

Testimony of
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Senator Sheldon Whitehouse Senate Judiciary Committee Field Hearing
Testimony from Susan Bodington, Deputy Director for Programs, Rhode Island Housing

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On behalf of Rhode Island Housing and our partners, we would like to thank you for the opportunity to present this testimony. I'd like to provide a synopsis of the impact of the foreclosure crisis on Rhode Islanders. My goal is to outline what we are doing - and what more can be done - to help those who are at risk of losing their homes during this confluence of financial, housing and unemployment crises, which has been called a "perfect storm."

Rhode Island ranks 10th in the nation for foreclosures and the numbers continue to climb as lenders act on backlogged and recent defaults. In addition, the unemployment rate in Rhode Island for May 2009 was 12.1 percent, again eclipsing the national unemployment rate of 8.9%. Originally economists had predicted Rhode Island's unemployment would peak at 12%. They have now revised that closer to 13 percent and are predicting at least another five years before the state's jobless rate shrinks to the 6 and 6.5 percent rates experienced in late 2007 and 2008.

The decline in property values has exacerbated the situation for many homeowners. In several Providence neighborhoods, we have seen depreciation exceeding 60% of our original appraised value. Depreciation in the urban communities surrounding Providence is averaging 35%.

The past six months have been particularly difficult on Rhode Islanders from a housing perspective. Foreclosure initiations increased by almost 44 percent during the first six months of 2009, compared to the same period in 2008. An estimated 5,669 Rhode Islanders received notification that foreclosure proceedings were initiated on their homes, and 1,167 Rhode Islanders lost their homes due to foreclosure in the first six months of 2009 alone.

About 7.09 % of Rhode Island mortgage holders were "seriously delinquent" (90+ days and in foreclosure) as of March 31 2009, according to the most recent data from the Mortgage Bankers' Association. However, it is noteworthy that by comparison, Rhode Island Housing's "serious delinquency" remains very low. Our delinquency rate in this same category, for this same period, is 1.96%. The significant difference can be attributed to our conservative lending practices and our mission-based strategy of helping Rhode Islanders make safe and informed decisions so they can afford to buy and keep a safe and healthy home that meets their needs.

While the rate of homeowners losing their homes is indeed troubling, these numbers tell just part of the story. For every homeowner that loses his or her home to foreclosure, an average of four to five families living in multi-family properties lose their home when the building is foreclosed

upon. In fact, a recent report by Rhode Island Legal Services estimates that 5,887 Rhode Islanders were forced to move in 2008 as a direct result of foreclosure.

Until very recently, while owners received a minimum of 21 days notice of foreclosure, on top of notices when they are 45 and 90 days delinquent in their mortgage payment, tenants living in multi-family homes could be evicted with as little as three days' notice, even if they were responsible tenants paying their rent on time. Thanks to legislation passed by Congress this spring with the support of our Congressional delegation, those tenants are now entitled to at least 90 days notice.

Finding a new affordable home to rent after a foreclosure is not easy. According to the National Low Income Housing Coalition, the gap between what people earn in Rhode Island (the mean renter hourly wage, \$12.01/hr) and the Housing Wage (the wage renters need in order to pay for housing, \$18.76/hr) for a two-bedroom apartment is greater in Rhode Island than in any state except Hawaii. Also, Rhode Island ranked 13th nationally in the cost of rental housing. Making matters worse, only one of the state's current and growing top 10 occupations earns the report's Housing Wage.

Despite the decline in property values, finding an affordable home to buy also remains a challenge, particularly for first time homebuyers. According to an analysis by HousingWorks RI of data just released by the Rhode Island Association of Realtors, during the first six months of 2009, 41% of sales in Rhode Island were for distressed properties. When those distressed property sales are removed from the median sales price calculation, the single-family median sales price during the first half of the year increases from \$189,000 to \$235,000. A household in Rhode Island would need to earn \$71,327 to afford that home.

What we're doing to help

Rhode Island Housing's HelpCenter is assisting more Rhode Islanders than ever. Since opening its doors in 2007, our HelpCenter has assisted more than 5,108 Rhode Islanders - 3,226 in the past 12 months alone. Our counselors, who are experienced lenders and mortgage servicers, dedicate a great deal of time and effort to help Rhode Islanders. On average, counselors spend 8 to 10 hours working with each client to clearly assess their financial situation, help them understand their options, and develop a plan of action customized for each unique situation.

Our counselors help homeowners prevent foreclosure whenever possible, however foreclosure prevention is not always a viable, or even the best, option for the individual. Many times, we find ourselves helping homeowners and renters cope with and recover from the loss of their home. Rhode Island Housing's firm belief - that "home" is much more than four walls and a roof - guides us in ensuring that each person who walks through our doors is offered the best services and options to find a safe, healthy home that they can afford to keep.

Beyond our assessment and counseling, we negotiate directly with lenders to help with loan modifications whenever possible. We are familiar with the tools, resources and practices available and can advocate on behalf of clients and help streamline the process.

HelpCenter outcome summary for the 1,907 customers who have completed counseling:

- ? 69 mortgages were brought current
- ? 689 mortgages were modified, entered into forbearance agreements or received partial claims
- ? 57 homeowners are actively seeking credit counseling and/or other social services
- ? 41 mortgages were refinanced
- ? 114 sought bankruptcy protection
- ? 164 mortgages were foreclosed and/or deed in lieu of foreclosure
- ? 68 properties are in the process of a short sale
- ? 36 properties were sold
- ? 244 homeowners withdrew from counseling
- ? 120 homeowners were non-responsive after their first counseling session
- ? 305 workouts have been denied by servicers and are currently working on other action plans

Currently 808 client files are being reviewed by servicers for workout options and 125 of the modification plans processed through the Home Affordable Modification Program (HAMP) are in a three-month trial period.

The top 10 lenders by volume that the HelpCenter works with on behalf of Rhode Islanders seeking assistance in keeping their home are:

1. Bank of America/Countrywide
2. Chase
3. Wells Fargo
4. CITI
5. American Home
6. Indymac
7. Saxon
8. Litton
9. First Franklin
10. Aurora

Due to high volume, the top three have the slowest response time and greatest delay in communications and response during the workout process. Even if the lending institution's policy states that it wants to help the homeowner, workout plans are taking 60 to 120 days, primarily due to the high volume of requests for modifications. This is often too long of a delay to help the homeowner.

Although the Home Affordable Modification Program (HAMP) was introduced in March, we are just beginning to see (HAMP) modification plans come through for homeowners. These plans establish a three-month trial modification plan for homeowners, which creates additional processes and may create new challenges and operational complications.

The lengthy process itself often causes an additional hardship in the already beleaguered homeowner. When appropriate, we provide referrals to reliable resources that offer credit counseling, debt management, help in finding a home to rent, and emergency housing assistance.

More than ever, it is important for homeowners to contact a HUD-approved counseling center like the Rhode Island Housing HelpCenter for assistance as soon as their financial difficulties

begin. The sooner they seek assistance and the more involved in the process they remain, the more options there are and the more likely we can reach their desired resolution.

The following are real stories of how our HelpCenter counselors have helped Rhode Islanders.

Homeowner gets fresh start

Situation: A single woman had been struggling to pay her adjustable-rate mortgage and was 10 payments behind since the interest rate and, therefore her payment, had increased. After learning in November that her mortgage company was planning to foreclose, she heard a Rhode Island Housing public service announcement on the radio and came into the HelpCenter.

She had received a loan modification proposal from her lender that offered her a fixed-rate loan - but at a rate of 10.625 percent plus a \$5,000 down payment. Although the modification would have held off foreclosure, it also would have increased her already unaffordable payment by nearly \$400/month.

Outcome: The HelpCenter counselor worked closely with the homeowner and her lender to negotiate a modification that she could afford while also protecting the lender's investment. Her financial statement demonstrated enough reliable income to satisfy her lender's concerns.

After three months of negotiating, the homeowner's loan was modified to a fixed rate of 7.50 percent for the life of the loan.

The new payment, including taxes and insurance, was \$450 less than her old payment. Back taxes and the 10 months of missed payments were added into the loan balance, allowing her to start the new year fresh, with a manageable mortgage and the monthly savings as a cushion going forward.

Loss of income causes hardship

Situation: This homeowner had a conservative 6.125 percent fixed-rate mortgage with a payment of \$1,981 per month. However, she and her husband were two months behind in their mortgage payments, so she made an appointment at the HelpCenter in October. With her husband unemployed, ineligible for unemployment payments, and her concerns that her overtime would be cut, she was seeking advice. The financial statement revealed a monthly deficit of \$650.

Outcome: When first contacted by a HelpCenter counselor, the lender could not offer any work-out options because the request was outside of the lender's work-out policy parameters. The counselor asked if the lender would be willing to modify the rate due to the unemployment hardship.

After submitting a proposal, speaking to a manager, and a two-month processing period, the terms were modified to a 4 percent fixed rate and the term was extended back to the original period of 30 years. The two late payments were capitalized into the loan balance. This reduced her monthly payment by about \$300. The HelpCenter counselor also referred the family to a debt-management counselor and to job-assistance services to try to help bridge the gap.

What more can be done?

Despite our tireless efforts and the efforts of our partner agencies that share our mission to ensure access to safe, healthy, affordable homes, there remains much work to be done to recover from our ongoing foreclosure crisis.

1. It is more critical than ever that the government continue to fund housing counseling services that have played a vital role in helping Rhode Islanders keep their homes or find alternative homes that meet their needs and budgets.

2. In addition, we need to seek out new opportunities for providing gap funding for homeowners who can't make their mortgage payments, but need additional support to qualify for a loan modification, as illustrated in the above success stories.

3. As we work to keep Rhode Islanders in their homes, we need access to a wide range of mortgage restructuring options. Providing the flexibility to increase loan terms to 40 years and provide short-term, interest-only payment periods for FHA-insured loans would give us more tools with which to work.

4. As we continue to focus on ways to recover from this crisis, our ability to work collaboratively and cooperatively with banks, mortgage lenders and servicers in modifying loans in a manner that truly helps the homeowner and addresses the situation, while still protecting the interests of the lenders, is critical. As I mentioned earlier, the current workout process is very arduous and takes months when working with many lenders. In short, it simply does not work in the majority of cases and cannot work for the volume of cases in the pipeline.

One solution to address process delays could be for Congress to implement reasonable modification plan time limits for authorization and assignment to a negotiator and a maximum of 60 days to complete approval of a modification.

Bankruptcy reform could provide the incentive or pressure to expedite workouts and collaborate more effectively, but it should be structured in such a way that it does not penalize responsible lenders who made fair loans that were in the best interest of the customers when the loan was made, and who have worked with their customers compassionately to keep them in their homes.

While some lenders, especially locally-based financial institutions, are working diligently and efficiently with borrowers to modify the loans and keep families in their homes, our HelpCenter's experience with some large, national lending institutions has been far less productive. Significant delays in communication and slow processing times can result in a negative outcome for the homeowner, along with additional hardship and stress for the homeowner and entire family.

We appreciate your commitment to this issue and thank you for giving us this opportunity to share our experiences and expertise gained from our work to ensure that all people who live or work in Rhode Island can afford a safe, healthy home that meets their needs.

As we all know, a good home provides the foundation upon which families can thrive, children can learn and grow, and communities can prosper. It is imperative that we continue to work

together to help Rhode Islanders today to ensure a brighter future for Rhode Islanders for generations to come.