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FINAL

MORTGAGE BANKERS ASSOCIATION OF AMERICA

OCTOBER 20, 1975

THIS IS MY FIRST OPPORTUNITY TO ADDRESS THE MORTGAGE BANKERS AS A GROUP, SINCE I TOOK OFFICE AT HUD.

YOUR MEMBERSHIP PROVIDES ONE OF THE MOST VITAL SOURCES OF FINANCING IN THE HOUSING INDUSTRY.

YOU ARE THE NATION'S BUYERS AND BUILDERS OF HOMES.

THROUGH AMERICA'S UNIQUE SYSTEM OF FREE ENTERPRISE, YOU STIMULATE THE FLOW OF INVESTMENT CAPITAL FROM FAR FLUNG SOURCES OF SUPPLY TO SPECIFIC MARKETS OF DEMAND.

OF COURSE, I CAN'T SAY THAT YOU WERE EXACTLY "THRILLED" BY MY APPOINTMENT AS SECRETARY OF HUD --

NONETHELESS, WE HAVE MUCH IN COMMON.

WE MAY NOT ALWAYS "THINK ALIKE" -- BUT WE'RE CERTAINLY THINKING THE SAME THING.



AND, THAT IS: UNLESS ALL OF US CAN GET THIS NATION'S HOUSING INDUSTRY OUT OF THE SEA OF DESPOND AND ONTO THE HARD GROUND OF ENERGETIC PRODUCTION, AMERICA SIMPLY CANNOT MEET HER COMMITMENT TO HOUSE HER POOR.

MY JOB ENTAILS MANY THINGS -- MANY LAWS, MANY ISSUES AND MANY PROBLEMS OF MANY INTEREST GROUPS.

BUT, WHEN YOU CUT THROUGH ALL THE ACCUMULATION OF STATUTES, STATISTICS AND RHETORIC, IT BOILS DOWN TO ONE OVERRIDING CONCERN.

THERE ARE 16 MILLION AMERICANS, TODAY, WHO ARE LIVING IN SLUM CONDITIONS -- AND IT'S MY JOB TO HELP THIS NATION PROVIDE THEM WITH DECENT HOUSING IN A SUITABLE LIVING ENVIRONMENT.

THIS ISN'T JUST THE CONCERN OF ONE PERSON -- OR ANY SPECIAL GROUPS OF PERSONS.

IT'S A NATIONAL PROBLEM THAT GNAWS AT THE VERY ROOTS OF HUMANITY.



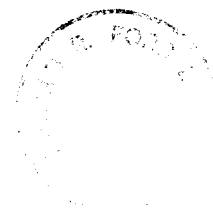
WHEN I TOOK THIS JOB IN MARCH, I COMMITTED MYSELF -- BOTH TO PRESIDENT FORD AND THE CONGRESS -- TO EXAMINE AND TO USE EVERY LAWFUL MEANS NECESSARY TO HELP GET THE HOUSING INDUSTRY BACK ON ITS FEET -- AS THE LOGICAL PREREQUISITE TO THE ACCOMPLISHMENT OF HUD'S ULTIMATE MISSION -- OF HOUSING OUR LOWER INCOME FAMILIES.

WASHINGTON IS AWASH WITH "EXPERTS" WHO CAN TELL YOU, AT THE DROP OF A SYLLABLE, WHAT "SHOULD" BE DONE.

MY INTEREST HAS BEEN AND IS -- IN WHAT "COULD AND CAN BE DONE".

ON FRIDAY, I ANNOUNCED THE REACTIVATION OF HUD'S HOMEOWNERSHIP SUBSIDY PROGRAM, IN REVISED FORM, TO SPUR CONSTRUCTION AND REHABILITATION OF SINGLE-FAMILY HOMES FOR LOW AND MODERATE INCOME FAMILIES.

PRESIDENT FORD AUTHORIZED ME TO RELEASE PREVIOUSLY IMPOUNDED FUNDS INVOLVING \$264.1 MILLION IN NEW CONTRACT AUTHORITY -- ENOUGH TO SUBSIDIZE MORE THAN 250,000 NEW AND SUBSTANTIALLY REHABILITATED HOUSING UNITS.



WE ESTIMATE THAT THIS INFUSION OF HUD ASSISTANCE SHOULD STIMULATE ABOUT \$6.5 BILLION IN NEW CONSTRUCTION ACTIVITY AND RESULT IN MORE THAN 500,000 NEW CONSTRUCTION JOBS.

THIS PROGRAM WILL ALSO EXPAND HOMEOWNERSHIP OPPORTUNITIES TO PERSONS WHO HAVE TRADITIONALLY BEEN HOMEOWNERS BUT WHO ARE NOW PRICED OUT OF THE MARKET. THERE ARE CURRENTLY ONLY 60,000 SINGLE-FAMILY HOMES FOR SALE UNDER \$30,000 AND ONLY 100,000 WERE SOLD IN THAT PRICE RANGE IN THE LAST YEAR.

OUR 235 PROGRAM IN ITS REINCARNATED FORM WILL PROVIDE SAFEGUARDS AGAINST THE BAD-RISK FEATURES OF THE PAST.

SPECIFICALLY, WE WILL REQUIRE A 3 PERCENT DOWN PAYMENT SO THAT WITH TRANSFER COSTS, THE HOMEBUYER WILL HAVE AN INVESTMENT IN THE HOME OF \$1500 TO \$2000, NOT \$200 AS UNDER THE OLD PROGRAM.

THIS WILL FOCUS THE PROGRAM ON FAMILIES WITH INCOMES OF \$9,000 TO \$11,000, THE GROUP WHICH HAD THE GREATEST RECORD OF SUCCESS UNDER THE OLD PROGRAM. IT WILL ALSO PROVIDE AN INCENTIVE AGAINST ABANDONMENT.



WE WILL SUBSIDIZE THE INTEREST RATE DOWN TO 5 PERCENT
-- NOT 1 PERCENT AS UNDER THE OLD PROGRAM.

THIS WILL DECREASE THE DIFFERENTIAL BETWEEN AVAILABLE
INTEREST RATES AND HENCE DECREASE THE CHARGES OF INEQUITY
THAT PLAGUED THE OLD PROGRAM. IT WILL ALSO SPREAD THE
SUBSIDY ASSISTANCE TO MORE FAMILIES.

ALSO, WE WILL RESTRICT THE PROGRAM TO NEW OR SUBSTANTIALLY
REHABILITATED UNITS WHICH WILL MAXIMIZE THE IMPACT ON THE
DEPRESSED HOUSING INDUSTRY.

AND, WE WILL ENSURE THAT THE UNITS ARE DISTRIBUTED ON
A GEOGRAPHICALLY FAIR BASIS, WHICH WILL COUNTER THE COMPLAINT
THAT THE OLD PROGRAM WAS CONCENTRATED IN ONLY A FEW STATES.

FINALLY, WE WILL RESTRICT THE UNITS IN SUBDIVISIONS
TO 30 PERCENT SO AS TO PREVENT THE CONCENTRATION OF SUBSIDIZED
FAMILIES IN A HORIZONTAL GHETTO.



I'M PREPARED TO FACE THE FACT THAT EVERYBODY ISN'T GOING TO LOVE "235". BUT, CRITICS NOTWITHSTANDING, THE SIGNIFICANT THING ABOUT THE HOMEOWNERSHIP PROGRAM IS THAT IT WILL HELP GET THE MACHINERY MOVING.

HOWEVER, I DIDN'T COME HERE TO SELL YOU ON HUD'S NEW HOMEOWNERSHIP SUBSIDY PROGRAM -- BUT IT DOES ILLUSTRATE THE KIND OF COMMONALITY WE MAY EXPECT TO FIND IN OUR FUTURE RELATIONSHIPS.

TODAY, WE BOTH ARE CRITICIZED FOR THE FACT THAT HOMES ARE BEING FORECLOSED, INCLUDING HOMES CONSTRUCTED UNDER THE OLD 235 PROGRAM. ABOUT 25 PERCENT OF OUR SINGLE-FAMILY INVENTORY ARE 235s.

SOME OF THE PROBLEMS STEM FROM THE PROGRAMMATIC DEFECTS WHICH THE CHANGES I JUST DESCRIBED ARE MEANT TO CORRECT.

BUT, SOME OF THE PROBLEMS GROW FROM POOR PRACTICES, WHICH WE BOTH NEED TO ADDRESS.



YOURS IS AN HONORED AND HONORABLE PROFESSION.

YOU HAVE EVERY RIGHT TO EXPECT THE BODIES OF GOVERNMENT, WITH WHICH YOU MUST DEAL, TO SPELL OUT PRECISELY WHAT THEY REQUIRE OF YOU IN THE COURSE OF SUCH DEALINGS.

I WILLINGLY ACCEPT THAT OBLIGATION ON THE PART OF HUD.

THE UNITED STATES GOVERNMENT, IN TURN, -- IN ITS MORAL OBLIGATION TO ALL THE AMERICAN PEOPLE -- HAS THE RIGHT TO EXPECT THOSE WHO SERVE THE NATION THROUGH THOSE GOVERNMENT BODIES, TO REGULATE THEIR OWN INDUSTRIES IN THE HIGHEST TRADITION OF TRUE PROFESSIONALISM.

SELF-REGULATION IS MORE THAN A CATCH WORD, IT IS A REAL RESPONSIBILITY.

THERE'S LITTLE FUTURE IN AGONIZING OVER WHAT USED TO BE -- OR MIGHT HAVE BEEN. NOSTALGIA IS A NICE FEELING DURING A COZY CHAT BY AN OPEN HEARTH.

BUT -- WHEN I WAS CALLED TO TESTIFY IN THE HOUSE, ON MORTGAGE SERVICING AND PROPERTY DISPOSITION, TWO WEEKS AGO, THE CONGRESSMEN ON THE GOVERNMENT OPERATIONS COMMITTEE WERE TALKING ABOUT THE STARK REALITIES OF "TODAY".



THEY KNEW ALL ABOUT WHERE WE'VE BEEN -- THEIR ONLY INTEREST WAS IN WHERE WE'RE GOING.

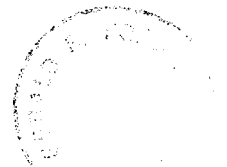
ON THE CHARGE THAT HUD AND MORTGAGEES SEEMED TO BE TOO CLOSE FOR COMFORT, I ANSWERED THAT THIS IS A TWO-WAY STREET AND IF WE EVER CLOSED IT DOWN HUD'S MISSION WOULD BE THE LOSER IN THE LONG HAUL.

HUD'S PROGRAMS HAVE TO BE FINANCIALLY ATTRACTIVE ENOUGH TO SATISFY THE FIDUCIARY OBLIGATIONS OF THE MORTGAGEE. AND, AT THE SAME TIME, THE MORTGAGEE MUST COMPLY WITH THE HUD STANDARDS THAT SATISFY ITS MANDATED OBLIGATION TO THE AMERICAN TAXPAYER AND THE AMERICAN HOMEBUYER.

YOU CAN'T ACCOMPLISH EITHER END, SITTING IN AN ISOLATION BOOTH.

SO, LET ME TELL YOU EXACTLY WHAT HUD EXPECTS OF MORTGAGEES WHO WILL PARTICIPATE IN HUD MORTGAGE INSURANCE PROGRAMS.

OUR REQUIREMENTS DEAL WITH THE THREE MAJOR ASPECTS OF LENDER PERFORMANCE: ORIGINATION, SERVICING AND PRESERVATION OF PROPERTIES.



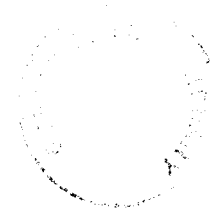
I'M AWARE, OF COURSE, THAT ALL OF YOU WON'T BE ENTHUSIASTIC ABOUT EVERY ONE OF THE REQUIREMENTS. BUT AT LEAST WE'LL KNOW WHERE EVERYBODY STANDS IN CASE YOU DECIDE TO EXERCISE YOUR INDIVIDUAL AMERICAN PRIVILEGE AND REFRAIN FROM DOING BUSINESS WITH HUD.

THOSE OF YOU WHO HAVE BEEN APPROVED TO PARTICIPATE IN HUD PROGRAMS, HAVE ALREADY RECEIVED A LETTER FROM HUD, STRESSING YOUR OBLIGATION TO FOLLOW SOUND UNDERWRITING PRACTICES.

WE HAVE ALSO INSTITUTED A NATIONWIDE SYSTEMS CHECK OF BORROWER RELIABILITY -- EMPLOYMENT, DEPOSIT ACCRUAL, AND CREDIT RATING.

HUD MORTGAGE CREDIT EXAMINERS IN THE FIELD, NOW RUN AN INDEPENDENT VERIFICATION OF BORROWER DATA ON AT LEAST 10 PERCENT OF INSURANCE APPLICATIONS WE RECEIVE FROM LENDERS.

IF IT SOUNDS ROUGH, LOOK AT THE RECORD -- AS HUD HAS BEEN FORCED TO DO -- UNDER THE PUBLIC SPOTLIGHT.



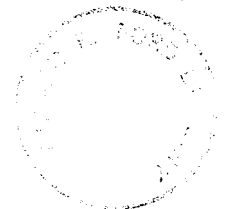
IT IS NOT ENOUGH TO SAY THAT THE CULPRITS IN THE PAST REPRESENTED ONLY A MINIMAL FRACTION OF THE MORTGAGE INDUSTRY. THE HEADLINES FAILED TO NOTE THAT DISTINCTION -- AND THE BRUSH TARRED THE ENTIRE INDUSTRY.

MORE OFTEN THAN NOT, IT ISN'T "INTENT" THAT BRINGS ON MOST OF THE PROBLEMS -- IT'S LACK OF LENDER/BORROWER COMMUNICATION. AND, WHETHER HE WILLS IT OR NOT, THE OBLIGATION BEGINS WITH THE LENDER.

SO, HUD NOW "REQUIRES" LENDERS TO ACCEPT TOLL-FREE OR COLLECT CALLS FROM BORROWERS WHO LIVE OUTSIDE OF THE LENDER'S METROPOLITAN AREA.

THE LENDER MUST ALSO TRY TO ESTABLISH A FACE-TO-FACE INTERVIEW WITH THE BORROWER BEFORE THE LOAN BECOMES 60 DAYS DELINQUENT. IN SHORT, IT MUST BE CLEARLY EVIDENCED THAT THE UNCOOPERATIVE PARTY IS THE BORROWER.

HUD REQUIRES THE LENDER TO PROVIDE A DEFAULTING MORTGAGOR WITH AN INFORMATIONAL BOOKLET SHOWING THE BORROWER HOW TO RESOLVE THE PROBLEM.



IT IS NOT NECESSARY, HERE, TO TRACE THE HEADLINED HISTORY OF COMPLAINTS OVER FORBEARANCE AND FORECLOSURE. THE MORTGAGE BANKER WAS THE CLASSIC SCAPEGOAT LONG BEFORE THE VILLAIN CHAINED LITTLE NELL TO THE RAILROAD TRACKS.

MOST OF YOU ARE ALREADY DOING WHAT HUD NOW REQUIRES. BUT LET ME ENUMERATE THE THREE REGULATIONS:

- (1) THE LENDER IS PROHIBITED FROM INITIATING FORECLOSURE UNTIL THE BORROWER IS AT LEAST A FULL THREE MONTHS BEHIND IN HIS PAYMENTS.
- (2) FORECLOSURE IS FORBIDDEN ON THE BASIS OF UNPAID "LATE CHARGES" ALONE.
- (3) AND, WE NOW REQUIRE LENDERS TO ACCEPT PARTIAL PAYMENTS WHEN THE AMOUNT PAID IS AT LEAST 50 PERCENT OF THE TOTAL AMOUNT DUE ON A DEFAULTED MORTGAGE.

THE RULES PROVIDE FOR EXCEPTIONS:

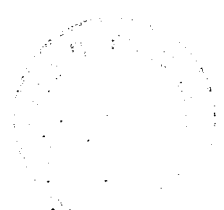


- (A) WHERE THE BORROWER HAS PAID NOTHING FOR FOUR FULL MONTHS.
- (B) WHERE THE DELINQUENCY SPANS A CONTINUING SIX MONTHS.
- (C) AND, IF THE MORTGAGOR BREACHES A FORBEARANCE AGREEMENT.

THE WHOLE OBJECT, OBVIOUSLY, IS TO KEEP THE RESPONSIBLE, ALBEIT TEMPORARILY STRAPPED, MORTGAGOR IN HIS HOME. ACHIEVING THIS OBJECTIVE WILL PUT A BIG DOWN PAYMENT ON YOUR INDUSTRY'S IMAGE OF FAIRNESS AND INTEGRITY WITH THE PUBLIC.

THE ISSUE OF FORBEARANCE LEADS DIRECTLY BACK TO THE OBLIGATION OF PURSUING SOUND UNDERWRITING PRACTICES.

THOSE FACTS THAT MADE THE BORROWER A GOOD RISK TO BEGIN WITH -- SHOULD MAKE HIM A FAIR CANDIDATE FOR SOLVING HIS INTERIM SET-BACKS.



IF HE'S REALLY SUCH A BAD RISK, PERHAPS HE SHOULDN'T HAVE GOTTEN THE MORTGAGE IN THE FIRST PLACE.

THE NEXT MAJOR REGULATION SEEKS TO PROTECT THE INSURANCE FUNDS AND THE PHYSICAL CONDITION OF OUR NEIGHBORHOODS. HUD NOW REQUIRES THE LENDER TO PRESERVE AND PROTECT DEFAULTED PROPERTIES UNTIL THEY ARE ACTUALLY CONVEYED TO HUD ON AN INSURANCE CLAIM.

HUD WILL REIMBURSE THE LENDER FOR THE EXPENSE INCURRED IN COMPLYING WITH THIS RULE. BUT, WE HAVE NO CHOICE EXCEPT TO PROTECT OUR INSURANCE FUNDS, AND I INTEND TO SEE THAT WE DO EXACTLY THAT.

WE HAVE DIRECTED OUR AREA MANAGERS TO MAKE AN ON-SCENE, PHYSICAL INSPECTION OF EVERY DEFAULTED PROPERTY WITHIN FIVE DAYS OF ITS CONVEYANCE TO HUD.

BEYOND THESE MEASURES AND ACTIONS AIMED AT SPECIFIC AREAS OF POTENTIAL ABUSE, I HAVE ESTABLISHED SOME STRICT NEW HOUSE RULES TO UP-GRADE HUD'S MORTGAGEE MONITORING CAPABILITY.



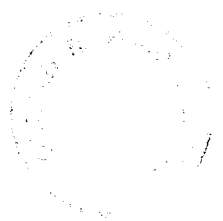
THIS IS NOT ANOTHER EXERCISE IN THE "BIG BROTHER WATCHING YOU" SYNDROME.

WHEN THE COMPLAINTS ROLL IN, THEY DON'T JUST AFFECT THE IMAGE OF THE MORTGAGE BANKER -- THEY UNDERCUT HUD'S ENTIRE MISSION AND THREATEN THE VERY INSTRUMENT THROUGH WHICH WE DO BUSINESS TOGETHER ON BEHALF OF AMERICA'S HOMEBUYERS.

WE'RE NOT PLAYING A "BLAME THE INDUSTRY GAME". WE HAVE TO KNOW -- AND, I'M SURE YOU WANT TO KNOW -- IF, WHERE, WHY AND HOW ANY ALLEGATION OF MORTGAGEE MISCONDUCT IS ACTUALLY TRUE.

IF THE ANSWER IS POSITIVE, IT SERVES YOUR INTEREST AND HUD'S INTEREST TO CUT THE INDIVIDUAL MALFEASANT OFF BEFORE HE BRINGS ALL OF US DOWN. AND, PREFERABLY, BEFORE ANY PUBLIC ALLEGATIONS ARE MADE.

THUS, I HAVE ASKED HUD'S INSPECTOR GENERAL TO DOUBLE THE NUMBER OF ANNUAL MORTGAGEE AUDITS TO APPROXIMATELY 100.



IN ADDITION, WE HAVE PROGRAMMED A COMPUTER MONITORING SYSTEM THAT WILL PRODUCE INSTANT, UP-TO-DATE AND SPECIFIC READINGS ON THE FORECLOSURE RATES OF INDIVIDUAL MORTGAGEES ON HUD'S "APPROVED" ROLLS.

THIS DATA WILL HELP DETERMINE OUR AUDIT AND REVIEW AGENDA. WE KNOW FULL WELL THAT THE "DATA", BY ITSELF, PROVES OR DISPROVES NOTHING.

A HIGH FORECLOSURE RATE MAY SIMPLY PROVE THAT THE LENDER IS ACTIVE IN THE HIGH RISK AREA OF A CENTER CITY -- OR IT MAY INDICATE A PERFECTLY APPROPRIATE SERVICE ACTIVITY TO COLLECT ON DELINQUENT ACCOUNTS THAT HAVE GONE BEYOND REASONABLE LIMITS.

FINALLY, I HAVE ESTABLISHED A MORTGAGEE REVIEW BOARD WHICH HAS THE FINAL, DELEGATED AUTHORITY TO MOVE FOR, OR AGAINST, THE MORTGAGEE ON MISCONDUCT CHARGES. THE BOARD COMPRISES: THE ASSISTANT SECRETARY FOR HOUSING PRODUCTION AND MORTGAGE CREDIT-FEDERAL HOUSING COMMISSIONER, THE ASSISTANT SECRETARY FOR HOUSING MANAGEMENT, THE GENERAL COUNSEL AND THE INSPECTOR GENERAL.



THE BOARD WILL CONSIDER AUDIT REPORTS, CONSUMER COMPLAINTS AND ON-SITE INSPECTION REPORTS. HUD FIELD OFFICES ARE REQUIRED TO REPORT TO THE BOARD IMMEDIATELY ALL INSTANCES OF QUESTIONABLE MORTGAGEE BEHAVIOR.

THIS IS NOT -- AND WILL NOT BE -- AN INQUISITION.

IT'S THE BOARD'S DUTY TO HEAR ALL SIDES, FAIRLY AND HONESTLY. INDEED, EVERY DECISION MUST BE UNANIMOUS. IN ALL CASES, THE MORTGAGEE WILL BE AFFORDED DUE PROCESS BEFORE HUD APPROVAL IS WITHDRAWN. HE HAS THE RIGHT TO APPEAL TO A HEARING OFFICER, AND ULTIMATELY, TO THE SECRETARY.

WE'RE LOOKING FOR TOTAL INDUSTRY PERFORMANCE -- NOT SCAPEGOATS.

IN THE FINAL ANALYSIS, IT IS IN THE INTEREST OF A HEALTHY HOUSING INDUSTRY THAT WE HAVE A HEALTHY AND CONTINUING SOURCE OF PRIVATE INVESTMENT CAPITAL TO BACK UP THIS VITAL, FREE AMERICAN ENTERPRISE.

WE CAN'T HAVE ONE WITHOUT THE OTHER.



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AND, IF WE HAVE NEITHER, THIS NATION MUST ABANDON ALL HOPE OF ACHIEVING THE GOAL OF PROVIDING DECENT HOUSING IN A SUITABLE LIVING ENVIRONMENT FOR ALL AMERICANS -- PARTICULARLY FOR PERSONS OF LOW AND MODERATE INCOME.

AND, IF THAT SOUNDS LIKE THE PREAMBLE TO HUD'S MISSION -- AND MY JOB -- IT IS.

THANK YOU VERY MUCH.

