

**Statement of  
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(Now *doing business as* NeighborWorks® America)**

**Before the  
United States Senate  
Joint Economic Committee**

**Hearing: “A Local Look at the National Foreclosure Crisis: Cleveland Families,  
Neighborhoods, Economy Under Siege by the Subprime Mortgage Fallout”**

**July 25, 2007**

Chairman Schumer, and Members of the Committee, my name is Ken Wade, CEO of NeighborWorks® America, and I appreciate the opportunity to talk with you today about the efforts we and our partners are making to help stem the tide of foreclosures

NeighborWorks® America was established by Congress in 1978 as the Neighborhood Reinvestment Corporation and is the original / public/ private partnership model. Over the past 28 years, we have replicated this successful model in over 4,400 communities around the country. NeighborWorks® organizations operate in all 50 states, the District of Columbia and Puerto Rico; in America’s urban, suburban and rural communities

Over the past five years NeighborWorks® has:

- Assisted nearly 100,000 families of modest means to become homeowners (of which, 91 percent are low-income and 53 percent are ethnic/racial minorities)
- Own and manage more than 63,500 units of affordable rental housing
- Provided homeownership education and counseling to more than 317,000 families
- Trained and certified nearly 50,000 community development practitioners from over 5,000 organizations and municipalities nationwide; and
- Facilitated the investment of nearly \$9 billion in distressed communities across the country.

Today, my testimony will focus on our response to the precipitous rise in foreclosures.

NeighborWorks® America has a 30-year history of supporting lending to non-conforming borrowers – including lower income families, borrowers with impaired credit and others who would not normally qualify for a conventional mortgage.

By providing quality pre-purchase housing counseling, financial fitness training and working with borrowers to improve their credit rating, local NeighborWorks® organizations are able to present mortgage-ready borrowers who qualify for reasonably priced traditional mortgage loans and achieve sustainable homeownership.

From our experience, we know that the best defense against delinquency and foreclosure is objective education and advice before the borrower begins shopping for a home and selecting a mortgage product. And the best home buyer counseling is provided through objective, well-trained non-profit agencies (including local NeighborWorks® organizations and other HUD-approved nonprofit housing counseling agencies) that put the consumers' and the communities' interest first.

NeighborWorks® America has been tracking the loan performance of the many low-income families assisted by NeighborWorks® organizations over the years. These loans continue to perform significantly better than subprime loans.

In fact, a comparison of the loan performance of borrowers counseled by NeighborWorks organizations (in the first quarter of 2007) indicates that their loans are:

- 10 times less likely to go into foreclosure than subprime borrowers;
- Nearly 4 times less likely to go into foreclosure than FHA borrowers; and
- Slightly less likely to go into foreclosure than Prime borrowers.

NeighborWorks® America saw the problem of foreclosures coming over four years ago and, created the NeighborWorks® Center for Foreclosure Solutions, modeled on the successful trailblazing efforts of one of our local NeighborWorks® affiliates, Neighborhood Housing Services of Chicago.

Foreclosure reaches far beyond the individual tragedies confronting homeowners. Foreclosed homes can threaten entire communities. The value of surrounding homes goes down and other homeowners will have difficulty selling or refinancing their homes, leading to further disinvestment in communities. As a result, property taxes collected will be lower, affecting schools and government services, creating a downward spiral that is detrimental to the entire community.

A study by the Woodstock Institute found that a single foreclosure on a given block can directly lower property values of surrounding homes by \$139,000. Other studies show that one foreclosed property can end up costing a municipality as much as \$30,000.

And lenders report that each foreclosure can cost them from \$30,000 to \$50,000

And, studies confirm that foreclosures are much more likely to occur in high minority neighborhoods, even when all other variables such as borrower credit and income are held steady

NeighborWorks® America, in partnership with the Homeownership Preservation Foundation has established a national toll-free hotline for delinquent borrowers (**888-995-HOPE**) that is available 24/7 to provide callers with high quality telephone-based assistance (in English and in Spanish). Individuals needing more intense service than can be provided over the phone are referred to local HUD-approved housing counseling agencies

The key to helping as many people as possible through the **888-995-HOPE** hotline is to get people who are experiencing problems in paying their mortgage to call as soon as possible. Therefore, NeighborWorks® America is also launching a public service advertising campaign supported by the Ad Council, to decrease foreclosures by directing struggling borrowers to call the 888-995-HOPE hotline. The campaign has just begun, specially targeting areas with high rates of foreclosure. We anticipate that this effort will go a long way toward increasing public awareness of the 888-999-HOPE hotline.

Once the call is made, service begins immediately. They are connected with a trained counselor at the outset and depending on the problems, homeowners can get budgeting help, assistance developing a written financial plan, assistance contacting their lender to discuss payment options and loan restructuring, and a referral for face-to-face counseling through local HUD-approved housing counseling agencies. Counselors are also trained to look for and respond to callers who have experienced fraud in the mortgage process with appropriate referrals to local agencies and resources.

As federal, state and local legislators, regulators and others wrestle to identify proposed actions to respond to the surge in foreclosures, I want to stress that denying credit to the type of people NeighborWorks has served for decades (lower-income, families, minorities, people with blemishes on their credit reports) is not the answer.

In my view, the real challenge continues to be how to create informed consumers and foreclosure-resistant borrowers.

### **Ohio Foreclosure Prevention Efforts**

In April of 2006, NeighborWorks® America assisted in the creation of the **Ohio Foreclosure Prevention Initiative**, a statewide coalition of twelve organizations across the State of Ohio (10 being NeighborWorks® organizations). This statewide coalition joined forces with the NeighborWorks® Center for Foreclosure Solutions and the Homeownership Preservation Foundation to provide counseling to homeowners throughout the state, in danger of losing their homes to foreclosure. In the initiative's first nine months, 4,470 Ohioans reached out for help by using the Homeownership Preservation Foundation's 888-995-HOPE toll-free hotline number.

The twelve organizations that participate in this initiative include: East Akron Neighborhood Development Corporation, The Home Ownership Center of Greater Cincinnati, Neighborhood Conservation Services of Barberton, Neighborhood Housing Partnership of Greater Springfield, Corporation for Ohio Appalachian Development, Rural Opportunities, Inc. Ohio, Neighborhood Housing Services of Greater Cleveland, Neighborhood Housing Services of Hamilton, Neighborhood Development Services, Neighborhood Housing Services of Toledo, and St. Mary Development Corporation.

## **Closing**

*[Please note that recommendations below are not necessarily the Administration's positions, and that NeighborWorks® America is speaking as a public non-profit organization, as noted earlier – especially as NeighborWorks® America advocates for a national housing counseling fund.]*

In closing, let me state that from our experience, the best way to create foreclosure-resistant homeowners is through quality pre-purchase housing counseling. We challenge the real estate and mortgage industry to help figure out how to make housing counseling universally available for every first time home buyer in America. Is there a homebuyer in America who should be denied a basic level of home-buyer education? Given the scale of the industry, one option is the addition of an extremely small amount to every mortgage originated to create a national housing counseling fund to compensate counseling agencies for this essential service.

An alternate approach would be to ensure that a meaningful level of housing counseling be provided to any borrower considering a nontraditional mortgage – such as an interest-only mortgage, a negative amortization mortgage, an option-ARM or a 2/28 or 3/27 mortgage. It is clear that borrowers who have opted for these non-traditional mortgage products are encountering foreclosure at significantly higher rates.

And finally, as credit for subprime borrowers has begun to tighten up in response to current challenges in the subprime market, there is a larger need than ever for a reasonably-priced mortgage refinance product to assist families currently trapped in high-cost mortgages, as well as to assist additional families as more than 1.5 trillion dollars in adjustable-rate mortgages prepare to reset within the next two years.

I trust this testimony gives you a sense of some of the challenges we are facing and our response to families facing foreclosure. I stand ready to answer any questions you may have.

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