TESTIMONY OF

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Before the

HOUSE FINANCIAL SERVICES COMMITTEE

SUBCOMMITTEE ON HOUSING AND COMMUNITY OPPORTUNITY

UNITED STATES HOUSE OF REPRESENTATIVES

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Good morning, Madam Chairman, Ranking Member Capito and Subcommittee Members. Thank you for the opportunity to appear here today to discuss the efforts of servicers like Countrywide to help families prevent avoidable foreclosures. Countrywide has long been a leader in providing loss mitigation services to investors and home retention solutions to our borrowers. Last November, we testified before the House Financial Services Committee and before a Housing Subcommittee field hearing. At that time we had just announced our $16 billion home retention commitment – a strategy designed to help 82,000 subprime hybrid ARM borrowers find refinance and loan modification options. We had also recently announced our groundbreaking agreement with NACA, and the work of the HOPE NOW alliance had just begun in earnest. Not quite five months later, I can report that – as a result of these initiatives and other new ones – the number of families receiving loan modifications and home retention workouts has picked up dramatically.

As the oversight work of this Committee has demonstrated over the past several months, today's market conditions have created unprecedented challenges for servicers and mortgage investors to develop new approaches to mitigating losses for security holders, while keeping as many borrowers in their homes as possible. This is a delicate balancing act. Servicers have contractual, fiduciary obligations to take actions which will maximize the return to the security holders. Sometimes, that requires a servicer to pursue a foreclosure action. At the same time, we recognize that foreclosures are financially and emotionally damaging to our customers and very costly to us and the security holders. Because of the high financial costs of foreclosure to security holders and servicers, we cannot emphasize enough that – as a matter of basic mortgage servicing economics – foreclosure is always and absolutely the last resort.

But I would be remiss if I did not also emphasize that the 3700 home retention personnel that report to me fully comprehend the human implications of foreclosure, and are committed to doing all they can to help families keep their homes whenever possible. I know from personal experience that it is euphoric to tell a customer that you have a plan for them to save their home. It is equally heartbreaking to tell a borrower that they may lose their home. While it is human nature to want to find a way to say "yes," especially when it means keeping a family in their home, we also provide our employees the training and the tools needed to be successful as often as possible.

The recent sharp rise in mortgage delinquencies and foreclosures is challenging mortgage servicers and investors as never before. By August 2007, as credit markets collapsed and home price depreciation accelerated, the pace of delinquencies and foreclosures increased beyond expectations. It became clear that new tools were needed to help borrowers avoid foreclosure and to help investors mitigate losses.

What began with the Dodd Summit in May 2007 became a concerted industry, investor and governmental effort to develop new approaches, clarify legal standards, and remove barriers to more effective home retention strategies. The work of this Committee, the Senate Banking Committee, the federal banking agencies and the servicer and investor members of the HOPE NOW alliance has created the conditions that have allowed Countrywide and the industry to sharply increase the volume and the pace of home retention activities.

Recap of Prior Initiatives

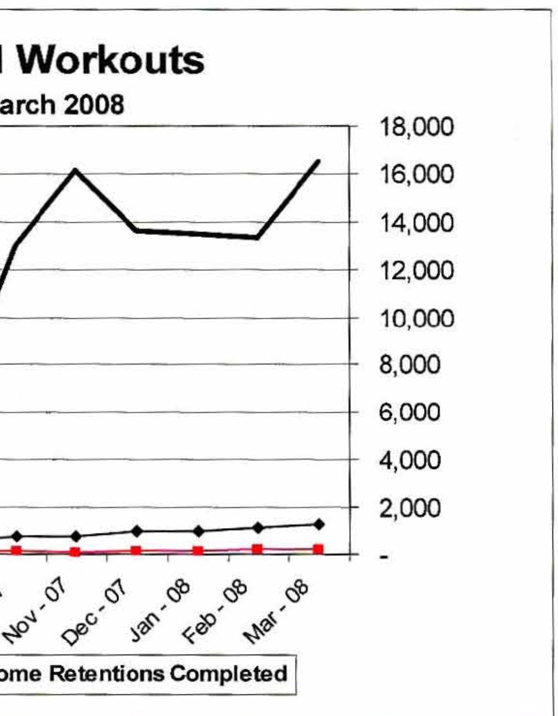
When we testified before the House Financial Services Committee in early November, 2007, Countrywide had just announced a $16 billion home retention initiative to help subprime hybrid ARM borrowers refinance into fixed-rate loans or obtain a loan modification. For that campaign, we deployed dedicated teams to contact by mail and by phone subprime customers who are approaching or have just had a rate reset to determine their financial circumstances and to inform them about refinancing and other home preservation options.

We had also recently announced our groundbreaking partnership with the Neighborhood Assistance Corporation of America. As we testified then, the NACA program provides a borrower-centric approach to home retention, starting with a detailed assessment of a borrower's household budget to determine what level of payment the borrower can afford. That payment is then evaluated against a progressive set of loan workout options, starting with repayment plans and ending with more aggressive loan modification options. Once a workout option meeting the borrower's affordability payment is identified, a solution has been found that balances the borrower's need for affordability with the servicer's obligation to maximize returns for the investors.

Finally, we noted that we had grown our Home Retention Division staff from 2000 employees in January to more than 2700 employees. We reported that, through September 2007, we had completed nearly 40,000 workout solutions that resulted in borrowers keeping their homes, and had refinanced more than 31,000 subprime borrowers into fixed rate loans. Again, that was the Fall of 2007, and the initiatives announced by Countrywide, and the work of the HOPE NOW Alliance and the American Securitization Forum had just begun in earnest. What has been the progress since then?

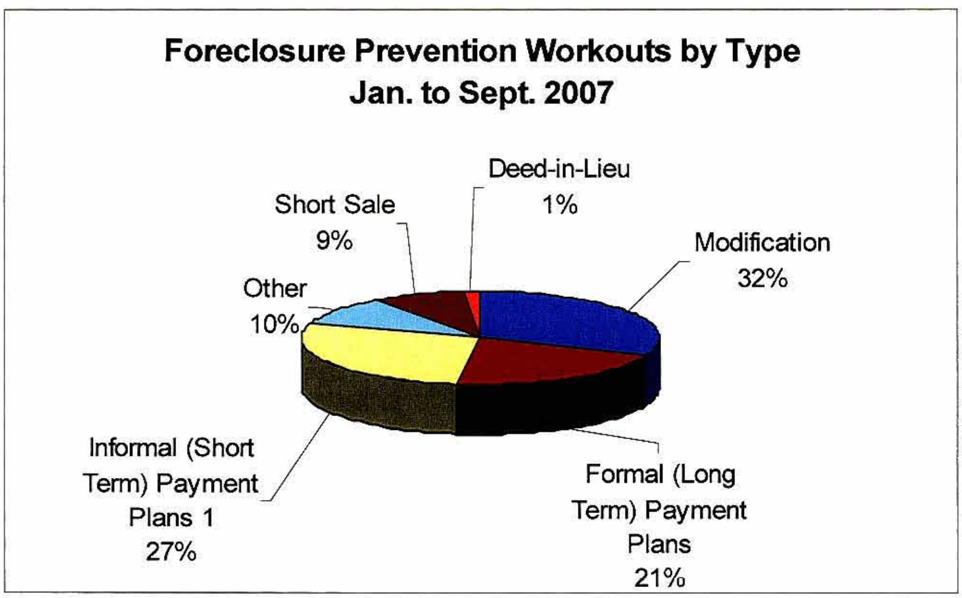
Prior Efforts Pay Off as Home Retentions Increase Sharply

In the last 6 months, we have redoubled our commitment, growing our home retention staff by another 1000 employees from 2700 last Fall to almost 3700 today. Over that same time period – media reports to the contrary – the pace of home retention efforts by Countrywide and the rest of the industry has picked up sharply. And just as important, the types of workouts implemented have become dramatically more aggressive.



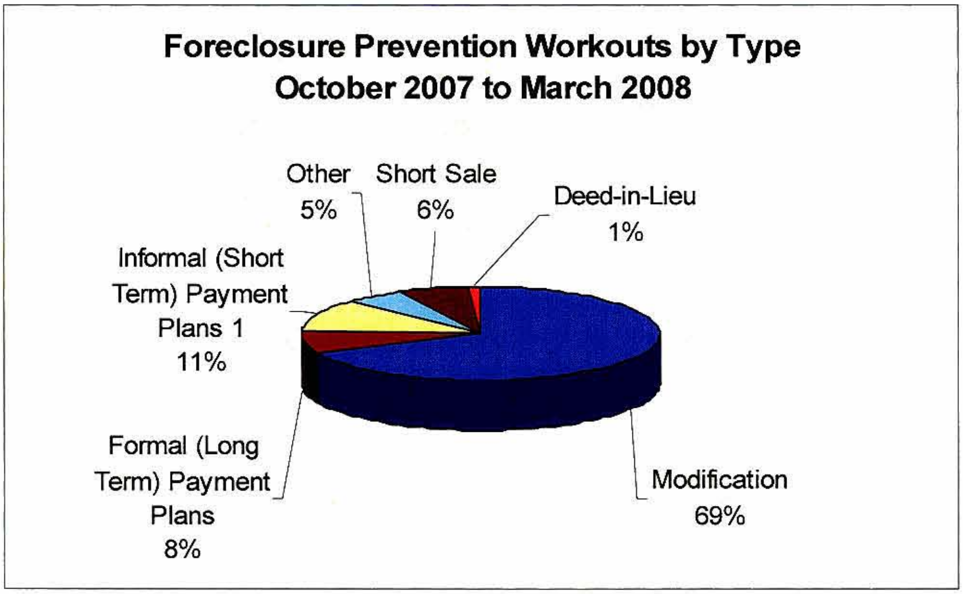
Through the first 9 months of 2007, Countrywide completed an average of 6,700 home retention workouts per month. This includes loan modifications, forbearance, repayment plans and other solutions that keep families in their homes. By contrast, in the last 6 months (through March 31) we completed more than 91,000 home retention workouts, saving an average of more than 15,000 homes from foreclosure each month. In short, the pace of activity in the past 6 months is more than twice the pace during the first three quarters of 2007.

As noted, the types of home retention workouts provided to borrowers have also changed dramatically. During the first 9 months of 2007, short or long term repayment plans were the most common solution provided to borrowers, accounting for nearly half of all workouts. Loan modifications accounted for only 32% percent of workouts, but virtually all of these were traditional modifications involving re-amortizing missed payments over the remaining term of the loan. Rate reduction modifications were extremely rare at that time.



Note: Rate relief modifications account for a negligible percentage of all loan modifications

By contrast, in the past 6 months (ending March 31), loan modifications have become the predominant form of workout assistance at Countrywide. Nearly 70% of all home retentions during the time period involved loan modifications, while repayment plans accounted for less than 20%. Moreover, previously rare rate relief modifications now account for almost 43% of all loan modifications. The majority of these rate relief modifications has a duration of at least 5 years and are targeted to borrowers experiencing payment difficulties caused by disruption to income or other financial stress, as well as a result of rate resets.



Note: Rate relief modifications accounted for 43% of all loan modifications

In short, the growth in the number of home retention workouts completed – particularly loan modifications – is increasing dramatically faster than the number of foreclosure completions. As shown in the table below, in March 2007, we completed about 6,700 home retentions, of which about 1,800 were loan modifications.

Growth in Loan Modifications Far Outpaces Growth in Foreclosures

	Mar-07	Mar-08	% Change
Home Retentions Completed	6,651	16,514	148%
Loan Modifications	1,843	12,807	595%
Loan Mods as % of Home Retentions	28%	78%	n.a.
Foreclosures Completed	5,206	8,266	59%

By March, 2008, we completed 16,500 home retention plans – nearly a 150% increase over the prior year. Moreover, that increase was driven by an almost 600% jump in loan modification plans. By comparison, completed foreclosures in March 2008 increased by 59% over the March 2007 pace. An increase in foreclosures is a trend no servicer likes to see. However, the effort of our home retention team is paying off. In October 2007, we completed just over 9000 foreclosures – however, in the five months since October, the average number of completed foreclosures declined to 8200.

Partnerships and Outreach Remain Critical

We have also continued to expand our outreach initiatives and partnerships in order to ensure that every customer that needs help is reached. In addition to our NACA partnership, we have strengthened our relationships with NeighborWorks, the Homeownership Preservation Foundation and the National Foundation for Credit Counseling. And in February 2008, Countrywide signed a national counseling partnership and best practices agreement with ACORN. This agreement accomplishes two important objectives. First, it leverages ACORN's national reach and counseling expertise in a fee-for-service arrangement that will allow us to reach and provide assistance to more of our borrowers. Secondly, the agreement contains a set of detailed home retention best practices between Countrywide and ACORN that will apply to all of Countrywide subprime servicing portfolio (not just hybrid ARMs). The scope of the agreement includes:

- ✓ notification standards for subprime ARM borrowers,
- ✓ proactive portfolio reviews to identify candidates for rate freezes or rate rollbacks,
- ✓ specific guidelines to identify the appropriate workout options for borrowers whose problems are more severe than basic rate reset issues,
- ✓ guidelines requiring the impounding of taxes and insurance and second reviews for any loan not determined to be initially eligible, and
- ✓ ongoing training of Countrywide staff and monitoring of the agreement by senior Countrywide executives and ACORN leadership.

A detailed summary of the ACORN Agreement is attached as Exhibit A.

We have also have continued to develop new local partnerships with non-profit housing groups in key markets around the country. In addition to our We now have more than 50 counseling groups working with the Countrywide advocacy team on case resolutions. In the past 6 months, Countrywide participated in 130 homeownership preservation seminars in local communities around the country. We have also hosted numerous "train-the-trainer" sessions around the country to help improve the ability of non-profit agencies to connect and communicate with loan servicers. The effectiveness of these events is validated by the seemingly insatiable demand for them in local markets around the country. Countrywide is making every effort to attend as many such events as possible in 2008.

Looking Forward

While there is no single solution to address current conditions, the incremental initiatives of the HOPE NOW Alliance and the clarifications of accounting and tax rules facilitated by Congress and the banking regulators over the past several months have made a significant impact in servicers' ability to increase home retention. Foreclosure is always the last resort for servicers and investors. Additional initiatives, such as using the FHA program to facilitate so-called "short refinance" transactions, could provide servicers another layer in the progression of workout options to help borrowers who may not be able to sustain a loan modification one more alternative to foreclosure. We look forward to working with Congress on such programs to ensure that they will be attractive enough to investors to effectively reach the targeted audience, but do so without unduly burdening taxpayers or providing financial windfalls for investors, borrowers or servicers.

We have not had time to fully analyze H.R. 5679, the Foreclosure Prevention and Sound Mortgage Servicing Act. Our initial review indicates that there are a handful of provisions that we could, with modest changes, support, including:

- ✓ Enhanced notice provisions to borrowers about upcoming adjustable rate mortgage resets (this should codify the existing banking agency guidance that applies to federally-regulated lenders like Countrywide, but not others),
- ✓ Enhancing the ability of borrowers to access quality foreclosure prevention counseling resources, and
- ✓ Uniform reporting requirements of certain loss mitigation activities to our primary regulator (Countrywide currently participates in the HOPE NOW and the Conference of State Bank Supervisors data collection efforts. A uniform reporting process with an institution's primary regulator would be preferable).

However, we have serious concerns with provisions of the bill that could force servicers to violate their contractual and fiduciary obligations to investors and we welcome the opportunity to discuss our concerns with members of this subcommittee. Many provisions, while well intentioned, would make it more difficult to find workable solutions tailored to individual borrower circumstances. Others would limit the ability of servicers to "triage" loss mitigation activities in order to improve service and turnaround times.

As Congress evaluates this and other legislation to stabilize the housing market, it is important that care be taken not to undermine the legal certainty that investors depend on when providing much needed liquidity to the mortgage. Such actions could impose higher costs on new borrowers just as they are preparing to re-enter a fragile market. Efforts to stabilize the housing market should also focus on the demand side of the equation in order to encourage reluctant buyers – especially first-time buyers – to return to the market.

Conclusion

In conclusion, Countrywide remains committed to helping our borrowers avoid foreclosure whenever they have a reasonable source of income and a desire to remain in the property. Foreclosure is always a last resort for Countrywide and for the investors in the mortgage securities we service. While we cannot, at this time, address any specifics regarding the Bank of America-Countrywide merger, the Subcommittee can be assured that both organizations are fully committed to meeting the challenges of today's housing market with leading-edge foreclosure prevention technology, training, programs and partnerships.