COUNCIL OF THE CITY OF PHILADELPHIA

COMMITTEE ON HOUSING, NEIGHBORHOOD DEVELOPMENT AND THE HOMELESS

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Room 400, City Hall
Philadelphia, Pennsylvania
Thursday, February 21, 2008
10:00 a.m.

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PRESENT:
COUNCILWOMAN JANNIE BLACKWELL, CHAIR
COUNCILMAN WILLIAM GREENLEE
COUNCILMAN CURTIS JONES, JR.
COUNCILWOMAN MARIA QUINONES-SANCHEZ
COUNCILWOMAN DONNA REED MILLER
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RESOLUTION 080095 - Resolution authorizing the Council Committee on Housing, Neighborhood Development and the Homeless to hold hearings on the problems of foreclosures in Philadelphia and the extent to which sub-prime mortgages contribute to this problem...

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COUNCILWOMAN BLACKWELL: Good morning. This is a hearing of the Committee on Housing, Neighborhood Development and the Homeless. Again, we say thank you. This is regarding Resolution 080095, and we'll ask the Clerk to read the title of the resolution.

THE CLERK: Resolution 080095, authorizing the Council Committee on Housing, Neighborhood Development and the Homeless to hold hearings on the problems of foreclosures in Philadelphia and the extent to which subprime mortgages contribute to this problem and further investigating the possibility of imposing a moratorium on Sheriff's sales on those foreclosures resulting from subprime mortgages, and other mechanisms for protecting homeowners from homelessness.

COUNCILWOMAN BLACKWELL: Thank you very much.

We note that Committee members, to my left, Maria Quinones-Sanchez is here. To my right, the sponsor of this resolution, Curtis Clarke -- good grief. That's one of my committeemen. Sorry. Curtis Jones, Councilman Curtis Jones. I obviously do know the difference. And to his right, Councilman Bill Greenlee.

Thank you very much. Certainly we welcome our Senator here and certainly we thank Brian Hudson, as well as Senator Hughes, for being here, two of our favorite people, and we will begin the hearing by having remarks from the bill sponsor, Councilman Jones.

(Witnesses approached witness table.)

COUNCILMAN JONES: Thank you, Madam Chairman.

Everyone, good morning, and particularly our people here to testify before this Committee on an important issue, on an important issue. I want to thank everyone and recognize that the Chairperson quickly moved for hearings on this matter. It could have languished in some committee and never got out to the light of day, but because of the urgency, because of the importance of this matter, she moved on it, and I want to recognize that for the record.

What I'd like to say this morning is, since the 1990s, a trend of abusive mortgage lending practice has developed where people in need of small loans have been persuaded and even coerced into taking larger and more complex mortgages, which are frequently contrary to their financial interest. One effect of this on homeowners is that they are failing to make their payments on their properties and are impacted by foreclosure.

This problem is particularly concerning when you think about the fact that disproportionately low-income people, lower educated people, higher minority populations are disproportionately affected and, in particular, a class of citizens that I care deeply about, our seniors.

Since 2006, there have been 9,150 properties subjected to the Sheriff's sale process. 2007 is yet to be tabulated and 2008 is still a work in progress. But I have no reason to believe that based on economics that it would be different or less than what we've seen in the past. This is one of the essential questions that we would be asking today and, more importantly, proposing solutions for.

But there should be no mistake that foreclosures -- subprime lending erode the very principle of the American dream, that dream being homeownership and fiscal stability, not just in Philadelphia but across this country. In particular, homes, residences are probably the single largest investment the average person ever makes in their lifetime.

We are witnessing a situation where individuals, families and communities are being devastated and sometimes without remedy. This economic situation is worsening. Many believe it's the worst in the last 20 years.

All I know is, it's bad. And as former President Reagan said, that when my neighbor gets laid off, that's a recession. When I lose my job, it's a depression. And what has usually been the case is, when the national economy catches a cold, Philadelphia catches pneumonia.

We need to understand that we are public servants and have a responsibility to be a part of the solution. We're not pointing a finger at anyone saying that they are the sole source of the problem, but please believe that as public servants, we're going to work diligently to find solutions and answers to a growing problem.

We are not alone. This Council in 1983 saw the need to join with others to create and join in on a lawsuit to stop Sheriff's sales. Our brave Sheriff took it upon himself voluntarily a couple of years ago because of the large volume and magnitude of Sheriff's sales to put a temporary moratorium on it just to see what the spike in increase in Sheriff's sales was. Recently, President Bush has pushed for legislation and gotten legislation which will do a 90-day moratorium on lending.

I am deeply concerned when the President of the United States, his two democratic challengers, both Hillary and Obama, all agree on the same issue, that subprime lending is a problem that is facing this nation.

Other cities elsewhere are considering lawsuits, cities like Baltimore and Cleveland, to address this problem. Part of the hearing today is to determine whether the City of Philadelphia needs to follow suit and look at legal action. But I'm a firm believer that by working together, we can come up to solutions collectively that do not have to go to that level. I believe that none of us is as smart as all of us, and if we put our heads together and come to the table to work on this issue, we will find some answers.

But without a resolution, without any action, I believe we have created in this country the potential for a perfect storm, a perfect storm where the economy, we're in recession, a perfect storm where subprime lenders have had so much activity and investors have come along and bought those batched loans to the degree that they are failing, and the fact that some of our most vulnerable, our senior citizens, aren't able to understand nor react to some of the solutions that are available to them today. Some of them even have the ostrich theory where if they put their head in the sand, that the foreclosure will somehow go away.

So I'm thankful today that all

of us have come out here to begin the dialogue to look at the problem clearly in the face and then propose some solutions that create a win-win-win scenario, because the investors want to be out of this, the consumers do not want to be out of their homes, and if we do this correctly, it could be a model for the country.

And with that, again, I thank the Chair Lady for having this hearing at such a quick turnaround time.

COUNCILWOMAN BLACKWELL: Thank you. Thank you very much, Councilman.

It gives me great pleasure to present as our first witnesses our State Senator, Vincent Hughes, and Brian Hudson, Executive Director, Pennsylvania Housing Finance Agency. Thank you very much.

SENATOR HUGHES: Thank you.

MR. HUDSON: Thank you.

SENATOR HUGHES: Thank you, Madam Chair and members of Council.

Thank you very much for inviting us to participate.

I asked Mr. Hudson to join me in this dialogue because of my great respect for his work and his leadership on this issue. Instead of waiting for legislative action to occur in the General Assembly, Mr. Hudson has been working at PHFA to create new programs that can help forestall foreclosure and help folks in their economic situation.

So, if you will, Madam Chair, we're kind of doing a tag team thing here, but I know the respect that many of you have for Mr. Hudson and his great work.

I need to beg your indulgence. I had prepared testimony. At about 7 o'clock this morning I ripped it up and rewrote everything. So we will -- yeah, it's like that. So we will make sure that you have written copies of what we're providing today within the next 24 hours for your further analysis.

Also I beg your indulgence because my health is a little bit subprime right about now and if you just kind of -- if I start coughing and gagging, just bear with me a little bit.

I have to again commend the Chair and Councilman Jones for moving on this issue, in the context of some of the Councilman's comments alluded to a growing national/international crisis in our economy. It so happens with the power that I've been provided as a State Senator that I am also participating as we speak at a THEA Board meeting, which is going on right now. I'm on the phone right there listening to a meeting, which is talking about the crisis that is going on in our student lending situation, and I would urge members of Council to take a hard look at that, because there's a growing, growing huge crisis that is emerging in that area, especially for our young people to be able to attend college.

But let me move on specifically with some of my comments.

First, I think it's very important and, again, I thank you for having us here. It's clear that the need for partnership between city, state and federal is fundamentally clear and relevant in terms of how we get through this whole situation. Obviously we have homeowners all throughout Philadelphia and throughout the state gnashing their teething, wringing hands and losing sleep over the fact that they might not be able to make ends meet. Their adjustable rate house payments have ballooned. Their credit is sapped. There is no one who will refinance their debt. Their future is bleak. Many of these folk will have little choice other than to give up and give in to foreclosure.

The facts are clear that across Pennsylvania the prime foreclosure rate in 2006 was 12th highest in the nation. The subprime foreclosure rate was 15th highest in 2006. Thirteen point nine percent of households spend between 30 to 40 percent on housing, 6.2 percent spend between 40 and 50 percent on housing, and an astonishing 11 percent spend more than 50 percent of their income on housing.

The news for folks in the City of Philadelphia is even worse.

These are just stuff that I know that you're fully aware of.

In a span of three years, 72 percent of loans in foreclosure were traced to lenders that originated mostly or exclusively subprime loans. Twelve point three percent of all home purchase loans were originated by subprime lenders. Eighteen percent of loan refinancing was through subprime lenders.

In low-income neighborhoods across the City, about 30 percent of refinanced mortgages are subprime. African-Americans and Latinos are almost a third more likely to get a high-price loan than white borrowers with the same credit profile. I pause on that to let that sink in.

In the City when income and home value are equal, African-Americans have a higher incidence of being victimized by predatory lending.

The problem is that we have built a prime and subprime housing market on a paper foundation. Loans that should have never been given based on promises that should never been made now have a grip on families of all ages, colors and incomes.

Imagine a young overextended family being enticed by the talk of a mortgage broker who willfully says, Spend now and worry later. How many families were bitten by the home-buying bug when their broker told them that it was feasible to receive an adjustable rate mortgage and pay a small mortgage up front and then refinance the mortgage down the road? The fact is, too many loans were given in a market that was way too ripe for predation.

We need to stand up and stand firm and make real changes. We can't simply watch as families crumble and neighborhoods are decimated.

What can be done? The General Assembly has responded forcefully as both the Senate and House have swung into action. In the Senate, the Appropriations Committee recently moved a package of bills to the floor that will seek to stem the tide of foreclosures by digging to the root of the problem. The six-bill package includes Senate Bill 483, which increases the maximum interest rate cap from $50,000 to $200,000 for residential mortgage loans and eliminates pre-payment penalties. Senate Bill 484 permits the Department of Banking to release information on pending enforcement actions and fines against non-depository licenses. Senate Bill 485 improves and strengthens enforcement actions against real estate appraisers who perform fraudulent work. Senate Bill 486 upgrades the monitoring of mortgage foreclosures by sending notices to PHFA for review. Senate Bill 487 creates a new licensure category for mortgage originators who deal directly with the consumer so that their actions can be better accounted for in real estate transactions. And, finally, Senate Bill 488 amends the secondary mortgage loan market practice by also creating a new licensing category for those who deal directly with the consumer.

These bills mirror legislation that is now being moved in the House. Both packages are endorsed by the State Department of Banking and may be very effective in stemming the foreclosure tide that threatens so many.

The bottom line is this: Our efforts must be channeled so that we are not rewarding either bad or fraudulent business practices, and we can do more than upgrade statutes and increase enforcement. What we must do first is shore up the State Emergency Mortgage Assistance Program, HEMAP, and make sure it has enough money to meet the crisis head on.

The HEMAP program was established in 1983 to protect Pennsylvanians in danger of losing their homes to foreclosure. In the 2007-2008 state budget, $11 million was set aside for assistance. This year's budget proposal includes another $11 million for mortgage help. The Senate Appropriations Committee will soon have a hearing to decide whether this is enough and whether more needs to be done.

We also need a more vigorous consumer education program, one that provides real truthful information up front before any signature is placed on a sales contract or mortgage agreement. I am working now on legislation that seeks to clearly outline what consumers may do to protect themselves.

We also need to toughen up our lending statutes so that financial predators are put on notice that their dubious antics will bring them penalty and prison, not profit.

Finally, I would add this, Madam Chair, and this is where I'm going to go off the prepared script here, and members of the Committee. As we try to address the very specific issues household to household, in our forum that we had this past October where over approximately 200 families came up and heard from about 13 different servicing organizations -- many of them are gathered here today -- and the kind of work that they're doing, there's some ancillary work that is also going on in Harrisburg which you need to know about, which I think will assist, in a larger dynamic, some of the things that we're trying to get done to assist Pennsylvania and Philadelphia families with their economic situation. And some of this relates, again, as I said, to the larger economic conditions that many families are confronting here in Pennsylvania, especially as we move to deal with the issue of protecting Pennsylvanians, and Philadelphians specifically, from the recession reality.

In the budget introduced this past February by Governor Rendell, he talked very specifically about an economic stimulus package, something to mirror what is happening in Washington, DC. You need to know parts of that package, and it's going to be very important that this Council, representing the citizens of Philadelphia, raise their voice in terms of support for this.

Several parts, but not all, of the economic stimulus package include a rebate program similar to what the federal government is talking about where we put up $130 million of state money and that a family of four making up to $32,000 a year will be able to receive a

$400 check to their household.

We're also talking about expanding the Redevelopment Capital Assistance Program. Many of you know very specifically about the importance of this program from Harrisburg and what it can do in terms of economic development projects within your respective districts, within our respective districts. We're trying to put 500 million new dollars of projects on the street before the year is over. It's extremely important in terms of jump-starting economic activity in our communities, creating jobs, fortifying families so that they have the economic wherewithal to not have to deal with the issue of foreclosure.

We're also talking about expanding our Job Creation Tax Credit Program for new jobs created. The current program is a thousand dollars for each new job created, a tax credit. We're now talking about jumping that to

$3,000 tax credit for each new job created.

We're talking about adding 100 million new dollars for Business in Our Sites Program. We're also talking about a $260 million public infrastructure proposal.

In addition to that -- and I want you to know these things because they are tangentially related to trying to strengthen families in Philadelphia and in Pennsylvania to make them stronger to not have to deal with this foreclosure issue.

As you all know, we're trying to move the Cover All Pennsylvanians Insurance package. You need to know specifically of the 767,000 Pennsylvanians who have, adults, who have no health insurance in Pennsylvania, about 140,000 of them are right here in Philadelphia. If we can provide health insurance for those individuals, that is not just a health issue, that is also an economic issue, because that fortifies the bottom line of that family.

Also, you need to know this. It's an important number, but it's relevant. For those of us who have insurance -- many folks in the room have, we all do -- premium costs, healthcare premium costs, from 2000 to 2006 have skyrocketed 75.6 percent. Real wages have only gone up 13.3 percent in that same period.

Addressing the issue of the uninsured is not just a good healthcare agenda, but it is also a very positive and very important economic issue that is directly related to the fortification of Pennsylvania's families.

In addition, members need to know that wage tax reduction from Pennsylvania is coming this year and the early part of next year. As a result of the gaming venues being online across the State of Pennsylvania, about $61 million will be coming into Philadelphia for wage tax reduction. That will mean by 2009 a wage tax reduction from 4.169 percent to 3.91 percent. That's real money in real people's paychecks. That is relevant.

Just a personal note, folks need to understand that those are new dollars coming in to support Philadelphia families without the three principal money-making sites not being online. Those are gaming dollars that are coming into Philadelphia to reduce the wage taxes without the three largest profit-making sites not being online. That's the one site in Pittsburgh and the two sites here in Philadelphia. When those sites eventually come online, wherever they may be -- that's not my issue, that's y'alls, y'all got that. Okay? Wherever those sites may be, we could foresee a dramatic increase in the wage tax reduction. Just a point of note.

And I guess on the last two points as it relates to some of the other things we're doing in Harrisburg, we've expanded the Property and Rent Rebate Program, adding over 500,000 families to the program and increasing the amount of money that folks can make, upwards to about $600 on that. Unfortunately, not enough Philadelphia families are taking advantage of that and we need to do a better job of making sure that more of our folks get involved in that.

Our Energy Independent Strategy calls for a $850 million investment in greening Pennsylvania, which means that there will be thousands of new jobs paying very good salaries that will be created to go down this initiative. And, finally, the Jonas Salk Legacy Fund, which will create a $500 million biotech and research program that will, estimated, create about 12,000 jobs, all paying very good salaries, to assist Philadelphia residents and, of course, Pennsylvania residents.

I say all those other things,

Madam Chair and members of the Committee, only to add, I think, a necessary part of the dialogue to force us to look at obviously the foreclosure issue, but to look at the larger economic reality that we are operating in. The issue of foreclosure is just the tip of the iceberg of the economic conditions I mentioned to you earlier, about the concern that we have around student loans and our ability to finance student loans, and there will be a rippling effect as we more aggressively deal with the principal root of the problem, which is the foreclosure issue, that puts us in a better position to deal with the rippling issues that will come out of this.

I'd like to turn it over to Mr. Hudson right now, who is Executive Director of PHFA, for his conversation and talk about what we're doing from his vantage point.

COUNCILWOMAN BLACKWELL: Thank you very much.

Before he begins, the Chair notes that Councilwoman Donna Miller is also here. Thank you.

Thank you, Mr. Hudson.

MR. HUDSON: Thank you, Madam Chair and members of Council.

And, Senator Hughes, thank you for your support in the Senate and members of the House.

It's a pleasure for me to be here this morning and given the opportunity to testify about what the Pennsylvania Housing Finance Agency has been doing with regards to Pennsylvania's foreclosure and delinquency property situation.

Let me talk a little bit about the numbers, if I may, first. We've been working with some of those Wall Street firms then tracking the look of Pennsylvania's portfolio. We know in 2007, 34,000 loans are filed for foreclosure in Pennsylvania, and these numbers are according to the mortgage bankers and the RealtyTrac, which is the nationally recognized data-gathering service.

We know that we have in Pennsylvania over 200,000 securitize subprime loans. Of that 200,000, approximately 16 percent are delinquent. The subgroup of that are the ARMs, or adjustable rate mortgages. Approximately 77,000 of the 200,000 are ARMs. Of those ARMs, approximately 22 percent are delinquent. That's the group that we're trying to target to help them get out of those mortgages into a stable fixed-rate product.

In October of last year, we announced here in Philadelphia two products to deal with the issue of helping homeowners, REAL, which is Refinance to an Affordable Loan, and the HERO, Homeowner Equity Recovery Opportunity. Why two products? Because we saw two different situations of homeowners that needed help.

The REAL we originate through a group of about 80 lenders on a statewide basis. We give them our criteria. They will originate that loan. We will purchase that loan and service it here in Pennsylvania, which is significant and which I'll talk about later.

Homeowners can be no more than 59 days delinquent. So these are the homeowners who are just beginning to slip in their mortgage, one payment, two payments late. We want to help them before they get too far behind. We'll do up to $120,000 household income and we'll do 100 percent of loan to value of the property.

We do look at credit score, but that's not the deciding factor. As you know, a lot of home buyers and those seeking to refinance are turned down because they've had so many hits on their credit report. That's not the issue that we're deciding from. Our overriding criteria is, can we improve the financial situation of that homeowner. So that's the group that we're trying to help. That's moving along. We've committed about $5 million to the REAL program.

HERO is a little more difficult. These are the homeowners who are truly upside down in their mortgage. They owe the lender more than what the property is valued. With these particular homeowners, working one on one with the homeowner on their behalf negotiating with the lender to take a write-down of that property and assign that loan to PHFA. Much more staff intensive, labor intensive.

We've hired four people on staff at Pennsylvania Housing to deal with this issue, and I can tell you that we're dealing with servicers in Utah, Colorado, Texas that are servicing loans here in Pennsylvania. So we want to get these loans serviced back here in Pennsylvania.

In some cases, the investor --

and, Councilman Jones, I know you mentioned this -- is not involved in the process. The servicer is servicing this loan on behalf of an investor. We're trying to get to the investor so they can make some decisions to write these loans down.

We've mailed out over 2,400 applications, inquiries to homeowners in Pennsylvania, approximately 370, almost 400 here in Philadelphia alone, and we have about 70 loans from Philadelphia in the pipeline on the HERO program that we're working with.

At that time, in October, the City committed $1 million to help serve as a loss reserve for the HERO program, and any loan program there will be losses. So we were pleased to see the City commit the $1 million.

PHFA matched that $1 million that the City committed also. In addition, we set aside another $10 million on a statewide basis to serve as a loss reserve for the HERO and REAL programs. So we're committed. We're going to help these homeowners. It's a long process.

Now, let me talk a little bit about our counseling network, if I can. In 2003, along with the Department of Banking, we initiated a statewide mortgage foreclosure study, and it showed that Pennsylvania ranked 8th or 9th in foreclosure in the nation. That has improved since that time, but from that study, we developed a statewide counseling network, which has primarily to the date has been funded by PHFA to the tune of about a million dollars annually. We have about 100 counseling agencies in this network, and I believe that's one of the reasons why PA will not be hit as hard as some of my counterparts in California and New York, Florida and in Ohio.

That counseling network is there to serve those individuals, not just for those looking to buy a new home, but debt management, credit management and also how can we help them get refinanced.

I mentioned that we announced our program in October. We are just beginning our marketing efforts.

The federal government has announced a grant program of $180 million to be distributed on a nationwide basis. We have applied to receive some of that counseling money here in Pennsylvania, of which Philadelphia will get the majority of the share of that funding.

NeighborWorks, which is the national non-profit organization designed to help homeowners, is the entity that will be awarded the $180 million grant. We have applied for the grant for Pennsylvania, and I expect we'll receive approximately $8 to $9 million to help in our counseling efforts to help Pennsylvania.

Education is the key here. We

got to get the homeowners into our counseling agencies so they understand what is a variable rate mortgage, what does homeownership mean. If your taxes go up, will your mortgage payment go up. If you're buying a home that's in disrepair, if a major event happens, the hot water heater goes, the roof needs to be replaced, you have to be prepared for those unforeseen events. But, more importantly, we want them to think twice before they take that offer that's a teaser rate, four percent for the first three years and then it skyrockets, just to get a second opinion.

We've teamed up with the counseling agencies because they're community based and we want the homeowner to have a familiar face to deal with on that end, if you will, to be comfortable talking to them.

We've started running our commercials, and one of the key points of that commercial is to say, Don't be embarrassed by the documents you signed. It's the most stressful time for a homeowner to be foreclosed on, and in some cases, what we find is the homeowners just don't deal with it, they put it aside. We want them to come in early so we can help them.

The Senator talked earlier about the HEMAP program. HEMAP was started in 1983 as a result of the downturn in the steel industry. It's a one-of-a-kind program in the nation. It saved over 40,000 Pennsylvania homes from foreclosure.

We're actually asking for funding for 13 million, Senator, by the way --

SENATOR HUGHES: That's fine.

MR. HUDSON: -- for the HEMAP program for the next fiscal year.

It has been recognized by Harvard University as one of the top 18 innovations in American government, and the reason being is that it is helping maintain homeownership. Foreclosure destroys families, it destroys neighborhoods, and that's what HEMAP is preventing.

But HEMAP is not designed to deal with the subprime issue, and that's one of the reasons why we created these two products. Internally within PHFA, we are coordinating our efforts so that if a homeowner applies for HEMAP, they may not be eligible, but the next look is to say can we get them into a REAL or a HERO product. So internally my staff is actually working with the lenders when that homeowner applies for HEMAP to see if we can get them refinanced. In some cases, they may only need a bridge lend of HEMAP assistance until we can get them refinanced.

The case I use as an example, it was a NeighborWorks homeowner. NeighborWorks, the national non-profit, was offering a fixed rate 4.7 percent to restructure that loan. However, they could not go above 100 percent loan to value for the property. So we gave that homeowner a HEMAP loan, which allowed them to secure first mortgage financing at a very attractive fixed rate. That's how we intend to use HEMAP going forward in addition to the regular criteria to provide the 24 months of assistance.

On the federal level, we're lobbying for more volume cap. Now, volume cap is the ability of Pennsylvania to sell tax-exempt bonds. Right now I intend to fund the REAL and the HERO loans by selling taxable bonds. If we can get on the federal level an additional allocation and the state receives about a billion dollars to sell taxes and bonds to refinance homeowners, then I can actually offer rates that will be a full percentage point lower than my taxable market. So we are pushing those efforts on a national level, and our home counseling efforts, I think, are the key. Education. Education. Education.

We're holding community seminars. We're doing public service announcements, and the marketing is just beginning to hit the airwaves and the radio stations, and I personally would be out, and I certainly would love to be back in Philadelphia talking to some of your constituents about what to look for when you are buying a home.

I think education is going to be our first line of defense, in addition to putting our resources on the line to help refinance those individuals. We got to get them into our network so that we can see if we can help them.

Thank you for giving me the opportunity to speak to you this morning.

COUNCILWOMAN BLACKWELL: Thank you for that important testimony.

Councilman Jones.

COUNCILMAN JONES: First of all, thank you. I know you've been sick over the last --

SENATOR HUGHES: Week.

COUNCILMAN JONES: -- week or so, and I was at your Report to the People piece that you did and you could barely speak then. So thank you for coming down, and thank you for your testimony, which is enlightening. I have a few questions to try to put my arms around some of the issues here.

Did I understand you to say -- first, let me start with the Senator.

Senator, you put things in context with other economic issues, which I thought was important for us to understand, that when people pay higher premiums for health insurance, it impacts their ability to pay their mortgage. When people pay higher costs for energy, it impacts their ability to satisfy their debt obligations to their creditors, and that all of these things are taken into context as economic issues and that the overall economy is having an impact on this problem; is that right?

SENATOR HUGHES: I mean, that

is absolutely correct, Curtis, and -- Councilman, excuse me.

COUNCILMAN JONES: That's all right.

SENATOR HUGHES: One of the pieces of information that I left out in the health insurance issue as it relates to the rise in premiums, I said from 2000 to 2006 premiums have gone up, health premiums have gone up by 75.6 percent. In the last year or so -- and I think I saw Mr. Dodds in the room, and he can probably help me with this, but approximately 500,000 individuals in Pennsylvania who had coverage provided by their employer were forced out of that coverage. The employer dropped the coverage.

So you have a rolling situation here and you have a rolling number here and a rolling reality that is occurring, and as you indicated, all of these things are related together. That's why I added the other pieces.

Brian can talk very specifically about the programs around the specific foreclosure issue, and in many respects, they have generated -- the subprime problem has generated the larger recessionary conversation that is going on in a lot of different areas, but you can't divorce all of these issues. All these issues must be taken in context together.

COUNCILMAN JONES: You also said, Senator, that because of that, people were paying a disproportionate amount of their available income for these high debt service loans.

SENATOR HUGHES: Absolutely.

COUNCILMAN JONES: So I'm trying to put this in context so we kind of take a look at the macro picture so that we can hone in on the micro picture. So I just wanted to underscore that for the record.

SENATOR HUGHES: Absolutely.

COUNCILMAN JONES: The second

part of what I heard on the testimony and I want to verify, you said 34,000 people are subject to foreclosure in the Commonwealth?

MR. HUDSON: In Pennsylvania, yes. There was 34,000 foreclosure filings.

COUNCILMAN JONES: And of that, 200,000 are in the County and City of Philadelphia?

MR. HUDSON: No. There's 200,000 securitized loans, subprime loans that have been securitized, and they've been packaged into what we call a mortgage-backed security and sold on Wall Street basically or to investors. So we know that there's 200,000 securitized loans.

COUNCILMAN JONES: And the subprime loans are more attractive because of the amortization?

MR. HUDSON: Yeah, and they had a higher yield payment at that time basically.

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COUNCILMAN JONES: So if I understand you correctly, that people saw this opportunity because people for whatever credit rating, for whatever access to capital issues they had, took on unattractive terms within their loans, and then venture capitalists, or sometimes called vulture capitalists, came in and bought those in batches to take advantage of them?

MR. HUDSON: Right. There were some lenders -- and I will say also that based on the hearings that we had with the House Commerce Committee, we heard individuals who had great credit scores who were put into subprime loans. In other words, they should have had a prime loan. So you had individuals who should have been prime with a credit score of 700 plus that were put into subprime loans. But it was a commission-base initiative, I'll call it, a scheme or whatever, and these loans were originated by a lender and then packaged and sold so that the lender didn't ultimately have him on his books. So he securitized whatever loans he made, and they're sold in the market. We know that there were 200,000 securitized. Of that 200,000, 75,000 or 77,000 were adjustable rate mortgages or ARMs, and those ARMs are 22 percent delinquent. And that's just PA's picture.

COUNCILMAN JONES: So has it been a pattern or practice that the teaser rate is thrown out there at four percent and then the kickers come in incrementally at the third year --

MR. HUDSON: That's right, the reset rates.

COUNCILMAN JONES: The reset rates.

MR. HUDSON: That's right. The reset rates. And one of the red flags, if you will, on subprime loans or to categorize them was, what are the reset rates? Is it variable? Are there huge pre-payment fees, whether those interest rates jump? What are the fees up front? So those are questions that any homeowner should be asking, and this is what we emphasize in our counseling training network. These are the questions you should ask a lender before you're taking out this loan. What kind of fees are you receiving? How much are they? What's my interest rate? Is it fixed? If it's not fixed, how much does it jump and when does it jump? Can I repay this loan? If not, what are the pre-payment penalties? Those are standard questions that we're including as part of our educational outreach.

COUNCILMAN JONES: So the pattern is that I get you into a loan that you could barely afford at the teaser rate and then when the readjustment period comes, the reset period comes, now bad goes to worse because now my debt service is higher and whatever economic impacts that have occurred in between the time I settle on this loan to the time it gets reset kick in and that is a part of what we are experiencing?

MR. HUDSON: That's exactly right. And we're seeing loans -- in some of the inquiries on the applications we ask the homeowners, What's your current mortgage rate? These rates are raging from nine to 18 percent.

COUNCILMAN JONES: Say that again.

MR. HUDSON: Nine to 18 percent.

COUNCILMAN JONES: Are you sure they're not talking about credit cards?

MR. HUDSON: No. It sounds like a credit card rate, but this is a mortgage rate of 18 percent.

COUNCILWOMAN BLACKWELL: Thank you very much.

Are there any other questions or comments?

(No response.)

COUNCILWOMAN BLACKWELL: Thank

you both very much.

Councilwoman Miller.

COUNCILWOMAN MILLER: Good morning, Senator.

Good morning, Mr. Hudson.

SENATOR HUGHES: Good morning, Councilwoman.

MR. HUDSON: Good morning.

COUNCILWOMAN MILLER: I missed the very beginning of your testimony, Senator, but I did hear some, and I heard all of yours, Mr. Hudson. And I think it's so important to educate people in the beginning of this so that they -- I don't know what their alternatives are, but so that they don't fall victim to the subprime adjustable rate mortgages and it just puts -- I can't believe anybody would actually accept the mortgage at 18 or 19 percent interest. It's crazy.

MR. HUDSON: Well, I'm pleased to say we did get that homeowner refinanced.

COUNCILWOMAN MILLER: Great.

SENATOR HUGHES: Amen.

COUNCILWOMAN MILLER: So hopefully we'll make sure that we have -- and will you be working with the local counseling agencies that already are under OHCD?

MR. HUDSON: Yes. We're working with just about all the major counseling agencies in Philadelphia and across the state, but the lion's share of that NeighborWorks money I mentioned will be coming to Philadelphia, because the population is certainly here and deserving, and you'll see the advertising to get folks into those agencies for help right away.

COUNCILWOMAN MILLER: Because what I found -- I mean, prior to coming here to City Council, I worked for Representative Richardson, so I'm very familiar with the HEMAP program. What I found in my years of working in public service, that most people won't even open the envelope. They're afraid to open the envelope, and it's like it's going to go away and then at the very last minute when -- we've had many situations where the truck is at the door, is when they're calling for help.

So I think the education is so, so, so important, and I'm glad to hear that that's going to be a big part, and the marketing, of course, of how we can help people and stop this kind of practice in the future.

MR. HUDSON: Yes.

COUNCILWOMAN MILLER: Thank you. Thank you for your testimony, too.

And, Vincent, you know, you actually -- I heard someone said that you don't have testimony to give us?

MR. HUDSON: I'm going to send mine in writing. I gave you copies of the REAL and HERO program, but I'm going to --

COUNCILMAN MILLER: I know. I have that.

And I also want yours. You

talk about all those economic development projects and funding in Rendell's budget. We got to get that.

SENATOR HUGHES: You got to get that, absolutely. I'll make sure you get it. I just tore it up this morning, Councilwoman. I changed it this morning.

COUNCILWOMAN MILLER: All right. Thank you.

COUNCILWOMAN BLACKWELL: Thank you.

Councilman Jones.

COUNCILMAN JONES: Just one quick question, because we have a lot of interested parties here today, and I'm glad to see so much interest in this issue.

Trends. Trends. Two questions. One, Philadelphia is below the national average?

MR. HUDSON: For foreclosure?

COUNCILMAN JONES: For foreclosure.

MR. HUDSON: Yes. And the

state is also. We rank on a nationwide basis, Pennsylvania ranks probably 34th, and I attribute that, number one, to our counseling efforts that were started in 2003 and the HEMAP program. Out of the top 100 cities, Philadelphia ranks about 79th. Pittsburgh comes in, I think, at 82 and Allentown is around 96 or so. So we're not in the worst cities to be hit with foreclosure activity, but nonetheless, if you have foreclosures, you got a problem.

COUNCILMAN JONES: Here's my key: Philadelphia has a tendency to be below also real estate values and we are now beginning to increase -- if you look to our neighbors in Baltimore, if you look to our neighbors in New York, our real estate values were suppressed.

MR. HUDSON: Right.

COUNCILMAN JONES: For whatever reason. But now we've been discovered. Now we've been discovered, and what has happened is, I see groups almost in a picnic-style fashion coming in on trucks, coming through our neighborhoods and looking at prime investments that they can buy.

So I want for the record to also say that although we're below the national average, we tend to be by way of value and people, we are no longer a secret. People have discovered us. People from as far away as Japan have discovered great real estate values in the City of Philadelphia.

So when I talk about that perfect storm, I talk about the economy, I talk about subprime problems and then I talk about real estate values that, for some, is good news that they've increased. For others of us on fixed income is bad news, because now the vulture capitalists come in to try to take our investment, and that's -- I just want to put that in context.

MR. HUDSON: That's a good point.

COUNCILWOMAN BLACKWELL: Thank you very much.

Any other questions or comments?

Councilwoman Sanchez.

COUNCILWOMAN SANCHEZ: Hi. Mr. Hudson, is there a list available of who the culprits are on the prime level who also have subsidiaries that are also issuing subprimes? Do we have a list of that that we can put for the record? Because we want to know who are some of our local banks who are contributing to this and which ones are affiliated with some of these subprime lenders.

MR. HUDSON: We are trying to track some of that; for instance, when we see a HEMAP application, if there's some same lenders that come up, and we also are working with the Department of Banking.

There's some sensitive legal issues there with publishing the list of who is doing what. So let me work on that and see what we can share with you.

COUNCILWOMAN SANCHEZ: It would be great if we can add that to our record.

MR. HUDSON: All right.

COUNCILWOMAN BLACKWELL: Thank you very much.

SENATOR HUGHES: Madam Chair, just as a closing comment, again, we can't thank you enough from our vantage point of raising this level of discussion, this level of conversation. You heard Mr. Hudson and I have a little banter back and forth about how much the state appropriation is, and we will be through the appropriations process examining what the state appropriation should be for the HEMAP program and other related entities that Mr. Hudson has developed in his operation, but the extent that there is public support and public outcry from this City Council and other related bodies across the Commonwealth to encourage more investment, the more money we can drive into HEMAP and HERO and REAL and the rest of the programs, the more families we can put in a better position. And we know that we have one of the leading programs in the country here with HEMAP, and Brian is kind of bashful about it, but he is one of the leading advocates in the country in terms of skillfully developing the appropriate programs.

I think it's our responsibility to make sure as public officials that the resources are driven towards these kinds of programs given the outcry, given the problem, given the impact, the ripple impact, that it has on the rest of the economic conditions.

So if you could send a note saying that Brian needs a lot more money, we'd appreciate it, and the counseling organizations that are all supported here get more funding so they can do great work. We had them out at our program back in October and they did a fantastic job. Very knowledgeable about what's going on and very direct to our constituents about the best ways to handle those issues.

These are fundamental in-the-pocket kinds of issues that I think public dollars were meant to support to help our families out of these situations, and I thank you again for your public attention.

COUNCILWOMAN BLACKWELL: And we agree. Thank you. Thank you both.

MR. HUDSON: Thank you, Madam Chair and members of Council.

COUNCILWOMAN BLACKWELL: Thank you.

(Applause.)

COUNCILWOMAN BLACKWELL: Dr. Steve Herzenberg, Dr. Mark Price, Keystone Research Center.

And next we'll have our HUD Regional Director, just to let you know. We won't hold you much longer, sir.

(Witness approached witness

table.)

COUNCILWOMAN BLACKWELL: Thank you again.

DR. HERZENBERG: Brian needs a lot more money.

COUNCILWOMAN BLACKWELL: Yes.

DR. HERZENBERG: My name is Stephen Herzenberg. I'm the Executive Director of the Keystone Research Center. I have a Ph.D. in economics from the Massachusetts Institute of Technology. Keystone Research Center is a 12-year-old economic think tank, the mission of which is to promote a more prosperous and equitable Pennsylvania.

I very much appreciate the opportunity to testify before the Council today. And I really want to echo -- I'll echo in a variety of ways some of what you've just heard before, but I particularly want to reinforce at the outset my commendation to you for having this discussion, trying to get your heads around this issue and trying to provide the leadership that's critical to action in time to avert what could be a very serious crisis and to contain the dimensions of the cost of this housing crisis.

A lot of my testimony today is based on a report on the housing market that we, the Keystone Research Center, released at the end of January called "A Building Storm: The Housing Market and the Pennsylvania Economy." What that report sought to do, which is sort of fairly standard for the work we do, is take the national issue of the housing market and sort of look through a Pennsylvania lens, how much are the problems nationally mirrored in Pennsylvania and also asked a series of questions about to what extent is the trouble that's beginning in the housing market translating into a downturn in the construction industry, into broader impacts on the overall economy.

That analysis actually very

much reinforces some of the lessons that Senator Hughes began with around, for example, the state level economic stimulus. I'm not going to focus on that in these remarks. I would point folks to the recommendations in our report, "A Building Storm." What I want to do here is focus a little bit more narrowly on the foreclosure issue and, as much as I can, on the Philadelphia area.

And my main message really is a simple one: Now is the time for action, because there could be a large-scale and very geographically concentrated damage that grows out of this foreclosure crisis.

At some level, at least my observation, is that the political debate certainly nationally, to some extent at the state level, is still not the level of urgency, nor is there the scale of response that's necessary to contain this damage. So, again, that reinforces the value of your engaging this issue and bringing your voice to this debate.

I want to walk through now just a series of basic economic facts that underscore that this foreclosure crisis could grow a good deal worse in Philadelphia.

The first point is, some folks in Pennsylvania sort of think that the housing bubble is something that took place in Florida or California, maybe in the Boston area, but didn't happen in Pennsylvania. When you look at the numbers, that isn't true. The run-up in housing prices did begin a couple years later in Pennsylvania, then nationally, but from 2001 to 2006 on the way up, housing prices in Pennsylvania and in Philadelphia in the metro area basically track the national trends. So you've got this 73 percent increase in prices, with the overall price level only increasing 13 percent since 2001. And you also have this divergence that exists nationally between housing prices and rents and the cost of construction. That kind of separation is a sure sign to economists that we had a bubble, we had a speculative bubble.

The bad news there is, now that the prices have begun to come down nationally -- actually, you could see it in the last several quarters in Pennsylvania. We're still tracking the national trends. The predictions nationally are that housing prices between August of last year and this coming August will be down 16 to 13 percent. What that means is, if we keep tracking the national trends, we're going to see not just stagnation in housing prices but a decline in housing prices here.

The second piece of this story is, it was the uptick in housing prices that basically made it possible for the adjustable rate mortgages, the subprime mortgages to grow over time as a portion of the market. Those were affordable because when the rate kicked up, the value of the home had appreciated. So whether it's a home equity loan or you get a new mortgage, the finances would still work, but once the prices stopped going up and in fact started to come down, that's not going to work anymore. That's why you're going to start getting foreclosures -- you are getting foreclosures, as we've already heard here, as is the case nationally.

There's some numbers in my written testimony and, again, they're sort of very consistent with some of what you heard before. A rising foreclosure rate, a little bit better than the national average, but still not good news. So, for example -- and looking forward, the prediction that things will get worse.

So the set of responsible lending, for example, projects that the foreclosure rate of Pennsylvania's subprime loans issued in 2006, those will kick up typically in 2009, that the foreclosure rate on that body of loans will exceed by more than half the foreclosure rate on loans issued from 1998 to 2001. The joint Economic Committee of the U.S. Congress projects that from the third quarter of 2007 to the end of 2009, there will be an estimated 45,000 subprime mortgage foreclosures, representing a loss of $2.4 billion in property values. Based on what we heard from the previous folks, these numbers may actually be low now and may need to be increased based on newer information.

The third point here is, the estimates I just made about foreclosure rates are taking into account a couple things. They take into account how many folks have subprime loans. They also take into account the fact that housing prices have leveled off and begun to go down. So that the old trick of using your house as an ATM isn't going to work anymore.

But those estimates don't take into account the fact that we might go into an economic downturn. So if you add that to the already toxic economic cocktail we've got from the housing prices beginning to come down and from the scale of the subprime lending, that's going to be really bad news.

One piece of sort of suggestive evidence on that is, when you look across states at some of the states that have the highest foreclosure rates, you actually find that a lot of times it's not states that had the biggest run-up in prices. I mean, it's a mixture of factors, but in part, it's the states that have the highest unemployment now. So you've got states like Michigan and Ohio that have foreclosure rates at about two and a half times Pennsylvania's. What that means is that if our unemployment rates get another point or two or two and a half higher, sort of more where Ohio and Michigan are now, well, first guess would be our foreclosure rates would go up by two and a half times.

The next point, again, is when you look at the share of the mortgages that are subprime mortgages, we all know that varies dramatically by neighborhood. It's not as high in the affluent suburbs. It's much higher in lower income areas. So there's a map in the written testimony that shows that in a lot of Philadelphia neighborhoods, you've got subprime mortgages that are 60 to 80 percent of the market.

Another economic reality, which, again, is not news to anyone here, is that if the economy slows down, where will joblessness and unemployment go up most? Well, it's going to go up in the neighborhoods where you've got folks who aren't as educated. Roughly, if you overlaid the areas which are going to suffer higher unemployment on the areas that have the highest subprime mortgages, they'd look very similar.

So the story I just told you is not a pretty one. We're all hopeful that the national economy won't go downhill. I actually share the view of a variety of folks that Pennsylvania may be better off than most states, both in its management of this crisis, the housing market crisis in particular, and also in terms of some characteristics of its economy nowadays. The last economic recession was less deep in Pennsylvania than in a lot of places, but it's very clear that we could be headed for some difficult times ahead.

The next part of the argument for taking action now that's equal to the scale of the problem is that old saying that an ounce of prevention is worth a pound of cure. The joint Economic Committee in a report that it issued in the middle of December, and which I really commend to you, did a series of estimates on what's the cost of the foreclosure and the cost of foreclosure prevention, and their estimate is that foreclosure costs, all parties involved, $80,000 for each foreclosure. The cost of prevention is about $3,000. I mean, even if in the end the cost ended up being somewhat more than that, you're talking about a vast difference. So you're talking about everybody being better off if we take action sooner.

Now, going back again to the original comment I made about Brian needs a lot more money, in a sense, that's a way of summarizing one of the points near the end of my written testimony, which is the debate so far is not bringing solutions on the scale of the problem. So at least our estimates -- and, again, maybe these need to be updated, but our estimates were that the programs that Brian outlined, the REAL program and the HERO program, great programs, good models, but they're big enough to service maybe one percent of the subprime mortgage foreclosures that we're looking at. Now, maybe that's higher now, but the real conversation is, is it high enough? Is the resources for programs like that adequate to the scale of the problem?

One other remark, I think I want to underscore something that the folks before me said, and John Dodds will, I think, elaborate this point, too. There was a discussion around counseling. In the end, there's going to be a lot of technical assistance that's needed to help figure out what folks can afford, what kind of refinancing is realistic, what will lenders accept. If the cost of foreclosure is much higher for them as well as for other folks than working out a loan, then they've got to come to the table with some real money.

So you need a level of counseling and technical assistance now that is beyond what we have. You need that for Philadelphia. You need that across the state. The good news is that apparently both the city and the state have a set of agencies that are better at this and that are more substantial than maybe some other places, but they're not on the scale that we need.

So that's one of the areas that I hope the Council with respect to the City of Philadelphia will take a hard look at, and as it says in my written testimony, that's the kind of thing you really want to try to scale up in the next six months to a year, because if the economy slows down, the unemployment rate won't peak this year, it won't peak next year probably. It might peak the year after that, 2009, when all those 2006 mortgages are adjusting their rate upwards. So we need that capacity to refinance loans in a way that's affordable and minimizes the human and economic costs. We need that in place ready for that crisis if it's as severe as it could be.

I mean, there's an analogy. I don't know if this works or not, but to some extent, the debate about the housing market crisis -- and maybe not this hearing, to your credit -- feels a little bit like you're sitting on a track and you're looking down the track and you're thinking, is that a train, is that a train accelerating towards us? Yeah, that's a train. I mean, it's coming and so we need to be working on how we get off the track or stop the train before it hits us.

I thank you again for the opportunity to testify. I'm happy to take questions, if you have any.

COUNCILWOMAN BLACKWELL: Thank you very much.

Are there any questions?

We will call on Councilwoman Quinones-Sanchez. And just before she speaks, we note the presence of Councilman Darrell Clarke. Thank you.

COUNCILWOMAN SANCHEZ: In your

study, can you segregate the data by further areas in Philadelphia? Because I noticed you did the map. And the reason is, for the record, 44 percent of the people in the 7th Councilmanic District live with household incomes of $20,000, and I understand that I'm one of those districts that is severely being impacted by this, and I'd be interested in getting the data in the district specifically so that I can note which are some of the neighbors.

And the other thing is, as I asked Mr. Hudson, do we have some sort of mechanism where we're tracking the culprits, the prime ones with financial interests in the subprime ones and can that be made available for the record?

DR. HERZENBERG: Okay. On the first point, I'll give you my card and would appreciate yours or one of your staff member's. The person to ask that question is my co-author, Mark Price, and we'll get back to you. I mean, I think this data is available by census track and I think the map that I copied is not that fine grain. But we'll get back to you whether there's more information or not.

On the second question, I can't really add anything to what the folks before me said in terms of tracking the culprits.

COUNCILWOMAN BLACKWELL: Thank you very much.

Thank you again.

Next we will hear from Mr. John G. Bravacos, Regional Director, Region 3.

We thank you for coming. Thank you for your patience and for the job you're doing for our region.

(Witness approached witness table.)

MR. BRAVACOS: Thank you very much, Councilwoman.

COUNCILWOMAN BLACKWELL: Certainly.

MR. BRAVACOS: We appreciate

very much the opportunity to be here.

By way of brief introduction, Region 3 of the Department of Housing and Urban Development encompasses the five midatlantic states and the District of Columbia. It's Virginia, West Virginia, Delaware, Maryland, Pennsylvania. We're responsible for administering the scope of HUD programs within that jurisdiction.

To give you a brief synopsis of what HUD does with Philadelphia, our Community Planning and Development office supplies funding to the City of Philadelphia for housing and community development projects. It needs $78 million last year, with an additional 25 million for the homeless providers. Our Homeownership Center endorsed almost 3,500 FHA loans last year and offered more than almost $300,000 to fund housing counseling within the City of Philadelphia.

HUD has invested more than 336 million in the Philadelphia Housing

Authority, and our Multi-Family Group provides approximately $72 million for 128 projects in the City of Philadelphia, which house approximately 12,000 residential units.

So the Department of Housing and Urban Development is deeply invested in the City of Philadelphia and would like very much to continue to be a partner in moving forward the City and helping the population of the City that is facing an enormous problem.

You've heard from three fine witnesses so far that have outlined for you a census scope. I encourage you to investigate carefully the scope of the crisis. It is large. It's been a shock to our economy. Millions of homeowners have felt it. I don't need to go through what the ripple effect will be as we move forward.

I wanted to share with you some of the positive things that are out there now that the federal government is involved in and is doing. I will provide written remarks to you shortly. I'm just going to kind of cut through some of them, because you certainly don't need me to repeat what others have said.

COUNCILWOMAN BLACKWELL: Thank you.

MR. BRAVACOS: Predatory lending, and Councilwoman Sanchez has focused on this carefully and rightfully. Predatory lending is a significant problem. The Department of Housing and Urban Redevelopment were charged with the enforcement. Where predatory lending occurs, we investigate. We're involved through our Fair Housing Equal Opportunity Group. We've seen a significant activity there. We're continuing to do so.

To the extent that you hear of it, that you feel that it's occurring in particular neighborhoods, particular places, we're very interested. We're investigating and prosecuting, and we'll continue to do so.

If we had a hit list of mortgage lenders, we would be working with the Department of Justice to go after them. It's a little challenging at this point, but as that develops, we'll certainly work with you.

Let me talk about FHA and FHA Secure.

This month, HUD has sent out 7,631 letters here in Pennsylvania to at-risk homeowners who need more affordable alternatives to the high-cost adjustable rate mortgages that they are currently paying. More than 850,000 letters will be sent out nationwide between now and September. We think this might be the most important piece of mail these families receive, because it provides information about how they can keep a roof over their heads.

FHA-insured loans are backed by the federal government. More than 90 percent of FHA-backed mortgages are 30 year fixed-rate products. FHA Secure allows borrowers who are current generally but delinquent on their mortgage loan to refinance with FHA, saving tens of thousands of families approximately $400 a month in their mortgage payment. That's $400 a month on average for those who can get into the FHA Secure product.

We expect to assist approximately -- well, we've been able to expand the number of people who qualify for an FHA loan through an effort announced by the President last year of FHA Secure. We've so far placed more than 94,000 Americans into these programs.

Hope Now Alliance, Secretary Paulson from Treasury and Secretary Jackson from HUD have worked with the mortgage industry to address the housing crisis in another way: Industry cooperation. The industry has responded with a program called Hope Now Alliance to help homeowners at risk of foreclosure. The Alliance implemented a plan that could help up to 1.2 million homeowners across the country avoid foreclosure over the next two years by providing systematic relief that includes refinancing of existing loans, moving borrowers into FHA Secure and implementing the five-year freeze on the reset interest rates. So far, that's helped over 370,000 homeowners so far.

Project Lifeline was also brought together by Secretary Paulson, Jackson and the Hope Now Alliance members. Project Lifeline provides a 30-day window. What they're doing is, those lenders who are participants send letters to the individual homeowner who is more than 90 days late about to be foreclosed upon. If they open that piece of mail and read that letter and call the lender, they will work into a 30-day window for them to refi that loan, to get out of the foreclosure process, and the mortgage lenders are getting them out of the ARMs, saving about $140 a month per homeowner that's going into this.

One of the largest ways we believe help can be provided is for people who are facing missing that second payment is to call a housing counseling agency, to find a housing counseling agency that is a non-profit registered with HUD. It's the 1-800-CALL-FHA. Unfortunately, only about 16 percent of the homeowners that are in foreclosure have gone to housing counseling agencies, have called the FHA or have talked to their lender, 16 percent. That's not even one in five. Most of the lenders -- all of the lenders, FHA, everybody who is involved in this, if people who are facing problems making a payment on their mortgage would call a housing counselor, call 1-800-FHA-SECURE, call the Hope Now Alliance, call any one of these organizations, it's the gateway to the programs that Brian Hudson discussed through PHFA, it's the gateway to the FHA programs, it's the gateway to a host of federal, state and local programs that can get them out of being foreclosed upon.

Nobody wants the foreclosures to happen. It's just often the only choice left, because no one has moved forward to say, Help, I'm starting to have trouble. If the only thing that comes out of my testimony today is more people dial 1-800-CALL-FHA, we will have saved some people from foreclosure. And that, from the federal government side, is where we stand. There are a spectrum of programs. There is a lot of money out there, a lot of willingness to provide assistance in a host of different directions, and what we need is, we need the borrower who is coming into trouble to start that process, open the mail, answer the question and call. If no one else, call 1-800-FHA-SECURE, call PHFA. If you don't want to talk to the federal government, talk to the state. Call a certified housing lender -- or a certified housing counseling agency, one of the non-profits that's doing tremendously difficult work on a shoestring out there, and they're doing great work.

Thank you very much for the opportunity. Thank you for your interest and your desire to help, and we stand willing to share a lot of our data with you as you move forward and provide, to the extent you would like, the technical assistance and other information.

If you have questions, I'd certainly be happy to answer.

COUNCILWOMAN BLACKWELL: Thank you very much, Mr. Director.

You have a question, Councilwoman Miller?

COUNCILWOMAN MILLER: No.

COUNCILWOMAN BLACKWELL: Any questions or comments?

(No response.)

COUNCILWOMAN BLACKWELL: Thank you again.

MR. BRAVACOS: Thank you very much.

COUNCILWOMAN BLACKWELL: John Dodds, PUP, Philadelphia Unemployment Project.

(Applause.)

COUNCILWOMAN BLACKWELL: Next will be the Sheriff's Office, so you know you're next.

(Witnesses approached witness table.)

COUNCILWOMAN BLACKWELL: Good morning. Thank you for your patience. Good to see you again.

MR. DODDS: Good to see you, too. We have some homeowners with us that have been through this subprime situation and could be of help, and George Gould, attorney from Legal Services.

COUNCILWOMAN BLACKWELL: Thank you. Please identify yourself again for the record.

MR. DODDS: My name is John Dodds. I'm Director of the Philadelphia Unemployment Project.

MS. TAYLOR: My name is Regina Taylor --

COUNCILWOMAN BLACKWELL: Please, we can't hear you. Would you talk into the mike or pull it forward.

MS. TAYLOR: My name is Regina Taylor, homeowner in Philadelphia.

MR. FERRERA: My name Roberto Ferrera, 2432 Hutchinson Street.

COUNCILWOMAN BLACKWELL: Spell that. We can't hear you.

MR. FERRERA: Roberto Ferrera.

COUNCILWOMAN BLACKWELL: Say that again.

MR. FERRERA: Roberto Ferrera.

COUNCILWOMAN BLACKWELL: Roberto Ferrera?

MR. FERRERA: Yes.

COUNCILWOMAN BLACKWELL: Thank you.

MR. GOULD: My name is George Gould. I'm an attorney with Community Legal Services and I'm here representing the Philadelphia Unemployment Project.

COUNCILWOMAN BLACKWELL: Thank you.

Thank you, Mr. Dodds.

MR. DODDS: Okay. PUP has been involved with fighting against foreclosures since the '80s. In fact, we're the group that drafted and fought to win the HEMAP program in '83 which we've been talking about.

We have a different situation now than we had back then. The City and the country is in the midst of a subprime crisis. Nationally, Wall Street estimates there will be three and a half million foreclosures in the next three years in the United States, many of them because of families with adjustable rate mortgages. I don't think I have to explain what that is to you. You all know that, but one thing I think that's of interest is, the Wall Street Journal recently did a study that shows that 61 percent of the people in subprime mortgages could have qualified for a conventional mortgage. A lot of people were being pushed into these subprime. And even the people with bad credit didn't need to be in what they call an exploding ARM. They could have just had another half a percent more and they could have got a 30-year fixed mortgage.

So this whole thing was a way for a lot of brokers and mortgage companies to make a whole lot of money, and they did, and now we're all getting ready to pay the price. So these loans are starting to go bad all over the country and in Philadelphia.

You can see in our testimony as Councilwoman Quinones-Sanchez talked about neighborhoods, we have neighborhoods where the loans are concentrated, and many of the members of Council up here are representing those neighborhoods. For example, East Germantown, 52 percent of the loans that were made in East Germantown in 2005 were subprime. Southwest Philadelphia, 51 percent subprime. Parkside, 53 percent subprime. Hunting Park, 51 percent. Over half the loans in these neighborhoods were subprime loans. West Oak Lane, 54 percent of the loans.

These loans are going to -- many of these loans are going to start coming due and the ARMs are going to reset in the year 2008, and we're very concerned where this happens in neighborhoods with these concentrations are going to have a lot -- too many foreclosures to move these properties. And this is not -- these are just the worst neighborhoods all over the City, and we've got a map in there also that shows where these loans are.

You mentioned, Councilman Jones, about President Bush has noticed this problem. He has. He's made some very feeble attempts to stem the tide of foreclosure. He set up this Hope Now hotline. We've talked a lot about calling hotlines and so forth. Well, the Wall Street Journal, our liberal institution, has done a little study of what's the Hope Now hotline and they had 176,000 calls in the last two months. Of those calls, 9,900 were recommended for workouts; 4,400 were people were told to sell your house; 12,000 were referred to counseling or job placement services. That means 15 percent of the people that called got any kind of action at all.

The Director of the Hope Now Alliance told the Wall Street Journal she expected the numbers helped to inch up. She said the numbers reflect the natural progression.

We've got thousands and millions of people that in the next year or two are going to face foreclosure and they've got 15 percent of the people get any help, and the numbers are expected to inch up.

Recently, the President talked about a 30-day moratorium, which is for six mortgage companies for homeowners at least 90 days behind. This is another public relations effort. Mark Zandi of Moody's Economy said the Administration plans are likely to be overwhelmed by the eroding housing and job markets.

So we're sitting on a time bomb in Philadelphia waiting for all these ARMs to reset and become unaffordable while the efforts that are being talked about are inching up and they're incremental.

I was recently in Cleveland, Ohio, which is sort of an acknowledged center of the subprime crisis. Cleveland is a horrible site, I can tell you. Abandoned, stripped and gutted houses everywhere. Property values through the floor. Properties, the only thing you do with them is knock them down. They stripped the aluminum siding off the walls. I mean, properties are now going for $14,000 in Cleveland, if anybody will buy them.

We're nowhere near where Cleveland is. So I think we've made some advances in the City of Philadelphia over the last number of years. And we don't want to get there either, and so we're worried that that's going to be the next step.

One of the problems with the subprime crisis is, subprime mortgage money is not available anymore. If you don't have prime credit, you're not going to get a loan. And these neighborhoods with half the loans subprime, if they go to foreclosure, who is going to buy those properties? Many times nobody is going to buy them. They're going to sit empty, they're going to get stripped, they're -- we could be facing some serious problems with abandonment, long-term abandonment, which we just, as I said, got out of.

So what a lot of people say the

answer to this -- and housing counseling is important. We're housing counselors. I don't want to put it down, but you've got to get the lenders to do something about it, and what they need to do -- and most people agree, including the lenders -- is, they got to modify the loans. What that means is, they're going to change the terms of the loan. They're going to reduce the interest rates. They're going to stop the resets. They can even reduce the principal. This takes a costly foreclosure and puts it into a 30-year fixed performing loan.

So they hoped to get 12 and 13 percent. They were greedy. They wanted all that money. They're not getting it. What they're getting is foreclosure.

According to also the Wall Street Journal, lenders lose 50 percent of a loan when the property goes to foreclosure. So if they can get a performing loan rather than a foreclosure, they're going to do a lot better. In fact, the Bank of America's Consumer Real Estate Service guy says that Bank of America would be certainly willing to consider writing off substantial portions of some mortgages. We think this is the answer. Loan modifications are happy, and we're getting them in Philadelphia. Some of these homeowners here were subprime loans, they got modified. The problem is how to do this to scale. This is the problem.

We got these 15 percent of the calls are getting answered. We believe now that advocates, the City of Philadelphia, City Council need to get agreements from the mortgage lenders holding the subprime loans to do loan modifications to the scale sufficient to head off large-scale foreclosures for Philadelphia homeowners and neighborhoods. We need a public-private partnership to protect our homeowners and our property values.

This, we think, is a little different than what's been proposed, but we think that we need to demand that mortgage servicers agree to use the City of Philadelphia's extensive network of OHCD-funded housing counseling agencies to do the workouts for Philadelphia homeowners.

Servicers are right now being flooded with requests that have not been able to handle the volume. Only three and a half percent of the mortgages that have been reset have been modified, according to Moody's Economy.com. Foreclosures outnumber loan modifications by 13 to one for subprime loans, according to the Mortgage Bankers Association. It would be in their interest to do this. It's not happening.

Yesterday, the Governor of Maryland, Martin O'Malley, summoned the mortgage industry officials to meet with him in the State Capitol next week. He accuses the mortgage industry of failing to respond to requests from homeowners trying to renegotiate their mortgages. Governor O'Malley said, We receive complaint after complaint with simple allegations. They won't answer the phone, basic stuff like that. They're not being responsive.

To counter these problems, Philadelphia's non-profit counseling agents could work with homeowners and gather sufficient information from homeowners to determine what a workable modification would be. This would allow the servicers to handle the volume that we've got. They could send this information on a standardized form and do workouts directly from the information forwarded by the housing counselors.

Counseling agencies' staff could be trained to implement the system. We have to work out an agreeable criteria for affordable workouts, and servicers could spot-check forms submitted to check for improper submissions.

We think foreclosure action should stop while these kind of workouts are in progress. This could be a model for the nation, a public-private partnership to allow lenders to avoid the losses of subprime loans going bad and homeowners in the City to avoid the tragic consequences of large-scale foreclosures.

We need our elected officials, you all who have shown leadership -- and we really appreciate you calling this -- to take some leadership just like the Governor of Maryland in calling these major subprime lenders to join us in this partnership for the good of everyone. We also believe that there should be a moratorium on Sheriff's sales in Philadelphia until such a system is in place.

Take these loans, turn them from unaffordable loans, modify them so they can be afforded, get help from our counseling agencies to do that, to do the volume, and let's avoid this train coming down the track.

We really look forward to working with members of Council on this and see if we can get these lenders to join in a public-private partnership to modify the loans.

So that's my testimony. I'd like for a minute to have a couple of homeowners that came very close to foreclosure talk to you about their circumstance. They did get modified after many months. Most people are not going to get the help and they're not going to get help.

So, Regina, do you want to say a few words?

MS. TAYLOR: Good morning. I'm Regina Taylor, homeowner in Mount Airy. I've been in my home for 30 years.

I needed to get some home repair done in my home, plus I have a grandmother in a nursing home that I was taking care of. They wanted to put my grandmother out of the nursing home for lack of payment, so to keep her there, I paid the nursing home instead of the mortgage. I called -- I also downsized on my job.

I called the mortgage company to explain to them what was going on. My mortgage was only 515. They had told me my mortgage was 815. I'm like, No, from the beginning, my mortgage was 515. I went to Full Spectrum Lenders a couple of years ago. They greeted me with open arms, smiled at me, gave me a cup of coffee and told me they would take care of everything. They told me my mortgage would be 515 and a couple of years it would just go up very little, but don't worry about it. I took their word for it because they were smiling and they were so happy that I was there.

After finding out that my mortgage went to eight something, I explained to them, I said, No, I've been paying 515 for the longest.

And they said, Well, no, it's this. And then they said by 2008 of March, my mortgage was going to be a thousand and ten dollars. And I started to panic, and I was like, No, this is wrong, and I started going over my paperwork. I'm like, I don't see anything saying that my mortgage was going up.

Shortly after, I got a phone call from PUP and they explained to me who they were and that they were to help, and I'm like, Great, because I didn't even know who they were. I went downtown, spoke with them. I traveled with them to Cleveland, Ohio to get my mortgage back down to its rate, and it took from January to December for them to finally fix my rate back to its original.

MR. DODDS: She got a loan modification.

And you had a Sheriff's sale scheduled?

MS. TAYLOR: And I was on

Sheriff's sale. I was this close to losing my home.

MR. DODDS: Okay. And now I'd like Roberto Ferrera to say a few words.

MR. FERRERA: Yeah. I live on South Philadelphia, 2432 Hutchinson Street.

I get a loan with Ocwen Bank, right? I was paying Ocwen 654 a month. Suddenly, by December 2006 on Christmas Day all my pipe broke on the basement. I spent my new year trying (unintelligible) on my windows.

I was behind on my rent because I went to Water Department, see if I can get a loan. They didn't give it to me. So I spend my money fixing my house.

So I tried to call the bank to explain what happened. They didn't say anything they trying to help me out. So I went to a lot of different places. They send me Act 91. I went to Nixon House. I fill out application for HEMAP. They deny. I don't know what to do. So

I start paying 806 a month, $806. About two months later, I was paying 954 a month, because they put some life insurance that I didn't told them to put on it, right? So I got behind my rent. They sent me a letter for foreclosure. So I went to a lot of different places. They couldn't help me out. So I went to his office, you know. I think I going to be better now.

MR. DODDS: Once again, they're going to modify his loan, but he went to three different agencies.

MR. FERRERA: I went to three different places, yeah.

MR. DODDS: Once again, the problem is, it's in everybody's interest to do loan mods, but they're not happening. They're very difficult and slow, and way too many people are going to lose their house. We need a system where we can move these quickly enough to preserve homeownership.

I think one thing I want George

to talk about, there's been some talk about the moratorium. George brought the lawsuit in '83, that we had a moratorium for a year in the City of Philadelphia waiting for some changes to happen. George could maybe talk a little bit about that.

MR. GOULD: Thank you, John. And I'd like to thank City Council for holding these hearings on what is obviously an extremely important problem.

Let me just reemphasize a couple things, and, that is, the need for something to be done now. The gentleman from HUD came here and seemed to state that if people just open their mouth, the problem would be resolved. I wish it was that simple. I wish someone could just pick up the phone and call somebody and the person on the other side will immediately respond and modify the loan. It doesn't work that way.

Despite all the hoopla from the President on down, the reality is, what's happening is very few loans are being modified. And what we would urge the Council to do is to bring the servicers and the lenders on these subprime mortgages into City Council and to get them to agree to a process whereby it would be streamlined. The counseling agencies would be fully involved. There would be set forth criteria. The counseling agencies would make determinations, and people would actually get the loan modifications, which are not happening now.

The second thing that John talked about was the need for a moratorium, and I think we have reached the point where there is clearly such a need. Unless we do something, each month the number of foreclosures being filed and Sheriff's sales taking place is going to increase, increase, increase.

Back in 1983, representing the Philadelphia Unemployment Project and the Sheriff's Office, I went to the President

Judge in the Common Pleas Court and requested that there be a moratorium on foreclosures for a period of time until the Homeowners Emergency Mortgage Assistant Act got passed. The court system and the President Judge, who was then Judge Bradley, was responsive. He entered orders each month staying the foreclosure sales until such time approximately about a year later that the State Legislature passed the HEMAP program.

The City Council back then was very involved in the issue, was very supportive of the issue, and we believe that should happen now. City Council, we believe, can also take action with the Court of Common Pleas to try to get some kind of a moratorium or join us in bringing such an action.

We think the initial thing that needs to be done is, the servicers and the lenders need to come to the table to reach an agreement where they will do this streamlined processing. Otherwise, what's happening is a lot of talk, a lot of public relations, a lot of press releases, a lot of press conferences, but the reality is, on the ground things are not happening and people are getting foreclosed.

The other thing that can happen -- and it's happened in Baltimore and in other cities and other states -- is, action can be taken against these subprime lenders. Lawsuits have been filed to have the courts declare them a public nuisance and to come up with remedies so people will not be foreclosed and lose their homes.

(Applause.)

COUNCILWOMAN BLACKWELL: Thank you very much. Some questions.

Councilman Jones.

COUNCILMAN JONES: First of all, thank you. Thank you for bringing this to this Council's attention. I was stunned when this issue was brought to one of our training sessions actually and people began to talk about some of the problems that we had.

In the time that it took me to go to the men's room down the hall, I had three, four people come up to me, not a part of the body that you see in this Council, but talking about personal experiences and problems with their family members, tears in their eyes. One gentleman out there talking about his mother's home. She made the mistake of signing some papers and now the piper is calling for their due.

But let me ask you a couple of questions. So thank you for bringing this to our attention. I had and passed to the Councilperson the original lawsuit that you guys did, and I'm glad to know George.

And I can call you George, because you helped kind of raise us during the Bowser era. We go back a little bit.

But I look at what -- the Council almost unanimously came behind this issue, and I wanted to ask, what caused you to file that lawsuit then and are situations similar today?

MR. GOULD: Well, what caused us to file the lawsuit back then was, we were in the midst of a deep recession. Unemployment was extraordinarily high. We didn't have the subprime problem that we have now because the subprime mortgage industry didn't exist. But basically people were losing their properties because they had lost jobs, they had lost public benefits and they couldn't afford to pay the mortgage, and the foreclosure rate was sky high, unemployment rate was sky high and people were losing their homes, and we believed that the Court and the Sheriff had the ability to stay the sales to protect the public interest.

MR. DODDS: Might I add that the foreclosure rate is higher now than it was at that time. So what was a crisis then, we started unfortunately getting used to it, although we're hopefully renewing the idea that this is a crisis.

COUNCILMAN JONES: A couple of other questions by way of you mention resources. I remember in your briefing you talked about the fact that but for a person to process the actual paperwork for a workout, people were almost looking at a time calendar clock and saying, Oh, my God, and but for the facts or a piece of information, if it's not completed, there is no person, human, to go through the forms to say that your 49 CFR-22 form is not completed or signed and, therefore, Sheriff's sales are moving forward. So the lack of resources is on the part of the banks, who may then want to work this out, but aren't doing workouts because they won't put resources to it.

MR. DODDS: That's correct. We met with the top people at Countrywide when Regina went to Cleveland, and they said, We're going to work these things out for you, send us our people. We sent about 15 homeowners' cases down to Countrywide. This is with a top guy behind it. We called a month later, because, as you say, Sheriff's sales, everything is moving along. They still hadn't gotten them out of the imaging department. They had all these documents sitting there, hadn't even copied them so they could send them to people to work it out, and this is with one of their top people working with us.

This is the problem. This is why we're seeing all over the country the 13 times more foreclosures than loan modifications.

We think that what we should do -- we don't control the banks, but if they would agree to work with our non-profit agencies, that we could all work together, we could pull that information together, send something to them on a standardized form, let them rubber stamp it and get it back to put an affordable product out for people.

But you're right, they don't have the resources and they're not putting the resources in it. Everything we see, it's not going to happen. They're talking about it. It's all talk and it's not getting done.

COUNCILMAN JONES: So your opinion of all this help from the Washington side and from the state side that is on the way, if we don't do a moratorium, a lot of people are going to die on the vine waiting for these resources?

MR. DODDS: Yes. And I think that the scale they're talking about is not anywhere near the scale of the number of subprime loans and the resets. So, yes. One, we need to protect people now, and, two, we've got to come up with a system that's going to get people out of this mess.

I mean, one of the reasons for the last moratorium, the reason for the last moratorium, as George said, we're waiting to pass state legislation to protect people, and the judge kept the moratorium in effect until HEMAP became law. All those people that were a moratorium then could apply for HEMAP, get state assistance.

We need something that's out there, that we're having a moratorium until something happens, and I would recommend that it be an agreement with these lenders to do these streamlined loan modifications with the help of our agencies. That would be an outcome that you could point to a judge and say, Once we get this done, then people will be in better shape and we could go back to business as usual.

COUNCILMAN JONES: Another comment in the hallway -- and I am not qualified to answer that question, so I'll pose it to you and to other people that are testifying. To what degree do the We Buy Houses folk out there impact upon this whole process?

MR. DODDS: I really don't know. I mean, I know they're speculators. You know, there will be a lot of properties available cheap. I mean, they'll be happy with them. What are they going to do with them? That's really the question. I mean, the question is, are people going to be able to buy homes in these neighborhoods without prime credit?

The market itself is dried up for subprime lending. Some subprime lending was a good thing to get people in homes that couldn't qualify. They abused it. They took it too far. Now you're going to have prime credit.

So they may buy your house, but I don't know what they're going to do with it next. We're worried that a lot of these people are going to be holding these properties, including the banks, and just sitting on them until people strip them and make them unhabitable.

COUNCILMAN JONES: So in your opinion, are we in a position where we can bring all parties to the table and it is in the best interest of everyone, including the consumer, to work this out at this point?

MR. DODDS: We think this could be a model. It's going to certainly help the consumer. We think it will help the investors. It will help the banks also to find a way to get these problems resolved at the numbers that we need to. And if they're not, we'd like to hear why not. They tell us over and over again they want to resolve this, they want to do loan modifications, they want to fix these loans. Well, let's give them a system that they can actually do that at some scale, and if they won't, let them tell us why.

COUNCILMAN JONES: And one other question and I'm done, and I'm going to ask people that are coming to testify after you the same question.

Is there a system, an alert alarm system, that this body, this Council, could put in place through ordinance that says whenever the economy shifts this way and whenever there is an increase in Sheriff's sales that way, can we instantly have a moratorium that might kick in just for 30 days just to bring all parties that are impacted to the table to figure that out?

MR. DODDS: It sounds like a good idea, yeah. I think 30 days, though, might not be enough.

COUNCILMAN JONES: I'm not stuck on the time and I'm not stuck on the indicators, but what I would like to see possibly that comes out of this is that we don't have to have a 20-year interim before we evaluate this, that there is something put in place that assures the City that when certain economic indicators are afoot, that we instantly kick into a moratorium that says, wait a minute, let's take a deep breath and let's see what's going on in our economy and what the impact will be to the people in the City of Philadelphia.

MR. DODDS: Makes sense. By the way, there was another moratorium in '04, too, a partial moratorium.

MR. GOULD: More limited.

MR. DODDS: It was much more limited. But, yeah, that makes sense, Councilman.

COUNCILMAN JONES: Thank you.

MR. GOULD: By the way, one other point I wanted to add on the whole predatory lending is, there's been a lot of discussion of the adjustable rate mortgages, ARMs, but many of the foreclosures that are taking place on the subprime lending, people -- the adjustable rate even hasn't kicked in. I think the number is almost as high as ten percent. People were often put into loans that they were unable to pay them, and that's why it's so important that these loan modifications be done very, very quickly. It's not as if we can wait another six months or another year, another year and a half. The lenders have to be brought in, the major lenders, so that there can be this agreement reached.

COUNCILMAN JONES: Thank you.

COUNCILWOMAN BLACKWELL: Councilwoman Miller.

COUNCILWOMAN MILLER: Just one quick question for Mr. Dodds. I think you were the person who said that, using Countrywide as an example, that I guess it takes so long to process the application for help or to freeze the rate, but you did say that it took a whole year from December to January or from January through December?

MS. TAYLOR: Just about. Just about.

COUNCILWOMAN MILLER: Because

last night I was just browsing through the Internet and I ran across this article I want to give to you for your own opinion of it, but it says, "Countrywide helps subprime borrowers," and at various parts in this little article it says that they agree to freeze the rates on subprime mortgages for five years. But are you basically saying that this is a joke here? I mean, this is just not real?

MR. DODDS: Well, first of all, Countrywide has been evolving their position. The thing you saw was a plan they put in. Eighty thousand people were given a five-year freeze. They had to be all current on their mortgage. None of them could be behind in their mortgage. So what they basically did was, they did that for -- they did another 50,000 that they would refinance as long as they had prime credit and were not behind in that mortgage. So that whole plan was basically, yes, a lot of public relations for people that had good credit, shouldn't have been in a subprime mortgage in the first place.

They are trying to do more. I think that -- I mean, a lot of the lenders are starting to realize. You saw today's Inquirer that this Radian Corporation is paying $15,000 to keep a loan from going to foreclosure.

There is movement out here, but what you're talking about was public relations. That was back in October, November when they announced that.

COUNCILWOMAN MILLER: Actually, it says it was updated February the 11th, 2008.

MR. DODDS: I think ACORN will talk about an agreement that they have negotiated with Countrywide, which we think is very good, but overall, we think that this is not going to happen at the scale we need to, and Countrywide has been battered by a lot of people, including us, and I think they almost went bankrupt, as you probably are aware. So they have been trying to modify these loans, so it makes sense.

We got Wells Fargo in the City, the biggest lender, that's got a tremendous number of foreclosures going on right now. That's another lender that has sort of been flying under the microscope there that has got a lot of people in foreclosure.

So, yes, there are efforts, no question, Councilwoman.

COUNCILWOMAN MILLER: Okay.

MR. GOULD: ACORN, Ian Phillips -- I see him over there -- is going to be testifying later as to the agreement they entered into with Countrywide, which is a good agreement.

COUNCILWOMAN SANCHEZ: Is that going to hold up with Bank of America buying them over?

COUNCILWOMAN MILLER: Right, because Bank of America is buying them.

MR. DODDS: Well, I assume so.

They announced it after the buyout, so I assume it's the case.

COUNCILWOMAN MILLER: Because when we read this, we read these kind of articles, you think really somebody is out there trying to help, and I just wanted to get clarity on whether this is real help or it just kind of looks like help.

MR. DODDS: I think a lot of people would like to help and there's a lot of talk, but I think the reality from the people at the top down to where the actual work gets done is where things fall apart. It's like the top guy wanted these fixed. They couldn't get it out of imaging for a month. I mean, that's the kind of stuff that's going to happen.

So there's a lot -- President Bush wants to help. A lot of people want to help, but when you get down -- 13 times as many foreclosures as loan modifications right now. I mean, that's what really ends up happening. So we can't go with that system, and I don't think we can afford to wait the -- out of this Hope Now hotline everybody is talking about, 15 percent of the people get any kind of positive outcome, and part of the positive outcome is sell your house. So those kind of things -- and they're talking about increasing incrementally. Well, 15 percent, 20 percent, what? Eighty percent of the people just are at the mercy of the -- so that's where we're at. We think we have an opportunity to be a model in the City if we play our cards right.

COUNCILWOMAN MILLER: All right. Thank you.

Thank you, Madam Chair.

COUNCILWOMAN BLACKWELL: Thank you very much.

Councilwoman Quinones-Sanchez.

COUNCILWOMAN SANCHEZ: I'm assuming that discussions have begun with the Sheriff's Office, and I know that they're testifying later. Have we begun those discussions around the moratorium going back to the courts?

MR. DODDS: We have not. Maybe it's a good opportunity to talk to them about that today.

COUNCILWOMAN SANCHEZ: I just wanted to ask you that, because they're coming next, so we'll ask them. Thank you.

COUNCILWOMAN BLACKWELL: Thank you very much.

Any further questions?

(No response.)

COUNCILWOMAN BLACKWELL: Councilwoman Miller, are you okay?

COUNCILWOMAN MILLER: I'm fine.

COUNCILWOMAN BLACKWELL: Thank you very much.

MR. DODDS: Thank you.

(Applause.)

COUNCILWOMAN BLACKWELL: Next is the Office of Sheriff John Green, Constance Little, Darrell Stewart, Director of Foreclosure Prevention, and all others who are with them. Welcome.

(Witnesses approached witness table.)

COUNCILWOMAN BLACKWELL: Always a pleasure. Good to see you, although in another venue, Connie, and nice to see you, Mr. Stewart.

MS. LITTLE: Good afternoon. The pleasure is mine.

Madam Chair, Councilman Jones and other members who I'm familiar with, thank you for this opportunity and thank you for stepping out on faith to join others in this quest to hopefully resolve this issue with our many, many homeowners who are losing their homes, who have lost their homes because of the subprime loans and mortgage foreclosures. Unfortunately, the Sheriff is out of town, but we stand ready to be of any assistance that we can. We join with you. And today I have with us our Director of Foreclosure Prevention. The Sheriff's Office has been working diligently to try to prevent some of these foreclosures. So this is nothing new for us.

Darrell?

MR. STEWART: Thank you.

Good afternoon. I just wanted to touch on some of the facts that the Sheriff relayed in his news release on February the 4th.

Even as the rest of the nation is experiencing a 79 percent increase in foreclosure activities, here in Philadelphia we've witnessed a study and significant drop or decline in the amount of properties that were presented to the Sheriff's Office for foreclosure activities. Now, the Sheriff accredits this decrease to the -- let me just start with 2007. In 2007, 35 percent of the properties that were presented to the Sheriff's Office for foreclosure were actually sold. The majority of them, 52 percent of the properties, were stayed. Now, once a property is stayed, it ends all legal proceedings.

Stays are granted for a variety of reasons. One could be that the homeowner is negotiating a workout plan with the lender. There could be repayment plan negotiations or the homeowner could sell the property and repay the debt. The Sheriff accredits the decrease in home sales in the City of Philadelphia -- the Sheriff believes that much of the credit, along with the Sheriff's Office, belongs to the local Homeowners Council members that assist the homeowners with the negotiations with the lenders to work out a loan modification, along with the Sheriff's Office. I mean, we've secured countless numbers of postponements for people faced with foreclosures so that they can have additional time to pursue some sort of loan modification.

Also, the Sheriff -- a lot of the praise goes to the local newspapers that have voluntarily provided free public service information, and they also helped the Sheriff's Office in increasing the knowledge about -- the warnings, actually, about foreclosure information.

I don't have much to say, because, as I said, as you know, the Sheriff is not here, but I do know that in 2005, Sheriff John Green met with homeowners and community groups and he entertained a lot of suggestions to better serve people that are facing foreclosure proceedings. One of the recommendations was that when a person receives a Sheriff's sale notice, that they also receive information in the form of a pamphlet as to what their rights are and it also directs these people that are faced with this dilemma to the local housing counselors. We found that that's been successful.

I have nothing else to say or add, but I would entertain any questions that you have.

COUNCILWOMAN BLACKWELL: Thank

you very much.

Councilman Jones.

COUNCILMAN JONES: Thank you very much. And I think it's important to note that I've been around Philadelphia long enough to know the difference between this Sheriff and other Sheriffs, and I note that on a positive level, that this Sheriff has been more interactive, more proactive than any other Sheriff in my lifetime. So I wanted to say that on the record.

I also wanted to say that I believe that his moratorium on Sheriff's sales was unprovoked by this body. It was voluntary, and he stepped up to the plate and said, Wait a minute, this is the largest amount of Sheriff's sales in the history of this City and I want to know why. I read that action and I was tickled pink, applauding, cheering from my couch potato participation back then.

I believe that what this department has is the ability to be the incentive, the incentive by which all parties come to the table, all parties come to the table. I've heard both privately and publicly some of the frustration that consumers and advocacy groups have had with subprime and prime lenders, and pretty much if you do not impact them in their pocketbooks, time is on their side. It is not on the consumer's side. It is not on this body's side. Because by the time it's done, the impacts of Sheriff's sales -- and it's a hard job and the job that you are mandated to do. It's not like you have a discretion to do a lot of it. You have to provide that function.

But we believe, at least I believe, that we can, by working with you, bring all parties to the table to save thousands and thousands of homes in the City of Philadelphia. So with that in mind, I ask a couple of questions.

What are you seeing by way of trends? Did the President's comments, did Barack Obama's comments, did Hillary Clinton's comments impact you, and what do you see coming to the City of Philadelphia?

MR. STEWART: Well, at the present time, we have three months' worth of properties, three months -- three months of properties that are scheduled for Sheriff's sale. We work three months in advance. I've noticed a spike in the amount of properties that are scheduled for March, April and May. I've noticed a spike.

I do believe in all of my meetings with the Steering Committee, which are a group of attorneys, foreclosing attorneys, as well as some of the speakers that attended this morning's Council meeting, that -- and in talking to these attorneys, I do believe that the number of properties that are going to be exposed to Sheriff's sale will spike, will rise in the coming years due to, as we spoke previously about, the creative loans that people involve themselves.

COUNCILMAN JONES: "Creative" is a nice word.

MR. STEWART: And these loans are due to reset. There are sections of the City that I spoke to at foreclosing attorneys that they're gearing up, they're gearing up their staff to file the writ of executions to foreclose on these properties.

So in answer to your question, I mean, I do believe that we are definitely facing a huge problem.

COUNCILMAN JONES: Without putting you or the Sheriff at risk -- I'll say it again, without putting you and the Sheriff at risk -- would you -- so I'm not going to ask you who the perpetrators are, but what I am going to ask you is, would you be helpful in providing a list of stakeholders that we should encourage to come to the table? And if they were the top ten companies interactive with Philadelphia that we could kind of bring to the table to help them possibly through some of the workout, would you be able to be helpful in that regard?

MR. STEWART: As always, the Sheriff's doors swing open on welcome hinges. So whatever we can do to assist you, we'll absolutely do.

COUNCILMAN JONES: I appreciate that.

Also the next question would be, are there a set of indicators -- and I know you. You've had years of experience and know this process inside and out.

Are there certain indicators that come to mind for you that we could kind of use as a rule and guide as to when to say, We need to take pause, we need to have a moratorium, we need to take a deep breath on this?

Now, obviously the Sheriff felt compelled by the fact that it was the largest number in the history of the

City, but are there other indicators that come your way that might be helpful for this body, this Council, this City to kind of incorporate and say whenever the economy does this, whenever writs become this high, we should take a look at the process and bring parties back to the table again? Is there a formula that you might be able to help us with?

And I say that because it's better to have you help us with it than us try to help you with it, because you know the process way better than this body.

MR. STEWART: Well, we're exploring some sort of modifications, some sort of way of tracking properties in various parts of the City. As I said before, for 20 years I was the Real Estate Deputy for Philadelphia and the Sheriff saw a need to move me from that position because I do have a rapport, I have a lot of experience and work with foreclosures, and the Sheriff moved me to become the Director of Foreclosure Prevention because I do have such a great rapport with the foreclosing attorneys in the City of Philadelphia, as well as people that are losing their properties. And, as I said, we've assisted countless amount of people in securing stays and postponements.

One indicator for us will be for -- because we do service the public. We do have a lot of people that call us each and every day, and those phone calls are recorded. We take the information. We get the addresses of the properties that are scheduled, that people are afraid that their properties are going to be scheduled for Sheriff's sale. I mean, we take that information, we analyze it, and we come up with our charts. And, yeah, I'm quite certain we'll be more than happy and we'll be able to help you in this instance.

COUNCILMAN JONES: I don't know if you are able to speak on behalf of the

Sheriff here today, and if not, I understand that part. Would you be willing to support a moratorium on Sheriff's sales in the City of Philadelphia until we got the stakeholders to the table to negotiate some exit strategies out of this?

MS. LITTLE: I discussed that with the Sheriff and he has stated that he would be willing to sit down to discuss the moratorium, because it does involve the court as well, but he would be amenable to any discussion.

(Applause.)

COUNCILMAN JONES: Thank you.

MR. STEWART: You're welcome.

COUNCILWOMAN BLACKWELL: Thank you very much.

Any other questions or comments?

(No response.)

COUNCILWOMAN BLACKWELL: Thank you both very much. Pleasure.

Lance Haver, Consumer Advocate.

(Applause.)

COUNCILWOMAN BLACKWELL: Next is Ed Schwartz. I know I saw him.

(Witness approached witness table.)

COUNCILWOMAN BLACKWELL: Thank you, Mr. Haver.

MR. HAVER: Thank you. Good afternoon and thank you for this opportunity to testify. My name is Lance Haver. I'm the Director of Consumer Affairs for the City of Philadelphia. I'd like to start with a brief overview.

Unless we act, we can expect 20 percent of all the subprime mortgages in Philadelphia to end in foreclosure. This is more than ten times the historic level of foreclosures. In this coming year, over 15,000 Philadelphians will lose their homes, with many more losing theirs in 2009 and 2010.

Every foreclosure, on average, lowers the value of other houses on the block. It is likely that hundreds of thousands of homeowners will see the value of their home decline by thousands of dollars each. This will lower tax revenues for the City, while at the same time increasing the need for fire and police as vacant homes lead to problems. The effect on African-Americans and Hispanic neighborhoods will be disproportionately worse.

The mortgage company doesn't gain when a house is foreclosed on. Mortgage companies say they lose $40,000 for every house sold at Sheriff's sale, and yet next year, the Federal Reserve projects that as the ARMs increase, so will the number of foreclosures.

To understand how we find ourselves here, we must dispel some myths and examine past practices. The overwhelming number of families that currently hold subprime adjustable rate mortgages were refinancing an existing mortgage. They were not speculators building a real estate empire, but working people persuaded to refinance. Most of the subprime mortgages were arranged by unlicensed mortgage brokers who were paid based upon the application being approved. In many cases, they were given an incentive to steer homeowners who would have qualified for prime mortgages to subprime ARMs.

The broker's income was not affected by the success or failure of the mortgage. This led to mortgages that would be unaffordable when the ARM adjusted upwards. Brokers often led homeowners to believe that consumers didn't have to worry about their rates going up or the balloon payments, because the homeowner could always refinance. Many of the originating mortgage companies turned a blind eye to the broker's activities as they bundled the mortgages together and sold them to other mortgage companies, investors or bond funds. Like the brokers, the originating mortgage company's income was not affected by the success or failure of the mortgage agreement.

The mortgage companies and investors who ended up buying the mortgage were at least two steps removed from the underlying documentation used to judge if the mortgage was affordable. In essence, these investors failed in their due diligence to examine just how risky the mortgages were.

The damage will be greatest in African-American and Hispanic neighborhoods. Study after study has shown that different races with similar income and similar credit scores were steered differently to subprime mortgages. African-Americans were 2.3 times more likely to be steered to a subprime loan, Hispanics twice as likely as white applicants.

Added to these difficulties is the loss of income to the average worker. In past generations, young people getting mortgages had every right to expect that the mortgage would get easier to pay as their incomes grew above the inflation rate. This is no longer the case, as Senator Hughes spoke about this morning. In what has amounted to the worst economy for working people and middle income since World War II, real wages adjusted for inflation have been falling. Skyrocketing heating bills, food prices, healthcare costs and transportation have left a majority of low- and moderate-income families with less money to spend on their mortgages. Now as the teaser rates rise and the mortgage goes up by 20 to 30 percent, the family has less money they can spend for the mortgage.

It should be clear that the problem facing us has causes: Ill-informed consumers who did not understand the type of loan they were taking or who were misled by the broker who told them they could always be able to refinance and keep the payments down;

an unregulated market that allowed mortgage brokers and originating mortgage companies to uncouple their economic interests from the success or failure of the products they were selling; and the failure of the federal government to prosecute the mortgage brokers for racial discrimination; and investors and bond funds that failed to uncover the deceptive practices while doing their due diligence.

What should also be clear is that if nothing is done at all, Philadelphians will be hurt. The federal government, as you've heard, has two plans. Neither is sufficient. The first, the Treasury "fast track" is limited to a very small portion of the homeowners facing problems. The second, which is just announced, is a 30-day voluntary delay offered by some mortgage companies that will give homeowners an opportunity to make arrangements with the mortgage company. Simply put, 30 days is not enough time and not every homeowner will be covered.

In theory, it may seem reasonable to refer homeowners to their mortgage companies to work out solutions. The problem, as the Philadelphia Federal Reserve has stated, is that these programs, quote, "are not yet at levels that can make a significant difference," which may answer the question that Councilwoman Miller was asking before about what Countrywide was doing.

It is irrational to recommend to desperate homeowners a system that cannot work, as the mortgage companies are understaffed to serve the growing population. As more and more of these mortgage companies face more difficult times and lay off literally thousands of workers, it just doesn't make any sense to think that they're going to have the staff hours necessary to take care of ever-growing problems. That's why I support the proposal that was put forth by the Philadelphia Unemployment Project articulated by John Dodds that we use our housing counselors to enter into an agreement with every single mortgage company so that our housing counselors can serve our population.

If we don't do that, if we don't make some strides, what will end up happening is, property values for the majority of Philadelphians will go down. We will have to redirect our social services, our police and fire to deal with vacant homes, and we will all lose. The risk is too great. It's much better to try and fail than to agree not to try and be guaranteed to fail.

With that, I'd be happy to answer any questions. Thank you.

(Applause.)

COUNCILWOMAN BLACKWELL: Thank you very much.

Are there any questions for Mr. Haver?

(No response.)

COUNCILWOMAN BLACKWELL: Thank you, Mr. Haver.

MR. HAVER: Thank you.

COUNCILWOMAN BLACKWELL: Ed Schwartz, Institute for the Study of Civic Values. Is he still here? I did see him earlier. Thank you.

(Witness approached witness table.)

MR. SCHWARTZ: My name is Ed Schwartz. I'm representing the Institute for the Study of Civic Values. I would add, as members of this Council know, that I directed the City's Office of Housing and Community Development between 1987 and '92.

I am also sharing with the Council the written testimony of Beverly Coleman from Neighborhoods Now, who had to leave and so I volunteered to at least make you aware of her written testimony.

I want to address different levels of solution here that we need to pursue, because no one avenue is going to do it, and you've heard very articulate and detailed statements of the problem.

Let me just make a general comment to start off with about understanding the implications.

A city which has had to wrestle with as many as 25,000 to 35,000 units of vacant housing over the last four decades, a problem which was the very first serious problem that brought me into the neighbors movement, along with mortgage redlining, doesn't need an education in what the impact of this crisis could look like. We have seen it, and it's real.

I'm also fascinated as a resident of East Mount Airy, living a couple of blocks from West Oak Lane, to learn that our area actually has among the higher percentage rates of foreclosure in terms of all of them in the City, although it's certainly not at the levels that we heard in neighborhoods like Southwest Philadelphia and

Kensington and Fishtown, but it's there.

You've heard a lot about different places to go, so let me just start by saying, our objective here really has to be first to save people who might lose their homes, and the suggestions that John Dodds made, as an example, to get refinancing arrangements for the people who are affected by this that they can afford is a critical step. And, frankly, one way or the other, if somebody loses their home because of bad credit that cannot be repaired, we will have to take responsibility for that. We will take responsibility because they will show up first on the Section 8 waiting list, which is two or three years long, and then they will show up in the streets, and at which point they will be going into emergency shelters. And having sat in this Council during the period of time when we moved hundreds and hundreds of people lying in the streets of our City to homeless shelters, costing the City government $35 million a year, been there, done that. Councilman Clarke, been there, done that. Councilwoman Blackwell has been there and done that. And those of you who were doing other things -- you were working for Councilman Cohen I expect at that period. So we've always been there. We've seen what this looks like.

So we have to find a way if we want to avoid that catastrophe, we have to find a way to put the pressure on for refinancing arrangements, as well as beginning to look at what happens to those who don't benefit from them.

Now, I'm going to mention one group that you should be getting a hold of to address the local issue, and, that is, the Greater Philadelphia Urban Affairs Coalition. Their Community Economic Development Committee, on which I sit, includes the representatives of the leading banks in the City. In the last three or four meetings, I can tell you that that committee has been wrestling with how they might respond to this crisis. So I think they would welcome a call from people in City Council and an opportunity to get together. This is the leading lenders in town, who are aware of the problem and are trying to deal with it.

On the more immediate level, I also want to endorse very strongly the statements that were made about the City's housing counseling agencies. These are funded by the Community Development Block Grant, a point I'm going to return to. They are excellent. All of them are not equally versed in the issues surrounding foreclosure. They have different levels of responsibility, but that is the network of City agencies on the front lines of trying to deal with that. And I see some friends of mine from OHCD, they're here. They can all help you get a hold of them. I'm going to mention one in particular, and that's

Northwest Counseling, which is led by a woman named Michelle Lewis, who has been a national leader in this whole area for many years. She was among the leaders in the fight on predatory lending a few years ago, and her agency does terrific work, she does, and she, I think, has separate contracts with HUD for some of the work she's doing. So she would be an important resource. I'm sure there are others I don't know that OHCD would be able to identify in terms of the kind of counseling that needs to go on.

There was a foreclosure workshop in East Mount Airy following a conference that we ran at the Convention Center in the fall which had a panel on this, and there were about 30 or 40 people there, all of whom are facing problems. ACORN was represented, the housing counseling agencies were represented, and it was a very, very good session in which people facing this problem got great advice on the best way to forestall the foreclosure. So there are people out here who know how to do this, and this is in the front lines.

But obviously this problem is not going to be able to be handled by the City of Philadelphia alone, nor is any other serious social problem. So I want to ratchet this up to the two other levels that we're talking about, say a brief word about the state and then a lot more about the federal government.

Governor Rendell has showed himself to be pretty creative in responding to problems at the state level that ordinarily we wouldn't expect the state even to be able to do. He's been pretty good at that. I mean, there are not many state governors running around talking about health insurance and things like this. He's walked into town with more help for the schools and more police.

There is the Pennsylvania Housing Finance Agency. I don't know how that might be brought into play in this. Councilman Clarke and Blackwell I'm sure are much closer to understanding what they could conceivably do than I am at this point, but it seems to me that is the state financing agency, and it has been used for creative approaches to housing rehabilitation and housing preservation in the past. Somehow we ought to figure out a way in which they could be brought into this picture perhaps as a backup to financing arrangements of some kind. So that's a second layer, along with the Governor.

But what I really want to address -- and it's related to the material that -- the one page I've handed out to you -- is the federal government. You heard from the Regional Administrator of HUD.

I have discovered in the last few years a database on the U.S. Census Bureau called the Federal Funds Consolidated Report. It shows every dime spent by the federal government in the County of Philadelphia, which in this case is also the City of Philadelphia, for each and every year, going back from 1993 to 2005, and the 2006 numbers, I'm told, will be up at some point.

People are shocked when I give them a little quiz -- I may have done this with you, Councilman -- as to how much money we get in Philadelphia from the federal government. Now, you have a City budget you're looking at for $3.3 billion. I think there's a few hundred million, 70 million, of federal money in that. It doesn't include the Block Grant. We have a School District budget of $2 billion. So that's 5 billion. And we're going to spend the next four or five months going over those two budgets with a tooth comb and fighting each other over in fact the things that we need to do, and the narrow-ranged City budget you're looking at is a $1.2 billion budget for crime and then there's benefits and then there's everything else. That's your budget. So you tell me how you're going to do that at the City level in terms of any problem that we really have, including this.

The federal government spends $16 billion in Philadelphia, $16 billion. That's five times the amount of those two budgets. The spending is on Medicare, Medicaid, Social Security. It's also on food stamps, it's on public housing, it's on law enforcements. You look at it. You can go to a website I manage called Bush Budget.com. It's all there, see every dime of it.

And I don't have to tell you that a lot of the money that came in from Washington in recent years to support the activities that are relevant to this Committee have been cut drastically, and this page shows you the magnitude of those cuts.

If you look at 1998, toward the end of the Clinton Administration, to

2005, you will see that among the critical housing programs, the City's expenditure or receive is $165 million less, $165 million less, and that's real dollars. That's not controlled for inflation, whatever, when it becomes even worse.

Public housing, we've had a brilliant use of public housing, which was recently just this week written up in the Daily News, to have public housing developments that are mixed income and do good for the neighborhood. Terrific. And Carl Greene deserves every bit of credit for that. But if you talk to George Gould, he'll tell you how many affordable housing units are needed in Philadelphia to provide decent living for people who might be thrown out in the streets. It's in the thousands.

When I was Housing Director, the provision in HUD was that if you took a unit of housing out of public housing, you had to replace it with another unit, and I even negotiated a deal at one point with HUD. They wanted our support for South Work -- you may remember that -- and I said, I'll do that, but you've got to give us $6 million in exchange, which is what they wanted, to be able to use housing modernization money in scattered sites. We got that deal. It was a good deal. It's over. It's been over for over a decade. So all these units that have been taken out of the public housing inventory just disappeared.

The other thing that's, of course, happened is the way the so-called Section 8 program runs. If you look at what I've given you, Section 8 Moderate Rehab was what in fact was supported under Clinton. That included money for actually fixing up the properties that Section 8 people would enter, and you'd see the total amount of money was $271 million plus. Now we just have the Housing Choice vouchers, the star program of the Bush Administration. That brought in $185 million. So that's nearly -- that's a $90 million decrease.

So that's where we are, folks, with this, and ultimately the federal government has got to step to the plate and start reinvigorating all these programs.

The housing counseling agencies are funded by the Community Development Block Grant, which I directed. That grant was $52 million back in 1991. It rose to $78 million by the end of the '90s, during the Clinton years. It's now back to $52 million, and the Bush Administration attempted to kill the program outright. So everybody was relieved that that didn't happen, but he did succeed in a significant cut, and it's -- last year the Congress, with the new leadership, managed to hold the line. I can tell you right now the budget that the Bush Administration has put to that Congress in the last two weeks calls for another $1 billion cut nationally in that program.

Now, I wouldn't go at length at this moment under normal circumstances. I'd just say it and then we'd all do something else. But we're in a different moment here. We're in the midst of a serious presidential campaign, and that campaign is about to arrive in Pennsylvania. And unlike what was expected, which is that we would be the sort of afterthought, we are likely to be in a situation of the New Hampshire of America for about eight weeks. That's the way it's been described. There are no primaries between March, whatever, 4th and 5th and ours, and this state will be the battle ground. If it's not already decided in Texas and Ohio, this state will be the battle ground between the two leading democratic candidates and the stomping ground for the anointed republican candidate.

The Mayor of Cleveland last week issued a call in Ohio that he's waiting for the presidential candidates to tell him that they're going to commit to a $2 billion for Cleveland urban agenda and that he'll make his endorsement on that basis.

The United States Conference of Mayors has a ten-point program that they've put before the presidential candidates. That council is led by the Mayor of Trenton. He's done a terrific job. You ever heard of it? You have, but it's certainly not on the tips and tongues.

The night, in fact, that the last debate, democratic party debate, took place in this City, it was a very significant night. That was the night that Senator Clinton botched up the whole thing about the immigrants, illegal immigrants and driver's licenses in New York. That was a bad moment for her. That location out in Drexel was about six blocks from where two murders occurred that night. And there was not one single question, comment, discussion of any issue in that debate that was related to the problems that we are struggling with here in Philadelphia, in part because we have lost the federal resources that we need.

We now have Congressman Fattah cheering an urban caucus. We have Congressman Brady, who is the Mayor of Congress in terms of handling the committee that deals with how Congress people get office space. Congresswoman Allyson Schwartz is on the Appropriations Committee. Senator Specter on the other side has been a leader in their Appropriations Committee. And Senator Casey has also been active in these meetings.

I'm here to say, we are going to try to do something here and I'm giving you kind of an alert request for help. This budget thing for housing is matched by cuts in law enforcement and whatever, and I got them all. At least the foreclosure crisis has come before these candidates in these meetings, and Senator Clinton has called for a 60-day moratorium and then a freeze on interest rates. Senator Obama has called for a new way that the federal government could provide financial assistance.

So, yes, to deal with this immediate crisis, we do in fact have to have our housing counseling agencies mobilized to provide the kind of support to people that might need it. We do need the Sheriff's Office to say no Sheriff sales, as you've talked about. We do need to meet with the banks and the lenders to be able to say that, Can you do some more than you're doing. We need to get the state involved, maybe PHFA, in a kind of refinancing arrangement. But, yeah, we need to raise all kinds of hell on the federal government's responsibility in this area, because this is not a local problem, a state problem. It's a national and international problem, and the entire economy is now reeling as a result of this problem. And we are in an unusual moment to really make a difference here.

So I thank you for the opportunity to share this information and my thoughts on it, and I'm, of course, available to help and I'd answer any questions you might have.

COUNCILWOMAN BLACKWELL: Thank you very much.

(Applause.)

COUNCILWOMAN BLACKWELL: Any questions for Mr. Schwartz?

(No response.)

COUNCILWOMAN BLACKWELL: Thank you very much.

Beverly Coleman, Neighborhood Now.

MR. SCHWARTZ: No. She's not here. That's why I handed out her testimony.

COUNCILWOMAN BLACKWELL: Thank you.

MR. SCHWARTZ: And let me say, they are doing a lot in this area, and her testimony reflects their insights into it.

COUNCILWOMAN BLACKWELL: Thank you.

Next is SEIU, Natalia Salgado and Gloria Wearing. Following them will be ACORN.

(Witnesses approached witness table.)

COUNCILWOMAN BLACKWELL: Thank you very much. Welcome. Please introduce yourself to the record and begin your testimony.

MS. SALGADO: Natalia Salgado, Midatlantic Political Director for SEIU.

COUNCILWOMAN BLACKWELL: Thank you.

MS. SALGADO: I want to thank the Councilmembers today for bringing up such an important issue. As we all know, I've sat before you maybe once or twice before.

SEIU is comprised of a membership that is mostly African-American and lives in some of the poorest sections of our City, people that are typically the type of victims that predatory lenders are going out to look for.

Gloria Wearing, which is one of our superstar members, as I like to put it, is here to give her own personal account of what she's been through, how predatory lending has actually been such a downfall in her life in a personal respect as well. Economically, personally, it's really affected who she is.

I know that our membership -- it was quite an issue bringing this up to our membership. A lot of people didn't want to speak out on this. There was a lot of embarrassment that came along with it. So there's emotional ramifications. I know we've talked about the financial burdens and all these things, but there's emotional ramifications and personal consequences that this type of burden can cause for a family.

We speak on behalf of working families, and we thank you for bringing this issue to light and possibly finding a solution for this in our City.

MS. WEARING: Thank you. Good morning.

COUNCILWOMAN BLACKWELL: Good morning.

MS. WEARING: My name is Gloria Wearing. I've been a proud member of SEIU 32BJ for almost 22 years. I would like to start by thanking City Council for allowing me to speak on this important issue and hope that my story will serve as a warning to others.

About 15 years ago I decided to purchase a home in South Philadelphia around 20th and Snyder Avenue. I had just been through a very difficult divorce and decided it was time for me to get a fresh start for myself and my children. I began to look into mortgage companies that would lend me the money to make this possible. That is when I ran into DBS Mortgage. They initially told me my rates would be seven to eight percent, and since I didn't have the best credit at the time, I thought I was getting a pretty good deal.

After being in my home for five years, my rate skyrocketed to 12 percent. I didn't understand what had happened and was having a hard time keeping my head above water. Around that time is when I got a knock on my door from a community organization called ACORN. They asked to review my mortgage papers, and after looking them over, they explained to me that I had been a victim of predatory lending.

I learned that many of these lenders will lend you money and then they hike up the interest rate in the hopes that you'll be unable to make payments. They want to make it difficult to make payments so they make a profit from your home once you are forced to file for foreclosure.

I was angry when I learned that I had been taken advantage of. These lenders not only placed a substantial financial burden on me, but put my family at risk of losing our home. It was only with the help of my union, which fights to maintain fair wages and benefits for its workers, and community organizations like ACORN and HEMAP that I was able to survive this difficulty and this difficult period in my life.

I ask the City Council to do whatever lies within their power to make sure that the public is educated on predatory lending and subprime mortgages, to ensure that no one else has to go through what I went through, to ensure that no family in this City is left without a home.

This was a written statement. It came from my heart. And because of an illness that I was going through, it's why my mortgage was not paid. It was not a lack of responsibility with my finances. Being a single mother with a mentally challenged son, it was important that I kept a roof over my children's head.

My papers said one thing, and being ignorant of how the process should have went, it put me in a situation, but because of my job and me being a working mother, I was able to pull myself out of this water. But hopefully with all that's going on, this will help someone to understand that they're in the business of making money for whatever position they put us in as working people. We have a right to have fairness with even with our housing and with our mortgages, and I'm just asking City Council to look into this to make sure that this does not happen to another working person.

COUNCILWOMAN BLACKWELL: Thank

you very much.

(Applause.)

COUNCILWOMAN BLACKWELL: Any questions or comments?

MS. SALGADO: I just wanted to add really quickly, becoming aware of this -- and I thank Gloria for just giving me such a personal account of what this can have -- the personal effect that this can have on someone's life.

Part of our not only political piece but our community piece for SEIU for the coming year is to educate our membership on what can happen, what these predatory lenders are looking for in a victim. And so part of our program is to educate our community people on what's going on, go into the community, step out of the union, go into the community and talk directly to our membership about what we can do to make sure that it doesn't happen.

COUNCILWOMAN BLACKWELL: Thank you very much.

(Applause.)

COUNCILWOMAN BLACKWELL: Councilman Jones.

COUNCILMAN JONES: I just want to applaud the members of your union and I want to applaud you for testifying today. Sometimes when bad things happen to us, it takes courage, courage to share with others, the City and the world, what happened to you so that it might be a lesson of warning, a guide for what should not happen to others.

So I want to thank you for coming forward. Again, people were coming up to me in the hallway talking about their personal experience, but it takes a special type of person to publicly talk about what they did wrong, what happened to them and how to help others and preventing that happening to them. So I thank you personally.

MS. WEARING: Thank you.

COUNCILWOMAN BLACKWELL: Thank you very much.

(Applause.)

COUNCILWOMAN BLACKWELL: Next is ACORN, Ian Phillips, Raquel Ravalo, Mary Ellis. We welcome you to come forward. Are you here? If you're not here, we will move on to the next folks.

Please come forward. We're holding folks up. Thank you very much.

After ACORN, then there's Leslie Thomas and Anne Thomas. Please come forward, please.

Next we have Khalil Walker, Director of Housing Counseling, Housing Association of Delaware Valley. We have Mr. Sharif Street. Thank you.

(Witnesses approached witness table.

COUNCILWOMAN BLACKWELL: Please identify yourself for the record in any order. Let's go. Okay? Thank you.

Is Mr. Henry Sommer here?

MR. SOMMER: Yes.

COUNCILWOMAN BLACKWELL: After Housing Association of Delaware Valley will be you.

Is Don Kelly here, GPUAC?

(No response.)

COUNCILWOMAN BLACKWELL: And that is it for those on our calendar.

Thank you very much. Please identify yourself and begin your testimony.

MR. PHILLIPS: Thank you, Chairman.

COUNCILWOMAN BLACKWELL: Certainly.

MR. PHILLIPS: My name is Ian Phillips. I'm the Legislative Director for Pennsylvania ACORN. With me today we have three of the hardest working people I know and all of them are caretakers for their family. So one of the points that we want to drive home today is, these are risky loans, not risky people. We talked about the courage that it takes to come forward and bring these stories out, and it's people like the folks that we heard from today that have been fighting these companies for years now and we're just finally getting some of the balls rolling so that we can really start talking about loan modifications and saving people's homes.

So with that, I think we'll start with Ms. Mary Ellis and then we'll move to Ms. Tanya Harrigan and Ms. Christina Jones.

COUNCILWOMAN BLACKWELL: Thank you.

MS. ELLIS: My name is Mary Ellis and I'd like to thank everyone for listening to us today, the Chairperson.

In 1996, I went to Fidelity Bank to get a loan for -- to get money, $10,000, to do some work on my home. They told me I was denied. My credit score just missed the mark about ten points or so, not by much.

Soon after that I started receiving a lot of papers in the mail from loan companies wanting to give me a loan. Finally, someone called me on the phone with Liberty Mortgage and they told me they could get me a good loan for the amount that I was interested in.

I didn't realize that Liberty Mortgage was a subprime lender. They were a mortgage company that was willing to give me a loan. For some reason, because I had a lot of things that needed to be repaired around my home, they talked me into getting a loan for 35,000 instead of the 10,000 that I initially started for. I needed a new roof, new heater in the basement, new windows and so forth.

When the loan started, it was 11.75 percent and they told me it was supposed to be a fixed rate. In the end, the loan went up to 18.75 percent.

Soon after closing I was told my loan was sold to AIMS, then a few years later it was sold to EMC, which holds it now.

In 2006, my mother passed away, which was the beginning of a string of financial difficulties. I fell behind in the following months and my payments continued to go up. I tried to catch up, making 11 payments totalling over $4,600. They would not accept my payments and sent letters saying they would foreclose on September the 11th, 2007.

At that point, I spoke with ACORN, an ACORN organizer, and they set me up with a housing counselor. They stopped the auction of my home and they set me up with a loan modification that would bring down my interest to 7.5 percent, which is a fixed interest rate, not a variable interest rate.

The most important thing that I want to say about this, when I went for the loan with Fidelity, I only missed the prime rate by a few points and I'm sure that there should have been some way that I could have worked it out with Fidelity rather than go through all this process with the predatory lender and then finding out that the rate that they gave me was not fixed but a variable rate. And when you're not an expert about mortgage laws or whatever, there should have been more help for me, especially from the banks and from the whole -- for the whole process.

At any rate, there should be a moratorium on these foreclosures for people. They need more time, time to figure out a way to rewrite the loan and bring down the interest rate so that they will be able to pay. It's not that they don't want to pay. It's just that the mortgage company has them in such a bind that it's difficult to pay.

Thank you very much.

(Applause.)

COUNCILWOMAN BLACKWELL: Thank you, Ms. Ellis.

Who is next?

MS. HARRIGAN: My name is Tanya Harrigan.

COUNCILWOMAN BLACKWELL: Spell your last name, Ms. Harrigan.

MS. HARRIGAN: It is Harry, Anthony, Robert double, I-G-A-N.

COUNCILWOMAN BLACKWELL: Thank you.

MS. HARRIGAN: I want to thank you for hearing our plea today.

I purchased a home in 2000, year 2000, and I was with -- I refinanced with one mortgage company, Citicorp, and I know extensively you know the problems of Citicorp, because they've been nationally throughout the media and on the news. I was dumped with Wells Fargo. My mortgage is with Litton Loan and Wells Fargo is the trust.

They did a refinance because I needed some work done at the property and I didn't have a Fannie Mae A-1 credit, to be familiar with Fannie 1. So I came up under -- they said to me my rate would be 6.5, which my rate in the final analysis, my rate -- when it was all done and over with, signing the papers and ready to close, my rate was 11.75, and they said in two years you will be able to refinance and to recover those, you know, to come under a lower mortgage, which never happened. In two years my mortgage standing now is maybe 13.5 percent and which I fell into bankruptcy.

I entered into bankruptcy to save my property. And I pay my bankruptcy. It was a 60-year payment. I paid it out -- I paid my bankruptcy down in two years. I came into settlement and I paid my bankruptcy of $12,000 out early.

For some reason, December of '06 I went to pay my mortgage. It's due on the 16th. I went to pay it the 29th and called Litton Loan and they said to me, You are in foreclosure.

I said, You're kidding?

They said, No. You're in foreclosure.

And I questioned why, how can this be when I paid you $12,000 in July to bring me -- to pay bankruptcy.

And they said to me, Well, you are in foreclosure, and in a matter of fact, in another week you will be receiving foreclosure papers.

I have been fighting this battle with Litton Loan from '06, which they stuck on me an '02 writ. They came after me with an '02 writ. And I've been fighting this battle.

I seek legal counsel. I didn't have the funds for legal counsel, but I went to a lawyer and he gave me free consultation, and out of that came that I am a candidate of predatory lending.

I have called these people to no avail. They don't answer. They don't talk to you. You know, you talk to a machine from sun up to sun down. And within 30 days, a neighbor had mentioned to me the organization of ACORN.

I went to ACORN, taking my problem to ACORN and trying to find out how can this be or what is going on, you know. I'm standing in the midst of ACORN helping me to recover from this foreclosure that I'm in with Litton Loan.

Thank you for hearing my plea.

(Applause.)

COUNCILWOMAN BLACKWELL: Thank you very much. That's awful. Thank you.

MS. JONES: Good afternoon. My name is Christina Anderson Jones. I'm here today to tell you my personal experience with ARM Mortgage.

One thing that's lacking is the fact that we are not educated to know the difference in these different loans.

(Applause.)

MS. JONES: This is something that we as people need to do.

We also need to be able to understand the fine print that no one tells you about until later on.

I have a mortgage. I have two mortgages. I've owned my home for 50 years. I decided to take out a loan to do some renovating, fixing up and also to get my daughter a home. Well, I was supposedly getting a fixed-rate mortgage with Wells Fargo, which turned out to be a two-year ARM. I was paying 325 a month. That's not counting the fact that you have to have insurance when you have these loans. You have to have your insurance, and all these things have to be current.

I called them up -- I was dealing with a broker, and he told me, No, no, you have a fixed loan.

I'm saying, Look, I'm getting letters from Wells Fargo stating that my loan is getting ready to be increased.

Oh, sign your paperwork. I told you, I know what I did.

No. You did what you wanted to do because of the fact that I didn't know any better and allowed that to happen to me.

But the fact of it is is that now, starting the 1st of March, my mortgage went from 325 to 725. I want to be a senior citizen. I want to be able to live. I want to leave something back here for my children. At the rate I'm going, I will not be able to leave anything. Matter of fact, my daughter's house that I bought for her, she'll be out of it because that loan is also an ARM and which is up next year.

I mean, if you would take time and at least get with a lot of these companies that give you these loans, I mean, there has to be an end to being used and put in that position where because you don't understand that you're liable for the greed that comes with a lot of these companies. I mean, I feel for all of the people that's been here speaking, because I know what it's like, too. I mean, what am I going to do, go get another job? I'm 59 years old. What am I going to do to compensate for the increase that they have put on me? Now next year I have to go through the same thing with another company.

This has to be stopped. It has

to be stopped now. Not later. Not next week. Now.

(Applause.)

MS. JONES: And I say this all heartedly because of the fact that everybody gives you a song and a dance. There's tunes that everybody can play, but let's play a real tune. Let's get busy and do these things to help us as one people so that we don't have to keep going through all these trials and tribulations.

(Applause.)

MS. JONES: It's hard enough to just walk out here and be able to survive with everything going up. Now you're going to take our homes. You can't pay the heat, can't pay your bills. Now take the home, too, put you on the street.

I mean, are any of you going to pay -- will you help me pay my mortgage the first of the month? But you can get behind those that have made it impossible for me and make them do something.

That's all I ask. Thank you for listening.

(Applause.)

COUNCILWOMAN BLACKWELL: Thank you, Ms. Jones.

The reason that Councilman Jones, who speaks for himself, introduced this bill is because we're on your side. We thank you.

Thank you, Mr. Phillips.

Councilman Jones.

COUNCILMAN JONES: I just want to say to you guys -- and I know that wasn't directed at us, but I'm going to carry it with the same amount of intensity to the people who need to hear it, and I promise you that. And we're going to work real hard to figure this out.

(Applause.)

MR. PHILLIPS: I'll be really brief because I don't know how I can follow that up and do it justice.

I want to thank Councilman

Jones for calling this hearing specifically to address the rationale for a foreclosure moratorium on subprime loans. Put very simply: Subprime servicers' business model was never designed to deal with this widespread number of foreclosures. Some are trying, but none are trying hard enough.

At a recent discussion at the Federal Reserve, a representative from one major servicer said, We're making a big change from a collections mind set to one focused on loss mitigation. The change will take some time.

Unfortunately, for thousands of Philadelphia homeowners, that change has already come too late. For thousands more, the piecemeal solutions that have been offered by the Bush/Paulson Plan and all these other PR things do not apply to them.

We need a foreclosure moratorium on all subprime loans in the City of Philadelphia until all major servicers agree to a streamlined loan modification process. Fifteen companies control 85 percent of this market. We need to get these 15 people in a room and force them to come up with the real solutions.

ACORN recently --

(Applause.)

MR. PHILLIPS: ACORN recently reached an agreement with Countrywide, the nation's largest servicer of subprime loans, to offer streamlined solutions to all of its borrowers with unaffordable loans. Borrowers with Countrywide will be able to access fast-track solutions, whether due to an exploding ARM, a balloon payment, a crippling pre-payment penalty, inflated income, inflated appraisal. Most companies -- and Countrywide just signed this agreement. It took effect January 1st. Most companies still rely on a multitude of seemingly subjective criteria that varies from borrower to borrower with a sole staff person in Wells Fargo, or whose-ever office it is, making decisions seemingly arbitrarily.

Philadelphia has a capable housing counseling community that could keep the vast majority of troubled homeowners in their homes. What they need is the play book and a bit of time to study each play.

This crisis was caused by risky loans, not risky people. Yet, some of Philadelphia's hardest working are losing all they've worked for because their monthly payments keep escalating while their monthly income remains flat.

The lenders and investors have lost billions of dollars, a fact that Warren Buffett last week called Poetic Justice, but these lenders and their CEOs have not lost their homes, the memories stored in those homes and the wealth contained in those homes. That wealth functions as the number one way that working families pass on that wealth to their progeny.

What we need today is a bit of restorative justice, a clear plan that will keep every homeowner with a willingness to pay in their homes, serving as anchors on their blocks and in their communities. But the cost is not only to the homeowner, but also to their neighbors in lower property values and to the City in lost property tax revenue and the costs associated with a glut of vacant, crumbling homes.

Of the thousands of high-cost loans made in 2006, just in 2006, 3,206 are estimated to fall into foreclosure, and they'll be resetting in 2008 and 2009. So be on the lookout for these homes to start winding up on the Sheriff's sale.

The total cost to the City of Philadelphia and its residents of just these 2006 loans, remember, is going to be $345 million. Many of these loans will face interest rate payments this year, like I said, and next year.

We urge you to use all of your authority to explore every possible method in order to force a foreclosure moratorium until subprime servicers and investors offer streamlined loan modifications to their borrowers.

Thank you for your time.

(Applause.)

COUNCILWOMAN BLACKWELL: Thank you very much. Thank you.

Councilman Jones.

COUNCILMAN JONES: Thank you, Madam Chair.

Real quick, because we have other people. We've been here a long time. I think this set of testimony kind of crystallizes where our intentions are and going, but I'd like to offer you the same opportunity I offered other groups to say, without incriminating them, who are the 15 stakeholders on the subprime side that need to be at this table? Name some of them for the record.

MR. PHILLIPS: We've got Wells Fargo, as you heard today. We've got EMC. We've got Ocwen. We've got Litton Loan. We've got Carrington. We've got GMAC. We can go through the Prothonotary and we can go through the Sheriff's list and let's see. It's 15 companies that are on each one of these loans that is foreclosing. If we can get these 15 people with real decision-makers, not PR people in the room telling us, We're doing everything, we're saving everyone's lives, if we can get real decision-makers in the room and really force them to come up with solutions for Philadelphia, and if they don't, then we need to stop the foreclosures from happening.

(Applause.)

COUNCILWOMAN BLACKWELL: All right. If you can, since you're able to name some, would you submit that to the Chair, and we will make it available to members of the Committee?

MR. PHILLIPS: Okay.

COUNCILWOMAN BLACKWELL: Thank you very much.

(Applause.)

COUNCILWOMAN BLACKWELL: Mr. Sharif Street and also Khalil Walker, if you're here.

We apologize for holding you up. You were early. We held you up so long, and we appreciate this hat that you're wearing, Housing Association of Delaware Valley, and we appreciate you.

(Witnesses approached witness table.)

MR. STREET: Thank you, Councilwoman Blackwell, Councilman Curtis Jones.

COUNCILWOMAN BLACKWELL: Thank you.

MR. STREET: How y'all doing today? Thank you both.

COUNCILWOMAN BLACKWELL: Just fine.

MR. STREET: Madam Chair, my Councilwoman I'm proud of.

COUNCILWOMAN BLACKWELL: Thank you. We're proud of you.

This is a young man that we love. There's just no other way to say it. Thank you.

MR. STREET: I do want to say for the benefit of those who may not know, I'm here today on behalf of the Housing Association of Delaware Valley and we'll soon assume the role of Deputy Managing Director for the Association. But before I begin my testimony, Khalil Walker, who is the Director of the Housing Counseling Program for the Association, will share some thoughts.

MR. WALKER: Thank you for taking the time to hear our testimony. My name is Khalil Walker, as Sharif said. I'm the Director of Counseling for the Housing Association of Delaware Valley.

The Housing Association of Delaware Valley is the nation's oldest housing advocacy organization founded in 1909. Tony Lewis is the Managing

Director of the Association. The Association's housing counseling subsidiary is the Housing Association Information Program, or we affectionately call it HAIP.

HAIP is the City's oldest continuous housing counseling entity established by the Housing Association in 1980 to assist families to obtain and maintain decent, affordable housing in Philadelphia. The program is certified by the United States Department of Housing and Urban Development, the Pennsylvania Housing Finance Agency's Comprehensive Housing Counseling Initiative and Homeowners' Emergency Mortgage Assistance Program, GMAC's MGIC Home By Now Network, and an organizing member of State Senator Vincent Hughes's Homeownership and Mortgage Education Program. We also provide technical assistance to the City's Office of Housing and Community Development.

It's appropriate that this

Committee is obtaining testimony on the topic now during African-American History Month. Unfortunately, the subprime mortgage crisis has caused the largest loss of wealth in modern U.S. history for African-American and Latino homeowners. Rapacious brokers and the conspicuous absence of prime lenders in communities of color have led to a staggering erosion of wealth. While communities of color are the most damaged by this phenomenon, working class and poor whites with incomes between $17,000 and $30,000 are also severely affected, according to a report recently released by Freddie Mac. Over 50 percent of working poor homeowners who were foreclosed on, black, white and Latino, never contacted the lender to attempt to resolve the problem. This is no reflection on the families. Lenders are deemed hostile. In many instances, the same loans that were originated were not the loans that these families received. Talk about a lack of trust, complex phone trees and cavalier attitudes displayed by customer service representatives all contributed to the demise of working poor families' efforts to retain their homes.

Over the past 16 years, the Housing Association has witnessed a proliferation of loans with terms and conditions that would increase the likelihood of default by the homeowner. HAIP identified and began working on this issue prior to its being coined "predatory lending." In response to the rash of predatory loans in 1999, the City of Philadelphia's Office of Housing and Community Development asked me to chair its ad hoc committee on predatory lending. The committee drafted some of the strongest legislation in any municipality at that time. Unfortunately, that legislation was stricken at the state level because the argument was that the state controlled the banking and regulated the banking industry.

Subprime borrowers of color will lose between $164 and $213 billion for loans taken over the past eight years, according to a report conducted by United for a Fair Economy, a non-partisan, non-profit organization. The dream of economic stability for everyone living in the United States so eloquently described by Reverend Dr. Martin Luther King is integrated within homeownership. Homeownership is the most significant source of wealth for most people. The simple truth is, minority homeowners have been hit the hardest. While the foreclosure tsunami continues, its full impact has yet to be fully realized.

Let's look at the impact of foreclosures on neighborhoods.

Foreclosures decrease property values. There is a correlation between an increase in foreclosures and an increase in crime. There is an inadequate provision of City services, police, fire, libraries, parks, schools, due to the absence of tax revenues. There is also an increase in abandonment and vandalism associated with foreclosures. A resurgence of redlining is also evidenced by increased foreclosure activity.

A recent Washington Post article by Kenneth Haney February 2, 2008 mentions an increase in redlining associated with foreclosures. Countrywide is reclassifying entire zip codes and municipalities within metropolitan areas as being risk aversive or declining.

So what that means is, if your area receives such a designation, you may be subject to a five to 15 percent increase in downpayment and closing costs associated with a mortgage. Despite having an excellent credit rating or otherwise impeccable credentials, an area may cause you to have higher than normal mortgage costs. Other lenders are waiting to see how this program is implemented in order to adopt a similar risk assessment strategy.

The impact of foreclosures on families leads to a loss of stable housing and financial decimation. Locally, zip codes in the Philadelphia area with the highest number of Sheriff's sales and Sheriff's sale filings are 19143, 19142, 19151, 19138, 19124, 20, 34 and 31 respectively. The Center for Responsible Lending estimates over 3,000 loans originated in 2006 in Philadelphia will likely go to foreclosure in this spring of 2008. This results in approximately $350 million in losses to homeowners, lenders, investors and local government.

While the problem is monumental, there are a number of ways to stem the tide of foreclosures in Philadelphia. First and foremost, education and information is essential.

If homeowners are to have this burden lifted, they need to receive quality education by the already existing housing counseling network. Increased funding for housing counseling agencies to provide high-quality services rendered to those at risk should be a top priority. A targeted approach to service delivery rendered in those zip codes with the highest number of Sheriff's sales in court filings is key. An aggressive outreach campaign to include churches, mosques, synagogues, senior centers and community centers is vital to mitigating the effects of foreclosure. A long-range affordability strategy with streamlined loan modifications at the nucleus is a very strong method to indemnify the families at risk. And, finally, aggressive use of federal authority under the Homeowners Equity Protection Act, HOEPA, to protect families from predatory lending is essential.

Thank you for hearing my

testimony on this epidemic, and I will entertain any questions you might have.

MR. STREET: Thank you.

If the Council will indulge more testimony, I appreciate your patience. My testimony is based in a slightly different perspective. I knew that Khalil, having spent a good volume of time working with individuals who have been impacted, would testify from that perspective. In my current profession, I've spent a good bit of time working with some of the larger players in the market and have prepared an economic-based argument on why the government should act to address the subprime mortgage market failures, because I would submit that it's not only the individuals, the borrowers, that are negatively impacted, but that we have a market failure because the lenders are also better off if we don't have massive foreclosures.

I'll begin some of the prepared

remarks.

In economics, university professors often teach that it is the responsibility of government to correct market failures. Market failures can result from a number of factors, including, but not limited to, a deficit of information that prevents market participants from acting in their own economic best interest and from collective action problems.

In the case of the subprime mortgage crisis we currently face, there is clearly a deficit of information on the part of many borrowers and some lenders. Additionally, I submit that both lenders and borrowers also have a collective action problem.

The mortgage and the real estate markets will be better if the subprime mortgages in default were repaid or refinanced rather than foreclosed. Massive amounts of foreclosures at once almost ensure that lenders will receive an artificially low return on the sale of seized property, and real estate assets in their portfolios will decline.

Conversely, refinanced mortgages would result in a stabilization of the lending market and would help stabilize the value of mortgage assets which support that market. The rational action for the subprime mortgage industry to take would be, therefore, to stop the foreclosure cycle and develop a reasonable refinancing process. The problem is, no one lender would want to do this unilaterally, for fear that if other lenders did not follow suit, it would be burdened with even greater losses. This is a classic collective action problem, because the industry would benefit from a set of actions which, if taken by all, but may not happen because of the risk of each lender acting unilaterally. The government should act to help resolve this collective action problem.

Basically, because I've spoken a little legalese, for members who are listening, the lending market really doesn't benefit overall by destroying the real estate market. They hold a lot of value in real estate. Both the properties that are foreclosed and the ones that are not foreclosed on suffer, and that's why we have this overall national decline in the value of real estate. The lending market and the real estate market, including the tax revenue the City generates, will be better off if we stabilized our real estate market and don't allow this segment of the market to collapse our overall market. It is actually -- we've spoken about this from the perspective of the borrowers, but it's actually good for the lenders, too, even if folks didn't come to testify on their behalf.

Borrowers in many instances lack the appropriate information to take the necessary steps to file the foreclosure and to avail themselves of refinance opportunities. They would obviously benefit from an opportunity to have the foreclosure process halted so they could be educated about their options and, therefore, make better choices.

The impact on borrowers resulting from the loss of homes also has the effects of destabilizing communities and families, as well as increasing crime and unemployment. All of this is bad for the economy and society. The government should act to give the housing counseling community greater opportunity to address this market failure resulting from borrowers lacking information.

I won't go on too much about this, because Khalil addressed it and many others have talked about the individual impacts that folks have because of having your home taken.

Finally, the overall mortgage industry would benefit from a freeze on foreclosures because it would give the Commonwealth, led by the Governor or perhaps even the federal government, a chance to act. And the Commonwealth or the federal government could increase the options for both lenders and borrowers to more appropriately address loan problems and facilitate greater loan refinance or loan workout opportunities.

It should be noted that the Governor is currently working on, with the General Assembly, on an aggressive plan to address this crisis, and I'm alluding to some of the things that Senator Hughes and Secretary Hudson testified to, but I would also recommend that the Council look at the opportunities that the Acting Banking Secretary Kaplan has suggested.

This final point is an especially compelling reason for a moratorium on Sheriff's sales resulting from residential subprime mortgages on owner-occupied residential properties, because it means we can anticipate greater options for all in the near future. It is, therefore, incumbent on this government to act to correct the aforementioned market failures.

I would say even the most conservative members of the government of academia who say that we should only -- the government should only act when the market fails, we should sort of let the market proceed, applying that logic, the government should act and there should be a moratorium. The individual lenders are better off if their asset pool doesn't decline. Homeowners and families aren't disrupted. People aren't displaced, communities, and the tax revenue stream for the City will stay much more stable to the extent that we have a real estate market that's grown. The real estate market had provided additional revenue for the City that we use to do everything from funding police officers to fixing streets to helping to fund the schools, and to the extent that we're able to stabilize that market, I think it's incumbent upon the Council to act.

And, Councilman Jones, I commend you for bringing this process up formally, and I would submit that the Council should act in working with the Sheriff to suspend foreclosures, at least until such time as greater opportunities can be presented for lenders and borrowers.

COUNCILWOMAN BLACKWELL: Thank you very much.

Any questions?

(No response.)

COUNCILMAN JONES: I just want to recognize a Councilperson who is no stranger to this issue, Councilwoman Marian Tasco, who fought this process tooth and nail of predatory lending.

(Applause.)

COUNCILMAN JONES: I want to recognize her here.

COUNCILWOMAN BLACKWELL: Thank

you again. Thank you very much.

MR. WALKER: If I could add just one final piece of equity stripping that's occurring is with the foreclosure lenders. A lot of times even after folks go into foreclosure, they may still have thousands of dollars of equity left. Well, there is a reassessment on behalf of the foreclosing lenders -- foreclosure attorneys that even seeks to destroy what little equity that may be left. We kind of look at if you can't retain your home, you should have a dignified exit, that being take what equity you have to start anew. In some instances, you may have 20, 30, 40 percent equity left in your home, which you can now go get an apartment or even put the 20 percent down to start anew, but when the attorneys reassess and they come up with all kind of fees that we really can't follow -- I mean, the lenders are bound by truth in lending and other disclosures, not so with the attorneys. They simply label it as reassessment, and in those instances, we've seen where an additional $15,000 or $20,000 is assessed to that property.

MR. STREET: I would just submit one final thought, if the Council will so indulge me.

While the truth in lending statements may not apply, the canons of professional responsibility for attorneys with respect to billing due, you cannot adjust your rates in a way to extract additional value from the real estate. Your rates have to be rationally related to the service you provide and should be stated prior to that service commencing. Normally this is negotiated in writing between the person that's paying the fee and the lawyer, or in the case where fees are granted to opposing counsel, the Court oversees this. This is sort of a unique place where the person that's actually paying the fee, the person who is foreclosed upon, no one is really looking out for their interest in terms of these fees, because those fees are not monitored by a court, nor do they have any real negotiating power, because the bank doesn't have any incentive to hold down the fees. But those fees are -- but that attorney is still bound to have those fees be related to the service that was rendered. And if the service has been completed, the fees shouldn't be able to be adjusted post completing the service without violating the canons of professional responsibility.

COUNCILWOMAN BLACKWELL: Thank you very much. Thank you again.

We will break only for about three minutes for our court reporter.

Mr. Henry Sommer, are you here?

(No response.)

COUNCILWOMAN BLACKWELL: After our brief break, we will hear from Leslie Thomas and Anne Thomas and then Don Kelly, GPUAC, and we're finished.

So give us only about three minutes and we will resume.

2/21/08 - HOUSING - RES. 080095

(Short recess.)

COUNCILWOMAN BLACKWELL: Thank you for your patience.

There are three more witnesses, unless we learn otherwise. Leslie Thomas and Anne Thomas, are you here? We're sorry for the mix-up. You should have been called a little earlier.

Is Don Kelly here, GPUAC?

MR. KELLY: Yes.

COUNCILWOMAN BLACKWELL: All right. You are next. And we will assume that is it for this hearing.

(Witnesses approached witness table.)

COUNCILWOMAN BLACKWELL: Thank you very much. Thank you for your patience. We did see you earlier, and we're very, very glad that you're here.

Good afternoon. Again, we thank you.

MR. WILSON: Good afternoon, Council. Thank you very much.

COUNCILWOMAN BLACKWELL: Thank

you.

MR. WILSON: I'm Montgomery Wilson. I work with Community Legal Services. I'm representing Leslie Thomas, who is currently in foreclosure.

COUNCILWOMAN BLACKWELL: Thank you. What is your name again?

MR. WILSON: Monty Wilson. I'm with Community Legal Services.

COUNCILWOMAN BLACKWELL: Oh, yes. Thank you.

MR. WILSON: Leslie is my client, and also with her, who is going to speak briefly because she was also present when this predatory loan was consummated, is her mother, Anne Thomas.

COUNCILWOMAN BLACKWELL: Thank you.

MR. WILSON: To be quite honest, after listening this morning, I threw out what I was going to say, and I want to start by starting with what Councilman Jones brought up about courage. I have to tell you that yesterday I asked Leslie not to appear today. She was too ill and she wasn't able to do it. I do want you to know that two hours ago she was in dialysis and she is diabetic, and she is exhausted, but I won't share with you her reply to me when I told her that I didn't think she would be able to do this today. She made it very clear to me that she wanted to be here, not just for herself but for all the other people who have gone through and are going through what she's gone through.

There are two things that came up this morning that really struck me --

COUNCILWOMAN BLACKWELL: Well, we say thank you and God bless you.

MS. ANNE WILSON: Thank you.

MR. WILSON: Dr. Herzenberg spoke this morning about looking down the track of the train that is coming. What I can offer you and what Leslie and Anne can offer you is someone for whom the train has hit. It has arrived. It is not coming down the track. She is already a victim of predatory lending. And while CLS has jumped right on the train with her, we have been hit, and she is doing everything she can for the last two years that she has been in foreclosure.

John Dodds spoke earlier about current programs being offered by lenders speaking of people who are 30 days behind or 90 days delinquent and how those narrow programs don't really help the victims of predatory lending. I'd like you to meet Leslie Thomas, a real victim of predatory lending, someone who is, after the legal fees that you heard about recently are added on, started out with a $30,000 loan and is now, when all the fees and costs are added on to her loan, according to Wells Fargo, owes approximately $68,000.

I haven't even told you about how she got the loan, and I'll let her do that. I'd like you to hear it in her own words.

MS. LESLIE THOMAS: Thank you. Around November 2001 -- oh, my name is Leslie Thomas and I thank y'all for having me here.

COUNCILWOMAN BLACKWELL: Thank you.

MS. LESLIE THOMAS: A man came to my door and I guess he figured out that I needed a loan for my house, and so we started talking, and he was telling me about the loan. So I had told him no, that's not what I'm looking for, because my father had left me the house when he passed away in '97 and he had left me with like a lot of debt, like water bills and taxes, and I was paying it off good, you know. I got it down real low, and then he came in and said, Well, they can take your house if you don't get the loan.

So the house was kind of not really a nice house, so I said, Well, I'll borrow -- I think I said five or ten thousand, and he was like, Well, we can't do that. So I said never mind.

He came back. He came back about five times, kept calling me, calling me, calling me, calling me. January 7th I got custody of a baby, a brand new baby, so I brought her home. So then he came back, was like, Well, you know, for the baby's sake, you could get this like -- the loan fixed up. So I had told him, Well, I'll do 15,000 and that's all I can do.

So he was like, Fine, I can do that. And then the day of the closing, my mom happened to come over. We was discussing it or whatever, and my mom happened to come over and she was asking me a bunch of questions, like she always do. It was kind of like making me mad, because I just lost my sight like two years ago before that and she always thinking somebody was out to get me, and it was just like really like pissing me off, like I know what I'm doing, but evidently I didn't.

So Andy came, Andy Rosen. That was the mortgage broker. And then another guy came that said he was a lawyer, and then my mom pops up. And the first thing she did was ask the people, Is this a predatory loan?

They were like, Oh, no, no, there's no predatory loan. No. This man right here, he's a lawyer. He here for your daughter.

So my mom kept drilling them and drilling them, and it just made me madder, because here I feel as though here she go treating me like I'm blind and I don't know what I'm doing. So I asked my mom just to leave. He's the lawyer for me. They told her she's the lawyer for me.

So when the papers was coming, he just was like handing me the papers, and I thought he was reading them to me to let me know what it was, but evidently he didn't. So when he got to the point where it was supposed to be -- he said, Oh, yeah, you can't borrow this much, you're going to have to borrow that much, but don't worry about it because your rates will go down in a couple of months. That's nothing. And then he said, Oh, yeah, the six points interest rate, that's going to be up in a little bit, but don't worry about that either, because after you pay for a few months, that's going to go away. And then I was thinking, no, never mind again. Then he was like, Well, you know they could take the house, water people could take your house, and you got this baby here or whatever, and that's what I like thought, so whatever. The loan went through. I was paying him.

Next thing I know, I'm paying 354, which my loan was only supposed to be for like two something. And I just feel as though that I'm not a victim, but I think he just pointed me out. He knew I couldn't see. He wasn't reading me the papers.

This is a bad habit in our community. Our community is already -- a lot of houses are shell, and probably for predatory lending. And how we got help was, my mom, of course, found out about housing counseling. Me and her, we just happened to be arguing as usual about the loan, and the lady who happened to be listening to us asked me, could I bring in the loan application. So we brought it in, and she was like, Ma'am, you were a victim of a predatory loan. And here we go now. This is what happened.

It's terrible that people just want to make the house look nice, live in their community, uproot their community, and these companies and businesses just come in here and just be like, Well, I can make some money off these poor people, they don't know nothing, and we'll take their houses and then don't do nothing with them. And then there go another house and there goes another community destroyed. And I just hope that the Council hear me in saying that we would lose Philadelphia if we don't do something about this, because this is just outrageous. That's about it.

COUNCILWOMAN BLACKWELL: Well, I tell you, it doesn't get any worse than this, and all of us here certainly stand with you. We thank you from CLS and certainly Ms. Thomas and Ms. Thomas. Mothers and daughters always argue, but certainly we do support you and we want to be helpful in any way we can. I don't know who that person was, but those of us who believe in God and who know that you reap what you sew know that there's a special place for that person, and certainly whatever we can do to be supportive and be helpful. We thank you for taking time even though you've been ill to be here.

We thank you from CLS and -- oh, yes, Wilson.

MR. WILSON: Yes.

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COUNCILWOMAN BLACKWELL: Monty Wilson and --

MR. WILSON: I think Ms. Thomas, Anne, her mother, would like to add a few comments, if that's all right.

COUNCILWOMAN BLACKWELL: Thank you, Ms. Thomas. Please do.

MS. ANNE THOMAS: My name is Anne Thomas and I'm Leslie's mother, and I just wanted to add the fact that I was there the day that her loan papers were signed and it was supposed to be for between six and eight percent. We found out later it was 13.9 percent. Her monthly mortgage payment was supposed to be 254. It turned out to be 356.

When I came in -- and for some reason, I had just been reading the Daily News about predatory lending -- I asked the lawyer, because he was standing there, and I asked him, Who are you? He told me his name. At the moment I can't tell you his name. But I do know that he told me, I'm here to protect your daughter. I'm here to make sure that this is not a predatory loan, because there has been problems with predatory loans. We don't want that problem. So we're here to make sure that this is not a predatory loan.

And I told him, It sounds like a predatory loan. Nobody knocks on somebody's door and offers them a loan. I've never heard of that before.

And he told me, Don't worry about it. You know, it's not a predatory loan.

And then I went outside and then I sat down, and I was talking to my other daughter and I said, When did a lawyer start coming to somebody's house for another company? That doesn't make sense. And I felt like I didn't protect her from these people. And then after all of this came about, we found out that he was being paid through her. She was paying him. She was also paying him to bump her loan up from 6.2 to 13.9

percent. She paid him for that, not the company that was lending the money. That came out of her money.

So that's why I'm here today, because she couldn't see what they were giving her. They told her that they were reading it for her. They told her that they was there to protect her. It's not something we thought that they did. It was something that they told us out of their own mouth, We're here to protect your daughter.

So I just want to say please, whoever these people are, come after them, make sure that they do not do this to someone else. There may be an older person, there may be someone else who has lost their sight who is trying to save their home or pay their back water bill or pay their back taxes, and I'm just glad that I'm here today to let you hear our story and thank you.

COUNCILWOMAN BLACKWELL: Thank you. So are we.

(Applause.)

COUNCILWOMAN BLACKWELL: We really, really are very, very sorry.

MR. WILSON: Thank you, Councilwoman. If I could just add, the highlights here are really pretty blatant. She was offered a $5,000 loan and talked up to a $30,000 loan that she didn't know about until closing. She was promised a maximum interest rate of eight percent. At closing, the day of the closing, she learns that it's 13 percent, and when she's smart enough to object to that, she's told, That rate will go down in a year if you make your payments, don't worry about it. A lawyer was in the room to assure her, I'm here on your behalf, you have nothing to worry about.

Same thing with her monthly payment. She knew she couldn't afford a monthly payment of $356 a month. What they told her was, Well, it will go down to $252 a month if you make your payments on time. Flat out, none of that is in the loan documents. None of that was true. There's nothing subtle. There's no misunderstanding. Fraud was committed in consummating this loan. And as it currently stands, the loan programs, the workout programs that are being talked about are for people who are slightly delinquent or a few payments behind. What I would urge Council to do is to declare a moratorium, call the lenders and servicers to the table, and one of the key questions is, not what are we going to do about the low-hanging fruit, the easy cases -- if the easy cases were the ones that came to my office, I wouldn't be here today -- what are we going to do with the people who have double the interest rate they were promised, who have hundreds more that they have to pay every month and who were, frankly, tricked into these loans.

What we put on the table to her servicing agent was, Let's just modify the loan and give her the loan that she was promised, the one that she agreed she would pay. Instead, she's now $68,000 in debt and we're litigating still after two and a half years.

COUNCILWOMAN BLACKWELL: My God. My God. Thank you very much and for your obvious commitment, Mr. Wilson.

Thank you for sharing your story, and, again, we will support you in any way we can, any way, just let us know.

MS. ANNE THOMAS: Thank you very much.

COUNCILWOMAN BLACKWELL: Thank you. Thank you. God bless you. Thank you.

(Applause.)

COUNCILWOMAN BLACKWELL: Mr. Kelly, Don Kelly, GPUAC. Thank you for your patience as well.

This will be the last person testifying. I know many of you are here for the 2 o'clock hearing on Safe and Sound. That will be coming up at 2:00.

(Witness approached witness table.)

MR. SOMMER: You don't want me to testify also?

COUNCILWOMAN BLACKWELL: Pardon me?

MR. SOMMER: You don't want me to testify also?

COUNCILWOMAN BLACKWELL: Of course we want you to -- are you Mr. Sommer?

MR. SOMMER: Yes.

COUNCILWOMAN BLACKWELL: We called on you. Come up. Come up. Come up. Both of you come up. We're here for you. We're here for the public. This is your building. This is a public hearing and we believe in that sacred right to testify.

(Witness approached witness table.)

COUNCILWOMAN BLACKWELL: Thank you very much.

MR. KELLY: Good afternoon.

Thank you for the opportunity to testify this morning -- this afternoon on the problem of foreclosures and subprime lending in Philadelphia. My name is Don Kelly. I speak on behalf of the Foreclosure Prevention Task Force of the Greater Philadelphia Urban Affairs Coalition.

And my first point -- I'll be brief and to the point. My first point is to help you become familiar with what this Foreclosure Prevention Task Force is and what it's doing. The Task Force was formed last spring with the purpose of recommending educational strategies, products and policies to GPUAC's Community and Economic Development Committee. The Task Force is composed of bankers, bank regulators, housing counselors, legal aide attorneys, community advocates and local government agency representatives, many of whom appear today or are in the room today. It's expected that some recommendations will be within the authority and resources of the Community and Economic Development Committee to implement directly itself, while other recommendations will constitute an advocacy agenda for the organization. The recommendations are nearing completion and are expected to be finalized in April.

One initiative already undertaken by the Task Force was to assist the Federal Reserve Bank of Philadelphia in hosting a meeting on February the 8th between housing counselors and major loan servicers. The purposes of the meeting were to throw light on best practices in servicer-counselor relationships and to improve communication lines between counselors and servicers so as to facilitate the loan workouts that people have been talking about today. This event included seven of those 15 major loan servicers that have been mentioned earlier in the day and over 100 housing credit and legal counselors.

The Task Force is also assembling a directory of foreclosure prevention resources that could help counselors identify the best forms of assistance for homeowners who are at risk of foreclosure, and is working with the City to place foreclosure prevention messages on billboards in vulnerable neighborhoods through the assistance of Councilwoman Tasco's office and OHCD.

Our second point is to inform you that the Task Force supports the package of six state bills and two regulations that are endorsed by the Pennsylvania Secretary of Banking, Steve Kaplan, that seek to regulate the business of mortgage originations, raise the cap on the size of loans subject to the prohibition against pre-payment penalties, expand the HEMAP assistance program, apply a suitability standard to mortgage lending, and create greater transparency for borrowers. Together, these are identified as Senate Bills 483 to 488 and House Bills 1080 to 1804. We urge City Council to use its influence with state legislators to support that legislation.

Our final recommendation at this time is that the City contract with an appropriate institution to create a database of all foreclosed loans in the City that would include features of the mortgage product itself, also identifying the lender, the type of borrower, the appraisal company and the location of the foreclosure. Of particular interest would be the type of loan, fixed or adjustable or balloon, the form of the adjustable mortgage, loan-to-value ratios, interest rates, terms and any other predatory features.

With such information, correlations can be made and patterns identified that would inform both consumers, future borrowers and policymakers in City Council.

Finally, Ed Schwartz earlier mentioned that our organization does have many banks at the table. We have 11 banks, traditional banks, with branches and a physical presence in this market as part of our CED Committee at GPUAC, and if it would be helpful to Council, we would be happy to convene the banks to dialogue with Council about issues that are of concern related to this problem.

COUNCILWOMAN BLACKWELL: Yes. We would like to have that happen.

MR. KELLY: Great.

COUNCILWOMAN BLACKWELL: So let's maintain communication on that issue.

MR. KELLY: Fine. Be happy to do that.

COUNCILWOMAN BLACKWELL: Thank you, Mr. Kelly.

MR. KELLY: Sure.

COUNCILWOMAN BLACKWELL: Mr. Sommer, welcome.

MR. SOMMER: Thank you, and thank you for your patience. Thank you for inviting me here to testify.

COUNCILWOMAN BLACKWELL: Thank you.

MR. SOMMER: My name is Henry Sommer. I have spent my entire career, 33 years plus, helping families facing debt problems, often foreclosure, first at Community Legal Services and more recently at the Consumer Bankruptcy Assistance Project.

I'm also the President of the National Association of Consumer Bankruptcy Attorneys, which is over 3,000 members around the country. In that capacity, I've been heavily involved in working with members of Congress on solutions to the foreclosure crisis and particularly on a bill that would allow people to reduce their loans and interest rates in bankruptcy. There is a bill in the Senate sponsored by Senator Durbin that will actually be coming to the floor of the Senate next week and another bill sponsored by Representatives Conyers, Sanchez and Miller in the House that has passed out of the House Judiciary Committee. And so these bills offer some hope of a real solution, because there is a crisis not only here in Philadelphia but around the country. There are going to be over two million foreclosures if something isn't done, and that's going to have devastating effects both here and around the country.

One of the things that's been discussed here -- so I won't spend much time on it -- are what I would call the PR efforts around voluntary loan modifications. Basically, the voluntary loan modification programs that have so far been put forward by the lending industry have not been working. We've gotten -- when I first testified in the House Judiciary Committee in Congress last April, they said they had a program underway, and months later they helped one percent of the people facing foreclosure. Then they came out with another program in September. We had the Paulson Plan in December. We had another program come out a few days ago. And the reports that you've heard today I think make clear that so far it's been all PR and there has not been concrete action to match the promises that have been made. I mean, dialogue is fine, but in the meantime, people are losing their homes to foreclosure.

There are a lot of reasons why the modifications are not happening, and certainly if we could get in place a streamlined procedure such as PUP and the ACORN have been proposing, that would be terrific. I'd like to see that happen. I don't know if it will happen or not, because there are a lot of reasons these loan companies can't modify. They have conflicts of interest among themselves. They don't have the staff to do these modifications. But it's certainly something to work for. The only way that there will be modifications is if there is a streamlined process, which is not in place now.

So let me just say I think there's a few things that Council can do to deal with this crisis. Certainly the first thing is to support legislation in Congress. In addition to our bills, there are other bills. And I'm reasonably sure that eventually something will be passed in Congress that will help at least some of the people facing foreclosure. The problem is, in the meantime, people are losing their homes.

The bill in the Senate in particular, if any of you have connections to Senator Specter, is -- as I'm sure you know, we need 60 votes on the Senate floor, and Senator Specter's support for modifying loans in bankruptcy is absolutely critical.

The second thing that Council can do is support the efforts of PUP and

ACORN to get streamlined loan modification procedures in place, whether that is through putting whatever kinds of pressure you can bring to bear on the loan servicers or something else, I don't know.

And then the third thing is, as people have said, a moratorium. Because there are some solutions, whether streamlined loan modification or legislation from Washington or Harrisburg, that I think eventually will be put in place, but in the meantime, as I said, people are losing their homes and it's going to be too late for them if there isn't some kind of moratorium.

So with that, I'll thank you -- I know you've had a long day -- and take any questions. You have my written statement, which goes into more detail.

COUNCILWOMAN BLACKWELL: Thank you so much for that important testimony. It would be great if you could tell us what we can support on the federal level.

We can at least write them.

MR. SOMMER: Well, the bill on the Senate floor next week is S-2636. It's introduced by Majority Leader Reid and it went directly to the Senate floor. It's probably coming up on Tuesday. Title 4 of that bill is the bankruptcy loan modification provision, which essentially would force lenders to do what they claim they want to do voluntarily. And we think if that bill were passed, they would probably do a lot more of these voluntarily so people did not go into Bankruptcy Court to force them to do it. So that is the bill in the Senate. The House bill is HR-3609. But, as I said, the Senate bill is coming up next week. It's really going to be a make or break for that proposal. And Senator Specter, who has shown some interest in it, just needs to hear from people that he really ought to find some way to come to an agreement with Senator Durbin to make that work, because that I think would help -- we estimate that could help as many as 600,000 people around the country and thousands of people in Philadelphia itself.

COUNCILWOMAN BLACKWELL: Thank you. We will have John Christmas, attorney for this Committee, to be in touch with you, because the Committee would like to do what it can on this issue and maybe we can -- we'll speak to the members about collectively writing letters of support. And so we will send Mr. Christmas to you to get any details and we'll be in touch with members of the Committee. We thank you for your patience and your very important testimony.

MR. SOMMER: Thank you.

COUNCILWOMAN BLACKWELL: Thank you.

(Applause.)

COUNCILWOMAN BLACKWELL: A question for you, Mr. Sommer.

COUNCILWOMAN SANCHEZ: No.

Actually, I just wanted to add something for the record. First, for all of the folks who are still here on the initial bill that we started this morning at 10 o'clock, I think it's important -- and I'll ask Chairwoman Blackwell, as well as Councilman Jones, who was the sponsor of these hearings -- that we quickly follow up on the suggestions by some of the groups and ask that we convene a meeting with the Sheriff's Department and work with PUP and ACORN to revisit the moratorium situation in the immediate, and that we also take the generous offering of GPUAC to convene a discussion with the lenders and that that be in a formal -- maybe in a hearing, if we can do a follow-up hearing to this, where they come and also testify in front of us and particularly the culprits or some of the folks such as Countrywide and Wells Fargo in the case of Leslie that we just heard from, and that as the Chair Lady just mentioned, that we formalize some sort of letter in writing from this Committee to Senator Specter and that that go out before the hearing.

So thank all of the folks who were here all day patiently working on this issue. We will also make sure that in our discussions with our Office of Housing and Community Development and the housing agencies that we fund, that that becomes a priority, especially as it relates to the new fiscal year.

So thank you.

COUNCILWOMAN BLACKWELL: Thank you. We certainly thank Councilwoman Quinones-Sanchez for her recap of where we are and where we need to go from here.

We thank all who are here.

Thank you again, Mr. Sommer, and certainly to all who are here regarding this issue.

We will recess this hearing until March 18th at 10:00 a.m.

And to all of you who are here for the Committee on Public Health and

Human Services regarding Resolution 080139 on Safe and Sound, you're in the right place. That's due to begin right after this at 2:00. And on both issues, we thank you very much.

Thank you again, Mr. Sommer.

Thank you, members of this Committee.

(Applause.)

(Committee on Housing, Neighborhood Development and the Homeless adjourned at 2:05 p.m.)

CERTIFICATE

I HEREBY CERTIFY that the proceedings, evidence and objections are contained fully and accurately in the stenographic notes taken by me upon the foregoing matter on February 21, 2008, and that this is a true and correct transcript of same.

____

MICHELE L. MURPHY
RPR-Notary Public

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