

**Statement of Zach Oppenheimer**  
**Senior Vice President for Single Family Mortgage Business, Fannie Mae**  
**House Financial Services Committee**  
**Subcommittee on Capital Markets, Insurance, and**  
**Government Sponsored Enterprises**  
**June 14, 2004**

Thank you, Chairman Baker, Ranking Member Kanjorski, and Members of the Subcommittee.

My name is Zach Oppenheimer and I am the Senior Vice President for Single-Family Mortgage Business in Fannie Mae's Eastern Business Center. I am responsible for managing the company's assets and relationships with many of our largest customers. And, since 2001, I have led Fannie Mae's efforts to address the problems being discussed here today.

I want to thank you for inviting me to testify about our efforts and commend you, Congressman Kanjorski, for your leadership right here in and around Monroe County. Your concern and attention have been critical to helping families stay in their homes and right themselves financially. I am pleased to be here today to discuss Fannie Mae's experience in the Pocono area; to review our ongoing commitment to families here; to share with you the steps we are taking to help tackle their housing problems; and to promote responsible lending.

As this Subcommittee is keenly aware, Fannie Mae's mission is to expand homeownership; with a special focus on helping underserved Americans overcome the unique barriers they face. Our role among financial institutions – and one of the things that sets us apart – is that we provide private mortgage capital to all communities, at all times, under all economic conditions. As such, we invest in mortgage loans in every community across the country, regardless of whether those communities are experiencing fluctuating economic conditions.

Fannie Mae does not originate loans. Lenders such as banks and mortgage companies make mortgage loans to homebuyers. Fannie Mae then buys many of these mortgage loans from lenders in the very competitive

"secondary" mortgage market. All of the loans that Fannie Mae owns that are secured by properties in Monroe County were originated and sold to Fannie Mae by lenders active in the county. Fannie Mae relies on lenders who sell loans to us to comply with all laws and requirements, to properly underwrite the loans, and to properly assess the value of the properties securing the loans.

Because our mission is expanding homeownership, we are committed to being a leader in promoting responsible lending practices. Our strategy includes establishing business standards to avoid the purchase of potentially predatory loans, leveraging technology to lower homeownership costs, promoting servicing policies that help borrowers avoid foreclosure, and supporting anti-predatory lending refinance initiatives. Additionally, we support the adoption of a strong, federal anti-predatory lending law. We believe that a carefully balanced federal law will be most effective in driving out the bad players and bad practices, while preserving and expanding access to safe, low-cost lending, particularly in underserved communities. Although I cannot speak to the specifics of potential legislative provisions, we believe that to be effective, federal legislation must eliminate predatory lending without hindering the flow of mortgage capital to those in need. As the Subcommittee addresses this issue, we look forward to working with you to eliminate predatory lending, protect consumers, and continue the flow of mortgage capital.

### **Fannie Mae's Role**

Fannie Mae has been purchasing mortgage loans in the Pocono area for many years and continues to do so. While we have observed swings in home values over the years as the economic cycle in the area fluctuated, changing home values, by themselves, do not necessarily indicate a problem.

In April 2001, however, newspaper articles alleging inflated appraisals and homebuyers paying inflated prices on new homes began appearing in the *Pocono Record*. At the same time, Congressman Kanjorski alerted us that the valuation problems in this area required closer attention and we also began to hear similar concerns from lenders and others.

In April 2001, Fannie Mae owned or guaranteed close to 8,300 mortgages in Monroe County and the surrounding area. We immediately formed an

internal team to investigate the Pocono situation so we could identify the nature and cause of the alleged problems, begin to take any appropriate remedial action, and assist affected homeowners with their mortgage loans. Fannie Mae fully recognized that foreclosures can be devastating to homeowners and their families, destabilizing to the community, and often result in losses to the mortgage investor.

## **Taking Action**

Fannie Mae is pleased to be a participant in the Home Ownership in the Poconos Enterprise (or HOPE), which was formed by Congressman Kanjorski. HOPE has brought together national and local housing industry leaders, along with elected officials and community groups, to find solutions to problems in the Pocono housing market and to prevent similar situations from occurring in the future. Joseph Terrana, the Director of Fannie Mae's Northeast and Central Pennsylvania Partnership Office, is actively engaged in addressing community housing issues in the Pocono region.

Nationally, Fannie Mae has played an active role in helping partners develop customized mortgage solutions to problem situations. Our commitment to responsible lending extends to loan servicing and to avoiding foreclosure whenever reasonably possible. In the Poconos, we committed to working with borrowers, through our lender partners, on a case-by-case basis to make every reasonable attempt to keep families in their homes. Foreclosure is the least desirable way to resolve a problem loan and our actions were intended to reduce the number of foreclosures in the area.

Fannie Mae's loss mitigation efforts require our mortgage servicers to work with homeowners facing financial hardships to offer options designed to help homeowners stay in their homes. We require our servicers to actively explore whether special forbearance, extended repayment or loan modification plans would enable borrowers to resume making regular monthly payments. Where necessary and appropriate, servicers also explore voluntary pre-foreclosure sales and deeds in lieu of foreclosure with borrowers.

In this situation, we took several additional steps to address the special circumstances. We made individual telephone calls to lenders who serviced Fannie Mae loans in the area to alert them to potential appraisal problems,

and we provided them with a list of potentially affected loans for their review and action.

We directed our servicers not to foreclose on any property in the area until they had reviewed the original appraisal and loan origination documents for irregularities; we granted a moratorium on foreclosures for up to 60 days to allow a servicer time to complete an investigation; and we granted additional time on a case-by-case basis if circumstances dictated.

For homeowners who wished to refinance Fannie Mae-owned mortgages, but could not do so because of valuation issues, we also designed and offered a specific refinancing opportunity called the Pocono Mountain Refinance Initiative Mortgage (or PRIM).

From 1996 through the end of 2000, our servicers completed 384 foreclosures on Fannie Mae-owned loans in the Poconos; an average of just over 75 per year. Since that time, we have managed to reduce the foreclosure rate by more than half, and the trend continues lower. Since 2001, our loan workout efficiency in the area, which measures the percentage of serious loan delinquencies that we are able to cure without foreclosure, has averaged over 60 percent. The overall loan workout efficiency rate for the entire State of Pennsylvania has averaged between 42 and 46 percent.

Notwithstanding these challenges, Fannie Mae has remained committed to providing mortgage loan liquidity in Monroe County and the surrounding area. Since April 2001, Fannie Mae has increased the number of its owned or guaranteed mortgage loans in the area from 8,300 loans to nearly 10,000 loans. Fannie Mae remains committed to supporting the mortgage financing needs of the Pocono community.

## **Going Forward**

As Fannie Mae became aware of the appraisal issues in the Poconos, we made our concerns known to the lenders who were selling loans to Fannie Mae. We encouraged these lenders to implement processes and controls to improve the appraisal process to reduce the possibility that homebuyers would pay too much for the homes they purchased.

We have also developed new procedures designed to detect this kind of problem sooner. Our Automated Underwriting systems can now identify refinance transactions with potentially excessive property value estimates and we can now refer unacceptable appraisal reports identified through this process to the Pennsylvania State Board of Certified Real Estate Appraisers for their investigation. Additional guidance on appraisal requirements has also been provided to our lenders.

Since mid-2001, we have referred 48 appraisals involving 14 appraisers in the Pocono area to the Pennsylvania State Board of Certified Real Estate Appraisers. Of the Pocono area referrals, we have been advised that two licenses have been revoked, four cases are still pending, and seven cases have been dismissed.

We have worked directly with the community to address these problems, participating in round table discussions and joining community leaders in panel discussions.

We believe that better appraisal practices, both by the appraisers themselves and also by the local lenders in reviewing the quality of the appraisals, plus a better understanding of the home buying process on the part of the homebuyers could have enabled some consumers to avoid some of the problems they experienced.

Fannie Mae is a strong advocate of homebuyer education and even requires prospective homeowners to obtain homebuyer education under some of its loan initiatives. Fannie Mae supports non-profits that provide homebuyer and financial literacy education. Fannie Mae is also the exclusive source of funding for the Fannie Mae Foundation which, among other things, provides and supports homebuyer education. We worked with the Pocono office of the Alliance for Building Communities in 2001 to help them start a homeownership counseling program. We have recently worked with the Pocono based Pennsylvania Homeowners' Defense Association to facilitate the Defense Association's homeowner outreach efforts. Fannie Mae has also joined in the Keystone Housing Initiative, by backing a \$32 billion mortgage financing commitment to help homebuyers and underserved families purchase homes in Pennsylvania. Under the Keystone Initiative, state agencies, lenders and non-profit organizations will provide potential homebuyers with additional opportunities to learn about responsible borrowing and home buying. The Keystone Housing Initiative is a major

partnership between the Commonwealth of Pennsylvania and Fannie Mae and also includes participation from the Pennsylvania Housing Finance Agency and other state and local entities, including lenders and credit counselors.

Potential homebuyers in the area are now better able to obtain needed homebuyer education and are now more aware of the existence of community based and national homeownership counseling, homebuyer fairs, and credit counseling programs being offered in the community.

## **Conclusion**

Fannie Mae remains committed to providing mortgage loan liquidity in all communities throughout the United States, in strong markets, in weak markets, and through challenging times. Fannie Mae remains committed to this community and will continue to work with all parties to improve and strengthen the housing market in this area. Our mission and our ultimate goal, is to help more families achieve homeownership.