

Statement of Edward L. Golding
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Chair Warren and members of the Congressional Oversight Panel, thank you for inviting me to speak today. I am Edward Golding, Senior Vice President of Economics and Policy at the Federal Home Loan Mortgage Corporation (Freddie Mac). I am a senior member of the Freddie Mac team that leads our effort to fulfill our responsibilities to support the President's *Making Home Affordable* (MHA) program. I also am responsible for overseeing timely and effective communication among Freddie Mac, the United States Department of the Treasury (Treasury), and the Federal Housing Finance Agency (FHFA), our regulator and conservator, on matters relating to MHA.

Freddie Mac is a corporation created by Congress in 1970 to bring liquidity, stability, and affordability to the nation's residential mortgage markets. Traditionally, we have fulfilled our mission by purchasing mortgages in the secondary market and securitizing them into mortgage-related securities that can be sold to investors. Today, fulfilling our mission includes supporting MHA. In my testimony today, I will discuss Freddie Mac's role in MHA, including our efforts to reduce the costs of mortgage credit and prevent home foreclosures, as well as the compliance duties we have been assigned under the program. Under our new leadership, including Chief Executive Officer Ed Haldeman, Chief Operating Officer Bruce Witherell, and Chairman of the Board John Koskinen, support of MHA is our number one corporate priority.

Freddie Mac's support of the President's *Making Home Affordable* Program

President Obama has taken decisive action in his *Making Home Affordable* program to expand refinancing options for struggling homeowners and stem the growing number of foreclosures that threaten the stability of America's families and communities. Freddie Mac is proud to play a vital role in making the President's program a reality. We are working closely with the Treasury and the industry to implement this program.

The President has set an ambitious goal of helping millions of families lower mortgage costs or avoid foreclosure. To help meet that goal, Freddie Mac mobilized quickly. In March, we announced two new mortgage initiatives designed to help families with Freddie Mac-owned mortgages that are delinquent, at risk of default, or struggling to refinance because of declining property values.

***Relief Refinance Mortgage*SM**

The Freddie Mac Relief Refinance Mortgage program, our offering of the Home Affordable Refinance Program, is designed to assist families who are current on their mortgage payments

but who have been unable to refinance into more affordable mortgages due to declining home values and tightening credit terms.

Key features of the Relief Refinance Mortgage program include:

- Enabling eligible borrowers to lock in today's low interest rates
- Keeping refinance costs low by not requiring new or additional mortgage insurance
- Allowing eligible borrowers to refinance loans up to 125 percent of the value of their homes
- Allowing lenders to use an automated valuation tool to provide a property valuation for many one-unit properties instead of requiring an appraisal, saving homeowners hundreds of dollars

At the same time, Freddie Mac has continued its support of the broader mortgage market's refinancing needs. Through August 31, Freddie Mac has purchased in 2009 more than 1.35 million refinance mortgages. On average, each of these refinances results in a 1.25 percentage point reduction in the mortgage note rate. This results in aggregate annual interest savings to these borrowers of nearly \$4 billion per year.¹

Home Affordable Modification Program

Freddie Mac rolled out its implementation of the new national Home Affordable Modification Program (HAMP) to our servicers in March. Through mid-September, more than 84,000 borrowers under Freddie Mac-HAMP have entered into trial period plans.

HAMP is designed to help at-risk borrowers maintain successful homeownership by lowering their monthly payments to more affordable levels, and in some cases to assist eligible borrowers before they fall behind on their mortgage payments. Servicers must modify HAMP-eligible loans using a process that includes rate reduction, term extension, and principal forbearance to reduce monthly payments to 31 percent of a household's monthly gross income.

Other key features of HAMP include:

- Use of a net present value (NPV) test that creates a new industry standard for determining which loans should be modified

¹ Our refinance and purchase money mortgage purchases provide critically needed liquidity to the housing finance market during the worst housing and financial crisis in decades. In 2008, Freddie Mac purchased or guaranteed more than \$460 billion in mortgage loans and mortgage-related securities, and through the end of July, we have purchased more than \$363 billion in mortgages so far in 2009.

- Financial incentives to encourage investors, servicers and borrowers to execute sustainable loan modifications²
- A mandatory trial period plan after which the loan will be permanently modified.

To underscore our commitment to helping financially troubled borrowers, Freddie Mac has directed our servicers to ensure that every possible effort is made to achieve a successful workout for at-risk borrowers by modifying or refinancing their mortgages into more affordable mortgages before pursuing other foreclosure alternatives.

Freddie Mac had extensive programs designed to help prevent foreclosure prior to HAMP, and these remain available for financially troubled borrowers who are not eligible for HAMP. Our efforts to prevent foreclosures both within and outside of HAMP are generating positive results. Using a variety of delinquency resolution methods, Freddie Mac helped more than 85,000 borrowers lower their mortgage payments, sell their properties or modify their loans to a more sustainable level, including trial period plans, in the first half of 2009 – compared to 88,000 for all of last year.

Implementing the Home Affordable Modification and Refinance Programs

Freddie Mac has worked closely with lenders and servicers to help them implement the refinance and modification programs. Such efforts have included:

- Issuing several Single-Family Seller/Servicer Guide Bulletins and customer communications to all our servicers highlighting our policies and requirements
- Distributing promotional material to facilitate borrower outreach efforts
- Conducting Relief Refinance training sessions for our servicers
- Conducting numerous training sessions on the HAMP for servicers and housing counselors
- Developing an online video for all sellers and servicers specifically on HAMP guidelines and requirements

In August, we announced a new initiative, the Mortgage Solution Center, to improve outreach to a large number of borrowers with Freddie Mac mortgages who may be eligible for a Home Affordable Modification and to help ensure such borrowers have access to credible assistance at no cost to them. The Mortgage Solution Center will process thousands of additional requests for a modification under HAMP or other possible workouts.

² For example, servicers will receive one-time incentive payments of \$1,000 for each eligible modification meeting the requirements of the program, an additional payment of \$500 for modifications made while the borrower is still current, and a “pay for success” fee of up to \$1,000 on an annual basis for three years. Borrowers who make timely payments for the first five years will receive annual principal reductions of up to \$1,000.

In addition, Freddie Mac made available extensive foreclosure prevention information to the public in the form of foreclosure prevention workshops, radio public service announcements, published MHA-related article placements, and provided online information on the MHA program and how to avoid foreclosure.

MHA Compliance Agent

Freddie Mac plays a major role under the MHA program as the compliance agent for Treasury under HAMP. As the program compliance agent, we conduct examinations and review servicer compliance with program rules and guidelines, the results of which we are required to report to Treasury.

Because of the confidential and proprietary information to which we have access pursuant to our agreement with Treasury, Freddie Mac has created a separate business unit within the company (known within Freddie Mac as MHA-Compliance or MHA-C) to carry out these duties. MHA-C is headed by an officer who reports directly to a top Freddie Mac executive serving on the corporation's management committee. MHA-C has over 100 employees and is continuing to staff up its operations.

A strong compliance program is critical to success of the modification program. MHA-C has developed and continues to adapt an extensive and robust internal control and compliance system for HAMP. MHA-C is independent from program administration and has authority to conduct announced and unannounced audits of the servicers. Based on these reviews, MHA-C is identifying corrective actions, pursuing appropriate servicer follow-up, and establishing the potential implications of servicer non-compliance.

MHA-C will be using a number of fraud detection and compliance techniques in their sampling and compliance reviews. The focus will be on borrower, servicer, and systematic fraud, as well as quality control. Fraud identification includes independent testing to identify items such as servicers reporting modifications that have not occurred, misrepresentation of borrowers' performance, servicers charging borrowers extra fees, servicers keeping borrower incentive payments, servicers not using current credit reports and evidence of incorrect determinations of eligibility in HAMP modifications. Quality control includes identifying issues such as low modification rates, timeliness of customer response, insufficient system processes, and high default rates compared to peer servicers.

One aspect of HAMP on which we have focused attention is the implementation of the NPV model, a key component of determining eligibility. We have monitored compliance with HAMP guidelines with regard to the NPV model to test whether servicers are implementing and using the model as the program requires.

In addition, Treasury asked Freddie Mac, in its role as compliance agent, to develop a "second look" process pursuant to which MHA-C will audit a sample of MHA modification requests determined by the servicer to be ineligible. This "second look" process began in August and is designed to minimize the likelihood that borrower requests are overlooked or that borrowers are inadvertently deemed ineligible.

MHA-C is ramping up the second look effort, and by the end of this month expects to be significantly increasing the number of trial modifications reviewed on a weekly basis. We then will be able to analyze servicer performance and begin to understand trends.

We have found variations in how servicers communicated with borrowers regarding HAMP ineligibility and, if written notification of ineligibility were used by the servicer, the content of such notifications. Treasury issued guidance earlier this month to servicers on providing standardized ineligibility notifications and explanations, along with reporting ineligibility reason codes to the HAMP program administrator (Fannie Mae). These codes will help to facilitate MHA-C's Second Look process.

As more borrowers transition to permanent modifications and incentive payments are disbursed, we will conduct audits in an effort to ensure that the correct payments are made and properly allocated among the borrower, servicer, and investor.

As we move forward with MHA, we will continue to assess and implement changes to features of the compliance program to improve its ability to assist the greatest number of borrowers most in need of assistance at the least cost to taxpayers.

Concluding remarks

The employees of Freddie Mac come to work every day highly motivated to make a positive difference for millions of homeowners and renters by helping make mortgage financing more readily available and helping families avoid losing their homes to foreclosure. We are focused on meeting the challenges involved in fulfilling our duties under the MHA program and helping to ensure the success of the program.

Thank you for this opportunity to testify. I am happy to answer any questions you have.