Remarks by
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Good morning. I want to begin by acknowledging and congratulating Sarah Gerecke for 15 fruitful and eventful months of leadership of this remarkable organization. We are very lucky to have you and this fine staff of the NHS of New York City dedicated to assisting under-housed citizens and improving the conditions of at-risk communities in this great City.

Thanks are very much in order as well to you, audience members, for being here this morning. This is a splendid tribute to what the NeighborWorks® mission means to each of us as individuals and to the agencies we represent. By contributing the unique things that each of us can contribute – to the cause that each of us shares – the NeighborWorks® network of more than 230 community-based affiliates, working in 2700 communities, has been able to do much, for so many, over the past three decades.

Look at the numbers – the clients that have been served, the homes they occupy, the streets and neighborhoods that have been reclaimed. Better still, listen to the voices. We will hear some of those voices later this morning – stories told by NHS of New York City clients. For those of you who have never had the privilege, I would encourage you to tour the streets with NeighborWorks® organizations just about anywhere in this country – as I have – and see for yourself what a difference these programs make. The experience will change you, and make you a convert to the NeighborWorks® cause.

Having been introduced, there are two people – two warm friends of NHS of New York City – whom I should like to introduce. First, Denise Kirk-Murray, the OCC's district community affairs officer for our Northeastern district, based here here in New York, has been a RIAC stalwart and valued advisor to OCC managers and national bankers on community and economic development issues for so long that introducing her almost seems superfluous. Nevertheless, Denise, please stand and be recognized.

By now, most of you have already met Toney Bland, who two months ago was appointed the OCC's Deputy Comptroller in our Northeast District. Toney is a 24-year veteran of the OCC, a recognized leader in bank supervision within the OCC, who has been involved in community development issues affecting national banks throughout his career. Most recently he served as one of our assistant deputy comptrollers for midsize banks. If you haven't met Toney yet, you will find him a wonderful colleague of formidable expertise – and compassion. I know he will be a valuable resource to bankers in this region and to RIAC.

In her remarks at this breakfast last year, Superintendent Diana Taylor reminded us of an important truth. The NeighborWorks® enterprise is one that has succeeded by embracing the art of the possible. The NHS of New York City's motto – "Helping Neighborhoods, block by block" – contains a unique and potent operating philosophy, a philosophy that seeks to change urban landscapes not through upheaval, but through hard work and patience, in a measured and incremental way. It's an approach that seeks to empower individuals and leverage their successes, through persistence, teamwork, and the expertise of the NeighborWorks® network.

I would like to spend the next few minutes discussing one of the challenges now testing those hard-won successes: the problem of foreclosures in some of our bellwether communities. There may be no more immediate challenge facing community development today.

Foreclosure rates have been rising in lower-income communities throughout America. This is a product of several factors. Predatory lending – loans that shouldn't have been made in the first place – surely are a part of the problem. But outright predatory loans aren't the whole problem. The current level of foreclosure rates in lower-income communities also reflects other stresses. Thus, successfully addressing the foreclosure crisis in our communities requires recognition of the multi-faceted nature of the problem, and corresponding multi-faceted approaches to solving it.

Ironically, one source of today's foreclosure crisis is the successes of the 1990's in making credit available to low- and moderate-income Americans – credit that made it possible for them to achieve the American dream of home ownership. Efforts to extend the benefits of homeownership to as many Americans as possible have been aided by advances in credit risk analysis and credit scoring techniques, with the result that loans are granted to prospective borrowers who previously would simply have been turned down. Because of that success, millions of Americans who would otherwise have missed out have instead been able to take part in one of the greatest housing booms in history.

While this pricing flexibility has opened the door to homeownership for many Americans, it has also produced a new class of borrowers whose repayment capacity is fragile. We have also learned that it has produced a new class of <u>lenders</u> willing to take on riskier borrowers – for a price – sometimes a very high price; lenders that don't underwrite loans based on a borrower's ability to repay, but on the value of the borrower's home that the lender can capture in a foreclosure, or based on the fees the lender can charge before it passes the loan on to someone else.

And we have also learned that what took years of hard work and investment to accomplish can be undone in what seems like no time at all. If not solidly anchored, the American dream may quickly turn into the American nightmare.

The dream can turn into a nightmare if a new homeowner's mortgage has predatory payment terms and fees that the homeowner cannot sustain. The nightmare can result when an existing loan is refinanced based on the borrower's equity in the property

– in other words, what can be realized in the event of a foreclosure – rather than on the borrower's ability to repay the new loan. Or the nightmare can occur when a borrower whose repayment capacity has little margin for error is confronted with unexpected financial demands.

This experience teaches us that today's trends in foreclosures don't trace to a single cause and effective mortgage delinquency intervention programs must be multi-dimensional. This represents a huge challenge for government, financial institutions, and non-profits – all of us who are dedicated to the goal of expanding home ownership, sustaining those gains, and saving our nation's at-risk communities.

Whatever route it takes, foreclosure can have a devastating impact on borrowers and their communities. Other property owners living near homes in decline may lose heart and let their own homes – and mortgage payments – slip. That can lead whole neighborhoods into a costly and prolonged downward spiral. And for homeowners who lose their properties, the foreclosure process leaves a devastating scar.

I can report that this challenge is increasingly being met with aggressive partnership programs – programs designed to help financially capable borrowers who run into difficulties continue to service their loans and stay in their homes, whenever possible. In developing these programs, the two largest NeighborWorks® organizations – in Chicago and right here in New York City – have played a vital leadership role. In fact, the very first NeighborWorks® HomeOwnership Center in the country was launched by NHS of New York City. And it's also encouraging to note that programs geared to our urban hubs are being modified by community-based nonprofit housing counseling organizations for use throughout the country.

These programs have a number of common features that we have found to be important to their success. They are comprehensive, in the accustomed NeighborWorks® manner – bringing together not only providers of homebuyer education, but also credit counseling agencies, local government, lenders, and secondary market agencies. Each of those parties has a particular interest in the health of the borrower, the loan, and the neighborhood. By uniting their efforts, we have learned that the odds of success for all greatly improve.

We have found that the likelihood of success improves if we integrate the NeighborWorks® "full cycle" approach to counseling – the "before, during, and post-purchase" approach. Studies show that high quality one-on-one education and homebuyer counseling reduced delinquencies at the 90-day mark by one-third, partly by educating borrowers on how to avoid being trapped in a predatory loan and what to do when a borrower gets in trouble financially and cannot make their mortgage payment. Yet fewer than one in five first-time homebuyers now receive such quality training. Part of the problem has been the shortage of qualified counselors – a problem that NeighborWorks America® is working hard to overcome through the NeighborWorks® Center for Homeownership Education and Counseling.

Local governments have come face-to-face with the heavy financial toll that foreclosure entails. It's not only direct costs of dealing with a foreclosed home – in court costs, in lost property taxes, and in dollars that must be spent on boarding up the vacant unit and protecting it from fire and vandalism. There is also the contagion effect I've already mentioned – with the possibility that the costs associated with a single foreclosed unit might multiply many times over.

That's one reason why many local governments are now playing such a vigorous and prominent role in our combined foreclosure prevention effort. In some cities, including Chicago, and soon in New York, "311" non-emergency numbers have been established that enable borrowers in danger of losing their homes to make a single phone call that puts them in touch with a credit counselor who delivers on-the-spot counseling and can serve as a liaison to loan servicers. Counselors can typically point the way to options geared to the borrower's individual circumstances – options that can range from short- and long-term loan restructuring to arrangements in which the FHA advances the arrears owed by a delinquent borrower in return for an equity interest in the property.

Strategic partnerships are making a big difference in mitigating the effects of foreclosures that do occur. In some cities, lenders, nonprofits, and municipal agencies are working together to stabilize at-risk neighborhoods by targeting vacated properties in need of rehabilitation. Lenders that hold such properties may turn them over to the nonprofit, typically at deep discount; the nonprofit oversees the rehab work, typically using government subsidies, and then markets the property to a low- or moderate-income family. The housing unit is thus returned to the tax rolls; the lender removes a troubled property from its balance sheet; and a family and a neighborhood have benefited.

There also is renewed promise of help – and hope – for homeowners who are trapped in high cost or abusive loans. For these borrowers, new solutions are being developed – such as the NHS Rescue Loan Program that Sarah unveiled moments ago. These solutions make it possible to refinance high cost loans at more reasonable rates. Similar "rescue" funds around the country are responsible for extricating many homeowners from the grip of financial predators.

Working together, we are learning how to use publicity and market pressure to spotlight the predatory lenders who are responsible for so many of the foreclosure situations we see. When people know who these lenders and their agents are, we will be in a better position to isolate them and drive them from our neighborhoods. Some community-based organizations have started referring to regulatory and enforcement agencies the identities of those lenders, as well as the brokers and attorneys who deal with them.

Studies show that foreclosure is often the result of a breakdown in communications between lenders and servicers, on the one hand, and borrowers, on the other – at the very time when communications are most crucial. When borrowers find themselves unable to make their mortgage payment on time, we know how important it is that they reach out to explain how circumstances have changed and seek alternative arrangements. Instead – fearful and embarrassed – they tend to withdraw.

That's why some of the most successful foreclosure avoidance programs include workshops held in neighborhoods with high foreclosure rates, which not only provide homeowner counseling, but also an opportunity to meet face-to-face with lenders and servicers. As a result, hundreds of families have acquired the contacts and information they might need to avoid foreclosure should they encounter financial difficulty.

Now the goal is turn those hundreds of families into thousands or even tens of thousands. To that end, NeighborWorks America® has undertaken two major follow-on initiatives. First, it has organized workshops for nonprofits in cities across America, to help promote understanding of foreclosure trends and encourage new partnerships. It also founded a Center for Foreclosure Solutions to gather more comprehensive foreclosure data than we have ever had before, to explore change on the national level, and to develop new solutions in cooperation with federal officials, including the financial regulatory agencies.

The evidence is overwhelming that these programs work. Because they work, they're catching on. Nationwide, we're already past the point that more than half of all seriously delinquent borrowers are being contacted and offered financial rescue plans to avoid foreclosure.

But it's also clear that we have to do more to reduce the risk that borrowers will face foreclosure at some point in the life of their mortgage. We need to do everything in our power to ensure that low- and moderate-income homebuyers have access to the full range of financial options for which they qualify. The goal, of course, is to reduce our overall dependence on very high cost subprime loans, which are clearly a significant risk factor that leads to foreclosure.

And we know that there are a growing number of opportunities for positive partnerships between community organizations and financial institutions to work together on behalf of borrowers. A recent study by the Local Initiatives Support Corporation (LISC) confirms that these partnerships make good business sense for both the homebuyer and the nonprofit. The study gave numerous examples of nonprofits that have branched into the business of being "buyer's brokers," working to obtain for underserved borrowers negotiating power they never had before. By representing home purchasers in the marketplace, nonprofit brokers not only help their clients get mortgages – subprime or otherwise – on better terms than they would be able to secure on their own, but they also generate a new fee-based revenue stream for their organizations that can help sustain their other community development activities.

The LISC study reminds us that this activity requires highly specialized skills and technology; clearly, it's not for every nonprofit. But it has become a viable model for a handful of enterprising organizations with the market knowledge, organizational culture, and scale of operation to make it work.

So . . . it appears that all of us have plenty of work to do! And that should come as an exhilarating prospect for RIAC and for NHS of New York City and for its lender affiliates – organizations and individuals that have thrived on just such challenges and have so much to show for it over the years. If there's anything that experience has taught us, it's that there is much we can accomplish when dedicated people are willing to roll up their sleeves and tackle a challenge.

That's why we are here this morning, to salute – and to recommit to – this effort.

Thank you.