Testimony of Jazmin Faccuseh (designated by Evangeline Ordaz)
of the East LA Community Corporation
at the Subcommittee on Housing and Community Opportunity Hearing on
"The Housing Crisis in Los Angeles and Responses to Preventing Foreclosures and Foreclosure Rescue Fraud"
on Saturday, March 28, 2009 at 10 a.m. Southwest College, Los Angeles, California

East LA Community Corporation (ELACC) is dedicated to creating social and economic justice in the low income neighborhoods in and around East Los Angeles through affordable housing development, community organizing and economic opportunities for low income families.

Since 2007 when ELACC launched its foreclosure prevention program we have opened foreclosure prevention loan modification cases for over 500 families and provided phone counseling to hundreds more. We continue to see clients through weekly clinics and one-on-one foreclosure counseling, resulting in the prevention of foreclosures in many of our cases. But our work is complicated by 1) the prevalence of fraudulent foreclosure assistance services, 2) the worsening economic circumstances of our clients, and 3) the limitations on the Federal programs designed to respond to the foreclosure crisis.

1) Fraudulent Foreclosure Assistance

<u>Problem</u>: Over 50% of the families who come to our organization seeking help to prevent a foreclosure have paid thousands of dollars to fraudulent foreclosure assistance services. These services charge money up front and then do nothing. When the family finally realizes that they have been scammed it is often too late for a housing counselor to help.

<u>Solution</u>: We need legislation that heavily regulates private foreclosure prevention services. It should be a crime to charge money up front for foreclosure prevention services. Federal programs should require lenders to be extra sympathetic to their borrowers who have fallen victim to a scam and make extra effort work with the homeowner.

2) Worsening Economic Circumstances of Foreclosure Prevention Clients.

<u>Problem</u>: When we began our Foreclosure Prevention work in 2007, the vast majority of our clients were having difficulty with mortgage payments that increased when their ARM loan adjusted up. Today, our client's payment hardship is more likely the result of unemployment or other loss of income caused by declines in many business sectors. Even the Making Home Affordable Plan will not help in this situation since banks will not modify a loan where there is little or no income.

<u>Solution</u>: We advocate that banks follow the example of Citibank and institute long term forbearances of up to 12 months for homeowners who have become unemployed or suffered a significant loss of income. Citibank has recently begun offering 3 month forbearances and should be congratulated and encouraged to extend this forbearance time. At the end of a forbearance period that has allowed a homeowner to find a new job or otherwise recover financially the lender would be able to offer a reasonable loan modification.

Problem: With the collapse of the housing market our clients are on average underwater by a loan to value ratio of 150 to 175%, or more. This means that a home purchased for $450,000 two to three years ago is now worth at or around $250,000. This loan to value ratio makes homeowners ineligible for the Federally guaranteed re-finance Programs that only allow for a loan to value ratio of 105%.

Solution: Mandate banks to write-down principal where the write-down would enable the homeowner to re-finance into an affordable loan. Principal write-downs are in effect a "short sale without the sale." It is generally agreed that a foreclosure costs the bank on average $60,000. The bank can take this cost and not only preserve homeownership but prevent blight by writing down a mortgage by this amount. If they are willing to allow short sales, a principal write-down is no different. And principal write-downs recoup the bank far more money than selling a toxic asset for 38 cents on the dollar. So long as the home owner is still in the home and willing to pay on the mortgage the asset still has value and is far less toxic than an asset that has been foreclosed upon.

3) While the Making Home Affordable Plan will be helpful to many homeowners there are still issues it does not address.

Problem: The majority of loans are held by loan servicers who say they cannot be bound by this program. Servicers are bound by contracts with investors that limit their ability to modify loans.

Solution: Federal Soft-Second Loan Subsidy

For those situations where the lender refuses to either write down principal or defer principal the Federal Government should provide a soft second loan directly to the homeowner. CDBG funds have long been used to fund soft seconds for low-income first time homebuyers enabling them to purchase homes. This soft second subsidy for those in danger of foreclosure could be structured like the financing of the purchase of toxic assets. In exchange for lending money, rather than paying interest the homeowner could agree to share any future equity in the home at the time of sale. This type of government investment is no different than the program recently proposed by the Treasury Department where the Government would finance the purchase of toxic assets with an eye toward recouping and profiting from this investment when the value of the asset rose. By providing a soft-second subsidy directly to the homeowner, the Federal Government is making an investment that will prevent the creation of a toxic asset and will allow tax payers to profit at the time the home is sold for a profit. This bottom-up solution is cheaper and will go a long way to stop the creation of future toxic assets.

Thank you, for your time.