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Introduction

Madame Chair, Ranking Member Capito, and members of the Subcommittee, I am Susan C. Keating, the President and CEO of the National Foundation for Credit Counseling. Thank you for the opportunity to participate in this afternoon's hearing to share the NFCC's perspective as a Housing Counseling Intermediary.

By way of background, the NFCC is the nation's oldest and largest network of traditional non-profit financial counseling agencies. We've been in existence for almost six decades, and have 106 Member Agencies that provide services in nearly 850 communities across the country. Those services are tailored to meet the needs and circumstances of the individual consumer. Because NFCC Member Agencies are community-based, we believe that they offer consumers some significant advantages. They are operated by local citizens with local leadership that understands their community's economic environment and the unique local factors that affect our clients' lives. Last year alone, NFCC Member Agencies provided financial counseling services and assistance to more than 3 million consumers.

The ability of NFCC Member Agencies to provide the full range of financial counseling and education services means that clients benefit from a holistic view of their entire financial situation rather than focusing on a single issue. Experience has taught us that consumers who are having trouble paying their mortgage are highly likely to have other financial problems, such as credit card debt, a car loan, student loans, etc. Attempting to address one issue, without addressing the others holistically, is a recipe for financial disaster for consumers.

The NFCC and Foreclosure Mitigation Counseling

The demand for housing-related counseling has climbed at an astounding rate over the past two years from about 179,000 sessions in 2006 to almost 617,000 in 2008 – an increase of 244 percent. The NFCC has played a significant role in helping homeowners avoid foreclosure. Calls to the NFCC's toll-free number have increased from an average of 24,000 per month to more than 39,000 per month. We created an online Homeowner Crisis Resource Center, including a Mortgage Reality Check, to help consumers assess their situation. We've widely circulated consumer tip sheets on how to find foreclosure mitigation assistance and other housing-related resources, including information to alert consumers of mortgage-related scams. In the past six months, we have distributed more than 5,000 DVDs with advice on how to avoid foreclosure. These materials are available in English and Spanish, and are free of charge to consumers.

I strongly commend Congress for recognizing the value of counseling in stemming the tide of foreclosures, and for providing the resources to make counseling services available to consumers at risk of losing their homes. By enacting and funding the National Foreclosure Mitigation Counseling Program, Congress has made it possible for thousands of American families to not only keep their homes, but to begin the process of rebuilding their financial lives and reaching the goal of financial security. As the largest HUD Housing Counseling Intermediary in the country, and as one of the largest recipients of funding under the NFMC Program, the NFCC is very proud of its ability to provide services across the country, especially in those areas of greatest need. However, there is much more that needs to be done.

I would note four specific areas for attention:

1. The depth of our current mortgage crisis in no small part reflects a national failure to have housing counseling readily available to our most vulnerable homebuyers. Looking back at the underlying causes of the economic meltdown, we know that a significant number of homebuyers bought homes they could not afford with mortgages they did not understand. The remedy is financial education and, specifically, pre-purchase counseling for first-time homebuyers and for those consumers who are considering subprime or non-traditional mortgages. The creation of the Office of Housing Counseling within HUD, which was championed by Members of this Committee, was passed by the House last week, and represents a major step forward.

2. If we are to sustain the effort of providing housing-related counseling, there must be continued and certain long-term funding for the NFMC program and for other housing-related counseling programs. Without funding, nonprofit agencies will not be able to provide the services to prevent homeowners from becoming at risk of foreclosure.

3. It is imperative that consumers have access to counseling services that meet their individual needs. The NFCC was critical of the Bush Administration's efforts to funnel all mortgage foreclosure prevention inquiries through a government-sanctioned hotline operated by a single Intermediary, which in turn utilized the services of only ten counseling agencies. Given the size and scope of the problem, it made no sense to limit the resources being used to address it when there were many other qualified HUD-approved agencies that were ready and able to provide assistance. While there have been some improvements, it is unfortunate that the new Administration has not recognized this weakness and is following the same path. When homeowners call the government-sanctioned hotline, they should be entitled to seek counseling services through a qualified entity that best represents their needs – whether that be the local NFCC Member Agency, a faith-based organization, or another community-based group. All available resources should be made readily available to consumers, and that has not happened.

4. Today, we are focused on *fixing* financial problems. Looking forward, we need to do more to *prevent* financial problems. The House of Representatives has passed legislation to protect consumers from abusive practices in the area of credit card and mortgage lending. However, the ultimate form of consumer protection in this area is broad-based financial education and literacy so that consumers better understand the services and products that are being offered so that they may choose the ones that best meet their needs and avoid the pitfalls of abusive practices and scams.

The Housing Crisis

Communities across the country are dealing with an historic meltdown in the housing market. Foreclosures have reached record levels – as many as 20 percent of all mortgages are underwater – and home prices have yet to stabilize in many parts of the country. While lower prices offer opportunity for some homebuyers, they also create the risk that foreclosures will continue to accelerate as homeowners discover that they owe more on their mortgage loan than their properties are worth.

The cause of the crisis was the combination of lenders making loans and offering mortgage money to practically anybody with heartbeat, and consumers who took out high-risk loans that they simply could not afford. Much of the lending and borrowing was premised on the notion that housing prices could and would only go up. Other mortgages, especially subprime loans, involved teaser rates that became unaffordable after rates adjusted upward. When the bubble burst, the real victims were the thousands of homeowners who did not understand the terms of their mortgages or the risks they were taking. Consider this: the NFCC's annual Financial Literacy Survey, recently released, revealed that 28 percent of Americans with a mortgage confessed that their mortgage terms, including such items as their monthly payment, interest rate, or loan length, turned out to be different than what they expected.

While I am not suggesting that the broader availability of pre-purchase housing counseling would have prevented the current crisis, I am certain – based on the experience of NFCC Member Agencies – that fewer Americans would be facing foreclosure if prospective homebuyers had received counseling before they took out a mortgage.

The National Foreclosure Mitigation Counseling Program

Has the National Foreclosure Mitigation Counseling Program made a big difference in people's lives? The answer is an unequivocal "yes." While I could provide you with literally thousands of stories of the people the NFCC has assisted, I will give you just two examples.

A couple in Sumter, South Carolina, were both, tragically, diagnosed with cancer seven months apart. Because of their medical expenses, they were three months delinquent on their mortgage and home equity loan. We were able to help them to get both loans modified, with significantly reduced interest rates, resulting in a savings to them of $375 per month.

A single parent in Thousand Oaks, California, went through a divorce and then lost her job. The Adjustable Rate Mortgage on her home reset, and she could not afford the new payments. In an effort to save her home, she turned to a "workout" company that charged her fees, but provided no assistance. She came to us. We helped her structure a household budget and modify her mortgage, saving her $600 per month.

The NFCC's approach to providing substantive counseling under the NFMC Program is this:

- Like any other sound money management session, foreclosure counseling should begin with an analysis of the client's overall financial circumstances and the development of a realistic budget. It is impossible to develop a realistic workout plan or design an action plan for long-term financial stability without this type of analysis at the start of the process.

- The most effective foreclosure counselors are heavily involved in their community and participate actively in local housing events. Keeping in touch in this way helps counselors learn about new opportunities and options for their clients. It also enables them to provide advice to potential new homeowners as part of pre-purchase counseling – which itself supports the stabilization of the housing market by reducing the likelihood of defaults by new buyers.

- Agencies must stay on top of changes in servicers' procedures and loan modification standards in order to identify the best options for their clients. Foreclosure counseling is a dynamic process. Options can change in response to new developments in the general economy and adjustments in government policies and programs.

The two biggest barriers to foreclosure mitigation are systemic failures on the part of some servicers and the unwillingness of some lenders to provide effective loan modifications.

Many servicers lack the infrastructure to provide effective updates on modification status. NFCC Member Agencies report that it can take several weeks, or even months, of faxes and phone calls to arrange for review of modification packets. As an industry, servicers have simply failed to establish uniform standards even for the fundamentals such as who counselors should contact for information and what departments are handling various types of cases.

In addition, workout options have often been inadequate with the result that, at times, 50 percent or more of modified loans are defaulting a second time. To be effective in staving off foreclosure, loan modifications generally need to reduce the consumer's monthly payment. The OCC reports that about 42 percent of modified loans resulted in lower payments last year, but that almost one-third lead to higher payments. By year's end, lenders appeared to become more realistic, and the percentage of modifications that reduced monthly payments exceeded 50 percent. Not surprisingly, the OCC also reports that consumers were far more likely to keep the modified loans current when their monthly payment was reduced.

Increased Funding is Necessary

Funding is an ongoing challenge for non-profit counseling agencies and NFCC Member Agencies are no exception. The challenge has grown more difficult in recent years as many traditional sources of funding – especially from the creditor community -- have reduced their levels of support. The funding challenge has been exacerbated by the recession as several traditional funders, such as Citicorp and Bank of America, have struggled with their own financial challenges.

Government grants, including funding for the NFMC Program, have helped finance the expansion in housing counseling services, but our Agencies remain under financial stress due to the increasing demand for overall counseling services. Without the dedicated funding for counseling from Congress, many agencies will not be able to keep their doors open and to provide a high level of service to the communities they serve.

While some economists believe that we have seen the worst of the current recession, there is a general consensus that recovery in employment and income will lag behind, and that the housing market may take longer to repair itself than other sectors. That suggests that the demand for housing-related counseling services will continue to increase for the foreseeable future.

Current proposed funding under the NFMC Program is projected to be sufficient to provide services to slightly less than 1.1 million homeowners – a significant achievement, but only about 21 percent of the estimated 5.18 million homeowners who were behind on their mortgage payments or already in foreclosure as of December 2008.

Absent additional funding, the counseling sector will not be able to meet the demand for housing assistance. That shortfall will increase the odds that foreclosures will climb faster than necessary.

Given this gap as well as the still fragile state of the economy, we need more money for counseling. We believe that Congress should provide an additional $500 million for the counseling component of the NFMC program and other foreclosure mitigation efforts. That funding would enable the counseling sector to reach additional homeowners and assist them with budget counseling and loan modification assistance.

<u>Needed for America: A New Commitment to National Financial Literacy</u>

Today, we are focused largely on damage control. But looking beyond the current crisis, the NFCC feels strongly that we need to do a better job of preventing personal financial problems through financial literacy programs that provide consumers with basic money management skills and the financial know-how to take charge of their personal finances and use credit responsibly. While good money management cannot offset the impact of external events such as losing a job or a costly health problem, it can help consumers to better weather economic ups and downs and enable them to avoid the types of financial mistakes that lead to mortgage defaults, bankruptcy, and general problems with credit. Better outcomes for individuals and families will collectively add strength to our national economy.

A recent *Wall Street Journal* article speculated that people tend to think they understand money because they've been handling it since grade school. "More likely," the *Journal* added, "they have a basic understanding of *spending*, which is why so many households are in such dire straits these days."

Whatever the reason, it is clear to us, from both our counseling experience and the NFCC's Financial Literacy Survey, that too many Americans lack the financial skills they need and too few are stepping forward to get help.

For example, our recent Financial Literacy Survey found that 41 percent of Americans grade themselves as a C, D, or F on personal financial knowledge; only 42 percent keep close track of their spending; and more than quarter say they do not pay their bills on time. As noted earlier, 28 percent of mortgage holders admit that their mortgages have turned out to be different than expected when they took out the loan. Numbers like these scream of the need for better financial education.

Toward that end, the NFCC believes that basic finance and money management should become a mandatory part of the standard school curricula in every state. Surveys show that financially literate consumers are more likely to make their loan payments on time and less likely to default. That should be a powerful incentive to everyone, especially creditors, to promote financial education. At a time when lenders are trying to reduce their risk, it is a good time for them to promote proven risk-reduction strategies such as financial education by offering incentives such as better credit terms to consumers who have completed such programs. Consumers, too, would certainly avoid problems if they took part in financial education *before* their finances deteriorated.

A number of organizations, including the NFCC, have been working on financial literacy for some time. Collectively, we've developed effective and relevant course materials and other education tools. What we don't have is a true *national* strategy or a national delivery system. If we are serious about financial education, we need to provide consumers as well as lenders and other third-parties involved with incentives to attend classes, secure funding to support education services, and also find a way to measure results so we know what works and what doesn't.

We are further convinced that the federal government can and must provide leadership in this area. Both Congress and the President support legislation to extend consumer protection by requiring new disclosure requirements for credit cards and restricting some practices that have made it easier for consumers to accumulate excessive debt and harder to pay it back. But no legislation can do more for consumers than they are willing to do for themselves. That is why we feel so strongly about financial education. Ultimately, financial education IS consumer protection, and it must be a priority.

Again, thank you for the opportunity to appear before you this afternoon, and I would be pleased to respond to any of your questions.