

Appendix A

Senate Banking Committee Mortgaged Summit Principles

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United States Senate

COMMITTEE ON BANKING, HOUSING, AND
URBAN AFFAIRS

WASHINGTON, DC 20510-6075

Homeownership Preservation Summit Statement of Principles May 2, 2007

The goal of the Homeownership Preservation Summit is to maximize the number of homeowners who are able to stay in their homes who would otherwise be threatened with default and foreclosure as subprime hybrid ARMs reset, resulting in significant payment shocks. Participants recognize that no one – not investors, servicers, lenders, homeowners, or neighborhoods – benefits when families lose their homes to foreclosure. To preserve homeownership upon rate reset, consistent with applicable legal and contractual obligations, and accounting standards, the participants agree with the following set of principles:

1. **Early Contact and Evaluation:** Servicers should attempt to contact subprime ARM borrowers prior to the loan reset to determine whether the borrower can afford the new, higher payments, or whether the higher payments create a reasonable risk of default. If it is clear, after reviewing all the available facts and circumstances, that the borrower will be unable to make the new payment when the loan resets, then the servicer may presume that default on the mortgage is reasonably likely to occur. This conclusion may permit the servicer to modify the loan.
2. **Modify to Create Longterm Affordability:** If the borrower cannot afford the reset payment (as described above), servicers should seek to modify loans prior to the reset. The objective of the modification should be to create a permanent solution for the borrower to ensure that the loan is sustainable for the life of the loan rather than, for example, deferring the rate reset period. Such modification options should include, as appropriate, one or more of the following:
 - **Change of terms.** Switching from an adjustable to a fixed rate loan at an affordable rate by, for example, making the introductory rate permanent.
 - **Reduce the interest rate.** Reducing the interest rate is one way to assist a borrower to afford the mortgage. Ability to repay should take into account the borrower's total debt-to-income ratio, including factoring in the costs of taxes and insurance.
 - **Reduce principal.** Reducing the loan principal in order to ensure affordability and a continued revenue stream on the loan.
 - **Reamortize the loan.** Reamortizing the loan to account for any changed loan terms or to make the payments more affordable.
 - **Escrows.** If possible, servicers should begin to escrow for taxes and insurance as part of the modification process to ensure the home loan will remain sustainable for the life of the loan.

3. **Dedicated Teams or Resources**: Servicers should adopt a modification policy so that modifications can be done on the scale required in the time required by dedicated teams or dedicated resources. Where feasible, servicers should partner with experienced third party counselors and non-profits to make outreach as effective as possible.
4. **Low-Cost Refinancing**: For those who are eligible, refinancing to prime loans should be made in as streamlined and low-cost fashion as possible.
5. **Credit Availability**: In conjunction with lender efforts to modify or refinance existing loans, the GSEs should work with lenders to make credit available to borrowers through new products and expanded programs provided on affordable terms so that borrowers can refinance out of the resetting subprime ARMs. These new loans should be underwritten to provide long-term affordability. FHA should provide insurance for such loans when possible and desirable. The GSEs should also explore opportunities to buy subprime portfolios and modify them according to these principles.
6. **Maximize Success, Minimize Damage**: The participants understand that not every foreclosure can be prevented nor every home saved. All parties should work to minimize the damage to borrowers, communities, and the mortgage market when saving the home is not possible.
7. **Accountability**: A system should be developed for measuring progress on achieving the principles outlined above so that the parties can track progress, and so that the process is as transparent as possible.



U.S. SENATE BANKING COMMITTEE

Chris Dodd, Chairman

May 2nd, 2007

DODD UNIFIES INDUSTRY MEMBERS, CONSUMER REPRESENTATIVES TO HELP PRESERVE AMERICAN DREAM OF HOME OWNERSHIP

Leading stakeholders in subprime market agree to Dodd principles

UPDATE: DODD COMMENDS BEAR STEARNS' AGREEMENT TO PRINCIPLES

Chairman Dodd announced that Bear Stearns will join the organizations and companies mentioned below in agreeing to the Homeownership Preservation Summit Statement of Principles he released earlier today (attached). Chairman Dodd commends Bear Stearns for its leadership on this issue.

As part of his efforts to preserve homeownership for millions of American families and to strengthen local communities and our nation's economy, Senator Chris Dodd (D-CT), Chairman of the Senate Committee on Banking, Housing, and Urban Affairs, today announced that leading stakeholders in the subprime mortgage market have agreed to a comprehensive set of principles when working with families facing foreclosure on their homes. The principles are based on the premise that everyone – investors, servicers, lenders, homeowners, and neighborhoods – benefits when families' homes are protected from foreclosure to the extent possible.

The announcement came two weeks after Chairman Dodd convened the Homeownership Preservation Summit, a meeting with the leaders of some of the largest subprime mortgage lenders, securitizers, and servicers, as well as consumer and civil rights groups, to discuss ideas and develop solutions to the subprime mortgage market crisis which is currently threatening millions of Americans with foreclosure on their homes. A longtime advocate for homeownership, Chairman Dodd has focused on predatory lending and the subprime market turmoil for several months, having convened two hearings since becoming Chairman in January.

"These principles represent a critical step in preserving homeownership and economic opportunity. I applaud the tremendous leadership demonstrated by the Mortgage Bankers Association, Citigroup, JPMorgan Chase, Litton Loan Servicing, HSBC, Freddie Mac, Fannie Mae, the Self-Help Credit Union, the Leadership Conference on Civil Rights, AARP, and ACORN to take active and effective measures to preserve homeownership for families at risk of losing their homes," said Dodd.

"The crisis affecting the subprime market is a comprehensive one, and involves many parties. It cannot be solved overnight, and cannot be solved by one party acting alone. Each party needs to do its part in helping to address this problem. The companies and organizations that endorse these principles demonstrate their commitment to being part of finding solutions to foreclosures.

“I commend the organizations and companies that have joined me in formulating and agreeing to these principles, and I urge others to participate, or face explaining to their customers and the public their refusal to adhere to common-sense guidelines that will help preserve homeownership and strengthen our communities and our nation’s economy.”

Since assuming the Chairmanship of the Banking Committee, Dodd has made ending subprime lending abuses a high priority. He has chaired two oversight hearings, and successfully called on federal financial regulators to adopt new rules on subprime loans. In addition, Freddie Mac decided to stop buying certain abusive subprime products, and commit \$20 billion to refinancing subprime loans. Last week, Dodd led an effort endorsed by nine other Committee Democrats to call on the Federal Reserve Board to apply the subprime lending guidance to non-bank lenders.

The following organizations and companies commented on the Summit and the principles that grew from it:

“The Mortgage Bankers Association endorses the homeownership preservation principles developed under Chairman Dodd's leadership. We appreciate the Chairman's efforts in bringing together important elements of the mortgage finance industry to ensure that all that can be done on behalf of borrowers facing foreclosure is being done,” said John M. Robbins, CMB, Chairman of the Mortgage Bankers Association.

Carl Levinson, President and Chief Executive Officer of Citi's Consumer Lending Group, said: “Citi applauds Chairman Dodd's leadership in addressing the needs of families who are at risk of losing their homes to foreclosure. These are difficult times for low- and moderate-income homeowners and the industry must work together with advocacy groups and elected officials to provide needed relief now and long term solutions going forward. Recognizing this, Citi supports the Statement of Principles developed by Chairman Dodd and his Homeownership Preservation Summit and calls on other lenders to join Citi in advocating the adoption of these principles by the industry and helping homeowners remain homeowners.”

“We support Sen. Dodd's efforts to help families who are struggling with their mortgage payments,” said David Lowman, CEO of Chase Home Lending, the mortgage unit of JPMorgan Chase. “We believe we can develop the best solutions by working with the Senate committee, our regulators, borrowers, investors and community representatives.”

“The principles that Senator Christopher Dodd and the Senate Banking Committee have developed are aligned with the homeownership preservation and loan modification practices Litton has been employing for years to help those borrowers stay in their homes,” said Larry B. Litton, Jr. President and CEO of Litton Loan Servicing. “We have been actively working with the federal and local governments, community organizations, customers, investors, and regulators on this issue and we believe this is a great tool the industry can use to help reduce the number of foreclosures facing the subprime industry, while continuing to meet our obligations to our investors.”

Brendan McDonagh, CEO of HSBC Finance Corporation, said: “As part of its ongoing commitment to sustaining homeownership through responsible lending and servicing, HSBC supports the guidance provided by the U.S. Senate Banking Committee’s Statement of Principles announced today by Senator Dodd. HSBC has been pleased to work with Senator Dodd, the Committee and industry colleagues in discussing the important issues facing homeowners today. HSBC has been servicing customers for more

than 125 years, through many credit cycles and a wide range of economic circumstances. We take the current mortgage environment seriously and we are taking strong and proactive steps to minimize the impact on our customers. We have a number of policies and programs in place to assist our customers. For example, HSBC has had a proactive outreach program in place since October 2006 offering rate and payment relief to at risk ARM customers. As well, HSBC's Foreclosure Avoidance Program (FAP) was developed in 2003 and to date has delivered \$100 million in financial relief."

"We applaud Senator Dodd's leadership and support his principles to preserve homeownership," said Richard F. Syron, chairman and CEO of Freddie Mac. "These principles complement Freddie Mac's longstanding commitment to putting people into homes that they can afford and keep."

"We're pleased to sign on to the statement of principles and we appreciate Senator Dodd's leadership in convening the Homeownership Preservation Summit," said Daniel H. Mudd, President and CEO of Fannie Mae. "Fannie Mae is committed to being part of a solution that keeps people in homes, minimizes market disruption and improves practices and products for consumers."

"I commend Senator Dodd and all the industry participants in developing improved practices," said Martin Eakes, Chief Executive Officer of the Self-Help Credit Union. "Without intervention by every segment of the mortgage industry along these lines, hundreds of thousands of American families who have been placed in subprime mortgage loans whose interest rates are set to explode in the near future will lose their homes to foreclosure. To avoid this fate, which serves neither borrowers nor investors, servicers should take advantage of their ability to extend the initial rate for the life of the loan and make any other adjustments so that families can stay in their homes and investors can continue to get paid."

"We support Sen. Dodd's proposal to help thousands of Americans keep their homes," said Wade Henderson, Executive Director of the Leadership Conference on Civil Rights. "Too many have lost their homes already. The foreclosure crisis has especially devastated thousands of minorities and low-income Americans who saw their American dream – to own their own home – turn into a nightmare."

"AARP strongly supports the principles, which will help millions of families who are at risk of losing their homes because of unconscionable practices on the part of predatory lenders," said David P. Sloane, Senior Managing Director, Government Relations and Advocacy at AARP. "We are hopeful that Congress will act to pass strong, consumer-oriented predatory mortgage lending legislation to prevent these practices from continuing in the future."

ACORN President Maude Hurd said: "The members of ACORN, the country's largest grassroots community organization of low and moderate income families, applaud Senator Christopher Dodd, Chairman of the Senate Banking, Housing, and Urban Affairs Committee for his leadership in convening last month's Housing Preservation Summit, and for the agreement that has come out of that summit. We are proud to be a part of the efforts by Senator Dodd and the Committee to stop the massive foreclosure crisis that is ravaging our neighborhoods. The present foreclosure crisis stems directly from widespread predatory lending practices that have tricked and lured too many families into loans they could never realistically repay. There are too many companies whose servicing practices have made these homeowners feel as if the lender was only interested in stealing their home. We also applaud those mortgage companies who have agreed to the principles for homeownership preservation and thus are taking the necessary steps to help families who are facing foreclosure. For the last two years we have been advocating that when lenders modify a loan, they should make sure that it gives the homeowner long term affordability. This is a major principle, and we are glad to see that some of the largest

mortgage companies have agreed to this. We call on all mortgage companies to adopt these same principles.”

Senator Dodd has invited other organizations interested in agreeing to the principles to contact Banking Committee staff.

[Click here for the full Statement of Principles.](#)

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