STATEMENT OF
Ronald M. Faris, President, Ocwen Financial Corporation

BEFORE THE
Domestic Policy Subcommittee of
the House Oversight and Government Reform Committee

HEARING ON
Function and Impact of the Administration's Response to
the Ongoing Foreclosure Crisis

February 25, 2010

Introduction

Thank you Chairman Kucinich, Ranking Member Jordan and distinguished Members of the Subcommittee for the opportunity to participate in this hearing today. My name is Ronald Faris and I am President of Ocwen Financial Corporation, an independent mortgage loan servicer.

At Ocwen, **we share your sense of urgency to find a lasting solution to our daunting foreclosure crisis** – a crisis that lies at the very heart of our nation's economic problems and threatens millions of families with the **loss of their American Dream – their home.**

Ocwen is *not* a loan *originator* -- we did not make the mortgage loans that are in trouble today. As a loan *servicer*, our job is basically to collect homeowners' monthly mortgage payments and remit them to the loan investors, ensure that hazard insurance is in place and property taxes are paid, and help homeowners get current if they fall behind in their payments. Most of the loans we service have been pooled in real estate investment trusts created by the mortgage-backed securities industry. Currently, our servicing portfolio contains approximately 350,000 mortgage loans, of which approximately 75% were originated as subprime. We also act as special servicer where we help investors and other servicers who lack the necessary capabilities to work with homeowners in distress.

Ocwen's commitment to Foreclosure Prevention through Loan Modifications – A Win/Win/Win Solution for Homeowners, Investors and Servicers

At the outset of the mortgage crisis in late 2007 -- more than a year before the current Administration took office and initiated the Home Affordable Modification Program ("HAMP") -- Ocwen was the first in the industry to adopt an aggressive and comprehensive **loan modification program**. We are proud to have saved **well over 100,000 American families** from foreclosure, or approximately one out of every three loans we service.

Our modification program re-engineers lower mortgage payments that are both

(a) **affordable** by the homeowner on a **sustainable** basis, and

(b) result in a **positive Net Present Value** ("NPV") for the loan investors, i.e., returning greater cash flow from the modified loan than the net proceeds that would otherwise be realized in a foreclosure.

Loan modifications crafted in this way are consistent with our contractual obligations and result in a **win/win/win** solution for all involved. The homeowner keeps their home; the loan investors avoid substantial losses; and the loan servicer retains the loan in its servicing portfolio. (*See Appendix A for media reports on Ocwen's leadership in foreclosure prevention in TIME Magazine, New York Times, Wall Street Journal, CBS Evening News, National Public Radio and the trade press*.)

Equally important for **investors**, independent expert studies show Ocwen consistently outperforms industry in loss mitigation, including returning **the highest cash flows** by any servicer in modifying 90+ days delinquent loans – an amount that is **twice the industry average.** (*See Credit Suisse report cited in Appendix B, along with similar studies by Moody's, LPS and Bank of America*.)

Ocwen's continuing support of HAMP and recommended Program enhancements

Ocwen was one of the earliest supporters of the HAMP program when it was first announced by the Administration. We believe it was then and continues to be a decisive and well designed response to the mortgage crisis. The Treasury Department has aggressively implemented the program, having successfully signed up approximately 90% of the industry's banks and servicers as HAMP participants. Even so, almost a year into the program, **too many homeowners facing foreclosure continue to have difficulties obtaining loan modifications**. In our view, this is due in large part to **a lack of sufficient capacity and expertise in the industry** to effectively handle the unprecedented numbers of distressed homeowners in need of assistance.

Ocwen is heavily invested **– over $100 million in R&D over the past 25 years –** in loan servicing technology that is both **scalable for high volume and incorporates behavioral science learning for effective customer communication**. Deploying this platform for HAMP, we are proud to **lead the industry in converting trial modifications** under to permanent solutions in the program. (*See Appendix C for a report by Professor Alan White, a leading expert on foreclosure prevention and HAMP commentator*.) We are also pleased to report that our HAMP and non-HAMP modifications **re-default at only one half the industry average rate**, according to the most recent OCC/OTS Mortgage Metrics Report. Of course, HAMP trials must convert to sustainable permanent modifications if the mortgage crisis is to be abated.

As part of our commitment to make HAMP a success, we welcome the opportunity to share with the Subcommittee our recommendations for program enhancements, as follows.

- **Lower the required Debt-to-Income ("DTI") ratio below 31% or utilize a "Residual Income Approach" to determine true affordability**

Essential components of the HAMP program are the financial incentives for borrowers, investors and servicers who participate, but those incentives do not apply to modifications where the monthly mortgage payment is less than 31% of the homeowner's monthly gross income. One out of every four HAMP applicants we see already has or would need to be modified to a DTI ratio below 31%. This is typically the result in cases involving families struggling with higher household expenses for food, clothing, education and the like.

To ensure these families are not excluded, we recommend HAMP be amended to permit use of a **flexible Residual Income Approach** to determine true affordability on a case-by-case basis. Under that method, the totality of the homeowner's particular facts and financial circumstances is evaluated, specifically including household expenses. The monthly payment is then reduced to whatever amount that homeowner can actually afford, so long as the modification remains NPV-positive for the investor.

Alternatively, if the Residual Income Approach is deemed too difficult to administer, HAMP guidelines could be changed to provide either an across-the-board DTI of 28% or a sliding-scale that cascades below 31% based on the number of dependents reported on the borrower's latest tax return.

.

- **More effective use of Principal Reduction Modifications to overcome the "Negative Equity" Problem**

Despite signs of the housing market stabilizing in certain areas, a primary driver of defaults on mortgages -- and re-defaults on modified mortgages -- continues to be **negative equity**. First American Core Logic reports that 10.7 million mortgages, or 23%, are currently "underwater," that is, the amount owed on the loan is greater than the market value of the house. Another 2.3 million are approaching negative equity, i.e., less than five percent equity.

In Ocwen's experience, negative equity increases the chance of re-default by 1.5 to 2 times. The tendency to re-default is particularly severe at LTVs over 125%. Accordingly, approximately **15% of all of Ocwen's loan modifications** since the onset of the mortgage crisis have involved some element of **principal reduction**. (See Appendix C for reports on Ocwen's leadership in principal reduction modifications.) The re-default rates on our principal reduction modifications are at the same low levels as our other modifications, about half the industry average.

More frequent and effective use of principal reduction is needed to rectify the negative equity problem. While HAMP includes principal *forbearance* as part of the modification waterfall, there is no requirement for principal *forgiveness*. More research is needed, however, to determine the extent to which forgiving principal *upfront* in fact results in lowering re-defaults or raising NPVs. For example, it may be better to utilize "**step principal forgiveness**," that is, incremental principal reductions over time depending on the loan remaining current. This and other approaches to negative equity should be pilot tested for possible larger scale deployment under HAMP.

Principal Reductions and the Moral Hazard Debate

An important policy issue that arises in connection with principal reductions is whether they risk creating a "**moral hazard,**" i.e., why let reckless borrowers off the hook while responsible taxpayers are stuck with the tab?

This is indeed a sensitive issue, but we would point out that a foreclosure hurts not only the family who loses their home, it also negatively impacts surrounding property values, reduces the tax base for municipalities and creates a blight on the neighborhoods – all to the detriment of responsible taxpayers. To prevent short term windfalls, however, any principal forgiven should be retroactively reinstated if the homeowner sells the house and prepays the mortgage within a stated period, say five years. This rule should not apply in cases of relocation needed for employment purposes.

- **Additional funding should be made available through HAMP for non-profit housing counseling and homeowner advocacy groups**

Instrumental to Ocwen's success in foreclosure prevention is the assistance provided by our **non-profit consumer advocacy partners** all around the country. When for whatever reason a homeowner in distress does not respond to our letters or phone calls, we are unable to help them. Through grass roots outreach and educational initiatives, community and faith-based groups such as the Empowering and Strengthening Ohio's People (ESOP), HomeFree-USA, National Association of Neighborhoods, National Community Reinvestment Coalition (NCRC), National Council of Laraza, National People's Action (f/k/a Training and Information Center), Neighborhood Assistance Corp. of America (NACA), St. Ambrose Housing Aid Center and so many others have greatly assisted us in making that key communication link with our customers.

HAMP currently provides support for HUD-certified counseling for homeowners in the program with a total DTI ratio of 55% or more. We urge expansion of financial support for any HUD-certified non-profit organization assisting homeowners **through a successful permanent modification under HAMP**.

- **HAMP should be expanded for successful long term modifications**

The foreclosure prevention objectives of HAMP would be well served if the program were expanded to provide financial incentives for loan modifications completed for homeowners who have a financial hardship, but for other reasons technically do not qualify under HAMP, such as their current DTI being below 31%. Specifically, servicers should receive a HAMP incentive if they modify owner-occupied loans within 90 days after a HAMP denial and the homeowner remains current on the modification and stays in the home for at least 18 months. Additional success fees would be earned if the homeowner thereafter remains current for a second and third 18 month period.

- **Underperforming HAMP servicers should be required to outsource to performing servicers**

Ultimately, HAMP will be successful only if participating banks and servicers are willing and able **to deliver permanent modifications in sufficient volumes to make a material impact on foreclosure prevention**. Whether for lack of effort, conflicts in protecting second lien holdings or simply insufficient capacity to execute lasting solutions, a number of banks participating in HAMP are not producing the results expected under the program. HAMP should be amended **to permit Treasury to transfer servicing**, in whatever volumes are needed to achieve program goals, to **servicers with proven track records and scalable capacity** available to execute and convert trial modifications to permanent solutions, and to do so quickly.

- **Increase consumer awareness of HAMP and its criteria for participation through more national media advertising.**

In order to continue the momentum of getting more struggling borrowers into the HAMP program, we believe that more national media advertising by the Administration is needed.

Conclusion

Let me conclude by saying that, as the President and Congress work together to combat the economic crisis, **Ocwen is ready, willing and able to help**. We are delighted to have been selected by Freddie Mac and other institutions to assist in resolving seriously distressed loans, and we have significant additional capacity that can be made available. Ocwen and other servicers are the front line of the fight against home foreclosures, and we have the most potent ammunition to win the battle – customized, scalable loan modifications that last.

I thank you again for inviting me to testify today. I will answer any of your questions and I ask that my full written statement with appendices be entered into the record.

APPENDIX A

Media coverage of Ocwen's leadership in foreclosure prevention

- ***TIME Magazine*** **-** Barbara Kiviat, "Forestalling Foreclosure", December 31, 2008, (http://www.time.com/time/magazine/article/0,9171,1869202,00.html)
- ***New York Times*** **-** Vikas Bajaj and John Leland, "Modifying Mortgages Can Be Tricky", February 19, 2009, (http://www.nytimes.com/2009/02/19/us/19loans.html?_r=1&scp=2&sq=ocwen&st=cse)
- ***Wall Street Journal*** **-** Carrick Mollenkamp, "Mortgage Servicers Try the Softer Touch – Some Hire Psychologists to Help Get the Right Staff to Address Borrowers 'Saving' the Homes" April 8, 2009, (http://online.wsj.com/article/SB123915037102899367.html)
- ***National Public Radio (NPR)*** **-** Chris Arnold, "Are There More Foreclosures Than Necessary?", May 15, 2009, (http://www.npr.org/templates/story/story.php?storyId=104177396)
- ***HousingWire*** **-** Jon Prior, "Ocwen Converts 66% of HAMP Trial to Permanent Modifications", November 18, 2009, (http://www.housingwire.com/2009/11/18/ocwen-converts-66-of-hamp-trials-to-permanent-modifications/)
- ***DS News*** **-** Carrie Bay, "Servicers Face Penalties, Ill Repute as Administration Rallies for More Modifications", November 30, 2009, (http://www.dsnews.com/articles/servicers-face-penalties-ill-repute-as-administration-rallies-for-more-modifications-2009-11-30)
- ***CBS News*** – Aired January 28, 2010 – "Fixing Sub-Prime Mortgages" Ocwen's success keeping homeowners out of foreclosure by cutting mortgage principal, (http://www.cbsnews.com/video/watch/?id=6151073n&tag=mncol;lst;1)

APPENDIX B

Ocwen best-in-class servicer...
We Make Your Loans Worth More®
Helping Homeowners is What We Do!®

OCWEN

- In the few studies that have evaluated servicer performance, Ocwen was ranked each time as the best in the industry
  - Ocwen generates more cash than Moody's "Strong Rated" servicers and 135% more than the average servicer
  - Ocwen has the highest monthly payment velocity of 90+ Delinquent Loans for the 2006 Subprime Vintage as reported by Credit Suisse
  - Ocwen's roll rate from 90+ days delinquent to current leads the industry in both subprime fixed and adjustable rate mortgage loans as determined by Bank of America / Merrill Lynch
  - Ocwen's losses are 48% lower than the 10 best servicers as measured by LoanPerformance

Sources: Moody's, Credit Suisse, Bank of America / Merrill Lynch, LoanPerformance

Compared to Moody's "Strong Rating," Ocwen Cures More Loans and Generates More Cash…

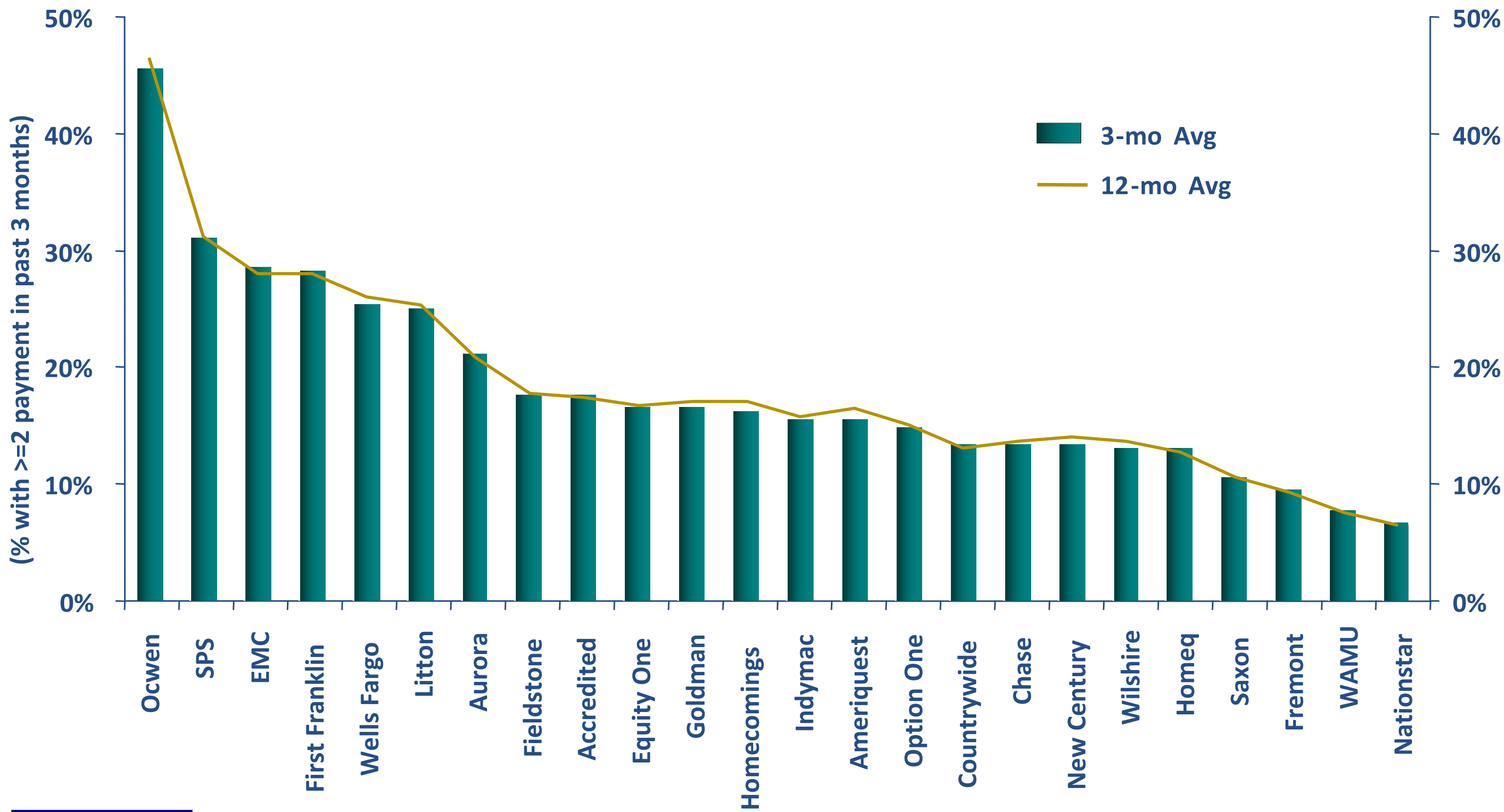
OCWEN

12 Month Total Cure & Cash Flowing Rate for Subprime Loans (net of Bankruptcies)		
	Ocwen	**61%**
Moody's Assessment	Strong Rating	59%
	Above Average Rating	52%
	Average Rating	26%

Ocwen generates more cash than even "Strong Rated" servicers

…which is further substantiated by a recent Credit Suisse study…

Monthly Payment Velocity of 90+ DQ for 2006 Vintage Subprime Loans

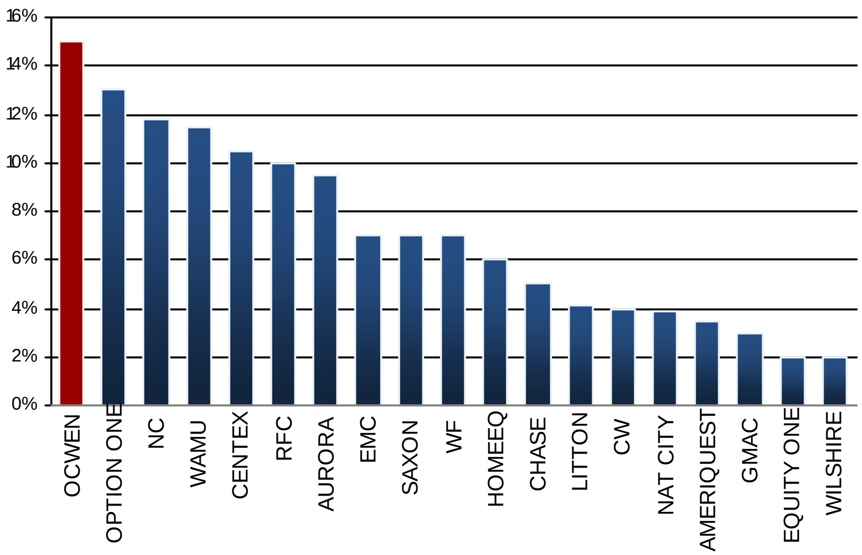


Source: Credit Suisse

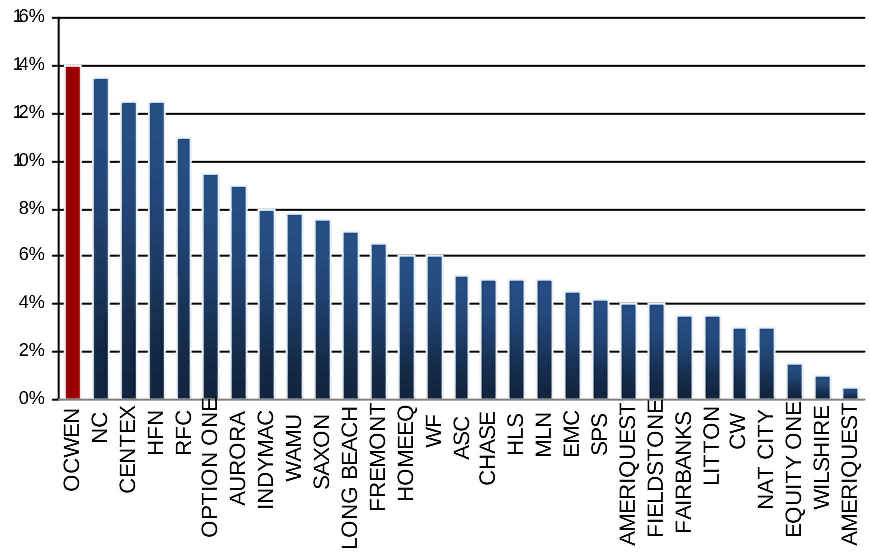
…a recent Bank of America / Merrill Lynch study…

Roll rate from 90+ days delinquent to current

Subprime fixed rate



Subprime adjustable rate



…and also the Loan Performance study

Ocwen has proven track record of managing and minimizing mortgage loss rates

	Ocwen's Rank	Percent of Market	Best		Worst
Losses	**1**	**52.4%**	**Ocwen**	**52.4%**	**186.8%**
Loss Severity	2	75.3%	Other	68.1%	131.7%
Loss Frequency	1	69.7%	Ocwen	69.7%	141.8%
REO Losses	1	54.3%	Ocwen	54.3%	142.3%
REO Less Severity	1	70.0%	Ocwen	70.0%	139.4%

Ocwen's losses are 48% lower than the Industry

Note: Large sample size based on 10 Subprime servicers (6 of the top 10 servicers). The survey was conducted in 2005 and the approach used samples as of August 2001 through 2004. The loan performance projected "expected" losses on pool of loans and compared the results to actual performance.

Source: Loan Performance Services

APPENDIX C

Ocwen leads the industry in converting HAMP trial mods to permanent mods

- Professor Alan White, a leading academic and commentator on foreclosure prevention and the federal HAMP program, noted:

"The four big banks, Bank of America, Chase, Citi and Wells Fargo, converted fewer than 1%, fewer than 1%, 4% and 11% of their temporary mods, respectively. **Ocwen, meanwhile, has converted 89% of borrowers who were on temporary modifications in August to permanent mods by November**. The chart below compares cumulative temporary modifications reported in the August report with permanent modifications reported through November." *

Servicer	Perm. Mods to 11/09	Temp mods 8/09	Conversion rate
American Home Mortgage	201	497	40.44%
Aurora	3622	16044	22.58%
Bank of America	98	59891	0.16%
Bayview	50	219	22.83%
Carrington	293	876	33.45%
Citimortgage	271	44750	0.61%
GMAC Mortgage	7111	17347	40.99%
Green Tree	2	366	0.55%
JP Morgan Chase Bank	4302	106288	4.05%
Litton	39	2603	1.50%
Nationstar Mortgage	358	8219	4.36%
Ocwen	4252	4785	88.86%
Residential Credit Solutior	98	274	35.77%
RG Mortgage	23	30	76.67%
Saxon	42	29011	0.14%
Select Portfolio Servicing	218	9500	2.29%
Wachovia	351	1812	19.37%
Wells Fargo	3537	33172	10.66%

* Professor White's chart and full statement, "HAMP Homeowners Stuck in Limbo" (Dec. 10, 2009), can be found at http://pubcit.typepad.com/

Ocwen leads the industry in Principal Modifications

OCWEN

- **"Subprime Loan Modifications," Credit Suisse, October 1, 2008**

- **"Lenders Cite Gain on Loan Relief" by Renae Merle—*Washington Post,* December 23, 2008**

  - **"…mortgage servicer Ocwen Financial performed thousands of principal reductions this year, accounting for 70 percent of the industry's efforts, according to a recent Credit Suisse report."**