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U.S. House of Representatives Committee on Financial Services
Subcommittee on Housing and Community Opportunity
Hearing on Foreclosure Problems and Solutions: Federal, State, and Local Efforts to Address the Foreclosure Crisis in Ohio
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Chairwoman Waters, members of the Committee, Ohio Delegation, thank you for the opportunity to discuss the impact of foreclosures on the state of Ohio. The crisis of mortgage foreclosure has touched all corners of Ohio. Virtually every county recorded an increase in foreclosure filings from 2005-2008, reaching the highest level statewide in 13 years.

The skyrocketing rate of mortgage foreclosure in our state is a problem that needs innovative and aggressive solutions—solutions the state of Ohio is making in a concerted effort to help our citizens stay in their homes. These solutions are a collaborative effort crossing all branches of government and expanding into the private sector as well. Today, as I explain Ohio's crisis and our innovative efforts to combat foreclosures, I hope that I can share my perspective, and also the perspective of the other Ohio entities who continue to wage the war on foreclosure.

AN OVERVIEW OF OHIO'S FORECLOSURE CRISIS

Many people with poor credit histories, no proof of income, and little or no down payment were aggressively marketed subprime adjustable rate mortgages (ARM) with low "teaser" introductory rates. Many borrowers have not been able to afford these loans, especially as adjustable rates have reset to higher rates. At the same time the value of many properties has declined and continues to decline.

In Ohio, the foreclosure rate has increased due to several factors, including predatory lending, the economy, job losses, and other major life events that can impact family finances. Recently, the Ohio Supreme Court reported that there were 83,230 new foreclosure court filings in Ohio during 2007. That is a record high and an increase of 5 percent over 2006.

In Policy Matters Ohio's April 2008 report, it is estimated that there was one foreclosure filing for every 60 housing units in Ohio in 2007.

Additionally, The Mortgage Bankers Association (MBA) reported that in the first quarter of 2008, Ohio had 4.1 percent of all loans in foreclosure – the third highest among the states. During the fourth quarter of 2007, Ohio had 3.88 percent of all loans in foreclosure – the highest of any state.

MBA also reported that nearly 6.6 percent of all mortgages in Ohio during the first quarter of 2008 were at least 30 days late. This is an improvement from the fourth quarter of 2007 when 7.24 percent of all loans in Ohio were delinquent. MBA reported that 14,950 Ohio homeowners filed for foreclosure during the first quarter of 2008, down from the 15,480 filings in the fourth quarter of 2007.

RealtyTrac reported in April that Ohio's foreclosure rate in the first quarter of 2008 ranked eighth highest among the states. Additionally, according to RealtyTrac, Ohio's six biggest cities were among the nation's top 46 metropolitan areas in the number of foreclosures during the first quarter of 2008.

- Cleveland/Lorain/Elyria/Mentor – 18th (was 6th last quarter)
- Dayton – 31st (was 15th last quarter)
- Columbus – 32nd (was 25th last quarter)
- Akron – 34th (was 12th last quarter)
- Toledo – 37 (was 19th last quarter)
- Cincinnati – 46th (was 33rd last quarter)

In February 2008, The Conference of State Bank Supervisors (CSBS) issued a report that projected that the number of subprime and Alt-A adjustable loan resets will increase each quarter during 2008 peaking in the fourth quarter. The report projects a steady decline in 2009. Additionally in May 2008, the Core Mortgage Risk Monitor predicted that mortgage delinquencies nationwide will continue to increase over the next six to 12 months.

While these statistics are sobering, they do not speak to the human stories behind each mortgage foreclosure, nor do they speak to Ohio's uniqueness on this issue.

In the last couple years, some states began their fight against foreclosure, but Ohio has been seeing an increase in foreclosures for over a decade. Obviously, Ohio has its share of economic problems which contribute to this trend, but Ohio also saw unscrupulous lending.

I have attached statistics that show Ohio's foreclosure trend since 1994.

I ask that you keep in mind Ohio's unique and continual battle with foreclosure, and please understand that there are states, such as Ohio, where the rising number of foreclosures has been ongoing for years—not just the last couple. I hope that you do not lose sight of this as you work in Congress on formulas and legislation to address the crisis.

IMPACT OF FORECLOSURES

Foreclosures have had a devastating impact on Ohio families, neighborhoods, entire communities, and our local governments. A family coping with foreclosure faces not only the loss of their home, but also damaged credit, which may affect their opportunities to borrow money at a reasonable interest rate for years to come. Damaged credit may even restrict employment opportunities and the ability to rent. The emotional strain on individuals and families can be just as serious as the community impact and economic repercussions.

Abandoned homes in our neighborhoods become havens for squatters, vandals, thieves and drug dealers. These blighted neighborhoods lead to serious problems for those who remain in the neighborhood, as property values decline and crime increases.

The broader impact of foreclosures on a community is equally troubling. Foreclosures affect the value of surrounding properties, and may impede others from selling their own homes even though they have been faithfully making all of their mortgage payments. A community with multiple foreclosures generates less property tax revenue to support all aspects of local government, such as schools, social programs, and fire and safety services. As their tax base erodes, local governments are forced to increase policing, pay for mowing and securing vacant properties, and meet a higher demand for social services.

The average sale price of homes in Ohio continues to decrease. The Ohio Association of Realtors (OAR) reports that the average sale price in Ohio in the first quarter of 2008 was $132,005—a 7.8 percent decrease from the same period last year. Statewide sales of new and existing homes in the first quarter of 2008 are 15.3 percent lower than for the same period last year. Additionally, OAR reports the total number of sales in 2007 was 131,120—an 8.6 decrease from 143,415 in 2006.

FORECLOSURES AND VACANT AND ABANDONED PROPERTY

The impact of vacant and abandoned property varies from one locality to another and one neighborhood to another. In Ohio, vacant housing goes beyond our current crisis. Ohio communities were experiencing problems with vacant housing before the subprime loan crisis hit the market, due to loss of population, obsolete housing stock, and the relatively low cost of housing in more affluent neighborhoods.

Nonetheless, vacant and abandoned property due to foreclosure is a problem that needs tackled.

The scope of the foreclosure crisis and the number of abandoned buildings left in its wake is far beyond the capacity of local jurisdictions. While local communities are allocating resources, these efforts represent only a fraction of the funds required to rehabilitate or demolish the thousands of properties impacted.

The high level of foreclosures in many communities has resulted in a rapid increase in the number of vacant and abandoned houses, accelerating the cycle of falling values and shrinking demand. The loss of population and jobs in many Ohio communities has created weak markets that defy traditional redevelopment strategies. In these areas, local stakeholders must make an honest assessment as to whether structures and whole residential areas are appropriate for rehabilitation or need more drastic redevelopment measures. The scale and impact of the problem is on the level of a natural disaster, warranting emergency assistance from the state and federal government.

In 2007, ReBuild Ohio authorized a study which was completed this February by Community Research Partners. The study, titled "$60 Million and Counting: The cost of vacant and abandoned properties to eight Ohio cities" examined the impact of such properties in Cleveland, Columbus, Dayton, Ironton, Lima, Springfield, Toledo and Zanesville.

Their research found widespread vacancies in large and small cities and identified an estimated 15,000 vacant and abandoned buildings and approximately 10,000 vacant and abandoned lots.

The study conservatively identified approximately $64 million in local costs to the eight cities due to vacant and abandoned properties. Of these costs, $15 million were identified for municipal services, such as code enforcement, boarding, demolition, and maintenance, as well as police and fire services. In addition, $49 million was identified in lost property tax revenue that severely impacted local governments and school districts.

The study focused on the patterns of vacant and abandoned properties as well as the value of occupied homes in three neighborhoods in Cleveland and in Columbus. The study found that some data displayed expected patterns in that the assessed values and sales prices rose in areas distant from vacant properties. However, in areas that were in close proximity to the highest vacancy rates, a pattern of increased value and sales price also occurred. This is likely due to property flipping and fraudulent mortgage schemes that artificially inflated the value of properties when they were quickly sold in short periods of time.

To address vacant properties, the eight cities are utilizing various strategies. These strategies include targeted and coordinated code enforcement, overcoming legal hurdles, aggressive demolition, land banking, investments in neighborhood revitalization, and partnerships to prevent foreclosure.

While cities are trying to combat the problem, more needs to be done to assist them. Ohio needs federal as well as state action to reduce the impact of vacant and abandoned property.

OHIO'S RESPONSE

On March 7, 2007, Governor Strickland announced the creation of a task force to deal with the mounting foreclosure crisis in Ohio. The 25 member Task Force, that I chaired, brought together representatives from state and local government, the financial industry, and the non-profit sector.

Based on the Governor's directive, the mission of the Foreclosure Prevention Task Force was to provide a unified response to improve prevention methods and manage foreclosure issues in Ohio. This was to be done through outreach and education for homebuyers and those facing foreclosures, proactive intervention to help homeowners facing imminent foreclosure, and financial resources and strategies to work out distressed mortgages to keep people in their homes.

OHIO'S FORECLOSURE PREVENTION TASK FORCE

Governor Strickland charged the Task Force to create the appropriate model of foreclosure prevention, intervention, and strategies to assist distressed mortgages. Our goal was to do everything in our power as a task force to assist Ohioans so they can stay in their homes.

We held 11 meetings and heard testimony from the public, interested parties, The Federal Reserve Bank of Cleveland, The Center for Responsible Lending, Freddie Mac, Fannie Mae, Countrywide Financial, Homeownership Preservation Foundation, HUD, and Montgomery County Recorder Willis Blackshear.

At the beginning of the process, we broke into subcommittees on Community Outreach and Community Education, Housing Options, Legal, Legislative, and Responsible Lender Options, which explored options from lenders to help Ohioans through loan modifications and work out resolutions. A total of more than 20 meetings were held, and each subcommittee submitted its report and recommendations to the full Task Force.

TASK FORCE REPORT AND RECOMMENDATIONS

The Task Force Final Report, a compilation of the subcommittee's recommendations, was submitted to Governor Strickland on September 10, 2007. The Task Force's report and recommendations contain the best ideas and approaches to help Ohioans and the state's communities prevent as many additional foreclosures as possible.

The Task Force issued 27 recommendations under seven themes:

1. Encourage borrowers to get help early
2. Expand housing counseling and intervention services
3. Work with lenders and servicers to maximize alternatives to foreclosures
4. Provide options for homeowners to refinance or restructure their mortgages
5. Improve Ohio's foreclosure process
6. Strengthen protections for homeowners
7. Help communities recover from the aftermath of foreclosures

The 27 recommendations of the Foreclosure Prevention Task Force were divided among numerous parties for implementation, asking each responsible party to take action. These recommendations comprise the state of Ohio's numerous efforts and programs aimed at addressing the foreclosure crisis.

OHIO'S FORECLOSURE PREVENTION EFFORTS

Governor Ted Strickland

In March 2007, before the Foreclosure Prevention Task Force had its first meeting, Governor Strickland had a meeting with subprime servicers and began the process toward an agreement between the state of Ohio and the servicers (Task Force Recommendations #8-11). At a press conference on October 9, 2007, Governor Strickland proposed the establishment of the Compact to Help Ohioans Preserve Homeownership between subprime mortgage servicers and the state. On November 8, 2007, Governor Strickland announced that, while the response to the proposed compact was inadequate and that nothing meaningful was offered, he was open to talk with individual servicers.

After Governor Strickland found the first response from the servicers unacceptable, I met with servicers and their trade associations in December 2007 to discuss the proposed Compact. On April 7, 2008, after a year of discussions and negotiations, nine mortgage loan servicers signed the compact, giving Ohio the first such signed agreement in the nation. The six principles agreed to by the loan servicers included their willingness to:

- Engage in a substantial and large-scale loan modification effort for ARM resets and subprime mortgages.
- Identify, evaluate and make good faith attempts to contact at-risk or defaulting borrowers as soon as possible.
- Modify loans to the extent permissible within existing fiduciary, contractual or other legal obligations and in accordance with prudent mortgage lending and servicing practices.
- Create incentives for staff and foreclosure counsel to modify loans rather than foreclose.

- Report progress to the Ohio Department of Commerce.
- Enter into a non-binding agreement with the state for some defined period of time. (The agreements extend to June 30, 2009.)

The servicers who agreed to sign the Ohio Compact are: Carrington Mortgage Services, Citi, GMAC RESCAP/Homecomings Financial, HSBC Finance Corp., Litton Loan Servicing, Ocwen Financial Corp., Option One Mortgage, Saxon Mortgage Services and Select Portfolio Servicing. I encourage more servicers to join their colleagues and the state of Ohio in this good faith effort to help Ohioans stay in their homes.

Ohio Department of Commerce

The Ohio Department of Commerce (ODOC) has been actively working to conduct a public awareness campaign and borrower outreach events to encourage borrowers to contact their servicer if they are facing an ARM reset or if they are having trouble making their mortgage payment (Task Force Recommendation #1). ODOC launched "Save the Dream," a multi-media public awareness campaign in March 2008 that includes statewide television, radio, and billboard advertising, an information-rich Web site (www.savethedream.ohio.gov), and a telephone hotline (888-404-4674).

The campaign is designed to help Ohioans prevent foreclosure. In a multi-agency effort, the second component Save the Dream was announced by Governor Strickland, Ohio Supreme Court Chief Justice Thomas J. Moyer, the Office of the Ohio Attorney General, Ohio Treasurer Richard Cordray, Ohio State Bar Association President Rob Ware, legal aid leaders, and Ion April 1, 2008. This initiative connects qualified homeowners with legal aid lawyers and nearly 1,100 attorneys statewide who have volunteered to provide legal services free of charge.

When a borrower calls the hotline, they are connected either with an attorney or a housing counselor. In addition, the telephone operator collects numerous pieces of information from the caller and emails this to the Ohio Department of Commerce's Office of Consumer Affairs (OCA), which is part of the Department's Division of Financial Institutions (DFI). If the caller provides the operator with the name of their mortgage servicer, OCA contacts the consumer's mortgage servicer on the customer's behalf. After notifying the servicer that the consumer has reached out to the state for assistance, we ask the servicer to make a good faith effort to work with this consumer to reach a reasonable accommodation. The servicer is also asked to keep the Department of Commerce apprised of any progress they make in each consumer's matter. OCA staff tracks and maintains all correspondence.

To date nearly 4,500 consumers have called the Save the Dream hotline. OCA has forwarded 1,500 callers' information on to mortgage servicers. Nearly 2,000 of these callers were immediately referred and transferred to housing counselors. 370 callers have been referred for legal assistance.

In March 2008, the Department of Commerce hosted Borrower Outreach Day events in Akron and Youngstown. These were the fifth and sixth Borrower Outreach Days, with previous events held in Nelsonville, Columbus, the Toledo-area, and Cincinnati. The U.S. Department of Housing and Urban Development (HUD) sponsored a Homeownership Preservation Clinic in Cleveland on August 30, 2007, which was supported by the state of Ohio. To date, nearly 2,000 Ohioans have participated in these events. More Borrower Outreach Days are being planned for this summer.

In addition to Borrower Outreach Days, OCA regularly conducts and participates in consumer outreach events throughout the state. The purpose of these events is to educate Ohioans on responsible borrowing practices, mortgage-related regulations, and steps they can take to prevent foreclosure. Also, OCA staff assists foreclosed-upon Ohioans in determining what options exist for them based upon the stage of their foreclosure.

OCA maintains a Consumer Affairs Hotline. Callers are encouraged to call this hotline if they have any question, concern or complaints regarding a financial institution or activity that the DFI regulates. Callers are either directly assisted by DFI staff or they are directed to the appropriate state or federal agency that can most effectively assist them.

OCA processes all consumer complaints made against individuals and institutions licensed by DFI or engaging in activity for which they should be licensed by DFI. OCA staff attempts to resolve each complaint and determine if an action has occurred that could constitute a violation of the rules and statutes administered by DFI. To accomplish this, the OCA compels respondents named in each complaint to address all of the consumer's allegations. These responses are then reviewed by OCA staff and DFI legal counsel to determine if any such violations exist.

In an effort to get lenders and servicers to maximize alternatives to foreclosure, ODOC pursued rulemaking authority (Task Force Recommendation #17b.). Administrative rules for the Ohio Mortgage Loan Act (OMLA), which covers second mortgage lenders, were revised in April 2008 to incorporate some of the provisions from Governor Strickland's Compact to Help Ohioans Preserve Homeownership. Under the rules, a second mortgage registrant is required to attempt to contact borrowers who have an ARM that had an initial fixed-rate period. The communication is to happen six to seven months prior to the first reset. The registrant must attempt to convey to the borrower the following:

- The current interest rate and monthly payment;
- A good faith estimate of the borrower's anticipated future interest rate and monthly payment following the reset; and
- A toll-free number for the borrower to call to discuss possible payment problems and workout options if there is a problem of repayment at the higher interest rate and monthly payment.

Additionally, six to seven months prior to the first reset of an ARM that had an initial fixed-rate period, the registrant is required to provide the above information in writing to the borrower, in addition to providing contact information for HUD-approved housing counselors and other information. The registrant is required to provide the borrower with contact information for the loss mitigation, foreclosure prevention, or loan workout staff who can discuss foreclosure avoidance options. This information is to be provided at least 10 days prior to a referral to foreclosure counsel. In the case of a default of a mortgage loan, the registrant must provide the borrower with a toll-free number to contact loss mitigation staff to discuss payment problems and workout options. To reduce the risk of consumer fraud and identity theft, the registrant must comply with federal laws concerning the maintenance, security, and disposal of consumer information and records while in business and after ceasing business operations.

Ohio Housing Finance Agency
Ohio was the first state to offer a refinance product for homeowners who have a mortgage that is no longer suitable for their financial situation. The Ohio Housing Finance Agency's (OHFA) Opportunity Loan Refinance Program is a 30-year, fixed-rate refinancing product that offers a 100 loan-to-value percent first mortgage, and a 5 percent second mortgage to cover fees and closing costs. Borrowers may be permitted to have up to one 60-day late payment and two 30-day late payments in the last 12 months. To date, OHFA has closed and purchased 40 loans.

OHFA conducted a public awareness campaign in an effort to help borrowers understand their mortgages (Task Force Recommendation #1). OHFA partnered with the Ohio Association of Broadcasters (OAB) to produce radio spots urging homeowners to "Take a Second Look at Your Mortgage." From December 2007 to February 2008, OHFA received 3,648 web hits and 122 calls specifically about the campaign. If borrowers found themselves in mortgages that no longer fit their financial situation, they were given information on OHFA's Opportunity Loan Refinance Program or directed to other counseling resources.

Attempting to increase the capacity of housing counseling organizations to assist borrowers in default and foreclosure (Task Force Recommendation #5), OHFA announced in March 2008 that it will be distributing nearly $3.1 million in housing counseling funds to 18 organizations around the state to increase the availability of foreclosure counseling and to boost these organizations' services. These organizations are a part of the 32 state-sponsored housing counseling agencies offering counseling services to the Save the Dream hotline.

OHFA has also expanded the Ohio Home Rescue Program (Task Force Recommendation #6). The Ohio Home Rescue program operates through a network of 12 organizations and is administered by the Neighborhood Housing Services of Greater Cleveland (NHS). The Ohio Department of Development (ODOD) established the program with a grant of $1 million through the Ohio Housing Trust Fund to help lower income borrowers. The program is supported by $1 million from the Ohio Housing Trust Fund for grants to homeowners with incomes at or below 65 percent of the area median income, and $3.1 million from OHFA to deferred loans for homeowners with incomes between 65 and 125 percent of the area median income. NHS has committed to establish parameters for a partnership among NHS, Save the Dream-approved-counseling organizations, and other organizations participating in the Ohio Home Rescue Fund, thus increasing access to this important resource.

Currently, OHFA is working with national, state and local partners to develop strategies and resources to address vacant properties, foreclosed homes, and community revitalization (Task Force Recommendation #21). As a first step, OHFA amended the Qualified Allocation Plan (QAP) to provide additional incentives for the development of vacant properties using the Low Income Housing Tax Credit. In April 2008, the OHFA Board approved investment in a major initiative to purchase and rehabilitate 150 vacant homes over three years in six Cleveland neighborhoods.

OHFA launched a new program in March 2008 to address the need for affordable workforce housing for Ohio's heroes. The program, called Ohio Heroes, offers a 30-year, fixed-rate mortgage to full-time employees in the following professions: active military, emergency medical technicians, firefighters, healthcare workers, military veterans, paramedics, police officers, and teachers. Loans through the Ohio Heroes Program will be at a quarter percent below OHFA's First-Time Homebuyer Program rates. The borrowers must meet OHFA's standard mortgage guidelines, which provide low, competitive mortgage rates through conventional loans or FHA, VA, and USDA-RD government loans. This program reallocates existing state resources to put a greater emphasis on foreclosure prevention and recovery by expanding employer-assisted housing programs (Task Force Recommendation #23d.).

Ohio Department of Development

The Task Force recommended providing a total of $10 million for housing and financial counseling from local, state, federal and private sources, including at least $2 million in state funds (Task Force Recommendations #4-5). In January 2008, the Ohio Department of Development (ODOD) announced that 24 organizations will receive $2 million in awards for foreclosure counseling through the Foreclosure Prevention Housing Counseling Program. The grants will assist 9,000 low and moderate income households in 64 Ohio counties. These 24 organizations are a part of the 32 state-sponsored housing counseling agencies offering counseling services to the Save the Dream hotline. The Foreclosure Prevention Housing Counseling Program is designed to provide an effective means of reducing the number of mortgage foreclosures and delinquencies for low to moderate households in Ohio. Funding is provided to eligible nonprofit organizations for the purpose of providing counseling to homeowners in danger or at risk of losing their homes due to foreclosure.

ODOD has also been working closely with OHFA and Save the Dream to build housing counseling capacity to assist borrowers in default and foreclosure (Task Force Recommendation #5).

Ohio General Assembly

A very serious challenge facing neighborhoods with a significant number of vacant properties is being able to identify the deed holder responsible for maintenance and repair of the property. House Bill 138 (H.B. 138), which was signed into law by Governor Strickland on June 11, 2008, will take the mystery out of who owns vacant foreclosed properties by requiring the sheriff to file a deed within fourteen business days after the sheriff sale (Task Force Recommendations #16b., 25). Often, lenders do not file the deed in their name for months or even years after obtaining the property from foreclosure. The new law also requires that foreclosing agents provide contact information for responsible parties who can respond to complaints about the state of the property as it sits vacant. Additionally, the law cleans up tax foreclosures where the land is vacant or abandoned and is subject to foreclosure from the County Treasurer. The law includes language which allows courts to pursue mediation in foreclosure cases. The courts can require the appropriate parties to participate in the mediation. Also, the law allows property that did not sell at a judicial sale to be offered to a political subdivision before forfeiture to the state.

Senate Bill 277 (S.B. 277), which passed the Senate in May, will help address vacant housing and assist with revitalizing Ohio neighborhoods (Task Force Recommendation #21). This bill will help bring properties back up to code. S.B. 277 will assist nuisance property abatement by creating a new cause of action in foreclosure in the environmental or housing division of a municipal court in Franklin, Cuyahoga, and Lucas counties, giving the courts greater jurisdiction and the ability to proceed to foreclosure in a timelier fashion.

S.B. 329, introduced in May 2008, will require a third party trustee's name and address to be included on a real property transfer application submitted to the county auditor for endorsement, when the trustee holds title to real property and is neither the grantor nor the grantee. The bill has been referred to the Senate Judiciary-Civil Justice Committee.

Two bills were introduced this General Assembly to utilize surplus county Delinquent Tax Administration and Collection (DTAC) funds to support local efforts for mortgage rescue, foreclosure prevention, and demolition of vacant houses (Task Force Recommendation # 22). Both H.B. 359 and H.B. 388 will allow communities to access surplus funds from their county's DTAC fund for maintenance of vacant and abandoned properties. H.B. 388 would also allow these funds to be used for foreclosure prevention counseling and rescue loans to help people avoid foreclosure. H.B. 359 passed both chambers by June 10, 2008. H.B. 388 has had one hearing in the House Financial Institutions, Real Estate and Securities Committee.

In April 2008, H.B. 531 was introduced to modify Ohio's receivership law by extending many of the provisions governing the abatement of public nuisances (Task Force Recommendation #26). The purpose is to help communities gain control over abandoned properties and return these properties to the tax rolls. The bill has been referred to the House Civil and Commercial Law Committee.

H.B. 440 and S.B. 295, both introduced in early 2008, would provide that a lease does not terminate upon the foreclosure of the landlord's mortgage (Task Force Recommendation #27). Renters would still have to abide by their lease agreements. H.B. 440 is pending in the House Civil and Commercial Law Committee, and S.B. 295 has had one hearing in the Senate Judiciary-Civil Justice Committee.

Judicial Branch Guidance

Chief Justice Moyer proposed that the courts manage the foreclosure problem by developing foreclosure mediation programs that could be used to resolve some of the many foreclosure cases. This initiative is the first of its kind in the nation. It will give foreclosure cases the same access to mediation that has been regularly available in other types of civil cases for more than a decade. Mediation presents a safe and structured opportunity for a homeowner to negotiate with the loan holder to reach an agreed resolution that would either avert foreclosure and keep the homeowner in the home or provide alternate outcomes that benefit the homeowner and the community. The model was released to local courts in early 2008 as a way to encourage mediation and alternative dispute resolution to maximize the early resolution of foreclosure actions (Task Force Recommendations # 14-15).

The Supreme Court's Advisory Committee on Dispute Resolution appointed a Foreclosure Working Group to develop a foreclosure mediation program model that courts can adapt to meet their local needs and resources. The working group included judges, magistrates, mediators, attorneys, legal aid representatives, educators, mortgage bankers, and representatives of homeowners.

The model includes best practices, related documents, forms, and other resources. Not every foreclosure case is appropriate for mediation. Therefore, the model is designed to assist courts in determining those cases that are eligible for mediation through the assessment of information provided by both the homeowner and the lender.

Ohio Treasurer of State

In an effort to utilize local coalitions to educate and aid borrowers (Task Force Recommendation #3c.), and encourage the expansion of financial literacy programs and efforts to help people who rebuild their credit (Task Force Recommendation 5f.), Ohio Treasurer Richard Cordray has established Save Our Homes Task Forces in nearly 50 counties. The focus of many of these groups is educating borrowers who are behind on their mortgages how to remain in their homes. The groups discuss a variety of methods to reach borrowers including television call-in programs, borrower workshops, professional trainings and dissemination of educational materials.

Treasurer Cordray also offers personal finance education to a number of constituencies including senior citizens, women, victims of domestic violence, employees in the workplace and teachers. One series is the Rebuild Your Credit workshops which are offered in collaboration with Consumer Credit Counseling Services, TransUnion and local elected officials. The Treasurer's Office has also developed www.yourmoneynowonline.org, which provides financial education to Ohioans 24 hours a day.

In addition, Treasurer Cordray and State Representative Joyce Beatty chair the Ohio Commission on Personal Finance Education where the mission is to provide personal finance education to all Ohioans.

Striving to establish an investment policy for those financial entities and their subsidiaries that invest state funds (Task Force Recommendation #11b.), the Ohio Treasury issued a Request for Proposal (RFP) for banking services that seeks information from financial institutions about their community involvement and their posture with respect to the foreclosure crisis. The Treasurer has requested information about how financial institutions assess and address the credit needs of local communities. The RFP also asks how financial institutions are assisting customers who are facing bankruptcy and/or foreclosure. Although a new venture for the Ohio Treasury, such information gathering and monitoring will continue in the future.

Local Official Involvement

Montgomery County Recorder Willis Blackshear works to utilize information from public county databases to identify borrowers who are at risk and contact them (Task Force Recommendation #2a.). Mr. Blackshear works with an academic and a former mortgage company employee to identify the most active subprime lenders in his county. With the help of Treasurer Cordray's office, he has distributed thousands of letters to the borrowers of these lenders in hopes of alerting them to potential problems before their interest rates are reset and they find themselves unable to make monthly payments.

CHALLENGES FOR THE STATE

We continue to see the fallout from the lack of oversight of the subprime mortgage origination, sale, and securitization process. Had there been more stringent regulation, many of the problems we are facing could have been prevented.

For many homeowners, the only chance at maintaining homeownership is through a workout agreement or loan modification with their servicer. Without a workout or modification, these homeowners are foreclosed upon which is not desirable for the homeowner, servicing company, or the neighborhood. Yet, we face the continued challenge of attaining more workout agreements from servicers. There are state and federal resources for counseling now allowing more counselors to assist borrowers and, to some extent, we are seeing greater numbers of workouts. The problem is that workouts are still being done on a case by case basis which is not enough. Ohio is hopeful our unprecedented Compact with servicers will lead to more workouts and loan modifications.

Additionally, we continue to fight the vacant and abandoned property problem, yet we have a lack of resources to address the issue. The battle is tougher particularly in communities that are not growing in population such as Cleveland, Youngstown, Dayton, and Toledo.

While Ohio is attempting to do everything in its power at the state level to combat the foreclosure crisis, we believe aggressive action is needed at the Federal level as well.

FEDERAL REFORMS

First, I would like to thank Congresswoman Pryce, Congressman LaTourette, and Congressman Wilson for your continued work on ensuring Ohio's needs are addressed as we work through this devastating crisis. That dedication was never more apparent than during your work on H.R. 5818, The Neighborhood Stabilization Act, which the Chairwoman (Waters) introduced. If the bill were to be signed into law today it would bring over $830 million in grants and loans to Ohio to help us rebuild our communities that have been devastated by the effects of this crisis.

We also appreciate the Committee's recognition that states need a variety of tools to stop the decline our neighborhoods are experiencing. Thank you Congressman Wilson for introducing an amendment to H.R. 5818, which adds demolition as an eligible expense. Here in Cleveland, like other areas of the state, due to the out-migration of residents, the supply of housing far exceeds the demand and many properties are in such disrepair they are simply not worth saving. These funds will allow communities to recover quicker and increase the value of surrounding properties by adding valuable green space.

We urge Congress to act now and not be swayed by the argument that this bill, and other housing bills, will only bail out Wall Street and unscrupulous lenders. Every day more and more families are losing their homes and suffering the devastating consequences of foreclosure. To sit back and say it is someone else's problem while our citizens and communities continue to suffer is wrong. As we watch the federal government address Wall Street and bail out Bear Stearns, we cannot sit idle and let our communities that need so much help continue to suffer unassisted. Main Street needs your help as much as Wall Street, if not more.

In addition to the Neighborhood Stabilization Act, there are many changes before you in numerous pieces of legislation that could assist Ohio. As the housing economic stimulus package is being negotiated, I ask that you consider the following provisions that will assist Ohioans by addressing the effects of the current crisis and preventing the type of environment that helped lead to the situation we are all confronting today.

As we strive to increase the capacity of housing counseling organizations to assist borrowers in default and facing foreclosure, long-term federal funding for counseling is imperative. Please include significant funding for housing counseling beyond this calendar year. These resources should be allocated disproportionately to high-foreclosure states such as Ohio for flexible distribution by the state.

Ohio needs resources to acquire, rehabilitate, or demolish vacant housing. Please include a minimum of $4 billion in emergency grant funding for community stabilization in the housing package that is currently being negotiated. While the $4 billion in the senate bill is a great start, Ohio could benefit greatly if the allocation is $15 billion, as it currently is in Chairwoman Water's bill. This will assist to facilitate the bulk purchase and repair of foreclosed homes in targeted communities in order to stabilize neighborhoods, create homeownership and rental housing opportunities and stop the cycle of disinvestment. With these funds, Ohio could create a national corporation through a public-private partnership to acquire real estate owned (REO) properties and facilitate transfers to redevelopment entities.

For far too long, we have been neglecting one specific population affected by the foreclosure crisis. Legislation must be passed to protect renters. It is estimated that 30% of foreclosures are on tenant-occupied properties, and unfortunately, foreclosure sales terminate existing leases. In these circumstances, a tenant's first notice of the foreclosure and termination of tenancy often is the foreclosure purchaser's three-day notice to vacate or the sheriff's notice of the foreclosure sale. These evictions harm hard-working, rent-paying tenants and the surrounding neighborhoods. In order to protect tenants renting property that falls into foreclosure, I urge you to pass or include in the housing package, H.R. 5963, the Protecting Tenants at Foreclosure Act of 2008.

Federal Housing Administration (FHA) modernization is a necessity as the country continues to try to pull itself out of the current housing slump**.** These updates should include provisions aimed at serving more low-income borrowers at affordable rates and terms, recapturing borrowers that may have received risky loan products in recent years, and offering refinancing opportunities to borrowers currently struggling.

Comprehensive regulatory reform for Government Sponsored Enterprises (GSE) is also essential. Fannie Mae and Freddie Mac play an indispensable role in Ohio's affordable housing delivery system by providing liquidity to the mortgage markets by buying loans already made and freeing up money for new mortgages and refinances. They benefit significantly from their Congressional charters and should be a large part of the solution to Ohio's housing woes.

Both FHA modernization and GSE reform provisions are included in H.R. 3221, the Foreclosure Prevention Act of 2008.

If additional bonding authority were passed, it would allow Ohio to offer more low to moderate income families access to our First-Time Homebuyer Program. This demographic is so important because this is the same population that subprime lenders targeted and right now the product is one of the few still available to them.

It is also important to allow these bond dollars to be used for refinancing. If Congress agrees to lift this restriction temporarily, it would lower our cost of borrowing and allow us to pass the savings on to Ohio families. We would also be able to offer our refinancing program in conjunction with FHASecure to reach even more struggling homeowners.

To make these mortgage revenue bonds more valuable in the market and allow us to be more responsive to Ohio's housing needs, we would also like to see that they be excluded from the Alternative Minimum Tax (AMT). Right now investors are shying away from anything with the word "mortgage" included in the investment. Eliminating the AMT would increase interest in our bonds and we would be able to pass the savings on to our customers.

More regulation of the "non-conforming" mortgage origination and securitization process could also assist Ohio. Securitization and the separation of servicers from the actual note holders creates impediments to having someone in authority to make quick judgments on loan workouts and modifications. Though we would like more federal regulation, please be aware that federal preemption of state laws is not always in our citizens' best interest.

We need across the board solutions that can be accomplished through a common platform used by servicers and counselors together. Encouraging servicers to modify loans is vital. This can begin with H.R. 5579, the Encouraging Mortgage Loan Modification Act, which provides legal protection for mortgage servicers making loan modifications to encourage them to be aggressive in undertaking workouts. Please continue to open the door to greater flexibility for servicers to modify loan terms. As you continue to pursue solutions to the foreclosure crisis, please be cognizant of Ohio's uniqueness. We have been living and breathing this foreclosure crisis for years, and I ask that you keep this in mind as you craft potential solutions to address the crisis. We have built a wealth of talent and expertise at the local and state level, and we stand ready to assist you and be your partners as we work to turnaround Ohio.

OHIO'S RECOGNITION

As you can see, we are making every possible effort to aggressively and proactively respond to the foreclosure crisis facing Ohio. Our efforts here in Ohio are not going unrecognized.

We were recently asked by the National Governor's Association Center for Best Practices to participate in their State Summit on Foreclosures and Housing Solutions. The Department of Commerce participated in a panel discussion on Comprehensive State Foreclosure Prevention Programs. At this conference, many states referenced looking to Ohio for guidance when crafting their foreclosure prevention response.

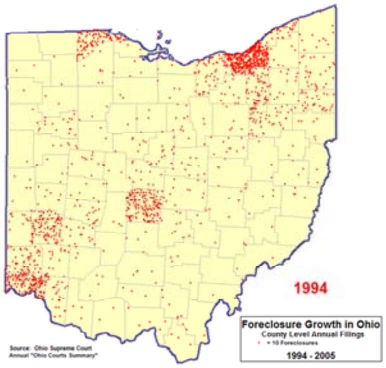
Also, the state receives numerous inquiries from other states interested in following the Ohio model, and our unique approach of consolidating all foreclosure prevention resources into one unified, statewide program.

An April 2008 report by the Pew Charitable Trusts ranked Ohio's foreclosure response as one of the three best in the country. The report's project manager stated that Ohio has taken one of the most aggressive and comprehensive efforts in combating foreclosures. Pew's Project Manager Kil Huh said, "Every state has the tools to act, and I think Ohio is a model in the sense that it's trying to use whatever mechanism it has to help the state's families and communities."

In addition, the foreclosure prevention counseling efforts by the state's housing counseling agencies are being recognized. ESOP, a HUD-approved housing counseling agency here in Cleveland, has been inundated with media requests from both national and international media outlets to understand the scope of the foreclosure crisis in Ohio and how we are responding to the crisis. When the international media is asked why they are so interested in this issue, all indicate that their cultures view this crisis as being similar to what happened during Hurricane Katrina.

The foreclosure crisis is a difficult challenge that we collectively face, and while the state will do everything that we possibly can to help Ohioans save the dream of homeownership, we cannot do it without your assistance and the assistance of your Congressional colleagues.

Thank you for this opportunity to testify before you. I appreciate your attention and would be happy to respond to any questions you may have.



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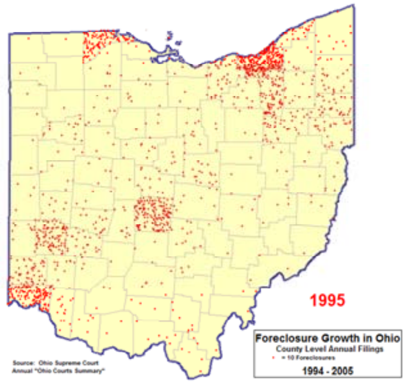

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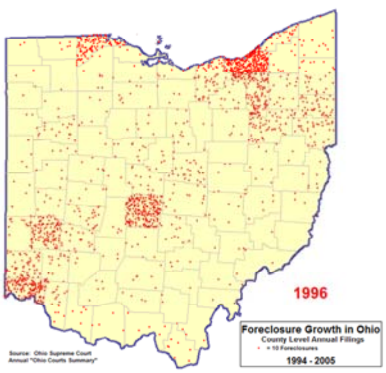

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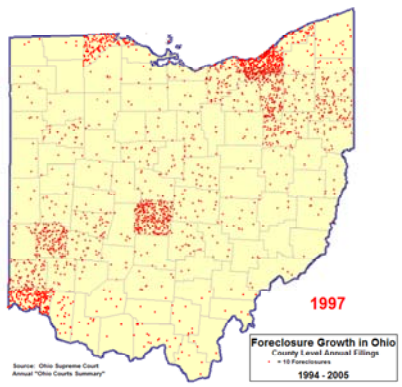

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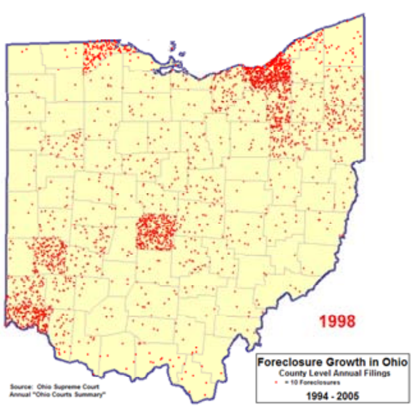

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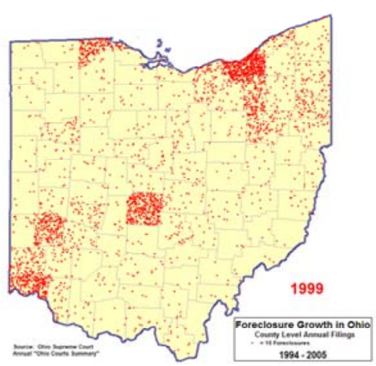

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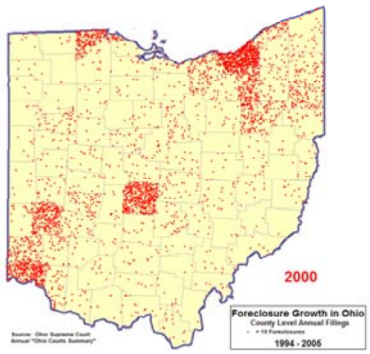

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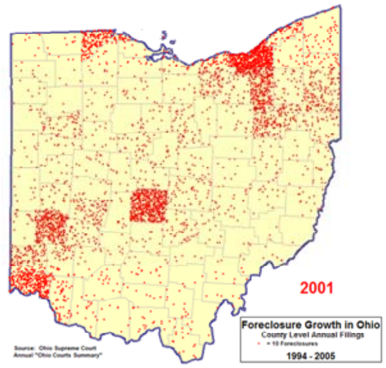

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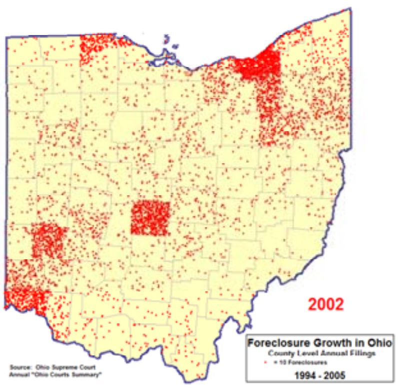

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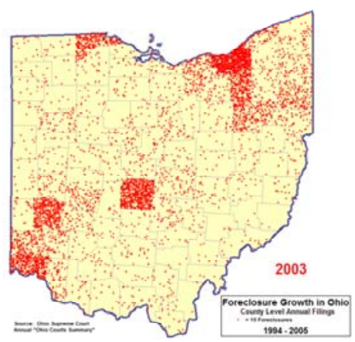

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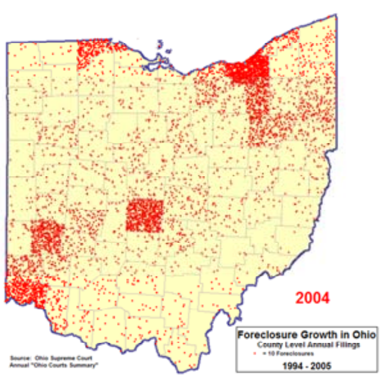

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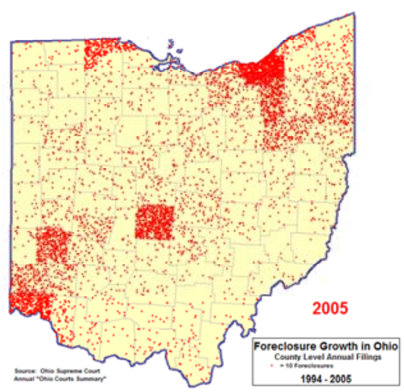

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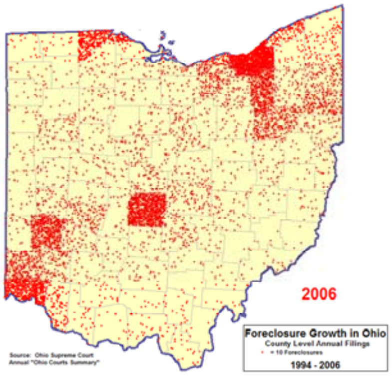

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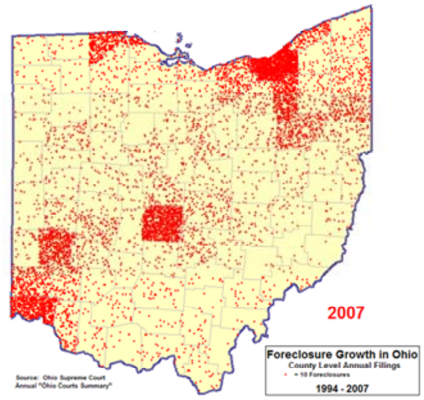

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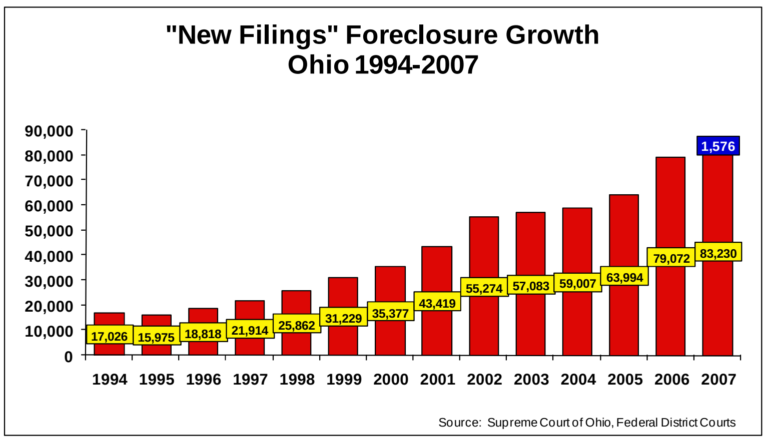

Including the federal courts, Ohio's total
for 2007 was 84,806 foreclosure cases

2006 foreclosures were higher than any of the last 13 years. Larger numbers in urban counties
Larger percentage increases in rural counties