Remarks by
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Thank you for inviting me to speak at this important and timely meeting of the National Foundation for Credit Counseling. As the nation's largest and longest-serving network of financial education and credit counseling agencies, your organization deserves special recognition for its significant and longstanding role in counseling those at financial risk. Your community support networks, with 1,000 agency offices around the country, have pioneered new approaches to financial education and literacy that have put many struggling homebuyers on the path to homeownership. And you have launched many innovative efforts to help keep them there.

This meeting today is especially important because of growing residential mortgage delinquencies and foreclosures – especially in the subprime market. More than three quarters of all consumer credit counseling agencies are also serving as delinquency intervention counselors, so your collective experience and community involvement will be very important indeed as we face the growing problem.

How big is that problem? Well, subprime loans increased from just eight percent of total originations in 2003, to 20 percent in 2005 and 2006. On its face, this statistic alone is by no means bad news, because it reflects wider access to credit, and that has been a goal of policymakers for a very long time. Unfortunately, however, we now know that the increase in subprime lending also reflects the fact that some lenders have been making loans that borrowers have no realistic prospect of repaying. To complicate matters, most such loans are hybrid adjustable rate mortgages (ARMs) – so-called 2/28s and 3/27s – that have initial periods of lower, more affordable monthly payments that will reset later to much higher and much less affordable payments – and most carry prepayment penalties that make it harder to refinance before the reset date.

Given these characteristics, the increase in subprime lending is especially worrisome because recent statistics reported by the Mortgage Bankers Association showed that 14 percent of subprime borrowers with ARM loans were at least 60 days delinquent in the fourth quarter of 2006, a four-year high for such mortgages. Reports also show that, at the end of 2006, more than half of all foreclosures involved subprime loans.

Against this backdrop, let me give you a sense of the role played by the OCC. We extensively regulate national banks' mortgage lending activities, including six of the top ten mortgage companies nationwide. With respect to subprime mortgages, we established strong protections against abusive lending practices years ago, and we have applied those standards through examinations of every national bank. We have also been outspoken in addressing problems that can arise from such nontraditional products as "payment option" and interest only mortgages.

Because of this regulation, predatory mortgage lending practices – such as loan flipping and equity stripping – are not tolerated in the national banking system. In addition, the looser lending practices of the subprime market simply have not gravitated in a major way to the national banking system. To demonstrate this point, national banks originated just 10 percent of subprime loans in 2006, when underwriting standards were weakest, and delinquency rates on those loans are well below the national average.

Nevertheless, the OCC and the other federal banking agencies all recognize the major potential issues in the mortgage markets. In fact, I really look at this as two separate, but related sets of issues. The first involves loans yet to be made: what changes should occur to mortgage lending practices in the future to avoid the types of loans that have caused today's problems – but without unduly restricting credit to creditworthy borrowers? The second involves loans already made: what needs to be done with respect to the potentially record number of subprime borrowers who won't be able to repay their loans? Today I will touch briefly on the first issue, but spend most of my time on the second.

In terms of future lending practices, different forces are in play. First, not surprisingly, markets have taken self-corrective measures to tighten underwriting standards; the loosest loans of 2006 are not being made in the current environment.

Second, the OCC and the other federal banking regulators have taken specific steps to ensure that the banks and affiliates we regulate are clear about our expectations. Last year, we each issued final guidance on nontraditional mortgages, targeted mainly at interest only and payment option ARM products. Following that action, earlier this year we jointly issued proposed guidance regarding subprime mortgage lending that specifically focuses on 2/28 and 3/27 ARMs – which by the way represented more than 60 percent of all subprime mortgages originated in 2006. The changes in the proposed guidance are intended to provide borrowers a better understanding of the risks of these loans, and to ensure that lenders are assessing the ability of borrowers to repay the loans based on <u>both</u> the initial period of lower monthly payments <u>and</u> the subsequent period of much higher monthly payments.

I should add, however, that such federal guidance extends only to the institutions that are supervised by federal regulators. Most subprime lending, however, is done by nonbank lenders regulated exclusively by the states. So it is critical that all states adopt – and enforce – comparable standards. We are encouraged that over 25 states have used the federal nontraditional mortgage guidance to adopt similar nontraditional mortgage policies and regulations for the institutions and individuals they regulate. We believe a similar effort will be made with respect to the federal subprime guidance once it is finalized. We applaud these efforts, led by the Conference of State Banking Supervisors, though it bears repeating that neither type of guidance can be truly effective until it is adopted and enforced by <u>all</u> states.

That brings us to the second set of issues, involving loans already made. Let me cut to the chase of the risk that we're all worried about: widespread foreclosures. You, perhaps more than any other audience I've addressed, understand that the cost of foreclosure is both considerable and multi-dimensional. The loss to lenders has been pegged at between $40,000 and $50,000 per foreclosed home, and some lenders report losing 50 cents on the dollar. The loss to prospective homeowners who reach for their dreams – and maybe overreach – is more profound.

And the losses to other stakeholders are equally significant and may have longer lasting consequences. Foreclosures drag down neighborhood property values and make it harder to refinance or obtain new financing. Leaving a property vacant while in foreclosure often creates a negative cycle of disinvestment and decline for entire communities. Studies have shown that some municipalities incur diminished tax revenues and increased demand for services exceeding $30,000 per foreclosure.

I'm sure that none of these statistics is a surprise to any of you. As seasoned credit counseling professionals, you know that it is much less expensive for everyone -- the bank, the community, and the homeowner -- to work out a loan whenever that is possible. If you had any doubt, just compare the time and cost to complete a single foreclosure with the significant benefits of foreclosure prevention counseling.

Some have called these conditions – a decline in home price appreciation, tightening credit, and a rising number of adjusting mortgages – a perfect storm for foreclosures. That remains to be seen, and I certainly hope that that's not what pans out. But if it does, or even if it turns out to be a less substantial problem than some have forecast, all of us – borrowers, lenders, we as regulators, and you as credit counselors – will have our work cut out for us.

Here is what we as bank regulators are doing. Existing supervisory guidance and applicable accounting standards do <u>not</u> require institutions to foreclose immediately when a borrower experiences payment difficulties. The banking agencies have advised the institutions we supervise that we encourage them to work constructively with borrowers who experience difficulties in meeting their mortgage payment obligations.

In a joint statement issued last week, the agencies reemphasized these policies in the current environment. The statement encourages financial institutions to consider prudent workout arrangements that increase the potential for financially stressed residential borrowers to keep their homes. It also recognizes that these arrangements can vary widely based on the borrowers' financial capacity, but with the appropriate intervention strategy and resources, many troubled borrowers can avoid the loss of their homes.

We also emphasized potential benefits under the Community Reinvestment Act. Programs that transition low- and moderate-income borrowers from higher cost to lower cost loans in a safe and sound manner may receive favorable consideration when an institution's CRA performance is evaluated.

Of course, not every delinquent borrower is a candidate for a workout, and not every workout is successful. But all parties win when counseling helps the lender and borrower reach acceptable terms, which is where you come in. Under the Homeownership Counseling Act, financial institutions must inform borrowers with delinquent mortgage loans on their primary residences about the availability of homeownership counseling. The Department of Housing and Urban Development maintains a list of approved counselors, but many borrowers who fall behind in their payments are not aware of this information.

Why? Because they avoid mailings and phone calls from their lender. And that is a real problem. Experience shows that the sooner a delinquent borrower is engaged, the more likely the chances of avoiding that loss. The earlier a lender is contacted, the greater the opportunity to address each homeowner's circumstances individually through counseling.

Indeed, surveys show that the majority of late-paying borrowers say they were unaware of workout options, and that almost all of these borrowers would have talked to their servicer or lender if they had known these options were available to them. As it is, approximately half of all delinquent borrowers do not respond to efforts to contact them. When interviewed, these non-respondents said that they were afraid, or that they felt it would not do any good to talk to their lender.

Identifying this problem is easy; fixing it is harder. As you know too well, it is no small task to build the one-on-one relationships necessary to inform prospective borrowers and safeguard existing owners. Fortunately, your good work has increased call back rates by over 30 percent and reduced foreclosures by up to 60 percent. That type of work provides us with many best practices to model to help troubled borrowers turn to their lenders and trusted third party intermediaries to act responsibly on their behalf.

One very promising partnership is the Center for Foreclosure Solutions, a partnership among mortgage lenders, insurance companies, government-sponsored enterprises, and community-based nonprofits. The Center is sponsored by NeighborWorks America® and the Homeownership Preservation Foundation. As a board member of NeighborWorks America,® I am especially hopeful that the work of the Center will get critical information to borrowers having difficulties paying their mortgages. By building capacity among foreclosure counselors and conducting public outreach campaigns to reach homeowners having a difficult time meeting their mortgage payments, the Center seeks to encourage these borrowers to contact their lenders – likely the most important step to working out a troubled loan.

Homeowners can call the Center's toll-free hotline – 888-995-HOPE – to discuss their problems with a housing counselor, twenty four hours a day, seven days a week. Calls flow into a national call center staffed by English and Spanish-speaking counselors. Three of the five agencies staffing the call center are NFCC members, hailing from San Francisco, Atlanta, and New Jersey. And in its short history, the Center has already responded to over <u>40,000</u> calls.

Callers responding to the campaign and other outreach efforts are triaged immediately. Depending on the nature of the problem, counseling can be provided as part of that initial call or through a series of follow-up calls or in-person visits to a local housing counseling service. These on-the-ground referrals are fielded by community-based nonprofits, including a growing number of local NeighborWorks America® and consumer credit counseling organizations. If a workout can be arranged with the lender, then these groups' counselors can provide budgeting assistance and other financial education to help ensure that these borrowers are able to meet the terms of their workout agreements.

Other mortgage workout resources include new partnerships with community-based organizations and lenders to remediate troubled loans and offer consumers a fresh start. For example, two large national banks are working with the Neighborhood Assistance Corporation of America to assist borrowers who are in "unaffordable loans." This initiative includes a $1 billion refinancing commitment and grants to hire staff and offset the cost of administering the program. Other non-profit organizations also provide workout counseling assistance to distressed borrowers.

The OCC is working with banks to make them aware of these resources and will be co-hosting several forums over the coming months to introduce financial institutions to the range of delinquency intervention services that community-based counseling organizations can provide. Our *Community Developments* spring 2006 newsletter, which is available on OCC's Internet site, describes many of these initiatives and provides a more detailed analysis of several loss mitigation strategies used by lenders, government-sponsored enterprises, and mortgage insurers. It also contains guidance on ways banks can receive CRA consideration for their foreclosure prevention and mortgage loss mitigation initiatives.

Unfortunately, while foreclosure prevention efforts have grown, so have the number of foreclosure rescue scams and aggressive debt collection practices. These schemes are exacerbated by the vulnerability of many first-time borrowers and by a large number of long-time owners who refinance their homes without knowing or understanding the terms of their new loans. To combat some of these problems, the regulatory agencies have published consumer alerts; initiated referrals to HUD and the Justice Department; and undertaken enforcement actions through our individual agencies as appropriate. NFCC members can also play an important role in alerting enforcement agencies of possible fraudulent loan offers and advising clients on how to detect and report such deceptions.

Going forward, responsible lending and informed consumer choice must go hand-in-hand if consumers are to enjoy access to flexible loan products without undue risk of default. The successes of innovative public-private partnerships such as NeighborWorks America's Center for Foreclosure Solutions, and others, point the way.

We recognize that consumer credit counseling agencies have played, and will continue to play, a critical role in assisting troubled borrowers. We look forward to your help in devising and implementing longer term financial education and literacy initiatives to address the underlying causes of delinquencies.

I'd like to close by again thanking the National Foundation for Credit Counseling member organizations for the excellent job so many of you have done in helping to address the nation's foreclosure problems in an effective and sustainable way. As I said before, we all have our work cut out for us, and we at the OCC look forward to working with you.

Thank you very much.