Prepared Remarks for Roy A. Bernardi Deputy Secretary of Housing and Urban Development at the Opening Ceremony 52nd IFHP World Congress

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Thank you. Good morning. For the past two years the American housing market has been turbulent. We had a boom in homeownership and equity wealth creation from 2000-2005. Homeownership grew to 70 percent of families in the United States. That was the highest level in our history. For people in our minority communities, homeownership rose to over 50 percent of families, again a record rate of homeownership. Equity grew by about 60 percent during that time, a phenomenal rate of growth.

Starting in 2005, and continuing to this day, the news has not been good. The boom became a downturn. We discovered that the housing market was a house of cards, unsteady, ready to tumble down. And it has...with dire consequences for hundreds of thousands of Americans and for our economy.

Sales are down. Data from the National Association of Realtors indicate that, nationally, home sales are 13 percent lower than last year.

Foreclosures are up and at historical levels. Now a record 1.2 million homes are in the foreclosure process (MBA data, second quarter, 2008). This is a two-fold increase over last year. There might be 2 million or more foreclosures this year. Delinquencies are up. During the three months ending on June 30th, almost 3 million homeowners, 6.4 percent of all homeowners, were behind on their payments, up 25 percent over last year.

Housing starts have been declining for many months. In August, the annual rate fell to 895,000 starts, the lowest level since January 1991.

Housing inventory is now at 11 months, much higher than the traditional levels.

The price of homes, which had risen at phenomenal levels during the first half of the decade, began to decline. The median price for a home has dropped 7 percent over the last year.

There now as many as 10 million Americans with mortgages that cost more than the value of their homes. We say that these people are "underwater"

The crisis is far from over. We may face further challenges in waves. Current projections have a large number of Alt-A and Option ARMs will reset into 2010. We have new households that will still need access to credit in order to buy down the excess supply. Serious credit market difficulties may persist.

In my country we have responded by directly addressing the source of our problems, by looking at each variable and providing on-point responses. So our efforts have been focused and measured.

Let me outline our governmental responses, then look at responses from the private sector.

First, let me speak of FHA. The governmental program in my department that concerns mortgages is called the Federal Housing Administration (FHA).

It was created by legislation in 1934 to provide stability in the housing market and to provide the means for low-income Americans to get a mortgage. FHA offers fixed-rate, 30 year mortgages, with the first payment the same as the last payment. The loan is backed by the full faith and credit of the United States government.

Unfortunately, over time, FHA's market share decreased substantially. Restrictions on amount of downpayment and loan limits made FHA uncompetitive. The introduction of subprime alternatives further reduced FHA's market share.

In the United States, our task is to help people refinance into mortgages that are predictable, understandable, stable and secure. We want people to keep their homes. So we have expanded our FHA program. We have also worked to make FHA more competitive.

We did this through a program called *FHASecure*. In August of 2007, and again in July of 2008, we opened FHA up to more borrowers. We expanded this refinance program twice to provide assistance to subprime borrowers with adjustable rate mortgages who are past due on their mortgages, and to restore liquidity and stability to the markets.

Since we started this program, FHA has helped approximately 380,000 families keep their homes by refinancing into a more affordable FHA-insured mortgage. We believe a total of about 500,000 families will refinance into more affordable FHA mortgages by the end of the year.

FHA plays a growing role in helping homebuyers purchase homes (as the subprime market has collapsed). Currently, FHA has 4.8 million insured single-family mortgages. Its share of the market is growing very fast, from 1.8 percent in 2006 to now about 14 percent at this moment, and rising. The refinance volume is 3-4 times last year's level. And we are ready for the new business.

Second, we have recently expanded our efforts with the *Hope for Homeowners* Program. This program, created by legislation supported by the President and Congress, will provide additional help to those who wouldn't have previously qualified for FHA. We just implemented this program two weeks ago. For families struggling to keep up with their mortgage payments, this program will be another resource to refinance into a loan they can afford. This program started October 1st and will end September 30, 2011.

Third, we support a clearer, more transparent mortgage process. The terms of the mortgage must be clear and understandable. So another step we have taken is to begin the process for adoption of new rules that would ensure borrowers understand the fine print. We will mandate that mortgage lenders provide a clear statement of all closing costs and expected monthly obligations under the loan. These new rules under the *Real Estate Settlement and Procedures Act* (RESPA) will ensure borrowers know what they have agreed to. That is just common sense, a good business practice, and it is the ethical thing to do.

Fourth, we have programs to address vacancy and blight. Our cities and states confront an enormous problem with the housing crisis. So FHA has announced a temporary policy to allow for the immediate sale of vacant foreclosed properties. Historically, FHA has prohibited insuring a mortgage on a home owned by the seller for less than 90 days. But, for one year, FHA will permit the immediate sale of foreclosed properties to legitimate borrowers wishing to use FHA-insured financing.

Congress recently mandated almost $4 billion in further funding to help our cities. This is through the *Neighborhood Stabilization Program* of the *Housing and Economic Recovery Act of 2008*. The money will be allocated through our Community Block Grant Program. My department will provide targeted emergency assistance to state and local governments to acquire and redevelop foreclosed properties that might otherwise become sources of abandonment and blight within their communities. These targeted funds will be used to purchase foreclosed homes at a discount and to rehabilitate or redevelop them in order to respond to rising foreclosures and falling home values. State and local governments can use their neighborhood stabilization grants to acquire land and property; to demolish or rehabilitate abandoned properties; and/or to offer downpayment and closing cost assistance to low - to moderate-income homebuyers.

So far, I have spoken of governmental efforts.

There are also efforts underway in the private sector.

First, there is the HOPE NOW effort. This is a voluntary, private sector effort by lenders to contact homeowners in trouble and help them stay in their home, often by renegotiating the mortgage. HOPE NOW has streamlined the loan review process to speed up loan modifications and refinancings. At the moment, 27 of the nation's biggest mortgage companies are participating, lending companies that service about 90 percent of the subprime loans. Nearly 2.3 million loans have been reworked since July 2007.

Second, there are efforts to expand housing counseling. Housing counseling is an effective way to prevent foreclosure or to help families refinance if faced with foreclosure. We have worked with housing counselors to help improve the mortgage process. We know that many foreclosures could have been avoided. We know many did not understand it. They did not know the terms of agreement. Protocols were unclear. And many borrowers did not know who to contact, and then, when they tried the original lender, discovered that the mortgage had been purchased by another company, or even another one after that. Sometimes it was unclear who owned the mortgage. But many borrowers who consulted housing counselors first in the process avoided the problems associated with foreclosure.

So we know that housing counselors are vital for the mortgage process. There are 2300 HUD-approved housing counselors in the United States. A few days ago, my department announced the release of $50 million in housing counseling grants. And the President has requested $65 million in his fiscal year 2009 budget for housing counseling. That is an increase of more than 150 percent since he assumed office.

In addition, recently $180 million was appropriated to Neighborworks for thousands of counseling agencies across the country.

So far I have talked about actions that directly deal with foreclosure. Perhaps I should also mention broader efforts to help our financial markets. Recent actions by Treasury and the Federal Reserve Board to shore up the marketplace have been necessary and will prevent further destabilization. Placing two of our Government Security Enterprises (GSEs) (Freddie and Fannie) in a conservatorship was absolutely the right thing to do. These GSE's held a large percentage of mortgages in the United States. We simply could not risk collapse of those GSEs. We simply didn't have a choice. Conservatorship has been a major step forward. It gave us the opportunity top dramatically improve oversight, and resolve the uncertainty and financial loss associated with Freddie and Fannie. And this move protected all involved.

The $700 billion economic assistance package just signed by the President was also essential. Credit must begin to flow again to business and American families. When credit is frozen, banks back away from providing new loans. So there must be liquidity to help people refinance out of mortgages they cannot afford and to support markets in desperate need of buyers.

We may need to do more. The problems in the housing market have proven to be deeper and more devastating than originally predicted. So we will need to monitor the situation and act with dispatch, if necessary.

But we do have one tool I have not mentioned...the marketplace of ideas. This crisis has generated extremely helpful commentary and analysis from those in the housing market and outside of it. We have learned much about ourselves, our institutions, and the national and global marketplace. That is the advantage of spirited commentary and a sharing of ideas...we can examine every aspect of the problems we face and ultimately gain stronger markets and institutions because of our willingness to share ideas and listen to others.

That is why I am so pleased to be here today. We have much to learn from you. And I appreciate the opportunity to share our experiences in the United States at this valuable global forum.

Thank you.