Testimony of Keith S. Ernst, Center for Responsible Lending
Before the Joint Economic Committee of the U.S. Congress

"Current Trends in Foreclosure and What More Can Be Done To Prevent Them"

July 28, 2009

Good morning Chairwoman Maloney, Vice Chair Schumer, ranking members Brady and Brownback, and members of the committee. Thank you for your continued efforts to address the foreclosure crisis and for the invitation to participate today.

I serve as Director of Research for the Center for Responsible Lending (CRL), a nonprofit, non-partisan research and policy organization dedicated to protecting homeownership and family wealth by working to eliminate abusive financial practices. CRL is an affiliate of Self-Help, a nonprofit community development financial institution that consists of a credit union and a non-profit loan fund. For close to thirty years, Self-Help has focused on creating ownership opportunities for low-wealth families, primarily through financing home loans to low-income and minority families who otherwise might not have been able to get affordable home loans. Self-Help's lending record includes a secondary market program that encourages other lenders to make sustainable loans to borrowers with weak credit. In total, Self-Help has provided over $5.6 billion of financing to 62,000 low-wealth families, small businesses and nonprofit organizations in North Carolina and across America.

In September 2007, our CEO Martin Eakes testified before this committee about the wave of coming subprime foreclosures and about some ways to prevent the crisis from escalating. As it turned out, our predictions – dismissed by some as pessimistic – actually *underestimated* the dimensions of the crisis. In light of what has happened, it is more essential than ever that Congress take immediate, strong steps to prevent foreclosures and bar the return of abusive, unsustainable lending that otherwise might once again fundamentally disrupt our economy.

We recommend several key actions to mitigate the continued flood of foreclosures and avert similar crises in the future:

(1) Create a Consumer Financial Protection Agency as outlined in H.R. 3126;

(2) Pass legislation requiring mortgage originators to determine a consumer's ability to repay the mortgage and encourage the Federal Reserve Board to finalize its proposed rules banning yield spread premiums;

(3) Ensure that the Administration's current efforts to prevent foreclosures– the Home Affordable Program and the Hope for Homeowners Program – work as effectively as possible, including ameliorating the tax consequences of loan modification and principal reduction; and

(4) Lift the ban on judicial loan modifications of mortgages on principal residences.

I. Foreclosures continue to soar and the mortgage market continues to suffer.

Our most recent report on subprime mortgages shows that over 1.5 million homes have already been lost to foreclosure, and another two million families with subprime loans are currently delinquent and in danger of losing their homes in the near future.[1] Projections of foreclosures on all types of mortgages during the next five years estimate 13 million defaults (over the time period 2008Q4 to 2014).[2] Right now, more than one in ten homeowners is facing mortgage trouble.[3] Nearly one in five homes is underwater.[4]

The spillover costs of the foreclosure crisis are massive. Tens of millions of homes – households where, for the most part, the owners have paid their mortgages on time every month – are suffering a decrease in their property values that amounts to hundreds of billions of dollars in lost wealth.[5] These losses, in turn, cost states and localities enormous sums of money in lost tax revenue and increased costs for fire, police, and other services. As property values decline further, the cycle of reduced demand and reduced mortgage origination continues to spiral downward.

As a result of the foreclosure crisis, the mortgage market itself is in deep trouble. Overall mortgage activity has plummeted. For 2008, residential loan production cratered: $1.61 trillion compared to $2.65 trillion in 2007.[6] Originations of subprime and Alt-A, (non-prime) mortgages all but stopped in 2008. Only an estimated $64 billion in such mortgages was originated last year.[7] At its high point in 2006, non-prime lending constituted a third (33.6%) of all mortgage production. By the fourth quarter of 2008, it had fallen to 2.8%.[8] These loans are not being originated in large part due to the collapse of the secondary market for these mortgages, which was driving demand and facilitating production. So far, 2009 has seen no reversal of this investor retreat.

On the consumer demand side as well, every major indicator is down. Between 2006 and 2008, existing home sales dropped 24 percent,[9] while new home sales and new construction starts plummeted by 54 and 58 percent, respectively.[10] In February, mortgage applications for the purchase of homes hit their lowest levels since April 1998.[11]

II. Risky loans, not risky borrowers, lie at the heart of the mortgage meltdown.

In October of last year, CRL provided lengthy testimony to the Senate Banking Committee that describes the origins of this crisis in detail.[12] In this testimony, we focus on the question of whether the core problem in the subprime market was risky borrowers or risky loans. Specifically, many in the mortgage industry blame the borrowers themselves, saying that lower-income borrowers were not ready for homeownership or not able to afford it.[13] Yet our empirical research shows that the leading cause of the problem was the characteristics of the market and mortgage products sold, rather than the characteristics of the borrowers who received those products.

More specifically, research has shown that the risk of foreclosure was an inherent feature of the defective subprime loan products that produced this crisis. Loan originators—particularly mortgage brokers—frequently specialized in steering customers to higher-rate loans than those for which they qualified. They also aggressively sold loans with risky features and encouraged borrowers to take out so-called "no doc" loans even when those borrowers typically had easy access to their W-2 statements and offered them to the originators.[14] Market participants readily admit that they were motivated by the increased fees offered by Wall Street in return for riskier loans. After filing for bankruptcy, the CEO of one mortgage lender explained the incentive structure to the New York Times: "The market is paying me to do a no-income-verification loan more than it is paying me to do the full documentation loans," he said. "What would you do?"[15]

These risky, expensive loans were then aggressively marketed to homebuyers and refinance candidates, often irrespective of borrower qualifications. In fact, in late 2007, the Wall Street Journal reported on a study that found 61% of subprime loans originated in 2006 "went to people with credit scores high enough to often qualify for conventional [i.e., prime] loans with far better terms."[16] Even applicants who did not qualify for prime loans could have received sustainable, thirty-year, fixed-rate subprime loans for—at most—half to eight tenths of a percent above the initial rate on the risky ARM loans they were given.[17] Perhaps even more troubling, originators particularly targeted minority communities for abusive and equity-stripping subprime loans, according to complaints and affidavits from former loan officers alleging that this pattern was not random but was intentional and racially discriminatory.[18]

In 2006, the Center for Responsible Lending published, "Losing Ground: Foreclosures in the Subprime Market and their Cost to Homeowners."[19] In this report, we projected that 1 in 5 recent subprime loans would end in foreclosure – a projection that turns out to have actually underestimated the scope of the crisis, although it was derided at the time as pessimistic and overblown. Our research showed that common subprime loan terms such as adjustable rate mortgages with steep built-in payment increases and lengthy and expensive prepayment penalties presented an elevated risk of foreclosure *even after accounting for differences in borrowers' credit scores.* It also showed how the risk entailed in these loans had been obscured by rapid increases in home prices that had enabled many borrowers to refinance or sell as needed. The latent risk in subprime lending has been confirmed by other researchers from the public and private sectors.[20]

A complementary 2008 study that we undertook with academic researchers from the University of North Carolina at Chapel Hill, "Risky Mortgages or Risky Borrowers: Disaggregating Effects Using Propensity Score Models," supports the conclusion that risk was inherent in the loans themselves.[21] The study compared the performance of loans made through a loan program targeted to low- and moderate-income income families and comprised primarily of lower-cost 30-year fixed-rate loans, to the performance of subprime loans, most of which were broker-originated and had nontraditional terms, such as adjustable rates and prepayment penalties.

In this study, the authors found a cumulative default rate for recent borrowers with subprime loans to be more than three times that of comparable borrowers with lower-rate loans. Furthermore, the authors were able to identify the particular features of subprime loans that led to a greater default risk. Specifically, they found that adjustable interest rates, prepayment penalties, and broker originations were all associated with higher loan defaults. In fact, when risky features were layered into the same loan, the resulting risk of default for a subprime borrower was four to five times higher than for a comparable borrower with the lower-rate fixed-rate mortgage from a retail lender.

CRL also conducted a more targeted study to focus on the cost differences between loans originated by independent mortgage brokers and those originated by retail lenders. In "Steered Wrong: Brokers, Borrowers and Subprime Loans," CRL analyzed 1.7 million mortgages made between 2004 and 2006.[22] After matching brokered to retail-originated loans along multiple dimensions, including borrower credit scores, product type, and levels of debt and income verification, we observed consistent and significant price disparities between loans obtained through a broker and those obtained directly from a lender.

Specifically, for subprime borrowers, broker-originated loans were consistently far more expensive than retail-originated loans, with additional interest payments ranging from $17,000 to $43,000 per $100,000 borrowed over the scheduled life of the loan. Even in the first four years of a mortgage, a typical subprime borrower who has gone through a broker pays $5,222 more than a borrower with similar creditworthiness who received their loan directly from a lender.

This finding was not surprising given what we know about broker compensation. Mortgage brokers typically receive two primary types of revenue: an origination fee and a yield spread premium (YSP). The origination fee is paid directly by the borrower and is generally calculated as a percentage of the loan amount. The YSP is an extra payment that brokers receive from lenders for delivering a mortgage with a higher interest rate than that for which the borrower qualifies. In the subprime market, lenders usually will pay the maximum YSP only if a loan contains a prepayment penalty. The penalty ensures that the lender will recoup their YSP payment either through excess interest collected over time or from the penalty fee, should a borrower refinance to avoid those interest costs. Ironically, while most subprime borrowers believed their mortgage broker was looking for the best-priced loan for them, the YSP serves as a powerful financial incentive for brokers to steer borrowers into unnecessarily expensive loans.

III. Preventing Risky Lending in the Future.

A. Create the Consumer Financial Protection Agency

In light of our research, we believe there are important additional steps Congress should take to prevent reckless lending that could once again fundamentally disrupt our economy. Most importantly, we urge you to support H.R. 3126, which would establish the Consumer Financial Protection Agency.

As demonstrated above, the subprime market itself delivered loans with significant inherent risks over and above borrowers' exogenous risk profiles through the very terms of the mortgages being offered. Although financial regulatory agencies were aware of this risk, regulatory action was discouraged by the concern that any regulatory agency taking action against these types of loans would place their regulated institutions at a competitive disadvantage. In addition, the ability of lenders to choose their regulator has resulted in a system where lenders may exert deep influence over their regulator's judgment.[23]

The Consumer Financial Protection Act would gather in one place the consumer protection authorities currently scattered across several different agencies, and would create a federal agency whose single mission is to protect our families and our economy from consumer abuse. The Agency would restore meaningful consumer choice by averting the race to the bottom that has crowded better products out of the market.[24]

H.R. 3126 is appropriately balanced to enhance safety and soundness and allow appropriate freedom and flexibility for innovation. The bill also incorporates the elements that are essential to an effective consumer protection agency. These include the following:

- The bill provides the Agency with essential rule-making authority to prevent abusive, unfair, deceptive and harmful acts and practices and to ensure fair and equal access to products and services that promote financial stability and asset-building on a market-wide basis.

- The bill provides the Agency with strong enforcement tools, along with concurrent authority for the States to enforce the rules against violators in their jurisdictions. We urge that the bill also ensure that individuals harmed by violations of the Agency's rules have redress.

- The bill reforms the preemption of State laws to ensure that States are not hamstrung in their efforts to react to local conditions as they arise and preserves the ability of states to act to prevent future abuses.

- The bill gives the Consumer Financial Protection Agency supervisory authority to ensure that financial institutions comply with the rules it puts in place and to give the Agency access to the real-world, real-time information that will best enable it to make evidence-based decisions efficiently.

In other areas of the economy, from automobiles and toys to food and pharmaceuticals, America's consumer markets have been distinguished by standards of fairness, safety and transparency. Financial products should not be the exception – particularly since we have demonstrated that it is the subprime mortgage products themselves that raised the risk of foreclosure. A strong, independent consumer protection agency will keep markets free of abusive financial products and conflicts of interest. Dedicating a single agency to this mission will restore consumer confidence, stabilize the markets and put us back on the road to economic growth.

B. Prohibit predatory lending, particularly unsustainable loans, yield spread premiums and prepayment penalties.

It is also imperative to pass legislation that would require sensible and sound underwriting practices and prevent abusive loan practices that contributed to reckless and unaffordable home mortgages. For this reason, we urge the passage of H.R. 1728. While there are some ways in which this bill should be strengthened, it represents a critical step forward in requiring mortgage originators to consider the consumer's ability to repay the loan and to refinance mortgages only when the homeowner receives a net tangible benefit from the transaction.

Another crucial advantage of H.R. 1728 is its establishment of certain bright line standards that will result in safer loans and in more certainty for originators of those loans. The bill's safe harbor construct would grant preferred treatment to loans made without risky features such as prepayment penalties, excessive points and fees, inadequate underwriting, and negative amortization. It would also ban yield spread premiums – which, as we explained earlier, were key drivers of the crisis – and it would permit states to continue to set higher standards if necessary to protect their own residents.

Similarly, we strongly support the Federal Reserve Board's recently released proposal to ban yield spread premiums for all loan originators. While the Board's rule is not yet written tightly enough, it represents an important step forward in the recognition that disclosure alone is not enough to protect consumers and that certain practices themselves give rise to unfairness and unnecessary risk.

Many industry interests object to any rules governing lending, threatening that they won't make loans if the rules are too strong from their perspective. Yet it is the *absence* of substantive and effective regulation that has managed to lock down the flow of credit beyond anyone's wildest dreams. For years, mortgage bankers told Congress that their subprime and exotic mortgages were not dangerous and regulators not only turned a blind eye, but aggressively preempted state laws that sought to rein in some of the worst subprime lending.[25] Then, after the mortgages started to go bad, lenders advised that the damage would be easily contained.[26] As the global economy lies battered today with credit markets flagging, any new request to operate without basic rules of the road is more than indefensible; it's appalling.

IV. Avoiding Additional Unnecessary Foreclosures Stemming from the Current Crisis.

Finally, we urge this Committee to take further action to help save the homes of the millions of families facing impending foreclosure.

A. Ensure that Current Anti-Foreclosure Efforts are as Strong as Possible.

It is very important for all of us to monitor and evaluate the Treasury's Home Affordable Modification Program (HAMP) and HUD's Hope for Homeowners (H4H) program.

The HAMP program has the potential to modify millions of mortgages. However, it has gotten off to a slow start, hampered by a severe problem with servicer capacity, by a piece-by-piece rollout of complementary programs addressing second liens and short sales, and by lagging compliance and appeals procedures. Many servicers who are participating in this voluntary program are apparently not following all of the program's directives. Most importantly, experience shows that they are not consistently following the requirement that loans be evaluated for HAMP eligibility before foreclosure proceedings are commenced.

To improve HAMP, servicers should be barred from proceeding with any portion of a foreclosure action prior to considering the consumer for a modification. In other words, they should not be permitted to institute an action, and if an action has already been instituted, they should not be permitted to move forward at all. Right now, reports indicate that many servicers are operating as if the only thing prohibited before consideration for a modification is the final foreclosure sale –and, even worse, many foreclosure sales are still going forward while the HAMP review is in process.

In addition, the net present value model must be far more transparent to consumers, consumers who are turned down must be told the specific reason for their denial through a formal declination letter, and the program needs to roll out a clear process for appeal of a decision above and beyond the servicer's own internal procedures.

One way to help with the various concerns just listed is to create a mediation program that would require servicers to sit down face-to-face with borrowers to evaluate them for loan modification eligibility. Similar programs are at work in several jurisdictions across the country, and they can be very helpful to ensure that homeowners get a fair hearing and that all decisions are made in a fair and transparent way.[27]

It is also crucial that the loan-level data that will be available to the Treasury Department by early August be released to the public, both in report form and in the maximum possible raw disaggregated form so that independent researchers and other interested parties can analyze the data themselves. In addition, the Treasury Department should publish benchmarks against which program performance will be evaluated.

Considering the difficulties that HAMP is encountering as it tries to scale up, it would be prudent to institute a deferment program along the lines of the Home Retention and Economic Stabilization Act introduced early this session by Representative Matsui and Senator Menendez (H.R. 527 and S. 241). This legislation permits homeowners making less than a certain income who are stuck in dangerous home loans, such as subprime or payment option ARM mortgages, to avoid foreclosure for up to nine months as long as they make a market-based mortgage payment and remain responsible during their deferment period. This deferment period would end if the homeowner was offered a HAMP or other sustainable modification.

As for the H4H program, so far, that program has failed to even begin to fulfill its promise. We supported recent legislative changes that offer some possibility for improving this program in a way that would jump start its use; however, the continued resistance of servicers and lenders to principal reduction and the need to extinguish all junior liens will likely continue to hamper this program's potential going forward. We do not believe the potential of this program will be able to be realized until Congress also lifts the ban on judicial modifications of primary residence mortgages (see section IV(B) below). We also must fix the perverse tax consequences that could befall homeowners using either one of these programs.[28]

B. Lift the Ban on Judicial Modifications of Mortgages on Primary Residences

We strongly believe that no voluntary program will be effective until there is a mandatory backstop available to homeowners. For that reason, we are pleased to see that Congress is beginning to revisit the need to permit judges to modify mortgages on principal residences.

This solution, which carries *zero cost to the U.S. taxpayer*, has been estimated to potentially help more than a million families stuck in bad loans to keep their homes.[29] It would also help maintain property values for families who live near homes at risk of foreclosure. And it would complement the various programs that rely on voluntary loan modifications or servicer agreement to refinance for less than the full outstanding loan balance.

Judicial modification of loans is available for owners of commercial real estate and yachts, as well as subprime lenders like New Century or investment banks like Lehman Bros., but is denied to families whose most important asset is the home they live in. In fact, current law makes a mortgage on a primary residence the only debt that bankruptcy courts are <u>not</u> permitted to modify in chapter 13 payment plans.

Proposals to lift this ban have set strict limits on how it must be done. Such proposals would require that interest rates be set at commercially reasonable, market rates; that the loan term not exceed 40 years; and that the principal balance not be reduced below the value of the property. And if the servicer agrees to a sustainable modification, the borrower will not qualify for bankruptcy relief because they will fail the eligibility means test. As Lewis Ranieri, founder of Hyperion Equity Funds and generally considered "the father of the securitized mortgage market,"[30] has recently noted, such relief is the only way to break through the problem posed by second mortgages.[31]

Conclusion

As we survey the broken mortgage market, it is important to remember that the benefits of homeownership have not changed. Long-term homeownership remains one of the best and most reliable ways that families can build a better economic future, and all of us have a strong national interest in ensuring that the mortgage market works to build our economy, not tear it down. In an effective home lending market, lenders and borrowers will enter transactions with the same fundamental measure of success – that is, a commitment to a mortgage that represents a solid investment both short-term and long-term. We urge Congress to take the actions we have outlined to ensure that opportunities for sustainable homeownership remain open and meaningful.

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[1] Center for Responsible Lending, *Continued Decay and Shaky Repairs: The State of Subprime Loans Today*, p.2 (Jan. 8, 2009) [hereinafter "*Continued Decay*"], *available at* http://www.responsiblelending.org/mortgage-lending/research-analysis/continued-decay-and-shaky-repairs-the-state-of-subprime-loans-today.html.

[2] Goldman Sachs Global ECS Research, Home Prices and Credit Losses: Projections and Policy Options (Jan. 13, 2009), p. 16; *see also* Credit Suisse Fixed Income Research, Foreclosure Update: Over 8 Million Foreclosures Expected, p.1 (Dec. 4, 2008).

[3] Mortgage Bankers Association National Delinquency Study (March 5, 2009).

[4] First American Core Logic (March 4, 2009).

[5] *Continued Decay*, p. 3.

[6] *National Mortgage News* (March 9, 2009).

[7] *Inside B&C Lending* (February 27, 2009).

[8] Id.

[9] National Association of Realtors, http://www.realtor.org/research/research/ehsdata.

[10] US Census Bureau, http://www.census.gov/const/quarterly_sales.pdf and http://www.census.gov/const/www/quarterly_starts_completions.pdf.

[11] Based on the Mortgage Bankers Association's Weekly Mortgage Applications Survey for the week ending February 27, 2009. The four-week moving average for the seasonally adjusted Purchase Index reached its lowest level since April 1998. *See* www.mortgagebankers.org/NewsandMedia/PressCenter/67976.htm.

[12] Testimony of Eric Stein, Center for Responsible Lending, before the Senate Committee on Banking (Oct. 16, 2008) [hereinafter "Stein Testimony"], *available at*. http://www.responsiblelending.org/mortgage-lending/policy-legislation/congress/senate-testimony-10-16-08-hearing-stein-final.pdf

[13] Favorite industry targets to blame for the crisis are the Community Reinvestment Act (CRA) and Fannie Mae and Freddie Mac (the GSEs). For a complete discussion of why CRA and the GSEs did not cause the crisis, see Stein testimony, pp. 25-33.

[14] *See, e.g.*, Glenn R. Simpson and James R. Hagerty, *Countrywide Loss Focuses Attention on Underwriting*, Wall Street Journal (Apr. 30, 2008).

[15] Vikas Bajaj and Christine Haughney, *Tremors at the Door: More People with Weak Credit Are Defaulting on Mortgages*, New York Times (January 26, 2007).

[16] Rick Brooks and Ruth Simon, *Subprime Debacle Traps Even Very Credit-Worthy As Housing Boomed, Industry Pushed Loans To a Broader Market*, Wall Street Journal at A1 (Dec. 3, 2007).

[17] Letter from Coalition for Fair & Affordable Lending to Ben S. Bernanke, Sheila C. Bair, John C. Dugan, John M. Reich, JoAnn Johnson, and Neil Milner (Jan. 25, 2007) at 3.

[18] Julie Bykowicz, "City can proceed with Wells Fargo lawsuit", Baltimore Sun (July 3, 2009) (available at http://www.baltimoresun.com/news/maryland/baltimore-city/bal-md.foreclosure03jul03,0,5953843.story).

[19] Ellen Schloemer, Wei Li, Keith Ernst, and Kathleen Keest, "Losing Ground: Foreclosures in the Subprime Market and their Cost to Homeowners" (Center for Responsible Lending, December 2006) available at http://www.responsiblelending.org/mortgage-lending/research-analysis/foreclosure-paper-report-2-17.pdf

[20] *See e.g.,* Yuliya Demyanyk, "Ten Myth About Subprime Mortgages", Economic Commentary, Federal Reserve Bank of Cleveland (May 2009) (available at http://www.clevelandfed.org/research/commentary/2009/0509.pdf); Karen Weaver, "The Sub-Prime Mortgage Crisis: A Synopsis" Deutsch Bank (2008) (available at http://www.globalsecuritisation.com/08_GBP/GBP_GSSF08_022_031_DB_US_SubPrm.pdf) (concluding that subprime mortgages "could only perform in an environment of continued easy credit and rising home prices);

[21] Lei Ding, Roberto G. Quercia, Janneke Ratcliff, and Wei Li, "Risky Borrowers or Risky Mortgages: Disaggregating Effects Using Propensity Score Models" Center for Community Capital, University of North Carolina at Chapel Hill (September 13, 2008) (available at http://www.ccc.unc.edu/abstracts/091308_Risky.php).

[22] Center for Responsible Lending, *Steered Wrong: Brokers, Borrowers and Subprime Loans* (April 8, 2008), *available at* http://www.responsiblelending.org/mortgage-lending/research-analysis/steered-wrong-brokers-borrowers-and-subprime-loans.pdf.

[23] *See e.g.*, Silla Brush, "Audit: OTS knew bank data was skewed", The Hill (May 21, 2009) (available at http://thehill.com/business--lobby/audit-ots-knew-bank-data-skewed-2009-05-21.html).

[24] *See* Center for Responsible Lending, Neglect and Inaction: An Analysis of Federal Banking Regulators' Failure to Enforce Consumer Protections (July 13, 2009) *available at* http://www.responsiblelending.org/mortgage-lending/policy-legislation/regulators/neglect-and-inaction-7-10-09-final.pdf.

[25] Id.

[26] For example, in September 2006, Robert Broeksmit of the Mortgage Bankers Association told Congress, "Our simple message is that the mortgage market works and the data demonstrate that fact," and "I strongly believe that the market's success in making these "nontraditional" products available is a positive development, not cause for alarm." Statement of Robert D. Broeksmit, CMB Chairman, Residential Board of Governors, Mortgage Bankers Association, Before a Joint Hearing of the Subcommittee on Housing and Transportation and the Subcommittee on Economic Policy, U.S. Senate Committee on Banking, Housing and Urban Affairs, Calculated Risk: Assessing Non-Traditional Mortgage Products, *available at* http://banking.senate.gov/public/_files/broeksmit.pdf./. In May 2007, John Robbins of the Mortgage

Bankers Association said, "As we can clearly see, this is not a macro-economic event. No seismic financial occurrence is about to overwhelm the U.S. economy. And we're not the only ones who think so." John M. Robbins, CMB, Chairman of the Mortgage Bankers Association at the National Press Club's Newsmakers Lunch – Washington, D.C. , *available at* http://www.mortgagebankers.org/files/News/InternalResource/54451_NewsRelease.doc.

[27] Andrew Jakabovics and Alon Cohen, "It's Time we Talked: Mandatory Mediation in the Foreclosure Process" Center for American Progress (June 2009) (available at: http://www.americanprogress.org/issues/2009/06/pdf/foreclosure_mediation.pdf).

[28] For more information on tax consequences of principal reduction, *see* Stein Testimony, p. 10.

[29] Mark Zandi, "Homeownership Vesting Plan", Moody's Economy.com (December 2008) (available at http://www.dismal.com/mark-zandi/documents/Homeownership_Vesting_Plan.pdf).

[30] *Lewis Ranieri to deliver Dunlop Lecture on Oct. 1*, Harvard University Gazette, Sept. 25, 2008, *available at* http://www.news.harvard.edu/gazette/2008/09.25/06-dunlop.html.

[31] Lewis S. Ranieri, "Revolution in Mortgage Finance," the 9th annual John T. Dunlop Lecture at Harvard Graduate School of Design, Oct. 1, 2008, *available at* http://www.jchs.harvard.edu/events/dunlop_lecture_ranieri_2008.mov (last visited Oct. 13, 2008). Ranieri, is "chairman, CEO, and president of Ranieri & Co. Inc. and chairman of American Financial Realty Trust, Capital Lease Funding Inc., Computer Associates International Inc., Franklin Bank Corp., and Root Markets Inc. He has served on the National Association of Home Builders Mortgage Roundtable since 1989. . . ." *Harvard University Gazette*, Sept. 25, 2008.