YPFS Lessons Learned Oral History Project: An Interview with Faith Schwartz

Faith Schwartz

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Introduction:

The Yale Program on Financial Stability (YPFS) interviewed Faith Schwartz regarding her time with the Hope Now Alliance, a public-private partnership, which she was recruited by the US Department of the Treasury to organize in October 2007 and which she led through 2012. The Alliance was a public-private coalition of government agencies, lenders, loan servicers, investors, nonprofit housing counselors, and other housing and financial industry participants whose mission was to and assist homeowners looking to modify their loans to avoid foreclosure. Several of the innovations and protections the Hope Now Alliance implemented later became law through the passage of the Dodd-Frank Act. In 2016 Schwartz founded Housing Finance Strategies, where she serves as CEO. She was appointed by the Consumer Financial Protection Bureau to be a member of its Consumer Advisory Board for 2021–2023.

This transcript of a telephone interview has been edited for accuracy and clarity.

Transcript

YPFS: Could you please tell us when you saw the foreclosure crisis coming? How did Hope Now Alliance take shape? Who did you get to participate, and how did you get them to participate?

Schwartz: Some of us saw things a little earlier than when it hit the broader market. I was running an office for Option One, after working at Freddie Mac, and there were some early payment defaults happening. I was part of the Federal Reserve Consumer Advisory Board at that time, and we were seeing more and more evidence of loans falling outside of the traditional loans, even for the subprime market. At the time Option One didn't do negative amortizing, Adjustable-Rate

1 The opinions expressed during this interview are those of Ms. Schwartz, and not those any of the institutions with which she is or was affiliated.

2 A stylized summary of the key observations and insights gleamed from this interview with Ms. Schwartz is available here in the Yale Program on Financial Stability's Journal of Financial Crises.
Mortgage (ARM) loans, but ARMs were all over the market and starting to show up in default.

I had spent a number of years while at Freddie Mac speaking with the advocates, and slowly, some of the issues—the market had raced up in a benign way, the property values were always increasing, rates were pretty low, there was a lot of money in the market, and you didn’t see a lot of foreclosures. You saw some churn because after two years people would refinance their loans, et cetera, but when the rates slowed down, when prices started decreasing, you could lift the covers and actually see what was going on in the market.

I was part of the Housing Policy Council in Washington, DC, which had the heads of banks, mortgage companies and non-banks, and we were increasingly talking about what was happening in the broad markets. Because of my background in the prime business, I understood what was happening in the capital markets and the extended markets, the alternative markets, the subprime market. Steve Bartlett—head of the Financial Services Roundtable, who ran the Housing Policy Conference, a CEO driven-organization—and John Dalton, asked me if I would lead the effort. (Former) Secretary of Treasury Henry Paulson asked—really almost demanded—that the industry step up and lead the country through the crisis. When I was asked to do this, it was very urgent and very quick. They said they were going to talk to the head of H&R Block and tell him to let me help them through this national issue.

I was happy to step up because I was concerned, and I was always trying to improve the market, get rid of five year prepays, get rid of ARMs, get rid of certain product characteristics. Even while at Freddie Mac, I was leading the effort on anti-predatory lending campaigns and making a better consumer market, rationalizing and improving the markets. I had a lot of history with the civil rights groups and the bankers.

I had to raise the money, I had to recruit the members and I had to pay myself, as well as everything else. That was the beginning of Hope Now Alliance in October 2007, and within a week or two, I was speaking with Secretary Paulson and trying to pull together information, and within a few months I was on TV, on Squawk Box with Secretary Paulson talking about the initiative, and the issues around the lending market. It was a rapid-fire effort.

**YPFS:** How did you raise the money?

**Schwartz:** I called the CEOs of every company; some of it was through the Housing Policy Council—there were a number of companies there, and they knew something was going on—I’ve had years of coalition building, so it wasn’t overly new to me to bring people together. The Treasury called people and talked about building a coalition. I invited nonprofits for free to come. It was a cross-
disciplined effort that would focus on what we could do to slow down foreclosures, mitigate loans going into foreclosure, and get the industry focused on standards, and reaching the borrowers. This was happening so rapidly it was overwhelming to the processes of foreclosure and loss mitigation. It had been very benign, in a sense. There weren't a lot of delinquencies in default. If you think through the economics, the home prices had increased over the last decade quite a bit and turned everything upside down and all the processes were never in place that well, certainly not at the bank level. Some of the non-bank lenders had a little more focus on special servicing.

We forged a big public-private partnering with the Federal Reserve banks, with Treasury and Housing and Urban Development (HUD). We collected data from all the banks and non-banks and created a reporting metric for which I said early on, “I don’t care how bad it is, how good it is. We’re going to look at the level of delinquency, the loans that were starting to get foreclosed on, the solutions that were offered, including modifications, anything to do to mitigate the losses.”

I worked very closely with Fannie Mae and Freddie Mac. Freddie Mac gave me $2 million to fund some of the operational issues. I formerly worked there, that helped probably. I did work closely with all the government agencies, and we probably had about 40-ish servicers and companies, banks, non-banks that were part of this, including some Wall Street firms such as Goldman Sachs. I asked the housing trades and the Wall Street trades to become part of it too, because I knew they were influential, and I didn't want them to be competitive with the group that I was working with. I formed a governance steering committee, and I made myself independent of even the Financial Services Roundtable, with an independent budget and independent governance. They were part of it and helped me with accounting and HR type things where we actually paid rent to the Financial Services roundtable out of the budget. My goal was to be independent of any one group and show we had input from all the trades, banks, non banks and non profits.

I didn't want it to be one issue because it really had to be a very collective, neutral group that came to good conclusions. It was a great experience. It was a very dark time. 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. We would partner with others and go out to the events and meet with people on the ground, and look for solutions, either at that meeting or following up from those meetings about their situations with their loan servicers.

Building standards, tracking, and telling the public what was going on, was the big push. I testified to the House and the Senate a number of times over the years and continued to report on the progress being made. Over time, we were
making tremendous progress, but it took a while to get organized, and get everyone marching in the same direction.

YPFS: **Was it that they didn’t understand, or take it as seriously, or did it have to get worse before they would march in step?**

Schwartz: I think there were a lot of different factions. If you didn’t live through those details, it was complicated. There were a lot of securities laws in place. There were a lot of rules from investors. There were rules for Fannie Mae and Freddie Mac, and the Federal Housing Administration (FHA). 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. These were largely following the agreed to process of changing the rates, terms and principal of a loan but there were lower DTIs and incentives to modify loans that were more aggressive than had been agreed to through some government subsidies. So changing the rules and offering some incentives to how they changed is what the Making Home Affordable effort at Treasury was about and that drove to more sustainable modifications but also slowed down the process. We 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 become standard in the marketplace.

As you think about loans and foreclosure today, we found a way to avoid millions of foreclosures during and after a catastrophe. We found a way to repay the investor, such as loan deferment, enter forbearance, and then get back on track with the borrower paying a sustainable payment. Instead of 8 to 10 million foreclosures, we will be in the thousands in 2022 and the vast majority of homeowners will be remaining in their home. This is new, this is different than the great recession and we have learned a lot of lessons on how to be better about these events.

The agencies, post COVID-19, have made huge strides as investors, adapting to rules that make sense for borrowers, streamlined solutions and preservation of neighborhoods, and that was not all in place during the great recession. Servicers are more nimble, better communicators and technology is far superior for homeowners and loan servicers to communicate effectively.
YPFS: How were you able to make rules?

Schwartz: We aligned and agreed with the industry to the point where we came to agreements about what made sense and what would be helpful to the investor community that they could abide by and live by, and this went on through two administrations (Presidents Bush and Obama). We worked with Hank (Henry) Paulson and then Tim Geithner when the Obama administration came in. I worked closely with both, and they made some structural changes. There were no government incentives early on. There was progress being made.

The industry aligned around what documentation needed to be in place for mods, et cetera. When the Obama administration came in and they wanted to assess the housing issues, they delayed foreclosures, which was helpful to the broader systemic issue. 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.

I’m working on a very similar but less complicated outreach to consumers today during the pandemic, Covidhelpforhome.org, and the government response—the money and tech processes in place—make it much easier to reach at-risk borrowers, and also make sure the messaging is there. I’m working with sixty banks and servicers, a bit of a pro bono effort, for a similar program—making sure borrowers understand their rights, their ability to execute and look at options prior to foreclosure if they’re in forbearance under the CARES act. Dial it back to a decade ago, you didn’t have 800 numbers even in the loan servicing shop. During the last recession, I asked everyone to establish, quickly, 800 numbers and staff for all consumers to call on the loan servicing for distress. That was a big deal back then. Now they are well staffed in call centers and have many points of contact with their borrowers.

What I would add is that it’s hard to get the attention of CEOs, unless it’s a big issue, but the CEOs were all highly engaged and were flying into Washington quite a bit. Over time, everyone understood how serious it was. While some would say, ‘It’s only two or three percent of my whole operation, and we’re
taking care of most of our folks,’ that two or three percent fell into a much higher percentage with the depreciation of housing. The struggle started to become a global crisis. And companies with just two or three percent of delinquencies and pending foreclosures started experiencing 5 to 10 percent of their book being seriously delinquent. Many companies were forced to sell or merge their companies. And back offices needed to retool to address the overwhelming surge of demand from customers who needed assistance to understand their options.

YPFS: You said, at the beginning of your testimony to the Committee on Financial Services in the House of Representatives in 2008, that despite attempts to increase communication, the majority of homeowners said they were not aware of the options that mortgage lenders or loan servicers have to offer. Why was that? Did you find a remedy to reach people?

Schwartz: It’s complicated. In the front end of the business, you go through all kinds of options to look at your financing. But when you look at loss mitigation and what a loan servicer does, the options are fairly limited. If you stop paying on your mortgage, whether you’re in a judicial or a nonjudicial state, you’d march down toward a foreclosure following all the required state laws around that. Most investor guidelines, including the government agencies, had repayment plans in their first waterfall of options. They were saying, “You can catch up on your missed payments,” which means it only adds a couple hundred dollars a month over time to catch up on your missed payments. That is just not an easy option for most people who are struggling.

But there weren’t a lot of structural loan modifications that were available. They had to be developed. The traditional foreclosure was for divorce, or the loan sale of a home, or the deed in lieu of a home, which would be, accepting the deed in lieu of foreclosure, or even selling the home in a negative equity, it would be a short sale—something that wasn’t going to be reversed. Those were not traditional things. They were complex, and a very small number of people in every company understood them. And to top it off, back then there was a 25 to even 30 percent drop in housing values, almost unheard of. So, the foreclosure also meant a potential short sale of the property if there was a chance to avoid a full foreclosure. That required significant approvals and handholding and was not something that was easily scalable.

Dial forward, during the COVID crisis we built messaging around all of those issues, and questions and answers, and websites. We worked closely with the nonprofit housing agencies and others, to counsel borrowers on their options.

When someone’s ashamed or upset and doesn’t want to be in that position, it’s very hard. One out of two borrowers were never answering the phone or responding to letters. We all tend to want to ignore issues. That’s a natural
thing. In this case, it was extreme. One out of two! It is much better, today, but it's still out there.

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. Our letter with our signature would get a higher response than if they had just mailed them the standard way with a letter with their own branding. Remember, we had about 40 loan servicers in HOPE NOW and many were banks and independent mortgage companies.

We worked hard to stay official, to avoid scams. There were a lot of predators circling around. We worked with the Attorney Generals' (AG) offices across the country, even through the 50-State Settlement. We built a web portal, called Hope Loan Port, to make sure that no one could say, “I sent my documents to the servicer, and they say they never received them.” We built a portal where counselors and borrowers could append other docs and send it to the servicers. There was no more “he said, she said.” We could get the docs to the right people. That’s in my testimony. I pushed us to create the portal and offer a way for nonprofits and homeowners to unconditionally get something urgent to the loan servicers—and there would be proof that the documents were in fact delivered. Use of the portal was mentioned in the multistate settlement.

But it was bad. There were rooms in companies that had floor-to-ceiling FedExes stacked in them, not opened in a timely way.

YPFS: That was one of the criticisms from Diane Thompson, from the National Consumer Law Center, and Sandra Braunstein, from the Federal Reserve, that the documentation was unnecessary because it doesn't prevent fraud, which is what everybody's big worry was. They also said servicers should not have demanded as much, especially from individuals when that documentation wasn't even looked at when the loans were being serviced.

Schwartz: I understand that frustration but what is missing in this comment is that the agencies and government programs were rigid in their initial requirements. This includes the Treasury when they designed the HAMP mods as they were using taxpayer subsidies and very worried about FRAUD and misuse of the program. Those were government requirements. People were worried about fraud and tax, especially with the subsidized modifications, which came later.

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2 What was the National Mortgage Settlement? | Consumer Financial Protection Bureau (consumerfinance.gov) https://www.consumerfinance.gov/ask-cfpb/what-was-the-national-mortgage-settlement-en-2071/
Through the new administration, there was a subsidized mod and buy down to allow the debt-to-income to go lower. Servicers and investors were taken care of through that. I think, it was due to the federal dollars and subsidies.

They were conscious of not having any fraud going forward. I think they’ve learned, and it’s fair to have a comparison with this pandemic. One, you have better product. We have the borrowers—who through no fault of their own—and the investors in a hardship situation, and we had millions of people go into forbearance. Who knew where they would fall out when they came out of forbearance in a big foreclosure rush, and if they would be underemployed or out of work? 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.

**YPFS:** I listened to your testimony to Congress regarding the work of Hope Now. What do you think were the biggest challenges and successes?

**Schwartz:** The biggest challenges were knowing we had 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. While we weren’t always popular, I found that for me personally, I leaned into keeping my eye, on doing the right thing, as did many. You can all point at each other for decades—and they will about the cause and effect—but at the end of the day, it wasn’t that hard to see the path forward; but it was hard for individual institutions at times.

The humility that is needed to come along with this was hard to find early on. There was a bit of arrogance and pointing fingers instead of recognizing the breadth of the issue. Early on, that was biggest problem I saw. I really enjoyed rising to the challenge of it. People were remarkable over time with how they jumped in with both feet. A good example is when Jamie Dimon from Chase announced they were opening a hundred offices in the hardest hit areas for any consumer. You saw people do the right thing. That was a leader. His own team didn’t know he was announcing that, because I remember being
surprised at it and delighted, and no one knew. He just decided he was going to do that. That's good leadership. I certainly saw great leaders come forward.

The successes were that we slowed down foreclosures. We let the market stabilize while we were looking for solutions. We reached borrowers and got a good message out there while we were starting to measure what was happening, and we stayed ahead of the foreclosures by modifying more and more loans. That was a race.

**YPFS:** When did you feel that people caught on, or, as you said, jumped in with two feet? Was it 2008?

**Schwartz:** I don't think anyone in 2008 recognized the breadth of the problem. The issue snowballed. It became a very difficult couple of years. Over time, everyone jumped in. We had challenging bank, non-bank issues, but over time, the CEOs coalesced well, and with the advocacy groups and NeighborWorks and with Center for Responsible Lending and others. I worked with the Lawyers Committee and FTC and various agencies to fight scams and fraud and found a great alignment with some civil rights groups where we found common ground. And Treasury certainly did some very heavy lifting as an agency over the years with both administrations and I admired them and worked closely with them over that time.

There was good dialogue with Treasury, and they took a better role in it. By 2010, it was more streamlined, more policies were put in place, more execution opportunities on modifications were put into place. It takes time with what you can do and can't do to have both policy procedures and agreements with the investors. Between 2008 and 2010, we saw a transition.

**YPFS:** If Hope Now was already successful, why was HAMP started, in 2009, and how are they different from each other?

**Schwartz:** Hope Now was phase one of what could be successful. We didn't have a government mandate. It was all voluntary. Without a government subsidy, we rolled out a modification effort with the FHFA, GSEs HUD and because these were government-sponsored enterprise loans. We reduced the debt to income, and it was very much HAMP-like, except it didn't have the government subsidy, which needed the government to require that subsidy and set it up. That's what Treasury did with the new administration that came in. That of course took taxpayer dollars to move the modifications to include subsidies.

The Federal Reserve Banks were terrific, and we co-hosted several outreach events through them to reach the most at risk borrowers. That first year was organizing, doing outreach events, getting that momentum of the nonprofit set up, working with the Federal Reserve banks. Nothing much changed except that we had it in place. We had the reporting and measurements in place, and then we added to that the HAMP modification. For instance, when HAMP
failed, we actually showed the private mods 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.

When the government came in, for better or for worse, the trial mods were a mess—a verbal statement of what you make and what your expenses are. It's difficult to then put that on paper and be accurate. We saw a lot of post-compliance problems with that, with the Consumer Financial Protection Bureau and others going back on changes from the trial mod to the permanent modification. It's an oxymoron, when you're trying to measure and you get it in writing, and you get the facts, and they're different than the verbal. There was a lot of that.

**YPFS:** Diane Thompson criticized in her Senate testimony, “the lawless attitude of loan servicers, which was tolerated by regulators.” Why, when incentives were added, did servicers not change their practices? Representative Delahunt and Barney Frank said the voluntary programs were not working and they should do cram down bankruptcies. What didn't HAMP succeed while Hope did?

**Schwartz:** I think everyone had a level of success. It was overwhelming. The system was not set up for 10-plus-million loans in default and going into foreclosure. For every loan that was modified, half, over time, went back into foreclosure because despite best efforts, people lost their jobs. The recession had a long-term effect. Default recidivism was a big issue, but my view is half of them were saved. I worked very closely with loan servicers, as I did the civil rights groups, and the advocates, and I saw a lot of good behavior and very hard work, in a system that wasn't set up well. Should the servicers have invested billions of dollars into their systems, to structurally change things? Yes. And certainly, on reflection, I’m sure they would agree with that, because they kept hiring people, but it was all manual. It crippled the ability to do it well because you couldn't make a system of record easily. That is a big part of it. I know there's some bad apples, there's bad actors, but I also know the vast majority are not bad apples or bad actors.

**YPFS:** Sandra Braunstein also said the infrastructure was obsolete, and Diane Thompson said servicing is a money loser. Servicers don't have the staff to do it.

**Schwartz:** Right. That's true. The default servicing went up eight to ten times higher than the performing loan servicing. If 10% of your book is defaulting, your costs are up ten times to handle that, with no additional income coming in. You're not even getting the servicing income. It's a difficult model and should be revisited
in the structure of the business. In fact, servicing compensation needs to be more aligned with the servicers being paid an appropriate fee to manage the loss mitigation to save the home from foreclosure. The cost to the community, homeowner and investors are extraordinarily high when a foreclosure is happening versus prevented. Every time we try to restructure loan servicing and get some momentum, the market is a little better, and people are back to making money on their performing loans. Even the agencies, Fannie and Freddie and FHA and others, know that the default servicing is not a perfect model. They're the ones who lose money too, because when their loans go into default, they're the guarantor. It's harder in benign times of low delinquencies to make that restructuring happen, and it doesn't get momentum. There's no obvious leader of it.

I think it's worth noting the FHA did a marvelous job in the pandemic. They did foreclosure prevention with their mods and partial claims to manage the process and help homeowners and loan servicers get through this. Eight percent or more of their loans were still in distress and in forbearance in the pandemic of 2019. Fannie and Freddie came around and did, similarly, a very good job on their modifications during this recent crisis. By creating deferment of the payments at the end of the loan, they are not going to have a record number of foreclosures. They're going to be repaid for the payments that were missed. They have set up a balloon on the end of the mortgage in a non-amortizing way. This highly successful structure is something that should be studied and potentially used in a more scalable standard way going forward. The agencies have come up with a structure that's considered a hardship, that they should think about more generally, if someone's going into foreclosure, so the borrower gets back on their feet, and they don't have penalties and interests, they're not being reported to the credit agencies, and they're going to repay their mortgages. When they refinance or pay it off, they pay that balloon of $12,000 or $15,000 that they missed.

What an amazing execution all of those agencies did! Had they done something like that even in the 2008 Global Financial Crisis, that might have been quite helpful. But the private markets were also guaranteeing many of the mortgages through securitization structures and there was no federal backstop to those mortgages. This was more of the private capital in structured transactions that proved to be daunting when the crisis hit the market. It was hard to do that then and the complexity was due to many structures of subprime loans outside of the standard government lending. But even back then, the government agencies probably could have done things differently, if they reflect back on how successful they are today with their approach to the hardships caused by the pandemic. The markets are very different, there is record home equity today, and the crisis of the pandemic is something that no one caused (financial engineering). Very different and thus, a very different response.
YPFS: In the Washington Journal call-in program, you took calls from homeowners who had tried to do everything they were supposed to do, and they didn't get help, even when they called the Hope Now hotline. One caller was a woman expecting twins, she lost her job and was losing her house. Another man had to take a job for $10 an hour, when he lost his job, and couldn't qualify for a modification loan. Are there any solutions in place now?

Schwartz: The remedies are very difficult when you're underemployed or unemployed. To qualify for a loan modification, you have to have income. There is no federal subsidy if you're under-employed or not employed and you have too high debt-to-income. If you're underemployed and you're making $40,000 a year, but you used to make $60,000 a year, the lender or servicer doesn't want to put you in a loan in which 75% of your income is needed to keep it.

Your options are limited to the sale of your home or a deed in lieu. In the crisis, it was a short sale. Today it would be a sale with equity. Over 90% of the mortgages have more than 10% percent home equity. What happens is people get paralyzed; they don't know what to do. With some long foreclosure timelines, they don't do anything. But the negative equity that starts to occur is terrible because it acquires penalties and interest. If you were paying $1200 a month, but with penalties and interest, you're paying $1400, and it keeps adding up, and you're not paying, that is going right against your equity. I think that's probably the most misunderstood issue, if you want to walk away with some equity. I'm looking at this right now. What is the messaging for people who can't afford to stay in their home? They can't rent out a room. They don't have another family member that's going to help them, and they're underemployed. Their best option is to find a way to sell that property, so they don't deteriorate into a foreclosure and lost equity while they might have some equity left.

There is no solution. Fannie Mae doesn't have one. Freddie Mac doesn't have one. HUD doesn't. If you're not paying your mortgage, you can't stay in your home. You have to find a way to pay it. If you're underemployed and it's too much that you can't buy yourself food, then you probably can't stay in your home.

YPFS: What do you think is going to happen with the housing market now with the moratoria ending?

Schwartz: I'm much more appreciative of the government solutions. They're sophisticated, and I think many people avoided foreclosure in this pandemic because of the way the government responded and helped borrowers stay in their home. The Cares Act passed by Congress kept people in their homes. I think that's one of the biggest issues facing consumers. They don't understand what forbearance is. What does a non-interest-bearing deferment mean? The
servicers couldn’t even tell them because they didn’t know, and Fannie and Freddie Mac didn’t know, and HUD didn’t know. All they knew is, they had to follow the law, but they didn’t know what their solution was yet because they hadn’t created it. So, the CARES act created protection for the borrowers, but the government agencies needed to address what the waterfall of solutions looked like for their loans which afforded borrower protections from foreclosure.

People get mad at servicers, but before they heard back from the GSEs, VA, USDA rural and FHA, they were having to say. “You’re going to be in forbearance, but when it ends, it is to be repaid, it is not forgiveness.” Early on, the investors needed to share with the loan servicers what their process was around modifications and repayment which had not yet been decided by the government. I reached out to servicers saying, “Don’t say they have to pay it all back at once, because no one is going to be able to do that.” But early on, there wasn’t any guidance from anyone. This is what the case has been during the Pandemic of today. There was no guidance on how to get repaid.

The borrower didn’t know what it meant, and what would happen when they come out of forbearance. Over time, that GSEs and the FHA in particular did a nice job, but it took them a while. FHA did it quite quickly, which was a huge relief to the system. People were going into forbearance frightened and not knowing how they were going to repay it because catching up to repay is not an easy option. We haven’t done a marvelous job as an industry on messaging that. We have settled into a very positive and clearer messaging now as all the government agencies have rolled out specific plans around loss mitigation post forbearance for the post Pandemic response under the CARES act. There were changes even made in the summer of 2021.

YPFS: There was not a new Hope Now program in the pandemic to start dealing with this?

Schwartz: No, but we pulled together a coordinated response in November of 2020 due to some lingering confusion and lack of aligned messaging going on. Today, I am leading a coordinated approach with a cross discipline group of sixty banks and servicers through Covidhelpforhome.org, RiskSpan, a data and analytics firm, stood up the website for our industry to support this effort. We also have 120 nonprofits and a large number of banks and servicers. In addition, we aligned and invited the Housing Policy council, HPC, Mortgage Bankers Association, MBA, and the American Bankers Association, ABA, to join us and help recruit and message this effort. We have a website with information to reach borrowers and have an image and tagline to connect with a CFPB. The CFPB actually co-branded this with us and we have a steering group who we meet with regularly to help stay on track. We are going to leverage in our last phase of this outreach effort, the HAF funds at the State level and try to connect
the message of how consumers can reach their state resources for more support.

**YFS:** Is this a pro bono effort?

**Schwartz:** Yes. It’s called Covid Help for Home. It’s meant for anyone falling through the cracks or non-contact borrowers, which in the previous crisis was one out of two. It’s probably 20% now, or 25% now; not 50%. The hard cases are the people who don’t want to talk to anyone because they’re upset, and they don’t know what to do. I asked all the leaders of the trades to put out a press release, make a speech, and keep referring to it. We convene a call with all the banks and servicers and nonprofits once a month now and update these segments of the industry on new things happening. They can use that material on that website, and it's all free. CFPB co-branded it with us.

**YPFS:** You said during the Global Financial Crisis that one of the goals of Hope Now was, ‘reaching homeowners in need, counseling them and assisting them.’ It seems communication is still a problem.

**Schwartz:** Right. Communication is still a problem but it is better. There is but one guiding principal and our hope is to keep it simple, get the attention of the homeowner that there is help available and not to despair. The scripting is a legal issue for loan servicers, and they need to deliver messages that are consistent with the servicing rules and investor guidelines (which as a reminder are many government programs). There are solutions today that are going to save people’s homes. In my view, there should be very few foreclosures, given the nature of the support that is in the market. The support is remarkable. There will be some foreclosures, and people who are unemployed and don't have options, but employment is coming back, and every month the market and the economy get better. I’m hopeful the delays are enough to get people back to reemployment.

**YPFS:** Do you think the government acted swiftly enough in the pandemic?

**Schwartz:** Yes. They did a remarkable job. I don’t usually say things like that. Government isn’t nimble, but it’s quite impressive what they did. They should get the credit for keeping borrowers on track. There would have been widespread foreclosures. Millions of people, millions, raised their hand for forbearance. Some of them did even though they could make their payments because there was uncertainty, and they didn’t know if they were going to keep their jobs. Some kept paying all the way through, but they still technically were in forbearance. It’s complicated, but the government performed, and Congress performed. We’re all so critical of both, at times, but this was a case that they handled quite well.

We’re in, much better shape now. My little pro bono effort was because I knew what worked and what didn’t. We found a way to bring people together and
I agree. I had consumer focus groups and counseling focus groups on our image and tagline. NeighborWorks did that and borrowers were approved through the advocacy and the nonprofit community and the servicers.

**YPFS:** The Fed was making a similar effort with community outreach at of the Federal Reserve banks to inform people.

**Schwartz:** We ran those. Those were all Hope Now events. The federal government joined us. Treasury joined us, and Fannie and Freddie. We led all those events. That’s the signature of Hope Now. We had events, we collected data, we messaged borrowers in both administrations. We were conveners. We leveraged other people’s resources. We were small and mighty. We had work strands, committees, messaging. We had the lawyers’ committee. We were very active across the market.

**YPFS:** Sandra Braunstein said the Fed didn’t recognize that what was happening with the consumers could have a huge impact on the economy.

**Schwartz:** Sandra was great. I’ve worked closely with Sandra over the years and met with Chairman Bernanke. It was a very dark time, and I don’t say that lightly.

**YPFS:** Hope Now was the highlight of your career, you have said. That’s a powerful statement, especially when you were dealing with an angry public and an angry Congress. Why was it the highlight?

**Schwartz:** I told myself, “You can't take this personally. You have to be helpful and get through it for this great industry.” And when I say industry, I mean all the parts of the industry, the civil rights groups, the Wall Street investors. People love to hate them, but they offer liquidity for our markets and the government agencies; Many different groups came together, and we had friendships and alliances that were unusual. I also felt the work we were doing saved so many homes from immediate foreclosure, offered some solutions that allowed people to stay in their homes. I got many calls and letters from homeowners who were so grateful to Hope Now. It was really a message of hope and leveraging the enormous resources that were pulled together to save many from foreclosure. I was a big believer that we could get through it. I tried to be a good leader, honestly, and it was hard at times, but I feel we made a big difference. I was in meetings with the most powerful CEOs and heads of agencies including Hank Paulson numerous times and at times, I hosted those events. The conversations, leadership I saw from others and lack of leadership I saw from some, left a strong imprint on me. My greatest take away is that a small group of people can make an enormous difference in the lives of others. And I felt like we did that at Hope Now and that is why I will be forever borrower centric, consumer centric, in my business dealings.
Are measures in place now that will prevent the types of loans that led to the Global Financial Crisis?

Yes, I believe they are. The Dodd Frank was an amazing piece of legislation. Today it is very hard to make risk-layered loans. You have to have the ability to repay. That’s a legal requirement for a mortgage loan. There are a lot of protections in place for qualified mortgages, unqualified mortgages, and ARMs. Now, with situations such as this pandemic we have home equity. This loans that have been made were very high quality over the past several years. Some say many (borrowers) were left out, and I agree. The credit quality was so high that many people didn’t get to refinance that should have. ‘Could it happen again?’ I think the whole housing stock and demand and the loans that are on the books are far different today than they were then. It was a very different housing bubble then. So, no, I don’t believe we’ll see that breadth, but I was nervous with the pandemic. That’s why I got involved again.

Do you think there's going to be a post-pandemic bubble now, with the housing prices so high?

I think it will flatten, and it might even decrease a little, but I think the demand is high, and we don’t have the supply for the demand. I don’t see the same situation, but I think we’re in for a choppy, next couple of years. It was a very tough time. We all lived through it, and some places haven’t recovered.

Is there anything that you think is an overriding lesson learned that we didn't talk about, or something you think could be done better?

Definitely. The consumer protections and disclosures and minimizing risk have been very good for the market. It’s reset it. It has put rationality back in it. We just saw how poorly over-inflated assets were, and there’s appraisal reform now. Many different things have been put in place to make for a better lending process for the borrowers’ protection. I’m sure there will be flips, and there are always bad actors, but I think the perfect storm that we had back in the last recession of low rates, borrowers looking around and seeing 10-20% a year increase in house values, et cetera. It was crazy, and people were opportunistic and hopeful. Yes, there were predators, but there was optimism from everyone. Wall Street handed off the risk to who knows who, what, where, because you can’t track down all the derivatives networks. It was a mess if you try to unwind it and unpack it.

I get back to doing the right thing, being consumer centric. You can make a loan, but make one that’s best for the consumer, too. If you keep the consumer at the center of your activity, no matter who you are or what you’re doing, you usually can come up with a better mouse trap that’s not going to be problematic for the borrower or the lenders. I don't think it's as complicated as people make it, but the consumer has to be in the middle of everything.