsletters; mailings to households receiving default notices to hosting community-based foreclosure workshops with counselors, elected representatives, lenders and servicers.

In addition, each of the HUD Field Offices actively encourage partners such as the housing counseling agencies, local government representatives and real estate professionals to participate in training opportunities, conferences and forums offered by the Federal Reserve, the State of California and HUD either through NeighborWorks or the Santa Ana Homeownership Center.

Thank you. I appreciate the opportunity to appear today and discuss these important issues.