Statement of

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Testimony before the

Committee on Government Oversight and Reform
Subcommittee on Domestic Policy
United States House of Representatives

Hearing on

"Is Treasury Using Bailout Funds to Increase Foreclosure Prevention, as Congress Intended?"

November 14, 2008

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Chairman Kucinich, Ranking Member Issa and distinguished Members of the Subcommittee,

My name is Tom Deutsch and I am the Deputy Executive Director of the American Securitization Forum (ASF).[1] I very much appreciate the opportunity to testify before this Committee again on behalf of the 330 member institutions of the ASF, including mortgage lenders, servicers and investors, regarding loan modifications and how the mortgage-backed securities (MBS) industry and government can work together to prevent avoidable foreclosures.

I testify here today with one simple overarching message—industry participants have been and will continue to deploy aggressive and streamlined efforts to prevent as many avoidable foreclosures as possible. But macro economic forces bearing down on an already troubled housing market are simply too strong for private sector loan modification initiatives alone to counteract the nationwide increase in mortgage defaults and foreclosures. In my testimony today, I will outline a number of ways that the industry and the government can work together to target relief to troubled homeowners, while simultaneously helping to restore capital flows into the U.S. housing markets.

Overview of Testimony

The testimony that follows addresses four principal topics:

1) Current economic and housing market conditions, and the challenges those conditions impose on efforts to prevent foreclosures via loan modifications;
2) The goals, progress and limitations of industry loan modification initiatives targeting securitized residential mortgage loans to date;
3) Additional efforts underway within the securitization industry to further facilitate and streamline the loan modification process; and
4) Perspectives on additional steps that we believe the federal government should consider to expand opportunities to modify and refinance troubled mortgage loans through the Troubled Asset Relief Program (TARP), to avoid foreclosures and to help stabilize the broader housing market.

Current Economic and Housing Market Conditions; Challenges for Loan Modification Initiatives

Economic and housing market conditions have significantly deteriorated over the last eighteen months, and that deterioration has intensified recently. The primary factors our members have

[1] ASF is a broad-based professional forum of over 330 member organizations that are active participants in the U.S. securitization market. Among other roles, ASF members include institutional investors, servicers, issuers, financial intermediaries, and professional advisers working on securitization transactions backed by all types of mortgage and consumer credit assets. ASF's mission includes building consensus, pursuing advocacy and delivering education on behalf of the securitization markets and its participants. Additional information about the ASF, its members and activities may be found at ASF's internet website: www.americansecuritization.com. ASF is an independent affiliate of the Securities Industry and Financial Markets Association (SIFMA).

identified that have combined to put severe strain on homeowners and drive rising delinquencies, defaults and foreclosures include:

1) unavailability of mortgage credit for refinancing opportunities;
2) declining home values;
3) high levels of non-mortgage credit outstanding (e.g., credit card, auto loan, other debt);
4) prevalence of 2nd liens; and
5) rising unemployment levels and reductions in income, making mortgage payments unaffordable.

While critically important and increasingly employed, industry-led loss mitigation initiatives, including loan modifications, are not a panacea for declining home prices, mortgage defaults and foreclosures. Loan modifications are a viable foreclosure avoidance option for only a subset of mortgage borrowers now at risk of default. In general, loan modifications are appropriate and can be effective only for borrowers who: a) cannot afford their current or future mortgage payment; b) wish to remain in the home and are capable of managing the broader responsibilities of home ownership; and c) can afford a reasonable mortgage payment as modified. Loan modifications cannot overcome situations in which a borrower does not evidence a desire to stay in the home, or cannot afford payments on the loan as modified, even with significant reductions in interest or principal payments. Unfortunately, an increasing number of borrowers share one or both of these characteristics. A brief examination of recent mortgage market dynamics helps to explain why this is the case.

As prices have declined over the last two years, approximately 1 out of every 4 mortgage borrowers now owes more on their homes than what those homes are worth (underwater mortgages). Although these value declines are clearly unwelcome, they ultimately do not increase the monthly payment obligations for borrowers and therefore do not affect the affordability of their mortgage obligations. As such, most of these borrowers continue to pay on time. Unfortunately, some borrowers choose to ignore their obligations and 'walk away' from their homes, resulting in a foreclosure. Similarly, as financial obligation ratios have reached an all-time high,[2] servicers are finding an increasing number of borrowers whose mortgage and consumer debts (such as credit cards and auto loans), even after significant mortgage modifications, simply are too high, given their incomes, to sustain their mortgage payments. These borrowers face challenges in meeting debt obligations that extend well beyond their mortgage. This may help to explain why some 30-50% of mortgage payment defaults proceed to foreclosure with no borrower response to servicer outreach via phone calls and mailings—even where some of those borrowers might otherwise qualify for a modification.

Many borrowers having difficulties meeting their payments on their primary mortgage also have a 'silent' second lien (in the form of a home equity loan or line of credit). Second liens are serviced separately and often times by a different servicer than that of the first lien. A recent study estimates that approximately half of 2006 borrowers with a securitized subprime first lien mortgage have a second lien exposed or hidden behind that first lien.[3] In addition to contributing to an increased debt load and low or negative home equity for borrowers, the existence of these

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[2] Loan Performance Data
[3] Loan Performance Data

second liens creates significant difficulties for servicers who might be considering modifying the first lien, especially in situations like a Hope for Homeowners (H4H) refinancing where the owner of the second lien is required to extinguish to allow the first lien to refinance. Also, servicers of first liens seeking to apply loss mitigation techniques, including interest and/or principal reductions, have to take into account the second lien. They cannot compel the second lien controlled by a different servicer to employ equal or greater loss mitigation strategies on the second lien as the first lien. Proper and efficient coordination of second liens has and is expected to continue to be a significant obstacle in expediting help for troubled borrowers.

We support changes such as one made in the Emergency Economic Stabilization Act (EESA) to the H4H program that allows the Department of Housing and Urban Development (HUD) to make payments "to any holder of an existing subordinate mortgage, in lieu of any future appreciation payments…"[4] Given the existing operational, legal and economic difficulties of extinguishing these second liens, the ability to provide direct payments rather than equity upside incentives will help expedite the process of appropriately clearing away second liens.

Even in situations where servicers successfully identify, grant and communicate a loan modification that meets a distressed homeowner ability to pay, up to 44% of borrowers have redefaulted after the lender has granted a modification concession.[5] As such, a redefault by a modified loan can expose the holder of that loan to even greater losses in a declining home price market.

Potentially the most troubling macro economic factor impacting the housing market today is the rapidly increasing levels of unemployment in America, which will continue to increase the rate of mortgage defaults and foreclosures. For example, Freddie Mac found that in June of 2008 45.5% of all delinquencies were due to unemployment or loss of income. Given recent announcements of additional job reductions across a wide range of industries and geographic regions, servicers are preparing for an even larger uptick in delinquencies due to rapidly rising unemployment levels. Especially in protracted economic downturns like our current one, a borrower who is laid off is not likely to find new employment that ultimately supports the same lifestyle and mortgage payment as his or her previous employment. In these situations, retention of the borrower's current home may not be sustainable even with an aggressive loan modification.

Ultimately, it must be recognized that the seismic economic challenges in the United States, the epicenter of which is the housing market, are too great for purely private sector loan modification solutions. As such, evolving servicer loss mitigation activities, though playing an important part of the solution, will not be sufficient to address the steep challenges the American housing market faces today. In addition to expanded industry efforts, federal government initiatives, such as H4H and the Troubled Asset Relief Program (TARP), will have to be even more aggressive in their efforts to stabilize homeownership, neighborhoods and communities around the country.

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[4] Emergency Economic Stabilization Act, Section 124 (2008).

[5] Credit Suisse Fixed Income Research, Subprime Loan Modifications Update, October 1, 2008.

Current and Future Industry Loan Modification Initiatives

Notwithstanding the formidable challenges outlined above, securitization industry participants have worked to avoid foreclosures and mitigate losses on defaulted loans wherever possible. From July 2007 through September 2008, some 2.5 million troubled borrowers were assisted by industry loan modification and loss mitigation initiatives. Those efforts continue, for example, in September 2008 alone, servicers helped some 212,000 borrowers avoid foreclosure, 30,000 more than the previous record established in August 2008.[6] Through these efforts, the number of loan modifications and workouts has increased by over six times the rate at which they were being provided to borrowers at this time last year.

Securitization industry participants have strong incentives to pursue loan modifications because, as a general matter, no securitization market constituency—including lenders, servicers and investors—benefits from loan defaults and foreclosures. Because foreclosure is usually the most costly means of resolving a loan default, it is typically the least-preferred alternative for addressing a defaulted loan, whether or not the loan is held in a securitization trust. Although there is variation among individual transactions, most securitizations provide servicers with significant flexibility to engage in loan modifications and other loss mitigation techniques, subject to contractual obligations that the particular loss mitigation alternative selected maximizes the net present value, or ultimate recovery, on the related mortgage loan.

Given the multiple variables and detailed analysis involved, this can be a complex and difficult judgment for servicers to make. Where a loan modification is pursued, the servicer must be able to demonstrate a reasonable basis for concluding that the particular modification selected is likely to produce a greater recovery than other loss mitigation alternatives available, including but not limited to foreclosure. ASF therefore recognizes and strongly supports the benefit of providing additional, industry consensus guidance on ways that servicers can fulfill more efficiently their obligations to mitigate losses and maximize recoveries on distressed mortgage loans, in a manner that is also consistent with their duties to investors. As outlined below, we have taken steps to provide this guidance in the past, and are actively engaged in additional efforts to provide additional guidance to servicers in light of the increasing challenges they face.

Over the past two years, the ASF has worked to develop several market standards and practices initiatives aimed at promoting the utilization of loss mitigation and loan modification strategies to prevent avoidable foreclosures. For example, in December, 2007, ASF announced the release of the first systematic protocol, the ASF Streamlined Foreclosure and Loss Avoidance Framework for Securitized Adjustable Rate Mortgages ("ASF Framework"), which outlines systematic criteria that servicers can use to streamline the evaluation of their subprime hybrid ARM portfolios and offer appropriate solutions to borrowers facing significant interest rate resets.

As a result of servicers' efforts under the ASF Framework, approximately 111,000 subprime ARMs have been modified with over 73 percent of these modifications having a duration of 5 years or longer.[7] As outlined in two scenarios in Appendix A of this testimony, servicers

[6] Hope Now Alliance October Data Release.
[7] Hope Now Alliance October Data Release.

generally seek to employ interest rate modifications to achieve affordability for the borrower prior to contemplating any principal reductions. A recent study on the use of loan modifications notes that, "Because of ASF's streamlined loan mods plan beginning in January 2008, this type of mod [rate reset] currently makes up the largest group of subprime loan mods."[8] The fact that very few borrowers are experiencing delinquencies caused by a resetting interest rate on a subprime ARM ultimately demonstrates the ASF Framework has been effective in achieving the targeted aim.

Notwithstanding the above initiatives, in light of the recent deterioration in the broader economy and housing market, ASF is working aggressively to develop an expanded framework that servicers can use to modify loans in a manner that is consistent with appropriate loan modification goals, and with the contractual rights and commercial expectations of institutional investors. A group of ASF members, including investors, is reviewing criteria from other loan modification approaches that have recently been announced, such as the plan implemented by the FDIC with respect to loans it acquired via the receivership of IndyMac Bank or the plan the Federal Housing Finance Agency (FHFA) announced on Tuesday. We believe that the development and application of an investor-developed framework with input from all stakeholders can help to establish broader consensus on ways that loan modifications can be effectuated in a manner that appropriately targets them efficiently and effectively. We are optimistic that this new approach will promote an even greater number of appropriate loan modifications delivered throughout the industry via more streamlined processes.

Some of the key challenges that we are actively working to address include:

1. Developing a mechanism to distinguish between troubled borrowers needing assistance and borrowers who otherwise have an ability to pay and don't need assistance;
2. Addressing the motivations that might exist for non-troubled borrowers to default or to attempt to disguise their true ability to pay;
3. Streamlining methods of verifying troubled borrowers true income and occupancy status to avoid 'no doc loan mods' that assist housing speculators;
4. Addressing the complex challenges presented by pay option ARMs in a depreciating housing market;
5. Developing operationally-efficient, market-accepted methods to compensate and extinguish second liens to allow a first lien to refinance into a more sustainable loan;
6. Creating appropriate loss mitigations on second liens that are proportionate and appropriate in relation to the loss mitigation being applied to first lien positions;
7. Designing better evaluative tools for all of a borrowers' debts, including both mortgage and consumer debts, to make more effective and sustainable loss mitigation solutions;
8. Accounting for a borrower's relative income bracket, size of loan and geographical location in any calculation that compares their mortgage debt with their income;
9. Addressing operational challenges of detecting borrower, broker or other fraud in origination that would trigger alternative approaches; and
10. Providing greater market practice clarity to servicers to apply appropriate streamlined loss mitigation techniques in compliance with their pooling and servicing agreements.

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[8] Credit Suisse Fixed Income Research, Subprime Loan Modifications Update, October 1, 2008.

Government Opportunities under TARP to Expand Loan Modification Alternatives

Although industry-driven loan modification and loss mitigation actions have been and will continue to be key components to preventing avoidable foreclosures, there are limits to their effectiveness in addressing the extraordinary challenges in the housing market. As such, we believe expanded government programs may be effective in bridging this gap, and helping to address the potential foreclosures that commercial and contractual arrangements cannot prevent. The nationwide home price correction and persistent uptick in foreclosures present systemic risks to the national economic infrastructure. Moreover, foreclosures are bad for everyone—borrowers, communities and investors. Vacant homes drive down home prices and invite crime. Given these extraordinary systemic risks and public policy concerns, we believe the federal government could helpfully supplement industry initiatives to modify and expand voluntary programs to aggressively seek to prevent additional foreclosures in three primary areas under TARP: 1) Guaranty loan modification redefault risk; 2) Purchase individual loans out of securitization trusts; and 3) Provide lender or guaranty facilities for servicer advances.

- **Federal Guaranty of Loan Modification Redefault Risk**

The federal government could use authorization under EESA to provide guarantees to incentivize additional loan modifications for distressed borrowers, as the Act specifically authorizes that "the Secretary may use loan guarantees and credit enhancements to facilitate loan modifications to prevent avoidable foreclosures."[9] We believe there have been some positive proposals put forth by, for example, the Chairman of the FDIC that would have the federal government, through TARP, provide credit guarantees for redefaults on modified loans. Although there are a number of details that would need to be worked out on both the modification protocols as well as the guarantee arrangements, ASF believes there is significant opportunity for such an approach to work. A well-tailored program could result in a significant increase in loan modification activity to help homeowners stay in their homes and provide significant support for a declining housing market. In sum, there appears to be a substantial opportunity to marry a much larger industry-wide loan modification protocol with a guarantee program under TARP.

One particular benefit of a guarantee program under TARP is that the same outlay of funds through a guarantee program could provide support for a significantly higher number of outstanding loans than can be assisted via other means. Direct purchase of loans, although a desirable option to consider, requires direct and immediate use of the limited capital available under TARP. A guarantee program may in some cases then be a more efficient use of limited TARP funds.

- **Direct Purchase of Loans Out Of Securitization Trusts**

Since the TARP program was announced, there continues to be a great deal of discussion regarding what assets the program would purchase and how that ownership would give the federal government control over the servicing of those assets. If whole loans are purchased by TARP, for example, the government would clearly be able to apply its own loss mitigation protocols to those loans. If the TARP program were to buy mortgage-backed securities (MBS)

[9] Emergency Economic Stabilization Act, Section 109 (2008).

though, their ability to exercise control over the servicing policy of any particular trust would be limited unless a supermajority of each outstanding class of notes of that trust were to vote to amend the underlying pooling and servicing agreements.

One potential opportunity is that TARP could purchase individual distressed loans out of MBS trusts, which could give the Treasury Department unlimited discretion to modify those loans. Historically, whole loans have not been sold out of securitization trusts by servicers for a variety of legal, tax, and accounting constraints. The ASF supports, where feasible, facilitating such purchases as part of a broader range of loss mitigation alternatives, and has recently undertaken a review of the various opportunities and obstacles for servicers to sell below par individual distressed loans out of MBS to the TARP. Today, we report out in this testimony some of the initial findings and conclusions of that review.

The ability of a servicer to sell a securitized mortgage loan in default (Defaulted Mortgage Loan) or one where default is imminent or reasonably foreseeable (Imminently Defaulting Mortgage Loan) is dependent on the tax and accounting consequences of any such sale and the specific contract provisions of the governing servicing agreement (Securitization Servicing Agreement).

1. Accounting

Most residential mortgage securitization trusts are structured to be treated as "qualifying special purpose entities" (QSPEs) for purposes of FAS 140. The mortgage loans held by a securitization trust that satisfy the QSPE requirements are treated as being sold under FAS 140 and are not consolidated under FIN 46(R) on the books of any party. Servicers will not take any action under a Securitization Servicing Agreement that would alter the accounting treatment of the securitization trust as a QSPE. The QSPE requirements under FAS 140 prohibit a servicer from selling a Defaulted Mortgage Loan or Imminently Defaulting Mortgage Loan from a QSPE securitization trust even where the servicer determines that such sale would represent the loss mitigation technique that results in the maximum net proceeds (on a net present value basis) to the securitization trust.

In order to be considered a QSPE, a securitization trust must comply with the requirements set forth under FAS 140, including among others, certain limits on its ability to sell assets from the securitization trust. FAS 140 specifically identifies activities not permitted by QSPEs. One of the prohibited activities consists of giving the entity power "to choose to either dispose of transferred assets or hold them in response to a default, a downgrade, a decline in fair value, or a servicing failure." Providing the servicer of a QSPE securitization trust with the option of selling a Defaulted Mortgage Loan or Imminently Defaulting Mortgage Loan in lieu of foreclosing or pursuing other non-foreclosure loss mitigation options fits squarely within the above-referenced QSPE prohibited activity. As such, a servicer of a QSPE securitization trust will not be permitted to consider such sales as a loss mitigation option, absent explicit authorization from the SEC or FASB that they would not object to sales of Defaulted Mortgage Loans or Imminently Defaulting Mortgage Loans from QSPE securitization trusts and will not alter the continuing QSPE treatment of securitization trusts.

2. Tax/REMIC

Most residential mortgage securitization trusts elect to be treated as Real Estate Mortgage Investment Conduits (REMICs) under the Internal Revenue Code. Under the REMIC rules, a mortgage loan included in a REMIC securitization trust can only be sold from such trust if (i) the REMIC is being completely liquidated or (ii) if the loan is in default or default is imminent or reasonably foreseeable. The servicer should be able to determine with little difficulty whether a mortgage loan is in default or not. However, determining whether a default is "imminent" or "reasonably foreseeable" requires the servicer to exercise more judgment. As such, the servicer may feel less confident coming to the conclusion that default is imminent or reasonably foreseeable, especially if the REMIC status of the securitization trust may be jeopardized as a result of incorrectly so concluding.

In order to maximize the number of Imminently Defaulting Mortgage Loans that may be sold from securitization trusts, an IRS Revenue Procedure would need to be issued to provide appropriate certainty to servicers with respect to the imminent default/reasonably foreseeable default determination. The Revenue Procedure should provide guidance confirming that a REMIC would not be subject to tax as a result of a prohibited transaction if a servicer sold a mortgage loan from a REMIC if the servicer reasonably believes that there is a significant risk of foreclosure of the mortgage loan. This reasonable belief may be based on guidelines developed as part of a foreclosure prevention program or any other credible systematic determination. The IRS articulated similar standards in Revenue Procedure 2008-47 on December 6, 2007 relating to the ASF Framework and Revenue Procedure 2008-28, relating to foreclosure prevention programs.

3. Contract Provisions

It is not typical for Securitization Servicing Agreements to contain provisions that expressly permit a servicer to sell mortgage loans from the securitization trust. However, an agreement's silence on this point does not end the analysis. All Securitization Servicing Agreements impose on the servicer a general standard (Servicing Standard) that must be complied with in connection with servicing of mortgage loans. The ASF believes that in the circumstances described below, and where appropriate relief from the accounting and tax consequences is obtained as described above, a mortgage-backed securities market practice could evolve to a point where the Servicing Standard in Securitization Servicing Agreements may be interpreted to permit a servicer of a Defaulted Mortgage Loan or Imminently Defaulting Mortgage Loan in a securitization trust to elect to sell such mortgage loan to the TARP.

Securitization Servicing Agreements vary from issuer to issuer and, in many cases, from transaction to transaction for each issuer. As a result, determining whether a Defaulted Mortgage Loan or Imminently Defaulting Mortgage Loan can be sold from numerous securitization transactions will necessarily require a review of each related Securitization Servicing Agreement. While the Servicing Standard applicable under each Securitization Servicing Agreement varies, there are some general practices common to most Servicing Standard definitions. These general practices include, among others, giving due consideration to customary and usual standards of practice of servicers administering similar mortgage loans, using practices that the servicer would employ for mortgage loans held for its own account, and/or using practices employed by

prudent mortgage lending institutions that service similar mortgage loans. The inclusion of these general practices in the Servicing Standard results in a Servicing Standard that evolves over time to incorporate the latest servicing practices employed in the market place.

With respect to Defaulted Mortgage Loans and mortgage loans the servicer determines to be Imminently Defaulting Mortgage Loans, the Servicing Standard requires the servicer to deploy loss mitigation strategies that maximize proceeds (on a net present value basis) on such mortgage loans. When faced with a Defaulted Mortgage Loan or Imminently Defaulting Mortgage Loan in a securitization trust, a servicer must typically decide between commencing foreclosure (for Defaulted Mortgage Loans only) and, if not expressly prohibited by the terms of the Securitization Servicing Agreement, other loss mitigation techniques, such as modification of the mortgage loan, forbearance, repayment plans for arrearages, short sales and short payoffs. The servicer's decision of which approach to pursue must be based on its determination of the approach that will result in the maximum net proceeds (on a present value basis) to the securitization trust. Where a Securitization Servicing Agreement is silent on permitting the use of any of the non-foreclosure loss mitigation techniques, the Servicing Standard could potentially be interpreted to permit the servicer to utilize such non-foreclosure techniques because it is a customary and usual standard of practice and prudent for mortgage lenders and loan servicers administering similar Defaulted Mortgage Loans and Imminently Defaulting Mortgage Loans to employ such non-foreclosure techniques.

While the sale of Defaulted Mortgage Loans and Imminently Defaulting Mortgage Loans to third parties has not typically been a loss mitigation option that servicers have considered, this approach may be able to be viewed as one more loss mitigation technique that a servicer could utilize. As such, unless the Securitization Servicing Agreement expressly prohibits the sale of Defaulted Mortgage Loans and Imminently Defaulting Mortgage Loans and so long as appropriate relief from the accounting and tax consequences is obtained as described above, the ASF, through servicer and investor member consensus, could consider reinforcing a market practice that the Servicing Standard be interpreted, under appropriate Securitization Servicing Agreements, to permit the servicer to add the sale option among the other non-foreclosure loss mitigation techniques it may consider when deciding what course of action to take with respect to such mortgage loans. Adding the sale option, of course, does not change the servicer's responsibility to analyze what loss mitigation strategy is optimal to pursue. Ultimately, the servicer's decision must still be based on its analysis of which approach would result in the maximum net proceeds (on a net present value basis) to the securitization trust.

- **Provide Lending or Guarantee Facilities for Servicer Advances**

The third area where the federal government, potentially through TARP or other mechanisms, could provide critical liquidity in the housing market is in the area of servicer advances on MBS. As part of their Securitization Servicing Agreements, servicers often advance their own funds to cover unpaid principal, interest, taxes and insurance as well as for other property protection and related advances. The servicer ultimately receives a first priority reimbursement for these advances when troubled loans payoff or are liquidated. Due to the recent significant increase in delinquencies and slow down in prepayments, the amount of advances that servicers must make to remain in compliance with their servicing obligations under these servicing agreements has

risen exponentially. Simultaneously, the number of commercial banks that help servicers finance these advances has shrunk dramatically, thereby radically increasing these funding costs.

Some servicers unaffiliated with depository banks may be unable to continue to operate economically, forcing a transfer of servicing responsibilities to another servicer. Servicing transfers causes significant disruptions to borrowers making payments or working out loans during the transfer process. As such, federal government provision, at little or no risk to the taxpayer given the first priority reimbursements, of a lending or guarantee facility for liquidity constrained servicers could quickly provide significant assistance to troubled borrowers.

Mortgage and Consumer Credit Availability in the U.S.

There is currently $7.55 trillion dollars of securitized mortgage debt outstanding, which is slightly more than half of the $14.8 trillion dollars of mortgage debt outstanding in the United States.[10] Yet, only $500 million of securitization bonds were issued in October of 2008, which is less than 1% of the $50.7 billion issued in credit-constrained October of 2007.[11] As these figures indicate, private investment capital flows into the U.S. securitization market have all but disappeared, threatening the availability of credit to all current and future mortgage borrowers.

Significant action is being taken by the industry, such as through ASF's Project RESTART, designed to rebuild investor confidence in both the assets and process of securitization. The finance ministers of the largest economies of the world went so far as to articulate as one of their top five global priorities to, "take action, where appropriate, to restart the secondary markets for mortgages and other securitized assets."[12] Voluntary programs that incentivize private actors in securitization, such as servicers and institutional investors, to reduce foreclosures are the only constructive options to help address housing dislocations in a credit-starved environment. To the extent that governmental initiatives can offer loan modification opportunities beyond those that are commercially feasible in the private market, those programs may provide an effective bridge to a wider range of troubled borrowers and help to stabilize housing prices and markets.

Conclusion

Chairman Kucinich and distinguished Members of the Subcommittee, I thank you for the opportunity to participate in this hearing on some of the most pressing issues facing our country today and look forward to answering any questions you may have regarding my testimony.

Thank you.

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[10] Statistical Supplement to the Federal Reserve Bulletin, October 2008, Table 1.54 Mortgage Debt Outstanding
[11] Wall Street Journal, Bond Woes Choke Off Some Credit to Consumers, C1, November 6, 2008.
[12] G-7 Finance Ministers and Central Bank Governors Plan of Action, October 10, 2008

Appendix A

LOAN MODIFICATION EXAMPLES

Original Scenario

Borrower and co-borrower earn $35,000 and $32,000, respectively and pay as agreed based on an adjustable rate mortgage.

	Original Economics
Income	$67,000
Home Value	$400,000
Loan Size	$320,000
Mortgage Rate	7.0%
Monthly Payment	$2,129
DTI	38%

Scenario 1 - Job Loss

Co-borrower loses job with limited employment options locally. The monthly housing obligation for the family is now unaffordable.

Job Loss	**New Economics**	**Job Loss - Rate Reduction with Interest Only for 5 yrs**	**Job Loss - Principal Reduction**
Income	$35,000	$35,000	$35,000
Home Value	$400,000	$400,000	$400,000
Loan Size	$320,000	$320,000	**$165,000**
Mortgage Rate	7.0%	4.2%	7.0%
Monthly Payment	$2,129	$1,120	$1,098
DTI	**73%**	38%	38%
Impact		**No Immediate Loss**	**Results in immediate loss of $155,000 or 48%**

Scenario 2 - Rate Reset

The initial interest rate was fixed at 7% for 2 years, providing for an affordable monthly payment. Upon resetting to 95, the loan is now unaffordable based on a 46% housing ratio.

Rate Reset	New Economics	Rate Reset - Rate Reduction w Interest Only Period	Rate Reset - Principal Reduction
Income	$67,000	$67,000	$67,000
Home Value	$400,000	$400,000	$400,000
Loan Size	$320,000	$320,000	**$265,000**
Mortgage Rate	9.0%	8.0%	9%
Monthly Payment	$2,575	$2,133	$2,132
DTI	**46%**	38%	38%
Impact		**No Immediate Loss**	**Results in immediate loss of $55,000 or 17%**