



**Testimony of**  
**The Housing Policy Council of**  
**The Financial Services Roundtable**  
**To The**  
**House Financial Services Committee**  
**February 6, 2007**

Chairman Frank and Ranking Member Bachus, the Housing Policy Council of The Financial Services Roundtable is pleased to submit this written testimony for the Committee's February 6 hearing on Katrina recovery issues.

The Housing Policy Council's twenty-three member companies collectively originate approximately sixty-four percent of the mortgages in the U.S. The Financial Services Roundtable's membership is one hundred of the nation's leading integrated financial services companies providing banking, mortgage, insurance and investment products and services to the American consumer.

The member companies of the Housing Policy Council and The Financial Services Roundtable responded immediately to the Katrina and Rita disasters. When the storms hit, many of our members were directly affected by the crisis. Member companies had dozens of offices either destroyed or damaged by the storms; many of their local employees lost their homes, their transportation, communication, and all of the other day-to-day conveniences of life that their neighbors in the area also suffered.

Our member companies also had loans outstanding to tens of thousands of home owners in the region, and many of those borrowers suffered some damage to or even total destruction of their homes. Because of the difficulty of traveling in the affected region, or communicating with those who were there, initially we did not know what the extent of the damage to our borrowers and their homes might be. As information was collected, it quickly became apparent that our members had billions of dollars in mortgage loans secured by damaged properties and owed by individuals who might have lost their jobs, their means to communicate, perhaps even their lives or the lives of loved ones.

In other words, Katrina, which was the largest natural disaster ever to strike the U.S., hit the financial services and mortgage lending industry directly and hard.

Now, 17 months later, we can provide commentary to your committee about what has been accomplished so far, but we wish to emphasize to everyone involved that the

recovery effort remains a work in progress. While much has been done, very much remains to be done.

We have attached to this testimony a copy of the report entitled “Accelerating the Katrina Recovery – An Interim Report”, which The Roundtable’s Blue Ribbon Commission on Mega-Catastrophe issued on October 25, 2006. It contains an extensive discussion of the efforts of the financial services industry and twenty four recommendations for strengthening Katrina recovery, which the Committee may find useful.

We are grateful to Dr. James Richardson of Louisiana State University, who provided excellent research on the challenges that need to be addressed to help stimulate a full economic recovery. Availability of housing for the people of the Gulf Coast region is essential and necessary for a successful recovery.

#### Response of the member companies of the Housing Policy Council and The Financial Services Roundtable

The Housing Policy Council was an active participant in a larger effort by the financial services sector that provided needed liquidity to the victims in a variety of ways, including cash from ATMs, credit and debit cards, liquidating assets such as securities or mutual funds, prompt claims payments from insurance carriers, and deferral of payment requirements on mortgage loans. This was done well. In the words of the Federal Financial Institutions Examination Council, “...overall, [financial] institutions prevailed in very difficult circumstances through advance planning and preparation, and by working together.” As a result of these efforts, the financial industry was able to assist customers and communities in their time of greatest need.”

In addition, financial institutions took a variety of measures to provide direct aid to the victims of Katrina and Rita. For example, over 80 members of the Financial Services Roundtable and their employees and customers responded to the crisis in the area by providing more than \$93 million in financial assistance to disaster relief agencies. In addition to the charitable donations, member institutions waived fees and penalties, provided moratoriums and grace periods on loans and insurance premiums, helped customers establish alternate payment plans, and did not report delinquencies to consumer credit reporting agencies.

Confronted with the damage to so many homes and communities caused by Katrina, coupled with the inability of many victims to find work in new locations while deciding whether to return to the storm-ravaged areas, it immediately became evident to banks and mortgage lenders in the region that some relief had to be extended to those with mortgage obligations. There were no manuals, however, on how to go about this since Katrina was

the largest and most devastating storm in U.S. history, and no financial institutions in any area had ever before had to cope with an event of this magnitude.

In the immediate days after Katrina, The Financial Services Roundtable and our Housing Policy Council met with Members of this Committee and the staff to review the immediate steps that the industry and regulators were taking to respond to the crisis. In addition, the Housing Policy Council and the rest of the mortgage industry promptly formed a Katrina Mortgage Working Group. This coordination was encouraged by the federal banking regulators and included productive meetings in the fall of 2005 held at the FDIC to discuss forbearance and other policy issues that would become critical during the long recovery process.

Throughout the ensuing 17 months, the joint mortgage lending industry trade group has met regularly to address a lengthy list of issues that needed to be resolved. In addition to the Housing Policy Council, the active participants in the group have been the Mortgage Bankers Association, the Consumer Mortgage Coalition, other trades and individual companies concerned about the recovery. It has coordinated its activities and efforts not only with local banks and mortgage companies, but also with Fannie Mae and Freddie Mac, the Government Sponsored Enterprises (GSEs), groups including unions, such as the AFL-CIO, consumer organizations, including NCRC, others who are also deeply interested in the relief and recovery efforts, and with federal and state government agencies, including Chairman Don Powell's Gulf Coast Recovery Office, which encouraged coordinated efforts on the recovery.

As one of its highest priorities, our industry group recognized that it would need the cooperation and active help of government regulators and the GSEs, and therefore worked with those groups to develop uniform forbearance policies to assist mortgage borrowers. As a result, most lenders permitted affected homeowners in the region to defer mortgage payments for seven months after Katrina without incurring late fees and without having negative credit information placed in their credit files. Many of the more severely affected homeowners have still not been required to make payments and have not been reported as delinquent to the credit bureaus 17 months after Katrina struck the region, despite the considerable costs to lenders from the additional servicing tasks involved and in many cases from the corporate funds advanced for required payments to investors and securities holders.

One of the more challenging tasks the Working Group faced was informing homeowners of the forbearance policy since many were not in their homes and had not been in contact with their loan servicer since the storm. Lenders made extensive use of direct mail (where it was available), print and broadcast advertising, including enlisting the assistance of the news media, posters, dedicated customer service telephone lines, and lender web sites, and engaged both national and local community organizations to spread the word of available relief. Community meetings were held in both Mississippi and

Louisiana, some sponsored by the Working Group, some sponsored by individual lender companies.

Federal bank regulators not only created their own joint Katrina task force, but in the weeks and months immediately following the storms, issued guidelines to assist lenders in making decisions on forbearance. They responded promptly to requests from the industry working group for consultations, and encouraged flexibility on the part of lenders matched by similar flexibility on their part.

The Housing Policy Council also felt that it should gather and share as much first hand information as possible on the impact of the storms on New Orleans and Mississippi. In early December 2005, the Housing Policy Council organized an industry trip to New Orleans involving nearly 80 representatives from member companies and other concerned trade organizations and agencies. Our industry group met with local and state officials including Mayor Ray Nagin, Sean O'Keefe, Chancellor of LSU, other city officials, non-profit organizations and local member companies and visited the severely damaged areas of the City including the Ninth Ward, Gentilly, New Orleans East, Lakeview and St. Bernard Parish. Business and government leaders assembled and worked together to understand what was needed to promote recovery in the region.

The industry trip to New Orleans was followed by a visit to the Mississippi Gulf Coast in early February 2006 to meet with Mississippi officials, including Congressman Gene Taylor, state and county officials, and to visit some of the severely damaged communities, including Pass Christian, Waveland, Gulfport and Biloxi. The Housing Policy Council also moved its 2006 annual meeting from another city, where expenses had already been incurred, to New Orleans in May 2006 to show support for New Orleans and the recovery. During our May meeting in New Orleans and subsequent visits to Baton Rouge, our members met with Mayor Nagin and Governor Blanco and Louisiana Recovery Authority officials. We began a dialogue with and established channels for exchanging information and coordinating information needed to support recovery efforts for homeowners affected by the disaster..

In Washington, the Housing Policy Council recognized that the impact on homeowners in the region would require aid from the Federal Government. Congressman Richard Baker was a leader in proposing ideas to structure the aid to the region and other members became actively involved in the search for an effective method for federal support. In 2006, the Housing Policy Council and its industry partners actively supported passage of the appropriation of Community Development Block Grant funding for uninsured homeowners living outside of FEMA-designated Special Flood Hazard Areas. Following passage, we shared industry views with HUD regarding the steps needed for the funds to be effectively distributed to homeowners.

The Working Group communicated regularly with those who run the assistance programs in both Mississippi and Louisiana and provided them with expertise available from lender companies. The Housing Policy Council also provided assistance in furtherance of that effort by making the services of an expert industry representative available. This senior industry representative, Michael Kozlak, a member of the Housing Policy Executive Council, volunteered his time to provide on-site presence and advice to those who were developing recovery plans.

Since the adoption in both Mississippi and Louisiana of the programs to distribute federal aid to affected homeowners, the Housing Policy Council and its members, working with the Mortgage Bankers Association and other industry groups, have continued to be available to provide suggestions and answer questions as workout programs are implemented with individual borrowers, or to respond to questions from the state agencies about lending or servicing processes followed by the industry.

### Forbearance

We would like to comment specifically on the efforts and successes of the mortgage industry to provide relief to borrowers by permitting them to defer payments on mortgage loans for a period of time.

Forbearance is used by mortgage lenders to provide short term payment relief to borrowers, in certain situations, who are having problems making payments. While each lender has its own distinctive procedures for when and how long forbearance should be provided, those originators who sell their loans in the secondary market are also guided by the contracts with the investors articulating when forbearance is available for loans sold to the investors.

With chaos the order of the day immediately after the storms, it was clear that thousands of borrowers would not be able to make their payments on time. Our member companies and other lenders offered an immediate 90 day forbearance to their customers in September 2005. Because the size of the devastation was so enormous, in the fall of 2005 lenders and regulators began a dialogue to determine what additional forbearance and other efforts would be needed. The industry group also contacted Fannie Mae and Freddie Mac to encourage them to adopt similar policies on forbearance. The industry generally refrained from filing negative credit reports on the deferred loans.

As the end of the initial forbearance period approached in November 2005, the industry group met to discuss what the next steps should be, whether or not lenders planned to begin foreclosure proceedings following the termination of the forbearance period, what the regulators and the GSEs planned, and what other investors planned. The dialogue was facilitated by a meeting in November 2005, hosted by the FDIC with a large group of

lenders, lender trade associations, unions, consumer organizations, and representatives from the FDIC and other federal regulatory agencies.

As a result of these and similar meetings and considerations, a second 90 day forbearance period was recommended and generally accepted throughout the industry, and more intense work began on determining what should happen when that period ended.

The mortgage industry working group suggested that a good way to proceed thereafter was to separate the borrowers into those who remained impacted by the effects of the storm and those who did not. Working with the GSEs, a technique was devised that would permit the GSEs to look at different geographical areas and damage effects and to separate borrowers in the least effected areas from those in the more severely effected areas. Different forbearance policies would then be applied by lenders in different areas, and as time passed and recovery took hold in additional areas, forbearance would no longer be needed in those areas.

That is the program that has been followed since, and at this time, there are still sections of the region for which forbearance remains the general policy. Many borrowers, however, have returned to a regular repayment schedule.

Our members and other responsible lenders are committed to treating all of their borrowers with respect and consideration, and they have taken additional measures to make sure that those affected by the hurricanes have received, and continue to receive, individual attention and care in the handling of their mortgage issues and concerns.

For borrowers in need of payment assistance, lenders are working with their hurricane-impacted homeowners to find solutions. These options include the following: 1) additional Forbearance, when customers are unable to make payments due to loss of income or an inability to live in the home; 2) Repayment Plans, for customers who have regained the ability to make payments and are able to repay the delinquent payments over an extended period of time (dependent on investor approval); and, 3) Modifications, for those customers who have regained the ability to make payments, but are not able to repay the delinquent payments within a three to twelve month timeframe (eligibility dependent upon loan type or investor).

Our members are adhering to the requirements of the homeowner grant programs in Mississippi and Louisiana and cooperating to make those programs successful. With a large number of homeowners still in need of assistance in the hurricane-impacted zones, it would be impractical and impersonal if lenders and servicers did not review each individual borrower's circumstances and needs on a case-by-case basis. If a loan is in the secondary market and not a lender's portfolio, case-by-case reviews are done pursuant to investor

guidelines and servicers provide their customers with all flexibility permitted by the investor requirements for the loan.

### Recommendations for the Future

No one is satisfied with the pace of recovery in the Gulf coast region, although parts of the region seem to be recovering more rapidly than other parts. Much of the focus of concern is on the relatively slow recovery of New Orleans, and that is understandable since housing, businesses and infrastructure were severely and extensively damaged, first by the direct effects of Katrina but also from a lengthy period of standing water because of the failure of the levees. New Orleans has major areas below sea level and therefore must rely upon a complex system of levees, floodgates, and other man-made protections. The multiple failures of this defense system have taken time and considerable expense to repair. This has slowed recovery, but the sheer magnitude of the devastation and inadequate tax revenues also have been significant factors.

From our perspective, there seems to be sufficient funds appropriated by the federal government to make substantial progress on recovery throughout the region, including in New Orleans, although questions remain whether there is sufficient funding available for essential infrastructure restoration in New Orleans. The federal government has appropriated over \$111 billion directly, although it is not clear how much of that has been spent. In addition, the federal government has passed tax incentives with an estimated value of \$14 billion. Payments by the National Flood Insurance Program and private insurers combined have approached \$58 billion. Contributions of private parties to the relief programs of charities assisting in the recovery are not fully available, but contributions to charities by the financial services sector alone totaled nearly \$100 million.

As those funds are spent or distributed, more progress will be visible. While we cannot predict how rapidly that will occur, we have worked with the state agencies that have the responsibility of distributing the federal funds to the homeowners, and know that they are interested in doing the job quickly, correctly and with safeguards to protect against potential fraud in the program. Lenders understand what they must do under the state programs and will implement their requirements.

Katrina was devastating, and it was unlike any disaster we previously had experienced in the U.S. We believe, however, that there will be other disasters in the future that could rival Katrina. There will be other mega sized disasters. While they may not necessarily be hurricanes, they may come in the form of earthquakes, rapid rise in the levels of the oceans, pandemics, or other calamitous mega disasters.

In the report which The Financial Services Roundtable will release later this spring we will make a series of recommendations on preparations that should be taken now to

expedite relief and recovery from those disasters. In the Katrina report, referred to earlier, we reach a series of conclusions and make a number of recommendations. Let us highlight just a few:

--The federal government should take immediate steps to establish more formal means of inter-governmental coordination – separately for Louisiana and Mississippi.

-- The federal government should explain in plain English the enhanced levee system under construction and the protection that New Orleans citizens should expect to receive from this system.

-- Appropriate agencies should partner to ensure sufficient wetlands and barrier islands are reestablished and preserved.

-- States and localities should have evacuation plans in place and must widely communicate those plans as a condition for receiving federal disaster relief under the Stafford Act.

--The use of trailers should be augmented by the use of a variety of temporary housing solutions, including mobile homes, modular homes, and housing vouchers.

-- FEMA should provide incentives under the Stafford Act to encourage adoption of state of the art building codes, and states should create a code enforcement system.

-- The Federal Agencies, GSEs, industry and non-profit organizations should apply their lessons-learned on developing forbearance policies for future use.

--The different methods for distributing housing reconstruction funds in Louisiana and Mississippi should be carefully analyzed to ensure that “best practices” of fund distribution will be used in the future by all recipients to maximize the benefits to the affected parties.

--The Louisiana Recovery Authority should consider additional steps to stimulate the recovery by providing incentives to accelerate early commitments of residents to return.

Thank you very much for holding this hearing and for allowing the Housing Policy Council to provide this testimony to the Committee. We look forward to answering any questions and to working with the Committee on these issues in any way that can be useful.