THE EFFECT OF PREDATORY LENDING AND THE FORECLOSURE CRISIS ON TWIN CITIES' COMMUNITIES AND NEIGHBORHOODS

FIELD HEARING

BEFORE THE

COMMITTEE ON FINANCIAL SERVICES

U.S. HOUSE OF REPRESENTATIVES

ONE HUNDRED TENTH CONGRESS

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WITNESSES

THURSDAY, AUGUST 9, 2007

APPENDIX

THE EFFECT OF PREDATORY LENDING AND THE FORECLOSURE CRISIS ON TWIN CITIES' COMMUNITIES AND NEIGHBORHOODS

Thursday, August 9, 2007

U.S. HOUSE OF REPRESENTATIVES,
COMMITTEE ON FINANCIAL SERVICES,
Washington, D.C.

The committee met, pursuant to notice, at 6:19 p.m., in the Minneapolis Central Library, Pohlad Room, 300 Nicollet Mall, Minneapolis, Minnesota, Hon. Barney Frank [chairman of the committee] presiding.

Members present: Representatives Frank and Ellison.

Also present: Representative McCollum.

The CHAIRMAN. This hearing of the Committee on Financial Services will come to order.

This is an official hearing of the Committee on Financial Services, House of Representatives. My name is Barney Frank and I am the chairman of the committee. Accompanying me, as you well know, are two members of the House from here: Congressman Keith Ellison, who is a member of the committee; and Congresswoman Betty McCollum, who is someone with a great interest in the subject.

We will proceed to opening statements from the two Minnesota Members, and we will then go to the witnesses.

Our procedure will be to hear from the witnesses. We have three panels of witnesses. The witnesses will make their statements and submit for the record any additional material they want to submit, and then at the conclusion of each panel, we will have questions from the three members. I also will ask if we have unanimous consent, and on the assumption that there is no objection, that will be permitted.

With that, I will turn to Congressman Ellison, who has been a very active member of the committee and a strong advocate for action to deal with the crisis in predatory lending, and in fact, is a sponsor of a very important piece of legislation that I am confident will be—much of which will be incorporated in our final product. Congressman Ellison.

Mr. ELLISON. Thank you, Mr. Chairman. First of all, Mr. Chairman, I'd like to thank you for devoting your time and resources and the resources of the Financial Services Committee to come to Minneapolis tonight to highlight the devastating effects of predatory mortgage lending and the mortgage foreclosure crisis on neighborhoods in the community of the Twin Cities. I would also like to point out that our mayor, R.T. Rybak, is not at our hearing tonight only because there are a number of our fellow Minnesotans whose remains are being taken out of the river as we speak, and he has to be there with the families. I hope everybody understands that; I'm sure that you do. I also want to point out that Congresswoman Michelle Bachmann wanted to be here tonight, and expressed to me the desire to be here. She is away in the Middle East right now, but very much wanted to be present.

I want to highlight—I want to welcome tonight's hearing my colleague and good friend from St. Paul, Congresswoman McCollum, as well as Mayor Rybak, Mayor Coleman, and other elected officials in the Twin Cities area. I would like to welcome all of the members of the public who found time in their busy schedules to be at this hearing.

As Congress begins to address the issue of predatory lending, it's important to me that we hear directly from the people in the communities who have been affected most. I want these voices to be heard in Washington. Mr. Chairman, the hearing tonight represents one important step in making sure these critical community voices are heard, and I applaud your leadership for making this happen.

Predatory lending foreclosures have torn holes in the fabric of neighborhoods not only in Minneapolis and St. Paul, but across the State of Minnesota, and the Nation as a whole. There are both personal and community consequences of housing foreclosure called predatory lending. In addition to ruining a family's dream of homeownership, housing foreclosures can have devastating impacts on local neighborhoods and communities. Boarded-up homes drive down local property values and are the locus of crime and other illegal activities.

Displayed on the screen before you is a map of the mortgage foreclosures currently listed in North Minneapolis. The red dots represent foreclosures. The sheer number of concentration of these foreclosures is still shocking to me, even though I viewed this slide numerous times. I live in North Minneapolis, and you're looking at my neighborhood. I look forward to hearing the testimony of our distinguished panelists tonight which include elected officials, advocates and community representatives who have been generous enough to share their time and experience with us tonight.

And so, Mr. Chairman, I look forward to working with you and the entire committee and the whole Congress to address this housing foreclosure crisis facing us today.

Thank you, and I yield back my time.

The CHAIRMAN. Thank you. And you set a good example, because we're going to have a time problem. I do notice two things, people standing, and a row of seats in front of me that say "reserved." By the power vested in me as chairman, I unreserve them. Come on. There are still some seats too.

This hearing could last a couple of hours. There are still some more seats. There are some fill-in seats, so please feel free to take those seats. If a State representative had to wait, I wonder who they were reserved for.

And I will now recognize our colleague, and a great supporter of trying to have us do the right thing, Congresswoman Betty McCollum.

Ms. MCCOLLUM. Thank you, Chairman Frank, and Congressman Ellison for extending the opportunity for me to be here. And I want to thank all of you from Minneapolis who didn't vote St. Paul out of the room when the chairman asked if I could be part of the committee and the panel today.

Minnesota, as we know, has one of the highest homeownership rates in the Nation. It has been an innovator in promoting opportunities for its residents to achieve the dream of homeownership. And we in Minnesota know we still have a lot to do.

Minnesota has also been a leader in creating opportunities for homeownership for members of our community who are disadvantaged, low-income, single-owner households, or communities of color. Our community banks and some of our larger banks in the Twin Cities have stepped up to the plate when they have been asked to participate, and subprime loans have been used as a mortgage tool to provide borrowers with a weak or limited credit history.

Now, the subprime loans now have been used to take away opportunity for many families because of the lack of regulation. But I want to focus for a second just here in Minnesota. Jeff Crump's report, "Subprime Lending and Foreclosure in Hennepin and Ramsey Counties," as Keith has shown with the map, shows how many foreclosures are just here in one area. But Jeff Crump goes on to speculate that the problem of foreclosures starts with predatory lending practices, and their goal is to remove the equity for the homes by refinancing multiple times. The equity that has been stripped from all these homes that we're seeing here and the homeowners have forced them into foreclosure. We're here today to find out what we can do to stop that from happening and still allow people with limited means or people who have had past problems in obtaining equity still achieve the American dream.

A little bit about what's going on in the Fourth District, Mr. Frank. The Fourth Congressional District, at our best estimate right now, has 796 homes that are involved in foreclosure. A Ramsey County estimate said that there will be 1,900 homes forced to foreclose by the end of 2007. That's a 30 percent increase over last year's number, but nearly a 500 percent increase over foreclosures since 2003. Right now nearly 1,200 homes are vacant in St. Paul, and it's mostly due to foreclosures. Many of these now have severe code violations and they have become unhabitable. I know my mayor, Mayor Coleman from St. Paul, is committed, and you'll hear from him later, to ensuring that these vacant homes are a priority for redevelopment.

But this is also happening in the first rank suburbs. Out of the foreclosures though again in St. Paul, approximately 45 percent of them are home equity loans. These delinquencies and foreclosures harm our neighborhoods and our communities, and they place an unfair burden on local and State governments to address the social and financial costs, and they also have an impact of people feeling that there are lenders in the community who they can trust, who they can't trust to be honest with them. So the financial services community, I know, has demonstrated great leadership on this issue by working on it in many, many different ways, and I know we'll hear more about that, Mr. Frank. But I want to tell each and every one of you that I'm so proud to be a co-sponsor of Congressman Ellison's bill, H.R. 3081, the Fairness for Homeowners Act of 2007, and the Twin Cities stand jointly together in Congress to make sure that everyone has an opportunity for shelter—shelter that can't be taken away.

I yield back.

The CHAIRMAN. Thank you, Congresswoman McCollum. I just want to make a brief statement.

The Financial Services Committee, which I chair, will pass legislation this year which prevents—if we are successful in it being adopted—the degree of problems we see with subprime loans. And I want to address a couple of the reasons why we are doing this. One argument we get from people is well, why is the government interfering? After all, nobody put a gun to peoples' heads to make them take out a loan.

There are of course circumstances in which people were unfairly pressured and given inadequate information, but there is an overriding one, and this is—the map shows it. Predatory loans that get foreclosed are not randomly distributed geographically, they are concentrated in neighborhoods, which means that the victim of this set of practices, the victims include people who may have saved every penny and maybe not even taken a mortgage, but bought a home and then find that the home next door has been foreclosed, and the home two doors down is vacant, and the home across the street is vacant. And pretty soon that hard-working individual's property is deteriorating in value and the physical deterioration around causes neighborhood deterioration. So the justification here is that we are not talking about little houses on the prairie 200 miles apart, we are talking about our neighborhoods where what in fact happens in one set of homes affects others.

Secondly, people said well, why are you regulating? There are two sets of mortgage lenders, of originators or people who originate mortgages in this country. One set, banks of various kinds, are fairly heavily regulated because they have deposit insurance and the Federal Government says if we're going to pay off your depositors if you screw up we're going to try and get you not to screw up because we're not going to pay off the depositors.

So the regulated institutions, the banks, have not been the major part of this problem. If only regulated banks had made mortgage loans as the originators of the loans we would not have the problem we now have. It is largely a problem of the unregulated segment. That is an argument that said that sensible regulation can be useful, and we plan to do that. One of the factors that I want to throw in that is relevant, part of the problem has been the housing policy in this country for years has equated home and homeownership. Homeownership is a good thing. We want to encourage people to be homeowners, but not everybody given his or her economic circumstance is able to do it.

And one of the problems that has exacerbated things has been the absence of decent rental housing at affordable levels for people. So a comprehensive plan will be to prevent abusive subprime lending, to go forward with the right kind of—by they way, one of the things we plan to do is to make the Federal Housing Administration, the FHA, better able to make subprime loans. We're not trying to shut people out of this market. We have some legislation going forward, Congressman Ellison has voted for, that's going to make the FHA more available. So that's the package. It is very helpful to us to have this kind of testimony from people who are feeling this impact from the efficacy groups, from the elected officials who have to try to cope with these kinds of questions from some of the responsible institutions. So I very much appreciate the initiative that Congressman Ellison took in putting this hearing together.

Obviously, this turnout is an example of the extent to which we have a problem here. Of course, it would be impossible to come to the Twin Cities and not express the deep grief of the Nation which we share with you in that terrible tragedy, and I hope that we will be learning from the problem to the subprime market, from the tragedy of this bridge, that there is a positive role for a sensible set of public policies that we may have lost sight of, but we believe the time has come to revive.

With this I will now—I ask you to please withhold your applause because, well, you know, we have about 20 witnesses and the rule of 10 minutes set. Our first witness, Congressman Ellison, explained that the Mayor, understandably, has obligations elsewhere, and we fully understand those and why he is honoring those, and he certainly should be there. And instead, we will hear from Barb Johnson who is the president of the Minneapolis City Council and our close official here.

STATEMENT OF BARB JOHNSON, PRESIDENT, MINNEAPOLIS CITY COUNCIL

Ms. JOHNSON. Thank you, Chairman Frank, Congressman Ellison, and Congresswoman McCollum. We very much welcome you to Minneapolis, and thank you for inviting us to testify on the effects of foreclosures and predatory lending on our community.

Like many cities across the country, Minneapolis is facing a mortgage foreclosure crisis. The rate of foreclosures has more than doubled in the last year. In the first quarter of 2006, we experienced 320 foreclosures. In the first quarter of 2007, we had 678 in our City. Foreclosure affects all parts of our City, but the hardest hit are our poorest neighborhoods, as the Congressman pointed out, our map showing the impact in North Minneapolis. North Minneapolis people do not have big stock portfolios or cushy retirement systems; they only have their homes.

And when foreclosures happens it devalues—first of all, if it happens to them, it's a tragedy. But if it happens in their neighborhood, as the Congressman said, it devalues the property of that valuable asset that they have. So it's a big hit for people who are on the margins.

The victims of foreclosures are not just the homeowners themselves, but the whole community. Hand-in-hand with foreclosures, when you see a big impact like this in a community, you also see a rise in crime. North Minneapolis is home this year to the City's largest number of homicides; we have more homicides in North

Minneapolis than all the rest of the City combined. The fact that we have all of these foreclosures and vacant buildings is no coincidence.

City response to the foreclosure crisis has been innovative, comprehensive, and in partnership with community partners. We are involved in prevention. We've expanded the successful mortgage foreclosure prevention services that we have in partnership with community groups, including advertising through "Don't Borrow Trouble," in providing help to people to avoid risky mortgages. We have increased our support for mortgage foreclosure prevention in partnership with our community partners.

We've expanded our Minneapolis 311 system to encourage people to report and ask for assistance through our new 311 system. We've been getting the word out in our community through expanded programs, through postcards that you can find at the front, community groups and notices in community papers. We are acting in intervention. The North Side Home Fund Strategy is working with neighborhood organizations to identify and redevelop critical clusters. We have identified over 300 addresses so far, and have 6 clusters currently in progress. The approach starts with housing, but includes a comprehensive approach around street design, crime, and health impacts. We have one in Cottage Park which includes donated renovation of a park, Hawthorne Echo Village, in partnership with the Home Depot Foundation, to create a sustainable community, and on our Penn Avenue cluster which for me is the most distressing, we are addressing 8 homes in a half block that are boarded and vacant.

The City is acting in a multitude of ways through community partnerships as well as the use of eminent domain. Our work also supports community partners doing great work such as Urban Home Works, a faith inspired community development partner. We are acting on remediation. We have a $12 million strategic acquisition fund that allows us to purchase and rehabilitate the highest impact housing and resell them to stable homeowners. We have a $10 million loan from the State Housing Finance Agency and a million dollar grant from Minnesota Housing and Business from our local Wells Fargo Bank and US Bank. The Regional Foreclosure Prevention Founders Council, led by our own city director of housing policy and development, is allowing us to expand this comprehensive strategy in partnership with housing funders and foreclosure specialists, including the City of St. Paul, Hennepin County, Ramsey County, Dakota County, Minnesota Housing, the Family Housing Fund, the Greater Metropolitan Housing Corporation, Housing Link, Fannie Mae, the Minnesota Home Ownership Center, and the Emerging Market Homeownership Initiative. Now we need Federal help to be able to take this work to the next level.

From the testimony that Mayor Coleman and I will submit, I will highlight three points.

First, quality renters are preferable to vacant properties. Currently renters living in foreclosed homes are evicted at the end of the redemption period when the property ownership often goes back to the lender. Providing credit through the Community Reinvestment Act could be established to provide lenders the incentive to allow quality renters to reside in properties that would otherwise sit vacant.

Second, sometimes the best option for a homeowner facing foreclosure is to sell their home. Currently there are Federal tax consequences to selling a home. Federal tax consequences should be eliminated or capped for homeowners facing foreclosure because sale is often the best option for distressed homeowners, and the quickest way to getting the housing back into stable use. Sometimes the best option for a homeowner is to redesign the terms of the mortgage with the lender. Mortgage officials should be required to modify a mortgage with a homeowner as a mandatory first step to assist a distressed homeowner when the homeowner can financially qualify.

Finally, we have been working with the State of Minnesota, the Federal authorities, the FBI, the Postal Inspection Service, and the county attorney to investigate irregular lending purchases and sales, particularly in North Minneapolis. And I want to thank the attorney general for allowing me to sit on the Foreclosure Prevention Council that developed really strong legislation in our State. In our neighborhoods right now, we are seeing flipping schemes. We have one particular landlord group that has over 200 properties. They have thousands of inspection orders, unpaid water bills, thousands of 911 calls, and now many boarded-up and foreclosed properties.

This is a severe problem, and we thank you so much for letting us tell you our story.

The CHAIRMAN. Thank you. Next, we have the Mayor of St. Paul, Chris Coleman. Mr. Mayor.

STATEMENT OF THE HONORABLE CHRISTOPHER COLEMAN, MAYOR, ST. PAUL, MINNESOTA

Mr. COLEMAN. Thank you, Chairman Frank. I appreciate your presence here, Members of Congress. I don't know what that note is, but I'm going to ignore it for right now because I have much to say and little time to say it.

As Council President Johnson said, there are a tremendous number of efforts that are going on right now in the Twin Cities in partnership with the State, with the counties, and with municipal and nonprofit partners across the region to try to respond to this crisis in our community, and it is a crisis. We recently launched a program called "Invest St. Paul," which is an effort for us to coordinate resources in four target neighborhoods in the City of St. Paul. You have before you a map of those targeted areas. They are areas that have suffered from this investment for decades.

We are trying to be smarter about how we are responding to the needs of those communities: We focus the delivery of city services to residents; we have planted trees; we have fixed cracks in sidewalks; we have changed the way we police those neighborhoods; we have asked our libraries and our health professionals to reach out to those neighborhoods; we have increased inspections in one- and two-bedroom units in those neighborhoods; we made it easier for citizens to log complaints so that we can deal with the challenges that we face; and we have done over 1,200 inspections of one- and two-bedroom units just in the months between March and June of this year. We are doing everything that we can to revitalize these key neighborhoods in our community. We like to think of St. Paul as a city of neighborhoods, but it isn't a strong city of neighborhoods unless all neighborhoods are prospering.

If you look at the overlay of foreclosures and vacant buildings in the City of St. Paul, you can see that there are very heavy concentrations of foreclosures in vacant buildings in those four key neighborhoods in the City. In January of 2006, we had 546 vacant homes in the City; today there are nearly 1,200 vacant buildings in the City of St. Paul. Most of these are residential buildings. We believe it's clear that foreclosure is hitting already distressed neighborhoods the hardest, and we know that we need to turn these neighborhoods around. But unless we do something about the issue of foreclosures we are not going to be able to do what we need to do.

We are striving to make things better, but the rate of foreclosures and vacancies is working against us. Throughout this country we should all fear that home foreclosures and the disruption of life in neighborhoods will cause what is known as a disinvestment domino effect. Home foreclosures and vacancies will lead to neighborhood property values declining, which will lead to remaining neighborhoods having less incentive to invest in their homes, which will lead to fewer people moving into the neighborhoods and concentrating poverty. It will result in local businesses having fewer customers and lending industries will be less willing to work in these communities, which ultimately will result in further deterioration, more crime, and all the troubles that we see associated with some of these inner city neighborhoods.

The costs to the City of St. Paul are very high. We obviously have a tremendous number of increased police expenses. We have thieves who are breaking into the houses to steal the copper metal in the vacant buildings, and it is creating a very dangerous, hazardous situation where firefighters and emergency responders are going into homes where the gas has been left on, but the copper piping has been taken out. It is the crisis that I think you know it to be, and we really welcome your participation and help as cities across America deal with this issue.

We believe that we are doing everything that we can, and we would like some assistance, and we have a few recommendations what we think could be very helpful for us. Council member Johnson outlined some ideas. We think that there are three things that could be looked at.

The first one is to repurpose the Tax Exempt Mortgage Revenue Bond Program. Look at refining existing tools to allow cities to address current problems. One opportunity that I would like to bring to your attention specifically is the Tax Exempt Mortgage Revenue Bond Program. Presently Minneapolis, St. Paul, and other cities use this program for first-time home buyer programs. Mortgages can be used to finance or purchase—purchase or rehabilitate homes in federally designated target areas. Updates to this program will allow us to have more flexibility with respect to financing home mortgages and allow cities more authority to define targeted areas. It would be an extremely helpful tool if we could make these changes.

The second is requiring re-registration of mortgages after sieged sales. One of our biggest hurdles in redeveloping a vacant home is trying to track down who owns the property. Mortgage originators usually sell a mortgage to a banker finance company. The mortgage may be packaged with another mortgage or sold as part of a larger investment pool. Our planning and economic development staff, they are great people, but they can spend weeks and weeks simply trying to figure out who owns a piece of property that has been foreclosed upon. It makes it very difficult for us to move forward in terms of rehabilitation.

The third is the reinvestment in community development block grants. In 1975, in inflation unadjusted dollars, we received $18 million in the City of St. Paul to reinvest in our community. Today we receive less than $8.2 million, again in actual dollars. If you look at the level of funding that we used to have, we had the tools, we had the resources to reinvest in our community. Those tools and resources are significantly drawn down upon, or they don't exist at all.

We need your help. We know that you understand this issue. We appreciate your time here today. We thank you for taking this issue up, and we will work side-by-side with you in any way that we can to fix this problem.

The CHAIRMAN. Thank you, Mayor.

[The joint prepared statement of Mayor Coleman and Mayor Rybak can be found on page 52 of the appendix.]

The CHAIRMAN. Next, the Attorney General of the State of Minnesota, the Honorable Lori Swanson.

STATEMENT OF THE HONORABLE LORI SWANSON, ATTORNEY GENERAL, STATE OF MINNESOTA

Ms. SWANSON. Good evening. I'm Lori Swanson, Attorney General of Minnesota. Chairman Frank, Congressman Ellison, and Congresswoman McCollum, thank you for holding this very important hearing tonight.

You know, over the years, the American dream of homeownership really has been the way that most middle-income and low-income Americans built a nest egg, and saved for the future. Yet today, instead of being a savings vehicle, the home has been turned into a financial liability for far too many of our neighbors. In the Attorney General's Office, we receive 500 to 700 calls a day, and 200 letters a day, from people in Minnesota who have problems, and paying attention to that tells me that many of our neighbors are living paycheck-to-paycheck. College tuition is rising, healthcare costs are rising, gasoline is up, utilities are up, and at the same time here in Minnesota, the unemployment rate is also up and good paying jobs are more scarce. As a result, many of our neighbors are borrowing, borrowing not to get ahead, but borrowing just to get by. And in fact, if you look at the statistics, in 2006, over 88 percent of the people who took out mortgage refinancing loans did it in part to take cash out of their home and pay off other bills like healthcare debt and credit card debt. Because so many middle-income and low-income Americans are squeezed, they are vulnerable to default when they see surprises in their mortgage due to undisclosed rates, undisclosed fees, predatory terms, and so on and so forth. And here in Minnesota, we have seen many mortgage loans sold with little or no regard for the borrower's ability to repay the loan, and which are completely unsuitable for the borrower's situation.

What has that meant for Minnesota? Well, the number of foreclosures in Minnesota has nearly doubled in the last year, and nearly quadrupled in the last 2 years. It is a statewide issue. In 2006, there were over 11,000 foreclosures in Minnesota, up from 6,000 in 2005. In rural Minnesota, the number of foreclosures rose from about 2,700 in 2005 to over 4,100 in 2006. It's expected to reach 8,700 this year. And in fact, in some rural Minnesota counties, nearly half of all loans in 2005 were subprime loans. Those borrowers are going to see big surprises when they see their interest rates reset upward after the teaser rate ends on their adjustable rate mortgages. And the impact of foreclosures is highly destructive. It's destructive for the families and homeowners involved to end up either losing their homes or being trapped in unsustainable products. And families forced from their homes face a lack of stability that affects all aspects of their lives, their kids' education, and their own jobs. They face damaged credit which makes it harder for them to then buy other products or even hold a job or get a job, and it really results in a downward financial spiral for these people, and it pushes them into other predatory products like payday lending, which is problematic for obvious reasons.

Congress can do a lot to help in this area. First, with regard to the future, Minnesota did pass a law this year, a bill that became law on August 1st, to reign in predatory lending practices. I see that State Representatives Davnie and Mullery—the authors of that law— are here, but through that leadership, it requires brokers and lenders to verify a borrower's ability to repay the loan and other expenses, not just at a teaser rate, but at the full rate using reliable documentation, and places a duty on the broker to act in the best interest of the borrower. While States have shown leadership in addressing the issue, the Supreme Court has tied our hands as it relates to national banks and their operating subsidiaries, and so we do need the Federal Government's help here in Minnesota to close that loophole. Congressman Ellison's bill would do that, the bill that he has announced.

Second, with regard to the past, I think that Congress plays an incredibly important oversight role, and it's a role that we in Minnesota very much appreciate. You have put pressure on financial regulators to responsibly address this crisis, and Congress should continue to do that. As much as we can talk about prospective legislation, we do have a lot of people in a boatload of trouble today, and Congress can and should continue to press Federal regulators to use their leverage over the lenders they regulate to help reach effective loan restructuring for the people who are in crisis today.

So thank you for your leadership and for holding this hearing.

[The prepared statement of Attorney General Swanson can be found on page 96 of the appendix.]

The CHAIRMAN. Thank you. Finally, the vice president of the Federal Reserve Bank of Minneapolis. Mr. Todd, thank you for representing the Federal Reserve.

STATEMENT OF RICHARD M. TODD, VICE PRESIDENT, FEDERAL RESERVE BANK OF MINNEAPOLIS

Mr. TODD. Thank you. Mr. Chairman, Representative Ellison, and Representative McCollum, I appreciate this opportunity to discuss the impact of foreclosures and abusive lending in the Twin Cities. And I thank Representative Ellison for arranging the hearing.

Foreclosures are a rapidly escalating problem in Minnesota. The Community Affairs Unit in the Federal Reserve Bank of Minneapolis provides technical assistance to foreclosure mitigation efforts. As a result, I know that the issues before us are urgent in the Twin Cities, where our foreclosure rates have more than tripled in recent years. Because our other witnesses have more more direct knowledge of the resulting impacts, I am going to focus on some research findings. The views I present, however, are my own and not necessarily those of the Fed of Minneapolis or the Federal Reserve System.

In the Twin Cities, foreclosure rates are highest in our core cities. Research conducted by my staff and Dr. Laura Smith of Macalester College found that when multiple factors were considered, the strongest relationship in 2002 was between foreclosure rates and the percentage of adults in the neighborhood with impaired credit histories. The next most important factor was the increase in minority home ownership between 1990 and 2000. In short, foreclosures were high in low- to moderate-income areas where minority and young families, often with a history of financial stress, were transitioning to homeownership.

And foreclosure rates are still highest in these neighborhoods. For example, in Hennepin and Ramsey Counties, and adjacent portions of the Fifth Congressional District, there are about 40,000 first-lien, subprime, and Alt-A mortgages right now, according to the staff at the Board of Governors in Washington. About 2,200, or 5.5 percent, of these mortgages are in foreclosure now, and the highest percentages, 8 to 14 percent, are in North Minneapolis and some neighborhoods near downtown St. Paul.

However, foreclosures are rising rapidly throughout the area. Among the subprime and Alt-A mortgages discussed above, 5,200 are delinquent. Monthly payments on about 15,000, or 37 percent of the total, are scheduled to reset to significantly higher amounts before 2010. And we'll be sharing information like this with local counseling organizations to help them target their efforts.

Concerning the impact of foreclosures, I will briefly cite two findings. First, as documented by Macalester's Dr. Smith, between 2005 and 2007, the number of owner-occupied dwellings declined in Minneapolis neighborhoods with high foreclosure rates. This undercuts Minnesota's Emerging Markets Homeownership Initiative and its objective to close racial and ethnic homeownership gaps.

Second, investor-owned properties need to be considered. In Ramsey and Hennepin Counties, as many as 40 percent of foreclosure sales involve properties that are not owner-occupied. In hard-hit North Minneapolis, the percentage of mortgages to non-occupant borrowers surpassed 31 percent in 2005.

I hope the findings I have presented here and in my written statement are informative. On October 4th, the Minneapolis Fed will hold a workshop to consider how to improve access to data on foreclosures, and to address the overall functioning of the foreclosure system, such as the re-registration issue that Mayor Coleman spoke on.

I hope we can share outcomes from that event. Thank you.

[The prepared statement of Mr. Todd can be found on page 102 of the appendix.]

The CHAIRMAN. Thank you, Mr. Todd. And we'll begin the questions with Mr. Ellison.

Mr. ELLISON. Mr. Todd, my question to you is this: When you look at the data that you just shared with us, you indicated that two of the most important factors are the frequency of minority and young homeowners. How do you factor in the predatory nature of some of the loans that we see out there? Are these folks making bad decisions, or are they being sold on products that are actually exotic or predatory products?

Mr. TODD. I think that there are many things that go on. I think that there are clearly cases, it has been well-documented, I believe, in the Twin Cities, that there are many cases where high pressure tactics were used without good disclosure and full information to borrowers, but there are other ways that this happens as well, and I think it's important that we do recognize that not all foreclosures are the same. It still can be the case that people get into foreclosures for old-fashioned reasons like losing a job or getting sick. And sometimes people get into a subprime loan having had other problems first that led them to refinance into subprime. So we have a wide range of things going on that include abusive lending, but it's not limited to that.

Mr. ELLISON. Does the Fed have a role to play here locally in regulating some of these lending products that we've seen that are so-called exotic products, prepayment penalties, no doc, low doc, those kind of loans, what is the regulatory role that the Fed can play?

Mr. TODD. The Federal Reserve has a role in writing regulations that apply nationally, so it would not be this local Federal Reserve Bank, it would be more the Board of Governors in Washington, D.C., doing it for the whole country. We do have authority to write rules that apply to, in some cases, all mortgage lenders, but we do not have the authority to enforce those rules on all. I think Chairman Frank was alluding to some difference in outcomes between the federally regulated institutions and some of the other institutions, and I think there is an area where we can write the rules for all, but we cannot enforce them for all.

Mr. ELLISON. Attorney General Swanson, one of the things that has been bandied about in this national debate is whether we should preempt States or whether we should continue to make sure that we have an active role from our State regulators. What are your views on the subject?

Ms. SWANSON. Well, I would be very much opposed to any type of preemption on the part of the Congress. I think that in area after area, the States have been the ones that have shown leadership and stepped up to the plate when it comes to protecting their patients, their financial customers, their workers, and their citizens, and there has been a trend too often, I think, in Congress over the last 10 years, where either Congress or Federal agencies have preempted the State's power to do better for their citizens, not because the Federal Government really wants to regulate these industries, but because they want to deregulate these industries and want to tie the State's hands.

I think that States are close to their citizens. We have the ability sometimes to act swiftly and move to address uniquely local issues. And in this case I think it's a great example where the Minnesota legislature has done that. It moved forward to pass, I think, really very good and strong anti-predatory lending legislation. There is that small area that we can't address because of the U.S. Supreme Court ruling, but I think it would very much be in the citizens' best interest to not have any type of preemption and let the States be the laboratory for the democracy that they traditionally have been and let them do better for their citizens. I think that's very, very important.

Mr. ELLISON. Mr. Mayor, as you try to develop your City of St. Paul, and I'd actually like to see if our council president can chime in here too, how important is housing as a focal point of economic development? We all want to do start-ups, we all want to promote businesses coming in, but what role does housing play in stabilizing and developing a community?

Mr. COLEMAN. I don't think that there is enough time, Congressman, to tell you all of the reasons why that's critical. You know, without housing, you start off life, from the very beginning—we have kids who are transferring schools five or six times during the course of the year. There are some schools where 60 or 70 percent of the kids in there are moving during the course of the year so that it's destabilizing our classrooms. It's making it very hard to track those kids to make sure that they have the resources that they need.

From a crime prevention standpoint, when you have this kind of a vacancy rate and you have a neighborhood that is falling to further decline because of these foreclosures and vacant buildings it makes it very difficult to police our neighborhoods. It makes it very difficult for us to try to attract businesses into our neighborhoods, and to attract residents into our neighborhood. I really could go on and on because, you know, it's just—it's such a fundamental, fundamental piece of our community from so many different angles that we have to handle this. And when you look at our "Invest St. Paul" initiatives to say, you know, we're prepared to do everything that we can to redeliver public services in a different way, to work with partnerships across the City in the for-profit and nonprofit sectors, but if every time we take a step forward, we go two steps backwards because of situations like this, then everything that we're doing will go for naught, and all of our efforts to try to revitalize these neighborhoods won't work.

Ms. JOHNSON. Thank you Congressman Ellison. What I would just like to say is something that I've always said about my particular community, North Minneapolis. North Minneapolis's strength has always been its housing stock. We don't have big employers there. We have a fantastic housing stock that has provided homes for working people throughout the City's history. We are in danger of losing this, and this would be a tragedy for our City.

Mr. ELLISON. Thank you.

The CHAIRMAN. Congresswoman McCollum.

Ms. MCCOLLUM. Thank you, Mr. Chairman. I want to thank the panel for its testimony. Just when you think you have read and kept up with the devastation that's going on with foreclosures, you hear more, and it makes you realize that we're playing catch up as my Mayor from St. Paul said, and we keep getting further behind while doing it.

But I would like to talk a little more about marketing practices. Attorney General Swanson, you pointed out that Minnesota has passed some legislation addressing marketing practices, and I'll speak as a person who has a home mortgage in St. Paul. I'm still receiving through the mail, I thought to bring them with me but I would have had two large garbage bags to hold it all, and they are garbage, what I'm sent about refinancing my home—"Last chance, do it before, literally before August 1st." It comes in very official looking mail. And they have even taken to soliciting my son, who doesn't hold a mortgage, and whohas been living in Japan for the past year teaching over there.

What were you able to do here, and then what do we need to look at doing with postal inspectors and others as we move forward?

Ms. SWANSON. Well, there are a number of things that can be done. The Minnesota legislation really sort of legislated some common sense that lenders haven't applied and brokers haven't applied, which is making sure that people can pay it back. If you make a loan, can they pay it back? And you know, what we have seen is a lot of problems where lenders were making these no documentation loans and they weren't even looking at a tax return to see if the income stated on the application was in the ballpark of what the person really made. And so the Minnesota legislation curbed that and said the lenders ought to look at documentation because of the so-called "liar loans" where the broker can put down anything at all on the application. The legislation says that can't be the case anymore. Lenders now look at verifiable documentation, and it does place a duty on mortgage brokers to act in the borrower's best interest.

You know, a mortgage is the largest financial transaction any American consumer will enter into. It's also the biggest financial transaction an American consumer will enter into, and it makes great sense to treat a mortgage, therefore, more like you treat an insurance product or securities or like a duty a Realtor has or a lawyer has, as opposed to that you're just selling a television set. There are a lot of problems with abusive marketing practices, no doubt. I mean, a lot of the people who have been put into some of the most predatory products already had a home, they already had the American dream, and somebody, you know, some advertiser on late night television said, "If you have credit problems, don't worry, you can refinance. Come with us. Take cash out. Pay off your credit cards." And that is a problem, the advertising no doubt. But hopefully with the legislation putting in place more prudent underwriting standards, that should really curb the kind of abusive loans that we've been seeing.

Ms. MCCOLLUM. I have a question for the Federal Reserve as for going through with re-authorization of leave no child behind. One of the things that I've heard from social studies teachers, and I'll be honest, I heard from a former social studies teacher, is the amount of time that's being taken out of the class curricula for teaching social sciences, which includes economics. And I know many of our lenders are our community banks and that some of our large banks try to go into the classroom and do financial literacy, but they have to be asked in, and with more and more emphasis on testing, we're seeing some of these life skills being lost. Could you maybe speak to, if you could, the importance of financial literacy and maybe if we need to be offering it in community education classes and figuring out a more creative way to get people up-to-speed.

Mr. TODD. I'd be happy to. That is an area that I personally work in a lot, and I've thought about it quite a bit. It is very important. On the issue you raise, I am often asked if I support making it mandatory to teach it in the schools, and I try to be very careful about that, and I think teachers do have lots of mandates now, and I do not necessarily feel that I know enough to say that I'm going to add another one.

But I think we do need to get the job done somehow. And you can try to get it into the math classes and integrated into some of the classes. I think we can also attempt sometimes to get it into summer camps. We're doing work with some Native American summer camps ourselves, one here in Minneapolis as well as elsewhere around the country. I think that you're right, that it continues in adult life. Sometimes I think that before you graduate from high school, you don't always understand the importance of it. It's good to have the basics, then you need to reinforce as an adult when you start to see the decisions you're actually making. We have good homeownership counseling here in Minnesota. We need to keep that organization strong.

I will just relate also that I have found in terms of some of the high school programs I have been involved in that we were impaired in our ability to move forward with the financial education in certain circumstances where the schools were behind on their testing. They simply had to devote so much time to catch up that they were not able to do much with the financial education.

The CHAIRMAN. Thank you. I have a couple more questions for Attorney General Swanson. You write about the trend to cancel State law, or as we call it, preemption. You were just a little under on the time. You said 10 years; it has actually been 12 years. Random selection people think about what happened in 1994 and that's over.

Ms. SWANSON. Thank you, Chairman Frank.

The CHAIRMAN. There are differences. Now to—Ms. Swanson, let me say first of all, people, you see the influence of great masters, and politician Tip O'Neill said that all politics is local. We tend sometimes to be behave a little differently at home. I will say to you, Mr. Todd, that by telling you Mr. Ellison treated you far more gently than he treated the chairman of the system. But that's appropriate.

Mr. TODD. I appreciate that.

The CHAIRMAN. But I want to thank you in particular for mentioning the race factor. One of the things that Congress did over the objection of some people, frankly even in the affected industry, was to pass a bill of which my former colleague, Joe Kennedy, was the main sponsor, called the Home Mortgage Disclosure Act (HMDA). HMDA continues to reveal one of the great ongoing shames of America that there is a very significant racial disparity in peoples' availability and stuff that we ought to keep working on.

I appreciate your mentioning that, that this is something that we as regulators very much have to deal with. That is very important.

The other thing that was new to me, I must say, was the reference to "investor-owned." Would you say that foreclosures among investor-owned, is that disproportionate to the number of investor-owned, or just a significant factor?

Mr. TODD. I don't know if it's disproportionate—I see there are people in the audience—Alan Malkis is doing research on this in North Minneapolis—but I do know that it's an important part of the foreclosures.

The CHAIRMAN. I appreciate that. And I certainly believe that renting—this a new thing that I will take away from this. We've tended to think about the tragedy of the individual, but from the economic and social impact we will look at that.

And then also we need to thank you, Mayor, for the second item referred to, the importance of helping people unravel the ownership chain, to see who is the ultimate owner. We did in our committee press the Securities Exchange Commission to get the Financial Accounting Standard Board fairly obscure, but they have now ruled that the servicer of the secondary mortgage held markets can—doesn't have to be just an automaton. And Ken said you know what, we'd all be better off if instead of foreclosing we did some flexibility. But that doesn't help if you don't know who to go to.

And I will ask the staff of the committee tomorrow to begin to make available—we will look into this question. The other issues on the revenue bonds, I very much agree with the mortgage fund, those are not our committee, but we will pass that along. And on community throughout the fund grant, you're right, we're way below, but you will see in the budget, again 12 years, you will see that the budget that will come forward on October 1st will have the first real increase over inflation at CDBG in 12 years.

I thank the panel, and we will dismiss this panel and ask our second panel to come up.

The CHAIRMAN. Our second panel consists of: Ms. Sharon Glover from Golden Valley, Minnesota; and Mr. Dante Rivera from St. Paul, Minnesota.

The room will come to order. Will people please take their seats so that we can begin?

Our first witness is Ms. Sharon Glover from Golden Valley. Ms. Glover, thank you for joining us, and please proceed.

STATEMENT OF SHARON GLOVER, GOLDEN VALLEY, MINNESOTA

Ms. GLOVER. Thank you. My name is Sharon Glover. My late husband, Gleason Glover, was the head of the Minneapolis Urban League for 25 years. He passed away in late 1994. And I have worked for many years in the education field, and I always had a job until recently.

Gleason and I bought the house in 1984, and our mortgage was with Homeside in Florida. We paid $94,000 for the house, and our payments were $1,200 a month. The problem came when I refinanced in 1999. I really wasn't seeking to refinance, I was thinking about it, but if I did refinance, I wanted lower payments than the $1,200 I was paying.

Well, one day a man came to my door, I say he danced into my house, saying all kinds of wonderful things about Gleason, singing my husband's praises. I, of course, was still in the grieving stage at that time, so I trusted him because he respected my husband. He called me, and I said, "I'm ready to close." Again, I trusted him. I signed the papers believing him. And it was only much later that I found that my payments were no longer—they went from $1,200 a month to $1,550 a month.

Also, I never got copies of the loan documents from him. In fact, I've only gotten them very recently through the lawyers who are pro bono working with me. But the loan balance went from $94,000 to $162,000 and I never understood why. I didn't get any cash back, and they paid a few bills, but I certainly didn't have $70,000 in bills. And as I said, I just got a copy of the paperwork sent to me recently. And I know it's too late now, but legally maybe they don't have to do anything, but I still want to go back and ask them to tell me where that money went and who got paid.

So since 1999, I have made those payments of $1,550 a month. I worked and paid this even though I realized I had been taken. Then a few years ago I got a call from Ocwen saying that they were my new mortgage company, and that was when the troubles really started. Ocwen told me that they were going to pay my taxes and insurance although I was current on everything. They increased my payments by $400 a month, so now I have gone from $1,200, to $1,550, to $1,945.

Then in 2003, I became ill, and had a total hip replacement on the right leg and a total knee replacement on the left. After my surgery I couldn't go back to work, so I went through all the money I had and kept paying my mortgage. Then I got another little part-time consulting job, but I still hadn't healed and so we were—I couldn't stand up and sit down. We were in a conference with someone and I was trying to stand up to shake the donor's hand, and I fell onto the owner of the school's feet. So I was let go that very day because, as they said, I was a liability to them. So I didn't run into any problems until I no longer was working.

Then as now, I'm living on the Social Security check that doesn't come until the third Wednesday of the month, and a small annuity check from my husband, my deceased husband, which comes the last week of the month. But I still have never missed a payment. But the payments were always made at the end of the month because that's when I get the money. Because my payments increased to the $1,945 a month, that left me only with $200 a month then to pay all my bills including food and medical, so I just stopped taking my medicine so that I could make my mortgage payment.

Starting from the time when I wasn't able to work, if Ocwen didn't get the payment during the first 5 days of the month they would call me 4, 5, 6, 7, and 8 times a month harassing me. I told them, and I also put it in writing, that they would have their money every month, but it would be at the end of the month because of when I got Social Security, and when I got the annuity. They could have adjusted everything to change the payment due date, but they refused to do that.

Now, I have all of these records and documentation showing that all of the months were paid. Not only that, on the wire when I wired the money every month, on the wire I would put to be used for mortgage June 2007 only, payment only, with only being in big letters, but still they went ahead and used the money any way they wanted to. Ocwen had my June 2007 payment. I wired it with the statement, "Oly to be used for mortgage," when on July 3rd, a sheriff knocked on my door, and said you are served. I don't know what happened. I just got this letter saying that they were going to foreclose on August 7th. I was so ashamed. Ashamed that I, as a bright woman, had let this happen to me and didn't see it coming because I had made the payments and thought that if you pay every one of your payments they can't take your house from you. The sad thing about this is that I was going to move anyway because the house had become too much for one person, but I had not planned to lose everything as I am now.

Ocwen told me recently, in fact on the 2nd of August, that for $12,000 they would prevent the foreclosure sale. And then they said that after—if I gave them $12,000, and they stopped the foreclosure sale, I would have to give them another $12,000 as soon as the mortgage was reinstated. And they said that the other $12,000 would include things like foreclosure costs and fees, property valuation, title report fees, $2,325 in late fees, etc., etc., in addition to continuing to pay the $1,945 every month.

My home was up for auction, or sheriffs sale as you say, for Tuesday, August 7th, which meant that after that, I wouldn't be able to get the title to my house without paying a redemption fee of $200,000, and I never in my life expected this to happen to me.

Well, I went to the sheriffs sale, and thank goodness the Urban League went with me too so I wouldn't be alone, and my house didn't come up and so we asked the sheriff what was the matter, why wasn't my house up for sale? We learned from them that Ocwen had pulled it at 10 a.m., that very morning.

Now, the reason they had pulled it is because my lawyers, my pro bono lawyers, Seymour Mansfield and Richard Fuller, had filed a class action suit against Ocwen here in the Federal Court because of their predatory mortgage practices and piling on junk fees. I have a copy of the complaint with me. I understand that my action will be transferred to the Federal Court in Chicago as a consolidated multi-district action with hundreds and hundreds of other cases against Ocwen. This has been going on for years, and still Ocwen continues to get away with these predatory practices. But whatever happens, Ocwen has already done its damage to me.

[The prepared statement of Ms. Glover can be found on page 60 of the appendix.]

The CHAIRMAN. Mr. Rivera.

STATEMENT OF DANTE RIVERA, ST. PAUL, MINNESOTA

Mr. RIVERA. Hello, my name is Dante Rivera. I am from Texas, but I have lived in Minnesota for almost 12 years. I live in East

St. Paul, and I work in North Minneapolis for a roofing company. My wife works in St. Paul for the school. I have three kids: my oldest daughter is 11 years old; my middle daughter is 9 years old; and my youngest daughter is 2 years old.

I bought my house almost 8 years ago. I used to live in an apartment, but one day the new owner came to my apartment, and said we had to move; they only gave us 2 days to get out. So my wife and I went to look for another apartment, and I saw a house for sale. I told my wife that I was tired of renting, and I wanted to buy something better. When I bought the house, my mortgage payment was $760 a month. One year later they sent me a letter telling me that we had to start sending our payments to a different mortgage company, Option One, and that my payments would now be $1,025 a month.

In 2004, at that time, I got a little behind on my payments, so somebody told my wife about a broker. I don't speak English, so I felt very uncomfortable about refinancing the house because maybe something would go wrong, but we had to do something to catch up the mortgage, so my wife called the broker to make an appointment.

We told the person over there that we don't want any money back; the only thing we want is to lower the payment. But the person over there told us we have to get some money back, and if everything goes right for one year, we can go back until we get the payments lower. Later I found out that I have an adjustable rate mortgage where payments started at $950, but went up to $1,150. The price of my house was when I bought it was $86,000. When they refinanced it, it wnet up to $160,000. They charged a lot of money to refinance the house.

I have a lot of problems with this loan company, Option One. One time we sent the money Western Union, and then about 2 months later, I sent out a payment, and one time Option One called me to say that I was 2 months late. I told them I sent a payment from Western Union, but they sent it back, so I lost the money because I lost the receipt. Also it's very difficult to communicate with them. When I call, I get an answering machine. They say, "Press 1 to make a payment," but there is no person there.

Other times I call, the person says you have to speak with somebody else, and then they put me on hold 30 or 40 minutes, and then nobody answers the phone and I have to hang up. And everyone only speaks English. Only one time did I call there and talk to someone who spoke Spanish. She said she could help me, and then put me on hold again.

My company shuts down every year in December, so every time in January, I have a hard time sending my payments. I just want to catch up in February, but my electricity and gas are very expensive. Sometimes I have to pay between $400 and $700 a month in the winter, so me and my wife, we have to make a decision to send the mortgage payment or the bills or they will cut off the electricity and we'll be cold. I also had to go to out-of-State this year because my grandfather was sick.

When I got behind in my payments, I tried to call Option One to explain, but there was no answer. We sent the payment for January and February late, but this time they sent them back. They didn't want to take them late, so they sent me a foreclosure notice.

In June, we tried to speak with somebody to fix the problem. We wanted to send $4,000 and make an agreement with them, but nobody answered the phone. Over 2 weeks ago, this guy from Option One called me that tried to refinance my house, but I told him I was working with ACORN, and they told me not to talk to anybody else. And he wanted to make me make a decision right away; they told me, say this, and we can go over and do another refinancing.

The sheriff came last week to give a letter to my wife that they're going to put the house up for sale on September 12th. When the sheriff came over, my wife was very scared. She was crying and she came to my job. I told her that I'm very tired of living in this house. Maybe we can move to an apartment to save more money because this house is too old.

When I bought this house, it was the biggest mistake of my life. I was in a hurry because this guy, the owner of the apartment, said we had to move out. If I had more time to find somebody who spoke Spanish who could help me understand, maybe I could have bought a better house, and provided a better future for my wife and my kids. Thank you.

[The prepared statement of Mr. Rivera can be found on page 85 of the appendix.]

The CHAIRMAN. Congressman Ellison.

Mr. ELLISON. First of all, let me say that I'm very concerned, and very about what you had to go through. It's the kind of thing that we're here to try to address. Could you talk about what you learned about this company, Ocwen? As I did some research on them, I understand that there is already some pending litigation against them before you got into the litigation. What can you tell us about this?

The CHAIRMAN. Does the reporter have the spelling of the company?

Mr. ELLISON. O–C–W–E–N. Is that right?

Ms. GLOVER. That's right.

Mr. ELLISON. What can you tell us about this company?

Ms. GLOVER. All I can tell you is that they've been terrible to deal with. My blessing is that these lawyers, Seymour Mansfield, stepped up to help me pro bono, because otherwise there is no way I could have done this on my own. But we have the documentation. I mean, we can prove that every payment has been made. They have four notebooks of materials from me, and still they're just holding out. But I guess ACORN has a big lawsuit too going with Ocwen. So I understand that there are hundreds and hundreds of people in the suit. And the only thing that stopped this thing on Tuesday is I guess the lawyers sent a copy of the complaint over to them to tell them it had already been filed. But again, neither Ocwen, nor Shapiro, the lawyer that represents Ocwen, ever notified me or the law firm that they had pulled it. And we know it isn't pulled for good; it's only a matter of time.

Mr. ELLISON. Let me ask you this: Do you feel as though these companies treated you in a fair way?

Ms. GLOVER. I have to laugh at that.

The CHAIRMAN. I don't do audience participation. You go ahead.

Ms. GLOVER. Of course I didn't. No. No. I mean, even the calling and harassing me 7 or 8 times a month, and me repeatedly saying that my Social Security check doesn't come until the third Wednesday of each month, and my husband's annuity check comes the last week, but as soon as his check comes, then I will wire it to you. I mean, they could have made—as stated in the paper the lawyers drew up—a change; they could have changed the date, but they refused.

Mr. ELLISON. Thank you.

Ms. MCCOLLUM. When—and I really appreciate the courage it takes to talk about. We don't talk about finances very well as a Nation. We don't even talk about it within our families, and here you are sharing something that's very personal to both of you with everyone, but thank you for coming forward.

When you found—you have an attorney now and you called ACORN, sir, what—tell me what you felt like when you found that you were having all these legal problems. Did you think, "Oh, I can call the Better Business Bureau." "I can call the Attorney General." "This can't be happening to me." Tell me a little bit about, if you feel comfortable, what was going through your mind and how you felt that there were no resources available to you.

Ms. GLOVER. Let me tell you, you know, United Way puts out a list, and it's either United Way or the county, and they say call 311, and then there are a number of other numbers they say to call. I got the list and I called everyone on the list. Now, I live in Golden Valley which is first suburban tiered Minneapolis, and so after calling everybody on the list there are only two on the list well known that deal with foreclosures in Golden Valley. I went to each of them, each of them, and I said to them can—will you help me? I said, if you will lend me $1,945, one months payment, I can make it on the first, and then when my check comes I will be on time every time after. And these are people who are listed. And I was listening to the—well, let me not say that. But okay. These are people who are listed as who will help. When I went to, let me just call it "X," they said right out, "No." Now, the woman there really wanted to help, but her boss told—she told me off the record, pulled the staff together and they said no.

The other agency that I went to, and this is before it reached the foreclosure point, had me come back four times. The last time I went, I thought to myself, you have to take somebody with you, Sharon, because this makes no sense. So I took a young man, an African-American man from our community—I'm not going give his name, but all of you know it—who reaches out and helps people when he can. And I said, "blank," will you come with me and just listen. So he went with me to this other—to this group. We sat and they said well, let us think about it. Come back again.

On the day that I was supposed to come back for the fifth time, I got a call from this particular office saying that the woman who would be dealing with me wasn't able to come in that day and that she would call me when she was feeling better and could come in. So I didn't go. So this list that we put out really didn't help at all. And I didn't know—I thought to myself, since they say they're foreclosure prevention programs and they get money to help, who can I go to?

But the people whom I turned to, I went to the Urban League, and the president of the Urban League helped me. That's who helped me and stood with me. And then I went to ACORN. Their league also had this big thing on foreclosures, and I went to that conference. And at that conference I met a number of organizations, of which ACORN was one, and then I went in to see ACORN. And then right at that time these lawyers took me on said they would help me, and they knew me through my—

The CHAIRMAN. How did you meet those lawyers? Who connected you to those lawyers?

Ms. GLOVER. Well, the lawyers at one time were on the Urban League board many, many years ago, and they also, the lawyers, were personal friends, or knew my husband very well.

The CHAIRMAN. So is that through the Urban League foreclosure conference that you met them, or separate?

Ms. GLOVER. No, I knew them over years, but I don't know who called them. Somebody called them about me, and I think it was my sister, and they called and said come in. And then when they looked at my income they said, "Oh, no, you can't afford to pay us anything, this is pro bono." And they're the ones who have really gotten on top of this and stopped it. But if not for them and the Urban League, and ACORN, I don't know where I'd be.

The CHAIRMAN. Let me ask Mr. Rivera, how did you get to ACORN? What was the connection there?

Mr. RIVERA. Well, at that time my wife was very nervous, so she went to her friend's house, and her friend's husband called me and gave me the number for ACORN. And then I was very scared because I don't want to call companies; they are only looking for records. And I think to myself, these guys who came to my house, lenders and everything like that, I feel like they are sharks. They want to attack me. You know, like take something from my pocket.

And then, well, my friend explained to me, and told me about ACORN, so he made the appointment for me and then I came over.

The CHAIRMAN. Thank you.

Mr. RIVERA. You're welcome.

The CHAIRMAN. Thank you both. No further questions.

I echo Congressman Ellison, that to share your own personal pain in the hopes of helping other people avoid it is really about as generous a thing as you can do. So we very much appreciate both of you sharing in this way to try and help others.

The CHAIRMAN. We will now take the next panel. Will the next panel please come forward: Ms. Bridges, Mr. Satriano, Ms. Hanson, Ms. Sullivan, Mr. Marx, Ms. Gugin, and Mr. Abed.

We will begin. Are we ready?

We will begin with Ms. Dorothy Bridges, who is the president of the Franklin National Bank in Minneapolis.

STATEMENT OF DOROTHY J. BRIDGES, CEO & PRESIDENT, FRANKLIN NATIONAL BANK, MINNEAPOLIS, MINNESOTA

Ms. BRIDGES. Chairman Frank, Congressman Ellison, and Congresswoman McCollum, my name is Dorothy Bridges, and I am the CEO and president of Franklin National Bank of Minneapolis. I am pleased to be here today, and I want to thank you for taking time out of your busy schedules to be in our community.

This community is very important to me and to all the great people who work at Franklin Bank. It is our home, and our livelihood is intimately connected to its economic wellbeing. I've learned throughout my life that people are a part of their community and their community is a part of them. This is why our vision at Franklin Bank is to be the leader in improving our urban community. Every day we work hard to find new ways to use our resources to improve life in urban Minneapolis. We believe social responsibility based on solid partnership is vital to this effort. We embrace diversity and support the individuals, businesses, and nonprofit organizations that work tirelessly to create jobs, build affordable housing, help individuals reach their goals, and improve our overall quality of life.

While our focus at Franklin Bank is on local business lending, the recent rise in home foreclosures has had a direct impact on us due to our involvement and work with nonprofit community development organizations like Project for Pride and Living, and many of the others that are located in this room.

PPL helps lower- to moderate-income people become self-sufficient. We recently loaned them money to build 14 single-family homes on the old school site in North Minneapolis. While the project is complete and the homes are for sale, the number of foreclosures in the area has made it very difficult for PPL to find interested, qualified buyers. Most people are reluctant to buy a home on a street where a lot of other homes are for sale or boarded-up due to foreclosures. And since the loan we made to PPL does not get repaid until the homes are sold, our ability to work on future projects of this nature is hampered.

There is no question that the rise in foreclosures will hurt other businesses in our area as well, therefore, we must be a part of the solution as a banking institution.

A variety of factors are responsible for the current situation, but I cannot say strongly enough that predatory lending has no place in our financial system. The vast majority of predatory lending practices are engaged in by unregulated lenders that are not subject to the same strong oversight and examination that the banking industry is subject to. While many of these non-bank lenders lend responsibly and hold themselves accountable, many do not. But all should lend responsibly and be held accountable for not doing so. They should be subject to the same strong consumer protection laws that apply to banks.

Today there is no regulatory system for ensuring that they comply even with the laws that they are subject to, such as RESPA. All of us should be required to abide by high ethical standards whether you are a banker, a mortgage broker, a mortgage lender, or anyone else involved in real estate and homeownership. High ethical standards should be the norm, not the exception.

Thank you for your time, and I'm happy to address any questions you may have.

[The prepared statement of Ms. Bridges can be found on page 44 of the appendix.]

The CHAIRMAN. Thank you, Ms. Bridges.

Next we'll hear from Mr. Paul Satriano, who is the national treasurer of ACORN and a State board director for ACORN. Mr. Satriano.

STATEMENT OF PAUL SATRIANO, ACORN NATIONAL TREASURER, AND MINNESOTA ACORN STATE BOARD MEMBER

Mr. SATRIANO. Thank you, Chairman Frank.

My name is Paul Satriano, and I am a board member for Minnesota ACORN and I also serve as treasurer on ACORN's national board. I want to thank you, Chairman Frank, for coming to Minnesota and for all of your work in Washington holding hearings to shine a spotlight on predatory lending, putting the mortgage industry under a microscope, and pressing the Federal Reserve to do their job and issue rules to protect consumers from abusive lending practices. I also want to thank Representative Ellison for holding this hearing and for fighting for credit justice, amd Representative McCollum for being here.

I was in danger of losing my own home to a predatory loan when I first joined ACORN 7 years ago. Since then I've been working with ACORN to fight predatory lending. I'm proud of what we have accomplished and the progress that ACORN and others have made. But new problems have developed. More and more subprime loans had adjustable rates. More and more loans were made where the borrower fell behind the first few months. More and more homeowners found out too late that their mortgage payments didn't include taxes and insurance.

In Minnesota, when we see a problem, we like to do something about it. Just this year, legislation was passed with the help of Representatives Daphne and Mullery, who are here with us today, and we passed the strongest law in the country against predatory lending. We were excited when Congressman Ellison introduced a similar bill in Washington. This was the second time in recent years that ACORN, the Minnesota Attorney Generals Office, AARP, and legal services have passed landmark legislation to protect innocent homeowners.

In 2004, with the help of then-State Representative Keith Ellison, we passed the first State law in the country against foreclosure rescue scams. It became a model law for other States.

We know that your committee will be looking at Federal predatory lending bills and that the mortgage industry wants one national bill that will preempt all the State laws. We also want to see a national law, and are committed to working with you throughout the process. But we don't want a national law to take away the protections we worked so hard to pass or take away our State's ability to address new problems that come up like we did with the foreclosure rescue scam. And while we need to pass laws to protect homeowners from predatory loans, we also need to help families who have already fallen prey to these loan sharks and who are facing foreclosure. We believe that this crisis can be addressed, but there are specific things that need to happen.

In Minnesota we are fortunate to have an excellent network of foreclosure prevention counseling agencies, including our sister organization, ACORN Housing. However, our programs are not able to keep up with the demand for our services, much less expand to really address the need that is out there, and many homeowners don't know that there is help available. We need to educate them. I repeat, we need to educate them. The Senate Appropriations Committee recently approved $150 million for the HUD Housing Counseling Program with $100 million of this specifically designated for foreclosure prevention counseling and outreach. But the House has approved less than $50 million, with no money directed to foreclosure prevention. We need the House to support the $150 million in funding. But no matter how good the foreclosure prevention program is, we still need the lenders to do their part in cleaning up the mess they created, and we need them to do something quickly. That's why we are calling on subprime lenders and services to agree immediately to a voluntary foreclosure moratorium for 3 months on loans here in Minnesota, and during these 3 months, we want the mortgage companies to back up their talk with action.

We keep hearing from the lenders how they don't want to foreclose on people, and how they only want to do it as a last resort, but homeowners say that the largest companies are still only giving them two options, sell or pay extra every month to catch up. Mortgage companies need to agree to do more loan modifications, not just on a case-by-case basis, but on a large scale to help families stay in their homes with an affordable mortgage.

For people with adjustable rates who can't afford their payments because the rate went up, mortgage companies need to lower the interest rate and make it fixed on loans made before August 1st. In so-called stated income loans where the broker or loan officer lied about the borrower's income, the mortgage company has a duty to reduce the interest rate or principal or both so that it is affordable.

And in cases where the homeowner fell behind because they had to pay their taxes and insurance separately, lenders need to redo their loans and include the taxes and insurance in the monthly payments.

During the 3-month foreclosures moratorium, we are willing to do our part and conduct a large scale outreach program to reach homeowners who are facing foreclosure. According to Freddie Mac, half of all foreclosed homeowners never talked to their lender during the foreclosure process. In many cases this is because they don't think the lender is willing to do anything to help them. We will go door-to-door to find homeowners and make sure they know about the second chance they are getting through the moratorium and urge them to contact their lender or housing counseling agency. We need your help now. Thank you.

[The prepared statement of Mr. Satriano can be found on page 88 of the appendix.]

The CHAIRMAN. Next we'll hear from Patricia Hanson, who is the president of community development and specialized lending at Wells Fargo.

STATEMENT OF PATRICIA L. HANSON, PRESIDENT, COMMUNITY DEVELOPMENT AND SPECIALIZED LENDING, WELLS FARGO

Ms. HANSON. Chairman Frank, and Congressman Ellison, thank you for the invitation to testify today.

My name is Pat Hanson, and I am the president of community development and specialized lending for Wells Fargo. In addition to my professional community development work, I also serve on the board of Junior Achievement of the Upper Midwest, and also as vice president and treasurer of the Family Housing Fund.

I have been a foreclosure lender for over 15 years, which means ensuring borrowers have an appropriate mortgage that they can repay because we keep the risk of these loans on our books. My years of experience have proven to me that no one benefits or wins in a foreclosure situation. In the Twin Cities of Minneapolis and St. Paul, we work daily with the communities to understand the needs of our customers. In 1990, Wells Fargo was the first bank in Minnesota to introduce a portfolio product which is now called the Community Development Mortgage Program (CDMP). CDMP was created to meet the needs of low- and moderate-income borrowers here in the Twin Cities. Since that time we have originated and held in our portfolio over half a million dollars of loans to low and moderate income individuals in the State of Minnesota.

In 2006, the average borrower income in our program was just over $38,000, 90 percent of our customers were first-time home buyers, and over 50 percent of our customers had either a low credit score or no credit score. CDMP in Minnesota allows 100 percent loan-to-value ratio with no mortgage insurance required, making it more affordable to achieve the dream of homeownership.

We have also resisted the market temptations when rates were low to do ARMs with this product because we understand that our borrowers could have been at risk if interest rates had in fact rose and a reset occurred.

Mr. Chairman, Congressman Ellison, as we have previously testified in Washington, Wells Fargo formally adopted responsible mortgage lending principles in 2004, and we have implemented responsible servicing principles as well. We work hard to help customers who encounter financial difficulties and to prevent foreclosures where possible because doing so is in the best interest of our communities, our customers, our investors, and our company. Wells Fargo believes that it's important to have an outreach plan to work with borrowers early and often. It is also important to have a plan for orderly transfer of homes to further improve our borrowers as well as ensure integrity of our neighborhoods.

Some of our practice steps include making repeated attempts to contact customers with delinquencies in order to find a workable solution. All our of prime and non-prime ARM customers in our servicing portfolio have been identified, and we have begun contacting these customers to ensure that they receive a communication from us at least 6 months before their reset date. I would emphasize that it's critical that the borrower communicate with their lender as you've heard from others, or recommend a nonprofit who can work with the borrower.

We have a dedicated Wells Fargo expert staff trained to work with borrowers seeking ARM reset assistance, including an office right here in Minneapolis. Once a borrower contacts us, we will work with the customers on a case-by-case basis.

As mentioned, we believe collaboration with nonprofits is very important to assist borrowers. As a part of this collaboration, I want to thank Mayors Rybak and Coleman for their support in the creation of the Twin Cities Prevention Funders Council. We are an active participant of the council's lender subcommittee. As part of this group we are working to find solutions for homeowners facing foreclosures in the Twin Cities, specifically to ensure that homes that are in foreclosure are properly maintained and taxes and assessments are paid on a timely basis until that home can be put back into service. We have a designated contact person that our Minnesota nonprofit partners can contact regarding inquiries about vacant properties and how to once again make them available for new homeowners. We are one of the founding members of the Minnesota Home Ownership Center, whom you will hear from in a minute. They do excellent work in pre and post-purchase counseling, as well as mortgage foreclosure assistance.

We have established a dedicated toll-free number for foreclosure counselors assisting customers who are delinquent, which is included in my remarks.

In closing, let me reiterate that Wells Fargo is firmly committed to continuing to lead the industry in advocating and conducting fair and responsible lending and servicing. We know that it can work. As part of our long-standing commitment to the communities of Minneapolis and St. Paul we will remain committed to working with borrowers to find alternatives for each of their individual situations.

Thank you again, Chairman Frank, and Congressman Ellison, for the opportunity to testify today.

[The prepared statement of Ms. Hanson can be found on page 72 of the appendix.]

The CHAIRMAN. Thank you. Can we ask the—we want to accommodate everybody at the table, we increased the panel. So let's work at it. Maybe we can move around the corner.

And next, as we're doing this, we're going to hear from Ms. Sherrie Pugh Sullivan.

STATEMENT OF SHERRIE PUGH SULLIVAN, EXECUTIVE DIRECTOR, NORTHSIDE RESIDENTS REDEVELOPMENT COUNCIL, MINNEAPOLIS, MINNESOTA

Ms. SULLIVAN. Thank you, Chairman Frank, Congressman Ellison, and Congresswoman McCollum. My name is Sherrie Pugh Sullivan, and I am the executive director of the Northside Residents Redevelopment Council (NRRC). NRRC is a 35-year-old community based organization established by residents in North Minneapolis in 1970 after the rebellion. The Northside Residents Redevelopment Council is committed to the rebuilding of the fabric of our neighborhood which began its efforts around civic engagement and a deliberate strategy focus that redevelopment of affordable housing for homeownership.

In the 1970's, the homeownership rates in our community to target neighborhoods were less than 25 percent. With nonprofit partners such as Project Pride and Living, Greater Minneapolis Housing Corporation, and NHS, in over a 30-year period we rehabbed homes, built new homes on abandoned lots in our communities, and changed that fabric. We increased homeownership by 2000 to almost 60 percent in the Willard Hays neighborhood and 35 percent in the near north neighborhood.

But all of that has changed. Our community has been battled in sustaining housing homeownership. Where we try to build wealth and family sustainability we have encountered foreclosures and egregious attacks by the lending institutions.

In the late 1980's, NRCC was part of creating what is now called statewide the Mortgage Foreclosure Prevention Program. We were that first pilot project. And every year we see hundreds of families who are facing foreclosure. In 2006, we assisted over 325 families who were facing foreclosures. We provided intensive counseling to over 117 in providing those loans as well.

Who are the clients? Their median income is about $31,000, and their average principal, interest, and taxes total $1,206 a month. The average month that they're past due when we see them is about 5 months, and their average amount past due is $6,000. We know that many of the reasons for these delinquencies are not because people are bad; it's because they've had a family crisis. They've lost a job. They've had a health incident. But what is egregious to us is that they've been the victims of predatory products.

As consistent with our community's demographics and what you, Mr. Chairman, have pointed out, we are a minority community; 65 percent of the residents in near North Willard Hays and in greater parts of North Minneapolis is about 65 percent. Yet when you looked at the map that was up, and I'm glad it's down, you see that we are the place where we're at ground zero. As a matter of fact, it used to be that people would say look at all the dots for foreclosures on the north side, and now they say, look at the big blob.

We have experienced mortgage flipping—well, we've experienced redlining from the 1960's. No one even knows what that is anymore. We experienced mortgage flipping in the 1990's. We're now experiencing the predatory subprime loans and those wonderful ARMs. It is eroding the fabric of our community. We've lost value.

In 2000, values jumped about 30 percent in our community. We thought we were catching up with the rest of the cities, only to find out that this year people have lost $30- to $50,000 in value in their homes, and along with that loss, because we appreciate that in 2000 they got hit with the new tax bill, which was a 10 percent increase, the number of foreclosures have skyrocketed unreasonably. In 2004, there were 228 foreclosures in North Minneapolis. That increased to 487 by 2005, and in 2006, there were 693. I can tell you that we are already almost to that point now, in 2007.

What is most egregious to us as a community of color, people trying to obtain that Minnesota dream—a mentor of mine to a director said homeownership, Minnesota really likes homeowners. But that's not true in our communities, and in a study recently published by the National Community Reinvestment Council called "Income is no Shield Against Racial Differences in Lending," it rings so true for our community.

There is no mistake that North Minneapolis has been egregiously attacked and targeted by predatory lending, mortgage flipping, and adjustable rates. We have been seeing dangerously overpriced lending products. They are flipping our neighborhoods. The success we made from the 1960's and increasing homeownership has taken a sharp dive. We also know that this has affected our families. And Dan Shrads, an activist for the poor, talks about how the way in which you build family wealth is threefold: education; business; and owning a home. Those things have been taken from our residents. The foreclosures impact our families in so many ways. Shame, guilt, embarrassment, and feeling that they weren't smart enough. How could I be so stupid, people say. Families are taking on the responsibility, but is it really theirs? They were seeking the American dream, the Minnesota dream, where homeownership is the highest in the country. But now we are under attack. African Americans and Latinos are the most at risk in our community for subprime lending products, and that is a shame. Our community—I'm going to skip some notes here.

The CHAIRMAN. Please turn off the cell phones.

Ms. SULLIVAN. What happens in our communities with foreclosures is that the foreclosures end up resulting in a vacant property, and those vacant properties are purchased by investors. Those investors then try to flip those homes quickly, and when they don't make their money, they abandon them. The foreclosed properties have resulted in huge numbers of vacant properties. I said this will be controversial—while our President is in Iraq fighting a war, in North Minneapolis, we're under siege.

Vacant properties become targets for the copper strippers as they take their found copper and make money from that. The vacant properties become opportunities for criminal activities. The vacant properties become health nuisances. The vacant properties make us all depressed as we walk the streets, come out of our homes, and see all the boarded-up and abandoned properties. And most of all, it decreases the value.

So for those who still hang onto the community and want to keep their investment, all they see is dropping prices.

In Minnesota the subprime mortgage default rates by a national study when you looked at February 2005 and the subprime market we represented 7.8 percent of those subprime mortgages and foreclosures. In February 2007, Minnesota represented 16.8 percent. We are above the national average. That is horrifying to me to think that Minnesota could be above the average, which is 12.4 percent.

In closing, I just want to say that one of the things that we feel needs to be addressed is, and we talked about this earlier, Mr. Chairman, and that is there needs to be new life put into HUD and FHA programs. At one time, FHA loans were the predominant loan in our community. Right now, they only represent 9 percent; 80 percent are conventional subprime loans predominantly. So please look at giving us FHA back and a new vigorous way of addressing the needs of low-income buyers in communities where there is existing housing stock.

Putting a stop to the predatory and subprime lending market, we have to have regulations to control this industry, and putting upon the regulators to take strong positions in regulating lenders and holding them accountable. And also the CRA bill for 2007 desperately needs to be passed. We need that too as communities to hold our lenders accountable.

And then last, I'd like to say that everyone talks about economic literacy, but it always has amazed me that so often everything we do, someone asks us to pay, so they can pull our credit score. Somehow we never get a copy of that credit score.

So something has to be done. Economic literacy, we're always paying other people to learn about our credit and we never see the credit score. So we need to really rethink how credit scores are handled, how people are informed about their credit scores. Homeownership is important in our communities.

The CHAIRMAN. Please wrap up.

Ms. SULLIVAN. It is a building of the fabric of the community.

And thank you very much for allowing me to speak.

[The prepared statement of Ms. Sullivan can be found on page 92 of the appendix.]

The CHAIRMAN. Mr. Tim Marx.

STATEMENT OF TIMOTHY E. MARX, COMMISSIONER, MINNESOTA HOUSING FINANCE AGENCY

Mr. MARX. Thank you, Mr. Chairman, Representative Ellison, and Representative McCollum for holding this hearing here in Minnesota, and for the opportunity to testify.

I serve as the commissioner of the Minnesota Housing Finance Agency, the State's affordable housing financial institution. Minnesota Housing is a finance agency and not a regulatory body, so my testimony would relate to financial tools that we use, and community development issues, not to regulatory matters such as lending practices. I will summarize my written testimony by making four points.

First, Mr. Chairman, Minnesota is very proud of the long term and bipartisan record that we have established among government at all levels with local government partners, with faith communities, with private foundations, and with the private sector to affordably house low- and moderate-income Minnesotans. This partnership, which is well-represented here this evening, has produced the highest homeownership rate in the Nation and the 12th lowest percentage of households among the States which confront severe housing cost burdens.

However, the dramatic increase in foreclosures experienced throughout the entire State, and particularly in the Twin Cities, concentrated in lower income neighborhoods, is making it very difficult to maintain and improve this performance. We are particularly proud of our emerging market homeownership initiative where the homeownership industry and the community have come together on a specific plan to address the minority homeownership gap, which in Minnesota is the fifth worst in the Nation. We will not be able to realize the promise of that initiative unless we address aggressively this foreclosure crisis.

Second, as Mayor Coleman did, we ask that you consider strengthening the Tax Exempt Mortgage Revenue Bond Program for providing low- and moderate-income home buyers with low-cost mortgages. The MRB program is a responsible, well-run, and high-performing program that offers a superior alternative to predatory and other unsound lending practices by focusing on long-term sustainable homeownership often coupled with homeownership counseling and foreclosure prevention services.

As the subprime market has contracted over the last several months, the demand for our MRB program has increased dramatically. The number of loans purchased, and the dollar volume of purchases by Minnesota Housing in July 2007, increased 41 percent and 66 percent, respectively, over July of 2006. To meet this growing demand we need to be able to have the authority to issue more bonds, to provide more mortgages, and to recycle loan repayments.

Third, we ask that you provide funding and other incentives to support homeownership training and foreclosures prevention. An example would be Representative Ellison's bill, to provide incentives to financial institutions to fund counseling through the Community Reinvestment Act.

In Minnesota, we are doing our part. The legislature just recently funded $1.7 million of foreclosure prevention and homeownership counseling resources, and Commissioner of Commerce Glenn Wilson and I announced today an additional $500,000 of State resources for a particularly targeted foreclosure relief effort that will reach out using the resources of the Federal Reserve to try to predict where foreclosures are likely to happen to provide relief.

Fourth and finally, we ask that you increase appropriations for the Home Investment Partnership Program and the Community Development Block Grant Programs as Mayor Coleman and others stressed. We need to acquire, rehabilitate, and get homes back on the market once they are in foreclosure and prevent abandoned properties from causing blight in our neighborhoods. The Funders Council which has been referenced here this evening has been a very effective institution to develop plans we provided through Minnesota Housing, our largest award ever, $11 million to the City of Minneapolis effort. We are prepared to do more throughout the State, but the magnitude of this issue really requires a significant Federal response as we move forward.

Mr. Chairman, thank you for your time.

[The prepared statement of Mr. Marx can be found on page 81 of the appendix.]

The CHAIRMAN. Next, Ms. Julie Gugin.

STATEMENT OF JULIE GUGIN, EXECUTIVE DIRECTOR, MINNESOTA HOME OWNERSHIP CENTER

Ms. GUGIN. Chairman Frank, Congressman Ellison, and Congresswoman McCollum, thank you for this opportunity. My name is Julie Gugin, and I am the executive director of the Minnesota Home Ownership Center. The Center's mission is to promote sustainable homeownership for low- and moderate-income Minnesotans through the development and delivery of quality standardized education, counseling, and related support services. To this end, the Center provides key services to a network of 50 community-based agencies throughout Minnesota. These agencies in turn deliver pre-purchase, post-purchase, and foreclosure education and counseling programs to low- and moderate-income households.

Each year the Center and its network of agencies offer 15,000 low- and moderate-income households the tools they need to purchase and sustain their homes. Our statewide model is unique. No other State has this centralized, standardized approach to what we believe is the most important element of homeownership—education and counseling.

Homeownership is an exhilarating goal. It is also a complex venture. We believe that all home buyers should be empowered with education to enter homeownership through the right door. Homestretch is the Center's pre-purchase education and counseling curriculum that is provided to home buyers by our network partners. Education is offered in a workshop setting, providing the knowledge that home buyers need to create a realistic plan to buy and sustain a home. We think that pre-purchase counseling is one of the best preventors of foreclosure. However, we also emphasize the work of our foreclosure prevention network.

Foreclosure prevention counseling is available in every county in Minnesota through the Center's network of nonprofit or government agencies. These providers help families facing foreclosure through in-depth counseling, budgeting and financial management, intervention and advocacy, emergency financial assistance, and referrals.

Counselors also help homeowners develop and negotiate a recovery plan with their lenders and other creditors. The foreclosure services supported by the Center and its network offer a cost-effective solution to the current foreclosure crisis. A study recently conducted by the Family Housing Fund found that the cost of preventing foreclosures through foreclosure prevention counseling was a small fraction of the cost compared to those incurred by the multiple stakeholders impacted by foreclosures. The study found that while program costs amounted to $1.6 million to help close to 500 homeowners reinstate their mortgages, the averted losses to mortgage insurers alone were an estimated $9.6 million.

Other studies have found that foreclosures resulted in costs as high as $34,000 per foreclosure for local government and $59,000 per foreclosure for the mortgage industry.

As Commissioner Marx mentioned, the primary source of funding for the statewide Foreclosure Prevention Assistance Program is the Homeownership Education Counseling and Training Fund. This fund is sponsored annually certainly by Minnesota Housing, but also by the Family Housing Fund, the Greater Minnesota Housing Fund, and the Home Ownership Center. Last year, it provided $1 million to support foreclosure prevention in the State.

Our foreclosure prevention counseling offers a proven method of helping families stay in their homes. Current data shows that 60 percent of families who receive foreclosure prevention counseling through the network are still current on their mortgages 2 years after receiving services. The Center is adamantly committed to the critical role that foreclosure prevention counseling plays in addressing the complex issue of foreclosures. We are continually working to add capacity within our system that is currently taxed to its limits.

Minnesota's model of offering a consistent standardized and professional approach to education and counseling has proven its effectiveness.

The success of the model is attributable to three primary factors. First, a localized approach. We believe that homeownership education and counseling is optimally delivered locally through providers who understand the nuances of the local housing market, local lending tools, and who can identify trusted industry partners.

Second, the support from our industry partners. Our network is sustained through the sponsorship of our generous lenders, our State housing finance agency, and numerous other affordable housing stakeholders, including our local officials.

And finally, the patience, perseverance, and compassion of our educators and counselors, many of whom are here tonight, while their work is frequently gratifying, the challenges can be daunting. And their creativity and spirit helps deliver a high-quality, critical program to the communities they serve. Thank you.

[The prepared statement of Ms. Gugin can be found on page 64 of the appendix.]

The CHAIRMAN. Thank you.

And finally, Wade Abed who is the president of the Minnesota Mortgage Association. Mr. Abed.

STATEMENT OF WADE ABED, PRESIDENT, MINNESOTA MORTGAGE ASSOCIATION

Mr. ABED. Thank you. Chairman Frank, Congressman Ellison, and Congresswoman McCollum, thanks for having me. I appreciate it.

You know, I guess I'd like to start by saying trusted partners, that's what the Minnesota Mortgage Association, that's what we are. I'd also like to say right off the bat that we are absolutely and always have been against predatory lending. It makes me sick as president to get some of the phone calls that I get. It makes me sick to read some of the things that I read, not just about North Minneapolis, but about my own neighborhood. It makes me sick because I see it every day.

So trusted partners, that's what it's going to take to make this stop. And we're all partially responsible, we're all partially involved, and we're absolutely all the solution.

The Minnesota Mortgage Association and my role within it is that it's a voluntary organization of which I'm the president, and my role is to promote what we believe. And what we believe is to raise the bar of professionalism in the mortgage industry. We believe we do that through education, as you've heard from many here, and we've been doing that for many years. We've worked with our department of Congress. We've worked with many of our other agencies, Commissioner Marx, and other folks who testified here to find solutions to problems that we know exist.

And personally, I'd like to see the dirty scoundrels who practice this kind of behavior out of this marketplace as quickly as possible—quicker than we're seeing them go now.

This crisis is not only about getting homeownership back, it's about keeping homes. It's about keeping people in their homes for the length of their lives in many cases, even though we move a lot in America. It's also about the businesses that lend those funds to folks to get them into homes and we cannot destroy that model, at the same time when we try to correct what we know is a crisis. We as individuals need to do, we as industries have to do, we as elected officials have to do whatever it takes to get this fixed.

We at the Association promote the prevention of fraud through education, financial literacy in our high schools, and we work with our legislators, the gentlemen in front of me. We've worked with our attorney general. We've wanted regulation and have been to our government at a State level many times looking for it. And over the years, they've been very cooperative. We've been able to get background checks in. We've been able to get now, this year, mandatory education. I'd like to see licensing in the next session. But we did get registration which will help track people and we can make sure we have a vehicle to get rid of some of these bad actors. They come from all places, not just the mortgage brokers or the bankers or the real estate folk, it's a lot of places. It's in all businesses, and I'd like to see all of it gone. But I'm only responsible for this Association, and the way I conduct my business, and that's really what we'd like to continue to do.

Our legislative agenda is to get licensing for every individual originator in the State of Minnesota regardless of if they work for a bank, a credit union, a pass-through lender, or whatever it is you want to call them. A mortgage broker, a loan originator, we believe all should be licensed. We believe they should all have a standard which we live by as an Association is a requirement of membership. We teach business law.

We teach business ethics with regard to the laws in the State of Minnesota as well as the Federal regulations required under RESPA. We want more done and we want vehicles put in place so we can find out who these perpetrators are and remove them from this place, and especially North Minneapolis. Our agenda is to continue to promote education, to help craft regulation that works for the consumer and for business, and really to do the right thing.

Thank you very much for the time. I know I went over. If you have any questions, I'd be glad to answer them.

The CHAIRMAN. Mr. Ellison.

Mr. ELLISON. Mr. Abed, you talked about standards for mortgage originators. What sort of requirements for licensure would you envision? What sort of things do you think members of your industry should have to abide by before they can be licensed?

Mr. ABED. Thank you for the question, Congressman Ellison. I believe, and with our Association proposed this in 2003, that there be pre-licensing requirements and education. Today we now have 15 hours. I believe, and we do have that now, that they have to go through criminal background checks. I do believe that the owners of these companies have a financial net worth that is of a reasonable amount. I believe as we have in many industries the continuing education is required.

And I believe every one of them should be individually licensed and tracked so they cannot go from one place to another. I also believe that out-of-State servicers, people who offer these types of products, should have to comply with the laws of the State of Minnesota.

You know, thanks for letting me talk again. I also believe you need to get FHA done.

Mr. ELLISON. Let me ask this: Is there ever any good reason to have a prepayment penalty on an adjustable rate mortgage?

Mr. ABED. Congressman Ellison, I think that there is—

Mr. ELLISON. Other than just getting money from people.

Mr. ABED. That would not be the good reason. And the way I practice, and the way that our Association believes, there is a place for prepayment penalties within the market that we work in, and that market is the secondary investor pooled saleable trust loans and Wall Street. And the reason for that is to guarantee those are on their books for "X" amount of time, and in doing so, with that guarantee, we are able to offer a lower rate.

And for us, we can pass that to the consumer. And for that reason, and probably that reason alone, that is why there is a good reason for it.

Mr. ELLISON. Is there ever a reason for a no document or low document mortgage to be sold to a consumer?

Mr. ABED. Congressman Ellison, there absolutely is a reason for that product. For instance, entrepreneurs who start businesses start with their savings, their 401Ks or whatever it is that they come up with to get that money put together to start their businesses. And we all know that the first few years of any business are a struggle.

Mr. ELLISON. Well, let me ask you this: Is there ever any reason, excluding entrepreneurs?

Mr. ABED. I believe in emerging markets and other nontraditional places where income is difficult to verify, yes, it is. I believe that a—people who get commission, I believe waitresses who get tips, I believe those things are hard sometimes to document. But it is their income.

Mr. ELLISON. Wait a minute. Waitresses have to document their income to the IRS. I mean, shouldn't your industry—

The CHAIRMAN. Can we please have quiet in the audience so this can go forward?

Mr. ELLISON. Shouldn't your industry be required to ensure that people can pay the loans that the people you represent issue to them?

Mr. ABED. I would absolutely agree.

And they do, I hope, report all of it. But the fact is when they write it all down it doesn't necessarily mean it's—they don't have the capacity to pay, it means their accountant is very good at them to have less of a tax burden.

Mr. ELLISON. Yes, but isn't it the case that the burden really is being relieved by the mortgage originator, not the consumer? If the consumer wants a loan they will verify their income or they will come up with the information they need to show how much they make. But really the no doc requirement just gets you guys off the hook.

Mr. ABED. Well, you know, I think the no doc purpose, and the one that I wanted to really make—hit home with is that we write these things down and we can only add back through standard accounting practices in how we can say and verify this is what you make even though we know that it is not the case.

Mr. ELLISON. Is there—now—well, let me move on from here. Ms. Hanson, what percentage of the loans that Wells Fargo issues are prime loans and what percentage are subprime?

Ms. HANSON. I am responsible for community development, and I'm going to have to say that we will respond to you in writing.

Mr. ELLISON. Thank you. Do you know what percentage of the subprime result in foreclosure?

Ms. HANSON. No, I do not. But we will get you that information.

Mr. ELLISON. Do you know, do your subprime loans include adjustable rate mortgages that also include penalties?

Ms. HANSON. I would anticipate that's true, but again that's not my area of expertise. I work in community development versus the mortgage.

Mr. ELLISON. Okay. That's it then.

And what do your subprime loans require? Do you have—what are your document requirements for issuing those loans?

Ms. HANSON. I can answer based on my programs that I run, and we have full doc with all our programs.

Mr. ELLISON. And you know, when you look at the HMDA data, you know, the data that is collected based on race and ethnicity data for homeownership, home lending, how do you—what do you—how do you think we end up with this racial disproportion in this data? What is your sort of thinking about how we end up there?

Ms. HANSON. We have done—tried to do extensive outreach in our minority communities, and it is a difficult issue. Since, I would say, the mid 1990's we've been studying what the primary reasons are for denial on our loans. And the two primary reasons are debt-to-income are too high, and also that their credit score is not good or that their credit is not good. Those are two things you only solve through education with partners such as the Home Ownership Center and counseling people on what their credit score should look like or what their credit should be before they come in for an application, as well as understanding that if you have too much debt compared to the income that you have you probably won't qualify for a loan.

So we have put a lot of time and energy into education within Wells Fargo and with our partners across the country to try to address those issues because it really concerns us as a company.

Mr. ELLISON. With the Chair's indulgence could I—Mr. Satriano, the comment was made by one of our witnesses today that I believe that when a mortgage ends up in foreclosure, no one wins. But somebody wins. Who wins? How do we get these mortgages in foreclosure if nobody wins? I mean, if nobody won, they wouldn't happen, so how do they happen? Who wins? We know the consumers don't win.

Mr. SATRIANO. The predatory lender wins.

Mr. ELLISON. Is it the case that when someone, for example, if a mortgage originator after they do the deal with the homeowner, after that they send that on, that's not kept in their—

Mr. SATRIANO. Well, most of them do. Yes, most of them do. But they have to sell them to somebody. But when a house goes from $84,000 to 160,000, somebody has that money. I mean, it's already taken out, so who has it? Not the person who owns the home, so someone has to have it.

But can I ask one thing? I know this is a Federal panel, but I want to ask a question to this panel.

The CHAIRMAN. The witnesses can't ask each other questions.

Mr. SATRIANO. I don't want to ask a question, I just want to ask—I just want to say we are all here together. We can do locally while you're doing in Washington—who here, right here would be willing to get a panel together to try to work on this thing?

The CHAIRMAN. And after the hearing, you'll get that answered.

Mr. ELLISON. Thank you very much, Mr. Satriano.

Ms. MCCOLLUM. Thank you, Mr. Chairman.

For those of you who are involved, both lending and nonprofits, that are involved in helping people with mortgages when they come forward and say, I have a problem with my mortgage, and 5 months is, you know, getting to be a little late and that's part of getting out public service announcements, how many of you, if you could speak briefly because I have a couple of other questions, are open evenings and weekends, open—I worked third shift for many, many years so I had to sleep during the day and that.

The CHAIRMAN. You worked third shift all last week in the House.

Ms. MCCOLLUM. But I didn't have to go outside and catch a bus in sub-zero weather. And people have daycare and that. And then the issue of language and culture because I know I'll speak to our community's banks and our major banks here, they have people on staff who are culturally able to communicate whether it's language or even with our Somali refugees with how to work out homeownership.

Who do you have on staff? When are you available? And I would also like the gentleman from the mortgage association to answer that question.

Ms. SULLIVAN. For the Northside Residents Redevelopment Council, we currently have three staff members who work what you would call normal office hours. However, you can catch them at our office many nights up until about 8 p.m., so they do flex for our clients. They do a lot of work on the phone for people, but most of the work is done with individual clients one-on-one, so they will meet with them in the evenings. If there are language issues, barriers, we have translators that are available to us.

But we began to look at reassessing our delivery system and we have some pretty exciting ideas around utilizing our fellow neighborhood councils in North Minneapolis to help us do outreach and intake and to gain greater diversity among our staff.

Ms. GUGIN. If I may, Counselor McCollum, I think what Sherrie has characterized in terms of availability of services, hours of operation is consistent across our network. I also—the Home Ownership Center and our counseling agencies are key players in the emerging markets homeownership initiative. So for the last couple of years we have really stressed culturally competent programming throughout the State of Minnesota.

Right now we're operating with four agencies in greater Minnesota under a past building grant actually from the USDARD to offer services to Spanish speaking residents. One of our key partners, Neighborhood Development Alliance which is located in St. Paul, offers Spanish speaking services throughout Minneapolis, St.

Paul, and just recently was awarded some dollars to provide the service in Hennepin County as well. One of our other key partners is the African Development Center here in the Twin Cities, and they're doing a great job not just here, but they're trying to reach out to greater Minnesota areas as well.

Ms. McCOLLUM. Well, if you could provide me the evening—your hours. You know, how many hours you were open on evenings and weekends that aren't continual. And another question before, and I noticed Mr. Marx, and I did ask Mr. Abed to respond, but out of the 60 percent of the foreclosures that you kept from happening, Ms. Sullivan, how many of them were subprime?

Ms. SULLIVAN. I'd have to get you that number.

Ms. McCOLLUM. I believed it was—

Ms. SULLIVAN. I'm Sullivan. Do you mean Julie?

Ms. McCOLLUM. I might have it in my notes—I was trying to take notes.

Ms. SULLIVAN. I mean, we do work with a lot of subprime families who've had subprime products. I couldn't give you the exact statistic. Last year we wrote over 100 loans in our community. Out of those granted, the majority of them are probably subprime products. But I'd have to get you the specific breakdown.

Mr. MARX. Mr. Chairman, Ms. McCollum, I wanted to address your earlier question. One of the things that we are discovering of those who are confronting foreclosure is that oftentimes they will not respond to phone calls or letters, and that's why we are initiating, with the additional resources that we're freeing up, a much more targeted approach to foreclosure prevention. Actually thinking and really working with the community we want all your ideas to knock on doors, to go to churches so that people, before the letters come, before the calls come, we can predict generally what neighborhoods, very clearly, are going to be impacted, and we want to have that type of very targeted specific outreach to get to a problem before it is a significant problem and, hopefully resolved.

Ms. McCOLLUM. Mr. Abed, if you could answer my question, and then could you tell me, are you professionally bonded?

Mr. ABED. Yes, Congresswoman McCollum, everyone in my office is.

Ms. McCOLLUM. Just in your office?

Mr. ABED. You asked me—in the State as of 8/1/2007, they are required, or to meet a net worth through a audited financial and tangible liquid asset, yes. To answer your question from an association point of view regarding being able to service the different folks that we have to, we are currently seeking partnerships out with a variety of outside vendors because we are a volunteer organization and do not have that capacity ourselves. And so we are currently seeking those services as recently as this week actually.

Ms. McCOLLUM. Thank you.

The CHAIRMAN. Let me follow up, Mr. Abed. You said that people should be held to a standard. Could you describe the standard to which you think people should be held?

Mr. ABED. You know, we're total—

The CHAIRMAN. No. No. Just tell me what the standard is you think people should be required to abide by.

Mr. ABED. I think a reasonable ability to pay is a good standard.

The CHAIRMAN. So you would say that we should—that people should not make loans to people if they could not figure out that they had a reasonable ability to pay, that banning loans that people were unlikely to be able to pay them back would be a reasonable statutory standard?

Mr. ABED. I think it's irresponsible to lend to people that you knowingly and willingly, you know they cannot pay.

The CHAIRMAN. I appreciate that, because that's been somewhat controversial. That's very helpful, because I think that is one of the things we've talked about, and I think putting that in the loan would be a useful thing.

Mr. ABED. Can I add one thing?

The CHAIRMAN. Yes.

Mr. ABED. You know, I hope people understand that I know they believe things when they buy their first home and they buy any home they go to a point that may be an uncomfortable place for them, and one of the things we teach is it's about the payment.

The CHAIRMAN. Get to the point.

Mr. ABED. It's about the payment, not how much we could qualify you for. So the important part through the education process we believe is, it's about the payment.

The CHAIRMAN. That's right. And that payment should include—

Mr. ABED. Taxes and insurance. And we believe that.

The CHAIRMAN. I understand that. And it also—and what the payment will be 3 years from now, not just what the payment will be for the first year. That's very important and I appreciate that. The one thing you said that puzzled me though, you said with regard to documentation I thought I heard you say that people can tell you something, and you have to go by standard accounting procedures, even if you know that's not true. I don't think it's true that you have to go by that if you know it's not true. Would you elaborate?

It seems to me that you were saying that sometimes you feel you have to accept income statements that you know aren't true. I don't know why you would have to accept those.

Mr. ABED. No, we would not accept those.

The CHAIRMAN. Well, what were you saying then? Did I misunderstand you?

Mr. ABED. Some of the documents that we have from nontraditional income sources, it has to be a similarly reliable document that we could actually validate income, because sometimes that becomes very difficult.

The CHAIRMAN. I thought you were saying that there were times when you had to, because of standards of accounting, accept things that—

Mr. ABED. No. No. I think there are allowable things that are added back as far as that goes.

The CHAIRMAN. I misunderstood.

Mr. ABED. Thank you for clarifying that.

The CHAIRMAN. Ms. Sullivan, with regard to the clerical report, my recollection is that now legislatively you can get a free copy of your credit report. Now, the point is that people have to resist when you get the free copy—don't buy all the extras. They want to throw in all these extra things. But you are now by statute, which our committee passed under a public issue, and it was bipartisan, people are entitled to their credit report.

We do have just one problem. If you get your credit report currently, and it shows that you owe a particular vendor something that you believe you don't really owe, there is no procedure by which you can challenge that other than to ask the vendor to do his or her paperwork. And we are currently working with the Federal Trade Commission to get procedures in place for that.

So it's one thing to get your credit report, right now if you get it, and there is something on it you know is wrong, you don't now have adequate access to a procedure, but you will have access pretty soon.

The only other thing, let me make kind of a frontal statement summing up because I am impressed—well, let me say, that we can't come to the Twin Cities without expressing our solidarity with you in your grief over this terrible tragedy that has befallen you, and it does seem to me that the common theme today is that the people here in Minneapolis and St. Paul have been the victim of two government failures.

But government failures are to some extent collective failures. These are not mistakes made by one government official. These are mistakes made by our public in how we have approached things because we have been, in my judgement, not sufficiently aware of our capacity to come together to improve the quality of our lives. And when we do that, sometimes it's called government. Government is, after all, the way in which we can act together.

And let's look at two examples. There are inadequate resources for maintaining our infrastructure, so a bridge collapses and people die. There is also inadequate regulation and financing to help people in lower income brackets, so we have the physical blight of the bridge and the economic blight of subprime, which in turn can lead to some physical blight.

And I am struck by the commonality of the theme frankly bipartisan appointing to the governor, democratic mayors, this is the case where we may need some more government. Our friends in the mortgage practice want licensing. Who licenses? The Kiwanis Club doesn't license you. The Boy Scouts don't license you. The government licenses you. That's an expansion of a government function.

We heard from the commissioner that we need more money for Home and CDBG. That's not voluntary contributions, that's tax dollars. That's the Federal Government spending tax dollars. I completely agree. And when the President vetoes our bill because we have too much money for Home and CDBG, I hope you guys will be there to help us override that veto. What we are talking about is that we have underestimated collectively our capacity to come together to make our lives better, and that sometimes means what we call government. Keith Ellison's bill is an expansion of the government, and what Betty does in the Education and Labor Division is an expansion of the government. Yes, it is.

And you know what, you cannot have a whole that is smaller than the sum of the parts. We want an increased role for the FHA, we were told that. As Ms. Sullivan heard me say earlier, our committee going forward has already voted out of the committee a bill to make the FHA what it used to be with more counseling, with it being a place where subprime loans can be gotten where you don't need adjustable rates and prepayment because a settlement of the secondary market because you have FHA the mortgage guarantee. But that's more government. The FHA is a government agency. CDBG is government tax dollars. Home is government tax dollars.

Fixing a bridge is government tax dollars. That says the government should do everything. But you have to understand, you cannot be against government in general and cheer every time somebody says we'll have less government and then expand the FHA and increase licensing requirements and ban loans that shouldn't be banned and have more money for Home and more money for CDBG. So what we need to do is to better understand, I think, our collective capacity to improve our life.

That's the message I take away from this, and I thank you all very much for participating.

Mr. ELLISON. Mr. Chairman, before we adjourn, I just want to—on behalf of everybody here in Minnesota, thank you for coming out, and thanks for your work here.

[Whereupon, at 8:39 p.m., the hearing was adjourned.]

A P P E N D I X

August 9, 2007

Testimony of

Dorothy J. Bridges

CEO & President

FRANKLIN BANK

Minneapolis, MN

Before the

House Financial Services Committee

United State House of Representatives

Field Hearing in Minneapolis, MN

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August 9, 2007

Chairman Frank and members of the committee, my name is Dorothy J. Bridges and I am CEO and President of Franklin Bank of Minneapolis, Minnesota. I am pleased to be here today to discuss some important matters that are affecting our community. I want to especially thank Congressman Ellison for his leadership in finding solutions to these difficult issues and requesting that this hearing be held here in Minneapolis. I also want to thank Chairman Frank and other members of this committee for taking time out of your busy schedules to be in our community today.

This community is very important to me and to all the great people that work for Franklin Bank. It is our home. Our livelihood and the livelihood of our bank are intimately connected to the economic well-being of this community. Though I did not grow up here, many lessons learned during my formative years taught me the value and strength that can be derived from a true sense of community.

I grew up in New Orleans, Louisiana, in an old house surrounded by relatives. Growing up surrounded by so much family was a gift. We were our own little community that was able to nurture each other, to cheer each other on, and to lean on each other – ***lean hard sometimes*** –

when we needed to. The lesson I learned from all of these people was this: you are part of your community, and your community is part of you. That is why everybody must be involved in a community for it to be strong. This lesson has been reinforced time and again throughout my life.

That is why I care about investing in my community, in the give-and-take that helps build strong families, schools, businesses, and churches. I've benefited from that kind of support and today, as a community banker, I get to give that kind of support. I know how much it matters, and I've seen what can happen if it's not there.

This is why our vision at Franklin Bank is to be the leader in improving our urban community. Every day we work hard to find new ways to use our resources to improve life in urban Minneapolis. We believe social responsibility based on solid partnerships is vital to the success of our community. We embrace diversity and support the individuals, businesses and non-profit organizations that work tirelessly to create jobs, build affordable housing, help individuals reach their goals, and improve our overall quality of life.

At Franklin Bank, our lending is focused on our local community, particularly businesses. We make small loans and commercial loans to people who have never borrowed money before. We lend to small businesses and entrepreneurs who have limited capital or fewer assets to pledge as collateral. We also lend to the minority-owned and women-owned businesses that are more likely to be turned down for credit by others. This does not mean we make bad loans; bad loans don't help anybody. They don't help our customers and they don't help us.

But we do underwrite our loans based on character as well as collateral. We understand that we are running a business and that the only way we can fulfill our mission of service is to make sure that our bank is financially sound. Yet success for us is not merely a quantitative measure, it is also a qualitative measure – based on the number of lives changed and neighborhoods improved.

For example, we recently helped provided financing for construction of the Heritage Park redevelopment project in Minneapolis' Northside. This project is transforming a 145-acre vacant site into a stable, affordable and sustainable urban neighborhood. When completed, the project will consist of 440 rental units, 360 "for sale" units, and 100 public housing units for the elderly.

Hopeful of developing the 360 "for sale" properties, Sienna Corporation, a land development company, partnered with Thor Construction and the Northside Resident Redevelopment Council, a non-profit neighborhood development corporation that fosters community partnerships that encourage residential, community and business growth. These three entities formed Heritage Housing and, in order to ensure their construction bid would be considered and accepted, they secured a loan commitment from Franklin Bank.

The Heritage Housing project is a great example of the power of community banking. Money deposited ***by*** the community is reinvested ***in*** the community and works ***for*** the community. It also demonstrates the reality that while community banks like Franklin are critically important to the success of a community, they cannot do it alone. Partnerships with residents, governments, businesses, development organizations and philanthropic organizations are vital.

Building and maintaining strong community relationships also serve as the best weapon for dealing with troubling times. There is no question that we are going through a difficult time right now. Here in Hennepin County, there were 1,200 home foreclosures in the first three months of 2007, and some estimates indicate that there will be as many as 6,000 foreclosures by the end of the year. When compared to the typical number of yearly foreclosures – which is roughly 1,100 – this figure is particularly alarming.

While our focus at Franklin Bank is on local business lending and not on mortgage lending, the recent spate of foreclosures has a direct impact on our bank due to our involvement with organizations such as Project for Pride in Living (PPL). PPL is a non-profit corporation that assists low- and moderate-income people to become self-sufficient by addressing their housing, employment, and neighborhood needs. Franklin Bank recently provided construction lending to PPL for the purpose of building 14 single-family homes on an old school site. However, the loan we provided does not get paid off until PPL sells the new units. Because of all the recent foreclosures, many of the existing homes along the same street as the PPL project are boarded-up and PPL is having a very difficult time selling any of its units.

Aside from the direct impact foreclosures have had on our bank, there is no question that foreclosures will also negatively influence business prospects in our area. Therefore, we must be part of the solution.

Turning now to the present foreclosure difficulties, it is important to note that a variety of factors contributed to the current situation. Between 2000 and 2005, the median home value in the Twin Cities area increased at an average annual rate of over nine percent. The popularity of non-traditional mortgage products coincided with the steep rise in home values and many individuals sought to take advantage. In many cases, loans were being made to first-time homebuyers who may not have fully appreciated or understood the terms of their loan agreement. In other cases, individuals were purchasing homes with the intent of "flipping" them – investing money into upgrades and then hoping to quickly sell at a significant profit. Others purchased houses as mere investment properties with the intent of renting them out to others and then selling once the property had appreciated. Finally, many homeowners were simply cashing-out their equity by re-financing.

Thus, to simply state, as many have done, that today's foreclosure problems are due to the growth of subprime lending is rather misleading. In reality, much of the lending that needs to be done in our community is not to those businesses or individuals with the highest credit scores – so-called "prime" borrowers. Rather, there are many subprime borrowers that are just as deserving of loans. The development of the subprime market has been of great assistance to previously underserved populations, and subprime lending is a vital source of credit to many individuals who would not have access to loans without it.

Moreover, subprime lending should not be confused with predatory lending, which is characterized by practices that deceive, defraud or otherwise take unfair advantage of consumers. ***I cannot say strongly enough that predatory lending has no place in our financial system.*** The vast majority of predatory practices are engaged in by unregulated, often fly-by-night lenders. In contrast, the banking industry is subject to strong oversight and examination by banking regulators to ensure that banks comply with all laws and regulations. Non-banks should lend responsibly and be held accountable for not doing so.

Furthermore, all of us should be required to abide by high ethical standards. Whether you are a banker, mortgage broker, mortgage banker, realtor, appraiser, developer, investor, or anyone involved in real estate and homeownership, high ethical standards should be the norm, not the exception. The damage caused by deceptive or unscrupulous sales practices extends beyond the consumer who is directly targeted. As a bank, we are subjected to, and examined regularly for, compliance with a range of laws and regulations. I hold all my employees to high standards and the regulators make certain of it. Banks like mine are subject to the Truth in Lending Act, Home Mortgage Disclosure Act, the Equal Credit Opportunity Act, RESPA, and the Fair Lending Act, among other laws. Federal law contains numerous disclosure requirements relating to mortgage loans generally, and especially so-called high-cost loans. Additionally, continually updated regulatory guidance is enforced by a panoply of federal agencies, including recent ones on subprime mortgage lending.

Independent ***mortgage brokers are not subject*** to the breadth of consumer protection law and regulations with which banks must comply and, importantly, a regulatory system does not exist to examine them for compliance even with those laws, such as RESPA, which do apply to them. In addition, because of the nature of their jobs, independent brokers may not have the same level of interest in the quality of the loan they process. Once the loan closes and the independent broker is paid, they have no further financial interest in, or responsibility for, the loan or obligation to the borrower, although most want to preserve their reputation for long-term relationships.

This is not to say that independent mortgage brokers do not have an important role in the mortgage lending industry. They do. It is essential that all brokers be honest, trustworthy, and reliable. While I recognize that it would be expensive and would require significantly governmental resources to bring other non-bank participants in the mortgage process into a strict examination and compliance regime, it is nonetheless something that should be seriously considered. To ensure that consumers receive credit on fair and equitable terms, it is vital that they be served by legitimate lenders with appropriate levels of regulation. A national standard to prevent predatory lending may be desirable to ensure that all lenders, whether depository or non-depository, operate under the same requirements.

Recently, the federal banking agencies finalized a guidance on subprime mortgage lending. The guidance requires banks to underwrite subprime mortgages at the fully indexed rate with a full amortizing schedule, prohibits prepayment penalties that exceed the initial reset period on a loan, and requires banks to inform borrowers about payment shocks, prepayment penalties, balloon payments, added costs for low-doc loans, and tax and insurance payments. The guidance also states that low-doc and no-doc loans are only appropriate when mitigating factors exist, such as when a borrower has large liquid assets.

While the guidance is strong in its language, because banks are already subject to various federal laws regarding mortgages and are regularly examined for safety and soundness, the guidance should not significantly change the way banks work with subprime customers. However, it may give a competitive advantage to non-banks because adoption of the guidance would be left up to each state.

I worry that some legal or regulatory changes will make it even harder for homeowners that are in financial distress or who are anticipating a re-pricing of their mortgage in the near future. We need to be careful not to bar options for restructuring existing loans or finding new ones. Modernizing the FHA program is one way to help many of the deserving individuals by providing options to high priced mortgage loans. I understand, Mr. Chairman, that you have cosponsored such a bill that would increase access by more low- and moderate-income individuals, and would importantly, I believe, expand counseling for borrowers both before buying a house or taking out a loan and if they fall behind in their payments.

Once again, I'd like to thank the Committee for giving me the opportunity to testify on this important matter and for holding this hearing here in Minneapolis. I look forward to working directly with Congressmen Ellison and the members of the Committee on this important issue.

Submitted via email to Congressman Ellison's staffer at Karl.Haddeland@mail.house.gov and to fsctestimony@mail.house.gov on August 7, 2007.

Minneapolis
City of Lakes

SAINT PAUL

August 7, 2007

U.S. House of Representatives
Committee on Financial Services
2129 Rayburn House Office Building
Washington, DC 20515

Dear Chairman Frank and Members of the Committee on Financial Services of the United States House of Representatives,

Thank you for the opportunity to provide a joint written statement to supplement the oral testimonies we provided at the August 9, 2007, hearing on "The Effect of Predatory Lending and the Foreclosure Crisis on Twin Cities' Communities and Neighborhoods." During oral testimony, Minneapolis Mayor R.T. Rybak described the growing foreclosure crisis as it affects his City and our region's coordinated response to this housing crisis – the Foreclosure Prevention Funders Council. Saint Paul Mayor Chris Coleman described his City's horrific experiences with foreclosure and the resultant vacant homes – describing it as a "disinvestment domino effect." Mayors Rybak and Coleman described possible Federal-level solutions.

Based on our collective experiences in each of our Twin Cities, this written statement builds on our oral testimony by setting out six potential Federal-level solutions as well as provides specific comments on the Federal bills that have already been introduced. If passed into law, the solutions set out below would dramatically affect the ability of our Cities and partners to respond to this foreclosure crisis at the local-level.

FEDERAL-LEVEL SOLUTIONS

1. Modify Regulations on the Issuance of Tax-Exempt Mortgage Revenue Bonds (Section 143 of the Internal Revenue Code of 1986)

Tax-exempt mortgage revenue bonds ("MRBs") are a tool that is continually used by both Minneapolis and Saint Paul. Specifically, MRBs are issued to fund the pool for our CityLiving Program. CityLiving offers financing for the purchase, purchase/rehabilitation and refinance/rehabilitation of homes, primarily by first time homebuyers, of one- to four- unit homes in the cities of Minneapolis and Saint Paul. In the current program, most borrowers are required to take pre-purchase home-buyer training, and in the future this will be a requirement for all borrowers. Income and purchase price limits apply as well. The default rate on CityLiving loans is approximately two percent, a percentage well-below the national average which exceeds four percent.

However, due to the limitations of federal tax law, there are limits on the usefulness of the CityLiving Program. Three changes in the regulations relating to MRBs would dramatically increase the usability of this proven method to ensuring stable, long-term homeownership. The first useful change would be to permit the use of proceeds of MRBs to permit loans to be made to refinance homes owned by homeowners who are at risk of default or foreclosure, either because the loan product they originally used was inappropriate or because circumstances have changed. The second change would be to reduce the minimum rehabilitation requirement for "qualified rehabilitation loans" from 25% of the adjusted basis in the residence to $5,000, for loans made for refinancing and rehabilitation to non-first-time homebuyers. The third change would be to expand the definition of targeted areas to permit the broader use of MRBs to encourage the redevelopment of distressed areas of the Cities. Each of these changes is discussed in greater detail below.

Refinancing. Federal tax law currently allows proceeds of MRBs to be used to refinance existing loans only (i) when the homeowner has acquired the home with a contract for deed and has an income under 50% of the area median income, (ii) when the homeowner will be doing substantial rehabilitation, and (iii) in the context of a construction or bridge loan. The contract for deed requirement is an obsolete provision in Minnesota since contracts for deed are seldom used today to finance homes. In order to be able to use MRB proceeds to refinance existing unsustainable loans, Section 143 would need to be amended to permit refinancing of homes for homeowners with certain distressed loans.

Minimum Rehabilitation Requirement. Federal tax law currently permits proceeds of MRBs to be used to refinance and rehabilitate homes by non-first-time homebuyers if the rehabilitation meets certain requirements, including a requirement that the cost of rehabilitation exceed 25% of the borrower's adjusted basis in the residence. This formula for calculating minimum rehabilitation is cost prohibitive for most borrowers and frequently property values do not justify that level of rehabilitation. We recommend adjusting the minimum cost of rehabilitation for "qualified rehabilitation loans" to $5,000.

Targeted Areas. Federal tax law currently permits higher income limits for homebuyers, higher purchase prices and financing by non-first-time homebuyers in "targeted areas" defined in the law. In order to make MRBs a more effective tool to encourage redevelopment in specific areas of the Cities, the definition of targeted areas should either be broadened generally, or authority should be given to issuers of MRBs to define targeted areas within their specific jurisdictions in order to achieve local policy objectives.

2. Require Mortgage Industry to Restate/Modify Terms for Distressed Homeowners

Many distressed homeowners selected to use, or were deceived into using, an inappropriate mortgage product. Once the homeowner sees distress on their financial horizon, we encourage them to contact the servicer of their mortgage and non-profit home ownership counselors. When distressed homeowners contact these entities, private solutions are available in many instances. For example, the Minnesota Homeownership Center and Minnesota's statewide network of Mortgage Foreclosure Prevention Providers have been able to assist nearly fifty percent of the homeowners across the State of Minnesota who contact their service providers.

Modifying the terms of an existing loan involves a nominal cost compared with hefty costs and fees for a refinancing, which can add more than five percent to the mortgage amount. If Federal legislation could require the mortgage industry to restate/modify certain homeowners' loan terms prior to offering a refinancing, distressed homeowners could save a great deal of money on unnecessary refinancing fees. Moreover, due to the leveling off of home appreciation, many homeowners are not able to refinance because they do not have any equity in their homes. For these reasons, requiring the mortgage industry to restate/modify loan terms for distressed homeowners as a mandatory first step is a solution to part of the current foreclosure crisis.

3. Provide Community Reinvestment Act Credit to Mortgage Industry When Allow Renters to Continue to Reside in Homes

Currently, under Minnesota law, renters living in foreclosed homes are evicted at the end of the redemption period. This is typically about a year after the foreclosure process begins. After the renter is evicted, the homes often sit vacant. These vacant structures provide an avenue for vandalism, theft, arson, and other community-damaging crimes. For those properties purchased by the lender at the sheriff's public auction, as is the overwhelmingly situation in Minnesota, we would like to partner with the Federal government to amend the necessary laws and regulations in order to be able to encourage those in the mortgage industry by offering Community Reinvestment Act credit to act as "landlords" until the property is sold to a new owner-occupant. If this change is not plausible, an alternative approach could be to provide those in the mortgage industry with Community Reinvestment Act credit for their costs incurred while properly maintaining a home during the period following the sheriff's public auction.

This would benefit the city, community, and lender. When properties are occupied and maintained, city staff is less likely to be called to attend to the various crimes associated with vacant properties. Not only does this lessen the load now placed on city police, fire, and rescue squads, cities can free up additional funds that would otherwise be used to inspect and often demolish the vacant and boarded structures. Communities benefit in that occupied and maintained homes are better than vacant and boarded homes in many ways including, safeguarding the general structure and neighborhood, maintaining property values, and policing and safety. Although lending institutions would be required to function as landlords, and there would be some costs associated with this, overall, the lending institutions benefit in that the home is likely to be more saleable if it (and the other otherwise vacant homes surrounding the property) has been occupied on an on-going basis. Furthermore, by continuing to have an occupant in the structure the lending institution dramatically decreases the likelihood that city regulations would require the demolition, and ultimate loss of any value left in the structure.

For these reasons, if the Federal government could amend its current regulations to provide Community Reinvestment Act credit to those in the mortgage industry that would be willing to act as landlords when the home would otherwise sit vacant, this would benefit the Cities, the community neighborhoods, and the lender who reacquired the property after the foreclosure sale.

4. Review Tax Consequences for Borrowers who Use Liquidation Options

For many distressed homeowners stuck in inappropriate products, liquidation is the best option. Two options include, for example, a pre-foreclosure short sale and a deed in lieu of foreclosure. In a pre-foreclosure short sale, the lender accepts less than the amount of the mortgage in satisfaction of the outstanding debt. Where a deed in lieu of foreclosure is used, the lender accepts a deed to the home as satisfaction of the outstanding debt.

Although these are solid options for many, current Federal tax law requires these distressed homeowners claim the income generated when using liquidation options. This requirement can function as a disincentive to already financially-stressed homeowners. In order to encourage increased use of these extremely helpful liquidation options, the tax consequences should be eliminated altogether or capped at a set amount. Similarly, homeowners who refinance to take equity out of the home, and later go into foreclosure after the home has depreciated in value, may also face other tax consequences. These tax consequences should also be addressed.

5. Continue to Invest Community Development Block Grants

Community Development Block Grant ("CDBG") funds are very flexible and allow us to invest in both residential and small commercial projects. When the marketplace doesn't value reinvestment into certain neighborhoods, we can use this money to provide low-interest loans with favorable repayment rates or partial subsidies to leverage more private investment. CDBG allows us to make the private marketplace work again for neighborhoods suffering from home foreclosure.

In Saint Paul, the federal commitment to this program in 1975 was over $18.8 million. Today, when we have an arguably more challenging environment for redevelopment in our city, our Federal partners commit $8.2 million in CDBG funds to our work together in the City of Saint Paul. Minneapolis's CDBG entitlement has declined from a high point of $19.9 million in 1980 to $13.8 million in 2006 and 2007.

Cities need a continued stream of these flexible funds in order to properly and adequately address their growing foreclosure crisis.

6. Require Ongoing Registration when Interests are Conveyed

With our increasingly digital age, the mortgage industry has adapted it practices to ease securitization and conveyances of interests in the mortgage. In Minnesota, as in many other states, mortgage documents are recorded with the County Recorder. However, when the homeowner begins to experience distress or enters the foreclosure process, the entity provided on the mortgage documents is seldom the entity that the homeowner should be contacting to discuss retention or liquidation options. Home ownership counselors face a similar challenge when trying to provide assistance to distressed homeowners. A front page *New York Times* story from August 6, 2007, titled "Mortgage Maze May Increase Foreclosures" by Gretchen Morgenson, explains the phenomenon in more detail.

This "lost contact" phenomenon is exacerbated by the mortgage industry's use of the Mortgage Electronic Registry System (MERS) which "simplifies the way mortgage ownership and servicing rights are originated, sold and tracked" in that "MERS eliminates the need to prepare and record assignments when trading residential and commercial mortgage loans." Essentially, MERS acts as a shield to uncovering the necessary contact information for the true holder of the mortgage in that MERS is often listed on the recorded mortgage documents and foreclosure notices. According to a recent list of recent foreclosures in the cities of Minneapolis and Saint Paul, MERS was listed as the mortgagee on 40-60% of the properties.

The solution is simple: when interests are conveyed, this conveyance (and the affiliated contact information) should be recorded with the relevant County Recorder's Office. This solution is multi-faceted, at a minimum, local and State governments cannot successfully address this lost contact phenomenon because they do not have jurisdiction over many of the relevant mortgage industry entities. Local and State governments need the Federal government to pass legislation that dovetails with local requirements.

Not only will this solution aid the distressed homeowner, but local governments like Minneapolis and Saint Paul will be able to provide better customer service to those seeking to purchase vacant properties as well as be better partners with community development corporations (for example, Habitat for Humanity, Dayton's Bluff Neighborhood Housing Services, the Greater Metropolitan Housing Corporation, and others) who seek to purchase, rehabilitate, and resell foreclosed properties to homeowners with stable, fixed-rate long-term mortgage products.

COMMENTS ON THE FEDERAL BILLS

City staff persons and their partners that work in our housing and legislative departments reviewed the language of the proposed bills listed below. City staff and their partners' comments and concerns are provided below. City staff and their partners continue to review other proposed legislation.

1. HR 1852 - Expanding American Homeownership Act of 2007 (Waters)

A. City staff were troubled that this bill appears to be targeted to first time home buyers only. If this is the case, then it would appear to limit a localities ability to provide homeownership preservation tools and products in the same way as the existing MRB regulations.

B. City staff commented that parts (7)(A)(i) and (ii) of Section 9, Payment Incentives, could be beneficial to homeowners.

C. City staff were concerned that Section 10 appears to make counseling optional. Although opinions differ as to whether mandating counseling will always lead to more stable, long-term decision making by the potential homeowner, city staff and the counselors at the Minnesota Home Ownership Center service providers can bear witness to the direct correlation between pre-purchase counseling and stable homeownership. If mandating homeownership counseling is not favored, it makes sense to require counseling for higher-risk borrowers or borrowers who select to finance any portion of their home purchase through the use of a sub-prime product.

D. City staff suggest that Section 10(iii), Notice to the Mortgagor, should require that the "housing counseling entity" be a HUD certified counselor closest to the location of the home.

E. With regard to Section 258, Pilot Program, the City of Saint Paul already has a program akin to this.

F. Section 10 relating to Protections for Higher Risk Mortgages could be strengthened to require oral as well as written presentations of the required disclosures.

G. With regard to Section 10(bb)III(iii), which prohibits private rights of action for required disclosures, and Section 10(bb)(C)(vii), which prohibits private rights of action for not giving notice of foreclosure prevention counseling, both Sections relating to Protections for Higher Risk Mortgages, City staff recommend not prohibiting private rights of action on required disclosures or notices and counseling. Minnesota's recent predatory lending legislation has added private rights of action to enforce the terms of the legislation. The rationale for prohibiting rights of action in these parts of the legislation may be because they relate to "relatively minor" aspects of the legislation – they relate to notices and disclosures, rather than lending practices themselves. However, it should be carefully considered whether Congress wishes to preclude rights of individuals to follow up on even basic requirements like disclosures, when the ban on private rights of action was one of the commonly cited experiences that interfered with individuals' ability to enforce their rights. Disclosures and notices are one of the basic consumer protections to help consumer avoid hasty and ill-considered decisions, especially important for higher risk mortgages.

2. **HR 2895 - National Affordable Housing Trust Fund (Frank)**

A. City staff seeks clarification on the targets and requirements for home ownership.

B. With regard to Section 295(c)(2), Selection Process and Criteria for Assistance, City staff has the following concerns:

1) It appears that these funds are really to be spent in more affluent areas; for example, see (v) "... project ... located ... various incomes" and (xii) "number of families having incomes less than the poverty line is less than 20 percent". This may limit the usefulness for these funds for some of the areas most heavily damaged by the recent foreclosure crisis.

2) Saint Paul City staff persons were apprehensive about Part (vi) in that there are not necessarily significant economic opportunities in the neighborhoods that need these funds for home ownership. More generally, city staff expressed concern as to how "economic opportunities" would be defined.

3) City staff persons were concerned about how "extremely low vacancy rates" would be defined, as it is used in Part (viii). Staff also expressed concern in that often times vacancy rates are high due to dilapidated housing, irresponsible landlords, and other related factors.

4) With regard to Part (xi), city staff noted that the area for "job opportunities" and "community revitalization projects" may not necessarily be in the same location.

C. City staff noted a discrepancy in that Section 296 states that the funds cannot be used for counseling. However, Section 297 requires counseling for home buyers. As you know, most of the counseling entities are non-profits that require grants and legislative allocations in order to provide the necessary services to homeowners. With the recent surge in foreclosures, counseling entities have struggled to increase their capacities to meet the growing demand within their limited budgets. Funding these critical resources is vital to their required capacity-building efforts.

D. City staff was concerned with Section 297 in that requiring that housing meet all requirements for "not less than 50 years" appears to be a sound requirement; however staff was troubled by who would pay for needed improvements over that same time period as well as for the rent subsidy. Staff noted that in another location the bill defines "extremely old housing" as housing that is forty-five or more years old.

E. Section 296's language relating to money for first-time homebuyers disturbed city staff in that it would not appear to keep homeowners in their homes, nor does it appear to help those who have lost their homes due to sub-prime lending return to homeownership.

F. City staff urge Congress to reconsider the 65% area median income ("AMI") affordability standard used in the Affordable Housing Trust Fund as described in Section 297(a)(1)B. The use of a 65% standard precludes its use for units commonly targeted and limited, under the Low Income Housing Tax Credit ("LIHTC") program to households at 60% AMI. If the purpose in having a slightly higher income standard (65% AMI instead of 60% AMI) is to promote production of housing at a more moderate level of income, potentially to reinforce market-building in challenged neighborhoods, perhaps 80% AMI would be a more appropriate standard. Otherwise, the marginal difference in allowable income levels appears to be obviated by the LIHTC program requirements.

3. HR 3081 - Fairness for Homeowners Act of 2007 (Ellison)

A. City staff expressed concern with Ability to Pay, (D) Other Criteria. Staff would prefer increased guidance to clarify what "other criteria ... verified through reasonably reliable methods and documentation" would be necessary and prudent to require.

B. City staff would like there to be a requirement that mortgage applicants receive a copy of any appraisal paid for by the mortgage applicant.

C. City staff partners believe the "duty of agency" for mortgage brokers is one of the most important aspects of this bill. Although it is impossible to know what new "tricks" will be used in coming years, we do know from experience that there will always be predators willing to take advantage of the system and exploit consumers.

D. City staff partners suggest that the bill could also address accountability up the chain to the lenders and investors who create unsustainable and inappropriate loans and supply a market for their resale in the secondary market. Putting accountability back into the system could be accomplished in two meaningful ways.

1) Anyone who makes or purchases a loan with certain characteristics could be held responsible for any violations contained in the loan itself or used in the process of making the loan. Stated differently, we need full assignee liability and we need to eliminate the holder in due course defense for mortgage loans.

2) We need to require that loan servicers or those conducting collections and foreclosure proceedings - the entity in contact with the borrower - has the authority to modify the terms of the loan.

Thank you for this opportunity and for your consideration of this vitally important crisis. This national foreclosure crisis is going to require coordination and partnership at all levels. We stand ready to do our part and ask for your federal leadership to end this devastating crisis.

Sincerely,

Christopher B. Coleman

Mayor R.T. Rybak
City of Minneapolis

Mayor Christopher Coleman
City of Saint Paul

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Sharon Glover Testimony- Draft

My name is Sharon Glover. My late husband, Gleason Glover, was the head of the Minneapolis Urban League for 25 years. He passed away in late 1994. I have worked for many years in the education field, and I always had jobs up until recently.

When we bought the house, Gleason and me, in 1984, our mortgage was with Home Side Mortgage down in Florida. We paid $94,000 for the house, and our payments were $1200 a month. The problem came went I refinanced in 1999.

And I really wasn't seeking to refinance, I was thinking about it, but if I did refinance, I wanted my payment to be less that $1200 a month. And then one day this man comes to my door and dances in here, and he was just singing my husband's praises. I was still grieving at that time. I trusted this man because he respected my husband. He called me and said I'm ready to close. I trusted him. I signed the papers believing him, and it was much later I found out that my payments were not less than $1200 but $1550 per month. And another thing is that I never got copies of the loan documents from him. I never got hold of them until very recently, so I really didn't know the exact terms of the loan. But the loan balance went from $94,000 to $162,000, and I never understood why. I didn't get any cash back, and they paid a few bills, but I didn't have any $70,000 bills. I just got a copy of the paperwork sent to me recently. It's too late now. Legally maybe they don't have to do anything, but I want to go back and ask them to tell me where that money went to and who got paid.

So since 1999, I have made those payments of $1550 a month. I worked and I paid this even though I realized I had been taken. Then a few years ago, I got a call from Ocwen saying we are your new mortgage company, and that was when my hell started. Ocwen told me they were going to pay my taxes and insurance, although I was current on those things. They increased my payments by $400 a month.

Then, in 2003, I had total hip replacement on the right leg and total knee replacement on the left, and they were within six months of each other. After I had my surgery I couldn't go back to work. I withdrew all the money I had and I kept my mortgage paid. Then I got another little part-time job consulting, and because I still hadn't healed. I fell across a guy's feet, and that's when they let me go, because I was a liability to them. So I didn't run into any problem until after I was really without. Now I'm living on a social security check that doesn't come until the third Wednesday of each month, and the annuity check from my late husband comes the last week of each month. I still have not missed a payment, but the payments always came at the end of the month, because that's when I get the money. Because Ocwen went up from $1550 to $1945 a month, it left me with just $200 a month for all my other bills, including food and medical. I had to stop taking my medicine, but I still made my mortgage payments.

Starting from the time when I wasn't able to work, if Ocwen didn't get the payment during the first five days of the month, they would call and harass me 4-5-6 times a month, and I told them: I have sent it in writing, I have called you, and I have told you that my payments will be late, but you will get it every month. They could have adjusted everything, to change the payment due date, but Ocwen refused to give me even that small breath.

I have all of these records. I sent them that payment by wire every month, as soon as my husband's annuity check came, and I have a copy of each one sent. I always included a notation saying, this payment is to be applied for the June 2007 monthly payment ONLY, but they went ahead and used that money any way they pleased.

Ocwen had my June payment- I had wired it. But on July 3, the day before the holiday, the sheriff's office came to my door and said, "You are served". I don't know what happened. I just get this letter saying they're gonna foreclose.

I was so ashamed, ashamed that I am a bright woman and I let this happen to me. I didn't see this coming, because I had made my payments. I always make my payments. The sad thing about this is that I wanted to move, but I wanted to sell the house. This is too much house for one person. I had planned to move, but I hadn't planned to lose everything I have, which is the way it's happening.

I have gotten 4 or 5 letters from people who say they can help me save my home, but I know these are just scams. I never call them back. I never let anybody into my house.

Ocwen just told me recently, on the second of August, that they want almost $12,000 in order to prevent the foreclosure sale. And most of that is in legal fees to go to them. In addition I would owe over another $12,000, as soon as my mortgage was reinstated, including strange sounding fees, which I cannot understand, like escrow advances, prior foreclosure costs and fees, property valuation fees, title report fees, property inspection fees and $2,325 in late fees. On top of that, I will have to keep on paying $1,945 every month.

My home is up for auction on Tuesday, August 7. After that I cannot get the title to my house back without paying a redemption fee of about $200,000. I never in my life expected this to happen to me.

My lawyers, Seymour Mansfield and Richard Fuller have filed a class action suit against Ocwen here in the Federal Court because of these predatory mortgage practices and piling on of junk fees. I have a copy of the Complaint with me. I understand my action will be transferred to the Federal Court in Chicago, as a consolidated multi-district action, with hundreds of other cases against Ocwen. That MDL has been going on for years and still Ocwen continues to get away with these predatory practices. Whatever happens there, Ocwen has already done its damage to me.

TESTIMONY OF

Julie Gugin
Executive Director
Minnesota Home Ownership Center

Before the

COMMITTEE ON FINANCIAL SERVICES

UNITED STATES HOUSE OF REPRESENTATIVES

Thursday, August 9, 2007

INTRODUCTION

Hello, Chairman Frank, Congressperson Ellison, and members of the Committee. I am Julie Gugin, Executive Director of the Minnesota Home Ownership Center.

The Minnesota Home Ownership Center is a nonprofit organization dedicated to helping low- and moderate-income Minnesotans purchase and maintain their homes. The Center, founded in 1993 by mortgage industry stakeholders concerned with affordable, sustainable home ownership, is a statewide organization with a strong record of accomplishment in supporting primarily economically disadvantaged and underserved households to access and sustain home ownership.

Mission and goals

The Minnesota Home Ownership Center's mission is to promote sustainable home ownership for low- and moderate-income Minnesotans through the development and delivery of quality, standardized education, counseling and related support services. Our goals are:

- To empower low and moderate-income households statewide to purchase and sustain affordable homes, with a major focus on those who face the greatest barriers and challenges to home ownership.
- To assure significant wealth creation for low-income individuals and communities by teaching sound financial and credit management as part of home buyer and home owner education and counseling.
- To preserve stability for families and children by preventing foreclosures.
- To conserve public and private resources within the broader community by averting the negative ramifications that foreclosures present for neighborhoods and cities.

Activities and accomplishments

To this end, the Minnesota Home Ownership Center provides key services to a network of 50 community based agencies in Minnesota. These agencies, in turn, deliver pre-purchase, post-purchase and foreclosure education and counseling programs to low- and moderate-income households. Each year, the Center and its network of agencies offer 15,000 low- and moderate-income households the tools they need to purchase and sustain their homes.

Our statewide model is unique. No other state has this centralized, standardized approach to what we believe to be the most important elements of homeownership: education and counseling. The Center supports:

- Quality curriculum for pre-purchase education and counseling.
- Training and certification for community-based home ownership educators and counselors.
- Technical assistance, including systematic, comprehensive reporting and evaluation tools.
- Leadership and technical expertise in a variety of initiatives related to affordable home ownership and foreclosure.
- Program marketing and outreach.
- Funding for our network.

In addition to its provider network, Minnesota Home Ownership Center actively works with other organizations to achieve solutions to pressing affordable housing and housing-related issues. Some examples of recent collaborative efforts include the Center's work with the metro area's Foreclosure Prevention Funders Council and the state's Emerging Markets Homeownership Initiative (EMHI)

Since its inception, the Minnesota Home Ownership Center has achieved a strong reputation both in Minnesota and nationally for developing services that are responsive to emerging consumer needs in light of changing and evolving market conditions and lending practices. As a national model, the Center is the frequent subject of inquiry and research. Nationally known organizations, such as the Ford Foundation and the University of North Carolina, have looked to the Center's work in establishing best practices and national standards for home buyer training and foreclosure prevention. The Home Ownership Center has also been the subject of national studies and symposia conducted by Harvard's Joint Center for Urban Studies, Fannie Mae, the Federal Reserve Bank, and others.

PRE-PURCHASE EDUCATION AND COUNSELING

Home Stretch – home buyer education and counseling

Home ownership is an exhilarating goal. It is also a complex venture. We believe that all home buyers should be empowered with education to enter home ownership through the *right* door. Buyers frequently lack the necessary

4,900	Households completed workshops
1,598	Households received counseling
92%	First Time Buyers
28%	Single Female Headed households
17%	First Generation Owners

knowledge and skills for financial planning, money management, identifying available loan products, and moving through the legal and financial complexities of the home buying process. Often, low- to moderate-income home owners may be unaware of affordable loan products that they qualify for. Some may be alienated from or distrustful of, the system. For many immigrants, language and cultural barriers compound the situation as they encounter concepts of personal finance and home buying that are unknown. Learning about the home buying process upfront, in a supportive and trusting environment, can remove barriers and empower households to achieve sustainable home ownership

Home Stretch is the Center's pre-purchase education and counseling curriculum that is provided to home buyers by our network partners. Education is offered in a workshop setting providing the knowledge home buyers need to examine their personal finances, understand the pros and cons of home ownership, determine their ownership readiness, and create a realistic plan to buy a home. Consumers gain an understanding of: the process of buying a home including principles of real estate and terms they will encounter in their search; obtaining a credit report; planning for all costs involved in home buying; budgeting to determine what they can afford; finding and working with a real estate agent, evaluating mortgage products to avoid predatory loans; and accessing affordable loan products that will result in positive wealth creation for their families. Participants also learn to make purchase decisions factoring in anticipated costs of home maintenance and repair including arranging for a home inspection.

> 79% of households participating in Home Stretch workshops, and 82% of households receiving counseling had 80% or less of area median income.

Attending the course is a pre-requisite for many first-time home buyer affordable loan products offered by Minnesota lenders. Home Stretch can also open doors to down payment and

closing cost assistance offered by many communities throughout Minnesota.

Home Stretch counselors also provide one-to-one counseling to consumers to address more complex issues that home buyers may face and to create a detailed, individualized plan, which may include creating a savings plan or enhancing their

> In surveys taken after the Home Stretch workshop, **60%** reported that they learned more than they expected,
> **98%** felt that Home Stretch helped them towards their goal of home ownership, and **97%** said that they would recommend the workshop to someone else

credit. The trust that is established through this one-to-one counseling often lasts well past the home purchase. Many consumers will contact their counselors with questions about appropriately using their equity or addressing maintenance issues that might arise.

FORECLOSURE PREVENTION COUNSELING

The current foreclosure situation in Minnesota is alarming. The Twin Cities seven-county metro area experienced an 87% increase in the number of sheriff's sales in the last year. Included in that is an 81% increase in Hennepin County, and a 125% increase in Ramsey County (based on sheriff's sale data). Our greater Minnesota counties demonstrate equally shocking numbers, with foreclosures statewide increasing from approximately 6,400 in 2005 to 11,100 in 2006. The foreclosure crisis shows no signs of abating, with an analysis of greater Minnesota foreclosures in first quarter 2007 indicating that foreclosures will increase by 93% from 2006. (Taken from the *Foreclosures in Greater Minnesota"* report from the Greater Minnesota Housing Fund and HousingLink). The Center anticipates that the foreclosure crisis will continue for at least the next three years.

With overall foreclosure rates significantly increasing, we are also seeing disastrous consequences from the clustering of foreclosures in certain neighborhoods. While the problems in the urban cores of Minneapolis and St. Paul are relatively well documented, other communities in the metro are also struggling with concerns about vacancies and blight in highly-impacted neighborhoods. In Greater Minnesota, the foreclosure problem is most severe in metropolitan areas and in the counties that adjoin the Twin Cities metro. For example, projections for 2007 indicate that 3 of every 100 households in Chisago and Isanti counties will be in foreclosure this year. The scale of the problem and the enormous negative impacts on families and communities makes foreclosure prevention and remediation the most important, timely and challenging housing issue we face.

Who is experiencing foreclosures?

While the mortgage foreclosure reaching across all demographic groups in the Twin Cities, people of color, lower income families and those with subprime mortgages are at greatest risk. A recent study[1] found that almost half of the homeowners using mortgage foreclosure prevention services in Minneapolis and St. Paul were African American. This is significant,

[1] Minnesota Home Ownership Center (2007). Minneapolis and St. Paul Mortgage Foreclosure Prevention Program: An analysis of selected program data, 2005-2006

given that African American homeowners make up only a small fraction of all homeowners in the Twin Cities. This same study found that the average income of homeowners counseled through the Mortgage Foreclosure Prevention Program in 2006 was $32,600.

Families with subprime mortgages face substantial risk of foreclosure. Subprime mortgages typically have higher interest rates and are more likely to have prepayment penalties and balloon payments than conventional mortgages. Black, Latino and Native American households typically receive disproportionately higher percentages of refinancing loans from subprime lenders.

Foreclosure Prevention Counseling in Minnesota

Minnesota is fortunate to have a strong network of housing counseling professionals and organizations committed to helping families avoid foreclosure. Foreclosure prevention counseling is available in every county in Minnesota through the Center's network of non-profit and/ government agencies. These providers help families facing foreclosure through in-depth counseling, budgeting and financial management, intervention and advocacy, emergency financial assistance, and referrals. Counselors also help homeowners develop and negotiate a recovery plan with their lenders and other creditors.

The Mortgage Foreclosure Prevention Program: a proven, cost-effective solution

The foreclosure services supported by the Minnesota Home Ownership Center and its network of community-based providers offer a cost-effective solution to the current foreclosure crisis. A study conducted by the Family Housing Fund[2] found that cost of preventing foreclosures through mortgage foreclosure prevention counseling was a small fraction of the cost compared to those incurred by the multiple stakeholders impacted by foreclosure. The study found that while program costs amounted to $1.6 million to help 487 homeowners reinstate their mortgages; the averted losses to *mortgage insurers alone* were an estimated $9.6 million. Other studies have found that foreclosures resulted in costs as high as $34,000 per foreclosure for local governments[3] and $59,000 for the mortgage industry[4].

The primary source of funding for the statewide Foreclosure Prevention Assistance Program (FPAP) is the Homeownership Education, Counseling and Training (HECAT) fund.

[2] Family Housing Fund. (1995) Cost Effectiveness of Mortgage Foreclosure Prevention.
[3] The Municipal Costs of Foreclosure: A Chicago Case Study, Homeownership Preservation Foundation, 2005
[4] Study conducted by Craig Focardi and cited in The Minnesota Housing Market: What now?, Mortgage Foundation website.

Sponsored annually by the Family Housing Fund, the Greater Minnesota Housing Fund, the Home Ownership Center, and Minnesota Housing, HECAT prevention needs in Minnesota. provided $1 million to support foreclosure prevention in the state during 2006-2007.

A Statewide Response to the Foreclosure Crisis

The commitment of public and private resources to foreclosure prevention efforts in Minnesota has been significant. However, the current foreclosure crisis has placed extraordinary demands on the foreclosure prevention system. As mentioned earlier, we anticipate that this demand will *increase* over the next three years.

The Home Ownership Center, the Family Housing Fund, the Greater Minnesota Housing Fund, and Minnesota Housing are leading a new statewide initiative designed to implement new or enhanced foreclosure intervention strategies and tools to more effectively address the foreclosure crisis in Minnesota. This effort builds on and complements the work of the Family Housing Fund under the auspices of the Foreclosure Prevention Funders Council and the emerging greater Minnesota foreclosure prevention efforts being led by Greater Minnesota Housing Fund.

The team's approach is designed to: coordinate and leverage existing, localized efforts that have emerged; target our efforts on the cities and neighborhoods that are *most affected* by this crisis; and implement strategies quickly--foreclosure prevention and remediation practices work best when implemented early, before the harshest implications of foreclosure are felt.

The Home Ownership Center's Role

The statewide network of foreclosure prevention counseling offers a proven method of helping families stay in their homes. Current Home Ownership Center data shows that 60% of families who receive foreclosure prevention counseling through the existing provider network are still current on their mortgages two years after receiving assistance.

The Home Ownership Center is adamantly committed to the critical role that foreclosure prevention counseling plays in addressing the complex issue of foreclosures. We are continually addressing ways to add capacity within the foreclosure prevention system that is taxed to its limit during this challenging time. Identifying additional public and private resources to increase the number of counselors is one strategy. We are also examining ways to modify the programming model to ensure that we are optimizing our client services when the consumer demand is so high.

Targeted outreach and education to homeowners most at risk of foreclosure and to a broader stakeholder group is also a priority. Acting early empowers homeowners with more options for addressing their foreclosures. Yet, a natural response to a financial crisis, when people may feel ashamed, embarrassed, and certainly fearful about their situations, is to wait. Our goal is to implement a campaign that starts with utilizing early warning systems that identify specific households within impacted regions that are at greatest risk. We will then deliver a variety of outreach tools that will: encourage action; educate about the foreclosure process and consumer rights; and direct consumers to counseling.

Our outreach and education will also raise awareness about foreclosure with a broader stakeholder group, including: social service referral agencies; neighborhood and community-based organizations; elected officials and other community leaders; faith-based organizations; and other places that consumers turn to in times of need. It's important for this audience to know that services are available and how they can contribute to addressing this crisis - within a household or within their community.

CONCLUSION

Minnesota's model of offering a consistent, standardized, and professional approach to home ownership education and counseling has proven its effectiveness in preparing home buyers for the responsibilities and advantages of home ownership and for empowering home owners to sustain their homes. The success of the model is attributable to three primary factors:

- A localized approach. We believe the home ownership education and counseling is optimally delivered locally, through providers who understand: the nuances of the local housing market, local lending tools, and trusted industry partners.
- Support from our industry partners. Our network is sustained through the sponsorship of our generous lender partners, our state housing finance agency, and numerous other affordable housing stakeholders who champion our mission.
- The patience, perseverance, and compassion of our educators and counselors. While their work is frequently gratifying, the challenges are daunting. Their creativity and spirit delivers a high-quality, critical program to the communities they serve.

I appreciate the time you have committed to learning about and addressing this issue. Thank you for the opportunity to share our perspective.

Testimony Of

Patricia L. Hanson
President
Community Development and Specialized Lending
Wells Fargo & Co.

Before the

United States House of Representatives
Financial Services Committee

Minneapolis, Minnesota

August 9, 2007

Chairman Frank, Congressman Ellison, thank you for the invitation to testify today.

I am Pat Hanson and I am the President of Community Development and Specialized Lending for Wells Fargo. In this capacity, I am able to serve my community through work on affordable housing and neighborhood revitalization initiatives on a daily basis. In addition to my professional community development work at Wells Fargo, I also serve on the board of Junior Achievement of the Upper Midwest and as Vice President of the Family Housing Fund.

Like you, we are concerned about preserving homeownership and appreciate this opportunity to talk about our commitment to responsible lending and servicing, and the specific actions we take to assist homeowners and prevent foreclosures in the Twin Cities. As a portfolio lender for over 15 years, I know that no one wins in a foreclosure situation.

In the Twin Cities of Minneapolis and St Paul, we work daily in our communities to understand the needs of our customers. Wells Fargo was the first bank in Minnesota to introduce a portfolio product, called the Community Development Mortgage Program (CDMP) that met the needs of low and moderate income borrowers here in the Twin Cities in 1990. Since that time, we have originated, and held in our portfolio, over a half of billion dollars of loans to low and moderate income customers in the state. This same program has been launched in 21 of our 23 banking states and we have originated, and held in our portfolio, over a billion dollars of our CDMP loans. In 2006, average income of our borrowers is $38.8 thousand, 90% of our customers are first time homebuyers, 50% of our customers had no or low credit score.

CDMP in Minnesota allows 100% LTV with no mortgage insurance required, making it more affordable to achieve the dream of home ownership. We have also resisted the market temptations to do ARMs with this product especially when rates were low, understanding that our borrowers could have been at risk if interest rates rose and a reset occurred.

Responsible Lending Principles

In 2004, Wells Fargo formally adopted responsible lending principles that we live by for our U.S. residential real estate lending. Accompanied by prudent underwriting, our principles include:

- Making only those loans that have a demonstrable benefit to the consumer, such as reducing the monthly payment on debt, obtaining significant new money, paying off delinquent real estate secured debt, converting an adjustable rate to a fixed rate, or purchasing a home.
- Only approving applications for loans that we believe the borrower has the ability to repay.
- Providing consumers with the information needed to make fully informed decisions about the terms of our loans. Not making pay option ARM's or negative amortization loans.
- Having controls in place to ensure that first mortgage customers are offered prime pricing options when they qualify, based on their credit characteristics and the terms of their loan transaction.
- And, advising consumers who apply for loans with prepayment fees of the availability of loans without them, and the associated impact on the interest rate. We also limit our prepayment fees to the lesser of three years or the fixed term of an adjustable rate loan.

As the nation's largest servicer of residential mortgage loans – serving more than 7.8 million customers – we also live by a set of responsible servicing principles that I will provide with my statement for the record. They include tenets such as approaching every interaction from the customers' point of view, and doing all that we can to keep customers in their homes.

Foreclosure Prevention: Importance of Early Customized Solutions for Borrowers

Preventing foreclosures is critical to all parties involved in a mortgage. We work hard to help customers who encounter financial difficulties and to prevent foreclosures where possible, because doing so is in the best interest of our customers, communities, investors, and company.

Wells Fargo believes that it is important to have an outreach plan to work with borrowers early, and often, knowing that this helps avoid foreclosure. It is also important to have a plan for orderly transfer of homes to further assist borrowers as well as ensure integrity of neighborhoods.

Some of the proactive steps we take to prevent foreclosures include:

- Making repeated attempts to contact customers with delinquencies in order to find a workable solution.
- We have identified all prime and nonprime ARM customers in our portfolio and we have already begun contacting these customers to ensure that they receive a communication from Wells Fargo at least 6 months before their reset date. I have attached a sample Wells Fargo letter to borrowers in my written statement.
- I would emphasize that it is critical that the borrower communicate with their lender or a recommended non-profit. We strongly support working with local non-profits to ensure that borrowers get in touch with lenders in a way that they feel most comfortable. All of Wells Fargo's communicated materials provide a dedicated 800 number for direct assistance.
- We have a dedicated Wells Fargo expert staff trained to work with borrowers seeking ARM reset assistance, including an office in Minneapolis. The 800-number dedicated to this outreach is 866-398-7556. Once a borrower contacts us, we work with customers on a case-by-case basis to find solutions and protect their credit.
- With further analysis, we can then identify which borrowers are likely to be eligible for refinance, or most likely be in need of a workout solution;

Local Twin City Foreclosure Prevention Efforts

As mentioned, we believe collaboration with local non-profits is very important to assist borrowers. As part of this collaboration, I also thank Mayors Rybak and Coleman for their support and creation of the Twin Cities Prevention Funders Council – which Wells Fargo strongly encouraged and we are pleased that this was established in 2006.

- Wells Fargo is an active participant of the Twin Cities Foreclosure Council's Lender Subcommittee. As part of this group we are working to find solutions for homeowners facing foreclosure in the twin cities, specifically to ensure that homes that are in foreclosure are properly maintained, and taxes/assessments paid on a timely basis until the home can be sold. We are also participating this fall in an education seminar with lenders, non profits and local governments for counselors and borrowers to address this issue. We have a designated contact for our Minnesota non-profit partners to contact for inquiries about vacant properties and how to once again make them available for new homebuyers.

- We are working with many partners at the local government and non-profit agencies to provide as many resources as possible to this issue. Wells Fargo was one of the founding members of the Minnesota Homeownership Center which ensures that our customers are making informed decisions. In the current situation, we are supporting the Minnesota Homeownership Center's pre-purchase and post-purchase counseling as well as mortgage foreclosure assistance with extra grants. Through a network of local community agencies throughout the state, the Home Ownership's Foreclosure Prevention Program can provide counseling, advocacy, referrals to additional resources and other assistance to families facing foreclosure. The Center's promotion of community messaging to encourage homeowners to contact their servicer in the event of financial stress plays an important role in early intervention.

- We are the largest investor in the Family Housing Fund LLC that was created to assist with foreclosure in north Minneapolis. Part of these funds will assist the Greater Metropolitan Housing Corporation (GMHC) in buying and remediating abandoned or foreclosed properties and placing them back on the market for resale. We are working with Minneapolis non-profit organizations, including GMHC, Dayton's Bluff and 7th Street/Fort Road Federation to have properties in foreclosure donated or discounted by the investor.

- We are working with Minneapolis Neighborhood Housing Services to examine refinance options homeowners who have mortgage products that could soon put them into foreclosure into a better product. We have also established a dedicated toll free number for foreclosure counselors assisting customers that are delinquent: 877-216-8448.

Customer Education

To reach out to potential new non-prime borrowers or those refinancing, we launched our Steps to Success℠ program in mid-2006. This free program provides access to tools, tips, and resources that can help them manage their money, products that can make late payments a thing of the past, advice on getting the most from their bank, and an easy-to-read credit report.

Wells Fargo also takes very seriously Congressman Ellison's call for more financial literacy and that is a priority Wells Fargo has had since the mid 1990's. In 2004, Wells Fargo launched *Hands on Banking* is a financial education program that teaches the basics of good money management. Developed by Wells Fargo as a free public service, it is available on the Internet, CD-ROM, and printed curriculum for four age groups – Kids, Teens, Young Adults, and Adults – with no commercial content. The program is in both English and Spanish and has been approved for use by many state Boards of Education. Wells Fargo has partnered with the following organizations in Minneapolis to use the program with their clients: Pillsbury United Communities, Project for Pride in Living's Learning Center, the City of Minneapolis Hosmer library located in the Phillips neighborhood, and with the Jerimah Project staff at their Minneapolis Learning Center.

In closing, let me reiterate that Wells Fargo is firmly committed to continuing to lead the industry in advocating and conducting fair and responsible lending and servicing. We know that it works. It is critical that all mortgage providers and servicers live by principles that eliminate troublesome practices and help consumers through challenging times – this includes adhering to the new national guidance which has recently been enacted.

As part of Wells Fargo's long-standing commitment to the communities of Minneapolis and St Paul, we will remain committed to working with borrowers to find alternatives for each of their individual situations.

Thank you again, Chairman Frank, Congressman Ellison, for the opportunity to testify today. I look forward to your questions.

Wells Fargo Home Mortgage is part of Wells Fargo Bank, N.A. and Wells Fargo & Company, a diversified financial services company with $540 billion in assets. Wells Fargo Bank, N.A. is the only bank in the U.S., and one of only two banks worldwide, to have the highest credit rating from both Moody's Investors Service, "Aaa," and Standard & Poor's Ratings Services, "AAA."

WELLS FARGO

Wells Fargo & Company Responsible Servicing Principles for Residential Real Estate Lending

Wells Fargo's vision to satisfy all our customers' financial needs and help them succeed financially includes helping as many people as possible achieve and maintain the dream of being a homeowner. We have long applied responsible lending principles in creating homeownership opportunities for consumers across a wide credit spectrum. Similarly, we have long adhered to the responsible servicing practices summarized below to help customers handle the financial aspects of owning a home.

Wells Fargo services the loans it originates, as well as loans acquired from other lenders. The majority of these loans are owned by investors who provide guidelines we must follow in servicing them. We continuously collaborate with our investors to introduce helpful solutions for our customers while complying with our contract commitments.

A home is often a customer's most valuable asset. We proactively help our customers manage and protect their homes. A number of obligations accompany homeownership: making mortgage payments, paying property taxes, maintaining insurance, and repairing and preserving the home. We strive to make meeting these responsibilities as easy and convenient as possible.

The vast majority of our servicing customers make all of their mortgage payments on time. For customers who encounter financial difficulties and fall behind on payments, our goal is to help them keep their homes whenever possible. This support is a key factor in the recognition we receive for our top-tier servicing practices from Fannie Mae, Freddie Mac and HUD, as well as from private investors and rating agencies. Our efforts are driven by the understanding that all constituents in the lending cycle benefit when homeownership is preserved.

Our Responsible Servicing Principles

We approach every interaction from the *customer's* point of view – putting *his or her* needs first.

Our goal is to build a bridge to our customers based on respect and attention to individual needs. When we connect with a customer – via phone, mail or online – we treat him or her as a person, not a loan number.

- We do not sell customer information to third parties, and do not share it with outside parties who may want to market products.
- We continuously strive to improve our processes.
- We promptly research and resolve complaints.
- If we err, we do what is right for the customer.

We work hard to have our customers know that we appreciate them and value their business.

We *provide clear, simple and timely information* to consumers, understanding how complex homeownership and financing can be.

Home financing – and all that entails – is second nature to those who work here, but it isn't for many customers. We want to help our customers, and understanding them is the first step in that mission.

- We strive for deeper insight so we can anticipate our customers' needs and proactively serve them.
- We make it easy for our customers to access and use a bounty of helpful information through clear, detailed mortgage statements, and our comprehensive website.
- Our expert service representatives are standing by to answer questions, resolve issues and make it comfortable for customers to contact us, especially when they experience financial challenges.

We believe our customers deserve a dedicated and knowledgeable service team; *we strive to hire and retain the best*.

It is our responsibility and privilege to help our customers, and our team members are prepared to do that professionally. We train our team members extensively, monitor performance and routinely provide feedback to them to ensure they are doing the best job they can. It is because of our dedicated and expert team members that we are consistently industry-recognized as a top servicer.

We provide tools, services and information that *help our customers manage their credit*.

Disciplined money management is key to better credit management and a brighter future. We offer education programs – both at Wells Fargo and through local organizations and credit counselors – that can help our customers better understand money management, their credit reports and the importance of maintaining good credit. We provide free tools and advice to help customers on this journey, and to help them make managing their money easy and routine.

We believe in homeownership, and *do all we can to keep people in their homes*.

Homeownership builds communities and families, and is a key contributor to personal success. We have an excellent track record of helping borrowers stay in their homes even when they experience financial difficulties.

- We are committed to contacting customers early and often who need assistance, and actively work with him/her to help them avoid delinquency.
- Once we determine that a customer can't make payments, we immediately work with the customer to find potential solutions. We recognize that all customers have unique financial situations, and options are reviewed case-by-case.
- We foreclose only as a last resort, and typically stay with the customer up to the home's final sale. As a result, our foreclosure rates historically are below industry averages.

Wells Fargo remains committed to living by *fair and responsible lending and servicing principles* that eliminate questionable practices and ensure consumers are treated with respect. We are there for our customers in good times and in bad. We constantly work with all the participants in the housing finance industry to find ways to expand and preserve homeownership.

We believe in making the dream of homeownership achievable and helping our customers to sustain the dream.

WELLS FARGO HOME MORTGAGE

A rate adjustment can mean higher mortgage payments.
Talk to us before your rate adjusts.

John A. Sample
123 Main Street
New York, NY 10014-4438

Call 866-398-7556

Dear <first name ><last name>:

Because we value you as a Wells Fargo Home Mortgage customer, we take pride in doing all we can to ensure your home financing meets your needs. We're writing to let you know that the rate on your mortgage is scheduled to change soon. You have an adjustable-rate mortgage (ARM) with an interest rate that changes periodically. So, when your rate changes, your monthly payments will change too. This could amount to a significant payment change for you. The illustration to the right shows how an interest rate adjustment may impact the monthly payment.

We're Here To Help You Now

Since a change may present concerns and challenges for you, we'd like to help you better understand your home financing options as soon as possible. And because Wells Fargo Home Mortgage is a name you already know and trust, we'll make it easy for you to talk to us about your unique financial situation. Rely on our team of adjustable-rate mortgage specialists to work closely with you to find a solution.

Be On Top Of Your Home Financing

Whether you have a plan of action or need assistance in deciding what's right for you, we're here to help you with your adjustable-rate mortgage. And there's no reason to delay — our specialists are ready to help you develop a plan for your particular situation.

Make A Smart Move — Call Us Today

Before your mortgage payments change, understand the options Wells Fargo can offer you. Call us toll-free at 866-398-7556 Monday – Friday, 8 a.m. – 8 p.m. and Saturday 8 a.m. – 2 p.m., Central Time and speak to a Wells Fargo adjustable-rate mortgage specialist.

Sincerely,

Leesa Whitt Potter

Leesa Whitt-Potter
Senior Vice President
Wells Fargo Home Mortgage

P.S. Don't delay. Call 866-398-7556 now before your adjustable-rate mortgage changes.

This illustration shows how a rate adjustment may increase monthly payments on a $xxx,xxx mortgage.*

	Current ARM Loan	Loan After Adjustment
Interest Rate	X.XX%	X.XX%
Monthly Payment (Principal and Interest)	$XXX.XX	$XXX.XX
Monthly Payment Increase		$XXX.XX

*The above illustration is based on an ARM that adjusts every six months after the initial 2-year fixed-rate term with a change date of 3/9/07. The actual impact to your loan's rate at the next adjustment will depend on your loan's terms, remaining loan balance and the current interest rate in effect on the rate change date.

Understand yourfinancial options.
Call us today toll-free
866-398-7556 Central Time
Monday – Friday: 8 a.m. – 8 p.m.
Saturday: 8 a.m. – 2 p.m.

EQUAL HOUSING LENDER

Testimony on the Effect of the Foreclosure Crisis on Twin Cities Communities and Neighborhoods before the House Committee on Financial Services by Timothy E. Marx, Commissioner Minnesota Housing Finance Agency

August 9, 2007

Mr. Chair, Representative Bachus, and members of the Committee, I am pleased to testify today about possible solutions to the dramatic increase in foreclosures in Minnesota and in the Twin Cities region.

Introduction

I am Tim Marx, Commissioner of the Minnesota Housing Finance Agency (Minnesota Housing). Minnesota Housing is a state agency that serves as the state's affordable housing financial institution. We invest $1.5 billion of federal, state, and agency resources every biennium to affordably house Minnesotans. Minnesota is proud of its affordable housing record built in partnership with government at all levels (federal, state, and local), the private sector, foundations, and a broad network of nonprofit and faith based delivery partners. This partnership has resulted in Minnesota having the highest homeownership rate in the nation, 75.8%, and having a low percentage of its households (12% or 12th lowest among the states) with critical housing needs as measured by affordability. In addition, Minnesota has nation leading efforts to prevent and end homelessness and to close the minority homeownership gap. The ability of this partnership to maintain and improve on this record, however, is being challenged by the dramatic increase in foreclosures and their impact on individuals, families, and communities across the state.

In my testimony, I will offer three suggestions for what the Federal Government and Congress can do in response to the dramatic increase in foreclosure which Minnesota is confronting: (1) strengthen the Mortgage Revenue Bond (MRB) program; (2) provide funding for homebuyer education and foreclosure prevention; (3) increase funding for community revitalization efforts through the Home Investment Partnership (HOME) and Community Development Block Grant (CDBG) programs.

My testimony does not directly address the various proposals to regulate predatory and other unsound lending practices, as Minnesota Housing is not a regulator of financial practices. Our focus is on successful homeownership lending and foreclosure prevention. As the Committee deliberates on various proposals to regulate lending practices, we suggest the Committee work to strike a balance between preventing predatory and unsound lending practices and maintaining a sufficient and affordable supply of mortgage capital to finance homeownership opportunities for households with low and moderate incomes

1. <u>Strengthen the Mortgage Revenue Bond (MRB) Program as an Alternative to Unsound Financial Products</u>.

In 2006, Minnesota Housing purchased 2,784 first time homebuyer mortgages totaling over $341 million. Fifty-four percent of the homebuyers had incomes at or below 50% of the applicable median income; 99% were at or below 80% of the applicable median income.

At Minnesota Housing our $1.4 billion first mortgage homeownership loan portfolio is performing well while at the same time being targeted to the lower end of the eligible income spectrum – our average 60+ day delinquency rate for 2006 was 2.75% compared to our Mortgage Bankers Association benchmark rate of 2.97%. This is primarily because we, and our delivery partners, focus on long-term sustainable homeownership. We do not offer unsound lending or exotic mortgage products, and our loans are underwritten to Fannie Mae A paper standards. Additionally, our principal MRB programs constituting one-third of our lending volume require homebuyers to complete homebuyer training.

MRB loans are a positive alternative to unsound lending products, especially when paired with other tools to enhance affordability, such as downpayment assistance.

Congress can strengthen the MRB program by repealing the ten year rule that prohibits MRB issuers from reusing loan payments received more than 10 years after the underlying bond was sold for additional home mortgages. Repeal of this tax law would result in over $195 million of additional lending authority that would be available over 2007 and 2008 -- enough to fund over 1,500 additional mortgages for first-time homebuyers. Minnesota's Third District Congressman, Jim Ramstad, worked for repeal of this rule in the last Congress, and continues to work with Ways and Means Chairman Rangel and Select Revenue Subcommittee Chairman Neal on repeal.

Congress can also increase the MRB resource by increasing the private activity bonding cap to allow issuers to provide more mortgages.

2. <u>Fund and provide incentives for homebuyer and foreclosure prevention counseling</u>.

It is clear that predatory and unsound lending occurs when borrowers do not understand the risks involved. Many first time homebuyers weren't around during the days of double-digit interest rates and high defaults, and have not experienced a period when real estate appreciation was not the norm.

Minnesota supports homebuyer counseling, appropriating $1,730,000 to Minnesota Housing for supporting homeownership, counseling and training. This training is an important factor in Minnesota Housing's favorable loan performance.

For homebuyers who are in, or at risk of foreclosure, we provide Foreclosure Prevention Assistance Program funds through fifteen administrators across the state that make deferred loans of up to $5,500 to eligible borrowers to help them keep their homes. The total 2006-07 funding for this program is $597,000.

The state is also making an additional $500,000 of funding available for an early intervention, targeted outreach effort directed at homeowners with subprime adjustable rate mortgages and homeowners in areas that are projected to suffer high foreclosure rates. The effort will focus foreclosure prevention efforts through direct contact with homeowners before they become delinquent or get too far behind in their mortgage payments.

The federal government can support these local efforts by providing increased funding for homebuyer counseling.

The federal government can also provide incentives that will increase resources for counseling without cost to the Treasury. For example, the National Financial Literacy Act of 2007, sponsored by Representatives Ellison, Johnson and Carson (HR 2840) would allow the direct support by a financial institution of a qualified community-based financial literacy program to be taken into account in assessing the institution's community reinvestment act (CRA) record of meeting a community's credit needs.

3. Fund Community Revitalization Efforts.

The prevalence of foreclosed properties in several neighborhoods in the Twin Cites is a clear and immediate threat to their vitality. In response, the Foreclosure Prevention Funders' Council was formed by the Family Housing Fund under the leadership of Elizabeth Ryan from the City of Minneapolis. The council is comprised of representatives from both the cities of Minneapolis and St. Paul, Dakota County, Minnesota Housing, the Family Housing Fund, Fannie Mae and several other not-for-profit organizations. The council has established a number of working groups to focus on its three primary goals:

- Identify existing residential foreclosures to determine the causes of foreclosure.
- Coordinate existing financial resources to focus on residential foreclosures.
- Create new financing and innovative remediation and rehabilitation tools to address the problems associated with increased foreclosures and with vacant and boarded buildings.

In response, Minnesota Housing has awarded $11 million for acquisition, rehabilitation, and resale of foreclosed properties on Minneapolis' north side, and $500,000 to St. Paul for the same purpose. The goal is to stabilize these neighborhoods before they deteriorate further.

The federal government can support these local efforts by increasing HOME and CDBG funding that can be used by the states and communities as they determine best for this purpose.

I urge Congress to continue to robustly fund housing programs that can be used to provide affordable homeownership -- programs like CDBG and HOME -- and to require HUD to provide the greatest flexibility possible under the statutes to HOME grantees to provide homeownership in ways that offer a real and affordable alternative to very low-income people who cannot qualify for standard mortgage products. Any new programs, like the National Affordable Housing Trust Fund, should also provide flexibility to grantees to try new, affordable approaches to providing homeownership to those with few or no options in the mortgage markets.

To the extent the government can support efforts to educate homebuyers before they enter into a mortgage loan, and the extent to which affordable financing alternatives are readily available, the incidence of predatory lending may decline.

Thank you for the opportunity to address the Committee on this important topic. I welcome any questions you may have.

Dante Rivera Testimony

My name is Dante Rivera. I have lived in the US almost 12 years. I live in the east side of St. Paul. I work in North Minneapolis at a roofing company. My wife, she works in a public school. I have 3 kids. The oldest is 11, my other daughter is 9, and the youngest she is 2 years old.

I buy my house almost, like, 8 years ago. I used to live in an apartment, but this guy sold the building, and the new guy said you have 2 days, you have to move out right away. So we driving to look for apartment, and I see this house for sale. I'm tired to rent, and I want to do something better for me and my wife.

When I buy the house, my first mortgage payments, they was $760. One year later, they send me a letter and tell me my payments will go higher, to $1025, and they send me to Option One Mortgage. They tell me, now you start to send the payments to Option One.

In 2004, at that time I got a little bit late on my payments. So somebody told my wife about a broker. I don't speak English perfect, you know. So I feel very uncomfortable for my wife and I to refinance the house alone, because maybe something small can be wrong and I don't know. But we have to do something to catch up on the mortgage.

My wife call the broker to make an appointment, and we coming over. We tell the person over there that we don't want money back, the only thing we want is to lower the payments. But the person over there told us we have to get some money back, and if everything go right for one year, we can go back and they will put the payments more low. Later I find out I have an adjustable rate mortgage. Our payments start at $950, but now they went up to $1,200 last year. The price of my house, it was $86,000. When they refinance, it goes up to $116,000. They charge us a lot of money to refinance the house.

I have a lot of problems with this loan company, Option One. One time, we send the money by Western Union to make it on time, but I send my payment for the next month by mail. 3 months later, Option One call to say that I am about 2 months behind. I tell them that I send the payments. But the payment from Western Union, I can't find the receipt, so I lose like $1,000. That happen last year.

Also, it's very difficult to communicate with them. When I call I get an answering machine. They say on the machine press 1 to make a payment, but there is no person. Other times I call but the person say you have to speak to someone else, then they put me on hold to wait for 30, 40 minutes. They put on the music, no one answer the phone, and I have to hang up. And everyone speak only English. Only one time I call there and get a person who speak Spanish, and she say she can't help me and put me on hold too.

My company shut down every year on December, so every time in January I have a hard time to send the payment- the payment is late. I usually catch up in February, but my electricity and gas are very expensive this year- sometimes I have to pay between $400 and $700 for a month in the winter.

We have to make the decision to send the mortgage payments or the bills, or they cut off our electricity and we will be cold. I also had to go out of state this year because my grandfather was sick.

When I got behind my payments, I call them at Option One to explain, but they don't answer. We send the payment for January and February late, but this time they send back the payments- they don't want to take them late. They send me a foreclosure notice.

In June, we try to speak to someone to fix the problem. We want to send $4,000 and to make an agreement with them, but nobody answer the phone.

About 2 weeks ago, this guy come and tell me I can try to refinance the house again with Option One and he can help me. I tell him I am working with ACORN and he tell me not to talk to anybody else, he is the one who can help me.

The sheriff come last week to give us the letter that they are gonna put the house on sale September 12. When the sheriff come, my wife is very scared. She crying, and she call to my job. I told her I am very tired to live in this house. Maybe I can move to an apartment to save some money.

When I buy this house, I think it was the big mistake of my life. I was in a hurry because these guys were coming every day to get us out of the apartment. If I have more time, I can find someone who speak Spanish to help me and I can understand better.

My name is Paul Satriano. I am a board member of Minnesota ACORN, and I also serve as the Treasurer on ACORN's national board.

I want to thank Chairman Frank for coming to Minnesota and for all your work in Washington -- holding hearings to shine a spotlight on predatory lending, putting the mortgage industry under a microscope, and pressing the Federal Reserve to do their job and issue rules to protect consumers from abusive lending practices.

I also want to thank Congressman Ellison for holding this hearing and for fighting for credit justice.

I was in danger of losing my own home to a predatory loan when I first joined ACORN seven years ago. Since then I have been working with ACORN to fight predatory lending. I'm proud of what we have accomplished and the progress that ACORN and others have made.

Together, we have put an end to credit insurance. We have gotten lenders to lower their closing costs and to shorten their prepayment penalties.

But new problems have developed. More and more subprime loans had adjustable rates. More and more loans were made where the borrower fell behind within the first few months. More and more homeowners found out too late that their mortgage payment didn't include taxes and insurance.

In Minnesota, when we see a problem, we like to do something about it. Just this year, the Minnesota legislature passed what we think is the strongest law in the country against predatory lending.

This was the second time in recent years that ACORN, the Minnesota Attorney General, and Legal Services have passed landmark legislation to protect innocent homeowners. In 2004, with the help of then state representative Keith Ellison, we passed the first state law in the country against foreclosure rescue scams. It became a model law for other states.

And ACORN is working to spread the new Minnesota predatory lending legislation to other states. We were excited when Congressman Ellison introduced a similar bill in Washington.

We know that your committee will be looking at a federal predatory lending bill and that the mortgage industry wants one national law that will pre-empt all the state laws.

We also want to see a national law and are committed to working with you throughout the process, but we don't want a national law to take away the protections we worked so hard to pass, or take away our state's ability to address new problems that come up, like we did with the foreclosure rescue scams.

And while we need to pass laws to protect homeowners from predatory loans, we also need to help those families who have already fallen prey to the loan sharks and who are facing foreclosure.

We believe that this crisis can be addressed, but there are specific things that need to happen.

In Minnesota we are fortunate to have an excellent network of foreclosure prevention counseling agencies, including our sister organization

ACORN Housing. However, our programs are not able to keep up with the demand for our services, much less expand to really meet the need that is out there, and many homeowners don't know that there is help available.

The Senate Appropriations Committee recently approved $150 million for the HUD Housing Counseling Program with $100 million of this specifically designated for foreclosure prevention counseling and outreach.

But the House has approved less than $50 million, with no money directed to foreclosure prevention. We need the House to support the $150 million in funding.

But no matter how good a foreclosure prevention program is, we still need the lenders to do their part in cleaning up the mess they created, and we need them to do something quickly.

That's why we are calling on subprime lenders and servicers to agree immediately to a voluntary foreclosure moratorium for three months on loans here in Minnesota.

And during these three months we want the mortgage companies to back up their talk with action. We keep hearing from the lenders how they don't want to foreclose on people's homes and how they only do it as a last resort, but homeowners say that the mortgage companies are still only giving them two options – sell the house or pay extra every month to catch up.

Mortgage companies need to agree to do more loan modifications, and not just on a case by case basis, but on a large scale, to help families stay in their homes with an affordable mortgage.

For people with adjustable rates who can't afford their payments because the rate went up, mortgage companies need to lower the interest rate and make it fixed.

In so-called stated income loans where the broker or loan officer lied about the borrower's income, the mortgage company should reduce the interest rate or principal or both, so that it is affordable.

And in cases where the homeowner fell behind because they had to pay their taxes and insurance separately, lenders need to redo those loans and include the taxes and insurance in the monthly payment.

During a three month foreclosure moratorium, we are willing to do our part and conduct a large-scale outreach program to reach homeowners who are facing foreclosure. According to Freddie Mac, half of all foreclosed homeowners never talked to their lender during the foreclosure process. In many cases, this is because they don't think the lender is willing to do anything to help them.

We will go door to door to find those homeowners, make sure they know about the second chance they are getting through the moratorium, and urge them to contact their lender or a housing counseling agency.

Thank you.

August 8, 2007

Sherrie Pugh Sullivan, Executive Director
Northside Residents Redevelopment Council

The Northside Residents Redevelopment Council is a 35 year old resident controlled community development council established in 1970 by residents of the Near North and Willard Hay neighborhoods after the 1968 rebellions. The two neighborhoods came together in an effort to rebuild the communities.

NRRC's commitment to rebuilding the fabric of the neighborhood began with civic engagement and a deliberate strategy focused on the development of affordable homeownership opportunities. In the 1970's the homeownership rates in the community were less than 25%. NRRC and two other non-profit partners, PPL and GMHC over almost 30 years have rehabbed existing homes and built new homes on the abundance of vacant lots (at one time almost 200 lots). This work was successful in changing the asset base of our community, so much so, that by the 2000 Census, homeownership rates in Willard Hay were at almost 60% and between 30% to 35% in the near North neighborhood.

During the time that NRRC and others were increasing the homeownership opportunities; there were a growing number of mortgage foreclosures in the mid eighties. In response to the growing number of foreclosures, NRRC and NHS came together in to create a response. The response was, the Mortgage Foreclosure Program which was funded by the Family Housing fund and today has grown into a state-wide network of organizations counseling and advocating for families facing foreclosures.

Our community has always battled sustainable homeownership simultaneously while building opportunities for families to build wealth. The initial wave of foreclosures in the communities was followed by an egregious wave of mortgage flipping in the late 1990's in to the new century. Over 800 cases were identified in the city of Minneapolis with the majority in North Minneapolis.

NRRC Mortgage Foreclosure Program in 2006
325 households Assisted
117 Households applied to the program for intensive case management

Who are the clients? They are families, individuals, seniors, young and old. They are good people reaching for the Minnesota Dream, Homeownership.

- Their median income is $31,149
- Their Average PITI is 1,206
- Average number of months past due at time of application is 5.2
- Average amount past due is $6,028

We know that there are many reasons for delinquency, but most cases are unemployment, loss of income, multiple refinances- predatory products

As consistent with our community demographics and the aggressive targeting of the community, 66% are African American.

An interesting change in the types of mortgage loans in the community is that over 85% of them are uninsured conventional mortgage loans with less than 9% FHA. This would have been the reverse 20 years ago.

Mortgage flipping in the 90's was not the end of our community's troubles. Sub prime lending became the standard with the new twist and appeal of Adjustable rate mortgages. In our community, a low income community has a diversity of cultural groups who traditionally see homeownership as a desirable goal, but one out of reach. The marketing of predatory lending, providing quick and easy financing swayed people who had thought there were no opportunities to believing that they had found the only way possible.
Our low income, diverse community had worked to change the paradigm of homeownership is now not just slipping, but has fallen back to where we were 30 years ago.

In the years of 2000 to 2003, we saw increased values in our community. North Minneapolis had lagged in appreciated values in the city. The value adjustment was followed by property taxes that were reflected in the 2006 and 2007 Real Estate statements coinciding with the ARM adjustments. Consequently, the value of homes has now reversed, and has lost $30,000 to $50,000 in value during the past two years. Yet, real-estate taxes projected from when values had increased are now up by 10%. If you're not affected by bad financing, the increase in taxes is challenging you. Example: a caller to our office said they were a Habitat for Humanity home owner and they were facing troubles with their mortgage. As the conversation went on, the issue was not the Habitat for Humanity mortgage; it was the increase in real estate taxes that potentially caused the loss of their home.

What is happening to our community over the past three years? North Minneapolis' 13 neighborhoods

The number of foreclosures from **2004 was 228** that increased **to 487 in 2005** and at the end **of 2006 the foreclosures were 693**.

Racial disparities play an impact in foreclosures in North Minneapolis

In a study done by the National Community Reinvestment Council - **Income is No Shield against Racial Difference in Lending**
There is no mistake that North Minneapolis has been aggressively targeted with predatory lending, mortgage flipping and the Adjustable Rate Mortgage – ARM's. The dangerously over priced lending products are flipping our neighborhoods. Many people of color are being ousted from the community through these products. We have gone though redlining in the 1960's – refusing to provide financing and insurance. Today, we face a new redlining financing products based on the greed of investors to make money on the backs of moderate income families and particularly families in the African American and Latino communities. These products have stripped family's dreams of wealth building and stability. Dan Shaaridan in **Assets for the Poor** talks about how there three ways that low income families can transition to wealth are building, they are through Education, Business and Homeownership. He also talks about the impact homeownership plays in crafting positive life changes for children of homeowners who will perform better in school, graduate, go to college, and avoid teen pregnancy and involvement crime.

Foreclosure impacts on families are .... Shame, Guilt, Embarrassment, feelings of not being smart enough. Families are taking the responsibility - but is it really all theirs? They were seeking the American Dream! The Minnesota Dream! Where home ownership is the highest in the country.

African American and Latinos are at most risk to get high cost loans or sub prime lending products. In North Minneapolis, the Willard Hay and Near North Communities, African Americans represent 63% of the population and Latinos are at about 10% and growing. The concentration of Predatory lending, sub prime loans and ARMs is in North Minneapolis, our community. We are experiencing a NEW type of RED LINING. This data is supported by the fact that in a recent study of the 10 worst MSA's for lending disparities nationally, Minneapolis was included.

Our community characterizes

The Near North and Willard Hay neighborhoods are two racially and economically diverse communities where African Americans represent the majority, but there are Whites, Asians, Native Americans and Latinos. Recent Immigrants, Liberian and Somali communities have chosen Near North and Willard Hay for homeownership in the past 5 years.

We are a community of cultural transitions from 1990 to 2000 the White and Black populations decreased as the Asian and Latino populations increased by 200%. Our home ownership rates, which in the 1960's were below 25% by 1990, we had achieved 265 in Near North and 57% in Willard Hay. This increase in homeownership continued and by 2000, Near North was up to 30% and Willard Hay was at 60%.

In 2004, the number of foreclosures started multiplying from approximately 400 and by 2006 we had reached over 600. This year alone North Minneapolis comprised of thirteen neighborhoods in the first quarter of the year has 384 of the city's 678 foreclosures. This compounded by the increasing number of Boarded and condemned properties; totaling 199 added to the 95 vacant properties places the livability of our neighborhood in jeopardy.

What happens in our community?

- Foreclosures often attract investors who see the opportunity to flip homes and make money quick.
- Foreclosed properties become vacant
- Vacant properties become targets for the copper stripping thieves
- Vacant properties become opportunity locations for criminal activities
- Decrease in property values - In north Minneapolis neighborhood values have dropped $30,000, which means the increased equity gained in 2000 has been wiped out.

In Minnesota, Sub prime mortgage defaults by February 2005 were at 7.8%, which increased in Feb 2007 to 16.8%, above the national average of 12.4. This is a prelude to greater foreclosures across the state where Minnesota is higher than the national average. The Joint economic committee report – Senator Charles Chumer – D. NY, Sheltering neighborhoods from the Sub prime foreclosure storm.

In closing, I have the following suggestions.

- Revitalizing the HUD FHA to a prominent role in mortgage financing again
- Putting a stop to predatory and sub prime lending must happen.
  We have taken the first step in Minnesota, but we need congress to act!
- Regulators must take a strong position in regulating lenders and holding them accountable
- The CRA 2007 bill needs to be passed.

Homeownership is important parts of building the fabric of a community, help us make this a real life opportunity for our families.

Testimony of Minnesota Attorney General Lori Swanson

Regarding Predatory Mortgage Lending and the Effect of Foreclosures on Minnesota

Before the United States House of Representatives
Financial Services Committee

August 9, 2007

Minneapolis Central Library
300 Nicollet Mall
Minneapolis, MN 55401

GOOD EVENING. MY NAME IS LORI SWANSON, THE ATTORNEY GENERAL OF MINNESOTA. CHAIRMAN FRANK, CONGRESSMAN ELLISON, THANK YOU FOR THIS OPPORTUNITY TO ADDRESS THE TOPIC OF PREDATORY MORTGAGE LENDING AND THE IMPACT OF FORECLOSURES ON OUR COMMUNITIES.

I. THE STACKED DECK AND LACK OF MARKET DISCIPLINE.

FORECLOSURES OCCUR FOR MANY REASONS, INCLUDING JOB LOSS, DIVORCE, ILL HEALTH, AND A MYRIAD OF OTHER FACTORS. IT IS NOW BEYOND DISPUTE THAT FORECLOSURES ALSO OCCUR WHEN HOMEOWNERS ARE PLACED IN PREDATORY MORTGAGE LOANS THAT THEY CAN'T BACK.

OVER THE YEARS, THE "AMERICAN DREAM" OF HOMEOWNERSHIP HAS BEEN THE WAY THAT MOST MIDDLE AND LOWER INCOME AMERICANS HAVE SAVED FOR THE FUTURE. TODAY, INSTEAD OF BEING A SAVINGS VEHICLE, THE HOME HAS BEEN TURNED INTO A FINANCIAL LIABILITY FOR FAR TOO MANY OF OUR NEIGHBORS WHO HAVE BEEN SOLD IMPROPER MORTGAGE PRODUCTS. MANY OF OUR NEIGHBORS LIVE PAYCHECK-TO-PAYCHECK. COLLEGE TUITION IS RISING, HEALTH CARE COSTS ARE SOARING, AND GASOLINE AND UTILITIES COST MORE, TOO. HERE IN MINNESOTA THE UNEMPLOYMENT RATE IS UP, AND GOOD PAYING JOBS ARE MORE SCARCE. AS A RESULT, MANY OF OUR NEIGHBORS ARE BORROWERING, NOT TO GET HEAD BUT TO GET BY. IN 2006, OVER 85 PERCENT OF PEOPLE WHO REFINANCED THEIR MORTGAGE TOOK CASH OUT TO PAY OTHER BILLS, SUCH AS CREDIT CARD AND HEALTH CARE BILLS.

BECAUSE MIDDLE AND LOWER INCOME AMERICANS ARE FINANCIALLY SQUEEZED, THEY ARE VULNERABLE TO DEFAULT WHEN THEY FACE SURPRISES

IN THEIR MORTGAGE DUE TO UNDISCLOSED INTEREST RATES OR FEES. AND THE COMPLEXITY OF THE MORTGAGE TRANSACTION CREATES AN ATMOSPHERE RIPE FOR FRAUD AND THE SALE OF UNSUITABLE PRODUCTS.

II. THE MINNESOTA EXPERIENCE.

IMPROPER SALES PRACTICES HAVE RESULTED IN GROWING FORECLOSURES. HERE IN MINNESOTA, WE HAVE SEEN MORTGAGE LOANS SOLD WITH LITTLE OR NO REGARD FOR THE BORROWER'S ABILITY TO REPAY THE LOAN AND THAT ARE UNSUITABLE FOR THE BORROWER'S FINANCIAL SITUATION.

THE MINNESOTA ATTORNEY GENERAL'S OFFICE WAS A LEAD STATE IN THREE OF THE COUNTRY'S LARGEST MORTGAGE LENDING ENFORCEMENT ACTIONS. THESE CASES INVOLVED ABUSES SUCH AS:

- MISLEADING BORROWERS INTO PURCHASING "TEASER" ADJUSTABLE RATE MORTGAGES WITH EXPLODING INTEREST RATES THAT WERE NOT ADEQUATELY DISCLOSED;
- PLACING BORROWERS IN "NO DOCUMENTATION" LOANS IN WHICH THE BROKER FABRICATED BORROWERS' INCOME OR ASSETS. IN MANY CASES, LENDERS DID NOT EVEN LOOK AT A PRIOR YEAR'S TAX RETURN TO CONFIRM THAT THE INCOME "STATED" ON THE APPLICATION WAS IN THE BALLPARK TO REALITY. IN MY OFFICE, WE HAVE SEEN BROKERS FALSIFY APPLICATIONS TO CLAIM THAT OCTOGENARIANS HAULED IN CASH BY MAKING BIRDHOUSES THEY DIDN'T MAKE, THAT A

GARDENER IN HIS EARLY 20'S MADE $6,000 PER MONTH AS A "LANDSCAPE ENGINEER," OR THAT A SUBURBAN COUPLE EARNED MONEY RENTING OUT A NONEXISTING APARTMENT IN THEIR HOME BASEMENT. IT IS NO SURPRISE THAT THESE BORROWERS DEFAULT WHEN THEY CANNOT AFFORD THE MONTHLY PAYMENTS.

SO WHAT HAS THIS MEANT FOR MINNESOTA? WHILE OUR STATE HAS HISTORICALLY HAD RELATIVELY HIGH LEVELS OF HOMEOWNERSHIP, WE NOW FACE HIGH LEVELS OF MORTGAGE DEFAULTS AND FORECLOSURES. THESE FORECLOSURES ARE OCCURRING NOT JUST IN OUR CITIES, BUT IN OUR SUBURBS AND IN RURAL AREAS.

THE NUMBER OF FORECLOSURES IN MINNESOTA HAS NEARLY DOUBLED IN THE LAST YEAR, AND NEARLY QUADRUPLED IN THE LAST TWO YEARS. IN 2006, THERE WERE OVER 11,200 FORECLOSURES IN MINNESOTA, UP FROM UNDER 6,000 IN 2005. IN RURAL MINNESOTA, THE NUMBER OF FORECLOSURES ROSE FROM 2,707 IN 2005 TO 4,168 IN 2006. IT IS EXPECTED TO REACH 8,700 THIS YEAR. THE SITUATION WILL WORSEN, NOT IMPROVE, AS MORE ADJUSTABLE RATE MORTGAGES HAVE THEIR INTEREST RATES RESET UPWARD, RESULTING IN HIGHER MONTHLY PAYMENTS. IN SOME RURAL MINNESOTA COUNTIES, NEARLY ONE HALF OF ALL LOANS MADE IN 2005 WERE SUBPRIME MORTGAGE LOANS. MANY OF THESE BORROWERS WILL FACE ECONOMIC DISTRESS WHEN THE TEASER PERIOD ENDS ON THEIR ADJUSTABLE RATE MORTGAGES.

THE IMPACT OF FORECLOSURES RESULTING FROM PREDATORY SALES PRACTICES IS DESTRUCTIVE.

IT IS DESTRUCTIVE FOR THE FAMILIES AND HOMEOWNERS INVOLVED, WHO END UP LOSING THEIR HOMES OR ARE TRAPPED IN EXPENSIVE AND UNSUSTAINABLE LOANS. FAMILIES FORCED FROM THEIR HOMES FACE A LACK OF STABILITY THAT AFFECTS OTHER PORTIONS OF THEIR LIVES, RANGING FROM THEIR KIDS' EDUCATION TO THEIR OWN JOBS. THEY FACE DAMAGED CREDIT, WHICH MAKES IT HARDER FOR THEM TO BUY OTHER PRODUCTS OR EVEN GET JOBS, RESULTING IN A DOWNWARD FINANCIAL SPIRAL. I RECENTLY MET WITH AN OLDER WOMAN ON A FIXED INCOME WHO IS NOW IN DEFAULT ON HER OWN MORTGAGE BECAUSE SHE LENT HER CHILD MONEY AFTER BEING VICTIMIZED BY A PREDATORY LENDER.

IT IS DESTRUCTIVE TO THE COMMUNITIES AND NEIGHBORHOODS INVOLVED, BECAUSE IT RESULTS IN THE DEVALUATION OF SURROUNDING PROPERTY AND LESS STABLE NEIGHBORHOODS.

AND AS WE NOW SEE FROM THE DAILY STORIES IN THE PRESS, IT IS DESTRUCTIVE TO OUR ECONOMY, FINANCIAL INSTITUTIONS, AND INVESTORS.

III. STATES NEED THE FEDERAL GOVERNMENT'S HELP.

CONGRESS CAN HELP.

FIRST, IT CAN PASS LAWS AGAINST PREDATORY MORTGAGE LENDING. AFTER I WAS ELECTED ATTORNEY GENERAL, I PUT TOGETHER A PREDATORY MORTGAGE LENDING STUDY GROUP TO RECOMMEND LEGISLATION, WHICH BECAME LAW AUGUST 1. THE LEGISLATION REQUIRES BROKERS AND LENDERS

TO VERIFY A BORROWER'S ABILTY TO REPAY THE LOAN AND OTHER EXPENSES, NOT JUST AT THE TEASER RATE BUT AT THE FULL RATE, BY RELIABLE DOCUMENTATION, AND IT PLACES A DUTY ON MORTGAGE BROKERS TO ACT IN THE BEST INTERESTS OF THE BORROWER.

WHILE STATES HAVE SHOWN LEADERSHIP IN ADDRESSING THIS CRISIS, THE SUPREME COURT HAS TIED OUR HANDS AS IT RELATES TO NATIONAL BANKS AND THEIR OPERATING SUBSIDIARIES. WE NEED THE FEDERAL GOVERNMENT'S HELP TO CLOSE THIS LOOPHOLE. CONGRESSMAN ELLISON AND CHAIRMAN FRANK, YOU BOTH HAVE BEEN ACTIVE IN THIS AREA, AND I COMMEND YOU FOR IT.

SECOND, CONGRESS CAN CONTINUE TO PUT PRESSURE ON FEDERAL REGULATORS TO RESPONSIBLY ADDRESS THIS CRISIS. ON JUNE 14, I TESTIFIED BEFORE THE FEDERAL RESERVE BOARD OF GOVERNORS TO ENCOURAGE THE BOARD TO USE ITS AUTHORITY UNDER THE HOME OWNERSHIP EQUITY PROTECTION ACT, OR HOEPA, TO REGULATE THESE PRACTICES. CONGRESS SHOULD CONTINUE TO PRESS THE BOARD TO DO SO AS WELL. CONGRESS SHOULD ALSO PRESS FEDERAL REGULATORS TO USE THEIR LEVERAGE OVER ENTITIES THEY REGULATE TO WORK WITH BORROWERS IN DISTRESS TO REACH EFFECTIVE LOAN RESTRUCTURINGS. THE LENDERS THAT HELPED CREATE THIS CRISIS BY DIRECTLY OR INDIRECTLY FINANCING THE SALE OF UNSUITABLE PRODUCTS MUST HELP TO RESPONSIBLY ADDRESS IT.

THANK YOU FOR YOUR TIME.

Statement of Richard M. Todd,
Vice President, Federal Reserve Bank of Minneapolis
Foreclosure Patterns and Impacts in the Twin Cities and Minnesota
Before the Committee on Financial Services, U.S. House of Representatives
Minneapolis, Minnesota, August 9, 2007

Introduction

Mr. Chairman and distinguished members of the Committee, I appreciate the opportunity to appear today to discuss the impact of foreclosures and abusive lending on individuals and neighborhoods in the Minneapolis-St. Paul area, and I thank Representative Ellison for bringing this hearing to Minneapolis. My duties at the Federal Reserve Bank of Minneapolis include oversight of our Community Affairs unit's efforts to foster fair and effective access to credit in low- and moderate-income communities. Thus, I am well aware that the issues we are discussing are urgent in the Twin Cities, where foreclosure rates have tripled or more in the last few years. Because you are hearing from others with direct knowledge of the resulting impacts, I will try to contribute by drawing, in part, on some pertinent research and analysis that I follow or have been involved in. I should point out, however, that my views are strictly my own, and not necessarily those of the Federal Reserve Bank of Minneapolis or the Federal Reserve System.

In the Twin Cities, the incidence of foreclosure is highest in our core cities, especially in neighborhoods where minority homeownership rose in the 1990s and a high percentage of households have subprime credit histories. Although foreclosure rates have been and remain the highest in these neighborhoods, foreclosures are occurring, and rising rapidly, throughout the metro area. Foreclosure rates may continue to climb, judging by the high percentages of risky mortgages already delinquent and the even higher percentage of risky mortgages expected to have large upward payment resets over the next two to three years. The impact of these foreclosures spreads well beyond the borrowers and lending organizations that are directly involved.

Foreclosure patterns

The topics of this hearing -- foreclosures and abusive lending – are related and yet distinct. Many foreclosures have been linked to mortgages that were disadvantageous for the borrower while very generous in lending fees and potential interest payments. However, not all abusive loans end in foreclosure, and foreclosures also happen without abusive loans, as when borrowers incur unexpected drops in income. As in other metro areas, the recent surge in Twin Cities foreclosures followed rapid growth in risky nontraditional mortgage products, such as loans with limited documentation, very low down-payments, or initially low monthly payments that escalate sharply after a few years. In some cases, these structures have been used to take advantage of borrowers, and in other cases the lenders or investors may have been the ones deceived. Sometimes the loan investors and the borrower may have jointly bet on continued housing appreciation, and when housing prices cooled, they both lost. In short, there are many abusive lending stories and many foreclosure stories, not just one.

But there are also patterns among these stories. My research with Drs. Michael Grover of the Minneapolis Fed and Laura Smith of Macalester College analyzes how foreclosure sales rates varied across census tracts in Hennepin and Ramsey counties in 2002.[1] We found that, as in other cities, foreclosures here were highly correlated with minority population share. However, when multiple factors were considered, the strongest relationship was between foreclosure rates and the percentage of adults in the neighborhood with impaired credit histories. The next most important factor in 2002 was the increase in (not the level of) of minority homeownership between 1990 and 2000. A youthful adult population also helped a bit in explaining where foreclosure rates were high. That is, foreclosures were high in low-to-moderate income areas where minority and young families, often with a history of financial stress, were trying to make the transition to homeownership. Their transitions were vulnerable, sometimes to aggressive marketers of high-priced risky loans, but also to factors such as illness or job loss.

Although we haven't repeated our earlier analysis in full, recent data indicate that the neighborhoods with the highest foreclosure rates have changed little, in location or characteristics, since 2002. In Hennepin County, where the data are most readily available, the areas with high rates of foreclosure sales changed only slightly between 2002 and 2005.[2] In addition, the location of neighborhoods where many adults have impaired credit histories changed little between 1999 and 2004.[3] Finally, very recent statistics provided by staff of the Board of Governors of the Federal Reserve System (Board) confirm many of the patterns I've mentioned. Using April 2007 data covering the majority of securitized, first-lien subprime and Alt-A mortgages, Board staff estimate that 5.5 percent of these mortgages in Hennepin County, Ramsey County, and some adjacent portions of the Fifth Congressional District are currently in foreclosure. The ZIP code areas with the highest percentages of subprime and Alt-A loans currently in foreclosure are in North Minneapolis (11 to 14 percent in foreclosure), a ring of neighborhoods surrounding downtown St. Paul (8 to 11 percent in foreclosure), and a handful of other Minneapolis-St. Paul neighborhoods (5 to 7 percent in foreclosure). Although foreclosure rates are highest in the core cities, some suburban ZIP codes with hundreds of subprime and Alt-A mortgages also have 5 to 6 percent of these mortgages in foreclosure, including parts of Brooklyn Park/Brooklyn Center; Fridley/Spring Lake Park; North Oaks/Vadnais Heights; Bloomington; Hopkins/Minnetonka, and Arden Hills/Mounds View/New Brighton/Roseville. Of course, subprime and Alt-A mortgages typically have higher foreclosure rates than other mortgages, so the foreclosure rates presented here probably overstate overall foreclosure rates, to different degrees in different neighborhoods.

What has changed a lot since 2002 is the number of foreclosures. Professor Prentiss Cox of the University of Minnesota Law School has tabulated sheriff's foreclosure sales in Hennepin County since 1988.[4] The annual number of sales cycled between about 800 and 1,500 from 1998 through 2004. In 2005 the number climbed above 1,600, and in 2006 it jumped 80 percent to more than 3,000. Similar 2005-2006 increases occurred in the rest of the seven-county core metropolitan

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[1] "Targeting Foreclosure Interventions: An Analysis of Neighborhood Characteristics Associated with High Foreclosure Rates in Two Minnesota Counties." Available at www.minneapolisfed.org/community/pubs/foreclosureinterventions.pdf

[2] See the analyses of Hennepin County foreclosure sales in 2002-2005 by Dr. Laura Smith's Macalester College urban geography students, at www.macalester.edu/geography/projects/courses/geog365/index.htm.

[3] See "Credit risk data may help target foreclosure mitigation" in *fedgazette*, September 2007, Federal Reserve Bank of Minneapolis (forthcoming).

[4] For charts depicting Professor Cox's and other local foreclosure sales data, see "Residential Foreclosure: A Wake Up Call for Real Estate Lawyers," a presentation by Elizabeth Ryan and Melissa Manderschied to the Hennepin County Bar Association, April 26, 2007. Available at www.ci.minneapolis.mn.us/cped/docs/foreclosure_presentation.pdf.

area. Based on data through May, it looks as if the number of sales in these seven counties will increase by 50 percent or more in 2007. Put another way, current trends suggest that seven-county foreclosure sales may reach 11,000 to 12,000 in 2007, as compared to about 2,100 in 2003 or 2002. Outside the seven-county core metro area, Greater Minnesota's foreclosure sales rose by almost 50 percent in 2006 and are projected to nearly double in 2007.[5]

Additional statistics provided by Board staff support the view that foreclosures may rise further. Using the data described above, Board staff examined 40,120 subprime and Alt-A first-lien mortgages in Hennepin County, Ramsey County, and nearby portions of the Fifth Congressional District. In addition to the 2,200 loans already in foreclosure, 1,580 (3.9 percent) are seriously delinquent (90 days or more) and another 3,652 (9.1 percent) are 30 to 89 days delinquent. Furthermore, monthly payments on about 15,000 of these loans (37 percent of the total) are scheduled to reset to significantly higher values by the end of 2009, including over 4,500 in the second half of 2007 and another 7,700 in 2008.

Foreclosure impacts

The impact of foreclosures can vary a great deal depending on the circumstances of the foreclosure. I will make two points related to work that the Federal Reserve Bank has been involved with. First, as shown in the accompanying map based on statistics provided by Dr. Laura Smith of Macalester College, the number of owner-occupied dwellings (those that are homesteaded for Minnesota property tax purposes) fell between 2005 and 2007 in many of the Minneapolis neighborhoods where foreclosure rates have been especially high. This undercuts one of Minnesota's key social policy efforts, the Emerging Markets Homeownership Initiative (EMHI).[6] My colleague, Minneapolis Fed Community Affairs Officer Jacqueline King, chairs the board of EMHI, whose objective is to close Minnesota's racial and ethnic homeownership gaps by significantly raising minority homeownership rates by 2012. To meet that objective, we need to do more than help minority households buy a home. We also have to prepare and support them to succeed as homeowners.[7] Until we do, EMHI will be swimming against a strong and rising tide of foreclosure in many of our most affordable neighborhoods.

Second, the neighborhood impact of investor-related foreclosures is often just as severe as foreclosures involving owner-occupants, but this significant category of foreclosures seems to get much less attention. Records from Ramsey and Hennepin counties suggest that 40 percent or more of sheriff's sales involve properties that are not owner-occupied. An analysis of Hennepin County Home Mortgage Disclosure Act (HMDA) data by my colleague Dr. Grover (attached below) shows that the percentage of Minneapolis mortgagors not planning to occupy their property began to escalate in about the year 2000 and more than doubled, to 19.5 percent, by 2005. In North Minneapolis, which has seen some of the highest rates of foreclosures in the state, the trend

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[5] See "Foreclosures in Greater Minnesota: A Report Based on County Sheriff's Sale Data," available from the Greater Minnesota Housing Fund at www.gmhf.com/foreclosure.pdf.

[6] For more information about EMHI, see "Update on Minnesota minority homeownership initiative," *Community Dividend* Issue 4, 2006, Federal Reserve Bank of Minneapolis, www.minneapolisfed.org/pubs/cd/06-4/initiative.cfm; or visit the EMHI web site at www.emhimn.org.

[7] For more on the importance of post-purchase success among vulnerable homeowners, see "Post-purchase counseling: An EMHI strategy to close homeownership gaps," *Community Dividend* Issue 4, 2005, Federal Reserve Bank of Minneapolis, www.minneapolisfed.org/pubs/cd/05-4/counseling.cfm.

toward non-occupying borrowers was even more pronounced. The percentage of North Minneapolis mortgages to such borrowers rose from an already elevated 13.6 percent in 2000 to over 31.3 percent in 2005. Allan Malkis and his colleagues at Northway Community Trust are currently conducting further analysis of the effects of investor-related foreclosures in North Minneapolis, and I look forward to seeing the results.

Conclusion

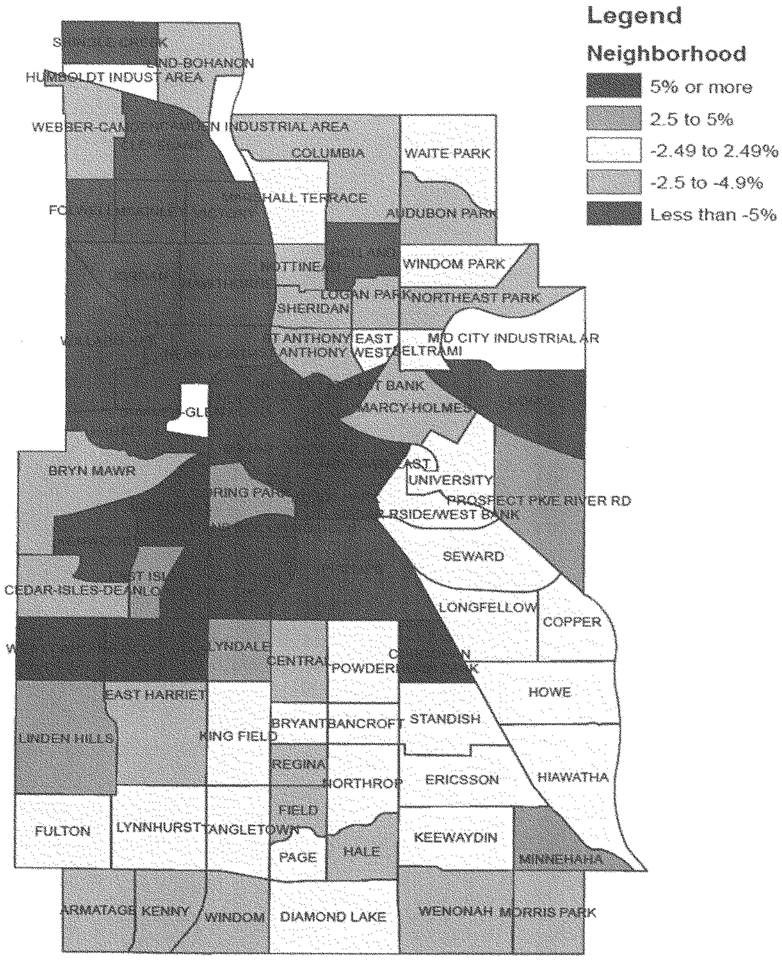
Foreclosures are a serious and rapidly escalating problem in Minnesota. The Federal Reserve Bank of Minneapolis is devoting significant resources to the issue. As we have in the past, members of the Community Affairs unit at the Federal Reserve Bank of Minneapolis are providing technical assistance and support to local foreclosure mitigation initiatives. We will continue to play that role and look for other ways to help.

Some of that assistance comes in the form of research and data analysis, an area where the Federal Reserve has some skill. From my experience with this work, I have concluded that access to mortgage- and foreclosure-related data like those discussed above has already been valuable in addressing foreclosure problems, and that better access could help more. As discussed in my paper with Drs. Grover and Smith and in an article by Dr. Grover,[8] foreclosure data and neighborhood credit score data can be used to target outreach, education, and counseling that aim to help mortgage borrowers succeed. With more complete and accessible public records, we might do more, such as monitor whether certain loan originators or mortgage brokers are associated with unaccountably high levels of foreclosures.

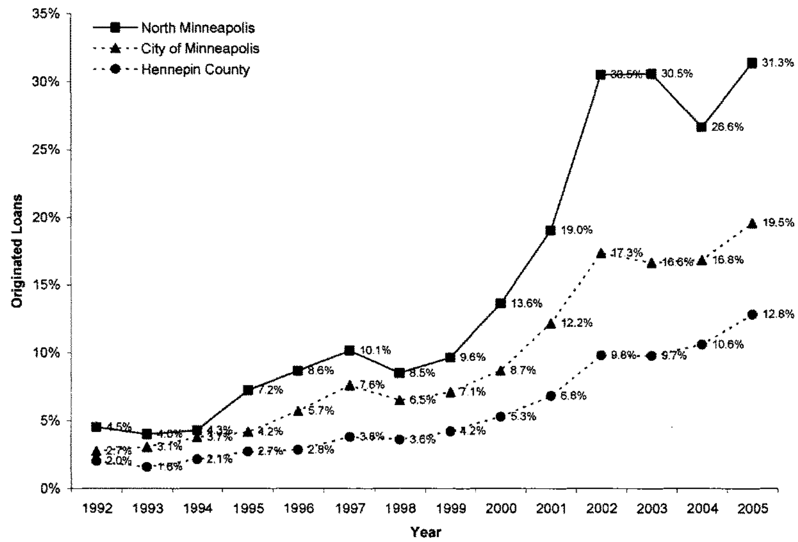
Data access is just one aspect of a broader issue: Are our foreclosure laws and practices well designed to cope with the twenty-first century mortgage market? To explore that question, our Community Affairs unit is organizing a workshop called "Fixing the Foreclosure System," to be held October 4 at the Federal Reserve Bank of Minneapolis. I welcome suggestions for issues we should consider, and I hope I will have an opportunity to share some useful outcomes from the event. Thank you.

[8] "Fed-led research reveals need for better Twin Cities foreclosure data," *Community Dividend* Issue 4, 2006, Federal Reserve Bank of Minneapolis, www.minneapolisfed.org/pubs/cd/06-4/foreclosure.cfm.

Change in the
Number of Homesteaded Properties, 2005
to 2007 by Minneapolis Neighborhood



Number of Originated Conventional Home Purchase Loans Where the Borrower Does Not Intend to Occupy the Property



Source: Analysis of HMDA data by Dr. Michael Grover, Federal Reserve Bank of Minneapolis.