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HOUSE FINANCIAL SERVICES COMMITTEE HEARING ON

"TARP FOR MAIN STREET ACT OF 2009"

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Chairman Frank, Ranking Member Bachus, and members of the Committee, thank you for the opportunity to testify on H.R. 3068, the "TARP for Main Street Act of 2009" and other efforts to provide relief to homeowners and neighborhoods suffering from the effects of the foreclosure crisis. My name is William Apgar and I serve as Senior Advisor for Mortgage Finance to HUD Secretary Shaun Donovan. In this capacity, I have worked closely on the development and implementation of the Obama Administration's Homeowner Affordability and Stability Plan (HASP) which was announced on February 18, 2009, as well as other efforts intended to stabilize the U.S. housing market.

We are all aware that the U.S. is facing an unprecedented foreclosure crisis – with millions of Americans projected to lose their homes within the next few years. Working together, Congress and the Administration have undertaken a number of initiatives designed to prevent foreclosures and mitigate the impact of foreclosed and abandoned properties on local neighborhoods and the broader economy. These comprehensive and targeted programs are experiencing success. However, the magnitude and evolving nature of the foreclosure crisis has necessitated the development and use of innovative tools. Congress has provided additional legislative authority on a number of occasions, most notably to improve the initial Hope for Homeowners Program, provide FHA with additional tools to mitigate foreclosures, and increase flexibility under the Neighborhood Stabilization Program.

HUD is pleased that the Financial Services Committee is once again examining a range of options for responding to the housing crisis. We believe that the goals of H.R. 3068 are commendable, as it attempts to help borrowers and communities in need of additional assistance. HUD stands ready to work with you and others in Congress to build on these objectives as we seek to refine the Administration's overall response to the current foreclosure crisis.

The Neighborhood Stabilization Program

We applaud Chairman Frank and other sponsors for recognizing the magnitude of the foreclosure problem and the need to continue to mitigate foreclosures. HUD stands ready to work with your Committee to explore efforts to increase the capacity of state, local governments, and nonprofits to purchase and rehabilitate foreclosed properties and use the $6 billion that has been appropriated for the Neighborhood Stabilization Program (NSP).

The current economic crisis has not only threatened the American dream of homeownership for millions of individuals but also the stability of neighborhoods across the nation. Communities in every corner of the U.S. are suffering from the impact of high rates of foreclosure and abandoned property. Many homeowners are facing foreclosure because they can no longer afford the payments on their homes either because their monthly payments have increased dramatically or they have lost employment. Other homeowners are merely choosing to walk away from homes when the value of the home decreases substantially below the outstanding mortgage balance.

Regardless of the reason, when homes are abandoned, properties and communities begin to deteriorate. Not only do abandoned and neglected properties create eyesores in neighborhoods, but these properties often increase public safety concerns because many become venues for a wide range of criminal activity and increase the risk of fire, particularly hazardous in high-density urban areas where fires can spread quickly to nearby buildings. In addition, vacant properties jeopardize public health by creating opportunities for infestation by vermin and mosquitoes and become dumping grounds for garbage which can spread disease. Moreover, the presence of abandoned properties in neighborhoods significantly affects the value of remaining properties and imposes a massive fiscal burden on local tax payers.

In the past week, HUD Secretary Shaun Donovan witnessed first hand the devastation that concentrated foreclosure can wreak on formerly stable middle-class communities when he toured hard hit areas in Nevada, California and Alabama. Secretary Donovan has challenged HUD to do all that we can to work with Congress and the Administration to insure that the nearly $6 billion appropriated to date for the NSP plays its intended role in helping to stabilize housing markets and combat blight. In many communities, the NSP is starting to generate real results, but HUD will continue to monitor program activities, identify strategies that produce real results, and work to make program modifications that will help ensure that this funding is deployed quickly, wisely, and well.

The Administration is currently exploring additional options for reducing the number of vacant homes in neighborhoods and mitigating the negative spillover effects. One approach that has been suggested would encourage the purchase of Real Estate Owned (REO) properties to provide additional rental stock in hardest hit areas. Alternatively, REO property could be used to restore a path to homeownership via “rent-to-own” formulation where borrowers who can’t afford a modified payment on their current homes could be pre-qualified to “rent-to-own” smaller homes.

Emergency Mortgage Relief

HUD would like to commend the Committee for placing the spotlight on the negative impact that rising unemployment is having on the ongoing foreclosure crisis. The current very high level of unemployment is making the already difficult task of helping families struggling to meet their mortgage payments even harder.

Initial efforts by the government to prevent foreclosures were not primarily designed to target an environment where one in five workers would be unemployed in some of the hardest hit communities. For example, the center piece of the Obama Administration’s Making Home Affordable Program is helping at-risk borrowers avoid foreclosure by reducing mortgage related payments to 31% of monthly income. Unfortunately, individuals who have lost their jobs or experienced a significant drop in income generally do not have income sufficient to qualify for the program. Neighborhood Housing Services of Chicago estimates that roughly 45% of the more than 900 borrowers who sought help at two recent counseling events would not qualify even if their interest rate were dropped to 2% and their loan terms were extended to 40 years under the Home Affordable Modification Program (HAMP).

As the economy has weakened, unemployment has become an increasing cause of mortgage default and foreclosure. Approximately 27% of borrowers who called the mortgage industry's national "HOPE Hotline" in the second quarter of 2009 cited unemployment as the primary or secondary reason for their mortgage problems, up from 9.7% in the second quarter of 2008. When coupled with falling house prices, an environment of rising unemployment makes it impossible for homeowners to utilize traditional ways of mitigating a disruption of income – refinancing or selling the house.

Once again we commend the Committee for similarly seeking to provide assistance to homeowners behind on their mortgage payments because they have lost their jobs and have a reasonable prospect that they will be able to resume full mortgage payments. HUD looks forward to working with the Committee to better understand the approach on these issues taken in H.R. 3068, and to forge a series of programmatic options that can help unemployed workers get the mortgage assistance that they need.

Troubled Multifamily Properties

Over the last year, while the spotlight has been on the single family home mortgage foreclosure crisis, bank analysts, affordable housing advocates, and local governments around the country have become increasingly concerned about an impending multi-family property foreclosure crisis. As in the single family market, investors and individuals, enabled by loosening underwriting standards, purchased multi-family properties at sales prices that were not supportable given the existing income from the property. As the real estate market has cooled off, these owners are finding that they are underwater with an outstanding mortgages greater than the properties' values and/or unable to pay both maintenance and debt service. Analyst reports indicate that these loans are increasingly falling behind on their debt service payments. More troubling however, is that once these loans reach maturity, borrowers will be unable to repay their mortgages and will be unable to qualify for refinancing. Even properties which are less stressed – that is they still have positive equity and net operating income -- may be unable to refinance upon loan maturity at current underwriting ratios without an additional equity infusion.

Many of these loans are held on individual banks' balance sheets or are bundled into Commercial Mortgage-Backed Securities (CMBS). It is difficult to estimate the total dollar amount at risk in just the multi-family market - there is no single data source on loans in bank's individual portfolios, and data for CMBS can also include other commercial buildings, such as offices, hotels, etc. However, a recent Deutsche Bank report estimated that $67 billion of short-term fixed-rate CMBS loans that were originated from 2005 to 2007 will mature at some point from 2010 and 2013 and will be unable to refinance. And the Deutsche Bank report goes on to add that there is a "distinct risk that bank commercial mortgages will under-perform CMBS loans." The Commercial/Multifamily Quarterly Data Book from the Mortgage Bankers Association shows that the first quarter 2009 delinquency rates among multifamily mortgages in CMBS and held by banks and thrifts have jumped to the highest levels experienced since 1996, when the MBA began tracking these data: 1.85% for CMBS and 2.28% for banks and thrifts. One year ago the multifamily delinquency rates were 0.48% for CMBS and 1.01% for banks and thrifts.

That report also argues that "there are hundreds of billions of dollars, perhaps more than a trillion dollars, of commercial mortgages scheduled to mature in the next decade that are unlikely to qualify for refinancing without substantial equity infusions from borrowers." This statement corroborates what local governments across the country have been seeing and if this trend continues, we could be facing a multi-family foreclosure crisis just as the single-family crisis is easing. This could have significant, negative impacts on the economy as well as the families living in these multi-family properties, who will likely experience worsening housing conditions and who, it is worth noting, are entirely blameless in this situation.

Recognizing this impending crisis, HUD has already taken action. For example, Secretary Donovan has led the Administration's review of potential means to expand access to bond financing to assist State and Local Housing Finance Agencies in continuing to pursue their important financing role to expand both affordable homeownership and rental housing opportunities. HUD has also created an internal task force to develop a better understanding of this emerging crisis, has reached out to Treasury and the Federal Housing Finance Agency (FHFA) to explore new approaches to confront this situation, and is now completing a top to bottom review of HUD's own multi-family initiatives to identify new programmatic alternatives. Building on these efforts, HUD looks forward to working with the Committee to explore various options for stabilizing the multifamily housing sector.

Capitalization of the Housing Trust Fund

The foreclosure crisis is adding to the already overwhelming need for affordable rental housing in this nation. Many individuals that lose their homes to foreclosure lack affordable housing alternatives and often become at-risk for homelessness. An estimated 12 million renters and homeowner households now pay more than 50 percent of their annual incomes for housing, well in excess of generally accepted housing affordability standards. Families with such high rent burdens not only tend to reside in marginal dwelling units, but also may have difficulty affording necessities such as food, clothing, transportation and medical care.

The expansion of the supply of affordable housing for low-income families is at the very core of HUD's mission. In addition to providing public housing and Section 8 vouchers to low-income individuals, the HOME Investment Partnerships, and FHA multi-family finance programs bring federal resources directly to the state and local levels for use in the development of affordable housing units, or to assist income-eligible households in purchasing, rehabilitating, or renting safe and decent housing.

HUD's efforts to increase the supply of affordable housing received a big boost last year with the authorization of the Housing Trust Fund in the Housing and Economic Recovery Act of 2008 (HERA). The Housing Trust Fund represents the bi-partisan enactment of perhaps the most significant new federal housing production program since the creation of the HOME Investments Partnership Program in 1990. The purpose of the Trust Fund is primarily to increase and preserve the supply of rental housing for low and very low income households, including homeless families and to increase homeownership for extremely low-and very low-income families. Funding will be provided to States, including State Housing Finance Agencies for the production, rehabilitation or preservation of affordable rental housing, with up to 10 percent of funds available for low-income homeownership.

Originally authorized with a dedicated funding stream from assessments on Fannie Mae and Freddie Mac, the financial difficulties of these entities have eliminated this revenue source at least in the short term. In response, the Administration included $1 billion for the initial capitalization of the Housing Trust Fund in the fiscal year 2010 HUD budget proposal now being considered by the Senate and House Appropriations Committees.
Given the uncertainty over the level of funding and the severity of the affordable housing crisis, HUD welcomes further discussion with Congress to identify the best method to secure the funding needed to make the Housing Trust Fund a reality.

Conclusion

Once again, I would like to thank you for the opportunity to participate in today's hearing and commend the Committee for proposing enhanced efforts to address the growing foreclosure crisis in the U.S. I want to reiterate HUD's willingness to work with the Committee to achieve the objectives highlighted in H.R. 3068 as we seek to improve the Administration's overall response to the housing crisis, and address the continued need to expand access to decent and affordable housing for all Americans.