Presentation of the 2006 NHS Gale Cincotta Neighborhood Partnership Award and Reflections on the Chicago Fed’s Work with NHS and the Home Ownership Preservation Initiative

Good evening and thank you to Bruce Gottschall and the great team at NHS of Chicago for inviting me. Some of you may know that I’m retiring from the Fed at the end of August. So this is the last opportunity I will have as president of the Chicago Fed to speak to you at this annual event, and I’m glad I could be here tonight.

We’re here in large part to honor Bruce Paradis, the CEO of Residential Capital Corporation, for his contributions to the Home Ownership Preservation Initiative. HOPI is a partnership of NHS, the city government, and financial institutions to address high foreclosure rates. Bruce’s leadership has produced an unprecedented level of involvement by the financial community in addressing foreclosures and their destabilizing impact.

But before presenting Bruce with the Gale Cincotta Award, I’ve been asked to share a few reflections on the Chicago Fed’s work with NHS and the HOPI initiative and how this relates to our overall mission.

We all understand how important home ownership is for families and for stable, economically viable communities. So the work by NHS over the years to help more Chicago residents achieve home ownership has had an enormous impact. That impact has much to do with NHS partners such as Mayor Daley and others in city government. It’s also a testament to the many active, concerned partners in the financial community, such as Bruce Paradis. Like Mayor Daley, Bruce has built on the success of HOPI to link foreclosure intervention programs nationwide, and he helped establish the Home Ownership Preservation Foundation. This foundation set up a nationwide hotline to help those facing foreclosure and offers special services to military personnel.

The Chicago Fed is also proud to work with NHS. NHS’s first foreclosure intervention program originated from a Fed initiative in the 1990s, and HOPI was launched at the Chicago Fed in September 2003.
Partnerships between nonprofits, government, and financial institutions aren’t a new concept. I was an assistant secretary at HUD in the early 70s when we funded Neighborhood Housing Services of America, which helped bring conventional mortgage lending to areas where banks weren’t lending. That funding—authorized by an administration seeking market-based alternatives to public housing—reflected an important, enduring public-policy objective: increasing the nation’s home-ownership rate. With the help of organizations like NHS, home ownership is now more attainable to lower-income households, and the home ownership rate has grown from roughly 64% in 1994, when I joined the Chicago Fed, to 69% today.

Currently, however, concern is growing over the increase in foreclosures. In Chicago, the foreclosure rate—after a decline beginning around the inception of HOPI—is now increasing. It’s over twice as high as the national rate and well above the Illinois rate.

In looking for the causes of these recent foreclosures, much of the attention has been focused on nontraditional mortgages. These diverse mortgage options help people manage their finances and allow more people to afford their own homes. But nontraditional mortgages have resulted in increased delinquencies because they have been used by consumers with higher risk profiles who may not fully recognize the risks inherent in these mortgages. Some of the more exotic mortgages, which have payments that start low but can increase sharply in certain situations, may not be suitable for the average borrower. Last September, the Fed and the other federal bank regulatory agencies issued joint guidance on nontraditional mortgage origination. Much of this guidance boils down to sound practices: ensuring that customers understand the loan terms and have the capacity to repay, even in the worst-case scenarios. That takes informed consumers and appropriate disclosure on the part of the lenders.

Partnerships such as HOPI can play an important role in identifying ways to avoid foreclosures and educating and counseling consumers at risk. HOPI has clearly evolved, focusing as much on the causes of foreclosure and preventing them as on reducing the effects of foreclosures on communities.

This brings me back to this year’s Gale Cincotta Award winner, Bruce Paradis. Bruce has taken the leading role in the financial community on the HOPI initiative, encouraging a large group of financial institutions to participate in addition to his own. From the earliest stages of his involvement in HOPI, Bruce has been a candid, devoted partner who has made this initiative a part of his overall business plan. Let me explain what I mean. For the last decade, we have repeatedly said, “There are no winners when a foreclosure occurs.” Lender, servicer, home owner, investor, community—none of these parties gains anything from a foreclosure. When Bruce spoke at the initial HOPI meeting in 2003, he pointed out that his organization, an issuer of securities backed by mortgages, would lose hundreds of millions of dollars because of foreclosures in that year alone. So he has brought action and energy to this endeavor to impact his bottom line, and he has helped to establish resources around the country for those facing foreclosure.

Bruce has furthered all of the objectives of HOPI. He has brought people not just to meetings, but to call centers to work on the front lines. He has also provided critical data, funding, and a willingness to explore creative solutions. It’s my great pleasure now to present this year’s Gale Cincotta Neighborhood Partnership award to Bruce Paradis.