

Testimony of

Brian A. Hudson

October 24, 2008

Testimony

by

Brian A. Hudson, Sr.

Executive Director and CEO

PENNSYLVANIA HOUSING FINANCE AGENCY

regarding

"Keeping Families in Their Homes: How to Prevent Foreclosures - Part II"

before the

Senate Judiciary Committee

Philadelphia Court of Common Pleas

Courtroom 653

Philadelphia, Pennsylvania

Friday, October 24, 2008

Chairman Specter, distinguished Members of the Judiciary Committee, fellow witnesses, ladies and gentlemen. Thank you very much for the opportunity to present this testimony on the Pennsylvania Housing Finance Agency's efforts to prevent foreclosures in the Commonwealth. I am Brian Hudson, Executive Director and CEO of the Pennsylvania Housing Finance Agency.

PHFA was created by the General Assembly in 1972, and is charged with supplying the capital necessary to fund high quality, affordable housing for older Pennsylvanians, families of modest means, and persons with disabilities. From the beginning, the Agency has enjoyed the support of the Nation's highest elected body in meeting the needs of Commonwealth citizens to buy and rent good places to live and it is grateful for that confidence.

PHFA initiatives help Pennsylvanians in three important areas: single-family homeownership financing, funding for multifamily rental housing development, and foreclosure prevention. Today I will direct my remarks solely to the Agency's foreclosure prevention efforts.

National Leader in Foreclosure Prevention

The Homeowners' Emergency Mortgage Assistance Program is a Commonwealth foreclosure prevention effort that had its origins in the wholesale sheriffs' sales taking place in Western Pennsylvania in the early 1980s following the closing of iron and steel mills and other smokestack industries. Workers who for generations had enjoyed secure, long-term employment found themselves unable to meet their financial obligations and many had lost their homes as a result.

Pennsylvania's General Assembly passed Act 91 of 1983 as a measure to help reverse this sad decline. It created the program, which gave my Agency the responsibility of developing the method to help those who, through no fault of their own, were in danger of losing their homes.

In the most general sense, here is how the program works:

?Once a homeowner becomes at least 60 days delinquent in mortgage payments, the lender issues an "Act 91" notice, explaining the borrower's rights and responsibilities and providing information about applying to the program. If a timely application is made any foreclosure action is suspended until a decision is made.

?Applications can be made at almost 100 participating credit counseling agencies. Completed applications are forwarded to the Pennsylvania Housing Finance Agency for consideration.

?If approved, the Housing Agency cures the mortgage delinquency and may make payments on the borrower's behalf for a total of up to 24 months of assistance.

?PHFA may assist up to two separate mortgages.

?Borrowers make payments of \$25.00 a month for each mortgage receiving assistance, and begin repaying the loan when their financial conditions allow as determined by a formula in Act 91. Interest does not begin to accrue on the HEMAP loan until a repayment plan is established.

Act 91 also specifies a number of criteria that determine HEMAP eligibility. Some of the more basic of these are:

?The dwelling involved must be an owner-occupied one-family or two-family property in Pennsylvania that is the borrower's principal residence.

?The delinquency must have been caused through no fault of the borrower.

?The borrower must have a "reasonable prospect" of being able to resume unassisted mortgage payments after HEMAP assistance ends.

The average size of a HEMAP loan is about \$11,000, and the overwhelming reason for delinquency is the loss of a job.

The Homeowners' Emergency Mortgage Assistance Program is an example of how a state government has, for a quarter-century, successfully put its financial resources into helping homeowners having temporary financial setbacks. It has helped 41,000 families, nearly 170,000 separate individuals, avoid the loss of their homes.

By giving homeowners the assurance of steady mortgage payments for a reasonable length of time, the program allows them the opportunity to seek education, job training and alternate employment. This helps support family and community stability. The program is another layer of home insurance for beleaguered borrowers at a difficult time in their lives.

Because assistance is made as a loan with strict eligibility standards, HEMAP is able to leverage its own resources. Recipients are expected to be able to stand on their own financial feet after being enrolled in the program. Since inception, it has received \$239,000,000 of appropriations, but has paid out nearly \$430,000,000 in assistance loans. The difference is made up by the more than \$240,000,000 of repayments from persons who have been enabled to make not only their own mortgage payments again, but to pay back their HEMAP loans. More than 19,500 recipients have repaid in full the money they borrowed.

HEMAP has been a national model of how foreclosures can be prevented, but it was never intended to handle the situation that has arisen over the past few years, with the onslaught of inflated appraisals,

predatory lending, sub-prime mortgages, and adjustable rate loans forcing an ever greater number of families into delinquency.

New Initiatives to assist Homeowners with Sub-prime Mortgages

In August 2004, PHFA and the Department of Banking released a report on lending practices in Monroe County, Pennsylvania, which was being hit especially hard by foreclosures. That county, adjacent to the greater New York City metropolitan area, was being targeted with questionable marketing, lending and appraisal tactics. An outgrowth of this experience was PHFA's development of a statewide network offering free homeownership and foreclosure mitigation counseling. Additionally, legislation was developed and approved that required lenders to forward Act 91 foreclosure information to PHFA, and the Banking Department's regulatory authority over lending practices was strengthened.

Working parallel with these measures, PHFA developed the REAL and HERO programs to address the current mortgage foreclosure threat. REAL is an acronym for Refinance to an Affordable Loan. HERO stands for Homeowners Equity Recovery Opportunity.

Both programs are funded through PHFA's sale of taxable, and, subsequent to Congress's approval of the housing rescue package this summer, tax-exempt securities. Along with that, PHFA has set aside \$10 million for a loss reserve fund, and PNC Bank has also loaned PHFA \$5 million at a below-market interest rate for 15 years to assist. The City of Philadelphia has provided an additional million dollars of loss reserve funds to help City residents.

REAL

The REAL program offers affordable 30-year fixed interest rates to homeowners who are no longer able to afford their mortgage payments. Because the REAL program combines 100 percent financing with flexible credit underwriting, it offers relief to borrowers who otherwise may not qualify for existing mortgage refinance programs.

A network of approved lenders originates, closes, and sells REAL loans to the Agency.

The following is a summary of the program guidelines:

?The combined gross annual income of all borrowers may not exceed \$120,000. This may be waived for consumers not eligible for a refinance loan available in the general market.

?Applicants may be up to 59 days behind on their existing mortgage and can include arrearages in the REAL loan amount.

?The applicant's monthly total debt obligations including the REAL loan payment may not be more than 50 percent of total gross monthly income (or 45 percent for borrowers with a credit score below 620).

?The REAL loan may be used to finance items such as subordinate mortgages, closing costs, prepayment penalties, delinquent property taxes, and arrearages that have occurred within the past 12 months after a payment reset.

?Borrowers must have a credit score of at least 620 or meet both of the following conditions:

1.The mortgage payment adjusted in the last 12 months to a higher interest rate or a fully amortized payment and the applicant has made no more than two, 30-day late payments since the adjustment. The mortgage payment history 12 months prior to the adjustment shows no history of late payments.

2.The credit history of other debt (car loan, credit cards, etc.) shows no more than three, 30-day late payments 12 months prior to the mortgage adjustment.

HERO Program

HERO is a loan program designed to improve the financial situation of Pennsylvanians who are not able to afford their current mortgage payments. This program is for borrowers not eligible for the REAL program or another mortgage refinance product available in the general market because of credit issues, or because they owe more than their home's current appraised value.

HERO provides for up to 100 percent financing, but, instead of the borrower refinancing into a new loan, PHFA purchases the loan directly from the current lender and then sets up an affordable repayment agreement with the homeowner. In cases where more is owed than the home's current value, PHFA may negotiate for a discounted purchase of the loan from the current lender or servicer. In some instances a HERO loan may be done as a refinance if the lender is not willing to sell but agrees to a short payoff.

Applicants will also be advised to contact the Pennsylvania Legal Aid Network office in their area to explore possible legal remedies to their mortgage situation. If appropriate, PHFA works with the Pennsylvania Department of Banking as well as the Pennsylvania Attorney General's Office to negotiate

fair purchase terms with the current lender. PHFA-approved counseling agencies will provide debt and delinquency counseling to each HERO borrower to increase their level of financial literacy and help them learn how to more effectively manage their debt, budget their income and save money.

The interest rate for the HERO program is 7.95 percent with no points. This is a fixed rate, and there is no prepayment penalty. PHFA services all HERO loans. Property taxes and insurance are escrowed with the borrower's monthly mortgage payment.

The following is a summary of the program guidelines:

?The combined gross annual income of all borrowers may not exceed \$120,000. This can be waived for consumers not eligible for a refinance loan available in the general market.

?Applicants must demonstrate an effort to meet financial obligations to the best of their ability.

?Applicants must have stable and sufficient income to maintain timely mortgage payments on the HERO loan.

?Applicants must own the mortgaged property and reside in it as a permanent residence.

?The home's current value must support the proposed HERO loan.

?The current lender must accept PHFA's terms and conditions for purchasing the loan.

ISSUES

A recent survey showed Pennsylvania having 194,430 sub-prime loans of which 18.3 percent were delinquent. Of the total sub-primes, 132,057 were fixed-rate with 15.31 percent being delinquent, and 63,373 were adjustable rate mortgages, showing 24.2 percent delinquencies.

Many servicers and lenders are very slow or reluctant to negotiate to restructure loans for fear of being held liable by investors. If servicers were allowed to modify loans with agreed upon standards, more homeowners could remain in their homes.

The establishment of a loss reserve fund for the restructured mortgages is critical for any refinancing initiative.

A strong education component should be mandatory to provide homeowners with an understanding of mortgage products and homeownership responsibilities.

Further information about PHFA programs may be viewed on the internet at www.phfa.org.

I hope this brief review of the programs being offered to citizens of Pennsylvania assists Congress in its efforts to help hard-pressed homeowners across the nation, and the Pennsylvania Housing Finance Agency stands ready to offer any advice and information it can to help with your efforts. I would like to extend my invitation to contact me or my staff if you have questions about any of the material provided to you.

Thank you very much for the opportunity to speak to you today, and please accept my best wishes as you continue your service. It is needed and appreciated.