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Lessons Learned: Faith Schwartz

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In October 2007, at the start of the Global Financial Crisis (GFC), Faith Schwartz was recruited by the US Department of the Treasury to organize the Hope Now Alliance, a public-private partnership she led through 2012. Its mission was to assist homeowners looking to modify their loans and avoid foreclosure. Several of the innovations and protections Hope Now implemented became law through the passage of the Dodd-Frank Act in 2010. In 2016, Schwartz founded Housing Finance Strategies and is its chief executive officer. This "Lessons Learned" is based on an interview held with Schwartz in November 2021; the full transcript may be accessed here.

In a crisis, don't overlook the possible benefits of public-private alliances. Private industry has a wealth of knowledge that can be leveraged to strengthen government programs for the public good.

With millions of homeowners looking to modify the terms of their loans to avoid foreclosure during the GFC, Schwartz was asked by the George W. Bush administration to organize a broad coalition of lenders, loan servicers, investors, nonprofit housing counselors, and other industry participants to reach out to and assist borrowers. The Hope Now Alliance was a voluntary organization that worked to raise industry concerns, design loan modification solutions, increase awareness of the program, and address infrastructure and process issues.

According to Schwartz, the effort was challenging but ultimately successful in a number of ways. The biggest challenges, Schwartz said, were the diverse constituencies:

> We had investors, who wanted to be repaid, and Congress, which was pretty much mad at all the banks and the nonbanks. It wasn't popular to be a lending institution during the Great Recession. We had the loan advocacy groups and civil rights groups that were very much advocating for the consumer, and lenders who weren't used to having that kind of foreclosure volume. We had this mix of people who understood they needed to do everything they could to minimize foreclosures at all costs. We had to get buy-in even from the banking and the finance industry to make sure they weren't thinking about the crisis in a traditional foreclosure way. I'd say aligning and getting agreement on a simple task to go forward was a Herculean task.

Schwartz focused the group on the fundamentals: "Building standards, tracking, and telling the public what was going on was the big push." Her organization helped design measurements and rubrics to fill gaps in the industry. "There weren't a lot of structural loan modifications that were available. They had to be developed," she recalled. "They were complex, and a very small number of people in every company understood them." Once solutions were designed, they were rolled out across Hope Now's servicers.

After the Obama administration implemented the Home Affordable Modification Program (HAMP), Hope Now worked with it to maximize solutions for homeowners. Schwartz explained:

> For instance, when [a HAMP modification] failed, we actually showed the private [modifications to clients] on top of HAMP, if they did not qualify for a HAMP modification. So many borrowers were still saved from a foreclosure with non-HAMP mods as a last solution to avoid foreclosure. We actually measured it both ways to show the totality of the situation. So that organizing, response, and slowing down of foreclosure was very much a success for a voluntary program.

Even in the heat of a crisis, considering new ways of doing things might deliver better results.

The housing crisis saw foreclosure rates double, triple, and even quadruple from customary levels. Loan servicing firms—their people and technology—were overwhelmed, said Schwartz. Hope Now helped the disparate participants work together to develop feasible solutions that could be applied across the industry and bring uniformity to the problem. Some of these had lasting impact, she noted:

> The agencies have different loss mitigation rules in place and were not aligned on process, so we started with the nongovernment loans to drive change, and the GSEs [government-sponsored enterprises] in particular helped us with alignment in the government loss mitigation processes. The FHFA [Federal Housing Finance Agency] and agencies worked with us to arrive at some standard modification processes, including maximum DTIs [debt-to-income ratios] and waterfalls for the process. At the end, these were in place prior to the new administration coming in and adding HAMP to the process, which changed and subsidized the modifications . . . We [also] worked with the government, Treasury, to drive toward a net present value test where the loan servicer did not have to maximize the return to the investor, which is what private contracts warranted. But we had to deliver a neutral outcome to the investor by having the borrower stay in their home at a reasonable modification that was sustainable. This was a breakthrough that took a long time to adopt and became standard in the marketplace.

She commended the Obama administration for trying new strategies, some of which worked and some of which didn't. Hope Now was able to assist in some of these efforts:

> They put a trial modification in place. It was a verbal modification, and over a number of months, people would come up with the documentation to go from trial modifications into permanent modifications. It's very difficult for documentation and for compliance purposes to recast mortgages without the proper paperwork in place. Overall, it was pretty successful, but it took months and months and months of both monitoring, measuring, and getting those documents in place. Companies had conference rooms with thousands of people calling borrowers because they needed their docs. Due to investor and government requirements to avoid fraud, there was a big

> emphasis on documentation from the borrower. Due to the millions of loans, the pure communication of this required faxes, fed expresses, and even use of our new portal, HOPE LoanPort, so consumers and lenders would communicate and not lose the documents submitted via portal. Processes and systems were archaic, and just getting a homeowner on their own to PDF a document and upload it was difficult.

Another area Schwartz cites as a win is communication. "It was a very dark time," recalled Schwartz. "Millions of people were at risk, and we tried to pull together fairly disciplined messaging, a disciplined data approach, and outreach to all the communities that were most at risk." Her efforts helped spread the word about the programs and helped the administration overcome consumer reluctance.

> I wrote letters out of Hope Now that we co-branded with the Treasury seal that were sent out by the lender to their homeowners who were at risk. We had a pretty big bump in response, because the letters weren't coming directly from the banks like Wells Fargo, Chase, and Bank of America, even though these lenders would mail these letters on our behalf.

While noting that regulatory changes, industry developments, and technological advances have resolved many of the GFC issues, Schwartz commended the government's response to the COVID-19 pandemic's housing problems. The government did a "remarkable job," she said, "I don't usually say things like that. Government isn't nimble, but it's quite impressive what they did." She also noted that the government applied many of the lessons learned during the GFC when addressing the COVID pandemic:

> The federal government and the quasi-federal government—the agencies—did a marvelous job in the pandemic with structuring loan modifications and hardship to defer the payment onto the back end and allow them to resume their payments. They are doing it without a lot of documentation. They've learned a lot of lessons from the Great Recession, that this is not a fraudulent issue. Let's get borrowers back on track and avoid the foreclosure. We know that's a huge loss to the community and in our own insurance book of business.

Overall, Schwartz considers the time at Hope Now as one of the highlights of her career and is proud of the work the organization did to refocus industry and government on the borrower. "If you keep the consumer at the center of your activity, no matter who you are or what you're doing," she said, "you usually can come up with a better mousetrap that's not going to be problematic for the borrower or the lenders."

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