United States House of Representatives Committee on Financial Services

Hearing on the Implementation of the HOPE for Homeownership Program and Review of foreclosure Mitigation Efforts

Wednesday, September 17, 2008

Testimony of Mossik Hacobian, President
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Mr. Chairman and Members of the Committee:

Thank you for the opportunity to testify and share some of our experience in addressing the foreclosure crisis facing our community.

Urban Edge is a community development corporation (CDC) in its 35th year of operation. Our primary service area consists of the Boston neighborhoods of Jamaica Plain and Roxbury and surrounding areas. Urban Edge has developed and preserved 1,360 units of rental and ownership housing affordable to households with very low-, low- and moderate-income. Our current rental housing portfolio consists of 1,147 homes and apartments with 90% of the homes affordable to households whose incomes are less than 60% of the area median income and two thirds with incomes less than 50% of the area median income.

Urban Edge also offers classes for first time homebuyers, credit counseling and post-purchase counseling.

We are supported in our efforts by the City of Boston, the Commonwealth of Massachusetts, the U.S. Department of Housing and Development, United Way of Massachusetts Bay and Merrimack Valley, NeighborWorks® America and a host of local and national foundations, lenders, investors and intermediaries.

Although we continue to develop new affordable housing and preserve and improve existing affordable housing in our portfolio and in Boston neighborhoods, for the past two years we have been focused on assisting homeowners who are at risk of losing their homes. Our first contract was with the City of Boston starting in November 2006 followed by contracts with MassHousing, NeighborWorks® America, the National Foreclosure Mitigation and Counseling Program and the Homeownership Preservation Foundation. Earlier this year, the City of Boston awarded Urban Edge a contract to undertake a pilot program to refinance Boston homeowners out of their existing at risk mortgages. We hope to launch this new product later this year with support of the City of Boston, Citizens Bank, United Way, NeighborWorks® America, Neighborhood Housing Services of America (NHSA) and FannieMae.

In preparation for today's testimony, we analyzed 254 current cases involving 51 servicers. A summary of that analysis is attached to the written testimony that I have provided to the Committee.

As illustrated in the analysis, our counselors have been able to secure loan modifications for 62 homeowners out of 254 pending cases. That is a 24% success rate. More than three-quarters – 196 of the 254 cases -- are being handled by 24 of the 51 servicers with whom we are in contact. Our success rate with these 24 servicers is a little better, at an average rate of 32%.

Please note that in addition to facilitating loan modifications we have been successful in helping qualified homeowners avoid foreclosure by implementing other successful workout options such as re-instatements, refinancing, and forbearance agreements and in a few cases repayment plans. When appropriate we have guided homeowners through bankruptcy, and in other cases, out of bankruptcy and into loan modifications.

Let me respond to the three specific questions you posed in your letter inviting me to testify:

1. **What have been your experiences regarding the willingness of mortgage servicers to make substantial loan modifications necessary to avert foreclosure?**

More servicers have become active and helpful to counselors in obtaining loan modifications for homeowners who can demonstrate that they can make the payments on a modified mortgage. In the past, the servicers' posture was to find ways to disqualify homeowners for loan modifications. At present, more servicers are cooperating with counselors to modify loans for homeowners whose incomes will allow them to make the payments.

However there are still servicers who refuse to do loan modifications although they are increasingly in the minority.

2. **What more can be done?**

The loan modification process should be more standardized. Too often the successful loan modification is dependent on the personality of the servicer and the skill, imagination or tenacity of the counselor. Some servicers are helpful and others are obstructionist. There is too much art and not enough science in obtaining a successful modification.

It would also be helpful to hold the presidents of servicing organizations accountable for outcomes. Some servicers will tell our counselors that they do not do loan modifications. Our counselors then contact the office of the president and in some instances the same servicer who had previously denied the loan modification finds it possible to modify the loan. This may be due in part to the lack of staff capacity at the servicing entities to address the flood of requests due to the current high volume of foreclosures.

3. **What if anything do you believe is preventing more meaningful modifications.**

Our counselors tell me that the pooling agreements between servicers, trustees and investors pose a serious obstacle to obtaining more loan modifications.

In discussions with one our counselors, a manager of a company responsible for relations with investors and the community in relation to foreclosures, expressed frustration with his inability to make changes in the pooling agreements. He explained that many loans are part of a trust which his company manages and as such they are governed by a pooling agreement. He stated that he is attempting to obtain approvals from the investors to try to make exceptions to the PSA, the Pooling and Servicing Agreements, to be able to make loan modification decisions at the individual loan level. He does not have that authority now.

The problem with the pooling agreements, as you well know, is that when investors purchased traunches of loans in the secondary market they made covenants to protect their investments. These covenants were based on the incorrect premise that the loans were written using reasonable underwriting standards. Because the underwriting was flawed, the covenants and the pooling agreements act in a counter-productive manner to restrict the ability to modify loans.

The effect of this inflexibility is that it results in mandated losses for both the investor and the homeowner. Everyone would be better off if the servicers and the trustees had more latitude to make individual decisions based on the merit of each case and not be limited by inflexible pooling agreements.

Two recent examples our counselors encountered illustrate this problem with servicers:

Homeowner #1: Homeowner was told the investor will not approve this family for a loan modification. They tried three times to have their loan modified. They were scheduled for a foreclosure auction in July 2008. On June 10, 2008 the servicer was changed from Option One to American Home Mortgage. On July 1, 2008 the new servicer sent this family a loan modification proposal reducing the interest rate from 11.13% to 6.5% for the life of the loan. The amount they were in arrears was capitalized into the loan. This came as a complete surprise to the homeowner and our counselor.

Option One had explained to our counselor that they had proposed a loan modification and it had been denied by the Trustee. Our Counselor contacted the Trustee who explained that they rely on the recommendation of the servicer in considering a loan modification. Once American Home Mortgage took over the operations of Option One, one of the three loan modification proposals that had previously been denied was approved. The details of this case are as follows:

<u>Servicer</u>: Option One Mortgage replaced by American Home Mortgage
<u>Trustee</u>: Wells Fargo Bank

<u>Before Loan Modification</u>
Outstanding principal: $275,084
Interest Rate: 11.13%
Monthly payment: $2,678
Mortgage payment as percent of homeowner's $4,332 monthly net income: 62%

After Loan Modification
Outstanding principal: $322,243 (including capitalized arrearages)
Interest Rate: 6.5%
Monthly payment: $2,140
Mortgage payment as percent of homeowner's $4,332 monthly net income: 49%

How could one servicer do so quickly and easily what another servicer claimed the investor would not allow?

Homeowner #2: Homeowner has an adjustable rate mortgage that started at 9.45%. We are in the process of attempting to secure a loan modification for a fixed rate mortgage. The homeowner can afford to make payments if the interest rate is reduced to 6%.

We were initially negotiating with Litton Loan Servicing. Litton sold the loan to Select Portfolio. We are told the investor is Magnitar Financial.

The servicers have told us that because of the pooling agreement the interest rate cannot be reduced to a rate lower than the starting rate of 9.45%. If the interest rate is not reduced this home will probably go into foreclosure.

Thank you again for the opportunity to testify. I am happy to answer any questions or to provide you with additional details.