



California Association of Mortgage Brokers

Prepared Testimony of

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California Association of Mortgage Brokers

On Foreclosure Prevention and Intervention: The Importance of Loss Mitigation
Strategies in Keeping Families in Homes

Before the

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Opportunity

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Good morning Chairwoman Waters and members of the Subcommittee, I am Ed Smith, Jr., Government Affairs Committee Chair and Vice President of the Board of Directors of the California Association of Mortgage Brokers (CAMB). Thank you for inviting me to testify today before the Subcommittee on Housing and Community Opportunity to discuss ways to help families avoid foreclosure and remain in their homes. In my testimony today, I will share with you: (1) CAMB's efforts to help homeowners avoid foreclosure, (2) the difficulties CAMB has encountered in assisting consumers particularly during the process of loan modification, and (3) CAMB's recommendations to assist families trying to remain in their homes.

Since its inception in 1990, the California Association of Mortgage Brokers has promoted the highest standards of professional and ethical conduct. The Association provides education, legislative and regulatory representation, and public relations for its more than 4,000 members, which include mortgage brokers and affiliated service providers across California. CAMB also serves as a forum for the development of common business interests across the industry. CAMB is dedicated to helping to curb predatory lending practices, standardize the industry from within, and provide the best products available to our customers, including alternative loan products.

As you hear the numerous stories of unscrupulous actors in the mortgage industry, I want you to know that CAMB has led the nation in establishing and promoting industry standards and ethics. All CAMB brokers must adhere to a code of ethics, which sets us apart from other loan originators. CAMB aggressively supports the principle that the first line of protection for consumers is to work with professionals who hold a license, and thus are accountable to regulatory agencies, legislative bodies and the public for their actions. In addition, CAMB members stand for consumer choice in product selection and consumer knowledge and education.

CAMB Initiatives to Protect Consumers and Preserve Homeownership

As you are well aware, California has been heavily impacted by the mortgage crisis, with many families in our state facing payment resets and even foreclosures. There are many reasons for the dramatic increase in foreclosures and I commend you for your work in Washington, D.C. to identify and, where appropriate, legislate federal intervention to ensure such deficiencies in the mortgage marketplace are not allowed to continue. In addition to correcting these problems for future homebuyers, I am pleased that you are today focusing on ways to help those families who are currently facing the loss of their home.

CAMB is currently engaged in a number of initiatives designed to protect consumers and preserve homeownership. CAMB believes strongly that our Association must lead by example to demonstrate to our consumers, regulators and elected officials that we share a common goal to make sure that every borrower who receives a loan has the means and the understanding to repay the mortgage. CAMB remains focused on assisting consumers during this time through consumer information, self-policing the industry, working with regulators at the federal and state levels to provide solutions, and continuing to fight against fraud in all of its forms.

Preserving Home Ownership Initiative Program (PHOI)

CAMB members have been reaching out to community leaders in an effort to provide assistance to homeowners who are facing foreclosure. CAMB has created the Preserving Home Ownership Initiative Program (PHOI) to provide free, community based forums that allow existing homeowners a one-on-one counseling session with a CAMB member broker that can educate the consumer about the terms, rate, and other important data contained within their mortgage note. Initially piloted in September 2006 in Santa Ana, California, CAMB has hosted six PHOI forums, including four town hall meetings with the California State Department of Consumer Affairs.

PHOI events feature one-on-one sessions with member brokers to educate homeowners on their current loan program. The events take place at community locations and often in partnership with other local organizations and elected officials. This program is designed to enhance the consumers' awareness of the loan process so that they know how to protect themselves. PHOI is an educational event for consumers and is absolutely not a forum for participating member brokers to generate leads or business. With that in mind, rules of conduct for members are strictly enforced. All broker counselors sign an agreement stating that they understand they are providing a free service and that self promotion is prohibited.

Other CAMB Consumer Protection Initiatives

- Helping to design California's strong predatory lending prevention law as well as being the first mortgage broker association in America to provide a clear definition of predatory lending practices as a crucial first step in their elimination.
- Producing the CAMB Best Practices Handbook reflecting the highest standards of professional conduct and consumer protection in the mortgage industry, adopted by a number of other states to guide loan originators in their mortgage broker associations.

- Creating and distributing CAMB's Consumer Education and Protection Worksheet, giving loan originators and borrowers a comprehensive and custom education about loan programs available and the lending process.
- Distributing a statewide broadcast Public Service Announcement on alternative loan products with online and toll-free options for consumers to speak with a CAMB expert in their community to receive one-on-one education about their specific loans.
- Providing consumer friendly resources and consumer protections tips on the CAMB website so that consumers have an additional opportunity to educate themselves on the importance of understanding the mortgage marketplace.

CAMB's Experience With The Note Modification Process

I would like to call your attention to a problem that a number of our CAMB brokers have identified in their efforts to assist homeowners in danger of foreclosure. There is great frustration among mortgage professionals that have tried to help consumers navigate the process and communicate with servicers about modifying their loans. Based on the stories I have heard from our members, I can only imagine what the consumer is going through when attempting to address their mortgage situation on their own.

CAMB brokers have experienced difficulty in finding the right person at a loan servicer to help with a loan modification. Customer service agents are turning people away immediately by saying they cannot help or that the homeowner is not qualified for help. In some cases, instead of offering the option of loan modification, customer service representatives have said that the person should just sell the house. CAMB members know this is misinformation by the customer service representatives, but they also know to be persistent and ask to speak to a person who handles loss mitigation or loan modification. Our concern is that consumers will likely not know to do this.

In spite of the misinformation provided by the initial customer service agent, CAMB brokers have found that once they persist and speak to someone with the authority to deal with loan modifications, the workouts can be completed. The problem is navigating the loan servicers' customer service maze to get to someone who can help. Consumers are being turned away before being given a chance to fill out a financial history form to process a modification request. Mortgage brokers can help navigate this process, but even they are having trouble: having their calls forwarded multiple times without anyone willing to help, being placed on hold for enormous amounts of time, leaving numerous messages without a

call back. The bottom line is that loan servicers must improve customer service responsiveness to consumers in trouble, including better education and training of customer service representatives.

CAMB offers the following suggestions for troubled homeowners in order to aid them in requesting a note modification. These tips apply not only to the consumer who is presently in financial difficulty but also to the consumer whose payment may be increasing in the near future. Clearly, servicers could make this process much easier for homeowners facing late payments or foreclosures.

Prior to Contacting the Lender/Servicer

- Locate all loan documents.
- Make a list of all monthly expenses, including food, utilities, medication, child care, etc.
- Compile all pay stubs or income documentation for the last 2 months.
- Be prepared to explain the reason for financial difficulty, including the expectation that this financial situation will be short term (i.e. less than 90 days) or long term (i.e. more than 90 days).

When Contacting the Lender/ Servicer:

Immediately ask to be transferred to the Loss Mitigation Department.

When you contact the lender/servicer, you will most likely be talking to a Customer Service Representative. It is very important to understand that the Customer Service Representative will probably not be able to help. Explain that is very important to be transferred to the Loan Mitigation Department in order to receive the proper assistance with a workout program for your mortgage payment.

If you are behind on your mortgage payments, you may have to first talk to someone in the Collection Department.

The key here is to have patience and not get discouraged. This can be a very frustrating experience and if you are having difficulty getting transferred or not getting the cooperation of the Customer Service Representative, simply ask to talk to their supervisor. Don't take no for an answer.

Complete Information Request as Soon as Possible.

Once you have contacted the Loss Mitigation Department and explained your situation, there are a variety of items they will ask you to send in:

- Financial worksheet (this will be mailed to you).
- A letter explaining the financial hardship.
- Copies of complete tax returns for the last two years, including W-2 forms.
- Copies of bank statements (all pages) for previous two to three months.
- Copies of two most recent pay stubs.

Advocate for Yourself.

The review process can take from two to four weeks, sometimes longer. Once the review process is over, the lender/servicer will contact you and explain what they propose for the note modification. Do not be afraid to tell them what you feel is the best situation for you. No agreement can be reached without the consent of both parties.

CAMB's Federal Policy Recommendations to Help Prevent Foreclosure

As the mortgage crisis in California and the nation continues, CAMB is working to address the current needs of homeowners as well as working with policymakers at the state and federal levels to ensure that problems in the mortgage marketplace are corrected.

CAMB supports necessary reforms designed to protect consumers while ensuring access to a wide range of sound financing options for homebuyers and homeowners. As such, CAMB has developed a series of recommendations for Congress as you pursue viable and reasonable solutions to this crisis.

1.) Make flexible repayment strategies available for borrowers facing default and foreclosure.

CAMB urges loan servicers and secondary market investors to work with homeowners who are struggling to make their mortgage payments and facing the prospect of loan default and foreclosure. As discussed above, servicers must reform their customer service processes so that homeowners facing financial hardship are provided accurate information about their options.

2.) Ensure borrowers in California have access to federally backed loans.

In order for California borrowers to have the same access to sound, low-interest, federally backed loans as other Americans, CAMB strongly supports:

- **Increasing FHA and Conforming Loan Limits.**

Increasing the FHA and conforming loan limits is critical to any effective effort to ease the mortgage crisis in high cost areas, such as California. Much of the turmoil

we are experiencing in California will continue to get worse unless federal mortgage products are made available for the purchase or refinance of entry level homes in high cost areas. This is because the median home price of \$550,000 in California greatly exceeds lending limits for FHA and conforming loan products. Congress must increase the maximum loan amounts for FHA and GSE mortgage products in high cost housing markets, so that people living in high cost areas of the country will be able to refinance their current mortgage with stable, affordable mortgage products.

- **Reforming and updating FHA guidelines to increase access to these federally-insured home financing products.**

CAMB believes that the lack of FHA program accessibility was a major determinant in the decision by so many Californians to choose sub-prime loans to achieve homeownership. Today, mortgage brokers originate the majority of loans and therefore, provide HUD with the most viable and efficient distribution channel to bring FHA loan products to the marketplace. However, many mortgage brokers are not able to offer FHA products. This is because FHA requires cost-prohibitive and time consuming financial audit and net worth requirements for mortgage brokers in order to originate FHA loans. This effectively bars mortgage brokers from originating FHA loans, leaving sub-prime loan products as the only option offered to many borrowers. Replacing FHA net worth and audit requirements with a surety bond will allow more mortgage brokers to offer FHA products while affording HUD superior protection against loss to the FHA program. Surety bonds will provide the FHA program with more financial protection than audits or net worth requirements, which are snapshots in financial time holding no real value in the event of actual FHA losses. Congress should allow mortgage brokers to purchase a surety bond in order to offer FHA products, so that more borrowers will have the option of an FHA mortgage.

3.) Encourage Wall Street to work with lenders to develop lending programs and products that will remain attractive for capital investors and remain accessible to borrowers.

CAMB believes that loan programs must provide borrowers with options to achieve and sustain homeownership. Viable, time-tested loan programs must be restored to the mortgage market.

4.) Ensure high standards of professionalism throughout the mortgage industry.

CAMB urges Congress to ensure any new legislative provisions to combat predatory lending, such as licensing requirements and compensation disclosures, apply equally to all

mortgage originators. By doing this, consumers will be able to make informed decisions about the loan products available to them, no matter the distribution channel.

Conclusion

It is clear that all stakeholders must work together to protect the American dream of homeownership during this period of uncertainty in our nation's mortgage marketplace. CAMB's number one priority has always been, and shall remain, the consumer. As such, this Association will continue to be a champion for industry professionalism and consumer education and will continue to fight to protect homeownership opportunities for all Americans. CAMB members and mortgage professionals who adhere to a strict code of ethics will continue to call upon our colleagues within the industry to join CAMB in providing safe, viable and reliable pathways to homeownership.

On behalf of the California Association of Mortgage Brokers, thank you for this opportunity to share our recommendations and strategies for preserving homeownership in California during this difficult time. I am happy to answer any questions you may have.