TESTIMONY OF

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On behalf of the

CONFERENCE OF STATE BANK SUPERVISORS

On

FINANCIAL LITERACY SKILLS FOR HOMEOWNERS

Before the

SUBCOMMITTEE ON ECONOMIC POLICY

COMMITTEE ON BANKING, HOUSING AND URBAN AFFAIRS

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Good morning, Chairman Carper, Senator Bunning, and distinguished members of the Subcommittee. My name is Sarah Bloom Raskin, and I serve as Commissioner of Financial Institutions for the State of Maryland. I am happy to be here today to testify on behalf of the Conference of State Bank Supervisors (CSBS) on the importance of financial literacy counseling for potential homebuyers and new mortgage borrowers.

CSBS is the professional association of state officials responsible for chartering, supervising, and regulating the nation's 6,127 state-chartered commercial and savings banks, and 400 state-licensed foreign banking offices nationwide. For more than a century, CSBS has given state bank supervisors a national forum to coordinate, communicate, advocate and educate on behalf of state bank regulation. In addition to banks, most CSBS members also have licensing and supervisory responsibilities for mortgage companies.

States have been active in mortgage regulation since the 1980s, when the first states passed mortgage broker licensing laws. All 50 states, plus the District of Columbia, have now adopted some form of regulatory oversight of the residential mortgage industry. By the most recent count states have jurisdiction over more than 88,000 mortgage companies nationwide, with 68,000 branch locations and around 360,000 loan officers and other professionals.

Chairman Carper, I certainly do not need to tell you what an important role states have always played in the development and oversight of essential financial services in this country. Your understanding and support of the states' role in financial regulation are well known and longstanding, and we deeply appreciate them.

But for members of the Committee who may not be familiar with this role, I want to emphasize the importance of maintaining a system of local oversight and accountability for this most personal of financial products. For more than four years, we at the state level have been working on solutions to the challenges raised by the revolution in mortgage finance during the 1990s, and the fragmented system in place to supervise its players.

CSBS began with a vision for a national licensing system, and has moved on to coordinated regulatory policy with the federal banking agencies, enhanced examiner training, and pilot programs for coordinated examinations of mortgage lenders. Our goal, like yours, is a streamlined, consistent system of oversight that protects consumers and enforces best practices while maintaining a stable flow of credit through our markets. Pre-loan counseling, and follow-up counseling to new borrowers, is a key element of these best practices.

The traditional mortgage loan was an exercise in trust and partnership between borrower and lender, with both parties having a stake in making sure that the borrower's decision to buy and finance a home was prudent and sustainable over a considerable period of time. Securitization fundamentally changed the role of traditional depository institutions, as new players entered the origination and funding business. Much of the current difficulty in today's mortgage industry stems from the changes securitization made in the industry's incentives. Securitization rewarded volume and speed, not only in the making of first mortgages but also in the refinancing of these loans. It also rewarded and encouraged the creation of exotic mortgage products.

In short, these are not your parents' mortgages, and even a moderately informed consumer might be confused at the options now available to finance or refinance a home. I say "refinance" advisedly, because we see this as a major gap in mortgage education efforts. Borrowers who might have had a good understanding of their original, traditional mortgage often refinanced into exotic instruments that were very different from the loans they'd been paying for years.

Today's consumers have the advantage of choosing from a wide range of mortgage products, which allows informed borrowers to select a product that best meets their financial situation and long-term plans. Given the variety of these choices and their complexity, several states have included suitability-type requirements in their licensing standards for mortgage lenders.

Without minimizing the importance of homebuyer and homeowner counseling and education, I want to note that the importance of combining these efforts with regulatory initiatives to bring greater transparency and accountability to the mortgage origination process. I mentioned the CSBS/AARMR Nationwide Mortgage Licensing System, which launched this past January in seven states. This program already tracks more than 4,000 mortgage companies and 9,600 loan officers. This tracking is a crucial complement to consumer education. By year-end, we expect to have 18 states in the system, and will begin to build a structure that allows consumers to check on the license status of a company or a loan officer, and find out about enforcement actions taken by participating state regulators.

While many efforts are now underway to counsel borrowers in trouble, we all understand that by the time a borrower faces foreclosure, we have already missed many opportunities for education and outreach.

For the borrowers in trouble, in fact, counseling alone may not be enough. This is a multi-faceted problem, with many roots and implications, and demands a multi-faceted approach. In Maryland, we now see the need for housing counseling offices that provide not only counseling, but also other basic services, such as litigation support. Borrowers who have been victims of predatory lenders need help in determining whether and how they can seek redress and remediation. Of greatest concern, we are now exploring staffing these counseling offices with social workers who can help with such drastic situations as foreclosure-related suicide threats and emergency shelter. These are not the traditional functions of a state banking department or a housing counseling agency -- but at the state level we are used to doing whatever the situation calls for, and we generally have the flexibility to do so.

And borrowers are not the only ones who need counseling. As I said, my agency and others are now being asked to cope with unprecedented circumstances; so are many housing agencies and housing advocates. The Massachusetts Attorney General's office, for example, has set up the Pro Bono Foreclosure Assistance project in cooperation with the state's bar association leaders. The project held a two-day seminar on foreclosure defenses, and trained more than 110 people; the fee for admission was an agreement to accept one foreclosure case on a *pro bono* basis.

The key, therefore, is to make sure that borrowers have the information they need to choose the product most appropriate for their needs and their financial condition. One ironic benefit of the current crisis is that it is showing us what borrowers didn't know, and needed to – thus, financial literacy programs can learn from this experience and readjust to help prevent future crises.

A good financial literacy program includes at least three essential elements:

1. Participant involvement. The process of buying a home and applying for a mortgage is intimidating, but it's not rocket science. Consumers gain confidence when they can identify the pieces of the process they already know, so a good training program should begin with the instructor asking questions that students can yell out the answers to. New York State's financial literacy training, for example, starts with asking students what they spent money on before getting to class, or what they spent money on the day before. They differentiate between spending on needs and spending on wants, and go on from there.

2. Training the trainers is essential, and often neglected. Financial literacy instructors need to know not only the nuts and bolts of personal finance, but also the psychology of money and how adults learn. How does peer pressure affect decisions? How does advertising affect decisions? What is the difference between needs and wants? How have they decided what type of house to look for? How have they decided how much money they can afford for mortgage payments?
3. Financial literacy training is most effective when it can capitalize on "teachable moments" – that is, teaching when the student wants the information, and when it will stick. Purchasing a home should be one of those moments when people are paying attention and trying to learn, and willing to change their behavior when necessary.

States have launched a wide range of education efforts for homebuyers, homeowners, and their advocates, and put measures in place to require or encourage lenders to educate borrowers themselves. Federal and state governments should endorse and promote the National Industry Standards issued last fall by HUD, NeighborWorks®, and a host of industry leaders; we are and should be looking for ways to help nonprofit counselors achieve and demonstrate compliance with these standards.

We can and should work together to set similar standards for broader financial literacy programs. Maryland's Cooperative Extension Service, based at the University of Maryland, has set standards for its Financial Education curriculum, and is providing train-the-trainer workshops that lead to certification of graduates as Financial Education Specialists. The National Industry Foreclosure Counseling Standards include a certification requirement; it would be appropriate for broader financial education standards, as well. Basic homeownership education includes a great deal of financial education, and default counseling includes even more. Any default counseling program, for example, should begin with the borrower's laying out a budget and prioritizing expenses.

Federal and state governments can and should present a better-aligned approach to building the capacity of homeownership and financial education nonprofit sector. For example, HUD could establish a matching grants fund to encourage states to raise or pledge funds to financial education; HUD could make "Financial Education Block Grants" for states to pass through to the counseling organizations best equipped to reach the borrowers who need these services most. HUD currently offers housing counseling grants directly to nonprofit counselors and to large jurisdictions through CDBG grants, which in turn sub-grant out to counseling organizations. This does not help us achieve our broader aims, because states need the leverage of controlling the funding in order to persuade applicants to commit to industry-wide standards. If federal-level coordination is not realistic, states should develop an approach to setting standards in exchange for sustained support to the counseling sector (including finding a renewable funding source).

The National Mortgage Licensing System proposed and developed by CSBS and AARMR comes at the issue from the other side, requiring standards of education for mortgage bankers and brokers as a condition for licensure. While in forums like these we tend to focus on the need to educate the consumer, in the structure of today's marketplace, it is often equally important to educate the lenders, or the lenders' agents.

As I mentioned, the initiatives currently underway to provide counseling and education for troubled borrowers will give us insight into the most effective strategies for financial education going forward. I want to mention several programs now underway at the state level:

- The Lieutenant Governor of Delaware, John Carney, established a task force on foreclosure prevention last year, which maintains a website that aggregates information and resources for consumers. The Delaware Office of the State Bank Commissioner has an active consumer education program, which works in partnership with several community-based organizations, including the Homeownership Preservation Foundation and NeighborWorks® America.
- Illinois's Anti-Predatory Lending Database Program provides for mandatory housing counseling when certain triggers occur, and the state's High Risk Home Loan Act requires lenders to advise borrowers that counseling may be in the borrower's best interest if a high-risk home loan becomes delinquent by 30 days. The Office of the Governor, the Illinois Housing Development Authority, and the Department of Financial and

Professional Regulation are sponsoring a series of Homeowner Outreach Days, where counseling is available.

- A new law in Massachusetts requires the Massachusetts Division of Banks to grant $2 million to non-profit counseling agencies to establish at least 10 regional foreclosure-prevention counseling agencies. Part of the grant money was also awarded for subprime ARM counseling, for borrowers not yet in default. The grant money comes from licensing fees, so that the industry is funding these services through the Division. The Division has also established a partnership with NeighborWorks® and several area counseling agencies to help homeowners in difficulty by seeking 30- to 60-day stays in the foreclosure process for borrowers who avail themselves of counseling. MassHousing is making $250 million available to help refinance qualified lower-income borrowers who may have been victims of predatory lenders, after the borrower completes screening and counseling with one of several approved counseling agencies. The Massachusetts Attorney General's Office, working through the Legal Advocacy and Resource Center and the Volunteer Lawyers' Project, has established a foreclosure hotline that screens callers for eligibility for legal support, and refers them where appropriate.
- The New York State Banking Department has joined with state legislators to sponsor daylong foreclosure prevention forums throughout the state, bringing borrowers face-to-face with their loan servicers, housing counselors and government agencies. The state legislature has just

designated $25 million for housing counseling and legal services to prevent foreclosures; this is on top of the $1.5 million now being awarded by the Banking Department to not-for-profit organizations to provide direct foreclosure prevention counseling or legal services. That $1.5 million is funding provided from settlements of enforcement actions against subprime lenders. Additionally, a new state law requires that the commencement of every foreclosure action include a notice that encourages the homeowner to seek advice from a housing counselor or lawyer. Pending legislation would extend this notice requirement to delinquent borrowers who are still at least 60 days ahead of legal action.

- North Carolina law requires independent counseling for high-cost home loans and reverse mortgages. For borrowers facing foreclosure, the state has developed a network of 20 local housing counseling agencies that can provide face-to-face counseling with homeowners who need more assistance than the national HOPE hotline can offer.
- Pennsylvania Secretary of Banking Steven Kaplan recently issued a series of radio PSAs that invite callers to contact the agency's consumer services division, which can refer them to the network of housing counselors approved and funded by the Pennsylvania Housing Finance Agency (PHFA). PHFA has its own housing counseling initiative, which includes consideration of two loan products (REAL and HERO) that were developed in response to the current mortgage crisis.

- Washington State’s Homeownership program includes a broad media campaign to inform pre-purchase, post-purchase and delinquent homebuyers about how and where to obtain counseling and legal assistance. The state’s Homeowners Security Task Force has recommended that the state provide financial resources to make more education and counseling available to first-time homebuyers and delinquent borrowers, and providing tax credits and other incentives to mortgage originators that provide financial resources to recognized consumer education and counseling providers.

One theme that recurs throughout these initiatives is our recognition that the lender is not always the best, or even the most appropriate, provider of financial education or counseling. Especially once a borrower becomes delinquent, a real or perceived adversarial relationship with the lender can make meaningful communication difficult. Therefore, our agency and others seek opportunities to cooperate with third parties such as the NeighborWorks affiliates, faith-based organizations, and other not-for-profit consumer advocacy groups, and we encourage our licensees to do the same.

While CSBS has advocated a more systemic nationwide system for working with delinquent mortgage borrowers and homeowners in foreclosure, we believe that any federal initiative to improve consumer protection must recognize, support and not interfere with the states’ ability, through legislative and enforcement authority, to protect consumers from emerging problems. It is crucially important not to undercut the work we have already done and are continuing to do. Federal legislation should build on state expertise and efforts to protect consumers. Our uniform licensing initiative is only one part of this effort.

Congress has the opportunity to create a new system of state and federal coordination for protecting homeowners and enforcing best practices in the mortgage lending industry. Consumer education and counseling are crucial elements of those best practices, and CSBS would support federal efforts to support and encourage these practices. We ask, however, that you remember that when it comes to protecting consumers, even globally funded mortgages are originated locally. Grassroots outreach and education programs are more effective, more efficient, farther-reaching and longer lasting than “top down” initiatives.

Thank you for inviting me to testify on this important subject today. I will be pleased to answer any questions the Committee may have.