

Testimony of

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Before the

**Committee on Financial Services
United States House of Representatives**

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Chairman Frank, Ranking Member Bachus and Members of the Financial Services Committee, thank you for the opportunity to appear before you today to discuss Citi's loss mitigation efforts and the implementation of the Hope for Homeowners program.

My name is Steve Hemperly and I am the Senior Vice President for CitiMortgage Real Estate Default Servicing. As a top five servicer with more than \$800 billion dollars in our loan servicing portfolio, Citi services approximately 7% of the loans in the United States. We believe this gives us a unique understanding of the scope and dynamics related to the foreclosure challenges confronting the Nation and the work that needs to be done to keep borrowers in their homes.

In this enormously difficult housing market, Citi has moved aggressively to help distressed borrowers. We have a high degree of success in keeping borrowers in their homes when we are able to make contact with them, they want to remain in their homes and they have a stable source of income to make a monthly payment. In support of our specific focus on finding long term solutions for borrowers in need, our primary loss mitigation tool is loan modification. We have found modifications to be effective in helping certain borrowers manage through difficult times and avoid foreclosure.

Citi has a specially trained servicing unit that works with homeowners to find solutions short of foreclosure and tries to ensure that, wherever possible, no borrower loses his or her home. Citi continuously evaluates its portfolios to identify customers who are likely to benefit from a reduced monthly payment, and offers them timely and tailored loss mitigation solutions. Among other things, we provide free credit counseling, providing access to our loss mitigation staff to borrowers or counseling organizations to provide work-out arrangements and other options to help borrowers remain in their homes.

We have adopted various strategies to reach out to borrowers with resetting ARM loans. Qualified borrowers receive customized monthly communications and are eligible for streamlined refinance processing. Communications to customers with resetting loans start prior to reset and consist of direct mail, statement messaging, telephone contacts and email.

Citi's foreclosure prevention activities have an excellent resolution rate for distressed borrowers with whom we are able to make contact; however, we are not able to reach everyone, and in those circumstances, there are limits to what we can do.

To better meet the increased needs of struggling borrowers we service and reach as many of these borrowers as possible, we have dedicated significant resources to our loss mitigation area. We have stepped up our loss mitigation staffing nearly 100% this year with plans for an additional 50% by year end, and have provided additional training for our existing staff.

In order for policymakers, regulators, consumers and market participants to better understand the extent of the current situation, and our efforts to ameliorate it, we think it is important to share what we know. To assist in this effort, for the past three quarters we have produced and publicly released the *Citi U.S. Mortgage Lending Data and Foreclosure Prevention Efforts* report. The Report goes into specific detail on our originations, delinquency trends, ARM resets, loss mitigation efforts, foreclosures in process and new foreclosures initiated.

Our most recent report shows that distressed borrowers serviced by Citi, who received modifications, reinstatements or repayment plans outnumbered those who were foreclosed by more than four to one. The data demonstrate that our commitment to long term solutions is yielding results; the number of borrowers serviced by Citi who received long term solutions, in the form of loan modifications, in the second quarter of 2008 increased by approximately 27% as compared with the first quarter of 2008.

Our loss mitigation efforts are keeping more struggling borrowers in their homes; nevertheless, as we are all aware, current market conditions continue to be challenging and as we reported in our most recent report, we have seen foreclosures in process increase over the past year. However, foreclosures in process often do not result in a foreclosure completed or the loss of a borrower's home as we actively pursue alternative loss mitigation actions to return borrowers we service to performing status.

Citi recognizes that access to credit and housing affordability are critical issues for at-risk borrowers trying to keep their homes. In 2007, to address these concerns, we established the Citi Office of Homeownership Preservation, or OHP. The mission of the OHP is to increase direct and / or indirect contact with borrowers in distress and keep Citi-serviced borrowers in their homes, and provide them with access to affordable loans. The OHP furthers homeownership preservation efforts with Citi's OHP 25 City Tour. The Citi OHP team conducts intensive outreach events for borrowers in each city in partnership with a local nonprofit engaged in foreclosure intervention work.

In addition to our own efforts, we reach out to borrowers by supporting and partnering with community organizations across the country. We are a founding member of HOPE Now and partner extensively with ACORN, Neighborhood Assistance Corporations of

America (NACA), Consumer Credit Counseling Service (CCCS), Consumer Counseling Resource Center (CCRC), National Community Reinvestment Coalition (NCRC) and other community-based organizations, both at the local and national level, that are committed to finding solutions for borrowers in need of assistance. Much has been accomplished in partnership with these organizations, yet we realize there is a great deal more to be done.

In keeping with the actions I have described and our desire to do more, Mr. Chairman and members of the Committee, I want to assure you that Citi shares your interest in implementing the benefits of the Hope for Homeowners refinance program, and we strongly support this Committee's leadership in promulgating the Housing and Economic Recovery Act of 2008

CitiMortgage is a long-standing FHA lender and servicer. In preparation for implementation, Citi has re-engineered our FHA originations process to improve efficiency and quality. To accommodate the changing housing market and in preparation for the realization of the Hope for Homeowners program, we have substantially increased our FHA underwriters by 245% and aim to further increase that number to 330% by year end. We also intend to partner with correspondent sellers for FHA offerings to bring further liquidity to the secondary market.

While Citi's risk, technology and servicing personnel are all engaged in review of the Hope for Homeowners program, some important details have yet to be determined, and we are eagerly awaiting the specifics of the regulations so that we can get our systems in place. We look forward to the initiation of the Hope for Homeowners program and view it as a useful lending and servicing tool for struggling borrowers.

In closing, I want to again emphasize Citi's commitment to keeping borrowers who we service out of foreclosure and in their homes whenever possible. Thank you again, and I would be pleased to answer questions.