

Testimony before the Senate Committee on Banking, Housing and Urban Affairs
On Practical Problems Faced by Homeowners in Using the Foreclosure Prevention Programs.

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Introduction

Good Afternoon Mr. Chairman, Ranking member Shelby and Members of the Committee, and thank you for the opportunity to testify before the Committee on the topic of practical problems faced by homeowners that utilize the foreclosure prevention programs.

My name is Mario S. Vargas. I am the Executive Director of the Puerto Rican Action Board, Inc, a private nonprofit founded in 1971 to improve neighborhoods in the Central New Jersey area by delivering: child care; youth development; job training and placement opportunities; housing counseling; case management; home energy assistance and weatherization; community advocacy; and community development activities. Over its 38 year history, PRAB has developed the expertise to serve all people regardless of age, race, creed, color, national origin, ancestry, familial status, sex, sexual orientation or functional impairment.

In serving residents, and as one of the primary default counseling agencies, PRAB's counselors experienced a surge in the number of individuals seeking assistance for default, primarily in home foreclosures. And keeping to its mission of improving people's lives, the staff continues to go beyond and do all that is possible to help those in need. However, they have experienced challenges to provide this much needed service to the residents. The following represents a number of the practical problems faced by those using the foreclosure prevention programs followed by recommendations for your consideration.

Time Delay in Processing Cases

For example, the NJ Foreclosure Mediation Program and more generally when submitting packages for workout considerations, answers are not forthcoming within the 45 to 60 days promised. After this wait time the client/counselor is often informed that the required information was not received or the information is too old and must re-submit more current paystubs, profit and loss statements and bank statements. The consequence is that Homeowners/Counselors waste time calling and faxing without getting an answers.

Lack of Coordination within the Lender's Departments

When a Homeowner/Counselor calls the lending institution, more frequent than not, they are provided conflicting or incorrect information. In many cases, this occurs on the same day.

Lenders delay the implementation of the Government Intervention Programs (HAMP)

Lenders have made the claim that they do not have the guidelines or have not decided on how they are to implement the program. This affects the ability for the agency to assist clients in need.

Trial Modifications at Higher Monthly Payment

Many modifications that have been offered simply take non-accrual interest balances, (this is the interest the homeowner owes but is delinquent and not currently paying) and add them to the principal balance. Then even if the interest rate is reduced slightly, the monthly payment does not go down because it is accruing on a higher balance. Only recently and in a few

instances has there been any willingness to extend maturity dates or consider principal forbearance.

Fraudulent Practices by Private Groups

Repeatedly, clients seeking assistance inform the staff that they have been solicited by private groups, and were defrauded by paying upfront fees. The consequence is that these clients receive no services and are dejected when they finally arrive at the doors of HUD certified counseling agencies.

Third Party Authorization

The HUD certified counselors are required to have third party authorization by the lenders in order to intervene on behalf of the clients. However, the process is delay by the lender's inability to process the form.

Recommendations

- Mandate that Lending Institutions Provide a Formal Written Response to all financial packages submitted for modifications.
- Ensure that all lending institutions participating in the foreclosure prevention programs have standardized training for the staff managing these programs.
- The GSE (Government Sponsored Enterprises) namely Fannie Mae & Freddie Mac should re-impose a 6 month moratorium on foreclosures for all their loans until a proper evaluation of the HAMP program can be made.

- The government should prohibit the offering of any modification which would raise the monthly payment for the homeowner in the next 3 years. Most homeowners are under duress, facing on ongoing civil legal action against them for non-payment, and therefore cannot make fair decisions to sign the vast majority of these modifications.
- All upfront fees for any counseling service should be made illegal.
- All certified HUD Counseling Agencies in the country should be given a unique ID code which could be processed in any expedient manner by all major servicing companies. The agency would be authorized to negotiate on behalf of the homeowner, until such time as the homeowner chooses to re-assign.

Once again, thank you for the opportunity to highlight some of the critical problems that the foreclosure prevention programs are encountering upon implementation. I hope that the recommendations proposed within this testimony can assist this committee in making adjustments to these programs and truly help Homeowners avoid foreclosures.