THE HOUSE COMMITTEE ON OVERSIGHT AND GOVERNMENT REFORM
Remarks by Raymond A. Skinner, Secretary
Maryland Department of Housing and Community Development
September 23, 2009

Chairman Towns, Ranking Member Issa, and Members of the Committee:

For the record, my name is Raymond A. Skinner and I am the Secretary of the Maryland Department of Housing and Community Development (DHCD). It is a pleasure to be here today to discuss the impact of foreclosures on minority households and communities in Maryland. I have provided written testimony that I would like to submit for the record.

This is a topic of grave concern to Governor Martin O'Malley, Lt. Governor Anthony Brown and the State of Maryland, because, as you shall see, while no part of our state has been immune to this crisis, it has hit hardest on those communities that are predominantly African American or Hispanic; and the effects in those communities have been most severe – disrupting families, destabilizing neighborhoods and undercutting the legacy that those hardworking families are able to leave to their children.

It is important to emphasize that last point. The face of foreclosure in Maryland is the face of hardworking families who sought only to share in the American Dream; to provide a better quality of life for their children; to contribute to their communities and to add to the cultural, social and economic vitality of the state. These people were victimized more often than not by careless, unethical or unscrupulous lenders who deliberately targeted minority families and communities for expensive, exotic and often fraudulent loans.

Many years ago, the National Geographic Magazine described Maryland as "America in miniature." The magazine was talking about the geography of our state, but they might also have been talking about our most precious resource – our people. And so, I believe Mr. Chairman that what we are finding in Maryland has significance for communities across our great country.

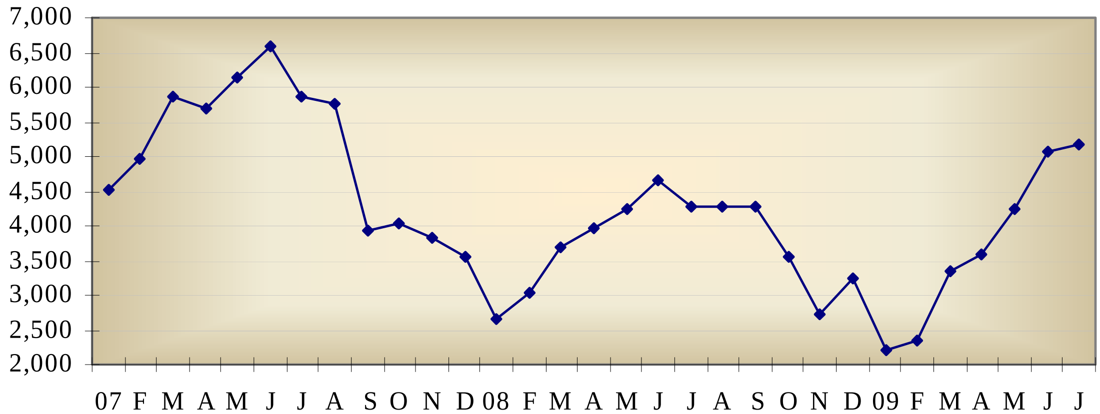
The economic crisis before us was prefaced by massive economic expansion and particularly an unprecedented growth in housing prices. In Maryland, average home prices grew by more than 120 percent from $163,000 in 2000 to $362,000 in 2007. In some DC suburbs, average sale prices grew past a half million dollars. Incomes could not by any means keep pace with this growth. Coupled with policies to help facilitate homeownership, exotic mortgages helped fuel the growth in the real estate market. For some, these mortgages were the only means to gain entry to the American Dream in such high cost environments. And as we have seen, this entry has become perilous for many, helping trigger what some economists are calling the Great Recession.

Maryland has by no means been immune to the waves of foreclosures impacting communities across the nation. Recent figures from RealtyTrac find that we have the 12th highest rate of foreclosure events in the nation. In August, 5,491 foreclosure filings were reported, which is an increase of 6.6 percent from the previous month and 70.7 percent over the prior year. A troubling statistic in Maryland is that notices of default continue to be trending upward with more than 2,900 last month alone.

The recent foreclosure data does provide some hope however. The statistics highlight that the number of notices of sales soared by 241.5 percent over the prior month to 2,162 events. This suggests that there is increasing confidence in the real estate market. Home prices are stabilizing in Maryland and the numbers of sales are increasing.

The strong growth in foreclosure sales as well as the continued high number of defaults caused Maryland's foreclosure rate to deteriorate from the 17th highest in the nation in July to the 12th highest in August. Unfortunately, this trend of increasing foreclosure events runs counter to the nation's which decreased slightly by 0.5 percent in August but were up 18 percent over the prior year.

EXISTING HOME SALES, MARYLAND
JANUARY 2007-JULY 2009



Source: Maryland Association of Realtors and Economy.com

FORECLOSURE EVENTS IN MARYLAND AND U.S., AUGUST 2009

Indicator	Notices of Default	Notices of Sales	Lender Purchases	Total
		Maryland		
Number of Events	2,947	2,162	382	5,491
Change (Last Month)	-16.3%	241.5%	-61.7%	6.6%
Change (Last Year)	37.3%	468.9%	-44.7%	70.7%
		U.S.		
Number of Events	138,224	144,113	76,134	358,471
Change (Last Month)	2.8%	4.1%	-12.7%	-0.5%
Change (Last Year)	16.1%	53.4%	-16.2%	18.0%

Source: RealtyTrac

FORECLOSURE INTENSITY AND RACIAL/ETHNIC PROFILES IN MARYLAND COMMUNITIES
SECOND QUARTER 2009

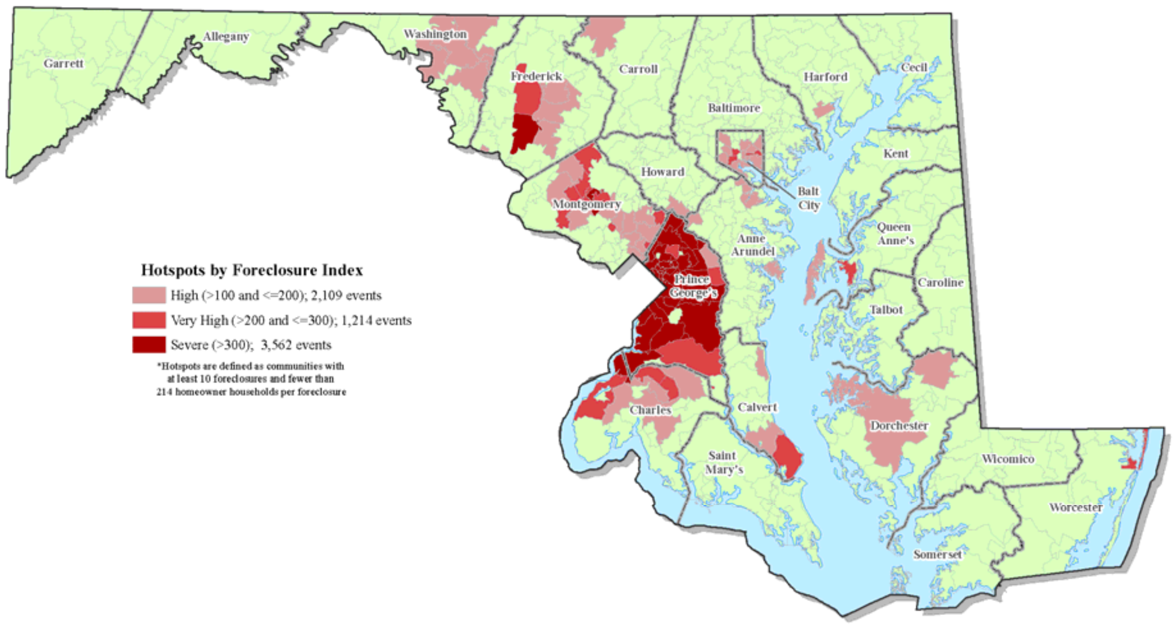
	Foreclosure Intensity			
Category	**Moderate**	**High**	**Very High**	**Severe**
Number of Households per Foreclosure (Avg)	363	156	87	54
Number of Foreclosures	2,435	2,109	1,214	3,562
Percent of Foreclosures	26.1%	22.6%	13.0%	38.2%
Race/Ethnicity of the Communities				
White	75.6%	58.8%	51.8%	25.7%
Minority	24.4%	41.2%	48.2%	74.3%
African American	15.9%	30.0%	33.5%	60.0%
Hispanic	4.1%	6.7%	9.1%	11.2%
Asian	4.7%	5.1%	7.0%	5.2%
Other	3.8%	6.0%	7.7%	9.2%

Source: DHCD, Office of Research

Foreclosures in Maryland are highly correlated with race. Baltimore City and Prince George's County, Maryland's two majority minority jurisdictions, account for 26.3 percent of the state's population but over the last 18 months have hosted about 42 percent of the state's foreclosure events. Foreclosures in Maryland are also highly concentrated within 102 "Hot Spot"[1] communities where during the 2nd Quarter of 2009, 73.9 percent of all foreclosures took place. Seventy four percent of the most severely impacted hotspot communities are in minority communities. Prince George's County's population is 63.5 percent African American and 11.3 percent Hispanic. The Twenty-eight "Severe Hot Spot" communities in Prince George's County accounted for 34.1 percent of all of Maryland's foreclosures. These hot spots are devastating because the concentration of vacant and for sale homes drives real estate values down further. More homes in the community become in danger of being underwater adding more fuel to the spiraling collapse of area home values. Homes sit vacant and deteriorating further impacting values and sales opportunities.

[1] A foreclosure *Hot Spot* is defined as a community that had more than ten foreclosure events in the current quarter and recorded a foreclosure concentration ratio of greater than 100. The concentration ratio, in turn, is measured by a foreclosure index. The index measures the extent to which a community's foreclosure rate exceeds or falls short of the State average foreclosure rate. An index of 100 represents the average foreclosure rate of 214 homeowner households per foreclosure across Maryland communities that reported more than 10 foreclosures in the second quarter.

FORECLOSURE HOT SPOTS IN MARYLAND
2nd Quarter 2009

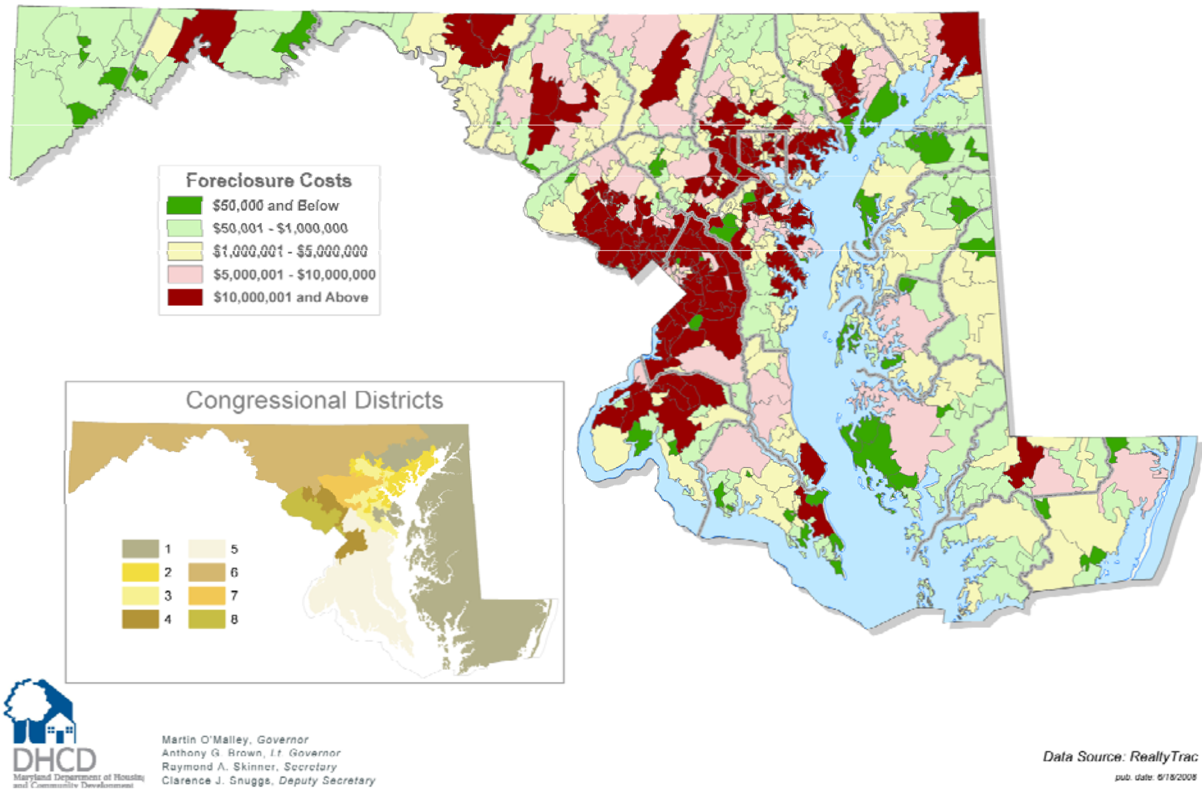


Source: RealtyTrac and DHCD Office of Research

The economic implications of foreclosures are devastating. Homeowners face the loss of accumulated home equity, deteriorating credit ratings, legal and administrative fees, and lower prospects in credit, labor, insurance and rental housing markets. The costs to lenders include the opportunity cost of principal and interest not yet received, servicing costs, legal costs, costs of property preservation and costs of property disposition. Property foreclosures also cause a decline in the value of the foreclosed house as well as the value of the neighboring properties. Reduced property values and the resulting lower property tax base, along with increased local government expenditures related to additional policing of vacant properties, contribute to the growing social costs of foreclosures.

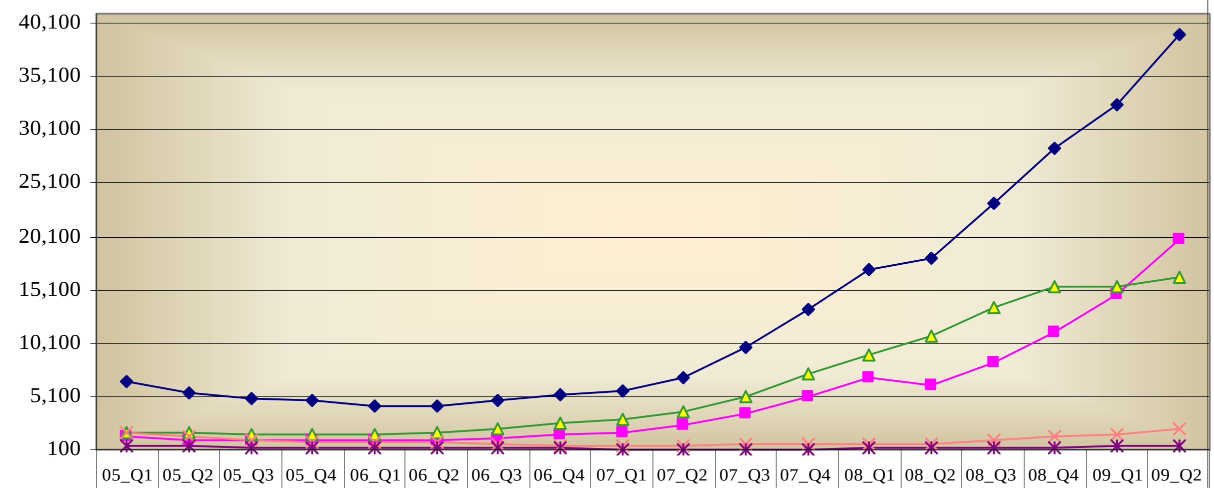
In 2008, DHCD conducted a study of estimated economic costs of property foreclosures in Maryland by Zip Code for calendar year 2007 using RealtyTrac, and ESRI data. Our analysis focused on the magnitude of the economic losses associated with property values, real property tax receipts, borrowers' additional administrative costs, and costs to the lenders. The estimated economic costs of property foreclosures in Maryland included $3.1 billion in the loss of property value, $32.3 million in the loss of local real property tax receipts, $96.9 million in various administrative charges to homeowners, and $790.9 million in losses to lenders. Therefore, total economic costs of foreclosures associated with property foreclosure events was an estimated $4.0 billion in 2007 dollars. Locally, in 2007, one quarter of the foreclosure events took place in Prince George's County. The economic loss there alone was estimated at $963.5 million. Given the increasing number of foreclosures in the last 18 months, the costs have increased substantially.

MARYLAND FORECLOSURE COSTS BY ZIP CODE
2007



Maryland's and the nation's foreclosure crises was set off by the resetting of the subprime and exotic loans. Some households with these loans had good credit and strong income and were able to refinance into a safer and sustainable mortgage product. Others, we have found, took out more debt than they had the ability to repay and that there was little that could be done except hope for a quick home sale. The context has changed however. As the economy deteriorated bringing job loss, foreclosures are taking on a different face. As of the 2nd quarter of 2009, the majority of the nation's foreclosures are now on prime loans.

NUMBER OF FORECLOSURES BY QUARTER
2005 Q1 TO 2009 Q2



	05_Q1	05_Q2	05_Q3	05_Q4	06_Q1	06_Q2	06_Q3	06_Q4	07_Q1	07_Q2	07_Q3	07_Q4	08_Q1	08_Q2	08_Q3	08_Q4	09_Q1	09_Q2
All	6,504	5,365	4,866	4,703	4,238	4,228	4,755	5,241	5,697	6,928	9,631	13,204	17,037	17,984	23,131	28,380	32,492	38,988
Prime	1,413	1,006	1,051	1,070	1,007	958	1,206	1,561	1,669	2,396	3,520	5,024	6,907	6,128	8,224	11,213	14,758	19,889
Subprime	1,738	1,659	1,578	1,570	1,577	1,653	2,001	2,534	3,013	3,679	5,159	7,175	9,028	10,836	13,438	15,392	15,405	16,224
FHA	1,669	1,296	1,043	871	747	795	719	474	390	411	636	657	719	686	979	1,310	1,599	2,008
VA	469	380	331	315	278	289	253	201	184	155	161	174	221	202	260	322	414	433

Mortgage Bankers Association: National Delinquency Survey

Unemployment continues to rise and in Maryland it has grown by 3.3 points over the last 18 months to 7.2 percent. This too is disproportionately affecting minority households. While African American residents in Maryland account for 29.8 percent of the state's population, they accounted for 51.2 percent of unemployment claimants in 2008. Coupled with a weak real estate market and no income, these households have had limited alternatives but foreclosure.

All of these trends are particularly devastating on the progress that has been made to work towards equity in achieving homeownership – the largest investment and wealth generating opportunity American's typically have. In 1990 in Maryland, 72 percent of white households owned a home compared to 43 percent for African Americans. The African American homeownership rate increased steadily during the 1990s and into the new millennium according to 2005 – 2007 American Community Survey Data which found that the rate reached 52 percent prior to the foreclosure crisis. It is also important to be cognizant that the foreclosures represent not just a massive loss of wealth and progress, but it handcuffs a household's ability to advance in the near future. Foreclosure devastates one's credit and to be able to borrow again to reestablish homeownership will take a long time for these households.

In Maryland, securing access to safe mortgages and helping minority households work towards the American Dream is particularly critical because minority households represent the state's growth. Between 2000 and 2007, Maryland saw white households decline by 29,457 while the number of minority households increased by 117,911 (for a net increase of 88,454).

I'm proud to say that our Department is working aggressively on this front to open the door for homeownership but in safe and sustainable manner. As one of 55 Housing Finance Agencies, we have access to tax exempt mortgage revenue bonds that we use to finance safe mortgage products coupled with downpayment assistance to help first time homebuyers purchase home. Each year, we help finance on average 2700 units of affordable rental housing and help 2000 households buy a home. In the 2007, 53 percent of the 4111 mortgage loans we financed helped minority households purchase a home. We dramatically outpaced private financial institutions which provided in 2007 just 30 percent of their mortgages to minority households according to HMDA data. Housing Finance Agencies like DHCD also do a better job of keeping households in their homes. As of March 31, 2009 our active single family indenture's delinquency rate was 6.43 percent. This is considerably less than the remainder of the country which for the same period was 8.80 percent. The success of our efforts to facilitate financial access to minority households underscores that banks and brokers can do a better job of providing sustainable equal access to credit. We are high performing agency but to respond to Maryland's foreclosure challenges, we have expanded our mission to incorporate homeownership preservation.

The Maryland HOPE Story

Maryland's response to the foreclosure and subprime lending crisis was early, proactive, multi-dimensional and focused on those communities that were hardest hit, which as we have seen were predominantly African American and Hispanic.

In June 2007, in response to the mounting number of foreclosures nationally and in Maryland, Governor Martin O'Malley created the Homeownership Preservation Task Force to study how the state could best respond and promote, protect and preserve homeownership. This effort was motivated by the understanding that ensuring that the state's hardworking families had access to affordable housing – particularly homeownership – is a key component of stable families, prosperous communities and an economically vibrant Maryland.

The task force was chaired by Department of Labor, Licensing and Regulation Secretary Thomas E. Perez and myself, as Department of Housing and Community Development Secretary. Meeting throughout the summer - and bringing together lenders, brokers, foreclosure attorneys, nonprofit organizations, local governments, consumer advocates and realtors - the task force issued its report in October of that year, identifying a number of key strategies. Those recommendations were put into effect in the following months, resulting in what the Washington Post described as "one of the most sweeping legislative and regulatory reforms in the country." For example, the governor introduced in the 2008 legislative session, and later signed into law, four emergency measures that created greater protections for homeowners and made Maryland's foreclosure process more transparent and fair.

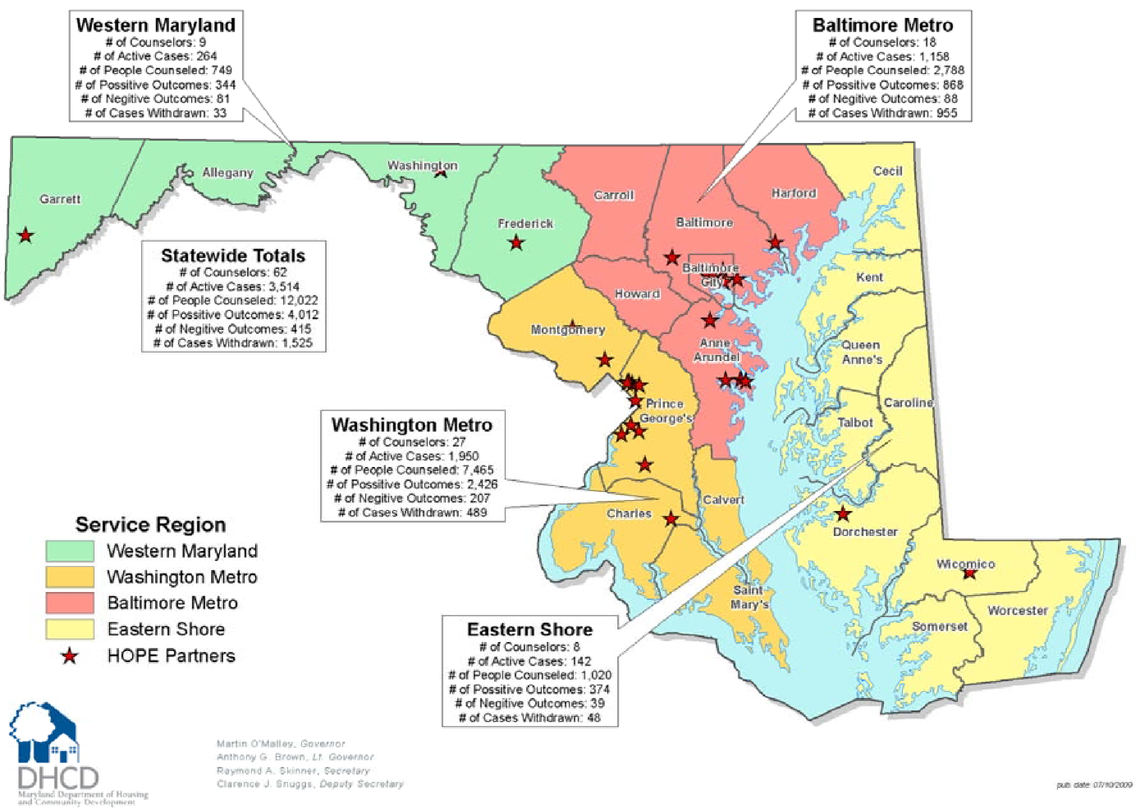
The reforms tightened lending standards by banning pre-payment penalties on mortgage loans; required lenders to assure that a borrower can repay a mortgage loan and to do so at the fully indexed rate for an adjustable rate loan and to document the borrower's income and assets; stiffened penalties against certain predatory lending practices and extended the process so that homeowners have more time to explore their options. Previously, the rules allowed foreclosure in a minimum of 15 days from the date of filing. Under the new statute, the process takes 150 days from default to sale. In 2009, the legislature approved an additional measure enhancing notice to renters when their landlord is in foreclosure.

In addition to those statutory reforms, Maryland created three solid programs under its Homeowners Preserving Equity (HOPE) Initiative to help homeowners who got stuck with some of those exotic, expensive, and in some cases fraudulent, loans at the height of the housing boom. The Lifeline Refinance Mortgage program provides a refinancing option to qualified Marylander's who may be facing financial difficulties after purchasing a home with an adjustable rate mortgage but who are not yet delinquent. The Bridge to HOPE Loan program provides qualified Maryland homeowners with short-term relief. And the Homesaver Refinance Mortgage program provides a refinancing option to qualified Marylanders who are no more than two months delinquent.

Maryland also invested significant resources into a new infrastructure to help beleaguered homeowners get safe, reliable, accurate and free information about their alternatives and the state resources in place to help them. The state established the Maryland HOPE Hotline and Web site and a statewide network of counseling agencies. In addition, we launched our statewide "Mortgage Late? Don't Wait!" advertising campaign to encourage homeowners to act as quickly as possible when they experience financial difficulties. This message has aired on Spanish language outlets and publications.

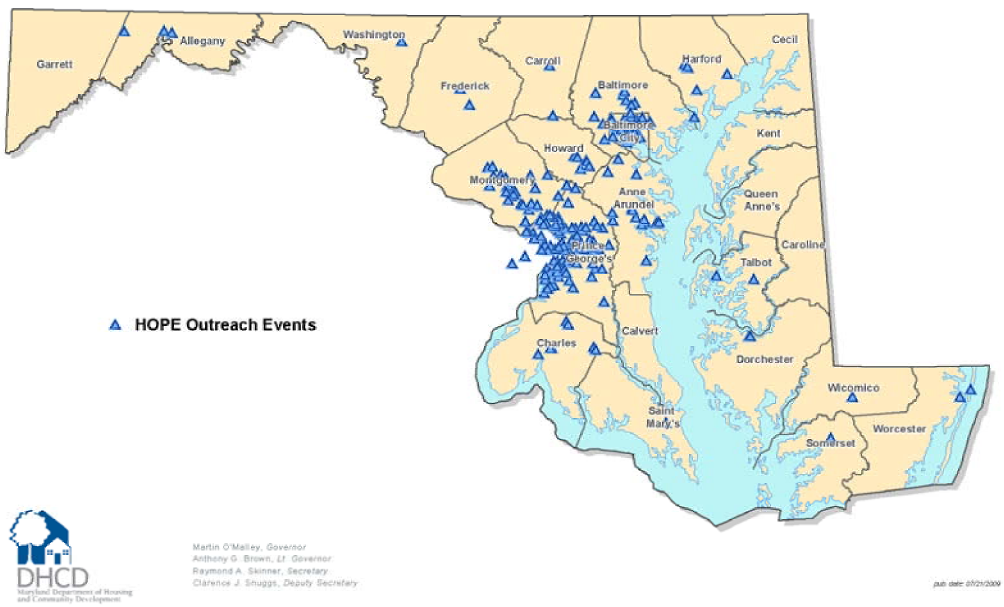
This was accompanied by an aggressive outreach effort and housing counseling campaign that was recently credited by NeighborWorks with being fourth among states in the number of homeowners served through the National Foreclosure Mitigation Counseling program.

HOUSING COUNSELING ACTIVITY, FY 2009



Those efforts have had a dramatic impact. As of August 2009, Maryland has received 28,650 calls for help on its HOPE Hotline and the state has helped 7,912 families avoid foreclosure. Moreover, Maryland has not waited for those in trouble to call. In the past fiscal year alone, the state participated in 154 foreclosure prevention workshops and forums in partnership with community and faith-based organizations, reaching more than 26,000 people and distributing well over 80,000 informational brochures at the site or through the mail.

MARYLAND HOPE OUTREACH EVENTS, FY 2008 AND 2009



Workshops were held at all corners of the state. But the bulk of them were in communities such as Prince George's County and Baltimore City that were hardest hit by foreclosures and where the majority of those affected were African American or Hispanic. The state worked closely with African American clergy and with Hispanic community organizations to ensure that those communities were aware of the workshops and that the resources were tailored to meet their needs. The state participated in five bilingual foreclosure prevention workshops, helping more than 400 Hispanic families.

Workshops such as those hosted by Maryland Seventh District Congressman Elijah Cummings in June and September have proven particularly effective because they bring distressed homeowners face to face with counselors, pro bono attorneys and lenders to work out customized, on the spot plans. More than 1,900 people, the majority of them African American or Hispanic, attended the two foreclosure prevention workshops in the Baltimore area and the model is being replicated statewide.

An additional arm in Maryland's multi-dimensional response to the crisis was launched in July 2008 with the Foreclosure Prevention Pro Bono Project. The Chief Judge of Maryland's Court of Appeals, Judge Robert M. Bell sent an appeal to more than 33,000 attorneys in the state, asking them to volunteer their time to give pro bono representation to the unprecedented numbers of families facing foreclosure. More than 600 attorneys have volunteered to be part of the project, with representatives participating in the many workshops and forums.

Last, but by no means least, Maryland stepped up its investigative and enforcement efforts to protect homeowners against fraud and other predatory lending practices. For example, a joint investigation by state and federal authorities resulted in the indictments during the summer of 2008 of eight individuals who deliberately targeted homeowners facing foreclosure in minority communities in what authorities believe is the largest case of mortgage fraud in Maryland history. In March 2009, one of the chief conspirators pleaded guilty in federal court to conspiracy to commit mail and wire fraud in connection with a mortgage fraud scheme that falsely promised to help homeowners facing foreclosure keep their homes. Seven other conspirators have pleaded guilty for their part in the $35 million mortgage fraud scheme and face up to 30 years in prison.

In addition to such enforcement efforts, Maryland's Department of Housing and Community Development and the Department of Labor, Licensing and Regulation have worked aggressively to ensure that consumers are armed with the information they need to resist fraudulent practices.

State regulation and enforcement are being complemented by legal actions at the local level– particularly in Baltimore City. Under the leadership of current Mayor Dixon who followed now Governor Martin O'Malley, Baltimore is seeing growth, investment, and opportunity. The City is working to stabilize and reverse the devastating demographic and economic trends it has endured over the last 50 years. No city lost more residents than Baltimore did during the 1990s and it retains some the nation's highest poverty rates, highest vacancy rates, lowest income levels, and lowest labor force participation rates. But the economic expansion that took place in the nation prompted new investment in Baltimore City neighborhoods, a bevy of new homeowners, and expanded economic opportunities. The foreclosure challenges facing the nation are working against the progress that was made.

Working to protect these gains, the City of Baltimore has recently made national news in a Fair Housing Act law suit against Wells Fargo for reverse redlining or targeting African American neighborhoods for bad loans. The shocking story is still unfolding but the City is alleging that there was an economic incentive structure within Wells Fargo that encouraged its employees to steer African American's into subprime loans and engage in other deceptive practices. The City has documented that in 2006 Wells Fargo made high-cost loans to 65% of its African American borrowers in comparison to 15% of its white borrowers in Baltimore. In addition, the City has found that Wells Fargo's refinance loans were 2.5 times more likely to be a high cost loan than a refinance loan to a white borrower. Loans in African American neighborhoods went into foreclosure at 4 times the rate of those in predominantly white Baltimore neighborhoods.[2] The State of Maryland is not a party to the suit and because it is still in court I must limit my comments on the case. However, Chief Solicitor Suzanne Sangree of the Baltimore City Law Department testified recently before the House Judiciary Committee Subcommittee on Commercial and Administrative Law. In her remarks, she emphasized that Federal enforcement

[2] Sangree, Susan, "Oral Testimony before the United States House Judiciary Committee Subcommittee on Commercial and Administrative Law," United States Congress, September 9, 2009.

of the nation's civil rights laws, especially the Fair Housing Act is critical. Though the act provides cities legal standing to sue, it relies heavily on the Federal Government to play a leading role in enforcement. I agree and look forward to a renewed focus in this arena.

Maryland's efforts are continuing. We are looking at innovations and efforts being undertaken by other states like Connecticut which has implemented a mandatory mediation program helping force servicers to the table to make more timely decisions on loan modifications. We are continuing to support our housing counseling network providing ongoing training. Maryland is also putting housing back to work and is proud to be a national leader in implementing American Recovery and Reinvestment Act funds. DHCD is in the process of administering nearly $160 million in Recovery Act resources. We are working hard to sustain homeownership but today as the crisis continues, we find ourselves at the limits of our legal authority – plainly, we need federal help.

1. The mortgage servicers who control this industry are by and large federally regulated and supervised. Over 2/3 of all Maryland mortgages are serviced by entities supervised - and, in many cases, subsidized - by the federal government. Citibank, Wells Fargo, Bank of America etc – they dominate our mortgage markets. Due to federal pre-emption, we have no jurisdiction over these companies despite their impact on our communities every day. As a state official, I urge you to recognize that limitation. As you consider new regulatory authorities such as the Consumer Financial Protection Agency, I ask you not to further pre-empt our abilities to protect our citizens. These rules should be a floor not a ceiling. And as you press forward with actions on the foreclosure front be sure to be cognizant of state interests. As an example, Maryland collects data on mortgage servicers – the few under its jurisdiction. Thru that data we have been able to identify trends in modifications including those that have actually raised borrower's monthly obligations. But as 2/3 of the mortgages in Maryland are not under our jurisdiction, we must rely on national data gathered by Treasury and the Office of the Comptroller of the Currency. Despite our state's requests, however, these entities have refused to provide their data on a state by state basis. Access to the data will help Maryland better monitor foreclosure mitigation efforts.

2. More information is also needed about the lending practices in our communities. The Home Mortgage Disclosure Act (HMDA data) helps track bank loans by demographic, location, and amount but it does not provide the other factors that contribute to the lending rate such as credit score and existing debt. Expanding data requirements is the key to strengthening the use of HMDA data as an enforcement mechanism of fair lending practices.

3. Sustainable homeownership can also be advanced by strengthening housing counseling requirements, capacity, and financial literacy. Financial literacy, which goes beyond purchase counseling to incorporate a broader understanding of personal financial management skills, has been a topic of focus in Maryland. Through the work of a task force, financial literacy standards for secondary education are being developed and will be making their way into Maryland's high school curriculum. In addition, in Maryland, our mortgage loans and downpayment assistance resources also require counseling to better equip buyers with the knowledge to make good choices about home purchases and

household budgets. However, no counseling requirements are in place for federally subsidized homeownership programs including the First Time Homebuyer's Tax Credit, FHA insured loans, VA loans, USDA loans or any other federally backed homeownership program, and they should be. Such a requirement would protect not only lenders and borrowers, but the financial position of the federal government as well. Similarly, expanding support for housing counselors for both pre-purchase and foreclosure mitigation counseling is essential. Maryland's counselors have played a very critical role working one-on-one with homeowners facing foreclosure. Sustainable ongoing support for housing counselors is needed.

4. One of the biggest challenges homeowners that are in danger of foreclosure face is getting a response from their mortgage servicers. Participation in Marking Home Affordable is voluntary and there no financial damages associated with unfair or unreasonable actions on the part of servicers towards borrowers. Many servicers fail to be responsive and suffer from an apparent lack of staff or infrastructure to handle the volume despite the financial incentives the Federal Government is providing. The Real Estate Settlement Procedures Act is very clear on its expectations and penalties for infractions but there is nothing that compensates a borrower if mistakes, lack of action or response by a servicer results in the loss of a property. The Federal Government should move towards mandatory participation. Standards must be set and consequences must be developed for inappropriate actions by servicers working to mitigate delinquency or foreclosure.

5. Lastly, State Housing Finance Agencies can play a crucial roll in both assisting new first time homebuyers, including minority homebuyers, purchase their first homes, as well as assist homeowners facing foreclosure avoid the loss of their homes through the new authority Congress provided to HFAs under HERA. However, to do that we need the support of the federal government in strengthening and supporting HFAs with continued expanded bond authority and supporting the purchase of bonds HFAs issue to refinance homes for owners facing foreclosure.

Thank you for giving me the opportunity to testify before you today. I would be happy to answer any questions you have.