The American Dream of Homeownership: From Cliché to Mission

Presentation by Angelo R. Mozilo

Chairman, President and Chief Executive Officer,
Countrywide Financial Corporation &
Chairman, Countrywide Home Loans, Inc.

The Joint Center for Housing Studies of Harvard University
John T. Dunlop Lecture
Sponsored by The National Housing Endowment

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National Housing Endowment

The leadership of the National Association of Home Builders (NAHB) created the National Housing Endowment to provide long-term, reliable funding for areas targeted as critical to:

- Promote a healthy and prosperous housing industry;
- Safeguard the future of safe, decent and affordable housing;
- Elevate housing to a lasting national priority in the minds of the American public and at the core of government policy.

The National Housing Endowment uses interest earnings on the endowment fund to make grants for projects that strengthen our ability to meet America's housing needs.

Joint Center for Housing Studies

The Joint Center for Housing Studies analyzes the ways in which housing policy and practices are shaped by economic and demographic trends, and provides leaders in government, business and the non-profit sector with the knowledge and tools to formulate effective policies and strategies. The Center produces the annual State of the Nation's Housing report, and is a collaborative unit affiliated with the Harvard Graduate School of Design and the Kennedy School of Government.

The Joint Center for Housing Studies is grateful to the National Housing Endowment for its continued support of the John T. Dunlop Lecture. Each year the Dunlop Lecture presents an address by a housing leader to highlight the importance of housing as a policy and research area at the university and in business. The annual lecture honors the work of Professor John T. Dunlop, Lamont University Professor, Emeritus of Harvard University.

John T. Dunlop

John T. Dunlop is the Lamont University Professor Emeritus, Harvard University. He was Chairman of the Economics department and Dean of the Faculty of Arts and Sciences. Professor Dunlop was United States Secretary of Labor during the Ford administration. He has had a lifetime career in mediation, arbitration and dispute resolution. A commitment to the nation's construction industries and housing has also marked his work. He was chairman of the Construction Industry Stabilization Committee, 1971-74. He played a role in the establishment of the National Institute for Building Sciences. The National Association of Home Builders made him a member of the National Housing Hall of Fame in 1986. He also serves on the board of the National Housing Endowment. In 1971, Professor Dunlop played a key role in establishing the Policy Advisory Board of the Joint Center for Housing Studies.

Countrywide Financial℠

Angelo R. Mozilo

Chairman, President and Chief Executive Officer, Countrywide Financial Corporation
Chairman, Countrywide Home Loans, Inc.

Angelo R. Mozilo, who co-founded Countrywide Financial Corporation (NYSE: CFC) in 1969, is Chairman, President and Chief Executive Officer. He also serves as Chairman of Countrywide Home Loans, Inc., the Company's main subsidiary.

Countrywide, a global leader in residential finance and related services and a member of the S&P 500, Forbes 500 and Barrons 500 maintains more than 520 offices across the country, with a work force of more than 29,000 employees. Mozilo is active in all aspects of Countrywide's businesses. While he reviews all financial and operational activities, his central focus is on overall business growth and strategic direction.

Mozilo was the 1991-1992 President of the Mortgage Bankers Association of America (MBA), which represents approximately 3,000 member firms involved in every aspect of mortgage and real estate finance. He continues to serve on the MBA Board of Directors. Mozilo is a member of the Board of Trustees for the National Housing Endowment and is on the board of the Joint Center for Housing Studies of Harvard University.

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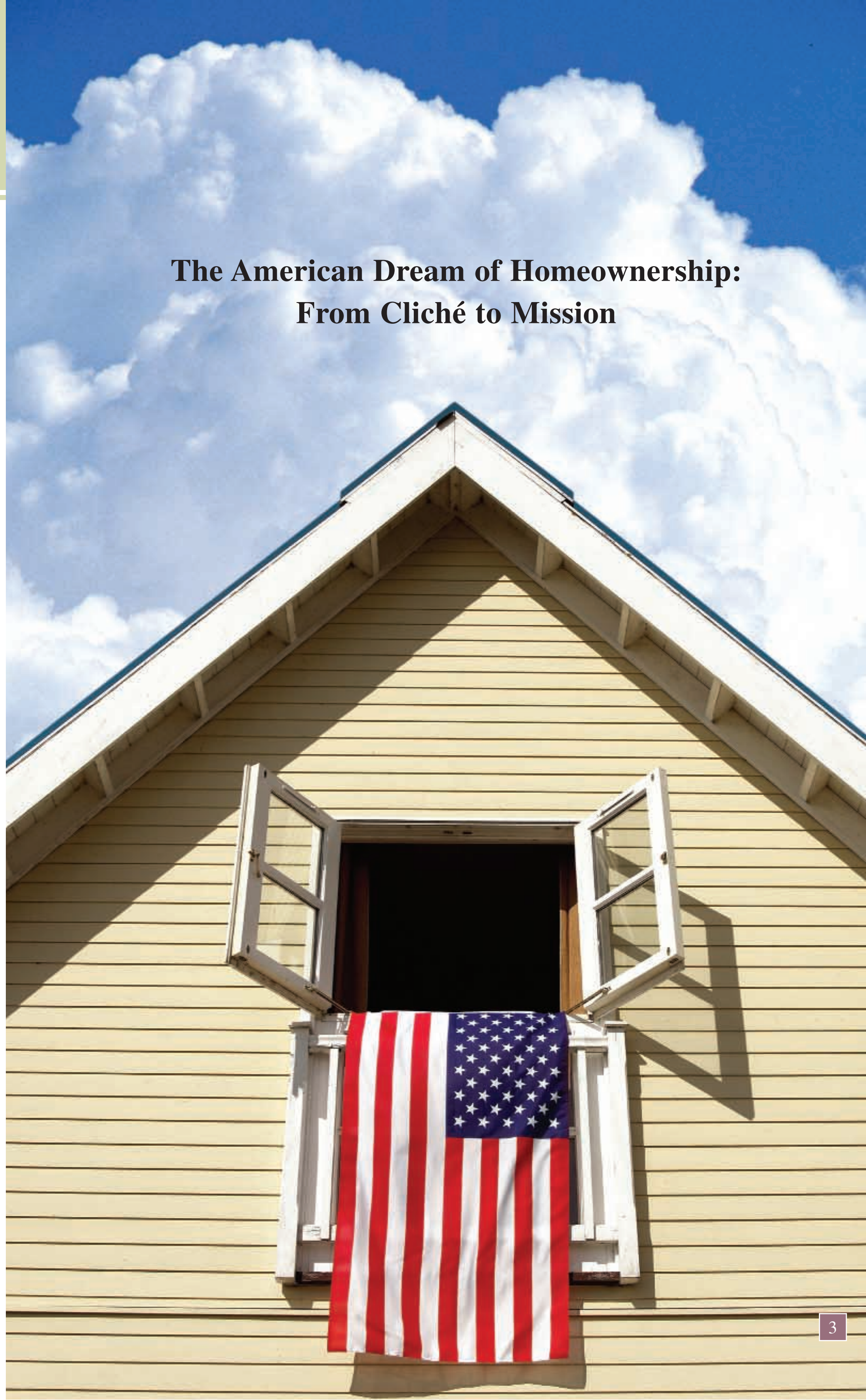
Other activities include serving as a member of the Boards of Trustees at Fordham University in New York City, Gonzaga University in Spokane, Washington, and St. Francis High School in La Cañada, California.

These are some of the awards received by Mozilo:

- National Association of Home Builders Hall of Fame.
- Boy Scouts of America, James E. West Fellowship Award.
- Ellis Island Medal of Honor, which is held by all living U.S. Presidents.
- Albert Schweitzer Award for his work with the youth of America.
- Special Achievement Award for Humanitarian Service from the National Italian American Foundation.
- Jane Wyman Humanitarian Service Award from the Arthritis Foundation.

Mozilo received a bachelor of science degree from Fordham University in 1960 and holds an honorary doctor of laws degree from Pepperdine University.

The American Dream of Homeownership: From Cliché to Mission



Thank you, Nic, for that introduction. I want to first thank Nic Retsinas, the Joint Center for Housing Studies, the National Housing Endowment, and the Honorable John Dunlop for the opportunity to address you this evening.

It is an incredible honor to be with you today – both on a personal level and on a professional one.

It's a personal honor because over 34 years ago my partner and I founded Countrywide with the objective to lower the barriers and open the doors to homeownership. We wanted to make the American Dream of Homeownership something tangible – something to which people could do much more than just aspire. We wanted to make it something they could access, afford and achieve. We wanted to prove that our company could and would succeed by offering home loans to hard-working families – of all races and of all ethnic backgrounds.

"We wanted to make the American Dream of Homeownership something tangible – something to which people could do much more than just aspire. We wanted to make it something they could access, afford and achieve."

In other words, it has always been our intention to be more than a corporation that makes mortgage loans; we wanted to be a force in making positive differences in people's lives. Our goal was – and still is – to demonstrate that there is a unique role for the private sector in public service. That goal is, in essence, the John Dunlop example. And for that reason, being asked to deliver this lecture tonight is a great source of personal pride.

As I mentioned, it's a profound professional honor to be here in Washington, as well. Let me relate why this is such a professional honor by recounting for you some history that took place on this very day.

On February 4th, 1789, all 69 presidential electors, who were able to cast their votes, unanimously elected George Washington to be the first President of the United States. Things were a little different then. After Washington was notified, he actually had to leave this area and his home in nearby Mount Vernon so he could be inaugurated in what was then the capital, New York City. Back then, an inauguration speech was a muted affair, a quiet speech delivered solely to the Congress.

But the one thing that hasn't changed is what George Washington spoke of during that inauguration – it was what he called "the experiment entrusted to the hands of the American people."

He knew that the American "experiment" and our young Nation would face many great challenges. And he knew that those challenges would be met – and could only be met – not by executive power or one individual's actions, but by the collective hands of all the American people. In other words, the key to our success – be it the year 1789 or 2003 – is, has been, and always will be… partnership.

Nowhere is that more true – or that partnership more vital – than when it comes to providing more families with the opportunity to realize their American Dream by becoming homeowners.

That's why it is such an honor for me to be here and to be surrounded by so many talented people and partners dedicated to housing and to the housing finance industry. Our partnership has done nothing less than help countless families own homes, develop personal wealth, create strong communities, and build their futures.

Whether you represent government agencies or GSEs, non-profits, faith-based groups or industry associations, communities or even Countrywide competitors, we together have secured the future for many families in this great Country. For the people in this room, the American Dream of Homeownership is not cliché. It's our cause. *It's our mission.*

The past few years have been remarkable ones for our industry. Lower interest rates, the push for greater diversity in homeownership, and massive immigration into the U.S. have created both challenges and opportunities.

However, despite the fact that approximately $2.5 trillion in mortgage loans were made in 2002, the gap between low income and minority homeownership, and what is classified as white homeownership, remains intolerably too wide.

Therefore, expanding the American Dream of Homeownership must continue to be our mission, not solely for the purpose of benefiting corporate America, but more importantly, to make our Country a better place.

Let there be no doubt, "the experiment entrusted to the hands of the American people" has come a long way not just since George Washington's time, but also since Franklin Roosevelt's. He, with help from Congress, established the Federal Housing Administration in 1934, providing federally backed insurance for long-term amortized mortgages.

Our Nation took another important step in 1938 – in fact, 65 years ago this week – when Fannie Mae was created to buy those FHA loans, and as a result, the secondary mortgage market was born. We took a few more giant steps in the 1940s with the G.I. Bill in 1944 and the Housing Act of 1949, which stated the goal of "a decent home and a suitable living environment for every American family."

We witnessed the Fair Housing Act in the 60s, the creation of Freddie Mac in 1970, the expansion of Fannie Mae's activities, the Community Reinvestment Act in the 70s, the introduction of adjustable-rate mortgages in the 80s, and more recently, the National Affordable Housing Act of 1990.

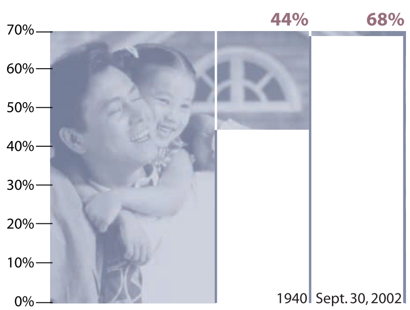
We have traveled so far – thanks to a mortgage-finance system that remains the envy of the world; thanks to a constant stream of creative and innovative mortgage products, and efforts directed at encouraging the offering of loans to those who have been previously shut out; and simply put, thanks to housing being an enduring public policy objective and the lasting commitment to that objective symbolized by our partnership.

We have transformed from a Nation of renters to a Nation of homeowners. The overall U.S. homeownership rate, which was at 44 percent in 1940, hit 68 percent by the end of the third quarter of 2002.

Historically low interest rates along with new, creative and flexible underwriting techniques are continuing to fuel a record period of growth for our industry. According to the Federal Reserve, the amount of overall mortgage debt outstanding is nearly $6 trillion. And, increasingly, the sub-prime market is boosting that number and the industry as a whole. During the first nine months of 2002, sub-prime originations rose an estimated 26 percent over the same period in 2001 – outpacing the overall market.

All told, according to the Joint Center's *The State of the Nation's Housing* report, the housing sector saw the sale of 6.2 million new and existing homes in 2001. And this past year was substantially more productive.

Transforming from a Nation of Renters to a Nation of Homeowners

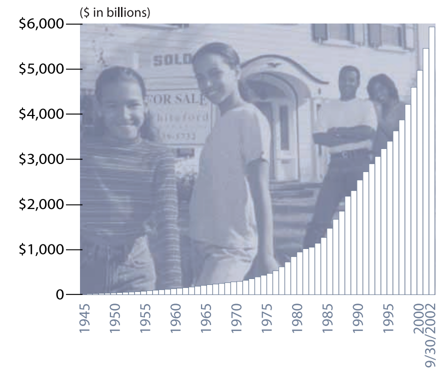


U.S. HOMEOWNERSHIP

Source: "Economic Benefits of Increasing Minority Homeownership" by HUD 10/2002; U.S. Census Bureau

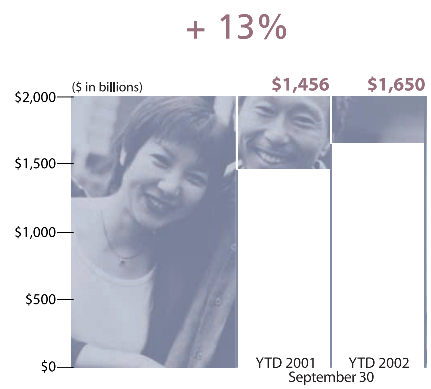
It started with the New Deal, and now, we're in a new century. But through it all, one thing has remained, more or less, constant. This constant is our challenge. And this challenge is to increase the access to affordable housing. And in order to do this, we must close the homeownership gap that still exists.

Mortgage Debt Outstanding Has Grown Continuously, Increasing Over 300 Times 1945's Debt



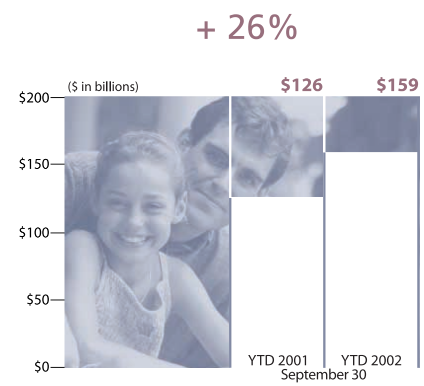
Source: Federal Reserve

Sub-Prime Mortgage Originations Growing Faster than the Overall Market



TOTAL ORIGINATIONS

Source: Inside Mortgage Finance



SUB-PRIME ORIGINATIONS

Source: Inside Mortgage Finance

As President Bush said last October:

> *"Two thirds of all Americans own their homes, yet we have a problem here in America because fewer than half of the Hispanics and half of the African Americans own their home. That's a homeownership gap. It's a gap that we've got to work together to close for the good of our Country, for the sake of a more hopeful future. We've got to work to knock down the barriers..."*

While the number of minority homeowners has advanced recently, climbing from 9.5 million in 1994 to 13.3 million in 2001 – an increase of 40 percent – the fact remains that it is still not at a level equal to that of white homeownership. And as President Bush pointed out, the homeownership rate for African Americans is 47 percent and for Hispanic Americans it is 48 percent, a stark contrast to the homeownership rate of 75 percent for white American households.

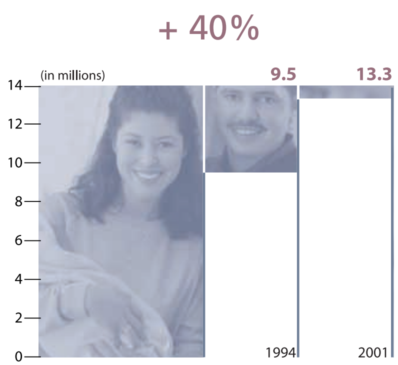
That means there is currently a homeownership gap of over 25 points when comparing white households with African Americans and Hispanics. My friends, that gap is obviously far too wide. It has been far too wide for far too long. And when adding new factors into the equation – like an influx of new immigrants or continued reduction in the supply of affordable housing – it has the potential to become far worse.

So tonight, I want to discuss why that gap persists and how Countrywide is trying to address it. Then, I'd like to concentrate on three specific structural obstacles that we must resolve together – for the well-being of our industry and for the welfare of our Country. Specifically, those "structural obstacles" are:

- The Underwriting Process
- Predatory Mania, and
- A Lack of Proper Perspective.

If we don't get a better handle on these issues, as I will discuss, I would argue that the homeownership gap will not only remain, but there is a good chance it will widen and the homeownership rates among low income and minority borrowers will continue to be depressed. Thus we run the risk of harming the very people we want to help. And finally, I will offer several reasons why I think it is vitally important that we address these issues with a sense of urgency.

Minority Homeownership Has Increased



Source: "Economic Benefits of Increasing Minority Homeownership" by HUD 10/2002

"THE HOMEOWNERSHIP GAP – WHY IT EXISTS"

Let's begin with looking at why the homeownership gap persists. There are many reasons for the gap. Many are obvious and well-known. Others are more subtle and, therefore, more difficult to attack. But, ultimately, I believe the homeownership gap is a by-product of the following: the Money Gap or Wealth Gap, the Education Gap, and the Housing Gap.

Homeownership Rates by Race/Ethnicity

Source: U.S. Census Bureau

The Money Gap is the obvious barrier created by the fact that there are those who have capital and access to credit, and those who don't. On the capital side, the down payment and closing costs remain, perhaps, the greatest barriers to homeownership. And simply put, but not surprising, minority and low-income families often lack the accumulated wealth and/or income to make these down payments and cover other closing fees. There is a cyclical and often unfair nature to the capital issue because homeownership is, as it has so often been proven, a vehicle for accumulating wealth. And that wealth is often used to help the next generation become homeowners. In other words, the children of parents who are not homeowners – predominantly low-income and minorities – begin the quest for homeownership several steps behind the children of homeowners.

When it comes to credit, there is a double-edge, as well. On one side is the fact that lenders are difficult to access because mainstream and reputable financial institutions are not always conveniently located near potential low-income and minority homebuyers. On the other side is the fact that many potential low-income and minority homeowners have questionable credit histories – at least as measured by the standard underwriting models available today – or no measurable credit history at all. Thus, even if they can access a lender, that lender can't or won't help.

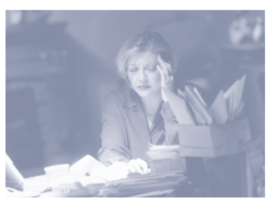
"One of the more obvious resolutions to the Money Gap is the elimination of down payment requirements for low income and minority borrowers."

A report done for the Local Initiatives Support Corporation, otherwise known as LISC, found that over 40 percent of African American renters whose income was under $40,000 did not have banking relationships of any kind. If these families want to become homeowners, they are often rejected by traditional lenders in the loan process; and if that is the case, they frequently become easy prey for predatory and unscrupulous lenders.

One of the more obvious resolutions to the Money Gap is the elimination of down payment requirements for low-income and minority borrowers. Current down payment requirements of 10 percent or less add absolutely no value to the quality of the loan. It is the willingness and the ability of a borrower to make monthly payments that are the determinants of loan quality.

Over the past 50 years, I have personally interviewed thousands of potential homebuyers and in the vast majority of cases, the barrier standing in between them and the house of their dreams was the down payment. That barrier must be eliminated by offering customized programs to those borrowers who cannot meet the current down payment requirements.

That brings me to the second issue that contributes to the overall homeownership gap – namely, the Education Gap.



There is a truth in our industry that determining who gets a mortgage and at what interest rate is often more an art than it is a science. Put another way – understanding the home-buying process can be complicated and confusing, especially for low-income and minority families. Not only are there dozens of documents to review and sign, but there are income ratios and a variety of loan options that a borrower must wade through. In addition, borrowers are faced with the complexity of understanding credit scores, commonly known as FICO, and the issue of how to improve these scores and ensure that the data contained by the credit repositories is accurate.

We must make the process not just easier, but easier to comprehend. We must get information to potential homeowners in a manner and language that they can understand. We must educate the low-income and minority sector about their rights and the responsibilities of homeownership. Equally important, we must reduce the documentation required to make any and all loans; we should be able to approve loans in minutes, rather than days, and close loans in days, rather than weeks. Furthermore, we should streamline the title insurance process and we should replace the public recording of documents with book entry as is done with stocks and bonds. This will substantially reduce costs and improve affordability.

If we fail to seek paradigms to simplify the process, accelerate the timing and reduce the cost of obtaining a mortgage, we will be left with two scenarios. One is that potential buyers will be too intimidated by the very process of buying a home to even attempt to move forward. The other is that for those who do have the fortitude to proceed, they can easily fall prey to the slick marketing schemes of predatory lenders promising an effortless process. All of the technology is in place today to both simplify and accelerate the process and the only issue standing in the way of change, unfortunately, is the "fear" of change.

The final gap I'd like to talk about is what I will call the Housing Gap. What I mean by the Housing Gap is that there is just not enough affordable and decent housing. Part of that may be a cruel irony of the fact that our industry remains one of the economy's only steady and strong performers. And because of the continuing high demand for housing and the limited supply, home values continue to rise, thereby making homeownership less affordable.

Education Gap: The Solution

- Make process easier & more understandable
- Provide information in different languages
- Education on rights & responsibilities
- Reduce documentation required
- Speed approval process
- Streamline title insurance process

But because increasing homeownership opportunities increases national economic growth, we must also realize that there are other contributing factors to the high cost of housing. They include government regulations, egregious regulatory fees, outdated building codes, and a plethora of restrictions on land use.

Unfortunately, sometimes restrictive regulations, fees, and codes are even intentional – established by those who don't want affordable housing, at least not in their neighborhoods. And that should remind us that affordable doesn't necessarily mean accessible. Although it may not be the issue it once was, discrimination still exists. And make no mistake – it has an impact on the homeownership rate of minority families. Therefore, it is critical that our governments must work to solve the issues of restrictive regulations, fees, codes and land use.

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So how do we address the Money, Education, and Housing Gaps and narrow the larger homeownership gap? I believe that in order for our Country to have the opportunity to achieve reasonable parity in the homeownership rates among white, low-income and minority populations, there obviously has to be the kind of societal change that enables more people to enhance their job opportunities and earnings, and thus increase their ability to afford a home.

Being in Washington, I'm sure you can find a number of people who would be willing to speak to the broader issues that stand in the way of minority and low-income families. But I'll concentrate on the more specific, but very meaningful things we're doing at Countrywide.

"THE COUNTRYWIDE EXPERIENCE"

Just over ten years ago, we launched our formal affordable lending program called *House America*. Our hope was that with flexible underwriting guidelines, we would enable more people to qualify for home loans, and by having fewer credit and employment constraints, more families would achieve their American Dream.

Back in 1992, we started with a $1.25 billion commitment to *House America*. In 2001, as part of our *House America* campaign to provide residential financing in under-served communities, we increased our commitment to $100 billion with a goal of obtaining that objective by 2005. I'm proud to say that in just 22 months, and not five years as originally planned, we have reached that goal. So I'd like to use this forum this evening to say that Countrywide is once again re-dedicating itself to expanding the dream of homeownership. Tonight, I am announcing the extension and expansion of our current 5-year, $100 billion challenge through the year 2010, with the commitment to fund a total of $600 billion in home loans for previously underserved Americans in this decade.

Countrywide is proud to make this commitment. We're excited about our new goal. We're eager to reach that goal. And, I can assure you that we will reach that goal.

"Tonight, I am announcing the extension and expansion of our current 5-year, $100 billion challenge through the year 2010, with the commitment to fund a total of $600 billion in home loans for previously underserved Americans in this decade."

As we had envisioned in 1992, *House America* offers unique loan products that have been specifically designed to meet the needs of minority and low- to moderate- income borrowers. But it also does more. It has become not just a lending program, but a more comprehensive effort that devotes considerable intellectual and financial resources to increasing homeownership among minority and low- to moderate-income individuals and families.

It is an effort that includes a counseling center which provides free services by phone in a comfortable, no-obligation environment where people can obtain information about the home-buying process. It is an effort that, in addition to providing loan products with flexible underwriting criteria such as home rehab loans, also specializes in being able to layer financing programs through participation in hundreds of down payment and closing cost assistance programs. *House America* also offers other tools to ensure that we are doing everything in our power to expand the opportunities for home-ownership. It is an effort absolutely committed to education and outreach, both in English and Spanish, both online and in local communities, both at local home-buyer fairs and at lending workshops, and with our many partners, like Fannie Mae, Freddie Mac, FHA, the Congressional Black Caucus, the National Council of La Raza, AFL-CIO, and faith-based groups across the Country, just to name a few.

I want to specifically and especially recognize Franklin Raines and his entire team at Fannie Mae for providing a great deal of the resources that have made it possible for us to achieve our *House America* objectives.

In 1993, Countrywide opened four dedicated *House America* retail branches, and now we have 23 staffed with local and diverse professionals in major metropolitan areas all across the Country.

It is an effort that has enabled Countrywide to become the number one lender to Hispanics for the last 6 years and the number one lender to African Americans for the past 3 years.[1] It is an effort that is helping create, if you will allow me to paraphrase, a *Field of American Dreams*. "If you build it, and build it right, they will come." Finally, *House America* is an effort that, as you can tell, makes all of us at Countrywide extremely proud. I could talk about it all night, but I won't.

But I want to make the point that this outreach effort is imperative. Fortunately Countrywide isn't alone – there are other mortgage lenders and financial institutions that are all making positive contributions. And the lesson we can take away from this is the following: for a long time, when it came to increasing low-income and minority homeownership, the message has always been "we should," or "we must." But the fact is, "we can," and "we are."

"…It is time, once and for all, to narrow and ultimately eliminate the homeownership gap…But to do so will require us to resolve three structural obstacles: namely, the Underwriting Process; Predatory Mania; and, a Lack of Proper Perspective."

Now, we must take the energy and expertise and the ideas and the innovation that we've brought to increasing the overall homeownership rate, and apply them to creating reasonable parity among homeowners. It is time, once and for all, to narrow and ultimately eliminate the homeownership gap. I believe we can eliminate the gap and it is, in large part, why I got into this business. But to do so will require us to resolve three structural obstacles: namely, the Underwriting Process, which I feel is driven by an antiquated credit scoring matrix; Predatory Mania; and, a Lack of Proper Perspective.

"THE UNDERWRITING PROCESS"

As many of you know, after the loan application is taken, the data is input into an automated underwriting system to support the lender in accurately assessing the risk. These systems look at a multitude of factors in making this assessment including credit history or scoring, collateral, and the ability to pay. Upon conclusion of the analysis, the system delivers either an "Approval" or "Referral" designation. Those receiving an "Approval" are typically applicants with solid credit who are put on the fast track for loan origination. Those receiving the "Referral" designation are typically deemed to be of higher credit risk and are sent on to a manual underwriting process.

[1] Countrywide's rankings are based on a comparison of loans originated and/or purchased by all individual HMDA reporting entities in the Country.

I have two issues with our industry's current underwriting methodology. The first is that the automated underwriting systems kick far too many applicants down to the manual underwriting process, thereby implying these borrowers are not creditworthy; and the second issue is that once arriving in the hands of a manual underwriter, the applicant is subject to basic human judgment that can be influenced by the level of a borrower's credit score.

Let's address my first issue. I acknowledge that credit scoring uses proven statistical methods to provide lenders with the ability to quantify the risk of extending credit. And there is little question that the technique effectively and efficiently separates those with very good credit from those with questionable credit.

However, far too many borrowers are being referred to an arduous manual and cumbersome underwriting process. To me, that is clear proof that the level deemed to be an acceptable risk by our automated underwriting systems is much too high. While many of these borrowers may ultimately be approved, it is because the manual process, or human underwriter, has analyzed non-traditional factors such as the borrower's rent and utility payment history, which should be imbedded in the automated underwriting process.

Now, let me address my second issue, and that is the manual underwriting process itself. While Countrywide's own internal evidence supports the notion that manual underwriters are approving a good majority of the loan applications that get referred, the fact of the matter remains that a human is involved in this step of the process thereby creating the possibility that a decision is made based upon the level of the borrower's FICO score.

We cannot deny that human beings aren't influenced by FICO scores. If we can be influenced by a high credit score, then it is only logical to assume that we are equally influenced by a low one. Therefore, the underwriter – either because he or she views the current system as relatively inflexible or because he or she chooses to err on the side of safety – may decide not to override a system that has been deemed to be an accurate forecast of risk.

Thus, the current protocol intentionally creates an environment where borrowers with lower FICO scores are subject to being disproportionately affected by the manual underwriting process. I say we need to amend these systems to do more than just approve the "cream of the crop," by creating a system that says "no" only to those deemed unwilling to make their mortgage payments.

> "We must understand that the credit scoring system we have built is still imperfect…we must make a serious investment in improving its capacity and capabilities."

We must understand that the credit scoring system we have built is still imperfect, and that if we are to have any chance at closing the homeownership gap, we must make a serious investment in improving its capacity and capabilities. We must do this through improved automated underwriting models that take into account more variables, and measure true indicators of risk and willingness to pay. We need an ongoing educational process, not only at the primary market level, but also in the secondary markets and with mortgage insurers to help lead this effort to recalibrate the scoring system. And finally, it must be recognized that borrowers with credit scores below what is currently defined as "creditworthy" levels can still be acceptable credit risks. Thus, the credit score bar dividing creditworthy from high-risk borrowers, must be substantially lowered by the GSEs, the secondary market in general, and with bank regulators. The GSEs have made good progress over the last few years in expanding their credit criteria, but I encourage them to become much more aggressive in this regard.

"PREDATORY MANIA"

The next structural obstacle I would like to address is predatory mania, or to be more exact, the predatory lending legislation that is causing regulatory mania.

From my perspective, there is absolutely no question that lending abuses have and are taking place relative to loans to low-income and minority borrowers. These abuses – whether they are loan flipping, the bait and switch, packing of fees, or any other unfair practice – must be addressed so that all Americans who desire to become homeowners will be treated equitably.

There is also no doubt, in my opinion, that we've worked together to make progress in this area – exposing many of the worst predators feeding in the sub-prime markets. And at Countrywide, we're proud to have been the first lender to sign the *Declaration of Fair Lending Principles and Practices* with HUD in 1994 and the first lender to renew that Declaration in the year 2000.

But now we are running the real risk, as the saying goes, of throwing the baby out with the bathwater. During 2001 and 2002, approximately 145 predatory lending bills were introduced by states, cities and various municipalities. Since 1999, 11 states and 12 municipalities have adopted legislation restricting lending activities deemed as predatory. And because predatory lending laws have become a *cause celebre* with ambitious politicians at all levels, more are on the way.

I don't mind the attention, nor do I question the intention. These laws were allegedly enacted to protect borrowers from lenders who abuse the unsophisticated, low-income, elderly and minority communities by charging high interest rates and fees and fraudulently imposing unfair terms. These lenders deserve unwavering scrutiny and, when found guilty, an unforgiving punishment.

But while there is a formal definition of what constitutes sub-prime lending, there is currently no formal definition of predatory lending. Thus, the Federal Government, not to mention each state, city, and county, is left to its own interpretation. Lenders are then left with a patchwork of legislation and a pile of regulation that is sometimes contradictory, often confusing, and increasingly, as new evidence is suggesting, counter-productive.

A clear example of this counter-productive phenomenon is the state of Georgia. The anti-predatory lending measure that became law in Georgia last October is so complex, and the consequences of a violation – intended or otherwise – are so severe, that lenders and the secondary market have been forced to stop making or buying so-called high-cost loans. As a result, the availability of credit to many families has been curtailed out of the fear of possible lawsuits or other intended or unintended consequences.

The immediate result of this unfortunate legislation is that Freddie Mac, a company chartered by the Federal Government, has "seriously" curtailed its mortgage purchase activities in Georgia, and Fannie Mae has promptly followed suit. Their obvious concerns are related to the egregious consequences to lenders and investors who are involved with loans that are traditionally made to low-income borrowers, many of whom are minorities. I don't blame Freddie Mac or Fannie Mae; I blame a system that is spiraling out of control.

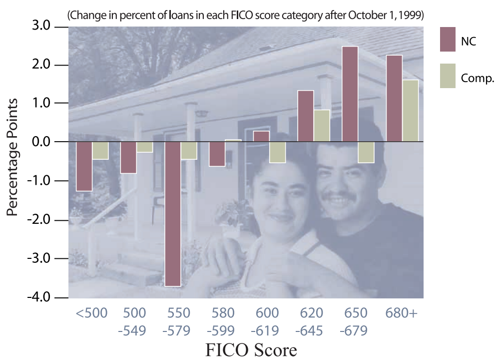
North Carolina, the birthplace of predatory lending laws, is another example. It was originally believed by the author of the North Carolina predatory legislation that there was no adverse impact on lending in their state resulting from the passage of the law.

But two recent studies – one conducted by Georgetown University's Credit Research Center, the other by Keith Harvey of Boise State and Peter Nigro of the Treasury Department – show that sub-prime lending in North Carolina is decreasing, not just in the number of loans, but in the number of low-income and minority families applying for those loans.

The Credit Research Center's report, for instance, found that while higher-income borrowers were seemingly not affected, lower-income borrowers most certainly were. As this chart illustrates, sub-prime mortgage originations in the lower FICO ranges declined following the passage of the anti-predatory lending law. And as the report concludes, the overall number of sub-prime originations declined about 14%.

North Carolina Sub-prime Originations Decline After Legislation Passed

Shift in Distribution of First Mortgage Originations in N.C. vs. Comparison Group States



Source: Credit Research Center, Georgetown University

Georgia and North Carolina are just two examples. There are others. For instance, some of the predatory lending legislation requires that every high-cost borrower obtain credit counseling before getting a loan. It is one thing to offer credit counseling – Countrywide has been doing it for years – but it is another thing to mandate it because doing so often makes borrowers feel marginalized and discriminated against. So much so, they often opt to skip the process all together.

The conclusion we can draw from these examples is that all lenders, and the entire sub-prime lending market for that matter, cannot be brushed with one broad stroke. Sub-prime lending is not the same thing as predatory lending. And there is no way that a reputable, national lender – whether it is Countrywide, Washington Mutual, Wells Fargo, or Chase – can operate under hundreds of laws that bear no similarity to one another apart from the fact that they all contain the word "predatory."

In the end, this patchwork of legislation, or "zoo" as one of the Governors on the Federal Reserve Board described it, will only inhibit lending by major, mainstream lenders, not encourage it. That, in turn, will leave the door open for the true predatory lenders. And it will ultimately shut the door to homeownership for hard-working, low-income and minority families. If mortgage credit dries up in Georgia, in North Carolina and elsewhere, not only will the reasonable parity in homeownership rates become a pipedream, but there will be an inevitable slowdown in other sectors of our industry because of the sequential nature of the homebuying cycle.

"…we must work together – politicians, lenders, and community groups alike – to encourage preemptive Federal legislation that clearly defines predatory lending by addressing the real, rather than the imagined abuses."

We cannot allow that to happen. To make sure it doesn't, we must work together – politicians, lenders, and community groups alike – to encourage preemptive Federal legislation that clearly defines predatory lending by addressing the real, rather than the imagined abuses. We must, in other words, keep our eyes on the prize: helping the American people – all the people – move along the road to homeownership at the lowest possible cost. Plainly put, we should be removing barriers, not creating new ones.

"A LACK OF PROPER PERSPECTIVE"

The final structural obstacle I would like to discuss may have less to do with our industry structure and more to do with our industry's psyche. I say that because it is a determining factor in everything we do. I'm referring to our perspective of success and failure.

For the 50 years that I have been in the business of mortgage banking, I have observed both the primary market as well as the secondary market become fixated on the rise of delinquencies and foreclosures. Obviously, we should not ignore those statistics. But we should also not lose sight, as we often do, on the corollaries of those measurements that indicate a portfolio's success.

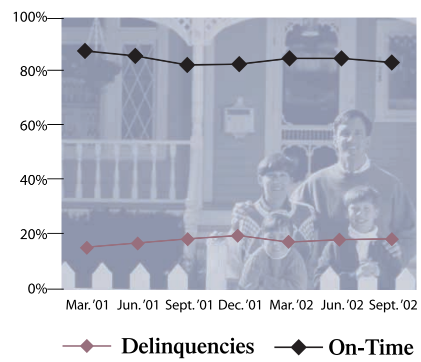
For example, a five percent delinquency rate on prime loans would be considered close to catastrophic even though the fact remains that 95 percent of the borrowers are making their monthly payments and making them on time. In the sub-prime market, there is even more sensitivity. According to a recognized trade publication, the sub-prime delinquency rate is less than 20 percent. However, a sub-prime loan portfolio that has a delinquency rate hovering around 20 percent sets off alarms and calls for new restrictions that should be placed on lending policies to correct the problem. But from my point of view, if 80 percent of the sub-prime borrowers are managing to make ends meet and make the mortgage payment on time, then, shouldn't we, as a Nation, be justifiably proud that we are dramatically increasing homeownership opportunities for those who have been traditionally left behind?

I think our focus on this perspective should become even sharper when we consider that less than four percent of sub-prime borrowers are foreclosed upon, meaning that delinquencies don't necessarily translate into foreclosures and roughly 96 percent of sub-prime borrowers keep their homes.[2]

More importantly, these borrowers have homes because we, as an industry, changed our perspective, giving them the opportunity to change their lives.

These statistics not only dramatize the importance of homeownership to the American people, but they should make it obvious to all observers that the risk of continuing to lower the barriers of entry is de minimus.

Vast Majority of Sub-Prime Borrowers Making Their Payments On Time



Source: LoanPerformance: 30+ days based on count; shown as percentage of total outstanding at period end

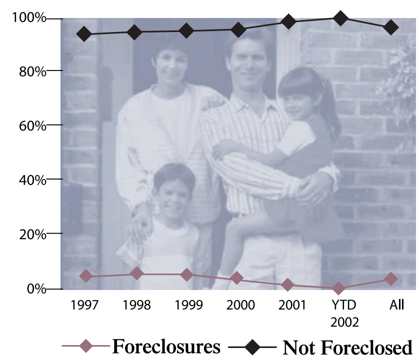
[2] Based on cumulative foreclosures from 1997 through October, 2002 per *LoanPerformance* data.

This is not to say that we should ignore delinquency rates and brush aside foreclosures as not serious. But the fact is that most families only go delinquent when faced with a devastating event – such as loss of health, loss of job or loss of marriage. The primary drivers of default are no different in the sub-prime market than they are in the prime sector.

More importantly, mortgagors have proven for decades that through thick and thin, through periods of boom and bust, and often even under the circumstances I just mentioned, they will make whatever sacrifices are necessary to hold onto their homes. Knowing that this is the case, if we are to close the homeownership gap by enabling more people to realize their American dream, we must all lean on the side of looking for every reason to approve applicants rather than the reasons to reject them. We must focus on the majority that succeed, rather than be obsessed with the few that fail. If we maintain this perspective, we will be influenced to take greater risk in assuring that we create parity in homeownership.

"…we must all lean on the side of looking for every reason to approve applicants rather than the reasons to reject them. We must focus on the majority that succeed, rather than be obsessed with the few that fail."

Sub-Prime Delinquencies Do Not Equal Foreclosures



Source: LoanPerformance: Cumulative foreclosures based on count 1997 through October 2002

Clearly, for our industry, the minority and low-income sectors are the "emerging markets" that we can and must develop. The indications – whether they be an increase in immigration, education levels, income, or the fact that the sub-prime market is still in its infancy – all point to growth. As members of the housing industry, we have both an opportunity and a responsibility to embrace these ideals simply because it is a risk that can only lead to substantial rewards for the people of our Country. But the most important point is that low-income and minority households, who are so proud to be homeowners and who will do whatever it takes to meet their mortgage payments, deserve our undivided attention. And our Nation requires it.

As we all know, on the national level, housing is crucial to the performance of our economy. Our industry creates jobs and is responsible for a tremendous amount of consumer spending. At the end of the day, the housing sector's direct impact represents 14 percent of GDP. And according to the White House, meeting their goal of 5.5 million new minority home-buyers within the decade will add $256 billion to the housing sector.

We also know, as I mentioned earlier, that real estate is a major component of individual and family wealth and worth. But in addition to increasing personal wealth and adding to our National economy, creating more homeownership opportunities and narrowing the homeownership gap increases social capital. In other words, and most importantly, homeownership is part of our social fabric. It ties families, neighborhoods and communities together.

> "…homeownership is part of our social fabric. It ties families, neighborhoods and communities together."

It used to be taken as a given that homeownership had a positive impact on children– that having a sense of belonging would, for instance, lead to fewer behavioral problems and increase the likelihood that children of homeowners would go to college. It was also always assumed that homeowners would be more involved in their communities, thus contributing to making the schools better and the streets safer. Related to that fact, we always believed that homes would appreciate in strong communities. There is now empirical evidence for all of these assumptions.

A study done at Ohio State for the Homeownership Alliance found that owning a home compared with renting leads to a 13 to 23 percent higher quality home environment, greater cognitive ability, and fewer behavioral problems. They found that children living in owned homes had nine percent higher math achievement and seven percent higher reading achievement.

A 1999 study in the *Journal of Housing Economics* on Home Ownership and the Economic Impact on Children, found that children of homeowners are more likely to graduate from both high school and college. And another study found that daughters of homeowners are almost 20 percent less likely to become teenage mothers than are daughters of renters, and that homeowners are also 16 percent more likely than renters to belong to parent-teacher organizations, block clubs, and other civic organizations.

These findings are important. But as the saying goes, statistics don't bleed, meaning they don't tell the whole story. Numbers do not capture the sense of Revola Austin's accomplishment when – with the help of our *House America* branch in Oakland – she became a first-time home buyer. Numbers cannot describe the exhilaration that Denise and Brian Ramsey share because they truly feel blessed to own their beautiful home. Numbers cannot illustrate the Bilbrew's amazement over the help they obtained from their local *House America* branch that not only enabled them to obtain a low down payment loan, but helped them close that loan in just 10 days. Numbers do not and will never convey Elda Martinez's pride, a single mother who was tired of renting and wanted more for her son.

I've been in this business a long time, and I know how easy it is to get lost in the numbers. It happens to all of us. But, when it comes down to it, as far as homeownership is concerned, anecdotal evidence and first-hand experience tells all.

Listening to Elda Martinez talk about her hardwood floors, her garden, or her son's first puppy, and you know immediately why increasing homeownership and striving for parity is so important. You can hear it in her voice. For Elda, and others, homeownership means stability and security, hope, and a future. It's a dream come true. That, above all else, is why we must do more.

I started my remarks this evening by mentioning that it was this day in 1789 that General George Washington was elected the first President of the United States.

There's a wonderful story about Washington and the Constitutional Convention he presided over. The chair where General Washington sat during the proceedings was different from all the others. It had a design of a sun, low on the horizon painted on its back, leading many of the delegates to debate whether it was a rising sun or a setting sun. Benjamin Franklin settled the dispute when at the end of the successful convention he rose and said: "We know now, it is a rising sun and the beginning of a great day."

For our industry and, more importantly, for our Country, together, we can make this the beginning of a great day. Because increasing homeownership among low-income and minority populations remains a great challenge – but it is one that has been entrusted to *our* collective hands. And the wonderful families I've talked about are proof that we can do the job. Our experiment is working. Success can be within everyone's grasp.

In the late 1980s, about 200 years after the Constitutional Convention and Washington's subsequent election, Soviet dissident Yelena Bonner, wife of Andrei Sakharov, wrote an article for the Washington Post. In it, she conveyed her impressions of our Country: "Americans don't want war," she wrote. "They want a house." My friends and partners, that is still the case.

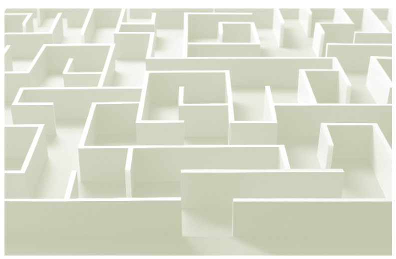
> "Let's make sure the American Dream of Homeownership is never cliché, but always our cause and always our steadfast mission. We have the resources. Together, as partners always, let's show the will."

Of course, thanks to steadfast leadership, the Cold War that shaped Yelena Bonner's view is over. But that only means more countries are looking to America as a model of what they can become. We must show all who look to us for guidance – as well as those who now threaten us – that we are a Country still committed to fairness. We must show them that we are opening the doors to homeownership and opportunity for *all* of our people.

And let's do that by meeting the challenges I spoke of this evening. Let's start addressing the Money Gap – the gap that exists between those who have access to credit and those who don't – by eliminating the down payments for "targeted" borrowers. It's an unnecessary obstacle for too many hardworking families.

Let's close the Education Gap by simplifying the home-buying process, making it easier to commence and comprehend, to follow and to finish. And let's narrow the Housing Gap by making sure that obstacles like egregious regulatory fees, overbearing building codes, and restrictions on land use don't diminish anyone's fair and rightful access to decent and affordable homes.

Let's also address the three structural obstacles to achieve parity in homeownership rates. With the underwriting process, we must make major investments in improving the automated underwriting protocol. We must look for ways to capture alternative payment histories and to properly factor in cultural differences in credit, income and spending habits so that we, as an industry, can say "yes" to borrowers who have the ability and willingness to make their mortgage payments.



We must also continue the education process, at the primary market level, at the secondary market level, and with mortgage insurers. Most importantly, low credit scores must not be the dominant factor for assessing risk – both by the GSEs and the entire secondary market.

With respect to predatory lending, enough of the mania, let's be mindful that reputable lenders cannot operate under hundreds of laws that only have one thing in common – the word "predatory." Sub-prime lending and predatory lending are not the same thing. Brushing them both with one broad stroke only wipes out the opportunities for homeownership for too many deserving low-income and minority home buyers.

Finally, to close the homeownership gap once and for all, we must have the proper perspective. Let's focus on the majority of people who are successfully managing their loans and living their dream. Let's not be obsessed by the few that fail, but instead be encouraged by the vast majority who succeed. Let's look for every possible reason to approve applicants, not to reject them. We must do all of this because housing is critical to our Nation's welfare and to our communities' well-being.

We must do it. And collectively, we can do it. We can make this happen. We can increase homeownership, and we can start closing the gap that exists between white and low-income and minority homeowners. The experiment that is America is truly great, but our greatest days are indeed just beginning.

Let's make sure the American Dream of Homeownership is never cliché, but always our cause and always our steadfast mission. We have the resources. Together, as partners always, let's show the will.

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Office of Federal Housing Enterprise Office, www.ofheo.gov

United States Census Bureau, United States Department of Commerce, www.census.gov

United States Department of Housing and Urban Development, www.hud.gov

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