»

Draft outline remarks for Bruce Gottschall
For June 7, 2006 Federal Reserve Hearings
Building Sustainable Homeownership: Responsible Lending and Informed Consumer Choices

The questions and discussion for this panel will focus on consumer education, including pre- and post-purchase homeowner counseling and intervention.

1. **NHS has led the NHS of Chicago Home Ownership preservation Initiative** for 3+ years and accomplished significant results
    a. Partnership of city - Lender/servicers - NHS
    b. More than 1000 troubled borrower saved from foreclosure
    c. 4000 provided post purchase individual counseling
    d. 24/7 phone counseling hotline in cooperation with City of Chicago 311 service number linkage
    e. Learning and research to create proactive and effective loss mitigation in partnership
    f. National Model being replicated in Ohio and Nationwide through NeighborWorks America

2. Our **research** has taught us a lot about borrowers in default and foreclosure and about how they got there and why they respond the way they do to their lenders.

Research results on post purchase assistance and preventing foreclosure:

a. More than 50% of borrowers foreclosed on never talk to the lender/servicer
b. Reasons people don't call servicer, more than 45% say:
    i. Not know the lender might be helpful
    ii. Assumed could make payment soon
    iii. Did not think lender would care

c. Even for those who contacted the lender
    i. Almost 50% had a low opinion of the lender's willingness to help
    ii. 80% of those under stress (who isn't under stress when you are in default and talking to the lender) had a low opinion of the lenders willingness.

d. 72 % of defaulted borrowers seeking assistance are on refinance loans

3.0ne **of** the most important lessons is that they value **and** need a trusted **3rd** party counselor to help them navigate the process and make good decisions. This takes a lot of time and energy.

i. Third party adviser help is recognized by borrowers
ii. Range of solutions available

iii. No history of hardnosed collection methods as a barrier to get over
iv. Time commitment to assist troubled borrower

. Through HOPI, we've met with a lot of borrowers and learned a lot about the shortcoming of people preparation for shopping for loans

A. 1/3 say:
* They should never have been approved for their loan
* Regret taking their loans out;
* Wish they'd shopped around for a better deal.

This shows that consumers are not getting the information they need to make informed choices when it comes to taking out a mortgage.

20% feel that the unfair terms of the loan caused their delinquency

To eliminate the asymmetry of information in the lender/borrower relationship requires more that we must all emphasize pre-purchase education and counseling. It's a small investment of time and money

4. **The coming boom in delinquency.** The next 18 months could yield $324B in defaults. ($2.7 Trillion in ARMS - estimated $500 billion are sub-prime - that reset in the next 18 months. WSJ says that 12% will default). This will put a strain on the already overworked counseling industry. Counseling agencies and lenders/services need to work together now to brace for this problem before it's too late.
    a. Across the board defaults but **Concentrated in "hot spots"** of low/moderate income and minority neighborhoods. In Chicago the Hot spot areas have a foreclosure rate 6 times the state average.

As we face a delinquency boom in the next three years, we all need to think about how to get consumers hooked up with good counselors so that the homeownership gains that have been made are not lost.

5. **To stem foreclosures moving forward we're going to need new methods of default and foreclosure intervention with longer-term resources.**

New methods of default and foreclosure prevention and longer term resources must be found to help people sustain home ownership over the 1 - 2 years it takes to improve people's financial situation due to job loss or health issues. Counseling is generally described as a "value added" to the transaction, but generally is time/staff intensive and difficult to get funding for.

6. In addition, We also need to address the "front end" issues, the explosion of sub-prime products decreases the incentive to get good front end counseling, which means that even more folks are going to need counseling on the back end.

Sub prime lending and exotic loan products decrease incentive for counseling:

a. With the rise of sub-prime lending, ARMs, Interest Only, etc., customers have no incentive to acquire savings and good credit habits because they can get a mortgage now.
b. The proliferation of "creative" products to push homeownership rates up *(e.g.* interest-only loans, stated income loans, no doc loans) has resulted in lending based strictly on a "best case" scenario, at the maximum that a borrower can afford. In such cases it's not just job loss that causes default, it could be the bill from an emergency room visit or the heating bill in January.

c. Because of this competition Lenders are cutting the amount of pre-purchase education they require. Since we know that 8 hours of pre-purchase does reduce delinquency by 30-50%, cutting back will result in increased delinquency
d. BUT Borrowers seeking post purchase assistance in hindsight almost 1/3 say the should not have been approved, regret taking the loan, or wish they had shopped around for loan in the first place