



Statement of

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Vice Chairman-Elect
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Before the

**Subcommittee on Financial Institutions and Consumer Credit
Committee on Financial Services,
United States House of Representatives**

On

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Chairman Bachus, Ranking Member Sanders and members of the Subcommittee, my name is David Kittle, CMB and I am the Vice Chairman-Elect for the Mortgage Bankers Association (MBA)¹ and the President of Principle Wholesale Lending in Louisville, Ky. I appreciate the opportunity to participate today, and I commend the Subcommittee for addressing the very important issue of financial literacy.

MBA represents the real estate finance industry – an industry that invests in communities, where people live, work, shop and play. Currently, we are in the midst of the highest homeownership rate in our country's history – nearly 70%². As a result, Americans are building tremendous wealth. According to the Federal Reserve's Flow of Funds data, the value of residential real estate assets owned by households has increased from \$10.3 trillion in 1999 to \$20.4 trillion as of the first quarter of 2006, and aggregate homeowners' equity now exceeds \$10 trillion. According to the Fed's 2004 Survey of Consumer Finances, the median net worth for homeowners was \$184,000. For renters, it was \$4,000. Clearly, many homeowners have been successful in accumulating wealth, both by steadily building up equity through their monthly payments, and through the impressive rate of home price appreciation we have seen in recent years.

Americans have put this wealth accumulation gained through homeownership to work for them. In recent years, consumers have demanded a variety of mortgage products to not only help them afford homeownership but also to tap some of the equity in their homes for other financial needs or opportunities. Through this consumer demand and huge advances in technology, the choices in the market for mortgages have become plentiful.

Many borrowers have kept up with this innovation. Some have learned through hands-on experience in the record refinancing boom of the last several years. Others have paid attention to increased information from banks and mortgage companies. Additionally, there is now widespread coverage of real estate issues in the mainstream media – nearly every major newspaper in America has a real estate section, and Web sites on the subject are abundant. A search on Amazon.com for books related to the

¹ The Mortgage Bankers Association (MBA) is the national association representing the real estate finance industry, an industry that employs more than 500,000 people in virtually every community in the country. Headquartered in Washington, D.C., the association works to ensure the continued strength of the Nation's residential and commercial real estate markets; to expand homeownership and extend access to affordable housing to all Americans. MBA promotes fair and ethical lending practices and fosters professional excellence among real estate finance employees through a wide range of educational programs and a variety of publications. Its membership of over 3,000 companies includes all elements of real estate finance: mortgage companies, mortgage brokers, commercial banks, thrifts, Wall Street conduits, life insurance companies and others in the mortgage lending field.

² More than a third of homeowners, approximately 34 percent, own their homes free and clear. Of the 66 percent of the remaining homeowners, three-fourths have fixed rate mortgages and one-fourth have adjustable rate mortgages. Many of the borrowers with adjustable rate loans have jumbo loans (over \$417,000), indicating a higher than average level of income and assets.

word mortgage returns nearly 68,000 results. A Google search for topics related to home buying returns hundreds of millions of Web pages.

While many Americans have become engaged in these ways and kept up with changes in the mortgage market and home-buying process, many have not. And it is for these less-educated consumers that more must be done. Private industry must work together with government at every level to help facilitate education so that all borrowers can best choose among the many options available to best serve their needs.

While we have one of the greatest housing finance systems in the world and are at a time of record homeownership, consumers still often find the mortgage process complicated. As important as it is to educate today's consumers on financial responsibility, increasing choice in loan products make it even more vital to consider ways in which we can reach tomorrow's first-time homebuyer.

What We Are Already Doing

MBA and its member companies are committed to educating consumers about the importance of good credit, of working within a budget and of better understanding the mortgage process and the range of loan products available. By understanding all of these elements, consumers are able to determine if homeownership is the right choice for them, and if so, what type of financing is right for their personal financial situation. Educated consumers that understand the value of financial responsibility are likely to maintain good financial habits over the long term which helps them to stay homeowners.

While we want to ensure that home buyers have the educational tools they need available to them, we also want to ensure that people in our industry have the tools *they* need to inspire confidence among our customers. That is why we are so committed as an association to providing educational opportunities to our members. MBA provides dozens of courses and professional development opportunities for the industry. These classes are based on the principle that only a person with real knowledge of how all aspects of the industry works will be able to provide the best level of service to our customers.

Campus MBA, the MBA's educational arm, offers classroom courses, customized courses for particular companies, innovative Web-based offerings and audio training. We gear our efforts toward the full range of mortgage professionals, from brokers to underwriters, CEO's to loan officers. All of these classes are supplemented by MBA's extensive roster of conferences. In addition to our annual commercial and residential conventions, we hold high quality special interest conferences on topics as diverse as mortgage servicing, regulatory compliance, and document custody.

The capstone to the MBA's education program is the Certified Mortgage Banker (CMB) designation. I am proud to be a CMB. This professional designation was conferred upon me by the Mortgage Bankers Association upon completing a demanding curriculum: I had to be in the industry for at least three years, go through a rigorous

education program, with both oral and written examinations, and commit to further continuing my commitment through future professional education. But what was most important to me was gaining a CMB sponsor, somebody who was willing to stand up for me and the kind of person I am. My sponsor was Julie Piepho, and it meant a great deal to have her stand up for me. I personally would never put her faith in me at risk by acting in a dishonorable way.

I wear a CMB pin and sign my name with the CMB because it symbolizes my commitment to continued education, superior service and ethics in my field. It is the standard for the highest caliber of mortgage professionals. More and more people in our industry are achieving CMB status, demonstrating an ongoing and passionate commitment to excellence and service. One of the challenges we have in advancing financial literacy is to reach people where they are. When people shop for homes and mortgages to finance them, they talk to mortgage bankers. Ensuring these professionals are well-qualified and highly knowledgeable is one of the key ways we can further financial literacy.

***A National Resource to Help Prospective Homebuyers:
MBA's Home Loan Learning Center***

A recent MBA survey of consumers found that people want more information about the home buying process, but they want it in a form that is easier to understand. The findings of our survey helped guide us in expanding MBA's consumer educational Web site, www.HomeLoanLearningCenter.com, which helps borrowers better understand the mortgage process. It also helps consumers learn about the importance of their credit status to their ability to qualify for a mortgage and achieve homeownership. The Home Loan Learning Center also provides helpful tips and suggestions on how consumers can find the loan that fits their financial needs, guides for choosing a mortgage banker, general information on the mortgage process and, importantly, how to "shop" for a loan. Recently, MBA added a homeownership quiz to the Home Loan Learning Center site so visitors could test their own knowledge on the home buying process. MBA also added the following materials:

- Top Ten Tips for Home Buyers;
- Homeownership Statistics;
- "Who Say's You Can't - a Real Life Story";
- Mortgages from A to Z ...Understanding the Home Buying Process;
- Your First Steps toward Homeownership;
- It's Your Credit, Make it Work for You;
- Someone Wants to Give You Money. Help Them;
- Coming to Grips with Settlement; and
- How to Live with Your Mortgage. Not for it.

Additionally, as part of its continued educational outreach efforts via the Home Loan Learning Center, MBA enhanced the Web site content by adding the "See a Lender First" section which explains the importance of talking to a mortgage lender as the first

step when beginning the home buying process. Seeing a lender and pre-qualifying for financing is a smart first step in the home buying process to help consumers understand what they can afford to buy and what loan products meet their financial needs. A mortgage banking professional is best equipped to tell a consumer what financing choices are available and help the consumer make smart choices concerning the most significant investment the consumer is likely to make.

***A National Campaign to Protect Homeowners:
MBA's Stop Mortgage Fraudsm Program***

Mortgage fraud is defined as material misrepresentation – the intentional giving of false information that deceives or misleads a lender into extending credit beyond the limits of what would normally be extended if the true facts were known. Mortgage fraud against lenders is sometimes confused with, but truly differs from, predatory lending – which involves unscrupulous lending to an unsophisticated or unknowing borrower.

Mortgage fraud is not a victimless crime, and it has significant repercussions for consumers and communities. While there are times when borrowers engage in fraud, there are many instances when the borrower is not at all part of the scheme. Instead, third-party service providers conspire to cheat the lender. Sadly, even though the borrower has no role in fraud like this, they still may lose their home or savings. This is a problem not only for mortgage lenders and borrowers, but for communities, since entire communities suffer when foreclosures result from fraud schemes that affect multiple properties within a neighborhood.

In reaction to the growing problem, MBA has also established the Stop Mortgage Fraudsm program to help consumers identify “red flags” of potentially abusive lending tactics. This checklist can help consumers before entering into a mortgage as well as help them assess, after the fact, whether they have been subjected to deceptive and fraudulent practices when taking out a mortgage or a home equity loan. Under the program, MBA has established a Web site, www.StopMortgageFraud.com, which provides consumers with a way to report instances of predatory lending and fraud to appropriate consumer protection and law enforcement agencies. Consumers may also call (800) 348-3931 to request this information. The print version of this material has been translated into Spanish and Arabic, and the Web site has been translated into Spanish as well. The brochures also have been requested by various consumer protection agencies for distribution by their offices.

Local Solutions: DOLLAR WISE, BorrowSmart, Consumer Information Summits in Response to Hurricane Katrina and MBA's Financial Literacy/Housing Summit

MBA is a supporter of DOLLARWISE, the financial literacy campaign of the U.S. Conference of Mayors. The goal of the DOLLARWISE campaign is to encourage the development of ongoing local financial literacy strategies to educate citizens about financial issues. With improved basic money management and planning skills, citizens will be in a better position to own homes, raise healthy families, educate themselves and their children, and invest in small businesses.

In the wake of Hurricanes Katrina and Rita, MBA held Consumer Information Summits in Mississippi and Louisiana to reach out to community leaders, parish leaders, state, local and federal government officials as well as consumer advocates. The Summits provided useful information, enabling participants to furnish their constituents with knowledge related to the rebuilding of their homes and communities.

Later this year, MBA will host a financial literacy and housing summit in Philadelphia. Federal, state and local legislators and regulators, consumer activists, community leaders and others will discuss financial literacy programs currently underway and identify new programs and outreach efforts that can be developed. Other topics of discussion will include creating better and stronger partnerships with other stakeholders, housing preservation and credit availability. Our hope is that this event will provide attendees important and timely financial education information that they can then share with their constituents.

Our objectives for the Financial Literacy/Housing Summit include:

- Informing target audiences on the importance of homeownership and homeownership preservation;
- Conducting a robust discussion on ways to increase financial literacy;
- Motivating community leaders and activists to promote financial literacy among their constituents; and
- Discussing ideas to promote home preservation.

On November 1, the National Home Equity Mortgage Association (NHEMA) will formally conclude its merger into MBA. In 2001, NHEMA established an independent organization, the BorrowSmart Public Education Foundation. BorrowSmart's mission is to facilitate community efforts to educate homeowners about the home equity borrowing process to promote financial literacy, home ownership retention, foreclosure prevention, and economic empowerment. MBA will be looking for synergies between its consumer education initiatives and those of BorrowSmart.

Public Policy Considerations

Financial literacy is described as the solution to many different challenges. Related to mortgages specifically, it comes up in the context of the predatory lending debate, discussions about whether borrowers are making the right decisions about the mortgages they take out, and other legislative and regulatory issues. The financial literacy of consumers is critical to a smoothly functioning, self-regulating market and ultimately will lessen mortgage delinquencies and foreclosures.

Government has an important role to play in promoting financial literacy. Most importantly, government –at all levels– can help by getting financial literacy taught in our nation's schools. While we understand that the federal government does not generally determine curricula in this country, Congress should set itself to the task of identifying ways to encourage states and local school boards to introduce or enhance curricula to teach financial literacy.

A second area in which government can be involved is to help coordinate financial literacy efforts. Every company and trade association tangentially involved in the financial services sector has some kind of financial literacy effort. Even our regulators have myriad, overlapping efforts. As you survey the field of financial literacy efforts, you will encounter countless Websites and campaigns. But there is no entity saying that at a particular age children should understand a particular concept and by another age another concept. Too often, financial literacy efforts really only engage when young adults find themselves in significant financial trouble and are avoiding calls from bill collectors.

A coordinated national financial literacy campaign need not require any more funding than what is already being spent. By better coordinating the money that is out there already, we could have a much more robust impact on the country.

Conclusion

As we discuss the need for increased financial literacy, we understand that mortgage bankers have a responsibility to our customers. The mortgage transaction is complex, and the product innovation over the last decade has left even the most educated consumers with the need to learn more about an incredible array of options. But a well-informed consumer will find it easier to deal with all of the complexity and will be better able to shop for the best loan product.

MBA's membership includes over 3,000 companies from across the real estate finance industry. Our members range from the largest institutions in the nation to small, local businesses. The Association and its membership will continue efforts to help consumers understand how to become a homeowner and stay a homeowner. On behalf of our members, MBA appreciates this opportunity to participate in this hearing. Financial literacy is a critical area of importance and we look forward to working with the Congress toward a common goal of better educated Americans.