

**TESTIMONY OF
RICHARD J. PETERSON, EXECUTIVE DIRECTOR
ON BEHALF OF THE
POCONO BUILDERS ASSOCIATION**

**BEFORE THE
SUBCOMMITTEE ON CAPITAL MARKETS, INSURANCE AND
GOVERNMENT SPONSORED ENTERPRISES
U.S. HOUSE OF REPRESENTATIVES**

**FIELD HEARING ON
THE POCONOS HOUSING MARKETS:
THE INVOLVEMENT OF THE SECONDARY MARKETS AND
IMPLICATIONS FOR FEDERAL LEGISLATION**

JUNE 14, 2004

Congressman Baker, Congressman Kanjorski, thank you for inviting me to testify on behalf of the Pocono Builders Association, its members and the building industry. The Pocono Builders Association is a building trade association and a member of the National Association of Home Builders and its federation. We represent more than 250 businesses in Monroe County. The local building industry represents various trades and suppliers and employs over 7,000 individuals. Our industry generates more than \$250 million annually to the Monroe County economy, and contributes to the state's third largest industry, a \$25 billion a year industry, and is a contributing factor for the Commonwealth's home ownership being as high as 71 percent. Last year there were over 1,630 new permits issued for new homes. Within the last five years, there have been over 7,500 new homes built in Monroe County.

The Pocono area, especially Monroe County, is an area witnessing a migration of families from the NY and NJ metropolitan areas moving here to escape high taxes, expensive housing, and what they feel is a poor quality of life. They have moved here seeking the American dream, especially since 9-11. The once 50 percent vacation/second home market has now evolved into more of a 75 percent primary home market.

It has been stated that the Poconos are unique with its high growth and high foreclosure rates, yet national studies show that this region is not unique nor does it even show up on the map when compared to national statistics. According to the U.S. Census, there are only two states whose population increases were less than the Commonwealth of Pennsylvania, they are West Virginia and North Dakota, the Commonwealth saw only a 3.4 % increase.

As for foreclosures, a report released last week by Foreclosures.com pointed out that foreclosures are an issue throughout the country, and seven states actually ranked much higher than Pennsylvania when it came to new foreclosures. They are Georgia, Indiana, Michigan, North Carolina, Ohio, Tennessee, and Texas. In addition just last week, Allegheny County located in the Pittsburgh region, has a 500% increase in foreclosures over the last 8 years, largely due to property re-assessments and property taxes.

We are here today because of allegations regarding real estate fraud, especially in the area of appraisals and predatory lending. It is unfortunate that these allegations have occurred in the Poconos. However I must stress that as we speak today I know of only reading about 170 total cases and not to minimize the seriousness of those cases, this represents 2.2 percent of the 7,500 new homes built within that five year time frame.

We believe that allegations being made, while serious, are ones that involve an isolated number of members of the local real estate, lending and development industry. The issues seem to revolve around appraisals and financing. Our association, representing professional contractors, has always had a consumer focus in that we believe that all consumers are entitled to safe and affordable housing. Consequently, our association had put in place many years ago a very stringent code of ethics and a consumer protection process aimed at addressing any consumer concerns with quality workmanship and codes. We have worked hard in the past few years to educate the consumer on how to hire a professional, reputable contractor.

In light of the Attorney General's announcement of the filing of a civil law suit in April 2002, our Ethics Committee reviewed our current consumer education program and extended it with a billboard featuring a toll-free number for consumers who felt they had been the targets of contractor fraud. We also published in the news media, information regarding our existing Contractor Quality Commitment program and the process to file a complaint. Within weeks, we received several complaints in which only a few were related to value, and again we referred those to the attorney general's office. Most complaints that came in were not dealing with questions of appraisals and predatory lending but workmanship issues or contractual disputes. Within the last two years we have heard 47 cases and distributed over 10,000 brochures to consumers on how to hire a reputable contractor.

So committed is our association to the need for consumers to be educated on new home purchases, that we did reach out to one of the homeowner associations involved in the predatory and appraisal alleged fraud, to offer them the opportunity to partner with us on a consumer education effort. Unfortunately, that homeowner association turned us down as they felt that a monetary contribution was more important than consumer education. We remain firm in our resolve that the ultimate weapon against contractor fraud at all levels, and indeed this includes appraisals and predatory lending practices, is an informed and educated public.

The present situation in the Poconos, however, does not focus on the issues of workmanship or codes, but appraisals and lending. It is our understanding that the Pennsylvania Attorney General's office is investigating these allegations, and we therefore, remain firm in our resolve that this situation is one that can only be solved by those with a vested interest in this situation. These matters involving real estate fraud or questions of predatory lending practices need to be handled through the proper authorities and allow the legal system of our country to do its job. As a trade association, we are regulated by Federal antitrust laws that prohibit us as an organization to single out any one member or non-member within our community and tarnish that individual's reputation and can only take appropriate action when one is found guilty and must treat each member and non-member as if they are innocent until proven guilty.

We will continue to educate and inform the consumer, and as we tell the consumer “If it is too good to be true, it probably is”. We will continue our role of a trade association to represent, educate and hold accountable our members. We will continue to work with government officials and the business community to assure the interests of the housing consumer and the industry are protected due to the major economic impact our industry has on the Poconos.

We believe that Congress needs to look at the issues of sub-prime loans and look at Federal lending practices as it relates to first-time homebuyers programs and programs for those with bad credit. Education on the process of buying a home is needed, and the understanding between the new housing market vs. resale market is needed.

Thank you very much for your time. I am available for questions.