

Statement of John Dodds,
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U.S. HOUSE COMMITTEE ON THE JUDICIARY

**SUBCOMMITTEE ON COMMERCIAL AND
ADMINISTRATIVE LAW**

**“THE GROWING MORTGAGE FORECLOSURE CRISIS:
IDENTIFYING SOLUTIONS AND DISPELLING MYTHS”**

January 29, 2008

My name is John Dodds and I am Director of the Philadelphia Unemployment Project, a non profit advocacy organization in Philadelphia, Pennsylvania that deals with issues of poor and unemployed workers and their families. We have spent a great deal of time and effort on the issue of foreclosure prevention since the early 1980s. We are currently deeply involved in working with homeowners caught up in the sub prime mortgage crisis.

As I understand it, the purpose of this hearing is not to assess blame for the crisis, but rather to figure out how to prevent the excesses of the past several years from causing further financial devastation to homeowners and families, communities, investors, banks, mortgage companies and the U.S. and world economies.

I have with me today photographs that were taken during a December tour of Cleveland, Ohio in which we participated along with top officials of Countrywide Financial Corporation. Cleveland is ahead of Philadelphia and most of the nation in terms of foreclosures resulting from subprime lending. The condition of many neighborhoods is nothing short of appalling. Boarded up and deteriorating homes are everywhere. The aluminum siding is being stripped from the walls of the homes to be sold for scrap. Most of the homes can not be salvaged, only demolished, but there is no money to do even that. Houses in these neighborhoods are selling for \$14,000 if anyone wants to buy a home in such a devastated community. We hope to keep this catastrophe from spreading to my city of Philadelphia and to other communities all over the country. We are already seeing homes getting newly boarded up in Philadelphia and on a larger scale we are seeing the entire world economy shaking and maybe getting ready to fall into a severe recession due to the subprime fiasco. This is a crisis and we need to address it and address it quickly.

We know that the current housing crisis is being driven by the resets on subprime loans that put the cost of the monthly payment beyond the reach of homeowners. Unfortunately, we know that the problem is only going to get worse as up to two million subprime loans are scheduled to reset within the next 18 months. The question we need to ask is how to prevent these reset and subprime loans from ending up in foreclosure and how to do it on a scale that is adequate for the size of the problem. An important tool should be modifying loans to make them affordable for the homeowners.

We are told that the investors and servicers do not want to foreclose on these properties. But still we see only a limited numbers of loans being modified as the clock ticks toward disaster. We need to modify these loans to make them affordable for homeowners, and in such a way that investors can avoid the losses that come with foreclosure and receive a steady stream of income from a performing loan. We need loan modifications based on what a family can actually pay, not a fanciful number that generated revenues for brokers, mortgage companies and securitizers, but never was going to work in the real world.

The problem is that modifying a loan takes a good bit of time and effort, including verification of the borrower's income, expenses, employment, etc. With the volume of bad loans on the books, we won't have the time to do the loan mods that need to be done to prevent the looming collapse. After we met with the Countrywide officials in early December, they agreed to give us special staff to help us with work outs for our members

and clients. We sent a dozen cases to them and waited for their response. As a month went by we had people having foreclosure actions filed and sheriff sales approaching. We called our Countrywide contacts, who are meant to be the conduits for the advocates to get prompt service. They told us that after a month none of our paperwork had even made it out of the imaging department. No one had even looked at one bit of information. Last Friday we were happy to get a response from Countrywide on our cases. They had decided to offer some loan modifications. This is a good thing and we appreciate it, but we were supposed to be in the priority line and even our cases got back logged. With over 2 million loans in the pipe line, we think that this is going to be an ongoing problem for homeowners and lenders everywhere. Most homeowners won't be on what passes for the fast track. How will they get workable deals before the Sheriff's Sale takes their homes from them?

Also, there is a disconnect between the rhetoric and the probably real concern of the mortgage industry about doing loan modifications and the reality of what is happening in the collections departments and loss mitigation departments of our servicers. We still see collections people strong arming scared homeowners into payment plans that they cannot begin to afford or telling them there is nothing they can do but lose the home due to their financial situation. Families are very often not told of loss mitigation options. In some cases when the borrower knows to ask for loss mitigation, the homeowner has the loss mitigation department slowly considering them for some kind of a work out, while at the same time, the collections department is demanding unaffordable payment plans. Too often in the same company the left hand doesn't know what the right hand is doing. This could help explain the recent Mortgage Bankers Association study that found that homeowners were twice as likely to lose their homes as have a workout done that would allow them to remain in their property. There is still a hard line bill collector mentality and culture in mortgage companies. It needs to change at once and it's unlikely to happen before far too many homes and loans are lost.

What we are hoping to accomplish in Philadelphia is to work out agreements with large lenders to let our fairly extensive non-profit housing counseling network collect the documents needed and decide what an affordable loan modification would be, based on income and expenses and then get the lenders to do stream line loan modifications for our clients. This could prevent mass foreclosures and guarantee investors of performing loans, before thousands go under. We don't want to have the Cleveland experience recreated in Philly and neither will anyone else want this in their communities.

But what about the Miller/Sanchez bill, as amended with a bipartisan compromise crafted by Chairman Conyers and Rep. Chabot? We think it will be a critically important tool for reducing the numbers of foreclosures of subprime loans. Ideally, lenders would fix all of the loans, but that is not the real world. We can all hope that they will step up the pace, but many, many families will fall through the cracks if our only plan is voluntary action by loan servicers.

A big problem with such a plan is that the servicers will have real problems even reaching the delinquent homeowners. When people are in trouble and don't know how to

pay their bills, very often they try to avoid the topic. They won't open mail or talk to collectors and they try to duck the problem. They think they know what's in that letter from the mortgage company and it is nothing good. So it stays in the envelope.

But I can tell you what the word on the street is if you are in trouble with your mortgage. The conventional wisdom in lower income communities is that you can always file bankruptcy to save your home. Unfortunately, that isn't usually true in the current crisis and wasn't even true for most people before the recent changes in bankruptcy law. Many people stopped a Sheriff's Sale with a Chapter 13, but the numbers who could pay the trustee, the attorney, the mortgage company's attorney, the back mortgage payment and the current mortgage over a long period were not that great. But people still file Chapter 13s in great numbers, often solicited by Chapter 13 attorneys trying to make a living.

I mention this because, if we change bankruptcy laws to actually make Chapter 13 an effective way to prevent a foreclosure and to make the loan one that the homeowner can afford, we have a dedicated work force who will make sure people find out about the changes, the attorneys who will represent the borrowers. Families who can't work out a reasonable payment plan with the servicer will still have a way to get the courts to step in and make sure that reasonable loans are provided in place of the high cost mortgages that so many people ended up with.

HR 3609 calls for temporary bankruptcy reform to get us through this crisis. It will only cover loans made between January 1, 2000 and the date of enactment. It will take care of fears that servicers have of law suits from investors who don't want loans modified and it will catch people who are not being aided by voluntary lender actions. It will be good for families, communities and their property values, investors and the American economy. We can't just sit back and hope that voluntary action by loan servicers will solve this crisis. The consequences of failure are too grim. Let's use as many tools as we can to get us out of this sub-prime mess. We all need a successful resolution to the dilemma we find ourselves in today. We urge immediate positive action on HR 3609.