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Field Hearing on:

The Effects of the Foreclosure Crisis on Neighborhoods in California's Central Valley: Challenges and Solutions

Before the

House Financial Services Committee
United States House of Representatives

Stockton, California
September 6, 2008

Thank you for holding a hearing to focus on ways to stop the rising foreclosure rates in the California's Central Valley and the impact of these foreclosures on our communities. My name is George Duarte, and I am a mortgage broker in the City of Fremont, doing business in East Bay-Alameda, Contra Costa, San Joaquin, Santa Clara and other counties since February 1986. I have earned a Certified Mortgage Consultant (CMC) designation from the National Association of Mortgage Brokers (NAMB), which is the most advanced credential for mortgage professionals offered by NAMB. I currently serve as the Vice-Chairman of the Government Affairs Committee of the California Association of Mortgage Brokers (CAMB) for the northern region of California.

I appreciate the opportunity to testify on behalf of the California Association of Mortgage Brokers (CAMB) and would like to extend my gratitude to Congressman Cardoza and Congressman McNerney for the invitation to join the panel today to share CAMB's observations and experiences about the challenges consumers face as they seek to avoid the tragedy of foreclosure and the impact of rising foreclosures on the Central Valley. I commend the Committee for traveling to what some have called "ground zero" for the mortgage crisis that is facing our nation to hear directly from those of us who are seeing the problems first-hand. We are in the community, assisting those who are faced with the tragedy of losing their homes and also witnessing the aftermath of the crisis and its dramatic impact on neighborhoods.

The California Association of Mortgage Brokers (CAMB) is a non-profit professional trade association comprised of licensed real estate brokers, salespersons, and affiliated lenders whose primary business is assisting consumers in obtaining residential and commercial real estate financing, and brokering conventional and government mortgage loans. Since its inception in 1990, CAMB has promoted the highest standards of professional and ethical conduct, among which are expert knowledge, accountability, fair dealing, and service to the consumer and our community. The Association provides education, legislative and regulatory representation, and public relations for its members, while serving as a forum for the development of common business interests across the industry. CAMB has led the mortgage industry by being first in California and the country to define and combat predatory lending, as well as creating a mortgage origination handbook that has set the standard for best practices in the industry. At both the state and federal levels, CAMB has advocated for and is dedicated to curbing predatory lending practices, while ensuring the best products are available to help more and more Americans achieve and sustain the dream of homeownership.

Foreclosures in California's Central Valley

The number of homes across the country in danger of foreclosure has more than doubled since last year and despite some reports to the contrary, the situation is getting worse, not better. At the end of July, RealtyTrac released the *U.S. Foreclosure Market Report*, indicating that foreclosure filings were up 14 percent more for the second quarter of 2008. For the past eight quarters, foreclosures have been on a steep rise, with foreclosure filings in California up 198 percent from just last year. One in every 65 California households received a foreclosure filing during the second quarter of 2008.

Unfortunately, the Central Valley of California has been heavily impacted by the foreclosure crisis. With San Joaquin County on track to have more than 16,000 homes foreclosed on this year alone, the Central Valley continues to be at the center of this crisis. Stockton has experienced a 50 percent decrease in median home values in just the last 12 months, and our neighboring cities and counties are experiencing similar declines. This dramatic decline in home values impacts the equity of homeowners who are not in trouble and has caused some to "walk away" from their properties even when they can make the mortgage payment because they owe more than the home is worth, further exacerbating the problems of vacant properties in our communities. Projections are that things will get far worse as negative-amortizing loans are scheduled to reset in the next twelve months. It is imperative to stop the downward spiral of people losing their homes, which is also causing the equity of other area homeowners to vanish. We commend the Committee for its continued focus on finding ways to achieve stability in the housing markets to end the foreclosure crisis and stop these dramatic declines in home values.

CAMB's Preserving Homeownership Initiative – Helping Homeowners to Avoid Foreclosure

CAMB members have been reaching out to community leaders in an effort to provide assistance to homeowners who are facing foreclosure through CAMB's Foundation, which is a 501(c)(3) non-profit organization. Through its Preserving Home Ownership Initiative Program (PHOI), the CAMB Foundation provides free, community based forums that allow existing homeowners a one-on-one mortgage counseling session with a CAMB advisor. The PHOI program began initially as a program to help homeowners to understand their loan documents and to answer any questions regarding financing, credit and homeownership. Due to the current market situation, PHOI has evolved into a program that offers counseling to homeowners about the loan modification process.

PHOI events take place at community locations and often in partnership with other local organizations and elected officials. The California Department of Consumer Affairs and Business, Transportation and Housing Agency have partnered with the CAMB Foundation to offer the PHOI program in a town hall setting. In addition, the PHOI program has been facilitated by local television networks through a telethon format, allowing us to reach thousands of consumers. Since January 2008, we have convened more than 50 PHOI events across the state of California, as part of the Governor's Task Force. In addition, in the last ten months we have held ten telethons, seven in English and two in Spanish.

PHOI advisors are experienced volunteers that are members of CAMB. The counseling services provided at PHOI events are absolutely free of charge and CAMB volunteers are prohibited from engaging in self promotion or soliciting business from event participants. We are dedicated to ensuring that PHOI remain an educational event for consumers, as opposed to a forum for advisors to generate business leads. With that in mind, rules of conduct for advisors at PHOI events are strictly enforced.

PHOI counselors provide advice to consumers about the loan modification process and how to have a successful interaction with a servicer. We provide phone numbers for lenders. We offer advice about what materials consumers should have in front of them before they call their servicer and we offer strategies for them to be successful in their call. For example, we advise consumers to immediately ask for the Loss Mitigation Department when they call their servicers. We also provide advice about how to complete the loan modification form. Further, we counsel consumers on what to expect in terms of how long they might be placed on hold, and acceptable time frames they might have to wait to receive an answer regarding the consideration of their loan modification request. The bottom line is that PHOI counselors try to provide homeowners with as much information as possible so that they can advocate for themselves when they contact their loan servicers.

The most recent PHOI telethon was held on August 8, 2008 in Sacramento, California. We partnered with Channel 3 KCRA, an NBC affiliate, from 5:00 a.m. to 7:00 p.m. to offer information and advice to individuals who called our hotline. The telephones were manned by ten to twelve PHOI counselors. There were also two PHOI counselors available to answer questions by e-mail. We arranged for Countrywide and Wells Fargo to establish a hot line for the day. During the course of the day, we received over 1,000 calls and 400 e-mails from consumers in need of assistance.

Problems with Servicers

I would like to take this opportunity to share with the Committee what we have learned through our PHOI events about the problems many in danger of foreclosure are facing in seeking assistance from servicers to find a solution that would allow them to remain in their homes. Families at risk of foreclosure can be helped tremendously when competent professionals are there to assist them in understanding their options and navigating the mortgage servicing labyrinth. Unfortunately, it is all too often that individuals feel they have nowhere to turn as a result of the responses they receive from loan servicers when they call the toll-free phone number that is printed on their monthly mortgage statements.

While PHOI has been very successful, it is apparent with the rising foreclosure rates that more must be done to reach all who are in need of assistance in avoiding foreclosure. From our PHOI events, we have learned that consumers are confused and they do not know where to go for help. The misinformation they have received is unbelievable. The first logical step for any consumer is to call the toll-free phone number on their mortgage statement to request assistance. However, for far too many homeowners, this call only leads to frustration and confusion.

I cannot overemphasize to you that the volume of individuals who are in need of assistance is overwhelming. While lenders are reporting high levels of loan modifications, their efforts are clearly not enough given the long lines of people coming to us for help and given the confusion and frustration that consumers express to us. What has happened to so many of our fellow Americans to get them into this situation is abhorrent. The stories that we have heard are heart wrenching, and also as mortgage professionals we find them to be infuriating. Not only are we hearing about high incidences of mortgage fraud, but also the majority of the time PHOI event participants are learning about their options for the first time and have been misinformed or misdirected by their servicer.

We believe that in order to stem this tide of foreclosures, it will be absolutely critical for servicers to make significant improvements to their loan modification processes and to offer clear instructions and competent, trained, and compassionate individuals to work with their customers. Counseling entities do not have the ability to address the sheer volume of all of those who need help. Without improvements to the servicers' operations, we will continue to see the high volume of people in need of assistance in getting the information and results from the servicers that they need. Based on our experiences with the consumers we have met seeking assistance through the PHOI program, we would like to offer the following observations about problems with the servicers that need to be corrected:

Lack of Experience. We have found that the departments for servicing and loss mitigation are not prepared to handle the volume of inquiries or the types of issues that are being raised by homeowners. While we commend servicers for responding to the foreclosure crisis by hiring more loan modification staff, the problem is that many of these individuals are not fully trained or appropriately qualified to assist consumers with the loan modification process.

Inconsistency in Information. Time and again, we have been told by consumers that they have received different information, instructions, or advice each time that they call and speak to a different person at their servicer. Because consumers are not always working with the same person, the terms or requirements for loan modification frequently change. For example, one consumer we worked with was told that they could not be helped until they missed two payments. After missing two payments, they called back and were told that they could not have their loan modified because they were delinquent on their payments. Essentially, servicers are advising people to harm their credit and become late on their payments and then penalizing them for doing so after the fact.

Lack of Coordination in Servicing Departments. We have found a total lack of coordination among the loan servicing departments. Departments do not talk to one another or share information about a specific account. As a result, a consumer could be working very hard with the Loss Mitigation Department for a loan modification, but because the Default or Trustee department is not aware of this, the person's house can be sold at a trustee sale in the middle of the loan modification process. Further, if the consumer is directed to the Collections Department, the focus is on collecting late payments rather than working on the loan modification.

Time Delays. Most of the servicers take between 90 and 120 days to let a consumer know if they are approved for a loan modification. Some take even longer. With some of the lenders, the consumer might send in their loan modification materials but it takes so long to process it that the package will expire and the lender will tell the consumer that they have to start over.

Lack of Consideration of Individual Hardship Circumstances. Most servicers require a hardship letter to be included in the loan modification package. Unfortunately, it appears to us that these hardship letters are largely ignored. Instead, decisions are made by formulas as opposed to the individual's circumstances that have caused the difficulty in making payments. Most people we see at our events have two or three years of excellent payment history. The problem for many arose when their minimum mortgage payment reset. If servicers would consider leaving payment where it was prior to the reset, this would help many avoid foreclosure.

<u>Modifying Some ARM Loan Terms Across-the-Board as Opposed to Individually</u>

In addition to the problems with the loan modification process in the aforementioned section, a significant drawback of the loans that have caused so much damage is the feature that results in very high margins that begin after the initial fixed period of two or three years. Margins of five, six, or even seven percent are quite common on these loans, causing the fully indexed rates to reset by double digits after the initial fixed period. As we have seen these dramatic loan resets make it virtually impossible for many consumers to sustain timely mortgage payments.

While lenders' efforts to respond to loan modification requests one-at-a-time is understandable, the sheer volume of requests have caused that system to fail and as a result far too many individuals are losing their homes to foreclosure. One way to stop the wave of foreclosures we are experiencing would be to place a temporary moratorium on the adjustment of adjustable rate mortgage (ARM) loans, keeping them at their start rates for a period of three to five years, or if already adjusted, roll back interest rates to their initial start rates. These solutions would maintain the initial affordability offered to consumers and stop what is occurring in our neighborhoods. Another option would be to place a temporary limit on the margins of ARM loans to no more than 1.5 percent, which would have the impact of actually lowering the current rate from the initial start rate on many ARM loans, and result in maintaining the initial affordability of the loans for the consumer.

Many of these options are currently being utilized by lenders. The problem is that the loan modification process is bogged down by the ever-increasing numbers of individuals that are in danger of foreclosure. For example, one lender has told us that they currently have 42,000 pending modification requests and they cannot hire qualified individuals fast enough to deal with this backlog, let alone the flood of new modification applications that are coming in every day. Rather than moving forward, the estimate is that they are further behind by a rate of 500 files per day.

CAMB has long cautioned against government involvement in the mortgage process that would negatively impact the availability of mortgage credit and I stand by that today. However, given the magnitude of what we face during this housing crisis with so many homes approaching foreclosure, we must consider the consequences of allowing things to continue without intervention.

Saving the Neighborhoods Impacted by High Foreclosure Rates

In addition to helping families avoid foreclosure, we must also rescue our communities from the negative impact of foreclosed properties. Vacant homes in neighborhoods often have overgrown yards and are subject to decay and vandalism. These foreclosed properties provide a visual reminder for those living nearby that their neighborhood is declining and their home prices are falling.

Ownership can help turn these neighborhoods around once again by filling these homes with families who care about the future of the community. We need to encourage first time homebuyers to purchase foreclosed properties over investors, who do not plan to occupy the home. Unfortunately, the system favors investors with cash over first time homebuyers in need of a mortgage. We must try to level the playing field between investors who plan to rent out the home and first time homebuyers who plan to occupy the home. This will help revitalize the communities harmed by the foreclosure crisis. There are willing buyers of REOs and short sales that are not able to purchase because of inefficient rules and procedures that often favor investors. We need to change these rules to make it easier for first time homeowners to purchase foreclosed properties and help owner occupied homebuyers effectively compete with investor purchases.

Further, the way that property values are determined must be changed to help avoid neighborhood equity loss due to REOs and short sales. Residential property values are most frequently valued by comparing sales data of similar sold and closed in the area. These valuations are affected by the dramatically reduced prices during short sales and REOs. Even at the current high rate, "distressed properties" represent only a small percentage of the total real estate market. As such, they should not be allowed to impact the entire marketplace of home values. They should be segregated into their own market and value pool. If REOs and short sales are treated as a different classification of property valuation, where the "distressed price" is noted in the appraisal, then a distinction could be made between "distressed properties" and regular sales and listings, resulting in a stabilization of home values.

Conclusion

Thank you for the opportunity to offer our observations to the Committee today as you explore ways to help homeowners avoid the tragedy of foreclosure and to help neighborhoods recover from the high rates of foreclosures. We look forward to working with the committee to address this problem as quickly as possible so that we can stem the tide of rising foreclosures in the Central Valley, the state of California, and across our country. We hope that the committee will also work to ensure that regulators and law enforcement officials can effectively combat mortgage fraud, and commend you for your work thus far to eradicate predatory lenders from our communities. It is our hope that these problems can be addressed quickly so that the American dream is sustained and so our nation can get on the path of economic recovery.