

**Testimony of
Michaela Albon
On Behalf of
Washington Mutual**

**Before the
Subcommittee on Housing and Community Opportunity**

House Committee on Financial Services

Los Angeles, CA

November 30, 2007

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Michaela Albon, Senior Vice President, General Counsel, Home Loans Division

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Madame Chair and members of the Subcommittee, my name is Michaela Albon, and I am Senior Vice President and General Counsel of the Home Loans Division at WaMu. I am pleased to be here today on behalf of WaMu to discuss our efforts in helping our borrowers find alternatives to foreclosure and ways they can overcome financial obstacles to keep their home. WaMu, through its subsidiaries, is one of the nation's leading consumer and small business banks. The company has a history dating back to 1889 and its subsidiary banks currently operate approximately 2,700 consumer and small business banking stores throughout the nation. WaMu also is one of the nation's largest originators of single family mortgage loans.

Clearly, the housing market is currently experiencing a sharp downturn. These events are painful for homeowners, lenders, investors, and for our communities alike. Housing inventories are rising, demand is falling, and home prices are thus declining. This is especially true in markets such as California, which are coming off an extended period of rapid home price appreciation. Moreover, delinquencies and foreclosures are increasing as fewer borrowers are able to refinance or quick sale their way out of financial trouble.

It is imperative that we all continue to work together to help stabilize the housing market, and WaMu is absolutely committed to doing its part. That's why we led the industry with the \$2 billion commitment we announced in April to help subprime borrowers work through reset periods, and why we are extending reset periods on both prime and subprime loans. It is also why we are diligently working with the HOPE NOW Alliance, our legislators and regulators and community groups throughout the nation to find creative solutions to the housing crisis.

Simply put, we view foreclosure as a last resort and work very hard to keep our customers in their homes and keep them as customers. We fully recognize that no party wins when a lender is forced to foreclose on a borrower, and we encourage our customers to contact us as soon as they anticipate difficulty in making payments on their mortgage so that we can discuss their various options.

Early Intervention

Our firm belief is that early intervention combined with expanded options is instrumental to helping our customers avoid foreclosure. To that end, we are applying particular emphasis on reaching out to our adjustable rate mortgage customers at least six months prior to a rate reset through direct mail, dialing campaigns and statement messaging. Overall, we have sent almost 5 million pieces of outreach mail year-to-date and will continue to work with our borrowers requesting assistance up until their reset date and beyond.

Under our \$2 billion assistance program, we are focused on helping our subprime customers who are current in their payments, but are feeling the effects of this challenging environment. We are reaching out to our customers and encouraging them to contact us if they are concerned about making their new mortgage payment as a result of a payment adjustment on an adjustable rate mortgage. And, if we do not hear back from a customer as a result of our initial outreach efforts, we will continue to attempt to contact them approximately every 30 days thereafter. Our offers of assistance include refinancing or modifying their mortgage into a fixed rate loan at a discounted rate.

We're pleased to say that this program, which is just one component of our broader assistance efforts, has been well received. To date, we have refinanced or modified approximately \$720 million in loans and will increase that number in the coming months.

For those borrowers who have already become delinquent and are in need of assistance, we are offering expanded forbearance and loan restructuring plans, including permanent reductions in rate, extended terms and even partial forgiveness of debt. To the latter end, WaMu has publicly supported the initiative to reduce or eliminate the tax on the forgiven debt.

To increase consumer awareness of their options, WaMu has developed DVDs and CDs for borrowers who are in foreclosure, explaining various workout options and what they mean to the borrowers. We also have dedicated WaMu employees who participate in monthly Homeownership Preservation Workshops in major metropolitan areas that are experiencing high rates of foreclosures to assist distressed borrowers and to complete workouts on location.

WaMu maximizes the opportunities to meet with our customers by reaching out to them via mail and phone and personally inviting them to attend the events, which are held in the homeowners' communities so borrowers can meet face-to-face with a WaMu employee to work out a solution to keep them in their home. We have even offered \$100 gift cards to customers if they will attend and speak to us about their loans. WaMu recently participated in events held in Anaheim and Ventura, both of which were considered very successful. Borrowers are telling us that they enjoy the personalized touch and the friendly manner that our employees bring to these difficult discussions, and we look forward to expanding our efforts in the coming months.

With regard to the percentage of WaMu loans currently in foreclosure, we do not publicly disclose this information. However, we give borrowers every consideration as we work to assist them while making prudent lending decisions and adhering to investor requirements and restrictions.

Despite the best efforts of lenders and servicers to help borrowers avoid foreclosure, the industry does face challenges. For example, the terms and conditions of applicable pooling and servicing or other servicing agreements, as well as tax law and accounting rules, determine the requirements regarding the loans we service on behalf of securitizations and third-party investors. These factors significantly define the parameters of our servicing and loss mitigation activities with respect to those loans. Declining home values (lack of equity), subordination of junior liens and securitized seconds also affect our ability to assist borrowers. Perhaps our biggest challenge, however, is simply reaching the borrowers who are most in need. If we can't reach them directly or indirectly such as through community organizations, we cannot help them.

Local, Regional and National Partnerships

In addition to WaMu's own efforts as a lender and servicer, we partner with local, regional, and national nonprofits to combat rising rates of borrower delinquency and default. These include an expanding number of local networks made up of nonprofits, industry and public partners.

For example, WaMu is partnering with the Homeownership Preservation Foundation to link homeowners in danger of foreclosure to the 1-888-995-HOPE hotline and local NeighborWorks® organizations to receive free counseling from HUD-approved agencies.

WaMu also supports a national foreclosure prevention advertising campaign with the National Ad Council, which seeks to decrease foreclosures by directing struggling borrowers to call the hotline. This partnership supports industry research to identify foreclosure trends and effective practices and builds capacity for local nonprofit organizations through grants and high quality training and standards.

Additionally, WaMu is a member of the recently-announced private sector initiative called the HOPE NOW Alliance, which brings together the nation's leading mortgage counselors, mortgage servicers, lenders, investors, and other industry experts to explore their ideas on how to reach and help homeowners. We recently participated in the HOPE NOW outreach efforts and our employees are active participants in all of the working groups, including the groups responsible for expanding the counseling initiatives.

WaMu Mortgage Broker Standards

The final area I would like to cover today is our industry leading measures we have taken to help borrowers through the loan origination process. In late September, WaMu co-sponsored a national conference on consumer education. In October, we introduced a requirement in our wholesale channel that we hope will soon become standard industry practice.

All brokers who submit loans to WaMu must also provide the borrowers with a simple and clear disclosure of their relationship with the borrower and lender, the amount of their compensation and how it is being paid and key loans terms, including whether the interest rate on the loan may increase and whether the loan carries a prepayment penalty. In addition, we now reach out to every wholesale borrower before the loan closes to review their loan terms.

This effort has received great acceptance from customers, community groups and key legislators and regulators, and we believe these industry-leading standards for mortgage brokers should serve as guidance for the industry as a whole.

Another industry leading measure we adopted was new standards around our subprime lending. WaMu was among the first to eliminate 2/28 and 3/27 subprime products. We also now require tax and insurance escrows on all subprime loans.

Conclusion

In closing, I'd like to reiterate that while we expect the housing environment will continue to prove challenging, it is imperative that we continue to focus on the future and on renewing consumer confidence in the housing market. Housing is key to the financial well being of many Americans, since it is most often their largest financial asset. It is also the basis of financial health for local and state governments who rely on real estate taxes for schools and other important services. And, housing helps drive local economic development.

We look forward to our continued partnership with public policy makers, nonprofits and industry and public partners, and with other lenders and servicers to bring positive, meaningful change to the mortgage industry.

Thank you for your time today. I'm more than happy to answer any questions you have.