MORTGAGE BANKERS ASSOCIATION
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Statement of

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Chairman Frank, Ranking Member Bachus and members of the Committee, my name is Edgar A.G. Bright III, CMB, and I am President of Standard Mortgage Corporation in New Orleans. I also serve on the Residential Board of Governors of the Mortgage Bankers Association (MBA), the national trade association for the real estate finance industry[1].

The events of August and September 2005 are etched into all of our minds, particularly those of us who watched neighbors and friends face challenges few of us could have imagined before Hurricanes Katrina and Rita hit.

As President of Standard Mortgage, I was faced with the immediate task of accounting for my employees after Katrina hit. All of them and their immediate families were safe, but many sustained damage to their homes, including myself.

Shortly thereafter, a group of Standard Mortgage employees convened in Dallas to meet with FICS, our data processing company, and Fannie Mae. We began executing our disaster recovery plan from the offices of FICS and Fannie Mae. Standard Mortgage was also assisted in Dallas by First American and Freddie Mac. Our headquarters had been flooded and we were restricted from returning to our building for six weeks. We were forced to relocate temporarily to Baton Rouge. A Standard Mortgage "SWAT" team pulled all essential data and paper files out of the headquarters. Mail service was literally unavailable for months.

Simultaneously, we began to assess our loan portfolio and instituted a policy of forbearance on all loans in the Katrina area. The entire industry quickly followed suit. The massive forbearance policy caused significant capital shortages for us. We borrowed money from Ginnie Mae to ensure payments to Ginnie Mae Mortgage Backed Securities investors. We have since paid those loans back completely.

In the immediate aftermath of the storm, my focus was on recovery and ensuring that my customers had access to their loan information and insurance information. Having experience with previous disasters, we also knew that the insurance check endorsement process would be massive. It was. We reassigned 75 percent of our origination and servicing staff to process the thousands of insurance loss drafts through our several origination offices in the ensuing months.

To give you an idea of the impact on the storm on our customers, I would like to share some statistics. Of the 28,000 loans we serviced pre-Katrina, 20,000 were in a FEMA declared disaster area. Of those 20,000 loans, 8,000 homes were in the highest

[1] The Mortgage Bankers Association (MBA) is the national association representing the real estate finance industry, an industry that employs more than 500,000 people in virtually every community in the country. Headquartered in Washington, D.C., the association works to ensure the continued strength of the nation's residential and commercial real estate markets; to expand homeownership and extend access to affordable housing to all Americans. MBA promotes fair and ethical lending practices and fosters professional excellence among real estate finance employees through a wide range of educational programs and a variety of publications. Its membership of over 3,000 companies includes all elements of real estate finance: mortgage companies, mortgage brokers, commercial banks, thrifts, Wall Street conduits, life insurance companies and others in the mortgage lending field. For additional information, visit MBA's Web site: www.mortgagebankers.org.

impacted areas. Over half of the 8,000 heavily damaged properties are secured by FHA and VA loans.

Industry Actions in the Immediate Aftermath of Katrina

The entire industry was called to action to help borrowers affected by Hurricanes Katrina and Rita. Two days after Katrina made landfall, the MBA sent a letter to its members encouraging them to offer all available relief to borrowers. Federal regulators and the secondary market later provided guidance on what was expected of financial institutions in this field.

The initial period of forbearance was critical in the short term. As you may recall, the storm hit on August 29th. Most loans have payment dates of the first of the month. With a full evacuation of the city under way, few people had access to their paperwork. This forbearance period was able to give the region the breathing room it needed in those early days.

Forbearance does not come without a cost however. Today's mortgage market involves not just the borrower and lender, but several other participants as well. A borrower meets with a loan officer or broker and takes an application. The entity that funds the mortgage often sells that loan into the secondary market, to an investor, such as Fannie Mae, Freddie Mac or one of a growing number of private-label securitizers. The right to "service" the loan (interact with the consumer, collect payments, handle escrow funds, etc.), is either retained by the loan originator or sold to another company. Whoever services the loan is responsible for making payments to the investor *whether or not a borrower is making payments.*

The relationship between servicer and investor is an important one to understand. It is the contractual duty of the servicer to make principal and interest payments to the investor as long as the loan is still viable. When a servicer grants forbearance, the company is agreeing to make payments for the borrower, in expectation that the borrower will cure and pay back the funds. Servicers, however, often have to borrow funds to cover the payments they have to make to investors. In our case, we borrowed money from Ginnie Mae to advance to their MBS holders, a rather unusual situation. Servicers have many other responsibilities to investors. The standard servicing contract details the servicing fee the servicer receives for performing the servicing functions on behalf of the investor. The typical servicing fee is 0.25 percent of the loan balance, or $250 for a $100,000 loan balance per year.

Nationally, in those early days after the storm, the lending industry, and millions of other Americans, began to open their hearts financially to people who needed help. The MBA, for example, made a $100,000 contribution to the American Red Cross. MBA followed that contribution up with a $500,000 donation to Habitat for Humanity to provide for a program management office that is still leading Habitat's re-building efforts in the Gulf Coast. Member companies of the Financial Services Roundtable, many of whom are also members of MBA, contributed over $93 million in cash contributions to hurricane relief agencies, with $65 million in direct corporate contributions, and over $28 million in employee matching funds. All of us on the Gulf Coast were heartened to see the degree to which our fellow Americans reached out to help us.

When the scale of the problem became clear in the weeks after the storm, leaders of our industry gathered in Washington, D.C. to plot a longer-term course to address these problems. It was clear by October of 2005 that there would be a need for the federal government to step in not only to address the short-term problems, but to also help address the longer-term problems of re-building as well. The industry agreed to create a working group made up of major lenders, servicers and their trade associations.

The industry working group was an example of ideal industry cooperation. While working in an anti-trust-sensitive fashion, we were able to identify common problems and discuss paths toward solving them. One of the early challenges we encountered were our agreements with the secondary market and how we would live up to our commitments.

At the end of November 2005, right around the Thanksgiving holiday, we marked 90 days from Katrina's landfall. This was an important date because without the extension of forbearance, our standard secondary market contracts tell us that after 90 days of non-payment, procedures should begin to foreclose on a loan. While that is a reasonable standard to follow usually, this was far from a usual situation. Our friends in the consumer, civil rights and labor communities, like our industry, understood how devastating a massive wave of foreclosures would be at that particular time. The last thing our industry wanted to do was to add to the challenges that so many people were facing in the region.

Thanks to the leadership of state and federal banking regulators, Fannie Mae, Freddie Mac, the Federal Housing Administration, Department of Veterans Affairs and other key players, however, disaster was avoided. An industry practice was established that forbearance in the worst-impacted areas should continue and would be re-visited every 90 days. This was a watershed event. Despite predictions of thousands of foreclosures, virtually nobody impacted by the storm was foreclosed upon.

Longer-Term Solutions

In November and December of 2005, we were also focusing on a longer-term solution to the problems of the region. It was becoming more and more clear that a major federal investment would need to be made. Absent that, our investors would begin demanding that we move to some sort of final disposition of the properties. At that point the first truly long-term proposal appeared, that drafted by Congressman Richard Baker, a senior member of this Committee. His plan was a well-thought out proposal that moved all of us from dealing with today to how we deal with the future. While the Congressman's plan ultimately did not receive Administration support, no discussion about the early phase of the region's recovery would be complete without including this critical effort.

An idea that did gain support was for a large-scale investment in the region through existing programs, mainly the Community Development Block Grant (CDBG) program. At the end of December 2005, as part of the FY 2006 Defense and Supplemental Appropriations Act (PL 109-148), Congress appropriated $11.5 billion through CDBG to, among other things, assist homeowners. Later appropriations increased this funding. While the states of Mississippi and Louisiana submitted proposals to the U.S. Department of Housing and Urban Development (HUD) detailing how they would use the funds to assist homeowners, the centerpiece of both programs was plans to provide up to $150,000 of assistance to impacted homeowners.

By funding these programs, Congress and the President put the region on the path to recovery. This was an extraordinarily important achievement. Until this time, the discussion within the real estate finance industry dealt with how we would have to finally dispose of the properties, possibly through mass foreclosures, followed by sales of properties to consolidators. After these programs became a reality, we were able to see a path toward recovery. Despite efficiency issues in disbursing funds that have arisen in both states, lenders and homeowners now see that additional funds are on their way.

Mississippi designed their plan to help make up for gaps in insurance coverage. Many homes in Mississippi were flooded because of the extraordinary storm surge that came ashore as part of Katrina. Homeowners whose properties hugged the coastline generally carried flood insurance, received settlements from the National Flood Insurance Program (NFIP) and filed claims with their hazard insurance carriers for wind damage. However, the extent of catastrophic flooding extended beyond the flood zone. Homeowners with mortgages who live outside a Special Flood Hazard Area (SFHA) are not required to have flood insurance, while those who are inside do have to purchase it (and if they do not, mortgage servicers must "force-place" it or face significant penalties). Since flooding is excluded from homeowner insurance policies, homes without flood insurance that were destroyed were without funds to rebuild or repair.

When Mississippi first formulated their plan for CDBG funds, the plan looked much different than it does today. Lenders were to assist in overseeing that the funds were used to repair properties. When Phase I of the Mississippi plan was issued for comment to the public, however, the program was redesigned as a direct compensation to the homeowner. The reason for this change was due primarily to the problems with complying with the National Environmental Policy Act (NEPA). I mention this here only to stress a later point about the need to review the efficacy of NEPA during times of crisis. Under Phase I, homeowners who had an insurance policy are eligible to receive a grant of up to $150,000 or the insured value of their home, based on the extent of damage to the home. The grant amount would be reduced by any insurance, SBA loan or FEMA payments. Homeowners who have to elevate their houses to comply with building codes to avoid future floods could receive an additional $30,000 to cover these costs.

The Louisiana plan, which is called The Road Home, seeks to solve a very different problem. In Louisiana, homes were destroyed that were thought to be protected by flood control systems and thus some areas were not deemed high risk flood zones (i.e., SFHAs). Due to the catastrophic failure of these systems, water flooded the city and was not drained for weeks. Therefore, the problem was not just a gap in insurance, but rather how to bring enough capital into the city to bring back the more than 300,000 citizens that were displaced for what would be an extended period of time and to ensure that the CDBG funds remained in Louisiana for economic and re-building purposes.

Louisiana's plan gives homeowners three choices: stay at the property and repair it, sell the property to the state and stay in Louisiana, or sell the house to the state and relocate out of state. Awards, also capped at $150,000, are based on the lesser of the pre-storm value of the home or the estimated cost to repair. It was evident that a primary objective of the state had to be to ensure rebuilding of affected parishes. Awards, therefore, are designed to meet these objectives. Citizens who decide to rebuild are provided the maximum amount of award available under the program. Grant funds used to rebuild are not being directly disbursed to homeowners, but are being deposited into disbursement accounts, to be drawn as funds are needed for repair. Similarly, if a citizen sells the property but purchases another property in the state, the maximum grant award is available. Award amounts would be reduced by several factors. If no insurance was carried at all on the property, but should have been (such as no flood insurance on a property in the flood plain), awards would be reduced by 30 percent. People who leave the state would also have their grants reduced by 40 percent.

Louisiana's plan is fundamentally different from Mississippi's because they address two different problems. Louisiana is trying to repopulate the New Orleans area and re-vitalize a shattered city. In addition, they want to protect citizens who receive awards from being victimized by unscrupulous contractors. Mississippi is trying to help homeowners address gaps in insurance coverage. Both are worthy goals. MBA and the real estate finance industry continue to be active partners in making these programs a success.

While both programs have faced challenges getting funds into the hands of homeowners, it is important to remember the enormous task that is at hand. In an insurance situation, the process is relatively simple. Eligibility is determined by whether insurance was in place at the time of the event. After the event an adjuster visits the property, makes an assessment, determines whether the damage was caused by a covered peril and, if so, delivers funds, subject to appeal. These processes were built over decades of business need, process improvement and negotiation. Lenders also play a vital role in insurance situations. Lenders can file insurance claims on the borrower's and lender's behalf. Lenders can often intercede in insurance disputes, provide copies of original policies, verify the borrower's identity and monitor (secure) the funds for rebuilding. In the case of distribution of grant awards, entire programs and processes had to be set up. There was no real back-up system for dealing with lost title documents and questions of identity. Obtaining property values or damage estimates was difficult. Eligibility rules had to be established, valuation models had to be created, title issues needed to be cleared and dozens of other issues have arisen. While many homeowners are frustrated by the slow pace of awards, both states have done admirable jobs with these programs. There are lessons that can be learned from their experiences, but all in all the states have done a great job.

Current Status

As these programs serve the people of Louisiana and Mississippi, many homeowners continue to receive forbearance on their loans, over 500 days after Katrina. Our forbearance policies have worked. Data collected and released by the MBA[2] show that immediately after the storm, at the end of the fourth quarter of 2005, there were almost 50,000 loans that were over 90 days past due. By September 2006, that number had fallen to fewer than 17,000, but foreclosures were begun on fewer than 4,000 properties in the state up to that point in 2006, and most of these were outside the storm area.[3] For comparison purposes, in the First Quarter of 2003, long before the storm, about 4,000 loans were over 90 days past due, and there were about 2,000 new foreclosures. The comparable figures for Mississippi are: over 18,000 loans were 90+ days past due in the 4th Quarter of 2005 but fewer than 9,000 by September 2006. In the first three quarters of 2006, foreclosure began on under 3,500 properties in Mississippi. In the First Quarter of 2003 about 2,000 loans were over 90 days past due, and there were about 800 new foreclosures in Mississippi.

The cost to the mortgage industry to offer forbearance on this scale is enormous. The interest payments alone that servicers must advance to investors amount to an average of $10,000 per home per year. Given the long term delinquency rates we are seeing, a reasonable estimate of the total cost of these policies is $258 million.

Loans that are over 90 days past due generally move into foreclosure. The fact that so many loans in these states are over 90 days past due, yet the new foreclosure rates are relatively low, shows that there are thousands of people who continue to receive forbearance. Delinquency and foreclosure data are only collected at the state level, so we cannot be sure what proportion of these loans are in the impacted area. However, it is safe to assume that the vast bulk of loans over 90 days past due, but not in foreclosure, are in the impacted areas. Specifically, we can estimate that about 10,000 people in Louisiana and 4,000 in Mississippi continue to receive forbearance. Our lenders were surprised that many borrowers did not want extended forbearance and are continuing to pay their mortgages on time.

Once again, this forbearance is done voluntarily by servicers and the secondary market. It does not come without cost. While servicers no longer have to advance principal and interest payments on some of the GSE loans in forbearance, a significant percentage of

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[2] Mortgage Bankers Association: National Delinquency Survey, 3rd Quarter, 2006. Data from this study are not aggregated below the state level. The full survey can be found at: http://www.mortgagebankers.org/ResearchandForecasts/ProductsandSurveys/NationalDelinquencySurvey.htm

[3] "foreclosure begun" means the loans have started the process of foreclosure but have not been sold at foreclosure sale. Loans are classified "in foreclosure" according to investors' or local requirements. Investor standards define "in foreclosure" as meaning the loan has been referred to a foreclosure attorney or first legal action has occurred. Mortgage Bankers Association, National Delinquency Survey. Only 1 out of 4 properties "in foreclosure" reaches foreclosure auction. Mortgage Bankers Association, The Residential Mortgage Market and Its Economic Context in 2007, January 30, 2007.

private-label and all government loans remain in the securities and continue to require pass-through of principal and interest to investors. Lenders are still required to pay tax and insurance payments, manage these loans and perform basic property preservation.

Lessons Learned and Suggested Remedies
The experience of these storms and their aftermath has given us a template for action in the event of another catastrophe. However, while the homeownership piece of this tragedy was better addressed than many other parts of the response to the storm, there are significant lessons that can be learned. We present the following issues for consideration:

A. NEPA

The National Environmental Policy Act (NEPA) was one of the greatest challenges the MBA encountered when working with the states in their development of plans to implement the disbursement of CDBG funds. NEPA effectively hamstrung the states into how they could design their grant distribution program. Here is the problem: NEPA requires that "every federal agency evaluate the potential environmental impacts of major federal actions significantly affecting the quality of the human environment."[4] CDBG grants are subject to NEPA and other environmental laws contained therein, including historic preservation, floodplain management and wetland protection, coastal zone management, sole source aquifers, endangered species, wild and scenic rivers, air quality, farmland protection, HUD environmental criteria and standards, and environmental justice.

What this means is that HUD or its "designee" (the state) cannot specify the use of CDBG funds specifically for *rebuilding*, for example, without performing environmental assessments on each and every property indicating any impact of rebuilding (the "federal action") on historic preservation, floodplain management and wetland protection, coastal zone management, sole source aquifers, endangered species, wild and scenic rivers, air quality, farmland protection, HUD environmental criteria and standards, and environmental justice. While these are laudable goals, properties were pre-existing and thus the impact of rebuilding pre-existing housing would have no significant *new* impact on these particular concerns or could be addressed locally, such as with historic preservation.

Moreover, NEPA, in this context at least, has little to do with clean up of hazardous substances caused by hurricane damage or ensuring the safety of citizens before they repair or rebuild. What is even more troubling is that there are broad exemptions and exclusions offered under NEPA for national disasters, yet there is no one federal entity in charge of "activating" them. At one time, MBA considered requesting that each agency responsible for enforcing these environmental laws officially "waive" NEPA or "activate" the exemptions and exclusions, but we quickly determined such a task was futile. Time was of the essence and this was just too time-consuming. In the end, HUD and the states did a remarkable job of crafting plans that complied with NEPA, but the process was difficult, time consuming and even today, the states are not given the

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[4] (42 U.S.C. § 4332(2)(C))

freedom to impose controls on the use of the funds. We recommend creating a mechanism that would allow the President of the United States or another appropriate government entity to "activate" the NEPA exemptions and exclusions or otherwise waive NEPA for the purpose of rebuilding pre-existing housing after a disaster.

B. Duplication of Benefits

One of the continuing obstacles that homeowners face is receiving the proper amount of funding to make the necessary property repairs. Under the Stafford Disaster Relief and Emergency Assistance Act[5] federal agencies are not permitted to give recipients of federal assistance duplicate benefits. While in theory this statutory requirement makes sense, in practice it is causing some deficiencies in funding.

In the case of residential homeowners, duplicate benefits are those federal benefits obtained by the homeowners that are for the same purpose as those provided by another source, i.e., private insurance, FEMA, or SBA benefits to repair the home. As an example, a "duplication of benefit" will occur when CDBG funds, combined with a SBA loan for structural repair (and other sources of relief or funds for repair), exceed the SBA's estimate of damage. Unfortunately comparing an SBA loan and a CDBG grant is like comparing apples to oranges because they use different valuations of damage and often cover different line items of damage. This situation results in the state being required to pay down the SBA loan with CDBG grant funds, but it leaves the homeowner with insufficient funds to repair the property. This occurred in Mississippi, where homeowners were awarded CDBG grants, but received no funds or had significant deductions because the money went to another government agency to pay down a loan or payback grants. While paying down SBA loans with grant funds can be advantageous if all property repairs are completed, it is problematic when CDBG money is still needed to complete the rebuilding. Likewise, repayment of FEMA grants should not be triggered upon mere receipt of CDBG funds.

To avoid these deficiency problems, MBA recommend that SBA benefits be defined as the value of the interest rate subsidy--that is the value of the discounted interest rate on the SBA loan when compared to a market rate loan. Because a loan is a liability, the SBA component should be treated differently than insurance and grants. This recommended approach was used in New York after 9/11 when compensation grants were awarded to encourage people to move back to the City. In addition, MBA suggests that the agency (i.e., the state) "creating the duplication" should have the right to make the duplication of benefits calculation, because it can trim some time off getting grant proceeds to the recipients. We want to commend the SBA for their diligent and quick work on these matters. SBA has been very receptive to complex challenges such as this and is working with the current duplication of benefits definition to make sure that borrowers who still need money get it. MBA, therefore, reiterates that our recommendations are merely suggestions for increasing efficiencies today and in the event of another large scale disaster.

C. Coordinate Valuations Among All Government Entities

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[5] 42 USC 5155

As was the case after Katrina, valuations and appraisals of damaged properties are often conducted numerous times by numerous agencies after natural disasters. There should be some mechanism to "share" this information among agencies. The ability to communicate among all agencies and even the private sector would reduce the number of valuations being performed, thus saving the federal government and taxpayers money and speeding up delivery of disaster assistance. One component that is critical to achieving this objective is a common electronic language that ensures data is entered and stored consistently, and with the same definitions by all, so that computers "can talk to each other" and data and be sorted and manipulated as desired.

D. Study to Explore the Most Efficient Means to Dispense Federal Assistance

By all means, Congress, the federal agencies and state agencies involved in housing recovery have done laudable jobs in providing home repair assistance to victims of Hurricanes Katrina and Rita. The fact that money has been appropriated, plans developed, obstacles overcome and grants are available and being awarded is truly remarkable and I, along with my fellow citizens, am truly grateful. The long road we took and the lessons we learned along the way should not be forgotten. With this purpose in mind, MBA recommends that the federal government undertake a study that would document the lessons we have learned so that those who come behind us and face similar challenges can benefit from our wisdom and even our mistakes. The study should document the processes that have worked and more importantly explore if there are ways to "build a better mouse trap". The study could cover broad policy decisions such as the appropriate federal vehicles for disbursing federal dollars to small details such as underwriting standards for SBA loans or caps and eligibility limitations on FEMA grants. It's worth the effort.

E. Enhancements to Government Programs

I would now like to turn to specific issues of concern for the mortgage banking industry. Mortgage companies have pledged their support to assist borrowers and the communities they serve during this crisis. However, many of the mortgage companies that have faithfully provided credit to these communities and have granted borrowers substantial forbearance and other assistance, will face their own challenges as some property owners decide not to return to the area or do not apply for CDBG grants. Lenders are likely to incur significant loan losses when borrowers choose not to rebuild, are unable to rebuild or fail to apply for CDBG grants. While it is still too early to predict the exact magnitude of financial losses, some effort should be made now to ensure mortgage companies have appropriate and reasonable controls over loan losses.

MBA believes it is critical to begin discussing these business concerns and possible solutions before they become a crisis. At this point, lenders have not and do not want to progress to foreclosure on properties in severely impacted areas. At some point, however, foreclosures and other unfavorable dispositions will be necessary to stabilize and revitalize areas. Unfortunately FHA and VA programs do not pay standard insurance claims in the event of foreclosure on damaged properties. Servicers, who only administer the loans (e.g. receive the small administration fee), are thus stuck absorbing the catastrophic risk of the hurricanes with these government loans programs. Failure to address these issues will ultimately chill the industry's participation in these programs that have traditionally served low- and moderate-income areas, including the Gulf states. Since Katrina, at least one large lender has decided to no longer originate and service FHA loans. Others have decided to no longer bid on FHA servicing. We fear more will leave the program if this concern is not addressed.

F. Treatment of FHA Non-Conveyable Properties.

The Federal Housing Administration (FHA) provides credit insurance against the risk of foreclosure losses associated with loans originated according to FHA standards. FHA generally pays an insurance claim when it takes title (conveyance) to a property as a result of foreclosure. To convey a property and receive insurance benefits, however, FHA requires that the property be in "conveyance condition" (i.e., saleable condition). Properties that have sustained damage attributable to fire, flood, earthquake, tornado, hurricane, boiler explosion (for condominiums), or the lender's failure to preserve and protect are not eligible for insurance benefits unless they are repaired prior to conveyance of the property to the FHA. While HUD has in the past accepted properties in "as is" (damaged) condition on a case-by-case basis, this is rarely done. Moreover, HUD will deduct from the "as is" claim the estimated cost of repair. HUD should accept conveyance of damaged properties and not adjust the claim for the cost of repair when there was no failure on the part of the servicer to obtain hazard or flood insurance pursuant to federal law or if a borrower is eligible to apply for CDBG grant funds, but fails to do so. In addition, to the extent that a property is not conveyable (i.e., condemned, demolished by local, state, or federal government or deemed to be a Superfund site, etc), HUD should be permitted to pay the full claim without taking conveyance of the property. At this time, MBA does not believe HUD has the statutory authority to manage claims in this manner.

G. VA No-bids

Unlike the FHA, The Department of Veterans Affairs' (VA) Loan Guaranty Program does not provide 100 percent insurance against default losses. The VA is unique in passing risk of declining market prices to servicers because it provides only a limited guaranty. The guaranty varies, but generally covers 25 percent of the original loan balance. In the event of a liquidation sale (i.e., foreclosure), the VA uses a statutory formula to determine if it will pay only the guaranty or pay the servicer the outstanding debt (called "total indebtedness") and take title to the property. When the latter occurs, the VA sells the real estate owned to recoup the amount paid to the servicer.

When the former occurs and the VA determines not to take title to the property, it will issue what is called a "no-bid" Advice Letter. A no-bid occurs, by statute, when the net value (fair market value minus a statutory VA "holding cost" factor) is less than the unguaranteed portion of the total indebtedness (unpaid principal balance, allowable interest and advances less any credits). When this occurs, VA will pay the amount of the guaranty, but will not take title to the property. The servicer thus takes any loss after the resale of the property. These losses can be substantial, and in the wake of Hurricane Katrina, could be catastrophic.

Most VA loans are in Ginnie Mae Mortgage Backed Securities and, thus, we reiterate that servicers do not get the benefit of the principal and interest payments. The principal and interest is passed through to security holders, who are protected 100 percent against principal loss by Ginnie Mae's guaranty. The servicer takes the principal, interest and even out-of-pocket loss exposure to a large degree, despite the fact that they receive only a small administration fee per loan as income. Servicers are thus not equipped nor are they compensated to absorb *catastrophic* principal, interest and other losses. While it is true that servicers are aware of the risk exposure associated with the VA program, we believe this risk exposure is one factor for the shrinking demand for VA products. We are concerned that without some targeted reduction, servicers may abandon the program altogether as too risky or will increase rates to price for the catastrophic risk. Standard no-bid risk (non-catastrophic) already accounts for one-quarter to one-half percent higher interest rates on VA loans than FHA-insured loans.

In an effort to provide the VA with flexibility in this area and to assist mortgage companies in containing total losses, we ask that Congress consider providing the VA authority to waive the statutory requirement to declare no-bids. We ask that VA be permitted to take conveyance to a property and pay the total indebtedness and out-of-pocket expenses in cases of federally declared disasters areas without having to abide by the no-bid calculation. We also suggest allowing the VA to pay a claim even when conveyance does not occur due to unique circumstances, such as a declaration of hazardous waste contamination on the property.

We believe that by making the necessary statutory changes to these programs, these agencies will have more comprehensive authority to manage the issue of damaged properties and claims after a catastrophic disaster. The changes will demonstrate the federal government's commitment to these programs that will attract participants to the program. Without these changes, more lenders and servicers are likely to abandon these products as foreclosure losses begin to mount, thus affecting the future viability of programs specifically designed for low- to moderate-income households.

Conclusion

The mortgage industry responded admirably and correctly to the myriad of challenges spun from the destruction of Katrina and Rita, despite significant cost. While we have outlined some problems with various federal laws that have caused delays or reduced benefits, the government at all levels deserves commendation as it relates to CDBG funding. In a relatively short time, Congress injected billions of dollars into a region that needed it and the states designed significant programs to disburse the funds to individual homeowners. While not perfect, this is a significant achievement that deserves recognition.

These programs will not be enough, however, to re-vitalize the region, particularly in New Orleans. While Mississippi has thriving tourist and aquaculture industries, the City of New Orleans faced significant and persistent problems before the storm hit. If the city is going to recover to its pre-storm level, addressing the needs of homeowners will not be enough. Basic services, public and private, need to be strengthened. Significant progress has been made with education and healthcare. However, rental and public housing continue to be problem areas.

There is also a need to maintain and increase the number of private services – the little things that make urban communities thrive, such as locally owned dry cleaners and restaurants, the basic services that people depend on have to be given an opportunity to return. Without all of these elements coming back, more and more people will move out of the city, further depressing housing prices. This can create a vicious circle, as people make the economic decision that it is less expensive to let a house sit vacant than to sell or rent it. This leads to further depressed housing prices, leading to foreclosures and all of the social ills that come along.

We will do all we can to ensure that the Gulf Coast comes back and is better than ever before. We have already shown our willingness to sacrifice for this cause. But our sacrifice will not be enough. This is a national problem, and national solutions need to continue to be put into place to ensure that the region returns better than it ever was. We urge Congress to consider our suggestions.