

December 11, 2007

The Honorable John Conyers
Chairman
Committee on the Judiciary
2138 Rayburn House Office Bldg.
Washington, DC 20515

The Honorable Lamar Smith
Ranking Member
Committee on the Judiciary
2138 Rayburn House Office Bldg.
Washington, DC 20515

Dear Chairman Conyers and Rep. Smith:

The undersigned represent a diverse group of consumer, civil rights, labor, housing, lending and community organizations. We write to express our strong support for the legislative initiative embodied in H.R. 3609, the Emergency Home Ownership and Mortgage Equity Protection Act of 2007. Such legislation will bring desperately needed assistance to families on the brink of losing their homes.

We understand that a bipartisan amendment will be offered by Chairman Conyers and Rep. Chabot at tomorrow's Judiciary Committee mark up to limit the scope of the bill so that the bankruptcy remedy is targeted to those distressed homeowners most in need of relief. We commend Subcommittee Chairwoman Sanchez and Rep. Miller for helping to focus Congressional attention on the issue by introducing H.R. 3609, and Chairman Conyers and Rep. Chabot for arriving at a bipartisan compromise. We urge the Judiciary Committee and later the full House of Representatives to approve it.

Predatory lending practices and declining real estate markets threaten hundreds of thousands of American families with the imminent loss of their homes to foreclosure. For many families, the precipitating event will be a catastrophic rate increase on an inappropriate "exploding" subprime adjustable-rate mortgage loan. As devastating as foreclosures have been to date, they are expected to accelerate dramatically during 2008, when a large number of loans are scheduled for a rate reset.

This nationwide crisis engulfs not only individual families, but neighborhoods and entire communities, as well. One solution to this serious problem would be to give consumers on the brink of losing their homes more flexibility to restructure their loans in bankruptcy. H.R. 3609, as amended, would eliminate an inequity in the law that currently denies borrowers protections for their primary residences – protections long granted to wealthier borrowers for their vacation homes or investment properties.

The remedy contained in H.R. 3609 does not reopen the Bankruptcy Act of 2005. Rather, it addresses the bankruptcy legislation enacted in 1978 that excludes loans for

primary residences from those loans that may be modified in a Chapter 13 bankruptcy. At that time, mortgage loans were nearly all fixed-interest rate instruments with low loan-to-value ratios and were rarely themselves the source of a family's financial distress. This is no longer the case. Preventing the modification of home loans for primary residences makes no sense in an age of subprime exploding ARMs where the mortgage itself causes financial crisis. Unless bankruptcy courts have the authority to modify a limited number of loans at reset, particularly in areas of property depreciation or where there were fraudulent appraisals, hundreds of thousands of families will be unable to keep their homes.

The Emergency Home Ownership and Mortgage Equity Protection Act would help families save their homes without any cost to the Treasury and ensure that lenders recover at least what they would in foreclosure. Distressed homeowners deserve effective and meaningful safeguards in bankruptcy that will allow them to strip down their mortgages to the value of their home so that they can "pay and stay."

The recent announcement by Treasury Secretary Paulson of a voluntary program for the financial services industry to modify loans is a welcome acknowledgement of the magnitude of the situation, but does nothing to negate the urgent need for this legislation. Indeed, the proposed voluntary program provides no help to homeowners whose mortgage interest rates have already reset or to those who have fallen behind on their payments.

We thank the Committee for addressing this issue with the urgency it deserves. It is our hope that the clear recognition from both sides of the aisle that distressed homeowners need additional tools to save their homes will result in speedy passage of this urgently needed reform bill.

Respectfully,

AARP
ACORN
Center for Responsible Lending
Consumer Action
Consumer Federation of America
DEMOS
National Association of Consumer Advocates
National Association of Consumer Bankruptcy Attorneys
National Community Reinvestment Coalition
National Consumer Law Center (on behalf of its low-income clients)
National Council of La Raza
National Fair Housing Alliance
National Women's Law Center
Service Employees International Union
U.S. PIRG

cc: All Members, House Committee on the Judiciary
Rep. Brad Miller