

Testimony of Katie Van Tiem
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Southwest Organizing Project (SWOP)
before the
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Committee on Appropriations
Subcommittee on Financial Services & General Government

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Introduction

Good afternoon, Chairman Durbin, Ranking Member Collins, and Members of the Committee. Thank you for the opportunity to testify and share the experience of our community and others like it across the country.

My name is Katie Van Tiem. I am a leader within the Southwest Organizing Project (SWOP) – a broad-based organization of twenty-nine churches, mosques, schools, and other institutions, representing thirty-thousand families on Chicago’s southwest side. SWOP’s work enables families to exercise common values, determine their own future, and connect with each other to improve life in their neighborhoods. I am employed as the Program Manager for Subprime Lending Intervention in the Chicago Lawn/Gage Park Office of Neighborhood Housing Services of Chicago (NHS), a member institution of SWOP.

Our residents are saddened, scared, and angry about the growing foreclosure crisis and its devastating impact on our southwest side community. They also are upset about the lack of meaningful and substantial responses from both the public and private sectors.

It is not too late to fix the *Home Affordable Modification Program (HAMP)* or create another solution altogether; our country already has been ravaged by 1.5 million foreclosures, but a total of 8 million are anticipated to devastate by 2012. We still believe the number one priority should be to keep people – families – in their homes and that an affordable loan modification is better, healthier, and more fiscally beneficial for all involved parties than a foreclosure.

Neighborhood Impact

SWOP and its member institutions have been fighting foreclosures, largely due to the subprime mortgage industry and predatory lending, for more than a decade. Two years ago, in response to the rapid increase, SWOP began plotting these foreclosures on a map of our neighborhood. What we saw surprised even us. Our maps showed an entire neighborhood drowning in a sea of red. Felicidad Masebay, a leader from St. Rita Church, located right in the middle of that mass of dots, took one look at the map and declared, “Oh my God, our neighborhood is bleeding!”

In those past two years, the neighborhoods that SWOP serves have experienced over 6,600 foreclosure filings.¹ The foreclosure crisis has, for us, shifted from being a crisis of individual families in trouble to one of an assault on the very structure of our community. As families are forced out of their homes, key neighborhood institutions are losing the social capital needed to keep them functioning, businesses are losing critical customers, and newly-vacant homes are becoming havens for gangs and drug dealers. Everybody loses.

We have lost hundreds of families from our anchor institutions, and our community leaders are deeply concerned. Our Pastors tell stories of parish leaders who have lost homes; schools are experiencing a critical decline in enrollment and the loss of key parent leaders. The community is left with hundreds of vacant, boarded-up homes. On some of our blocks, 2nd grade students pass in front of 10-15 vacant homes on the way to school. Home values in our neighborhood have declined by more than 33%, leaving remaining homeowners underwater and at risk of future foreclosure.

The development that businesses, local government, and community organizations helped create over the last thirty years lies in jeopardy. Scores of businesses have failed or are planning to leave, including a large grocery store the community fought hard to bring to the neighborhood over 10 years ago.

Even as home values plummet, homeowners are walking into our offices wondering how they are going to pay their increased property tax bills. As the Federal Reserve Bank of Chicago tells us, “City and local governments can lose up to \$20,000 in revenue for every foreclosure proceeding in their jurisdiction,”ⁱⁱ and “these foreclosures cost between 8 and 22 times the cost of a loan modification.”ⁱⁱⁱ

Addressing the Problem

SWOP and our community have responded on many levels. We have tripled our HUD-certified counseling staff, and we began a broad community campaign to engage community institutions, government, and banks/servicers to come up with real solutions to help keep families in their homes. Early on, we recognized that the problem could only be resolved if the major banks and servicers acted more proactively to keep people in their homes.

As part of this campaign, SWOP has negotiated an agreement with Bank of America to work with us on a special pilot program aimed at getting the bank to more proactively modify loans in trouble. Throughout the last nine months of meetings and implementation, SWOP has continually encountered obstacles caused by the bank’s unwillingness or inability to proactively modify loans. In the pilot program’s initial zip code, 60629, over 543 Bank of America loans were 60+ days delinquent. SWOP identified and trained 50 community residents, each of whom adopted 10 families from that list to contact and help move through Bank of America’s loan modification process. Resident leaders made direct contact with 70% of these borrowers, resulting in 94 loan modification applications handed directly to Bank of America.^{iv} After six months of negotiation between counseling staff on both ends, only 33 borrowers have been offered HAMP Trial Modifications, 17 permanent modifications, and 2 alternative solutions.

SWOP has proven the community has the capacity to act. Unfortunately, SWOP’s position is that Bank of America has not demonstrated their capacity to deliver, even with the community’s assistance. While 52 work-outs may be a small victory, they pale in comparison to the other 6,600 foreclosures facing our community.

Creating Solutions

This experience, coupled with years of working with borrowers with unaffordable loans, created the impetus for SWOP’s position paper. In January, SWOP released a paper critiquing HAMP and providing a set of recommended changes. While we acknowledge the Department of Treasury’s efforts to recraft HAMP, we stand by our original recommendations. We are pleased with the recent emphasis on forbearance for the unemployed and loan principal reduction, but the last year has proven that a voluntary loan modification program fails to produce the number of loan modifications necessary to counter the scale and impact of the crisis.

A pro-active loan modification process with bank-initiated loan modification offers should be implemented, as the current case-by-case method is not working. Not only are mortgage servicing departments grossly overwhelmed, they are incentivized to foreclose.^v In order to streamline and hasten the loss mitigation process, banks should standardize the process by mailing full loan modification offers, rather than open-ended solicitations. As the National Consumer Law Center (NCLC) also urges, “only when a borrower rejects a modification – or, if an initial, standardized modification fails – should detailed underwriting be done.”

Next, a standardized and fully transparent Net Present Value (NPV) tool, using local, real-time data, should be employed. Investors and servicers are making the wrong choice when deciding whether to modify or not because they are working with the wrong information (e.g. REO Discounts.) As already highlighted, the costs and losses associated with foreclosures are huge. NCLC reports that investors lose ten times as much on foreclosures than they do on modifications,^{vi} yet HAMP-eligible borrowers are being denied modifications due to faulty results from an inaccurate test. The NPV test needs to be fixed allowing reality to make the case for more loan modifications, saving all parties involved.

Unemployed and underemployed homeowners need a workable solution. The country’s unemployment rate for the month of February is 10.4%, while the state of Illinois’s reached 12%.^{vii} Moreover, the average length of unemployment has increased to nearly six months, and many distressed communities experiencing high rates of foreclosure endure even longer unemployment periods.^{viii} These homeowners should have the opportunity to sign into a *long-term* forbearance plan, neither dependent upon proof of unemployment income, nor excluding borrowers already 90+ days delinquent, as the new HAMP changes dually dictate. The forbearance period could be linked to the unemployment rate of the related area.

Truly permanent loan modifications lasting the life of the loan should be granted. “Trial” modification periods slow the entire loan resolution process – costing taxpayers and families more money, further damaging borrower credit, and decreasing the number of permanent solutions. Currently, in Chicago, only 22% of total HAMP activity involves HAMP permanent modifications.^{ix} Permanent loan modifications are needed – including permanent interest rate adjustments and principal reductions. Loan modifications with principal reductions perform better than those without. Future payment shocks, after the initial 5-year rate freeze, will mirror the ARM/POA payment shocks of the last five years; the most recent SIGTARP reports predicts average increase in the 4th year to be 23% while borrowers’ incomes are unlikely to increase 23%.^x

A revamped HAMP program must then be made mandatory. Mortgage servicers should not be allowed to opt out of the program, nor deny individual loans without correct procedure. The latest Servicer Report lists 6 million HAMP-eligible borrowers across the country, defining HAMP-eligible as 60+ days delinquent. Of these loans, 900,000 are excluded upfront due to servicer non-participation.^{xi} A more truthful HAMP-eligible picture would include those loans marked “imminently delinquent” and those in default from 1-59 days, in addition to 60+ day delinquent loans. Portraying the full HAMP-eligible pool of loans would unmask much more than 900,000 homeowners excluded due to servicer non-participation; as the public does not know the percentage of truly HAMP-eligible debt that is excluded by servicer non-participation.^{xii} Mandatory participation should also come with accountability and repercussions for not following correct procedure, and the government should have the authority to override investors’ pooling and servicing agreements (PSA) that preclude modifications when testing NPV positive.

Conclusion

In order to increase loan modifications and decrease foreclosures, to save communities like ours and hundreds of others across the country from further destruction, the HAMP program needs to be improved. As stated, SWOP believes an effective loan modification program must involve **bank-initiated loan modification offers, an accurate NPV tool, long-term forbearance for the unemployed and underemployed, and permanent loan modifications. And, participation must be made mandatory.**

Thank you again for the opportunity to share our story and expertise.

Please see additional data to support claims of HAMP failure and the need for systemic change.

Increase in Foreclosure & Increase in Demand for Foreclosure Counseling

Foreclosures have been increasing – across the country, in the state of Illinois, in Chicago, and on the southwest side – while experts predict national levels to peak only at the end of this year.^{xiii} Standard & Poor’s recently predicted three years will be needed to clear the inventory of bank-repossessed properties and current delinquencies.^{xiv} Credit Suisse forecasts that over eight million families will lose their homes to foreclosure between 2009 and 2012, that’s 16% of all mortgages.^{xv} Without significantly more intervention to stop foreclosures, as many as 13 million homes could be lost.^{xvi}

During the month of February, foreclosure filings were reported on over 380,000 properties nationally – one in every 418 housing units, up 6% from last year at this time.^{xvii} Illinois currently ranks 8th in the country for foreclosure filings, with one in every 305 households receiving a filing for a total of 130,165.^{xviii} Chicago’s 2009 foreclosure filings increased by 21% compared to 2008, up from 57,927 to 70,122,^{xix} and Chicago now experiences a foreclosure every twenty-two minutes with an average of 118 foreclosures in every square mile.^{xx} In the community areas on the southwest side of Chicago that SWOP serves, foreclosure starts have increased by 11.4% from the second half of 2008 to the second half of 2009.^{xxi} Over the last two years, our neighborhoods have witnessed 6,600 foreclosure filings.

The demand for foreclosure counseling remains high. Locally, attributed in part to SWOP’s successful outreach efforts, the Greater Southwest Development Corporation – another member institution of SWOP – witnessed a 53% increase between 2008 and 2009 in foreclosure counseling, up from 651 homeowners to 993, while NHS of Chicago completed 150 new intakes for the month of February alone.^{xxii} And NHS counselors in the Chicago Lawn/Gage Park Office are carrying a caseload of over 50 clients each and a waiting list upwards of 15 each. Moreover, the Woodstock Institute – the nationally recognized non-profit research and policy organization focusing on lending, wealth creation, and financial systems reform – recently released a report (in addition to its February 2010 report entitled “Government Interventions Have a Limited Impact on Chicago Area Foreclosure Activity”) on housing counseling in the state of Illinois. It found “a general consensus” among Illinois foreclosure counseling service agencies that the demand for services is higher than they are able to meet while 85% of the agencies that responded reported needing additional counselors to meet demand.^{xxiii} Foreclosure counseling alone (without substantive changes to HAMP) cannot be the only solution; funding must continue for HUD-certified counseling in the midst of this growing foreclosure crisis.

Inadequate Solutions, Especially HAMP Permanent Modifications

HAMP solution numbers are low. Again, SWOP thanks the Department of Treasury for its attempts at recrafting a federal program to help “responsible homeowners” avoid foreclosure. But, unfortunately, as foreclosure filings and the demand for foreclosure counseling continue to climb, the number of HAMP loan modifications – especially HAMP permanent loan modifications and not just the HAMP trial modifications – fails to counter the crisis.

National Data

The latest Servicer Performance HAMP Report demonstrates that, as of March 2010, only 230,801 homeowners across the country have achieved a permanent HAMP modification, while a total of 1,166,925 HAMP trials have started since program inception – a transition rate from trial to permanent at 19.7%.^{xxiv} When these “successes” are compared to the backdrop of 7.4 million homeowners across the country who are delinquent/behind on their mortgages,^{xxv} these HAMP numbers are not reassuring; they are alarming.

MSA Data

While SWOP encourages HAMP data to be as local as possible, it wasn’t until December of last year that these Servicer Performance HAMP Reports began including data at the Metropolitan Statistical Area (MSA) level, in addition to the national and state level. The MSA data, however, fails to include cumulative HAMP trials started since inception – information necessary to make a real comparison between transition rates of the nation to those of Chicago MSA.

Yet February’s numbers do show 8,086 HAMP permanent modifications for Chicago MSA – an area about three times the size of the city of Chicago, as Chicago holds a population of nearly three million.^{xxvi} When Chicago alone houses 23,200 borrowers who fell into foreclosure *and* over 8,500 homes lost to foreclosure last year, it is difficult to see how 8,086 cumulative HAMP permanent loan modifications in the entire MSA (less than the total number of completed foreclosures for the city of Chicago in 2009) can have a substantial impact.

Southwest Side Chicago Data

Low Transition Rates from HAMP Trial to HAMP Permanent: Our on-the-ground efforts have taught us that achieving trial-to-permanent conversions is a significant challenge. This challenge can be quantified by looking at NHS of Chicago's modification data for its 10 target neighborhoods (which includes Chicago Lawn/Gage Park). Between April 2009 and March 2010, NHS helped nearly 600 families secure HAMP trial modifications. Only 78 of these families have subsequently secured a HAMP permanent modification, resulting in a 13% conversion rate. The reasons for the low conversion rate vary, but poor communication with lenders and redundant paperwork requirements continue to slow the process for many homeowners. For example, just two weeks ago, an NHS counselor received a phone call from a homeowner who had first submitted paperwork over a year ago to her servicer and has resubmitted paperwork over six times throughout the process. The counselor and homeowner are now in weekly contact, and the homeowner is still waiting to hear a response. Streamlining the loan modification process, including eliminating trial modifications, is critical to finding sustainable solutions for HAMP program participants.

Long Length of Time for HAMP Decisions: Moreover, NHS housing counselors spend an average of over eight hours with a client to receive a HAMP trial modification and still need an additional four hours to convert the trial to permanency.^{xxvii} Additionally, the average length of time it takes for a counselor/borrower to reach a HAMP trial modification has been increasingly slightly over the last several months to 131 days.^{xxviii} Not only does this highlight the continued need for counseling and advocacy, but also highlights the need to expedite the transition process. SWOP encourages Treasury to create accountability benchmarks with real consequences when it comes to HAMP review periods.

Average Debt-to-Income Ratio Found Higher than Targeted 31% for HAMP Modifications: Successful – hence, affordable – loan modifications result in a win for all parties: the homeowner, neighbors, neighborhood institutions, local/state/federal government, and the investor. The “affordability” of HAMP loan modifications is founded on the basis that the full monthly mortgage payment be no more than 31% of the household's gross monthly income. NHS of Chicago has found that as many as 30% of loan modifications are being offered to homeowners with documents which claim that the offer is made under HAMP when the loan modification does not appear to follow the HAMP guidelines – based upon the homeowners reported income, the payment reduction does not lower the PITIA payment to 31% of the homeowner's gross monthly income. Such loan modifications are often not sustainable and create the potential for redefaults in the future. Homeowners often accept these offers without realizing that the offer does not meet the HAMP guidelines.

SWOP encourages the use of all possible resources to investigate the affordability details of HAMP “permanent” modifications and apply pressure – with real consequences – to servicers that fail to follow guidelines.

Bank of America Data: Please see attached “*Bank of America Pilot Program: Results of Interest*” for statistics on the wins and losses of our pilot program.^{xxix}

- ⁱ Data collected from Record Information Services, foreclosure filings in SWOP zip codes 60629, 60632, 60639, and 60652 from January 2008 to present. Retrieved from public-record.com
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- ⁱⁱⁱ Hatcher, Desiree. (February 2006.) Federal Reserve Bank of Chicago. *Foreclosure Alternatives: A Case for Preserving Homeownership*.
- ^{iv} Rosen, Anne. (April 2010.) *Bank of America Pilot Program: Results of Interest*.
- ^v National Consumer Law Center, Inc. (2009, October.) *Why Servicers Foreclose When They Should Modify and Other Puzzles of Servicer Behavior*. Retrieved from http://www.consumerlaw.org/issues/mortgage_servicing/content/Servicer-Report1009.pdf
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- ^{vii} U.S. Bureau of Labor Statistics. (1 April, 2010.) Retrieved from http://www.google.com/publicdata?ds=usunemployment&met=unemployment_rate&tid=unemployment_rate&dl=en&hl=en&q=unemployment+statistics#met=unemployment_rate&idim=state:ST170000&tid=true
- ^{viii} Illinois People's Action. (27 March 2010.) Press Release. *Administration's New Plan: Baby Steps up a Mount Everest of Foreclosures*.
- ^{ix} U.S. Department of the Treasury, Making Home Affordable Program, Servicer Performance Report through March 2010. Retrieved from <http://www.makinghomeaffordable.gov/docs/Mar%20MHA%20Public%20041410%20TO%20CLEAR.PDF>
- ^x SIGTARP. (25 March, 2010.) *Factors Affecting Implementation of the Home Affordable Modification Program*. Retrieved from http://www.sigtarp.gov/reports/audit/2010/Factors_Affecting_Implementation_of_the_Home_Affordable_Modification_Program.pdf
- ^{xi} U.S. Department of the Treasury, Making Home Affordable Program, Servicer Performance Report through March 2010. Retrieved from <http://www.makinghomeaffordable.gov/docs/Mar%20MHA%20Public%20041410%20TO%20CLEAR.PDF>
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- ^{xiii} Calculated Risk blog. 20 August 2009. *MBA Forecasts Foreclosures to peak at End of 2010*. Retrieved from <http://www.calculatedriskblog.com/2009/08/mba-forecasts-foreclosures-to-peak-at.html>
- ^{xiv} Prior, Jon. (16 February, 2010.) *Shadow Inventory of Homes to Take Nearly Three Years to Clear: S & P*. Retrieved from <http://www.housingwire.com/2010/02/16/shadow-inventory-of-homes-to-take-nearly-3-years-to-clear-sp/>
- ^{xv} Credit Suisse. Fixed Income Research. (4 December 2008.) *Foreclosure Update: over 8 Million Foreclosures Expected*. Retrieved from <http://www.nhc.org/Credit%20Suisse%20Update%2004%20Dec%2008.doc>
- ^{xvi} Hatzius, Jan and Michael A. Marschoun. Home Prices and Credit Losses: Projections and Policy Options, Goldman Sachs Global Economics Paper, (No. 177, Jan 13, 2010) at 16.
- ^{xvii} RealtyTrac. *U.S. Foreclosure Activity Decreases 2 Per Cent in February*. Retrieved from <http://www.realtytrac.com/contentmanagement/pressrelease.aspx?channelid=9&itemid=8695>.
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- ^{xxviii} Cole, Anne. (February 2010.) *NHS Monthly Saves Report*.

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